FLYING HIGH IN THE EAST

BY **DOREEN GOH**

Changi will continue to hold its strong position as a key logistics centre because of it close proximity to Changi International Airport

THE medium to long-term outlook for the logistics sector remains positive, despite the uncertainties in the world economy. Several key trends – including globalisation, the outsourcing of logistics functions to third-party logistics (3PL) players, an e-retailing boom and the evolving manufacturing landscape – combine to form a compelling set of drivers for the logistics market, with Singapore enjoying a pivotal strategic location in the centre of global and regional shipping lanes and air routes.

There are many opportunities that logistics companies (including small and medium-sized enterprises or SMEs) can tap into along the supply chain management process. And these opportunities can emerge anywhere along the chain, from the storage and transportation of raw materials to the production of finished goods. The movement of goods from one point to another involves different modes of transport over land, water and in the air, and takes place within a city, inter-cities or across borders.

The required type of warehouse facilities is also dependent on factors such as the time sensitivity of products handling (eg perishables) to the next destination, the volume of goods transported and the freight charges that one is willing to pay, among other things. Therefore, notwithstanding the beckoning of Tuas as an upcoming logistics hub, Changi will continue to hold its strong position as a key logistics centre in Singapore.

PHYSICAL PROXIMITY TO CHANGI AIRPORT

One of the key advantages for logistics service providers in the Changi locality is the close proximity to Changi International Airport, which boasts an extensive air network and is one of Asia's leading air cargo hubs handling close to two million tonnes of cargo each year.

According to available statistics from the Changi Airport Group (CAG) as at March 31, 2014, Changi Airport had more than 320 weekly freighter flights served by more than 20 cargo airlines from around the world, linking Singapore to a total of 52 freighter cities. Notwithstanding competition from the sea shipment segment, which may offer a lower cost alternative, demand for air freight is unlikely to be significantly affected, as this is generally the preferred mode of transport for high value and low volume cargo.

Moreover, air freight is the fastest way to transport goods and therefore, the most suitable for moving time-critical cargo like perishables. It is also a highly reliable and secured means of goods transportation with minimal risks of cargo delays and damage. This is because most airlines adhere to flight schedules, and security at cargo airports is usually tight. At the same time, clients can easily track the movement of their cargoes via a tracking system. The transit time is also shorter due to support from an efficient cargo clearance system and strong air network which can reduce the need for goods storage, thus translating into potential cost savings.

Changi's success as an air cargo hub is also because of a strong government backing, an efficient goods clearance system and the availability of supporting infrastructure, including logistics/warehouse facilities located within and around the airport.

Current logistics facilities within the airport's compound include the Changi Airfreight Centre (CAC), which offers efficient and hassle-free transfer and clearance of goods within a secured 24-hour Free Trade Zone. Other facilities include the Airport Logistics Park of Singapore (ALPS) and the Coolport@Changi, Asia's first and largest dedicated on-airport facility for temperature-controlled and time-critical cargo.

Outside the airport, warehouse clusters have sprouted in Changi North, Changi South and Loyang to serve the storage and distribution needs of manufacturers and retailers, as well as the business requirements of 3PL service providers. Usually, the larger manufacturers, retailers (eg Robinsons) and logistics players (eg DHL, CEVA, Schenker and UPS) have their own dedicated warehouse facilities, while the smaller players/SMEs can turn to the multiple-user warehouse developments.

In all, it is estimated that existing warehouse space in the Changi locality – defined as encompassing the Changi and Tampines Planning Areas as well as Loyang (Postal Sector 50) – amounted to some 9.3 million sq ft, based on figures obtained from the Urban Redevelopment Authority's Real Estate Information System (Realis) as at Q1 2015.

As at Q1 2015, the completed warehouse stock was 17.2 per cent higher than the 7.9 million sq ft recorded in Q1 2010. Notwithstanding the influx of supply, demand remained strong with a high average occupancy rate of 92.5 per cent as at Q1 2015, which is similar to the 92.9 per cent achieved in Q1 2010.

A quick check with URA's Realis records, which is based on actual rental transactions, revealed that monthly gross rents for warehouse space in the Tampines Planning Area ranged from $0.96 per sq ft (psf) to $4.20 psf as at Q1 2015. This range is dependent on factors such as the amount of space leased, the design of the facility (eg cargo-lift or ramp-up access), as well as the age and location of the development. For warehouse space in the Changi Planning Area, the monthly gross rents ranged from $2.01 psf to $2.88 psf as at Q1 2015. There were no rental transactions for warehouse premises in Loyang (Postal Sector 50) since 2012.

However, the new supply of warehouse in the defined Changi locality is limited. Based on available information as at Q1 2015, there are only an estimated 420,400 sq ft of new warehouse space completing in the locality in either 2016 or 2017. This excludes DHL's new upcoming logistics facility, which will be set up in the CAC by 2016.

Given the tight supply situation and limited new warehouse development opportunities within the Changi locality, logistics players may thus need to seek alternative locations to meet their real estate requirements. For example, the Tampines LogisPark is a fairly new logistics park where many of the new or upcoming warehouse supply are build-to-suit facilities developed for the business operation needs of major logistics players such as DHL, Schenker and Kerry Logistics. For smaller players/SMEs in the logistics business, there are also opportunities to set up their operations in new multi-user warehouse developments such as Space @ Tampines, a ramp-up warehouse development located at the intersection of the Tampines Expressway (TPE) and Tampines Avenue 10.

New requirements for storage and distribution may emerge with the progression of Singapore's manufacturing base towards higher-value-added industries such as life sciences, health care and aerospace. At the same time, Singapore's efficiency in the movement of goods and the availability of specialised logistics facilities to cater to the vast needs of different industries are also among the key considerations for foreign manufacturing firms looking to establish their bases in Singapore for the distribution of goods regionally and internationally. This will, in turn, generate demand for logistics services and bode well for the warehouse segment.

In terms of air freight, according to BMI Research's forecast as at Q2 2015, total air freight tonnage through Changi International Airport is projected to grow at a stronger pace of 1.1 per cent to 1.87 million tonnes in 2015, compared to 2014's 0.3 per cent growth. Overall, for the period from 2015 to 2019, air freight tonnage is projected to grow at an average rate of 1.2 per cent per annum to 1.96 million tonnes.

In the long run, Changi's air cargo hub positioning is also expected to be further strengthened with the development of the new airport infrastructure. Work on the new Terminal 5 (T5) and related infrastructure is underway, which will include a cargo complex and an aircraft maintenance and repair centre. The outlook for logistics players (including SMEs) in the Changi locality remains positive. While the larger players have the capacity to offer a more extensive suite of services complete with dedicated facilities for different industry groups and an overseas network, smaller logistics players/SMEs should leverage their nimbleness and respond quickly to customer needs, in order to remain competitive and seize opportunities in the supply chain management business. ■

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