



Q2 2017: Malaysia Commercial Property Monitor

Occupier sentiment remains downbeat

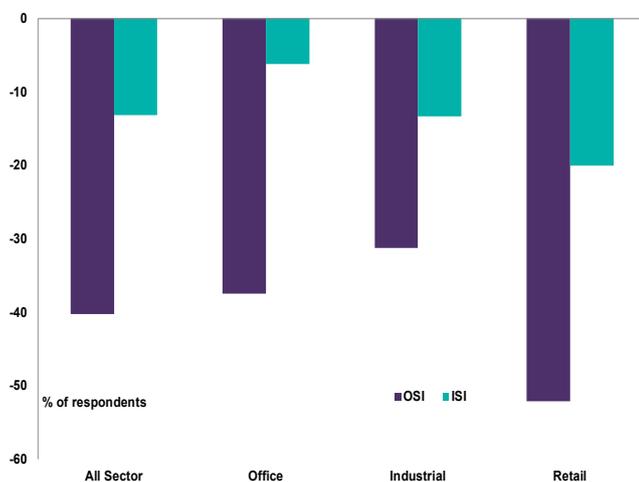
Occupier Market

- The Q2 2017 results show that demand for leasable space remained in decline, returning a net balance of -35% (albeit slightly negative than -45% in Q1). The weakness was spread relatively evenly throughout all segments of the market (office, industrial, retail).
- Although the data indicated a modest tightening of supply in Q1, the Q2 figures indicate that supply increased across all market segments. Office and industrial segments saw a notable increase in the pace of supply growth.
- The rate of increase in landlord incentives gathered pace in Q2 from Q1. A net balance of 48% of respondents reported an increase in inducements, up from 18% in Q1.
- Rental expectations over the next three and twelve months remain downbeat, with more respondents expecting a decrease than an increase at both time horizons. Respondents were particularly bearish on the outlook for retail, with a net balance of 56% and 44% expecting rents to decrease over the next three and twelve months, respectively.
- The Occupier Sentiment Index (an amalgamated measure of three occupier market indicators) worsened slightly from the first quarter with the reading slipping to -40 from -33.

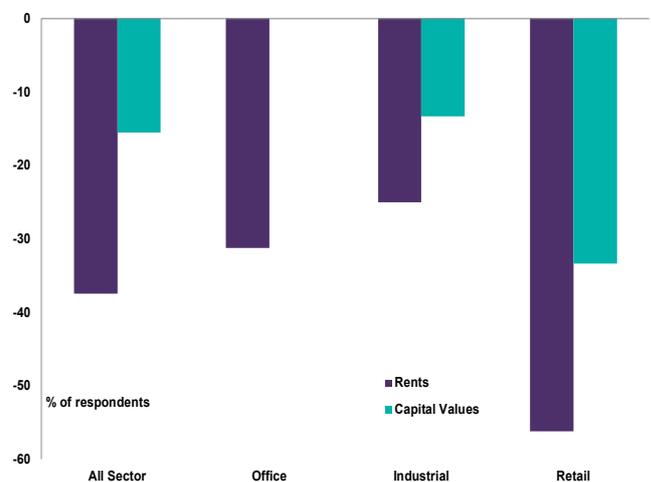
Investment Market

- The Q2 2017 data shows that investor demand remains subdued. A net balance of 40% of respondents reported a decrease in investment enquiries. The series monitoring foreign investment enquiries, meanwhile, showed a broadly similar trend.
- New supply available for sale declined for the second consecutive quarter. Respondents reported tighter supply in each market segment.
- Capital value expectations over the next three and twelve months remained downbeat. Headline capital values are expected to decline over the next quarter as well as twelve months ahead, posting net balances of -16% and -18% respectively. By way of contrast, the outlook for office capital values is flat over the next three months.
- The majority of contributors (67%) also view the market at some stage of a downturn. However the percentage of respondents who see the market at its bottom increased to 20% in Q2 from 18% in Q1 and 10% in Q4.
- The Investor Sentiment Index (an amalgamated measure of three investment market indicators) moved to -13 in Q2 from -22 in Q1. All segments posted a less negative reading, but results are still indicative of deteriorating momentum in the investor market.

Occupier and Investment Sentiment Index

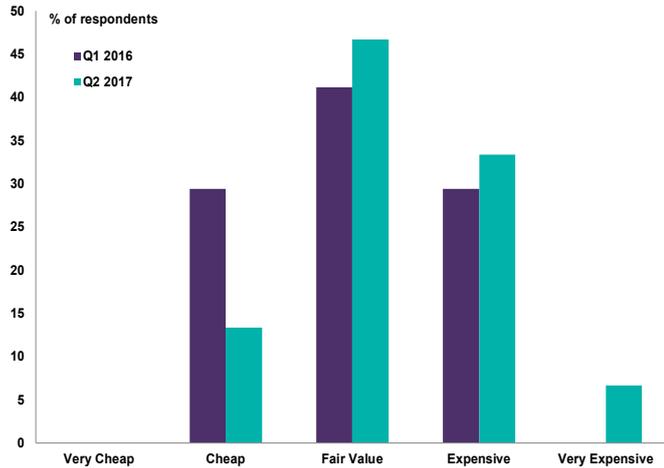


3-month Capital Values, Rent Expectations

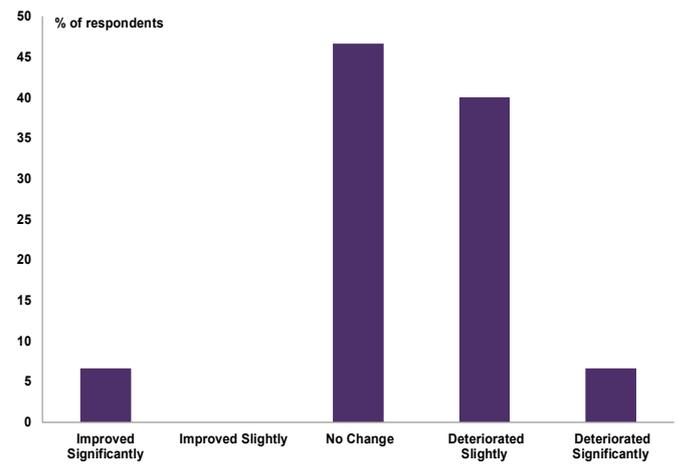


Commercial Property Market

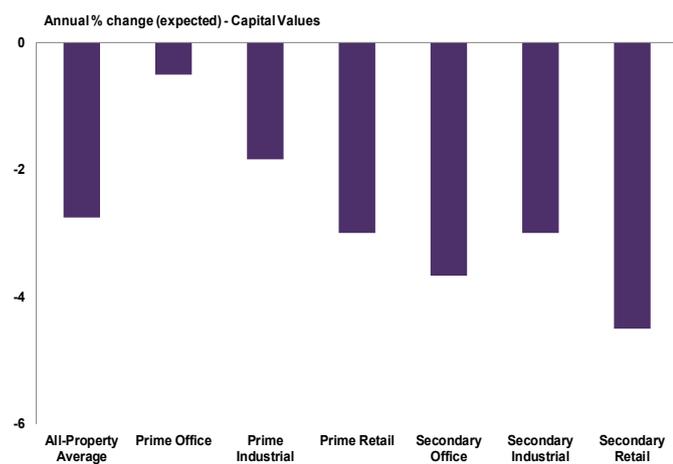
Market Valuations - 47% of contributors see the market as fairly valued, while 40% now view the market as expensive to some extent, up from 30% in Q1.



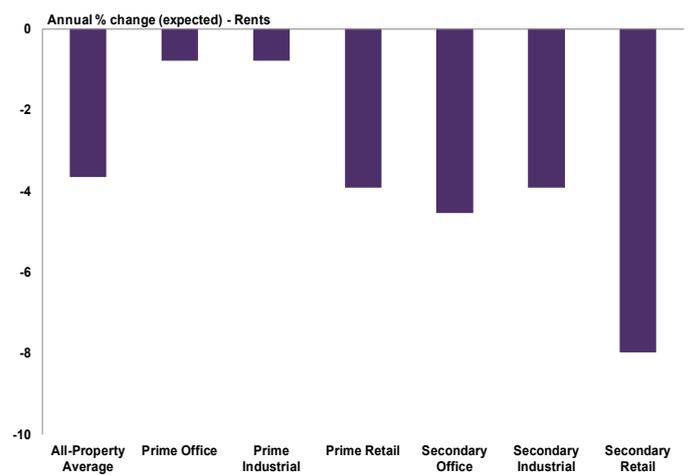
Credit Conditions - A combined 47% of respondents reported some degree of tightening in credit conditions during Q2, while another 47% saw no change.



12m Capital Value Expectations - There was little change in capital value forecasts over the next twelve months from Q1 to Q2. Capital values are expected to fall across the board, though respondents were significantly less bearish on the outlook for prime office space in Q2.



12m Rental Expectations - Twelve month rent expectations were very nuanced. The outlook for prime office and industrial rents has become significantly less negative, but the outlook for retail and secondary space has deteriorated over the past two quarters.



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 June 2017 with responses received until 10 July 2017. 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 1427 company responses were received, with 316 from the UK. Responses for Ireland were collated in conjunction with the Society of Chartered Surveyors Ireland.

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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