

REAL ESTATE
TIMES

JANUARY 2022



KUALA LUMPUR Q4 2021

Gradual recovery on the back of positive economic outlook

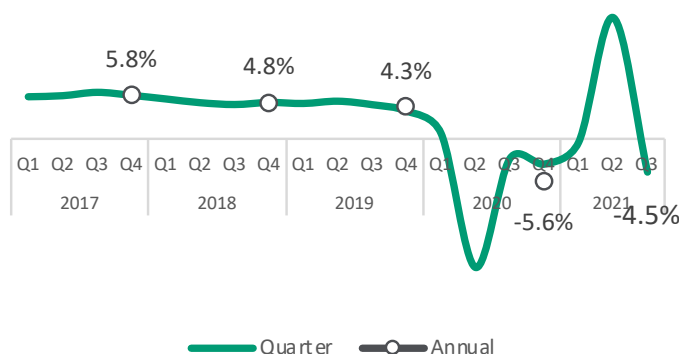
ECONOMY – Improved sentiments despite setback in national economy

KEY HIGHLIGHTS

GROSS DOMESTIC PRODUCT (GDP)



Figure 1: Malaysia GDP Growth

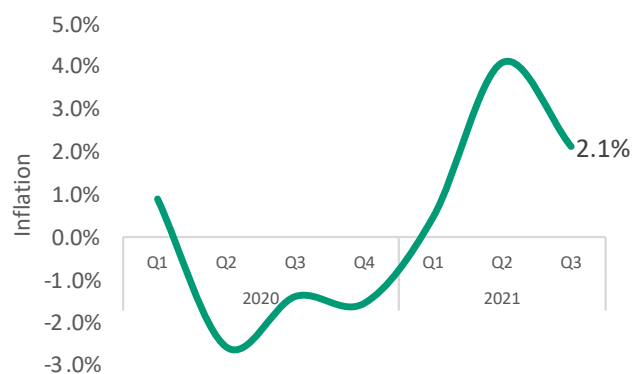


Source: Department of Statistics Malaysia; NAWAWI TIE Research

INFLATION



Figure 3: Malaysia Inflation Rate

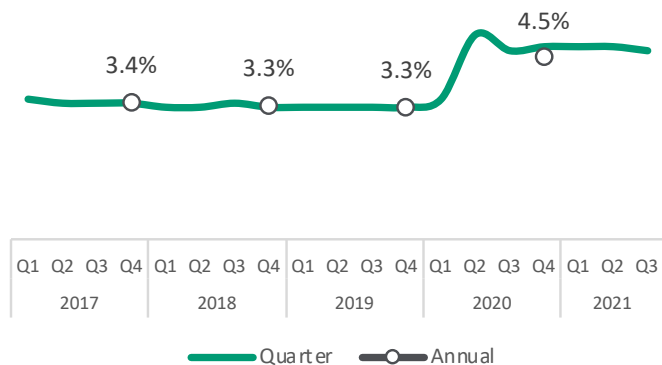


Source: Department of Statistics Malaysia; NAWAWI TIE Research

UNEMPLOYMENT RATE



Figure 2: Malaysia Unemployment Rate



Source: Department of Statistics Malaysia; NAWAWI TIE Research

CSI & BCI

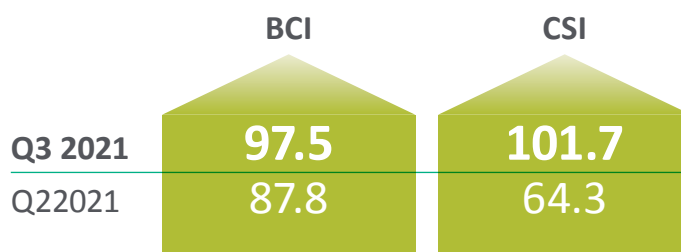
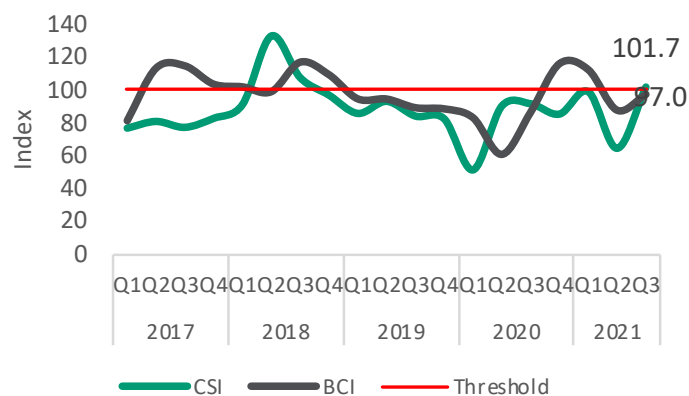


Figure 4: Business Confidence Index (BCI) and Consumer Sentiments Index (CSI)



Source: Malaysia Institute of Economic Research; NAWAWI TIE Research

MARKET COMMENTARY

- The national economy contracted by 4.5 per cent in Q3 2021 after rebounding in the prior quarter (Q2 2021: +16.1 per cent), following the strict containment measures under Phase 1 of the National Recovery Plan (NRP) in July. The construction sector recorded the highest contraction among the five economic sectors, with 20.7 per cent y-o-y. Economic activity subsequently picked up as more states transitioned into Phase 2 with less restrictive containment measures.
- As of Q3 2021, the unemployment rate improved marginally to 4.7 per cent compared to 4.8 per cent during the previous quarter. The expansion in the number of employed persons during the quarter (+67.5 thousand) exceeded the growth in labour force (+48.8 thousand)
- The headline inflation moderated to 2.1 per cent (Q2 2021: 4.1 per cent), mainly contributed by the diluting base effect from fuel prices.
- Businesses regained confidence in Q3 2021, reflected by the increase in Business Confidence Index (BCI) to 97.0 points, compared to 87.7 points in the previous quarter.
- Consumer sentiment as measured by Consumer Sentiment Index (CSI) soared to 101.7 points in Q3 2021. The index surpassed its optimism threshold of 100-point for the first time since Q3 2018. The easing of restrictions for fully vaccinated individuals has likely brought much respite to consumers and subsequently boosted their sentiments.

MARKET OUTLOOK

- With the implementation of the National Covid-19 Immunisation Programme, 78.5 per cent of the population in Malaysia were fully vaccinated, and this covered 97.7 per cent of Malaysia's adult population.
- The final quarter of 2021 saw all economic activities resumed as all states have transitioned to Phase 4 of the National Recovery Plan (NRP) except for Sarawak and Kelantan in Phase 3.
- As such, interstate travel restriction has also been lifted, resulting in a surge in domestic tourism activities. Vaccinated Travel Lane (VTL) was also introduced, signifying the reopening of borders for both Malaysia and Singapore. VTL allows quarantine-free travel between the two countries.
- Budget 2022 unveiled a total allocation of RM332.1 billion. The expansionary budget generally focuses on reviving the economy and addressing the repercussions of COVID-19. The budget includes funding for schemes that will boost national employment and businesses, particularly SMEs and micro-SMEs.
- Nonetheless, the government will continue to implement infrastructure projects such as the construction of Pan Borneo Highway and Central Spine Road.
- Despite the economic contraction in the third quarter this year, the national GDP expanded by 3.0 per cent for the first nine months of 2021. The Ministry of Finance (MoF) cited that the economy is on track in achieving the projected growth of between 3.0 and 4.0 per cent for the entirety of 2021.
- Moving forward, GDP is forecasted to expand between 5.5 and 6.5 per cent in 2022. Key factors to drive growth in 2022 will be the expansionary Budget 2022, the normalization in economic and social activities, and strong external demand particularly, from the country's major trading partner.

INVESTMENT – Land banking theme prevelant amongst established developers

KEY HIGHLIGHTS

INVESTMENT SALES (RM)

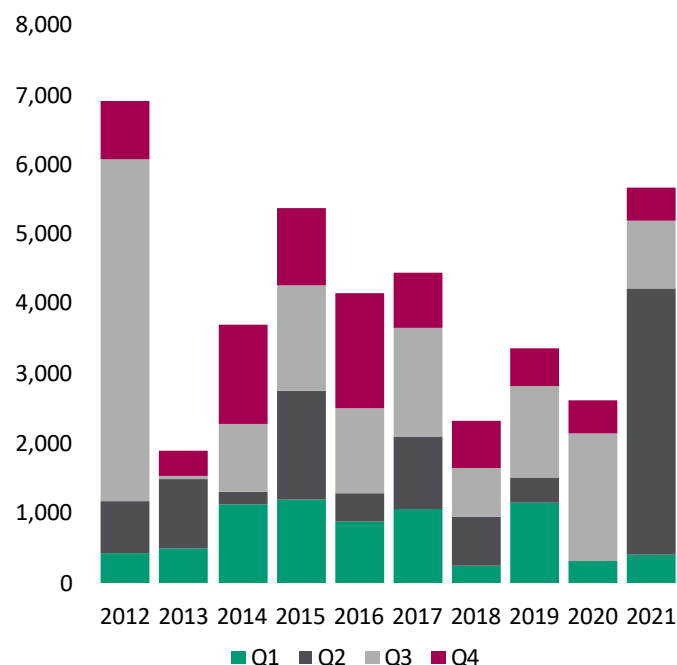
Q4 2021
473.9 million

Q3 2021
974.6 million

Total investment sales in Q4 2021 decreased by 51% compared to Q3 2021. Overall, 2021 saw a 117% increase in total major transactions compared to 2020.

The major transactions noted this quarter are in development lands and industrial properties.

Figure 5: Investment sales (RM million)



Source: NAWAWI TIE Research

VALUE OF INVESTMENT DEALS (RM million)

Q4 2021 recorded nine major transactions in investment sales totalling RM 473.9 million, a 51% decrease compared to the last quarter.

Table 1: Investment Sales (RM million)

Property	Purchaser	Vendor	Price (RM million)
Kepong Land	Mah Sing Group	Private Individuals	95
Shah Alam Land	Goodhart Management Sdn Bhd	Paramount Property	90
Pasir Gudang Land	Sinppa Industrial Sdn Bhd	Southern Steel Bhd	65
Klang Land	Oriental Interest Bhd	Gabungan Efektif Sdn Bhd	64.3
Ampang Land	Mintech Group	M&GA Sdn Bhd	60
Venice Tulip Facility	Axis REIT	Venice Tulip Sdn Bhd	32
Ipoh Land	Seri Iskandar Development Corporation (MRCB)	Gellanggang Harapan Sdn Bhd (MRCB)	31.5
Kuala Langat Land	Posim Marketing	Bonus Essential Sdn Bhd	26
Serendah Land	Dynaciate Group Bhd	Brem Construction Sdn Bhd	10.1

Source: NAWAWI TIE Research

MARKET COMMENTARY

- Transactions this quarter were primarily development lands as well as industrial assets.
- Land sales have been a growing trend for developers looking to strategically increase their land banking and to strengthen future pipeline projects' launches.
- Mah Sing continues to aggressively expand its affordable residential projects via its M-brand. The Group had acquired an 8-acre leasehold land in Kepong with a Development Order branded as M Nova. The project is estimated to have GDV of RM 790 million.
- Paramount Property disposed of their 12-acre freehold Shah Alam land at Sekitar26 to repay borrowings and improve operational performance in the current time of economic uncertainty.
- Oriental Interest had acquired 15 acres of freehold land in Klang. The purchase was to increase land banks in strategic areas where the group can leverage its experience in constructing mixed-use development as well as complement its existing projects around the Klang Valley.
- The triangular-shaped Ampang land located along Jalan Ulu Klang displays the rare and opportune time during the current economic climate to acquire lands that would potentially not be on the market pre-pandemic. Mintech Group had acquired this pocket land of 1.4 acres. Despite having single storey commercial lots on-site, the rationale behind this acquisition follows the theme of increasing land bank in locations with growth potential as well as scaling up the Group's property development portfolio
- A major transaction during this quarter was the acquisition of Venice Tulip facility in Pasir Gudang, Johor by Axis REIT. It was acquired through a sale and leaseback deal. The yield for this was in the high-9%.
- A related party transaction, MRCB's indirect wholly-owned subsidiary, Seri Iskandar Development Corporation Sdn Bhd (SIDEK), acquired 20 acres of land from Gelanggang Harapan Sdn Bhd. Located

opposite SIDEK's current landbank proposed for mixed-use development, the plan is to integrate the parcels, which will improve the marketability of the commercial components because it will have direct access to the North-South Expressway.

- Posim Marketing had purchased 11 acres of freehold industrial land this quarter for future business expansion.
- Dynaciate Group had purchased an 8-acre industrial land at Serendah to gear up for future development into industrial facilities such as warehouses or logistics given the growing e-commerce industry.
- Glove maker, Rubberex Corporation Bhd, enters the property investment market via the purchase of a 20% stake amounting to RM 180 million in a joint venture company named Alliance Empire to undertake the development and operations of the upcoming Empire City Mall. Alliance Empire also includes a stake from Alliance Premier, Exsim, and JT Momentum.

MARKET OUTLOOK

- Increasing market activity observed as Malaysia continues its slow recovery post-Covid-19 pandemic.
- Developers continue to seek strategic lands, an opportune time due to soft market and greater availability of lands that would not be in the market otherwise.
- All transactions this quarter seen to be by established local developers
- Nawawi Tie Research anticipates sluggish market recovery this year with continued political instability.

OFFICE –Improvement in enquiries and viewings

KEY HIGHLIGHTS

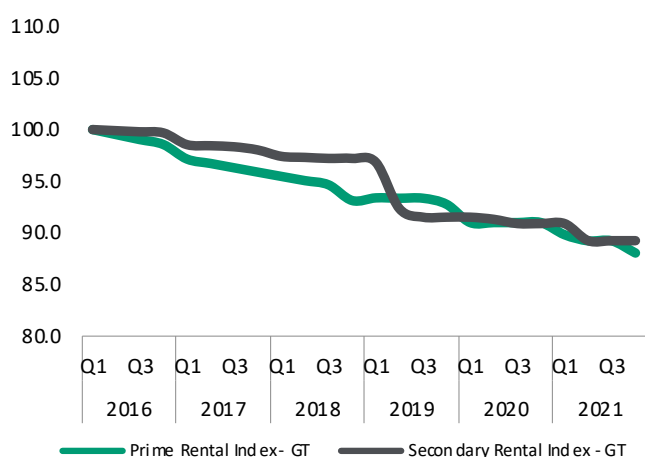
PRIME RENTAL IN GOLDEN TRIANGLE (GT)

Q4 2021
RM6.81 psf

Q3 2021
RM6.91 psf

Figure 6: Prime & Secondary Rental Indices - KLGT

(Q1 2016=100)



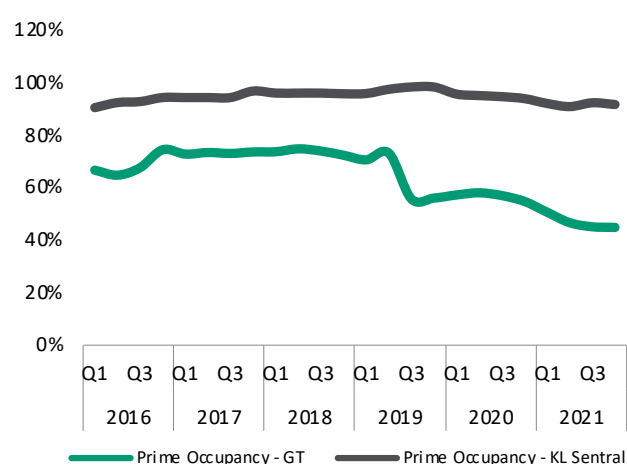
Source: NAWAWI TIE Research

OCCUPANCY (KL)

Q4 2021
73.6%

Q3 2021
73.8%

Figure 8: Prime Office Occupancy (per cent)



Source: NAWAWI TIE Research

SUPPLY

Q4 2021
88.0 million sq ft

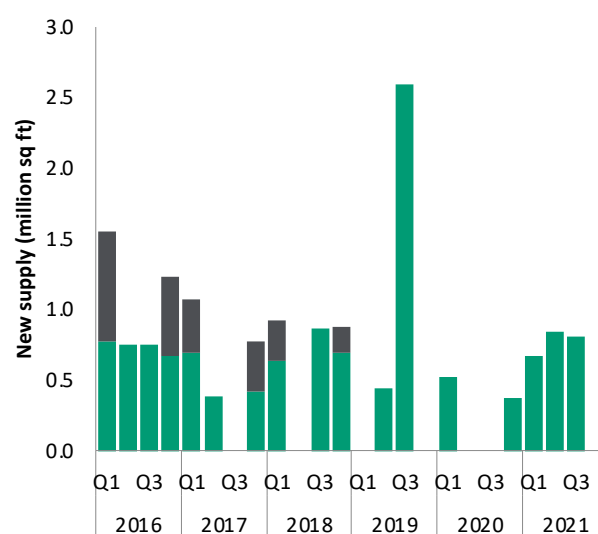
Q3 2021
88.0 million sq ft

Table 2: Upcoming Office Developments in KL

Upcoming Development	Net Lettable Area (sq ft)	Location
Affin Bank Tower TRX	576,000	Golden Triangle
Plot 1194	165,000	Golden Triangle
(FKA Bangunan MAS)	165,000	Golden Triangle
BBCC The Stride	394,000	Golden Triangle
Merdeka 118 Tower	1,700,000	Golden Triangle
The MET Corporate Towers	600,000	KL Fringe
Aspire Tower	587,000	KL Fringe

Source: NAWAWI TIE Research

Figure 7: Completed Office Supply in KL, (sq ft, million)



Source: NAWAWI TIE Research

MARKET COMMENTARY

- In the final quarter of 2021, there was no new completion of office buildings in Kuala Lumpur. The total completion for 2021 is 2.3 million sq ft.
- With the ongoing correction, the rental and occupancy rate for prime offices in Golden Triangle decreased 1.3% and 0.3% q-o-q respectively. On the other hand, prime office buildings in KL Sentral and Mid Valley/KL Eco City remained resilient, as they recorded stable rental trends and minimal drop-in occupancy rates.
- Expansionary demand remained limited but improved slightly this quarter. Maybank announced that it would move a portion of operations at its HQ (Menara Maybank, Jalan Tun Perak) to the Sumurwang Tower in i-City, and it will be re-named as Mercu Maybank. Occupying space of 162,000 sq ft which can accommodate 1,400 employees, it will serve as an additional permanent alternate office site to accommodate new working arrangements.
- In Q4, we observed a slight improvement in demand from the flexible space/co-working operators with notable openings such as Common Ground at 1 Power House, Bandar Utama (16,900 sq ft). The operators are now looking for expansion opportunities outside of Kuala Lumpur. With the collaboration with Iskandar Investment Berhad, the home-grown Common Ground will set up its first co-working space in Johor, Common Ground Iskandar Space at Medini, Iskandar Puteri.

MARKET OUTLOOK

- Following the relaxation of movement restrictions in the fourth quarter, there were some signs of recovery with a higher volume of leasing activities and viewings.
- However, the occupiers continued to be cautious and took time to finalize their space management strategy.
- We expect the market to remain sluggish. By the end of 2022, there will be an incoming supply of 6.6 million sq ft, which will further intensify the competition as well as exert downward pressure on office rental and occupancy.

RETAIL – Hindrance towards endemic phase continues to haul on retail performance

KEY HIGHLIGHTS

RETAIL SALES



OCCUPANCY



SUPPLY

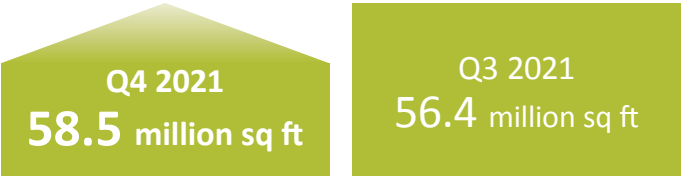
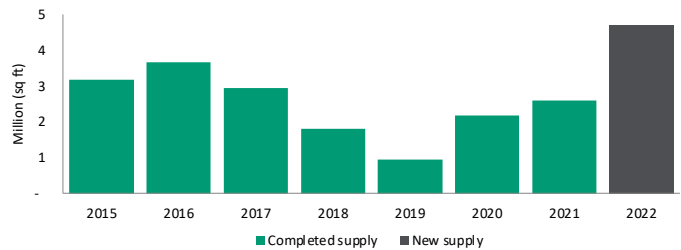


Figure 9: Retail Pipeline Supply (NLA) In Klang Valley (sq ft, million)



Source: NAWAWI TIE Research

Table 3: Upcoming Retail Developments in Klang Valley

Upcoming Retail Development	Net Lettable Area (sq ft)	Location
Mitsui Shopping Park LaLaport	845,000	OCC
M101 Skywheel	200,000	OCC
Maju Thematic Mall	750,000	OCC
Pavilion Damansara Heights	1,100,000	OCC
KSL Esplanade Mall	700,000	OCA
Mitsui Outlet Park (Phase 3)	107,000	OCA
IOI City Mall (Phase 2)	1,000,000	OCA

Source: NAWAWI TIE Research

MARKET COMMENTARY

- In Q3 2021, retail sales recorded negative growth of -27.8% y-o-y, lower than the initial projection of 15.1%. Given the lower growth rate recorded in Q3 2021, RGM has further revised downwards the retail sales growth forecast for 2021 from 0.8% to 0.5%.
- On 3rd December 2021, Klang Valley welcomed Pavilion Bukit Jalil with an NLA of 1.8 mil sq ft. Some of the notable tenants are Harvey Norman, Parkson, The Food Merchant, and HOHM. Besides, Starhill Gallery has revealed its face-lift this quarter, debuting exclusive first-ever flagship stores in Malaysia such as Paul & Shark and Stefano Ricci.
- The Food Junction at Mid Valley Megamall bid farewell and it will be replaced with a new food court in Q1 2022.
- However, the average occupancy rate of malls in Klang Valley further declined to 81.7% in Q4 2021 from 82.1% in the previous quarter. The decline was partly due to the increase in new supply, and it requires time to secure new tenants.
- Under Budget 2022, the government has allocated RM33mil towards “buy local” shopping campaigns and RM250mil to support the Shop Malaysia Online and Go-eCommerce campaigns to help the growth of local entrepreneurs.
- Sunway Malls launched Sunway eMall, bringing its tenants into a single online destination. Shoppers can purchase e-vouchers and redeem them at Sunway Malls. This initiative will aid both retailers and shoppers with the convenience of shopping which helps to boost retail sales.
- Five Guys, an American fast-food chain, has opened its first outlet in Malaysia at Genting Highlands, occupying 2,600 sq ft at SkyAvenue Mall and planning to open its second store at Pavilion, Bukit Bintang.
- Mercato opened its 5th store at Great Eastern Mall, replacing Cold Storage. In December 2021, it welcomed its 6th store spanning across 18,000 sq ft at Sunway Putra Mall.
- Don Don Donki has opened its second and Malaysia’s largest store at Tropicana Gardens Mall, spanning 42,243 sq ft across two levels.
- Grab Holdings acquiring Jaya Grocer worth up to RM1.8 billion, as part of its expansion into the grocery segment.

MARKET OUTLOOK

- The delay in transition to endemic phase due to the uncertainty of virus pandemic anticipates tardy recovery on retail sales and footfall traffic.
- Foreign tourist arrivals continue to be affected due to slow recovery from the pandemic, and such sentiment would affect retail businesses that have been dependent on leisure travellers, especially high-end and city centre malls.
- As for this quarter, buttressed by seasonal sales such as Thanksgiving, Black Friday, Cyber Monday, Christmas, and year-end sales, we expect better sales growth.
- With the support of the government towards e-commerce, retailers will continue to adopt the omnichannel strategy and move towards digitalization.

RESIDENTIAL – Anticipating better residential market

KEY HIGHLIGHTS

PRICE & RENTAL

PRICE

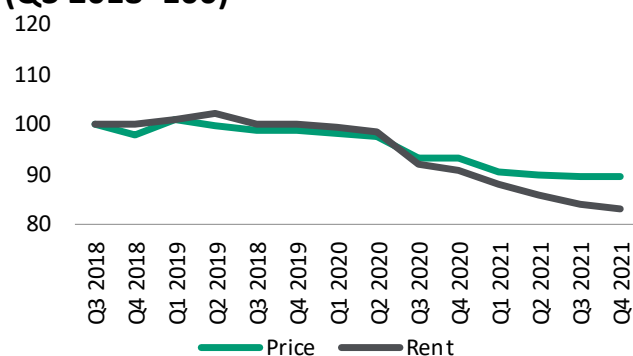


RENTAL



Figure 10: Prices and Rental Indices of High-End Condominiums in KL

(Q3 2018=100)

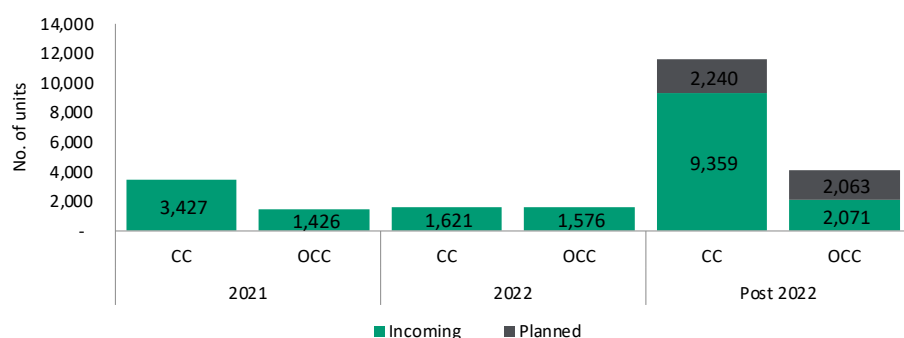


Source: NAWAWI TIE Research

FUTURE SUPPLY

One completion registered, while other projects scheduled for completion in 2021 remained in progress.

Figure 11: Future¹ Supply of High-End Condominiums in KL



Note:

¹ Future refers to incoming and planned supply in the city centre (CC) and outside city centre (OCC)

Source: NAWAWI TIE Research

Table 4: Upcoming High-End Condominiums in the city centre

Upcoming Development	No. of Unit
8 Conlay - Tower A	564
Eaton Residences	632
The Manor	428
10 Stonor	364
NOVO Residences	421
Isola @ KLCC	140
The Luxe by Infinitum	300
Quill Residences	552
R8 Residence	26

Source: NAWAWI TIE Research

MARKET COMMENTARY

- On q-o-q, prices and rents for high-end condominiums remained in downward trends. Prices registered a decline by -0.1 per cent at RM931 psf, while rents dropped by -1.3 per cent at RM3.14 per sq ft/month.
- After four quiet quarters without any completion, the city centre welcomed The Colony by Infinitum (423 units), while other projects scheduled for completion in 2021 remained in progress.
- A new player in the city centre, Paramount Property has commenced refurbishment work of 241 units of The Atrium, formerly known as Ambassador Row Serviced Suites marking its entrance into Kuala Lumpur's prestigious property market.
- Due to the soft residential market, there were no new launches registered in the city centre.
- Capitalizing buoyant demand from the mass market, developers continue with new projects, mainly located at the fringe of the city centre. In Wangsa Maju, Sunway Bhd unveiled Sunway Artessa that offers 468 residential units priced at about RM600 psf. At KL Metropolis, Exsim Group launched Fiddlewoodz that features 679 units of serviced apartments tagged at RM960 psf. Kedah-based Eupe Corp Bhd revealed 821 units of Est8 in Seputeh priced at RM850 psf.
- We anticipate several property-related incentives under Budget 2022 to invigorate the property market. The exemption of Real Property Gains Tax (RPGT) for properties sold after the sixth year will stimulate activities in the secondary market. The government has also allocated RM2 bn of housing credit guarantee scheme to assist gig workers and small traders, and RM1.5 bn allocation of Rumah Mesra Rakyat for the B40 group.
- With the cooperation of private developers, the government has continued to provide affordable housing. An estimated 80,000 affordable homes are being planned in Federal Territories under Residensi Wilayah Keluarga Malaysia. In Kwasa Damansara, the Klang Valley's new development corridor, about 3,990 units of Rumah Selangorku type Idaman Apartments are being planned, with Phase 1 targeted for completion by the end of 2024.

MARKET OUTLOOK

- Implementation of the National Recovery Plan with more economic reopening is expected to speed up the construction progress of delayed projects. Nevertheless, labour market shortage and high prices of materials are the challenges for the developers.
- Affordable properties will continue to anchor the residential demand supported by various government initiatives, including measures introduced in Budget 2022.
- Demand for the high-end properties will remain soft as the market is still in wait-and-see mode and slow interest from the foreign buyers. The revised criteria of the Malaysia My Second Home (MM2H) programme to attract only high-quality participants are not expected to boost foreign homebuyers' interest.
- The significant fall of about 600,000 households or 20% of the middle-income group (M40) into the low-income group (B40) category due to the Covid-19 pandemic may raise concerns on homeownership.
- In anticipation of a positive domestic economic outlook with the further expansion of the GDP, the property market is expected to recover starting in 2022. Being optimistic with the outlook, some developers have planned to start new projects in 2022, while some hold their launches and focus on clearing the unsold stocks.

DEFINITIONS

Development pipeline/ potential supply:	Comprises two elements: 1. Floor space in the course of development, defined as buildings being constructed or comprehensively refurbished. 2. Schemes with the potential to be built in the future, having secured planning permission/development certification.
Net absorption:	The change in the total occupied or let floor space over a specified period of time, either positive or negative.
Net supply:	The change in the total floor space over a specified period of time, either positive or negative. It excludes floor spaces that are not available for occupation due to refurbishment or redevelopment, but includes new supply. New supply refers to total floor space/units that are ready for occupation. Ready for occupation means practical completion, where either the building has been issued with a Temporary Occupation Permit (TOP) or Certificate of Completion and Compliance (CCC).
Prime office rent:	The highest rent that could be achieved for a typical building/unit of the highest quality and specification in the best location to a tenant with a good (i.e. secure) covenant. (NB. This is a gross rent, including service charge or tax, and is based on a standard lease, excluding exceptional deals for that particular market).
Stock:	Total accommodation in the private sector both occupied and vacant: 1. Purpose-built office buildings with Net Lettable area (NLA) of at least 150,000 sq ft. 2. Purpose-leased shopping centers, excluding hypermarket and stratified retail. 3. Non-landed residential projects with at least 10 strata dwelling units.
Take-up:	Floor space acquired for occupation or investment, including the following: 1. Offices let to an eventual occupier. 2. Developments pre-let or sold. (NB. This includes subleases) Take-up also refers to units transacted in the residential market.
Occupancy rate:	Total space currently occupied or not available to let as a percentage of the total stock of floor space (NB. This excludes shadow space which is space made available for sub-leasing).
Golden Triangle (GT)	An area bordered by Jalan Tun Razak – Jalan Ampang – Jalan Maharajalela.
KL City Centre (KLCC)	An area bordered by Jalan Tun Razak – Lebuhraya Sultan Iskandar – Jalan Damansara – Jalan Istana.
Outer City Centre (OCC)	An area that refers to the Federal Territory of Kuala Lumpur, excluding the area of KL City Centre.

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