RESEARCH

2ND HALF 2013

REAL ESTATE HIGHLIGHTS

Kuala Lumpur | Penang | Johor Bahru

HIGHLIGHTS

Kuala Lumpur:

- The residential market is expected to self-correct in the next six to twelve months with the impending implementation of more cooling measures and is expected to see lower volume of transactions going forward.
- With the expansion of the Oil & Gas sector and concerted efforts by InvestKL to attract MNCs to the country, we expect more activity in the office leasing market.
- The Klang Valley retail market continues to draw interests of international retailers and drive the expansion of existing brands despite the slowdown in retail sales growth.
- The various Government initiatives proposed under the recent Budget 2014 announcement to encourage investments to build new 4 and 5-star hotels to promote Malaysia as the destination of choice, augur well for the Kuala Lumpur hotel market.

Penang:

- Komtar Tower will undergo a RM50 million revitalization and rejuvenation exercise that includes refurbishment to levels 5, 59, 60, 64 & 65 to create high-end commercial space for retail, food and beverage and recreational purposes.
- With no immediate incoming supply of office space into Penang Island, occupancy rates in the short term are expected to improve.

Johor:

- JB property market is expected to remain firm in the medium term with more Malaysian and Singaporean-based developers expected to venture into the Iskandar region.
- Medini will continue to be the ‘hotspot’ given its special economic zone status.

KUALA LUMPUR HIGH END CONDOMINIUM MARKET

Market Indications

Malaysia's economy grew by 5% in 3Q2013, higher than the 4.4% growth recorded in 2Q2013, supported by strong domestic demand (3Q2013: 8.3%, 2Q2013: 7.4%), while exports improved to record a positive growth of 1.7% from the 5.2% contraction reported in previous quarter. With signs of recovery in the advanced economies, the country's external sector is anticipated to contribute towards its growth moving forward. Bank Negara Malaysia maintains its 2013 GDP forecast at 4.5% to 5%.

Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), increased by 2.2% in 3Q2013 (2Q2013: 1.8%) due to higher prices in the transport, food and non-alcoholic beverages categories. With uncertainties in domestic growth and rising cost pressures, Bank Negara Malaysia has kept the Overnight Policy Rate (OPR) steady at 3%.

Supply & Demand

The cumulative supply in Kuala Lumpur stands at 34,563 units following the completion of seven notable high end condominium projects offering an additional 2,109 units [includes projects that are physically completed but pending issuance of Certificate of Completion and Compliance (CCC)]. The projects are Quadro Residences, ViPod Residences and 6 Capsquare in KL City, M Suites Residence and Sastra U-Thant in Ampang / U-Thant, Camellia Serviced Suites in Bangsar South and Verve Suites Vox Tower (Block D) in Mont' Kiara.

Both ViPod Residences and Quadro Residences have reportedly achieved 100% and 96% sales rates respectively, indicating sustained demand for well positioned high end residences. Meanwhile, 6 Capsquare, located bordering the Golden Triangle and Central Business District of Kuala Lumpur, has achieved 95% sales rate since its launch in 2011, with only the larger size units still available for sale.

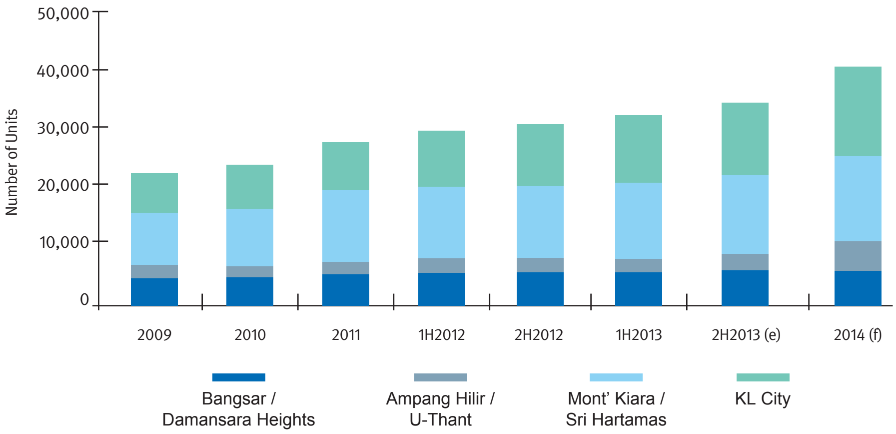
In the Ampang Hilir / U-Thant area, both Sastra U-Thant and M Suites Residence have also recorded encouraging sales rates at 80% and 100% respectively.

By the end of 2014, an impending supply of some 6,277 units is expected to enter the market, with KL City accounting for 51% of the total new supply, followed by the Ampang Hilir /U-Thant area (31%) and Mont' Kiara (18%). Some of the notable projects scheduled for completion include Celeste Tower@Setia Sky Residence, 188 Suites, Six Ceylon, One@Bukit Ceylon, Suasana Bukit Ceylon in KL City; 9 Madge, Dedaun, Madge Mansion, Rimbun Embassy Row and Tower 1 of The Elements @ Ampang in Ampang / U-Thant; One Kiara (Tower A), Arcoris Mont' Kiara, Richmond Kiara 3 and The Icon Residence in Mont' Kiara; and The Signature in Sri Hartamas.

ViPod Residences

Notable previews and launches during the review period include KL Trillion, Dorsett Residences Bukit Bintang, Tribeca Serviced Suites, The Robertson Tower 2, Divina Tower@Setia Sky Residences, Three28 Tun Razak and 51G in KL City; Arte + @ Jalan

Figure 1
Projection of Cumulative Supply for High End Condominiums 2009 – 2014 (f)



Source: Knight Frank Research
Note: [e] = estimate; [f] = forecast

Ampang in Ampang Hilir/U-Thant; Nadi Bangsar, The Establishment, South View Residences and Premium Residences @ KL Gateway (Tower 1) in Bangsar; Pavilion Hilltop Tower 2, Residensi 22 @ Mont' Kiara – Blocks A & B, Concerto North Kiara Phase 2 and 28 Dutamas Block 1 in Mont' Kiara.

In July 2013, Singapore-based developer, Sim Lian Group Ltd, launched Block B of its KL Trillion Serviced Residence. Located near the integrated development of The Intermark at Jalan Tun Razak, the 39-storey tower offers 184 units with typical sizing from 963 sq ft to 3,101 sq ft, priced from RM922 per sq ft to RM1,560 per sq ft net. As at October, it has reportedly achieved 50% to 55% sales rate.

While the localities of KLCC and Ampang Hilir / U-Thant remain as the core high end residential areas in KL City, several new projects at the fringe location of Jalan Tun Razak have been launched at benchmark pricing from about RM1,000 per sq ft onwards. They include KL Trillion, Three28 Tun Razak, Divina Tower@Setia Sky Residences and 51G Kuala Lumpur.

Likewise, launches and preview of projects at the edge of Bukit Bintang precinct, namely Jalan Imbi and Jalan Pudu, are also catching the eyes of buyers and investors; they include Dorsett Residences Bukit Bintang, Tribeca Serviced Residence at Jalan Imbi and The Robertson at Jalan Pudu. The majority of these developments which offer smaller unit sizing below 1,000 sq ft and are launched at prices between RM1,300 per sq ft and RM2,000 per sq ft, have generally received encouraging response.

Another upcoming high end residential locale is Bukit Ceylon, where it is expected to embrace some 1,109 units or 35% of total new supply in KL City from the scheduled completion of Six Ceylon, One@Bukit Ceylon, Laman Ceylon and Suasana Bukit Ceylon in 2014. These projects, with selling price above RM1,000 per sq ft, have reported encouraging sales rates ranging from 85% to 100%.

There also appears to be renewed interest in the KL City locality with a number of developments scheduled for launch in 1H2014. These include Le Nouvel and Cecil Residensi.

Prices & Rentals

Overall, the luxury residential market in selected prime locations in Kuala Lumpur remained stable during the review period.

Asking prices and rents of existing high end condominiums remained fairly stable during the review period. The gap in average asking prices for the KL City locality, however, has now widened with existing schemes selling from RM680 per sq ft to RM1,700 per sq ft (1H2013: RM700 per sq ft - RM1,650 per sq ft). Meanwhile, the Ampang Hilir / U-Thant locality saw marginally higher asking gross rental due to the entry of newer schemes which include Seri Ampang Hilir, M Suites and Sastra U-Thant.

The leasing market in Mont' Kiara / Sri Hartamas, however, weakened marginally while the sub-sale market remained flat.

There were several notable launches / previews prior to the Budget 2014 announcement on 25th October with selling prices starting from RM1,000 per sq ft (up to about RM2,000 per sq ft for Dorsett Residences and Tribeca Serviced Residence). Some developers offer discounts/rebates and DIBS (Developer Interest Bearing Scheme) to attract buyers and boost sales in a competitive market environment.

In Bangsar, selling prices of new projects start from RM1,100 per sq ft while in Mont' Kiara, average launch pricing ranged between RM750 per sq ft and RM950 per sq ft. New developments in the Ampang Hilir / U-Thant locality on the other hand, are priced from about RM850 per sq ft.

During the review period, yields continue to be compressed as price increments / high selling prices of new launches do not correspond with the lagging rental market.

Table 1
Completion of High End Condominiums in 2H2013

Project	Location	Area	Total Units
ViPod Residences	Jalan Kia Peng	KL City	408
6 Capsquare*	Jalan Dang Wangi	KL City	176
The Quadro Residences*	Jalan Kia Peng/ Persiaran KLCC	KL City	227
Vox Tower@Verve Suites*	Jalan Kiara 5	Mont' Kiara	250
Camellia Serviced Suites*	Bangsar South	Bangsar	480
Sastra U-Thant*	U-Thant	Ampang / U-Thant	126
M Suites Residence	Ampang	Ampang / U-Thant	442

* Pending Certificate of Completion and Compliance (CCC)

Outlook

With the impending implementation of more cooling measures aimed to curb speculative activities, the mid to high end residential market is expected to self-correct in the next six to twelve months.

Amongst the new cooling measures are:

- An increase in real property gains tax (RPGT), with rates ranging from 30% to 15% for disposals made within five years;
- Developers are prohibited to implement projects that have features of Developer Interest Bearing Scheme (DIBS);
- The minimum ceiling price of property purchased by foreigners is to be increased from RM500,000 to RM1,000,000 and;
- Banks are now required to give out property loans based on net selling price, which excludes discounts and rebates, rather than gross selling price.

Overall, the slew of cooling measures is anticipated to dampen speculative activities. Whilst we expect lower volume of transactions going forward; property prices, in particular landed residential units, are expected to remain competitive with positive growth for those located in selected / established and upcoming areas / hotspots, albeit at a slower pace – mainly due to limited existing / incoming supply, higher land cost, scarcity of land, higher costs of building materials and labour as well as sustained localised demand from owner-occupiers and upgraders.

The guideline on using the net selling price to determine the loan-to-value (LTV) ratio, which applies to all property financing, may however, affect genuine purchasers including first time home buyers and upgraders in the primary and secondary markets.

Leasing market in the prime locations under review is also expected to continue facing challenges as an estimated 6,277 units are scheduled for completion by end-2014.

The sharp hike in RPGT rates, 30% flat rate on gains from disposal of property by foreign purchasers within the first five years of purchase and 5% thereafter, coupled with the higher property price threshold would dampen buying sentiment, particularly amongst foreign investors who seek short to medium term gains. Nevertheless, opportunities still hold for the longer term as the country remains as an attractive investment destination in the region due to its stable property market and relative lower housing prices that continue to offer reasonable returns.

More developers are now adopting "wait-and-see" approach to evaluate the impact of these new cooling measures.

Going forward, we expect to see developers offering greater discounts and more freebies in view of the abolishment of DIBS in order to push sales and remain competitive in the primary market.

Some developers are also starting to focus on township developments in upcoming suburban locations such as Rawang and Kajang where demand for affordable priced housing remains strong. We expect to see more housing developments in these areas, particularly those with potential access to public transport links such as the Light Rail Transit (LRT) extension and the on-going Klang Valley My Rapid Transit (MRT) lines.

Meanwhile, landed houses priced between RM600,000 and RM800,000, as well as high rise residential properties priced below RM500,000 will continue to attract strong demand, particularly from first time home buyers and upgraders.

The overall outlook is expected to remain challenging impacted by the various cooling measures, softening demand and the expectation of interest rate hike next year which will dampen sentiment.

Table 2
Average Asking Prices and Rentals of Existing High End Condominiums

Locality	Asking Gross Rental (RM psf / month)	Average Asking Price (RM psf)
KL City*	3.00 - 5.50	680 - 1,700
Ampang Hilir / U-Thant	2.30 - 4.00	500 - 1,100
Damansara Heights**	2.50 - 4.00	650 - 950
Kenny Hills	2.00 - 3.50	500 – 900
Bangsar	2.50 - 4.50	500 - 1,100
Mont' Kiara***	2.30 - 3.50	450 - 750

* Excludes Binjai On The Park
** Includes Twins @Damansara Heights
*** Excludes Verve Suites which comprise mainly fully furnished small units

KUALA LUMPUR OFFICE MARKET

Market Indications

The Kuala Lumpur office market remained stable despite mounting pressure on occupancy and rental rates as supply continues to outstrip demand. The overall rental rates were generally flat while occupancy inched up marginally following delay in several completions.

The investment market was less active during the review period, in comparison to 1H2013. There were noticeably more announcements of owners expressing their interest to dispose their buildings and developers seeking to secure (anchor) tenants or purchasers for their office components before commencement of construction works amidst the increasingly challenging office environment.

Supply & Demand

The cumulative supply of purpose built office space in KL City remained unchanged at 48.3 million sq ft while in KL City Fringe, cumulative supply increased to 20.5 million sq ft following the completions of Menara LGB (386,000 sq ft NLA) and 1 Sentrum (440,000 sq ft NLA). The scheduled completion of Menara Kembar Bank Rakyat [Bank Rakyat Headquarters] (1,300,000 sq ft NLA) in KL City Fringe, planned for 3Q2013, has been deferred to early 2014.

Menara LGB, a 31-storey Grade A office tower sited along Jalan Damansara, is designed to comply with MSC Cyber Centre status, Singapore BCA Green Mark (Gold Accreditation) and Malaysia's Green Building Index (GBI). The building which obtained its CCC recently has reportedly secured 70% occupancy.

Average occupancy in KL City rose slightly to 83.2% in 2H2013 from 81.6% in the preceding quarter with improved take-up in several buildings that are popular with the Oil and Gas (O&G) sector and multinational corporations (MNCs). The buildings include Menara Binjai, Integra Tower, Vista Tower, Menara Citibank and Menara Etiqa Twins.

The review period also saw an overall improvement in the occupancy of office buildings in KL City Fringe. Average occupancy inched up marginally to record at 82.7%, from 82.3% in 1H2013.

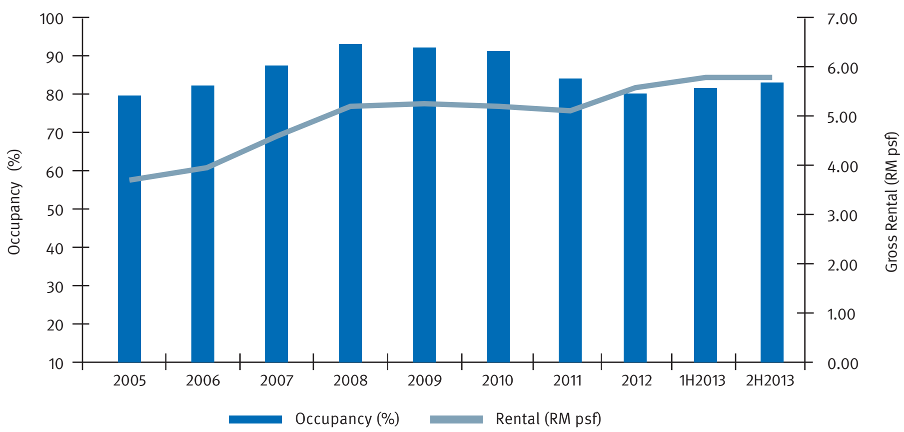
During 2H2013, there were several notable announcements of large scale integrated developments with office as a key component.

In KL City, KLCC Property Holdings Bhd (KLCCP) plans to focus on the redevelopment of Lot D1 and Menara Dayabumi. It is in the process of securing an anchor tenant for its Lot D1 mixed development which will have a GFA of of 1.4 million sq ft. The development is slated to be completed within three to five years should KLCCP succeed in finalising the investment decision by year-end. Meanwhile, the on-going Phase 2 refurbishment of the 36-storey Menara Dayabumi is progressing as scheduled. Phase 2 will also involve the redevelopment of City Point at Dayabumi into a 60-storey hotel comprising 500 rooms while in Phase 3; some one million sq ft of office space has been planned. Construction will likely begin in the second quarter of 2014 after the anchor tenant has been identified.

Perak-based YNH Property Bhd is looking at turning its proposed Menara YNH project, located along Jalan Sultan Ismail, into a mixed development that will comprise a hotel, offices and retail outlets. The company is in the process of securing anchor tenants for the mixed development. The gross development value (GDV) of Menara YNH is estimated to be over RM3 billion. Construction will commence once the anchor tenants are confirmed.

Ivory Properties Group Bhd via subsidiary Ivory Place Sdn Bhd has entered into a conditional agreement with Plaza Rakyat Sdn Bhd for the proposed acquisition and rehabilitation of the abandoned Plaza Rakyat project which sits on five parcels of adjoining leasehold land, together with the lease by Kuala Lumpur City Hall (DBKL) over the project land, the incomplete and abandoned structures and the development rights thereon as well as the rights, interests and benefits on the lease. The original plan for Plaza Rakyat was for a 79-storey office tower,

Figure 2
Occupancy and Rental Trends 2005 – 2H2013



Source: Knight Frank Research

a 45-storey serviced apartment, a 21-storey hotel and a seven-storey shopping mall. Ivory Properties intends to revive the project and develop a comprehensive and integrated residential, commercial and transportation hub. The rehabilitation and acquisition of the project, however, is subject to the approval of DBKL and the entering into a new or amended joint venture agreement with DBKL.

Construction of Malaysia's newest iconic Menara Warisan Merdeka is expected to commence once its owner and developer, Permodalan Nasional Bhd, meets the various criteria set by DBKL in its Development Order as a precondition for green lighting the project. Among pressing issues being ironed out are access roads and routes within the project development area.

UDA Holdings Bhd has received encouraging response from five “big” developers, including one from Singapore for its proposed transformation of the 7.85-hectare Bukit Bintang City Centre (BBCC) project, formerly the site of Pudu Jail. According to the master plan, the site will be developed to house seven blocks of buildings for commercial and residential uses, office towers, a hotel and a shopping complex. The master plan for BBCC has been submitted to DBKL in March and the group is expecting approvals by the end of the year or early next year.

In KL City Fringe, Felcra Bhd announced in September that it is set to launch a premium mixed development on a 1.8-hectare plot at Jalan Semarak early next year, with an initial GDV of up to RM900 million. It will feature an office tower, a condominium and a business centre to be developed in two phases, with the first phase costing about RM300 million.

The month of October saw the partnership between the Export-Import Bank of China (China EXIM Bank) and 1Malaysia Development Berhad (1MDB) to jointly develop a landmark tower in the 70-acre business and financial hub of the Tun Razak Exchange (TRX) project.

Damansara City, Guocoland (Malaysia) Bhd’s multi-billion-ringgit flagship project, earmarked as an entry point project (EPP) under the Economic Transformation Programme (ETP) in 2011, is finally ready to be introduced to the market. The RM2.5 billion integrated development on an 8.5-acre freehold site next to Pusat Bandar Damansara will feature two 28-storey residential towers, two office blocks of 33 storeys and 19 storeys each, a five-star hotel and a 4-storey shopping mall. The office component is slated to be completed by mid-2015.

IJM Construction Sdn Bhd, a wholly owned unit of IJM Corporation Bhd, has won a contract valued at RM238.4 million from JKG Tower Sdn Bhd for the construction of two commercial blocks at Jalan Raja Laut, comprising a 32-storey office tower and a 13-storey elevated car park.

Prices & Rentals

Average achieved rental rates in both KL City and KL City Fringe remained flat. KL City recorded an average rental of RM5.96 per sq ft (1H2013: RM5.97 per sq ft) while KL City Fringe recorded RM5.52 per sq ft (1H2013: RM5.50 per sq ft). Generally, rental rates of Prime A and Prime A+ grade offices in KL City remained firm, ranging between RM6.50 per sq ft and RM12.00 per sq ft.

There were a few notable movements during the review period. The British High Commission Kuala Lumpur commenced operations in its state-of-the-art premises on the 27th floor of the new LEED-certified Menara Binjai as part of its global strategy to modernise and dispose of embassy and high commission sites.

Meanwhile, Canada Place, occupying 11,000 sq ft of space on the 2nd level of the North Block in Wisma Selangor Dredging, accommodates an office for the Malaysia-Canada Business Council (MCBC) as well as a grand 5,000 sq ft hall that is available for events at competitive rates. Future plans may also include a Canadian-themed café.

In July, Ipmuda Bhd entered into a conditional sale and purchase agreement with Maju Holdings Sdn Bhd to acquire 24 units of office lots in Tower 3 of Maju Linq for a total purchase consideration of RM25.68 million (RM600 per sq ft). The under construction Maju Linq is located in Bandar Tasik Selatan, off the Middle Ring Road II, opposite Terminal Bersepadu Selatan (TBS).

In October, KPJ Healthcare Bhd’s wholly owned unit, Kumpulan Perubatan Johor Sdn Bhd, exercised its option to purchase the 36-storey Menara 238 (formerly Menara Marinara) at Jalan Tun Razak for RM206 million. The 15-year building which has undergone a massive refurbishment has a total lettable area of 490,000 sq ft and is currently about 20% occupied with rental rates ranging from RM3.00 per sq ft to RM5.00 per sq ft.

Meanwhile, there are plans by Malaysian Resources Corp Bhd (MRCB) to dispose of its office-and-retail-block known as Platinum Sentral in KL Sentral. The five low-rise blocks are currently tenanted by SME Corp, SPAD and SBM Malaysia. Platinum Sentral, awarded with Singapore’s Building and Construction Authority's (BCA) Green Mark platinum award (provisional), has a GFA of 980,000 sq ft and a NLA of 445,000 sq ft. It has an overall GDV of RM700 million.

MP Corp Bhd has revealed its intention to dispose of Wisma MPL at Jalan Raja Chulan, a freehold office and shopping complex recently valued at RM320 million. MP Corp wholly owns the 19-level office tower, three levels of car park and 75,372 sq ft of the retail podium. Wisma MPL has a built-up area of 711,444 sq ft and NLA of 266,283 sq ft.

During the review period, there were two notable investment sales in Selangor. Pelaburan Hartanah Bhd (PHB) purchased Jaya 33 in Section 13 Petaling Jaya from Jaya 33 Sdn Bhd for RM324 million (or about RM725 per sq ft on 450,000 sq ft NLA). The sale was reportedly completed in September 2013.

Uzma Bhd announced in November that it is acquiring a completed 12-storey corporate office located in Empire Damansara, Petaling Jaya for RM24 million (or RM 617 per sq ft) on total built-up area of approximately

38,901 sq ft.

Outlook

Tenants are spoilt for choice as supply continues to outstrip demand with landlords offering attractive incentives to retain existing tenants and attract new tenants to maintain and improve their levels of occupancies.

Amid a challenging leasing market environment with a high supply pipeline, several developers have adopted a cautious stance by deferring the construction of their projects, with works to commence only when they have secured pre-leasing commitment from potential anchor tenants.

Nevertheless, good grade dual compliant (MSC + GBI) buildings will continue to be popular with MNCs and tenants in the O&G sector, particularly those located within prime and established / upcoming office locations in KL City and KL City Fringe.

The Pinnacle, a 27-storey dual-compliant Grade A office tower within the Sunway Integrated Resort City, has reportedly secured encouraging occupancy ahead of its completion scheduled for early 2014.

The concerted efforts by InvestKL to attract MNCs to set up their regional hubs in Kuala Lumpur are expected to help cushion the high level of office supply. As at November, nine MNCs have committed to set up or expand their operations in Malaysia. InvestKL is in talks with more MNCs from the US, Europe and Japan to make Kuala Lumpur their business hub.

Malaysia surged to sixth from 12th in the 2014 Doing Business report according to an annual ranking published by the World Bank. It was the first time the country was ranked among the top 10 economies in the assessment. Singapore, topped the chart, followed by Hong Kong in the second place, New Zealand, the U.S. and Denmark.

Going forward, the investment market is expected to remain challenging due to the lagging rental market with yields continuing to be compressed.

Table 3
Office Investment Sales 2H2013

Building Name	Location	Approx. Lettable Area (sq ft)	Consideration (RM) / (RM psf)
24 office units, Levels 2 to 7, Tower 3, Maju Linq*	Bandar Tasik Selatan	42,792	25,675,200 (600)
Menara 238 (formerly known as Menara Marinara)	Jalan Tun Razak	490,000	206,000,000 (420)

*The building is currently under construction.

Table 4
Selected Grade A Office Asking Rentals

Building Name	Asking Gross Rental (RM psf / month)
Menara Maxis	10.50
Menara Darussalam	8.50
Integra Tower	11.00
Vista Tower	9.00
G Tower	8.50
Menara Binjai	8.50
Menara Prestige	7.50 - 8.50
Quill 7	7.50
Menara Shell	8.00
Nu Tower 1 & Nu Tower 2	7.00
Menara CIMB	7.50 - 8.50
The Gardens North & South Towers	7.50

KLANG VALLEY RETAIL MARKET

Market Indications

During 3Q2013, the Malaysian economy strengthen to record a growth of 5% (2Q2013: 4.4%) supported by strong domestic demand which expanded 8.3% (2Q2013: 7.4%). However, with weak external demand seen to affect the overall growth of the economy, Bank Negara Malaysia has revised the country's 2013 GDP growth outlook lower to 4.5% to 5% from 5% to 6% originally.

The country's retail industry recorded a lower growth rate of 4.6% in retail sales during the second quarter of 2013 when compared to its preceding quarter. At the same time, the Malaysian Consumer Sentiments Index (CSI) which previously recorded significant increments for the last five quarters slipped 13.2 points q-o-q to record at 109.7 points in 2Q2013 and fell for the second consecutive quarter in 3Q2013 to record at 102.0 points. Consumer confidence continued to be dampened with rising inflation following the subsidy rationalisation in fuel and sugar prices.

Supply & Demand

Following the openings of several retail centres which include Sky Park @ One City, Cheras Sentral, Setia Walk and Bangi Gateway Shopping Complex contributing circa 1.7 million sq ft in total, the cumulative stock of retail space now stands at approximately 44.8 million sq ft.

Klang Parade, which was purchased by ARA Asia Dragon Fund last year, has been closed for refurbishment since May 2013 and is scheduled to reopen by December 2013. It will be repositioning itself as a one-stop suburban mall and entertainment hub catering to the Klang community. Upon completion of the RM120 million asset enhancement exercise, the mall with an enlarged NLA of 660,102 sq ft, is expected to see a 20% to 30% increase in its average rental rates. With projected occupancy of up to 78.5% supported by new key anchors and mini anchor tenants which include GSC cinemas, Kamdar, Parkson, Econsave, Voir Gallery and Ampang Superbowl, the mall also expects a 30% increase in footfalls from 8 million last year.

Avenue K, which has undergone extensive renovation works amounting to RM65 million to improve its infrastructure and layout, complete with a redesigned interior and new lighting had its soft opening in October. The mall which sits directly above the KLCC LRT station is anchored by the flagship store of Swedish retail giant H&M and will also feature the largest Cotton On store in Asia. Its other anchor tenants include Presto Supermarket, Fitness First, Taste Enclave, Popular and EMS Exhibits.

Popular IT shopping centre Plaza Low Yat and BB Park in Bukit Bintang will undergo refurbishment works in five phases. Phase 1 of the exercise costing about RM20 million is expected to complete by end-2013. Subsequent phases of refurbishment works which will include upgrading the interiors of Plaza Low Yat, adding levels atop Plaza Low Yat and building a connection to the Bukit Bintang Central MRT station are currently in planning stages. The entire five-phase refurbishment is slated to be operational by end-2016.

Despite the slowdown in retail sales growth, the Klang Valley retail market continues to draw interests of international retailers and drive the expansion of existing brands.

At Starhill Gallery, luxury French brand, Louis Vuitton, is tripling its original size from 5,000 sq ft to 15,000 sq ft while Christian Dior is doubling from 5,000 sq ft to 10,000 sq ft. Meanwhile, at The Gardens Mall, new luxury brands making their debut soon include Hermes and Gucci.

The finest toy shop in the world, Hamleys, made its debut with its first flagship store in Malaysia and Southeast Asia at 1 Utama Shopping Centre on 30th November, occupying approximately 20,478 sq ft on the First Floor of its Highstreet precinct. Hamleys, a global brand with 30 stores across 12 countries and territories plans to open another 4 stores in the country, at KLIA, Penang, the City Centre and another suburban mall in Klang Valley.

H&M recently opened its second largest store in Asia on 31st October at Avenue K. The store spreads across 3 floors and covers approximately 35,000 sq ft. Sunway Pyramid and 1st Avenue Mall in Penang also marked the arrival of H&M's seventh and eighth store in Malaysia respectively. H&M plans to open another store at 1 Mont' Kiara.

Victoria's Secret is also undergoing a major expansion phase with the opening of its seventh store at Gurney Paragon Mall, Penang in July followed by its eighth store at Sunway Pyramid in November and will soon be available at Paradigm Mall.

Uniqlo has announced four new stores opening at The Mines and Berjaya Times Square in November and Cheras Sentral and Dataran Pahlawan in December. This brings the total stores nationwide to 15. Uniqlo will be available at The Main Place, USJ next year.

In November, UK Label Superdry made its debut at Pavilion Kuala Lumpur in partnership with FJ Benjamin Holdings, the Singapore lifestyle and fashion company that has fashion brands like La Senza, GAP, Banana Republic, and Guess in its portfolio. Mid Valley Megamall saw the opening of its second store in December and another store is expected to follow suit in early 2014.

Stellar Retail Sdn Bhd, the master franchisee for Debenhams in Malaysia is set to introduce another Debenhams' store in the Klang Valley in 2014. Debenhams currently has outlets at Starhill Gallery and The Curve in Klang Valley and Gurney Paragon in Penang. The group plans to open eight stores in Malaysia over the next 10 years.

In December, Burton Menswear London also opened its first three concept stores in Malaysia at Sunway Pyramid, Paradigm Mall and Queensbay Mall, Penang.

Clarks, the world's largest casual and smart shoe company and the fourth largest footwear company globally, has recently opened a new store in Pavilion KL in line with the company's growth in the region. It aims to have 50 stores by 2015.

Going forward, with a number of scheduled openings of retail centres being deferred to early 2014, the impending supply of retail space measuring some 1.9 million sq ft will bring the cumulative supply to circa 46.7 million sq ft by 1H2014. These include Nu Sentral, G Avenue, Encorp Strand Mall, The Place @ One City, The Main Place and D'Pulze Shopping Mall.

Table 5
Shopping Centres Scheduled for Completion / Opening in 1H2014

New Projects	Location	Estimated Net Lettable Area (sq ft)
Nu Sentral	KL Sentral	650,000
G Avenue	Glomac Damansara	144,000
Encorp Strand Mall	Kota Damansara	308,000
The Main Place	USJ 21	237,000
The Place @ One City	USJ 25	220,000
D'Pulze Shopping Mall	Cyberjaya	370,000
Projects Under Redevelopment / Refurbishment		
Jaya Shopping Centre	Petaling Jaya	270,000

Prices and Rentals

Average rentals for prime retail space generally remained stable with higher rates achieved from new and renewed leases of most notable shopping centres.

Pavilion Kuala Lumpur, which contributed 96.7% to the Pavilion REIT's top line, has seen a pick-up in occupancy rate from 94.6% to 99.5% in June 2013 following the completion of configuration works at Fashion Avenue. Despite a relatively flat footfall and retail sales growth, the mall recorded higher average rental of RM19.00 per sq ft compared to RM17.90 per sq ft in June 2012. A number of renewed tenancies also saw higher rentals of more than 10%. With a large proportion of tenancies up for renewal in September 2013, the mall was seen to have taken the opportunity to relocate and replace a handful of tenants to enhance the mix. Meanwhile, Fahrenheit88 will be undertaking asset enhancement works at level 2 to improve the overall tenant mix and rental yield.

During the review period, the Employees Provident Fund (EPF) entered into a conditional purchase agreement with the Quill Group to buy the previously abandoned Quill City Mall for a total consideration of RM1.2 billion (analysed at RM1,561 per sq ft) subject to a number of conditions.

CapitaMalls Malaysia Trust (CMMT) which has initially expressed interest in acquiring Tropicana City Mall and an office block from Tropicana Corp Bhd for an expected price of between RM550 million and RM650 million, has called off talks over the purchase as both parties were unable to mutually agree on the terms of the sale and purchase agreement.

The Sultan of Johor entered into an agreement to buy a 20% stake in Berjaya Times Square Sdn Bhd (BTS), which among others, owns the Berjaya Times Square Mall in Jalan Imbi for RM250 million cash. BTS owns and manages Berjaya Times Square Mall which has a gross built-up area of 7.5 million sq ft. The building comprises a 12-level shopping mall, two 46-storey towers of serviced suites and hotel, five levels of basement and 10 floors of annexed carparks.

Outlook

Many prime malls in the Klang Valley continue to undertake asset enhancement initiatives in order to remain competitive and to brace for the high impending supply of retail space expected in year 2014 and beyond.

The lower than expected growth in retail sales in the first half of the year is expected to pick up by the end of the year supported by the tourism industry's initiatives on Visit Malaysia Year 2014 and the Malaysia Year-End Sale that coincides with the school holidays and festive seasons.

The recent announcement of the 6% goods and services tax (GST) implementation is unlikely to impact consumers drastically. With the availability of Tourist Refund Scheme which allows foreign tourists to claim GST paid on goods bought in Malaysia, Kuala Lumpur should be able to maintain its position as one of the world's best shopping destinations.

The increase in spending among local and international MasterCard's cardholders during the recently concluded 1Malaysia Mega Sale Carnival (1MMSC) 2013 also demonstrates Malaysia's growing popularity as an international tourist destination. Total spending rose to RM5.5 billion from RM5.4 billion previously with a corresponding increase in the number of transactions from 18.9 million to 19.4 million.

The outlook for the local retail sector is of cautious optimism as consumers are expected to tighten spending ahead of further government subsidy rationalisation measures as well as hike in electricity tariff and toll rates.

KUALA LUMPUR HOTEL MARKET

Market Indications

The hospitality industry remained resilient in 2H2013 on the back of strong growth in the Malaysian tourism industry. During the 1H2013, the country recorded 12.6 million visitors, depicting a 7.9% growth in tourist arrivals compared to 11.6 million visitors for the same period last year. Correspondingly, the country also saw a significant increase in tourist receipts by 16.3% y-o-y contributing some RM31.18 billion to the country's revenue.

ASEAN countries continued to be the largest contributor of tourist arrivals in 1H2013, accounting for 73.3% share of the total arrivals. Among countries which registered double-digit growth ranging from 10.3% to 42.3% in tourist arrivals are Cambodia, Myanmar, Philippines, Indonesia and Vietnam. The significant growth in tourist arrivals from these countries is attributed to the increase in flight frequencies from the ASEAN region. Although arrivals from Thailand contracted by 8.9%, it maintained its position as the top 5 countries for tourist arrivals in the country. China, also one of the top 5 countries, saw an upsurge in arrivals, posting a notable growth of 24.5% due to increase in flights from China and Hong Kong as well as aggressive promotions by wholesalers and airlines.

The accelerated growth in tourist arrivals in Malaysia is attributable to various initiatives rolled out by the Government to boost the tourism industry and the increased flight connectivity. So far, KLIA has welcomed six new airlines namely Air France, Turkish Airlines, Philippines Airlines, Thai Smile, Malindo Airways and Iraqi Airways with the latter targeted to bring in some one million Iraqis to Malaysia by October 2014. International-level tourism events such as 1Malaysia Grand Prix, 1 Malaysia Mega Sale Carnival and the 1Malaysia Year-End Sale as well as aggressive promotional activities in the MICE (meetings, incentives, conventions and exhibitions) business were also among key contributors to the healthy growth of the sector.

Malaysia slipped one spot to rank at 10th place on United Nations World Tourism Organization's (UNWTO) list of most-visited countries and was ranked 13th in international tourism receipts with RM60.6 billion. The country was also ranked as among the top ten tourism destinations in the world to visit for 2014 by the popular travel guide, Lonely Planet.

In the recent Budget 2014 announcement, the Government proposed to allocate a sum of RM2 billion to the Special Tourism Fund under Bank Pembangunan Malaysia to further promote the tourism industry. The fund will provide soft loans at low interest rates of between 4% and 6% with the government providing a subsidy of 2% to finance the cost of building infrastructure such as hotels, resorts, and theme parks as well as for purchase and replacement of equipment related to the tourism sector. The Government continues to encourage investments to build new 4 and 5-star hotels to promote Malaysia as the destination of choice. To ensure adequate supply of international standard accommodation to cater to increase in tourist arrivals especially from the luxury and high-spending category, the Government proposed to extend the application period for pioneer status and investment tax allowance incentives for another three years until December 31, 2016.

Wolo Bukit Bintang

Meanwhile, 2015 has been declared Year of Festivals as part of the nation's continuous efforts to attract more tourists, to showcase the country's cultural programmes and festivals. The Government has also announced an allocation of RM1.2 billion for operating and investment expenditure which include promotion and advertising costs for the upcoming VMY 2014 programmes. The country is targeting 28 million international tourist arrivals with corresponding tourist receipts of RM76 billion for VMY 2014.

In conjunction with VMY 2014, Tourism Malaysia will also increase its participation in various travel marts. It participated at the recent World Travel Mart 2014 in London and plans to participate in the upcoming China International Travel Mart 2014.

Supply & Demand

The cumulative supply of 5-star hotel rooms currently stands at 11,530 following the soft opening of Accor group's biggest hotel in Southeast Asia, Pullman Kuala Lumpur Bangsar. The hotel which is located close to Menara Telekom and Mid Valley City features 513 guest rooms catering to both business and leisure travellers.

Meanwhile, with the supply of 4-star hotel rooms in Kuala Lumpur remaining at 8,248, the total cumulative supply for both 4-star and 5-star hotel rooms stands at 19,778 as at November 2013.

During the review period, both 4-star and 5-star hotels in KL City saw significant increments in average occupancy rates recording at 73% and 75% respectively

(1H2013: 4-star 65%, 5-star: 71% respectively). Notable 4-star hotels that registered occupancy levels in excess of 80% include Concorde, Dorsett Regency, Melia Kuala Lumpur and Novotel while those in the 5-star category include Le Meridien, Park Royal, Grand Millennium, Shangri-La, Sheraton Imperial and Westin.

Wolo Bukit Bintang, a boutique hotel with 138 rooms at the junction of Jalan Bukit Bintang and Jalan Sultan Ismail, had its soft opening recently. It occupies the site of the former Menara KLIH.

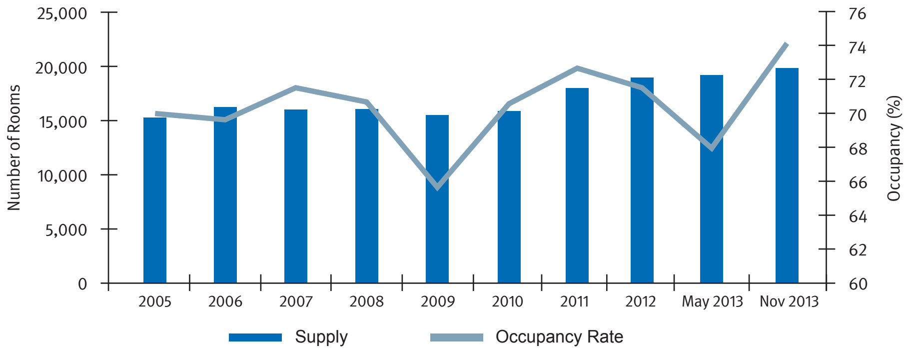
GLH Hotels Management (UK) Ltd, formerly known as Guoman Hotel Management (UK) Ltd, has launched a new luxury hotel and private residences brand, Clermont as part of its ambition to create a portfolio of 30 top-end hotels over the next decade. The Clermont Kuala Lumpur which is among one of the three projects launched, forms part of the on-going Damansara City integrated development. The award-winning flagship project of Guocoland (Malaysia) Bhd will also consist of two luxury residential towers and two grade A office towers as well as a lifestyle mall. The elegant hotel which will feature 312 lavishly appointed guestrooms and suites over 23 storeys is slated to open in 2016.

Average Room Rates & Capital Values

As at November 2013, the average room rate (ARR) for selected 4-star and 5-star hotels both saw marginal increments of 2.4% and 2.6%, recording at RM212 (1H2013: RM207)

Figure 3

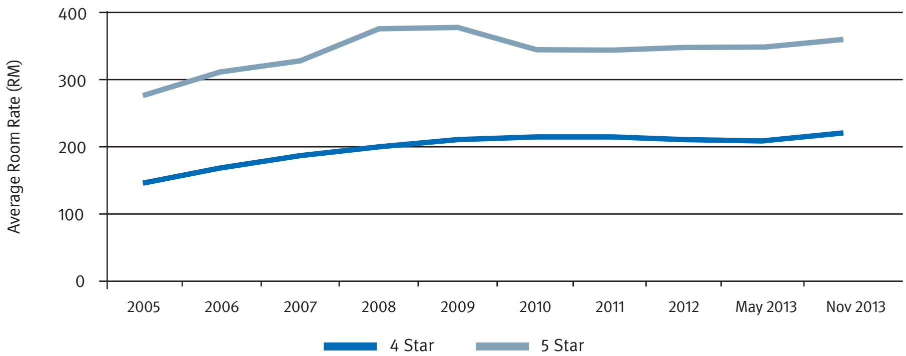
Supply and Occupancy Rate of Selected 4-Star & 5-Star Hotels in KL City 2005 - November 2013



Source: Knight Frank Research / MIHR

Figure 4

Average Room Rate of Selected 4-Star & 5-Star Hotels in KL City 2005 – November 2013



Source: Knight Frank Research / MIHR

and RM357 (1H2013: RM348) respectively.

Boulevard Hotel, Concorde Hotel, Corus Hotel and Swiss Garden were among the 4-star hotels recording an ARR above RM250 while notable 5-star hotels achieving ARR above RM450 include Ritz Carlton, Shangri-La and Westin.

Outlook

Going forward, with concerted efforts from the Government to ensure that the tourism sector remains at the forefront of the country's economic development, the hospitality sector is set to remain resilient. The scheduled opening of KLIA2 on May 2 next year, the entry of more airlines and the increase in airline routes and flight frequencies are expected to augur well for the Malaysian hospitality industry.

PENANG PROPERTY MARKET

Market Indications

The soon to be opened Second Penang Bridge which links Batu Maung on the island to Batu Kawan on the mainland has spurred development in the latter and the surrounding areas in Seberang Prai. On the island, new areas in Batu Maung, Teluk Kumbar, Teluk Tempoyak and the vicinity are expected to see more development.


2nd Penang Bridge

Bandar Cassia by PDC, spread over 2,670 hectares in Batu Kawan, will see a RM1 billion development of a premium outlet centre and a 300-room international class hotel over an area of 40 acres within three years. The open tender for the purchase and lease of a total 685 acres of land with 215 acres designated for a theme park and 470 acres for the golf course resort, both with related residential & commercial developments has also been awarded. All these developments are slated to turn Batu Kawan into a shopping and tourism destination.

In line with the State Government's emphasis for Penang to be an education hub, both The University of Hull and KDU have announced plans to set up their respective campuses in Batu Kawan.

On the industrial front, German-based company Magneti Marelli Automotive Lighting, one of the many entries into the Batu Kawan Industrial Park, has announced plans to invest another RM50 million to expand its Malaysian operations over the next five years. It has just opened a new RM85 million automotive lighting plant here.

The Citigroup has partnered with InvestPenang to promote the state as a strategic hub for "intelligence services" that include business processes, financial and professional services. The State Government will build a business process outsourcing (BPO) hub in two phases over 6.88 hectares of land in Bayan Baru and Bayan Lepas over 5 years to strengthen the fledgling sector under the services industry. The hub, to be developed with BPO office towers, service apartments, commercial units, small home office with class 'A' amenities and facilities, will offer at least 1.7 million sq ft of office space.

The shape of Penang Island at the north–east portion will be radically altered once E&O's proposed Seri Tanjung Pinang Phase II reclamation project is completed. 131 acres of land will be reclaimed off Gurney Drive whilst off Straits Quay, an island measuring some 760 acres will be created. Further down at the south-east, reclamation works are on-going at IJM's The Light Waterfront.

High End Condominium

IJM Land has just launched The Light Collection IV series comprising 3 blocks of 5-storey sea front condominiums with 79 units as well as 19 units of 4-storey sea front water villas. The condominium units, sized from 1,991 sq ft to 4,435 sq ft, have been launched at prices ranging from RM1.8 million to RM6 million each. The 19 units of sea front water villas come in various sizes. The average sized-unit which offers a built-up area of 7,000 sq ft is priced at RM15 million each.

Many of the newer launches are fitted out with kitchen cabinets c/w hood, hob, oven, light fittings, air-conditioning units and quality sanitary fittings amongst the main items offered.

The sales rate in the secondary market in 2H2013 is more sluggish compared to 2012 for super condominiums sized from 3,500 sq ft to 6,000 sq ft but prices have remained stable. Sub-sale prices in older completed projects within the prime areas of Tanjung Bungah and Pulau Tikus generally range from RM450 per sq ft to RM650 per sq ft whilst those in newer developments command a higher range of RM500 per sq ft to RM800 per sq ft.

A newly completed project in Pulau Tikus with standard units sized at 10,000 sq ft each is being resold at prices of RM450 per sq ft to

RM500 per sq ft. Smaller sized units at the newer developments in Gurney Paragon and Seri Tanjung Pinang have been resold at prices ranging from RM850 per sq ft to RM1,100 per sq ft.

Asking rentals for fully furnished units in the newer developments range from RM9,000 to RM12,000 per month whilst unfurnished units are asking RM7,000 to RM8,500. In older condominiums, asking rentals range from RM5,000 to RM8,500 per month.

Office

Current supply of office space (buildings of 10-storeys and above) on Penang Island has increased to 5.63 million sq ft. The completion of the Gurney Paragon Office Tower in 2H2013, a 10-storey office block which sits atop the Gurney Paragon Mall, has contributed an additional 94,000 sq ft.

Average occupancy rate of the two most prime office buildings in the city now stands at 98%, up from 97.5% in 1H2013; rentals remain unchanged in the range of RM2.50 per sq ft to RM2.80 per sq ft per month. Though newly opened since July 2013, the Gurney Paragon Office Tower is already enjoying an 80% occupancy rate with rental rates of around RM3.30 per sq ft per month.

Located outside the city, the two newer office buildings namely Suntech and Menara IJM Land have an average occupancy rate of about 94%, down 1% from 1H2013. Rental rates, with one building recording slightly higher rents, range from RM2.80 per sq ft to RM3.50 per sq ft per month, slightly up from RM2.50 per sq ft to RM3.40 per sq ft per month recorded in 1H2013.

Gurney Paragon Mall/Office Tower

Retail

With the entry of Gurney Paragon Mall into the market in July 2013, the supply of purpose-built shopping complex space within Penang Island now stands at 6.69 million sq ft, up from 6.09 million sq ft since 2H2012.

The average occupancy rate of prime shopping malls on the island generally remains unchanged at 1H2013's level of 96%. For secondary shopping malls, the occupancy rates generally range from 65% to 90% except for two malls which recorded much lower occupancies.

Overall, rental rates for ground floor retail lots in shopping malls generally stabilised at RM13 per sq ft to RM38 per sq ft per month, depending on the mall, location and size of the units.

Outlook

The property market is generally expected to remain in its consolidation mode. With the new measures introduced in Budget 2014, the high-end residential sector is expected to be affected to a higher degree whilst the commercial sector should remain relatively stable. On the other hand, the impending opening of the Second Penang Bridge and the State Government's efforts to spur developments in the southern parts of both the island and the mainland will very likely lead to brighter prospects in these locations.

Table 6
Future Supply of Retail Space within Georgetown

Project	Estimated Net Lettable Area (sq ft)	Expected Completion
Penang Times Square (Phases 3, 4 & 5*)	500,000	2018 - 2020

* Planned

JOHOR BAHRU PROPERTY MARKET

Market Indications

As of October 2013, Iskandar Malaysia has recorded cumulative investments of RM129.42 billion; about 65% (RM84.61 billion) from local investors and the balance of 35% (RM44.81 billion) from foreign investors, with realised investments accounting for some RM56.32 billion (or 44%) of the total. Iskandar Malaysia expects to secure RM22 billion in investments next year compared with RM21 billion this year.

The Legoland Water Park officially opened on 21st October. The 4.04-hectare water park features more than 20 unique slides and over 70 Lego models as well as two restaurants, private cabanas for rent and a retail store on site. Meanwhile, the recent opening of the 249-room Legoland completes the transformation of Legoland Malaysia into an integrated resort.

The Iskandar Regional Development Authority (IRDA) and Johor Bahru City Council (MBJB) have been tasked to monitor the implementation of the multi-billion ringgit transformation project of Sungai Segget which commenced in June. The new 1.2-km waterway project, the “Gem of Johor Baru City” will include conservation of old buildings with significant historical and architectural elements and leads to the co-existence of old and new elements in the city centre.

IRDA wants to promote, develop and position Iskandar Malaysia as the leading aviation-related activities hub in the region. The aviation industry had always been a sub-sector promoted by IRDA and falls under Flagship E, where Senai International Airport serves as the gateway and catalyst for the sector's development.

Berjaya Assets Bhd (BAssets) which owns and manages Berjaya Waterfront (formerly known as The Zon, Johor), has plans to build a mini Bukit Tinggi transforming its land in Johor Bahru to an iconic international lifestyle, retail, entertainment and travel hub of the south.

The Malay Chamber of Commerce Malaysia (MCCM) has received necessary approvals for a parcel of prime land in the heart of Johor Banru where the old Custom and Immigration and Quarantine (CIQ) complex is located. It is looking to redevelop some three acres of the land where the former CIQ stands, along with another 37 acres of reclaimed land. The 40-acre site is part of its nationwide plan to build 100,000 houses catering specifically for the middle-income group within the next 10 years.

Crescendo Corporation Berhad intends to convert 60 acres of its industrial land in Nusa Cemerlang Industrial Park in Nusajaya, for purposes of developing into high-end commercial and residential projects.

In December, Singapore-listed Albedo Ltd agreed to buy an additional six parcels of land from Infinite Rewards - a company controlled by Malaysian tycoon, Tan Sri Danny Tan in a move to increase the size of the Reverse Takeover (RTO) deal by more than twofold, from S$774 million to S$1.86 billion, bringing its total landbank to 13 parcels of about 487.57 hectares. Earlier in September, Albedo announced its plans to acquire Reflection Oasis (wholly owned by Infinite Rewards) which was then in the process of acquiring seven parcels of land in Gelang Patah with a total land area of 268 hectares as part of plans to shift focus to property development in Iskandar. TThe latest acquisition includes a prime commercial site called Lido Waterfront. Upon completion of the RTO, Albedo will be transformed into a major property developer in Malaysia. Albedo is also in negotiation talks with Kawasan Mestika Sdn Bhd to acquire Kawasan's entire issued capital which holds or will hold a 92.27-hectare property in Pulai.

Iskandar Investment Berhad (IIB) sealed two property deals worth a combined RM4.6 billion in gross development value (GDV) in Medini. One of the projects involves a 40:60 joint-venture (JV) between IIB and Mammoth Empire Holdings Sdn Bhd. The RM4 billion mixed development dubbed Medini Empire marks the group’s first foray in Iskandar and will comprise office towers, hotels, serviced apartments, loft offices, retail space, a convention centre, a concert hall and a cinema. The development, to be built on two parcels of adjoining land spread over 9.71 hectares (formerly the car park site for Legoland), is set for completion in 2018. The second project dubbed Zikay @ Medini will be undertaken by Zikay Group Sdn Bhd. To be designed by Veritas Architects, the mixed development with a potential value of RM600 million, is also Zikay’s maiden venture into Iskandar Malaysia and will comprise Small office Home office (SoHo), boutique retail, a 30-storey Grade A office tower and serviced apartments. It is slated for completion in 2016.

On 6th December , BCB Heights Sdn Bhd (a JV between BCB Bhd and United Harvest Group Co Ltd) entered into a lease purchase agreement with Ibzi Development (Johor) Sdn Bhd to acquire a lease over seven contiguous parcels of residential development land measuring 7.81 acres within Zone A of Medini Iskandar for a total consideration of RM123.64 million. The land is proposed for a residential development with an estimated GDV of RM1.2 billion comprising six tower blocks of approximately 1,750 units.

United Malayan Land Bhd (UM Land), the developer of Seri Alam Township and Seri Austin, has plans to develop another new township in Iskandar Malaysia. The proposed project on a 133.5-hectare (about 330 acres) site at Cahaya Baru in Masai, near Pasir Gudang which is currently under planning stages, is set to comprise mainly affordable houses priced at RM150,000. In the pipeline, UM Land also has a yet-to-be named project on a 6.7-acre commercial parcel in Puteri Harbour, another 50:50 JV with UEM Sunrise. The tract which faces the Puteri Harbour Family Indoor Theme Park and the Traders Hotel, will feature a mixed-use development that will house a family-oriented indoor theme park of about 50,000 sq ft, serviced apartments, boutique retail units, a mall, SoHo units and an international brand four-star hotel.

MSC Cyberport Sdn Bhd has announced plans for its MSC Cyberport City project in Kulaijaya to be developed in three phases over a 150-acre freehold site. Construction of Phase One on 35 acres with a GDV of RM626 million will commence early next year. It will feature a 125,000 sq ft MSC Cyberport digital centre, 89 Cyber enterprise complexes, 400 units of Small office Cyber office, a 364,000 sq ft Cyberpark and a lifestyle and incubation centre.

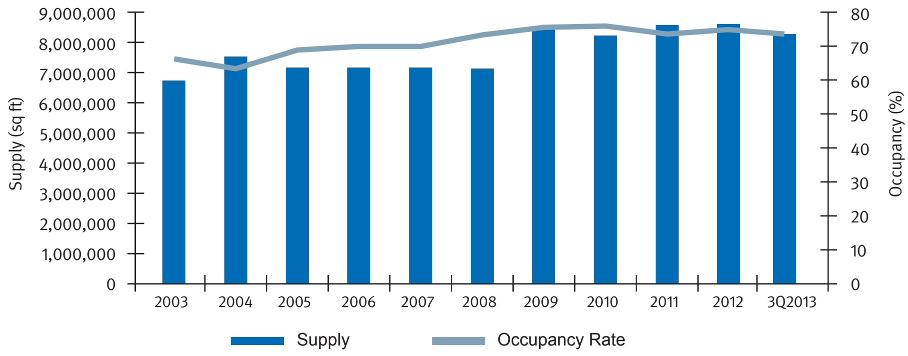
Khazanah Nasional Berhad is collaborating with Huawei Technologies (Malaysia) Sdn Bhd to establish the Huawei regional data hosting and logistic centre in Nusajaya with combined office and warehouse space of 90,000 sq ft.

Howco Group, a leading global distributor of equipment to the oil and gas industry will expand into the Southeast Asian market with a new manufacturing facility in Iskandar Malaysia. The new US$20 million facility which will be built within the Setia Business Park will have 80,000 sq ft of manufacturing space.

A third bridge linking Johor and Singapore has been proposed in view of the increasing volume of movement between both countries. It is proposed to link the eastern side of Johor, from Pengerang or Pasir Gudang to Changi, Punggol or Tampines in Singapore to facilitate movement of people, goods and services and to complement future development in less-developed Pengerang and Desaru areas.

Figure 5

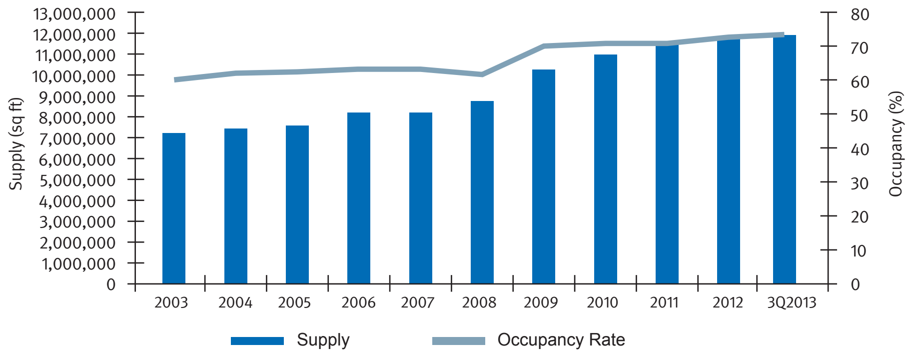
Office Supply and Occupancy Trend in Johor Bahru (2003 – 3Q2013)



Source: Knight Frank Research / NAPIC
*Note: Preliminary figures

Figure 6

Retail Supply and Occupancy Trend in Johor Bahru (2003 – 3Q2013)



Source: Knight Frank Research / NAPIC

Residential

There were several launches of high-rise and landed developments in 2H2013.

Eco Botanic by Eco World Development Sdn Bhd.The freehold development in Nusajaya consists of 624 units of cluster houses and semi-detached houses. The cluster homes with built-up areas from 2,400 sq ft to 3,100 sq ft are priced between RM900,000 and RM1.3 million while the semi-detached houses with typical built-up area of 3,400 sq ft are priced between RM1.8 million and RM2 million. The sales process, conducted via balloting, saw all units snapped up by buyers within six hours of launch.

Isola Grandeur waterfront villas by Front Concept Sdn Bhd located in Senibong Cove. The development comprises 86 units of three-storey waterfront villas with built-up areas ranging between 4,800 sq ft and 6,500 sq ft and comes with a choice of nine designs. These villas are tagged from RM3 million each.

Sunway Lenang Heights, Sunway group's maiden foray in Johor Bahru located in Taman Molek. The exclusive freehold residential development comprises 112 units with a mix of 2-storey semi-detached, 3-storey semi-detached and 3-storey bungalow housing. The built-up areas for the semi-detached units and bungalow units range between 2,943 sq ft and 3,865 sq ft and from 4,535 sq ft to 5,090 sq ft respectively. The semi-detached units are priced from RM1.7 million while the bungalow units are priced from RM3.0 million.

Office

As at 3Q2013, the total net lettable area (NLA) of purpose-built office space which includes private buildings and government buildings in Johor Bahru stands at approximately 8.15 million sq ft* with an overall average occupancy rate of about 73.3%.

Private buildings currently accounts for approximately 71% (5.78 million sq ft) of purpose-built office space in Johor Baru with an average occupancy of about 72.8%. Rental for prime and non-prime CBD office space remained stable with asking rental rates for prime space ranging from RM2.50 per sq ft to RM3.30 per sq ft while non-prime office space command rental rates ranging between RM1.60 per sq ft and RM2.50 per sq ft.

The review period also saw the announcements of several integrated developments which are planned to incorporate purpose-built office buildings as one of their components. They include Medini Empire. Zikay @ Medini, d'Pristine@Medini, Southkey, Vantage Bay and 18@Medini. The latter is expected to be launched in 1Q2014. 1H2013 also saw the launching of Austin18 "Versatile Business Suites" – a 25-storey freehold commercial building with 319 units of self-contained offices, retail space and a six-storey car park podium. The development which is targeted to meet the growing demand for niche office space from an increasing number of young professionals and entrepreneurs, who seek for quality and modern working environment, is slated for completion by 2017.

Retail

As at 3Q2013, the total NLA of retail space (includes shopping centres, arcades and stand-alone hypermarkets) in Johor Bahru remained unchanged at 12.08 million sq ft with average occupancy at 73.7%. Prime retail space continued to perform well with occupancy rates recorded in excess of 80%, commanding gross rentals ranging from RM15 per sq ft to RM40 per sq ft per month.

During the review period, there were also a number of integrated developments which are planned to have retail components. Among these include Zikay @ Medini, Medini Empire, D'Pristine, Meridin@Senibong, 18@Medini, Vantage Bay, Sunway Medini, Medini Lakeside and The Suasana. Iskandar Residences by Distinctive Ace Group, which is designed to be a self-contained development, will also feature a retail podium.

In July, AEON Co (M) Berhad acquired an 8-hectare (20.93 acres) freehold land in Bandar Dato Onn for a consideration of RM70.2 million (or RM77 per sq ft). The site is proposed for a retail mall.

Southkey Megamall, a JV between Kota Southkey Sdn Bhd and IGB Corporation, is expecting more than two million shoppers per month when its first phase opens for business in 2016/7, with about 350 to 400 tenants.

The soft launch of the second phase of Johor Premium Outlets (JPO) was held in November featuring an additional 40 shops. Notable international brands occupying the additional 100,000 sq ft space include Aigner, Swatch, Cotton On Kids, Furla, BCBGMAXAZRIA, LeSportsac, Hugo Boss, Kate Spade and Tory Burch.

The review period also saw the opening of Aeon's first flagship mall in the country. The four-storey mall located in Kulaijaya has a NLA of 457,000 sq ft and comprises two retail floors and two car park floors. Some of the key tenants include F.O.S, Popular, Poh Kong Jewellers, Sa Sa, and EFFU Boutique.

Outlook

The Johor government has plans to impose a 2% levy on foreign buyers across all property segments including the secondary property market starting from May 2014 in addition to the recent cooling measures announced in the Budget 2014. The rate is lower than the 4% to 5% mooted earlier. The current flat rate is RM10,00 for all types of properties.

The recent cooling measures announced in the Budget 2014 to curb speculation in the local property market which include the rise in minimum purchase price of Malaysian property for foreigners to RM1 million from RM500,000; the hike in RPGT from 15% to 30% for foreign owners who sell their properties within the first five years of purchase and the abolishment of the Developer Interest Bearing Scheme (DIBS) which is to take effect from 1st January 2014 may have a slight impact on demand for the Johor property market. However, foreigners particularly Singaporeans, will continue to buy properties within the state as most of the existing high-end properties available in the market are already being priced above the RM1 million threshold level and there is still a huge disparity in property prices between Malaysia and their home countries.

The strong Singapore dollar and growing interest from other foreign purchasers particularly in the locality of Nusajaya and Medini will continue to drive the growth of the residential market. Medini will continue to be the 'hotspot' due to its special economic zone status whereby it is granted a substantial tax break and is exempted from the RM1 million minimum price threshold for foreign purchase.

The implementation of the Transportation Blueprint (2010 – 2030) which includes forming an integrated transit terminal network to link major towns and gateway terminals; developing a bus rapid transit system linking Johor Baru with Skudai, Johor Jaya and Nusajaya; providing suburban feeder bus services as well as improvements to taxi services and a demand-responsive transport system; water taxis, ferries and cruise boats; and school bus zoning is set to transform the Iskandar region into a bustling business district and enhance its global competitiveness. This coupled with the cooling measures imposed by the Singapore government to deter foreigners from buying Singapore property will augur well for the Iskandar region.

Going forward, the Johor Bahru property market is expected to remain firm in the medium term with more Malaysian and Singaporean-based developers expected to venture into the Iskandar region. Development activities will continue to be concentrated within the city centre, Danga Bay and the Nusajaya/Medini locality within Zones A and B of Iskandar. Besides high-end condominiums and apartments, with growing demand for good quality prime office space and retail space, the region is expected to see more retail malls and purpose-built offices coming up in the Iskandar skyline.

Table 7
Notable Land Transactions in Johor Bahru

Transaction Date	Purchaser	Land Size (acres)	Purchase Price (RM)	Location
July-2013	AEON Group	20.9	70.2 million	Bandar Dato Onn
Sept-2013	Scientex Berhad	48.4	28.5 million	Kulai
Sept-2013	Tropicana Corp Bhd	256.6	366.5 million	Pulai
Oct-2013	Mah Sing Group Bhd	1,352	411.2 million	Pasir Gudang/Masai
Nov-2013	Guangzhou R&F Properties Co Ltd	116.0	4.5 billion	Danga Bay
Dec-2013	BCB Heights Sdn Bhd	7.81	123.6 million	Medini

Table 8
Notable High-Rise Residential Launches in Johor Bahru (2H2013)

Development Name	Location	No. of Units	Built-up Area (sq ft)	Price (RM psf)
Suasana	Jalan Wong Ah Fook	342	644 - 1,238	1,100 to 1,300
Puteri Cove	Puteri Harbour	329	676 - 4,460	1,200 to 1,537
Pinnacle Tower	Jalan Dato Abdullah	275	1,116 - 1,407	700 to 1,000
The Wave @ Marina Cove	City Centre	1,465	526 - 1,344	700 to 900
Marina Bay Suites @ D'Wadihana	Jalan Wakaf	846	560 - 1,345	From 1,150
Paradiso Nuova	Medini	382	713 - 6,080	From 850
Medini Signature	Medini	456	655 - 1,950	From 800
Country Garden @ Danga Bay	Country Garden	9,000	500 - 1,550	850 to 1,300
The Astaka	1 Bukit Senyum	438	2,207 - 2,659	From 1,000
SKS Pavilion Residences	City Centre	598	400 - 1,145	From 1,000
Tower B of Meridin Suites Residences	Medini	161	From 968	From 720
The WaterEdge Apartments*	Senibong Cove	265	900 - 2,500	From 650
Tower A of Iskandar Residences	Medini	355	633 - 1,751	From 650
Tower A of WF Tower	City Centre	346	728 - 2,174	1,400 to 1,700
Molek Pines 4	Tebrau	260	1,441 - 5,579	From 690
Tebrau8	Wadihana	342	524 - 2,898	From 700
D'Inspire	Bukit Indah	585	446 - 1,239 (typical)	Average 1,000

Note:* The third and final tower

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Publisher: Knight Frank Malaysia Sdn Bhd (585479-A)
Suite 10.01 Level 10, Centrepoint South, Mid Valley City
Lingkaran Syed Putra, 59200 Kuala Lumpur.

Printed by: Digitpress Sdn Bhd (29967-H)
7, Jalan BK 1/11, Bandar Kinrara, 47180 Puchong, Selangor Darul Ehsan

KDN PP16104/11/2012(031172)

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