

MALAYSIA COMMERCIAL REAL ESTATE INVESTMENT SENTIMENT SURVEY 2017



Some Words for the 2017 Rooster



The highly energized Year of Monkey, 2016 which is coming to its end, was full of surprises. On the global front, we had the unprecedented Brexit vote to leave the European Union (EU) and then the shocking victory of US President elect, Donald Trump which created greater global economic uncertainties.

On a positive note, we saw a strong flow of Chinese investments into the country and the recent signing of the highly anticipated bilateral agreement between Singapore and Malaysia that will pave the way for the implementation of Singapore-Kuala Lumpur High Speed Rail (HSR) project.

This survey predicts the commercial real estate outlook based on sentiments of industry players. Both office and retail markets will continue to be under pressure with rental and occupancy levels projected to dip amid widening gap between supply and demand. The hotel/ leisure sub-sector is predicted to remain resilient while the healthcare/ institutional and logistic/ industrial will gather pace in 2017.

Despite the challenging operating environment, the respondents have indicated that they will continue to explore investment opportunities in various regions. These may include the hotel/ leisure sub-sector in Sabah and Penang; logistics/ industrial sub-sector in Johor and Selangor and retail sub-sector in Johor.

In this coming Year of Rooster, the 10th sign under the Chinese Zodiac, we hope the rooster, being the sign of dawn will awaken the sleepy property market as there are various investment opportunities abound to be grabbed.

Thank you and happy reading.

Sarkunan Subramaniam, Managing Director, Knight Frank Malaysia

SURVEY RESPONDENTS

Our respondents comprise of representatives in the senior management levels, with more than a third of them (77%) involved in property development activities, followed by 16% in their capacity as Fund / REIT Managers and the remaining 7% comprising lenders. The majority (65%) of our respondents operate from Kuala Lumpur, followed by 29% in Selangor.



Developers

77%



Fund/ REIT Managers

16%



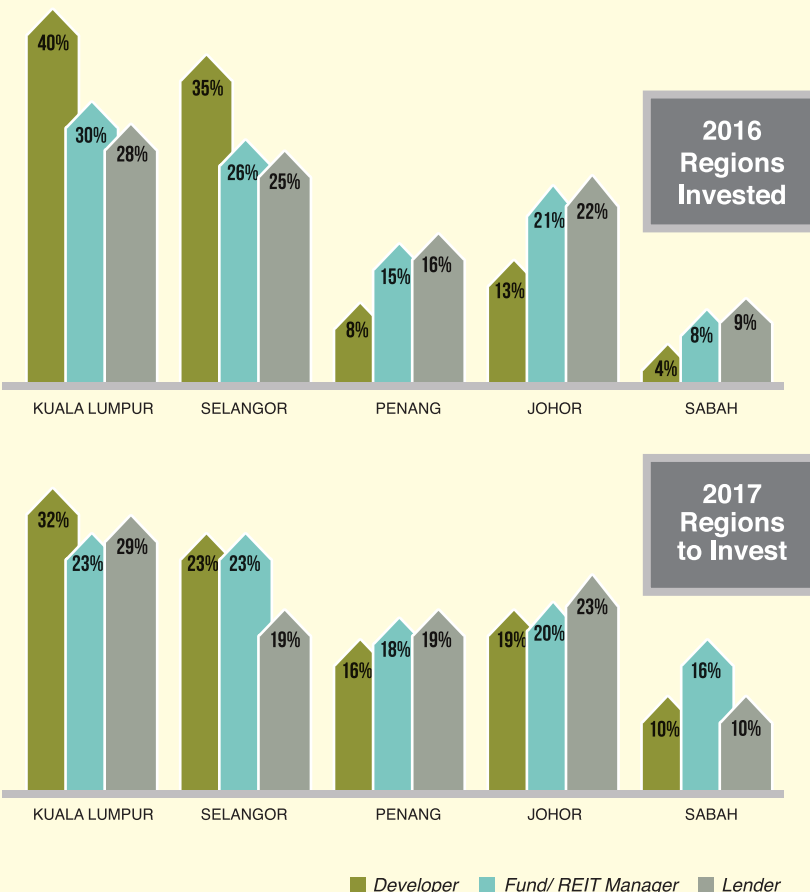
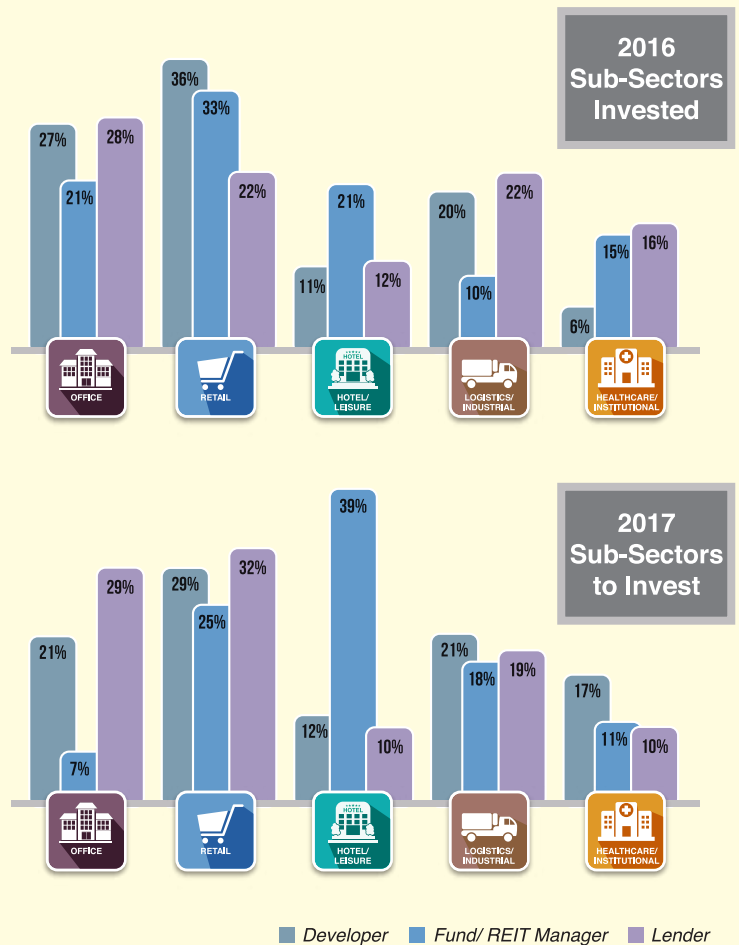
Lenders

7%

Investment by Industry Players

SUB-SECTORS INVESTMENT BY INDUSTRY PLAYERS

Among the developers surveyed, about half of them indicate that they will continue to develop retail and office properties in 2017 although there appears to be more interest in the healthcare/ institutional sub-sector which is recession proof. Lenders will also continue to provide financing for the retail and office sub-sectors although the lending guidelines may be more stringent now. Meanwhile, fund/ REIT managers will be switching their investment focus to the logistics/ industrial sub-sector as growth in e-commerce drives demand for logistics/ industrial space.



REGIONS OF INVESTMENT BY INDUSTRY PLAYERS

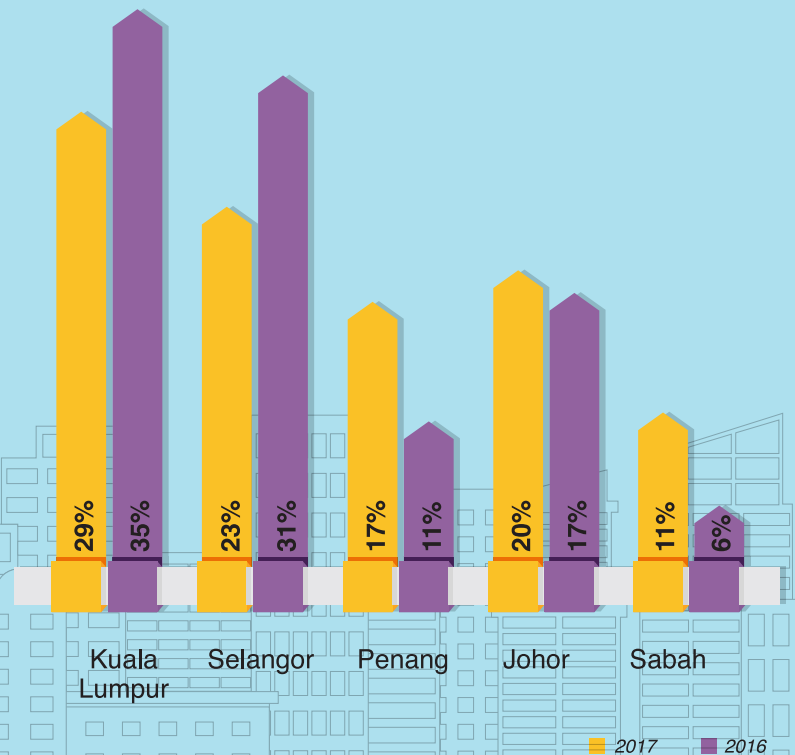
In 2016, the majority of developers were active in Greater Klang Valley. In the coming year, however, there are plans to diversify their activities to other growing regions such as Johor, Penang and Sabah. Similar to 2016, fund/ REIT managers and lenders will continue to spread their portfolio across the five popular regions.

2017 - The Outlook

2017 INVESTMENT PLAN BY REGION

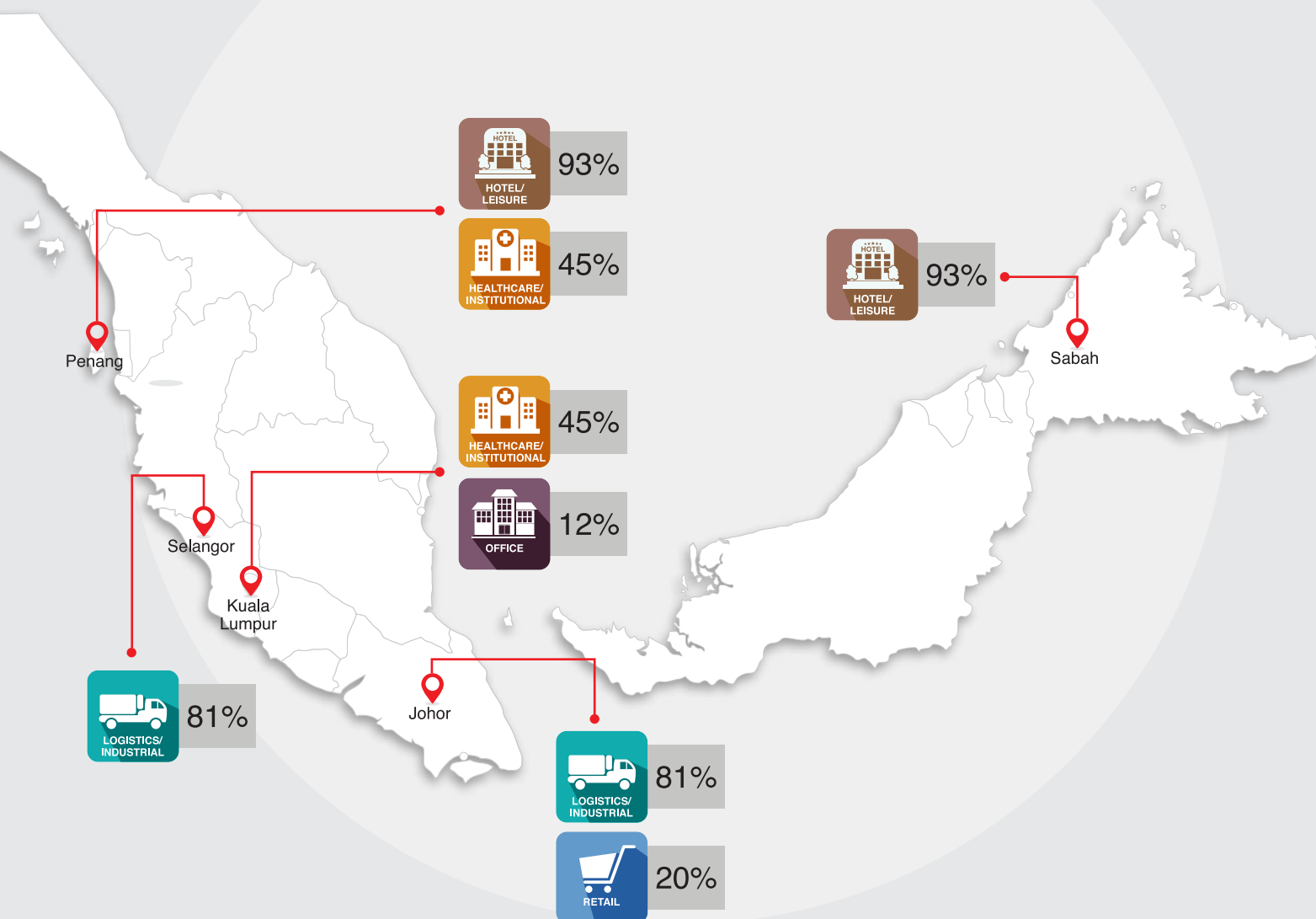
The capital city of Kuala Lumpur remains the top choice for commercial investment/ development with 29% of responses. This is followed by Selangor (23%), Penang (17%), Johor (20%) and Sabah (11%).

However, when compared to 2016, it is noted that respondents' interests in the capital city have waned marginally for the year ahead. This may be attributed the oversupply situation in certain sub-markets. More respondents are looking to diversify their investments to popular and upcoming regions such as Penang, Johor and Sabah.



2017 ACTIVE SUB-SECTORS IN REGIONS

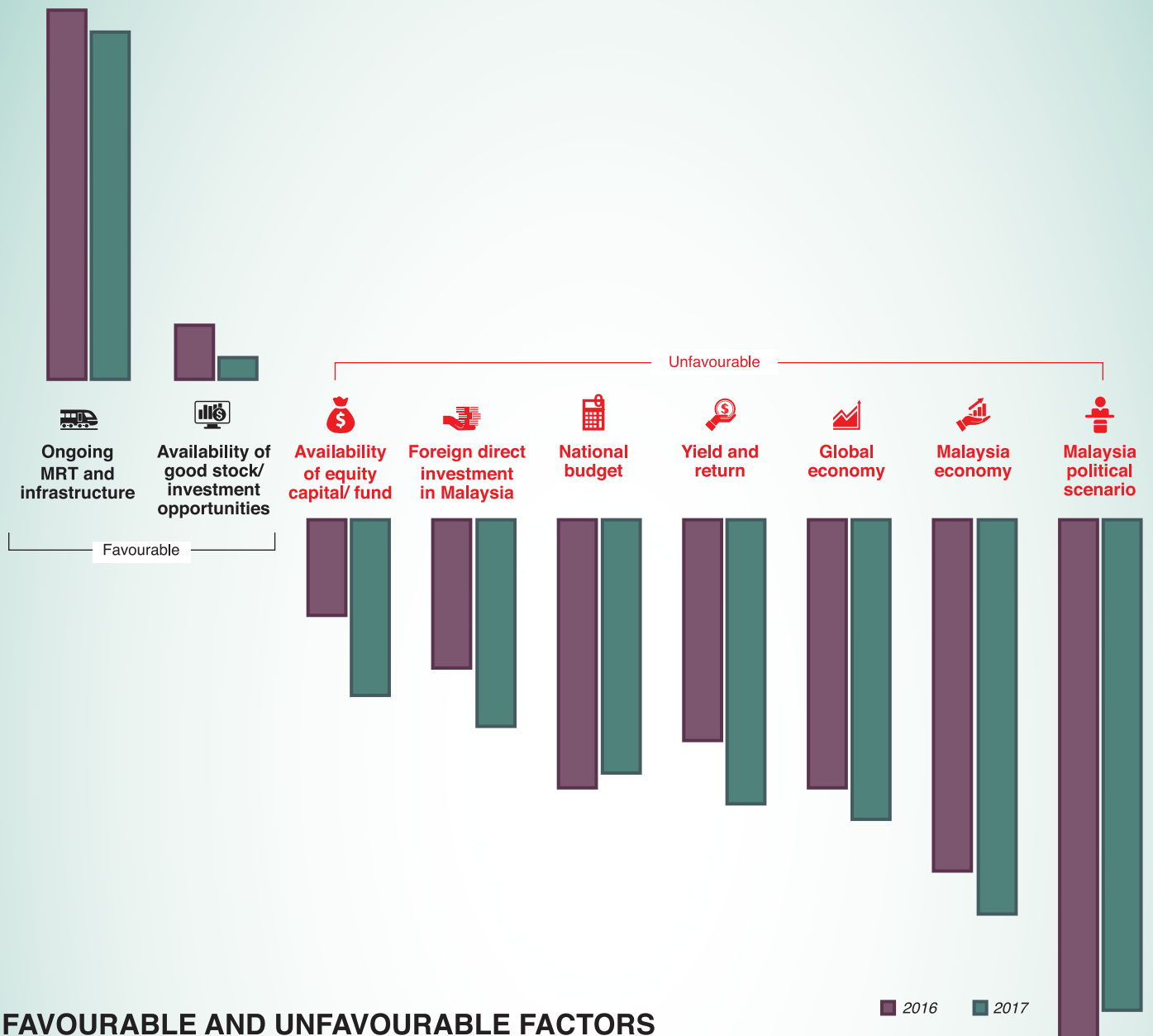
The survey revealed that the office and retail sub-sectors in Kuala Lumpur will continue to be active. For the logistics/ industrial sub-sector, Johor and Selangor will continue to attract the attention of industry players. As for the hotel/ leisure sub-sector, Penang remains the top pick with 26% responses, followed closely by Kuala Lumpur and Sabah with 24% each. The healthcare/ institutional sub-sector in Johor garnered 36% responses likely attributed to the growing industry and potential spillover from Singapore - Johor offers affordable quality healthcare.



2017 MOST ATTRACTIVE SUB-SECTORS

The attractiveness of investing in the hotel/leisure sub-sector leapt from 65% in 2016 to 93% in 2017. This is followed closely by the logistics/industrial sub-sector at 81% (2016: 52%). The attractiveness of traditional sub-sectors such as retail, office, and healthcare/institutional, have however, waned in 2017.

Looking into the top attractive regions for investments in 2017, Sabah and Penang were voted as the most attractive regions for hotel/leisure investment, likely attributed to their popular tourism market - Georgetown being a UNESCO World Heritage Site and Sabah, popular for eco-tourism. Meanwhile, for the logistics/industrial sub-sector, the majority of respondents opined that Johor and Selangor are more attractive than other regions. The healthcare/institutional sub-sector in Kuala Lumpur and Penang remains attractive. Despite the challenges in the office and retail markets, 12% of the respondents continue to see potential for office investment in Kuala Lumpur while 20% think there is potential to invest in the retail sector in Johor.



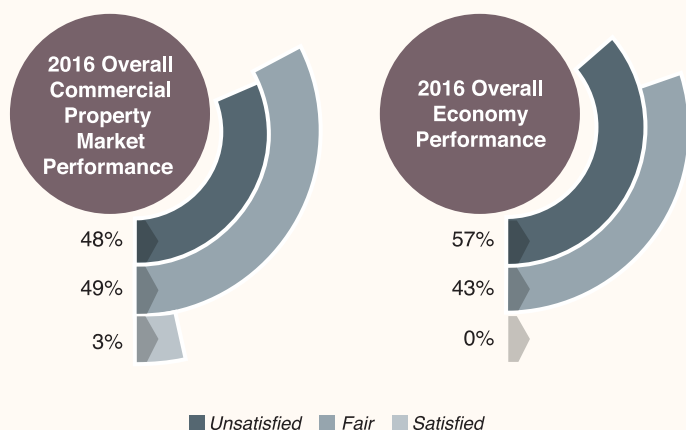
FAVOURABLE AND UNFAVOURABLE FACTORS AFFECTING COMMERCIAL REAL ESTATE INVESTMENT SENTIMENT

The on-going MRT and other road and rail infrastructure works remain as the top favourable factor for the past three years of survey. The majority of respondents opined that the operations of the MRT will have a positive impact towards the commercial real estate market. The second favourable factor is the availability of good stock/ investment opportunities.

Looking into the unfavourable factors, the majority of respondents feel that the country's political scene and the economic slowdown are the threats to the property market. The growing uncertainties in the global economy and further potential of yield compression in 2017 will be a dampener.

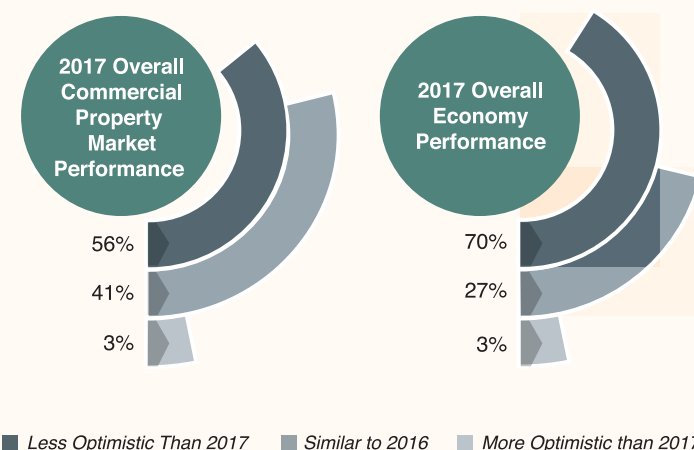
This survey found that the respondents were slightly more optimistic with regards to the National Budget 2017. However, foreign direct investment into Malaysia as well as the availability of equity capital/ fund are expected to be less favourable in 2017 due to growing uncertainties in the global and domestic economies.





2016 OVERALL COMMERCIAL MARKET PERFORMANCE

About half of the respondents were unsatisfied towards the overall commercial market performance and none of the respondents were satisfied with the overall economy in 2016.



2017 OVERALL COMMERCIAL MARKET PERFORMANCE EXPECTATION

The number of respondents who felt less optimistic towards the overall economy and commercial performance 2017 has increased from 2016. The players and stakeholders continue to see a decline in the performance of the commercial sub-sector and also the overall economy.

OVERALL PERFORMANCE BY SUB-SECTORS

The respondents were not satisfied with the performance of the office and retail sub-sectors in 2016 and expect the outlook to remain cloudy in 2017. Although the performance of the hotel/ leisure sub-sector did not meet expectation in 2016, the sub-sector is expected to remain resilient in 2017. Meanwhile, the outlook for the logistics/ industrial and healthcare/ institutional sub-sectors which enjoyed a fair performance in 2016 is expected to improve in 2017.



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2017 Expected Performance by Sub-Sectors

PERFORMANCE OF CAPITAL VALUES BY SUB-SECTOR




The majority of respondents expect the capital values for all sub-sectors to hold steady although 20% and 32% of them expect the prices of logistics/ industrial and healthcare/ institutional respectively to move up in 2017.



Capital Value	Decrease	Stagnant	Increase
 OFFICE	45%	54%	1%
 RETAIL	26%	70%	4%
 HOTEL/ LEISURE	19%	69%	12%
 LOGISTICS/ INDUSTRIAL	12%	68%	20%
 HEALTHCARE/ INSTITUTIONAL	4%	64%	32%


PERFORMANCE OF RENTAL VALUES FOR OFFICE, RETAIL AND LOGISTICS/ INDUSTRIAL SUB-SECTORS

About half of the respondents expect rental reduction in the office and retail sub-sectors while the remaining 40% of them expect rentals to stagnate. Meanwhile, 70% of the respondents expect stable rentals in the logistics/ industrial sub-sector.

Rental	Decrease	Stagnant	Increase
 OFFICE	56%	41%	3%
 RETAIL	54%	43%	3%
 LOGISTICS/ INDUSTRIAL	20%	70%	10%





PERFORMANCE OF AVERAGE ROOM RATES (ARR) FOR HOTEL SUB-SECTOR

For the hotel sub-sector, some 53% of respondents expects ARR to remain steady in 2017.

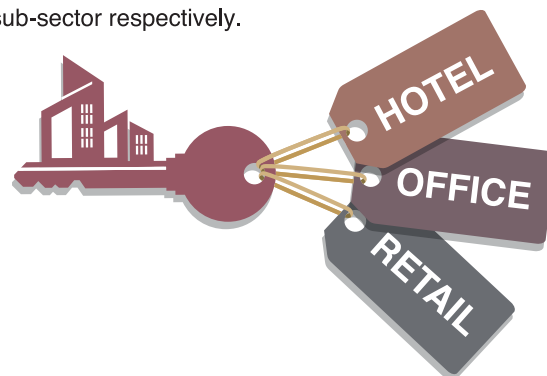
Average Room Rates	Decrease	Stagnant	Increase
 HOTEL/ LEISURE	28%	53%	19%



PERFORMANCE OF OCCUPANCY RATES FOR OFFICE, RETAIL, HOTEL / LEISURE AND LOGISTICS / INDUSTRIAL SUB-SECTORS

Occupancy	Decrease	Stagnant	Increase
 OFFICE	64%	36%	0%
 RETAIL	59%	41%	0%
 HOTEL / LEISURE	33%	48%	19%
 LOGISTICS / INDUSTRIAL	24%	64%	12%

The occupancy rates for the office and retail sub-sectors are expected to decrease in 2017 while those for the hotel/ leisure and logistics/ industrial sectors are expected to remain encouraging with 48% and 64% of respondents expecting occupancy levels to hold for each sub-sector respectively.



YIELD PERFORMANCE BY SUB-SECTORS

More than half of the respondents expect yields to stagnate while about 35% to 55% of them expect yield compression in the hotel/ leisure, retail and office sub-sectors.

