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Building under stringent requirements

Is there a need for more purpose-built offices in Kuala Lumpur? After all, these have enjoyed a steady occupancy rate of over 84% in the first half of 2006, based on statistics published by the National Property Information Centre (Napic) for the second quarter of 2006. Napic is part of the Valuation and Property Services Department of the Finance Ministry.

In Kuala Lumpur, the bellwether of purpose-built offices in the country, there has been a steady 2% increment in the occupancy rate of such buildings from 2003 to 2005. Nationally, from 2003 to 2005, occupancy rates have increased from 80% to just over 84%.

In the past two years, commercial property development (both purpose-built offices and shopoffices) has started to sprout again in Kuala Lumpur and Petaling Jaya, but what are the criteria for approval for such properties, especially purpose-built offices in Kuala Lumpur? Or, is there still a freeze on purpose-built offices in the city?

According to Kuala Lumpur City Hall, approval for the construction of purpose-built offices would depend on guidelines set by the government, which does not want to see any more

abandoned projects darkening the city skyline or empty offices.

The ground as it stands

VPC Alliance (M) Sdn Bhd's managing director James Wong says there is still a freeze on the development of purpose-built office buildings although City Hall will consider applications that meet its stringent requirements.

He adds that having a partner in the project with strong connections to the relevant authorities will also be an added advantage for the developer.

Ultimately, the chances of success will depend on the ability of the developer to convince City Hall that it has the funds to complete the project and that it will be fully occupied upon completion, Wong tells City & Country.

The freeze on the construction of purpose-built office buildings has been somewhat relaxed, based on the directive from the federal government to City Hall, he says, citing sources.

The National Action Council (Majlis Tindakan Negara) under the Prime Minister's Department has informed City Hall that it can now consider applications for such buildings, but it must exercise the



HARIS HASSAN/THE EDGE

Wong: Quality plays a pivotal role in office space take-up

utmost caution when giving approvals, Wong says.

Prior to this directive, the applications accepted by City Hall were for government projects (including privatised ones), special projects and unless directed by higher authorities, he added.

Wong says are three criteria for approval of such projects:

- The developer must confirm that funds are available to complete the construction of the project. That way, even if there is a



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Khong: New growth locations like KL Sentral have good take-up rates

downturn, the building will still be completed;

- There must be at least 70% occupancy. The developer must show that related companies will occupy the office space or there is a signed memorandum of understanding with the proposed anchor tenants; and,
- The application must be for land zoned for commercial use. Land zoned for other uses, for example residential, will not be considered.

Is demand picking up?

Wong feels that while there is steady demand for office space in the KLCC and Golden Triangle areas, demand is only slowly picking up, with about 2.3 million sq ft of office space still available in the Golden Triangle.

"The occupancy rate for purpose-built offices in KL/central Klang Valley has been hovering at around 80% in the past two years although it has steadily improved, with most buildings in the KLCC and Golden Triangle areas 80% to 90% occupied," he says.

There are still quite a few buildings such as Central Plaza (along Jalan Sultan Ismail) and Menara See Hoy Chan (along Jalan Tun Razak) with whole floors vacant, Wong says, adding that there is still no pressure building up for purpose-built offices either in Kuala Lumpur or nationally.

Regroup Associates Sdn Bhd's executive director Paul Khong, however, is more bullish. "The situation in downtown Kuala Lumpur is firming up as new supply of purpose-built office buildings is very limited and demand is slowly catching up," he says.

Office buildings, especially

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1. KL Sentral, an upcoming area on the fringe of the central business district
2. Menara Boustead, occupied by Boustead Holdings Bhd
3. Menara Standard Chartered, recipient of the 2005 Fiabci Malaysia Best Office Development award
4. Menara See Hoy Chan, a Grade A office building on Jalan Tun Razak

Good purpose-built office space still in demand

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Grade A **ones**, are enjoying fairly good **occupancy** rates, mostly in the **vicinity** of KLCC, **Khong** says. In areas outside of the city **centre**, KL Sentral and Bukit Damansara are the focus while Petaling Jaya is picking up, he adds.

"We still need good **purpose-built** office space in good **locations** because it is still in demand. Businesses are **still** moving to newer premises or premises with better facilities, services and accessibility to **public** transport," **Khong** says.

Most of the **offices** in KLCC and the **Golden Triangle** have performed relatively well, with three quarters of the space occupied. Moreover, **rental** rates have been quite steady in the city in the past five years; in fact, they have moved up slightly **this** year, he **adds**.

New growth locations like KL Sentral and **Bukit Damansara** have good take-up rates and capital values are strong, **Khong** says.

Most of the purpose-built **office buildings** in the city centre with 100% **occupancy** have either **strong owner** **occupation** or single **multinational** corporation content. **Khong**



MOHD IZWAN MOHD NAZAM/THE EDGE

Most purpose-built office buildings in the city centre with 100% occupancy have either strong owner occupation or single multinational corporation content

cities Wisma Genting (Genting Bhd) Menara Boustead (Boustead Holdings Bhd) and Menara Esso (ExxonMobil Corp).

Recent examples of transactions with a leaseback arrangement of at least 10 years include Kenanga International building (on Jalan Sultan Ismail) and Menara ING (on Jalan Raja Chulan).

"Kenanga International was sold to Injaz Asia Equity Property Bhd for RM165 million or RM555 psf.

It comes via a leaseback arrangement of 10 years with an option to renew another five years at an initial gross rental of RM13.8 million," Khong says.

The Menara ING sale saw Tower REIT (real estate investment trust) purchasing 78.3% of the building for RM75 million or RM495 psf. The building is 100% occupied and has four major tenants.

Grade A office buildings

There are various interpretations of Grade A buildings, but they are generally classified based on quality, physical characteristics and intelligent features, Khong says, adding that as far as he knows, there are no organisations that actually oversee the classification.

The general criteria for defining a building's grade are location and accessibility; size and floor plate;

and services and technical aspects (automation system/intelligent features); layout; quality of finishes/specifications; tenants' profile and the age of the building.

"Quality plays a pivotal role in office space take-up," VPC's Wong says.

A good example is Menara Standard Chartered (on the corner of Jalan Raja Chulan/Jalan Sultan Ismail), which was refurbished and is now

enjoying a high occupancy rate, he says. Menara Standard Chartered was the recipient of the Best Office Development award of the Fiacbi Malaysia Property Awards 2005.

On the other hand, See Hoy Chan Plaza (on Jalan Raja Chulan) is more than half empty because nothing has been done to maintain or improve the building ever since the See Hoy Chan Group relocated to Petaling Jaya, Wong says. □

Petaling Jaya: Commercial development active

Petaling Jaya, which became the country's latest city on June 20, 2006, is a city without a proper business and commercial district, since it was not planned that way when it was opened for settlement back in 1952.

Instead, the city comprises residential precincts divided into Sections — SS, PJU (Petaling Jaya Utara) and PJS (Petaling Jaya Selatan). In and around these residential areas are shoplots, shopoffices and factories, mostly built in the 1960s, 1970s and 1980s.

Petaling Jaya's Grade A office buildings are

located in Section 51A (where Menara Axis is located) and Damansara Uptown, which were mostly built in the late 1990s. There are also purpose-built office buildings in Kelana Jaya and Section 52.

Today, there is a spurt of commercial development activity apart from the constant construction of houses in the city. Notable commercial properties that are either newly completed or under construction include Jaya 33 and 3 Two Square (Section 14), PJ Trade Centre (Damansara Perdana) and Plaza IBM (Bandar Utama).



Above: Damansara Uptown is the location of several of Petaling Jaya's Grade A office buildings Right: Menara Milenium in Bukit Damansara, a location that is seeing a number of Grade A offices being built



The supply

According to the latest *Commercial Property Stock Report* (2Q2006) published by the National Property Information Centre (Napic), there were 2,137 purpose-built offices in the country with 154.83 million sq ft of space and an occupancy rate of 84.2%, down from 84.5% the previous quarter.

In Kuala Lumpur, there were 373 such offices representing 63.8 million sq ft of space and an occupancy rate of 81.1% compared to Selangor, which ranks second in terms of space at 19.69 million sq ft and an occupancy rate of 84%.

In the period covered by the report, five purpose-built offices of 1.43 million sq ft of space were completed with an occupancy rate of 45%, while another 82 were under construction with 14.58 million sq ft. In Kuala Lumpur, 17 were under construction with 7.02 million sq ft and in Selangor, five were being built with 751,000 sq ft of space.

No purpose-built offices started construction in the first half of 2006 while 59 were planned with 23 million sq ft. Of these, 13 are in Kuala Lumpur with 12.84 million sq ft and one in Selangor with 324,574 sq ft.