

COMMERCIAL REAL ESTATE DEMAND WITH RAY SMITH

Associated with all commercial property segments, particularly in Colombo and the suburbs, Ray Smith shares his vast knowledge on the subject. Ray owns ColomboOfficeSpace.com, the first commercial real estate online advertising platform in Sri Lanka, designed for the rising commercial real estate sector in Sri Lanka.



You have quite the knowledge and experience in the office market. What are your general observations over the last two years?

I have received 300+ inquiries on all sorts of commercial enquiries, including sales enquiries which have increased in recent months. Despite many office buildings, especially Grade C spaces becoming vacant, tenants have expressed their gratitude towards the owners for reducing rental charges after the second lockdown. Another observation has been the rise in enquiries for warehouses, furnished offices and private office spaces (co-working concept).

Judging the percentage of contract cancellations is difficult because business operations have continued from home, despite some office buildings' closing down. Most Grade A office spaces have an 80% occupancy rate. Although several tenants have departed, it may not alter the commercial segment significantly.

Are you able to share more insights on the demand and supply dynamics?

The current status depicts a good supply with less demand for office spaces. The majority of enquiries for commercial property does not pro-

gress further due to hesitation when finalising decisions because of the ongoing pandemic.

There was a tremendous shortage in Grade A office buildings and suitable commercial spaces four years ago. Currently, large commercial spaces over 15,000 sq. ft. with exceptional facilities are available. The only drawback is the unavailability of the proposed rental in the market, thus resulting in reduced demand for high-end office spaces (Grade A and B). At the same time, highly available Grade C office spaces have decreased rates by 30% roughly, but have faced challenges in terms of marketing.

A few companies I have been involved with have experienced a 10-20% rental reduction. To be more specific, previously, Grade A office spaces were quoted around LKR 380-390 per sq. ft. (including Common Area Maintenance (CAM) charges). Now, prices are closer to LKR 300 per sq. ft., amounting to a difference of almost 20%. Companies enjoying financial stability are hopeful of signing contracts with these lower rates in the long run, which would serve for 3-5 years.

With changes in demand for office spaces, have specific industries been more dominant in office occupation?

IT and financial companies have generally been dominant. However, according to client information, companies that have previously acquired entire floors (5,000-10,000 sq. ft.) in commercial buildings have shifted to working from home because of the pandemic. However, there is a preference to hold on to these spaces with the expectation of returning to normalcy soon.

Additionally, sectors such as BPO (Business Process Outsourcing) or Call Centres have enquired about office spaces (roughly more than 10,000-15,000 sq. ft.), hoping to reduce the expected rates and looking for better deals.

Regarding working from home, do you see this as a rising trend that could affect commercial property demand?

I believe that people may get used to the concept of working from home and have office spaces purely for interaction. It is a less expensive option than renting office space, making it a practical avenue for companies to approach. There is a good case for having over 50% of staff working from home, with office visits being needed just once or twice a week.

Regarding costs, how are CAM charges usually set and which taxes apply to commercial property?

Grade A and B office spaces usually exclude the CAM charges from their main rental charge and are quoted separately because of constant fluctuations. For instance, the maintenance fee is bound to vary depending on the cost of raw materials used.

The tax rate is currently at 8%, reduced from the previous rate of 15%. The Government has been supportive of this due to the complications from the pandemic.

What can you say about currencies used for these lease rentals?

Local companies will always quote their pricing in LKR with only rare exceptions quoting in USD. Some Multinational Companies/Corporations (MNCs) may favour USD transactions due to the dollar fluctuation. However, local companies opt for LKR payments since they require fixed rates.

Speaking of competition, what are your thoughts on the upcoming Port City development?

The development will be a commercial hub and financial city. It will be a highly beneficial development because those who wish to start businesses in Port City will search for closer office spaces and accommodation in the vicinity. Grade A office spaces are more likely to receive high demand with the kickstart of construction in the Port City.

My website "ColomboOfficeSpace.com" is a commercial real estate platform helping to identify office spaces in or around Port City. Furthermore, accommodation closer to Port City will also become a major attraction and have high demand.

Sri Lanka is a great destination for many international companies. However, do you feel that MNCs face restrictions and challenges here?

Our country is the perfect destination, and there should ideally be no hesitation to grow in such a location. We offer educated and reasonably priced labour with several skills. Our office spaces additionally provide the necessary infrastructure at affordable rates within the Asian region.

The Government is, in fact, very supportive of Board of Investment (BOI) projects. From a personal perspective, the setting up process of any company, including MNCs, is a smooth process.

Political stability, frequent policy adjustments and tax changes are the factors that would hinder the MNC expansion in our country. Standard policies and structures are essential for corporate companies to run smoothly, at least for a fixed duration of ten years.

There can be several issues regarding tax implications when repatriating their revenue outside of Sri Lanka, unless a suitable business medium and source of funds are put forth. According to client feedback, a few MNCs have paid for imported pantries and furniture and have not yet received them.

Finally, would you like to share something more about your ColomboOfficeSpace.com platform?

A notable gap exists in the market, with commercial property owners lacking a suitable platform to market their offerings. Also, with the Port City development and its ambitions, mixed developments may be on the rise. Therefore, a website designated for commercial properties would prove to be useful.