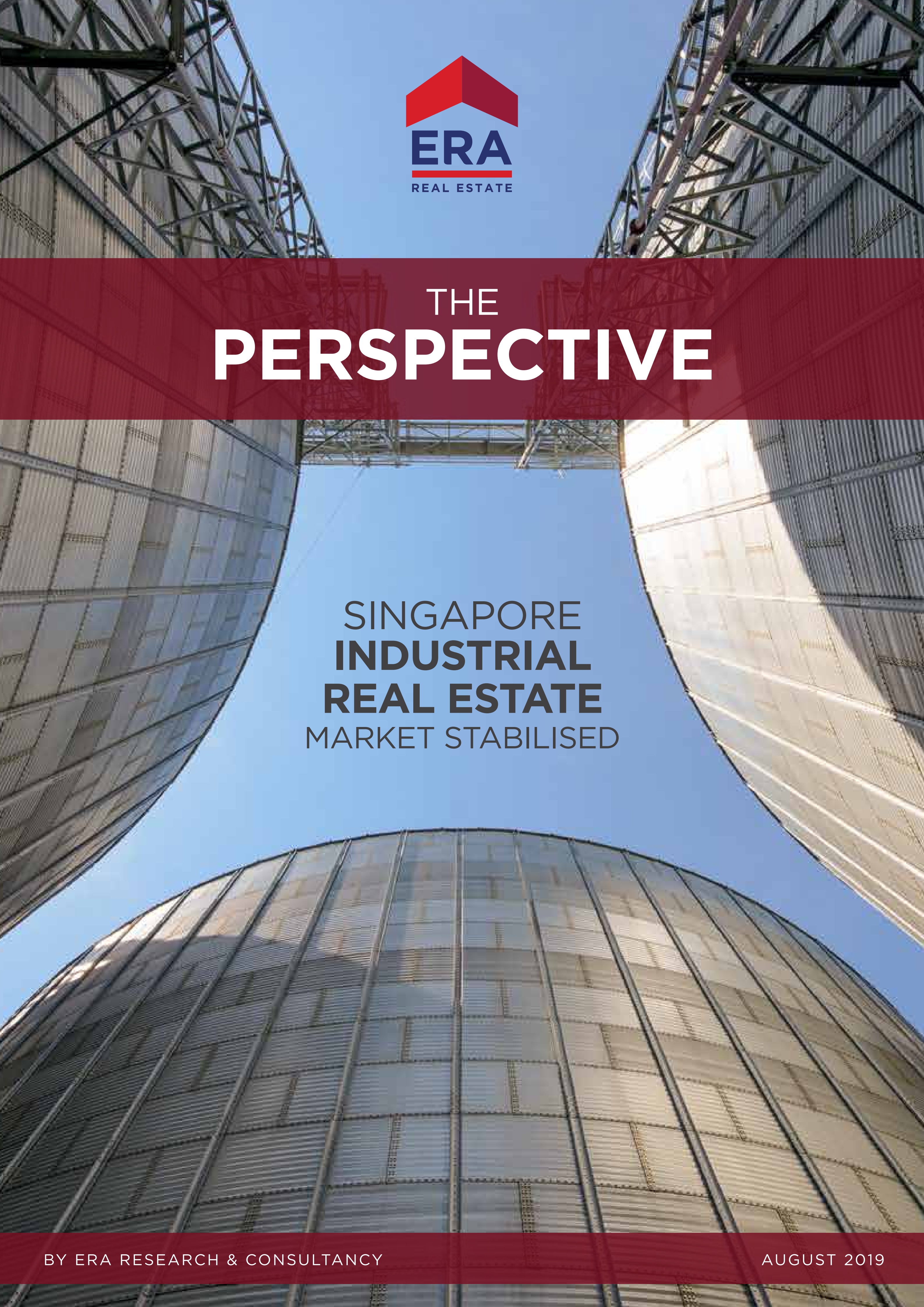


ERA REAL ESTATE

THE PERSPECTIVE

SINGAPORE INDUSTRIAL REAL ESTATE MARKET STABILISED

BY ERA RESEARCH & CONSULTANCY

AUGUST 2019

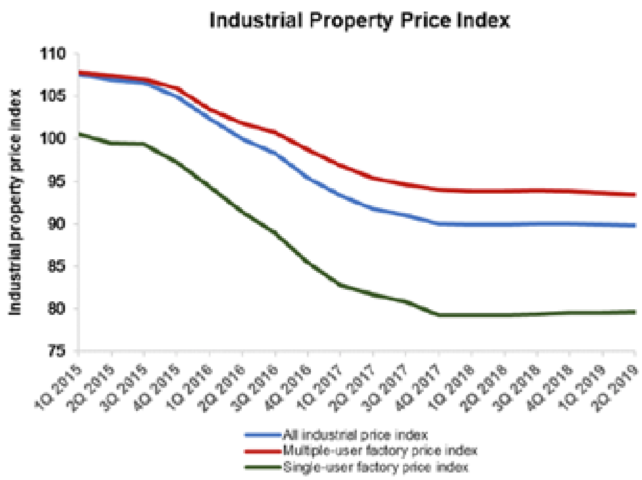
Introduction

For the past year, the Singapore industrial real estate market has stabilised as rentals and capital values of industrial space remained largely unchanged since the beginning of 2018. Rental and capital values continued to stabilize in the second quarter of 2019 (2Q 2019) as the marginal weakness in certain locations was balanced by the healthy demand in the north region.

Industrial Real Estate Prices

Capital values of industrial space was stable in 2Q 2019 with a slight downwards bias. According to the official statistics, the overall industrial real estate price index slipped 0.1% both quarter-on-quarter (qoq) and year-on-year (yoy) in the second quarter of this year.

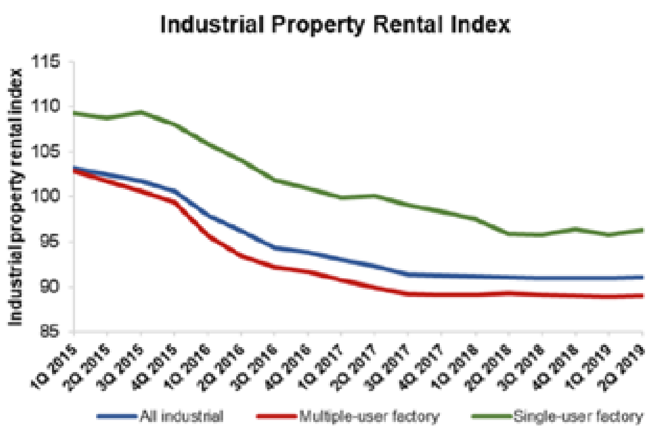
The marginal weakness in the industrial real estate price index was mainly contributed by the price decline of multiple-user factory space, which fell nationwide, except in the north region. The multiple-user factory space price indices for the central and west regions fell 0.4% qoq, while it contracted 0.5% qoq for the other regions. By contrast, the average price of multiple-user factories in the north region increased by 0.5% qoq in 2Q 2019.



Source: JTC, ERA Research & Consultancy

Industrial Property Rentals

The overall rental of industrial space continued to stabilize in 2Q 2019 with a marginal 0.1% qoq increase after remaining unchanged for the preceding 6 months. The overall rental growth was also led by rental increase of multiple-user factory space in the north region with a 0.5% qoq increase in the second quarter, which was higher than the rental growth in other regions.



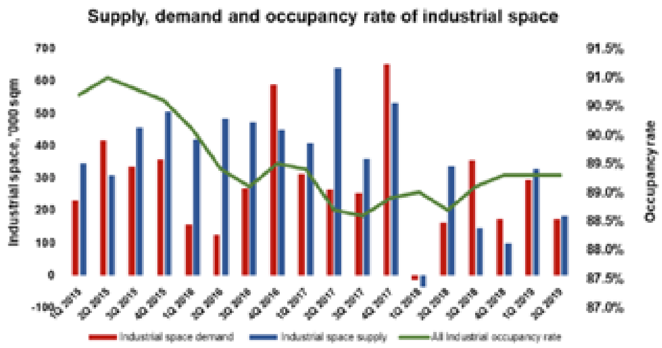
Source: JTC, ERA Research & Consultancy

The better than average performance in both rentals and capital values of factory space in the north region was primarily due to the availability of newer multiple-user factories that were completed within the last 5 years. These factories could achieve higher growth in rentals and prices partly because they are relatively newer and they cater to the needs of industrial small and medium enterprises (SMEs). Furthermore, they are located near the Woodlands HDB housing estate, which provide a large pool of labour. Hence, these multiple-user factories have attracted steady demand from industrial SMEs.

Industrial Property Demand, Supply And Occupancy

The slight increase in rentals was the result of healthy demand for industrial space. The overall demand for industrial space was much higher than the increase in the new supply of industrial space nationwide in the first half of 2019 (1H 2019) compared to the corresponding period in 2018. While the new supply of industrial space increased by 68.9% from 302,000 sqm in 1H 2018 to 510,000 sqm in 1H 2019, the rate of absorption tripled from 147,000 sqm to 468,000 sqm over the same period.

As a result, the island-wide occupancy rate remained above 89% for the last 12 months, averaging 89.3%. By comparison, the overall occupancy rate was 88.9% for the whole of 2017.



Source: JTC, ERA Research & Consultancy

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Industrial Property Transaction Volume

Although industrial property prices and rentals had been fairly stable, transaction volume of industrial property strata units were increasing since 1H 2017.

In 1H 2019, the total number of industrial strata units that exchanged hands was 584 units, a 20% increase compared to the 487 recorded strata units transacted in 2H 2018. This was primarily led by the increase in transaction volume of 31-year to 60-year leasehold industrial strata units. Despite the falling manufacturing output, contracting non-oil domestic exports from Singapore and the trade tension between the US and China, industrial strata unit transactions increased by 23% year-on-year.

The steady increase in transaction volume could partially be influenced by the July 2018 tightening of the residential market cooling measures. The recent cooling measures could have diverted some investors from the residential to the industrial real estate market.

In general, the transaction volume of entire factories and land parcels followed a seasonal pattern in the past three years, in which the volume was lower in the first half of the year and increased in the second half. As such, the number of industrial factory buildings and land parcels transacted in 1H 2019 declined by 20% compared to 2H 2018.

The recent US-China trade tensions and uncertain global economic outlook would have also dampened the demand for industrial spaces from end-users, contributing to the decrease in number of transactions.

The total transacted value for industrial buildings, however, only declined slightly by 3% to $1.22 billion in 1H 2019. This was due to the completion of a high-value purchase by the logistics property specialist LOGOS. The property, a 25-hectare site located at Tuas South Avenue 14, was transacted at $585 million. This is the largest single-asset industrial property transaction in the past 18 months.

	No. of Strata Units Transacted				No. Of Buildings & Land Transacted			
	30-yr LH or less	31-yr to 60-year LH	>60-yr & freehold	Total	30-yr LH or less	31-yr to 60-year LH	>60-yr & freehold	Total
1H 2017	88	215	86	**389**	21	29	7	**57**
2H 2017	84	248	115	**447**	25	30	13	**68**
1H 2018	97	271	107	**475**	12	28	6	**46**
2H 2018	97	276	114	**487**	16	39	5	**60**
1H 2019	114	335	135	**584**	15	29	4	**48**

Source: JTC, ERA Research & Consultancy

Outlook

In the next 12 to 18 months, the Singapore industrial real estate market could face headwinds as demand could be dampened by fallout from the US-China trade tensions and the slower economic growth in Singapore. It could be even more challenging in 2020 due to the large supply of new industrial space, an estimated 1.75 million sqm, is expected to be completed and available for use. However, the market should be able to absorb this new supply by 2021 as the supply in that year will taper off to a mere 423,000 sqm.

Nicholas Mak
Head of Research & Consultancy

ERA Realty Network Pte Ltd
Estate Agent Licence No: L3002382K

229 Mountbatten Road #03-01 Mountbatten Square Singapore 398007
T : (65) 6226 2000
F : (65) 6220 0066
www.era.com.sg

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