SINGAPORE INDUSTRIAL PROPERTY MARKET OVERVIEW

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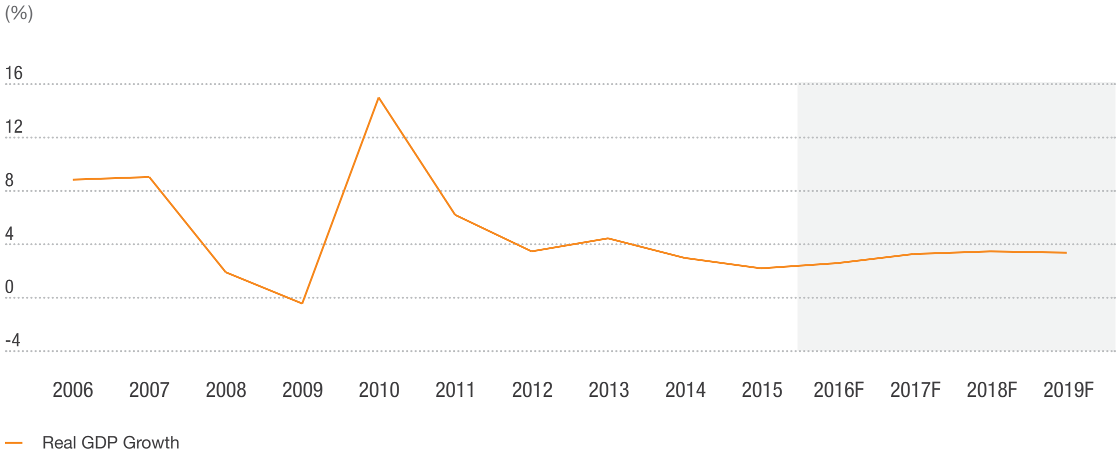
1 ECONOMIC OVERVIEW

1.1 REVIEW OF ECONOMIC PERFORMANCE IN THE PAST YEAR

Given its open economy, Singapore was affected by the uneven global economic growth in 2015. The global economy was buoyed by the stronger-than-expected economic growth in the United States ("US"). In particular, the United States Federal Reserve raised interest rates in December 2015, the first time since 2006. Meanwhile, the Eurozone's economy remained lacklustre. Mainland China's economy also slowed, as a result of overcapacity and weak exports. With Mainland China being Singapore's largest trading partner, the slowdown weighed on its economy, particularly its export-oriented industries.

According to the Ministry of Trade and Industry ("MTI"), the economy grew modestly by 2.0% in 2015, compared with 3.3% in 2014 (Figure 1.1). In Q1 2016, the economy grew by 1.8% Year-on-Year ("YOY") in Q1 2016.

FIGURE 1.1: REAL GDP GROWTH



Source: Oxford Economics, Department of Statistics of Singapore, DTZ Consulting & Research, May 2016

The manufacturing sector, which drives the demand for industrial space, was affected by the weak global export demand and effect of ongoing economic restructuring. According to the Economic Development Board ("EDB"), overall manufacturing output fell by 5.2% in 2015. The Purchasing Managers' Index in January 2016 also reflected that the sector contracted for six consecutive months since June 2015. With the exception of the chemicals cluster which saw its output rise by 3.9% in 2015, annual factory output for the biomedical manufacturing (-2.6%), electronics (-6.8%), general manufacturing (-2.0%), precision engineering (-4.1%) and transport engineering (-13.5%) clusters contracted.

According to the MTI, weak trend in manufacturing persisted in Q1 2016, with further contraction of 1.0% YOY on the back of decline in output of the transport engineering and precision engineering clusters. With weak oil prices, the two clusters were weighed down by the weak performance of firms in the marine and offshore segment and firms that manufacture equipment for the oil and gas industry respectively.

1.2 ECONOMIC OUTLOOK

The MTI expects Singapore's economy to grow by 1.0% to 3.0% in 2016. As both the US and Mainland China focus on their domestic markets, export-oriented economies, such as Singapore, are expected to be affected. Subdued global economic conditions and prolonged weakness in commodity prices are expected to continue to weigh on the manufacturing sector.

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Notwithstanding the slower economic growth, regional and global trading initiatives are expected to underpin medium-to-long term healthy performance of manufacturing sector. Established on 31 December 2015, the ASEAN Economic Community[1] is a single economic region with free movement of goods, services, investment and freer flow of capital and skilled labour will gradually materialise over time. Meanwhile, the Trans-Pacific Partnership[2], which was formalised in February 2016, is expected to enable industrialists in Singapore to tap on both resources supplies and new markets competitively, especially when many tariffs in member countries will be reduced or eliminated.

With increasing challenges and opportunities, the government has set up a Committee on the Future Economy ("CFE") to develop economic strategies to future-proof Singapore as a vibrant and resilient economy. While the CFE is expected to complete its recommendations on the strategies by end 2016, some future growth industries have been identified – advanced manufacturing, applied health sciences as well as logistics and aerospace. These priority clusters are expected to bring in more companies in high-value added manufacturing, which are key demand drivers of industrial space.

2 INDUSTRIAL PROPERTY MARKET HIGHLIGHTS

2.1 GOVERNMENT MEASURES AND POLICIES

Policies and measures were introduced since 2013 to ensure a sustainable industrial property market. These included the imposition of a Sellers' Stamp Duty on industrial properties, Total Debt Servicing Ratio ("TDSR") framework and Assignment Prohibition Period.

JTC Corporation ("JTC") relaxed its subletting policy to accommodate the changing business needs and environment. With effect from 1 October 2015, the JTC revised their policies for Third Party Facility Providers[3]. The policy revision included reduced minimum gross floor area ("GFA") requirement by anchor subtenants from 1,500 square metres ("sq m") to 1,000 sq m, lifting of reassessment for anchor subtenants which remain status quo[4] and a more flexible renewal for subsequent anchor subtenants.

To align with the JTC subletting restrictions implemented in October 2014, the Housing Development Board ("HDB") announced on 30 March 2015 that new and existing tenants of HDB industrial properties would not be allowed to sublet their industrial properties from 1 June 2015. Tenants with existing approved subletting agreements are allowed to renew their subletting agreements up to 31 December 2017. The HDB also implemented subletting cap on GFA. With effect from 1 January 2016, industrial land lessees may sublet up to 30% of the GFA, while real estate investment trusts ("REITs") are allowed to sublet 100% of the GFA, whereby 70% of the GFA must be sublet to anchor tenants.

2.2 INDUSTRIAL GOVERNMENT LAND SALES PROGRAMME FOR H1 2016

The government releases industrial land for sale through the Industrial Government Land Sales ("IGLS") on a bi-annual basis. The government has scaled back the IGLS programme to pace demand since 2014[5]. Notably, the total site area of the land parcels in the H1 2016 Confirmed and Reserve Lists (12.24 ha) were lower than that in H2 2015 (14.30 ha). Majority of the sites in the Confirmed List are small (less than 1.0 ha) and suitable for industrialists to build their own facilities. Three of the six sites were carried over from the 2015 Confirmed List (Table 2.1).

1 Comprises Indonesia, Malaysia, Singapore, Thailand, the Philippines, Brunei, Cambodia, Laos, Myanmar and Vietnam.
2 Countries included Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, US and Vietnam.
3 Land has been leased through third-party build-and-lease or sale-and-leaseback arrangements.
4 Reassessment is required only when there is a change in occupied GFA, usage and extensions of subletting period.
5 The total site area of the land parcels in the H1 2014 Confirmed and Reserve Lists was 20.42 ha.

TABLE 2.1: INDUSTRIAL GOVERNMENT LAND SALES PROGRAMME H1 2016

Location	Site Area (Ha)	Zoning	Gross Plot Ratio	Tenure (years)	Estimated Launch Month
Confirmed List					
Plot 2, Tampines Industrial Drive	0.49	B2	1.4	20	Awarded
Plot 3, Tampines North Drive 3	0.58	B2	2.5	20	Closed. No bids received
Woodlands Sector 2*	1.37	B2	1.4	20	Closed. Bids received
Plot 10, Tampines Industrial Drive	0.47	B2	1.4	20	Open
Plot 7, Tuas South Link 2**	0.53	B2	1.4	20	Open
Plot 8, Tuas South Link 2*	0.60	B2	1.4	20	June 2016
Reserve List					
Plot 1, Tuas South Link 1	3.33	B2	2.0	30	Awarded
Tuas Bay Close	2.72	B2	1.7	30	Available
Plot 1, Tampines Industrial Drive	1.37	B2	1.4	30	Available
Woodlands Height	1.60	B1	2.5	30	Available

Source: JTC, DTZ Consulting & Research, May 2016
* Previously in H1 2015 Confirmed List.
** Previously in H2 2015 Confirmed List.

On the other hand, the Reserve List for H1 2016 featured three larger plots with longer tenure at 30 years. These sites were previously in the H2 2015 Reserve List. Sites on the Reserve List will only be launched for sale by the government, if an interested party submits a minimum acceptable price bid.

2.3 INDUSTRIAL PRICES AND INVESTMENT MARKET

According to JTC, industrial property price index declined slightly by 1.7% in 2015, after a moderate growth of 3.5% in 2014. Overall industrial sales transaction value fell sharply by 35% from S$3.1b in 2014 to S$2.0b in 2015. Majority of the transactions were for investments below S$50m. Table 2.2 highlights the major industrial investment transactions in 2015.

TABLE 2.2: MAJOR INDUSTRIAL INVESTMENT TRANSACTIONS (2015)

Development	Address	Tenure	NLA (sq ft)	Vendor	Buyer	Transacted Price (S$ million)	Unit Price[6] (S$ per sq ft)
One@Changi City	1 Changi Business Park Central	53 years remaining	766,000	Ascendas Development and Fraser Centrepoint	Ascendas REIT	420	548
Starhub Green	Ubi Avenue 1	42 years remaining	405,000	Blackstone	AEP Investment Management	260	642
The Kendall	50 Science Park Road	64 years remaining	181,000	Ascendas Group	Ascendas REIT	112	619

Source: DTZ Consulting & Research, May 2016

6 Based on transacted price and net lettable area ("NLA").

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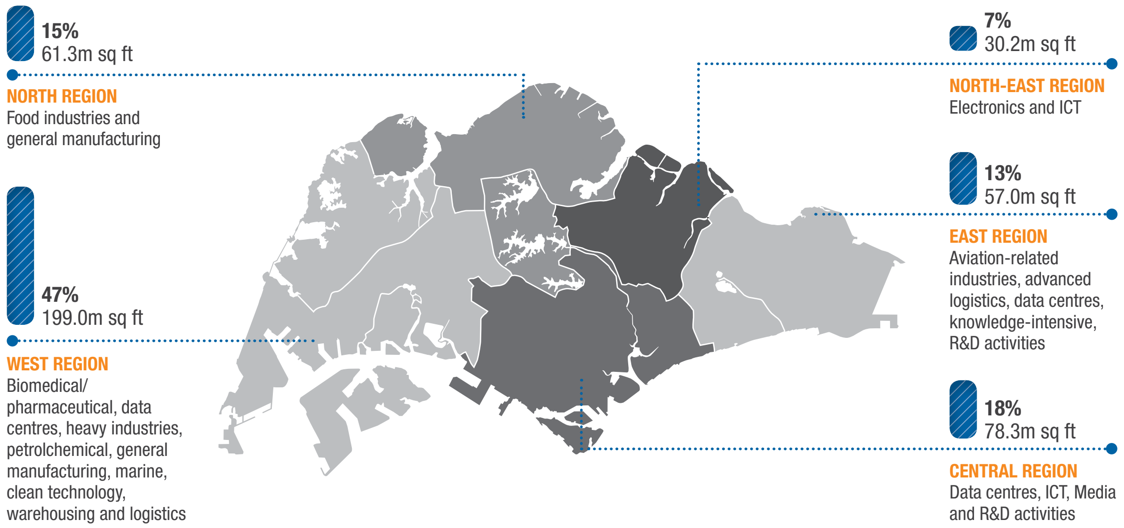
While there were no major policies implemented in 2015, those introduced since 2012 are still in place. The TDSR framework (June 2013) continued to impact on strata-titled industrial transactions. Caveats lodged for industrial transactions fell by 28%, from 1,364 in 2014 to 977 in 2015.

2.4 PRIVATE INDUSTRIAL SECTOR

As at Q1 2016, Singapore had a total of 426m sq ft[7] of private industrial stock. Single-user factories formed slightly more than half (216.0m sq ft; 51%) of total stock, followed by multiple-user factories (95.0m sq ft; 22%) and warehouses (96.5m sq ft; 23%). The remaining 4% (18.5m sq ft) comprises business parks. This report focuses on the multiple-user factory (including comments on stack-up factory), high-tech industrial space, business parks and single-user factory.

As at Q1 2016, the West Region continued to account for bulk of islandwide private industrial stock, with some 199.0m sq ft (47%), followed by Central Region (78.3m sq ft; 18%), North Region (61.3m sq ft; 15%), East Region (57.0m sq ft; 13%) and North East Region (30.2m sq ft; 7%) (Figure 2.1).

FIGURE 2.1: PRIVATE INDUSTRIAL STOCK BY REGION (Q1 2016)



Source: URA, DTZ Consulting & Research, May 2016

3 MULTIPLE-USER FACTORY MARKET OVERVIEW

3.1 EXISTING AND POTENTIAL SUPPLY

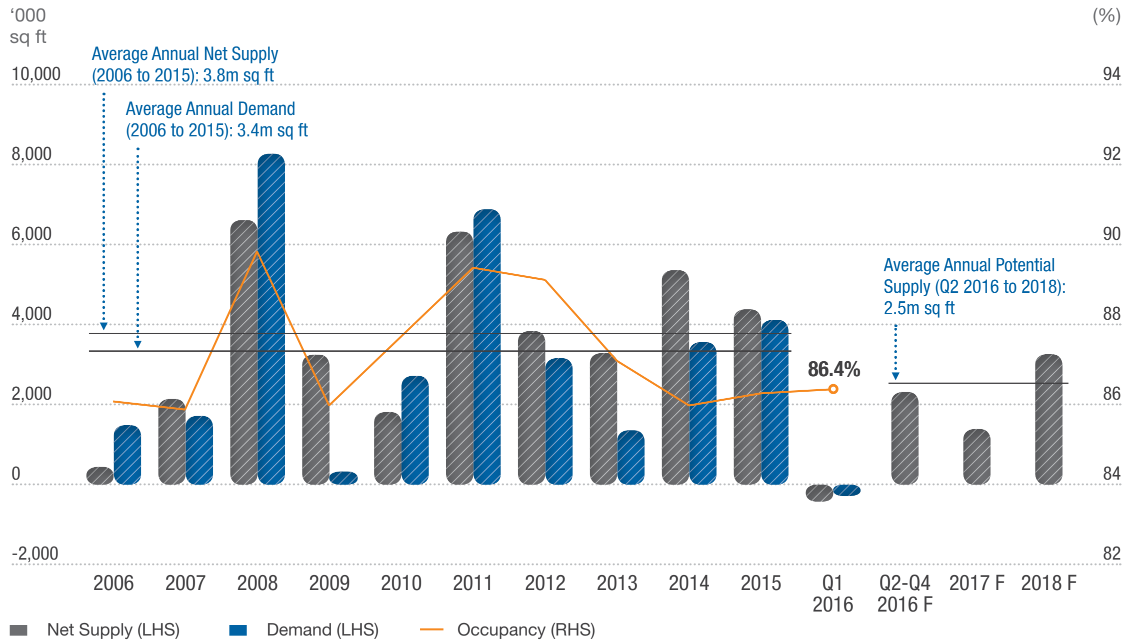
In 2015, major completions include Eco-Tech @ Sunview at Sunview Road (621,000 sq ft), Mandai Connection at Mandai Link (493,000 sq ft), Bukit Batok Connection at Bukit Batok Avenue 6 (331,000 sq ft), North View Bizhub at Yishun Ave 9 (259,000 sq ft) and TAG A at Tagore Lane (164,000 sq ft). Total net supply in 2015 amounted to 4.3m sq ft.

In Q1 2016, notable completions include Loyang Enterprise Building (455,000 sq ft) at Loyang Way and T99 (489,000 sq ft) at Tuas South Avenue, adding 4.3m sq ft (4.7%) and bringing the total stock to 95.0m sq ft. In Q1 2016, net supply dipped to -431,000 sq ft, mainly due to demolition and redevelopment work.

Approximately 7.0m sq ft of private factory space is scheduled to complete between Q2 2016 and 2018 (Figure 3.1). The average annual potential supply (2.5m sq ft) is significantly lower than the average annual supply in the past decade (3.8m sq ft).

[7] All industrial supply and demand figures are in NLA, unless stated otherwise.

FIGURE 3.1: NET SUPPLY, POTENTIAL SUPPLY, DEMAND AND OCCUPANCY (MULTIPLE-USER FACTORY)



Source: JTC, URA, DTZ Consulting & Research, May 2016

There are only limited built-to-lease multiple-user factories (7%, 536,000 sq ft) in the pipeline supply, thus mitigating concerns on competition with multiple-user factories in Mapletree Industrial Trust's portfolio.

Most (93%; 7.0m sq ft) of the multiple-user factories in the pipeline are strata-titled for sale. Majority of these strata-titled multiple-user factories units is less than 5,000 sq ft. To drive sales, some developers have incorporated additional features to appeal to industrialists and investors. A notable development is Mega@Woodlands (864,000 sq ft) located at Woodlands Close. Expected to complete in 2018, the eight-storey building will have 512 strata-titled units, a sky lounge, a gym as well as business and meeting rooms.

3.2 DEMAND AND OCCUPANCY

Demand increased by 13%, from 3.6m sq ft in 2014 to 4.0m sq ft in 2015. Meanwhile, net supply amounted to 4.3m sq ft in 2015, 19% lower than the 5.3m sq ft in 2014. This increase in demand and fall in net supply led to a slight increase in occupancy rate for multiple-user factory by 0.3 percentage points to 86.3% in 2015. In Q1 2016, despite demand declined to -291,000 sq ft, occupancy inched up by 0.1 percentage points QOQ to 86.4%.

As companies in the oil and gas industry are generally situated in the West region, the weakening oil and gas industry may have resulted in a lower demand for space in the West region, hence the larger fall in occupancy rates. Occupancy rate in the West region fell by 2.5 percentage points to 87.1% in 2015. In Q1 2016, it dipped further by 1.4 percentage points to 85.7%.

3.3 RENTS

Coupled with a lackluster manufacturing sector, falling domestic and export orders, weaker occupancy in multiple-user factory led to a rental decline in 2015. Monthly median rent declined by 4.0% from S$1.98[8] per sq ft in Q4 2014 to S$1.90 per sq ft in Q4 2015, and further moderated to S$1.88 per sq ft in Q1 2016 (Figure 3.2).

[8] All currencies in this report are in SGD, unless stated otherwise.

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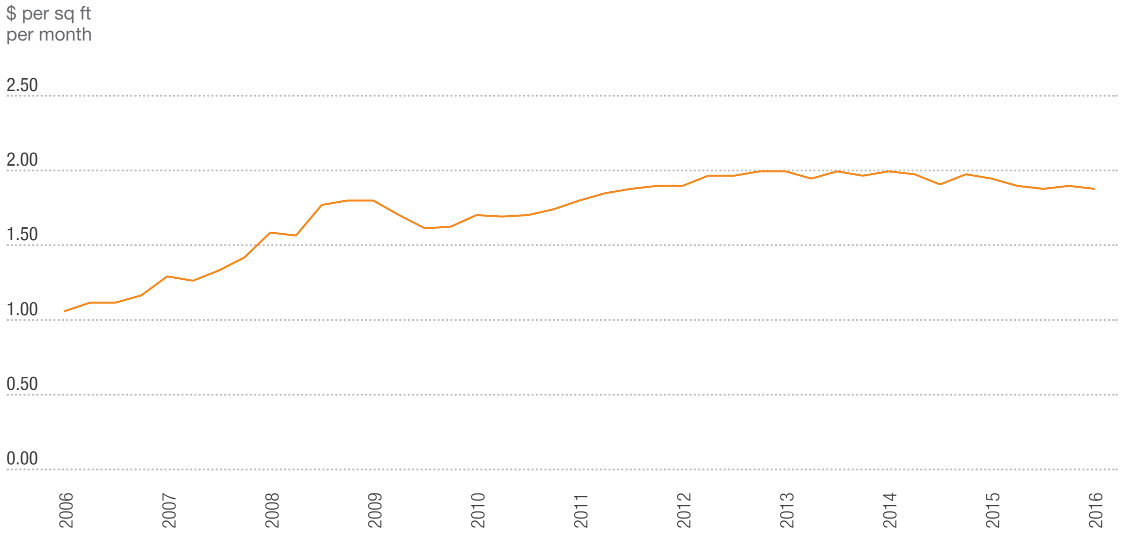
FIGURE 3.2 MEDIAN RENTAL TREND (MULTIPLE-USER FACTORY)



Source: JTC, URA, DTZ Consulting & Research, May 2016

3.4 OUTLOOK

While most manufacturing clusters in Singapore are expected to perform moderately due to weaker economic prospects, outlook for the biomedical manufacturing industry is expected to be relatively optimistic. According to the EDB's Survey of Business Expectations of the Manufacturing Sector for Q1 2016, a net weighted balance of 17% of the firms anticipated a positive business outlook for the cluster. Meanwhile, general manufacturing cluster, which utilises multiple-user factory space, has a less optimistic business outlook. Many firms expect lower levels of business activities due to weak oil prices and continued slowdown in construction activities.

Taking the overall weakness in manufacturing sector and potential supply into consideration, landlords may need to exercise greater flexibility in rental negotiations to retain tenants. Multiple-user factory rents are expected to decline by 8% to 10% by Q1 2017.

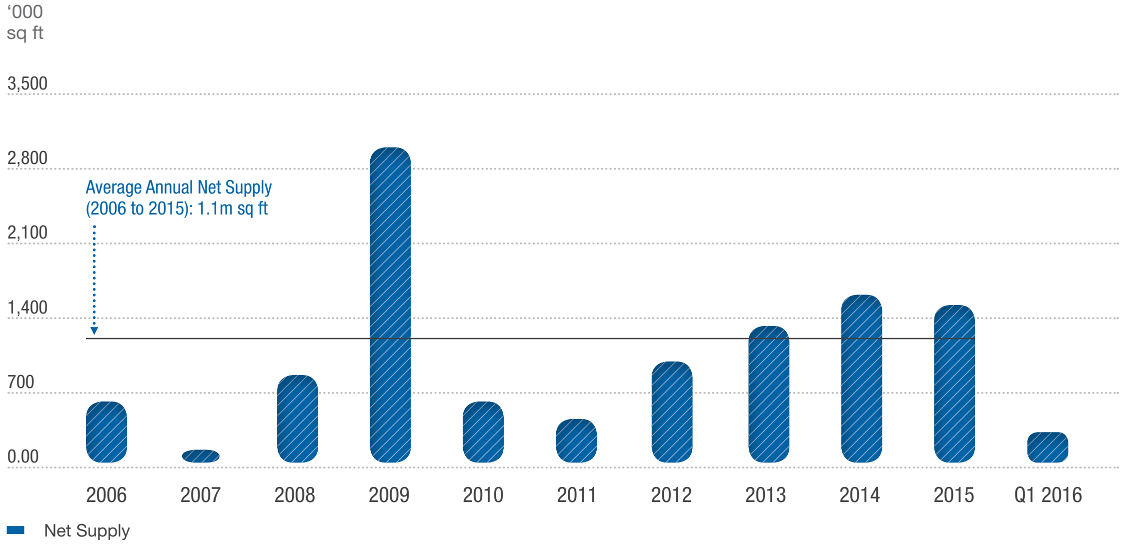
4 HIGH-TECH INDUSTRIAL MARKET OVERVIEW

4.1 EXISTING AND POTENTIAL SUPPLY

There is no standard classification of high-tech industrial space by JTC. DTZ estimates that high-tech industrial stock in Singapore rose by about 8.2% (1.5m sq ft), from about 18.5m sq ft in 2014 to 20.0m sq ft in 2015 (Figure 4.1).

Notable high-tech completions included 10 Tukang Innovation Drive (218,500 sq ft) and CT Hub 2 (315,400 sq ft) at Lavender Street. 10 Tukang Innovation Drive was developed by Boustead Projects in the up and coming Tukang Innovation Park. It houses Rolls-Royce's new MTU Asia headquarters and brings together business functions such as application engineering, sales and service support, distribution management, marketing and communications as well as a training centre.

FIGURE 4.1: NET SUPPLY (HIGH-TECH INDUSTRIAL)



Source: JTC, URA, DTZ Consulting & Research, May 2016

By end 2015, the opening of three data centres – Equinix SG3 IBX Data Centre (384,800 sq ft) in the Central Region, Kingsland Data Centre (170,000 sq ft) in the East Region and Keppel Datahub 2 (109,800 sq ft) in the West Region brought the total number of data centres in Singapore to more than 50. This has positioned Singapore as the leading data centre hub of Southeast Asia, a result of robust infrastructure, strong connectivity, and government policies and initiatives to propel Singapore to be a global-Asia tech hub. According to the Infocomm Development Authority of Singapore ("IDA"), Singapore currently accounts for about 60% of data centre capacity in Southeast Asia.

There are many data centres in the supply pipeline between Q2 2016 and 2018. These include DC West (463,000 sq ft) and Telin-3 (176,500 sq ft), which are expected to complete in 2016 and 2018 respectively.

Many of the data centres in the pipeline are located at the 13-ha data centre park in Jurong that has been jointly established by the IDA and JTC since 2013. It is envisaged to house six to eight data centre buildings (with up to 1.1m sq ft of data centre rackable space) and offers several critical features such as redundancy, resilient infrastructure configuration, ready land plots and customised industrial park guidelines. As at Q1 2016, Telin Singapore is constructing its data centre and is expected to be the first occupier in the park.

In addition, Google Asia Pacific is developing a data centre (701,800 sq ft) at Jurong West Street 23 / Bulim Avenue in the West Region, which is located next to its existing data centre. About S$380m will be invested in its development and the data centre is expected to be completed in mid 2017. Google's continued expansion of its data centre footprint in Singapore is a testament to Singapore's status as a high-tech hub with reliable infrastructure.

Apart from data centres, there are high-tech build-to-suit ("BTS") developments in the supply pipeline. For instance, Mapletree Industrial Trust is developing a S$226m BTS facility for Hewlett-Packard Singapore. Scheduled to complete in 2017, the development will cater for manufacturing, product and software development and an ancillary office.

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4.2 DEMAND AND OCCUPANCY

Demand for high-tech industrial space is supported by its positioning as an alternative and more affordable space option for ancillary office. Apart from being an attractive option for industrialists who need to co-locate their headquarters/client-facing and manufacturing and R&D functions, demand for high-tech industrial space is also supported by cost-conscious tenants with qualifying activities relocating from more costly office space.

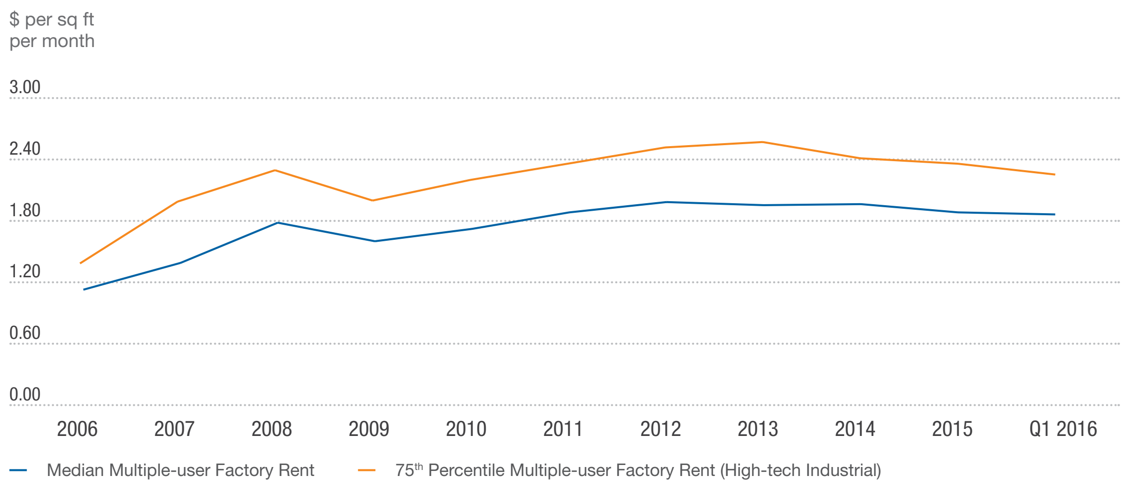
For instance, Mapletree Investments is developing a S$250m high-tech industrial facility with office and retail space at Tai Seng Street in Paya Lebar iPark. With a large floor plate of about 55,000 sq ft, Mapletree Investments expects the development to attract light industrial businesses such as information technology, software design and development, development, R&D, engineering consultancy and financial services back-room support. With an underpass connection to Tai Seng MRT station on the Circle Line, the development is highly accessible. It is scheduled to complete in 2016.

4.3 RENTS

Weak market conditions led some companies to downsize their production capacity. Coupled with the tightening labour supply, industrialists were more cost sensitive and cautious on their space requirements. The 75th percentile rental for multiple-user factory, a proxy of high-tech industrial rent, eased by 3.3% from S$2.39 per sq ft in 2014 to S$2.31 per sq ft in 2015 (Figure 4.2).

In Q1 2016, rental for high-tech industrial space fell by 4.3% QOQ to S$2.25 per sq ft. Despite the fall, rental for high-tech industrial space still command some 20% premium over median multiple-user rent at S$1.88 per sq ft.

FIGURE 4.2: MEDIAN RENTAL TREND (HIGH-TECH INDUSTRIAL)



Source: JTC, URA, DTZ Consulting & Research, May 2016

4.4 OUTLOOK

Subject to the URA 60:40 rule for industrial properties[9], high-tech industrial spaces are lower cost alternatives for ancillary offices. Despite limited potential supply of high-tech industrial space in the next three years, rents are expected to decline by between 8% and 10% by Q1 2017, along with the weakening industrial sector.

[9] Under the URA 60:40 rule for industrial properties, 60% of the property's GFA should be used for industrial activities (e.g. manufacturing, warehousing and storage). The remaining 40% can be used for ancillary offices, showrooms, neutral area and common facilities.

While short-term challenges in the industrial sector are present, medium-to-long term outlook for high-tech industrial is positive. The ICT sector will be a pillar of growth, particularly from the data analytics and cyber security sub sectors. According to EDB, data analytics is anticipated to add S$1b to the economy by 2017. As Singapore transforms itself to a future hub for value-adding and value-creating industries, growth of the ICT and data centres is expected to bode well with high tech industrial space.

5 STACK-UP FACTORY MARKET OVERVIEW

As land in Singapore is scarce, multiple-user factories have evolved to include stack-up factories. With the provision of a vehicle ramp to all upper-storey units, occupiers on every level enjoy first storey convenience. Besides the provision of a ramp that allows for 40-feet container trucks for vertical vehicular access, one key feature of stack-up factories is individual substation for each stack. Each unit has dedicated parking lots to allow for loading/unloading of goods. As at Q1 2016, there are three major private stack-up factories in Singapore (Table 5.1).

TABLE 5.1: SELECTED STACK-UP FACTORIES IN SINGAPORE

Development	Location	Year of Completion	NLA (sq ft)
Woodlands Spectrum I & II	Woodlands Sector 1/ Woodlands Avenue 9	2002 & 2004	3.0m
Paya Ubi Industrial Park	Ubi Avenue 1	1998	1.5m
West Park Biz Central	Pioneer Crescent	2012	1.1m

Source: DTZ Consulting & Research, May 2016

Stack-up factories cater to a wide range of industrial occupiers. For example, Woodlands Spectrum I & II owned by Mapletree Industrial Trust serve companies in chemical products, precision engineering, semi-conductor assembly and tools manufacturing. Meanwhile, West Park Biz Central owned by Soilbuild Business Space REIT caters to engineering, manufacturing, logistics and warehousing industries. Unlike Woodlands Spectrum I & II and West Park Biz Central that are owned by REITs for leasing, Paya Ubi Industrial Park consists of two blocks of stack-up factories with a total of 264 strata-titled units.

As at Q1 2016, there is no known potential supply of stack-up factory between Q2 2016 and 2018. As stack-up factory is not a standard classification by JTC, there are no rental trends for this factory type. According to JTC, monthly rental for multiple-user factory along Pioneer Crescent, where West Park BizCentral is located, ranges from S$1.30 to S$1.80 per sq ft between January 2015 and March 2016, while monthly rents for single-user and multiple-user factory along Woodlands Sector 1 / Woodlands Avenue 9, where Woodlands Spectrum I & II are located, ranges from S$1.10 to S$1.70 per sq ft over the same period. Elsewhere in Ubi Avenue 1, where Paya Ubi Industrial Park is located, rents for multiple-user factory range widely from S$1.10 to S$3.70 over the same period.

6 BUSINESS PARK MARKET OVERVIEW

6.1 EXISTING AND POTENTIAL SUPPLY

Business park developments completed in 2015 were mainly from BTS facilities in Changi Business Park, for corporate functions ranging from global headquarters to support operations e.g. Rigel Technology Global Headquarters (140,000 sq ft), Soo Kee Jewellery Research Facility (114,100 sq ft) and DBS Asia Hub Phase II (62,400 sq ft). Viva Business Park (967,000 sq ft), which was formerly known as Technopark@ Chai Chee, was rezoned from B1 to Business Park with retail and lifestyle amenities. In 2015, islandwide business park stock increased by 13.7% (2.0m sq ft) to 17.0m sq ft (Figure 6.1).

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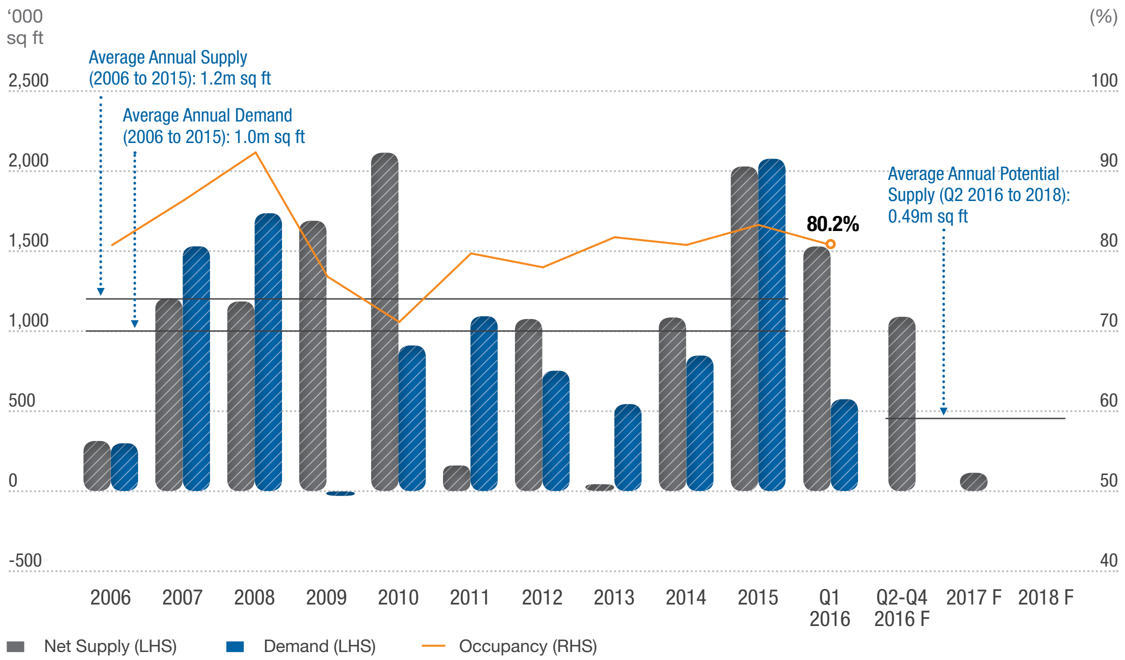
FIGURE 6.1: NET SUPPLY, POTENTIAL SUPPLY, DEMAND AND OCCUPANCY (BUSINESS PARK)



Source: JTC, URA, DTZ Consulting & Research, May 2016

In Q1 2016, total stock increased by 9% QOQ (1.5 million sq ft) to 18.5 million sq ft. One notable completion was Ascent (417,500 sq ft) at Singapore Science Park.

About 1.3 million sq ft of business park space is scheduled to complete from Q2 2016 to 2018. All potential supply are in the Central Region. Potential supply is dominated by Mapletree Business City Phase II. Committed tenants include Google and Covidien, which will both set up their new campus there.

Other scheduled completions for 2016 include MediaHub (189,200 sq ft) at Ayer Rajah Crescent, which will be occupied by Starhub, as well as a business park development (126,700 sq ft) at Vista Exchange Green, which is being developed by BP-Vista, a joint venture between Boustead Singapore and a Middle-Eastern sovereign wealth fund for lease. In 2017, a business park development (102,500 sq ft) along Pasir Panjang Road will be developed at Singapore Science Park.

6.2 DEMAND AND OCCUPANCY

Despite slowdown in the overall industrial market, the business park market remained healthy. The demand for 2.1m sq ft in 2015 is marginally higher than the net supply of 2.0m sq ft. Demand in 2015 was the highest in the last decade, pushing occupancy higher from 81.1% in Q4 2014 to 83.7% in Q4 2015.

In H1 2015, demand for business parks was supported by relocation from office to business parks, as rental in business parks are relatively competitive. Notable examples included Canon and Oracle, which relocated from Keppel Bay Tower and Suntec City respectively to Galaxis in one-north. Pharmaceutical and infocomm sectors were two sectors that contributed to the demand for business parks in H2 2015. Investment in the pharmaceutical sector was further enhanced by the entry of medical technology accelerators such as Israel-based Trendlines and Incubator of China.

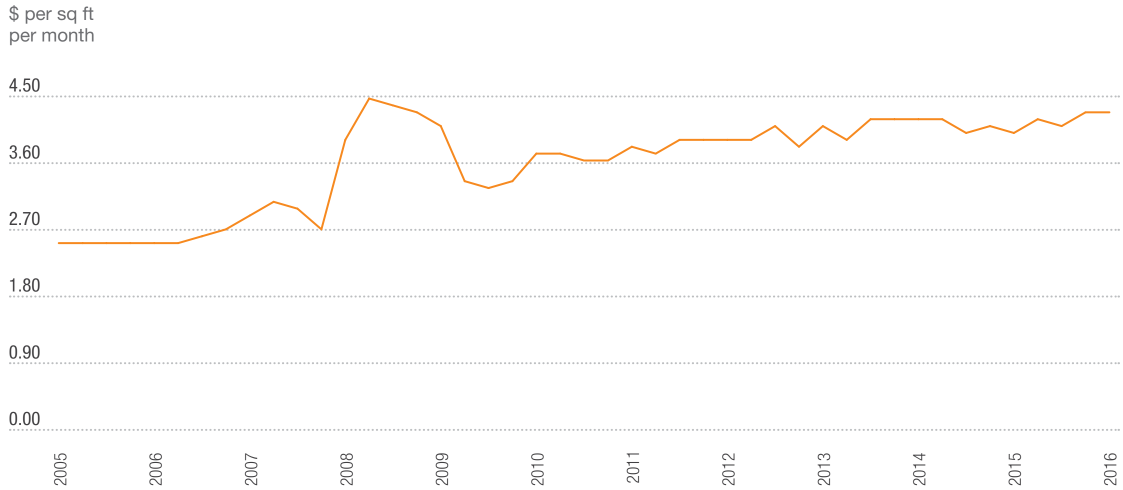
On the back of strong leasing activities, islandwide occupancy for business parks increased by 2.6 percentage points to 83.7% in 2015. However, occupancy fell by 3.5 percentage points to 80.2% in Q1 2016, reflecting the downward pressure felt in the market.

6.3 RENTS

The median monthly rents[10] for private business parks trended upwards by 4.9% to S$4.29 per sq ft in 2015. In Q1 2016, the rental remained unchanged QOQ (Figure 6.2). The accessibility, convenience and building quality of business park developments are attractive propositions for companies to move their qualifying activities e.g. back offices and R&D functions from offices to business parks.

Office rental growth, particularly in H1 2015, provided momentum to rental growth in business parks, as business parks and office rents are closely related. While the rental gap between business parks and office has been largely consistent at around 40%-50% over the last five years, business park rentals fluctuate less historically, giving more stability and predictability to occupiers.

FIGURE 6.2: MEDIAN RENTAL TREND (BUSINESS PARK)



Source: JTC, URA, DTZ Consulting & Research, May 2016

6.4 OUTLOOK

Potential supply in 2016 at around 1.2m sq ft, similar to the average annual supply between 2006 and 2015. Some companies are reviewing their leasing strategies to leverage on market conditions to upgrade to better located quality space.

Rents for business parks are expected to ease by 8% to 10% by Q1 2017, with subdued business confidence and softening of office rents from an oversupply. Over the medium-to-long term, the prospect for business park is brighter, with growth supported by the ICT, as well as biomedical sectors. Government initiatives targeted at developing the advanced manufacturing sector and Jurong Innovation District will create new demand for flexible industrial space with heavier loading, higher height clearances and greater electrical power requirements.

[10] Median rentals in this report are from the REALIS database and refer to gross rent including service charge and GST. They have not been subjected to computation e.g., moving average. Rental information is dependent on the number of rental transactions in the quarter and is obtained from returns filed with the Inland Revenue Authority of Singapore ("IRAS"). When a property is let out, the property owner has to inform IRAS the details of the tenancy agreement.

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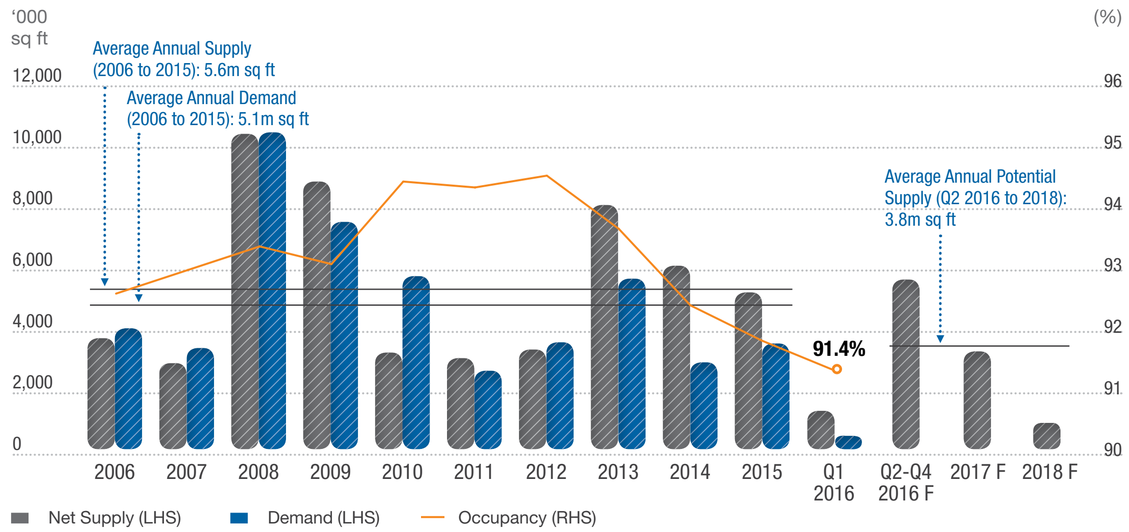
7 SINGLE-USER FACTORY MARKET OVERVIEW

7.1 EXISTING AND POTENTIAL SUPPLY

Islandwide single-user factory stock increased by 2.6% (5.5m sq ft) to 214.4m sq ft in 2015, slightly slower than the 3% growth in 2014. In Q1 2016, stock grew marginally by 0.7% QOQ (1.6m sq ft) to 216.0m sq ft (Figure 7.1).

FIGURE 7.1: NET SUPPLY, POTENTIAL SUPPLY, DEMAND AND OCCUPANCY (SINGLE-USER FACTORY)



Source: JTC, URA, DTZ Consulting & Research, May 2016

In 2015, notable single-user factory completions include SEF SpaceHub at Kaki Bukit (344,000 sq ft) by construction company SEF Group and 1 Pioneer Turn (193,000 sq ft) by Givaudan Singapore, a leading global flavor and fragrances company. Others include single-user industrial development at Tuas Crescent (221,000 sq ft) by Xin Ming Hua Pte Ltd, a diesel engine, propulsion and power generating solutions provider in the marine and industrial sectors. The building includes assembly and production lines with a 47,000 sq ft warehouse.

In Q1 2016, companies like ASM Technology, an assembly and packaging equipment supplier for semiconductor and LED industries, completed its factory (212,000 sq ft) in Yishun Industrial Park A.

7.2 DEMAND AND OCCUPANCY

Contraction of output and orders from the manufacturing sector led to slower demand for single-user industrial space in 2015, with net absorption declining by 10.6% to 3.7 million sq ft. With net absorption of 600,000 sq ft in Q1 2016, occupancy fell by 0.6 percentage points to 91.9% in 2015.

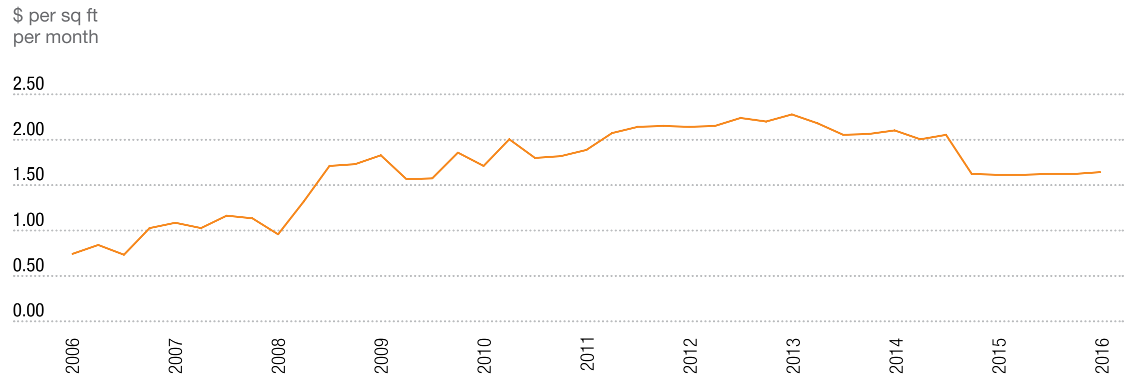
In Q1 2016, occupancy rate fell by 0.5 percentage points QOQ to 91.4%, the lowest in a decade, reflecting the overall weakness in the manufacturing sector.

7.3 RENTS

Median rents for single-user factory were largely stable, ranging from S$1.60 to S$1.63 per sq ft over the five quarters from Q1 2015 to Q1 2016 (Figure 7.2).

Apart from the challenging manufacturing environment, the decline in rent could due to JTC's implementation of subletting restrictions. Before the introduction of subletting measures, rents were higher, which ranged from S$2.00 to S$2.10 per sq ft between Q1 and Q3 2014. Low rental over the last five quarters were also in line with low number of leasing transactions. Only 400 leasing transactions were recorded in 2015, down by 53% compared to 861 in 2014.

FIGURE 7.2: MEDIAN RENTAL TREND (SINGLE-USER FACTORY)



Source: JTC, URA, DTZ Consulting & Research, May 2016

7.4 OUTLOOK

On the back of subdued manufacturing outlook, industrialists are expected to contain their cost to weather the downturn. Rents for single-user factory are expected to fall by 6% to 8% by Q1 2017.

However, Singapore's value proposition for being a secure, reliable and efficient host for manufacturing remains attractive. Companies are seeking to establish their manufacturing and R&D facilities in Singapore, given its ready pool of talent and infrastructure. For instance, Biotronik, a leading maker of cardiovascular medical devices, is setting up its first Asia Pacific manufacturing facility here. Leading firms often attract other firms in the industry ecosystem to stay close, collaborate and support their supply chain.

With limited land and its well-developed infrastructure, business cost in Singapore remains high. Consequently, Singapore is in a better position to serve high-value added manufacturing including bio-medical and pharmaceutical. Growth in these industries is expected to support the demand for single-user factory space.

LIMITING CONDITIONS

Where it is stated in the report that information has been supplied to us in the preparation of this report by the sources listed, this information is believed to be reliable and we will accept no responsibility if this should be otherwise. All other information stated without being attributed directly to another party is obtained from our searches of records, examination of documents or enquiries with relevant government authorities.

The forward statements in this report are based on our expectations and forecasts for the future. These statements should be regarded as our assessment of the future, based on certain assumptions on variables which are subject to changing conditions. Changes in any of these variables may significantly affect our forecasts.

Utmost care and due diligence has been taken in the preparation of this report. We believe that the contents are accurate and our professional opinion and advice are based on prevailing market conditions as at the date of the report. As market conditions do change, we reserve the right to update our opinion and forecasts based on the latest market conditions.

DTZ gives no assurance that the forecasts and forward statements in this report will be achieved and undue reliance should not be placed on them.