Asian Cities - 1H 2023

SPOTLIGHT

Savills Research

Kuala Lumpur Residential

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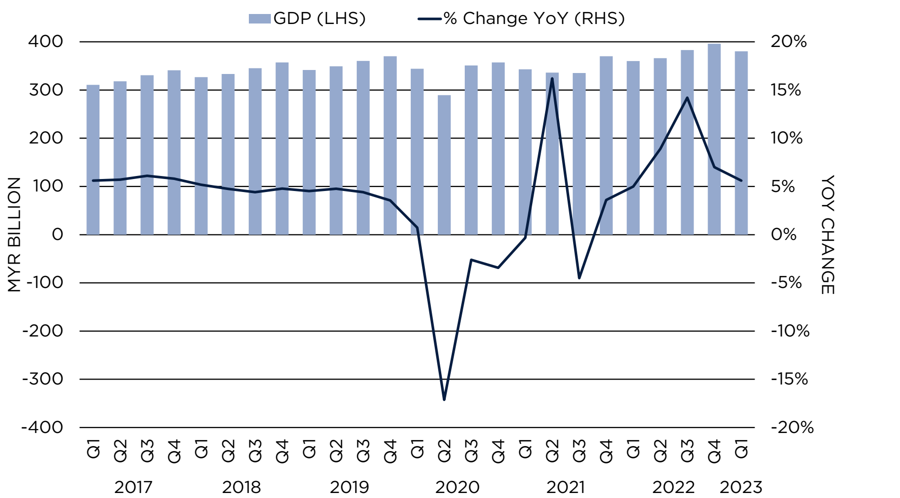
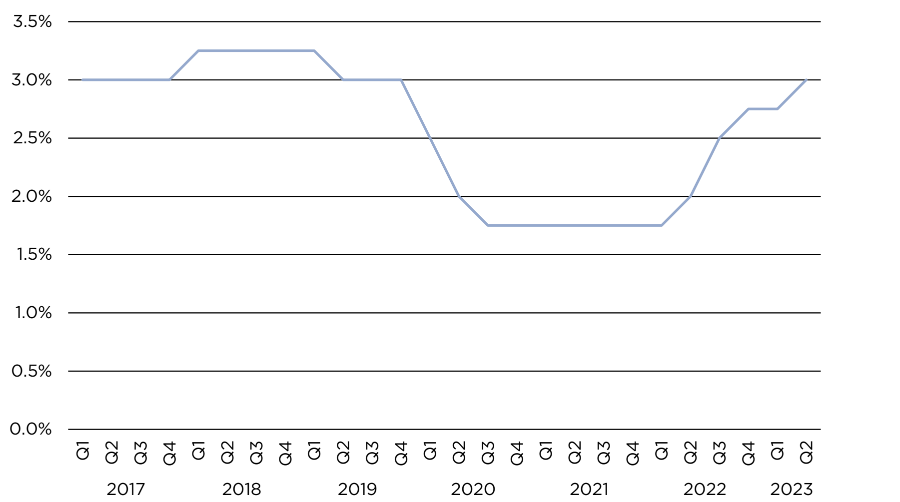
High rise residential market improves amidst economic rebound, but challenges persist

GRAPH 1: Gross Domestic Product, Q1/2017 to Q1/2023



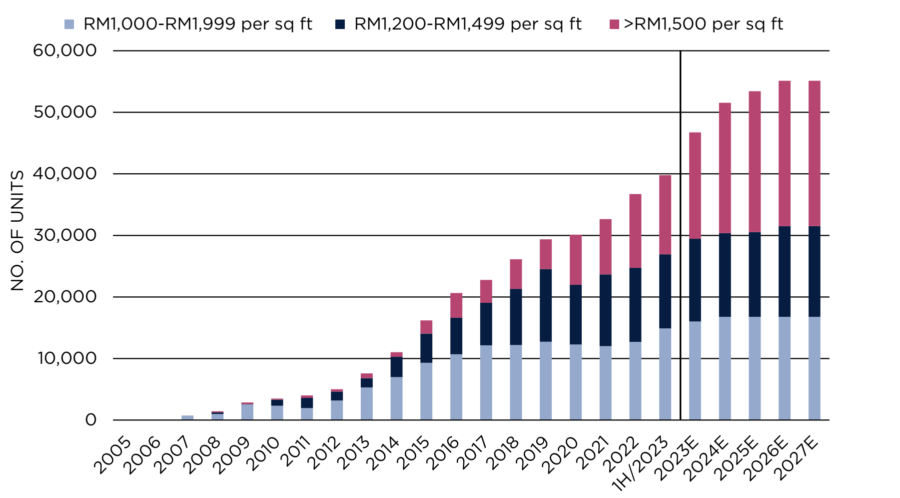
Source Bank Negara Malaysia (BNM)

GRAPH 2: Overnight Policy Rate, Q1/2017 to Q2/2023



Source Bank Negara Malaysia (BNM)

GRAPH 3: High End High Rise Residential in Kuala Lumpur, 2005 to 2027E



Source Savills Research

ECONOMY

In 2022, Malaysia's economy experienced a significant rebound alongside the country's transition into an endemic phase and the reopening its borders, beginning 1st April 2022. However, at the start of 2023, the pace of economic growth started to moderate. This moderation is seen as a positive sign, indicating that the economy has successfully overcome the adverse effects of the pandemic and has returned to a stable state.

In Q1/2023, the Gross Domestic Product (GDP) grew by 5.6% YoY to MYR380.3 billion, almost matching the average quarterly growth of 5.0% in the pre-COVID years (2017-2019). This encouraging growth was supported by further expansion of household spending, continued investment activity, improving labour market conditions and a return of tourism activities.

Improvements in the labour market have directly affected private consumption. This, in turn, has supported economic growth. The unemployment rate, as high as 4.9% during COVID, has now fallen to 3.5% in Q1/2023, almost as low as the pre-COVID years (3.3-3.4%) in 2017-2019.

On account of the continued strengthening of domestic demand, headline inflation has remained elevated compared to the pre-COVID era (below 2% in 2018-2019). Nonetheless, despite the headwinds of the global crisis, the federal government brought inflation down to 3.6% in Q1/2023 (from 3.9%: Q4/2022). This is mainly due to the moderation in fuel inflation resulting in the easing of global commodity prices and policy changes such as the steady increase in the Overnight Policy Rate (OPR).

After four revisions of 25bps each in 2022, the Central Bank of Malaysia (BNM) further increased the OPR by 25 bps to 3.0% in May 2023, bringing it closer to pre-COVID levels (3.0 - 3.25% during 2017 – Q3/2019), another indicator of economic stability and the improvement in market sentiment.

Moving forward, the knock-on impact of weaker external demand on domestic demand, particularly investment spending, is expected to result in soft economic activity over the remainder of 2023. As the nation continues to recover from the economic impact of the pandemic, economic growth is expected to follow a more stable trajectory, moving in a relatively straight line.

SUPPLY

Over 1H/2023, Kuala Lumpur is expected to have an accumulated 39,785 high-end high-rise residential units priced above MYR1,000 per sq ft. Approximately 38% of these units range between MYR 1,000 and MYR1,999 per sq ft. There are 12,850 luxury units (about

32%) priced above MYR1,500 per sq ft, with the remaining 12,027 units (about 30%) costing about MYR1,200 to MYR1,499 per sq ft.

The total cumulative supply has increased by 12% CAGR from 22,763 units to 39,785 units over the last five years (2017-1H/2023). Such elevated supply levels have inevitably had a negative impact on values.

In 1H/2023, five new projects consisting of 3,057 units have been completed. Quill Residences (552 units) and Axon Bukit Bintang (853 units) are two on the list, located in KLCC, Bukit Bintang (city centre CBD Area). The remaining three, which are 18 Madge (50 units), KaMi Mont Kiara (168 units) and Sentral Suites (1,434 units), are in the surrounding prime submarkets of Ampang Hilir, Mont Kiara & KL Sentral, respectively.

The total cumulative supply of luxury residences, priced at MYR1.0 million and above per unit, is expected to reach 55,129 units by the end of 2027. With higher borrowing and project costs caused by the increase in OPR, coupled with the spike in building material prices, and the challenging sales environment faced by the developers due to the significant supply, project launches will likely slow down.

The high-rise residential market has shown signs of improvement compared to a year ago, thanks to the resumption of business and a rebounding economy. However, it continues to face challenges from an uncertain global economy and rising business costs. In addition, financing difficulties, market volatility, and affordability concerns remain the key factors affecting the local residential market.

DEMAND

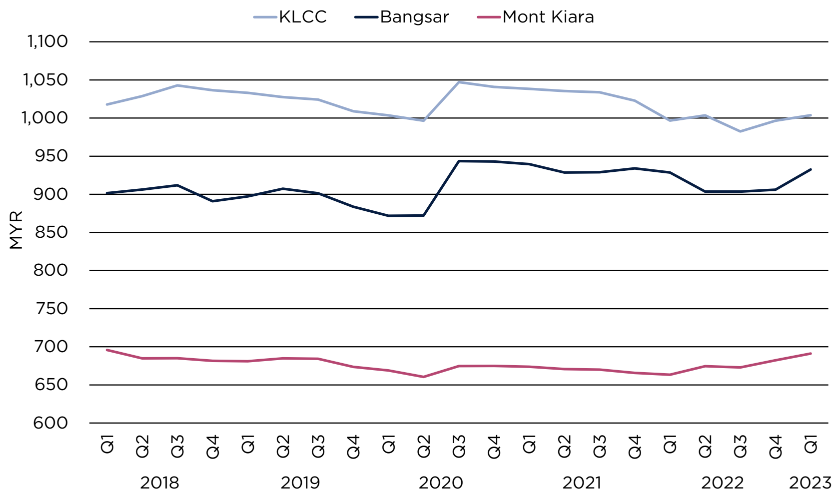
The KL high-end high-rise residential market has experienced stagnation in average price movement in recent years, primarily due to high impending supply levels. While prime submarkets like Bangsar and Mont Kiara have shown resilience, KL City Centre areas have witnessed a constant decline in prices. This decline can be attributed to the dependence on foreign buyers/investors and the focus on projects designed for tourists, such as studios or smaller units that are suitable as short-term accommodation. Additionally, the proliferation of projects in relatively smaller land areas has contributed to this decline. Consequently, many of these projects currently have significant unsold inventory.

On the other hand, mature prime neighbourhoods with a diverse range of buyers, including end-users, investors, locals, and long-term expatriates, have shown greater resilience. We observe that, amidst plentiful projects offering small or investment-oriented units, mid-density projects in good locations with attractive features such as spacious layouts, access to premium amenities like golf clubs, and units designed for growing families tend to attract buyers.

Additionally, high-density residential projects which offer affordable price ranges of between MYR400,000 and MYR600,000 have experienced significant demand. In summary, projects with unique offerings in prominent locations or the right product mix in easily accessible areas, combined with affordable pricing, have performed well in the market. On the other hand, projects which offer monotonous investment units in unappealing areas have experienced declining prices, highlighting the clear contrast between these two types of projects.

Regarding short-term changes in price, the average price movement of high-rise residential units has shown improvement across most sub-markets in the first half of 2023. This indicates a recovery from the setbacks caused by the pandemic and a rise in investor confidence in capturing the bargain units.

GRAPH 4: Average Price Movement of High-end-high-rise in the Kuala Lumpur's Prime Residential Markets, Q1/2018 to Q1/2023

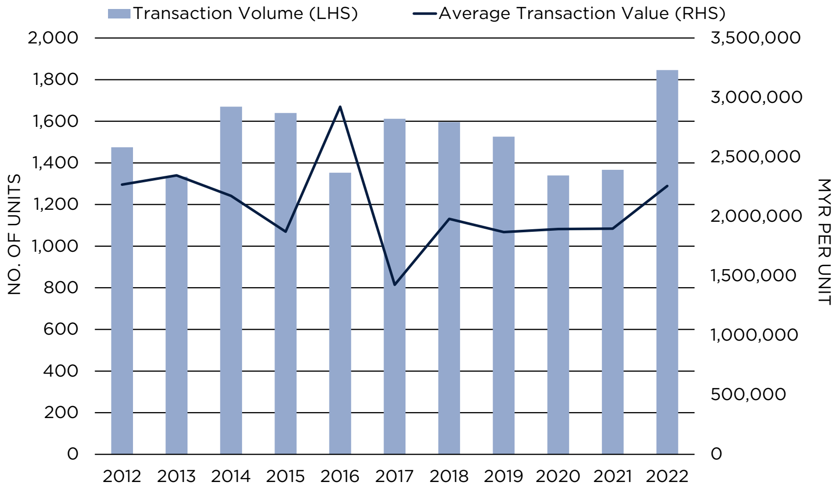


Source Savills Research

TRANSACTION VOLUME & VALUE

Transaction volumes witnessed a significant revival for high-end high-rise residential properties of more than MYR1.0 million in 2022. A total of 1,846 transactions were recorded (a 35% YoY increase from 1,367 units in 2021) in the Federal Territory of Kuala Lumpur (WPKL). 2022 was also a record-breaking year in total transaction value, with a 61% YoY increase to MYR4,165.00 million (2021: MYR2,594.00

GRAPH 5: Transaction Volume and Average Transaction Value of High end High-Rise Residential properties priced RM1.0 million and above in Kuala Lumpur, 2012 to 2022



Source National Property Information Centre (NAPIC)

million) in high-rise residential properties priced at MYR1.0 million and above. Robust market activity has been supported by strong economic growth and the recovery in asking prices increased the average transaction value to MYR2,256,327 in 2022 (MYR1,897,301: 2021).

MARKET OUTLOOK

In 2023, the year began on a positive note, with a rebounding economy and normalised market activity. However, economists project that economic growth will remain modest throughout the year due to the uncertain global economy. The residential market is expected to continue facing challenges, primarily due to a significant increase in supply and continued rises in the OPR, leading to heightened competition and potential price pressures.

Rising material costs will eventually translate into higher prices in the primary residential market, potentially affecting the secondary market as well. Developers will face dual pressures, grappling with higher borrowing costs and increased prices of building materials, which contribute to higher project expenses. They will need to carefully manage costs while keeping prices attractive to entice buyers in a competitive market. Consequently, developers are adopting a cautious approach and being more selective when launching new projects.

Government policies, such as MM2H and exemption of RPGT announced during the annual budget, have profoundly impacted the property market. There have been demands to review the MM2H requirements since the government relaunched the programme on 1 August 2021 with more stringent regulations and the Malaysian government has subsequently decided to review the terms and conditions of MM2H. A One-Stop centre has been created under the Ministry of Tourism, Arts and Culture (MOTAC) to ease the process and optimise the effectiveness of MM2H applications. In a supplement to MM2H, the Malaysian government has launched the Premium Visa Programme (PVIP) in 1 October 2022, targeting wealthy foreigners. In term of exemptions, residents who dispose property after five years from the acquisition date (the sixth year onwards) have been exempted from Real Property Gains Tax. Essentially, full stamp duty exemption has been provided to first-time homebuyers on the first MYR500,000, and 75% on the subsequent value between MYR500,001 to MYR1 million.

Entering 2023, Malaysia's 2023 GDP is expected to experience an annual growth rate of 4.0% to 5.0%. Inflation is estimated to stand at 3.3%, owing to uncertainty surrounding global supply chains and the economy. The recent increase in OPR by BNM to 3.0% has been seen as a move to strengthen its monetary policy while addressing the issue of inflation. Following the increment in OPR, the increase in borrowing costs is likely to affect homebuyer's purchase. Moreover, the increase in borrowing costs, coupled with the surge in construction costs and labour issues have alerted developers to be careful with new launches and adjust the prices of their planned and incoming projects. Thus, 2023 is seeing a rebound in economic performance, but could prove to be a challenging year for the property market.

For more information about this report, please contact us

Savills Malaysia

Datuk Paul Khong
Managing Director
+603 2092 5955 ext 138
paul.khong@savills.com.my

Savills Research

Fong Kean Hwa
Director
Malaysia
+603 2092 5955
keanhwa.fong@savills.com.my

Lim Sorng Yorng
Executive Vice President
Malaysia
+603 2092 5955
sorngyorng.lim@savills.com.my

Simon Smith
Regional Head of Research & Consultancy, Asia Pacific
+852 2842 4573
ssmith@savills.com.hk