COVID-19: New Norm, New Challenges

GDP	GNI	Inflation	Trade Balance	Average Lending Rate
RM344.2bn	RM341.4 bn	0.9%	RM36.9 bn	4.40%

*Arrows indicate y-o-y changes

Quick Stats

Office	q-o-q	y-o-y
Prime Rent	↓	↓
Capital Value	→	↓
Net Yield	→	↓
Retail	**q-o-q**	**y-o-y**
Prime Rent	↓	↓
Capital Value	→	↓
Net Yield	→	↓
Hotel (KL only)	**q-o-q**	**y-o-y**
Avg. Room Rate	↓	↓
Avg. Occupancy Rate	↓	↓
High-Rise	**q-o-q**	**y-o-y**
Capital Value	→	→
Net Yield	↓	↓
Industrial	**q-o-q**	**y-o-y**
Capital Value	→	→
Net Yield	→	→

Source: CBRE | WTW Research, 1H 2020

All capital values and yields stated as prime. Rents are quoted on a RM psf per month basis and capital values on a RM psf basis.

Abbreviation: GDP – Gross Domestic Product, FDI – Foreign Direct Investment, HOC – Home Ownership Campaign, RPGT – Real Property Gain Tax, BNM – Bank Negara Malaysia, IMF – International Monetary Fund, psf – per square foot, sf – square feet, y-o-y – year-on-year

Malaysia's GDP recorded a 17.1% drop in 2Q 2020, the lowest growth recorded since the 11.2% contraction in 4Q 1998 (1Q 2020: 4.5%), mainly due to the MCO enforcement which affected growth. The construction sector faced the biggest decline (44.5%) followed by mining and quarrying (-20%) and manufacturing (-18.3%). Only the agriculture sector had a positive growth of 7.2%.

Inflation dropped 2.6% in 2Q 2020. Unemployment stood at 3.9% during 1Q 2020 and worsened to 5.3% in May 2020.

On top of the Covid-19 Pandemic, the US-China-Trade War and the freefall of oil prices, a US Economic Recession which contracted by 32.9% (annualized) in Q2, recorded its worst drop and wiping out 5 years of growth in a matter of months.

The Malaysian government allocated RM1.5 billion to stimulate the employment of youths and other unemployed.

In 1Q 2020, FDI expanded to RM6.4 billion (4Q 2019: RM5.4 billion) where Asian countries contributed half of it. Unfortunately, this is unlikely to be sustainable in the short to medium term.

Exports plunged 25.5% y-o-y in May, the worst in a decade, but imports contracted 30.4% y-o-y which created a cushion for a trade balance surplus of RM10.4 billion.

Taking into consideration of the impact arising from Covid-19 and other wide ranging economic calamities, the effort and effectiveness of the RM295 billion stimulus packages and policies (tax deduction, rent relief, loan moratorium, wage subsidy, HOC, RPGT exemption, etc.) are put under the spotlight. Collectively, BNM, IMF and World Bank have revised the forecast of Malaysia's GDP growth to a range between -3.8% and -5.5% by year end.

With no viable recovery options foreseeable by year end, the Economy is bracing for challenges.

KLANG VALLEY PURPOSE BUILT OFFICE

Supply stagnated at 114.93 million sq ft, but vacancy rate continued to climb and surpassed 20% since the MCO implementation on 18th March 2020. A short term demand dip is expected as most leasing decisions have been deferred.

Apart from shorter leasing terms, many landlords are also considering rental concession either in terms of rental reduction or waiver to existing tenants, as financial assistance and to improve tenant retention. Nevertheless, average asking rentals dropped to RM6.80 psf, a decline of 0.06%.

Doing Business in Malaysia

Despite being ranked 12th in World Bank's Ease of Doing Business in 2020, Malaysia still lags behind its neighbors due to its bureaucratic processes, equity and visa formalities which lengthens startup times and increases potential operating costs.

Location

With weakened demand, the city centre or fringe locations makes little difference to office performance. The city centre remains as the preference of big corporations, featuring a prominent address and availability of large floor plates. With the enhanced rail infrastructure available to the fringe and outer Kuala Lumpur, smaller offices which are mainly occupied by local players/firms may prefer areas with relatively more competitive occupying costs compared to the city centre.

Going Flexi

The Internet of Things (IoT) showed how convenient remote working is during the MCO which more businesses might permanently embrace working from home arrangements. Flexi workspace would be a preference post-pandemic, an option for new companies before committing to a longer-term plan during economic uncertainty. However, space sharing also presents its share of challenges and risks.

Outlook

The future of office space is at a crossroads with companies and industries restructuring, technology advancement, improvement of office design and remote working. Offices will become a destination with a safe working environment that could increase an occupier's health, safety and productivity.

Some underused office buildings may no longer be fit to be used for its original purpose. More offices will become redundant but somehow could be repurposed for social and community usage and a part of the new model for work and home usage.

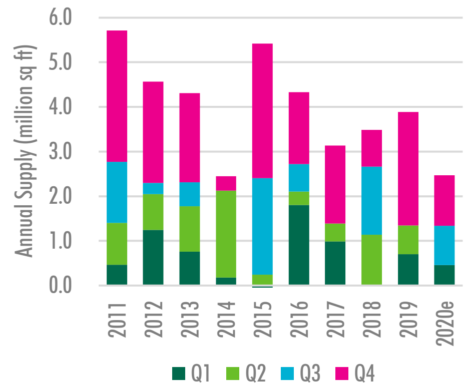
In times of global disruption and uncertainties, businesses are becoming more cost sensitive by preferring to stay liquid and flexible, as part of their business continuity plan.

Sector Performance at a Glance

	2H 2019	1H 2020	2H 2020P
Supply	▶	▲	▲
Performance	▼	▼	▼
Rental	▼	▼	▼

Source: CBRE | WTW Research, 1H 2020

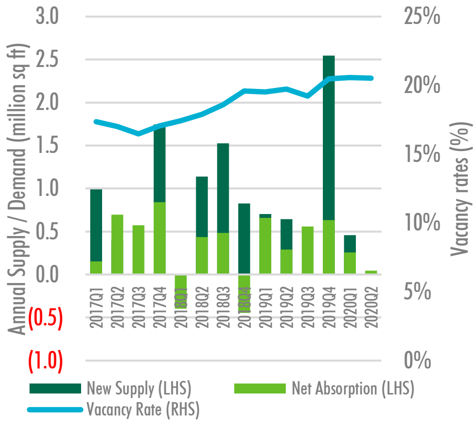
Office Supply Dynamics



Selected Future Supply in Klang Valley, 2H 2020

Development	Location	Est. NLA (sq ft)
Sapura Corporate HQ	Kuala Lumpur	380,000
HCK Tower @ Empire City	Outside Kuala Lumpur	350,000

Office Supply-Demand Dynamics



Vacancy Rate

	1H 2020	q-o-q	y-o-y
Kuala Lumpur	20.5%	↑	↑
Outside Kuala Lumpur	21.9%	↓	↑

Office Transaction

Name of Building	Vendor	Purchaser	Transacted Price (RM)
Sunway Pinnacle	Sunway Integrated Properties and Sunway Pinnacle	RHB Trustee Bhd (Sunway REITs)	450,000,000

Source: CBRE | WTW Research, 1H 2020

MRA reported retail sales contraction in 1Q 2020 at -11.4% with the fashion and fashion accessories sub-sector facing the worst drop, with the onset of the Covid-19 pandemic.

The government announced some relief measures such as rental waivers for SMEs in all GLC-owned premises while private sector landlords who gave rental waivers or reductions to SMEs will qualify for tax deductions.

Covid-19 has boosted the use of technology such as cashless payment options and mobile apps for contact tracing, shopper navigation and customized information.

Physical stores are severely impacted since the start of the MCO with zero physical customers (except supermarkets and some F&B outlets) until the RMCO in June 2020. Some resorted to more online sales to mitigate the impact (ie. MPH Bookstores, ESPRIT), while NYX exited the retail market.

Some brands maintain their opening schedule and are made up of international brands (ie. Adidas, Muji, Tesco, Skechers, Jo Malone).

The Malaysia tourism industry is one of the hardest hit and with cross-border travel restrictions, tourist-focused malls may be more badly affected in terms of shopper traffic.

Since the RMCO, visitors have begun visiting retail malls albeit lesser numbers compared to pre-Covid-19. SOPs of body temperature screening and contact tracing have been implemented by retail malls, although enforcement and convenience level varies at different retail malls. Latest observation sees that shoppers shop for essential items, stores on sales, household & furniture, F&B and electronics.

A CBRE APAC retail survey in May 2020 found that more than 70% of luxury and sports brands will focus on growing online sales, and leasing decisions related to store expansion have impacted 95% of respondents. A similar trend may also be expected in Malaysia's retail market.

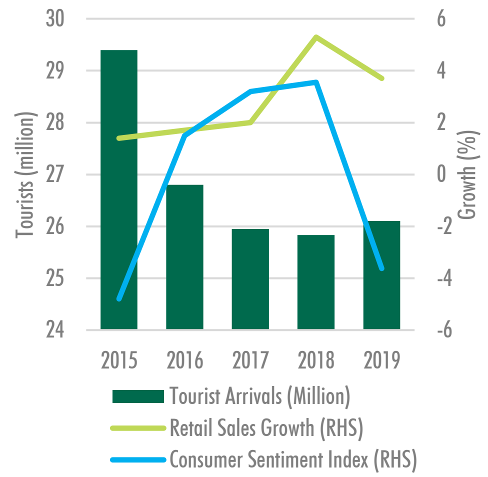
The retail sector will slowly pick-up driven by the domestic market.

However, luxury items and malls with high tourist footfall during pre-Covid-19 will still be impacted. Strategizing between landlords and tenants is a big role in achieving a faster improved market.

Sector Performance at a Glance

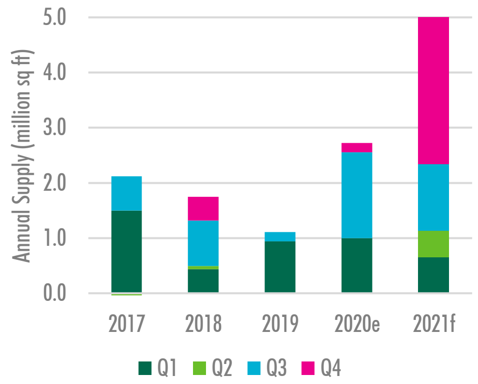
	2H 2019	1H 2020	2H 2020P
Supply	▶	▲	▲
Performance	▼	▼	▼
Rental	▶	▶	▼

Retail Economic Indicator



Source: MIER, CBRE | WTW Research, 1H 2020

Retail Supply in Klang Valley



Source: CBRE | WTW Research, 1H 2020

Selected Future Supply in Klang Valley, 2H 2020

Development	Location	Est. NLA (million sq ft)
Sapura Corporate HQ	KLCC	0.12
One Utama E – Phase 2	Damansara	0.43
KL East Mall	Taman Melawati	0.36

Source: CBRE | WTW Research, 1H 2020

Tourist arrivals in 1Q 2020 decreased by about 37% y-o-y to 4.2 million, mainly caused by the global pandemic outbreak.

Implementation of the MCO saw room occupancy recorded at an average rate of 32% for 1H 2020 (1H 2019: 66%) for overall KL. The overall average room rate (ARR) decreased to RM221.

Some hotel closures have started in Ipoh, Melaka, Penang and Sabah. However, Klang Valley was not spared when G-Tower was first to announce cease of operation after 16 years. Hoteliers with a positive long-term view and stable financial reserves took the opportunity to undertake refurbishment and renovation during this time. Several hotels involving international brands are reported to be up for sale in Klang Valley as well as in Penang.

A survey by Tourism Malaysia showed that people were willing to travel locally after the MCO. It is supported with government incentives such as tourism and service tax exemption for accommodation, and income tax relief of RM1,000 for tourism expenses.

The luxury hotel segment may be more impacted as it is highly dependent on international business travelers and tourists. Several luxury hotels offer promotional packages of room rates between RM300 to RM400 in order to attract guests.

However, smaller boutique hotels with lower operating overheads may be better positioned to benefit from the expected surge of domestic tourism. International hoteliers are likely to restructure by taking steps such as leverage of its key personnel, reduction or elimination of work duplication and outsourcing other revenue sources in achieving lower operating overhead.

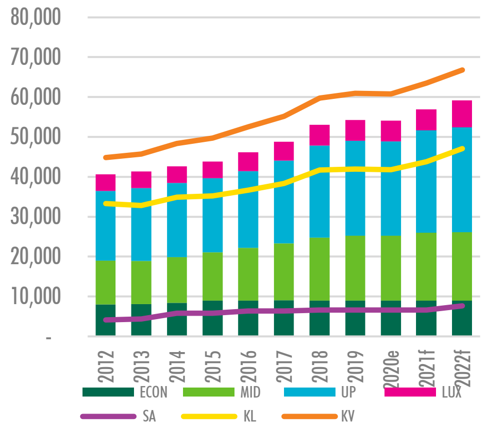
Recovery of the hotel market will depend on the re-opening of the borders without quarantine, and also the performance of the domestic tourism.

There may be some attractive investment opportunities as a number of hotels have come up for sale on the market. However, whether there are possible investors to seize these opportunities still remains to be seen.

Sector Performance at a Glance

	2H 2019	1H 2020	2H 2020P
Supply	▶	▼	▼
AOR	▶	▼	▼
ARR	▶	▼	▼

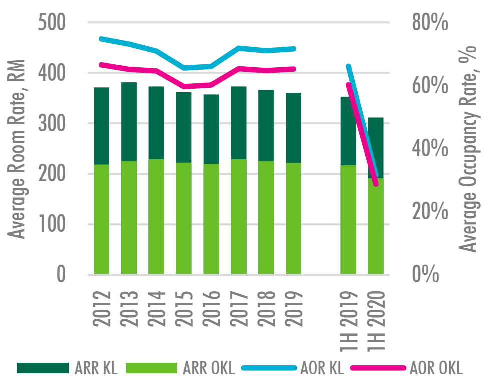
Klang Valley Hotel Cumulative Supply



Abbreviation: ECON – Economy, MID – Midscale, UP – Upscale, LUX – Luxury, SA – Serviced Apartment, KL – Kuala Lumpur, KV – Klang Valley

Source: CBRE | WTW Research, 1H 2020

Hotel Performance



Source: CBRE | WTW Research, 1H 2020

Hotels closed/ceased operation in Kuala Lumpur

Development	Location	Est. Room No.	Remark
G-Tower Hotel	Jalan Tun Razak	180-rooms	Permanently Closed (April 2020)
ParkRoyal Kuala Lumpur	Jalan Sultan Ismail	400-rooms	15-month closed for renovation (May-20 to Sept-21)

Source: CBRE | WTW Research, 1H 2020

KLANG VALLEY RESIDENTIAL[1]

OPR has been reduced for the fourth time from 3.00 as at 4Q 2019 to 1.75 as at July 2020, pushing it to a record low since 2004. In addition to that, an announcement of PENJANA made on 5th June sees that the HOC and 0% RPGT could help in coaxing buyers into making purchase decisions in the short term.

While the overall Klang Valley is expecting more high rise residential completions, landed residential development especially terraced houses has also been active, up 40% of future planned supply. Landed supply and sub-sale activities remained active in the established neighborhoods, i.e. Klang and Southern Klang Valley.

There are more affordably priced landed supply in new localities such as Sepang, Kuala Selangor and Kuala Langat, but with improving connectivity, demand will spillover from the existing suburb townships.

The demand for landed homes remain strong despite the launches being skewed to houses priced more than RM500,000. Active enquiries, bookings and buying activities were recorded after MCO for newly launched schemes within reputable townships. The outbreak of Covid-19 temporarily halted sales but this sector remained resilient supported by the demand from young/established families/upgraders.

Outlook

An internal survey conducted by CBRE|WTW – *Post Covid-19 Impact on Living Environment* found that the 'new normal' of 'work from home' during MCO has led to some changes in customary living styles and changes in spatial requirement can be anticipated as more time will be spent at home for work or rest. For instance, a spacious yard/space to cater to family activities may offer solutions to new emerging household needs. Nevertheless, the house demand remains robust with majorly price concerns in the current market situation.

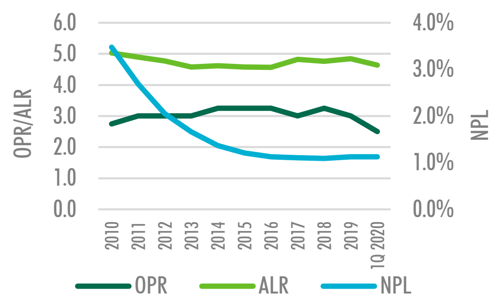
Moving forward, homebuyers would have better bargaining power and is expected to flock into the market. More buyers may look to buy from the secondary and auction markets at lower prices. The elimination of the 70% limit on the margin of financing threshold for properties priced RM600,000 onwards could give a glimpse of hope, specifically for the landed property market.

Sector Performance at a Glance

	2H 2019	1H 2020	2H 2020P
Supply	▲	▲	▲
Performance	▶	▶	▲
Rental	▶	▼	▶

Note:
1- Both "Supply" and "Performance" are based on supply and overhang data as published by NAPIC with the latter based on observations made by CBRE|WTW Research, and excludes low cost flats and houses.

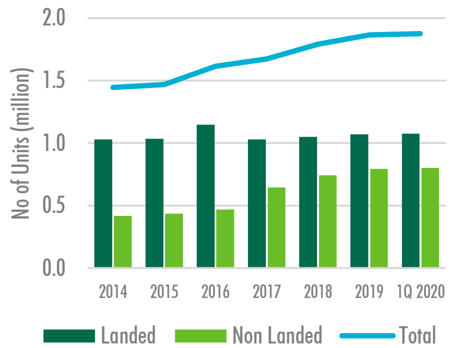
Residential Economic Indicator



Abbreviation: OPR - Overnight Policy Rate, ALR - Average Lending Rate, NPL - Non Performing Loan

Source: BNM, CBRE | WTW Research, 1H 2020

Cumulative Supply



Source: BNM, CBRE | WTW Research, 1H 2020

Selected New Launches as at 1H 2020

Name of Development	Type	Nos. of Unit	Selling Price
Ilham Residence @Elmina Grove	SL	513	From RM580k
Elmina Valley Phase 5	SL	373	From RM905k
Halya Daunan @Worldwide	SL	147	From RM505k
Lumira @Bandar Bukit Raja	SL	134	From RM730k

Source: CBRE | WTW Research, 1H 2020

KLANG VALLEY HIGH-END NON-LANDED RESIDENTIAL[1]

Existing supply increased to 56,200 units in 1H 2020, whilst 27,900 units are in the pipeline for completion by 2024.

There were no official launching activities in 1H 2020 as developers remained cautious and revised project launches and completion dates.

The sales rate improved 0.7%, the slowest momentum since 2010 as no sales gallery visit was allowed during the MCO. Interest in the secondary market remained low.

Occupancy rates were down 70.6% as short-term rental activity ceased for awhile. However, long-term rental activity remained vibrant in the localities of Bangsar, CKL-Secondary, Damansara Heights and Kenny Hill.

The HOC 2020 (from 1st June 2020 to 31st May 2021) will offer a minimum 10% discount and stamp duty waiver for houses priced not more than RM2.5 million. Additionally, 0% RPGT tax is expected to benefit the secondary market.

The recent rapid usage of e-marketing and online sales are changing traditional sales strategies.

Based on a high-rise residential survey by CBRE|WTW during the MCO, no significant changes nor shifts in preference from residents of high-rise and landed residentials were observed. However, some have indicated interest in new living spaces i.e. study rooms to facilitate work-from-home or new alternate working schedules. Notwithstanding, the price factor remained the main consideration in buying a property.

The overall upmarket high-rise residential sector remains cautious with the current Covid-19 situation. Properties priced at luxury and premium levels (RM1,500 psf and above) are expected to have slower sale/take-up than properties priced in the upscale and standard range (RM700 psf to RM1,499 psf).

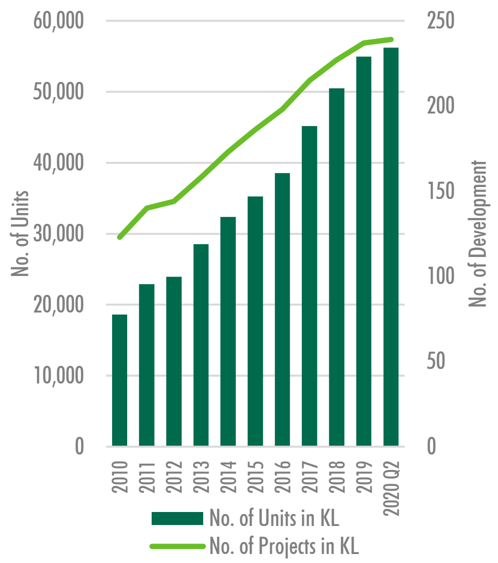
The temporary suspension of MM2H is expected to adversely impact foreigner purchases in 2H 2020. A price opportunity is foreseen in the developer's units (completed but remained unsold) versus newly launched units where buyers still could buy completed units at the original launch prices.

Sector Performance at a Glance

	2H 2019	1H 2020	2H 2020P
Supply	▲	▶	▶
Performance	▶	▶	▶
Rental	▶	▼	▶

Note:
1- Supply based on selected existing stock by CBRE | WTW.
2- Performance refer to sales performance observed by CBRE | WTW.
3- Rental refer to rental performance observed by CBRE | WTW.

Existing Supply



Source: CBRE | WTW Research, 1H 2020

Selected New Projects as at 1H 2020

Name of Development	Type	Nos. of Unit	Price Segment
The Conlay	SR	491	Luxury

Source: CBRE | WTW Research, 1H 2020

Selected New Completion as at 1H 2020

Name of Development	Type	Nos. of Unit	Price Segment
Sky Suites @ KLCC	SR	986	Upscale
Sunway Mont Residences	C	288	Standard

Source: CBRE | WTW Research, 1H 2020

The manufacturing sector saw the steepest decline during April as measures were implemented to control the spread of the Covid-19 resulting in suspended production or operations well below capacity. From January to May 2020, the Industrial Performance Index (IPI) has dropped by 10.6% y-o-y. In May 2020, IPI rose by 18.2% compared to April 2020, contributed by manufacturing and electricity indices.

Activities are anticipated to gradually come back to normal as the lift of major lockdowns worldwide may start from 3Q 2020.

RM37.4 billion worth of investments were approved in the manufacturing, services and primary sectors in the first quarter of this year. 70.4% or RM26.3 billion was contributed by domestic investments while the remaining amount were from foreign sources. The manufacturing sector led with 67.5% or 214 manufacturing projects amounting to RM25.2 billion.

RM1.5 billion of total approved investment was reported in Selangor, of which the F&B and E&E sub-sectors attracted the most investments. A surge of demand is anticipated in Personal Protective Equipment (PPE) and other medical related products which may lead to increased demand for industrial space.

Since Hartalega expanded their facilities in Sepang, other rubber manufacturers may also be seeking to increase their production facilities. Supermax has entered into a sale and purchase agreement for 2.02 hectares of land in Klang for a total consideration of RM21.78 million.

Since the lockdown, the volume of online transactions increased tremendously. A recent study by Mastercard reported that Malaysia leads other countries in Southeast Asia in usage of mobile/digital wallets at 40% from total population, ahead of Philippines (36%), Thailand (27%) and Singapore (26%).

This digital activity has translated to a surge in demand for logistic business.

Outlook

Covid-19 may result in some adjustments but the demand for land for expansion of facilities by the PPE industry and warehousing space by logistic companies, remains positive.

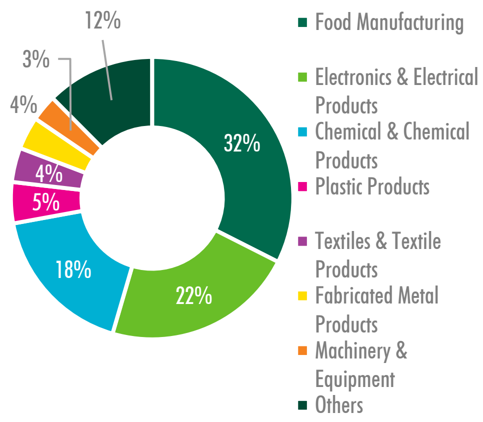
About 2 million sq ft of new logistic and warehousing facilities is expected to enter the market in the near future.

Malaysia's industrial prospects remain strong and relevant, especially with regards to regional logistics and distribution activity. The domestic industrial sector will continue to attract foreign investments.

Sector Performance at a Glance

	2H 2019	1H 2020	2H 2020P
Supply	▲	▲	▲
Performance	▶	▶	▶
Rental	▶	▶	▶

Total Approved Investment for Manufacturing for Selangor, Jan-March 2020



Source: MIDA, CBRE | WTW Research, 1H 2020

Selected Transaction of Industrial Properties Jan-June 2020

Month	Description & Vendor/Purchaser	Consideration
June	5 acres of vacant land in Meru Klang; Goh Chee Seong & Lee Ah Mooi / Maxter Glove Manufacturing Sdn Bhd	RM21.78 million
March	95.12 acres of land with industrial potential / zoning- to be converted as heavy industries Bonus Essential Sdn Bhd / Hartalega NGC Sdn Bhd	RM263.1 million

Source:Valuation and Property Services Department, Ministry of Finance, CBRE | WTW Research, 1H 2020