Business Times - 15 Sep 2011

The making of Singapore's next regional centres

Prospects look bright for the development of Jurong Lake District and Paya Lebar Central

By DONALD HAN

TWENTY years ago, Jurong East was one of the three regional centres identified under Concept Plan 1991, as part of a decentralisation strategy to sustain Singapore's growth.

While the Central Business District (CBD) and Marina Bay would remain as the financial centre, new commercial hubs would be developed outside the city centre to provide more choices of business locations and to bring jobs nearer to homes. Decentralisation would also help alleviate traffic and infrastructure congestion in the city centre. The other two regional centres announced then were Tampines and Woodlands, located at strategic eastern and northern corridors of the island.

Seventeen years later in April 2008, the Government announced a blueprint to transform Jurong Lake District and Paya Lebar Central into thriving commercial hubs over the next 10 to 15 years.

There were sceptics who thought that Singapore was too small to have several decentralised business hubs, and that traditional stigmas - of Jurong being an industrial enclave and of Paya Lebar's mixed piecemeal developments - would remain. After all, there is a prestige factor attached to businesses with a city centre address - at a cost which companies are willing to pay.

The Government, having a grand vision for both areas, highlighted strategic advantages. For Jurong Lake District, size matters. It comprises two unique complementary precincts - Jurong Gateway and Lakeside. Together, they occupy 360 hectares of land and waterbody - about the size of Marina Bay.

Jurong Lake District is said to be the biggest commercial hub (with a lakeside setting) outside the city centre. Served by the Jurong East, Chinese Garden and Lakeside MRT stations, the area will not only potentially have offices, hospitals, hotels and retail malls, but also worldclass learning and leisure destinations such as the new Science Centre, waterfront boardwalks and parks.

Separately, Paya Lebar Central is envisioned to be a smaller fringe commercial hub for a mix of office, retail and hotel uses. With a much smaller land area of 12 ha, it may not have a lush landscape or scenic lakefront attractions, but its prized location at the fringe of the city centre will allow quick access to the CBD. This locational advantage is key to why other areas such as One North/Buona Vista, Novena and Harbourfront have thrived.

The vision is fantastic, but the plan will need the involvement of private developers and huge capital investments, for it to work. Will there be takers?

In November 2008, the Urban Redevelopment Authority (URA) released a plum white site in Jurong Lake District for sale. It could not have come at a worse time, during the global financial crisis. Fortunately, the crisis was short lived, with Singapore's economy bottoming out in 2009 and rebounding strongly in 2010.

In April 2010, the same site was triggered for sale. The tender attracted six bidders and Australia-listed property group Lend Lease edged out the rest with a price of $749 million or $650 per square foot per plot ratio (psf ppr). The group recently revealed its plan to develop an 818,000 square foot retail mall called Jem on the site, together with a 345,000 sq ft office tower which has been 100 per cent leased to the Ministry of National Development (MND), Building & Construction Authority and the Agri-Food and Veterinary Authority.

This year, a 195,000 sq ft white site next to Lend Lease's site was launched and subsequently sold to CapitaMalls Asia, CapitaMall Trust and CapitaLand for $969 million or $1,012 psf ppr after a bidding exercise involving five parties. The purchase price represented a 55 per cent hike over Lend Lease's bid in 2010.

Jurong Gateway's initial launches were successful in attracting private sector participation. More sites are expected to be launched in 2012. This success has spurred the Government to test the waters over at Paya Lebar Central.

In January this year, a 159,868 sq ft commercial site at Paya Lebar was offered for sale. The site saw a near record turnout of 10 bidders, and was eventually won by a consortium led by construction group Low Keng Huat at a price of $586 million ($872 psf ppr). Among the bidders were a slew of non-property players including OSIM's Ron Sim and JL Asia Resorts (owner of K Box Entertainment) in various joint ventures, all hoping to enjoy first-mover advantage in the area.

A second site in Paya Lebar Central has been launched, awaiting bids when the tender closes on Oct 18. Despite the re-emergence of global economic dark clouds, we are expecting an enthusiastic turnout by developers in a market flush with liquidity and record low interest rates.

Suburban attractions

There are reasons why developers are attracted to suburban commercial and mixed-use projects.

- Government-led strategic initiative

The Government will be pumping in infrastructure investments to develop these areas. This ensures project sustainability and viability for the private sector over the longer term. The recent announcement of MND spearheading the redevelopment of Geylang Serai (part of Paya Lebar Central) shows how determined the authorities are in making these districts commercially vibrant and successful.

The Government has also instructed key ministries and statutory boards to relocate to these areas, as catalytic movers of activity. The relocation will free up precious prime office space in the core CBD, and potentially create huge cost savings in rental over the longer term.

- High occupancy cost in the CBD

In the past 12 months, there has been a rising trend of multinational corporations which have, or are in the process of, consolidating operations at newly emerging commercial hubs. These include SAP and Deutsche Bank at Mapletree Business City, Credit Suisse at One@Changi City and Unilever at Nepal Park.

The opening of new MRT lines and cheaper occupancy costs are obvious pull factors while rising prime rents in the CBD and the lack of car parks are the main push factors. Office rents in the CBD are approximately 2.3 times higher compared to those outside and this gap is expected to widen. Prime rents in the CBD are expected to escalate upwards in the next 24 months with vacancy now reaching a low of 3.8 per cent - the lowest across Asia-Pacific.

- Suburban retail mall opportunity

Both Jurong Gateway and Paya Lebar Central have a ready and captive consumer market. A new generation of larger, swankier retail malls at Jurong Gateway will be a welcome attraction for the 3,000 multinational companies and local businesses clustered in the nearby International Business Park and industrial estates.

Add to that the one million residents from surrounding towns such as Jurong East and Bukit Batok, plus the upgrading of Jurong East MRT Station to a larger interchange station for the East-West and North-South MRT lines, and you have ingredients that provide the perfect landscape and opportunity for developers.

Recent suburban malls such as Nex at Serangoon Central and Clementi Mall have opened with virtually full occupancy to packed crowds and are now highly prized assets and cash cows for developers. Real estate investment trusts, private funds and foreign investors are also constantly on the lookout for retail malls to purchase, providing ready exits for developers.

More site sales

With more than 50 ha of vacant land available for development, Jurong Gateway will provide about 750,000 square metres of commercial space, more than two and a half times the size of Tampines Regional Centre today. The commercial space consists of 500,000 sq m of office space and 250,000 sq m of retail, food and beverage and entertainment space

About 2,800 hotel rooms will also be introduced at the fringe of Jurong Gateway, next to Lakeside, to meet increasing demand for hotel rooms and to cater to new leisure attractions and businesses coming up in the area. In addition, at least 1,000 new homes will be added around Jurong East MRT Station, providing more opportunities to live and work in the area.

At Paya Lebar Central, at least six more sites are to be launched over the next few years for office, retail, hotel and business park uses. Total commercial floor area is expected to reach 500,000 sq m. The rejuvenation of these hubs will take time - just as it took Tampines Regional Centre some 15 years from the first sale of site to realise its vibrant status of today.

To the sceptics who said that the plans won't sell, only the passage of time will tell. For the time being, the prospects look bright for Singapore's newest upcoming suburban commercial centres, and the strong support from the private sector is here to stay.

The writer is vice-chairman of Cushman & Wakefield Singapore