

**AN ECONOMETRIC STUDY ON OFFICE RENTAL MARKET IN KUALA
LUMPUR**

**Thesis Submitted to the College of Business
In Fulfillment of the Requirement for the
Degree of Master Science of Finance
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By

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2011

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ABSTRACT

The intense competition among property investors has been fueled by the limited pool of desired assets. As global markets become more developed and matured, the yield is becoming more compressed, which resulted in property investors to expand their property investment portfolio across the geography borders. As a result, commercial real estate investment has been globalised to a new unprecedented level, due to the diversification strategies by these global property investors. Kuala Lumpur, being the financial and economic capital of Kuala Lumpur is not spared from being in the radar of global property investors.

In addition to Kuala Lumpur, other major urban centres in Malaysia are Penang and Johor Bahru. While the office space market in Kuala Lumpur has an international appeal, the same notion is yet to be confirmed for both Penang and Johor Bahru office space market. The main objective of this study is to explore the economic indicators such as GDP, CPI, unemployment rate and the interest rate to the demand and supply factors that determine the rental value of office space market.

The demand factor is represented by the natural vacancy rate of the office space, while the supply factor is represented by the total office floor space. Next, the study compare whether the changes in economic indicators will change the variation in the office rental market in Kuala Lumpur, Penang and Johor Bahru.

This study covers the office rental values in various business districts in Kuala Lumpur, other urban centres in Klang Valley area and also other major urban centres in

the country, namely Penang and Johor Bahru. The regression analysis on office rental market in Klang Valley, Johor Bahru and Penang suggests that both geographical clusters have different rental rate determinants of office space. The model implies that the office rental market in Kuala Lumpur is very much dictated by supply and demand factors.

As for the office rental market in Johor Bahru and Penang, the model suggests a direct relationship between office space supply and service sector productivity level. Office rental market in Johor Bahru and Penang is very sensitive to the changes of office space supply. In contrast, an increase of service sector output, as evident in GDP service factor, will help to spur demand to occupy office space in Johor Bahru and Penang, thus help to contribute positively on the office space rental rates.

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LIST OF ABBREVIATIONS

BLR	Base Lending Rate
CBD	Central Business District
EPF	Employee Provident Fund
GDP	Gross Domestic Product
GNP	Gross National Product
KLCI	Kuala Lumpur Composite Index
LTAT	Lembaga Tabung Angkatan Tentera
LTH	Lembaga Tabung Haji
MSC	Multimedia Super Corridor
NAPIC	National Property Information Centre
psf	Per Square Foot
RM	Ringgit Malaysia
Sq. Ft.	Square feet

CHAPTER ONE

BACKGROUND

1.0 Introduction

Chen *et.al* (2009) has briefly explained that limited pool of desired assets has fueled intense competition among property investors. Yield compression, as a result of most global markets become more developed and matured, has resulted in property investors expanding their property investment portfolio across the geography borders. As a result, commercial real estate investment has been globalised to a new unprecedented level, due to the diversification strategies by these global property investors.

Kuala Lumpur, being the financial and economic capital of Kuala Lumpur is not spared from being in the radar of global property investors. As at 2010, AXIS-REIT reported in its 2010 Annual Report that Klang Valley has an existing office space supply of 79.21 million sq. ft., of which 63.47 million sq.ft. is located in Kuala Lumpur. In the future, there will be another 27.23 million addition office space supply from 73 identified office buildings, of which 12.75 millionsq.ft. is from 41 office buildings are currently under construction. Several international property investors have already made substantial such as Kuwait Finance House, Qatar Investment Authority, Abu Dhabi Mubadalla, CapitaLand, MGPA Asia Developments, and others. Michael Wilkinson, the CEO of MGPA Asia Developments said during in an interview, that it is good time to invest in property in Malaysia, particularly Kuala Lumpur, as it has the strongest market in South East Asia. Under the Greater Kuala Lumpur Plan, which is part of the Economic Transformation Plan ('ETP') the Government of Malaysia has earmarked eight mega projects that will each create their individual commercial enclaves. These eight mega projects will be carried out by both local and foreign developers, such as outlined in the table below :

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