Singapore Industrial Property Market Overview

Knight Frank Pte Ltd Consultancy & Research

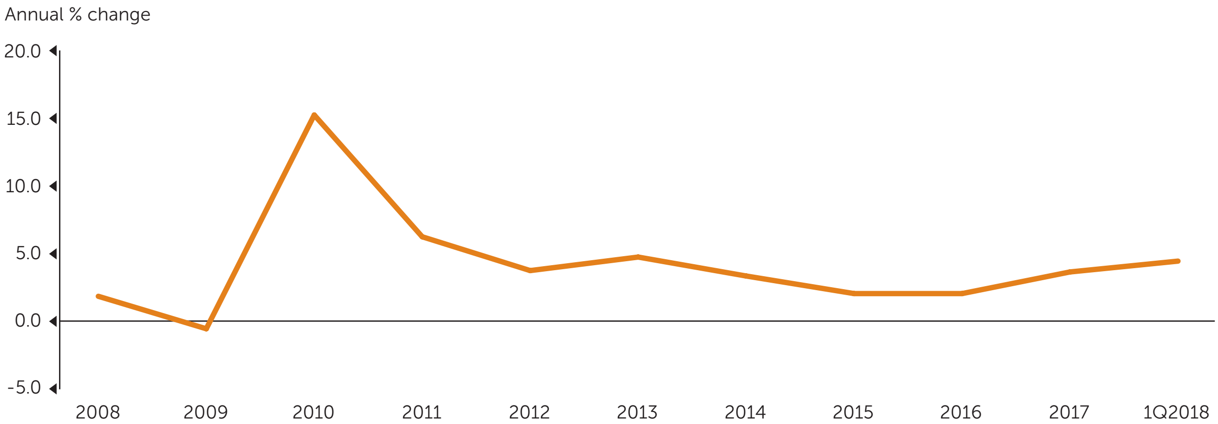
1 OVERVIEW OF THE SINGAPORE ECONOMY

1.1 Singapore Economic Performance

Singapore's economy grew by 4.4% on a year-on-year ("y-o-y") basis in the first quarter of 2018, faster than the 3.6% growth in the previous quarter. All major sectors experienced growth, with the exception of the construction sector which contracted by 5.0% y-o-y. The manufacturing sector expanded by 9.8% y-o-y, accelerating from the 4.8% growth in 4Q 2017. Growth in the sector was largely broad-based, with all manufacturing clusters, excluding the biomedical manufacturing cluster, registering output expansions.

Aside from manufacturing, the finance & insurance sector grew at a robust pace of 9.1% y-o-y and collectively with the manufacturing sector, accounted for 68% of the overall Gross Domestic Product ("GDP") growth in 1Q 2018.

EXHIBIT 1-1: SINGAPORE GDP GROWTH RATE, 2008 TO 1Q 2018*



Source: MTI, SingStat, Knight Frank Consultancy & Research
* Based on MTI Economic Survey of Singapore 1Q 2018 as at 24 May 2018

Singapore received about S$6.2 billion in total manufacturing fixed asset investment ("FAI") for 2017, 5.5% higher than the S$5.9 billion for 2016. The increase in FAI was mainly attributed to the significant growth of general manufacturing industries and precision engineering clusters, which increased 387.7% and 50.0% y-o-y to reach S$1.1 billion and S$0.6 billion of FAI. The biomedical manufacturing and chemicals clusters also increased by 9.1% and 4.6% to register S$0.6 billion and S$1.3 billion of FAI respectively. The electronics cluster contributed the largest share of FAI at S$2.1 billion or 34.1% of total FAI. Conversely, the transport engineering and electronics clusters experienced a decline of 65.4% and 5.2% over the same period.

1.2 Singapore Economic Outlook for 2018

The improved economic performance in 2017 has been chiefly bolstered by the manufacturing sector, with the electronics and precision engineering clusters contributing the most to the sector's growth. It is anticipated that the growth trajectory in these clusters is set to continue on the back of robust global demand for electronic products, albeit potentially at a more moderated pace from the second half of 2018.

While growth of the services sector lagged that of the manufacturing sector in 2017, its contribution to the overall economic growth is likely to improve this year. Services industries that are mainly supported by external demand and inbound investment such as finance and insurance, wholesale trade and real estate are expected to experience more favourable business conditions in 2018.

Global growth is expected to improve moderately in 2018. Robust economic prospects in the United States are likely to meet with potential slowdown in China, ASEAN-5 and the Eurozone, which make up some of Singapore's key external demand markets. An upside surprise in inflation may lead to the possibility of a faster-than-expected normalisation of monetary policy in the United States. This tightening on liquidity could hurt business and consumer confidence on a global level. In addition, political uncertainties such as concerns over protectionist sentiments, are expected to weigh on global and regional economic sentiments.

Notwithstanding external factors, the potential sustained growth in the global economy in 2018 is set to benefit Singapore's export-oriented services industries such as finance and insurance, wholesale trade as well as transport and storage. On the domestic front, fuelled by government policies such as Smart Nation initiatives and the expansion of healthcare facilities, sectors such as information & communications, education, health & social services should remain resilient. However, the construction sector is likely to remain soft in the short term before it improves along with a projected increase from public and private sector construction activities. In addition, a modest growth outlook is expected for the marine and offshore engineering segment on the back of a volatile oil price environment coupled with elevated capacity in the offshore rig market.

In light of these factors, the Singapore economy is projected to expand between 2.5% to 3.5% in 2018, according to the Ministry of Trade and Industry ("MTI"). The manufacturing surge witnessed in 2017, propelled mainly by trade-related industries as a result of resurgent global demand, is likely to taper off due in part to high GDP base effects in 2017. Over the next few years, the manufacturing sector will continue to be supported by emerging technology trends such as the advancement of 'Internet of Things'. Construction, which has underperformed last year, should get a boost from the S$1.4 billion worth of public sector contracts brought forward as well as a stream of progress payments from earlier rail-related contracts awarded in preceding years.

In addition, the prospect of continuing external demand in 2018 is also likely to fuel the growth of the services industries. With the services sector ratcheting up and construction industry decline bottoming out along with a likely growth moderation in manufacturing, the engines of economic growth should be well balanced in 2018.

2 INDUSTRIAL PROPERTY MARKET OVERVIEW

2.1 Consolidation of Housing Development Board ("HDB") Industrial Land and Properties under JTC Corporation ("JTC")

With effect from 1 January 2018, JTC officially assumed full ownership over all public sector's industrial land and properties in Singapore, including 10,700 industrial units and 540 industrial leases that were previously under the HDB's ownership. The consolidation of all public sector industrial land and properties under a single government agency will enable the Government to better support industrialists, in particular the small and medium enterprises ("SME"), in their business growth. According to JTC, the contracted terms and conditions of all HDB tenancies and leases will remain unchanged for the duration of the tenancy or lease contracts. With the consolidation, some 16,300 industrial units and 3,640 land leases with a total land area of 8,100 hectares ("ha") will be under JTC's purview[1].

[1] Source: The Business Times: 'All HDB Industrial Space to be under JTC by Q1 2018', 20 October 2016

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2.2 Waiver of Minimum Building Specification Requirements for Small Industrial Government Land Sales ("IGLS") Plots

With effect from 1 July 2017, minimum building specification requirements such as the provision of a minimum number of goods lifts and loading bays, are waived for smaller IGLS plots (i.e. plots with less than 1 ha land size). With the waiver, end-users will have more flexibility to customise their developments to suit their operations. To ensure that smaller IGLS plots are to be used primarily for end-users' own operations, successful tenderers (or subsequent owners) will not be allowed to strata subdivide developments for sale throughout the full tenure of the sites. These regulations are seen as part of the Government's strategies to cater more to the business needs of real occupiers and end-users as well as to regulate and stabilise the market, while clamping down on speculative and investment purchase of industrial land. The minimum building specification requirements will continue to apply to the larger IGLS plots, which are meant for developers building multiple-user factories.

2.3 IGLS Programme for 1H 2018

The IGLS Programme listed a total of 13 industrial sites in 1H 2018 with a combined site area of 12.59 ha, which is relatively lower than the 13.90 ha of industrial site area listed for 2H 2017. Of the listed sites under IGLS 1H 2018, six sites are placed under the Confirmed List while the remaining seven sites are on the Reserve List, totaling about 0.8 million sq ft and 2.0 million sq ft of potential industrial space respectively. All the sites on the Confirmed List are zoned 'Business 2' for heavier industrial use, with half of them (totaling 1.68 ha site area) located in Tuas South. Sites with shorter land lease tenures of between 20 to 30 years are launched through the IGLS as the Government continues to keep business cost competitive and affordable for industrialists.

EXHIBIT 2-1: IGLS PROGRAMME FOR 1H 2018

Location	Site Area (ha)	Zoning	Gross Plot Ratio	Tenure (years)	Estimated Launch Month
Confirmed List of Industrial Sites					
Plot 18, Tuas South Link 3	0.43	B2	1.4	20	January 2018
Plot 21, Tuas South Link 3	0.78		1.4		February 2018
Woodlands Industrial Park E7/E8	0.88		2.5		March 2018
Plot 26, Tuas South Link 3	0.47		1.4		April 2018
Plot 10, Tampines Industrial Drive	0.47		1.4		May 2018
Plot 2, Tanjong Penjuru	0.88		2.5		June 2018
Total	**3.91**				
Reserve List of Industrial Sites					
Plot 13, Tuas South Link 1	2.41	B2	2.0	30	Available
Braddell Road	1.00	B1	2.5	30	Available
Plot 19, Tuas South Link 3	0.45	B2	1.4	20	March 2018
Plot 20, Tuas South Link 3	0.44	B2	1.4	20	April 2018
Yung Ho	1.28	B2	2.5	30	May 2018
Gul Circle	1.00	B2	1.4	20	June 2018
Woodlands Avenue 12	2.10	B2	2.5	30	June 2018
Total	**8.68**				

Source: MTI, Knight Frank Consultancy & Research, as at 31 May 2018

2.4 Industrial Prices and Investment Market

The total investment sales value of private factories (including business parks) totalled S$2.0 billion[2] in 2017, with 1H 2017 and 2H 2017 achieving a total investment sales value of S$418.0 million and S$1.6 billion[3] respectively.

EXHIBIT 2-2: SELECTED MAJOR PRIVATE FACTORY INVESTMENT SALES IN 2017

Key Private Factory Investment Sales in 2017					
Property	**Location**	**Tenure**	**Purchaser**	**GFA (sq ft)**	**Price (S$)**
1Q 2017					
1 Buroh Lane	1 Buroh Lane	N.A.	PGIM Real Estate	N.A.	193,800,000
5 Tuas View Lane	5 Tuas View Lane	30+30 years from 1 July 2008	N.A.	N.A.	54,200,000
3Q 2017					
Citimac Industrial Complex	605 Macpherson Rd	N.A.	Zhao Family	N.A.	430,100,000
Fabristeel Factory	9 Tuas Avenue 10	N.A.	N.A.	N.A.	86,000,000
Datapulse Industrial Building	15A Tai Seng Drive	30+30 years from 16/08/1993	N.A.	N.A.	53,500,000
4Q 2017					
Seagate Technology International	7000 Ang Mo Kio Ave 5	Balance 39 years	ESR-REIT	1,073,233	240,000,000
8 Tuas South Lane	8 Tuas South Lane	Leasehold	ESR-REIT	N.A.	95,000,000
1 Serangoon North Avenue 6	1 Serangoon North Avenue 6	30+30 years from 23/06/2007	N.A.	N.A.	80,500,000
Pei-Fu Industrial Building	23 New Industrial Road	Freehold	Oxley Kynite	N.A.	76,250,000
61/71 Tuas Bay Drive	61/71 Tuas Bay Drive	60 years from 19/07/2006	N.A.	N.A.	55,000,000

Source: JTC, REALIS, Knight Frank Consultancy & Research

3 REVIEW OF MULTIPLE-USER FACTORY MARKET SEGMENT

3.1 Existing and Potential Supply

As at 1Q 2018, the total existing stock for multiple-user factory is approximately 120.4 million sq ft NLA, which forms 23.5% of the total island-wide industrial stock. The multiple-user factory stock increased by 5.2 million sq ft NLA as compared to the preceding year.

As at 1Q 2018, an estimated 13.4 million sq ft of new multiple-user factory space is slated for completion between 2018 and 2022. By the end of 2018, about 2.2 million sq ft NLA of new multiple-user factory space (or 16.2% of the total upcoming supply) is expected to be completed. This is 51.4% lower than the five-year annual average net new supply of 4.4 million sq ft between 2013 and 2017.

[2] Estimates accurate as at 31 May 2018.
To be considered as private investment sales under Knight Frank Research definition, it must fulfil either one of the following pre-requisites:
- Investment transactions should comprise an entire building or property with a total worth of S$10 million and above; or
- Any bulk sales within a development which amounts to S$10 million or more.

[3] This excluded the transaction for Jurong Aromatics Complex of total investment value of S$1.97 billion in 3Q 2017. The nature of the Jurong Aromatics Complex transaction is more asset-based than property-based investment sales.

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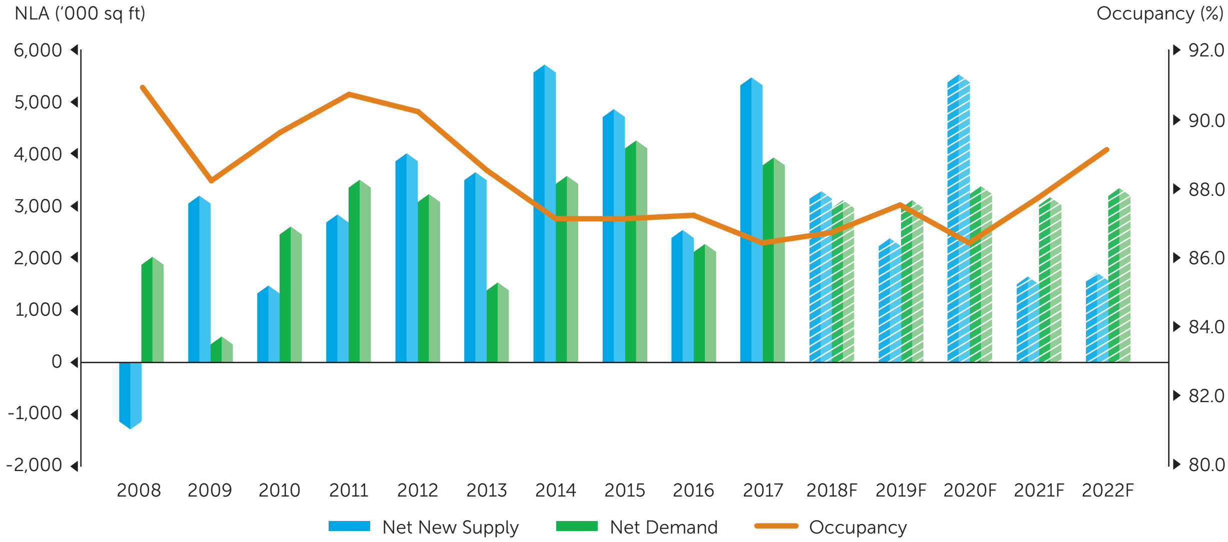
EXHIBIT 3-1: NET NEW SUPPLY, NET DEMAND AND OCCUPANCY OF MULTIPLE-USER FACTORY SPACE[4]



Source: JTC, Knight Frank Consultancy & Research

3.2 Demand and Occupancy

Net demand of multiple-user factory space increased by 72.7% y-o-y to 3.9 million sq ft NLA in 2017, compared to 2.3 million sq ft NLA in 2016. In 1Q 2018, about 915,000 sq ft NLA of multiple-user factory space was absorbed by the market, and this is 7.6% higher than the net demand registered in 1Q 2017 (850,000 sq ft NLA).

As a result of net new supply having exceeded the net demand for multiple-user factory space, occupancy for multiple-user factory space declined by 0.7 percentage point to 86.5% in 2017 from 87.3% in 2016. Over the past five years (2013 – 2017), occupancy for multiple-user factory space was reasonably stable, which were within the range of 86.5% to 88.6%.

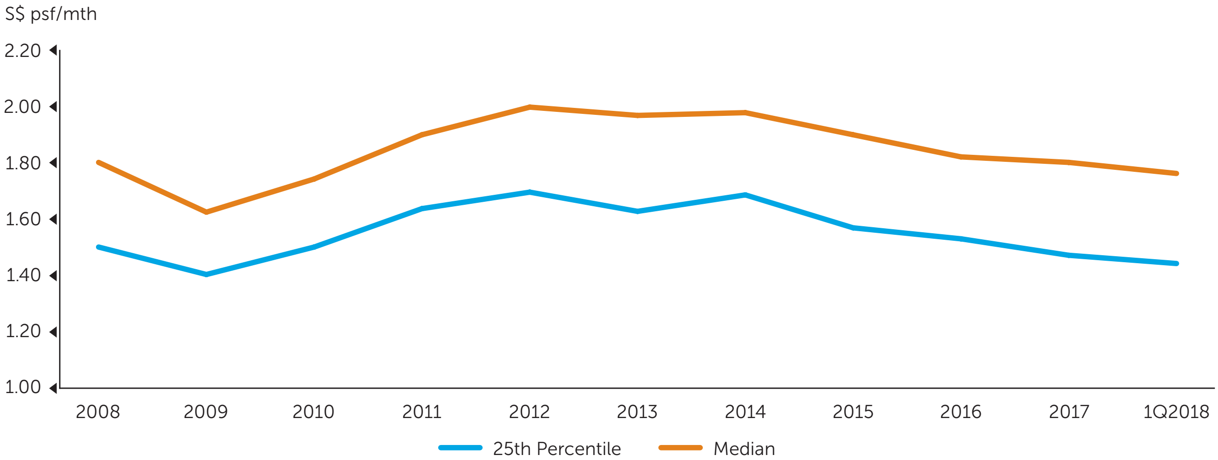
3.3 Rents

Based on data from JTC, multiple-user factory rents at the median level declined by 1.1% annually to S$1.80 psf/mth in 2017 from S$1.82 psf/mth in 2016. Similar rental trend was observed at the 25th percentile levels where the multiple-user factory rents slipped by 3.9% annually to reach S$1.47 psf/mth in the same period.

With the injection of large supply of new multiple-user factory space in the market between 2014 and 2017, landlords have kept their rents at competitive levels to maintain occupancy.

[4] Gross potential supply is adjusted to net floor area based on Knight Frank's assumption of 85% space efficiency factor for multiple-user factory space.

EXHIBIT 3-2: RENTS OF MULTIPLE-USER FACTORY SPACE



Source: REALIS, Knight Frank Consultancy & Research

3.4 Outlook

With the broad-based recovery and near-term favourable growth prospects of the manufacturing sector in 2018, the demand for multiple-user factory space is projected to be fairly optimistic, particularly from the manufacturing-related SME in Singapore. However, multiple-user factory buildings with sizeable floorplates and better specifications stand to see higher demand from larger manufacturing players compared to smaller scale multiple-user factory buildings.

Landlords of private multiple-user factory space will continue to face competition from the large supply within the public sector multiple-user factory segment in attracting and retaining tenants, as JTC sets up high quality specialised industrial hubs such as JTC Chemicals Hub @ Tuas South, JTC nanoSpace @ Tampines, and JTC Food Hub @ Senoko. Such specialised industrial hubs could help drive and foster synergy among players from similar trades.

Taking into consideration the cost sensitivity among the SME and an upcoming injection of 2.2 million sq ft NLA of new multiple-user factory space in 2018, the average rental movement for multiple-user factory space is likely to range between -2.0% and 1.0% y-o-y by 4Q 2018, barring unforeseen macroeconomic circumstances and policy changes.

4 REVIEW OF HIGH-SPECIFICATION[5] INDUSTRIAL SPACE

4.1 Existing and Potential Supply

There are no official statistics tracking high-specification industrial space in Singapore. Based on Knight Frank's classification, there is approximately 16.2 million sq ft of high-specification industrial space as at 1Q 2018. Notable projects that were completed in 2017 include JTC nanoSpace @ Tampines and 1 & 1A Depot Close. In 1Q 2018, an estimated total of 276,000 sq ft of high-specification industrial space was completed. Another potential 288,000 sq ft of high-specification industrial space is due to complete by end-2018.

[5] Knight Frank defines high-specification industrial space with higher office content for tenants in technology and knowledge-intensive sectors, and may include activities such as precision engineering and data centre operations. Such developments typically house multi-national companies and large Singapore firms that are anchor tenants, which incorporate their headquarters with manufacturing, research and development and engineering activities.

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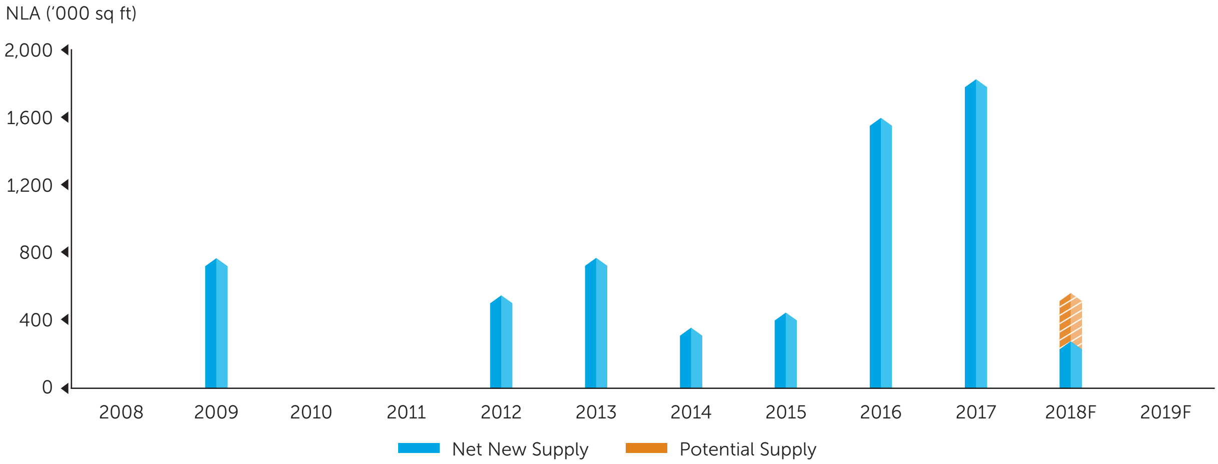
EXHIBIT 4-1: NET NEW SUPPLY AND POTENTIAL SUPPLY OF HIGH-SPECIFICATION INDUSTRIAL SPACE[6]



Source: JTC, Knight Frank Consultancy & Research

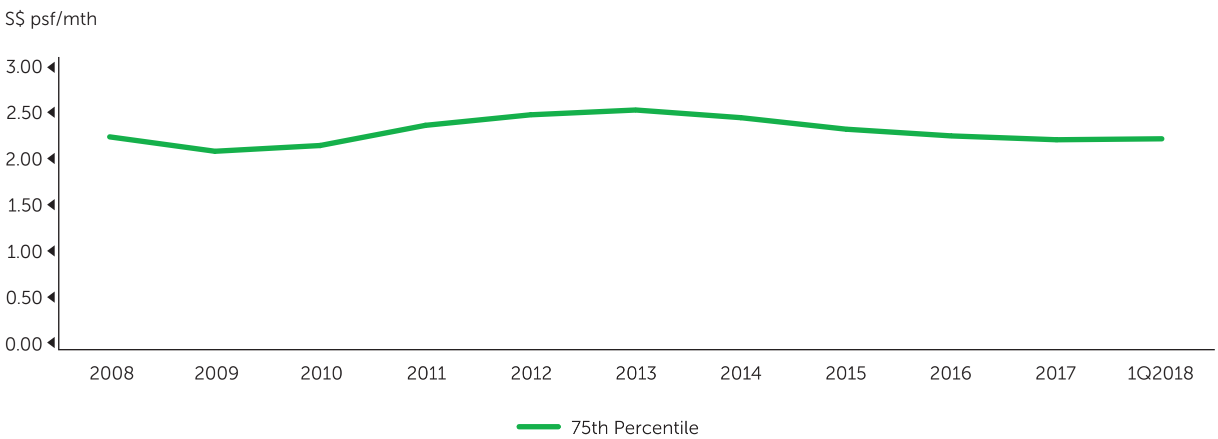
4.2 Demand and Occupancy

Based on Knight Frank's classification, occupancy for high-specification industrial space declined from 86.1% in 2016 to 81.4% in 2017. Though the demand for high-specification industrial space is expected to grow with the restructuring of the manufacturing sector, time is required to gradually absorb the large influx of new high-specification industrial space released over 2016 and 2017.

4.3 Rents

Rents for high-specification industrial space ranged between S$2.20 psf/mth and S$5.11 psf/mth in 1Q 2018. The wide spectrum of rents is largely due to the nature of the high-specification industrial space, which could range from spaces catering to general industries and customised spaces for high value-add industries. Rents for high-specification industrial space are seen to have stabilised, albeit with modest rental declines, between 2015 to 2017, compared to 2014.

EXHIBIT 4-2: RENTS OF HIGH-SPECIFICATIONS INDUSTRIAL SPACE[7]



Source: REALIS, Knight Frank Consultancy & Research

6 Gross potential supply is adjusted to net floor area based on Knight Frank's assumption of 85% space efficiency factor for high-specification industrial space.

7 Knight Frank assumes 75th percentile rents for multiple-user factory to be estimated rents for high-specification multiple-user factory developments.

4.4 Outlook

The Government's continuing push to transform Singapore's manufacturing sector towards higher value-add manufacturing activities and integrated operations will see the demand for high-specification industrial space increase in the near term. The large influx of high-specification industrial space completed in 2017 will see the market adjusting to the new supply and occupancy is expected to grow in 2018 albeit at a moderate pace as industrialists steadily take up these newly completed spaces. Demand for BTS high-specification spaces from larger industrialists is also envisaged to pick up as more multi-national companies and established home-grown companies explore to consolidate their operations in industrial spaces with better and relevant specifications.

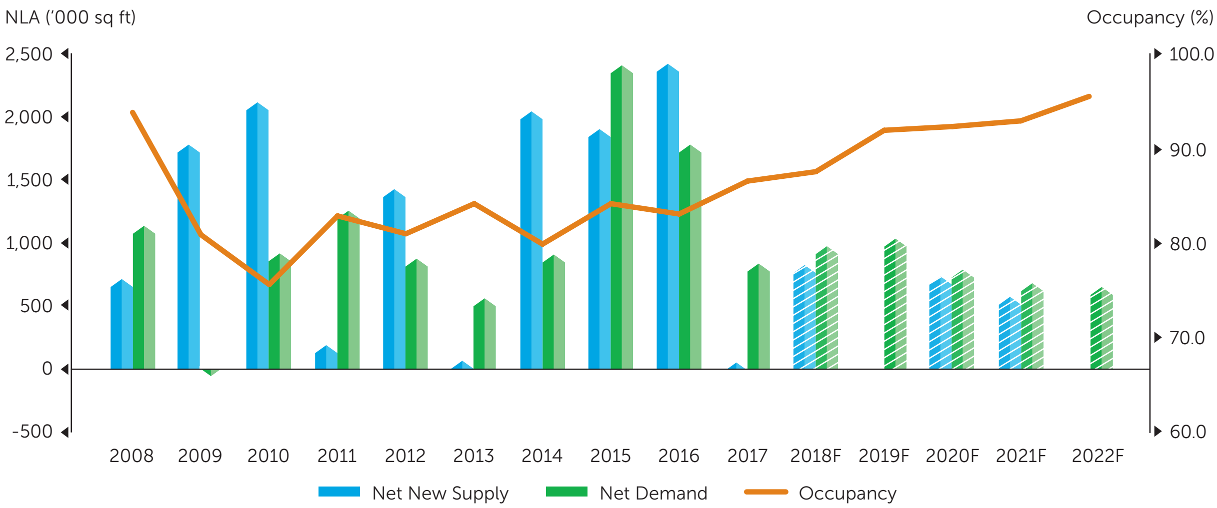
5 REVIEW OF BUSINESS PARK SPACE

5.1 Existing and Potential Supply

As at 1Q 2018, the total existing stock for business park space stood at 23.0 million sq ft NLA, and this remained unchanged compared to the preceding year.

Between 2018 and 2022, an estimated 2.1 million sq ft NLA of business park space is slated for completion. For 2018 alone, about 823,000 sq ft NLA of new business park space (or 38.6% of the total upcoming supply) is expected to be completed, and this is 35.7% lower than the five-year annual average net new supply of 1.3 million sq ft between 2013 and 2017.

EXHIBIT 5-1: NET NEW SUPPLY, NET DEMAND AND OCCUPANCY OF BUSINESS PARK SPACE[8]



Source: JTC, Knight Frank Consultancy & Research

5.2 Demand and Occupancy

Notwithstanding that the net demand for business park space fell by 53.0% to 834,000 sq ft NLA in 2017 from 1.8 million sq ft NLA in 2016, overall occupancy improved from 83.0% to 86.5% over the same period. This was due to the substantially lower injection of net new supply of business park space (11,000 sq ft NLA) in 2017, which was more than offset by the net demand in the same year.

[8] Gross potential supply is adjusted to net floor area based on Knight Frank's assumption of 85% space efficiency factor for business park developments.

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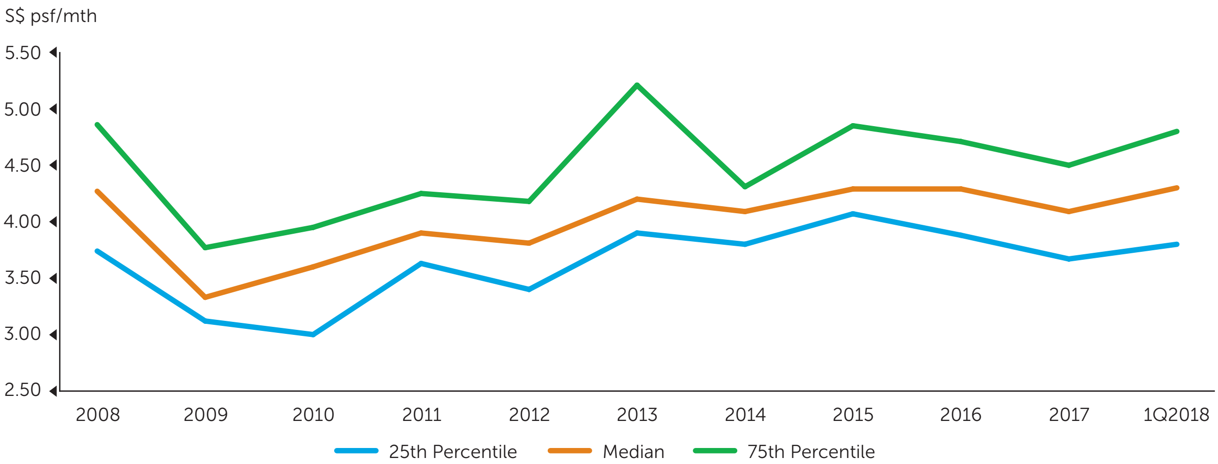
5.3 Rent

Based on the data provided by JTC, business park rents at the 25th percentile, median and 75th percentile levels declined by 5.4%, 4.7% and 4.5% annually in 2017 to reach S$3.67 psf/mth, S$4.09 psf/mth and S$4.50 psf/mth respectively. As at 1Q 2018, the median rent of business park space was S$4.30 psf/mth.

EXHIBIT 5-2: RENTS OF BUSINESS PARK SPACE



Source: REALIS, Knight Frank Consultancy & Research

5.4 Outlook

With robust growth anticipated for the manufacturing sector in 2018, along with the Government's constant push towards establishing high value-added manufacturing niches such as media and telecommunications, medical technology and e-commerce, these upside factors are likely to support the overall take-up for business park space in 2018. Coupled with the lower upcoming supply of business park space in 2018 compared with previous years between 2014 and 2016, occupancy is envisaged to remain healthy and could be within the range of 87% to 90%. Rental performance is projected to improve marginally with between 0.5% and 2.0% y-o-y increase by 4Q 2018 as new business park space, which is likely to garner higher rents, is introduced into the market by the end of 2018.

With the rising competition from new business park buildings (e.g. Mapletree Business City II) and developments that underwent asset enhancements (e.g. Viva Business Park and The Gemini @ The Science Park) in recent years, more landlords are likely to embark on upgrading works to improve and enhance their existing assets. This is to ensure their efficiency and competitiveness in the leasing market, which may translate to higher rental rates and healthy occupancies for the business park segment.

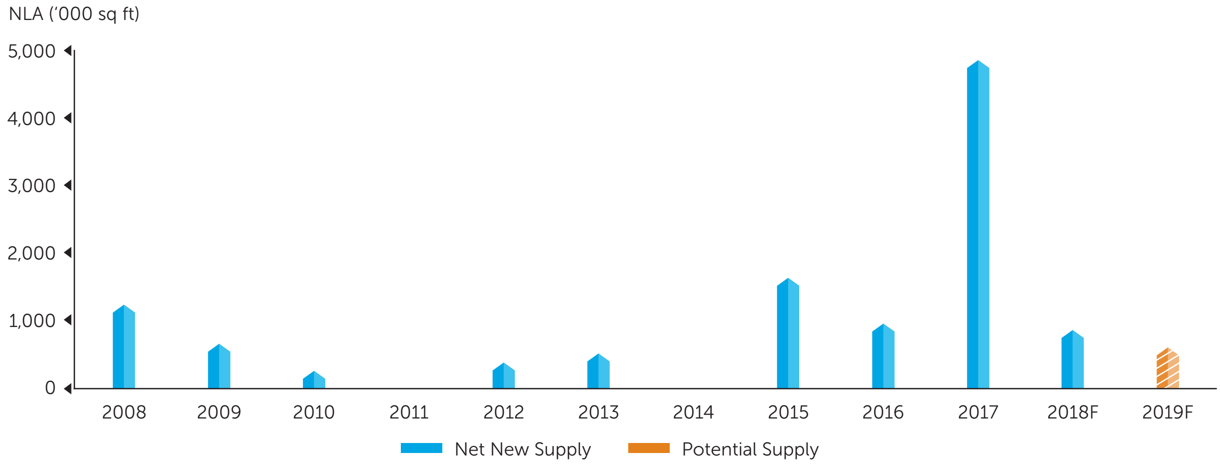
6 REVIEW OF STACK-UP[9] FACTORY SPACE

6.1 Existing and Potential Supply

There are no official statistics tracking stack-up factory space in Singapore. Based on Knight Frank's classification, there is approximately 11.1 million sq ft of stack-up factory space as at 1Q 2018. Notable completed projects in 2017 include Carros Centre, JTC Space @ Tuas, and JTC Food Hub @ Senoko. While the upcoming supply of stack-up factory space to be completed in the rest of 2018 stands at 0.9 million sq ft, an additional 0.6 million sq ft of stack-up factory space is projected to be ready in 2019.

[9] Knight Frank defines stack-up factory space as large floor plate multiple-user factory developments of above 150,000 sq ft NLA, and has ramp up access to upper floors.

EXHIBIT 6-1: NET NEW SUPPLY AND POTENTIAL SUPPLY OF STACK-UP FACTORY SPACE[10]



Source: JTC, Knight Frank Consultancy & Research

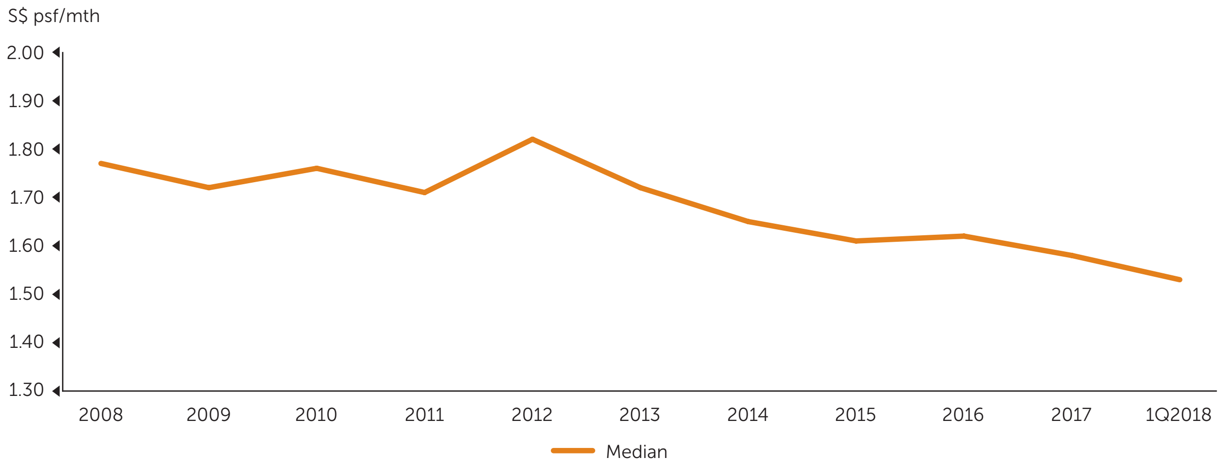
6.2 Demand and Occupancy

Based on Knight Frank's assumption, overall occupancy of stack-up factory was approximately 82.9% in 1Q 2018. With the various new industrial spaces that were completed in 2017, coupled with the robust manufacturing performance which continued into 1Q 2018, the take-up rate of stack-up factory space is envisaged to remain at a steady level for the remaining quarters in 2018.

6.3 Rents

Based on Knight Frank's assumptions, the median rents for stack up factory space rose by 8.5% y-o-y to $1.53 psf/mth in 1Q 2018. Demand for higher quality stack-up factory developments in mainly city fringe locations from industrialists is observed to be higher.

EXHIBIT 6-2: RENTS OF STACK-UP FACTORY SPACE



Source: JTC, Knight Frank Consultancy & Research

[10] Gross potential supply is adjusted to net floor area based on Knight Frank's assumption of 85% space efficiency factor for stack-up factory developments.

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6.4 Outlook

With an improvement in global economic performance in 2017 and a continued recovery in global trade, general manufacturing activities could expand in the remaining quarters of 2018. Domestic consumption demand for goods is expected to rise as market sentiment improves along with robust economic growth. These trends are likely to benefit SME in the manufacturing sector, which are looking to expand their business operations. Furthermore, with the upcoming supply of 1.5 million sq ft of new stack-up factory space until 2019, rents and occupancy are envisaged to recover at a moderate pace in the medium term.

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