



“FOLLOWING MARKET RENT IS A MOVING TARGET . . . RENTAL PRICES ARE ALWAYS ON THE MINDS OF SMES. THE AUTHORITIES HAVE TO CONSIDER BUSINESS CONTINUITY, AND CERTAINTY IS ONE OF THE FACTORS.”

– April Yang, manager, Flexi Systems

For those who have yet to catch up on this issue, the following is a quick recap on what has happened since last October's announcement. The looming prospect of raised prices with the consolidation was the first thing on everyone's minds, but JTC has been quick to reassure enterprises that it is business as usual.

For one thing, the terms, conditions and contracted rents in existing HDB lease and tenancy agreements will not change. Lease agreements under HDB last for three years.

Both HDB and JTC have also promised to ensure minimal disruptions and a smooth transition. About 160 HDB officers will be transferred to JTC, so tenants and lessees will still get to liaise with familiar faces.

In response to queries on a possible rise in rents, a JTC spokesman says that both JTC and HDB currently set their rents based on prevailing market conditions. “This practice will remain when companies renew their tenancy agreements subsequently. With the upcoming supply of space in the market, we will expect rentals to continue to moderate.”

While some SMEs fear the worst, JTC has stressed that the consolidation is intended to benefit SMEs instead. The plus points for the consolidation bear repeating, even if they have often been brought up since the announcement.

Firstly, JTC has said that parking all public sector industrial land and facilities under one banner makes it easier and quicker for companies to find the most suitable premises for their business needs. Existing tenants and lessees are also able to receive better support for the land and space needs across the different stages of their growth.

With this transfer, companies will only need to approach a single agency to access the full range of public sector industrial land facilities.

The SME Magazine understands that JTC and HDB have been engaging with their tenants and lessees through tea sessions and various means of dialogue in an extended effort to reach out to affected businesses.

JTC says: “Our focus is on better supporting SMEs on their industrial space needs, and helping them to grow and improve their competitiveness.”

WHAT'S NEXT

Property analysts whom *The SME Magazine* has spoken to generally see the consolidation as more boon than bane for SMEs. Tay Huey Ying, head of research, Singapore, JLL, believes that a one-stop government channel will help reduce confusion and simplify land and space option evaluation by businesses.

She also notes that JTC is unlikely to make any major moves in the short term and put on hold any redevelopment plans. “In renewing leases, JTC is likely to take the cue from movements in market rents, although if substantive improvement works are carried out to spruce up or upgrade the estates or developments, these could be priced into rents eventually.”

In the medium to long term, Ms Tay does not rule out the possibility of the redevelopment of older

industrial estates. While relocation to newer premises with higher specifications could entail pricier rents, occupiers would benefit from the wider range of facilities available under JTC, she points out.

Alan Cheong, head of research, Savills Singapore, says that both JTC and HDB policies regarding the usage of industrial space have traditionally been consistent, even if the timing has not always been the same. He adds that he does not expect any changes in policies that would affect SMEs.

When asked if rental rates are likely to go up once leases expire, Mr Cheong explains that JTC would by now be “more cognisant” of the cause and effect of certain policies on rents, particularly those that will cause them to rise. “With ample experience behind them, JTC will be on their guard not to uncork the inflationary genie from the bottle.”

While analysts indicate that rents are unlikely to go up unreasonably, association and chamber heads are still keeping an eye on the situation.

Kurt Wee, president of the Association of Small and Medium Enterprises (ASME), says that while rental issues are “generally subsiding”, most SMEs still continue to cite rental costs as a substantial portion of their business costs.

“We did come across a few SMEs that continue to experience rental increase in this business climate. SMEs have also highlighted that commercial and institutional landlords have increased their rent given that it is very costly to relocate, or when the cost of operational disruption is too high.”

Those instances are considered the minority, and Mr Wee says that he is glad that JTC has been ensuring an ample supply of industrial space to maintain affordability for SMEs. He foresees that the consolidation will be a plus for SMEs at large. “JTC is continuing to build multi-user industrial spaces which will benefit small and micro SMEs the most. They are also integrating shared facilities that can bring cost savings to SME tenants.”

Thomas Chua, president of Singapore Chinese Chamber of Commerce & Industry (SCCCI), says that JTC should have a clear direction and plan for the affected group of SMEs, especially those from the traditional sectors. “Many of them, established in the 1960s and 1970s, are now undergoing this challenging restructuring period . . . JTC should help them through this period.”

He echoes the fears of cost-conscious SMEs that JTC, in the future, may offload its industrial properties to a real estate investment trust (Reit) or private developer. Mr Chua hopes that this will not be the case as the industrial properties run by JTC can serve as an “important developmental objective” to help nurture our SMEs.

SMEs' TAKE

Some affected SMEs are cautiously optimistic about the new change. Teo Meng Heng, 40, the owner of Switer Engineering FE and a representative of Toa Payoh

BUSINESS AS USUAL, FOR NOW

BY VIVIEN SHIAO

We find out what's in store for SMEs with the recent consolidation of industrial space

RENTAL cost has always been one of the top challenges for small and medium sized enterprises (SMEs) in Singapore. So when it was announced last October that industrial land and properties under the Housing Development Board (HDB) will be transferred to JTC Corporation, it was no surprise that some tenants and lessees expressed concern.

Most of HDB's industrial tenants and lessees are micro-SMEs, with average annual sales of less than S\$1 million. Any raise in prices or changes in property policy will have an adverse impact on this group, which may not have the resources to adapt quickly.

The transfer, which will affect 10,700 industrial units and 540 industrial land leases, is expected to take place in the first quarter of 2018.

Business and Traders Association, says that the authorities have assured tenants that the Toa Payoh Industrial Park will remain as it is for the “next five to 10 years”.

“When the announcement was made, most tenants – not just me – were quite worried if they would be chased out. But after the tea session, we feel pretty safe,” he says.

He adds that businesses – specifically those in the motor vehicle repair line that deal with heavy vehicles – were worried that they will be relocated to bigger units elsewhere where rental is more costly. “Some of them have been here for 15-20 years. Some of them are ‘one-man show’, and if they have big rentals, they won’t survive.”

Mr Teo points out that older HDB industrial units such as those in Toa Payoh have rentals that are “not that high” because they are quite “run down”. Renovations to spruce up the toilets, which started before the announcement, will continue even after JTC takes over.

When asked how he feels about the new changes, Mr Teo says that he is quite happy that the HDB staff whom he is used to liaising with will be moving to JTC. He also lists the convenience of tenancy renewal at both JTC and HDB offices as a plus point.

“For us in Toa Payoh, we are quite well taken care for by HDB,” he shares. For example, the rent was reduced during the recession period in 2008 when businesses were going through tough times. But Mr Teo is confident in JTC’s promises. “During a recession, they will do exactly the same as HDB.”

April Yang, manager of Flexi Systems, is adopting a wait-and-see approach. The wastewater treatment and food-waste management firm has space at HDB’s Woodlands Industrial Park E5, as well as in JTC premises in Joo Koon Circle. While she says that HDB and JTC have given assurances that rentals are aligned, and there will not be a steep change in rental prices, she is looking for more certainty on future rental prices.

“Hopefully, the authorities will have a maximum cap on rental increase instead of market rent. This way, there is a number we can budget for. Following market rent is a moving target . . . Rental prices are always on the minds of SMEs. The authorities have to consider business continuity, and certainty is one of the factors.”

She adds that the rate of increase in rent must be

co-related to the improvements invested into the premises. She also hopes that JTC will not divest the land, either to Reits or to a private developer, as rents will then go up.

But the consolidation is not without its merits, and she says that dealing with one agency instead of two makes it much more convenient and will benefit those who wish to upsize or downsize their property.

While a lot is still up in the air at present, it is an encouraging sign that JTC is taking pains to meet tenants and lessees, and address their concerns during the period of transition. It is also heartening to note that the business associations and chambers are reaching out to their members and having their ears close to the ground.

For example, SCCCI’s Mr Chua has urged associations to take a pro-active role to ensure that any possible industrial upgrading by the government is aligned with practical business needs.

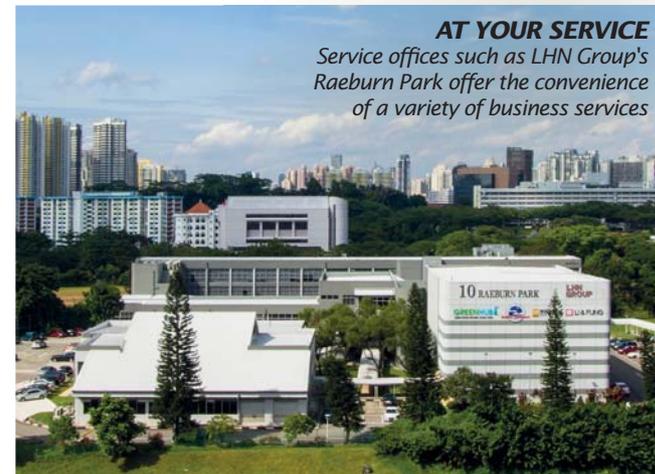
But in the near future, prices and rentals of industrial space are expected to decline due to the large supply of space and the current economic outlook, say both JTC and analysts. This should alleviate costs for SMEs as well as give them more choices of industrial space.

For now, SMEs can heave a (tentative) sigh of relief when it comes to JTC and HDB’s consolidation of industrial space as it looks like changes – if any – will be made over the long term instead of springing sudden surprises. ■



THE WAY AHEAD ▶

SCCCI president Thomas Chua has urged business associations to take a pro-active role to ensure that any possible industrial upgrading by the government is aligned with practical business needs



AT YOUR SERVICE
Service offices such as LHN Group’s Raeburn Park offer the convenience of a variety of business services

AN ALTERNATIVE TO TRADITIONAL INDUSTRIAL SPACE

AN industrial space may be the way to go for many traditional SMEs, but one option that is gaining popularity here is serviced offices. This is because not all SMEs require their business units to be located at industrial sites.

Diana Tay, senior sales and marketing executive, One Bizhub, says: “Serviced offices can be a place of office for departments such as sales, marketing and HR (human resource), while operations such as warehouse and production can be at the site.”

While this may not make sense for micro SMEs with limited manpower, it is suitable for growing SMEs with various teams, or for those in the midst of restructuring their operations.

Ms Tay points out that industrial sites are usually more inaccessible from public transport. Serviced offices, on the other hand, are usually located in more central locations. And as the name suggests, serviced offices are usually able to offer a variety of business services to companies, adding to its convenience factor.

One Bizhub’s serviced offices are located beside Tai Seng MRT station, just outside the Central Business District (CBD). Their spaces range from 90 sq ft to 120 sq ft, and the services offered include administrative support and the use of facilities and services such as meeting rooms and printing.

Ms Tay quotes flexibility and cost savings as benefits for SMEs which choose to use serviced offices. Businesses can decide on short-term or long-term leases, as well as pay-as-they-use services. They also will not need to handle building matters such as maintenance and air-conditioning.

Another serviced office option is GreenHub, with locations in the CBD fringe including Raeburn Park, Phoenix Park and Westway. It will soon open a new branch at Beach Road in February as well as expand Raeburn Park in mid-January.

Kelvin Lim, executive chairman and group managing director of LHN Group, says: “Whether you are a start-up looking for an office space with minimal commitment, an SME looking to expand, or you need a space for transition during relocation, we can accommodate your needs to ensure minimum business disruption.” ■