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Growth to be subdued due to geopolitical uncertainty

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REAL estate investment trust (REIT) players with assets within the office space remain wary over the outlook of the segment, on the back of persisting difficulties.

IGB-REIT Management Sdn Bhd chief executive officer Elizabeth Tan Hui Ning says the Malaysian office sector is set to remain challenging as new supply enters the market.

Nevertheless, she says the group enters 2024 with a cautiously optimistic stance.

Malaysia's economic momentum is expected to see steady improvement in 2024, supported by resilient domestic demand and a benign inflation and interest-rate environment," she says in IGB Commercial-REIT's annual report.

"We will also see a flight to quality as companies seek out newer, accessible, green-certified buildings and expect more flexibility in terms of space layout, size and lease terms," Tan adds.

Globally, Tan says growth is anticipated to be subdued, with geopolitical uncertainties remaining.

"These factors will inevitably impact our community and business, but we remain committed to actively engaging with our tenants and employees and working to ensure our buildings continue to be modern, comfortable and relevant to the needs of companies today.

"We will persist in making strides in our sustainability journey, working to further embed environmental and social governance considerations into our operations and support our growth and longevity," she says.

Moving forward, Tan believes that the office sector will see more employees returning to the physical workspace.

"As the preferences of employees evolve, it will become increasingly important that we work closely with our tenants to curate office spaces that support staff engagement and retention.

"These efforts will not only apply to tenant office spaces but will extend to how we re-imagine the configuration and use of common spaces in our buildings."

For its first quarter ended March 31, 2024, IGB Commercial-REIT's net profit improved to RM18.89mil from RM17.41mil in the previous corresponding period, mainly due to fair-value changes in investment properties of RM2.2mil.

Revenue, meanwhile, improved to RM55.95mil from RM52.36mil a year ago.

In a filing on its first quarter earnings performance, IGB Commercial-REIT noted that tenant preferences are changing, with communal experience being an emerging priority.

"To ensure synergy in IGB Commercial-REIT's growth strategies, we offer flexible solutions that can accommodate shifts in market dynamics while maintaining a high degree of customer service.

"However, due to strong competition in the market, particularly in the Kuala Lumpur city centre, there has been a slight decline in the average occupancy rate, from 81.3% as of Dec 31, 2023 to 80.50% as of March 31, 2024."

Tight market: A file photo of office towers in Kuala Lumpur. REIT managers say they will work to improve their buildings and facilities to attract and retain tenants. — Bloomberg

Moving forward, IGB Commercial-REIT said it will remain responsive to market dynamics, as it positions itself to capitalise on opportunities and mitigate risks effectively.

Meanwhile, Sentral-REIT, under the management discussion and analysis segment of its annual report, says the KL office market downcycle is expected to persist in 2024.

This, Sentral-REIT says, is due to future supply of office space in the Klang Valley coming on stream and outweighing demand, especially within the Kuala Lumpur city centre.

According to Knight Frank Malaysia in its *Real Estate Highlights* report for the second half of 2023, the cumulative supply of office space within the Klang Valley stood at approximately 117.7 million sq ft (as of the second half of 2023).

It says the impending completion of five office buildings in the first half of 2024 is expected to contribute approximately 1.4 million sq ft to the Klang Valley's existing cumulative office stock.

"Two of the upcoming completions are located in Kuala lumpur – Felcra Tower and The Exchange TRX Office by Lendlease.

"Within the Kuala Lumpur's fringes, Pavilion Damansara Heights Corporate Tower 1 and TNB Gold Bangsar are set to be completed, while Selangor will see the addition of Atwater Towers A and B."

According to Knight Frank, the overall occupancy rate of purpose-built office space in Kuala Lumpur and its fringes moderated to 65.9% and 83.9%, respectively, during the second half of 2023, attributed to the influx of new supply into the market.

Meanwhile, the overall occupancy rate in Selangor improved modestly, averaging 74.3% during the review period.

Sentral-REIT says leasing enquiries remain healthy for office developments within Kuala Lumpur's fringes such as KL Sentral, Mid Valley and Bangsar South, which are still the preferred choices by office occupiers.

"These locations are strategic, have a high concentration of office developments and are supported by amenities, good public transportation and accessibility.

"Demand from the service sector, serviced offices, shared-service operations, business process outsourcing sector, information technology and technology-based sectors will continue to be encouraging compared with the banking and oil and gas sectors that have traditionally bolstered the demand for Klang Valley office space."

For its financial year ended Dec 31, 2023 (FY23), Sentral-REIT posted a net profit of RM72.71mil compared with RM52.27mil in the previous corresponding period, while revenue climbed to RM162.11mil from RM147.35mil a year earlier.

In a statement on its FY23 performance, Sentral-REIT said the increase was mainly due to higher revenue generated from its Platinum Sentral, Menara Shell and Menara CelcomDigi assets.

For 2024, Sentral-REIT says it will continue to focus on asset management and leasing strategies that are centred on cost optimisation and tenant retention in the current operating environment.

Separately, UOA-REIT believes that the overall economic uncertainty will continue to exert pressure on the office rental market.

"Despite these challenges, the manager remains cautiously optimistic on the future outlook," it says under the management discussion and analysis segment of its annual report.

The group says a drop in rental income is expected for Parcel B of Menara UOA Bangsar, due to the departure of its anchor tenant upon expiry of its lease.

"While the manager is actively seeking replacement for the space, it is anticipated that the replacement tenants will likely not commence rental during the first half of 2024.

"Apart from that, the manager expects gradual improvement in rental activity and will work towards improving the occupancy rates."

For UOA-REIT's FY23 ended Dec 31, 2023, net profit dipped to RM53.85mil from RM60.87mil in the previous corresponding period, while revenue stood at RM113.51mil compared with RM114.80mil in FY22.

In its annual report, UOA-REIT says it will continue to actively market the vacant space in its properties and identify potential enhancement initiatives.

The group adds that it will also maintain its active capital-management strategy and continue to explore potential yield-accretive acquisitions.