



Klang Valley, Property Market, 1Q2020

SECTOR	VACANCY			RENTAL		
	4Q19	1Q20	2Q20f	4Q19	1Q20	2Q20f
Purpose Built Office	▲	▲	▲	▶	▶	▶
Purpose Built Retail	▶	▶	▶	▶	▼	▼
Industrial	▶	▶	▶	▶	▶	▶

Source: CBRE | WTW Research, 1Q2020

ECONOMY / KEY INFRASTRUCTURE UPDATES

- According to Bank Negara Malaysia, GDP growth is expected to contract between -2.0% and 0.5% by year end amid the impact of Covid-19.
- Tax relief and reduction of minimum Employees Provident Fund (EPF) contribution by employees are included in the government stimulus package. Other strategies to enhance cash flow and prevent spike in default cases are 6-month deferment / moratorium on loans repayment, EPF withdrawal option and PTPTN repayment deferment.
- A wage subsidy was introduced to mitigate mass retrenchment, though unemployment increased to 3.9% in March 2020.
- In March 2020, the exchange rate weakened, inflation fell by 0.2%, exports fell by 4.7% with declining shipments across sectors and among trade partners.
- Businesses and operations expected to contract due to the extended Movement Control Order (MCO), dampening economic activities with possible snowballing effect post-MCO.

PURPOSE-BUILT OFFICE

- Cumulative supply of office space increased to 114.93 million sq. ft. With slow absorption, the vacancy rate increased by 4.7%, y-o-y comparison.
- Due to the transitioning of working from home, companies have leveraged on technology to operate working arrangements which will change the future working landscape.
- Rent rebates is expected by most tenants, however, landlords have yet to decide.

PURPOSE-BUILT RETAIL

- Opening of the Tropicana Garden Mall with a net lettable area of 1 million square feet.
- 4-years abandoned SSTwo Mall in Petaling Jaya is set to re-open as D'Lifecare Mall.
- Sephora Malaysia launched world's largest store in Fahrenheit 88. Malaysia's first Skechers Superstore also opened in Intermark Mall.
- Golden Screen Cinema in Pavilion Kuala Lumpur ended its operation in February, with Dadi Cinema as its replacement. Supermarket Jason Food Hall made an exit from Bangsar Shopping Centre in March, set to be replaced with Ben's Independent Grocer.
- Following MCO, retailers were also seeking rental rebates which have been offered by several mall operators including Pavilion REIT, Sunway REIT, Mydin, Giant and AEON.
- As only essential services remained in operation during MCO, other retailers are turning to online platforms.
- The market is expected to remain stagnant with depressed rental and low leasing activities.

INDUSTRIAL & LOGISTICS

- A temporary slowdown in activity is inevitable amidst the disruption in global trade and supply chain. Investment activity in the industrial sector is foreseen to moderate in the short term.
- Nevertheless, e-commerce and logistic market are poised to drive industries on a strong growth trajectory. Halal hubs, having global recognition, stand to benefit from this active logistic market.
- The growth of demand for medical gloves has initiated Hartalega to expand by acquiring a 38.49 hectare land to increase their production capacity to 76 billion pieces per annum by 2029.
- Online shopping may increase the demand for warehousing space (especially for cold storage) and last-mile delivery services. Regional logistics and warehousing will be primary drivers for a positive industrial sector in Malaysia's property market.



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SECTOR	OVERALL PERFORMANCE		
	4Q19	1Q20	2Q20f
Hotel			
Overall Residential			
High Rise Upmarket Residential			

Source: CBRE | WTW Research, 1Q2020

HOTEL

- Tourist arrivals in 4Q 2019 decreased by 8% y-o-y to 5.97 million, however increased by 1% to 26.1 million in 2019 compared to 2018. A decreasing number is expected in the following quarter impacting from the pandemic outbreak.
- The outbreak has resulted in the cancellation of major events such as Malaysia Autoshow 2020, World Tunnel Congress 2020, Putrajaya Hot Air Balloon Fiesta and Visit Malaysia 2020, causing further contraction of the hotel sector.
- Kuala Lumpur recorded a decrease of AOR at 47% (1Q 2020) from 70% in 1Q 2019, Outside KL: 43% AOR in this quarter (1Q 2019: 64%).
- The stimulus package includes a tourism tax waiver and discount on service tax and electricity bills, to defray operation costs.

OVERALL RESIDENTIAL

- Six (6) months loan moratorium deferment is expected to mitigate an extensive ripple effect.
- High take-up rates in the pre-MCO of Smart Homes with solar panels in Elmina City, may indicate that ecological sustainability could be the next attraction.
- Buyers' cautious sentiment spotlighted the importance of 'affordably-priced' products conforming to the market segment, at greater length. Creative financing offers by developer would be able to further improve the sentiment and purchasing method.
- Virtual and interactive sales methods shifting to a new normal with attractive 3D walkthrough for buying experience, other than physical show room, offering ease of convenience, time effectiveness and buyer-friendly. Sime Darby, WCT, Gamuda and Mah Sing acted jointly for this adoption of technologies.

HIGH RISE UPMARKET RESIDENTIAL

- Market remained soft in the start of 2020. No new completion and launches were found in the primary market as the market continued to be furnished with oversupply units. Secondary market transaction remained very low due to market uncertainty.
- Overall sales rate for project available in the market stands at 79%, while occupancy rate hovers at 74%.
- Developers start to leverage on the usage of technology to implement virtual sales and e-marketing. It is also a good time for genuine house buyers as developers continue to offer more discount.

**DEFINITIONS****Grade A Rents**

Average rental derived from a basket of prime purpose-built office space in prime commercial area in Kuala Lumpur.

Prime Capital Values

Estimation based average price derived from a basket of prime properties located in prime commercial area in Kuala Lumpur. All estimates are quoted on per square foot of net lettable area and strata basis, except for office and retail levels, which are on an en-bloc basis.

Net Absorption

The change in occupied stock (in square feet) over the recorded period for all existing properties.

Net Take-up

The change in sold units over the recorded period for all properties launched.

Vacancy Rate

Vacant space as a percentage of the base inventory or building net lettable area.

Net Yield

Net property income (gross income net service charges and taxes) as a percentage of the asset's capital value / price.

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