





## Cautious outlook as growth remains lacklustre

### Q3 2023 AT A GLANCE

Sectors		Key Indicators	(% Change) Qoq	(% Change) Yoy
<b>INVESTMENT</b>		Total Sales: <b>RM862.0 million</b>	▲ 94%	▲ 2%
		Top 3 Major Deals: <b>RM738.0 million</b>	▲ 94%	▲ 1%
<b>OFFICE</b>		Average Prime Rents in KLGT: <b>RM6.59 psf</b>	▬ 0%	▼ -1%
		Supply Pipeline: <b>5.4 million sq ft</b> (2023-2025)	▼ -20%	▼ -35%
<b>RETAIL</b>		Occupancy in KV: <b>81.8%</b>	▬ 0%	▲ 1%
		Supply Pipeline in KV: <b>3.2 million sq ft</b> (2023-2025)	▬ 0%	▼ -26%
<b>RESIDENTIAL</b>		Average Price: <b>RM913 psf</b>	▬ 0%	▬ 0%
		Average Rental: <b>RM2.98 psf</b>	▲ 2%	▲ 3%

### KEY HIGHLIGHTS



#### Investment

The REITs remained the most active players in this quarter, especially for the acquisition of office buildings, as demand for office space improved slowly.



#### Office

Demand for office space improved due to flight-to-quality and relocations.



#### Retail

With shopping activities almost back to the pre-pandemic level, retailers were busy enhancing their existing spaces. More retailers are expected to open/re-open with new looks within the next six months.



#### Residential

Small movements in transacted prices and rentals for developments in Kuala Lumpur show signs of market stabilization.

## GDP Growth



Source: Department of Statistics Malaysia; NAWAWI TIE Research

The GDP grew 3.3% in Q3 2023 (Q2 2023: 2.9%), with the domestic economy supporting growth contributed by the expansion in services (5%), agriculture (0.8%), and construction (7.2%). The prolonged weakness in external demand for electrical and electronic (E&E) products and lower production of refined petroleum products resulted in a 0.1% contraction in the manufacturing sector.

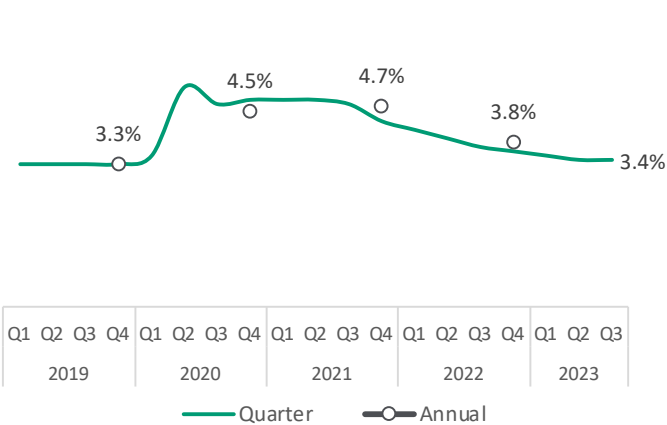
## Inflation Rate



Source: Department of Statistics Malaysia; NAWAWI TIE Research

The inflation rate in Q3 2023 moderated at 2.0% (Q2 2023: 2.8%) aided by the Government's consumption subsidies to neutralize services and food price increases.

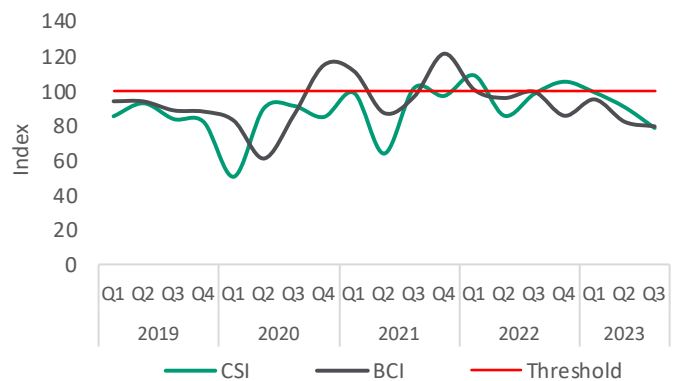
## Unemployment Rate



Source: Department of Statistics Malaysia; NAWAWI TIE Research

The unemployment rate remained steady at 3.4%, with continued expansion in the labour force (+0.6% QoQ). With nine states recording increases, the labour force participation rate improved marginally to 70.1% (Q2 2023: 70.0%).

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



Source: Malaysia Institute of Economic Research; NAWAWI TIE Research

BCI and CSI continued to decline to 79.7 and 78.9 points, respectively, as businesses and consumers were less optimistic about the short-term outlook.

## ■

Investment activities in Q3 remained active, registering a cumulative value of RM862 million, dominated by the sales of three office buildings (Menara CelcomDigi, Menara TM Semarak and 3 Damansara Office Tower). This is double of the RM445 million recorded in the previous quarter. The biggest deal recorded was the sale of Menara CelcomDigi at RM450 million, located in Petaling Jaya New Town.

## ■

The REITs continued to be active players in investment acquisitions. However, a represented REIT of CapitaLand Malaysia, was involved in the disposal of 3 Damansara Office Tower to property developers, Lagenda Properties Bhd. Besides pure investment play, corporate occupiers seek to right-size while acquiring offices for their usage.

## ■

Interest in industrial assets remained elevated despite the scarce availability. Educational assets are also in the limelight, on the back of the sale of Kolej Yayasan Saad in Malacca, as well as the potential sale of St Joseph International School in Tropicana Indah.

## ■

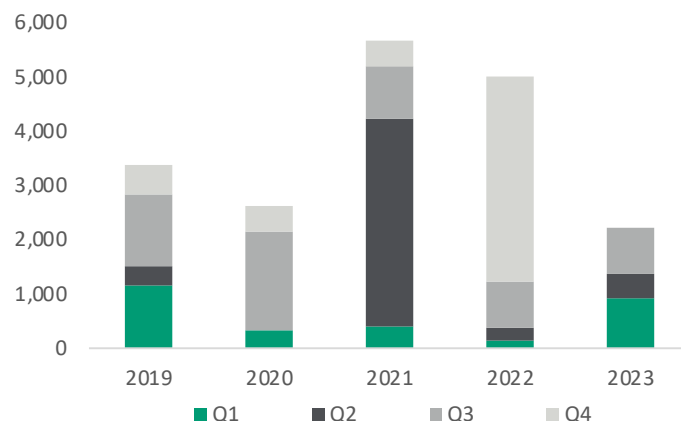
A major prime office building, Menara Citibank is currently on the market for sale. This is part of an asset divestment exercise by Citibank Malaysia, which is also in line with their ongoing global restructuring exercise after the disposal of its consumer businesses in South-East Asia.

## Outlook

## ■

Foreign funds are holding back on investments, given the generally pessimistic reports on the commercial property market overseas and the recent interest hikes. Nevertheless, despite the growing challenges in the domestic property sector, local sentiment is still holding well, with no major fire sales reported.

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



Source: NAWAWI TIE Research

**Table 1: Top Three Major Deals in Q3 2023 (RM million)**

Property	Purchaser	Vendor	Price (RM million)
Menara CelcomDigi	Sentral REIT	MRCB	450.0
Kolej Yayasan Saad	Hektar REIT	KYS College Sdn Bhd	150.0
The Hotel Stripes KL	YTL REIT	Hotel 25 Sdn Bhd	138.0

Source: NAWAWI TIE Research

## ■

This quarter saw the completion of the remaining seven out of the nine corporate towers at Pavilion Damansara Heights. The developer announced that all nine towers, totaling 1.3 million sq ft of NLA were sold out thus showing that the demand for office space is on steady growth.

## ■

The average occupancy rate increased to 76.1% in Q3 2023 from 75.6% in the previous quarter, due to flight-to-quality and relocations. The notable movements include Exness's estimated 100,000 sq ft at Exchange 106, Michael Page's estimated 10,000 sq ft at Pavilion Damansara Height, and NTT Data's estimated 22,000 sq ft at Quill 18. In addition, the CEO of PNB Merdeka Ventures Sdn Bhd announced that about 70% of the Merdeka 118 Tower is leased. The London Stock Exchange Group (LSEG) also announced it would open a new flagship office in Kuala Lumpur.

## ■

For the co-working operators, Co-labs announced the opening of its 27,000 sq ft of co-working space facility at Menara KEN TTDI in November 2023. In addition, WORQ's newest co-working space in Menara UOA Bangsar, spanning 15,000 sq ft, has achieved a 70% occupancy rate.

## ■

Within the quarter, rentals were stable for prime office buildings in KLGT and KL Sentral/Mid Valley at RM6.59 and RM7.12 per sq ft per month, respectively. The rental for secondary office buildings remained unchanged at RM4.87 per sq ft per month.

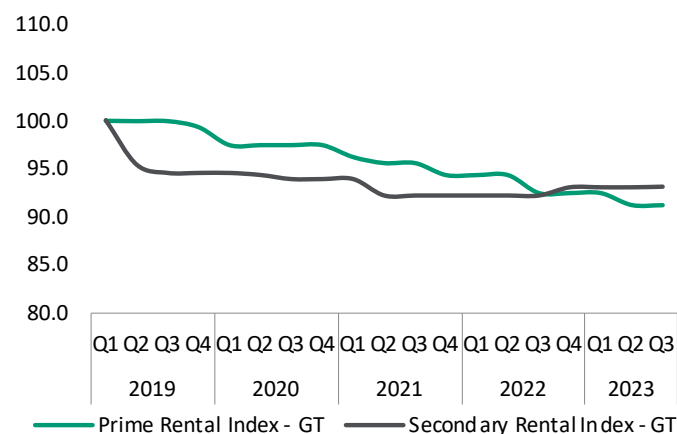
## Outlook

## ■

We expect positive demand for office space despite the high existing and incoming supply in Kuala Lumpur due to the economic recovery over the last few quarters.

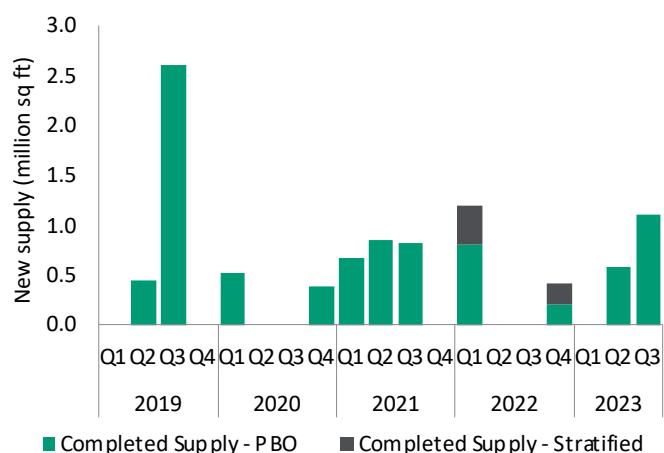
**Figure 2: Prime & Secondary Rental Indices - KL Golden Triangle**

(Q1 2019=100)



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 Group Malaysia (RGM) announced a 2.7% sales growth in Q3 2023 as shopping activities have returned to pre-pandemic levels, despite relatively weak spending power and high cost of living.

■ There was no completion of new malls in the quarter.

■ In the quarter, retail activities were supported by the expansion of F&B, athleisure, personal health, entertainment, and event space sectors. The notable new entrant in the quarter include Bacha Coffee KLCC, which is its first outlet in Malaysia.

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■ In a major enhancement project expected to be completed in Q4 2024, KLCC announced Alamanda to include experiential offerings. The enhancement initiative will result in an additional retail space of about 50,000 sq ft NLA. Among the tenants slated to occupy the space is Adventure Park, a family entertainment tenant by the Singapore-listed theme park developer Sim Leisure Group.

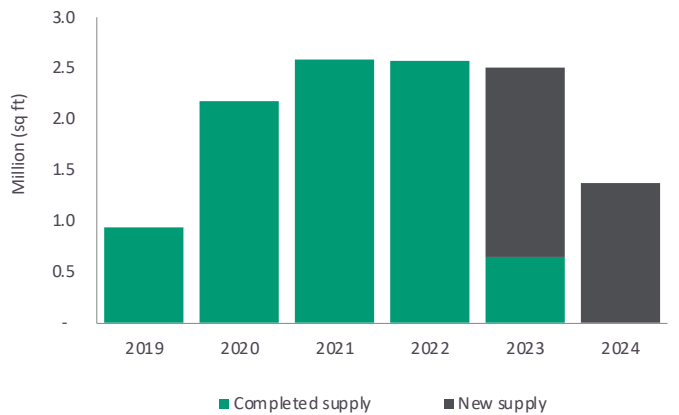
■ Demand for family entertainment has been on an uptrend, as such, operators are taking up sizeable space in the malls. Another notable family edutainment theme park includes the 45,000 sq ft NextGen Theme Park at One Utama Petaling Jaya, which was opened in Q1 2023.

■ Notably, the quarter saw the closure of AEON Sunway Pyramid after being in operation for 16 years. The mall operator announced their enhancement and repurposing plans for the space, including a pop-up by Jaya Grocer in October 2023.

Outlook

■ With intense competition to attract shoppers, we are seeing more older malls being refurbished to remain relevant in the market. Some mall owners refreshed the malls by relocating the retailers and introducing new players. Moving forward, we expect to see more fresh tenant mix injected into the retail landscape.

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 TRX	1,330,000	KLCC
Pavilion Damansara Heights Mall – Phase 1	533,361	OCC
Pavilion Damansara Heights Mall – Phase 2	529,353	OCC
118 Mall	850,000	OCC

Source: NAWAWI TIE Research

## ■

High-end condominiums transacted price further declined to RM913 per sq ft (-0.60% qoq), while transacted rental increased to RM2.98 per sq ft (1.71% qoq).

## ■

In the quarter, The Lantern @ Bangsar, a project by CDC Assets Management, was launched with an average launch price of RM1,400 per sq ft. Expected to be completed in 2026, the 180-unit development achieved a take-up rate of 20% as of September 2023. Each unit comes partially furnished with Bofi and Häfele kitchen fixtures and branded bathroom fittings.

## ■

Outside the city centre, UEM Sunrise Bhd launched Residensi ZIG, the second phase of its 72.74-acre flagship township in Kepong, Kiara Bay. Additionally, UEM also announced the disposal of a 4.01-acre parcel of land in Kiara Bay to a related party, Melati Ehsan Holding Bhd. The disposal is expected to be completed by H1 2024.

## ■

As of Q3, Malaysia residential property overhang recorded at 25,311 units, a drop of 3.7% qoq from 26,286 units in Q2. The number of overhang units is expected to decline further due to renewed buying interest, especially after the reopening of Malaysia's international borders, post-Covid.

## Outlook

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Under the 12th Malaysia Plan (12MP) Mid-Term Review (MTR), the Malaysian government intends to provide better access to home ownership financing by enhancing rent-to-own housing programmes through a new rental tenancy regulation. While the development of housing for rent is not common in Malaysia, private developers could also consider this option to cater to different market segments.

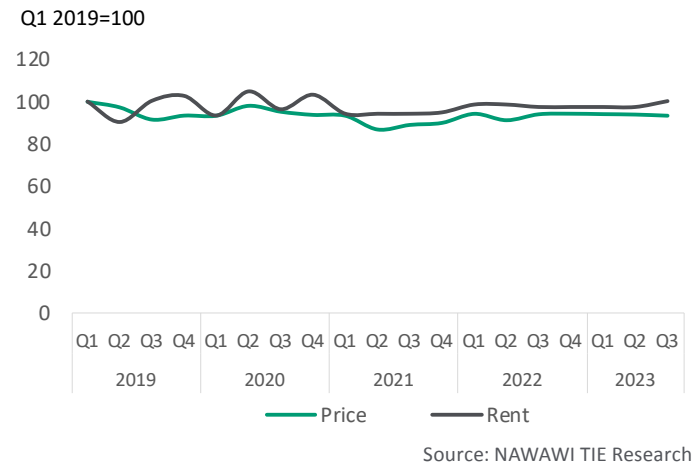
## ■

To ensure affordable housing for all eligible citizens, the Malaysian government has also announced a regulation where each eligible citizen will only be limited to purchase one unit.

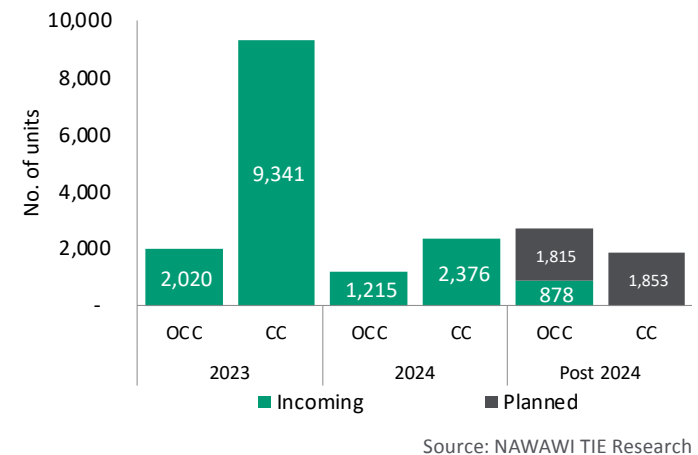
## ■

Kuala Lumpur's residential market is expected to be competitive in the next few months as transacted prices and rentals are stabilizing.

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



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



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

Upcoming Development	No. of Unit
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

<b>Development pipeline/ potential supply:</b>	Comprises two elements: <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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