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City & Country: Mixed-use developments continue to be popular



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THE trend of integrated developments with mixed components that typically comprise retail, serviced apartments, small offices/home offices (SoHos), small offices/versatile offices (SoVos) and/or commercial office space is expected to continue in the coming months.

“Well-located, good-grade, dual-compliant — green and Multimedia Super Corridor (MSC) status —

office space with good accessibility and connectivity to public transport are also expected to continue to be well received. Furthermore, there is strong demand for space in decentralised locations with good infrastructure and enhanced accessibility,” says Sarkunan Subramaniam, managing director of Knight Frank Malaysia, when presenting The Edge/Knight Frank Klang Valley Office Monitor for 3Q2013.

Sarkunan notes that tenants are spoilt for choice as competition has heightened between landlords of existing buildings and soon-to-be-completed projects. With the office sector being a tenant’s market, landlords continue to offer attractive incentives to retain existing tenants and attract new ones.



Menara Mustapha Kamal in Damansara Perdana



Sarkunan: The investment market is expected to be less active in the next six months compared with 1H2013

There were noticeably more announcements from building owners expressing their interest to dispose of their buildings. Developers are also seeking to secure anchor tenants or purchasers for their office components before starting construction in an increasingly challenging office environment.

“Meanwhile, the investment market is expected to be less active in the next six months compared with 1H2013 as yield compression is expected to continue due to the lagging rental market,” says Sarkunan.

During the period under review, there was no completion in the city centre and the city fringe. The cumulative supply remained unchanged at 48.3 million sq ft in the city centre and 19.7 sq ft in the city fringe. The expected completions, such as Menara 1 Sentrum and Menara Kembar Bank Rakyat, for 3Q2013 were rescheduled to a later date.

Stable performance

The overall occupancy in the city centre was stable in 3Q2013. The overall occupancy in the city rose 1.7% quarter on quarter to 83%, while the overall occupancy in the city fringe rose 2.9% to 83.5%.

There were tenant movements in Integra Tower, Menara Binjai and Menara Weld in the Golden Triangle, which saw an increase of 1.4% q-o-q in average occupancy to 80.9%. Tenant movements were also noted in Wisma Dang Wangi, and to a lesser extent in the central business district (CBD). CBD average occupancy rate increased 2.5% q-o-q to 84.7%.

In the city fringe, the overall average occupancy rate increased by 2.9% from last quarter to 83.5%. Mid Valley City (MVC)/Bangsar/Pantai saw a 4.1% increase in occupancy to 92.8%, while Damansara Heights (DH) and KL Sentral (KLS) registered increases of 1.3% (79.1%) and 2.1% (67.5%) respectively.

Major tenant movements were noted in Menara I & P 2 in DH, Menara Shell in KLS and in a few buildings in MVC/Bangsar/Pantai, especially in Bangsar South.

Rent Index

INDEX (2005=100)	2005	2006	2007	2008	2009	2010	2011				2012				2013		
	4Q	4Q	4Q	4Q	4Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
KL CITY																	
Golden Triangle	100	113.6	132.2	142.5	139.2	138.7	132.1	132.1	132.1	132.1	140.9	142.5	146.1	148.0	149.2	148.9	148.7
Central Business District	100	105.3	119.8	131.3	128.0	128.0	130.9	130.9	130.9	130.9	144.6	145.9	145.9	149.2	155.0	155.0	155.0
Overall	100	111.7	129.3	137.5	134.6	134.6	133.6	133.5	133.5	133.5	144.8	146.4	149.7	152.1	153.9	153.9	153.6
KL FRINGE																	
Damansara Heights	100	108.0	127.7	154.0	148.8	147.6	148.8	148.8	148.8	148.8	152.6	152.6	153.6	153.6	153.6	153.6	152.9
KL Sentral	100	137.1	157.1	200.0	183.8	183.8	183.8	183.8	183.8	183.8	185.7	200.0	207.1	207.1	200.0	200.9	200.9
MVC/Bangsar/Pantai	100	112.5	120.0	150.0	137.9	137.9	133.3	133.0	133.0	133.0	136.5	136.8	137.3	138.3	138.5	138.5	138.5
Overall	100	114.0	132.1	161.4	169.8	169.4	166.4	166.8	166.8	165.3	169.8	173.4	174.7	175.6	177.6	179.2	179.2

Note: The averaging is based on the entire sample of buildings rather than by classes to reflect general accuracy. The data has been adjusted for parity.

Average rental rate (RM PSF/MTH)

LOCATION & GRADE	2005	2006	2007	2008	2009	2010	2011				2012				2013		
	4Q	4Q	4Q	4Q	4Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
KL CITY CENTRE																	
Golden Triangle																	
Prime A+	6.63	7.70	8.65	9.67	9.33	9.33	8.31	8.31	8.31	8.31	9.66	9.52	9.24	9.32	9.34	9.34	9.33
Prime A	4.54	5.00	5.71	6.17	6.10	6.07	5.90	5.90	5.90	5.90	6.20	6.20	6.28	6.28	6.29	6.29	6.28
Secondary	3.03	3.57	4.38	4.68	4.42	4.40	4.43	4.42	4.42	4.42	4.69	4.71	4.73	4.76	4.87	4.87	4.86
Average-GT	4.21	4.78	5.56	6.00	5.86	5.84	5.56	5.56	5.56	5.56	5.93	6.00	6.15	6.23	6.28	6.27	6.26
Central Business District																	
Prime A	3.74	3.85	4.35	4.52	4.36	4.36	4.47	4.47	4.47	4.47	5.09	5.16	5.16	5.26	5.36	5.36	5.36
Secondary	2.54	2.74	3.14	3.65	3.57	3.57	3.57	3.57	3.57	3.57	3.54	3.54	3.54	3.62	3.92	3.92	3.92
Average-CBD	3.07	3.23	3.68	4.03	3.93	3.93	4.02	4.02	4.02	4.02	4.44	4.48	4.48	4.58	4.76	4.76	4.76
Overall																	
Average	3.88	4.33	5.02	5.34	5.22	5.22	5.18	5.18	5.18	5.18	5.62	5.68	5.81	5.90	5.97	5.97	5.96
KL FRINGE																	
Damansara Heights																	
Prime A	3.90	4.05	5.00	5.50	4.77	4.70	4.77	4.77	4.77	4.77	4.72	4.72	4.72	4.72	4.72	4.72	4.65
Secondary	2.40	2.83	3.43	4.00	3.83	3.83	3.95	3.95	3.95	3.95	3.95	3.95	4.03	4.03	4.03	4.03	4.08
Average-DH	2.89	3.12	3.69	4.45	4.30	4.27	4.30	4.30	4.30	4.30	4.41	4.41	4.44	4.44	4.44	4.44	4.42
KL Sentral																	
Prime A	—	—	—	—	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.75	7.75	7.75	7.10	7.12	7.12
Secondary	—	—	—	—	5.80	5.80	5.80	5.80	5.80	5.80	6.00	6.00	6.50	6.50	6.50	6.50	6.50
Average-KLS	3.50	4.80	5.50	7.00	6.43	6.43	6.43	6.43	6.43	6.43	6.50	7.00	7.25	7.25	7.00	7.03	7.03
Mid Valley City/Bangsar/Pantai																	
Prime A	—	—	—	—	5.85	5.85	5.76	5.80	5.80	5.80	5.63	5.63	5.65	5.69	5.71	5.71	5.71
Secondary	—	—	—	—	5.07	5.07	4.80	4.74	4.74	4.74	5.00	5.04	5.04	5.06	5.06	5.06	5.06
Average-MVC/Ban/Pan	4.00	4.50	4.80	6.00	5.51	5.51	5.33	5.32	5.32	5.32	5.46	5.47	5.49	5.53	5.54	5.54	5.54
Overall																	
Average	3.08	3.51	4.07	4.97	5.23	5.22	5.13	5.14	5.14	5.09	5.23	5.34	5.38	5.41	5.47	5.52	5.52

Note: The averaging is based on the entire sample of buildings rather than by classes to reflect general accuracy. The data has been adjusted for parity.

DH to RM4.42 psf and remained unchanged in KLS and MVC/Bangsar/Pantai at RM7.03 psf and RM5.54 psf respectively.

There was an overall net absorption of over 510,000 sq ft compared with 398,000 sq ft a year ago.

According to Sarkunan, there were two notable transactions in the period under review. Maju Holdings Sdn Bhd sold 24 office lots of its under-construction Tower 3 of Maju Linq in Bandar Tasik Selatan for about RM600 psf to Ipmda Bhd. The office lots amounted to about 42,792 sq ft of lettable area.

The overall rental rate was flattish. The city centre saw a marginal decline of 0.1% q-o-q in average rental rate, which stood at RM5.96 psf. The average rental rate in the city fringe remained unchanged at RM5.52 psf, which Sarkunan says is reflective of growing pressure on rents due to the high impending supply.

The Golden Triangle registered a 0.2% decline from last quarter to RM6.26 psf, and the CBD was unchanged at RM4.76 psf.

In the city fringe, average rental rate dipped 0.5% q-o-q in

Jaya33 Sdn Bhd disposed of its Jaya 33 in Section 13, Petaling Jaya, at RM725 psf to Pelaburan Hartanah Bhd. Jaya33 has a lettable area of 450,000 sq ft.

Notable announcements in 3Q2013

KLCC Property Holdings Bhd (KLCCP) has dislodged its intention to buy the remaining 40% in Suria KLCC held by CBRE Global Investors, opting instead to focus on the redevelopment of Lot D1 and Menara Dayabumi in Kuala Lumpur.

KLCCP is in the midst of securing an anchor tenant for the 1.4 million sq ft (gross floor area) Lot D1. Should investment decisions be finalised by end-2013, the development will be completed within three to five years.

YNH Property Bhd is considering turning the proposed Menara YNH in Jalan Sultan Ismail into a mixed-use development comprising a hotel, offices and retail outlets. The Ipoh-based company is currently working on securing anchor tenants. Construction will start upon confirmation of anchor tenants. Its gross development value (GDV) is estimated at over RM3 billion.

Ivory Properties Group Bhd's subsidiary Ivory Place Sdn Bhd has entered into a conditional agreement with Plaza Rakyat Sdn Bhd (PRSB) for the proposed acquisition and rehabilitation of the abandoned Plaza Rakyat project. The leasehold project originally comprised a 79-storey office tower, a 21-storey hotel, a 45-storey serviced apartment and a 7-storey shopping mall. Ivory Properties plans to revive and develop an integrated commercial, residential and transport hub.

The construction of Menara Warisan Merdeka in the city centre is expected to kick off by end-2013. Owner and developer Permodalan Nasional Bhd expects to meet the criteria set by DBKL in its development order for the project to receive the green light. Issues such as access roads and routes within the development area are being ironed out.

UDA Holdings Bhd has called for fresh bids from local and foreign companies for the redevelopment of the 7.85ha Bukit Bintang City Centre, which sits on the site of the former Pudu Jail. The redevelopment project is part of the Economic Transformation Programme under the New Economic Model. UDA Holdings initially planned a mixed-use development comprising seven blocks of commercial and residential buildings, a hotel, office towers and a shopping complex.

Malaysian Resources Corp Bhd intends to dispose of its Platinum Sentral in KLS. The five low-rise blocks of office and retail space are certified with the Green Mark platinum award (provisional) from Singapore's Building and Construction Authority and have a gross floor area of 980,000 sq ft and a net lettable office space of 445,000 sq ft.

Felcra Bhd will launch a premium 1.8ha mixed-use development in Jalan Semarak in

early 2014. The development has an initial GDV of up to RM900 million and will comprise a condominium, an office tower and a business centre. It will be developed in two phases.

Average occupancy rate (%)																	
LOCATION & GRADE	2005 4Q	2006 4Q	2007 4Q	2008 4Q	2009 4Q	2010 4Q	2011				2012				2013		
							1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
KL CITY CENTRE																	
Golden Triangle																	
Prime A+	91	93	99	99	99	95	82	84	86	88	93	82	64.2	58.2	63.2	65.7	72.7
Prime A	86	89	96	97	95	95	82	81	82	85	82	86	88	87	86.7	86.4	85.9
Secondary	72	83	89	93	92	92	85	85	85	85	75	78	78	80	79.1	79.4	79.5
Average-GT	79	86	92	96	94	93	83	83.7	84.2	85.5	80.3	82	79.6	78.8	79.3	79.7	80.9
Central Business District																	
Prime A	86	88	96	97	96	96	69	67	67	67	79	77	76	78	77	78	78
Secondary	68	66	80	91	98	97	97	97	97	97	86	86	82	83	96	89	94
Average-CBD	76	76	87	94	95	95	83.5	82.4	82.4	82.4	81.3	80	77.8	79.1	83.9	82.6	84.7
Overall																	
Average	78	82	91	94	94	94	83.4	83.1	83.5	84.5	80.5	81.6	79.3	78.9	81.5	81.6	83.0
KL FRINGE																	
Damansara Heights																	
Prime A	92	93	99	99	93	90	90	90	90	67	75	75	83	86	87	74	75
Secondary	80	86	92	92	92	86	88	88	88	88	88	88	85	87	88	85	86
Average-DH	84	88	94	94	93	88	88.9	88.9	88.9	77.9	80	80	83.5	86.2	87.3	78.1	79.1
KL Sentral																	
Prime A	—	—	—	—	90	95	95	95	95	95	95	96	95	95	61	62	64
Secondary	—	—	—	—	96	98	98	98	98	98	98	98	98	98	92	92	92
Average-KLS	—	—	—	—	92	96	96	96	96	96	96	96.5	95.8	95.8	65.1	66.1	67.5
Mid Valley City/Bangsar/Pantai																	
Prime A	—	—	—	—	65	73	70	77	82	87	57	70	80	82	85	86	91.3
Secondary	—	—	—	—	96	98	95	95	95	95	95.4	95.4	97	97	97	98	97
Average-MVC/Ban/Pan	—	—	—	—	79	83	81	85	88	90	66	76	85	86.0	88.0	89.0	92.8
Overall																	
Average	84	88	94	94	86	87	86	87	89	86	74	80	86	87.1	83.4	81.1	83.5

The master developer of Putrajaya, Putrajaya Holdings Sdn Bhd, has planned more commercial developments to revitalise the township. Its plans include two million sq ft of office space — excluding government office space — and a total of 650,000 sq ft of shops and office suites. The shops and office suites were expected to be launched by end-2013.

HCK Capital Sdn Bhd is planning to sell 30 storeys of its 42-storey HCK Tower in Empire City, which was purchased en bloc in December 2012. HCK Tower is part of an integrated development comprising two hotels, a shopping mall, residential and office units, and leisure and entertainment amenities. The office space, which has floor plates of 10,500 sq ft, is being sold at an average price of RM760 psf or about RM8 million per floor. HCK group plans to occupy the top six floors.

Emkay Group is looking at setting up a real estate investment trust in the near future. To date, the group owns two Grade A office towers — Wisma Mustapha Kamal in Cyberjaya and Menara Mustapha Kamal in Damansara Perdana.

Construction has started in Emkay's latest addition — Mercu Mustapha Kamal in Neo Damansara, Damansara Perdana — and it is expected to be completed by November 2016. Mercu Mustapha Kamal features two Grade A office towers with a total net floor area of 468,267 sq ft, as well as a banquet hall and retail units. The building is Green Building Index Gold pre-certified. The development will also be MSC Malaysia Cybercentre-compliant upon completion.

Opening and expansion

Starting from Oct 1, 2013, the British High Commission in Kuala Lumpur has been operating from its premises on the 27th floor of Menara Binjai — a Leadership in Energy and Environmental Design-certified building — in Jalan Binjai. The move is part of a global strategy to modernise and dispose of embassy and high commission sites.

Pulsate, a member of Asia's digital research agency Pulse Group, is setting up a state-of-the-art data solutions centre in Cyberjaya by end-2013. The venture is a collaboration with the industry's major players, such as Dell, Intel and Revolution Analytics. It is the country's first such initiative in the big data analytics sector.

Pulsate will also be setting up a big data academy in Kuala Lumpur. It will be the first such academy in Asia-Pacific. The entire project, including the academy, will reportedly require investments of between RM20 million and RM60 million over three years.

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