

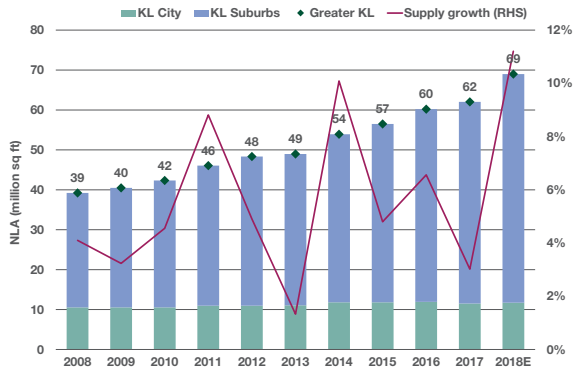


Asian Cities Report **Kuala Lumpur Retail**

1H 2018

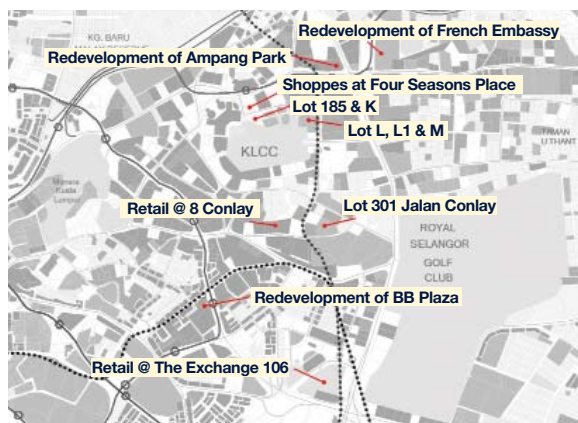


GRAPH 1
Cumulative retail supply in Greater KL, 2008 – 2018E



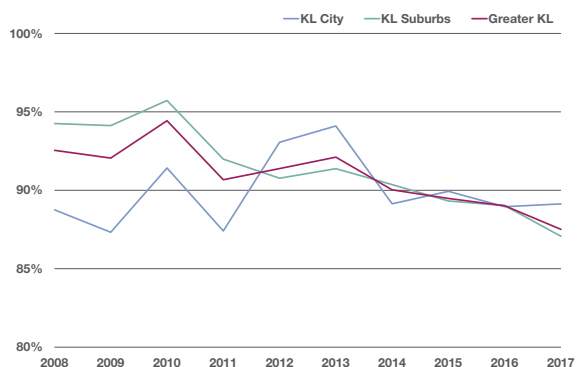
Source: Savills Malaysia Research

MAP 1
Future boutique retail in KL City



Source: Savills Malaysia Research

GRAPH 2
Greater KL retail occupancy rate, 2008 – 2017



Source: Savills Malaysia Research

Retail supply

New malls continue to sprout in the Kuala Lumpur suburbs. Five new malls, all of which are in the suburbs, were completed in 2017: KL Gateway (300,000 sq ft), Ikano’s MyTOWN Shopping Centre (1.1 million sq ft), CapitalLand’s Melawati Mall (620,000 sq ft), Amerin Mall (155,000 sq ft) and phase two of Mitsui Outlet Park KLIA (97,000 sq ft). The newest malls, which opened in January 2018, are the M Square Shopping Centre (380,000 sq ft) in Puchong and Evo Bangi (245,000 sq ft).

Meanwhile, Ampang Park Shopping Centre, one of the oldest malls in KL city centre, closed permanently in December 2017 to make way for a new interchange station planned for the Ampang Park Mass Rapid Transit (MRT Line 2). In the Golden Triangle, the redevelopment of Bukit Bintang Plaza has been on the drawing board since its closure about three years ago.

The retail supply in Greater KL recorded a 3% year-on-year (YoY) growth, totalling 62.0 million sq ft at the end of 2017. The supply pipeline in Greater KL remains strong, with 6.0 million sq ft scheduled for completion by the end of 2018.

Major projects currently underway are Empire City Mall in Damansara Perdana, CentralPlaza Mall in Shah Alam, EkoCheras in Cheras and Selayang Star City in Selayang. The 2.5 million sq ft Empire City Mall is opening in phases. The lower ground retail space, consisting of an Olympic-size ice skating rink and several F&B outlets, opened in mid-2017 for the 29th KL Southeast Asian (SEA) Games, and the remaining retail space is scheduled to debut in 2H/2018. CentralPlaza Mall is Central Pattana Group’s first retail project outside of Thailand and is also slated for opening in 2H/2018. Other neighbourhood-size retail developments in the pipeline are Shoppes at Four Seasons Place in KLCC, Horizon Village Outlet in Sepang, Kiara 163 Shopping Mall, and Pacific Star retail podium in Petaling Jaya. KL city centre itself will see more boutique retail developments open as developers continue to rejuvenate derelict buildings in the city. Savills Research estimates that approximately nine boutique retail developments are in the works, two of which are already under construction.

The KL city retail boundary will expand beyond the KLCC-Bukit Bintang belt, driven by significant upcoming projects such as Merdeka PNB118 (expected to house the world’s third tallest building), Mitsui Shopping Park Lalaport at BBCC, and The Exchange Mall at Tun Razak Exchange Lifestyle Quarter (Lendlease’s largest integrated development in Asia). The Exchange Mall is expected to reshape the retail landscape by introducing new-to-market retailers such as Seibu Department Store and an upscale supermarket by Dairy Farm Group Hong Kong. Retail market competition is expected to intensify in the near future as another three upcoming megamalls hit the suburbs – Pavilion Bukit Jalil, Pavilion Damansara Heights and Tropicana Gardens Mall.

Retail occupancy rate

The growing supply of retail space continues to put downward pressure on occupancy rates. The average occupancy rate of malls in Greater KL declined by 1.5% YoY, registering at 87.5% as of the end of 2017. New malls have struggled to achieve a high occupancy rate on opening day. The opening occupancy rates for KL Gateway in Bangsar South and MyTOWN Shopping Centre in Cheras were between 30% and 40%. The Melawati Mall in Ampang had its soft launch in July 2017 and was approximately 50% occupied. Nonetheless, occupancy rates have all improved since opening day.

Major malls have begun readjusting their trade and tenant mix by offering more F&B and services-oriented trade types, which include edutainment, beauty and wellness offerings. A variety of F&B outlets continue to play a critical role in extending shopper hours in a mall, alongside the presence of other experiential offerings.

Retail rents

The prime rental index increased to 227 points. At the end of 2017, prime malls in the city such as Suria KLCC achieved rents as high as RM220 per sq ft per month, followed by Pavilion KL at RM110 per sq ft per month. These are benchmark rents that define the market and are a direct consequence of the waiting list of tenants trying to secure prime space in both malls. In the suburbs, Mid Valley Megamall achieved a rental rate of RM80 per sq ft per month, while 1Utama Shopping Centre and

Sunway Pyramid exceeded the RM50 per sq ft monthly rental mark in 2017. It is expected that prime rents for the major malls will continue to remain stable despite the challenging trading environment for retailers.

Conversely, landlords at the other under-performing malls are coming under pressure to fill vacant retail space. To overcome this obstacle, many incentives such as rent-free periods, gross turnover rent and/or fit-out contributions are becoming an integral part of the offer packages to retailers. This has impacted the rental yield of these malls, especially the new ones.

The challenging retail market has also affected the performance of some malls held by REITs. Several such malls recorded lower gross revenue in 2017, such as Sungei Wang Plaza, The Mines Shopping Fair, Tropicana City Mall and Subang Parade. These malls (with the exception of Subang Parade) also reported lower shopper traffic.

Retail investment market

The retail investment market improved slightly in 2017 after a quiet 2016. Two retail transactions totalling RM657.8 million worth of investment were recorded. Pelaburan Hartanah Bhd (PHB) acquired Empire Shopping Gallery for RM570 million, in a deal in which the seller, Mammoth Empire Holdings (MEH), was granted a call option to buy back the shopping mall on the fifth anniversary of the sale. AEON Mahkota Cheras Shopping Centre was acquired by Foremost Wealth Management Sdn Bhd at RM88 million. The year ended with the proposed introduction of Elite Pavilion Mall into the Pavilion REIT for RM580 million, but the deal has not been finalized.

Growth of e-commerce in Malaysia

The rapid growth of e-commerce globally has not escaped the Malaysian retail industry. This shift includes the expansion of the online shopping sphere, growth of online-to-offline retail, and the reshaping of Malaysians' shopping behaviour. Malaysia's e-commerce market recorded a penetration rate of 2.5% in 2017 and is expected to reach 4% to 5% in 2018, according to the second largest e-commerce player in Malaysia – 11street. Additionally, iPay88

Malaysia, an online payment gateway, announced a 53% increase in online transactions in 2017, with a total of 58.5 million online transactions. Lazada broke its own record on Singles' Day 2017 with over RM100 million worth of sales achieved. The promising Malaysia e-commerce market has attracted numerous foreign investments to the country, such as Alibaba's regional logistics hub in the Digital Free Trade Zone (DFTZ) Malaysia, which opened in late 2017. In addition, Alibaba launched its e-wallet services, Alipay, in Malaysia in March 2017, and Tencent has recently announced plans to launch WeChat Pay.

Market outlook

Going forward, the Greater KL retail market will continue to face increased competition due to the influx of retail supply while the ongoing digital disruption in the retail industry means that all retail players must adapt to the rapid changes in the retail environment in order to remain relevant.

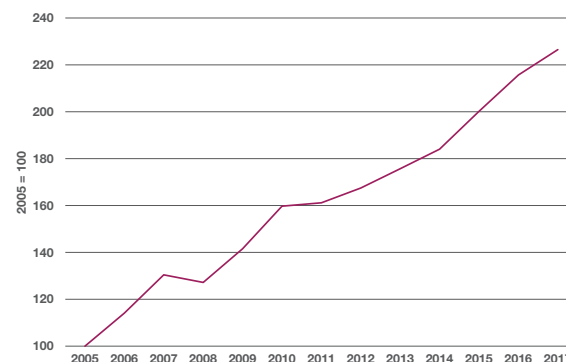
In 2017, there were 30 new retail entrants in Malaysia, with most of the new-to-market brands originating from the Asia-Pacific region (e.g. Korea, Japan, China and Taiwan). Conversely, eight brands exited Malaysia in 2017 (Tim Ho Wan, Tous Les Jours, Nature Republic, True Fitness, Pumpkin Patch, Nine West, Délifrance, and Dolce and Gabbana) mainly due to sluggish performance, rising operational costs as well as distributor/franchise management issues.

New malls are requiring longer periods to reach desirable occupancy rates, while landlords are compelled to offer heavy discounts to retailers to attract them into their malls. We expect this trend to continue in 2018.

Nonetheless, well-located prime malls are expected to remain as preferred shopping destinations and locations for existing retailers and new-to-market retailers. This is reflected in Savills Prime Retail Index which recorded a 5% YoY growth.

The increase in affluence of the population living in the capital city has driven the growth in niche markets and the demand for quality products, which presents new opportunities for the retail industry. Kuala Lumpur continues to be a city of choice for new-to-market retailers entering the SEA region. ■

GRAPH 3
Prime retail index, 2005 – 2017



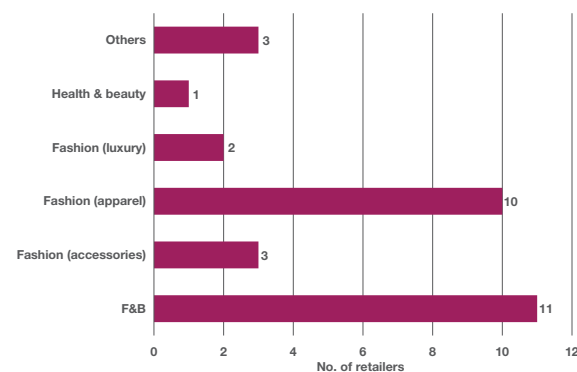
Source: Savills Malaysia Research

TABLE 1
Major mall transactions, 2017

| Shopping centre | Considerations (RM mil) | Buyer | Status |
|-------------------------------------|-------------------------|------------------------------------|-----------|
| Empire Shopping Gallery | 570 | Pelaburan Hartanah Bhd (PHB) | Completed |
| AEON Mahkota Cheras Shopping Centre | 88 | Foremost Wealth Management Sdn Bhd | Completed |
| Elite Pavilion | 580 | Pavilion REIT | Pending |

Source: Bursa Malaysia

GRAPH 4
New retail entrants, 2017



Source: Savills Malaysia Research

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