Sustained growth momentum in the real estate market

2Q 2024 AT A GLANCE

Sectors	Key Indicators	(% Change) QoQ	(% Change) YoY
INVESTMENT	Total Sales: **RM1,499.5 million**	-47%	237%
	Top 3 Major Deals: **RM1,332.0 million**	-13%	211%
OFFICE	Average Prime Rents in KLGT: **RM6.68 psf**	0%	1%
	Supply Pipeline: **1.2 million sq ft** (2024-2026)	0%	-82%
RETAIL	Occupancy in KV: **81.8%**	0.1%	0.2%
	Supply Pipeline in KV: **1.4 million sq ft** (2024-2026)	0%	-58%
RESIDENTIAL	Average Price: **RM940 psf**	1.4%	2.4%
	Average Rental: **RM2.82 psf**	-5.3%	-3.7%

KEY HIGHLIGHTS

Investment

Investment activity remained strong in the second quarter of 2024, with five significant transactions recorded at a lower overall value of RM1.5 billion. These involved two retail properties, two industrial assets, and one office building.

Office

The office market saw a slight improvement from the previous quarter and expects more flight-to-quality movement from corporates that sought quality office spaces and newer buildings.

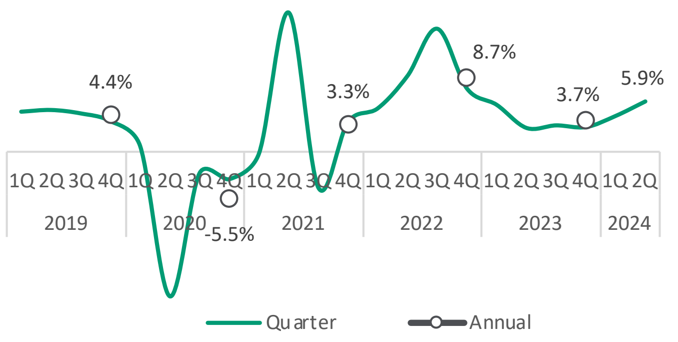
Retail

Prime malls continued to experience the introduction of new-to-market brands and the expansion of existing stores. In contrast, older suburban malls faced challenges in maintaining occupancy rates due to a series of store closures.

Residential

The high-end residential market showed positive signs of price growth amid a drop in rental value. Hence, developers may be more confident to launch their products, which boost the supply pipeline.

GDP Growth



Source: Department of Statistics Malaysia; NAWAWI TIE Research

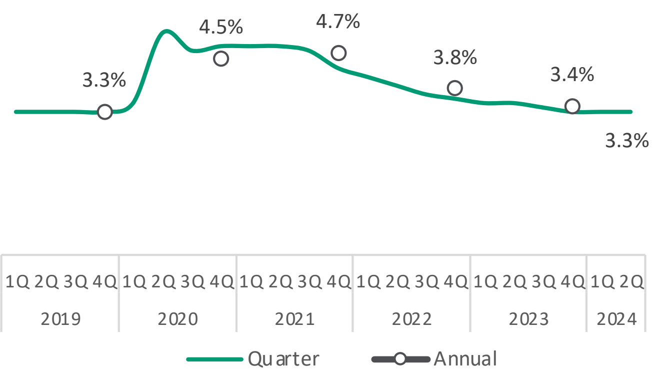
The GDP grew by 5.9% in 2Q 2024. The agricultural sector led with a robust 7.2% growth, primarily fueled by oil palm activities. The manufacturing sector also saw a significant increase of 4.7%, with notable contributions from food processing activities. Construction maintained its strong momentum, expanding by 16.1%, driven by the construction of non-residential buildings and specialised construction services.

Inflation Rate

Source: Department of Statistics Malaysia; NAWAWI TIE Research

Both headline and inflation increased slightly to 1.9% in 2Q 2024, compared to the previous quarter at 1.7% and 1.8%, respectively. The increase was mainly driven by higher inflation rates across housing, water, electricity, gas & other fuels, and restaurant & accommodation services, on the back of price adjustments during the festive season and several government policy measures introduced during this period.

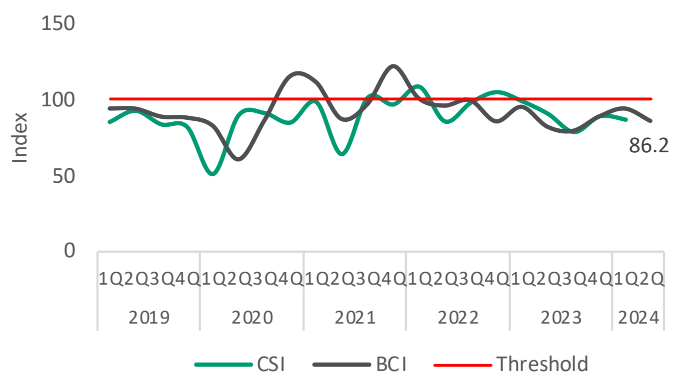
Unemployment Rate



Source: Department of Statistics Malaysia; NAWAWI TIE Research

The unemployment rate has remained at 3.3% since 4Q 2023, signaling a stable job market. In 2Q 2024, the labour force experienced a growth of 1.1%, reaching 17.15 million persons, up from 16.96 million in 1Q 2024. Furthermore, the labour force participation rate saw a QoQ increase of 0.3%, rising to 70.5%. A steady unemployment rate and a growing labour force reflect a resilient labour market and potentially positive economic trends.

Business Conditions Index (BCI) and Consumer Sentiment Index (CSI)



Source: Malaysia Institute of Economic Research; NAWAWI TIE Research

In 2Q 2024, BCI was 86.2, down 8.1 points from the previous quarter despite positive factors such as new orders, increasing investments, and a surge in employment. This suggests that business performance may have been hindered by rising costs or other headwinds. However, the BCI increased by 3.8 points on an annualised basis, reflecting a longer-term recovery compared to 2023, though short-term pressures remain.

(As of 25 September 2024, the CSI for 2Q 2024 has not yet been released by MIER).

Active market with notable industrial and retail deals

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The investment market remained strong in 2Q 2024, with five major deals noted at a lower total value of RM1.5 billion, reflecting a decline of 47% QoQ. Two malls were transacted, of which one, the City Square Mall in Johor Bahru was sold to Allgreen Properties. The transaction was through a sale of shares comprising 70% of the equities belonging to GIC Real Estate of Singapore for approximately RM850 million. This sale reflects the continuing trend of foreign entities divesting assets in Malaysia.

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KIP REIT recently acquired D'Pulze Shopping Centre in Cyberjaya for RM320 million, at RM1,027 per sq ft, marking the largest investment for KIP REIT. This acquisition is expected to strengthen KIP REIT's retail portfolio further.

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The lack of major activities in the office sector continued to stand out. Most investors were less interested in this sector, unless for owner occupation, considering the challenges affecting poor market prospect of a recovery due to the oversupply. Menara Citibank, a prime office building, continues to have approximately 50% of the equity available for sale since last year but has yet to be transacted.

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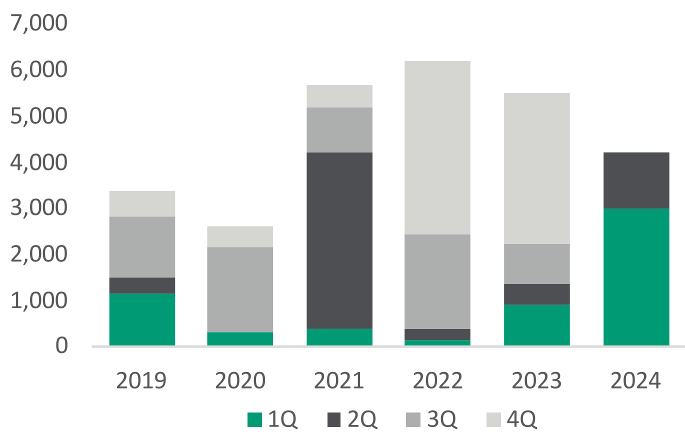
Development and industrial land transactions were active particularly in Johor. The state has experienced a strong upturn in activity due to the new setup of factories and data centres. This could partially be a result of a spill-over effect of geo-political tension between the US and China necessitating a China plus One corporate strategy. A recovery of interest from Singaporean developers were noted in this southern state too.

Figure 1: Investment Sales (RM million)



Source: NAWAWI TIE Research

Table 1: Top Three Major Deals in 2Q 2024 (RM million)

Property	Purchaser	Vendor	Price (RM million)
Johor Bahru City Square (JBCS) mall	Allgreen Properties Ltd (Kuok Group)	GIC Real Estate Pte Ltd	850.0
D'Pulze Shopping Centre	KIP REIT	D'Pulze Ventures Sdn Bhd	320.0
Axis Steel Centre @SiLC	Data Centre Operator	Axis REIT	162.0

Source: NAWAWI TIE Research

Outlook

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Bank Negara Malaysia's consistent maintenance of a stable base lending rate during the quarter is positive for the market, bolstered by a recovery in the exchange rate and improving Foreign Direct Investment flows. A stable base lending rate means interest rates on loans, including mortgages, remain predictable and relatively affordable. This encourages both local and foreign investors to finance property purchases, supporting demand in the property market.

OFFICE

Stability amid relocations and growing demand for quality spaces

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Kuala Lumpur's office market in 2Q 2024 showed a slight increase in demand for high-quality spaces, driven by corporate relocations and a focus on workplace quality. Occupancy rates rose slightly, and rental prices in prime areas remained stable, indicating market resilience. No new completion of office buildings was recorded in 2Q 2024.

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The average occupancy rate increased marginally to 76.5% from 76.4% in the previous quarter, primarily driven by flight-to-quality and relocations.

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The quarter saw several occupier movements. Haleon relocated to Plaza 33, occupying approximately 9,000 sq ft of office space. Additionally, CTOS relocated to Menara CelcomDigi, taking up 51,000 sq ft, while Decode moved to Integra Tower, occupying 12,000 sq ft of office space. Furthermore, Bursa Malaysia announced that it was in the final stage of discussion to relocate its headquarters to TRX and is expected to occupy two floors.

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In 2Q 2024, the demand for co-working spaces in Kuala Lumpur has shown improvement, driven by several factors. The city's startup ecosystem, boosted by government initiatives, continued to play a significant role in the rising popularity of flexible workspaces. Additionally, the post-pandemic shift towards hybrid work models has reinforced the demand, especially among tech firms and SMEs seeking flexible lease options without long-term commitments. Supported by the growing demand, in June 2024, Colony Coworking Space launched its new flagship at The MET, Mont Kiara, occupying 24,000 sq ft of space on the 9th and 10th floors.

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In June 2024, it was announced that AmanahRaya Real Estate Investment Trust (REIT) is selling its office building, Contraves, located in Cyberjaya, to 4X Software Sdn Bhd for RM42.5 million in cash, or RM566 per sq ft.

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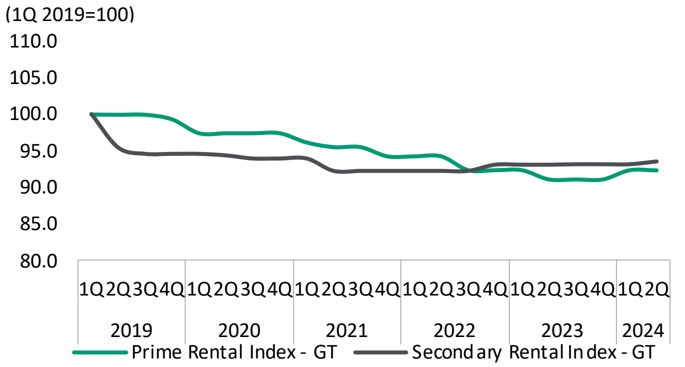
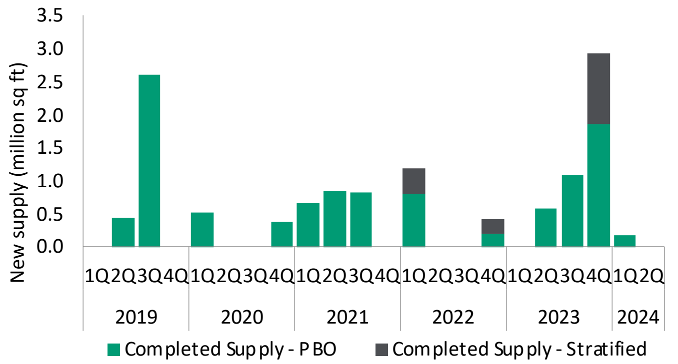
Rental rates for prime office buildings in KL Sentral/Mid Valley held steady at RM7.26 per sq ft per month in the quarter. Prime office rents in KLGT remained unchanged at RM6.68 per sq ft per month. Conversely, the rental rates for secondary office buildings experienced a slight increase, rising from RM4.87 to RM4.89 per sq ft per month.

Figure 2: Prime & Secondary Rental Indices - KL Golden Triangle



Source: NAWAWI TIE Research

Figure 3: Completed Office Supply in KL (sq ft, million)



Source: NAWAWI TIE Research

Table 2: Upcoming Office Developments in Kuala Lumpur

Upcoming Development	Net Lettable Area (sq ft)	Location
Plot 1194 (FKA Bangunan MAS)	169,000	Golden Triangle

Source: NAWAWI TIE Research

Outlook

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The growing interest for flexible and co-working spaces, alongside continued investor activity, suggests a steady demand for adaptable and premium office spaces, which points towards gradual market growth in the near term.

F&B and fashion retailers led the retail leasing

In 2Q 2024, the F&B sector had seen robust growth as consumers returned to dining out, with a preference for experiential dining. Retailers have adapted to incorporate F&B in their outlets, attracting local and international brands to capitalize on this renewed demand. Fast fashion and athleisure continue to be a popular trend among Kuala Lumpur's urban population. Retailers in this sector are expanding their presence in key shopping destinations to meet consumer demand for trendy, affordable clothing, and lifestyle products.

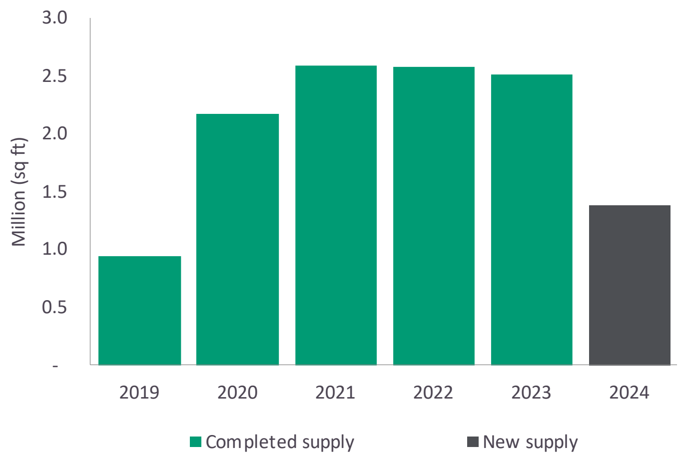
In addition, Kuala Lumpur's tourism sector has been recovering, with more visitor footfall in major shopping malls. The higher visitor football have boosted demand for F&B and fashion outlets, which cater to both tourists and locals looking for a variety of dining options and fashion trends.

Bloomsvale Shopping Gallery on Old Klang Road opened in the second quarter with an occupancy rate of 85% across its 230,000 sq ft of net lettable area. The mall offers a range of popular retail stores, a 24-hour grocery, well-known eateries, and an open-air observation deck showcasing views of the KL skyline. Anchor tenants include the MemiZoooZoo grocery store, Mr. DIY, Sports Planet sportswear, and Believe Fitness gym and fitness center.

The Exchange Mall at TRX continued to generate buzz in the retail scene with the launch of Malaysia's first Apple Store. Additionally, other notable openings within the mall include the country's first Shake Shack, Prada, Golden Goose, the MPH Flagship Store, and Kuala Lumpur's second Arabica Journal.

The Arabica Journal continued to expand, with its third and fourth outlets in Pavilion Damansara Heights and The MET Towers Jalan Duta, each uniquely designed by different studios and featuring local design elements.

Figure 4: Retail Pipeline Supply (NLA) In Klang Valley (sq ft, million)



Source: NAWAWI TIE Research

Table 3: Upcoming Retail Developments in Klang Valley (2024)

Upcoming Retail Developments	Net Lettable Area (sq ft)	Location
Pavilion Damansara Heights Mall – Phase 2	529,353	OCC
118 Mall	850,000	OCC

Source: NAWAWI TIE Research

Meanwhile, some suburban malls saw notable closures, including the shutdown of Golden Screen Cinemas at both 3 Damansara Mall and Klang Parade.

Outlook

Retail Group Malaysia (RGM) forecasts a modest 2.5% sales growth for the third quarter, citing the absence of major festivals and extended holidays as contributing factors. However, the retail market in the second half of the year is expected to see some excitement with the entry of new international brands, including Russia-based Svetofor (grocery), China-based Luckin Coffee (F&B), and Canada-based Tim Hortons (F&B).

RESIDENTIAL | Boon to developers from positive market growth

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The average transacted price for high-end condominiums in 2Q 2024 moved upwards to RM940 per sq ft, an increase of 2.4% from the previous quarter. The rental rate, however, recorded a dip of -5.3% from RM2.98 per sq ft per month to RM2.82 per sq ft.

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The quarter saw the completion of 896 units of the first two towers of TRX Residences in May 2024. New owners of the joint development project between Lendlease and TRX City Sdn Bhd obtained their Strata Title two months ahead of CCC (Certificate of Completion and Compliance).

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Alongside the supply of high-end residential projects, this quarter saw new launches, such as Time Square 2 (Jalan Imbi), Dawn Residence (Jalan Yap Kwan Seng), Bamboo Hill Residences (Taman Bukit Bambu), and Kiaramas deDaun (Mont Kiara). These four developments will add a total of 4,767 units to the pipeline by 2028, with 1,589 in the city center.

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Located between the existing Berjaya Times Square and Lalaport BBCC, Times Square 2 by Berjaya Times Square Sdn Bhd comprises 629 units with four layout options ranging from 488 sq ft to 1,038 sq ft. The launch price start at RM620,000 per unit (RM1,270 per sq ft).

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Dawn Residence by Chin Hin Development offers units with sizes ranging from 348 sq ft to 804 sq ft at a starting price of RM717,000 per unit (RM2,060 per sq ft).

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Bamboo Hill Residence offers four different layouts, with unit sizes ranging from 603 sq ft to 904 sq ft, and prices starting at RM370,000 (RM614 per sq ft). In contrast, Kiaramas DeDaun primarily features larger units, with sizes spanning from 1,313 sq ft to 4,693 sq ft, and the smallest units priced from RM1,100,000 (RM838 per sq ft).

Outlook

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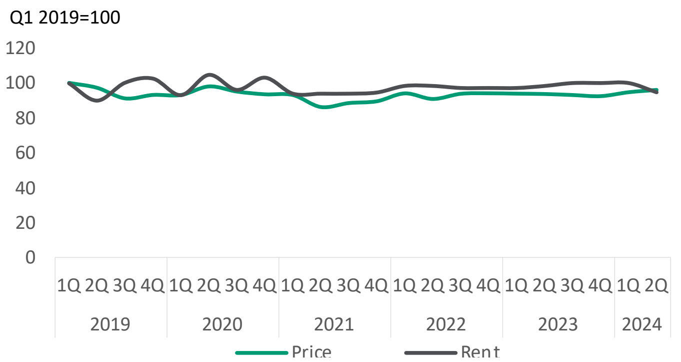
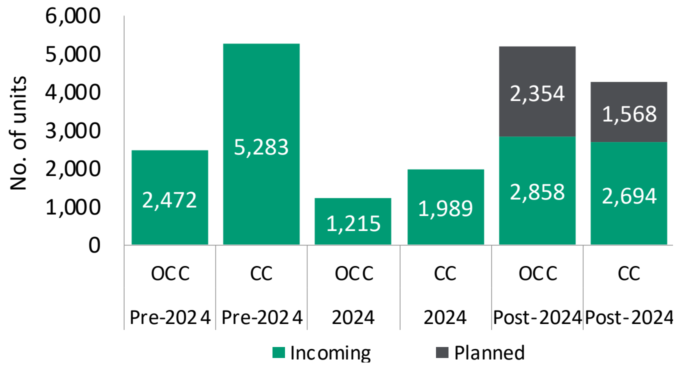
Looking ahead, residential property prices and rents are expected to moderate, indicating a stabilising market. This shift is driven by positive economic conditions, increased investment inflows, and balanced demand-supply dynamics, particularly in the Klang Valley.

Figure 5: Prices and Rental Indices of High-End Condominiums in KL



Source: NAWAWI TIE Research

Figure 6: Future Supply of High-End Condominiums in KL



Source: NAWAWI TIE Research

Table 4: Upcoming High-End Condominiums in the City Centre

Upcoming Development	No. of Unit
8 Conlay	1,032
Isola KLCC	140
Oxley Towers – SO/ KL Residences	590
Oxley Towers – Jewel by Oxley	267
CORE Residence @ TRX	700
Agile Bukit Bintang – Tower A	185
IBN Bukit Bintang	339
The Landmark @ KLCC	1,338
Newton Tower @ 3rdNvenue	422
Picasso Residence	472

Source: NAWAWI TIE Research

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With multiple new residential developments launching in Kuala Lumpur, we expect capital appreciation potential and rental yield to grow in the residential real estate market for the rest of 2024.

DEFINITIONS

Development pipeline/ potential supply:	Comprises two elements: 1. Floor space 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 floor space over a specified period of time, either positive or negative.
Net supply:	The change in the total floor space over a specified period of time, either positive or negative. It excludes floor spaces that are not available for occupation due to refurbishment or redevelopment, but includes new supply. New supply refers to total floor space/units that are ready for occupation. Ready for occupation means practical completion, where either the building has been issued with a Temporary Occupation Permit (TOP) or Certificate of Completion and Compliance (CCC).
Prime office 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: 1. Purpose-built office buildings with Net Lettable area (NLA) of at least 150,000 sq ft. 2. Purpose-leased shopping centres, excluding hypermarket and stratified retail. 3. Non-landed residential projects with at least 10 strata dwelling units.
Take-up:	Floor space 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 floor space (NB. This excludes shadow space which is space made available for sub-leasing).
KL Golden Triangle (KLGT)	An area bordered by Jalan Tun Razak – Jalan Ampang – Jalan Maharajalela.
KL City Centre (KLCC)	An area bordered by Jalan Tun Razak – Lebuhraya Sultan Iskandar – Jalan Damansara – Jalan Istana.
Outer City Centre (OCC)	An area that refers to the Federal Territory of Kuala Lumpur, excluding the area of KL City Centre.
Klang Valley (KV)	Comprises: 1. Wilayah Persekutuan Kuala Lumpur 2. Wilayah Persekutuan Putrajaya 3. Selected districts in Selangor (Petaling, Klang, Hulu Langat, Gombak and Sepang)

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