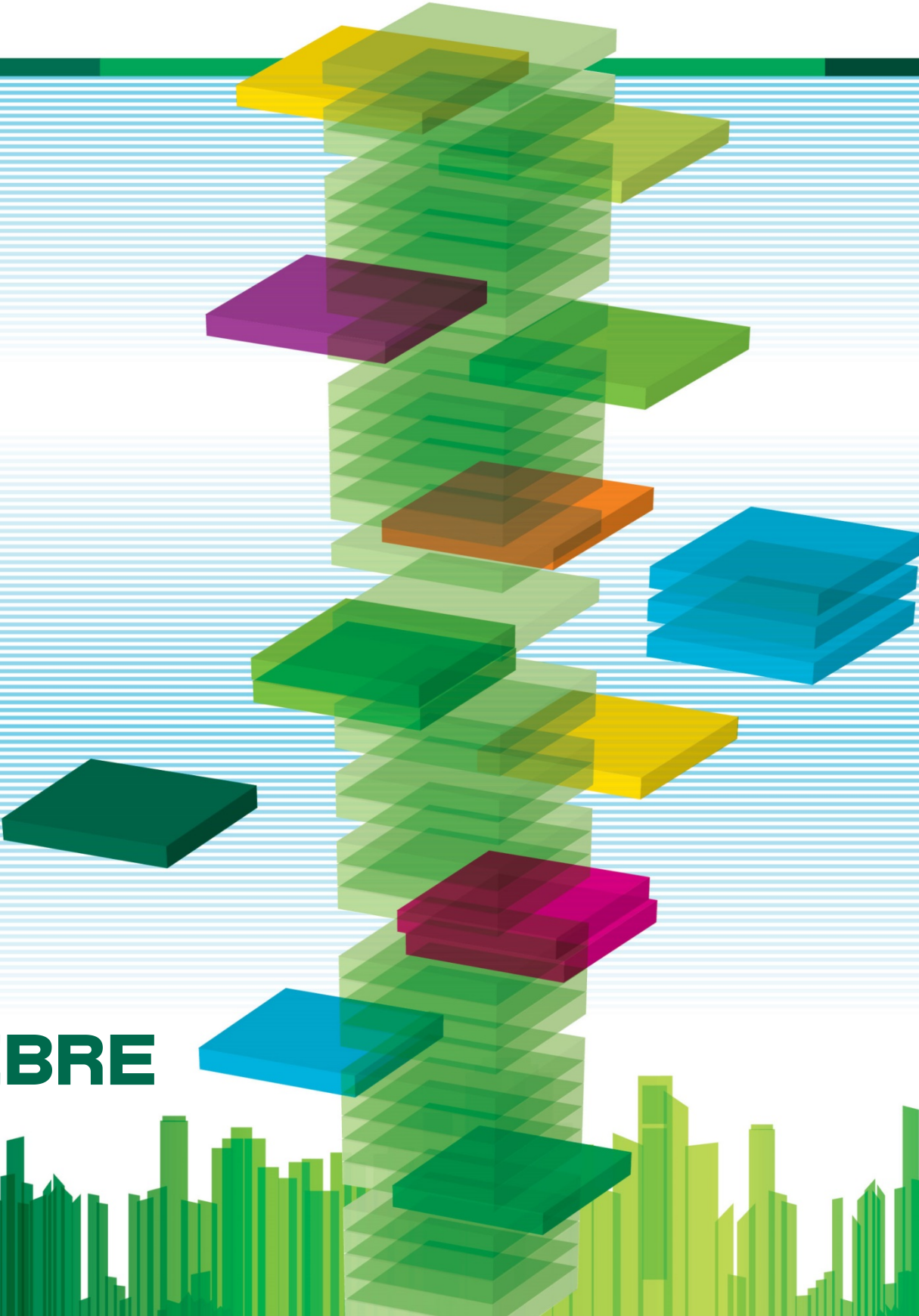


LEASING ASIAN SUPERTALLS: STRATEGIES FOR SUCCESS

CBRE GLOBAL
RESEARCH AND
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Executive summary

Anchor tenants lease space in supertall office buildings for a number of reasons. Traditionally these have included location, building quality and image. However, other factors such as lead-in time; cheaper rents and more flexible leasing terms; premium property management; amenities and partnering opportunities are increasingly being taken into consideration.

For a supertall building to succeed it requires one or more anchor tenants. The most obvious reason for this is that supertalls contain a considerable amount of space and anchor tenants are large space users. In reality, however, it is not so straightforward. Anchor tenants also are crucial for owners of supertalls in that they bring immediate credibility to the building and establish its reputation; de-risk the project; kickstart rents; provide momentum to the leasing campaign and help increase occupancy.

As most development in Asia is speculative, landlords often find their buildings become exposed to the risk of enduring low occupancy, especially during a market downturn. Landlords of supertall office buildings are therefore advised to **begin branding as early as possible, preferably at the design stage** so that they are able to commence marketing to anchor tenants during the construction phase. This approach will greatly improve the likelihood of securing an “early bird” or significant anchor tenant.

The first milestone in any marketing and leasing campaign is when the commitment rate reaches the 30% mark. In supertalls, this may only come which a 50% commitment rate is achieved. To achieve this target commitment rate and bring momentum to the marketing and leasing campaign, **new supertalls should begin pre-leasing to significant anchor tenants at least two years ahead of completion**, when the pre-leasing period typically commences for all office types, irrespective of height or size.

Offering attractive leasing terms and rental packages to secure anchor tenants is essential. Securing an significant anchor tenant with an **“early bird discounts”** 12-36 months ahead of completion is a crucial step in ensuring occupancy reaches the all-important 50% mark, which is when a supertall begins to gain marketing traction. CBRE experience shows that this strategy can create a “tennis ball bounce” immediately after the significant anchor tenant is secured, which then puts landlords in a stronger position.

Other anchor tenants can also be offered **“pre-commitment discounts”** in the 12 months before completion but these discounts tend not to be as large as “early bird discounts”. This will enable the building to reach the ideal pre-completion commitment rate of 50%.

Once occupancy reaches 50%, landlords can gradually increase rents to their fully leased level as they are under less pressure to fill up space. However because of the time it takes a supertall to reach near full occupancy, there is a greater risk of a change in market sentiment, which in turn could affect the pace of rental increases.

Anchor tenants leasing space in supertalls is a “win-win” for both landlords and tenants. The recommendations and lessons learned included in this report provide a useful guide for landlords of supertall buildings. However, in the coming years, occupiers’ space requirements and the way they work and utilise space and technology will continue to change. **Developers will need to adapt by upgrading the technical specifications of their existing buildings and refining the design of new buildings to meet occupiers’ expectations.**

LEASING ASIAN SUPERTALLS: STRATEGIES FOR SUCCESS

Lead your market and strive for a **10%** rental premium.

STEP

5

STEP

4

Execute a **tactical** rental strategy to offset early bird discounts.

Drive towards **50%** occupancy as quickly as possible
... puts landlords in stronger position.

STEP

3

STEP

2

Start **pre-leasing** during the construction stage
... attract anchor tenants 12-36 months before completion.

Begin **branding** and **marketing** in the design stage
... shortens leasing time by up to 40%.

STEP

1

Introduction

In July 2014 CBRE Research Asia Pacific released *The Emergence of Asian Supertalls*—the first in a series of special reports focusing on the development, management and evolution of supertall office buildings in the region.

The report established that many cities in the region had adopted a “build and they will come” strategy in an attempt to establish themselves as financial centres. These cities embarked on the construction of supertall office buildings in order to attract financial sector tenants, an approach which has been largely unsuccessful.

For such an approach to succeed, the report argued that supertall buildings, particularly those in immature markets, should be developed in consideration with local and national governments as they can exert a significant impact on the business environment, social perceptions, market cycle and rental levels.

The report also outlined the various criteria influencing an occupier’s decision to lease space in a supertall office building. Traditionally these have included location, building quality and branding. However, other factors such as lead-in time, premium property management, amenities and building relationships with landlords are increasingly being taken into consideration.

This second report in the series – *Leasing Asian Supertalls: Strategies for Success* – examines these and other factors in greater depth and explains the multiple benefits that anchor tenants can derive from leasing space in supertalls.

The main focus of the report is the leasing of supertall buildings and specifically why anchor tenants are so fundamental to establishing the credibility of a new supertall building; providing momentum to the leasing process; kickstarting rents and ultimately ensuring the long term success of the project.

The report identifies and recommends best practice branding, marketing, leasing and rental strategies for landlords of supertall buildings. It also presents a number of case studies discussing the myriad factors that have contributed towards the varying degrees of success – and, in some cases, failure – of supertall office buildings in Asia over the past ten years.

Why do anchor tenants go into supertall buildings?

Anchor tenants can be defined as a company or organisation that occupies more than two to three floors of a building, irrespective of the building size. They are often the first or among the first group of tenants to commit to a new building. Anchor tenants in this report are categorized in two ways. **Significant anchor tenants (SATs)** who take advantage of early-bird discounts more than 12 months before completion, and **other anchor tenants (OATs)** that commit within the 12 month pre-completion phase.

These companies commit to and lease space because of a need to relocate due to a lease expiry; an expansion; a contraction; an upgrading of the quality or configuration of their space; or a desire to improve their image. In the case of leasing office space in supertalls, companies' motivation is often a combination of three or more of these drivers.

Supertalls are a preferred choice as they are often situated in prime locations and offer state of the art specifications, larger floor plates, superior building materials and premium property management. They also tend to provide a more comfortable environment for employees as they include generous amenities within the complex or nearby. This has the potential benefit of increasing staff productivity and improving retention rates. However, in the experience of CBRE, the lack of suitable alternative options can also often be a driving factor behind occupier decision-making.

Chart 1: Key benefits to all tenants of leasing space in supertall buildings



Prestige



Building Quality



Prime Location

Source: *The Emergence of Asian Supertalls*, CBRE Research, July 2014 .

For example, International Commerce Centre (ICC) in Hong Kong was able to secure Morgan Stanley, Credit Suisse and Deutsche Bank as anchor tenants. Whilst these companies were attracted by the building's overall features and the ability to upgrade its technical specifications, the lack of suitable space alternatives available at the time were also contributing factors.

In addition to these traditional drivers influencing anchor tenants' leasing decisions, a number of other factors are increasingly being taken into consideration. These include:

Long lead-in time

SATs need to commit to office space as far as 18-36 months ahead of their move-in date whereas OATs are able to consider 9-18 months. These long lead-in periods provide companies with sufficient time to carefully plan the transition from their old office and move into their new space in an orderly manner.

Supertalls are particularly attractive to SATs as their construction and completion period is longer than regular office buildings. This provides ample time for landlords and occupiers to discuss, plan and agree the terms of the lease and for the tenant to move in.

This high degree of alignment means SATs are prime targets for landlords looking to lease out a sizable volume of space to a significant occupier that will help attract other tenants. Depending on market conditions, supertalls can achieve a pre-commitment rate close to 20%, delivering a strong message to the market that the owner is committed and realistic.

Partnering with landlords

Leasing a large amount of space in a supertall building can help both SATs and OATs cultivate a new or existing relationship with a landlord, which may strengthen and/or extend business cooperation.

When they commit to a space early, anchor tenants have a degree of influence over landlords which can be used to request changes or upgrades to the building infrastructure, provisions, facilities and the way the building is managed. Key drivers are that the building integrity, security, lifting and other employee concerns are adjusted to meet their exact requirements.

They can also use this influence to exclude industry rivals from the same zone or the entire building. Firms in the financial, insurance and consulting sector are fiercely competitive and it is an acceptable request of an SAT to ask of a landlord. On the other hand, landlords can also benefit by **leveraging on the SAT to court other industry sectors and create clusters**. This is a win-win for both sides as the tenant's name adds credibility and prominence to the building and vice versa.

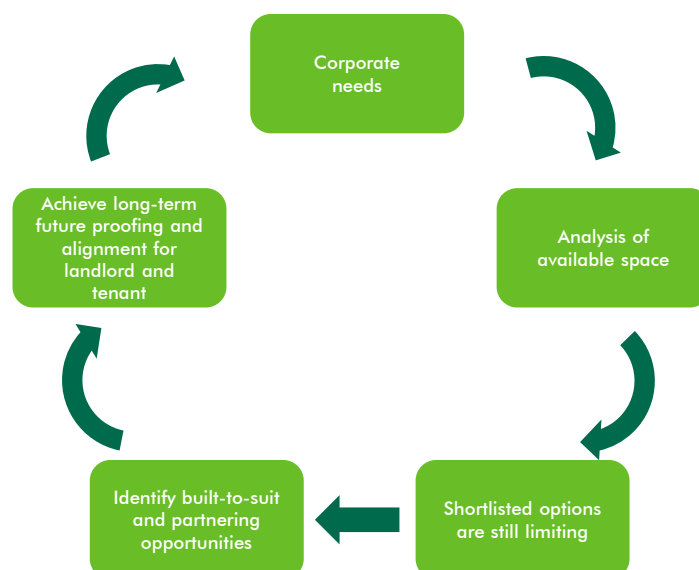
Whilst supertalls by their very nature have neutral names, it is also possible for the SAT to secure exclusive lifts, signage or even naming rights of their particular zone.

Future-proofing

Supertalls in mature markets can afford to be built to the highest specifications and incorporate the very latest in building technology. In less mature markets with weaker demand and lower rents, the construction costs of a supertall cannot necessarily be justified without external support from key stakeholders and, crucially, local governments. Without such support, supertalls in less mature markets have to be constructed to a lower specification and standard, albeit still higher than other office buildings.

Another reason why anchor tenants in a new supertall are able to persuade landlords to upgrade or improve interior specifications is that it is a way of future proofing the building. At the same time, this **allows the tenant to reduce its fit-out cost and save the landlord unnecessary construction costs or wastage**.

Chart 2: The anchor tenant cycle



Source: CBRE Research, September 2014.

Cheaper rents and more flexible leasing terms

Anchor tenants of supertalls are able to secure attractive rental packages and lease terms as they commit to taking large space, often before the building is completed, thereby helping it to gain leasing momentum and traction.

Normally, the earlier the anchor tenant pre-commits, the more bargaining power it has, meaning that it is able to secure a bigger rental discount relative to the market rent.

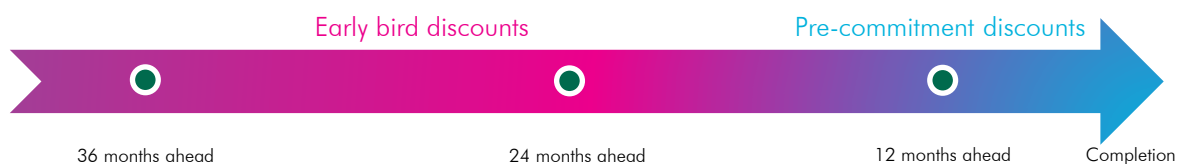
Anchor tenants can obtain significant “**early bird discounts**” by committing to space in supertalls as much as 12-36 months ahead of completion. Such deals are done by SATs which take advantage of their own long lead times, nature and size. These deals are unique and usually occur when a landlord sees the benefit of securing a major anchor tenant at such an early stage and when a company is seeking a significant quantum of space in a high quality new building with a long lead-in time. SATs prepared to commit this early may also obtain additional benefits such as technological upgrades, contributions towards fit-out cost, security of tenure and naming and/or signage rights.

For example, the landlord of Central 18 Zone at Two International Finance Centre (Two IFC) in Hong Kong strategically targeted UBS as a SAT three years before the building was completed. The owner was keen to secure a big named tenant to kickstart the leasing process and attract interest from other tenants. In return, UBS obtained space in a new and high quality building at a discounted rental package and security of tenure commitments.

OATs can also obtain “**pre-commitment discounts**” in the 12 months before completion. These discounts are not as large as the “early bird discounts” offered to SATs but nevertheless can be significant. **Small and medium sized tenants may secure attractive discounts in the lower floors of the building as the landlord is often keen to fill up the building from bottom up.**

Aside from rental discounts and incentives, landlords of supertalls can also provide anchor tenants with greater lease flexibility compared to other tenants. Common clauses can include options to take additional floors, or return space that is no longer required, sub-letting rights, rental caps and collars, longer lease terms, options to renew, and so on.

Chart 3: Rental discount relative to construction phase



Source: CBRE Research, September 2014.

Image and branding

The positive image and branding associated with supertall office buildings is often cited by tenants as a key reason behind their leasing decision. The high profile, prestige and visibility of supertall office buildings means occupiers frequently use them as a marketing tool to boost their corporate image and branding.

Case study: China World Tower III



China World Tower III is a 330-meter, 74-storey office building in Beijing, China, developed and owned by China World Trade Centre, Co., Ltd. The building features hotel and retail components.

China World Tower III was able to attract a number of multinational companies as anchor tenants by virtue of its high profile branding and image; the landlord's long and established track records in developing office buildings; and its extensive amenities. These provide a comprehensive offering to tenants.

Other key draws included the building's location; the quality of property management; the good views from upper floors and attractive rental terms. **Timing was also a key factor for multinational companies** at the time they pre-committed to the project as Beijing has been undersupplied with quality office space in core locations for the past five years.

Anchor tenants have raised concerns over the elevators, specifically the time it can take to reach the highest floors. Others occupy lower floors in the building which lack raised flooring. However, these concerns/drawbacks appear to be offset by the multiple benefits of being a tenant in a high profile supertall.

For domestic tenants – which collectively occupy around 50% of the building – **prestige is the major attraction**. Local occupiers in China generally have a stronger focus on the stature of the building and prefer to lease space on high floors. In comparison, the reputation and track record of the landlord is much higher up on the list of requirements for multinationals.

Why do supertall buildings need anchor tenants ?

If a supertall building is to succeed it requires one or more anchor tenants. The most obvious reason for this is that anchor tenants are large space users and will take up multiple floors, thereby contributing towards the gradual leasing up of the building. It is also more straightforward for the landlord to negotiate with and secure a commitment from one larger tenant as opposed to multiple smaller ones.

Anchor tenants also are important for supertalls in the following ways:

Bringing immediate credibility to the building

Anchor tenants tend to be international and prestigious in nature. Securing a well-known anchor tenant helps to establish the credibility and viability of the building immediately and sends a strong message to the market. In turn this **helps to build confidence and attract interest from other potential tenants** which are now aware that the landlord is ready to do deals and that the building meets a high level of scrutiny. Anchor tenant deals **provide the landlord with confirmation that their building has the specifications and technology best suited to occupier requirements.**

As the first supertall building in Taiwan, **TAIPEI 101** was initially an unknown quantity as it was unlike any other building in the city. Many firms were initially hesitant to commit to space due to questions over its location in the new planned financial district, the lack of a subway in the medium term and the potential effect of earthquakes. Securing anchor tenants demonstrated to the landlord that companies were prepared to commit. It also **sent a strong and reassuring message to other potential tenants that the building was safe.**

Similarly, **ICC** in Hong Kong signed Morgan Stanley, Credit Suisse and Deutsche Bank as three anchor tenants. This **gave credibility to the building's location in West Kowloon** based upon its proximity to Central and high level of technical specifications. The landlord initially expected that large financial sector tenants would only lease a small volume of space for back office use, hence the naming of the building as a "commerce" centre. However, the signing of these three anchor tenants, all of which involved large-scale office relocations, prompted the landlord to fit out the space to suit the financial sector's high specifications.

De-risking the project

Securing an anchor tenant helps reduce risk in supertalls as most such buildings in Asia are built on speculation. It **eases the pressure on landlords to lease up the building** as anchor deals usually involve a considerable volume of space.

It should be noted that the volume of space in supertall buildings is often equivalent to three or four normal size buildings or two to three years of new supply in a particular market. In the case of Two IFC in Hong Kong, the space in the building was equivalent to eight years' worth of take-up in the Central submarket. It is perfectly acceptable and normal, therefore, for it to take a long period of time to lease out supertalls. In the case of TAIPEI 101, it took around four years for the building to reach 70% occupancy.

Anchor tenants also tend to commit to long leases, which will **provide a stable source of income to landlords.** This in turn can give landlords more room to carefully plan and develop the ideal tenant mix of their building.

Kick-starting rents

As discussed previously, securing anchor tenants stimulates interest from other occupiers and can result in stronger demand for space. In turn, this can enable landlords to increase rents.

A sizable early letting to an SAT can help kickstart leasing activity and put landlords in a stronger position to commence their pre-completion leasing campaign. For example, securing UBS as an anchor tenant in Central 18 Zone at Two IFC in Hong Kong enticed other potential tenants to commit and enabled the landlord to meet its fully leased rental target. This is what CBRE calls a “tennis ball bounce”, which is when the landlord heavily discounts the rental to entice a SAT, which in turn allows them to kickstart leasing at far higher rents and achieve a premium price point.

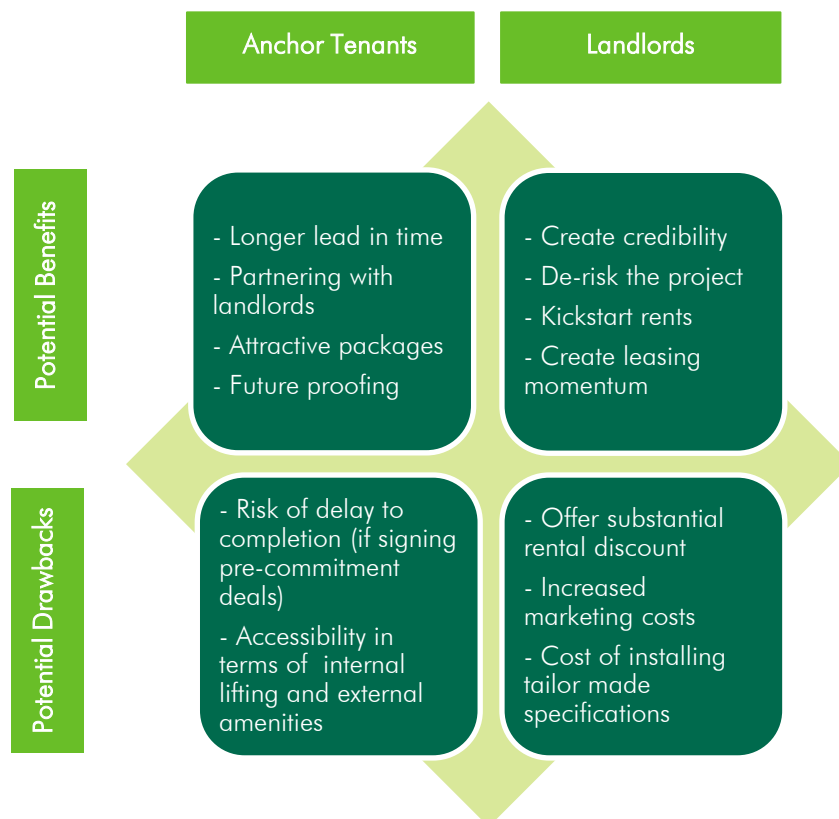
Although the “tennis ball bounce” effect does not occur in every market, CBRE experience shows that **securing an anchor tenant – ideally on an “early bird” deal 12-36 months ahead of completion – does have the ability to kick-start rents.** The size of discount offered by landlords is dependent upon such factors as the position in the market cycle, demand/take-up and target industry.

Providing leasing momentum and achieving higher occupancy

By leasing multiple floors to anchor tenants, in particular SATs, landlords can drive the commitment rate towards the 30% mark, which is **the first milestone in any leasing campaign.** Based on the experience of CBRE, this is the point when leasing momentum begins to gain traction. However, in supertalls this momentum **may only come after a 50% commitment rate has been achieved.**

Because of their sheer size, number of zones and neutral/independent name, supertalls can easily accommodate two, three or even more anchor tenants. This means landlords are exposed to comparatively less risk than those of smaller buildings as the impact of the newly vacant space is smaller. CBRE recommends that **landlords create a tailored tenant mix in different zones that can help protect them in future market downturns.**

Chart 4: Benefits and drawbacks of supertall buildings to anchor tenants and landlords



Source: CBRE Research, September 2014.

Case study: Two International Finance Centre and International Commerce Centre

Two International Finance Centre (Two IFC) is a 412-meter, 88-storey office building in Central on Hong Kong Island. Anchor tenants include UBS and BNP Paribas. International Commerce Centre (ICC) is a 484-meter, 108-storey office building in West Kowloon which also includes a hotel. Anchor tenants include Morgan Stanley, Credit Suisse and Deutsche Bank. Sun Hung Kai Properties is one of the major developers of both buildings.

Two IFC came on stream in 2003 during the SARS epidemic when the market was at the bottom whilst ICC was delivered in phases over 2009-2010 when a number of major financial sector occupiers were looking to expand.

Despite the two buildings being completed at different points in the market cycle, the leasing strategy adopted by the landlord was the same; **(1) establish the credibility of the building and (2) promote the viability of the location by filling it with credible tenants as quickly as possible, rather than focus on achieving high rents.**

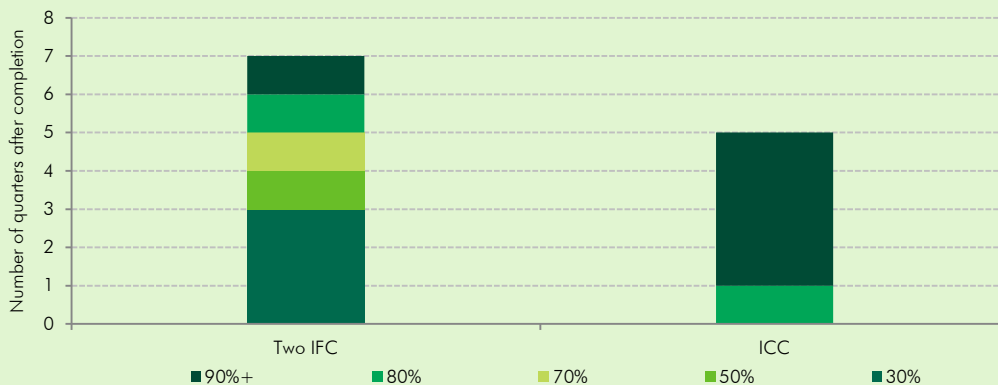
In the case of Two IFC, occupiers were reluctant to commit to space at the time pre-leasing began as economic conditions were very subdued. Whilst the developer was confident over the mid- to long-term prospects for the building because of its quality and location, it still pursued a strategy of **filling up space rapidly in order to establish the credentials of the building.** It eventually managed to attract several anchor tenants from the financial and legal sectors by offering significantly discounted rents, which helped kickstart the leasing process.

Securing anchor tenants for ICC was comparatively easier as the market was going through an upcycle. However, there were questions over the building because of its setting in West Kowloon, not a traditional office hub or location for financial sector companies. **Securing anchor tenants quickly for 60% of the space helped build up the profile of the building and convince other potential tenants of the viability of the location.** A considerable volume of space – around 1 million sq. ft. – remained but was gradually leased to smaller and medium sized tenants.

This strategy of filling up the buildings as quickly as possible has been highly successful. Two IFC achieved over 90% occupancy within two years of completion. ICC was very successful and came on stream with 80% occupancy. The building was almost fully leased two years after the completion of the third and final phase which includes the Ritz Carlton hotel.

This case study underlines the importance of leasing out supertalls quickly in order to increase occupancy. This helps establish credibility and builds the reputation of a new supertall.

Chart 5: Number of quarters taken to achieve target occupancy (90%+) in Two IFC and ICC



Source: CBRE Research, September 2014.

Branding and marketing strategies for supertalls

Building a story

As most development in Asia is speculative, landlords often find their building becomes exposed to the risk of enduring low occupancy during a market downturn. It is therefore crucial for landlords to start their branding and marketing strategy well in advance.

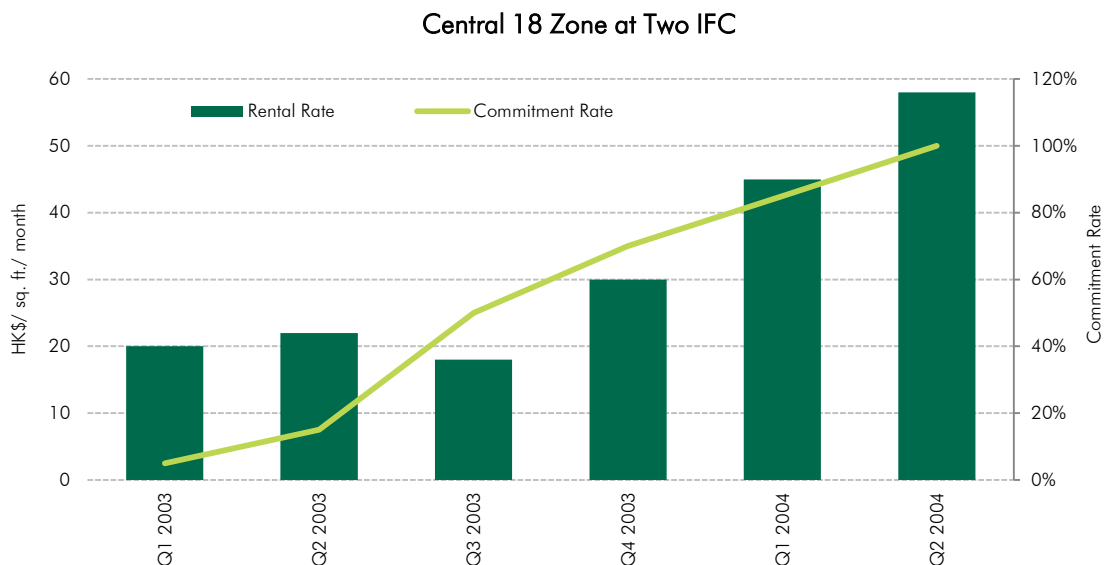
CBRE experience shows that successfully creating a value proposition, storyline, theme, brand guidelines and image for the building at the design stage greatly improves the likelihood of securing the all important SATs.

Branding and marketing strategies will be unique to every supertall but they should communicate the benefits for an occupier to leasing the building over and above any other. They should convey a value proposition and develop a story around a building. **Messaging should therefore be simple and direct to attract the tenants at such an early stage.**

For example, the strategy behind the pre-leasing of the middle zone of Two IFC aimed to create a brand that focused tenants' attention on the centre of the building as opposed to the other floors held under separate ownership. Using the concept of "Central 18 at Two IFC", the owners leveraged this value proposition by connecting it to the Central District and the financial industry. The catchphrase "the most central floors, in the most central building, located in the central part of Central, Hong Kong" highlighted the connection and planted a seed in tenants' minds that Two IFC, which was considered fringe, was in fact set to become the 'new central position' in Central. The owners then created the brand "The Sweet Spot of Hong Kong" as a way of capturing tenants' imagination in a visual way and connected this to sports equipment as an easy recognition feature.

Landlords of supertall office buildings are advised to **begin branding in the design stage and marketing in the construction phase to have enough time to raise brand awareness and persuade tenants that their building is the right choice.**

Chart 6: Successful value proposition of "Central 18 Zone at Two IFC"



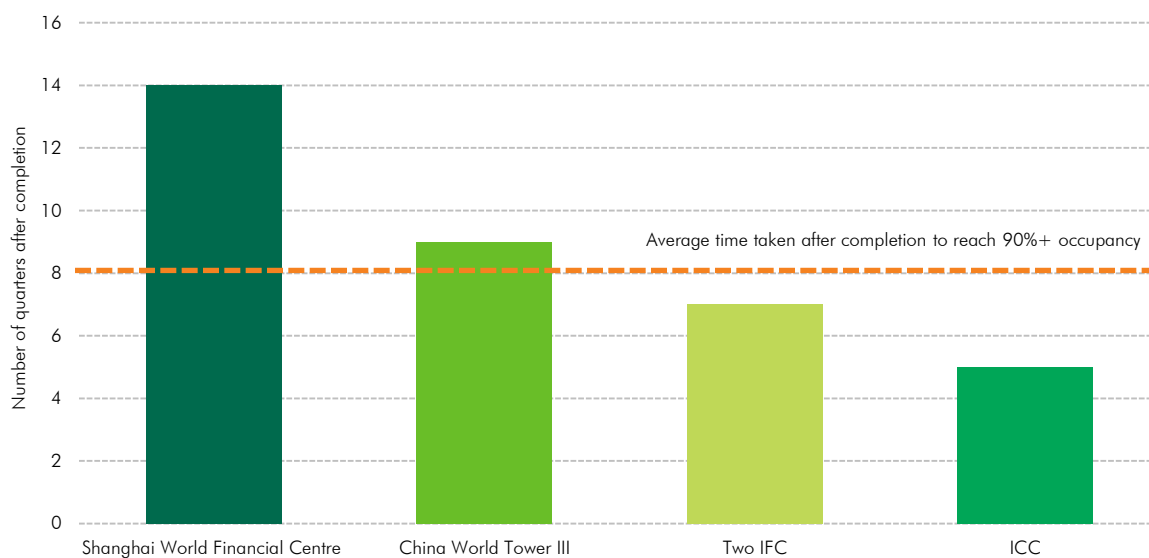
Source: CBRE Research, September 2014.

Marketing spend

Because supertall buildings take longer to design and construct, owners have the advantage over smaller competitors to build a stronger value proposition and brand. While CBRE research has found that successful supertalls take an average of eight quarters after completion to reach occupancy of 90% or above, this can be shortened with a significant marketing spend, if the marketing is commenced in the 'early bird discounts phase' (12-36 months before completion).

The leasing of ICC began in a rising market but the landlord started the marketing more than two years before the phase one completion and was able to shorten the leasing time to full occupancy by 40%. Landlords therefore need to be prepared to continually market their product and build a strong brand, which will cost more up front. Depending on the market cycle, the landlord will be able to recoup the additional marketing spend in future rental uplift as the type of tenant improves and rents increase.

Chart 7: Time taken to achieve 90%+ occupancy upon completion



Source: CBRE Research, September 2014.

Landlords need to build up the value proposition, story and image of their supertalls at the design stage. They should be prepared to continually market their product throughout the entire leasing period.

Case study: TAIPEI 101



TAIPEI 101 is a 508-meter, 101-storey office building in the Xinyi district of Taipei, Taiwan developed and owned by the Taipei Financial Center Corporation. Anchor tenants include Bayer, ANZ, Taiwan Stock Exchange and KPMG.

Occupiers were initially hesitant to commit to space in TAIPEI 101 upon its completion at the end of 2004 as it was the first supertall in Taiwan and unlike any other building in the market. The terrorist attacks in the United States in September 2001 and magnitude 6.8 earthquake in eastern Taiwan in March 2002 raised a number of safety concerns

Bayer took two floors whilst the Taiwan Stock Exchange later came on board to take four. However, financial sector tenants were still reluctant to lease space in the building. The landlord opted to offer rents up to 20% below the average for Grade A office space in the Xinyi submarket, which persuaded ABN Amro and Winterthur Life to move into the building.

Occupancy breached the first leasing milestone of 30% at the end of 2005 and improved to 50% the following year. The onset of the global financial crisis in 2008 saw a number of tenants consolidation and/or downsize, meaning occupancy did not reach 80% until 2010.

Vacancy finally fell into single digit territory towards the end of 2013. With occupancy at around 95% as of Q3 2014, **tenants currently pay a rental premium of around 15%-20%.**

In less mature markets such as Taipei, which lacks strong and broad-based occupier demand, leasing out a supertall building – the first of its type in the city – presented significant challenges.

This case study underlines the importance of market timing and illustrates how external factors can impact occupier demand and, in turn, slow the leasing process.

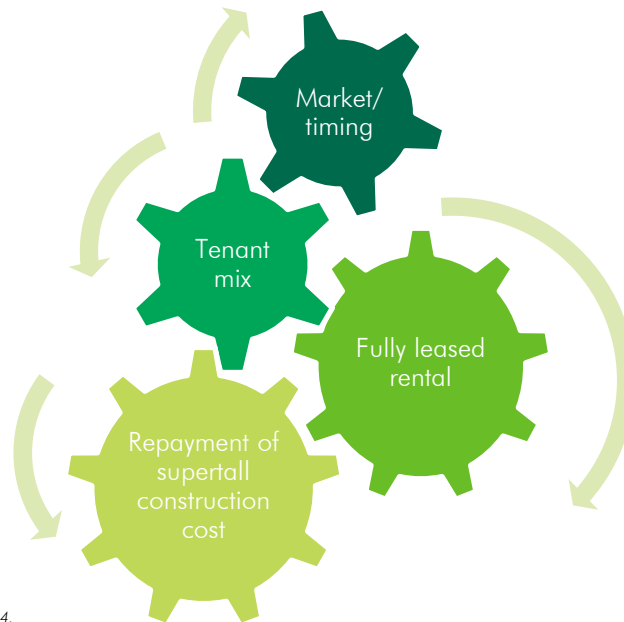
The main lesson learned is that occupiers should be secured as early as possible and landlords should focus on improving occupancy to the critical level of 60% to 70% by offering attractive deals instead of focusing on achieving higher rents.

After reaching 60% occupancy the landlord was able to adopt a stronger position in rental negotiations, especially with small- and medium-sized tenants. In addition to raising rents, the landlord was able to gradually adjust the tenant mix to bring in its preferred larger tenants.

Leasing and rental strategies for supertalls

When entering the leasing phase landlords need to keep a close eye on construction costs and the market cycle. This needs to be overlaid with the target audience and their nationality, size, industry and motivation. Careful consideration of these factors will enable landlords to ascertain which occupiers to target what they are willing to pay. With this information, the landlord can start to plan its leasing strategy and how it will achieve its maximum fully leased rental.

Chart 8: Factors to analyse when leasing supertalls

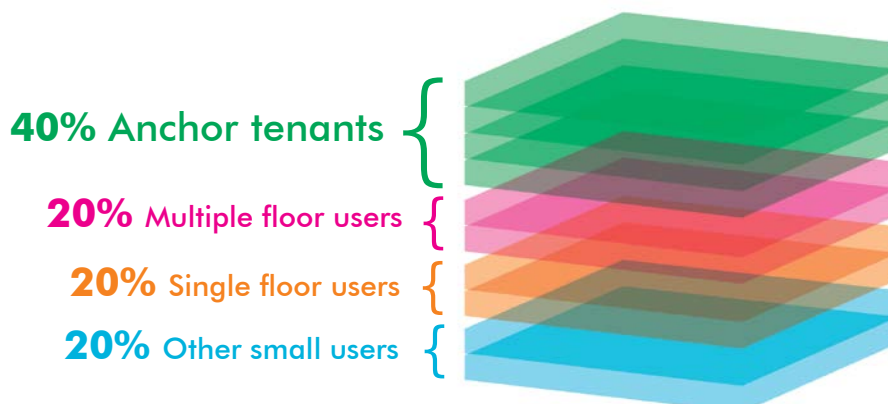


Source: CBRE Research, September 2014.

Mix

A unique feature of supertall buildings is that they have multiple anchor tenants, with one situated in each of the lift zones. However, landlords are advised not to allocate more than 40% of the total space available to anchor tenants. **No more than 25% of the total space should be allocated to one single tenant** otherwise there will be a significant risk of a large vacant space when the tenant departs. It could also put the landlord in a weaker position when negotiating renewals.

Chart 9: Recommended composition of tenants in supertall buildings



Source: CBRE Research, September 2014.

Origin

Landlords of supertalls in Asia have traditionally preferred to secure multinationals as anchor tenants but nowadays many domestic firms in the region are just as competitive as foreign companies. **Established Asian companies are increasingly being viewed and pursued as desirable tenants.** Whilst the bigger anchor tenant requirements of over 400,000 sq. ft., generally still come from multinational corporations, Asian companies are increasing taking space in supertalls to help to raise their profile and establish their credibility regionally.

Placement

The standard practice of leasing office buildings from the bottom up is not so relevant in supertalls. CBRE's experience shows that **placing anchor tenants within separate zones** is acceptable when driving towards the 50% commitment mark.

Knowing that the lowest floors in any one zone are the most attractive, anchor tenants' position within the tower is often determined by the terms they are prepared to offer. This has the added advantage of leveraging natural buffer floors, thereby allowing anchors to expand without affecting other tenants within the tower.

Discounting

Offering attractive leasing terms and rental packages to secure anchor tenants is essential. As mentioned previously, **securing a significant anchor tenant on an "early bird discount" 12-36 months ahead of completion is a crucial step in ensuring occupancy reaches the all-important 50% mark.**

Other anchor tenants can also be offered "pre-commitment discounts" in the 12 months before completion. These discounts are not usually as large as "early bird discounts" but can still offer significant flexibility to the tenant. This will enable the building to reach the ideal pre-completion commitment rate of around 50%.

On a positive note, unlike their smaller competitors, landlords of supertalls can offset such discounts when leasing the upper floors of the tower. **Rents for more prestigious space on top floors, which should be left vacant until the final stage of leasing, will inevitably be set at a higher rate.**

Here the importance of floor plate flexibility comes into play as these higher floors are often let to small- and medium-sized tenants which require less space.

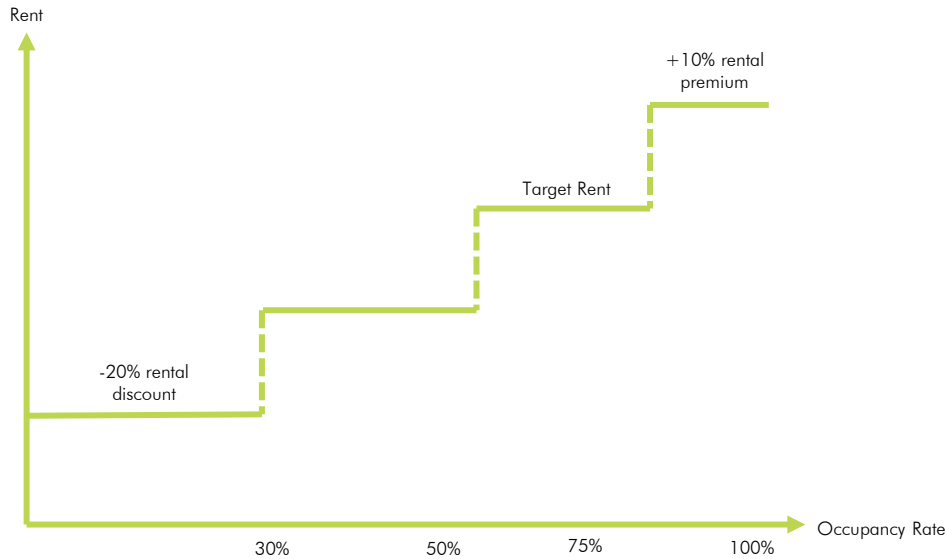
Rental increases

Once occupancy reaches 50%, landlords can start to gradually increase rents to achieve their target fully leased level. However, because of the time a supertall takes to reach near full occupancy, the greater risk there is of a change in market sentiment, which in turn could affect the speed of rental increases.

If a substantial monetary incentive is given to secure a tenant on an "early bird discount", landlords need to be mindful of how they will claw back such discounts if the market is experiencing a downturn. To combat this, landlords of supertalls **may offer anchor tenants greater flexibility on lease terms compared to other tenants, rather than monetary discounts.** Common clauses requested by anchor tenants include expansion and contraction rights, options to renew, subletting rights, rental caps and signage rights.

The rental model below illustrates the ideal approach for landlords to lease up their building and eventually achieve a rental premium.

Chart 10: Path to achieving rental premiums in supertall buildings



Source: CBRE Research, September 2014.

Timing

Like all real estate, supertalls are not always built at the “right” time and may come on stream during a market downturn or are a competitor in themselves due to their sheer size. When deciding upon the size of discount to offer, landlords are advised to also take into consideration factors such as the **position of the market cycle, the state of the economy and the attitude of tenants.**

In the absence of pre-commitments from a specific target industry, landlords can **fill up the building by leasing out space to other, perhaps smaller, firms in other industries on shorter leases and at lower rents** to help drive commitment. When market conditions improve or the building is fully leased, landlords can reposition the tenant mix and secure more tenants from the target industries.

In practice, however, each developer is likely to have its own unique strategy. The key is to strike a balance between the level of rental discount, flexibility on lease terms and time required to recoup construction costs, whilst bearing in mind that supertalls are a long term investment.

Case study: Bitexco Financial Tower



Bitexco Financial Tower is a 263-meter, 68-storey office building in Ho Chi Minh City, Vietnam, developed and owned by BITEXCO Group, a Vietnamese conglomerate. Anchor tenants include Samsung, Ernst & Young, Adidas and Allen & Overy.

The leasing of Bitexco Financial Tower went slowly upon its completion in 2010 as asking rents were set too high and there were a number technical challenges associated with the building.

Securing Samsung – an established international conglomerate – as an anchor tenant on a sweetheart deal boosted the landlords' confidence and greatly enhanced the profile of the building. This paved the way to securing Ernst & Young as second anchor tenant and subsequent multinational firms which followed.

In both cases the **confidence gained from securing commitments from two major names was more important than the actual size of the space they took or the rent they were paying.**

The two anchor tenants were attracted by the quality of the building; its high profile image and prestige; and the attractive rental deal and flexibility on lease terms they were offered.

Once the two anchors were signed, leasing activity picked up in 2012 and more tenants came in to pay the market rent. Timing was also a factor around this time as demand for CBD space strengthened from tenants that had been pushed out in previous years due to high prices.

The main lessons learned from the leasing process is that the landlord could have been more aggressive in securing pre-commitments from anchor tenants and increasing occupancy as a way to establish the credibility of the building, instead of focusing on securing high rents.

This project also underlines the fact that, particularly in emerging markets, landmark buildings require strong government backing and support. As these projects tend to become flagships for a specific market, more support and coordination for mutual beneficial gain is required between authorities. In the case, authorities could have assisted the developer in setting a palatable market rental to provide momentum to the marketing process.

Case study: Keangnam Hanoi Landmark Tower

Keangnam Hanoi Landmark Tower is a 336-meter, 72-storey mixed use building in Hanoi, Vietnam, developed and owned by South Korean firm Keangnam Enterprises Ltd. Anchor tenants include PwC, Nissan and Standard Chartered.

Despite being a modern building offering very attractive rents, large floor plates and hotel, serviced apartment and retail facilities, occupancy of Keangnam Hanoi Landmark stands at just 50% almost three years after completion.

Tenants were initially attracted to the building, which sits in the emerging district of Từ Liêm, as they believed the area would eventually develop into a new CBD as it has been earmarked to do so. However this has not yet materialized due to the economic slowdown. Whilst progress is being made, it is occurring at a slower rate than anticipated due to the oversupply of office space and various other options available for occupiers.

The development has encountered a number of technical challenges related to lift density, air conditioning and car parking. **Competition from other comparatively better located buildings has also impacted its ability to attract tenants.**



This project underlines the importance of pricing a building to reflect its location. It emphasizes that a project alone cannot be a driver for creation of a “destination”. The development lacks a sufficient neighborhood CBD to attract tenants and is not effectively functioning as an integrated development or destination.

Steps to success: The importance of lifting

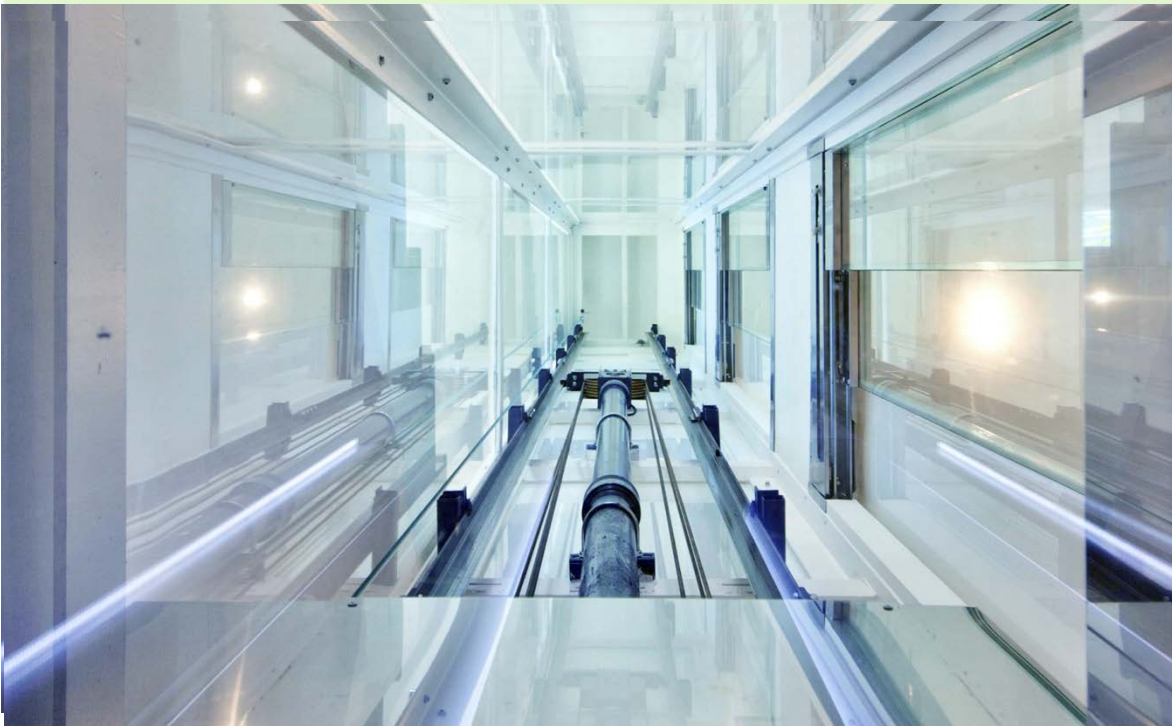
Elevators are a major challenge associated with supertall buildings and can be extremely problematic.

A number of supertalls in Asia – particularly those with observation decks which attract large numbers of tourists – have encountered difficulties related to capacity and also the amount of time it can take employees to enter and exit their office in the building. Moving around quickly within the different zones in a supertall building can also be challenging.

Landlords have attempted to work around such challenges by converting service elevators to commercial use and **placing large or anchor tenants in the lower floors of lift zones to facilitate easy access.**

Installing fast and “smart” elevators which cluster passengers based on similar destinations and skip floors when full can also reduce travelling and waiting time.

Ultimately, however, this particular issue must be addressed at the design stage. Landlords should look to “future-proof” their asset by ensure enough elevators are provided to accommodate steady growth in passenger capacity.



Steps to success: Adding value through F&B

The presence of a food court has become increasingly important to many companies when they are selecting offices.

Supertalls lacking a range of dining facilities across different price points are sometimes less competitive than those buildings which provide a more comprehensive offering.

TAIPEI 101 initially lacked such facilities, meaning that employees working in the building were without affordable and convenient F&B options. There were also not many cheap alternatives nearby.

Once a food court was installed it proved very popular. It is now **regarded as an important selling point which many other buildings in the city do not have.**

In the case of ICC in Hong Kong, staff working in the building found that the closest food court in the Elements shopping mall could take as long as a 40-minute round trip by foot.

The landlord responded by installing canteens and other F&B facilities within its tenants' offices.



Conclusion

Anchor tenants leasing space in supertalls is a “win-win” for both landlords and tenants. Large occupiers secure good space; attractive rents; plenty of lead-in time; and a degree of influence over a building. Landlords fill up a large chunk of space; de-risk the project; establish the credibility of their asset; and kickstart the leasing process.

CBRE recommends that landlords of supertall office buildings begin branding in the design stage and marketing in the construction phase so they have sufficient time to raise brand awareness and persuade tenants that their building is the right choice. Creating a value proposition, storyline, theme, brand guidelines and image for the building that resonates at the design stage greatly improves the likelihood of securing a SAT.

Branding and marketing strategies should communicate the benefits for an occupier to leasing the building over and above any other. CBRE has found that a significant marketing spend can succeed in shortening the time it takes a supertall to reach 90% occupancy, if this marketing is commenced in the “early bird discounts phase” 12-36 months before completion.

Landlords must monitor construction costs and the market cycle when entering the leasing phase. This needs to be overlaid with the target audience and their nationality, size, industry and motivation. The landlord can then plan its leasing strategy and how it will achieve its maximum fully leased rental.

Offering attractive leasing terms and rental packages to secure anchor tenants is essential. Securing a SAT on an “early bird discount” 12-36 months ahead of completion is a vital step in getting occupancy up to the 50% mark. OATs can be offered “pre-commitment discounts” in the 12 months before completion. Whilst not usually as large as “early bird discounts”, these can still offer significant flexibility to the tenant.

When occupancy hits 50% landlords can gradually increase rents to achieve their target fully leased level. However, because of the time a supertall takes to reach near full occupancy, the greater risk there is of a change in market sentiment, which in turn could affect the speed of rental increases.

The lessons learned from the case studies included in this report provide a useful guide for landlords of supertall buildings. However, in the coming years, occupiers’ space requirements and the way they work and utilise space and technology will continue to change. Developers will need to adapt by upgrading the technical specifications of their existing buildings and refining the design of new buildings to meet occupiers’ expectations.

The mixed-use element of supertalls is expected to increase in importance in the years ahead as occupiers demand a more comprehensive service offering. **More supertalls will include “vertical communities” which integrate work areas with retail, hospitality, residential and leisure facilities in order to enrich the experience of occupiers and other users**, with the ultimate aim of enhancing the image and prestige of the building. The successful delivery of such components will ultimately rest on excellence in property management and the facilities that come with it.

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