

BY LEONARD TAY

# GET AN EARLY START

In order to enjoy the fruits of first-mover advantage, SMEs should start the process of positioning themselves in Tuas early to leverage the government's plans of consolidating Singapore's port operations there by 2027

**I**N THE previous instalment of this two-part series, it was highlighted that the development of the new container port at Tuas could result in the area being fertile ground for small and medium-sized enterprise (SME) logistics players as well as SMEs requiring logistics facilities and services.

It might seem like early days as yet. After all, the start of port operations at its earliest is only expected sometime in 2022. However, SMEs should start the process of positioning themselves in the Tuas area early to leverage the government's plans to consolidate Singapore's port operations at Tuas by 2027, in order to enjoy the fruits of first-mover advantage.

A reconnaissance of the warehouse real estate market would be timely to obtain a sense of the market conditions at play as well as the new warehouse supply that is potentially on the cards in the Tuas Planning Area.

This is especially relevant for interested SME parties that intend to acquire land in the planning area, either from the Government Land Sales Programme or from JTC Corporation, and subsequently plan, design, build and start operations just before 2022. For other logistic players who prefer purchasing multi-user warehouse units in Tuas or to rent, it would be prudent to keep an eye on the market dynamics there in preparation to act when the time is ripe.

## THE CURRENT LAY OF THE LAND

The Tuas Planning Area is largely an industrial zone located in the western part of Singapore. It is bounded by Tengeh Reservoir to the north, Tuas Checkpoint and the Straits of Johor to the west, Tuas South Avenue 3 to the south, and Tuas South Avenue 9, Tuas Road, the Pan Island Expressway to the east. The Tuas Second Link that connects the border gateway between Singapore and Malaysia is located in Tuas.

In the 1970s, to accommodate the development of the area for industrial use, residents in the Tuas Planning Area were resettled in public housing estates in other parts of Singapore. In the 1980s, land was reclaimed around Tuas for more industrial development. It is estimated that about 6.5 sq km of land off Tuas were reclaimed by 1988. Land reclamation off Tuas is currently still ongoing.

## WAREHOUSE SUPPLY

As at Q1 2015, data from the Urban Redevelopment Authority (URA) showed that the existing supply of warehouse space in the Tuas Planning Area was 8.7 million sq ft. This is about 9.5 per cent of the 91.6 million sq ft of warehouse stock islandwide.

In 2014 alone, net new supply of warehouse space in the Tuas Planning Area amounted to 737,000 sq ft, the highest level recorded in the last eight years, based on information available.

As the industrialisation of the Tuas Planning Area continues at a steady pace, warehouse space has also been increasing to support the needs of manufacturers. The stock of warehouse space in the planning area has expanded by an average net new supply of 297,000 sq ft per annum from 2006 to 2014. Some 17,000 sq ft of warehouse space were added in Q1 2015, and this translates to an increase of 38.1 per cent from 6.3 million sq ft as at end 2006.

The stock looks set to increase further in the near term. The expected potential supply of warehouse space in the next few years is just under 1.5 million sq ft, comprising about 900,000 sq ft being planned and 560,000 sq ft under construction.

## DEMAND AND OCCUPANCY

Between 2006 and 2014, the average occupancy rate for warehouse space in the Tuas Planning Area generally ranged from 84 to 94 per cent. Net new demand or net absorption of warehouse space has been fairly strong, at an annual average of about 349,000 sq ft from 2007 and 2014, outpacing the annual net new supply of 297,000 sq ft in the same period.

However in 2014, net new supply of 737,000 sq ft outpaced the net new demand of 634,000 sq ft, causing the average occupancy rate of warehouses in the Tuas Planning Area to fall slightly to 93.3 per cent by the end of 2014 from 94 per cent registered as at end 2013. The latest average occupancy rate remained at a healthy 93.3 per cent in Q1 2015, after about 14,000 sq ft of net new demand was recorded in the first three months of the year.

## RENTS

According to available rental information sourced from the URA's Real Estate Information System (Realis), which is based on actual rental transaction records, the monthly median gross rent for warehouse space in the Tuas Planning Area has generally been stable in the past one year.

Notwithstanding the rise in warehouse space supply in 2014, space availability remained tight as reflected by the high average occupancy rate of 93.3 per cent as at Q4 2014 and Q1 2015. This lent support to warehouse rents in the Tuas Planning Area.

Rental information sourced from Realis showed that the monthly median gross rent for warehouse space (including single-user and multi-user warehouse space) decreased by 27.8 per cent from the S\$1.80 per sq ft (psf) in Q4 2013 to S\$1.30 psf in Q4 2014.

However, there was only one leasing transaction of warehouse space in Q4 2013; and given that median rents can vary widely depending on the number of transactions and types of space leased during the period, the steep 27.8 per cent year-on-year fall in rent may not be reflective of the actual market rental trend. In Q1 2015, the monthly median gross rent rose by 7.7 per cent on a year-on-year and quarter-on-quarter basis to S\$1.40 psf.

## PRICES

Based on the caveat records from Realis (which captures only transactions of multi-user warehouse space), average prices of 60-year leasehold warehouse space in the Tuas Planning Area generally ranged between S\$262 psf and S\$500 psf in 2014. In 2013, prices ranged from S\$313 psf to S\$455 psf.

Generally, many warehouse facilities in Singapore are single-user facilities. Therefore, with the lack of multi-user warehouse facilities in the Tuas Planning Area, transaction volume of multi-user warehouse units is few and far between. ■

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