Commercial properties are in demand again

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THE commercial property sector is getting into the spotlight again after succumbing to a massive slowdown during the regional financial crisis.

Over the past year, it has gradually been on a recovery mode with renewed interest from both developers and buyers for new office space, shop offices and retail space.

A freeze on new office buildings in 1999, except for use as corporate head offices, has put a lid on supply of new office space. A shortage of quality and modern office space or Grade A offices in Kuala Lumpur has driven rental rates and occupancy upwards by between 5% and 10%.

The overall supply of office space in Kuala Lumpur city centre stands at approximately 66 million sq ft with a total occupancy rate of around 82%.

Within the central business district, the supply of Grade A office space totals 17 million sq ft with an average occupancy rate of 90% while in the fringes of Kuala Lumpur, there are some 4.5 million sq ft of space with an average occupancy rate of 92%.

Office buildings have been filling up with rental rates on the upward trend to reach between RM4 and RM5.50 per sq ft (psf) from RM3 and RM4 psf previously.

Recently a number of office development is in progress in Kuala Lumpur including CapSquare in Jalan Munshi Abdullah, Menara YNH in Jalan Sultan Ismail, Lot 163 Suites in Jalan Perak and Menara CAHB in Jalan Raja Laut.

In the office sector, there will be at least 4.5 million sq ft of net lettable office space coming onstream from now to 2009.

With the advent of real estate investment trusts (REITs), Grade A office buildings with good yields of around 6% to 7% are much sought after by investors, especially REIT candidates, and this would spur more such developments.

Sunway City Bhd senior managing director **Datuk C. K. Wong** said both local REITs as well as those with foreign partners were expected to play a prominent role in the office investment market.

A number of integrated commercial developments are also underway including PJ 8 in Section 8 Petaling Jaya, The Pavilion, currently being built on the former Convent Bukit Nanas school grounds in Jalan Bukit Bintang, The Gardens in Mid Valley City and KL Sentral in Brickfields.

More building activities can also be seen in the Klang Valley suburbs including One Utama's office precincts that will feature new office blocks and a hotel.

Future projects within Kuala Lumpur Sentral include additional office space, service apartments, an entertainment and exhibition centre and a four star hotel.

International property consultant DTZ Nawawi Tie Leung Sdn Bhd executive director **Brian Koh** said Malaysia is considered as one of the lowest cost countries in terms of office cost per workstation and good upside potential is in the offing.

Brian Koh


Datuk C.K. Wong

A recovery in Kuala Lumpur's prime office market has raised the city's annual office cost per workstation by 14% to US$2,390 this year, placing it in the 109th position from 112th position in the Global Office Occupancy Costs Survey 2006.

A robust retail sector is fuelling renewed interest for shopping complexes and quite a number of new projects are underway in various parts of the Klang Valley, especially Kuala Lumpur and Petaling Jaya.

Among the more notable projects are The Gardens in Mid Valley City, The Pavilion in Kuala Lumpur and Sunway Pyramid 2 in Bandar Sunway.

According to the Malaysian Association for Shopping and High-rise Complex Management (PPK) president **Richard Chan**, another 50 new shopping centres to be built at a cost of RM9bil would become operational this year, to add to the current 220 shopping centres nationwide now.

Within the Klang Valley alone, another 5.4 million sq ft of new retail space will be added.

The competitive ringgit vis-a-vis other foreign currencies has made shopping in Malaysia a popular reason for tourists to visit the country.

Even the hoteliers are happier these days with rising room rates and occupancy. Tourism Malaysia's aggressive promotion activities and Malaysia's growing popularity as a destination for meetings, incentives, conventions and exhibitions (MICE) is driving stronger growth for the hotel sector.

Industry players concurred that there is good upside potential for room rates to improve further, given that hotel room rates in Malaysia are among the lowest in the region.

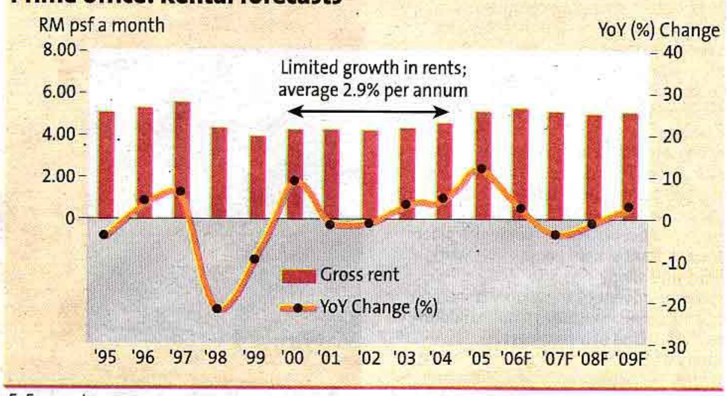
Ireka Land Sdn Bhd chief executive officer **Lai Voon Hon** said tourists from around the world find the country a haven for a safe holiday and a shopping paradise.

Last year, 15.7 million tourists visited Malaysia last year and contributed a total spending of RM29.6bil, of which RM6.5bil went to shopping, according to research companies.

"Average room rates for 5-, 4- and 3-star hotels increased by 15% to 20%, to RM400, RM240 and RM120 respectively.

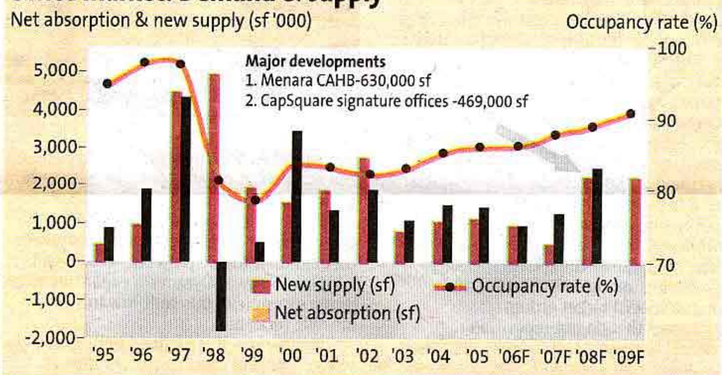
"An overall occupancy rate of 65% was achieved last year while well-located five star city hotels have occupancy in excess of 80%," Lai said.

Prime office: Rental forecasts



F: Forecast
Source: DTZ Research

Office market: Demand & supply



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Richard Chan