

## **Better days ahead for retail sector**

*Source: The Star, Saturday February 6, 2010*

By EUGENE MAHALINGAM

THE world is emerging from one of the toughest economic downturns in a while, and for the shopaholic in all of us, 2010 seems like a good time to unleash that pent up demand that has been building up since the crisis hit in late 2008.

Real estate agents and industry observers are cautiously optimistic that the local retail market is expected to see some growth this year, but it won't be spectacular.

Khong & Jaafar Sdn Bhd managing director Elvin Fernandez says the health of the local retail market is dependent on the level of consumer spending.

Fernandez says "underlying risks" exist that may scuttle consumer spending this year.

"The global economy may weaken, the Malaysian economy may experience weak growth. Subsidies may be moved; all these could lead to households tightening their spending," he tells StarBizweek.

Conversely, there are also indications that the retail market could be in for good times, say Fernandez.

"There is that potential. We see better tourist arrivals and spending this year largely because of low-cost carrier travels," he says.

According to Fernandez, rental rates of downtown shopping centres (namely Suria KLCC and Pavilion in Kuala Lumpur) and suburban shopping centres (like Midvalley in Kuala Lumpur, One Utama and Sunway Pyramid in Selangor) have been holding steady for a while.

Rent for average prime space at downtown and suburban shopping centres are averaging between RM50 to RM60 per sq ft and RM35 psf respectively the past couple of years.

"Even in the downturn areas, rates have remained steady. We don't expect them to shoot up suddenly this year," says Fernandez.

Malaysian Association for Shopping & Highrise Complex Management advisor, Richard Chan concurs that retail rental rates are likely to hold steady, adding that the sub sector would probably experience single-digit growth due to the improved economic conditions and improved consumer sentiment.

Despite better days ahead, Chan says there would not be an oversupply of retail space, especially within the Klang Valley area as it is already over-populated.

"There are over 130 shopping stores in the Klang Valley alone!" Neither does he expect many new malls being built this year.

“Pavilion is the last big mall in the Klang Valley within the Golden Triangle area and the price of land there is very expensive. Land is expensive even in the outskirts of Kuala Lumpur and Petaling Jaya. Developers obviously need to plan where to build their malls.”

According to Henry Butcher Retail, among the shopping centres that completed and opened (whole or part) in the Klang Valley last year include Bangsar Shopping Centre Phase 3, USJ 19 City Mall, IOI Mall Phase 2, Wangsa Walk, Solaris Dutamas, Subang Avenue, Plaza RAH and Giza Dataran Sunway.



*Tan Hai Hsin forecasts the retail market to grow 5% this year.*

New retail supply within the Klang Valley dipped to 1.4 million sq ft in 2009 versus 1.7 million in 2008. Henry Butcher estimates new retail supply to grow to 4.4 million sq ft this year.

Regroup Associates Sdn Bhd managing director Allan Soo expects the local retail market to grow less than 5% this year, with growth from existing malls within the Klang Valley.

He says new malls would not contribute to growth because they needed to “struggle” initially to build their business and attract consumers.

Soo distinguishes the retail market by location or ‘tiers,’ namely the first tier (Klang Valley), the second tier (Penang and Johor Baru) and the third tier (small towns in states other than the first two tiers).

“The growth will be driven mainly by shopping centres within the first tier. Those in the second tier should be stable while those in the third tier may be affected.”

Soo says the retail market in Malaysia had picked up in the fourth quarter of 2009, estimating that it grew less than 1% for the whole year.

“In the last three months of 2009, retailers saw good growth due to pent up demand from 2008 to early 2009. There was also a notable tourist increase during that period. We believe that this momentum will be carried into 2010. Despite improved sentiments, there are still underlying worries that the Malaysian economy may be less competitive or the possibility of a double-dip recession in the global economy,” he says, adding that the local retail market could pick up further in the second half of this year.

Retail outlets selling essential goods could continue to perform well, even in times of inflation.

“Despite a spike in inflation in 2008, these sectors did well. Going forward, sectors like mainstream fashion could be affected by newer, affordable types of fashion.”

Henry Butcher Retail managing director Tan Hai Hsin also forecasts the retail market to grow 5% this year, adding that it was likely to have grown 0.8% in 2009.

“The Klang Valley remains the key driver of retail sales for the entire Malaysia. They account for about 40% of the total retail sales in Malaysia,” he says, adding that the average occupancy rate of shopping centres in Klang Valley last year was 86%.

“They are also the most affected states during the economic crisis. The largest drop in consumer spending and the largest number of store closure also took place in these two states during bad times,” Tan says.

“Penang is highly dependent on the export and manufacturing sectors and was affected by the crisis while Johor Bahru has been affected by Singapore recession,” says Tan. He adds that the average occupancy rate of shopping centres in Penang and Johor Bahru was 69% and 62% respectively last year.



**Expected retail centres for 2010**

<i>Name</i>	<i>Location</i>	<i>Nett floor area (estimate in sq ft)</i>
1 1 Shamelin	Tmn Shamelin Perkasa	322,000
2 Axis Atrium	Tmn Chempaka	200,000
3 Centrio	Pantai Hillpark	25,000
4 Citta Strip Mall	Ara Damansara	433,000
5 Empire Gallery	Subang Jaya	200,000
6 Fahrenheit 88 (formerly KL Plaza)	Bukit Bintang	300,000
7 Festival Mall	Setapak	350,000
8 First Subang	Subang Jaya	120,000
9 Harbour Place	Klang	280,000
10 Jusco Bandar Mahkota Cheras	Cheras	150,000
11 Jusco Bandar Sri Permaisuri	Cheras	150,000
12 One Mont Kiara	Mont Kiara	260,000
13 Rivercity	Jln Ipoh	50,000
14 Spark	Desa Petaling	150,000
15 SSTwo	Petaling Jaya	463,000
16 Viva	Jln Ipoh	100,000
17 Viva Homes (formerly Ue3)	Jln Loke Yew	660,000
18 Zone.e @ Fraser Business Park	Sg Besi	200,000
<b>Total</b>		<b>4,413,000</b>

Source : Henry Butcher Retail