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Competition Commission Singapore

Competition Assessment on the Industrial Property Market in Singapore

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Contents

SUMMARY OF FINDINGS

Key aspects addressed	Findings & CCS's Assessment
Are rental (and price) of industrial properties rising out of tandem?	Rental (and price) of industrial properties in Singapore have not been moving out of tandem. - Industrial rental and price have been increasing rapidly since 2009, albeit not surpassing historical high in the mid-90s. - The increase has not outpaced growth in industrial output - The increase has not been faster than other real estate segments in Singapore - No evidence of abnormal price/rental increase arising from anti-competitive practices (paragraphs 45 – 56)
Are there any landlord, or group of landlords dominant in the industrial property market in Singapore?	No landlord, or group of landlords, is dominant in the industrial property market in Singapore. - Only 27% of the total industrial space in Singapore is held by private investors, comprising REITS, Developers and individual investors - Even if self-occupied industrial space is excluded, the single largest player only has a 21% market share - All REITs combined have a 40% market share - No evidence of individual or collective dominance (paragraphs 29 – 34)
Are the common contractual practices in the industrial property market abusive?	Common contractual practices in the industrial property market are not found to be abusive. - Contractual practices, like rents, exclusivity clauses, early termination clauses and fit-out (rent-free) periods clauses in rental contracts are not more restrictive as compared to other real estate property market segments in Singapore - No evidence of abuse of dominance (paragraphs 43 – 44)
Have the acquisitions of JTC's assets by private players substantially lessened competition in the industrial property market?	The acquisitions of JTC's assets by private players have not substantially lessened competition in the industrial property market. - JTC assets acquired by private players accounted for 9% of investment space of the industrial property market, as of 1Q 2012 - Marginal increase in market shares of Mapletree Investment Trust (from 0% to 8.1%) and Soilbuild Group (0% to 2.5%) from 2005 to 1Q 2012, with acquisitions of JTC's industrial properties in 2008 and 2011 - Mapletree's rental remained below market average after acquiring JTC's industrial properties - No evidence of substantial lessening of competition after the acquisitions of JTC's industrial properties (paragraphs 52 – 55, 58 – 63)

INTRODUCTION

1. This paper sets out the competition assessment of the Competition Commission of Singapore (CCS) on the industrial property market in Singapore. In this paper, CCS analyses the structure, regulations and commercial practices of this market, and reviews industry practices or regulations that may hamper or distort competition.

2. To assist our assessment, CCS engaged Colliers International (the "Consultant") to produce an independent market report based on industry knowledge, interviews and market data. In the course of the consultancy study, inputs were sought from the relevant government bodies, including JTC and HDB.

3. CCS's conclusions in this paper are pursuant to the relevant provisions of the Competition Act, and based on available information from the Consultant's report. The period of the study was from 2002 to 1Q 2012, and where relevant, time trend data are presented for this period.

BACKGROUND

4. CCS has received feedback that the business community has faced sharp increases in industrial property prices and rentals[1] in recent years.[2] There have been concerns that the increases were caused by the following factors:

   a. the growing presence of Real Estate Investment Trusts ("REITs") has resulted in a certain level of market power, sufficient to drive up industrial rents; and

   b. private property players' acquisitions of JTC's industrial properties have increased their market power, leading to exploitation of market power through increased rentals.

RELEVANT PROVISIONS UNDER THE COMPETITION ACT

5. Section 47 of the Act prohibits any conduct on the part of one or more players which amounts to the abuse of a dominant position in any market in Singapore. It should be noted that a price increase by a dominant firm does not in itself constitute an abuse of dominance. Examples of *pricing* conduct which may constitute an abuse of dominance include predatory

[1] See, for example, http://www.straitstimes.com/breaking-news/singapore/story/industrial-property-prices-soar-q3-20121030

[2] Feedback has been that the increases are seen in both the prices and rentals of industrial properties in recent years. However, as analysis later (paragraph 45) would show that industrial property prices and rentals exhibit similar trends, the discussion of this paper would focus on industrial property rents, but can also be easily applied to industrial property prices.

pricing, discriminatory pricing, margin squeezing or loyalty discounts, to the extent that such conduct forecloses competition to a significant extent in a relevant market.[3] A dominant position jointly held by more than one player is commonly referred to as "collective dominance".[4]

6. Section 54 of the Act prohibits mergers that have resulted, or may be expected to result, in a substantial lessening of competition within any market in Singapore. In particular, the acquisition of assets or a substantial part of the assets by one player from another may constitute a merger.[5] Substantial lessening of competition may arise when a merger confers the ability upon the merged entity to, for instance, raise prices through explicit or tacit coordination, or independently.[6]

7. Section 33(4) of the Act provides that the Section 47 and 54 prohibitions do not apply to any activity carried on by, or any conduct on the part of, the Government or any statutory body. It should be noted that the definition of "the Government or any statutory body" does not extend to government-owned or government-linked companies.

THEORIES OF HARM[7]

8. CCS sets out two possible theories of harm that may potentially give rise to competition concerns:

Theory #1 – abuse of dominance

9. The first theory postulates that an industrial REIT is dominant (or a number of industrial REITs are collectively dominant) in the market for industrial property space in Singapore, and the industrial REIT(s) is/are abusing its/their dominant position through business practices that foreclose competition, thereby driving up rents in the industrial property space market in Singapore.

10. This could amount to an infringement of section 47 of the Competition Act, which applies to an abuse of a dominant position, in particular, the foreclosure of competition in the market. Although the section 47 prohibition does not apply to price (rent) increases *per*

[3] Annex C of the CCS Guidelines on the Section 47 Prohibition
[4] Paragraph 3.16 of the CCS Guidelines on the Section 47 Prohibition - a dominant position may be held collectively when two or more undertakings are linked in such a way that they adopt a common policy in the relevant market
[5] Section 54(2)(c) of the Competition Act
[6] Section 6 of the CCS Guidelines on the Substantive Assessment of Mergers
[7] A theory of harm is a hypothesis which sets out the angle from which competition assessment is to be conducted. A theory of harm can be confirmed or refuted by facts and assessment, and therefore does not pre-judge a particular conduct.

se[8], CCS nonetheless examined rent trends to ascertain whether the concerns are borne out by data in the first instance. As the URA industrial property rental index is largely based on rents charged in the multiple-user factory space, CCS will take a closer look at this particular sub-segment of the market to determine if concerns are borne out by data.

11. The assessment focuses on the market structure of the industrial property market, and whether there are practices or norms in this market that could have led to increases in rents unrelated to competitive merits. As rent increases could have been a result of market concentration among players, the market share of players is examined as well.

12. As REITs are largely returns-driven and operate on similar business models, CCS examined whether REITs are collectively dominant and whether they exercise a common interest in collectively increasing rents on their industrial properties.

Theory #2 – substantial lessening of competition arising from a merger

13. The second theory postulates that the acquisitions by private players (Mapletree Industrial Trust and Soilbuild Group) of JTC's two phases of divested industrial property in 2008 and 2011 could have resulted in a substantial lessening of competition in the industrial property market, pursuant to section 54 of the Act.

14. While the Act does not apply to any activity carried out by the Government or any statutory body (such as the *divestment* of assets by JTC), the activities of *private* parties acquiring JTC's industrial property are not excluded under the Act. As such, the *acquisition* of industrial property by private players would still be subject to section 54 of the Act.

15. Competition assessment under both theories of harm are similar in essence – rent movements, market definition, market concentration, analysis of market structure, and analysis of effects on competition – and will therefore be performed together. It should be noted, however, that the focus is slightly different. For instance, the assessment of dominance focuses on the prevailing market structure and behaviour of the dominant player(s), while the merger assessment focuses on the change in market structure. The assessment of abuse focuses on effects arising from any anti-competitive conduct, while the assessment of substantial lessening of competition focuses on effects arising from a merger.

[8] Singapore's Competition Act has no equivalent provision to Article 102 of the Treaty on the Functioning of the European Union (then Article 82) provision on exploitative pricing

MARKET DEFINITION

Product Market Definition

16. Industrial property can be considered a separate product market from other types of property in Singapore, like commercial or retail property space, due to the regulatory conditions imposed by the Government. On the demand side, the Government imposes eligibility criteria for using industrial space.[9] On the supply side, the Government allocates land based on specific purposes, in accordance with the Guidelines on land use.[10] These regulations limit the ability of both landlord and tenants to switch between industrial and other properties promptly in response to rent changes.

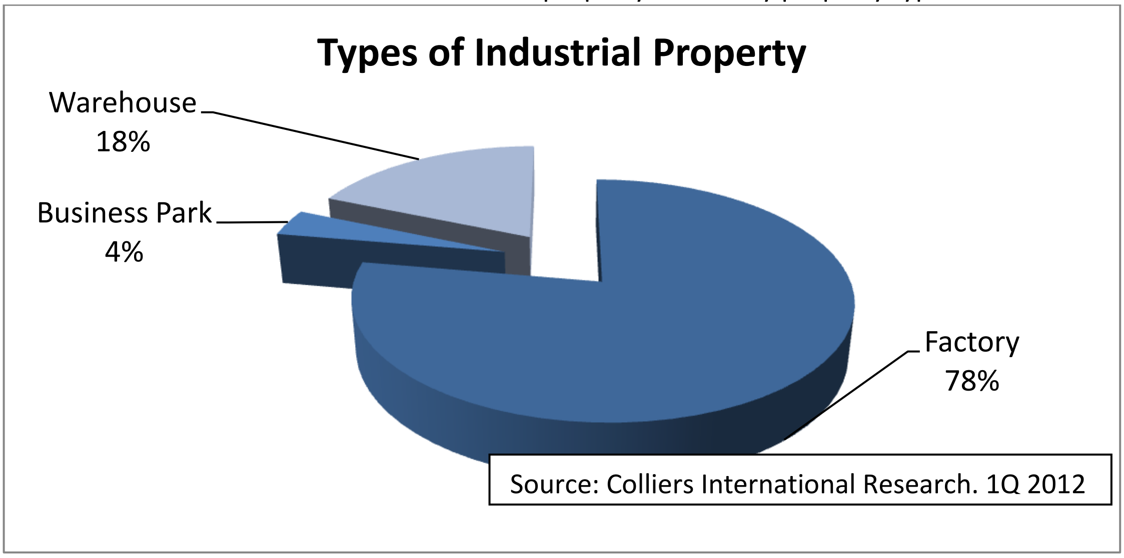
17. The selection of a suitable industrial premise by tenants is based on the type of industrial or manufacturing activity they are involved in, and tenants typically need facilities customised to their specific operational needs. Tenants of more generic industrial properties, for example flatted factories, enjoy more substitutability between property types, but for certain types of tenants where particular building specifications are required, it is more difficult to substitute between buildings.[11] As such, there is limited substitutability between the different types of industrial property.

18. Factory and warehouse space comprises both single-user and multiple-user factory space.[12] Business Park space includes Science Parks and caters to high-technology and R&D activities.

19. Because of the limited substitutability between industrial property types, CCS has defined separate product markets for the different industrial property types. In any case, competition assessment for the entire industrial market taken as an aggregate whole and the narrower markets for the individual industrial property types is not significantly different. For completeness, competition analysis is done for both the broader and the narrower markets.

[9] http://www.jtc.gov.sg/Documents/Usage_Guidelines.pdf
[10] http://www.ura.gov.sg/circulars/text/dchbnr/ataglance-dchbnr.pdf
[11] Answers obtained from Colliers' Focus Group Discussions with industry players – SMEs, MNCs, REITs/developers, government agencies and market players
[12] Single-user industrial properties usually come in the form of land-based properties including terrace factories, semi-detached or detached factories which are predominantly occupied by a single party. Multiple-user industrial properties can be subdivided into smaller units to be occupied by several users with shared facilities such as cargo lifts, loading and unloading bays.

Chart 1: Breakdown of industrial property market by property types[13]



20. While URA's Master Plan 2008 sets out a new impact-based zoning approach consisting of Business 1 (B1) and Business 2 (B2) classification[14], formal data collecting in the industry is still done by the different industrial property types rather than the B1 and B2 categories. Market players target the specific type of property they require to carry out operations instead of focusing on the B1 and B2 categories. As such, CCS is of the view that assessment of the product market should not be divided by B1 and B2 classifications but instead only by the different industrial property types.

21. CCS also considered whether industrial properties owned by REITs could be identified as a separate product market on their own, but decided that there is little evidence to support such a market definition. The selection of a suitable industrial property space is based on needs, regardless of the ownership of the industrial property. SMEs, the group of industrial users who are arguably the price-takers, do not view industrial properties owned by REITs to be separate from the overall market. If anything, SMEs view owners of industrial properties in two main groups: public (e.g. JTC/HDB) and private (e.g. REITS/private developers).[15]

22. CCS is of the view that REITs do not constitute a separate market. However, even if such a market definition were to be used, the competition assessment and conclusions would not be different from that based on a broader market definition. The detailed assessment is contained under the sections on *Market Shares, Collective Dominance* and *Coordinated Effects*.

[13] All industrial property definitions, calculations and subsequently market share figures are based on Gross Floor Area of the property

[14] http://www.ura.gov.sg/circulars/text/dchbnr/ind-b1b2-dchbnr.pdf

[15] Answers obtained from Colliers' Focus Group Discussions with industry players – SMEs, MNCs, REITs/developers, government agencies and market players

Geographic Market Definition

23. The industrial property market in Singapore is a distinct geographic market from the rest of the world, given the immobility of physical properties. Arguably, some tenants may relocate their industrial operations out of Singapore if industrial property rents are not competitive, but such decisions would incur significant cost and time, and are therefore unlikely to be triggered by a "Small but Significant and Non-transitory Increase in Price (SSNIP)"[16] of the magnitude of 5-10%.

24. As to whether the geographic market should be sub-divided into different parts of Singapore, there are six main areas in which industrial property is aggregated – Jurong/Tuas, Alexandra/Bukit Merah, Paya Lebar/Ubi/Kaki Bukit, Changi/Loyang, Ang Mo Kio/Serangoon North and Woodlands/Kranji/Yishun. The different industrial property types are generally distributed evenly across Singapore.[17]

25. Tenants of industrial property generally view similar industrial property types in all areas in Singapore to be substitutable with one another, due to the country's small size, improved infrastructure and linkages and ease of transport. However, substitutability can be limited by the need for clustering among similar types of industrialists, particularly for specialised industries or industries where the Singapore government has specially allocated land dedicated to such use.[18]

26. Some companies have a need to be close to their customers, while others feel that industrial properties located in areas with limited transport accessibility can lead to high transport costs (e.g. transport allowances for staff), limiting the substitutability of such locations for tenants. Geographical substitutability of industrial property is lower for an end-user once he settles into that premises, as compared to a fresh end-user just starting to look for an industrial space.[19]

27. While it is possible to delineate the industrial geographical market into narrower markets, it is not necessary to do so as not only is data not available on narrower levels (broken down by the different geographical areas), competition assessment is unlikely to be significantly different even if assessment is carried out within more narrowly defined markets. As mentioned, there is an approximately equal distribution of industrial property types across Singapore.

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[16] This economic test based on "SSNIP" is widely used by competition authorities worldwide to define a relevant market for the purpose of competition assessment.

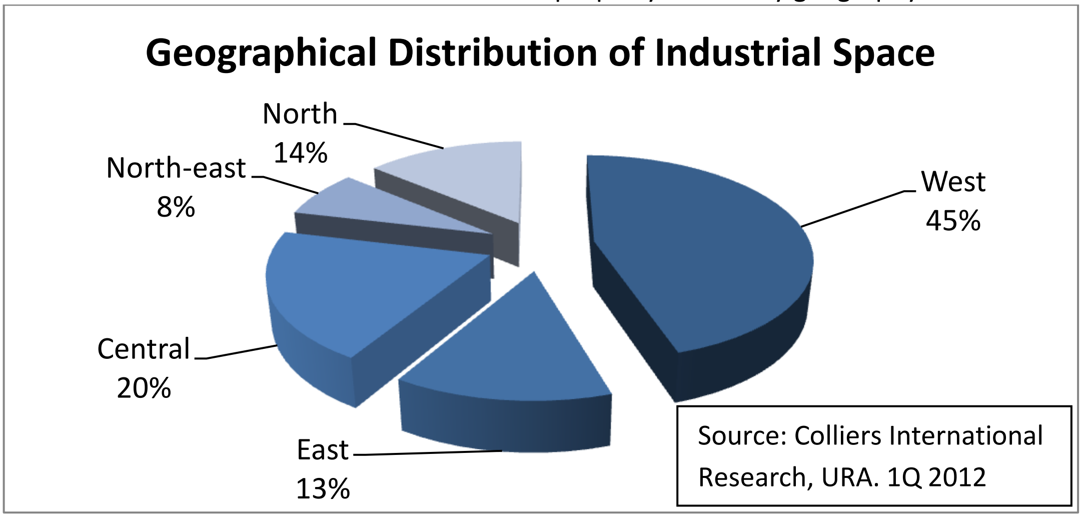
[17] A slightly larger proportion of Business Park space is situated in the Central area while a larger proportion of Warehouse space is situated in the West area

[18] For example, the technology and aerospace clusters are located in the east, fast moving cargo in the west, food in the north and general products in the central area

[19] Answers obtained from Colliers' Focus Group Discussions with industry players – SMEs, MNCs, REITs/developers, government agencies and market players.

28. As such, the industrial property market is defined to be all industrial property space located in Singapore, although it is possible to break industrial property down into the different types of industrial property and define markets separately for each of them. However, competition analysis will not be significantly different for the two.

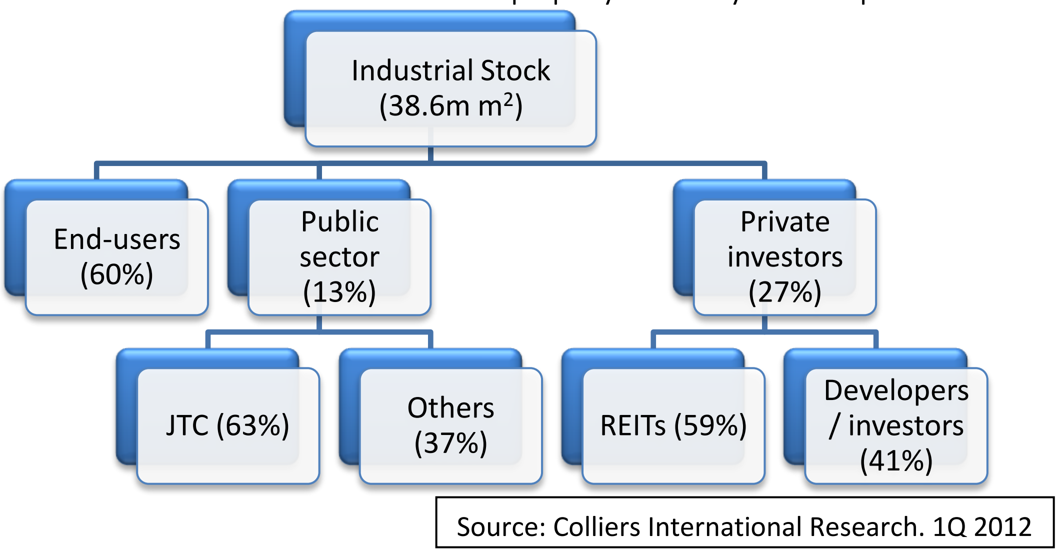
Chart 2: Breakdown of industrial property market by geography



MARKET STRUCTURE ANALYSIS

29. Of the total industrial space in Singapore (38.6 million m^2), about 60% of it is held directly by end-users, who could be both SMEs and MNCs occupying single-user industrial premises built on land leased from the Government as well as landed and strata-titled flatted factory units. These typically do not lease out owned industrial space to third parties, and can be considered as "inactive" traders in the market.

Chart 3: Breakdown of industrial property market by ownership



30. Other than JTC, HDB is also a significant public-sector landlord for industrial space. The market shares of the individual players are shown below, for both markets, including and excluding industrial space held by end-users.

Market Shares

Chart 4: Market Shares for all industrial property space

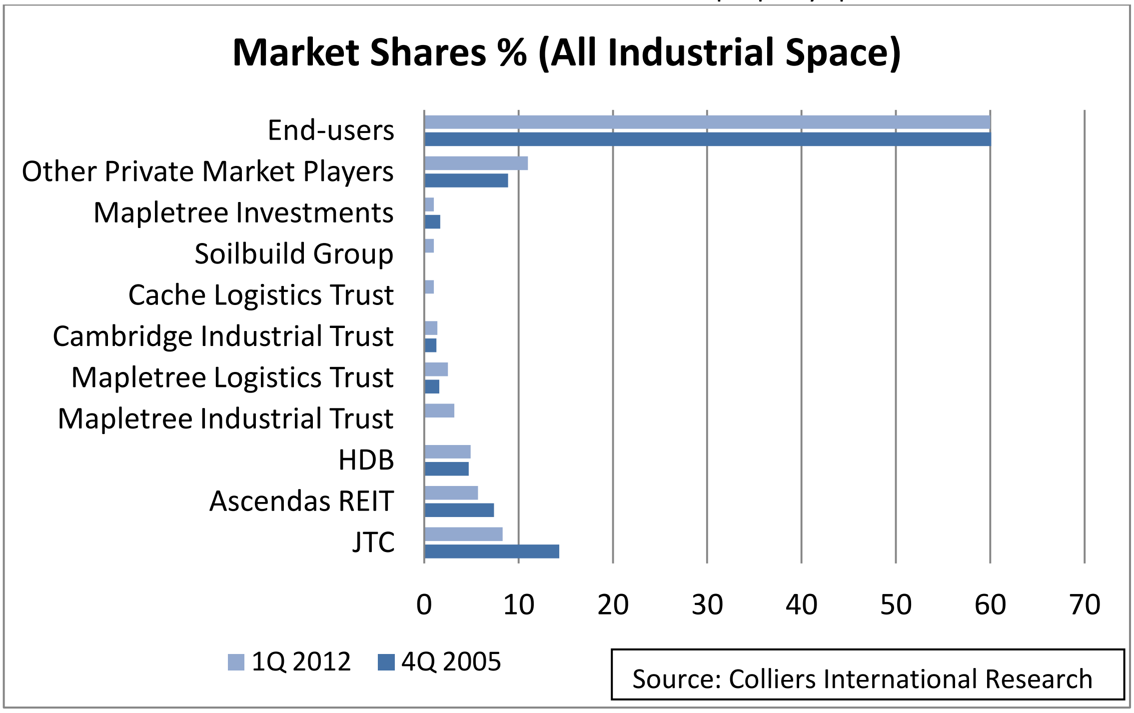
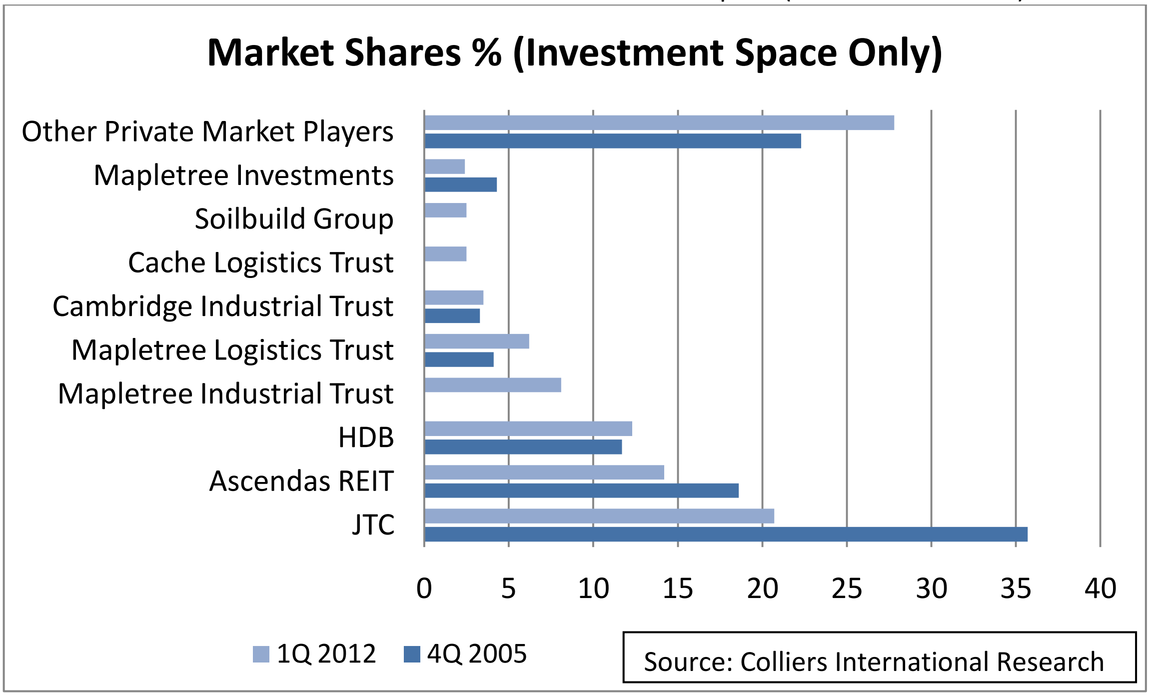


Chart 5: Market Shares for industrial investment space (excludes end users)



31. Industrial investment space excludes industrial space directly held by end-users. Market share figures based only on industrial investment space could be more representative of actual market conditions, although the relative positions of market investment players in terms of market shares remains unchanged, as parties that do not hold industrial property for investment have not been individually listed.

32. The charts also show changes in market positions from 2005 to 2012, where particularly, Mapletree Industrial Trust ("MIT") and Soilbuild Group Holdings Ltd ("Soilbuild") acquired from JTC industrial properties in two phases (2008 and 2011) for close to S$2.4 billion.[20]

33. Industrial REITs, as a whole, have about 16.2% of all industrial space, or about 40% of industrial investment space. The combined value of the industrial space owned by the REITs were appraised by the Consultants to be S$14.3 billion as of 1Q 2012.[21]

34. In summary, if the total industrial space is taken as a whole, the private sector accounts for only 27% of the industrial investment space, and does not indicate the presence of any dominant private sector player. Even if the assessment is based on the narrower market of industrial investment space only, the market shares and market concentration figures do not cross any of the indicative thresholds set out in the CCS guidelines:

a. As of 1Q 2012, no individual player has a market share exceeding 60%[22] (the largest being JTC at 21%);
b. The above is true even if the market shares of affiliated/linked players are considered as a whole (the public sector as a whole [JTC + HDB] = 33%);
c. The above is also true even if the market shares of all industrial REITs are considered as a whole (40%);
d. After the acquisition of JTC assets, neither the Mapletree Group[23][24] (17%) nor the Soilbuild Group (3%) have attained a market share exceeding 20%[25];
e. After the acquisition of JTC assets, the CR3[26] did not exceed 70%[27] (JTC + A-REIT + HDB = 48%); and
f. The above is true even if the market share of the top 3 groups of players are considered as a whole (CR3 comprising JTC/HDB + A-REIT + Mapletree Group = 64%, which is less than the indicative threshold of 70%).

[20] http://www.jtc.gov.sg/News/Press-Releases/Pages/20110701(PR).aspx
[21] Refer to Annex B for market shares based on a market defined as REITs alone
[22] Paragraph 3.8 of the CCS Guidelines on the Section 47 Prohibition
[23] The Mapletree Group comprises Mapletree Industrial Trust, Mapletree Logsitics Trust and Mapletree Investments
[24] http://www.mapletree.com.sg/Our-Company/Group-Structure.aspx
[25] Paragraph 5.15 of the CCS Guidelines on the Substantive Assessment of Mergers
[26] Concentration ratio (total market shares) of the top 3 players
[27] Paragraph 5.15 of the CCS Guidelines on the Substantive Assessment of Mergers

35. When analysing market share and market concentration figures by market segment[28], there are three market segments that may merit special attention:

a. Business Park space – the CR3 in this segment is 65%. While this segment may be more concentrated than the other industrial segments, all Business Park space in Singapore constitutes only 4% of total industrial space in Singapore, or 10% of industrial investment space. Further analysis of *barriers to entry* would also be done in paragraphs 36 – 37.

b. REITs – if industrial REITs were considered a separate market, then the indicative thresholds for collective dominance (all REITS combined hold 100% of this market) and coordinated effects of mergers (Mapletree Group holds 30% of this market where CR3 is 81%) would be crossed. Both would call for further assessment of any *coordinated* activities between competitors that were taking place or likely to take place in this market.[29]

c. Multiple-user Factory space – the URA industrial property rental index is largely based on rents charged in the multiple-user factory space, and it is with reference to this index that discussions have arose regarding rapid increases in industrial rents. While Annex A already shows market share figures for factory space as a whole, Annex C[30] shows market share figures specifically for multiple-user factory space. Based on market share figures, CCS is of the view that competition concerns are not likely to arise in the multiple-user factory space, similar to the market for factory space as a whole, as the single largest player MIT has 12.1% market share, and CR3 is 21.9%.

36. Market shares and market concentration do not, on their own, determine whether a player is dominant, or whether a merger substantially lessens competition. It is also necessary to consider other aspects of market structure, including barriers to entry and countervailing buyer power, in order to determine whether individual or collective market power exists in the relevant market or any sub-segments.

Barriers to Entry

37. Market players are of the view that barriers to entry in the industrial property market are largely regulatory. In preparing/developing industrial space for industrial operations, market players have to obtain separate approvals from multiple Government agencies, including the National Environment Agency, Fire Safety Bureau and JTC for a range of issues covering pollution control to building control as well as the handling of hazardous

[28] See Annex A for the detailed market share figures of each market segment.

[29] Note that the thresholds for single-firm dominance (A-REIT = 43%) and uncoordinated effects of mergers (Mapletree Group = 30%) were not crossed in the REITs market segment

[30] Multiple-user factory space includes multiple-user flatted factory space, ramp-up factory space and stack-up factory space

materials.[31] However, CCS notes that such approvals are not unique to the industrial property market, and that these approvals are not required at the stage of securing industrial land[32].

38. The process of obtaining industrial land through the Industrial Government Land Sales (IGLS) scheme is viewed by SMEs as benefitting developers and larger players, making it difficult for smaller players to obtain large sites for industrial property development in Singapore. To address this, the government has rolled out a bumper supply of industrial land[33] and released smaller parcels of land. Such measures are intended to provide a ready supply of industrial space to industrialists.

Countervailing Buyer Power

39. Reputable or large tenants (which may or may not be MNCs) have stronger bargaining power with landlords, as compared to smaller tenants, due to a more stable income stream and a sizable space take-up. Stronger bargaining power from such tenants could possibly lead to lower industrial rents paid, while players without similar bargaining power could face higher rents. Such bargaining power is also largely dependent on market conditions, where soft market conditions (lower occupancy rates) allow for more negotiations between tenants and landlords.[34]

Conclusions on the analysis of market structure

40. Considering the market shares, market concentration, barriers to entry and countervailing buyer power in the overall industrial property market and individual market segments, CCS is of the view that no single firm or group of affiliated firms possesses significant market power. The analysis for barriers to entry and countervailing buyer power can be applied across the different types of industrial properties, including Business Park space. However, there is a need to look closer into whether the REITs hold a collectively dominant position either in the overall industrial property market or in a market segment of their own.

41. To establish that there is collective dominance among the industrial REITs, three elements are needed for the finding of collective dominance: (i) sufficient market

[31] Answers obtained from Colliers' Focus Group Discussions with industry players – SMEs, MNCs, REITs/developers, government agencies and market players.
[32] The relevant approvals from the respective agencies are only required during the stages of obtaining the Planning Provisional, Written Provisional and Building Permit http://www.bca.gov.sg/Publications/others/Guide_on_Construction_of_Industrial_Developments_in_Singapore.pdf
[33] http://www.straitstimes.com/breaking-news/singapore/story/government-pledges-enough-land-needs-industry-20121105
[34] Answers obtained from Colliers' Focus Group Discussions with industry players – SMEs, MNCs, REITs/developers, government agencies and market players.

transparency to monitor other players' conduct; (ii) tacit co-ordination (a common policy adopted by the players) which is sustainable and enforceable; and (iii) predictability in competitors' and consumers' behaviour.[35]

42. Although the overall portfolio performances of publicly-listed REITs are very transparent, with the publication of annual and quarterly reports, the terms and conditions of individual contracts with different tenants of the same or different properties are not transparent, and discriminatory practices are commonplace. Demand is patchy, as tenancy contracts typically last for 2-3 years, with scattered expiry dates between different tenants. Industrial properties are not homogeneous products: they differ in terms of allowed use, facilities, specifications etc. These factors render it difficult for competitors to coordinate their pricing policies explicitly or tacitly, let alone detecting and punishing non-compliance with such coordination. Given that Singapore is a small and open economy, the industrial property market is volatile and subject to external influences, making it difficult to predict competitors' and consumers' behaviours. It is therefore unlikely that there is collective dominance among the industrial REITs.

ASSESSMENT OF CONTRACTUAL PRACTICES

43. The Consultant looked into the salient features of norms and contractual behaviour in the industrial property market, and compared them against those from other real estate market segments. The findings are summarized as follows:

a. Rents: Rents in the industrial property market have not been significantly higher than that in the other real estate segments. Built-to-Suit[36] and Sale-and-Lease-Back[37] schemes help to lower rents, as rents are negotiated for long periods. Rents in the other property market segments are often just pegged to current market conditions. Rents in the commercial segment can at times even involve the paying of increase in property taxes payable by the landlords, while those in the retail segment often include variable components based on the tenant's turnover.

b. Exclusivity clauses: Tenants in most real estate market segments, including those in the industrial segment, are not bound by exclusivity clauses. The retail segment stands out as an exception, where the tenant may have to pay a higher base rent to his current landlord if he decides to lease retail space in malls in the surrounding area owned by other landlords.

[35] Paragraph 3.17 of *CCS' Guidelines on the Section 47 Prohibition*

[36] In a Built-to-Suit arrangement, the developer takes on the risk of construction and project management and erects a building according to the master tenant's specifications. All or majority of the facility will be preleased to the tenant on a pre-agreed rental term, typically for ten years or more.

[37] In a Sale-and-Lease-Back arrangement, a former owner-occupier of an industrial facility will simultaneously sell his building and lease back the premises from the buyer. Leases are similarly for long periods.

c. Early Termination: Tenants in the industrial property segment are generally not allowed to terminate their lease before it expires, and industrial landlords may recover outstanding rent from the tenants, including the forfeiture of the security deposit. This is similar to tenancy terms in the retail and residential segments, although the variation in the residential segment is higher. Landlords in the commercial segment, however, would release tenants if they can find suitable replacements.

d. Fit-out (Rent-free) period: Landlords in the non-residential market segments usually offer Fit-out periods to their tenants, where tenants do not pay rents but are not allowed to carry out operations. Such Fit-out periods typically last for a month, although it depends on the lease term and size of premises occupied by the tenant. Some industrial landlords offer up to two months Fit-out periods.

44. In summary, contractual behaviour and norms in the industrial property market are not more restrictive as compared to the other real estate property market segments, and these practices do not appear to be potentially abusive in terms of contractual duration, terminability and exclusivity.

ASSESSMENT OF RENTAL TRENDS

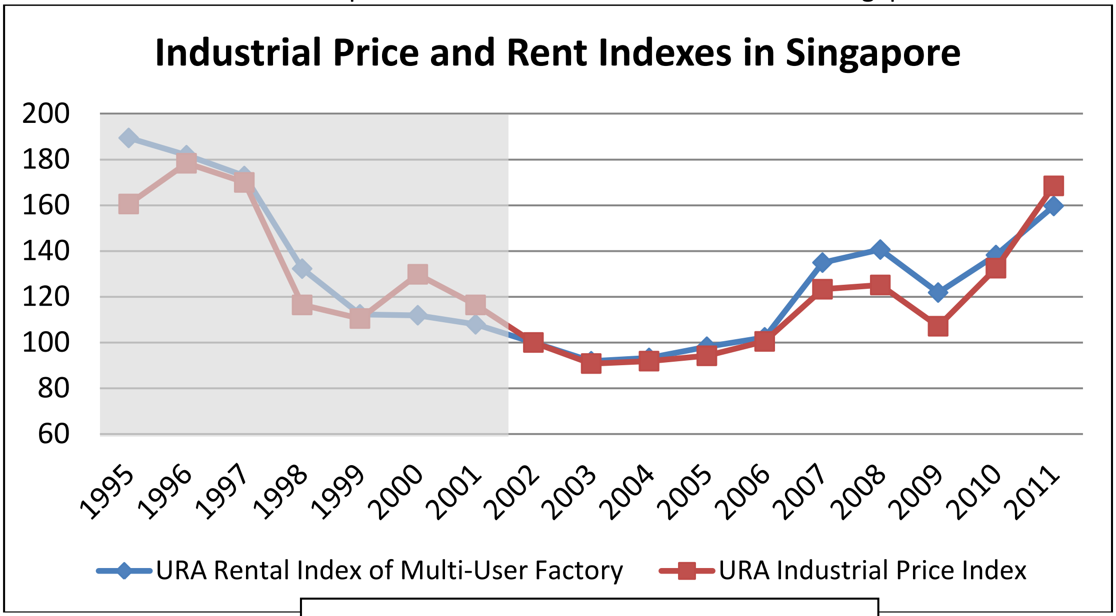
Are industrial rents in Singapore increasing?

45. Under the Competition Act, rapid increase in rents in a market *per se* is not a sufficient ground for CCS to take action under the Act. Nevertheless, this paper examines rental trends in the market, partly to determine if the concerns in paragraph 4 are borne out by data, and partly to determine if there are structural behaviour and norms in the industrial property market that have resulted in the rapid increase in industrial rents.

46. As can be seen, industrial prices and rents have moved pretty much in tandem over the past years. As such, while the following analysis focuses on industrial rents, the same can easily be applied to industrial prices. Although industrial and rents have not surpassed historical high in the mid-90s, the rate of increase since the trough in 2009 has been the fastest in almost two decades. In response, the Government imposed some cooling measures like a seller's stamp duty on industrial properties.[38]

[38] http://www.iras.gov.sg/irasHome/page03a.aspx?id=14342

Chart 6: Comparison of Industrial Prices and Rents in Singapore[39]



Source: Colliers International Research, URA

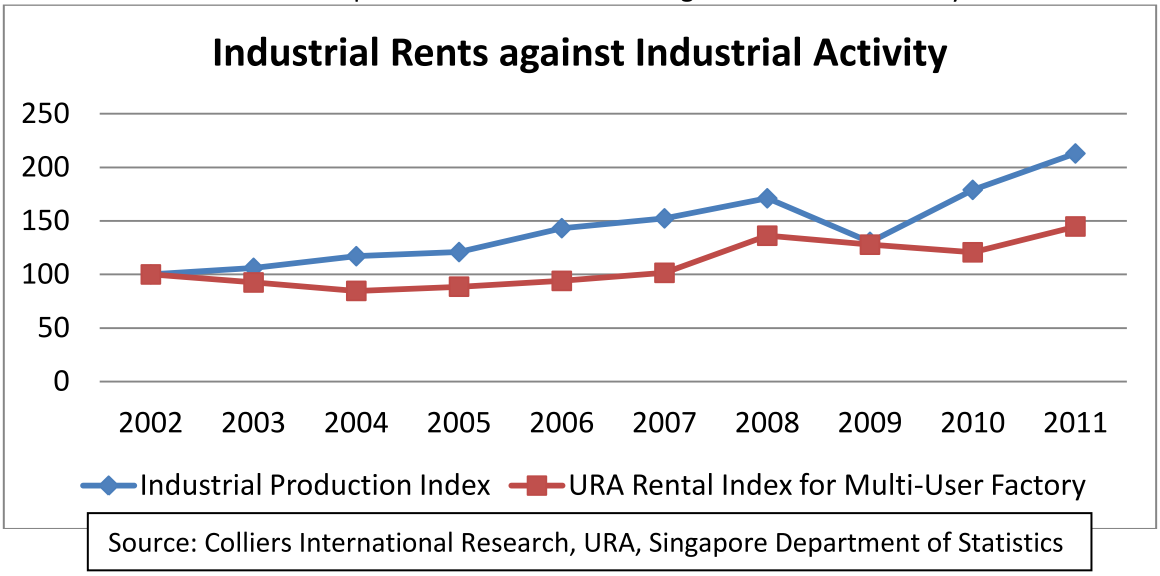
47. Other than just looking at industrial rents by themselves, it is also useful to compare how industrial rents have changed in comparison to the changes in industrial output, as well as in comparison to the changes in rents in other real estate segments in Singapore.

Are industrial rents outpacing industrial output in Singapore?

48. On an indexed basis, industrial rents have never exceeded industrial production since 2002. While industrial production fell in 2008-2009 (the period of the financial crisis), industrial rents did not fall as much. This may be due to the downward stickiness of rents, as contracts are usually negotiated for a period of a few years, and do not change as readily even when industrial production falls. Post 2008, industrial production has actually increased much more rapidly than industrial rents have increased.

[39] Index based at 2002 = 100 for consistency. However, Data from as early as 1995 was included to show the entire business cycle of the industrial property market.

Chart 7: Comparison of industrial rents against industrial activity

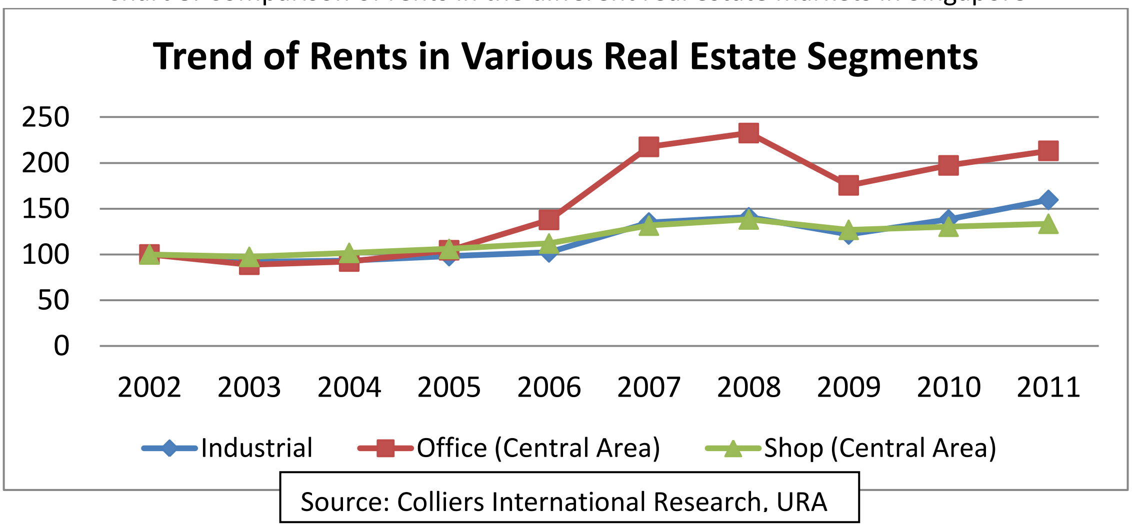


Are industrial rents outpacing commercial, retail and residential rents in Singapore?

49. Many of the factors affecting the industrial property market affect all real estate markets in Singapore – industrial, commercial, retail and residential – for example, the problem of land scarcity in Singapore. Common factors should affect all real estate segments equally, and a comparison was done to see if the increase in industrial rents was out-of-sync as compared to the other real estate segments.

50. Tenant profile of commercial and retail properties are more similar to industrial properties; such tenants are usually corporate customers while residential tenants are more often individuals. As such, the comparison analysis of rents across the different real estate segments was only done for the commercial and retail segments. A chart showing changes in rents, indexed at the year 2001, is as shown:

Chart 8: Comparison of rents in the different real estate markets in Singapore

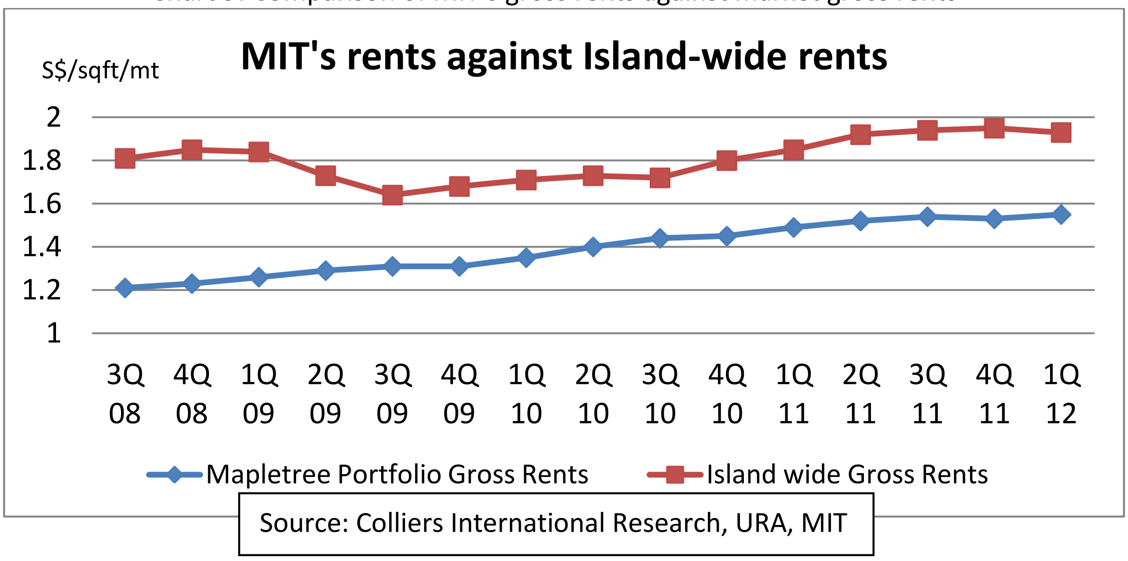


51. Changes in industrial rents have not been significantly different from that in the retail segment. Rents in the commercial segment, however, have increased much more compared with the other segments. Comparison of changes in purchase prices in the various real estate segments did not reveal segments that had significantly different changes.[40]

Are industrial rents of JTC-divested properties outpacing others?

52. The Mapletree Group has a substantial market share and is one of the largest market players. As such, a study was done to see if MIT has been charging rents that are above the average rents in the industrial property market. As only MIT acquired industrial properties from JTC in 3Q 2008, only the rents charged by the portfolio of properties owned by MIT were used, as compared to rents charged by the entire Mapletree Group.

Chart 9: Comparison of MIT's gross rents against market gross rents



53. MIT's acquisitions of JTC's industrial properties happened in 2008 and 2011. Since then, the average rents charged by the portfolio of properties owned by MIT have increased, although absolute levels are still well below market levels. A point to note is that industrial properties acquired by MIT have a rental increase cap of 5% per annum for three years after the properties were acquired. The cap on the first phase of acquired properties in 2008 only recently expired in 3Q 2011. It remains to be seen how rents on those properties will change after the expiry of the cap.

54. While island-wide rents have fallen, MIT's rents have continued increasing since 2008. This could be because the rents charged by JTC pre-divestment were below the market average. As noted by Minister (MTI), tenants located in the industrial properties

[40] Refer to Annex D

acquired by MIT (and similarly Soilbuild) were paying rents that were 6-25% below market rates.[41] The divestments allowed the rents in such premises to move closer to market rates.

55. It is unlikely that MIT's increasing industrial rents affected the market significantly, as it only has 3.2% of all industrial property space, or 8.1% of industrial investment space.

Conclusion on the analysis of rental trends

56. Based on the above, CCS finds that rental increases in the industrial property market may be explained by underlying industrial activities, and the increases do not appear to have been abnormal by inter-segmental comparison. With reference to MIT, JTC's divested assets are moving closer to market levels gradually. Industrial REITs at 40% share of the industrial investment space are not dominant in the market. Even if they were, there is no evidence to indicate they are abusing their dominance.

COMPETITION ASSESSMENT – IS THERE SUBSTANTIAL LESSENING OF COMPETITION ARISING FROM THE ACQUISITION OF JTC ASSETS BY PRIVATE PLAYERS?

Non-coordinated effects

57. Non-coordinated effects may arise where, as a result of the acquisition of industrial properties from JTC by MIT and Soilbuild, the merged entity(s) find it profitable to raise rents (or reduce output or quality) because of the loss of competition between the merged entities.[42]

58. As shown in charts 4 and 5, the marginal increase in the market shares of the Mapletree Companies and Soilbuild from 2005 to 2012 is not significant, and the new market shares of the companies in 1Q 2012 are far from the merger thresholds indicating substantial lessening of competition. The increment is not sufficiently significant to allow any one of these players to unilaterally increase industrial rents. Figures for markets broken down by the different industrial property types are not available in 2005, pre-acquisition.

Table 1: Market shares of acquirers of JTC's industrial properties

Market Shares (%)	**All industrial space**		**Industrial investment space**	
	4Q2005	1Q2012	4Q2005	1Q2012
Mapletree	3.3	6.7	8.4	16.7
Soilbuild	0.0	1.0	0.0	2.5

Source: Colliers International Research

[41] http://www.propertyguru.com.sg/property-management-news/2012/4/32769/government-takes-measures-to-keep-industrial-space

[42] Paragraph 6.3 of *CCS Guidelines on the Substantive Assessment of Mergers*

59. Coupled with the fact that tenants do hold some bargaining power, especially in soft market conditions, and that the barriers to entry are mostly regulatory, it is unlikely that MIT's and Soilbuild's acquisitions of JTC's industrial properties had led to non-coordinated effects.

Coordinated effects

60. Coordinated effects may arise when a merger reduces competitive constraints in a market or increases the possibility that, post-merger, firms in the same market may coordinate their behaviour to raise rents, reduce quality or output.[43]

61. Market transparency is a key factor in determining if coordinated effects are likely to result from a merger. As discussed in the section on collective dominance above, publicly-listed REITs are required by regulation to publish overall portfolio performance results in terms of annual and quarterly reports. However, the terms and conditions of individual tenants in the same or different properties vary widely, and are not transparent. Industrial properties are not homogeneous products, contractual duration and expiry dates also vary and industrial activities in Singapore are subject to external conditions. All these factors render it difficult for competitors to coordinate explicitly or tacitly on common pricing policies, let alone detect and punish for non-compliance of such coordination.

62. It should be noted that, in the base-case relevant market, the proportion of the entire industrial property market held by REITs is only 16.2%, and the incremental increase due to the acquisitions is insignificant. The market is also fragmented, with a large number of small players (e.g. small end-users who own and only operate in their own premises, as well as numerous small private investors). However, even under a scenario where the REITs constitute a market of their own, the difficulties of coordination highlighted above would remain.

63. Similar to the conclusion on collective dominance, coordinated effects are unlikely under these market conditions. It is therefore unlikely that the acquisitions have resulted in coordinated effects in the market for industrial property.

[43] Paragraph 6.7 of *CCS Guidelines on the Substantive Assessment of Mergers*

CONCLUSION

64. Based on available data, concerns from the industry and inputs from the Consultant, there is no evidence to date of the following:

a. Any single dominant firm or collective dominance in the relevant market;
b. Common contractual practices in the relevant market to be abusive;
c. JTC divestments to have resulted in substantial lessening of competition in the relevant market;
d. Rental trends in the relevant market to indicate any significant adverse effect arising from any anti-competitive conduct or activity.

The findings above are valid even if the relevant market is sub-divided by property types, and even if the REITs constitute a separate market.

65. Given the findings in paragraph 64, CCS does not intend to take any immediate action in the industrial property market, but will continue to monitor the situation in case of the emergence of any material new developments that may indicate future competitive concerns. CCS may initiate a fresh inquiry into this market should there be material new developments.

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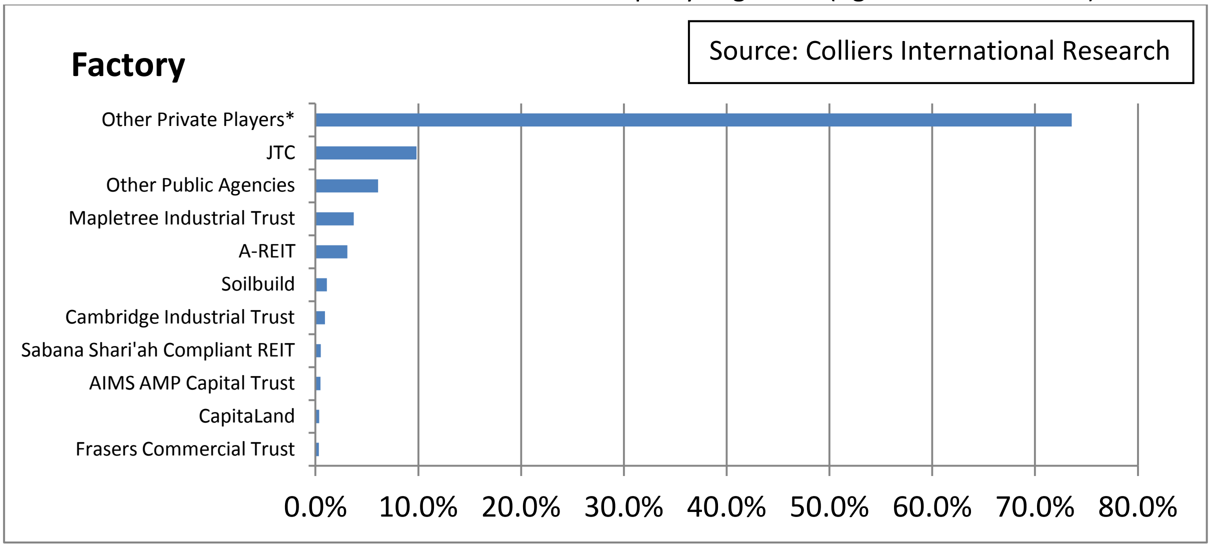
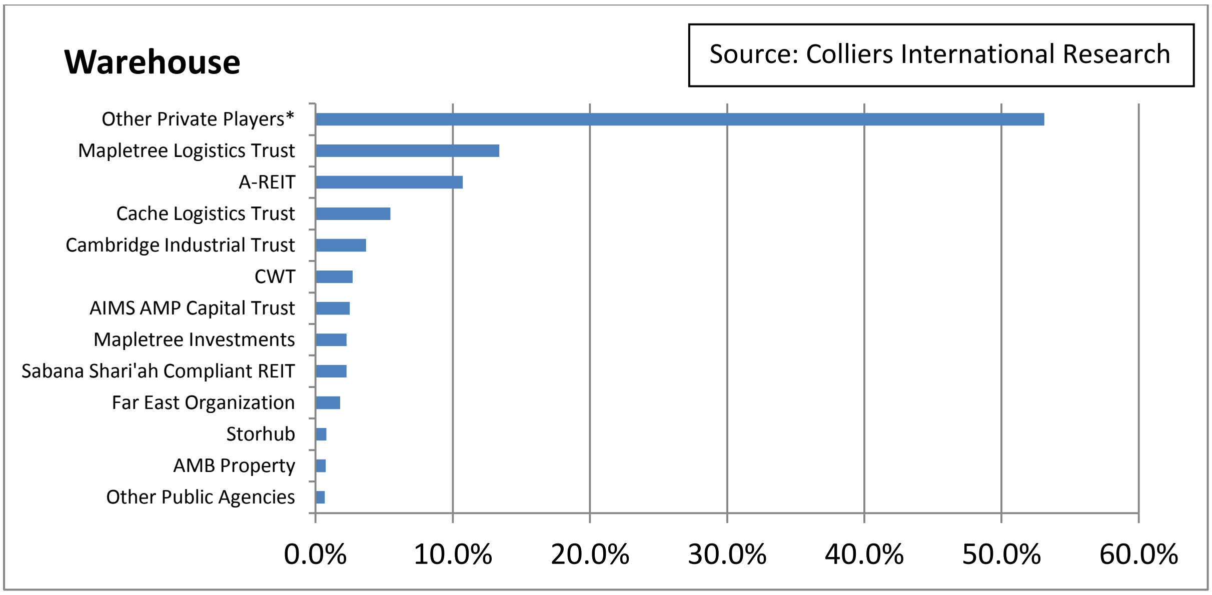
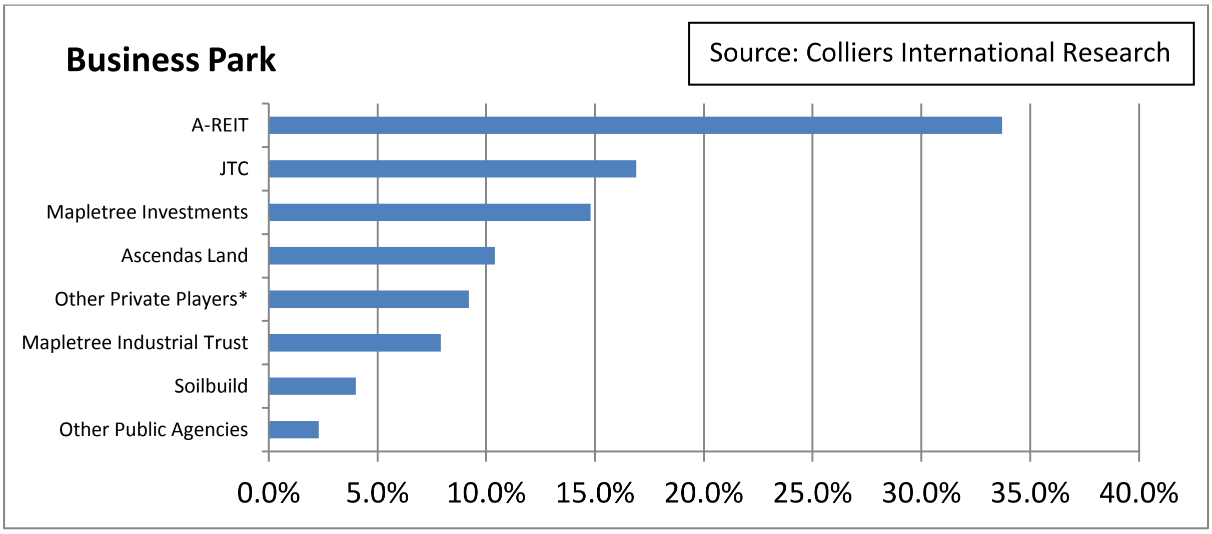
COMPETITION COMMISSION OF SINGAPORE

ANNEX A

Market Shares in the different Industrial Property Segments (figures as at 1Q 2012)

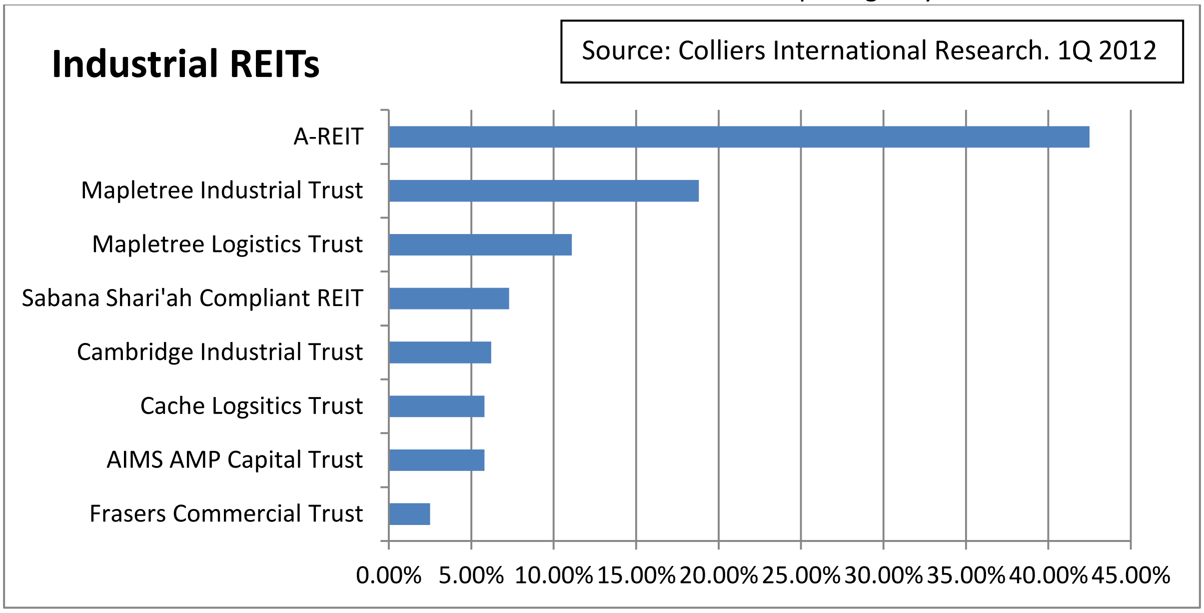






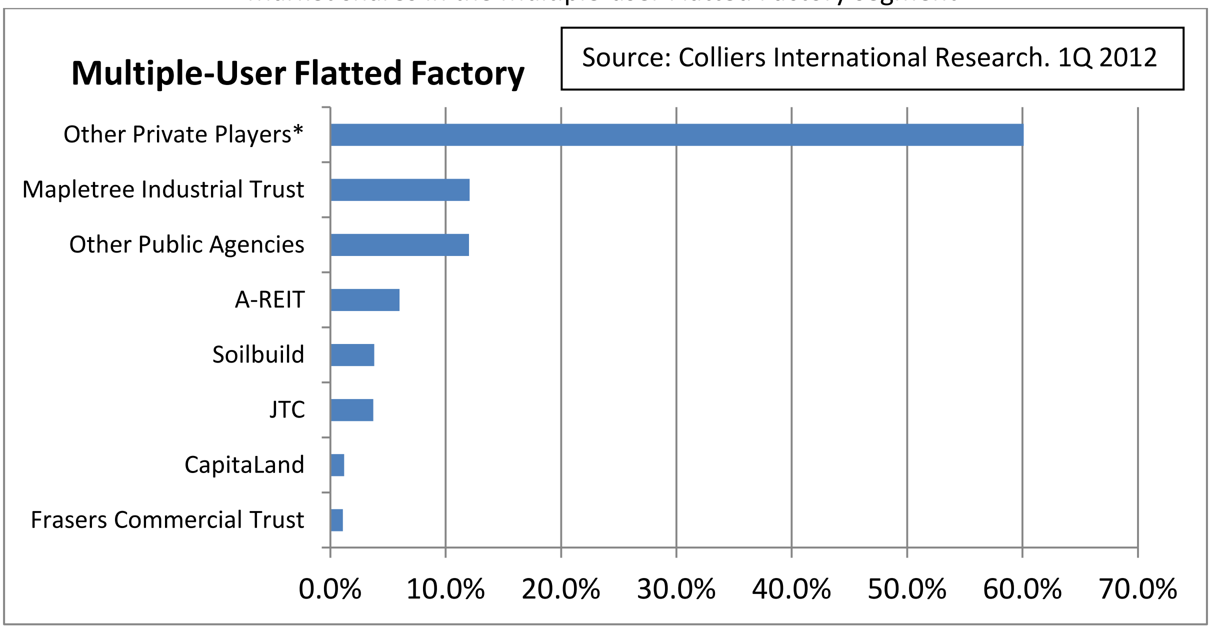
ANNEX B

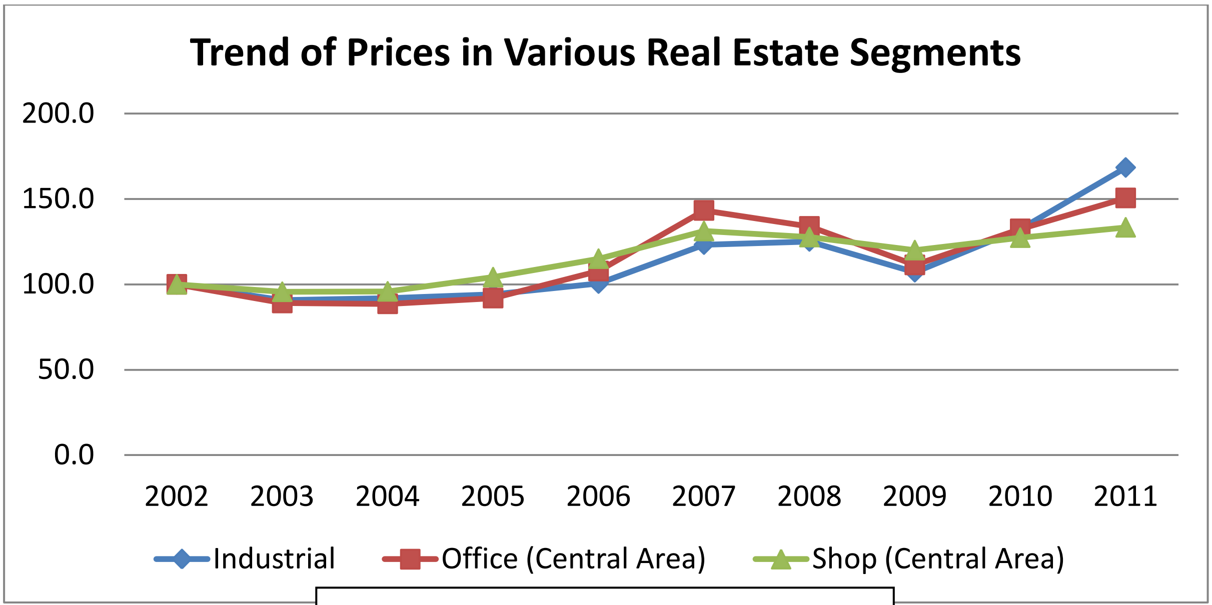
Market shares of REITs in a market defined as comprising only REITs



ANNEX C

Market shares in the Multiple-user Flatted Factory segment





Source: Colliers International Research, URA