Q2 2018: Malaysia Commercial Property Monitor

# Sentiment remains downbeat, but modest growth seen for industrial properties

Sentiment surrounding Malaysia's commercial property market was downbeat in Q2, as signs of a recovery in Q1 appear to have been transitory. This may be a result of a wealth of factors including policy uncertainty following the May election, concerns over Malaysia's external vulnerabilities to rising US interest rates or, given Malaysia's place in the global supply chain, the threat of a trade war.

**Occupier Market**

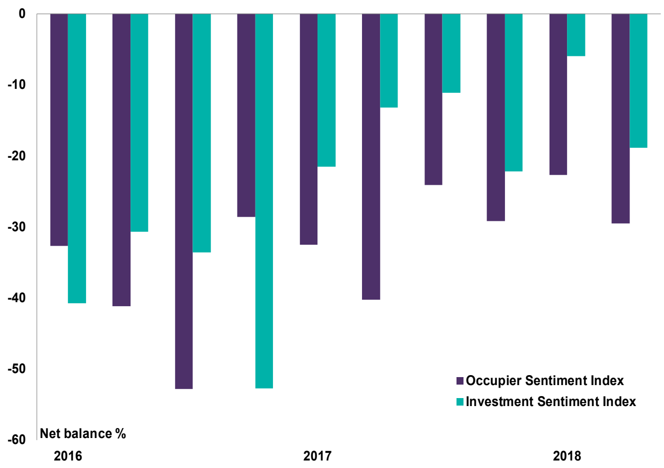
- The Occupier Sentiment Index (an amalgamated measure of occupier market indicators) fell to -29 in Q2 from -23 in Q1 (chart 1), indicating a continued contraction in occupier market momentum.
- Aggregate occupier demand declined in Q2. This was particularly acute in the office and retail segments of the market, both of which declined at a faster pace than in Q1 (in net balance terms). Demand for industrial properties, however, was flat for the third consecutive quarter.
- Meanwhile, the supply of office and retail properties to let increased modestly, with the availability of industrial properties to rent little changed in Q2. Development starts contracted at the fastest pace since Q1 of 2017 at a headline level (in net balance terms); this was spread relatively evenly throughout each segment of the market (office, industrial, retail).
- Landlord inducements also increased slightly across the board. Rent-free periods were the most popular inducement on offer, followed by landlord contributions and reverse premiums.
- With demand decreasing and supply on the rise, it is perhaps unsurprising that rents are seen declining over the next three months (in net balance terms), shown in chart 2. This is also the case for rents over the next year, which marks a worsening outlook compared to Q1, when rents were predicted to increase on a twelve month view.
- Chart 6 shows that respondents' rent forecasts for the next year were universally revised lower. On a bright note, prime industrial properties are expected to see a modest increase in rents over the next year, likely owing to the more balanced supply/demand conditions.

**Investment Market**

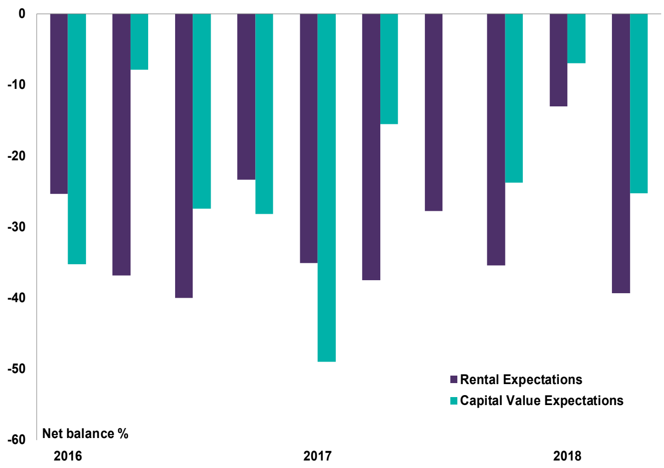
- The Investment Sentiment Index (an amalgamated measure of occupier market indicators) fell to -19 in Q2 from -6 in Q1 (chart 1), indicating a contraction in market momentum during Q1.
- Investment enquiries reportedly declined in Q2, after registering a modest increase in Q1. This was driven by the office and retail segments, while interest in industrial properties declined at a more moderate pace.
- Foreign investment demand exhibited a similar trend. However, the contraction in demand for industrial properties was less stark than in Q1. The supply of properties available for sale was flat at a headline level in Q2. Contributors noted a slight drop in retail properties available for on the market in Q2, the first contraction in four quarters.
- Chart 3 shows that credit conditions were little changed in Q2, as reported by nearly half (48%) of respondents. There was a slight skew towards conditions having deteriorated during the quarter, however, as 39% reported some degree of deterioration.
- Valuations were also slightly skewed towards the expensive side, with a similar 39% reporting them as being above fair value to some degree (chart 4). However, the majority, 52%, see commercial property in Malaysia as being fairly valued.
- Similar to rents, capital value expectations have deteriorated over the next three and twelve months. Prime industrial properties are however expected to see little change in values over this period, while the outlook is negative across all other categories (as shown in chart 6). With this in mind, the majority of respondents (58%) continue to see the market in some phase of a downturn.

# Commercial Property Market

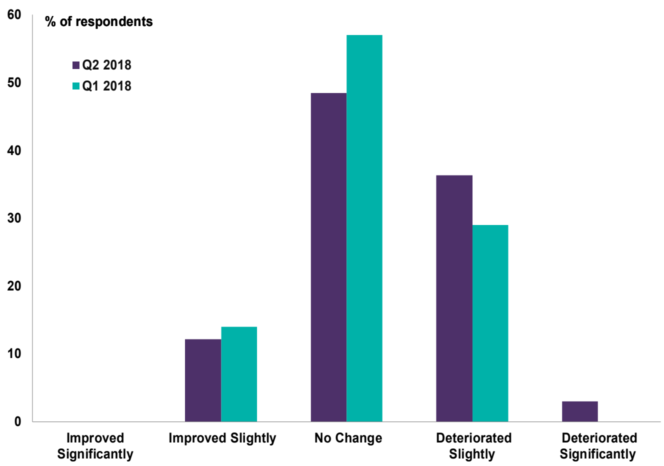
### Chart 1: Occupier, Investment Sentiment Indexes



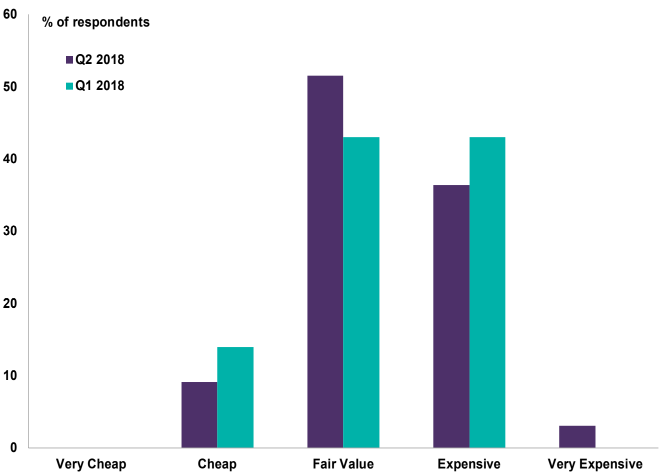

### Chart 2: 3-month Rents, Capital Values



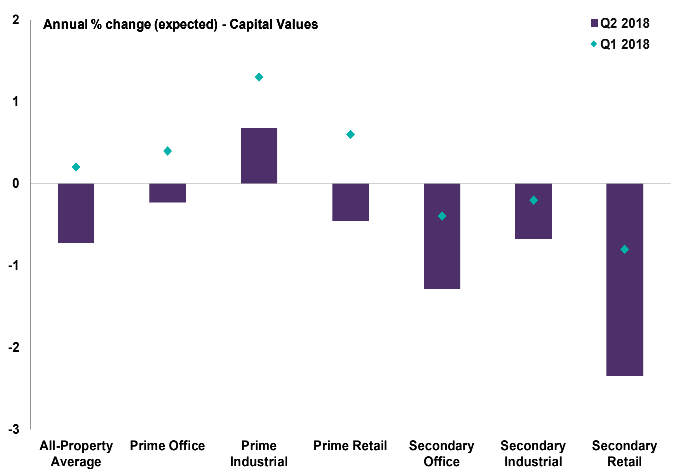

### Chart 3: Credit Conditions



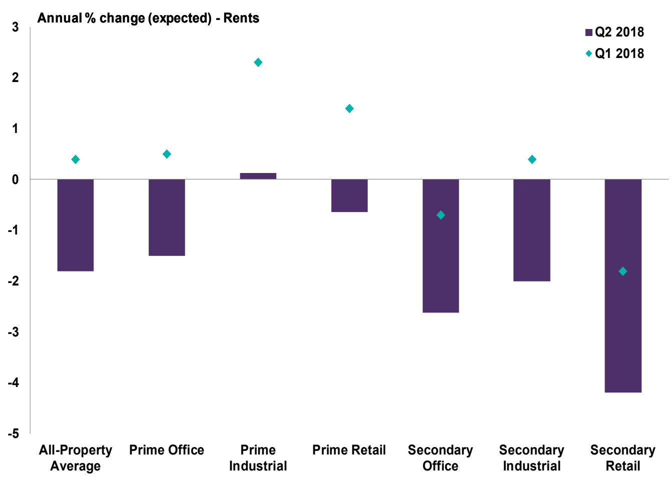

### Chart 4: Valuations




### Chart 5: 12-month Capital Values Forecast




### Chart 6: 12-month Rent Forecast



# 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 13 June 2018 with responses received until 8 July 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 1965 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.

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## Disclaimer



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