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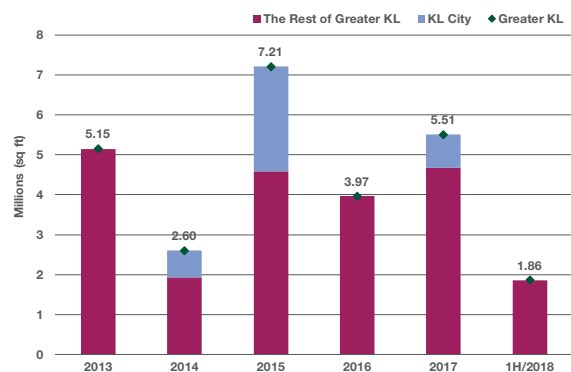
Savills World Research
Malaysia

Asian Cities Report **Kuala Lumpur Office**

2H 2018

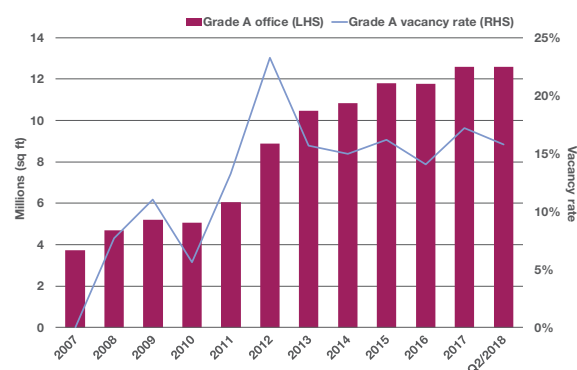


GRAPH 1
New office supply in Greater KL, 2013 – 1H/2018



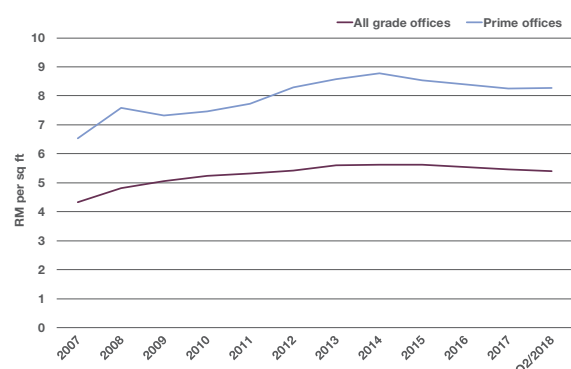
Source: Savills Malaysia Research

GRAPH 2
Grade A office supply and vacancy rate, 2007 – Q2/2018



Source: Savills Malaysia Research

GRAPH 3
Greater KL average office rents, 2007 – Q2/2018



Source: Savills Malaysia Research

New supply

Greater KL continues to see supply growth, although in 1H/2018, all 1.86 million sq ft of this space was located in suburban areas. In keeping with longer term trends, about 15-20% of the new supply came in the form of stratified offerings, which generally do not compete well with the remaining en-bloc space available in the market.

Of the total new office supply on offer, 1.5 million sq ft is located in single-owner, en-bloc office buildings, the most prominent of which is possibly the Menara Celcom. Located at MRCB's new integrated development – PJ Sentral – Menara Celcom will house Celcom Axiata Berhad, the leading mobile telecommunications provider in Malaysia. This building has been purpose-built for the tenant, who will be taking up a 15-year lease.

Pre-lettings in the other new completions have not been as strong, due to a combination of market conditions and building attributes; in Greater KL, it is not uncommon for buildings to complete with less than 30% of space pre-let.

Nevertheless, construction of new buildings continues unabated, with about 20 million sq ft coming on stream between now and 2022. Of the future supply, 58% will be located in KL City, followed by Outer KL (22%) and KL suburbs (20%). With the exception of TRX's Signature Tower, the remaining city-centre space is mostly completing from the second half of 2020 onwards.

The new financial and business district in KL – Tun Razak Exchange (TRX) has received interest from both foreign and domestic investors, and continues to do well. With most of the parcels in the first phase (approximately 50 acres) taken up, there are eight parcels left, out of which four are owned by the Ministry of Finance Malaysia. The Exchange 106, a 492 meters' signature tower built by Indonesia's Mulia Group, will be completed by the end of 2018, while Menara Prudential by IJM Corporation Berhad is scheduled for completion in Q1/2019, adding approximately 2.7 million sq ft in total to KL's Golden Triangle office

market. This is the next phase of the city's growth, and a substantial transition that will change the city's skyline. While space in Menara Prudential is being taken up, the market is keeping a keen eye on the pre-leasing activity at The Exchange 106. Other office towers in the TRX include HSBC's headquarters, Affin Bank's headquarters and a corporate office tower within the TRX Lifestyle Quarter, all of which are scheduled for completion within the next three years.

Vacancy rates

Office vacancy rates in Greater KL (excluding Cyberjaya) continue to rise and increased by 0.3% in Q2/2018 (Q1/2018: 23.0%). This is mainly due to the higher vacancy rates in Outer KL where there is a large amount of new additions combined with low occupancy of stratified office space. Based on Savills basket of 21 Grade A office buildings in Greater KL, the Grade A office vacancy rate has remained fairly stable over the past five years, hovering between 14% and 17%.

Generally, pre-commitment levels for office buildings (buildings that are not owner-occupied) in the region are low. The occupancy rate for newly-completed office buildings in Greater KL in 2017 and 1H/2018, averaged 23% and 3% respectively. Having said that, high grade offices in prime locations have received better responses as they are the preferred address for corporate tenants.

Rents and prices

As the market faces a softening occupier market, landlords continue to offer greater rental incentives to attract prospective tenants, putting further pressure on already competitive rents. The average office rent in Greater KL decreased by 1.0% QoQ, falling to RM5.41 per sq ft per month in Q2/2018. The Grade A office rental market remained stable during the first half of 2018 and held at RM8.27 per sq ft per month.

The office investment market fared better in 2017, increasing by 71% YoY and recording a total investment value of RM1,399 million. This was mainly due to two big ticket transactions: Wisma Selangor Dredging (RM480 million) and Vista Tower @ The Intermark (RM430

million). There were only two office building transactions reported in 1H/2018 with a total investment value of RM240 million. Wisma Mont Kiara was acquired by Saudi Arabia's Al Rajhi Family for a total consideration of RM122 million while the CIMB Group acquired Wisma UOA Pantai for RM120 million. Besides, two office buildings have been put up for sale this year: Menara Prestige at KL City, and Axiata Tower at KL Sentral.

Flexible workspaces

Globally, the flexible workspace culture is on the rise. Flexible workspace is a ready-to-use office space that offers greater flexibility, shorter leases, and personalized services. This concept made its way to Malaysia more than two decades ago. However, the total amount of flexible workspace accounts for less than 1% of the total office space in Greater KL. Most operators prefer to set up through shops and/or industrial areas in decentralized locations for cost effectiveness.

The most common types of flexible workspaces in Malaysia are either serviced offices or co-working spaces. Serviced offices are mainly operated by international players who prefer to be in purpose-built office buildings in prime locations. The major serviced office operators are Regus, Arcc offices, Servcorp and CEO Suites. In recent years, co-working spaces have become increasingly popular in KL and are primarily led by local operators such as Common Ground, CO3 Social Office, Komune, W Space, Colony, etc. They are sprouting up in decentralized commercial areas, targeting start-ups, freelancers and SMEs.

Amongst the key global operators, WeWork, the global co-working space leader, has secured over 100,000 sq ft for their flagship KL location, a site that was advised by Savills. Australia's largest collaborative workspace and serviced office operator, WOTSO WorkSpace, opened its first outlet (13,000 sq ft) in Mercur Summer Suites at KL City early this year. A second outlet is in the pipeline at Iskandar Puteri, Iskandar Malaysia.

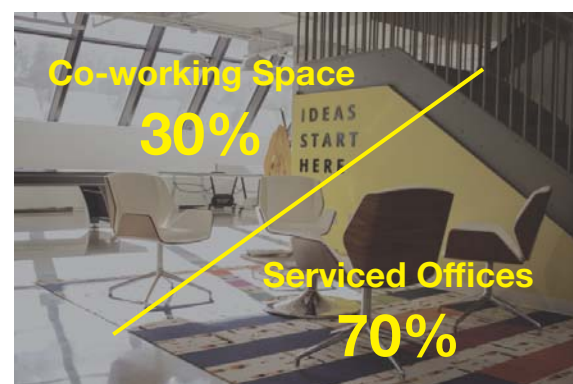
Market outlook

The high impending supply of office space is likely to cause a subdued-to-negative effect on office rents, and office vacancy rates are expected to rise. Nevertheless, the incoming office supply comprises buildings that are superior to their predecessors, and will allow the ability to attract quality tenants and fetch higher rents. Furthermore, newer and better office buildings that offer attractive rental packages may outperform older office buildings due to the flight-to-quality phenomenon. This can be seen through notable tenant movements such as Hong Leong Bank headquarters relocating to Menara Hong Leong at Damansara City, Jardine Lloyd Thompson relocating to Q Sentral, and most recently Accenture relocating to The Vertical Corporate Tower 2 at Bangsar South.

Overall, the Grade A office market remains competitive as supply continues to grow amidst the completion of better-specified buildings. ■

GRAPH 4

Flexible workspaces in Greater KL



Source: Savills Malaysia Research

TABLE 1

Office tenant movements in Greater KL, 1H/2018

Tenants	New office	Area (sq ft)	Remark
WeWork	Equatorial Plaza	102,000	New set up
BFM 89.9	Menara Ken TTDI	2,000	Relocation
Zurich	Mercu 3 KL Eco City	120,000	Relocation
Accenture	The Vertical 2	53,000	Relocation
ARCC	Southpoint, Mid Valley City	20,000	Expansion
So Car	Menara UOA2	8,500	Relocation
Colony	Pillar 11, KL Eco City	20,000	Expansion
Common Ground	Q Sentral	15,000	Expansion
Jardine Lloyd Thompson	Q Sentral	32,701	Relocation
Royal Netherlands Embassy	Naza Tower	6,000	Relocation

Source: Savills Malaysia Research

TABLE 2

Major office transactions in Greater KL, 2017 – Q2/2018

Year	Property	Location	Area (sq ft)	Price (RM per sq ft)	Buyer
2017	The Ascent	Selangor	516,633	621	EPF
	Menara Prudential	KL	164,706	758	KL 33 Sdn Bhd
	Wisma Selangor Dredging	KL	362,782	1,323	Golden Eagle Realty Sdn Bhd
	Vista Tower	KL	551,875	779	AmanahRaya REIT
2018	Bangunan Affin Bank Shah Alam	KL	81,771	532	Serba Dinamik Group Bhd
	Wisma Mont Kiara	Selangor	181,992	670	R J Seven Sdn Bhd
	Wisma UOA Pantai	KL Suburb	157,000	764	CIMB Group

Source: Savills Malaysia Research

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