RESEARCH

1ST HALF 2011

REAL ESTATE HIGHLIGHTS

Kuala Lumpur | Penang | Johor Bahru

Knight Frank

HIGHLIGHTS

Kuala Lumpur

- For high end condominiums, rental levels in KL City remained stable during the review period while KL City Fringe experienced a marginal drop despite robust purchaser interest.
- The KL office market remained soft with both rental and occupancy levels trending downwards. Market sentiment remains tenant-favoured.
- Notwithstanding forecasts for a lower growth rate in the retail sector, the local retail market continued to offer good prospects supported by strong economic fundamentals.
- Despite a marginal dip in occupancy & average room rate, the hotel sector still performed admirably over 1H2011 thanks to a number of Government-led initiatives.

Penang

- In response to demand for landed housing in Penang, 3-storey terraced and semi-detached houses as well as high-end bungalows within exclusive gated and guarded enclaves are in the pipeline to be launched by various developers.
- Penang–based electronics companies are set for a good year due to the growing global markets for consumer electronics and medical equipment.

Johor

- Catalytic projects at Medini and the supporting infrastructure works are in final stages of completion, thus enhancing the positive outlook of Iskandar Malaysia.
- Further infrastructure improvements and investment in projects at Pengerang are expected to provide a boost to the economy / property market.

KUALA LUMPUR HIGH END CONDOMINIUM MARKET

Market Indications

The country's economic momentum has remained sound, posting a GDP growth rate of 4.6% in 1Q2011 (4Q2010: 4.8%). The year 2010 ended with an overall GDP growth rate of 7.2% and this is expected to moderate to between 5% and 6% for 2011 in line with the current global trend. Inflationary pressures will continue to be a primary concern to the government as it may fuel further hikes in residential property prices which saw double-digit growth in selected established and prime locations in Klang Valley last year.

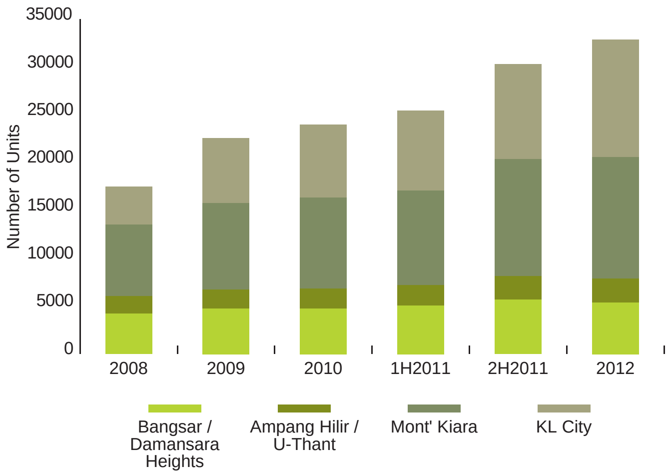
During the review period, Bank Negara Malaysia raised the Overnight Policy Rate (OPR) by 25 basis points to 3.00% and the Statutory Reserve Requirement (SRR) by 1 percentage point to 3.00% - the second increase in 2011. This latest increase in OPR has resulted in an increase to the Base Lending Rate (BLR) to 6.60% from 6.30%. Although the rate hike is unlikely to have a significant impact on the property market as the cost of borrowing is still considered reasonable, nevertheless, together with the loan-to-value (LTV) ratio of 70% for third mortgages, it may dampen purchaser sentiment. The recent move by the Central Bank is largely seen as a measure to curb rising inflation while remaining supportive to growth.

Supply & Demand

During the review period, there were seven completions with the majority of projects located in Bangsar / Damansara Heights, KL City and Mont' Kiara. These completions provide a total of 1,452 additional units, bringing the total cumulative supply of high end condominium units in Kuala Lumpur to 25,453.

Many of the projects originally scheduled for completion in 1H2011 have experienced delays. These include: Regalia @ Sultan Ismail in KL City; Brunsfield Embassyview in Ampang Hilir / U-Thant; Gaya Bangsar in Bangsar; and Sunway Vivaldi and Kiara 9 in Mont' Kiara.

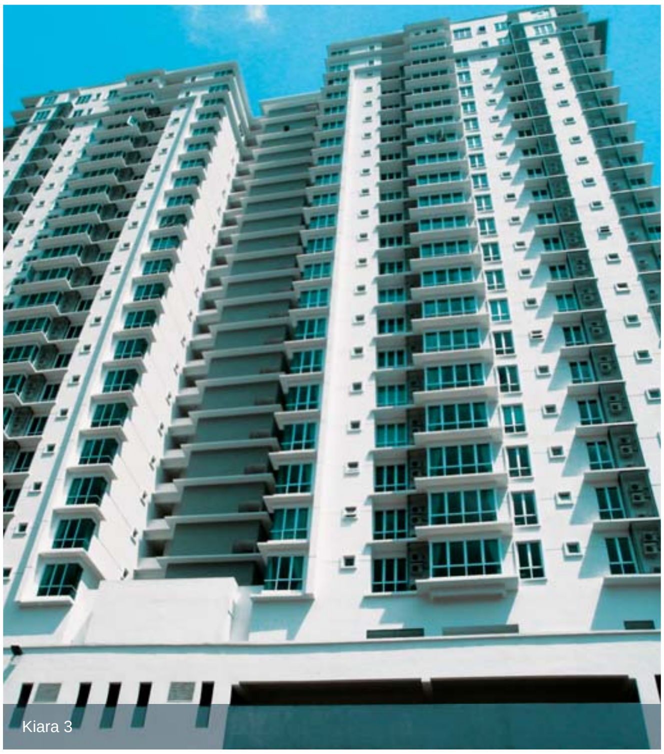
Figure 1
Projection of Cumulative Supply for High End Condominiums
2008 - 2012



Source: KF Research

Table 1
Completions of High End Condominium Projects in 1H2011

Project	Location	Area	Total Units
Panorama	Persiaran Hampshire	KL City	223
Swiss Garden Residences	Jalan Galloway	KL City	478
Gallery @ U-Thant	Jalan Madge	Ampang Hilir / U-Thant	50
Seni Mont' Kiara Block I	Jalan Duta Kiara	Mont' Kiara	234
Kiara 3	Jalan Kiara 3	Mont' Kiara	160
Clearwater Residence	Changkat Semantan	Damansara Heights	108
Suasana Bangsar	Jalan Kaloi	Bangsar	190
D'Nine	Jalan Kapas	Bangsar	9



Notable projects scheduled for completion in 2H2011 include Crest Jalan Sultan Ismail, The Pearl @ KLCC, Twelve Kia Peng in KL City; Amarin Wickham and Katana II in Ampang Hilir / U-Thant; Twins @ Damansara Heights; Kiara 9, Seni Mont' Kiara Block II, 11 @ Mont' Kiara (MK11), and Vogue Tower (Block C) Verve Suites in Mont' Kiara; Matahari Desa Sri Hartamas, Plaza Damas 3 and Sunway Palazzio in Sri Hartamas. These developments are expected to provide a further 4,896 units of high end condominiums.

Residential launches identified during the review period of 1H2011 include Phase 1 of M City, Kenny Hills Residence, Suasana Bukit Ceylon and Residential Tower (Phase 1) of KL Eco City. Renewed developer optimism in the market is reflected by the fact that more launches are planned for the remainder of the year. These include Mont' Kiara 20, Icon Residence Mont' Kiara, Secret Garden @ Mont' Kiara, Regent Residence, Royce Residence, 188 Suites, Damansara City 2, Amphil Residence and Nobleton Crest at U-Thant.

A notable trend in the current market is one of smaller unit sizes. Developers have seen the benefits of, and demand for smaller and more affordable units. Given the lower entry prices, strong demand exists for this type of development. This can be seen in the latest iconic YTL development, The Capers, comprising two 36-storey towers (338 units) and 128 low-rise suites, which offer built up areas from 700 sq ft to 1,500 sq ft and 999 sq ft to 1,925 sq ft for its tower block units and low rise units respectively. The Capers set a new benchmark for luxury condominium living in the Sentul East area, with average pricing from RM550 per sq ft to RM600 per sq ft. Launched in March, the development has reportedly achieved a 100% take up rate for both its tower block units and low-rise suites.

Prices & Rentals

During the review period, general rental levels for existing high end condominiums in KL City remained stable while KL City fringe areas of Damansara Heights and Kenny Hills experienced marginal declines. However, Bangsar saw a slight increase in the rental range due to completion of newer developments such as Ken Bangsar, which posted higher asking rentals.

The high end condominium sector saw a slight increase in average asking prices, both in KL City and KL City fringe locations while occupational demand remained at a relatively low level. Sales on the other hand, were seen as sluggish with fewer recorded transactions noted during the first half of the year. Despite the drop in achieved rental levels, the sector continues to show a degree of cautious optimism reflected by higher asking prices quoted at new launches.

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

Locality	Average Asking Gross Rent (RM psf / month)	Average Asking Price (RM psf)
KL City*	3.00 - 6.00	700 - 1,800
Ampang Hilir / U-Thant	3.00 - 4.00	500 - 900
Damansara Heights**	3.20 - 4.00	400 - 900
Kenny Hills	3.00 - 4.00	500 - 900
Bangsar	2.50 - 4.50	500 - 1,100
Mont' Kiara***	2.00 - 3.50	400 - 650

* Excludes The Binjai On The Park.
** Includes Clearwater Residence.
*** Excludes Verve Suites which comprise mainly fully furnished small units.


Suasana Bangsar

Outlook

The high end condominium sector looks set to retain a cautious outlook following a period of slower domestic economic growth, the imposition of a maximum loan-to-value (LTV) ratio of 70% on third mortgages and the recent announcement by Bank Negara Malaysia on the OPR rate hike. These may be contributory factors to a slowdown in the escalation in property prices but the question of affordability will still remain prevalent given the rising cost of materials and land.

Despite this, the sector is anticipated to remain promising as the economy continues to maintain growth, albeit at a slower pace compared to 2010. Proposed measures under the Economic Transformation Programme (ETP) are set to boost the residential markets of Greater Kuala Lumpur / Klang Valley alongside the government's target to increase the population to 10 million by 2020.

Projects in good locations, delivered by reputable developers with a good track record will continue to attract buyers. With several launches planned in 2H2011, property developers are now focusing on quality construction and on-site services to drive the market forward.

KUALA LUMPUR OFFICE MARKET

Market Indications

The Kuala Lumpur office market remained soft in 1H2011, with both rental and occupancy rates trending downwards due to the entry of newly completed office buildings in 2010 and early 2011. The tenant-favoured market also continued to provide greater competition and wider choice to occupiers searching for new or additional office space. Meanwhile, on the transaction side, the majority of market activity involved local players and investors, matching the trend for the 2H2010.

Supply & Demand

The cumulative supply of purpose built office space in KL City was recorded at 44.2 million sq ft following the completion of Hampshire Place Office (240,000 sq ft) and Menara Bank Islam (213,000 sq ft) during the first half of 2011. Meanwhile the cumulative supply for offices in KL City Fringe now stands at 15.2 million sq ft.

There are several buildings currently under construction in KL City with expected completion during 2H2011. These include Menara Worldwide, Menara 3 Petronas (on Lot C KLCC), The Crest @ Jalan Sultan Ismail and Dijaya Plaza at Jalan Tun Razak. For KL City Fringe, second half completions will include The Horizon Bangsar South (phase 2), KL Sentral Park and Dua Sentral Corporate Tower.


Hampshire Place

Construction of 348 Sentral, KL Sentral is progressing well and remains on track for its scheduled completion by the end of 2012. The 33-storey tower will be certified as a US Leadership in Energy and Environmental Design (LEED) Gold Standard Green Building. It has been pre-let to Shell Malaysia as its regional office and has an approximate net lettable area of 340,000 sq ft.

During the review period, Tradewinds Corporation Bhd announced plans to demolish the Crowne Plaza Mutiara Hotel and Kompleks Antarabangsa, both located along Jalan Sultan Ismail and transform them into a multi-billion ringgit mixed commercial development dubbed the “Tradewinds Centre”. The project, scheduled for completion in 2016, will comprise 4 towers (60-storey, 55-storey, 14-storey and 8-storey) and will provide offices, retail, serviced apartments and a medical centre. IGB Corporation Bhd also announced its intention to commence building the third phase of Mid Valley in the coming months. This phase of the development will include both an office and retail element and will contribute a gross floor area of more than one million sq ft.


The Intermark

The notion of corporate responsibility and the value of “going-green” have been recognised by building owners and developers alike. Many have taken the initiative and are proactively seeking to achieve recognition through international green certifications such as the US’s Leadership in Energy and Environmental Design (LEED), Singapore’s BCA Green Mark and Malaysia’s Green Building Index (GBI) in order to attract high-profile tenants and achieve higher rental rates. Menara Binjai is expected to be the first dedicated office building in Malaysia to receive dual green certification: Singapore’s Green Mark Gold and Malaysia’s Green Building Index.

Bangunan Lestari Kumpulan Emkay (BLKE)

The current trend also sees many owners of existing office buildings seeking to achieve MSC Malaysia status to attract a wider pool of tenants. During the review period, The Intermark obtained its MSC Cybercentre status and this is likely to enhance its market competitiveness. The 39-storey office building named Integra Tower, which forms part of The Intermark development, has also obtained Platinum LEED pre-certification and thus is expected to perform well when it enters the market in 2012.

Bangunan Lestari Kumpulan Emkay (BLKE) by Emkay Group was recently awarded the LEED Gold certification which makes it the first LEED Gold building in Malaysia. BLKE, which is located at Jalan Teknokrat 3 in Cyberjaya, is a 5-storey office building occupied by Shell, with car parking on three sub-basement levels. The building's green features include the use of materials with a high recycled content, energy saving equipment, rainwater harvesting system, storm-water management, high-efficiency bathroom fixtures and an extensive roof garden.

A number of strata-titled office projects were well received by the market and noted to have had a positive sales rate over the past 6 months, both in KL City and KL City Fringe locations. Notable sites included KL Eco City at Mid Valley / Jalan Bangsar, Q Sentral in KL Sentral, Commerce One at Jalan Klang Lama and KL Trillion at Jalan Tun Razak.

In KL City, average occupancy recorded during 1H2011 was at 84% (2H2010: 94%) whilst in KL City Fringe, the figure was recorded at 89% (2H2010: 91%). The office leasing market remained fairly active in 1H2011 with significant leasing transactions such as ServiceSource International Malaysia committing to approximately 23,600 sq ft (NLA) at the newly completed Wisma Mont' Kiara and Touch'n Go committing to approximately 59,500 sq ft in Bangsar South. During the review period, Vista Tower saw United Overseas Bank commit to some 110,000 sq ft while BNP Paribas and Sumitomo Mitsui Banking Corporation also took up approximately 24,000 sq ft each.

Rentals & Capital Values

Overall, the average monthly rental for office space in KL City equated to RM5.18 per sq ft (2H2010: RM5.22 per sq ft) whilst KL City Fringe recorded an average rental of RM4.30 per sq ft (2H2010: RM4.28 per sq ft). Prime Grade A offices in KL City and KL City Fringe locations, on the other hand commanded higher average monthly rentals between RM6.50 per sq ft and RM11.50 per sq ft. Nonetheless, in view of the impending supply coming on stream in the next 2 to 3 years, landlords of selected prime office buildings with tenancies nearing expiry, are expected to offer various incentives and attractive tenancy terms to stay competitive and maintain current occupancy levels in their buildings.

January 2011 saw the disposal of a 33-storey corporate office tower (together with 460 parking bays) which formed part of a mixed development named Dua Sentral, located close to KL Sentral. The vendor, Magic Coast Sdn Bhd (MCSB), a wholly-owned subsidiary of Amanahraya Hartanah Sdn Bhd sold it to Tenaga Nasional Berhad, a subsidiary of Khazanah Nasional Berhad for a total consideration of RM232.2 million.

Also in January, Daya Urusharta Sdn Bhd, a wholly-owned subsidiary of Daya Material Berhad, entered into five sale and purchase agreements with Koperasi Permodalan Felda Malaysia Berhad for the proposed acquisition of five office suites in a stratified mixed commercial development known as Solaris Dutamas for a total consideration of RM2.76 million.

The same month saw SBC Corporation Bhd proposing to dispose of a parcel of stratified office lots measuring approximately 15,853 sq ft for a consideration of RM7.1 million (or RM450 per sq ft). The property, PJX Commercial Space, is located on the lower ground floor of a 33-storey purpose built office building known as PJ Exchange in Petaling Jaya.

At a public auction in March 2011, Sunway REIT Management Sdn Bhd successfully bid for Putra Place at the Reserve Price of RM513.945 million. Putra Place is a mixed-use development comprising an 8-level retail podium known as “The Mall”, an office tower known as “100 Putra Place”, a 25-storey 5-star hotel, serviced apartments and penthouses known as “The Legend” and 1,323 car park bays.

In June, N2N Connect Bhd acquired an 11-storey office building known as Block 6 (Type G), The Horizon (Phase 1), Bangsar South for a consideration of RM36 million. The property forms part of the ongoing integrated township development known as Bangsar South which is designated as an MSC Malaysia Cybercentre.

AmFirst Real Estate Trust entered into a Sale and Purchase Agreement for the acquisition of Prima 9 and Prima 10 from Complete Event Sdn Bhd at a consideration of RM72 million and RM61 million respectively. Both buildings are 7-storey purpose-built offices in Cyberjaya with two levels of basement car parking.

Table 3
Office Investment Sales in 1H2011

Building Name	Location	Approx. Lettable Area (sq ft)	Consideration (RM) / (RM psf)
Dua Sentral	Jalan Tun Sambanthan	430,000	232,200,000 (540)
Putra Place	Jalan Putra	317,000 [1]	Note [2]
Block 6, The Horizon (Phase 1)	Bangsar South	46,100	36,000,000 (780)
Prima 9	Cyberjaya	111,000 [3]	72,000,000 (650)
Prima 10	Cyberjaya	100,000 [3]	61,000,000 (610)

Notes:
[1] The approximate lettable area is only for the office tower known as 100 Putra Place.
[2] The selling price of RM513,945,000 represents the Reserve Price fixed for the property which includes an 8-level retail podium, an office tower, a 5-star hotel with serviced apartments, penthouses and 1,323 car parking bays. The apportionment for the different components, however, is not available. The property was appraised by Knight Frank Malaysia.
[3] Prima 9 and Prima 10 have a total of 374 and 307 car park bays respectively.

Table 4
Selected Grade A Office Asking Rentals

Building Name	Asking Gross Rental (RM psf / month)
Menara Maxis	10.00
Menara IMC	8.50
Vista Tower	8.00
GTower	7.50
Menara Standard Chartered	7.00
Menara Citibank	6.50
Menara Etiqa Twins	6.50
Kenanga International	6.50
Menara HLA	6.50
The Icon	6.20
Menara Millennium	5.00

Outlook

The office market is expected to remain competitive given the abundance of incoming office supply scheduled for 2011. Tenant-favoured market sentiment will continue to prevail and rental levels in general, may remain flat or decline slightly while the office take-up rate in existing buildings is expected to remain modest in the year ahead. The Government-led initiative to attract 100 multinational companies to establish their global / regional headquarters in the Klang Valley, coupled with the commencement of the MRT project and commitment from a number of companies in the oil and gas sector to forge ahead with expansion plans, may cushion the impact of incoming supply in the medium term. We anticipate a growing trend of existing real estate owners and developers implementing green initiatives when upgrading or building new developments to cater for today’s growing number of environmentally-conscious tenants.

KLANG VALLEY RETAIL MARKET

Market Indications

The country rebounded strongly from the global financial crisis by posting a strong GDP figure of 7.2% for 2010 (2009: -1.7%) amid continued expansion in domestic demand, supported by higher private consumption and sustained public spending. For 1Q2011, the economy registered a growth rate of 4.6% (4Q2010: 4.8%). Going forward, the economy is expected to register slower growth of between 5% and 6% (2011) due to moderating levels of external demand. This continuous level of growth will be led by the implementation of the Economic Transformation Programme (ETP) and the Tenth Malaysia Plan (10MP) coupled with the roll-out of more construction and infrastructure activities in both the public and private sectors.

Inflationary pressures saw the Consumer Price Index (CPI) rising by 2.8% in 1Q2011 on an annual basis (4Q2010: 2.0%) due to significant increases in global commodity and energy prices as well as gradual removal of subsidies by the Government. The Malaysian Consumer Sentiment Index (CSI), however, bucked the trend by declining 9 points to 108.2 points on a q-o-q basis (4Q2011: 117.2 points) as consumers turned cautious in their spending habits.

Supply & Demand

The 4-storey Viva Home mall with a net lettable area of 660,000 sq ft opened on April 15 with anchor tenants which include Giant hypermarket and MBO cinemas. It is part of the RM280 million two-phase redevelopment of former Plaza Uncang Emas (Ue3). Also completed / opened during 1H2011 were Lot C KLCC (Suria KLCC extension), Citta in Ara Damansara, and Subang Avenue in Subang Jaya. These completions with a combined approximate net lettable area of 1.1 million sq ft bring the cumulative existing supply of retail space in the Klang Valley to approximately 40.0 million sq ft.

UNIQLO, Japan's number one casual brand, opened its second outlet in the country on May 6, occupying about 7,862 sq ft on the concourse level of Suria KLCC while Cartier will be relocating to the Suria KLCC extension with a new flagship boutique. Also making its debut in Malaysia at Suria KLCC's new wing is French Sole.

Key tenants for Citta will include local supermarket operator, Presto, occupying about 18,500 sq ft, Harvey Norman, MBO Cinemas and Julia Gabriel Centre for Learning. Its exclusive food & beverage (F&B) offerings will include Cafe Barbera, Anjappar restaurant and Chili's Grill & Bar. At Subang Avenue, current tenants include The Wheels Roller Skating rink occupying some 16,000 sq ft, The Body Express Fitness Club, Skewers and Chilla Cup.

Eight new shopping centres which include a few delayed projects are expected to be opened before the year end, contributing a further 2.9 million sq ft to the current retail stock.

Table 5
Shopping Centres Scheduled for Completion / Opening in 2H2011

Projects	Location	Estimated Net Lettable Area (sq ft)
New Projects		
Publika Mall @ Solaris Dutamas	Hartamas	335,000
1 Shamelin	Cheras	420,000
Kenanga Wholesale City	Pudu	500,000
Southgate	Jalan Tun Razak	189,000
KL Festival City	Setapak	450,000
Mines 2	Seri Kembangan	295,000
First Subang	Subang Jaya	120,000
Space U8	Shah Alam	574,000

Prices and Rentals

During the review period, rental rates for retail centres generally remained firm due to earlier existing leases locked in. Prime centres with good tenant and trade mix which are supported by easy accessibility and availability of public transportation such as Suria KLCC and Pavilion KL in KL City and Mid Valley Megamall in KL City Fringe, maintained their leads by topping the rental list. Selected prime specialty lots in KL City command monthly rentals in excess of RM100 per sq ft.

It was reported in March 2011 that German-based TMW Asia Property Fund is selling three of its Malaysian shopping centres - Ipoh Parade (594,414 sq ft NLA) in Perak, Klang Parade (696,045 sq ft NLA) in Selangor and Seremban Parade (316,847 sq ft NLA) in Negeri Sembilan which it acquired from Lion Group for RM340 million in 2005 for an estimated RM500 million. The successful purchaser for the disposal via a tender which closed on March 8 is reported to be an affiliate of the Cheung Kong group which in 2H2010, purchased 1 Mont' Kiara (retail mall, office space and over 1,000 car park bays) for RM333 million.

Also, during the review period, IGB Corporation Berhad announced its plans to sell The Gardens Mall which has an indicative market value of RM820 million (821,887 sq ft NLA and 4,128 parking bays) to Kris Assets Holdings Berhad, its 75%-owned subsidiary as part of its ongoing exercise to streamline its retail operations. The parties entered into a conditional Share Sale for the proposed disposal of IGB's 100% equity interest in Mid Valley City Gardens Sdn Bhd for a cash consideration of RM215.710 million.

Sunway Real Estate Investment Trust (SunREIT) which was listed in 1H2010 recently added another property to its portfolio. OSK Trustees Berhad, the trustee for SunREIT was successful in bidding for Putra Place* at a public auction held on March 30. The property which comprises The Mall (an 8-level retail podium), Legend Hotel (a 5-star hotel with serviced apartments and penthouses), and 100 Putra Place (an office tower) together with 1,323 car park bays was acquired at the Reserve Price of RM513.945 million.

Outlook

With a continuous rise in the cost of living together with moderating growth in the world economy, the Malaysia Retailers Association (MRA) has projected a lower growth rate in the retail industry (6%) for 2011 (2010: 8.4%) in line with the Central Bank's GDP projection for the country. Nonetheless, the local retail market continues to offer good prospects supported by a combination of strong economic fundamentals such as lower unemployment rate, rising disposable income, increasing tourist arrivals (a 1.2% month-on-month growth compared to January 2010) and a young population base. The second half of 2011 will likely witness more optimism with better sales performance anticipated due to higher propensity to spend during year-end school holidays and major festive seasons.

Note: * The property was appraised by Knight Frank Malaysia.

Viva Home

KUALA LUMPUR HOTEL MARKET

Market Indications

Malaysia's tourist levels continued to perform admirably in the first half of 2011 with a 1.2% month-on-month increase in January for total tourist arrivals. This comes on the back of impressive and greater than expected, tourist arrival figures for the past 12 months. The year-end 2010 statistics showed total tourist arrival numbers were registered at 24.6 million (3.9% increase from 2009) with receipts reaching RM56.5 billion. (2009 Arrivals: 23.6 million; 2009 Receipts: RM53.6 billion). Early indications point towards further growth in the number of tourists in 2011 (estimated at circa 25 million arrivals and RM60 billion in receipts) given that Malaysia has opened itself up to new growth markets and the ever expanding number of low-cost carriers using Kuala Lumpur as a travel hub for Greater Asia. The ambitious vision for 2020 remains 36 million tourist arrivals and RM168 billion in receipts.

The tourism sector will continue to be at the forefront of Malaysia's economic development, as a sustainable and high-yielding sector. There will be a particular shift in focus to improve the penetration into 'BRIC' countries (Brazil, Russia, India and China) and on growing the actual yield per tourist. Malaysia's top 4 tourist arrivals were Singapore (53%); Indonesia (10%); Thailand (6%); and China (5%). The 12 entry point projects (EPPs) proposed under the Tourism National Key Economic Area (NKEA), which will spearhead the drive for growth in tourism are broadly categorised into 5 themes: Affordable luxury; Nature adventure; Family fun; Events, entertainment, spa and sports; and Business tourism. There is a good opportunity for further growth in the Business tourism category which currently represents only a small part of Malaysia's total tourism industry - circa 5% of total arrivals and 19% of total receipts (in 2009) in comparison to neighbouring Singapore where Business tourism accounts for 30% and 40% of its tourist arrivals and receipts respectively. An improved and coordinated approach will be directed towards this category given that delegates at business events spend up to three times more than non-business tourists; up to 60% of delegates eventually return as regular tourists; and it will yield a high return on Government investment - approximately 111 times return per ringgit of Government investment.

Supply & Demand

The existing supply figure of 4-star and 5-star hotel rooms in KL City currently stands at 7,667 and 10,195 respectively. This reflects a total stock figure of 17,862 as at May 2011.

InterContinental Hotels Group (IHG) opened its first InterContinental brand hotel in Malaysia on 1st February by replacing Japan's Nikko Hotel, the former management of the 473-room hotel owned by MTJ Development Sdn Bhd. The hotel will undergo extensive upgrading and refurbishment works, with circa RM3 million alone being spent on the 147-seat Japanese restaurant Tatsu.

InterContinental Hotel

Figure 2
Supply and Occupancy Rate of 4-Star & 5-Star Hotels in KL City
2003 - May 2011

Source: Knight Frank Research / MIHR

Movenpick Hotels & Resorts recently signed a management agreement to operate the 9-storey Movenpick Hotel & Convention Centre KLIA which is scheduled to open in 1Q2014. The 333-room upscale hotel will form part of a larger 6-hectare landmark development that includes a 26,000 sq ft world-class convention and exhibition centre located near Kuala Lumpur International Airport (KLIA) and the F1 Sepang International Circuit.

Hilton Petaling Jaya will undergo its first major renovation in more than a decade. The upgrading works will be carried out in phases and completion is anticipated for August 2012. Hilton has been managing the property for the past 27 years and will be retained until 31st December 2025. The 553-room hotel, owned by Tradewinds Corp Bhd expects both occupancy and average room rates (ARR) to increase in line with its new product offerings. During the fourth quarter of 2011, the hotel market will see the completion and opening of the 513-room 5-star Pullman Kuala Lumpur Bangsar (Accor's largest in Southeast Asia) while the eagerly anticipated WATG-designed 450-room 5-star Grand Hyatt is due to open in 2012.

During the review period, average occupancy rates for 4-star and 5-star hotels in KL City were recorded at 69% (2H2010: 74%) and 68% (2H2010: 71%) respectively. The Dorsett Regency and Novotel KLCC were the only 4 or 5-star hotels that registered average occupancy levels in excess of 80%.

Dijaya Corporation Bhd has partnered Starwood Hotels & Resorts Worldwide Inc to develop the W Kuala Lumpur hotel on the former Bok House site on Jalan Ampang. This contemporary, design-led lifestyle hotel brand, which has 41 hotels worldwide, is expected to offer 150 rooms with circa 350 serviced apartments on the upper floors. The proposed design has been created by New York based Skidmore, Owings & Merrill and sits on a 1.2-acre freehold plot.

Recent market speculation has surrounded Bulgari Hotels and Resorts - a joint venture between jeweller and luxury goods retailer Bulgari SPA - and the Luxury Group, a division of Marriot International that also manages The Ritz Carlton, considering Malaysia as a future location. Many property developers in Malaysia are starting to consider luxury retailers such as Armani, Bulgari and Versace as attractive and innovative hotel brands to bring to their sites.

Average Room Rates & Capital Values

Both occupancy and average room rates (ARR) for 4-star and 5-star hotels have shown a marginal decline over the 1H2011 review period. The ARR for 4-star hotels was recorded at RM209 (2H2010: RM216), reflecting a 3.2% drop, while the 5-star category performed only marginally better with a 2.3% drop to RM339 (2H2010: RM347).

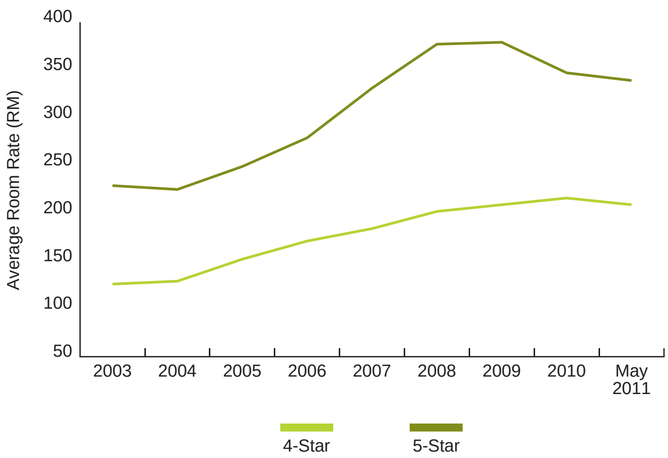
During the review period, GSB Group Bhd's property development arm, Serta Usaha Sdn Bhd (SUSB) entered into a conditional sale and purchase agreement with Leopad Holdings Sdn Bhd for the sale of the 13-storey boutique Ritz Garden hotel located in Lorong Kapar, off Jalan Syed Putra. The proposed sale is expected to net GSB Group Bhd a sum in the region of RM4.4 million following the agreed sale price of RM22 million. The freehold property had been held for approximately 6 years and it is understood that the proceeds arising from the sale will to be put towards servicing existing bank debts and used as working capital. The hotel which comprises 90 rooms, a basement car park, ground floor bistro, first floor spa and business meeting rooms ceased operating in July 2010.

The Sheraton Imperial Kuala Lumpur unveiled it's newly renovated mezzanine level business facility in the second quarter of 2011, known as @M. Costing approximately RM6 million and taking 6 months to complete, this new business facility is a recent example of how hotels are upgrading their facilities, offerings and service levels to meet current modern demands with state of the art technology.

Figure 3

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

2003 - May 2011



Source: Knight Frank Research / MIHR

Outlook

In order to facilitate growth in this real estate sub-sector, existing government initiatives will be intensified to attract more arrivals, through tourism-led policies. Government strategies, coupled with the country's healthy forecast for economic growth, leads analysts to believe that the hotel sector looks set to maintain its steady performance trend. The arrival of new prestigious hotel brands and the increase in luxury hotel offerings looks promising for the future of the industry as it continues to enhance the image of Kuala Lumpur as an international destination.

PENANG PROPERTY MARKET

Market Indications

The Federal and State governments will work together to develop a Greater Penang Transformation Programme to unlock development opportunities in the region and turn Penang into a 'megapolis'. Under the Tenth Malaysia Plan (10MP), Penang has been earmarked to benefit from RM17.9 billion in total investments for the upgrading of physical infrastructure to enhance access and connectivity. Projects include upgrading / expansion of Penang Bridge; construction of the second Penang Bridge; upgrading of Penang International Airport and Penang Port; electrified double track from Ipoh to Padang Besar and Juru-Sg Dua by-pass.

Developers remain upbeat about the vibrancy of Penang - six developers (both Penang and Kuala Lumpur based) will collectively launch some RM2.94 billion worth of residential and commercial properties on Penang Island this year. The gross sales value (GSV) for the north-east district is RM1.49 billion (commercial component - GSV RM160 million) and RM1.45 billion for the south / south-west district (commercial component - GSV RM221 million).

Penang had a record RM12.24 billion in foreign investments in 2010, a five-fold increase from RM2.2 billion in 2009; major contributors were Western Digital Corp (RM4.2 billion); Jabil (RM2.3 billion) and B Braun (RM1.73 billion).

Investments announced for 2011 include that of Singapore Aerospace Manufacturing Pte Ltd (SAM) which will invest RM500 million to set up a manufacturing facility on a 17.5-acre site in Penang Science Park for key aerospace structural parts. Ibiden, the world's largest PCB maker, is investing a further RM1 billion to build its second facility in Penang Science Park in Bukit Minyak with construction planned to commence this year and operations effective late 2012.

QAV Technologies will invest RM130 million to build a LED testing and validation centre whilst Philips Lumileds will also build a LED facility on a 12-acre site in Bayan Lepas.

Penang International Airport recorded sharp passenger growth of 25% with 4.1 million passengers compared to 3.3 million in 2009, the highest rate among all airports in Malaysia. Upgrading works at the airport is expected to complete by June 2012.

Efforts are continuously being made to further promote medical tourism where revenue earned grew from RM162 million in 2009 to RM227 million in 2010. 70% of the revenue for the country came from seven hospitals in Penang.

High End Condominium

The E & O group launched Quayside Tower 1B in January 2011 at prices ranging from RM627 per sq ft to RM1,053 per sq ft for 2+1-bedroom units sized from 1,995 sq ft and from RM690 per sq ft to RM1,219 per sq ft for 3+1-bedroom units sized from 2,462 sq ft upwards. Collectively, the three towers that have been launched have achieved a sales rate of about 75%.

Several high end condominiums scheduled to be launched later in the year include IJM's Light Collection III near the Penang Bridge, SP Setia's Setia V Residence along Kelawei Road and Mah Sing's Icon Residence off Burmah Road.

Units sized from 3,500 sq ft to 6,000 sq ft in older completed projects within the prime areas of Tanjung Bungah and Pulau Tikus resold at prices ranging from RM350 per sq ft to RM450 per sq ft whilst those in newer developments are able to command higher pricing from RM450 per sq ft to RM700 per sq ft.

In view of new supply entering the market, asking monthly rentals of fully furnished units have dipped and now range from RM5,000 per month to RM10,000 per month depending on location, unit sizing and other factors.

Office

Completion of The CEO in 1H2011 has contributed 250,000 sq ft to the existing supply of office space (buildings of 10-storeys and above), thus increasing the cumulative supply to 6.07 million sq ft.

The CEO

Figure 4

Office Supply and Occupancy Trends in Georgetown

2000 - 1H2011

Source: KF Research / Napic

Maritime Square, built on a SOHO concept comprising two twin blocks (22-storey / 24-storey) with 240 serviced suites on a 3-storey retail podium of 50 shop lots, will add a further 231,170 sq ft to future office space supply upon its completion in 2014.

The average occupancy rate of the two most prime office buildings in the city centre has increased to 96.5%, up from 93% for 2H2010. Rentals remain unchanged ranging from RM2.50 per sq ft to RM2.70 per sq ft.

The two newer office buildings with better IT facilities / MSC status located outside the city centre have also recorded increases in occupancy rates, from an average of 87% in 2H2010 to 91.5% 1H2011. Rental rates here range from RM2.50 per sq ft RM3.20 per sq ft.

Retail

Current supply of retail space within Penang Island for 1H2011 remains unchanged at the 2H2010 figure of 5.75 million sq ft. Penang Times Square Phase 2, when completed in June 2011, will increase existing supply by a further 229,000 sq ft.

Prime shopping malls have maintained their average occupancy rate of about 95% whilst the occupancy rates for secondary shopping malls range from 55% to 90%.

There is no significant change in the rental rates of ground floor retail lots in both categories of shopping malls as the rates generally remain between RM13 per sq ft and RM35 per sq ft per month, depending on the location and size of the units.

CapitaMalls Asia Ltd announced on 1st April 2011 that it has, through its vehicle, Special Coral Sdn Bhd, completed its purchase of Queensbay Mall, a 5-storey shopping mall with eight car park levels at a consideration of RM651.8 million. The sale involves 916,181 sq ft (90.7% of total retail strata area) and 100% of the car park bays within the mall. The net lettable area is 892,361 sq ft.

Table 6

Future Supply of Retail Space within Georgetown

Project	NLA (sq ft)	Expected Completion
Penang Times Square Phase 2*	229,000	June 2011
Gurney Paragon Mall*	700,000	end 2012
Penang Times Square Phase 3**	290,000	2015

* Under construction   ** Planned

Outlook

The Penang property market has generally been resilient with optimistic and robust interest especially in the landed housing sector over the past two years. Prices of newly launched condominiums have also increased over the last year. Whilst occupancy rates of both office space and retail malls have been improving, rental levels of such spaces have not seen any increase. Lately, many quarters have been calling for caution as prices of houses and condominium units have reached extremely high levels despite a modest rental market for such units. The ample in-coming supply for both residential and commercial properties will also create a much more competitive market in the near future.

JOHOR BAHRU PROPERTY MARKET

Market Indications

- Within the first 3 months of 2011, Iskandar Malaysia reportedly received a total investment of RM3.76 billion, bringing the total investment in Iskandar Malaysia to RM73.24 billion.
- In January 2011, SP Setia Bhd expanded its land bank in Johor by acquiring 266-acres of land in the Tebrau Corridor for a consideration of RM125.79 million. The land is located within close proximity to its existing projects of Taman Setia Indah and Taman Setia Tropika.
- The University of Southampton will establish its first overseas campus in Educity@Iskandar Malaysia, scheduled to open in September 2012. Its School of Engineering Services campus will be known as University of Southampton Malaysia Campus (USMC).
- In January 2011, Malaysia Steel Works (KL) Bhd and KUB Malaysia Bhd have jointly proposed to develop and operate a RM1.23 billion Intra-City Commuter Train (ICCT) project within major towns in Iskandar Malaysia. The two joint-venture parties hope to secure the relevant licensing and concession and complete the project by the end of 2013. The plan is to use the existing KTM railway network to connect JB, Kulai, Pasir Gudang and Tanjung Pelepas and include a shuttle service from JB Sentral to Woodlands in Singapore.
- The construction of a Legoland theme park in Medini, Nusajaya began in March 2011 and is on track to be ready by the fourth quarter of 2012. Two hotels are also planned around the theme park to cater to visitors.
- In February 2011, UDA Holdings Bhd announced that it will invest between RM200 million and RM250 million to develop the Angsana II commercial project, adjacent to its existing Plaza Angsana in Johor Bahru.
- In March 2011, Seri Alam Properties Sdn Bhd, the developer of the 3,330-acre Bandar Baru Seri Alam stated that it has submitted the proposal to develop a 7.9-acre site in the township for a transportation hub encompassing commuter train, feeder bus and taxi.
- In April 2011, Mah Sing Group acquired 206-acres of freehold land near Port of Tanjung Pelepas at Gelang Patah, Johor for the development of an integrated industrial and business park with an estimated GDV of RM610 million.
- Marriott International Inc, the operator of the Marriott, Renaissance and Ritz Carlton, plans to open a 300-room Renaissance in Bandar Baru Permas Jaya in the second quarter of 2012.
- In April 2011, Singapore-based Raffles Campus Pte Ltd signed a memorandum of understanding with Seri Alam Properties Sdn Bhd to develop an international school at Bandar Baru Seri Alam. The RM35 million project will be built on a 15-acre site with a built-up area of about 180,000 sq ft.
- By the middle of 2011, Bandar Raya Development Bhd is expected to launch a residential project involving semi-detached houses and bungalows in Bandar Baru Permas Jaya over a 35-acre site. The GDV expected is about RM230 million.
- In April 2011, Education@Iskandar Sdn Bhd signed a memorandum of understanding with Johan Cruyff Institute for Sports Studies for the latter to establish an institute of sports management at Educity@Iskandar.
- As an entry-point project of Educity@Iskandar, the Newcastle University Medicine (NUMed) Malaysia Campus has been completed and expected to be operational by September 2011.
- Petronas will build a RM50 billion integrated downstream oil and gas complex at Pengerang. This project has been identified as part of the Economic Transformation Programme (ETP), and is to complement the RM5 billion independent deepwater petroleum terminal there, the first of its kind in South East Asia.

Residential

New major launches include:

- Molek Pine Tower 3 by Tanjung Bintang Sdn Bhd, located in Taman Molek, Johor Bahru. The development offers 248 units of luxurious apartments for sale. The floor areas range from 1,300 sq ft to 2,300 sq ft and the prices are from RM500,000 per unit.
- The Seed by Tanah Sutera Development Sdn Bhd, located in Taman Sutera Utama, Johor Bahru. The project is a low-rise, low-density development which comprises 1,230 apartments. The floor areas range from 1,240 sq ft to 2,390 sq ft and the prices are from RM398,000 per unit.


The Seed

- Horizon Residence by Mahabuilders Bhd, located in Taman Bukit Indah. The development offers 440 apartments for sale. The floor areas range from 1,045 sq ft to 2,463 sq ft and the prices range from RM298,000 to RM1,045,000 per unit.
- 1Medini Residences by One Medini Sdn Bhd, located in Medini, Nusajaya. The development offers 322 condominium units, with floor areas from 720 sq ft to 1,704 sq ft and prices from RM290,000 to RM790,000 per unit.
- Kempas Heights by KSL Holdings Bhd, located in Taman Kempas Indah. It offers 242 units of cluster houses for sale, with typical dimensions of 32'X80' and built-up areas from 3,124 sq ft. The prices range from RM560,000 to RM1,000,000 per unit.
- Bayu Puteri Marina by Paradise Realty Sdn Bhd, located in Taman Bayu Puteri, Johor Bahru. The development currently offers 20 units of semi-detached houses for sale, with land areas from 4,975 sq ft to 9,669 sq ft and built-up areas from 4,886 sq ft. The prices range from RM1,200,000 to RM1,700,000 per unit.

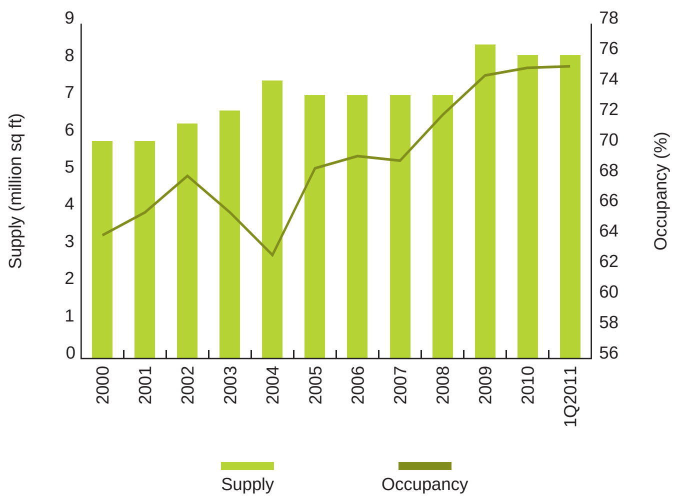
Office

- The supply of Johor Bahru's purpose-built office space remains unchanged. The total net lettable area (NLA) of purpose-built office space in Johor Bahru as at 1Q2011 is about 8,153,175 sq ft. The overall average occupancy rate is in the region of 75%.
- Prime CBD office space is let at a gross rental range of RM2.50 to RM3.00 per sq ft per month. Other CBD office space commands a gross rental range of RM1.60 to RM2.50 per sq ft per month whilst offices in secondary locations gross below RM1.50 per sq ft per month.

Figure 5

Office Supply and Occupancy Trends in Johor Bahru

2000 - 1Q2011



Source: KF Research

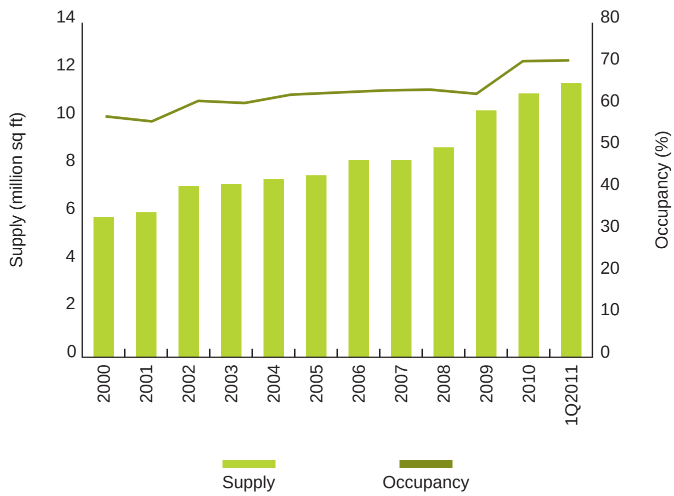
Retail

- As at 1Q2011, the total net lettable area of retail space (shopping centres, arcades and hypermarkets) in Johor Bahru is estimated at 11,467,600 sq ft and the overall average occupancy rate is at 70.6%. Prime centres have all recorded occupancy rates in excess of 80% and prime gross rents range from RM15 to RM40 per sq ft per month.
- A 1 million sq ft lifestyle lifestyle mall by Iskandar Investment Bhd located at the western development zone of Medini North, Nusajaya is being planned.
- Redevelopment of KOMTAR shopping mall in Johor Bahru CBD by Johor Corporation, with a gross lettable area of about 383,000 sq ft. The mall is scheduled to re-open by mid-2013.

Figure 6

Retail Supply and Occupancy Trends in Johor Bahru

2000 - 1Q2011



Source: KF Research

Outlook

As the catalytic projects at Medini and the supporting infrastructure works are entering into the final stages of completion, and in time for scheduled operation by 2012, the outlook for residential properties remains positive. The next phase of infrastructure improvement projects such as the ICCT and investments to be poured into projects of national interest at Pengerang are expected to provide a further boost to the economy in general and the property market in particular.

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