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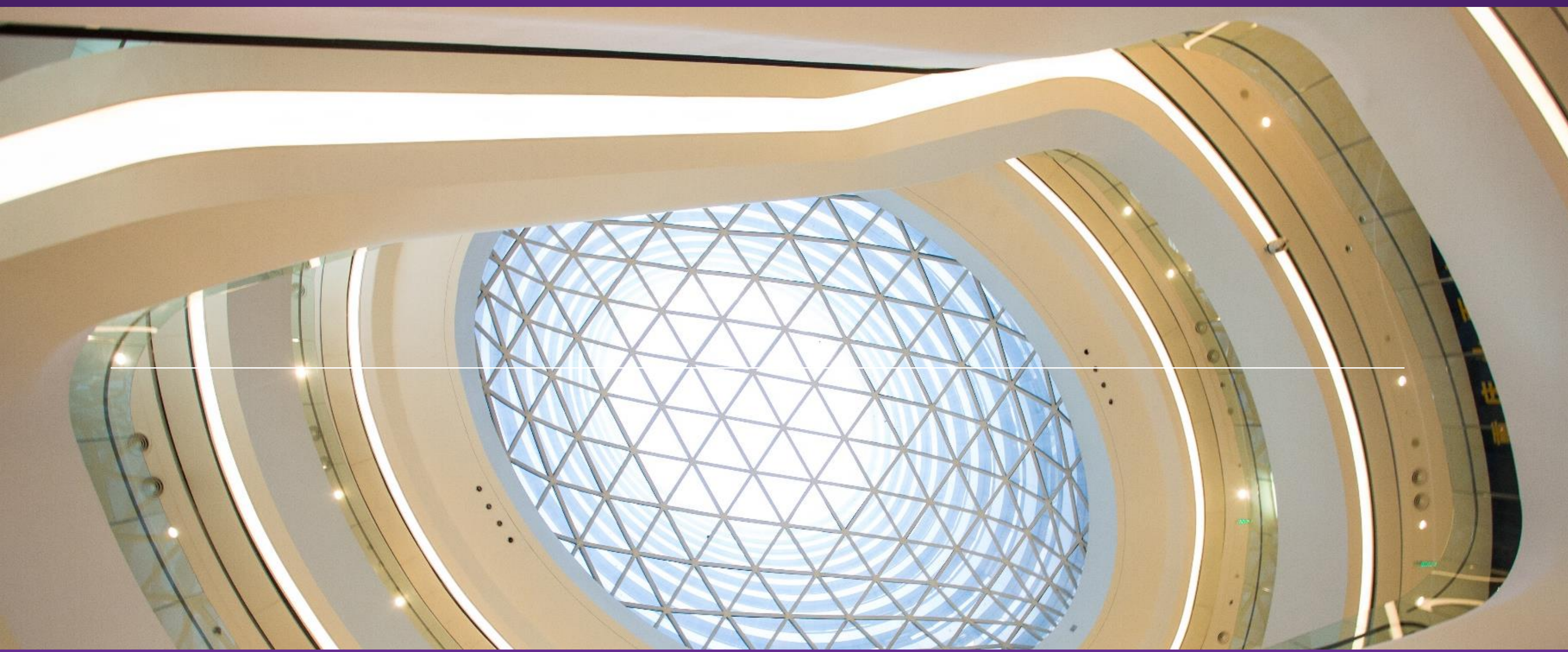
REAL ESTATE TIMES

RESEARCH

KUALA LUMPUR Q1 2017

Investment sales rose 20% y-o-y to RM1.05bn



Despite Malaysia's slower economic growth in Q4 2016, Malaysia attracted RM 207.9bn of investments in 2016. Did the improvement of investors' sentiments spill over to the real estate sector in Q1 2017?

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2017 Q1 SNAPSHOT

Malaysia's economy expanded by 4.5% y-o-y in Q4 2016. Overall, the economy achieved a GDP growth of 4.2% in 2016, the lowest in the past four years. Unemployment rate stayed unchanged at 3.5% as businesses remained cautious in hiring. About RM207.9bn of investments were approved in 2016, 7.7% higher than that in 2015.

Investment sales hit

RM1.048bn

in Q1 2017

The sale of Empire Shopping Gallery at RM570 million accounted for more than half of the total investment sales.

OFFICE

Average office rents in central areas **maintained at RM 6.03 per sq ft**.

RETAIL

Retail sales saw a marginal 0.3% increase, while occupancy moderated to 89%.

RESIDENTIAL

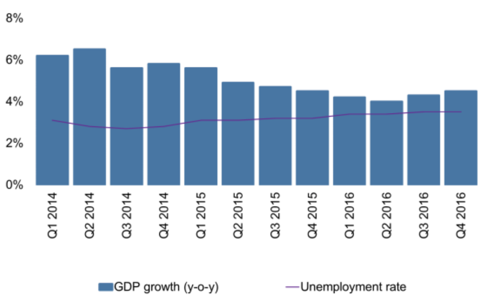
Prices and rents for high end condominiums marginally improved by **1.5% and 2.6% q-o-q to RM753 per sq ft and RM3.30 per sq ft/month** respectively.

THE ECONOMY

Key Highlights in Q1

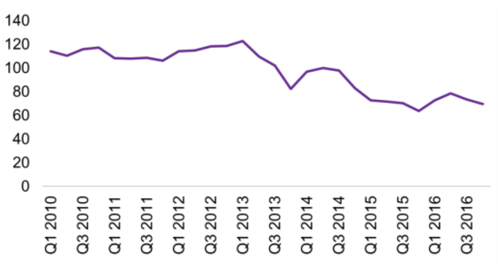
- The Malaysian economy expanded by 4.5% y-o-y in Q4 (Q3 2016: 4.3% y-o-y).
- Unemployment rate remains unchanged at 3.5% in Q4 2016.
- Consumer Price Index (CPI) grew by 1.7% y-o-y in Q4, higher than the 1.3% increase in Q3 2016.
- Consumer Sentiment Index declined further to 69.8 in Q4 2016 from 73.6 in Q3 2016.
- The Ringgit appreciated by 1.2%, to RM4.43 per US dollar from Jan 2017 to-date.

FIGURE 1
Malaysia GDP growth and unemployment



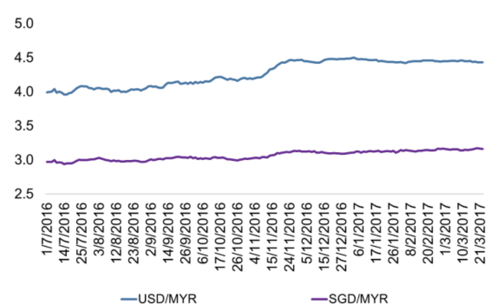
Source: Bank Negara Malaysia, Department of Statistics Malaysia, NTL Research

FIGURE 2
Consumer Sentiments Index



Source: Malaysian Institute of Economic Research, NTL Research

FIGURE 3
Malaysian Ringgit Exchange Rate



Source: Bank Negara Malaysia, NTL Research

Market Commentary

Malaysia's economy grew by 4.2% in 2016, the lowest growth since 2012. Notwithstanding, there are signs that the economy is expanding at a faster pace, registering a y-o-y growth of 4.5% in Q4 2016, as compared to 4.3% in Q3 2016.

Private sector demand, driven by sustained growth in private consumption (6.2%) and private investment (4.9%), rose by 6% y-o-y in Q4 2016. In contrast, public expenditure eased 2.6% y-o-y, primarily due to a 4.2% contraction in public consumption. Net exports rose by 5.8% y-o-y, as exports grew faster than imports.

The service sector led the growth in Q4 2016 with a y-o-y expansion of 5.5%, followed by construction (5.1%). Both manufacturing and mining sectors showed improvements with y-o-y growths of 4.8% and 4.9% respectively. Separately, the agriculture sector contracted at a slower pace of 2.4% y-o-y, due to the diminishing impact of El Nino.

The labour market remained stable, with unemployment rate holding at 3.5% in Q4 2016. According to Ministry of Human Resources, there were 37,699 workers retrenched in 2016 (2015: 44,343 workers). Consumer Sentiments Index (CSI) remained below its threshold level of 100 points, despite the y-o-y increase of 9.4% in Q4 2016 (Figure 2).

Despite the low level of consumer confidence, private sector demand will continue to anchor economic growth

Despite the volatile macro environment, Malaysia attracted RM207.9bn of investments in 2016, which is about 7.7% higher than the RM193bn recorded in 2015. Domestic investors remained the key anchor in 2016 with RM148.9bn (2015: RM156.9bn) whereas foreign investors committed RM59.1bn (2015: RM36.1bn). Growth in foreign investments reflected the continuing confidence in Malaysia's economic landscape and its sound fundamentals.

The Ringgit remained undervalued, due to the expectation of further rate hikes in the United States. It appreciated against the US dollar by merely 1.2%, given the continued foreign selloffs of Malaysian bonds (Figure 3).

Outlook

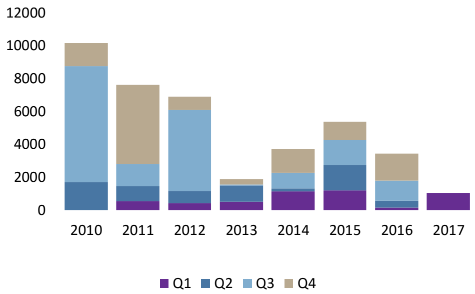
For the year 2017, GDP is likely to grow by 4.0% - 4.5%, driven by sustained expansion in domestic demand and anticipated improvement in commodity prices. Inflation is expected to be higher, given the projected hike in crude oil prices. Nevertheless, the cancellation of the TPP Agreement and the uncertain external environment are likely to put a lid on a rapid recovery of external trade.

INVESTMENT SALES

Key Highlights in Q1

- Investment sales increased to RM1.048b (Figure 4).
- Domestic trust funds such as Amanah Hartanah PNB and Pelaburan Hartanah Berhad (PHB), having ample capital to deploy, led the investment sales.

FIGURE 4
Investment Sales (RM Thousands)



Source: NTL Research

TABLE 1
Investment Sales

Development	Buyer	Vendor	Price, RM mil
Mydin Seremban 2	Amanah Harta Tanah PNB	Mydin	240
Duta Vista Executive Suites	Eternal Village Sdn Bhd	Tanco Holdings	50
Menara Prudential	KL 33 Properties	OCBC Properties	125
Star Corporate Park	Presteriang Bhd	Joyful Star Sdn Bhd	25.5
Empire Shopping Gallery	PHB	Mammoth Empire Holding	570

Source: NTL Research

Market Commentary

The Malaysian investment sales market was very active in Q1 2017. Of the six notable properties transacted, two of the deals were worth more than RM200m each. The total investment sales of these six properties were circa RM1,048m, about a 20% increase y-o-y. The transactions in Q1 2017 were predominated by the sale of retail assets, as the sector was under more stress given the challenging operating environment.

The big-ticket sales included the sale of Empire Shopping Gallery, and the sale-and-lease back of Mydin Seremban 2, a hypermarket in Seremban. The sale of Empire Shopping gallery was partly triggered by the seller, Mammoth Empire Holdings facing liquidity issues. Mammoth Empire Holdings is developing several major mixed developments, including the ambitious mega Empire City in Petaling Jaya.

There were several deals reportedly in the pipeline including the sale of educational assets on a leaseback basis by Paramont Bhd, which is redeploying the funds to other areas of their businesses. The assets that are reportedly in the market include the Sri KDU schools and KDU University in Petaling Jaya. The educational assets are a niche segment, with growing interest from various parties in the last few years. Some of the assets sold in recent years included Segi University and Segi College campuses held under AmanahRaya REIT.

The profile of buyers are mainly domestic, with trust funds and private real estate investors accounting for the larger deals. Separately, corporates which purchased for their own use accounted for acquisitions of lower quantum.

The sellers' profile is more eclectic, and they comprise a mix of both domestic and foreign owners. Foreign sellers included OCBC Properties, a Singapore-controlled company, which sold Menara Prudential, which has been in the market since late 2014.

Outlook

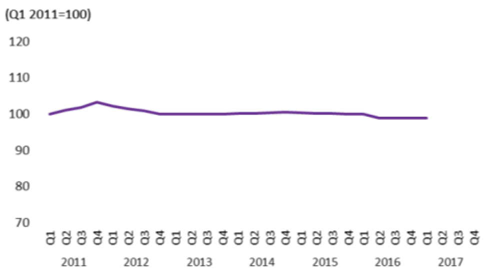
Despite the recent hike in Fed Rate, Bank Negara has maintained the local interest rate to support business and to date, this has no noticeable impact on yield expectation of real estate investors. Nevertheless, foreign investors are cautious about the volatility of the Ringgit in the short to medium term, given its recent poor performance, as well as keeping an eye on the political scene, and the outcome of the general election which is expected to be called this year.

OFFICE

Key Highlights in Q1

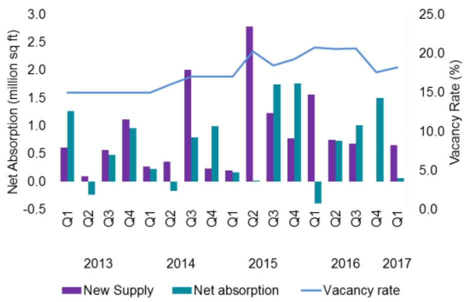
- Menara Ken TTDI (NLA: 300,000 sq ft) and Menara Suezcap (KL Gateway) (NLA: 440,000 sq ft) were completed
- Total office space supply stands at 79.1 million sq ft
- Average occupancy rate moderated q-o-q to 81.8%
- Capital value, as well as average rental rate maintained at RM933 per sq ft and RM6.03 per sq ft respectively.

FIGURE 5
Prime rental indices – Kuala Lumpur



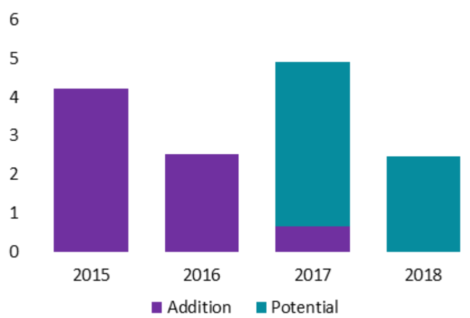
Source: NTL Research

FIGURE 6
Office net absorption, sq ft (million)



Source: NTL Research

FIGURE 7
Future pipeline supply, million sq ft



Source: NTL Research

Market Commentary

Compared to Q4 2016 when there were no completions, there were two new completions in 2017: Menara Ken @ TTDI (NLA: 300,000 sq ft) and Menara Suezcap (Tower 1 of KL Gateway)(NLA: 440,000 sq ft). The completion of both buildings bring the total office space in Kuala Lumpur to 79.1 million sq ft. The second office tower of KL Gateway is expected to be completed in H2 2017.

Being newly completed, Menara Suezcap is expected to fill up slowly given the glut in office space. Notwithstanding, all the strata office suites were sold out. Similarly, Menara Ken TTDI only had 2 floors occupied as at Q1 2017– one by Ken Holdings Bhd and another by Nestlé (M) Bhd. The two newly completed buildings brought the overall office vacancy in Kuala Lumpur to 18.2%.

Some developers are slowing down their office construction given the weak demand.

More prime office space are becoming available in the outer / fringe areas, as firms are more open to locate outside the CBD.

Rents and capital values stayed RM6.03 per sq ft at, and RM933 per sq ft q-o-q respectively. The sale of Menara Prudential, a 164,000 sq ft office on the prime Jalan Sultan Ismail, was transacted at RM759 psf.

Outlook

Looking forward, the office sector is expected to stay range bound due to the slowdown of the global and domestic economies and relatively low crude oil prices, with no expected major catalysts to drive demand growth in the short and medium term.

The anticipated larger supply pipeline this year will add more pressure on vacancy and rental rates. The slower completion as of late, is appropriate in light of the modest movements of occupancy as well as rental rates. In addition, large developments such as Bukit Bintang City Centre (BBCC) and Tun Razak Exchange (TRX) will further flood the market, ensuring no shortage of supply anytime soon.

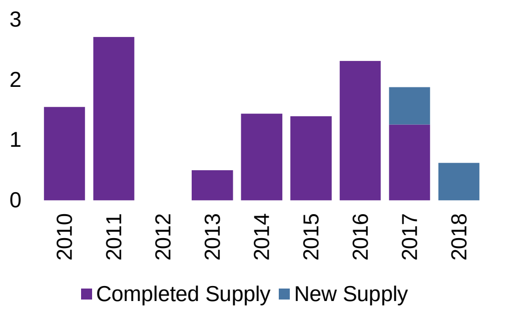
RETAIL

Key Highlights in Q1

- Retail sales rose marginally by 0.3% in Q4 2016, as opposed to 1.3% recorded in the same period a year ago.
- Retail Group Malaysia (RGM) forecasted a 3.2% growth in Q1 2017 and expects a rebound in sales for the department store cum supermarket operators after two quarters of poor performance.
- Total retail stock in Kuala Lumpur increased to 30.29 million sq ft with the completion of KL Gateway Mall, and MyTOWN Shopping Centre next to IKEA Cheras. Outside Kuala Lumpur remained at 29.94 million sq ft of supply.
- Occupancy rate of retail malls in Kuala Lumpur lowered slightly to 89% from 90% in Q4 2016.

FIGURE 8

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



Source: NTL Research

TABLE 2

Selected upcoming retail malls in Klang Valley

NAME OF DEVELOPMENT	EST AREA (NLA, sq ft)	Location	EST YEAR OF COMPLETION
Melawati Mall	620,000	Kuala Lumpur	Q2 2017
EkoCheras Mall	625,000	Kuala Lumpur	2018
Tropicana Gardens Mall	1,000,000	Selangor	2018
Central Plaza @i-City	1,000,000	Selangor	2018

Source: NTL Research

Market Commentary

Despite the seasonal spending at the start of each year and the Lunar New Year, the retail market remained somber, and any recovery is expected to be in H2 2017. In Q4 2016, the Consumer Sentiment Index recorded a further decline to 69.8, a 4.0 points drop from the previous quarter. Further expectations of rising prices caused Malaysians to curb spending and remain cautious when shopping.

Retail Group Malaysia (RGM) reported a sluggish 0.3% retail sales growth in Q4 2016. The growth was substantially lower than the forecasted 5.5% by the independent research firm. Among the retail sub-sectors, department store performed the worst in Q4 2016. It was the worst performing sub-sector for the whole of last year, with a 3.4% overall decline. In contrast, the best performing fashion sub-sector recorded a 5.8% growth for 2016. Overall, Malaysia's retail industry expanded 1.7%, as opposed to the 3% projection, due to weaker consumer sentiments and concerns on higher costs of living.

There were two completions in Q1 2017, KL Gateway Mall (160,000 sq ft NLA) and MyTOWN Shopping Center (1,100,000 sq ft NLA), which opened in February and March respectively. Delays in mall opening are becoming common to ensure that new malls successfully open with good occupancy and are able to attract its share of the necessary footfalls.

On the other hand, Lazada Malaysia, an e-commerce platform in the country, has surpassed Lazada Singapore as fastest growing e-commerce site and recorded over 100% growth in sales in 2016. With 15,000 merchants and at least 10 million products at present, the platform has over 4 million users.

To boost this sector, the government has launched a Digital Free Trade Zone, offering "a conducive environment for digital companies to carry out business-invigorating internet–based innovation" with Alibaba as a key anchor.

The initiative is the first of its kind in the world, as an effort to double the nation's growth of e-commerce to 20.8% in 2020. E-commerce is gaining traction in Malaysia and is becoming widely accepted. It further adds indirect competition to retail spaces and forces landlords to provide more incentives to sustain retailers occupying their malls during this challenging period.

Outlook

The oversupply of space amidst weak consumer spending is casting a pall over retail prospects in the midterm. We can expect to see more fallouts of new and marginal malls should this situation prolong.

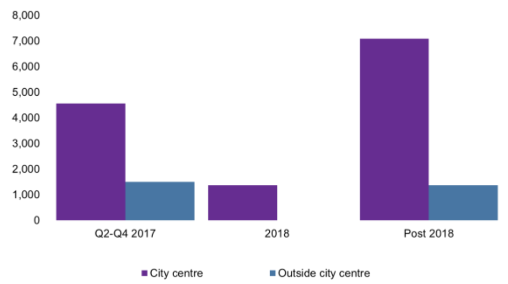
RESIDENTIAL

Key Highlights in Q1

- Four condominium projects, amounting to 2,053 units, were completed, of which, 86% are located outside the city centre.
- Ritz Carlton Residences, 287 units, was the only high-end project in the city centre to complete
- With the completion of 2,053 units in Q1 2017, the remaining 6,069 units are slated for completion through the rest of 2017, of which more than two thirds will be in the city centre.
- One notable newly launched condominium in Q1 2017 was The Estate at Bangsar South, a signature development by Bon Estates Sdn Bhd. Spread across 3.68-acre of freehold land with a gross development value of RM650 million, the project features 328 residential units with size range from 2,346 sq ft to 7,057 sq ft. The prices of the units launched is between RM1,757,500 to RM5,512,750 per unit (RM750 per sq ft onwards).
- Prices for high-end condominiums remained stable at RM753 per sq ft, a marginal 1.5% increase from Q4 2016 (Figure 10).
- Rents for high-end condominiums improved slightly by 2.3% q-o-q at RM3.20 per sq ft/month.

FIGURE 9

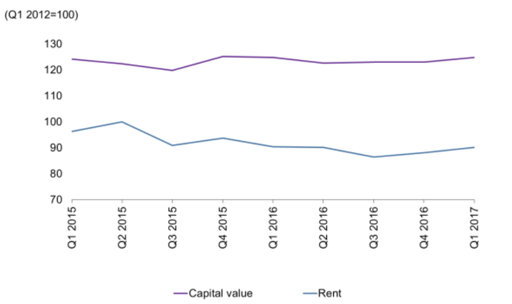
Future supply of high-end condominiums in Kuala Lumpur



Source: NTL Research

FIGURE 10

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



Source: NTL Research

Market Commentary

In 2016, sales and new launches were generally slower. Buyers and developers were more cautious amid the slower macro-economy. Continued stricter bank lending facilities further dampened demand for residential properties, although the overall approval rate in 2016 was at a high of 73.8%.

The completion of the MRT Line 1, which opened in December 2016, has helped to spur more residential developments and demand in prime as well as suburban areas to some extent, especially projects located along the line. The line provides better connectivity from Semantan to Sungai Buloh area.

The recent capital control imposed by China will affect demand, mainly in Iskandar Malaysia where mainland Chinese buyers are active.

Outlook

The residential market is expected to remain subdued in 2017 and 2018, given growing uncertainties in the external environment, and the continued weakening of the Ringgit against major currencies. Concerns of a slowing economy resulted in a "wait and see" approach among buyers.

Despite marginal increases in both prices and rents in Q1 2017, the high-end condominium sector is expected to be more challenging with more than 6,000 units due for completion in the next three quarters of 2017. With the large upcoming supply, the rental market is expected to be a tenant's market with more choices of units coming on stream.

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