WHAT NEXT

IQI NEWSLETTER | APRIL 2018

IQI
Asia's Global Real Estate Partner
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GLOBAL ECONOMIC OUTLOOK 2018

◆ *GROUPING FOR RECOVERY* ◆

“By imposing a tariff on foreign metals, it makes the dollar stronger, making the economy non-competitive. Tariffs creates a dead-weight loss for the economy in the shape of less jobs. Are we heading for a trade war? Shaun Rein from Shanghai cites “Will there be a full blown US-China trade war due to Trump making mistakes in his China policy? Or is he, despite behavioural issues domestically, at least doing better than Obama in his China policy? I expect tensions to rise as there is more protectionism in China than there should be”.”

CURRENCY FORECAST

Malaysia's GDP is looking to remain between 4.9 and 5.4 % while export numbers are up by 10%. The Central Bank of Malaysia has kept the discount rate at 3.25% as of 8th March 2018. Inflation numbers are down to 2.7% due to an appreciating Ringgit. Here we observe a simple rule in economics which is an appreciating currency takes care of inflation while a depreciating currency brings about inflation and dampens standards of living. The Ringgit is expected to be trading between 3.75 and 4.25 against the USD in 2018.

Petro-Yuan could possibly be announced anytime and be backed by gold. China and Russia have commenced their oil transaction in Yuan for the last 17 months. So it seems, the Yuan is in the limelight in the currency market. Exports in China are up 44% in February 2018 while GDP is to remain stable at 6.5%

The Yen, on the other hand has been building strength lately and this could prove unfavourable for the stock markets. Therefore, investors need to be careful in the equity market as valuations are distorted and inflated.

COMMODITIES MARKET

GOLD – HISTORY HELPS

Year	Eco/Period	Appreciation	Price Level
1927-33	Deflation [30%]*	75%	$20 to 35/Oz
1976-81	Inflation [55%]**	300%	$150 to 600/Oz

*Deflation - Declining price levels

**Inflation - Rising price levels.

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CHIEF ECONOMIST OF IQI GLOBAL

The Yuan is in the limelight in the currency market. China's GDP is to remain stable at 6.5%.

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- Sydney property prices have begun to slip after several years of double-digit percentage price gains, while Melbourne's growth has noticeably slowed towards the end of the year – experts predict these trends will continue in 2018. ANZ economists, who are among the only ones predicting multiple RBA rate hikes next year, say APRA's policy tightening has caused weakness in the property sector, but declines will remain localised.
- With investors taking a step back, first-home buyers will find more opportunities in 2018. They will continue to benefit from competitive interest rates, new concessions (if eligible) and ample apartment stock, although checks should always be made to ensure quality buys.
- But while ABS data does appear to show first-home buyers leaping at stamp duty concessions in NSW and Victoria, they still need a leg-up, according to ANZ. The deposit burden for first-home buyers continues to rise, and more people require assistance getting the deposit together. But once they are in the market, low interest rates mean that repayments are affordable, and the interest bill has been falling.

OFFICE

- In Melbourne, the education sector in particular. is driving high demand, and also largely responsible for demand outperforming the other CBD markets. An analysis of Colliers' enquiry data over 2017 tells us that while only 4 per cent of all enquiry in nationally was from the education sector, almost 8 per cent of enquiry in Melbourne was from education users.
- In fact, the education sector was the second largest source of enquiry in Melbourne, behind Business Services. Education is also countering much of the efficiency impacts that is reducing floor space ratios for other corporate users, as the sector is a big user of space.
- Adelaide is also a market which has experienced positive net absorption over the past year, with the education sector a key demander of space here as well. Over 2017, education related tenants accounted for 8 per cent of all enquiry – the same proportion as Melbourne. In Brisbane, the finance and government sector are dominating enquiry, accounting for 31 per cent of the total enquiry profile for 2017. There are a number of large requirements in the Brisbane CBD market across these industry categories, and we expect 2017 enquiry activity to flow through to deal flow in 2018.

RETAIL

- The national supply pipeline is expected to gradually build over the next two years as new Regional, Neighbourhood and Large Format retail stock is released and owners re-position their assets to best adapt to the changing environment. Traditionally, Regional centre owners have attempted to boost market share by expanding existing centres; however, their collective strategy is increasingly becoming one of differentiation by creating a customer 'experience'. The Large Format category is also expected to grow strongly over the three years to 2020.
- Nationally, two main sectors are driving the development pipeline with Regional centre projects accounting for 41% of total GFA and Large Format accounting for 26.5%. Neighbourhood projects account for 14.5% and SubRegional 10.8%, with the balance occurring across CBD Centres, Shops, Freestanding and Mixed-Use centres. New South Wales has the largest supply pipeline of all the states surveyed, with a high proportion at DA stage. This is consistent with the state's economic growth and high levels of infrastructure spending associated with various transport projects. This is creating opportunities for retail investors, particularly in residential growth corridors, with the volume of new development pipeline being led by Regional and Large Format centre projects.

Source : Savills, Colliers

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- ★ According to Robert Hogue, senior economist with RBC Economics, there is “limited downside risks to prices in the near term in Canada” as the majority of housing markets, including Toronto, are “in balance.”
- ★ Hogue’s outlook for the New Year suggests that further moderation of home sales activity across Canada will cool any price increases in the upcoming year. Near-term volatility will be followed by a generalized softening in 2018.
- ★ Slowdown partly represents payback for strong sales activity late last year when an impending change in qualifying requirements led to a flurry of activity. But looking at average sales over the past four months or so, it appears the new B-20 regulations have had more of an impact than simply bringing activity forward to 2017. Stricter qualifying requirements for uninsured mortgages are keeping some potential homebuyers from entering the market, and a psychological impact is also likely at play. Overall, the combination of regulatory changes and rising interest rates are expected to result in more subdued housing market activity this year, and much more reasonable price growth.

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- ★ Toronto’s office development boom shows no sign of stopping, and new supply can’t reach the market quickly enough. Toronto’s downtown vacancy rate is the lowest among major Canadian cities—and the rate masks the fact that half of that space is awaiting occupancy. According to some interviewees, demand will exceed supply for the next 24 to 36 months.
- ★ In 2017, Montreal saw over 1.93 million square feet of positive absorption, the commercial real estate industry’s measure of tenant demand, breaking the previous record of 1.8 million square feet set in 2007. This increase in demand comes amidst rising asking rents in Montreal which have increased 4.8% year-over-year, to $22.22 per square foot for Class A downtown properties as of Q4 2017. High tenant demand and a scarcity of large blocks of contiguous office space will go on to drive rents higher in 2018. This will start to shift negotiating power away from tenants and the stage is being set for Montreal’s office market to potentially become the first ‘landlords’ market’ in over 20 years.

CENTRAL	2016	2017	2018 F	YoY
Vacancy Rate	11.2%	11.1%	11.0%	▼
Class A Net Asking Rent (per sq. ft.)	$22.64	$21.91	$21.13	▼
Net Absorption (million sq. ft.)	0.49	3.18	2.43	▼
New Supply (million sq. ft.)	4.70	3.61	2.68	▼
Under Construction (million sq. ft.)	6.65	6.57	6.94	▲

SUBURBAN				
Vacancy Rate	15.7%	15.3%	14.8%	▼
Class A Net Asking Rent (per sq. ft.)	$18.50	$17.63	$17.33	▼
Net Absorption (million sq. ft.)	1.17	3.11	3.42	▲
New Supply (million sq. ft.)	4.37	2.38	2.88	▲
Under Construction (million sq. ft.)	3.12	4.27	3.96	▼

OVERALL				
Vacancy Rate	13.2%	13.0%	12.7%	▼
Class A Net Asking Rent (per sq. ft.)	$20.15	$19.38	$19.33	▼
Net Absorption (million sq. ft.)	1.66	6.29	5.85	▼
New Supply (million sq. ft.)	9.07	5.99	5.56	▼
Under Construction (million sq. ft.)	9.76	10.94	10.90	▼

Source: CBRE Research, 2018

RETAIL

- ★ Canada’s retail sector continues to be impacted by the rapid, relentless growth of online shopping and consumers’ changing needs and expectations. As a result, the outlook for retail property across the country presents a varied picture.
- ★ For retail property owners and investors, creativity and flexibility will be important success factors. Interviewees noted that everyone in retail needs to rethink what they’re doing. Retail centres must be transformed into destinations people want to visit for more than shopping, and that means incorporating public spaces, a wider range of services, cultural programming, events and more.
- ★ With online commerce showing no signs of stopping, the demand for warehouses and distribution centres continues to grow. Rents are good, and they’re rising after a long period of flat rates—which is good news, as industrial land prices will continue to rise, especially around major transportation hubs. Large bays with room for plenty of trucks, high ceilings and computerized rack systems are what’s in demand to facilitate logistics, distribution and fulfilment.

Source: Price Waterhouse Coopers, CBRE

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- Residential developers in Dubai are increasingly taking on financial risks from unit buyers through phased payment plans. Certain residential developers in Dubai have started to offer three to five year phased payment plans in an attempt to access Dubai's mid-market segment and to turn renters into buyers. This represents a future financial risk, as sales booked on low down payments may not always lead to converted transactions.
- Dubai's development finance market is evolving and becoming more diverse, as alternative sources of finance become increasingly available. This will mean that real estate finance is likely to remain available, on competitive terms, for qualifying developers who have a proven track record and alternative sources of free cash that can be used to service project debt during construction. Looking to consumer finance, phased payment terms in Dubai's residential market mean that developers will be taking on more financial risk in 2018.

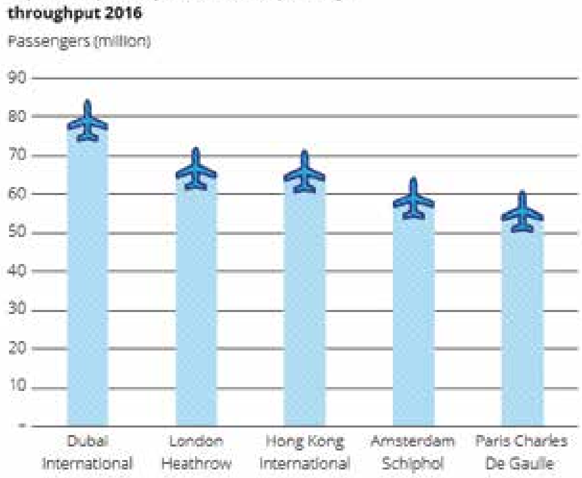
OFFICE

- Dubai's grade A commercial property market is sustaining steady yields due to a strong demand from blue-chip occupiers
- Despite ongoing market softening, investment opportunities exist in certain segments of the market, according to the report. International-grade commercial stock is witnessing higher levels of occupancy and steady yields in the range of 9 to 12 per cent, given the relative shortage of such assets.
- Meanwhile, a general "commoditisation of the office investment market" is under way, with real estate investment trusts (REITs) becoming increasingly popular.

RETAIL

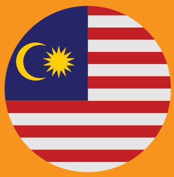
- Dubai has developed world class infrastructure. Dubai International Airport (DXB) handled 80.4 million passengers over the period January to November 2017, a year-on-year increase of 5.8%. This makes DXB the largest airport in the world in terms of international passenger numbers. Al Maktoum International Airport, being developed at Dubai South, will have the capacity to handle up to 200 million passengers annually. Other world-class infrastructure in Dubai includes Jebel Ali Port, the largest marine terminal in the Middle East and the ninth largest container port in the world.
- Dubai has been a late adopter of online retail, but this is about to change. Online retail sales in the Middle East account for approximately 2% of all retail activity, a figure well below mature markets in America and Western Europe. Recent announcements suggest that this is about to change. In 2017, Amazon closed the purchase of Middle East online retailer Souq.com. Also in 2017, Mohamed Alabbar, founder and Chairman of Emaar Properties, announced the launch of Noon, a Middle East online retailer that has secured substantial funding.

Top five airports by international passenger throughput 2016



Source: Airports Council International

Source: Deloitte, The National



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- ★ The Malaysian Institute of Estate Agents (MIEA) said sales of properties will go up as the market has been correcting itself with more genuine buyers purchasing properties, the strengthening of the ringgit and the overall state of the economy. With more developers repackaging their products towards more affordable housing, the momentum of sale is expected to improve, especially in the second half of 2018.
- ★ Though potential buyers tend to be more cautious with major investments such as properties, they are also well aware that property investment remains a good hedge against inflation as property value tends to increase over a period of time. We see value in properties that are strategically located, with a good master plan and well supported by good infrastructure.
- ★ The outlook remains positive as the Malaysian economy continues to experience sustained growth. The World Bank has revised Malaysia's 2017 GDP growth forecast upwards for the second time this year to 5.2%, primarily attributed to stronger investments and the recovery in world trade.
- ★ A lower unemployment rate has also been noted in the country at 3.4% as of April 2017, according to the Department of Statistics Malaysia. The unemployment rate is relatively low and stable at around 3%, indicating that the population is experiencing close to full employment.

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- ★ Currently standing at a total supply of 105.1 million square feet, completion of some 4.13 million square feet of office space by 2018 is expected to put pressure on occupancy rate and rental market. Public Mutual Office, Menara Suezcap Tower 1, Sunway Geo and UOA Commercial Centre are some of the new additions to office buildings.
- ★ Large incoming supply of PBO can be found within the Kuala Lumpur area since Kuala Lumpur addresses are still being preferred by many multinational companies (MNCs). The average occupancy rate for PBO in Klang Valley was 17.7% in 2017, mainly due to addresses outside Kuala Lumpur which had a vacancy rate of 23.1%.
- ★ As a preferred address for most companies, the average vacancy rate for Kuala Lumpur was lower at 15.4%. On the investment side, capital value has remained stable. In 2017, average prime rental in Kuala Lumpur was RM7 per square foot. This has remained relatively unchanged since 2015. It is expected to decline further in view of the competition amongst new buildings and ample future supply. Nevertheless, Yield is rather stagnant, ranging between 5.5% and 6%.

RETAIL

- ★ With many exciting developments in progress at Batu Kawan (Penang), all eyes will be on this satellite township as several projects will be completing in stages over the next few years. The construction of IKEA is expected to be completed by the end of this year and it is slated to open in January 2019. The Ship Campus (ALC College) and KDU University College are on-track to complete by 2018 and 2019 respectively.
- ★ In order not to be missed out, several MNCs and SMEs are also expanding their manufacturing operation in Batu Kawan, namely Flextronics, HP, Sandisk, Sunningdale Tech, Boston Scientific, Vitrox and a few others.
- ★ Batu Kawan will continue to be a significant attraction and a focus for development in Penang and it will keep the ball rolling towards possibility of being the most talked about area in the northern region of Malaysia. The blooming of Batu Kawan township could only offer endless possibilities. With developers striving into providing a better living solution, the prices of property in Batu Kawan is anticipated to inflate within the next five years.

Source: MIEA, CBRE

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- ★ Mass housing developer 8990 Holdings Inc. introduced a new project in Cebu City called Urban Deca Homes Tisa 2, anticipated to for completion in 2021. Buyers have two options: a studio-type unit with 26.8 sqm floor area for PHP1.17 million per unit or a two-bedroom unit with 36.5 sqm floor area for PHP 1.58 million per unit.
- ★ Filinvest Land, Inc. broke ground the Phase 2 of Meridian Place in General Trias, Cavite. Unit sizes range from 27 to 37 sqm, with selling prices between PHP 0.9 million and PHP 1.3 million. Meridian Place is scheduled for turnover in 2019. The first phase and second phase of the development have a total number of 1310 units.

RETAIL

- ★ SM Prime Holdings, Inc (SMPH) plans to open 21 new mall developments from 2018 to 2020. All mall developments except for SM Grand Central in Caloocan are anticipated to open in provincial areas. SMPH projects to have 75 malls with a total gross floor area of 10.5 million sqm by end-2018.
- ★ Festive Walk Mall by Megaworld Corporation is anticipated to open in April 2018. The PHP 2.2 billion mall has a total of 90,000 sqm of gross floor area, 40% of which are leasable space. Festive Walk Mall has a main mall connected to the mall annex and 1.1 kilometer Festive Walk Parade. Government offices and medical and wellness facilities are also expected to open in the mall.
- ★ Eton Properties Philippines, Inc. is planning to open two hotels developments. The PHP 2 billion mixed-use hotel development in Pasay City is anticipated to have 160 rooms, while the 400 room hotel development in Quezon City is expected to be located in a 12-ha property in Centris, Quezon Avenue.

OFFICE

- ★ Robinsons Land Corporation opened a business process outsourcing (BPO) hub in the building expansion of Robinsons Place Ilocos in Barangay San Nicolas, Ilocos Norte. The business hub offers a large office floor plates of around 3,100 sqm with a gross leasable area (GLA) of 7800 sqm. The new hub is a Philippine Economic Zone Authority (PEZA) building and targets BPO firms locating outside Metro Manila.
- ★ The PEZA, through President Duterte , accredited Megaworld Corporation's Southwoods City Office Towers 1 and 2 in Binan, Laguna to be a special economic zone for information technology, offering about 46000 sqm of GLA. Fiscal incentives include income tax holiday, tax and duty free importation of raw materials and capital requirements, while non-fiscal incentives include simplified import-export procedures.
- ★ Ortigas and Company launched the Glaston Tower in March 2019. The 34-storey tower is the first office-for-sale development of the firm as part of the plan to redevelop the 16-ha Frontera Verde, alone C-5 and Julia Vargas Avenue, into a mixed-use development – to be called Ortigas East. Ortigas and Company positions The Glaston Tower to be a prime business address in Metro Manila, catering to both local and multinational businesses.

Source: JLL

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- Expect closer coordination between Vietnamese government agencies and credit institutions as well as project developers in attracting home buyers by allowing the mortgage of property assets by foreign owners.
- Longer leasehold tenures are expected to make Vietnam property investments less risky and more appetizing for foreign buyers of Vietnam real estate.
- 2018 will continue 2017's trend of heightened merger and acquisition activity by both domestic and international real estate developers that will continue to drive investment interest from retail investors from all the positive news coverage on the confidence of large institutional real estate businesses.
- Simplification and clarification of bureaucratic procedures that will address the problems on foreign ownership paperwork such as the notorious Ownership Certificate (pink book) issuance to foreign home owners.
- Expect general increase in product prices across product segments of up to 10% due to increasing value of land due to a revised method of calculating land value for sale and taxation and slowly increasing construction material cost in accordance to some construction consultants. With such momentum, construction materials will cost some 5-10% more in 2018. Moreover, labour costs in Vietnam are predicted to be up by at least 10-20% compared to 2016. All these will contribute to general construction costs increasing.

OFFICE

- Vietnam has the advantage of low occupancy cost in the prime office market In what is now considered one of the most expensive regions in the world.
- Savills Asia Pacific Prime Benchmark in the second half of 2017 shows that the occupancy cost in Hanoi and Ho Chi Minh City is US$38.8 per sq.m and $52.2 per sq.m, respectively. Being considerably lower than Taiwan, Sydney, Singapore, Seoul, Shanghai and Hong Kong certainly helps confirm competitive advantage in the eyes of global occupiers. However, with low vacancy rates in many grade-A buildings and limited new supply of prime office space, rents are likely to increase over the next 2-3 years.
- Co-working space is a recently emerging trend and similar to the early stages of this concept in Hong Kong; it's still fairly small in Vietnam. However, growing co-operation between international developers and local co-working office providers is expected to increase the scale and quality in shared office space, which will help facilitate and nurture growth in this sub segment.

RETAIL

- Retail podiums serving shopping needs of residents in high-rise developments are on an upwards trend while large-scale shopping malls are being decentralized to suburban districts due to limited land availability in the city center. As a result of substantial supply, rents and occupancy rates will go down 2 per cent over the next two years.
- Average net asking rents across all segments grew 11 per cent quarter-on-quarter in the first quarter of this year, reaching $52.4 per sq m per month, due to the high rate at RomeA, a newly-opened department store in District 3. While retail podiums remained at $75.8 per sq m per month, shopping malls and department stores increased their rents to $47.4 and $65.7 per sq m per month, respectively. Average occupancy remained stable, at 93 per cent.
- Among the three segments, the occupancy rate of retail podiums improved 2 percentage points (ppts), to 93 per cent, while those of shopping malls and department stores were unchanged at 93 per cent and 97 per cent, respectively.
- The first quarter welcomed the opening of the RomeA department store, located in the six-story podium at Leman Luxury Apartments, adding 12,000 sq m net leasable area (NLA) to existing retail stock. The retail mix is alluring, with approximately 35 per cent of tenants being well-known F&B brands such as Starbucks, King BBQ, HotPot, and Lotteria. Another special feature is Bon Grocer, the premium supermarket in the basement. This is the first department store of RomeA in Vietnam, with the prospect of more in the years to come.
- With more international retailers such as H&M, 7-Eleven, Walmart, Ikea, and Forever 21 planning to penetrate into the local market, demand for retail properties and outlets in Ho Chi Minh City will remain strong.

Source: Huttons, Savills, Colliers

The IQI team at the Melaka office dawned festive colours to bring in prosperity and good luck to the new office this Chinese New Year!

COO Nabeel and CFO Shahid made their way to our IQI Penang branch to join in the festivities which consisted of lion dance performances and firecrackers. Rest assured, they had a crackling good time!

Pictured here is Daniel Ho and Sheila Tan along with our team of agents in an absolutely picturesque background on the incentive trip to Japan. Being an IQI Warrior sure does open up a lot of Instagram worthy travel opportunities!

The amazing team from our Klang Valley branches strike colourful poses with two very playful lions that spent the afternoon entertaining the crowd with their humour filled performances. The New Year was definitely ushered in with many positive vibes!