SARAWAK PROPERTY BULLETIN

1st Half 2020 Property Market Review & Outlook

The first half of 2020 has been an unprecedented one, being hurled full-on into the eye of a perfect storm, having to face the full onslaught of a worldwide pandemic

Covid-19 and the MCO Impacts

Just when the market was projected to perform better for 2020, with signs of recovery and market picking up in the 2nd half of 2019, 2020 was greeted with natural disasters ranging from floods to forest fires, but is hardest hit by the outbreak of covid-19, a deadly novel coronavirus that has wreaked havoc on the lives, livelihood and lifestyle of the world population, and eventually declared a world pandemic by the World Health Organisation on 11th March 2020. This infectious virus is still raging and threatening to derail most if not all the world economies, as curtailing the spread has come with enormous costs.

For Malaysia, the epidemic came to a head in early March, with spikes in the number of covid cases eventually leading to the enforcement of the Movement Control Order (MCO) by the Malaysian government between 18/3 to 10/5 followed by a Conditional Movement Control Order (CMCO) from 11/5 to 30/6 and the Recovery Movement Control Order (RMCO) from 1/7 to 31/8 and extended until 31/12 which is still underway.

On hindsight, the fast action and decision on the part of the Malaysian government in enforcing the MCO to curb the spread of the Covid, has saved the general population and the country from being beaten up and especially the health care system from being overwhelmed, and helped overcome what could have been a catastrophe.

However, the economy has not been unscathed by the lockdown and damages have been evident in a lot of sectors, such as the commercial and retail sectors, and especially those related to tourism, hospitality, entertainment and sports. On a better note, some retail and fast moving consumer goods and services sectors like home appliances and equipment, IT, groceries, supermarkets, pharmaceuticals, logistics and warehousing have experienced an unexpected surge in demand, achieving above-target sales.

Market Sentiments

The movement control order (MCO) which was close to a complete lockdown have undoubtedly had a dampening effect on market sentiments, which was already shaky prior to these events.

The Malaysian Institute of Economic Research's (MIER) Consumer Sentiment Index (CSI) nose-dived to an all-time low of 51.1 points in March 2020 and an improved 90.100 in June 2020 (Q4 2019:82.3), whilst the Business Condition Index (BCI) continued to slide to 61.000 in June 2020 (Q4 2019: 88.3), the 2nd lowest on record after December 2008 (53.9).

Increasing unoccupied retail spaces in shopping complexes and shophouses

Economic Impact

The pandemic has thrown the world economies into disarray and turmoil. Most of the economies worldwide, more so the developed countries, have taken a heavy beating from the impacts of the pandemic.

The International Monetary Fund (IMF) has forecast a negative global growth of -4.9% for 2020 and that more than 150 countries will register a GDP contraction this year. Many had registered a double-digit contraction in their 2Q 2020 growth such as Singapore (-13.2%), Philippines (-16.5%), the United Kingdom (-21.7%), USA (9.5%), France (-13.8%) and Italy (-12.4%).

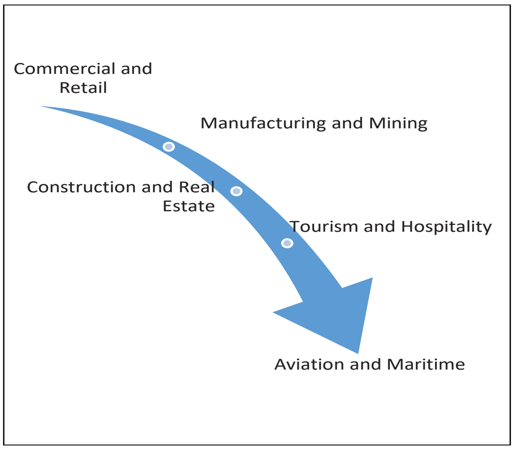
Whist the Malaysian economy had performed better than expected at 0.7% y-o-y for Q1 2020 exceeding the earlier expectations of a contraction of 1%-2%, the GDP growth as expected, had decelerated further in Q2 2020 to record a contraction of -17.1% (April: -28.6%; May:-19.5% and June:-3.2%) as the full impact of the MCO sets in, with weaker private consumption and investments slacking off. However, the lower contraction for June 2020 indicates a strong rebound in line with the re-opening of the different economic sectors in stages under the current Recovery Movement Control Order (RMCO).

The pandemic had also cast a shadow over the job market as unemployment rate in Malaysia hit a record high of 5.3% in May 2020 (May 2019: 3.3%) as measures taken to contain the virus had halted many businesses. Although the unemployment rate has improved slightly to 4.9% in June 2020, rating agencies forecast the unemployment rate to average 4.9% for 2020 and 4.7% for 2021. This had partly contributed to the contraction in real GDP as consumers' purchasing power declined following a higher jobless rate. (*Compiled and adapted from MRCB Report, 2 June 2020*)

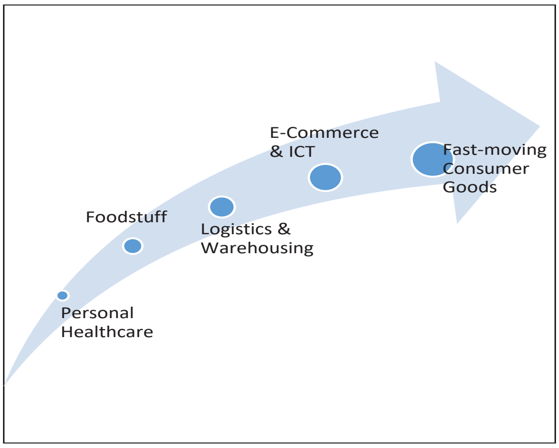
The suspension of most business activities during the MCO, had greatly affected Malaysia's economic performance with an estimated loss of MYR 2.4 billion daily and 2/3 of Malaysian Companies reporting negative sales/revenue.

The sectors most adversely affected are:
- Aviation and Maritime due to halt in travel (closed borders);
- All tourism-related sectors due to broad-based travel restrictions and travel risk aversions;
- Construction and Real Estate sector due to halt in activities;
- The manufacturing and mining sector due to production disruptions in the global supply chain; and
- Commercial and retail sector due to decline in consumption and investment activity in line with the "Stay Home" order.

NEGATIVELY AFFECTED



POSITIVELY AFFECTED



However, online sales of fast-moving consumer goods grew rapidly by 40% due to the pandemic. E-commerce has seen a surge in consumption due to a change in Malaysian consumer behaviour which prefers cashless and contactless transactions during this pandemic. Thus, online consumer marketing has driven the increased need for logistics and forwarding and warehousing services which have seen increased traffic and better performance during this period.

Both public and private investments have contracted and will likely continue to drag the economy as global and domestic business sentiments remain fragile as reflected by MIER's feeble CSI and BCI for Q2 2020.

The Malaysian export sector is heavily dependent on commodities such as oil and gas; and electrical and electronic products. The 14% drop in electrical and electronics (E & E) exports, the 48% plunge in global crude oil prices since the beginning of 2020 and the 25% drop in palm oil prices since its recent peak in December 2019 are exerting downward pressure on the Malaysian export sector and weighing in on Malaysia's growth prospects for 2020.

Market Outlook

During this recovery stage, keeping wages and maintaining shop rentals amidst low customer traffic are the main challenges facing most businesses. Companies may resort to pay cuts and retrenchments to stay afloat.

The extension of the 6-months loan moratorium (April to September 2020) by another 3 months until December 2020 for selected individuals and firms would help ease heavy financial commitments especially for those who have lose their jobs or have salary cuts.

Brent crude oil prices which have dropped by almost half since December 2019 is expected to experience a slight rebound in 2H 2020 and improve to an average of USD45-USD50 per barrel in 2021 when demand picks up. This will partly provide a boost to Malaysia's real GDP growth and the government coffers in 2021.

Private consumption is expected to normalise somewhat when the COVID-19 pandemic starts to subside and World Trade Organisation (WTO) forecast global trade volume growth to pick up by between 21% and 24% in 2021.

Malaysia's economic performance for the 2nd half year of 2020 would be critical in determining how the economy will play out for 2020, whether there will be a normalisation in economic activity and household spending. This will depend greatly on the speed of recovery of the labour market and the containment of Covid domestically. However, Malaysia is noted to be on a strong footing with its historically low Non-Performing Loans (NPL) and high capital ratio.

If the recovery momentum remains unobstructed, Malaysia can expect a firm recovery in the 2nd half of 2020 as the economy progressively re-opens and external demand improves. This outlook is underpinned by the rebound of key indicators such as wholesale and retail trade, industrial production, gross exports, and electricity generation. This improvement in growth will also be supported by the recovery in global growth and continued domestic policy support. In particular, consumption and investment activity is projected to benefit from the wide-range of measures in the fiscal stimulus packages, continued financial measures and low interest environment. With the reopening of economic activities, a concurrent improvement in labour market conditions is expected.

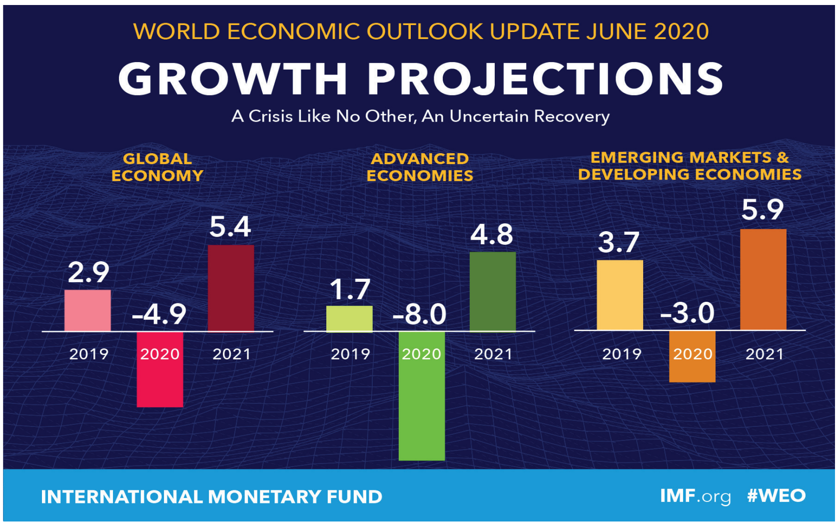
Against the backdrop of weak sentiments, domestic and global demand, the Malaysian economy is therefore forecasted to grow within the range of -3.5% to -5.5% in 2020, with 3% contributed by PRIHATIN and PENJANA government schemes, before staging a rebound within a growth range of 5.5% to 8.0% in 2021. The International Monetary Fund (IMF) has projected the Malaysian economy to grow at an average of 6.3%, and the World Bank, 6.9% for next year.

Nevertheless, given that Malaysia is an open economy, and uncertainties and volatility still exist in the external environment, the Government remains cautiously optimistic. *(Source: Media Statement Commentary on Q2 2020 GDP growth by MOF, August 2020)*

COVID-19 SOPs in place at SUPERMARKETS

In reality, the market has yet to capture the full impact of the Covid-19 pandemic which remains to be seen as the pandemic has not subsided and is still marking out its course in some of the major economies of the world like USA and UK. How we will fare will depend very much on the duration of the global pandemic which would really test the resilience of our economic fundamentals. An additional challenge is the adaptation to the "NEW NORMAL" which will entail a different set of business and consumer behaviour which, to some extent, will affect the macro landscape going forward. Businesses which utilise cyber space and new technological communications such as online businesses which is able to reach a wider audience and at a faster speed, while maintaining physical distance, are likely to be the norm going forward, such as e-commerce; online retail and marketing; and logistics and warehousing.

On the local front, Sarawak's market is largely domestic and would comparatively be less affected by global happenings. That said, the State's recovery would also depend very much on the extent and speed of recovery of the various sectors contributing to the State's GDP growth.



Source: IMF, World Economic Outlook Update, June 2020

PANDEMIC IMPACT ON THE PROPERTY SECTOR

The Pandemic Turmoil and Uncertainty

The worldwide Covid-19 pandemic will affect the investment climate, businesses and market sentiments across the board, both domestically and internationally. The real estate sector, although not as volatile as other forms of investment such as the stock market etc. are expected to also take a hit as the less than conducive climate will likely see a similar downtrend in the property market. Purchasers will adopt a wait-and-see attitude owing to the uncertainties presented by the current economic slowdown. Property overhang in the market will become more evident as take up rates slow down further. Pricing may also be compromised during this desperate times and decline in prices may be forthcoming if poor demand persists.

Owing to the high degree of volatility and uncertainty surrounding the local economic recovery and the current oversupply of property units particularly in the high rise residential and commercial sector, the full impact on the real estate market is still unclear, but market analysts foresee more impairment of assets coming through.

The outbreak, if not contained well, will prolong the suffering of businesses which will consequently affect the property market. The decline in business activities have most directly affected the commercial and retail property sector which saw businesses winding up or scaling down. Sarawak itself has seen its fair share of businesses calling it a day.

Retail malls in sub-prime areas may see increasing vacancy rates and upcoming ones may expect a more difficult time securing tenants. The commercial office sector will be challenging in the short to medium term, with pockets of opportunities. Rental yields are expected to drop, especially for commercial spaces, as many tenants are struggling to maintain current rentals due to the contraction in business activities.

Hotel under construction in Kuching City Centre

Travel aversions have also killed off many tourism related businesses and quite a number of hotels have closed down during this MCO period. According to the Malaysian Association of Hotels (MAH), about 20% of the 1,200 hotels are facing action to shut down or postpone operations within six months following the COVID-19 pandemic.

That said however, for the retail and hotel sectors, this may be the time for future-proofing activities, such as renovations and upgrading, to ready themselves to re-enter the market with an increased competitive edge when retail and tourism activities pick up.

There will be a temporary slowdown in the industrial sector due to plans being put on hold but the PRIHATIN SME+ stimulus package offered by the government could aid to ease the costs of doing business and offer financing to not only maintain but start new operations during this difficult time. The manufacturing sector would most likely be affected due to low export demand, but supply chain, logistics, warehousing and distribution hubs are expected to play a more important role moving forward.

The current pandemic will also impact the residential property market somewhat in the form of reduced demand and increase in loan defaults, although the moratorium may offer some reprieve whilst other property sector financing incentives announced by Bank Negara may instead spur property purchases.

Foreign Ownership of Properties will also be subdued during this pandemic although there could potentially be interest from foreign buyers who are seeking alternative home/refuge due to the less favourable conditions in their own country as seen by increased interest in the MM2H program in Sabah, Penang and KL. Moreover, our comparatively well managed and highly rated Malaysian health care system will give a confidence boost to those interested to invest in a home in Malaysia.

Public and Private Sector Initiatives

Setting the stage for a full economic recovery, the government had drawn up the Short Term Economic Recovery Plan (PENJANA) for a start. The Malaysian government had engaged with industry players such as financial institutions and private developers to come up with measures and incentives to help the Property Sector tide through this challenging time when the property market has gone considerably soft.

The waiver of the RPGT encompassing a large price category, the exemption of stamp duty rates for property transfers, the relief from payment of quit rent and assessment, and lowering of the cost of funds by lowering the OPR are some of the options introduced by the government to boost the property market.

The lowering of the OPR which will affect BLR and the extension of the 6-months loan moratorium by banks will also ease property related financial burdens. Bank Negara has also been encouraging banks to extend more assistance for existing mortgages and allow easier financing for new buyers.

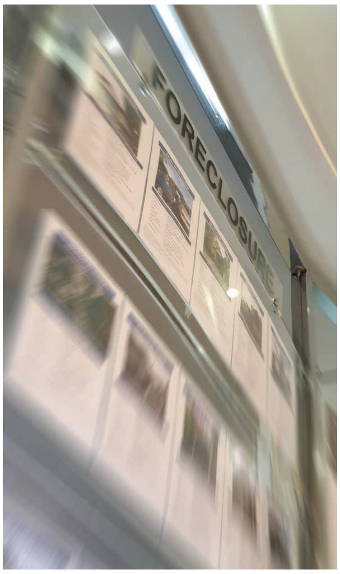
Bank initiatives such as lowering the loan to value ratio and allocation of special funding with lower interest rates will also ease property purchase financing during this period and deferred payment schemes will help them ride out the current difficult times.

Developers are also now more willing to give perks and attractive sales packages such as discounts and freebies and participating in the Home Ownership Campaign (HOC) in order to reduce their unsold units.

Financing in property segment

The re-introduction of the HOC where prices are reduced by 10% and stamp duty are exempted for Memorandum of Transfers (MOT) and loan agreements; as well as the waiver of RPGT effected until end of 2021, could help tip the scale in favour of developers with increased interest in property purchases.

Loan applications are expected to grow in tandem with the economic recovery in the 2nd half of 2020 aided by stimulus measures announced in the short-term PENJANA program (as shown by similar recovery curves in other countries like China), with an anticipated growth of between 3% and 4% for 2020 as Bank Negara Malaysia (BNM) slashed its Overnight Policy Rate (OPR) by 25 basis points to a record low of 1.75% entering Q3 2020. Additional cuts in OPR for the remainder of the year have not been ruled out.



Foreclosure cases due to NPL expected to increase

Setbacks

Property decisions have taken a backseat as they are big ticket items which have been pushed aside amidst bread and butter issues which are paramount at the moment. As such, the property market is experiencing even softer times at the moment.

It is anticipated that there will be an increase in auction/ tender properties due to forced sale as a result of increase in non-performing loans.

Opportunities

However, with these aids and perks available, it may be a good time to make property purchases, by taking advantage of the reduced costs in purchasing property at this time.

Short Term Outlook

Domestic consumption is expected to be feeble this year owing to job insecurity. Investment appetite will remain weak for the short to medium term but optimistic in the long run.

If spending confidence and consumption fall, business sentiment and revenue will be affected. Big-ticket items such as property purchase will continue to be of secondary consideration.

Asking prices of property are expected to be generally lower. Office spaces will be impacted and footfall at shopping malls which has declined during the MCO are seem to be slowly recovering.

No doubt 2020 will be a buyer's market, as buyers will be flooded with increased options at attractive prices and good bargains as the property markets may be hard pressed to let go of unsold units.

On the upside, this period would also be an opportune moment, especially for genuine buyers and investors who have the capital and had been waiting, to cash in on the perks and incentives offered to the property sector at this pandemic time.

How the property market will play out once the six-month moratorium is eventually lifted and the various schemes and incentives have been depleted, remains to be seen. It is anyone's guess if the businesses and individuals can continue to perform and make a full recovery due to many factors at play rendering much uncertainty. And even if the domestic market recovers, a global recession as a result of the pandemic will take a direct toll on the global real estate market outlook.

Long Term Property Outlook

As observed from past property cycles, property transactions will not be put off indefinitely but instead, create a "pent up" demand to be released when conditions are more conducive as the demand for space to live and work can be considered a basic need which would need to be fulfilled sooner or later. The property market has repeatedly demonstrated a tendency to "bounce back" following periods of crisis and short-term decline. This is also a good time for investors to restructure their portfolios to manage risks and build up their landbanks as well as for property owners to innovate/revamp to prepate for better times ahead.

This period would mark a period of moderating growth and root out any unhealthy speculations and flipping and instead favour long-term genuine investment.

PENJANA (Short Term Economic Recovery Plan) (June-Dec 2020)

Incentives for Property Sector

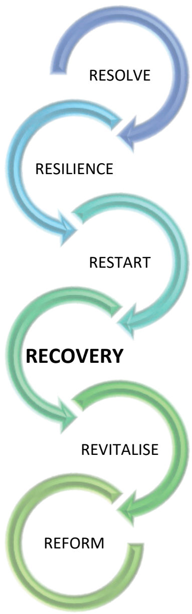
OBJECTIVE : To stimulate the property market and provide financial relief to home buyers
BENEFICIARIES : Homeowners, Prospective homebuyers with Malaysian citizenship
QUANTUM : RM1 billion
TIMELINE : Beginning June 2020

Tax exemption for purchase of properties

Incentives		Price Category	Quantum	Effective Date
HOC	Price Discount	RM300,000. to RM2,500,000	10%	SPA executed between 1st June 2020 to 31st May 2021
	Stamp Duty Exemptions			
	1. Load Agreement	RM300,000 to RM2,500,000	Full	
	2. MOT	RM300,000 to RM1,000,000	Full	
		RM1,000,001 to RM2,500,000	3% (formerly 4%) on balance	
LTV Ratio	70% margin of financing for 3rd property onwards uplifted	RM600,000 and above		
RPGT	Waived	No Limit	Up to 3 residential properties	Disposal between 1st June 2020 to 31st December 2021

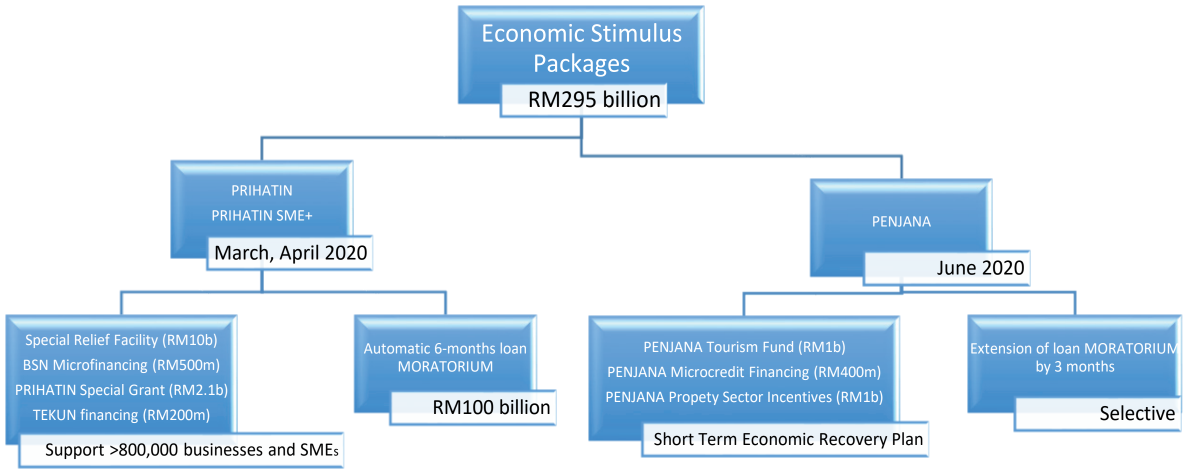
Government Financial Initiatives 2020

AIMS



6R STRATEGY

ECONOMIC STIMULUS & RECOVERY PACKAGES



Some positive signs of recovery in June 2020
a) Exports in June increased 8.8% y-o-y (May: -25.5%);
b) Industrial Production Index rebounded by 26.2% m-o-m in June (-0.4% y-o-y as compared to May: -21.6% y-o-y);
c) Sale of wholesale and retail trade grew 21.8% in June (m-o-m);
d) Malaysia's Manufacturing PMI has rebounded strongly from its low this year of 31.3 in April to >50.0 in June;
e) Passenger car sales recorded a 6.1% y-o-y improvement in June 2020 due to tax incentives for car purchases;
f) Consumer spending has improved to RM10.7 billion in June (April 2020-RM6.5 billion);
g) Net financing to the private sector continued to expand at 3.7% on an annual basis.
h) Malaysia's unemployment rate in June 2020 improved to 4.9% (May 2020: 5.3%)

Source: Media Statement Commentary on Q2 2020 GDP growth by MOF, August 2020

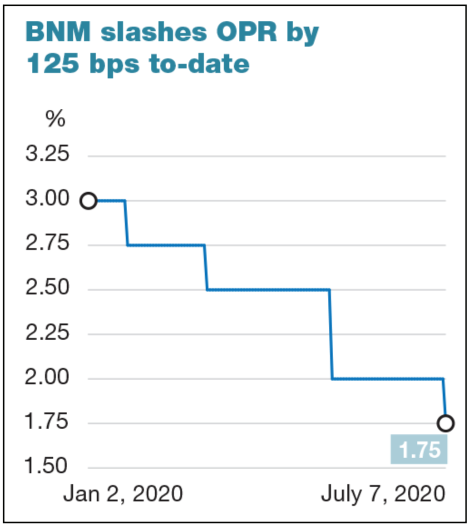
BANK NEGARA MALAYSIA CUT OPR 125 bps TO-DATE for 2020

The OPR which was lowered to 3.00% from 3.25% on 7/5/2019 has since been slashed 4 times by BNM, with the latest reduction of OPR to from 2.00% to 1.75% on 7/7/2020, making a cumulative 125 basis points reduction for 2020.

Reduction in OPR for 2020 (3.00% to 1.75%)

No.	Rate Cut	Date Effective	Basis Point
1	3.00% to 2.75%	22/1/2020	0.25 ⇩
2	2.75% to 2.50%	3/3/2020	0.25 ⇩
3	2.50% to 2.00%	5/5/2020	0.50 ⇩
4	2.00% to 1.75%	7/7/2020	0.25 ⇩

Source : WTWY Research (2020) from various news announcements



The reduction in the OPR hopes to provide additional stimulus to accelerate the pace of economic recovery.

The CPI and Inflation have both dropped for 3 consecutive months since March, which coincides with the implementation of the MCO.

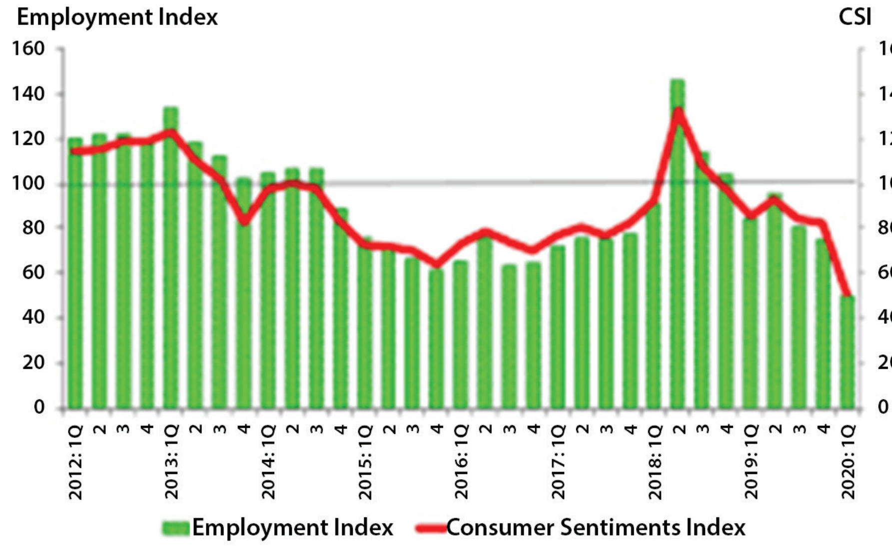
Source : Extracted from the EdgeMarkets.com online reporting, 7/7/2019

Significant Property Transactions, Sarawak 2019

Transacted Date	Property Description	Land Size (Hectare)	Location	Transacted Value (RM)	Property Description
Jul-19	Commercial Devt. Land	4.0299	Jalan Batu Kawa	30,000,000	Lot 6728, Block 225 KNLD
Oct-19	Development Land	2.755 ha	Off Jalan Datuk Abg Abdul Rahim	32,000,000	Lot 394, 1906 & 1908, Section 64, KTLD
Oct-19	Residential Devt. Land	9.727	Off Jalan Sultan Tengah	21,000,000	Lot 3319, Section 14 KTLD
Apr-19	Development Land	4.079	Jalan Lapangan Terbang Baru	50,000,000	Lot 3982, KCLD
May-19	Development Land	2.958	Jalan Kedandi, Tabuan Jaya	34,717,750	Lot 3182, Muara Tebas LD
May-19	Purpose Built Office	5,203 sm/ 11,242 sm	Wisma MAA	34,500,000	Lot 86, KTLD
Aug-19	Agricultural Land (Oil Palm)	210 ha	Off Ensengei-Baki	12,707,517	Lot 19, Samarahan LD
Sep-19	Mixed Development Land	7.193	Jalan Tanjung Kidurong	14,000,000	Lot 4384 Block 26, Kemena LD
May-19	Agricultural Land	11.655	Sungai Kuap	14,046,000	Lot 4225, Muara Tebas LD
Sep-19	Development Land	1.518	Lorong Wan Alwi 1	11,651,660	Lot 208, Muara Tebas LD
Jun-19	Commercial Devt. Land	23.269	Jln Ulu Oya Sibu, Sibu	13,225,000	Lot 113, Seduan Land District

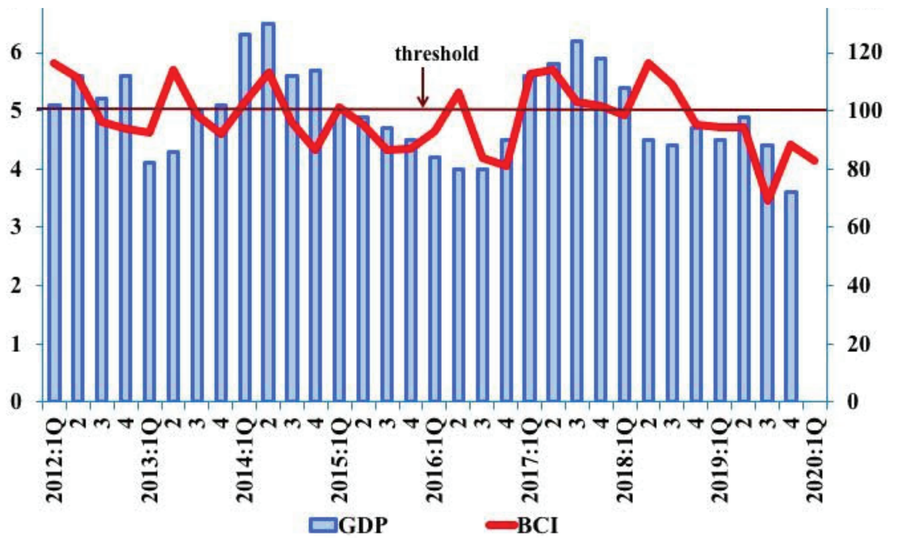
Source : Estate Land Sales Jilid 26; 10 Million Ringgit Property Deals Jilid 15 & 16, NAPiC & Lands & Surveys Sales Data, 2019

MIER Consumer Sentiment Index (CSI)



MIER's Consumer Sentiment Index which recorded an all-time low of 51.1 points in March 2020 (Q4 2019: 82.3), and way below the threshold of 100, has climbed up to 90.100 by June 2020. The average CSI over 130 observations since March 1988 was 109.0 points with an all-time high of 133.4 points in June 1997.

MIER Business Confidence Index (BCI)



MIER's Business Condition Index data was reported at 61.000 points in June 2020, a decrease from the 83.0 points recorded in March 2020 (Q4 2019: 88.3). The Business Condition Index data over 70 observations average 103.1 points from March 2003 to March 2020 with an all-time high of 124.1 points in June 2004 and a record low of 53.9 points in December 2008.

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