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Content: starbiz@thestar.com.my

# Commercial real estate to sustain rally in 2024

Funding to further intensify in the retail, healthcare and educational sub-sectors, say experts

**PROPERTY**

By KEITH HIEW
keith.hsk@thestar.com.my

**PETALING JAYA:** Investments into the commercial real estate market are expected to drive its resurgence moving further into 2024, according to research houses and industry players.

Knight Frank Malaysia (Knight Frank) believes that funding will further intensify in the retail, healthcare and educational sub-sectors, with growing interest also observed in alternative investments, particularly into serviced residences or hotels as well as industrial parks in key regions like the Klang Valley, Penang and Sabah.

Building over from a resilient 2023, the property and consultancy firm is prudently optimistic for this year, expecting a relatively stable environment after commendable performances by the country's economy and real estate market last year.

It is also anticipating a rise in capital appreciation in the industrial and logistics sub-sectors in 2024, reflecting positive sentiment towards these segments.

Sharing some meaningful data from its Malaysia Commercial Real Estate Investment Sentiment Survey (CREISS), conducted among key industry players, Knight Frank reported that the property market in Malaysia had continued to strengthen in 2023 as indicated by a total of 293,095 transactions amounting to RM142.5bil from January to September.

More notably, the transactions exhibited a strong year-on-year (y-o-y) growth of 8.8% in value, compared to the RM131bil recorded over 293,000 deals for the first nine months of 2022.

Group managing director for Knight Frank, Keith Ooi, commented that the revival of the Malaysian commercial real estate market is underpinned by a surge in demand for data centres in the Asia-Pacific region, coupled with growing interest in alternative investments such as serviced residences and industrial parks.

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>
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Besides the positive y-o-y expansion in terms of deal value, the CREISS also revealed that 68% of the respondents believe that foreign direct investment (FDI) will be more favourable due to better economic conditions in the country.

In a statement reporting findings from the survey, Knight Frank said FDI in Malaysia is dominated by the manufacturing sector and is expected to continue attracting manufacturing investment to the country due to the availability of an ecosystem and resources.

"At the same time, 62% believed that the Business Confidence Index (BCI) would be positive, attributed to a stable economic environment and anticipated future developments.

"As for Budget 2024 and considering the government initiatives and policies, 60% of the respondents find it neutral towards the commercial property market," it said.

Amidst global challenges, Knight Frank mentioned that "a majority" of the surveyed participants had expressed optimism about Malaysia's economic performance, digital evolution and the real estate market, driven by factors such as a resilient labour market and positive consumer sentiments.

It added that the favourable outlook on political stability further contributes to enhanced investor confidence on both domestic and international fronts.

Elaborating on FDI, executive director at Bina Puri Holdings Bhd, Datuk Matthew Tee, echoed Knight Frank's bright outlook, pointing out that attracting foreign investments should not be a problem for Malaysia.

"Our banks are profitable and liquid as it is. If our central bank can loosen some measures on our banks to lend or to finance projects, the property sector will get an immediate boost," he told *StarBiz*.

He said that it was also important that Malaysia had boarded the regional data centre bandwagon, to ensure that it was not left behind in a sub-sector that is seeing a surging rise in demand.

Meanwhile, AmInvestment Bank Research (AmBank Research) revealed in a note yesterday that the FBM KLCI's 4% rise year-to-date has been attributed to foreign buying, of which 28% and 22% have been channelled respectively into the construction and property sectors, underlining the bullish sentiment.

Remarking that the local leading index's run has been in contrast with many lacklustre performances of other regional

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# Keen interest in serviced residences and hotels

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bourses, the research house noted that it is "overweight" on the construction and property sectors, among others such as oil and gas, technology and manufacturing.

At the same time, executive director of research and consultancy at Knight Frank Malaysia, Amy Wong, said while respondents have predicted noticeable increases of investments into the retail, healthcare and educational sub-sectors, minimal interest is observed in the office and industrial/logistics sub-sectors.

She said: "A look into respondents' views on the investment landscape from 2024 to 2026 reveals a keen interest in serviced residences and hotels, particularly in established areas like the Klang Valley, Penang, and Sabah, driven by increased tourism and a resurgence in the hotel industry post-lockdown."

Furthermore, she said there is a growing preference for alternative investments, with notable interest in sectors like co-living or student accommodation, as well as co-working office spaces, which reflect evolving trends in work preferences and technological advancements.

As such, Knight Frank said concerns exist for the office sub-sector due to potential decreases in capital value and yields of older assets, attributed to substantial supply impacting asset performances.

"Challenges, such as potential decrease in office rents and occupancy rates in older buildings, are noted.

"This is particularly in the face of significant incoming supply in the Klang Valley office market," it said.

Interestingly, Stephanie Ping and Andrew Yeow, chief executive and chief financial officer respectively for Incompleteness Theorem Sdn Bhd – more popularly known as coworking space provider WORQ – are also expecting foreign firms to continue growing their presence in Malaysia.

"Malaysia is well-positioned to integrate into the global supply chain and provide services to it, due to our diverse multilingual workforce and robust small-medium enterprises (SME) ecosystem.

"The recent economic trends in Malaysia, highlighted by significant FDI and a focus on bolstering the technology and telecommunications sectors, have positioned the country as an attractive destination for global firms from China, Singapore, India, the United States and Europe looking to expand," they told *StarBiz*.

Citing the example of a growth in their own client base, they said the trend reflects a broader movement of multinational corporations or MNCs and enterprise clients opting for coworking spaces due to their flexibility, comprehensive facilities and turnkey management services.

Consequently, they said these FDIs will contribute to the growth of the commercial real estate sector, encompassing industrials, warehousing and offices, which themselves will enhance job creation, further supporting demand for residential and retail real estate.

While acknowledging the overhang in office real estate, Ping and Yeow said demand for convenient coworking spaces remained strong, and hence landlords need to be more customer-centric and deliver more services and value to tenants.

In a separate report, Knight Frank in its "Real Estate Highlights for the second half of 2023" said demand for office space will be driven by the "flight-to-quality" trend and growing awareness of environmental, social and governance factors. "Despite prevailing soft conditions, Malaysia stands as a top choice for corporates seeking to establish new offices," it said.