



PROPERTY INSIGHTS

Kuala Lumpur | Quarter 3, 2017

Home buyers remain cautious despite stronger GDP growth

Market Overview

- The residential market is expected to remain subdued unless the upturn in economy is translated to increase in household income and wealth.
- The Malaysian economy continued its uptrend with y-o-y growth of 5.8% in Q2, anchored by the domestic demand. Labour market conditions improved marginally with unemployment rate at 3.4%. Headline inflation rate moderated to 4.0% in Q2, driven by lower domestic fuel prices. Backed by stronger economic growth, the Malaysian Ringgit appreciated further against the US dollar in Q3.
- Major REITS continued to show keen interest in prime properties, accounting for almost 90% of the total investment sales in Q3.
- Tun Razak Exchange is on track to becoming a leading financial center with Prudential expected to relocate there by 2019.
- Retail sales grew by 4.8% y-o-y, while occupancy declined by 2% to 87%.
- Prices and rents for high-end strata homes improved marginally by 4.5% and 2.9% q-o-q to RM777 per sq ft and RM3.10 per sq ft per month respectively.

Trends & Updates

The Economy

Key Highlights in Q3

- Malaysia's GDP growth edged higher by 5.8% y-o-y in Q2 2017 (Q1 2017: 5.6% y-o-y).
- Unemployment rate decreased marginally to 3.4% in Q2 2017 from 3.5% Q1 2017.
- Consumer Price Index (CPI) grew by 4.0% y-o-y in Q2, lower than the 4.3% increase in Q1 2017.
- Consumer Sentiment Index rose further to 80.7 in Q2 from 76.6 in Q1 2017.
- Between 30 June and 13 September, the Ringgit appreciated by 2.1%, to RM4.20 per US dollar.

Market Commentary

The Malaysian economy did better in Q2 2017, with y-o-y GDP growth of 5.8% compared to the 5.6% recorded in Q1 2017 (Figure 1). The sustained domestic demand and turnaround in net exports contributed to the stronger economic performance.

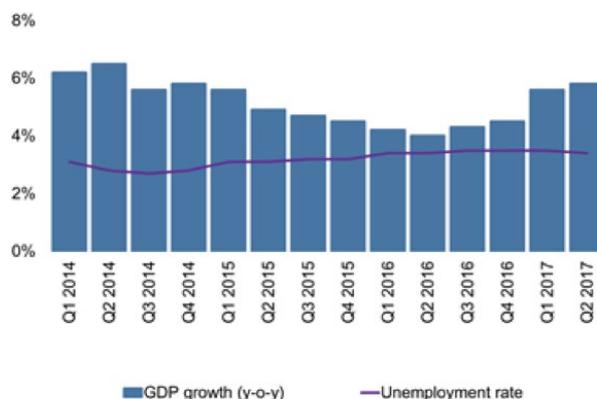
Domestic demand continued to grow, albeit at a slower pace of 5.7% y-o-y in Q2 (Q1 2017: 7.7%). The y-o-y expansion of 7.2% in private sector demand contributed to the growth of domestic demand.

There was a turnaround for net exports, growing by 1.4% y-o-y. The improvement emanated from the narrowing gap between export growth (9.6%) and import growth (10.7%) in Q2. Notwithstanding, the public expenditure growth decelerated to 0.2% y-o-y, partially offsetting the improvement in private demand.

Growth at the supply side was driven by the services, manufacturing and construction sectors, which expanded at a faster pace of 6.3%, 6.0% and 8.3% respectively. The agriculture sector grew by 5.9% y-o-y, underpinned by the recovery of crude palm oil yields after El Nino. In contrast, the mining sector expanded marginally at 0.2% y-o-y due to the lower production of crude oil and natural gas.

Figure 1

Malaysia GDP growth and unemployment

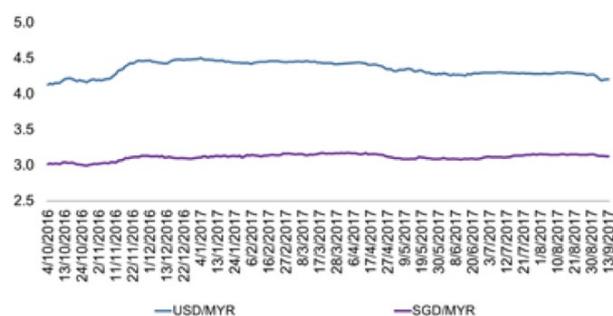


Source :Bank Negara Malaysia, Department of Statistics Malaysia, NTL Research

GDP growth for 2017 is projected to exceed 4.8%, driven by the sustained private sector demand and improved trade performance

Figure 2

Malaysian Ringgit Exchange Rate



Source: Bank Negara Malaysia, NTL Research

Headline inflation trended lower at 4.0% in Q2 (Q1 2017: 4.3%). This can be attributed mainly to the lower inflation recorded in the transport category, due to lower domestic fuel prices. During Q3, the Ringgit appreciated against the US dollar by 2.1% (Figure 2), as sentiments improved amid higher GDP growth and encouraging export performance. Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 3%, given the positive economic outlook and moderating inflation.

The labour market also showed slight improvement in Q2 with unemployment rate reaching 3.4%, as the gain in net employment outpaced the increase in labour force.

While the Consumer Sentiments Index (CSI), improved for the second consecutive quarter in Q2 amid the stronger outlook, consumers remain cautious as the index remained below its 100-point threshold (Figure 3), reflecting the cautious outlook.

Residential

Key Highlights in Q3

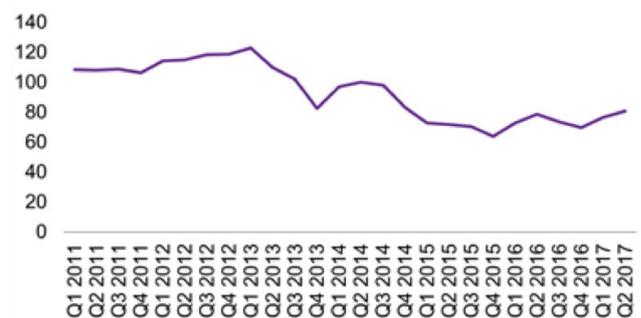
- Two high-end residential projects with a total of 574 strata homes were completed in Q3, of which both are located in the city centre. The completed projects were Tribeca Serviced Suite (318 units) and The Mews Kuala Lumpur (256 units).
- The number of completions accounted for 47% (3,874 units) of the pipeline for 2017 as at Q3, with some 4,303 units slated to complete in Q4 2017. About 53% of the upcoming supply will emanate from the city centre (Figure 4).
- Both prices and rents for high-end strata homes improved marginally by 4.5% and 2.9% q-o-q at RM777 per sq ft (from RM743 per sq ft) and RM3.10 per sq ft/month (from RM3.01 per sq ft/month) respectively (Figure 5).

Market Commentary

The residential market remained subdued going into H2 2017. Although the house price index for high-rise segment in Q1 rose by 7.2% y-o-y, the pace of

Figure 3

Consumer Price Index



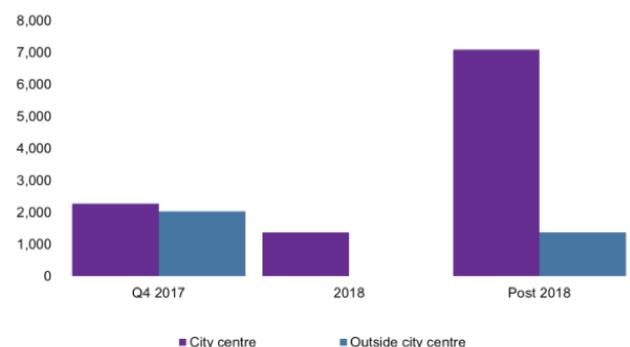
Source: Malaysian Institute of Economic Research, NTL Research

Outlook

Given the higher-than-expected GDP growth during the first half of 2017, BNM forecasts the full-year GDP growth to surpass 4.8% in 2017. Headline inflation is expected to remain in line with the projected range of 3% - 4%.

Figure 4

Future supply of high-end condominiums in Kuala Lumpur



Source: NTL Research

growth was moderated. The overall housing loan approval rate on the other hand, stood at 74.2%.

Sales and new launches continued to decline, especially for the high-end segment. Additionally, most residential projects have schemes to attract first time buyers with limited budget. The demand seems to emanate from homes below RM 500,000, with about 72% of the loans approved were for houses priced below RM500,000 according to the statistics on the total financing from the banks.

To support the launch prices, the developers offered attractive packages and freebies. They also phased out the offerings by launching fewer units to create the sense of exclusivity and urgency for buyers. Such strategies however, will only work in the short-term, and the developers may subsequently reviewing their offerings to meet the affordability levels

The overall housing loan approval rate remains high at 74.2% in Q1 2017 (average for 2012-2016: 74.1%), dominated by the first-time buyers purchasing properties priced below RM500,000.

Outlook

Although the economy showed signs of picking up, the residential market is expected to stay soft in the H2 2017, given growing uncertainty in the external environment.

Retail

Key Highlights in Q3

- Retail sales grew 4.8% y-o-y in Q2 2017. This results in 2.5% growth for H1 2017, compared to the same period last year.
- Retail Group Malaysia (RGM) revised their forecast growth of 5% to 4% for Q3 2017.
- Total retail stock in Kuala Lumpur increased to 30.9 million sq ft with the opening of Melawati Mall. Outside Kuala Lumpur remained at 29.94 million sq ft (Figure 6).
- Occupancy contracted to 87% from 89% in Q3 with more supply of retail space and store closures.

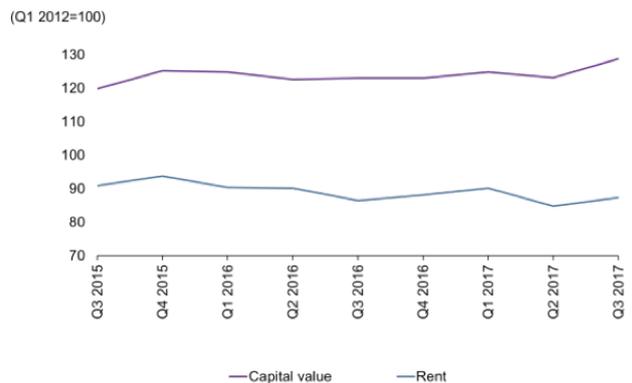
Market Commentary

The Consumer Sentiment Index (CSI) picked up 4.1 points in Q2 2017, increasing to 80.7 in Q3 from 76.6 in Q2.

The improvement in sentiments and higher retail sales were largely due to the festive season of Hari Raya that began in late May. Consumers were lured with hefty price discounts offered by retailers. The

Figure 5

Rental and price indices of high-end condominiums in Kuala Lumpur

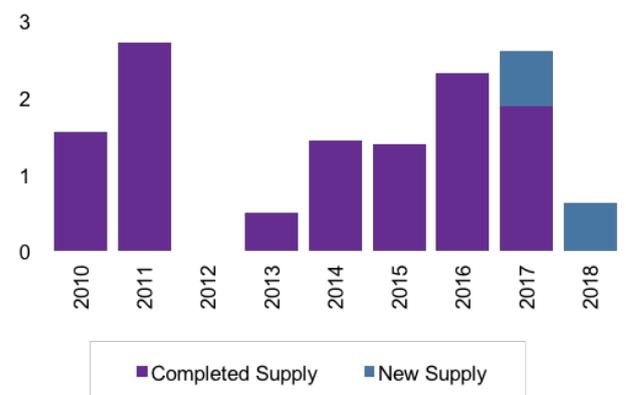


Source: NTL Research

The buyers remained concerned over the volatile economy as well as the impending General Election that is predicted to be held sometime in year-end/early 2018.

Figure 6

Retail new supply (NLA) in Kuala Lumpur, sq ft (million)



Source: NTL Research

4.8% growth recorded in Q2 2017 was close to 4.9% forecasted by Malaysia Retailers Association (MRA). Notwithstanding, the CSI remained below the threshold level of 100, reflecting the cautious sentiments of consumers.

Several malls opened in Q3 2017 amid the improvement in sales and sentiments (Figure 6). Melawati Mall (620,000 sq ft NLA), which exhibited strong occupancy rate, was one of the malls that

opened in Q3. Its opening was initially scheduled in Q4 2016. However, it was delayed several times due to the headwinds in the market. Melawati Mall is a 50:50 joint-venture effort between Sime Darby Property Bhd and CapitaLand Mall Asia.

The Genting Outlet Mall, the second outlet in the country operated by the Genting/Simon Property Group, also opened for business late in Q3 at the nearby Genting Highland. The opening of the Genting Outlet Mall provided another outlet mall for residents of the Klang Valley, beside the existing Mitsui Outlet in Dengkil. In 2018, there are 2 mega malls expected to come on board (Table 1).

The festive season drives up retail sales by 4.8% y-o-y, with consumers attracted to the hefty price discounts.

While the retail scene in Malaysia continues to attract international retailers such as Singapore's 4Fingers and US's TR Fire Grill, the domestic brands from Malaysia are also expanding into the regional market, particularly the F&B sector. Malaysian OldTown Group recently launched its OldTown White Coffee brand in Shanghai, China, facilitated by OldTown Singapore's wholly-owned company, Shenzhen Kopitiam Asia Pacific (SZKAP). Another

Office

Key Highlights in Q3

- There were no new completions in Q3
- Average occupancy rate rose marginally by 0.2 percentage-points to 81.4%
- Capital value and average rental rate stayed flat respectively at RM933 per sq ft, and RM6.03 per sq ft (Figure 7).

Market Commentary

The average occupancy rate for Kuala Lumpur office rose marginally by 0.2 percent point to 81.4% in Q3, up from 81.2% in Q2 (Figure 7). While the demand for space remained subdued, there was no new supply in Q3, supporting the higher (Figure 8). Correspondingly, the office rent of prime buildings

Table 1

Selected upcoming retail malls in Klang Valley

Name of development	Est area (NLA, sq ft)	Location	Est year of completion
Tropicana Gardens Mall	1,000,000	Selangor	2018
Central Plaza @ i-City	1,000,000	Selangor	2018

Source: NTL Research

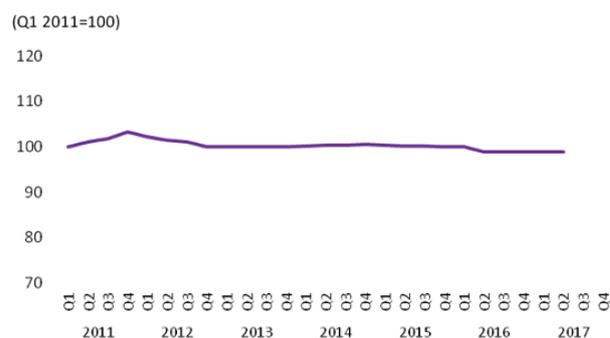
Malaysian famous, Madam Kwan's, is also seeking opportunities for expansion. The chain is eyeing Indonesia as its next market, after Singapore.

Outlook

In light of the current cautious spending by consumers, more retailers are downsizing their businesses in order to stay profitable. Some retailers are closing the non-performing outlets and injecting additional capital on the profitable outlets to stay relevant in the competitive market and sustain their businesses. More retailers are expected to follow this path if the market does not recover. The overall retail sales growth for 2017 is likely to be moderated, revised downward to 3.7% from the previous 3.9%, by RGM.

Figure 7

Prime rental indices – Kuala Lumpur



Source: NTL Research

stayed flat q-o-q at RM6.03 psf per month, while the office rent of non-prime buildings was at RM4.25 psf. With the capital values of office space staying flat q-o-q, the yield of office space stayed at 6.25%

The pressure on occupancy and rents is likely to increase with about 816,000 sq ft office space expected to complete in Q4. KL Eco City Tower 3 and KL Gateway Tower 2 are both nearing completion.

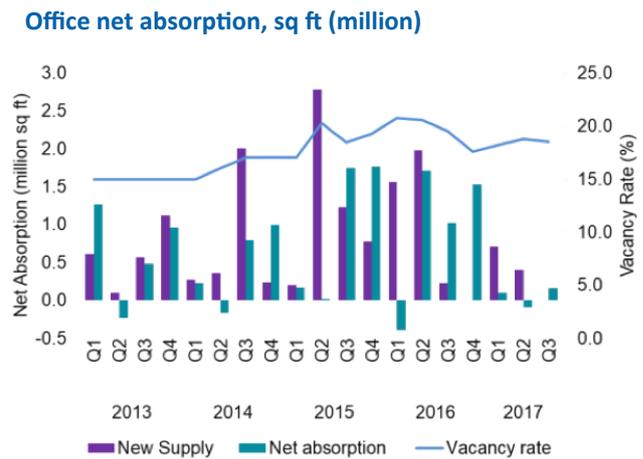
Separately, TRX is establishing itself as a financial center, with Prudential Assurance Malaysia Bhd announcing its intention to relocate their headquarters there in 2019, following HSBC's recent announcement in June 2017. The building would gather all of Prudential's life insurance and asset management businesses under one roof.

Outlook

The office rents and occupancy will be under pressure with the upcoming pipeline. Roughly 13 million sq ft of office space is expected to come on board in the next 3 to 4 years, including mega developments such as KL118 (Merdeka PNB118) and The Exchange 106 (TRX Signature Tower), bringing 2.2 million and 2.6 million sq ft respectively (Figure 9).

Companies will have more options, with more new high quality buildings coming on board throughout Klang Valley every year. In addition, the latest opening of the MRT line in late Q2 2017 further widens the rail network, and thus improves the connectivity within the Klang Valley. Hence, firms can seek potential office options located further away from the city centre.

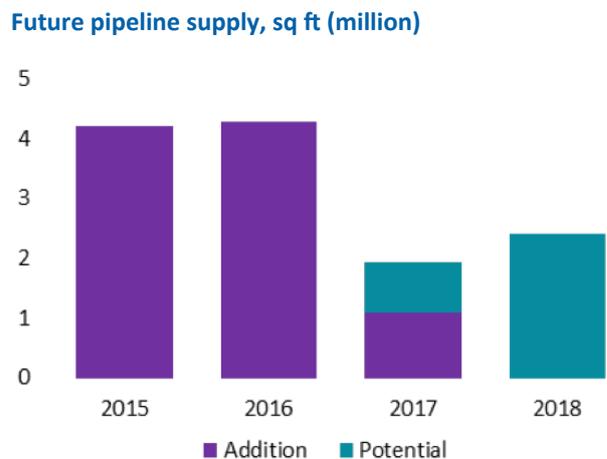
Figure 8



Source: NTL Research

TRX is emerging as the new financial centre, housing several of the world's major banks and financial institutions.

Figure 9



Source: NTL Research

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