Occupancy rate going up

Peter Chan
Executive Director
Tunas Gemilang Sdn Bhd

STARBIZ: Your outlook for the commercial property sector.

Occupancy and rental rates of major Petaling Jaya/Kuala Lumpur suburban offices have generally been increasing since 2003. Over the next year, occupancy rate of these offices is expected to rise further, from the current average of 88% to about 95%.

Rental rates of these premises.

Since 2003, the average rental rates of PJ/KL suburban offices have increased from RM2.50 to RM3.25 per sq. ft.

Some 25% of the office buildings in these suburbs have achieved rents of above RM3.50 per sq ft, which is higher than many office buildings in the central business districts. There is strong demand for quality office buildings in the PJ/KL suburbs, and rents will continue to trend upwards.

Overall, rental rates of offices in Malaysia are still one of the lowest among the major cities in Asia, and there is scope for long-term growth.

Factors for these upward trends.

The main reason for the improving performance of these suburban offices is the trend of decentralisation.

Petaling Jaya has now emerged as the prime decentralised location.

The "pull" factor is the large pool of highly educated and skilled workforce available in the area.

It has the highest concentration of middle- and upper-middle income families in the whole country.

The "push" factor, as we all know, is the increasing traffic congestion in downtown Kuala Lumpur.

All the major IT companies, including IBM, Dell, Cisco, Unisys, Novell, 3Com, Agilent, Alcatel and Veritas, have now relocated to Petaling Jaya.

The top accounting and advertising firms have also relocated to these suburbs.

Major multinational corporations that are here include Siemens, Philips, DHL, FedEx, 3M, Fuji Photo and L'Oreal.

The conditions for this decentralisation will grow stronger.

Oil prices are a concern. Companies will try to increase the productivity of their employees, and one way is to reduce the stress of a long commute.

Challenges and issues faced by the industry and their impact to your company.

The challenges include rising interest rates, weakening consumer sentiments and the prospect of moderating economic growth. We are in a challenging economic environment.

In this environment, our strategy is to focus on differentiation.

Our office development, PJ Trade Centre, is very different from other office projects. We are targeting a market that will value the difference we offer.

How do you find some of the ongoing and planned commercial projects?

Our view is that the commercial projects being developed are generally good. For us, we are committed to being innovative and creative, to do something different, to push the industry forward.

We hope that PJ Trade Centre will make people think about what a Malaysian modern office development should be like.

Peter Chan

Lai Voon Hon at the company's Sandakan Harbour Square

Demand spillover to suburban areas

Lai Voon Hon
Chief Executive Officer
Ireka Land Sdn Bhd

STARBIZ: Your expectations on the performance of the commercial property sector these one to two years.

I am generally upbeat on the performance of the office and hotel sectors for the next few years.

The office sector, especially "Grade A" offices in the Klang Valley, is in my opinion at an early stage of an up-cycle mainly fuelled by increased demand for office space due to a lack of new quality office supply.

The advent of real estate investment trusts, transfer of ownerships due to sales and leaseback preferences of corporations and the freeze in new speculative office development within Kuala Lumpur city centre have generated healthy performance of this sector.

The improved demand for offices have spilled over to suburban areas like Petaling Jaya, KL Sentral & Mont' Kiara.

In what ways have the sector improved?

There has been a healthy increase in rental rates of offices and retail shops, especially 'Grade A' offices and popular shopping centres like KLCC, Mid Valley and One Utama.

On the hotel front, most hotel rooms in Kuala Lumpur have seen a big increase in room rates and occupancy rates. Our The Westin Kuala Lumpur Hotel, for instance, has achieved double-digit growth over the last two years.

I strongly believe we are only at the beginning of an up-cycle in the hotel industry and expect room rates and occupancy to continue to grow as we have a long way to catch up compared with the rates in other key Asian cities.

Factors for the improving performance in the commercial sector.

In the case of the hotel industry, it is largely due to increased awareness of Malaysia as a safe and affordable place to meet and to holiday.

Over the last few years Malaysia has become a popular destination for the Middle Eastern travellers.

The efforts made in the promotion of our country by both the private and pubic sectors have produced huge dividends.

This growth should be sustainable as the current room rates in Kuala Lumpur and at famous resorts in Kota Kinabalu and Langkawi are very low compared with our neighbouring countries.

The continued good performance of the economy in terms of GDP growth (expected to be 6% by Bank Negara) will continue to give confidence for businesses to set up new or larger premises.

Foreign companies relocating to Malaysia

Brian Koh
Executive Director
DTZ Nawawi Tie Leung Sdn Bhd

STARBIZ: Your outlook for the commercial property sector.

DTZ is generally bullish of the commercial property sector for the immediate term. With the generally limited supply and growing demand, we are seeing a stronger growth in rental rates amidst declining vacancy rates. Nevertheless, we see market risks developing again over the next three to five year timeframe as the new cycle of construction projects will be coming on-stream.

Observations on the market trends in the past year.

We have already seen movement of 10% for prime space and probably 5% for the more secondary space over last year. We can expect more upward movement in the next 24 months, probably at a slower pace.

In the retail market, rental movement is more difficult to monitor, but we expect to see continued upward movement in rents.

For example, Lot 10 and Starhill in the Starhill REIT prospectus reported an improvement of 4.92% and 20.47% in their average rents for the financial year 2005 compared with 2004.

New projects are also reporting comparable rents being achieved to existing benchmark leaders.

We still expect to see upward movement in rental across the board especially for prime properties.

Your opinion on what contributed to these trends.

We are seeing some relocation from other more expansive cities in Asia to Kuala Lumpur.

Improved business sentiments also result in the upgrading and expansion of existing operations.

The opening up of the country's financial market is also driving demand for new office space.

On the retail front, although consumer sentiment is teetering at the edge, this has been balanced by improved tourist arrivals.

Challenges and issues faced by the industry and their impact.

Construction and land costs have been escalating for the last two years, and add to this is the rising financing cost, which is expected to continue upwards. Project financing will continue to be selectively available and it is always hard to get a major pre-commitment from a major tenant to jumpstart a new project in the office sector.

Views on some of the ongoing and planned commercial projects.

As a trend, we do see better quality projects coming in, such as PJ Trade Centre, which DTZ is involved as co-marketing agent for en-bloc sale.

To compete in the future, and attract the best tenants, developers realise that quality will go a long way towards competitive advantage, and long-term success.

The Pavilion is another project that we are really excited about and it will certainly be an iconic project with a strong regional profile.

How many commercial developments are there in the Klang Valley?

In the office sector, there are at least 4.5 million sq ft coming onstream from now to 2009. Projects to watch are KL Sentral, Mid Valley City, and CapSquare .

In the retail sector, projects to watch are The Gardens at Mid Valley City, Sunway Pyramid 2, and of course The Pavilion. I-City and the Suria KLCC extension are also two projects that would have an impact on the local retail scene. In total, we are talking about new space of 5.4 million sq ft.

Which markets are among the most active in terms of new developments and growth potential?

Other than the Klang Valley, Johor Baru appears to be fairly active at least in the retail sector, despite the very negative perception from the various abandoned projects there.

Notwithstanding that, Jusco has successfully developed two malls in the southern city and is an anchor in another one over the last three years.

So there are still opportunities in the midst of a challenging market.