



REAL ESTATE  
TIMES

JULY 2021

# KUALA LUMPUR Q2 2021

Lingering uncertainty with limited visibility



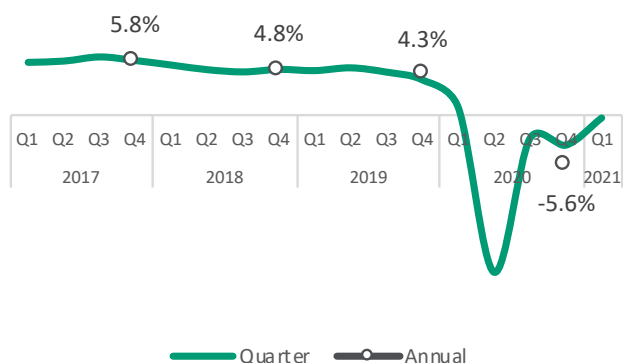
# ECONOMY – On the road to recovery

## KEY HIGHLIGHTS

### GROSS DOMESTIC PRODUCT (GDP)



Figure 1: Malaysia GDP Growth

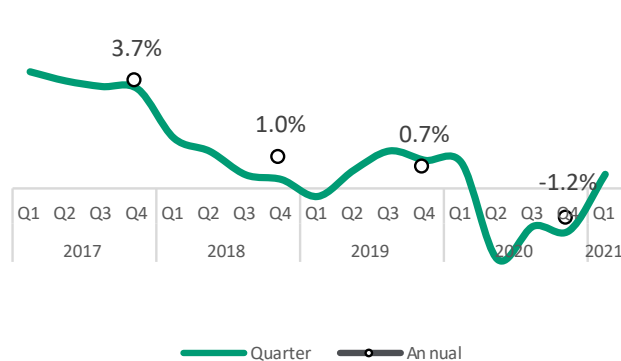


Source: Department of Statistics Malaysia; NAWAWI TIE Research

### INFLATION



Figure 3: Malaysia Inflation Rate

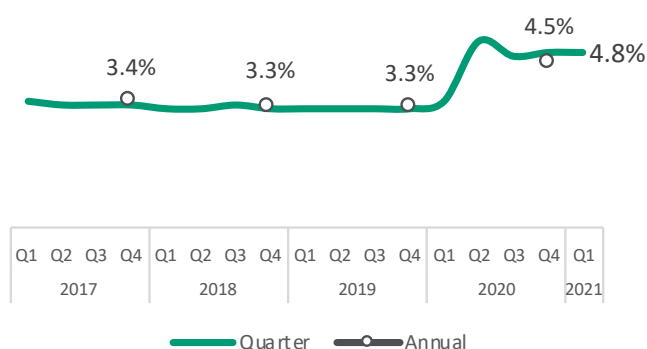


Source: Department of Statistics Malaysia; NAWAWI TIE Research

### UNEMPLOYMENT RATE



Figure 2: Malaysia Unemployment Rate



Source: Department of Statistics Malaysia; NAWAWI TIE Research

### CSI & BCI

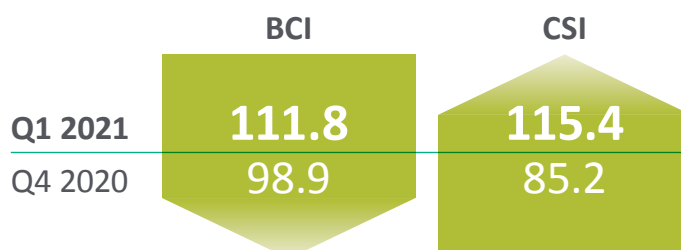
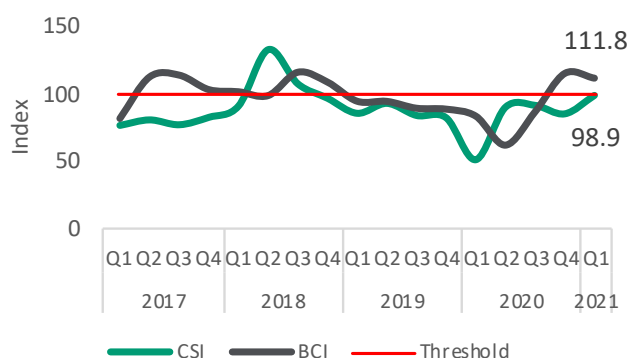


Figure 4: Business Confidence Index (BCI) and Consumer Sentiments Index (CSI)



Source: Malaysia Institute of Economic Research; NAWAWI TIE Research

## MARKET COMMENTARY

- National GDP continued its recovery, with the economy contracting only marginally by 0.5% in Q1 2021 (Q4 2020: -3.4%). The manufacturing sector rebounded with 6.6% growth y-o-y, driven by improvement in domestic demand, strong export performance, and by the demand for E&E products. While the agriculture sector also recorded marginal growth (0.4%), other sectors continued to be in a contraction state, including construction (-10.4%), mining and quarrying (-5.1%), and services (-2.3%).
- As of Q1 2021, the unemployment rate remained unchanged from the previous quarter at 4.8%. The greater expansion in the labour force (1.4%; 4Q 2020: 1.0%) was offset by the marginal contraction in employment growth (-0.05%; 4Q 2020: -0.6%).
- The headline inflation averaged higher at 0.5% (Q4 2020: -1.5%). This was mainly contributed by the improvement in global oil prices.
- Compared to Q1 2020, businesses regained confidence in Q1 2021, reflected by the improvement in BCI at 83 points to 111.8 points. The economic stimulus packages offered by the government to manufacturers helped ease their financial constraints from the impacts of Covid-19 and the movement control order. BCI remained above the 100-point threshold for two consecutive quarters, signalling sustained momentum. The MCO 3.0 will remain stringent until the country's daily cases reduce to below 4,000.
- The government has recently unveiled the National People's Well-being and Economy Recovery Package (PEMULIH) worth RM150 billion, including a fiscal injection of RM10 billion, targeting B40 and M40 households and businesses, particularly the SMEs.
- Though consumers' sentiment has shown gradual improvement, they remained conservative as CSI is still below the optimism level of 100 point. The CSI increased by 14 points (q-o-q) to 98.9 points in Q1 2021.

## MARKET OUTLOOK

- Global oil prices continued to climb further and recorded over USD70 per barrel in June 2021, which was higher than the pre-pandemic levels at circa USD60 per barrel in late 2019.
- Bank Negara Malaysia (BNM) projected the headline inflation to be between 2.5% and 4.0% for the entirety of 2021, driven by the higher global oil prices.
- The rollout of the National Covid-19 Immunisation Programme in February 2021 has continued to boost consumer sentiment, evidenced by the improvement in CSI in Q1 2021 that was nearing the 100-point optimism threshold. The government is targeting 80 per cent of the population to be vaccinated by September to allow the resumption of all economic activities and keeping the nation on track towards higher economic growth.
- Nonetheless, the resurgence of Covid-19 cases, which further led to the Full Movement Control Order 3.0 (MCO 3.0) in June, is expected to impact private consumption temporarily.
- Whilst the central bank has yet to post any revision on the national GDP growth projection for 2021, the World Bank (in June 2021) lowered its projection to 4.5 per cent from 6.0 per cent estimated in March 2021.
- Nevertheless, we would expect that Malaysia continues to register positive growth this year, given the low base effect from last year.

# INVESTMENT – Developers continue to seek prime and strategic lands

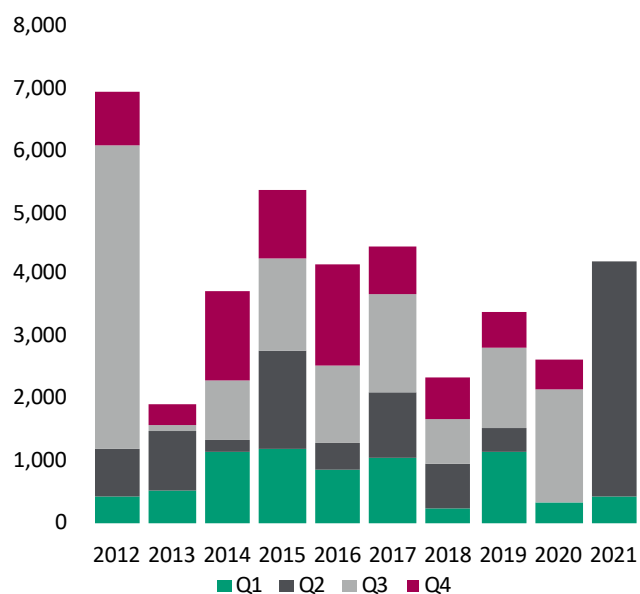
## KEY HIGHLIGHTS

### INVESTMENT SALES (RM)



Total investment sales in Q2 2021 increased by 869% compared to Q1 2021, accounted principally due to a proposed new listing of IGB Commercial REIT valued at RM3.16 billion. Major transactions noted in the industrial, retail (for redevelopment), office sector and development land.

Figure 5: Investment sales (RM million)



Source: NAWAWI TIE Research

### VALUE OF INVESTMENT DEALS (RM million)

Q2 2021 recorded 18 major transactions in investment sales totalling RM 3,825.6 million, an 869% increase compared to last quarter and a drastic increase from zero transactions in Q2 2020.

Table 1: Investment Sales (RM million)

Property	Purchaser	Vendor	Price (RM million)
Generasi Nirwana Facility	Powerwell Holdings Bhd	Generasi Nirwana Sdn Bhd	11.5
LB Aluminum Facility	Top Parts Electronics Sdn Bhd	LB Aluminium Bhd	28.875
Sri Taming facility	HLT Global Bhd	Sri Taming Sdn Bhd	16.25
Ex- Tesco Extra Seremban	Careplus Group Bhd	Rapid Synergy Bhd	35.5
Boulevard Business Park	Cowboy Sdn Bhd	Magna Prima	54
Menara IGB	IGB REIT	IGB Bhd	188.9
Centrepont South	IGB REIT	IGB Bhd	190.5
Centrepont North	IGB REIT	IGB Bhd	196.5
Boulevard Properties	IGB REIT	IGB Bhd	78
Gardens South Tower	IGB REIT	IGB Bhd	391.5
Gardens North Tower	IGB REIT	IGB Bhd	382.1
Southpoint Properties	IGB REIT	IGB Bhd	573.5
Menara Tan and Tan	IGB REIT	IGB Bhd	239.1
G Tower	IGB REIT	IGB Bhd	739.8
Hampshire Place Offices	IGB REIT	IGB Bhd	180.6
Setapak Development Land	Mah Sing Group Bhd	Teratai Constructors Sdn Bhd	89
Cochrane Development Land	Sunway Bhd	Boustead Holdings Bhd	233
Cheras Development Land	UEM Sunrise Bhd	Accolade Land Sdn Bhd	197

Source: NAWAWI TIE Research

## MARKET COMMENTARY

- Transactions this quarter are concentrated mainly within the industrial, retail (for redevelopment), office sectors and development land.
- The industrial sector continues to thrive. In April 2021, Microsoft announced that it would establish its first data centre in the region under the Bersama Malaysia initiative. The initiative aims at skill enhancement for one million Malaysians by 2023. The investment expected to generate USD4.6 billion in new revenues for the economy.
- GDEX Bhd, a logistic player plans to set up an industrial REIT as part of its next growth phase. It will start seeking investments in assets such as industrial lands and warehouses.
- Sime Darby Property is currently focusing on the new growth segment of industrial and logistics development. It plans to introduce a new industrial township measuring more than 162 hectares soon.
- Careplus Group is to redevelop 10-acre land where Tesco Extra, Seremban is sited. The rationale behind this acquisition is to develop a warehousing and glove packing facility to complement their current expansion into glove manufacturing.
- Magna Prima had sold its Boulevard Properties to liquidate unutilized property to Cowboy Sdn Bhd, which were sold below its valuation.
- IGB Bhd had injected 10 properties into its new office REIT totalling RM 3.16 billion in value.
- Developers, such as Mah Sing and Sunway, continue to land bank, taking the opportunity to seek prime and strategically located lands.
- Mah Sing purchased 5-acre land for RM89 million at Jalan Usahawan 5, Setapak, at the former Sri Utama School, to develop a mixed-use development with Gross Development Value estimated at RM 620 million. To be known as M Astra, it will comprise serviced suites and retail components.
- Sunway acquired 6.6-acre land on Jalan Cochrane for RM233 million. Located opposite Cochrane MRT station, the land has potential for a transit-oriented mixed development comprising serviced apartment and retail components.
- UEM Sunrise Bhd has also aggressively continued to expand their Klang Valley presence by acquiring 6.86 acres plot adjacent to Taman Connaught MRT for RM197 million.

## MARKET OUTLOOK

- Malaysia continues to feel the pressures of the Covid-19 pandemic with the resurgence of new cases. The unpredictable lockdown has adversely impacted the tourism and hotel industry the most, followed by the retail sector.
- The Malaysian Association of Hotels (MAH) expected the industry to suffer losses of RM 5 billion this year.
- Foreign investors not visible at the current juncture, transactions observed to be by local players.
- Nawawi Tie Research anticipates sluggish market recovery this year with continued political uncertainties, slow rollout of vaccinations, and a cautious sentiment.

# OFFICE – The market reset by FMCO, further downward pressure on rental and occupancy

## KEY HIGHLIGHTS

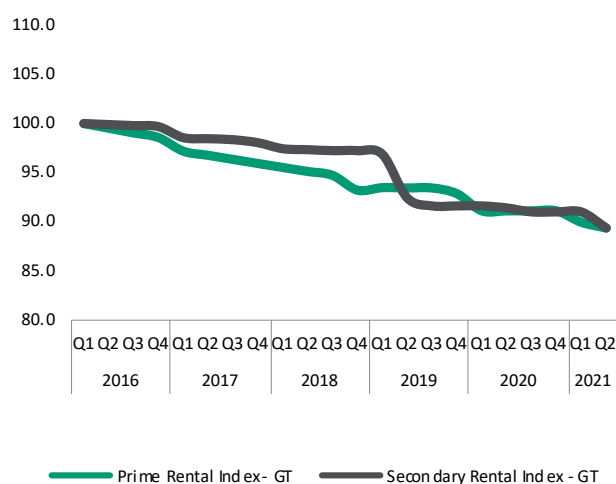
### PRIME RENTAL IN GOLDEN TRIANGLE (GT)

Q2 2021  
**RM6.91 psf**

Q1 2021  
**RM6.95 psf**

Figure 6: Prime & Secondary Rental Indices - KLGT

(Q1 2016=100)



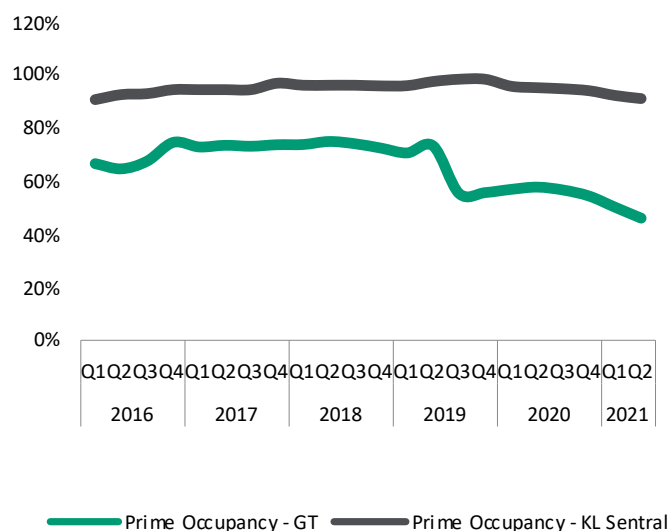
Source: NAWAWI TIE Research

### OCCUPANCY RATE OF OFFICE SPACES IN KL

Q2 2021  
**74.5%**

Q1 2021  
**76.3%**

Figure 8: Prime Office Occupancy (per cent)



Source: NAWAWI TIE Research

## SUPPLY

Q2 2021  
**87.2 million sq ft**

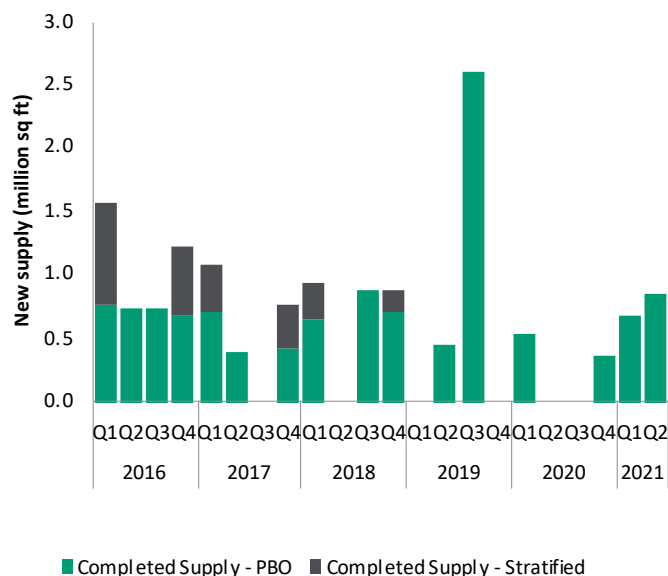
Q1 2020  
**86.3 million sq ft**

Table 2: Upcoming Office Developments in KL

Upcoming Development	Net Lettable Area (sq ft)	Location
Affin Bank Tower TRX	576,000	Golden Triangle
Plaza One (Lot 301, Jalan Conlay)	606,000	Golden Triangle
Bangunan MAS (PNB Lot 1194)	165,000	Golden Triangle
BBCC The Stride	394,000	Golden Triangle
UOB Tower 2	185,000	Central Commercial Area

Source: NAWAWI TIE Research

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



Source: NAWAWI TIE Research



## MARKET COMMENTARY

- In Q2 2021, a total of 849,000 sq ft NLA of office space were completed, including Menara IQ (555,000 sq ft NLA) and TSLAW Tower (294,000 sq ft NLA).
- We observed improvement in tenant inquiries and site inspections during the quarter. However, with the implementation of FMCO in June, most of the deals have been put on hold.
- Most activities involving new leases and renewals renegotiated on better terms. The landlords are more willing to offer incentives and discounts to retain existing tenants and attract new tenants.
- Average gross rental for prime buildings in Golden Triangle dropped very marginally from RM6.95 psf to RM6.91 psf in Q2 2021. The rental for prime offices and secondary offices fell 0.7% and 1.8% q-o-q respectively.
- As observed in most of the newly completed office buildings, the office space absorption was slow, lowering down the overall occupancy in KL. Taking into consideration the capital expenditure, the corporates remain cautious and are taking longer time to make decisions on workplace strategies, be it expansion or relocation.
- During the quarter under review, we noted muted demand in the city from the flexible space operators. The international operator IWG (Regus & Spaces) had expanded to other states, with the announcement of openings in Regus at Melaka Trade Centre and Spaces at the Sail.

## MARKET OUTLOOK

- More corporates are rethinking their workspace strategies, which include adopting the hub-and-spoke model and resizing the current office footprint, including flexible office space.
- As the hybrid working model persists, companies would continue to adjust office footprints. The hub-and-spoke model could be an alternative to have a smaller office footprint in the city centre and few locations outside the city centre.
- The office market will continue to be the tenants' market in the medium term, given the volume of incoming supply and weak demand.

## RETAIL – Sales continued to dip due to FMCO and freeze of non-essential services

### KEY HIGHLIGHTS

#### RETAIL SALES

Q1 2021  
-9.9%

Q1 2020  
-11.4%

#### OCCUPANCY

Q2 2021  
84.5%

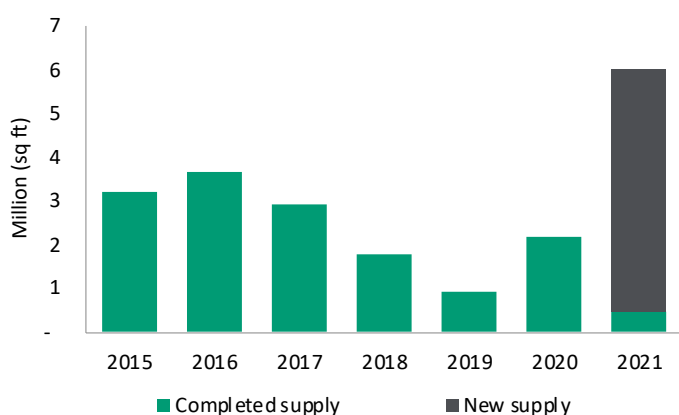
Q1 2021  
85.0%

#### SUPPLY

Q2 2021  
55.9 million sq ft

Q1 2021  
55.9 million sq ft

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
Pavilion Bukit Jalil	1,800,000	OCC
Maju Thematic Mall	750,000	OCC
Datum Jelatek	319,000	OCA
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 Q1 2021, retail sales contracted by 9.9% q-o-q due to the implementation of MCO 2.0, which resulted in slow sales during Chinese New Year and a drop in tourist arrivals.
- Shopping malls enjoyed better footfall and sales at the start of this quarter, especially during the Hari Raya festive season, when the Covid-19 pandemic subsided. However, it was short-lived due to a spike in daily COVID-19 cases. Consequently, the government enforced MCO 3.0 in May, with total lockdown starting June. Only essential services were allowed to operate with shorter operating hours. The ambivalent situation has left many retailers devastated with poor sales generated.
- The uncertain operation hours of retail centres adversely affected many shopping centres as some small retailers had to close their outlets. As a result, the average occupancy of malls in Klang Valley dropped marginally to 84.5% in Q2 2021 from 85% in the previous quarter.
- The government introduced the PEMERKASA+ package to assist shopping malls by extending the 10% electricity bill discount for three months between July and September 2021.
- During this challenging time, many shopping malls have adopted digital platforms. For instance, Sungei Wang Plaza collaborated with Shopee to accelerate digitalisation and demonstrate to retailers the advantages of online and offline sales.
- GCH Retail (M) Sdn Bhd spent RM25 million to revamp its Giant hypermarkets to attract shoppers. It launched more than 2,000 new products, including imported products. Also, it introduced “Ringgit Zone”, where prices of all items fixed at RM 3. By the end of this year, the group plans to open ten new small stores, sized between 1,800 and 2,000 sq ft, namely Giant Mini.
- Taco Bell, an American fast-food chain, has opened its first store in Malaysia at Cottage Walk, Cyberjaya. It plans to open two more new outlets at Cheras and Bandar Sunway due to the overwhelming demand.

## MARKET OUTLOOK

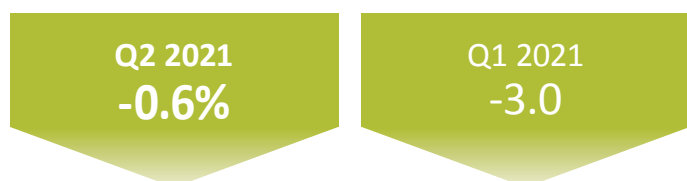
- Covid-19 has accelerated retailers’ adoption of e-commerce to increase their presence in the online retail landscape as more shoppers have changed their spending behaviour to online shopping.
- Movement restrictions continue to affect retail sales and traffic throughout the country. Non-essential services further suffer during this period.
- High-end malls continue to suffer as the return of foreign tourists will be slow and gradual.
- The recovery of retail sales is highly dependent on the government’s ability to reduce the number of daily positive cases and the speed of having 80% of the population vaccinated.
- E-commerce continues to grow due to the limitation of access to a physical store, especially non-essential services such as fashion, home and furniture, and IT.
- To lure shoppers into going to the malls, mall owners and retailers need to offer innovative in-store experiences such as digital transformation and personalization.

# RESIDENTIAL – Cautious sentiment remain intact driven by economic uncertainties

## KEY HIGHLIGHTS

### PRICE & RENTAL

#### PRICE

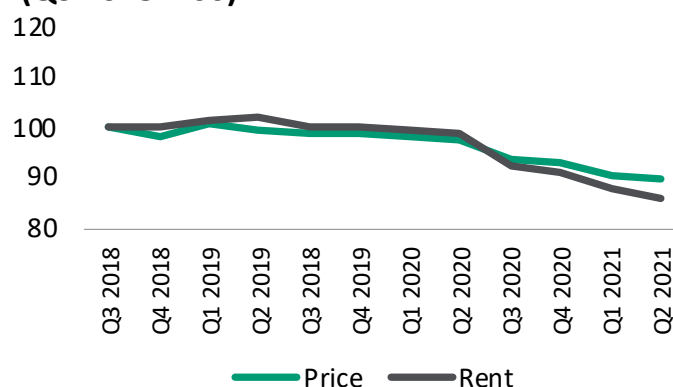


#### RENTAL



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

(Q3 2018=100)

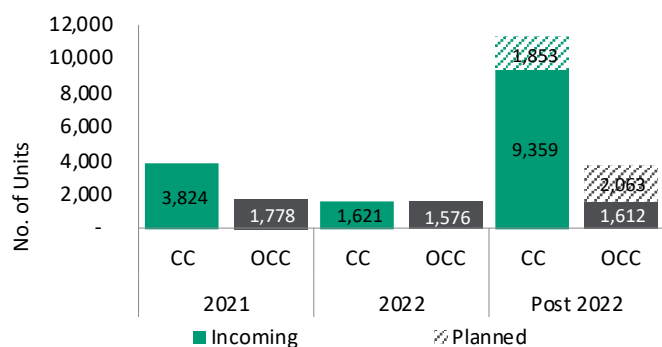


Source: NAWAWI TIE Research

### FUTURE SUPPLY

The residential market remained soft in the city centre with no new launches in Q2 2021 and the past five quarters. Reinstatement of the movement control order that extended to total lockdown will further delay the completion of projects.

Figure 11: Future<sup>1</sup> Supply of High-End Condominiums in KL



Note:  
<sup>1</sup> 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 Colony by Infinitum	723
Quill Residences	552
RV	26

Source: NAWAWI TIE Research

## MARKET COMMENTARY

- The high-end condominium market remained soft. Average price registered a slight decline by 0.6 per cent at RM934 PSF, while rents dropped by 2.4 per cent at RM3.24 per sq ft/month.
- The Government announced PEMERKASA Plus aid package worth RM40 billion as the nation has been put into lockdown again. Among initiatives are all eligible B40 groups are given the option of automatic approval of bank moratorium for three months or a 50% reduction in loan repayment for six months. As for the property market, Home Ownership Campaign (HOC), which ended on May 31, has been extended until 31 December 2021 to further support homebuyers to find good deals and developers to clear their stock.
- Several key property developers acquired land for mixed-use development targeting city workers and first home buyers. UEM Sunrise Berhad acquired lands in Connaught, Cheras, and Section 13, PJ; Sunway Property purchased land in Cochrane; Penang-based developer GSD Land (M) Sdn Bhd bought land in Section 13, Petaling Jaya and Mah Sing Group Bhd acquired land in Setapak, Kuala Lumpur.
- More developers are focusing outside of the city centre by targeting millennials, young families, and first-time homebuyers. Trinity Group Sdn Bhd partnering with Singapore's Oxley Holdings Ltd plans to launch Trinity Wellness in Beverly Heights, Ampang in July. Platinum Victory Sdn Bhd and textile wholesaler and retailer Jakel Group will develop 3,600 units of affordable housing in Setapak to meet the demand for affordable good quality homes in prime locations.

## MARKET OUTLOOK

- The property market remains sluggish due to economic uncertainties and political instability, further aggravated by the implementation of national lockdown.
- The volume of transactions and property prices expected to continue the downward trend as cautious sentiment remains intact.
- Some potential property buyers adopt a wait-and-see attitude, either anticipating a better deal in the future or are concerned about their job security.
- Time extension and disruptions in the construction supply chain throughout the pandemic crisis and multiple MCOs may cause further delay in the completion of residential projects.
- As working from home is the new normal, the need for a proper workspace becomes crucial. Developers and property buyers have started to focus on the design aspect, emphasizing flexibility to accommodate the imminent changes in living with the Covid-19 pandemic.

# DEFINITIONS

<b>Development pipeline/ potential supply:</b>	<p>Comprises two elements:</p> <ol style="list-style-type: none"> <li>1. Floor space in the course of development, defined as buildings being constructed or comprehensively refurbished.</li> <li>2. Schemes with the potential to be built in the future, having secured planning permission/development certification.</li> </ol>
<b>Net absorption:</b>	The change in the total occupied or let floor space over a specified period of time, either positive or negative.
<b>Net supply:</b>	<p>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.</p> <p>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).</p>
<b>Prime office rent:</b>	<p>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.</p> <p>(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).</p>
<b>Stock:</b>	<p>Total accommodation in the private sector both occupied and vacant:</p> <ol style="list-style-type: none"> <li>1. Purpose-built office buildings with Net Lettable area (NLA) of at least 150,000 sq ft.</li> <li>2. Purpose-leased shopping centers, excluding hypermarket and stratified retail.</li> <li>3. Non-landed residential projects with at least 10 strata dwelling units.</li> </ol>
<b>Take-up:</b>	<p>Floor space acquired for occupation or investment, including the following:</p> <ol style="list-style-type: none"> <li>1. Offices let to an eventual occupier.</li> <li>2. Developments pre-let or sold.</li> </ol> <p>(NB. This includes subleases)</p> <p>Take-up also refers to units transacted in the residential market.</p>
<b>Occupancy rate:</b>	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).
<b>Golden Triangle (GT)</b>	An area bordered by Jalan Tun Razak – Jalan Ampang – Jalan Maharajalela.
<b>KL City Centre (KLCC)</b>	An area bordered by Jalan Tun Razak – Lebuhraya Sultan Iskandar – Jalan Damansara – Jalan Istana.
<b>Outer City Centre (OCC)</b>	An area that refers to the Federal Territory of Kuala Lumpur, excluding the area of KL City Centre.
<b>Other City Area (OCA)</b>	An area comprising the districts of Petaling, Gombak, Klang, Hulu Langat, and Sepang in Selangor, and Federal Territory of Putrajaya.

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