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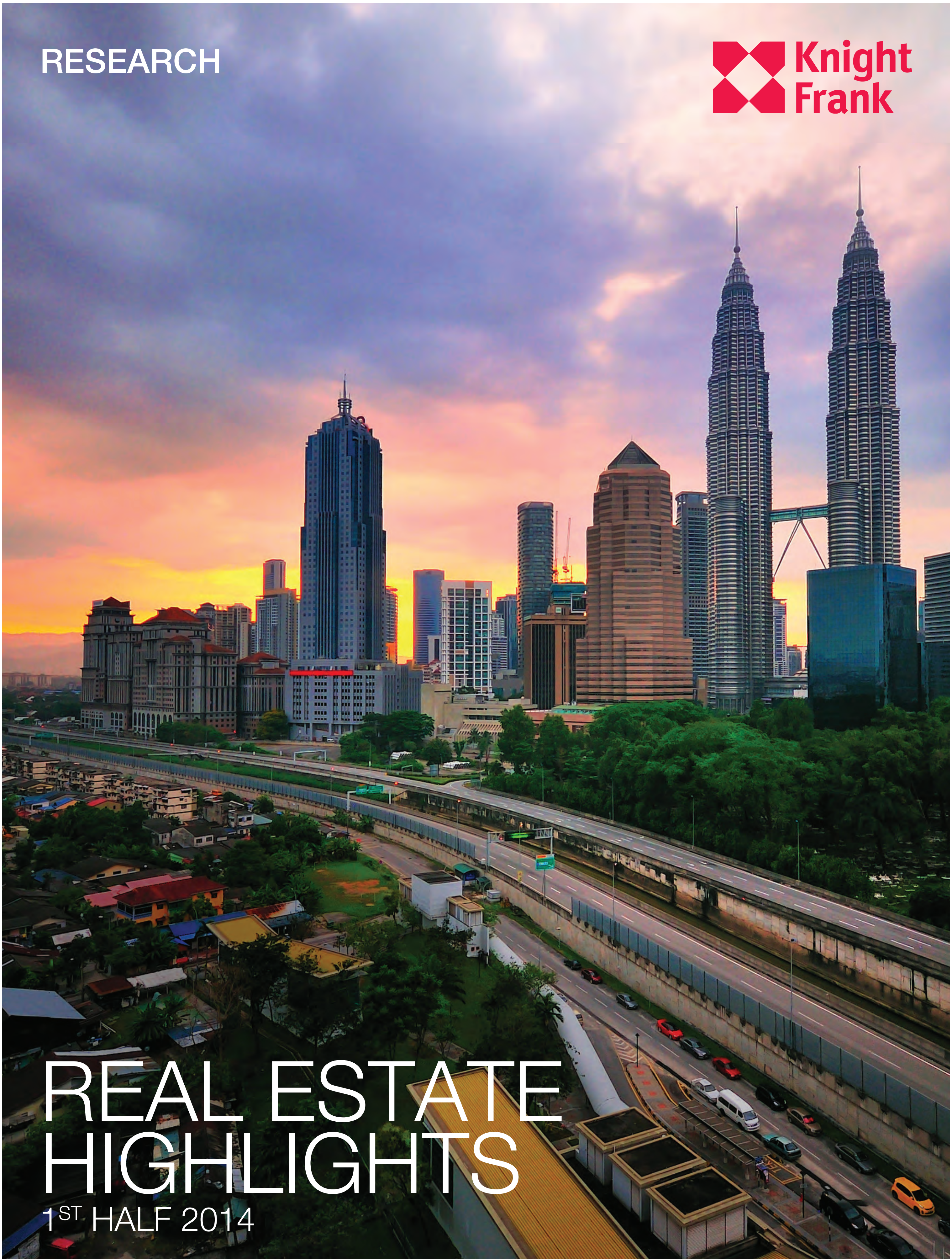


REAL ESTATE HIGHLIGHTS

1ST HALF 2014

KUALA LUMPUR | PENANG | JOHOR BAHRU

KUALA LUMPUR HIGH END CONDOMINIUM MARKET

Market self-correcting with noticeably less previews and launches

The lacklustre market performance may receive a boost in 2H2014 ahead of the implementation of the goods and services tax (GST) in April 2015 with demand expected to pick up

Challenging outlook with cooling measures implemented still in place and ahead of potential interest rate hike

Developers shifting focus to affordable, mid-range products and township developments

Market Indications

Malaysia's economy expanded strongly in the first quarter of 2014, posting an exceptional growth rate of 6.2% (4Q2013: 5.1%). The robust economic performance is driven by stronger expansion in domestic demand and a turnaround in net exports. Bank Negara Malaysia (BNM) expects the economy to maintain its growth momentum with GDP to range from 5% to 5.5% for the remaining quarters of the year.

Headline inflation edged up 0.4% to register at 3.4% in 1Q2014 mainly due to higher prices in the housing, energy-consumption and transport categories.

Although BNM has kept the Overnight Policy Rate (OPR) unchanged at 3% since May 2011, with strong domestic demand, ample liquidity in the financial system and low cost of borrowing leading to household debt reaching a record level of 86.8% of GDP at the end of 2013, there is strong indications that interest rates in Malaysia could rise by the second half of the year.

Supply & Demand

The cumulative supply of high end condominium in Kuala Lumpur stands at 36,222 units following the completion of eight notable projects offering an additional 1,659 units [includes projects that are physically completed but pending issuance of Certificate of Completion and Compliance (CCC)]. Out of the eight completions, five are located in KL City and they are SOHO Suites @ KLCC, Six Ceylon, Suasana Bukit Ceylon, Laman Ceylon and VUE Residences in KL City. The remaining three projects are Dedaun and Damai206 @ Embassy Row in Ampang / U-Thant, and Richmond, Kiara 3 @ Mont' Kiara in Mont' Kiara.

Most of the newly completed projects such as SOHO Suites @ KLCC, Six Ceylon, Suasana Bukit Ceylon, VUE Residences and Richmond, Kiara 3 @ Mont' Kiara have been well received with sales rates ranging from 97% to 100%. The developer of Laman Ceylon, with circa 85% sales, has reportedly revised their marketing strategy and is now offering full furnishing package for the unsold semi-furnished units.

In the Ampang Hilir / U-Thant area, Dedaun reported 85% sales rate while few owners of the fully sold Damai206 @ Embassy Row are releasing their units for sale in the secondary market.

A high impending supply totalling some 2,884 units is expected to enter the market by the end of 2014. Ampang Hilir / U-Thant will account for circa 48% of the total upcoming supply, followed by KL City (33%), and Mont' Kiara / Sri Hartamas (19%). Some of the notable projects slated for completion include Crest Jalan Sultan Ismail, 188 Suites and Setia Sky Residences (Celeste Tower) in KL City; 9 Madge, Madge Mansion, Nobleton Crest, The Elements @ Ampang (Tower 1) and D' Suria Condominium in Ampang / U-Thant; One Kiara (Tower A) and The Icon Residence in Mont' Kiara and The Signature in Sri Hartamas.

Compared to a total of some 16 project launches in the second half of last year, there were only nine notable previews and launches observed during this review period, reflecting developers' concerns on the adverse impact arising from the cooling measures announced in October 2013.


Cecil Central Residence

The previews and launches include The Ritz-Carlton Residences Kuala Lumpur, Vortex Residence and Expressionz Professional Suites @ Tun Razak in KL City; KL Gateway Premium Residences (Tower 2) and Inwood Residences @ Pantai Sentral Park in Kerinchi / Bangsar South; DC Residency @ Damansara City in Damansara Heights; and 28 Dutamas (Tower A), TWY Mont' Kiara and Residensi 22 (Block B) in Mont' Kiara.

Following the completion of its successful projects in KL City, ViPod Residences and The Quadro Residences, developer, Monoland Sdn Bhd, held a preview for its latest project, Vortex Hotel Suites & Residence KLCC, in January 2014. Located at Jalan Sultan Ismail, along the same stretch as Hard Rock Café, Concorde Hotel, Menara IMC and adjoining Menara Prudential, Vortex offers 248 units of residences priced from RM980 per sq ft up to RM1,190 per sq ft. Due to its attractive pricing, the project received overwhelming response with all available units reportedly taken up.

Expressionz Professional Suites @ Tun Razak by Exsim Group of Companies was launched in March 2014 at an average pricing of RM1,300 per sq ft. The project offers 447 serviced apartment units of various layouts - studio, dual-key and duplex units sized from 643 sq ft to 1,405 sq ft. As of May, it has reportedly achieved circa 65% sales.

Berjaya Corporation Bhd expects the take-up rate for its newly launched luxurious Ritz-Carlton Residences Kuala Lumpur to hit 60% by year-end. The upscale project, located at the intersection of Jalan Sultan Ismail and Jalan Ampang, consists of 287 suites with unit sizing ranging from 1,023 sq ft to 4,284 sq ft. Average selling price starts from RM2,500 per sq ft.

Notable projects targeted for launch later this year include Cecil Central Residence, Platinum Park Serviced Apartment and The Robertson (Tower 3) in KL City as well as Nova Pantai @ Pantai Dalam and Resonance @ South Bangsar.

Cecil Central Residence will be Hong Kong-based Cheuk Nang (Holdings) Ltd's premier project in the heart of Kuala Lumpur. Controlled by tycoon Cecil Chao, its unit, Martego Sdn Bhd, will develop upscale residences comprising three 50-storey blocks (total 832 units) with typical sizing from 569 sq ft to 2,499 sq ft. The freehold project is located off Lorong Perak, facing Menara Kuala Lumpur and KLCC Park. *Knight Frank Malaysia is the exclusive marketing agent for the project.*

Other upcoming integrated projects that are set to alter Kuala Lumpur's skyline include the RM3.5 billion mixed use "Oxley Towers" at Jalan Ampang that will comprise two 6-star hotels, luxury serviced apartments, niche retail mall and customised offices and KSK Group's RM4 billion Jalan Conlay project that will feature three towers (a 60-storey to house the 5-star hotel cum serviced apartments and two towers of 50 and 55-storey for luxury condominiums) and a 200,000 sq ft retail podium. The indicative pricing for the luxury serviced apartments and condominiums in these two projects range from RM2,500 per sq ft to RM3,000 per sq ft. Meanwhile, the former site of Lai Meng Primary School at Jalan Ampang is proposed for a 60-storey twin towers project. One of the proposed towers will accommodate a mix of serviced apartments, hotel and offices, while the other tower will house Grade A office.

Prices & Rentals

The cooling measures have dampened market activities, both primary and secondary. There were noticeably less previews and launches in the first half of the year with many developers pulling back as buyers adopt the "wait-and-see" approach. Despite lower volume of transactions, prices continued to hold firm in the secondary market. In the primary market, however, sales performance for new launches were mixed depending on the location, product and pricing amongst other key factors.

Early this year, Mulpha Land Berhad disposed a 5-storey low-rise apartment block known as Raintree Residence at Jalan Wickham, Off Jalan Ampang Hilir to the Government of the Islamic Republic of Iran for a total cash consideration of RM34.30 million (or RM1,100 per sq ft on net floor area). The property comprises 12 apartment units with floor areas ranging from 2,045 sq ft to 3,735 sq ft.

In May, Amphil Corporation Sdn Bhd, the developer of the on-going Rimbun @ Embassy Row, officially launched its triplex penthouse measuring 18,000 sq ft for sale at RM25 million (or circa RM1,390 per sq ft). The selling prices for its typical units range from RM1,100 per sq ft.

Although there were significant completions totalling some 1,507 units in KL City, asking prices continued to hold firm while rents were marginally down in selected less prominent schemes. In Bangsar, asking prices were marginally higher during the review period while rents continued to hold steady.

With no significant completions noted in the localities of Ampang Hilir / U-Thant, Damansara Heights and Mont' Kiara, asking prices and rents generally remained stable.

Going forward, with a high supply pipeline of existing and incoming projects, the rental market is expected to face further pressure amid weak occupational demand in selected locations and heighten competition between unit owners. Yields will continue to be compressed in line with the lagging rental market.

Meanwhile, the debut of more branded residences into the Kuala Lumpur market appears to have had a positive effect on the pricing of new high end condominium projects.

TABLE 1
Completion of High End Condominiums in 1H2014

Project	Location	Area	Total Units
SOHO Suites @ KLCC	Jalan Perak	KL City	480
VUE Residences*	Jalan Tun Razak	KL City	272
Six Ceylon	Jalan Ceylon	KL City	215
Suasana Bukit Ceylon	Persiaran Raja Chulan	KL City	310
Laman Ceylon	Jalan Ceylon	KL City	230
Dedaun	Off Jalan Ampang	Ampang / U-Thant	38
Damai206 @ Embassy Row*	Lorong Damai	Ampang / U-Thant	18
Richmond, Kiara 3 @ Mont' Kiara	Jalan Kiara 3	Mont' Kiara	96

*Pending Certificate of Completion and Compliance (CCC)

Source: Knight Frank Research

Outlook

With the cooling measures implemented still in place, the outlook for the high end condominium is expected to remain challenging ahead of potential interest rate hike.

The high end residential segment is expected to experience a temporary slowdown in demand as upgraders and investors may opt to delay big-ticket purchase in anticipation of higher financing cost and cost of living. Key factors such as location, pricing and marketing strategies, availability of financial-related packages (e.g. discounts, free legal fees etc.), developer's reputation and development concept in terms of product, quality, facilities / amenities and services will play crucial roles in the success of upcoming high end residential launches.

Meanwhile, the Government, had on 15th May, enforced an initiative to curb speculative activity by the so-called 'Real Estate Investors Club' who practises collective purchase of real estate for subsequent sale at a higher price for easy profit. Developers are now required to register the name of buyers of more than four houses at one time with the Urban Wellbeing, Housing and Local Government Ministry.

The high level of existing supply coupled with the impending entry of some 2,884 units expected by the second half of 2014 will exert pressure on both rental and secondary sales market, particularly in locations where there are weak occupational demand and significant project completions.

The focus of the residential market in the short to medium term will likely be on the affordable, mid-range products and township developments. Well-conceived projects with potential access to public transport links such as the on-going Light Rail Transit (LRT) Extension and the Klang Valley Mass Rapid Transit (MRT) lines are expected to be in demand. The latest offering by YTL Land & Development saw 650 units of its Midfields 2 project (total: 792 units) snapped up during a weekend. Competitively priced from below RM500 per sq ft, the recent confirmation of the high-speed rail (HSR) project from Kuala Lumpur to Singapore with the terminal located at Bandar Malaysia in Sungai Besi set to be completed by 2020, greatly adds to the attractiveness of the Midfields 2 address.

The lacklustre market performance may receive a boost in 2H2014 ahead of the implementation of the goods and services tax (GST) in April 2015 with demand expected to pick up.

Moving forward, the rejuvenation of prime tracts in KL City evident by the high number of on-going and upcoming development projects will further transform the landscape and skyline of the city as it moves closer to fulfilling its vision of becoming 'A World-Class City'. In the Economist Intelligence Unit (EIU) 2013 Liveability Ranking of 140 cities, the capital city of Malaysia, ranked 78th, is the second most liveable city in South-East Asia, after Singapore.

TABLE 2

Average Asking Prices and Rentals of Existing High End Condominiums

Locality	Asking Gross Rental (RM psf / month)	Average Asking Price (RM psf)
KL City*	2.80 - 5.50	680 - 1,700
Ampang Hilir / U-Thant	2.30 - 4.00	500 - 1,100
Damansara Heights**	2.50 - 4.00	650 - 950
Kenny Hills	2.00 - 3.20	500 - 900
Bangsar	2.50 - 4.50	600 - 1,200
Mont' Kiara***	2.30 - 3.50	450 - 750

* Excludes Binjai On The Park

** Includes Twins @ Damansara Heights

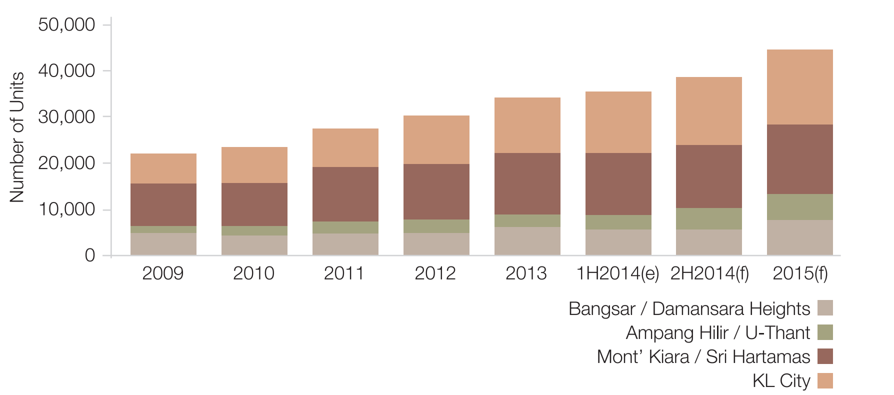
*** Excludes Verve Suites which comprise mainly fully furnished small units

Source: Knight Frank Research

FIGURE 1

Projection of Cumulative Supply for High End Condominiums

2009 – 2015(f)



Source: Knight Frank Research

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

KUALA LUMPUR OFFICE MARKET

Office market to display resilience in short term amid widening gap between supply and demand

Prime office rents may continue to experience moderate growth albeit at slower space with Grade A supply remaining constrained despite recent completions

Opportunity for owners and investors of old and dated office building to undertake asset enhancement initiatives / renovation, conversion and redevelopment to optimise returns on their assets

Market Indications

The Kuala Lumpur office market showed resilience in 1H2014 with both rental and occupancy rates holding firm despite further completions. The tenant-favoured market continued to provide wider choice to occupiers seeking office space for relocation and expansion purposes.

During the review period, there was limited activity (in terms of volume) in the investment market in line with the cautious outlook. Developers, however, continued to announce more new integrated projects with office space as an integral component.

Supply & Demand

In 1H2014, the cumulative supply of purpose built office space in KL City Centre was recorded at 48.6 million sq ft while in KL City Fringe, it was recorded at 21.5 million sq ft. This brings the total cumulative supply of office space in Kuala Lumpur to 70.1 million sq ft.

Buildings completed during the review period include Menara TH (360,000 sq ft NLA) in KL City Centre and Menara Kembar Bank Rakyat (962,582 sq ft NLA) in KL City Fringe.

Menara TH is a 38-storey office building within the RM4 billion prime integrated development of Platinum Park. The building which adjoins NAZA Tower was acquired by Lembaga Tabung Haji in 2009 with the sale completed in 1Q2014.

Menara Kembar Bank Rakyat is a twin tower office development on a 3.8-acre tract at the intersection of Jalan Bangsar and Jalan Travers. Tower 1 which is 38-storey high will be occupied by Bank Rakyat as its new corporate headquarters while the 32-storey Tower 2 will be available for rental.

Later into the year, three office buildings with combined NLA of more than 1.0 million sq ft space are due for completion. They are Menara Hap Seng 2, Menara Bangkok Bank and Menara MBMR.

The average occupancy in KL City Centre remained unchanged at 83.2% despite notable improvements in take up due to the recent completion of Menara TH which has yet to record significant occupancy. Average occupancy in KL City Fringe, however, rose slightly to record at 83%.

Despite the widening gap between supply and demand, announcements on proposed and new office developments continued unabated.

The much-talked about 118-storey skyscraper project of Warisan Merdeka has finally moved to the construction phase following the first contract award to Pintaras Jaya Bhd. Scheduled for completion by 2020, the skyscraper towering above the iconic Petronas Twin Towers (at > 500 metres), will have net floor space of 2.2 million sq ft. PNB and its subsidiaries are expected to occupy about 70% of the space with the remaining (circa 20 floors) to be available for lease to multinational corporations. The mixed use development, costing some RM5 billion on 19 acres within the enclave of Merdeka Stadium and Stadium Negara, will also comprise a mall, a public park, a luxury hotel and four residential blocks. The two stadiums will be retained as national heritage buildings.

OSK Holdings has obtained development approval for the parcel of land adjoining Plaza OSK at Jalan Ampang. Work on the project which will yield 1 million sq ft of lettable commercial and retail space is scheduled to start in the fourth quarter this year.

Impian Bebas Sdn Bhd, a 50:50 joint-venture (JV) entity between Sapura Resources Bhd and KLCC Holdings Sdn Bhd, plans to develop commercial buildings on a prime parcel of land measuring 1.88 acres at Jalan Kia Peng. The components, comprising a 46-storey office tower, a three-storey convention centre, a retail podium and a seven-storey basement car park, will have total gross floor area (GFA) of 1.64 million sq ft. The project is expected to be completed by end-2019.

YTL Land & Development Bhd plans to construct a 42-storey office tower on a 0.75-acre site located between Menara Keck Seng and Dorsett Regency Kuala Lumpur. The development which bears a Jalan Bukit Bintang address could be the new headquarters for the group. The new office tower which may be named Bintang Plaza is likely to be linked to The Ritz-Carlton via a bridge in the future. Separately, the group also intends to develop an integrated project on its 3.26-acre site along Jalan Bukit Bintang, sandwiched between Yayasan Tun Abdul Razak and Prince Court Medical Centre. This development will feature two 45-storey office blocks amongst its mixed use components.

Following the recent relocation of Lai Meng Primary School to Bandar Bukit Jalil, Magna Prima Bhd has taken possession of its crown jewel, the 2.62-acre site at Jalan Ampang which it purchased from Lai Meng Girls' School Association (LMGSA) in March 2010. One of its proposed 60-storey twin towers will accommodate a mix of serviced apartments, hotel and offices, while the other tower is expected to be a Grade A office building with Green Building Index (GBI) elements.

In KL City Fringe, there are plans by Impian Ekspresi Sdn Bhd, a company controlled by Tan Sri Desmond Lim, the executive chairman of Malton Bhd and chairman of Pavilion REIT, to re-build its 9.58-acre tract in Pusat Bandar Damansara. The existing nine office blocks of six and seven-storey high on the site will be demolished and the site redeveloped with 11 buildings to be made up of a 57-storey hotel and office tower, two 25-storey, two 22-storey and four 14-storey office blocks, two 50-storey buildings to accommodate 516 serviced apartments and a seven-storey podium that will feature a lower ground floor and three basement floors. The project with an estimated GDV in excess of RM2 billion to RM3 billion, will be developed over a period of five to six years with the first phase (office blocks) slated for completion in three to four years.

Meanwhile, within Putrajaya, the Federal Administrative Capital of Malaysia, Shapadu Corp Sdn Bhd plans to launch a RM600 million mixed use project to be known as Shapadu City Village later this year. The 2.4-acre freehold site in Precinct 1, adjoining the premises of the Ministry of Finance (MoF), will feature a Grade A office tower housing Shapadu's new headquarters, a luxury hotel, lifestyle retail outlets, and 150 high-end condominium units.

Prices and Rentals

Despite Grade A supply increasing with recent completions, average achieved rental rates in both KL City Centre and KL City Fringe, remained firm. During the review period, average achieved rental rates in both KL City Centre and KL City Fringe saw marginal increases recording at RM6.08 per sq ft (2H2013: RM5.96 per sq ft) and RM5.55 per sq ft (2H2013: RM5.52 per sq ft) respectively. Prime A and Prime A+ grade offices in both KL City Centre and KL City Fringe continue to command high asking rents ranging between RM6.50 per sq ft and RM12.00 per sq ft per month.

With the rapid development of public transport links such as the Light Rail Transit (LRT) extension, Bus Rapid Transit (BRT) and Mass Rapid Transit (MRT) which will greatly enhance accessibility and connectivity within Klang Valley, demand for good grade office space has started to extend beyond KL towards Greater KL as


Menara TH

companies begin to look for options outside of the overcrowded city centre.

The Pinnacle in Bandar Sunway, a 27-storey Grade A MSC-status compliant office tower (580,000 sq ft NLA) with Green Building Index (GBI) and Building & Construction Authority (BCA) Green Mark certifications, has seen encouraging take up of circa 50% since its completion in January 2014. The building with large floor plates of between 23,000 sq ft and 24,000 sq ft, offers competitive rental rates. Its tenants include Pepsi-Cola, Huntsman, Ecolab, Hitachi, Ausenco, Roche and Johnson & Johnson. The Pinnacle is strategically located within walking distance to Halt 3 of the on-going elevated BRT - Sunway line which will be linked to Setia Jaya KTM station and LRT line in USJ.

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

Fuji Xerox, the world's leading document solutions provider, marked the launch of its first ever sustainability report at the opening of its new Malaysian headquarters, occupying Levels 23, 23A & 25 of Menara Binjai in Kuala Lumpur's Golden Triangle.

Tradewinds Corporation Bhd relocated from its office at Wisma Zelan, Bandar Tun Razak to Menara Shell in KL Sentral, taking up circa 30,000 sq ft of space on Levels 17 & 18.

IBM recently launched its new Global Delivery Centre in Cyberjaya. The 300,000 sq ft centre, which has GBI Gold certification, is IBM's 21st shared services centre in Malaysia. It is the latest addition to IBM's extensive network of service delivery hubs in 20 countries that provides business processing and IT services capabilities to clients worldwide.

Notable investment activity in 1H2014 (as of May) totalled some RM1.18 billion.

PJ Development Holdings Bhd entered into a sale and purchase agreement with Able Starship Sdn Bhd on 31st December last year to dispose of its Menara PJD, a 28-storey office tower at Jalan Tun Razak, for a total cash consideration of RM220 million. The property comprising five floors of retail / commercial / office, eight floors of car park and 16 floors of commercial / office properties with a link bridge to the Titiwangsa Light Rail Transit station has a gross built-up area of 796,355 sq ft. It is solely tenanted by Jabatan Kerja Raya Malaysia until 31st October 2015 (built-up area of 445,111.84 sq ft).

Since the signing of a heads of agreement (HOA) in January, Malaysian Resources Corp Bhd (MRCB) has inked a RM750 million deal to sell its Platinum Sentral property in KL Sentral to Quill Capita Trust Bhd (QCT). The transaction, said to be the first of its kind in the country, will see construction-cum-property developer, MRCB, becoming the single largest shareholder of QCT, as well as the owner of its management vehicle. Platinum Sentral comprises five blocks of four- to seven-storey commercial buildings housing office-cum-retail space, a multi-purpose hall and two levels of car parks. Its office space, with 419,643 sq ft NLA, is fully occupied while its 56,214 sq ft retail portion is 77% occupied.

New York-based BlackRock Inc, the world's largest asset manager, is planning to sell The Intermark, a RM2.2 billion integrated development at Jalan Tun Razak with total NLA of 2.5 million sq ft, housing the Intermark Mall, Vista Tower, DoubleTree by Hilton hotel and Integra Tower. A separate deal is reportedly being worked out to hive off the hotel for an estimated RM350 million. Vista Tower which opened in 2010 is a 62-storey Grade A building with 555,000 sq ft of floor space, commanding monthly

TABLE 3

Selected Grade A Office Asking Rentals

Building Name	Asking Gross Rental (RM psf / month)
Menara Maxis	10.50
Menara Darussalam	8.50
Integra Tower	11.00
Vista Tower	8.50 - 9.00
G Tower	8.50
Menara Binjai	8.50
Menara Prestige	7.50 - 8.50
Quill 7	7.80
Menara Shell	7.00
Nu Tower 1 & Nu Tower 2	6.50
Menara CIMB	8.00
The Gardens North & South Towers	7.80

Source: Knight Frank Research

rents between RM8.50 per sq ft and RM9.00 per sq ft. The building is currently 80% occupied with notable tenants that include Hyundai Corp, the Embassy of Czech Republic, Thomson Reuters and BNP Paribas. Integra Tower, meanwhile, is a 40-storey office building launched in mid-2013. The building with 777,000 sq ft of lettable space boasts one of the largest floor plates in the market, at 25,000 sq ft per floor. Anchored by Aker Solution, it is currently 50% occupied with other notable tenants that include JPMorgan, Michael Page and Petronas Lubricants.

Outlook

In the short term, the Kuala Lumpur office market is expected to display resilience. The market is characterised by an overhang of secondary supply with limited Grade A space. Prime office rents may continue to see moderate growth albeit at slower pace.

The relatively high vacancy rate and impending completion of more dual compliant (MSC + Green) buildings will likely impact rents and occupancy rates of secondary office buildings as competition heightens between landlords seeking to retain existing tenants. Thus, asset enhancement

TABLE 4

Office Investment Sales 1H2014

Building Name	Location	Approx. Lettable Area (sq ft)	Consideration (RM) / (RM psf)
Platinum Sentral (1)	KL Sentral	475,857	750,000,000 (1,576)
Menara PJD (2)	Jalan Tun Razak	445,112	220,000,000 (494)
Tower 1, Avenue 3, The Horizon (3)	Bangsar South	61,700	72,540,000 (1,176)
Bangunan Shell Malaysia (4)	Damansara Heights	212,857	138,000,000 (648)

(1) As at March 2014, Platinum Sentral has a total NLA of 475,857 sq ft as per tenancy schedule (excluding licensed area / outdoor / terrace) made up of office: 419,643 sq ft and retail: 56,214 sq ft.

(2) The Sales and Purchase Agreement was entered into on 31st December 2013. Menara PJD is solely tenanted by Jabatan Kerja Raya Malaysia until 31st October 2015.

(3) The Sales and Purchase Agreement was entered into on 31st December 2013. The existing tenancies with UOA Holdings Sdn Bhd, UOA Development Bhd and other tenants will be terminated upon completion of the disposal. UOA will then lease the building from the purchaser for RM362,700 per month for 3 years (Gross yield of 6% for the purchaser).

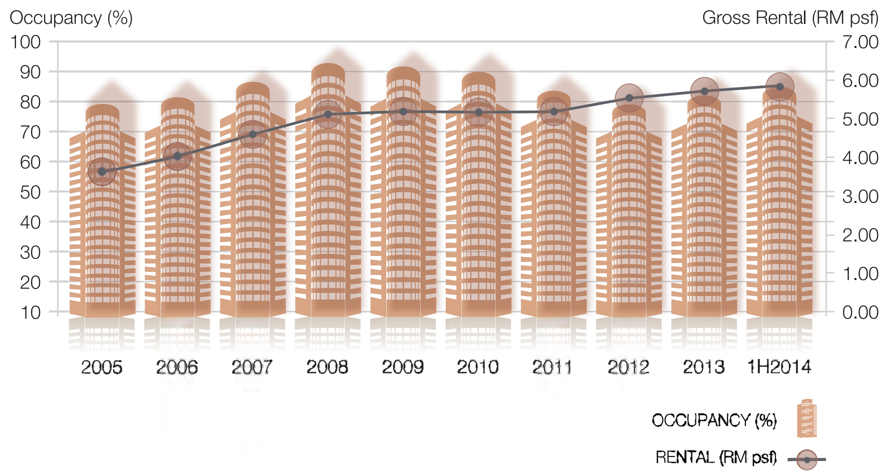
(4) Bangunan Shell, completed in 1986, is a 12-storey purpose-built office building with a basement car park linked to Wisma Chase Perdana via a common ramp.

Source: Knight Frank Research

FIGURE 2

Occupancy and Rental Trends

2005 - 1H2014



Source: Knight Frank Research

initiatives / renovation, conversion and redevelopment, may present an opportunity to owners and investors of old and dated office buildings to bridge the gap in Grade A supply and optimise returns on their assets. Buildings that have been earmarked for these initiatives include Wisma Hong Leong at Jalan Perak and Wisma Megah (formerly known as Bangunan Hong Leong) at the corner of Jalan Tun H S Lee and Jalan Tun Tan Cheng Lock.

Malaysia's upgrade in the 2014 World Competitive Yearbook Ranking by global business school, IMD, climbing 3 rungs to 12th place amid the slide of most big emerging markets is a positive development for the country. Coupled with the various Government policies and incentives to lure companies to set up in Malaysia and supported by a booming shared services and outsourcing (SSO) industry in the region, these augur well for the office market.

KLANG VALLEY RETAIL MARKET

Malaysia, a maturing market with rapid store expansion programmes by both domestic and international players, is reportedly on the radar of new international retailers

Paradigm shift in consumer shopping habits in recent years which may be summed as "Destination versus Convenience"

Outlet mall concept gaining popularity across the country with several outlets slated for opening in 2014 and beyond

With consumers adopting a more prudent spending approach amid rising cost of living, retail market outlook to remain cautiously optimistic

Market Indications

Malaysia's economy expanded 6.2% in 1Q2014 (4Q2013: 5.1%) driven by strong domestic demand and a turnaround in exports. For the subsequent quarters, the central bank expects growth to be within the 5% to 5.5% range as exports momentum continues to improve and advanced economies resume their recoveries.

The Malaysian Consumer Sentiments Index (CSI) remained below the 100-point threshold of confidence (1Q2014: 96.8 points) despite gaining 14.4 points over the preceding quarter which recorded the lowest reading in almost five years. Retail sales grew by 4.9% in 1Q2014, close to the forecast figure of 4.8%, an improvement from its preceding quarter (4Q2013: 3.9%). It is expected to receive a boost from the FIFA World Cup in June and the Hari Raya Aidilfitri festive season in July, with projected 7% and 6.3% expansion in the next two quarters respectively.

Supply & Demand

The review period saw the opening of five shopping malls contributing a combined NLA of approximately 1.8 million sq ft, bringing the cumulative supply of retail space in the Klang Valley to circa 46.5 million sq ft. The new completions include Nu Sentral, Encorp Strand Mall, Gateway @ KLIA2, The Main Place @ USJ 21 and the redeveloped Jaya Shopping Centre. It also saw the re-opening of Klang Parade which was closed for refurbishment.

Meanwhile, the scheduled openings of GLO Damansara (previously known as G Avenue), D' Pulze Shopping Mall and The Place @ One City in 1H2014 have been deferred to later this year.

Nu Sentral, which had its soft opening in 1Q2014, has good growth potential due to its enviable position within the CBD of Kuala Lumpur Sentral. Stesen Sentral, the nation's largest transit hub which currently supports six rail networks - the KLIA Express Rail Link, KLIA Transit, RAPID KL (Putra), KTM Komuter, KTM Intercity and KL Monorail Services enjoys high footfall of transit riders and this augurs well for the newly opened mall. With 650,000 sq ft NLA, the nine-storey Green status mall offers some 287 retail lots for lease with notable anchors and tenants that include Parkson, Hush Puppies, Sephora, Machines, Cotton On, L'occitane, Starbucks, O'Briens and Tony Roma's. Monki, the trendy Scandinavian brand owned by H&M made its debut at Nu Sentral, its first store in Malaysia and South East Asia, occupying circa 2,600 sq ft of space.

The re-opening of Jaya Shopping Centre with a new tagline 'The Heart & Soul of PJ' sees the return of 30% of its original tenants. Anchored by Cold Storage and TGV Cinemas, the neighbourhood mall with 270,000 sq ft NLA has a designated "nouveau entrepreneur" zone offering smaller lots from 100 sq ft to 800 sq ft for rent on Level 4 to foster local retail entrepreneurship.

Monki @ Nu Sentral

1 Mont' Kiara saw the completion of its asset enhancement initiative (AEI) during the review period. The mall remained open for business throughout the whole refurbishment process which provided a new and more open façade, helping to strengthen the retail image of the mall from street side as well as better vertical connectivity, enabling shoppers to have greater access to all levels of the mall. H&M opened its 9th outlet with 15,000 sq ft of retail space over two floors replacing Tony Roma's.

The trend of international retailers seeking an entry into Malaysia, a maturing market, is expected to continue growing in tandem with the rapid store expansion programmes by both domestic and international players.

The rejuvenated Avenue K continues to attract established and new retail brands with Korea's popular lingerie store Yescode making its country debut and ELLE lingerie opening its second outlet (after Sunway Pyramid). The mall is also home to the country's largest outlets of Swedish mega brand H&M, theSkintopic, The Mod House and Original Classic while boasting the largest MUJI and Cotton On stores in South-East Asia and Asia, respectively. H&M Home collection will also be making its way to H&M Avenue K come end July 2014, the first in South East Asia.

Malaysia is reportedly on the radar of French and Japanese department store operators, Groupe Galeries Lafayette and Takashimaya Co Ltd, both exploring entry into the domestic retail market.

Meanwhile, existing operators such as Aeon Co (M) Bhd and Parkson Holdings Bhd continue to announce plans for new store openings and expansion nationwide.

London-based Garrard, the world's oldest jewellery house founded 278 years ago, opened its first boutique in South East Asia, at the Indulge Floor of Starhill Gallery while another entrant in the jewellery business is India-based Joyalukkas which opened its largest showroom at Jalan Masjid India, Kuala Lumpur.

The review period saw timeless British luxury brand, Mulberry and Kate Spade New York opening their second and third flagship outlets at Pavilion Kuala Lumpur respectively. It also marked the arrival of TOMS, the socially conscious brand popular for its shoes. TOMS will now be available at selected Isetan department stores, in KLCC and The Gardens.

Popular Japanese fashion brand, Uniqlo, continues to expand with two latest store openings in May, at Nu Sentral and Johor Baru City Square. Uniqlo aims to further strengthen its business in Malaysia by opening outlets in Sabah and Sarawak as well as states in the east coast.

The food and beverage segment which continues to report steady business operations continues to attract new players.

Juan Valdez, Colombia's iconic coffee house and Caffe Bene, a South Korean themed cafe, debut the increasingly sophisticated coffee-drinking market in Malaysia with the launch of their cafes at The Intermark mall and Sunway Pyramid respectively.

The review period also saw the launch of TWG Tea Salons & Boutiques elegant flagship store at The Gardens Mall, the fifth in Malaysia, catering to all tea lovers.

American dining chain, Johnny Rockets, continues to expand. It opened its second outlet at Avenue K recently and this will be followed by two more openings at Sunway Pyramid and KLIA2 later this year.

Meanwhile, South Korean fried chicken franchise opened its first halal KyoChon outlet at the 1 Utama Shopping Centre.

The newly unveiled TREC lifestyle and entertainment hub on a 7-acre site along Jalan Tun Razak, opposite the upcoming Tun Razak Exchange (TRX), on land owned by the Royal Selangor Golf Club, will assimilate a variety of styles, atmospheres and moods into five separate zones offering casual and fine dining, independent cafes, wine bars, pubs, lounges and clubs. Offering a NLA of 200,000 sq ft, the development will pioneer the one-stop integrated entertainment district that has made the likes of Hong Kong's Lan Kwai Fong, Shanghai's Xin Tian Di and Singapore's Clarke Quay. The first phase of TREC is expected to be completed in 1Q2015.

For the fourth time, Sunway Pyramid was named the 'Best Shopping Mall' in the Malaysia Tourism Awards 2012 / 2013, having previously received the award in 1998, 2004 and 2010 / 2011.

Setia City Mall, Malaysia's first green retail mall, was accorded international recognition with the gold award in the retail category at the Federation of International Real Estate (Fiabci) Prix d'Éxcellence Awards 2014. It has also won The Edge-PAM Green Excellence Award and Fiabci Malaysia Property Award 2013 (winner in the retail category).

By the end of 2014, an impending retail supply measuring some 3.7 million sq ft is slated for completion from shopping centres that includes GLO Damansara, D'Pulze Shopping Mall, The Place @ One City, Quill City Mall, Atria Shopping Gallery, IOI City Mall and Gamuda Walk. These completions will bring the cumulative supply to circa 50.1 million sq ft.

Prime and established shopping centres in Klang Valley, both in the city centre and suburbs continue to enjoy good occupancies (> 90%), these include Suria KLCC, Pavilion Kuala Lumpur, Mid Valley Megamall, The Gardens Mall, Sunway Pyramid, 1 Utama Shopping Centre, Empire Shopping Gallery, Subang Parade, The Mines, Setia City Mall and Paradigm Mall.

TABLE 5

Shopping Centres Scheduled for Completion / Opening in 2H2014

Source: Knight Frank Research

Prices and Rentals

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

IGB REIT's gross rental income grew by a robust 12.6% y-o-y due to tenancy renewals at both Mid Valley Megamall and The Gardens Mall last year; 33% of the NLA at Mid Valley Megamall and 54% at The Gardens Mall were reportedly renewed at a higher rental rate of 15%. Meanwhile, KLCC Property Holdings Bhd also reported higher revenue from its retail rental which went up by RM4.4 million or 3.7%, resulting from higher rates achieved from rental reviews.

Jaya Shopping Centre

Outlook

The retail industry has seen a huge paradigm shift in consumers' shopping habits in recent years that may be summed as "Destination versus Convenience". Most consumers expect their shopping experience to be of a certain standard, yet affordable at the same time for their income range. With heightened competition in the horizon, shopping centres are reinventing themselves into multi-dimensional retail and lifestyle destinations to attract consumers.

There is also a decreasing trend in volume of local shoppers traffic in KL City as international and regional brands vigorously expands and targets the suburban malls making it more reachable as well as convenient for shoppers. Being a retailer's market, landlords continue to strive to maintain the exclusivity of shopping malls particularly in KL City. Hence, the retail industry should work towards grooming the local retailers to be the point of differentiation between shopping malls.

The concept of outlet malls has also gained popularity in the country. Notable upcoming outlet malls include Mitsui Outlet Park KLIA in Sepang, KL International Outlets (KLIO) in Dengkil, Genting Premium Outlets in Genting Highlands, Penang Designer Village, Freeport A'Famosa Outlet Village in Alor Gajah and Sunway Ipoh Premium Outlet.

The outlook for the local retail industry remains cautiously optimistic with consumers adopting a more prudent spending approach due to rising cost of living. The expansion in the retail industry which moderated to 4.5% in 2013 (2012: 5%), is expected to experience a general slowdown going forward in anticipation of the likely hike in overnight policy rate and lower tourist arrivals due to the recent aviation tragedy which has temporarily halted international campaigns for Visit Malaysia Year (VMY) 2014 in China, one of the top five countries in terms of tourist arrivals.

Nu Sentral

KUALA LUMPUR HOTEL MARKET

Kuala Lumpur, the capital city, is the eighth most affordable in the world for a city break according to TripIndex Cities, offering some of the most reasonable first class (4 / 4.5-star) hotel room rates in the world

More international and regional operators / brands are set to make their debut in the country supported by a resilient tourism industry with consistent growth in tourist arrivals and tourist receipts

In conjunction with "Visit Malaysia Year 2014," the country welcomed 7.09 million tourists for 1Q2014, reflecting a 10% growth y-o-y. The ASEAN region continued to be largest contributor of tourist arrivals with 72.1% share

The opening of KLIA2, the world's largest purpose-built low-cost terminal, is expected to boost the country's aviation sector

Market Indications

Malaysia's overall ranking in The Travel & Tourism Competitiveness Index 2013 improved by one position to 34th place since the last report by the World Economic Forum in 2011. The country, ranked 8th in the Asia Pacific region, is one of the three South East Asia nations that made it to the top 10, with Singapore holding top rank and Thailand at 9th place.

The tourism industry was the sixth largest contributor to the country's economy in 2013, contributing some RM51.5 billion to its Gross National Income (GNI).

The country marginally missed its 2013 target of 26 million arrivals despite posting a 2.7% gain y-o-y, with arrivals recorded at 25.72 million (2012: 25.03 million). This was due to the delayed opening of KLIA2 and the critical haze condition in mid-2013 amongst other reasons. On the contrary, tourist receipts, performed above expectation, posting 8.1% growth y-o-y to record at RM65.44 billion (2012: RM60.56 billion), reflecting higher average tourist spending of RM2,544.90 per capita (2012: RM2,419.10) in line with the broad objectives of the National Key Economic Areas (NKEA) and Malaysian Tourism Transformation Plan (MTTP) to increase yield per tourist.

ASEAN countries remained the largest contributor of tourist arrivals, accounting for approximately 74.3% share of total arrivals. Cambodia and Vietnam are the two ASEAN countries that registered double-digit growth at 28.6% and 11.7% y-o-y. Although arrivals from Brunei Darussalam and Thailand contracted 1.5% and 8.4%, these two countries remained Malaysia's top five countries in tourist arrivals at 3rd and 5th position respectively. China, ranked 4th position, saw an upsurge in arrivals posting a notable 14.9% growth.

For the first quarter of the year, the country welcomed 7.09 million tourists, a 10% improvement from the same period last year. Tourist arrivals from China, however, moderated to record at 5.5% growth (2013: 14.9%) following the aviation tragedy (MH370) in March.

The Ministry of Tourism and Culture which has temporarily postponed its road show to promote Visit Malaysia Year (VMY) 2014 in China, is now shifting its focus to other countries that include ASEAN member countries, India, Middle East and Europe.

The long awaited Kuala Lumpur International Airport 2 (KLIA2), the world's largest purpose-built low-cost terminal for low cost carriers with a capacity to serve 45 million passengers annually, finally commenced operations on 2nd May. It currently hosts about 10 frills-free airlines. Tune Hotels has also opened its brand new 400-room Tune Hotel KLIA2 on 9th May.

During the review period, Malaysia welcomed Saudi Arabia's first low cost carrier, Flynas. Flynas will serve the Kuala Lumpur – Jeddah flights three times weekly. The budget airline also launched its new long-haul flight routes to Europe, Asia and Africa. Meanwhile, Air Asia, Malindo and Firefly are also increasing flight frequencies to existing destinations and adding new routes in support of the VMY 2014 campaign.

The Malaysia Convention and Exhibitions Bureau (MyCEB), established with a mandate to grow business tourism in Malaysia, specifically in the area of meetings, incentives, conventions and exhibitions (MICE), expects business tourists to contribute some RM20.3 billion to the national economy this year. This is based on the increased awareness of Malaysia as a destination for MICE events coupled with the country's value for money proposition and diverse culture.

Malaysia recently bagged three top honours at the Travel + Leisure India & South Asia Magazine India's Best Awards 2013. The country won The Best Green Destination (World) 2013 award while Langkawi picked up the Best Honeymoon Destination Runners-up award and the Kuala Lumpur International Airport (KLIA), the Best Airport (World) Runners-up award, respectively.

Malaysia also bagged the Best Family Destination Award at the Lonely Planet Magazine India Travel Awards 2014.

Malaysia maintained its position as the world's friendliest destination for Muslim travellers in this year's rankings for "halal" friendly holiday destinations released by Singapore-based Muslim travel specialist Crescentrating, an accolade it has enjoyed since 2011, ahead of countries such as the United Arab Emirates, Turkey, Indonesia, Saudi Arabia and Singapore. In 2013, tourist arrivals from Muslim countries accounted for circa 23% of total arrivals to the country and in conjunction with VMY 2014, Malaysia targets to attract more tourists from this niche market.

Supply & Demand

With no completion in 1H2014, the cumulative supply of 5-star hotel rooms remained unchanged at 11,530.

The review period saw the opening of the 319-room 4-star Silka Cheras Kuala Lumpur. Managed by Dorsett Hospitality International, the hotel adjoins the refurbished Cheras Sentral Mall (formerly Plaza Phoenix). With this opening, the cumulative supply of 4-star hotel rooms increased to 8,567.

As at June 2014, the total cumulative supply of both 4-star and 5-star hotel rooms in Kuala Lumpur stood at circa 20,097.

During the review period, the average occupancy rate for selected 4-star hotels declined significantly by 7.9% to record at 68% (2H2013: 74%) while for 5-star hotels, it remained unchanged at 75%. Notable 4-star hotels that achieved occupancy levels in excess of 80% include Hotel Royal (formerly The Coronade Hotel Kuala Lumpur), Dorsett Regency, Melia Kuala Lumpur and Novotel while those in the 5-star category include JW Marriott, Le Meridien, Park Royal, Shangri-La and Grand Millennium.

Malaysia's hospitality industry continues to attract the interest of international and regional operators.

The integrated development of Pavilion Kuala Lumpur will see the addition of a RM330 million 5-star hotel, the last of its four major components. The 329-room Royale Pavilion Hotel is slated for completion in 2016 with room rates expected to be competitive with that of similar grade hotels in the Bukit Bintang belt.

Fairmont Hotel & Resorts, a luxury brand in the FRHI Hotel & Resorts (FRHI) portfolio has entered into an agreement with Cititower Sdn Bhd, a joint-venture (JV) between Qatari Diar Real Estate Investment Company and KLCC (Holdings) Sdn Bhd, to open its first property in Malaysia. Fairmont Kuala Lumpur, which is set to debut in 2017, will be located within the KLCC development. It will feature a 62-storey luxury hotel offering 750 well-appointed guestrooms along with an executive lounge and Fairmont Gold, the luxury

The Ritz Carlton, Kuala Lumpur

brand's hotel within a hotel offering. Fairmont Kuala Lumpur will also feature six dining outlets as well as 30,000 sq ft of meeting and banquet space and recreational facilities including a swimming pool, health club and spa. The integrated project will also comprise one high-rise office tower which will be connected to a six-storey retail podium.

TA Global Bhd, one of the largest landowners in the KLCC vicinity, is actively looking to develop its 2.47-acre car park lot into a five-star hotel cum serviced apartment project. The project, tentatively known as TA 3 and TA 4 is strategically located along Jalan P Ramlee, Kuala Lumpur, just across the Petronas Twin Towers. According to TA Global's annual report, TA 3 and 4 will comprise twin buildings that will house a five-star hotel and a branded serviced residence with a four-level podium of retail, food and beverage outlets and lifestyle facilities. Building plans for this project was approved in February 2014 and the earthworks are expected to commence in the third quarter of this year once relevant building construction approval is obtained. Upon completion, the project is expected to register a gross development value (GDV) of approximately RM1.4 billion. The company is currently in negotiation with an international hotel chain to brand and operate the hotel and serviced residences.

Meanwhile, Singapore-listed Oxley Holdings Ltd which paid benchmark pricing for a 3.11-acre tract along Jalan Ampang (RM3,300 per sq ft) at the end of last year, is planning a RM3.5 billion mixed-use project dubbed Oxley Towers on the site. It will feature two 6-star hotels, posh serviced apartments, a niche retail mall and MSC-status custom-built offices. The company will seek international hotel operators from the United States and the Middle East who will operate in Malaysia for the first time. Five-star hotel chains, Jumeirah and Waldorf Astoria, are speculated to have shown interest in the development.

KSK Land Sdn Bhd, the property arm of KSK Group Bhd, has recently completed the acquisition of a 3.95-acre piece of land in Jalan Conlay, next to Prince Hotel & Residence, also for RM3,300 per sq ft. It plans to develop a mixed use project, 8Conlay, consisting of three towers and a 200,000 sq ft retail podium. There will be a 60-storey tower housing a 5-star hotel and serviced apartments and two 50 and 55-storey luxury condominium blocks. KSK is considering between Kempinski and Nevada-based gaming and hospitality company, MGM Resorts International, to operate its 5-star hotel, which will comprise 260 rooms and 350 long-stay apartments. Kempinski, an international hotel chain founded in Berlin, Germany, in 1897 is majority controlled by Thailand's Crown Property Bureau.

Accor, the French hotel group which currently operates eight hotels with 2,520 rooms in Malaysia under the Pullman, Novotel and Ibis Styles brands is rapidly expanding its network nationwide. It has 15 new hotels in the pipeline which will provide circa 2,600 rooms by 2016.

Two hotel brands under Marriott International – Marriott and The Autograph Collection are slated to operate at Phase One of Empire City @ Damansara while a third brand, The Ritz Carlton, may also open at Empire City 2. The developer, Mammoth Empire Group, is also planning to add two more WOLO hotels – one at Empire Remix USJ Subang and another at Jalan Tun H S Lee to its existing portfolio. There are plans to convert the existing Wisma Megah (formerly Bangunan Hong Leong), located at the corner of Jalan Tun HS Lee and Jalan Tun Tan Cheng Lock, into a 188-room boutique hotel.

The Hainanese coffee shop, Yut Kee at Jalan Dang Wangi, will make way for an 8-storey 80-room boutique hotel with a restaurant on the ground floor. The proposed boutique hotel will sit on two shoplots with combined land area of about 4,000 sq ft land.

Average Room Rates & Capital Value

According to TripAdvisor's TripIndex Room Service 2014, Kuala Lumpur has some of the most reasonable first-class (4 / 4.5-star) hotel room rates in the world. The capital city came in fifth out of 48 countries in terms of combined room service item prices and room rates (RM437.85).

Kuala Lumpur has also been named the eighth most affordable destination in the world for a city break, according to TripIndex Cities, a TripAdvisor annual cost comparison study.

As at April 2014, average room rates (ARR) for both selected 4-star and 5-star hotels saw increments of 1.5% and 3.6%, recording at RM220 (2H2013: RM216) and RM372 (2H2013: RM359) respectively.

Aloft Kuala Lumpur Sentral, The Boulevard - St Giles Premier Hotel, Concorde Hotel, Federal Hotel, Novotel and Piccolo were among the 4-star hotels recording an ARR above RM250 while 5-star hotels achieving ARR above RM450 include The Ritz Carlton, Shangri-La and Westin.

FIGURE 3

Supply and Occupancy Rate of Selected 4-Star & 5-Star Hotels in KL City

2005 - April 2014

Source: Knight Frank Research / MIHR

Outlook

The opening of KLIA2 will significantly boost the country's aviation sector and play a pivotal role in lifting Malaysia's appeal as a transit hub for low-cost carriers. This coupled with the entry and expansion of luxury hotel brands, catering to the growing needs of high-end travellers, augurs well for the hospitality industry.

The country's target for VMY 2014 remains at 28 million tourists and RM76 billion in tourism receipts despite the recent aviation tragedy. Promotional campaigns in other countries as well as increased flight frequencies and new routes are expected to help cushion the decline in tourist arrivals from China.

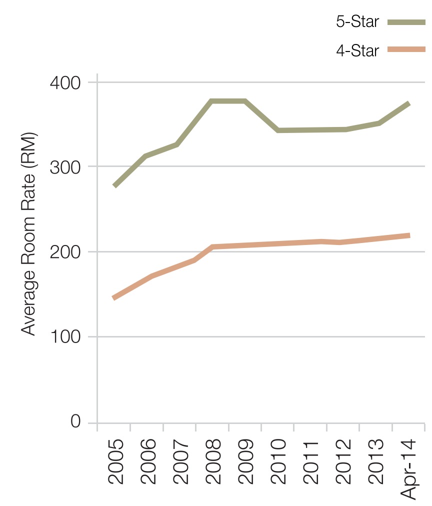
ASEAN countries will continue to be the largest contributor of tourist arrivals. This year, Tourism Malaysia aims to achieve RM41 billion in revenue from some 20 million ASEAN tourists.

The outlook for the hospitality sector is expected to remain optimistic in the medium to long term supported by a resilient tourism industry with high tourist arrivals and corresponding receipts.

FIGURE 4

Average Room Rate of Selected 4-Star & 5-Star Hotels in KL City

2005 - April 2014



Source: Knight Frank Research / MIHR

PENANG PROPERTY MARKET

Sultan Abdul Halim Muadzam Shah Bridge (Second Penang Bridge) officially opened on 1st March 2014

In 2013, foreign direct investments (FDI) flow in Penang's manufacturing sector amounted to RM3.9 billion, up from RM2.4 billion in 2012

The Penang State Government imposed a 3% levy on purchases of properties by foreigners, effective 1st February 2014

Market Indications

Both Kuala Lumpur and Penang-based developers are planning to develop RM4.56 billion worth of residential and commercial projects in Penang in 2014 - RM1.86 billion on the mainland of Seberang Prai and RM2.7 billion on the island

On the mainland in Batu Kawan, Aspen-Ikano had purchased 245 acres of land for RM483.95 million to be developed by Ikano Pte Ltd into an integrated shopping mall that will be anchored by an Ikea store as its 1st phase together with a mixed development of offices and residences in the future.

The service industry, which the tourism /hospitality sector plays a major role, is one of the two main economic drivers for Penang, the other being the manufacturing sector. The impending completion of the Subterranean Penang International Convention and Exhibition Centre (SPICE) in 2015 and the Penang Waterfront Convention Centre (PWCC) in 2017 will gear up demand for hotel rooms in Penang. In anticipation of the increase in visitors for the meetings, incentives, conventions & exhibitions (MICE) market as well as for leisure; several hotels are either under construction or planned on the island. Hotels scheduled for opening in 2014 include The Royale Bintang Penang at the Weld Quay waterfront (opened in March 2014), the RM300 million The Rice Miller and Godowns also at Weld Quay; IGB Corp's two hotels (both 234 rooms) - The Wembley - St Giles Premier Hotel and Cititel Express Penang along Jalan Magazine and the 208-room G Hotel Kelawei (G Hotel's extension).

Future openings from 2015 through to 2017 include a five-star 23-storey 339-room hotel along Jalan Sultan Ahmad Shah by Bintang Holdings, a 225-room hotel in Tanjung Tokong by WHH Land, 218 Macalister which offers 200 hotel rooms in addition to serviced suites, the RM25 million Victoria Street Hotel, the RM33.8 million OZO Hotel and an unnamed RM80 million boutique hotel along Penang Road in George Town. Angsana Telok Bahang, a 272-unit hotel / hotel suite development where the hotel suites are sold on a leaseback basis to be operated and managed by the Banyan Tree Group, is expected to open its doors in 2017.

International arrivals directly into the Penang International Airport in 2013 numbered 671.2 thousand versus 614 thousand in 2012, indicating a growth of 9.3% (statistics obtained from Penang Global Tourism). Domestic arrivals also increased to 1.5 million in 2013 from 1.2 million in 2012.


Angsana Teluk Bahang

High End Condominium

There are not many new launches of high-end condominiums in 1H2014.

Andaman Edition 18 East at Seri Tanjung Pinang by E & O offers 8 layouts; 1 bedroom units sized from 877 sq ft to 1,123 sq ft; 1+1 bedroom units at 1,180 sq ft; 2 bedroom units sized from 2,036 sq ft to 2,057 sq ft and 3 bedroom units from 2,770 sq ft to 2,834 sq ft. Prices for the semi-furnished units start from RM1,500 per sq ft.

Angsana Teluk Bahang - all the 150 hotel suites offered for sale are designed as 2-bedroom units either on a single or dual key concept. The standard units are generally sized from 1,027 sq ft to 1,169 sq ft whilst penthouse units with private gardens vary from of 2,360 sq ft to 3,050 sq ft in area. Prices start from RM1,930 per sq ft for the beach front block and from RM1,635 per sq ft for the landward block. All the units come with a full furniture and appliance package, with quality finishes and fittings synonymous with the Banyan Tree Group's five-star Angsana brand. Purchasers are automatically enrolled into the coveted Sanctuary Club.

It should be noted that 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.

Compared to 2H2013, there were even lesser secondary sale transactions in 1H2014 for condominiums sized from 3,500 sq ft to 6,000 sq ft but prices were maintained. Units in the older completed projects within the prime areas of Tanjung Bungah and Pulau Tikus were generally transacted at prices ranging from RM480 per sq ft to RM650 per sq ft whilst those in newer developments command a higher range of RM600 per sq ft to RM850 per sq ft. Smaller sized units at the newer developments in Gurney Paragon and Seri Tanjung Pinang have resold at prices of RM800 per sq ft to RM1,100 per sq ft.

Asking rentals for fully furnished units in newer developments range from RM9,000 to RM12,000 per month whilst unfurnished units are asking RM7,000 to RM8,500. In older condominiums, asking rentals range from RM5,000 to RM8,500 per month.

Office

The supply of office space (buildings of 10-storeys and above) on Penang Island in 1H2014 has been reduced to 5.59 million sq ft following the sale of 10 floors of office space together with 50 car park bays in the 25-storey Menara Liang Court along Jalan Sultan Ahmad Shah. There are plans to convert the space into 55 units of SoHo suites with resort style residence.

Average occupancy rate of the two more prime office buildings in the city stands status quo at 2H2013's level of 98% with rentals remaining unchanged in the range of RM2.50 per sq ft to RM2.80 per sq ft per month. At the newer Gurney Paragon Office Tower which opened last year, rental rates are higher at RM3.30 per sq ft per month.

Outside the city, Suntech and Menara IJM Land, have an average occupancy rate of about 95%, up 1% from 2H2013. Rental rates, range from RM2.80 per sq ft to RM3.50 per sq ft per month.

Retail

The existing supply of purpose-built shopping space on Penang Island remains unchanged at the 2H2013's level of 6.69 million sq ft.

The older prime shopping malls on the island have maintained their average occupancy rate of 96% since 1H2013. Occupancy at the newest prime mall, Gurney Paragon Mall, currently averages about 70% though commitment of space is more than 80% secured. For secondary shopping malls, average occupancy rates for 1H2014 generally range from 65% to 94%.

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

Outlook

Effects of the numerous cooling measures put in place to arrest speculation have begun to affect the market. Generally, the volume of transactions has dropped and is expected to decline further over the next half year.

With the opening of Sultan Abdul Halim Muadzam Shah (2nd Penang Bridge) and the Penang State Government's emphasis on the Seberang Perai South growth corridor of Batu Kawan, numerous developments have been proposed and confirmed here and this has resulted in much excitement and interest being currently focused on this area.

Generally, the condominium market is expected to see further consolidation in terms of volume of sales. Demand for quality prime office space is set to grow and this augurs well for the office market. The retail market, on the other hand, is becoming more competitive resulting in more intense pressure on rentals in the less popular malls. However, the performance of prime malls are not anticipated to be impacted negatively as they are still enjoying very good occupancy and rental rates.

TABLE 6
Future Supply of Retail Space within Georgetown

Project	Estimated Net Lettable Area (sq ft)	Expected Completion
Penang Times Square Phases 3, 4 & 5 [1]	500,000	Phase 3 - 2018 Phases 4 & 5 - 2020

[1] *Planned*

Source: Knight Frank Research

Remark: Knight Frank Malaysia is the appointed retail development consultant for Penang Times Square

JOHOR BAHRU PROPERTY MARKET

Land transactions in Iskandar Malaysia, especially in certain preferred areas, have remained active

Despite a series of property cooling measures, local and foreign investors are still showing keen interest.

R&F Tanjung Puteri

Market Indications

As at end of April 2014, Iskandar Malaysia has registered a cumulative investments of RM138.61 billion, with Singapore being the highest investor at about RM11 billion. 45% of the total investment has been realized.

Another China-based developer, Guangzhou R&F Properties Co Ltd has forayed into the Iskandar Malaysia property market after acquiring six plots of land totalling 116 acres in Johor Bahru city centre for RM4.5 billion (or circa RM891 per sq ft) from the Sultan of Johor in December 2013. The first phase of the development is expected to be launched in 3Q2014.

Guangzhou R&F's record deal in the Iskandar region was swiftly surpassed within the same month, when Singapore-registered developer Hao Yuan Investment Pte Ltd paid RM1.6 billion for a 36.8-acre land at Danga Bay, analysed at RM998 per sq ft. It has formed a joint-venture (JV) company with the vendor, Iskandar Waterfront Holdings Berhad (IWH), to develop the area.

Also in December 2013, Tebrau Teguh Berhad tied up with Golddust United Sdn Bhd, a wholly owned unit of Tropicana Corp Bhd, to jointly develop a partially submerged site at Plentong measuring 84.6 acres into an RM3.7 billion mixed-use project. A special purpose vehicle, Renown Dynmaics Sdn Bhd, was formed to acquire the leasehold land for RM444.31 million. Tebrau Teguh will carry out reclamation work to resurface 60 acres of the land at an estimated cost of RM190 million.

In early February 2014, Kuala Lumpur Kepong Berhad (KLK) and UEM Sunrise Berhad teamed up to jointly develop two projects in Iskandar Malaysia with expected total gross development value (GDV) of RM20 billion. The first development is on a 2500-acre land at Kulaijaya owned by KLK whilst the second is a 500-acre land at Gerbang Nusajaya, owned by UEM Sunrise. Both parties exchanged their lands at the price of RM871.2 million - KLK selling its land at Fraser Metropolis for RM8 per sq ft while UEM Sunrise is unlocking the value of its parcel at Gerbang Nusajaya for RM40 per sq ft via the incorporation of two JV vehicles.

LBS Bina Group Berhad acquired two parcels of leasehold land totalling 4.32 acres in Johor Bahru city centre from the Employees Provident Fund (EPF) in February 2014 for RM71.82 million (or circa RM382 per sq ft). Together with its existing adjoining land bank of 1.18 acres, LBS plans to develop a mixed residential and commercial project which will generate approximately RM20 million.

In another move, LBS Bina inked a deal with a unit of Yayasan Pelajaran Johor (YPJ) in April 2014 to jointly develop four parcels of leasehold land measuring 14.16 acres at Tampoi. The estimated GDV from the project which will comprise serviced apartments and affordable homes, is RM815 million.

In March 2014, China's Country Garden together with Kumpulan Prasarana Rakyat Johor (KPRJ) revealed their plans for a massive reclamation project to build luxury homes near Pendas / Tanjung Kupang, the second link crossing to Singapore. According to sources, the project, dubbed Forest City, spanning nearly 5,000 acres of part of the Straits of Johor, could be the largest reclamation project in the country.

Through the acquisition of a property development company, Precious Quest Sdn Bhd, Glomac has in March 2014 obtained the rights to develop a piece of leasehold land at Kulaijaya measuring circa 174 acres. The deal was concluded at RM22.768 million or circa RM3 per sq ft.

In April 2014, one of China's biggest state-owned companies, The Greenland Group invested RM600 million to acquire close to 14 acres of land at Danga Bay area from IWH (or circa RM987 per sq ft). The high-profile developer is reportedly in talks with IWH and its associated companies for more land acquisitions.

The Iskandar Regional Development Authority (IRDA) has put up a proposal to the Prime Minister in December 2013 to start a community-based solar power project in Iskandar Malaysia. Under the project, community-based organisations can sell the solar power to Tenaga Nasional to generate revenue.

The special tax holidays and other incentive packages previously exclusive to investments within Medini in Nusajaya, have been extended to three other nodes in Iskandar Malaysia, in Iskandar Malaysia, namely Danga Bay (tourism), Pinewood Studios (creative projects) and Vantage Bay (healthcare) to accelerate and spearhead to accelerate and spearhead Iskandar Malaysia into the next level as it aims to become an international metropolis by 2025.

Beginning May 1, Johor will implement the minimum threshold of foreign property ownership to RM1 million and this is applicable to housing projects approved after that date. In another measure, the Johor government has also barred locals from selling agricultural land to foreigners.

On the industrial front, India's biopharmaceutical company, Biocon started its operation at the Bio-Xcell biotech park at the end of January 2014. With an investment of over US$160 million, the country's largest foreign investment in this sector, Biocon has been recognised as an Entry Point Project (EPP) by the government.

Another major foreign investor, The Hershey Co, which announced its RM816 million confectionery plant at Senai last year, has commenced construction of its facilities. This investment is expected to generate up to 400 jobs in the next two years.

Petroliam Nasional Berhad (PETRONAS), has approved the final investment of RM88.6 billion for the development of the Pengerang Integrated Complex (PIC) in April 2014. The project entails a world scale Refinery and Petrochemical Integrated Development (RAPID) and associated facilities, spanning an area of about 6,240 acres of land. At the same time, the Phase 1A terminal in Pengerang by Dialog Group Berhad has commenced its operation. With 25 tanks and a total storage capacity of 432,000 cubic metres, it will complement the PIC project.

Imagica Corp, one of Japan's leading production and post-production companies, has invested RM9 million to form a JV company with Khazanah Nasional Berhad to set up a post-production facility at the Pinewood Iskandar Studios Malaysia.

UEM Sunrise Berhad and Mulpha International Berhad formed a 59:41 JV for the construction of three road projects in the vicinity of Iskandar Malaysia valued at RM107 million in May. The road works, spanning a total 8.3 kilometres, will be completed in phases by December 2018. The project is aimed at creating and upgrading roads in Gelang Patah and Gerbang Nusajaya to jointly serve the growing population there.

Hotel Selesa and Menara Metropolis, the city hotel and office block which have been long in operation in Johor Bahru city, changed their ownership in February 2014 to Smartwheels Group, a Johor-based Bumiputera company for a consideration of RM125 million. The new owner will invest RM20 million to refurbish the hotel and another RM10 million to upgrade the office tower.

Residential

There were several launches in the first half of 2014, comprising high-rise and landed developments. Some of the notable landed developments are as follows.

Eco Spring and Eco Summer, a 613.8-acre mixed development with combined GDV of RM5.87 billion by Eco World Development Sdn Bhd. Located in the Tebrau Corridor, the freehold development offers 864 units of 2-storey terraced, cluster and semi-detached houses. The terraced houses with built-up areas from 1,875 sq ft to 2,700 sq ft are priced between RM1 million and RM2.1 million while the cluster and semi-detached homes having built-up areas from 1,980 sq ft and 3,000 sq ft onwards are priced from RM1.6 million and RM2.88 million respectively.

Oleander cluster homes by IOI Properties Berhad located within the on-going Taman Kempas Utama in Kempas. The development comprises 180 units of double-storey and 2.5-storey cluster houses with built-up areas between 2,628 sq ft and 3,111 sq ft, priced from RM1.06 million to RM1.7 million.

The Avira Garden Terraces, located at Medini by Nuri Merdu Sdn Bhd, a JV company between Eastern & Oriental Berhad, Khazanah Nasional Berhad and Singapore's Temasek Holdings. The soft launch in May saw the 208 units of terraced houses receiving 70% booking over a weekend. The units with built-up areas of about 2,200 sq ft are priced at slightly below RM1.3 million each.

Bandar Meridin East, a 1,352-acre freehold township at Pasir Gudang by Mah Sing Group Berhad has also opened for registration. The self-contained township will kick off with double-storey terraced, linked semi-detached and semi-detached houses (estimated built-up areas of 1,500 sq ft, 1,800 sq ft, and 2,200 sq ft) at indicative pricing of RM300,000, RM400,000 and RM500,000 respectively while the shop offices (estimated built-up area 3,000 sq ft) will be priced at circa RM500,000 each.

Compared to 2013, new property launches in 1H2014 have reduced in volume and recorded a lower take-up rate. However, property prices by developers are still on the hike, especially for landed homes.

Southkey Mosaic

Office

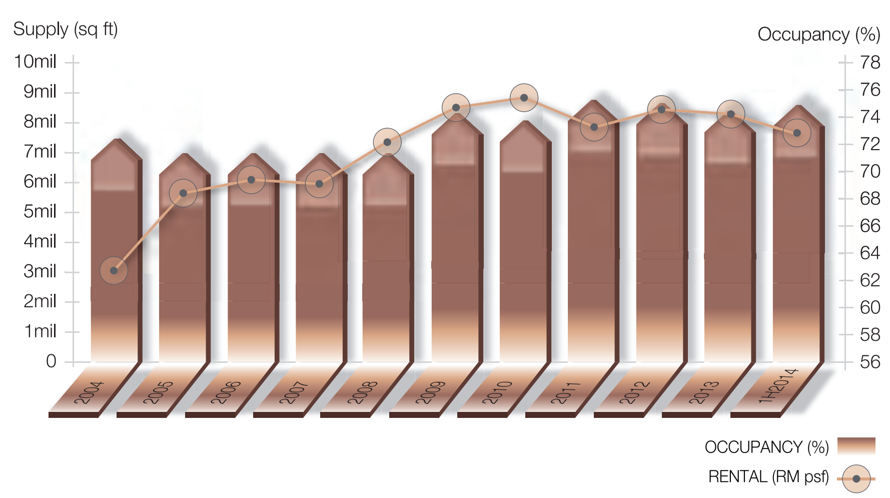
As at 1Q2014, the total net lettable area (NLA) of purpose-built office space which includes private buildings and government buildings in Johor Bahru stands at approximately 8.5 million sq ft with an overall average occupancy rate of about 73.1%.

Private buildings which currently accounts for approximately 70% (5.94 million sq ft) of purpose-built office space in Johor Bharu have an average occupancy of about 71.7%. Rentals for prime and non-prime CBD office space remained stable with asking rental rates for prime space ranging from RM2.50 per sq ft to RM3.30 per sq ft per month while non-prime office space command rental rates between RM1.80 per sq ft and RM2.50 per sq ft per month. These rates are generally inclusive of the provision of shared services comprising centralized air conditioning, security and cleaning services at the common areas.

Being the first purpose-built office in Medini, Medini 6 which comprises four two-storey blocks and a cafeteria with a total GFA of 80,000 sq ft, is completed in 2Q2014. Within April and May, it has secured two tenants namely Huawei, a leading global ICT provider, and Goldbury Communications Sdn Bhd, an IT automative consultant. Medini Iskandar Malaysia Sdn Bhd, the master developer of Medini is also in the midst of constructing Medini 7, an adjacent office building with a total GFA of 140,000 sq ft, slated for completion by April 2015.

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

FIGURE 5
Office Supply and Occupancy Trend in Johor Bahru
(2004 – 1Q2014)



Source: Knight Frank Research / NAPIC

Retail

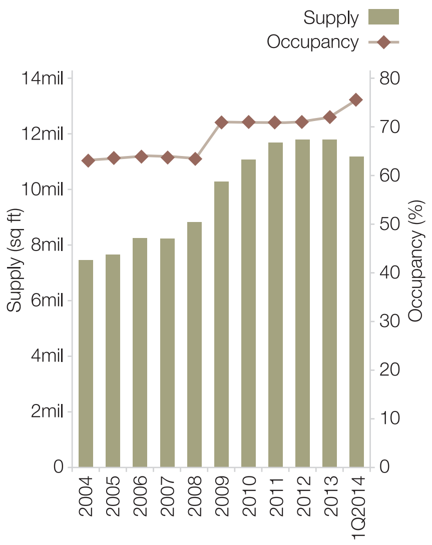
As at 1Q2014, the total NLA of retail space (includes shopping centres, arcades and stand-alone hypermarkets) in Johor Bahru stands at 11.16 million sq ft with average occupancy at 75.6%. Prime retail space continued to perform well with occupancy rates recorded in excess of 80%, commanding gross rentals ranging from RM15 per sq ft to RM40 per sq ft per month.

Capital 21 @ Capital City, a themed retail development, is part of a JV initiative between developers, Hatten Group Sdn Bhd, Sunbuild Development Sdn Bhd and contractor, Gadang Holdings Bhd. The first phase of the RM2.2 billon integrated project named Capital City will provide some 1 million sq ft of retail space to the market when completed in 2018.

Southkey Megamall, a JV between Kota Southkey Sdn Bhd and IGB Corporation, is expecting more than two million shoppers per month when its first phase opens for business in 2016 / 2017, with about 350 to 400 tenants.

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

FIGURE 6
Retail Supply and Occupancy Trend in Johor Bahru
(2004 – 1Q2014)



Source: Knight Frank Research / NAPIC

TABLE 7
Notable Land Transactions in Iskandar Malaysia

Transaction Date	Purchaser	Land Size (acres)	Purchase Price (RM)	Location
Dec-2013	Guangzhou R&F	116.0	4.2 billion	Johor Bahru City
Dec-2013	Hao Yuan	36.8	1.6 billion	Danga Bay
Dec-2013	Renown Dynamics Sdn Bhd	60.0	444.3 million	Plentong
Feb-2014	LBS Bina Group Bhd	4.32	72 million	Johor Bahru City
Mar-2014	Glomac Bhd	174.2	22.8 million	Kulaijaya
Apr-2014	Greenland Group	14.0	600 million	Danga Bay

Source: Knight Frank Research

Outlook

The review period saw the implementation of a series of cooling measures which include the 2% levy on foreign buyers, abolishment of Developer Interest Bearing Scheme (DIBS), the hike in minimum threshold of foreign property ownership to RM1 million and the ban on foreigners buying agricultural land. Top that with a high incoming supply of high-rise residential and retail space especially in hotspots like Nusajaya and Danga Bay, some developers have started shifting their focus to township developments or business parks at the suburbs.

The iProperty.com Asia Property Market Sentiment Report 2014 revealed that purchasers in Malaysia are adopting a cautious approach in property purchase and investment amid concerns on affordability and rising house prices. However, the same report also noted that some 51% of Singaporean respondents expressed strong interest to invest in Iskandar Malaysia, with landed property being their first choice. It is anticipated that the strong Singapore dollar will continue to drive Singaporeans to invest in the Iskandar region.

Going forward, despite the seemingly slowdown in housing demand in 1H2014, the property market is expected to remain firm with more activities from developers and property buyers alike anticipated in 2H2014. However, broadly compared to 2013, we anticipate 2014 to be a year of consolidation for the property market, with price correction on certain property sectors especially high-rise residential in particular location.

TABLE 8
Notable High-Rise Residential Launches in Iskandar Malaysia

Development Name	Location	No. of Units	Built-up Area (sq ft)	Price (RM psf)
Bora Residences	Danga Bay	396	694 - 1,500	1,100 - 1,300
Almas Suite	Puteri Harbour	546	520 - 2,221	750 - 945
Havona	Mount Austin	1,148	953 - 2,312	From 483
Botanika	Bayu Puteri	264	1,126 - 1,422	From 550
Southkey Mosaic	Kota Southkey	584	676 - 1,509	896 - 1,030
Crescent Bay Suites	Bayu Puteri	408	779 - 1,242	From 734
Tower F, Marina Cove	Tebrau	252	526 - 1,344	700 - 900
The Signature Molek Regency	Taman Molek	1,050	640 - 2,855	From 470
Marina Residences	Bayu Puteri	200	1,200 - 1,500	From 600
Green Haven	Kota Puteri	1,134	698 - 1,598	From 720

Source: Knight Frank Research

Botanika

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