PURPOSE BUILT OFFICE MARKET REVIEW

KUALA LUMPUR

1H 2018

THE HIGHLIGHTS

- The supply of purpose-built office space in KL and Selangor stands at approximately 127 million sq ft as at end of 2H2017
- Incoming supply 2018 to 2020 is projected at some 15.5 million sq ft
- Landlords are becoming more flexible with terms and are offering more incentives both to encourage current tenants to remain in their buildings and to entice prospective tenants to relocate to their premises
- Rental rates for Grade A buildings remained stable while older buildings registered a slight dip in rental rates.
- Transit oriented developments (defined as developments within a 400m radius of a transport station) are becoming more attractive with the completion of MRT Line 1 opening up the suburban heartlands surrounding the urban core, further encouraging the decentralization of the office market.
- Dual-compliant Grade A buildings with MSC status and green ratings should continue to do well provided they are within walking distance to an LRT/MRT station and amenities.

MARKET OVERVIEW

Purpose Built Office

2017 saw the entry of some 5.2 million sq ft of new office space into the Klang Valley market with the bulk of the new supply located in decentralized areas outside the Kuala Lumpur urban core. These new completions have seen the total stock of purpose-built office space in the Klang Valley rise to some 127 million sq ft. The 1H 2018 saw no new entries into the KL market.

Grade A buildings across the greater Kuala Lumpur area with modern façades, good connectivity to public transport and up-to-date facilities such as Green Building accreditation and Multimedia Super Corridor (MSC) status are able to fetch rentals generally in the range of RM6.50 psf to RM8.50 psf depending on location. Office buildings within and around KLCC command the highest rentals of between RM8.00 psf and RM13.00 psf as this location is still vital to oil & gas players despite the recent woes faced by the industry, as well as tenants in the finance industry who require a prestigious “downtown” address. Meanwhile, similar spec buildings in prime decentralized areas are able to secure rentals of between RM6.50 psf and RM8.50 psf; indicating fairly healthy demand for quality suburban office space despite the influx of new office space.

KL Sentral, the most concentrated office hub outside the city centre, fetches the highest rentals among all the decentralized locations; underscoring the popularity the transport hub enjoys as a result of its unrivalled connectivity and integrated office, residential, retail and hotel components. Nearby Bangsar South and MidValley City, with their comprehensive amenities that rival similar developments in the urban core, continue to attract corporate tenants with rentals as high as RM6.50 per sq ft and RM7.80 per sq ft, respectively.

Building	Asking Rent (psf)
KLCC - GOLDEN TRIANGLE	
Menara Perak	RM8.50
Integra Tower	RM11.00
Menara Binjai	RM8.80
Menara Ilham	RM7.50
CENTRAL BUSINESS DISTRICT	
Menara Capsquare	RM6.50
Menara Dlon	RM7.00
Menara Liberty	RM4.00
KL FRINGE	
Menara Shell	RM8.50
Wisma Guocoland	RM8.00
Southpoint	RM7.50
Menara LGB	RM7.50
Vertical	RM5.50
SELANGOR	
The Ascent	RM5.50
Sunway Geo	RM5.00
Plaza 33	RM4.50

Meanwhile, on the other side of Bangsar from KL Sentral and MidValley City, Damansara Heights, a long-overlooked address for corporates due to its ageing office stock, appears poised to enter a new era of popularity with the massive redevelopment of Pusat Bandar Damansara ("PBD"). Guocoland's project in Pusat Bandar Damansara, Damansara City, is growing in popularity with Wisma Guocoland clocking an impressive take-up rate of 75% occupancy within a year of its completion and is now almost 100% occupied. In fact, it is likely that the completion of the prestigious, 16-acre Pavilion Damansara Heights integrated development in 2020 will elevate PBD to a level on par with the other decentralized locations. PBD's enviable location, exclusive address, and close proximity to the affluent neighbourhoods of Damansara Heights, Bangsar, Mont Kiara/Sri Hartamas and Petaling Jaya, as well as its direct access to its own dedicated MRT station all but guarantees the success of this luxurious development upon its completion.

The Vertical, Bangsar South

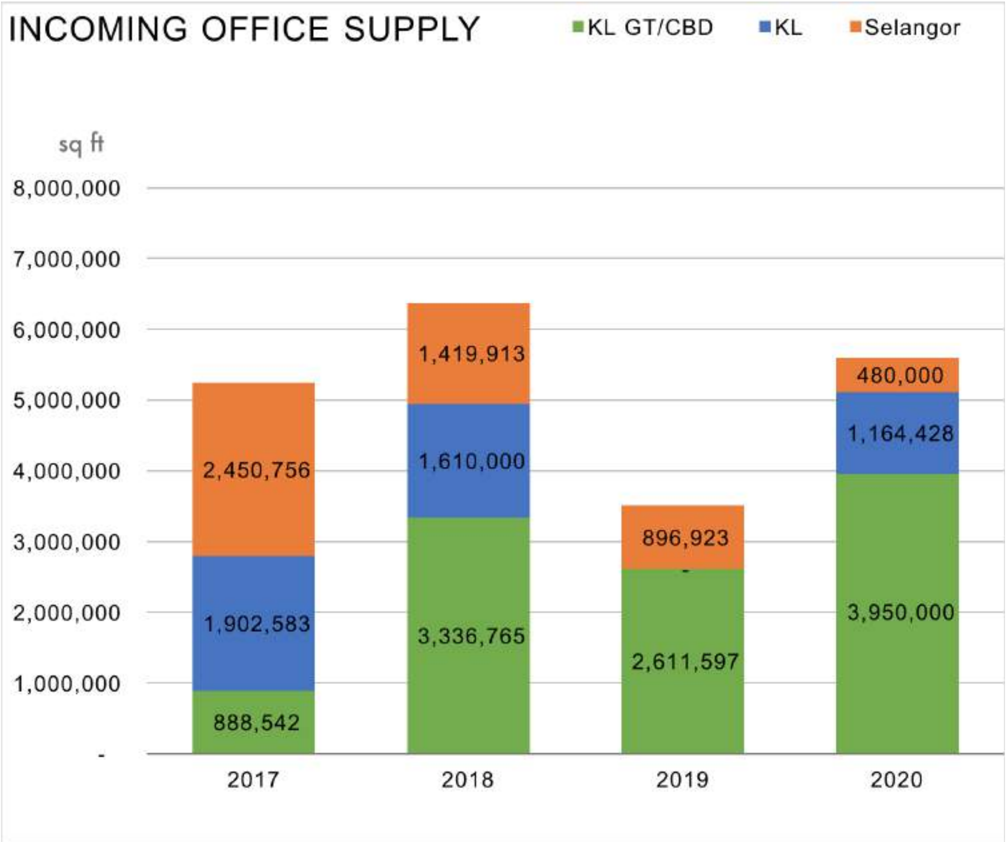
Over in Kuala Lumpur's historical Central Business District, however, rental rates and occupancies continue to come under pressure which is unsurprising given that the majority of buildings there are generally rather old and struggle to meet the requirements of today's corporate clients. Furthermore, despite the fact that this area is well served by multiple LRT lines, the area remains heavily congested and parking facilities are scarce. Therefore, while it may be that the older buildings in the CBD will be able to retain some of their longtime tenants who have their own reasons for staying put, it is clear that landlords of these buildings will have their work cut out for them.

Wisma Guocoland

A trend that cannot be ignored is the rise of co-working spaces all around the Klang Valley. Service offices are not new to the market, with the likes of Servcorp, Regus and CEO Suites having been in Malaysia for the better part of two decades. The past year has seen the entry of new players such as Common Ground, the Colony, Co-Labs, and others taking up office space in buildings in every corner of the city. Rather than seen as competition, most landlords view service offices as beneficial to their buildings, allowing for new startups to conserve on fit-out costs before moving into traditional office space or for consultants who need temporary working space.

Common Ground, Damansara

LOOKING AHEAD



Source: Rahim & Co Research

With some 15.5 million sq ft of new Grade A office space expected to hit the market over the next 3 years, there is obvious cause for concern. However, much of the office stock in the Klang Valley is dated and nearly obsolete. Technology and security have become increasingly important for tenants, which are some of the reasons why the decline in rental is mostly seen in the Central Business District, as these properties cannot compete with the newer entrants to the city.

It is expected that the market will see major further relocations as tenants look to take advantage of competitive rates and move into the newer, better quality buildings. While much of this movement is expected to follow the migration out of the congested city centre to suburban transit-oriented developments, the urban core will once again become attractive as the continued development of the MRT and other rail based intra-city networks eases congestion.

The recent historic change in government is unlikely to affect office market trends in the short to mid-term as all approved projects currently underway are expected to continue. In the case of Tun Razak Exchange (TRX), the myriad incentives offered by the previous government under its TRX Marquee Incentive scheme, have secured the interest of large financial corporations such as HSBC, Affin Bank and Prudential to invest. The development is also very well planned with infrastructure, residential and retail components which is in line with what office space users look for in this market. However, Bandar Malaysia, easily the largest mega project at 456 acres, is likely to be shelved for the foreseeable future due to the immense costs involved and the fact that it is still in its infancy.

Selection of Upcoming PBOs

Development	Net Lettable Area* (sf)	Completion Date
PNB 118, Jalan Hang Jebat	1 million	2020
The Exchange 106, TRX	2.62 million	2018
Southpoint Tower, Midvalley	860,000	2018
Equatorial Plaza, Jalan Sultan Ismail	400,000	2018
Aspire Tower, KL Eco City	400,000	2018

**Office component only*

New or old, none have been spared from the economic events which have buffeted the city's office market; in particular the sharp plunge in crude oil prices that began in 2014. As oil prices fell to record lows, landlords of both older and newer buildings that cater to the oil & gas industry saw either their existing tenants downsize or pack up and leave altogether. Landlords of newly completed buildings in the city centre who had been targeting the O&G industry suddenly found their task of filling their buildings an uphill battle as leasing enquiries dried up. As a result, many landlords are now offering better incentives than ever before in the form of longer rent free periods, renovation subsidies, parking facilities and more attractive renewal terms. Even though oil prices have since recovered to healthy levels, this improvement is unlikely to reverse the damage done to vacancy and rental rates until and unless it becomes proven that this is a long term and sustainable trend.

Artist Impression of PNB 118

Fortunately, much of the potential occupancy woes have been mitigated by several large companies opening their flagship offices or relocating from other cities in the region to take advantage of KL's lower operational costs and its role as a strategic hub in the region. With a young and increasingly educated population and the government's goal to move away from the manufacturing sector, KL is fast evolving into a city that can compete globally. Indeed, short to medium terms office markets woes asides, KL is finally coming into its own as a modern metropolis with state-of-the-art buildings and infrastructure to match its skilled and sophisticated work force. Like tech giants Facebook and Google, who opened their respective Malaysian HQs in KL Sentral in 2016, we can expect to see more world class corporations setting up shop in KL in the years to come.

CORPORATE ADVISORY

In this dynamic business environment, where flexibility and speed to market are critical, there is always risk associated with committing to an inherently inflexible lease or ownership contracts. Decisions relating to timing, cost and the quantum of real estate can have a fundamental impact on business profitability, staff recruitment and staff retention. Access to sound advice and knowledge is essential and in most cases their advice is free of charge to tenants.

Our Corporate Real Estate Team has established itself as a market leader in the provision of objective, process-driven solutions to a wide range of client requirements.

Our aim is to simplify the real estate process, applying our in-depth knowledge and expertise to procure the best solutions for tenants. In doing so, we process assignments in a systematic, time-efficient manner avoiding expensive property pitfalls and adding tangible value to our clients' real estate decisions. Our range of services to tenants includes the following:

- **Office Space Acquisition**
- **Office Space Disposal**
- **Lease Renewal vs Relocation Study**
- **Strategic Real Estate Planning**
- **Rent Reviews**

For more information, please contact:
James Goh
+6017 277 6784
jamesgoh@rahim-co.com

Rahim & Co International Sdn Bhd (1126597 – X)
Level 17 Menara Liberty, 1008 Jalan Sultan Ismail, 50250 Kuala Lumpur
T +603 26919922 F +603 2691 0096 E agency@rahim-co.com
www.rahim-co.com

Kuala Lumpur ·Alor Setar ·Butterworth ·Cheras·Ipoh ·Johor Bahru ·Kangar ·Kemaman ·Klang ·Kota Bahru ·Kota Kinabalu · Kuala Terengganu ·Kuantan ·Kuching ·Malacca ·Penang ·Petaling Jaya ·Seremban ·Subang Jaya ·Sungai Petani ·Temerloh