

OUTLOOK ON COMMERCIAL OFFICE MARKET PERFORMANCE



Office Market Performance

The performance of office market is pretty much worrying for the past few years. Office sub-sector market showed a noticeable stagnant activity from year 2016.

Malaysia's office market activity recorded marginal decreased in occupancy rate from 83.3% in 2017 to 82.4% in 2018. Generally, supply of office space was in an upward trend. Existing office space was up by 3,695,095 sq ft (235,120,195 sq ft: 2018) as compared to 231,425,099 sq ft in 2017. Kuala Lumpur maintain stable occupancy rate above 80.0% mark, despite registering significant decreased by -415,831 sq ft in office take-up rate. Penang office market continues to perform despite the challenging market condition as the occupancy rate was in an ascending trend for the past 5 years (2014: 79.8%, 2018: 84.0%).

NAPIC also reported that among the private and government office buildings, WP Kuala Lumpur recorded highest occupied space for private building which is at 51.9% in total; whilst WP Putrajaya remained at the top contributor and occupier of government office buildings.

As at 3Q2018, following to the slow market activity, it was recorded that future supply for office sector showed no improvement through the years. Thus, indicating cautious stance by both developers and investors.

Unoccupied Office Space

Menara ING, a 25 years old office building of 20-storeys in Jalan Raja Chulan sold by Tower REIT to Goldstone Kuala Lumpur Sdn Bhd in 2015 due to low occupancy rate. With gross floor area of 256,158 sq ft and net lettable area of 160,413 sq ft. it was sold at RM 132.34 million; approximately RM825 psf. The building was soon converted into a hotel by the new owner as it was difficult to fill up the vacant office space pressurized by new office supply in the market.

Recently, Employee Provident Fund (EPF) reported has sold Wisma KFC (formerly known as Wisma Idris), a 22-storey office building located within the Golden Triangle in Jalan Sultan Ismail, Kuala Lumpur to a Singapore-based property developer and manager Royal Group for a sum of RM 130 million (RM 725 psf); in effort to rebalance the Group's investment portfolio. The building was previously occupied by Kentucky Fried Chicken Holdings (M) Bhd headquarters before they relocated to Petaling Jaya. The office tower was left unoccupied for almost 2 years. The office building has a gross floor area of 342,145 sq. ft. and occupies a 0.5-acre freehold plot. The new owner reported has plans to partially retain its original office usage and the remaining for business hotel activity.

Future of Property Market

Transit Oriented Development (TOD) concept is becoming very much anticipated in property development projects as it encourages people to commute to work by public transportation which assists to alleviate traffic congestions, reduce air pollutions and cost saving. Emergence of more TOD concept development expected to create integration in between business and retail activities and consequently help to improve the economy.

Moving forward, the challenging market conditions anticipated to stabilize as the government announced reinstatement of several mega projects such as ECRL and Bandar Malaysia. Hoping to attract foreign investments into the country. The successful renegotiation of the East Coast Rail Link (ECRL) transit project from Kota Bharu to Port Klang introduces possible future collaborations between local contractors and foreign experts. Reinstatement of Bandar Malaysia project look forward to positive impact on the economy and anticipated to serve as further entice high impact global finance, technology and entrepreneurial companies.

This indicates a positive expectation to the possible revival of many other mega projects in the country.

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