RESEARCH

1ST HALF 2009
REAL ESTATE HIGHLIGHTS

Kuala Lumpur | Penang | Johor Bahru

Knight Frank

HIGHLIGHTS

Kuala Lumpur

- Market sentiments for high end condominiums improved towards the later part of 1H2009.
- A significant leasing deal concluded was Shell committing to 340,000 sq ft of office space in 348 Sentral.
- The retail market saw consumers continuing to tighten their belts amidst economic uncertainties.
- Weak performance of the hospitality industry due to economic crisis and the worldwide outbreak of influenza A (H1N1).

Penang

- Good market response to launches of landed housing in Penang.
- The Penang office market has generally remained unchanged at year 2008 level.

Johor

- Investments in infrastructure works in Iskandar Malaysia are progressing, although launches have been postponed and there were no announcements on new investments secured.
- The property market in general remains resilient despite the challenging economic environment.

KUALA LUMPUR HIGH END CONDOMINIUM MARKET

Market Indications

The year started in a sombre mood with global economic figures plunging to unprecedented levels and Malaysia's GDP also showing a sharp drop. The GDP for 1Q2009 was recorded at a contraction of 6.2%; much lower than the previous quarter of positive 0.1%. The high end condominium market in Kuala Lumpur continued to soften amidst sluggish sales performance and downward decline in prices and rentals. This is particularly evident for projects located in KL City where transactions almost came to a halt with asking prices declining. However, towards the end of the first half of 2009, market sentiments showed some improvement with stronger interests and enquiries noted.

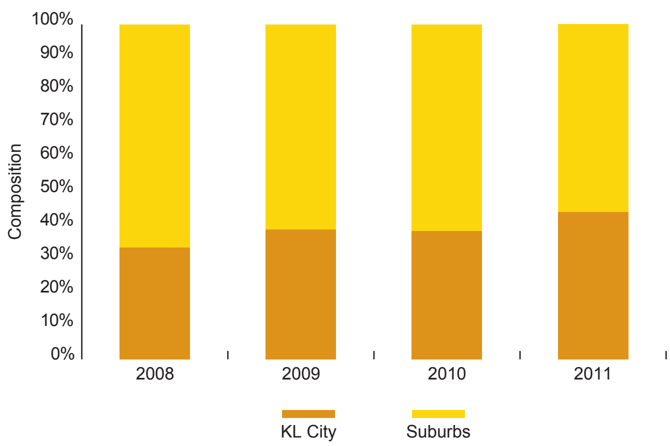
Supply & Demand

During the review period, some 1,990 units of high end condominiums were completed. In the suburbs, developments completed include Mont' Kiara Meridin (228 units) and Bangsar Peak (39 units), bringing the total existing supply in the suburbs to 11,930 units. With the impending completion of more new high end condominiums in KL City, the ratio of high end condominiums (KL City : Suburbs) is expected to see a shift from 33:67 in 2008 to 44:56 in 2011, as illustrated in Figure 1.

The market was evidently quiet during the first quarter of 2009 with developers and buyers playing the "waiting" game, the former waiting for the right timing to launch their projects and the latter prospecting for a good buy or a fire sale amidst the weak market sentiments. Developers began to offer attractive payment schemes to attract buyers, the most common incentive offered being the flexible payment scheme and zero mortgage instalment until the property is completed. Other incentives include low down payments, discounts and free legal fees for sale and purchase agreement and loan documentation. With such attractive schemes, the entry costs of buying properties are lowered and coupled with the current low interest rates, developers are seeing stronger interests and commitments from home buyers compared to six months ago.

Despite the weak market sentiments, E&O Property Development Bhd unveiled its high end condominium development in KL City, known as St Mary Residences. The development received overwhelming response with 75% sales recorded during the soft launch of East Tower (169 units) mainly due to its competitive pricing. Proposed launches in the second half of 2009 will include Verticas Residensi (423 units) in KL City, One Kiara (Phase 1 @ 118 units) in Mont' Kiara and Kenny Heights Sanctuary (Block A @ 168 units) in Mont' Kiara-Sri Hartamas.

Figure 1
Composition of High End Condominiums by Location
2008 - 2011



Source: KF Research

KL City: St Mary Residences, Jalan Tengah

Prices & Rentals

The Government's move to reduce borrowing cost is deemed as a successful measure as approved loans for residential properties increased by 17.8% in the month of May on a y-o-y comparison. Apart from this initiative by the Government, the banking sector also offered competitive rates for home loans whereby interest rates have now declined to base lending rate (BLR) minus two percentage points or more as opposed to BLR minus one a few months earlier.

Prices and rentals have declined in tandem with the softening demand. In terms of prices, selected high end condominiums which are priced above RM1,000 per sq ft are seeing a higher contraction in asking prices, with a sharp decline of approximately 20% compared to peak prices in 2008. In addition, we also note that there are owners holding firm to their asking prices despite pressures from buyers for price reductions. This has inevitably resulted in a longer gestation period for units to be transacted.

Asking rents have also continued to decline in view of the high number of completions during the review period. The first half of 2009 witnessed a continuing correction in rentals as reflected by decline of about 5% to 10% compared to the second half of 2008.

Table 1
Asking Prices and Rentals of Existing High End Condominiums

Locality	Asking Gross Rent (RM psf/month)	Asking Price (RM psf)
KL City	3.50 - 5.50	650 - 1,500
Ampang Hilir/U-Thant	3.00 - 4.30	500 - 1,000
Damansara Heights	3.90 - 4.80	500 - 700
Kenny Hills	3.50 - 4.50	500 - 900
Bangsar	2.00 - 4.00	450 - 900
Mont' Kiara	2.30 - 3.50	400 - 650

Outlook

Although demand is weak and the market is still soft, prices seem to have bottomed out especially for the suburban condominiums. The high end condominium market is starting to show some signs of recovery as we see more buying activities towards the later part of 1H2009. However, despite the renewed interest, the downside of the sector lies in the incoming supply of more new condominiums which will be completed in 2H2009 and 2010.

KUALA LUMPUR OFFICE MARKET

Market Indications

The Kuala Lumpur office market has not been spared from the effects of the global financial crisis. Easing demand has resulted in downward pressure for both rentals and occupancies. Absorption of office space is generally slow except for buildings which are for owners' occupation and these include Lot C, KLCC (to be occupied by Petronas) and HSBC Annexe (part of the expansion of the existing HSBC headquarters).

Supply & Demand

The cumulative supply of purpose built office space in KL City was recorded at 41.3 million sq ft during the first half of 2009 whilst the cumulative supply in Decentralised KL stood at 13.5 million sq ft. During the review period, Wisma Denmark now renamed Sunway Tower II (276,000 sq ft), re-entered the market after its RM26 million refurbishment whilst Decentralised KL saw the completions of Bangsar South, The Horizon Phase 1 with a total 14 blocks of boutique offices (596,000 sq ft) and Menara UOA Bangsar (700,000 sq ft).

Several buildings currently under construction are expected to be completed in the second half of the year. The new supply includes GTower, The Icon, and Menara PJD, all along Jalan Tun Razak in KL City. In Decentralised KL, the incoming supply in the second half will include Quill Building 7, MIDA headquarters and CCM (Company Commission of Malaysia) headquarters.

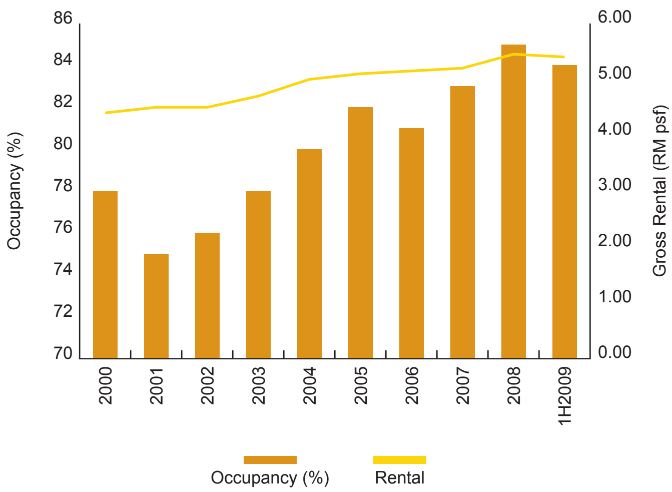
GTower, the first green building in the country to receive the BCA Green Mark from Singapore, is currently in its final stage of construction with completion expected in the fourth quarter of 2009.

Similarly, The Icon Jalan Tun Razak (a project by Mah Sing Group Bhd) is also expected to complete in the second half of the year. The Icon Jalan Tun Razak is a 20-storey Prime A office building comprising two towers, East and West Wings, with a total net lettable area of 525,000 sq ft.

Figure 2

Occupancy and Rental Trends

2000 - 1H2009



Source: KF Research

KL City: The Icon Jalan Tun Razak

A bright spark in an otherwise subdued market is the announcement of Shell committing to 340,000 sq ft of office space in 348 Sentral. GSB Sentral Sdn Bhd, a joint venture between MRCB and Gapurna Group, has started work on 348 Sentral which is expected to be completed by the third quarter of 2012.

The 33-storey 348 Sentral will be the first integrated commercial development that will go for Gold Standard in the Leadership in Energy and Environmental Design (LEED) certification, a US based green rating system. Part of the office tower (340,000 sq ft) will be leased to Shell Malaysia as its regional office for 15 years. This green office building is anticipated to provide a better workplace that will enhance productivity, reduce energy costs, improve indoor environmental quality and reduce carbon dioxide emissions.

348 Sentral, KL Sentral
Knight Frank is the appointed exclusive tenant representative for Shell in negotiating and securing the lease

Green buildings are currently in vogue and the Malaysian Institute of Architects and the Association of Consulting Engineers have jointly developed a rating system - the Green Building Index.

Two new projects are currently being undertaken in the Jalan Ampang locality. One notable development is The Intermark, undertaken by MGPA Asia Fund II, which involves the refurbishment and redevelopment of the former Empire Tower, City Square, Crown Princess Hotel and Plaza Ampang into an integrated first class asset. The refurbishment of the former 62-storey Empire Tower into a Prime A office building now renamed as Vista Tower is expected to be completed by end 2009 whilst the development of a new Prime A 30-storey office building named 'Integra Tower', offering a net lettable area of 760,000 sq ft is expected to be ready by end of year 2012.

OSK Property Holdings Bhd has plans to build a 40-storey office tower which will cost RM150 million located between Plaza OSK and Ampang Park mall along Jalan Ampang. The office tower is expected to be ready by 2015 and it will be connected to Plaza OSK.

Office occupancies have started to decline in the first half of the year due to weaker demand from occupiers as some companies withhold their expansion plans. Overall, average occupancy in Kuala Lumpur during 1H2009 was recorded at 83% (2H2008: 85%) with prime offices in KL City recording an average occupancy of 97% (2H2008: 97%). We note that prime offices are still enjoying high occupancies due to limited new supply of prime office space as well as remaining terms of earlier tenancies locked in. The review period also noted the increase in occupancy for secondary office buildings in KL City as some companies remained interested in relocating to secondary offices as a cost saving exercise due to the economic slowdown.

KL City: Vista Tower, Jalan Tun Razak

Rentals & Capital Values

In general, Prime A office buildings in KL Golden Triangle and the KLCC locality are still commanding average rentals of between RM7 per sq ft and RM9 per sq ft due to their high occupancy. The achieved average rental for KL City is analysed at RM6 per sq ft whilst Decentralised KL is now recording average rental of RM4.50 per sq ft.

On the other hand, some landlords of prime buildings have also lowered their asking rents to maintain competitiveness.

Table 2
Selected Prime A Office Asking Rentals

Building Name	Asking Gross Rental (RM psf/month)
Menara Maxis	9.00
Menara Prudential	6.00
Menara IMC	8.50
Menara Dion	9.00
Rohas Perkasa	7.50
Menara Citibank	7.50
Menara Standard Chartered	7.00
Menara Etiqa Twins	6.50
Menara HLA	6.50
Menara Millennium	5.50

During the first half of the year, there were no significant office investment sales in KL City. However, several sales were noted in Decentralised KL and Petaling Jaya, which include Wisma Chase Perdana (Damansara Heights), Wisma Dijaya (Damansara Utama) and Wisma Glomac 3 (Kelana Jaya).

Table 3
Office Investment Sales in 1H2009

Building Name	Location	Approx. Lettable Area (sq ft)	Consideration (RM)/ (RM psf)
Darul Takaful	Jalan Sultan Ismail	99,021	63,000,000 (636)
Wisma Glomac 3	Kelana Jaya	106,412	50,000,000 (470)
Wisma Chase Perdana	Damansara Heights	160,009	70,000,000 (437)
Wisma Dijaya	Damansara Utama	70,551	26,000,000 (369)

Outlook

Downward trends of rentals and occupancies are expected to stabilize in the next 6 months. The anticipated new completions of approximately 1.4 million sq ft by year end will translate to more choices for tenants and a more competitive market for the landlords. Notwithstanding that, office rentals in Kuala Lumpur will remain one of the lowest in Asia which is an advantage in attracting foreign companies seeking space for their business expansion in the Asian region.

KLANG VALLEY RETAIL MARKET

Market Indications

The retail market experienced a slowdown during the first half of 2009 due to a prolonged downturn and rising unemployment in selected sectors of the economy. Consumers continued to tighten their belts even though inflation has cooled to 2.4% in May 2009 from the peak of 8.5% in July-August 2008.

The Malaysia Consumer Sentiment Index (CSI) slid by 36.5 points y-o-y as consumer sentiment was impacted by the global financial crisis. However, a q-o-q comparison of the CSI indicated some improvement where it rose to 78.9 points (1Q2009); an increase of 7.5 points from 71.4 points (4Q2008). On a y-o-y comparison, the Business Conditions Index (BCI), also indicated pessimism in the first quarter of 2009 where the BCI declined by 58.7 points. Similar to the CSI trend, the BCI also showed signs of improvement where it recorded a gain of 7.2 points from the fourth quarter of 2008. Malaysian retail sales had a negative growth of 3.3% in the first quarter of the year with a further decline of 7.8% estimated for the second quarter. Nevertheless, the Malaysian retail industry should see some signs of improvement in the second half of the year, spurred by festive spending which include Hari Raya, Deepavali, and year-end holiday season.

Supply & Demand

The market has been quiet during the review period and there was neither opening nor completion of new retail centres. However, there was one notable refurbishment project located at the junction of Jalan Tun Razak and Jalan Ampang by private equity real estate investment advisory company, MGPA Asia Fund II. The refurbishment works of The Intermark Retail Podium (formerly City Square) will start in July this year with expected completion in the third quarter of 2010. Offering 200,000 sq ft retail space, it will spread over an 8-level retail podium. Other new supply coming on stream in KL City includes Lot C KLCC (extension of Suria KLCC) which is expected to be completed by 2010.

Table 4

Selected Proposed/Planned Major Shopping Centre Developments in Klang Valley

Project	Location	Expected Completion	Approx. Lettable Area (sq ft)
Shopping Centre at Setia City (Phase 1)	Shah Alam	2011	700,000
Paradigm Mall	Kelana Jaya	2012	700,000
Lot G KL Sentral	KL Sentral	2012	700,000
I-City	Shah Alam	2012/2013	1,000,000 (gross)
One City (Phase 3)	USJ	NA	1,000,000

Proposed One City (Phase 3), USJ

There is a notable increase of planned retail supply in the Klang Valley; some of the significant future supply includes Lot G in KL Sentral, Paradigm Mall in Kelana Jaya and One City (Phase 3) in USJ. Both Lot G and Paradigm Mall are currently under construction whilst One City (Phase 3) is a proposed integrated development offering 1 million sq ft of net lettable space. This proposed development features serviced apartments, a corporate office, an auditorium, a shopping mall and a hotel.

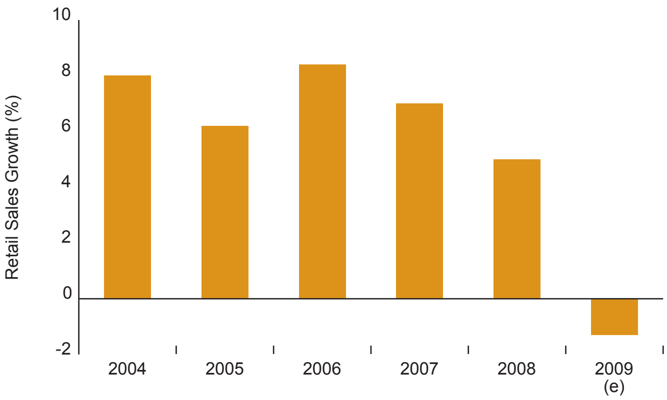
Prices & Rentals

Retailers are facing tough times as retail sales growth decline. Based on statistics from the Retail Group of Malaysia, retail sales growth is expected to see a contraction of 1.3% in 2009; a decline from the 5% growth recorded in 2008. Nevertheless, rentals have largely remained stable due to the leases locked in amidst the recent improved consumer spending sentiment. During the review period, Aeon Co. (M) Bhd entered into a sale and purchase agreement with Dwitasik Sdn Bhd to purchase a 6.25-acre parcel of land in Bandar Sri Permaisuri with a shopping centre to be erected thereon at a price of RM107,225,000. In addition, hypermarket operator, Tesco Stores (Malaysia) Sdn Bhd, also announced the buying over of a 10.05-acre leasehold site in Equine Park for RM29.77 million (or RM68 per sq ft).

Figure 3

Retail Sales Growth Trend

2004 - 2009



Source: Retail Group Malaysia

Outlook

The retail market will continue to face challenging conditions as consumer spending remain weak due to the economic slowdown. However, occupancies and rentals of prime retail centres are expected to remain firm.

KUALA LUMPUR HOTEL MARKET

Market Indications

The robust performance of the hospitality industry in 2008 was dampened by the weak economic performance and more recently, the worldwide outbreak of influenza A (H1N1) which worsened towards the end of June 2009. This has resulted in the decline of hotels' occupancy rates; the average occupancy for 4-star and 5-star hotels in KL City dived by 11% for the first five months of this year when compared with the corresponding period in 2008. However, tourist arrivals were healthy for the first five months of the year with arrivals increasing by 2.55% to 9.24 million compared with 9.01 million recorded in the same period last year. Tourism Malaysia expects to draw lesser tourists in 2009 due to the global outbreak of influenza A (H1N1) and the on-going global financial crisis.

Supply & Demand

The current supply of 4-star and 5-star hotel rooms in KL City stand at 6,756 and 8,663 respectively, with the bulk of supply located within tourist belts such as Jalan Sultan Ismail, Jalan Ampang, Jalan Bukit Bintang and the KLCC locality.

Although the average occupancy of 60% (Jan-May 2009) was dismal, 4-star hotels were seen registering a higher average occupancy (63%) than the average occupancy of 5-star hotels (57%) during the review period. Some of the 4-star hotels which recorded high occupancies were Traders (KLCC), Corus (Jalan Ampang), Dorsett Regency (Jalan Imbi), and Boulevard (Mid Valley City).

Figure 4

Supply and Occupancy Rate of 4-Star & 5-Star Hotels in KL City

2003 - May 2009

Source: KF Research/MIHR

During the review period, the 400-room Royale Chulan Kuala Lumpur achieved 30% occupancy since its soft opening in April. The GTower Hotel, a new 180-room business-class 5-star hotel, will open its doors in the third quarter of 2009. The hotel, owned and operated by Goldis Bhd, is spread over three floors of the 30-storey GTower commercial development along Jalan Tun Razak.

KL City: Royale Chulan Kuala Lumpur, Jalan Conlay

At the junction of Jalan Tun Razak-Jalan Ampang, a prominent 5-star development is taking shape under the redevelopment plan of Intermark by MGPA Asia Fund II. The hotel component, the former Crown Princess has been closed for refurbishment and its place, the renowned 5-star hotel, Doubletree (operated by the Hilton hotel chain), will commence operations in 2Q2010.

Several new hotels are scheduled to come on stream in the next two years. The prestigious hotel brand, Raffles, will make its presence in Kuala Lumpur when it opens at Pavilion Kuala Lumpur in 2011. Raffles Kuala Lumpur will have 200 rooms and suites. The hotel is owned by Toronto-based Fairmont Raffles Hotels International (FRHI). Within the same locality, another 5-star hotel will be built and it is part of the mixed development known as Nova Square by TA Enterprise Bhd. In Decentralised KL, a 5-star hotel with 250 rooms with an investment cost of RM800,000 per room will be developed by Guocoland (M) Bhd in Damansara Heights. The hotel will carry the group's own hotel brand called Thistle which is part of Guoman Hotel Management (UK) Ltd, a unit of GuocoLeisure Ltd.

KL City: Doubletree by Hilton

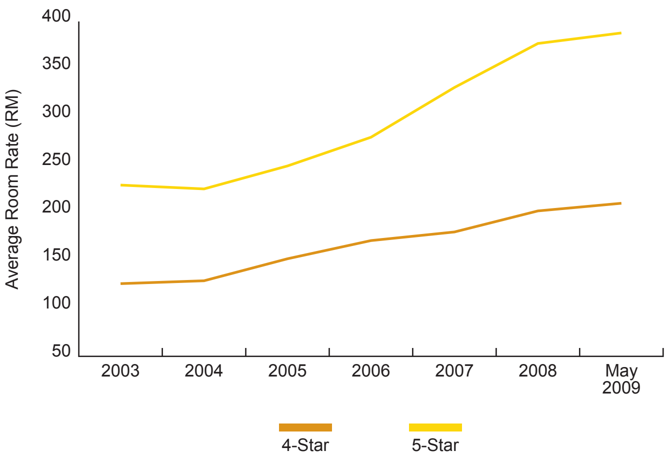
Average Room Rates & Capital Values

Although occupancy rates for 5-star hotels have dipped, their Average Room Rate (ARR) was noted to be marginally higher than the levels recorded in 2008. The ARR for 5-star hotels was recorded at RM388; 5.7% higher than RM367 recorded in the same period in 2008. Similarly, the ARR for 4-star hotels was recorded at RM210, 8% higher than RM195 recorded in the corresponding period in 2008.

Figure 5

Average Room Rate of 4-Star & 5-Star Hotels in KL City

2003 - May 2009



Source: KF Research/MIHR

Outlook

The tourism and hospitality sectors will continue to face a challenging business environment in the second half of the year due to the outbreak of influenza A (H1N1). However, occupancies and ARRs should hold at current levels unless the pandemic becomes much worse.

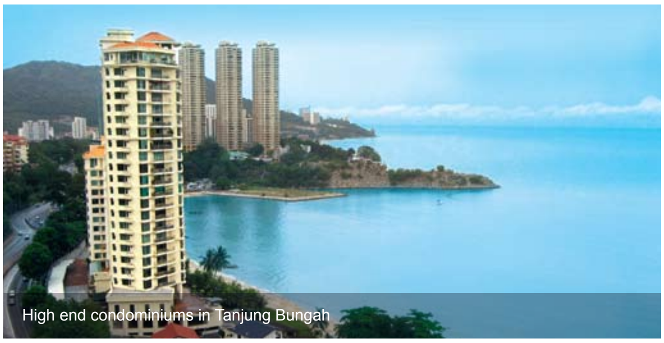
PENANG PROPERTY MARKET

Market Indications

- Works on the mega RM4.3 billion Penang Second Bridge project and RM2 billion Penang Sentral transportation hub at Butterworth are ongoing. The Federal Government has announced that works on the RM1.2 billion expansion of the Mengkuang Dam will commence soon whilst the RM323 million North Sea Channel dredging project is in the process of being revived. The proposed Aerobus transportation for the Island has been put on hold.
- A RM250 million exercise to upgrade the Penang Airport is scheduled to start at the end of 2009.
- The 150-room Hard Rock Hotel, Penang's 1st and world's 10th is scheduled to open on 19th September 2009. Several other hotels have also taken advantage of the current economic slowdown for refurbishment e.g. Lone Pine Hotel, Golden Sands Hotel and E&O Hotel.
- Amidst the announcements of shutdowns, down-sizing and other cost-cutting measures by manufacturers during this economic slowdown, Invest Penang has attracted new investments totaling about RM396 million from three companies; St Jude Medical Inc., National Instruments and Chakra Biotech. Greenworld Biotech, a local packaging company, will invest RM100 million in a new plant over the next four years. There is also a reinvestment of RM100 million by Altera for their third 225,000 sq ft facility in Bayan Lepas.
- Several projects launched in 1H2009 include "Southbay Penang" by Mah Sing Group; "Bayu Ferringhi" by Plenitude; "Ocean Residences" by PJD whilst the Belleview Group has also announced plans to launch several projects with a total Gross Development Value (GDV) of RM500 million this year. Launches that have been deferred include IJM's The Light Waterfront Penang and E&O's Phase 1 condominium project at Seri Tanjung Pinang.

High End Condominium

- The Plenitude Group launched in January 2009 a 32-storey block comprising 112 units as part of the Bayu Ferringhi development on an 11-acre elevated site located opposite Rasa Sayang Hotel. Prices for standard units of 1,777 to 2,558 sq ft range from RM761,000 to RM1,179,000 each or RM413 to RM473 per sq ft whilst the three duplex units and one penthouse are priced from RM1,422,000 to RM2,597,000 or RM435 to RM455 per sq ft.
- The Hunza Group announced a 52% sales rate for their two towers of Gurney Paragon at Gurney Drive and 68% for The Infinity located in Tanjung Bungah. Both developments are still under construction with The Infinity scheduled for completion at the end of 2009 and Gurney Paragon in 2010.
- Resale prices of completed projects and those nearing completion within the prime areas of Pulau Tikus and Tanjung Bungah generally remain at 2H2008 figures of RM380 to RM600 per sq ft.
- Asking monthly rentals for fully furnished units with sizes ranging from 3,500 to 6,000 sq ft are from RM6,000 to RM13,000 per unit, landlords may have to accept lower rents as the number of expatriate tenants are shrinking due to cost cutting measures (e.g. relocation) undertaken by a number of companies.



High end condominiums in Tanjung Bungah

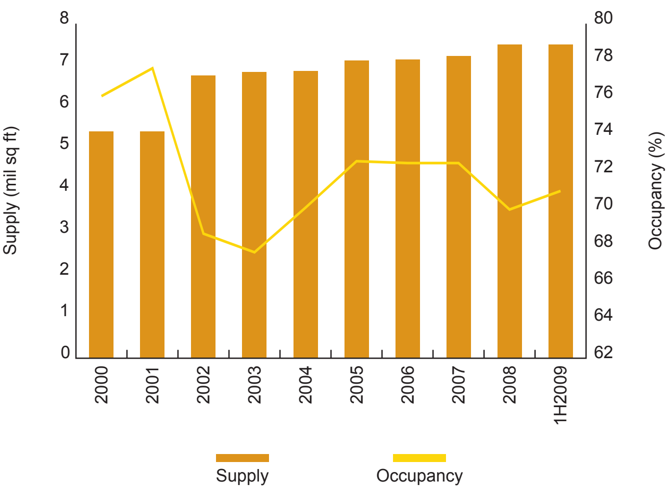
Office

- Occupancy rates for the two most popular prime buildings in Georgetown improved from 90% to 94%.
- As no new buildings were completed in 1H2009, the total existing supply remains at 2H2008 figure of 5.82 million sq ft.
- The CEO, currently under construction, will add another 250,000 sq ft to the office supply when it is completed at the end of 2009.
- With excess supply yet to be fully absorbed, gross monthly rentals of prime office buildings generally remained unchanged at RM2.20 to RM2.70 per sq ft per month. The range for secondary buildings is from RM1.50 to RM2.00 per sq ft per month, the same level achieved in 2H2008.

Figure 6

Office Supply and Occupancy in Georgetown

2000 - 1H2009



Source: KF Research/Napic

Table 5
Future Supply of Office Space

Project	Location	Approx. Lettable Area (sq ft)	Expected Completion
The CEO	Bukit Gambier	250,000	4Q2009
BayCapital	Bayan Baru	100,000	Development Deferred

- Newly completed office buildings with better IT facilities/MSC status and good sea view have achieved higher gross rents ranging from RM2.50 to RM3.50 per sq ft per month.

Menara KWSP, Jalan Sultan Ahmad Shah

Retail

- Supply of retail space increased by 337,000 sq ft with the completion of Penang Times Square Phase 1 in January 2009. Sunshine City, the latest outlet under Suiwah Corporation has been signed on as its anchor tenant and will occupy about 110,000 sq ft.
- Construction of the proposed RM400 million Gurney Paragon Mall, which has been deferred, is now scheduled to commence at the end of 2009.
- Belleview Group announced plans to launch 1st Avenue in Georgetown (JV of ARMF, Belleview Group & Lion Group) in 3Q2009. Currently under construction, 1st Avenue when completed will add on a further 430,000 sq ft of retail space.
- "Komtar Walk", a 155 metre - long stretch being developed as a food and beverage hub by the Pacific Hypermarket & Departmental Store at a cost of RM10 million, is scheduled to open by 4Q2009.
- Overall occupancy rates have generally remained at 2H2008 levels with prime shopping malls averaging about 90% whilst secondary complexes recorded a lower range of 55% to 85%.
- Ground floor retail lots of prime complexes command higher gross rents of RM13 to RM35 per sq ft per month as compared to RM5 to RM15 per sq ft per month achieved for secondary centres.


Penang Times Square

Table 6
Future Supply of Retail Space

Project	Location	Approx. Lettable Area (sq ft)	Expected Completion
*Penang Times Square Phase 2	Georgetown	229,000	2010
*1st Avenue	Georgetown	430,000	2009/2010
**Gurney Paragon Mall	Georgetown	700,000	Scheduled 2012/2013
**Penang Times Square Phase 3	Georgetown	290,000	Scheduled 2012
**Queensbay Mall extension	Sg Nibong	400,000	Development Deferred

* under construction ** planned

Outlook

Market sentiments are very mixed at the moment. Launches of landed houses have received good response whilst occupancies as well as rental rates for office and retail space appear to be holding quite well. However, interest in condominiums appears to have weakened. Generally, the condominium and commercial markets are expected to remain soft in the coming months.

JOHOR BAHRU PROPERTY MARKET

Market Indications

- For the first three months of 2009, Johor State Government had approved about RM2.3 billion total worth of investments. An estimated RM1.49 billion are Foreign Direct Investments, which is more than double the amount compared to the corresponding period in 2008.
- Acerinox SA of Spain and Japanese Nisshin Steel is building a USD1.6 billion fully integrated stainless steel plant on a 346-acre site at Tanjung Langsat. Dialog Group Bhd, in a joint venture with the Johor State Government, is planning to develop an independent deepwater petroleum terminal facility on a 500-acre plot at Pengerang. This USD1 billion investment will be developed over the next 3 to 10 years.
- New investments in Iskandar Malaysia (IM) are expected to slow down due to the challenging economic climate. However, with investments secured by Iskandar Investment Bhd (IIB) totalling RM43.1 billion up to 2008, or 92% of the targeted RM47 billion by 2010, IIB is progressing with works on Legoland Park (USD200 million) and Newcastle University of Medicine (RM300 million) in Medini, which are expected to be completed by 2011. Medini Iskandar Malaysia encompasses about 2,240 acres of development spearheaded by IIB and a consortium of investors from the Middle East. The development is divided into 3 district clusters - Lifestyle and Leisure, Cultural and Iskandar Financial District. In addition to the tax incentives granted to investors in Medini, the properties developed here can be fully sold to foreigners, and are not bound by requirements on sales to locals.
- Under the second economic stimulus package, Khazanah Nasional Bhd has been given RM1.7 billion for works on infrastructure in IM. This is in addition to on-going projects currently under construction which will cost an estimated RM4.62 billion implemented under the 9th Malaysia Plan.
- United Malayan Land Bhd acquired a 629-acre parcel of development land at Bandar Baru Pulai Jaya for RM233 million in February.
- Columbia Asia is building a 70-bed private hospital at Afiat Healthpark at Nusajaya, which is due for completion in 2010. UEM Land Bhd's Afiat Healthpark @ Nusajaya, covering about 68 acres, is to offer a fully integrated healthcare centre, covering modern medicine, traditional and complementary medicine and wellness.
- Marina facilities were given a boost with the opening of 50 berths at the Marina @ Danga Bay. This RM65 million project along Lido Beach, will offer a total of 250 berths with other recreational facilities upon its completion by this year. The other marina operation is at Puteri Harbour in Nusajaya, which has 76 berths already in service. Full completion of Puteri Harbour is planned within 4 years, with an additional 232 berths, including 12 for mega yachts.

Marina at Puteri Harbour, Nusajaya

- UEM Land Bhd has teamed up with Malaysian Biotechnology Corporation Bhd to develop a 200-acre Biotech Park in Southern Industrial and Logistics Clusters (SiLC) in Nusajaya. This Park will offer facilities for incubators, offices and contract manufacturing.
- Construction has started at Oakwood Residence Johor and Iskandar Residences, both located at Danga Bay. The RM650 million project is scheduled for completion by 2012. Developed on a 6-acre site, the project offers 230 units of high end serviced apartments and 523 condominiums, together with a retail podium and 150,000 sq ft of corporate suites.


Oakwood Residence Johor and Iskandar Residences, Danga Bay

- Damac Properties (M) Sdn Bhd has terminated the Sale and Purchase Agreement with UEM Land Bhd on the purchase of 43 acres of land at Nusajaya. The price of the land was pegged at RM396.5 million.
- Third Bridge linking Singapore and the south-eastern part of Johor mooted by the Government.

Residential

- Compared to 4Q2008, the residential sector recorded a decrease of about 13.85% in terms of volume of transactions (to 2,151) for 1Q2009. Similar comparison reveals that the total value transacted has also decreased by 14.82% (RM60.68 million) to RM348.53 million.
- New launches include:
  - Sri Pulai Perdana 2 by Mah Sing Group. Located along the rapidly developing Johor-Pontian stretch some 25 km east of Johor Bahru city centre, the development comprises 220 units of 2-storey terraced houses priced from RM248,000 per unit.
  - Iskandar Residences - two luxury condominium towers 38-storey high with 523 units. The units are priced from RM450 per sq ft. Developed within the same site is Oakwood Residence Johor, a high end serviced apartment development by Global Corporate Development Sdn Bhd, a joint venture between Iskandar Waterfront Development Sdn Bhd (IWD) and Danga Bay Sdn Bhd (DBSB). To be managed by Oakwood Asia Pacific Pte Ltd, the development consists of 230 units housed within 28 storeys.
  - Palazio Oakwood and Pinewood Serviced Apartments by Mayland Austin Sdn Bhd. This development at Austin Boulevard comprises 668 apartment units, which are priced from RM98,888 for built up area of 484 sq ft to RM215,000 for built up area of 1,092 sq ft.

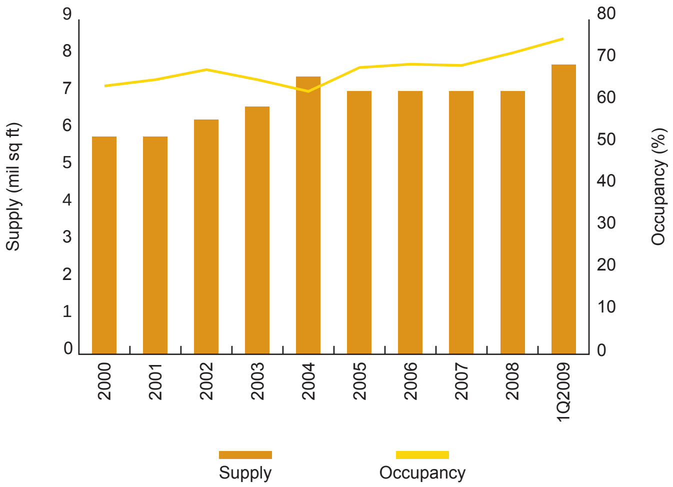
Office

- The total net lettable area of purpose-built office space in Johor Bahru is about 7.78 million sq ft. Since end of 2008, a total of about 256,082 sq ft has been added to the market. The overall average occupancy rate is in the region of 78%.
- Prime CBD space is let at a gross rental range of RM2.00 to RM2.50 per sq ft per month. Other CBD space commands a gross rental range of RM1.50 to RM2.00 per sq ft per month whilst offices at secondary locations gross below RM1.50 per sq ft per month.

Figure 7

Office Supply and Occupancy Trends in Johor Bahru

2000 - 1Q2009



Source: KF Research

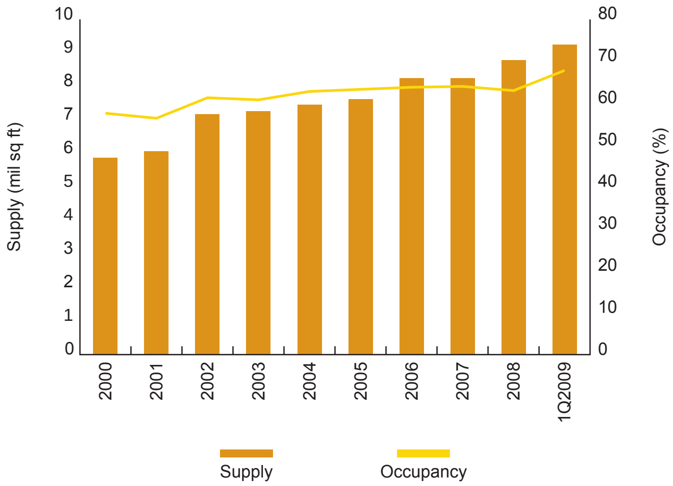
Retail

- The total net lettable area of retail space, which comprises shopping centres, arcades and hypermarkets in Johor Bahru, is estimated at 9.25 million sq ft. The overall occupancy rates for shopping centres, arcades and hypermarkets are at 57.0%, 91.1% and 93.1% respectively. Prime centres have all recorded occupancy rates in excess of 80%. Prime gross rents range from RM22 to RM30 per sq ft per month, for typical leased areas of between 200 to 300 sq ft.
- Proposed development under construction:
    - KSL City at Taman Century with an estimated floor area of about 500,000 sq ft.
- Proposed developments:
    - Hilltop at Nusajaya, planned for 1,000,000 sq ft of lettable space and 5,000 car parks.
    - Ikea Store at Desa Tebrau.

Figure 8

Retail Supply and Occupancy Trends in Johor Bahru

2000 - 1Q2009



Source: KF Research

Outlook

The performance of the property market in Johor Bahru for the first half of 2009 was satisfactory, despite the challenges posed by the economic slowdown. The absence of the bubble phenomena in the local property market scene was evident by the lack of fire sales. The 5/95 loan packages offered by established developers to house buyers have helped to boost sales. No drastic change in the market is expected for the rest of this year.

RESEARCH

Americas
USA
Bermuda
Brazil
Caribbean
Chile

Australasia
Australia
New Zealand

Europe
UK
Belgium
Czech Republic
France
Germany
Hungary
Ireland
Italy
Monaco
Poland
Portugal
Russia
Spain
The Netherlands
Ukraine

Africa
Botswana
Kenya
Malawi
Nigeria
South Africa
Tanzania
Uganda
Zambia
Zimbabwe

Asia
Cambodia
China
Hong Kong
India
Indonesia
Macau
Malaysia
Singapore
Thailand
Vietnam

The Gulf
Bahrain

Malaysia Contacts
Eric Y H Ooi
Managing Director
+603 228 99 668
eric.ooi@my.knightfrank.com

Valuation
Chong Teck Seng
Executive Director
+603 228 99 628
teckseng.chong@my.knightfrank.com

Research & Consultancy
Judy Ong Mei-Chen
Executive Director
+603 228 99 663
judy.ong@my.knightfrank.com

Property/Facilities Management
Zaharin Bin Ahmad Zamani
Executive Director
+603 228 99 618
zaharin.zamani@my.knightfrank.com

Matthias Loui
Executive Director
+603 228 99 683
matthias.loui@my.knightfrank.com

Agency/Investment/Global Corporate Services
Sarkunan Subramaniam
Executive Director
+603 228 99 633
sarky.s@my.knightfrank.com

Project Marketing
Tan Lay Kuen
Head
+603 228 99 626
laykuen.tan@my.knightfrank.com

Johor Bahru Branch
Leslie J H Kho
Resident Director
+607 2273 888
leslie.kho@my.knightfrank.com

Penang Branch
Tay Tam
Resident Director
+604 229 3296
tam.tay@my.knightfrank.com

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, financial and corporate institutions. All recognize the need for the provision of expert independent advice customised to their specific needs.

Knight Frank Research Reports are also available at www.knightfrank.com.

KDN PP16104/11/2009(022731)

Knight Frank
Newmark
Global