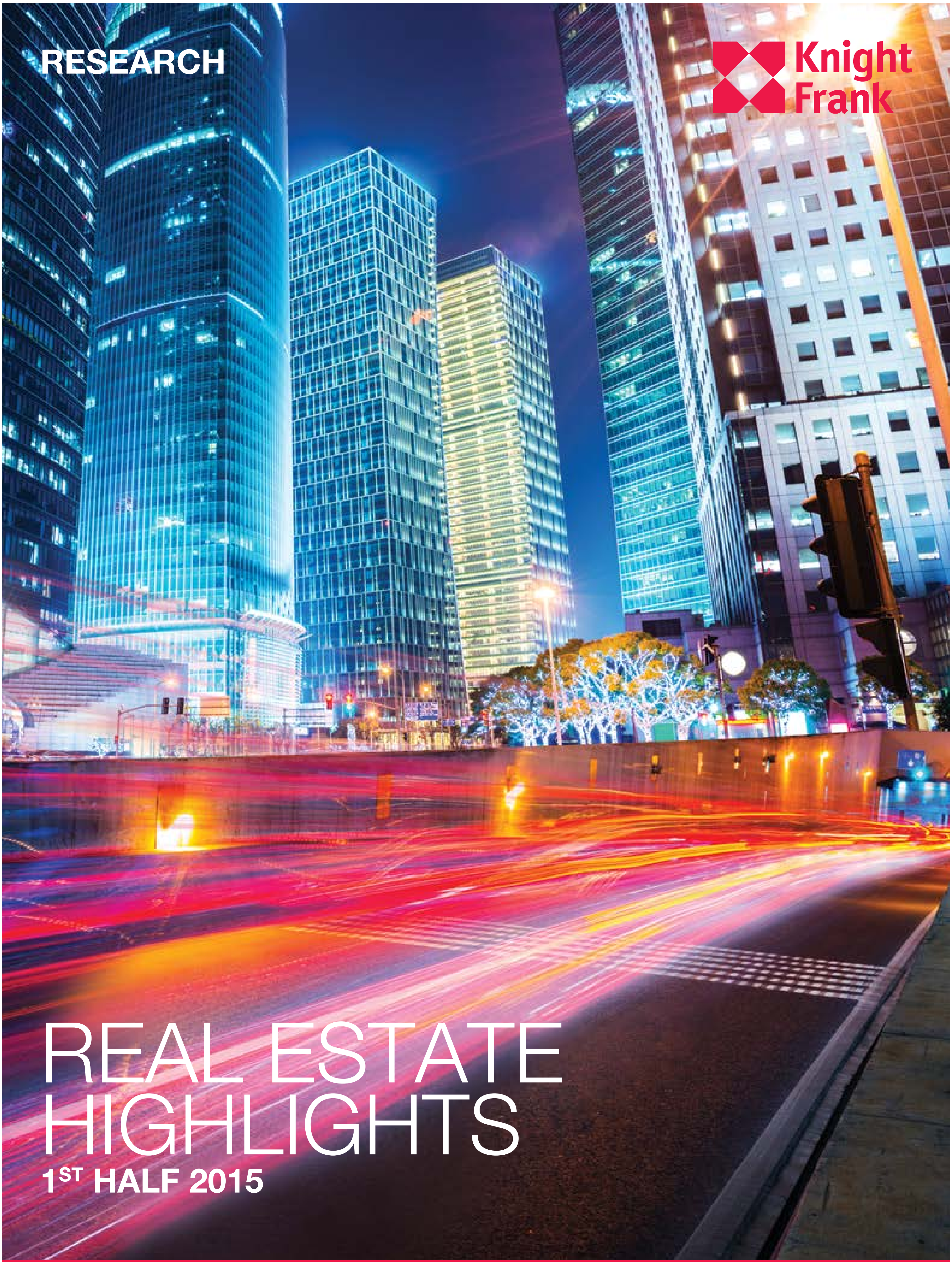


RESEARCH

Knight Frank

REAL ESTATE HIGHLIGHTS

1ST HALF 2015

KUALA LUMPUR | PENANG | JOHOR BAHRU | KOTA KINABALU

KUALA LUMPUR HIGH END CONDOMINIUM MARKET

HIGHLIGHTS

- Softening demand in the high-end condominium segment amid a cautious market.
- Lower volume of transactions in 1Q2015.
- Developers with niche high end residential projects in KL City review products, pricing and marketing strategies in a challenging market with lacklustre demand, impacted by a general slowdown in the economy, tight lending guidelines, weaker job market amongst other reasons.
- Developers with sizeable land banks in fringe areas focus on the affordable and mass housing markets to drive sales.
- In the short to medium term, market outlook is one of caution with lower sales volume and modest / limited price growth anticipated.

MARKET INDICATIONS

The Malaysian economy maintained its growth momentum by expanding 5.6% in the first quarter of 2015 (4Q2014: 5.7%), supported by private sector expenditure. The country achieved its growth target of 6.0% in 2014 (2013: 4.7%).

The labour market conditions were weaker with unemployment rate recorded at 3.1% in 1Q2015 (2014: 2.9%).

Bank Negara Malaysia kept the Overnight Policy Rate (OPR) unchanged at 3.25% at its recent Monetary Policy Committee (MPC) meeting in May in an effort to support economic growth and domestic consumption.

SUPPLY & DEMAND

With the completion of seven notable projects contributing an additional 1,296 units [includes projects that are physically completed but pending issuance of Certificate of Completion and Compliance (CCC)], the cumulative supply of high end condominiums in Kuala Lumpur stands at 39,610 units.

Approximately 45% (582 units) of the new completions are located in the Ampang Hilir / U-Thant area, followed by some 26% (335 units) in the locality of KL City; 16% (204 units) from the locality of KL Sentral / Pantai / Damansara Heights area; and 14% (175 units) from the Mont' Kiara / Sri Hartamas locality.

The three completions in Ampang Hilir / U-Thant are Rimbun Embassy Row, G Residence and Madge Mansion. There is only one project completion in KL City which is The Horizon Residence. The remaining completions comprise two in Mont' Kiara / Sri Hartamas (The Icon Residences Tower C and Signature) and one in the locality of KL Sentral / Pantai / Damansara Heights (Saville Bangsar @ The Park Block A).

By the second half of 2015, a total of some 3,725 units from 13 projects are

Madge Mansions

expected to come on-stream. The KL City locality will account for circa 35% (1,310 units) of the new supply; followed by Mont' Kiara / Sri Hartamas with 34% (1,256 units); KL Sentral / Pantai / Damansara Heights with 20% (734 units); and the remaining 11% (425 units) from the locality of Ampang Hilir / U-Thant.

Notable projects slated for completion in KL City include Face Platinum Suites, Le Nouvel, Mirage Residences as well as the delayed project of Crest Jalan Sultan Ismail. Other projects include M City, Damai 88 and A Residency D'Suria in Ampang / U-Thant; The Residences at The St. Regis Kuala Lumpur, Saville Bangsar @ The Park Block B, and DC Residency in KL Sentral / Pantai / Damansara Heights; and Concerto North Kiara, Verdana North Kiara and One Kiara Tower A in the locality of Mont' Kiara / Sri Hartamas.

Compared to the preceding half of last year, there were noticeably more previews and launches despite the cautious market

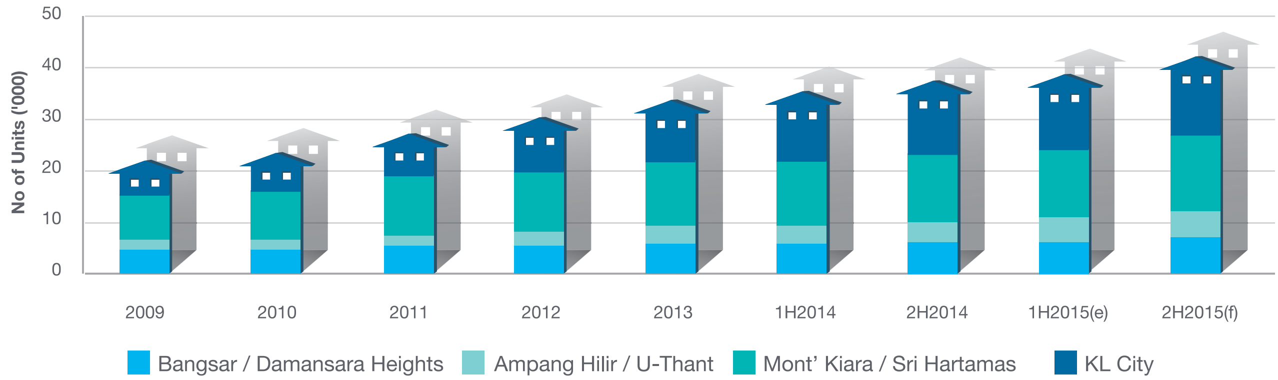
TABLE 1

Completion of High End Condominiums in 1H2015

Project	Location	Area	Total Units
The Horizon Residence*	Jalan Tun Razak	KL City	335
Rimbun Embassy Row	Jalan Ampang Hilir	Ampang / U-Thant	56
G Residence	Jalan 1/76, Desa Pandan	Ampang / U-Thant	474
Madge Mansion	Jalan Madge	Ampang / U-Thant	52
The Icon Residence Tower C	Persiaran Dutamas	Mont' Kiara / Sri Hartamas	139
Signature	Desa Sri Hartamas	Mont' Kiara / Sri Hartamas	36
Saville Bangsar @ The Park Block A	Pantai Dalam	KL Sentral / Pantai / Damansara Heights	204

*Pending Certificate of Completion and Compliance (CCC)
Source: Knight Frank Research

FIGURE 1
Projection of Cumulative Supply for High End Condominiums



Note:
(e) = estimate (f) = forecast
Source: Knight Frank Research

sentiment amid tighter lending guidelines and weaker economic environment.

The previews and launches include The Manor, The Grid, Pavilion Suites and Tropicana The Residences in KL City; Astoria Ampang and Picasso Residence in Ampang Hilir / U-Thant; Hermitage, Residensi Sefina and Arte in Mont' Kiara and Secoya Residence in KL Sentral / Pantai / Damansara Heights.

Tropicana The Residences, acclaimed by developer, Tropicana Corp Bhd as its most prestigious project to date, was unveiled on 21 March in a spectacular regional launch across six countries, namely Malaysia (Kuala Lumpur), Singapore, Indonesia, Hong Kong, Taiwan and China (Chengdu and Shanghai). The Residences, comprising 353 units of luxury serviced apartments spread across 55 storeys, will sit atop the 24-storey W Hotel. The units with built-up areas of 710 sq ft to 1,604 sq ft in layouts of one, two and three-bedroom, are priced at RM2,500 per sq ft on average. Owners at The Residences will enjoy three types of residential services offered by Tropicana, namely concierge, housekeeping and a home care programme.

The Pavilion group is setting a new benchmark in luxury couture living, with pricing from RM3,000 per sq ft. Its latest project along Jalan Bukit Bintang, Pavilion Suites – by exclusive invitation - offers 383 units of one and two-bedroom serviced residences (built-ups from 704 sq ft to 1,254 sq ft) as well as 450,000 sq ft of retail space spread over a 51-storey tower.

The Manor Kuala Lumpur at Persiaran Stonor, opened for preview in April. The project by Desaria Property Sdn Bhd features 212 units with sizing from 2,426 sq ft to 3,768 sq ft, priced from RM1,250 per sq ft. To be managed by Alorie Hotels & Resorts, residents will enjoy hotel-like services.

On 28 March, Premier De Muara officially launched Picasso Residence. Located off Jalan Ampang, the project comprises two 38-storey towers with 270 and 202 residential units respectively. The target market for the units, available in four layouts of 1,013 sq ft, 1,375 sq ft, 1,668 sq ft and 2,407 sq ft, are young working adults and families. Priced from RM1.09 million to RM2.83 million, the project has reportedly achieved circa 60% sales rate to date.

The 245-unit Residensi Sefina at Mont' Kiara was launched by UEM Sunrise in mid–May. The units with built-up areas from 1,333 sq ft to 1,771 sq ft are priced at RM800 per sq ft on average.

Notable projects planned for launch in 2H2015 include Star Residences Tower 2, Aria KLCC, Stonor 3 and an unnamed joint-venture (JV) project between


Agile Mont Kiara - The latest landmark for a new dimension in refined living

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*	2.70 - 5.30	650 - 1,600
Ampang Hilir / U-Thant	2.00 - 4.00	500 - 1,100
Damansara Heights**	2.50 - 4.00	650 - 950
Kenny Hills	2.20 - 3.40	520 - 900
Bangsar	2.50 - 4.50	650 - 1,200
Mont' Kiara***	2.20 - 3.30	450 - 750

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

Source: Knight Frank Research

Eastern & Oriental and Mitsui Fudosan in KL City; Agile Mont' Kiara in Mont' Kiara / Sri Hartamas; and Ridge Embassy Row and D'Rapport Residences in Ampang Hilir / U-Thant.

Agile Mont' Kiara, a freehold condominium project located off Jalan Duta Kiara on a 10-acre site, will offer 813 units spread over 11 blocks of low, medium and high rise buildings. The partly furnished units come in 3-bedroom, 3+1-bedroom (dual-key) and 4-bedroom configurations with typical built-up areas ranging from 1,156 sq ft to 2,136 sq ft. The project will feature an environment deck atop the car park podium, a sky club and supporting commercial shops. Knight Frank Malaysia is the exclusive marketing agent for the project.

PRICES & RENTALS

During the review period, the asking prices and rentals in KL City remained flat. With a high supply pipeline of existing and incoming projects, the high end residential segment in the city will continue to face stiff competition, both in the terms of primary / secondary sales and rental market.

In the Ampang Hilir / U-Thant area, both sub-sale and rental markets generally remained stable. However, asking rents in Mont' Kiara / Sri Hartamas weakened although asking prices remained fairly stable.

The demand for high end condominiums in the Bangsar locality continue to hold firm due to limited new supply and the popularity of the neighbourhood. Likewise, in the locality of Damansara Heights, prices continued to sustain.

The Kuala Lumpur rental market continues to favour tenants with gross yields for high end condominiums averaging between 4% and 5%.

OUTLOOK

The cooling measures introduced by Bank Negara Malaysia to curb excessive speculation in the property market have continued to see its intended effects, evident from the latest statistics by the National Property Information Centre (NAPIC). In the first quarter of 2015, the volume of transactions in the condominium / apartment segment in Kuala Lumpur dipped 18.9% to 1,694, from 2,088 in the preceding quarter (4Q2014). Year-on-year (y-o-y), the volume declined by 9.1% (1Q2014: 1,864 transactions).

Although there were expectations that home buyers would rush in to purchase properties before the implementation of goods and services tax (GST), data from NAPIC showed otherwise. In Kuala Lumpur, the volume of residential transactions declined sharply by 21.2% in 1Q2015 when compared to the previous quarter, likely attributed to the cautious economic and market sentiment coupled with stringent lending guidelines.

In the high end condominium segment, there is growing evidence of softening demand as buyers turn cautious amid an impending supply of some 3,725 units expected to come on-stream by the second half of 2015.

Developers with large land banks continue to focus on the affordable and mass housing segment to drive sales while those with niche high end residential products are reviewing their pricing and marketing strategies as well as widening their target catchment by marketing overseas.

Kuala Lumpur ranked seventh in Asia-Pacific and second in Southeast Asia after Singapore for the most sustainable city to live in the inaugural Sustainable Cities Index 2015 by Arcadis. The index indicated that Kuala Lumpur performed best in terms of low property prices and good work-life balance.

Moving forward, the on-going and upcoming infrastructure works that include the Light Rail Transit (LRT) extension, Mass Rail Transit (MRT) lines and the High Speed Rail (HSR) link between Malaysia and Singapore coupled with the rapid residential developments in the inner city will help to transform Kuala Lumpur into a sustainable and liveable city.

KUALA LUMPUR & BEYOND KUALA LUMPUR (SELANGOR) OFFICE MARKETS

HIGHLIGHTS

- Tenant-favoured office market continued to remain resilient amid high supply pipeline.
- Real estate investment opportunities abound despite challenging market.
- New benchmark price in KL office space.
- Cautious market outlook with lower net absorption as plans for expansion and relocation are put on hold.

INTRODUCTION

Knight Frank Malaysia has updated the analysis parameter in 2015. We have reclassified the basket of properties of office buildings into three new categories, namely Prime A+, Grade A and Grade B.

The review of the basket of properties monitored by Knight Frank Malaysia is deemed timely as recent years have witnessed the entry of more sustainable and dual compliant (MSC + Green) buildings amid improving technologies in the construction of new buildings.

Knight Frank Malaysia has further expanded its area of coverage to include established and upcoming office locations Beyond KL (Selangor), namely Petaling Jaya, Subang Jaya, Shah Alam and Cyberjaya.

MARKET INDICATIONS

The office market in Kuala Lumpur (KL City and KL Fringe) remained firm in 1H2015 despite further completions totalling circa 1.10 million sq ft. Both rental and occupancy levels continued to hold steady.

Amid slow but steady economic growth and a weakening in the local currency, funds and investors continued to identify real estate investment opportunities. The review period witnessed the acquisition of Integra Tower, a Prime A+ office building at about RM1,400 per sq ft on 760,715 sq ft NLA by Retirement Fund Incorporated (KWAP), setting a new benchmark pricing for office space in Kuala Lumpur.

SUPPLY & DEMAND

As of 1H2015, the cumulative supply of purpose built office space in KL City was recorded at 49.8 million sq ft. This follows the completion of three office buildings, namely Naza Tower (506,000 sq ft NLA), Crest Jalan Sultan Ismail (190,000 sq ft NLA) and Menara Centara (166,000 sq ft NLA).

Meanwhile, the completion of Menara MBMR (240,000 sq ft NLA) in KL Fringe brought the cumulative supply to 21.7 million sq ft.

The cumulative supply of purpose built office space Beyond KL (Selangor) was recorded at circa 17.7 million sq ft with the completion of The Ascent @ Paradigm (520,000 sq ft NLA) and Top Glove Tower (269,000 sq ft NLA).

Collectively, the cumulative supply of purpose built office space in KL and Beyond KL (Selangor) totals some 89.2 million sq ft.

Naza Tower is a 50-storey office building within the on-going RM4 billion prime integrated development of Platinum Park which comprises a mix of office, retail, hospitality and residential components. Other completed components are Menara Felda and Menara TH.

Located within the neighbourhood of Mid Valley City, Menara MBMR is a 24-storey Grade A stratified office building. The top three floors of the corporate office building will house headquarters of MBM Resources Berhad (MBMR).

The Ascent @ Paradigm in Petaling Jaya is a 32-storey corporate office tower built to MSC Cybercentre Status specified accreditation. The building forms part of the on-going four-in-one Paradigm Integrated Commercial Development which also features a completed shopping mall (Paradigm Mall) and, under construction serviced residences (The Azure) and a 316-room deluxe hotel (New World Petaling Jaya Hotel) slated for opening by 3Q2016.

In the locality of Shah Alam, the newly completed Top Glove Tower in Setia Alam, is a 23-storey Grade A office building with Green Building Index (GBI) Gold certification that is also compliant with QLASSIC and CONQUAS quality standards. The new headquarters of Top Glove comprises 14 floors of office space, 2 floors of retail space and 7 floors of parking space. The group will occupy part of the building with the remaining space available for lease.

Three other office buildings in KL City are scheduled for completion by the end of 2H2015, namely Menara Ilham (formerly known as IB Tower), Menara Bangkok Bank and KL Trillion Office Tower while in KL Fringe, buildings coming on-stream are Q Sentral, The Vertical, Ken TTDI and Damansara City Office Towers A and B. These completions will contribute an additional 3.8 million sq ft of space to the existing office stock in KL City and KL Fringe.

During the period under review, the average occupancy rate in KL City decreased

Naza Tower

marginally to record at 84.8% (2H2014: 85.5%).

In KL Fringe, with the improvements in the occupancies of selected office buildings such as 1 Sentrum and Menara TM, overall occupancy improved to 87.9% compared to 85.0% in the preceding period. Meanwhile, in Beyond KL (Selangor), the average occupancy rate of office space was recorded at 76.1%.

There were several announcements on proposed office buildings and large-scale integrated developments in 1H2015.

PNB Merdeka Ventures Sdn Bhd is constructing the 118-storey KL118 Tower, which will feature 80 floors of office space and five floors of serviced apartments with thirteen floors allocated for a hotel. The project will also feature an eight-storey retail podium. A two-level tunnel, named Belfield Tunnel, will reportedly link the fourth and fifth basement floors of the building to Kampung Attap, bringing the areas now separated by Jalan Maharajalela closer. The project with an estimated GDV of RM6 billion will have a total NLA of circa 4.3 million sq ft. It is expected to be completed by 2020. The two front runners of the construction contract are the JV between WCT Holdings Bhd and Arabtec Holding PJSC and the consortium comprising UEM Group Bhd and Samsung.

Plans to develop three new high-rise buildings on Lot 185, near the Petronas Twin Towers in Kuala Lumpur City Centre (KLCC) are speeding up with tender documents for sub-works to be issued in a few months. Two of the three towers are being jointly developed by KLCC (Holdings) Sdn Bhd, which is the unlisted parent of the KLCC Stapled Group and also 100%-owned by Petroliam Nasional Bhd (Petronas), together with Qatari Diar

FIGURE 2

Office Investment Sales 1H2015

Integra Tower (1)
Jalan Tun Razak, Kuala Lumpur

Approx. Lettable Area (sq ft)
760,715

Consideration (RM) / (RM psf)
1,065,000,000 (1,400)

Menara Raja Laut (2)
Jalan Raja Laut, Kuala Lumpur

Approx. Lettable Area (sq ft)
397,939

Consideration (RM) / (RM psf)
220,000,000 (553)

Plaza Pekeliling (3)
Jalan Tun Razak, Kuala Lumpur

Approx. Lettable Area (sq ft)
144,376

Consideration (RM) / (RM psf)
28,280,000 (196)

Wisma AmanahRaya (4)
Jalan Ampang, Kuala Lumpur

Approx. Lettable Area (sq ft)
153,908

Consideration (RM) / (RM psf)
78,000,000 (507)

Tropicana City Mall and Tropicana City Office Tower (5)
Tropicana City, Petaling Jaya

Approx. Lettable Area (sq ft)
448,248 (mall)
101,246 (office)

Consideration (RM) / (RM psf)
540,000,000 (NA)

Twenty two (22) storeys of stratified parcels within Iconic Office (Block N) (6)**, Empire City @ Damansara**
Empire City @ Damansara, Petaling Jaya

Approx. Lettable Area (sq ft)
238,932

Consideration (RM) / (RM psf)
155,346,600 (650)

Source: Knight Frank Research

(1) Integra Tower, a 39-storey grade A office building with LEED Platinum certification, forms part of The Intermark development that also comprises Vista Tower, Double Tree by Hilton and the Intermark Mall. The office tower which comes with 850 car parking bays is being acquired by Retirement Fund Incorporated (KWAP).

(2) Hong Leong Bank Berhad (HLB) has disposed Menara Raja Laut, a 27-storey office building in Jalan Raja Laut, Kuala Lumpur, to Hong Leong Assurance Berhad. As at 18 March 2015, the building has an occupancy rate of 41% (36% of which are being occupied by HLB and its subsidiaries).

(3) Fitters Building Services Sdn Bhd, a subsidiary of Fitters Diversified Bhd, has signed a sales and purchase agreement with GCP Tower Sdn Bhd to purchase the freehold property, which comes with 70 parcels of office lots and 363 units of car park bays. It intends to redevelop the site into a small office/home office (SoHo) concept building.

(4) AmanahRaya REIT has disposed Wisma AmanahRaya, a 15-storey purpose-built office building with two (2) basement levels constructed on two pieces of leasehold land in Jalan Ampang, to Annex Sentral Sdn Bhd, a wholly-owned subsidiary of AmanahRaya Development Sdn Bhd (a wholly-owned subsidiary of Amanah Raya Berhad). As at 27 May 2015, the 48-year-old office building is fully tenanted by Amanah Raya Berhad. The tenancy agreement will expire in August 2016.

(5) The purchase consideration of RM540 million includes the retail component, namely, Tropicana City Mall, which has a NLA of 448,248 sq ft and is about 89.2% occupied while the office tower is fully occupied. The apportionment of the two different components, however, is not available.

(6) Block N, known as the Iconic Office, at Empire City Damansara is a 45-storey corporate office tower currently under construction (83% complete as at 10 April 2015). The construction of the office building is expected to be completed by December 2015.

Real Estate Investment Co, the investment arm of the Qatari Investment Authority, in a 50:50 venture. The other tower will be an office block whose rental space will be partly underwritten by the Qatari firm. The development, which is situated between KLCC and the As-syakirin mosque, will consist of 500,000 sq ft of retail space, an office block and a hotel block.

Indonesia's leading property developer, Mulia Group, plans to develop the landmark Signature Tower building within the international financial district of Tun Razak Exchange (TRX). The Indonesian developer has entered into a Sale and Purchase Agreement (SPA) for the development rights of the plot with 1MDB Real Estate Sdn Bhd, the master developer of TRX for RM665 million. The Signature Tower building will be a highly visible focal point for TRX. As it will be TRX's tallest building and have its largest floor plates, the tower is poised to be a Prime Grade A office space in Kuala Lumpur.

UDA Holdings Bhd (UDA), Eco World Development Group Bhd (EcoWorld) and the Employees Provident Fund Board (EPF) have sealed a tripartite agreement to jointly develop the RM8 billion Bukit Bintang City Centre (BBCC) project. The redevelopment of the 19.4-acre Pudu Jail site will comprise a mix of residential and commercial components. The proposed world-class master plan consists of strata offices, office towers, a hotel and serviced residences; and a Lifestyle Centre which will include a Malaysian Grand Bazaar, a retail mall, F&B and entertainment components.

LGT Sdn Bhd and Genting Highlands Sdn Bhd are collaborating with f3Capital Sdn Bhd to develop a mixed use project. LGT Green will comprise three blocks on 4.5 acres of freehold land in Jalan Belfield, Kuala Lumpur, to be made up of two office blocks of 33- and 43-storey above a podium, dubbed lifestyle hub and a 46-storey serviced apartment block. LGT plans to obtain a Green Building Index (GBI) Gold certification for one block and GBI certification for the other blocks.

Seni Nadi Land Sdn Bhd (Seni Land) will undertake a project with an estimated GDV of RM2 billion on two parcels of lands in Brickfields, Kuala Lumpur, where the former Brickfields district police headquarters and barracks were located. Seni Land, through Senibina Sentral Sdn Bhd (Senibina), plans to build two Grade A, green certified office buildings on the 107,865 sq ft site. The other parcel measuring 101,669 sq ft will likely be developed with high end residences. Senibina's submission to Dewan Bandaraya Kuala Lumpur indicated that the first phase will comprise a 31-storey office block and the second phase, a 24-storey office block atop a seven storey podium, comprising parking bays and one floor of retail space. There will also be two levels of basement parking.

Food and beverage (F&B) company, Fraser and Neave Holdings Bhd (F&N) is looking to launch its RM2 billion integrated property project at Section 13, Petaling Jaya, by the second quarter of 2016. The project, called "Fraser Square", is a joint-venture with Singapore-based Frasers Centrepoint Ltd. To be developed over five phases, it will comprise 900 units of serviced apartments atop a shopping mall, small offices home offices (SoHo), a corporate office and hotel components.

PRICES AND RENTALS

During the review period, the average achieved rental rates in both KL City and KL Fringe continued to uptrend, recording at RM6.19 per sq ft (2H2014: RM6.02 per sq ft) and RM5.70 per sq ft (2H2014: RM5.56 per sq ft) respectively.

Despite further completions, Prime A+ and Grade A offices in both KL City and KL Fringe continue to command higher asking rents, ranging between RM6.50 per sq ft and RM12.50 per sq ft per month.

Meanwhile, the average achieved rental rate of office space located Beyond KL (Selangor) was recorded at RM4.17 per sq ft.

Notable occupier movements during the review period include the following:

In KL City, Integra Process & Offshore (M) Sdn Bhd and Premier Global Conferencing, took up a total of 17,000 sq ft at Menara Binjai while at Menara Worldwide, Lazada and Prudential Takaful Bhd will take up circa 21,000 sq ft.

TABLE 3

Selected Grade A Office Asking Rentals

Building Name	Asking Gross Rental (RM psf / month)
KL City	
Integra Tower	11.00
Menara Maxis	10.50
Vista Tower	9.00
G Tower	8.50
Menara Darussalam	8.50
Menara Binjai	8.50
Menara Prestige	7.50 – 8.50
KL Fringe	
Quill 7	7.50
Menara CIMB	8.00
Nu Tower 1 & Nu Tower 2	6.50
Menara Shell	7.50
The Gardens North & South Towers	7.80
Menara BRDB	6.50
Beyond KL (Selangor)	
1 First Avenue	6.00
Plaza 33	4.50
Surian Tower	5.50
The Ascent @ Paradigm	5.50
Puchong Financial Corporate Centre	4.50
The Pinnacle	5.50
Wisma Mustapha Kamal	4.80

Source: Knight Frank Research

During 1H2015, 1 Sentrum has secured its third tenant, Google Malaysia, occupying 54,000 sq ft from level 9 to level 11.

The Royal Malaysian Police will expand its office in Menara 238 to 130,000 sq ft.

DKSH Malaysia and WCT Group moved into the new completed corporate tower, The Ascent @ Paradigm, collectively occupying circa 180,000 sq ft of space.

The active investment market reported six office building transactions in 1H2015.

Several office buildings are also reportedly on the market for sale. They include Vista Tower, GTower, Menara Prudential, Wisma Genting and Menara Multi-Purpose.

Genting Malaysia Bhd is seeking a buyer for its Wisma Genting office building in Kuala Lumpur ahead of its move to a new office at Jalan Belfield in Kampung Attap. The group is proposing a sale and a four-year leaseback of Wisma Genting pending the completion of the new building. The indicative price for Wisma Genting is RM500 million or RM1,222 per sq ft on NLA. Located at the corner of Jalan Sultan Ismail and Jalan Raja Chulan, the building comprises a single block with two wings. The first wing was completed in 1987 and the second in 1995. The building offers 25 levels of office space and six levels of basement car park with a total of 514 bays. The property sits on a 42,410 sq ft freehold parcel and has a built-up and NLA of 678,632 sq ft and 409,084 sq ft respectively. It is presently circa 95% occupied with the group taking up 65% of the space. Other notable tenants include financial institutions such as CIMB Bank, Maybank and Uni Financial Reinsurance Service Ltd.

The Malaysian Chinese Association (MCA) is looking for a buyer for Menara Multi-Purpose which it purchased from Multi-Purpose Holdings Bhd (MPHB) in late 2011 for RM375 million. MCA is reportedly looking at a price above RM410 million for the office block located in Capital Square in Jalan Munshi Abdullah, Kuala Lumpur. The 31-year building offers 541,424 sq ft in NLA and 414 car park bays and houses the headquarters of Alliance Bank Malaysia Bhd and offices of MPHB Capital Bhd's related companies. Menara Multi-Purpose is developed by Bandar Raya Developments Bhd (BRDB) as part of the Capital Square integrated development which also includes office buildings, a shopping mall and serviced apartments.

Goldis Berhad is seeking potential buyers for its nine year old GTower, located at the intersection of Jalan Tun Razak and Jalan Ampang, with a price tag of RM1.2 billion on the office and hotel building. Located on a two-acre freehold parcel next to the Tabung Haji building, GTower is an integrated building with 1.4 million sq ft in gross built-up and 820,000 sq ft of NLA. GTower is Malaysia's first green commercial building and was awarded Singapore's BCA (Building and Construction Authority) Green Mark Gold Standard certification. The 32-storey building has 530,000 sq ft NLA of office space (> 90% occupied), a 180-room boutique hotel, as well as 1,300 car parking bays.

South Korea-based Hana Daol Fund Management is believed to be finalising the sale of Nu Tower 1 in KL Sentral to the Malaysian Communications and Multimedia Commission (MCMC) for over RM200 million. MCMC is an agency under the Ministry of Communication and Multimedia Malaysia that regulates telecommunication, broadcasting and postal services in the country. The Nu Tower 1 and Nu Tower 2 office towers are part of the Lot G offices and hotel development jointly developed by Aseana Investment Ltd, an associate of Ireka Corp and Malaysian Resources Corp Bhd, the master developer of KL Sentral.

OUTLOOK

The Kuala Lumpur and Beyond KL (Selangor) office markets are expected to remain resilient in the short term.

Whilst the average rental rates of office space in Kuala Lumpur are expected to hold at current levels albeit modest gains in selected office locations, the occupancy levels are expected to experience negative growth in the coming quarters pending the completion of circa 3.8 million sq ft of additional space amid a challenging market environment with lacklustre absorption rate as companies cut capex and put expansion / relocation plans on hold.

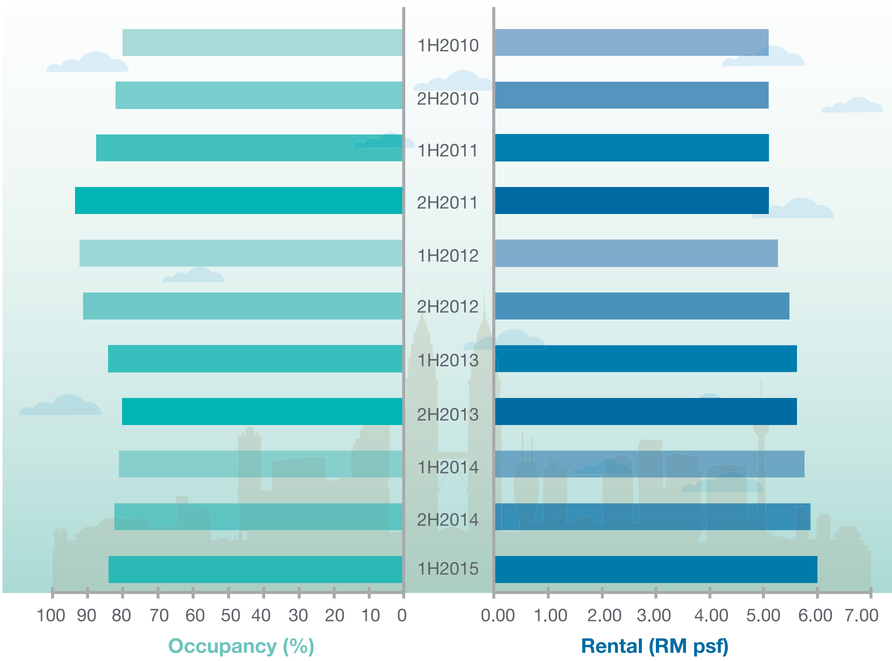
The short to medium term will continue to favour tenants as competition heightened between landlords competing to attract new tenants and retain existing ones while trying to improve and maintain their occupancy levels.

With limited supply of existing good grade dual compliant (MSC and green) office space (circa 6.2% of total stock), demand for this office grade stock is expected to remain strong.

Going forward, the investment market is expected to remain active. With several good grade office buildings in the market for sale offering yields of 5% to 6%. Coupled with a weak local currency, there are real estate opportunities for funds and investors, both local and foreign.

FIGURE 3

Occupancy and Rental Trends 1H2010 – 1H2015



Source: Knight Frank Research

KLANG VALLEY RETAIL MARKET

HIGHLIGHTS

- The local retail industry is expected to grow at a slower pace amid dampened consumer sentiment due to rising cost of living and a slowing economy.
- Despite the subdued market, the retail sector continues to witness the entry of new international brands as well as the expansion of existing brands and outlets, especially at prime shopping centres in Klang Valley.
- High level of occupancy and positive rental growth at established and prime regional and neighbourhood shopping malls despite challenges in the retail industry.
- Moving forward, the Klang Valley retail market will face further dilution with the scheduled completion of 14 new shopping malls by 2H2015 / early 2016.

MARKET INDICATIONS

The Malaysian economy expanded strongly by 6.0% in 2014 (2013: 4.7%), and 5.6% in the first quarter of 2015 (4Q 2014: 5.7%), driven mainly by strong performance in private domestic demand. Private consumption continued to expand by 8.8% during the first quarter of 2015 (4Q 2014: 7.6%), supported by stable labour market conditions as well as higher consumer spending prior to the implementation of the Goods & Services (GST) on 1 April 2015.

For the full year of 2014, retail sales grew by only 3.4%, lower when compared to the 4.5% growth reported in 2013.

The Malaysian Consumer Index (CSI) fell to its six-year low of 72.6 points during 1Q2015 (4Q2014: 83.0 points) as consumers became increasingly concern over the state of the economy amid uncertainties arising from the GST implementation.

According to the Malaysia Retailer Association (MRA) and Retail Group Malaysia (RGM), retail sales registered a negative growth of 0.8% in 4Q2014 when compared to the corresponding period in 2013.

The negative sentiment continued into the first two months of 2015 before the pre-GST spending rush by consumers during March to avoid the six per cent tax on non-exempted and standard rated items.

SUPPLY & DEMAND

The review period saw the opening of five shopping malls with a combined NLA of about 1.86 million sq ft, bringing the cumulative supply of retail space in the Klang Valley to circa 50.7 million sq ft. The new completions are Jakel Mall (330,000 sq ft), Sunway Putra Mall (578,000 sq ft), Atria Shopping Gallery (470,000 sq ft), Mitsui Outlet Park (Phase 1) (269,000 sq ft) and The Place One City (220,000 sq ft).

Jakel Group which acquired CapSquare (north and south towers) together with its retail podium from Bandar Raya Developments Berhad (BRDB) in 2012 had initiated an asset enhancement exercise to redevelop the area into Jakel Square, comprising a textile mall, a hypermarket and a 4-star fully Shariah-compliant hotel (320 rooms). Located at Jalan Munshi Abdullah at the central business district in Kuala Lumpur, the freehold commercial assets were part of an integrated development formerly known as Capital Square.

The Jakel Mall, formerly the south tower, officially opened in February 2015. Jakel Textile Store is the anchor tenant of Jakel Mall, taking up six levels of the building. Jakel Square will also house LuLu hypermarket from the Middle East, which is making its maiden entry into the country.

Sunway Putra Mall (formerly known as The Mall at Putra Place) re-opened on 28 May 2015 after undergoing major asset enhancement works. Located adjacent to the Putra World Trade Centre, the newly refurbished mall is home to popular mini anchor tenants that include Cold Storage, SportsDirect.com and TGV Cinemas.

Also opening on 28 May 2015 is the former 30-year old Atria Shopping Gallery in Damansara Jaya which was demolished some four years ago. The newly re-built Atria Shopping Gallery, an 8-storey retail centre (including three levels of parking space) has reportedly leased out 82% of its total space. Its mini anchor tenants include Village Grocer Supermarket, Chi Fitness gym, Jungle Gym children's play centre, Times Bookstore, The Little Tree House Kindergarten, Nilufar Petstore, Hamleys, Ace Hardware, SportsDirect.com, and fashion cum clothing stores such as Terranova and NEXT. The largest MNG store in the country with merchandise from MNG Kids, Violetta and MNG Man occupies circa 10,000 sq ft of space whilst Dynasty Dragon Chinese banquet restaurant which has relocated from SSTwo Mall will occupy 25,000 sq ft.

Atria Shopping Gallery offers a wide spread of food and beverage (F&B) options with tenants that include Antipodean Café, Kame Sushi, Ying Ker Lou Hakka Cuisine, Starbucks Coffee, Manmaru Robatayaki & Bar, Little Penang Kafe, Be Lohas Healthy Cuisine Organic Cafe by BMS Organics, Artistry by Artisan Coffee Bar, Daves Deli, Secret Recipe, Paparich, Uncle Lim, Esquire Kitchen, Nando's and KFC.

Atria Shopping Gallery

The Place @ One City, one of the development components of the 77-acre integrated development dubbed One City in USJ 25, opened its doors in early of 2015. The 6-level shopping centre that comes with 72 units of retail shops, a lifestyle club - Platinum and a Grand Ballroom at the rooftop, is anchored by Kids Gallery, a department store which houses multi-international and local brands and Runway, a designer fashion outlet with leading labels from Italy, Europe and France. Other tenants include d'Grocer Supermarket, Starbucks Coffee and Guardian Pharmacy.

Mitsui Outlet Park KLIA Sepang (MOP) which carries a tagline 'Where luxuries always become affordable' opened on 30 May 2015. The factory outlet shopping mall, a joint-venture (JV) project between Mitsui Fudosan Co Ltd and Malaysia Airports Holdings Bhd, is located within the planned KL International Airport Aeropolis (KLIA Aeropolis) airport city, approximately 6km from KLIA and KLIA 2.

The first phase of the development with circa 269,000 sq ft of retail space features selected retailers in the upper-middle to high-end segments with off seasoned products available at attractive discounts. Notable retailers operating in MOP include Ermenegildo Zegna, Aigner, Hugo Boss, Hackett London, Esprit, GUESS, ISETAN outlet store, Karen Millen, Mango Outlet, Polo Ralph Lauren, Hush Puppies, Carlo Rino, Bonia, Zalora Outlet, Adidas, Ripcurl, Nike, Akemi Uchi. There is also a Japanese Specialty Store (Japan Avenue), a zone which introduces Japanese art, culture, music and culinary delights as well as other attractions to shoppers.

There are plans to expand MOP in year 2018 (second phase) as well as in year 2021 (third phase), to become the largest outlet mall in Southeast Asia with about 250 stores and total floor space of about 474,000 sq ft.

During the review period, there were several retail developments announced / unveiled in Kuala Lumpur and Selangor.

Aeon Malaysia is currently building a new shopping mall in Section 13 Shah Alam with circa 700,000 sq ft, and it is targeted to open by December 2015.

In April, Parkson Corp Sdn Bhd and Studio Kingdoms Network Sdn Bhd (SKN) signed a JV agreement to operate a theme park, education centres, nursery centres, food and beverage outlets as well as merchandising operations in Malaysia. The maiden project of the JV, to be located at Maju Junction Mall, is part of Parkson Group's strategy in managing the shopping mall. Parkson took over the management rights of the mall when it entered into a tenancy agreement with Maju Group in October 2014.

First unveiled in 2012, a JV project by Mutiara Rini Sdn Bhd (a subsidiary of Boustead Holdings Bhd) and Ikea Pte Ltd is underway. MyTOWN Shopping Centre, a five-level shopping centre with 1.1 million sq ft of retail space at Jalan Cochrane, Cheras, is expected to be completed by the fourth quarter of 2016. The mall, to be anchored by Ikea and Parkson Department Store, will feature outdoor landscaped park and garden as well as indoor event spaces. There will be three residential property towers sitting atop the mall. MyTOWN Shopping Centre is sited on part of the over 50-acre of land in the Cochrane area owned by Boustead Holdings Bhd which will be developed over time progressively.

The podium of Pavilion group's upcoming 51-storey high-end serviced residence cum retail development named the Pavilion Suites at Jalan Bukit Bintang will offer circa 240,000 sq ft of retail space spread over ten levels. Designed to complement Pavilion Kuala Lumpur, the podium is slated for completion by 2017.

Impian Bebas Sdn Bhd, a JV between KLCC (Holdings) Sdn Bhd and Sapura Resources Bhd, will develop a mixed commercial development at Lot 91 of Kuala Lumpur City Centre (KLCC). The proposed development with components such as an office tower, convention centre and retail podium is scheduled to be completed by 2020.

Following the announcement in June 2014 on Lend Lease as the joint partner of the Tun Razak Exchange Lifestyle Quarter development, 1MDB Real Estate and Lend Lease have sealed their partnership in March 2015 to jointly develop the 17-acre retail-led mixed development in Tun Razak Exchange (TRX). Dubbed 'The Lifestyle Quarter', the proposed development components will comprise a retail mall, several residential towers and a hotel connected to a multi-layer central park and the Tun Razak Exchange MRT station. Construction of The Lifestyle Quarter is expected to commence in late 2015.

In February, Eco World Development Group Bhd (Eco World), UDA Holdings Bhd (UDA) and the Employees Provident Fund (EPF) board signed a tripartite agreement to jointly develop the Bukit Bintang City Centre (BBCC) project. The BBCC project, a redevelopment of the former Pudu jail site, will comprise a mix of residential and commercial components, including a lifestyle centre that will feature a Malaysian grand bazaar, a retail mall (1.2 million sq ft), food and beverage outlets as well as an entertainment component.

To be developed by a partnership between Tradewinds Corp Sdn Bhd and UDA Holdings Bhd, Bukit Bintang Plaza is set to kick off its redevelopment work. The redevelopment will see the demolishment of the existing 18-storey plaza which will be rebuilt with a 56-storey tower that will feature a 12-storey retail podium with serviced apartments, duplexes and penthouses sitting atop.

In Selangor, Khoo Soon Lee Realty Sdn Bhd (KSL) will begin the construction work of its KLS City Mall 2 by third quarter of 2015. Located within the 448-acre township of Canary Garden in Klang, KLS City Mall 2 will offer circa 2.2 million sq ft of space. Touted as the largest shopping mall in Klang, it will feature a cineplex and a hypermarket to cater to residents in its surrounding areas, when completed by 2017.

Fraser & Neave Holdings Bhd, together with Singapore-based Frasers Centrepoint Ltd, will develop a mixed development called Fraser Square in Section 13, Petaling Jaya. The project will feature serviced apartments atop a shopping mall, small offices home offices (SoHo), a corporate office tower and hotel tower.

In Sungai Buloh, Selangor, the upcoming 2,330-acre Kwasa Damansara township development will feature three shopping malls in its 64-acre Project MX-1 integrated development, offering NLA of about 650,000 sq ft, 300,000 sq ft and 150,000 sq ft respectively. Project MX-1 will be developed over six major phases and is expected to be completed in 12 years. The project site will be served by the Kwasa Sentral MRT station by 2017.

During the review period, the retail sector continues to witness the entry of new brands as well as the expansion of existing brands and outlets, in particular, international retailers.

In Mid Valley Megamall, there were numerous openings of new outlets during the review period. These include F&B outlets such as Olive Garden Italian Restaurant, Panchos Mexican Taqueria, Yeast, Sushi Jiro, Yoshinoya and Hanamaru Udon. Other new outlets include The Home + Care Shop, American Tourister, Le Creuset, Fit Flop, Onitsuka Tiger, Star Ted, Whoosh Eyewear, NARS, Dior and SkinSoul.

Meanwhile, The Gardens Mall welcomed the maiden entry of French footwear retailer, Palladium Boots and luxury Italian fashion brand, Prada's third store (circa 4,000 sq ft).

Spotlight, Australian fabric, craft and homewares superstore which made its debut at Ampang Point last October has continued to expand. It opened two stores during the first half of 2015, taking up circa 31,000 sq ft at The Mines and 21,500 sq ft at IPC Shopping Centre in Mutiara Damansara respectively. Spotlight has plans to open more stores in Malaysia.

Korean retailers have continued to increase their presence in Malaysia. Belif cosmetics has launched its first store in Malaysia at Sunway Pyramid Shopping Mall while REDEYE accessories store has continued to expand with new outlets at Mid Valley Megamall and 1 Utama Shopping Centre. Korean casual fashion brand, The CLASS, has also opened a standalone store at Mid Valley Megamall.

During the review period, two US-based fast food chain retailers announced / opened their first outlet in Kuala Lumpur. In March, pizza company 1000 Degrees Pizzeria, a fast-casual Neopolitan pizza franchise announced its expansion in the overseas market and will set up its first international market outlet in Kuala Lumpur by year end, whilst in May, burger chain CaliBurger opened its first outlet at Avenue K Shopping Mall.

By the second half of 2015, a total of 13 new shopping malls with a combined retail

FIGURE 4

Shopping Malls Scheduled for Completion / Opening in 2H2015

Lulu Hypermarket @ Jakel Square (1)
KL City
Estimated Net Lettable Area (sq ft)
300,000

GLO Damansara(2)
KL Fringe
Estimated Net Lettable Area (sq ft)
360,000

Sunway Velocity Mall
KL Fringe
Estimated Net Lettable Area (sq ft)
850,000

Bangsar Trade Centre
KL Fringe
Estimated Net Lettable Area (sq ft)
230,000

Sunway Pyramid (Phase 3)
Bandar Sunway
Estimated Net Lettable Area (sq ft)
62,000

The Square@ One City
USJ25
Estimated Net Lettable Area (sq ft)
176,000

da:men
Subang Jaya
Estimated Net Lettable Area (sq ft)
400,000

Evolve Concept Mall @ Pacific Place
Ara Damansara
Estimated Net Lettable Area (sq ft)
375,000

Star Avenue Lifestyle Mall
Subang
Estimated Net Lettable Area (sq ft)
277,086

AEON Shah Alam
Shah Alam
Estimated Net Lettable Area (sq ft)
700,000

M Square Shopping Mall @ Millenia City
Puchong
Estimated Net Lettable Area (sq ft)
380,000

Centrus Mall
Cyberjaya
Estimated Net Lettable Area (sq ft)
109,000

ERETAIL @ Emerald Avenue
Selayang
Estimated Net Lettable Area (sq ft)
240,000

Note:
(1) Previously known as CapSquare Retail Centre
(2) Previously known as G Avenue
Source: Knight Frank Research

space of circa 4.5 million sq ft are expected to be completed in Klang Valley. They include Lulu Hypermarket @ Jakel Square, GLO Damansara, Sunway Velocity Mall and Bangsar Trade Centre in Kuala Lumpur; and Sunway Pyramid Phase 3, Da:men USJ1, The Square @ One City USJ 25, Evolve Concept Mall @ Pacific Place, Star Avenue Lifestyle Mall, Aeon Shah Alam, M Square Shopping Mall @ Millenia City, Wharf Mall, Centrus Mall @CBD Perdana 3 and ERETAIL @ Emerald Avenue in Selangor.

Amid a challenging year with lacklustre retail sales performance, occupancy rates of prime and established shopping malls in the Klang Valley continued to remain stable (> 90%). They include Suria KLCC and Pavilion Kuala Lumpur in KL City; Mid Valley Megamall and The Gardens Mall in KL Fringe; and Sunway Pyramid, 1 Utama Shopping Centre, Empire Shopping Gallery, Subang Parade and The Mines in Selangor.

PRICES ANTD RENTALS

Overall, rentals of prime retail space continue to record positive growth from new and renewed leases.

Shopping centres listed under the property portfolios of IGB REIT, Pavilion REIT and Sunway REIT generally reported increases in revenue for 1Q2015, mainly due to higher rental income generated from new and renewal leases as well as increases in service charges.

IGB REIT registered gross revenue of RM125.4 million, reflecting a 4.8% improvement from the preceding quarter with RM119.6 million.

Sunway Pyramid Shopping Mall also reported higher gross revenue growth of 9.3% for the financial year ended 31 March 2015 when compared to the corresponding period in 2014, primarily due to higher average net rent and average occupancy rate, as well as an increase in the service and promotion charges effective June 2014.

The gross revenue for Pavilion Kuala Lumpur Mall was circa 4.25% higher compared to 1Q2014, mainly due to the rental income generated from the 2014 asset enhancement areas such as Beauty Precinct, extension of 'Couture Pavilion' at Level 2 and Dining Loft at Level 7 as well as the increase in service charge that was revised in May 2014.

KLCC REIT, however, reported a marginal dip of 1.6% in revenue during 1Q2015 when compared to the corresponding period in the preceding year. Nevertheless, the company expects its retail segment to remain stable for the remaining of the year.

In the investment market, CapitaMalls Malaysia REIT Management Sdn Bhd, the manager of CapitaMalls Malaysia Trust ("CMMT"), entered into a conditional sale and purchase agreement with Tropicana City Sdn Bhd on 26 January 2015 to acquire Tropicana City Mall and Tropicana City Office Tower in Petaling Jaya for a total consideration of RM540 million. Tropicana City Mall is a four-storey retail mall with a NLA of 448,248 sq ft and 1,759 car park bays. As at 15 January 2015, the mall was 89.2% occupied. The acquisition exercise is expected to be completed by 3Q2015.

In February 2015, Sime Darby Brunsfield Properties Holding Sdn Bhd sold Subang Avenue Shopping Complex located at SS16 Subang Jaya, to Sime UEP Properties Bhd and Subang Mall Property Sdn Bhd for a total consideration of RM139.5 billion. The sale is analysed to circa RM654 per sq ft on 213,354 sq ft NLA.

On 22 April 2015, Malaysian Resources Corporation Berhd (MRCB) disposed of its entire 51% equity interest in Nu Sentral Sdn Bhd (NSSB) to its joint-venture partner Pelaburan Hartanah Bhd (PHB) for a consideration of RM119.78 million. NSSB is the joint-venture (JV) company set up by MRCB and PHB in January 2008 to jointly manage and operate Nu Sentral Shopping Centre at KL Sentral. The disposal of the equity interest signified MRCB's exit from the management of the mall.

Sunway Putra Mall

OUTLOOK

Retail sales is anticipated to remain subdued for the six-month period after April 2015. Amid weak consumer sentiment, lavish spending has slowed as prudent consumers spend on basic and affordable goods & services.

Initiatives by notable international / regional fashion and F&B retailers to absorb the GST, have not improved retail sales. This has led to the closure of outlets in several neighbourhood shopping malls.

The negative sentiment has also impacted retailers' expansion plans for 2015.

For the full year of 2015, Retail Group Malaysia has projected a 4.0% growth rate for retail sales, a third revision from the earlier projected 5.5% growth.

With the scheduled openings of 13 new shopping malls by the end of 2015 / early 2016, contributing an additional 4.5 million sq ft of retail space, heightened competition will further dilute the retail market.

Retailers continue to be spoilt for choice. Developers of new and less prominent malls are offering attractive incentives, partnership and short-term tenancies to pop-up retailers to improve occupancy levels.

Prime and established regional and neighbourhood shopping malls with proven track record of high visitation remain as preferred choice for expansion, even at high rentals.

Overall, the short term outlook for the local retail industry is expected to embrace more challenges. The rising cost of living and weakening of the Malaysian Ringgit amid a slowing economy will continue to dampen consumer sentiment.

PENANG PROPERTY MARKET REPORT

HIGHLIGHTS

- Penang recorded a huge jump in approved local (RM3.05 billion) and foreign investments (RM5.11 billion) totaling RM8.16 billion in 2014 as compared to RM3.912 billion recorded for 2013.
- For 1Q2015, Penang had recorded investments of RM2.9 billion.
- The Penang State Government is currently evaluating the packages submitted by bidders in response to the Request for Proposal (RFP) for the proposed RM27 billion Penang Transport Master Plan. The tender attracted 6 bidders comprising both foreign companies and local public listed companies.

MARKET INDICATIONS

Batu Kawan on mainland Penang continued to draw interest:-

- Global manufacturing giant Jabil Circuit Inc. has purchased an 8.8-hectare plot for RM30 million and has planned a RM1 billion investment to be spread over the next 5 years, creating 2500 skilled jobs.
- Eco World Development Group has accepted a letter of award from Penang Development Corporation (PDC) to develop "Eco Marina" comprising a first parcel of 300 acres for mixed development of residential and commercial properties and a second parcel of about 150 acres for an international 18-hole golf-course with a club house. The total GDV of the development is about RM10 billion.

The construction industry of Penang is expected to hit RM6 billion worth of jobs in 2015; this will be contributed by the proposed launch of RM5 billion worth of projects by some KL-based and Penang developers in Penang this year; construction works on 8 hotels with a combined GDV of about RM1 billion and reclamation works for Phase 2 of the Seri Tanjung Pinang development project expected to take off in 2H2015. (Source: Penang Master Builders and Building Materials Dealers Association)

Following the Penang State Government's affordable housing guidelines introduced last year, where developers are allowed to build 2.8 times or a total of 122,000 sq ft of built-up area over an acre for solely affordable houses, several developers have planned projects outside the South-west district, the locality for affordably-priced housing. First-time buyers can register for Aspen Group's RM499 million "Tri-Pinnacle" project which will feature 859 units with built-up areas of 800 sq ft to be priced from RM299,000 and with low medium cost units at RM72,500 each. Ideal Property Group has planned the RM800 million "I-Santorini" in Tanjong Tokong and I-Condo@One Foresta in Bayan Lepas; together the two projects will have a collective GDV of RM1.8 billion from 4,515 units of affordable housing sized from 850 sq ft to 900 sq ft and priced from RM300,000 to RM400,000 each for first time buyers.

Several hotels opened their doors in 1H2015 and these include IGB's 4-star St Giles Wembley & 3-star Cititel Express Penang, G Hotel Kelawei, the reopening of Hotel Neo+ (formerly Grand Continental Hotel) and U Hotel Penang (formerly the budget U Hotel Bayan Lepas) which together contributes a total of 1,181 rooms.

HIGH END CONDOMINIUM

YTL Group's first foray into Penang, their low-density niche market RM330 million Shorefront project with 115 units over 3 low-rise blocks is now fully sold before launch. The final 45 units were snapped up at a preview held in mid-May 2015 whilst all units of the first two blocks were taken up at a preview conducted in early February 2015. The luxurious units, two to a floor and each with its own private lift lobby, sized from 1,440 sq ft to 3,400 sq ft, were sold at prices ranging from RM1,300 per sq ft to RM2,100 per sq ft, setting a new record price for the upmarket luxury lifestyle segment in Penang. Targeted at high-net worth individuals, Penangnites working abroad and foreigners looking for luxury homes, the project attracted some 2,500 registrants prior to launch.

E & O launched "18 East at Andaman", their final tower of Phase 1 of Seri Tanjung Pinang on 31 January 2015. "18 East at Andaman", which has commanding views of the Andaman Sea, offers 210 units of 1 to 3 bedrooms with sizes varying from 877 sq ft to 2,824 sq ft including 4 penthouse

E & O's Water Park & Clubhouse

units sized from 4,202 sq ft to to 4,813 sq ft. With average selling prices of RM1,500 per sq ft, about 35% of this final block have been sold. Owners of the units will get to enjoy the completed 4.5-acre water park with a resort-style clubhouse as well as lobby concierge services amongst other facilities.

Mah Sing Group showcased their resort-themed "Ferringhi Residence 2" project in an April property roadshow; this project offers a 10-storey condominium block with 124 units, a 32-storey block (478 units) and a low-rise 4-storey block with 30 frontage units. The condominium units sized from 1,197 sq ft to 1,534 sq ft and the low-rise frontage units with sizes of 1,438 sq ft & 2,876 sq ft are open for registration at an indicative price of RM850 per sq ft.

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

Despite the slow market condition, 11 larger sized condominiums with built-up areas from 3,500 sq ft to 6,000 sq ft were sold in the secondary market in 1H2015. As a comparison, 18 units were sold in 2014. Units in the older completed projects within the prime areas of Tanjung Bungah and Pulau Tikus were transacted at prices of ranging from RM415 per sq ft to RM520 per sq ft whilst those in newer developments sold for a higher range of RM520 per sq ft to RM900 per sq ft. Smaller sized units of newer developments in Gurney Paragon and Seri Tanjung Pinang have been resold at prices ranging from RM830 per sq ft to RM1,330 per sq ft.

Despite it being a tenants' market with increased supply following the completion of several new condominiums, some asking rents are still high. Asking rentals for fully furnished units in newer developments now range from RM8,000 to RM16,000 per month. In older condominiums, asking rentals generally range from RM4,000 to RM8,000 compared to RM4,500 to RM8,000 per month previously.

OFFICE

The existing supply of office space (buildings of 10-storey and above) on Penang Island remains at 2H2014's level of 5.59 million sq ft.

The average occupancy rate for the prime office buildings in Georgetown is approximately 92.5% or a range of 85% to 100%. Current asking rentals for the older buildings generally range from RM2.80 per sq ft to RM3.00 per sq ft per month, slightly up from the starting rent of RM2.70 per sq ft in 2H2014 as against the newer Hunza Tower over Gurney Paragon enjoying 100% occupancy with latest rents secured at RM3.50 per sq ft per month.

Average occupancy rates at Suntech and Menara IJM Land, both newer office buildings located outside the city, currently stand at 97%, the same level as 2H2014. Asking rents at these two buildings range from RM2.60 per sq ft to RM3.30 per sq ft per month, with one building recording slightly lower rents.

RETAIL

The existing supply of purpose-built shopping space on Penang Island remains unchanged at 2H2014's level of 6.69 million sq ft. No new purpose-built shopping malls were completed on the island in 1H2015.

Over in Batu Kawan on the mainland, PE Land's Design Village premium outlet mall (previously named Penang Designer Village) is on track for a Christmas 2016 opening. The single-storey open-air mall with some 150 stores is being built at a development cost of RM300 million and will have a net lettable area (NLA) of approximately 400,000 sq ft.

Meanwhile "City Mall", a 3-storey neighbourhood mall in Tanjung Tokong on the island currently under construction, has been sold by Ivory Group for RM85 million. Atop this podium block with circa 300,000 sq ft NLA will be 2 blocks of condominiums, "City Residences".

Over in Seberang Perai, AmFIRST REIT has inked an agreement on 15 April 2015 to purchase "Mydin Hypermall" for RM250 million. This 3-storey building, erected on a 12.83-acre site along Jalan Baru and currently in its final stages of construction, has an approximate NLA of 536,500 sq ft (inclusive of common area) and will be leased back to Mydin for a tenure of 30 years with a 10% increment every 5 years. The income yield for the first 5 years is 6.5% as per announcement.

Occupancy rates for the prime shopping malls on the island range from 80% to 97.5% whilst for the secondary shopping malls, the range is generally from 70% to 90%.

In prime shopping malls, rental rates for ground floor retail lots generally range from RM13 per sq ft to above RM35 per sq ft per month, depending on the mall, location and size of the units.

OUTLOOK

The market is going through a phase where the general outlook is a mixed one. Due to numerous uncertainties, the outlook for some sectors is still one of caution as the market braces itself for a more challenging scenario. There are some sectors, however, where the outlook appears more optimistic.

The condominium sector is expected to be in consolidation mode with decline in the volume of transactions. The top end of the luxury condominium sector, on the other hand, appears to be holding out as evidenced by the good response to the launch of YTL's Shorefront.

The office market is likely to see stagnation in both occupancy and rentals rates.

The retail scenario is also one of caution as consumer sentiments are not optimistic leading to reduced spending and patronage of retail mall outlets.

Overall, the market is expected to consolidate further amid concerns such a lacklustre economy, reduced availability of loans and the GST.

JOHOR BAHRU MARKET

HIGHLIGHTS

- Iskandar Malaysia continued to register positive growth in investment, both local and foreign. As at March 2015, the cumulative investment was at RM166.10 billion compared to RM138.61 billion in April last year.
- Due to the current uncertainties, particularly in the high-rise residential market, new property launches in this market segment have been few in 1H2015.
- Developers shifting focus to landed residential, commercial and industrial sub-sectors.

MARKET HIGHLIGHTS

As of March 2015, Iskandar Malaysia registered cumulative investment of RM166.10 billion, with circa 31% from the manufacturing sector. Foreign investment made up about 38% of the total with the top five countries being Singapore, the United States, Spain, Japan and China. About 47% or RM78.53 billion of the investment have been realised.

The RM240 million river rehabilitation project under the Phase 1 of the Johor Bahru city centre transformation programme is expected to be completed by 2016. The project kicked off last year with the opening of Sungai Segget.

At Kempas area, the Johor Bahru City Council (MBJB) has allocated about RM10 million in its 2015 budget for infrastructure upgrade including road and drainage works, in view of the growing number of new housing schemes and developments.

Larkin Sentral transport terminal is slotted to be given an upgrading work costing RM10 million by the end of the year to provide better facilities for bus commuters and visitors, including an air-conditioned waiting lounge.

The construction of the Coastal Highway Southern Link, the final stretch of the highway at Nusajaya, has been awarded to Sunway Bhd via a RM169.89 million contract. The proposed project is expected to benefit the surrounding developments, including Sunway's own integrated township, Sunway Iskandar.

The Eleventh Malaysia Plan (11MP), unveiled in May 2015, has identified Johor Bahru as one of the four growth catalyst cities in the country. The proposed major projects which will benefit Johor under the new 5-year plan include new coal-fired and gas-fired power plants, Gemas-Johor Bahru rail route and Kuala Lumpur-Singapore High Speed Rail.

Notable property transactions in Johor include CAB Cakaran Corp Bhd's acquisition of 25 parcels of agricultural land together with farm houses at various locations for RM41 million in December 2014, being part of its poultry business expansion plan.

China-based developer, Greenland, kick-start 2015 with a second investment in Iskandar Malaysia - a joint-venture (JV) with Iskandar Waterfront City Bhd to acquire 128 acres of land at Plentong for RM2.4 billion or about RM430 per sq ft. The new JV company will develop mixed-use urban development on the site which will include a snow world theme park, an opera house, a hospital specializing in Chinese traditional medicine and a school, dubbed Tebrau Waterfront City with an estimated GDV of RM3 billion, spanning over a 15-year period. The China company is also reportedly looking at acquiring about 1,200 acres to 1,400 acres of industrial land near the Tanjung Langsat Industrial Complex (TLIC).

In a related party transaction in February 2015, healthcare operator and investment holding company TMC Life Sciences Bhd has acquired Thomson Iskandar, a medical hub project located on a 3.95-acre site at Stulang Laut, Johor Bahru for RM400 million. The medical hub will entail a hospital named Iskandariah Hospital and will be managed by Thomson International, a subsidiary of Singapore private hospital owner and operator, Thomson Medical Pte Lte.

In April 2015, Iskandar Waterfront City Bhd acquired a 67.5-acre freehold land at Pulai for RM156 million or RM53 per sq ft. The company is proposing a mixed development with an expected GDV of RM629 million.

In a move to expand its property portfolio and enhance its presence in Johor, Berjaya Assets Bhd has in April 2015 purchased about 282,373 sq ft of office space within in Menara MSC Cyberport in Johor Bahru CBD. The consideration is reported at RM107.5 million, analysed at circa RM380 per sq ft.

Following the completion of Tropez Residences earlier this year, Knusford Bhd has entered into a sale and purchase agreement with Tropicana Danga Bay Sdn Bhd to acquire 11 retail units within the mixed development at Danga Bay. The purchase price is RM9.07 million or about RM840 per sq ft on a total floor area of 10,797 sq ft.

China developer, Country Garden, has resumed reclamation works at the Forest City project in Tanjung Kupang in March 2015 after receiving approvals from the Department of Environment (DOE) earlier of the year. The approvals were granted with a reduction in land area from the original planned 4,888 acres to 3,245 acres.

Besides the Pengerang Terminal Phase 1 at the Refinery and Petrochemical Integrated Development (RAPID), Petronas is working together with Dialog and Royal Vopak to develop Phase 2, estimated to cost close to RM12 billion. It includes the construction of storage facility of circa

2.1 million cubic metres and a deepwater jetty, to be built on a 157-acre site.

The first commercial crude oil tank farm in South East Asia by Vopak has commenced operations in March 2015. The crude oil storage space in Pengerang have been leased to BP and Total.

The proposed Sedenak Iskandar Data Hub (SIDH) on a 700-acre site targets local and global data centre companies. It will help to position Malaysia / Johor as a world-class data hub centre in the ASEAN region.

Telekom Malaysia Bhd signed an agreement with Nusajaya Tech Park Sdn Bhd in March 2015 for the purchase of a 7.94-acre freehold land parcel in Nusajaya Tech Park, Iskandar Malaysia. Telekom will develop a data centre to realise the aspiration of "Nusajaya Smart City" to be the strategic commercial hub in the region.

The upcoming Monsoon Cup racing competition in Johor, another international event after the Kite Festival and Malaysia Rally, is expected to boost the state's economy with contributions from sectors such as hotel, retail, food & beverage, transport and other related industries.

The Johor state government has pre-announced the designation of a special zone for foreign buyers in Johor Bahru - to be separated into two identified areas. The plans are expected to be showcased to the public, either in July or August 2015. This is intended to channel foreign investment to designated areas and reduce competition in areas for local ownership.

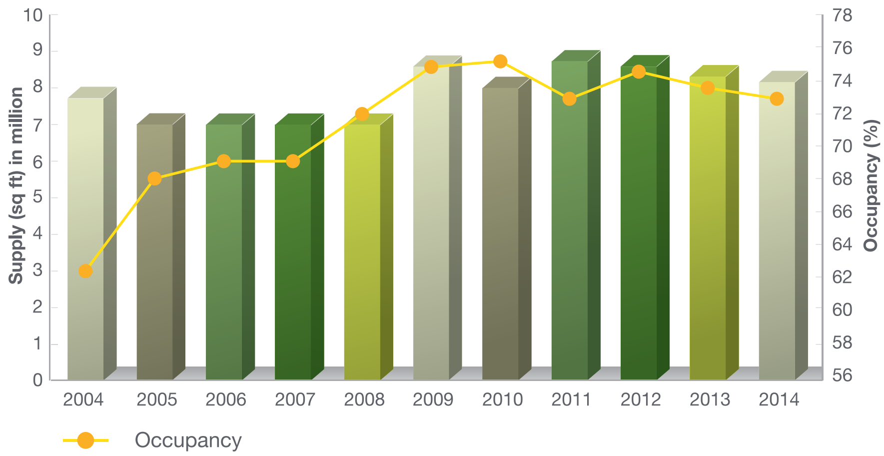
RESIDENTIAL

Due to uncertainties caused by negative external news and the concern over a possible oversupply of residential units especially in the high-rise sector, there has been a significant reduction in the number of new launches. Some of the notable residential launches in the first half of 2015 are as follows.

Sovereign Bay, a 4-acre freehold serviced residences development at Bandar Baru Permas Jaya by UE E&C Sanjia (M) Sdn

FIGURE 5

Office Supply and Occupancy Trend in Johor Bahru (2004 – 2014)



Source: Knight Frank Research / NAPIC

Bhd. The development offers a total of 948 units of serviced apartments with a Condotel concept. The built-up areas are from 533 sq ft to 1,449 sq ft and prices start from RM650 per sq ft. To date, the project has achieved circa 70% sales.

Sungai Pulai Wellness Resort, a low-density mixed development by MB Group located on a 74.46-acre site next to a wetland reserve. The first phase, Canopus Residence, comprises 656 units of low-rise apartments with built-up areas from 1,210 sq ft to 1,585 sq ft. Prices start from RM1,081,000 per unit. The project is currently open for sale to the international market only. Other components include a Wellness Clubhouse, an international brand hotel, landed residential homes and a proposed eco park.

Opal Residenz, the latest introduction by UM Land for its ongoing Bandar Seri Alam, Masai. Sitting on a 17-acre site within the township, it comprises a total of 174 cluster and semi-detached houses. The land and built-up areas of the cluster houses are 2,240 sq ft and 2,296 sq ft respectively, selling from RM951,000; whilst the semi-detached houses have land and built-up areas of 2,560 sq ft and 2,303 sq ft respectively, selling from RM1.1 million per unit.

Scientex Berhad is to build 1,420 units of affordable homes in Pasir Gudang under state government's Rumah Mampu Milik Johor (RMMJ) programme. The prices will range between RM80,000 and RM150,000 per unit. The project, with an estimated GDV of RM184 million, is located approximately 24km from Johor Bahru and is slated for completion in 2017.

In May 2015, UEM Sunrise officially previewed Phase 1 of Estuari in Puteri Harbour, Nusajaya, Johor. Covering about 48 acres, Phase 1 which has a GDV of RM533 million, will offer 346 units of 2-storey superlink houses with built-up areas from 2,708 sq ft. Prices start from RM1.4 million per unit onwards with special sales package.

BCB Berhad will launch the Elysia Park Residences in the second half of 2015. Sited on 7.82 acres of leasehold land in Medini, the project with 961 units are available in eight layouts, with gross areas ranging from 515 sq ft to 1,251 sq ft. The units are targeted at homeowners, young couples and families.

UM City Medini Lakeside, a premier waterfront mixed development project by UM Land in Medini, Iskandar Malaysia held a groundbreaking celebration in late May 2015. The project's position as the premier development in Medini and Iskandar has been strengthened via tie-ups with international and established brands such as Samsung (Samsung C&T, Samsung Malaysia Electronics and Samsung S-1 Security Solutions Korea), Citadines, Shama, OZO, Regus, and MBO

Cinemas, providing a new level of quality services within Iskandar Malaysia.

The Straits luxurious suites, located at Jalan Abdul Samad in Johor Bahru, will offer 128 units of fully furnished serviced apartments. The entire block will be operated by Ramada Hotel to a 4-star standard according to developer, Sonata Resources Sdn Bhd. The freehold development is well located and offers unobstructed views of both Straits of Johor and Coast of Singapore. The units (include dual-key type and penthouses) with various sizing from 868 sq ft to 3,680 sq ft are currently selling from RM697,000 to RM3.436 million gross. Knight Frank Malaysia is the exclusive marketing agent for the project.

OFFICE

As at end of 2014, the total net lettable area (NLA) of purpose-built office space which includes private buildings and government buildings in Johor Bahru stands at approximately 8.4 million sq ft with an overall average occupancy rate of about 73.8%, a slight increase as compared to the previous quarter.

Private buildings currently accounts for approximately 70% (5.87 million sq ft) of total purpose-built office space in Johor Bharu. Rentals for prime and non-prime CBD office space remained stable with asking rental rates for prime space ranging from RM2.50 per sq ft to RM3.50 per sq ft per month while non-prime office space command rental rates between RM1.80 per sq ft and RM2.50 per sq ft per month. These rates are generally inclusive of the provision of shared services comprising centralized air conditioning, security and cleaning services at the common areas.

The Elysia Park Residence @ Medini

The under-construction purpose-built office building in Puteri Harbour by UEM Sunrise will offer more than 170,000 sq ft of NLA when completed. The current stage of construction is observed to be over 95% completion.

Several integrated developments have plans to incorporate purpose-built office buildings as one of their key components. They include Medini Empire, Zikay @ Medini, Southkey, Vantage Bay, VOLT Corporate Park and 18 @ Medini.

RETAIL

As at end of 2014, the total NLA of retail space (includes shopping centres, arcades and stand-alone hypermarkets) in Johor Bahru stands at about 11.6 million sq ft with average occupancy at 75.6%. Prime retail space continued to perform well with occupancy rates recorded in excess of 80%, commanding gross rentals ranging from RM15 per sq ft to RM40 per sq ft per month.

It was reported in December 2014 that Daiman Development Bhd and Publiq Development Group Sdn Bhd have teamed up to develop a 12.3-acre site at Plentong into a mixed development, comprising retail lots, business suites, a business hotel and serviced residences. Phase 1 will offer circa 420,000 sq ft of retail space with individual retail lots ranging from 800 sq ft to 1,500 sq ft.

Several other upcoming integrated developments with retail component include Zikay @ Medini, Medini Empire, D'Pristine, Meridin @ Senibong, 18 @ Medini, Vantage Bay, Sunway Medini, The Suasana and Iskandar Residences.

OUTLOOK

Following the cooling measures and tighter lending conditions implemented in 2014, the property market in Iskandar Malaysia has seen a rather stagnant progress within the review period. Declining transaction volume has triggered some concern to be flagged in research reports and property news. On the ground, developers are holding back or postponing property launches especially for the high-rise residential units, in view of the slower absorption rate as a result of the wait-and-see attitude by potential purchasers. The impact of the recently implemented Goods and Services Tax (GST) on the overall property market is yet to be seen.

The state government is well aware of the alarm raised in the high-rise residential sector and has temporarily halted new approval for these developments, paving way for the Town and Country Planning Department to draft a guideline to address the issue.

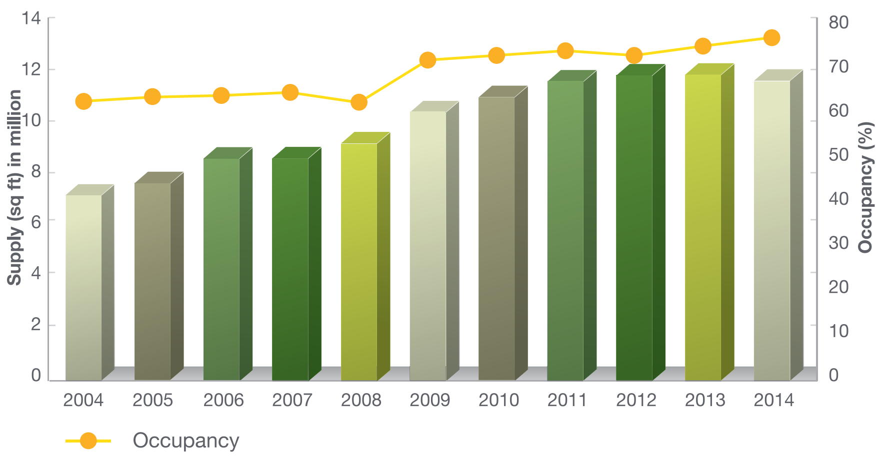

The Straits @ Jalan Abdul Samad

In the meantime, the general focus of interest is expected to shift to commercial and industrial property sectors at selected locations, while the region takes its time to digest the existing and incoming high-rise residential supply. Landed residential homes, however, is expected to be well received by the local (Johorean) market.

Going forward, the general outlook for the property market in Iskandar Malaysia remains cautiously optimistic.

FIGURE 6

Retail Supply and Occupancy Trend in Johor Bahru (2004 – 2014)



Source: Knight Frank Research / NAPIC

KOTA KINABALU

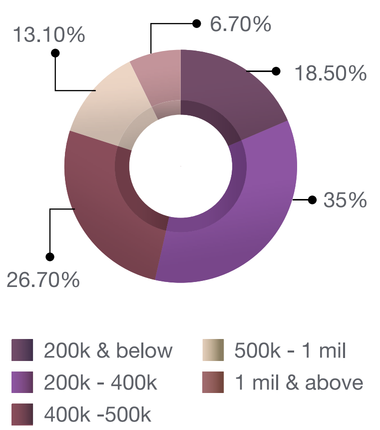
HIGHLIGHTS

- Pent-up demand. Transaction volume will only increase if lending conditions improve.
- Weak Ringgit spurs foreign interest in Kota Kinabalu properties.
- Completions of Oceanus Mall, Imago Mall and Gleneagles Hospital have invigorated the southern corridor of the city.
- Anticipated new launches in 2H2015 at Jesselton Quay, One Jesselton Waterfront and KK Convention City.

MARKET INDICATIONS

The first half of 2015 remained relatively stagnant with no significant new developments being released into the market, however values across all sectors remain stable. In light of tighter lending conditions and the impact of the recently implemented GST, transactional activity was largely limited to properties in the secondary market and balance units in under construction projects. We maintain our view that there is pent-up demand due to limited new supply. However, the current stringent lending conditions need to improve before market momentum returns.

FIGURE 7
Percentage of Total Transaction by Pricing



Source: Knight Frank Research / NAPIC

TABLE 4
Notable Land Transactions in Kota Kinabalu

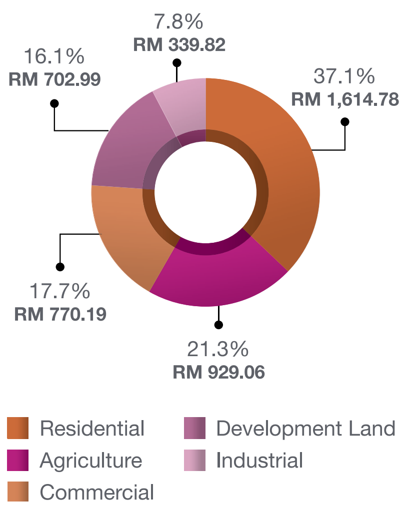
Transaction Date	Purchaser	Land Size [acre]	Purchase Price [RM psf]	Location
Aug 2014	Bertam Development Sdn Bhd	0.256	346	Luyang
Jan 2015	Monaco Dynasty Hotel Sdn Bhd	0.083	736	City Centre
Jan 2015	White Horse Ceramic Industries Sdn Bhd	2.430	104	Kg. Rampayan
Jan 2015	ST Land Sdn Bhd	1.150	150	Kolombong
Feb 2015	Grace Entity Sdn Bhd	0.519	250	Bukit Padang
June 2015	Ho Hup Ventures (KK) Sdn Bhd and Tribeca Real Estate Asset Management Sdn Bhd	5	Undisclosed Price	KK City Centre

Source: JPPH / Knight Frank Research

The completions of Oceanus Mall, Imago Mall and the private Gleneagles Hospital have enhanced the southern corridor of the city, offering greater choice of amenities and services to both locals and tourists.

The weakened Ringgit has spurred an increase in foreign interest, particularly for luxury properties priced at RM1,000 per sq ft and above as well as prime land in the city area. We believe that this trend will continue to grow with the entry of more new projects that meet the requirements of foreign investors.

FIGURE 8
Value of Transactions by Property Sub-sectors



Source: Knight Frank Research / NAPIC

Based on the Property Market Report 2014 by JPPH, there was a total of 8,926 transactions in Sabah in 2014 with a corresponding value of RM4.357 billion, 2% less than in 2013. 80.2% of total transfers were priced below RM500,000 and only 6.7% were priced at RM1 million and above. Most of the transactions were from the residential sub-sector with a total transacted value of circa RM1.615 billion or about 37.1% whereas the least active sub-sector was industrial which only contributed a total transacted value of about RM340 million or 7.8%.

For the January to March 2015 period, Sabah welcomed 768,261 tourist arrivals, lower when compared to the corresponding period in 2013, with 843,415 arrivals.

China opened its consulate office in Kota Kinabalu on 27 April 2015, its second in the country. The consular office is expected to offer full-fledged services later this year. With this, we will expect to see an increase in tourist arrivals from China.

Construction of two flyovers at Jalan Kolam traffic light intersection and Mile 5.5, Jalan Tuaran, were initiated on 9 January 2015 and completion is expected by July 2017. A fund of RM217.9 million has been allocated and released by the Federal Government for the construction of the bridges.

The construction of the Pan Borneo Highway has finally begun after 52 years since it was first mooted. Costing an estimated RM27 billion, it involves the construction of a total of 1,663 km of road in Sabah (727 km) and Sarawak (936 km) to be completed by 2023. The first phase of construction officially began in March 2015, in Sarawak. This will be the main artery connecting both states in future. In Sabah, it involves the upgrading of Jalan Donggongon to Papar Spur Junction (13.7 km), Jalan Petagas to Lokkawi (6 km), Tawau Airport junction to Semporna Town (15 km) and Jalan Segama Lahad Datu (5.6 km).

Gabungan AQRS Bhd has signed a joint-venture agreement with Suria Capital on 16 March 2015 for a proposed mixed development. This project, spanning over 7 acres at the old Jesselton port area, has an estimated GDV of RM1.8 billion of which Suria Capital will be entitled to 18% of the sales proceeds. The site is strategically situated along Jalan Tanjung Lipat, in the extended northern fringe of KK CBD. The project, known as One Jesselton Waterfront, will comprise residential units, retail lots (Suria Retail witha total NFA of 74,892 sq ft), office tower, a shopping mall (One Jesselton Mall with NFA of 473,795 sq ft), Suria Corporate Offices (total NFA of 74,487 sq ft), serviced suites and serviced apartments.

Kota Kinabalu Convention City (KKCC) is a waterfront integrated mixed development spanning over 8.4 acres along Jalan Tanjung Lipat at the northern fringe of KK CBD. The project, with an estimated GDV of RM1.4 billion, is the second project by Mah Sing Group in Kota Kinabalu. The masterplan consists of 3, 4 and 5 star hotels, lifestyle retail shops and mall, office tower and serviced residences. The 5-star hotel is to be operated by Pullman Hotel.

Skycity mixed development is a joint-venture by Homesign Network Sdn. Bhd and the Ministry of Local Government and Housing Sabah (KKTP) Sdn Bhd. It is located at Karamunsing and will comprise a 5-star hotel to be managed by New World Hotels & Resorts, Grade-A offices, a shopping mall and two towers of residential suites. The serviced residences come in three layouts with unit sizing ranging from 709 sq ft to 902 sq ft whereas the boutique apartments with four layout designs have built-ups from 776 sq ft to 1,908 sq ft.

Gleneagles Kota Kinabalu which forms part of the Riverson mixed development, situated at the expanded southern fringe of KK CBD, officially opened on 5 May 2015. Gleneagles Kota Kinabalu is a branch of Pantai Medical Centre Sdn Bhd under Parkway Pantai Limited. It is built in compliance with the Joint Commission International (JCI) standards and has a total capacity of 200 inpatient beds, 78 medical suites, 6 operating theatres, 15 intensive care units, 7 neonatal intensive care units, and 6 labour and delivery suites.

In June, Ho Hup Ventures (KK) along with Tribeca Real Estate Asset Management acquired 70% shares in one of the city's last prime waterfront locations at an undisclosed price. The 5 acre site is approved for a mixed use development comprising a luxury hotel, condominiums and retail, and has been valued at RM 185 million.

RESIDENTIAL

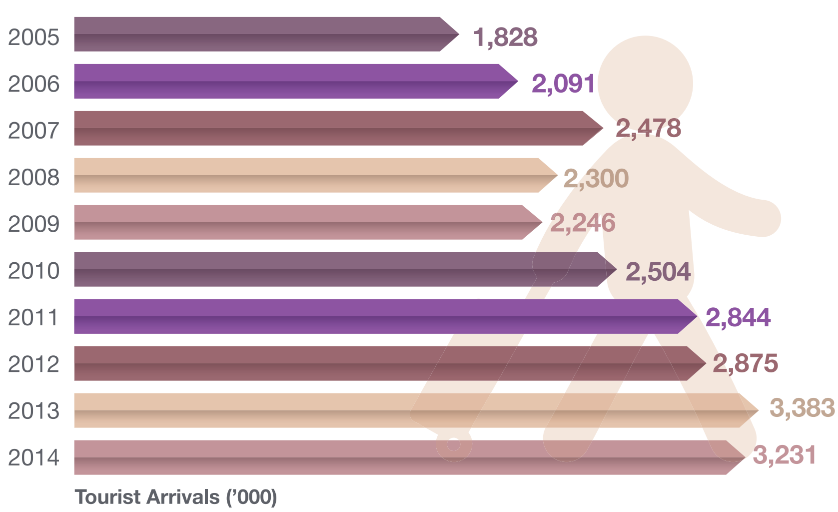
There were no notable new launches of residential projects in 1H2015. Updates of selected residential / integrated projects in Kota Kinabalu are as follow:

Ascott Ltd, a wholly-owned serviced by CapitaLand, has expanded its presence into Sabah by securing a management contract for a 253-unit serviced residences to be known as Citadines Waterfront Kota Kinabalu with opening expected by 2018. The site was previously known as Blu Summer Suites development.

Princess Heights is a mixed development by Hardie Development Sdn Bhd (HDSB), spanning over 109.41 acres of lands situated at Menggatal. A total of 96 units of double storey terraced houses and 2½-storey townhouses with gross built-up areas ranging from 1,902 sq ft to 2,489 sq ft have been launched. Mydin Hypermarket will be part of the future developments of Princess Heights. The hypermarket will be constructed on 11 acres of land and anticipated to have a total gross floor area (GFA) of about 900,000 sq ft together with 800 car parking bays.

Kingfisher Inanam Condominium, a gated and guarded project by Hap Seng

FIGURE 9
Visitor Arrivals to Sabah



Source: Sabah Tourism / Knight Frank Research

TABLE 5

Incoming Supply of Selected Medium to High-End Condominiums

Development	Location	Year Launched	Expected Completion	Total Units
Pelagos Designer Suites	KK CBD	2008	4Q2015	103
Bay 21	Likas Bay	2010	4Q2015	150
The Loft C, D & E, KK Times Square Phase 2	Southern fringe of KK CBD	By stages since 2011	2H2015	631
Jesselton Residences	KK CBD	2011	3Q2016	333
Canggih Heights	Tuaran Bypass	2011	2015	92
Jade Residences	Fung Yei Ting	2011	2015	135
Riverson SOHO	Southern fringe of KK CBD	2011	2015	152
Tropicana Landmark	Bundusan	2012	2015	149
The Bay Residences	Likas Bay	2012	2015	82
The Light Residences	Penampang Bypass	2012	2015	228
Seri Manis Condominium	Kolombong	2012	2015	50
The Suritz	Kolombong	2012	2015	128
Jing Yuen Condominuim	Bukit Padang	2013	2015	64
Jesselton View	Hilltop	2014	1H2016	80
Harrington Suites	Luyang	2014	2Q2017	116
Khidmat Condominium	Bukit Padang	-	4Q2015	36

Source: Knight Frank Research

TABLE 6

Average Asking Prices of Selected Existing High-End Condominiums

Development	Asking Price (RM psf)
KKCBD	
The Loft	600 - 1,200
Marina Court	500 - 800
Signal Hill	
The Peak Vista / The Peak	600 - 1,200
The Peak SOHO / Suites	450 - 850
Bayshore Condo	500 - 550
Likas / Damai / Luyang	
Puncak Luyang	500 - 700
Alam Damai	600 - 700
Puteri Damai	550 - 720
Jesselton Condominium	550 - 720
Radiant Tower	500 - 600
Likas Square	400 - 450
Kepayan	
Surian Residences	400 - 500
Hartamas Heights	450 - 500

Source: Knight Frank Research

Properties Development Sdn Bhd, is expected to be launched by 2H2015. It will offers various layouts with unit sizing ranging from 865 sq ft to 1,160 sq ft.

The Loft A and Loft B of KK Times Square Phase 2 development, together with the Imago Mall are now complete with OC issued. The remaining of the residential blocks are expected to obtain their OC in 2H2015.

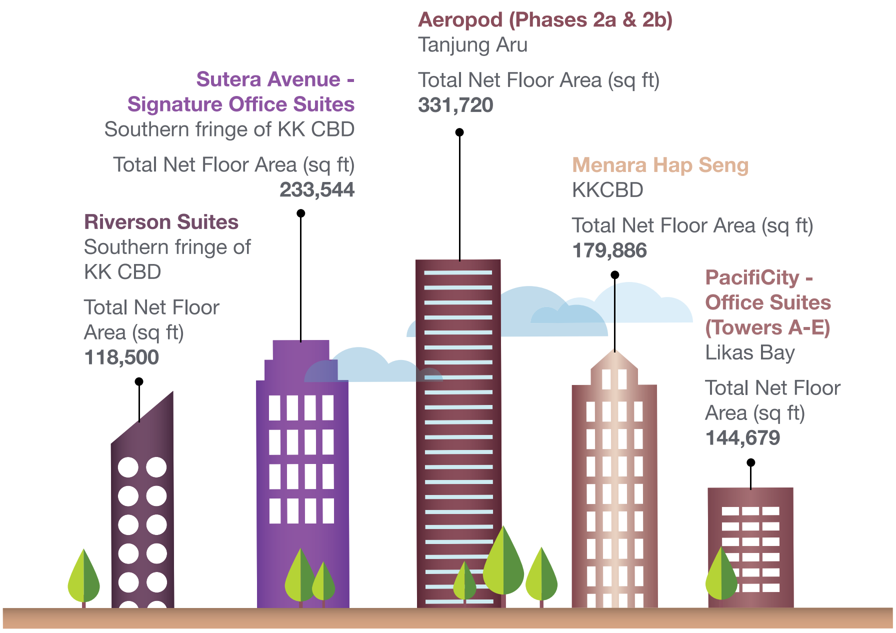
OFFICE

With no new supply of office space since 2012, the existing stock remains at 6.16 million sq ft with a healthy average occupancy rate of 91.6%. By the second halfof 2015, there will be a total of 298,396 sq ft of new space from Menara Hap Seng and Riverson Suites.

SP Setia launched another phase of its Small office Versatile office (SoVo)

Menara Hap Seng as at May 2015. Image courtesy of Dragonfly Robotix

FIGURE 10
Incoming Supply of Selected New Office Space



Source: Knight Frank Research

suites in February 2015 - Block K2 of the Aeropod mixed development. There are three layouts with built-up areas of 330 sq ft, 438 sq ft and the dual-key 1,202 sq ft. Block K1 and Block K2, with a total of 170 units of SoVo suites, are expected to be completed by 2016.

Pacific Sanctuary Holdings Sdn Bhd has launched its Grade-A office suites that form part of the integrated PacifiCity development. The 56 units of office suites will have a total NFA of 144,679 sq ft, spread across 5 adjoining blocks (Blocks A, B and C with 8 units each and Blocks D & E with 16 units each). The office suites, sized from 658 sq ft to 10,032 sq ft are priced from RM728 per sq ft to RM888 per sq ft.

RETAIL

The completions of Oceanus Mall and Imago Mall @ KK Times Square Phase 2, with NLA of 260,300 sq ft and 782,925 sq ft respectively, have added 22.7% additional space to the existing supply. There are 19 shopping malls currently in Kota Kinabalu with total NLA of 5.65 million sq ft retail space.

Inanam Mall, a project developed by Upyield Progress Sdn Bhd, spanning over 1.15 acres of land is located along Jalan Tuaran in the vicinity of Inanam Industrial Belt. It has a total GDV of RM200 million and is scheduled to be completed in 4Q2017. This project comprises 159 units of retail lots ranging from 175 sq ft to 1,044 sq ft, priced from RM1,100 per sq ft up to RM3,000 per sq ft. Besides, a 10-storey hotel with 190 keys will be constructed on top of the mall podium.

Grand Merdeka Mall consists of 800 units of retail lots with a total NLA of 276,000 sq ft. The developer will withhold 60% of the retail space and sell the smaller units ranging from 103 sq ft to 457 sq ft with prices from RM650 per sq ft onwards.

FIGURE 11
Future Supply of Retail Space in Kota Kinabalu

Source: Knight Frank Research

Southern fringe of the extended Kota Kinabalu CBD. Image courtesy of Dragonfly Robotix

OUTLOOK

Until lending conditions improve we continue to hold our position that the Kota Kinabalu property market will remain stable in terms of values, but transaction volumes will remain low. This is also a reflection of the diminished release of supply to the market.

It is anticipated that developers at the old Jesselton Port area will launch new mixed-use products within the second half of this year. Take-up rates amongst high net worth domestic investors and regional foreign investors should ensure some sales momentum given the waterfront location and growing appeal of prime properties to offshore buyers.

Office rents will remain stable with vacancy projected at sub 10% due to limited supply of new space.

The outlook on retail will very much depend on tourism arrivals and consumer spending habits going forward. The completions of Oceanus Mall and Imago mall have significantly increased retail space in Kota Kinabalu and it is yet to be seen whether this will be sustainable.

Our outlook on the Kota Kinabalu market is still optimistic in the medium to long term. The consolidation and lull in the market is being felt regionally, however we expect a strong rebound as investment conditions improve.

The ringgit's continuing slide against worldwide currency baskets is likely to attract a significant amount of foreign investment for the right properties and land during the second half of the year.

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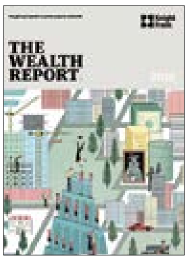

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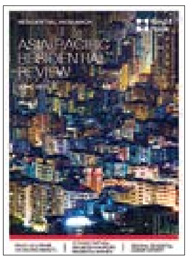
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