



# PROPERTY INSIGHTS

Kuala Lumpur | Quarter 3, 2018

## Post-election euphoria boosted CSI

### Market Overview

- Malaysia's economy saw a slower growth expansion of 4.5 per cent in the second quarter of 2018 (Q1 2018: 5.4 per cent). Supply disruptions in the mining sector and the lower agriculture production due to the weather conditions were the main contributors to the slowdown.
- Investment sales eased to RM649.6m from RM709m in Q2 2018. The investment market was dominated by retail and industrial sales.
- The office absorption remained slow and average occupancy rate dropped slightly to 81.0 per cent .
- Occupancy of malls in Klang Valley estimated at 89.0 per cent<sup>2</sup>.
- Average price and rent for high-end condominiums stood at RM1,040 psf<sup>3</sup> and RM3.78 psf per month respectively.

# Trends & Updates

## The Economy

### Key Highlights in Q3

- The Malaysian GDP expanded at a slower rate of 4.5 per cent year-on-year in Q2 2018 (Q1 2018: 5.4 per cent y-o-y).
- Unemployment remained unchanged as at 3.3 per cent (Q1 2018: 3.3 per cent).
- Headline inflation as measured by the annual change in percentage of the Consumer Price Index saw a decline to 1.3 per cent in Q2 2018 (Q1 2018: 1.8 per cent).
- A strong uptick in Consumer Sentiments Index (CSI) was registered at 132.9 points in Q2 (Q1 2018: 91 points).
- The Ringgit remained under pressure and depreciated by 4.6 per cent during Q2 to RM4.04 per US dollar.

### Market Commentary

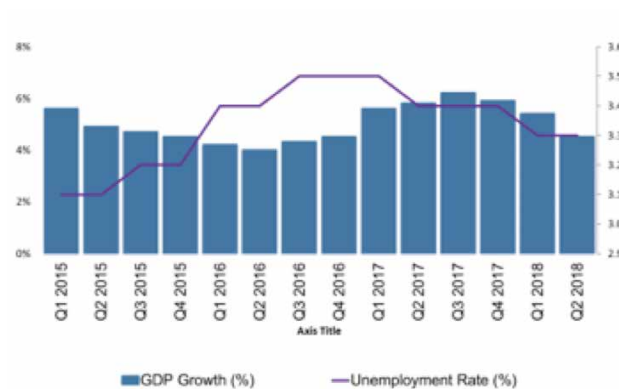
The GDP continued to record a slowdown in Q2 2018 after the strong performance of the second half of 2017. It expanded at 4.5 per cent y-o-y, which was 0.9 percentage points slower than Q1 2018 (5.4 per cent). On a quarter-on-quarter (q-o-q) seasonally adjusted basis, the Malaysian GDP grew at 0.3 per cent (Q1 2018: 1.4 per cent) (Figure 1).

Domestic demand reported a substantial growth of 5.6 per cent (Q1 2018: 4.1 per cent), mainly due to the robust private sector activity, which grew at 7.5 per cent (Q1 2018: 5.2 per cent). Public spending saw a slowdown of -1.4 per cent in Q2 2018 (Q1 2018: -0.1 per cent).

On the supply side, the services and manufacturing sectors were the main contributors to the Malaysian economy. The growth of the services sector remained the fastest in the country growing at 6.5 per cent (Q1 2018: 6.5 per cent) followed by manufacturing at 4.9 per cent and construction at 4.7 per cent, while contraction was experienced in mining (-2.2 per cent)

Figure 1

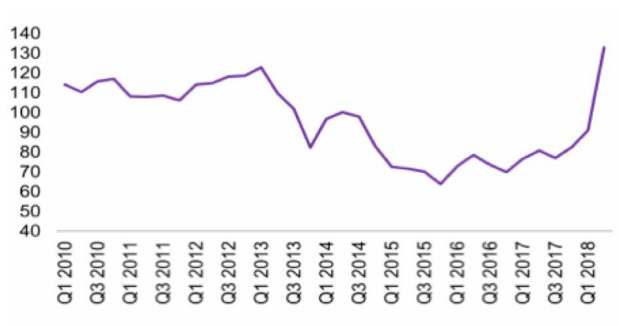
### Malaysia GDP growth and unemployment



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

Figure 2

### Consumer Sentiments Index



Source: Malaysian Institute of Economic Research, NTL Research

and agriculture (-2.5 per cent). The contraction was mainly due to the decline of natural gas output; and the oil palm subsector, which experienced production constraints and detrimental weather conditions.

Headline inflation fell to 1.3 per cent in Q2 2018 (Q1 2018: 1.8 per cent). The decline was primarily due to the tax holiday due to the zerorisation of the GST rate pending being abolished and replaced with the new Sales and Services Tax (SST).

The labour market in the second quarter of 2018 remained complementary to growth. The growth of the labour force was in line with the growth of net employment gains, which reflected the unchanged unemployment rate of 3.3 per cent.

**Major rail projects' cancellation and postponement and budget constraint will impact short-term growth.**

The euphoria of a New Pakatan Harapan Administration after the May 9 General Election has lifted consumer confidence. The Consumer Sentiment Index recorded a 21-year high of 132.9 points in Q2 2018. This is the first time the index has surpassed the 100-point threshold since Q2 2014 (Figure 2). However, the cancellation of major and controversial rail infrastructure projects, such as the East Coast Rail Link (ECRL) and High-Speed Rail (HSR), and budgetary constraints will hurt growth in the short term as well as create new political risks for the private sector.

Between 30 March and 29 June 2018, the Ringgit depreciated by 4.57 per cent against the US dollar (Figure 3). This was in line with other regional currencies which was a result of the normalisation of the US monetary policy.

## Residential

### Key Highlights in Q3

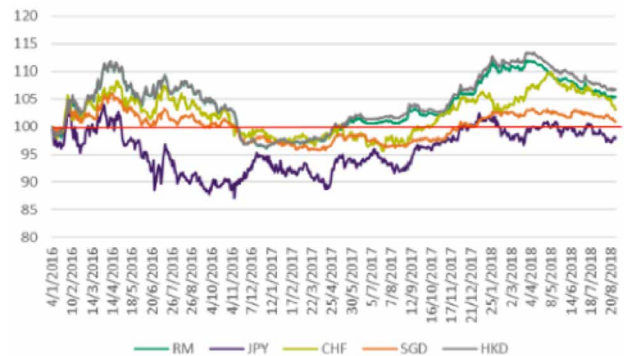
- Four high-end residential projects in the city centre with a total of 1,177 units were completed in Q3. The completed projects are Four Seasons Private Residences (240 units), Tropicana The Residences (353 units), The RuMa Residences (200 units) and Anggun Residences (384 units) (Table 1).
- The number of completions accounted for 34.0 per cent (2,093 units) of the pipeline for 2018 as of Q3, with some 4,083 units slated for completion in Q4 2018. About 49.0 per cent of the upcoming supply will emanate from the city centre (Figure 4).
- Prices and rents for high-end strata homes stood at RM1,040 per sq ft and RM3.78 per sq ft per month respectively.

### Market Commentary

As overall sales continued to decline, developers were more cautious in launching high-end residential projects due to the shifting needs of the residential market, moving towards the middle-income segment

Figure 3

### Exchange Rate Index of Main Trading Partners of Malaysia vs USD



Source: Bank Negara Malaysia, NTL Research

### Outlook

In light of external uncertainties and a slowing global economy, the Central Bank, Bank Negara Malaysia, has revised the GDP forecast for 2018 downwards to 5.0 per cent from 5.5 to 6.0 per cent and has continued to maintain a stable monetary policy to support economic activities.

Table 1

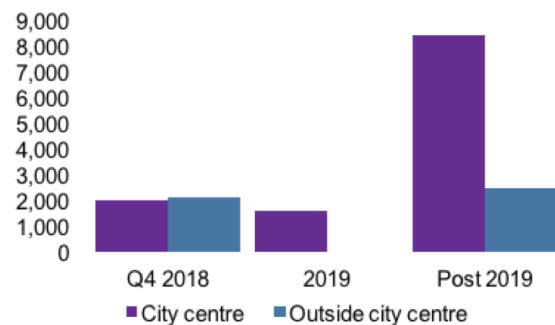
### Completed projects

Development	Sizes (sq ft)	Developer
Four Seasons private Residences	1,098 – 7,039	Venus Assets Sdn Bhd
Tropicana The Residences	710 – 1,604	Tropicana Corporation Bhd
The RuMa Residences	915 – 1,830	Aseana Properties Ltd and Ireka Corp Bhd
Anggun Residences	657 – 1,535	One JSI development Sdn Bhd (Subsidiary UDA Holdings Bhd)

Source: NTL Research

Figure 4

### Future supply of high-end condominiums in Kuala Lumpur



Source: NTL Research

and affordable housing. The new Pakatan Harapan (PH) Government's election manifesto has various initiatives to address critical issues involving home-ownership, especially among the middle-income households and millennials. Some examples are to build one million affordable homes and the introduction of a special housing loan scheme to encourage youth to buy their first home.

Developers continued to refine and introduce various marketing strategies to clear their completed and unsold stocks by offering attractive discounts and incentives, such as payment terms.

The number of overhang residential properties priced above RM1m in Kuala Lumpur in Q2 2018 increased by 10.7 per cent compared to Q1 2018. Overhang property are completed units that remain unsold after nine months or more.

In light of a weak long-term rental demand, residential investors are offering their units for Airbnb accommodation to generate returns. Smaller-sized units continued to dominate the market as affordability remains the key issue in home-ownership.

In certain locations, asking prices and rentals remained depressed especially for old and/or matured

## Retail

### Key Highlights in Q3

- Retail sales recorded a lower-than-expected growth of 2.1 per cent for Q2 2018.
- As of Q3 2018, total existing supply of shopping malls in Klang Valley stood at 52.1m sq ft.
- Eko Cheras Mall commenced operation in mid-September with 625,000 sq ft of NLA with an official opening expected in Q4 2018.
- Retail mall occupancy within KLCC is estimated at 93.0 per cent, whereas the Outer City Centre (OCC) district and Other City Area (OCA) lingered at 85.0 per cent and 90.0 per cent respectively.
- Overall occupancy for shopping malls in Klang Valley is estimated at 89.0 per cent.

After its first 100 days in power, the PH Government has done many fiscal reforms to achieve sustainable investment climate and economic growth.

developments, where units have a typically large built-up area. Developments along infrastructure projects, such as MRT and LRT lines, are expected to hold their value.

### Outlook

Although several economic indicators show signs of picking up, the overall high-end residential market is expected to remain subdued given the existing excess of the high-end segment and growing uncertainty in the environment.

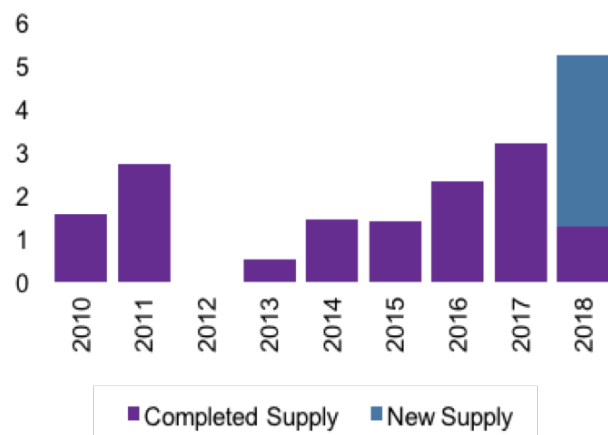
New launches are now focused on offering residential units around the RM500,000 price range in view of the affordability issue and tight credit environment.

Most of the demand are from purchasers buying for own stay while investors remain on the sidelines.

A new and strong public/private partnership will be needed to address price affordability if this segment is to drive the recovery in the residential market.

Figure 5

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



Source: NTL Research

## Market Commentary

The positive trend in consumer sentiments gathered momentum in Q2 2018. The CSI recorded a strong uptick of 41.9 points to 132.9 points, possibly due to post-election euphoria and the promise of the removal of the unpopular GST. The CSI breached the threshold level of 100 points and recorded the highest level since two decades ago.

Nevertheless, retail sales in Q2 recorded a growth of only 2.1 per cent, far below the previous expectation of 6.0 per cent. The growth was also lower than 4.9 per cent reported in Q2 2017. Retail sales were unexciting throughout the major Raya festival in June and only spiked during the final week of August during the two-month tax holiday when GST was zero-rated before its removal.

**Consumers' optimism was not matched by the growth of retail sales.**

With the rapidly changing market dynamic, more traditional stores are shutting down. Recently, local music store, Rock Corner, closed its last standing store in The Gardens Mall as major music labels are now focusing on a more sophisticated and engaging medium - streaming. Similarly, Pablo Cheese Tart shuttered both its outlets in Malaysia. The seven-year-old chain originated from Japan and entered the Malaysia market in 2016 before exiting in July this year. Likewise, AEON has announced it will close its Index Living Mall Malaysia (ILMM) furniture outlets by the end of Q3. The outlets were present in Aeon Shah Alam and Kota Bharu, IOI City Mall in Putrajaya, as well as Aeon Mall Tebrau City in Johor.

Despite the widely-chanted "retail apocalypse", more foreign retailers have shown deeper interest in

## Office

### Key Highlights in Q3

- Q3 saw the completion of 870,000 square feet (sq ft) of office space, all of which are located within the KL Fringe.
- Average prime rent in KLCC stood at RM7.30 per sq ft.

Table 2

### Selected upcoming retail malls in Klang Valley

Name of development	Net Lettable Area (sq ft)	Location
GM Bukit Bintang	122,000	KLCC
Retail Park @ Kiara 163	300,000	OCC
KIP Mall Desa Coalfields	250,000	OCA
Empire City Damansara	2,500,000	OCA
Skypark @ Cyberjaya	565,000	OCA
Pacific Star, PJ	240,000	OCA

Source: NTL Research

Malaysia's market. British sporting goods retailer, Sports Direct, has recently expanded and opened a flagship store of 41,000 sq ft in Petaling Jaya. Australian-based Harvey Norman announced an expansion plan of over 40 new stores within the next five to 10 years. Similarly, A&W Malaysia is planning for seven new branches nationwide by year-end. Meanwhile, new entrant, New York-based athletic retailer, Foot Locker, has announced its expansion plan in Asia, which includes a store in Kuala Lumpur by Q4.

### Outlook

High household debt remains a concern, and the recent increase in minimum wages by RM50 to RM1050 is expected to have minimal impact to spending, and this could be countered by a proposed reduction in Bantuan Sara Hidup Rakyat (BSHR) quantum and eligible recipients.

Retail Group Malaysia has revised Q3 retail sale downward to 6.1 per cent from the 6.8 per cent estimated in June, reflecting the reintroduction of SST on 1 September. Overall sales forecast for the entire year has been revised lower to 4.1 per cent from the estimated 5.3 per cent.

- The prime office rent index in Kuala Lumpur City Centre (KLCC) registered a drop of 0.4 percent (Figure 6).
- The average occupancy rate in KL was 81.0 per cent, a slight drop from 82.0 per cent in Q2, as absorption rate lagged supply growth (Figure 6).

## Market Commentary

Two major office buildings were completed including Etiqa Bangsar with 380,000 sq ft of Nett Lettable Area (NLA) and Southpoint Mid Valley with 490,000 sq ft of NLA, located within KL Fringe. The low absorption of newly completed buildings had contributed to a marginal drop in average occupancy rate. Total completions for the entire year are expected to be approximate to 2017 at about 2.4 million sq ft (Figure 7).

In Q3 2018, the prime office rent index in KLCC dropped 0.4 per cent, with an average of RM7.30 per sq ft, while secondary rent in KLCC remained stable at RM5.25 per sq ft. In KL Sentral, average rent was recorded at RM6.85 per sq ft.

Increasing enquiries and leasing activities from serviced office and co-working operators looking to set up new offices or for expansion are noted in this quarter. International operator, WeWork, is expected to open its first co-working space in Kuala Lumpur by end of this year, while local operators have been actively expanding to KL Fringe (KL Sentral and KL Eco City) or Selangor.

To date, Invest KL has attracted 73 MNCs, which collectively have taken up more than 700,000 sq ft of office space. Moving forward, Invest KL aims to secure more MNCs to achieve its target of 100 MNCs by 2020, indicating more potential demand for the office market.

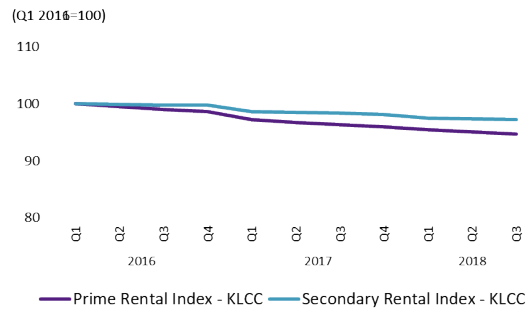
**Office market remains competitive as supply continues to outstrip demand, leading to higher pressure on occupancy and rental rates.**

## Outlook

Major office projects undertaken by Government-Linked Companies (GLC) under construction were unaffected by the austerity drive of the new Government despite initial uncertainties. The Business Conditions Index (BCI) remained above optimism threshold of 100 points albeit the decline by 7.5 points to 108.8 points in Q3. Office space demand is expected to improve only when there is clarity on new major initiatives from the Government on how it intends to drive more inward foreign direct

Figure 6

### Prime & secondary rental indices – KLCC



Source: NTL Research

Figure 7

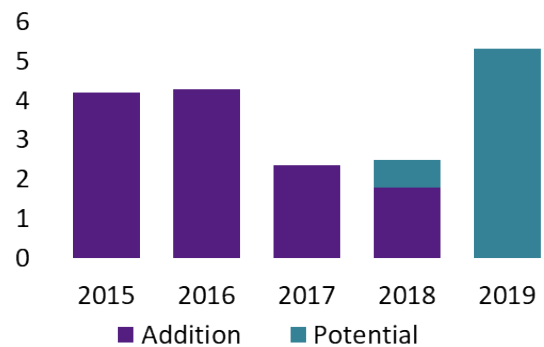
### Office vacancy rate



Source: NTL Research

Figure 8

### Future pipeline supply, sq ft (million)



Source: NTL Research

investments (FDI) into the country. Unfortunately for the market, this may need some time before any impact can be felt.

Notwithstanding, rising oil price is leading to more activities and projects in the office market. Hopefully, this can be translated to newer spaces in due course, after the recent spate of consolidation. Confidence in the new Government to boost economic growth and attract foreign direct investments are likely to produce a positive outlook in the medium term.

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