MALAYSIA COMMERCIAL REAL ESTATE INVESTMENT SENTIMENT SURVEY 2020

2020, SMELL A RAT YEAR

The Rat heads the Chinese Zodiac and heralds a new 12-year cycle.

2020, the year of the metal rat has started on an ominous note bringing severe disruptions to the global economies as the world closes borders and restricts travel to contain the coronavirus (COVID-19) spread.

Hospitality, tourism and aviation related segments are being hit the hardest with cancellations of flights, tour packages and hotel bookings following international and domestic travel restrictions and lockdown of countries. In Malaysia, the escalating number of infected cases has led to the country being placed under the Movement Control Order (MCO) until 28 April 2020. With the exception 'Essential Services', all other business activities have literally slowed or come to a complete halt.

This survey, conducted in early 2020 at the onset of the outbreak, captured the pessimism of respondents even before the novel coronavirus was declared a global pandemic.

The COVID-19 pandemic and the untimely change in the country's government coupled with the oil price plunge are major events impacting Malaysia. In particular, the devastating coronavirus is already 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 dropping oil prices. Malaysia's economic growth, as measured by Gross Domestic Product (GDP), is projected at between -2% and 0.5% in 2020.

The 2020 market sentiment for the logistics / industrial and healthcare sub-sectors remain cautiously optimistic despite a highly challenging global economic outlook. The severe disruptions to local and global supply chains with many countries on lockdown to contain the spread of COVID-19 are hopefully temporary as businesses look forward to a recovery period by the second half of the year. In the healthcare segment, local patients are expected to defer non-emergency treatments while travel restrictions have affected medical tourism in light of the current situation. Nevertheless, the majority of respondents opined that the healthcare segment is well positioned to weather the COVID-19 storm.

The survey has also revealed that developers and investors are showing interests in alternative property segments, namely co-living / student accommodation and senior living / retirement homes amid the oversupply situation in major property segments. However, given COVID-19 social distancing, co-living concept may come under scrutiny.

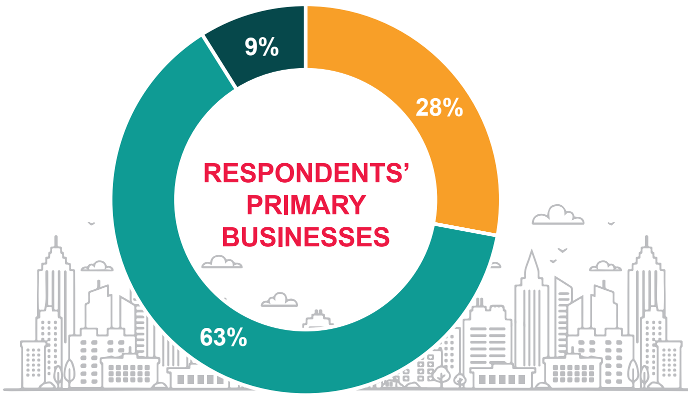
Moving forward, our respondents anticipate more gloomy days ahead for the hospitality and commercial sub-sectors. The COVID-19 pandemic which is severely impacting both aviation and tourism-related industries has led to the cancellation of Visit Malaysia Year 2020 (VMY 2020) as more governments around the world shut borders and hotels suspend operations. Even the Tokyo 2020 Olympics Games has been postponed until 2021, the first time in history other than war. The country's extended MCO, which is currently in Phase 3, is also affecting other market segments such as office, retail and industrial (manufacturing) as all business activities with the exception of 'Essential Services' grind to a halt.

The ripple effects of COVID-19 are pointing to unseen levels of global uncertainty.

It seems we are at war with an unseen enemy, but even in war, there are opportunities.

Sarkunan Subramaniam,
Managing Director,
Knight Frank Malaysia

OVERVIEW OF RESPONDENTS



The survey respondents are made up of representatives in the senior management levels across the commercial property industry. More than half the respondents comprised of Developers (63%); the remainder being Commercial Lenders (28%) and Fund / REIT Managers (9%).

Developer *Lender* *Fund / REIT Manager*

OVERALL PERFORMANCE BY SUB-SECTOR 2019 VS 2020

The respondents were generally dissatisfied with the overall performance of the commercial property market in 2019. Amid widening gap in supply-demand, pressures continue to mount on occupancies and rentals of selected sub-markets.

However, at sectoral level, the respondents felt that the healthcare and logistics / industrial segments have outperformed in 2019 and will continue to be positive in 2020.

Malaysia tops in the Healthcare category in the Living Annual Global Retirement Index 2019 for its world-class healthcare services and sophisticated infrastructure. In line with the Malaysia Year of Healthcare Travel 2020 ("MYHT 2020") campaign, the Malaysia Healthcare Travel Council (MHTC) targets to achieve RM2.8 billion in revenue for medical tourism in 2020.

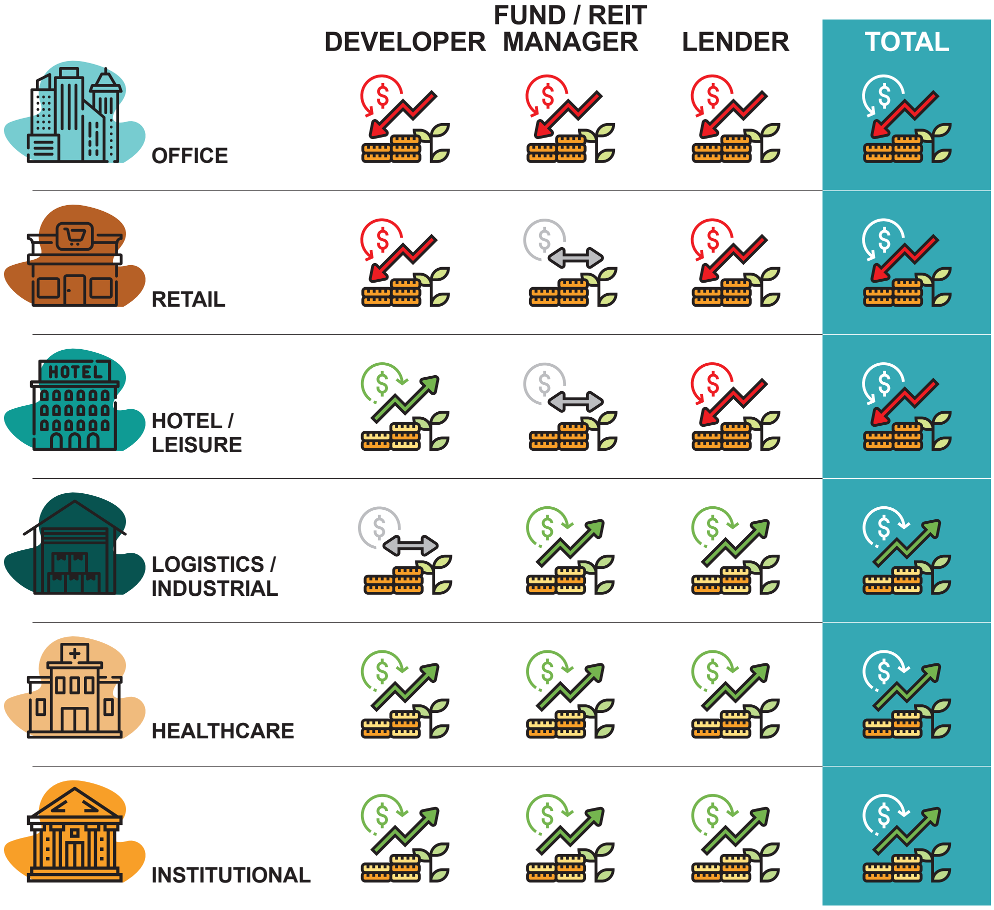
Moving into 2020, the industrial / logistics sub-sector is expected to see a similar trend as 2019 with e-commerce continuing to drive the industrial property market.

The respondents were generally not satisfied with the performance of the office and retail sub-sectors in 2019 and expect the 2020 outlook to remain cloudy.

The COVID-19 pandemic is severely impacting the hospitality, tourism and aviation related segments with cancellations of flights, tour packages and hotel bookings following international travel restrictions and lockdown of countries. The pessimistic outlook for the hospital sub-sector is expected to continue into 2020 following the cancellation of Visit Malaysia Year 2020 (VMY 2020).

	2019 RESPONSE	2020 EXPECTATIONS
HEALTHCARE	Satisfied	More Optimistic
LOGISTICS / INDUSTRIAL	Satisfied	Similar
INSTITUTIONAL	Neutral	Similar
HOTEL / LEISURE	Neutral	Less Optimistic
RETAIL	Dissatisfied	Less Optimistic
OFFICE	Dissatisfied	Less Optimistic

INVESTMENT PLAN BY SUB-SECTOR 2019 VS 2020



Moving into 2020, the industry players expressed their interest to invest more in the logistics / industrial, healthcare and institutional sub-sectors. There will be less investment in the office, retail and hotel / leisure sub-sectors in 2020.

Despite the COVID-19 pandemic which has severely impacted the tourism, hospitality and aviation-related sectors, there are developers who have indicated that they will continue to develop hotel / leisure components. The majority of these respondents have on-going projects in Sabah, where the tourism sector has outperformed for the past few years.

However, the worsening COVID-19 pandemic has put uncertainty on these intentions.

ALTERNATIVE INVESTMENT

	Co-living / Student Accommodation	Co-working	Senior Living / Retirement Home	Serviced Suite / Hotel Suite	Theme Park
NO PLAN TO DEVELOP OR EXPLORE	42%	53%	46%	44%	82%
EXPLORING	40%	35%	38%	31%	11%
PLANNING TO DEVELOP	18%	12%	16%	25%	7%

Most respondents remained cautious in their allocation of investment fund. At least 40% of the respondents are more comfortable with the conventional type of property assets and are not seeking to invest in unfamiliar non-conventional property classes.

The survey also revealed that co-living / student accommodation bolstered some interest from developers amid the challenging market condition. These niche asset classes, typically located within or in proximity of Transit Oriented Developments (TODs) and in higher education clusters, are proving to be attractive to developers who are looking for recurring income as they typically exhibit steady cash flow.

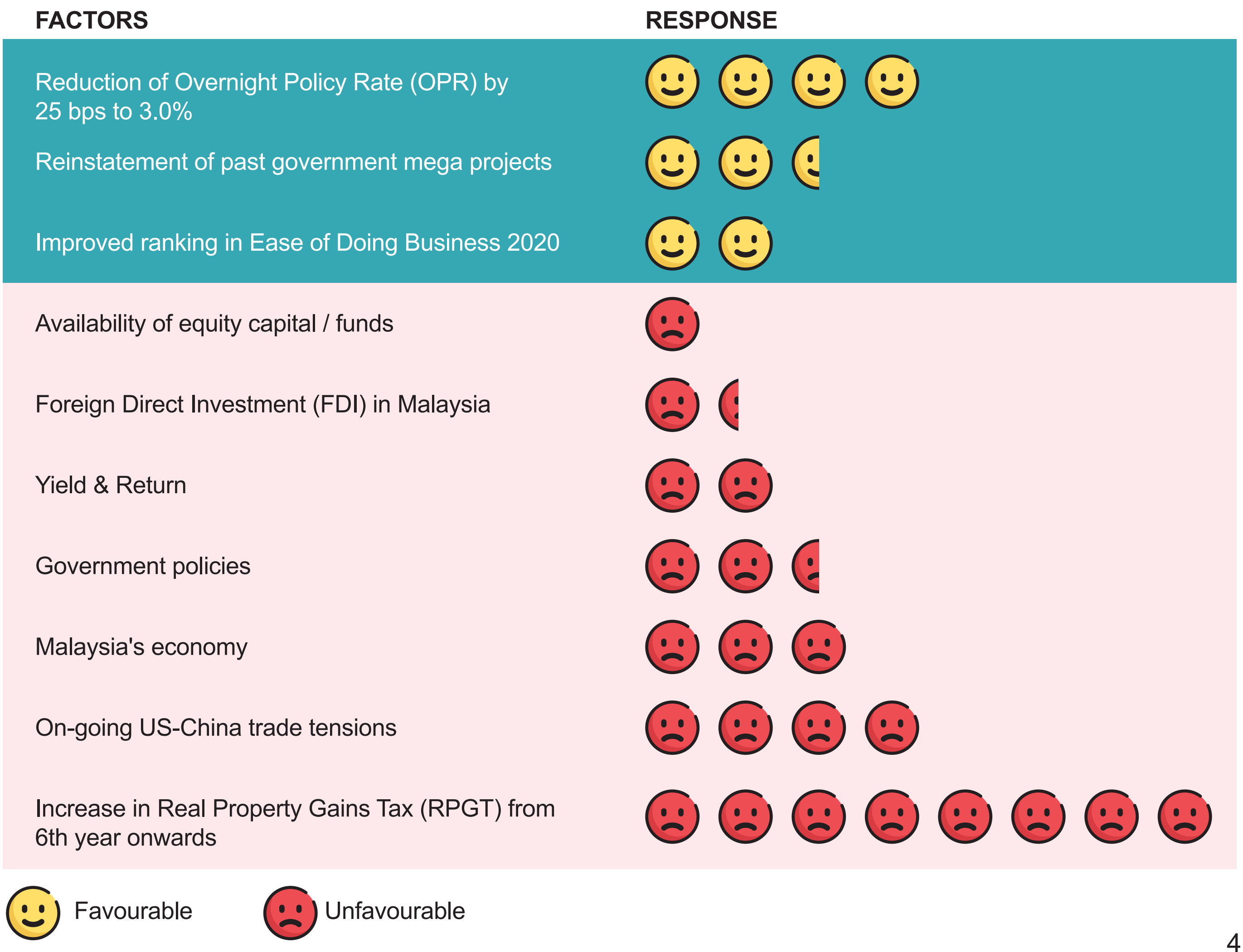
There are also developers who are looking to explore senior living / retirement home. With the country ranked first globally in Healthcare in the International Living Annual Global Retirement Index 2019 coupled with the positive response to the Malaysia My Second Home (MM2H) programme and our aging population, there are prospects catering to senior living.

FACTORS AFFECTING COMMERCIAL REAL ESTATE INVESTMENT SENTIMENT: 2019

The favourable factors affecting the commercial real estate investment sentiment in 2019 include the OPR cut of 25 basis points to 3.00% in May 2019 and the reinstatement of past government's mega projects.

Some respondents also opined that the improved ranking in Ease of Doing Business 2020 is positive for the commercial market. Malaysia is ranked at 12th position amongst the 190 economies worldwide from 15th place a year ago.

As for the unfavourable factors, the majority of the respondents felt that the imposition of 5% Real Property Gains Tax (RPGT) after the fifth year could impact long-term investment decisions and further dampen the property market. Geopolitical risks such as the on-going trade war between the US and China and economic slowdown are amongst other factors that have negatively affected the commercial sentiment in 2019.



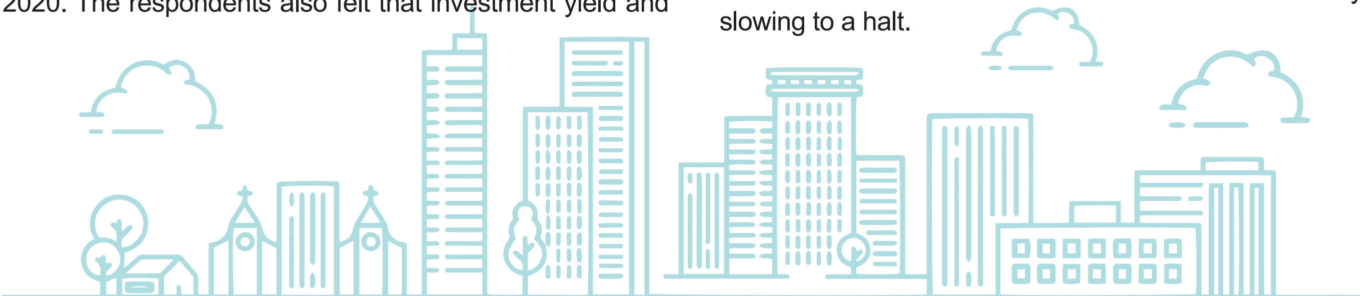
FACTORS AFFECTING COMMERCIAL REAL ESTATE INVESTMENT SENTIMENT: 2020

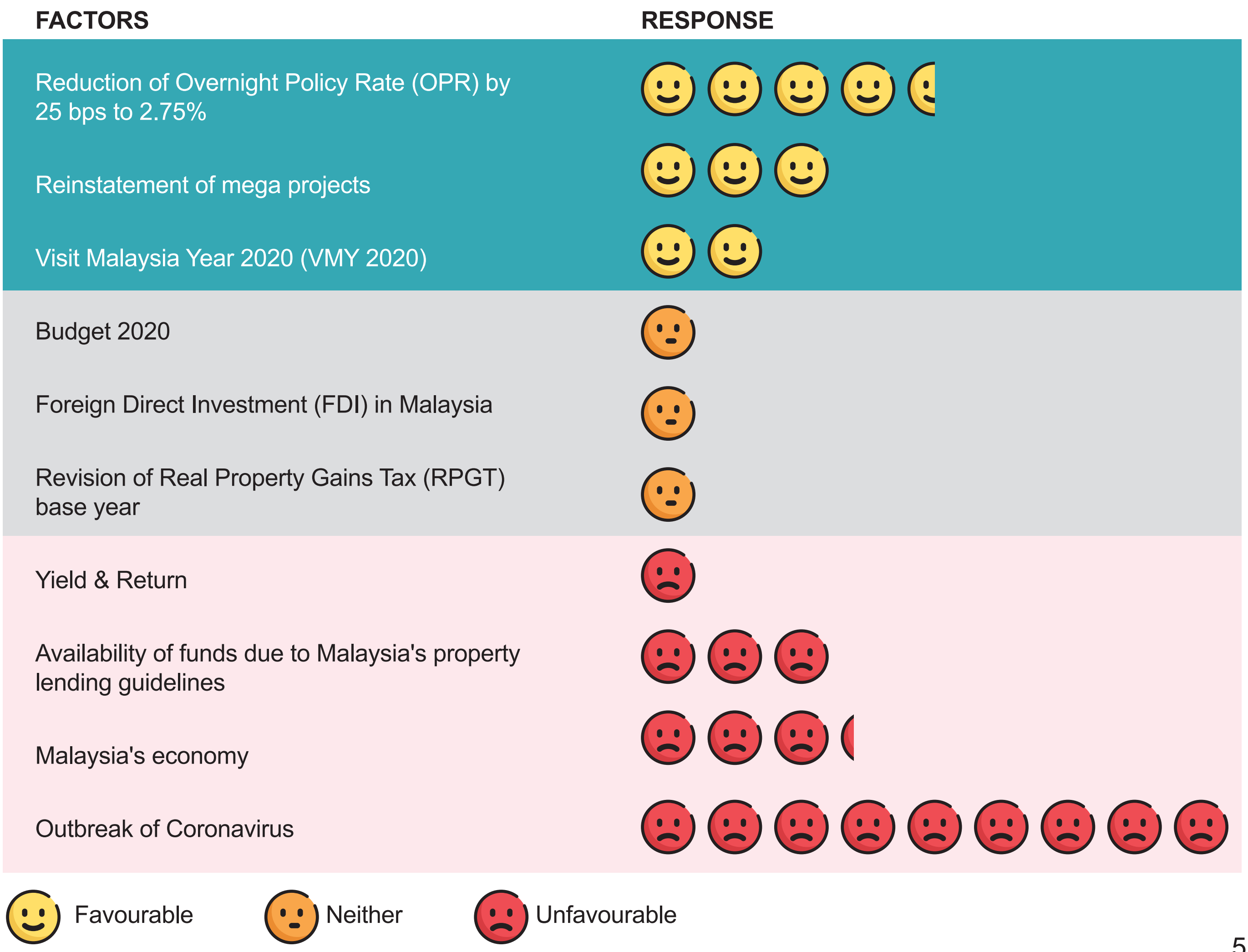
The top three most favourable factors affecting commercial real estate investment in 2020 are the OPR cut of 25 basis points to 2.75% in January 2020, the reinstatement of mega projects and the VMY 2020 campaign.

The majority of respondents felt that the impact of the National Budget 2020, Foreign Direct Investment (FDI) inflows and the revision of RPGT base year were not significant to the commercial property market.

Even before the coronavirus outbreak was declared a pandemic in March, the majority of respondents opined that it was the most unfavourable factor. They were already doubtful if the country's slowing economy, which continues to be unfavourable to the property market, would recover in 2020. The respondents also felt that investment yield and return, and the availability of funds remain unfavourable given the lacklustre property market environment.

The COVID-19 pandemic continues to severely disrupt global supply chains and is leaving many global economies, including Malaysia's, reeling. The VMY 2020 campaign has been cancelled while the reinstatement of mega projects is expected to be delayed. To provide a more accommodative monetary environment amid further weakening of global economic conditions, the central bank again cut the OPR by 25 basis points to 2.50% on 3 March 2020. To contain the spread of the coronavirus, the country is being placed under the Movement Control Order (MCO) until 28 April 2020 with all non-essential services and businesses literally slowing to a halt.





2020 FORECAST PERFORMANCE BY CATEGORY AND SUB-SECTOR

Knight Frank

Capital Value by Sub-sector

	OFFICE	RETAIL	HOTEL / LEISURE	LOGISTICS / INDUSTRIAL	HEALTHCARE	INSTITUTIONAL
INCREASE	5%	11%	14%	41%	60%	6%
STAGNANT	68%	62%	66%	50%	36%	75%
DECREASE	27%	27%	20%	9%	4%	19%

With the exception of the healthcare sub-sector, 50% of respondents and more are expecting the capital values for all sub-sectors to remain stagnant in 2020. About 41% and 60% of them expect an increase in capital values for the logistics / industrial and healthcare segments respectively. Meanwhile, close to 30% of respondents expect values of office and retail assets to decline in 2020.

Rental Rate / Average Room Rate (ARR) by Sub-sector

	OFFICE	RETAIL	HOTEL / LEISURE	LOGISTICS / INDUSTRIAL
INCREASE	11%	8%	11%	15%
STAGNANT	43%	32%	50%	70%
DECREASE	46%	60%	39%	15%

Some 60% of respondents expect rentals of retail space to fall in 2020 while for the office segment, 46% of them also expect rentals to trend down. A higher percentage of respondents (70%), however, expect rents to hold firm in the logistics / industrial segment. As for the hotel / leisure sub-sector, 50% of respondents expect the average room rate to remain flat in 2020, while 39% foresee a dip in average room rate.

2020 FORECAST PERFORMANCE BY CATEGORY AND SUB-SECTOR

Occupancy Rate by Sub-sector

	OFFICE	RETAIL	HOTEL / LEISURE	LOGISTICS / INDUSTRIAL
INCREASE	14%	2%	16%	22%
STAGNANT	38%	43%	39%	67%
DECREASE	49%	57%	45%	11%

Over 80% of respondents expect occupancies in the office, retail and hotel / leisure sub-sectors to remain unchanged or fall in 2020. In contrast, about two-third (67%) of respondents expect occupancy in the logistics / industrial sub-sector to remain resilient in 2020 while another 22% of them, foresee an increase in occupancy.

Yield Performance by Sub-sector

	OFFICE	RETAIL	HOTEL / LEISURE	LOGISTICS / INDUSTRIAL	HEALTHCARE	INSTITUTIONAL
INCREASE	16%	3%	14%	24%	51%	19%
STAGNANT	51%	64%	59%	67%	49%	72%
DECREASE	33%	33%	27%	9%	0%	9%

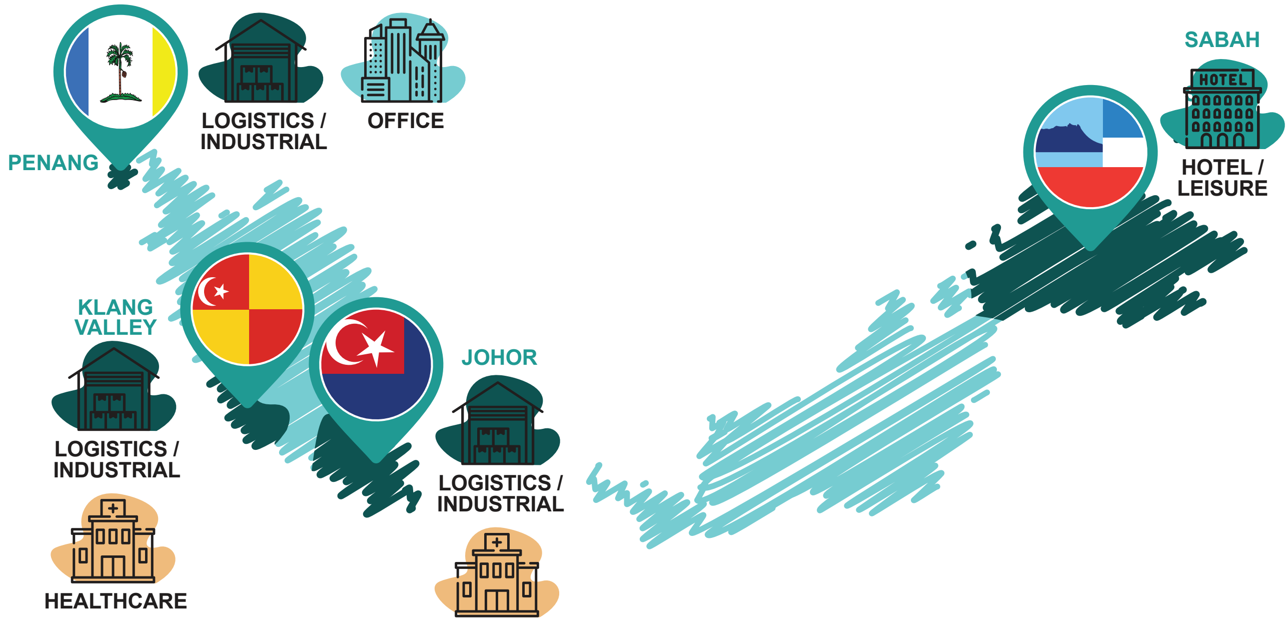
With the exception of the healthcare sub-sector, the majority of respondents (50% and more) expect overall yield performance across all sub-sectors to remain at previous year's level.

Some 51% of respondents expect the yield for the healthcare sub-sector to rise in line with growing demand for private healthcare services and the initiative to promote Malaysia Year of Healthcare Travel 2020 ("MYHT 2020") campaign in tandem with VMY 2020. It is to be noted, however, that VMY 2020 has been cancelled due to the COVID-19 pandemic.

Meanwhile, 24% and 19% of respondents are optimistic about the yield performance of the logistics / industrial and institutional sub-sectors, respectively.

2020 FORECAST PERFORMANCE BY CATEGORY AND SUB-SECTOR

Most Attractive Sub-Sectors by Region in 2020



The logistics / industrial sub-sector continues to expand in Klang Valley, Penang and Johor supported by the growth of e-commerce which has elevated demand for additional warehousing space.

The Klang Valley region benefits from the readiness of infrastructure and easy accessibility to Port Klang. The National Budget 2020 has allocated a whopping RM50 million for the repairs and maintenance of roads leading to Port Klang. Meanwhile, the thriving manufacturing industry in The Pearl of The Orient supports the state's logistics sector. Major infrastructure projects that are expected to kick-start such as the RM46 billion Penang Transport Master Plan (PTMP) which encompasses an undersea tunnel connecting the island to the mainland, highways, light rail transit (LRT), monorail and a bus network on the island and Seberang Perai; the Penang International Airport expansion and the redevelopment of Swettenham Pier Cruise Terminal, will boost the state's property sector and support growth of the logistics segment.

Similarly, in Johor, the rapid growth of the e-commerce segment has boosted demand for logistics / industrial facilities. Axis REIT's two significant acquisitions in Pelabuhan Tanjung Pelepas (PTP) and Gelang Patah prove that Johor is still attracting investments.

The current disruptions to the supply chain may give rise to potential decentralisation of logistics players with multiple smaller satellite distribution hubs nationwide to support local distribution channels.

As for Sabah, which is renowned for its environment and culture attractions, the respondents continue to have positive view on the hotel / leisure sub-sector although the COVID-19 pandemic is severely impacting the hospitality, tourism and aviation-related industries. A special economic package for the tourism sector, the state's third largest revenue source, will be needed to aid in the recovery of the sub-sector.

KEY CONTACTS:

Sarkunan Subramaniam | Managing Director | (603) 2289 9633 | sarky.s@my.knightfrank.com

Judy Ong | Executive Director | (603) 2289 9663 | judy.ong@my.knightfrank.com

Carrie Ling | Associate Director | (603) 2289 9646 | carrie.ling@my.knightfrank.com

KUALA LUMPUR HQ
Suite 10.01, Level 10, Centrepoint South, Mid Valley City,
Lingkaran Syed Putra, 59200 Kuala Lumpur.
T (603) 2289 9688 | **F** (603) 2289 9788

PENANG BRANCH
Suite 3.02, Menara Boustead Penang, 39,
Jalan Sultan Ahmad Shah,10050 Penang.
T (604) 229 3296 | **F** (604) 229 3216

JOHOR BRANCH
Suite 3A-01, Level 3A, Bangunan Pelangi,
Jalan Biru, Taman Pelangi, 80400 Johor Bahru, Johor.
T (607) 338 2888 | **F** (607) 332 6788

SABAH BRANCH
Suite 5.05, Level 5, Plaza Shell, 29,
Jalan Tunku Abdul Rahman, 88000 Kota Kinabalu, Sabah.
T (608) 827 9088 | **F** (608) 827 9099

Publisher: Knight Frank Malaysia Sdn. Bhd. (585479-A)