News release

11.00am | 23 October 2023

OFFICE MARKET

Supply

- No new projects were completed in 3Q 2023. In terms of future supply, before end of this year, we expect three more high profile developments to be completed (497,000 sq ft of NLA): PNB Project 1194 (the redevelopment on former Malaysian Airline System Bhd HQ) and two office towers in Pavilion Damansara Heights. Delivery of one project totalling to 1.6 million sq ft of NLA was postponed until 2024 due to continuous issues with labour availability and disruptions in the supply chain.

Demand

- Net absorption continues its uptrend and continues showing strong signs of recovery. The market is witnessing significant activity and positive momentum. This surge in activity may be attributed to a combination of factors, including pent-up demand from businesses seeking to return to the office as well as:
  a) Tenants' relocation to environmental, social and governance (ESG) compliant space. This trend is observed among financial sector, information technology (IT) and multinational corporations (MNCs); and
  b) Tenants flight to quality in a market where rents are supposedly at the bottom of the rental cycle. Tenants are looking to relocate to a modern office space offered at affordable rents. This trend is recognized for companies working in media, manufacturing, service providers, and technology companies.
- As a result, the market is witnessing a surge in leasing activity, higher occupancy rates, and an increase in investor confidence. This positive momentum suggests a promising outlook for the office sector soon.
- Overall, the office market is experiencing a significant increase in demand compared to last quarter as leasing activities have shifted from moderating to becoming active and tenants are becoming less cost-conscious when considering relocation/expansion plans.

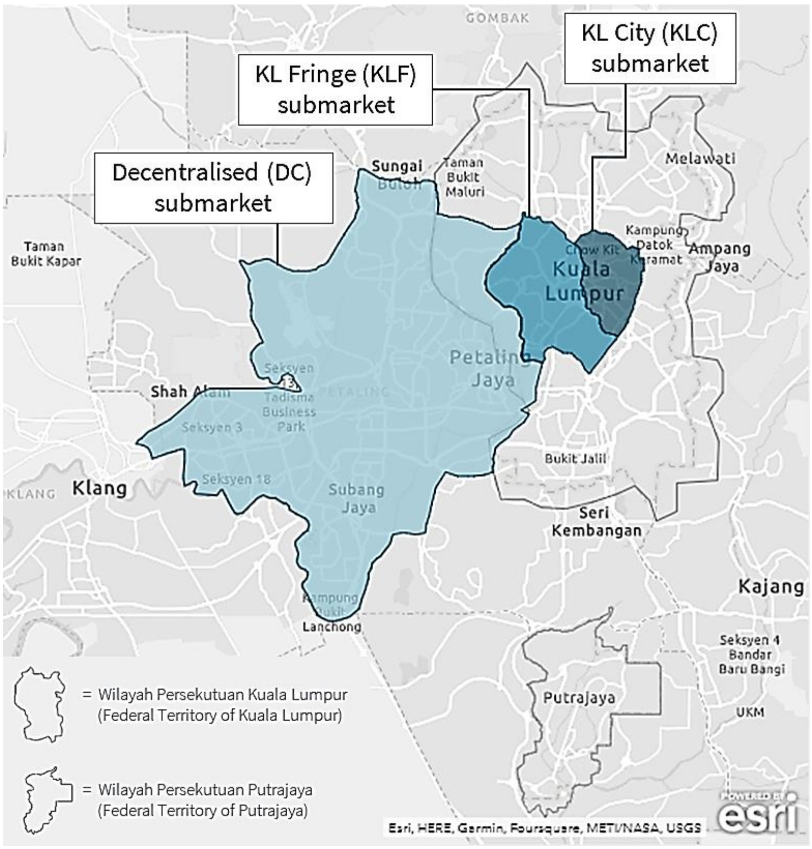
Vacancy rate

- As a result of strong demand, 3Q 2023 vacancy rates saw a huge improvement. Overall vacancy rate stands at 21.3% compared to 23.6% in 2Q 2023. Looking at submarkets' performance, KL Fringe submarket still commands the lowest vacancy at 9.0%, as new stock there remains quite limited, while demand for the location is fairly strong. KL City submarket with the highest growth of new stock demonstrates the highest vacancy rate at 28.4%, but it improved greatly in 3Q 2023 amidst pronounced trends of flight to quality which saw more and more new buildings start achieving higher occupancy rates. The Decentralised submarket area also saw improvements in vacancies.

Rental rates and market sentiment

- Rental rates grew further in 3Q 2023. Tenants are seizing the opportunity to relocate to newer, technologically advanced buildings due to attractive rental rates, leading to an uptick in rental rates for these properties.
- The rental increase was led by the KL City submarket as new buildings/well performing buildings were seen to be increasing their rental rates further.
- The increased demand from seeing more employees returning to offices resulted in relatively strong rental growth as companies saw the need to expand further and upgrade their spaces.

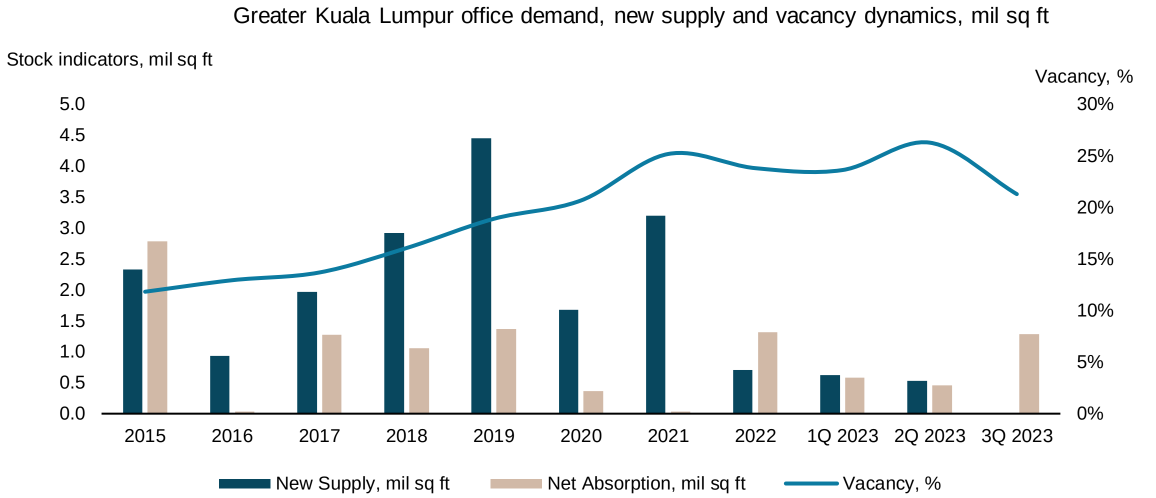
Greater Kuala Lumpur Office Submarket



Source: JLL Research

News release

11.00am | 23 October 2023



Source: JLL Research

LOGISTICS MARKET

Supply

- Logistics and Industrial remains an attractive market for investors. High quality logistics market is still emerging in Malaysia, and we expect market to grow at high pace in the medium term.
- Activity is concentrated in three (3) main hot spots:
    - The strategic location of Greater Kuala Lumpur near Port Klang, the main sea gateway into Malaysia, as well as its proximity to the main international airport and well-developed road and public transportation networks, make it an incredibly attractive location for a logistics and industrial hub. With a population of 8.5 million in Kuala Lumpur agglomeration, the concentration of a highly skilled workforce is one of the highest in the region. This not only attracts companies considering manufacturing operations but also positions Greater Kuala Lumpur as the largest national logistics hub in the country.
    - Johor enjoys immediate proximity to Singapore and access to two major ports and an international airport. Since its launch in 2006, Iskandar Malaysia, the main southern development region in Malaysia, with its six flagship zones each of which has tax benefits and specialization has pushed Johor into an attractive destination for foreign and local capital considering manufacturing, transportation, and logistics.
    - Penang is the third regional cluster of the logistics and industrial market. It also includes Kulim area. Initially, this cluster developed as a destination primarily for electronics and electrical (E&E) manufacturing. However, due to the market's size and the presence of a skilled labour force, it has expanded geographically to include the neighbouring Kulim area in Kedah. Moreover, this cluster has extended its reach into other manufacturing sectors as well. The rapidly growing manufacturing sector in Penang and Kulim generates a considerable demand for logistics space in the region.
- Greater Kuala Lumpur continues to dominate the market, accounting for 68% of the total 36 million sq ft of prime logistics space in Malaysia. Within Greater Kuala Lumpur, Shah Alam, which has traditionally been attractive to the manufacturing and logistics market, holds the largest share. Following Shah Alam, Bukit Raja

and Port Klang rank as the second and third most popular destinations, respectively, within the Greater Kuala Lumpur region.

- Penang is an emerging market in the logistics sector, currently possessing only 900,000 sq ft of existing high-quality logistics stock. Its current market share stands at just 2%.
- In contrast, Johor is considered a more mature market in the logistics industry, with a substantial presence of 10 million sq ft of prime logistics space, accounting for 30% of the total quality stock in the market.

Demand

- The demand for warehouse space is anticipated to continue to be strong. The primary drivers of this demand are manufacturers who are expanding their logistics operations. Additionally, the adoption of the China Plus One Strategy has contributed to the increased demand. Third-party logistics (3PLs) are also expanding their operations and upgrading their space requirements. Other sectors that are driving the demand for warehouse space include electrical & electronics (E&E), pharmaceutical/medical devices, oil & gas, cold chain logistics, and automotive subsectors.
- Looking at regional split, Greater Kuala Lumpur is expected to maintain its position in terms of volume and demand for logistics space. However, it is worth noting that Penang has been attracting significant interest from manufacturers who already have a presence in the region and require additional logistics space to support their operations. This has also led to active expansion plans by third-party logistics (3PL) operators in Penang to cater to this demand. It is important to highlight that the supply of available logistics space in Penang remains very limited, which further underscores the need for more development in the area to meet the increasing demand.
- The Johor market has established itself as a popular choice among both 3PL operators and manufacturers with regional coverage. This is evident in the case of BMW, which has established its regional distribution centre in Johor. The market's appeal stems from its strategic location and connectivity, making it an ideal hub for logistics and distribution activities. This has contributed to its growing popularity and increased interest from both local and international players in the industry.

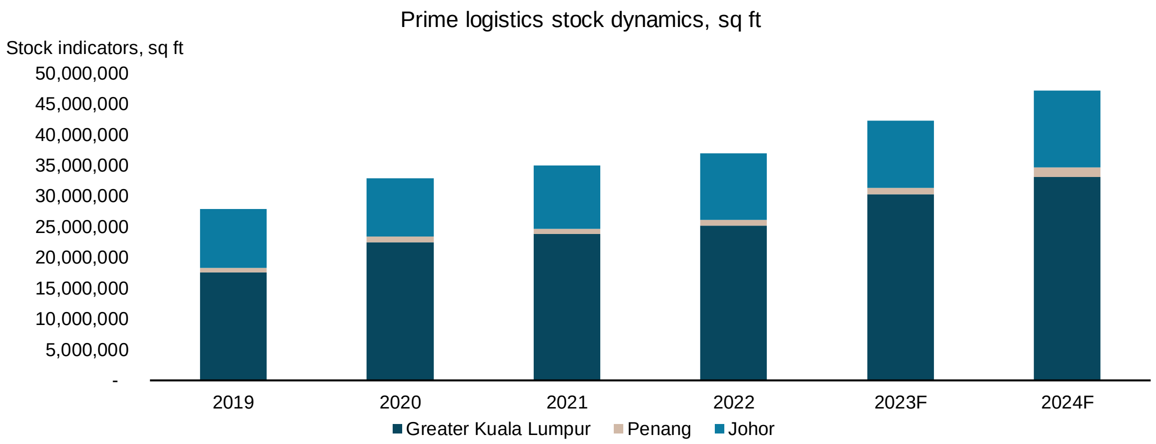
Rental rates and market sentiment

- Existing supply across all three major regional markets cannot meet the demand. We see high ratio of Built-To Suite and Built-To-Lease transactions in the upcoming supply. As a result, average rents grew up across all three markets.
- Penang Island continues to be an expensive logistics market primarily due to the scarcity of available land suitable for development. Despite the higher costs, the demand for logistics space in Penang remains consistently strong. This can be attributed to its strategic location in close proximity to Penang International Airport and the seaport. The island's advantageous position plays a crucial role in attracting businesses and driving the demand for logistics facilities in the area.
- Penang Mainland has shown the strongest growth in rental rates this year, primarily driven by high demand from manufacturers already established in Penang and Kulim, as well as from third-party logistics (3PL) operators. This increased demand has contributed to the rental growth in the area, indicating a positive market outlook for Penang Mainland.
- Greater Kuala Lumpur, being the second most expensive national market in Malaysia, continues to experience notable growth in rental rates. As the largest and most mature market in the country, Greater Kuala Lumpur

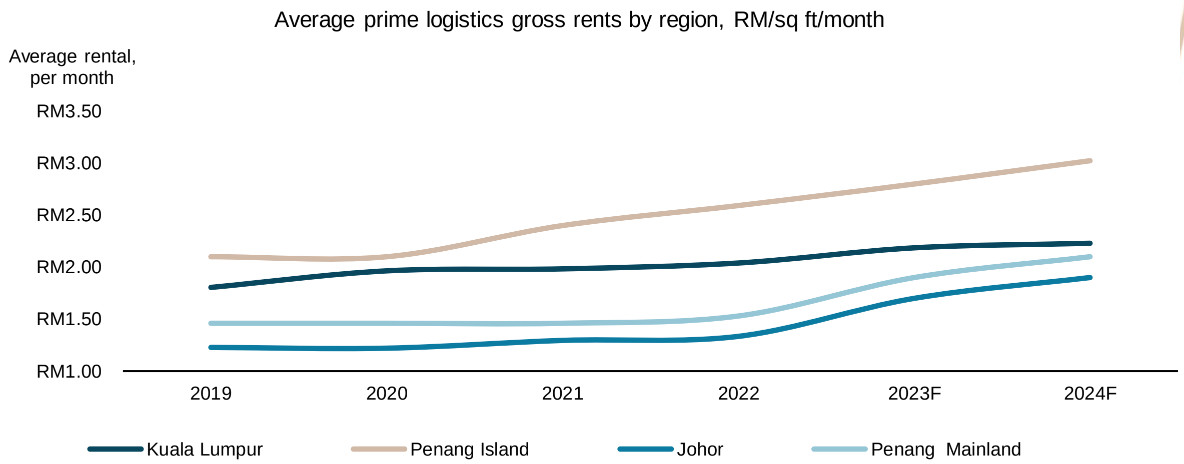
has seen moderate average rent growth of 10% in the first half of 2023. This upward trend in rental rates reflects the strong demand and attractiveness of the market for commercial real estate.

- Johor follows general market trend. We note significant rent growth of 25% driven by client's activity around Senai International Airport and Port of Tanjung Pelepas (PTP) area.
- As macroeconomic drivers of logistics market growth are expected to remain strong, we expect further market expansion in the medium term. Approximately 11 million sq ft of warehouse space is expected to complete in the next 18 months across all three regions. Global logistics growth, retail and manufacturing sectors and e-commerce remain the main drivers of the logistics market expansion. Majority of these spaces have already been contracted by prospect tenants.

Many developers are contemplating investments in the logistics segment; however, their decision-making process has been cautious due to global market uncertainty and higher interest rates affecting development budgets. Despite these factors, the emphasis on the China Plus One Strategy is expected to drive continued foreign interest in the logistics market. Companies seeking to diversify their supply chain away from China are increasingly considering Malaysia as a viable option. This ongoing trend is likely to keep foreign interest robust in the Malaysian logistics market.



Source: JLL Research



Source: JLL Research

RETAIL MARKET

Supply

- There have been no new retail mall openings in 3Q 2023, however we note that Pavilion Damansara Heights Mall recently opened on the 9th of October, and this will be reflected in 4Q 2023. By the end of 2023, the market will see an influx of 2.7 million sq ft of retail space entering the market. These include the aforementioned Pavilion Damansara Heights Mall, The Exchange Mall at Tun Razak Exchange development precinct as well as Bloomsvale Mall. Overall, we note that mall owners remain cautious about pushing for new retail mall openings considering the economic uncertainty.

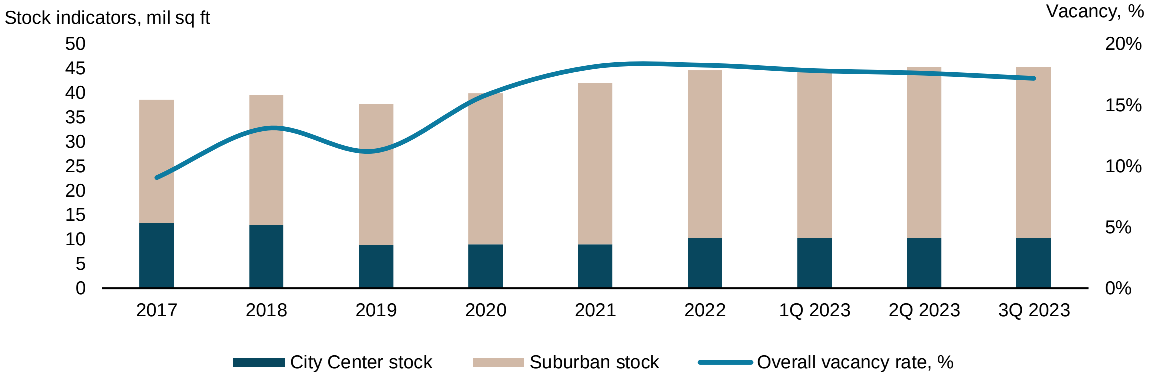
Demand and occupancy

- Shopping traffic has returned to pre-pandemic levels. Prime shopping malls recorded strong footfall particularly during weekends and public holidays. Improved foreign footfall in major shopping malls in the city centre was also observed during the quarter. Travel trends are gradually normalising as traffic movements at airports displayed a trend that is similar to pre-pandemic periods where passenger traffic peaks during festive seasons, school, and public holidays.
- We observed steady occupancy rates in major malls, with the minimarket & convenience stores, pharmacy and personal care stores and F&B shops driving activity in the market. Further, we also note that footfall within malls have reached pre-pandemic levels with more and more foreigners returning to malls amidst summer holidays in western countries.

Rental rates

- Higher rental rate is recorded this quarter due to increased occupancy, strong shopper traffic and healthy tenant sales. In tandem with higher shopper footfall and expected higher tourist arrival, the overall forecast trend is maintained it its upwards trend as rents are likely to continue to grow albeit a slower space with most malls expecting positive rental returns.
- Market rents across all submarkets are roughly 6% below pre-pandemic levels. We see gradual rental rates recovery, but at a slower pace compared to retail sales. High competition in retail segment forces tenants to take very cautious approach towards opening of new outlets. JLL Research expects market rents to gradually recover, but they are unlikely to reach pre-COVID-19 levels in current trends in the short term.
- As retailers continue to be very selective with new shops location, they also are trying to share risks with landlords by splitting rental payments into two components. The fixed component is represented by traditional gross rent paid to the landlords regularly. On top of that, tenants may pay a variable turnover rent. The amount of this rent will depend on unit performance within each period.

Prime retail total stock and vacancy rate in Greater Kuala Lumpur submarkets, mil sq ft



Source: JLL Research

PRIME HIGH-RISE RESIDENTIAL MARKET

Supply

- The prime high-rise residential market in Malaysia saw more projects getting delayed as most developers face issues with paperwork which hinders delivery of projects within stipulated timeframes. Out of six (6) projects scheduled for completion in 3Q 2023, only two (2) projects were delivered this quarter. They are Axon Bukit Bintang with 465 units by AK Star Sdn Bhd (Aset Kayamas Group) and Pavilion Ceylon Hill with 629 units by Pavilion Group.
- The remaining four (4) projects that have been delayed are:
  - Setia Sky Seputeh with 290 units by S P Setia
  - Imperial Lexis with 164 units by KL Metro Group
  - Hemmon House with 90 units by Forebase Property Sdn Bhd
  - Tower A of Picasso Residences with 270 units by Premier De Muara Sdn Bhd (a subsidiary of PRG Holdings Berhad)
- No new launches were seen during the quarter.

Demand

- Unsold rate slightly dropped by 6 bps compared to 2Q 2023 demonstrating soft demand. Transactions originated by expatriates prevail in total demand. Volume of demand generated domestically remains subdued. This is due to weakening of currency, Ringgit Malaysia and higher interest rates. Overall, in the two (2) delivered projects, 100% of the units were sold before delivery.
- Moreover, according to Valuation and Property Services Department (JPPH), volume and value of property transactions recorded in residential sub-sector declined by 1.0% and 1.8%.
- Furthermore, the Malaysian government intends to improve access to housing by shifting its priority towards affordable and accessible rental over ownership under the Mid-Term Review (MTR) of the Twelfth Malaysia Plan (12MP). At the same time, it seeks to enhance rent-to-own housing programmes to provide better access to home ownership financing, as well as to increase supply of affordable housing in the country.

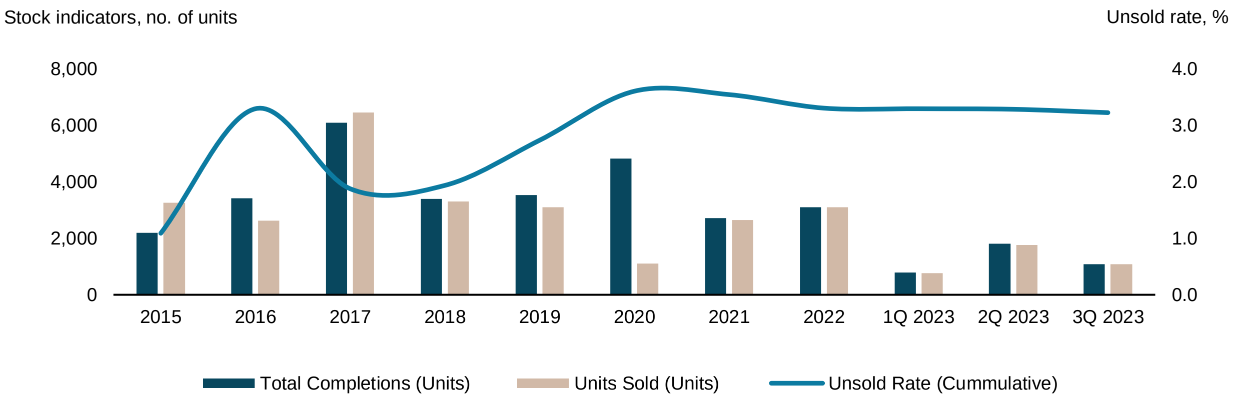
News release

11.00am | 23 October 2023

Prices and rents

- Rents improved during the quarter as we note a changing preference among potential homebuyers to temporarily rent as economic conditions improve, and the resurgence of foreign tenants due to relocation of several offices to Kuala Lumpur. Besides, gradual recovery of the economy along with increased job opportunities brought in by foreign investments.
- The capital values have increased by 1.5% q-o-q to RM965 psf on the back of improving rents. In addition, this is also due to increasing construction costs and the value of currency.
- Moving forward, we anticipate a continuous climb in construction cost that would cause an increase in capital values. Furthermore, construction sector is still in the midst of recovery phases due to higher cost of raw materials and skilled labour shortage. The high construction cost in previous years is also likely to contribute to the increase in selling price of new properties. This will persist as an ongoing challenge in the market.

Prime high-rise residential demand in Kuala Lumpur, units



Source: JLL Research

– ends –

About JLL

JLL is a leading professional services firm that specializes in real estate and investment management. JLL shapes the future of real estate for a better world by using the most advanced technology to create rewarding opportunities, amazing spaces and sustainable real estate solutions for our clients, our people, and our communities.

JLL Property Services (Malaysia) Sdn Bhd is part of JLL network. JLL network is a Fortune 500 company, and the World's Most Ethical Companies in Real Estate category for 15 consecutive years since 2008.

For further information, visit www.jll.com.my.

Contact: Joey Ng
Phone: +6019 213 1330
Email: Joey.Ngpeise@jll.com