RESEARCH

REAL ESTATE HIGHLIGHTS

2ND HALF 2015

KUALA LUMPUR | PENANG | JOHOR BAHRU | KOTA KINABALU

HIGHLIGHTS

Sluggish market with potential buyers and investors adopting 'wait and see' approach.

Transaction volume in the condominium / apartment segment continue to decline.

Prices to remain flat generally with rentals expected to move south amid heightened competition between existing supply and new completions.

Greater level of product innovation and marketing strategies amid a challenging market with more projects offering leaseback arrangements and pool management programmes.

KUALA LUMPUR HIGH END CONDOMINIUM MARKET

ECONOMIC INDICATORS

Amid domestic and external headwinds, the Malaysian economy continued to moderate, recording a growth of 4.7% in the third quarter of 2015 (2Q2015: 4.9%), driven mainly by private sector demand. For the whole year of 2015, the country's economy is expected to expand by 4.5% to 5.5% (2014: 6.0%).

Private consumption which grew by 8.8% in 1Q2015 (4Q2014: 7.6%) decelerated to 6.4% in 2Q2015. Going forward, it is expected to moderate further as households continue to be concerned over the state of the economy amid uncertainties arising from implementation of the Goods & Services Tax (GST), further weakening of the local currency and softer labour market conditions. Meanwhile, private investment which expanded by 11.7% in 1Q2015 (4Q2014: 11.1%) contracted sharply to 3.9% in 2Q2015 as business sentiment weakened.

Headline inflation averaged at 2.9% in June and July (2Q2015: 2.2%) reflecting the effects of higher domestic fuel prices and the impact of the GST. Moving forward, it is expected to peak in early 2016 before moderating for the remainder of the year. Unemployment rate increased marginally to 3.2% in July from 3.1% in the preceding month.

During the review period, the Overnight Policy Rate (OPR) remained unchanged at 3.25%.

SUPPLY & DEMAND

The cumulative supply of high-end condominiums in Kuala Lumpur stands at 42,749 units following the completion of 3,139 units in the second half of 2015. In terms of distribution, Mont' Kiara / Sri Hartamas contribute about 48.0% (1,508 units), followed by KL City with 35.5% (1,113 units). The remaining units are located in Ampang Hilir / U-Thant area (518 units or 16.5%).

Notable completions include Face Platinum Suites (Phase 1), Mirage Residence and Crest Sultan Ismail in KL City; Concerto and Verdana in North Kiara; DC Residency in Damansara Heights; and Damai 88, A Residency D'Suria, 9 Madge and Brunsfield Residences @ U-Thant in the Ampang Hilir / U-Thant area.

Another seven projects, scheduled for completion by the first half of 2016, will contribute some 1,998 units to the existing stock. The bulk of this future supply are located in KL City (1,591 units), followed by the localities of KL Sentral and Mont' Kiara with 160 units and 118 units respectively. The projects include Pavilion Banyan Tree Signatures, Le Nouvel, Vortex Suites, The Ritz-Carlton Residences Kuala Lumpur, KL Trillion, The Residences at The St. Regis Kuala Lumpur and One Kiara (Tower A).

The impending completions of Pavilion Banyan Tree Signatures, The Ritz-Carlton Residences Kuala Lumpur and The Residences at The St. Regis Kuala Lumpur, leveraging off the quality of international-class hotel brands, mark the new era of luxury living in Kuala Lumpur.

Despite the sluggish high end residential market, several notable projects were previewed and launched during this half year.

The latest debut of branded residences is YOO8 by Kempinski, forming part of the RM5.4 billion 8 Conlay integrated mixed use project that also comprises retail and hotel components. Tower A, featuring 564 units sized from 700 sq ft to 1,300 sq ft, was launched on November 18. Despite its new benchmark pricing, averaging at RM3,200 per sq ft, it has reportedly achieved 70% booking. Tower B with 468 units is slated for launch by 1H2016.

Designed by Pritzker prize winner, Jean Nouvel, the 195-unit Le Nouvel KLCC by Wing Tai Asia is a Build-Then-Sell project. The indicative pricing for the luxury apartments with typical sizing of 1,810 sq ft to 2,832 sq ft is from RM2,200 per sq ft onwards. The project is expected to be launched next year.

On October 1, UDA Land Development Sdn Bhd unveiled its latest project known as Anggun Residences. Located within walking distance from the Medan Tuanku monorail station, Anggun Residences offer 384 units of serviced apartments atop a 3-storey retail podium, priced from RM1,300 per sq ft.

Bina Puri Holdings Bhd, the developer for the Opus Residences, has announced that all the units for Opus Tower 2 will be equipped with Calvin Klein furniture and Gorenje kitchen appliances. The units, sized from 700 sq ft to 1,100 sq ft, are priced from RM1,500 to RM1,600 per sq ft.

In the locality of Ampang Hilir / U-Thant, KSL Group's latest project known as 18 Madge is designed by Veritas Architects. The luxury low-density condominium development features 48 units with typical sizing from 2,234 sq ft to 4,207 sq ft and two penthouses sized at 13,913 sq ft and 14,803 sq ft. Selling price starts from RM2.7 million.

Agile Mont' Kiara, designed by renowned Singaporean architectural firm, DP Architects, opened its 44-storey Tower H for sale in October. The 171 partially furnished units are priced from RM900 to RM950 per sq ft on average. To date, the tower has reportedly achieved circa 50% booking.

Upcoming notable projects with residential components include 8 Kia Peng by I-Bhd; Stonor 3 - a joint-venture (JV) project between Tan & Tan Developments Berhad and Mitsubishi Jisho Residence; Casa Kiara 3 in Mont' Kiara (288 units with GDV of RM336 million) by Sunway Property; Phase 1 of The Belfield by Tradewinds Corporation (high-rise residences centred on a premium retail avenue); a residential block within the on-going KL Gateway development by Suez Capital; the Bukit Bintang City Centre (BBCC) – a JV project between Eco World Development Group Bhd, UDA Holdings Bhd and the EPF; and Phase 1 of Pavilion Damansara Heights by Impian Ekspresi of Pavilion Group and the Canada Pension Plan Investment Board (CPPIB).

PRICES AND RENTALS

With market sentiment remaining weak, potential buyers and investors continue to adopt a 'wait and see' approach.

In the primary market, developers are offering attractive home ownership packages and creative financial deals with guaranteed rental returns to boost sales while in the secondary market (sales and lettings); there are ample choices and opportunities for buyers and tenants looking for good buys / 'bargain'.

In 3Q2015, Kuala Lumpur recorded 1,694 transactions in the condominium / apartment segment, 6.3% less than the preceding quarter (2Q2015: 1,808 transactions). The existing stringent lending guidelines continue to impact sales.

During the review period, asking prices and rentals in most locations were generally flat.

In KL City, high-end condominiums with small to mid-unit sizing ranging from about 600 sq ft to 1,300 sq ft in selected schemes such as ViPod Residences, Marc Serviced Residence and Pavilion Residences, were transacted in excess of RM1,700 per sq ft in 1H2015. Meanwhile, prices of larger units in The Troika, Quadro and One KL, sized above 2,200 sq ft, ranged from about RM1,100 to RM1,300 per sq ft.

In the primary market, prices of luxury branded serviced residences range from RM2,000 to RM3,000 per sq ft.

Brunsfield Residence @ U-Thant, a recently completed low rise condominium development, is retained by the developer for investment purpose. The project offers 93 partially furnished units spread across six blocks with typical built-up areas sized from 3,357 sq ft to 4,444 sq ft. Asking rentals start from RM15,000 per month. Knight Frank Malaysia is the Sole Leasing Agents for the project.

Brunsfield Residence - The latest landmark at U-Thant

TABLE 1

Completion of High End Condominiums in 2H2015

Project	Location	Area	Total Units
Face Platinum Suites -Phase 1	Jalan Sultan Ismail	KL City	733
Crest Sultan Ismail	Jalan Sultan Ismail		278
Mirage Residence	Jalan Yap Kwan Seng		102
Damai 88	Jalan Damai	Ampang Hilir/ U-Thant	150
9 Madge	Jalan Madge		23
A Residency D'Suria	Jalan Ampang Hilir		252
Brunsfield Residences	Jalan Ampang Hilir		93
DC Residency @ Damansara City*	Jalan Johar	Damansara Heights	370
Concerto @ North Kiara	Jalan Dutamas Raya	Mont' Kiara/ Sri Hartamas	440
Verdana @ North Kiara	Jalan Dutamas Raya		698

* Pending Certificate of Completion and Compliance (CCC)

Source: Knight Frank Research

OUTLOOK

Market sentiment for the high end condominium segment remains cautious going forward, as it continues to be impacted by the various cooling measures, softening demand and a slowdown in the economy. Some of the projects scheduled for launch by 1H2016 may be deferred.

The impending completions of new projects amid a weak market is expected to heighten competition in the rental market, both in KL City and its fringe locations.

The competitive high end condominium market is also driving developers to greater level of product innovation and marketing strategies.

There has been an increased trend of projects offering leaseback arrangements and pool management programmes with guaranteed rental returns (GRR) to boost sales and attract potential buyers and investors looking for long term investment in terms of rental returns and potential capital appreciation.

Kuala Lumpur also continues to witness the entry of more branded residences as it moves towards becoming a world-class city by 2020, supported by major investments in its public transportation system.

The on-going and upcoming infrastructure works that include the Light Rail Transit (LRT) extension lines and Mass Rail Transit (MRT) lines will promote more transit oriented developments (TOD) along the transportation routes.

TABLE 2

Average Asking Prices and Rentals of Existing High End Condominiums

* Excludes Desa U-Thant and Seri Hening

** Excludes Binjai on the Park but includes Pavilion Residences

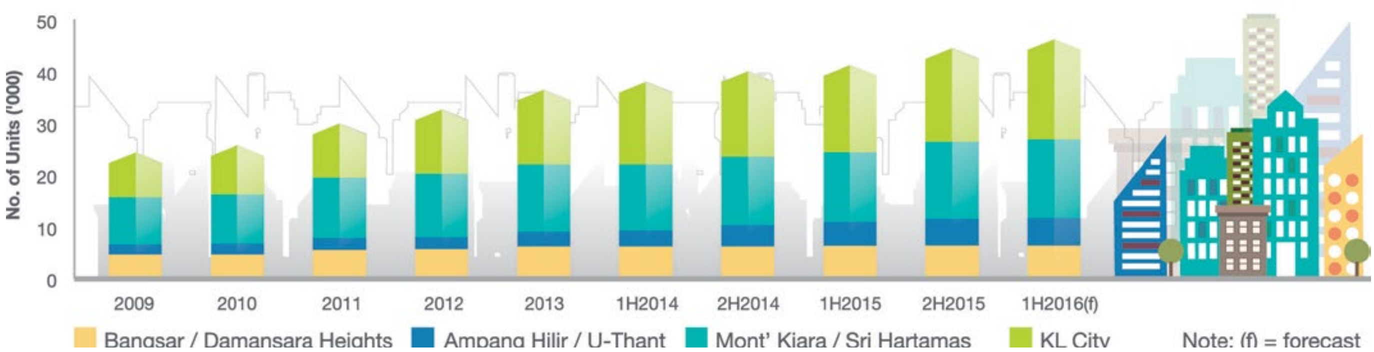
*** Includes Twins @ Damansara Heights

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

Source: Knight Frank Research

FIGURE 1

Projection of Cumulative Supply for High End Condominiums 2009 – 2016(f)



Source: Knight Frank Research

HIGHLIGHTS

Growing pressures on both rental and occupancy levels due to a high supply pipeline of existing and new stock amid a weaker leasing market with lesser enquiries.

More aggressive marketing plans with attractive tenancy terms to retain and attract tenants in a highly competitive market.

Despite a general slowdown, the investment market recorded several notable deals as savvy investors / funds seek quality assets for long-term returns.

Rental and occupancy levels of well-located good grade dual compliant office space expected to remain resilient in the short term.

KUALA LUMPUR & BEYOND KUALA LUMPUR (SELANGOR) OFFICE MARKETS

MARKET INDICATIONS

The office markets in Kuala Lumpur and Beyond Kuala Lumpur (Selangor) remained subdued in 2H2015 as domestic and external headwinds continue to weigh on the country's economic outlook.

The depreciation of the local currency and volatility in commodity prices coupled with economic and political uncertainties do not bode well for the office market which traditionally have been driven by the services sector and oil & gas (O&G) businesses.

There is growing pressures on both rental and occupancy levels.

SUPPLY & DEMAND

As of 2H2015, the cumulative supply of purpose built office space in KL and Beyond KL (Selangor) stood at circa 92.5 million sq ft.

There were six completions during the review period, adding some 3.26 million sq ft of space to the existing stock.

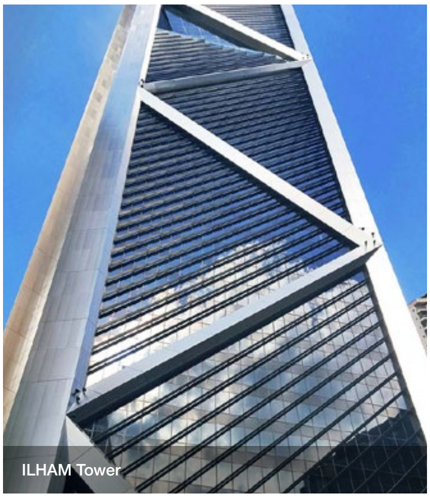
In KL, the cumulative supply increased to 51.0 million sq ft following the completion of ILHAM Tower (394,000 sq ft NLA), Menara Bangkok Bank (475,000 sq ft NLA) and KL Trillion Office Tower (305,000 sq ft NLA).

Meanwhile, in KL Fringe, the completion of Q Sentral (1,004,000 sq ft NLA), The Vertical I & II (830,000 sq ft NLA) and Menara Guocoland (247,000 sq ft NLA) at Damansara City, brought the cumulative supply to 23.8 million sq ft.

With no completion of office buildings Beyond KL (Selangor), the cumulative office supply remained at circa 17.7 million sq ft.

ILHAM Tower, a 60-storey world-class skyscraper designed by Foster + Partners, is the new iconic landmark in KL City. The GBI certified tower features premium corporate offices (29 levels) at the lower zone and serviced apartments at higher floors (14 levels).

Located at the intersection of Jalan Sultan



ILHAM Tower

Ismail and Jalan Ampang, the Grade A Menara Bangkok Bank forms part of the Berjaya Central Park integrated development which also houses The Ritz-Carlton Residences, Kuala Lumpur. The stratified corporate office tower with BCA Green Mark Gold certification offers a total of 171 suites in flexible sizes. Bangkok Bank will occupy eight levels of corporate suites totalling 99,950 sq ft while the ground and mezzanine floors will house its banking halls.

KL Trillion Office Tower is also part of a mixed use development. Located along Jalan Tun Razak, the GBI certified 34-storey Grade A office tower features 216 suites.

Q Sentral on Lot B is integrated with the transportation hub of KL Sentral. The GBI Gold certified 45-storey office building offers stratified office space in two distinct zones, with the large floor plates on the higher levels catering to corporate requirements.

In the decentralised office location of Bangsar South, the new completion by UOA Group comprises two 37-storey office towers known as The Vertical I & II. The towers are linked to various venues of amenities that include a modern healthcare centre, a RM100 million clubhouse and a 6-acre park.

Meanwhile, the locality of Damansara Heights which is undergoing rejuvenation saw the completion of Menara

Guocoland – the 19-storey Office Tower B of Damansara City, an integrated development that also features two luxury condominium blocks (DC Residency), Office Tower A (Menara Hong Leong), a lifestyle mall (Damansara City Mall) and an international-class hotel (The Sofitel Kuala Lumpur Damansara).

Office buildings slated for completion by 1H2016 include Public Mutual Tower in KL City; Menara Ken @ TTDI and Menara Hong Leong (Office Tower A – Damansara City) in KL Fringe and, Tower 2 of Mercu Mustapha Kamal at Neo Damansara and Iconic Tower – Block N at Empire City in Beyond KL (Selangor).

Collectively, the above impending completions will contribute an additional 1.9 million sq ft of space to the existing office stock.

During this half, the average occupancy rate in KL City decreased marginally to record at 82.5% (1H2015: 84.8%) following the completions of Naza Tower and ILHAM Tower which have yet to achieve significant occupancy levels.

In KL Fringe, however, the overall occupancy rate inched up marginally to record at 89.3% (1H2015: 87.9%) following improved occupancies in several office buildings that include Menara LGB and 1 Sentrum.

The overall occupancy rate in Beyond KL (Selangor) remained flattish at 77.3% (1H2015: 76.0%).

There were several notable office related announcements in 2H2015.

On August 10, Affin Bank Berhad announced its strategic plan to develop its very own Head Office building with the purchase of a plot of land measuring 54,266 sq ft in the upcoming financial district of Tun Razak Exchange (TRX) for RM255 million (or RM4,699 per sq ft for plot ratio of 15.2). The proposed 35-storey international class Grade A building will have a GFA of 823,439 sq ft and 830 car park bays.

Pelaburan Hartanah Bhd (PHB) plans to redevelop the former premises of the Kuala Lumpur Regional Centre for Arbitration (KLRCA) located opposite Kompleks Kraftangan at Jalan Conlay. The proposed development of the 6.8-acre site will comprise a 50-storey serviced apartment building and two blocks of 37-storey office suites atop an eight-storey retail podium and a three-storey basement car park. PHB has reportedly submitted its planning proposal to Dewan Bandaraya Kuala Lumpur (DBKL) for approval in August 2015.

IJM Corp Bhd's unit IJM Construction Sdn Bhd will undertake construction (Stage Two) of the proposed mixed commercial development on the former site of Hotel Equatorial Kuala Lumpur in Jalan Sultan Ismail for RM455.5 million. The work package for the new 52-storey block to be known as Equatorial Plaza involves construction works for the podium block, office tower and hotel tower and the interior design works for the hotel tower and hotel outlet.

Econpile Holdings Bhd has bagged a contract valued at RM120.5 million for piling and related works for the Menara Felcra mixed development project on Jalan Sultan Yahya Petra (formerly Jalan Semarak), Kuala Lumpur. The integrated development which will house Felcra's new headquarters (35-storey office tower) will also comprise a 43-storey residential tower (480 units of serviced apartments) and a six-storey commercial and retail block.

Mercu Mustapha Kamal, located in Damansara Perdana, comprises a 27-storey Tower 1 and a 14-storey Tower 2 with net floor areas (NFA) of 285,091 sq ft and 213,719 sq ft respectively. Tower 2, with 183,000 sq ft NLA, is available for lease and en bloc sale. It is slated for completion by December 2015. Tower 1 which is completing by October 2016 will also be available for lease. The developer, Emkay, has plans for three more office projects in the localities of Damansara Perdana, Cyberjaya and KL City.

IOI Properties Group Bhd is introducing IOI City Towers, a Grade A office development comprising two 31-storey towers within the RM20 billion township of IOI Resort City. The GBI certified offices offering a total of one million sq ft NLA are expected to be completed by end-2015. The towers will be connected to the new Le-Meridien Putrajaya Hotel and IOI City Mall, overlooking the Palm Garden Golf Course.

Naza TTDI Sdn Bhd continues to strengthen its business presence with the recent opening of its new headquarters, Menara Naza TTDI in Section 13, Shah Alam. The 20-storey office tower with 306,000 sq ft GFA comes with 250 car park bays and facilities that include a gymnasium, swimming pool and café.

Selangor Development Corporation (PKNS) is spending approximately RM170 million on its new headquarters in Shah Alam. Laman PKNS, as the building is named, sits on a 1.6-hectare plot of land in Section 14. The building which is GBI rated and certified (Platinum) is due to be completed by year end.

Khind Holdings Bhd, an electrical home appliance maker, is planning a mixed-use project on a 65,340 sq ft land parcel in Setia Alam, Shah Alam as part of its diversification exercise. With an estimated GDV of RM150 million, the project will feature an office building (to be partly occupied by Khind), a retail component and serviced apartments. Construction is targeted to commence by 1Q2016, pending approvals from the relevant authorities.

The first ever office tower to be developed in Bukit Jelutong, Shah Alam, was recently unveiled. Block A of Radia Offices, is the result of a 50:50 JV between between Sime Darby Property Bhd and UEM Sunrise Bhd. Part of the Radia integrated development, which has a GDV of RM1.6 billion, Block A comprises 159 units of stratified offices with flexible built-up areas ranging from 825 sq ft to 2,001 sq ft. The units are priced at RM770 per sq ft on average. The office block is expected to be ready by 2018.

Malaysian Resources Corp Bhd (MRCB), which is jointly developing the first parcel of land in the Kwasa Damansara project in Sungai Buloh, has signed a management contract for the development of Kwasa Utama. The 29.82-acre commercial development will comprise eight office towers, a hotel, an auditorium and a common facility block.

PRICES AND RENTALS

During the review period, the average achieved rental rates in both KL City and KL Fringe remained flat at RM6.17 per sq ft and RM5.70 per sq ft respectively.

Kuala Lumpur Grade A offices continue to command higher asking rents, ranging between RM7.00 and RM12.50 per sq ft per month despite further completions and weaker business sentiment.

Meanwhile, the average achieved rental rate Beyond KL (Selangor) remained stable at RM4.19 per sq ft.

Notable occupier movements during the review period include the following:

UK firm, Needle Partners, has opened a new marketing office in the city that aims to promote its English law and white label service called Needle Network.

CTBC Bank Co Ltd, the banking subsidiary of CTBC Financial Holding Co, will be the first Taiwanese bank to set up an operational base in Malaysia in 17 years. The lender expects the office to start operations in the second half of this year (Menara Hap Seng 2).

PA Group, a US-based international insurance group, will set up its regional office in Kuala Lumpur having received regulatory approval from the Labuan Financial Services Authority. It will offer similar investment products that are available in Latin America, Eastern Europe and the Middle East.

FBS Markets Inc., a Belize-registered Forex broker which focuses on clients in Asia has announced the opening of its 12th international representative office in Petaling Jaya.

Procurri Corporation Pte Ltd, the global independent distributor of data centre equipment and multi-vendor maintenance provider has relocated to a new office. The new 12,000 sq ft office in Infinite Centre, Petaling Jaya will accommodate its growth and future expansion plans.

Other notable office-related investment announcements during the review period include the following:

Hong Leong Bank Berhad (HLB) has entered into a conditional share sale agreement with Hong Leong Real Estate Holdings Sdn Bhd (a wholly-owned unit of Guocoland (Malaysia) Bhd) for the proposed acquisition of the entire issued and paid-up share capital of DC Tower Sdn Bhd (DCT) for an indicative cash consideration of RM189,333,000. DCT is principally a property investment company, holding the development and ownership rights in respect of a 33-storey purpose-built stratified office building (Office Tower A with 506,069 sq ft NLA) located within the on-going integrated development project known as Damansara City Kuala Lumpur. The appraised value of Office Tower A is RM1,150 per sq ft over its aggregate NLA.

Malaysian Resources Corp Bhd (MRCB has proposed to sell Menara Shell, its 33-storey green office tower in Jalan Tun Sambathan, Kuala Lumpur, to MRCB-Quill REIT (MQ REIT) for RM640 million (analysed to RM1,150 per sq ft on 556,468 sq ft NLA). Its wholly-owned subsidiary, 348 Sentral Sdn Bhd, has entered into a heads of agreement with the trustee for MQ REIT. The agreement is for the disposal of the office tower together with a five-storey podium and 4-storey basement car park.

Marble and granite products trader Stone Master Corp Bhd has entered into a heads of agreement (HoA) to acquire YNL Properties Sdn Bhd, the owner of a piece of land measuring about 3,290 sq ft with an 11½-storey office building on it in Jalan Raja Chulan, for RM15 million. The primary objective of the proposed acquisition is to house its existing corporate and head offices.

OUTLOOK

Going forward, the Kuala Lumpur and Beyond Kuala Lumpur (Selangor) office markets are expected to face further downward pressures.

The contraction of the O&G sector, the main lifeline of the office segment following the plunge in crude oil prices, has negatively impacted the market.

In the coming quarters, with a high level of existing and impending supply coupled with a weaker leasing market (lesser inquiries) which is seeing more consolidation cum mergers & acquisitions (M&A) activities, competition among building owners are expected to heighten.

Developers and landlords of existing / newly completed / under construction office buildings will require more aggressive marketing plans to maintain and improve their occupancy levels. Tenants continue to be spoilt for choice with attractive rentals, incentives and tenancy terms.

Overall, rental rates may dip over a period of time due to heightened competition in a tenant favoured environment. Coupled with a further slowdown in the country's economy, with business confidence at a low, many businesses are freezing recruitment, reducing investment on staff and consolidating their positions – this will inevitably impact take-up rate and overall occupancy levels.

Nonetheless, rental rates of well-located good grade, dual-compliant office space are expected to remain resilient.

TABLE 3
Office Investment Sales 2H2015

Building Name	Location	Approx. Lettable Area (sq ft)	Consideration (RM psf)
Menara Hong Leong (Office Tower A), Damansara City Kuala Lumpur [1]	Damansara Heights	506,069	1,150
Menara Shell [2]	Jalan Tun Sambanthan, Kuala Lumpur	556,468	1,150
AmBank Group Leadership Centre [3]	Jalan P.Ramlee	57,801	623

[1] Menara Hong Leong (Office Tower A) is a 33-storey purpose-built stratified office building (71% completed as at May 2015) within the on-going integrated commercial development of Damansara City Kuala Lumpur. The indicative cash consideration for the entire issued and paid-up share capital of DC Tower Sdn Bhd is RM189,333,000. The appraised value of Office Tower A is RM1,150 per sq ft.

[2] Malaysian Resources Corp Bhd (MRCB) has proposed to sell Menara Shell together with a 5 storey podium and a 4 storey basement car park in the locality of Kuala Lumpur Sentral to MRCB-Quill REIT (MQ REIT) for RM640 million.

[3] AmFIRST Real Estate Investment Trust (REIT) is disposing of a 13-storey office building known as AmBank Group Leadership Centre at Jalan P. Ramlee for RM36 million. The freehold building comprises a 10-storey office block, a penthouse and a 3-level car park.

Source: Knight Frank Research

TABLE 4
Selected Grade A Office Asking Rentals

Building Name & Asking Gross Rental (RM psf / month)

KL CITY	KL FRINGE	BEYOND KUALA LUMPUR / SELANGOR
Integra Tower 11.00	**Menara CIMB** 8.00	**1 First Avenue** 6.00
Menara Maxis 10.50	**The Gardens North & South Towers** 7.80	**Surian Tower** 5.50
Vista Tower 9.00	**Quill 7** 7.50	**The Ascent @Paradigm** 5.50
G Tower 8.50	**Menara Shell** 7.50	**The Pinnacle** 5.50
Menara Darussalam 8.50	**Nu Tower 1 & Nu Tower 2** 7.00	**Wisma Mustapha Kamal** 4.80
Menara Binjai 8.50	**Menara BRDB** 7.00	**Puchong Financial Corporate Centre** 4.50
Menara Prestige 7.50 – 8.50		**Plaza 33** 4.50

Source: Knight Frank Research

FIGURE 2

Source: Knight Frank Research

HIGHLIGHTS

The weak local currency and recent toll hike are expected to further dampen consumer sentiment over the next six months as disposable income fall.

Majority of retailers are adopting a 'wait and see' approach and caution in their expansion plans amid poor sales performance and reduced profitability.

A handful of regional and local retailers operating several brands are taking up larger lots at competitive tenancy terms with attractive rentals and incentives to improve space and cost efficiencies.

Despite a high impending supply of circa 4.61 million sq ft by 1H2016, rental and occupancy levels at prime and established regional and neighbourhood shopping malls are expected to remain resilient.

KLANG VALLEY RETAIL MARKET

MARKET INDICATIONS

The MIER Consumer Sentiment Index (CSI) fell for the fifth consecutive quarters to an all time low of 70.2 points in 3Q2015 with consumers adversely impacted by weaker finances due to the GST, depreciation of the ringgit and recent toll hike amongst others.

In the second quarter of 2015, retail sales contracted 11.9% relative to a 5.3% expansion in the corresponding period of 2014, the worst quarterly result since the 1998 Asian financial crisis (source: Malaysia Retailer Association [MRA] and Retail Group Malaysia [RGM]).

Retail sales, however, rebounded in 3Q2015 by posting a 1.6% gain. For the first nine months of 2015, retail sales grew by a modest 1.0% when compared to the corresponding period in 2014.

Amid a slowdown in the economy and weaker job market, consumers are bracing for tougher times ahead and this has impacted their spending patterns.

SUPPLY & DEMAND

Three shopping malls opened during the review period, contributing a combined NLA of about 1.10 million sq ft, which brings the cumulative supply of retail space in the Klang Valley to circa 51.3 million sq ft. The new completions are IKEA Cheras in Kuala Lumpur, as well as Evolve Concept Mall and Star Avenue Lifestyle Mall in Selangor.

On November 19, Ikea Malaysia opened its second store at Jalan Cochrane in the city fringe. Spanning circa 452,000 sq ft, the larger Ikea Cheras outlet with 1,700 car park bays features 56 showrooms and has a seating capacity for 780 people at its restaurant.

Ikea Cheras forms part of the MyTown integrated development by Boustead Holdings Bhd and Ikano Pte Ltd. The outlet will have seamless connection to the 1.1 million sq ft MyTown shopping centre which is slated for completion by end-2016. The Ikea store will also enjoy a direct link to the underground Cochrance MRT Station which is expected to complete by 2017.

Spanning across circa 375,000 sq ft retail space, Evolve Concept Mall began operation in mid-November 2015. The shopping mall is part of a mixed development dubbed Pacific Place @ Ara Damansara. It is situated adjacent to the Ara Damansara LRT Station which is expected to be operational by mid-2016.

The 5-level mall is anchored by Jaya Grocer, Logo Fashion & Gallery and H&M. Other key tenants include FOS, Samsung, Celebrity Fitness Centre, Texas Chicken, Little Fat Duck, The Tarik Place, Guardian Pharmacy, Pet Lovers Centre and myNews.com.

Ikea Cheras

Evolve Concept Mall

Developed by Mah Sing Group, Star Avenue is an integrated development project located along Jalan Sungai Buloh. It consists of Star Avenue Lifestyle Mall and 3-storey shop office blocks. Opened in December 2015, Star Avenue Lifestyle Mall is a four-storey shopping mall with circa 277,000 sq ft of retail space. It features a covered boulevard catering to weekend bazaars, festivities, gourmet restaurants, al fresco cafes and other fun & vibrant outlets. The shopping mall has secured Giant Supermarket as its anchor tenant.

During the review period, there were several retail developments announced / unveiled in Klang Valley.

KLCC Holdings Sdn Bhd and its partner, Qatari Diar Real Estate Investment Company, are currently developing Cititower. The integrated project located within the KLCC development will enjoy seamless connection to Suria KLCC and will comprise a 9-storey retail podium, a 59-storey hotel and an 80-storey office tower. Potential hospitality brands include Fairmont, Raffles or Swissotel of the FRHI Hotels & Resorts group.

The 8 Conlay mixed use project by KSK Land Sdn Bhd will also feature a 4-storey retail component with circa 180,000 sq ft space, a luxury Kempinski hotel, a 5-storey car park and a banquet hall. It is expected to complete by 2020.

The redevelopment of the Kuala Lumpur Regional Centre of Arbitration (KLRCA) site by Pelaburan Hartanah Bhd (PHB) will feature an 8-storey retail podium amongst its proposed components.

On September 25, Singapore-based Debao Property Development Ltd announced that its subsidiary Debao Property Development (HK) Ltd had completed its acquisition of Malaysia developer Elite Starhill Sdn Bhd. At the time of the announcement, Elite Starhill was in process of purchasing a plot of land measuring 90,008 sq ft located near Berjaya Times Square and Tun Razak Exchange (TRX). The Development Order for the land is reportedly for a 69-storey commercial building comprising 956 units of serviced apartments atop five retail floors.

Located along Jalan Pahang, EkoRiver Centre forms part of the Kuala Lumpur River City (KLRC) urban rejuvenation project. The latter aims to transform the city's northern river corridor into a vibrant waterfront. Scheduled for completion by 2018, the EkoRiver Centre will have circa 400,000 sq ft of NLA spread over six levels, and one floor of convention space with over 100,000 sq ft on its highest level. The integrated project with a total of 3,000 car park bays will also house a 68-storey tower that will house corporate offices and hotel component.

In August, the Canada Pension Plan Investment Board (CPPIB) and Pavilion Group formed a a JV (49:51) to develop Pavilion Damansara Heights. The mixed-use development project on a 15.84-acre site in Pusat Bandar Damansara will comprise 13 blocks of offices, four blocks of serviced apartments, a hotel and a 5-storey retail podium with circa 1 million sq ft NLA. The project will enjoy connectivity to the Pusat Bandar Damansara and Semantan mass rapid transit (MRT) stations in the locality. Pavilion Damansara Heights is targeted for completion by 2021.

In Selangor, Mitraland Group Sdn Bhd is developing a 15-acre mixed-development known as Gravit8 in the southern area of Klang. The main attraction of the mixed development will be a maritime-themed concept shopping mall to be known as Pier 8, featuring a massive aquarium at its centre of the shopping mall. In line with the maritime theme, the two-storey shopping mall will allocate circa 80% of its space for F&B, offering visitors/shoppers good quality seafood in a contemporary-designed nice dining ambience environment. Slated for completion by end-2018, the shopping mall will also accommodate a fitness centre, grocer, and entertainment centre with a family-friendly karaoke lounge.

Mass Rapid Transit Corporation Sdn Bhd (MRT Corp) is reportedly in the process of acquiring land sited on by the existing Ampang Park Shopping Centre for the purpose of constructing the Ampang Park Mass Rapid Transit (MRT) Station. Under the planned Sungai Buloh-Serdang-Putrajaya (SSP) MRT line, the Ampang Park Shopping Centre may be affected due to a proposed underground station in the area. MRT Corp has offered the strata-titled shop owners of Ampang Park Shopping Centre to sign a Mutual Agreement by January 2016, in order to possess the land by April 2016 for the construction of the station.

Festival City Mall which was sold to Singapore-based AsiaMalls Sdn Bhd in August 2014 was renamed Setapak Central in October this year. Notable new tenants at the mall with boasts 25,000 sq ft of additional space include H&M, Auntie Anne's, Texas Chicken and Sangkaya. Parkson, Econsave and MBO Cinema remain as the anchor tenants of Setapak Central.

In Section SS15 Subang Jaya, First Subang Mall is undergoing a major refurbishment with re-opening targeted for 1H2016. Located adjacent to the upcoming Subang Jaya SS15 LRT station, First Subang is expected to compete with two other notable shopping centres in the nearby locality of SS16, namely Empire Subang Gallery and Subang Parade.

During the review period, numerous F&B outlets made their debut at Mid Valley Megamall. They include Mikey's New York Pizza, Mini Mini, Red Lobster, Ra-men Bankara, Jipangi, Sankaya and Sushi Jiro. Other new outlets include Solar Time, Sports Direct, Jo' Malone London, Lim Kok Wing Fashion Club and Avalon Saree's.

Australian-based retailer, Harvey Norman, continues to expand by opening new outlets at Nu Sentral Mall and IOI City Mall.

Meanwhile, Uniqlo expanded its presence in Klang Valley by opening an outlet at The Curve in Mutiara Damansara, whilst BMS Organics opened new stores at Cheras Leisure Mall and Mid Valley Megamall. In

October, US-based cosmetics retailer Urban Decay opened its first flagship store in Malaysia at Suria KLCC.

In Citta Mall at Ara Damansara, US-based furniture retailer, Ashley Furniture Industries Inc, made its debut by opening an 8,600 sq ft outlet. Its first store in the country offers an exclusive one-stop furniture sourcing platform.

Despite facing challenges, local retailers and franchisers such as Parkson, Tony Roma's Malaysia and Texchem Resources Bhd continue to expand existing brands and introduce new offerings.

In November, Parkson Retail Asia Ltd and Superb Apparel Supply Sdn Bhd entered into a JV to introduce apparel retail outlets under the brand name LOL. To be managed by Super Gem, the LOL stores will offer affordable fashionable apparels to the mass market.

After the disposal of its 28% stake in Sushi Kin Sdn Bhd to Japanese fast-food restaurant Yoshinoya Holdings Co Ltd, Texchem Resources Bhd unveiled its plan to expand Tim Ho Wan, Sushi King outlets as well as introducing new restaurant concepts such as Yoshinoya Beef Bowl and Hanamaru Udon and coffee outlets (Doutor Coffee) via a JV business strategy.

In November, Grand Companions Sdn Bhd, the franchiser of Tony Roma's Malaysia entered into a JV with Ramacorp Inc, the US-based parent of Tony Roma's to open two TR Fire Grill outlets in Malaysia. The first outlet is slated to open in Kuala Lumpur by 2016.

Moving forward to first half of 2016, a total of 14 new shopping centres with a combined retail space of circa 4.61 million sq ft are expected to come on-stream in Kuala Lumpur and Selangor. They include Lulu Hypermarket @ Jakel Square, Sunway Velocity Mall, Damansara City Lifestyle Mall, GLO Damansara and Bangsar Trade Centre in Kuala Lumpur; and Sunway Pyramid Phase 3, da:mén USJ Shopping Mall, The Square @ One City USJ 25, Aeon Shah Alam, M Square Shopping Mall @ Millenia City, Centrus Mall @CBD Perdana 3, Gallerie @ De Centrum and Selayang Star City Shopping Mall in Selangor.

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

PRICES AND RENTALS

Overall, prime shopping centres listed under the property portfolios of KLCC Stapled REIT, IGB REIT, Sunway REIT and CapitaLand Malaysia Mall Trust (CMMT) continued to record higher rates during the review period mainly from new and renewed leases. For Pavilion REIT, the higher revenue was generated mainly from asset enhancement and increases in service charges.

For the 3Q2015 financial results, KLCC Stapled REIT registered revenue of RM120.03 million, 2.55% higher year-on-year (y-o-y) when compared to the corresponding period in 2014.

Similarly, gross revenue of IGB REIT inched up 7.5% to register at RM120.96 million (3Q2014: RM112.55 million).

The gross revenue for Sunway Pyramid Shopping Mall increased by 4.2% for financial year ended September 30, 2015 mainly due to higher average net rent per sq ft.

The gross revenue for The Mines was reported at RM20.01 million, 1.63% higher than 3Q2014.

The completion of asset enhancement exercise and recent hike in service charge generated gross revenue of RM99.62 million for Pavilion Kuala Lumpur Mall in 3Q2015, marginally higher (0.7%) when compared to the corresponding period in 2014.

The slowdown in the retail market has not deterred Pavilion REIT to expand its portfolio during this half with the proposed acquisitions of two shopping malls in the Klang Valley, amounting to a total transaction value of RM648 million. The malls were appraised by Knight Frank Malaysia, being the independent registered valuer appointed by Pavilion REIT Management Sdn Bhd, the manager of Pavilion REIT.

On December 29, Pavilion REIT Management inked a deal with The Intermark Sdn Bhd to acquire Intermark Mall at a purchase consideration of RM160 million. Located along Jalan Tun Razak, the six-storey shopping mall with 225,014 sq ft NLA and five car park levels with 367 bays, is part of an office-retail-hotel mixed development dubbed The Intermark. The purchase consideration which is analysed to circa RM711 per sq ft on NLA basis comes with a rental guarantee of RM15 million.

Earlier on September 17, Pavilion REIT Management Sdn Bhd, manager of Pavilion REIT, entered into a conditional sale and purchase agreement with Equine Park Country Resort Sdn Bhd and Revenue Concept Sdn Bhd, for the acquisition of a shopping mall known as da:mén USJ Shopping Mall, at a purchase consideration of RM488 million. The five-storey retail mall has a NLA of 420,920 sq ft and two levels of basement car park with 1,672 bays. The sales is analysed to circa RM1,159 per sq ft on NLA basis.

On August 5, Malaysian Resources Corporation Bhd (MRCB) entered into a Sale and Purchase Agreement with Cardiac Vascular Sentral Kuala Lumpur Sdn Bhd (CVSKL) for the sale of Sooka Sentral. Sooka Sentral is a five-storey shopping centre (140,000 sq ft GFA) with one level of car park sited on a 60,945 sq ft land in KL Sentral. CVSKL will undertake the redevelopment of Sooka Sentral into a specialist cardiac and vascular centre which will house a 70 over bed cardiac and vascular hospital. The Centre is expected to open by end-2016. CVSKL is a subsidiary of Singapore-based TE Asia Healthcare Partners (TE Asia), a TPG Capital portfolio company.

On December 18, Berjaya Assets Bhd (BAssets) entered into a Share Sale Agreement for the acquisition of 20% equity interest in its subsidiary Berjaya Times Square Sdn Bhd (BTS) from the Sultan of Johor for a total cash consideration of RM250 million. The acquisition will enable BAssets to re-gain total control over the BTS Shares, of which part of BTS' principal activities include property investment, investment holding, operations of theme park, car park operator, hotel and commercial complex management.

TABLE 5

Significant Shopping Mall Investment Sales 2H2015

Shopping Mall	Location	Approx. NLA (sq ft)	Consideration (RM) / (RM psf)
Intermark Mall [1]	Jalan Tun Razak, Kuala Lumpur	225,014	160 million (711)
da:mén USJ Shopping Mall [2]	Jalan Kewajipan, USJ 1, Subang Jaya	420,920	488 million (1,159)

[1] Intermark Mall is a six-storey shopping mall which forms part of the integrated development known as The Intermark. The purchase consideration comes with a rental guarantee of RM15 million.

[2] da:mén USJ Shopping Mall is part of an integrated commercial development known as da:mén, which comprises the shopping mall, 41 units of contemporary series of 2, 3, 5 and 6-storey shop / offices and 480 units of apartments housed in two (2) tower blocks with 6-level of podium car parks.

Source: Knight Frank Research

OUTLOOK

The record low MIER Consumer Sentiment Index for the third quarter of 2015, coupled with the weak local currency and the recent toll hike, are expected to further dampen consumer sentiment over the next six months in 2016.

For the full year of 2015, Retail Group Malaysia has revised downward the projected retail sales growth rate for the fifth time to 2.0% compared to the initial projection of 5.5%.

With high impending supply totalling circa 4.61 million sq ft by 1H2016, retailers will continue to be spoilt for choice. However, as the retail industry in Malaysia is set to embrace heightened challenges in 2016, the majority of retailers may adopt a 'wait and see' approach and caution in their expansion plans.

Demand for retail space at prime and established regional and neighborhood shopping malls with high footfalls, however, will remain resilient.

Overall, the short term outlook for the local retail industry is one of caution.

The majority of retailers, especially those offering international brands and imported products, have suffered due to higher operation costs by 20% to 40%. They are becoming more cautious in their business operations - downsizing and closing non-profit outlets and selective in expansions.

With more newer shopping centres offering larger retail space, it is noted that a handful of regional and local retailers are taking up larger lots at competitive tenancy terms with attractive rentals and incentives. Many manufacturers cum suppliers / consignees have also turned "pop-up" retailers to improve their cash flows.

Consumers are becoming more prudent in their spending pattern following implementation of the GST and weakening of the local currency which collectively have reduced their spending power by circa 30%. More grounded consumers who have become well-informed shoppers through technology, are opting for alternative shopping for affordable and cheaper choices. This has led many retailers to offer on-line and apps shopping as alternative platform for business growth. The rise of online retail shopping amongst the younger and tech-savvy population drives the courier delivery industry and this augurs well for the logistics sector as demand for warehouse space grows.

TABLE 6

Shopping Centres Scheduled for Completion / Opening in 1H2016

New Projects	Location	Estimated Net LettableArea (sq ft)
Lulu Hypermarket @ Jakel Square	KL City	300,000
Sunway Velocity Mall	KL Fringe	850,000
Damansara City Lifestyle Mall	KL Fringe	169,000
GLO Damansara (previously known as G Avenue)	KL Fringe	360,000
Bangsar Trade Centre	KL Fringe	230,000
M3 Mall	KL Fringe	200,000
Sunway Pyramid (Phase 3)	Bandar Sunway	62,000
da:mén USJ Shopping Mall	Subang Jaya	420,000
The Square@ One City	USJ25	120,000
Aeon Shah Alam	Shah Alam	700,000
M Square Shopping Mall @ Millenia City	Puchong	380,000
Centrus Mall	Cyberjaya	110,000
Gallerie @ De Centrum	Kajang	160,000
Selayang Star City Shopping Mall	Selayang	550,000

Source: Knight Frank Research

HIGHLIGHTS

The Penang State Government has awarded SRS Consortium, comprising Gamuda Bhd (60%), Ideal Property Development Sdn Bhd (20%) and Loh Phoy Yen Holdings Sdn Bhd (20%), to be the Project Delivery Partner (PDP) to implement the RM27 billion Penang Transport Master Plan (PTMP).
The group recently announced their planned rail linkages for the state which includes amongst others a proposed cross-channel LRT linking Gelugor on Penang Island to the Prai Industrial Park on the mainland and then connecting onto two other proposed train services.

Eastern & Oriental Bhd (E&O)'s Letter of Award to China Communications Construction Co Ltd (CCCC) to undertake land reclamation works for its Seri Tanjung Pinang Phase 2 (STP2) comprises 2 packages:- award of Package 1 to reclaim Phase 2A, which comprises the 253-acre (102.4ha) STP2 island and the 131-acre extension of Gurney Drive, for approximately RM1.035 billion, and the conditional award of Package 2 to reclaim a 507-acre STP2 island for approximately RM1.285 billion.

PENANG PROPERTY MARKET

MARKET INDICATIONS

According to the latest Property Market Report 1H2015, the total volume of transactions for all sectors in the State of Penang registered a drop of 11.3% against 2H2014. In terms of value of transactions, the drop is a slight 2.2% when measured against 2H2014 but a sharp 11% decrease compared to 1H2014. Residential transactions which made up 69% of the total volume, recorded a drop of 17.5% for both the number of transactions done and value for the period compared - 1H2015 vs 2H2014. In contrast, the commercial, industrial and development land sub-sectors registered positive growth showing increases of 6.8%, 56.4% and 3.6% respectively in the number of deals done for the corresponding period.

Construction works on the three highways to be built by Consortium Zenith BUCG Sdn Bhd (CZBUCG), namely the Tanjung Bungah / Teluk Bahang pair road, a bypass linking Air Itam to the Tun Dr Lim Chong Eu Expressway and a bypass joining Gurney Drive to Tun Dr Lim Chong Eu Expressway, worth RM2.8 billion, is expected to start in the first quarter of 2016 with completion scheduled in 2020 /2021. The three highways are part of a RM6.3 billion mega project that also include a 6.5km undersea tunnel connecting Tanjong Tokong on the island to Bagan Ajam on the mainland.

Penang Development Corporation (PDC) is collaborating with Temasek Holdings and Economic Development Innovations Singapore to develop a RM1.3 billion Business Process Outsourcing Prime (BPO-Prime) Complex in Bayan Baru. The complex, with a minimum gross floor area (GFA) of 1.6 million sq ft and to be built on a 2.8-hectare site currently housing the PDC office, is set to be the catalyst for Penang's industrial transformation by creating a new cluster of economic development in BPO, Knowledge Process Outsourcing and Information Technology Outsourcing. Works are expected to start in 2016.

Sime Darby (Utara) Sdn Bhd has inked a memorandum of understanding (MoU) with Penang Development Corporation (PDC) to to formulate a masterplan to develop a 930-acre agricultural tract in Byram and Changkat, located south of Bandar Cassia into a high-tech industrial park for small and medium sized enterprises (SMEs) with a gross development value (GDV) of RM1.8 billion. Meanwhile, PDC will develop 4,107.4 acres for heavy industries, SMEs and mixed-use development. This joint development project is expected to make south Seberang Perai an economic growth centre in Penang, in line with the state government's plans.

The state's focus on industry as a growth engine has in recent years shifted to the mainland from Bayan Lepas on the island, with multinationals signing up for new plants in Batu Kawan, another major development area in Seberang Prai.

HIGH END CONDOMINIUM

City of Dreams

Ewein Bhd has launched its maiden property project, City of Dreams, in Bandar Tanjong Pinang, locally and overseas and is now fully sold out. Ewein Zenith Sdn Bhd in which Consortium Zenith BUCG Sdn Bhd (CZBUCG) holds a 40% stake, will develop the seafront project featuring two blocks of 38-storey towers comprising a total of 572 units, with built-up areas ranging from 1,100 sq ft to 2,350 sq ft. The indicative price for the seafront serviced apartments with a total GDV of RM800 million is approximately RM1,500 per sq ft. The seafront development Bandar Tanjong Pinang is a 110-acre (44.5-hectare) parcel of reclaimed land in Tanjung Pinang that was given to CZBUCG by the Penang State Government as a compensation-in-kind for the construction of the RM6.3 billion Penang undersea tunnel and three bypass roads. The group will also be developing "Wellness City of Dreams", a wellness hub with a reported GDV of RM13.89 billion on this same parcel.

In line with the high-end condominium market expectation, many of the newer launches offer units that are fitted out with kitchen cabinets c/w hood, hob, oven, light fittings, air-conditioning units and quality sanitary fittings amongst the main items offered.

Recorded transactions of newer larger sized condominiums with built-up areas from 3,500 sq ft to 6,000 sq ft in the secondary market in Tanjong Bungah in 2015 range from RM577 to RM896 per sq ft. In Pulau Tikus / Gurney Drive, similar large size units of 4,200 sq ft sold for RM763 to RM958 per sq ft whilst smaller sized units at newer developments in Gurney Paragon and Seri Tanjung Pinang have been resold at prices ranging from RM830 to RM1,330 per sq ft.

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

OFFICE

The existing supply of office space (buildings of 10-storey and above) on Penang Island remains at 1H2015's level of 5.59 million sq ft.

Straits Quay Commercial Suites, a 16-storey office block with retail space on the ground floor and multi-storey car parking on the 1st to the 4th floors and currently under construction, will contribute about 115,000 sq ft net lettable space of new supply when completed as scheduled in 2016.

The occupancy rates for the three prime office buildings monitored in Georgetown remains at 1H 2015's level, ranging from 85% to 100%. Current asking rentals for the older buildings generally range from RM2.80 to RM3.00 per sq ft per month, the same level as 1H2015. The latest rents secured at the newer Hunza Tower over Gurney Paragon are about RM3.50 per sq ft per month and occupancy rate is 100%.

Average occupancy rate at Suntech and Menara IJM Land, both newer office buildings located outside the city, currently stands at 94%, a drop of about 3% compared to 1H2015. Asking rents at these two buildings range from RM2.60 to RM3.30 per sq ft per month, with one building recording slightly lower rents.

RETAIL

The existing supply of purpose-built shopping space on Penang Island remains unchanged at 1H2015's level of 6.69 million sq ft. No new purpose-built shopping malls were completed on the island in 2H2015. Over on the mainland in Bukit Mertajam, Mydin Wholesale Hypermarket, a 3-storey building with about 1.15 million sq ft space, opened for business on November 20th.

There are several proposed shopping malls coming up over the next 5 years on the island, please refer Table 7.

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

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

OUTLOOK

With the global and local economic and political uncertainties still looming over the nation, the challenging scenario continues.

Overall volume of transactions have dropped 11.3% in 1H2015 compared to 2H2014 and the trend is expected to continue. However, there have not been any recorded decrease in value as yet.

The consolidation of the residential sub-sector continues as evidenced by its drop of 17.5% in the volume of transactions which is the highest drop among the property sub-sectors.

In the office sector, some pressure on rental rates will be expected as occupancies have decreased slightly and there are not much office formation or expansion.

The retail sector, as a whole, is anticipated to face even more serious pressures as new supply is still being constructed amidst the projection of subdued retail sales and negative consumer sentiments which have led many retailers to abandon expansion plans or put them on hold. However, a small number of prime and well-managed malls are expected to attract high foot-fall and maintain reasonably stable rentals. The less attractive malls will not perform as well.

Overall, the outlook appears lacklustre.

TABLE 7

Future Supply of Retail Space within Penang Island

Source: Knight Frank Research / NAPIC

HIGHLIGHTS

Iskandar Malaysia continue to register positive growth in investment, both local and foreign. As at November 2015, the cumulative investment was at RM187.96 billion compared to RM156.35 billion in October last year.

Slower absorption rate in the high rise residential segment amid a cautious property market.

Infrastructure projects, namely the High Speed Rail (HSR) and Rail Transit System (RTS) are expected to spur further economic growth.

JOHOR BAHRU PROPERTY MARKET

MARKET HIGHLIGHTS

As of November 2015, Iskandar Malaysia has registered cumulative investments of RM187.96 billion, mainly from the manufacturing sector which accounted for about 27.72%. Approximately 41% of the total investments are from abroad, with the top five countries being Singapore, United State, Spain, Japan and China. Approximately RM93.39 billion or about 50% of the total investments has been realised.

In December 2015, Kulim (Malaysia) Berhad had entered into a Sale and Purchase Agreement with Johor Corporation (JCorp) for the proposed acquisition of 14.0 acres of 60-year leasehold industrial land expiring on 18 May 2060 in Kawasan Perindustrian Pasir Gudang for a total consideration of RM17.93 million or RM29.40 per sq ft. The land is currently rented by EPASA Shipping Agency Sdn Bhd, wholly-owned subsidiary of Sindora Berhad, which in turn is a wholly-owned subsidiary of Kulim, at the rate of RM90,000 per month or RM1.08 million per year from JCorp.

In November 2015, a transformation plan referred to as the Ibrahim International Business District (IIBD) was launched. The IIBD transformation plan covers 250 acres within Johor Bahru city centre and is bordered by Jalan Ayer Molek, Jalan Tun Sri Lanang, Jalan Tun Abdul Razak and Jalan Sultan Ibrahim. Coronation Square will be the first project under the IIBD transformation plan measuring approximately 6.32 acres with with a gross development value (GDV) of RM3 billion and will comprise six towers which are a hotel, a hotel with residences, an office, high-rise medical suites and two serviced apartment towers, and a mall with an estimated GFA of 80,000 sq ft. The medical suites will be managed by JCorp and KPJ Healthcare while the serviced apartments to be developed by Coronade Properties Sdn Bhd are targeted to open for sale in mid-2016. KPJ Healthcare had signed a Sale and Purchase Agreement with Coronade Properties Sdn Bhd for the proposed acquisition of commercial parcel(s) representing approximately 125,000 sq ft in GFA in a building to be erected for RM90 million or RM720 per sq ft.

IHH Healthcare Bhd has opened its Gleneagles Medini Hospital in November 2015. The hospital on a 15-acre site will feature 300 beds and a 162-suite medical office block.

Under Budget 2016, Refinery and Petrochemical Integrated Development Project (RAPID) Complex in Pengerang, Johor will get a further investment of RM18 billion.

Construction firm Bina Puri Holdings Bhd has received a letter of intent from PR1MA Corporation Malaysia (PR1MA) for the construction of four blocks of apartments with 994 apartment units with built-up areas ranging from 950 sq ft to 1,100 sq ft and 20 shops with built-up area of 1,630 sq ft each. The project is sited on an 18.23-acre freehold land at Mukim Plentong in Masai and is scheduled for completion in 36 months.

The Johor State Government and Iskandar Regional Development Authority (IRDA) are drafting the master plan for eco-tourism for the two villages, Kampung Kuala Masai and Kampung Pasir Gudang Baru. The plan is to be re-create Thailand's famous floating markets here with Sungai Masai and Sungai Johor as the main rivers. The master plan is expected to be ready in four months.

Malaysia's first Pan Pacific Serviced Suites, a joint venture by Singapore-based real estate developers Pacific Star and DB2, is scheduled to open in early 2018 at Puteri Harbour in Nusajaya. Sited on 7.8 acres of land, the 205 units of serviced suites are part of premium waterfront mixed-used development, Puteri Cove Residences, alongside SOHO units and a two-level waterfront retail promenade. The serviced suites will offer studio, one and two bedroom apartments occupying 16 floors of Tower 3 of the apartments.

BCB Berhad acquired a 22-acre leasehold land, referred to as Plot C1 of Zone C of Medini Iskandar Malaysia, for RM58.5 million or RM61 per sq ft. The proposed development consists of 175 units of three or five storey shop lots with an expected GDV of RM400 million.

Johor Corp's (JCorp) Islamic REIT, named Al-Salam REIT was listed on the Main Market of Bursa Malaysia in September

2015. Al-Salam REIT initial portfolio consists of 31 assets which include Komtar JBCC, Menara Komtar, @Mart hypermarket, KFCH College and the chain of 27 KFC and Pizza Hut restaurant outlets nationwide and selected industrial assets. The REIT will be managed by Damansara REIT Managers Sdn Bhd.

In September 2015, Rowsley announced the re-conceptualised of the Vantage Bay project, (originally a mixed-used lifestyle township), to a healthcare city comprising a medical hub, a healthcare education hub and a wellness hub, with an expected GDV of RM5 billion. It is situated adjacent the upcoming Thomson Iskandar medical hub. The decision to convert the development from a township to a healthcare city was partly due to the current and in-coming completion of high-rise residential apartments in Iskandar Malaysia. In December 2015, Thomson Medical inked a memorandum of understanding (MoU) with Rowsley to work together to conceptualise, develop and promote the healthcare city.

A ground breaking ceremony was held in late September for the commencement of development of Hotel KPMNJ, a three-star hotel sited on a 0.7522-hectare land in Jalan Ayer Molek, Johor Bahru. To be developed by Koperasi Permodalan Melayu Negeri Johor (KPMNJ), the 8-storey hotel with estimated GDV of RM40 million will offer 116 rooms.

Tropicana Corp Bhd's special purpose vehicle (SPV) Tropicana Danga Senibong Sdn Bhd (formerly known as Renown Dynamic Sdn Bhd) has cancelled its acquisition of a 34.2-hectare leasehold land meant for a RM3.7 billion mixed development project in Johor Bahru.

Bangsar Height has signed a licensing agreement with Antara Holiday Villas Sdn Bhd for D-Villa Hotel & Residence Johor Bahru City Centre. The agreement will see Holiday Villa managing the hotel segment of a 30-storey high-end residential development, Causeway Regency with 360 units of suites sized from 305 sq ft to 540 sq ft per suite. It is targeted to welcome both tourists and business travellers when it opens in 2018.

PJM Group has joined hands with Spanish hotelier Melia Hotels International to build two luxury hotels, a five-star Melia Iskandar Malaysia hotel with 450 rooms and a four-star Innside Iskandar Johor with 350 rooms, for the Rentak Iskandar City Square Development sited on a 3.5-hectare of land. The two hotels will be complemented by a major shopping centre, a 150,000 sq m convention centre and office buildings located near to the High-Speed Rail station and Nusajaya technology park in Nusajaya.

The construction of the Dato' Onn Specialist Hospital, a 9-storey hospital block with 150 beds, has been awarded to Pesona Metro Holdings Bhd via an RM144.17 million contract. The construction project will take around 15 months commencing from October 2015.

I-Park Development Sdn Bhd has acquired a 188.7-acre freehold land at Senai for RM370 million or RM45 per sq ft. This new extension of the i-Park brand, i-Park@Senai Airport City, is expected to be launched in the 2Q2016. The integrated industrial park will be developed in three phases over a period of at least seven years.

In August 2015, Yong Tai Berhad had entered into a MOU with Land & Build Sdn Bhd to acquire the entire equity interest of the company which holds the development rights for a mixed development project on 1.77 acres of land in Johor Bahru. The mixed development project comprising retail and SOVO units, hotel and office suites is expected to have a GDV of RM363 million.

Tebrau Waterfront Residences and Resort development will launch the first phase of its joint-venture project with China developer Greenland Group and Iskandar Waterfront City Bhd in early 2016. The 51-hectare development located on the coast of Johor Straits, is divided into five phases and will take 10 to 15 years to complete. The first phase, spanning 4.46 hectares, will be developed with mixed residences, a retail podium, an office block and a children's theme park. It is expected to be completed by 2019.

New shuttle train services, Shuttle Tebrau, has received good response from commuters. Shuttle Tebrau can accommodate about 320 passengers per trip between JB Sentral and Woodlands station in Singapore and offers 14 trips daily.

The Johor State Government had announced the draft of Johor Strait Development Corridor Master Plan (KPSJ) which stretches 98km from Tanjung Piai in the west to Sungai Johor in the east which covered an area of about 121,517 acres. The plan is to increase the competitiveness of Johor property market and protect local buyers and is expected to be finalised by next year.

RESIDENTIAL

The uncertainties caused by negative external news and the concern of a possible oversupply of residential units in the state, has caused the high-rise sector to continue to cool. There has been a significant reduction in the number of new property launches, especially for the high-rise residential sector. Some of the notable residential launches in the second half of 2015 are as follows:-

Sunway Iskandar has pre-launched 222 units of Emerald Residence in Zone F Medini, Nusajaya. The project comprises linked houses with built-up areas ranging from 1,919 sq ft to 2,439 sq ft, selling from RM888,000 per unit, superlink houses with built-up areas ranging from 2,681 sq ft to 3,166 sq ft, selling from RM1.3 million per unit and semi-detached houses with built-up areas ranging from 3,927 sq ft to 4,290 sq ft, selling from RM2.3 million per unit.


Emerald Residence

Shama Medini, a buy-to-lease serviced apartments on a 5.03-acre integrated development, UMCity Medini Lakeside in Medini by UMLand, will offer 196 units of fully furnished apartments. Shama Medini will be managed and operated by Thailand-based hospitality assets management company, ONYX Hospitality Group. The units are available in four layouts ranging from 583 sq ft to 1,192 sq ft with average selling price at RM1,300 per sq ft. UMLand also targets to launch Citadines, a serviced apartments managed by ONYX Hospitality Group within the mixed development UMCity Medini Lakeside, by early 2016.

Ramada Encore Meridin, is a two block of buy-to-lease serviced apartments with a total of 622 units within the mixed use development of The Meridin at Medini, Nusajaya. The developer, Mah Sing Group has signed a franchise agreement with Wyndham Hotel Asia Pacific to procure the Ramada Brand System for these serviced apartments and it will be operated by Topotels Sdn Bhd. The hotel suites featuring studio, one and two-bedroom units ranging from 318 sq ft to 885 sq ft are targeted to be operational by 2018.

IJM Land Bhd's has launched its new township project, Austin Duta. The 250-acre project will be developed in 12 phases. The first phase, offering 183 units of double-storey terraced houses with dimension of 24ft by 70ft and typical built-up of 2,150 sq ft, has achieved a take up rate of 60%. The selling price starts from RM650,000 per unit

ARC @ Austin Hills, a high rise apartment project jointly developed by Andaman Group and Majlis Bandaraya Johor Bahru is located on a 5.11-acre land in Mount Austin. The project features three blocks comprising a total of 1,843 units. The first two blocks have achieved circa 50% sales since its launch on July 31 whilst the third block is scheduled for launch in February 2016. The ARC @ Austin Hills offers two and three-bedroom units with sizes ranging from 650 sq ft to 900 sq ft, priced at RM420 per sq ft on average.

UEM Sunrise has officially launched Phase 1 of Estuari in Puteri Harbour, Nusajaya in early August 2015. Phase 1 of the project consists of 350 units of double-storey superlink houses with built-up areas ranging from 2,708 sq ft to 3,780 sq ft. Prices start from RM1.39 million per unit.

BCB Berhad has officially launched Elysia Park Residences in August 2015. The project, on 7.82 acres of leasehold land in Medini, features a 4.8-acre Mahkota Park. Phase 1, with three blocks, offers 355 units in eight available configurations sized from 516 sq ft to 1,252 sq ft. Prices range from RM480,000 to RM1.1 million.

Eco Tropics sits on a 303.5-hectare site located at Kota Masai, Pasir Gudang. It is being developed by EcoWorld and has an estimated GDV of RM3.4 billion. Phase 1 offers 558 units of double-storey terraced houses with typical built-up area of about 1,700 sq ft, selling from RM460,000 per unit and 500 units of double-storey cluster houses with built-ups of 2,200 sq ft to 2,700 sq ft, priced from RM620,000.

A joint venture company between Kuok Group, Khazanah Nasional Berhad and PPB Group Berhad has officially launched the Southern Marina Residences located in Puteri Harbour, Nusajaya. The two condominium tower blocks comprise 456 units, offering 1+1, 2+1, 3+1 and penthouse units with built-up areas ranging from 769 sq ft to 3,317 sq ft. Selling prices start from RM880 per sq ft.

OFFICE

As at 2Q2015, the total net lettable area (NLA) of purpose-built office space which includes private buildings and government buildings in Johor Bahru stands at approximately 8.68 million sq ft with an overall average occupancy rate of about 77.6%, a slight increase as compared to the previous quarter. Private buildings currently accounts for approximately 70.85% (6.15 million sq ft) of total purpose-built office space in Johor Bahru.

Rentals of prime and non-prime CBD office space remained stable with asking gross rental for prime space ranging from RM2.50 to RM3.50 per sq ft per month while non-prime office space command gross rental of between RM1.80 and RM2.50 per sq ft per month. These rates are generally inclusive of the provision of shared services comprising centralized air conditioning, security and cleaning services for the common areas.

The incoming supply of purpose-built office building is expected to be from Medini Iskandar Malaysia Sdn Bhd's development at Medini, Nusajaya. The development of Medini 9, a 21-storey

FIGURE 3

Office Supply and Occupancy Trend in Johor Bahru (2005 – 2Q2015)

Source: Knight Frank Research / NAPIC

building with circa 380,000 sq ft NLA is expected to be completed by 1Q2018.

RETAIL

As at 2Q2015, the total NLA of retail space (includes shopping centres, arcades and stand-alone hypermarkets) in Johor Bahru stands at about 11.74 million sq ft with average occupancy at 79.5%. Prime retail space continued to perform well with occupancy rates recorded in excess of 80%, commanding gross rentals ranging from RM15 to RM40 per sq ft per month.

In August 2015, WCT Holdings Bhd officially launched Paradigm Mall Johor Bahru (previously the abandoned Kemayan City Mall). Located on a 13-acre freehold tract along the Skudai Highway, the six-storey Paradigm Mall with estimated GFA and NFA of 2.7 million sq ft and 1.25 million sq ft respectively, is targeted to open by September 2016. The mall offers some 600 units of shops and comes with 4,200 car park bays. Secured anchor tenants include SOGO, Village Grocer and GSC cinema. The mall is part of the integrated development of Paradigm JB which also includes a hotel and a serviced apartment tower.

INDUSTRY

There were severable notable industrial activities in this half and they include the following:

In line with its long-term target of having RM3 billion worth of assets under management, Axis REIT acquired four plots of freehold land measuring 9.76 acres in i-Park, Indahpura for a total consideration of RM61 million. Each land parcel is improved with a single-storey detached factory, annexed 2-storey office building and other supporting structures. The properties are currently leased to Beyonics Technology for 10 years, expiring on July 31, 2025.

UMLand is partnering Johor Biotechnology and Biodiversity Corp (J-Biotech) to develop a halal biotech park, called Johor Biotech Park, in Felda Cahaya Baru, Pasir Gudang. The park, with estimated GDV of RM1.5 billion, will be developed over the next seven years. The first phase, featuring 89 units of double-storey factories, shophouses, a dormitory for up to 600 workers and an international Islamic school, is targeted to be completed by 1Q2017. UM land is also reportedly in talks to acquire two plots of land measuring 80.9 hectares and 121.4 hectares in the Iskandar region.

VADS, a wholly-owned subsidiary of Telekom Malaysia (TM), has launched a ground breaking ceremony for its two-phase purpose-built data centre in Nusajaya Tech Park. It will house TM Iskandar international gateway, will serve as a regional hub in providing services such as end-to-end managed ICT services, BPO services, Cloud Services via Digital Marketplace and high-speed broadband connectivity, serving customers in Malaysia and the ASEAN region.

The first phase of VADS Nusajaya Data Centre is scheduled for completion in 1Q2017.

Tokyo-based Mitsui and Co Ltd has entered into a joint venture agreement with Nusajaya Tech Park Sdn Bhd to undertake a 10.7-hectare development, comprising built-to-suit (BTS) properties for lease. The project will have an estimated GDV of RM468 million over four years.

EcoWorld has launched Eco Business Park III. Located next to Eco Tropics in Kota Masai, Pasir Gudang, the project offers 120 units of cluster factories and 86 units of semi-detached factories with built-up areas from 4,000 sq ft and 6,000 sq ft respectively.

OUTLOOK

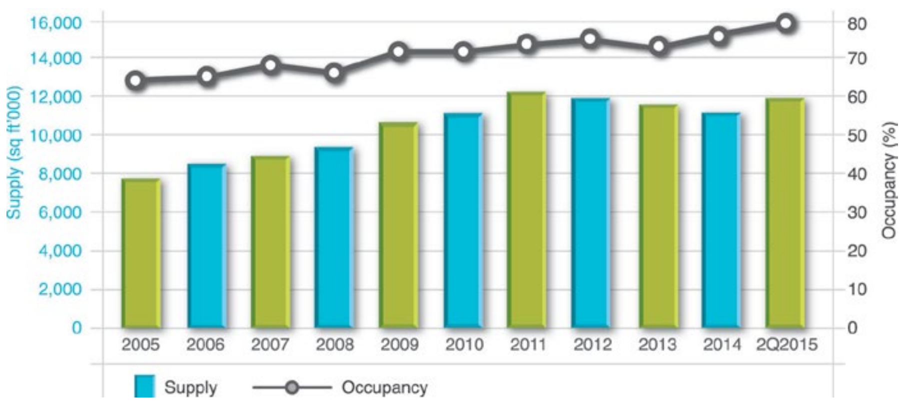
Without any exciting news in the 2016 budget, the cooling measures and tighter lending conditions implemented in 2014 is expected to continue to cool down the property market, especially for the high-rise residential units.

The general focus of interest in Iskandar Malaysia will be the progress of the High Speed Rail (HSR) and the Rail Transit System (RTS) as these infrastructure projects are expected to enhance the property market around the designated stations.

Currently, developers are cautious about property launches especially for the high-rise residential units in view of the slower absorption rate. The region will take time to digest the existing and incoming high-rise residential supply.

The full impact of the Goods and Services Tax (GST) has yet to be ascertained, although the general perception is that all goods and services have generally increased in prices.
For 2016, the general outlook for the property market in Iskandar Malaysia remains lukewarm especially the high-rise residential sector. Landed properties are still favoured by the locals although it is expected that in the coming years it will be challenging as more developers are turning into landed developments with new and exciting concepts.

FIGURE 4
Retail Supply and Occupancy Trend in Johor Bahru (2005 – 2Q2015)



Source: Knight Frank Research / NAPIC

HIGHLIGHTS

The Director of Town and Regional Planning Department (TRPD) has recently released "The Sabah Structure Plan 2033".

Sabah recorded a budget surplus of RM6.8 billion in August 2015.

The opening of Plaza Shell sets new benchmark for office sector in Kota Kinabalu.

Developer with sizeable land banks in fringe areas shifting focus to affordable and mid-range housing developments to drive sales.

KOTA KINABALU

MARKET HIGHLIGHTS

Similar to the first half of 2015, Kota Kinabalu property has seen little activity in the primary market. Developers continued to take an apprehensive view on launching new projects given macro-economic conditions and the lending environment. Values across all sectors continued to remain stable, though transaction volume remained weak. Based on Property Market Report First Half 2015 by NAPIC, Sabah registered 4,273 transactions with a total value of RM2.2 billion (inclusive of both primary and secondary market), a decrease of 3.0% and 7.0% in volume and value respectively against first half of 2014.

Interest in capital markets acquisitions by local and particularly foreign corporates and institutions has increased, albeit at an investigative and due diligence level. Up to August 2015, Sabah posted a budget trade surplus of RM6.8 billion despite tough market conditions and the medium to long term outlook remains positive.

THE SABAH STRUCTURE PLAN 2033 (SSP2033)

The Director of Town and Regional Planning Department (TRPD) has recently released the much anticipated "The Sabah Structure Plan 2033 (SSP2033)"which represents a macro long-term strategic document that will guide and direct the Sabah's future physical growth and development up to 2033.

The structural plan aims to provide the population with high quality of life, a sustainable environment, a successful economy and a connected state through an effective transportation and Information and Communication Technology (ICT) network. In order to achieve the aforesaid vision and goals, development strategies are the essential processes in providing clarity in the development directions, and also policy guidelines for local plans and stakeholders alike.

Focusing particularly on the West Coast Division with Kota Kinabalu, the key development strategies proposed by SSP2033 are as follows:

1. Develop Kota Kinabalu and the adjoining districts of Penampang and Putatan as a vibrant Metropolitan City
2. Improve the existing rail link and extend it further to Kudat
3. Improve the public transportation system in KK by introducing Light Rapid Transit (LRT), Bus Rapid Transit (BRT) or other modes of alternative transportation systems
4. Plan for future relocation of the Kota Kinabalu International Airport (KKIA)

In preparation for Kota Kinabalu and its adjoining districts to grow into a Metropolitan City, implementing the right model of urban transport system is essential as it has an important impact on land consumption, especially with the state's preserved nature and conservation areas in place. Conversely, with the right model of transportation network in place, it will unlock an abundance of opportunities to the growth of the city in terms of social and economic development; as urban productivity is highly dependent on the efficiency of its transport system to move labour, consumers, and freight between multiple destinations. Besides that, the expansion of the transportation network will also support the projected spatial development structure of Sabah as well as being used in a proactive manner to encourage development in planned areas.

The first phase of the Pan Borneo Highway in Sabah will commence construction in the first quarter of 2016, according to Prime Minister Datuk Seri Najib Razak. The proposed construction was part of the Barisan National (BN) manifesto during the general election campaign back in 2013 as an effort to fulfil the government's high commitment towards infrastructural and economic development in Sabah. The RM27 billion construction spanning across 2,239 kilometres will be the main artery connecting Sabah, Brunei and Sarawak in the future, which plays an important role in boosting ties between both Malaysian states, Brunei and Kalimantan Indonesia.

The Works Ministry has submitted proposals to build 10 flyovers at four major roads in Kota Kinabalu under the

11th Malaysia Plan (11MP), in addition to two flyovers at Jalan Kolam traffic light intersection and Mile 5.5, Jalan Tuaran which was initiated back in January 2015. Works Minister Datuk Seri Haji Fadhillah Haji Yusuf identified the project as part of the outer ring road project in Kota Kinabalu which would be implemented in phases as it requires a cost of RM1.11 billion.

Kota Kinabalu International Airport Terminal 2 has confirmed to cease its operations as a low-cost terminal on December 1, 2015, and will move to Terminal 1 due to exceeding its passenger capacity of two million passengers per annum. In 2014, terminal 2 alone had registered passenger traffic of 3.6 million people. Terminal 1, built at a cost of RM1.7 billion has the capacity of 9 million people and 64 counters to cater for both domestic and international flights. Consolidation of AirAsia's flights to Terminal 1 is also expected to provide a greater sense of arrival for all passengers entering Kota Kinabalu.

Based on the Sabah Housing and Real Estate Developers Association (SHAREDA), the gross development value (GDV) of new property launches in Sabah has plummeted significantly from RM7.65 billion in 2013 to RM3.75 billion in 2014 and further fell to RM1.5 billion this year to date due to key factors such as the abolishment of the Developer Interest Bearing Scheme (DIBS), stringent lending conditions, the weakened ringgit and delays in the approval of development plans.

In September, Shangri-La International Hotel Management Ltd and Pacific Sanctuary Holdings Sdn Bhd jointly announced the first Hotel Jen in Borneo. Opening in 2018, Hotel Jen Kota Kinabalu will be strategically positioned in PacifiCity, a premier integrated shopping, entertainment and lifestyle hub located in the picturesque Likas Bay. The opening of Hotel Jen will be the third hotel property in Sabah for Shangri-La, reinforcing their presence in the state.

In a move to expand its property portfolio and strengthen its visibility in Sabah following the successful opening of Imago Mall, Asian Pac Holdings Sdn. Bhd has acquired a 16.57-acre leasehold land in Papar, Sabah for RM21.8 million, analysed at circa RM30.20 per sq ft. With this purchase, the company is currently in its preliminary stage of planning a mixed development of commercial and landed residential phases.

Gabungan AQRS Bhd and SBC Corporation Bhd's respective joint ventures with Suria Capital Holdings Bhd at the old Jesselton Port area are progressing through planning stages and are forecast to launch in 2016. Within the Kota Kinabalu CBD area, these are two of the most significant masterplanned, mixed use developments set to transform the coastal skyline. Both projects are highly anticipated in the market and expected to achieve strong take up rates domestically and by foreign buyers.

Major mixed use developments such as Aeropod, Sutera Avenue and PacifiCity are continuing to progress through construction, however, there is some delay on the expected completion time for the developments mainly due to unfavourable weather and the macro economic environment.

JC Alliance has recently joint ventured with Hap Seng Land to establish Hap Seng Land Development & JCA Sdn Bhd for a residential high-rise development within the vicinity of Taman Seri Ketiau in Putatan, Sabah. JC Alliance with their newly inked JV partner Hap Seng Land is planning to acquire more landbank in Putatan as they foresee a greater growth spur in the area driven by the Pan Borneo Highway influence in gentrifying outer urban and rural areas.

Ho Hup (KK) Sdn Bhd (HHVKK) along with Tribeca Real Estate Asset Management have made significant progress on the construction of the Wawasan DBKK car park and bus terminal. Their approved hotel, luxury condominium and retail development is in final design phase with Singapore's award winning DP Architects and we expect residential sales of the project launching in 2016. Currently referred to as Golden Sails, the residential component will comprise 322 luxury condominium units boasting South China Sea, Mount Kinabalu, Sembulan River and city views, located on one of the last remaining waterfront locations in the CBD.

RESIDENTIAL

Due to uncertainties caused by the weakening of the ringgit and continued tight lending conditions, there have been no significant new launches of projects by developers in Kota Kinabalu in the second half of 2015, but rather new phases and balance units in larger schemes and a few residential developments that are particularly focused on the affordable and mid-range price brackets. Updates of selected residential projects in Kota Kinabalu are as follow:

After an extended absence in Sabah's west coast, Hap Seng properties is making a strong comeback in Kota Kinabalu with two upcoming projects in both the northern (Kingfisher Inanam) and southern corridors (Kingfisher Putatan) of the city. Kingfisher Inanam Condominium, a gated and guarded project by Hap

Site progress of Golden Sails

Seng Properties development Sdn Bhd is poised to deliver a residential project that is both affordable and top-quality. The 25-storey condominium offers a total of 257 units with sizes ranging from 865 sq ft to 1,160 sq ft, currently open for registration at an indicative price of RM440 per sq ft. Kingfisher Putatan is a 15-storey condominium comprising 120 units ranging from 1,009 sq ft to 1,065 sq ft at an indicative price of RM400 per sq ft. Kingfisher Putatan is believed to be a turning point in the transformation of Putatan into a more mature and diverse residential neighbourhood in line with its expanding role as a modern transportation and commercial hub.

Mah Sing Group Berhad has launched another phase of its serviced apartment, Tower 3 of Sutera Residences which was held in May 2015. Tower 3 is the second tower launched following an encouraging response from the first launch of Tower 2. The serviced apartments will be available in two layouts, namely 1+1 and 2+1 bedrooms with built-up areas ranging from 726 sq ft to 1,220 sq ft priced from RM605,000 onwards.

Jesselton View by Bina Puri Holdings Berhad, located at the suburb of Hilltop is a low-density apartment development offering 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.

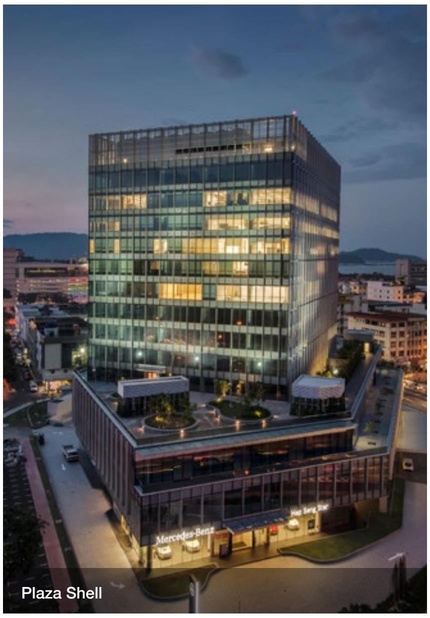
One Jesselton @ Kepayan Ridge is a new proposed development by Bina Puri Holdings Berhad featuring a gated and guarded 12-storey condominium development conveniently located along Jalan Banjaran, Kepayan. The dual key and semi-eco environmental development comprises 125 exclusive units with sizing ranging from 964 sq ft to 2,660 sq ft and prices starting from RM670 per sq ft.

Following solid take up rates at the Bay 21 condominium project, Bay 21 TOO is the latest brainchild of Remajaya Sdn Bhd; with its ideal location along the picturesque Likas Bay. This 26-storey building consists of 286 luxurious furnished units ranging from one to three bedrooms; whilst unit sizes range from 395 sq ft to 1,248 sq ft. The development will introduce revolutionary construction methods that will set a higher quality of standard for developments in Sabah. The Bay 21 project is the first GreenRe silver rated building in Sabah based on Real Estate Housing Development Association of Malaysia (REHDA)'s GreenRE Rating.

OFFICE

The existing supply of office space has increased by 4.8% after 3 years of little addition to the sector, with the recent completions of Plaza Shell and Riverson Suites. The current supply stands at 6.22 million sq ft with the new influx of 289,740 sq ft of office space into the market. By the second half of 2015, the average occupancy rate of office space is peaking at 91.8%. There is also a positive shift in average rental rates of office space in Kota Kinabalu, mainly attributed to the first Grade A Office Building in the state – Plaza Shell. Traditional rental rates have hovered around the RM2.00 to RM3.50 per sq ft range, however the quality and standard of construction of Plaza Shell allowed it to achieve a rental rate of minimum RM4.50 per sq ft exclusive of service charges. Kota Kinabalu's newest landmark, Plaza Shell was officiated by Sabah Chief Minister Datuk Seri Musa Aman on November 13, 2015. Plaza Shell is the first Grade A office tower that is in compliance with the Green Building Index (GBI) in the state, and was awarded the Silver Certification under the Leadership in Energy and Environmental Design (LEED).

The new eco-friendly building has been conceptualised as a resource-efficient, high-performing, environmentally


Plaza Shell

friendly building, in tandem with Hap Seng's desire to provide a healthy and productive working environment to the tenants whilst embracing environmental sustainability as part of their business core values. The opening of Plaza Shell not only represents the future ties between Shell Malaysia and the state, but has also set new benchmarks in design, quality, efficiency and environment for Kota Kinabalu's office sector. Knight Frank Malaysia is proud to have secured Shell Malaysia as anchor tenant for the building and is honoured to be appointed property manager for Plaza Shell.

As of second half of 2015, there were no new launches for purpose-built offices after the completion of Plaza Shell.

FIGURE 5

Occupancy Rate of Office Space in Kota Kinabalu (%)

TABLE 8

Asking Gross Rental of Selected Office Space in Kota Kinabalu (2015) (RM per sq ft / month)

Plaza Shell	Menara Maa	Wisma Sabah	Warisan Square	Wisma Great Eastern	Wisma Merdeka	Wisma San Hin	CPS Tower	KK Times Square	Wisma Perindustrian
KK CBD	KK CBD	KK CBD	KK CBD	KK CBD	KK CBD	KK CBD	KK CBD	Southern Fringe of KK CBD	Likas Bay Area
4.50 - 6.00	2.50 - 3.50	2.60 - 3.00	3.00 - 4.20	3.00	3.00 - 4.00	2.30	2.30 - 2.60	2.60	3.20 - 3.50

Source: Knight Frank Research (as of October 2015)

Ongoing sales and supply of office space are as follows:

Riverson Suites by Riverson Corporation Sdn Bhd is strategically located within the rapidly growing Southern Fringe of KK CBD, sitting on a prime commercial land of approximately 5.5 acres with a gross development value (GDV) of RM555 million. Riverson Suites is part of the Riverson mixed development, comprising of a tower of 6-storey office suites with typical unit size ranging from 2,192 sq ft to 4,232 sq ft. The development which was launched in 2011 is at its final construction stage, with Occupancy Certificate (OC) in place for its office segment (Riverson Suites) and it is understood that an occupancy take-up rate of 100% has been pre-committed.

Another notable development in the pipeline is the new Sabah State Administrative Centre located at Likas Bay, covering a 15-acre land site along the shoreline overlooking the South China Sea. The RM388.7 million worth project awarded to Bina Puri Holdings Bhd entails the construction of a 33-storey office tower and two blocks of 9-storey buildings, making it one of the tallest structures in Sabah. The development is expected to be completed in 2016, and will accommodate the Sabah Chief Minister's office together with cabinet members upon completion.

Looking ahead, major developers such as Mah Sing Group Bhd, SP Setia Berhad, and Gabungan AQRS Berhad have plans to incorporate Grade A purpose-built office buildings as one of their key components for their upcoming integrated developments. This is expected to attract more multinational and local corporations to venture into Kota Kinabalu's office sector.

RETAIL

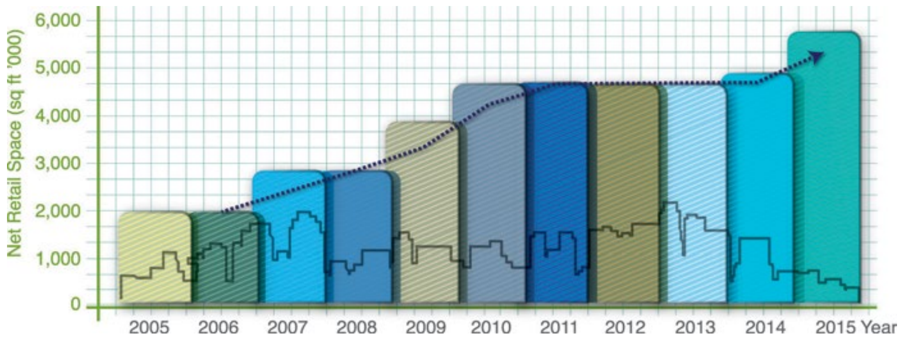
The additions of Oceanus and Imago malls earlier this year added 22.7% of supply to the sector and has shaken occupancy rates and rents. Coupled with the introduction of GST and a decline in domestic consumer spending, the retail sector will need to bolster foreign tourism spend during this market downturn.

Retail shop lots are seen to be struggling to secure tenants more than shopping malls, though we maintain that retail malls are likely to face continued fierce competition amongst one another as new supply is added to the market in 2016 with the completions of Pacific Parade @ PacifiCity, Sutera Avenue Retail Mall, Riverson Walk @ Riverson and Jesselton Mall @ Jesselton Residences.

Mature retail markets such as Hong Kong and Singapore illustrate approximately 11.5 sq ft of retail space per capita. Based on Greater Kota Kinabalu's population, we estimated the retail space per capita to be approximately 9 sq ft currently and deem this to be unsustainable in light of domestic consumption and tourist retail receipts.

FIGURE 6

Cumulative Supply of Net Retail Space Within Kota Kinabalu



Source: Source: NAPIC / Knight Frank Research (as of October 2015)

TABLE 9
Future Supply of Retail Space in Kota Kinabalu (sq ft)

Pacific Parade @ PacifiCity	Lifestyle Retail + Festive Avenue Retail @ Sutera Avenue	Jesselton Mall @ Jesselton Residences	Riverson Walk @ Riverson
Likas Bay	Southern Fringe of KK CBD	KK CBD	Southern Fringe of KK CBD
615,000 sq ft	153,168 sq ft	74,666 sq ft	119,539 sq ft

Total: 962,373 sq ft

Source: NAPIC / Knight Frank Research (as of October 2015)

MARKET OUTLOOK

With a lacklustre year behind us, Kota Kinabalu is expected to regain development and growth momentum going forward. We expect developments which were put on hold in 2015 to hit the market in 2016, however we maintain that lending conditions need to improve in order for developers to achieve strong take up rates.

Values are expected to maintain stability across all sectors in the secondary market supported by a rise in primary market launch prices. Land costs continue to increase and coupled with GST, minimum wage hikes, a weak ringgit and inflationary pressure, it is not possible for developers to lower their margins.

Foreign investment at an institutional and consumer level is highly anticipated for development investment opportunities and new launches, and we are optimistic that offshore take up rates for properties in sought after locations will be attractive in light of the currency situation.

Despite continued volatility in the global economy, Sabah is expected to weather the storm with its strong fundamentals in oil, gas and energy and the palm oil trade, albeit against commodity price and currency pressure. The tourism sector will play an important role in bolstering state coffers and we believe that there will be a greater focus on the development of tourism products and supporting infrastructure in the coming year.

Planned Developments for Regeneration of Kota Kinabalu Jesselton Port Area. Image courtesy of Dragonfly Robotix

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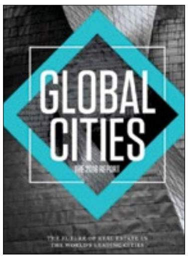

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