

MALAYSIA REPORT

CONSTRUCTION
MARKET UPDATE

JUNE 2018

MARKET
TRENDS

MALAYSIA ECONOMY

Malaysia's 2017 full year growth of 5.9% was its best in three years, and well up from the previous year's 4.2%. Growth in 1Q 2018 however, moderated to 5.4% year-on-year (y-o-y) from 5.9% y-o-y in 4Q 2017. The slowdown came ahead of uncertainties over economic policy reforms that will be implemented by the incoming new administration. The new government is now tasked with managing the country's existing debt and addressing public funds prudence. The Ministry of Finance has since suspended some mega-infrastructure projects, such as the High-Speed Rail Link (HSR) between Singapore and Kuala Lumpur, the East Coast Rail Link (ECRL), and the Mass Rapid Transport 3 (MRT3).

A new policy to remove the goods and services tax (GST) - a significant source of government revenue - has been introduced to lift pressures off construction costs and encourage consumer spending. GST collections were expected to collect RM43.8 billion for 2018, making up some 18.3% of the country's total estimated revenue of RM239.9 billion. Economists believe the GST abolishment is likely to put pressure on its fiscal position.

GST will be zero-rated from 1 June 2018 in an interim period until a new sales and services tax (SST) is reintroduced from 1 September 2018 after getting a new Bill through parliament. The SST, which was first introduced in the 1970s, will generally be 10% for sales tax and 6% for service on a more limited number of goods and services and the new government estimates the SST will bring in a revenue of RM30 billion a year.

In the 11th Malaysia Plan, the government targets a 3.7% increase in labour productivity per annum by 2020 in order to achieve a 5%-6% growth in GDP. Labour productivity growth across Malaysia achieved 3.6% y-o-y in 2017. In 1Q 2018, labour productivity grew 3.0% y-o-y as compared with 3.8% y-o-y in the previous quarter.

Malaysia still aims to double the size of the economy to RM2 trillion by 2025 from the estimated RM1.2 trillion for 2018, and join the ranks of the Top 20 countries by 2050. The International Monetary Fund (IMF) said the country is capable of achieving high-income status after the new government steps up on reforms to boost productivity and raise living standards for its citizens.

On the back of steady private sector activity expansion, strong support from net manufacturing exports such as electronics and chemicals, as well as stable employment rates, GDP is projected to be around 5.0% for 2018. The revised forecast is lower than the 5.9% y-o-y growth for 2017. For 2019, GDP expected to hover around 5.0% y-o-y.

Notwithstanding some unannounced policies of the new government, the IMF thinks Malaysia's economy is likely to continue to grow at a resilient pace and expand 5.3% y-o-y in 2018. Economic growth will be driven by strong global demand for electronics and improved terms of trade for commodities, such as oil and gas.

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PROPERTY MARKET

Late 2017, Bank Negara warned of an acute oversupply of properties/space in the residential, office and retail sectors and that the stock of unsold houses as at the first quarter of 2017 was at a decade high, and the impending glut in office space may result in one in three offices to be vacant by 2021. The National Property Information Centre reported towards the end of 1H 2018, there was a total of 34,532 units of completed residential properties nationwide totalling RM22.26 billion that remained unsold. According to Real estate consultancy Knight Frank Malaysia, distractions from the general election could have contributed to the challenges of the property market in 1H 2018.

As the supply of office space has been rising substantially over the past six years, Knight Frank Malaysia also expects the prime office sector in Kuala Lumpur to remain subdued for 2H 2018. Leasing activities are also likely to remain muted. The growing mismatch between supply and demand activities of the commercial and office space segment is expected to continue to exert pressure on overall rental and occupancy levels for the rest of 2018.

Major developments under construction is The Exchange 106 and a few other towers in the Tun Razak Exchange, the 88-storey Signature Tower at Bukit Bintang City Centre, and Merdeka PNB 118. There are a few other big office developments that are part of massive integrated commercial projects in the city which have been announced and, if launched and completed, will add significantly to the future supply of office space in Kuala Lumpur. They include KL Eco City, KL Sentral, Tradewinds Towers (50- and 26-storey office towers), Lot 185 KLCC, Tradewinds Square

(proposed 110-storey corporate tower and 61-storey mixed use tower) and the 80-storey office tower that will be added to Menara Dayabumi.

Bank Negara Malaysia reported that average Malaysia house prices have increased faster than average incomes since the Global Financial Crisis. Despite pushes to build affordable homes and tighten measures against property purchases by foreigners, affordable housing is still a persistent issue nationwide. Measures imposed include changes to real property gains tax and a nationwide minimum threshold on residential properties available for purchase by foreigners of RM1 million.

Market experts said the cooling measures implemented by the Bank Negara have made it difficult for potential homebuyers to secure financing to purchase property. Furthermore, in January 2018, Bank Negara also raised its key interest rate for the first time in about three and a half years. Thus creating another dampener to the property market.

Edmund Tie & Company research reports showed that retail malls occupancy rates in Kuala Lumpur eased marginally to 86% in Q1 2018, compared to 87% in the previous quarter. Total retail stock in KL remained at 31 million square feet without any new completions in 1Q 2018, whereas stock outside KL rose to 31 million square feet, with the completion of M Square Mall in Puchong. The retail landscape in Malaysia is increasingly being influenced by the e-commerce boom. Many retailers are embarking on various asset enhancement initiatives which will improve the competitiveness of their retail assets.

MARKET
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CONSTRUCTION INDUSTRY

The construction sector fell to 4.9% year-on-year (y-o-y) in 1Q 2018 from 5.9% y-o-y in the previous quarter. Quarter-on-quarter (q-o-q) seasonally adjusted construction growth registered an increase of 1.5% from 0.5%. Based on data by the Department of Statistics Malaysia (DOSM), the civil engineering sector posted an impressive growth of 15.4%, which was the highest growth since 4Q 2016. The strong momentum was mainly geared by transportation and utilities related projects. Specialised construction activities recorded a growth of 7.3% from 8.6% in the previous quarter.

The Construction Industry Development Board (CIDB) planned for the construction sector to grow by 8.0% to RM170 billion for the whole of 2018, supported by various government infrastructure projects. Yet in May 2018, the new government announced its decision to postpone the multi-billion dollar Kuala Lumpur-Singapore high-speed rail (HSR) project due to financial constraints.

The HSR project was planned to cut travel time between the two cities down to 90 minutes. The eight-station HSR line was scheduled to be operational in 2026. Bloomberg reported that the decision would deal a setback to construction and rail companies in Asia, including those from China and Japan that are keen to gain a slice of orders. The government is also cancelling the third line for the Klang Valley Mass Rapid Transit (MRT) project even as the second phase is ongoing. This development has an estimated cost RM40 billion. The East Coast Rail Link is also currently in the process of being reviewed.

Labour productivity of the construction sector grew 0.7% with a value of RM43,173. The construction sector had performed better in the previous quarter with an expansion of 1.6%. This moderation was attributed by the slower performance in value added at 4.9% from 5.9% in the previous quarter, while the employment growth stayed at 4.2%.

Under Budget 2018, the previous government has focused on the ongoing affordable housing initiatives. There are official plans to develop 210,000 housing units under the Perumahan Rakyat 1Malaysia Program, 25,000 housing units under the 1Malaysia Civil Servants Housing Program, 17,300 housing units under the People's Housing Program, 3,000 housing units under the People's Friendly Home Program, 2,000 housing units under the My Deposit Program and 600 housing units under the My Beautiful New Homes Program.

The growth of the construction industry is expected to drop further in view of the austerity drive of the government and the expected tight economic situation of the country. Other smaller scale infrastructure projects are expected to continue contributing to economic growth over the next few years. The government's goals to achieve the status of a developed nation by 2020 may be difficult to achieve and will likely to be delayed to 2025. Based on current demand and cost trends and barring any unforeseen market conditions, building tender prices in Kuala Lumpur are anticipated to stay at the same levels as 2017.

LABOUR PRICES

| SELECTED OCCUPATIONS | UNIT | KUALA LUMPUR AVERAGE LABOUR RATE (MYR) | | | |
|---|------|--|--------|--------|-------------------|
| | | 2015 | 2016 | 2017 | 2018 [#] |
| General Building Worker (Foreign) | day | 57.80 | 58.00 | 60.10 | 60.00 |
| Concretor (Skilled - Local) | day | 103.30 | 100.50 | 104.30 | 94.00 |
| Brick Layer (Skilled - Local) | day | 106.95 | 101.00 | 104.70 | 97.00 |
| Plasterer (Skilled - Local) | day | 112.95 | 108.20 | 112.20 | 101.50 |
| Tiler (Skilled - Local) | day | 105.90 | 117.30 | 121.70 | 112.50 |
| Steel Bar Worker (Skilled - Local) | day | 106.8 | 103.00 | 106.80 | 102.00 |
| Carpenter (Formwork) (Skilled - Local) | day | 111.25 | 107.00 | 111.00 | 101.90 |
| Carpenter (Joinery) (Skilled - Local) | day | 118.6 | 121.40 | 125.90 | 107.50 |
| Roofer (Skilled - Local) | day | 103.70 | 109.10 | 113.20 | 105.50 |
| Structural Steel Worker (Skilled - Local) | day | 133.55 | 130.00 | 134.80 | 107.90 |
| General Welder (Skilled - Local) | day | 120.00 | 119.40 | 123.90 | 106.50 |
| Plumber (Skilled - Local) | day | 116.45 | 122.70 | 127.30 | 107.00 |
| Painter (Skilled - Local) | day | 105.15 | 103.10 | 106.90 | 104.50 |
| Scaffolder (Skilled - Local) | day | 115.80 | 100.60 | 115.90 | 97.00 |
| Electrician (Semi-Skilled - Local) | day | 106.00 | 118.80 | 123.20 | 115.40 |

Data Sources: Construction Industry Development Board (CIDB) Malaysia; Market sources
Published average labour unit rates up to January 2018

CONSTRUCTION MATERIAL PRICES

| BUILDING MATERIALS | UNIT | AVERAGE SUPPLY RATE (MYR) | | | |
|---------------------------------------|----------------|---------------------------|----------|----------|----------------------|
| | | 3Q 2017 | 4Q 2017 | 1Q 2018 | 2Q 2018 ^p |
| Concreting Sand | m ³ | 48.69 | 48.69 | 47.76 | 46.47 |
| Stone Aggregate (20mm) | m ³ | 34.12 | 34.12 | 34.85 | 34.34 |
| Ordinary Portland Cement | bag | 0.34 | 18.19 | 17.99 | 17.67 |
| Reinforced Concrete (Grade 30 MPA) | m ³ | 229.00 | 229.00 | 233.00 | 233.00 |
| Reinforced Concrete (Grade 40 MPA) | m ³ | 247.00 | 247.00 | 270.00 | 270.00 |
| High Tensile Steel Bars (10 - 32mm) | kg | 2.25 | 2.25 | 2.39 | 2.39 |
| Mild Steel Round Bars (10 - 25mm) | kg | 2.31 | 2.31 | 2.47 | 2.47 |
| Structural Steelwork (200x200 U-Beam) | tonne | 3,284.67 | 3,284.67 | 3,284.67 | 3,284.67 |
| Plywood Formwork (2438x1219x20mm) | m ² | 59.73 | 59.73 | 59.73 | 59.73 |
| Clay Bricks (100mm thick brickwall) | m ² | 0.46 | 0.46 | 0.45 | 0.45 |

Data: Market sources
p: preliminary

Exclusions:

- Plant and Equipment • Transport • Wastage • Overheads and Profit • Import Tax • Goods and Services Tax (GST)

Notes:

All supply prices stated above are only applicable for building construction projects in Kuala Lumpur. Specific cost consultancy should be sought for your particular factual situation prior to utilising this information.

CURRENCY EXCHANGE

| CURRENCY | UNITS PER USD | | | |
|------------------------|---------------|---------|---------|----------------------|
| | 3Q 2017 | 4Q 2017 | 1Q 2018 | 2Q 2018 ^p |
| Malaysia Ringgit (MYR) | 4.262 | 4.162 | 3.925 | 3.950 |

Data Source: Oanda
p: preliminary

KUALA LUMPUR
CONSTRUCTION
PRICES

| DEVELOPMENT TYPE | COST PER CFA MYR / m ² | COST PER CFA USD / m ² |
|-----------------------------------|--------------------------------------|--------------------------------------|
| OFFICE | | |
| Good Quality | 1,900 - 3,200 | 480 - 820 |
| Prestige | 2,800 - 4,500 | 710 - 1,150 |
| HOTEL (Including FF&E) | | |
| Three Star | 2,500 - 3,500 | 640 - 890 |
| Four Star | 3,500 - 4,500 | 890 - 1,150 |
| Five Star | 5,000 - 7,000 | 1,270 - 1,780 |
| COMMERCIAL | | |
| Retail | 2,100 - 3,500 | 540 - 890 |
| RESIDENTIAL | | |
| Good Quality Condominium | 1,900 - 3,000 | 480 - 760 |
| Luxury Condominium | 2,400 - 4,500 | 610 - 1,150 |
| INDUSTRIAL | | |
| Warehouse | 1,000 - 1,800 | 250 - 460 |
| Factory | 1,000 - 1,900 | 250 - 480 |
| CAR PARK | | |
| Multi Storey | 800 - 1,200 | 200 - 310 |
| Basement, outside CBD | 1,200 - 2,300 | 310 - 590 |
| Basement, CBD | 1,400 - 3,400 | 360 - 870 |

| DEVELOPMENT TYPE | COST PER ACRE MYR / ac | COST PER ACRE USD / ac |
|-----------------------|---------------------------|---------------------------|
| EXTERNAL WORKS | | |
| External Works | 400,000 - 650,000 | 101,920 - 165,620 |

Notes:

Construction Floor Area (CFA) - The area of all building enclosed covered spaces measured to the outside face of external walls including covered basement and above ground car park areas.

The Cost per CFA refers to the cost of construction of the building per se. All Kuala Lumpur construction prices stated herein are as at **1st Quarter 2018**, and include a general allowance for foundation and 7% of preliminaries based on competent local contractors submissions. The price ranges herein are indicative and due consideration should be given to the different specification, size, location and nature of each project when utilising this information. The prices here may not fully reflect the extent of current market forces and tendering conditions.

Exchange Rate Used: USD 1.00 = MYR 3.925

Exclusions:

- Land cost • Legal and professional fees • Development charges • Authority fees • Finance costs
- Future cost escalation • Models and prototypes • Diversion of existing services • Resident site staff cost
- Service provider fees • External works within project development • Site infrastructure work in Master Development
- Loose furniture, fittings and works of art • Tenancy work • Goods and Services Tax (GST)

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