

Real estate investment trusts (reits) in singapore



The issue of high rentals become one of concern for many Singaporeans people, especially small business owners as increasing rental space have been provide more and more strain for SMEs in recent years. SMEs said that REITs have large numbers of commercial property spaces in Singapore, they have a huge market share and REITs able to influence the entire market and increase rental prices for their own profit

Shopping malls owned by Real Estate Investment Trusts (REITs) receive higher rents compared with their single-owner and fellow because of REITs got better locations and enhancement work rather than single ownership. It is uncertain because they were REITs owned, instead, it was because of other factors such as good accessibility to MRT stations and other physical assets effect. REITs malls keep on draw interest from both existing tenants and new to market brands. For example, from CMT annual report, a total of 629 leases were renewed with an increase of 6.3% over preceding rental rates contracted three years ago, and when compared to single owner malls, there was big distinction in the rate of rental rising, many smaller company have reported double-digit rent increases this year. Sometimes, single owner malls did not publish “ non-price” issues like lack of transparency about rental price and unfair tenancy agreements.

Landlords owned commercial shops would independently increase rentals to the public market rent at each rent renewal or first time leasing. Compared to units rented in an independently owned shopping mall, the rental increases of units rented in a REIT managed mall would be prepared to be more evenly and gently increased than in an independently owned commercial shopping mall. Any increasing in rentals within a REIT’s retail

commercial mall, would be equally increased gradually over all the leased units within the mall. Management of units under REIT mall would be sensitive and fair to every tenant under REITs mall. This would refrain from unhappiness amongst neighboring tenants within the same mall.

SMEs also said that REITs make use of their dominance in the industry to negotiate rent contracts that consequently increase costs for tenants. They may all have a multiple effect to each other, so even if lease increase simultaneously for REIT owned and other single-owner malls, this could still be define as REITs actually being the price leaders

In fact, REITs own only around 20 per cent of malls in Singapore. Small retail shop owner and all landlords are motivated to increase the rental and maximize their return on investment. There was no proof to indicate who the leader, and there was also no evidence to propose that rentals escalated faster after REIT takeover of existing malls.

REIT owned malls are not statistically distinct from those of single-owner malls after controlling for factors such as location and asset enhancement initiatives (AEI). Asset enhancement is a continual action to generate value for shoppers, tenants and the community in REITs mall neighborhoods. To increase the value of portfolio, REITs proceeding asset enhancement works have supported REITs asset management strategy associated to tenant mix, customer service and promotional activities by upgrading the layouts, efficiency and facilities of the properties that cover the portfolio.

The main objective of REITs asset enhancement projects is to generate a decent retail environment that seduce new retailers, seize the changing

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needs of consumers and give satisfactory returns for investors. Asset enhancements also authorize REITs to serve to new demand. Besides improved physical attributes, they have been dynamic in attracting traffic and upgrade their offerings, which allow them to gather higher rentals price, for example, fashion retailers such as Uniqlo and H&M usually prefer duplexes, so through AEI, they can generate the space for such tenants. REITs have been very motivated and, at the end of the day, the results speak for themselves. Occupancy rates at the malls are generally very high, this runs reverse to the growing perception that rents at the former are rising at a faster speed.

By just only comparing between REIT and non-REIT malls, we can easily feel the different atmosphere. Retail atmosphere can be influenced by who manage the mall. “Atmospherics” contributes to the quality of the retail environment and represents a considerable differentiation aspect as a retailing strategy. Store (or mall) atmosphere has an effect on shoppers’ behavioral responses: cognitive (e. g. beliefs, categorization, symbolic meaning), emotional (e. g. mood, attitude) and physiological (e. g. pain, comfort, etc.). These behavioral responses, in turn, play an important role in shaping shoppers’ approach and avoidance motivation toward the store (or mall) at large. Thus, atmospherics is customarily used by retailers to attract and maintain traffic. Based on that, shoppers use whatever available information cues, such as atmospherics cues, to evaluate unavailable, missing or difficult to evaluate information such as price and quality. Several store-related studies were able to demonstrate that shoppers make inferences about quality of merchandise using store atmospheric cues. In a

shopping mall context, we can found that the ambient scent (an atmospheric cue) influenced the perception of merchandise quality.

In despite of so many complaints, there is plenty of demand for space out there. There are some chain retails which have very strong bargaining power against REITs and some deep-pocket retailers also contribute to rental hiking. It happened because the improved economic conditions, healthy, tourist, arrivals, low unemployment and growing household income have underpinned consumer spending in Singapore Singapore's retail scene needs major changes for improve themselves to become more attractive to compete with places like Hong Kong and Shanghai. Mall landlords also must adapt to changing consumer trends, for example incorporating lifestyle retail entertainment. Rental hiking may just mean Singapore has been successful in attracting business. Misperception as REITs tend to publish rent increase regularly while non-REIT mall stay under radar. Hence comparatively more transparency of rental rates for REITs properties, which makes REITs an easy target to blame.

In the case of Monopolistic &/or Oligopolistic property market sectors such as the Industrial property sector, the formation of REITs does result in rise and increases in rents year-on-year. However, this increment in industrial rents are a function of the sale & leaseback agreements signed between the Industrial REITs and the Industrialists-Operator-Tenants who are leasing their premises back from the REITs to whom the Industrial premises were sold to. Higher than market rents are usually seen in such cases and their legacy usually lasts for an average tenure of seven(7) years. However, if more REITs are operating in their respective market sectors, such as the Commercial

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Property Sector, tenants would have a choice of options to move to rentals. Market forces would be able to operate more efficiently in such Competitive Market Sectors.

Furthermore, among the malls that are obtained by REITs, there is no evidence to show that the rents in these malls climbed as a result of the acquisition. Even the REITs certainly want to rise the rental price, they should still make sure the retailer's business is active, taking care not to distract the balance. If the retailers shut down their business, it is not to the REITs' interest. With many REITS in the commercial sector as well as a even bigger number of other landlords, there is free interaction of market constrain, therefore, tenant able to choose not to continue lease and move to other different mall. This is not to the REITS' attention so there is a limit how much rental increase that REITs can put. Usually, tenants tend to select REITs-owned malls due to the quality of the assets, which could be the reasons for a higher rental as compared to non-REIT malls.