A comprehensive analysis of Malaysia's residential, retail, office and industrial markets

Knight Frank

Real Estate Highlights

Research, 1st Half 2020

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KUALA LUMPUR HIGH END CONDOMINIUM MARKET

Highlights

The recovery path of the property market since 2019, which was supported by the extended Home Ownership Campaign (HOC), has been thrown off by the onset of the COVID-19 pandemic in 1Q2020.

6-month automatic loan moratorium to provide a short-term breather to borrowers impacted by the pandemic.

The Central Bank has also lowered the Overnight Policy Rate (OPR) thrice in 1H2020 to 2.00% to cushion the economic impact on businesses and households.

Secondary market pricing weakens while rentals in most localities are under pressure.

Reintroduction of the Home Ownership Campaign (HOC) with stamp duty exemption on instrument of transfer and loan agreement and exemption of Real Property Gains Tax (RPGT) for up to 3 residential properties per individual are amongst initiatives announced under PENJANA as the country restarts its economy.

Developers are turning to digital platforms and social media to sell their products online and are offering more attractive incentives and deals.

Market Indications

The COVID-19 pandemic is driving the global economy into recession and many countries, including Malaysia, are responding with stimulus packages to avoid a cascade of bankruptcies and emerging market debt defaults. The country's dependency on oil revenue will further strain the government's fiscal position amid declining oil prices.

The country's economy expanded 4.3% in 2019 (2018: 4.7%), the lowest growth since the global financial crisis in 2009. It weakened further to record at 0.7% in 1Q2020 (4Q2019: 3.6%), reflecting the early impact of measures taken both globally and domestically to contain the spread of the novel coronavirus. Malaysia's economic growth for 2020, as measured by gross domestic product (GDP), is projected at between -2.0% and 0.5%.

The period of low headline inflation, recorded at 0.7% in 2019 (2018: 1.0%), mainly reflects the lapse in the impact from the Sales and Services Tax (SST) implementation. It continued to remain modest at 0.9% in 1Q2020 (4Q2019: 1.0%) due to lower fuel costs. The country's average headline inflation for 2020 is expected to turn negative due to lower global fuel prices coupled with weaker domestic growth prospects and labour market conditions.

The labour market conditions remained stable in 2019 with the unemployment rate unchanged at previous year's level of 3.3%. During 1Q2020, however, the unemployment rate increased to 3.5% (4Q2019: 3.2%), reflecting the negative impact of the nationwide Movement Control Order (MCO) which saw most non-essential economic and business activities literally slowed or grinding to a complete halt. For the whole year of 2020, the unemployment rate is expected to peak and range from 3.5% to 5.5%, the highest since 1995.

On the lending front, Bank Negara Malaysia cut the Overnight Policy Rate (OPR) by 50-basis point to 2.00% on 5 May 2020, its third revision this year in order to ease the impact of COVID-19 pandemic on businesses and households. Earlier on 20 March 2020, the central bank had reduced the Statutory Reserve Requirement (SRR) from 3.00% to 2.00% to shore up liquidity in the country's banking system.

Kuala Lumpur: Completion of High-End Condominiums / Residences, 1H2020

Project	Location	Area	Total Units
Sky Suites	Jalan P. Ramlee	KL City	986

Source: Knight Frank Research

Supply and Demand

The pandemic has taken a toll on most economic sectors and business activities, including the construction and property sectors. As of 1H2020, there was only one notable completion of high-end condominium / residence project in Kuala Lumpur, namely Sky Suites (986 units), which brought its cumulative supply to circa 60,344 units. The nationwide MCO has halted most construction activities before its gradual easing of restrictions, leading to the scheduled completion of projects such as Agile Mont' Kiara (813 units), Arte Mont' Kiara (1,707 units) and TWY Mont' Kiara (484 units), being pushed back to 2H2020.

Another two projects, namely 8 Kia Peng (442 units) and Tower 2 @ Star Residences (482 units), are also scheduled for completion by 2H2020.

Collectively, these five projects will add some 3,928 units to Kuala Lumpur's existing high-end residential stock.

During the review period, two notable projects in KL City had their preview / launch, namely The Landmark @ KL City and Quill Residences.

Debao Property Development Ltd held the preview of its residential project on a 2.07-acre freehold site in Bukit Bintang. The Landmark @ KL City, on the former site of SJK(C) Imbi at Jalan Horley, features two blocks: the 72-storey North Tower and 71-storey South Tower, offering a total of 1,338 units sized from 558 sq ft to 2,165 sq ft in single-key, dual-key and duplex configurations. Targeting a mix of foreign buyers, expatriates as well as local buyers, the development is scheduled for completion in 2023.

Andarama Sdn Bhd, a subsidiary of Quill Group of Companies has also launched its serviced apartments – Quill Residences. The project, which sits on a 7.09-acre site at Jalan Sultan Ismail, forms part of the Quill City integrated development that also include Quill City Mall and a 40-storey office tower. Slated for completion by 2021, Quill Residences offers 552 units with built-up areas ranging from 667 sq ft to 1,474 sq ft.

Meanwhile, upcoming project launches in 2H2020 include Est8@ Seputeh, 38 Bangsar and Latitud8.

Northern based property developer, EUPE Corporation Berhad is planning to develop its third residential development in Klang Valley known as Est8 in Seputeh. The project sits on a 3.22-acre leasehold land next to The Japan Club of Kuala Lumpur, and will offer 744 units of serviced apartments, 17 units of two-storey villas and 111 units of three-storey villas within the two blocks of 50-storey buildings.

Quill Residences

Source: Quill Residences Official Website

38 Bangsar is a mixed development project at Jalan Bangsar Utama 1. The leasehold project by UDA Holdings Berhad is planned for a 38-storey block of serviced apartments offering a total of 278 units and complemented by three retail lots on the ground floor.

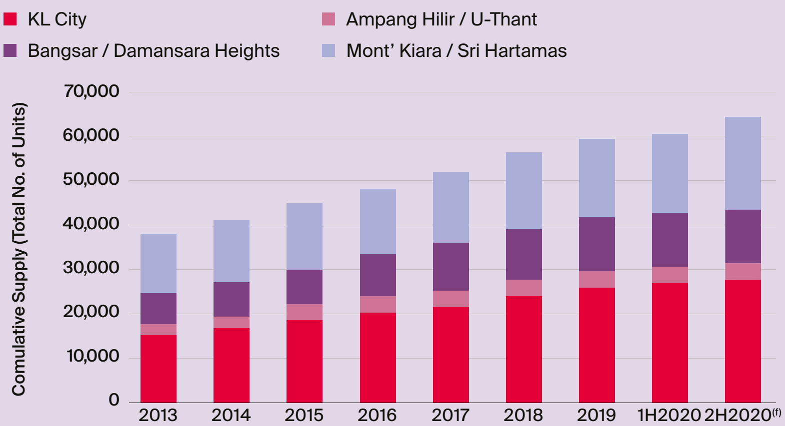
Latitut8 is a transit-oriented development (TOD) atop the Dang Wangi LRT station. Besides consisting of a lifestyle mall and business suites, the joint-venture project between Crest Builder Holdings Bhd (CBHB) and Prasarana Malaysia Bhd, will also feature 418 units of serviced residences sized from 582 sq ft to 2,178 sq ft in simplex, dual-key and duplex configurations.

Kuala Lumpur: Notable Launches / Previews, 1H2020

Name of Development	Type[1]	Developer	Area	No. of Units	Unit Sizing (Min - Max)	Gross Selling Price
The Landmark @ KL City	SA	Elite Starhill Sdn Bhd (Subsidiary of Debao Property Development Ltd)	KL City	1,338	558 – 2,165 sq ft	From circa RM2,000 per sq ft
Quill Residences	SA	Andarama Sdn Bhd (Subsidiary of Quill Group of Companies)	KL City	552	667 – 1,474 sq ft	From circa RM1,500 per sq ft

Source: Knight Frank Research
Note: SA = Serviced Apartment

Kuala Lumpur: Projection of Cumulative Supply for High-End Condominiums / Residences, 2013 to 2H2020(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.

Kuala Lumpur: Average Transacted Prices of Selected Existing High-End Condominiums / Serviced Apartments, 2H2019 and 1H2020(p)

Locality	Average Transacted Prices (RM per sq ft)		Price Analysis
	2H2019	1H2020(p)	
KL City	920 - 1,200	870 - 1,190	
Ampang Hilir / U-Thant	840 - 970	790 - 890	
Bangsar	890 - 1,120	850 - 1,090	
Damansara Heights	850 - 990	850 - 940	
Kenny Hills	610 - 720	610 - 690	
Mont' Kiara	670 - 810	630 - 800	
OVERALL	**790 - 980**	**740 - 970**	

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

Kuala Lumpur: Average Asking Rentals of Selected Existing High-End Condominiums / Serviced Apartments, 2H2019 and 1H2020(p)

Locality	Average Asking Rentals (RM per sq ft / month)		Rental Analysis
	2H2019	1H2020(p)	
KL City	2.40 - 5.00	2.30 - 5.00	
Ampang Hilir / U-Thant	2.00 - 3.50	2.00 - 3.20	
Bangsar	2.40 - 4.00	2.40 - 4.00	
Damansara Heights	2.00 - 4.40	2.00 - 4.20	
Mont' Kiara	2.00 - 3.50	2.00 - 3.50	

Source: Knight Frank Research
Note:
(1) The analysis is based on asking rentals due to limited concluded rental data.

Prices and Rentals

The newly launched / previewed projects in KL City, namely The Landmark @ KL City and Quill Residences are priced from circa RM2,000 per sq ft and RM1,500 per sq ft respectively.

Located in close proximity to Tun Razak Exchange (TRX) - the country's international financial district, The Landmark will house the tallest residential towers in the city. The fully furnished units are priced from about RM1.1 million onwards or circa RM2,000 per sq ft (gross).

Meanwhile, Quill Residences at Jalan Sultan Ismail was launched at gross pricing from RM1,500 per sq ft. The units come in studio to triplex configurations with a partial furnished or fully furnished package.

In the secondary market, the average transacted prices of high-end residential units in Kuala Lumpur were generally lower during the review period. As the impact of COVID-19 pandemic continues to unfold, distressed owners may be willing to lower their prices to conclude sales.

The rental market appears to be weaker in KL City, Ampang Hilir / U-Thant and Damansara Heights. The average asking rentals in these localities have declined due to lower occupational demand among expatriates and corporate tenants. Malaysia has temporarily closed its borders to incoming foreign nationals / expatriates, temporary work visa holders, and employment pass holders. Meanwhile, the asking rentals for the localities of Mont' Kiara and Bangsar continued to hold steady although there are enquiries from existing tenants requesting for rental relief from landlords. A rental reduction is expected within the next two to three months.

Outlook

The COVID-19 pandemic continues to disrupt lives, economies and societies. The nationwide MCO, which has been in place since 18 March 2020, has left many businesses and economic sectors struggling to stay afloat. With the easing of MCO on 4 May 2020, more business activities and services are gradually resuming subject to conditions and standard operating procedures (SOPs) set by the relevant authorities.

The magnitude of COVID-19 effects upon the residential market is currently unknown and will largely depend on both the scale and longevity of the outbreak. In general, prices will be under pressure due to the severe economic impact on businesses and individuals although the 6-month automatic loan moratorium is expected to provide a short-term breather to borrowers. The price correction will depend on various factors that include property type, location, and price range amongst others.

Non-urgent property viewings / inspections may continue to be delayed due to social distancing measures. Developers are turning to digital marketing to sell their products. Gamuda Land has entered into a strategic partnership with Shopee to make it easier for customers to own a property in the current pandemic situation while Mah Sing Group and Trinity Group are adopting website and mobile apps to market their products – virtual reality 'show units' / property tours.

With buyers adopting "a wait and see" approach, developers are also seen to be offering more attractive incentives and deals such as more rebates, discounts, cashbacks, furnishing packages, freebies, zero down payment, zero interest during construction, zero booking fees and etc. to provide a boost to the housing market. MCT Bhd's recently launched 'Sama Sama Special' campaign provides rebates, cashbacks, discounts and fully furnished package for selected projects that are targeted at homebuyers in the bottom 40% and middle 40% income groups (B40 and M40). Meanwhile, UEM Sunrise Bhd is offering cashback, subsidised home loan insurance premium and freebies such as home air purifier system and grocery vouchers under a 'Stay Home Incentive' campaign. Sime Darby Property is giving upfront saving under a 'Your Instalment On Us' deal by absorbing at least six-month of loan instalments upfronts, in addition to the existing rebates offered for bookings placed from 1 May to 12 May 2020.

The pandemic may have also brought upon a shift in buyers' preference for residential property. Subject to affordability, they may prefer landed properties / low-density developments with larger or more spacious layouts that come with extra room / study that can be converted into a home office as working from home may be a new normal moving forward. For high-rise / high-density developments, a higher level of maintenance and management service is required, particularly in terms of hygiene and cleanliness with regular cleaning / sanitisation of common areas and facilities. Buyers may also prefer smart homes that come with high-speed internet (WiFi) and those that come with better ventilation and natural lighting.

On a positive note, the government and central bank have introduced significant fiscal and monetary intervention measures to contain the impact from the pandemic. Bank Negara Malaysia has recently reduced the OPR to 2.00%, its third revision this year in addition to the earlier lowering of the SRR by 100 basis points. Other noteworthy relief measures include the 6-month moratorium for loan and financing payments. As part of the country's short-term economic recovery plan (ERP) - PENJANA, several initiatives have been announced to help spur the property market. The revived Home Ownership Campaign (HOC), effective 1 June 2020 until 31 May 2021, will offer stamp duty exemption on instruments of transfer and on loan agreements for the purchase of residential homes priced from RM300,000 to RM2.5 million subject to at least 10% discount provided by the developer, and exemption of real property gains tax (RPGT) for the disposal of residential homes up to three units per individual from 1 June 2020 to 31 December 2021. During HOC period, the current 70% margin of financing limit will also be uplifted for the third housing loan onwards for properties valued at RM600,000 and above.

The Landmark @ KL City

Source: Debao Property

The short-term outlook for Kuala Lumpur's high-end condominium market remains cautious with windows of opportunities in the mid to longer term backed by right product positioning and various stimulus provided by the government.

KLANG VALLEY OFFICE MARKETS

Highlights

The prolonged COVID-19 pandemic is expected to exert further pressure on the oversupplied Klang Valley office market.

The unprecedented crisis will result in lower level of leasing / transactional activity as decisions are put on hold and businesses cope with the financial fallout. This may, however, benefit co-working, which offers flexible contract arrangements as companies rethink their work models in this challenging business environment.

In KL City, where there is growing imbalance in supply and demand of office space, the market will continue to self-correct as it finds its equilibrium.

Sumurwang Tower

Source: I-Berhad

Market Indications

In 1Q2020, the MIER's Business Conditions Index (BCI) declined to record at 83.0 points (4Q2019: 88.3 points), below the 100-point threshold level for its fifth consecutive quarter. Moving forward, weak business sentiment is expected to prevail amid the volatile domestic and global economic environment.

The Movement Control Order (MCO), since 18 March 2020, has left many businesses struggling to stay afloat. With the conditional MCO (CMCO) and recovery MCO (RMCO) enforced on 4 May 2020 and 10 June 2020 respectively, more business activities and services are gradually resuming subject to conditions and stringent standard operating procedures (SOPs).

The additional economic stimulus package of RM10 billion is aimed at supporting struggling SMEs. Landlords of business premises that offer reduction or relief of rental payment to SME tenants from April 2020 to June 2020 are allowed to claim a special deduction equivalent to the rental reduction amount subject to the condition that the reduction should be at least 30% of the existing rental rate of the determined period.

Until a vaccine is developed, hygiene will be the centre of workplace planning while social distancing measures may lead to a reversal of open office trend. Meanwhile, with reduced desire to meet-up and interact face to face physically, working from home may be the new normal for some post-MCO.

Supply and Demand

The cumulative supply of office space in Klang Valley as of 1H2020 stood at circa 108.8 million sq ft following the completion of Menara Hap Seng 3 in KL City and Sumurwang Tower @ i-City in Selangor with combined net lettable area (NLA) of circa 0.5 million sq ft.

Located at the intersection of Jalan Sultan Ismail and Jalan P. Ramlee, Menara Hap Seng 3 with circa 201,000 sq ft NLA is both GBI and LEED Gold certified. The 24-storey office tower has a typical floor plate of 10,108 sq ft across 20 floors (levels 5 to 24) and a clear ceiling height of 3 metres with raised floor system. A link bridge connects the newly completed office tower to Menara Hap Seng and Menara Hap Seng 2. Collectively, they are known as Plaza Hap Seng and share a total of 1,065 car parking bays.

Situated in i-City, Shah Alam, Sumurwang Tower is located next to Central Shopping Mall and DoubleTree Hilton Hotel (to be completed in 2021). Equipped with dual-source power, the 32-storey Grade A corporate office tower is connected via two separate fibre routes to a nearby Tier-3 Data Centre and has i-City Multi-path Direct Internet Access (DIA). A total of 3,000 car parking bays are available in the building. Sumurwang Tower has also obtained MSC Malaysia status and GBI certification. Office units within the tower come in various sizes ranging from circa 979 sq ft to 12,835 sq ft providing a NLA of circa 285,000 sq ft.

By the end of 2H2020, another five office buildings are scheduled for completion. They are Menara TCM and Legasi Kampong Bharu, both located in KL City as well as Menara Star

2 (a.k.a. The Star Tower) @ Pacific Star, Block G of Empire City and Quill 9 Annex in Selangor. Collectively, these buildings will increase the cumulative office supply by circa 1.0 million sq ft.

The overall occupancy rate of purpose-built office space in KL City continues to be under pressure and was at 69.8% in 1H2020(p) (2H2019: 70.5%), impacted by the growing supply-demand mismatch and limited pool of tenants amid the unprecedented COVID-19 crisis.

In KL Fringe, the overall occupancy rate improved to record at 86.2% during the review period (2H2019: 85.5%) following positive tenant movements in buildings that include Menara Etiqa and Menara TH One Sentral.

As for Selangor, the overall occupancy rate declined marginally to 78.4% in 1H2020(p) (2H2019: 79.0%).

Notable office related announcements during the review period include the following:

Work progression to the superstructure of the Merdeka 118 project has been delayed circa 2 to 3 months to late 2021 due to the MCO. The soon-to-be tallest skyscraper in South-East Asia was nearing 50% completion with central structure works reaching the 111th floor prior to the MCO. The Grade-A skyscraper has lettable office space measuring circa 1.65 million sq ft and upon completion, Permodalan Nasional Bhd's (PNB) will occupy 17 floors for their operations. The other components within the integrated development include the Park Hyatt Hotel, a retail podium, three premium residential towers, a theatre, a ballroom and a 1.60-hectare park.

Meanwhile, the Grade A office tower within the 17.50-acre retail-led The Exchange TRX development in Tun Razak Exchange (TRX) [formerly known as the Lifestyle Quarter], is projected to be completed in late 2021 or early 2022 after the completion of the mall. The mixed-use development, a joint-venture between Australian developer and infrastructure firm Lendlease (60%) and TRX City Sdn Bhd (40%), has an estimated gross development value (GDV) of RM9.1 billion. Its other components include a hotel and six apartment blocks atop the four-storey shopping mall complemented by a 10.00-acre rooftop park.

Scheduled to be launched by 2H2020, Latitud8 is a transit-oriented development (TOD) atop the Dang Wangi LRT station. The joint-venture project between Crest Builder Holdings Bhd (CBHB) and Prasarana Malaysia Bhd is expected to generate an estimated GDV of RM1.1 billion. It will comprise of serviced residences and business suites complemented by an urban transit mall. The business suites will offer Grade A office space sized between 17,405 sq ft and 20,785 sq ft.

Riveria City on 3.05 acres of leasehold land in Brickfields, is another TOD by Riveria City Sdn Bhd (RCSB), a joint-venture between Titijaya Land Berhad and Prasarana Integrated Development. The RM1.5 billion project will receive an investment of circa RM80 million from Tokyu Land Asia Pte Ltd (TLA), a subsidiary of Tokyu Land. Riveria City will offer 784 units of lifestyle office suites, retail shops and serviced apartments with total built-up area of

Klang Valley: Selected Notable Tenant Movements, 1H2020

Building Name	Approx. Space (sq ft)	Remarks
KL City		
Sunway Visio Tower	~ 4,500	Moving In • Vivo Technologies Sdn Bhd
KL Fringe		
Menara Southpoint	~ 37,300	Relocation(1) • Agoda
Menara Etiqa	~ 39,000	Relocation(2) • Adnan Sundra & Low
Mercu 3 @ KL Eco City	~ 13,700	Relocation(3) • GfK
The Gardens North Tower	~ 5,000	Expansion • AS White Global Malaysia
The Pillars (Boutique Offices)	~ 44,600	Relocation(3) • GfK Expansion • Colony (co-working operator) Moving In • Nexagate Sdn Bhd • Chartered Institute of Islamic Finance Professionals (CIIF)
Selangor		
1 Powerhouse	~ 40,100	Moving In • Tigerlab Sdn Bhd Relocation(4) • Arup Jururunding Sdn Bhd
Symphony Square	~ 16.000	Relocation(5) • Eppendorf Malaysia
KYM Tower	~ 27,000	Moving In • StoreHub Sdn Bhd

Source: Knight Frank Research
Notes:
(1) Agoda relocated from 1 Sentrum.
(2) Adnan Sundra & Low relocated from Menara Olympia.
(3) GfK relocated from Centrepoint South.
(4) Arup Jururunding Sdn Bhd relocated from Wisma Fiamma.
(5) Eppendorf Malaysia relocated from Menara HeiTech Village.

circa 2.92 million sq ft. The project is targeted for completion in 2023.

WCT Holdings Bhd has been awarded a contract for superstructure works for Parcel 2 of the Pavilion Damansara Heights mixed development by Jendela Mayang Sdn Bhd (JMSB). The contract, with an estimated value of RM1.2 billion, covers the execution and completion of a 32-storey office block, hotel on a podium block comprising retail space, car park levels and two residential towers, MRT link-bridge, and other infrastructure works. The construction works, which is scheduled to commence in May 2020, is expected to complete within 42 months.

StoreHub Stadium, the new regional headquarters of StoreHub Sdn Bhd, was officially launched in March 2020. Occupying circa 27,000 sq ft of office space at KYM Tower, Mutiara Damansara, StoreHub Stadium is expected to eventually house up to 500 members of the company's local and international teams.

Prices and Rentals

The average achievable rental in KL City continued to be under pressure with growing challenges attributed to the COVID-19 pandemic, imbalance in office supply-demand and plunge in crude oil price. During the review period, it was recorded lower at RM7.25 per sq ft per month (2H2019: RM7.28 per sq ft per month).

The office markets in KL Fringe and Selangor, however, remained resilient with 1H2020 average achievable rental rates holding steady at RM5.80 per sq ft per month and RM4.32 per sq ft per month respectively (2H2019: KL Fringe - RM5.80 per sq ft per month; Selangor – RM4.31 per sq ft per month), supported by active leasing activities and positive tenant movements. Well-located office buildings in established and upcoming decentralised office locations that enjoy seamless connectivity to public transportation links such as Mercu 2 @ KL Eco City, Vertical Corporate Tower B in Bangsar South and Menara Etiqa Bangsar continue to enjoy healthy take-up.

During the review period, the asking rentals of well-located Grade A office space in Kuala Lumpur range from RM5.50 per sq ft to RM12.00 per sq ft per month while in Selangor, similar grade office space command competitive monthly rentals ranging from RM4.00 per sq ft to RM6.50 per sq ft.

TSR Capital Bhd has disposed their shares in U-Ni Magna Sdn Bhd (UMSB) representing 70% equity interest in UMSB to Ivory Code Sdn Bhd for a consideration of RM18,593,195. UMSB is the registered proprietor of part of Menara TSR, comprising 13 floors of office space together with a lower ground floor and 295 car parking bays with NLA of 123,802 sq ft. However, as per approved building plans, the NLA is estimated at 121,088 sq ft. The property has an appraised value of RM81 million as at 16 August 2019.

The only notable office transaction in 1H2020 is of Menara Guoco. Located in Damansara Heights, the 19-storey office building with 232,133 sq ft NLA, forms part of an integrated commercial development known as Damansara City. It was sold to Tower REIT for a consideration of RM242.1 million.

Klang Valley: Asking Rentals of Selected Grade A Offices, 1H2020

Building Name	Asking Gross Rental (RM per sq ft / month)
KL City	
Integra Tower	11.00
Menara Maxis	10.50 – 11.00
The Exchange 106	10.00 – 12.00
Menara Prudential @ TRX	9.00
Menara Binjai	8.80
Vista Tower	7.50 – 9.50
Menara Hap Seng 2	7.50
G Tower	6.50 – 8.50
JKG Tower	5.50 - 6.50
KL Fringe	
Menara Shell	8.50
Menara Etiqa	8.50
The Gardens North & South Towers	7.50
Nu Tower 2	7.50
Mercu 2	7.50
Menara LGB	6.50 – 7.50
UOA Corporate Tower A	6.20
Menara Milenium	6.00
Selangor	
The Pinnacle	6.50
1 First Avenue	6.00
1 Powerhouse	6.00
Surian Tower	5.80
Nucleus Tower	5.80
Plaza 33	5.50
The Ascent @ Paradigm	5.50 – 6.00
Quill 18 (Blocks A & B)	5.50
Puchong Financial Corporate Centre (Towers 4 & 5)	4.00 – 4.50

Source: Knight Frank Research

Outlook

The magnitude of COVID-19's effect upon the real estate market is currently unknown and will largely depend on both the scale and longevity of the outbreak.

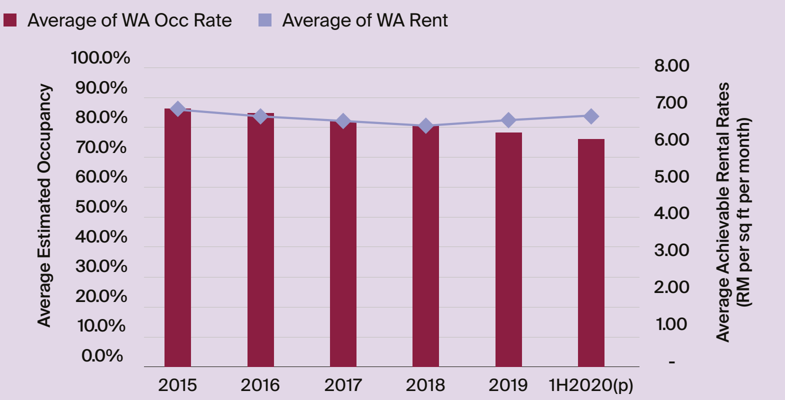
In the near term, the pandemic is expected to exert downward pressure on rental and occupancy levels of the oversupplied Klang Valley office market. The prolonged MCO period since 18 March 2020 has left many businesses struggling to stay afloat with those in non-essential services only gradually resuming operations following the CMCO and RMCO enforced on 4 May 2020 and 10 June 2020 respectively.

The sense of growing uncertainty surrounding supply and demand chains will lead to lesser leasing / transactional activity as business owners and investors review or put on hold their real estate decisions.

The recent cut in Overnight Policy Rate (OPR) to 2.00% in May 2020, however, is expected to have a positive impact to support property yields, releasing the upward pressure.

In the immediate term preceding the lifting of the MCO, co-working or flexible space may garner lesser interest as more clients or members conduct virtual meetings. However, once business confidence is restored post-MCO, demand for smaller office space is expected to increase and co-working or flexible space may be a good option for new occupiers and businesses looking to navigate in the near term before committing to a longer-term plan.

Kuala Lumpur: Occupancy and Rental Trends, 2015 to 1H2020(p)



Source: Knight Frank Research
(p) = preliminary data

Klang Valley: Notable Investment Sales & Transactions, 1H2020

Building Name	Location	Approx. NLA (sq ft)	Consideration (RM) / Analysis (RM per sq ft)
Menara Guoco[1]	Damansara Heights	232,133	242,100,000 / 1,043

Source: Knight Frank Research
Note:
(1) MTrustee Berhad, the trustee of Tower REIT ("Trustee"), has entered into a conditional sale and purchase agreement with DC Offices Sdn Bhd for the proposed acquisition of the 19-storey office building for a cash consideration of RM242.1 million. The building, with a gross floor area and net lettable area of 310,183 sq ft and 232,133 sq ft respectively, is 97.1% occupied and has a gross rental income of approximately RM15.6 million for the FYE 30 June 2019.

The unprecedented crisis has also compelled many organisations to rethink their standard operating mode while embracing technology such as cloud-based IT solutions and communication channels in their business operations. Moving forward, working from home may be the new normal for some while social distancing measures may lead to a reversal of open office trend.

Selected REITs or landlords of well-located buildings which are dated are shifting their focus on asset management and enhancement initiatives by refurbishing / revamping their office buildings. They are also motivated to adopt more effective leasing strategies that are centred on tenant retention to improve their market competitiveness and attract new occupiers.

The outlook for the KL City office market remains cloudy with rental and occupancy levels expected to head south as the gap between supply and demand continues to widen amid weaker office demand and shrinking pool of tenants.

The KL Fringe and Selangor office markets, which attract a wider profile of tenants, however, are expected to remain resilient, supported by attractive leasing packages as well as improved rail network that continue to drive demand in these decentralised locations.

KLANG VALLEY RETAIL MARKET

Highlights

Malaysia's retail sales moderated to 3.7% in 2019 (2018: 3.9%), lagging behind the country's economic growth for the seventh consecutive year.

New completion totalling approximately 1 million sq ft brings Klang Valley's cumulative supply of retail space to 61.48 million sq ft.

Repercussions from the COVID-19 pandemic continue to weigh heavily on the retail industry as the enforcement of the first two phases of the Movement Control Order (MCO) saw non-essential business activities screeching to a halt.

The MIER Consumer Sentiments Index (CSI) fell sharply to record at 51.1 points in 1Q2020 (4Q2019: 82.3 points).

Shopping malls operators and retailers are implementing social distancing measures as well as heightened hygiene and sanitation practices as shoppers return to malls following easing of restrictions (conditional and recovery MCO).

Market Indications

Retail sales growth was recorded at 3.8% in 4Q2019, an improvement on the quarter and when compared to the corresponding period in 2018 (3Q2019: 1.8% and 4Q2018: 2.7%). For the whole of 2019, however, retail sales growth moderated to 3.7% (2018: 3.9%).

The MIER Consumer Sentiments Index (CSI) fell sharply to 51.1 points in 1Q2020 (4Q2019: 82.3 points), below the 100-point threshold for six consecutive quarters - reflecting the plunge in consumer confidence amid rising job losses as businesses struggle to stay afloat following the economic fallout of the novel coronavirus.

Supply and Demand

The cumulative supply of retail space in Klang Valley stood at circa 61.48 million sq ft as of 1H2020 following the completion of Tropicana Gardens Mall.

Located in Kota Damansara, Selangor, the 5-storey Tropicana Gardens Mall with approximately 1.0 million sq ft of retail space, forms part of an integrated transit-oriented development (TOD) that also features four residential towers, a corporate office and four levels of basement car park. The shopping mall has direct link to the elevated Surian MRT station. Anchor and key tenants of the shopping mall include Village Grocer, MBO Cinemas, Loud Speaker, Times Bookstore, Watsons, Secret Recipe, Sukishi and Coffee Bean & Tea Leaf.

By the 2H2020, seven shopping centres / supporting retail components with a collective retail space of circa 1.65 million sq ft are scheduled for completion / opening. Three are located in Kuala Lumpur, namely KL East Mall and the retail components of The Exchange 106 and 8 Conlay. The remaining four in Selangor are the retail components of Pacific Star and Datum Jelatek, KIPMALL Desa Coafields and Quayside@Twentyfive 7.

The retail component measuring circa 126,000 sq ft NLA within The Exchange 106, the tallest building at the financial district of Tun Razak Exchange (TRX), has received its Certificate of Completion and Compliance. Its official opening date, however, has yet to be announced.

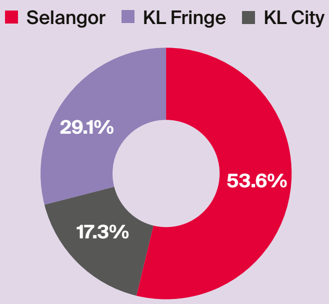
Existing shopping centres have embarked on asset enhancement initiatives (AEIs) such as space reconfiguration, refurbishment and rebranding to cater to shifts in consumer preferences and shopping behaviours amid growing challenges in the retail industry.

Suria KLCC embarked on a reconfiguration of anchor-to-speciality stores following lease expiration of space occupied by Parkson, its anchor tenant in March 2019. The reconfiguration exercise of approximately 120,000 sq ft into approximately 80 specialty stores of fashion, cosmetics and food and beverages is nearing completion. Opening its doors on 24 January 2020, Phase 1 welcomed premium brands including Louis Vuitton's expansion of its flagship store, Givenchy Beauty, Giorgio Armani Beauty, Fred Perry, Lancôme, MCM and Serai, to name a few. The completion of Phase 2, which entails the expansion of the food court, is expected to be delayed to 3Q2020 in light of the Movement Control Order (MCO).

Once known as Centrus Mall, Malakat Mall in Cyberjaya is now reopened. The newly renovated and rebranded shopping centre which previously suffered from low occupancy, predominantly caters to Bumiputra retailers and is anchored by Raudhah Grocer and Raudhah College.

The review period also witnessed active movements within the hypermarket / supermarket segment due to the challenging business operating environment.

Klang Valley: Existing Cumulative Supply of Retail Space, 1H2020



Source: Knight Frank Research

After 20 years in operation, the gourmet supermarket of Jason's Food Hall exited Bangsar Shopping Centre (BSC) in March 2020. Set to take over as the new anchor tenant, The Food Purveyor, which operates Village Grocer, Ben's Independent Grocer (B.I.G) and Pasaraya OTK, is curating a new ultra-premium supermarket concept to cater to BSC's affluent customers.

Following an aggressive store closure exercise in Peninsular Malaysia, GCH Retail, which operates Giant, Cold Storage, Mercato and Jason's Food Hall, is exiting Sabah and Sarawak. Currently operating 59 stores under its various brands, GCH Retail is on path of recovery after posting five straight years of losses since 2014, in part due to the store closures and the revamping of selected stores.

Charoen Pokphand Group, Thailand's largest agriculture conglomerate, won the bid for TESCO operations in Thailand and Malaysia for US$10.6 billion while TF Value-Mart, a hypermarket chain backed by KV Asia Pte Ltd is for sale at over RM1 billion.

The review period continued to mark the entrants and expansions of international and local brands, as well as departures and closures of others.

Several upscale brands have selected the iconic Suria KLCC to launch their first store in Malaysia, namely Le Labo - a New York based luxury perfume brand; Estee Lauder – the first of its kind flagship store; and Tous – the first new concept store outside of Spain for the Spanish jewellery and accessories brand.

New retailers making their foray into Pavilion Kuala Lumpur include the famed shoe brand Christian Louboutin and OVV, a Shanghai based rising fashion label. Both openings marked the brands' first entry into Malaysia. Element Fresh is also making its way together with Gami Chicken, The Butcher's Table, KD Hong Kong, Fuel Shack, Gong Cha and Tan Tan Noodles.

After a 12-year run, Golden Screen Cinemas (GSC) exited Pavilion Kuala Lumpur in February 2020. Set to make its debut in Malaysia, Dadi Theater Circuit, will be occupying the vacated space with its scheduled opening in 3Q2020. The second largest cinema chain in China is also a confirmed tenant for both DA MEN Mall and the upcoming Pavilion Bukit Jalil.

While there were no notable new entrants to Mid Valley Megamall during the review period, The Gardens Mall welcomed its new entrants which include Beauty & Co, Kyo Chon and Yomie's Rice.

At Sunway Pyramid, Lush, a fresh handmade cosmetic brand, opened its second store in Malaysia after its first successful launch in 2018 at Pavilion Kuala Lumpur. Other new entrants include Chili's, Kate Spade and Vegapino.

Meanwhile, 1 Utama Shopping Centre welcomed Zhao Ji Chuan Cheng's first outlet in Malaysia. Other notable openings include Baba Nyonya House, Oldmaster Coffee Malaysia and Ryo Lifestyle.

In the pursuit to address changing consumer preferences and evolving retail trends, existing retailers are seen to be introducing concept stores integrating immersive physical designs, experiential engagements and digital innovations to enhance brand presence and customer experience.

Sephora has opened its world's largest store at Fahrenheit88. Spanning 17,000 sq ft with over 100 beauty brands, the "largest beauty playground" features a private event lounge, a beauty loft and a photography studio to engage customers, influencers and key opinion leaders (KOL). The store is supported with interactive kiosks and beauty apps to complete the unparalleled omnichannel shopping experience. Sephora has been known to embrace technological innovations through its virtual beauty apps, such as the Virtual Artist which allow its users to try on makeup virtually through augmented reality (AR).

Meanwhile, adidas has launched its first Brand Centre in Sunway Pyramid. Stretched over 14,000 sq ft, the largest adidas store in the country features floor-to-ceiling LED screen façade and stadium inspired interiors. It boasts a variety of the latest product innovations and personalised services such as Test & Create, Print Shop, women only changing rooms and consumer activation and engagement activities.

Marking its 100th outlet, Burger King unveils its first immersive dining experience at IPC Shopping Centre. Returning to its roots, the new concept features a garden grill which provides customers with a holistic authentic flame grill burger dining experience. The brand also plans to open 50 new outlets within the next two years.

The review period also observed international and local retailers strategizing expansion plans, with some embarking on an initial public offering (IPO) exercise.

After opening two superstores in IOI City Mall and Bangsar Village, Sports Direct Malaysia has another nine outlets in the pipeline, all of which are targeted to open within the next 18 months.

A&W Malaysia is allocating RM22 million capex to open 20 outlets within 2020, in line with the company's five-year plan of operating 124 outlets, and to emerge among the top three fast food players in Malaysia.

Meanwhile, fashion chain Esprit Holdings is closing down all of its 56 stores in Asia outside mainland China. The closure affecting its stores in Singapore, Malaysia, Taiwan, Hong Kong and Macau is part of the fashion house's restructuring initiative amid the wake of the COVID-19 pandemic.

Mr DIY, Malaysia's biggest home improvement retailer with 566 stores in Malaysia, is targeting to open 100 stores within 2020. Mr DIY is, however, weighing to postpone its IPO after the equities market tumbled due to the political turmoil in February 2020.

InNature Bhd, the retailer and distributer of The Body Shop products with nearly 90 stores nationwide, made a firm debut on Bursa Malaysia on 20 February 2020.

In contrast, after six and a half years on Bursa Malaysia, Caring Pharmacy Group Bhd has delisted on 8 May 2020, following 7-Eleven Malaysia Holdings Bhd mandatory offer to buy out Caring.

Prices and Rentals

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

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

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

The shopping icons in Kuala Lumpur City, namely Suria KLCC and Pavilion Kuala Lumpur continue to command higher average monthly gross rentals averaging at about RM42.00 per sq ft and RM29.00 per sq ft respectively. The popular malls enjoyed near full occupancies at 99.0% and 98.0% respectively.

In Kuala Lumpur Fringe, Mid Valley Megamall and The Gardens Mall command average monthly gross rentals of RM18.00 per sq ft and RM16.00 per sq ft respectively. The occupancies of these malls are 99.9% and 98.9% respectively.

As for the other popular retail destinations such as Sunway Pyramid and The Mines in Selangor, the average gross rentals are in the region of RM17.00 per sq ft and RM7.00 per sq per month respectively. The malls have occupancies of 97.0% and 90.5% respectively.

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

Outlook

The Klang Valley retail landscape continues to face hardships largely due to the fallout of the COVID-19 outbreak. However, with further easing of restrictions during the current recovery phase of MCO, retail sales trend is anticipated to gradually improve moving forward.

KL East Mall, Kuala Lumpur

Source: Sime Darby Property

Meanwhile, to cushion the impact of COVID-19, the government has launched a few economic stimulus packages. The additional package of RM10 billion under the PRIHATIN Stimulus Package is aimed at supporting struggling small and medium size enterprises (SMEs) which, among others, includes wage subsidies, special grants, discount on foreign worker levy and tax deductions on rental reductions. PENJANA, the latest RM35 billion short-term Economic Recovery Plan, is introduced as an inclusive and holistic approach to restart the country's economy as it enters the recovery MCO (RMCO) phase on 10 June 2020. E-commerce campaigns, digital platform initiatives, e-wallet credits, financing support, tax reliefs and COVID-19 Temporary Measures Act are some of the aid and incentives offered among the 40 key initiatives unveiled under PENJANA.

Whilst a COVID-19 Temporary Measures Act is proposed to be tabled in the July 2020 Parliament session to provide relief from legal disputes over certain contractual obligations and financial distress in the post-MCO period, landlords of shopping malls are also advised to offer rental rebates / reductions for the next six months to help their tenants brace through the difficult financial recovery period. On that notion, several mall operators such as Sunway Malls, Pavilion REIT, Capitaland Malaysia Mall Trust, Berjaya Corporation Berhad, Aeon Retail and Mydin Mohamed Holdings Bhd have offered various rental waiver initiatives as proactive steps to ease the burdens of their tenants.

The pandemic has brought upon a new norm, changing retail trends and consumer shopping behaviour. The conditional MCO and recovery MCO enforced on 4 May 2020 and 10 June 2020 respectively have allowed majority of the non-essential businesses to resume operation with stringent standard operating procedures (SOPs) such as social distancing, body temperature scans and visitor registrations. Moving forward, shopping malls are expected to embrace a new normal, with tighter security measures and heightened hygiene and sanitation practices. With the focus on less contact with surfaces and among people, there is a foreseeable trend of more shopping malls and retailers embracing technological innovations.

The pandemic has also accelerated the sales of consumer goods through online channels with many late adopters of e-commerce trying out online shopping as a means to purchase groceries or essential items during the MCO period. This has encouraged the use of e-wallet amongst consumers and retailers, keeping in line with Bank Negara Malaysia's 10-year roadmap towards a cashless society.

The booming e-commerce business appears to be a silver lining consequential to the pandemic. The Malaysia Digital Economy Corporation (MDEC) has forecasted the e-commerce sector to set a record high 20% growth to RM170 billion this year. Amid social distancing measures and reduced presence in physical stores, consumers have shifted to online platforms, pushing retailers to adopt e-commerce and increase their online presence.

Evidently, F&N has launched its own e-commerce site as well as smartphone application allowing its customers to purchase its products at bulk and at competitive prices online while Sunway Pyramid Mall has launched its online store in partnership MatDespatch, a local delivery partner to support its retailers and provide a safer avenue for its shoppers during the Raya festivities.

Even before the outbreak, older / existing malls were seen embarking on AEIs and creating new experiences to stay relevant in the competitive retail market. We expect to see more creative ideas and trends that embrace technological innovations in the retail industry.

The short-term outlook for the sector remains cloudy but there are windows of opportunities in the mid to longer term with the right data, key insights and value.

Klang Valley: Incoming Retail Supply, 2H2020

Selangor

Retail Component of Pacific Star
Petaling Jaya
240,000 sq ft

KIPMALL Desa Coalfields
Sungai Buloh
140,000 sq ft

Quayside @ Twentyfive 7
Shah Alam
328,000 sq ft

Retail Component of Datum Jelatek
Ampang
319,000 sq ft

Kuala Lumpur

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

Retail Component of 8 Conlay
KL City
120,000 sq ft

KL East Mall
KL Fringe
380,000 sq ft

Source: Knight Frank Research

KLANG VALLEY INDUSTRIAL MARKET

Highlights

Malaysia's Index of Industrial Production (IPI) was significant lower by 32% in April 2020. On a year to date (Jan to Apr) basis, the IPI contracted 7.7% when compared to the corresponding period in 2019.

Lesser activity in the Klang Valley industrial property market with only 445 units worth RM1.92 billion changing hands in 1Q2020; year-on-year (y-o-y), the volume and value of transactions dipped 38.5% and 26.2% respectively.

Rental rates of industrial premises in prime sub-markets are expected to remain resilient for the remainder of 2020. An uptick in transactional activities is expected in the second half of the year should the pandemic remains under control or subsides.

Fewer developers to embark on large-scaled industrial park developments while more activities are expected in the redevelopment of dated assets, upgrading of existing buildings and small-scale industrial projects.

Moving forward, there is still opportunities in the industrial segment, especially in relation to redevelopment potential as well as sale & leaseback.

Market Indications

The Industrial Production Index (IPI) fell 32% y-o-y in April 2020 due to the adverse impact of the nationwide Movement Control Order (MCO) which literally slowed or halted the operations of non-essential services. During the first four months of 2020, the IPI was recorded at 103.7 points, reflecting a 7.7% contraction when compared to the corresponding period in 2019 where the IPI was at 112.3 points.

Among the manufacturing activities which experience the highest decline in output for the first four months of 2020 were transport equipment and other manufactures group (-18%); textiles, wearing apparel, leather products and footwear group (-16.6%) and non-metallic, mineral products, basic metal and fabricated metal products group (16%). Meanwhile, the production of rubber plastics, basic pharmaceutical products and bio-chemical products expanded circa 9.7%; supporting the petroleum, chemical, rubber and plastic products group activity.

The easing of restrictions effective 4 May 2020 till 9 June 2020 (conditional MCO) saw the gradual resumption of more economic sectors. As the country restarts its economy during this recovery phase (10 June 2020 till 31 August 2020), the majority of business activities and economic sectors are allowed to reopen in phases subject to stringent standard operating procedures (SOPs).

Supply and Demand

The COVID-19 pandemic, which has disrupted supply chains, has severely impacted the manufacturing segment with reduced capacity, lower productivity and cancelled orders. The magnitude of effects upon the real estate market is currently unknown and will largely depend on both the scale and longevity of the outbreak.

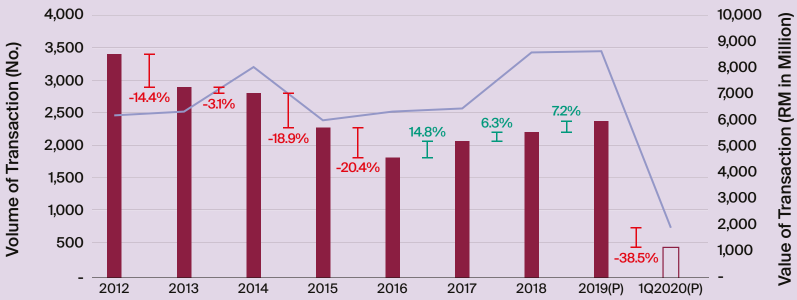
The demand for industrial properties, with reference to transacted volume, has been lacklustre since 2013. Supported by government initiatives coupled with the Chinese Belt and Road Initiative (BRI), the industrial segment saw an uptick since 2017. The volume and value of industrial property transactions were 7.2% and 0.34% higher in 2019 when compared to the preceding year under review.

During the 1Q2020, the Klang Valley industrial property market was less active. Only 445 industrial units worth RM1.92 billion changed hands during the review period, depicting an annual contraction of 38.5% and 26.2% in volume and value of transactions respectively (1Q2019: 724 units worth RM2.60 billion).

Demand for industrial properties is mainly concentrated in the established localities of District Petaling and District Klang, Both districts garnered 26.3% and 21.8% share of the transacted volume. Popular industrial sub-markets within Klang Valley include Shah Alam, Petaling Jaya and Subang Jaya.

As of 1Q2020, the cumulative existing industrial property stock in Klang Valley stood at 45,924 units. Another 1,014 units and 1,726 units of factories / warehouses are currently under-construction (incoming supply) and have obtained planning approvals respectively.

Klang Valley: Volume and Value of Industrial Property Transactions, 2012 to 1Q2020(P)



Source: NAPIC / Knight Frank Research
(P) = Preliminary

The majority of existing stock, totalling 14,325 units or circa 31.2%, are located in Petaling District. Even though Petaling District tops in terms of existing stock and is also one of the most active districts in Klang Valley, there are limited new industrial developments therein. Within Petaling District, only 56 units are under-construction (Incoming Supply) and another eight units have yet to begin construction (Planned Supply).

Some notable new and upcoming industrial projects (under planning, under construction or newly completed) within Petaling District include Sunway Subang, Elmina Business Park, Novus Business Park Glenmarie, Temasya Industrial Park and Hap Seng Industrial Hub, all located in Shah Alam.

In the Shah Alam locality, particularly in Seksyen 26, Seksyen 32, Seksyen U1, Seksyen U6 and Seksyen U1, it is observed that there are several applications by private owners / manufacturers to build new or redevelop existing individual / standalone factories on smaller pockets of land. There were also applications to alter existing buildings including renovation, constructing an additional building, upgrading existing building - increasing height / capacity of services / utilities etc.

Notable upcoming redevelopment projects include the sites of Panasonic Manufacturing Sdn Bhd at Jalan Pelabur 23/1 in Seksyen 23 Shah Alam and Xin Hwa Trading & Transport Sdn Bhd in Seksyen 22. The redevelopment of Panasonic's site will consist of a 3-storey office with warehouse and factory as well as other ancillary structures. Meanwhile, the existing 2-storey detached factory at Xin Hwa's 4.37-acre site will be redeveloped into a 3-storey warehouse cum office with supporting amenities.

Shah Alam - Glenmarie: Notable New Industrial Developments

Development Name	Sunway Subang	Elmina Business Park (Phase 1)	Novus Business Park Glenmarie	Temasya Industrial Park	Hap Seng Industrial Hub
Location	Jalan TUDM, Seksyen U6	Persiaran Vektor, Seksyen U16	Jalan Pemaju U1/15, Seksyen U1	Jalan Penyajak U1/45A, Seksyen U1	Persiaran Perusahaan, Seksyen 23
Developer	Sunway Subang Sdn Bhd	Sime Darby Elmina Development Sdn Bhd	Amexsim Development Sdn Bhd	Alpine Affluent Sdn Bhd (JV between Setia Group and I&P Bhd)	Hap Seng Logistics Sdn Bhd
Tenure	Leasehold	Freehold	Freehold	Freehold	Not Applicable (For Rental Only)
Status	Completed pending CCC	On-going (in Stages)	Under-Construction Completion: 2022	Completed pending CCC	Under Construction Completion: 2020
Component	45 units of 2.5-storey terraced factories with built-up area (BUA) ranging from 5,813 sq ft to 6,927 sq ft	89 industrial plots, 121 open-market factories and 93 affordable factories	14 units of 4.5-storey semi-detached factories with BUA of 11,205 sq ft to 17,662 sq ft and land size of 8,697 sq ft to 18,384 sq ft	12 units of 3-storey semi-detached factories with typical BUA of circa 8,333 sq ft and 12,304 sq ft	A 6-storey flatted warehouse, 12 units of 5-storey semi-detached factories, 4 units of 3-storey detached factories and a 5-storey retail and office
Indicative Pricing	From RM2.4 million per unit with two years guaranteed rental return at 6% per annum	• Semi-detached factory with BUA of 6,000 sq ft priced at circa RM3 million • Detached factory with BUA of 12,000 sq ft priced at circa RM6 million • Industrial plots with infrastructure priced at circa RM95 per sq ft	Gross price: RM8.8 million to RM13.8 million	Transacted circa RM5.95 million to RM8.42 million per unit	For rental only. Asking rental range circa RM1.80 to RM2.50 per sq ft

Source: JPPH / OSC / Various / Knight Frank Research

Prices and Rentals

The monthly asking rental rates range between RM1.80 per sq ft and RM2.50 per sq ft depending on location and building specifications and other factors. Despite the disruptions caused by the COVID-19 outbreak, the rental rates of factories and warehouses in Shah Alam are expected to remain stable for the rest of the year.

The average rental rates of selected notable manufacturing facilities and logistics / distribution centres in Shah Alam are analysed at around RM1.60 per sq ft to RM2.00 per sq ft per month.

Shah Alam: Average Rentals for Selected Factories / Warehouses (RM per sq ft / month)	2018(e)	2019(e)	2020(f)
	1.60 to 1.90	1.60 to 2.00	Stable

Source: Various / Knight Frank Research
Note: (e) = estimates; (f) = forecast

In the locality of Shah Alam, newly completed terraced factories with typical built-up area of 5,813 sq ft in Sunway Subang are priced from RM2.4 million per unit. The factory sales come with two years guaranteed rental return at 6% per annum. Meanwhile, in Temasya Industrial Park, newly completed 3-storey semi-detached factories with typical built-up area between 8,333 sq ft and 12,304 sq ft, were transacted between RM5.69 million and RM8.42 million per unit.

Novus Business Park Glenmarie, a project by Amexsim Development Sdn Bhd, is offering 14 units of 4.5-storey semi-detached factories at gross pricing ranging from RM8.8 million to RM13.8 million per unit.

Elmina Business Park (Phase 1) by Sime Darby is offering a mixture of products. The indicative price for semi-detached factory with a built-up area of 6,000 sq ft is around RM3 million, while the detached factory with a built-up area of 12,000 sq ft is around RM6 million. The scheme also offers industrial plots with infrastructure at about RM95 per sq ft.


Sunway Subang

Source: Sunway Property

Outlook

Since 2017, the demand for industrial properties has been gradually improving. The COVID-19 pandemic, which continues to bring much uncertainty, has however, derail the growth momentum. Players in the industrial property market are expected to be more cautious amid this difficult operating environment.

Developers are unlikely to embark on large-scaled industrial park developments in the short-term due to lower demand for industrial property products. Still, against this backdrop, smaller-scaled standalone developments as well as upgrading / redevelopment of existing buildings in established, matured industrial parks with good accessibility and connectivity, where land is scarce will take centre stage.

In the interim, amid the prolonged pandemic and deep economic downturn, manufacturers/ owner-occupiers could potentially be looking into divesting or liquidating their assets to improve their cashflow. Sale and leaseback arrangements provide such a solution with zero interruption to the manufacturer's current operation and gives the investor a guaranteed yield. Similarly, owners of older / aged facilities may be more inclined towards selling their assets that present redevelopment opportunities.

Rental rates of industrial space in prime sub-markets, namely Shah Alam, Subang, Petaling Jaya, Kuala Lumpur, and Klang, are anticipated to remain resilient for the remainder of the year. Transactional activities, which were delayed during the MCO, are expected to pick up during the second half of the year provided that the COVID-19 pandemic remains under control or subsides.

The RM35 billion short-term Economic Recovery Plan (PENJANA), which was unveiled recently, will help to cushion the impact of COVID-19 by encouraging more foreign direct investments (FDIs). However, the more holistic approach towards industrial development, namely the yet to be launched New Industrial Master Plan (New IMP) (2021-2030) is highly anticipated. The New IMP, focusing on eight core areas namely, manufacturing, services, investment, trade, technology, productivity, standards and talent, is deemed to be the continuation of the Third Industrial Master Plan (IMP3) (2006-2020). It will set the direction of the country's industrial developments for the next decade.

Moving forward, with the country restarting its economy, the industrial segment (manufacturing sector) continues to be the beacon of Klang Valley's economy.

PENANG PROPERTY MARKET

Highlights

The signing of the project delivery partner agreement (PDP) between the Penang State Government and SRS Consortium Sdn Bhd for the Penang Transport Master Plan (PTMP) by 1Q2020, has been delayed due to the Covid-19 pandemic.

Penang recorded 166 manufacturing projects in 2019 with total investment value of RM16.9 billion, the highest in the State's history. In terms of foreign direct investment (FDI), Penang is also ranked first in the country with RM15 billion. Compared to 2018, Penang garnered 108 manufacturing projects with investment value totalling RM5.78 billion made up of RM3.69 billion in FDI.

The Penang International Airport served 8.3 million passengers in 2019, up from 7.8 million passengers in 2018. With the expansion of the terminal building by 113,005 sq m, the airport will now have the capacity to accommodate 13 million passengers a year.

Market Indications

The first phase of the Swettenham Pier Cruise Terminal (SPCT) expansion, estimated at RM150 million, will likely commence by mid-2020 with completion targeted within two to three years. With the extension, the pier will be able to accommodate two large cruise ships simultaneously. Other development phases costing circa RM350 million, to be funded by the private sector, will start later.

Penang Port Commission has entered into a Memorandum of Understanding (MoU) with Ideal United Bintang International Bhd to refurbish and redesign three buildings, namely Godown 5, Godown 7 and Godown 8, located between the SPCT and Tanjung City Marina. The refurbished godowns will accommodate duty-free shops, F&B outlets, home-grown brands offering local products and gift shops. Phase 1 will be completed by 2021 and phases 2 and 3 by 2022.

Penang Port Sdn Bhd (PPSB) will invest RM350 million to transform the North Butterworth Container Terminal (NBCT) into an international port with additional routes of cargo services from southern Thailand via Keretapi Tanah Melayu (KTM) rail lines in the next three years. NBCT's export values increased to 72% in 2019 from 60% previously, supported by higher level of trading from southern Thailand.

Penang Show Chwan Hospital, a private specialist hospital with about 250 beds at Pearl City in Seberang Perai Selatan, will be jointly established by Tambun Indah Land Bhd and Taiwan-based Show Chwan Medical Corp. The private specialist hospital will be sited on a 1.62-hectare land at Pearl City Business Park.

Loop On Leith George Town Penang Hotel, a new boutique hotel featuring 140 rooms at Leith Street, will be managed by Compass Hospitality Management Group. The hotel targets solo and business travellers as well as families.

Vistana Penang Bukit Jambul, owned by YTL Hotels, the hospitality arm of YTL Corp Bhd, recently underwent a brand refit. The new AC Hotel Penang, under the Marriott International group, features 423 rooms, meeting rooms and a ballroom that can accommodate up to 700 guests.

Due to the Covid-19 pandemic, Penaga Hotel and Jerejak Hotel both managed by HVM Hotel Management Group and Jazz Hotel have ceased operations at the end of April. Plentitude Berhad also announced the shutting down of operations at its Mercure Penang Beach and The Gurney Resort Hotel and Residences. After four decades, Holiday Inn Resort in Penang will also be shuttered by 30 June.

Penang Development Corporation has inked a joint development agreement (JDA) with PLB Engineering Berhad (PLB) to rehabilitate and redevelop the 34.39-hectare landfill at Jelutong. The project, estimated to cost about RM1 billion, will take 15 years to complete. Upon completion, PLB will surrender 25% of the rehabilitated land to the Penang State Government and the company will get 75% of the land. An additional two to four hectares may be reclaimed to create a perimeter around the landfill. For the additional land created, the State will get a 30% share and PLB will get the remaining 70% of the land. The Environment Impact Assessment is required and approval may take nine months to two years. The company will also build and operate a new integrated recycling centre. In addition, PLB Engineering Berhad has signed a MoU with China Railway Engineering Corp (M) Sdn Bhd (CRECM) to carry out the rehabilitation works. In return, CRECM will get 90% of the land due to PLB under the JDA signed with PDC.

Residential

To clear RM2.6 billion worth of 3,043 overhang units in the state, the Penang local government, housing, town and country planning committee has announced that the state will reduce the minimum price threshold for foreign property ownership by up to 40% starting from 11 June 2020. Ceiling prices for stratified properties on the island will be reduced up to 20% from RM1.0 million to RM800,000 and on the mainland, from RM500,000 to RM400,000.

In the high-end condominium segment, IJM Perennial has put on hold the development of The Light City. Prior to the Covid-19 pandemic, the group had indicated that it would resume development in August 2020. To be developed over a period of more than four years, Phase 1 will feature a mall with 680,000 sq ft net lettable area (NLA), the Penang Waterfront Convention Centre, a four-star hotel with 500 rooms, offices and the “Mezzo” residential condominiums. Meanwhile, for Phase 2, there are plans for a 300,000 sq ft mall, a 5-star hotel with 250 rooms, offices, the “Essence” residential condominiums and possibly an experiential theme park. It is worth noting that the commencement of Phase 2 will be determined by the sales of the Mezzo condominiums and the occupancy of the mall.

The Light City by IJM

Source: IJM Land

On the Mainland, Belleview Group is planning to develop GEM Master Development in Perai over three phases. The project, on a site measuring approximately 8.00 hectares, has a gross development value (GDV) of about RM2.5 billion. Phase 1, which is jointly developed with LTC Group, features 978 SoHo units on circa 2.16-hectare of land. Launched in December 2019, GEM SoHo, which is priced at about RM400 per sq ft, is scheduled for completion by 2022. Phase 2 of the development consists of GEM Megamall spanning 4.45 hectares of land. The mall, to be anchored by Golden Screen Cinemas and SOGO Department store, is touted to be the biggest shopping mall in the northern region. It will offer more than 400 retail shops, a 38-lane bowling centre and the first-ever Olympic-sized ice skating rink. The last phase will consist of a 4-star international hotel with 320 rooms. All three phases will commence construction in 2020 with expected completion by 2022.

Office

The schedule completion of GBS@ Mahsuri in 4Q2020 with NLA of approximately 80,000 sq ft will bring the cumulative supply of purpose-built office space in Penang to circa 5.79 million sq ft by the end of the year.

The average occupancy rate for four prime buildings monitored in George Town remained stable at 89.0%. According to the latest NAPIC report, the average occupancy rate in the state continued to hold steady at 81.4% in 1Q2020 (4Q2019: 81.3%).

Beyond George Town, the selected better-grade office buildings, namely Menara IJM Land, Suntech @ Penang Cybercity and One Precinct, boast high occupancies of circa 95%. These office buildings are located close to the Industrial Zone of Penang.

On 16 January 2020, Sparkle Gateway Sdn Bhd, a wholly-owned subsidiary of Atta Global Group Berhad entered into a Sale and Purchase Agreement with ISEC (Penang) Sdn Bhd for the disposal of a 16-year old building on a piece of freehold land measuring about 17,125 sq ft at Jalan Larut, for a consideration of RM18,100,000.

In George Town, asking rents generally vary from RM2.80 per sq ft to RM3.80 per sq ft per month.

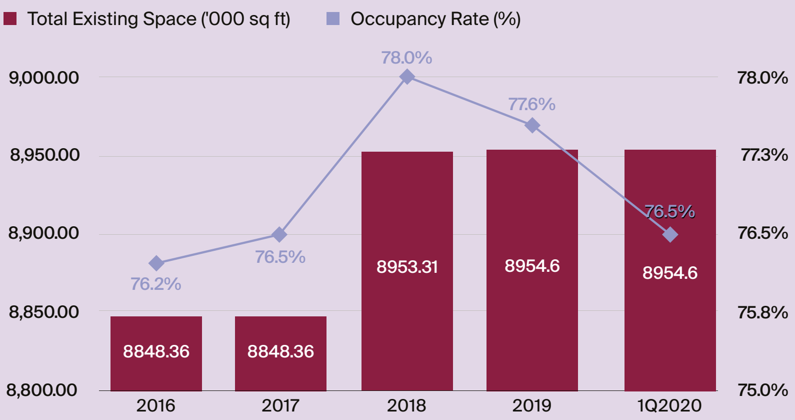
Penang: New / Planned Supply of Selected Purpose-Built Offices

Project / Location	NLA (sq ft)	Scheduled Completion	Remarks
* VOS Lifestyle Suites / Bukit Dumbar	90,000	2022	32-storey commercial building with NLA of 215,000 sq ft – office and hotel suites. Sale on strata basis
*Sunshine Tower / Bandar Baru Air Itam	The entire project will offer > 3.7 mil sq ft of mixed development.	2022	The office block is one of two 18-storey towers atop a 9-storey retail podium and will house 400 SOHO units sized from 990 sq ft to 1,100 sq ft (for lease only). The other 18-storey block will accommodate a 320-room hotel. A higher 39-storey block sitting on the podium will feature 270 units of serviced apartments.
* GBS@Mahsuri	80,000	4Q2020	2 multi-storey office blocks with car parks
** The Light City / Light Waterfront	370,000	2024	28-storey office tower
** Bayan Baru (next to GBS@Mayang)	500,000 to 600,000	N / A	2 multi-storey office blocks with car parks
** GSB@The Sea / Bayan Lepas	410,000	N / A	Proposal on hold for now
** Hunza Group's "The Penang International Commercial City" - PICC / Bayan Baru	N / A	N / A	As a later phase - 54-storey commercial building with 44-storey office tower / integrated development
** Sunway Group / Paya Terubong	N / A	N / A	9-storey office block / integrated development
**Penang International Exchange (formerly known as Bayan Baru City Centre / Current site of Giant Bayan Baru)	N / A	N / A	27-storey office suites / integrated development

Source: Knight Frank Research

*under construction **planned N / A =Not Available

Penang: Cumulative Existing Space and Occupancy Rate of Purpose-Built Offices, 2016 to 1Q2020



Source: Knight Frank Research

Retail

There was no completion of new shopping malls in Penang for 1H2020 since the latest completion of Phase 1 Ikea Shopping Centre in Batu Kawan. The cumulative supply of retail space in Penang stands at 7.07 million sq ft as of 1H2020. New planned supply of shopping space by Hunza and IJM will only enter the market over the next two years.

The monthly rental rates for ground floor retail lots in prime shopping malls have increased marginally and range between RM10 per sq ft and RM50 per sq ft, depending on the mall, location and size of the units.

Occupancy rates for prime shopping malls on the Island have generally remained stable within the range of 90.0% to 99.0% whilst for secondary shopping malls, the range is generally from 70.0% to 90.0%.

Starbucks Malaysia opened its first Starbucks Reserve store (12th in Malaysia) in Gurney Plaza in May 2020. Occupying circa 2,500 sq ft of space at the ground floor, the new store features two bars that are manned by baristas who are Coffee Masters certified.

Industrial

Nasdaq-listed fortune 500 company, Lam Research Corporation (LRC), a semiconductor equipment maker, will be setting up a 700,000 sq ft facility in Batu Kawan Industrial Park and is expected to be shipping out products by 2021. The expansion will complement Lam Research's existing global production sites in the United States, Austria and South Korea and is expected to generate approximately 350 jobs over the next three years.

The German-headquartered Bosch Group, ranks among the top 100 companies in Fortune's Global 500 list, will build a new manufacturing facility on a 10.00-hectare land in Batu Kawan Industrial Park. The new plant will focus on the business of semiconductor components and sensor testing and will also house its R&D and training facilities. The construction of the plant is scheduled to begin in 2021 and its first production is planned to commence in 2023. Bosch has been in Penang since 1972 and currently has three existing Bosch manufacturing sites as well as research and development offices.

Dialight Plc, a global leader in LED lighting technology, that is currently operating in Perai, has pledged about RM1 billion for a new 90,000 sq ft production facility; a relocation from a 40,000 sq ft facility in the same industrial estate in Perai Industrial Estate.

In view of the high take-up rate in Batu Kawan Industrial Park, the Penang Development Corporation (PDC) is planning to develop Bryam Estate at Nibong Tebal over the next two to three years to meet the increasing demand for industrial land.

Esquel Group Malaysia Sdn Bhd (EGM), a Hong Kong-based textile and garment manufacturer which has been operating in Malaysia for five decades, will cease its factory operations on a 10.00-acre site at Free Industrial Zone 3, Bayan Lepas on 12 June 2020.

HK Kitaran Sdn Bhd, a wholly owned subsidiary of Heng Huat Industries Holdings Sdn Bhd which in turn is a wholly subsidiary of Heng Huat Resources Group Berhad, has entered into a Sale and Purchase Agreement with SBJ Property Sdn Bhd on 14 May 2020 to dispose five adjoining lots of land measuring approximately 574,298 sq ft together with factory-cum-office buildings and other ancillary structures with total gross floor area of about 264,344 sq ft, for a consideration of RM22 million. The industrial premise is located in Taman Industri Perabot, Sungai Baong, Seberang Perai Selatan.

Another notable development at Batu Kawan Industrial Park is the new educational premise - The Ship Campus. Set up by PKT Logistics Group through its education arm, Peninsula College in partnership with University of Plymouth, UK, the campus located within One Auto Hub will be able to accommodate more than 4,000 students. The campus operations has, however, been delayed due to the pandemic.

Outlook

During the MCO period, despite no physical viewings were allowed, there were pockets of success with some developers reporting bookings and sales for their affordable homes.

In this challenging environment, developers with a strong brand name and good delivery of quality products will achieve above average returns and the gap between higher and lower quality properties will become more evident with better sales and profits. Moving forward, these factors will play a critical role in determining the success of developments.

Undoubtably with current market conditions, it has become a "Buyer's Market" and many deals are being offered by developers to attract first-time buyers as opposed to investors who have been side-lined.

The hospitality sector has been the hardest hit with travel restrictions and airlines being grounded. During the current recovery MCO (RMCO) phase, the sector will be reliant on domestic travel before protocols are in place by countries for international travel. Coupled with the postponement of Visit Malaysia Year 2020, international tourist arrivals are expected to be low for the remaining half of 2020.

The retail sector has suffered with the lockdown and closure of malls for two months. Going forward, there will be a significant change on the horizon with big retailers closing due to massive drop in businesses and this will have a direct impact on mall profitability with a possible lowering on rentals, yields and occupancies.

Amid the current global recession, Invest Penang has revised downwards its FDI target for 2020 to RM5 million. This will be supported by the shift towards Industry 4.0 and the various tax incentives and reinvestment allowances as announced under the country's short term economy recovery plan (PENJANA) that seeks to promote Malaysia as a choice destination for FDIs.

JOHOR PROPERTY MARKET

Highlights

The COVID-19 pandemic has further delayed the progress of Rapid Transit System (RTS) and High Speed Rail (HSR), the two mega infrastructures projects between Malaysia and Singapore.

In the residential sub-sector, there were no notable launches during the review period. The residential sub-sector, targeted at owner-occupiers, is anticipated to remain stable while projects targeted at investors, may be more vulnerable.

During this challenging period, industry players are exploring other alternative sectors such as wellness, aged care, education and co-working.

Market Indications

Although there were signs of improvements in 2019 as compared to 2018, major property sectors (residential, commercial and industrial) in Johor registered lower transaction volume in 1Q2020. On an annual basis (compared to 1Q2019), the volume of transactions in the residential, commercial and industrial sectors were lower by about 7.6%, 11.2% and 44.3% respectively. In terms of transacted value, only the industrial sector showed improvement of 4.5% compared to 1Q2019 whilst in the residential and commercial sectors, it dipped 14.7% and 31.0% respectively.

Johor continues to attract significant investments and is ranked in fourth position after Selangor, Penang and Kedah (source: Malaysia Investment Development Authority (MIDA)). In 2019, a total of 209 manufacturing projects with corresponding investment of RM11,455.2 billion were approved in the state.

Residential

As of 1Q2020, the cumulative supply of serviced apartments in the District of Johor Bahru was recorded at 80,030 units, an increment of 29.0% from 1Q2019.

The completion of Larkin Residence (Phase 2), scheduled for May 2020, has been delayed due to the MCO. The low-rise project, featuring 16 blocks of 5-storey apartments (320 units), is located at Jalan Sentosa, Larkin. Two types of units are being offered, Type A (1,247 sq ft to 1,285 sq ft) and Type B (1,108 sq ft to 1,204 sq ft), at selling prices ranging between RM300 per sq ft and RM400 per sq ft.

In the secondary market, the average asking prices for selected high-rise residential units in Johor Bahru City Centre hover around RM700 per sq ft to RM880 per sq ft while in Iskandar Puteri, the asking prices are between RM550 per sq ft and RM750 per sq ft.

Johor Bahru: Average Asking Prices for Selected Existing High-Rise Residential Units

Locality	Average Asking Prices (RM per sq ft)		Price Analysis
	1Q 2020	2Q 2020	
Johor Bahru City Centre	700 - 880	700 - 840	↘
Iskandar Puteri	600 - 750	550 - 700	↘

Source: Knight Frank Research

Office

The cumulative supply of purpose built-office space stood at 10.9 million sq ft as of 1Q2020, reflecting an increment of 7.9% from 1Q2019 following the completion of D'Pristine Corporate Office in Medini. The overall occupancy rate (for private office building), however, dipped to record at 65.4% (4Q2019: 68.2%).

Notable upcoming office developments include Sunway Big Box Office and Menara UMLAND in Medini and Mid Valley Southkey Office at the city fringe.

The average monthly asking rental for office space in the central business district (CBD) remains stable and generally range from RM2.50 per sq ft to RM3.50 per sq ft. Menara JLand, a newly completed building in the city centre, commands higher rental at about RM4.00 to RM4.50 per sq ft per month. Meanwhile, in Medini, the asking rentals of newer offices hover around RM3.50 per sq ft to RM4.00 per sq ft per month.

Johor Bahru: Average Asking Rentals for Purpose-Built Offices, 1H2020

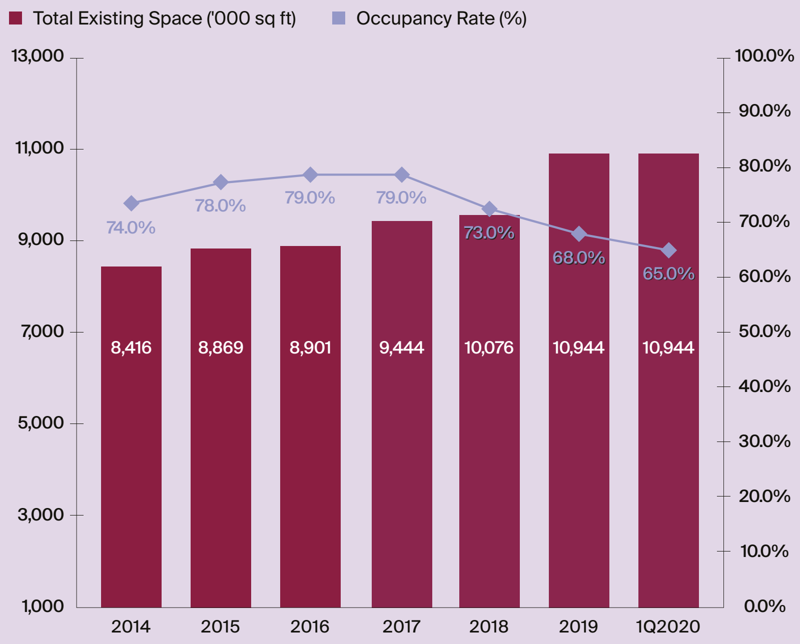
Locality	(RM per sq ft / month)
Johor Bahru City Centre	2.50 – 3.50
Johor Bahru City Fringe	2.50 – 3.00
Iskandar Puteri	3.50 – 4.00

Source: Knight Frank Research

MC Consulting Sdn Bhd, an IT based company from Singapore, moved into Afiniti Medini in January 2020. Afiniti Medini is a mixed-use commercial development that features serviced residences (to be operated by Ascott Group), office space, wellness component and training centre. Its notable existing tenants include Parkway Pantai, CIMB Training Academy, 7-Eleven and WL&H Medical.

On 8 January 2020, Family Mart further strengthens its presence in Johor Bahru by opening another outlet in Medini 9 office tower. Other prominent tenants at Medini 9 include OK Blockchain Centre Sdn Bhd, Ernst & Young and Iskandar Investment Berhad (IIB), to name a few.

Johor Bahru: Cumulative Supply and Occupancy Rate of Purpose-Built Offices, 2014 to 1Q2020



Source: NAPIC

Retail

As of 1Q2020, the cumulative supply of retail space in Johor Bahru stood at 20.1 million sq ft, an increment of 3.1 million sq ft from 1Q2019 with overall occupancy rate remaining flattish at 79.3% (1Q2019: 79.2%). This shows that there was positive absorption of retail space during the review period.

The 1H2020 saw operators of shopping malls such AEON Mall Tebrau, Sunway Big Box, KSL City Mall, Johor Premium Outlet (JPO), to name a few, offering rental waiver to tenants affected by the MCO.

Located along Jalan Tampoi, Paragon Market Place, which was completed early this year, had its soft opening on 6 June 2020. The 3-storey retail mall with 199 lots totalling about 157,247 sq ft net lettable area (NLA), is anchored by TF Value Mart. Its opening, which

Paragon Market Place

Source: www.pmpjb.com.my

was initially scheduled for March, was postponed due to the MCO.

During the current recovery phase of the MCO (10 June 2020 till 31 August 2020), footfall to shopping malls is seen to be gradually improving as retailers and shoppers adapt to the new standard operating procedures (SOPs) with strict guidelines on contact tracing, safe distancing and cleanliness.

Industrial

AME Elite Consortium Sdn Bhd is set to build a 10,000 sq m high performance factory for global EMS Provider Enics AG (Enics). The manufacturing facility will be built within the 189.00-acre I-Park@ Senai Airport City (SAC) industrial park and is anticipated to be ready by 2021. Enics, the Switzerland electronics based company, currently has presence in China and Europe.

On 6 May 2020, London Biscuits entered into an Asset Sales Agreement with Pacific Petcare Sdn Bhd (as Mamee Double Decker (M) Sdn Bhd) to dispose seven parcels of industrial land together with the building, machineries and intellectual property rights worth RM70 million. The proposed disposal is expected to be completed by the 3Q2020.

Singapore oil and gas based company, ChemOne Group has announced plans to build a US$3.40 billion (equivalent to RM14.79 billion based on exchange rate: 1USD=4.35MYR) Aromatic Plant in RAPID, Pengerang. Construction is expected to commence in 2H2020. The incoming plant will enhance the oil and gas sector in RAPID, Pengerang and is envisaged to offer circa 7,000 job opportunities.

The oil and gas hub in Pengerang is expected to become a game changer to the surrounding developments. The government has announced plans to transform Pengerang into a smart city under The Malaysia Smart City Framework. This will further improve the liveability of the people as well as the property and tourism sectors in the area.

Other notable industrial transactions include the disposal of an 11.13-acre freehold land at Jalan Kota Tinggi in Ulu Tiram, Johor Bahru by Halex Link Sdn Bhd (wholly-owned subsidiary of Hextar Global) at RM30.0 million. The industrial land is erected upon with a single-storey detached and double-storey office building.

On 11 February 2020, JM Cemerlang Sdn Bhd (the wholly owned subsidiary of Acoustech Berhad), entered into a Sales and Purchase Agreement (SPA) with Melatone Coating Sdn Bhd to dispose two parcels of land worth RM6.6 million (approximately RM150.00 per sq ft). The land, with combined area measuring 1.01 acres, is located in Desa Cemerlang, Mukim of Plentong.

Outlook

The COVID-19 pandemic has severely affected many economic sectors as well as the property market as most non-essential business activities literally slowed or grind to a halt during the prolonged MCO period. As the country restarts its economy during this recovery phase, the government has introduced 40 initiatives under the nation's short-term Economic Recovery Plan (PENJANA) to stimulate economic activities.

The residential sub-sector, targeted at owner-occupiers, is anticipated to remain stable while projects targeted at investors, may be more vulnerable amid this challenging period. The volume of transactions is anticipated to be lower this year as earlier measures to contain the spread of the virus had restricted movement. During the lockdown period, with no physical viewings, property players were noted to have moved to present assets virtually to investors and relevant stakeholders. Nonetheless, the residential sector is expected to get a boost with the reintroduction of the Home Ownership Campaign (HOC) effective 1 June 2020, until 31 May 2021; exemption of Real Property Gains Tax (RPGT) effective from 1 June 2020, until 31 December 2021; and removal of Loan-to-Value (LTV) Ratio for residential units priced from RM600,000 and above during HOC period.

Given the current level of uncertainty, we do not anticipate aggressive office expansion or business growth for the near term, rather, more movements to upgrade into better office premises as landlords are more motivated to offer attractive rental packages to improve occupancy levels of their new towers.

The retail sub-sector is more severely affected by the pandemic due to restrictions in local movement, travel bans and international border closures. The pandemic, which has led many countries into recession, has also seen a change in consumer behaviour as people become more prudent and selective in their spending pattern, placing priority on essential items such as food and health products.

The industrial / logistics sector is one of the main property pillars in Johor due to the presence of the three seaports and airport. We remain optimistic on the growth of this sub-sector. Furthermore, the announcement on the revival of Bunker Island in Tanjung Bin and ChemOne's investment into Pengerang are positive indicators for the state's industrial sub-sector.

Moving forward, we remain cautiously optimistic on the overall performance of the property market as the various initiatives announced by the government is expected to help spur economic activities and the property market. Industry players have also become more creative by looking into alternative sectors such as wellness, aged care, education and co-working.

KOTA KINABALU PROPERTY MARKET

Highlights

Fewer launches in the primary housing market during the review period, particularly in the high-rise segment.

Work from home policies are providing many office-based businesses the opportunity to look into streamlining and increasing work space efficiency.

The adoption of e-commerce amongst retailers has been accelerated as digital platforms are being integrated with traditional brick-and-mortar space.

Several commercial short-term accommodation (STA) products and tourism-driven integrated projects were launched in early 2020.

Market Indications

In 2019, Sabah's primary property market witnessed fewer launches as compared to the year 2018, registering an estimated total gross development value (GDV) of RM2.16 billion (2018: RM3.41 billion). Notably, the landed residential sector surpassed its high-rise counterpart to register the highest estimated GDV of RM884 million with 1,557 launched units, followed closely by the business and service suites sector which registered an estimated GDV of RM876 million with 921 launched units. The high-rise residential sector (condominium / apartment) and the commercial sector recorded an estimated GDV of RM376 million and RM25 million respectively (Source: 2019 SHAREDA Property Development Annual Report & Market Outlook 2020).

Sabah's property market observed a slowdown in transactional activity, in terms of both volume and value of property transactions. A total of 1,835 property transactions were recorded in 1Q2020, a decrease of circa 10.2% in volume in comparison to the preceding quarter (4Q2019: 2,043 transactions). Meanwhile, the overall value of transactions for 1Q2020 registered at RM824.2 million, was considerably lower by 28.2% when measured against RM1.15 billion in 4Q2019. With the exception of the industrial sub-sector that displayed significant growth of 35.5% in overall transactional value, the remaining sub-sectors recorded lower overall transactional values for the review period (Source: NAPIC's Annual Property Market Report).

Residential

According to NAPIC's Residential Property Stock Report, the existing supply of residential units in Kota Kinabalu and Penampang (excluding other administrative districts) stood at 102,327 units as at the end of 1Q2020, a slight increment of circa 0.8% when compared to the previous quarter (4Q2019: 101,505 units). During the review period, the condominium / apartment segment continued to outperform its landed counterparts in terms of supply, contributing to circa 44,113 units of the total existing stock (43.1% share). In terms of incoming supply to Kota Kinabalu and Penampang, condominiums / apartments account for some 8,070 units (80.8% share) out of the total 9,991 residential units in the pipeline.

Sabah's overall residential market recorded the highest transactional volume and value over the past five years in 2019, likely supported by sales generated under the Home Ownership Campaign (HOC). Yet, transactional activity observed during 1Q2020 was rather passive, due to amongst other factors the slowdown in the state's economy amid the pandemic.

The Federal Government introduced the nationwide Home Ownership Campaign (HOC) 2019 to make the housing market more accessible to genuine homebuyers. The HOC in Sabah successfully generated RM948.9 million worth of sales in 2019, which is equivalent to 34.1% of the 5,158 residential units offered under the scheme. Out of the 1,757 residential units sold, landed houses stood for 52.9% of the total volume of transactions with 929 units sold (RM526.3 million), surpassing its high-rise counterpart which observed a total of 828 units sold (RM422.6 million) (Source: SHAREDA). Following the positive results of HOC 2019, the government has officially reintroduced the campaign with the commencement period of 1 June 2020 to 31 May 2021.

The residential market witnessed several new launches, majority of which are landed housing developments.

Double Dragon Development Sdn Bhd has introduced Riveria Villas in Kepayan, comprising 30 units of three-storey terraced houses, with built-up areas of 2,461 sq ft and 2,650 sq ft, on land plots sized from 1,273 sq ft to 3,392 sq ft.

Meridian Garden is the latest development by Zeal Meridian Sdn Bhd. Sited along Jalan Bersatu in Damai, the project features one detached house and eight units of three-storey semi-detached houses. Built-up sizes range from 4,201 sq ft to 4,521 sq ft, whilst land areas range from 3,197 sq ft to 4,174 sq ft.

A prestige landed development consisting of 20 semi-detached houses, 24 super semi-detached houses and 8 detached houses, mainly to be three-storeys high; are set to be developed at the locality of Bukit Padang. In general, the built-up areas range from circa 3,900 sq ft to 7,500 sq ft, whilst the land plot sizes range from circa 2,700 sq ft to 11,500 sq ft.

Other selected residential project launches situated in satellite areas are tabulated in the table below.

Selected Residential Project Launches

Name of Development	Locality / District	No. of Storeys	Type of Property	Total Units
Benoni Gardens Tower B	Papar	13	Apartment	115
Taman Sinar Saujana Phase 2	Papar	2	Terraced	47
Taman Johan Phase 2	Papar	1 – 2	Terraced; Semi-Detached	44
Taman Kinarut Ceria 2	Kinarut	2	Terraced	56
Taman Jayamas 118	Papar	2	Terraced; Semi-Detached	207
Taman Sri Lemawang Phases 1B & 1C	Tuaran	2	Terraced	183
Taman Vila Akasia	Tuaran	2	Terraced	71

Source: Knight Frank Research

Commercial and Purpose-Built Office

As at the end of 1Q2020, the existing supply of purpose-built office (privately owned) in Kota Kinabalu stood at 5.2 million sq ft, with an average occupancy rate of 82.0%. No new completion was recorded during the review period. Upcoming completions include G Building located at Bundusan and Menara Petronas Phase 2 situated at Karamunsing.

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 RM4.20 per sq ft per month.

The beginning of 2020 marked the entry of more commercial products that offer the flexibility of catering to short-term accommodation (STA) or for own use. The majority of these projects were launched during the January to February period, which coincide with the prosperity season of Chinese New Year before the onset of the pandemic.

The Logg is a mixed-use project situated along Jalan Lintas in the heart of Luyang, to be developed by K.T.I Sdn Bhd in a joint venture with Lembaga Pembangunan Perumahan dan Bandar (LPPB). The commercial component – Shorea Tower and Astoria Tower, was officially launched during the review period. The two commercial blocks will be 28-storey high, offering 438 executive suites in four different layouts, with unit floor areas ranging from 1,180 sq ft to 1,313 sq ft. Other components to the development include a residential tower known as Parkhill, Avani Luyang hotel and a boulevard style shopping mall with purpose-built office space.


The Logg

Source: K.T.I Sdn Bhd

Other selected launches of commercial suites including purpose-built or forming part of a mixed development are tabulated below.

Selected Commercial Suites Project Launches

Name of Development	Locality / District	No. of Storeys	Total No. of Units	BUA (sq ft)
Vetro 11	Kota Kinabalu	18	260	308 - 536
313 Suites	Penampang	20	226	360 – 1,381
B333 Suites	Penampang	33	468	450 – 1,437
Likas Boulevard Service Suites Towers A & B	Kota Kinabalu	24	768	580 – 1,300
M suites (Duplex)	Menggatal	19	293	544 – 741

Source: Knight Frank Research

Retail

The total retail space of shopping complexes in Kota Kinabalu stood at 6.0 million sq ft as at 1Q2020, with no additional stock added to the supply for the review period. The overall occupancy rate for the review period remains healthy at approximately 83.0% (1Q2020).

During the Movement Control Order (MCO) period, shopping malls in Kota Kinabalu responded by announcing temporary closures in compliance with the restriction. In consideration of this, most major landlords provided rental incentives to affected tenants to help reduce the financial burden on businesses. Upon the reopening of the malls, shopping centres and tenants alike began to collectively explore new retail norms, including innovative rental arrangements and promotional strategies to encourage gradual recovery in consumer spending, amongst others.

The importance of e-commerce was highlighted during this trying time, especially in the case of exclusive brick and mortar businesses. A considerable fraction of these retailers pertain to small local business operators, who previously did not explore the potential of e-commerce, as physical stores were deemed sufficient to meet their needs. However, during the MCO period, a majority of businesses ventured into or increased their digital presence in order to minimize losses, maximise business opportunities and provide a better customer experience. Now, trading strategies are being progressively restructured to better integrate online platforms with existing brick and mortar stores. Larger corporates have been observed to be taking the added measure of reviewing portfolios of existing shop / retail locations.

Grocery retailer Giant as operated by GCH Retail (M) Sdn Bhd is exiting Sabah as part of the decision to reorganise company operations. The 11 Giant stores in state will be transitioned to well-established local retailers in a measure to preserve, instead of shutting down the outlets. On another note, the company will continue to operate its health and beauty stores under the Guardian name, which is reported to be performing well.

Berjaya Food Berhad, franchise operator of Starbucks in Malaysia, has contracted Arena Borneo Sdn Bhd, subsidiary of TBMC Development Sdn Bhd, to develop a 3,800 sq ft Starbucks standalone drive-thru cafe in Kolombong. First of its kind in Kota Kinabalu, the building will offer both dine-in and drive-thru services upon completion. Construction works have commenced in November 2019, with completion slated for 2H2020.

Tourism and Hospitality

Sabah's tourism industry registered its highest visitor arrivals in history at 4.2 million in 2019, reflecting a year-on-year growth of 8.2% (2018: 3.9 million visitor arrivals). However, upon the COVID-19 outbreak, the State Government has swiftly expanded travel restrictions to all entry points by air, sea or land, including international direct flights from China and Korea, effectively withholding visitor arrivals from both East Asian countries. This severely disrupted the momentum of the respective industry, with 1Q2020 witnessing a 32.6% decrease in visitor arrivals when compared to the same period last year.

The Federal Government introduced the Economic Stimulus Package 2020 on 27 February, as well as the National Economic Recovery Plan (PENJANA) on 5 June, both of which contained measures to protect and progressively stimulate the tourism sector, amongst other objectives.

A few major announcements were made in early 2020, regarding tourism-driven integrated mixed developments.

In January, SG Group officially launched Thema City, the RM1 billion integrated development project located off Penampang Bypass. The 4.5-star Echarm Plus Hotel is earmarked as its centrepiece, which uniquely features a nunchaku design across the whole height of the building façade. This hotel will present 132 Bruce Lee themed rooms from a total of 532 rooms, a similarly themed coffee lounge called The Dragon, an indoor theme park, banquet halls, an infinity pool and a rooftop bar. Thema City will also introduce two other notable components upon completion – the D'60s street mall accommodating Kota Kinabalu's largest food street as a replication of the city's 1960s architecture; Zeni Suites offering a total of 390 zen-themed co-living serviced suites. Both Echarm Plus Hotel and Zeni Suites will be managed by international hotel operator chain – Dossen International.

Echarm Plus Hotel

Source: SG Group

Yayasan Sabah Group has signed a development agreement with Zillion Ventures Sdn Bhd, a subsidiary of YHC Group, to develop The Waterfront, a RM3.5 billion project situated in the heart of Kota Kinabalu city. The commercial mixed development consists of three 16-storey 5-star hotel towers with 1,340 rooms; a 16-storey condominium with 160 units; 16-storey hotel suites with 600 rooms, two 16-storey serviced apartment blocks with a total of 500 units; two 23-storey office blocks; a 23-storey 3-star Yayasan Sabah Hotel with 300 rooms; a 3-storey shopping mall incorporating an indoor theme park; boardwalk esplanade and marina jetty.

The Waterfront

Source: Yayasan Sabah Group and Zillion Ventures Sdn Bhd

Outlook

The residential sub-sector is about to witness more new launches of quality housing projects in mature residential areas, as well as affordable homes in suburban areas with improved development potential arising from new or upcoming infrastructure. In light of the pandemic, the residential market is expected to remain resilient nonetheless, with genuine homebuyers on the lookout for well-located, quality residential properties for own stay, as opposed to investment-based properties.

As for the retail sector, shopping malls are likely to continue cooperating with retailers to generate sales and mitigate losses, as well as increase efforts to secure new tenants. Strategies such as the diversification or restructuring of tenant mix and layout to generate footfall, the creation of an online shopping mall marketplace platform, the provision of click and collect stations, collaborative promotions between brands, amongst others can be further explored. Meanwhile, retailers are encouraged to explore omni-channel retailing to unlock new growth and future-proof their businesses, as it is highly focused on customer retention. Omni-channel retailing involves the seamless integration, including transition, between multiple channels and touchpoints to provide shoppers with a holistic shopping experience.

In response to the MCO, many companies have implemented work from home policies to avoid potential health risks amid the pandemic, revising their working arrangements to allow employees to work in office on rotational basis. Moving forward, a shift in the appetite for office space is anticipated, as companies are foreseen to continue reviewing and restructuring existing work models for the short to mid-term, in order to achieve a feasible and sustainable arrangement according to their respective business natures. This can involve the streamlining of business operations, digitalization, cloud-based networking etc. in the bid to increase workspace efficiency, maximise workforce productivity and realize cost savings.

The demand for commercial STA products and hotels alike is closely-linked to the tourism industry. The market has been observing more entries of these tourism-driven properties, many of which are currently under construction or still in the early stages of development. Yet, given the series of situations arising from the coronavirus pandemic, these projects may experience delays in delivery or be put on hold at the developers' discretion. However, upon the completion of these commercial STA developments and new hotels, the tourism industry is expected to have witnessed some improvement, although this recovery will be highly dependent on the culmination of efforts from the relevant stakeholders to stimulate and diversify the tourism sector.

Please get in touch with us

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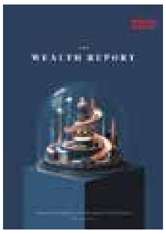

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