RESEARCH

2ND HALF 2011

REAL ESTATE HIGHLIGHTS

Kuala Lumpur | Penang | Johor Bahru

Knight Frank

HIGHLIGHTS

Kuala Lumpur:

- Residential developers now look to deliver lifestyle amenities and smaller unit sizing to match current demand.
- Office rental rates remained unchanged while occupancy rates in both KL City and KL City Fringe saw marginal increases. With substantial incoming supply, further downward pressure is expected on rental rates.
- With 8 new completions during the review period, total retail stock for the Klang Valley increased by a further 2.88 million sq ft.
- The hotel sector will benefit from Kuala Lumpur's growing reputation as a dynamic shopping / tourism hub.

Penang:

- The State Government has received investment pledges totaling RM5 billion from foreign investors for the new Batu Kawan Industrial Park.
- The State Government plans to develop and promote Penang as the Medical City of the Region.

Johor:

- With the completion of the Senai-Desaru Highway and the progressive completion of other infrastructure works, the residential market should remain upbeat.
- With no known new supply to the office and retails sectors, both rental and occupancy rates are expected to remain stable.

KUALA LUMPUR HIGH END CONDOMINIUM MARKET

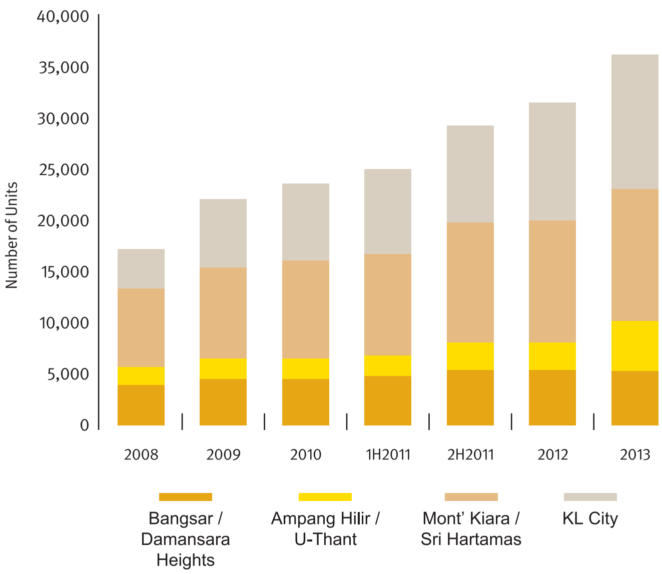
Market Indications

Amid an increasingly challenging environment with the United States posting weaker economic data, the on-going Euro Zone sovereign debt crisis, disruptions in the global supply chain due to the earthquake and tsunami in Japan and rising global inflation, the Malaysian economy continued to be resilient by posting a higher GDP figure of 5.8% in 3Q2011 (2Q2011: 4.3%) supported by strong domestic demand. For the entire year, the Malaysian economy is projected to grow by 5.0% to 5.5% (2010: 7.2%).

The country's inflation as measured by the Consumer Price Index (CPI) rose to 3.4% in 3Q2011 (2Q2011: 3.3%) mainly attributed to higher prices in the food & non-alcoholic beverage category. Bank Negara Malaysia (BNM) will continuously assess the current situation to strike a balance in its assessment of the country's growth and inflation risks.

During the review period, BNM retained the Overnight Policy Rate at 3.0% while increasing the Statutory Reserve Requirement (SRR) ratio by 1 percentage point to 4.0%, effective from July 2011, the third increase in 2011, to manage the significant build-up of liquidity. This latest increase in SRR ratio has led to moderating loans growth as financial institutions tighten their lending.

Figure 1
Projection of Cumulative Supply for High End Condominiums 2008 - 2013



Source: Knight Frank Research


M City

Supply & Demand

There were 11 completions identified during this review period and they include a few projects that were initially scheduled for completion in 1H2011. These completions which are mainly located in Mont' Kiara offer an additional 3,911 units, bringing the total cumulative supply in Kuala Lumpur to 29,364 units.

Meanwhile, there will be a further 2,599 units of high end condominiums from ongoing projects scheduled for completion in 2012. These include: Residensi Kia Peng (formerly known as Twelve Kia Peng), The Pearl @ KLCC (formerly known as Stonor 16), Crest Jalan Sultan Ismail, Setia Sky Residences – Phase 1A (Boheme Tower), St Mary Residences, Verticas Residensi (Towers A, B & C), Suasana Bukit Ceylon in KL City; 9 Madge, Amarin Wickham in Ampang Hilir/U-Thant, Gaya Bangsar in Bangsar and Matahari Desa Sri Hartamas in Sri Hartamas.

Recent residential previews and launches include Verdana @ North Kiara (Phase 1), Icon Residence Mont' Kiara, Mirage Residence, Laman Ceylon, 188 Suites, St John Woods Residence, Rimbun Condominium (formerly known as Amphill Residence) and Platinum Suites – Phase 1 of Platinum Victory Face project.

Further launches planned for 1H2012 include the serviced apartments of KL Trillion, Royce Residence, SoHo units @ Arcoris Mont' Kiara (formerly known as MK 20) and the serviced apartments of Damansara City 2.

The current new offerings by developers continue to trend towards smaller unit sizing, translating to lower quantum pricing and higher affordability that appeal to a wider market catchment. There is market acceptance for these smaller commercial cum residential units such as SoHo (small office, home office) suites and serviced apartments albeit higher pricing per sq ft evident from recent successful launches. During the first preview of M City at Embassy Row, Jalan Ampang in June 2011, all 401 units of its designer SoHo suites with built-up areas from 781 sq ft to 1,330 sq ft worth a total of RM295 million (average price from RM775 per sq ft) reportedly achieved an impressive sales rate of 100% despite concerns over a slowdown in the property market. Mah Sing Group Bhd will offer modular small-to-medium sized residential suites with built-up areas indicatively from 500 sq ft to 1,900 sq ft in its next launch at M City.

Prices & Rentals

During the review period, prices and rentals of high end condominiums in selected schemes in KL City and KL City Fringe continued to face downward pressures due the high number of existing supply and new completions as well as a weak leasing market emanating from low occupational demand from local residents and expatriates. In the primary market, developers continue to offer attractive incentives such as rebates, discounts and a limited period of free maintenance fees to drive sales. There was also a notable shift with more sales and leasing activities in the KL City fringe and suburban areas evident from several successful previews and launches of high end condominiums at new benchmark pricing commensurate with higher building specifications and improved level of facilities. These include G Residence at Desa Pandan in Kuala Lumpur, Sentral Residence at Lot D KL Sentral and Reflection Residences @ Mutiara Damansara. The Residences at St. Regis Kuala Lumpur was launched at an average selling price of RM1,600 to RM2,000 per sq ft.

Table 1
Completion of High End Condominium Projects in 2H2011

Project	Location	Area	Total Units
Regalia @ Sultan Ismail*	Off Jalan Sultan Ismail	KL City	1,130
Brunsfield Embassy View	Jalan Ampang Tengah	Ampang Hilir / U-Thant	283
Katana II*	Jalan Ampang Hilir	Ampang Hilir / U-Thant	40
Vogue Tower (Block C) Verve Suites*	Jalan Kiara 5	Mont' Kiara	255
11 @ Mont' Kiara (MK 11)	Jalan Kiara 1	Mont' Kiara	339
Kiara 9	Jalan Kiara 3	Mont' Kiara	192
Sunway Vivaldi	Jalan 19/70A	Mont' Kiara	228
Seni Mont' Kiara Block II	Jalan Duta Kiara	Mont' Kiara	371
Sunway Palazzio	Jalan Sri Hartamas 3	Sri Hartamas	160
Plaza Damas – Phase 1	Jalan Sri Hartamas 1	Sri Hartamas	595
Twins @ Damansara Heights	Jalan Johar / Jalan Damanlela	Damansara Heights	595

* Preliminary

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

Locality	Asking Gross Rental (RM psf / month)	Average Asking Price (RM psf)
KL City*	3.00 – 6.00	700 – 1,800
Ampang Hilir / U-Thant	3.00 – 4.00	500 – 1,000
Damansara Heights**	3.00 – 4.00	450 – 950
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 and Twins @ Damansara Heights.

***Excludes Verve Suites which comprise mainly fully furnished small units.


Twins @ Damansara Heights

Outlook

In the recently tabled Budget 2012, the Government announced that it would now allow expatriates totalling some 41,000 in Malaysia to withdraw their Employees Provident Fund (EPF) contributions for purchase of houses. While this positive measure augurs well for the high end condominium sector in the short to medium term as more expatriates may look to purchase properties for owner occupation, Budget 2012 also proposed to review the current rate of real property gains tax (RPGT) to 10% from 5% currently for properties held and disposed of within two years as a measure to further curb property speculation. This tax increase however, is not expected to negatively impact genuine property buyers and investors alike.

Going forward, the performance of the high end condominium sector in Kuala Lumpur is expected to remain challenging. Developers will continue to offer innovative products synonymous with lifestyle living to attract buyers with the current focus on smaller and mid-sized units at KL City and KL City Fringe / suburban areas in line with current market demand, trend and affordability level. Amid this market uncertainty, the majority of developers still expect property prices to rise by a further 20% with some planning to increase their selling prices in new launches by 15% or more by the year-end in view of the rising cost in building materials.

BNM is keeping a close eye on the mortgage loan market over concerns of rising household debt-to-GDP levels and has issued new guidelines to further tighten lending with effect from January 1, 2012. This will inevitably have a negative impact on this sector as demand turns cautious with further pressure expected on prices and rentals of high end condominiums in selected locations and schemes.

KUALA LUMPUR OFFICE MARKET

Market Indications

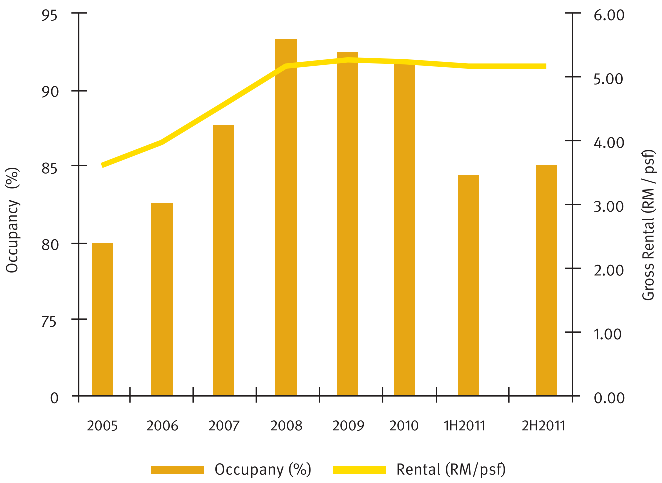
The Kuala Lumpur office market was stable during the review period as supply continued to overshadow demand. Rental rates remained unchanged while occupancy rates in both the KL City and KL City Fringe saw marginal increases. The office market is expected to remain competitive with a substantial amount of incoming supply and this is expected to put further pressure on rental rates. On the transaction side however, the market was noted to be fairly active with both local and foreign investors continuing to look for good buys.

Supply & Demand

During the second half of 2011, the cumulative supply of purpose built office space in KL City was recorded at 46.2 million sq ft while the cumulative supply in KL City Fringe was recorded at 15.9 million sq ft. Five buildings in KL City and two buildings in KL City Fringe were completed during the review period and they include Dijaya Plaza (163,106 sq ft), Menara 238 (formerly known as Menara Marinara) (498,000 sq ft), Persada Putra (239,429 sq ft), Menara Prestij (540,000 sq ft), Menara Petronas 3 Phase I (529,300 sq ft), Menara I & P 1 (previously known as Wisma SPPK) (189,000 sq ft) and The Horizon Bangsar South Phase 2 (425,000 sq ft).

In KL City, several buildings due for completion in 2012 include Menara Worldwide, Menara Petronas 3 Phase II, Menara Binjai, Menara FELDA, Integra Tower at The Intermark, Menara Darussalam (Grand Hyatt) and The Crest @ Jalan Sultan Ismail.

Figure 2
Occupancy and Rental Trends 2005–2H2011.



Source: Knight Frank Research

These completions will see an additional 2.8 million sq ft of office space, bringing the projected cumulative supply in KL City to 49.0 million sq ft. Meanwhile, in KL City Fringe, an estimated 4.2 million sq ft of office space is expected to come on stream. New supply for 2012 will include Dua Sentral, Lot A KL Sentral – CIMB HQ, Lot E KL Sentral Park, The Horizon Bangsar South (Phase 3), Menara LGB, 348 Sentral and Lot G KL Sentral.

G Tower

During the review period, KLCC Property Holdings Bhd (KLCPP) undertook a refurbishment exercise of the 26-year old Menara Dayabumi. Works on the 36-storey office building will be carried out in two stages and are expected to complete by the end of the year. KLCPP is also looking to develop Lot D1, a 0.6-hectare plot of land adjacent to the Mandarin Oriental Hotel. This mixed development will feature a mixed component of either retail and serviced apartment or retail and office (depending on the prevailing market demand).

Naza TTDI also launched its RM15 billion KL Metropolis project which will feature 22 office and residential towers, which include a 100-storey building and three hotels as well as the new one million sq ft Matrade Centre and two retail centres. Phase 1 of 3 which will comprise the exhibition centre, two residential towers, two hotels, two office towers and a retail centre is scheduled to complete by 2014 / 2015.

The mixed development is designed to meet Malaysia's Green Building Index requirements and is also the first registered LEED Neighbourhood project in Malaysia. Felcra Bhd also announced its intentions to carry out a mixed development project in Jalan Semarak which will include an office tower, apartments, a hall and a business centre.

Sunrise Bhd, a wholly-owned unit of UEM Land Holdings Bhd, unveiled its plans to develop its new landmark project, Angkasa Raya, which has an estimated gross development value of RM1.3 billion. Situated at the intersection of Jalan Ampang and Jalan P. Ramlee, directly across from the Petronas Twin Towers and standing at 268 metres with 65 floors, the development will feature a Grade A premium office, a luxury hotel with over 200 five-star suites, over 280 high-end serviced residences, signature retail space and three sky levels. The offices, designed to conform to sustainable architectural principles, will target multinational companies, while unit sizing for the high-end serviced residences will range from 500 sq ft to 2,000 sq ft. The development is aiming for Green Building Index certification and will feature facades that are clad with modular aluminium sun-shading, geometrically optimised and carefully oriented to reduce solar heat gain.

During 2H2011, SP Setia Berhad officially launched the KL Eco City project, an integrated green development which may become Kuala Lumpur's new iconic landmark. KL Eco City, a joint venture project between SP Setia and Kuala Lumpur City Hall (DBKL), is situated along Jalan Bangsar, opposite Mid Valley City. The whole development which is set to take off and take 10 years to complete will feature 3 blocks of office towers, 3 clusters of boutique offices, 1 block of strata office, 3 residential towers, 1 serviced apartment tower and a retail podium. The project is targeting to achieve both the Malaysian Green Building Index and US-based Leadership in Energy and Environmental (LEED) certifications. Its strata office and boutique offices have reportedly achieved a sales rate of between 98% and 100% respectively.

Well-located good grade office buildings which are fully Green Building Index (GBI) and Multimedia Super Corridor (MSC) compliant are seen to be more attractive to a wider pool of high-profile tenants and achieve higher rental rates. Dual compliance office buildings appeared to perform better when compared to non-dual compliance office buildings. For instance, GTower, which has received international green building certification and MSC status, has seen improvements in its occupancy rate in comparison to its performance last half with an increase of 20% in its occupancy. This increase came from tenants who have relocated from older office buildings which do not offer these features.

Stratified office buildings in KL City Fringe such as Sentral Vista, KL Eco City and Menara MBMR were also noted to be well received, recording sales rates of between 70% and 100%.


Bangsar South Phase 2

Although there is a substantial amount of supply coming on stream, this has yet to translate to a decline in occupancy. In KL City, average occupancy was recorded at 84.8% while in KL City Fringe, the figure was recorded at 87.5%. Grade A offices in both KL City and KL City Fringe achieved higher occupancy rates at 87.0% and 89.8% respectively attributed to limited existing supply of good grade space. The leasing market remained active and was driven mainly by the oil & gas and financial sectors with major leasing transactions such as Weatherford and Transocean taking up approximately 31,000 sq ft each in GTower while Citigroup committed to approximately 100,000 sq ft in Cap Square Office Tower II. The review period also saw Petronas committing to some 30,000 sq ft in Vista Tower while Technip and Shell took up approximately 77,300 sq ft in total in the newly completed Dijaya Plaza.

Rentals & Capital Values

In general, the achieved office rental rates in both KL City and KL City Fringe (which include areas such as KL Sentral, Mid Valley City, Bangsar and Pantai) were stable in 2H2011, equating to RM5.21 per sq ft (1H2011 : RM5.18 per sq ft) and RM5.12 per sq ft (1H2011 : RM5.14 per sq ft) respectively. Prime A Grade offices on the other hand commanded higher month rentals ranging from RM6.50 per sq ft to RM11.50 per sq ft. Nonetheless, the substantial amount of completed / impending space available for leasing will inevitably lead to more favourable and competitive leasing terms upon renewals and new signings as developers and owners compete to maintain and improve their buildings' current occupancy levels.

In September 2011, Multi – Purpose Holdings Berhad (MPHB) entered into a Sale and Purchase Agreement with the Malaysian Chinese Association (MCA) for the proposed disposal of Menara Multi – Purpose office tower together with 414 car park bays in the Capital Square development for a total consideration of RM375 million (analysed to be approximately RM693 per sq ft on 541,424 sq ft NLA) During the review period, Bandar Raya Developments Bhd (BRDB) also proposed to sell its assets which include Menara BRDB and Bangsar Shopping Centre (BSC) located on Jalan Maarof. The indicative value for both these buildings (combined NLA of 531,503 sq ft) totalled RM700 million.

The 25-year old Bangunan Shell Malaysia in Damansara Heights has been put up for sale for an estimated RM140 million. The property, which comprises a 12-storey tower and a basement car park, has a total NLA of 212,867 sq ft.

Outlook

The office sector is expected to remain stable in the short term and will remain a tenants' market with the substantial amount of existing / impending space available for leasing. With higher tenant expectations and over 6.9 million sq ft of office space scheduled to come on stream in 2012, competition for tenants is anticipated to intensify. This has led to more developers aiming to provide office space with both MSC status and GBI accreditation. Rental levels in general, may remain flat or experience a slight decline due to the oversupply situation. Nevertheless, well-located quality and good grade office space with MSC status and green features may command higher rental rates due to the limited existing supply of such prime space. Government initiated projects such as InvestKL's ambitious target to attract 100 Multinational Companies coupled with the Kuala Lumpur High Speed Rail (HSR) project may cushion the high level of impending office supply coming on stream and translate into improved absorption rates.

Table 3
Selected Grade A Office Asking Rentals

Building Name	Asking Gross Rental (RM psf / month)
Menara Maxis	10.50
Menara IMC	8.50
Vista Tower	8.00
G Tower	8.00
Menara Standard Chartered	6.50
Menara Citibank	6.50
Menara Etiqa Twins	6.50
Kenanga International	7.00
Menara HLA	7.00
The Icon	6.20
Menara Millenium	5.00

Table 4
Office Investment Sales 2H2011

Building Name	Location	Approx. Lettable Area (sq ft)	Consideration (RM) / (RM/psf)
Menara Multi-Purpose	Capital Square	541,424	375,000,000 (693)
Pavilion Tower *	Jalan Raja Chulan	167,407	123,500,000 (738)

Note: Knight Frank Malaysia appraised Pavilion Tower for the listing exercise.

KLANG VALLEY RETAIL MARKET

Pavilion Kuala Lumpur

Market Indications

Data from the Malaysia Retailers Association (MRA) showed sales growth recorded for the nation's retail industry improved from 5.8% (2Q2010) to 9.1% (2Q2011) which was beyond the 7% figure originally forecast, while GDP growth was recorded at 5.8% for the third quarter of 2011 (2Q2011: 4.3%). According to the Malaysian Institute of Economic Research (MIER), the Consumer Sentiments Index (CSI) displayed a marginal upward trend from 107.9 points (2Q2011) to 108.7 points in 3Q2011 as consumers continued to spend disposable income at various promotional events despite concerns over inflationary pressures in the economy.

Supply & Demand

During the review period, there were 8 new completions adding a total of 2.88 million sq ft of retail stock to the market. The total cumulative figure for existing supply of retail space in the Klang Valley now stands at approximately 43 million sq ft. These new completions included Publika Mall @ Solaris Dutamas, 1 Shamelin, Kenanga Wholesale City, Southgate, Mines 2, KL Festival City, First Subang and Space U8.

There was one closure recorded during the second half of 2011, namely Atria Shopping Centre, in Damansara Jaya. The 29-year-old mall, owned by OSK Property Holdings Bhd, will be redeveloped over four years into a new 450,000 sq ft mall and two 16-storey towers of SoFo Suites.

Mines 2 Street Mall, with a net lettable area (NLA) of 295,000 sq ft opened on 29th July and features themed areas such as Digital Street (electronics / IT) on the ground floor and Queen Street (fashion / apparel) on the second floor. Publika Mall @ Solaris Dutamas is the third commercial development undertaken by Sunrise Bhd and is anchored by BIG (Ben's Independent Grocer) supermarket which occupies some 50,000 sq ft of the total NLA (335,000 sq ft). Other notable mini-anchors include MPH Group and BritishIndia (Asia) Sdn Bhd. Publika Mall also opened E.A.T Food Village, a 33,000 sq ft food court that offers an array of vintage hawker fare from around the Klang Valley.

The 22-storey Kenanga Wholesale City (KWC), dubbed Malaysia's first fashion wholesale mall, is the only mall to be endorsed by Tourism Ministry and offers a NLA of 500,000 sq ft. The mall is strategically located in the city centre and had its soft opening to the public on

20th October. The mall has a gross development value (GDV) of RM1 billion and besides fashion wholesalers and retailers, the mall also houses food and beverage operators, banking and logistic services.

Pavilion Kuala Lumpur, the 1.37 million sq ft retail mall has reaffirmed its position as Malaysia's premier mall and Top National Attraction by collecting another award during 2H2011, making it 22 awards in the three years since its opening. The mall was voted as the Expatriate Lifestyle Magazine's Best Attraction award in the Best of Malaysia Awards 2011. In addition, 'Tokyo Street' which is the first 360˚ Japanese-themed precinct in Southeast Asia was recently launched on level 6 to celebrate Japanese arts, culture, goods and food.
Suria KLCC saw Tong Pak Fu, Hong Kong's popular dessert house, open its second outlet in Malaysia after its initial outlet in Sunway Giza, Kota Damansara proved a success. French boutique brand Cache Cache also opened its new flagship store in Suria KLCC and now has an established presence in Sunway Pyramid, Mid Valley Megamall and The Curve offering clothing and accessory styles from Paris.

Looking forward, three new shopping centres are expected to open during 1H2012, contributing a further 1.7 million sq ft to the existing retail stock. These include Setia Walk – Puchong, Setia City Mall – Shah Alam, and Paradigm Mall – Petaling Jaya.

Prices and Rentals

Overall, rental rates for prime retail centres in the Klang Valley generally remained stable during the second half of 2011. Top performing retail centres such as Suria KLCC, Mid Valley Megamall and Sunway Pyramid Shopping Mall continued to attract impressive visitor numbers and remained high profile retail destinations for Kuala Lumpur.

In September 2011, SEB Asset Management and Puncakdana Group announced that they expect their 70:30 joint-venture retail project, Citta Mall in Ara Damansara which was built at a cost of RM280 million will fetch a sale price in the region of RM340 million by the year-end. The mall has a unique open-air concept with al-fresco dining options and retailers positioned along spacious sidewalks. The mall currently has a 40% occupancy rate and key tenants include Harvey Norman, MBO Cinemas and PappaRich.

During the review period, the asking price for retail lots within the newly opened Kenanga Wholesale City (total of 880 lots with unit sizing of 300 sq ft to 2,500 sq ft) reportedly increased by 30% from the original launch price of RM1,950 per sq ft. Rental levels for units in the mall start from RM13 per sq ft.

Pavilion Real Estate Investment Trust (Pavilion REIT)*, will be the fourth largest IPO in the country this year and is scheduled to be listed on the 7th December 2011. The final consideration for Pavilion Kuala Lumpur Mall is RM3.190 billion (or RM2,390 per sq ft on 1,335,119 sq ft NLA).

Outlook

The Klang Valley retail market looks set to continue its steady performance as members of MRA (Malaysia Retailers Association) remain optimistic about sales performance – forecasting 9.9% growth for the 3Q2011. In order to remain competitive and improve total visitor numbers, mall owners continue to apply proactive management and asset-enhancement initiatives to provide a varied retail mix and quality amenities.

Given that the population figures in Malaysia and in particular, the Klang Valley, continue to increase at a reasonable pace, the concept of neighbourhood malls has gained tremendous popularity. However, with the abundant supply of new suburban retail stock coming on stream in the medium term, there is a note of caution that this high impending supply may have a detrimental impact on overall occupancy levels.

The potential impact of Malaysia's cautious domestic spending levels may be alleviated by sustained tourist receipts expected during the final quarter of 2011 owing to year-end festivities and school holidays.

Note:
**** Knight Frank Malaysia appraised Pavilion Kuala Lumpur Mall for the listing exercise.***

Table 5
Shopping Centres Scheduled for Completion / Opening in 1H2012

New Projects	Location	Estimated Net Lettable Areas (sq ft)
Setia Walk	Puchong	300,000
Setia City Mall	Shah Alam	700,000
Paradigm Mall	Petaling Jaya	700,000

KUALA LUMPUR HOTEL MARKET

Market Indications

The Kuala Lumpur hotel market maintained a reasonable performance during the second half of 2011 with improvements in the tourism industry. This subsector continued to perform well on the back of an increasing number of promotional activities and Kuala Lumpur's growing reputation as a dynamic and competitive shopping hub and host for global sporting events (such as the Tour de Langkawi, F1 Grand Prix, PGA and LPGA Tours, ATP World Tour, EPL pre-season tours for Arsenal, Chelsea and Liverpool) and business/conference events. Despite the number of international tourists remaining the primary revenue generator (24.6 million visitors spending RM56.5 billion on holiday in Malaysia last year), domestic tourism still plays an important role. Malaysia's tourism contribution to Gross National Income (GNI) is expected to almost triple the 2010 figure of RM34 billion to RM94 billion by 2020 (ranked the 5th largest contributor to the national economy in 2010).

The growth-centred Budget 2012, announced in October, was generally well received by the wider hospitality sector with the Government pledging to assist the private sector in developing more international standard accommodation to attract a higher number of tourists through a 'pioneer status' income tax exemption of 70% or an investment tax allowance of 60% for five years for new 4-star and 5-star hotels in Peninsular Malaysia.

Industry leaders have now fully recognised the importance of the MICE industry (meetings, incentive, convention, and exhibition) as a major contributor to the economy. The Ministry of Tourism Malaysia, who established MyCEB (Malaysia Convention & Exhibition Bureau) plans to further strengthen the nation's tourism brand and grow the total number of conventions and exhibitions held on home soil. The number of MICE visitors is expected to reach 1.3 million for 2011 with RM10.8 billion in receipts (2010 Visitors: 1.28 million and 2010 Receipts: RM10.6 billion).

The Government's concerted efforts to attract more arrivals from the 'BRIC' economies (Brazil, Russia, India and China) through various measures including a simplified and shortened visa application process has shown excellent results with recently released figures showing the number of Chinese tourist arrivals increased by 57% between January and July 2011.

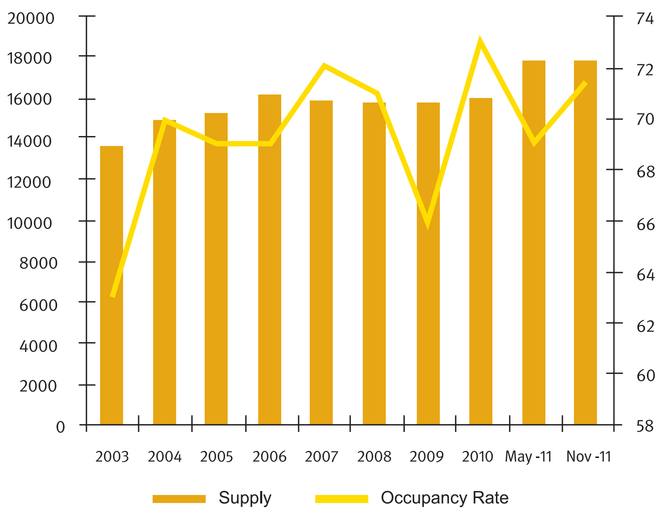
Tourism Malaysia has maintained its target set for total tourist arrivals at 25.3 million for 2011 compared to 24.6 million in 2010. Expenditure on accommodation as well as food and beverages is expected to reach RM29.2 billion for this year (RM27.1 billion in 2010) constituting 30.7% and 17.2% of overall tourist receipts respectively. With the waiver of import duty on 300 selected goods such as handbags, perfumes, shoes and apparel, the level of tourist spending on shopping is expected to reach RM17.5 billion in 2011 compared to RM16.2 billion in 2010.

Medical tourism has been identified as having a multitude of economic benefits to Malaysia and the Prime Minister continues to push for an enhancement of this industry. Holiday Villa, Hotels and Resorts Berhad is one such company that plans to tap into this growing sector by building a RM95 million 4-star hotel (25-storey / 203 rooms) off Jalan Ampang which will include a wellness centre, hydro-therapy centre and occupational therapy centre. Malaysia Airlines (MAS) has also teamed up with Tropicana Medical Centre (TMC) in a partnership that will cater to this growing sector by providing competitively priced deals for executive health screenings bundled into travel, accommodation and tour packages.

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 November 2011. During the review period, average occupancy rates for 4-star and 5-star hotels in KL City both registered increases and were recorded at 72% (1H2011: 69%) and 71% (1H2011: 68%) respectively. The Dorsett Regency and Novotel KLCC were the 4-star hotels that registered occupancy levels in excess of

Figure 3
Supply and Occupancy Rate of 4-star and 5-star Hotels in KL City 2003–November 2011.



Source: Knig ht Frank Research / MIHR

80% while the only 5-star hotel achieving an occupancy rate above 80% was Traders Hotel.

Impiana KLCC Hotel is currently undergoing a RM100 million extension which will add a further 188 premium rooms and suites to bring the total room inventory to 523. Additionally the hotel will also offer two link-bridges that will connect guests directly to KLCC Convention Centre and Pavilion Kuala Lumpur. As a result of these improvments, the hotel expects to reach an average room rate (ARR) of RM310 by 2013. Meanwhile, Concorde Hotel also recently completed a 4-year RM40 million refurbishment programme.

Impiana KLCC

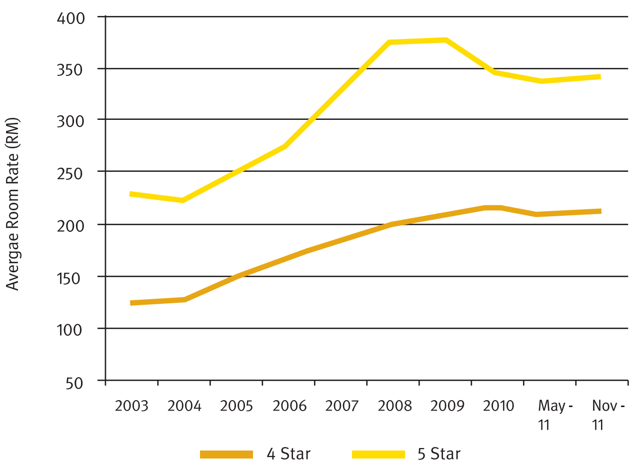
Hotel Istana, located at the corner of Jalan Raja Chulan and Jalan Sultan Ismail is nearing the end of a 2-year extensive refurbishment exercise to upgrade superior rooms to deluxe standard and improve its appeal to business guests with the provision of first class business / MICE facilities. Banyan Tree Hotels and Resorts announced they are to manage a luxury 50-bed hotel as part of a 55-storey residential development on a 0.59-hectare plot of land on Jalan Conlay. The project (to be developed by Lumayan Indah Sdn Bhd) will also comprise 441 units of private residences and 51 units of serviced residences and is set to become an iconic addition to the KL Skyline.

Following speculation at the start of 2011 that a number of luxury retailers were looking to join forces with hotel operators in Malaysia, the world famous department store Harrods looks set to open a hotel in Kuala Lumpur. The City Mayor recently confirmed that a consortium of three developers could propose building the new Harrods hotel.

Average Room Rates & Capital Values

Both occupancy and average room rates (ARR) for 4-star and 5-star hotels have shown an improvement over the 2H2011 review period to November. The ARR for 4-star hotels was recorded at RM214 (1H2011: RM209), reflecting a 2.39% increase, while the 5-star category saw a 1.18% increase to RM343 (1H2011: RM339).

Figure 4
Average Room Rate of 4-star and 5-star Hotels in KL City 2003–November 2011.



Source: Knight Frank Research / MIHR

Outlook

Despite analysts predicting moderating economic growth levels ahead as a result of slowing external demand and continued global uncertainty in the Middle East, Europe and the United States, the Malaysian hospitality sector remains optimistic that performance levels will illustrate steady growth. Moving forward the government will seek to enhance various sector specific initiatives that focus on high-yield visitors - in particular business and medical tourism. The Budget 2012 announcement will keep the 4-star and 5-star hotel category at the forefront of development opportunities with the aforementioned tax exemption / allowances. With concerted efforts from all parties, Malaysia will remain well positioned to retain its ranking among the global top 10 tourist arrivals and top 15 global tourist receipts.

PENANG PROPERTY MARKET

Market Indications

Work on the 2nd Penang Bridge (16.9km) linking Batu Maung on the island to Batu Kawan on the mainland is expected to be 70% complete by the end of 2011. The actual completion date is likely to be ahead of its scheduled completion by November 2013.

Penang continues to be a hot spot for developers. Transactions of larger tracts of development land include the 57.3-acre Turf Club site which Berjaya Land Bhd has entered into an agreement with Penang Turf Club to acquire for RM459 million and a 40-hectare site in the Queensbay area which CP Land Group is reported to have sold to Asia Green Development Sdn Bhd for RM420 per sq ft. The Ivory Group announced its winning bid from Penang Development Corporation for the purchase and development of a 102.56-acre site at Bayan Mutiara, south of Penang Bridge; 67.56-acre is existing land and 35-acre is to be reclaimed. They will jointly develop this site with Dijaya Corp Bhd.

Selangor Dredging Bhd will join the foray of KL based developers in Penang when it debuts its RM230 million beachfront development, "By the Sea" on a 4.7-acre site in Batu Ferringhi comprising 3 blocks of serviced apartments accommodating 138 units and a low rise commercial block.

On the industrial front, Bosch Group will invest RM2.2 billion to set up a new solar energy manufacturing facility on an 86-acre site in Batu Kawan on mainland Penang. To spur related industries in the area, the State Government has allocated an adjoining 20-hectare site for a solar cluster.


2nd Penang Bridge - Photo Courtesy of Jambatan Kedua Sdn Bhd

The State Government is also opening up 3 SME (small and medium enterprises) villages on the mainland; 60-hectare in Batu Kawan offering plots of land for individual buildings; 27-hectare in Penang Science Park with 47 plots and 20 semi-detached factories whilst the SME village in Bukit Minyak sitting on a 1.6-hectare site will have semi-detached and terraced factories.


Selangor Dredging Bhd Beachfront Development "By the Sea"

High End Condominium

IJM Land soft launched its Light Collection III in October 2011 which comprises 150 condominium units sized from 1,841 sq ft to 4,850 sq ft and priced from RM1.16 million upwards; 20 duplex water townhouses sized from 3,143 sq ft to 5,199 sq ft and priced from RM3.6 million and 20 units of 3½-storey link water townhouses each with a built up area of 3,154 sq ft and priced from RM2.7 million upwards.

The E & O Group has achieved a sales rate of 30% for their Andaman by Quayside. Soft launched in late November 2011, it comprises 169 units in various designs sized from 914 sq ft to 2,755 sq ft in a 24-storey tower block and are priced from RM1,211 per sq ft to RM1,519 per sq ft. Meanwhile, all 4 Quayside Towers launched earlier have collectively achieved a sales rate of 85% and current selling prices range from RM681 per sq ft to RM1,281 per sq ft. It should be noted that a number of the newer launches come complete with fittings such as kitchen cabinets c/w hood, hob and oven, air-conditioning units, water heaters and centralised vacuum system among the main items offered.

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 have generally been resold at prices ranging from RM380 per sq ft to RM480 per sq ft whilst those in newer developments command a higher range of RM450 per sq ft to RM700 per sq ft.

Asking monthly rentals of fully furnished units in the older projects range from RM5,000 to RM8,500 as against RM8,000 to RM13,000 for the newer developments.

Office

Following the conversion of a 31-storey office block into serviced suites and hotel rooms and another 10-storey block into serviced apartments, the existing supply of office space (buildings of 10-storeys and above) as at 2H2011 is now reduced to 5.54 million sq ft from 6.07 million sq ft in 1H2011.

Menara IJM Land, a 16-storey office block with a 7-storey car park and NLA of 94,413 sq ft was sold for RM50 million in September 2011 by IJM Properties Sdn Bhd to EWEIN Land Sdn Bhd.

The average occupancy rate for the two most prime office buildings in the city centre generally remains unchanged at 1H2011's level of about 96%. Rentals remain the same ranging from RM2.50 per sq ft to RM2.70 per sq ft per month.

The two newer office buildings with better IT facilities located outside the city centre, namely Suntech and Menara IJM Land, have again recorded increases in occupancy rates, from an average of 91.5% in 1H2011 to 93.5% in 2H2011. Rental rates here now range from RM2.80 per sq ft to RM3.40 per sq ft per month.

Retail

The current supply of purpose-built shopping complex retail space within Penang Island now stands at 5.98 million sq ft, an increase of 229,000 sq ft in 2H2011 with the completion of Penang Times Square Phase 2.

An additional NLA of 111,000 sq ft retail space is expected to enter the market at end of 2011 if the first phase of Gurney Paragon Mall opens its doors as scheduled.

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

Rental rates for ground floor retail lots in both categories of shopping malls generally remain unchanged ranging from RM13 per sq ft to RM38 per sq ft per month, depending on the location and size of the units.

Eastern & Oriental Bhd has sold a 27,744-sq m site housing the newly built Tesco Hypermarket, together with 1,042 car parking bays in Tanjong Tokong for RM134 million. The building has a gross floor area of approximately 269,418 sq ft together with 1,042 car parking bays.

Outlook

In tandem with the challenging and uncertain economic outlook, many property purchasers have turned relatively more cautious and the overwhelming demand and vigorous increase in prices has somewhat abated. This trend is expected to continue in the medium term. Nevertheless, landed houses and prime commercial properties in good locations are still expected to be resilient. The outlook is likely to be neutral for the retail, industrial and hotel sectors.

Table 6
Future Supply of Retail Space within Georgetown

Project	NLA (sq ft)	Expected Completion
*Gurney Paragon Mall (Phase 1)	111,000	End 2011
*Gurney Paragon Mall (Phase 2)	599,000	End 2012
**Penang Times Square (Phase 3)	290,000	2015

* Under construction   ** Planned

JOHOR BAHRU PROPERTY MARKET

Market Indications

- According to the Johor State Investment Centre (JSIC), as at July 2011, Johor state has received a total investment of RM5.95 billion since January 2011, of which approximately 51% comes from domestic investment.

- In early June 2011, Tiong Nam Logistic Holdings Bhd acquired a 3.23-acre commercial land at Puteri Harbour, Nusajaya at a consideration of RM30.95 million, with the intention to construct a hotel of at least 4-star rating and serviced apartments.

- In June 2011, Eastern & Oriental Bhd entered into a shareholders' agreement with Pulai Indah Ventures Sdn Bhd, a 50:50 joint venture between Khazanah Nasional Bhd and Temasek Holdings Singapore, to develop 210 acres of land at Nusajaya into a wellness township comprising serviced apartments, a corporate training centre, commercial, retail, residential and wellness-related components.

- KPJ Healthcare Bhd obtained the approval to set up a 400-bed hospital at Bandar Dato Onn, Johor Bahru in June 2011. The construction of Phase 1 which will accommodate 150 beds is expected to start by the end of 2011.

- In June 2011, UEM Land Holdings Bhd (UEML) proposed to lease a 35-acre site for 99 years at Medini, Nusajaya for RM43.3 million. The land will be jointly developed by UEML, Iskandar Harta Holdings Sdn Bhd and Nusajaya Lifestyle Sdn Bhd into a mixed development comprising predominantly retail components.

- Dijaya Corp Bhd has acquired multiple sites at Cahaya Kota Puteri, Masai, with a combined net land area of approximately 140 acres, in August 2011 for a total consideration of RM220 million. The acquisition comprising 1,426 parcels of subdivided lots for mixed residential and commercial development, together with an additional 212 lots of land designated for public utilities, has a total gross land area of 227 acres.

- In August 2011, Johor-based developer Daiman Development Bhd successfully bid in a public auction to purchase the unsold portion of Menara Landmark, Johor Bahru at a price of RM55 million. The unsold portion includes a retail complex, office area, car park and the common facilities.

- In a separate announcement on Bursa Malaysia in August 2011, Daiman Development Bhd proposed to acquire the hotel tower of Menara Landmark at a consideration of RM45 million.

- In September 2011, Iskandar Malaysia (IM) saw the first major investment by a China-based property development company, namely Zhuoda Real Estate Group. The proposed residential project in Medini North, Nusajaya has a total investment of approximately RM159.2 billion.

- In November 2011, through the purchase of Tentu Teguh Sdn Bhd, United Malayan Land Bhd proposed to acquire a 332.68-acre site at Cahaya Baru, Masai, for approximately RM62.74 million (RM10.98 million cash and RM51.76 million company liabilities) to develop a self-contained township. The land is located along the newly completed 77km Senai-Desaru Expressway.


Menara Landmark

Residential

New major launches include:

- D'Ambience by IJM Land Bhd, located in Bandar Baru Permas Jaya, Johor Bahru. The development offers 234 units of luxurious apartments for sale. Floor areas range from 513 sq ft to 1,414 sq ft and the prices range from RM182,800 to RM441,800 per unit.

- Imperia Puteri Harbour by UEM Land Bhd, located in Puteri Harbour, Nusajaya. The development is a 35-storey serviced apartment tower with units having floor areas from 813 sq ft to 2,508 sq ft and prices from RM657,000 to RM2,800,000 per unit.

- Pangsapuri Golden Sands by Grand Action Sdn Bhd, located along Jalan Mahmoodiah, Johor Bahru. The development offers 408 units of apartments with floor areas between 535 sq ft and 1,530 sq ft and prices ranging from RM259,475 to RM742,050 per unit.

- Isola Villas by Front Concept Sdn Bhd, located in Senibong Cove, Johor Bahru. It offers 144 units of 3-storey semi-detached houses for sale, with dimensions of 42'X75' to 55'X102' and built-up areas from 3,359 sq ft to 4,971 sq ft. The prices range from RM1,433,600 to RM3,873,912 per unit.

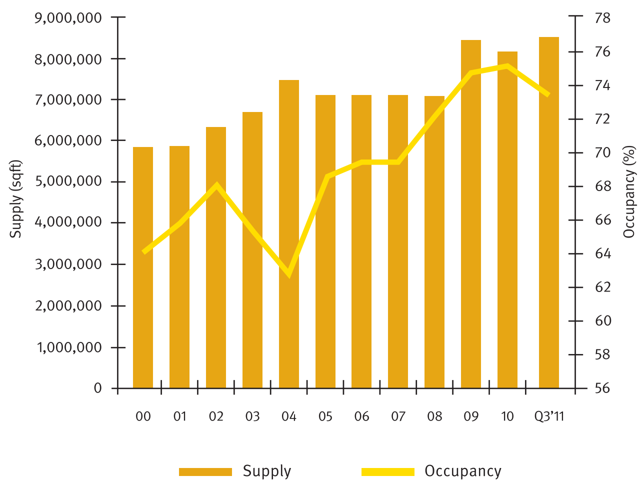
Office

- The supply of Johor Bahru's purpose-built office space remains unchanged. The total Net Lettable Area of purpose-built office space as at Q32011 is approximately 8,495,608 sq ft and the overall average occupancy rate is in the region of 73%.

- Prime CBD office space is let at a gross rental range of RM2.50 per sq ft to RM3.00 per sq ft per month. Other CBD office space commands a gross rental range of RM1.60 per sq ft to RM2.50 per sq ft per month whilst offices in secondary locations gross below RM1.50 per sq ft per month.

- In July 2011, a 19-storey purpose-built office in Johor Bahru city centre known as Wisma LKN was sold en-bloc to Mahabuilders Bhd at a consideration of RM20 million. The freehold property has a net lettable area and a land area of 74,790 sq ft and 12,196 sq ft respectively.

Figure 5
Office Supply and Occupancy Trend in Johor Bahru (2000 - Q32011)



Source: Knight Frank Research

Retail

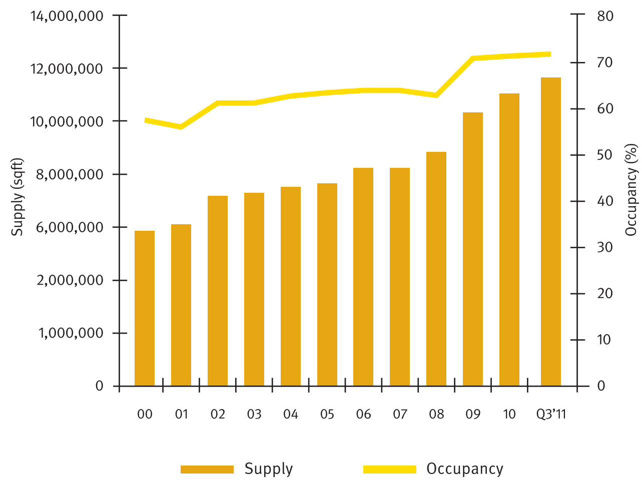
As at Q32011, the total Net Lettable Area of retail space (shopping centres, arcades and hypermarkets) in Johor Bahru is estimated at 11,632,078 sq ft with average occupancy at 71.5%. Prime centres have all recorded occupancy rates in excess of 80% and prime gross rents range from RM15 per sq ft to RM40 per sq ft per month.

Proposed developments:

- A lifestyle mall by Iskandar Investment Bhd located at the western development zone of Medini North, Nusajaya with a gross retail area of 1 million sq ft is being planned.

- Redevelopment of KOMTAR shopping mall in Johor Bahru CBD by Johor Corporation, with a gross lettable area of approximately 383,000 sq ft. The mall is scheduled to be operational by mid-2013.

Figure 6
Retail Supply and Occupancy Trend in Johor Bahru (2000 - Q32011)



Source: Knight Frank Research

Outlook

With the completion of the Senai-Desaru Highway and progressive openings of the Coastal Highway, the residential market should remain upbeat. Given that there is no known new supply to the office and retail sectors, both rental and occupancy rates will remain stable with marginal improvements. However, due to uncertainty in the global economy, the outlook should remain cautiously optimistic as the spiral effect of another economic downturn could undermine the growth of the property market.

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