Impact of Information & Communication and Broadband Technologies on Office Space: Developers’ Perspective

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Information and communication technology (ICT) and broadband connectivity have become an important and indispensable feature of today’s commercial buildings. They play a critical role in enabling new market structures, business organization and working practices. Its ability to communicate, interact and exchange of information instantaneously stimulates more international business activities. The increasing demand for high-speed connectivity opens up opportunities for developers and/or landlords to provide value-added services to their office tenants. It has also induced real estate developers and landlords to upgrade their ICT facilities and wiring-up their office buildings.

The Asia’s Vertical Silicon Valley comprising five office towers at Suntec City is an example of how broadband connectivity and ICT has been effectively embraced to position the project as one of the most sought after commercial space in Singapore. From early 1999, a slew of ICT and broadband initiatives, which include fibre optic broadband access, instant networking, digital offices, common telecommunication connection, internet call center, plug and play environment, 4G network, wireless broadband services, and many others, has been implemented in Suntec City. This so-called “Suntec Waves” that leverage the ICT and broadband technology have borne fruits and the results have been the creation of a valuable network of companies in IT and financial services, which will be able to capitalize on the benefit of the office space connectivity in Suntec City.

What have been the reactions of other office developers and landlords towards the Suntec’s type of ICT and broadband strategy? In a pilot mail questionnaire survey participated by 23 major commercial developers who are the member of Read Estate Development Association of Singapore (REDAS) members, there were generally mixed views of the respondent firms on the impact of ICT and broadband connectivity on their office operations and leasing activities. The level of awareness of the ICT and connectivity was high among the developers. When asked about possible competition faced, 52.2% of the respondents felt no pressure in attracting and retaining lessees against office buildings equipped with ICT and broadband facilities. However, 58.3% of those who felt competition from the better-connected buildings indicated that they have plans to upgrade the existing ICT and broadband facilities in the next three years. They expected the upgrading to enhance the marketability of the building (43.5%) and also be able to attract tenants who are willing to pay a premium for the ICT and broadband services. On the other hand, high capital investment (36.4%) was the main reason cited by those who did not feel the need to upgrade their existing ICT and broadband facilities. For the respondents who plan to upgrade, they are prepared to absorb the capital costs of upgrading or to pass the costs to a third-party broadband suppliers (Figure 1).
The study also evaluates how investments in ICT and broadband connectivity will affect the operation and revenues of the office buildings in Singapore. In the post-upgrading period, 60.9% of the respondents felt that occupancy rate would improve, but only 43.5% of them felt that the ICT ready and broadband connected buildings would command higher rents. 60.9% of the respondents predicted that the maintenance and running costs of the upgraded buildings would increase in the long run. When asked to select the most important differentiating attributes for an office building, the respondents felt that the proximity to public transports to be the most important location factor, followed by the CBD location. On building attributes, the respondents felt that flexibility in space layout that provides for future expansion to be the most significant differentiating factor. Rent was also found to be very important in attracting tenants. 70% of the respondent felt that the importance of ICT and broadband connectivity should not be neglected (Figure 2).
How much would be the economic gains for improved connectivity to an office building? This is an important question in the mind of developers, who are evaluating the feasibility of upgrading the ICT and broadband facilities of their office buildings. Using a probabilistic simulation model to analyze two case scenarios involving a hypothetical office building in the CBD: one with and one without the ICT and broadband facilities, coupled with different assumptions that reflect the probable effects of ICT and broadband connectivity on leasing revenue and operating expenses, we found that the differentiating premium associated with the ICT and broadband connectivity was estimated at approximately 0.8%. However, there were other intangible and tangible economic benefits like enhanced landlord-tenant relationship, lower leasing risks, higher market branding and image, prestige of building and other perceived value improvement, which were not captured by the simulation models.

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