



by Joseph Wong

The evolution of office space

Office layouts and designs have been evolving since they were conceptualised in the 1900s.

For decades, the layout and design of office buildings have been changing to suit the needs of corporations, businessmen and entrepreneurs.

Malaysia's history of offices can be traced to the 1900s when one- to two-storey shophouses first appeared.

But as companies grew, the need for different offices shifted and their designs evolved alongside the new demands of businesses.

The need to cater to a diverse workforce has led to the emergence of a variety of office buildings (see graphics below).

Until the 1970s, the majority of shophot offices were two-storeyed. Between 1970 and 1990, taller shophots appeared, and in greater numbers. Most were three storeys, partially due to some local councils' bylaws which required elevators if there were four levels or more.

It was the 1990s that saw the birth of the low-rise and strata office blocks, a precursor to the purpose-built Grade A office buildings, according to research by property developer Triterra Group.

"It all started with the quintessential shophouses with dwellings on upper floors and business spaces on the lower floors, defining the commercial property landscape in the 1960s and 70s.

"This was followed by the growth of the services and retail sectors in the 1980s and 90s, where buildings evolved to shophouses, leading to the first-generation low- to medium-rise office buildings, mostly commissioned and occupied by government organisations and GLCs (government-linked companies), before the eventual but rapid upgrade to basic corporate offices as the private sector blossomed," says Christopher Lim,

- The services sector, with primarily SMEs driving a new knowledge-based economy, is pushing aside the traditional office space
- Lines are blurring as small firms with a global reach join MNCs in demanding amenities that only an eclectic modern office can provide



Commercial buildings have evolved to keep pace with business practices, says Lim

CEO of Triterra.

The second generation office towers soon emerged, with spires rising from the ground in greater numbers, height and sophistication with each passing year in the 1990s and 2000s, mostly driven by large corporate ownership, he notes.

The mid-2000s (2006-2015) saw the boom of corporate offices continuing unabated with real estate investment trusts entering the market and evolving further with signature corporate office high-rises, premium luxury residences and an explosion of trendy new malls and retail spaces defining the new commercial property landscape, he adds.

"This period also saw the

integrated township gaining much prominence as developers sought to create new markets and diversify to address the increasingly scarce and expensive land in prime KL CBD (Kuala Lumpur central business district) areas," says Lim.

This is not to say there were no tall office buildings in KL prior to 2006. The Petronas Twin Towers were completed in 1998 and these remain the tallest twin towers in the world.

As it stands, there are three basic classes of offices - the shophot office, the low- to mid-rise office towers and the Grade A corporate high-rises.

But going forward, developers may have to juggle with an amalgam of the three forms of offices to cater to the needs of a diverse workforce.

Paradigm shift

Commercial buildings and workspaces and their use have evolved to keep pace with business practices, according to Lim.

"As newer types of commercial spaces come into the market, older buildings are being repurposed for businesses such as F&B (food and beverages) and retail to enhance their appeal and relevance," he explains.

The unprecedented rise in popularity of co-working spaces also reflects a shift in the mindset of employers and the working professionals in keeping with the times, he says.



An artist's impression of The Met: The next stage of the office space evolution?

"This paradigm shift inter alia in technology, culture, investor mindsets and a desire for more has resulted in the rise of a new asset class: The New Business Class [which is reflected in] The Met corporate towers," he points out.

The Met, which has a gross development value of RM650 mil, comprises two towers of stratified Grade A office buildings with Tower A at 42 storeys and Tower B-30 storeys.

Tower A is divided into three zones to promote the business needs of small and medium enterprises (SMEs) to multinational corporations (MNCs) while Tower B is divided into 488 units.

The Met corporate towers was

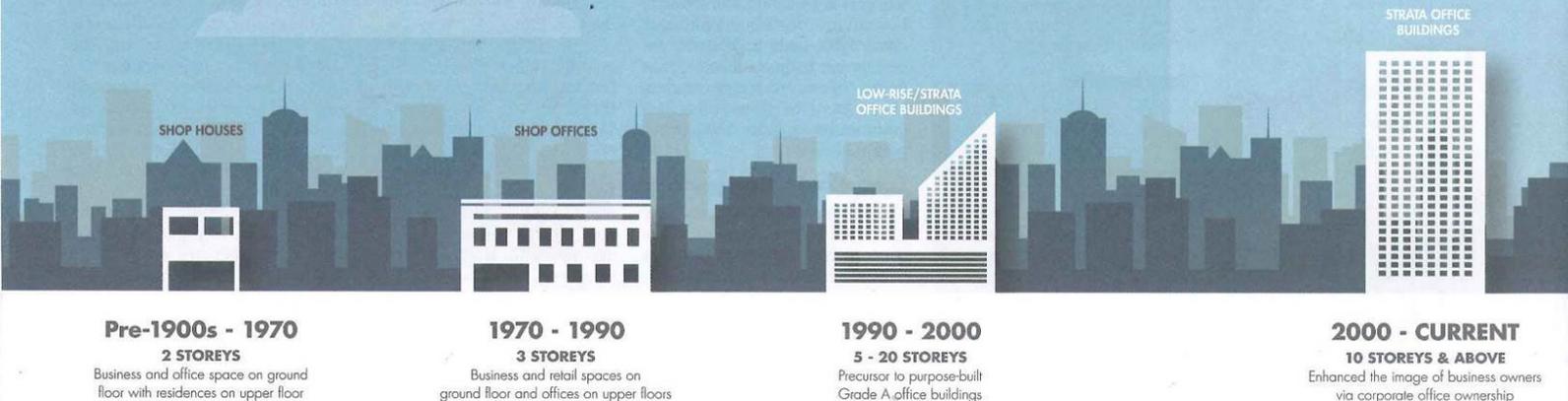
conceived to address a gap in the market as a new asset class by offering a transformative work environment equally appealing to investors and occupiers alike, says Lim, describing this concept as the next evolutionary step for office spaces.

Pioneering fresh ideas that redefine the highly competitive commercial property landscape, it prioritises building occupancy and collaboration, addressing the diverse needs of SMEs to MNCs, local or global, he says.

Blurring of lines

Lines are blurring as small companies with a global reach mingle with huge MNCs in demanding amenities that only an eclectic modern office can

Tracking the office spaces



provide, Lim says.

"The Met's forward-looking concept personified by its flexible layouts and 3rd spaces throughout the building is designed to be a workplace of the future," says Triterra COO Shaun Mok.

"We welcome the move towards more flexible and productive office spaces as a sign of an ever-maturing market for the new business class," he adds.

The Met's 3rd Space concept, which describes the multitude of spaces where people can meet and interact, inspire one another, exchange ideas and build relationships in a setting that balances work and play, subscribes to the co-working spaces ideology.

It is an anchor of The Met's community, one that facilitates and fosters broader, more creative interactions, says Lim.

Co-working hubs

Such a philosophy has given rise to the sprouting of co-working hubs like Common Ground, Worq and Co-labs Coworking, which are operating in malls and office towers in the Klang Valley.

Most of these co-working spaces have earned accolades for their services the last two years, proving to be successful where they operate.

Investment value chain

On average, there is a 20% premium in development cost as opposed to a residential development of a similar grade due to the additional considerations and features, Lim reveals.

"A commercial property is normally in a more prime location. All this results in better value for the investor as the developer has invested more in the building itself (and also in marketing it), preserving and maximising its value over time and generally creating more opportunities for investors to balance their portfolio with other residential investments.

"In fact, an office investment is in between a retail shop and a residential investment. In a mature market, commercial office space is a better grade investment compared to residential properties as investors normally gener-

The co-working phenomenon

INTERESTINGLY, the co-working scene is not as new as many have been led to believe. This form of offices has actually been around for much longer than originally perceived. Software engineer Brad Neuberger is credited with starting the coworking movement in San Francisco in 2005 with the idea to combine the independence of freelancing with the structure and community of an office space.

But the origins run deeper into the past. Many experts now consider hackerspaces to be precursors of today's co-working spaces, which can be traced back to one of the first hackerspaces in the world - C-base, founded in Berlin, Germany, in 1995. Map maker Ho Chin Soon says it can be dated back further, except that it was never recognised as a co-working space back then. The Ho Chin Soon Research Sdn Bhd chairman reveals that when he

started out, he was sharing an office with another company. "If you look at it, this is a form of co-working space. There are many others who shared a single shoptlot and numerous companies were under the same roof," he tells *FocusM*. He points out that there were many start-ups which could not afford their own offices but needed a base of operations and it was not unusual for several companies to be within a single shoptlot unit.

ate a better yield and capital appreciation over time while also requiring less sizable investments compared to shops.

"There is also the view that office space in KL is oversupplied, which has some truth although prime office space in prime areas is always in demand. Take Mont Kiara for example, where office occupancy rates fluctuate between 80% and 90% at any one time," Lim says.

By tapping into the better corporate tenant profiles that come with commercial investments, investors can achieve more stable long-term returns in a development that can only improve over time.

Naturally, investors will be looking to how developers will navigate the waters ahead for the types of offices that will emerge in the coming years, says a property observer.

"It is likely that many developers will continue to churn out what they have successfully pushed out in the past. The shoptlot offices will continue on the outskirts of cities except that the upper floors may be used for residential needs instead.

"The low- to mid-rise office towers may be restricted to certain areas where they can be sustained like Uptown Damansara where the offices do not breach the 300 m high-rise mark.

"As for the high-rise Grade A offices, these are usually limited to KL city centre or high-density pockets where they are sustain-

able," the property observer says.

No developer would venture into recurring income projects without doing the homework first, otherwise they will not be able to get the rental returns they are seeking, he says.

Rental rates

Depending on the location, two-storey shoptlots generally fetch between RM1.50 and RM3.50 per sq ft (psf) while for the three- to four-storey ones it is almost similar at RM2.50 to RM3.50 psf. The low-rise and strata office building of the 1990s are seeing rates of RM2.50 and RM4 psf.

The office towers of the 2000s are seeing RM3.50 to RM6 psf while the Grade A towers can command rates of up to RM12 psf, according to the Triterra research team.

However, there is a growing concern over the cumulative supply of purpose-built offices (PBO) which could affect the rental rates if supply overwhelms demand.

The cumulative supply of PBO as at 3Q 2018 in the Klang Valley stood at 109.7 million sq ft with four new completions injecting 1.56 million sq ft of space and increasing the vacancy rate by 5% qoq to 18.9%, the report says.

About 15.7 million sq ft or 26 PBO buildings are expected to enter the market by the end of 2021 of which 82% will be in the KL area. The average prime rental declined to RM6.95 psf in



How will offices of the next generation look and feel like?

2018. Capital value was unvaried with net yields of between 5.5% and 6.0%.

"Excess supply alongside the existence of office alternatives such as shop offices and industrial buildings may threaten the PBO sector as the rentals offered by these alternatives tend to be slightly lower than the typical PBO, thus pressuring rentals and vacancy rates," it says.

But there is a silver lining. The financial sector still leads the office market in KL where buildings in proximity to public transport are most in demand.

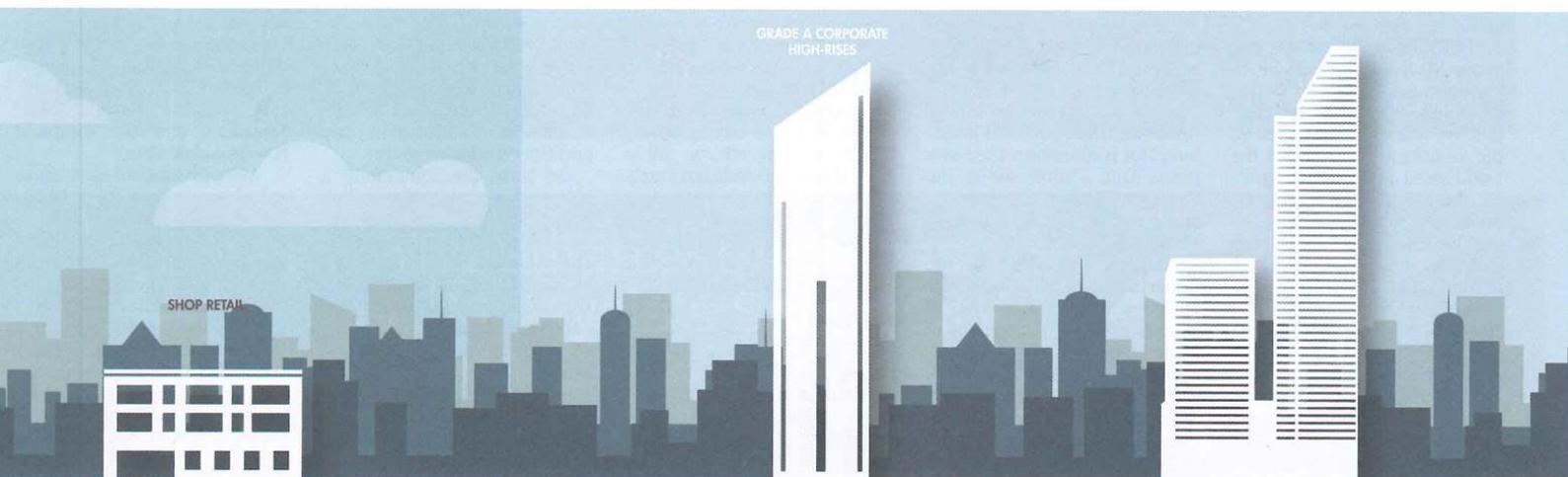
"Shackled by the huge supply entering the market, revolutionary use of space by millennials may create a variation in the tenant mix, which may push up demand for office space," it says

And revolutionary use is what Triterra is banking on with its development, pushing the office space to the next level.

The service sector, with primarily SMEs driving a new knowledge-based economy, is pushing aside the traditional office space, notes Lim.

"A successful integrated development with a winning formula is one which puts forward a holistic plan that addresses the four key components of catalyst, infrastructure, complementary factors and momentum.

"There is no guaranteed template for success but any integrated development that plans and executes its master plan to great effect incorporating these key elements is definitely off to a great start," says Lim. *FocusM*



2000 - CURRENT 3 - 4 STOREYS

Rise of the "shop retail" - repurposing of the classic "shop house/offices" with restaurants, fitness centres and retail outlets throughout

2006 - CURRENT 30 STOREYS & ABOVE GRADE A HIGH RISES

Large open plan floorspaces

2021 & BEYOND THE MET CORPORATE TOWERS

The first Grade A strata corporate office towers in Mont' Kiara and KL Metropolis