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Office Segment Remains Driver For KLCCP

R KamalavaciniThursday, April 14, 2016

KLCCP Stapled Group, the owner of Kuala Lumpur's most famous landmark, the Petronas Twin Towers, expects the office segment to drive earnings especially from major clients with long-term lease agreements and triple net leases.

CEO Datuk Hashim Wahir said more than 80% of the group's office spaces are on triple net lease basis which promises a steady rental income.

"We have triple net contract for '15 plus 15', and some of our contracts are '6 plus 6 plus 6'. And we have long-term contracts with our major client Petronas (Petroliam Nasional Bhd)," he said after the company's third AGM in Kuala Lumpur, yesterday.

He said the company expects to seal a tenancy extension with ExxonMobil Group for Menara ExxonMobil.

"We have secured a letter of confirmation for a long-term lease extension from ExxonMobil. However, the final agreement is yet to be drafted and approved," he said.

KLCCP's key office assets, the Petronas Twin Towers, Menara 3 Petronas and Menara Dayabumi are all anchored by triple net lease agreements. The office segment contributed 44% to KLCCP's RM1.34 billion revenue last year.

Despite worries of a glut in office spaces, Hashim said the group is actively expanding its office spaces besides refurbishing existing buildings and towers.

"We are building new spaces only when there is underwritten space or a space that is being targeted by certain tenants. We are not a speculative developer," Hashim said.

And the company will also continue to focus on its current assets. "That is why we are focusing on developing Menara Dayabumi. We are building another 600,000 sq ft of offices in Dayabumi. The development has been broken into three and we have completed the first one," he said.

Hashim said the redevelopment of the City Point podium as a mixed development with office, hotel and retail components is also underway.

"We will build another 60-storey tower with retail outlets by 2019 with an estimated gross development value of RM1 billion," Hashim said.

The new tower, he said, would add value to the group's existing property portfolio.

Hashim said the office segment provided a stable revenue stream with a 10% increase every three years from its long-term leases.

However, he said the group's hotel segment would continue to be sluggish as visitors' arrivals dwindled due to the MH17 and MH370 incidents, unfavourable market conditions, weak consumer sentiment and extensive renovation at its signature Mandarin Oriental Hotel.

"We have set aside RM100 million for the hotel's refurbishment work for the next two years," said Hashim.

He said the retail segment would face an equally challenging year as consumers continue to spend cautiously due to the rising cost of living.

"We can see a slight improvement in consumer sentiment after a year of Goods and Services Tax and we expect more people starting to spend," he added.