



THE changing landscape in Malaysia's real estate market, shaped by the evolving circumstances of post Covid-19 pandemic, has given rise to fresh demands for office spaces. Moreover, the return of employees to the workplace, especially in 2024, and the changing corporate landscape are contributing factors to the discernible uptick in new, modern and flexible office spaces.

Interestingly, tenants are now increasingly seeking office spaces located outside the traditional city centres. This shift in preference is driven by factors such as better traffic conditions, access to affordable food options and closer proximity to residential areas.

While analysts acknowledge this trend, they caution that the office market will remain challenging without a substantial inflow of increased foreign direct investments (FDIs) and new domestic enterprises to lend support.

For example, UOA Real Estate Investment Trust (UOA REIT) observed an increase in the occupancy rate for some of its office buildings, especially those in decentralised areas like Damansara Heights, Bangsar and Bangsar South Kerinchi. The preference for office spaces outside the central business district is attributed to practical considerations such as better traffic flow, affordable dining options and being closer to residential areas.

Office Real Estate Investment Trusts (REITs) continue to be a viable option for investors, offering promising dividend yields. However, analysts stress the importance of considering asset quality, especially in terms of future occupancy rates. Sentral REIT currently boasts the highest distributed yield, followed by UOA REIT, IGB Commercial REIT and Tower REIT.

Hong Leong Investment Bank (HLIB) Research maintains a mildly positive outlook on Sentral REIT, stating that the worst is over for the REIT. The research house raised its target price for Sentral REIT, emphasising the limited scope for further decline in occu-

Demands for office spaces shifting



Property pulse

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261.56mil
sq ft

Total supply of purpose-built offices in 2022

1.6mil
sq ft

Merdeka 118 added additional NLA

pancy rates. However, HLIB Research acknowledges the key downside risk, which is the potential drop in overall rental rates due to intense competition in the office market.

IGB Commercial REIT, with multiple office buildings in Mid Valley City, remains the largest pure office REIT by market capitalisation and total asset value since its listing in September 2021. The performance and strategic positioning of IGB Commercial REIT underscore the significance of diverse asset portfolios in navigating market challenges.

The suburban move

The shift towards decentralised office spaces is understandable, given the challenges of traffic congestion in the city centre. Some corporations are opting to relocate to outer city centre areas for the sake of convenience. Moreover, these areas often present more competitive rental rates, making them an attractive option for businesses. However, despite the attractiveness of decentralised spaces, the overall office segment continues to grapple with oversupply issues, resulting in minimal rental growth over the past decade.

Analysts point out that the situation could see improvement with an increase in FDIs into Malaysia. The opening of offices by banks, financial institutions and other agencies can absorb some of the supply, potentially mitigating the flat growth in rental rates.

The demand for Grade A offices in Kuala Lumpur remains high but the

limited supply poses a challenge. The rental rates for Grade A offices are deemed unattractive in terms of investment returns, creating a cyclical challenge known as a chicken-and-egg situation. As the market awaits a potential influx of FDI, there is a recognised need for Grade A offices to meet the demands of discerning tenants.

The total supply of purpose-built offices in Malaysia has been on the rise in recent years, reaching 261.56 million sq ft in 2022. Notably, the completion of Merdeka 118 in Kuala Lumpur, the tallest building in Southeast Asia and East Asia, will add 1.6 million sq ft of net lettable area (NLA) to the office market. Despite the overall increase in supply, the office segment's performance has softened. The variations in occupancy rates across states highlight the nuanced nature of the office market, with regional dynamics playing a crucial role.

Malaysia's office market is navigating a complex landscape shaped by oversupply challenges, changing tenant preferences and the need for foreign investments. The decentralised trend in office space demand reflects a shift in priorities, driven by practical considerations and affordability. While challenges persist, the potential influx of FDIs, coupled with ongoing efforts to enhance office spaces and amenities, may pave the way for a more vibrant and resilient office market in the future. Investors and stakeholders are advised to closely monitor market dynamics, particularly the role of foreign investments.