



# CCO & ASSOCIATES

## PROPERTY MARKET REVIEW 2019 / 2020



\* Chartered Valuation Surveyor \* Registered Valuer \* Real Estate Agent \* Property Manager \* Auctioneer \*

CCO & Associates understands the threats posed by the large overhang properties. In this review, we have analysed and highlight districts in Malaysia that have recorded significant number of overhang properties.

## FOREWORDS BY SR ANNIE A. N. CHAN GROUP MANAGING DIRECTOR OF CCO & ASSOCIATES GROUP



**Sr Annie A. N. Chan**  
**(Group Managing Director)**

9th May 2018 was indeed a historic date for Malaysia, indicating a possible change in the country's development direction, to a more transparent and focused development path, which in turn will bring Malaysian property market to a greater height.

Alas, the Malaysian property market continues to be in a blurry state. While the expectation for change and improvement is high, understandably, reform will take time. The overall outlook for Malaysian property market in 2020 will remain challenging. The projected growth rates of 4.7% and 4.8% in 2019 and 2020 will ensure the prevailing property market sentiment remain stable. Otherwise the situation may worsen.

Overall, we are happy with the measures and incentives introduced under 2020 Budget. It offers the much needed incentives to make Malaysia Great Again, in attracting foreign direct investment (FDI) and encourage entrepreneurship amongst the local SMEs. Efforts are also being made to improve the unemployment rate, reduce reliance on foreign labour and to improve the workforce by increasing woman participation. These measures will improve household incomes and in turn will reduce the household debts in the country in the medium to long term.

We did not see meaningful measures being introduced in 2020 Budget to improve the Malaysian property market. The reduced threshold prices from RM1 million to RM600,000 per residential property for the foreigners are confined to overhang properties only. Developers may have to reduce the selling prices of the overhang units, which are completed units, to attract foreign buyers. Most state governments, which have authority to set their own threshold prices, have yet to announce new threshold prices for foreigners (if any).

With the large overhang properties and high household debts, we expect financial institutions to continue to be prudent when approving loans. Despite being unpopular, such measures are imperative to ensure sustainable property market condition. Unrestrained loan approvals will contribute to unsustainable property market, e.g. household debts, NPL and property foreclosure will increase, potentially leading to burst in the property bubble.

Amid the highly competitive market condition, we expect property developers in the country to continue to offer attractive incentives, discounts and rebates to attract buyers. The incentives will continue despite the end of Home Ownership Campaign (HOC) by end of 2019.

Overall, cautious outlook is observed for the Malaysian property market. New development projects need to be undertaken diligently and supported by strong underlying demand.

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Although trade war between US and China may affect the world's trade including Malaysia, it creates opportunities for the country to attract foreign investments.

With effective implementation strategies, the proposed incentives introduced under 2020 Budget could see immediate influx of FDI.

With the low inflation rates and the US government reducing the interest rates, the government will adopt expansionary monetary fiscal and monetary policies to encourage economic growth, maintaining low interest rates and allocates higher development expenditures.

### OVERVIEW OF MALAYSIAN ECONOMY

Malaysian economy is expected to continue to record sustainable growth rates at 4.7% in 2019 and 4.8% in 2020. During the first half of 2019, Malaysian GDP growth was 4.7%, the same growth rate recorded for overall 2018.

The government has continued to adopt expansionary monetary and fiscal policies to encourage economic growth. The government has cut the Overnight Policy Rate (OPR) by 25 basis points from 3.25% to 3% in May 2019 and introduces larger expenditure in Budget 2020.

2020 Budget allocates a total expenditure of RM297 billion (excluding contingency reserve of RM2 billion), which is RM17.6 billion lesser than last year budget. However, excluding the special RM37 billion GST refund in 2019, the total expenditure under 2020 Budget shows an increase of RM19.5 billion.

2020 Budget also allocates larger development expenditures by about RM1.3 billion when compared to 2019 Budget to fund infrastructure projects such as Pan Borneo Highway, MRT 2 and airport upgrades.

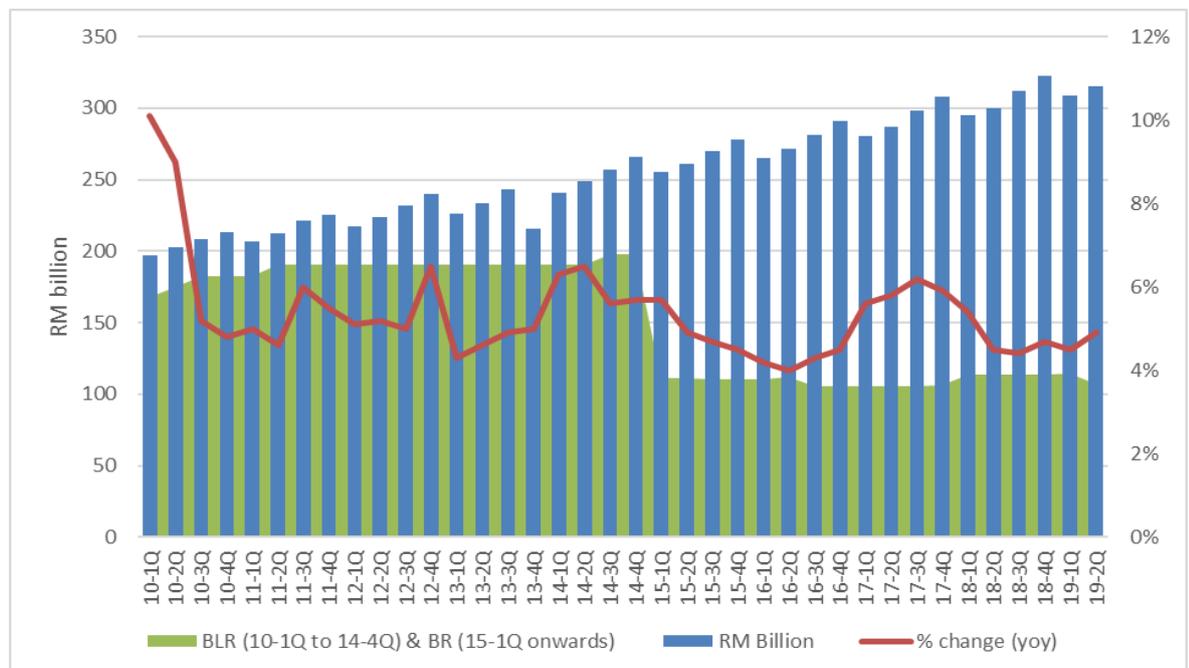
Capitalizing on opportunities resulted from the trade war between US and China, the government has introduced various measures and incentives to make Malaysia the preferred destination for investment. With the right implementation strategies, Malaysia has potential to attract large Foreign Direct Investments (FDI).

Malaysia has experienced 97.2% increase in FDI to RM49.5 billion during the first half of 2019 as compared to RM25.1 billion during the same period in 2018.

Trade war between US and China is expected to affect Malaysia's trade. Although Malaysian exports grew by 7.3% in 2018, the exports had declined by 0.4% during the first seven months of 2019. The exports are expected to remain flat in 2019 in view of the uncertainties in the global trades.

The government, through Malaysians@Work, has introduced various measures and incentives to reduce unemployment rate in the country, to reduce reliance on foreign labour and to increase women participation in the labour force.

**Gross Domestic Products (GDP), Base Lending Rate (BLR) & Base Rate (BR) From 2010-1Q to 2019-2Q**



Source: Bank Negara Malaysia / Department of Statistics Malaysia

At the projected economic growths of 4.7% and 4.8% for 2019 and 2020, respectively, the overall market sentiments are expected to remain stable. Notwithstanding this, the economic performance will be subjected to local and overseas economic conditions.

Most of the new developments announced under 2020 Budget comprises industrial projects, improvements to the current projects or continuation of the previously announced projects.

The high household debts increase the risks of loan defaults. The number and value of foreclosure cases were reported to have increased.

The government recorded a fiscal deficit of 3.7% of GDP in 2018 and is on track to achieve the targeted deficit of 3.4% in 2019. In 2020 Budget, the government has revised the targeted deficit of 3% (announced during 2019 Budget) to 3.2% for 2020 in order to fund the expansionary budget.

Supported by expansionary monetary and fiscal policy, the Malaysian GDP is projected to increase by about 4.7% in 2019 while in 2020, the GDP is projected to increase by about 4.8%. During the first half of 2019, Malaysian GDP expanded by 4.7%.

Barring any unforeseen circumstances, the projected GDP growth of 4.8% for 2020 is expected to sustain the prevailing property market sentiments in the Malaysia.

#### Household debts

Although the Malaysian household debt grew modestly at 4.7% in 2018, it remains at high level in relation to the country's GDP, e.g. estimated to be about 83% of the GDP.

Many households in the country, especially lower income borrowers earning up to RM5,000 a month, is exposed to default risks in the event the country's economy slows down and increase in inflation.

Generally, the high household debt is expected to restrain loan growth needed to stimulate the Malaysian property market. Financial institutions are expected to continue to adopt prudent measures when approving loans.

The government has introduced Rent To Own (RTO) and Youth Housing Scheme in 2020 Budget to encourage home ownership amongst the youths and first time house buyers.

While the government's efforts in encouraging home ownership among the Malaysians are laudable, poorly executed financial schemes will contribute to the increase in loan defaults. Majority of the loan defaults involves low income groups.

#### 2020 Budget - Major developments

2020 Budget has announced the following projects:

##### Projects

- ✓ To repair and maintain roads leading to Port Klang in Selangor
- ✓ Chuping Valley Industrial Area in Perlis
- ✓ Kuantan Port related projects in Pahang
- ✓ Sungai Segget Centralised Sewerage Treatment Plant in Johor
- ✓ Infrastructures at Samalaju Industrial Park in Sarawak
- ✓ New cable car system to Penang Hill
- ✓ To complete Pan Borneo Highway including 40 km Jalan Kalabakan-Serudong and CIQ complex and government housing quarters in Sabah
- ✓ To upgrade rail track from Gorge Line to Tenom Station in Sabah
- ✓ To upgrade Sultan Azlan Shah Airport in Ipoh, Perak
- ✓ To proceed with Rapid Transit System between Johor Bahru and Singapore

##### Potential projects

- ✓ Development of Pulau Carey as next growth phase for Port Klang in Selangor
- ✓ Serendah-Port Klang Rail bypass for cargo shipments in Selangor
- ✓ Klang Logistics Corridor – dedicated privatized highway connecting Northport and Westport in Selangor

##### Tourism sector

- ✓ Promote Visit Malaysia 2020
- ✓ Promote Malaysia Year of Healthcare Travel 2020
- ✓ Tax exemption for new international theme park projects

##### Tolled highways

- ✓ Minimum reduction of average toll charges by 18% discount for all PLUS highways
- ✓ Toll rates for cars at the Second Penang Bridge will be reduced from RM8.50 to RM7
- ✓ The government to acquire four highway projects, e.g. KESAS, LDP, SPRINT and SMART Tunnel in Klang Valley. Toll charges will be replaced with congestion charges.

Although the government has projected the inflation to remain low at about 1% to 2%, floating of RON95 and diesel may contribute to the increase in the inflation rate.

Changing the base year to 1<sup>st</sup> January 2013 from 1<sup>st</sup> January 2000 may reduce the RPGT taxable income for property owners, this latest measure will not increase property investment and speculation activities in the Malaysian property market.

Discontinuation of HOC may affect take up rates of residential properties after 31<sup>st</sup> December 2019, when the campaign ends.

## Inflation

The abolishment of GST and introduction of tax holiday period from 1<sup>st</sup> June 2018 to 31<sup>st</sup> August 2018 have reduced the inflation rate to 1% for 2018 when compared to 3.7% increase in 2017.

The government plans to gradually float the prices of RON95 and diesel when Fuel Targeted Subsidy Programme (PSP) is implemented beginning 2020. Ceiling prices for RON95 and diesel will be maintained at RM2.08 and RM2.18 per litre, respectively in Sabah and Sarawak.

The government has projected the country's inflation to remain at manageable level of 1% to 2% for 2020. At this level, the government has the flexibility to further expand its fiscal policy.

Being a country highly dependent on fuel consumption, increase in the fuel prices will increase the Malaysian inflation considerably. Historically, increase in the fuel prices has contributed to the increase in the inflation.

## Real Property Gain Tax (RPGT)

The government has set the Market Value as of 1<sup>st</sup> January 2013 as the property acquisition price for properties disposed after 5 year period. Previously, the base year was set on 1<sup>st</sup> January 2000.

With the change in the base year, the RPGT on gains derived from property disposal is expected to reduce.

The change in the base year is not expected to improve investment activities in Malaysian property market as most of the property investors are still adapting with the continuing rate increases since RPGT was reintroduced in 2010.

## Threshold price for foreigners

In order to reduce overhang of condominiums and apartments in the country, the government will lower the threshold on high-rise property prices in urban areas from RM1 million to RM600,000.

Ministry Of Finance (MOF) has clarified that the lowered threshold price for foreigners is only applicable for overhang high-rise residential properties, e.g. existing condominium, apartment and serviced apartment units that are still unsold after being put up in the market for sale for more than nine months. The new price threshold is only applicable from 1<sup>st</sup> January 2020 to 31<sup>st</sup> December 2020.

The new price threshold will be applicable for properties located within federal territories, e.g. Kuala Lumpur, Putrajaya and Labuan while the respective state governments are expected to set their own property price threshold for foreigners. As at the date of report, state governments have yet to revise the threshold prices for foreigners.

The Malaysian property market has benefited from the positive take-up by foreigners particularly from Singapore, Hong Kong, China and Taiwan, etc. The targeted properties comprise mainly luxurious condominiums and serviced apartments located in urban areas.

The reduction in the threshold prices are expected to increase property purchases by foreigners however, the take-up rates by foreigners are not expected to reduce the property overhang in the country significantly as historically foreign buyers did not contribute significantly to the overall take-up rates of Malaysian properties.

## Home Ownership Campaign (HOC)

During 2019 Budget, the government has launched HOC to encourage home ownership amongst Malaysians and to reduce the property overhang. The campaign has been subsequently extended to 31<sup>st</sup> December 2019.

Under HOC, a house priced between RM300,000 and RM2.5 million, purchased from developers registered with Redha, Shareda and Sheda, gets at least 10% discount, stamp duty exemption of 100% limited to RM1 million of the house value while the remaining value is subject to 3% rate and 100% stamp duty exemption on the entire loan agreement.

The young population profile will continue to drive the demand for properties in the country. Without considerable increases in the household incomes, the demand will be confined to mainly affordable properties.

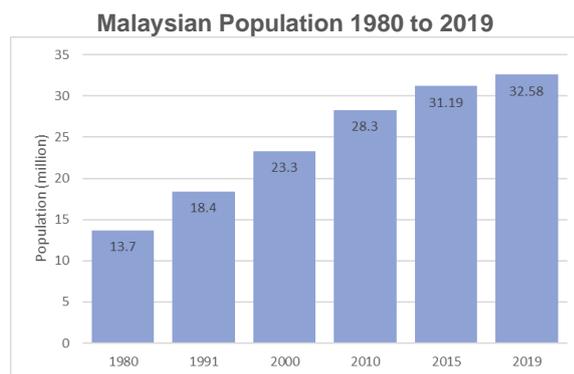
The government has also extended the incentives to property subsales executed between 1<sup>st</sup> January 2019 to 31<sup>st</sup> December 2020 by first time home purchasers. The incentives include stamp duty exemption on memorandum of transfer and loan agreement for home priced not more than RM300,000. For properties priced between RM300,001 and RM500,000, stamp duty exemption is limited to the first RM300,000.

Generally, HOC has successfully increased property transactions in the country. According to Rehda, property sales under HOC has hit RM14.65 billion as at September 2019 and 19,784 residential units had been sold as at September 2019.

### Demography

Malaysian population continues to record commendable growth rate. Healthy population growth is imperative to stimulate economic developments in a country.

Population in Malaysia had increased from 13.7 million in 1980 to 32.58 million in 2019, indicating an increase of about 137.8% over 39 year period or Compound Annual Growth Rate (CAGR) of about 2.25%. During 2010 to 2019 period, CAGR of population in Malaysia was estimated to be about 1.58%.



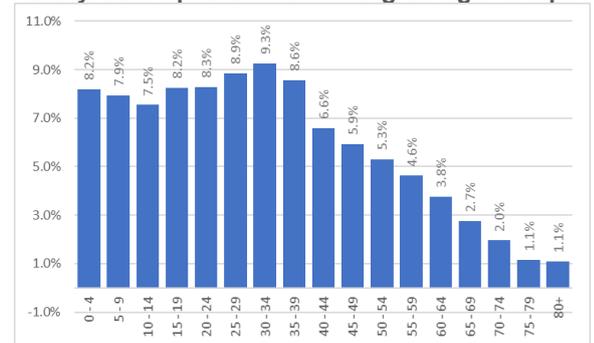
Source: Department of Statistics Malaysia

Increase in the population is expected to generate demand for properties. Based on a general illustration, population increase of 1.39 million will generate demand for 347 thousand houses based on average household size of 4 persons.

### Age Groups

Approximately 57.4% of the population in Malaysia fall within working age groups, e.g. from 20 to 59 year old while 31.9% was aged below 20 year old. This population group with stable employment is the potential property buyers.

#### Malaysian Population According To Age Groups



Source: Department of Statistics Malaysia

Demand for properties is expected to increase when the young population, e.g. 31.9% of the overall population aged below 20 year old grows and enter the country’s labour force. This population group will ensure sustainable demand for properties in the medium to long term.

By 2020, Malaysia is expected to become aging population when 7% of the population is aged above 65 year old. Correspondingly, requirements for retirement homes as well as wellness and medical facilities are expected to increase.

Overall, the demographic trend in Malaysia augurs well for development of the Malaysian property market.

### Outlook

2020 Budget introduces various measures to promote digital economy, attract new foreign and local investments, revitalize the SME industry, increase employment opportunities, promote tourism via VMY2020, etc. Through digital transformation, 2020 Budget could lay foundation to bring Malaysia to a greater economic growth path.

We are of the opinion that it would be healthier to have a sustainable property market than overstretching the demand through unrestrained loan approvals. This may expose the market with increasing loan defaults and foreclosure.

After 3 consecutive years of decline, the number and value of property transactions stabilized in 2018. Barring any unforeseen circumstances, we hope the Malaysian property market has hit the trough of the market cycle.

Although the Malaysian economy is expected to be driven by mainly private consumption, the country’s economy will still be subjected to global developments such as trade war between US and China, geopolitical tension and potential oil palm import bans by European Union (EU) and India, to name a few.

The high household debts and in the absence of clear directives from the government, financial institutions will continue to be prudent when approving property loans hence deterring investment and speculative activities in the property market.

A large number of infrastructure projects announced under 2020 Budget involve industrial and tourism developments. Developments of Rail Transit System (RTS), upgrading of Sultan Azlan Shah Airport and Pan Borneo Highway will stimulate developments in Johor Bahru, Ipoh and Sabah & Sarawak, respectively.

Supported by various incentives by the government for first time house buyers, affordable residential properties especially those located in established locations are expected to record strong demand.

Generally, affordable residential properties, e.g. priced below RM500,000 are the targeted and preferred property category for most first time house buyers. The number of first time house buyers are expected to increase when young population in the country becomes mature.

Strong take-up rates have been noted for affordably priced residential projects in established locations in the country. Driven by stable economic growth and accommodative monetary and fiscal policy, the trend is expected to continue.

2020 Budget and recent economic outlook augurs well for the hospitality and industrial property sectors.

### OVERVIEW OF MALAYSIAN PROPERTY MARKET

After recorded three (3) consecutive years of negative growths, the Malaysian property market has finally found its ground in 2018, recorded marginal increases of 0.6% and 0.35% in overall number and value of property transactions, respectively.

In 2018, a total of 313,710 properties were transacted, translating to total RM140.327 billion. The transactions were marginally higher than the 311,824 transactions and RM139.84 billion values recorded in 2017.

The residential property sector continued to be the key driver for Malaysian property market in 2018, contributed about 62.9% of overall property transactions and 49% of the overall property value transacted.

In 2018, commercial properties recorded the second highest number of transactions with 21.5% while the industrial properties recorded the second highest values of transaction with 21%.

In 2018, all the property sectors have recorded increase in the number of transactions with the exception of agriculture sector, which had declined by about -4.21%.

In terms of transaction values, only agriculture properties and development lands had declined by about -3.7% and -32.7%, respectively while other property types recorded increases.

In 2018, residential properties recorded small increases of 1.39% and 0.42% in the transaction number and transaction values.

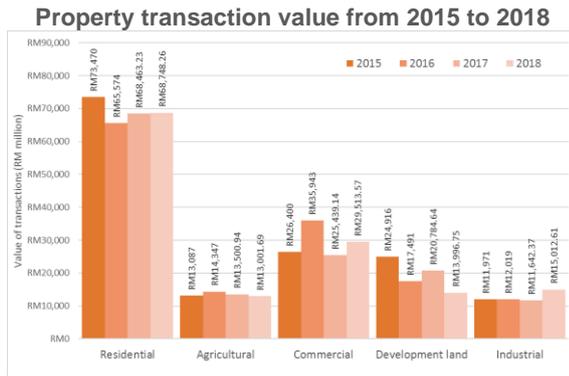
Property transactions from 2015 to 2018



Source: NAPIC

Supported by incentives offered under HOC, property sales by developers has increased. This has driven the increase in the number and value of property transactions during 2019-1H.

In 2020, the large number of property overhang will continue to negatively affect the Malaysian property market. Despite the measures introduced by the government to reduce property overhang, the number and value of property overhang in the market continues to increase amid at lower rate of increases.



Source: NAPIC

### First Half Of 2019 (2019-1H)

Total 160,172 property transactions were recorded during the 2019-1H. This indicated an increase of about 6.9% when compared to the 149,862 property transactions recorded during the first half of 2018.

The total value of property transactions during 2019-1H recorded only marginal increases of about 0.8% to RM68.301 billion from 67.735 billion recorded during 2018-1H.

During the 2019-1H, all property types have recorded increases in the number of transactions ranging from 2.95% to 24.78%. The increases were laudable considering the declining take-up rates experienced by the Malaysian property market since 2015.

The Home Ownership Campaign (HOC) has successfully increased the number of property transactions during the first half of 2019. The extension of HOC up to 31<sup>st</sup> December 2019 will ensure favourable take-up rates during the second half of 2019.

The discount as well as incentives offered under the HOC have reduced the overall property transaction value. The average transacted value per property transaction has reduced to RM422,892, a reduction of about -5.5% when compared to the average value per property transaction of RM447,313 recorded in 2018.

Barring any unforeseen circumstances, property transactions in 2019 are expected to increase while marginal increase is observed for the value of property transactions.

### Malaysian Property Overhang

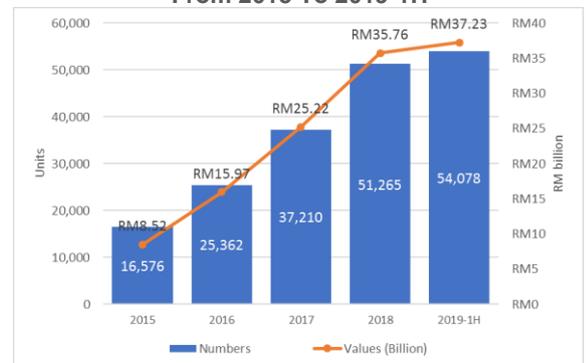
One of the key issues affecting the Malaysian property market is the increasing property overhang, which is defined as completed properties that have remained unsold after being put up for sale for at least nine months.

Many factors have contributed to the increase, namely unaffordable pricing, lack of financing support and undesirable properties (located at poor location). To address the issue, the government has introduced HOC and reduce the threshold price for foreigners, to name a few.

The number of property overhang in the country have increased from 16,576 units in 2015 to 54,078 units as at 2019-1H. This indicated an increase of about 226.2% or CAGR of about 43.9%.

The value of property overhang has recorded higher increase of 336.9% from RM8.52 billion in 2015 to RM37.23 billion in 2019-1H. CAGR is estimated to be about 57.4%.

### The Number And Value Of Property Overhang From 2015 To 2019-1H



Source: NAPIC

As at 2019-1H, approximately 60.9% of the Malaysian overhang properties or 32,936 units comprised residential properties while 24.06% or 13,013 units comprised serviced apartments. 5,472 shops (10.12%) were reported to be unsold for over nine months after completion.

The overall overhang residential properties were estimated to be about RM19.96 billion (53.6%) followed by serviced apartments at RM10.18 billion (27.4%) and shops at RM4.5 billion (12.1%).

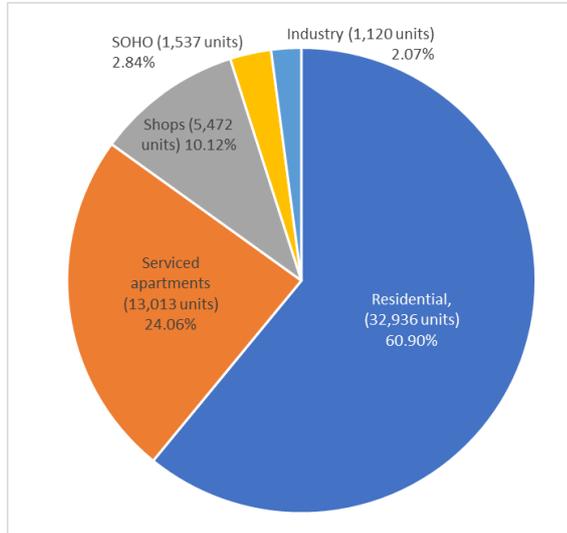
Property overhang is attributed to:

- High pricing
- Undesirable location
- Affected by large supply
- New property types in a location (without preceding track record)
- Unsuitable features
- Changes in market trend (many projects planned prior to 2015 may be no longer viable)

Johor Bahru District (JB) covers large areas. Some areas are established and highly populated while some are new areas with large new supply. Notable development areas with large new supply in JB include Iskandar Puteri, Danga Bay, Medini, etc.

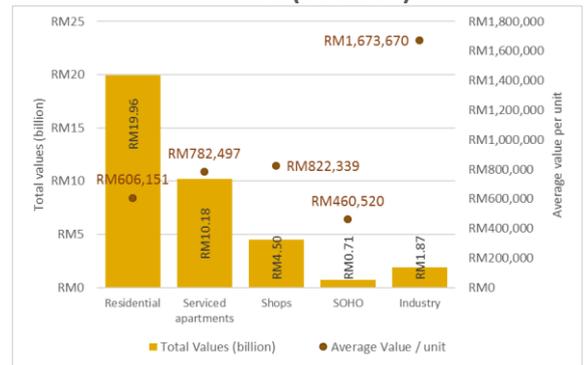
Although serviced apartments are commercial properties, most of the serviced apartments are used for residential purposes.

### Units Of Overhang Properties According To Sectors (2019-1H)



Source: NAPIC

### Values Of Property Overhang According To Sectors (2019-1H)



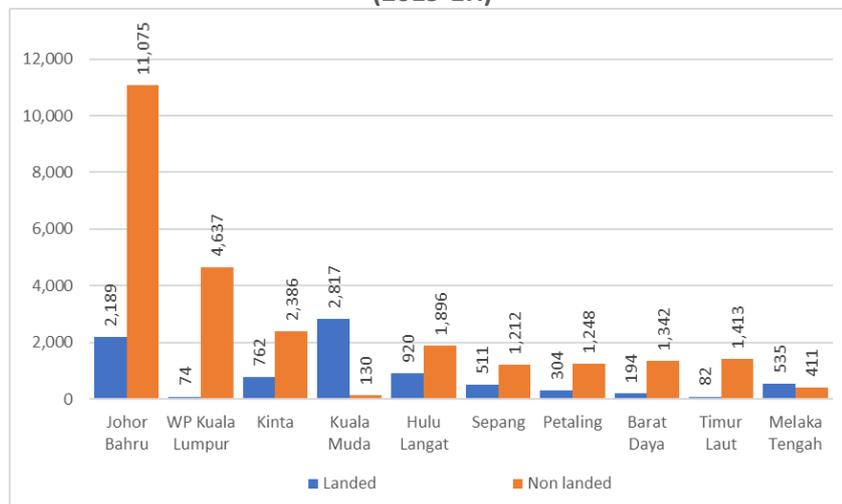
Source: NAPIC

The average value for every overhang residential property is estimated to be about RMRM606,151 while the serviced apartment recorded higher average value of RM782,497.

Although SOHO recorded low average value of RM460,520, most SOHO units offer considerably smaller floor sizes of around 500 square feet. SOHO developments are located mostly in Klang Valley and Johor Bahru.

### Residential Property Overhang

#### Top Ten Districts With The Highest Residential Property Overhang (2019-1H)



Source: NAPIC

#### Note:

Landed comprises terraced houses, semi-detached houses, detached houses, townhouses, cluster houses and low cost houses.

Non landed comprises condominiums, apartments, serviced apartments, SOHO, low cost flats and flats.

Overhang of residential properties are located mostly at established areas in Klang Valley and capital towns in other states.

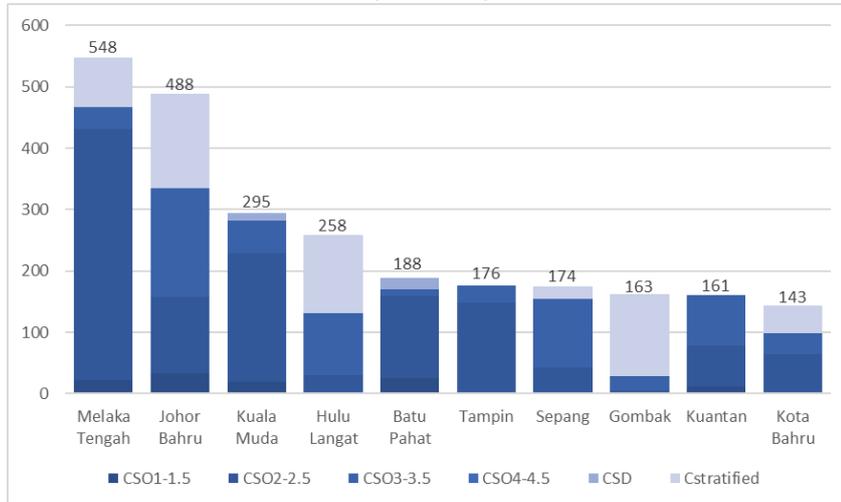
As at 2019-1H, Johor Bahru District was reported to record the highest number of residential property overhang at 13,264 units, approximately 181.6% higher than the residential property overhang recorded in Kuala Lumpur Federal Territory with 4,711 units.

We observe that property overhang issues were attributed to projects that had been launched or planned prior to 2015, when demand in Malaysian residential property market started to decline.

Popular commercial shops in the market, namely 2 to 3 storey terraced shopoffices form the largest type of overhang shops in Malaysia.

### Commercial Property Overhang

**Top Ten Districts With The Highest Commercial Property Overhang (2019-1H)**



Source: NAPIC

Notes: CSO – Shopoffices / Shophouses (Storey)

The top three districts with the highest commercial property overhang comprised Melaka Tengah, Johor Bahru and Kuala Muda, all are located far away from the Klang Valley.

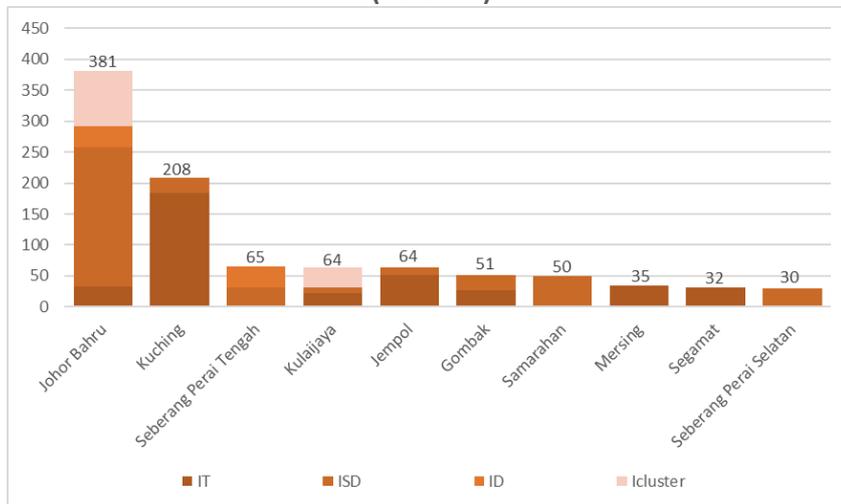
A large proportion of the commercial property comprises 2 to 3.5 storey shopoffices, which are also the most popular commercial property types in the country.

Most commercial property overhang are overpriced or located further away from main population areas.

There were only 1,120 industrial properties classified as overhang in Malaysia. Generally, the industrial property overhang is deemed insignificant when compared to the overhang of residential and commercial properties.

### Industrial Property Overhang

**Top Ten Districts With The Highest Industrial Property Overhang (2019-1H)**



Source: NAPIC

Notes:

- IT – Industrial terraced factories
- ISD – Industrial semi-detached factories
- ID – Industrial detached factories
- Icluster – Industrial cluster factories

Industrial property sector is the least affected property types in the property overhang issues in Malaysia.

As at 2019-1H, only 1,120 industrial factories were reported to be unsold despite having been completed and being put up for sale in the market for over nine months.

Johor Bahru District recorded the highest number of industrial property overhang with 381 units, followed by Kuching with 208 units. Other districts generally recorded 65 or less industrial property overhang.

Generally, most of the industrial property overhang comprises highly priced factories.

Generally, the overhang of landed residential properties forms a small proportion of the overall existing supply.

### Property Overhang In Relation To Overall Stock

Large number of overhang properties may affect the local property market sentiment especially when the number of overhang properties form a significant portion of the existing stock.

#### Residential Property Sector

#### Districts With High Number Of Landed Residential Property Overhang In Relation To Overall Property Stock



Source: NAPIC & CCO Research

Kuala Muda District in Kedah recorded the highest number of landed residential property overhang followed by Johor Bahru. The overhang of 2-3 storey terraced houses in Kuala Muda made up approximately 10.8% of the existing supply of 2-3 storey terraced houses in the district. Although Johor Bahru recorded 1,412 units of 2-3 storey terraced houses, it represented only 1% of the existing supply.

Unconventional and relatively new landed residential property types such as townhouses and cluster houses remain to be unpopular in areas such as Kuala Muda in Kedah, Sepang in Selangor and Johor Bahru in Johor. Other districts generally recorded overhang property of less than 5% from the overall property stock.

Johor Bahru District recorded significantly high overhang of SOHO. Generally, SOHO is a relatively new property type in Johor Bahru.

#### Districts With High Number Of Non-Landed Residential Property Overhang In Relation To Overall Property Stock



Source: NAPIC & CCO Research

SOHO, which is a relatively new property type in Johor Bahru, is generally unpopular in Johor Bahru when more than 50% of the completed SOHO units were reported to be unsold after being put up for sale for more than nine months. Hulu Langat has also recorded relatively high overhang of SOHO units, estimated to be about 11.8% from the overall existing SOHOs in the district.

Approximately 30% of the existing condominiums and apartments in Kinta District in Pulau Pinang was reported to be unsold followed by Barat Daya District in Pulau Pinang with about 5.2%. The overhang serviced apartments in Johor Bahru, e.g. 8,283 units made up about 11.4% of the existing serviced apartment supply.

Large number of condominium and apartment projects being launched in Kinta District has contributed to the large % of overhang condominiums and apartments.

Semi-detached shops are new commercial shop types in Batu Pahat and Kuala Muda. Similarly, stratified shops are also new in Kota Bahru. This

Most of the stratified shops are located at developed areas, e.g. in Klang Valley and Johor Bahru.

Commercial Property Sector

**Districts With High Number Of Commercial Property Overhang In Relation To Overall Property Stock**



Source: NAPIC & CCO Research

Generally, overhang of 1 to 3.5 storey terraced shopoffices form a small proportion of the overall existing commercial property stock. The overhang of semi-detached shopoffices in Batu Pahat and Kuala Muda form about 39.1% and 36.1% of the existing supplies, respectively.

The high overhang of stratified shops in Kota Bahru, e.g. which made up close to 40% of the existing supply, shows that stratified shops are not as popular as other commercial property types in the district.

Industrial Property Sector

Terraced factories offer small floor areas that are unsuitable for manufacturers. Many such factories are used as car workshop or storage areas. Generally, terraced factories are unsuitable in non-established industrial areas such as Mersing, Kuching and Jempol.

**Districts With High Number Of Industrial Property Overhang In Relation To Overall Property Stock**



Source: NAPIC & CCO Research

As at 2019-1H, only 1,120 industrial factories were reported to be completed and remained unsold after nine months being put up in the market. Majority of the industrial property overhang in Malaysia comprise terraced and semi-detached factories, e.g. 476 and 456 units, respectively. Generally, the number of industrial property overhang is insignificant and is not expected to negatively affect the overall property market.

More than 50% of the existing terraced factories at Mersing District were reported to be overhang. This was followed by 37.2% and 26% recorded in Kuching and Jempol, respectively and Segamat District with about 10.6%.

## Portfolio

- Columbia Asia hospitals

## Purpose built offices

- Bangsar South
- TM Annexe
- Wisma MPL
- Menara Weld

## Hospitality &amp; Recreational properties

- Royale Chulan Bukit Bintang
- UEM Sunrise Bhd-Somerset & Marina Walk Puteri Harbour, Johor

## Developers expanding their landbanks

- Scientex Berhad-Land in Rawang
- Mah Sing-Near Naga Emas MRT station
- SkyWorld-Setiawangsa
- Scientex Berhad-Gombak & Kundang
- Sunway Berhad-Kota Damansara

## MAJOR CORPORATE DEALS

The following shows updates of key infrastructure development projects in 2016 / 2017.

## Portfolio Transactions

- ✓ In September 2019, Hong Leong Group and private equity firm TPG have won the bid to acquire Columbia Asia hospitals in South-East Asia for US1.2 billion. The transactions involve 17 **Columbia Asia hospitals**, of which 12 are located in Malaysia, 3 hospitals in Indonesia and 2 hospitals in Vietnam.

## Klang Valley

- ✓ In January 2019, Sanichi Technology Berhad acquired a 12-storey office building in **Bangsar South**, Kuala Lumpur for RM46 million. The company bought the building measuring about 54,046 square feet from Takaful Ikhlas Family Berhad.
- ✓ In February 2019, Telekom Malaysia has published a tender notice for **TM Annexe 1 and Annexe 2**, which are located next to Menara TM. The buildings have combined gross floor areas of 679,015 square feet.
- ✓ Boustead Holdings Bhd has planned to disposed **Royale Chulan Bukit Bintang Hotel** for RM197 million in February 2019 to Hotel Royal Ltd, a Singapore based company.
- ✓ In March, 2019, Malaysia Pacific Corp Berhad (MPCB) sells **Wisma MPL** in the Golden Triangle, Kuala Lumpur city centre to Asia New Venture Capital Holdings Sdn Bhd for RM189 million. The deal involves 76 units at the podium level and 19 units at the office tower.
- ✓ In May 2019, **Scientex Berhad** made a proposal to acquired five (5) parcels of land in Selangor, three parcels measuring 150.17 acres in Rawang for RM111.21 million and two parcels in Kundang measuring 16.3 acres for RM12.07 million.
- ✓ **Western Digital** has decided to sell its hard disk drive (HDD) manufacturing facility site in the Sungei Way Free Trade Industrial Zone. It has been reported in July 2018, the company was looking at a price range of between RM160 million and RM190 million for the 11 acre site.
- ✓ **Mah Sing Properties Sdn Bhd** has acquired 4.63 acres of freehold land in Mukim of Petaling, Kuala Lumpur for RM90.3 million. The site is located about 800 meters to the upcoming Taman Naga Emas MRT station. The company plans to develop 2 to 4 bedroom units for the first time homebuyers and upgraders with a built up area of 700 square feet and above.
- ✓ In April 2019, **SkyWorld Development Group** is acquiring a 13.61 acre site in Setiawangsa Kuala Lumpur for RM176 million for its proposed SkySierra mixed development.
- ✓ Advance Synergy Berhad announced in May 2019 the company was selling a piece of land for RM124 million to **Mapletree Investments Pte Ltd**, a Singapore real estate company. The land is located within Pekan Baru Hicom in Shah Alam.
- ✓ **Tasco Berhad** had proposed to acquire a 16.3 acre leasehold land in Port Klang for RM25.8 million. The industrial land is located within established industrial neighbourhood of North Port, Kawasan Perusahaan Selat Klang Utara and Perdana Industrial Park.

- Mah Sing-Metropolitan Park, Kepong
- Mah Sing-Wangsa Melawati
- Sunway Berhad-Mutiara Bukit Jalil
- Tambun Indah Land Bhd-Seberang Perai Selatan, Penang
- Scientex Berhad-Penang
- Tadmax Resources Bhd-Alam Damai

#### Deals involving REIT.

- Mapletree-Pekan Baru Hicom Shah Alam
- Axis REIT-Nusajaya Tech Park
- Axis REIT-Bayan Lepas Free Trade Industrial Areas
- Al-'Aqar Healthcare REIT -KPJ Batu Pahat Specialist Hospital

#### Acquisitions:

- Tasco Berhad-Port Klang
- Ame Elite-Kulai, Johor

- ✓ **Scientex Berhad** was acquiring lands from Swan Lake City (SLC) and Fair City (FC) in Gombak in May 2019 for a total of RM123.28 million to boost its property development landbank. SLC was selling land measuring 607,735.7 square meters for RM111.21 million while FC sold adjacent land measuring 65,983 square meters in Kundang Town for RM12.07 million.
- ✓ A 60% subsidiary of **Sunway Berhad** has signed a Joint Venture agreement with Selangor State Government Corp (PKNS) to develop a mixed development on a 9.5-acre parcel of land in Kota Damansara.
- ✓ In July 2019, **Oriental Interest Berhad** was buying a piece of land in Kuala Langat District from Sime Darby Plantation Berhad for RM40.11 million. The 423,402 square meters land is currently planted with oil palm trees.
- ✓ **Mah Sing Group** has acquired a 5.47 acre land in Taman Metropolitan, Kepong for the development of M Luna serviced apartment project. The land was purchased at RM94.8 million while GDV of the project is estimated to be about RM705 million.
- ✓ In August 2019, **Mah Sing Group** has acquired 4.515 acre land in Wangsa Melawati, Setapak for about RM61.97 million. The land has been earmarked for M Adora residential development.
- ✓ **Khazanah Nasional Berhad** has proposed to divest its 100% stake in Prince Court Medical Centre Sdn Bhd (PCMC) to its healthcare platform, IHH Healthcare Bhd, for RM1.02 billion. PCMC operates Prince Court Medical Centre, a 277 licensed bed private healthcare in a 6-storey purpose built medical hospital at the intersection of Jalan Tun Razak, Jalan Bukit Bintang and Jalan Kia Peng.
- ✓ **Sunway Berhad** has acquired Sterling Paradise Sdn Bhd (SPSB) at RM15 million, which comes with the rights of 47 parcels of freehold land measuring 11.8 acres in Mutiara Bukit Jalil. SPSB secured the land at 15% of the GDV less a fixed sum of RM36.7 million.
- ✓ **Tadmax Resources Berhad** plans to acquire a 1.3 hectare leasehold land from Syarikat Perumahan Pegawai Kerajaan Sdn Bhd for RM36.65 million. The land is located along Lingkaran Alam Damai and sited approximately 11 km from Kuala Lumpur city centre.
- ✓ **Menara Weld**, a 26-storey office & 6 storey retail at Jalan Raja Chulan, Kuala Lumpur is being sold through tender. Reserve price for the building with lettable areas of about 400,000 square feet is RM270 million or analysed to be about RM675 per square foot.

#### Johor State

- ✓ **Tropicana Corp Berhad** has called off a major land sale worth RM569.87 million involving 251.8 acres located in Pulai, Johor. The freehold land deal was signed back in 2016 with Tiarn Overseas Group Sdn Bhd, a China based developer.
- ✓ **UEM Sunrise Bhd** announced in June 2019 that it would acquire Somerset and Marina Walk Puteri Harbour for a sum of RM145 million.
- ✓ **Ame Elite Consortum Bhd** plans to acquire 6.08 ha in Kulai, in Kulai, Johor for RM25 million. Industrial buildings will be built on the land with a GDV of RM120 million.
- ✓ In July 2019, **Axis REIT** has acquired two manufacturing facilities costing RM55.8 million from Nusajaya Tech Park Sdn Bhd. The first property costing RM42 million has a land area of 1.4674 hectares and currently leased to GKN Aerospace. The second property costs about RM13.8 million and has a land area of 0.6585 hectare.

- Oriental Interest-Kuala Langat
- Heng Huat Industries-Pulau Pinang
- Eco World- Eco Botanic land

Companies that disposed or plan to dispose assets

- Western Digital
- Khazanah Nasional-Prince Court Medical Centre

Aborted deals

- Tropicana Corp Berhad-Pulai land, Johor

The stimulating effects from the 2020 Budget will only be realized in the medium to long terms, subject to efficient implementations of the above measures.

Positive demand for residential properties with following criteria:

- ✓ **Al-'Aqar Healthcare REIT** was acquiring KPJ Batu Pahat Specialist Hospital for RM78 million cash. KPJ Batu Pahat Specialist Hospital is a 7-storey purpose built hospital with a built up areas of 157,500 sq. ft. It has capacity of 60 beds with additional 30 beds for future expansion.

### Pulau Pinang

- ✓ **Heng Huat Industries** acquired a piece of industrial land measuring 9,147 square meters in Pulau Pinang from HK Alliance Sdn Bhd for RM3.8 million in January 2019. Heng Huat had been renting the site for placements of portable cabins and for staff accommodations.
- ✓ Mustiara Sdn Bhd, a 70% subsidiary of **Tambun Indah Land Berhad**, acquires 27 parcels of freehold land in Penang for RM132 million in April 2019. The parcels of freehold land measure in aggregate about 209.54 acres and are located in the Seberang Perai Selatan District.
- ✓ In June 2019, **Scientex Berhad's** subsidiary, Scientex (Skudai) Sdn Bhd has signed sale & purchase agreement with Palma Indah Sdn Bhd to buy six parcels of freehold land measuring total 179.7 acres in Pulau Pinang for RM109.59 million cash to build affordable homes.
- ✓ In July 2019, **Axis REIT** proposed to acquire a tract of leasehold land in Bayan Lepas Free Industrial Zone Phase 4 and building from Zoomic Technology (M) Sdn Bhd for RM20.5 million. The acquisition is expected to generate a net yield of 8%.
- ✓ In December 2019, **Eco World Development Group Berhad** bought a parcel of land located next to Eco Botanic township for RM304.92 million from River Retreat Sdn Bhd, a company owned by Khazanah Nasional Bhd and Iskandar Waterfront Holdings Sdn Bhd.

### MARKET OUTLOOK

2020 Budget has introduced several measures that are imperative to stimulate the industrial developments in the country, e.g. encouraging domestic investments and attracting foreign direct investments.

The government has also intensified efforts to increase employment rate by increasing employment prospect amongst the unemployed workforce, increasing participation of women in the labour force and to reduce reliance on foreign labour.

The above measures are expected to improve the spending power of overall Malaysians including the B40 and M4 groups. This will in turn reduce the household debts in the country in the medium to long term.

Besides, the cessation of the Home Ownership Campaign (HOC) for sales of properties by property developers effective 31st December 2019 is expected to reduce the take-up rates of overhang properties in 2020 when compared to 2019.

The favourable demographic trend in Malaysia will continue to drive the property sales especially affordable residential properties by the first time home buyers. Demand for residential properties will be driven by maturity of the young population and the young population moving out from their parent's houses.

Malaysia has been experiencing sustainable economic growth of between 4% to 6% since 2015. These growth rates had failed to improve the Malaysian property market to a certain extent.

- Affordably priced, e.g. around RM500k
- Located at established location
- Suitable sizes, e.g. 850 sq ft that come with 3 bedrooms

Although the Home Ownership Campaign (HOC) by developers is expected to end by 31st December 2019, developers are expected to continue to offer attractive incentives to attract buyers.

Relocation of manufacturing plants to Malaysia as a result of the trade war creates demand for industrial lands.

In view of the past records, the projected growth rates of 4.7% and 4.8% in 2019 and 2020, respectively, are not expected to significantly improve the overall sentiments and demand for the Malaysian property market in 2019 and 2020.

Although the number of properties purchased by foreigners are expected to increase with the reduced threshold prices, the take-up rates will not significantly reduce the overhang properties.

On the other hand, the Malaysian economy will be vulnerable to the developments in the global economic and political conditions. Notable ones include trade war between US and China, geopolitical tension and potential oil palm import bans by European Union (EU) and India, to name a few.

The Non-Performing Loans (NPL) as well as the number and value of property foreclosures are expected to increase in the event Malaysian economy slows down to a certain extent. The increases are not expected to adversely affect the overall banking system as the overall NPL remains at manageable level.

In line with the approaching Visit Malaysia Year 2020, the hospitality sector is expected to record strong performances. This includes strategically located commercial properties currently used as AirBnB.

Subject to the location and positioning of the property projects, cautious to stable outlook is observed for the overall Malaysian property market.

Sectors	Klang Valley	Johor Bahru	Pulau Pinang	Ipoh
<b>Residential property sector</b>				
✓ Landed residential houses	Stable to positive	Negative to stable	Stable to positive	Stable
✓ Apartment / Condominium	Stable to negative	Negative	Stable to negative	Negative
✓ Serviced apartment / SOHO	Stable to negative	Negative	Stable to negative	Negative
<b>Commercial property sector</b>				
✓ Shopoffices	Stable to negative	Stable to negative	Stable to negative	Stable to negative
<b>Hospitality property sector</b>				
✓ Serviced suites used as AirBnb	Stable to positive	Stable to positive	Stable to positive	Stable to positive
<b>Industrial property sector</b>				
✓ Standard developer's designed factories	Stable to negative	Stable to negative	Stable	Stable
✓ Industrial land	Stable to positive	Stable to positive	Stable to positive	Stable

We welcome any enquiries and feedback on our report. Kindly forward your enquiries and feedback to [ccokl@cco.com.my](mailto:ccokl@cco.com.my)

## Contact Us

### Main Office

Lot 13.03, Level 13  
Public Bank Tower  
Jalan Wong Ah Fook  
80000 Johor Bahru  
Johor Darul Takzim

Telephone: 607-2762308  
Facsimile: 607-2248295  
Email: [cco@cco.com.my](mailto:cco@cco.com.my)

### Kuala Lumpur Office

D-07-01, Menara Suezcap 1  
KL Gateway  
No. 2, Jalan Kerinchi  
59200 Kuala Lumpur

Telephone: 603-73922378  
Facsimile: 603-73922372  
Email: [ccokl@cco.com.my](mailto:ccokl@cco.com.my)

### Shah Alam Office

2-1B, Jalan Pahat J  
15/J Dataran Otomobil  
Seksyen 15, 40000 Shah Alam  
Selangor Darul Ehsan

Telephone: 603-55240372  
Facsimile: 603-55235372  
Email: [ccosa@cco.com.my](mailto:ccosa@cco.com.my)

### Ipoh Office

No. 166, Jalan Perajurit  
Taman Ipoh Timur  
31400 Ipoh  
Perak Darul Ridzuan

Telephone: 605-5468688  
Facsimile: 605-5457688  
Email: [ccoipoh@cco.com.my](mailto:ccoipoh@cco.com.my)

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## DISCLAIMERS

Information highlighted in the above property market review was derived based on sources that are deemed to be correct and complete. Findings from the market review is deemed to be valid at the time of publication and is subject to future changes without prior written notice.

This publication provides general overview of Malaysian property market trend and such trend may differ for some micro locations and specific property types in Klang Valley, Johor, Pulau Pinang and Perak.

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