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Savills World Research
Malaysia

Asian Cities Report **Penang Investment**

2H 2015

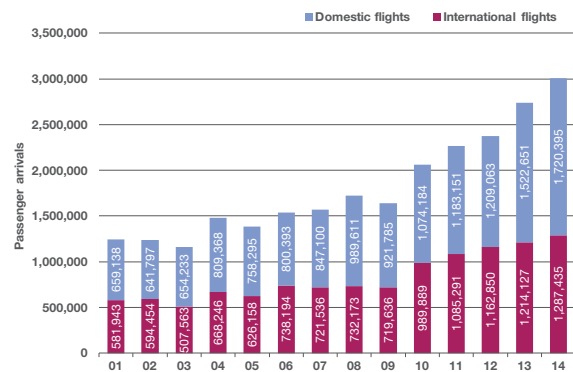


MAP 1
Map of Penang, 2015



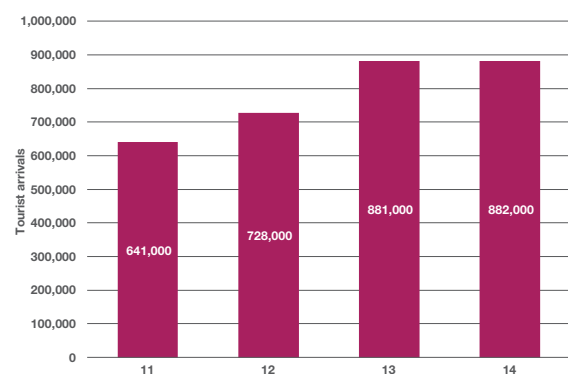
Source: www.visitpenang.gov.my

GRAPH 1
Passenger arrivals to Penang International Airport, 2001–2014



Source: Malaysia Airports Holdings Berhad

GRAPH 2
Malaysia medical tourist arrivals, 2011–2014



Source: Malaysia Healthcare Travel Council

Market overview

Tourism and the manufacturing are the two core support sectors of Penang’s economy. Since UNESCO gave World Heritage Site status to George Town (the capital city of Penang) in July 2008, tourism has grown at a remarkable rate. This is evidenced by the arrivals statistics registered at Penang International Airport, which have grown at a compounded annual growth rate (CAGR) of 10%, since 2009, against 4.0%, prior to the award. Penang International Airport is the second most visited airport in Malaysia by the international sector in 2014, having welcomed 1.28 million international passengers.

Recently, the Penang government announced its plan for a RM27 billion (US\$6.4 billion) Transportation Master Plan (TMP) to alleviate traffic congestion with a targeted completion date of 2030. The TMP which focuses primarily on the island consists of plans for an inclusive public transport system involving a light rail transit (LRT), trams, road expansion and the construction of new highways.

The city offers the tourist unique architectural and cultural buildings showcasing its local communities of Malay, Chinese, Indian and other ethnicities, with spectacular natural scenery at places such as Batu Ferringhi and Penang Hill, attractions which form the backbone of the tourism sector. Accommodation costs in Penang, and broader Malaysia are very reasonable when compared to its regional peers. The most expensive 5-star hotel, i.e. Shangri-La’s Rasa Sayang Resort & Spa is priced at RM650 per night (US\$155) for a weekend stay while the Hard Rock Hotel charges RM450 per night (US\$110). The average room rates for other 5-star hotel rooms in Penang range between US\$100 and US\$120, while a 4-star hotel room costs about US\$60 per night.

On another front, the medical tourism industry in Penang is one of the fastest growing sectors. In 2014, the Health Ministry

estimated Penang to receive 50% of the 882,000 medical tourists to Malaysia. These tourists who hailed from the United States, Australia and Indonesia, were primarily attracted by the value-for-money medical treatments which the Penang medical centres have to offer. Medical fees in Malaysia are priced at half those of Singapore, and together with the affordable accommodation for the families as well as the holiday experience, make for an attractive medical tourism destination. The 3,000 private hospital beds in Penang command high utilization rates. A few private medical centres have undergone expansion to cater for this demand in recent years. The market size of the medical tourism industry in Malaysia was estimated at about US\$200 million (RM0.7 billion) in 2014, suggesting a bigger market to be captured when compared to the larger sized Singapore (RM2.2 billion) and Thailand (RM14.0 billion).

Nonetheless, the tourism sector is primarily supported by the local Malaysian market, especially given the weakening local currency which will encourage more domestic travel. A cursory glance at the huge vehicular volumes on the congested roads during the weekends and holiday seasons suggests a significant influx of local tourist to the island. Official statistics indicate that domestic tourists to Penang grew to about 3.6 million in 2014, accounting for 10% of the national domestic tourism market.

As at mid-year 2015, the total retail stock in the state of Penang (Island and Mainland) stood at 11.6 million sq ft, spread across 38 buildings, which indicates a growth of 8.1% y-o-y. Retail space per capita was recorded at 7.0 sq ft compared to Greater KL’s 7.6 sq ft. Penang Island, which traditionally attracts more tourists compared to the Mainland, has 17 shopping centres offering 6.34 million sq ft of retail space. The average occupancy rate edged higher to 81% in 2014, compared to 71% in 2010.

The Penang retail market is an emerging one within Malaysia,

as brands which have had a presence in Kuala Lumpur are now considering secondary cities for their expansion. International brands such as H&M, Uniqlo and Superdry have made forays into the market in recent years, and reinvigorated the market after many years of a local brand-led scene. These positive movements have led to more development interest by the local property developers. Among the 12 future malls identified by Savills Research, four malls are earmarked to be more than a million sq ft in size. While size does not dictate success as proven in past cases, what is in store for Penangites will certainly provide a greater, interesting and more varied retail experience.

The mainland, more commonly known as Seberang Perai locally, which has grown under the shadow of Penang Island's dominance in the past, is expected to undergo a series of new developments in the future. These developments are spearheaded by the development of Bandar Cassia, the main gateway to Penang Island via the newly completed Penang Second Bridge. Bandar Cassia is a 6,000-acre state-led development which has attracted multinational corporations (MNCs) to establish manufacturing capabilities, as well as new retail setups such as Design Village Penang and IKEA.

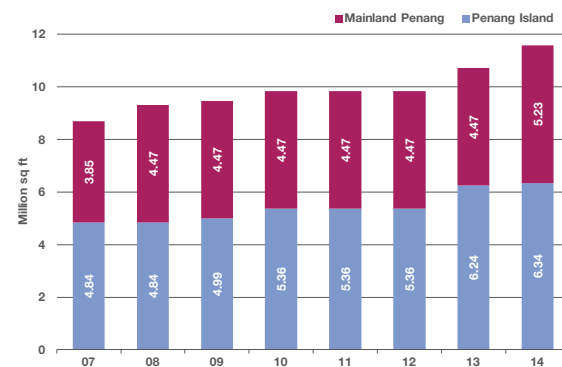
Design Village Penang is slated to open in 2016, and will be the first premium outlet mall located in the northern region of Peninsular Malaysia. The outlet mall boasts 400,000 sq ft net of retail space in 150 shop units, and is aimed to serve a target market of 5.7 million people. IKEA, on the other hand, will be the first IKEA store in Malaysia outside Greater KL and will occupy about 30 acres with an adjoining shopping mall.

Penang is the focal point of the northern region states of Perlis, Kedah and Perak. In combination, these four states account for 21% of the national population. While Kuala Lumpur is expected to remain as the

focal in-migration centre nationwide, Penang continues to attract talents from the northern region due to job opportunities and its favourable living environment. The annual net migration to Penang has averaged over 10,000 per annum since 2000, accounting for about one-third of the population growth. This in-migrant population will be an important growth factor for Penang, amidst the current turbulent global economy.

InvestPenang, the principal investment promotion agency of the state, has estimated that the services sector will outpace the manufacturing sector as the key economic driver this year. This slow shift in economic focus indicates the increasing importance of the services sector, led by tourism, to mitigate the global economic slowdown. In this context, the multiple efforts adopted by the Penang government to further boost the tourism, medical tourism and the retail market are expected to lead to top-line business growth in these sectors. ■

GRAPH 3 Penang retail stock, 2007–2014



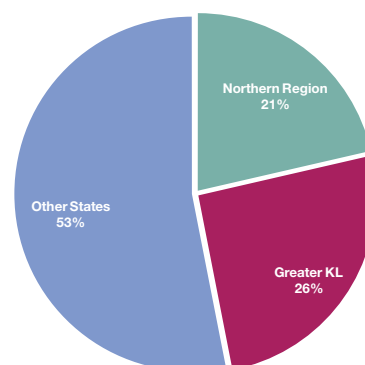
Source: Savills Research Malaysia

GRAPH 4 Penang average retail occupancy rate, 2010–2014



Source: National Property Information Centre

GRAPH 5 Malaysia population distribution, 2010



Source: Department of Statistics, Malaysia

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