Property Times
Kuala Lumpur Q1 2013
Political uncertainties clouded market sentiment

17 April 2013

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- Strong economic performance with Q4 2012 growth at 6.4% boosted overall growth to 5.6% for 2012, driven by domestic investment and consumption. Bank Negara Malaysia (BNM) anticipates the country's economic growth to be sustained at 5-6% in 2013, led by private investment.

- Domestic demand, driven by the various economic transformation plans and government hand-outs, are making impact, boosting economic growth and household income.

- Investment activities had a slow start for the year due to the pending General Election. The highlight was the commitment by Aabar Investment PJS to participate in the multi-billion Tun Razak Exchange.

- Office demand was strong in Q1 2013 and as a result, vacancy fell marginally by 1 percentage-point with rental and capital value remaining stable. The Oil and Gas sector continue to be major source of demand whilst other business services are also growing.

- Domestic retail sales remain strong and continue to support a high occupancy and investment interest in the retail sector.

- The uncertain General Election seems to have resulted in a sluggish residential market, as developers remain cautious on new launches.

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Economic overview

Economy on steady path

In 2012, the Malaysian economy demonstrated resilience against the challenging external environment, recording a better-than-expected 5.6% growth, surpassing earlier forecast of 4-5.5% (Figure 1). Domestic demand remained the key driver, underpinned by robust investment activities and higher consumption.

The Construction sector registered the highest expansion of 18.5% since 1995, benefiting from the robust investment activity on infrastructure and real estate. The sector is expected to remain strong in 2013, supported by implementation of major infrastructure projects.
The Services and Manufacturing sectors grew by 6.4% and 4.8% respectively, supported by strong domestic demand and they will continue to be the key sectors.

Recovery in production of crude oil pushed up the mining sector to 1.4% growth and is expected to grow stronger. The Agriculture sector expanded moderately by 0.8% but is forecasted to improve in 2013.

Expecting gradual improvement of external economy, BNM anticipates the country's economic growth to be sustained at 5-6% in 2013, led by private investment.

Higher inflation expected

Headline inflation, as measured by the Consumer Price Index (CPI) averaged 1.6% in 2012, below the expected range of 2.5-3.0%, attributed by slower rate of price increase in the food and non-alcoholic beverages and transport categories. The inflation rate is likely to pick up to 2%-3% in 2013, on account of the expected higher global prices of selected food commodities and the adjustment to domestic administered prices.

Favourable employment climate

On the labour market, 2012 saw a stable unemployment rate at 3% with higher employment in the services and agricultural sectors. However, there were notable retrenchments in the manufacturing sector. The employment market is expected to remain favourable in 2013 with low unemployment rate of 3.1%.

Overnight Policy Rate maintained for stability

The global economic and financial uncertainties remain a risk to Malaysia's economic growth. To mitigate the impact, BNM had decided to maintain the Overnight Policy Rate at 3%.

Increasing household debts

Malaysia's household indebtedness had trended upward from 70.5% in 2011 to 80.5% in 2012. Concerned over surging household debt to GDP ratio, BNM introduced various measures to ensure that Malaysia's household debt is at a manageable level.

Outbound ventures

Despite lower inflows of RM29.1bn in 2012, compared to RM36.6bn in 2011, Malaysia's resilient growth continued to attract foreign funds with significant inflows in the Oil and Gas sector and the Communication services sector.

However, this is offset by resident fund outflows. Increasing interest and ability of some domestic financial institutions and companies posted higher Direct Investment Abroad (DIA) of RM51bn in 2012 compared to RM46.7bn in 2011. The higher DIA was largely in the Services and Oil and Gas sectors.

The impact of the various economic transformation plans are starting to gain momentum as indicated by the economic growth and household income statistics, which bore well for Malaysia's target to reach developed nation status by 2020.

Figure 1

GDP growth (y-o-y) and unemployment rate

Source: Bank Negara Malaysia, Department of Statistics Malaysia, DTZ Research

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Investment

Tun Razak Exchange (TRX) kicks start the year

One of the largest proposed investments to kick start the year is the news that 1Malaysia Development Bhd (1MDB), the master developer for TRX, the new financial hub for the city, has secured a strategic partner for the project with Aabar Investment PJS, an Abu Dhabi government linked entity as part of a strategic initiative worth RM18bn.

Investment still sluggish

The investment market got to a slow start with only two major transactions noted, namely the sale of The Icon (East Wing), a prime office building on Jalan Tun Razak to Top Glove Bhd (27%) and its controlling shareholders (73%). The sale at RM226m, was marginally below the price of RM226.8m paid by TS Law Realty which had purchased the building three years ago when it was newly completed and still vacant. This translated to a price of RM843 per sq ft which reflected the price range of office transactions during Q4 2012. The other sale involved a proposed office at PJ Sentral which was sold to MyIPO for RM250m (RM850 per sq ft) (Figure 2 and Table 1).

Iskandar Malaysia draws interest

Meanwhile investors/developers are focusing on development opportunities in Iskandar Malaysia where there is an active market for development land, and deals flows are being announced in a rapid succession, the latest of which include major Singapore developers. The announcement of a high speed train link between Singapore and Kuala Lumpur has further boost domestic sentiment.

Attractive retail market

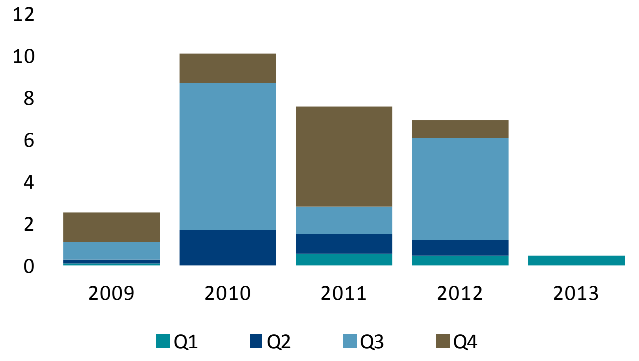
With potential over supply in the office sector in the Klang Valley, investors are eyeing the retail sector with a focus on assets targeting the mid-market which are deemed as more resilient in the event of a downturn, as well as hotels to benefit from a still growing tourism sector driven by booming regional travel.

Favourable outlook irrespective of GE outcome

The pending listing of billion Ringgit KLCC REIT will help to boost volume in the coming months. However, uncertainties arising from politics will be a short term damper although much of it is already factored into the market. The outcome of the pending general election will be known in May but most analysts have already have a favourable outlook which ever parties come out to be winner.

Figure 2

Total investment sales in Malaysia, RM bn



Source: DTZ Research

Table 1

Significant deals in Q1 2013

Name of development	Purchaser	Vendor	Price, RM m
PJ Sentral Tower 6	MyIPO	Nusa Gapurna Development	250
The Icon (East Wing)	Top Glove	TS Law	226
CSL Warehouse	Destini Bhd	CSL Manufacturing	14.8

Source: DTZ Research

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Office

Vacancy rate declined marginally

About 699,000 sq ft was added to the office stock in Kuala Lumpur in Q1, compared to 1.5 million sq ft in the previous quarter. The two buildings completed were Menara CIMB Mapletree @ KL Sentral and Block A of Glomac Damansara. CIMB Bank, one of the country's largest banks, will be the anchor tenant taking more than half the space at Menara CIMB Mapletree.

These buildings increased the existing office stock in Kuala Lumpur to 68.1 million sq ft, translating to a slight increase of 1% since last quarter.

The overall vacancy rate of office buildings in Kuala Lumpur declined marginally in Q1, from 16% to 15% due to strong absorption led by the Oil and Gas sector (Figure 3). The decline was primarily due to the reportedly higher occupancy rates for Menara Darussalam, Menara Felda, Menara Worldwide and Integra Tower. The two new buildings that entered the market this quarter had also successfully achieved decent occupancy for their buildings due to pre-letting by the landlords.

Stable Rent and Capital Values

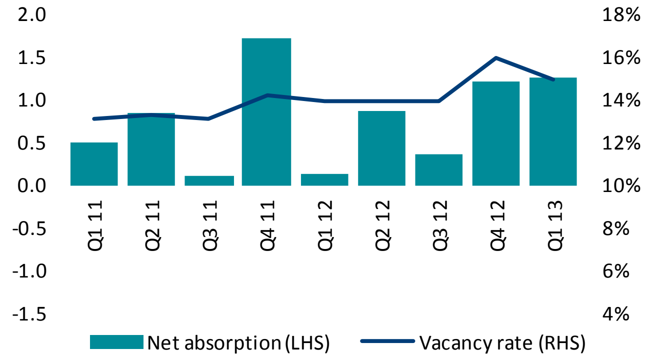
Average prime office rents remained stable in Q1 2013 at RM6.13 per sq ft per month (Figure 4). Similarly, the average capital value was stable at RM838 per sq ft. With as much as 3.1 million sq ft of office space scheduled for completion in the remainder of 2013 and another 4.3 million sq ft by 2014, there are concerns that both occupancy rates and rents will be pressured downwards (Figure 5).

Bloomberg opened office in KLCC

Bloomberg, the world's business and financial news leader, opened its new hi-tech office at the Menara 3 Petronas building in Kuala Lumpur City Centre in Q1 2013.

Figure 3

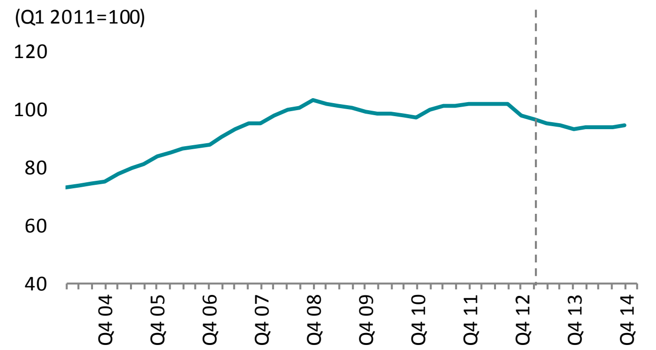
Office net absorption, sq ft (million) and vacancy rate



Source: DTZ Research

Figure 4

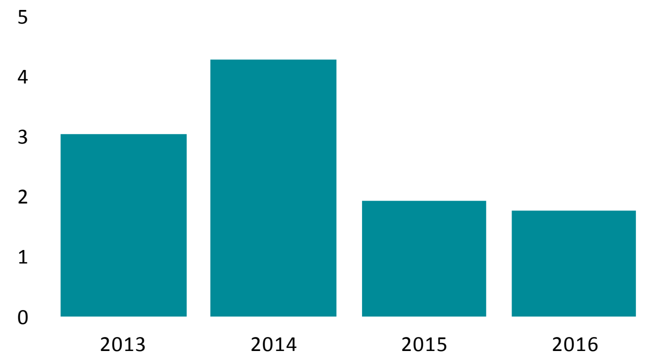
Prime office rental indices



Source: DTZ Research

Figure 5

Office development pipeline, sq ft (million)



Source: DTZ Research

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Retail

Strong growth in household income but vigilant spending

Consumer confidence is still holding up with a marginal increase in the Consumer Sentiments Index (CSI) of 118.7 points, compared to 118.3 points in the previous quarter. The latest household income statistics for 2012 indicated that average household income has grown by 7.2% per annum since 2009 to RM5,000 per month. Notwithstanding favourable income, consumers remained cautious in spending in view of moderate job stance and expected rise of inflation.

Retailers' optimist growth

The growth of retail industry for 2012 is estimated at 5.8% and is expected to expand by 6% for 2013, according to Retail Group Malaysia (RGM). Better sales performance is expected during the first quarter of this year compared to the estimated 5.7% in Q4 2012, boosted by the Chinese New Year Festival, the second round of government's Bantuan Rakyat 1Malaysia (BR1M), RM100 cash to five million students and RM250 1Malaysia Book Voucher to all private and public university students. Electrical and electronic retailers are expected to benefit from the RM200 rebate on smartphone purchase for those between 21 to 30 years with monthly income below RM3,000.

Sustainable retail market

The retail market remained resilient with 91.4% occupancy rate, sustained by strong domestic demand. The stock in Kuala Lumpur stood at 23.5 million sq ft with no major completion registered for six consecutive quarters since Q4 2011 (Figure 6). Two major malls are expected to be added to the Kuala Lumpur's retail stock in 2013 (Table 2).

Growing retail interest

The retail sector continues to garner the interest of foreign and local investors as well. Land Lease Group, Australia's biggest developer are in discussions to invest in three development projects, to expand its portfolio in Malaysia, following the success of Setia City Mall in Shah Alam and the deal of Naza TTDI's KL Metropolis. AEON acquired land in Shah Alam for its new store, after aggressively acquiring land in Penang, Johor, Kedah and Perak since 2010.

Penang will have a Premium Outlet located in Batu Kawan in Penang mainland. The upcoming Premium Outlet will capitalize its proximity to the second Penang Bridge and is expected to become a major tourist attraction.

Johor Premium Outlet has undertaken the expansion of phase two with an overwhelming response from retailers.

Uniqlo, a Japanese brand, is expanding its market to a strategic second tier location. A new store is planned to open at Alamanda in Putrajaya, in line with its expansion strategy to reach shoppers living away from city centre.

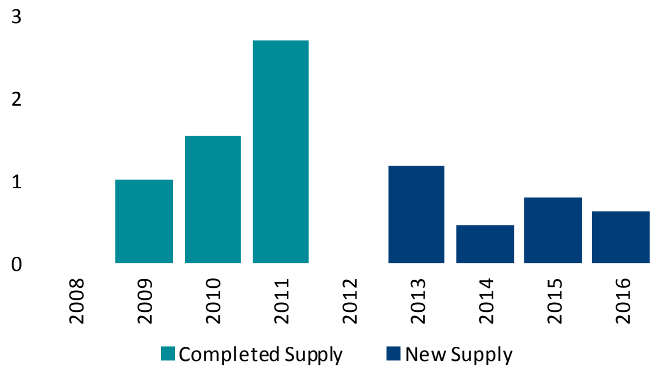
Parkson Malaysia, Malaysia's local brand was recognised as the second most valuable retail brand in Southeast Asia by Interbrand, following its successful keeping up with shifts in preferences and expectations of consumers.

Reinvent to stay relevant

Sungei Wang Plaza, a portfolio of CapitaMalls is undergoing refurbishment to stay relevant in the competitive retail market, as being located in the heart of Golden Triangle. Giant Hypermarket in Subang Jaya reopened with a significant makeover after a two-year closure for renovation. It was the first hypermarket in Malaysia and has been redeveloped to a 3-storey shopping centre from a single-storey outlet.

Figure 6

Retail new supply (NLA) in Kuala Lumpur, sq ft (million)



Source: DTZ Research

Table 2

Selected upcoming retail malls in Klang Valley

Name of development	Est area (NLA, sq ft)	Est year of completion
Nu Sentral, KL Sentral	680,000	2013
Cheras Sentral, Kuala Lumpur	500,000	2013
Gateway at KLIA2, Sepang	350,000	2013
Jaya Shopping Mall, Petaling Jaya	260,000	2013
IOI City Mall, Putrajaya	1,300,000	2014
Atria Shopping Mall, Petaling Jaya	450,000	2014
Sunway Velocity, Kuala Lumpur	800,000	2015

Source: DTZ Research

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Residential

Substantial supply in 2013

The quarter saw the completion of four condominium projects with a substantial new supply of 1,442 units. Two new completions are in the city centre, namely Sky Residence Phase 1 and Verticas Residensi, whilst another two i.e., 28 Mon't Kiara,and Kiaramas Danai (Block B) are located within the Mon't Kiara enclave.

An additional 4,240 condominium units are expected to enter the market, with total of 5,682 units by 2013. It is an enormous supply compared to the 784 units completed in 2012. The higher new supply will definitely put some pressure on rental values, especially in the city centre (Figure 7).

Amongst the major developments expected to be completed this year are The Elements (1,040 units: Jalan Ampang) M Suites (442 units: Jalan Ampang) and Vipod Serviced Apartment (367 units: Jalan Kia Peng).

Stable high-end condominium market

In Q1, the high-end condominium market in Kuala Lumpur was relatively stable. The overall average price increased marginally by 1.2% q-o-q to RM678 per sq ft from RM670 per sq ft in Q4 2012. Average rents remained relatively stable at RM3.60 per sq ft per month, down from RM3.65 per sq ft per month in the previous quarter (Figure 8).

There were no new launches in Q1, as the housing market seems to maintain the preceding quarter's sluggish momentum. The uncertainty of the General Election result is also another possible determinant.

Nevertheless the market is expected to be vibrant after the General Election with numerous major planned developments. Ekovest Berhad is expected to launch three major projects in Klang Valley, namely Eco Business Park (Cheras), The Gateway@KL Bund (Setapak) and Menara Titiwangsa (Kuala Lumpur). The combined RM4.8bn projects will supplement substantial supply to the residential market.

Other new launches are planned throughout the year in the city centre: The Mews by Eastern & Oriental Bhd, Star Residences by Symphony Life (formerly Bolton Bhd) and a 50-storey mixed development next to Pavilion by Urusharta Cemerlang Sdn Bhd.

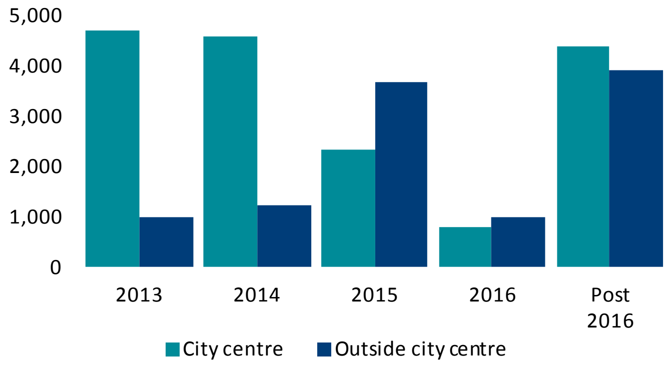
There are also pending residential launches outside the city centre which include Boulevard Business Park at Jalan Kuching (Magna Prima), VERVE Suites KL South along Old Klang Road (Albatha Bukit Kiara Holdings Sdn Bhd) and The Establishment in Bangsar by Keystone Land Developments Sdn Bhd.

Anticipated positive market throughout 2013

As the market is expected to quieten after the dissolution of the Parliament, the market is expected to more vibrant post 13th General Election in May. Attributable to the progressive economic outlook driven by strong domestic demand, the market is anticipated to improve as developers remained optimistic with scheduled launches over the second half of the year.

Figure 7

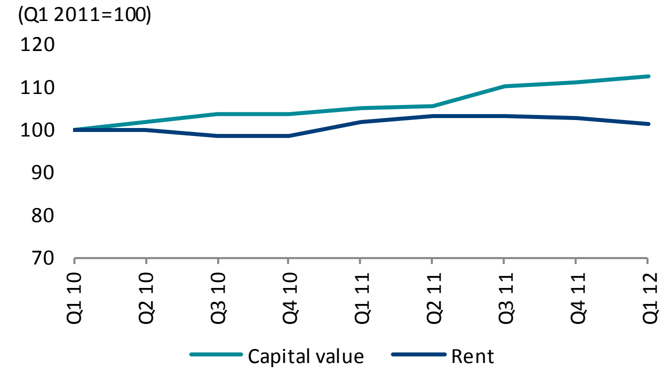
Future supply of high end condominium in Kuala Lumpur



Source: DTZ Research

Figure 8

Rental and price indices of high end condominiums in Kuala Lumpur



Source: DTZ Research

Definitions

Development pipeline/potential supply:	Comprises two elements: 1. Floorspace in the course of development, defined as buildings being constructed or comprehensively refurbished. 2. Schemes with the potential to be built in the future, having secured planning permission/development certification.
Net absorption:	The change in the total occupied or let floorspace over a specified period of time, either positive or negative.
Net supply:	The change in the total floorspace over a specified period of time, either positive or negative. It excludes floorspace that are not available for occupation due to refurbishment or redevelopment, but includes new supply. New supply refers to total floorspace/units which are ready for occupation. Ready for occupation means practical completion, where either the building has been issued with a Temporary Occupation Permit or Certificate of Statutory Completion (CSC).
Prelet/pre-commit:	A development leased or sold prior to completion.
Prime rent:	The highest rent that could be achieved for a typical building/unit of the highest quality and specification in the best location to a tenant with a good (i.e. secure) covenant. (NB. This is a gross rent, including service charge or tax, and is based on a standard lease, excluding exceptional deals for that particular market).
Stock:	Total accommodation in the private sector both occupied and vacant.
Take-up:	Floorspace acquired for occupation or investment, including the following: 1. Offices let to an eventual occupier. 2. Developments pre-let or sold. (NB. This includes subleases.) Take-up also refers to units transacted in the residential market.
Occupancy rate:	Total space currently occupied or not available to let as a percentage of the total stock of floorspace. (NB. This excludes shadow space which is space made available for sub-leasing).

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