

# Have higher rentals made S'pore uncompetitive?

**It remains much cheaper than London, Hong Kong and New York**

By **CHRIS ARCHIBOLD**

THERE has been a plethora of reports in the local and international media about how much Singapore office rentals have increased in the last 24 months.

The expected rental trend has also been the subject of much discussion, albeit most pundits are less inclined to quote their numbers.

The critical question is whether these increased rentals will make Singapore uncompetitive in attracting inward investment of multinational companies.

To fully answer this question, one cannot just look at how Singapore rentals have increased in the past few years. One must also include other locational considerations such as:

- ◆ Rental costs of our competitors in the Asian and global markets
- ◆ Quality of life
- ◆ Business transparency
- ◆ Business costs and human resources
- ◆ Availability of space

## Rental costs

While Grade A rentals in the central business district (CBD) have increased significantly — over 25 per cent in 2005 and over 16 per cent in 1H06 to the current level of \$6.90 per sq ft per month — they have actually come off at a very low base level.

Rentals at the bottom of the last cycle (approximately end-2Q04) were at a similar level to those seen 15 years earlier in the late 1980s.

Figure 1 shows that Grade A CBD rentals over the last 20 years have averaged at \$7.10 a month. Given that rentals at the end of 2Q06 were \$6.90 per sq ft, we have not actually hit the 20-year average number yet.

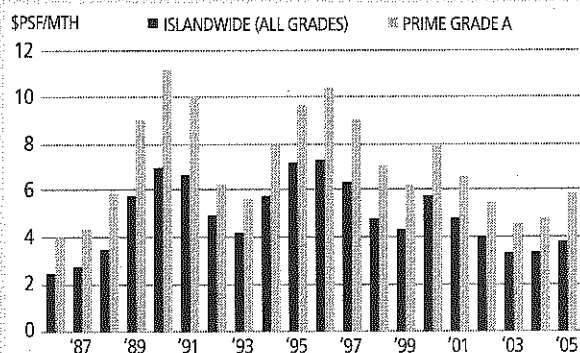
The chart suggests that higher rentals in the previous cycles did not limit Singapore's competitiveness. Therefore, there would be no reason why we should not see higher rentals once again.

Given the current supply and demand dynamics, we fully expect rentals to increase further over the next few years. In addition, we also expect to see rental increases in other competitive cities.

Part of the need to maintain competitive rental rates stems from the competition with cities within the region as well as in Europe and the United States. Therefore, we reviewed and compared the net effective Grade A CBD rentals (at

## On the rise

Average office rentals in Singapore (1986 - 2005)



USD per sq ft per month) of key competitor cities in Asia Pacific (Hong Kong, Shanghai and Sydney) and the global market (London and New York).

Jones Lang LaSalle Research shows that Singapore is still substantially cheaper than London, Hong Kong and New York; is marginally cheaper than Shanghai; and only slightly more expensive than Sydney. Thus, Singapore rentals are well within the bounds of being financially competitive.

Compared with Singapore, net effective rentals in London and New York are higher by about US\$10.10 per sq ft per month and about US\$1 per sq ft per month, respectively.

Our major regional competitors, Shanghai and Hong Kong, also have higher rentals by US\$0.50 per sq ft per month and US\$4.35 per sq ft per month, respectively.

However, rentals in Sydney are cheaper by US\$1.10 per sq ft per month.

While Singapore still has significant growth, our rentals would have to increase by about 130 per cent in order to be as expensive as Hong Kong today.

Therefore, even with projected rental increases, we are unlikely to be considered uncompetitive in terms of rates alone.

## Other considerations

In addition, we have to consider other locational decisions in considering whether occupiers will be "put off" with locating to Singapore rather than to other

competitive Asian cities.

## Quality of life

Part of the human resources issue for MNCs with a high component of foreign workers who are used to different living environments is the quality of life the city provides.

Many MNCs consider issues such as pollution, residential accommodation, healthcare, education, retail, entertainment and other amenities when looking at the feasibility of a particular location.

Singapore fares much better than many of its competitors in this category given its excellent infrastructure, abundance of amenities and lack of pollution.

## Business transparency

Probably one of the most

important factors that dictate locational decisions is the business environment that a location provides in terms of a transparent marketplace and the ease of doing business.

This is very evident in the fact that Hong Kong and Singapore have been the "locations of choice" for a long time. With their high levels of transparency, they have also been chosen as two of the easiest cities in the Asia-Pacific in which to do business.

Now that China has opened up the lure of being located at the heart of what is potentially a huge "growth market", increasing numbers of MNCs have focused their attention on Chinese cities such as Shanghai.

## Business costs

Economic costs are fundamental to the decision-making process of where to locate/expand a business. Other issues include the levels of taxation, incentive schemes to set up new businesses and staff costs. Staff remuneration forms one of the highest outgoings for most firms across the globe.

Therefore, it is a high priority on the list of considerations. The availability of skilled and economic labour is a prime driver.

Part of this is driven by the cost of living in each city and the levels of personal income tax.

## Availability of space

A fundamental part of the locational decision-making process is the ability to acquire suitable accommodation in which to house business units.

Therefore, there is a need for an ample supply of high-quality efficient office space in convenient locations.

## Conclusion

Unless rentals spiral totally

out of control, it would seem unlikely that Singapore will price itself out of the market given that many of the country's major competitors are currently more expensive in terms of occupational costs and as Singapore offers numerous other advantages for inward investors.

A more concerning issue is the ability to offer space to new or expanding businesses.

There is a very significant lack of office space coming on line over the next few years.

The conservative sentiment among the development community in Singapore during and immediately after the Sars period has meant that the amount of space currently being developed speculatively is well below the average annual supply rates.

This has led to the Singapore market seeing a serious space crunch over the next few years.

There is also very little coming on line in the way of new office supply either in the CBD or in the overall market. Simply put, there is unlikely to be enough supply to meet the projected demand.

This will cause serious problems both for current occupiers looking to expand their headcounts as well as for businesses looking to set up in Singapore.

The supply crunch becomes a real issue when you consider the following factors: (1) Competitive cities in Asia have supply coming on line to house growing MNCs, (2) MNCs by nature are capable of relocating business units (and therefore jobs) across international boundaries.

*The author is regional director, head of markets for Jones Lang LaSalle*

**JONES LANG LASALLE** 仲量聯行

**PRIME FREEHOLD REDEVELOPMENT SITE IN DISTRICT 9**

**KIM SENG PLAZA**

- Site Area: 60,393 sq ft
- Commercial / Residential use
- Plot Ratio: 3.1, up to 35 storey
- Potential Gross Floor Area: 187,221 sq ft
- Close proximity to Orchard Road & CBD

**Tender Closing: 15 Nov 2006 (Wednesday) 3pm**

*For further information and tender documents, please call*

**INVESTMENTS : 6220 3888**

Company Reg No. 198004794D

**Ardmore Park Luxurious Apartment For Sale**