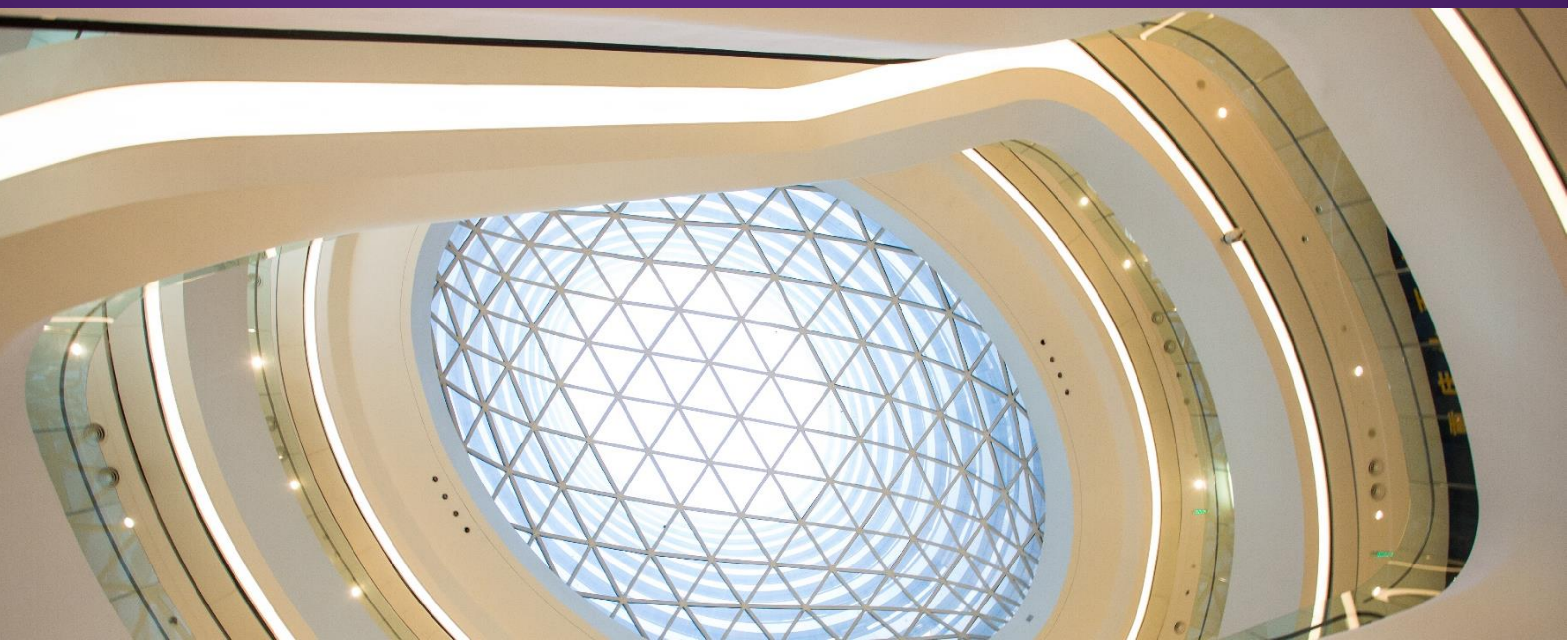
REAL
ESTATE
TIMES

RESEARCH

KUALA LUMPUR Q3 2017

Home buyers remain cautious despite stronger GDP growth



2017 Q3 SNAPSHOT

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.

Investment **sales grew** to

RM 1.54bn

in Q3 2017

Major REITS continued to show keen interest in prime properties, accounting for almost **90% of the total investment sales in Q3.**

OFFICE

Tun Razak Exchange is on track to becoming a leading financial center with Prudential expected to relocate there by 2019.

RETAIL

Retail **sales grew by 4.8% y-o-y,** while occupancy declined by 2% to 87%.

RESIDENTIAL

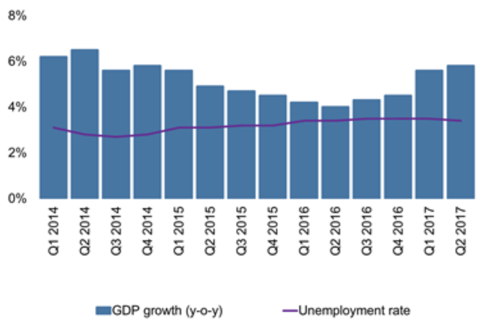
Prices and rents for high-end strata homes improved marginally by **4.5% and 2.9% q-o-q to RM777 per sq ft and RM3.10 per sq ft per month** respectively.

THE ECONOMY

Key Highlights in Q3

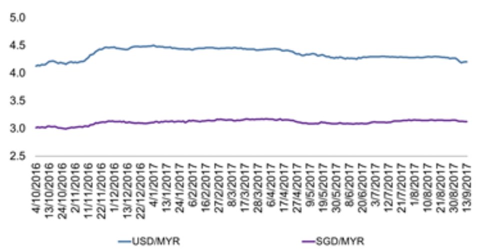
- Malaysia's GDP growth edged higher by 5.8% y-o-y in Q2 2017 (Q1 2017: 5.6% y-o-y).
- Unemployment rate decreased marginally to 3.4% in Q2 2017 from 3.5% Q1 2017.
- Consumer Price Index (CPI) grew by 4.0% y-o-y in Q2, lower than the 4.3% increase in Q1 2017.
- Consumer Sentiment Index rose further to 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.

FIGURE 1
Malaysia GDP growth and unemployment



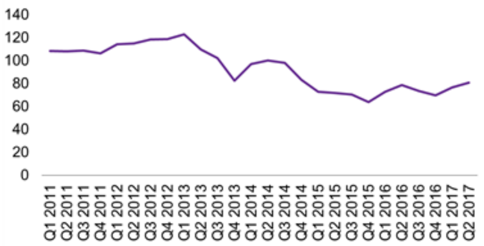
Source: Bank Negara Malaysia, Department of Statistics Malaysia, NTL Research

FIGURE 2
Malaysian Ringgit Exchange Rate



Source: Bank Negara Malaysia, NTL Research

FIGURE 3
Consumer Price Index



Source: Malaysian Institute of Economic Research, NTL Research

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.

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.

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

Outlook

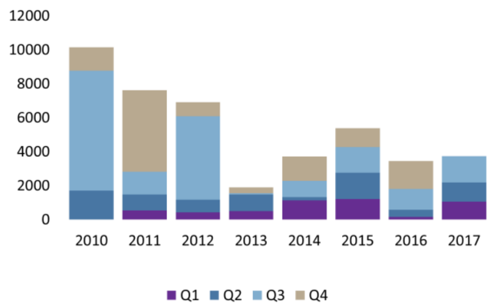
Given the higher-than-expected GDP growth during the first half of 2017, BNM forecasts the full-year GDP growth to surpass 4.8% in 2017. Headline inflation is expected to remain in line with the projected range of 3% - 4%.

INVESTMENT SALES

Key Highlights in Q3

- Investment sales volume posted a growth of 55% q-o-q to RM1.55b (Figure 4).
- The domestic REITs accounted for most of the purchases, completing two major purchases accounting for two third of the total investment sales in Q3.
- Improved economic growth, continued stable interest environment and ample liquidity underpin the stronger outlook despite concerns on oversupply in some segments of the market

FIGURE 4
Investment Sales (RM Thousands)



Source: NTL Research

TABLE 1
Investment Sales

Development	Buyer	Vendor	Price, RM mil
Pavilion Elite	Pavilion REIT	Urusharta Cemerlang Sdn Bhd	580
Wah Seong Facility, Gerbeng	AXIS REIT	Wah Seong Corp. Bhd	155
Vista Tower	AmanahRaya - Kenedix REIT	BlackRock Inc.	455
M3 Mall	LBS Bina Group	Jadi Wawasan/ Chua Choon Yang	105
Sri KDU Schools	Alpha REIT	Paramount Corp Bhd	165

Source: NTL Research

Market Commentary

The Malaysian investment sales market remained active with more big-ticket items transacted. Total investment sales in Q3 reached RM 1.5bn, higher than the RM 1.1bn of sales in Q2 (Figure 4).

The market continued to be supported by REITs, who accounted for the larger deals in Q3. The sellers in Q3 comprised both listed and private companies, including the US based BlackRock Inc. BlackRock Inc sold Vista Tower and completed its disposal of its interest in the Intermark, its landmark mixed redevelopment in Kuala Lumpur.

There were two big ticket items transacted in Q3, and they accounted for two third of the total investment sales (Table 1). One of the notable transaction is the acquisition of Elite Pavilion Mall, along with related assets, by Pavilion REIT for RM 580m, translating to RM2,526 per sq ft of NLA. The mall, which opened in Jan 2017, has 10 floors with a net lettable area of 229,609 sq ft. It was 91.6% occupied as of Sep 2017. The mall was owned by Tan Sri Lim Siew Choon (51%) and Qatar Holdings LLC (49%).

The other notable transaction was the acquisition of Vista Tower by AmanahRaya Real Estate Investment Trust for RM455m from The Intermark Sdn Bhd. The building's net lettable area is 551,875 sq ft.

Some investors are also looking at alternative real estate assets. A case-in-point was the sale and leaseback of an educational facility that houses the private school Sri KDU to a new and currently unlisted Islamic compliance, Alpha REIT. The facility is leased to the private school for 10 years.

Outlook

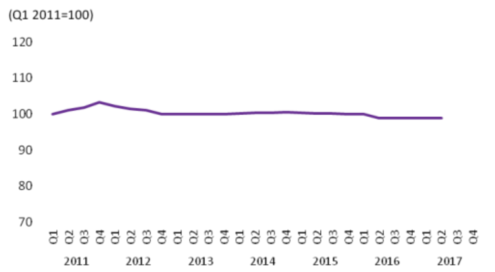
The stable interest rate environment and the availability of liquidity will support the current level of investment activity. The stronger economic growth rates will also provide some support to stronger business sentiments, despite the property market weighed down by oversupply across the market and the threat of technology disruptions in certain market segments. There is also a lack of catalysts to spur the market further.

OFFICE

Key Highlights in Q3

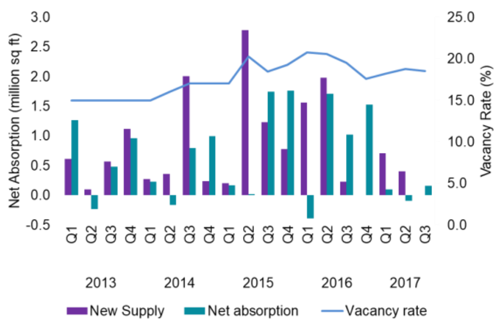
- There were no new completions in Q3
- Average occupancy rate rose marginally by 0.2 percentage-points to 81.4%
- Capital value and average rental rate stayed flat respectively at RM933 per sq ft, and RM6.03 per sq ft (Figure 5).

FIGURE 5
Prime rental indices – Kuala Lumpur



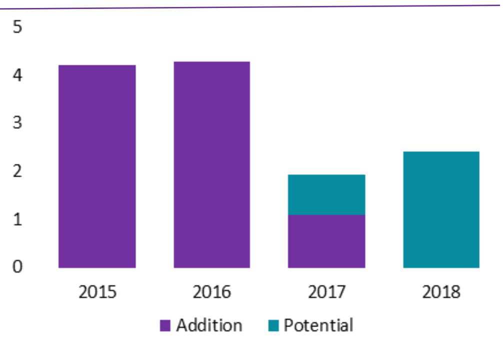
Source: NTL Research

FIGURE 6
Office net absorption, sq ft (million)



Source: NTL Research

FIGURE 7
Future pipeline supply, million sq ft



Source: NTL Research

Market Commentary

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 5). While the demand for space remained subdued, there was no new supply in Q3, supporting the higher (Figure 6). Correspondingly, the office rent of prime buildings 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.

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

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 7).

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.

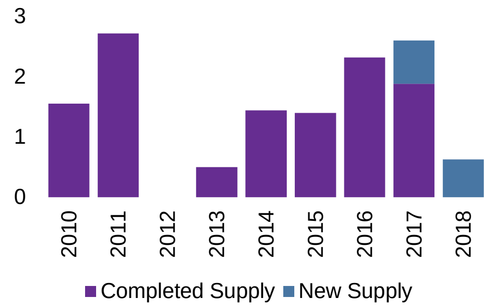
RETAIL

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 8).
- Occupancy contracted to 87% from 89% in Q3 with more supply of retail space and store closures.

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
Tropicana Gardens Mall	1,000,000	Selangor	2018
Central Plaza @ i-City	1,000,000	Selangor	2018

Source: NTL Research

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 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 8). 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 2).

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

Outlook

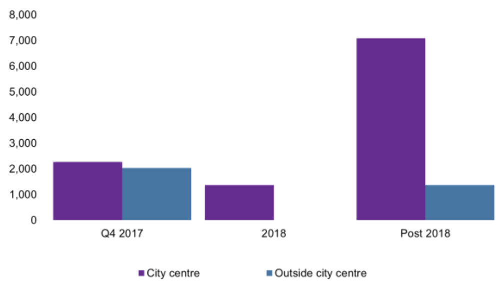
In light of the current cautious spending by consumers, more retailers are downsizing their businesses in order to stay profitable. Some retailers are closing the non-performing outlets and injecting additional capital on the profitable outlets to stay relevant in the competitive market and sustain their 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.

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 9).
- 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 10).

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

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 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.

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.

CONTACTS

Edmund Tie
Chairman
+65 6393 2388
edmund.tie@etcsea.com

Ong Choon Fah
Chief Executive Officer
+65 6393 2318
choonfah.ong@etcsea.com

Eddy Wong
Managing Director, Malaysia
+60 (0)3 2161 7228 ext 380
eddy.wong@ntl.my

Business Space/ Occupier Services
Yasmine Mohd Zamirdin
Director
+60 (0)3 2161 7228 ext 288
yasmine.zamirdin@ntl.my

Investment Advisory
Brian Koh
Executive Director
+60 (0)3 2161 7228 ext 300
brian.koh@ntl.my

Research & Consulting
Saleha Yusoff
Director
+60 (0)3 2161 7228 ext 302
saleha.yusoff@ntl.my

Property Management
Garren Tang
Associate Director
+60 (0)3 2161 7228 ext 312
garren.tang@ntl.my

Residential
Eddy Wong
Managing Director
+60 (0)3 2161 7228 ext 380
eddy.wong@ntl.my

Chong Yen Yee
Associate Director
+60 (0)3 2161 7228 ext 381
yenyee.chong@ntl.my

Retail
Ungku Suseelawati Ungku Omar
Executive Director
+60 (0)3 2161 7228 ext 330
ungku.suseela@ntl.my

Sara Fang Horton
Senior Director
+60 (0)3 2161 7228 ext 338
sarafang.horton@ntl.my

Valuation
Daniel Ma Jen Yi
Director
+60 (0)3 2161 7228 ext 222
daniel.ma@ntl.my

Authors:

Brian Koh
Executive Director
brian.koh@ntl.my

Saleha Yusoff
Director
saleha.yusoff@ntl.my

Edmund Tie & Company (SEA) Pte Ltd
5 Shenton Way #13-05 UIC Building Singapore 068808
Phone +65 6293 3228
Fax +65 6298 9328
Email mail.sg@etcsea.com

Nawawi Tie Leung Property Consultants Sdn Bhd
Suite 34.01 Level 34 Menara Citibank
165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia
Phone +603 2161 7228
Fax +603 2161 1633

Disclaimer