



REAL ESTATE
TIMES

OCTOBER 2022

KUALA LUMPUR Q3 2022

Cautious recovery despite headwinds



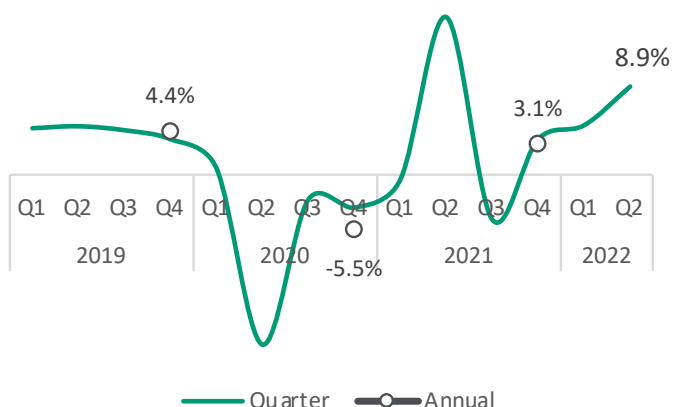
ECONOMY – National economy further strengthened with improved GDP and labour market

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

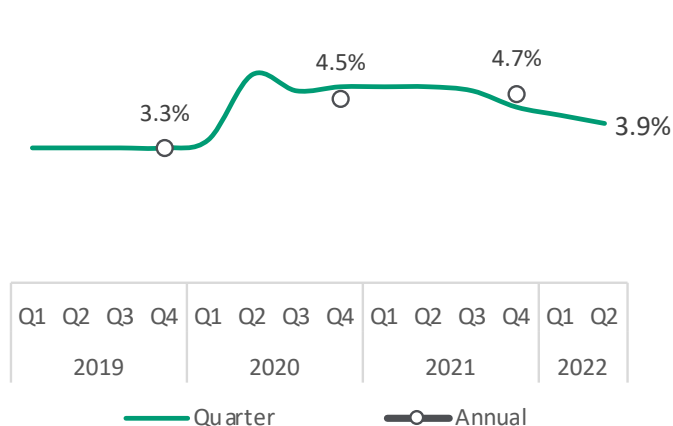


Source: Department of Statistics Malaysia; NAWAWI TIE Research

UNEMPLOYMENT RATE



Figure 2: Malaysia Unemployment Rate



Source: Department of Statistics Malaysia; NAWAWI TIE Research

BCI & CSI

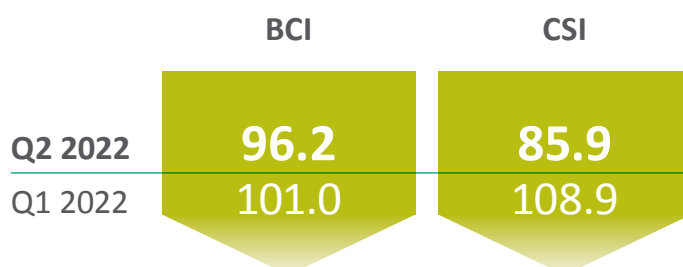
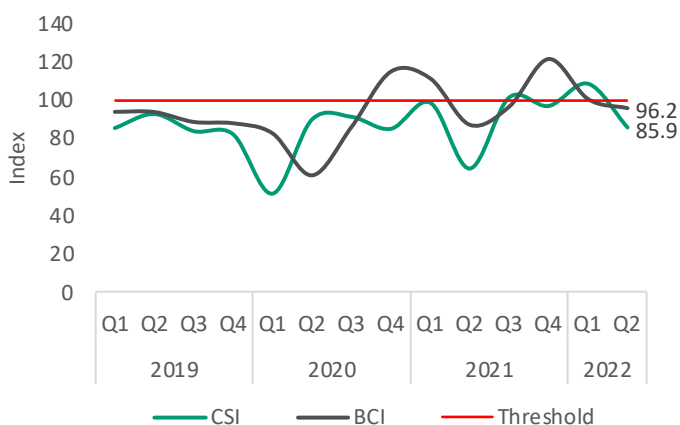


Figure 4: Business Confidence Index (BCI) and Consumer Sentiments Index (CSI)



Source: Malaysia Institute of Economic Research; NAWAWI TIE Research

MARKET COMMENTARY

- The national economy continued its positive momentum to record 8.9 per cent growth in Gross Domestic Product (GDP) for the second quarter of 2022 as the country moved towards endemicity and reopened international borders. Further improvement in domestic demand and normalising economic activities resulted in better GDP performance.
- Private final consumption rose 18.3 per cent, supported by transport (91.0 per cent growth) and recreation services and culture (+75.1 per cent). Spending on necessities, particularly food and non-alcoholic beverages, increased by 22.1 per cent.
- On the supply front, the services sector grew at a faster pace of 12.0 per cent as consumer-related subsectors such as retail and leisure-related activities continued to recover amid the transition to endemicity and improving labour market condition.
- The manufacturing sectors continued to strengthen with an expansion of 9.2 per cent, driven by both the export and domestic-oriented industries. The E&E cluster continued to record double-digit growth driven by global demand for semiconductors.
- The construction sector turned positive with a growth of 2.4 per cent following three consecutive quarters of contractions.
- The mining & quarrying sector contracted by 0.5 per cent, whilst the agriculture sector contracted by 2.4 per cent as production in livestock and other agriculture subsectors were affected by rising input costs, particularly for animal feed and fertiliser.
- The Malaysian labour market showed further improvement during the second quarter. The number of employed persons rose by 126.3 thousand, offsetting the increase of 97.2 thousand people in labour force. The unemployment rate dropped below 4.0 per cent to 3.9 per cent in Q2 2022, following eight consecutive quarters of over 4.0 per cent unemployment rate since Q2 2020.
- The headline inflation during the second quarter rose to 2.8 per cent, attributed to the small contribution from the dissipating base effect from lower domestic retail fuel prices last year.
- Business Conditions Index (BCI) and Consumer Sentiment Index (CSI) declined to 96.2 points and 85.9 points, respectively.

MARKET OUTLOOK

- The end of the second quarter of 2022 saw WTI crude oil price fall by 24.8 per cent to USD79.49 per barrel from USD105.76. Similarly, Brent crude oil price also recorded a drop of 14.8 per cent and closed at USD97.8 per barrel compared to USD 114.81 in the prior quarter.
- The US Federal Reserve announced an increase in interest rate by 75 basis points to a target range of 2.25 per cent to 2.5 per cent in July and further 75 basis points to a target range of 3.00 per cent to 3.25 per cent. Its tight policy stance remained to combat the country's high inflation, which has breached its 40-year high. During the same quarter, Bank Negara Malaysia (BNM), via its Monetary Policy Committee (MPC), increased the Overnight Policy Rate (OPR) twice; in July and September, making the current OPR stands at 2.5 per cent following the global inflationary pressures.
- On the currency and foreign exchange market, Ringgit depreciated by 11 per cent against the greenback since early this year, at RM4.641 as of the end of September 2022, reaching a 24-year low. The US dollar continued to strengthen, due to another hike in interest rate.
- BNM retained its GDP growth forecast between 5.3 and 6.3 per cent for 2022, reiterating that the national growth trajectory remained positive.
- Headline inflation is projected to peak in 3Q 2022 before moderating thereafter due to dissipating base effects and in line with the expected easing of global commodity prices.
- The US Fed is set to lower its country's inflation rate via aggressive monetary policy. The BNM's MPC is not on any pre-determined course. It ascertained that any future adjustments to the national monetary policy would be gradual to ensure that monetary policy remains accommodative to support sustainable economic growth in an environment of price stability.

INVESTMENT – REITs drive recovery in investment activities

KEY HIGHLIGHTS

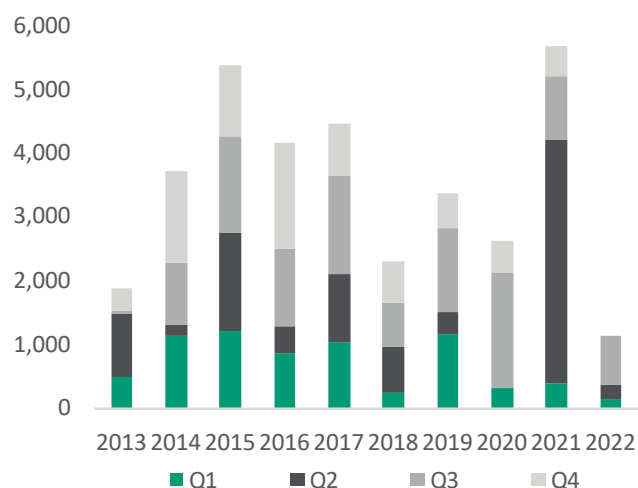
INVESTMENT SALES (RM)



The total investment sale improved by 224 per cent q-o-q, though on y-o-y, it dropped by 22 per cent.

Note:
In the Kuala Lumpur RET Q2 2022 published in July 2022, the investment sales in Q2 were reflected as RM330.7 million. It should be RM235.1 million (excluding vacant land transactions) as updated above. We apologise for any inconvenience.

Figure 5: Investment sales (RM million)



Source: NAWAWI TIE Research

VALUE OF INVESTMENT DEALS (RM million)

Q3 2022 saw seven transactions registered, of which 57 per cent were located in Klang Valley and the remaining in other states.

Table 1: Investment Sales (RM million)

Property	Purchaser	Vendor	Price (RM million)
BBCC Hotel	UDA	BBCC Development	295.0
Sheraton Imperial KL	Achi Jaya Group	Inter Heritage	245.0
Pasir Gudang Specialist Hospital	Al-'Aqar Healthcare REIT	KPJ Healthcare	93.0
KPJ Seremban Specialist Hospital	Al-'Aqar Healthcare REIT	KPJ Healthcare	84.7
Hextar Group Facilities	Hextar & Teju Logistics	KIP REIT	78.7
Telekom Taman Desa	JAG Group	Menara ABS	35.3
TMC Healthcare Centre Building	Al-'Aqar Healthcare REIT	KPJ Healthcare	14.3

Source: NAWAWI TIE Research

MARKET COMMENTARY

- The sales of two major hotels, namely the Sheraton Imperial and a new hotel at BBCC, dominated the investment activities during the quarter under review. The price paid for the Sheraton, which has been in the market over the last two years, was surprisingly low, about half of the indicative pricing when first launched for sale, reflecting a price of RM373,000 per room, after netting off the office space within the integrated development. The BBCC hotel sale to UDA is analysed at RM655,555 per unit, in a mix of 1-, 2- and 3-bedroom units. Ancasa Hotels and Resort, an in-house subsidiary of UDA, will manage BBCC hotel.
- Notwithstanding the relatively weak stock market sentiment, there are major pending acquisitions, including the IPO of AME REIT. It has a portfolio of industrial properties to be injected by its parent company, AME Bhd, as well as the newly completed Pavilion Bukit Jalil, with a billion ringgit price tag, which is in negotiation for injection to Pavilion REIT.
- Along a similar theme with other competitors, KIP REIT, a retail sector-focused REIT, is acquiring a portfolio of three industrial properties of RM78.7m injected by its majority shareholder, Eddie Ong, to diversify and grow its assets under management.
- These acquisitions reflect an improving sentiment with the opening up of the economy and the easing of cross-border restrictions. Nevertheless, foreign real estate investors remain absent compared to neighbouring Singapore, which has seen major foreign buying activities and buoyant demand. The declining Ringgit value and interest hikes have not been helpful, and the strict imposition of the Bumiputra equity requirement on GLC sales could have caused the abortion of several previously announced deals.

MARKET OUTLOOK

- Overall, this has been a good quarter in terms of activities, and going forward, investors will be closely watching developments on the political front as the general election draws closer. There is no sure sign that any of the political coalitions can form a strong government on its own, and a lot of horse trading will be expected post-election, which will muddle up the recovery process.

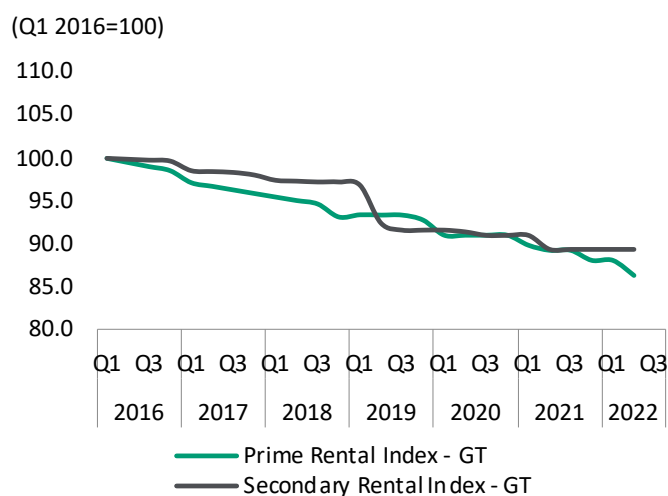
OFFICE – Leasing market picks up slightly at weaker momentum

KEY HIGHLIGHTS

PRIME RENTAL IN GOLDEN TRIANGLE (GT)



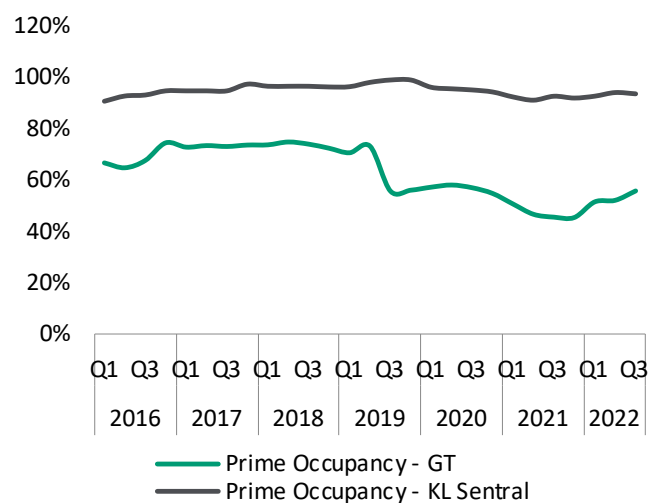
Figure 6: Prime & Secondary Rental Indices - KLGT



OCCUPANCY (KL)



Figure 8: Prime Office Occupancy (per cent)



SUPPLY

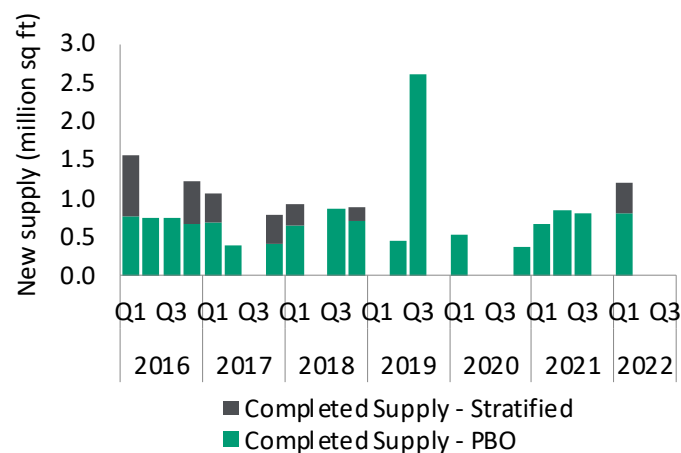


Table 2: Upcoming Office Developments in KL

Upcoming Development	Net Lettable Area (sq ft)	Location
Plot 1194 (FKA Bangunan MAS)	169,000	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, (million sq ft)



MARKET COMMENTARY

- Rising building material costs and labour shortage issues continue to affect the construction sector, which saw no new completion of office buildings in Kuala Lumpur in the third quarter of 2022.
- KL's average occupancy continued to improve this quarter, mainly driven by relocation demand from finance, government body, technology, and healthcare sectors.
- The notable announcement in this quarter is Maybank's move of its head office from Menara Mayank in Jalan Tun Perak to Menara 118 by 2025. Occupying 33 floors (650,000 sq ft), the new head office will house about 5,900 employees. It was reported that the monthly gross rent would be at RM10.60 per sq ft for the first six years. Concurrently, PNB signed the lease agreement for ten years on a triple net basis for Menara Maybank.
- For flexible space / co-working space, new openings are located in KL Sentral (WORQ in Menara 1 Sentrum) and Puchong (Regus in Puchong Financial Corporate Center). The home-grown co-working operator Common Ground announced a merger with two co-working brands, Hong Kong's The Hive and Australia's The Cluster. The three brands will form The Flexi Group to boast a portfolio of 45 locations across 12 cities and nine countries.
- During the quarter under review, the less-than-expected office demand in KLGT resulted in downward pressure on the rentals, from RM6.82 per sq ft per month to RM6.68 per sq ft per month. On the other hand, rentals remained resilient for prime office buildings KL Sentral/Mid Valley, at RM7.02 per sq ft per month. The rentals for secondary office buildings in KLGT remained unchanged at RM4.82 per sq ft per month.
- In July 2022, AmFIRST REIT announced the disposal of Menara AmFIRST in Petaling Jaya at RM62.0 million (about RM391 per sq ft). It was also reported that JAG Bhd is buying a 12-and-a-half-story building in Taman Desa, Kuala Lumpur, for RM35.3 million.

MARKET OUTLOOK

- With employees demanding better workplace experiences, the need for companies to incorporate ESG elements, and wellness features, we expect to see some flight-to-quality movements in the near term for companies to retain and attract talents.
- However, the prolonged supply chain disruption and continued rise in inflation could lead to higher fit-out costs, slowing the occupier's decision-making in committing to new space.

RETAIL – Expected to remain buoyant throughout the year

KEY HIGHLIGHTS

RETAIL SALES



OCCUPANCY (KV)



SUPPLY (KV)

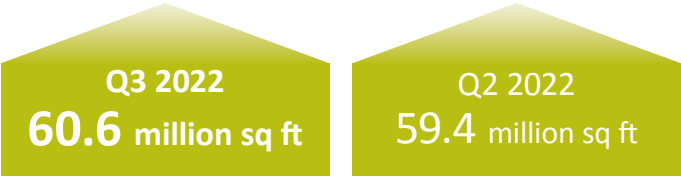
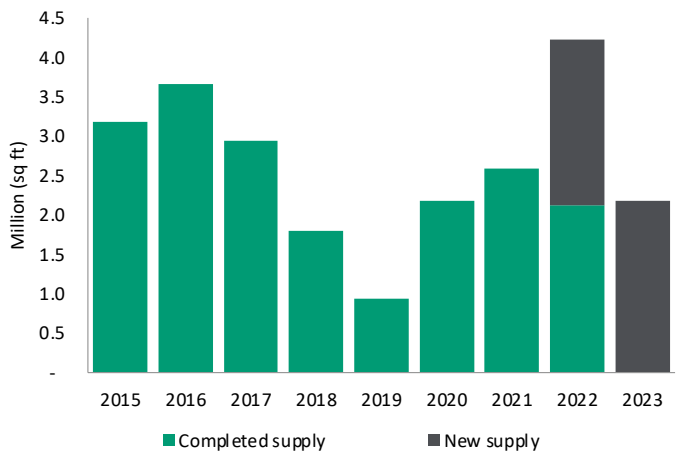


Figure 9: Retail Pipeline Supply (NLA) In Klang Valley (million sq ft)



Source: NAWAWI TIE Research

Table 3: Upcoming Retail Developments in Klang Valley (2022-2023)

Upcoming Retail Development	Net Lettable Area (sq ft)	Location
The Exchange Mall (TRX)	1,330,000	KLCC
Pavilion Lifestyle Mall	1,100,000	OCC
118 Mall (Merdeka 118)	850,000	OCC
KSL Esplanade Mall	700,000	OCA
Datum Jelatek Mall	317,000	OCA

Source: NAWAWI TIE Research

MARKET COMMENTARY

- Malaysia's retail sales surged 62.5 per cent in the second quarter (Q1 22: 18.3 per cent). All retail sub-sectors recorded positive growth as the industry posed a steady recovery since the opening of businesses after the MCO.
- As of Q3 2022, the retail stock increased by 1.2 million sq ft with the completion of Phase 2 of IOI City Mall in Putrajaya and Setia EcoHill Mall in Semenyih.
- As retailers are still readjusting their business plans, take-up for new space has been slow, resulting in a lower occupancy rate in Q3 at 80.7 per cent.
- With an additional 1.0 million sq ft from the opening of Phase 2 on Aug 25, IOI City Mall is set to become the largest super regional mall in Malaysia with a total of 2.5 million sq ft of net lettable area. Featuring over 700 retail outlets and is anchored by 14 anchor tenants, as well as attractions such as IOI City Farm, IOI Grand Exhibition & Convention Centre, Icescape (the biggest ice-skating rink in Malaysia), a rooftop sports centre retail and Symphony Walk, the mall poised as a retail and entertainment hub in southern Klang Valley.
- Setia EcoHill Mall in Setia EcoHill Semenyih, a neighbourhood mall with a net lettable area of 200,000 sq ft has secured UAE's LuLu supermarket and department store as the anchor tenant.
- Notable new opening will be seen at LaLaport Bukit Bintang City Centre as a well-known Malaysia's department store operator, Metrojaya will open its latest outlet on Sept 21 to showcase trendsetting lifestyle products through a line-up of brands such as East India Company, Somerset Bay and Bill Keith.
- At Suria KLCC, Mothercare unveiled its experiential concept outlet through the extension of the Mothercare Flagship Store, following the success of its first experience store in Tropicana Gardens Mall. With a larger area of 13,000 sq ft, Mothercare redesigned the layout and it now offers additional experiences beyond browsing or buying products. Another opening at KLCC includes a Babyshop flagship store, taking up 7,800 sq ft of retail space. One of its key features is "My Baby Experts", trained specialists who provide personalised customer service to parents.
- As the shopping behaviour normalises, the retail industry in the post-pandemic saw the notable opening of F&B outlets in malls and also shop office environments. Naming a few, Kenny Hill Bistro opened

at Four Seasons and Ilaollao flagship store opened at Pavilion Kuala Lumpur (the world's largest flagship store). More outlets are coming, such as Kenny Hill Bakers, Bife Charcoal Steakhouse, and O'Briens at IOI City Mall; TGI Fridays and Serai at Mytown; Café Chef Wan and Serai at Setia City Mall; and Burger & Taco and MyeongDong Topokki at Pavilion Bukit Jalil. Additionally, many boutique F&B outlets have also opened to respond to the customers' need to socialize.

- On Aug 4, the government passed the Sales Tax (Amendment) Bill 2022 with a provision to impose a flat 10 per cent sales tax on low-value goods priced below RM500, which are purchased online and delivered to Malaysia by vendors registered with the finance ministry. Targeted for implementation on Jan 1, 2023, the government expected an additional RM200 million in tax revenue per year from this initiative and gave fair treatment to local traders as locally-produced goods are subject to sales tax.

MARKET OUTLOOK

- Physical stores have continued to enjoy sales recovery as consumers are returning to their usual lifestyles. We expect the gradual recovery in the labour market and influx of international tourists will further boost the retail market.
- Highly confident in the retail prospects, Malaysia Retailers Association (MRA) and Malaysia Retail Chain Association (MRCA) projected an average growth rate of 61.7 per cent for the third quarter.
- Leveraging on the steady recovery of the retail industry, Retail Group Malaysia (RGM) has revised the annual retail growth rate upwards for the full year 2022 to 31.7 per cent from a previous estimate of 13.1 per cent.
- Despite the risks of high inflation and hikes in interest rates that may reduce consumers' disposable income and spending, the retail industry is expected to remain buoyant throughout the rest of the year.

RESIDENTIAL – Affordability remains the key issue

KEY HIGHLIGHTS

PRICE & RENTAL

PRICE



Note:
In the Kuala Lumpur RET Q2 2022 published in July 2022, the residential price in Q2 was reflected as an increase of 4.0 per cent. The revised residential price in Q2 should have been 0.6 per cent as updated above. We apologise for any inconvenience.

RENTAL



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

(Q3 2018=100)

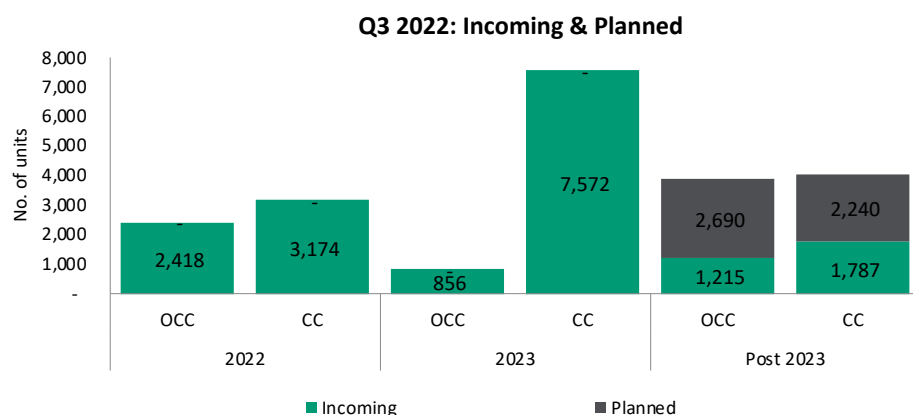


Source: NAWAWI TIE Research

FUTURE SUPPLY

No completion is recorded during this quarter. There are some projects originally scheduled for 2021 that are still pending completion. These developments are experiencing minor delays in their completion.

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
The Manor	428
NOVO Residences	421
Isola KLCC	140
8 Conlay – Tower B	468
Pavillion Embassy	318
Imperial Lexis	439
Royce Residence	396

Source: NAWAWI TIE Research

MARKET COMMENTARY

- There was no completion in Q3 2022 as developers are still recovering from the labour shortage and the soft residential market.
- Tower A of 8 Conlay's YOO8 is expected to be completed by early 2023. The Branded Residence has achieved 80 per cent take-up of its total 564 units for tower A.
- In the same pipeline, MET 1 Residence of KL Metropolis is expected to join the list of completed projects soon as the development is on track for completion by Q4 2022. The upcoming development will offer 616 units ranging from 677 to 1,613 sq ft within a 55-storey building. The residence will integrate with an office tower, Somerset serviced apartments and a three-level retail mall which are all also under development.
- Eastern & Oriental Bhd has launched a low-density condominium at Jalan Teruntung in Damansara Heights, known as The Peak. Developed on a 3.94-acre land parcel, it offers only 54 units ranging from 3,455 to 4,500 sq ft. The units are priced between RM5.5 million to RM8.6 million per unit.
- In the current uncertain market and high construction costs, developers are looking to re-strategise their product placement. To be competitive in product pricing, developers are looking to simplify and tweak their designs to be more efficient in material consumption and to focus on more achievable selling prices.
- In Q3 2022, both asking prices and asking rentals for selected existing high-end condominiums registered a slight increase of 2.0 per cent (RM985) and 1.8 per cent (RM3.41) respectively.

MARKET OUTLOOK

- Department of Statistics Malaysia announced it would undertake a Household Income, Expenditure, and Basic Amenities survey involving 92,000 households. The results are expected to be published in Q1 2023 and used by key market players in designing new launches to tackle affordability issues in Malaysia.
- To further stimulate the primary residential market, Prime Minister Datuk Seri Ismail Sabri Yaakob has reintroduced a 100 per cent stamp duty exemption for first-time homeowners of properties priced at RM500,000 and below through the i-MILIKI initiative, which would last till December 2023. Hence, we expect this incentive may encourage first-time homebuyers despite the rising cost of borrowing.
- We expect there will still be challenges for the residential sector in the short term, as affordability remains a key issue, exacerbated by the rise of interest rates and soaring construction costs. As overhang units remain on a high note, without any incentives that would prompt the purchase of these units, we expect the market will continue to be competitive.

DEFINITIONS

Development pipeline/ potential supply:	<p>Comprises two elements:</p> <ol style="list-style-type: none"> 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:	<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>
Prime office rent:	<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>
Stock:	<p>Total accommodation in the private sector both occupied and vacant:</p> <ol style="list-style-type: none"> 1. Purpose-built office buildings with Net Lettable area (NLA) of at least 150,000 sq ft. 2. Purpose-leased shopping centres, excluding hypermarket and stratified retail. 3. Non-landed residential projects with at least 10 strata dwelling units.
Take-up:	<p>Floor space acquired for occupation or investment, including the following:</p> <ol style="list-style-type: none"> 1. Offices let to an eventual occupier. 2. Developments pre-let or sold. <p>(NB. This includes subleases)</p> <p>Take-up also refers to units transacted in the residential market.</p>
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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