# ON THE RISE

## Office rents are increasing, and here are some strategies that SMEs can adopt to be ready for this

BY *JENNY LING*

REAL estate cost usually makes up a sizeable portion of an organisation's recurring operating expenses. In the midst of a landlords' market, it is paramount that occupiers conduct early rent reviews or relocation decisions, given that market rents could rise substantially by the end of 2019.

The Singapore office leasing market – particularly the premium and Grade A stock in the city – has bottomed towards the second half of 2017 and looks set to grow this year, thanks to stronger demand for space among some sectors, and more positive business sentiment and economic outlook.

Colliers International believes that the prime office space sector in the central business district (CBD) could spring a 10-12 per cent rental increase in 2018, and climb a further 5-7 per cent over 2019.

In a rising office property sector, it will become increasingly challenging for occupiers in the CBD to secure attractive rentals, be it lease renewal at the existing space or negotiating for new space in an alternative building. However, there are strategies that occupiers can adopt to make real estate work harder for less cost.

**• Workplace evolution**

The rise of coworking and shift towards more flexible work practices are key trends that will shape the way that occupiers use space, potentially helping them to manage real estate footprint.

Adopting activity-based work strategy – where no employees have assigned desks but can opt to work in various activity areas – is one approach to achieving greater flexibility in the use of space. A pantry or café could double up as a casual meeting space, while the office reception lobby may include areas for collaborative work. Its multi-use approach to space utilisation provides a more agile work environment, allowing firms to adjust their staff strength up or down without the need to reconfigure, acquire or dispose of space.

Other benefits of activity-based work include: future-proofing the office; fostering a more collaborative culture within the company; driving productivity growth; and attracting young talent who are increasingly drawn to the cool features in such workplace settings.

**• Workplace technology**

In the age of cloud computing, blockchain and Internet of Things, tech's far reaching tentacles are everywhere and the workplace is not spared. Increasingly, companies are seeking to integrate technology with their office build-outs, planning and design.

A tech-enabled workplace not only boosts staff engagement and productivity, but also enables mobile working which underpins activity-based work.

Smart building technology can also help to optimise the use of the workplace and garner cost savings. For example, occupancy sensors can track how rooms and desks are being used, while a smart lighting system can automatically turn off lights in a meeting room when it detects that the space has been vacant for a period of time, thereby minimising its environmental impact and reducing utility costs.

**• Review space needs**

Occupiers should also review their real estate needs periodically

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as their business evolves, identifying core and non-core functions. To this end, Colliers has also advised on a "flex and core" strategy where firms take space on a longer-term deal for their core operations together with an agreement with a flexible workspace operator to accommodate volatility in headcount.

Another consideration is to engage a workplace strategist to help you formulate a space programme to determine your true space needs, identify and eliminate under-used space within the premises, such as doing away with assigned workstations for highly mobile employees.

**• Decentralisation**

Office decentralisation is not a new concept. First mooted in 1991, the push for decentralised office space was aimed at bringing jobs closer to homes and to ease congestion in the city centre. The increasing supply of quality Grade A office space – such as Paya Lebar Quarter (PLQ) – outside the CBD should encourage more firms to consider city fringe locations.

PLQ, which will be ready by third quarter this year, sits right next to the Paya Lebar MRT interchange station that provides excellent connectivity via both the East-West and Circle Lines. SMRT Corporation has led by example, opting to move out of its town office in North Bridge Road near City Hall MRT station to PLQ.

Depending on business requirements and financial strategy, an occupier may also consider leasing a build-to-suit facility, which is built by a landlord specifically for the organisation. Such facilities tend to be on longer-term leases, but provide several advantages to the tenants: ability to input ideas into building design; provide additional space for future expansion; and more efficient workplace planning since they are built with the tenant's needs in mind.

Much of the new supply and secondary space that came on the market in the past two years have already been absorbed. In particular, coworking space operators snapped up about 543,000 sq ft of space in 2017.

As the economic outlook brightens and digital technologies continue to gain traction in the coming years, Colliers believes that flexible workspace operators are expected to continue to drive office demand this year, as would the financial and insurance, as well as legal services sectors.

Both HSBC and DBS Bank have recently announced their expansion plans. It was reported that HSBC Singapore intends to hire an additional 300 people for its retail, commercial, private bank and innovation businesses, while DBS plans to add 100 techies via its Hack2Hire programme.

Financial technology (or fintech) companies look set to expand as well. Data from KPMG's *Pulse of Fintech* report showed that fintech funding in Singapore reached a record US$229 million last year.

In the shifting sands of the property market, office rents are unlikely to rise perpetually, neither would they stay depressed forever. Tenants should actively explore leasing with the mindset that the market and economy will cycle up or down over the course of their lease term. Being prepared for market shifts will enable occupiers to remain nimble in times of volatility. ■

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