

# RED TAPE BLUES

## INDUSTRIAL PROPERTIES

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The tide has turned after the imposition of tighter regulations and cooling measures on Industrial properties to curb speculative demands. Sales volume for strata-titled industrial properties dipped by 1.9% q-o-q and 58.6% y-o-y to a 5-year low in 2Q14.

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### Market Trends

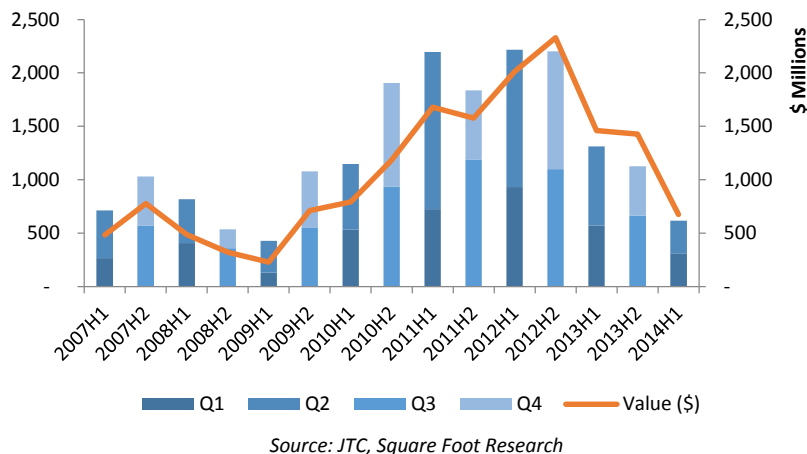
Due to the cooling measures rolled out last year to curb the industrial property market, sales volume of strata-titled industrial properties plummets for the fourth consecutive quarter in 2Q14 and third consecutive half-year in 1H14 since the implementation of Seller's Stamp Duty (SSD) on industrial property and the Total Debt Servicing Ratio (TDSR) on 12 Jan 2013 and 30 Jun 2013, respectively.

The number of caveats lodged for strata-titled industrial properties plunged by 45.1% h-o-h and 52.9% y-o-y in 1H14 to 618 transactions. Total value fell by 52.7% h-o-h and 53.7% y-o-y to \$675.7m (Figure 1).

Demand for new industrial property plunged by about 70% h-o-h and q-o-q to just 118 new sales recorded in 1H14, a far cry from its heyday (Figure 2, Table 1).

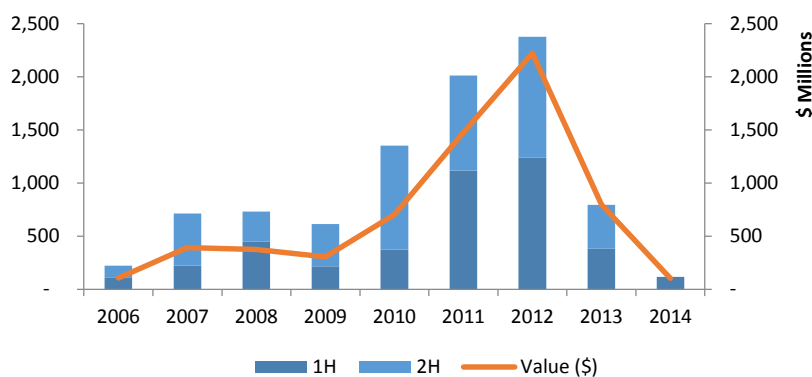
Transaction volume of industrial property below \$1.5m saw a drastic drop by over 48% y-o-y in 2013 as compared to those above \$1.5m (Table 2), which may indicate a declining investment interest in this asset class.

**Figure 1: Sales of Strata-Titled Industrial Property**



Source: JTC, Square Foot Research

**Figure 2: Primary Market Sales of Strata-Titled Industrial Property**



Source: JTC, Square Foot Research

**Table 1: Primary Market Sales of Strata-Titled Industrial Property**

Year	Volume #	Value \$m
1H13	383	424.5
2H13	412	372
1H14	118	104.9
% h-o-h	-71.4%	-71.8%
% y-o-y	-69.2%	-75.3%

Source: JTC, Square Foot Research

**Table 2: Sales Volume by Transaction Price**

Year	>\$1.5m	y-o-y (%)	<\$1.5m	y-o-y (%)
2010	147	-	2,904	-
2011	251	70.7	3,780	30.2
2012	531	111.6	3,889	2.9
2013	422	-20.5	2,016	-48.2

Source: JTC, Square Foot Research

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### Median Price & Rent

Overall, median price of industrial property across all tenures remained relatively stable over the past 8 quarters (Figure 3).

Freehold industrial properties remained resilient against the languid demand, increasing by 6.1% q-o-q in 2Q14. The poor market sentiments, however, has taken its toll on its leasehold counterparts where those of 30 years and lower lease tenure dropped significantly by over 20% (Table 3).

**Table 3: Median Transaction Price of Industrial Properties by Tenure**

Year	FH	>30 yrs LH	=<30 yrs LH
1Q14	659	455	341.5
2Q14	699	445	270
q-o-q	6.1%	-2.2%	-20.9%

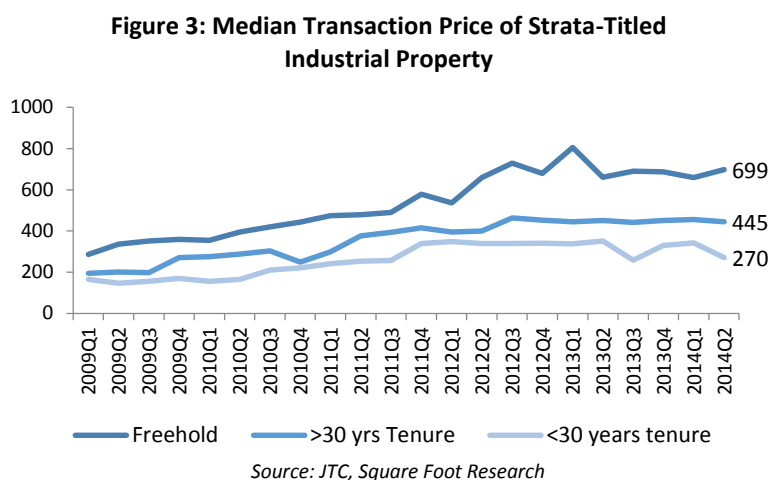
Source: JTC, Square Foot Research

On the other hand, median monthly rent of factories is stable at about \$2 psf per month for the 9<sup>th</sup> quarter since 2Q09.

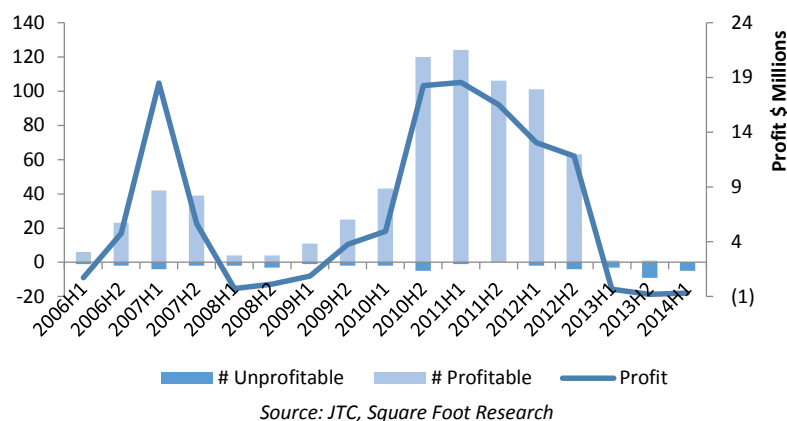
Median rental yield in 2Q14 stood at around 2-4% for freehold factories LH and around 4-7% for leasehold properties with tenure above 30 years.

### Capital Gains

Taking into consideration the moderation of industrial property prices, the marginal capital appreciation does not



**Figure 4: Volume and Profitability of Industrial Properties Bought and Sold within a Year**



justify itself as a good investment for quick monetary gains especially with the imposition of SSD on 12 Jan 2013.

According to caveats lodged, the total number of strata-titled industrial properties bought and sold within a year fell from 170 in 2012 to only 14 in 2013, out of which 3 were not affected by the SSD (Figure 4).

A total of 16 transactions have been hit by SSD in 2H14 (as of 14 July 2014). Only one transaction was profitable

before SSD but had a net loss when SSD is taken into account.

The hefty levy coupled with the encumbrance of holding the property may have led to the decrease in investment appeal of industrial properties, especially in uncompleted projects.

### Occupancy Rate

Despite a relatively attractive rental yield, occupancy rate of private industrial property has been declining since 1Q12 and has fallen further by 0.5% for

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overall private factories and 1.1% for multi-user factories in 2Q14 (Figure 5).

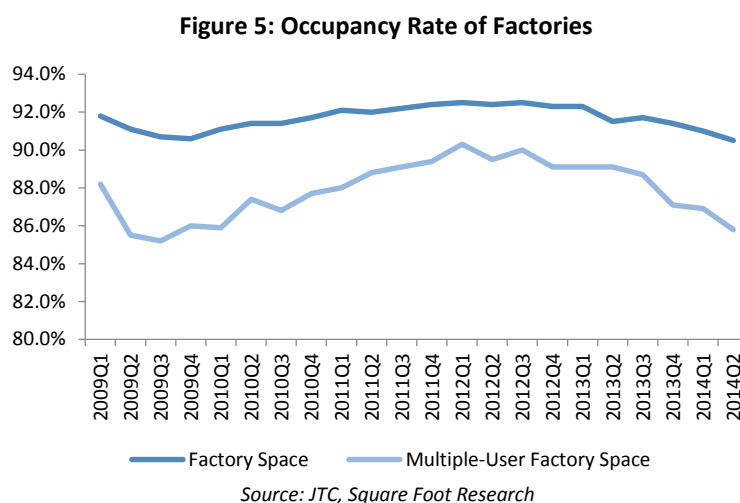
The increase in vacancy rate may be attributed to the influx of newly completed industrial developments that have been designed to cater more to investors than end-users in the market.

With more stringent guidelines and use policies imposed to clamp down illegal tenancy coupled with a finite demand and an increasing supply, these investors-owned units are experiencing more difficulties in finding tenants especially for smaller units that may not be suitable for genuine end-users.

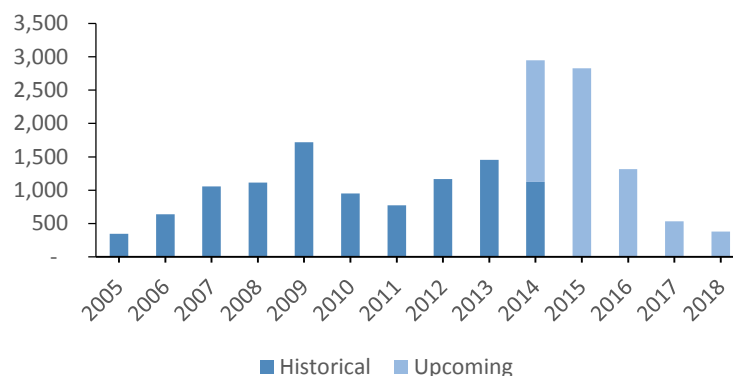
In addition, the declining output in the manufacturing sector may also have a direct impact on business demand for industrial properties.

### Supply & Market Outlook

An estimated 1.8 million sqm of gross floor area of industrial space is expected to be completed in 2H14 and an average of about 1.6 million sqm, which is about 3-4% of the current available stock, are set to come on-stream annually from 2015 to 2017. A total of 700,000 sqm of multiple-user factory space is expected to complete in 2014 followed by an estimated 500,000 sqm every year from 2015 to 2017.



**Figure 6: Upcoming Supply of Industrial Space**



\*Historical new supply is based on net lettable space whereas upcoming supply is based on gross floor area  
Source: JTC, Square Foot Research

With an avalanche of supply soon to flood the market, end users are spoilt for choices and market demand is likely to be met and curbed. Though rent is likely to moderate further in the short run, the potential of industrial properties with different tenure may vary. Freehold properties are likely able to remain resilient in times of adversity given its limited supply.

Due to greater difficulties in getting loans and the strain on serving a higher monthly

mortgage, prices of leasehold industrial units with leases less than 30-45 years remaining may be more volatile and decline further overtime due to its smaller pool of potential buyers.

As increased efforts are poured in by the authorities to regulate the market, activities in the industrial property segment is likely to remain in the doldrums and unattractive for investors.

# INDUSTRIAL PROPERTY

## TOP 50 MOST PROFITABLE TRANSACTIONS IN 2014

Project Name	Type	Tenure	Area sqft	Purchase Date	Sold Date	Holding Days	Purchase Price (psf)	Sold Price (psf)	Profit (\$m)
<b>CITIPPOINT INDUSTRIAL COMPLEX</b>	Factory	Freehold	7,610	13-Jun-07	24-Apr-14	2,507	205	705	3.81
<b>NORTH SPRING BIZHUB</b>	Factory	60 Yrs From 01/02/2011	11,431	20-Jun-11	27-Mar-14	1,011	240	442	2.29
<b>TONG LEE BUILDING</b>	Factory	Freehold	5,177	25-May-06	17-Apr-14	2,884	102	540	2.27
<b>NORTH SPRING BIZHUB</b>	Factory	60 Yrs From 01/02/2011	11,431	27-Jun-11	24-Apr-14	1,032	243	383	1.58
<b>TUAS COVE INDUSTRIAL CENTRE</b>	Factory	60 Yrs From 04/01/1999	13,606	12-Mar-10	23-Jan-14	1,413	81	197	1.58
<b>TRADEHUB 21</b>	Factory	60 Yrs From 10/12/2003	3,854	15-Feb-07	09-May-14	2,640	197	532	1.29
<b>TRADEHUB 21</b>	Factory	60 Yrs From 10/12/2003	5,081	02-Aug-10	09-May-14	1,376	335	585	1.27
<b>FOCUS ONE</b>	Factory	60 Yrs From 04/01/1999	5,242	23-Mar-11	06-Mar-14	1,079	265	467	1.06
<b>HENDERSON INDUSTRIAL PARK</b>	Factory	Freehold	3,154	22-Feb-07	26-Jun-14	2,681	293	625	1.05
<b>FOCUS ONE</b>	Factory	60 Yrs From 04/01/1999	6,297	13-Sep-08	27-Jan-14	1,962	294	457	1.03
<b>NORDIX</b>	Factory	60 Yrs From 25/09/2006	7,320	31-Jan-12	11-Jun-14	862	253	393	1.03
<b>VALIANT INDUSTRIAL BUILDING</b>	Factory	Freehold	3,412	07-Oct-10	02-Jan-14	1,183	330	627	1.02
<b>TUAS COVE INDUSTRIAL CENTRE</b>	Factory	60 Yrs From 04/01/1999	13,606	25-Jun-10	15-Jan-14	1,300	99	173	1.01
<b>FOOD XCHANGE @ ADMIRALTY</b>	Factory	60 Yrs From 09/10/2000	4,984	16-Nov-10	17-Apr-14	1,248	191	381	0.95
<b>ENTERPRISE HUB</b>	Factory	60 Yrs From 01/12/1997	5,027	12-Feb-07	23-Apr-14	2,627	106	284	0.90
<b>CSI DISTRIBUTION CENTRE</b>	Warehouse	Freehold	1,841	07-Feb-06	08-Apr-14	2,982	168	625	0.84
<b>HIANGKIE INDUSTRIAL BUILDING</b>	Factory	60 Yrs From 09/01/1995	2,874	27-Jan-12	18-Feb-14	753	939	1211	0.78
<b>NORTHSTAR @ AMK</b>	Factory	60 Yrs From 01/01/2007	2,077	26-Oct-07	25-Apr-14	2,373	265	620	0.74
<b>HENDERSON INDUSTRIAL PARK</b>	Factory	Freehold	4,844	13-May-10	11-Mar-14	1,398	450	599	0.72
<b>PAYA LEBAR 178</b>	Factory	Freehold	1,593	03-Jun-10	11-Mar-14	1,377	530	980	0.72
<b>EUNOS TECHNOLINK</b>	Factory	60 Yrs From 09/07/1996	3,100	12-Mar-10	09-Apr-14	1,489	269	484	0.67
<b>ENTERPRISE CENTRE</b>	Factory	60 Yrs From 13/03/1997	3,423	31-Aug-07	06-May-14	2,440	175	368	0.66
<b>HOLA CENTRE</b>	Factory	60 Yrs From 05/07/1997	2,099	21-Apr-06	26-Mar-14	2,896	145	457	0.66
<b>8 @ TRADEHUB 21</b>	Factory	60 Yrs From 10/12/2003	2,002	24-Apr-06	17-Jan-14	2,825	163	487	0.65
<b>8 @ TRADEHUB 21</b>	Factory	60 Yrs From 10/12/2003	1,808	20-Jun-06	11-Mar-14	2,821	176	530	0.64
<b>PANTECH BUSINESS HUB</b>	Warehouse	99 Yrs From 27/01/1984	1,798	02-Mar-07	13-Mar-14	2,568	106	450	0.62
<b>FOOD XCHANGE @ ADMIRALTY</b>	Factory	60 Yrs From 09/10/2000	2,874	29-Mar-11	12-Feb-14	1,051	226	435	0.60
<b>LHK 2</b>	Factory	Freehold	1,604	14-Sep-10	18-Jun-14	1,373	571	935	0.59
<b>D'CENTENNIAL</b>	Factory	Freehold	1,119	08-Jun-06	21-Apr-14	2,874	284	804	0.58



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Project Name	Type	Tenure	Area sqft	Purchase Date	Sold Date	Holding Days	Purchase Price (psf)	Sold Price (psf)	Profit (\$m)
UBI TECHPARK	Factory	60 Yrs From 05/07/1997	7,858	09-Apr-12	24-Apr-14	745	356	430	0.58
KAPO FACTORY BUILDING	Factory	Freehold	2,713	21-Jun-12	24-Jan-14	582	550	756	0.56
NORTHSTAR @ AMK	Factory	60 Yrs From 01/01/2007	1,948	08-Aug-08	09-Jun-14	2,131	226	506	0.55
SHUN LI INDUSTRIAL PARK	Factory	60 Yrs From 30/10/1996	2,540	21-Aug-09	07-Feb-14	1,631	180	394	0.54
SHUN LI INDUSTRIAL PARK	Factory	60 Yrs From 30/10/1996	2,336	15-Jun-07	24-Jun-14	2,566	175	400	0.53
HARVEST @ WOODLANDS	Factory	60 Yrs From 05/10/2009	1,905	07-Oct-10	03-Apr-14	1,274	339	614	0.52
SHUN LI INDUSTRIAL PARK	Factory	60 Yrs From 30/10/1996	2,174	06-Oct-06	28-Feb-14	2,702	149	385	0.51
NORTHSTAR @ AMK	Factory	60 Yrs From 01/01/2007	2,077	01-Sep-09	25-Apr-14	1,697	246	493	0.51
ENTERPRISE HUB	Factory	60 Yrs From 01/12/1997	6,232	12-Mar-12	21-Feb-14	711	260	342	0.51
TRADEHUB 21	Factory	60 Yrs From 10/12/2003	1,507	18-May-07	03-Mar-14	2,481	213	549	0.51
HENDERSON BUILDING	Factory	Freehold	1,238	19-Nov-07	25-Feb-14	2,290	549	953	0.50
FOOD XCHANGE @ ADMIRALTY	Factory	60 Yrs From 09/10/2000	2,788	14-Sep-10	13-Mar-14	1,276	215	395	0.50
VERTEX	Warehouse	60 Yrs From 01/01/2007	3,261	29-Oct-10	26-Feb-14	1,216	478	629	0.49
NORTHSTAR @ AMK	Factory	60 Yrs From 01/01/2007	1,873	30-Apr-08	14-Feb-14	2,116	250	510	0.49
NORTHSTAR @ AMK	Factory	60 Yrs From 01/01/2007	2,142	27-Dec-07	08-Apr-14	2,294	240	467	0.49
EXCALIBUR CENTRE	Factory	60 Yrs From 05/07/1997	2,799	16-Feb-12	20-May-14	824	322	493	0.48
ENTERPRISE HUB	Factory	60 Yrs From 01/12/1997	1,959	10-Dec-10	05-Feb-14	1,153	242	485	0.48
NORTH LINK BUILDING	Factory	60 Yrs From 09/10/1999	6,846	14-Dec-10	20-Mar-14	1,192	117	185	0.47
TRADEHUB 21	Factory	60 Yrs From 10/12/2003	1,582	26-Jul-07	11-Jun-14	2,512	215	506	0.46
HIANGKIE INDUSTRIAL BUILDING	Factory	60 Yrs From 09/01/1995	2,831	18-Mar-10	19-May-14	1,523	105	265	0.45
NORTHLAND INDUSTRIAL BUILDING 1	Factory	60 Yrs From 09/01/1995	3,175	11-Jul-07	21-Apr-14	2,476	189	331	0.45

Source: JTC, Square Foot Research

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## TRANSACTIONS AFFECTED BY SSD

Project Name	Type	Tenure	Area (sqft)	Purchase Date	Sold Date	Holding Days	Purchase Price	Sold Price	Profit \$ '000	Est. SSD \$ '000
ENTREPRENEUR BUSINESS CENTRE	Factory	60 Yrs From 09/01/1995	1,927	31-Jan-13	09-Dec-13	312	415	415	-	120
OXLEY BIZHUB 2	Factory	60 Yrs From 10/06/2011	1,023	06-Aug-13	19-Nov-13	105	733	592	(145)	91
NORTH POINT BIZHUB	Factory	57 Yrs From 13/07/2010	2,562	16-Aug-13	04-Dec-13	110	312	293	(50)	113
8 @ TRADEHUB 21	Factory	60 Yrs From 10/12/2003	2,002	23-Aug-13	17-Jan-14	147	544	487	(115)	146
ECO-TECH@SUNVIEW	Factory	30 Yrs From 25/01/2013	2,497	05-Sep-13	25-Feb-14	173	291	291	-	109
CT HUB	Factory	99 Yrs From 25/06/1979	1,507	06-Sep-13	15-Nov-13	70	894	894	-	202
A'POSH BIZHUB	Factory	60 Yrs From 26/08/2010	1,798	02-Oct-13	27-Nov-13	56	447	447	-	121
FRONTIER	Factory	60 Yrs From 04/01/1999	2,153	08-Oct-13	22-Oct-13	14	464	464	-	150
OXLEY BIZHUB	Factory	60 Yrs From 15/11/2010	958	10-Oct-13	03-Jan-14	85	700	612	(84)	88
ENTERPRISE ONE	Factory	60 Yrs From 09/07/1996	2,153	07-Nov-13	02-Jun-14	207	465	511	100	165
I.BIZ CENTRE	Warehouse	30 Yrs From 29/06/2011	5,070	22-Nov-13	30-Dec-13	38	289	190	(504)	144
8 @ TRADEHUB 21	Factory	60 Yrs From 10/12/2003	2,002	17-Jan-14	09-Apr-14	82	487	487	-	146
8 @ TRADEHUB 21	Factory	60 Yrs From 10/12/2003	2,002	17-Jan-14	09-Apr-14	82	487	487	-	146
WESTLINK TWO	Warehouse	60 Yrs From 20/11/1995	3,369	07-Feb-14	04-Apr-14	56	400	262	(465)	132
WESTLINK TWO	Warehouse	60 Yrs From 20/11/1995	3,348	10-Feb-14	01-Apr-14	50	350	287	(212)	144
WOODLANDS 11	Factory	60 Yrs From 05/07/2010	1,830	21-Mar-14	24-Mar-14	3	400	400	-	110

Source: JTC, Square Foot Research

# APPENDIX

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