RESEARCH

REAL ESTATE HIGHLIGHTS

2ND HALF 2014

KUALA LUMPUR | PENANG | JOHOR BAHRU | KOTA KINABALU

HIGHLIGHTS

Slowdown in residential property market continues with noticeably less activities, both primary and secondary.

Loan approval rates soften impacted by the cooling measures.

Ahead of the GST implementation in April 2015, more developers are expected to launch their projects while widening their target catchment by marketing overseas.

The recent plunge in crude oil prices and lower trade surplus could further undermine the country's economy and its property market especially if they are prolonged.

KUALA LUMPUR HIGH END CONDOMINIUM MARKET

MARKET INDICATIONS

Malaysia's economy which recorded an impressive gross domestic product (GDP) growth of 6.3% in 1H2014, moderated to register a 5.6% growth in the third quarter (2Q2014: 6.5%). For the whole year, the country's growth target remains at between 5.5% and 6.0%.

Private consumption expanded 6.7% in 3Q2014 (2Q2014: 6.5%) while private investment grew at a slower pace of 6.8% (2Q2014: 12.1%).

The Consumer Price Index (CPI) for November increased by 3.0%. For the January to November 2014 period, the CPI was up 3.2% compared to the corresponding period in 2013.

Unemployment rate, meanwhile, was recorded at 2.7% in September (2Q2014: 2.8%).

On July 10, 2014, Bank Negara Malaysia raised the Overnight Policy Rate (OPR) by 25 basis points to 3.25%, the first hike since May 2011 on the back of the country's steady economic growth performance.

SUPPLY & DEMAND

The cumulative supply of high end condominiums in Kuala Lumpur stands at 38,314 units following the completion of six notable projects which contributed an additional 2,092 units [includes projects that are physically completed but pending issuance of Certificate of Completion and Compliance (CCC)] to the market. Close to half of the completed units (51% or 1,065 units) are located in the Ampang Hilir / U Thant area, followed by KL City with 671 units (32%), while the remaining 356 units (17%) are from the locality of Mont' Kiara / Sri Hartamas.

The six completions are evenly spread out in terms of locality, two in KL City, namely Celeste Tower @ Setia Sky Residences and 188 Suites, two in Ampang Hilir / U Thant (Nobleton Crest and The Elements @ Ampang Towers 1 & 2), and two in Mont' Kiara / Sri Hartamas (The Signature Block A and The Icon Residences Towers A & B).

By first half of 2015, a total of some 4,929 units from 19 projects are expected to come on-stream. The locality of Ampang Hilir / U-Thant will account for circa 32% of the new supply, followed by Mont' Kiara / Sri Hartamas with 25%, KL City with 24% and the remaining 19% from the locality of KL Sentral / Pantai / Damansara Heights.

Notable projects slated for completion in KL City include Le Nouvel, The Ritz Carlton Residences, Mirage Residence and The Horizon Residence as well as the delayed project of Crest Jalan Sultan Ismail. Other projects include Rimbun Embassy Row, M City, G Residence, Damai 88, Madge Mansion, 9 Madge and A Residency D'Suria in Ampang / U-Thant; The Residences at The St. Regis Kuala Lumpur, Saville Bangsar@ The Park Block A, and DC Residency in KL Sentral / Pantai / Damansara Heights; The Icon Residence Tower C, The Signature Block B, Concerto North Kiara and Verdana North Kiara.

The series of cooling measures implemented under Budget 2014 continued to impact the high end residential market. In the second half of 2014, there were even fewer projects previewed / launched when compared to the preceding half of the year.

The previews and launches include Grand i-Residence, Tribeca FLH Collection, The Robertson South Tower and The Opus in KL City; Damai Residence and Novo Ampang in Ampang Hilir / U-Thant; and Pavilion Hilltop Block C in Mont' Kiara.

Grand i-Residence by I-Berhad, opened for sale in October 2014. The units, sized from 700 sq ft to 1,600 sq ft, are priced at RM2,300 per sq ft on average.

In late-September, Bakti Dinamik Sdn Bhd, a subsidiary of Low Yat Group, held a preview of its branded residences under the Tribeca Fairlane Hospitality (FLH) Collection. It offers a total of 108 units in studio, suite and loft layout configurations with built-up areas from

510 sq ft to 1,293 sq ft, priced from RM2,500 per sq ft. To date, it has reportedly achieved circa 65% sales rate. Owners of the FLH units will enjoy full asset management services offered by Fairlane Hospitality.

Located at the fringe of Bukit Bintang, The Robertson South Tower by Gamuda Berhad was launched in October, offering 418 units sized from 527 sq ft to 807 sq ft. The units are priced at RM1,350 per sq ft on average.

The Opus Tower 2 by Bina Puri Holdings Berhad, opened for bookings / registration in December. The project offers 152 fully furnished service apartment units with built-up areas from 692 sq ft to 1,071 sq ft. The residential tower has been marketed in Shanghai, Taipei and Guangzhou at circa RM1,500 per sq ft and to date, has reportedly achieved circa 30% sales.

In early July, Permata Cermat Sdn Bhd (a joint-venture [JV] between Pavilion Group and Kuwait Finance House) held a preview of its final phase - Block C of Pavilion Hilltop in the Mont' Kiara vicinity, offering a total of 168 units with sizing from 2,702 sq ft to 2,874 sq ft at average selling price of RM1,000 per sq ft.

Notable projects planned for launch in 1H2015 include 8 Conlay, Cecil Central Residences Tower 1, Star Residences Tower 2, Stonor 3 and Face Platinum Suites Phase 2 in KL City; KL Eco City Vogue Suites Tower 2/Serviced Apartments & Residences in Kg. Haji Abdullah Hukum / Mid Valley; Ridge Embassy Row in Ampang Hilir / U-Thant; Pantai Sentral Park Phase 2 in Pantai; and Ardena in Mont' Kiara.

Located at Jalan Conlay, 8 Conlay is KSK Group's maiden mixed development on a 3.95-acre site, featuring two blocks of branded serviced residences, a 5-star hotel and a 200,000 sq ft retail podium. The two residential towers will offer a total of 1,092 units with typical sizing between 650 sq ft and 1,300 sq ft, to be priced at about RM2,700 per sq ft on average. In October, the developer announced its partnership with Hong Kong-based international designer, YOO, to undertake the design of its Phase 1 – Tower A's residences and amenities and in November, its partnership with Kempinski Hotels, Europe's oldest luxury hotel group for the hotel component.

PRICES & RENTALS

With most launches in 2H2014 unveiled post Budget 2015, the response in terms of bookings translating into sales remained to be seen due to the high rejection rates for loan applications. In the secondary market, there were also noticeably less activities and enquiries as potential buyers hold back on their purchases amid softening in the property market. Prices, however, continued to hold steady.

Branded serviced residence projects continued to raise the bar of luxury and modern living with launch prices exceeding RM2,000 per sq ft, evident by the recent launch and indicative pricing for Tribeca FLH Collection and 8 Conlay. Four Seasons Place set a new benchmark price in KL City with a recent transaction reportedly at RM3,300 per sq ft.

Although there were new completions totalling some 671 units in KL City, asking prices continued to remain stable while rents were marginally down in selected less prominent schemes.

In the Ampang Hilir / U-Thant area, the recent completion of some 1,065 units has led to a softening in the rental

Nobleton Crest

TABLE 1
Completion of High End Condominiums in 2H2014

Project	Location	Area	Total Units
Nobleton Crest	Jalan U-Thant	Ampang / U-Thant	25
The Element@ Ampang	Jalan Ampang	KL City	1040
Celeste Tower @ Setia Sky Residences	Jalan Tun Razak	KL City	225
188 Suites*	Jalan Sultan Ismail	KL City	446
The Signature Block A*	Desa Sri Hartamas	Mont' Kiara / Sri Hartamas	206
The Icon Residence Towers A & B	Persiaran Dutamas	Mont' Kiara / Sri Hartamas	150

* Pending Certificate of Completion and Compliance (CCC)

Source: Knight Frank Research

market. Similarly, asking rents in Mont' Kiara / Sri Hartamas also weakened although asking prices remained fairly stable.

With no significant completion noted in Damansara Heights, asking prices and rents continued to hold firm while in the popular Bangsar enclave, asking prices were marginally higher during the review period while rents remained steady.

Going forward, with a high supply pipeline of existing and incoming projects, the rental market will continue to face further pressure in selected locations where there are weak occupational demand and high project completions. Yields will continue to be compressed in line with the lagging rental market.

OUTLOOK

Overall, the slew of macro prudential measures by the central bank has succeeded in cooling the property market. The market is anticipated to continue its lacklustre performance into 2015 amid uncertainties surrounding the implementation of the Goods and Services Tax (GST) in April 2015. The recent plunge in crude oil prices and lower trade surplus could further undermine the country's economy and its property market especially if they are prolonged.

The focus is now on the affordable housing market segment. In Budget 2015, the government introduced the Youth Housing Scheme, a smart partnership between the government, Bank Simpanan Nasional, Employees Provident Fund (EPF) and Cagamas; announced that more housing units will be built under 1Malaysia People's Housing Programme (PR1MA) and extended the 50% stamp duty exemption until 31 December 2016 amongst measures to assist youths and first-time home buyers.

Ahead of the GST implementation next year, more developers are expected to launch their projects in the coming months.

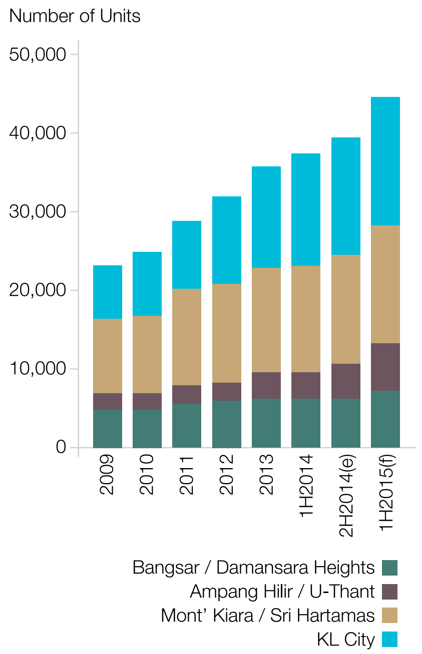
In the high end condominium segment, demand continues to trail supply, and with an estimated 4,929 units anticipated to enter the market by the first half of 2015, coupled with the high level of existing supply in the market, the overall outlook is one of caution.

Amid heightened competition and a challenging market environment, developers are expected to review their pricing and marketing strategies to ensure product differentiation in a move to improve the sales of their projects. More developers are also widening their target catchment by marketing overseas.

Malaysia is ranked 19th in the most desired destination for expatriates from 34 countries according to The Expat Explorer 2014 Survey commissioned by HSBC Expat while neighbouring ASEAN countries of Singapore and Thailand are ranked second and seventh respectively. Also, in the seventh Expat Explorer survey conducted by YouGov involving over 9,300 expatriates, Malaysia was placed 19th for quality of life, financial well-being and the ease of raising a family abroad with Switzerland, China and Singapore in the top three.

The results of these surveys augur well for Malaysia in its effort to attract more foreign direct investments (FDI), expatriates and MM2H participants.

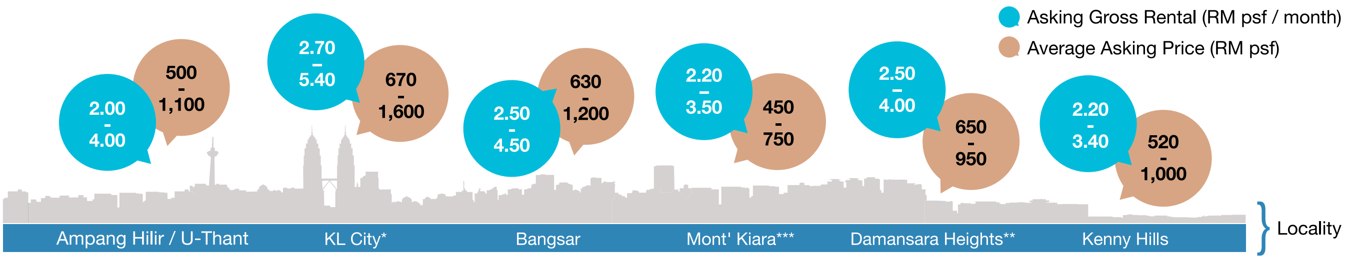
FIGURE 1
Projection of Cumulative Supply for High End Condominiums
2009 – 1H2015(f)



Source: Knight Frank Research

Note: [e] = estimate; [f] = forecast

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



* Excludes Binjai On The Park

** Includes Twins @ Damansara Heights

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

Source: Knight Frank Research

HIGHLIGHTS

The Kuala Lumpur office market continues to favour tenants.

Despite mismatch in supply and demand, rents continue to hold firm with marginal improvement in overall occupancy rate.

Concerted efforts by both MIDA and InvestKL continue to produce positive results.

Malaysia moved up two notches to rank 18th in the World Bank's Doing Business 2015 Report, the first among emerging East Asian economies.

KUALA LUMPUR OFFICE MARKET

MARKET INDICATIONS

The Kuala Lumpur office market was resilient in 2H2014, posting a marginal increase in overall occupancy rate while rental rates continued to hold steady.

The investment market was fairly quiet during the review period with only one notable transaction reported in KL City.

SUPPLY & DEMAND

During the review period, the cumulative supply of purpose built office space in KL City was recorded at 48.9 million sq ft while in KL City Fringe, cumulative supply was unchanged at 21.5 million. This brings the total cumulative supply of office space in Kuala Lumpur to 70.4 million sq ft.

Menara Hap Seng 2, a 30-storey "Grade A" GBI certified office tower, with 326,000 sq ft NLA was completed in 4Q2014. MSIG Insurance (Malaysia) Bhd is one of its first tenants, relocating from Menara Weld.

The scheduled completions of Crest Jalan Sultan Ismail (190,400 sq ft) and Menara MBMR (240,000 sq ft NLA) have been delayed to 1H2015.

By 1H2015, another four office buildings with combined NLA of 1.65 million sq ft are expected to be completed. They are Menara Bangkok Bank, Ilham Baru (IB) Tower and Naza Tower in KL City and Ken TTDI in KL City Fringe.

During the period under review, the average occupancy rate in KL City increased marginally to record at 84.4% (1H2014: 83.2%) following improved take-up in several office buildings such as Menara TH Perdana, Menara Prestige and Menara MARA.

In KL City Fringe, there were also improvements in the occupancies of selected office buildings such as Nu Tower 1 and Menara Kembar Bank Rakyat and the overall average occupancy rate inched up marginally to record at 84.3% compared to 83.0% in the preceding period.

There were fewer announcements on proposed office buildings and large-scale integrated developments in 2H2014.

Felda Investment Corp Sdn Bhd, an investment arm of the Federal Land Development Authority, is working on plans to build a 68-storey building in the city centre. Wisma Felda which occupies a site of 3.11 acres at the corner of Jalan Perumahan Gurney and Jalan Gurney Satu, is set to be demolished and replaced with a 68-storey office tower that will include a helipad. The developer's (Synergy Promenade Sdn Bhd) submission to Dewan Bandaraya Kuala Lumpur (DBKL) includes plans for 56 floors built atop a podium that will have three floors of office space, eight levels of above ground car park and two levels of basement car park.

Bangsar South is a MSC Malaysia Cybercentre and Phase 2 of The Horizon is Malaysia Green Building Index (GBI) certified (provisional gold). The developer, UOA Group, is currently building sections (first phase) of The Vertical, which comprises two blocks (32-storey and 35-storey) of strata offices (The Vertical Office Suites) with a total of 670 units and a 500-room five-star hotel with target completion next year. The office suites, sized from 735 sq ft to 13,903 sq ft, are priced from RM950 per sq ft onwards. Since sales began about 1½ years ago, it has reportedly achieved a take-up rate of 70%. In the pipeline are four blocks of 38 and 50-storey corporate towers.

KEN Holdings Bhd has invested RM120 million to build a 13-storey 'Platinum-grade' office building with 220,300 sq ft NLA in the neighbourhood of Taman Tun Dr Ismail. KEN TTDI is MSC compliant and is expected to achieve a rental income of RM15 million per annum after its completion in 3Q2015.

PRICES AND RENTALS

During the review period, average achieved rental rates in both KL City and KL City Fringe were firm, recording at RM6.09 per sq ft (1H2014: RM6.08 per sq ft) and RM5.58 per sq ft (1H2014: RM5.55 per sq ft) respectively. Rental rates of Prime A and Prime A+ grade offices in both KL City and KL City Fringe continue to command higher asking rents ranging between RM6.50 per sq ft and RM12.00 per sq ft per month.

During the review period, there were several notable occupier movements.

Flexible workspace provider, Regus, continues to expand its current network of office space in Malaysia to include more areas outside KL City. Its latest centres are located in MCT Tower in Skypark One City, Subang Jaya and Level 11 of Menara OBYU in Damansara Perdana, bringing its total number of centres nationwide to 12. There are plans to open another centre at Levels 14 & 15 in D'Pulze, Cyberjaya.

In November, Regus Asia Pacific Management Limited entered into a framework sale agreement to acquire the assets of The Nomad Offices Sdn Bhd from The Nomad Group Bhd for approximately RM22.3 million (£4.25 million). The transaction is expected to be completed by the first quarter of 2015. The Nomad assets in Malaysia comprise four serviced offices located in Menara Prestige KLCC, Pavilion KL, The Gardens Mid Valley and Solaris Mont' Kiara.

London-headquartered Energy Industries Council (EIC) has moved its Asia-Pacific office from Singapore to Kuala Lumpur (Level 17 at Menara HLA) in a bid to tap Malaysia's growth in becoming an energy hub.

AIMS Group has signed a long-term anchor tenancy at the 18-storey Menara AIMS (formerly known as Menara Aik Hua) that has housed its headquarters for the past 14 years. Menara AIMS has 37,500 sq ft of fully commissioned data centre space with work on another 10,000 sq ft in progress.

The investment market reported one notable sale towards the close of the year.

On December 29, Tower REIT entered into a sale and purchase agreement with Goldstone Kuala Lumpur Sdn Bhd for the proposed sale of 19 office parcels and 190 car park bays within Menara ING for RM132.34 million (or RM825 per sq ft on 160,413 sq ft NLA).

Singapore-based Oversea-Chinese Banking Corp (OCBC Group) plans to divest Menara Prudential, a prime commercial building within the city's Golden Triangle, through an open tender. The 24-storey building, located opposite Shangri-La Hotel, sits on 19,289 sq ft of freehold land and has a NLA of 164,706 sq ft, made up of two levels of banking halls and basement vault, 17 levels of office space, three levels of multipurpose halls, hawker centre and recreational-facility floors, and a five-level basement car park. The building which is 13 years old is anchored by Prudential Assurance (M) Bhd and enjoys a high occupancy. According to industry sources, the building could fetch between RM155 million and RM170 million.

CIMB Group Holding Bhd plans to buy Menara CIMB in KL Sentral from CIMB-Mapletree Real Estate Fund 1 (CMREF1) for more than RM600 million. Menara CIMB is jointly owned by CMREF1 and Singapore-based Mapletree Investments Pte Ltd, which hold 60% and 40% equity interests respectively. Menara CIMB is a 41-storey freehold Grade A office building designed to meet the standard of Singapore's BCA Green Mark Gold and Malaysia's GBI. Currently, CIMB Investment Bank Bhd is the anchor tenant, occupying 20 floors or 70% of the 609,000 sq ft NLA. Other tenants include Regus' serviced offices and the American Malaysia Chamber of Commerce. The building which enjoys a high occupancy rate of 87% commands rentals of between RM8.00 per sq ft and RM8.50 per sq ft (including service change).

The final purchase consideration for Platinum Sentral, which is to be injected by Malaysian Resources Corp Bhd (MRCB) into Quill Capita Trust (QCT), will be RM740 million.

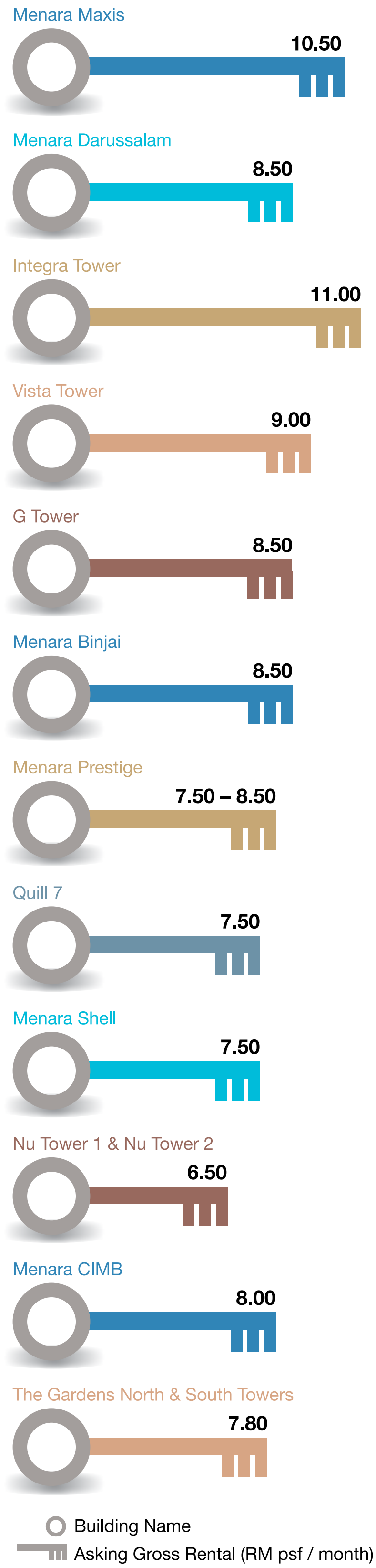
OUTLOOK

Amid widening gap between supply and demand, the Kuala Lumpur office market is expected to display resilience in the short term.

Prime office rents are expected to remain fairly stable although overall occupancy

TABLE 3

Selected Grade A Office Asking Rentals



Source: Knight Frank Research

could move south with the scheduled completions of several buildings in 2015, that include IB Tower, Naza Tower and Menara Bangkok Bank in KL City.

Tenants continue to be spoilt for choice as landlords compete to attract new tenants and retain existing ones by offering attractive incentives and tenancy terms.

Demand for good grade dual compliant (MSC and green) office space is expected to remain strong.

The on-going MRT Line 1 which is currently on schedule and the proposed MRT Line 2 and High Speed Rail (HSR) will collectively improve and enhance accessibility and connectivity within Greater Kuala Lumpur and beyond when completed / implemented successfully in the medium to long term. These infrastructure works will help transform the region into a world-class metropolis and bode well for the country's economy and business environment as it continues to attract more foreign investments.

The concerted efforts by several government authorities and agencies such as Malaysian Investment Development Authority (MIDA) and InvestKL and the growing shared services and outsourcing (SSO) industry in the region also augur well for the Kuala Lumpur office market.

MIDA targets to attract more than 200 investors into the country as it aims to turn the nation into the Asia Pacific O&G hub by 2017. It is targeting investors from the United States (US), Singapore and Indonesia, as well as, multinational companies (MNCs) that have established regional hubs to relocate their businesses to Malaysia.

InvestKL, meanwhile, is on track to attract 100 of the world's largest MNCs to set up their regional headquarters in Greater Kuala Lumpur by 2020. It has reportedly secured 38 MNCs, along with 6,385 highly-skilled jobs and investments of RM639.44 million.

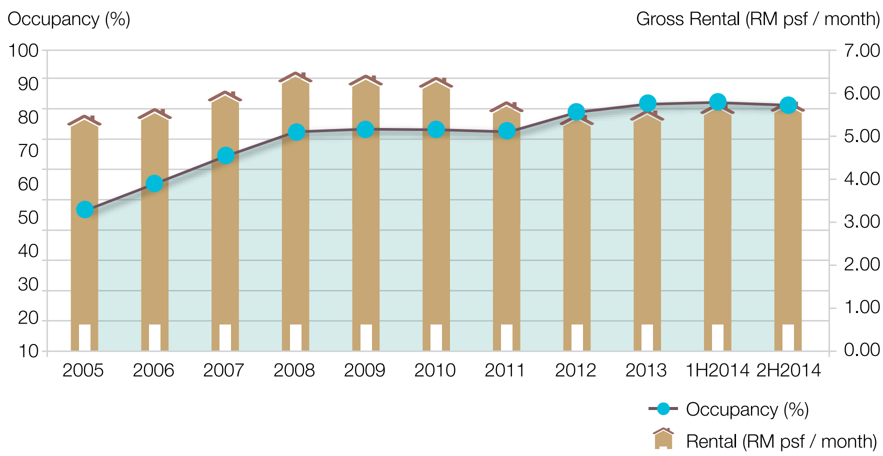
In the World Bank's Doing Business 2015 Report, Malaysia was ranked 18th out of 189 economies for ease of doing business, up two notches from last year, and ahead of countries such as Taiwan (19th), Switzerland (20th) and Japan (29th). Malaysia ranked first among emerging East Asian economies.

Menara Hap Seng 2

FIGURE 2

Occupancy and Rental Trends

2005 – 2H2014



Source: Knight Frank Research

HIGHLIGHTS

Malaysia continues to be on the radar of overseas retailers due to the competitive rental rates and growing demand of shoppers seeking better quality yet affordable products.

More new entrants into the local retail scene, especially in the F&B segment, and rapid store expansion of existing brands and outlets.

Prime and established shopping centres enjoy high occupancy in excess of 90% and continue to record higher rental rates from new and renewed leases while dated and non-performing malls are looking into redevelopment / re-positioning to remain relevant and competitive in a crowded market.

Moving forward, with heightened competition, more older and non-performing malls are expected to be redeveloped or repositioned.

KLANG VALLEY RETAIL MARKET

MARKET INDICATIONS

The Malaysian economy moderated to record a growth pace of 5.6% in the third quarter of 2014 (2Q2014: 6.5%) due to slower growth in domestic demand and lower net exports contribution.

The Malaysian Consumer Sentiments Index (CSI) which was neutral in 2Q2014 at 110.1 points fell below the 100-point threshold to record at 98.0 points in 3Q2014 on growing economic concern with consumers expecting their financial prospects to remain flat.

Retail sales grew by 5.3% in 2Q2014, higher than the growth rate recorded in previous quarter (1Q2014: 4.9%), but lower than the Malaysia Retailer Association estimate of 7.9%. For the first six months of this year, retail sales increased by 5.1%.

Ahead of the upcoming implementation of the goods and services tax (GST) in April 2015 and with year-end school holidays and festive seasons, sales are expected to pick up to record at 6.3% and 6.5% in 3Q2014 and 4Q2014, respectively. The full year growth rate is estimated at 6.0%.

SUPPLY & DEMAND

Three shopping malls, with a combined NLA of about 2.5 million sq ft, opened during the review period. This brings the cumulative supply of retail space in the Klang Valley to circa 49.1 million sq ft. The new completions are Quill City Mall (770,000 sq ft) in KL City, D'Pulze Shopping Centre (370,000 sq ft) in Cyberjaya and IOI City Mall (1,400,000 sq ft) in Putrajaya.

Quill City Mall opened on October 16, catering to the needs and convenience of nearby office workers, students and tourists / travellers. It is part of the Quill City mixed development, being the revived Vision City project which was abandoned during the Asian Financial Crisis in 1997/98. The shopping mall was sold by its developer, Quill Retail Mall Sdn Bhd to the Employees Provident Fund (EPF) in 2011 at a consideration of RM1.2 billion or RM1,561 per sq ft. The sale and leaseback agreement was signed in 2013.

The 8-storey mall which has reportedly secured about 80% occupancy is anchored by AEON with its very first AEON Urban Store. Other flagship and notable tenants include Red Lobster & Longhorn Steakhouse, H&M, Starbucks, Manhattan Fish Market, Pancake House, 10-screen GSC cinema, Hush Puppies shoes, Adidas, Best Denki, Guess, and Apple Concept store.

D'Pulze Shopping Centre which carries the tagline "The One Place for Anything & Everything" also opened in October 2014. Located at the heart of Cyberjaya with close proximity to major multinational corporations and universities/colleges, the neighbourhood mall which forms part of D'Pulze Cyberjaya integrated development, features a lifestyle-driven entertainment hub with food & beverage outlets along the d'Pulze alfresco strips. Notable retailers include Jaya Grocer, TGV Cinemas, Celebrity Fitness, The Coffee Bean and Tea Leaf, Madam Kwan's, Shojikiya, Seoul Garden, Rakuzen, Sushi Zanmai, Thai Odyssey, The Loaf, Chatime, ACE Hardware, Daiso, MPH Bookstores, Watson, Caring Pharmacy, Adidas, Royal Sporting House, Charles & Keith, Factory Outlet Shop, City Chain, A-Look, Song Box, U Bowl and Yamaha Music School. Other components within the mixed use development are Tune Hotel D'Pulze and Citadines Apart'hotel managed by The Ascott Limited; Regus Serviced Offices and Suites @ D'Pulze residential tower.

IOI City Mall Putrajaya made its debut on November 20, offering circa 1.4 million sq ft of retail space. It is the largest shopping mall near the vicinity of Putrajaya, anchored by Parkson, Tesco, Thai-based HomePro, AEON's Index Living Mall and Golden Screen Cinemas. Approximately 85% of the retail space has been leased out and rental range between RM10.00 per sq ft and RM40.00 per sq ft per month.

The opening of Atria Shopping Gallery, scheduled for 4Q2014 has been postponed to 1H2015.

Meanwhile, Thai-based shopping centre developer, Central Pattana Pcl has postponed the opening date of its overseas shopping mall, CentralPlaza@ i-City, from 2016 to 2017 as it needs more time to study the market.

During the review period, there were several announcements on the proposed redevelopment / repositioning of existing shopping malls.

In October, it was reported that Parkson Group, via its Singapore-listed Parkson Retail Asia Ltd, had entered into a tenancy agreement with Maju Group to manage and operate the 220,000 sq ft Maju Junction Mall located at the junction of Jalan Sultan Ismail and Jalan Tuanku Abdul Rahman. Parkson will reposition the mall and be its anchor tenant.

Meanwhile, Bukit Bintang Plaza is set to undergo redevelopment after issues with its tenants were resolved recently. The project will be jointly undertaken by UDA Holdings Bhd and Tradewinds Corp Bhd, and will comprise a 60-storey luxury condominium block atop a new three-level mall that will be integrated with the underground Bukit Bintang MRT Station that is currently under construction.

In Petaling Jaya, Selangor, SStwo Mall is also expected to undergo extensive makeover that may reduce its retail space to a third of its current size of 700,000 sq ft GFA and 460,000 sq ft NLA. Its tenants have been given notice to vacate the premises by 31 March 2015.

The retail sector continues to witness the entry of new brands as well as the expansion of existing brands and outlets, both local and international.

Luxury brands, Salvatore Ferragamo and Prada, recently opened their standalone boutiques at The Gardens Mall.

A number of retailers mainly from Singapore, Japan and even Indonesia are also considering penetrating into our market due to the competitive rental rates and the growing demand of shoppers seeking better quality yet affordable products.

A new brand from Australia called Spotlight opened in Ampang Point in October 2014, taking up circa 20,000 sq ft of space. It is expected to roll out another two to three outlets by next year.

Monki, a sub-brand of Swedish's H&M Hennes & Mauritz AB global fashion group, known for its quirky and trendy apparels and accessories opened its second and third outlets at IOI City Mall and 1 Utama Shopping Centre in November and December 2014 respectively.

In August 2014, Parkson revealed its expansion plan to add some 10% more retail space in the country each year.

Meanwhile, Padini Holdings Bhd is consolidating its various outlets in Mid Valley Megamall which are located at different parts of the shopping mall into a concept store of circa 20,000 sq ft near the high traffic North Court area.

Jaya Grocer made its debut as the first grocer in a Malaysian Airport In July 2014, occupying 10,000 sq ft on Level 2 of Gateway@KLIA2.

In August, Jonny Rockets opened its largest outlet (more than 8,000 sq ft) at Sunway Pyramid with another outlet set to open at Pavilion KL by October. Quiznos Sub, a US sandwich franchise recently opened its Malaysian outlet at 1 Utama Shopping Centre. There are also plans to open the first Ichiban – The Izakaya Japanese restaurant and bar at the 1 Utama mall and The South East restaurant at The Curve.

Naza Corp Holdings Sdn Bhd, riding on the 'café culture' in Malaysia is keen to expand its F&B sector. It is collaborating with South Korea's SPC Group to develop and operate the latter's artisan bakery, Paris Baguette, with plans to open five outlets in the Klang Valley by 2016.

French-based ice-cream maker, Magnum, opened its first Magnum Cafe outlet at Mid Valley Megamall in November.

Red Lobster, a prominent international seafood restaurant, marked its first two outlets in South-East Asia at The Intermark Mall and Quill City Mall in KL City. The joint-venture between Malaysian-owned Secret Recipe F&B Group and US-based Darden Restaurants Inc. is developing three brands, namely Red Lobster, Olive Garden and Longhorn Steakhouse in Malaysia.

The review period also saw renowned international furniture retailer, KARE from Germany, opening its second concept store at 1 Utama Shopping Centre. The 11,000 sq ft store also houses the first KARE themed café in South East Asia.

In the entertainment segment, Golden Screen Cinemas continued its expansion plan with openings at Klang Parade, Quill City Mall, Nu Sentral, and Ipoh Parade. It has also signed up to open at IOI City Mall in Putrajaya, Aman Central in Alor Star and Bintulu Times Square.

TABLE 4

Shopping Centres Scheduled for Completion / Opening in 1H2015

Source: Knight Frank Research

By the first half 2015, an estimated 2.5 million sq ft is slated for completion from shopping centres which will include Sunway Putra Mall (post refurbishment), Atria Shopping Gallery, Evolve Concept Mall @ Pacific Place and The Place @ One CIty.

Occupancy rates of prime and established shopping centres in the Klang Valley continued to hold firm (> 90%) and these include Suria KLCC, Pavilion Kuala Lumpur, Mid Valley Megamall, The Gardens Mall, Sunway Pyramid, 1 Utama Shopping Centre, Empire Shopping Gallery, Subang Parade and The Mines, among others.

PRICES AND RENTALS

Prime retail space continues to record higher rates from new and renewed leases.

For the 3Q2014 financial results, KLCC Property Holdings Bhd reported an increase of RM6.1 million (5.5%) in revenue from retail rental due to higher rental rates achieved from new outlets and rent reviews while IGB REIT recorded a RM3.62 million (4.5%) increase in gross rental income.

Sunway Pyramid Shopping Mall also recorded strong gross revenue growth of 14.6% (RM8.8 million) attributed to higher rental generated from major renewal/ new tenancies, as well as the increase in service and promotional charges with effect from June 2014.

On August 19, 2014, Festival City Sdn Bhd (FCSB), a wholly-owned subsidiary of Parkson Holdings Bhd, entered into a conditional sale and purchase agreement with Festiva Mall Sdn Bhd and AsiaMalls Sdn Bhd to dispose of KL Festival City Mall for RM349 million cash (or RM716 per sq ft on 487,342 sq ft NLA). The three-level mall with a total of 1,081 car park bays has a current occupancy rate of approximately 99%.

Bina Puri Holdings Bhd's maiden shopping mall, The Main Place @ USJ 21, which opened in March this year has reportedly attracted interests from three investors who offered as high as RM210 million for the 3½-floor mall with total leasable area of circa 240,000 sq ft. The mall which has 130 retail lots enjoys a high occupancy of circa 90%.

Meanwhile, there are also reports that ARA Asia Dragon has initiated its plan to dispose of its five shopping malls in Malaysia at total price of more than RM2 billion. The five shopping malls are 1Mont' Kiara, Klang Parade and Citta Mall in the Klang Valley, Ipoh Parade in Perak and AEON Bandaraya Melaka.

OUTLOOK

The recent hike in the Overnight Policy Rate (OPR) from 3.0% to 3.25%, removal of fuel subsidy, 3.2% uptick in the consumer price index (CPI) for January to November, coupled with the impending implementation of GST by April 2015, will exert pressures on the purchasing power of consumers.

With consumers turning more cautious in their spending, retailers of big ticket items and upper-middle goods and services are expected to embrace a challenging year ahead amid growing competition from the rapid store expansions and entry of popular international brands such as H&M, Uniqlo and Monki.

The lower retail sales growth rate registered in the second quarter of the year has led to a revision on the full year growth rate from 6.3% to 6.0%.

The short term outlook for the local retail industry remains challenging due to rising cost of living.

IOI City Mall, Putrajaya

HIGHLIGHTS

The total proposed capital investments for Penang State from January to July 2014 stand at RM4.623 billion involving 95 projects. This is a significant improvement over the RM3.912 billion investment for 119 projects recorded for the whole of Year 2013.

Economic Development Innovations Singapore Pte. Ltd. (EDIS) announced plans to develop "BPO Prime" – an integrated mixed development offering both commercial and residential space on a 2.7-hectare site in the Bayan Baru township on the island. With a proposed built-up area of 1.6 million sq ft, the gross development (GDV) upon completion will be about RM1.2 billion.

The Penang State Government is looking for a project delivery partner (PDP) to fund the proposed RM27 billion Penang Transport Master Plan and has invited interested parties to respond to the Request for Proposal (RFP) via an open tender exercise which closes on December 16.

PENANG PROPERTY MARKET

MARKET INDICATIONS

Penang has attracted several mega investments to Batu Kawan on the mainland and these include:-

- Hewlett-Packard (HP) plans to invest over RM1 billion to set up a manufacturing facility on a site measuring approximately 50 acres;
- US MNC Seagate plans to invest RM1.05 billion over 5 years with the purchase of a 40-acre site plus an option to purchase another 30 acres;
- German-based steering systems maker, ZF Lenksysteme GmbH, is investing RM50 million over the next two years to set up a new plant;
- SanDisk Corp plans to invest RM1.2 billion to build a flash-memory product manufacturing facility;
- Eco World Development Group Bhd is set to take up the offer to buy 190.2 hectares in Batu Kawan from the Penang Development Corp (PDC) for RM1.02 billion to build a golf course on 60.7 hectares with the remaining land designated for a mixed development project;
- The Penang State has inked an RM11.3 billion joint-venture (JV) agreement with Singapore's Temasek Holdings to develop the Penang International Technology Park (PITP) in Batu Kawan and BPO Prime. A KPMG's Exploring Global Frontier Report in 2009 had identified Penang as one of the 31 emerging BPO hub cities in the world.

On the hospitality front, Plenitude Group announced the purchase of "Gurney Resort and Hotel Residences", a 259-suite hotel together with retail lots and car park bays, for RM160 million from Lembaga Kumpulan Simpanan Wang Perkerja (KWSP).

HIGH END CONDOMINIUM

There were fewer launches of high end condominiums in 2H2014.

Plenitude Group will soft-launch its development known as The Marin at Ferringhi in mid-December 2014. Located within the famed tourist belt of Batu Ferringhi, The Marin is a low density development with 2 towers of 21-storey high offering only 149 units with 4 units to a floor and an acre of private resort garden. The standard units, sized at 1,750 sq ft and 1,850 sq ft, are priced from RM1.532 million for a tropical forest view and from RM1.67 million for units facing the Andaman Sea respectively.

Many of the newer launches offer units that are fitted out with kitchen cabinets

The Marin at Ferringhi by Plenitude

c/w hood, hob, oven, light fittings, air-conditioning units and quality sanitary fittings amongst the main items offered.

There were lesser sales activities in the secondary market for larger sized condominiums with built-up areas from 3,500 sq ft to 6,000 sq ft although prices continued to hold steady. Units in the older completed projects within the prime areas of Tanjung Bungah and Pulau Tikus were transacted at prices ranging from RM480 per sq ft to RM650 per sq ft whilst those in newer developments sold for a higher range from RM600 per sq ft to RM900 per sq ft. Smaller sized units at newer developments in Gurney Paragon and Seri Tanjung Pinang have been resold at prices ranging from RM800 per sq ft to RM1,250 per sq ft.

With the increase in supply following the completion of several projects that include The Light Collection II, asking rentals for fully furnished units in newer developments now range from RM8,000 to RM10,000 per month, reflecting a drop from previous asking rentals of RM9,000 to RM12,000 per month. The monthly asking rents for unfurnished units are also lower, ranging from RM6,500 to RM8,000 as compared to RM7,000 to RM8,500 in the last review. In older condominiums, asking rentals range from RM4,500 to RM8,000 per month.

OFFICE

The existing supply of office space (buildings of 10-storey and above) on Penang Island remains at 1H2014's level of 5.59 million sq ft.

Two of the more prime office buildings in the city have maintained their average occupancy rate at 1H2014's level of 98%. Asking rentals have increased, starting from RM2.70 per sq ft to RM3.00 per sq ft in contrast to the range of RM2.50 per sq ft to RM2.80 per sq ft per month previously. Rental rates at the newly opened Gurney Paragon Office Tower are higher, at RM3.30 per sq ft per month.

Average occupancy rates at Suntech and Menara IJM Land, both newer office buildings located outside the city, have further improved to about 97%, up 2% from 1H2014. Similarly, rental rates have also improved and now start from RM3.00 per sq ft to RM3.50 per sq ft per month.

Aeon Mall Bukit Mertajam

RETAIL

The existing supply of purpose-built shopping space on Penang Island remains unchanged at 1H2014's level of 6.69 million sq ft.

No new purpose-built shopping malls were completed on the island in 2H2014 but over on mainland Seberang Perai, Aeon Mall Bukit Mertajam opened its doors on July 9. This mall has an approximate floor area of 45,000 sq m or 484,375 sq ft.

Meanwhile, the former Aeon Seberang Prai City which opened in August 2008, is now being upgraded in excess of RM30 million. It will officially be opened as Perda City Mall in December 2014.

Other neighbourhood malls and hypermarkets in Seberang Perai include Mydin's hypermarket in Kepala Batas (160,000 sq ft) which opened in September 2014. Sunshine Group also has its presence there via the 200,000 sq ft Sunshine Bertam which opened last June. Mydin is also currently building another huge hypermarket along Jalan Baru, near to Bukit Mertajam.

The average occupancy rate of the older prime shopping malls on the island has generally been maintained at 96% since 1H2014. The occupancy at the newest prime mall currently averages at about 70% while for the secondary shopping malls, occupancies range from 65% to 94%.

In prime shopping malls, rental rates for ground floor retail lots generally range from RM13.00 per sq ft to above RM35.00 per sq ft per month, depending on the mall, location and size of the units.

OUTLOOK

With mounting inflationary measures and more cautious spending, the general outlook for the property market here is not expected to be as robust as before. There was a slowdown in the primary market and residential property launches were reduced as developers are not as confident as before and some are adopting a "wait & see" attitude before committing to new launches. The secondary market, however, is relatively more active especially in the segment priced below RM500,000 per unit.

In the short term, the market for prime office buildings may still see moderate growth as occupancies are still at healthy levels.

The outlook for the retail sector is one of cautious optimism for the prime malls as they are still enjoying good occupancies and shopper footfall whilst secondary malls will face serious downward pressures on rentals with the impending slowdown in consumer spending.

HIGHLIGHTS

With the continuous growth in local and foreign investment, Iskandar Malaysia is on track to achieve its target, notwithstanding the general slowdown in the upcoming residential development projects and their take-up rates over the past one year.

The 'Singapore' factor remains a strong supportive pillar to the overall structure of the region's economy and property development.

Johor Bahru's property market maintains a cautiously optimistic outlook as the country braces itself towards the challenge of GST implementation next year.

JOHOR BAHRU PROPERTY MARKET

MARKET HIGHLIGHTS

Iskandar Malaysia continues to attract investments, both local and foreign. As of October 2014, the cumulative committed investment to the region stands at RM156.35 billion. In terms of foreign investment which accounts for approximately 37% of the total investments, Singapore topped the list with about RM12 billion, followed by the United States, Spain, Japan and China. To-date, RM77.17 billion or about 49% of the total investment has been realised.

In a move to further encourage more positive investment opportunities in Iskandar Malaysia, the Prime Minister had in August 2014, announced that effective December, business visitors, foreign fund managers and investors are able to apply for a five-year multiple entry visa.

The High Speed Rail (HSR) project, connecting Singapore and Kuala Lumpur, will reportedly have seven stations in Malaysia which are Nusajaya, Batu Pahat, Muar, Ayer Keroh, Seremban, Putrajaya and Kuala Lumpur whilst Singapore has identified three possible locations, namely the city centre, Jurong East and Tuas West. With the HSR, travel time between Singapore and Kuala Lumpur will be reduced to 90 minutes from the current land travel time of about 4½ hours.

In another cross-border project viz. the Rapid Transit System (RTS), the final transit terminal in Malaysia will be located at Bukit Chagar, which will have its own Customs, Immigration and Quarantine (CIQ) clearance facilities. Singapore will build an extension of the Thomson Line which will have its northern most station located at Woodlands North.

Meanwhile, to further improve connectivity, Iskandar Investment Bhd (IIB) has signed the facilitation fund agreement (FFA) with the Government of Malaysia and Bank Pembangunan Malaysia Bhd for the construction of the Coastal Highway Southern Link (CHSL). This will be the final stretch connecting the Coastal Highway to the Second Link Expressway which is slated completion by 2Q2017. The new 5.2km highway will traverse the proposed Gerbang Nusajaya South development, Kg. Tiram Duku Kiri, Kg. Bukit Kuching, as well as the proposed Sunway Iskandar development and Leisure Farm. The CHSL which will enhance road network connectivity is expected to be another catalyst to attract more investments into Iskandar Malaysia.

Passenger traffic at the Senai International Airport received further boost in 2H2014 with AirAsia introducing three new international routes (two to Indonesia and one to Vietnam) via the airport and Firefly offering flights from Ipoh to Senai. AirAsia is also reportedly evaluating China as the next international destination for Senai.

Malaysia Pacific Corporation Bhd's wholly-owned subsidiary, Lakehill Resort Development Sdn Bhd, has entered into a sale and purchase agreement with Temokin Development Sdn Bhd in October 2014 to dispose of 163 sub-divided lots with total net land area of approximately 6 acres in Mukim Plentong, Johor for a consideration of RM9.35 million cash (analysed at RM35.80 per sq ft).

The Johor Bahru Land Administration Office has approved the award of 96.31 hectares of submerged land to Iskandar Waterfront City Bhd's unit Tebrau Bay Sdn Bhd, subject to a premium payment of RM50 per sq ft. The award is also part of a land exchange with the Johor State Government whereby Tebrau Bay will surrender 92.84 acres of leasehold land in Mukim Plentong for the construction of 300 units of houses and 9 commercial units.

In July 2014, Aeon Co. (M) Bhd reportedly acquired a 20-acre freehold land parcel in Batu Pahat for RM34.85 million (analysed at RM40 per sq ft) for the construction of a new shopping mall.

Sunway Group has unveiled its plans to nurture and foster a vibrant community in Iskandar Malaysia through its Sunway Iskandar township. With a gross development value (GDV) of over RM30 billion, the 720-hectare township in Zone F of Medini Iskandar, will comprise six different precincts. The development components for the first phase will


Sunway Citrine at Medini

include retail shops, office units, serviced apartments, a theme park and an international school.

Tradewinds Corporation Bhd plans to kick-start its upscale integrated township known as One Nu in Nusajaya by December 2014. The 202-hectare development will offer landed properties, serviced residences, waterfront apartments and commercial components. To be developed over three phases, the township will have circa 8,000 residential units upon full completion.

United Malayan Land Bhd through its subsidiary, Tentu Teguh Sdn Bhd, has embarked on a new 140.43-hectare modern integrated township in Cahaya Baru, Jalan Kong Kong in Masai – its fourth township in Malaysia. The first phase, known as Dover Business Park, has an estimated GDV of RM178 million and will offer 89 units of terraced, cluster and semi-detached factories with built-up areas from 3,276 sq ft to 14,532 sq ft.

Johor Land Berhad will undertake a RM1 billion integrated development project known as Larkin Central Park in Larkin next year. Covering more than 40 hectares of land, the project will embrace the building of sports infrastructure, including a swimming pool and an indoor stadium, and upgrading of the existing 30,000-seat football stadium. It is expected to be completed within four years.

KEN Holdings Bhd will kick-start the first phase of its mixed development project, Ken JBCC, in Johor Bahru with the launch of one block of serviced suites in 2015. The 8.9-hectare Ken JBCC carries an estimated GDV of RM1.2 billion and will feature residences, commercial units, a shopping mall, serviced suites, hotels and offices.

Indonesia's Sinarmas Land plans to develop bungalows on some 100 hectares of vacant land fringing the golf course of Le Grandeur Palm Resort in Senai. Although some improvements to the Resort have been made recently, there are plans to eventually close down 18 holes of the golf course to build more villas.

Sime Darby Property Bhd will be building 733 units of affordable houses and 171 units of medium-cost shoplots with a GDV of RM210 million at the Sime Darby Business Park in Pasir Gudang, Johor. The project will be developed over several phases.

IJM Land Bhd is forging ahead with its biggest township in the southern region – the RM5 billion, 1,200-acre Sebana Cove Resort in Pengerang. IJM Land acquired the development which includes a 60.5-acre marina, a Ted Parslow 18-hole championship golf course, a 5-star hotel with 24 units of two-bedroom apartments, a clubhouse and townhouses from the Arab Malaysia group for RM120 million in 2009. The first phase, comprising 59 villas, is scheduled to launch before the end of 2014.

The development of the Pengerang Integrated Petroleum Complex (PIPC) is on track, evident by the official opening of the Pengerang Independent Terminals (PIT) Phase 1A and the various contract awards for multiple facilities as well as infrastructure constructions by PETRONAS in August 2014. In September, PIPC received an investment of circa RM4.2 billion for the development of a residue fluid catalytic cracking (RFCC) project.

November 2014 saw the ground-breaking of the RM5 billion Pengerang co-generation plant that will generate 1,220 megawatts of electricity as well as provide steam supply of up to 1,480 tonnes per hour to PIPC. The plant is expected to require up to 2,000 workers at the peak of its construction.

The DoubleTree by Hilton Johor Bahru, the second of Hilton Worldwide DoubleTree hotels in Malaysia, commenced operations on July 1, 2014. The 335-room 4-star hotel is located at Menara Landmark within the Central Business District (CBD) of Johor Bahru.

Astro Production Sdn Bhd (APSB) and Iskandar Malaysia Studios Sdn Bhd (IMS) are collaborating to offer world-class integrated television content production services at Pinewood Iskandar Malaysia Studios. Under a five-year agreement, IMS has appointed APSB as the exclusive provider of equipment and services for production of television content. In return, APSB is committed to undertake a minimum of 4,500 hours of production per annum at Pinewood Studios in the first two years and 3,000 hours of production per annum from the third year.

INDUSTRY

Statistics from the Malaysian Investment Development Authority (Mida) revealed that between January and May 2014, Johor aced other states by recording a total of RM14.9 billion in industrial investment, surpassing the total investment of RM14 billion recorded last year. This shows that investors, both local and foreign, continue to favour Johor as their choice investment destination.

Johor Biotechnology and Biodiversity Corporation (J-Biotech) will jointly build a world-class biotechnology industrial park in Senai. The first phase of the development will start in early 2015 with completion slated for 2017.

Singapore-based Ascendas Pte Ltd and UEM Sunrise Bhd broke ground for the integrated technology park known as Nusajaya Tech Park at Gerbang Nusajaya. The project on a 210-hectare site has a GDV of RM3.7 billion and is expected to be completed in 2016.

Warisan Sanubari Sdn Bhd (WH Distripark) will develop an integrated bio-logistics hub with a GDV of RM150 million in Nusajaya. The customised integrated hub will be built on 4.046 hectares of land at the Bio-Xcell Biotechnology Park.

THAB Development Sdn Bhd, a joint-venture (JV) between SGX main board listed Tat Hong Group, Boustead Singapore and AME Group, launched IBP Park in SiLC Nusajaya on October 11, 2014. The entire project comprises 101 units of semi-detached and detached factories. Phase 1, with 52 units priced from RM350 per sq ft to RM410 per sq ft on built-up area, recorded a 100% take-up rate within 2 hours.

WB Land Sdn Bhd has launched Phase 2 of Frontier Industrial Park. Spanning 62 acres over a total of 162 acres, Phase 2 offers 86 units of semi-detached and 6 detached factories with built-up areas from 7,009 sq ft to 13,395 sq ft and 23,409 sq ft to 65,156 sq ft respectively. The units are priced from RM2.2 to RM9 million each.

In October 2014, Axis Real Estate Investment Trust (Axis-REIT) purchased a 27-acre industrial land with factory at SiLC, Nusajaya for RM153.50 million, which will be leased back to the vendor for 15+15 years. Knight Frank's analysis revealed that the acquisition will provide an average gross rental return of more than 9% over the purchase price annually, over the fixed first 15-year term.

RESIDENTIAL

There were several launches in the second half of 2014, comprising mainly high-rise residential developments. Some of the notable developments are as follow:

Grand Medini Lifestyle Residences, a 3.23-acre leasehold residential development with combined GDV of

dPristine Lake

RM400 million by Grand Global Medini Sdn Bhd. Located in Medini Iskandar Zone A, the development offers a total of 672 units of serviced apartments spread over three towers of 30 and 33-storey high respectively. The built-up areas are from 474 sq ft to 1,119 sq ft and prices start from RM368,888 to RM1,270,000 per unit.

Citywoods, the first high-rise residential development by Hua Yang, sits on a 2.21-acre freehold land along Jalan Abdul Samad in Johor Bahru city centre. A total of 417 units are housed in the two 19-storey towers. Priced from RM428,000 onwards, the units are available in three layouts – Type A (764 sq ft), Type B (958 sq ft) and Type C (1,249 sq ft). Types A and B are most popular, attracting purchasers between 25 and 40 years old, who are first-time homebuyers.

G Residences, on a 2.72-acre freehold site by GSB Group, consists of two 25-storey towers with 240 units of serviced apartments each. The project which has a GDV of RM233 million is located along Jalan Masai Lama in Plentong. The units, sized from 653 sq ft to 1,552 sq ft, are priced from RM327,000 onwards.

Aquaint Danga Residences, a 4.15-acre waterfront mixed development by Para Impiana Sdn Bhd, a JV between Rampai Fokus Sdn Bhd and its two Singapore partners, Imperial Marina Pte Ltd and Skyfront Holdings, has a GDV of RM382 million. Located in Danga Bay, the development offers a total of 818 units of serviced apartments and a 2-storey of retail podium. The serviced apartments, with built-up areas from 548 sq ft to 1,973 sq ft, are priced between RM900 per sq ft and RM1,200 per sq ft. The project reported an encouraging take-up of about 80% at its recent launch for Tower A and Tower B which offered a total of 358 units.

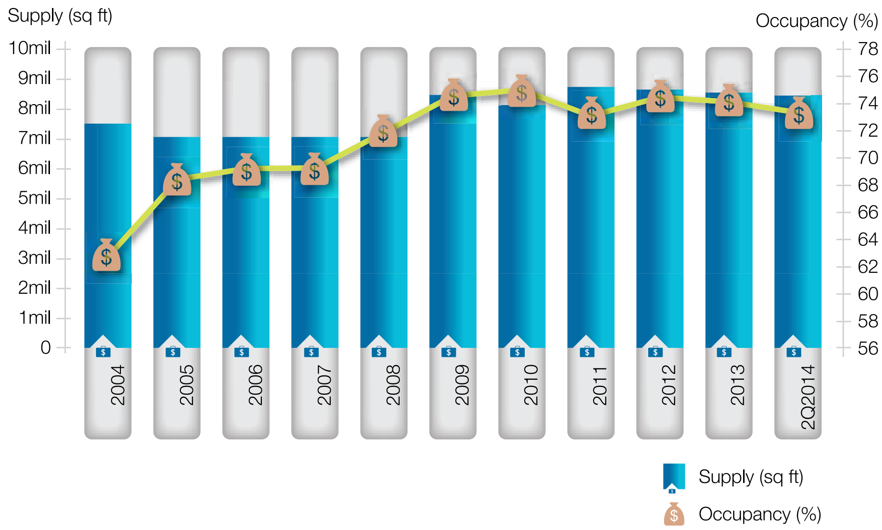
Jade Palace by China's Greenland Group is a 13.96-acre mixed development with GDV of RM2.2 billion. Located in Danga Bay, Phase 1 of the development offers 400 units of serviced apartments with built-up areas from 463 sq ft to 1,076 sq ft. Prices start from RM850 per sq ft.

R & F Princess Cove, a 116-acre waterfront mixed development by Hong Kong based China developer, Guangzhou R & F Properties Co Ltd, has a GDV of RM4.5 billion. Located in close proximity to the Johor-Singapore Causeway, the development offers a total of 3,224 units of serviced apartments under Phase 1, sized from 469 sq ft to 1,391 sq ft. The units are priced from RM800 per sq ft.

FIGURE 3

Office Supply and Occupancy Trend in Johor Bahru

2004 – 2Q2014



Source: Knight Frank Research / NAPIC

Citrine Residences @ The Lakeview form part of the Sunway Iskandar township development. It offers 328 units of serviced apartments with built-up areas from 626 sq ft to 1,528 sq ft, priced between RM800 per sq ft and RM900 per sq ft.

BRIO Residences, part of the integrated development of Paradigm Mall by WCT Land in Jalan Skudai, features a total of 263 units of serviced apartments. The units, located above the podium, have built-up areas from 520 sq ft to 1,360 sq ft and are priced between RM900 per sq ft and RM1,100 per sq ft.

KSL Residences @ Daya is a 5.91-acre residential development by KSL Holdings Berhad. Located in Taman Daya, it offers a total of 804 units of serviced apartments priced from RM400 per sq ft to RM600 per sq ft.

The effects of the cooling measures implemented earlier this year are being felt in the residential property sector with some developers shying away or putting on hold their proposals to develop, especially the high-rise stratified units, due to anticipated slower take-up. However, certain developments in good locations, particularly those with sea views or facing the waterfront are still going ahead with their launches.

OFFICE

As at 2Q2014, the total net lettable area (NLA) of purpose-built office space which includes private buildings and government buildings in Johor Bahru stands at approximately 8.5 million sq ft with an overall average occupancy rate of about 73.5%, 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 Bahru.

Rentals for prime and non-prime CBD office space remained stable. Monthly asking rental rates for prime space range from RM2.50 per sq ft to RM3.50 per sq ft while non-prime office space command lower rates of between RM1.80 per sq ft and RM2.50 per sq ft. These quoted rates are generally inclusive of service charges

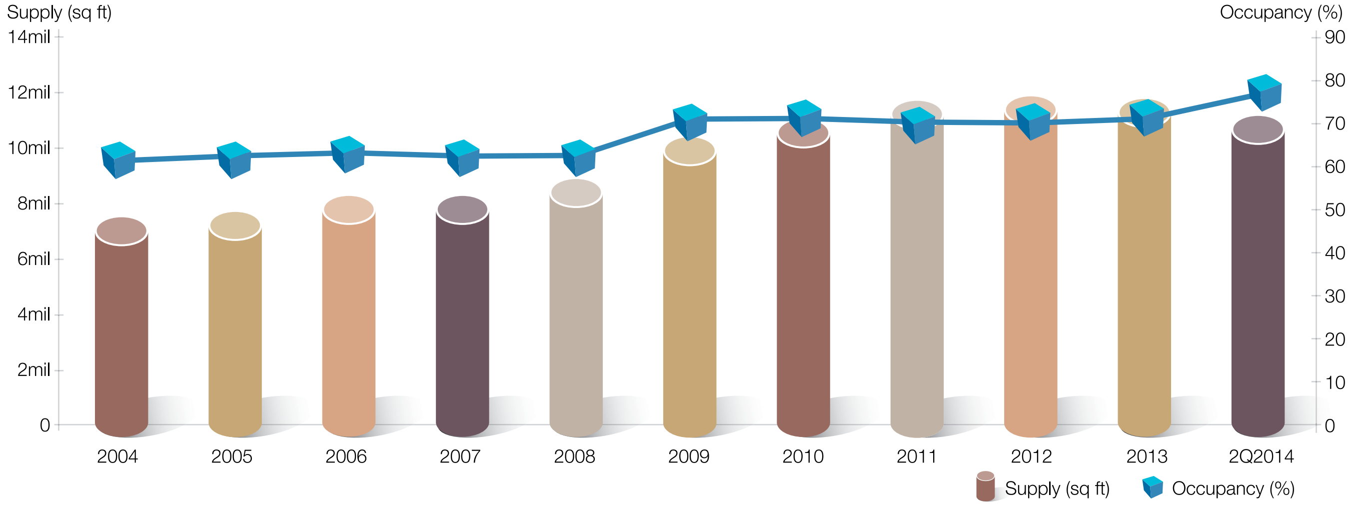
Several notable launches are as follow:

D' Pristine@Medini, an 8.4-acre leasehold integrated development, by MCT Consortium Bhd is expected to be

FIGURE 4

Retail Supply and Occupancy Trend in Johor Bahru

2004 – 2Q2014



Source: Knight Frank Research / NAPIC

launched towards the end of 2014. The project with a GDV of RM1.8 billion will consist of two SoFo towers, a four-star hotel, a lifestyle mall and a Grade A corporate office tower. The Grade A office space with floor plates > 20,000 sq ft and the office suites with built-up areas from 901 sq ft to 1,671 sq ft are priced between RM680 per sq ft and RM800 per sq ft.

The Citrine, currently being developed under Phase 1 of Sunway Iskandar, comprises serviced apartments as well as office and retail components. The 167 units of Designer suites have built-up areas ranging from 746 sq ft to 1,371 sq ft. Priced at RM760 per sq ft on average; this development component has reportedly achieved 100% sales.

Midwest Avenue, located in the CBD of Johor Bahru offers a total of 328 units of SoHo Suites with built-up areas from 807 sq ft to 2,875 sq ft. Prices start from RM900 per sq ft.

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 2Q2014, the total NLA of retail space (includes shopping centres, arcades and stand-alone hypermarkets) in Johor Bahru stands at 11.16 million sq ft with average occupancy at 76.8%. 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.

KOMTAR JBCC opened for business in July 2014 after almost two years of redevelopment. It is located adjacent to the popular City Square Shopping Mall in CBD Johor Bahru and is within walking distance to the CIQ. The tenant mix comprises local and international brands including Mark & Spencers, Sephora, Pandora, Victoria's Secret, Swarovski, Padini Concept Store, Adidas, and PUMA.

Meanwhile, the Angry Bird Park, a 2,415-sq m indoor theme park, developed by Damansara Assets Bhd, a subsidiary of Johor Corporation, in collaboration with Angry Bird founder Ravio Entertainment Ltd based in Finland, opened in October 2014.

Several 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

During the review period, absorption rate was noticeably slower, especially in the primary market impacted by the cooling measures effective January this year. Although the residential sector continues to be the leading sub-sector in terms of transaction volume, launches of other property types such as office suites and industrial products by reputable developers have received good response with encouraging sales rates.

Despite the negative sentiments reported in both the local and Singapore media, the desire of Singaporeans to acquire homes in Iskandar Malaysia remains strong. The country is also in need to expand its manufacturing and productive sectors and Iskandar Malaysia appears to be the right choice due to its proximity, lower cost and business friendly environment. The impending construction of the HSR and the RTS will further enhance and improve connectivity between the two neighbours and this augurs well for the future growth of Iskandar Malaysia.

Going forward, the outlook for the Johor Bahru property market remains cautiously optimistic. The impact of the new Goods and Services Tax (GST) to be implemented in 1H2015 and the increase in toll rates on both sides of the causeway are being felt on all fronts of businesses.

HIGHLIGHTS

The medium to long term outlook for Kota Kinabalu real estate is still optimistic.

The development pace in Kota Kinabalu continues to uptrend as the state capital transforms itself into a modern coastal city.

The city landscape is set to change with the expected completions of several large scale integrated developments that include Loft apartments and Imago shopping mall, Riverson and Gleneagles private hospital, and the OCEANUS shopping mall and Pelagos Suites.

Jesselton Quay by SBC Corporation Bhd and Mah Sing Group's Kota Kinabalu Convention City (KKCC) are paving the way for the regeneration of the old Jesselton port area which will also be home to an international cruise terminal and international convention centre.

The pool of well-heeled local buyers and the untapped foreign investor market will be critical to the successes of new launches in 2015.

KOTA KINABALU PROPERTY MARKET

MARKET INDICATIONS

There were few launches across all sectors in Kota Kinabalu during the second half of 2014 with most developers focusing on the sale of balance units from schemes launched earlier. By year end, the city landscape is set to change with the expected completions of several large scale integrated developments that include Loft apartments and Imago shopping mall, Riverson and Gleneagles private hospital, and the OCEANUS shopping mall and Pelagos Suites.

Details of the development plans for the north corridor of Kota Kinabalu's central business district (CBD) have been released to the public. In particular, Jesselton Quay by SBC Corporation Bhd and Mah Sing Group's Kota Kinabalu Convention City (KKCC) are paving the way for the regeneration of the old Jesselton port area which will also be home to an international cruise terminal and international convention centre. Both developments are mixed use in nature and will comprise a combination of retail, office, residential properties and hotels.

Major mixed use developments such as Aeropod, Sutera Avenue and PacifiCity are continuing to progress through construction and the release of new phases are being received well by the market evident from the favourable take-up rates.

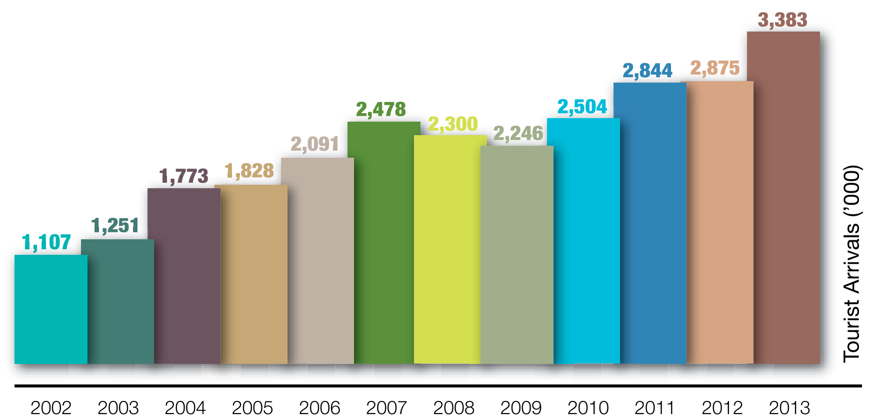
TABLE 5
Notable Land Transactions in Kota Kinabalu

Transaction Date	Purchaser	Land Size (acres)	Purchase Price (RM)	Location
Jul-2014	Profile Wide Sdn Bhd	0.915	21.9 million	City Centre
Jul-2014	Vuitingsen Hotel Sdn Bhd	1.00	9.81 million	Karamunsing Area
Aug-2014	Bretam Alliance Berhad	2.75	41.5 million	Luyang Area

Source: Knight Frank Research and JPPH

For the period from January to August 2014, Sabah welcomed a total of 2.16 million tourists, similar to the corresponding period in 2013.

FIGURE 5
Visitor Arrivals to Sabah
2002 - 2013



Source: Sabah Tourism / Knight Frank Research

T1@Bundusan by Tan Brothers Machinery Company (TBMC) was launched in June 2014. The project offers 12 four-storey blocks of commercial shop offices, 12 units of dual-volume sky F&B outlets on level 5, a six-storey boutique hotel and a single-storey basement car park across 1.94-acre of land along Jalan Bundusan. The T1@Bundusan commercial hub is set to redefine the landscape of the city once completed in 2017. The selling price starts from RM2.6 million onwards for the commercial shop-offices and RM600,000 onwards for the F&B outlets.

Donggongon Avenue was launched by Homesign Network Sdn Bhd in April 2014. The development on 3.04 acres of land in Penampang consists of 18 units of 6-storey semi-detached A-class boutique offices with typical built-up area of approximately 9,620 sq ft, priced from RM5 million to RM5.8 million. With an estimated gross development value (GDV) of RM100 million, the project is expected to be completed by the end of 2016. The take-up rate is circa 77% to date, evident of Sabah's resilient and stable property market.

City Point Complex is a 16-storey development consisting of 318 units of 5-star hotel suites (in two tower blocks) for the tourism hub, four levels of branded retail outlets, a banquet hall for over 200 tables, a 5-storey car park with 1,000 bays and offices for the Sabah United Chinese Chambers of Commerce (SUCCC) and United Sabah Chinese Communities Association of Kota Kinabalu (USCCA). The project, which had been re-named as Wisma Tiong Hua Sabah, is located on a 2.7-acre site in Karamunsing and has a GDV of RM300 million. It is a tri-partite joint development between SUCCC and USCCA as land owners together with Arah Permai Sdn Bhd, as the developer.

Bina Puri Properties Sdn Bhd, a wholly-owned subsidiary of Bina Puri Holdings Bhd, has teamed up with Kensington Development Sdn Bhd to undertake a joint-venture (JV) commercial development with a GDV of RM148 million. The project, known as 8 Avenue, is located along Jalan Tuaran Bypass and features a 13-storey block consisting of 55 units of commercial lots (made up of 14 units of 2-storey/duplex and 41 units of simplex lots) and 259 units of small office versatile office (SoVo) suites.

RESIDENTIAL

There were a few notable residential launches in 2014.

Harrington Suites, located at Damai by Interland Properties Sdn Bhd, features a total of 116 units in five layouts sized between 2,445 sq ft and 3,455 sq ft. The units are priced from RM1.8 million to RM2.9 million.

Jesselton View by Bina Puri Holdings Berhad, located at the suburb of Hilltop. This low-density apartment development offers 80 units housed in 5-storey and 11-storey blocks with built-up areas between 809 sq ft and 2,922 sq ft, priced from RM533,000 to RM2.08 million.

Sutera Avenue Residences by Mah Sing Properties, a wholly-owned subsidiary of Mah Sing Group. Located at the southern fringe of Kota Kinabalu's CBD, the launch in January saw the release of a total of 320 units of serviced apartments in three towers, namely Tower 1 (100 units), Tower 2 (120 units) and Tower 3 (100 units). The units, with built-up areas ranging from 726 sq ft to 1,220 sq ft, are priced from RM605,000 onwards.

Greenfield Residences, a 24.6-acre development by Greenfield City at Menggatal Township. It features six layouts in two and three-bedroom configurations with built-up areas from 821 sq ft to 1,084 sq ft. The units are priced from RM300 per sq ft onwards.

Ashton Tower, located at Kolombong by SCP Inanam 2 Sdn Bhd, a subsidiary of SCP Group. The 28-storey tower offers 391 units of condominiums with built-up areas ranging from 870 sq ft to 948 sq ft, priced from RM361,800 to RM504,000.

A summary of incoming supply of selected medium to high end condominiums is tabulated as follow:

TABLE 6

Notable Medium to High End Condominiums Completing 4Q2014 – 2016

Name of Development	Location	Year Launched	Expected Completion	Total Units
Palagos Designer Suites	KK CBD	2008	2015	103
Bay 21	Likas Bay	2010	2015	150
The Loft	Southern fringe of KK CBD	By stages since 2011	Q4 2014 - 2015	631
Jesselton Residences	KK CBD	2011	2016	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

Source: Knight Frank Research

The asking rentals for units in Marina Court Condominium in Kota Kinabalu's CBD range from RM2.90 per sq ft to RM3.00 per sq ft per month. In the locality of Signal Hill, near the city centre, asking rental ranges from RM2.00 to RM4.00 per sq ft per month whilst in the suburb of Penampang, it ranges from RM1.50 per sq ft to RM2.00 per sq ft per month. In terms of capital value, prime city condominiums are priced between RM800 per sq ft and RM1,200 per sq ft.

TABLE 7

Average Asking Prices & Rentals of Existing Condominiums

Locality	Average Asking Price (RM psf)	Asking Gross Rental (RM psf / month)
KK CBD		
Marina Court	500 - 800	2.90 - 3.00
Signal Hill		
The Peak Vista/The Peak	600 - 1,200	3.00 - 4.00
The Peak SOHO/Suites	450 - 850	2.00 - 4.00
Bayshore Condominium	500 - 550	1.80 - 2.20
Likas/Damai/Luyang		
Puncak Luyang Condominium	500 - 700	2.00 - 2.50
Alam Damai Condominium	600 - 700	2.00 - 2.50
Puteri Damai Condominium	550 - 720	2.50 - 3.00
Jesselton Condominium	550 - 720	2.50 - 3.00
Penampang		
Surian Residences	400 - 500	1.50 - 2.00
Hartamas Heights	450 - 500	1.50 - 2.00

Source: Knight Frank Research / JPPH

TABLE 8

Selected Office Asking Rentals

Building Name	Asking Gross Rental (RM psf / month)
Menara MAA	2.00 - 2.80
CPS Tower Centrepoint	2.40
Warisan Square	2.00
Wisma Merdeka	2.50
Wisma Sabah	3.00
Wisma Great Eastern	2.50
Menara Jubili	2.50 - 2.80
Menara MBf	2.20
Kompleks Karamunsing	2.50
Wisma Tun Fuad Stephen	3.50
KWSP Building	3.50
KK Times Square	2.60 - 3.50

Source: Knight Frank Research

OFFICE

There has been no new supply over the past two years and the total existing supply of office space remains at 6.2 million sq ft with a healthy occupancy rate of 91.3%. Based on current market values, yields are averaging at about 5% per annum.

Menara Hap Seng, the first purpose built Grade 'A' commercial building in Kota Kinabalu city centre, is slated for completion by April 2015. The 14-storey building with green features comprises a 3-storey retail podium and 10 office floors on the upper levels. It offers a total net floor area of 174,569 sq ft at monthly rental rates ranging from RM5.00 per sq ft to RM5.50 per sq ft. Overall take-up rate has been positive with Shell, already committed to four floors in the building.

Riverson Suites by developer Riverson Corporation Sdn Bhd is located at the southern fringe of Kota Kinabalu's CBD. The 6-storey building, comprising 60 office units, has a built-up area of 20,000 sq ft per floor. It is expected to be completed by 2015.

Currently, the average asking rental of office space ranges from about RM2.00 per sq ft to RM3.50 per sq ft per month. In KK Times Square, it ranges from RM2.60 per sq ft to RM3.50 per sq ft per month while in Wisma Tun Fuad Stephen and KWSP Building, asking rental averages at RM3.50 per sq ft per month (inclusive of centralised air conditioning).

PacifiCity

RETAIL

Since the completion of Suria Sabah in 2009, the supply of retail space in Kota Kinabalu has remained constant at 4.6 million sq ft with an average occupancy rate of 86.3%. We foresee a very exciting time for the retail sector when the anticipated new retail developments such as OCEANUS Waterfront Mall, Imago Mall at KK Times Square Phase II as well as Riverson Walk come on-stream in 4Q2014/1Q2015. These retail properties are situated towards the southern corridor of the city.

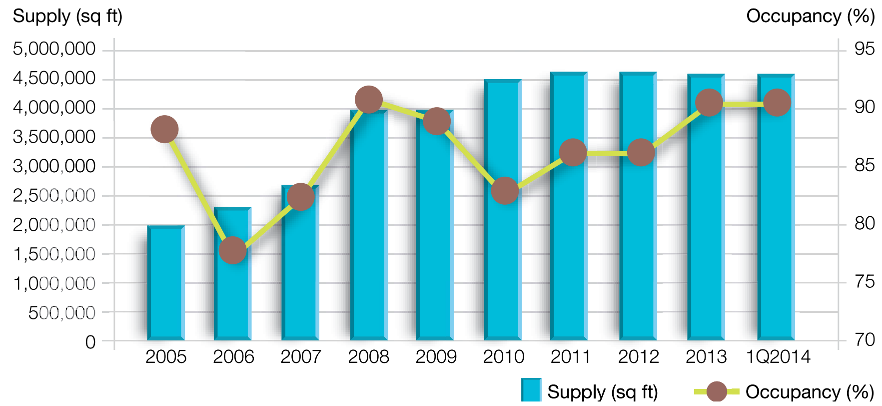
OCEANUS Waterfront Mall is set within the Kota Kinabalu City Waterfront (KKCW) development, a project developed by Sunsea Development Sdn. Bhd. OCEANUS fronts onto a 2km long waterfront boardwalk overlooking the stunning seafront with F&B outlets, offering waterfront lifestyle and leisure, strategically lined along the boardwalk.

TABLE 9
Future Supply of Retail Space in Kota Kinabalu

Project	Location	Estimated Net Floor Area (sq ft)	Expected Completion
Imago Mall @ KK Times Square Phase 2	CBD	802,034	4Q2014 / 1Q2015
OCEANUS Waterfront Mall	CBD	260,300	1Q2015
Jesselton Mall	CBD	73,613	1H2016
Riverson Walk	Fringe of CBD	114,000	1H2015
Pacific Parade @ PacifiCity	Likas Bay	628,000	2016
ITCC Penampang	Penampang Bypass Highway	318,340	4Q2015

Source: Knight Frank Research

FIGURE 6
Retail Supply and Occupancy Trend in Kota Kinabalu
2005 – 1Q2014



Source: Knight Frank Research / NAPIC

It is set to be a prime tourist hotspot.

Both IMAGO Mall and Riverson Walk are strategically situated at the southern fringe of Kota Kinabalu's CBD and next to Sutera Habour Resort. IMAGO Mall developed by Syarikat Kapasi Sdn Bhd, a wholly owned subsidiary of Asian Pac Holdings Bhd, is a 4-storey "Grade A" retail complex with over 300 outlets and a net lettable area (NLA) of about 800,000 sq ft. Everrise Group has confirmed its expansion into Sabah by opening its outlets at IMAGO Mall as well as at PacifiCity Mall. IMAGO Mall will offer international and local brands such as H&M, Topman/Topshop, Tumi, Kate Spade, Michael Kors, Burton, Swarovski, and Victoria's Secret.

Riverson Walk, consisting of 247 retail outlets with sizes ranging from approximately 100 sq ft to 937 sq ft, is specially tailored and perfectly ideal for small boutique retail businesses. Riverson Walk, part of the Riverson mixed development, plays an important role, complementing its other integrated components viz. the medical centre, office suites and SoHo suites.

OUTLOOK

The medium to long term outlook for Kota Kinabalu real estate is still optimistic despite the unfortunate events this year, such as the aviation tragedies and security issues on the east coast. The development pace in Kota Kinabalu continues to uptrend as the state capital transforms itself into a modern coastal city.

The lack of new launches in 2014 will led to pent up demand from investors although domestically, the affordability gap is expected to widen with higher land prices, construction and fuel costs as well as the impending implementation of the Goods & Services Tax (GST) in April 2015. Bank Negara's tightening of lending measures and anticipated hikes in interest rates will carry through 2015 and as household debt levels continue to be reined in, we expect lacklustre response for new projects until lending conditions improve. The pool of well-heeled local buyers and the untapped foreign investor market will be critical to the successes of new launches in 2015.

The Tanjung Aru Eco Development (TAED) covering 299 hectares along the Tanjung Aru beach is poised to create new tourism assets for Kota Kinabalu and cement Sabah's position as a world class tourist destination. The current masterplan comprises approximately 4,500 apartments, 150 villas, 475 terraced houses, 6 hotels, retail space, a golf course and marina split into 7 zones that will be sold via tender towards the end of 2015. TAED aims to reserve 50% of land use as public open spaces as well as strive for a Green Building Initiative (GBI) Township certification.

The north corridor of the city will also be a main focus for new developments and launches in 2015 with the highly anticipated Jesselton Quay and Kota Kinabalu Convention City (KKCC) developments unfolding to the public. We forecast investor sentiment to be strong across these two projects.

Sutera Harbour Resort, under the new ownership of Singaporean listed conglomerate, GSH Corporation, is expected to release the Sutera Vista apartments to the market in the new year. With its prized location and unobstructed sea, sunset and golf views, the project should gain international appeal and attract new investors to Sabah.

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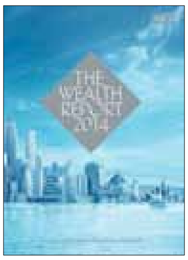

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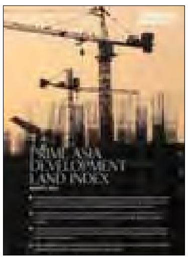

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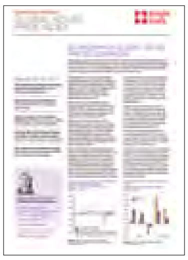

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