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THE LAY OF THE LAND

BY MINDY TAN

Despite the wide range of options available, SMEs may still find it difficult to hunt for the right space to house their businesses as they face rising costs and changes in subletting and tenant requirements

WHEN it comes to situating themselves, small and medium-sized enterprises (SMEs) will likely find that they have a wide range of options. Within the industrial space alone, in addition to the stock options of B1 and B2 factories (whether for sale or for rent in the public and private spheres), there are smaller industrial land sites available through the government land sales (iGLS) programme, and JTC's own small footprint projects which has added even greater variety to the mix.

But having options and actually being able to exercise these options is proving to be the challenge. The question, as always, boils down to cost. And increasingly, whether these businesses fit within certain regulations.

"It is observed that since Q4 2014, some sub-tenants of industrial facilities on JTC land have sought alternative premises following the change in JTC's subletting rules from Oct 1, 2014, which reduced the maximum allowable quantum of space for subletting from 50 per cent to 30 per cent of the total gross floor area of the building," says Chia Siew Chuin, director of research & advisory at Colliers International.

"The stringent control imposed by JTC, such as the anchor tenant requirements, also led some industrialists to turn to the private sector, where there are no restrictions, especially for standalone industrial buildings."

Another issue that could potentially stand in the way of SMEs is the minimum space clause in JTC's subletting rules. Under the current terms, an approved anchor subtenant is required to occupy a minimum gross floor area of at least 1,500 square metres (sq m) in addition to various criteria on operating income, profit margins and proportion of skilled employees.

Says Christine Li, Cushman and Wakefield's research head: "So what could happen to these SMEs is that even though the market will see 5.3 million sq m – equivalent of 13 per cent of existing stock – of industrial space due for completion in the next three years, they are still not able to find space to rent because landlords can simply say, 'I'm not leasing out to you now because I need to find anchor tenants.' It hence creates this false supply crunch, and SMEs again become the price-takers at the mercy of the landlords."

FINDING THE RIGHT INDUSTRIAL FIT

In the private arena, on the other hand, some smaller businesses have been struggling to find space that suits them. While there is substantial industrial space completing in 2015 and 2016 – especially multiple-user factories the bulk of which is strata factory space – options that are available to SMEs are limited.

Says Ong Kah Seng, director at R'ST Research: "These new completions are very premium-grade factory space (which were) in fact marketed as stylish factory projects in the yester-years when industrial property sentiments were overwhelming (2010-2012). They were sold by developers and tossed around as sub-sales at high prices, so the asking rents upon completion is very high – asking prices were some S$3 per square foot (psf) per month, or even more."

It has since dropped however, from S$3 psf per month – a figure which Mr Ong says is "unrealistic" – to around S$2 psf per month. On the flip side, properties that are being launched for sale now are more sensitively priced.

Says Colliers' Ms Chia: "It is observed that the newer strata-titled industrial projects released for sale is focused on meeting users' operational requirements rather than the provision of amenities. This is a result of developers trying to keep a competitive pricing strategy given the current subdued state of the strata-titled industrial sales segment. This is especially so for B2-zoned developments which are intended for industrialists in heavier industries."

Examples of new upcoming strata-titled industrial developments include Proxima@Gambas – a new 30-year leasehold B1 development on Gambas Crescent by NSS Realty – and Hock Lian Seng's B2 project at Tuas South Avenue 7.

SMALL YET EFFICIENT
SMEs should consider JTC's small footprint factories which are aimed squarely at them and small-scale industrialists

Looking ahead, strata-titled industrial property sales are likely to remain muted as long as buyers and sellers continue to engage in a waiting game to see which party will first give way on their price expectation, says Ms Chia.

The average capital values of prime freehold conventional industrial space, which is limited in supply, stayed relatively stable in the first quarter. However, the average transacted prices of both 60-year and 30-year leasehold industrial properties recorded respective declines of 3.3 per cent quarter-on-quarter and 1.8 per cent quarter-on-quarter in Q1 2015, based on preliminary caveat records as at April 2, 2015.

"Faced with a triple whammy of weak buying demand, rising interest rates and softening rents, sellers with weaker holding power are more likely to relent on their expected prices in the coming quarters to move sales. Hence, overall industrial prices could ease by up to 3 per cent in 2015," says Ms Chia.

On the rental front, Ms Chia says that she expects competition for qualifying tenants to stiffen amid mounting supply pressures in the multi-user industrial space segment. Rents are expected to slide further, by up to 4 per cent in 2015, for prime conventional industrial space.

SLP International executive director Nicholas Mak, on the other hand, says that he expects the overall price index to vary between minus 2 per cent and plus 4 per cent year-on-year. "From our dealings with real estate developers, some are slightly reducing the prices of their unsold units either directly or by giving rebates, while other developers are gradually increasing the prices of their projects."

SMEs should also take into consideration JTC's small footprint factories which are aimed squarely at SMEs and small-scale industrialists. Says R'ST Research's Mr Ong: "Industrialists who find (that) small footprint factories meet their needs (should) go for it because it is highly functional, of good quality and should be able to fulfil their product needs for a number of years. With the cost-savings, they can channel more resources into innovations and rolling out differentiated products . . . SMEs – excluding the seasoned, established ones – should always opt for functional, or even subsidised production space."

HUNTING FOR COMMERCIAL SPACE

What then for companies that are looking to rent office space? SMEs looking at boutique-sized office accommodations in the CBD areas can consider projects such as Crown@Robinson and GSH Plaza which has 86 and 259 units respectively. Meanwhile, SMEs that are willing to wait a little longer can consider the suburban office development, Woods Square in Woodlands, which is expected to launch in the later part of 2015.

"Office units which range from 592 sq ft to 1,152 sq ft at Crown@Robinson have been sold at S$3,348 to S$3,623 psf, based on caveats extracted from URA's Real Estate Information System (Realis). At GSH Plaza, units ranging from 480 sq ft to 1,700 sq ft are said to be selling between S$2,850 psf and S$3,500 psf. The premiums built into these prices reflect the limited supply of quality strata-titled office space in the CBD," says Colliers' Ms Chia.

R'ST Research's Mr Ong on the other hand recommended that businesses look to shophouses which might cost about S$2,000 to S$3,000 per month for an office of at least 500 sq ft. "They can use the air-conditioning after office hours too, and this helps them to work longer hours to deliver good/differentiated products (against their competitors). Office space in shophouses usually have quite affordable rents as offices in shophouses do not offer a classy corporate image, and are quite old (but many are refurbished). And also, the shophouses themselves offer the owners very good capital appreciation so the owners usually trade off in the rents of the office space they are renting out," says Mr Ong.

"If the SME is still very keen to get a strata office from the developer, then my recommendations will be Prospex at Middle Road (opposite Bugis Junction), and maybe in the future, Woods Square (by Far East Organisation). Vision Xchange can be considered but there seems to be too high escalation in rents and prices in Jurong East, and moreover for Woods Square, it can always cater to some industrialists who have operations in Johor so that a strata office in Woodlands is convenient for them."

A HYBRID OPTION?

With a plethora of options available, is a cross-breed between industrial and commercial viable? Market watchers say yes.

Colliers' Ms Chia stresses that the newly emerging type of manufacturing companies in Singapore continue to fall between the gaps, and a hybrid could be the solution. "These firms are manufacturing-services-based, and it is a grey issue of debate as to whether these companies qualify for industrial properties or are meant to operate in office buildings," she says.

R'ST Research's Mr Ong agrees, noting that SMEs that do not qualify for industrial property use often find commercial property space too costly for renting. As to who should qualify, Mr Ong suggests that smaller-scale professional services providers might qualify since they have rental budget concerns. Other possibilities include retailers that are also industrialists as they merely need a functional office space or retailers who need office for their supporting business operations.

"Retailers have been suffering from high shop rents, so for those who need office space, I think some help can be offered to them at least to lower their overall real estate costs. Also, for pure industrialists who need some office space, they might qualify for such use," says Mr Ong.

He adds: "I would see that it will come onstream maybe in a year's time, or something concrete, pilot-test phases will start around middle part of next year. It requires a lot of work and review into such a new user class but then, Singapore is stepping up efforts to help SMEs to compete and grow, and also, it seems there is a lot of woe from the small industrialists and retailers who find it hard to pull through in recent times due to high costs. So I am sure the government will expedite in reviewing these and come up with suitable alternatives."

Says Alice Tan, head of consultancy & research at Knight Frank Singapore: "Such a new sub-class is unique, and could alter market demands for commercial and industrial spaces. The possibility of allowing more qualifying trades to use such a sub-class would impact both the industrial and office rentals. More in-depth review is required on the nature and extent of qualifying trades, as well as location of sub-class properties, before this can be rolled out. We envisage this scheme is not likely to be rolled out within this year." ■