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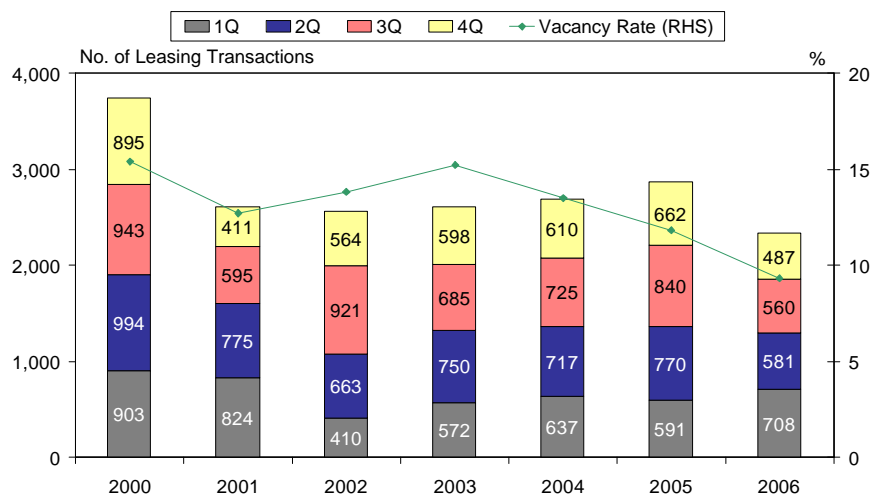
Industrial Briefing

- Vacancy rates were below 10 per cent, lowest in the last 7 years for factories and warehouses
- The leasing market faltered in 2006 but the sales market strengthened significantly
- The total value of factory sale transactions hit 7-year high
- The number of warehouse sale transactions jumped by 93 per cent in 2006 over 2005. Total value of transactions for the year was 3 times more than that of 2005
- Both rental and capital values of warehouse space in 2006 increased at a stronger rate compared with 2005
- On the other hand, factory rental and price indices increased Y-o-Y by 4.1 and 6.8 per cent respectively in 2006

Market Commentary

Despite the strong economic performance recorded in 2006, leasing activity levels in both the factory and warehouse sectors fell below 2005 levels. The year ended with 2,336 and 818 factory and warehouse leasing transactions respectively, the lowest figure recorded since 2000. This is not indicative of slower demand for industrial properties, however, as vacancy rates for both types of real estate hit a 7-year low.

Factory Leasing Transactions & Vacancy Rate, 2000 - 2006

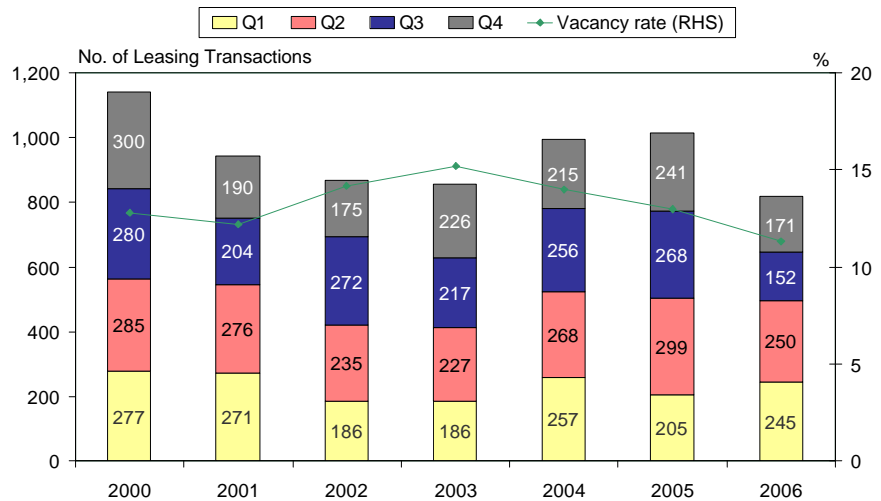


Source: URA, Savills Research & Consultancy

At the end of Q4/2006, the vacancy rate for factory space stood at 9.3 per cent, down by 1.2 percentage points from the corresponding period in 2005. The healthy performance was mainly due to the spillover effect from the office sector. With the tight supply of office space and increasing office rents, banks and insurance companies are seeking high-tech industrial properties to house their back-of-house operations.

The main reason for the fall in the number of leasing transactions was that the more established small & medium enterprises (SMEs) are buying industrial properties rather than renting them. Positive business sentiment together with affordable monthly mortgage payments prompted their purchases. 60-year leasehold industrial space is often preferred as the mortgage loan instalment works out to be almost equal to the monthly rent.

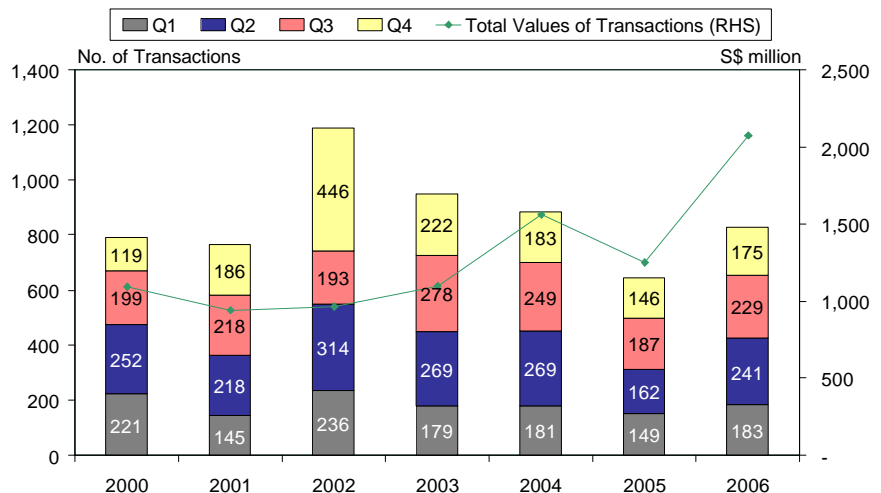
Warehouse Leasing Transactions & Vacancy Rate, 2000 - 2006



Source: URA, Savills Research & Consultancy

While the leasing market faltered in 2006, the sales market strengthened significantly. The number of factory sale transactions in 2006 increased by 28.6 per cent over 2005, and the total value of factory sale transactions reached a 7-year high, surging to about S\$2.1 billion last year from S\$1.3 billion in 2005. This also represents a 2-fold increase from the last low in 2001.

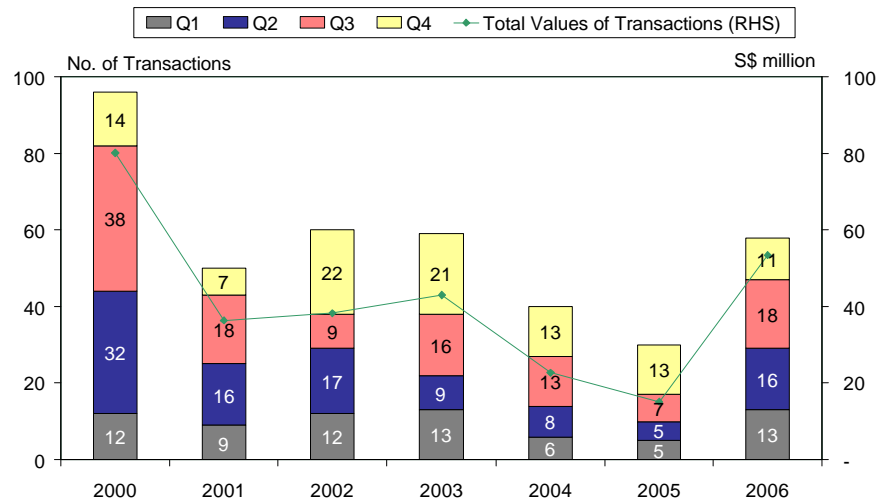
Factory Sales Transactions & Values, 2000 - 2006



Source: URA, Savills Research & Consultancy

Although the performance of warehouse space in 2006 was not at a 7-year high, it was as robust as the factory market and the number of sales transactions in 2006 jumped by 93.3 per cent over 2005. The total value of transactions for the year as a whole was 3 times more than that of 2005.

Warehouse Sales Transactions & Values, 2000 - 2006



Source: URA, Savills Research & Consultancy

The purchase of industrial space by SMEs was not the sole contributing factor to the buoyancy of the sale market. Institutional investors were the main buyers in 2006, accounting for a significant 13.2 and 75.4 per cent of the total number of transactions and values respectively.

Supply

On the supply side, an additional 4.6 million and 1.9 million sq.ft. of factory and warehouse space was completed in Q4/2006, bringing the total stock to 295.3 million and 64.1 million sq.ft. respectively.

The net demand for industrial space in 2006 stood at about 10.4 million sq.ft., relatively higher than net supply of 6.5 million sq.ft. for the year. The healthy demand has helped to absorb some of the supply overhang from the past few years, bringing down the total vacancy rate in the industrial sector.

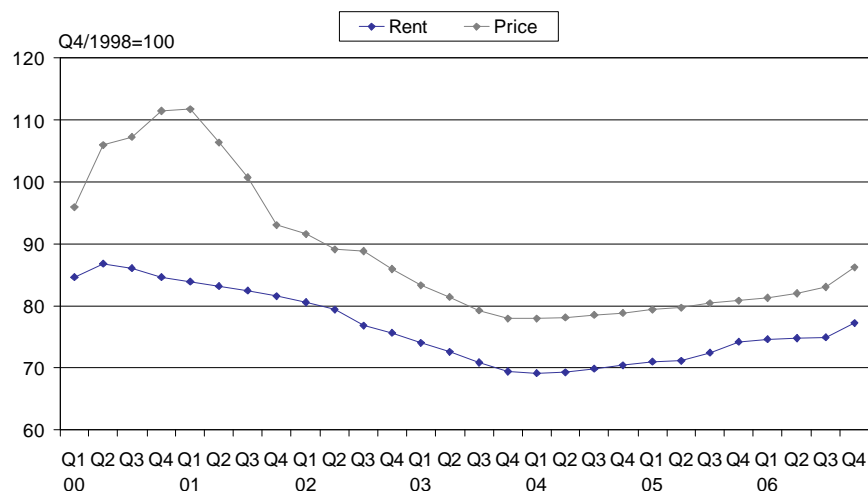
Rents & Capital Values

As a result of rising demand, both rental and capital values for warehouse space in 2006 picked up at a faster rate compared with 2005. According to URA statistics, the warehouse rental and price indices in 2006 increased by 4.7 and 2.0 per cent respectively over the previous year.

The buoyant re-export market fuelled demand for warehouse space, particularly in the eastern part of Singapore. Logistics-related companies prefer warehouse space in the area due to its proximity to Changi Airport. This rising demand drove rents to as high as S\$1.4 per sq.ft. in Q4/2006.

Factory space also experienced increasing demand resulting in strong rental and price growth. The URA rental and price indices rose by 4.1 and 6.8 per cent year-on-year respectively in 2006.

Rental & Price Indices, 2000 - Q4/2006



Source: URA, Savills Research & Consultancy

The high-tech industrial space which offers office-type specifications saw growing demand. 2006 started with rental rates of about S\$2.0 per sq.ft. and ended the year at about S\$2.2 per sq.ft., a 10 per cent growth rate.

Average Monthly Gross Rents for Industrial Space, Q4/2006

Type	Location	Gross Rents (S\$ per sq.ft.)
Flatted Factory (Upper Floor)	Central Industrial Cluster	1.4 - 1.5
	Outside Central Industrial Cluster	1.2 - 1.4
Warehouse (Upper Floor)	Central Industrial Cluster	1.4 - 1.6
	Outside Central Industrial Cluster	1.2 - 1.4
High-Tech Factory	Islandwide	2.0 - 2.4

Source: Savills Research & Consultancy

Average Capital Values for Industrial Space (Upper Floors), Q4/2006

Type	Tenure	Central Industrial Cluster (S\$ per sq.ft.)	Outside Central Industrial Cluster (S\$ per sq.ft.)
Flatted Factory	Leasehold	180	160
	Freehold	150 - 300	
Warehouse	Freehold	135 - 260	

Source: Savills Research & Consultancy

Outlook

After a strong 2006, economic growth is expected to moderate in 2007 in tandem with a possible slowdown in the US. However, global demand for electronic chips could pick up in 1H/2007 with the launch of Microsoft's Vista OS, resulting in a short-term improvement in economic performance. In view of this, we remain optimistic that demand for industrial space will remain healthy.

The strong demand for industrial space will continue to support rents and capital values. However, the substantial amount of factory and warehouse space which is expected to be completed in 2007 will moderate any strong upward movement in this segment.

Rents and capital values of industrial space of certain types or in specific locations may outperform. Due to the limited new supply of high-tech industrial space in 2007, we anticipate that rents may inch closer towards the S\$3.0 per sq.ft. mark by mid 2007. Warehouse space, especially projects located in the eastern part of the Island, will continue to enjoy high occupancy, with rents and capital values increasing by another 10 per cent over the next 6 months.

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