MALAYSIA COMMERCIAL REAL ESTATE INVESTMENT SENTIMENT SURVEY 2022

MD's Foreword

The first half of 2022 is completing its run and it appears to be gearing up for an exciting second half.

How did the property market do last year? – Malaysia's property market showed some signs of recovery in 2021, in which a total of 300,947 transactions valued at RM144.9 billion were recorded, logging a year-on-year increase of 1.5% in volume and 21.7% in values, respectively. Whether or not this signals a recovery trajectory or a pandemic-induced pent-up demand, remains to be seen this year.

Interest rates – Bank Negara Malaysia had maintained the Overnight Policy Rate (OPR) between 3.00% to 3.25% for almost 10 years between May 2011 and January 2020, before lowering the OPR gradually until a record low of 1.75% on 7 July 2020. On 11 May 2022, Bank Negara Malaysia raised the Overnight Policy Rate by 25 basis points to 2.00%, in line with monetary measures taken by central banks in major markets such as US, UK, Australia and India. We see this minimal increment as a moderation of the market and do not foresee immediate negative impact on the real estate sector.

Logistics is the investment world's new darling – The pandemic has shifted consumer habits and greatly fueled the growth of e-commerce, pushing logistics assets into the limelight. In 2021, Malaysia recorded RM1.1 trillion in e-commerce income, an increase of 21.8% compared to 2020. Our respondents are extremely optimistic about the immediate opportunities in the Logistics and Industrial sub-sectors. These 2 sub-sectors rank the highest in terms of expected recovery, with respondents being most confident of an increase in capital values, yields, occupancy and rents for these assets.

Predictions for 2022 – Respondents are predicting positive potential in the Industrial / Logistics sub-sector, the Hotel / Leisure sub-sector and even the Retail sub-sector, with the reopening of the economy and activities reported to be returning to pre-pandemic levels. A decline is anticipated in the Office sub-sector, as supply continues to outpace demand. Respondents have also indicated keen interest in exploring alternative investments this year, such as senior living / retirement homes and data centres.

Notable risks in 2022 – Our respondents are conscious that there are several risks ahead in 2022. The rise in commodity prices, the undervalued Ringgit, the potential impact of new variants and other infectious diseases, as well as political uncertainty – are all factors that do not work in favour of promoting commercial real estate investment. The low interest rate environment however remains a key favourable factor.

As we navigate the new economy in a somewhat changed world that is anticipating further disruption, there is a need to cultivate **resilience** in real estate portfolios – to anticipate risk and minimize disruption in an increasingly complex world. The growing awareness and adoption of **environmental, social, and governance (ESG)** frameworks in the real estate industry will help drive the value of sustainable real estate into the future.

Sarkunan Subramaniam
Group Managing Director
Knight Frank Malaysia

2022 : FACTORS AFFECTING COMMERCIAL REAL ESTATE INVESTMENT

- Amidst the Russia-Ukraine crisis that has dragged on since end of February 2022, only 34% think that the Malaysia's economic figures (e.g. GDP, inflation, unemployment rate, etc) are favourable, but 47% feel that our FDI is favourable and encouraging.
- However, political stability and certainty of governmental policies remain crucial and key to a staggering 88% who feel that this needs to be improved for commercial property market sentiments to pick up.
- 41% and 44% of respondents felt that Budget 2022 and 12th Malaysia Plan (respectively) was favourable for the commercial property market.
- 51% felt that the ongoing mega projects will have a positive multiplier effect for the commercial property market.
- 51% think that our COVID-19 containment measures (e.g. National Immunisation Program, Movement Control Orders, etc.) were favorable, with a staggering 84% who feel that the potential for future COVID-19 variants remains an unfavourable factor.
- 74% feel that the present OPR (1.75% to 2.00% at time of writing) is extremely favourable, although 62% feel that the rising commodity prices will be a bane.

Respondent Sentiments on Positive, Neutral and Negative Factors Affecting Commercial Real Estate Investment in **2022**

Positive

- Malaysia's top position in emerging Southeast Asia (SEA) according to the 2022 Milken Institute Global Opportunity Index
- Low Overnight Policy Rate (OPR) at 1.75% - 2.00%
- Malaysia Healthcare Travel Industry Blueprint 2021- 2025

Neutral

- COVID-19 containment measures - National Immunisation Program, Movement Control Orders, etc
- Multiplier effect of ongoing mega projects
- Foreign Direct Investment (FDI) in Malaysia

Negative

- 12th Malaysia Plan (12MP)
- Budget 2022
- Ringgit - undervalued currency
- Rise in commodity prices
- Malaysia's economy - GDP, inflation, unemployment etc
- COVID-19 variants
- Political instability and uncertain policy
- Russia - Ukraine crisis

2022:
INVESTMENT PLAN BY SUB-SECTOR

Investments into the Office, Retail, Hotel / Leisure, Industrial, and Logistics sub-sectors are expected to increase in 2022. Developers have increased their investment across the board in all sub-sectors, signaling an obvious increase in activity in 2022, compared to the past 2 years. Fund / REIT managers have increased their exposure to industrial and hospitality assets, with a fairly equal distribution in the other sub-sectors. Lenders appear to have reduced their exposure in almost all sub-sectors, except for the Office sub-sector.

INVESTMENT PLAN FOCUS AREAS FOR 2022

Sub-sector	DEVELOPER	FUND / REIT MANAGER	LENDER
OFFICE	%↑	%	%↑
RETAIL	%↑	%↓	%↓
HOTEL / LEISURE	%↑	%↑	%↓
INDUSTRIAL	%↑	%	%↓
LOGISTICS	%↑	%↑	%↓
HEALTHCARE	%↑	%	%↓
EDUCATIONAL / INSTITUTIONAL	%↑	%	%

2023 - 2025 : ALTERNATIVE INVESTMENTS

There is keen interest to sell or buy existing commercial assets (land or buildings) in Sabah, Johor and Klang Valley; whether it is to take advantage of bargains for good quality assets or to implement a rationalization exercise for a portfolio of assets. Respondents also appear to have a better risk appetite for alternative investments in the next 2 to 3 years.

The survey revealed almost equal interest by all respondents to participate in serviced residences / hotels, co-working / flexible offices, senior living / retirement homes and data centres. There is also marked interest in other alternative sub-sectors like workers' accommodation, wellness centre / hub, co-living / students' accommodation and themed / recreational parks.

Location-wise, the respondents have highlighted interest in exploring the following opportunities in the medium term:-

Serviced residences / hotels and co-working / flexible offices in Penang and Sabah

Senior living / retirement homes in Penang and Klang Valley

Data centres in Johor and Klang Valley

ALTERNATIVE INVESTMENTS BY LOCATION

	TOP 3 Preferred Locations
Buy / Sell existing commercial assets	*Sabah, Johor, Klang Valley*
Serviced residences / hotels	*Penang, Sabah, Klang Valley*
Co-working / flexible offices	*Penang, Sabah, Johor*
Senior living / retirement homes	*Penang, Klang Valley, Johor*
Data centres	*Johor, Klang Valley, Sabah*
Workers' accommodation	*Penang, Johor, Klang Valley and Sabah*
Co-living / students' accommodation	*Klang Valley, Johor, Sabah*
Wellness centre / hub	*Klang Valley, Sabah, Penang*
Themed / recreational parks	*Other States (Other than Klang Valley, Penang, Johor and Sabah)*

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2022 PERFORMANCE FORECAST BY SECTORS

	CAPITAL VALUE BY SECTORS			TRANSACTION CAP RATE / YIELDS		
	DECREASE	STAGNANT	INCREASE	DECREASE	STAGNANT	INCREASE
OFFICE	29%	60%	11%	30%	50%	20%
RETAIL	24%	58%	18%	24%	47%	29%
HOTEL / LEISURE	32%	56%	12%	18%	60%	22%
INDUSTRIAL	5%	32%	63%	9%	37%	54%
LOGISTICS	7%	17%	76%	13%	19%	68%
HEALTHCARE	1%	42%	57%	4%	35%	61%
EDUCATIONAL / INSTITUTIONAL	16%	62%	22%	8%	64%	28%

More than two-thirds of the respondents expect the Industrial and Logistics sub-sectors to enjoy appreciations in capital value in 2022. Slightly more than half the respondents (57%) also anticipate the same for the Healthcare sub-sector.

Correspondingly, about 60% of the respondents expect capital values in the Office, Retail, Hotel / Leisure and Educational / Institutional sub-sectors to hold steady. About a-third of respondents expect these sub-sectors (excluding Educational / Institutional) to experience a decrease in capital values in 2022.

In terms of yield performance, 68% of respondents expect yields to increase in the Logistics sub-sector. The Healthcare and Industrial sub-sectors are also anticipated to have higher yields.

More than half of the respondents expect no change in yields for the Office, Retail, Hotel / Leisure and Educational / Institutional sub-sectors; although about 30% of respondents have highlighted that they anticipate yields to decrease for the Office sub-sector.

2022 PERFORMANCE FORECAST BY SECTORS

	RENTAL VALUE / AVERAGE DAILY RATE			OCCUPANCY RATE		
	DECREASE	STAGNANT	INCREASE	DECREASE	STAGNANT	INCREASE
OFFICE	37%	50%	13%	41%	42%	17%
RETAIL	36%	47%	17%	29%	39%	32%
HOTEL / LEISURE	24%	43%	33%	16%	33%	51%
INDUSTRIAL	7%	40%	53%	5%	32%	63%
LOGISTICS	5%	31%	64%	4%	22%	74%

Logistics properties are expected to experience an increase in rents in 2022, according to 64% of respondents; with 53% also agreeing that increases are expected in the Industrial sub-sector, in line with growing demand for space in these 2 sub-sectors.

About 50% (or slightly less) of respondents are expecting Office rents to remain the same in 2022, with about 37% of respondents predicting a decrease in Office rents.

Respondents are quite confident that occupancy rates in Logistics, Industrial and Hotel / Leisure sub-sectors will show positive growth this year.

Notably, 41% of respondents predict a reduction in occupied space in the Office sub-sector. Knight Frank Malaysia Research notes that an estimated 495,850 square metres of space is expected to enter the Kuala Lumpur office market by the end of 2022, exerting continued pressure on occupancy rates and rents as supply continues to outpace demand.

Predictions on the outlook for the commercial real estate market

	Improvement	Decline
INDUSTRIAL / LOGISTICS	**93%** • Rise in e-commerce and technology adoption • Expansion of warehouse and distribution facilities • Growth of Industrial Production Index (IPI) • Growth of electrical and electronic products industry • Growth of healthcare / medical technology industry	**7%** • Cost increase in raw materials • Manpower / labour shortage (border restrictions for foreign workers) • Supply chain disruption
HOTEL / LEISURE	**80%** • Reopening of country's borders • Easing of COVID-19 restrictions • Economic recovery / tourism growth • Influx of international tourists • Pent-up domestic travel demand	**20%** • Lack of travel confidence • Low international arrival numbers • Reduced spending power / decrease in tourism spending • Strict travel requirements (eg: COVID-19 testing, quarantine etc.)
RETAIL	**67%** • Improvement in COVID-19 situation • Economic recovery • Consumer spending trend	**33%** • Growth of e-commerce shopping • Disruption due to COVID-19 • Delay in economic recovery • Retailer consolidation
OFFICE	**45%** • Economic recovery • Improvement in COVID-19 situation • Growth in workforce scale / return of workforce	**55%** • Incoming supply of new office space • Increase in hybrid workplace models • Implementation of Work-From-Home (WFH) policy • Cost saving strategies in companies / scale down of office space

PREDICTIONS ON COMMERCIAL REAL ESTATE MARKET

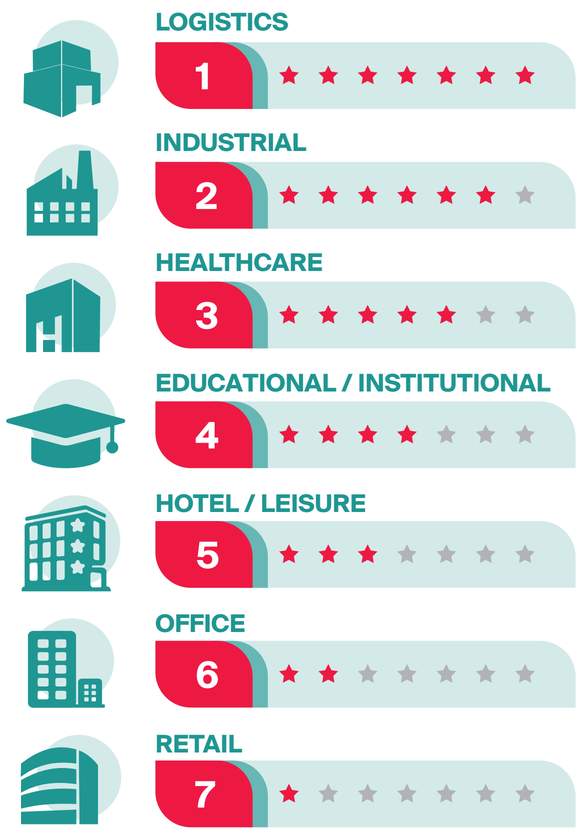
RANKING RECOVERY EXPECTATION FOR COMMERCIAL PROPERTY MARKET SECTORS

The Logistics and Industrial sub-sectors continue to be the new darlings of the real estate fraternity.

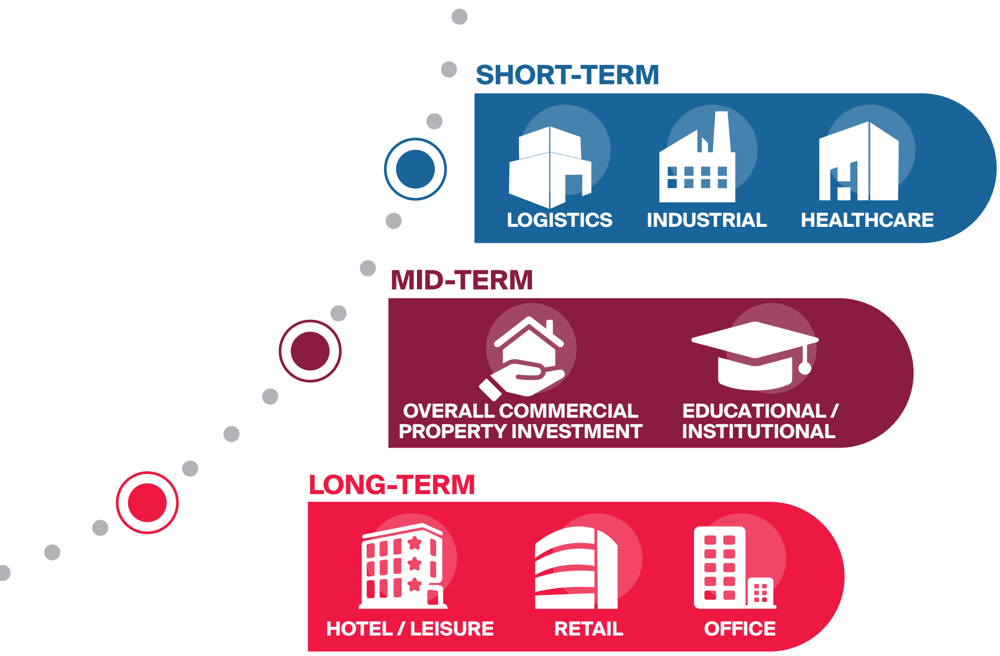
As we move out of 2 years of pandemic management, there is also obvious interest in the Healthcare sub-sector increasingly becoming an alternative investment to observe.

The Educational / Institutional sub-sector is also garnering growing interest. According to the Ministry of Education, there are presently 552 private institutions in Malaysia offering primary and secondary education to 197,855 students. In the tertiary market, the Malaysia Education Blueprint 2015-2025 (Higher Education) has a vision to enrol 250,000 international students into Malaysia by 2025, although it has been somewhat hampered by the pandemic.

Rounding off the rankings in recovery expectation are the Hotel / Leisure, Office and Retail sub-sectors – all of which are usually staples in the run-of-the-mill integrated developments that are sprouting up all over the country, particularly with the continued investment in public transport infrastructure.



APPROPRIATE TIME TO BEGIN EXPLORING OPPORTUNITIES IN THE FOLLOWING SECTORS



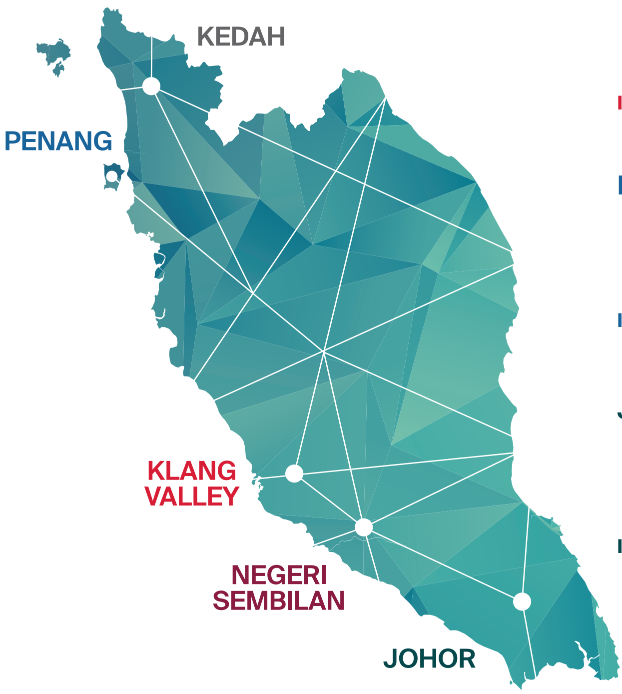
Within the next 12 months, respondents are very keen to explore commercial investment opportunities in Logistics, Industrial, and Healthcare sub-sectors.

In the medium term, respondents feel that the market will be in a more favorable position to explore the overall commercial property investment sector. Respondents also generally feel that the Hotel / Leisure, Office and Retail sub-sectors will be a long-term play.

Short-term: Less than 12 months;
Mid-term: Next 12 to 36 months;
Long-term: More than 36 months.

LOOKING FORWARD: MOST ACTIVE SECTORS BY REGION IN 2023

In 2023, the following sub-sectors are anticipated to be the most attractive sectors:-



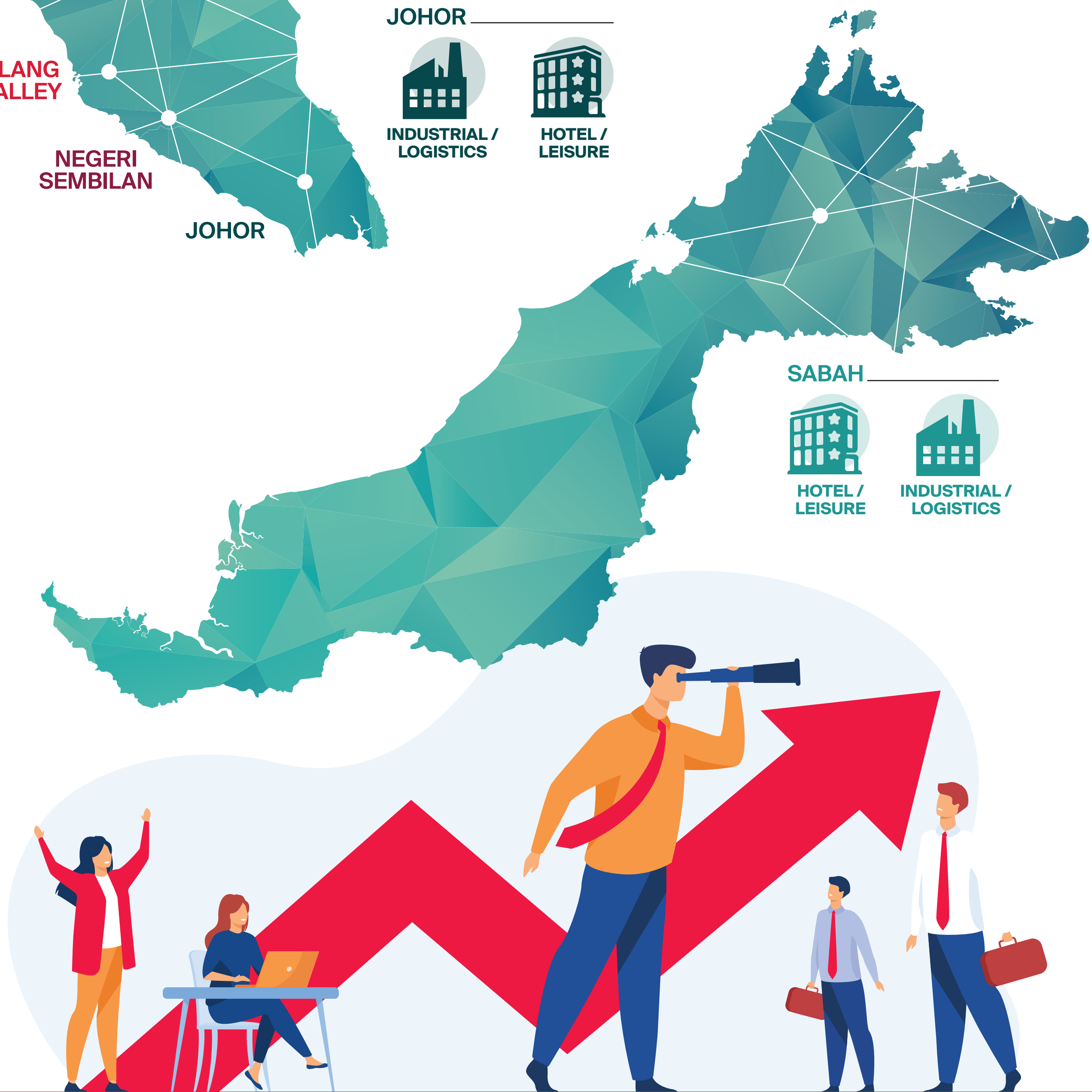
KLANG VALLEY
- INDUSTRIAL / LOGISTICS
- RETAIL
- OFFICE

KEDAH
- INDUSTRIAL / LOGISTICS
- HOTEL / LEISURE

PENANG
- INDUSTRIAL / LOGISTICS
- HOTEL / LEISURE
- HEALTHCARE

NEGERI SEMBILAN
- INDUSTRIAL / LOGISTICS
- HOTEL / LEISURE

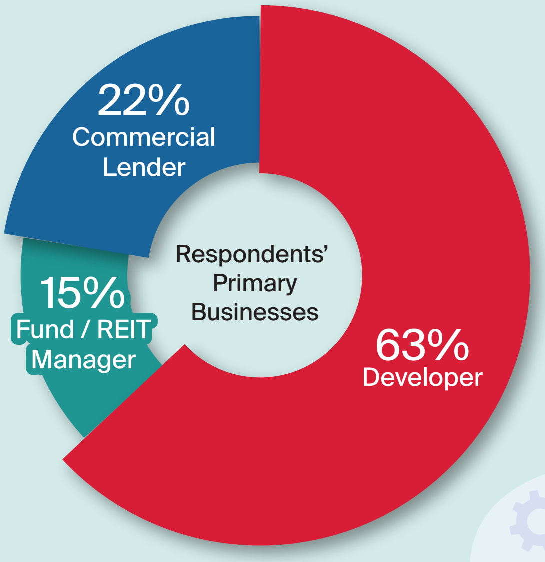
JOHOR
- INDUSTRIAL / LOGISTICS
- HOTEL / LEISURE



SABAH
- HOTEL / LEISURE
- INDUSTRIAL / LOGISTICS

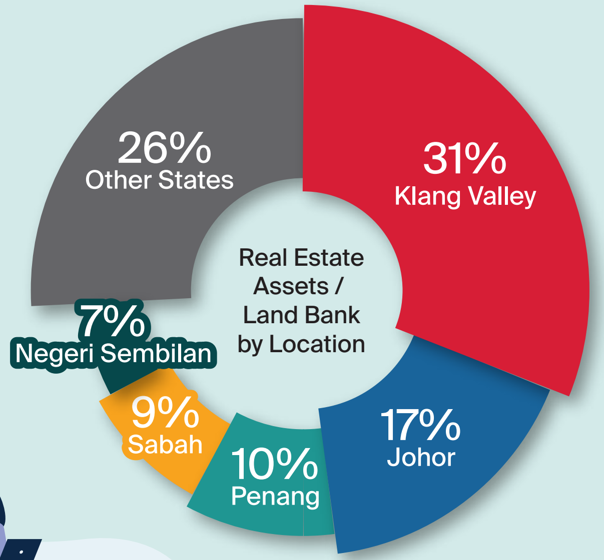
SURVEY RESPONDENTS

The respondents for this annual survey comprise of representatives in senior management levels across the Malaysian commercial property industry. Developers made up almost two-thirds of the respondents (63%), followed by Commercial Lenders (22%), and Fund / REIT Managers (15%).



LOCATION OF RESPONDENTS' REAL ESTATE ASSETS / LAND BANK

About one-third of the respondents' commercial real estate projects are located in the Klang Valley (31%), with the remaining top 4 states being Johor (17%), Penang (10%), Sabah (9%), and Negeri Sembilan (7%).



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