SUMMARY

The Singapore Government set up the Jurong Town Corporation (JTC) in 1968 to develop industrial properties in order to facilitate its industrialisation plan in the early 1960s. Private sector participation in the Singapore industrial property market, prior to the Urban Redevelopment Authority's (URA) land sales for industrial development that began in Oct 1992, was on an ad hoc basis. Whilst the public sector's participation in the industrial market is to serve mainly the national objectives of facilitating the Government's industrialisation and economic plans, the private sector's participation is mainly profit-driven.

The last decade has seen a kind of 'herd instinct' in the private developers where industrial developments are concerned. Once there are new private industrial projects that secure high prices or rentals, a hoard of private developers would jump at the opportunity to develop similar projects with the hope of making huge profits. Many of these developers do not understand the dynamics of the industrial property market and how changes in the economic variables would affect the market. As such, they were unable to react fast enough to the regional crisis that has significant impact on the industrial space demand. As a result, a glut of industrial space surfaced during the crisis and the losses suffered by developers were huge.

In view of the above, this dissertation aims to provide insights to the relationship between private industrial space demand and a set of economic variables and
also to formulate an appropriate model for industrial space demand forecast. Due to the fact that most economic time series are not stationary in level, the cointegration analysis is adopted in this dissertation to avoid the differencing process. The analysis is carried out using the Johansen’s Vector Autoregressive (VAR) cointegration methodology and an Error Correction Mechanism (ECM) is then incorporated into the model to adjust for the short-term variation of the model.

The conclusion of the analysis is that there exists a long-run contemporaneous relationship between private industrial space demand and GDP in manufacturing and composite leading indicator. The rest of the selected economic variables, namely public industrial space supply, private industrial space supply, interest rates, industrial property price index, building materials price index and inflation rate, are found to have no cointegration relationship with the private industrial space demand. However, in the short-run, the private industrial space supply and the building materials price index are found to affect the private industrial space demand significantly.

The Vector Error Correction Model (VECM) formulated in this study is found to be efficient in the forecast of short-term private industrial space demand.