

Singapore office landlords bank on green leases, ESG compliance to woo tenants at higher rents

Office occupiers, on their part, are making lists that include sustainability features they want ticked

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A GREEN Mark. Carbon calculations. An intelligent building monitor that counts its own resource usage and tells you how much power and water it has saved. These buzzy details are not just high-tech functions that look great displayed in a shiny office lobby, they are increasingly being built into office leasing contracts as landlords go green to woo tenants with sustainability checklists.

"In today's context, ESG (environmental, social and governance) compliance for office buildings is no longer a good-to-have, but a must-have, especially for large and multinational corporations," said Tay Huey Ying, JLL's head of research and consultancy.

Office occupiers are making a list that now includes green standards they want ticked. Louis Lim, chief executive officer for Keppel's real estate division, said: "To meet their ESG goals, many companies are looking out for sustainability features as a minimum requirement when searching for new offices, and are also prioritising resource usage, including energy and waste reduction."

"Buildings that do not keep up will face obsolescence, penalised by a heavy brown discount and risk becoming stranded assets."

Christine Li, Knight Frank's head of research for Asia-Pacific

To woo them, landlords have been investing in "cutting edge" office buildings filled with green and smart features, and powered by a smart building management system which can optimise energy efficiency, said Cushman & Wakefield (C&W) Singapore's co-head of commercial leasing, Jeryl Teoh.

These smart and green buildings are designed to comply with standards for energy efficiency, water conservation, waste reduction and the use of sustainable materials.

"Increasingly, tenants have placed greater emphasis on a building's environmental performance, requiring their office premises to attain a certain Green Mark certification tier, in line with their company's mandate," said a spokesperson from City Developments Ltd (CDL).

Sustainability criteria are gaining in importance in site selection. "All things equal, occupiers will prefer buildings with strong ESG credentials. And demand for green offices will grow with many companies setting sustainability targets. As such, it is important for landlords to invest in sustainability to stay ahead of the curve," said C&W's Teoh.

For office space that checks those boxes, more occupiers are willing to pay a rental premium

compared to a year ago, said CBRE Singapore and South-east Asia's head of research, Tricia Song.

"For those who would pay higher rent, 67 per cent said they would be willing to pay a premium of less than 5 per cent while 33 per cent are willing to pay a premium of 10 per cent or higher," Song noted.

For Keppel, the use of sustainable and smart features at Keppel Bay Tower has reaped clear results. The development has been able to command rentals that are 10 to 15 per cent higher than the surrounding buildings, said Lim.

Besides seeing lower operating costs, Keppel Bay Tower made gains in net operating income of more than 30 per cent over the past few years, which in turn led to higher building valuation, said Lim.

Other building owners similarly affirmed the benefits of green leasing. A spokesperson from CapitaLand Integrated Commercial Trust (CICT) said that green-rating the group's Singapore portfolio yielded higher rents signed for their leases. Mapletree Investments said the green clauses in their lease agreements helped to promote sustainable fit-outs, operations and maintenance practices to its tenants.

Green leases are becoming a key instrument for tenants to tie landlords into a contractual agreement to improve the ESG characteristics of a building, said David Fogarty, CBRE Singapore and South-east Asia's head of ESG consulting services.

"This is a key reason why green leases are becoming the norm in any new lease agreement – it can cover a wide range of topics that occupiers are focusing on, such as reducing energy consumption, sharing of data and meeting minimum energy performance requirements," Fogarty said.

For occupiers, ESG reporting improves their credibility with investors. For landlords, ESG gives financial benefits such as reduced energy costs and improved tenant retention.

Alan Cheong, executive director for research and consultancy at Savills Singapore, said that buildings that fall short of platinum grade for green certification may have to spend more to upgrade to attract and retain tenants in the long run.

"Over the last five years, more and more tenants have not only been asking about the building's ESG compliance, but their (sustainability) checklist is also getting longer. This shows that it will soon be a must for offices, and other commercial and industrial buildings to be ESG-compliant," Cheong said.

He noted that while Grade A office buildings enjoy high occupancy, those that are Grade B and below are seeing increasing vacancy rates. Over time, these lower grade buildings that are barely ESG-compliant will see an exodus of tenants moving to buildings that meet the standards, he said.

"Buildings that do not keep up will face obsolescence, penalised by a heavy brown discount and risk becoming stranded assets," said



The use of sustainable and smart features at Keppel Bay Tower has reaped clear results. The development has been able to command rentals that are 10 to 15% higher than the surrounding buildings. PHOTO: KEPPEL



Guoco Midtown currently charges S\$12 to S\$14 per square foot (psf) for office space, higher than CBRE's core CBD Grade A average rent of S\$11.90 psf per month for Q4 2023. PHOTO: BT FILE

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The disparity in rents for Grade A office buildings that are of higher quality and ESG-compliant versus Grade B offices of lower quality can come up to 30%, notes Colliers Singapore. PHOTO: BT FILE



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The commitment to ESG compliance has paid off for Frasers Property. The company secured S\$1.08 billion in green financing, where proceeds were used to refinance a maturing green term loan facility for its office building, Frasers Tower. PHOTO: FRASERS PROPERTY

amenities, extensive end-of-trip facilities and impactful ESG credentials, including green building certifications. The space itself needs to be flexible in terms of fit-out with mixed-use desking in the form of traditional, hot-desking, collaboration and break out spaces, and meeting rooms," said Knight Frank's partner and head for ESG consulting, Jonathan Hale.

Hale added: "The initial or upfront capex costs required to install ESG requirements may be high... Following such investment, the purpose of many ESG initiatives is to improve efficiencies and save money and usage in the long term, leading to regular, long-term savings for both landlord and tenant."

"Even if or when running costs do increase, these can be reflected – justifiably – within the service charge and also compensated through the higher rents landlords are able to charge," Hale said.

The commitment to ESG compliance has paid off, said Jack Lam, chief operating officer for commercial at Frasers Property Singapore. The company secured S\$1.08 billion in green financing, where proceeds were used to refinance a maturing green term loan facility for its office building, Frasers Tower.

Landlords are also incorporating modern amenities, digital solutions and soft services to attract today's tenants.

"Increasingly, flexibility and adaptability of office space, wellness programmes and amenities

for employees are important ESG considerations," said Valerie Wong, GuocoLand's managing director for asset management.

GuocoLand's Network Hub at its Guoco Midtown development, for example, offers private office suites that tenants can rent for the short term. The 50,000 square foot facility also comes with a variety of short-term fitted-out suites, private dining rooms, lounges, barbecue pits, a rooftop bar, swimming pool, conference facilities and meeting rooms.

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"There is (also) an increasing trend of 'universal flexible working' amid the shift towards hybrid work arrangements, where office workspaces are designed to accommodate employees' diverse needs rather than cater to a static workforce," said Mapletree Investments.

CBRE's Song said some landlords are cutting up large spaces into smaller sizes, so as to target a wider pool of tenants with smaller requirements.

"As project and fit-out costs remain high, tenants remain capex-constrained. Some landlords have embarked on speculative fit-out by fitting the spaces out for plug-and-play solutions, which helps to provide flexibility and capex neutrality for tenants," she added.

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