

Asian Cities - 2H 2023

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**SPOTLIGHT**  
Savills Research

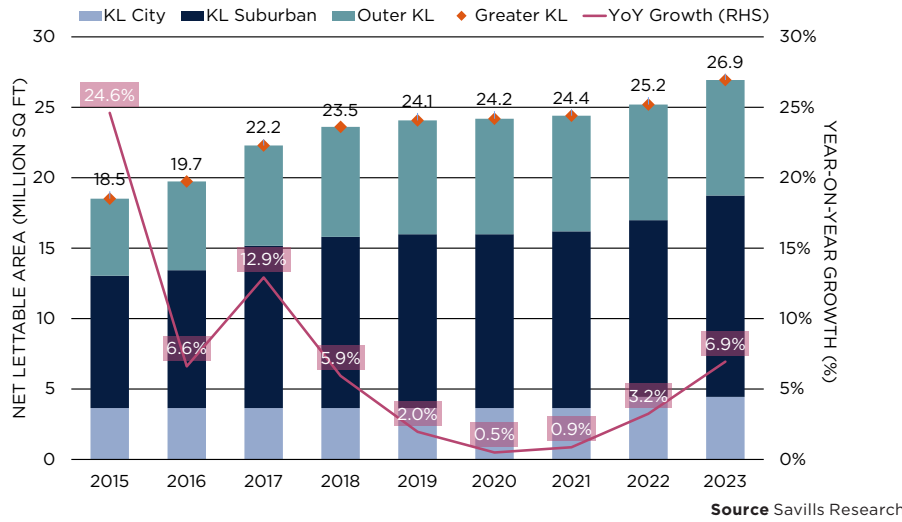
# Kuala Lumpur Offices



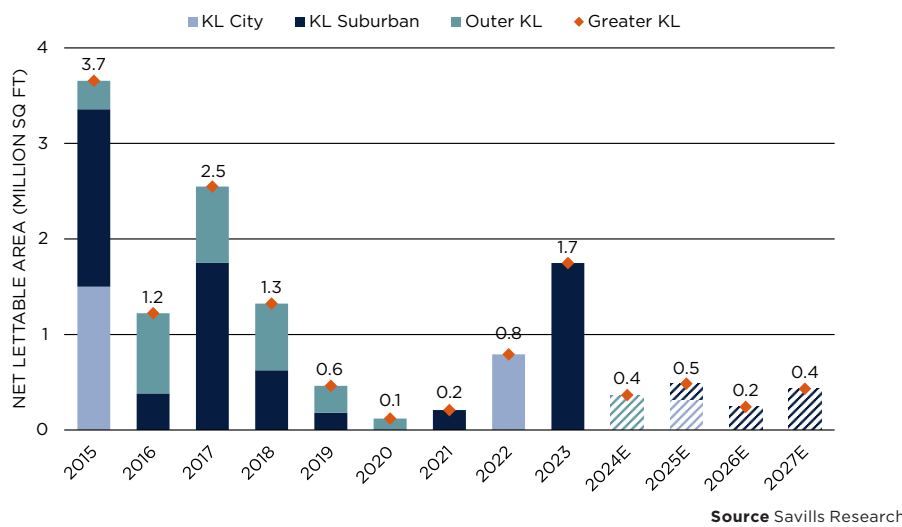


# New high-quality strata offices to present attractive investment opportunities

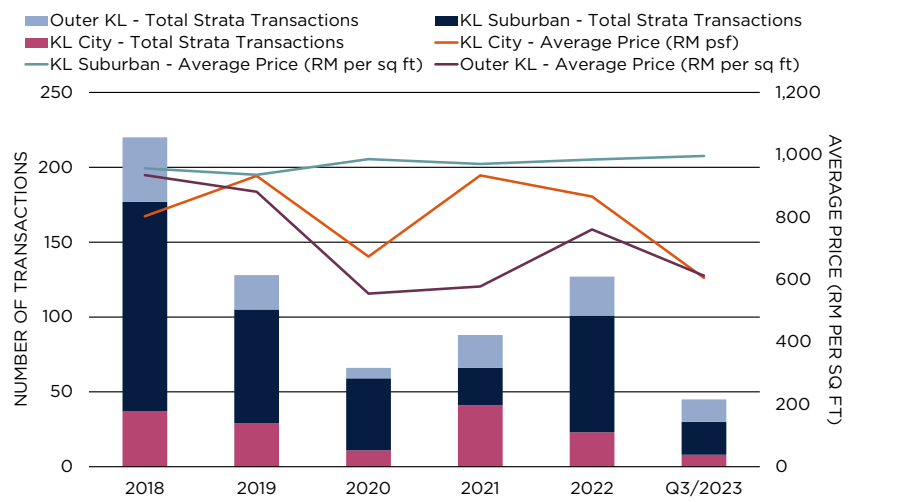
**GRAPH 1: Strata Office Supply by Region in Greater KL, 2015 to 2023**



**GRAPH 2: New Strata Office Supply by Region in Greater KL, 2015 to 2027E**



**GRAPH 3: Transaction Volume vs Average Price of Strata Office by Region in Greater KL, 2018 to Q3/2023**



Note SOHO, SOFO units and high-value transactions i.e., purchase price ≥ RM10 million are excluded from the analysis

## MARKET OVERVIEW

Strata offices are commercial developments subdivided into units, floors, and provisional blocks for sale. Each strata unit parcel and block comes with its own strata title, granting owners indefeasible ownership of the stratified property. Apart from instilling a sense of ownership, stratified offices also offer various benefits to owners. These advantages include naming rights for provisional blocks, the opportunity to establish a highly secure workspace through enhanced security systems, and the flexibility of space usage. Owners can occupy or lease the strata office space for rental income. This model also provides a lower entry point for small and medium-sized enterprises (SMEs) to own office space. In contrast, strata units commonly face challenges in controlling the building’s tenant pool, management, and maintenance activities.

In Malaysia, the management and maintenance of common properties, such as shared facilities and amenities in strata commercial buildings, are regulated by the Strata Management Act 2013. This Act outlines the duties of the Management Corporation, consisting of elected owners, formed upon subdivision of the building.

Historically, the first wave of strata office developments in Greater KL, constructed between the 1970s and 1990s, had an average net lettable area of 200,000 sq ft, with a relatively subpar management and maintenance quality. This can be attributed to the strata parcel owners’ lack of appreciation for building upkeep and maintenance, as well as the absence of legal provisions to regulate and enforce building management duties. Consequently, this led to a concentration of older Grade B and C strata office buildings in Greater KL.

As the latest workspace, sustainability and investment trends influence property developers’ stratified commercial offerings in the office market, the new generation of strata office buildings is predominantly green-certified and features state-of-the-art amenities and facilities. Additionally, strata office owners are more committed to building maintenance and upkeep to maintain or enhance asset value. As of 2023, strata office developments in Greater KL represent about 19% (~27 million sq ft) of Greater KL’s total office space supply.

## STRATA SUPPLY

As of 2023, Greater KL’s total strata office space is about 26.9 million sq ft, of which about 53% (14.3 million sq ft) is located in

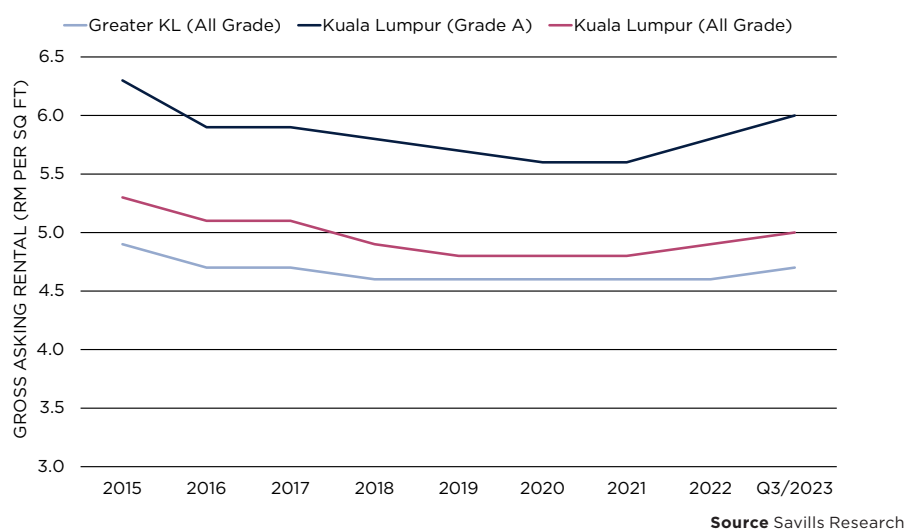
the KL Suburban region. Over recent years, 2023 has recorded the highest year-on-year growth rate since 2017 at 6.9%, with the addition of about 1.7 million sq ft of new strata offices in this year alone.

The strata office completions in 2023 include Corporate Towers 2 and 3 @ Pavilion Damansara Heights, Aspire Tower @ KL Eco City, The MET Corporate Towers @ KL Metropolis and Senada Commercial @ KLGCC, collectively adding 1.7 million sq ft of strata office space to the KL Suburban region. All these new strata offices are Grade A buildings with green certifications, providing prospective tenants with sustainable workspace options.

Moving forward, an additional 1.5 million sq ft of strata office supply is expected in Greater KL between 2024 and 2027. The KL Suburban region is expected to host about 55% of the incoming strata supply,

**The new generation of Grade A strata office buildings is set to establish elevated standards which prioritise sustainability and well-being, thereby enhancing asset value. This trend is encouraging property developers to include more ESG-compliant features, state-of-the-art green technology and health and wellness amenities.**

**GRAPH 4: Average Strata Office Asking Rents by Region in Greater KL, 2015 to Q3/2023**



equivalent to 0.84 million sq ft of strata office space.

#### STRATA RENTAL RATES

The strata office market in Greater KL has experienced relatively stable gross asking rental rates in recent years, maintaining an average rental rate of about RM4.70 per sq ft since 2015. This stability can be attributed to the leasing incentives offered by landlords, particularly since the pandemic-impacted years.

Notably, the KL Suburban submarket has consistently reported the highest average gross asking rental rates over recent years, averaging about RM5.30 per sq ft since 2015. As of Q3/2023, the KL Suburban region has an average gross asking rental rate of RM5.70 per sq ft, equivalent to a year-on-year growth of 9.6% compared to the previous year (Q3/2023: RM5.20 per sq ft). This rental growth is driven by the high average gross asking rental rates observed in newer strata offices located in the KL Suburban region. These high-quality Grade A strata offices are commonly equipped with sustainable building features and other health and wellness amenities, enabling landlords to offer competitive rental rates.

#### STRATA TRANSACTIONS

The strata office investment market in Greater KL has remained relatively active in recent years. Notable active buyers include SMEs, high net-worth individuals (HNWI) and diversified conglomerates seeking to own rather than lease their workspace or diversify their investment portfolios. Based on the recent high-value strata office transactions in Greater KL, as listed in Table 1, active buyers are mainly from the Financial Services, Real Estate, and IT & Telecommunications sectors.

**TABLE 1: Major Strata Office Transactions in Greater KL, 2019 to Q3/2023**

| Year    | DEVELOPMENT   | PRICE (RM MIL) | UNIT PRICE (RM PER SQ FT) | SIZE (SQ FT) | BUYER                       |
|---------|---|----------------|---------------------------|--------------|-----------------------------|
| Q3/2023 | Oxley Tower 3, KLCC   | 406            | 1,248                     | 325,280      | Alliance Bank Malaysia Bhd. |
| Q3/2023 | 3 Damansara Office Tower                                      | 52             | 514                       | 101,258      | Lagenda Properties Bhd.     |
| Q1/2023 | Levels 30 - 31, Menara 1MK                                    | 11             | 606                       | 18,157       | Eccaz Sdn. Bhd.             |
| Q2/2021 | Level 37, Tower A, The MET Corporate Towers                   | 19             | 1,181                     | 16,105       | Nextgreen Global Bhd.       |
| Q4/2020 | Levels 13 to 22, Senada Commercial @ KLGCC                    | 85             | 842                       | 100,930      | Petra Group                 |
| Q3/2019 | Nexgram Tower, Tower 7, Avenue 3 @ The Horizon, Bangsar South | 67             | 844                       | 79,347       | IMS Development Sdn. Bhd.   |
| Q1/2019 | Tower 11, Avenue 5 @ The Horizon, Bangsar South               | 46             | 851                       | 54,046       | Sanichi Technology Bhd.     |

Source: Savills Research

Collectively, strata offices in Greater KL were transacted within a price range of RM0.65 million for a 1,000 sq ft office unit to RM9.22 million for an entire office floor plate spanning 13,000 sq ft from 2018 to the present year. As of Q3/2023, about 45 strata office transactions were recorded in Greater KL. Of these, 22 strata transactions occurred in the KL Suburban submarket, with the transacted price averaging RM996 per sq ft. During the same period, the most noteworthy transaction was the acquisition of Oxley Tower 3 in KLCC by Alliance Bank Malaysia Berhad. The office block, with an NLA of 0.33 million sq ft, was purchased for RM406 million, equivalent to RM1,248 per sq ft.

### MARKET OUTLOOK

Strata office leasing market activity in Greater KL has remained active in the post-pandemic period. This has been supported by stable rental rates and

the addition of new high-quality developments. The new generation of Grade A strata office buildings is set to establish new standards which prioritise sustainability and well-being, thereby enhancing asset value. This is encouraging property developers to offer more strata office developments in the Greater KL market which will differ from conventional office buildings by offering more ESG-compliant features, state-of-the-art green technology and health and wellness amenities.

The flexibility offered by strata office developments, including ownership options, unit parcel sizes for sale, and other factors, may rekindle interest in purchases among businesses and investors. Additionally, the new generation of Grade A strata office buildings, encompassing both new completions and future supply in Greater KL, is expected to be sustained by demand arising from rightsizing and flight to quality tenant movements from older buildings.

This is substantiated by the relatively positive sales and leasing performance observed in the newly completed and under-construction strata buildings throughout this year.

Meanwhile, older Grade B and C strata office buildings in Greater KL lacking sustainable features and amenities may face challenges in attracting or retaining tenants, particularly organisations prioritising workspaces aligned with their ESG goals. Consequently, more refurbishment or repurposing of these office buildings may be implemented to gain a competitive edge in the market.

The limited supply of high-quality strata office spaces, especially in the city area, is expected fall short of demand, presenting opportunities for capital appreciation. This could attract investors seeking portfolio diversification or organisations considering leasing or owning their future office space.



For more information about this report, please contact us

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