

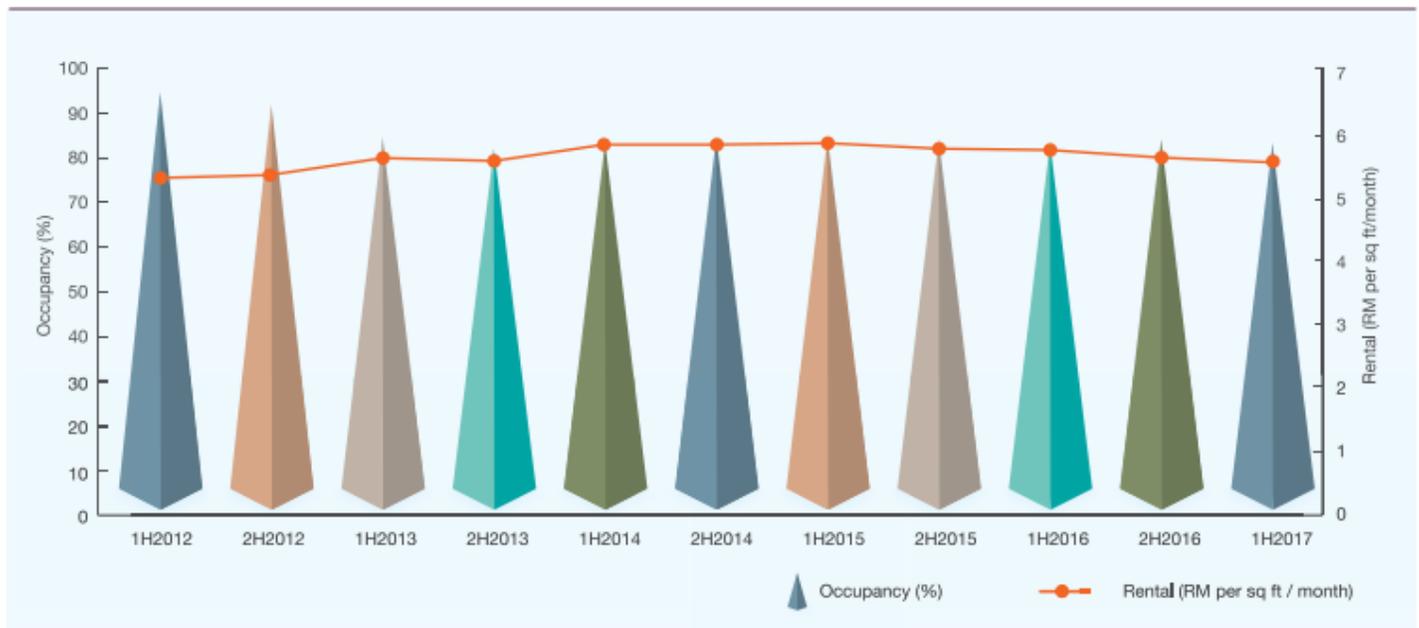
KL city office occupancy continues decline in 1H2017

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PETALING JAYA (Aug 21): Occupancy rates for purpose-built offices (PBOs) in Kuala Lumpur city continued its decline to record at 80.7% in 1H2017 compared with 82.8% in 2H2016, according to property consultancy Knight Frank Malaysia in its Real Estate Highlights 1H2017.

The high supply pipeline and weak demand from its traditional occupiers in the oil and gas (O&G) and banking sectors have continued to impact the office market in the city, it said.

FIGURE 2
Occupancy and Rental Trends 1H2012 – 1H2017



Source: Knight Frank Research

“As for the decentralised office locations in KL fringe and Selangor, the overall occupancy rates remained fairly stable at 90.9% and 77.8% in 1H2017, supported by improved connectivity following the completion of rail infrastructure works, namely the light rail transit (LRT) extension line and Sungai Buloh-Kajang MRT (Mass Rapid Transit) Line 1,” it added.

With demand lagging behind supply, the KL and Selangor office segment is expected to remain lacklustre. As of 1H2017, the cumulative supply of PBO space in KL and Selangor stood at about 99 million sq ft.

The average rental rates in both KL city and KL fringe dipped to RM6.04 psf and RM5.69 psf, respectively, while in Selangor, the rental rate remained stable at RM4.13 psf.

Despite a slow office market performance, well-located Grade-A office space in KL continued to command higher asking gross rents ranging from RM7 psf to RM15 psf per month, it noted.

TABLE 4
Selected Grade A Office Asking Rentals

Building Name	Asking Gross Rental (RM per sq ft/month)
KL CITY	
Integra Tower	11.00
Menara Maxis	10.50
Vista Tower	7.50 - 8.50
G Tower	8.00
Menara Darussalam	8.50
Menara Binjai	8.80
Menara Prestige	7.50 – 8.50
KL FRINGE	
Menara CIMB	8.00
The Gardens North & South Towers	7.80
Axiata Tower (formerly Quill 7)	7.50
Menara Allianz Sentral & Nu Tower 2	7.00
1 Sentrum	7.80
Menara BRDB	6.50
BEYOND KUALA LUMPUR (SELANGOR)	
1 First Avenue	6.00
Surian Tower	5.50
The Ascent @ Paradigm	5.50
The Pinnacle	5.50
Wisma Mustapha Kamal	4.50
Puchong Financial Corporate Centre (Tower 4 & 5)	4.50
Plaza 33	4.50

Source: Knight Frank Research

“The quality of office stock continues to be upgraded to cater to the requirements of large corporates and multinational companies,” said Knight Frank Malaysia managing director Sarkunan Subramaniam.

Knight Frank noted that investment activities were fairly active in 1H2017 with several office buildings under offer and in stages of negotiation.

“Some of these older office assets offer refurbishment and redevelopment opportunities and they include Menara Prudential in KL city and Wisma MCIS and its annexe block in Petaling Jaya.

“The most anticipated property transaction for the remaining of this year is the sale of Vista Tower, the final component of The Intermark integrated development located at Jalan Tun Razak, KL.”

The 62-storey office tower offers 550,000 sq ft of net lettable area (NLA) with typical floor plate ranging from 11,000 sq ft to 11,900 sq ft.

Moving forward, Sarkunan said both rental and occupancy levels will continue to be under pressure where new take-ups from O&G and banking sectors are expected to remain challenging while for IR, recruitment, e-commerce and shared services sectors, more inquires and leasing activities are expected.

However, over in Penang, Sarkunan said some buildings have achieved a slight increase in occupancy levels and

rentals, which provided some comfort to an otherwise dampened property market.

TABLE 7

Asking Gross Rental of of Selected Purpose-built Office Space on Penang



Building Name	Location	Asking Gross Rent (RM per sq ft per month)
Hunza Tower	Georgetown	3.80 (renewed rent)
Menara Boustead Penang	Georgetown	2.80 to 3.00
Menara KWSP	Georgetown	2.70 to 3.00
MWE Plaza	Georgetown	2.80 (fixed rent)
Wisma Great Eastern	Georgetown	3.00
Menara IJM Land	Jelutong	RM3.30 to RM3.60
Suntech @ Penang Cybercity	Bayan Baru	RM3.50 to RM3.70
One Precinct	Bayan Baru	RM3.50 (fixed rent)

Source: Napic / Knight Frank Research (as of June 2017)

The occupancy rates for the four prime office buildings in George Town have improved slightly to between the range of 90% and 100%.

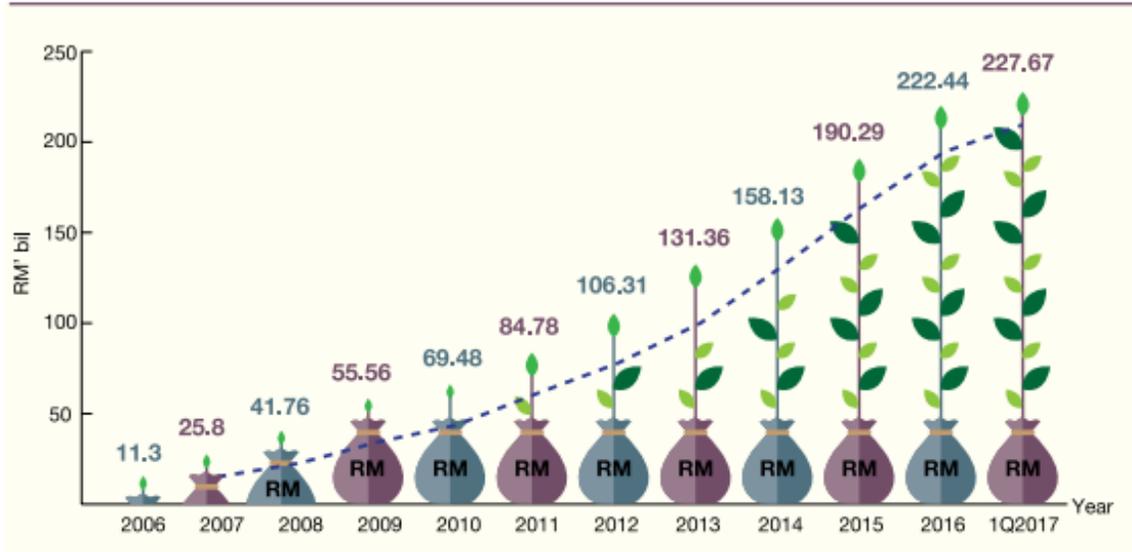
Similarly for the newer buildings located out of George Town, namely One Precinct, Suntech and Menara IJM Land, their average occupancy rates have also crept up slightly to 97%, up from 95% in 2H2016.

“Rentals for some of the newer office buildings have also increased; tenancies at Hunza Tower are now renewed at RM3.80 psf per month compared with RM3.50 psf per month in 2H2016. At Menara IJM Land, we understand that rentals have increased by 5%,” said Knight Frank in the report.

The existing supply of office space (10 storeys and above) on Penang island in 1H2017 stood at 5.71 million sq ft.

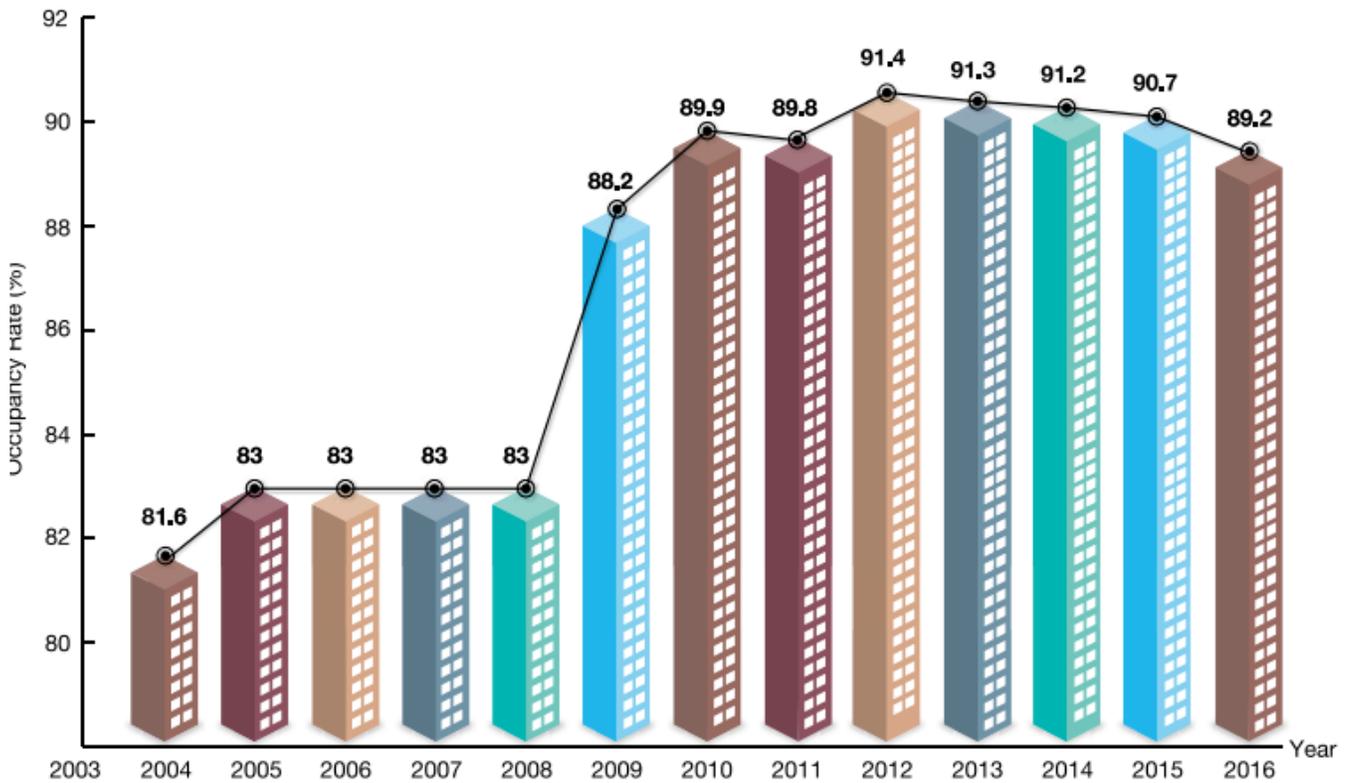
Office buildings under planning on Penang island include the 28-storey office tower with an NLA of 370,000 sq ft under The Light City waterfront project and Aspen Group’s planned Beacon Executive Suites, which will feature a 30-storey Small-office Home-office (SoHo) development with a total of 227 furnished executive units with standard size of 980 sq ft on the upper levels and four retail lots on the ground level.

FIGURE 4
Total Cumulative Investment in Iskandar Malaysia (2006-1Q2017)



Source: Napic / Knight Frank Research

FIGURE 6
Occupancy Rate of Purpose Built Office Spaces in Kota Kinabalu (%)



Source: Napic / Knight Frank Research