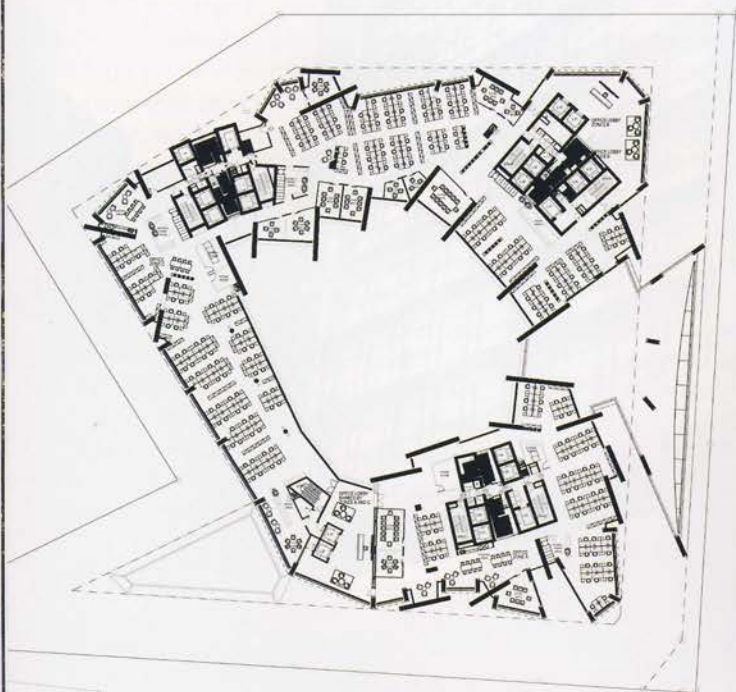


POTENTIAL FOR GROWTH

New government incentives and a demand for MSC status buildings are encouraging further development in and around Kuala Lumpur says the team at Savills Rahim & Co



Below The new Foster & Partners Troika tower in Kuala Lumpur comprises three towers set around a landscaped garden. The floor plan shows a test fit for a contemporary office designed by PDM.

Stability in the short term, but challenging in the long term – that's the prediction for the office market in Malaysia. The team at Savills Rahim & Co reports that changing tenant demands and new office developments will have an ongoing impact on the market.

Economic improvement began in 2010 with Malaysia's GDP expanding by 10.1% and 8.99% in the first and second quarters respectively. The team at Savills Rahim & Co reports that the economy is expected to continue to recover at a slower rate – growth for the fourth quarter of 2010 and first quarter of 2011 was 4.8% and 4.6% respectively. As business sentiment improves, the soft market for office space has improved slightly, with more multinational corporations now considering the capital expenditure of office relocation and/or expansion to be worthwhile.

A demand for new, but cheaper office premises has led to an increased take-up of office space in new commercial districts outside of the KL city centre, such as Bandar Utama. An increased demand for convenience has meant buildings close to public transport or offering high car park ratios have also been more successful securing tenants. However, probably the most significant demand of 2010 was for MSC Malaysia status office buildings. MSC status companies must occupy a currently limited supply of MSC status buildings. The growth of these companies has been impressive – there are now 2738 MSC Malaysia status companies.

The year 2010 saw the completion of four office buildings outside KL city centre, adding nearly 79,000m² of new space to the market. Occupancy levels of these buildings range from 20% to 100%.

Four more buildings were completed in KL city centre, including Menara Worldwide, Hampshire Tower and Cap Square Tower. The Troika, designed by world-renowned architects Foster & Partners, also completed in 2010, offers limited but unique office space in a mixed-use scheme. This tower incorporates 5109m² of contemporary office

space overlooking an internal landscaped garden designed by Seksan Design. It also has the convenience of close transport – Ampang Park train station is opposite the building.

Savills Rahim & Co says capital values are expected to remain stable, ranging between RM750 and RM1000 per sq ft, with net yield estimated to be between 6.0% and 7.0%.

The economy is expected to be boosted by the 3rd Economic Transformation Programme – an update was announced by the Prime Minister at the beginning of 2011. And new tax incentives under the Petroleum Income Tax Act are expected to stimulate domestic exploration activity.

Another growth incentive is the government's intention to establish Malaysia as a world-class data centre hub. This programme aims to increase sales of Malaysia data centre floor space. More than RM671 billion will be invested to develop new and upgrade existing facilities to cater to the increased demand.

Over the past five years, the total supply of purpose-built office buildings of all grades in the Klang Valley has grown at a compounded annual growth rate of 4.5%. Much of this space is in the Golden Triangle area.

In the next five years, an estimated 1.3 million m² of new office space will be completed, of which about 27% will be in the suburbs.

Savills Rahim & Co says the general outlook for the office market remains cautious, until a more convincing and firmer economic performance is achieved. With the new supply of office space coming on stream, landlords – especially for older buildings – are expected to come up with better leasing offers to retain and attract tenants.

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