Tough final quarter for the year

Weaker ringgit and political situation to affect retail

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GIVEN the over-supply situation and other factors, including inflation and the goods and services tax (GST), the retail market is expected to be challenging in the last quarter of the year.

According to Savills Malaysia's latest Asian Cities report, total retail stock in Greater KL stood at 53.9 million sq ft as of end-2014, spread across 155 malls that represented a year-on-year growth of 10%. This was the highest level of growth since 2011.

Despite this, it says that the best shopping malls will continue to perform well, and new malls will have to be distinctly conceptualised in order to compete in Greater KL's retail market.

"We believe that big outlet malls should do well, as people will go to these malls for the discounts," says Savills managing director Allan Soo.

He says that some food and beverage outlets, however, may be affected as a result of the implementation of the GST.

Soo says the weaker ringgit and local political situation will have an impact on the local retail sector in the third quarter and the final quarter of 2015.

"We believe that the third quarter will be bad, compared with the second quarter. The final quarter of the year, usually tends to be the saving grace of the year, as its the holiday season and spending tends to pick up during the period.

"However, with the ringgit falling, importing cost would have gone up significantly, especially if items are shipped from Europe and the United States. This will result in retailers raising prices, which will ultimately affect sales."

However, the weakening ringgit may will help to attract foreign buyers and tourists, says Soo.

"Tourists may likely pick up later, especially those coming from Singapore into Johor. So this could serve as a balancing factor," he says.

Meanwhile, Retail Group Malaysia managing director Tan Hai Hsin, in the latest Malaysia retail industry report, says members of the retailers' association do not expect their businesses to recover strongly from the negative impact of the GST by the third quarter of this year.

"For the period between July and September, the retail industry is expected to register a near-zero growth of 0.1%, as compared with the same period a year ago.

"Department store cum supermarket operators are expecting decline in business with negative growth rate for the third quarter of this year."

Tan says department store operators are expecting their businesses to remain in the red with a negative growth rate of 7.3% for the third quarter of this year.

"Supermarket and hypermarket operators are expecting a healthy recovery with 4.3% in growth rate for the third quarter of 2015.

"Similarly, retailers in the fashion and fashion accessories sector expect their businesses to recover from the GST with a positive growth of 1.1% during the third quarter of 2015."

Tan says the projected retail sales growth rate of the local retail industry in 2015 has been revised downwards further for the fourth time from 4% to 3.1%.

On performance for the second quarter, Tan says the Malaysian retail industry recorded negative growth of 11.9% in retail sales, compared with the same period in 2014.

"This latest quarterly result was the worst quarterly retail growth rate since the Asian financial and economic crisis in 1998. The negative impact of the GST on the Malaysian retail industry is worse than anticipated.

"This quarterly performance is highly disappointing and way below the average negative growth rate of 3% forecast by members of the Malaysian Retail Association in June 2015."

According to Savills Malaysia's latest Asian Cities report, notable newly-completed retail projects in 2014 include Nu Sentral (650,000 sq ft), Quill City Mall (763,725 sq ft) and IOI City Mall (1.35 million sq ft).

"In total, 4.6 million sq ft of new supply was going into the existing stock," says Savills.

Savills adds that prime rents for major malls in Greater KL increased 0.9% year-on-year and averaged RM42.32 per sq ft by the end of 2014.

"Moving forward, prime rental growth will be limited and the rental market in suburban areas is expected to be pressured due to the influx of retail supply."

Greater KL refers to an area covered by 10 municipalities surrounding Kuala Lumpur, each governed by local authorities, namely Kuala Lumpur City Hall, Perbadanan Putrajaya, Shah Alam City Council, Petaling Jaya City Council, Klang Municipal Council, Kajang Municipal Council, Subang Jaya Municipal Council, Selayang Municipal Council, Ampang Jaya Municipal Council and Sepang Municipal Council.

Based on its basket of 63 shopping malls, Savills says shopping centre occupancy rates averaged 91.2% in 2014, which was a decline of 70 basis points over 2013, due to the large amount of sq ft completed in 2014.

"It is worth noting that IOI City Mall, the largest mall in southern KL, opened in November 2014 with a rather impressive occupancy of 85%," Savills says.

Savills adds that transactions of shopping malls have been limited for the past couple of years, but points out that 2015 kicked off with CapitaMalls purchasing Tropicana City Mall and the adjoining office tower for RM540mil in January.

"Only one shopping centre, KL Festival Mall, was transacted during the second half of 2014, at RM716 per sq ft."

According to CH Williams Talhar & Wong's (WTW) property market report 2015, the average rental rate in prime retail malls remained healthy at RM22 per sq ft in 2014.

"Rents continued to remain stable but capital values increased faster. The supply of retail space remained concentrated in KL (54%) where retail spaces located outside KL and Petaling Jaya area formed the remaining 46%.

"Retail malls located in KL continued to outperform those located outside the city, with the former registered vacancy rate of 12% while the latter has doubled compared to 2013, which was 24.5% in 2014," WTW says.

It adds that the retail sector is expected to stay quiet but buoyant in 2015, with new retail mall owners likely to experience increased difficulties in maintaining occupancy rates in view of the likely completion of more malls in 2015.

More competition: Savills report says that the best shopping malls will continue to perform well, and new malls will have to be distinctly conceptualised in order to compete in Greater KL's retail market.

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