

TO MEET the changing demands of industries, a wider array of space options have been introduced over the years to cater for different types of users. Space options for consideration have also expanded to include modern multiple-use industrial spaces with shared lifestyle facilities, and focus is also placed on Build-To-Suit (BTS) properties such as data centres and specialised storage facilities.

However, what has flown under the radar and has almost been forgotten as potential space options are existing land-based industrial facilities with short remaining leases (ie under 20 years). Such properties have advantages that could meet the immediate business needs of cost-conscious small and medium-sized enterprises (SMEs) with short to mid-term business horizons.

Striking the right balance between space requirements and operating costs is never easy for SMEs, especially in the current market amid a rapidly changing business environment and uncertain economic conditions. Hence, we will explore why owning short remaining lease land-based facilities could be an alternative space option for SMEs.

WHAT ARE LAND-BASED INDUSTRIAL PROPERTIES?

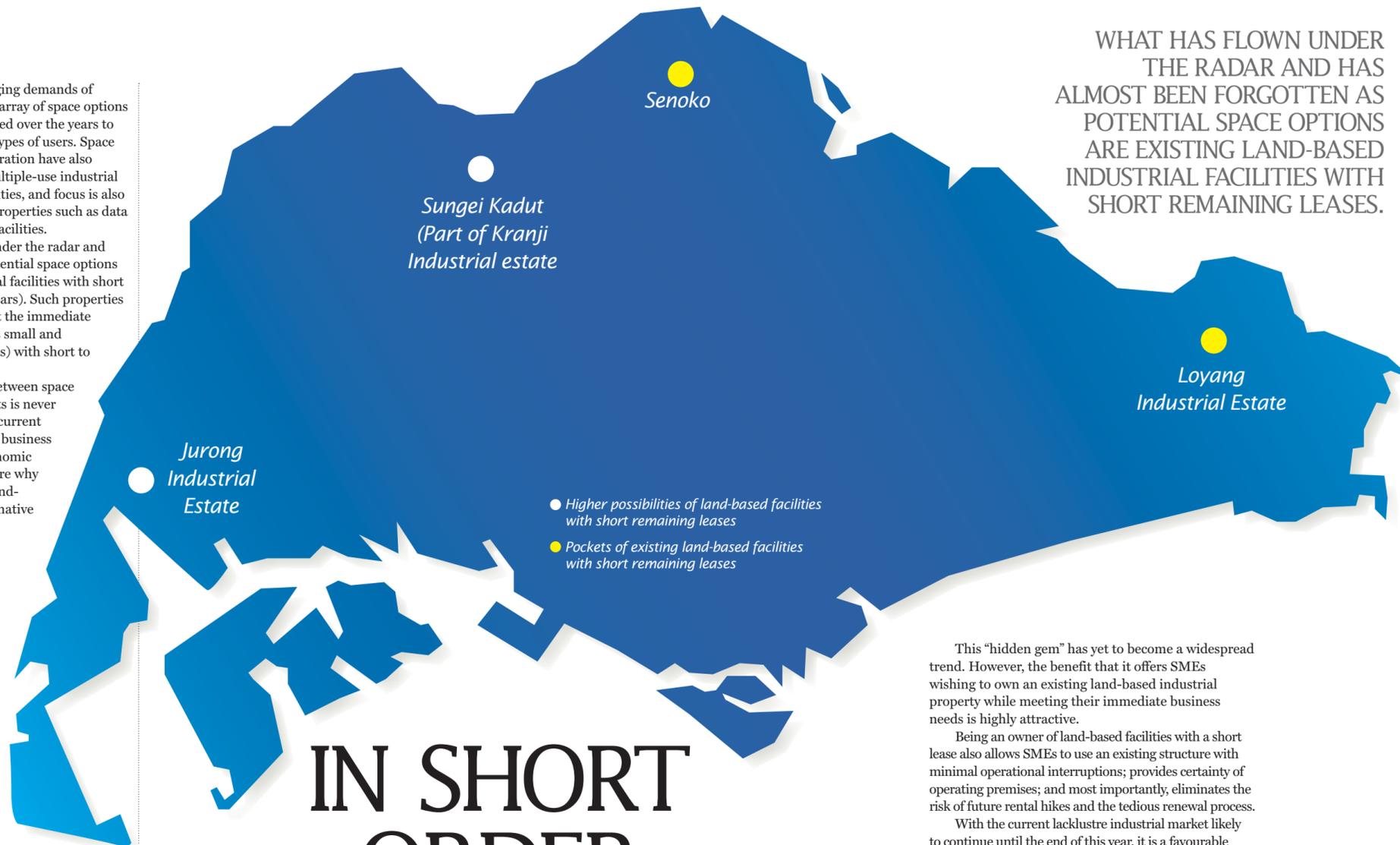
Land-based industrial properties are typically low-rise industrial buildings meant for single-user purposes. It ranges from standard detached/semi-detached/terrace industrial facilities, light industrial buildings to BTS premises. These properties were generally developed in the 1970s and 1980s with 60-year state leases, or on a shorter lease term of 30 years with a lease extension option, subject to the authorities' approval.

Geographically, existing land-based properties with short leases are predominantly located close to or within the Jurong Industrial Estate, which started out as the first industrial estate in Singapore in the 1960s.

OPPORTUNITIES IN LAND-BASED INDUSTRIAL FACILITIES

Long-term business planning beyond 20 years has become increasingly challenging for most SMEs, due to shortening economic cycles and a rapidly changing business environment. Given the uncertainty and limited available resources, SMEs are adopting shorter business planning phases. With a shorter timeframe in mind, SMEs will have to source for possible space options that meet their immediate space requirements and which also allow them to exit at a lower cost.

Meanwhile, escalating costs – among other factors – have driven some larger SMEs to consolidate their less profitable business activities or to relocate to cheaper overseas locations in recent years. Thus, some firms are unable to occupy the minimum gross floor area (GFA) of 70 per cent per allocation, as stipulated by the authorities. Hence, affected companies will consider letting go of their premises, as they no longer require the property or wish to reduce the financial obligations of owning such assets. In some cases, remnant space for subletting is also available after a business consolidation phase.



WHAT HAS FLOWN UNDER THE RADAR AND HAS ALMOST BEEN FORGOTTEN AS POTENTIAL SPACE OPTIONS ARE EXISTING LAND-BASED INDUSTRIAL FACILITIES WITH SHORT REMAINING LEASES.

IN SHORT ORDER

BY LIM KIEN KIM & PEARL LOK

SMEs should consider owning short remaining lease land-based industrial facilities

This presents an opportunity for other SMEs that have had difficulties finding suitable premises that meet their space requirements and budgets. Such spaces are suitable for SMEs that need an existing industrial facility to meet their immediate operational needs.

FLEXIBILITY IN SPACE PLANNING AND USAGE

Land-based industrial properties are more suitable for SMEs that require a sizeable space quantum of approximately 20,000 sq ft or more and wish to house all their operations within the same premises. In most instances, such businesses require large contiguous floorplates that are rarely available in multiple-user industrial buildings.

By housing all their operations under one roof, companies have the ease and flexibility in planning for their future space usage, factoring in space required for potential business expansions such as undertaking

Collaborative Industry Projects (CIP) with other SMEs and industry partners. Alternatively, SMEs can also sublet this vacant space (up to 30 per cent GFA per allocation) to non-related companies, as a way of defraying part of the business operating costs.

In addition, as property owners, they can decide on the types of sublet tenants to be housed in the same premises. For strategic reasons, some companies may prefer having synergistic tenants to enhance their business productivity through close collaborations.

HIDDEN GEMS TO BE SOUGHT AFTER

Given the current weak market sentiments, some of the end-use lessees face a somewhat uphill task to dispose their land-based facilities quickly to minimise their financial obligations or to exit the market completely. As a result, some of these owners are prepared to offload their properties and are more willing to negotiate.

This “hidden gem” has yet to become a widespread trend. However, the benefit that it offers SMEs wishing to own an existing land-based industrial property while meeting their immediate business needs is highly attractive.

Being an owner of land-based facilities with a short lease also allows SMEs to use an existing structure with minimal operational interruptions; provides certainty of operating premises; and most importantly, eliminates the risk of future rental hikes and the tedious renewal process.

With the current lacklustre industrial market likely to continue until the end of this year, it is a favourable time for SMEs to plan their current and future space requirements to be more aligned with their business models. Depending on the financial capabilities and the business strategies of SMEs, companies should consider acquiring land-based facilities with short remaining leases as a potential space option, while assessing and deciding on the most suitable operating premises that meet their business objectives. ■

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