


## Market growth expected to lose steam

### Q1 2023 AT A GLANCE

			Qoq	Yoy
<b>INVESTMENT</b>		Total Sales: <b>RM912.0 million</b>	▼ -76%	▲ 541%
		Top 3 Major Deals: <b>RM912.0 million</b>	▼ -75%	▲ 624%
<b>OFFICE</b>		Average Prime Rents in KLGT: <b>RM6.68 psf</b>	▬ 0%	▼ -2%
		Supply Pipeline: <b>7.1 million sq ft</b> (2023-2025)	▬ 0%	▲ 9%
<b>RETAIL</b>		Occupancy in KV: <b>81.0%</b>	▲ 1%	▼ -1%
		Supply Pipeline in KV: <b>4.0 million sq ft</b> (2023-2025)	▬ 0%	▼ -30%
<b>RESIDENTIAL</b>		Average Price: <b>RM920 psf</b>	▼ -0.2%	▼ -0.2%
		Average Rental: <b>RM2.93 psf</b>	▬ 0%	▬ 0%

### KEY HIGHLIGHTS

#### **Investment**

Uptick in activities driven by local players despite emerging external risks.

#### **Office**

While occupiers remain prudent in spending, many companies continue to explore their workplace strategy, leading to active leasing inquiries. We expect the trend towards a flight to quality to grow.

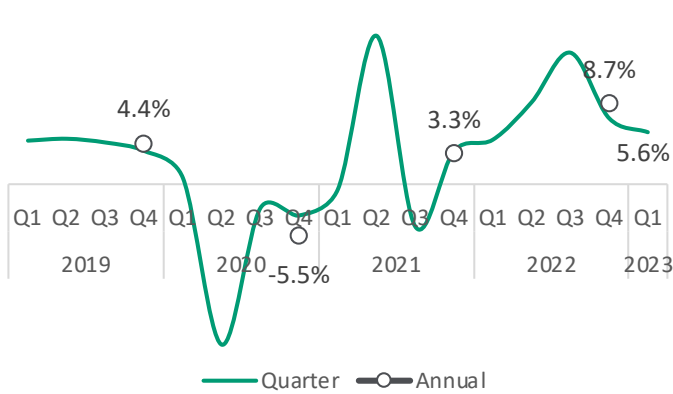
#### **Retail**

Despite a moderating inflation rate, we expect a bumpy road ahead for the retail sector.

#### **Residential**

Residential real estate players will remain vigilant in making their moves as cost of living is becoming an outgrowing issue.

## GDP Growth



Source: Department of Statistics Malaysia; NAWAWI TIE Research

Growth in all sectors resulted in 5.6% GDP growth yoy in Q1 2023. Economic expansion was driven by stabilised household spending, continued private investment activity, robust demand for E&E, and recovery in tourism activities.

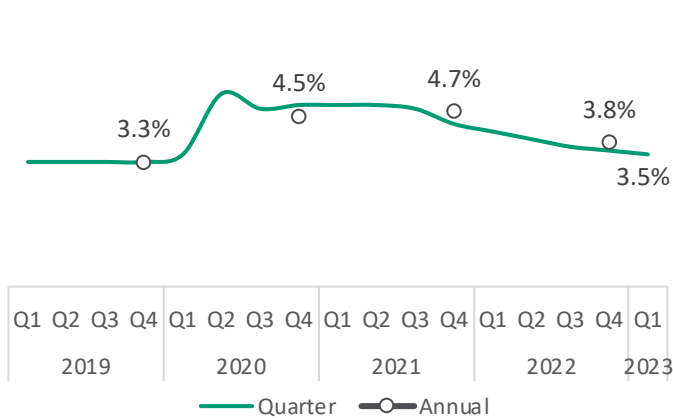
## Inflation Rate



Source: Department of Statistics Malaysia; NAWAWI TIE Research

The inflation rate in Q1 2023 moderated to 3.6%, from 3.9% in Q4 2022, due to the continued implementation of price control measures and consumer subsidies.

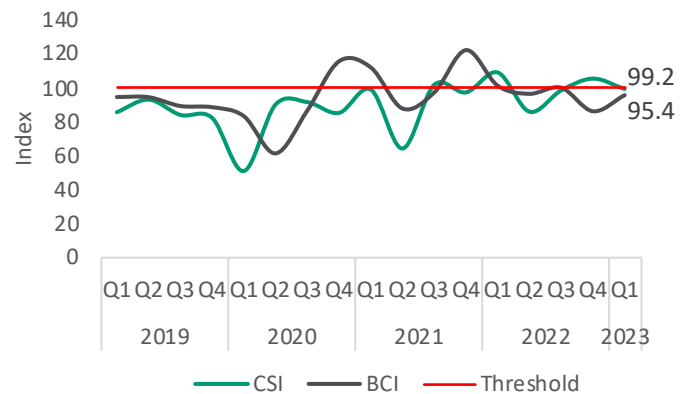
## Unemployment Rate



Source: Department of Statistics Malaysia; NAWAWI TIE Research

Continued improvement is sustained by a higher labour force (+2.5% yoy) and higher labour force participation rate (69.8%) as businesses return to near-normal post-COVID-19.

## Business Conditions Index (BCI) and Consumer Sentiment Index (CSI)



Source: Malaysia Institute of Economic Research; NAWAWI TIE Research

Supported by expectations of higher sales and rising employment levels, BCI has improved qoq. Consumer sentiment dropped marginally as inflation rate remained elevated.

Investment activities reflected a buoyant market at RM912 million, although at a reduced value qoq with EPF, the pension fund being the net seller of a retail portfolio comprising six assets, mainly located in the Klang Valley, and an office building. Sunway REIT is the buyer of the retail assets totalling RM520 million, at an overall net yield of 8%. The tenant Giant Malaysia, whose owner is Dairy Farm from Hong Kong, is exiting the Malaysian market after operating for over 24 years. The pension fund is also actively trying to divest its educational portfolio, consisting of 3 school assets valued at RM500 million, which are managed under the unlisted Alpha REIT. The pension fund is also the sole owner of the REIT.

In other related corporate news, Boustead Bhd, a GLC, will also bring to the market various assets in its hospitality portfolio and non-strategic land bank to restructure its battered balance sheet.

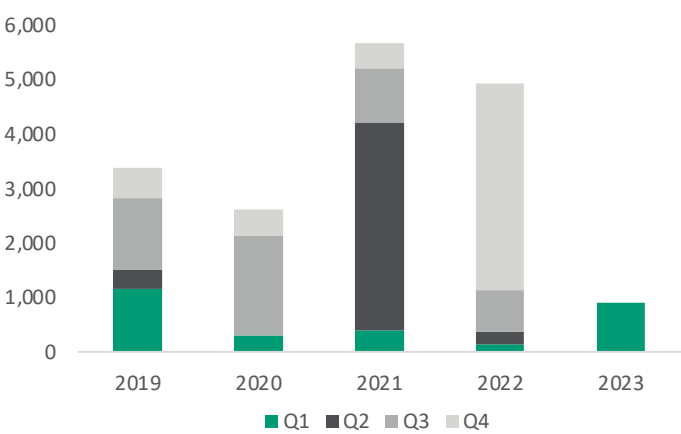
Several major corporate land deals, including a major land deal worth RM384 million at Semarak by UEM Sunrise Bhd, were aborted due to various reasons, including condition precedents not being met Bumiputra equity compliance, among others.

Despite the border opening, the much-heralded arrivals of Chinese tourists did not materialise during the Lunar New Year festival period, much to the dismay of hotel owners, although occupancy has improved, with some hotels reporting, to pre-pandemic levels.

### Outlook

Recovery optimism is dampened somewhat by the emerging banking crisis offshore and FED’s aggressive rate hikes to be correspondingly reflected by Bank Negara in its review of the local interest rate cycle.

Figure 1: Investment Sales (RM million)



Source: NAWAWI TIE Research

Table 1: Top Three Major Deals in Q1 2023

Property	Purchaser	Vendor	Price (RM million)
Six retail assets	Sunway REIT	Kwasa Properties Sdn Bhd	520
Capital City Mall 591 retail	Mustafa’s Pte Ltd	Capital World Ltd	368
Bangunan KWSP Damansara Fairway	LKL Advance Metaltech Sdn Bhd	EPF	24

Source: NAWAWI TIE Research

## ■

The first quarter of 2023 saw no new completion of office supply in Kuala Lumpur.

## ■

KL's average occupancy rate continued to improve this quarter from 75.2% to 75.6%, mainly driven by flight-to-quality and relocations. Notable movement this quarter includes MUFG (Malaysia) Bank Berhad taking four floors of office space at Plaza 1 Conlay, and Petronas taking up one floor at Menara Perak.

## ■

Demand for flexible space/co-working space improved in the first quarter as WORQ opened its fifth co-working space outlet at Menara 1 Sentrum, which occupies two floors (about 34,000 sq ft) and can accommodate up to 300 pax at a time. The outlet was reported achieving an occupancy rate of 80%. Jerry, the affordable co-working space, opened two outlets in Kuchai Lama and Wangsa Maju.

## ■

In Q1 2023, rentals were stable for prime office buildings in KLGT and KL Sentral/Mid Valley at RM6.68 and RM7.12 per sq ft per month, respectively. The rental for secondary office buildings remained the same at RM4.87 per sq ft per month.

## Outlook

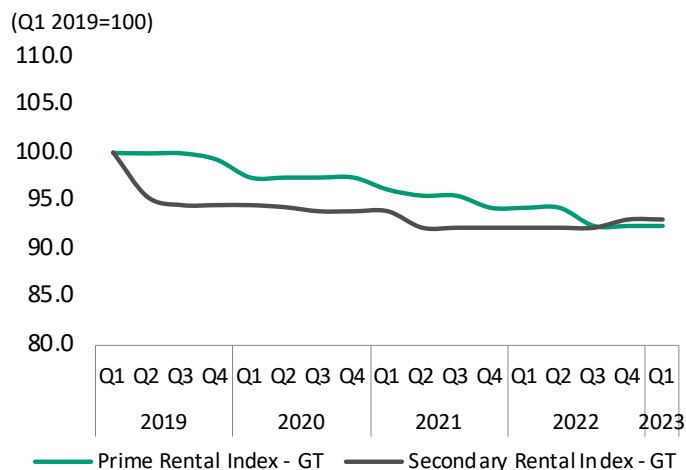
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With the opening of the new MRT2 Putrajaya Line this quarter, the line is expected to have an initial ridership of over 104,000 passengers daily, easing traffic congestion. It broadens the public connectivity from Putrajaya to Kwasa Damansara, which could provide opportunities for office market at strategic locations along this line.

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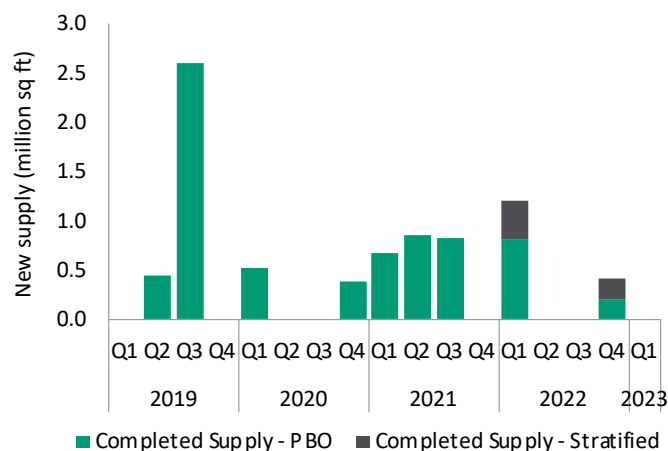
We expect the demand for office space to increase throughout 2023 as more inquiries are received this quarter. Furthermore, we expect flexible/co-working space demand to flourish as more outlets are set to open in 2023.

**Figure 2: Prime & Secondary Rental Indices - KLGT**



Source: NAWAWI TIE Research

**Figure 3: Completed Office Supply in KL (sq ft, million)**



Source: NAWAWI TIE Research

**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

Malaysia’s retail sales growth increased 13.7% yoy in the last quarter of 2022.

In 2022, Malaysia recorded a growth rate of 33.3%, after two years of declining growth rates of 16.3% in 2020 and 1.9% in 2021.

Retail Group Malaysia (RGM) projected an average growth rate of 9.2% for Q1 2023.

Announcements of expansion plans were mainly from F&B, convenience retail, pharmacy, and athleisure sectors.

With the increasing challenges in the retail market, there were no new openings in Q1 2023. Phase 1 of Pavilion Lifestyle Mall in Damansara Heights and KSL Esplanade Mall in Klang will open in Q2 2023.

Notable new entrant includes the opening of South Korea’s Paris Baguette’s first store at Pavilion Kuala Lumpur. In addition to the five stores planned in Malaysia this year, the first Paris Baguette halal-certified bakery manufacturing and distribution centre in Johor is expected to be operational by Q2 2023.

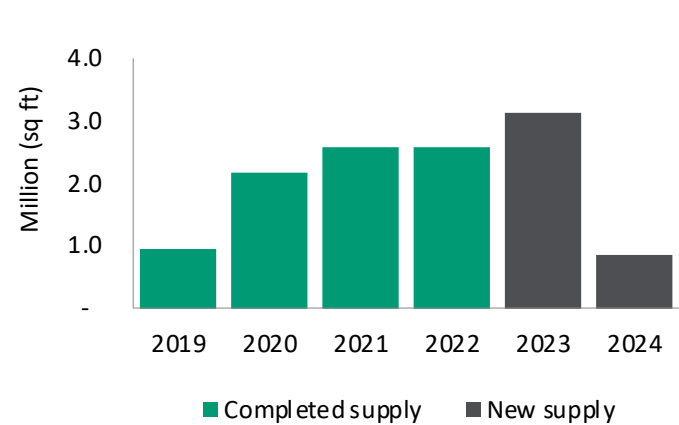
In this quarter, Singapore’s Sift & Pick opened its first brick-and-mortar store at Mid Valley Megamall. Previously established as an online marketplace for designer bag brands, the store carries brands from South Korea (FIND KAPOOR, Joseph and Stacey, MARHEN.J, HEUREUX), Thailand (TATHATA), and Singapore (The Sophia Label).

Nitori, a Japanese furniture retailer, opened its fifth outlet in Klang Valley at Suria KLCC. At Bangsar Shopping Centre, the third outlet of DE.WAN 1958 BY CHEF WAN opened its doors to customers in February 2023.

Outlook

As the retail landscape remains challenging, mall operators have become more creative in attracting shoppers. We expect to see mall operators bring in more new regional brands and refresh their tenant mix.

Figure 4: Retail Pipeline Supply (NLA) In Klang Valley (sq ft, million)



Source: NAWAWI TIE Research

Table 3: Upcoming Retail Developments in Klang Valley (2023-2024)

Upcoming Retail Developments	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

Source: NAWAWI TIE Research

## ■

Transacted prices and transacted rentals of high-end condominiums qoq registered a minor decrease of 0.2% (RM920 psf) while rental prices remained unchanged at RM2.93 psf per month, respectively.

## ■

Pandemic-related issues have caused numerous delays and completion issues for many residential projects. In the KLCC area, Isola by OCR which was launched in 2018, aims to complete the development by Q1 2024.

## ■

In the fringe of KLCC, CORE Residence @ TRX reportedly has completed 70% of its development, with 80% of its 580 units taken up.

## ■

There are no new launches in the KLCC area recorded in Q1 2023. However, MCT Berhad announced that they will acquire a 1.57-acres of freehold residential land at Seputeh with the preliminary plans of developing boutique apartments. The proposed development is said to have an estimated gross development value of RM320 million.

## Outlook

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The newly formed government announced earlier this year the revised Budget 2023, themed “Membangun Malaysia Madani”.

## ■

The revised budget includes an allocation to develop 12,400 units of low-cost houses under Program Perumahan Rakyat (PPR) and 4,250 Rumah Mesra Rakyat by Syarikat Perumahan Negara Bhd.

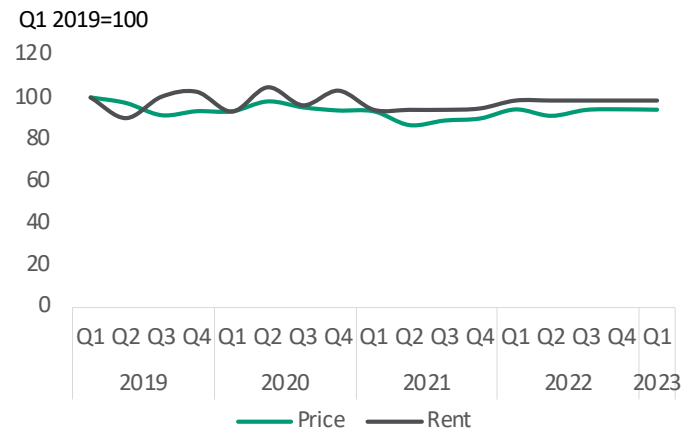
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To further assist new homebuyers, the government allocated RM5 billion for Jaminan Kredit Perumahan.

## ■

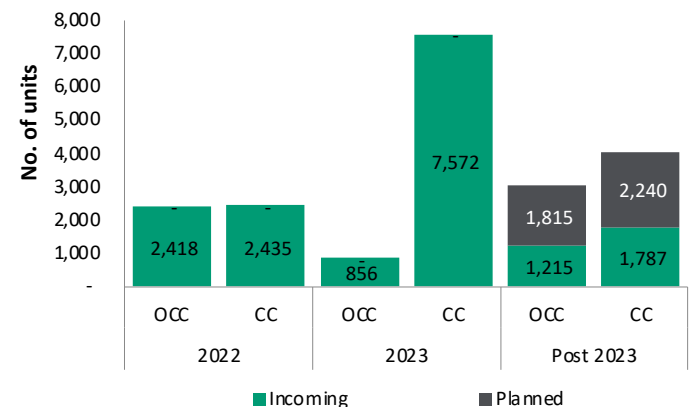
Residential real estate players will remain vigilant in making their moves as cost-of-living increasingly becomes a central issue.

**Figure 5: Prices and Rental Indices of High-End Condominiums in KL**



Source: NAWAWI TIE Research

**Figure 6: Future Supply of High-End Condominiums in KL**



Source: NAWAWI TIE Research

**Table 4: Upcoming High-End Condominiums in the City Centre**

Upcoming Development	Location
8 Conlay – Tower A	564
Isola KLCC	140
8 Conlay – Tower B	468
Imperial Lexis	439
Royce Residence	396

Source: NAWAWI TIE Research

# 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 centres, 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>KL Golden Triangle (KLGT)</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>Klang Valley (KV)</b>	<p>Comprises:</p> <ol style="list-style-type: none"> <li>1. Wilayah Persekutuan Kuala Lumpur</li> <li>2. Wilayah Persekutuan Putrajaya</li> <li>3. Selected districts in Selangor (Petaling, Klang, Hulu Langat, Gombak and Sepang)</li> </ol>

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