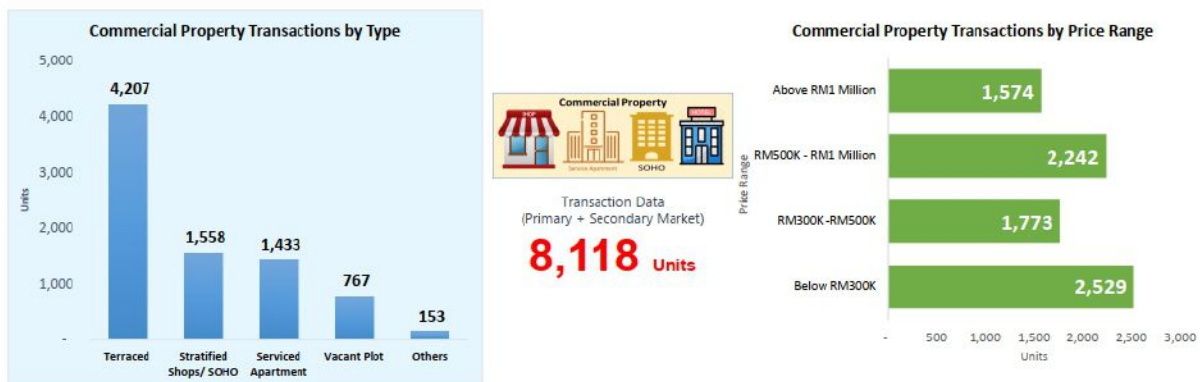


# HERALD by Henry Butcher Malaysia

## Occasional Notes 2/October 2020

Key highlights and observations of Napic's property market report for the first half of 2020 on the commercial property sector

### Overall



Source: Chart extracted from PMR 1H 2020, Napic

- The volume of commercial transactions in the first half of 2020 was recorded at 8,118 units, a 37.4% drop compared to the corresponding period in 2019 whilst the value of the transactions declined by 33.2% to RM 8.51 billion. This downward trend is in line with what was experienced by the residential sector and reflects the challenging market conditions faced by the property market especially in the second quarter of 2020 when the Movement Control Order was enforced and brought sales activities in the property market to a halt for a period of about three months. The decline in the volume and value of commercial property transactions in Q2 was even higher than that registered in Q1 (27.9% drop in volume and 24.4% drop in value).
- Terraced shops made up 51.8% (4,207 units) of the commercial transactions whilst strata shops / sohos contributed 19% (1,558 units) and serviced apartments, another 17.6% (1,433 units).
- 47% of the commercial property transactions were of properties priced at RM 500,000 and above whilst 31.1% are of properties priced below RM 300,000.
- There were 87,758 units of serviced apartments reported to have been launched in the country in the first half of 2020 of which a 75.3% sales achievement was recorded. For terraced shops, there were 13,154 units launched with a poorer sales achievement of 61.5% whilst there was a total of 9,619 units of sohos launched with a 78.5% sales take-up rate
- The supply of terraced shops and serviced apartments are as per the table below. The supply of serviced apartments is expected to more than double (an increase of 118%) when all the units under future supply are completed. This is an area of concern as serviced apartments currently form the largest component of the commercial property overhang

| Type                | Existing supply (units) | Future supply (units) |
|---------------------|-------------------------|-----------------------|
| Terraced shops      | 482,812                 | 61,042                |
| Serviced apartments | 263,220                 | 310,726               |

## Overhang Status by Type & Price Range H1 2020

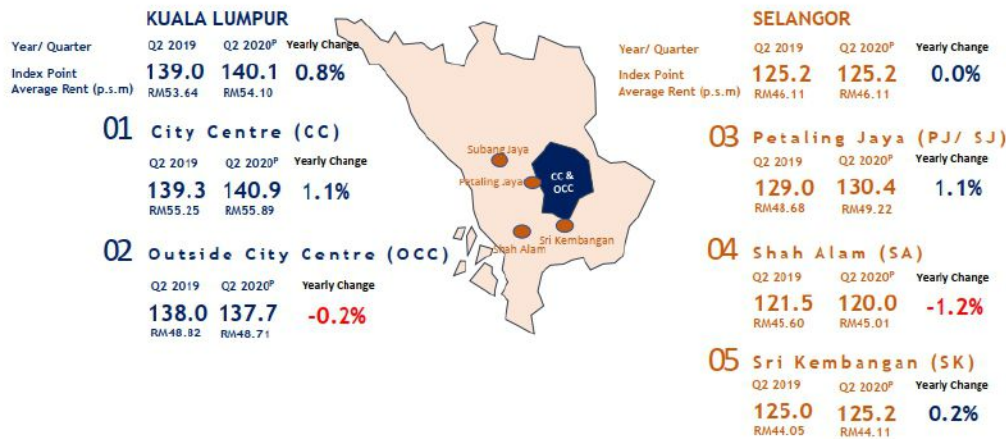


Source: PMR 1H 2020, Nipic

- As at the first half of 2020, the commercial property overhang amounted to 29,841 units valued at RM 24.7 billion. This represents an increase of 19.6% in terms of units and a rise of 18.7% in terms of value compared to the first half of 2019.
- 72.4% of the commercial property overhang comprised serviced apartments whilst terraced shops contributed 16.9% and sohos, another 6.9%
- Johor has the highest number of commercial property overhang with 17,984 units (66%) followed by Selangor with 4,374 units (14.6%) and Kuala Lumpur with 2,772 units (9.2%)

### Purpose built offices

#### Purpose built office rental index 1H 2020



Source: PMR 1H 2020, Nipic

- In the first half of 2020, occupancy rates of purpose built offices (PBO) in the country softened to 74.3% continuing the steady decline from 82.4% in 2018 and 80.6% in 2019.
- The national rental index for PBOs improved marginally by 0.2% from 130.6 to 130.9 with average rents going up from RM 48.48 p.s.m to RM 48.59 p.s.m.
- In Kuala Lumpur, the PBO rental index went up from 139.0 to 140.1 whilst average rents improved marginally from RM 53.62 p.s.m. to RM 54.10 p.s.m.
- Within KL city centre, the PBO rental index showed a marginal 1.1% increase from 139.3 to 140.9 (average rents went up from RM 55.25 p.s.m. to RM 55.89 p.s.m.)

- e) Outside the city centre, the PBO rental index softened from 138.0 to 137.7 with average rents coming down from RM 48.82 p.s.m. to RM 48.71 p.s.m.
- f) In Selangor, the PBO rental index showed that rents held steady in the first half of 2020 with the index remaining at 125.2 with average rents of RM 46.11 p.s.m.
- g) Petaling Jaya recorded a slight increase in the rental index from 129.0 to 130.4 (average rents increased from RM 48.68 p.s.m. to RM 49.22 p.s.m.)
- h) The PBO rental index for Shah Alam on the other hand declined marginally from 121.5 to 120.0 with average rents coming down from RM 45.60 p.s.m. to RM 45.01 p.s.m.
- i) Although the market is concerned about an oversupply of office space and the decline in occupancy rates, the PBO rental index did not indicate any substantial change. Nevertheless, with most businesses adopting work from home practices and putting off expansion plans, demand for office space is expected to be affected especially with increased business closures and staff layoffs impacted by the business slowdown brought about by the Covid-19 pandemic. This is on the back of a substantial increase in supply of office space over the past few years which will be made worse by the big jump in supply expected with the future completion of a number of mega office projects undertaken by a few GLCs. This will put added downward pressure on occupancy rates and consequently impact rental rates going forward.

### **Shopping centres**

- a) The occupancy rates of shopping malls in the country declined to 76.7% in the first half of 2020, down from the 79.2% recorded at the end of 2019. This is not surprising as the retail sector together with the tourism sector were the economic sectors most affected by the Covid-19 pandemic. Further, the increasing popularity of online shopping, particularly after the emergence of the covid-19 pandemic which deterred shoppers from visiting malls due to the higher health risks of coming into contact with an infected person, has resulted in retailers holding back on expansion of physical stores and refocussing on online sales instead. Some retailers have also closed less profitable outlets and the end of the loan moratorium at the end of September may lead to even more store closures as retailers restructure their business operations to survive the current challenging conditions.