Q3 2017: Malaysia Commercial Property Monitor

Outlook for capital values beginning to strengthen

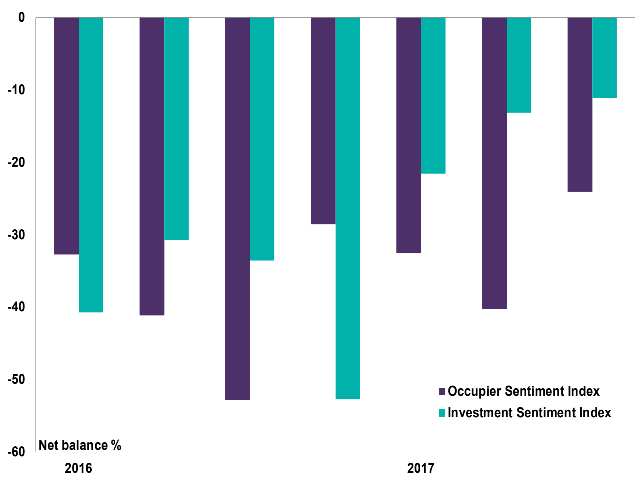
Occupier Market

- Headline demand for leasable space remained in decline during Q3, returning a net balance of -22% (albeit slightly less negative than -35% in Q2). The weakness was spread relatively evenly throughout all segments of the market (office, industrial, retail).
- Supply of properties to let continued to drag on the market as the net balance of contributors who reported an increase in headline supply rose to +42% from +23% in Q2. The increase in supply was spread evenly throughout all segments of the market.
- Landlord increased the value of incevntive packages once more, although the pace of growth moderated from Q2 as a net balance of 22% of respondents reported a rise (down from 48% in Q2).
- Rental expectations over the next three and twelve months remain downbeat. Headline rents are seen falling over both time horizons, though the results are nuanced as the outlook is flat for office rents and industrial rents are expected to see little change in the next twelve months.
- The Occupier Sentiment Index (an amalgamated measure of occupier market indicators) turned slightly less negative at -24 in Q3, from -40 in Q2, though this is still indicative of weak momentum in the occupier market.

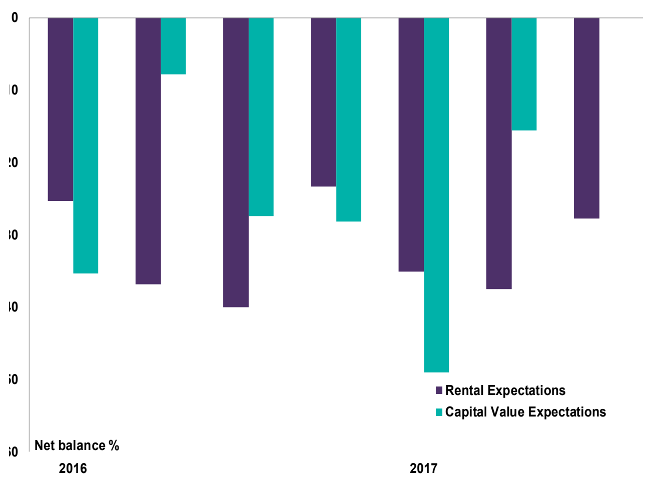
Investment Market

- Investor demand was little changed in Q3, the first time since the survey was launched in Q1 2016 that respondents did not report a pullback. what's more, enquiries were reported as flat in all three segments of the market. A similar dynamic of flat demand was reported for enquiries from foreign buyers.
- Meanwhile, the supply of properties for sale increased across all market segments. Looking at future supply, development starts were flat in Q3, though respondents reported a decline in starts of retail properties.
- Against this backdrop, respondents expect little change in capital values across all market segments over the next three months. The longer-term outlook is more bullish, with capital values seen rising over the coming year.
- Despite this, the majority of respondents still see the market in some stage of a downturn (75% vs 67% in Q2). However, 16% now see the market in some stage of an upturn (vs 13% in Q2).
- The Investor Sentiment Index (an amalgamated measure of investment market indicators) was little changed at -11 in Q3 from -13 in Q2, and is indicative of declining momentum in the investor market.

Occupier and Investment Sentiment Index



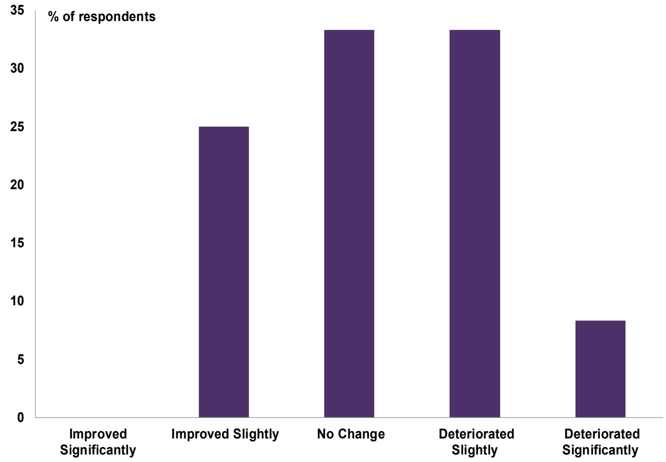
3-month Capital Values, Rent Expectations



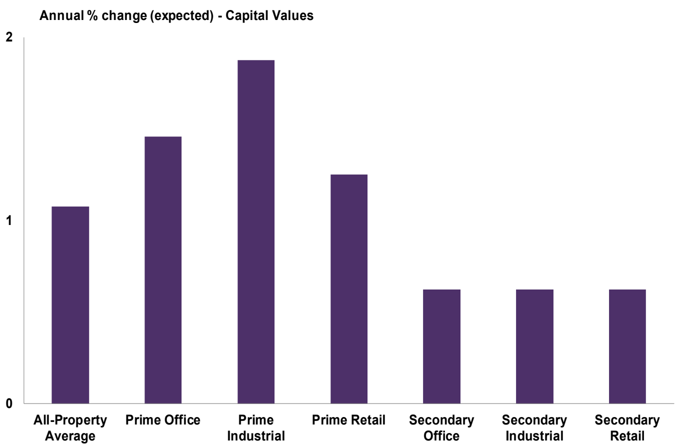
Commercial Property Market

Market Valuations - More respondents (25% vs 13% in Q2) now see the market as cheap. 42% see the market as fairly valued, vs 47% in Q2.

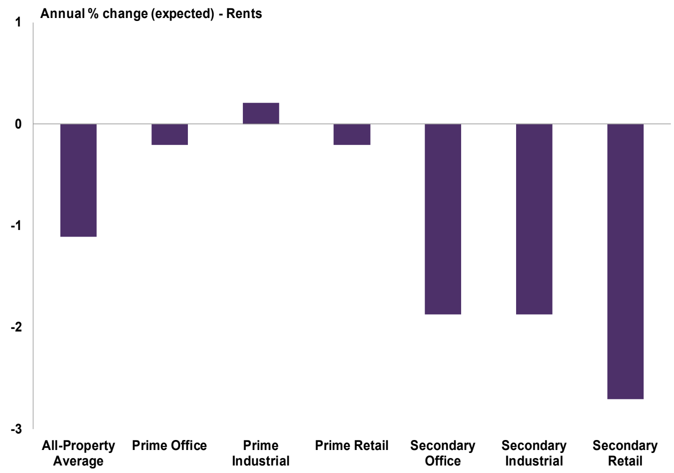
Credit Conditions - On balance, credit conditions deteriorated in Q3, with the proportion of respondents reporting worse financial conditions exceeding those citing an improvement (albeit to a lesser extent than previously).



12m Capital Value Expectations - Respondents revised capital value forecasts sharply higher in Q3. Capital values are seen rising 1.1% over the next year, after respondents forecast a 2.8% fall in Q2. Forecasts were revised higher across the board, and prime assets are now expected to rise 1.5% in the next year.



12m Rental Expectations - Twelve month rent expectations turned less negative, as headline rents are now seen falling 1.1% vs the 3.6% pullback forecast in Q2. The outlook for retail also became less downbeat, with rents now only seen falling 1.5% over the next year after forecasting a 5.9% decline in Q2.



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 September 2017 with responses received until 6 October 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 1609 company responses were received, with 347 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**

Disclaimer

Economics Team

Janet Guilfoyle

Market Surveys Administrator

+44(0)20 7334 3890

jguilfoyle@rics.org

Simon Rubinsohn

Chief Economist

+44(0)20 7334 3774

srubinsohn@rics.org

Jeffrey Matsu

Senior Economist

+44(0)20 7695 1644

jmatsu@rics.org

Sean Ellison

Senior Economist

+65 68128179

sellison@rics.org

Tarrant Parsons

Economist

+44(0)20 7695 1585

tparsons@rics.org

Kisa Zehra

Economist

+44(0) 7695 1675

kzehra@rics.org

Confidence through professional standards

RICS promotes and enforces the highest professional qualifications and standards in the development and management of land, real estate, construction and infrastructure. Our name promises the consistent delivery of standards – bringing confidence to the markets we serve.

We accredit 118,000 professionals and any individual or firm registered with RICS is subject to our quality assurance. Their expertise covers property, asset valuation and real estate management; the costing and leadership of construction projects; the development of infrastructure; and the management of natural resources, such as mining, farms and woodland. From environmental assessments and building controls to negotiating land rights in an emerging economy; if our members are involved the same professional standards and ethics apply.

We believe that standards underpin effective markets. With up to seventy per cent of the world's wealth bound up in land and real estate, our sector is vital to economic development, helping to support stable, sustainable investment and growth around the globe.

With offices covering the major political and financial centres of the world, our market presence means we are ideally placed to influence policy and embed professional standards. We work at a cross-governmental level, delivering international standards that will support a safe and vibrant marketplace in land, real estate, construction and infrastructure, for the benefit of all.

We are proud of our reputation and we guard it fiercely, so clients who work with an RICS professional can have confidence in the quality and ethics of the services they receive.

United Kingdom RICS HQ
Parliament Square, London
SW1P 3AD United Kingdom
t +44 (0)24 7686 8555
f +44 (0)20 7334 3811
contactrics@rics.org

Media enquiries
pressoffice@rics.org

Ireland
38 Merrion Square, Dublin 2,
Ireland
t +353 1 644 5500
f +353 1 661 1797
ricsireland@rics.org

Europe
(excluding UK and Ireland)
Rue Ducale 67,
1000 Brussels,
Belgium
t +32 2 733 10 19
f +32 2 742 97 48
ricseurope@rics.org

Middle East
Office G14, Block 3,
Knowledge Village,
Dubai, United Arab Emirates
t +971 4 446 2808
f +971 4 427 2498
ricsmenea@rics.org

Africa
PO Box 3400,
Witkoppen 2068,
South Africa
t +27 11 467 2857
f +27 86 514 0655
ricsafrica@rics.org

Americas
One Grand Central Place,
60 East 42nd Street, Suite 2810,
New York 10165 – 2811, USA
t +1 212 847 7400
f +1 212 847 7401
ricsamericas@rics.org

South America
Rua Maranhão, 584 – cj 104,
São Paulo – SP, Brasil
t +55 11 2925 0068
ricsbrasil@rics.org

Oceania
Suite 1, Level 9,
1 Castlereagh Street,
Sydney NSW 2000. Australia
t +61 2 9216 2333
f +61 2 9232 5591
info@rics.org

North Asia
3707 Hopewell Centre,
183 Queen's Road East
Wanchai, Hong Kong
t +852 2537 7117
f +852 2537 2756
ricsasia@rics.org

ASEAN
10 Anson Road,
#27-16 International Plaza,
Singapore 079903
t +65 6635 4242
f +65 6635 4244
ricssingapore@rics.org

Japan
Level 14 Hibiya Central Building,
1-2-9 Nishi Shimbashi Minato-Ku,
Tokyo 105-0003, Japan
t +81 3 5532 8813
f +81 3 5532 8814
ricsjapan@rics.org

South Asia
48 & 49 Centrum Plaza,
Sector Road, Sector 53,
Gurgaon – 122002, India
t +91 124 459 5400
f +91 124 459 5402
ricsindia@rics.org