Growing demand for industrial properties

BY **WONG KING WAI**

ABDUL GHANI ISMAIL/THE EDGE

Properties like those in Glenmarie Industrial Park in Shah Alam are appreciating in value because of a lack of supply in the Klang Valley

The real estate market is made up of different "personalities". There is the attention-seeking residential segment, the dependable commercial property segment and the retail and hospitality segments that are always ready for a good time. As for the industrial property segment, it is shy and lingers in the background. However, this could change in the near future.

According to VPC Alliance (KL) Sdn Bhd's managing director James Wong, who spoke at the PEPS 6th Malaysian Property Summit on Jan 22, opportunities abound for developers to build industrial properties because of the increase in manufacturing activity in the country. The summit was organised by PEPS or the Association of Valuers, Property Managers, Estate Agents and Property Consultants in the private sector of Malaysia.

The manufacturing sector, according to the Malaysian Investment Development Authority (Mida) 2012 data, contributed about 24.6% to Malaysia's GDP after the service sector (50.6%). It is the largest employer in the country, hiring 12.5 million or 29% of the total workforce.

This means industrial properties, typically buildings for manufacturing or warehouse purposes and vacant industrial land, have investment potential like any other property type. Meanwhile, they account for only 2.2% of total property transactions and about 10% of total property transaction value in the country, according to the National Property Information Centre's figures for 1H2012. Average yearly transactions are about 8,000.

With most private developers preferring to focus on residential and commercial projects, the main developers of industrial parks are state economic development corporations and other government agencies, said Wong.

While it is not difficult for developers to sell industrial buildings, renting them out is another thing altogether, he added. Conditions such as good location in a developed area, accessibility to highways and ports, availability of industrial workers in the vicinity, available infrastructure and limited industrial property supply in the locality are some of the factors that have to be considered.

Some developers have targeted small and medium manufacturers and come up with industrial units that meet their requirements. "There are now developers who are building a new generation of industrial units for the multiple functions of warehousing, light manufacturing, workshops, offices and showrooms, all under one roof, which are suitable for small and medium enterprises that don't want to tie up their capital by buying an industrial property," Wong explained.

More individual investors looking at industrial properties

"Individual investors buying industrial properties such as factories and warehouses is a new phenomenon in Malaysia," Wong said.

According to him, one of the benefits of this is returns of 6% to 10% compared with 3% and 6% for residential properties and shopoffices respectively.

Moreover, industrial properties require less maintenance and management. And unlike the two-year tenancy agreements for residential properties — at the end of which tenants are wont to make fresh demands — the leases for industrial properties are longer. In addition, the management deals with fewer tenants unlike for serviced apartments, for example.

As the industrial property market is small, there is room for growth with capital appreciation in the mid and long terms, Wong observed.

NAPIC

Prices of factories in Klang Valley (1H2012)

TYPE	LOCATION	FLOOR AREA (psf)	PRICE FROM (RM)	AVERAGE PRICE CHANGE (%) (1H2011/1H2012)
1½-storey terraced	Bandar Bukit Puchong	3,993	1,000,000	Stable
2-storey terraced	Taman Ehsan Industrial Park, Kepong	3,197	950,000	12.1
2-storey terraced	Taman Industrial SP Jaya, Sg Buloh	3,886	738,000	21
Semi-detached	Meru Industrial Park, Klang	7,287	2,000,000	7.5
1½-storey terraced	Villaraya Industrial Park, Semenyih	3,993	329,000	13.5

VPC RESEARCH

Prices of prime vacant industrial land in Klang Valley (RM psf)

YEAR	BALAKONG	BUKIT JELUTONG	GLENMARIE	KOTA KEMUNING	SEC. 23 SHAH ALAM
2007	35	65	75	50	45
2008	40	73	80	53	50
2009	45	75	85	60	55
2010	50	85	110	70	65
2011	63	92	160	84	70
2012	72	120	185	100	85

"Individual investors buying industrial properties such as factories and warehouses is a new phenomenon in Malaysia — Wong"

Industrial parks

In the past 10 years, most of the industrial parks in the Klang Valley and the outlying areas have been developed by the Selangor State Development Corporation (PKNS). The majority of them are located in areas such as North Port (Klang), West Port (Klang), Shah Alam, Meru-Kapar, Subang Jaya-Puchong, Sungai Buloh, Petaling Jaya, Segambut-Selayang, Rawang, Sungai Besi-Kajang and Nilai (Negri Sembilan).

Based on a Mida report, Selangor has the largest concentration of industrial properties in the country and attracted the most approved investments in manufacturing projects from January to September 2012 worth RM7.684 billion or 24% of total investments for the said period in the country, Wong said.

"Over the past five years, the Klang Valley industrial market has seen capital values rise as much as 50% while rents gained 20% to 30%. The price and rent rises were due more to a lack of new supply than overly strong demand."

VPC Research data show the prices of prime vacant industrial land in Glenmarie Industrial Park in Shah Alam rose to RM185 psf in 2012 from RM75 psf in 2007 — an increase of 146.7% — while that for industrial land in Bukit Jelutong Industrial Park, Shah Alam, increased 85% to RM120 psf in 2012 from RM65 psf in 2007.

Factory prices have also appreciated over the years. A 2-storey terraced factory in Taman Ehsan Industrial Park, Kepong, with a built-up of 3,197 sq ft saw an average price growth of 12.1% to reach RM950,000 in 1H2012 from a year ago. The price of a semi-detached factory in Meru Industrial Park, Klang, with a floor area of 7,287 sq ft rose 7.5% from the previous year to RM2 million in 1H2012.

As for rents, Wong said the rates for a conventional factory in Glenmarie Industrial Park were between RM1.80 and RM2.20 psf while in Bukit Jelutong Industrial Park, similar units were leased out for RM2 to RM2.40 psf. In 2007, rental rates for both industrial parks were RM1.20 psf.

Johor and Penang

Besides the Klang Valley, Wong believes Johor and Penang are two regions where industrial properties will see growing demand.

"A few industrial clusters are being developed in Johor, including the Southern Industrial and Logistics Clusters (SiLC), industrial parks in Nusajaya, Pengerang oil and gas refinery and transmission hub and Seaport Worldwide's petrochemical industrial park," he said. "Ascendas has also announced a joint venture with UEM Land to develop a technology park in Nusajaya, Iskandar Malaysia, with an investment value of S$1.5 billion, which will bring in Singapore manufacturers."

The 2,217 sq km Iskandar Malaysia covers the city of Johor Baru, the adjoining towns of Pontian, Senai and Pasir Gudang and the upcoming new administrative capital in Nusajaya.

Interest in Iskandar Malaysia has already boosted industrial property prices. Semi-detached factories in Nusa Cemerlang Industrial Park in Bandar Nusajaya achieved a y-o-y price growth of 31% to RM190 psf in 2012. Rents for factories in

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