

Downtrend seen in new Grade A office rental

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Downtrend seen in price of new Grade A office rental

Owner of Menara TH in KL lowers rent to RM5 per sq ft

PETALING JAYA: Rent for brand new Grade A office buildings in the country are trending down, and this will exert pressure on other office building owners to do likewise in order to maintain occupancy.

According to sources, this trend does not bode well for the already oversupplied office space market.

In Malaysia, such buildings have been generally defined as green buildings with Multimedia Super Corridor status in a sought after location.

Among those qualifying for such labels would be Menara TH in Naza TTDI's Platinum Park near the Petronas Twin Towers in the Kuala Lumpur City Centre (KLCC) area.

A couple of months ago, the pilgrimage fund marketed the building at a rental rate of RM5 per sq ft (psf) when Grade A offices rental in the vicinity were averaging between RM7.50 and RM8 psf.

"It is unusual for the owner of a Grade A office like Menara TH to openly offer its office at RM5 psf. This will affect other buildings in the vicinity," a source said.

The concerns surrounding the oversupply of office space started a few years ago but the general perception was that the Klang Valley would be able to absorb the supply of Grade A offices. This perception was dismissed after the drop in oil prices in 2014.

Other Grade A offices on the nine-acre Platinum Park include Naza Tower and the 50-storey Menara Felda, which Federal Land Development Authority (Felda) bought in January 2011 which houses its headquarters. According to a real estate agent, both Naza Tower and Menara Felda have not been fully occupied.

"When a landlord brings down Grade A office space to that level (RM5 psf), it will affect the other new and old buildings in the



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"Their intention may be to fill the building quickly but this affects other similar-grade offices because tenants will use that as a tool to renegotiate tenancy agreements.

"If this were to continue, other building owners will not be able to secure tenancies at the average range of RM7.50 to RM8 psf," he said.

A decline from RM7 psf to RM6 psf translates into a 14% drop. Offices generally take two- or three-year leases with a renewal

option.

Maintenance fees of Grade A offices have generally hovered around RM1.50 psf, which mean owners would rather have the place occupied at a lower rental rate, in this case a net rental of RM3.50, rather than leaving it vacant.

The source said this would eventually affect office REIT (real estate investment trust) income and dividend payout, particularly on expiry of tenancy agreements.

"Tenants will have better negotiating pow-

ers," he said.

Checks with real estate agents showed that other Grade A offices face the same dilemma of rents under pressure.

Menara Prestige, formerly Glomac Tower at the corner of Jalan P Ramlee and Jalan Pinang in the central business district has reduced rent from RM7.50 psf to RM6 psf, a drop of 20%. Menara Worldwide, another Grade A building, has been marketed at RM6 psf, from RM6.50.

In KL Sentral, another location with a number of Grade A office buildings, Q Sentral rental hovered between RM5 and RM6.50 psf.

Another source said Grade A rental has been stagnant since 2014 following the drop in oil prices. He said landlords may be facing more pressure now to lower rentals, especially given the oversupply of Grade A offices and the downsizing of oil and gas firms as well as financial services groups.

The Klang Valley has office space of more than 100 million sq ft of all categories. The office take-up rate hovers around 1.8 million to two million sq ft a year.

Occupancy rates may drop further this year as slower take-up would be expected for new supply due to the uncertain economic climate.

C H Williams said in the Property Market 2016 report that weaker business sentiment stemming from the economic conditions may restrain multinationals and local small and medium-enterprises from expanding.

Property-market experts also continue to voice their concerns over multi-billion ringgit projects such as Bandar Malaysia in Jalan Sungei Besi, Tun Razak Exchange in Kuala Lumpur, Bukit Bintang City Centre and the PNB118 development by Permodalan Nasional Bhd as they will add to the supply.