RESEARCH

Knight Frank

# REAL ESTATE HIGHLIGHTS

## 1ST HALF 2019

KUALA LUMPUR | PENANG | JOHOR BAHRU | KOTA KINABALU

# HIGHLIGHTS

More market activity in the high-end condominium / serviced apartment segment (> RM1 million) in 2018 and this momentum is expected to continue into 2019.

1H2019 saw the launches of a few high-end condominium / serviced apartment projects in Kuala Lumpur City. The projects are generally smaller in scale, on pockets of land.

The prices of new launches remain flattish as the high-end residential segment continues to be challenging.

In the secondary market, the overall transacted price of selected schemes analysed was lower by 1.6% when compared to 2018 as purchasers continue to be spoilt for choice.

# KUALA LUMPUR HIGH END CONDOMINIUM MARKET

## MARKET INDICATIONS

The Malaysian economy continues with its growth momentum albeit at a slower pace of 4.7% in 2018 (2017: 5.9%). It continued to expand 4.5% in 1Q2019 (4Q2018: 4.7%), supported by private sector expenditure. For the whole year of 2019, economic growth is expected to range between 4.3% and 4.8%. In May 2019, the Department of Statistics Malaysia (DOSM) rebased of the country's gross domestic product (GDP), from year 2010 to 2015.

The current period of low headline inflation, recorded at 1.0% in 2018 (2017: 3.7%), is largely due to key policies such as the fixing of domestic retail fuel prices and zero-rating of GST. Overall headline inflation is expected to ease and range between 0.7% and 1.7% in 2019.

Meanwhile, the labour market conditions remained favourable in 2018 with the unemployment rate unchanged at the previous year's level of 3.4%. The unemployment rate for 1Q2019 was at 3.3% following expansion in the labour force.

On the lending front, Bank Negara Malaysia reduced the Overnight Policy Rate (OPR) by 25-basis points to 3.0% on 7th May 2019 to remain accommodative and supportive of economic activity and domestic demand.

## SUPPLY AND DEMAND

As of 1H2019, the completion of 602 units of high-end condominiums / serviced apartments from two projects brought the cumulative supply in Kuala Lumpur to 56,786(R) units. The completed projects were Opus KL (357 units) and Residensi Sefina (245 units).

(Note: (R) The cumulative supply has been revised)

The scheduled completion of Sky Suites @ KLCC (986 units), 8 Kia Peng (442 units), Tower 1 and Tower 2 @ Star Residences (1,039 units), Aria KLCC (598 units), Stonor 3 (400 units), Novum Bangsar (729 units), TWY Mont' Kiara (484 units), Arte Mont' Kiara (1,706 units) and Agile Mont' Kiara (813 units) by 2H2019, will collectively add another 7,197 units to the current stock.

Residensi Sefina

**Source:** UEM Sunrise

There were three notable project launches / previews in Kuala Lumpur during the review period. Two were located in Bukit Bintang, namely IBN Bukit Bintang and Axon Bukit Bintang, while the third project, Tower B @ Setia Sky Seputeh is located near to Mid Valley City.

Hong Kong-based property developer, IBN Corp Limited and landowner KKH Pavilion Development Sdn Bhd are jointly developing the fifth tallest skyscraper in Kuala Lumpur. The 68-storey new landmark to be known as IBN Bukit Bintang is the redevelopment of Fortuna Hotel located along Jalan Berangan. The project, unveiled on 20th February 2019, will comprise a 5-star hotel with 268 rooms and 339 units of serviced apartments on a freehold land measuring circa 0.77 acre. The indicative selling price for the serviced apartments shall be from RM2,000 per sq ft.

Aset Kayamas Group also unveiled its first high-end residential development in the locality of Bukit Bintang. The project, known as Axon Bukit Bintang, sits on a parcel of leasehold land along Jalan Padang and is planned to comprise two blocks of serviced apartments with a total of 853 units (Block A: 465 units and Block B: 388 units). The typical units are sized between 450 sq ft and 950 sq ft while the penthouse units have built-up area of 4,800 sq ft. The first phase has been previewed in April 2019.The gross pricing for the fully furnished typical units are between RM1,454 per sq ft and RM1,629 per sq ft.

Opus KL

Figure 1
### Completion of High-End Condominiums / Serviced Apartments 1H2019

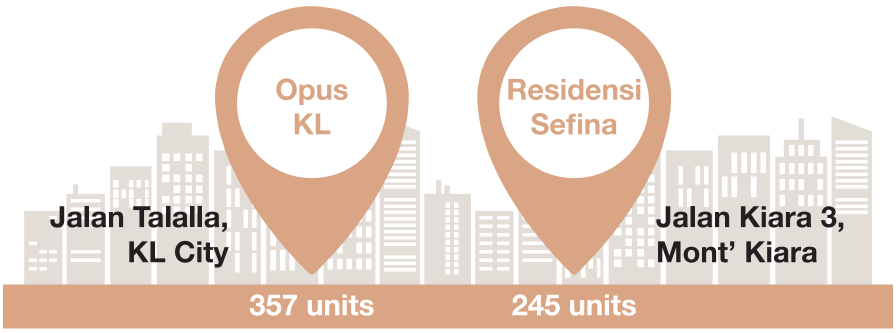


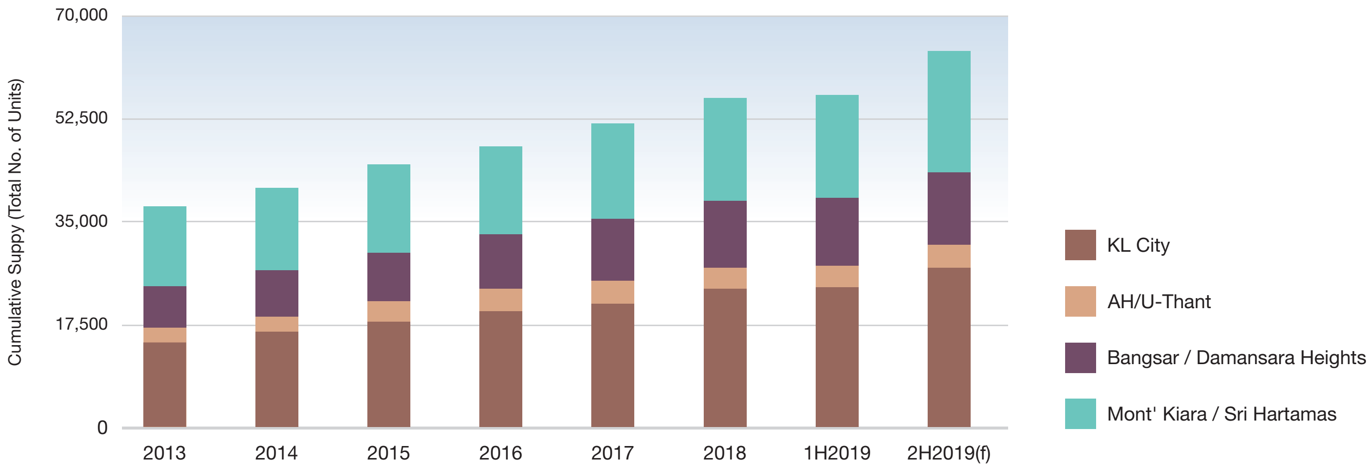

Table 1
### Notable Launches / Previews 1H2019

| Name of Development | Type[1] | Developer | Area | No. of Units | Unit Sizing (Min - Max) | Gross Selling Price |
|---|---|---|---|---|---|---|
| IBN Bukit Bintang | SA | JV Between IBN Corp Limited and KKH Pavilion Sdn Bhd | KL City | 339 | To be confirmed | From RM2,000 per sq ft |
| Axon Bukit Bintang - Block A | SA | AK Star Sdn Bhd (Subsidiary of Aset Kayamas Group) | KL City | 465 | 450 – 950 sq ft | RM1,454 - RM1,629 per sq ft |
| Setia Sky Seputeh - Tower B | C | Gita Kasturi Sdn Bhd (Subsidiary of SP Setia Berhad) | Seputeh | 145 | 2,303 - 3,025 sq ft | From RM1,270 per sq ft |

**Source:** Knight Frank Research
Note:
1. SA = Serviced Apartment and C = Condominium

Figure 2

**Cumulative Supply (R) for High-End Condominiums / Serviced Apartments / Residences 2013 - 2H2019(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.

*(R) = Revised cumulative supply

SP Setia Berhad officially launched the final tower of Setia Sky Seputeh in May 2019. This freehold project comprises two 37-storey condominium towers with a total of 290 villas in the sky. The recently launched Tower B offers 145 units that come in five layouts with built-up areas ranging from 2,303 sq ft to 3,025 sq ft. The selling price of Tower B units is from RM1,270 per sq ft. Both Tower A and Tower B are scheduled for completion by end of 2020 and the second quarter of 2021 respectively.

The high-end condominium / serviced apartment segment in the central area of Kuala Lumpur (Sections 1 to 100) saw higher levels of market activity in 2018. The volume of transactions for condominiums / serviced apartments priced above RM1 million totalled 745 units in 2018, the highest volume since 2015. Statistically, while demand appears to be improving, the pace of growth in transaction volume appears to lag behind incoming supply. Thus, the mismatch between supply and demand continues to widen.

## PRICES AND RENTALS

Within Kuala Lumpur City, units at the newly launched Axon Bukit Bintang are priced from RM1,454 per sq ft to RM1,629 per sq ft gross. The pricing level for this leasehold project is lower when compared to the freehold Agile Bukit Bintang where units at its Block B, launched in 2H2018, were priced between RM1,839 per sq ft and RM2,107 per sq ft.

Table 2

**Average Transacted Prices of Selected Existing High-End Condominiums / Serviced Apartments 2018 and 1H2019(p)**

| LOCALITY | KL City | Ampang Hilir / U-Thant | Bangsar | Damansara Heights | Kenny Hills | Mont' Kiara | OVERALL |
|---|---|---|---|---|---|---|---|
| 2018 | 990 - 1,210 | 700 - 850 | 930 - 1,130 | 850 - 1,040 | 710 - 870 | 680 - 840 | 820 - 1,000 |
| 1H2019(p) | 980 - 1,200 | 720 - 890 | 940 - 1,140 | 830 - 1,010 | 690 - 850 | 660 - 810 | 800 - 980 |
| CHANGES IN PRICES % | -0.6 | 3.9 | 1.1 | -3.0 | -3.0 | -3.0 | -1.6 |

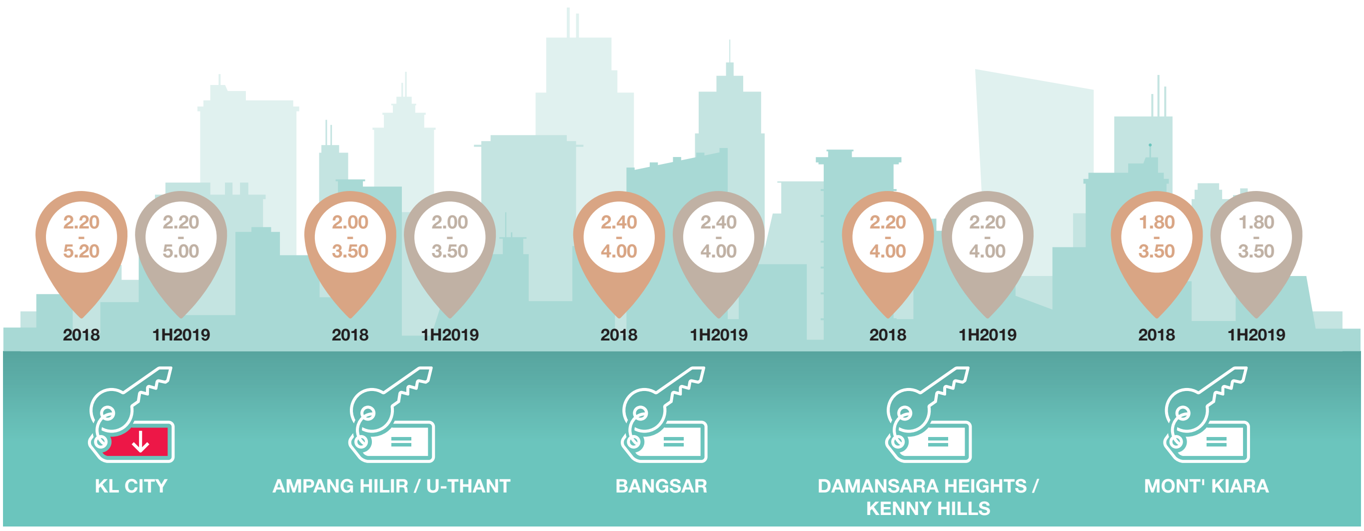
**Source:** JPPH / Knight Frank Research

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

Figure 3

**Average Asking Rentals of Selected Existing High-End Condominiums / Serviced Apartments 2018 and 1H2019**




**Source:** Knight Frank Research

Notes:

1. The analysis is based on asking rentals due to limited concluded rental data.

Meanwhile, away from the city centre, units in Tower B of Setia Sky Seputeh are priced around RM1,270 per sq ft circa 4% to 5% higher than the pricing for Tower A (circa RM1,218 per sq ft) which was launched in 2016.

In the secondary market, the average transacted price in Kuala Lumpur's high-end residential market declined by circa 1.6% during the review period when compared to 2018. By localities, it was observed that the average prices in Damansara Heights, Kenny Hills and Mont' Kiara were 3.0% lower during the review period. In contrast, the average transacted prices in the localities of Ampang Hilir / U-Thant and Bangsar were circa 3.9% and 1.1% higher.

As for the rental market, there appears to be growing pressure among landlords in KL City. Amid the tight leasing market and rising rental stock, more landlords in the city have lowered their asking rentals while others have either upgraded / renovated their units to remain competitive. In the other localities reviewed, the asking rentals continued to hold steady.

## OUTLOOK

One of the impactful events during 1H2019 was the launch of the National Home Ownership Campaign 2019 (HOC 2019). The campaign, which was initiated to increase home ownership among Malaysians and also to address the property overhang situation, has also benefited the high-end residential segment as its focus is not only on the affordable / mass housing market.

The main incentives of the HOC 2019 include a minimum 10% discount on the property price from developers, stamp duty exemption on property sales and purchase agreements (SPA) for properties priced up to RM1 million and stamp duty exemption for loan agreements up to RM2.5 million. The campaign period, which runs from 1st January to 30th June 2019, has been extended to 31st December 2019. Some of the high-end projects that participated in the campaign include Agile Bukit Bintang, Axon Bukit Bintang, Star Residences, Ascott Star KLCC, The Manor, Damansara Fifty6 and Solaris Parq.

Meanwhile, the central bank's recent revision of the Overnight Policy Rate (OPR) by 25-basis points to 3.0% will lower lending costs. Banks / financial institutions such as Maybank and Standard Chartered have lowered their rates and other banks are expected to follow suit. Such a move by the banks is expected to provide some traction in the housing market.

More developers are also exploring opportunities to diversify and differentiate their conventional residential developments by incorporating newer trends – including rental purpose accommodation, co-living, senior living, etc. amid challenges in the overall housing market.

Moving forward, the outlook for the residential market including the high-end segment remains cautious due to the mismatch in product offering and pricing affordability. The government is actively reviewing policy aimed to stabilise / correct the housing market. The National Housing Policy 2.0 or Dasar Perumahan Negara (DRN) 2018 – 2025, which was launched by Housing and Local Government Ministry (KPKT) on 28th January 2019, aims to address the various issues surrounding the housing market. Coupled with the Home Ownership Campaign (HOC), lower lending rate, and peer-to-peer lending platforms, there is plausible return of potential buyers and investors.

## HIGHLIGHTS

A mixed performance in Klang Valley office market. Looming supply and weak absorption of space continue to negatively impact the KL City office market while decentralised office locations in KL Fringe and Selangor, performed better with both rental and occupancy levels holding steady.

More landlords of dated but well-located office buildings in KL City are looking to refurbish / repurpose their existing assets amid growing competition as they seek to retain their existing tenants and attract new occupiers.

The growing co-working / shared services segment provides a window of opportunity in this tenant-led office market. The entry of new global players such as WeWork and the expansion of existing operators are deemed positive for the market.

The revival of the East Coast Rail Link and Bandar Malaysia mega project amongst others are expected to lead to a new wave of China FDI under the Belt and Road Initiative (BRI) and this augurs well for the country's economy and the overall property market including the office sector moving forward.

# KLANG VALLEY OFFICE MARKET

## MARKET INDICATIONS

The slowdown in the domestic economy is further dampened by uncertainties on the global front with the unresolved Brexit negotiations and the on-going trade tensions between the US and China.

The Business Conditions Index (BCI) continued to contract in 1Q2019 to register at 94.3 points. On a quarterly basis, the index fell 1.0 point while on a year-on-year (y-o-y) basis, the index lost 4.3 points. The index has been quoted below the optimism threshold for two consecutive quarters.

Amid cautious market sentiment with no immediate catalyst to boost office demand, the KL City office market continues to self-correct. The recent completion of circa 3.32 million sq ft in KL City further widens the gap between supply and demand and heightens competition.

The expansion of Klang Valley rail network supports the decentralisation trend with office markets in KL Fringe and Selangor remaining resilient during the review period.

## SUPPLY AND DEMAND

Purpose-built office supply in Klang Valley stood at circa 106.97 million sq ft as of end 1H2019 following the completion of five buildings offering a total of 3.73 million sq ft of space.

In KL City, there were two completions in the upcoming financial district of Tun Razak Exchange (TRX), namely The Exchange 106 and Menara Prudential @ TRX. The other completion in KL City is BB Tower, the new headquarters of YTL Corporation Bhd. While there was no new completion in KL Fringe during the review period, Selangor recorded the completions of KYM Tower and Symphony Square.

The Exchange 106, the centrepiece of the 70-acre TRX, stands at 492m high. It is the tallest building in Malaysia by roof height, rising 106 floors above ground with six floors underground. The tower, which offers a net lettable area (NLA) of circa 2.65 million sq ft, features column-free office floors with typical floor plate of 34,000 sq ft.

Also located within the financial district of TRX is Menara Prudential, a 27-storey

The Exchange 106


Menara Prudential @ TRX

purpose-built office tower. The Grade A corporate tower which is MSC compliant and LEED Gold certified has a NLA of circa 413,000 sq ft. Menara Prudential also offers column-free layout with typical floor plate sized at circa 21,000 sq ft. The tower is the new Kuala Lumpur headquarters for Prudential Group, of which they occupy circa 85% of the office space.

The new headquarters of conglomerate YTL Group, the purpose-built BB Tower, is located along Jalan Bukit Bintang. It offers circa 260,000 sq ft of office space spread over 32 storeys and comes with four basement car park levels. Average floor sizes range from 11,200 sq ft to 11,400 sq ft.

KYM Tower is the latest Grade A office in the locality of Mutiara Damansara. Standing at 24-storey high, it is designed to be compliant with the MSC status and GBI Gold standards. KYM Tower, which offers circa 180,000 sq ft of NLA, is connected to the Mutiara Damansara MRT station through an elevated link bridge.

Strategically located in the prime commercial area of Section 13, Petaling Jaya, Symphony Square is a 20-storey mixed use tower comprising 17 levels of office space atop 3 levels of retail space. The dual compliant (MSC status and GBI certified) Grade A office offers a private drop-off area for office tenants at Level 4 and also features state-of-the-art facilities. It offers circa 226,000 sq ft of NLA with a typical floor plate measuring circa 15,700 sq ft.

Four new corporate towers, all located in Petaling Jaya, Selangor, are expected to come on-stream by 2H2019. They are Menara Star 2, 1Powerhouse, Block J @ Empire City (HCK Tower) and Tropicana Gardens Office Tower.

In 1H2019, the overall occupancy rate for KL City was lower at 77.1% (2H2018: 78.7%) following notable tenant movements such as Samsung Malaysia Electronics (SME) Sdn Bhd from The Icon at Jalan Tun Razak and CIMB Group Holdings Berhad from Menara Bumiputra Commerce.

Tower REIT has announced an asset enhancement for its Menara HLA (formerly known as Wisma Kia Peng). The 32-storey building is currently 40% occupied following the relocation of the group's operations to Menara Hong Leong in Bukit Damansara. The asset enhancement will involve 250,000 sq ft (circa 60% of the total NLA) in two phases. Phases 1 and 2 are expected to be ready by end of 2019 and December 2020 respectively. It will feature co-working and co-living spaces, The HLX, Malaysia's first innovation exchange. Tower REIT has announced its partnership with AltSpace by Lyfz Co-Living to operate the co-living space, whilst its co-working partner has yet to be announced.

During the review period, there were positive market take up at Naza Tower, Sunway Tower and the recently completed Equatorial Plaza.

Levels 48 to 50 of Naza Tower, Platinum Park Skyviews, anchored by Jakarta-based culinary and entertainment giant, Ismaya Group, is set to be the newest and trendiest hub for dining and entertainment in the city centre. CapitaLand Limited has also set up their office in the building, occupying circa 13,900 sq ft of space.

WeWork, the New York based co-working platform, officially launched its co-working space in Equatorial Plaza in May 2019. Occupying a space of approximately 102,000 sq ft spread across five floors (18th to 22nd floors), it aims to accommodate 1,900 members. The company is looking to expand to Mid Valley later this year.

In contrast, the overall occupancy rate for KL Fringe improved to record at 84.6% in 1H2019 (2H2018: 82.2%). While several tenants vacated UOA Corporate Tower A, there was positive absorption at the newly completed buildings of Mercu 2 and Mercu 3 @ KL Eco City, Menara Southpoint and Menara Etiqa, where the rail transportation network is within easy reach.

As for the Selangor office market, the overall occupancy rate also remained in positive territory to register 80.0% in 1H2019 (2H2018: 78.3%). During the review period, there were improvements in the occupancy levels of Menara MRCB, Shah Alam and Nucleus Tower.

There were several notable work progressions and office related announcements during 1H2019 as summarised below.

PNB Project 1194, a redevelopment of the former headquarters of Malaysian Airline System Bhd at Jalan Sultan Ismail, will comprise of a refurbished 35-storey Grade A office block and a 50-storey hotel rated GBI Platinum. The 45%-completed project is reportedly on track for full completion by 2021.

Sunway Bhd recently launched Sunway Velocity TWO, an 8.5-acre integrated development along Jalan Peel. To be developed over a period of eight years, the RM2 billion mixed-use project will comprise four residential towers, retail units and two commercial towers.

In TRX, HSBC Tower @ TRX will offer a total NLA of 568,000 sq ft with a typical floor plate of 20,000 sq ft. The Grade A office tower will be partly occupied by HSBC Bank Malaysia Bhd while circa 250,000 sq ft will be available for lease upon its completion by the end of 2020.

Kerjaya Prospek (M) Sdn Bhd has secured a contract worth RM438.8 million from Kerjaya Prospek Property Sdn Bhd for the construction of main building works for a proposed mixed development. The project at Jalan Puchong will comprise a 25-storey office and hotel block together with two 53-storey blocks of serviced apartments over an 11-storey podium and four basement levels.

# PRICES AND RENTALS

The overall average achieved rental in KL City continued to be under pressure, it was recorded at RM7.09 per sq ft per month in 1H2019 (2H2018: RM7.15 per sq ft per month). Building owners / landlords are motivated to offer attractive leasing packages to attract new tenants and maintain existing occupiers amid growing mismatch in supply and demand of office space coupled with the challenging business operating environment.

As for KL Fringe, the overall average achieved rental remained fairly stable at RM5.77 per sq ft per month (2H2018: RM5.75 per sq ft per month), supported by sustained demand for decentralised office space. In Selangor, the overall average rental was also marginally higher at RM4.30 per sq ft per month in 1H2019 (2H2018: RM4.22 per sq ft per month). Completed and on-going improvements in the Klang Valley rail infrastructure continue to drive demand for office space in established and upcoming decentralised locations.

The asking rentals of strategically located Grade A offices in Kuala Lumpur are in the region of RM6.00 per sq ft to RM11.00 per sq ft per month while similar grade office space in Selangor command competitive rentals ranging from RM4.50 per sq ft to RM6.00 per sq ft per month.

The review period recorded a few office transactions, namely Wisma KFC and Wisma MPL in KL City and The Horizon Tower 7, Avenue 3 and The Horizon Tower 11, Avenue 5 – both at Bangsar South in KL Fringe.

Currently, several office buildings are on the market for sale.

The 11-storey stratified office, Meritus @ Oasis Corporate Park in Ara Damansara, is exclusively marketed by Knight Frank Malaysia. The GBI certified office building, freehold in nature, has an estimated gross floor area and NLA of 153,000 sq ft and 126,000 sq ft respectively. Completed in 2016, the office building features floor plate area from circa 5,600 sq ft to 12,000 sq ft.

Table 3

**Asking Rentals of Selected Grade A Offices 1H2019**

| Building Name | Asking Gross Rental (RM per sq ft / month) |
|---|---|
| **KL CITY** | |
| Integra Tower | 11.00 |
| Menara Binjai | 8.80 |
| Menara Khuan Choo | 8.50 |
| Menara Maxis | 9.50 - 10.00 |
| Vista Tower | 7.50 – 8.50 |
| G Tower | 7.50 |
| Menara Hap Seng 2 | 7.00 |
| **KL FRINGE** | |
| Menara Shell | 8.50 |
| Platinum Sentral | 8.50 |
| Menara Southpoint | 8.00 |
| The Gardens North & South Towers | 7.50 |
| Menara Etiqa | 7.00 – 7.50 |
| Guoco Tower | 7.00 – 7.50 |
| Menara LGB | 6.50 |
| UOA Corporate Tower A | 6.20 |
| Mercu 2 / Mercu 3 | 6.00 – 6.50 |
| Nu Tower | 6.00 – 7.00 |
| Menara Milenium | 6.00 |
| **SELANGOR** | |
| 1 First Avenue | 6.00 |
| The Pinnacle | 6.00 |
| Surian Tower | 5.80 |
| Nucleus Tower | 5.80 |
| Plaza 33 | 5.50 |
| The Ascent @ Paradigm | 5.50 |
| Quill 18 (Block A & Block B) | 5.50 |
| Puchong Financial Corporate Centre (Tower 4 & 5) | 4.50 – 5.00 |

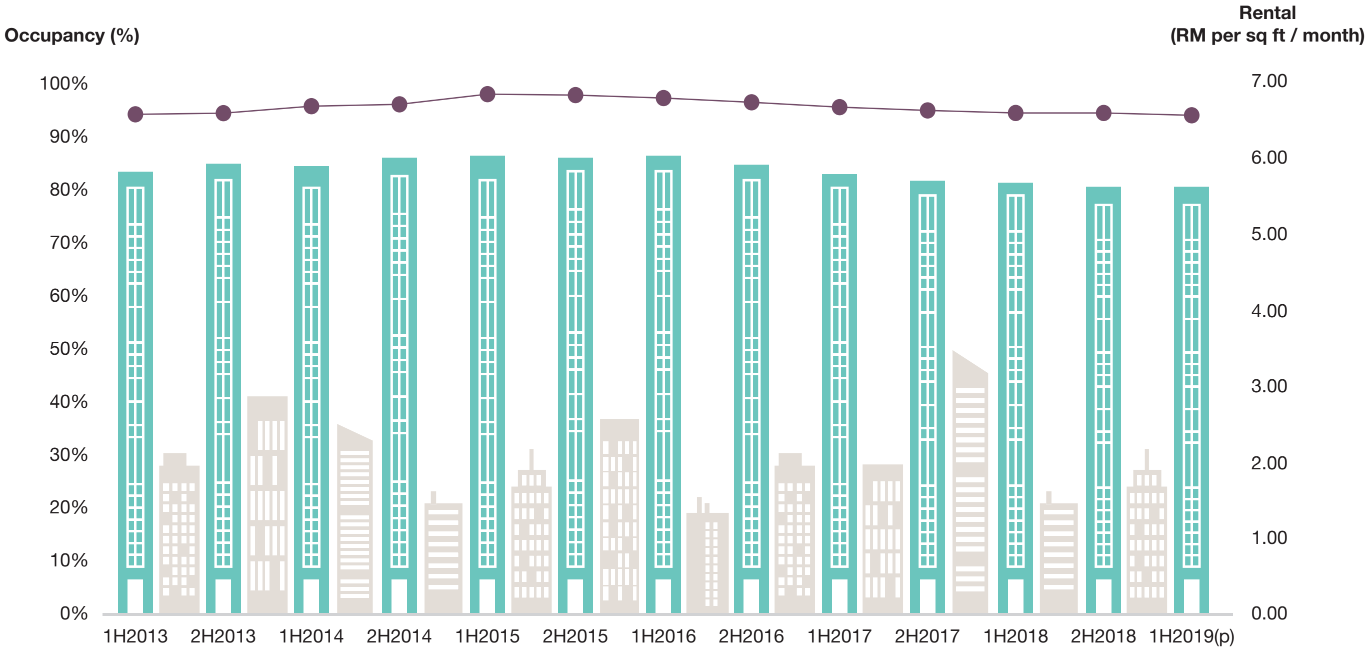
**Source:** Knight Frank Research

Telekom Malaysia Bhd is inviting offers from interested parties to tender for its 20-storey TM Annex 1 Tower (NLA: circa 188,000 sq ft) and 33-storey TM Annex 2 Tower (NLA: 281,000 sq ft), along Jalan Pantai Baharu. The reserve price for the properties range between RM273.4 million and RM312 million.

The Employees Provident Fund (EPF) has also issued a request for proposal for its planned sale of Axiata Tower in KL Sentral. The Grade A 30-storey office building with circa 355,000 sq ft NLA is estimated to be worth RM530 million.

Malaysian Resources Corp Bhd (MRCB), the developer and owner of the 33-storey Celcom Tower @ PJ Sentral Garden City in Petaling Jaya, is also seeking expressions of interest (EOI) for the building. MRCB-Quill Real Estate Investment Trust (MQREIT) has the right of first refusal for the 450,000 sq ft (NLA) building estimated to be worth some RM500 million.

Figure 4
**Occupancy and Rental Trends in Kuala Lumpur (KL City & KL Fringe) 1H2013 – 1H2019(p)**




**Source:** Knight Frank Research
(p) = preliminary data

# OUTLOOK

The Klang Valley office market is expected to remain tenant-led in the short to medium term.

In KL City, there will be growing pressure on the overall occupancy and rental levels as newly completed buildings with no significant committed tenants compete with the existing stock. With more supply coming on-stream and no immediate catalyst to boost demand, the outlook remains cloudy.

The office markets in KL Fringe and Selangor, however, are expected to remain resilient with both occupancies and rentals holding steady. The rail network in Klang Valley continues to drive demand for office space in these decentralised locations, evident by active leasing activities.

More landlords of dated buildings, particularly those located in KL City, are exploring opportunities to repurpose / refurbish their existing assets to seek higher investment returns.

Owners of Wisma Technip, Quill Building 5-IBM, Platinum Sentral and Menara Shell are reportedly shifting their focus to tenant retention over reversion growth by having plans for asset enhancement works.

To maintain and improve occupancy levels of their buildings, more landlords are motivated to offer attractive leasing packages to retain existing tenants and attract new end-users / occupiers in this tenant-led market.

The co-working / shared serviced office segment will continue to grow and the trend is here to stay as the workforce becomes more mobile.

Securing a co-working operator as a tenant offers landlords the flexibility to cater for existing tenants' changing needs, accommodating leasing requirements as companies grow, downsize or require flexible expansion for short term projects. It also provides a tangible commercial advantage in attracting other tenants and the millennial workforce to the space / building who can make use of the facilities offered.

Malaysia remains open to the Belt and Road Initiative (BRI) and investments from China. The resumption of the Bandar Malaysia mega project and the East Coast Rail Link are expected to draw more Chinese FDI into the country and this augurs well for the country's slowing economy and property market moving forward.

Figure 5

## Selected Notable Tenant Movements 1H2019

### KL City

**Equatorial Plaza**

**Approx. Space (sq ft)**
~ 150,000

**Remarks**

*Moving in*
- WeWork

*Expansion*
- McDermott International

**Menara Perak**

**Approx. Space (sq ft)**
~ 11,000

**Remarks**

*Moving in*
- Securistoer Limited

**Menara Binjai**

**Approx. Space (sq ft)**
~ 11,000

**Remarks**

*Moving in*
- Inscale Asia Sdn Bhd

### KL Fringe

**Mercu 2 & Mercu 3**

**Approx. Space (sq ft)**
~ 139,000

**Remarks**

*Moving in*
- RAM Holdings Bhd

*Relocation*
- Samsung Malaysia Electronics (SME) Sdn Bhd[1]
- Veolia[2]

*Expansion*
- Klook

**Menara Etiqa**

**Approx. Space (sq ft)**
~ 14,000

**Remarks**

*Downsizing / Relocation*
- Volkswagen Group[3]

**UOA Corporate Tower A**

**Approx. Space (sq ft)**
~ 19,000

**Remarks**

*Moving in*
- iPrice Group

### Selangor

**UOA Business Park**

**Approx. Space (sq ft)**
~ 14,000

**Remarks**

*Relocation*
- Philips Malaysia[4]

**Nucleus Tower**

**Approx. Space (sq ft)**
~ 60,000

**Remarks**

*Moving in*
- AirAsia SEA Sdn Bhd

*Relocation*
- AstraZeneca Sdn Bhd[5]

**Source:** Knight Frank Research

Notes:

1. Samsung Malaysia Electronics has relocated from The Icon at Jalan Tun Razak.
2. Veolia relocated from Menara UOA Bangsar.
3. Volkswagen Group previously occupied circa 29,000 sq ft at Wisma Volkswagen, Bangsar.
4. Philips Malaysia previously occupied similar office space in Menara Axis.
5. AstraZeneca Sdn Bhd previously occupied similar office space (50,000 sq ft) in Surian Tower.

Table 4

## Notable Investment Sales & Transactions 1H2019

| Building Name | Location | Approx. NLA (sq ft) | Consideration (RM per sq ft) |
|---|---|---|---|
| The Horizon Phase 2, Tower 11, Avenue 5[1] | Bangsar South | 54,046 | 851 |
| The Horizon Phase 1, Tower 7, Avenue 3[2] | Bangsar South | 79,347 | 844 |
| Wisma KFC[3] | Jalan Sultan Ismail | 175,292 | 742 |
| Wisma MPL[4] | Jalan Raja Chulan | 293,304 | 644 |

**Source:** Knight Frank Research

Notes:

1. The Horizon Phase 2, Tower 11, Avenue 5: Sanichi Capital Sdn Bhd, a wholly-owned subsidiary of Sanichi Technology Bhd has acquired a 12-storey office building located at The Horizon, Bangsar South from Takaful Ikhlas Family Bhd.
2. The Horizon Phase 1, Tower 7, Avenue 3: Coconut Three Sdn Bhd, a wholly-owned subsidiary of Nexgram Holdings Berhad has disposed the 11-storey stratified office building to IMS Development Sdn Bhd.
3. Wisma KFC: The 22-storey office building was sold by Employees Provident Fund (EPF) to Singapore-based property developer and manager, Royal Group. The office building with 268 car park bays, has gross floor area and estimated net lettable area of 342,145 sq ft and 175,292 sq ft respectively.
4. Wisma MPL: Malaysia Pacific Corp Bhd has signed the sale and purchase agreement (SPA) to dispose of Wisma MPL to Asia New Venture Capital Holdings Sdn Bhd at a cash disposal price of RM189 million. The net lettable area of the podium and office space owned by MPCB in the 23-storey office complex are 33,539 sq ft and 259,765 sq ft respectively.

## HIGHLIGHTS

The MIER Consumer Sentiment Index (CSI) continues to decline in 1Q2019, dropping 11.2 points from 96.8 points in 4Q2018 to 85.6 points.

Retail sales registered 3.9% growth in 2018 against 2.0% in 2017

The retail market continues to face challenges amid rapid changes in shopping retail trends and consumer behaviour.

Mall operators are beginning to allocate a higher percentage of their leasable space for experiential retail purpose while more retailers are integrating their digital and brick-and-mortar outlets in a highly competitive market.

# KLANG VALLEY RETAIL MARKET

## MARKET INDICATIONS

The MIER Consumer Sentiment Index (CSI) fell 11.2 points from 96.8 points in 4Q2018 to record at 85.6 points in 1Q2019. This marks its two consecutive quarters below the 100-point threshold level as consumers remain prudent in their spending amid rising cost of living and slower income growth.

Malaysia's retail sales expanded 3.9% in 2018 (2017: 2.0%), lagging behind the country's economic growth for six consecutive years.

## SUPPLY AND DEMAND

The completion of Central i-City in Shah Alam and the retail components of Star Boulevard in KL City, Pinnacle Petaling Jaya and Shaftsbury @ Putrajaya with combined NLA of approximately 1.51 million sq ft during the review period, brought the cumulative supply of retail space in Klang Valley to circa 60.48 million sq ft.

Another five new shopping centres / supporting retail components within integrated developments, offering combined retail space of 2.14 million sq ft, are expected to come on-stream by 2H2019.

The RM850 million Central i-City with 940,000 sq ft NLA made its debut as the largest mall in the capital city of Selangor in March. The mall, which is anchored by Sogo, Village Grocer and TGV Cinemas, is a joint venture project between Central Pattana PLC, Thailand and i-City Properties Sdn Bhd (60:40).

The Sogo outlet, spanning circa 200,000 sq ft across four levels at the new Central i-City mall, is Sogo Group of Companies' second department store in the country. Sogo continues to expand its network nationwide and is expected to have six stores with a total retail space of about 2.4 million sq ft by 2020.

Meanwhile, the opening of A.S Watsons' flagship store at Central i-City, marks the group's 500th store opening in Malaysia whilst also coincides with its worldwide 15,000th store opening.

There are several push and pull factors for completed malls to officially announce their openings. A few malls have delayed their opening to later in the year.

Meanwhile, the 2 million sq ft Empire City Mall in Empire City, Damansara is only expected to be fully opened for business by 2022. Construction of the mall which houses the largest ice-skating rink in the country has reached circa 80% completion. The mall, together with its other components – offices, hotels and serviced apartments, are being built simultaneously and originally scheduled to be ready by end-2014.


Central i-City Shopping Centre, i-City Shah Alam

**Source:** i-City Properties Sdn Bhd

Star Boulevard Mall, Jalan Yap Kwan Seng

"The Square" (originally known as "Palm Square") at Jaya One in Section 13, Petaling Jaya reopened last December (2018) with an integrated concept of office, shoplot and art performance venues after a RM15 million refurbishment. It is expected to encompass 45% offices, 40% F&B outlets while the remaining 15% will be filled by PJ Live Arts. The Square, comprising a total GFA of about 110,000 sq ft, was previously occupied by F&B outlets / restaurants.

Giant Sungei Wang, one of the oldest Giant outlets (1977), was reopened in January 2019 after a four-month refurbishment. It offers a wider selection of imported and local products.

MSGM, an Italian high-end streetwear fashion brand made its debut at Pavilion Kuala Lumpur in April 2019. It is the latest collaboration between MSGM and Bluebell Group, a distributor of luxury, premium and lifestyle brands such as Calvin Klein Jeans, Kenzo, Guess Watches, Victoria Secret and many others.

The review period also saw luxury Italian watchmaker, Officine Panerai, launching its first boutique store at Level 2 of Pavilion Kuala Lumpur, the fourth in the South-East Asian region, in an effort to strengthen its market in the region.

Hai Di Lao Hot Pot Restaurant opened its second outlet at Pavilion Kuala Lumpur after its debut at Sunway Pyramid in March 2019.

*Knight Frank Malaysia is the exclusive marketing agent for the leasing of Hai Di Lao restaurants in Klang Valley.*

Define Food has opened its second outlet, taking up 2,000 sq ft at Colony's flagship and largest luxury co-working space at the Star Boulevard KLCC's penthouse.

Ashley Furniture, owned and operated by HAUSLIFE Furniture Sdn Bhd, is the sole licensee and operator of Ashley Furniture in Peninsular Malaysia. Ashley Furniture HomeStore has opened its largest flagship store in Quill City Mall, its fourth outlet in Malaysia.

Another luxury watch brand – Baume & Mercier from Switzerland has landed in Malaysia. The brand has inked a three-year exclusive distributorship with FJ Benjamin, a fashion retailer, in April.

Home-grown ice-cream brand, Frozen Artisans Sdn Bhd, which made its debut in July last year, plans to open five more outlets in Klang Valley this year. It currently operates from two locations - Jalan Telawi Bangsar and Paradigm Mall.

Starbucks Malaysia has opened its first drive-thru store with a Reserve bar at the newly renovated Starbucks Reserve Setia Alam. The Reserve store features two bars, namely a main bar that serves core Starbucks products and a coffee bar offering different kind of brewing methods. Starbucks Malaysia aims to open two to three more of the premium concept stores, this year.

McDonald's Malaysia plans to launch 20 new McDonald's Drive-Thru restaurants within this year. This plan is driven by the contribution of almost 50% sales by the Drive-Thru windows.

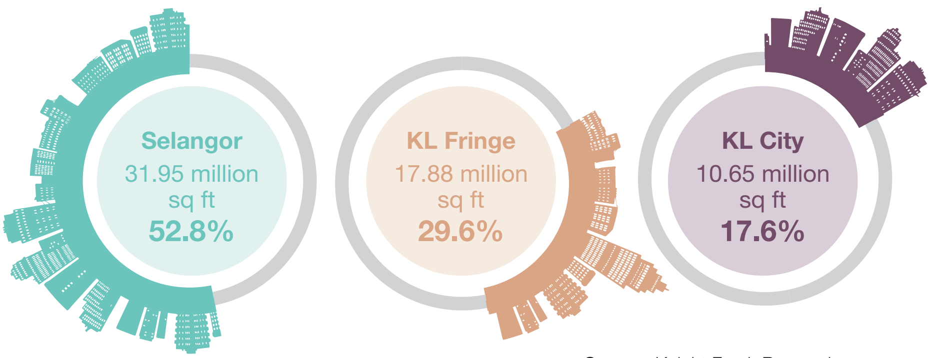
The review period also witnessed the closure of outlets / exit of brands due to falling sales and changing retail trends.

After a series of hypermarket closures across Malaysia in 2018, Giant Malaysia closed its Giant Supermarket Paramount at Section 20, Petaling Jaya in February 2019.

The Parkson group, which has been streamlining its presence in the country, has exited Suria KLCC after 20 years of operations. The three-level outlet spanning about 126,000 sq ft vacated by Parkson will have more than 50 new tenancies after completion of a RM50 million asset enhancement initiative (AEI) by KLCC Property Holdings Bhd.

Figure 6

**Klang Valley - Existing Cumulative Supply of Shopping Mall (Net Lettable Area) 1H2019**




**Source:** Knight Frank Research

Notes:

Putrajaya supply is included in Selangor.

There were also a series of Wendy's restaurant closures during the review period.

Meanwhile, Sunway Pyramid is set to revolutionize the shopping experience by introducing the very first mobile app with real-time in-mall navigation. Sunway Pyramid has been working closely with the Google Indoor Maps Team to integrate the mobile app with Google Map engine.

Home and electrical store Harvey Norman had revamped its Pavilion Kuala Lumpur store, located at Level 5 of the mall with the "click and collect" counter to facilitate collection of online purchases to provide more convenience to consumers.

## PRICES AND RENTALS

The monthly gross rentals of prime shopping centres in Klang Valley remained resilient.

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

In Kuala Lumpur City, Suria KLCC and Pavilion Kuala Lumpur continued to command higher average monthly gross rentals, averaging at about RM37.00 per sq ft and RM28.00 per sq ft respectively. These prominent malls registered near full occupancy of 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. These malls registered 99.3% and 97.2% occupancies respectively.

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

*The estimated average monthly gross rentals are derived from the gross revenue as reported in the respective Annual Report.*

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

## OUTLOOK

With more supply pouring into the market, new shopping centres and malls without high pre-committed take-up will continue to face challenges in the diluted retail market whilst malls that fail to adapt to the changing retail trends may face a gloomy future.

The operators of existing shopping centres need to continuously review their trade and tenant mix to ensure that they remain attractive and cater to consumers within their trade areas.

Similarly, retailers must innovate and refresh their stores by embracing technology for improved in-store experiences.

Data science can provide fundamental business value by helping companies make better decisions. This translates to better customer experience, improvements in planning, logistics, and pricing, and a more accurate picture of customer value.

In line with Bank Negara Malaysia's 10-year roadmap towards a cashless society, more retailers will be venturing into e-commerce with leading e-wallet companies such as Boost, FavePay, GrabPay, Touch n Go and WeChat Pay.

Amongst retailers that are planning initial public offerings (IPO) are Mr DIY and Loob Holding.

Mr DIY, Malaysia's biggest home improvement retailer is planning to raise RM1.5 billion via IPO whilst Loob Holding, parent of Malaysian bubble-tea chain Tealive, is preparing an IPO in Malaysia with a view to raising RM300 million.

The Consumer Sentiment Index (CSI) fell to its lowest level in five quarters, indicating that confidence continues to taper off due primarily to rising cost of living, tighter labour market and tepid growth in take-home pay. Consumers are expected to remain prudent in their spending.

Nonetheless, Retail Group Malaysia has raised its forecast for the country's full year retail sales to 4.9%, supported by improved industry performance in 1Q2019 and in anticipation of further expansion in 2Q2019 (Hari Raya) and 4Q2019 (school holiday, year-end festival).

The short-term outlook for the sector is of cautious optimism, with windows of opportunity for retail with the right data, key insights and value with timely action.

Figure 7

**Incoming Retail Supply 1H2019 – 2H2019**

**1H2019 - Expected Completion/ Opening**

Star Boulevard
KL City
**126,000 sq ft**

Central i-City Shopping Centre (Central Plaza @ i-City)
Selangor
**940,000 sq ft**

Pinnacle
Selangor
**140,000 sq ft**

Shaftsbury @ Putrajaya
Selangor
**300,000 sq ft**

**2H2019 - Expected Completion/ Opening**

TRX Financial Quarter (Mulia Exchange 106)
KL City
**126,000 sq ft**

Queensville
KL Fringe
**412,000 sq ft**

Tropicana Gardens
Selangor
**1,000,000 sq ft**

Pacific Star
Selangor
**240,000 sq ft**

Quarza @ Melawati
KL Fringe
**360,000 sq ft**

## HIGHLIGHTS

Approved FDI in the manufacturing sector was up 169% y-o-y.

High-specs industrial premises continue to be sought after, commanding higher rents.

Current shortage of modern warehouse facilities continues to stir interest amongst foreign and local industrial players who see potential in the logistics / industrial sub-sector.

The resumption of mega projects, such as the East Coast Rail Link (ECRL) and the Bandar Malaysia development is seen to have a positive impact on the country's economic growth. Coupled with potential spill-overs from the on-going US – China trade war, more investments are expected in the manufacturing sector.

# KLANG VALLEY INDUSTRIAL MARKET

## MARKET INDICATIONS

The Industrial Production Index (IPI) expanded 4.0% in May 2019, mainly supported by growth in electricity (5.7%) and manufacturing (4.2%) output.

According to MIDA, the manufacturing sector recorded RM58 billion in foreign direct investments (FDI) during the year 2018, vis-à-vis RM21.6 billion recorded back in 2017, representing a year-on-year (y-o-y) growth, which exceeded 169%. This may be an indicator that foreign investors' confidence in Malaysia is resurgent.

## SUPPLY AND DEMAND

Alpha Galaxy Group of Companies handed over the Galaxy Logistics Hub in Kuala Selangor to Continental Tyres NDC (Continental) in April 2019. Continental occupies circa 850,000 sq ft of the facility while the remaining industrial space, measuring approximately 655,192 sq ft, is currently available for rent.

Mapletree Logistics Hub Shah Alam has achieved full occupancy as of February 2019 (2H2018: 89%). The rapid improvement in its occupancy is attributed to the recent entry of new tenants as well as expansion of its existing occupiers. The well located multi-tenanted logistics and warehouse facility with over 2 million sq ft of leasable space continues to attract occupiers in the growing logistics and e-commerce industry.

CJ Century's all new distribution centre, located in Eastern Gateway Industrial Hub, Bukit Raja is nearing completion and is expected to commence operations in September 2019. The entire facility, which is close to 450,000 sq ft in size, will be occupied by CJ Century as its Fulfillment Hub for e-commerce customers. The new distribution centre will be equipped with excellent security features as well as easy ramp access and standly lift access to each floors.

Axis REIT plans to develop Axis Mega Distribution Centre Phase 2 at Jalan Klang / Banting into a grade A distribution centre with green mark certification. The proposed built-to-suit development on land measuring 17.6 acres will offer single-level flexible modular space configuration with an approximate built-up area of 485,312 sq ft.

Area Management Sdn Bhd (AREA)'s upcoming Area Logistics @ Ampang, is currently at 90% completion stage and is on course to be fully completed by 3Q2019. The three-storey ramp up inner-city mega distribution hub with a built-up of 1.2 million sq ft is strategically located in Ampang, near KL City. The facility's strategic location and sizeable floor

Upcoming Distribution Centre for CJ Century Logistics plate coupled with the lack of existing warehouse space in the city has made it highly attractive. The facility has already secured a *self-storage provider as its tenant and is in negotiations with other potential tenants.

*The deal was concluded by Knight Frank.*

Bandar Bukit Raja Industrial Gateway, a 50-acre joint venture project between Sime Darby Property, Mitsui & Co and Mitsubishi Estate, comprises 10 built-to-suit land plots, earmarked for the development of multi-storey warehouses with high specifications such as 12-metre clear height, 2.5-3.0 MT/sqm of floor loading and ESFR fire sprinkler system. The project has received favourable response from potential occupiers, with multiple built-to-suit developments likely taking place within the foreseeable future.

Located in Serendah, UMW High Value Manufacturing Park is an 861-acre development by UMW Group. Home to UMW Aerospace – Malaysia's first Tier 1 fan case supplier to Rolls-Royce and T7 Kilgour metal treatment plant, the park focuses on attracting high value manufacturers from the aerospace and other industries that require advanced manufacturing processes. It latest tenant is Multi-Code Electronics Industries (M) Bhd (MCEIB), a manufacturer of automotive electronics and mechatronic parts.

## PRICES AND RENTALS

Both prices and rentals of industrial assets have been resilient in recent years due to limited new supply and sustained demand amongst manufacturers and logistics firms. The asking rental of sizeable state-of-the-art facilities such as Galaxy Logistics Hub in Kuala Selangor is in the region of RM1.65 per sq ft while in neighbouring Alam Jaya Industrial Park in Puncak Alam, the monthly rental of conventional detached factories is about RM1.10 per sq ft.

In Section 23 Shah Alam, the monthly rental at the fully occupied Mapletree Logistics Hub has breached RM2.00 per sq ft while at the nearby under construction Hap Seng Industrial Hub, the asking rentals range from RM1.80 per sq ft to RM2.50 per sq ft.

Western Digital's hard disk drive assembly facility

Japan-based Daiwa House Group's new industrial development, dubbed "D Project Malaysia I", is situated on a 30-acre site in Section 33, Shah Alam. Phase 1 of the development comes with circa 178,000 sq ft of gross floor area and can be designed to cater for cold chain logistics, depending on the individual need of tenants. It will be able to accommodate up to two tenants. Being equipped with higher specifications, asking rental of facilities in the development is expected to exceed average rents commanded by other detached warehouses in Shah Alam. Phase 1 of the development is scheduled to be ready for occupation by June 2020.

Axis Aerotech @ Subang has been completed and handed over by Axis REIT to Upeca Aerotech Sdn Bhd in February 2019. The 178,979 sq ft built-to-suit manufacturing facility on a 7.02-acre site commands rental rate in the region of RM2.60 per sq ft per month. In contrast, the asking rentals of conventional detached factories in the Subang locality range from RM1.30 per sq ft to RM1.70 per sq ft per month.

Malaysia's first e-commerce hub, dubbed the EMHub, is a 6-storey ramp up facility, developed on a 9.4-acre site in Kota Damansara. As of May 2019, the first block of the development has achieved circa 50% sales. The units with built-up areas from 2,196 sq ft to 4,014 sq ft are priced between RM850,000 and RM3 million (from RM387 per sq ft). The development is due for completion by 2022.

In May 2019, Singapore-based Mapletree Investments Pte Ltd (Mapletree) acquired a parcel of industrial land measuring 15.2 acres from Advance Synergy Berhad for RM124 million. The land is located in Section 22 of Shah Alam. Mapletree, Singapore's first Asia-focused logistics real estate investment trust, has been a prominent player in Malaysia and currently owns a portfolio of modern facilities in the country including the fully tenanted Mapletree Logistics Hub Shah Alam.

China's state-owned integrated construction group PowerChina Group Ltd has acquired 117.35 acres of land in Puncak Alam, from Paragon Pinnacle Sdn Bhd, which is a 60:40 joint venture company between Eco World Development Group Berhad and the Employee Provident Fund for a consideration of RM240.2 million. Both companies will be jointly developing Phase 2 of Eco Business Park V with GDV of circa RM850 million. The industrial park is targeted at Chinese firms seeking to relocate to Malaysia in order to manage implications surrounding the US-China trade war.

Western Digital's (WD) decision to dispose its hard disk drive assembly facility in Sungai Way Free Industrial Zone, Petaling Jaya, has provided an opportunity for potential suitors to acquire two rare sizeable facilities equipped with high specifications, erected on 3.6 acres and 11 acres of land respectively, within a Free Industrial Zone. Both facilities offer built-up area of circa 500,000 sq ft and expected to generate strong interest from end users and developers. WD will retain a centre of excellence in Sungai Way Free Trade Zone, and maintain its presence in key states such as Sarawak, Johor and Penang.

*Knight Frank Malaysia has been appointed the exclusive agent for this highly coveted facility*

# OUTLOOK

The resumption of mega projects such as the East Coast Rail Link (ECRL) and the Bandar Malaysia master development will improve market sentiment and is seen as positive to the country's economic prospects.

The ECRL will be a boon for the warehouse logistics sector as travelling time between Port Klang and Kuantan Port will be reduced significantly. This is expected to boost activities at the upgraded Kuantan Port.

Expected growth in the high-tech manufacturing segments such as electronics, medical devices, machinery and equipment, and aerospace components as well as in the e-commerce industry augurs well for the country's industrial sector.

The government aims to generate RM16 billion in revenue from the aerospace sector in 2019 (2018: RM14.4 billion).

Malaysia is also expected to benefit from potential spill-overs from the on-going US – China trade war. The country's warm diplomatic ties with China will serve as another tailwind for the industrial sector, as more foreign direct investments (FDI) from the world's second largest economy is anticipated, especially in the IT and high-tech manufacturing industries - capitalising on Malaysia's abundant supply of raw materials coupled with its relatively lower business operating costs.

In 1Q2019, the approved FDI for all sectors totalled RM29.3 billion (1Q2018: RM16.9 billion), up 73.4% y-o-y. This was driven by a surge in manufacturing investments from the United States, China and Singapore.

With limited existing and incoming supply of higher-specs warehouses coupled with growing demand, the industrial property market is poised for growth.

The attractiveness of warehouses, equipped with high-specifications, has made the industrial sub-sector a bright spot in this relatively challenging property market. In lieu of positive sentiments for state-of-the-art warehousing facilities, it is observed that key players have allocated certain amount of capital to increase their exposure into industrial real estate. For example, Axis REIT is looking to acquire RM200 million worth of industrial properties by the end of 2019 while Atrium REIT is aiming to undertake land acquisitions and asset enhancement initiatives (AEIs) to drive its total asset value growth to RM1 billion by 2021.

Table 5

**Notable Industrial Transactions 1H2019**

| Name / Description of Asset | Location | Land Area (acres) | Approx. NLA (sq ft) | Consideration (RM per sq ft) |
|---|---|---|---|---|
| No.72, Persiaran Jubli Perak, Seksyen 22, 40000 Shah Alam, Selangor Darul Ehsan[1] | Shah Alam | 15.2 | 261,401.6 | RM124 million (RM474.37 per sq ft) |
| Phase 2 of Eco Business Park V[2] | Bandar Puncak Alam | 117.35 | (vacant land) | RM240.2 million (RM47 per sq ft) |

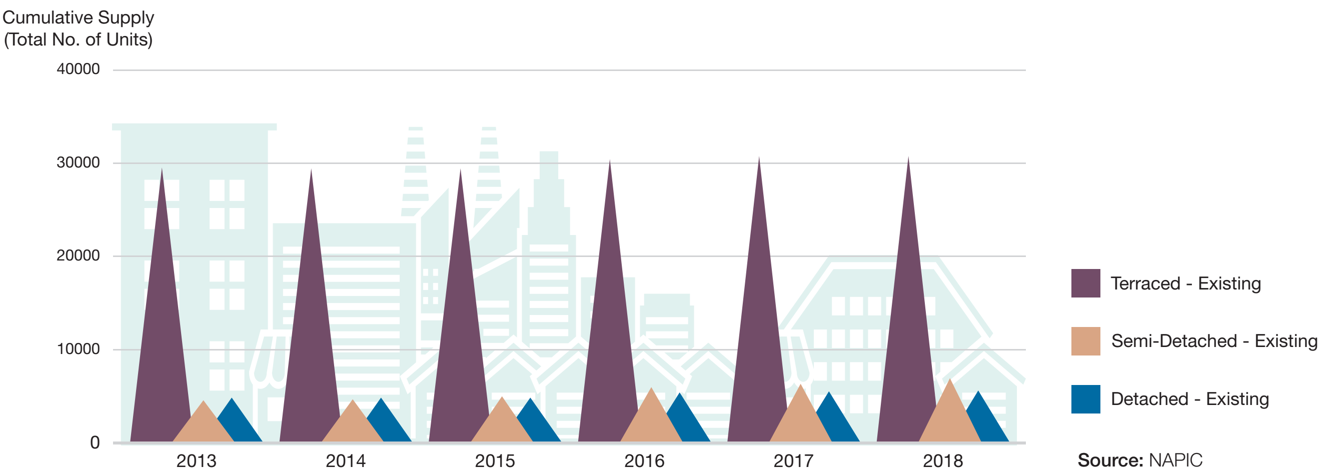
**Source:** Knight Frank Research

Notes:

1. Mapletree Investments Pte Ltd has entered into a sales and purchase agreement with Advance Synergy Berhad to acquire a parcel of industrial land together with buildings and structures erected thereon in Section 22, Shah Alam.
2. PowerChina has entered into an agreement with Paragon Pinnacle Sdn Bhd, a 60:40 joint venture owned by Eco World Development Group Berhad and The Employee Provident Fund to purchase 117.35 acres of vacant industrial land in Eco Business Park, Bandar Puncak Alam.

Figure 8

**Cumulative Supply of Terraced, Semi-Detached and Detached Factories 2013 - 2018**




**Source:** NAPIC

## HIGHLIGHTS

The residential sub-sector continues to have the largest share of all transactions for Penang State, at about 73.5% in 2018.

Purpose-built office space continues to enjoy stable rents and high occupancies. Newer buildings in Bayan Baru / Bayan Lepas generally command higher rents than older buildings in George Town.

Ikea Batu Kawan opened its doors on 14th March this year, posing more challenges to the retail sector which is facing competition from on-line shopping.

The industrial sector is staying strong despite some factories suspending their operations / downsizing work force due to slower global economic growth & slower demand amid business uncertainty brought about by the US-China trade war. New entrants and reinvestments include Micron and Vitrox.

Construction of the proposed Komtar-Bayan Lepas Light Rail Transit (LRT) project, part of Phase 1 of Penang's multi-billion ringgit Transport Master Plan (PTMP), is still in abeyance as approval for the LRT project is understood to be conditional upon approval of the Penang South Reclamation (PSR) project. The PSR project is understood to have received EIA approval but subject to 72 conditions.

# PENANG PROPERTY MARKET

## MARKET INDICATIONS

Works on the expansion of the Penang International Airport (PIA), expected to start in 2020 with scheduled completion in three years, will increase its capacity to accommodate 12 million passengers a year from its current 6.5 million capacity. In 2018, passengers arriving into PIA reached 7.8 million passengers, 20% above its capacity.

Meanwhile, Penang State is looking into a long-term plan which will support the growth of passengers at the current airport in Bayan Lepas and is studying the viability for a second international airport and identifying strategic locations which include one of the three proposed islands to be reclaimed in Batu Maung. The construction of a new international airport will cater to the expected influx of passengers and increase in cargo after 2050.

Penang Convention & Exhibition Bureau (PCEB) aims to promote the state as the preferred site for business events. The meetings, incentives, conventions and exhibitions (MICE) industry is given a boost as Penang gets the honour to host the World Congress on Information Technology (WCIT) event in September 2020 at Setia SPICE Convention Centre in Relau amongst other events. WCIT, the largest and most reputable international event among worldwide IT leaders, is also a signature event of the World Information Technology and Services Alliance (WITSA) since 1978.

The setting up of duty-free shops at Swettenham Cruise Terminal Pier, part of the RM155 million expansion plan as announced under Budget 2019, will enhance the cruise tourism sector. Phase 1 is expected to be operational this July or August whilst plans for Phase 2 will be announced later.

Following the official opening last December of the first phase of Penang Sentral, the integrated transportation hub for land, sea and rail located in Butterworth, Malaysian Resources Corp Bhd (MRCB) has embarked on Phase 2 - a mall with over 400,000 sq ft of retail space, where work is currently on-going and gearing for completion by 2020.

## HIGH END CONDOMINIUM

Hunza Properties Bhd officially launched The Muze, the residential component of Phase 1 of Penang International Commercial City (PICC) in May this year. PICC is an integrated development in Bayan Baru comprising residential, commercial, wellness, hospitality and a lifestyle mall / retail components. The Muze features two residential blocks of 52-storey and 58-storey with a total of 846 units. The units generally sized from 1,078 sq ft to 1,830 sq ft are priced from RM742 per sq ft (unfurnished) to RM984 per sq ft (semi-furnished).

There are very few recorded transactions of high-end condominiums in the secondary market in 1H2019.

A condominium unit sized 1,372 sq ft unit in Quayside Condominiums was sold at RM934 per sq ft in February 2019.

Sub-sale transactions in 2018 for large sized condominiums with built-up areas from 3,500 sq ft to 6,512 sq ft in the prime area of Tanjung Bungah ranged from RM411 per sq ft (The Cove) to RM809 per sq ft (Infinity) whilst similar sized units of 3,500 sq ft to 4,994 sq ft in the Gurney Drive vicinity (Gurney Paragon & 11 Gurney Drive) and Georgetown (Mayfair) were resold at prices ranging from RM709 per sq ft to RM948 per sq ft.

Condominium units sized from 1,137 sq ft to 1,371 sq ft within Seri Tanjung Pinang were resold at prices ranging from RM816 per sq ft to RM1,264 per sq ft as against RM806 per sq ft to RM1,034 per sq ft for the larger sized units of 2,000 sq ft to 2,828 sq ft.

Asking rents are noted to be similar to those during 2H2018. For larger sized units in Tanjong Bungah, they generally range 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 Tanjong Tokong and Gurney Drive, they range from RM1.92 per sq ft to RM3.10 per sq ft per month. It is noted that there are still landlords 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) on Penang Island remains at 2H2018's level of 5.71 million sq ft. There is no incoming supply for 1H2019.

The occupancy rates for the four prime office buildings monitored in Georgetown improved slightly from 2H2018's level of 92% to an average of circa 93% currently. Newer buildings located out of Georgetown, namely One Precinct, Suntech and Menara IJM Land, have collectively maintained the average occupancy rate at about 98%, same as monitored in 2H2018.

In Georgetown, asking rents for three of the buildings monitored increased from RM2.80 per sq ft to RM3.10 per sq ft while at the newer Hunza Tower, passing rents are higher at RM3.80 per sq ft with occupancy rate remaining at 100%. For buildings located out of George Town which are enjoying high occupancies, the asking rents for the available space are higher ranging from RM3.60 per sq ft to RM4.00 per sq ft per month. A fully fitted-out and furnished unit was let out at RM4.80 per sq ft per month early in the year.

The Muze @ PICC

Table 6

### Asking Gross Rents of Selected Purpose-built Office Space on Penang Island

| | Hunza Tower | Menara Boustead Penang | Menara KWSP | MWE Plaza | Wisma Great Eastern | Menara IJM Land | SunTech @ Penang Cybercity | One Precinct |
|---|---|---|---|---|---|---|---|---|
| **Location** | Georgetown | | | | | Jelutong | Bayan Baru | |
| **Asking Gross Rent (RM psf per month)** | 3.80 (passing rents) | 2.80 to 3.10 | 2.80 to 3.00 | 2.80 (fixed rent) | 3.00 | 3.70 (unit sized 1,098 sq ft) | 3.60 (unit sized 1,278 sq ft) | 4.00 |

**Source:** Napic / Knight Frank Research (as of May 2019)

Table 7

**Future Supply of Office Space - Penang Island**

| Project / Location | Estimated NLA (sq ft) | Scheduled Completion | Remarks |
|---|---|---|---|
| ** GBS@Mahsuri, Bayan Baru (next to PDC's office ) | 80,000 | 2Q2020 | 2-storey building; construction to commence 2Q2019 |
| * 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 |
| *Office block by Siuwah Corporation Bhd / Bandar Baru Air Itam | N/A | 2022 | 18-storey |
| ** 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 |
| ** GBS by-the-Sea / Bayan Lepas | 410,000 | N/A | Proposal on hold for now |
| **Hunza Group's PICC / Bayan Baru | N/A | N/A | As a later phase - 54-storey commercial building with 44-storey office tower / integrated development |
| ** Sunway Group / Paya Terubong | N/A | N/A | 9-storey office block / integrated development |
| **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:** Napic / Knight Frank Research (as of May 2019)

# RETAIL

The existing supply of purpose-built shopping space on Penang Island remained unchanged at 2H2018's level of 6.99 million sq ft. No new purpose-built shopping malls were completed on the island in 1H2019.

In the prime shopping malls, the monthly rental rates for ground floor retail lots generally range from RM8.50 per sq ft to a high of 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% to 98% whilst for secondary shopping malls, the range is generally from 70% to 90%.

Future supply of retail space on the island will come from malls being planned under the Sunway group in Paya Terubong (to be ready by 2023), The Penang International Commercial City (PICC) by Hunza Group and The Light Waterfront Mall by IJM Land.

PICC is an integrated development comprising PICC Tower, a business process outsourcing (BPO) office block, a five-star hotel, a medical centre, a lifestyle mall, food and beverage boulevard, a central park and residences over 43.36 acres of land in Bayan Baru which will be completed in phases over the next eight to 10 years.

Due to soft market conditions, IJM Land will be developing The Light City over two phases. From an original gross floor area of 1.5 million sq ft of retail space, the Light Waterfront Mall will now comprise 700,000 sq ft of retail space under Phase 1 and 400,000 sq ft under Phase 2. The other components of the development include two international class hotels, a convention centre, an office tower and two condominium blocks.

On the mainland, the review period saw the opening of IKEA Batu Kawan Store on 14th March 2019. With a retail space of circa 470,000 sq ft, it is the first IKEA store in the northern region and the fourth store in Malaysia.

Future supply of retail space on mainland Seberang Perai will come from the expansion of the Sunway Carnival Mall with targeted completion by 4Q2020, the completion of the retail mall under Penang Sentral Phase 2 scheduled for 2020 and Gem Mall by Belleview Group in 2021.

In Bukit Mertajam, Seberang Perai, there are six abandoned shopping centres over the last 20 years and these include Plaza Utama, Asas Plaza, City Parade, Asas Parade, Taikar Plaza (since demolished) and Perda City Mall. Additionally, The Summit shopping mall in Bukit Mertajam is now for sale at circa RM50 million. A freehold and stratified development, The

Summit comprises a five-storey shopping mall (314,979 sq ft) and a seven-storey office tower (59,998 sq ft) together with 662 parking bays.

## INDUSTRIAL

For 1Q2019, Penang recorded RM8.85 billion of total approved manufacturing investment which surpassed the state's RM5.78 billion achieved in year 2018. Penang garnered 41 projects which contributed to the RM8.85 billion, representing 35% of Malaysia's total proposed capital investment, and is expected to create about 10,000 new job opportunities. Foreign direct investments (FDIs) in manufacturing at RM8.47million improved 1,360% year-on-year and represents 42% of Malaysia's total FDI with two notable investments from the USA with Micron Technology Inc and Jabil Circuit expanding their respective operations in Penang. (source: MIDA)

Micron Technology Inc, a Fortune 500 company, will invest RM1.5 billion in Penang over the five years to build its new centre of excellence for solid state drive (SSD) assembly and test over a 21-hectare site in Batu Kawan Industrial Park with ground works to commence in 1H2019 and to achieve full ramp-up within two years. This investment will further reinforce the position of Penang as the Silicon Island of Asia.

Vitrox Corp Bhd, already in Batu Kawan Industrial Park, plans to invest another RM200 million to RM300 million (building and equipment) to construct a new design and production facility here to be operational in 2022 or 2023. The planned facility with a built-up area of circa 900,000 sq ft on a 22-acre site will be double the size of its present facility which has a built-up area of 450,000 sq ft.

Aemulus Corp Sdn Bhd has started work on its new corporate office and design centre on a 0.6-hectare site in Bayan Lepas Free Industrial Park which will feature 100,000 sq ft of space with three laboratories. The company will invest RM35 million for development, research and business infrastructure.

Express (FedEx), a subsidiary of FedEx Corp, has invested RM17.6 milllion on its Penang Gateway facility at Malaysia Airport Berhad (MAB) New Cargo Complex at Penang International Airport. The warehouse measuring about 4,830 sq m serves as a major hub in the northern states and is a key gateway for FedEx Asian and Trans-Asian flights. It is the largest integrated logistics facility of its kind in Penang and also the first facility of its kind in Malaysia to feature 100% X-ray scanning for all outbound packages.

Centurion Corporation has officially opened Westlite Bukit Minyak, a purpose-built worker's accommodation (PBWA). The first development in Penang and seventh in Malaysia, Westlite Bukit Minyak provides a 6,600-bed facility together with several facilities. The Penang State Government has approved six projects for the development of such accommodation whilst approval for the seventh project has yet to be obtained.

## OUTLOOK

The outlook is one of caution and restrained activity. General market sentiment remains bearish although some slight encouraging signs are emerging.

The residential sector is still bogged down by an oversupply situation and thus, not expected to achieve any significant improvement in the near future.

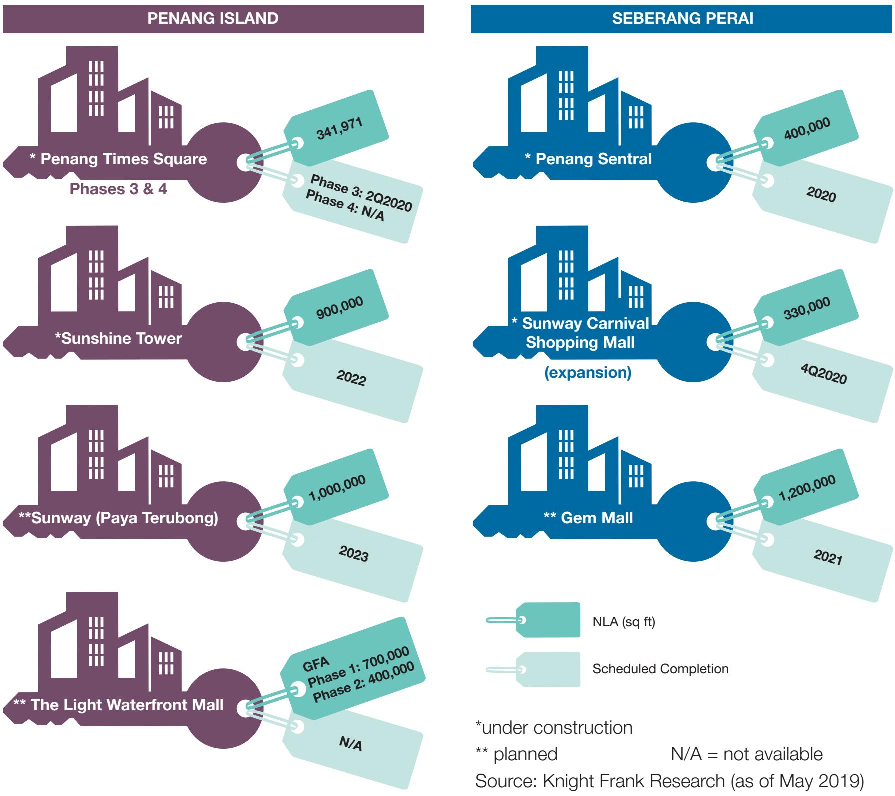
However, the office sector is still performing reasonably well. With no new incoming supply, rentals are sustaining and occupancies are improving slightly.

The industrial sector is also maintaining reasonably strong demand.

The retail sector, on the other hand, is facing increasing challenges and the market is expected to remain in this state for some time to come.

Nevertheless, prospects for improvements are expected in the third quarter of the year and the long-term outlook remains positive.

Figure 9
**Future Supply of Retail Space**




*under construction
** planned
N/A = not available
Source: Knight Frank Research (as of May 2019)

## HIGHLIGHTS

Iskandar Malaysia has recorded a total cumulative investment of RM293 billion as of 1Q2019, made up of 62% local investment with the remaining 38% from foreign investors, predominantly from China and Singapore.

Iskandar Regional Development Authority (IRDA) is going to expand the Iskandar Malaysia's boundaries up to Kota Tinggi, Kluang and Pontian districts and will incorporate modern agriculture as its new promoted sector.

The retail supply in Johor Bahru increased by more than 2.50 million sq ft with the opening of four shopping malls / hypermarkets.

Stable rentals for purpose-built office space although overall occupancy level is expected to take a dip following the entry of new supply in 2018 which have yet to achieve significant leasing.

# JOHOR BAHRU PROPERTY MARKET

## MARKET INDICATIONS

As of 2018, the volume of property transacted in the State of Johor grew positively for all sub-sectors whereby the residential, commercial and industrial segments improved by 8.0%, 11.5% and 8.4% respectively compared to the previous year (y-o-y). While the corresponding value of property transactions for the residential (1.5%) and industrial (17.5%) sub-sectors also improved, the commercial segment recorded a decline of 4.3% in transacted value.

## RESIDENTIAL

As of 2018, the cumulative supply for high-rise residential rose to about 104,070 units (includes serviced apartments and SOHO).

Two high-rise projects were completed in 1H2019, namely Southern Marina in Puteri Harbour (456 units) and Marina Residences in Permas (168 units). The handover to purchasers for Southern Marina, featuring 2 blocks of condominiums with units sized between 769 sq ft to 2,709 sq ft, began around February 2019.

During 1H2019, there were two notable launches of high-rise projects, namely One 49 Residences and Laman Damai (Green Avenue), Central Park.

Located in Tebrau, One 49 Residences is a project by TH Tebrau Land (subsidiary of Teguh Harian Sdn Bhd). The units range from 875 sq ft to 1,050 sq ft and are priced between RM360,000 and RM450,000. The project is scheduled for completion by 2022.

Nestled within the Central Park @ Damansara Aliff, DAC Properties Sdn Bhd (joint venture between Damansara Realty Bhd and Country Garden Holdings) has launched its second phase of Laman Damai or also known as Green Avenue. Phase 2 comprises two blocks of serviced apartments with a total of 1,300 units. The units, sized from 544 sq ft, are selling from RM206,000 and are scheduled for completion by 2023.

In Johor Bahru, the asking rentals for high-end condominiums remain stable and range from RM2.50 per sq ft to RM3.50 per sq ft per month.

In the landed housing segment, UEM Sunrise has launched ASPIRA Park Homes (Phase 1 and Phase 2) which is part of its Gerbang Nusajaya development in Gelang Patah. The two-storey terraced houses come with typical built-up area of 1,931 sq ft and are priced from RM525,300 per unit.

## OFFICE

The cumulative supply of purpose-built office space in Johor Bahru stood at about 10.6 million sq ft as of 1H2019 with the new completion of D'Pristine Corporate Office.

D'Pristine Corporate Office has obtained its Certificate of Completion and Compliance (CCC) in June. Located in Medini, it is a 32-storey Grade A building and certified  with GBI Silver with NLA circa 500,000 sq ft.

It is expected that by 2H2019 about 0.70 million sq ft of office space will enter the market with the scheduled completion


Southern Marina, Puteri Harbour

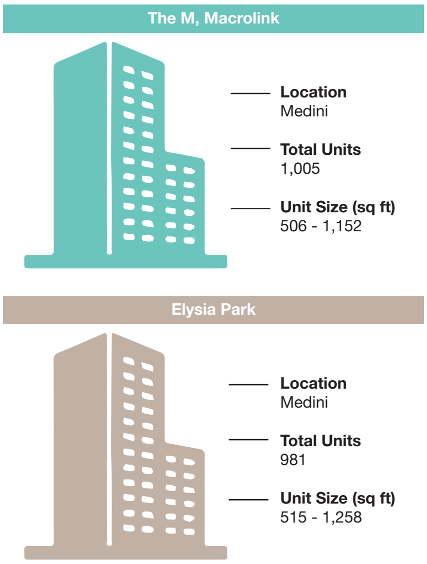
of Menara UMLand in Medini, Iskandar Puteri and Menara MBJB One Bukit Senyum in Johor Bahru.

Office buildings located within JB City Centre and its fringe generally command asking rentals ranging from about RM2.50 per sq ft to RM3.50 per sq ft per month. Menara JLand, a Grade A office tower, has higher monthly asking rental in the region of RM5.00 per sq ft to RM5.50 per sq ft*.

Despite a slower absorption rate, the monthly asking rentals in Medini, Iskandar Puteri, remain at about RM3.50 per sq ft to RM4.50 per sq ft per month while in Puteri Harbour, they range between RM2.20 per sq ft and RM2.50 per sq ft per month.

**Knight Frank Malaysia is the exclusive leasing agent for Menara JLand.*

Figure 10
**Incoming Residential Supply 2H2019**




**Source:** Knight Frank Research

## RETAIL

As of 1H2019, the cumulative retail supply in Johor Bahru was recorded at about 14.7 million sq ft. The opening of shopping malls and hypermarkets such as Mid Valley Southkey, R&F Mall, NSK Pandan and NSK Ulu Tiram added more than 2.5 million sq ft of space to the existing stock. The occupancy rate, however, dropped from 84.6% in 2017 to register at 72.5% in 2018.

On 28th March 2019, R&F Mall was officially opened to the public. Connected to Sultan Iskandar Customs Immigration Complex (CIQ), the 532,000 sq ft mall anchored by Jaya Grocer, enjoys good connectivity and this augurs well for both retailers and shoppers. Other notable tenants include Timberland, Skechers, Lucca Vudor, Subway, Vivo and Coffee Bean.

Mid Valley Southkey Megamall is a five-storey shopping mall spanning about 1.5 million sq ft of NLA. Officially opened on 23rd April 2019, it forms part of the 32-acre integrated development in the southern region that also comprises leisure, office and residential components. The mall, which takes on the successful concept of Mid Valley Megamall in Kuala Lumpur, has SOGO and Village Grocer as its anchor tenants. Among its other notable tenants are Michael Kors, Channel, Kate Spade, Dior, Royal Sporting House, Texas Chicken, Kenny Rogers Roasters and San Francisco Coffee.

TF Value-Mart, which have taken over the Giant Hypermarket outlets at U-Mall Pulai Utama and Giant Nusa Bestari, were officially opened on 25th April 2019.

Johor Premium Outlet (JPO) is a joint venture between Genting Plantation (subsidiary of Genting Group) and US-based Simon Property Group. First opened in 2011, its leasable area has grown from circa 171,000 sq ft to about 313,000 sq ft currently following the completion of its Phase 3 expansion. The premium outlet centre celebrated its official opening on 21st March 2019 with latest brands that include Skechers, Prada, Crocs and Tefal.

The review period also witnessed the openings of hypermarkets in Johor Bahru. NSK Holdings continued to strengthen its presence by opening its first hypermarket in the southern region at Pandan and thereafter at Ulu Tiram. The two-storey hypermarkets, offering wholesale business concept, are targeted at locals and Singaporeans as well.

Hero Market replaced UO Superstore in Plaza Angsana in 1Q2019 while Ben's Independent Grocer (B.I.G) is making its debut in Johor at the Mall of Medini, which is currently undergoing minor refurbishment.

With the current Bubble Tea craze, new trends are emerging in Johor Bahru - Mount Austin is the Milk Tea Township with circa 22 outlets and there is a Milk Tea Lane in Sutera Utama.

## INDUSTRIAL

Compared to 2017, the volume and value of transactions in the District of Johor Bahru were higher by 13.4% and 23.0% respectively in 2018. Latest data from Malaysia Investment Development Authority (MIDA) revealed that a total of 144 manufacturing projects were approved in Johor in 2018 (2017: 146 projects), the state is ranked second after Selangor (244 projects).

KA Petra Sdn Bhd is collaborating with Hong Kong–based port operator Hutchison Port Holdings Ltd to set up the world's biggest ship-to-ship (STS) hub near the Tanjung Pelepas Port. The proposed development, spanning across 2,800 acres of waters and costing RM612 million to RM735 million, is expected to be completed by 2021.

There were no notable launches of industrial properties during the review period. However, it is noted that a few industry players have expressed their interest to either expand their existing premises or set up new premises in industrial areas such as Johor Bahru, Senai and Pasir Gudang.

A China gearbox remanufacturing company is planning to establish a RM28 million factory in Iskandar Malaysia where its production will be exported to the United States.

MTAG Group Berhad is planning to set up a new manufacturing plant on 10 acres of land. The plant, to be located at either Senai or Tebrau, will comprise corporate office, production facility and warehouse.

Meanwhile, IRDA is committed to develop the Senai-Kulai region. A Special Area Plan for Kulai - Sedenak 2025 has been drafted to transform the northern part of the region into a data and digital hub. The state government is also planning to introduce special incentives to attract foreign investment towards the northern part of the state. A group of Chinese investors has shown interest to invest in an 18.93-hectare housing project in Sedenak.

In Johor Bahru, the average asking rentals for industrial schemes remain stable and range from about RM1.10 per sq ft to RM1.40 per sq ft per month for the older premises while for the newer schemes, the rentals range from RM1.30 per sq ft to RM1.50 per sq ft per month. In the locality of Senai – Kulai, the monthly rentals hover between RM1.00 per sq ft and RM1.30 per sq ft per month. Meanwhile, the asking rentals in Pasir Gudang are lower and start from RM0.80 per sq ft to RM1.20 per sq ft per month.

## OUTLOOK

The overall residential market has shown slight improvement in terms of volume and value of property transactions. However, with the high-end residential segment continuing to experience slow take-up, the focus of most developers is on the affordable housing market.

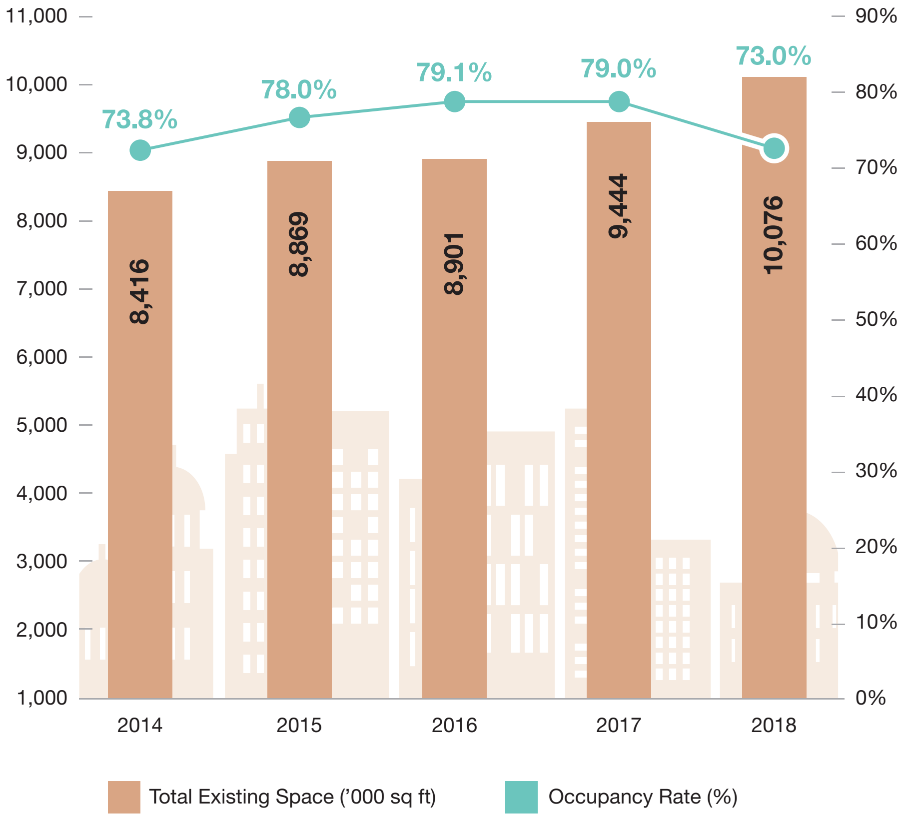
Moving forward, the retail market is expected to face more pressure with another 1.85 million sq ft of space in the pipeline, scheduled for completion by 2H2019. Thus, to remain competitive, developers are challenged to offer unique and different concepts to secure tenants and attract shoppers to their establishments.

The outlook for the industrial sector is one of optimism. There were more market activities in 1Q2019, supported by the presence of logistic and manufacturing hubs in Senai, Pasir Gudang and Gelang Patah. Notable major logistic players in Johor are JP Logistics, Tiong Nam Logistics, Damco Logistics, DB Schenker and Nippon Express.

Notable announcements include the reduction of bumiputra quota in industrial projects by 10% for new applications which will provide some relief to industry players. The suspension of several infrastructure projects such as High Speed Rail (HSR) and Rapid Transit System (RTS) may affect surrounding developments in terms of capital appreciation and sales rate. These developments still command good demand as owners are taking a grasp of their properties until the infrastructure projects are revived.

Figure 11

**Cumulative Supply and Occupancy Rate of Purpose-Built Office in Johor Bahru 2014 – 2018**




**Source:** NAPIC

Mid Valley Southkey

## HIGHLIGHTS

Domestic and foreign investors observed to have growing interest and explorations in Sabah.

Landed residential projects in strategic locations continue to be well received.

First of its kind luxury goods duty-free mall open for business in Kota Kinabalu.

The Ministry is focusing its efforts in promoting the east coast of Sabah as a key tourism destination in pursuit to balance tourist distribution across the state and generate business opportunities for east coast communities.

The hotel industry continue to experience growth, with hotel chain brands including Hyatt Centric and AVANI Hotels and Resorts entering the Sabah market.

# KOTA KINABALU PROPERTY MARKET

## MARKET INDICATIONS

Sabah recorded 8,271 transactions, a decrease of approximately 4.1% when measured against the previous year (2017: 8,628 transactions). Despite this, the overall value of transactions for 2018 increased by 10.6% to register at RM4.98 billion. The residential segment maintains its dominant position with 60.3% share of property transactions during the review period, followed by the agriculture sector (19.3% share) and the commercial sector (12.4% share) (Source: NAPIC's Annual Property Market Report).

Sabah's estimated total gross development value (GDV) for the year 2018 registered at RM3.41 billion, displaying a significant growth of 122% as compared to RM1.53 billion in the year 2017. The high-rise residential sector (condominium & apartment) registered the highest value with an estimated GDV of RM2.22 billion with 1,920 launched units. Following that, the landed residential sector registered an estimated GDV of RM736 million with 1,316 launched units; a significant increase from the year 2017 which recorded at RM310 million. The commercial and industrial sectors registered an estimated GDV of RM39 million and RM67 million respectively (Source: SHAREDA Property Development Annual Report & Market Outlook 2019).

## RESIDENTIAL

The existing supply of residential units in Kota Kinabalu (excluding Penampang and other administrative districts) stood at 63,759 units as at end of 2018, a slight increment of 3.3% as compared to the previous year (2017: 61,739 units). The growth rate of the high-rise residential segment (condominium/ apartment) continuously outpaces its landed counterpart, contributing to circa 25,932 units of the total supply (40% share). In terms of incoming supply, some 5,854 units (77% share) out of the total 7,614 residential units in the pipeline are categorised as condominiums / apartments.

There was a total of 796 overhang residential units in Kota Kinabalu that are completed with Occupancy Certificates (OC) issued as of end 2018, the majority of units (circa 95%) in the condominium/ apartment category. As for the under construction residential schemes, there were a total of 374 unsold units with the condominium/apartment category contributing the highest share (64% or 240 units).

Beside Damaisari Kolombong, Park Lane @ Taman Bukit Sepangar and Forest Hill Residences, there were no other notable entry of residential projects in 1H2019. Developers continue to focus on subsequent phases of their previously launched schemes.

SCP Group officially launched Damaisari Kolombong, a gated and guarded landed residential development earlier in March 2019. The development, spread across 6.96 acres, features 96 units of two and three-storey terraced houses with built-up areas ranging from 2,305 sq ft to 3,454 sq ft. Situated in the prime location of Kolombong, the residential units are priced between RM730,000 and RM1.4 million. The project is fully sold and scheduled for completion in June 2021.

Nestled within the residential area of Bundusan, Forest Hill Residences is the latest brainchild of Peak Sunrise Development Sdn Bhd after the group's completion of The Bay Residences and Spinnaker Suite. Spanning across 4.85 acres of land, the project comprise 396 units in total with typical sizing of 838 sq ft and 986 sq ft that spread over three blocks of 28-storey towers.

Wah Mie Group previewed its latest development, Park Lane @ Taman Bukit Sepangar in March 2019. The landed residential development offers 115 units of double-storey terraced houses with built-up sizes of 1,876 sq ft and 1,929 sq ft. To date, the project has been well

Artist Impression of Forest Hill Residences @ Bundusan

received with approximately 50% sales.

Sri Moraine Sdn Bhd has recently launched phase 2 of its project "Vision Garden Elite" after phase 1 (Vision Garden) was fully taken up. Enclaved within one of the growing areas of Penampang, the second phase of the project comprises 25 units of double-storey terraced houses, 16 units of double-storey semi-detached houses and a unit of three-storey detached house. Standard built-up sizes range between 2,080 sq ft and 2,614 sq ft for the terraced and semi-detached houses. The project has achieved a take-up rate of 55% during the review period.

The delay on the issuance of OC for the residents of The Gardens @ Bundusan was finally put to an end in January 2019 after the successful court ruling. The condominium project, completed at the end of 2016, was denied the issuance of OC by PDC due to a dispute between Unsur Pancar Sdn Bhd and the developer, Marvelgold Development Sdn Bhd.

## OFFICE

The existing supply of purpose-built office (privately owned) in Kota Kinabalu at the end of year 2018 remained stagnant, recording at 5.08 million sq ft. During the review period, the average occupancy rate stands at 89%. As of the first half of 2019, there was no completion of purpose-built office in the market.

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.

The ITCC mixed-use commercial development has achieved a number of major milestones in the first half of 2019. Manhattan Suite, its 286-room SOVO development, received OC in May 2019 and circa 70% of the project has been sold. The 10-storey ITCC office block received OC in February 2019 and a long-term lease has been agreed with a single tenant. The new tenant has started an extensive renovation of the office block and will commence operations in September 2019.

## Retail

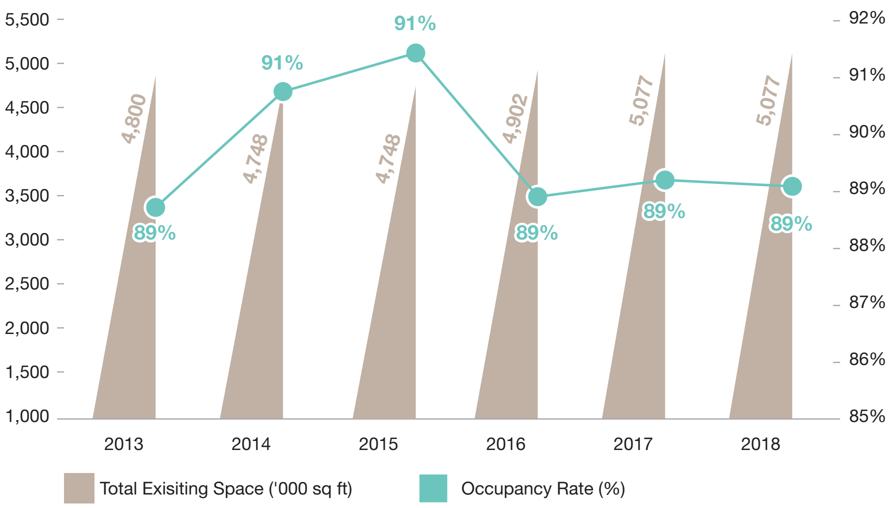
The total retail space of shopping complexes in Kota Kinabalu stood at 6.03 million sq ft with occupancy rate hovering at approximately 83% during the review period.

The first duty-free mall in East Malaysia offering high-end brands for tourists and locals alike is now open for business at the ground floor of Jesselton Mall. In collaboration with Valiram Group, premium brands including Hugo Boss, Michael Kors, Polo Ralph Lauren, Swiss Watch Gallery, Lacoste, Tory Burch, Tumi, Versace Wear + When, Godiva and TWG Tea are now available at the boutique lifestyle mall.

The ITCC shopping mall has been in operations for 1.5 years and the ground floor of the mall has achieved 80% occupancy during the review period. Notable operators that have recently entered the mall include Domino's Pizza, Watson, Guardian and Secret Recipe.

Figure 12

**Cumulative Supply and Occupancy Rate of Purpose Built (Privately Owned) Office in Kota Kinabalu 2013 – 2018**




**Source:** NAPIC

Effective from 1st January 2019, 1 Borneo Hypermall and Oceanus Mall were taken over by their respective new management body, United 1 Borneo Hypermall Sdn Bhd and Oceanus Mall Management Sdn Bhd, entities that are incorporated by the owners of units in the mall to safeguard their interests.

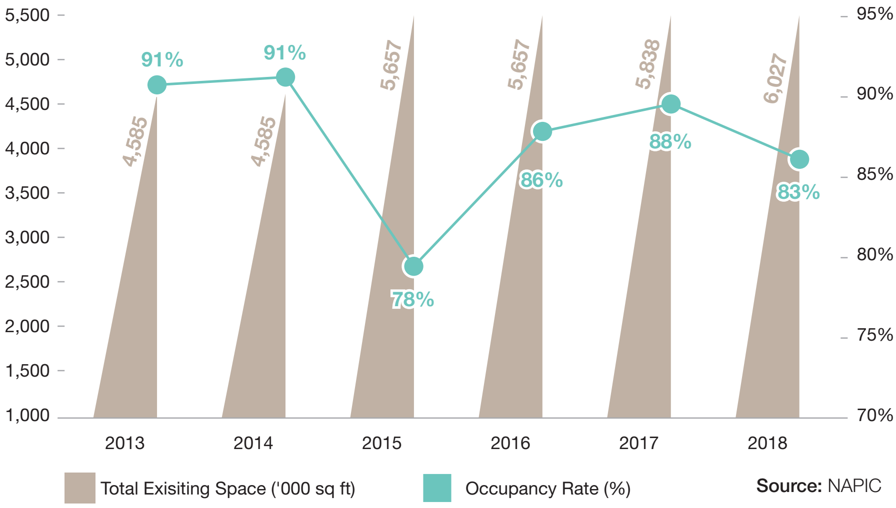
Petrofiq Sdn Bhd had withdrawn from their revival project of the long-abandoned Star City Mall when neither the company nor the landowner, Sabah Urban Development Corporation Sdn Bhd (SUDC), could settle tax payments demanded by the Inland Revenue Board. It is reported that there is a new joint venture agreement between SUDC and China's Fujian Provincial People's Government to set up a special vehicle company to undertake the redevelopment of the project site.

Hardie Development Sdn Bhd, a 70% owned subsidiary of Permaju Industries Bhd has on 25th March 2019 entered into a Memorandum of Understanding with O&C Construction Sdn Bhd to jointly complete the remaining phases of the Princess Heights Project in Menggatal, Kota Kinabalu. Phase 2 of the project comprises a a four-storey hypermarket which will be leased to "Mydin" for a period of 20 years and 80 units of three-storey terraced shop offices. Meanwhile, the remaining of the project has been allocated for the future development of commercial and residential properties, including e-commerce and lifestyle hub.

Internal View of Jesselton Mall

Figure 13

**Cumulative Supply and Occupancy Rate of Shopping Complex in Kota Kinabalu 2013 – 2018**




**Source:** NAPIC

## TOURISM & HOSPITALITY

Sabah's tourism industry achieved an all-time high in 2018 with 3.879 million visitor arrivals and RM8.342 billion in tourism receipts, reflecting a year-on-year growth of 5.3% and 6.6% respectively. Out of the total visitor arrivals, domestic visitors made up 65% of the total with the remaining 35% comprising international visitors. Amongst the international visitors, China was the top market source at 44%, followed by South Korea at 25%.

In conjunction with the positive growth seen across the Sabah Tourism industry, the hospitality industry in Sabah has also witnessed some fascinating growth and breakthrough as of first half of 2019.

A Hyatt affiliate has entered into a management agreement with a wholly owned subsidiary of Hap Seng Group of Companies to develop a Hyatt Centric hotel in Kota Kinabalu. Expected to open in 2021, Hyatt Centric Kota Kinabalu will be the first Hyatt Centric hotel in Malaysia. World-renowned Japanese architect, Kengo Kuma, has been commissioned as the architect and interior designer for the hotel. Situated in the heart of the city centre, the 23-storey hotel incorporating one level of basement will feature 226 guestrooms, an all-day lounge and restaurant, spacious meeting space, rooftop swimming pool and fitness centre.

Sunduvon Corporation Sdn Bhd, a subsidiary company of KTS Group, is poised to develop a large-scale integrated tourism development on a 132-hectare reclaimed island. Debut as KK Resort City, the mega project will be developed in multiple phases with an estimated cost of RM5 billion, offering a range of accommodation, including five-star hotel, three- and four-star boutique hotels, water villa resorts, luxury villas, condominiums, town-houses, convention centre and function rooms, waterfront infrastructure and facilities.

Kota Kinabalu will have a second hotel by Hilton under the DoubleTree by

Artist Impression of KK Resort City

Hilton brand. Scheduled for opening at the end of 2022, the hotel featuring 237 guestrooms forms part of an integrated mixed development.

AVANI Hotels and Resorts has entered into an agreement with KTI Property Sdn Bhd to expand their brand presence in Kota Kinabalu. Scheduled to launch in the fourth quarter of 2021, the hotel will form part of a mixed-use development located along Jalan Lintas, featuring 378 rooms, all day dining restaurant, rooftop bar and pool and meeting space.

Sabandar Cowboy Town, a popular recreational facility situated in Tuaran, has announced its second phase. The beach resort currently serves as a local getaway with 16 lodging rooms, restaurant, bar and grill, Mangrove Park, and various recreational facilities including horse riding, batik printing and river cruises. The second phase will comprise 37 cowboy themed retail shops, 160 hotel rooms, recreational clubhouse, children's pool as well as a vintage car museum.

The first pop up beach resort in Sabah has opened its door along the Rampayan Beach at Kota Belud, known as Cabana Retreat. Cabana Retreat offers about 24 rooms in "tent" format with multiple sizes and designs.

## OUTLOOK

The overall market performance for Sabah is expected to remain stable with pocket of opportunities due to growing interest and explorations being observed from both domestic and foreign investors, particularly in the tourism and hospitality sector and downstream activities of the industrial sector. For instance, 12 Memoranda of Understanding (MoU) worth close to RM20 billion have been signed, involving local companies and Chinese investors in the industrial sector. The MoUs include a joint-venture agreement between Jesselton Birost (Sabah) Sdn Bhd and Zhejiang Zhou Shan Run Energy Co Ltd to construct and manage the integrated refinery and oil storage terminal in the Sipitang Oil and Gas Industrial Park, which is expected to cost around RM16.5 billion. In addition to that, Xinyi Glass Holding Limited, the world's third-largest floating glass producer has announced plans to invest RM1.2 billion in Sabah. The company aims to secure 200 acres to set up its plant and expects to provide employment to 1,400 people upon fully operational.

The residential sub-sector, which has been contributing to the lion's share of the local market, influenced the overall performance. Further consolidation of the residential sector is expected with increasing supply, particularly high-rise residential projects that are not well priced or located. The region will take time to digest the existing and incoming high-rise residential supply. On the other hand, market reception towards landed projects that are strategically located is still relatively robust.

The office sector is expected to remain stable in terms of occupancy and rental and there will be no immediate incoming supply.

As for the retail sector, leading malls with strong track record and good tenancy mix are expected to stay resilient due to their captive market while new incoming malls will need to establish their market position.

In view of the growing tourism industry, development of human capital, establishment of tourism products, directing tourism growth towards local needs, market diversification of tourist arrivals, are amongst others the priorities in achieving sustainable growth for the industry. During the review period, promoting east coast of Sabah as a key tourism destination is one of the ministry's key focuses to ensure a more balanced distribution of tourist across the state and to create business opportunities to the communities in the east coast.

Artist Impression of Avani Hotel Kota Kinabalu

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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,
52100 Kuala Lumpur.

KDN PP16104/11/2012(031172)

**MALAYSIA CONTACTS**

**Eric Y H Ooi**
Executive Chairman
+603 228 99 668
eric.ooi@my.knightfrank.com

**Sarkunan Subramaniam**
Managing Director
+603 228 99 633
sarky.s@my.knightfrank.com

**VALUATION**

**Chong Teck Seng**
Senior Executive Director
+603 228 99 628
teckseng.chong@my.knightfrank.com

**Keith H Y Ooi**
Executive Director
+603 228 99 623
keith.ooi@my.knightfrank.com

**Justin Chee**
Executive Director
+603 228 99 672
justin.chee@my.knightfrank.com

**RESEARCH & CONSULTANCY**

**Judy Ong Mei-Chen**
Executive Director
+603 228 99 663
judy.ong@my.knightfrank.com

**INVESTMENTS / CAPITAL MARKETS**

**James Paul Buckley**
Executive Director
+603 228 99 608
james.buckley@my.knightfrank.com

**INDUSTRIAL / DEVELOPMENT LAND**

**Allan Sim Song Len**
Executive Director
+603 228 99 606
allan.sim@my.knightfrank.com

**CORPORATE SERVICES**

**Teh Young Khean**
Executive Director
+603 228 99 619
youngkhean.teh@my.knightfrank.com

**RETAIL CONSULTANCY & LEASING**

**Rebecca Phan**
Associate Director
+603 228 99 618
rebecca.phan@my.knightfrank.com

**PROPERTY / FACILITIES MANAGEMENT**

**Matthias Loui**
Senior Executive Director
+603 228 99 683
matthias.loui@my.knightfrank.com

**Kuruvilla Abraham**
Senior Executive Director
+603 228 99 718
kuruvilla.abraham@my.knightfrank.com

**RESIDENTIAL SALES & LEASING**

**Kelvin Yip**
Associate Director
+603 228 99 612
kelvin.yip@my.knightfrank.com

**INTERNATIONAL PROJECT MARKETING**

**Dominic Heaton-Watson**
Associate Director
+603 228 99 741
dominic.hw@my.knightfrank.com

**PENANG BRANCH**

**Tay Tam**
Resident Director
+604 229 3296
tam.tay@my.knightfrank.com

**JOHOR BRANCH**

**Debbie Choy Wei Yinn**
Branch Head
+607 3382 888
debbie.choy@my.knightfrank.com

**SABAH BRANCH**

**Alexel Chen**
Executive Director
+60 88 279 088
yunngen.chen@my.knightfrank.com