

MALAYSIA COMMERCIAL REAL ESTATE INVESTMENT SENTIMENT SURVEY 2018 :



KEY PLAYERS' VIEW

The survey targeted key players in commercial property, namely, Developers (56%), Fund / REIT Managers (24%) and Commercial Lenders (20%), to grasp their sentiment in real estate investment. While the overall sentiment for commercial property remained subdued, it is interesting to note that the players have similar and contrasting views on the different commercial sub-sectors.

"The Key Players' View" supplements the findings of the Malaysia Commercial Real Estate Investment Sentiment Survey 2018, which was released in late January.

2017 PERFORMANCE

How would you rate the performance of the commercial property sub-sectors (in terms of yield, return / margin) in 2017?

PERFORMANCE IN 2017	Developers	Fund / REIT Managers	Lenders	Overall Respondents
Office				
Retail				
Hotel / Leisure				
Logistics / Industrial				
Healthcare / Institutional				

Satisfied Fair Dissatisfied

Results:

- All respondents opined that the office, hotel / leisure and logistics / industrial sub-sectors performed fairly in 2017.
- Only Developers are not satisfied with the performance of the retail sub-sector in 2017.
- Fund / REIT Managers are satisfied with the performance of the healthcare / institutional sub-sector in 2017.

Analysis:

- Developers' dissatisfaction towards the retail sub-sector may be attributed to the oversupplied market and prevailing challenges which have collectively reduced the feasibility of retail developments over the past year.
- On the other hand, Fund / REIT Managers' positive view towards the healthcare sector may be justified by the sustainability and resilience of the sub-sector, which tend to consistently generate reasonable returns. This will be even more crucial in times where other sub-sectors, such as retail and office, are facing headwinds.

EXPECTED PERFORMANCE FOR 2018

What is your performance expectation of the commercial property sub-sectors (in terms of yield, return/margin) in 2018?

EXPECTATION FOR 2018	Developers	Fund / REIT Managers	Lenders	Overall Respondents
Office	☹️	☹️	☹️	☹️
Retail	☹️	☹️	☹️	☹️
Hotel / Leisure	😊	😊	😊	😊
Logistics / Industrial	😊	😊	☹️	😊
Healthcare / Institutional	😊	😊	😊	😊

😊 More optimistic than 2017 😊 Similar to 2017 ☹️ Less optimistic than 2017

Results:

- All respondents hold a pessimistic view towards the office and retail sub-sectors for year 2018.
- Developers and Fund / REIT Managers expect the performance of the hotel / leisure and logistics / industrial sub-sectors to remain flat in 2018. Lenders, however expect the performance of the hotel / leisure sub-sector to improve and are less optimistic on the logistics / industrial sub-sector.
- Fund / REIT Managers and Lenders expect similar performance in the healthcare / institutional sub-sector while Developers expect this sub-sector to perform better in 2018.





















Analysis:




- Lenders' positive take on the hotel / leisure sub-sector may be attributed to the resilient tourism industry, which will have a direct correlation towards hotel occupancy level.
- Lenders, however remain cautious of the logistics / industrial sub-sector amid the immense hype surrounding it although the fundamental outlook for the sub-sector remains rosy.
- Developers' positive outlook on the healthcare / institutional sub-sector is attributed to dim prospects in the office and retail sub-sectors. Hence, this inadvertently enhances the prospects for the healthcare / institutional sub-sector.



INVESTMENT ACTIVITY IN 2018

Which sub-sector will your organisation invest in / fund / develop in 2018?

INVESTMENT IN 2018	Developers	Fund / REIT Managers	Lenders	Overall Respondents
Office				
Retail				
Hotel / Leisure				
Logistics / Industrial				
Healthcare / Institutional				

 Active Investment
  Moderate Investment
  Limited Investment

Results:

- Despite unfavourable market sentiment towards the retail sub-sector, all respondents intend to deploy more capital into the sub-sector as there are still opportunities present. For example, embarking on various asset enhancement initiatives (AEIs) will improve the competitiveness of their retail assets.
- Surprisingly, the office market, which is also viewed unfavourably, is also expected to generate a lot of attention from Developers and Lenders, with the exception of Fund / REIT Managers, who plan to limit exposure in this sub-sector.
- As for the hotel / leisure sub-sector, Lenders plan to retain a similar exposure in 2018, whereas Developers are expected to deploy more capital into this sub-sector. However, Fund / REIT Managers will limit their exposure to this sub-sector in 2018.
- Logistics / industrial and healthcare / institutional sub-sectors will garner more attention from Fund / REIT Managers and Lenders while Developers remain on the sideline.

Analysis:

- The retail and office sub-sectors are expected to continue generating the most interest despite their unfavourable outlook. This is primarily due to the fact that these two sub-sectors will generally have higher development values.
- Fund / REIT Managers' intention to limit themselves to the office sub-sector is mainly due to the oversupply situation that will inevitably place downward pressure towards rental yields of office properties.
- Developers' plan to invest more in the hotel / leisure comes at a time where the tourism sector in Malaysia remains strong. Hence, this sub-sector acts a logical avenue for Developers to diversify beyond the weakening office and retail sub-sectors, which used to be the highly coveted sub-sectors for Developers.
- Fund / REIT Managers plan to limit their exposure towards the hotel / leisure sub-sector as they prefer to invest in the logistics / industrial sub-sector due to higher yields and brighter prospects supported by the rise in e-commerce. Besides that, the retail sub-sector is also better liked by Fund / REIT Managers although they will be more selective in the future.

FACTORS IMPACTING THE MARKET IN 2018

Do you find the following factors to be FAVOURABLE or UNFAVOURABLE towards the commercial property market in 2018?

FACTORS IN 2018	Developers	Fund / REIT Managers	Lenders	Overall Respondents
On-going MRT and infrastructure	●	●	●	●
Rapid growth in e-commerce	●	●	●	●
Upcoming national elections	●	●	●	●
Political Scenario	●	●	●	●

● Favourable ● Neither Favourable nor Unfavourable ● Unfavourable

Results:

- Most respondents find the on-going MRT and other infrastructure projects to be beneficial to the property market and the upcoming national elections to not have a material impact towards the property market.
- Developers and Fund / REIT Managers both opined that the rapid growth in e-commerce will be beneficial to the property market, with the exception of Lenders, which are of the view that this phenomenon will have a limited impact towards the property market.
- Developers and Lenders find the political scenario in Malaysia to be detrimental to the property market while Fund / REIT Managers opined that this factor will not impact the property market in any manner.

Analysis:

- Lenders hold a neutral view on how the rapid growth in e-commerce will affect the property market. This is because the result will be mixed across all sectors. For example, the rise in e-commerce will be highly beneficial to the logistics / industrial sub-sector. However, this may be detrimental towards the footfall of retail properties.
- Our respondents across various industries are not alarmed by the upcoming general election, as they do not foresee any major movements in the property market, regardless of the eventual outcome of the election. However, our respondents are generally more concerned on the political scenario facing the nation, as political scrutiny and uncertainty might erode confidence towards the property market.
- In general, Developers and Lenders are more concerned on the political scenario in Malaysia. This is because political uncertainties may affect Developers' chances of obtaining development approvals. The same applies to Lenders, as political uncertainties will require them to consistently monitor their lending policies in order to contain credit risks. Fund / REIT Managers do not find the political scenario in Malaysia to have a material impact towards the property market as they have generally factored in political risks as part of their evaluation before they invest in any property sub-sectors in Malaysia.

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