



Q1 2018: Malaysia Commercial Property Monitor

Industrial rental and capital value growth expected to outperform

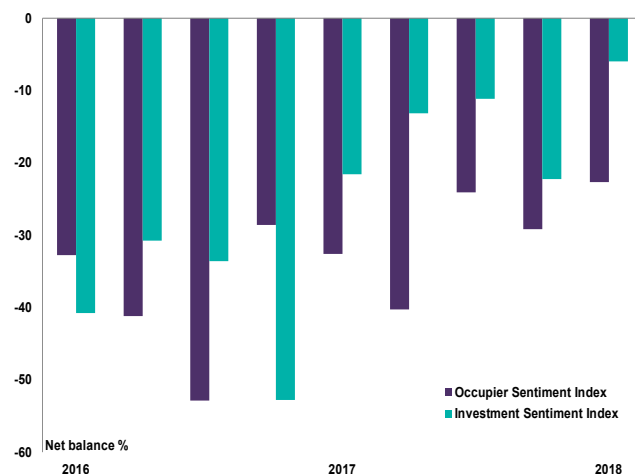
Occupier Market

- The Q1 2018 results indicate that occupier demand remains subdued at the headline level. However diving deeper into the segmentation of markets reveals that soft demand has generally been driven by the office and retail segments, while demand for industrial space was flat for the second consecutive quarter.
- The availability of properties to let increased at a headline level. Each segment of the market (office, industrial, retail) saw availability increase in Q1. Meanwhile, headline development starts were flat, though respondents did report a decline in office starts for the second consecutive quarter.
- Contributors indicated that landlord inducements continued to increase across all market segments, particularly for retail.
- Headline rents are seen declining over the next three months, though industrial rents are expected to remain steady over this period. The outlook for rents over the next year is more positive, as prime office and industrial rents are seen moving higher over the coming twelve months.
- The Occupier Sentiment Index (an amalgamated measure of occupier market indicators) fell slightly to -29 in Q4 from -24 in Q3.

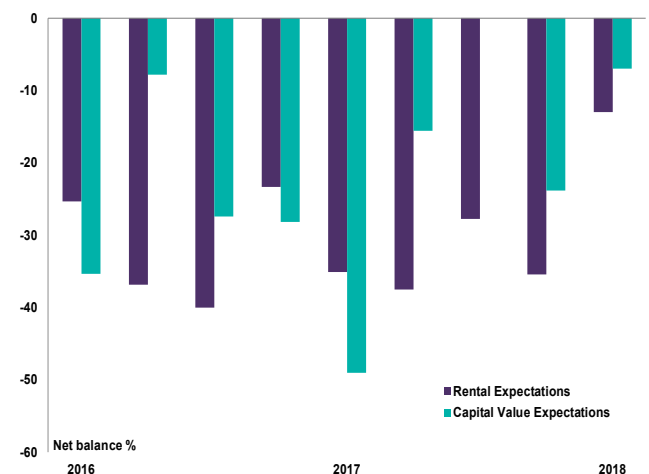
Investment Market

- Respondents indicated that headline investor demand was flat for the third consecutive quarter in Q1, though demand for industrial space increased. Foreign investment enquiries, however, were reported to have declined for the second consecutive quarter as all market segments saw demand decline.
- The supply of properties available for sale increased for the third consecutive quarter. However, this was generally driven by office and retail properties as the supply of industrial properties available on the market was little changed from Q4.
- Against this backdrop, respondents see headline capital values little changed over the next quarter as an expected increase in industrial values was offset by decreasing retail prices. Respondents are more bullish over the next twelve months, however, as both office and industrial values are seen rising.
- The majority (50%) of respondents see the market in the midst of a downturn, although 29% see the market in the early stages of recovery.
- Much of the negativity in the Investor Sentiment Index (an amalgamated measure of investment market indicators) diminished in Q1, posting a reading of -6 from -22 in Q4.

Occupier and Investment Sentiment Index



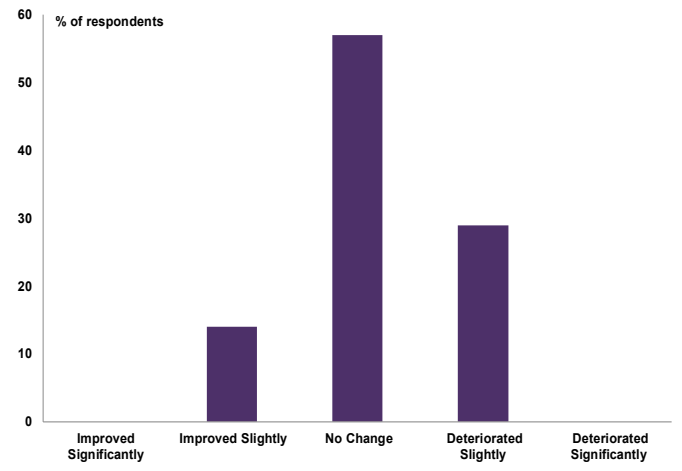
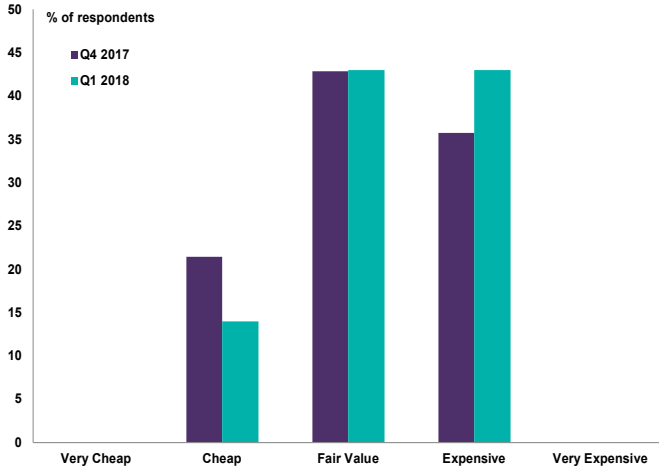
3-month Capital Values, Rent Expectations



Commercial Property Market

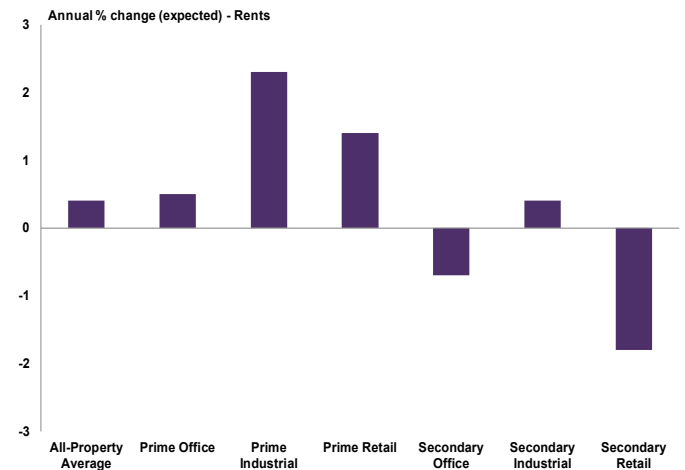
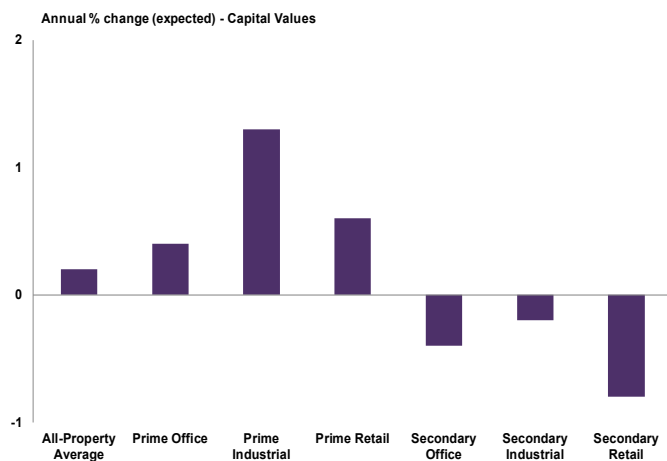
Market Valuations - An equal 43% of respondents see the market as either fairly valued or expensive (vs 43% and 36% respectively in Q4). Meanwhile, the remaining 14% see valuations as cheap, down slightly from 21% in Q4.

Credit Conditions - The majority of respondents (57%) reported no change in credit conditions for the second consecutive quarter. Even so, the proportion of respondents noting a deterioration outweighed those seeing an improvement.



12m Capital Value Expectations - Respondents forecast headline capital values seeing virtually no change over the next year, having projected a 1.3% decline in Q4. As in previous quarters, prime industrial properties are expected to outperform, though forecasts were moderated in the latest results.

12m Rental Expectations - Rent expectations were significantly more bullish in Q1, though secondary retail remains a drag. Headline rents are expected to hold steady over the next year, after respondents forecast a 2.8% decline in Q4. Similar to capital values, industrial rents are expected to outperform.



Information

Global Commercial Property Monitor

RICS' Global Commercial Property Monitor is a quarterly guide to the trends in the commercial property investment and occupier markets. The report is available from the RICS website www.rics.org/economics along with other surveys covering the housing market, residential lettings, commercial property, construction activity and the rural land market.

Methodology

Survey questionnaires were sent out on 14 March 2018 with responses received until 11 April 2018. Respondents were asked to compare conditions over the latest three months with the previous three months as well as their views as to the outlook. A total of 1748 company responses were received, with 385 from the UK. Responses for Ireland were collated in conjunction with the Society of Chartered Surveyors Ireland. Responses for Spain and Portugal were collated in conjunction with Iberian Property. Responses for New Zealand were collated in conjunction with Property Council New Zealand.

Responses have been amalgamated across the three real estate sub-sectors (offices, retail and industrial) at a country level, to form a net balance reading for the market as a whole.

Net balance = Proportion of respondents reporting a rise in a variable (e.g. occupier demand) minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%). Net balance data can range from -100 to +100.

A positive net balance reading indicates an overall increase while a negative reading indicates an overall decline. The RICS Occupier Sentiment Index (OSI) is constructed by taking an unweighted average of readings for three series relating to the occupier market measured on a net balance basis; occupier demand, the level of inducements and rent expectations. The RICS Investment Sentiment Index (ISI) is constructed by taking an unweighted average of readings for three series relating to the investment market measured on a net balance basis; investment enquiries, capital value expectations and the supply of properties for sale.

Contact details

This publication has been produced by RICS. For all economic enquiries, including participation in the monitor please contact: economics@rics.org

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