

Office Q2 2021

 YoY
Chg
12-Mo.
Forecast
RM 6.02

Average Asking Rent (MYR/sf/mo)

-1.16%

Rental Growth (YOY)

27.83%

Vacancy Rate

Source: IVPS / Cushman & Wakefield Research

**MALAYSIA ECONOMIC INDICATORS
Q1 2021**

 YoY
Chg
12-Mo.
Forecast
-0.5%

GDP Growth

1.6%

CPI Growth

4.6%

Unemployment Rate

Source: Department of Statistics Malaysia

Recovery Falters as MCO 3.0 is Imposed

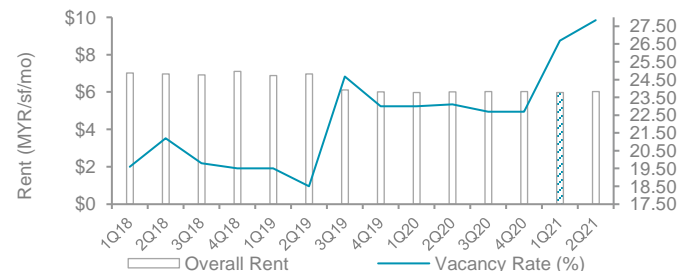
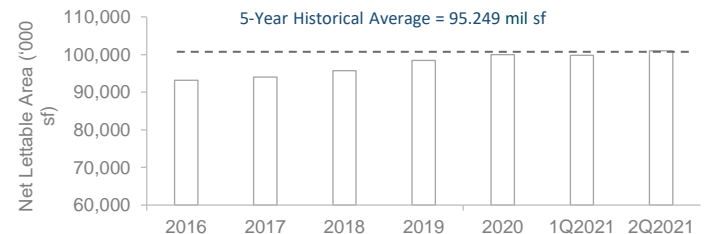
The re-implementation of the Conditional Movement Control Order (CMCO) in Kuala Lumpur in March and April 2021, with the launch of the Malaysia National COVID-19 Immunization Program, weighed on the nascent economic recovery, especially for the services sector. A nationwide "total lockdown" was then imposed on all social and economic sectors from June 1 to June 14. The effects of the MCO and CMCO were particularly evident in the retail, F&B and accommodation, transportation, and business services sectors, as consumers took precautions in response to high daily COVID-19 case numbers in Greater KL. Regardless, Malaysia's GDP growth recovered to post -0.5% in Q1 2021, compared to -3.4% in the preceding quarter, supported by expansion in manufacturing and a rebound in the agriculture sector. The services sector, a major contributor to economic activity, dropped 2.3% from a decline of 4.8% in the previous quarter.

Landlords Remain Flexible on Lease Terms Due to Rising Vacancy

With Greater KL total office supply standing at approximately 134.12 million sf, the overall average vacancy level rose to 27.83% in Q2, compared to 26.69% in the previous quarter. The office market is expected to remain relatively soft as more businesses have adopted flexible working arrangements since last year, at the start of the first MCO. Looking ahead, with the challenging economic outlook expected to persist until the end of the year, we can expect to see landlords, especially those within the KL CBD area, continue to offer flexibility on lease terms in the short- to medium-term, indicating that we are now in an occupier-driven market.

High Vacancy Rates in KL CBD Set to Continue

The average asking rental level remained under pressure in Q2 2021 at RM6.02 per sf per month, representing a softening of 1.16% y-o-y as the implementation of MCO 3.0 disrupted economic recovery. Most landlords have lowered rent expectations as a result of sustained rightsizing and downsizing of business operations by tenants. Some tenants are now deciding to accept a lower graded office building while maintaining their size requirement as part of a cost savings strategy.

ALL GRADE CBD OVERALL RENT & VACANCY RATE

ALL GRADE CBD SUPPLY PIPELINE




Office Q2 2021

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	VACANCY RATE	PLANNED & UNDER CONSTRUCTION (SF)	GRADE A AVERAGE FACE RENT		
				MYR/SF/MO	US/SF/MO	EUR/SF/MO
KL CBD	56.20 million	23.90%	14.74 million	MYR 6.80	US\$1.64	€ 1.38
KL Fringe	45.29 million	30.10%	1.87 million	MYR 6.45	US\$1.56	€ 1.31
Decentralized Area	32.63 million	29.50%	5.05 million	MYR 4.82	US\$1.16	€ 0.98
TOTAL	134.12 million	27.83%	21.66 million	MYR 6.02	US\$1.45	€ 1.22

a) Cumulative space for all sub-markets are based on total supply of office space (all grades)

b) Office Space within KL Sentral/Pantai/Bangsar and those within Damansara Heights are taken into consideration as KL Fringe

c) Office Space within Petaling Jaya territory, Damansara, Kelana Jaya, Sunway/Subang Jaya/USJ and Shah Alam are taken into consideration as Decentralised Area

Source: National Property Information Centre & IVPS / Cushman & Wakefield Research

PROPERTY	SUBMARKET	(NLA) SF	COMPLETION DATE
HSBC Tower @ TRX	KL CBD	569,000	2021
Permata Sapura	KL CBD	671,269	2021
TS Law Tower	KL CBD	232,517	2021
Plaza One @ Conlay Station	KL CBD	606,000	2021
Affin Bank Tower @ TRX	KL CBD	823,439	2021
Menara Great Eastern 2	KL CBD	221,000	2021
Imazium @ Damansara Utama	Decentralised	450,000	2021
KL Eco City Aspire Tower	KL Fringe	650,000	2021
Merdeka 118	KL CBD	1,700,000	2022
Pavilion Damansara	KL Fringe	1,500,000	2023
Menara Great Eastern 2	KL CBD	221,698	2021
The Stride @ BBCC	KL CBD	422,100	2021
PNB1194	KL CBD	679,994	2021

KEY LEASE TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Mercu 2	KL Fringe	FedEx	Approx. 15,000	New Lease
Menara BT	KL Fringe	Grass Valley	Approx. 20,000	Relocation
The ICON	KL CBD	DAR Energy	Approx. 30,000	New Lease
1 Powerhouse	Decentralized	L'Oreal	Approx. 26,000	Relocation
1 First Avenue	Decentralised	Sun Life Insurance	Approx. 13,000	New Lease
Menara Binjai	KL CBD	Honor Technology	Approx. 7,000	New Lease
1 Powerhouse	Decentralised	Nestle	Approx. 70,000	Relocation

*Renewals not included in leasing statistics

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14.62%

Transactions from Terraced Factory / Warehouse

12-Mo.
Forecast

1.65%

Sales Growth (Value y.o.y)



16.40%

Sales Growth (Volume y.o.y)



Source: Cushman & Wakefield / IVPS Research

MALAYSIA ECONOMIC INDICATORS
Q1 2021

-0.5%

GDP Growth

YoY
Chg12-Mo.
Forecast

1.6%

CPI Growth



4.6%

Unemployment Rate



Source: Department of Statistics Malaysia

Industrial Recovery Led by Manufacturing Sector

The Industrial Production Index (IPI) increased sharply in April 2021 to record a rise of 50.1% over the same month last year. The growth was driven by increments in all indices: Manufacturing index (68.0%), Electricity index (22.9%) and Mining index (14.3%), Transport Equipment & Other Manufactures (275.2%), Non-Metallic Mineral Products, Basic Metal & Fabricated Metal Products (141.0%), and Electrical & Electronics Products (70.1%). The export-oriented industries have driven growth in the Manufacturing sector by 52.8%, while domestic-oriented industries increased by 110.9%. Manufacturing sector growth has also been spurred by high capacity utilization rates, especially in Electrical & Electronic Products and Petroleum, and Chemical, Rubber & Plastic Products sub-sectors.

Steady Demand for Industrial and Warehouse Space

The industrial property sector is experiencing steady demand regardless of the prevailing economic climate and the COVID-19 outlook. Growth in the industrial and warehouse sector has been supported by the boom in e-commerce, as consumers turned to online shopping during the movement restriction period, as well as a spike in demand for pharmaceuticals and healthcare products.

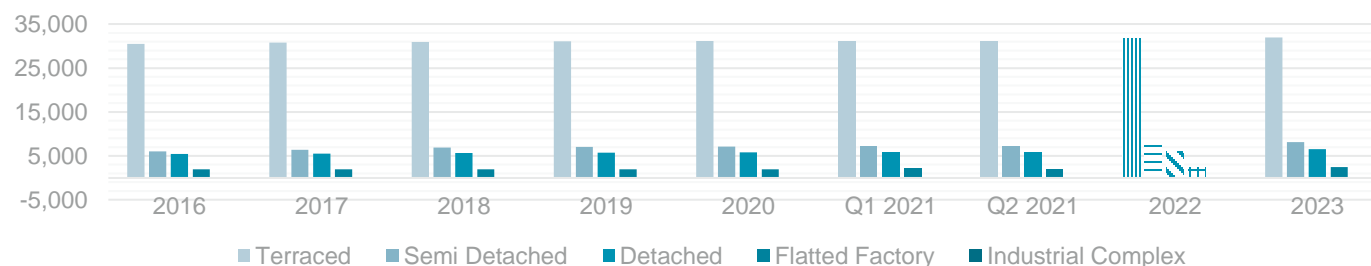
Looking ahead, prime industrial parks that are well planned and managed will remain the top choice for investors and companies seeking warehousing facilities to meet business expansion needs or new warehousing setups. Mature and sought-after locations will remain the most popular localities for manufacturers or warehouse operators.

Notable Rent Increase as New Completions Slow

The overall average asking rent experienced a notable q-o-q rise in Q2, jumping to MYR0.70 - MYR4.00 from the Q1 level of RM0.70 – RM3.30. The Greater KL industrial property sector recorded sales growth of 1.65% y-o-y to reach RM1.94 trillion for 518 units.

Construction remains on a downturn under the impact of the Movement Control Order 3.0, implemented on June 1, which halted project completions. However, prices of industrial properties displayed a stable market trend, as transactional activities put on hold during the movement control order are now expected to pick up once the restrictions are lifted.

INDUSTRIAL SUPPLY PIPELINE (GREATER KL)





Industrial Q2 2021

MARKET STATISTICS

SUBMARKET	INVENTORY (UNIT)	PLANNED & UNDER CONSTRUCTION (UNIT)	FACE RENT PSF (RANGE FOR ALL TYPES)		
			MYR/SF/MO	US/SF/MO	EUR/SF/MO
Central Region	24,204	534	MYR 1.60 - MYR 4.00	US\$0.39 - US\$0.97	€ 0.32 - € 0.80
Northern Region	4,621	778	MYR 0.70 - MYR 1.80	US\$0.17 - US\$0.44	€ 0.14 - € 0.36
Southern Region	1,497	367	MYR 1.00 - MYR 3.30	US\$0.24 - US\$0.80	€ 0.20 - € 0.66
Western Region	8,465	1,410	MYR 1.00 - MYR 1.80	US\$0.24 - US\$0.44	€ 0.20 - € 0.36
Eastern Region	7,367	48	MYR 0.70 - MYR 1.60	US\$0.17 - US\$0.39	€ 0.14 - € 0.32
TOTAL	46,154	3,137	MYR 0.70 - MYR 4.00	US\$0.17 - US\$0.97	€ 0.14 - € 0.80

a) Cumulative supply for all sub-markets are based on total supply of industrial space (all types).

b) Industrial Space within W.P. Kuala Lumpur, Gombak district and Petaling district are taken into consideration as Central Region.

c) Industrial Space within districts of Kuala Selangor, Hulu Selangor and Sabak Bernam are taken into consideration as Northern Region whereas districts of Kuala Langat and Sepang are taken into consideration as Southern Region.

d) Industrial Space within district of Klang are taken into consideration as Western Region whilst district of Hulu Langat are taken into consideration as Eastern Region.

Source: National Property Information Centre & IVPS / Cushman & Wakefield Research

INVESTMENT OPPORTUNITIES AND TRENDS

- Logistics:** The expansion of e-commerce, pharmaceutical, fast-moving consumer goods, and other third-party logistics firms have created growing demand in the industrial property market. Shah Alam and Klang have the highest concentration of logistics players due to comprehensive infrastructure and good highway connectivity to seaports and airports.
- City-Fringe Business Parks:** Industrial space located in city-fringe areas offers higher specification with different adoption of property types, such as built to suit, or stand alone with single occupiers, within the industrial park or multi-tenanted industrial park. Areas to look at are Shah Alam, Klang and Petaling.
- Data Centre:** More than 90% of existing data centers in Malaysia are located in Cyberjaya. Other possible locations promoted by the government are in Negeri Sembilan and Melaka, as well as Johor Bahru or Iskandar region, which is promoted with the intention to capture spillover demand from Singapore.
- Environmental, Social and Corporate Governance:** There is a lack of industrial supply for such properties and investors are looking at redevelopment and redesign of warehouse provision to multistory (especially in Shah Alam locality with the Mapletree Logistic Hub as the first multistory warehouse), as well as pushing landlords to investigate revamping existing facilities with high ceilings, more loading bays, superior floor loading and better utilities connectivity (power, water and fiber).

KEY SALES TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE
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Retail Q2 2021

-2.63%
CBD Prime Rental Growth

YoY
Chg

12-Mo.
Forecast



19.17%
Vacancy Rate



56.4%
Retail Sales Growth



Source: IVPS / Cushman & Wakefield Research

MALAYSIA ECONOMIC INDICATORS Q1 2021

-0.5%
GDP Growth

YoY
Chg

12-Mo.
Forecast



1.6%
CPI Growth



3.9%
Consumer Spending
Growth



4.6%
Unemployment Rate



Source: Department of Statistics Malaysia

Entering Recovery Phase Despite Re-Implementation of MCO 3.0

Despite re-entering the “full lockdown” phase in June after the re-implementation of MCO and CMCO, Malaysia’s economy is now seen to be in recovery as GDP growth improved to -0.5% in Q1 2021, compared to -3.4% in the preceding quarter. The performance was supported by expansion in manufacturing and a rebound in the agriculture sector. The Government released a list of potential COVID-19 hot spots under the HIDE list in May, primarily shopping malls. This dented public confidence in retail malls, with consequent declining footfall in May and June. However, the Retail Trade Sales index is now projected to grow, registering positive growth of 56.4% y-o-y in April, due to improved sales for other goods in specialized stores (133.5%), automotive fuels (120.%), cultural & recreation goods (107.8%), and other household equipment (103.4%).

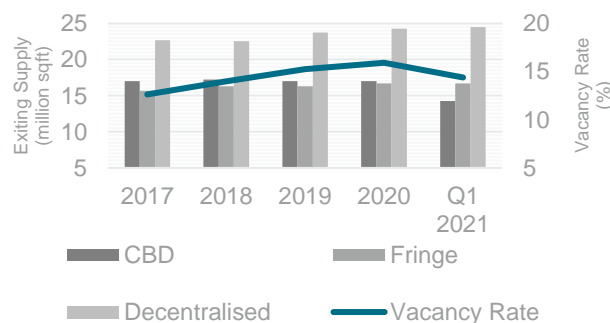
Landlords Take Initiative to Maintain Occupancy

Visitor footfall at retail malls surged following a relaxation of restrictions under the CMCO level measures in March, but further away again in May following the Government’s release of the HIDE list. Many business owners have struggled to maintain monthly rental payment with the slump in sales. Consequently, landlords have taken the initiative to continue extending rental rebates on a case-by-case basis. These rebates are mostly offered to non-essential retailers and based on a percentage reduction on either the base rent or gross rent according to retailers’ monthly sales performance. Landlords’ actions are also being driven by rising vacancy at shopping malls, where tenants have been forced to surrender leases in the face of the sales decline, with rental rebates aimed at maintaining occupancy and to attract new tenants.

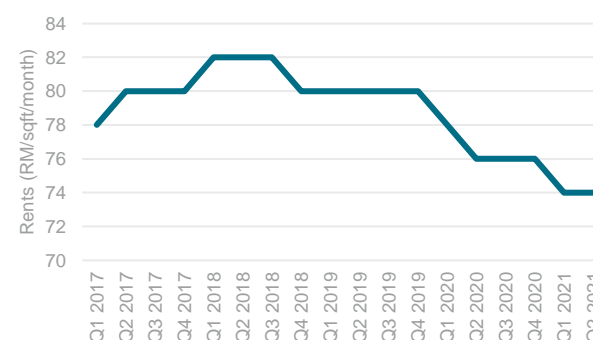
Asking Rents Remain Stagnant

The overall average vacancy level rose to 19.17% in Q1 2021, compared to 17.93% in the preceding year. The CBD submarket prime rent remained stable in the quarter at RM74.00 per sf per month, representing a softening of 2.63% y-o-y. Looking ahead, with the challenging economic outlook expected to persist for the first half of the year, we can expect to see landlords slowly adjust asking rentals in order to attract potential tenants and improve occupancy.

Greater KL Existing Supply and Vacancy Rate



CBD Prime Rent





Retail Q2 2021

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	VACANCY RATE	PLANNED & UNDER CONSTRUCTION (SF)
KL CBD	14.24 million	14.4%	4.45 million
KL Fringe	2.72 million	21.2%	3.61 million
Decentralized Area	24.48 million	21.9%	3.20 million
TOTAL	41.44 million	19.17%	21.66 million

SIGNIFICANT OPENINGS Q2 2021

PROPERTY	SUBMARKET	TENANT	SF	TYPE
SuperValue Minimart	KL Fringe	-	-	Hypermarket
E-Mart24	KL CBD	-	2,800	Hypermarket

KEY CONSTRUCTION COMPLETION Q2 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE PSF
-	-	-	-	-

SIGNIFICANT RETAIL PROJECTS – PLANNED & UNDER CONSTRUCTION

PROPERTY	SUBMARKET	SF	OWNER / DEVELOPER
Pacific Star Retail Component	KL Fringe	240,000	Island Circle Development
Lot 91 @ KLCC Retail Component	KL CBD	73,000	Sapura Resources / KLCC (Holdings) Sdn Bhd
Exchange 106, TRX, KL City Retail Component	KL CBD	240,000	TRX City Sdn Bhd
8 Conlay Retail Component	KL CBD	120,000	KSK Land Sdn Bhd
Mitsui Shopping Mall Lalaport	KL CBD	1,400,000	Mitsui Fudosan (Asia) Malaysia Sdn Bhd / BBCC Development Sdn Bhd
Pavillion Damansara Heights	KL Fringe	1,170,000	Impian Ekspresi Sdn Bhd / Malton Berhad
Warisan Merdeka Mall (PNB 118 Retail Component)	KL CBD	1,560,767	PNB Merdeka Ventures Sdn Bhd
IOI City Mall Putrajaya Phase 2	Decentralised	1,000,000	IOI Properties Group Bhd
Setia City Mall Phase 2	Decentralised	400,000	S P Setia / Asian Retail Investment Fund

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