



Growing property portfolios

The REIT investment landscape is changing as the demand for prime industrial space rises

A LOT of people still have the impression that factories are merely buildings where workers operate machinery to make products. However, in recent years, soaring rentals in the Central Business District (CBD) have caused businesses to consider industrial buildings as alternative premises as they relocate operations that do not need to be situated in the downtown area in addition to their Business Continuity Planning ("BCP") needs.

And rather than the dreary, grimy buildings that we usually associate with factory buildings, the high-specifications developments in business parks today are designed to provide similar overall working environment and accessibility alike with traditional office spaceset in a more spacious domain integrated with amenities that provides convenience and enables business owners and staff to interact and collaborate. Take UE BizHub East, which is located in the Changi Business Park, for instance. It embodies the "live-work-play" concept, complete with retail, dining, convention centre, hotel and lifestyle services to cater to the needs of businesses and those working there.

It is also conveniently located opposite the Expo MRT station and near major expressways such as the East Coast Parkway (ECP) and Pan-Island Expressway (PIE) giving drivers easy access to the rest of the island.

Small wonder then that UE BizHub East is a habitat for IT-related companies and other knowledge-based activity-related businesses.



CLOCKWISE FROM MAIN PHOTO:
UE BizHub East (Business Park);
15 Greenwich Drive (Logistics and Warehouse); 11 Serangoon North Avenue 5 (General & Light Industrial).

Growing footprint

ESR-REIT owns a total of 57 industrial properties giving it a total gross floor area of 14.1 million square feet.

Its properties are spread across four sub-asset classes – business parks, high-specs industrial, logistics & warehouse properties and general & light industrial facilities – and located close to major transportation hubs and located within key industrial zones island-wide.

ESR-REIT's property portfolio also has a wider exposure to quality assets in business parks and high-specs industrial sectors which are geared towards companies with R&D activities, advanced manufacturing, automation, robotics and data centres.

ESR-REIT is managed by the ESR Group, which is backed by United States-based private equity firm Warburg Pincus. It took over the running of the REIT, then known as Cambridge Industrial Trust, more than two years ago.

Last year, in a move described as awakening a giant in the industrial space by DBS Group Research, ESR-REIT merged with another industrial REIT, Viva Industrial Trust, to create the fourth largest industrial REIT in Singapore.

As at 31 December 2018, the resulting enlarged REIT has a market value of S\$1.6 billion with S\$3.1 billion of total assets under management.

For analysts, big is beautiful. This observation also holds true for REITs where analysts have a habit of pricing large-cap firms at a premium to the rest of the market.

One reason why they do so is because larger REITs tend to have a more diversified pool of tenants and properties, higher liquidity, better bargaining power with ser-

vice providers and better access to capital which tends to lower their costs of borrowing if they should make any property acquisition to further boost their returns.

Furthermore, one immediate benefit of an enlarged REIT is its ability to accelerate the redevelopment and asset enhancement of its property portfolio.

DBS Group Research said: "There is untapped potential including at least two assets with un-utilised gross floor area and several others with the potential for conversion into coveted higher-spec facilities."

Growing real estate portfolio

Not only that, RHB Research analyst Mr Vijay Natarajan noted in a January report that the market has yet to realise the full potential that the enlarged REIT possesses, following the two-fold increase in its asset value, as a result of merging with Viva Industrial Trust.

He also added that the market has yet to fully account for the fact that ESR-REIT is managed by a "highly-capable sponsor", ESR Group. One perk as a result of this relationship is that ESR-REIT will have the "first look" on more than US\$14 billion of ESR's asset portfolio which it can inject into the REIT to enhance its attractiveness to investors.

For now, however, the focus of ESR-REIT is to integrate and stabilise the enlarged portfolio of properties that it has acquired through its merger with Viva Industrial Trust, said the REIT manager's chief executive, Mr Adrian Chui.

He said: "We will continue to extract value by moving towards self-management of the properties, asset enhancement initiatives (AEI) and asset rejuvenation. This will provide a future-ready and relevant real estate



FROM ABOVE LEFT:
T30 Marsiling Industrial Estate
Road 8; 30 Toh Guan Road
(General & Light Industrial).



portfolio to support industrialists of tomorrow."

In a rapidly changing business landscape, ESR-REIT embraces innovation and technology to ensure the commercial viability of its project.

The enlarged portfolio also gives it the flexibility to implement moves such as "self-managing" its property management services to improve cost efficiencies.

"At the same time, we can improve our property management standards and customer service to serve our tenants' needs while assisting their business expansion needs," he added.

Riding on potential demand

ESR-REIT has completed an AEI at 30 Marsiling Industrial Estate Road 8, which was converted from general industrial to a high specs facility. Potential future AEIs include one at 7000 Ang Mo Kio Ave 5 with the potential to create up to additional 495,000 sq ft of additional GFA by maximizing the unused plot ratio at the site.

Given the tapering in the supply of new industrial space in the next few years, there is also an oppor-

tunity to ride on demand of prime industrial space by attracting high-value tenants and changing the use of buildings to stay relevant with prevailing market trends, he added.

ESR-REIT has also embarked on "active lease management" to secure value-added "tenants-of-tomorrow", by not merely focusing on pricing but also ensuring their properties stay relevant to cater to tenant's quality expectations and demand for space.

The larger property portfolio has also given ESR-REIT stronger bargaining power with service providers. It has also enabled the REIT to award bulk tender contracts for services such as cleaning, security and landscaping in order to reduce operational maintenance costs and/or improve operational efficiencies & productivity.

For now, ESR-REIT's properties are all in Singapore. But its manager, ESRFM, is known to be keen to grow its portfolio through selective value adding and/or risk diversification acquisitions.

That could take the REIT to new frontiers and provide a fresh driver for its growth.

S\$3.1B AUM
14.1M SQ FT GFA
57 PROPERTIES ACROSS SINGAPORE

AT ESR-REIT,
WE BELIEVE IN THE FUTURE.

That's why we own quality income-producing properties strategically located across Singapore. You can gain access to our well-connected properties in **Business Parks, High-Specs Industrial, Logistics / Warehouse and General & Light Industrial sectors** island wide.

We look forward to supporting and providing the footprint for our tenants' expansion.

We believe in creating new and sustainable partnerships for a better future.

For leasing enquiries, speak to us at +65 6827 9555 and discover the benefits.



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