



PROPERTY INSIGHTS

Kuala Lumpur | Quarter 1, 2019

Upswing in investment activities

Market Overview

- The Malaysian economy grew at a faster rate of 4.7 per cent year-on-year (y-o-y) in Q4 2018, supported by the expansion of domestic demand and net exports. Compared to Q4 2018, the economy expanded by 1.4 per cent in Q4 2018.
- Investment sales jumped nearly fivefold to RM1.15bn in Q1 2019 from RM250m in Q1 2018. Funds continue to invest in private education as an alternative asset class to diversify their portfolio, as seen from the biggest investment deal in Q1 2019.
- The office market remained favourable to tenants and the average occupancy rate remained stable at 80.0 per cent.
- 2018's retail sales growth of 3.9 per cent fell short of expectation, with total sales value at RM103.7bn. Growth for Q1 2019 is forecasted at 3.1 per cent on a y-o-y basis.
- Prices and rents for high-end condominiums improved marginally by 3.2 per cent and 1.1 per cent quarter-on-quarter (q-o-q) to RM1,049 per square foot (psf) and RM3.82 psf per month respectively.

Trends & Updates

The Economy

Key Highlights in Q1

- The Malaysian gross domestic product (GDP) grew by 4.7 per cent y-o-y in Q4 2018 compared to 4.4 per cent y-o-y in Q3 2018.
- Unemployment rate improved by 3.3 per cent in Q4 2018, compared to 3.4 per cent in Q3 2018.
- Headline inflation declined from 0.5 per cent in Q3 2018 to 0.3 per cent in Q4 2018.
- All sectors recorded growth in Q4 2018 except for the agriculture sector.
- Consumer Sentiment Index (CSI) declined for the second consecutive quarter to 96.8 points in Q4 2018 from 107.5 points in Q3 2018.

Market Commentary

The Malaysian economy grew at a faster rate of 4.7 per cent y-o-y in Q4 2018 compared to 4.4 per cent y-o-y in Q3 2018. The healthy growth was supported by the expansion of domestic demand and net exports. Private sector expenditure continued to be the main driver of domestic demand while uplift in real exports of goods and services contributed to the growth of net exports. Overall, the economy grew by 4.7 per cent in 2018 compared to 5.9 per cent in 2017.

The growth of household income fuelled the increase in household expenditure. It was facilitated by the Government's measures to soothe the rising cost of living by providing special payments to civil servants and pensioners. However, owing to the moderation of the gross fixed capital formation, domestic demand saw a slowdown in growth rate at 5.6 per cent in Q4 2018, compared to 6.9 per cent in Q3 2018. Despite the stock up season in Q3 2018 due to the tax holiday, private consumption remained robust, growing at 8.5 per cent in Q4 2018 (Q3 2018: 9.0 per cent).

The Manufacturing sector grew by 4.7 per cent in Q4 2018, a 0.3 per cent decline q-o-q. This was

Figure 1

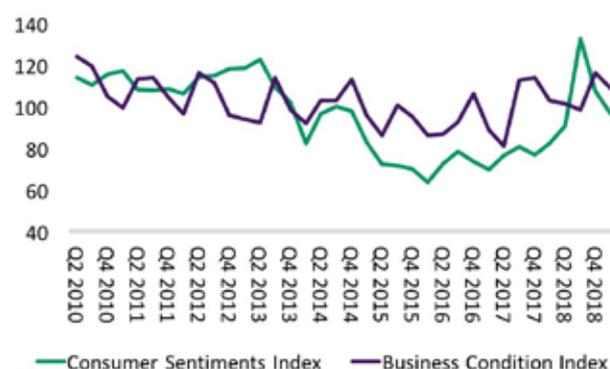
Malaysia GDP growth and unemployment



Source: Bank Negara Malaysia, Department of Statistics Malaysia, NTL Research

Figure 2

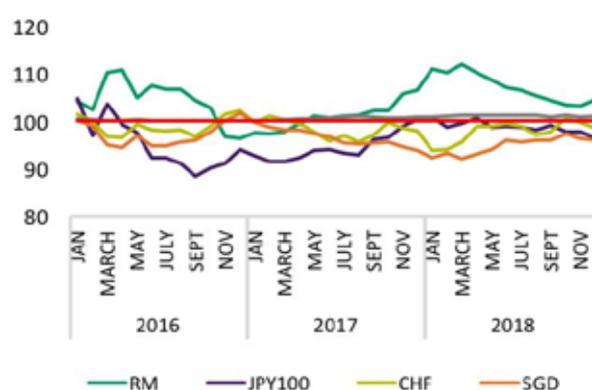
Consumer Sentiments Index (CSI) and Business Conditions Index (BCI)



Source: Malaysian Institute of Economic Research, NTL Research

Figure 3

Exchange Rate Index of Main Trading Partners of Malaysia vs USD



Source: Bank Negara Malaysia, NTL Research

Weak global conditions weighing down Malaysia's economy.

contributed by the extended momentum in the electronic and electrical (E&E) and transport-related production. The expectation of higher trade tariffs due to the trade war resulted in the front-loading of exports globally. Overall, the decline in regional demand for resource-based manufacturers in primary and construction-related clusters resulted in a slight slowdown from 6.73 per cent in 2017 to 5.02 per cent in 2018 for the Manufacturing sector. This also caused the Business Conditions Index (BCI) to fall from 116.3 in Q3 2018 to 108.8 in Q4 2018.

The Services sector grew at a slower pace in 2018 at 6.9 per cent compared to 7.2 per cent in Q3 2018. However, it improved for the entire year of 2018 at 6.8 per cent whereas it was only 6.2 per cent in 2017. The growth was mainly supported by the expansion of consumer spending in wholesale & retail trade and information & communication. Higher production of oil and natural gas after the maintenance shutdown in Q3

Residential

Key Highlights in Q1

- There was no completion of a high-end residential project in Q1 2019.
- Over 4,600 units are slated for completion in 2019, with 54.0 per cent located in the city centre (Figure 4).
- Prices and rents for high-end condominiums improved marginally by 3.2 per cent and 1.1 per cent q-o-q at RM1,049 psf and RM3.82 psf per month respectively (Figure 5).

Market Commentary

The residential market remained subdued, lingering in the mode of “self-correcting” in Q1. It was an outcome of various factors, such as soft demand, a high number of unsold residential properties and increased loan rejection.

2018 improved the performance of the Mining sector. Moderation of civil engineering and the special trade subsector affected the growth of the construction sector, while palm oil harvesting and rubber tapping activities saw a smaller decline in the agriculture sector.

After staying above the optimism threshold for two quarters, the Consumer Sentiment Index (CSI) dropped for the second time in 2018 to 96.8 points in Q4 from 107.5 points in Q3. The drop was due to the inflationary expectation in the near future.

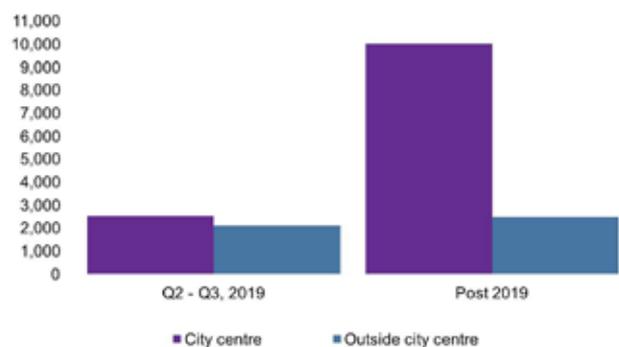
The Ringgit appreciated slightly against the US Dollar in Q4 2018 despite cautious global investor sentiments. The faster pace of the US monetary policy normalisation prior to the downward revision of the US federal reserves also influenced the appreciation.

Outlook

Despite the contractionary fiscal approach by the Government, the Malaysian economy is expected to grow moderately between 4.3 per cent to 4.8 per cent in 2019 due to the increasing private sector demand.

Figure 4

Future supply of high-end condominiums in Kuala Lumpur



Source: NTL Research

According to the National Property Information Centre (NAPIC), condominiums priced above RM500,000 per unit significantly contributed to the unsold units in the market. As of Q3 2018, unsold houses in Malaysia increased by nearly 50.0 per cent

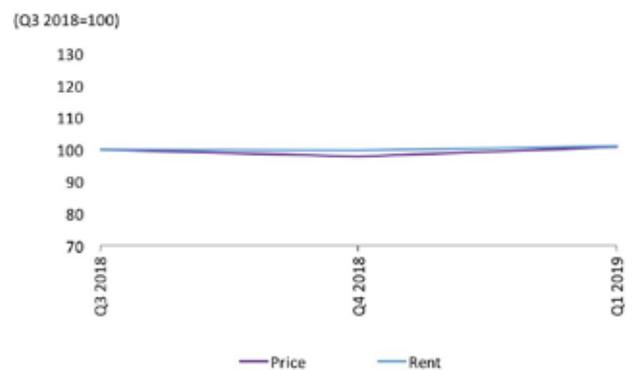
as compared to the same period in 2017, a record high of 30,115 units worth RM19.54bn. Including serviced apartments and small offices/home offices (SOHOs), the total overhang units rose to 40,916 units with a value of RM27.38bn.

Overall, affordable housing was the key focus of the residential sector this quarter. Government interventions have been intensified to address property gluts, homeownership and affordability issues. The various initiatives announced by the Government for affordable housing include the provision of 1m affordable homes in the next 10 years; funding of RM1bn through affiliated banks; new National Housing Policy from 2018 to 2025 which emphasises on the rent-to-own scheme to increase the homeownership. This is followed by the Home Ownership Campaign (HOC) and Belanjawanku, a financial guideline for Klang Valley.

Due to the high loan rejections, the Government is also supporting the private sector-led 'FundMyHome' scheme which was launched in November 2018, where buyers pay 20.0 per cent of the purchase price to own a home without a bank mortgage and monthly repayments. The remaining 80.0 per cent of the property cost is to be contributed by the participating institutions. For buyers who need assistance to raise the 20.0 per cent payment, the Government has clubbed this scheme with the Depositku scheme, which provides first-time homebuyers under FundMyHome the flexibility to obtain a loan of up to RM30,000. The Home Ownership Campaign (HOC) 2019 held at the Kuala Lumpur Convention Centre from 1 to 3 March 2019, was a joint initiative between the Real Estate & Housing Developers' Associations (REHDA), Ministry of Urban Wellbeing and Housing & Local Government Malaysia (KPKT). The event attracted more than 50 developers exhibiting their nationwide residential products. The expo was a flagship event for the six-month HOC 2019, from January to June this year.

Figure 5

Price and rental indices of high-end condominiums in KL



Source: NTL Research

The Home Ownership Campaign (HOC) 2019 attracted 43,000 visitors over a three-day expo with about 500 residential units worth RM285m booked.

During the period of HOC 2019, homebuyers are exempted from stamp duties for the purchase of residential units priced between RM300,000 to RM1m. Some attractive discounts and packages are also offered by the developers, such as rebates and freebies as well as a minimum committed 10.0 per cent discount on the selling price by all participating developers.

Outlook

In the short to medium term, the residential market will remain challenging despite various approaches taken to boost property sales. The affordability will always be the focal issue among buyers due to increasing cost of living, low-income levels, and supply-demand mismatch.

Oversupply is weakening market sentiments. Thus, innovative product offerings need to be evaluated. For instance, co-living concept which is picking up in Asian countries, can be tested out in the Malaysian market.

Retail

Key Highlights in Q1

- Retail sales recorded a 3.9 per cent growth in 2018, below the expectation of 4.4 per cent y-o-y.
- The existing supply of shopping malls in Klang Valley rose to 53.8m sq ft.
- Central i-City opened its doors in March with 940,000 sq ft NLA.
- Average overall occupancy for shopping malls in the Klang Valley is 91.0 per cent.

Market Commentary

Dampening of consumer sentiments is reflected in retail sales, as growth rate eased to 2.7 per cent y-o-y. The retail industry expanded below the expectation of 4.7 per cent in Q4 2018.

Year-round performance, however, fell short of expectation with a growth of 3.9 per cent and a total sales value of RM103.7bn for 2018. The three months of tax holiday period coupled with festive seasons in H2 2018 failed to boost the overall sluggish retail industry.

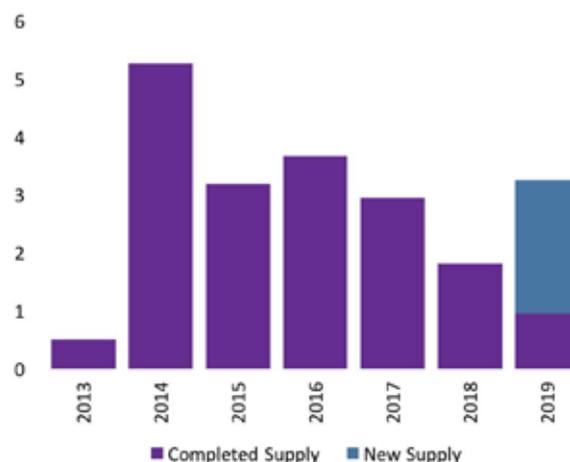
Retail Group Malaysia (RGM) highlighted the supermarket and hypermarket subsector as the worst performer, which contracted by 4.0 per cent and 5.0 per cent for Q1 2019 and the whole of 2018 respectively. On the other hand, the pharmacy & personal care subsector was the best performer with a growth of 8.7 per cent for Q1 2019 and 10.2 per cent for 2018.

The two biggest pharmacy operators in Malaysia, Watsons and Guardian, continued to revolutionise and offer fresh-to-market brands. In 2018, Guardian introduced W7, a London-based cosmetics brand, and Canmake, one of Japan's most popular and affordable cosmetic brand in their stores. Meanwhile, Watsons brought in Klorane, a French botanical range of hair and personal care products. Watsons Malaysia recently opened its 500th store at Central i-City, incorporating sustainable design and innovative technologies such as a virtual reality fashion

2018's retail sales growth fell short of expectations with total sales valued at RM103.7bn.

Figure 6

Development pipeline supply (NLA) in KL (sq ft, mil)



Source: NTL Research

Table 1

Selected upcoming retail malls in Klang Valley, 2019

Name of development	Net Lettable Area (sq ft)	Location
Tropicana Gardens Mall	1,000,000	OCA
Datum Jelatek	491,000	OCA
Pacific Star	240,000	OCA
KIP Mall Desa Coalfield	213,000	OCA
Galleria	360,000	OCA

Source: NTL Research

e-commerce, StyleMe, to showcase their products to customers in an engaging way.

Central i-City in Shah Alam opened its door in March, anchored by SOGO Department Store (NLA: 200,000 sq ft), Village Grocer (NLA: 40,000 sq ft) and TGV Cinemas with 1,800 capacity. The 940,000 sq ft mall is a JV project between Central Pattana, PCL, Thailand (CPN), with 60.0 per cent stake, and I-City Properties Sdn Bhd (ICP), an affiliate of Malaysian property developer I-Berhad with 40.0 per cent stake. Meanwhile, BMC Mall, located at Bandar Mahkota Cheras, had its grand opening after refurbishment. The mall was formerly known as AEON Mahkota

Cheras and was sold to Foremost Wealth Management Sdn Bhd for RM87.8m in 2017.

Following Parkson's exit from Suria KLCC, the mall will inject RM50m to redevelop the 124,435 sq ft space to accommodate more than 50 F&B, cosmetics and fashion retailers. The redevelopment is scheduled to be completed by Q2 2020. Starhill Gallery, last renovated in 2005, will also undergo a major refurbishment as announced by the mall's owner, Starhill Global REIT. This is following a conditional agreement with its current master tenant, Katagreen Development, to continue the master tenancy agreement for the next 19.5 years and the RM175m asset enhancement will result in a 1.5 per cent increase in the initial annual rents. Nawawi Tie Leung conducted the valuation and market study for the refurbishment plan of the mall.

Office

Key Highlights in Q1

- Total stock in Kuala Lumpur (KL) remained stable at 81.8m sq ft as there were no new completions in Q1.
- Average occupancy rate in KL maintained at 80.0 per cent.
- A minimal increment was recorded in the prime office rental index for the Golden Triangle, from RM7.21 psf to RM7.23 psf in Q1.
- Capital value and yield remained unchanged.

Market Commentary

There was no new office building completion in Q1 2019. However, approximately 3.8m sq ft of office space is scheduled for completion in 2019, all within the Golden Triangle. Making up 70.0 per cent of the incoming supply this year, The Exchange 106 is expected to welcome its first tenant in mid-2019.

The office rental index in the Golden Triangle continued to be passive with a marginal increase for prime buildings and a minimal drop for secondary buildings. This stood at RM7.23 psf and RM5.25 psf respectively.

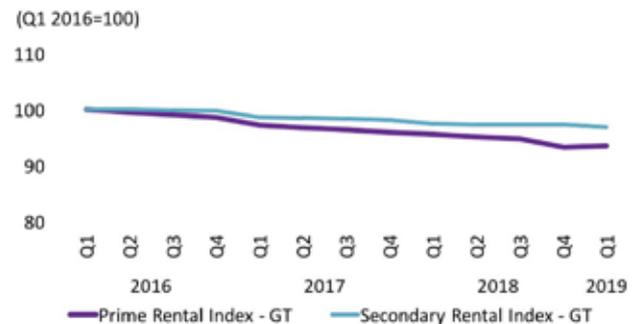
Nestle (Malaysia) Bhd reported that its e-commerce sales had doubled on Shopee Malaysia within a year of its partnership. Nestle joined the platform in 2017 to widen its customer base. The solid performance placed Nestle as Seller of the Year at the Shopee Seller Awards 2018 in the grocery category.

Outlook

Looking ahead, RGM maintained its retail sales forecast for 2019 to grow by 4.5 per cent. For Q1, the industry is estimated to expand by 3.1 per cent y-o-y, attributable to the growth in sales of pharmacy & personal care and department stores. Sales in Q2 is likely to perform better due to the festive season of Hari Raya. However, the increasing supply of malls is expected to intensify competition and mall owners need to be innovative and cautious in terms of tenant mix.

Figure 7

Prime & secondary rental indices – KLCC



Source: NTL Research

Figure 8

Office completed supply (sq ft, m)



Source: NTL Research

KL Sentral, the largest transportation hub in Malaysia integrating all major railway networks, continued to generate high demand from multi-sector companies. Strong demand has led to an appreciation of 2.7 per cent in the rental index, with an average rent of RM7.10 psf in Q1. The average occupancy rate of prime office buildings in KL Sentral remained stable at an average of 96.0 per cent.

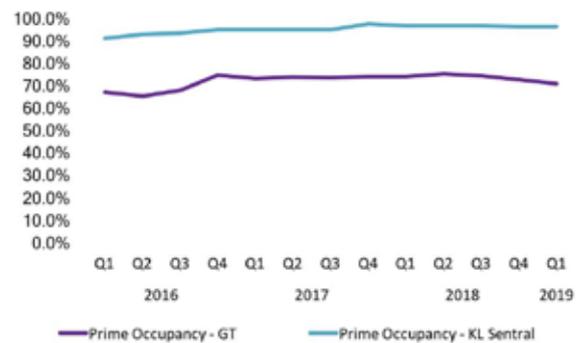
Ikhlas Point, a 12-storey office building (NLA: 54,046 sq ft) within The Horizon, Bangsar South, was sold at RM46m. Telekom Malaysia also intended to sell its Annexe 1 and Annexe 2 buildings situated at its headquarters, with a reserved price between RM273.4m and RM312m.

WeWork, a New York-based co-working operator, will be opening its first co-working space in KL in Q2 2019. With a NLA of approximately 100,000 sq ft, it will be the largest office in Southeast Asia, accommodating a total of 1,900 members. Capitalising on its global network, WeWork aims to collaborate with the Government to assist private companies in Malaysia to expand their business internationally.

Pressure on office rentals and occupancy rates are due to the large influx of office space

Figure 9

Prime office occupancy (%)



Source: NTL Research

Outlook

The office market continued to struggle with an oversupply of new buildings amidst subdued leasing activities. Ample availability of office space will push the rentals downward. However, prime office buildings will continue to maintain their rental rates.

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