RESEARCH

Knight Frank

REAL ESTATE HIGHLIGHTS

2ND HALF 2019

KUALA LUMPUR | PENANG | JOHOR BAHRU | KOTA KINABALU

HIGHLIGHTS

There were noticeably more completions and launches of high-end condominium / residential projects during the review period.

The base year for real property gains tax (RPGT) has been revised to January 1, 2013 for assets acquired before the date, from January 1, 2000 previously.

The foreign buyer price threshold will be lowered from RM1 million to RM600,000 in 2020 for unsold high-rise properties in urban areas.

The prices of high-end condominiums / residences remained under pressure in the secondary market while in the primary market, there was improved market activity driven by the on-going Home Ownership Campaign (HOC).

The tenant-led rental market continues to be sluggish.

KUALA LUMPUR HIGH END CONDOMINIUM MARKET

MARKET INDICATIONS

The Malaysian economy expanded at a slower pace of 4.4% in 3Q2019 (2Q2019: 4.9%) impacted by the on-going trade tensions and heightened global uncertainty. Economic growth continued to be underpinned by both private consumption and government spending as well as support from the services and manufacturing sectors. For the whole year of 2019, GDP growth is forecast to range from 4.3% to 4.8%.

Headline inflation was higher on the quarter at 1.3% (2Q2019: 0.7%) due to the lapse in the impact of GST zerorisation.

Labour market conditions remained supportive with unemployment rate holding steady at 3.3% in 3Q2019.

On the lending front, Bank Negara Malaysia maintained the Overnight Policy Rate (OPR) at 3.0% to remain accommodative and supportive of economy activity. The central bank, however, cut the Statutory Reserve Requirement (SRR) ratio from 3.5% to 3.0% to ensure sufficient liquidity in the domestic financial system.

SUPPLY & DEMAND

The cumulative supply of high-end condominiums / residences stood at 59,358 units as of 2H2019 following the completion of five projects with a total of 2,572 units. Three of the projects are located in KL City, namely Tower 1 @ Star Residences (557 units), Aria KLCC (598 units) and Stonor 3 (400 units) while Novum Bangsar and Sunway Mont Residences in the city fringe contributed 729 units and 288 units respectively.

By the first half of 2020, another 11 projects are scheduled for completion. Collectively, these projects will add some 6,151 units to the cumulative stock. They are Tower 2 @ Star Residences (482 units), 8 Kia Peng (442 units), Sky Suites (986 units), The Manor (212 units), Novo Ampang (421 units), 18 Madge (50 units), The Estate (328 units), Agile Mont' Kiara (813 units), Arte Mont' Kiara (1,707 units), TWY Mont' Kiara (484 units) and One Kiara (226 units).

The review period witnessed the launch / preview of four notable projects, namely Alix Residences, Agile Embassy Garden, Conlay and Core Residence @ Tun Razak Exchange (TRX).

TA Global Berhad held a preview of its residential project – Alix Residences in Dutamas, North Kiara on June 12, 2019. The project features two blocks of condominiums of 35-storey and 22-storey on a 4.55-acre freehold site. Targeting professionals, young families and upgraders, it offers a total of

Conlay

364 units sized from 1,012 sq ft to 6,544 sq ft in single-key, dual-key, garden, and penthouse configurations.

China-based property developer, Agile Group Holdings Limited has unveiled its third project in Kuala Lumpur, Agile Embassy Garden. The new landmark for the Embassy Row at Jalan Ampang sits on a 3.06-acre site that formerly house the British High Commission. The 3-block luxury serviced apartment project will offer 1,296 units (built-ups from 554 sq ft to 1,005 sq ft) and four retail lots.

Conlay, which sits on a 1.44-acre prime site at Jalan Conlay in Kuala Lumpur City Centre, is a second joint development by Eastern & Oriental Berhad and Mitsui Fudosan Group. Designed by Australian-based architect, Kerry Hill Architects in collaboration with GDP Architects, the freehold development will feature 491 units of serviced apartments with open floor plan layouts of between 732 sq ft and 1,335 sq ft.

Also on the watch list are the residential components within the international financial district of Tun Razak Exchange (TRX).

The 70-acre self contained development of TRX integrates residential, commercial, hospitality and institutional elements. The first residential component within the upcoming financial district is Core Residence. The freehold property is a maiden development between China Communications and Construction Group (CCCG) and WCT Holdings Bhd. Launched on November 25, 2019, Core Residence offers 580 units in total; Tower 1 (287 units) and Tower 2 (293 units). The units come in seven layouts with built-up areas from 624 sq ft to 1,022 sq ft.

Figure 1
Completion of High End Condominiums / Residences 2H2019

Total	2,572
CUMULATIVE SUPPLY	59,358

Source: Knight Frank Research

Table 1
Notable Launches / Previews 2H2019

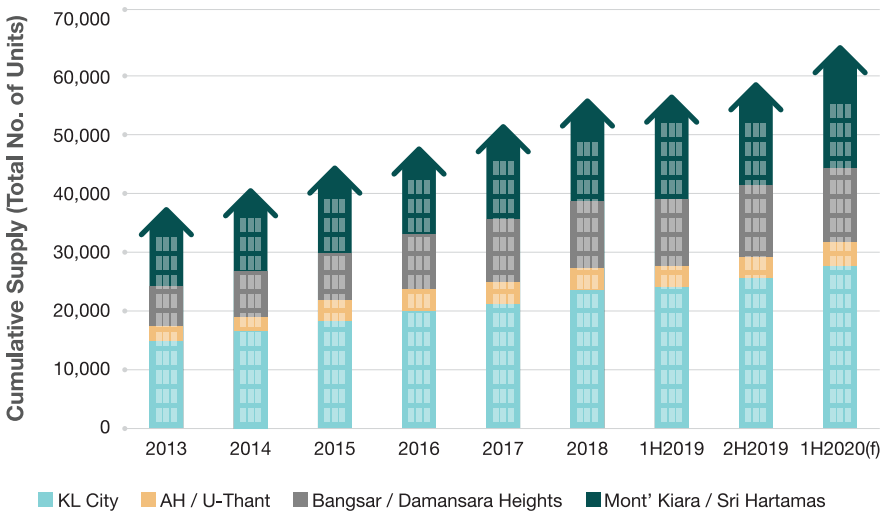
Name of Development	Type	Developer	Area	No. of Units	Unit Sizing (Min - Max)	Gross Selling Price
Alix Residences	C	Orchard Park Sdn Bhd (a subsidiary of TA Properties Sdn Bhd)	Dutamas	364	1,012 - 6,544 sq ft	From circa RM900 per sq ft
Agile Embassy Garden	SA	Agile Property Development Sdn Bhd (a subsidiary of Agile Group Holdings Limited)	Ampang Hilir	1,296	554 - 1,005 sq ft	From circa RM1,900 per sq ft
Conlay	SA	Patsawan Properties Sdn Bhd (JV Between Eastern & Oriental Berhad and Mitsui Fudosan Group)	KL City	491	732 - 1,335 sq ft	From circa RM2,050 per sq ft
Core Residence@ Tun Razak Exchange	SA	CORE Precious Development Sdn Bhd (JV Between CCCG and WCT Holdings Sdn Bhd)	KL City	580	624 - 1,022 sq ft	From circa RM2,200 per sq ft

Source: Knight Frank Research

Note:
1. C = Condominium and SA = Serviced Apartment

Figure 2

Cumulative Supply for High-End Condominiums / Residences 2013 –1H2020(f)



Source: Knight Frank Research

Notes:
1. f = Forecast
2. The locality of Bangsar includes Bangsar, Bangsar South, KL Sentral and Mid Valley / KL Eco City

Table 2

Average Transacted Prices of Selected Existing High-End Condominiums / Serviced Apartments, 1H2019 and 2H2019(p)

Locality	1H2019	2H2019(p)	Price Analysis
KL City	1,030 - 1,250	1,090 - 1,330	
AH / U-Thant	800 - 960	770 - 940	
Bangsar	940 - 1,140	910 - 1,110	
Damansara Heights	710 - 900	700 - 860	
Kenny Hills	690 - 850	670 - 820	
Mont' Kiara	660 - 820	700 - 850	
OVERALL	**790 - 970**	**810 - 990**	

Source: JPPH / Knight Frank Research

Notes:
1. (p) = Preliminary – Analysis based on preliminary data
2. The price analysis is calculated by weighted average approach based on recorded transactions of selected schemes

PRICES AND RENTALS

In KL City, the pricing for newly launched projects such as Core Residence and Conlay exceeds the RM2,000 per sq ft mark. The gross selling price for Core Residence, which is located within the TRX precinct, averages at about RM2,200 per sq ft while for the Conlay, it is in the region of RM2,050 per sq ft.

The newly launched Agile Embassy Garden at the Embassy Row has set a new benchmark pricing of RM1,900 per sq ft (gross) for the exclusive locality of Ampang Hilir / U-Thant. In comparison, Impression U-Thant was launched in 2018 at gross pricing of RM1,700 per sq ft.

Meanwhile, in the locality of Dutamas, North Kiara, Alix Residences was previewed in June at prices from RM900 per sq ft onwards.

In general, most new developments are offering discounts ranging from 5.0% to 10.0%.

Core Residence @ TRX

Table 3
Average Asking Rentals of Selected Existing High-End Condominiums / Serviced Apartments, 1H2019 and 2H2019

Locality	1H2019	2H2019	Price Analysis
KL City	2.20 - 5.00	2.40 - 5.00	↗
Ampang Hilir / U-Thant	2.00 - 3.50	2.00 - 3.50	↔
Bangsar	2.40 - 4.00	2.40 - 4.00	↔
Damansara Heights	2.20 - 4.00	2.50 - 4.20	↗
Mont' Kiara	1.80 - 3.50	2.00 - 3.50	↗

Source: Knight Frank Research

Notes:
1. The analysis is based on asking rentals due to limited concluded rental data.
2. Damansara Heights includes DC Residensi and 10 Semantan


Aria KLCC

In the secondary market, there was mixed performance in Kuala Lumpur's high-end residential segment. During the review period, while selected schemes monitored in KL City and Mont' Kiara registered higher average transacted values (on a per sq ft basis) compared to 1H2019, it is observed that in other localities, the average prices were generally lower amid challenges in the property market.

The lower band of average asking rentals was generally higher in KL City and Mont' Kiara while in the localities of Ampang Hilir / U-Thant and Bangsar, the asking rentals continue to hold steady. The weak leasing market is expected to prevail as there is a limited pool of tenants amid rising stock.

OUTLOOK

In the first half 2019, the residential market in the Federal Territory of Kuala Lumpur registered a total of 5,289 transactions valued at RM4.17 billion. Although there was a 7.0% increase in transacted volume, the value of transactions was, however, lower by 4.4% (1H2018: 4,942 transactions worth RM4.36 billion). Properties categorised as condominium and serviced apartment accounted for circa 47.0% (2,482 units) of the total transactions. The higher level of market activity may be driven by the on-going national Home Ownership Campaign (HOC) 2019 which has been extended to December 31, 2019.

The HOC has been favourable to both developers and buyers. As at November 2019, a total of 28,000 property units valued at RM21 billion have been reportedly sold, surpassing the initial HOC's sales target of RM3.0 billion.

Several government initiatives announced under the National Budget 2020 are also expected to further stimulate the lacklustre property market. The initiatives include revising the base year for RPGT to January 1, 2013 for assets acquired before the date, from January 1, 2000 previously; lowering of foreign buyer price threshold from RM1 million to RM600,000 for unsold high-rise properties in urban areas; and the introduction of Rent-to-Own financing scheme amongst others.

The shifting of the base year for RPGT is likely to have positive impact as it will potentially lower taxable gains on disposal of properties; this may lead to higher level of activities in the secondary property market. Meanwhile, the lowering of foreign buyer price threshold for 2020 aims to reduce the overhang of condominiums and apartments in selected urban areas.

With higher level of interests in the Malaysia My Second Home (MM2H) programme from foreign participants coming from Hong Kong, China, Taiwan etc., the Ministry of Tourism, Arts & Culture (MOTAC) has taken an immediate step to improve approval procedures.

We also see more developers adopting smart home automation and green features in new and upcoming project launches as the world moves towards intelligent living.

The overall outlook for the Kuala Lumpur high-end residential market remains challenging amid the supply and demand imbalance. However, with local developers aggressively marketing their high-end residential products abroad coupled with the various available initiatives and incentives to stimulate the property market, we expect to see more sales moving into 2020 – helping to ease the current glut in the high-end property segment.

KLANG VALLEY OFFICE MARKET

HIGHLIGHTS

The KL City office market continues to self-correct during the review period as the gap between supply and demand widens further.

Completed recently, The Exchange 106, the city's new iconic skyscraper in the upcoming financial district of TRX, offers about 2.65 million sq ft of premium space. The new office tower, which has secured circa 20% pre-committed occupancy, continues to exert further pressure on the Prime A+ office segment in the city's New CBD as it competes for the limited pool of tenants comprising large corporations and MNCs.

Decentralised office locations in KL Fringe and Selangor, however remained resilient with both rental and occupancy holding firm during the period under review.

InvestKL is on track to realise its target of welcoming 100 MNCs into the country by 2020. To date, the agency has successfully achieved 85% of its target and with the creation of some 12,000 job opportunities, this has had positive spill-over effects on the economy and real estate market.

MARKET INDICATIONS

The Business Conditions Index (BCI) dropped drastically by 25.2 points to record at 69.0 points in 3Q2019 (2Q2019: 94.2 points). The sharp decline in business sentiments was attributed to the drop in manufacturing activities, together with weaker domestic and external orders. The index, which is at its lowest level since 4Q2008, is expected to remain subdued for the remaining quarter of 2019.

The resumption of the Bandar Malaysia mega project and the East Coast Rail Link (ECRL) coupled with the on-going US-China trade war are expected to draw more inflow of Chinese FDI into the country.

SUPPLY & DEMAND

The completion of two office buildings in Selangor, offering a total of 0.82 million sq ft of space, brought the cumulative supply of purpose-built office space in Klang Valley to circa 108.07 million sq ft as of 2H2019.

The 1 Powerhouse Building is linked to the Bandar Utama MRT station via a pedestrian bridge. The station will also serve as an interchange station to the proposed LRT 3 line. The 31-storey office building with MSC Malaysia status boasts ceiling height of 3.0m to 3.2m as well as raised floor system. Its net lettable area (NLA) of circa 600,000 sq ft translates into expansive floor plates of approximately 36,500 sq ft per level. A total of 2,800 car park bays are available within the 13-storey car park podium.

Tropicana Gardens Office Tower forms part of Tropicana Gardens, an integrated transit-oriented development (TOD) comprising a shopping mall, four residential towers, a corporate office and four levels of basement car park with up to 2,916 bays. The ground floor retail component has a direct link to the Surian MRT station. The 22-storey office tower with circa 219,000 sq ft NLA fronts onto Persiaran Surian and offers typical floor plates ranging from 12,800 sq ft to 13,200 sq ft. The new headquarters of Tropicana Corporation Bhd will occupy circa 80% of total leasable space.

In KL City, two office buildings, namely TS Law Tower and Legasi Kampung Bharu with combined NLA of circa 510,000 sq ft, are scheduled for completion by 2H2020.

Another five buildings in Selangor are also expected to complete during the same period, namely Block G @ Empire City, Block J @ Empire City (HCK Tower), Q Tower @ twentyfive.7, Tower 5 of PJ Sentral Garden City and i-Bhd Corporate Tower.

The overall occupancy rate of purpose-built office space in KL City experienced a downtrend to record at 70.4% in 2H2019(p) (1H2019: 77.1%) as newly completed buildings continue to compete for a limited pool of demand.

Menara Prudential was the first building to be completed and occupied in the upcoming financial district of Tun Razak Exchange (TRX). The new headquarters of Prudential Assurance Malaysia Bhd occupies about 80% of the Grade A, LEED Gold-certified and MSC-status office building while TRX City Sdn Bhd occupies circa 20,000 sq ft of space on level 23.

The Exchange 106 at TRX, one of the top 10 tallest office buildings in the world, is ready to house multinational companies (MNCs) and Fortune 500 companies. The 492-metre tower, which has received its Certificate of Completion and Compliance (CCC) for its lower zone, is currently about 20% pre-committed with its first tenants moving in by December.

By the first quarter of 2020, Khazanah Nasional Berhad will relocate its headquarters from Petronas Twin Towers to the 29-storey Mercu UEM building in KL Sentral as part of its efforts to enhance operational and cost efficiencies as well as

Table 4
Asking Rentals of Selected Grade A Offices 2H2019

Building Name	Asking Gross Rental (RM per sq ft / month)
The Exchange 106	10.00 - 12.00
Menara Prudential @ TRX	8.00
Integra Tower	11.50
Menara Maxis	9.50 - 11.00
Menara Khuan Choo	8.50
Menara Binjai	8.80
Vista Tower	7.50 – 8.50
G Tower	7.50 – 8.50
Menara Hap Seng 2	7.50

Building Name	Asking Gross Rental (RM per sq ft / month)
Menara Shell	8.50
The Gardens North & South Towers	7.50 - 7.80
Nu Tower 2	7.50
Menara Etiqa	7.00 – 7.50
Mercu 2	7.50
Mercu 3	6.50
UOA Corporate Tower A	6.20
Menara Milenium	6.00
Menara LGB	6.00

Building Name	Asking Gross Rental (RM per sq ft / month)
1 First Avenue	6.00
The Pinnacle	6.00
1Powerhouse	6.00
Surian Tower	5.80
Nucleus Tower	5.80
Plaza 33	5.50
The Ascent @ Paradigm	5.50 - 6.00
Quill 18 (Block A & Block B)	5.50
Puchong Financial Corporate Centre (Towers 4 & 5)	4.50 – 5.00

Source: Knight Frank Research

1 Powerhouse

reduce operational expenses. The country's sovereign wealth fund owns the building through its subsidiary, UEM Group Bhd.

In July 2019, Menara Hap Seng 3, at the intersection of Jalan Sultan Ismail and Jalan P. Ramlee, marked the topping out of its structure two weeks ahead of schedule. The 24-storey building with circa 202,000 sq ft NLA is scheduled to be completed by 2020.

In KL Fringe, the overall occupancy rate showed slight improvement to record at 85.0% during the review period (1H2019: 84.6%) due to the positive tenant movements in buildings that include Vertical Corporate Tower B (UOA Corporate Tower) and Menara Kembar Bank Rakyat.

As for Selangor, the overall occupancy rate continued to remain stable at 80.0% in 2H2019(p).

The review period continues to witness the rapid expansion of co-working space.

SPACES, an operating brand owned by IWG, a multinational serviced office and co-working space provider that also operates Regus, has made its debut at Platinum Sentral. Spanning circa 73,500 sq ft of space, it accommodates 1,128 dedicated desks and five meeting rooms. As of July, the co-working service provider had reportedly achieved circa 80% occupancy.

Malaysia's leading luxury co-working space operator, Colony Space Asia Sdn Bhd, has continued to expand. Its fifth location called Colony @ Mutiara Damansara occupies circa 19,000 sq ft of space at the Grade 'A' MSC status KYM Tower. With notable occupiers that include Mamee-Double Decker (M) Sdn Bhd, Malaysia's largest snack company and Carsome Malaysia, a regional set-up, it boasts a high occupancy of about 92.0%.

PRICES AND RENTALS

During the review period, the average achievable rental in KL City was analysed higher at RM7.28 per sq ft per month (1H2019: RM7.11 per sq ft per month) despite challenges in the tenant-led market. This was mainly attributed to the higher achievable rental rates in newly completed buildings, namely The Exchange 106 and Menara Prudential, which were designed to the highest specifications.

As for KL Fringe and Selangor, the average achieved rentals remained resilient at RM5.80 per sq ft per month and RM4.31 per sq ft per month respectively in 2H2019(p). (1H2019: KL Fringe - RM5.77 per sq ft per month; Selangor – RM4.30 per sq ft per month). Newer dual-compliant (MSC and GBI) buildings such as Menara Ken TTDI and Symphony Square continue to garner the interest of occupiers / tenants and enjoy commendable take-up rates.

In Kuala Lumpur, the asking rentals of well-located Grade A office space range from RM6.00 per sq ft to RM12.00 per sq ft per month while in Selangor, similar grade office space command competitive rentals ranging from RM4.50 per sq ft to RM6.00 per sq ft per month.

There are several office buildings for sale.

Permodalan Nasional Berhad (PNB) has put up the 40-year Menara MIDF at Jalan Raja Chulan for sale. The 21-storey building with two levels of basement parking (208 bays) and circa 160,000 sq ft NLA has an asking price of RM140 million to RM150 million. Its only occupier, Malaysia Industrial Development Finance Berhad (MIDF), is set to move to the new Merdeka 118 tower upon its completion in 2021.

Great Eastern Life Assurance (M) Bhd had called for a tender exercise for its Menara Weld office building and The Weld Shopping Centre located at the intersection of Jalan Raja Chulan and Jalan P Ramlee. The reserve price of RM270 million for the 26-storey office tower, offering circa 269,953 sq ft NLA, and the adjoining six-storey retail mall with circa 130,047 sq ft NLA, translates to RM675 per sq ft overall. The buildings with four levels of basement parking (445 bays) sit on a piece of freehold land measuring circa 68,932 sq ft.

In August, KPMG Malaysia on behalf of Felcra Properties, put up an invitation for expression for Semarak 20 project including "to acquire" the project on an 'as is where is' basis, joint venture, or other acquisition structure to be proposed by interested buyer. Felcra Bhd has been considering various options to revive the project that was about 42% completed as of September 2018.

There was only one notable office transaction in 2H2019, namely Wisma TT in Bandar Sunway (Refer Figure 4).

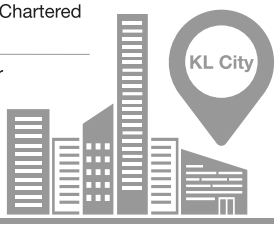
Figure 3

Occupancy and Rental Trends in Kuala Lumpur 2013 – 2019(p)

Source: Knight Frank Research
(p) = preliminary data

Table 5
Selected Notable Tenant Movements 2H2019

Building Name	Remarks
Equatorial Plaza Approx. Space (sq ft) : ~ 100,000	Relocate from Menara Standard Chartered • Standard Chartered
Menara Citibank Approx. Space (sq ft) : ~ 145,000	Relocate from Cap Square Tower • Citibank
Menara Prudential Approx. Space (sq ft) : ~ 20,000	Moving In • TRX City Sdn Bhd (formerly known as 1MDB Real Estate Sdn Bhd)



Building Name	Remarks
Vertical Corporate Tower B Approx. Space (sq ft) : ~ 60,000	Moving in • NCR Corporation • LexisNexis
Platinum Sentral Approx. Space (sq ft) : ~ 73,500	Moving In • Spaces (Co-working operator)
Menara Etiqa Approx. Space (sq ft) : ~ 60,000	Moving in • UP Gen • Howden Insurance Brokers • RSPO
Menara Kembar Bank Rakyat Approx. Space (sq ft) : ~ 70,000	Moving in • Teledirect Malaysia

Building Name	Remarks
KYM Tower Approx. Space (sq ft) : ~ 19,000	Moving In • Colony @ Mutiara Damansara
Symphony Square Approx. Space (sq ft) : ~ 55,000	Moving in • Zimmet Biomet • Boardroom Corporate Services (KL) Sdn Bhd • Mary Kay (Malaysia) Sdn Bhd • Symphony Life Berhad
Nucleus Tower Approx. Space (sq ft) : ~ 25,000	Relocate from Menara Gamuda • Adidas (M) Sdn Bhd Moving In • Elanco Malaysia Sdn Bhd

Source: Knight Frank Research

Figure 4
Notable Investment Sales & Transactions 2H2019

Wisma TT
Approx. NLA (sq ft)
69,686
Consideration
RM25.8 mil / RM370 per sq ft

Source: Knight Frank Research
Note:
1. PWF Consolidated Bhd had on July 1, 2019 entered into a Sale and Purchase Agreement (SPA) to acquire the seven (7)-storey stratified commercial building from Tropicana Wisma TT Sdn Bhd for a consideration of RM25.8 million. The building consists of four storeys of commercial space, three storeys of car park and a basement car park.

OUTLOOK

In the New CBD, the completion of better grade / Prime A+ office space continues to heighten competition as landlords of existing and new buildings compete for the same pool of tenants / occupiers. On a positive note, investment incentives announced in the recent National Budget 2020 to encourage more inbound investment from Fortune 500 companies and "global Unicorns" in the high technology, manufacturing, creative and new economic sectors over the next five years coupled with concerted efforts by InvestKL in attracting more MNCs to invest in the country, will have a multiplier effect on the country's economy and real estate market due to the creation of more job opportunities. Newly completed buildings in on-going mega developments such as TRX and other matured economic clusters which offer good and high specification office space at competitive rentals as well as attractive tenancy terms, will also appeal to this category of occupiers.

Meanwhile, the matured decentralised office markets in KL Fringe and Selangor, are expected to hold steady supported by strong domestic and regional occupier demand.

The growing availability of good grade space at competitive rentals in city fringe and decentralised office locations heightens competition in the tenant-led office market. Well-connected office locations supported by improved road and rail infrastructure as well as a wide array of amenities continue to garner strong demand.

We see a growing trend of old / dated office buildings being repurposed for new / alternative uses depending on the location and neighbourhood / surrounding developments etc. With the current oversupplied office market, there are developers reviewing their approved / proposed office developments for other potential uses.

Malaysia's improved its ranking to 12th position from 15th previously in the World Bank Doing Business 2020 report, supported by on-going reform initiatives. The country scored 81.50 points amongst 190 global economies.

KLANG VALLEY RETAIL MARKET

HIGHLIGHTS

The MIER Consumer Sentiments Index (CSI) trended lower to record at 84.0 points in 3Q2019, its lowest reading since 4Q2017.

Retail sales growth improved slightly on the quarter to register at 1.8% in 3Q2019 (2Q2019: 4.5%). The retail sales growth rate for the full year of 2019 has been revised downwards from 4.4% to 3.7%.

There are no malls scheduled for opening in 2H2019. Most of the under construction shopping centres / supporting retail components within integrated developments have delayed their completion / opening to the following year (2020).

The Weld and Strand Mall are up for sale.

MARKET INDICATIONS

The MIER Consumer Sentiments Index (CSI) dipped 9.0 points to record at 84.0 points in 3Q2019 (2Q2019: 93.0 points), its lowest reading since 4Q2017. The index has remained below the 100-point threshold for four consecutive quarters as consumers are increasingly cautious with their spending amid growing concerns on the global and domestic economies.

Retail sales growth improved slightly on the quarter to register at 1.8% in 3Q2019 (2Q2019: 4.5%). The retail sales growth rate for the full year of 2019 has been revised downwards from 4.4% to 3.7%.

SUPPLY & DEMAND

The cumulative supply of retail space in Klang Valley remains at 60.48 million sq ft as of 2H2019. Despite completion, new malls are delaying their opening to 2020.

By the first half of 2020, six shopping centres / supporting retail components within integrated developments with collective retail space of circa 2.23 million sq ft are scheduled for completion / opening. They are Tropicana Gardens Mall, Pacific Star retail podium, retail components at The Exchange 106 @ Tun Razak Exchange and Lot 91 @ KLCC, KL East Mall and Queensville Lifestyle Shopping Mall.

Amid heightened competition and increased challenges in the retail market, selected existing shopping centres have embarked on asset enhancement initiatives (AEIs) cum rejuvenation plans to cater to current shopping habits.

The annex block of Sungei Wang, spanning circa 171,000 sq ft, has been converted into a lifestyle zone housing specialty stores. JUMPA @ Sungei Wang, which opened in September, has achieved about 85% leasing commitment with key tenants such as Beast Park, an indoor theme park by Camp5 - Asia's premier indoor rock climbing gym, MinNature, Anta, Skechers, Puma, Outside, Love Bonito, Boundlezz, Restaurant Yi Poh and SRK Noodle House.

Also within the Bukit Bintang shopping belt, the iconic Starhill Gallery – a retail asset owned by Starhill Global Real Estate Investment Trust (SGREIT), is set for major transformation to be overseen by regional consultants. The refurbishment will entail refreshing common areas as well as improving spatial layout and circulation. Slated for full completion by 2021, the AEI will also add 162 guest rooms to the adjoining JW Marriott Kuala Lumpur via the conversion of the top three floors of the luxury retail asset.

Meanwhile, Paradigm Mall in Petaling Jaya sees the debut of ESCAPE Challenge, an indoor version of the famous ESCAPE Park in Penang. Spanning 35,000 sq ft, the indoor recreational centre operated by Sim Leisure Group is expected to improve footfall to the mall.

Setia City Mall, a joint-venture project between S P Setia Bhd and Lendlease Malaysia, is currently embarking on its Phase 2 expansion. The RM500 million expansion spanning 450,000 sq ft over three floors of the mall's new wing will increase its existing floor space to over 1.2 million sq ft when completed in 2020.

The review period also sees the expansion and downsizing / closure of selected hypermarkets due to challenges in the business operating environment.

Lulu Group, one of the largest retail operators in the Middle East which made its maiden debut with a 250,000 sq ft outlet in CapSquare in 2016, has increased its footprint in the country with the opening of its second hypermarket spanning about 80,000 sq ft in 1 Shamelin Mall. The group will next operate a 150,000 sq ft hypermarket cum departmental store at Setia City Mall Phase 2.

JUMPA @ Sungei Wang

GCH Retail (M) Sdn Bhd, the largest supermarket and hypermarket operator in Malaysia by stores has shut down at least 20 non-performing Giant and Cold Storage outlets nationwide. Moving forward, GCH will continue to refresh its stores nationwide to remain competitive and better meet the needs of its customers amid changes in the retail landscape.

Following the government's change in rules to allow foreign hypermarket operators to set up smaller stores, Tesco Stores (M) Sdn Bhd has opened its first 2,000 sq m store @ Tesco Wangsa Walk. Moving forward, the company is looking at opening more same concept stores.

The partial closure of Starhill Gallery for transformation work since October saw the movement of tenants such as Valentino Garavani and Van Cleef & Arpels to nearby Pavilion Kuala Lumpur. New retailers making their foray include Halcyon Days, lululemon, Sang Pisang and Xing Fu Tang.

Suria KLCC has welcomed premium and lifestyle brands such as the Stuart Weitzman, Diane Von Furstenberg, Kate Spade, Off White, Bimba Y Lola, lululemon, and Gucci Beauty during the review period.

Santan, an inflight food and beverage retailer has made its physical debut at Mid Valley Megamall. Xiao Long Kan Chinese Fondue is also making its way together with Xing Fu Tang, A&W and Maison Berger Paris. Popular New York-born skincare label, Fresh, has also opened its first-ever stand-alone boutique in the nation at Mid Valley Megamall.

In The Gardens Mall, a series of renovation has taken place for selected luxury brands. The new Louis Vuitton outlet has reopened in September whilst renovation at the Gucci outlet is still on-going. Beauty in The Pot, a hotpot restaurant popular for its beauty collagen broth, had its soft launch in November.

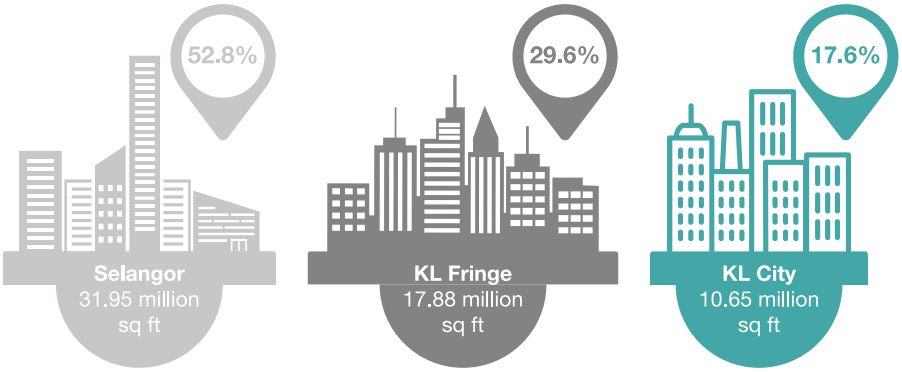
Another event worth mentioning is the opening of the long awaited link bridge connecting The Gardens Mall and Abdullah Hukum LRT. The bridge crosses the Klang River and the Bangsar-Petaling bypass, tapping more than 330,000 ridership from the Kelana Jaya LRT's line.

Iconic Ben & Jerry ice-cream has made its debut at Sunway Pyramid, its first in Malaysia. Other notable openings include Sunway Pharmacy flagship store on Lower Ground 2, Royce, Lego, Rocku Yakiniku, Christy Ng, The North Face and Natura.

At 1 Utama Shopping Centre, Swiss watchmaker Tag Heuer has opened its sixth and latest boutique in Malaysia. Other new entrants at the popular mall include Xin Dan Ji, Cộng Cà Phê and Yomie's Rice.

Figure 5

Klang Valley: Existing Cumulative Supply of Retail Space (Net Lettable Area) 2H2019



Source: Knight Frank Research

Standalone beauty boutiques such as Dior Beauty, Armani Beauty and YSL Beauté continue to spring up in popular shopping centres.

In the Food & Beverage (F&B) segment, popular local brands such as Tealive, JLD dragon, Marrybrown and The Manhattan Fish Market are expanding overseas.

PRICES & RENTALS

There were no notable transactions of shopping centres in the review period.

The Weld and Strand Mall, however, are up for sale.

Insurer, Great Eastern Life Assurance (M) Bhd, is calling for bids for The Weld, a 6-storey retail mall and the adjoining Menara Weld, a 26-storey office tower. The reserve price for both assets with collective NLA of 400,000 sq ft is RM270 million or RM675 per sq ft.

Meanwhile, Strand Mall which is located within the 18.6-hectare integrated commercial development of Encorp Strand in Kota Damansara, has reportedly received many enquiries. Owned by Encorp Bhd, the 3-level retail mall with circa 435,000 sq ft NLA is estimated to worth more than RM320 million or RM736 per sq ft. It is about 65.0% occupied to date.

Prime and established regional and neighbourhood shopping centres with proven track record of high visitation remain as the preferred choice for retailers, both local and international, even at high rentals as there are potential to achieve better sales.

The shopping icons in Kuala Lumpur City, namely Suria KLCC and Pavilion Kuala Lumpur continue to command higher average monthly gross rentals averaging at about RM37.00 per sq ft and RM28.00 per sq ft respectively. The popular malls enjoyed near full occupancy at 98.8% and 98.7% respectively.

In Kuala Lumpur Fringe, Mid Valley Megamall and The Gardens Mall command average monthly gross rentals of RM17.00 per sq ft and RM16.00 per sq ft respectively. The occupancies of these malls are 99.3% and 97.2% respectively.

As for the other popular retail destinations such as Sunway Pyramid and The Mines in Selangor, the average gross rentals are in the region of RM16.00 per sq ft and RM8.00 per sq per month. The malls have occupancies of 98.8% and 89.1% respectively.

The estimated rental is derived from the gross revenue as reported in the respective Annual Report.

OUTLOOK

The retail industry continues to witness the radical move towards omnichannel approach – bricks and clicks.

ZALORA, Asia's leading online fashion destination has continued to expand its line of products under the categories of fine leather and goods, shoes, jewellery, watches and clothing from coveted local and international brands to cater to a growing diverse online market. It now also offers products from global luxury brands such as Anya Hindmarch, Burberry, Chloé, Fendi, Gucci, and Prada.

Taobao has continued to expand in Malaysia. Following the opening of its first Taobao Home Experience Centre at Jaya One in Petaling Jaya, it has now opened a physical store spanning over 5,000 sq ft at MyTown Shopping Centre. The outlet offers a wide range of products ranging from electronics to home appliances and make-up. It also features new retail technology such as QR code, electronic price tag and alike.

Another notable retailer that has gone online is China home living brand Samanea by LESSOHOME. The brand, which opened its first outlet spanning more than 165,000 sq ft in Glo Damansara, occupying more than 80 lots from ground floor to level 3 of the mall, has a collaboration with Lazada via LSDD. The latter is an online product experience centre concept store that displays products ranging from furniture to electronic goods and where purchasers are able to visit the store to touch and feel the product before purchasing the items through the Lazada online application.

1 Utama Shopping Centre is the first mall in Malaysia to adopt a retail cashless system. Besides its digital 1PAY e-Wallet, the mall has also launched its online shopping platform.

To survive in this digital age, shopping centres will need to re-invent themselves as retail spend continues to shift online. In the short to medium term, we expect to see more operators and retail players embracing technological changes as well as interactive cum experiential engagements to drive footfalls and boost sales as the country's e-commerce market which had reportedly tripled in size since 2015 continues its strong growth momentum.

Figure 6

Klang Valley: Incoming Supply of Retail Space (Net Lettable Area) 2H2019 - 1H2020

1H2020 - Expected Completion / Opening

Retail Component of Exchange 106 @ TRX
KL City
126,000 sq ft

Retail Component at Lot 91 @ KLCC
KL City
73,000 sq ft

Queensville Lifestyle Shopping Mall
KL Fringe
412,000 sq ft

Tropicana Gardens Mall
Selangor
1,000,000 sq ft

KL East Mall
Selangor
380,000 sq ft

Pacific Star Retail Podium
Selangor
240,000 sq ft

Source: Knight Frank Research

HIGHLIGHTS

There is higher demand for logistics services and warehousing space due to growth trajectory in the e-commerce segment.

As of 2018, the existing supply of industrial space designated for logistics and warehousing use in Klang Valley as monitored by Knight Frank Malaysia totalled circa 41 million sq ft with not less than 3.9 million sq ft of space completed towards the end of 2019.

The expansionary Budget 2020 supports growth in the logistics sector with the Federal Government allocating RM50 million for the repair and maintenance of roads leading to Port Klang.

Moving into 2020, the outlook for the industrial sector remains upbeat.

KLANG VALLEY INDUSTRIAL MARKET

SPECIAL FOCUS ON THE LOGISTICS / WAREHOUSING SEGMENT

MARKET INDICATIONS

The Logistics and Trade Facilitation Masterplan (2015 -2020), which is in its second phase (2017 – 2019) of implementation, will elevate Malaysia's position as a regional player. Notable projects and initiatives that have been unveiled include the proposed development of the Pulau Carey Port-Industrial City Project, the East Coast Rail Link (ECRL), the Digital Free Trade Zone (DFTZ) and the Regional e-Commerce and Logistics Hub at KLIA Aeropolis.

The logistics industry plays a pivotal role in supporting the manufacturing sector's supply chain by facilitating the flows of goods. Underpinned by increasing global e-commerce trade and consumer spending, logistics services are poised for growth and this will translate to higher demand for logistics and warehousing space.

In 2018, Malaysia recorded e-commerce sales of circa RM12.53 billion, this translates to e-commerce sales per capita at circa RM384. The compound annual growth rate (CAGR) of e-commerce sales between 2018 and 2023 is projected to be 13.9% (Source: China E-Business Research Centre and Statista and Transport Intelligence).

During the first half of 2019, 366 manufacturing projects with a total investment value of RM33.1 billion were approved by Malaysian Investment Development Authority (MIDA) (1H2018: 288 manufacturing projects with RM19.0 billion). The USA topped with investments of RM11.7 billion, followed by China (RM4.8 billion) and Singapore (RM3.2 billion).

Figure 7

Klang Valley: Existing Logistics / Warehouse Space as of 2018

- Shah Alam / Bukit Jelutong 30%
- Port Klang / Bukit Raja 25%
- Petaling Jaya / Subang Jaya 10%
- Sepang 13%
- Rawang / Bukit Beruntung 7%
- Others 15%

Source: Knight Frank Research

Note:
1. The existing space were estimated by Knight Frank Research based on various sources.

SUPPLY AND DEMAND

The existing supply of industrial space designated for logistics and warehousing use in Klang Valley as monitored by Knight Frank Malaysia totalled circa 41 million sq ft as of 2018 with more than half of the space found in the localities of Shah Alam / Bukit Jelutong and Port Klang / Bukit Raja. The strategic locations of these areas surrounded by matured neighbourhoods with well-connected infrastructure coupled with their proximity to Port Klang are key catalysts.

In the locality of Shah Alam / Bukit Jelutong, notable existing mega logistics / warehouse facilities with at least 500,000 sq ft of space include Mapletree Logistics Hubs Shah Alam at Section 22, Mapletree Shah Alam Logistics Park at Section 23, CEVA Logistics Central Distribution Center (CDC 1 & 2) at Bukit Jelutong, PKT One Logistics Hub at Section 32, Shah Alam and DHL Malaysia Integrated Logistics Centre at Section 23, Shah Alam.

Meanwhile, Alpha Galaxy's National Distribution Warehouse is notably the giant facility in the locality of Bukit Raja.

Collectively, these mega facilities in the localities of Shah Alam / Bukit Jelutong and Port Klang / Bukit Raja account for circa 6.6 million sq ft of logistics / warehousing space.

The first half of 2019 witnessed the completions of Galaxy Logistics Hub in Kuala Selangor and CJ Century's Headquarters in Bukit Raja while the second half of the year observed the physical completion of AREA Logistics @ Ampang and Nippon Express warehouse in Section 22, Shah Alam. These warehouses collectively add circa 3.9 million sq ft of space to the cumulative stock.

By 2020 and beyond, more than four million sq ft of warehousing space are coming on-stream. Notable under construction projects include flatted warehousing at Hap Seng Industrial Hub @ Shah Alam, D Project Malaysia I in Shah Alam, Ikea Distribution Centre in Pulau Indah, KLIA Aeropolis Digital Free Trade Zone (DFTZ) in Sepang, EMHub in Kota Damansara and Axis Mega Distribution Centre (Phase 2) in Sijangkang.

For industrial players looking to develop big-box built-to-suit logistics / warehouse facilities, it is noteworthy to mention that industrial parks such as Phase 2 of Eco Business Park V in Puncak Alam, THE COMPASS @ Kota Seri Langat, LYL Logistics Park @ U10 in Shah Alam and Bandar Bukit Raja Industrial Gateway are offering sizeable land parcels for such developments.

As for demand, it is noted that substantial existing logistics / warehouse space are owned by investors / real estate investment trusts (REITs) with the majority of these assets tenanted by logistics companies. Key tenants of industrial assets owned by Axis REIT and Atrium REIT include Agility Logistics, CJ Century Logistics, LF Logistics and so forth.

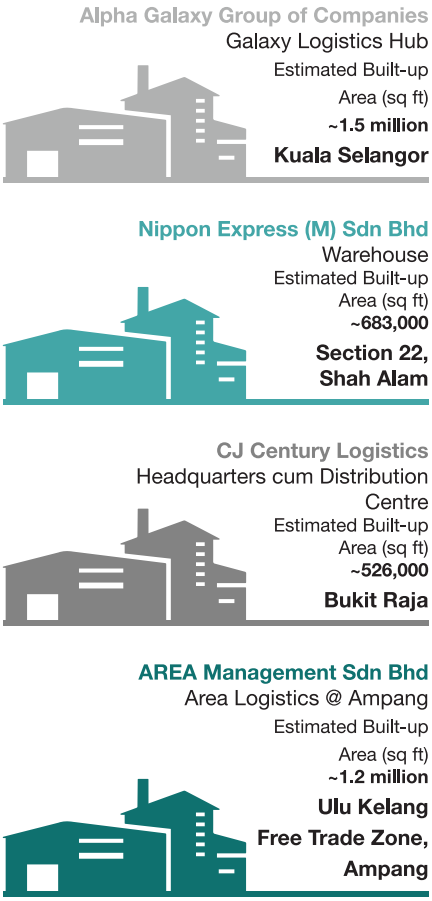
Moving forward, the exponential growth in Malaysia's e-commerce sector will likely provide a strong tailwind for businesses of logistics companies, which will, in turn, increase the demand of logistics / warehousing space.

With an increasing number of manufacturers / industrialists adopting an asset-light model to allocate more capital for the operations of their businesses, this has led to a growing demand for built-to-suit facilities on long lease options to optimise costs.

Sime Darby Property Bhd together with Mitsui & Co Ltd and Mitsubishi Estate Co Ltd have unveiled the first two tenants of their RM500 million Bandar Bukit Raja Industrial Gateway (BBRIG), namely global logistics service provider Leschaco (M) Sdn Bhd and consumer electronics chain stores Senheng Electric (KL) Sdn Bhd.

Figure 8

Klang Valley: Notable Newly Completed Logistics / Warehouse Facilities 2019



Source: Knight Frank Research

Table 6

Klang Valley: Notable Under Construction Logistics / Warehouse Facilities

Owner / Developer	Description	Location	Target Completion	Estimated Built-up Area (sq ft)
Hap Seng Land	Hap Seng Industrial Hub @ Shah Alam (Flatted Warehousing)	Section 23, Shah Alam	2Q 2020	~542,000
Daiwa House Industry Co Ltd	D Project Malaysia I	Section 33, Shah Alam	Phase 1: 2Q2020 Phase 2: 2Q2021 Phase 3: 2Q2022	Phase 1: ~178,000 Phase 2: ~196,000 Phase 3: ~912,000
Ikea Supply (Malaysia)	Ikea Distribution Centre (DC)	Pulah Indah, Klang	3Q2020	> 1.0 million
Cainiao KLIA Aeropolis Sdn Bhd *(JV between Cainiao HK and Malaysia Airports)*	KLIA Aeropolis Digital Free Trade Zone (DFTZ)	Sepang	1H2020	Comprises cargo and warehouse facilities on a 10-hectare land
Alcom Group Berhad	EMHub	Kota Damansara	2020	6-storey ramp up facility with unit BUA ranging 2,196 sq ft to 4,014 sq ft Total ~669,000
Axis REIT	Axis Mega Distribution Centre (Phase 2)	Sijangkang, Teluk Panglima Garang	To be confirmed	~485,000

Source: Knight Frank Research

The properties will be built to match the tenants' business requirements in realising the efficiency of their operations.

Investors / REITs possess an insatiable appetite for large industrial premises attributed to income stability and attractive yields as well as the presence of favourable demand for this asset class.

PORT KLANG

World's top 12 port by container throughput in 2018, second in Southeast Asia after Singapore.

Container throughput by ports mainly support the cross-border export and import of goods. There are nine ports in Peninsular and 13 ports in East Malaysia.

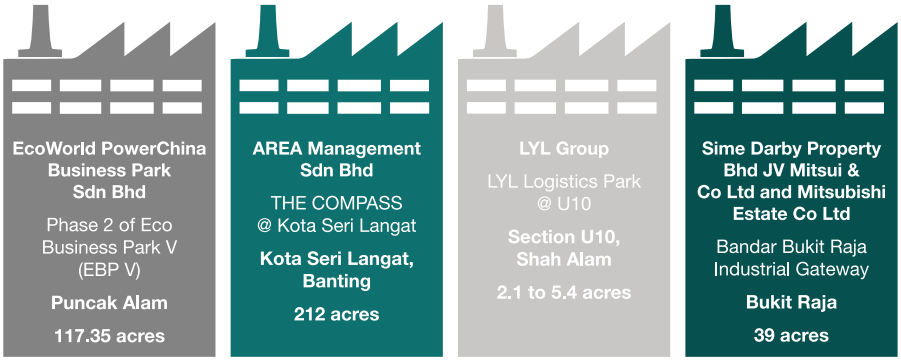
In 2018, container throughput via ports in Malaysia are estimated to be 8.79 million TEUs (excluding transhipment). Port Klang (Northport and Westport) handled over 50% of the container throughput with an estimated 4.75 million TEUs.

There are plans to elevate Port Klang as a regional maritime centre and cargo logistics hub combining manufacturing, distribution, cargo consolidation, bunkering as well as ship repair.

A RM50 million allocation for the repair and maintenance of roads leading to Port Klang was announced in Budget 2020.

Figure 9

Klang Valley: Notable Industrial Parks with Sizeable Land Parcels for Sale



Source: Knight Frank Research

Klang Valley: Asking Rental Rates of Notable Existing Logistics / Warehouse Facilities 2H2019

Mapletree Shah Alam Logistics Park	Mapletree Logistics Hub	Galaxy Logistics Hub
Section 23, Shah Alam	**Section 22, Shah Alam**	**Puncak Alam**
Asking Monthly Rental Rate over BUA (RM / sq ft) Circa 1.80 - 2.00	**Asking Monthly Rental Rate over BUA (RM / sq ft)** Circa 2.00 - 2.20	**Asking Monthly Rental Rate over BUA (RM / sq ft)** Circa 1.65

Klang Valley: Asking Rental Rates of Notable Incoming Logistics / Warehouse Facilities 2H2019

Hap Seng Industrial Hub	D Project Malaysia I	Area Logistics @ Ampang
Section 23, Shah Alam	**Section 33, Shah Alam**	**Ulu Kelang Free Trade Zone, Ampang**
Asking Monthly Rental Rate over BUA (RM / sq ft) Circa 1.80 – 2.50	**Asking Monthly Rental Rate over BUA (RM / sq ft)** Circa 2.10	**Asking Monthly Rental Rate over BUA (RM / sq ft)** Circa 2.00

Source: Knight Frank Research

PRICES AND RENTALS

The rental rates on renewal for notable existing facilities such as Mapletree Shah Alam Logistics Park and Mapletree Logistics Hub, which are close to full occupancy are likely to be trending upward. The favourable rental rates are mainly attributed to the lack of modern warehousing space with high specification in the established locale of Shah Alam.

Meanwhile, the asking rental of the newly completed Galaxy Logistics Hub in Puncak Alam is in the region of RM1.65 per sq ft per month.

As for the upcoming industrial developments in Shah Alam, namely Hap Seng Industrial Hub and D Project Malaysia I, the asking rentals hover between RM1.80 per sq ft and RM2.50 per sq ft per month depending on the scheme, type and size of space, specification, and other value factors.

The newly completed Area Logistics @ Ampang in the fringe of Kuala Lumpur city command asking rentals in the region of RM2.00 per sq ft per month.

Klang Valley: Notable Transactions of Industrial Premises in 2019

OCT

Mapletree Logistics Hub Shah Alam

Land Area / Built-Up Area:
42.7 acres / 2.2 mil sq ft

Vendor / (Purchaser):
Winning Paramount Sdn Bhd
(Semangkuk 2 Bhd, by Maple Logistics Trust)

Consideration: **RM826 million**

MAY

Persiaran Jubli Perak, Sec. 22 of Shah Alam

Land Area / Built-Up Area:
15.2 acres / 261,402 sq ft

Vendor / (Purchaser):
AESBI Power Systems Sdn Bhd
(Symphony Warehouse Sdn Bhd, a subsidiary of Mapletree Dextra Pte Ltd)

Consideration: **RM124 million**

JUL

Jalan Astaka U8/87, Shah Alam

Land Area / Built-Up Area:
12.2 acres / 56,952 sq ft

Vendor / (Purchaser):
BASF (M) Sdn Bhd (Unitrade Sdn Bhd)

Consideration: **RM101 million**

JUL

Jalan Haji Abdul Manan 1, Batu 5 1/2, Off Jaln Meru, Klang

Land Area / Built-Up Area:
16.2 acres / 207,826 sq ft

Vendor / (Purchaser):
Leader Cable Industry Berhad
(Maxter Glove Manufacturing Sdn Bhd)

Consideration: **RM65 million**

JUL

Persiaran Raja Muda, Sec. 16 of Shah Alam

Land Area / Built-Up Area:
7 acres / 174,757 sq ft

Vendor / (Purchaser):
Permodalan Nasional Bhd
(Pacific Trustees Berhad, the Trustee of Atrium REIT)

Consideration: **RM45 million**

Source: Knight Frank Research

Area Logistics @ Ampang

Incoming Flatted Warehousing at Hap Seng Industrial Hub at Section 23, Shah Alam

OUTLOOK

The growth trajectory of Selangor's industrial property market is expected to continue as a result of the state's robust manufacturing sector coupled with the positive trend in the logistics segment.

The expansionary Budget 2020 supports the growth of the logistics sector with the Federal Government allocating RM50 million for the repair and maintenance of roads leading to Port Klang. The plans to elevate Port Klang as a regional maritime centre and cargo logistics hub combining manufacturing, distribution, cargo consolidation, bunkering as well as ship repair further favour the state's industrial sector.

The on-going East Coast Rail Link (ECRL) which aims to connect Port Klang on the Straits of Melaka to Kota Bahru on the South China Sea, would be a boon for the logistics sector as freight and shipping time will be reduced significantly. Time efficiency plays an important role in logistics and supply chain management, and as such, key infrastructure investments will continue to draw the attention of investors and industrial players.

On the global front, the on-going US-China trade war is widely expected to impede growth and weigh down on export-oriented countries such as Malaysia. Nonetheless, the trade dispute also creates opportunities for trade and investment diversions to Malaysia, as American and Chinese companies look to move some of their manufacturing out of China to escape tit-for-tat tariffs imposed on each other's products. Southeast Asian manufacturing countries including Vietnam and Malaysia stand ready to benefit from this supply chain reconfiguration.

Moving into 2020, the outlook for the industrial sector remains promising.

PENANG PROPERTY MARKET

HIGHLIGHTS

Penang recorded RM13.2 billion in total approved investments in the manufacturing sector from January to September 2019, a huge jump over the RM5.78 billion received for Year 2018. It has surpassed the State Government's target for Year 2019 set at RM10 billion in total investments (Source: MIDA).

High-end condominiums priced above RM1 million contribute to 16% of all types of overhang residential properties in Penang State as at 2Q2019 (Source: Napic). The Penang State Government has proposed a higher threshold of RM800,000 compared to the RM600,000 limit as announced under Budget 2020 for foreigners to purchase high-end condominiums as a step to correct the overhang situation.

Rentals and occupancy rates at better grade office buildings in George Town and Bayan Baru have generally remained stable in 2H2019.

The retail industry continues to be challenging for the brick and mortar players with competition from online shopping.

MARKET INDICATIONS

Penang's Bayan Lepas Light Rail Transport (LRT) project has received conditional approval from the Transport Ministry this July. The LRT, to cost RM8.4 billion, is part of the RM46 billion Penang Transport Master Plan (PTMP) and spans 29.9km running through 27 stations starting from Komtar through Gelugor, Bayan Baru, Bayan Lepas and Penang International Airport before ending at one of the three to be reclaimed islands.

Consortium Zenith Construction is expected to commence work on the 5.7km Ayer Itam – Tun Dr Lim Chong Eu Bypass costing RM851 million by end October 2019. Completion is scheduled in 36 months.

Tanjung Pinang Development (TPD), a subsidiary of Eastern & Oriental Berhad, has on October 7, 2019 partially handed over to the State the first 3.23 hectares of a pre-agreed 53.05 hectares of land at Gurney foreshore to be reclaimed under a concession agreement signed between TPD and the Penang State Government with full delivery by December 2022. The full handover is expected to be by 3Q2020. The proposed Gurney Wharf, a seafront park-in-the-city project which will house a food court, restaurants, promenade, wetlands, beaches, children's playground, skate park and water taxi pier, is expected to be completed in 2021 at a cost of RM180 million.

IJM Land Bhd has joined up with Singapore-based company, Perennial Real Estate Holdings Ltd to develop the "Light City Penang" at The Light Waterfront over two phases instead of the original one-phase project with works to commence by 1Q2020. Phase 1 with a gross development value (GDV) of RM3 billion will comprise an integrated commercial development with 680,000 sq ft of retail space, a 500-room four-star hotel and office tower, a residential area named "Mezzo" comprising 456 units of condominiums and a Light-Rail Transit (LRT) station under the Bayan Lepas LRT line with scheduled completion in 2023. Phase 2 with a GDV of RM1.5 billion will comprise an extension of 300,000 sq ft of retail space, a 245-room five-star hotel and office tower, and another residential area called "Essence" with over 300 housing units.

RESIDENTIAL

In the high-end condominium segment, Crimson Omega, part of the Suiwah Group, is developing 270 units of serviced apartments in a 39-storey tower sitting atop a 9-storey mall with 2 levels of basement carpark as part of an integrated development in Bandar Baru Air Itam which will also have two other 18-storey towers housing a 320-room hotel and 400 SOHO units respectively. It is understood that some 30% of the serviced apartments with standard units sized 1,300 sq ft, 1,500 sq ft and 1,900 sq ft had been sold.

In the high-end landed property segment, Kensington Gardens is developed as Phase 1 of Jesselton Villas. The latter is a 5-parcel project on a 23-hectare plot at Penang Turf Club, adjacent to the posh Jesselton Heights with total GDV of RM1 billion to be developed over a span of 10 years. Kensington Gardens, comprising a 10.5-hectare site with 69 bungalow plots sized between 5,995 sq ft and 9,634 sq ft was launched in 2016 at an average pricing of RM674 per sq ft. The remaining 15 to 18 bungalow plots are currently available for sale at RM4.5 million to RM6.8 million.

Parcels 2 to 5 are still under the planning stage. Parcel 2 is being planned for a combination of courtyard villas (low-rise condominiums) and bungalows over a land site of 4.9 hectares. To be launched next year, the courtyard villas sized from 2,800 sq

ft come with indicative pricing of RM2.5 million onwards. The remaining three parcels will comprise medium-cost apartments, affordable housing and high-rise condominiums.

Up to October 2019, there were very few recorded transactions of high-end condominiums. A 4,521-sq ft unit in Infinity Condominium, Tanjung Bungah was transacted at RM4.15 million or RM918 per sq ft. At Springtide Residences, a 5,220 sq ft-unit was sold for RM4.55 million or RM871 per sq ft.

In 1H2019, there were four transactions of similar large-sized units at The Cove, Tanjung Bungah (5,834 sq ft) with prices ranging from RM381 per sq ft (sale by auction) to RM544 per sq ft. Transactions of smaller sizes units (1,187 sq ft to 1,995 sq ft) at Quayside Resort Condominiums, Seri Tanjung Pinang range from RM934 per sq ft to RM1,036 per sq ft. At Light Collection III which is located close to Penang Bridge, transactions of units sized 1,851 sq ft to 2,174 sq ft are analysed at RM783 per sq ft to RM891 per sq ft.

During the review period, the upper band of asking rents are noted to be slightly lower compared to 1H2019. For larger sized units in Tanjung Bungah, asking rents are still generally between RM1.20 per sq ft and RM2.20 per sq ft per month with the upper band asking from RM1.80 per sq ft to RM2.50 per sq ft per month. For similar sized units in Gurney Drive, asking rents vary from RM1.70 per sq ft to RM2.60 per sq ft per month whilst for smaller sized units in Tanjung Tokong and Gurney Drive, it range from RM1.90 per sq ft to RM2.65 per sq ft per month. It is noted that some landlords are still asking higher rents of more than RM3.30 per sq ft per month.

OFFICE

The existing supply of office space (buildings of 10-storey and above) remains at 1H2019's level of 5.71 million sq ft. There is no incoming supply for 2H2019.

New supply of office space will only enter the market in 1H2020. The scheduled completion of GBS One Mahsuri, a 2-storey Global Business Services (GBS) facility in Bayan Baru being developed by the Penang Development Corporation (PDC) in Bayan Baru, will contribute circa 80,000 sq ft upon completion. The Penang State Government is looking to attract more GBS investors to the state. Currently, there are more than 60 companies with GBS operations in the state, employing more than 12,000 workers in high-value jobs. Several MNCs with no physical manufacturing presence in Penang, such as Celestica, First Solar, Swarovski and UST Global have set up their shared services operations here.

IWG (International Workplace Group) / Regus, a co-working office operator, has in October, unveiled refurbished office space under "Spaces" at No. 2, Beach Street, an iconic heritage building within the UNESCO site of George Town. It has 283 dedicated desks and three meeting rooms set over two floors with an area of circa 16,232 sq ft. This is in addition to Regus's four other locations on Penang Island.

The average occupancy rate for the four prime buildings monitored in Georgetown is about 90.0% with individual occupancies varying from 80.0% to 100.0%. As for selected better-grade office buildings located beyond George Town, namely Menara IJM Land, Suntech@PenangCybercity and One Precinct, the occupancies are in the region of 95.0%.

In George Town, asking rents generally vary from RM2.80 per sq ft to RM3.80 per sq ft per month for upper floor space with passing monthly rents of RM3.80 per sq ft at Hunza Tower (fully occupied). Asking rents of the selected office buildings under review are tabulated below:

Table 7

Penang Island: Asking Gross Rents of Selected Purpose-built Offices

Building Name	Location	Asking Gross Rent (RM per sq ft / month)
Hunza Tower	George Town	3.80 (passing rent)
Menara Boustead Penang	George Town	2.80 to 3.10
Menara KWSP	George Town	2.90 to 3.00 (upper floors)
Al-Bukhary Building / WOU	George Town	3.60 (MSC Status Tier 1)
Menara Livingston	George Town	3.80 (MSC Status Tier 1)
MWE Plaza	George Town	2.80 (fixed rent)
Wisma Great Eastern	George Town	3.00
Menara IJM Land	Gelugor	3.80 (unit sized 1,098 sq ft)
SunTech@Penang Cybercity	Bayan Baru	3.60 (unit sized 1,278 sq ft)
One Precinct	Bayan Baru	4.50 (MSC Status Tier 1)

Source: Knight Frank Research

1st Avenue, Penang

Table 8
Penang Island: Future Supply of Office Space

Project / Location	NLA (sq ft)	Scheduled Completion	Remarks
***GBS One Mahsuri / Bayan Baru (next to PDC's office)**	80,000	1H2020	2-storey GBS facility
***VOS Lifestyle Suites / Bukit Dumbar**	90,000	2022	32-storey commercial building with NLA of 215,000 sq ft – office and hotel suites. Sale on strata basis
***Sunshine Tower / Bandar Baru Air Itam**	The entire project will comprise > 3.7 mil sq ft of mixed development.	2022	The office block is one of two 18-storey towers sitting atop a 9-storey retail podium and will house 400 SOHO units sized from 990 sq ft to 1,100 sq ft (for lease only). The other 18-storey block will accommodate a 320-room hotel. A higher 39-storey block sitting on the podium will feature 270 units of serviced apartments.
****The Light City / Light Waterfront**	370,000	Beyond 2022	28-storey office tower
****Bayan Baru (next to GBS@Mayang)**	500,000 to 600,000	N/A	2 multi-storey office blocks with car parks
****GSB@The Sea / Bayan Lepas**	410,000	N/A	Proposal on hold for now
****Hunza Group's "The Penang International Commercial City" - PICC / Bayan Baru**	N/A	N/A	As a later phase - 54-storey commercial building with 44-storey office tower / integrated development
Sunway Valley City / Paya Terubong	N/A	N/A	9-storey office block / integrated development
****Penang International Exchange (formerly known as Bayan Baru City Centre / Current site of Giant Bayan Baru)**	N/A	N/A	27-storey office suites / integrated development

*under construction **planned N/A = Not Available
Source: Knight Frank Research (as of October 2019)

RETAIL

The existing supply of purpose-built shopping space on Penang Island remained unchanged at 1H2019's level of 6.99 million sq ft. No new purpose-built shopping malls were completed on the island in 2H2019.

In the prime shopping malls, the monthly rental rates for ground floor retail lots have generally remained stable within the range of RM8.50 per sq ft to as high as RM45.00 per sq ft, depending on the mall, location and size of the units.

Occupancy rates for prime shopping malls on the island generally range from 90.0% to 98.0% whilst for secondary shopping malls, the range is generally from 70.0% to 90.0%.

Ideal United Bintang International Berhad (IUBI) has on September 13, 2019 announced that Ideal Homes Properties Sdn Bhd, a subsidiary of IUBI, has entered into a conditional sale and purchase agreement with 1st Avenue Mall Sdn Bhd (Vendor) to acquire 1st Avenue Mall for a cash consideration of RM153 million together with all onsite fittings, machinery, equipment and fixtures. Located along Jalan Magazine and considered part of KOMTAR, 1st Avenue Mall which is under a 99-year leasehold tenure is a 9-year old six-storey shopping mall with a basement and a 3-storey carpark (674 car park bays) and has a net lettable area of 407,076 sq ft.

IKEA Southeast Asia officially opened Phase 1 of its shopping centre which is linked to IKEA Batu Kawan on December 12, 2019. Tenants for Phase 1 with 80,000 sq ft of leasing space over 4 levels include Harvey Norman (50,000 sq ft), SportsDirect.com, Project Rock and 7-Eleven.

Table 9
Penang State: Future Supply of Retail Space

Project	Scheduled Completion
* **Penang Times Square Phase 3 & Phase 4** NLA (sq ft) : 341,971	Phase 3: 2Q2020 Phase 4: N/A
* **Sunshine Tower** NLA (sq ft) : 900,000	2022
****Sunway Valley City (Paya Terubong)** NLA (sq ft) : 1,000,000	2023
****The Light Waterfront Mall** GFA (sq ft) : Phase 1: 700,000 Phase 2: 400,000	2023

Project	Scheduled Completion
Phase 1, IKEA Shopping Centre NLA (sq ft) : 80,000 (gross)	4Q2019
***Penang Sentral** NLA (sq ft) : 400,000	2020
***Sunway Carnival Shopping Mall (expansion)** NLA (sq ft) : 330,000	4Q2020
****Gem Mall** NLA (sq ft) : 1,200,000	2021

*under construction **planned N/A = Not Available
Source: Knight Frank Research (as of October 2019)

INDUSTRIAL

Penang garnered RM13.2 billion in total proposed capital investments from 113 projects in the manufacturing sector for the first nine months of 2019 or a 23.0% share of the RM57.67 billion for the whole country. Foreign investments comprise 90.5% or RM12 billion with domestic investments at a low RM1.26 billion. In Year 2018, Penang received RM5.78 billion comprising 64.0% and 36.0% in foreign and domestic investments respectively.

With the on-going US-China trade war, Penang sets to gain as seen from Sanmina's relocation of production lines back to Penang from China as well as the observation of increased market activity for both sale and leasing in the state's industrial sector.

Sanmina Corporation, a US-based electronics manufacturing services provider which took over the production business of Motorola Solutions in Bayan Lepas in 2016, is relocating the production of Motorola's products back to Penang.

Tashin Holdings Bhd, which already operates in Seberang Perai, has announced new investment of RM25.5 million to build a new factory for wire mesh production and also to upgrade its steel processing line.

Hotayi Electronic (M) Sdn Bhd, a Taiwanese firm which has been operating in Penang since 1992, has opened a new 350,000 sq ft facility in Batu Kawan to expand its production lines at a reinvestment of RM1 billion. It is understood that the new plant "adopts the concept of Industry 4.0 and incorporates energy conservation features to reduce its carbon footprint."

National Instruments (NI), currently in Batu Maung on the island, announced expansion plans of USD 40 million (RM170 million) which will include building a second new plant of 160,000 sq ft over 6 acres of land with scheduled completion in 2022.

Smith + Nephew, a UK-based orthopaedic implant manufacturer, will be setting up a 250,000 sq ft plant in Batu Kawan with construction works to commence early 2020 and shipping out of products before end of 2022. This is its first facility in South-East Asia and is expected to generate more than 800 jobs over the next five years.

OUTLOOK

General market sentiments are still in the doldrums as the economy has yet to pick-up. Despite achieving a record RM13.2 billion in total approved investments in the manufacturing sector for the first nine months of 2019, Penang's economy is not enjoying any buoyant optimism.

The residential sector is still in a state of consolidation as evidenced by the lack of new launches and fewer transactions especially for high-end condominiums. Rentals have also generally weakened and the trend is expected to continue.

On the other hand, the office sector is still relatively healthy with the current supply remaining steady at 1H2019's level of 5.71 million sq ft for buildings of 10 storey & above. With little or no new incoming supply until 2022, the market for office is anticipated to remain healthy with good occupancies expected to continue for the prime buildings.

Similarly, the industrial sector is still holding out quite well. The remarkable garnering of RM13.2 billion in total proposed investments from 113 projects in the manufacturing sector in the first 9 months of the year has set the right mood for this sector resulting in increased market activity, for both sale and leasing. Future demand and outlook remains optimistic.

The retail sector will be facing challenging times and the weaker malls will face increasing downward pressures on both occupancies and rentals. The stronger leading malls with good tenant mix, good management and track record are expected to stay resilient although they will be operating in a tough environment in the short to medium term.

JOHOR PROPERTY MARKET

HIGHLIGHTS

As of June 2019, Iskandar Malaysia recorded total cumulative investment of RM302.09 billion with the manufacturing sector accounting for RM71.95 billion, a 14.7% increase increase y-o-y. China remains the major foreign contributor with RM40.65 billion of investment, followed by Singapore (RM20.57 billion) and the United States (RM8.11 billion).

Whilst some developers are holding back on launches of premium high-rise projects amid the oversupplied market, others offering competitively priced products in the RM500 per sq ft range remain optimistic.

Circa 1.85 million sq ft of retail space entered the market following the completion of Beletime @ Danga Bay, Sunway Big Box Mall in Medini and Toppen Shopping Centre.

The industrial sub-sector remains resilient with more transactions recorded during the review period.

Although asking rentals for purpose-built office space in the city centre remain relatively stable, incentives provided by landlords are seen to be slightly more generous.

MARKET INDICATIONS

According to the Malaysian Investment Development Authority (MIDA), 62 projects with investment value of RM3,978.5 million were approved in Johor during the review period (1H2019), placing the southern state in fourth position of total capital investment after Penang, Kedah and Selangor.

In 1H2019, Johor recorded a total of 20,972 transactions with collective value of RM9,091.92 million (1H2018: 20,992 transactions valued at RM8,840.27 million). The volume of transactions increased across all sub-sectors with exception of the agriculture segment. There was significantly higher market activity in the industrial sub-sector with a 65.2% and 27.5% increase in transacted volume and value respectively.

Medini moves one step ahead towards promoting blockchain technology with the introduction of the Blockchain Village at Medini (BVAM), which saw the debut of three Singapore blockchain based companies, namely Blockon Ventures Sdn Bhd, Nexuslabs Sdn Bhd and iCycle Malaysia Sdn Bhd.

Mah Sing has officially opened its four-star hotel in Medini. The 644-room hotel, Ramada by Wyndham Meridin in collaboration with Wyndham Hotel & Resorts, has reportedly received good response from foreign tourists coming from Singapore, China, Hong Kong, India and Vietnam.

The Pinewood Group, which opened Pinewood Iskandar Malaysia Studios in 2014, has mutually ended its 10-year partnership with Iskandar Malaysia. Sanrio Hello Kitty Town which has been operating in Puteri Harbour since 2012, will be closing down end of 2019.

On November 21, 2019, Ekovest Berhad has entered into conditional sales and purchase agreement with Iskandar Waterfront Holdings Sdn Bhd to acquire 90.95 acres of freehold land for RM1.05 billion (approximately RM265 per sq ft).

RESIDENTIAL

The scheduled completion of two notable residential developments in 2H2019, both located in Medini, Iskandar Puteri, namely The M by Macrolink (1,005 units) and Elysia Park by BCB Group (981 units), will bring the cumulative supply in Johor Bahru to 128,585 units, an increment of about 1.6% from the preceding period (1H2019: 126,599 units).

SKS Group has recently unveiled its residential tower known as Twin Tower Residence @ Bukit Chagar, Johor Bahru. The 41-storey serviced apartment block offers a total of 458 units sized from 559 sq ft to 1,216 sq ft with starting price of about RM700 per sq ft. The freehold project is targeted for completion in 2023.

WCT Land Sdn Bhd, a subsidiary of WCT Holdings Bhd, has officially launched Paradigm Residence on September 28, 2019. The residential tower is part of the integrated Paradigm JB development which comprises the existing 7-storey Paradigm Mall and a 200-room hotel to be known as Hyatt Place JB. The hotel will open in 2020. The residential tower, sitting atop the retail component, will offer 263 freehold units with built-up areas of 530 sq ft to 1,123 sq ft. The units are priced RM650 per sq ft on average.

UEM Sunrise has launched its maiden residential development in Desaru which has an estimated development value of circa RM2.8 billion. The Maris @ Desaru is part of the integrated development of Desaru Coast which also include Adventure Desaru Water Park, The Els Club Desaru Course as well as hotel & resort developments such as Hard Rock Hotel and The Westin Desaru Coast, to name a few. Precinct One of The Maris will offer 244 units of cluster houses and 16 semi-detached houses with built-up areas ranging from 2,059 sq ft to 2,666 sq ft. Prices for the cluster units start from RM630,000.

Linbaq Holdings Sdn Bhd has launched its mixed-use development known as Space

Residency in Taman Abad. The freehold project is to be developed over two blocks – a 60-storey serviced apartment tower and a hotel tower. The serviced apartment tower, to be completed by 2024, will consist of 995 units sized from 645 sq ft to 907 sq ft with prices starting from RM1,000 per sq ft.

OFFICE

Average asking rentals of purpose-built office space in the city centre remained stable during the review period, ranging from about RM2.50 per sq ft to RM3.50 per sq ft per month.

Two office towers scheduled for completion in 2H2019 are expected to contribute an additional 0.70 million sq ft space to the existing cumulative supply. They are Menara MBJB in One Bukit Senyum, Johor Bahru and Menara UMLand in UM Medini Lakeside, Medini.

Menara JLand was officially launched on November 26, 2019. Notable tenants of the 37-storey Grade A office tower with GBI certification include CNA International (Malaysia) Sdn Bhd and Perbadanan Nasional Berhad (PNS).

RETAIL

The retail sector recorded slightly higher occupancy at 78.5% in 1H2019 (1H2018: 75.6%). The completion of Beletime @ Danga Bay, Sunway Big Box Retail Mall in Medini and Toppen Shopping Centre in Tebrau with total space about 1.85 million sq ft brought the cumulative retail supply in Johor Bahru to 20.8 million sq ft.

Country Garden Danga Bay has opened its retail mall known as Beletime, Danga Bay. The 2-storey retail podium is part of an integrated waterfront development comprising high-rise residential and retail components, the group's maiden project before Forest City in Gelang Patah and Central Park in Johor Bahru. Notable tenants at Beletime @ Danga Bay include AEON, Womei Cineplex, Spice Garden, Beans.Dot, HLA and Snow indoor theme park by LOVEYOYO.

Toppen Shopping Centre has officially opened on November 13, 2019. The 1.1 million sq ft shopping mall is connected to

Toppen Shopping Centre

IKEA, Tebrau which opened in late 2017. Among its anchor and key tenants are TGV Cinemas, Big Independent Grocer (B.I.G), Harvey Norman, Texas Chicken, Ashley Furniture HomeStore and SportsDirect.com.

As of September 2019, Sunway Big Box has reportedly achieved about 85.0% occupancy with notable tenants such as Golden Screen Cinemas, Sports Direct, Skechers, Starbucks, Tealive, Famous Amos, MyNews.com and BookXcess.

Mall of Medini, Iskandar Puteri which sports a new look following its recent refurbishment has welcomed new tenants such as Ben Independent Grocer (B.I.G), VRINITY and Starbucks, raising its overall occupancy to about 70.0%.

The review period witnessed renowned retailers such as AEON, Courts, FamilyMart, Parkson, TGV Cinema, Harvey Norman and Starbucks strengthening their presence in Johor Bahru by opening more outlets.

Ben Independent Grocer (B.I.G) made its maiden entry in Johor with the opening of its outlets at Mall of Medini, Iskandar Puteri and Toppen Shopping Centre, Tebrau in October and November, respectively.

In October, Parkson officially opened another outlet in Plaza Angsana replacing UO Superstore which has ceased its operation in the first half 2019. This is Parkson's third outlet in Johor Bahru after Holiday Plaza in Taman Century and Paradigm Mall in Skudai.

Mid Valley Southkey has opened its third floor with new tenants such as Vans, Under Armour, Hummer, Watsons, Soxworld and The Bag Shop.

R&F Mall has welcomed two anchor tenants, namely Jaya Grocers and Emperor Cinemas which commenced operations in June and August respectively.

Meanwhile, Courts has opened its fifth outlet in Johor Bahru, occupying the first and second floors of 5-storey shopoffices at Lakefront @ Southkey.

FamilyMart, the world's second largest convenience store chain is seen expanding its presence in Johor Bahru by opening another nine outlets during the review period notably in Bandar Seri Alam, Eco Botanic, Taman Puteri Wangsa, Taman Nusantara, Desa Cemerlang, Setia Tropika, Taman Mount Austin, Taman Universiti and Bukit Dahlia.

The Pasar has opened its second outlet in Puteri Cove Quayside retail podium, Puteri Harbour. Other notable tenants at the 2-storey retail podium include Kuu Kopitiam, VburgCafé and 27@cove.

The review period sees entertainment player, Sanrio Hello Kitty, exiting Iskandar Malaysia. The indoor theme park has been operating from the 2-storey Puteri Harbour Mall which also houses other notable tenants such as Starbucks, Kenny Rogers Roasters, Sushi King, Spice Grill, Old Town White Coffee and Toys'R'Us.

INDUSTRIAL

No new launches were recorded in the second half of 2019 although there was a flurry of transactional market activity in the industrial sector.

During the review period, Axis REIT entered into three sale and purchase agreements for the proposed acquisitions of assets in Pelabuhan Tanjung Pelepas (PTP) and Taman Teknologi Nusajaya (also known as Nusajaya Tech Park) all located in Gelang Patah.

In October, Axis REIT entered into a Sale and Purchase Agreement (SPA) with Rancak Beta Sdn Bhd to acquire a single-storey warehouse together with office buildings in Pelabuhan Tanjung Pelepas (PTP) for

RM65.0 million. The acquisition of the 230,272.65 sq ft warehouse is expected to be completed by the first half of 2020.

In August, the trust entered into a Sale and Purchase Agreement with Nusajaya Tech Park Sdn Bhd to acquire three units of detached factories known as Nusajaya Tech Park Facility 1 for RM42.0 million. The detached factories, which have total lettable area of 104,694.20 sq ft, are currently leased to GKN Engine Systems Component Repair Sdn Bhd at an estimated rental rate RM2.50 per sq ft per month (first three years from commencement date).

Axis REIT also acquired a second industrial facility known as Nusajaya Tech Park Facility 2 at a consideration of RM13.8 million. The detached factory with lettable area of 42,067 sq ft is currently leased to Sternmaid Asia Pacific Sdn Bhd at a monthly rental of about RM2.20 per sq ft (fixed period for 5 years from commencement date).

Asking rentals for industrial space in Johor Bahru and the localities of Senai-Kulai and Pasir Gudang remained stable during the review period.

Newly listed integrated industrial property solutions provider, AME Elite Consortium Bhd, plans to raise RM111.10 million for business expansions. The company, which specialises in constructing customised large manufacturing plants, as well as the design-and-build and development of industrial parks, owns few industrial parks in Senai and Kulai.

Separately, on October 25, 2019, AME Elite Consortium Bhd has acquired 17.03 acres of industrial land from ARYZTA Food Solutions Malaysia Sdn Bhd for RM25.0 million. The freehold land located in Kulai will be developed with industrial properties with estimated GDV of RM120.0 million.

Orgkhim Biochemical Holding has officially set up a new facility, Norman Process Oils Malaysia Plant Sdn Bhd in Tanjung Langsat, Pasir Gudang worth RM245.68 million of investment. The Russian petroleum based company is also planning to invest another RM124.5 million for expansion over the next three years to strengthen its position in Johor.

Meanwhile, ready-to-assemble furniture products designer and manufacturer, Spring Art Holdings Berhad is planning to raise RM24.4 million for the purchase of machinery for its new factory in Muar.

Other notable industrial-related announcements include the proposed expansion of Pelabuhan Tanjung Pelepas (PTP) as well as plans to revive and develop the 40-hectare reclaimed island by Johor Port Authority (JPA).

Pelabuhan Tanjung Pelepas (PTP) achieved a new milestone in 2019 when Monarco Maersk left the port with its final load of 19,284 twenty–foot equivalent units (TEUs). PTP plans to expand its capacity from 12.5 million to 30.0 million (TEUs) by 2030.

Johor Port Authority (JPA) has entered into an agreement with Smart Crest Sdn Bhd to revive and develop the 40-hectare reclaimed island near Tanjung Pelepas and Tanjung Bin, Pontian, Johor. The investment, worth circa RM2.0 billion, is expected to take about four years to be completed. The proposed Bunker Island will be one of the largest fully integrated oil terminals in the world when completed and operational in the medium term.

OUTLOOK

The long awaited Rapid Transit System (RTS) linking Bukit Chagar in Johor Bahru and Woodlands in Singapore has finally received the green light to proceed. In addition, the government has allocated RM85.0 million during the unveiling of Budget 2020 to improve traffic flow along the Johor Bahru-Singapore causeway. Besides improving efficiency and movement between the neighbouring countries, these positive infrastructure developments will indirectly boost economic activities and property developments in the state.

The State Government has announced that they will collaborate with Iskandar Regional Authority (IRDA) to introduce the Bus Rapid Transit (BRT) route in Iskandar Malaysia's region as part of initiative to promote the public transport usage and indirectly enhance the connectivity across the region.

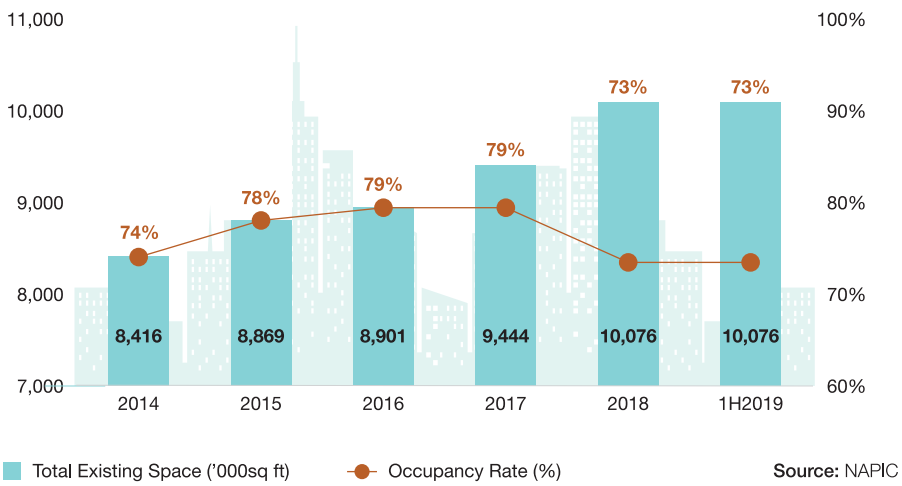
Despite the current residential property overhang in the state, developers offering competitively priced products catering to the mass market remain optimistic. The transactional and rental markets in the high-end residential segment, however, remain lacklustre attributed to limited pool of potential buyers cum investors / tenants and high supply pipeline.

As for the office segment, the outlook is challenging particularly for newer buildings where the absorption rate is slow due to high asking rentals.

The retail sector is expected to remain resilient in the short term although another 1.1 million sq ft of space is expected to come on-stream by 2020. More brands and retailers are making their debut and expanding in the southern state despite heightened competition and weak consumer sentiment.

Figure 10

Johor Bahru: Cumulative Supply and Occupancy Rate of Purpose-built Office Space 2014 - 1H2019



Source: NAPIC

HIGHLIGHTS

In line with the Home Ownership Campaign (HOC), genuine homebuyers have been observed to benefit from the sales incentives and lowered entry costs of the participating projects, with developers also reporting increased project marketability.

More commercial developments catering to short-term accommodation (STA) entering into the market, including Sutera Bay, Suite KK328, Likas Vue and Damai Suites.

In the retail segment, leading malls are observed to maintain or strengthen their position by engaging new tenants to sustain high levels of occupancies.

The hospitality industry continues to experience breakthrough with the scheduled entry of Club Med at Kuala Penyu and Sheraton Kota Kinabalu Hotel.

KOTA KINABALU PROPERTY MARKET

MARKET INDICATIONS

Sabah recorded a total of 4,271 property transactions in 1H2019, a growth of circa 4.5% and 2.0% when measured against 1H2018 and 2H2018 respectively (Source: NAPIC's Property Market Report First Half 2019). The residential segment maintains its dominant position with 62.8% share of property transactions during the review period, followed by the agriculture sector (17.0% share) and the commercial sector (13.0% share).

The total value of transactions in 1H2019 registered a decline of 11.4% in comparison to 1H2018 and an increase of 6.1% when compared to 2H2018. In particular, the overall transacted value of the agricultural sub-sector which recorded a 30.8% decrease when compared against 1H2018, recovered in the following half year with an increase of 15.6%.

RESIDENTIAL

According to NAPIC's Residential Property Stock Report, the existing supply of residential units in Kota Kinabalu (excluding Penampang and other administrative districts) stood at 64,242 units as of 1H2019, depicting a slight increment of 0.8% when compared to the previous year (2018: 63,759 units). High-rise residential properties continue to constitute the bulk of existing residential stock with 26,415 units or circa 41.4% share of total supply. In terms of incoming supply, condominiums / apartments account for some 6,139 units (77.7% share) out of the total 7,899 residential units in the pipeline.

As of 1H2019, there was a total of 741 overhang residential units in Kota Kinabalu (excluding Penampang and other administrative districts) that were completed and issued with Occupation Certificate (OC), circa 53.3% of which falls in the condominium / apartment category.

Budget 2020, which was unveiled in October, presented several key policies in relation to the housing industry - these include the extension of the Home Ownership Campaign (HOC); lowering of the pricing threshold for foreign ownership on urban high rise properties from RM1 million to RM600,000 in 2020; and the review of the Real Property Gains Tax (RPGT) policy.
As of October 2019, the HOC in Sabah has generated RM563 million worth of sales, which is equivalent to 25.0% of the 35 registered projects, showcasing the success of HOC. Additionally, the 1Malaysia People's Housing Programme (PR1MA) has also garnered an unanticipated 80.0% rise in sales in 1H2019, with the main contributor being Sabah.

In the high-rise residential segment, developers were observed to focus on selling residual units or launching new phases of existing projects. For instance, Forest Hill Residences launched its remaining two residential blocks, while Elemen Utara KK launched its second and final block, both following the successful take-up of their initial phases. The review period also saw a few high-rise residential developments nearing completion, namely SkyVue Residences, Pacific Heights as well as the earlier phases of Kingfisher Inanam and Bukit Bantayan.

Besta Wijaya Sdn Bhd unveiled Seri Sutera Residence @ Lok Kawi in 2H2019, a 7-storey high-rise apartment project featuring a total of 238 units with facilities and lifts. Slated for completion in early 2021, the typical units have floor sizes ranging from 568 sq ft to 1,079 sq ft, with sale prices starting from RM269,000 onwards.

WK Consortium has introduced Alam Pesona in Putatan, which will comprise three 20-storey residential blocks, featuring a total of 1,200 units. Built-up areas typically range from 540 sq ft to 868 sq ft, with the units available for sale from RM264,944 to RM469,888.

In the landed housing scheme segment, one of the notable launches that received favourable response in 2H2019 was Taman Bukit Damaisari Phases 3 and 4 by SCP Group. Nestled within the Menggatal area, the new phases offer a total of 104 units of double-storey terraced houses with typical built-up area of 1,661 sq ft. Priced from RM465,000, the new phases are fully booked and slated for completion in 2021.

COMMERCIAL AND OFFICE

During the review period, there was an increase in commercial projects catering to short-term accommodation (STA).

Updates on selected commercial projects including new launches in Kota Kinabalu are as follows:

VTS Property Collection Sdn Bhd has revealed Sutera Bay, a commercial business suites development situated within the locality of Sadong Jaya. The project will be spread across three towers offering a total of 283 units, retail lots and a facilities podium on the fifth floor which will include a sky deck, bistro, outdoor dining area and hanging pool & lagoon. The units will come in two standard layouts; the Flexi Business Suites at 400 sq ft and the Dual Key Business Suites at 650 sq ft, and priced from RM472,000 onwards.

Sutera Bay

Likas Vue

Asian Pac Holdings Bhd in collaboration with Harmoni Bumiria Sdn Bhd will develop the 36-storey Likas Vue serviced suites on a 1.85-acre site at the locality of Likas. The proposed development will feature 650 units of commercial suites, 7 units of retail lots, a supermarket and a comprehensive facilities deck located on the rooftop and tenth floor. Built-up areas typically range from 884 sq ft to 1,052 sq ft, with dual key options available for all unit types.

WMG Holdings Bhd has unveiled Suite KK328, a business suite development located along Jalan Kolombong. The 32-storey commercial building will comprise 336 units, along with other amenities and facilities on selected levels and the rooftop. All units, with floor areas ranging from 736 sq ft to 1,072 sq ft, will be delivered fully furnished.

Inland World Sdn Bhd is scheduled to commence the development of Damai Suites in 2020, a 16-storey commercial suite tower to be built on a 0.32-acre site located behind Damai Plaza. The project will introduce 248 units of commercial suites, 9 units of shop lots and a private facilities deck on the seventh floor. Typical units, sized from 327 sq ft to 578 sq ft, are priced from RM299,800 onwards; project completion is scheduled in 2022.

The Crown Service Suites, part of a larger mixed-use commercial project by Ho Hup Group, was officially launched earlier this year in June 2019. The development consists of four 14-storey commercial suite towers featuring a total of 323 units. As of December 2019, the project has achieved a take-up rate of 60.0%.

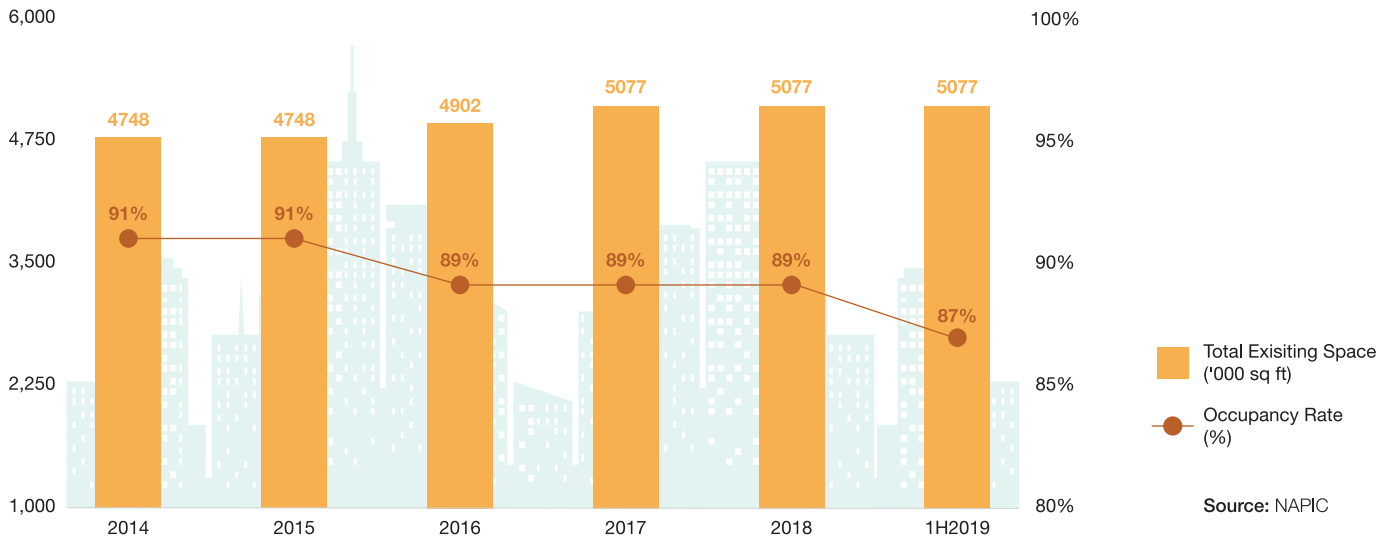
Suite KK328

As of the first half of 2019, the existing supply of purpose-built office (privately owned) in Kota Kinabalu remained unchanged at 5.08 million sq ft with no new completion recorded. During the review period, the average occupancy rate stands at circa 87.0%.

Rentals of prime CBD office space remained constant with asking gross rental ranging from RM4.00 per sq ft to RM6.00 per sq ft per month while non-prime CBD office space command gross rental of RM2.00 per sq ft to RM3.50 per sq ft per month.

Figure 11

Kota Kinabalu: Cumulative Supply and Occupancy Rate of Purpose-built (Privately Owned) Office 2014 - 1H2019



RETAIL

The total retail space in Sabah stood at 6.03 million sq ft as of 1H2019, with no additional stock added to the supply since year 2018. Overall occupancy rate for the review period maintains at a healthy level of 82.0%.

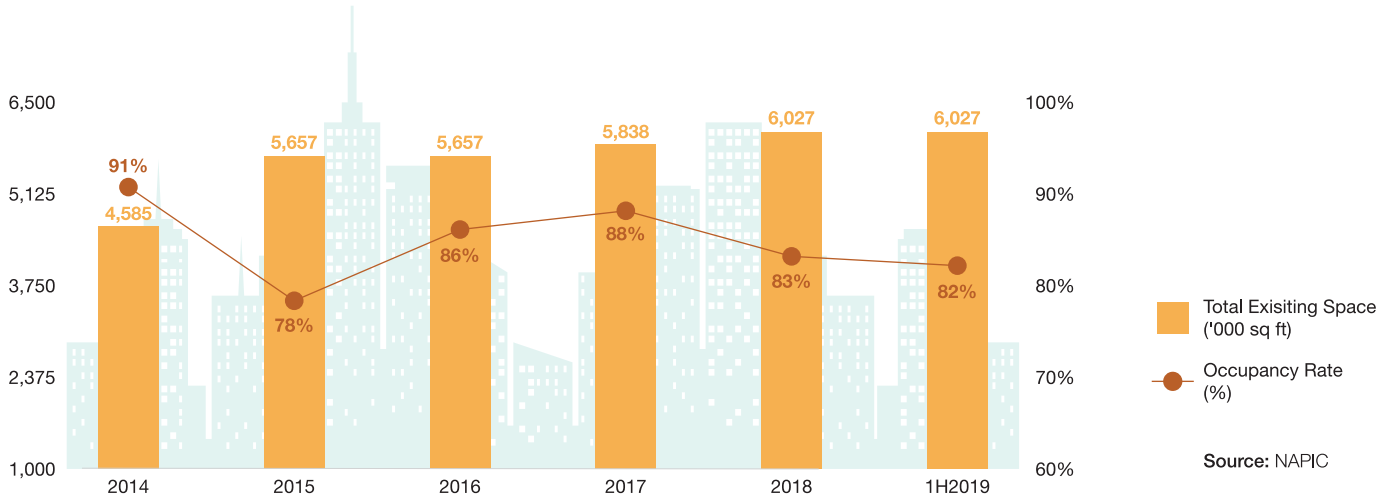
IMAGO Shopping Mall has registered an occupancy rate of approximately 95.0% as of the second half of 2019. Notable tenant entries in the review period include La Mer, Maison Berger Paris, Tory Burch, Subway and the first LEGO Certified Store (LCS) in East Malaysia; to name a few.

Jesselton Mall, as a whole has seen leasing activity over the year increase the occupancy rate to circa 50.0%. New tenants over the review period include Italian luxury brand Salvatore Ferragamo, modern-casual all-day dining restaurant Pound and global ramen chain Aori Ramen.

The retail scene of Kota Kinabalu has continued to experience the expansion of the food and beverage (F&B) segment. The on-the-go modern day culture has prompted the provision of F&B kiosks throughout the malls and in food courts, with international franchises including The Alley, Xing Fu Tang, Liang Sandwich Bar, Llaollao and Godiva entering the local market in this form.

Figure 12

Kota Kinabalu: Cumulative Supply and Occupancy Rate of Retail Space 2014 - 1H2019



TOURISM & HOSPITALITY

For the period of January to October 2019, Sabah recorded 3.44 million in visitor arrivals, reflecting an 8.9% growth when compared to the corresponding period last year. Out of the total visitor arrivals, domestic visitors made up 64.0%, with the remaining 36.0% comprising international visitors. Amongst the international visitors, China remains the top market source at 35.0%, followed closely by South Korea at 31.0%.

As of October 2019, there are a total of 203 international direct flights into Kota Kinabalu International Airport (KKIA) weekly, offering a total capacity of 33,996 seats on a weekly basis. This is expected to further increase as RB Link, jointly owned by Royal Brunei Airlines and Malindo Air, has announced its decision to introduce direct flights from Brunei to Kota Kinabalu, Sandakan and Tawau.

In 1H2019, the average occupancy rates for hotels in Sabah and Kota Kinabalu hovered at 62.8% and 71.2% respectively. The positive expansion of the Sabah tourism industry has in turn stimulated the hospitality industry, evidenced by the completion of new hotels as well as the introduction of new projects in the pipeline.

World renowned resort Club Med has officially revealed its plans to develop a resort at Kuala Penyu in collaboration with Golden Sands Beach Resort City (GSBRC). Presently named "Club Med Borneo Kota Kinabalu", the Bornean-styled development will feature 400 rooms inclusive of 40 luxury suites, in addition to resort facilities, flanked by tropical rainforests with a white-sand beachfront. As part of Club Med's 5 Trident Exclusive Collection, the resort will be Club Med's first BREEAM-certified and sustainably-built beach resort in Asia-Pacific.

Heaven Ray Sdn Bhd entered into a joint-venture with Supreme Sabah Tourism Limited, a subsidiary of the Hong Kong-based Bluemount International Limited with the signing of a Memorandum of Understanding (MoU) to develop two floating hotels-cum-restaurants. The cruise ships are to be stationed at Kota Kinabalu and the Bodgaya Island in Semporna respectively, with each featuring 69 rooms, fine dining restaurants and entertainment facilities.

A hotel management and franchise agreement was reportedly signed between Interland Development Sdn Bhd and Marriott International regarding the development of Sheraton Kota Kinabalu Hotel. The five-star hotel featuring 345 rooms, will be located in the heart of the Central Business District of Kota Kinabalu and will adopt the facilities and design direction associated with the Sheraton hotel brand.

Scheduled for completion in early 2020, the Sabah International Convention Centre (SICC) is expected to advance a breakthrough for the Meetings, Incentives, Conferences and Exhibitions (MICE) industry. Constructed on 15 acres of land, the development has a built-up area of approximately 92,000 sq m, and will comprise a two-tier Performing Arts Hall, multi-purpose exhibition hall, column-free convention hall, open plaza and F&B outlets.

The ground-breaking ceremony of the 4-star Grand Liberty Hotel was held in August 2019. Located adjacently to Sutera Avenue, the proposed 13-storey hotel will feature 301 rooms, restaurant, gymnasium, rooftop pool and meeting room.

OUTLOOK

The overall residential market recorded a slight improvement in 2019, presumably due to the on-going national HOC. The high-rise residential segment was relatively moderate in terms of new launches, as the market continues to absorb existing inventories. However, demand for well-designed and attractively priced high-rise projects in desirable locations is expected to remain relatively strong. On the other hand, landed housing schemes that are well-supported by surrounding amenities continue to generate public interest.

The purpose-built office sector is expected to hold constant in terms of occupancy and rental, with no immediate incoming supply. Meanwhile, the market is currently observing a sizeable influx of commercial products that are designed to cater for short-term accommodation (STA). In light of this, the region is expected to take time to absorb the existing and impending supply. These products can be utilised for commercial purposes or own use, though the compact sizes of some proposed developments may limit this flexibility. However, demand for well-priced developments situated in mature locations is expected to remain resilient.

The retail sector will continue to see leading malls focus on tailoring their tenant mix to suit the needs of their respective target markets, in addition to paying greater attention to their F&B offerings.

Sabah's blooming tourism industry is anticipated to experience sustained growth in line with the continued establishment of new tourism products, expansion of human capital and market diversification of visitor arrivals.

Sheraton Kota Kinabalu Hotel

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Publisher: Knight Frank Malaysia Sdn. Bhd. (585479-A)
Suite 10.01 Level 10, Centrepoint South, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur.

Printed by: Percetakan Sykline Sdn. Bhd.
No 35 & 37, Jalan 12/32B, TSI Business Industrial Park Batu 6 1/2, Off Jalan Kepong,
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KDN PP16104/11/2012(031172)

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