

Headline	Commercial sector facing tough challenges
MediaTitle	Focus Malaysia
Date	27 May 2017
Section	Supplement
Page No	P8
Language	English
Journalist	N/A
Frequency	Weekly



Left: KL's occupancy rate dropped to 77.9% last year from 81.2% in 2015 as the new space that came on-stream exceeded 3.45 million sq ft

Right: Menara Guocoland and Menara Hong Leong at Damansara City were among the 11 new completions in the office sub-sector last year

Commercial sector facing tough challenges

- **Bleak** times ahead for owners with the supply of more existing and incoming retail space
- **Oversupply** situation and declining occupancy rate detrimental to the rental market



by Laura Lee

aspect rather than build and then look into the market," adding the biggest challenge faced by retailers is their inability to sell their goods and services, and that includes at some of the shopping malls.

Retail under pressure

Concurring with him, JLL Property Service (Malaysia) Sdn Bhd associate director Veena Loh sees the huge incoming supply in the retail segment posing a big problem in the commercial property sector.

According to the Property Market Report 2016 by the Finance Ministry's Valuation and Property Services Department, 30 shopping complexes were completed last year.

As at end-2016, there were 157.58 million sq ft of existing retail space from 965 shopping complexes, with another 66 complexes (19.59 million sq ft) in the incoming supply and 30 complexes (10.92 million sq ft) in the planned supply.

The report adds the performance of shopping complexes softened to 81.4% from 82.4% although the take-up rate was ample at nearly 5.6 million sq ft but down from 8.42 million sq ft in 2015.

"Kuala Lumpur, Selangor, Kelantan and Melaka recorded

THE rising supply of commercial properties and declining occupancy rates witnessed by both offices and shopping malls are becoming a big concern, according to real estate agents and property consultants.

Developers continue to build malls as part of integrated developments because they have the land and want to maximise on their returns on investment. Property Hub Sdn Bhd associate director Soma Sundram Krishanswamy says this has become a challenge when we have malls that are empty, and are still continuing to build more.

Soma Sundram, 58, who is also Malaysia Institute of Estate Agents' past president and chief trainer, feels that developers and land owners should not just look at the market in general but also go deeper into the details, looking at the demographic profile and what do the consumers or shoppers prefer.

"You need to look at the macro



Loh sees the huge incoming supply in the retail segment posing a big problem in the commercial property sector



Developers and land owners should not just look at the market in general but also go deeper into the details, says Soma Sundram



higher take-up [rate] as their new complexes achieved hefty occupancy. Overall, occupancy rates remained encouraging with 10 states securing above 80% mark."

Besides looking at yield, Loh says other aspects to consider for retail operators are finding the right area, population catchment, tenant mix and management expertise. Shopping mall operators need to target the right demographic. For instance, they have to decide if they are going for the younger or older generation as their target shoppers.

She says strategic location, visibility and connectivity are also crucial, adding that "you must appropriate the size to match the population catchment and affluence but that must be well-studied."

Loh finds that malls in prime city centres perform better, aided by the tourist segment and footfalls, compared to those in the suburbs.

Another aspect to look at, she says, is the neighbouring competition and sustainability of the footfalls while reminding retail operators that heavy capital outlay for refurbishment is required every few years.

Office segment

When it comes to office sub-sector within commercial properties, Loh believes that its location and the cluster industry that it serves play a vital role besides the sustainability of the office rentals.

Like the retail segment, having management expertise for the office is crucial besides providing connectivity and neighbouring supporting amenities for the office-clients and workers.

Taking stock of the commercial sector's angle future supply, the *Property Market 2016* launched on April 18, says industry and related approving agencies "should give

through consideration in approving future projects involving office buildings and retail complexes within the vicinity" of on-going mega developments.

This includes Tun Razak Exchange, Bandar Malaysia and Bukit Bintang City Centre, a RM5.7 bil integrated business and lifestyle development.

The report says the oversupply situation could be detrimental to the rental market of these properties and affect the future appreciation of their worth.

Although the office sub-sector continued to moderate from 83.7% in 2015 to 82.3%, its annual take-up stood at nearly 2.48 million sq ft, with the highest take-up recorded in Selangor and Putrajaya. It adds that states or federal territories dominated by government buildings secured over 90% occupancy rate.

New office space

Citing Kuala Lumpur (KL), the main supplier of new office space, the report says its occupancy rate dropped to 77.9% last year from 81.2% in 2015 as the new space that came on-stream exceeded 1.45 million sq ft.

With new entrants also coming into the office market in Selangor, the report says the state's occupancy for this sub-sector dropped slightly to 75.5% from 75.7% in 2015 despite registering a positive take-up rate.

In terms of construction activity for the office sub-sector, although there were 11 new completions last year offering a total of 5.2 million sq ft, it represented a 2.3% drop against 2015.

"Putrajaya held the most starts and new planned supply. The new entrants comprised 10 private buildings and one government building."

Seven of these private buildings are located in KL. They include Menara Guoeland @ Damansara City in Damansara Heights, Vertical Suites @ Bangsar South Blocks A & B, Designer Office at Sunway Velocity Phase 3C) in Cheras, Vertical 38 Tower A & B, Menara Hong Leong @ Damansara City, KL Eco City Office Tower (Signature office) at Jalan Pantai Baru, and Ken TTDI at Taman Tun Dr Ismail.

The report says as at end-2016, they were 223.35 million sq ft of existing office space from 2,462 buildings with another 68 buildings (2.5 million sq ft) in the incoming supply and 27 buildings (8.6 million sq ft) in the planned supply. KL dominated all the three supply categories. **www**