Malaysia Commercial Real Estate Investment Sentiment Survey

Feb 2024

The Malaysia Commercial Real Estate Investment Sentiment Survey covers the prediction of key trends and insights in the commercial real estate market.

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The year 2023 has exhibited a reliable performance in both the economy and the real estate market. Looking ahead, the commercial real estate market anticipates a relatively stable and prudently optimistic environment in 2024.

How did the property market do last year?
The property market in Malaysia continued to strengthen as evident during the first nine months of 2023, witnessing a total of 293,095 transactions amounting to RM142.5 billion. The transactions exhibited stability in volume, with year-on-year increase of 8.8% in value (9M2022: 293,115 transactions worth RM131.0 billion). Considering the resilient economic recovery and the looming geopolitical risks, the performance of the property market is expected to be cautiously optimistic in 2024.

Interest rates
On the lending front, the central bank has decided to maintain its overnight policy rate (OPR) at 3.00% in November 2023, a status quo following the March 2023 hike from 2.75% to 3.00%. The present OPR level, aligns with the ongoing evaluation of inflation and growth prospects, providing support to the economy. However, within the real estate realm, prospective property purchasers exhibit prudence in their investment decisions, influence by heightened borrowing costs.

Spotlight on Data Centres
The data center sector in the Asia Pacific (APAC) region is currently experiencing significant expansion, propelled by the growing demands for cloud computing, big data and e-commerce. The two key regions in Malaysia witnessing notable development are primarily located in the Klang Valley and Johor. With the increasing demand for Cloud services, this sector is expected to thrive in the near future.

Predictions for 2024
Respondents foresee positive potential in terms of capital value and rental across the industrial / logistics, retail, healthcare and educational / institutional sub-sectors. However, there is an expectation of a moderation in the performance of the office sub-sector, as supply continues to outpace demand and the growing prevalence of hybrid work and work-from-home (WFH) trends. Additionally, respondents express a keen interest in exploring alternative investments this year, including serviced residence / hotel, industrial / business park as well as medical centre / wellness centre.

“The property market in Malaysia continued to strengthen as evident during the first nine months of 2023, witnessing a total of 293,095 transactions amounting to RM142.5 billion.”

Notable risks in 2024
Several risks loom on the horizon in 2024, including a high interest rate environment, rising construction cost, inflationary pressure, global economic headwinds as well as political uncertainty. These factors collectively pose challenges to commercial real estate investment.

In a nutshell, the commercial property market remains positive yet challenging. To mitigate risks and adapt to the rapidly evolving landscape, focus could be directed towards digitalisation and environmental, social and governance (ESG) compliances. This approach will contribute to enhancing the value of sustainable real estate in the future.

MD'S FOREWORD
KEITH OOI
Group Managing Director,
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2024: FACTORS AFFECTING COMMERCIAL REAL ESTATE INVESTMENT

a. 68% of the respondents believe that foreign direct investments (FDI) will be more favourable due to a better economic condition. FDI in Malaysia is dominated by the manufacturing sector and is expected to continue attracting manufacturing investment to the country due to the availability of an ecosystem and resources.
b. Ranked as second, 62% believed that the Business Confidence Index (BCI) would be positive, attributed to a stable economic environment and anticipated future developments.
c. As for Budget 2024 and considering the government initiatives and policies, 60% of the respondents find it neutral towards the commercial property market.
d. Amid the global headwinds and inflationary pressure, 57% thinks that the Malaysia's economic figures (e.g., GDP, inflation, unemployment rate, interest rate, etc.) are favourable, fueled by resilient private consumption, domestic demand, tourism activities, an improved labour market and household spending.
e. As for availability of good stock and investment opportunities, 54% of the respondents voted favourable due to the ready investment opportunities in real estate.
f. On Malaysia's digital frontier, 54% of the respondents find it favourable, in response to changing global trade patterns and rapid technological shifts.
g. 51% of the respondents believe that the improved labour market is favourable for the commercial property market as the unemployment rate fell to 3.4% in 3Q2023 (2022: 3.9%). With a better labour market condition, there will be a demand for commercial property for business expansion or even start-ups.
h. Besides, 51% are optimistic about the Consumer Sentiments Index (CSI) is favouring the commercial property market. With an improved labour market, there is anticipation of a rise in consumer purchasing power and household consumptions.
i. About 49% feel that yield and return on commercial real estate are favourable, indicating better potential for rental income and capital appreciation.
j. In terms of political stability and change in government, 41% of respondents expressed a favorable opinion, while 32% opted for a neutral stance. A stable political environment plays a crucial role in enhancing investor confidence, both domestically and internationally.

Factors Affecting Commercial Real Estate Investment in 2024

1. Foreign Direct Investments in Malaysia
2. Business Confidence Index (BCI)
3. Budget 2024
4. Malaysia's Economy
5. Availability of Good Stock / Investment Opportunities
6. Malaysia's Digital Frontier
7. Improved Labour Market
8. Consumer Sentiment Index (CSI)
9. Yield and Return
10. The Change in Government / Political Instability

2024: INVESTMENT PLAN BY SUB-SECTOR

Moving into 2024, investments are expected to surge in the retail, healthcare and educational / institutional sub-sectors. Nevertheless, minimal interest has been observed in the office and industrial / logistics sub-sectors, with the hotel / leisure sector maintaining a trend similar to that of 2023.

The retail sector, over the years, has significantly contributed to the national economy through trade and services, fostering employment opportunities and stimulating consumer spending. Developers and fund / REIT managers are seeking to develop or acquire retail assets as part of their strategic portfolio expansion.

The healthcare industry has gained heightened attention, particularly following the challenges highlighted by the Covid-19 outbreak, such as a shortage of hospital beds. With an aging population in Malaysia and the rise of medical tourism, developers, fund / REIT managers and lenders are directing their focus towards the healthcare sector to capitalise on emerging market opportunities.

In the realm of educational / institutional assets, they are viewed as a specialised asset class that is less reliant on the overall economy compared to conventional assets. Fund / REIT managers and lenders are showing interest as part of a broader strategy to diversify their portfolio, recognizing the resilience of education assets in the market.

Conversely, investment plans for the office sub-sector have indicated a downward trend. The shift towards hybrid work and the prevalence of work-from-home (WFH), coupled with an existing imbalance in the demand and supply of office space, has made developers, fund / REIT managers and lenders cautious of competitiveness and challenges.

Similarly, the respondents show a slight decrease in the investment plan for the industrial / logistics sub-sector in 2024 compared to 2023, likely due to planning to diversify into other sub-sectors.

In terms of hotel / leisure, developers and lenders adopt a cautious approach, while fund / REIT managers express optimism about expanding their investments in this sub-sector.

Table: Investment Plan Focus Areas for 2024

Sub-sector	Developer		Trend	Fund/REIT Manager		Trend	Lender		Trend	Overall		Trend
	2023	2024		2023	2024		2023	2024		2023	2024	
Office	10%	8%	↓	9%	7%	↓	3%	3%	↔	22%	18%	↓
Retail	10%	11%	↑	8%	9%	↑	3%	3%	↔	21%	23%	↑
Hotel / Leisure	7%	7%	↔	5%	6%	↑	3%	2%	↓	15%	15%	↔
Industrial / Logistics	10%	8%	↓	8%	8%	↔	2%	2%	↓	20%	18%	↓
Healthcare	5%	6%	↑	6%	7%	↑	0%	1%	↑	11%	13%	↑
Educational / Institutional	5%	4%	↓	6%	8%	↑	0%	1%	↑	11%	13%	↑

2024 – 2026: ALTERNATIVE INVESTMENTS

The survey findings reveal significant interest in serviced residences / hotels in key locations such as Klang Valley, Penang and Sabah. Klang Valley and Penang are established areas for both locals and foreigners, where serviced residences are popular for investment, own stay as well as Airbnb businesses. Sabah, known for its tourism activities, has attracted tourists and investors. The hotel industry has seen a resurgence since the post-pandemic period, evidenced by a notable increase in tourist arrivals. The government adjusted its initial target from 16.1 million to 19.1 million by the end of 2023 to reflect this positive trend.

Another sector with similar interest is the industrial / business park, primarily in regions like Klang Valley, Penang and Johor. These regions have been pioneers for industrial activities, attracting various manufacturing investments. With the surge in e-commerce, the advent of Industrial Revolution 4.0, digitalisation and a heightened focus on environmental, social and governance (ESG) compliance, numerous investors are exploring opportunities in logistics and industrial hubs.

The survey reveals almost equal interest from all respondents to participate in medical / wellness centre, shopping mall / retail centre, senior living / retirement homes and buying / selling existing commercial assets, particularly in Klang Valley, Johor and Penang. Medical and wellness services in Malaysia have consistently garnered positive reception, bolstered by its prominent status in the field of medical tourism with total 850,000 healthcare traveller, generating a revenue of RM1.3 billion in 2022, mainly from Australia, China, India, Indonesia, Japan etc. This trend creates a promising opportunity for investment in the healthcare sector.

Another growing sector is senior living / retirement homes, given Malaysia's forecasted aging population. The Department of Statistics Malaysia (DOSM) predicts that 10.7% of the nation's population will be aged 65 years and above in 2030, presenting potential opportunities in this sector.

There is also a desire to either sell or purchase commercial assets, such as land or buildings. This may be driven by the opportunity to acquire high-quality assets at a discounted price or to undertake a strategic portfolio rationalization.

Respondents also show a favorable appetite for alternative investments over the next 2 to 3 years. Notably, there is a significant interest in sub-sectors such as co-living / student accommodation and co-working / flexible office spaces. The popularity of these spaces has surged among young professionals, millennials, single individuals and students, driven by the hybrid work trend and the prevalence of working from home. Looking ahead, this trend is projected to intensify, driven by the preference for flexibility over committing to the purchase of a physical asset, particularly in the current high-interest-rate environment.

The data centre industry is another thriving sector, with Klang Valley and Johor standing out as prominent regions. The increasing interest in cloud services suggests the potential for significant expansion in this sector.

Location-wise, the respondents have highlighted interest in exploring the following opportunities in the medium term: -

- Data Centre in Penang
- Education Institution in Malacca
- Theme Park in Selangor
- Solar Farm Investment

Alternative Investments by Location:

Alternative Investment	Top 3 Preferred Locations
Serviced Residence / Hotel	Klang Valley, Penang, Sabah
Industrial / Business Park	Klang Valley, Penang, Johor
Medical Centre / Wellness Centre	Klang Valley, Johor, Penang
Shopping Mall / Retail Centre	Klang Valley, Penang, Johor
Senior Living / Retirement Homes	Klang Valley, Johor, Penang
Buy / Sell Existing Commercial Assets	Klang Valley, Johor, Penang
Co-living / Student Accommodation	Klang Valley, Johor, Penang
Co-working / Flexible Office	Klang Valley, Penang, Johor
Data Centres	Klang Valley, Johor, Penang
Institutional	Klang Valley, Penang, Sarawak
Themed / Recreational Parks	Klang Valley, Penang

2024 PERFORMANCE FORECAST BY SECTORS

a. CAPITAL VALUE BY SECTORS

About 62% anticipate that the industrial and logistics sub-sectors will experience an increase in capital appreciation in 2024. Correspondingly, more than 60% of the respondents expect capital values in the office, retail, hotel / leisure and educational / institutional sub-sectors to remain stable. However, concerning the office sub-sector, participants also expressed the opinion that there could be a decrease in capital value due to the substantial existing and incoming supply impacting asset performances.

Sub-sector	Decrease	Stagnant	Increase
Office	32%	60%	8%
Retail	8%	57%	35%
Industrial / Logistics	0%	38%	62%
Hotel / Leisure	5%	60%	35%
Healthcare	0%	62%	38%
Educational / Institutional	3%	73%	24%

b. TRANSACTION CAP RATE / YIELDS

Similarly, 68% of respondents hold a positive outlook on yields and anticipate an increase in returns in the logistics sub-sector. Approximately 60% of the respondents expect no change in yields for the office, retail, hotel / leisure, healthcare and educational / institutional sub-sectors, although about 24% of respondents have expressed the expectation of a decrease in yields, specifically for the office sub-sector.

Sub-sector	Decrease	Stagnant	Increase
Office	24%	57%	19%
Retail	5%	73%	22%
Industrial / Logistics	0%	32%	68%
Hotel / Leisure	3%	54%	43%
Healthcare	0%	65%	35%
Educational / Institutional	8%	65%	27%

c. RENTAL VALUE / AVERAGE DAILY RATE (ADR)

According to 62% of respondents, industrial and logistics properties are projected to experience an increase in rents in 2024, attributed to escalating industrial activities and the growing demand for industrial space.

Another sub-sector that has garnered a strong positive outlook is the hotel / leisure industry. With the economic recovery, an improved labor market and a surge in tourism activities, 60% of the respondents believe that there is the potential for an increase in hotel room rates in 2024. As for retail, the majority of the respondents indicated that there might be an increase or stability in rents across retail malls. In the office sub-sector, approximately 43% of the respondents predict that rents will remain stable. Meanwhile, 35% expressed the expectation of a decrease in rents to remain competitive and secure tenants.

Sub-sector	Decrease	Stagnant	Increase
Office	35%	43%	22%
Retail	2%	49%	49%
Industrial / Logistics	3%	35%	62%
Hotel / Leisure	8%	32%	60%

d. OCCUPANCY RATE

The majority of respondents are confident that occupancy rates in industrial / logistics, hotel / leisure and retail sub-sectors will exhibit positive growth this year. This optimism is fueled by the robust economic recovery and increased consumer spending. Notably, 32% of respondents predict a reduction in occupied space in the office sub-sector as the market remains challenging with a significant incoming supply. Knight Frank Malaysia Research notes that an estimated 1.75 mil sq ft of space is expected to enter the Klang Valley office market by the end of 2024. This is likely to sustain pressure on occupancy rates and rents, as the supply continues to surpass demand.

Sub-sector	Decrease	Stagnant	Increase
Office	32%	38%	30%
Retail	8%	43%	49%
Industrial / Logistics	5%	32%	63%
Hotel / Leisure	5%	43%	52%

PREDICTIONS ON COMMERCIAL REAL ESTATE MARKET

Sub-sector	Prediction	Top factors which contribute to: Improvement	Top factors which contribute to: Decline
Industrial / Logistics	↑	1. Rise in e-commerce and technology adoption 2. Expansion of warehouse and distribution facilities 3. Growth of Industrial Production Index (IPI) 4. Growth of electrical and electronic (E&E) products industry 5. Growth of healthcare / medical technology industry	1. Economic uncertainty 2. Poor external demand 3. Manpower / labour shortage 4. Cost increase in raw materials 5. Supply chain disruption
Hotel / Leisure	↑	1. Tourism growth / travel demand rebounds 2. Influx of international tourist 3. Economic condition 4. Major business hub and tourist destination 5. Pent-up domestic travel demand	1. Global economic and political headwinds 2. Decrease in spending power due to inflationary pressure 3. Slow tourism recovery as compared to pre-pandemic 4. Poor performance of old / not refurbished hotels 5. High operating expenses (OPEX)
Retail	↔	1. Consumer spending trend 2. Economic condition 3. International tourist market 4. New-to-market retailers and concept 5. Preference to shop in brick-and-mortar stores	1. Growth of e-commerce shopping 2. Slowdown in global economy 3. Highly inflationary pressure 4. Change landscape in consumer attitudes, behaviours and purchasing habits 5. Poorly located / poorly managed malls
Office	↑	1. Economic condition 2. Growth in workforce scale 3. Increase in foreign direct investment 4. Preferred location for regional hubs 5. Increase in demand for office space 6. Improved public transportation and accessibility	1. Oversupply of new office towers 2. Imbalance between demand and supply 3. Increase in hybrid work model / work-from-home (WFH) 4. Cost saving strategies / scale-down of office space

LOOKING FORWARD: MOST ACTIVE SECTORS BY REGION IN 2024

In 2024, the following sub-sectors are anticipated to be the most attractive sectors: -

Penang	Hotel / Leisure, Industrial / Logistics, Retail
Klang Valley	Industrial / Logistics, Office, Retail
Johor	Industrial / Logistics, Retail
Sabah	Healthcare, Hotel / Leisure, Industrial / Logistics, Retail
Sarawak	Hotel / Leisure, Industrial / Logistics, Institutional

SURVEY RESPONDENTS

The respondents for this annual survey comprise of representatives in senior management levels across the Malaysian commercial property industry. Developers made up almost half of the respondents (51%), followed by Fund / REIT Managers (38%) and Commercial Lenders (11%).

- Developer, 51%
- Fund/REIT Manager, 38%
- Commercial Lender, 11%

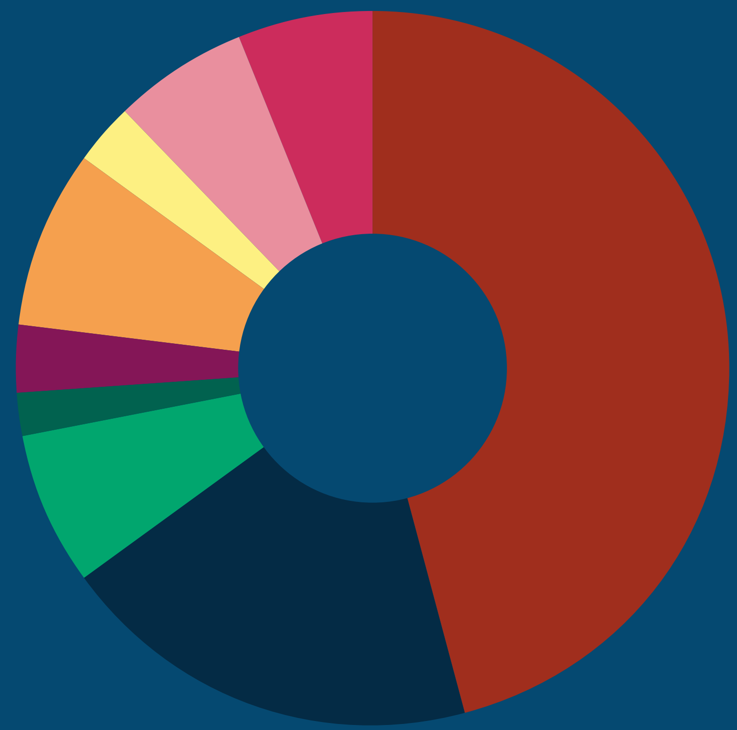
Chart: Survey Respondents

LOCATION OF RESPONDENTS' REAL ESTATE ASSETS / LAND BANK

Almost half of the respondents' commercial real estate projects are located in the Klang Valley (46%), with the remaining top 3 states being Johor (19%), Penang (8%) and Kedah (7%).

- Klang Valley, 46%
- Johor, 19%
- Kedah, 7%
- Malacca, 2%
- Negeri Sembilan, 3%
- Penang, 8%
- Perak, 3%
- Sabah, 6%
- Sarawak, 6%

Chart: Location of Respondents' Real Estate Assets / Land Bank



We like questions. If you've got one about our research, or would like some property advice, we would love to hear from you.

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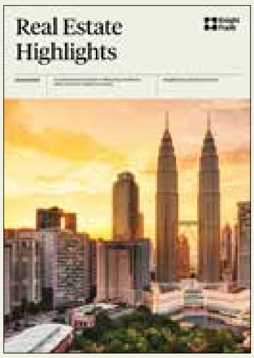
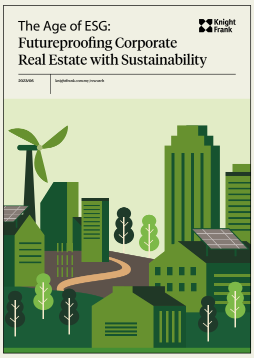


Real Estate Highlights



The Age of ESG

Data Center Research Report Malaysia

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