

By EUGENE MAHALINGAM
eugenicz@thestar.com.my

PETALING JAYA: The Kuala Lumpur office market, which is already under pressure from a never-ending oversupply issue, is also facing a glut of outdated buildings.

Zerin Properties chief executive officer Previn Singhe noted that the Kuala Lumpur office sector, at the moment, “tells a story of two very different realities”.

“We’re no longer just dealing with an ‘oversupply’ problem. The real challenge is that we have too much of the wrong kind of office space.

“The gap between what’s available and what the market actually wants is widening and that’s reshaping how assets perform,” he told *StarBiz*.

Previn said this was being driven by a clear flight to quality where newer, greener, better-connected buildings are not only attracting new entrants, but also pulling tenants out of older, less competitive stock.

“On one side, you have the new, green, well-connected towers that are pulling in strong tenants and setting record rents. Merdeka 118 and Exchange 106 are perfect examples.

“These are high-spec, environmental, social and governance (ESG)-compliant buildings with the kind of amenities and connectivity that blue-chip occupiers are chasing. Deals are getting done and tenants are willing to pay for the quality,” he said.

On the other side, Previn noted that there is a large pool of older buildings that simply cannot compete in their current state.

“Many of these date back to the 1980s, 1990s and early 2000s, built for a very different era of office design and falling far short of today’s ESG, digital and wellness expectations.

“Vacancy rates here are persistently high and in some cases, occupancy has fallen below 50%. Without substantial investment in upgrades or a complete repositioning, these assets will continue to lose relevance and revenue.”

According to Knight Frank, occupancy rates recorded varying levels of growth across the Klang Valley, shaped by both new completions and ongoing leasing momentum.

“KL City and KL Fringe continued to register improvement, rising to 69.1% and 89.4% respectively in the first half of 2025 (1H25), from 67.5% and 87.2% in 2H24.

“Gains were largely driven by relocation and new set-ups in Grade A buildings – particularly those within integrated developments, reflecting a continued flight-to-quality as occupiers prioritise connectivity, building specifications and long-term space efficiency.”

Meanwhile, Selangor’s average occupancy held steady at 74.4% in 1H25, said Knight Frank in its *Real Estate Highlights for 1H25* report.

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Glut of outdated office space in Kuala Lumpur

Newer, greener, better-connected buildings in demand



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Previn Singhe

the market, these were largely matched by ongoing tenant activity.

“Demand in decentralised areas remains relatively stable, supported by occupier interest in cost-efficient alternatives outside the city centre.”

Meanwhile, average office rents in the Klang Valley registered modest gains across all submarkets in 1H25, it said.

“Submarket performance continued to vary according to vacancy levels and the availability of quality office stock. In KL City, average rents rose to RM6.69 per sq ft per month in 1H25 from RM6.64 per sq ft, driven by interest in Prime A+ and well-located Grade A buildings within integrated or transit-linked developments.

“While leasing momentum remains steady, rental uplift has been gradual, given the broader market’s still-elevated vacancy levels.”

Similarly, Knight Frank said offices within the KL Fringe area posted an increase to RM5.81 per sq ft per month from RM5.78 per sq ft.

“Although rental growth was more modest, the submarket continues to operate under tighter vacancy conditions.

“Selected commercial hubs such as Mid Valley, KL Eco City and Bangsar South remain highly sought after, with limited available space and high tenant retention, allowing landlords to hold firm or raise asking rents where occupancy is sustained.”

In Selangor, Knight Frank said average rents increased marginally to RM4.24 per sq ft per month from RM4.21 per sq ft due to the inclusion of newer, higher-priced completions.

Previn said it was vital for buildings to evolve to stay competitive.

“The PETRONAS Twin Towers is a prime example. Despite being 27 years old, it has remained one of the city’s most prestigious addresses because it has been consistently maintained, modernised and aligned with current occupier demands.”

Olive Tree Property Consultants founder and chief executive officer Samuel Tan said office building owners must make efforts to refurbish/upgrade their old buildings.

“With these exercises, not only will they be able to attract more tenants, the rental rates will be higher.

“Buildings that are beyond repair should be redeveloped. The highest and best use development should be implemented to extract the maximum value from the property.”

Tan said many of these older or obsolete buildings can be repurposed into co-working spaces, hotels or even vertical data centres.

“The authorities can give incentives for refurbishment,” he said.

In light of the current market situation (of oversupply of office space and obsolete buildings), Previn said the performance of office real estate investment trusts (REITs) will be highly polarised.

“Grade A, ESG-ready assets in prime locations are well placed to maintain value and occupancy, while portfolios with too much ageing, unrenovated stock will face pressure on rents, valuations, and ultimately yields.

“This is where active asset management becomes critical, focusing on enhancing buildings, recycling capital into stronger performing properties, and where viable, repurposing underperformers into alternative uses such as hotels, healthcare facilities, co-working hubs, or transforming

them for multipurpose use.”

Another important shift is in tenant decision-making criteria, said Previn.

“Five years ago, energy efficiency, digital readiness and wellness features were ‘nice extras’. Today, they are non-negotiable.

“Occupiers are under their own ESG and productivity pressures, so they’re actively seeking buildings that help them meet sustainability targets, reduce running costs, and offer a better employee experience.”

In short, Previn said office REITs that invest in keeping their portfolios relevant through upgrades, smarter capital allocation, or strategic repurposing, will be in a far better place by year-end.

According to Knight Frank, office stock in the Klang Valley grew by almost 1.1 million sq ft in 1H25, reaching a total of 119.3 million sq ft.

It said an estimated 1.3 million sq ft is scheduled for completion in 2H25, led by Menara TNB Bangsar in the KL Fringe as well as Sunway South Quay Corporate Tower 1 and Sunsuria Forum C-Suites in Selangor.

“While the overall pace of new supply remains moderate, recent and upcoming completions continue to reflect a focus on workplace quality, integration with broader masterplans and alignment with evolving tenant requirements.

“These factors are likely to remain influential in shaping future development strategies.”

Looking ahead, Knight Frank said external headwinds – including global trade tensions and monetary policy shifts – may delay leasing decisions and temper business expansion, especially among multinational occupiers.

“Additionally, occupiers are expected to monitor potential cost implications from the extension of service tax to commercial leases, which took effect from July 1, 2025.

“While some landlords may be able to pass on the 8% charge, those with weaker occupancy may face pressure to absorb part of the cost, compressing net yields.”

These risks, though yet to materially impact current demand, could shape occupier strategies and investor appetite over the medium to longer term, said Knight Frank.

“Against this backdrop, leasing activity is expected to remain measured in the near term, with outcomes continuing to hinge on asset quality, location strategy and flexibility aligned with occupier cost management.”