

## HOCK LOCK SIEW

# GuocoLand's low-glam office leasing strategy for Beach Rd project could optimise recurring income



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THE office tenant list at Guoco Midtown has not been a headline-grabbing one. There are few flashy names and no super anchor tenant. Yet, its developer GuocoLand may have a winning formula for recurring income.

The biggest office tenant secured so far at Guoco Midtown, an integrated mixed development on Beach Road, is Pacific International Lines (PIL).

The shipping company is understood to be leasing about 70,000 square feet – a size some leasing agents would say makes it a “mini anchor”. PIL will occupy two-and-a-half floors out of the 22 office floors in Guoco Midtown's 30-storey office tower.

The other eight levels are utilised for car parking, a sky garden, a

jogging track and other amenities.

The tower, which received its Temporary Occupation Permit (TOP) last month, makes up 655,000 sq ft of the 709,000 sq ft in net lettable area of office space in Guoco Midtown.

The rest of the offices, to be completed later this year, will be in a five-storey building called Network Hub – offering flexible office space along with other amenities such as meeting rooms and event spaces – and on the upper levels of the conserved former Beach Road Police Station building.

Despite not having a dominant anchor tenant, the mainboard-listed group has achieved pre-commitment take-up of 80 per cent of the total office space in the development, including deals in advanced stages of negotiation, based on GuocoLand's announcement on Jan 31.

Instead of having super anchor tenants, Guoco Midtown's office tower – with floor sizes ranging from 29,500 sq ft to 30,400 sq ft – has drawn an eclectic array of occupiers. A majority have taken a floor each.

Is GuocoLand's diverse mix of tenants with no dominant anchor a strategy by design? Or is it by de-

fault, due to market response?

## Not the typical strategy

Such a strategy is not typical among developers of office buildings in Singapore. Typically, the goal is to clinch a few big-name anchor tenants to kick-start leasing activity.

Bursa Malaysia-listed IOI Properties Group, for example, last year clinched Amazon as an anchor tenant for IOI Central Boulevard Towers, a predominantly office project in the Marina Bay area. The multinational tech giant has leased about 369,000 sq ft of the project's 1.26 million sq ft of office space. The development is expected to be completed later this year.

At Guoco Midtown, which is directly connected to the Bugis interchange station, secured and prospective tenants cover a range of industries: banking and finance, chemicals, consumer brands, energy, maritime, professional services, reinsurance and technology.

Besides PIL, GuocoLand in its Jan 31 announcement named German chemical company BASF, Chinese game developer NetEase Interactive Entertainment and Liechtenstein's VP Bank as tenants.

Other previously reported ten-

ants include pharmaceutical company Boehringer Ingelheim, reinsurer Swiss Re, oil company ConocoPhillips and commodities trader Vitol. Beverage maker Suntory will also be in Guoco Midtown.

This diverse range reduces tenant concentration risk, and mirrors what GuocoLand did for the office component of the Guoco Tower project above Tanjong Pagar MRT station.

Notably, Guoco Tower has thus far not been significantly impacted by the recent string of tech layoffs. A market watcher recalled that when banking and finance occupiers were consolidating their physical footprints a few years ago, Guoco Tower was also not affected as much as some of the office buildings in the Marina Bay area. The 890,000 sq ft office component in Guoco Tower – which is also an integrated mixed development – received TOP in 2016.

## Higher weighted average rent

By eschewing dominant anchors, GuocoLand should also be able to enjoy a higher weighted average office rental rate for its Beach Road project. Super anchors tend to “suck out a lot of the rental value of a building”, said a seasoned office

market watcher, because they ask for rental discounts. They will also try to negotiate for rights to give up some space at stipulated points of the lease duration, such as after the third year of a five-year or longer lease.

There is a risk when a landlord signs on a big tenant as they will be left with a huge vacancy if the tenant leaves. This could happen not only in a downturn but also when things are looking up for such occupiers. For instance, a fast-expanding tenant (most tech companies were in this category, until recent months) may decide it needs its own building.

The ability to adopt the strategy GuocoLand has chosen for its Beach Road project would depend, however, on the scale of the project.

A project the size of IOI Central Boulevard Towers would probably need at least two prominent anchor tenants to achieve healthy leasing velocity.

The completion of Guoco Midtown will contribute to GuocoLand's strategy of boosting recurring income from investment property.

The group's pool of investment properties, comprising office and

retail space, has grown from S\$3.1 billion as at end-June 2017 to S\$6.0 billion as at end-December 2022. Much of this increase came from the construction of Guoco Midtown as well as revaluation gains on Guoco Tower.

Recurring income from investment properties has risen from S\$69.6 million in FY2017 to S\$126.1 million in FY2022.

For H1 FY2023 ended Dec 31, 2022, recurring income increased 25 per cent year on year to S\$74.8 million. Growth was chiefly driven by higher rental revenues from Guoco Tower and contributions from the Guoco Changfeng City South Tower in Shanghai, which began operations during the period.

*The Business Times* understands that office leases at Guoco Midtown have been signed at gross effective rents ranging from close to S\$11 per square foot (psf) to more than S\$13 psf a month.

June Chua, executive director and head of tenant representation for Singapore at Colliers, said: “The office rents achieved in Guoco Midtown are in line with recent leasing transactions for comparable buildings in the locale, that is, Duo Tower and South Beach Tower.”