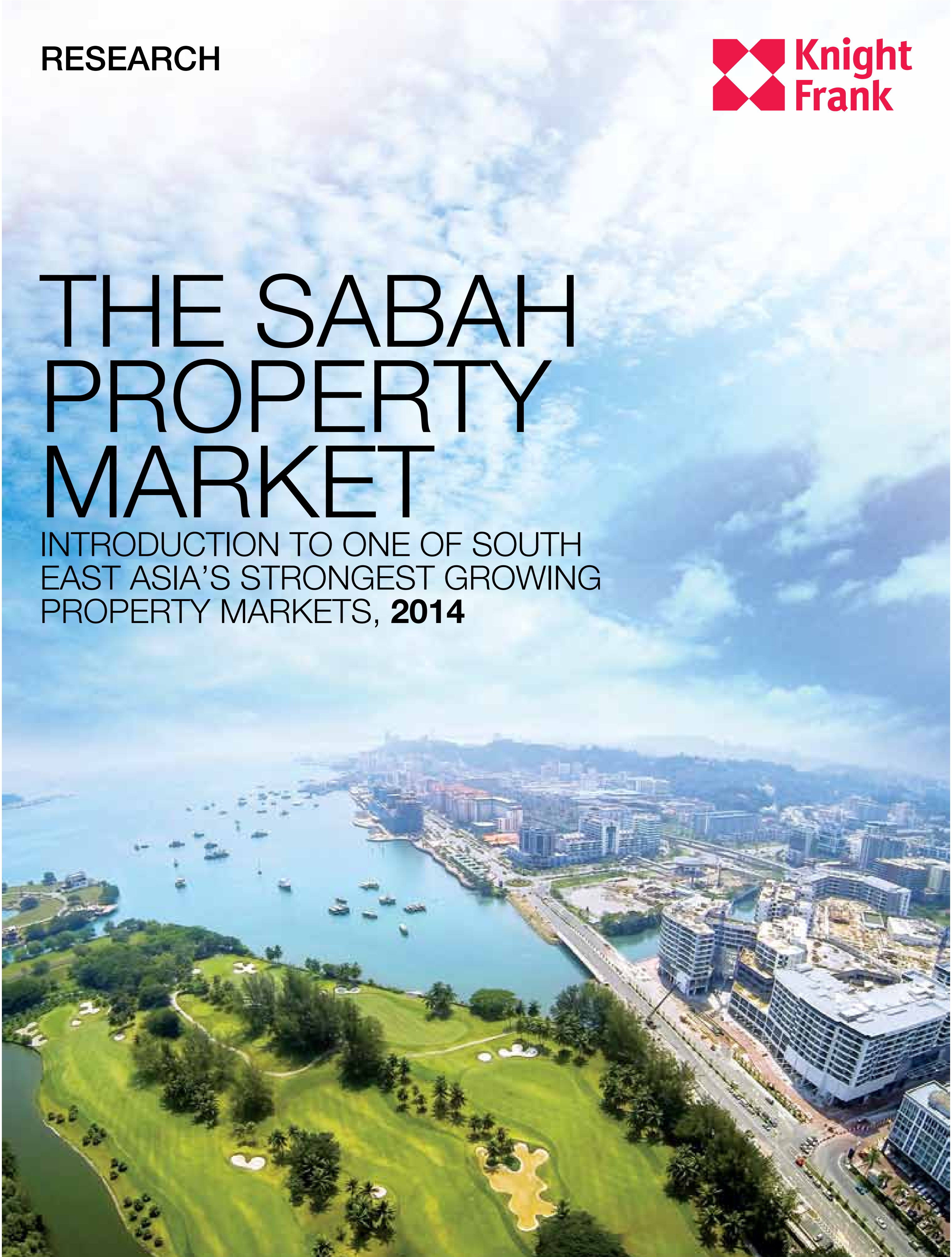
RESEARCH

THE SABAH PROPERTY MARKET

INTRODUCTION TO ONE OF SOUTH EAST ASIA'S STRONGEST GROWING PROPERTY MARKETS, **2014**



KOTA KINABALU
HIGH END RESIDENTIAL MARKET

KOTA KINABALU
OFFICE MARKET

KOTA KINABALU
RETAIL MARKET

FOREWORD

The fundamentals supporting growth in the Sabah property market have never been stronger. Over the last few years, Sabah and in particular its capital, Kota Kinabalu has experienced rapid transformation across many key economic sectors. Tourism in Sabah has enjoyed double digit growth rates and stands for the highest tourist spend nationwide. Crude palm oil production remains the highest in Malaysia, whilst agriculture and aquaculture industries continue to bolster the state's GDP. In the oil and gas sector, Sabah represents the highest crude oil reserves in Malaysia and with new deepwater discoveries, will increase the country's reserves of crude oil and natural gas. Performance across these industries have been a catalyst for urban and rural property development, both for domestic demand and the increasing number of expatriate relocations to Sabah.

What was once a destination only loved by locals and eco-tourists, Sabah today is well on its way to becoming an international hotspot for travellers and savvy investors. Blessed with an equatorial climate of year long summer days, amazing sunsets and virgin beaches, the world's oldest rainforests and cool mountain ranges, it's hard for Sabah not to be on the radar of neighbouring Asian cities; most of which are within a five hour direct flight of the state's gateway Kota Kinabalu. Starting from a lower capital value base, availability of financing, low interest rate environment, and a transparent legal and title system, Sabah is quickly gaining regional interest from major real estate developers and investors.

As the rest of developed Asia struggles with heated property markets, Sabah is at tipping point with a confluence of Borneo's unique offerings and strong property drivers.

This market report focuses on the state's capital, Kota Kinabalu and covers the core sectors of residential, commercial and retail property.

Jesselton Quay

Market Indications

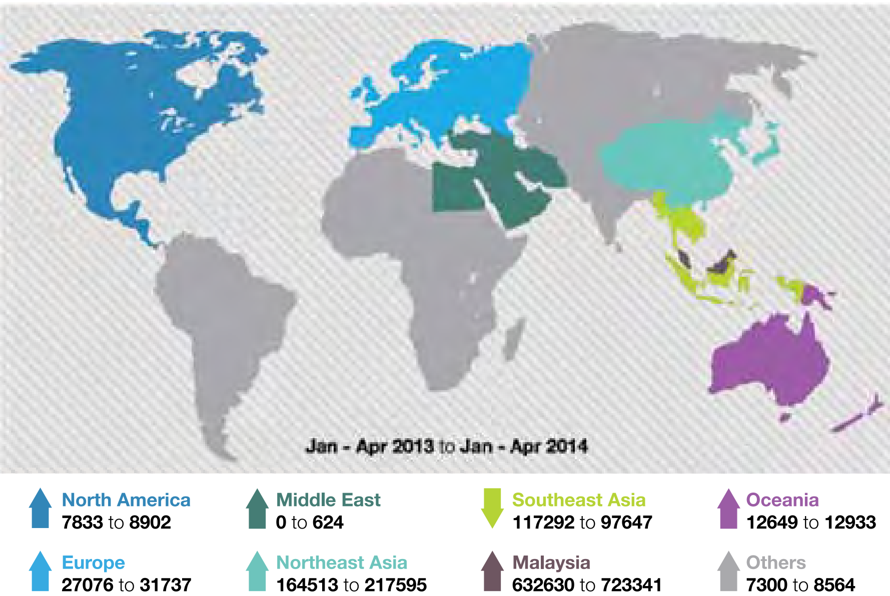
The Kota Kinabalu property market has remained buoyant and stable during the first half of 2014 despite recent negative factors; primarily the tightening of mortgage lending, tariff hikes on electricity and fuel, and the impending implementation of a goods and services tax (GST) in 2015.

Properties in good locations remain to be sought after and the limited supply of new developments across most sectors has seen secondary market prices moderately increase throughout the year.

Major projects completing this year such as Imago shopping mall, The Loft apartments, OCEANUS waterfront mall, Pelagos Suites, Riverson and Gleneagles private hospital are set to transform the southern corridor of the city and have a positive impact on the modernisation of Kota Kinabalu.

Bound by Sabah's political hub and Sepangar Port to the north, Kota Kinabalu International Airport (KKIA) to the south, the Crocker Range National Park to the east and the South China Sea to the west, land scarcity in this 351 square kilometre city is rapidly placing pressure on land prices and as a result property prices.

FIGURE 1
KKIA VISITOR ARRIVAL
(Jan - Apr 2013 vs Jan - Apr 2014)



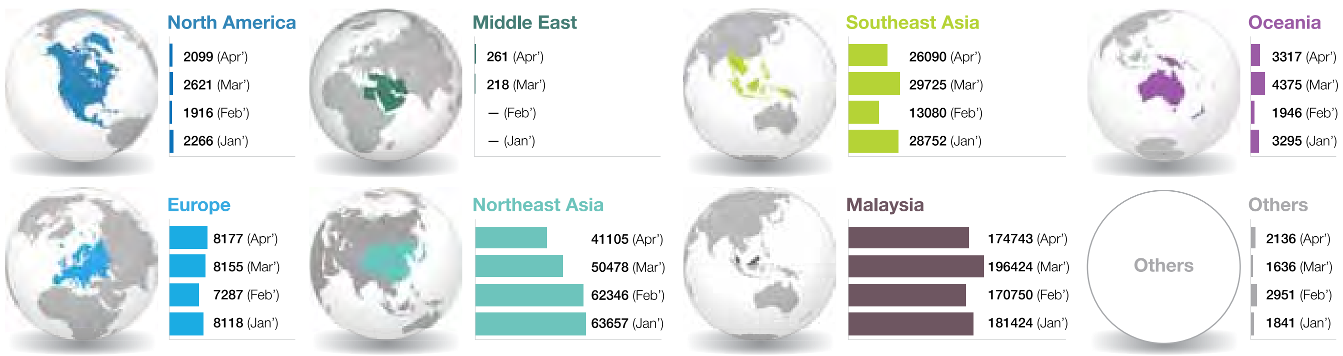
Source: Sabah Tourism Board

For the period January to April 2014, visitor arrivals have continued to increase by 13.6% compared to the same period in 2013. Handling 6.9 million passengers in 2013, KKIA remains the second busiest airport in the country. The Ministry of Tourism, Culture and Environment further illustrates the state's hotel occupancy rates sitting at 92%, the highest in Malaysia. A shortage of 5,000 hotel rooms has been estimated to meet arrival demand which we believe places the hospitality sector as one of the biggest growth segments in the coming years.

Also spurring development and property values in Kota Kinabalu is an expanding population, which is estimated to grow to more than 1 million by 2020 according to the Sabah Economic and Development Investment Authority (SEDIA). Fuelling this is migration from within Borneo as well as internationally, supported by Malaysia My Second Home applications and the growing oil and gas industry, which is expected to create more than 23,000 jobs.

We expect the second half of the year and early 2015 to pick up in terms of new major development launches and announcements, particularly in the new development precincts of the old Jesselton port area and Tanjung Aru Eco Development.

FIGURE 2
KKIA VISITOR ARRIVAL
(Jan - Apr 2014)



Source: Sabah Tourism Board

Kota Kinabalu's residential sector is in a growth cycle with projected demand of 2,000 residential units per annum.

KOTA KINABALU HIGH END RESIDENTIAL MARKET

Luxury residential prices to remain stable with moderate appreciation throughout 2014.

Residential properties in planned schemes number approximately 53,956; condominiums making up 14,708 (27%) and landed properties 39,248 (73%).

An estimated new supply of 4,318 condominiums are coming on stream over the next 3 years. There are no significant landed developments in the pipeline which is attributed to rising land costs and scarcity of land, deterring developers from this sector. As a result, future landed property supply is contained outside of 15 kilometres from the city centre.

Based on historical population growth, conservatively Kota Kinabalu is expected to grow at 2.42% per annum (11,000 people per annum). With a household size of 5.5 persons per household, the annual demand for housing is estimated at 2,000 residential properties; signalling room for additional housing developments in the city.

No major condominium launches in Kota Kinabalu have taken place this year and transactions in the primary market have revolved around balance units in projects under construction and launched in 2012 / 2013.

Prime city off-plan condominium prices have achieved between RM500 and RM1,200 per sq ft. The high end residential sector over RM1,000,000 per unit has achieved the highest increase in volume transactions in 2013, 22.4% up from 2012 and we expect this trend to continue based on future supply.

The outlook for the second half of 2014 will see a handful of new residential projects officially launching. Given a lack of new inventory this year, we expect take up rates to be solid albeit subject to affordability and the availability of end financing to buyers.

TABLE 1

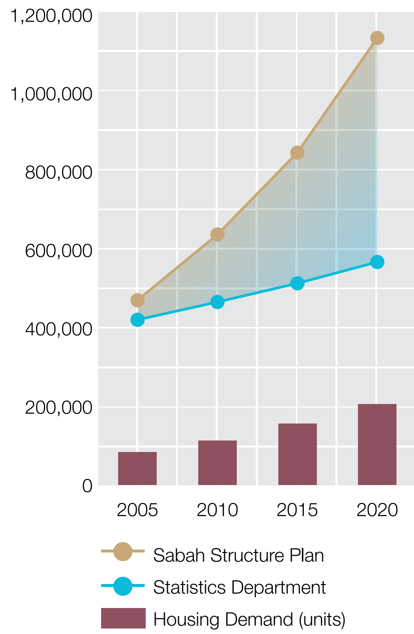
NOTABLE RESIDENTIAL DEVELOPMENTS COMPLETING 2014 - 15

Development	Location	Year Launched	Expected Completion	Total Units
The Loft	Southern fringe of KK CBD	By stages since 2011	Q4 2014 - 2015	631
Bay 21	Likas Bay	2010	2014	150
The Peak Soho	Signal Hill	2010	July 2014	212
Riverson SOHO	Southern fringe of KK CBD	2011	2014	152
Pelagos Designer Suites	KK CBD	2008	2015	111
Jesselton Residences	KK CBD	2011	2015	333

Source: Knight Frank Research


Peak Vista

FIGURE 3
KOTA KINABALU POPULATION PROJECTION VS HOUSING DEMAND



Source: SEDIA and Knight Frank Research

TABLE 2
MAIN RESIDENTIAL PRIMARY MARKET PRICES AND MAIN RESIDENTIAL SUB-SALE PRICES

High-rise Developments	Location	Expected Completion	Current Price (RM/psf)
The Loft	Southern fringe of KK CBD	Q4 2014 - 2015	680 - 1,200
Bay 21	Likas Bay	2014	700 - 810
Riverson SOHO	Southern fringe of KK CBD	2014	800 - 900
Pelagos Designer Suites	KK CBD	2015	800 - 1,000
Jesselton Residences	KK CBD	2015	750 - 1,200
The Peak Soho	Signal Hill	July 2014	650 - 750
Peak Vista I & II	Tanjung Lipat	Completed	850 - 1,200
Jesselton Condominium	Damai	Completed	500 - 600
Puteri Damai	Damai	Completed	530 - 650
Peak Condominium	Tanjung Lipat	Completed	550 - 650
Marina Court	KK CBD	Completed	550 - 620
Landed Development	**Type**	**Land Area (sq ft)**	**Subsale Price (RM 'mil)**
d'Banyan Residency @ Sutera	Double storey superlink villa	3,740 - 7,678	3.2 - 4.0
d'Banyan Residency @ Sutera	2 to 2½-storey semi-detached villa	5,379 - 6,836	3.7 - 4.8

Source: Knight Frank Research and JPPH (current prices include revised developer pricing for remaining unsold units and sub-sale prices)

KOTA KINABALU OFFICE MARKET

Prime commercial rents and values will see continued growth amidst high occupancy rates and limited supply.

The development of purpose built and signature offices continues to uptrend and replace traditional shoplots as Kota Kinabalu's commercial sector matures and modernises.

Approximately 64 purpose built office buildings representing 6.2 million sq ft make up the existing supply of office space in Kota Kinabalu, with average occupancy rate currently sitting at 91.3%. There has been no new supply over the 2012 and 2013 period, and we expect the same for this year.

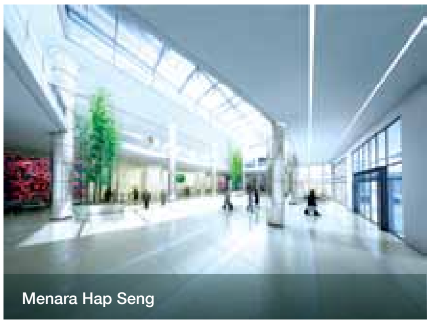
Pent up demand for city office space will be met with a significant amount of new supply coming to completion in 2015, most notably Menara Hap Seng, Aeropod, Sutera Avenue and Riverson Suites, totalling approximately 814,613 sq ft. With the exception of Menara Hap Seng, all new office space is being developed within the southern corridor of the city and forms part of a greater mixed use development including residential, serviced apartments and/or retail.

Recent lease transactions in prime office buildings illustrate a healthy uptrend in achieved rents per sq ft. KK Times Square, regarded as a benchmark for new office space in the city has seen rents increase over the past 12 months from an average of RM2.50 per sq ft to RM3.00 per sq ft (20% growth). Based on current office market values, yields are achieving an average of 5% per annum.

New office supply completing in 2015 is timely and pre-committed tenants are already in place for Menara Hap Seng and Riverson Suites. We also foresee owner occupiers and tenants migrating from traditional decades old shoplots to strata commercial in the aforementioned developments as Kota Kinabalu matures into a more modern city.

- Riverson
- Menara Hap Seng
- Sutera Avenue
- Aeropod


Menara Hap Seng


Menara Hap Seng

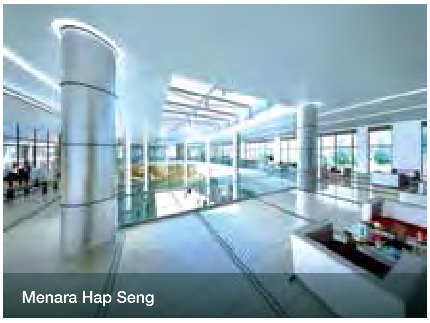

Menara Hap Seng

TABLE 3

INCOMING SUPPLY OF NEW OFFICE SPACE

Development	Location	Year Launched	Expected Completion	Total Net Floor Area (sq ft)	Remarks
Menara Hap Seng	KK CBD	-	2015	174,569	A 14-storey purpose built Class 'A' commercial building with green building features comprising 3-storey retail podium on lower level. For lease only.
Aeropod (Phases 2a & 2b)	Tanjung Aru	2011	2015	288,000	Part of the Aeropod mixed development comprising commercial, residential and railway hub.
Riverson Suites	Southern fringe of KK CBD	2011	2015	118,500	Part of Riverson mixed development which consist of Gleneagles Medical Centre, Riverson Walk (retail mall) and Riverson SOHO.
Sutera Avenue - Signature Office Suites	Southern fringe of KK CBD	2012	2015	233,544	Part of the Sutera Avenue mixed development which consist of 18 units of 10-storey shopoffice block.

Source: Knight Frank Research

Rapid and unprecedented supply of retail malls are coming to completion over the next 3 years cementing Kota Kinabalu's position as Borneo's gateway city.

KOTA KINABALU RETAIL MARKET

Prime retail rents up, but tenant take-up rates could be slow.

Pacific Parade @ PacifiCity

The retail property sector in Kota Kinabalu has seen record construction starts. New completions in 2014 and 2015 will total over 1 million sq ft, adding 20% additional space to existing supply. 17 shopping malls currently reside in Kota Kinabalu with a total of 4.6 million sq ft. Vacancy rates are moderate at 13.7%, predominantly due to tenancy relocations to newer malls coming to completion over the next 6 months. The majority of existing shopping malls in the city are in excess of 10 years old with the latest mall, Suria Sabah completed in 2009.

According to SEDIA statistics, Sabah represents one of the highest tourist spends per pax amongst Malaysian states; RM1,760 per tourist. Total tourism receipts in the state exceed RM4.4 billion, of which RM2.2 billion (50%) is attributable to retail shopping and food and beverage.

Significant retail malls completing in 2014 include OCEANUS Waterfront Mall, Imago Mall @ KK Times Square and Riverson Walk. Similar to new office supply, these retail properties are all located along the southern corridor of the city. Anticipated 2015 completions include Jesselton Mall and Pacific Parade in 2016. In addition, mixed use retail and office towers at Sutera Avenue and Aeropod are expected to complete in the next 18 months.

Rents in prime city malls are achieving between RM15 and RM24 per sq ft per month at ground level. Based on stratified retail unit values, retail yields are achieving between 7% and 9% per annum.

Our outlook on the retail sector is positive based on Kota Kinabalu's population growth, rising tourism arrivals and tourist receipts.

TABLE 4

INCOMING SUPPLY OF NEW RETAIL SPACE

Development	Location	Year Launched	Expected Completion	Total Net Floor Area (sq ft)	Remarks
Imago Mall @ KK Times Square Phase II	KK CBD	2012	Q4 2014	802,034	Part of KK Times Square Phase II mixed development comprising retail mall on the lower podium and 5 condominium blocks (The Loft). For lease only.
OCEANUS Waterfront Mall	KK CBD	2010	Q4 2014	260,300	Part of the waterfront integrated development consists of a hotel, 4 levels of retail mall (OCEANUS) and 111 Pelagos Designer Suites. The mall consists of 272 retail lots.
Riverson Walk	Southern fringe of KK CBD	2011	Q4 2014	114,000	Part of Riverson mixed development comprising Gleneagles Medical Centre, Riverson Walk (retail mall) and Riverson SOHO.
Jesselton Mall	KK CBD	2012	Q4 2015	73,613	Part of Jesselton Residences mixed development comprising retail mall (123 units) on the lower podium and 3 towers condominium (333 units).
Pacific Parade @ PacifiCity	Likas Bay	2012	2016	628,000	Pacific Parade offers two types of retail components. Lifestyle Mall is a fully retained mall with TGV Cinemas and Everrise Supermarket as their anchor tenants whereas Strata Bazaar offers a variety of lot sizes for KK's local merchants.

Source: Knight Frank Research

IMAGO @ KK Times Square Phase II

IMAGO @ KK Times Square Phase II (The Boulevard)

Kota Kinabalu City Waterfront. Kota Kinabalu's first absolute waterfront development consists of a retail mall (OCEANUS Waterfront Mall), residences (Pelagos Designer Suite) and 365 room 5 star hotel.

Riverson. Kota Kinabalu's first integrated development consists of a retail mall (Riverson Walk), medical facility (Gleneagles Kota Kinabalu Medical Centre), small office home office suites (Riverson SOHO) and commercial suites (Riverson Suites).

Jesselton Residences. Luxury waterfront condominiums and boutique retail mall (Jesselton Mall).

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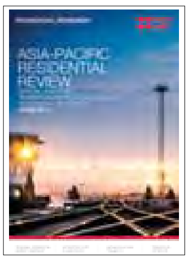

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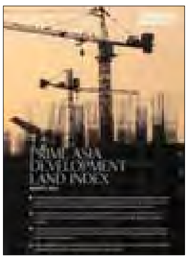

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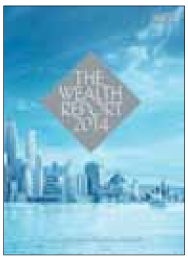

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Publisher: Knight Frank Malaysia Sdn Bhd (585479-A)
Suite 10.01 Level 10, Centrepoint South, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur.

Printed by: United Mission Press Sdn. Bhd. (755329-X)
25 & 27 Jalan PBS 14/14, Taman Perindustrian Bukit Serdang, 43300 Seri Kembangan, Selangor.

Front Cover image courtesy of Dragonfly Robotix - Info@dragonflyrobotix.com

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