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Malaysian REIT Managers Association

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RHB Virtual REIT Forum

Emerging from COVID-19 and Strategies for
Malaysian REITs Going Forward

Friday, 15 January 2021

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1. Towards a New Normal



1. Towards a New Normal

National Statistics	1Q 2020	2Q 2020	3Q 2020	4Q 2020 (F)
	Pre-COVID-19	1 st round of MCO / CMCO	RMCO reopening	2 nd round of CMCO
Daily COVID-19 cases	0 - 2 digits	2 - 3 digits	1 - 3 digits	4 digits
GDP (% Y-o-Y)	+0.7%	-17.1%	-2.7%	<i>Likely negative</i>
GDP (% Q-o-Q)	-2.0%	-16.5%	+18.2%	<i>Likely negative</i>
Retail Sales (% Y-o-Y)	-11.4%	-30.9%	-9.7%	-18.2%

Economic Impact of COVID-19 and Movement Restrictions:

The economic situation and retail consumption trends in 2020 have been **fluctuating in line with the pandemic and movement restrictions**:

- **2Q 2020:** Impact from **initial surge of COVID-19** and **1st round of MCO / CMCO**
- **3Q 2020:** Recovery from successful management of COVID-19 and **RMCO re-opening**
- **4Q 2020:** Impact from **resurgence of COVID-19** and **2nd round of CMCO** across multiple states

- **Jan 2021:** **2nd round of MCO** effected in key states and **Declaration of State of Emergency**

1. Towards a New Normal (cont.)

Pandemic vs Financial Crisis:

- Unlike the AFC 1997 and GFC 2008, the economic situation in 2020 is primarily caused by the global viral pandemic and movement restrictions instead of financial drivers
- **When the pandemic is under control, the ‘fear factor’ will be reduced** – domestic retail and travel spending will rebound, while international trade and travel restrictions will also be gradually lifted, especially intra-Asian routes

Potential Catalysts in 2021:

- ✓ **Move towards vaccination** and management of pandemic
- ✓ **Pent-up demand** upon re-opening as observed during RMCO in 3Q 2020
- ✓ **Potential longer term recovery** towards a ‘New Normal’
- ✓ **Potential continuation of PRIHATIN and PENJANA economic stimulus package**, including electricity tariff rebate, wage subsidy, targeted loan moratorium etc.
- ✓ **Low interest rate environment** likely to be maintained

However...

- Not all property sectors or states will recover at the same rate or to the same level
- Long periods of movement restrictions and technological disruptions may have **changed consumer behavior and preferences in the post-COVID-19 new normal**, e.g. physical retail vs e-commerce and food delivery apps

2. Retail Segment Adaptations – *Across 4 Dimensions*

- a. Experiential vs Transactional Consumption
- b. Hybridisation of Space
- c. Turnover Rent Structure and New Business Opportunities
- d. Digitisation and Omni-Channel Retail



2a. Experiential vs Transactional Consumption

Tenants offering essential, personalised and/or experiential, social-based services are less vulnerable to disruption from e-commerce compared to tenants offering non-essential, unbranded and commoditized goods in the new normal.

Transactional Consumption (Cost, Speed, Convenience)



GrabFood for a quick bite



Streaming Netflix at home

Passive
Disrupted by E-Commerce

vs

Experiential Consumption (Service, Experience, Relationships)



Colleagues chatting at a cafe



IMAX with family



Family dining at the restaurant



Arcade with friends

Active, Proactive, Interactive
Remains relevant in Brick-and-Mortar (Physical Retail)

2a. Experiential vs Transactional Consumption (cont.)

Tenant Mix Optimisation and Diversification of Offerings

Landlords may review tenancy profiles to create **hybrid lifestyle malls** with **synergised experiential, social and service-based crowd-pulling factors** beyond transactional retail



Co-labs Coworking spans 20,000 sq.ft. at Level 4, The Starling Mall



The Rift @ Mid Valley Megamall is the largest VR / AR theme park in Malaysia



MOX @ Sunway Putra Mall is the largest co-making space in Malaysia, complete with photography studios, audio suites, workshops and co-working spaces for artists and creatives



District 21 apocalypse-themed adventure park @ IOI City Mall is a one-of-a-kind indoor action park with 10 attractions and 8 function rooms

2b. Hybridisation of Space

Conventional Integrated Developments “3-in-3” i.e. “All in Many”



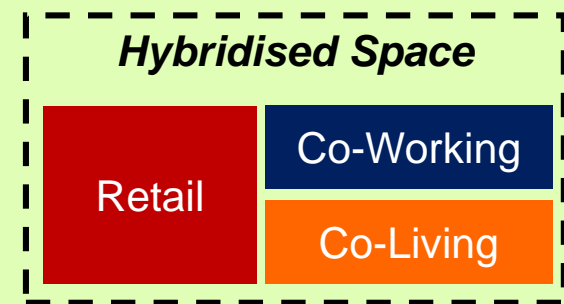
- Usually **regional malls** in connected townships for viable economies of scale

- **Pre-planned** and integrated with purpose-built components:

- Hotels and Service Residences
- Offices
- Event Spaces
- Medical Centers
- Educational Institutions

- **Long-term masterplan** and development cycle

New Model of Hybridised Space “3-in-1” i.e. “All in One”



- **Flexible** space and size requirements

- **Accommodative / adaptive** use of existing retail space:

- ✓ Co-Living Space
- ✓ Co-Working Space
- ✓ Community Hub
- ✓ Wellness and Rehabilitation Centres
- ✓ Specialty Learning Centres

- **Versatility is key** – quick response to changing market demands

2c. Turnover Rent Structure and New Business Opportunities

Growing Preference for Turnover Rent Structure (Revenue Sharing with minimal base rent) among tenants to mitigate business risk in the new normal

Challenge for Landlords: Leakages may arise from the growing yet unaccounted online sales despite the Tenant taking up floor space



Landlords may need to adopt:

- **Tighter tenancy agreement** to capture online sales
- **Regular check-ins** with tenant and independent auditing by landlord
- **New methods of integrated data collection** e.g. provision of downstream logistics services by Landlords to Tenants i.e. warehousing, aggregation and delivery support ecosystem

2c. Turnover Rent Structure and New Business Opportunities (cont.)

Potential New Trend with Turnover Rent Structure:

Provision of New Downstream Logistics Services by Mall Landlords to Tenants i.e. Warehousing, Aggregation & Delivery Support Ecosystem



Advantages:

- ✓ **All sales tracked with Big Data** to analyse tenant performance and customer preferences
- ✓ **Quick and easy centralised logistics** boosts sales turnover and transaction speed
- ✓ **Access to Last-Mile Delivery services** enhances tenant's cost and operational efficiency

2c. Turnover Rent Structure and New Business Opportunities (cont.)

Potential New Business Opportunities for Mall Landlords: Cloud Kitchens

- ✓ New trend in the **Sharing Economy** – also known as ‘**commissary kitchens**’, ‘**smart kitchens**’ and ‘**virtual kitchens**’
- ✓ **F&B Tenants: Decreased upfront and operational costs, enhanced business efficiency and turnover time** with centralised kitchen, delivery and even marketing services
- ✓ **Mall Landlords: Utilise lower-value space e.g. carpark while attracting F&B tenants with lower startup cost by up to 80-90%** vs average mid-sized restaurant in Klang Valley
- ✓ **Compatible with turnover rent structure** with sales data tracked from centralised kitchen

Case Study: CloudKitchens



Delivery workers collecting coordinated orders

Brand Partners: Delivery-Focused F&B



Vendor Partners: Marketing, Delivery, Cross-Selling and Consulting



2d. Digitisation and Omni-Channel Retail

Front-End Traffic Catchment: 'Bricks-and-Clicks' / 'Clicks-and-Mortar' Model

- ✓ **Capture digital traffic (collection + delivery)** while maintaining physical storefront for walk-ins and **complementary experiential, social and service-based offerings** which cannot be easily replaced by e-commerce e.g. dine-in experience, VR theme park, apparel fitting etc.
- ✓ **Malls remain relevant as technology-enabled marketplace and meeting space** for services, community and interactive activity

Examples of Trends in Consumer-Oriented Retail Digitisation



Omni-channel / Multi-Platform Retail

Alibaba's Hema Supermarkets with **more than 100 stores in more than 20 Chinese cities**. Visitors buy food through mobile app linked to Alipay and can receive deliveries within 30 minutes of ordering.



Technology-Enabled Retail

Uniqlo's Magic Mirror provides **unique fitting experience** with Augmented Reality (AR) technology. Customers can quickly view products without manually putting them on, **reducing overall turnover time**.



Digital-Age Events

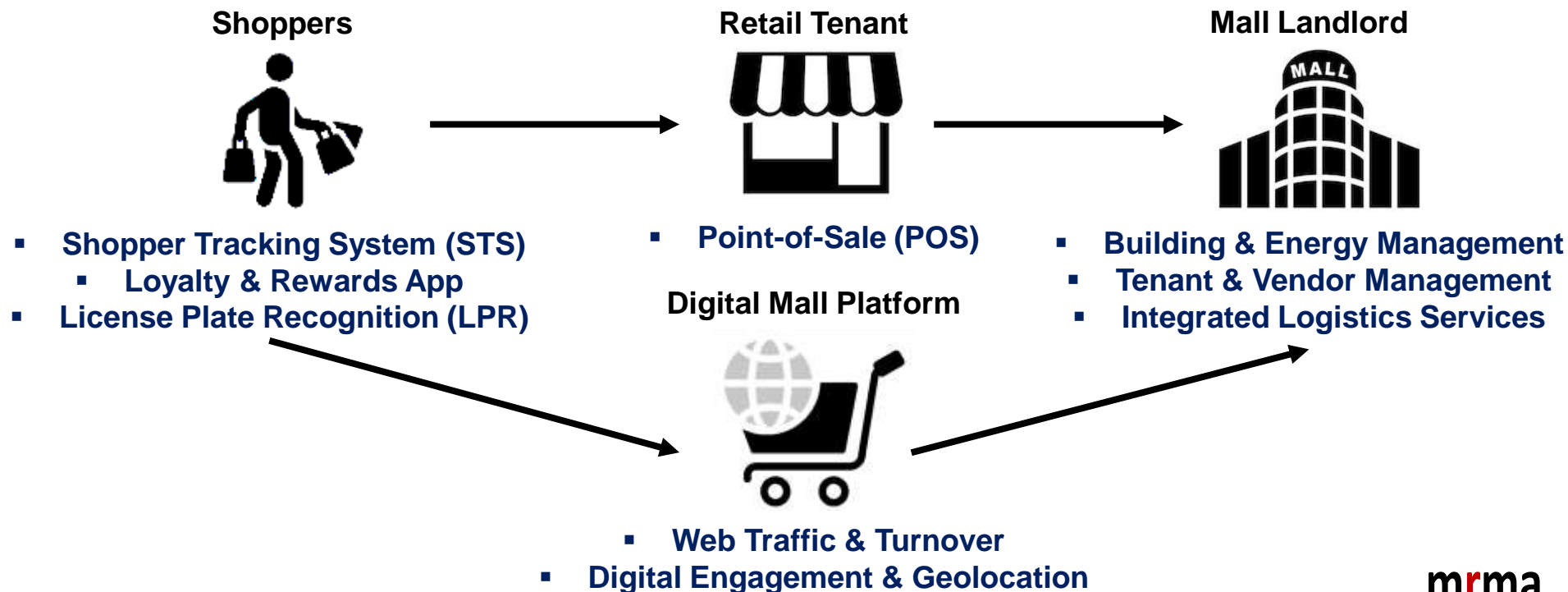
Toyota Velocity E-Sports Championship @ Sunway Pyramid Mall with 400 competitors and thousands of spectators, attracting **young urban middle-class millennial & Gen Z crowd**

2d. Digitisation and Omni-Channel Retail (cont.)

Back-End: Big Data Analytics

- ✓ Integrated multi-platform real-time data collection & analysis
- ✓ Automated processes with enhanced efficiency and optimised costs
- ✓ Informed decisions ahead of the curve in fast-moving market
- ✓ Constant feedback and improvements to adapt to new trends and changing preferences

Example of Retail Big Data Analytics Ecosystem



3. REIT Level Strategies



3. REIT Level Strategies

The current pandemic situation presents opportunities for REIT:

1. **Strategic acquisitions and M&A** with motivated vendors and potential turnaround opportunities.
2. **Diversification** in less cyclical, defensive and sunrise segment assets e.g. healthcare, education, industrial, warehousing, logistics, data infrastructure etc.
3. **Capital management strategies** to decrease borrowing cost in low interest rate environment via refinancing, new and innovative instruments as well as equity fundraising over the long term.
4. **Reduce, defer or cancel non-essential spending** and achieve savings via cost optimisation, operational synergies and energy efficiency.
5. **Strategic refurbishment / redevelopment** amidst lull period for greater potential recovery upside post-COVID-19 to cater to new emerging trends, businesses and consumer expectations.
6. **Continue to embrace digitisation and Environment, Social and Governance (ESG)** initiatives.

4. Conclusion



Current Situation in 2020: Primarily caused by pandemic and movement restrictions



Moving Forward in 2021 (with prudent management of COVID-19):

- ✓ 'Fear Factor' will be reduced
- ✓ Rebound in domestic retail and travel spending
- ✓ International trade / travel restrictions will be gradually lifted

However...



- Not all property sectors / states will recover at the same rate or to the same level.
- Long periods of movement restrictions and technological disruptions **may change consumer behavior and preferences in the new normal**

To adapt, retail players should embrace 4 new dimensions of retailing:

*Experiential vs
Transactional
Consumption*

*Hybridisation
of Space*

*Turnover Rent Structure
and New Business
Opportunities*

*Digitisation and
Omni-Channel
Retail*

Thank You