NAWAWI TIE

# DIGEST

KUALA LUMPUR Q2 2023

# Optimistic outlook despite a slow rebound

## Q2 2023 AT A GLANCE

| Sectors | Key Indicators | (% Change) Qoq | (% Change) Yoy |
|---|---|---|---|
| INVESTMENT | Total Sales: **RM445.0 million** | -51% | 89% |
| | Top 3 Major Deals: **RM380.0 million** | -58% | 88% |
| OFFICE | Average Prime Rents in KLGT: **RM6.59 psf** | -1% | -3% |
| | Supply Pipeline: **6.6 million sq ft** (2023-2025) | -8% | -19% |
| RETAIL | Occupancy in KV: **81.6%** | 1% | 0% |
| | Supply Pipeline in KV: **3.3 million sq ft** (2023-2025) | -17% | -41% |
| RESIDENTIAL | Average Price: **RM918 psf** | -0.2% | 3.0% |
| | Average Rental: **RM2.93 psf** | 0% | 0% |

## KEY HIGHLIGHTS

### Investment

The market is expected to be static in the second half of 2023 due to the inflationary pressure and lack of catalysts.

### Office

Demand for office space remained steady while the demand for flexible/co-working spaces improved during the quarter and is expected to grow throughout the year.

### Retail

Despite an uptick in the retail leasing market, we expect mixed performances in the sub-sectors.

### Residential

The price and rental of high-end condominiums remain unfazed. Cost-of-living continues to be an outgrowing issue, with developers actively looking for ways to launch their products targeting first-time homebuyers.

## GDP Growth


Source: Department of Statistics Malaysia; NAWAWI TIE Research

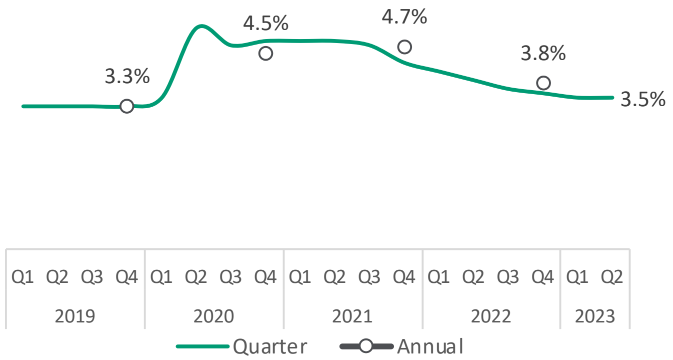
In Q2 2023, GDP grew at a moderate rate of 2.9%, compared to 5.6% in the previous quarter, driven by continued domestic demand and improved tourism activities.

## Inflation Rate


Source: Department of Statistics Malaysia; NAWAWI TIE Research

The inflation rate in Q2 2023 eased to 2.8% (Q1 2023:3.6%) as the share of Consumer Price Index (CPI) items recording monthly price increases moderated to 42.7% (Q1 2023: 56.0%).

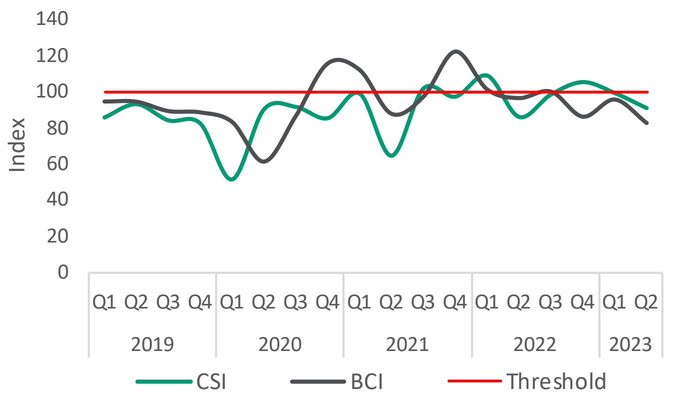
## Unemployment Rate




Source: Department of Statistics Malaysia; NAWAWI TIE Research

The unemployment rate remains stable with a higher labour force (+2.4% yoy) and higher labour force participation rate (70.0%) partly due to the continued implementation of various labour/employment initiatives across ministries and government agencies.

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




Source: Malaysia Institute of Economic Research; NAWAWI TIE Research

BCI and CSI dropped to 82.4 and 90.8 points, respectively, as business and consumer confidence eased, as a result of a more moderate projected economic outlook.

# INVESTMENT | Lower investment volume despite REITs being active

■

Investment activities decreased in Q2 by both volume and value, registering five deals and a cumulative value of RM445 million, a drop of 51% qoq on the latter. The biggest deal recorded was the sale of a Giant outlet at Kelana Jaya to UEM Sunrise for RM155 million, sold as a redevelopment brownfield site of 3.7 hectares due to its strategic location in Petaling Jaya. The other prominent deal was the sale of Holiday Villa Langkawi for RM145 million to Plenitude Bhd, which continues to have an appetite for hospitality assets to add to its existing domestic and regional portfolio of hotels and serviced apartments.

■

To diversify from its core retail portfolio, Capitaland Malaysia Trust purchased its second industrial asset at Hicom Glenmarie Industrial Estate.

■

Sentral REIT is also reported to be in serious discussion with MRCB to acquire Menara Celcom, a major prime office in Petaling Jaya CBD, on long lease to the recently enlarged and merged telco giant, CelcomDigi.

■

Overall, domestic REITs have been the most active players on both the buy and sale sides and seem relatively sheltered from the negative sentiments affecting their international peers.

## Outlook

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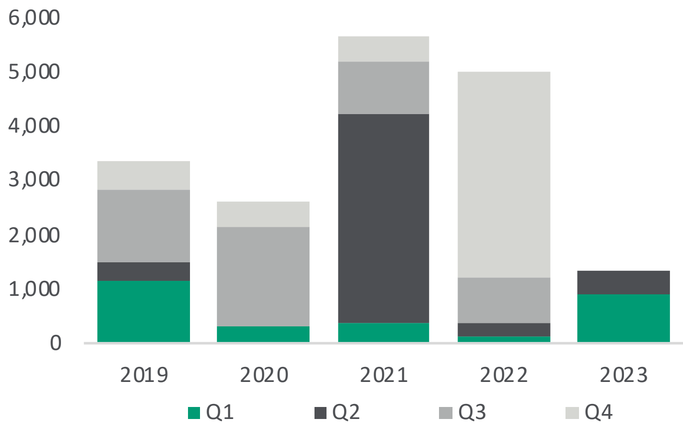
With the recent hike in the Overnight Policy Rate by Bank Negara by 25 bps, funding has become costlier, which will have a potential impact on the pricing of deals being negotiated. The lack of a major policy catalyst from the new Government in its 7th month and the talks of its instability, are a detriment to attracting more foreign investment activities. As a result, we will continue to see a rather static market for the rest of the year.

**Figure 1: Investment Sales (RM million)**




Source: NAWAWI TIE Research

**Table 1: Top Three Major Deals in 2023 (RM million)**

| Property | Purchaser | Vendor | Price (RM million) |
|---|---|---|---|
| Giant Hypermarket Kelana Jaya | UEM Sunrise Berhad | Kwasa Properties Sdn Bhd | 155 |
| Holiday Villa Beach Resort & Spa | Plenitude Berhad | Pacific Trustees Berhad (AmanahRaya REIT) | 145 |
| KIP Mall Kota Warisan | KIP REIT | Cahaya Serijaya Sdn Bhd | 80 |

Source: NAWAWI TIE Research

# Improvement in inquiries and viewings

■

In the second quarter of 2023, Sunway Velocity V2 Office Tower (391,400 sq ft of NLA) and Damansara Heights Corporate Towers 8 and 9 (187,000 sq ft of NLA) received their Certificate of Completion and Compliance (CCC).

■

KL's average occupancy rate remained unchanged at 75.6%. Notable movements in this quarter include Liberty (67,900 sq ft at Pavilion Damansara Height), Siemens Healthineers (18,500 sq ft at the MET Corporate Tower), Watson (20,000 sq ft at Exchange 106), and Apex Equity (15,000 sq ft of space at Menara UAC).

■

Post-COVID-19, the market saw the opening of several co-working spaces as more multi-national companies opted for co-working spaces as their office solutions. Among the new openings in Q2 is WORQ at Menara UOA Bangsar, offering 15,000 sq ft of space. We noted a growing demand from corporations taking up co-working spaces, such as Korea's emart24 convenience store chain announcing the relocation of their Malaysia headquarters to the Jerry Co-working Space at SS15.

■

In Q2 2023, rentals for prime office buildings in KLGT dropped marginally from RM6.68 to RM6.59 per sq ft per month. On the other hand, prime office buildings in KL Sentral/Mid Valley remained stable at RM7.12 per sq ft per month, while the secondary office buildings remained the same at RM4.87 per sq ft per month.

## Outlook

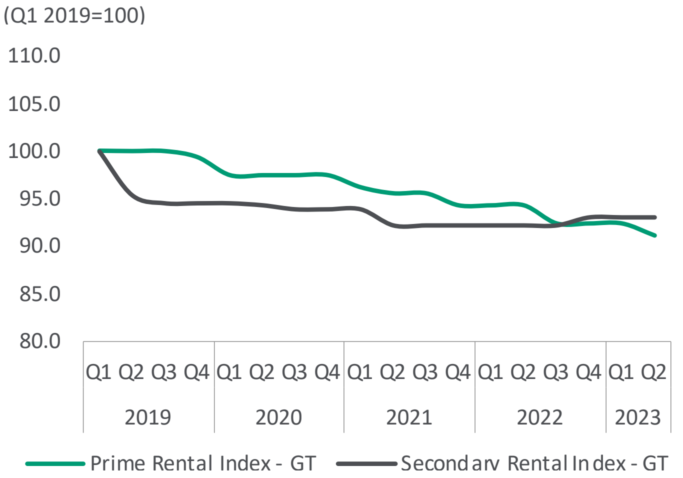
■

The government aims to make Kuala Lumpur a regional hub for digital start-ups and industries to boost the country's digital economy. Therefore, we expect positive growth in office demand in the coming years.

■

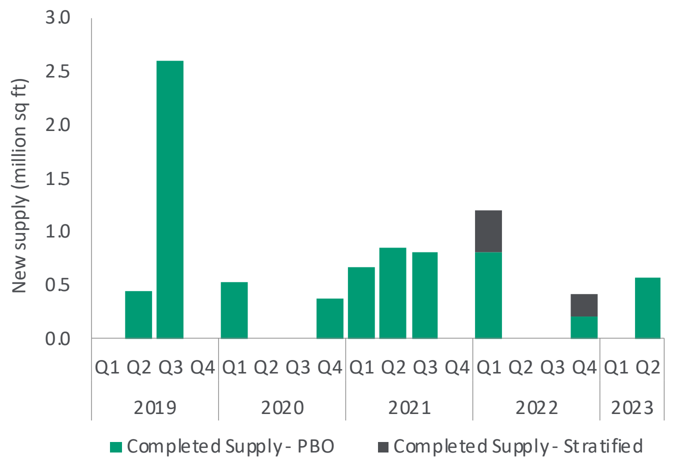
Moving forward, we expect demand for flexible/co-working spaces to improve due to companies implementing hybrid working models and looking for a non-office environment that offers amenities they need, such as fast internet, printing, and a setup that promotes collaboration and creativity.

**Figure 2: Prime & Secondary Rental Indices - KL Golden Triangle**




Source: NAWAWI TIE Research

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




Source: NAWAWI TIE Research

**Table 2: Upcoming Office Developments in Kuala Lumpur**

| 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

# RETAIL

# Uptick in retail leasing led by F&B and luxury retailers

Malaysia's retail sales recorded an increase of 13.8% yoy in Q1 2023, driven by the Chinese New Year celebration in January and the school holidays in February and March.

For Q2 2023, Retail Group Malaysia (RGM) projected a moderate growth rate of 2.6%, as the retail sector is expected to normalize. KSL Esplanade Mall opened its doors to the public on 31st May 2023.

The F&B sector continued to expand actively. Planned F&B expansions include Kenny Hills Bakers on The Park, Kenny Hills Coffee, and Amazonas (a South American-inspired F&B concept) at The Exchange TRX, which is expected to open in Q4 2023. The quarter also saw the expansion of several luxury retailers, mainly at Pavilion Kuala Lumpur (Vacheron Constantin and Kering Eyewear), The Gardens Mall (A/X Armani Exchange) as well as Mid Valley Kuala Lumpur (Rituals Cosmetics).

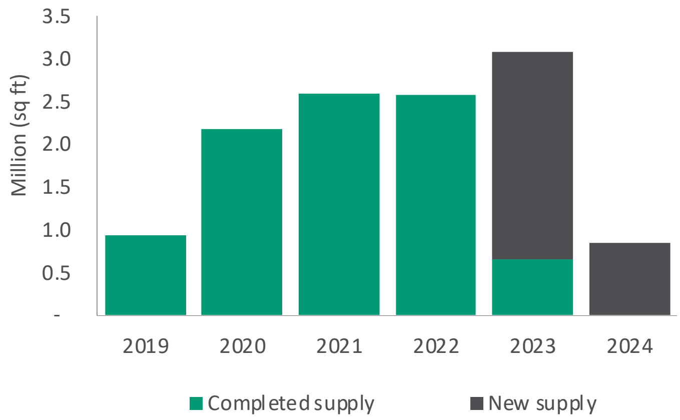
However, in this quarter, a few notable closures in Klang Valley included Parkson Nu Sentral (140,000 sq ft) and Don Don Donki Tropicana Gardens Mall (42,000 sq ft). Parkson is on a consolidation journey while Don Don Donki is still in expansion mode with the opening of an outlet at IOI City Mall and another incoming outlet in Mid Valley Kuala Lumpur.

## Outlook

More retailers have become more innovative in their store layout and space planning, opting to focus on providing unique retail experiences. The physical store is not just a place to display products but also create experiences for customers – such as the newly relocated Muji at 1 Utama which includes an in-store coffee counter and children's play area. Through layout design and planning, retailers can create a more immersive and engaging shopping experience that allows customers to learn about products more interactively. Retailers also host events and workshops to gather people with a shared interest and create a community experience.

Looking forward, we expect more retailers to continue expanding their business through brand experiences curation to differentiate themselves from their competition.

**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 |

Source: NAWAWI TIE Research

# RESIDENTIAL | Land acquisitions reflect increasingly confident developers

■
In Q2 2023, transacted prices of high-end condominiums qoq registered another minor decrease of 0.2% (RM918 psf) while transacted rentals remained unchanged at RM2.93 psf per month.

■
There were no high-end residential launches in the KLCC area in Q2 2023. The upcoming project within the vicinity is the SO/ KL Residences, by Accor's lifestyle brand SO/ Sofitel. As part of the residential component of the mixed-use development, Oxley Towers, SO/ KL Residences is expected to be completed by 2024.

■
Outside of KLCC, Arte Solaris, located in Jalan Duta Kiara, officially launched in Q2 2023 with an average price of RM1,000 psf. Scheduled to be completed by Q4 2026, the leasehold mixed-use development carries a gross development value (GDV) of RM490 million, comprising 170 units of duplex serviced apartments (790 sq ft to 2,051 sq ft) and 433 units of office suites (477 sq ft to 964 sq ft).

■
While new high-end residential launches remain limited, developers are focusing on mid-market segment product offerings. Mah Sing remains active with its affordable M Series high-rise residential, such as its upcoming launch in Kuala Lumpur, M Nova Kepong.

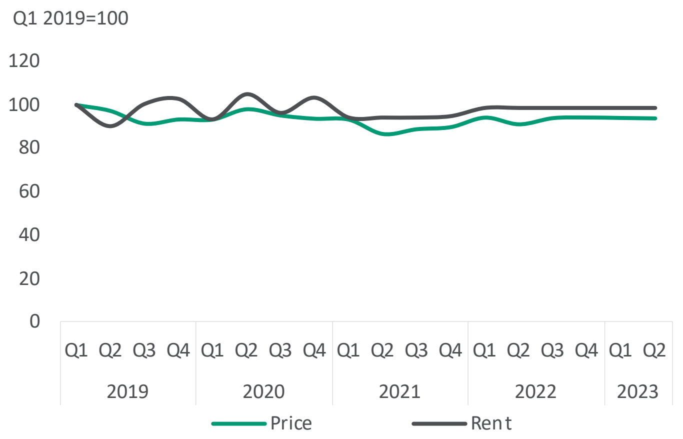
## Outlook

■
Despite the hike in the Overnight Policy Rate (OPR) in May 2023 by 25 pts basis bringing it to 3.0%, there is growing interest in the residential property market, especially in the mid-market segments as new launches are mostly targeting first-time homebuyers.

■
The increased number of land acquisition activities by developers in recent quarters reflects developers' increasing confidence in the residential market. Sunway and UEM Sunrise acquired land packages in Sri Hartamas, Kuala Lumpur, and Kelana Jaya, Selangor, respectively. They are targeting to launch their mixed-use developments, including residential components, in 2025.

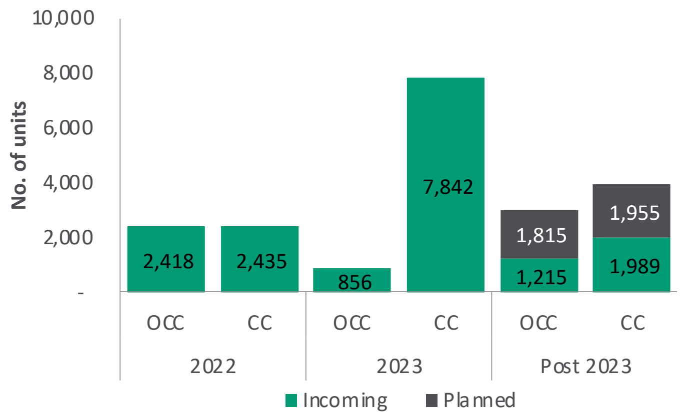
■
In the near term, besides focusing on mid-market segment products, developers will continue their land banking and review their strategy for new high-end residential launches.

**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 |
| Oxley Towers – SO/ KL Residences | 590 |
| Oxley Towers – Jewel by Oxley | 267 |

Source: NAWAWI TIE Research

# DEFINITIONS

| | |
|---|---|
| **Development pipeline/ potential supply:** | Comprises two elements:<br>1. Floor space in the course of development, defined as buildings being constructed or comprehensively refurbished.<br>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.<br>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.<br>(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:<br>1. Purpose-built office buildings with Net Lettable area (NLA) of at least 150,000 sq ft.<br>2. Purpose-leased shopping centres, excluding hypermarket and stratified retail.<br>3. Non-landed residential projects with at least 10 strata dwelling units. |
| **Take-up:** | Floor space acquired for occupation or investment, including the following:<br>1. Offices let to an eventual occupier.<br>2. Developments pre-let or sold.<br>(NB. This includes subleases)<br>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). |
| **KL Golden Triangle (KLGT)** | 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. |
| **Klang Valley (KV)** | Comprises:<br>1. Wilayah Persekutuan Kuala Lumpur<br>2. Wilayah Persekutuan Putrajaya<br>3. Selected districts in Selangor (Petaling, Klang, Hulu Langat, Gombak and Sepang) |

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