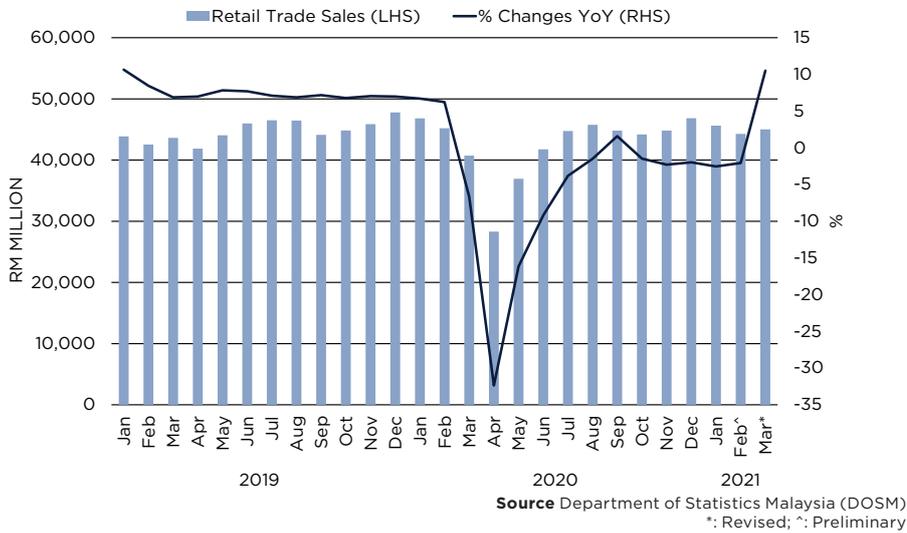


# Kuala Lumpur Retail

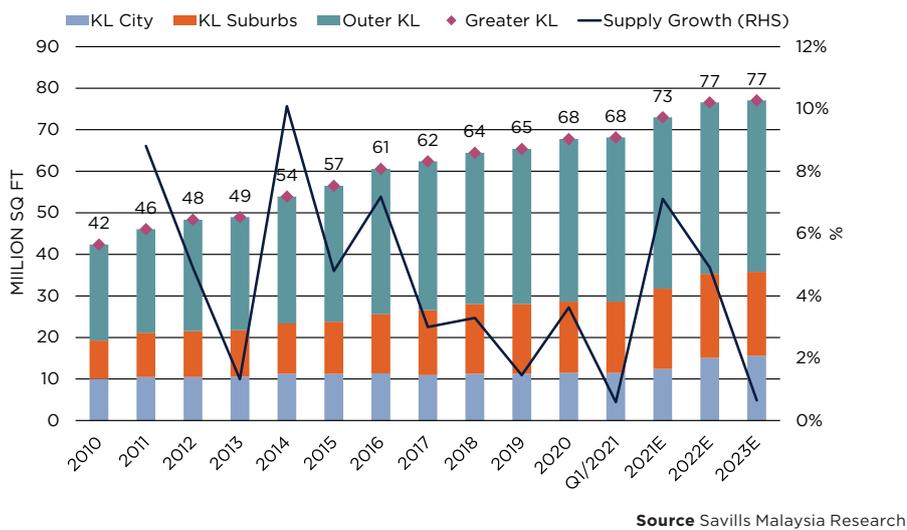


# Challenging short-term outlook for the retail industry

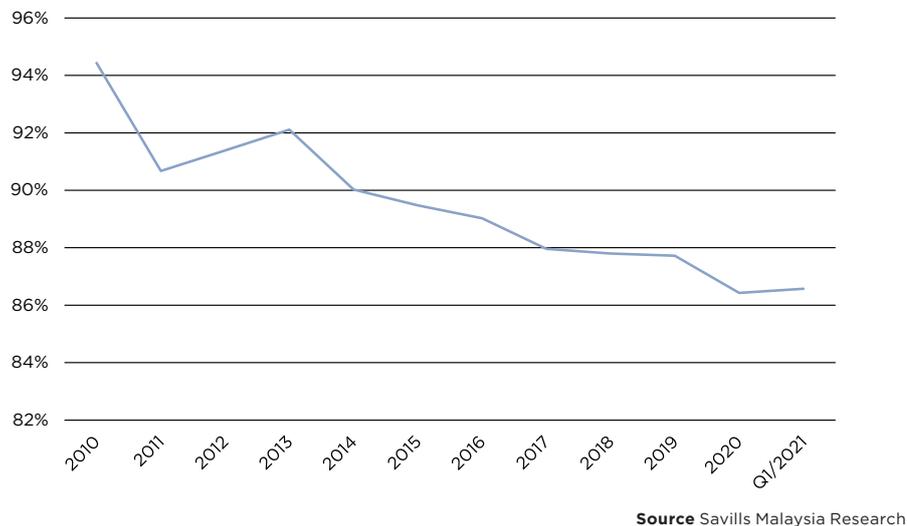
**GRAPH 1: Retail Trade Sales In Malaysia, YoY Growth, January 2019 to March 2021**



**GRAPH 2: Cumulative Retail Supply In Greater KL, 2010 to 2023E**



**GRAPH 3: Average Occupancy Rates In Greater KL, 2010 to Q1/2021**



## CURRENT SITUATION

Total retail sales increased by 1.6% year-on-year (YoY) to RM134.92 billion in the first three months of 2021, according to the Department of Statistics Malaysia. The increase was mainly attributable to the retail sales of automotive fuel in specialized stores, household equipment and other goods in specialized stores such as clothing, footwear, and pharmaceuticals & medical goods. This was driven by consumers' extra disposable income derived from the Malaysian government's financial assistance programmes, i-Sinar and i-Lestari. Compared to the first three months in 2019, which was before the first Movement Control Order (MCO), total retail sales showed a higher growth of 3.7% (YoY).

Since the lifting of the MCO in early of 2021, shopper traffic in major and suburban malls have returned to pre-pandemic levels. Cafes and restaurants experienced good crowds of dine-in customers. However, sales of all other retail categories still struggled due to the reduction in household incomes which resulted in lower purchasing power. The physical distancing laws also reduced entry capacity, which somewhat affected the retailers' sales as well.

Nevertheless, the continued increase in the number of COVID-19 cases recently forced the government to reimplement its third lockdown, now known as MCO 3.0. Malaysia was placed under the first phase of a full lockdown for the course of two weeks, from 1 to 14 June, 2021. During the period, all sectors are not allowed operate except for essential economic and service sectors. Restrictions were also observed on operating hours, dine-ins, carload limitations and travel restrictions. This is expected to further affect the sales revenue of the retailers as many people have refrained from going to public places such as shopping malls. Retail segments that will continue to suffer would be the fashion and entertainment category that include cinemas and family indoor entertainment. With the ongoing restriction on dine-ins, F&B outlets are expected to be severely affected.

## SUPPLY AND STOCK

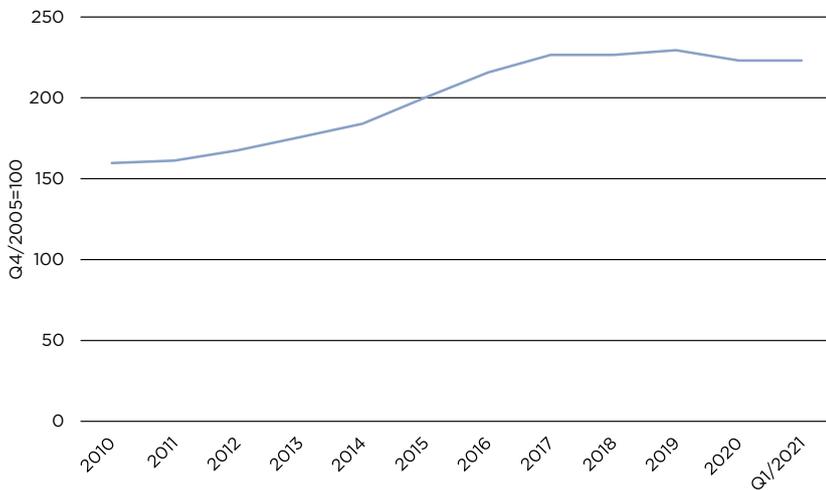
Setia City Mall Phase 2 in Shah Alam was completed in the first quarter of 2021, adding about 400,000 sq ft of retail space to the existing Setia City Mall, bringing it to a total of about 1.1 million sq ft. The anchor tenant, Lulu Hypermarket and Departmental stores from the Middle

East, occupies about 150,000 sq ft of space across three floors. This was the only mall completed during 1H/2021 and brings the Greater KL total retail stock to a total of about 68.1 million sq ft of NLA.

Within the next three years, Greater KL will see the completion of 13 new malls, adding at least 8.9 million sq ft of NLA to the market. More than half of it (54.3%) are to be completed this year and are located in the suburbs. Major upcoming completions include Pavilion Bukit Jalil at 1.8 million sq ft of NLA followed by IOI City Mall 2 at 1.0 million sq ft. Nevertheless, further delays in opening are likely because of continued uncertainties in the retail market.

**Greater KL will see the completion of 13 new malls in the next three years, adding at least 8.9 million sq ft to the market – more than half of which is to be completed this year in 2021.**

**GRAPH 4: Prime Retail Rental Index, 2010 to Q1/2021**



Source Savills Malaysia Research

**OCCUPANCY RATES AND RENTS**

Retail malls in Greater KL have seen a slender increase in occupancy rates by 0.2% in Q1/2021. This is mainly attributable to the slight progression in leasing activities made by newly-completed malls. Continuous pressure on occupancy is expected until the COVID-19 pandemic is contained. Many tenants in non-prime and neighborhood malls have struggled to survive, and the current standard operating procedures (SOP) are seen as an obstacle to recovery. However, occupancy rates for prime malls remained steady, largely due to major landlords’ financial abilities to maintain zero tenancy termination.

Prime rental index in 1H/2021 did not change, due to minimal movement observed in leasing activities in prime retail floors. The drop in prime base rent in the previous period (2H/2020) was based on new leases

**TABLE 1: Selected Retail Malls In The Pipeline, Q1/2021**

PROPERTY	NET LETTABLE AREA (SQ FT)	ESTIMATED YEAR OF COMPLETION
Pavilion Bukit Jalil	1,800,000	2021
The Exchange TRX	1,350,000	2022
Warisan Merdeka Mall	900,000	2022
Mitsui Shopping Park Lalaport @ BBCC	861,000	2021
IOI City Mall 2	1,000,000	2021
Pavilion Damansara Heights	935,000	2022

Source Savills Malaysia Research

being signed, as several retailers did not renew certain leases due to the impact of the pandemic. The prime base rent saw a slight drop of 5% to 10% in offer rates for new leases in some prime malls, especially for larger format retailers and some new-to-market international brands.

### MARKET OUTLOOK

Despite the uncertainty in the retail market, some retailers are taking advantage of the current situation to secure low rental charges and fit-out contributions. On the flipside, there are also some retailers who opted to take their business online (off-premises), as they feel that they can generate greater profit margins by providing take-away and delivery services as an easier means, rather

than for them to capture customers in a shopping mall which sees lower footfall these unpredictable days.

The grocery retail segment is seen as pandemic-proof and this essential sector enjoyed stimulating sales during the pandemic. Furthermore, with dine-ins suffering from on-off opening guidelines, grocery operators stand to gain further as people begin to pick up home-cooking during lockdown. This year alone, we have seen two new entrant supermarkets; namely, QRA, a premium supermarket in Kenny Hills, with another outlet to be opened soon; and The Hauz of Spize in Bangsar, Kuala Lumpur.

The restrictions imposed and the increasing daily COVID-19 cases have reduced the mobility

patterns and behaviors among the population. This directly correlates to the performance of the retail market as people tend to spend less physically and more online due to convenience and the fear of getting infected. The full recovery back to pre-COVID levels is vague at the moment, largely depending on the speed in containing the virus, the roll-out of vaccination programs, the uplift of travel bans and the rebound in consumer spending.



For more information about this report, please contact us

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