RESEARCH

2ND HALF 2010

REAL ESTATE HIGHLIGHTS

Kuala Lumpur | Penang | Johor Bahru

Knight Frank

HIGHLIGHTS

Kuala Lumpur

- For high end condominiums, strong levels of purchaser interest continued during the 2H2010 on the back of sustained economic growth figures.
- The performance of the office market was steady during 2H2010 and remained tenant favoured amid an increase in total supply levels.
- Sustained growth in tourist arrivals and domestic consumer spending led to particularly strong performance in the retail sector.
- On the back of a reasonable global economic recovery, the Kuala Lumpur hotel industry displayed another 6 months of increased activity.

Penang

- The Penang housing market remains optimistic as developers continued to purchase large tracts of land for development to cater to increasing demand especially for landed homes.
- The office sector generally remained soft in 2H2010 amid moderate demand and absorption levels.

Johor

- The growing sectors for the property market in Johor Bahru are mid-high to high end residential properties and shop offices.
- The major infrastructure works in Johor Bahru and major projects in Iskandar Malaysia are in advanced stages of completion, which contribute to the positive outlook for property market.

KUALA LUMPUR HIGH END CONDOMINIUM MARKET

Market Indications

Amid a moderating growth trend across the region, the country posted a lower GDP figure of 5.3% in 3Q2010 (1H2010: 9.5%). However, for the entire year, the country maintains a GDP growth forecast of between 6% and 7%. In July, Bank Negara Malaysia raised the Base Lending Rate (BLR) by 25% basis points to 2.75% following two similar earlier increases of 25 basis points in 1H2010 in line with the gradually recovering economy which saw the Kuala Lumpur Composite Index (KLCI) reaching a new high by recording above 1,500 points. Similarly, the residential property market sector, including the high end condominium sector, also performed well in 2H2010.

Supply & Demand

There were nine completions during the review period, with more than half of the new supply located in KL City and the Ampang Hilir / U-Thant localities. These completions which offer some 1,262 units of high end condominiums brought the total cumulative supply in Kuala Lumpur to 24,001 units.

Table 1
Completions of High End Condominium Projects in 2H2010

Project	Location	Area	Total Units
Ampersand	Jalan Kia Peng	KL City	71
[myHabitat2]	Jalan Aman	KL City	215
Taragon Puteri KL	Changkat Thambi Dollah	KL City	152
The Troika	Jalan Binjai	KL City	229
Hampshire Place	Persiaran Hampshire	KL City	186
One Jelatek	Jalan Jelatek	U-Thant	93
7 U Thant	Jalan U Thant	U-Thant	24
Lumina Kiara	Jalan Duta Kiara	Mont' Kiara	104
Verve Suites (Tower B)	Jalan Kiara 5	Mont' Kiara	188


Ampersand

With renewed buyer's interest and resilience of the economy in 2010, developers launched new and previously deferred projects. During the review period, new launches include Vue Residence, M-Suites, Dedaun, Sastera @ U-Thant, The Elements@Ampang, Arata of Tijani, Sunway Vivaldi (final block) and Kiaramas Danai (2nd block). Projects which offer smaller units, such as M-Suites and The Elements@Ampang were well received by the market, registering sales rates of more than 80% due to their lower entry prices and ease in future leasing.

Meanwhile, several soft launches were also noted in KL City and Mont' Kiara locality, namely 6 CapSquare, Vipod Suites, The Quadro Residences and Icon Residences. Sales of Vipod Suites and 6 CapSquare in KL City have been encouraging and are reported to have reached more than 60%. Icon Residences in the Mont' Kiara locality, set a new benchmark in pricing with an average of RM1,200 per sq ft. Developed by Mah Sing Group Berhad, this project has attained a good response despite its high pricing by commanding a take-up rate of more than 50% (Blocks 1 and 2). Icon Residences is located near the commercial facilities of Solaris Mont' Kiara and the ongoing Matrade Centre.

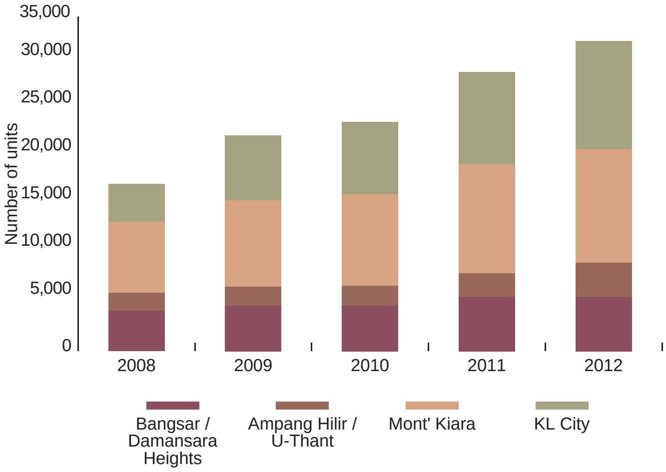
More completions are expected in 1H2011 with an estimated 1,692 units in KL City and 2,020 units in KL City Fringe. Some of the notable projects include Panorama, Swiss Garden Residences, Regalia@Sultan Ismail in KL City; Gallery@U-Thant, Damai 206@ Embassy Row and Brunsfield Embassyview in Ampang Hilir / U-Thant; D'Nine, Suasana Bangsar and Gaya Bangsar in Bangsar; Seni Mont' Kiara, Kiara 3, Sunway Vivaldi and Kiara 9 in Mont' Kiara.

It is anticipated that some 1,202 units of high end condominiums will be launched in 2011. Kuala Lumpur suburbs will see launches from reputable developers such as Sunrise Berhad with MK 20 and MK 28, and SP Setia with KL Eco City. KL City, which has always been active in the high end condominium sector, will see launches such as sixceylon by Bolton Berhad and JSI Serviced Condominium by UDA Holdings.

Figure 1

Projection of Cumulative Supply for High End Condominiums

2008 - 2012



Source: KF Research

Prices & Rentals

Prices and rentals of existing high end condominiums in KL City and its fringe areas were generally stable in 2H2010. Popular residential addresses such as KLCC and Mont' Kiara, however, saw price increments in selected projects such as Marc Serviced Residence, K Residence, The Meritz, Mont' Kiara Sophia, Hijauan Kiara and Kiara Designer Suites. Meanwhile, there were some marginal declines noted in rentals, particularly, of existing / older condominiums in locations where there were new completions due to increased competition in a tenant's market.

Table 2
Asking Prices and Rentals of Existing High End Condominiums

Locality	Asking Gross Rent (RM psf / month)	Asking Price (RM psf)
KL City	3.00 - 6.00	650 - 1,800*
Ampang Hilir / U-Thant	3.00 - 4.00	500 - 900
Damansara Heights	3.50 - 4.00	400 - 650
Kenny Hills	3.00 - 4.20	500 - 900
Bangsar	2.00 - 4.00	450 - 1,100
Mont' Kiara	2.00 - 3.50	400 - 620 **

* Excludes The Binjai On The Park
** Excludes Verve Suites which comprise mainly fully furnished small units


The Troika

Outlook

Greater Kuala Lumpur is one of the 12 National Key Economic Areas (NKEAs) identified under the 10th Malaysia Plan (10MP) as having great potential to generate high income for the country. In the recently announced Economic Transformation Programme (ETP), Greater Kuala Lumpur / Klang Valley which extends beyond the boundaries of Kuala Lumpur and covers 10 municipalities, plans to increase its population from 6 million to 10 million (including 500,000 returning overseas Malaysian professionals or expatriates) in 2020 to fulfil the employment demand. In the medium term, this augurs well for the residential property market including the high end condominium segment in Kuala Lumpur.

The high end condominium segment, however, is anticipated to experience a cautious near term outlook following the announcement by Bank Negara Malaysia in November 2010 on the immediate imposition of a maximum loan-to-value (LTV) ratio of 70% on third mortgages. This move which is similar to those undertaken by other Asian countries such as Singapore and Hong Kong is seen as a measure to reduce speculative activities and prevent the housing market from overheating as the economy recovers amidst a low interest rate environment.

KUALA LUMPUR OFFICE MARKET

Market Indications

The Kuala Lumpur office market remained stable during the review period despite a slowdown in the domestic economy in line with a moderating growth trend across the region. The tenant-favoured sentiment continued amid greater competition amongst existing buildings, refurbished buildings and new completions. In the transaction market, activities were dominated by local players and investors.

Supply & Demand

During the review period, cumulative supply of purpose built office space increased by 1.4 million sq ft to 58.9 million sq ft (1H2010: 57.5 million sq ft) with the breakdown for KL City and KL City Fringe at 43.7 million sq ft and 15.2 million sq ft respectively.

Table 3
Office New Completion in 2H2010

Building Name	Location	Estimated Net Lettable Area (sq ft)
KL City		
Cap Square Tower	Jalan Munshi Abdullah	600,000
KL City Fringe		
BRDB Tower	Bangsar	221,000
1 Mont' Kiara office tower	Mont' Kiara	185,000
1 Mont' Kiara business suites building	Mont' Kiara	396,000


1 Mont' Kiara

In KL City, new supply for 2011 will include Menara Worldwide, Menara Bank Islam (formerly known as Menara Wakaf), Hamsphire Place, Lot C KLCC, The Crest @ Jalan Sultan Ismail and Dijaya Plaza at Jalan Tun Razak while in KL City Fringe, they include The Horizon (Phases 2 and 3 comprising 8 blocks of office buildings) of Bangsar South, KL Sentral Park and Dua Sentral Corporate Tower.

With the high volume of incoming supply, owners of older buildings are expected to undertake proactive steps to upgrade and refurbish their buildings in order to remain competitive in a tenant-favoured market. Notable buildings which have announced plans for renovation and refurbishment include Menara KH at Jalan Sultan Ismail, Menara Tun Razak at Jalan Raja Laut and Bangunan MAS at Jalan Sultan Ismail.


Cap Square Tower


BRDB Tower

Meanwhile, in KL City Fringe, SP Setia Berhad announced that it will soon launch KL Eco City, an integrated green development opposite Mid Valley City. The proposed components, comprising 3 blocks of office towers, 3 clusters of boutique offices and one block of strata office, are expected to contribute a total net lettable area of approximately 2.8 million sq ft. Other proposed components within the development include 3 residential towers, 1 serviced apartment tower and a retail podium.

During the last six months, the average occupancy of prime offices in KL City remained stable at 94% while in KL City Fringe it was marginally lower, recorded at 91% (1H2010: 93%). The leasing market was fairly active in 2H2010 with several notable movements. HSBC relocated to its new headquarters at Leboh Ampang; Mustang Malaysia Sdn Bhd (9,000 sq ft) and Samsung Electronics Sdn Bhd (30,000 sq ft) moved to The Icon at Jalan Tun Razak which also saw Astro recently committing to some 40,000 sq ft of space in the same building. Meanwhile, GTower at Jalan Tun Razak saw the relocation of Goldis Berhad and Halliburton Energy Services (M) Sdn Bhd from the nearby Menara Tan & Tan.


HSBC New Headquarters

During the review period, announcements of mega projects proposed in KL City included Lot 185 and Lot 167/K within KLCC and the 100-storey Warisan Merdeka. Lot 185 and Lot 167/K will be jointly developed by KLCC (Holdings) Sdn Bhd and QD Asia Pacific, a wholly-owned subsidiary of Qatari Diar Real Estate Investment Company, which is an investment arm of the Qatari Investment Authority. It will comprise an office tower and hotel sitting above a 4-storey podium retail block that will be integrated with the present Suria KLCC retail mall. Cesar Pelli, the world-renowned architect who designed the Petronas Twin Towers, will design these two towers which will be between 50 and 70 storeys high. Meanwhile, the Warisan Merdeka landmark, a 2.2-million sq ft 100-storey skyscraper within the enclave of Merdeka Stadium and Stadium Negara, will be undertaken by PNB in 2011 with scheduled completion in 2015. Upon completion, it will house PNB's new headquarters.

Another notable proposed development is Times Avenue located off Jalan Imbi. This 15-storey building featuring high-tech multi level automated valet car parking system is due for completion by end 2013.

Rentals & Capital Values

The average monthly rentals for office space in KL City and KL City Fringe were recorded at RM5.22 per sq ft (1H2010: RM5.24 per sq ft) and RM4.28 per sq ft (1H2010: RM4.30 per sq ft) respectively, a minor drop from 1H2010. Prime office rentals continued to be quoted between RM6.50 per sq ft and RM11.50 per sq ft. Nonetheless, in view of the tenant-favoured environment amid increasing supply, rental rates may be pressured to trend downwards as owners continue to offer attractive tenancy terms and incentives to attract new tenants while maintaining their existing tenant list.

Table 4
Selected Grade A Office Asking Rentals

Building Name	Asking Gross Rental (RM psf / month)
Menara Maxis	9.50
Menara Prudential	6.00
Menara IMC	8.50
Rohas Perkasa	7.50
Menara Citibank	6.50
Menara Standard Chartered	7.00
Menara Etiqa Twins	6.50
Kenanga International	6.50
Menara HLA	6.50
Menara Millennium	5.00

There were a few notable investment sales of secondary buildings in 2H2010 with activities focused largely on older, lower grade buildings and strata-titled offices in KL City and new office buildings in KL City Fringe.

In KL City, Kwong Hing Group acquired Menara Pan Global in Jalan Puncak, off Jalan P Ramlee for RM160 million. The 38-storey building houses 18 levels of office space and nine levels of hotel suites operated by Pacific Regency. The Crest @ Jalan Sultan Ismail, a 26-storey Grade A office tower developed by SKN Land & Development, recorded a block sale of 31 stratified office units to a Singaporean investor for approximately RM80 million. Equine Capital Berhad, on the other hand, disposed of Wisma KLIH, a 14-storey office building located at Jalan Bukit Bintang to Wonderful Vantage Sdn Bhd for a consideration of RM48 million excluding a RM10 million renovation and refurbishment package option for the property.

Meanwhile, in KL City Fringe, 1 Mont' Kiara was reportedly sold to ARA Asia Dragon Fund, affiliated with Cheung Kong Group for RM333 million. The sale is understood to include the retail mall, office space and over 1,000 car park bays. Amanahraya Real Estate Investment Trust (ARREIT) had on September 2, proposed to acquire Menara PKNS in Petaling Jaya, Selangor for a consideration of RM91 million (analysed to RM372 per sq ft on 244,316 sq ft NLA) while Potensi Naga Sdn Bhd, a wholly-owned subsidiary of Mutiara Goodyear Development Berhad, proposed to dispose Wisma Goodyear (Block B), a 13-storey office building in Kelana Centre Point for a consideration of RM38 million. Axis-REIT had on December 30, proposed to acquire FSBM Plaza, a 4-storey office building with a lower roof floor, a lower ground floor and basement car park in Cyberjaya for a consideration of RM51.50 million (analysed to RM442 per sq ft on 116,388 sq ft).

Table 5
Office Investment Sales in 2H2010

Building Name	Location	Approx. Lettable Area (sq ft)	Consideration (RM) / (RM psf)
Menara Pan Global	Jalan Puncak	370,000	160,000,000 [1]
The Crest @ Jalan Sultan Ismail	Jalan Sultan Ismail	N / A	80,000,000 [2]
Wisma KLIH	Jalan Bukit Bintang	55,208	48,000,000 (869) [3]
1 Mont' Kiara	Mont' Kiara	435,000	333,000,000 [4]
Menara PKNS	Petaling Jaya	244,316	91,000,000 (372) [5]
Wisma Goodyear (Block B)	Kelana Jaya	114,286	38,000,000 (332)
FSBM Plaza	Cyberjaya	116,388	51,500,000 (442)

Notes:
(1) Comprises office space and hotel suites with a combined net lettable area of 370,000 sq ft.
(2) The 31 transacted stratified office units (Total: 143 units) are on the higher floors of the 26-storey office tower.
(3) The consideration of RM48 million excludes the RM10 million allocated for renovation and refurbishment of the property.
(4) Comprises retail space with a NLA of 250,000 sq ft and office space with a NLA of about 185,000 sq ft. The apportionment for the different components, however, is not available.
(5) Menara PKNS was sold together with two other properties, i.e. Kompleks PKNS and SACC Mall in Shah Alam.

Outlook

The office market is expected to remain competitive going into 2011 with the impending completion of some 4 million sq ft of space in KL City and KL City Fringe in tandem with a slower growth forecast for the nation. Whilst the tenant-favoured market environment continues to prevail, both rental and occupancy rates in general, may be pressured to trend downwards due to increasing competition between new completions and existing supply. Nonetheless, good grade office buildings in well located areas supported by amenities and public transportation will continue to be favoured by both tenants and investors alike. The transactional market is also anticipated to remain active with investors, particularly REIT players, continuing to look for good buys.

KL Eco City

KLANG VALLEY RETAIL MARKET

Market Indications

The country's sustained economic recovery with GDP for 3Q2010 recorded at 5.3% albeit lower than the preceding quarterly figures of 10.1% and 8.9% for 1Q2010 and 2Q2010 respectively and the healthy growth of tourist arrivals (2010e: 24 million tourist arrivals) have led to a stronger performance in the retail sector as the year 2010 closed. Retail sales for 3Q2010 recorded a growth of 9.8% when compared to the corresponding period of 2009 (3Q2009: 0%). Amid this positive market sentiment, the Malaysia Retailers Association (MRA) upwardly revised the retail sales growth forecast for 2010 from 6.1% to 7.8%. This review period also saw the Malaysian Consumer Sentiments Index (CSI) soaring to a ten quarter high of 115.8 points in 3Q2010 from 110.4 points in 2Q2010 which was attributed to higher spending during the Mega Sales and Hari Raya Celebration.

Supply & Demand

Three shopping centres comprising one new mall in the suburbs and two newly refurbished malls in KL City were opened for business in 2H2010, bringing the cumulative existing supply of retail space to approximately 38 million sq ft in the Klang Valley.

The new suburban centre, SStwo Mall, with a net lettable area of approximately 470,000 sq ft is developed by the Asian Retail Mall Fund II (ARMF II). Officially opened on December 15, 2010, this neighbourhood lifestyle centre in SS2, Petaling Jaya serves mainly residents in the surrounding areas with operational local F&B tenants including Secret Recipe, Uncle Lim's and Killiney.


The Intermark Mall

2H2010 also saw the re-openings of Fahrenheit 88 (formerly KL Plaza) and The Intermark Mall (formerly City Square). Both centres have undergone extensive refurbishment works and now boast contemporary and stylish looks.


SStwo Mall

The 5-storey Fahrenheit 88, with a net lettable area of about 300,000 sq ft, was officially opened in November 2010. Positioned as a lifestyle mall with a vibrant and entertaining atmosphere catering to local and foreign young and trendy urbanites, it houses two anchor tenants, i.e. Japan's number one casual brand, UNIQLO and Signature IT, a one-stop digital centre, each occupying about 23,300 sq ft and 75,300 sq ft respectively.

The Intermark Mall located at the junction of Jalan Tun Razak and Jalan Ampang forms part of the integrated redevelopment by MGPA Asia Fund II. The concept has an emphasis on leisure, dining and wellness and caters mainly to the nearby executive corporate crowd. The retail podium has a net lettable area of about 190,000 sq ft and will house a total of about 125 outlets when fully occupied with current tenants including Eyevolution, myNews and K.M. Oli.

In terms of supply under construction, there are several notable ongoing / refurbished shopping centres within the Klang Valley scheduled for completion in 1H2011. These centres have a combined net lettable area of approximately 3.48 million sq ft. 1 Mont' Kiara, a 5-storey retail mall scheduled to open in early January 2011, is part of an integrated development by Aseana Properties Ltd and CapitaLand and boasts a light-filled atrium nestling under a geometric-patterned ethylene tetrafluoroethylene (ETFE) roof. Village Grocer will be the anchor tenant for the mall, occupying some 25,000 sq ft space while other notable tenants will include Harvey Norman, Fitness First Platinum, Tony Roma's and OverTime. This development was reported to be sold to ARA Asia Dragon Fund, the flagship private real estate fund of ARA Asset Management Limited (an affiliate of Cheung Kong group) for RM333 million (the sale is understood to include the retail mall, office space and 1,000 car park bays).

Table 6
Shopping Centres Scheduled for Completion in 1H2011

Projects	Location	Estimated Net Lettable Area (sq ft)
New Projects		
1 Mont' Kiara	Mont' Kiara	250,000
Citta	Ara Damansara	433,000
Festival Mall	Setapak	450,000
1 Shamelin	Cheras	420,000
Kenanga Wholesale City	Pudu	500,000
Mines2	Seri Kembangan	295,000 [(1)]
Subang Avenue	Subang Jaya	120,000
Publika Mall @ Solaris Dutamas	Mont' Kiara	350,000
Projects Under Refurbishment		
Viva Home	Jalan Loke Yew	660,000

Note:
(1) Includes outdoor, entertainment space and multi-purpose hall.

Prices and Rentals

Overall rental rates for prime retail centres such as Suria KLCC, Pavilion KL, Mid Valley Megamall and Sunway Pyramid have risen while those of other major centres have generally remained firm during the review period amid increased competition from new completions.

CapitaMalls Malaysia Trust (CMMT)** made its debut as the largest "pure-play" shopping mall real estate investment trust (REIT) on the Main Market of Bursa Malaysia Securities Berhad on July 16, 2010, with an initial portfolio of three shopping malls comprising Gurney Plaza in Penang, a 61.9% interest in Sungei Wang Plaza in Kuala Lumpur as well as The Mines in Selangor with a total net lettable area of 1.88 million sq ft. The valuations of Sungei Wang Plaza and The Mines at RM740 million and RM540 million are analysed at approximately RM1,643 per sq ft (NLA 450,470 sq ft) and RM750 per sq ft (NLA 719,563 sq ft) respectively.

A week earlier on July 8, 2010, Sunway Real Estate Investment Trust (Sunway REIT)***, the largest IPO in Malaysia to date, was listed. The final consideration for Sunway Pyramid Shopping Mall was at RM2.132 billion (or RM1,265 per sq ft on 1,685,568 sq ft NLA).

In September 2010, AmanahRaya Real Estate Investment Trust (ARREIT) announced the proposed acquisition of Kompleks PKNS and SACC Mall, both located in Section 14, Shah Alam at considerations of RM89 million (analysed at RM177 per sq ft on 502,958 sq ft NLA) and RM90 million (analysed at RM486 per sq ft on 185,178 sq ft NLA) respectively from Perbadanan Kemajuan Negeri Selangor (PKNS). The Trustee of ARREIT also entered into two separate 'triple-net' lease agreements with PKNS for a term of 12 years at an agreed step-up rental every 3 years in respect of the properties. Kompleks PKNS is a 30-year old 4-storey retail office complex (retail on ground and 1st floors and office on 2nd and 3rd floors) with a basement car park whilst the SACC Mall is a 5-year old 5-storey neighbourhood mall with a basement car park. Both mainly serve the residents in the Shah Alam locality.

Outlook

The retail sector is anticipated to continue to perform well, albeit, at a slower pace to 2010 stemming from the country's slower growth forecast for 2011 and volatility in the world economy. However, recent announcements on the removal of import duties on 300 selected goods preferred by tourists and locals as proposed in Budget 2011; organising of unified Malaysia sales to involve more retailers across all industries, e.g. food and beverages; and the proposed pedestrian walkways and public transportation linking the shopping centres and hotels in KLCC-Bukit Bintang area under the Economic Transformation Programme (ETP) are amongst measures which are expected to strengthen the retail industry.

With the presence of stiff competition amongst existing and incoming malls, we anticipate that older malls will continue to reinvent themselves by embarking on asset enhancement and repositioning initiatives such as expansion and upgrading works in addition to continuously improving their tenant mix and stay competitive.

Notes:

* *Knight Frank Malaysia is the appointed Property Manager of The Intermark Mall.*

** *Knight Frank Malaysia was the appointed Independent Property Market Consultant for the REIT listing exercise. In addition, it is also the appointed Property Manager of the assets.*

*** *Knight Frank Malaysia appraised the entire portfolio of properties comprising retail, office and hospitality components for the listing exercise.*

KUALA LUMPUR HOTEL MARKET

Market Indications

The local hotel industry continued its commendable performance in 2H2010, supported by higher tourist arrivals and receipts in the first 9 months of 2010. Tourist arrivals as of September 2010 was recorded at 16.18 million; 5.2% higher than the 15.38 million arrivals recorded for the corresponding period in 2009. The full year tourist arrivals for 2010 are expected to reach 24 million (2009: 23.6 million) with corresponding tourist receipts of RM54 billion (2009: RM53.6 billion).

The Government plans to spend RM550 million on tourism marketing to achieve the target of 36 million tourist arrivals by 2020. Under the Economic Transformation Programme (ETP), 12 Entry Point Projects (EPPs) have been identified to stimulate tourism growth, which amongst others, include positioning Malaysia as a duty-free shopping destination for tourist goods, designating Kuala Lumpur City Centre (KLCC)-Bukit Bintang area as a vibrant shopping precinct, establishing Malaysia as a leading business tourism destination and improving rates, mix and quality of hotels in Malaysia. Other actions identified include removal of import duties for products popular with tourists, developing pedestrian walkways and public transportation between shopping malls and hotels in the KLCC-Bukit Bintang area, providing support and allocation of funding (RM50 million for the first two years) through the Malaysia Convention & Exhibition Bureau (MyCEB) in support of growth in business tourism in Malaysia, link rating of 4 and 5-star hotels to a target average room rate and the offer of enhanced incentives for the tourism industry by Malaysian Investment Development Authority (MIDA).

Supply & Demand

The supply of 4-star and 5-star hotel rooms in KL City is currently at 7,277 and 8,676 respectively; with the bulk of supply located within tourist belts such as Jalan Sultan Ismail, Jalan Ampang, Jalan Bukit Bintang and the KLCC locality.


Doubletree by Hilton Kuala Lumpur

Doubletree by Hilton Kuala Lumpur (the former Crown Princess Hotel) opened for business in August 2010 after completing a refurbishment, repositioning and rebranding exercise. Managed by Hilton Worldwide, the 4-star 540-room hotel forms part of the integrated redevelopment project known as The Intermark which is owned by MGPA Asia Fund II.

New hotels that entered the market during the review period are PARKROYAL Serviced Suites Kuala Lumpur and Premiere Hotel. The former, which is located along Jalan Nagasari, adjacent to the famous shopping district of Bukit Bintang, offers a total of 287 studios, one and two-bedroom serviced suites. It is the second serviced suites by the Pan Pacific Hotels Group after its maiden debut in Singapore. Meanwhile, Premiere, WCT Berhad's first hotel development in Bandar Bukit Tinggi, Klang had its soft opening in October 2010. The home-grown business class hotel offers 250 rooms and suites.

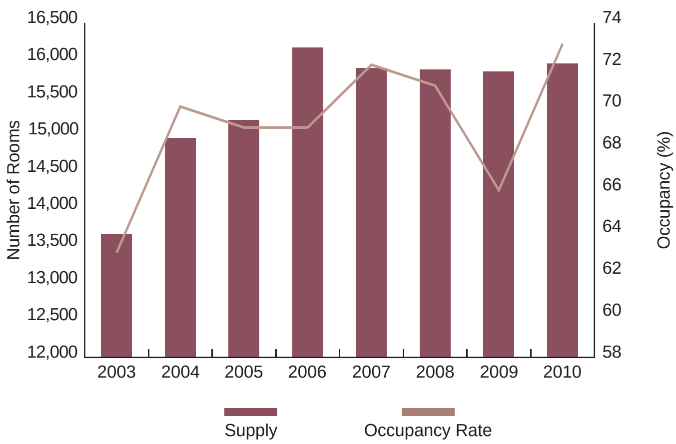
The average occupancy rates for 4-star and 5-star hotels in KL City were recorded at 75% (1H2010: 69%) and 71% (1H2010: 68%) respectively.

4-star hotels which achieved occupancies of more than or equivalent to 80% during the review period include Dorsett Regency (Jalan Imbi), Corus (Jalan Ampang), Royale Bintang (Jalan Bukit Bintang), Traders (Jalan Pinang), Boulevard (Mid Valley) and Swiss Garden (Jalan Pudu) whilst those in the 5-star category were Grand Millennium (Jalan Bukit Bintang), Park Royal (Jalan Sultan Ismail) and Sheraton Imperial (Jalan Sultan Ismail).

Figure 2

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

2004 - 2010



Source: Knight Frank Research / MIHR

The Australian-based Staywell Hospitality Group (SWHG), one of Asia Pacific's largest independently owned hotel management companies will replace Rendezvous Hospitality Group (RHG) in managing a 4-star hotel located within the Taragon Puteri KL development which is owned by Taragon Capital Malaysia Sdn Bhd (a member company of Bluestone Group Malaysia), its first in Malaysia. The 4-star 445-room, to be named Park Regis Hotel in Changkat Thambi Dollah, is scheduled to commence operations in 1H2011. Meanwhile, in late November, the InterContinental Hotels Group (IHG) announced its impending entry into the Malaysian market after securing the management of the current Nikko Hotel Kuala Lumpur which came to an end after 15 years. The 473-room Nikko Hotel Kuala Lumpur to be renamed as InterContinental Kuala Lumpur will undergo a 3-phase 30-month refurbishment from 1H2011.

Other notable hotel proposals include a world class luxury hotel on Lot 185 and Lot 165/K, KLCC to be jointly developed by KLCC (Holdings) Sdn Bhd and QD Asia Pacific, a wholly-owned subsidiary of Qatari Diar Real Estate Company. It will be designed Cesar Pelli, the world-renowned architect who also designed the iconic Petronas Twin Towers. Permodalan Nasional Bhd (PNB) is also planning to build a new 5-star hotel apartment block adjacent to the existing Bangunan MAS at Jalan Sultan Ismail which will be upgraded while YTL Corp Bhd is expected to undertake the refurbishment of Majestic Hotel located along Jalan Hishamuddin at a cost of RM250 million.

Average Room Rates & Capital Values

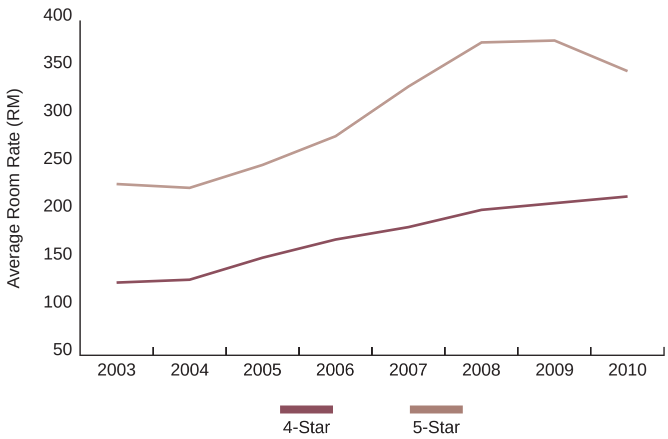
While the occupancy rates for 5-star hotels are noted to have improved, their Average Room Rates (ARR), however, have shown a declining trend. The ARR for 5-star hotels was recorded at RM347; reflecting an 8.4% decline from RM379 recorded in the corresponding period of 2009. The 4-star hotel category, meanwhile, performed better by recording a marginal increment of 3.3% with an achieved ARR of RM216 (2H2009: RM209).

The final disposal consideration for Sunway Resort Hotel & Spa and Pyramid Tower were at RM444.94 million (analysed to RM1,013,540 per room) and RM250.28 million (or RM455,885 per room) respectively.

Figure 3

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

2003 - 2010



Source: Knight Frank Research / MIHR

In mid December 2010, Starhill Real Investment Trust (Starhill REIT) announced the proposed acquisitions of hospitality related properties pursuant to the rationalization exercise to reposition Starhill REIT as a fully-fledged hospitality REIT for a total indicative purchase consideration of RM1,054 million. The properties include Cameran Highlands Resort (RM50 million), Hilton Niseko (RM222 million), Vistana Penang (RM100 million), Vistana Kuala Lumpur (RM100 million), Vistana Kuantan (RM75 million), The Residences at The Ritz-Carlton, Kuala Lumpur (RM73 million), The Ritz-Carlton Hotel, Kuala Lumpur (RM250 million), Pangkor Laut Resort (RM97 million) and Tanjong Jara Resort (RM87 million).

Outlook

The hospitality sector is expected to continue to grow steadily into the first half of 2011 supported by concerted government efforts to attract more foreign tourists by offering innovative tourism packages and products. As announced under Budget 2011, an allocation of RM85 million has been made for the provision of infrastructure facilities to facilitate construction of hotels and resorts in remote areas with another RM50 million allocation to build covered / shaded walkways in the KLCC-Bukit Bintang area. The abolition of import duties for about 300 selected goods preferred by tourists and locals is also seen as a further boost to the retail and hospitality industries.

PENANG PROPERTY MARKET

Market Indications

- Confidence in the Penang market remains strong as several developers continued acquiring land. Mah Sing will soon launch their RM800 million “Ferringhi Residence@Penang” on a 61.03-acre site which they acquired for RM157.3 million in November. In August, Sunway City Bhd acquired an 81-acre site in Sg Ara for RM38.765 million for a proposed high-end gated development with an expected GDV of RM800 million. Plenitude purchased a 52.63-acre site in Balik Pulau for RM40.12 million in September.

- Launches in 2H2010 include SP Setia’s Setia Green in Sg Ara in which 3-storey terraced units are priced from RM898,000 onwards whilst 3-storey semi–detached units are from RM1.6 million onwards; IJM’s Light Collection II and 1Tanjong by Lone Pine Group.

- High property prices on the island have led to increased demand for properties on mainland Seberang Perai which saw the most pronounced price increase in years, averaging about 10% to 15% over the last year for newer and better designed homes in good locations.


1Tanjong


Quayside Seafront Resort Condominium

- American software and hardware manufacturer National Instruments (NI) has planned a US$80 million (RM252 million) investment to set up the first such manufacturing and R&D facility in this region over the next five years on a 16.8-acre site at Batu Maung near the Penang International Airport in Bayan Lepas.

- Penang Port Sdn Bhd will start dredging work to deepen the North Channel in 1Q2011 as part of its master plan to transform Penang Port from a feeder to a premier port by 2012. They also hope to capitalize on the Ipoh-Padang Besar electrified double-track project scheduled for completion by 2013.

High End Condominium

- IJM has started construction on their Light Linear and Light Point Blocks, part of the first phase of the Light Waterfront project.

- Following a 50% sales rate achieved for their Light Collection I, first soft launched in May 2010, Light Collection II was soft launched in December 2010 at prices starting from RM367,000 for its studio units sized from 517 sq ft whilst the largest 3-level units of 3,517 sq ft are priced at RM3.06 million.

- 1 Tanjong, sandwiched between the Penang Swimming Club and The Cove and being developed by the Lone Pine Group, will comprise two 41-storey tower blocks with 147 units and is set to transform the Tanjung Bungah skyline upon its completion scheduled for 3Q2013. Prices for typical units (4,760 sq ft) range from RM2 million to RM2.9 million or RM420 per sq ft to RM609 per sq ft. 6 penthouse units typically sized at 9,500 sq ft are priced from RM4.6 million to RM5.2 million or RM484 per sq ft to RM547 per sq ft. The 18,600 sq ft penthouse is for sale at RM6 million or RM323 per sq ft.

- The second tower of E & O's Quayside seafront condominium, soft launched in August 2010 at an average price of about RM800 per sq ft, has achieved a 40% sales rate. The one-bedroom (1,137 sq ft), two-bedroom (1,371 / 2,416 sq ft) and three-bedroom (2,841 sq ft) units as well as penthouse suites (7,159 sq ft) are all fully fitted with built-in wardrobes, light fixtures, built-in kitchen and are fully air-conditioned. Tower I which was launched in February 2010 has achieved a sales rate of about 70%.

- Resale prices of older completed projects with sizes ranging from 3,500 sq ft to 6,000 sq ft within the prime areas of Pulau Tikus and Tanjung Bungah range from RM350 per sq ft to RM420 per sq ft whilst similar sized units in newer projects resold for RM400 per sq ft to RM780 per sq ft.

- Asking monthly rentals of fully furnished units (4,000 sq ft and above) for the older projects range from RM6,500 to RM8,000 whilst for newer developments, the range is from RM8,000 to RM13,000. Achieved rentals especially for the higher-priced units are likely to be lower in view of new supply entering the market.

Office

- Current existing supply of office space (buildings of 10-storeys and above) remained at 5.82 million sq ft, unchanged since 2009.

- The CEO, rescheduled for completion by early 2011, will contribute 250,000 sq ft to future supply.

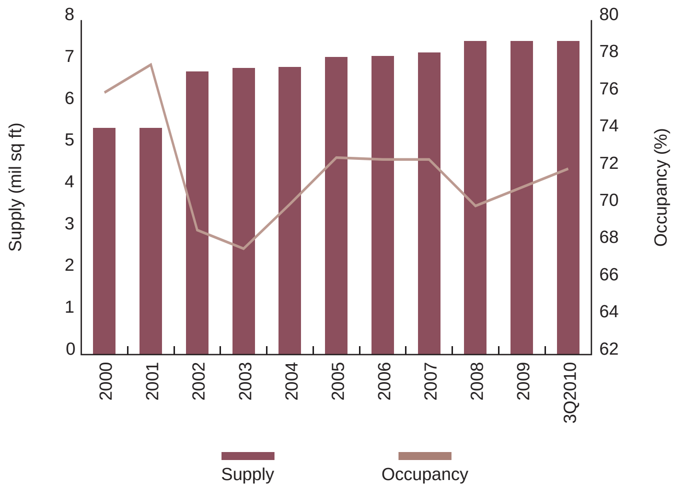
- Though older, the two most prime office buildings are still able to command stable average rents of between RM2.50 per sq ft and RM2.70 per sq ft. Occupancy rates at these two buildings have improved slightly to 96%, up from 1H2010's average of 93%.

- The occupancy rate for the two newer office buildings with better IT facilities located in the southwest of the island averages 87% and rentals ranging from RM2.50 per sq ft to RM3.20 per sq ft.

Figure 4

Office Supply and Occupancy in Georgetown

2000 - 2010



Source: KF Research / Napic

Retail

- The opening of 1st Avenue in November 2010 has increased the current supply of retail space within Penang Island to 5.75 million sq ft. ICT Mall @ Komtar (part of the Komtar revival project) also opened in November and sky bridges have been built to interlink ICT Mall and Prangin Mall to 1st Avenue.

- E & O's "neighbourhood" Straits Quay, Penang's first sea-facing retail development also opened its doors in November; apart from other upscale tenants, it will house the RM7.5 million Penang Performing Arts Centre as well as Royal Selangor's 3rd visitors centre.

- "All Seasons Place" a neighborhood mall in Air Itam comprising 115 units of 3-storey shop lots will contribute 230,000 sq ft of future retail supply upon scheduled completion at end 2011.


Straits Quay

- Prime malls which are strategically located, better designed, with good tenant mix and professionally managed record higher occupancy of more than 90% whilst secondary complexes record lower figures ranging from 55% to 85%.
- Rental rates of ground floor retail lots in both categories of shopping malls still range from RM13 per sq ft to RM35 per sq ft per month, depending on the location and size of the units.
- AmTrustee Berhad, on behalf of CapitaMalls Malaysia Trust (CMMT) had on 12th November 2010 entered into a conditional sale and purchase agreement with Gurney Plaza Sdn Bhd to acquire the nine-storey retail extension block adjoining Gurney Plaza at a consideration of RM215 million. This sale involves a net lettable area of 139,964 sq ft comprising four levels of retail space together with car parking bays located at basement 1, 4th to the 8th floors and the rooftop and another 129 parking bays at Gurney Plaza itself.

Table 7
Future Supply of Retail Space within Georgetown

Project	NLA (sq ft)	Expected Completion Date
* Penang Times Square Phase 2	229,000	1Q2011
* Gurney Paragon Mall	700,000	2012
** Penang Times Square Phase 3	290,000	2015

* Under construction ** Planned

Outlook

Penang's property market performed well in 2010 with strong interest in the residential, commercial (pre-war houses within the heritage enclave) and industrial sectors. Growth in these sectors is expected to continue with the Federal Government's plan to make Penang the regional hub of the north where ongoing projects include the expansion of the Penang International Airport, the 2nd Penang bridge and the planned Penang Sentral, the transportation hub for land, rail and sea. The office market is likely to remain stable whilst the retail sector will see more competition as supply increases.

JOHOR BAHRU PROPERTY MARKET

Market Indications

- Bandar Raya Development Bhd (BRDB) has taken over the role of Limitless Holdings Pte Ltd in the partnership with UEM Land (UEML) (60% BRDB, 40% UEML) to develop the 111-acre land identified as Residential North, Puteri Harbour in Nusajaya, at a reported total consideration of RM76 million. Via an announcement dated 8 July 2010, the proposed development components include waterfront bungalows, townhouses and condominiums with a total GDV of about RM2.3 billion.

- In July 2010, Columbia Asia opened a full service community hospital in Afiat Healthpark, Nusajaya. It is their seventh in the country and also the first to be operational in an area tailored specifically for healthcare services in the region of Iskandar Malaysia.

- Dijaya Corp Bhd has teamed up with Iskandar Water Front Sdn Bhd for the development of a 14.8-hectare site at Danga Bay, Johor Bahru. Goldhill Quest Sdn Bhd, the 60:40 joint venture between the two, had on August 2 purchased the land from Danga Bay Sdn Bhd at RM190 per sq ft. The GDV expected is about RM3.8 billion.

- Berjaya Assets Bhd is reportedly taking over the development of Lido Boulevard along the Johor Straits within a period of six months from September 2010. The proposed RM4 billion project, previously developed by Central Malaysia Properties Sdn Bhd, comprises condominiums, office suites, a hotel and a shopping mall.

- In September 2010, Iskandar Investment Bhd and Bina Puri Holdings Bhd sealed a joint venture agreement to develop Medini Square, a commercial development consisting of retail, shop offices, SOHO units and an office tower. Located within Medini, Nusajaya, the proposed development is expected to generate RM500 million of GDV, with an area of about 1.05 million square feet.

- SP Setia Bhd acquired a 259-acre land to the north of its tail-end development of Taman Setia Indah in Johor Bahru from Kelana Venture Sdn Bhd in September 2010, for a consideration of RM169.26 million. Based on a preliminary feasibility study and a revised layout plan, the proposed development is expected to have a GDV of RM1.5 billion.

- The Iskandar Regional Development Authority and State Economic Planning Unit is conducting studies on the transformation of Johor Bahru city centre into a vibrant city and expected to complete the studies at the end of 2010 to be released by early 2011. Under the 10th Malaysia Plan, some RM1.8 billion will be spent for this purpose.

- As at September 2010, Iskandar Malaysia (IM) has attracted investments of approximately RM64.38 billion, exceeding the RM47 billion target for 2010. More Singapore investors are expected, following the joint statement by Singapore and Malaysia's Prime Ministers in May to establish a close relationship in the development of IM. Studies are also being carried out to develop a Rapid Transit System (RTS) between Singapore and IM.

- In October 2010, education group HELP International Corporation Bhd signed a memorandum of understanding with Seri Alam Properties Sdn Bhd to set up a campus in Bandar Seri Alam, Masai. The campus will be developed in four phases with a total built-up of approximately 1 million square feet.

- With an announcement in October 2010, Dialog Group Bhd has been awarded the exclusivity to develop an independent deepwater petroleum terminal with harbour, port, jetty and other marine facilities for a period of 60 years on a 202-hectare plot at Pengerang, by the Johor State Government. This project has been identified as part of the Economic Transformation Programme. At an estimated total cost of RM5 billion, to be developed over seven years, the first phase is expected to be completed in 2014.

- The Malaysian Budget 2011 allocated RM850 million for the infrastructure support of the economic regions of Iskandar Malaysia, The Northern Corridor Economic Region, East Coast Economic Region and Sarawak Corridor of Renewable Energy. Out of the total amount, Iskandar Malaysia was allocated RM339 million.

- In November 2010, KSL Holdings Bhd acquired 244 acres of freehold land along Kluang - Rengam main road, Kluang for a cash consideration of RM55 million to replenish its landbank for future development.

- The commercial project of Danga Utama, comprising shop offices, office towers, condominiums and retail outlets, was launched in November 2010. Located within close proximity to Nusajaya and Danga Bay, the 7.3-hectare development is expected to be completed within the next 4 to 5 years with GDV of RM500 million.

- In December 2010, Singapore-based Imperial Marine Pte Ltd signed a joint venture agreement with Danga Bay Sdn Bhd and Pembinaan Sahabatjaya Sdn Bhd to develop 700 serviced apartment units on an 1.7-hectare site at Danga Bay. The proposed development known as Azea Properties, is expected to generate RM500 million GDV with the apartment units selling between RM650 and RM880 per sq ft.
- Hospital Operator Pantai Holdings Bhd plans to build an estimated RM500 million hospital to be named Gleneagles Medini Hospital at Iskandar Malaysia, following an agreement signed with Global Capital & Development Sdn Bhd in December 2010. The healthcare complex will eventually accommodate a 300-bed hospital and a 150-suite medical office block.
- A foreign company was reported to have approached the Johor state government to develop a 404.68-ha land along Kulai - Kota Tinggi main road into a theme park. If successful, it will become the third theme park in Johor after Legoland and the Puteri Harbour Park.
- In December 2010, UM Land acquired a 6.7-acre freehold land in Puteri Harbour, Nusajaya from Bandar Nusajaya Development Sdn Bhd for RM49.6 million in cash. The proposed development will be developed over 4 years and is expected to yield a gross profit of RM160 million.
- WCT Bhd expanded its presence in Iskandar Malaysia in December 2010, by taking part in the development of a 10.3-acre site in the Medini Business District, Nusajaya. The RM688 million project will include a media village and film and television production facility.
- Sunway City Bhd via its subsidiary has entered into a sale and purchase agreement with Bukit Lenang Development Sdn Bhd to purchase parcels of land measuring a total of 2.815 million sq ft in December 2010. Located near Ponderosa Golf and Country Club, the land is expected to provide a GDV of RM932 million.

Residential

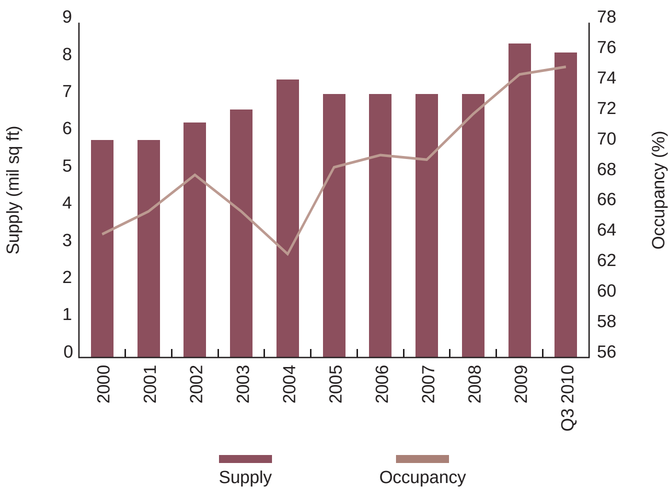
New major launches include:

- Nusa Sentral by Country View Bhd, located along Jalan Gelang Patah, Nusajaya. The development offers 312 units of terraced houses for sale. With dimensions of 20’X70’ and 22’X70’, the built-up areas are from 2,100 sq ft to 2,300 sq ft. The prices range from RM338,000 to RM380,000 per unit.
- Taman Mutiara Mas by Scientex (Skudai), located along Jalan Gelang Patah. As a start, the development offers 128 units of semi-detached houses with dimension of 35’X65’ and built-up areas from 2,735 sq ft to 3,263 sq ft. The prices range from RM525,515 to RM673,000 per unit.
- The Z, Indah Villa by SP Setia. The development is located within the ongoing Taman Setia Indah and offers 22 units of semi-detached houses for sale. The dimension is 50’X85’ and the built-up areas range from 3,795 sq ft to 4,212 sq ft. The prices range from RM1,288,800 to RM1,408,800 per unit.

Office

- The supply of Johor Bahru’s purpose-built office space remains unchanged. The total Net Lettable Area of purpose-built office space in Johor Bahru as at Q3 2010 is about 8,194,542 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 at secondary locations gross below RM1.50 per sq ft per month.

Figure 5
Office Supply and Occupancy Trends in Johor Bahru
2000 - 2010



Source: KF Research

Retail

- As at Q3 2010, the total Net Lettable Area of retail space (shopping centres, arcades and hypermarkets) in Johor Bahru is estimated at 10,921,012 sq ft. The overall average occupancy rates is 71.0%. Prime centres have all recorded occupancy rates in excess of 80%. Prime gross rents range from RM15 to RM40 per sq ft per month.

New Opening:

- KSL City, a 4-storey retail complex with a gross floor area of 880,000 sq ft and 2,800 indoor parking lots, opened for business in December. The podium block accommodates 420 retail units, 50 F&B outlets and 8 cineplexes.

Proposed development:

- A lifestyle mall by Iskandar Investment Bhd located at the western development zone of Medini North, Nusajaya with a gross retail space of 1 million sq ft which is expected to be completed by 2012.

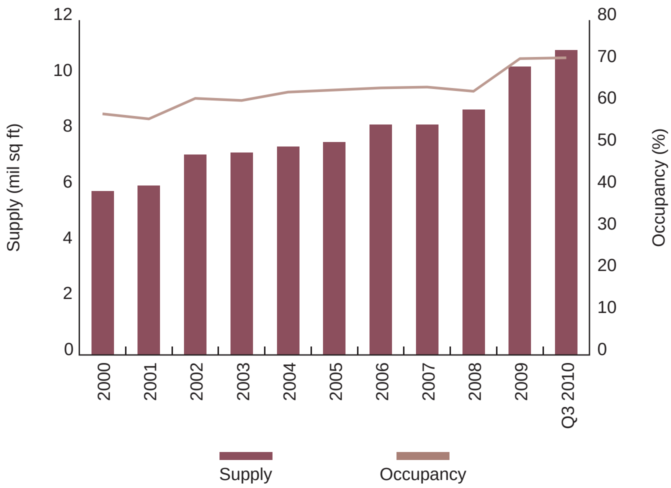
- Redevelopment of KOMTAR shopping mall in Johor Bahru CBD by Johor Corporation, with a gross lettable area of about 383,000 sq ft. The mall is scheduled to be completed by 2012.

KSL City

Figure 6

Retail Supply and Occupancy Trends in Johor Bahru

2000 - 2010



Source: KF Research

Outlook

The market has maintained its momentum of growth in the second half of 2010, experienced by the mid-high to high end residential properties. The commercial property market with the exception of shop offices, remained subdued.

The outlook is positive taking into consideration the advanced stages of completion for major infrastructure works in Johor Bahru, the co-operation forged by Malaysian and Singaporean governments, the coming on-stream of major projects in Iskandar Malaysia in 2012 and the investment prospects enhanced by the Economic Transformation Programme.

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
General Manager
+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 PP16104/11/2011(026573)

Newmark Knight Frank Global