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Anticipating the turning point for Singapore's industrial market

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Political uncertainty in the world's largest economies continue to cause volatility in the property market. Apart from the on-going US-China trade war and Brexit, neighbouring countries including Hong Kong and Malaysia are currently experiencing political unrest. Now more than before, Singapore presents itself as an attractive investment opportunity amidst global uncertainty.

Cooling measures have doused the fire in Singapore's residential sector. With little room to escape the high Additional Buyers Stamp Duty (ABSD) imposed, investors actively search for the next bullish market. Global trends like e-commerce and technological innovation point towards a renewed demand: the industrial market.

According to JLL, the global logistics sector surpassed the institutional residential sector as the most favoured property investment asset in terms of capital fundraising, with real estate professionals viewing it as the preferred route to superior value and growth. Sharing the global sentiment, e-commerce is undoubtedly a key driver of change in a global economy. Singapore's e-commerce market is expected to surge 48% to S$9.98 billion by 2022 according to WorldPay. This presents a new investment opportunity in the logistics sector, effectively shifting the property demand from retail to industrial.

Singapore remains an attractive location for global technological companies to establish a foothold in the region. With aspirations to move up the manufacturing value chain, the government will likely continue its efforts to support technology companies in the country. Singapore's data centre market is currently the largest in Asia Pacific, as it has the best connectivity and reliable power supply sources. In the second half of 2018, three new data centres were completed in Woodlands and Tuas. In February 2019, Google made public its plans to expand its Singapore offices by leasing 400,000 sq ft of space in the adjacent Alexandra Technopark, due to almost full occupancy in Mapletree Business City II where its existing offices are located. Moreover, Grab, Razor and Dyson announced their plans to establish their headquarters in Singapore earlier this year.

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Following Q1 2019, an additional 12.9 million sq ft of industrial space is expected to be completed in the year, representing 3% of the current industrial stock. From 2019-2023, an annual average of 10.1 million sq ft is estimated to enter the market. This is down from a previous average of 15.1 million sqft in the past 3 years. After 2017, the supply of industrial spaces have reduced significantly and the trend is expected to continue through 2023.

According to JTC, prices, rents and occupancy rates in the overall industrial market have remained stable in the first quarter of 2019. Quarter-on-quarter, occupancy rates remained at 89.3%, resulting in a 0.3% year-on-year increase. The price index fell marginally by 0.1% in the quarter, but was unchanged compared to the previous year. Rentals remained flat in Q1 2019, but fell 0.2% year-on-year. Following the decrease in rentals leading up to 2018, rents have stabilised and remained despite political turmoil.

As prices and rentals have moved in tandem in the past, this may signal that the market has bottomed out, possibly heading toward an upturn.

Transaction volume increased 7% in the quarter, and 41% year-on-year. Savills reported that industrial sales activity increased 27.6% year-on-year, with 286 factory and warehouse properties worth over S$1.3 billion transacted in Q1 2019. Leasing volume rose 3.1% year-on-year to reach 2,417 deals in the quarter. This is the eleventh consecutive quarter of increase in leasing volume.

As the current economic slowdown continues to weigh on GDP growth and the manufacturing sector, industrial assets are not expected to appreciate significantly in 2019. However, it may be too early to discount Singapore's industrial property market, which has proven its potential to grow significantly in the future.

Article Sources: Colliers Semi-Annual Singapore Industrial Report; CBRE Asia Pacific Data Centre Trends; JTC Quarterly Market Report – Industrial Properties Q1 2019; Savills Singapore Industrial Briefing Q1 2019.

Latest Transaction Highlights

17 June 2019 - ESR Reit acquire warehouse in Jurong for S$225m

- ❏ Tenure: 24 years and 4 months remaining
- ❏ GFA: 1.1 million sq ft
- ❏ Floors: 6

6 Jan 2019 – Logos property services acquired Tuas south avenue 14 site for S$585m

- ❏ 20 Tuas South Avenue 14
- ❏ GFA 1.6 million sq ft
- ❏ Tenure: 30 years
- ❏ integrated industrial and warehouse facility

13 Feb 2019 – LTH Logistics bought jurong island property for S$227.5 million

- ❏ 121 Banyan Drive
- ❏ 2 plots of land with 6 storey ramp up warehouse
- ❏ GFA: 707,877 sqft
- ❏ Site area: 464,376 sq ft