



# PROPERTY INSIGHTS

Kuala Lumpur | Quarter 2, 2019

## Muted global conditions affected the Malaysian market

### Market Overview

- The Malaysian economy grew at a moderate growth rate of 4.5 per cent year-on-year (y-o-y) in Q1 2019, with domestic demand remaining as the key driver. Compared to Q4 2018, the economy expanded by 1.1 per cent this quarter.
- Investment sales declined to RM352.5m in Q2 2019 by 69.0 per cent compared to RM1.15bn in Q1 2019. Major sales listings were noted in both the industrial and commercial sectors.
- The office market inclined towards repurposing and co-working spaces as the office average occupancy rate declined marginally to 79.7 per cent.
- Retail sales performed better than expected at 3.8 per cent. The festive season of Hari Raya boosted the growth for Q2 2019 at 5.5 per cent y-o-y.
- Prices and rents for high-end condominiums changed marginally quarter-on-quarter (q-o-q) and stood at RM1,036 per square foot (psf) and RM3.86 per sq ft per month respectively.

# Trends & Updates

## The Economy

### Key Highlights in Q2

- The Malaysian gross domestic product (GDP) grew by 4.5 per cent in Q1 2019 (Q4 2018: 4.7 per cent).
- Unemployment rate increased marginally at 3.4 per cent in Q1 2019 (Q4 2018: 3.3 per cent).
- Both Consumer Sentiment Index (CSI) and Business Confidence Index (BCI) are below optimistic levels recording 85.6 and 94.3 points respectively.

### Market Commentary

Malaysia's economy grew moderately at 4.5 per cent in Q1 2019 (Q4 2018: 4.7 per cent). Private final consumption regulating domestic demand remained as the economy's main driver with 58.2 per cent share in the GDP. It expanded at 7.6 per cent in Q1 (Q4 2018: 8.4 per cent) on account of the higher consumption of food & non-alcoholic beverages, transport, and restaurants & hotels.

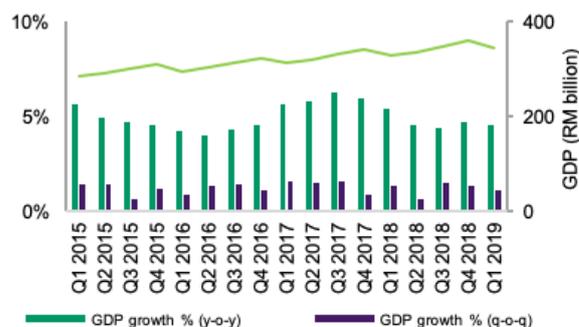
All sectors recorded growth in the economy this quarter except for the mining and quarrying sector, which declined to -2.1 per cent in Q1 2019 (Q4 2018: -0.7 per cent).

Dominated by export-oriented industries, the manufacturing sector grew at 4.2 per cent in Q1 with a marginal decline over 4.7 per cent in Q4 2018. The slowdown was contributed by the slower growth in the electrical and electronics (E&E) industry due to a reduced demand for semiconductors globally. The stricter vehicle emission standards implemented by the EU and China's expiring tax rebates affected the demand of automotive semiconductors.

The services sector grew moderately at 6.4 per cent in Q1 (Q4 2018: 6.9 per cent) as tax holiday normalisation lowered the growth of the wholesale and retail sector. However, the higher car sales in the quarter offset the dip. The unplanned closure of the gas facilities in Sarawak in February and other facilities in Peninsular and Sabah weighed heavily on

Figure 1

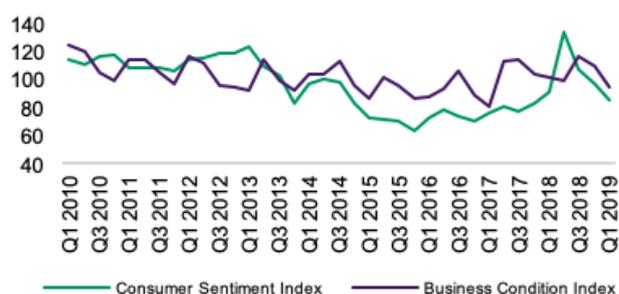
### Malaysia GDP growth



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

Figure 2

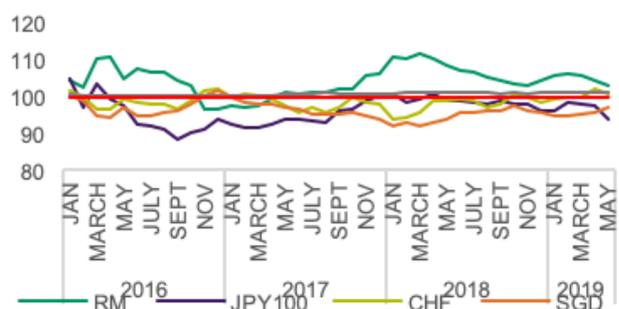
### Consumer Sentiments Index (CSI) and Business Confidence Index (BCI)



Source: Malaysian Institute of Economic Research, NTL Research

Figure 3

### Exchange rate index of Malaysia's main trading partners vs USD



Source: Bank Negara Malaysia, NTL Research

---

## Malaysia's economy to remain steady despite challenging global conditions.

---

the refined petroleum production of Malaysia. Slower activities in the civil engineering non-residential and special trade subsectors caused the slowdown of the construction sector to 0.3 per cent in Q1 2019 (Q4 2018: 2.6 per cent). In contrast to the last quarter with -0.5 per cent growth, the Agriculture sector performed significantly well at 5.6 per cent this quarter. The substantial recovery of the oil palm yields and an increase in natural rubber's production along with its prices boosted rubber tapping in the quarter.

Anxiety over the rising prices continued to impact the CSI as it dropped to 85.6 points in Q1 2019, below the optimistic threshold for the second consecutive quarter (Q4 2018: 95.8 points). Similarly, the BCI also slipped below the optimistic threshold to 94.3 points in Q1 2019 (Q4 2018: 108.8 points). Overall, the decline in the BCI is mainly due to the slowdown of the manufacturing sector and moderate investment activities in the quarter.

Ringgit traded at a six-month low towards the end of May as concerns over the US-China trade war and slowing global growth sap demand for risk assets. However, on average, it appreciated slightly by 1.4 per cent in Q1 and was mainly driven by the non-resident portfolio inflows valued at RM13.5bn.

Malaysia's economy is heavily dependent on trades with the US and China, comprising 20.0 per cent of total exports. The recent escalation in the US-China trade war has been impacting Malaysia's exports and resulted in lowered trade in Q1. Q1 saw its total trade to be 0.4 per cent lower in comparison to the same period in 2018.

Net exports for Malaysia grew at 10.9 per cent in Q1, however it was affected by the decline of 1.4 per cent in imports. Q1 recorded a very marginal growth in exports of 0.1 per cent as compared to 3.1 per cent in the previous quarter.

The recent plunge in smartphone demand has also affected the electronics manufacturers who have their export bases in Malaysia.

Diversification in the economy is cushioning the impact of global tensions. The tariff put in place by the nations involved in the trade war are encouraging investments in Southeast Asia. Approved foreign investment in the manufacturing industry in Malaysia increased by 127.0 per cent in Q1 2019 as compared to Q1 2018 (Q1 2019: RM20.2bn, Q1 2018: RM8.9bn).

### Outlook

The Malaysian economy is expected to grow moderately at 4.9 per cent in 2019, supported by the continued growth of domestic demand, mainly consumption and investment.

The revival of 640km East Coast Rail Line (ECRL) deal with China is likely to captivate investment growth in the country. The recent cut down of policy rates from 3.25 per cent to 3.0 per cent has also offered monetary ease but more fiscal reforms with the adaption of Industrial Revolution (IR) 4.0 in various industries, are required to keep the interest of investors alive in Malaysia to support the slowing economy.

The shifting interest from China to avoid the tariff imposed by the US may potentially divert investments in Southeast Asia. It has the potential to generate trade and investment spill-overs in Malaysia's trade with both countries.

Escalating tensions between the two largest economies (US-China) will continue to affect Malaysia's export demand. Thus, foreign manufacturers having regional distribution or international procurement centres in Malaysia may opt for short- to medium-term adjustments to their exporting activities.

# Residential

## Key Highlights in Q2

- No completion of high-end residential projects in Q2 2019.
- Over 4,000 units are likely to be ready in the remaining 2019.
- Prices and rents for high-end condominiums changed marginally and stood at RM1,036 per sq ft and RM3.86 per sq ft per month respectively (Figure 5).

## Market Commentary

Residential property market across Malaysia has been undergoing trying times. According to the recently released NAPIC's Property Market Report 2018, the overhang in 2018 increased to 32,313, a 30.6 per cent rise from the previous year. The bulk of this overhang is in the high-rise category (43.4 per cent), concentrated in Perak and KL. The rising overhang is primarily an outcome of demand-supply mismatch and strict lending regulations.

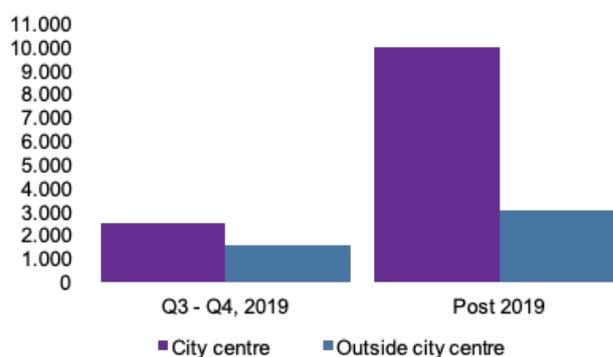
However, there were 197,385 residential transactions, worth RM68.75bn, in 2018. It indicates an increase of 1.4 per cent and 0.4 per cent in transactions volume and value respectively compared to 2017. Thus, at a macro level, the residential property market generated some positive sentiments.

Due to increasing interest from first-time home buyers, the residential market has swayed towards affordable housing. In addition to the other affordable housing initiatives such as affordable housing schemes, funding schemes, House Ownership Campaign (HOC), the Government with Securities Commission Malaysia (SC) released its new property crowdfunding framework recently. Growing confidence has been shown in these initiatives in the last few quarters. As the Home Ownership Campaign (HOC) 2019 ends this quarter, more conclusive statistics are expected to back this up.

Conversely, the high-end residential market sampled in KL continues to remain soft as there was not much activity this quarter. Due to construction delays, projects like Star Residences, Stonor 3 and

Figure 4

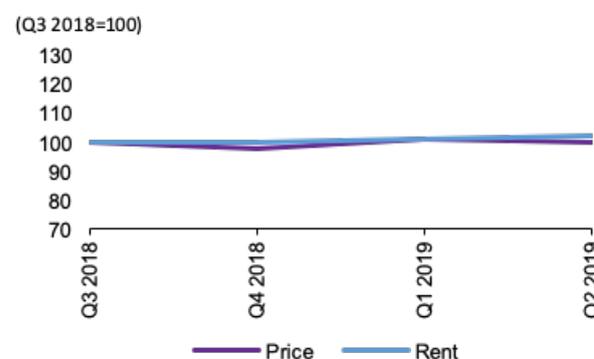
## Future supply of high-end condominiums in KL (units)



Source: NTL Research

Figure 5

## Price and rental indices of high-end condominiums in KL (Q3 2018=100)



Source: NTL Research

## Sluggishness in the high-end residential market continues.

Aria KLCC that are expected to complete this quarter are likely to be completed in the next quarter or later this year instead.

According to the NAPIC data, house prices continued to rise throughout 2018 with an increase of 3.1 per cent in the house price index against 2017. However, for the sampled high-end residential projects, prices were noted to be stagnant with marginal variation during this quarter.

## Outlook

The need for affordable housing is undeniable. However, the demand-supply mismatch is resulting in the rising overhang. Thus, there is a need to evaluate this segment with a realistic approach.

Overall, the high-end residential property market is anticipated to remain sluggish in such conditions for the upcoming quarters.

# Retail

## Key Highlights in Q2

- Retail sales for Q1 2019 recorded growth of 3.8 per cent, higher than the estimated growth rate of 3.1 per cent.
- No major completion of new malls in Q2.
- The existing supply of shopping malls in Klang Valley stood at 53.9m sq ft.
- Average overall occupancy of shopping malls in Klang Valley noted at 91.0 per cent.

## Market Commentary

Q1 turned out a better-than-expected quarter for the retail industry as sales recorded higher growth at 3.8 per cent compared to the previous year (3.5 per cent) and also exceeded the estimated growth of 3.1 per cent for the quarter.

For Q2, Retail Group of Malaysia foresees a growth rate of 5.5 per cent in retail sales as Malaysia celebrated its largest festival, Hari Raya in June 2019.

A couple of new F&B brands entered Malaysia's retail market this quarter. Chinese hot-pot franchise Hai Di Lao opened its first outlet in Sunway Pyramid in Bandar Sunway, Petaling Jaya followed by Pavilion Elite in Bukit Bintang. While Hong Kong seafood restaurant, Xin Dau Ji opened its first outlet in Ecocheras Mall, Cheras.

A Swiss watch brand Baume & Mercier also signed an exclusive 3-year distribution deal with FJ Benjamin this quarter for Singapore and Malaysia. MST Golf also opened its largest store of 13,000 sq ft in Johor, Malaysia in Q2.

On the brand expansion front, Texchem is looking to invest RM36mil this year to increase the number of Sushi King outlets in the country and in Indonesia to 146 from 135 currently.

To address the expected issue of weak performance due to subdued retail activity this year, AEON Malaysia announced to invest USD119 million on new malls and refurbishments of existing malls.

Figure 6

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



Source: NTL Research

Retail growth forecast revised upwards for 2019 at 4.9 per cent.

Table 1

## Selected upcoming malls in Klang Valley, 2019

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

Source: NTL Research

To remain competitive amidst global digitalisation, many F&B brands are also taking measures to be on par. McDonald's bought a tech firm, Dynamic Yield, worth USD300m to improve drive-through sales with personalised outdoor digital menu displays. It will be rolled out first in the US before expanding to other leading international markets.

Similarly, Subway is planning to launch an online platform mid this year. It will be tested in Australia first. Starbucks also launched a 'Starbucks Now cashless program' in China, which allows customers to place an order in advance of their visit and pick up their orders at a selected Starbucks store. Digital repercussions of these brands will also be experienced in Malaysia soon.

Malaysia has been taking steps towards digitalisation as well. Sunway Pyramid launched a navigation app this quarter, which offers real-time directions for visitors, using an indoor version of Google Maps. The navigation pattern of visitors will be analysed to offer relevant targeted promotions at the mall.

Digital e-wallets are garnering the cashless momentum in Malaysia. The most popular Touch 'n Go eWallet or TNG digital has expanded its retail merchant base which includes KFC, Tealive, TGV, Tesco, and JD Sports. TNG digital also promoted

cashless Ramadan Bazar in Kampung Baru. Burgeoning acceptance for e-wallets is taking Malaysia one step closer to a fully digitalised nation.

### Outlook

The Retail Group of Malaysia has revised the growth rate of retail sales to 4.9 per cent for the year 2019 due to improved sales in Q1.

The year ending quarter is expected to perform significantly better with a 5.8 per cent growth rate owing to the school holidays and year-end sales while Q3 is expected to be moderate

## Office

### Key Highlights in Q2

- The total stock in Kuala Lumpur (KL) increased to 82.2m sq ft.
- The average occupancy rate in KL dropped marginally to 79.7 per cent.
- Rents remained flat in the Golden Triangle (GT) and KL Sentral area at RM7.23 per sq ft and RM7.10 per sq ft per month respectively.
- Capital value and yield remained unchanged.

### Market Commentary

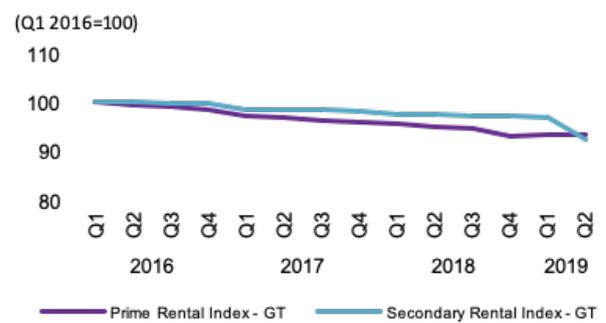
Menara Prudential, a LEED-gold certified and MSC status building with 413,256 sq ft NLA, is the very first building to open its doors in Tun Razak Exchange (TRX) this quarter. With this addition, the total stock in KL increased to 82.2m sq ft.

British insurance company, Prudential Assurance Malaysia Bhd (PAMB), is said to have taken up approximately 80.0 per cent of the building. It is moving in stages and is expected to be fully operational by July 2019.

As net absorption remains soft due to the weak market conditions, many landlords are offering attractive packages and proactively looking to sign up co-working space and serviced office providers. However, the space taken up is relatively small, ranging from 15,000 sq ft to 25,000 sq ft.

Figure 7

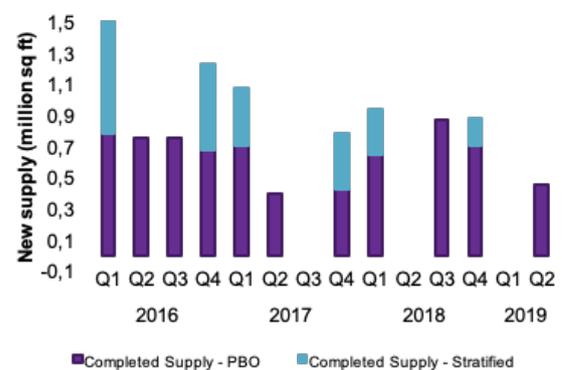
### Prime & secondary rental indices – KLCC



Source: NTL Research

Figure 8

### Office completed supply (sq ft, m)



Source: NTL Research

MQREIT recently signed up with Spaces, a Regus co-working brand, in Platinum Sentral. Regus also partnered with Tribeca and launched its 34th centre in Bukit Bintang this quarter.

\NAZA Tower, a Grade A Green Building Index (GBI)-certified office building located in KLCC, also welcomed a locally operated co-working space, Co-labs, in June. It is occupying 27,000 sq ft of space across 2 floors in the tower.

Tower Real Estate Investment Trust (REIT) is also reinventing and repositioning itself via co-working and co-living spaces. It has planned a makeover of 32-storey Menara HLA into an innovation exchange known as HLX. It is a one-stop facility that converges the corporate and tech start-up communities under one roof, taking up more than 60.0 per cent of the space in Menara HLA. Also, it will offer flexible leases with co-living spaces, food and beverage outlets, a gym, an auditorium and flexible event spaces with a focus on companies in technology. Phase 1 of the makeover will be completed by the end of 2019, which will include digital campus, co-working and co-living spaces, venture capital hub, and curated offices. While Phase 2 will offer exhibition space, innovation lab, media lab, and Founder's bar, which will be opened by 31 December 2020. The company has partnered with AltSpace by Lyfz Co-Living to operate the co-living

Tower REIT also plans to upgrade Plaza Zurich, formerly known as HP Tower in Damansara Height as part of its asset enhancement initiative.

Flexibility and cost efficiency offered in co-working spaces aptly addressed the demands of the millennial workforce, technology startups and SMEs. In Malaysia, a few companies have tested the use of co-working spaces, but none has set up a corporate office due to concerns about high cost and security.

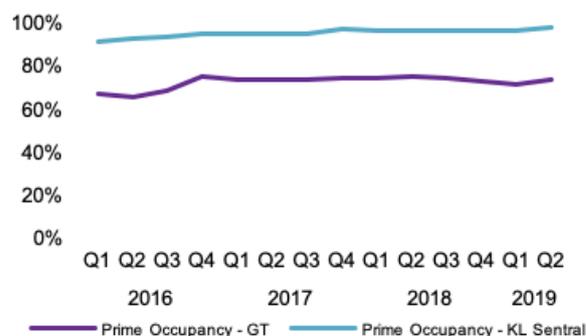
Malaysia's largest snack company, Mamee Double Decker (M) Sdn Bhd signed up with Colony Space for its Mutiara Damansara centre.

Apart from repurposing, landlords are also exploring alternative use for upcoming or under construction buildings. The office component of the upcoming project, Latitude 8, at Jalan Ampang is repurposed to SoHo and is pending approval.

Tech companies and co-working spaces are driving the office market.

Figure 9

Prime office occupancy (%)



Source: NTL Research

On the sales front, there are two prominent buildings for sale this quarter which include, The Sheraton Imperial on Jalan Sultan Ismail and Menara Celcom in Petaling Jaya.

The Sheraton Imperial comprising 398 rooms and 138,000 sq ft of office space and newly built 33-storey Menara Celcom with 450,000 sq ft NLA is estimated to be approximately RM500m each.

Outlook

Escalating supply and slowing occupiers demand for office space are expected to impose challenges for the office market in KL for the next few years.

For medium- to long-term security, we expect a growing trend of repurposing old office buildings while the new or under construction building will explore alternative uses.

Tech companies and co-working spaces are anticipated to drive the office market for the coming few quarters.

**This research report has been prepared by Edmund Tie & Company specially for distribution to Citibank customers.**



## GENERAL DISCLOSURE

### Disclaimer - Edmund Tie & Company

This report should not be relied upon as a basis for entering into transactions without seeking specific, qualified, professional advice. Whilst facts have been rigorously checked, Edmund Tie & Company can take no responsibility for any damage or loss suffered as a result of any inadvertent inaccuracy within this report. Information contained herein should not, in whole or part, be published, reproduced or referred to without prior approval. Any such reproduction should be credited to Edmund Tie & Company

© Edmund Tie & Company July 2019

### Disclaimer - Citibank

The market data and information herein contained ("Information") is the product or service of a third party not affiliated to Citibank NA, Citigroup Inc, Citibank Bhd or Its Affiliates. None of the Information represent the opinion of, counsel from, recommendation or endorsement by Citibank NA, Citigroup Inc, Citibank Bhd or Its Affiliates, Officers, Employees or Agents.

You may not use the Information for any unlawful purpose or any purpose not expressly permitted hereby. Reproduction of the Information in any form is prohibited.

Information in this document has been prepared without taking account of the objectives, financial situation, or needs of any particular property investor. This document is for general information purposes only and is not intended as a recommendation or an offer or solicitation for the purchase or sale of any property.

### NO WARRANTY

The Information is provided "as is", without warranty of any kind, it has not been independently verified by Citibank NA, Citigroup Inc, Citibank Bhd or Its Affiliates, Officers, Employees or Agents and use of the Information is at your sole risk. Citibank NA, Citigroup Inc, Citibank Bhd or Its Affiliates, Officers, Employees or Agents shall not be liable and expressly disclaim liability for any error or omission in the content of the Information, or for any actions taken by you or any third party, in reliance thereon. The Information is not guaranteed to be error-free, or to be relied upon for investment purposes, and Citibank NA, Citigroup Inc, Citibank Bhd or Its Affiliates, Officers, Employees or Agents make no representation or warranty as to the accuracy, truth, adequacy, timeliness or completeness, fitness for purpose, title, non infringement of third party rights or continued availability of the Information.

### LIMITATION OF LIABILITY

IN NO EVENT SHALL CITIBANK NA, CITIGROUP INC, CITIBANK BHD OR ITS AFFILIATES, OFFICERS, EMPLOYEES OR AGENTS, BE LIABLE FOR ANY LOSS OR DAMAGE OF ANY KIND WHATSOEVER (INCLUDING, WITHOUT LIMITATION, ANY SPECIAL, CONSEQUENTIAL, INCIDENTAL OR INDIRECT DAMAGES, OR DAMAGES FOR LOSS OF PROFITS, BUSINESS INTERRUPTION, AND ANY AND ALL FORMS OF LOSS OR DAMAGE, REGARDLESS OF THE FORM OF ACTION OR THE BASIS OF THE CLAIM, WHETHER OR NOT FORESEEABLE ) ARISING OUT OF THE USE OF THE INFORMATION (PROVIDED IN ANY MEDIUM), EVEN IF ANY OF CITIBANK NA, CITIGROUP INC, CITIBANK BHD OR ITS AFFILIATES, OFFICERS, EMPLOYEES OR AGENTS, HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH LOSS OR DAMAGE.

## COUNTRY SPECIFIC

### MALAYSIA

© 2019 CITIBANK

CITIBANK IS A REGISTERED SERVICE MARK OF CITIGROUP INC.

CITIBANK BERHAD. CO REG. NO. 297089-M