RESEARCH

Knight Frank

REAL ESTATE HIGHLIGHTS

1ST HALF 2017

KUALA LUMPUR | PENANG | JOHOR BAHRU | KOTA KINABALU

HIGHLIGHTS

Subdued high-end condominium market with developers scaling back on new property launches amid continued weak demand.

With potential purchasers and investors waiting on the side-lines, developers continue to tweak their marketing strategies to sustain earnings through "stock clearing" of completed and on-going projects.

Limited completions of high-end condominiums / residences during the review period.

Secondary pricing in selected locations remained flat while rentals continued to be under pressure.

China's capital control impact projects targeting buyers from mainland China.

KUALA LUMPUR HIGH END CONDOMINIUM MARKET

ECONOMIC INDICATORS

Malaysia's economy rebounded in 1Q2017 with Gross Domestic Product (GDP) expanding at 5.6% (4Q2016: 4.5%), driven mainly by higher private expenditure. For 2017, the country's GDP growth forecast range between 4.3% and 4.8%, supported by gradual improvement in the global economy and domestic demand.

Headline inflation for 1Q2017 was higher at 4.3% (4Q2016: 1.7%), driven mainly by high transportation cost. The annual inflation for 2017 is expected to be in the region of 3.0% to 4.0% (2016: 2.1%).

The labour market condition for 1Q2017 remained stable, with the unemployment rate of 3.5% (4Q2016: 3.5%).

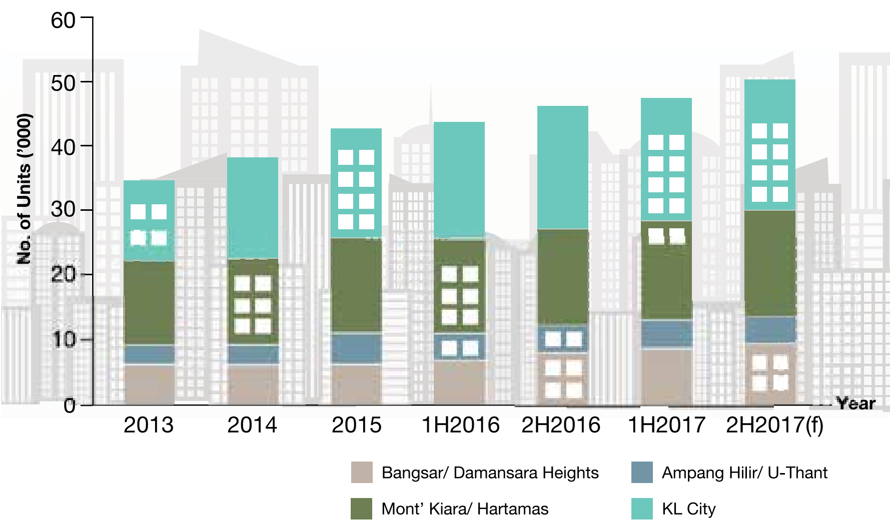
To remain accommodative to economic activity and to support domestic demand, Bank Negara Malaysia (BNM) continued to maintain the Overnight Policy Rate (OPR) at 3.0%.

As for residential property purchase, the ratio of approvals to applications for 1Q2017 was lower at 40.4% (4Q2016: 44.3%). Meanwhile, 1Q2017 also saw a marginal increase in the total outstanding / non-performing loans in the housing sector to RM5.54 billion (4Q2016: RM5.41 billion).

The Sentral Residences

FIGURE 1

Projection of Cumulative Supply for High End Condominiums / Residences 2013 - 2H2017(f)



Note:
(1) (F) = Forecast
(2) The locality of Bangsar includes Bangsar, Bangsar South, KL Sentral, KL Eco City and Pantai Sentral Park

Source: Knight Frank Research

TABLE 1

Completion of High End Condominiums / Residences in 1H2017

Name of Scheme	Location	No. of Units
The Sentral Residences	KL Sentral	752
Arcoris Mont' Kiara	Mont' Kiara	331
28 Dutamas	Dutamas	250

Source: Knight Frank Research

SUPPLY & DEMAND

During the period under review, the high-end condominium market in Kuala Lumpur remained subdued with lesser market activity as potential buyers and investors continued to adopt the 'wait-and-see' approach.

Amid weak market sentiment, Wilayah Persekutuan Kuala Lumpur (WPKL) recorded lower volume and value of transactions in the condominium / apartment segment with 1,247 transacted units valued at RM975.88 million in 1Q2017, 12.2% and 5.9% lower than the previous quarter (4Q2016: 1,420 units valued at RM1.04 billion).

The cumulative supply of high-end condominiums / residences stood at 47,380 units in 1H2017 following the completion of three projects contributing a total of 1,333 units. They are The Sentral Residences (752 units); Arcoris Mont' Kiara (331 units) and 28 Dutamas (250 units).

By the second half of 2017, another eight projects totalling 2,979 units are scheduled for completion, five of which comprise of hotel branded / managed projects which made their wave since 2013. They are The Ritz-Carlton Residences (288 units); Four Seasons Place (242 units); Tribeca Bukit Bintang (318 units); The Ruma Residences (199 units) and The Establishment (521 units).

The Ritz-Carlton Residences

These developments, leveraging on international and regional class hotel brands, continue to raise the standard of luxury living in Kuala Lumpur. They will join the 2016 maiden completions

Four Seasons Place

TABLE 2

Notable Launches in 1H2017

Name of Development	**KL Metropolis** (MET 1 - Serviced Residences)	**Isola @ KLCC**	**Dorsett Residences Sri Hartamas (Phase 1)** (previously marketed as Hermitage)
Type	SR	SA	SR
Developer	Naza Corp Holdings Sdn Bhd	Masbee Coffee Sdn Bhd and O&C Resources Bhd (OCR) JV	Malaysia Land Properties Sdn Bhd (Mayland)
Area	KL Metropolis	KL City	Sri Hartamas
No. of Units	616	140	190 (Phase 1)
Unit Sizing (Min - Max) (sq ft)	650 - 1,600	636 - 3,390	474 - 1,378
Average Selling Price (RM per sq ft)	1,000 - 1,100	1,500 - 1,600	from 520,000 per unit

SR = Serviced Residence SA = Serviced Apartment

Source: Knight Frank Research

of branded residences in Kuala Lumpur, namely, the 441 private residences at Pavilion Banyan Tree Signatures and the 160-unit The Residences at The St. Regis Kuala Lumpur.

There were noticeably less launches of high-end condominiums / residences during the review period.

Notable launches in 1H2017 include the Serviced Residences at KL Metropolis's MET 1; Isola @ KLCC; and Dorsett Residences Sri Hartamas (Phase 1) which was previously marketed as Hermitage.

PRICES AND RENTALS

During the review period, there was no sign of recovery in the rental market.

Asking rentals in selected older schemes in the localities of KL City, Damansara Heights, Bangsar and Mont' Kiara remain under pressure.

Newly launched projects are priced from RM1,000 per sq ft onwards. In KL Fringe, the serviced residences at MET 1 KL Metropolis are priced from RM1,000 per sq ft to RM1,100 per sq ft on average while in KL City, the pricing for Isola @ KLCC range from RM1,500 per sq ft to RM1,600 per sq ft depending on unit sizing, floor level and other factors.

In the secondary market, transacted prices of smaller condominium / apartment units sized below 800 sq ft in selected schemes such as Marc Serviced Residence and ViPod Residences in KL City, continued to remain resilient at RM1,600 per sq ft to RM1,800 per sq ft.

Despite the soft market, asking prices continue to remain relatively stable although vendors are more flexible in negotiations.

OUTLOOK

China's recent regulatory changes over international monetary transfers continue to impact projects targeting buyers from mainland China. This is expected to further dampen the already weak high-end condominium market which is undergoing self-correction amid widening gap between supply and demand.

Amid the challenging property market environment, developers continue to tweak their marketing strategies to sustain earnings through 'stock clearing' of completed and on-going projects.

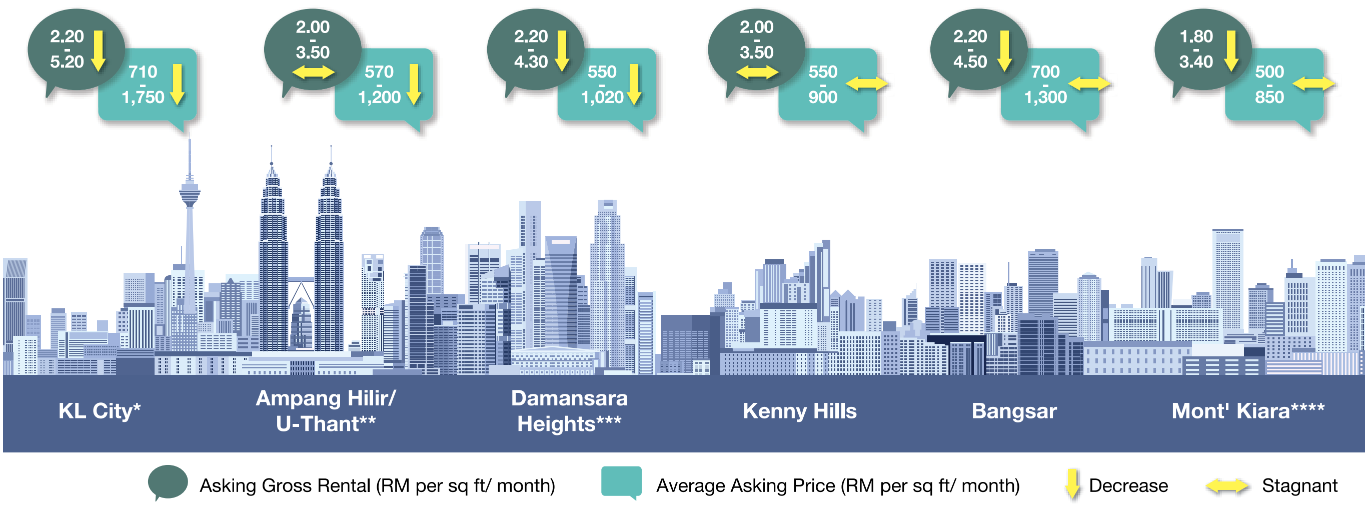
Developers are also seizing opportunities in this soft market to increase their land banks in strategic Klang Valley locations such as those along the rail transportation routes for transit oriented developments (TOD) and affordable cum mass housing projects.

The popularity of dual-key units, offering additional rental income, and smaller sized units continues as affordability remains a key issue in the domestic housing market.

Moving forward, the recent rebound in the country's economy coupled with strengthening of the local currency and stable employment market amongst other positive developments, offer ray of hope for recovery in the high-end condominium market. Malaysia remains as an attractive investment destination in the region with its stable property market and relative lower entry prices that continue to offer reasonable returns.

TABLE 3

Average Asking Prices and Rentals of Existing High End Condominiums



*Excludes Binjai on the Park but includes Pavilion Residences
**Excludes Seri Hening
***Includes Twins @ Damansara Heights
****Excludes Verve Suites which comprise mainly fully furnished small units

Source: Knight Frank Research

HIGHLIGHTS

The quality of office stock for both Kuala Lumpur and Beyond Kuala Lumpur (Selangor) continues to be upgraded with the completion of more Grade A and dual-compliant (MSC+GBI) buildings that caters to the requirements of large corporates and multinational companies.

Refurbishment and redevelopment opportunities abound for well-located older and lower grade office stock.

The scheduled full completion of the Sungai Buloh-Kajang MRT Line (MRT Line 1), linking to KL Sentral, Malaysia's largest transit hub by July, is expected to boost demand for offices in established and upcoming decentralised office locations.

KUALA LUMPUR & BEYOND KUALA LUMPUR (SELANGOR) OFFICE MARKETS

MARKET INDICATIONS

The Kuala Lumpur and Beyond Kuala Lumpur (Selangor) office markets continue to remain lacklustre with demand lagging behind supply.

SUPPLY

As of 1H2017, the cumulative supply of purpose-built office space in Kuala Lumpur and Beyond Kuala Lumpur (Selangor) stood at circa 99.0 million sq ft.

There were eight completions during the review period, adding some 2.63 million sq ft of space to the existing stock.

In KL City, the cumulative supply increased to 51.4 million sq ft following completion of Menara Public Bank 2 while in KL Fringe, the completion of Menara Ken @ TTDI, The Pillars @ KL Eco City and Menara SUEZCAP 1, brought the cumulative supply to 27.3 million sq ft.

In Beyond KL (Selangor), the cumulative supply increased to 20.2 million sq ft following completion of SunGeo Tower, Block G and Block H of Empire City Damansara and Mercu Mustapha Kamal (Tower 1).


Menara Public Bank 2

Menara Public Bank 2, a 40-storey newly completed Grade A office tower, at Jalan Raja Chulan in the Golden Triangle of Kuala Lumpur, offers a net lettable area (NLA) of 420,000 sq ft. The green building with both LEED Platinum and GBI Gold certifications features dual entrances, a banking hall and a quadruple-volume grand lobby. It has typical floor plate of about 12,500 sq ft.

Located in the established township of Taman Tun Dr Ismail, Menara Ken @ TTDI is a brand new 13-storey Grade A office tower with a NLA of 300,000 sq ft. The MSC compliant tower, certified with LEED Platinum, BCA Green Mark Platinum and GreenRE Platinum, offers typical floor plate of 25,000 sq ft. Three floors of the building are designated for food & beverages (F&B) outlets, ballroom, function rooms, a performing arts theatre and arts gallery while the recreational facilities at the rooftop include a gymnasium, swimming pool and sky bar.

SunGeo Tower forms part of Sunway Geo integrated development that also comprises retail shops, office suites and residential components. The 17-storey Grade A tower comprises


Block H of Empire City Damansara

14 levels of office space, three levels of retail space and sky gym at rooftop. SunGeo Tower, which comes with MSC Malaysia Cybercentre status, is currently in the process of applying for GreenRE Certification. The building with NLA of 161,000 sq ft offers typical floor plate of approximately 11,280 sq ft.

Office buildings slated for completions in 2H2017 include JKG Tower in KL City; South Point Office and Setia Tower in KL Fringe; and Menara Star 2 and Block J of Empire City in Beyond KL (Selangor).

In 1H2017, there were several notable office related announcements.

The strategic partnership of Naza TTDI Sdn Bhd and Triterra Metropolis Sdn Bhd, has unveiled The MET Corporate Towers on a 2.47-acre site identified as Met 8, one of the eight precincts within the 75.5-acre integrated development of KL Metropolis in Jalan Duta. The development consisting of a 42-storey Tower A and a 30-storey Tower B with net saleable areas of 450,000 sq ft and 150,000 sq ft respectively, has an estimated gross development value (GDV) of RM650 million. It is slated for completion by 2021. Tower A, targeted at retail buyers and investors, offers office suites ranging from 818 sq ft to 2,584 sq ft on Executive levels, 3,606 sq ft to 4,231 sq ft on Premier levels and 16,104 sq ft per floor on Prestige levels, priced at about RM900 per sq ft. The developer is looking to sell Tower B to a single buyer.

Sunrise Innovation Sdn Bhd, a wholly-owned subsidiary of UEM Sunrise Bhd, will undertake a mixed development project on the site of the Malay College Old Boys Association (MCOBA) at Jalan Seputeh, off the Federal Highway. The proposed development with GDV estimated at more than RM750 million, will feature a new office building, a banquet hall with a capacity for 1,200 persons and two blocks of serviced apartments together with other supporting facilities.

Anzo Holdings Bhd, via its wholly-owned subsidiary Harvest Court Properties Sdn Bhd, has entered into a Collaboration Agreement with landowner Captive Max Sdn Bhd for a joint development in Petaling Jaya, Selangor. With an estimated GDV of RM420 million, the proposed development will comprise a car showroom centre and four blocks of signature office towers. Located on a 2.87-acre commercial site, the project has an estimated gross floor area (GFA) and net floor area (NFA) of 500,000 sq ft and 350,000 sq ft respectively.

Paramount Corp Bhd's mixed use development at the former site of KDU University College at Jalan Universiti, Petaling Jaya, is expected to be launched in the middle of the year. The 2.1-hectare project, called Atwater, has an estimated GDV of RM730 million and will comprise two office towers (of 16 and 17-storey high), two residential towers (a 30-storey family-oriented tower and a 38-storey serviced-suite tower) and retail lots.

OCCUPANCY

During the review period, the overall occupancy rate for KL City continued its decline to record at 80.7% (2H2016: 82.8%) as the high supply pipeline and weak demand from its traditional occupiers in the Oil & Gas (O&G) and banking sectors, especially in KL City, continued to impact the office market.

As for the decentralised office locations in KL Fringe and Beyond KL (Selangor), the overall occupancy rates remained fairly stable at 90.9% (2H2016: 91.6%) and 77.8% in 1H2017 (2H2016: 78.6%), supported by improved connectivity following the completion of rail infrastructure works, namely the LRT extension line and phase one of the Sungai Buloh-Kajang MRT Line 1.

RENTALS

During the review period, the average achieved rental rates in both KL City and KL Fringe dipped marginally to RM6.04 per sq ft and RM5.69 per sq ft respectively.

However, the average achieved rental rate Beyond KL (Selangor) remained stable at RM4.13 per sq ft.

Despite a slow office market

TABLE 4

Selected Grade A Office Asking Rentals

Building Name	Asking Gross Rental (RM per sq ft/month)
KL CITY	
Integra Tower	11.00
Menara Maxis	10.50
Vista Tower	7.50 - 8.50
G Tower	8.00
Menara Darussalam	8.50
Menara Binjai	8.80
Menara Prestige	7.50 – 8.50
KL FRINGE	
Menara CIMB	8.00
The Gardens North & South Towers	7.80
Axiata Tower (formerly Quill 7)	7.50
Menara Allianz Sentral & Nu Tower 2	7.00
1 Sentrum	7.80
Menara BRDB	6.50
BEYOND KUALA LUMPUR (SELANGOR)	
1 First Avenue	6.00
Surian Tower	5.50
The Ascent @ Paradigm	5.50
The Pinnacle	5.50
Wisma Mustapha Kamal	4.50
Puchong Financial Corporate Centre (Tower 4 & 5)	4.50
Plaza 33	4.50

Source: Knight Frank Research

performance, well located Grade A office space in Kuala Lumpur, continued to command higher asking gross rents, ranging from RM7.00 per sq ft to RM15.00 per sq ft per month.

Notable office openings and occupier movements during the review period include the following:

Swiss Re Corporate Solutions has opened a new office at Naza Tower @ Platinum Park in Kuala Lumpur. The commercial insurance arm of Swiss Re Group offers innovative, high-quality insurance capacity to mid-sized and large multinational corporations across the globe.

Pegasus Agriculture group, one of the leading owners and operators of hydroponic farming facilities in the Middle East and North Africa (MENA), has opened a new office in Kuala Lumpur (Menara Darussalam).

Square Yards, a global real estate and aggregation platform, has opened a new office in Kuala Lumpur (Q Sentral)

Feilo Sylvania, full-spectrum provider of professional and architectural lighting solutions, has opened its Southeast Asia hub in Kuala Lumpur. The regional office is located in Wisma UOA Damansara II.

LS Retail, a world-leading provider of all-in-one business management software solutions for retail and hospitality companies of all sizes, has opened its Malaysian office at Meritus Tower, Oasis Corporate Park in Petaling Jaya, Selangor.

INVESTMENT ACTIVITY

During the review period, the investment market was fairly active with several office buildings under offer and in negotiation stage. Some of these older office assets offer refurbishment and redevelopment opportunities and they include Menara Prudential in KL City and Wisma MCIS and annexe block in Petaling Jaya.

Property investment and holding company, KL 33 Properties Sdn Bhd, is acquiring Menara Prudential from OCBC Properties (M) Sdn Bhd for a consideration of RM125 million (or circa RM759 per sq ft over 164,706 sq ft NLA). Located along Jalan Sultan Ismail in the city's financial district, the 24-storey building serves as the head office for its anchor tenant, Prudential Assurance Malaysia.

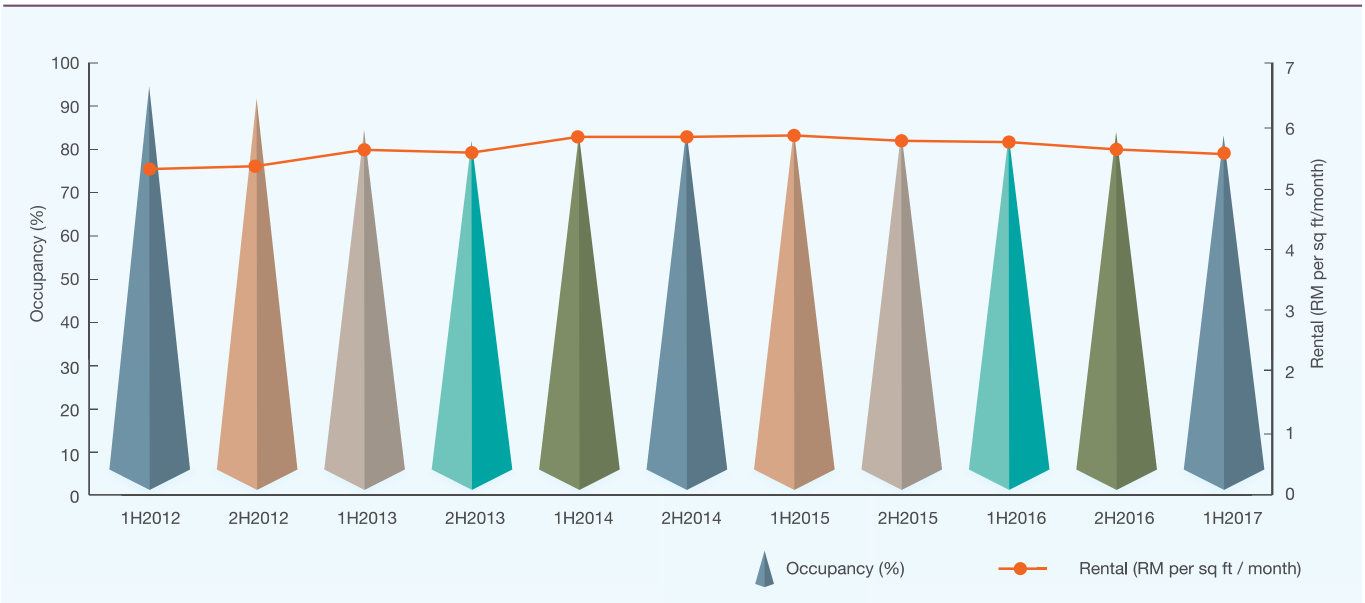
In June, Wisma Selangor Dredging, comprising four blocks of office buildings connected by a fountain courtyard, atop two levels of basement car park, was sold for RM480 million (or circa RM1,323 per sq ft over 362,782 sq ft NLA). The property, located along Jalan Ampang, is within walking distance to Suria KLCC.

AmanahRaya Real Estate Investment Trust (AmanahRaya REIT) continues to look for investment opportunities in this weak market. The REIT, which formed a strategic alliance with Kenedix Asia (a unit of the largest independent Japanese real estate asset management firm) early this year, is looking to acquire a commercial property (office tower) in Kuala Lumpur, valued at between RM350 million and RM370 million in the near term.

Meanwhile, Affin Holdings is in the final stages of discussion to dispose its office tower in Shah Alam to Serba Dinamik Holdings Berhad. Located in Seksyen 14, the 16-storey building with a 4-storey basement has a net book value of RM38.25 million. The bank has been leasing the offices at Menara Affin located along Jalan Raja Chulan as headquarters for the last 40 years.

The most anticipated property transaction for the remaining of this year is the sale of Vista Tower, the final component of The Intermark integrated development located at Jalan Tun Razak, Kuala Lumpur. The 62-storey office tower offers 550,000 sq ft of NLA with typical floor plate ranging from 11,000 sq ft to 11,900 sq ft.

FIGURE 2
Occupancy and Rental Trends 1H2012 – 1H2017



Source: Knight Frank Research

TABLE 5

Office Investment Sales (1H2017)

Building Name	Location	Approx. Lettable Area (sq ft)	Consideration (RM per sq ft)
Menara Prudential[1]	Jalan Sultan Ismail, Kuala Lumpur	164,706	759
Wisma Selangor Dredging[2]	Jalan Ampang, Kuala Lumpur	362,782	1,323

[1] KL 33 Properties Sdn Bhd has proposed to acquire Menara Prudential, a 24-storey Grade A office building, from OCBC Bank (M) Bhd at a consideration of RM125 million.

[2] Selangor Dredging Berhad has entered into a conditional Sale and Purchase Agreement with Golden Eagle Realty Sdn Bhd for the proposed disposal of Wisma Selangor Dredging on 21st June 2017 for a total consideration of RM480 million. The freehold property comprises four blocks of commercial building with 2 levels of basement car park (459 bays).

Source: Knight Frank Research

OUTLOOK

Amid widening mismatch between supply and demand, both rental and occupancy levels continue to be under pressure. Landlords are stepping up on their marketing efforts to improve occupancy levels while being more flexible in negotiations in this tenant-led market.

The scheduled full completion of the Sungai Buloh-Kajang MRT Line 1 by july this year, is expected to boost demand for offices in established and upcoming decentralised office locations.

New take-ups from oil & gas and banking sectors are expected to remain challenging while for IT, recruitment , e-commerce and shared services sectors, more inquiries and leasing activities are expected.

HIGHLIGHTS

Retail sales for 1Q2017 dipped 1.2% when compared to the corresponding period in 2016 as consumers continue to remain cautious in their spending amid rising cost of living.

Cumulative retail stock increased 1.1 million sq ft with the completion of MyTown Shopping Centre in 1Q2017.

Foreign retailers including online retailers continue to make inroads into the local retail scene.

In respond to challenges in the retail market, operators are taking proactive measures to refurbish, reconfigure and reposition their shopping centres to improve footfalls and maintain competitiveness.

Changing retail landscape sees the proliferation of outlet malls in Klang Valley and beyond.

KLANG VALLEY RETAIL MARKET

MARKET INDICATIONS

The MIER Consumer Sentiment Index (CSI) remains weak below the threshold level of 100 points despite improving to register at 76.6 points in 1Q2017 (4Q2016: 69.8 points).

Two years on after the implementation of the Goods and Services Tax (GST) in 2015, the performance of the retail industry continues to remain lacklustre.

Malaysia retail sales which expanded by 1.7% in 2016 continues to retreat amid rising cost of living, recording a 1.2% contraction in 1Q2017.

SUPPLY & DEMAND

The cumulative supply of retail space in Klang Valley stood at circa 56.59 million sq ft as of end 1H2017 following the completion of MyTown Shopping Centre.

MyTown Shopping Centre, which opened on 16th March, is a joint development between Boustead Group and Ikano Retail Asia. Anchored by Ikea, the 5-storey shopping centre with 1.1 million sq ft of space features an al-fresco dining area and a park. Key tenants include Zara, Food Empire, Golden Screen Cinemas, H&M, Parkson Department Store, Kaison and Village Grocer.

Melawati Mall, which is jointly developed by CapitaLand Mall Asia Ltd and Sime Darby Property is scheduled to open in July. The 8-level shopping centre with 1,900 car park bays has a NLA of 620,000 sq ft and targets a catchment of over 740,000 residents. Its anchor and key tenants include Toys "R"Us, Village Grocer, Golden Screen Cinemas, Fitness First, MPH,Padini Concept, Brands Outlets, SenQ, Daiso, Kidz Zone and Lifestyle Foodcourt. The mall targets to a catchment of over 740,000 residents.

By the end of 2017, another five shopping centres, namely, Empire City Mall (to be opened in phases), KL Eco City Podium, Amerin Mall (Cheras Selatan), Melawati Mall and Evo Shopping Mall are slated for completion. Collectively, they will offer total NLA of circa 3.52 million sq ft.

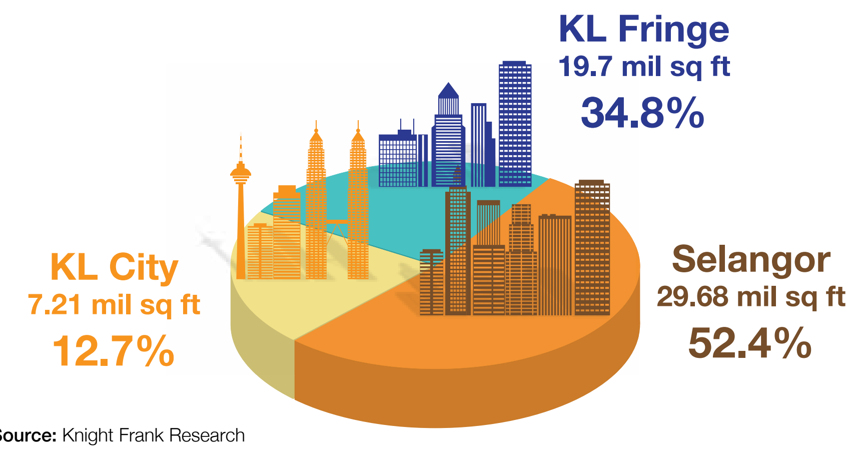
Klang Valley retail supply continues to expand rapidly despite growing challenges in the industry.

However, with market dilution and growing competition, developers and operators of selected existing shopping centres are seen to be taking the opportunity to refresh their outlets to keep pace with changing customers' tastes and preference.

In the vibrant Bandar Utama - Mutiara Damansara corridor, which is expected to witness heighten competition with the impending completion of Empire City Damansara Mall offering 2.3 million sq ft NLA, the 14-year old IPC Shopping Centre

FIGURE 3

Existing Cumulative Supply of Shopping Mall (Net Lettable Area) (1H2017)



Source: Knight Frank Research

TABLE 6
Shopping Centres Scheduled for Completion / Opening in 2017

1H2017 -
New Completion / Opening

MyTown Shopping Centre
KL Fringe
1.10 mil sq ft


MyTown Shopping Centre

2H2017 -
Expected Completion / Opening

Melawati Mall*
KL Fringe
620,000 sq ft

KL Eco City Retail Podium
KL Fringe
200,000 sq ft

Amerin Mall (Cheras Selatan)
Selangor
155,600 sq ft

Evo Shopping Mall
Selangor
251,000 sq ft

Empire City Mall**
Selangor
2.3 mil sq ft

*Melawati Mall is completed but scheduled to open in 2H2017

**Empire City Mall is scheduled to open in phases. The venue for ice hockey and figure skating will be opened in conjunction with the SEA Games 2017.

Source: Knight Frank Research

in Mutiara Damansara is undergoing a centre-wide facelift and upgrade. To be completed by year-end, the upgrade will see the relocation of tenants and the addition of new tenants. There will be more variety of F&B options, new sports outlets, new fashion retailers and a new outdoor alfresco dining area amongst others.

In the city centre, the 26-year old Lot 10 Shopping Centre is mid-way through its make-over which began in June last year. The rejuvenation, with the motto 'Meet. Play.#LoveLot10", is grounded on four key characteristics – youthfulness, fun, creativity and connectivity. It is targeted at tech-savvy Millennial and GenY patrons. The extensive transformation works, slated for completion by the last quarter of 2017 will also see Lot 10 offering WiFi access and a newly launched app for the latest updates and news on the mall. The former icon is on track to be a catalyst for the Bukit Bintang retail and entertainment district.

Subang Parade, the first regional shopping centre in Selangor which opened in 1988, is undergoing an asset enhancement initiative (AEI) that will create an additional 20,000 sq ft of NLA upon its completion in 2018.

Aeon Co (M) Sdn Bhd will also continue to renovate its existing malls and stores to cater to changing lifestyle demand of its customers. A notable upcoming renovation at its Taman Maluri store, estimated to require capital expenditure of RM300 million, is expected to complete by 1Q2019.

Despite mounting challenges in the business operating environment, foreign and local players continue to expand and foray into the retail scene.

Pavilion Kuala Lumpur Mall saw the debut of Pleats Please by Issey Miyake, French Bakery Laduree, Blanc Eyelash and the reopening of Braun Buffel. The premier mall is also home to Aveda's second outlet in Asia Pacific where the new concept store features six experience zones. The repositioning of some of the mall's tenant mix since last year also saw the entry of new tenants that include Dior, Cartier, Calvin Klein Performance, Geox, Banila Co, Blackbarrett, Daniel Wellington, Getha, Fitflop, and Go Noodle.

At the adjoining Pavilion Elite, YSL Beaute has officially opened its first flagship boutique while the popular French bakery, Paul, has also opened its first Kuala Lumpur outlet there. Lego Malaysia's latest store, its seventh outlet measuring 3,000 sq ft, provides an interactive and vibrant shopping experience to its enthusiasts, both children and adult.

American clothing store, Chaps, by fashion icon, Ralph Lauren, has opened three outlets – at Pavilion Elite, 1Utama Shopping Centre and MyTown Shopping Centre with another four stores targeted to open within the year.

Hong Kong luxury brand, Luk Fook Jewellery, also made its double debut in Malaysia, opening two stores – at Pavilion Elite and Suria KLCC.

During the review period, Suria KLCC also welcomed several notable tenants such as Tory Burch, Brook Brothers, Hyper Gear and Sunglass Hut. It also home to Omega's fourth boutique.

Over at Tropicana City Mall, Oliver Gourmet, the first home-grown gourmet food hall, has made its maiden entry. Besides its wide range of gourmet products, it also offers wine selection, bakery, deli and in-house dining facilities.

Marks & Spencer (M&S) has launched a premium boutique concept in Sunway Velocity Mall, the first of its kind in the country. Occupying more than 10,600 sq ft, the boutique has a food hall and in-store bakery offering coffee and tea alongside breads and pastries.

Japan's Doutor Coffee has also opened at Sunway Velocity Mall. Its two other outlets are located at Aeon Bukit Tinggi and Aeon Tebrau (Johor Baru).

Following a dispute with its Taiwanese franchisor, La Kaffa International Co Ltd, Malaysia's Loob Holdings Sdn Bhd, has rebranded more than 100 of its former Chatime outlets to Tealive.

Meanwhile, Chatime Malaysia, via its newly appointed master franchisee, Will Group, is planning a RM35 million expansion plan.

Fashion and F&B related trades are no longer the key to increase footfalls in shopping centres. With the growing popularity of online shopping, consumers are seeking more experience when visiting malls.

The former car park at Level 5 of Sungei Wang Plaza has been transformed into an indoor kart zone. Blastacars®, which originates from New Zealand, features a 208m track that is suitable for racers aged above 8 years old. The entertainment floor also offers virtual reality experiences and a shooting battle zone.

The upcoming Empire City Damansara mall will be home to a new virtual reality (VR) theme park concept. To be operated by US VR Global Inc, the 170,000 sq ft Hero Central Park, is set to be one of the world's largest reality theme parks. The first phase is scheduled to open its door in the first quarter of next year.

The country's retail landscape continues to transform.

Johor Premium Outlets (JPO) by Genting Simon Sdn Bhd, which opened in December 2011, was the first premium outlet centre in Malaysia and South East Asia. Its popularity has led to a proliferation of outlet malls across the country's central and northern regions.

In May 2015, Mitsui Outlet Park (MOP), a Japanese venture, opened near KLIA airport in Sepang; followed shortly in November by a British venture opening Freeport A'Famosa Outlet (FAO) in A'Famosa Resort, Melaka while Penang Design Village, a local venture, opened in November 2016.

June 2017 saw the opening of the latest outlet mall. The Genting Highlands Premium Outlets (GPO), also by the pioneer operator, offers circa 275,000 sq ft of NLA. The hilltop outlet features over some 150 designer brands.

Meanwhile, in the Sepang locality near MOP, Horizon Village Outlets (HVO) [formerly known as (KLIO)] is set to complete by mid-2018. Boasting a European theme, the outlet with 400,000 sq ft NLA, has reportedly secured notable tenants and brands such as Giuseppe Zanoti Design, Tumi, Swiss Watch Gallery, La Martina, Tory Burch, Michael Kors, Kate Spade New York, Godiva, Victoria Secret Beauty, Pedro, Charles & Keith, Bath and Body Works and Flow.

In 2016, the average occupancy level for shopping centres in Kuala Lumpur dipped slightly to 86.9% (2015: 87.4%) while for Selangor, there was a higher increase in vacancy with 2016 occupancy level dropping to 84.7% (2015: 87.9%) (source: NAPIC).

Prime and regional shopping centres such as Suria KLCC, Pavilion Kuala Lumpur Mall, Mid Valley Megamall, The Gardens Mall, and Sunway Pyramid Shopping Mall continue to maintain high occupancy levels of 95% and above.

Meanwhile, the occupancy rates for suburban malls such as The Mines, Tropicana City Mall and Subang Parade range from about 91% to 94%.

PRICES AND RENTALS

Early this year, the 5-storey Empire Shopping Gallery was sold to Pelaburan Hartanah Berhad (PHB) for a consideration of RM571.9 million (or circa RM1,714 per sq ft on 333,349 sq ft NLA). The vendor, Couture Homes Sdn Bhd of Mammoth Empire Group has been granted a call option to buy back the mall on the fifth anniversary of the sale. It also has the first right refusal to buy the mall should PHB decide to dispose of it within five years.

On the whole, rents were flat during the review period.

Only selected prime and regional shopping centres such as Suria KLCC and Mid Valley Megamall continue to achieve higher average gross rentals (on per sq ft basis) from new tenants and lease renewals. The monthly gross rental range from RM15.00 per sq ft to RM25.00 per sq ft on average.

Less popular suburban and secondary shopping centres, faced with heightened competition and market dilution, see lower rental levels and negative rental reversion.

Blastacars® at Sungei Wang Plaza

OUTLOOK

The retail industry outlook remains subdued in the short to mid-term. Retail Group Malaysia maintained its projection of retail sales growth at 3.9% for 2017 as consumers continued to tighten their belts amid rising cost of living and weak job market.

Besides asset enhancement initiatives (AEIs), developers and operators are continuously refreshing their tenant and trade mix to remain competitive in a diluted retail market.

Moving forward, we continue to see more retailers embracing the concept of 'clicks and mortar'. Spanish clothing and accessories retailer, Zara, has started its online sales in Singapore and Malaysia while Cosway (M) Sdn Bhd has launched its online mall.

Similarly, consumers shopping for household essentials and home furnishing at SSF can also do so in the comfort of their homes via Lazada and www.ssfhome.com.

Sports Direct is also looking to expand its online services, which is currently only available through Lazada.

Align with the growing e-commerce market; 7-Eleven has become the first retailer in Malaysia to accept the Alipay mobile wallet payment as a means of cashless payment from mainland Chinese tourists. In the coming months, Berjaya Corporation will also roll out Alipay in their merchants of over 5,000 outlets nationwide that include Starbucks, Kenny Rogers, and Cosway.

The economic recovery with higher GDP posting in 1Q2017 and the recent strengthening of the local currency may lift consumer sentiment and improve retail sales going forward.

Malaysia continues to be on the radar for retail investment worldwide. The country is ranked third in the 2017 Global Retail Development Index (GRDI) for the second consecutive year, after China and India. Its high ranking by global management consulting company, A.T. Kearney, is attributed to the influx of tourists, higher disposable income and government investments in infrastructure, all of which had boosted the local retail industry.

HIGHLIGHTS

Retirement Fund Inc (KWAP) has taken up a 20% stake in Eastern & Oriental Bhd's (E&O) second phase of Seri Tanjung Pinang (STP 2A) in a deal worth RM887.7 million.

STP 2A, currently undergoing reclamation works for 252.8 acres, is scheduled to complete by June 2018. The net area for development will be about 169.9 acres.

Prasarana Malaysia Bhd, a federal government linked company, will officially take over the running of Penang's ferry services from current operator Penang Port Commission Sdn Bhd wef July 2017.

PENANG PROPERTY MARKET

MARKET INDICATIONS

The latest figures released by the National Property Information Centre (Napic) for 1Q2017 show that the total volume of transactions for all sectors in Penang State contracted 16.6% in 1Q2017 versus 4Q2016 as against a drop of 6.1% compared to 1Q2016. In terms of value of transactions, the decreases of all sectors for 1Q2017 are recorded at 25.6% and 11% compared with 4Q2016 and 1Q2016 respectively. Residential transactions in 1Q2017 which made up 72.2% [was 69.6% & 72.7% in 4Q2016 & 1Q2016 respectively] of the total volume, recorded a drop of 13.5% and 6.8% compared with 4Q2016 and 1Q2016 respectively. In terms of value of transactions done in 1Q2017, residential transactions made up 59.0% as compared with 50.6% in 4Q2016 and 53.3% in 1Q2016. Similarly, the value of residential transactions also dropped – 12.9% (1Q2017 vs 4Q2016) and 1.2% (1Q2017 vs 1Q2016). For the period compared, 1Q2017 vs 4Q2016, all sub-sectors recorded declines in the number of transactions done ranging from 6.6% (agricultural) to 45.4% (Industrial). When compared to 1Q2016, the differences are varied with improvements of 3.8% for commercial properties and 7.3% for development lands in contrast to decreases of 6.8% (residential), 13.3% (agricultural) and 27.4% (industrial). In terms of value of transactions for 1Q2017 vs 4Q2016, all sectors except agricultural (improvement of 17.6%) recorded drops ranging from 12.9% for residential to 54.3% for industrial. For comparison of 1Q2017 vs 1Q2016, there is a large improvement of 39.6% for the commercial sector with contraction at 1.2% (residential), 10.6% (agricultural), 17% (development lands) and a huge 70.7% for industrial. The huge decreases in the industrial sector may be attributed to the sales of two large industrial facilities in 2016.

IJM Perennial Development Sdn Bhd, a joint-venture (JV) between IJM Corp Bhd and Perennial Real Estates Holdings Ltd, has officially unveiled The Light City, a large-scale integrated mixed-use waterfront development in Glugor, on the eastern coast of Penang Island. Positioned as Penang's premier integrated waterfront precinct with a total GDV of over RM4.5 billion, The Light City will have a total gross floor area (GFA) of about 4.1 million sq ft which will comprise the Penang Waterfront Convention Centre (PWCC) with 270,000 sq ft of GFA sitting atop a five-storey retail mall with 1.5 million sq ft GFA; two luxury hotels of 37-storey high with a total of 745 rooms; a 28-storey office tower with net leasable area of 370,000 sq ft located next to the hotels and two residential projects, being The Mezzo and The Essence. The Mezzo will comprise two 34-storey residential towers with 456 units in spacious built-up sizes, while The Essence will comprise two 37-storey residential towers with 315 units with contemporary façade design.

PLB Engineering Bhd plans to develop a RM2.6 billion affordable housing project on a 113-acre site in Paya Terubong on Penang Island which will see 7,658 affordable units, priced between

Reclamation works off Gurney Drive

RM300,000 and RM390,000, launched in stages over a 6-year span. The company targets to kick-start an initial 1,280 units with a total GDV of RM450 million in 2017.

On the island, Kerjaya Prospek Property plans to develop "Penang Straits Residence" on a one-acre site in Seri Tanjung Pinang with an estimated GDV of RM300 million. The proposed 28-storey tower housing 246 units of serviced apartments (circa 800 sq ft) each, to be managed by Eastern & Oriental Bhd, has an indicative average selling price of about RM1,200 per sq ft, with a minimum selling price of RM1 million per unit.

In mainland Seberang Perai, Hua Yang Bhd plans to launch three new projects over the next three years with a total estimated GDV of RM800 million. The projects include the new phase of Meritus Residensi in Seberang Perai, a 4.9-acre land in Bukit Mertajam and a 9.2-acre land in Juru. Following good response to the first phase of Meritus Residensi, a 44-storey residential building with 480 units of serviced apartments launched last January, phase 2 of Meritus Residensi with a total GDV of RM104 million will feature 16 units of stratified double-storey shoplots and 148 units of low density condominiums. Hua Yang is planning high-rise residential projects for the Bukit Mertajam land and a mixed development for the Juru land.

Also in Seberang Perai, Exopuri Development Sdn Bhd has started work on its Exo City @ Juru Sentral project with a GDV of RM400 million. This project comprises Holiday Inn & Suites Penang Prai - a 35-storey hotel with a total of 288 rooms to open in 4 years' time; Exo Residences - a 31-storey apartment block with 146 units; Exo Avenue – 14 units of 4-storey and 3 units of 7-storey shop-office; Exo Horizon - a 39-storey studio office block with a total of 175 units and Exo Walk - 22 units of double-storey semi-detached food and beverage outlets, which is in its final stages of completion.

Paramit Corp, which provides fully-integrated design, engineering, manufacturing and post-manufacturing services to medical device and life science instrument companies, recently unveiled its "Factory in a Forest" - a new eco-friendly 162,000 sq ft manufacturing facility in the Penang Science Park. The company intends to put in an investment of US$16 million (RM71.5 million).

HIGH-END CONDOMINIUM

There are no launches of high-end condominiums on the island in 1H2017.

Medium-end condominium developments launched during this period include Setia Sky Ville in Jelutong which comprises 2 blocks of 33-storey condominiums with 550 units selling from RM758,000 a unit upwards or from RM750 per sq ft to RM950 per sq ft for units sized from 1,036 sq ft to 1,750 sq ft.

For high-end products, Eastern & Oriental Berhad (E&O), has launched "Ariza Seafront Terraces" – the final phase of landed houses in Seri Tanjung Pinang. This development will feature 35 units of 2½-storey terraced houses with built-up areas ranging from 3,488 sq ft (intermediate units) to 3,781 sq ft (corner units) which are up for sale at prices starting from RM2.19 million onwards, giving a GDV of RM90 million. Slated to complete in 1Q2019, it is understood that more than 87% of the units have been taken up.

There are even lesser recorded transactions of high-end condominiums in the secondary market in 1H2017 compared to 2H2016 as against the period of 2H2016 versus 1H2016. In Tanjung Bungah, one large unit sized 5,220 sq ft at Springtide Residences was transacted at RM824 per sq ft in comparison to a 4,327 sq ft unit at Infinity Condominium which was sold at RM971 per sq ft in late 2016. Smaller sized units of 3,498 sq ft at 11 Gurney, Gurney Drive were re-sold at prices of RM778 per sq ft to RM858 per sq ft in 1H2017. Past transactions in Year 2016 for smaller sized units of 2,000 sq ft to 2,669 sq ft in Gurney Paragon and Quayside Condo, Seri Tanjung Pinang were recorded at the price range of RM1,000 per sq ft to RM1,150 per sq ft.

Buyers of high-end condominiums have higher expectations; thus, many of the newer launches offer units which

TABLE 7

Asking Gross Rental of of Selected Purpose-built Office Space on Penang

Building Name	Location	Asking Gross Rent (RM per sq ft per month)
Hunza Tower	Georgetown	3.80 (renewed rent)
Menara Boustead Penang	Georgetown	2.80 to 3.00
Menara KWSP	Georgetown	2.70 to 3.00
MWE Plaza	Georgetown	2.80 (fixed rent)
Wisma Great Eastern	Georgetown	3.00
Menara IJM Land	Jelutong	RM3.30 to RM3.60
Suntech @ Penang Cybercity	Bayan Baru	RM3.50 to RM3.70
One Precinct	Bayan Baru	RM3.50 (fixed rent)

Source: Napic / Knight Frank Research (as of June 2017) are fitted out with built-in cabinets to bedrooms, kitchen cabinets c/w hood / hob / electrical items as well as light fittings, air-conditioning units and quality sanitary fittings.

Asking rents are noted to be stable compared to 2H2016. For larger sized units in Tanjong Bungah, asking rents generally range from RM1.10 per sq ft to RM2.00 per sq ft per month whilst the upper band of asking rents are also noted to be stable, ranging from RM2.10 per sq ft to RM2.60 psf per month. For similar sized units in Gurney Drive, asking rents vary from RM1.90 per sq ft to RM2.80 per sq ft per month. For smaller sized units in Tanjong Tokong and Gurney Drive, asking rents are in the range of RM2.20 per sq ft to RM2.90 per sq ft per month whilst some landlords are still asking higher rents of RM3.00 per sq ft to RM3.80 per sq ft per month.

OFFICE

The existing supply of office space (buildings of 10-storey and above) on Penang Island for 1H2017 now stands at 5.71million sq ft with an additional 115,000 sq ft from the completion of Straits Quay Commercial Suites at Tanjung Tokong.

The occupancy rates for the four prime office buildings monitored in Georgetown have improved slightly upwards to the range of 90% to 100% compared to 2H2016's range of 80% to 100%. Similarly for the newer buildings located out of Georgetown, namely One Precinct, Suntech and Menara IJM Land, average occupancy rates have also crept up slightly to 97%, up from 95% in 2H2016.

Rentals for some of the newer office buildings have also increased; tenancies at Hunza Tower are now renewed at RM3.80 per sq ft per month compared with RM3.50 per sq ft per month in 2H2016. At Menara IJM Land, we understand that rentals have been increased by 5%.

Office buildings under planning on Penang Island include the 28-storey office tower with a net leasable area of 370,000 sq ft under The Light City mega mixed-development waterfront project and Aspen Group's planned Beacon Executive Suites which will feature a 30-storey small office home office (SoHo) development with a total of 227 furnished executive units with standard size of 980 sq ft on the upper levels and four retail lots on the ground level.

RETAIL

The existing supply of purpose-built shopping space on Penang Island remains unchanged at 2H2016's level of 6.69 million sq ft. No new purpose-built shopping malls were completed on the island in 1H2017.

The Penang State Government has, for the last few years, "frozen" development of shopping malls so as not to create an oversupply situation. All applications for shopping mall development must first obtain special permission from the State Government before proceeding to the local government for approval. However, such permission has been forthcoming in the case of a proposed retail mall in the upcoming The Light City, a large scale integrated waterfront development by IJM Perennial Sdn Bhd. Another application under consideration by the State Government is the proposed shopping mall on the former site of the Lee Rubber factory in Paya Terubong by Sunway City (Penang) Sdn Bhd.

Over in Batu Kawan on mainland Seberang Perai, Ikano Private Limited has commenced works on its new IKEA store early this year with completion scheduled for late 2018.

The several proposed shopping malls coming up over the next 5 years on the island are as listed in Table 9 below.

City Mall, the retail podium on which City Residences sit on, is expected to open for business in 2018. Sunshine Tower in Bandar Baru Air Itam and the retail component of The Wave, Phase 3 of Penang Times Square are currently under construction with completion expected in 2019 and 2020 respectively. Phase 4 of Penang Times Square which will have a retail component is under planning stage.

Occupancy rates for the prime shopping malls on the island range from 80% to 98% whilst for the secondary shopping malls, the range is generally from 70% to 90%.

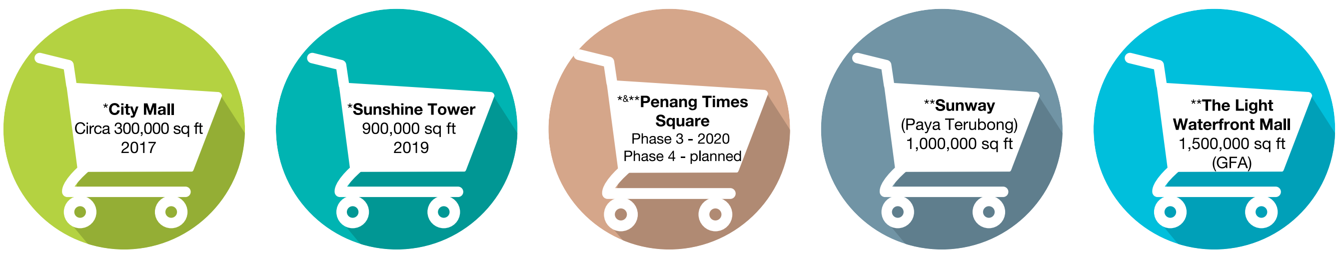
In the prime shopping malls, rental rates for ground floor retail lots generally range from RM13.00 per sq ft to above RM35.00 per sq ft per month, depending on the mall, location and size of the units.

OUTLOOK

With the continuing decline in the volume and value of transactions, the property

TABLE 8

Future Supply of Retail Space within Penang Island



Note: *under construction ** planned

Source: Napic / Knight Frank Research

Penang Ferry

market sentiments are still very much subdued.

Nevertheless, the launching and commencement works of some of the larger scale integrated developments such as The Light City and Aspen Vision City have given some degree of positive sentiments to the medium and longer term prospects.

Overall, the market is lacklustre with the residential sector still in consolidation mode. The office sector, where some buildings have achieved slight increases in occupancy levels and rentals, is providing some comfort to an otherwise dampened property market.

In the retail sub-sector, whilst the increasing supply of shopping mall space and opening of new outlets may be a boon to consumers, it is becoming a huge challenge to mall owners and landlords who are facing the unenviable task of trying to keep both occupancy as well as rental levels up.

The challenging overall market environment is expected to continue over the next few quarters.

HIGHLIGHTS

As of 1Q2017, total cumulative committed investment in Iskandar Malaysia stands at RM227.67 billion.

Aramco and Petronas have signed a RM31 billion deal for the RAPID project.

Bukit Pelali and Bandar Penawar township developments recorded strong take up rates due to proximity to the RAPID project.

As of 1Q2017, total transacted value of industrial properties increased 75.5% year-on-year (y-o-y).

JOHOR BAHRU PROPERTY MARKET

MARKET INDICATIONS

According to 1Q2017 data from the National Property Information Centre (NAPIC), the volume and value of transactions for Johor fell by 4.6% and 24.2% respectively, when compared to 1Q2016.

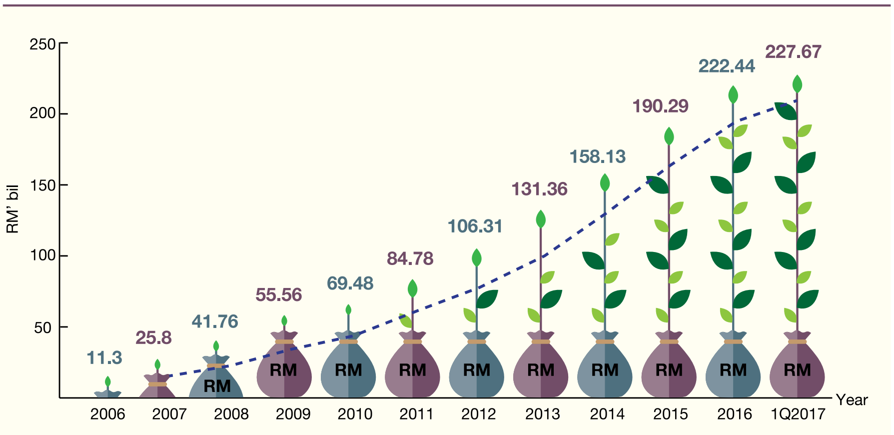
There was a 6.8% decline in the transaction volume for the residential sub-sector while the industrial sub-sector, bucked the trend by posting a sharp increase of 75.5% (1Q2016 to 1Q2017) in transaction value.

Despite being impacted by the capital control policy, the developer with strong financial and construction background, has commenced work on the second phase which includes three international standard 18-hole golf courses, luxury hotels and low-density residential buildings.

Jade Palace, another Chinese development by Greenland Group, has also been affected with its construction progress slowing as the developer reviews the project to adapt to the challenging market condition.

FIGURE 4

Total Cumulative Investment in Iskandar Malaysia (2006-1Q2017)



Source: Napic / Knight Frank Research

MARKET HIGHLIGHTS

Following earlier reports of Saudi Aramco's withdrawal of interest in the RAPID project in Pengerang, all doubts were put to rest when it signed a mega deal worth RM31.1 billion with Petronas in February.

In March, news of China's bid to curb capital flight broke and Forest City's rapid growth hit a speed bump. Some China-based buyers suddenly found their investments untenable. The master developer, Country Garden Holdings, has since widen its target market to include global investors.

As of May 2017, Country Garden has already handed over 132 residential units under Kylin Apartments to the respective owners from various countries.

RESIDENTIAL

The residential sector continues to remain dominant in 1Q2017, accounting for 63.1% of the total transactions in Johor, although the transaction volume was 6.8% lower y-o-y.

The most active district is Johor Bahru with 49.5% share in transaction volume, followed by districts of Batu Pahat and Kluang with 10.0% and 8.6% share respectively. In terms of property type, terraced houses proved to be most popular, accounting for 61% of total residential transactions in the Johor Bahru.

Spurred by activities in the PIPC and RAPID projects, two residential developments have been launched in the surrounding area.

Taman Sri Penawar by MB Group is a 470-acre township development with an estimated gross development value (GDV) of RM1.9 billion. Located in Bandar Penawar, Phase 1 of the development, offering landed residential units and shophouses has been well received.

The other project, Bukit Pelali @ Pengerang, is a joint-venture (JV) between Astaka Padu Sdn Bhd and Saling Syabas Sdn Bhd. This 363-acre mixed use township development, with estimated GDV of RM2.3 billion, features landed and high-rise residential units as well as commercial and educational facilities.

In March, Country Garden Holdings Co Ltd, together with Damansara Realty, launched their JV project in Tampoi. Spanning across 53 acres, Central Park with GDV estimated at RM4.6 billion, offers affordable homes targeted at local home-buyers. The first phase of the project is expected to complete by 2020.

In January, Haute Property Sdn Bhd, a JV between BRDB Developments Sdn Bhd and UEM Sunrise Bhd, handed over completed units for Phase 1 of Emerald Bay. The 111-acre freehold project in Puteri Harbour has a GDV of RM4 billion and is being developed in 12 phases over a period of about eight years. The units sized between 1,916 sq ft and 8,331 sq ft are priced from RM3.1 million to RM10.5 million each.

RETAIL

As of 1Q2017, total retail space in Johor stood at 18.97 million sq ft, a 3.5% increase y-o-y (1Q2016: 18.33 million sq ft). Two-third (65.5%) of the retail stock comes from Johor Bahru. Overall occupancy dipped marginally to record at 75.6% in 1Q2017 (1Q2016: 75.9%).

SKS Mall by SKS Group commenced operations in March. Located in Desaru, Bandar Penawar, the 2-storey shopping mall on a 6.16-acre site has a total built-up area of about 130,680 sq ft. The retail lots sized from 236 sq ft to 1,921 sq ft are currently about 80% occupied with average rentals ranging from RM5.00 to RM9.00 per sq ft per month depending on location, sizing and other factors.

2H2017 will see the opening of 3 new retail malls in Johor Bahru which are the AEON Kempas, Paradigm Mall and IKEA. Paradigm mall is expected to open its doors in November and is set to be the largest regional mall in Johor with an estimated 1.3million sq ft of net lettable space. IKEA will be opening its first Malaysian outlet outside of Selangor around December. Located next to the bustling Aeon Tebrau City, it is a highly anticipated development and is likely to attract large crowds upon opening.

OFFICE

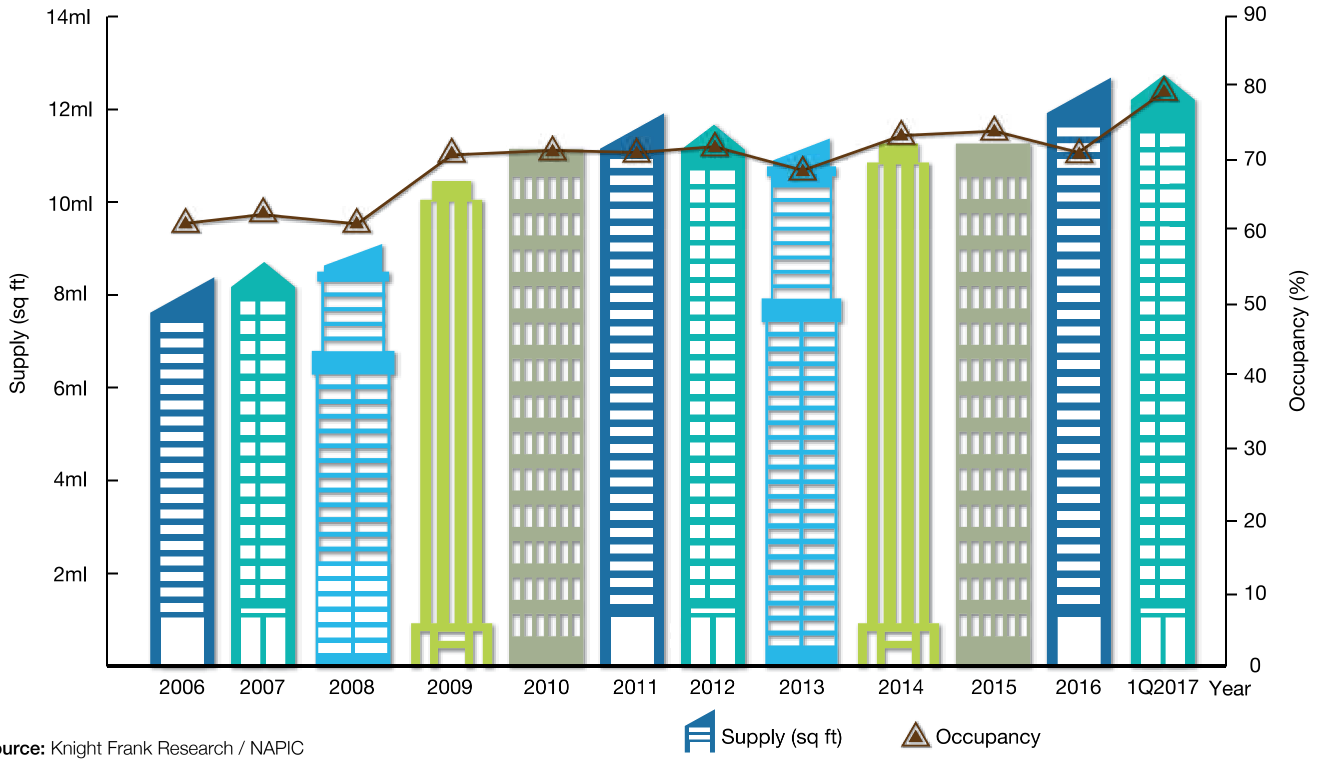
The total supply of purpose built office space in Johor was recorded at about 12.22 million sq ft as of 1Q2017, circa 4.7% increase y-o-y. The bulk of supply totalling circa 9.45 million sq ft is located in Johor Bahru district, followed by Batu Pahat with 0.89 million sq ft supply.

The supply of office space is set to increase over the next few years as on-going developments in Johor Bahru City Centre and Medini move closer to completion.

Menara JLand by Johor Land Berhad is set in a prime city centre location. The Grade A office development with GBI Gold certification and built to MSC specifications, represents a new generation of office space catering to

FIGURE 5

Retail Supply and Occupancy Trend in Johor Bahru (2006 - 1Q2017)



Source: Knight Frank Research / NAPIC discerning tenants in the Johor Bahru market. Standing at 37-storey, the office tower with about 262,592 sq ft NLA comes with an observation deck and cafe at the roof/ top level. It is slated for completion by December 2017.

Menara JLand

INDUSTRY

For 1Q2017, the industrial sector in Johor shows different trend where the volume of transactions declined (1.8%) whereas the value of transactions increase significantly about 75.5% compared to similar period in 1Q2016. In terms of volume of transactions, District of Johor Bahru (53.6%) and Kulaijaya (14.3%) are leading among other districts while for value of transactions, District of Johor Bahru recorded 53.4% from the total value, followed by Kulaijaya (18.7%).

BMW Group has launched its new regional parts and distribution centre. The RM130 million facility on a 72-hectare land is located within the Free Trade Zone of Port Tanjung Pelepas (PTP) in Senai and provides support to 23 countries in the region including Malaysia, Singapore, Thailand and Indonesia.

Country Garden Pacific View Sdn Bhd is set to build a RM2.6 billion Industrialised Building System (IBS) factory on a 109.5-hectare land in Forest City. The factory, planned to have a total of 12 lines, with three currently in operation, will become the world largest IBS facility. Petropolymer Sdn Bhd, a glove manufacturer, has entered into an agreement with Permodalan Darul Takzim (PDT) to build a new facility on a 60.7-hectare land strategically located near the RAPID project in Pengerang, Kota Tinggi.

A Corporation Intention Agreement has been signed between Johor Corporation and Chinese company, Siasun Robot Investment Pte Ltd, to transform a 404-hectare land in Johor into a Robotics Future City worth RM15 billion. The agreement is one of the initiatives by the Johor government to promote Johor as a hub for robotic industry in the region as well as to support China's Belt and Road initiative which will benefit both countries. This mega project is expected to positively impact the surrounding areas.

OUTLOOK

The Johor property market has been lacklustre since the beginning of the year especially with China's capital controls on outflow of funds to overseas investments.

China developers have been investing heavily in massive residential projects, namely in the Danga Bay area, along the coastal areas of the Straits of Johor and the 4–island Forest City project over the past five years. Potential buyers are mainly from mainland Chinese whilst locals have generally been selective on these projects especially with alternative choices from local developers. Interest in high-rise residential properties has somewhat slowed down with the financial institutions imposing strict lending policies on these projects.

Local developers are bracing for an extended quiet period as potential investors / buyers are now spoilt for choice with numerous on-going projects giving generous incentives and rebates.. Nevertheless, we noted that the secondary market for landed properties below RM600,000 per unit are still in demand.

On the office sector, new office buildings are being constructed in the city fringes and also in Iskandar Puteri especially Medini being the hotspot. They are expected to be completed in the next two to three years and will add to the existing office space in the city centre. Overall office rentals have generally improved amid steadily. However, we note that several new Grade A offices with Green Certification and MSC status have already set new benchmark with asking rentals above RM4.50 per sq ft per month.

The retail sector is experiencing a rapid growth with at least three new malls expected to open its doors by end of the year. Aeon Corporation (M) Bhd is planning to expand in Johor with new sites in the pipeline. Most of its existing malls are doing extremely well with large crowds during weekends and festive seasons.

The trend is expected to continue into the second half of the year for most of the existing malls in Johor Bahru, especially those located in the suburban areas and city fringes.

The industry sector is also entering a challenging period with many completed schemes experiencing difficulty in attracting purchasers and tenants, especially for the terraced and semi-detached factories. Asking rentals of these factories have been competitive and generally declining with anticipation of an impending slowdown in the sector. Despite the gloom, there has been an increase in inquiries for industrial lands, large warehouses, logistics hubs and distribution centres in areas such as Pengerang, the PTP and Senai.

In conclusion, with the exception of the retail sector, all sectors are entering a challenging phase with existing stocks to clear and new space to be taken up. Prices and rentals are not expected to hold up and likely to take a dip to fill up the vacancies.

On a brighter note, developments in Pengerang are expected to continue as lands are being acquired for expansion of the oil and gas refineries and processing facilities. Recent news of big investments coming into the RAPID project has turned the area into a bustling hub. Road infrastructure is currently being upgraded and will only serve to bring in more impetus to the region. Demand for the limited housing currently available has made prices there match other districts closer to Johor Bahru.

HIGHLIGHTS

Improvements seen in Sabah property market in 1H2017.

Abolishment of cabotage policy, potential investors & businesses encouraged to set-up manufacturing facilities in proposed Sepanggar Free Zone.

High rise residential units make up 34% of total residential stock.

Retail sector will continue to face challenges as supply increases.

KOTA KINABALU PROPERTY MARKET

MARKET INDICATIONS

Based on the Annual Property Market Report 2016 released by the National Property Information Centre (NAPIC), Sabah registered 6,983 transactions with a total value of RM3.51 billion, a decrease of approximately 11% and 9% in volume and value respectively when measured against year 2015. However, the figures registered for 1Q2017 have shown sign of improvement for the Sabah property market as a whole.

According to NAPIC, Sabah registered 1,762 transactions with a total value of RM774.07 million in 1Q2017. The volume of transactions have surged by circa 11% as compared to the preceding quarter (1Q2016). Conversely, the value of transactions have dropped slightly by circa 5% as compared to RM820 million recorded in 1Q2016.

Statistics from SHAREDA revealed that the estimated total gross development value (GDV) for year 2016 has increased by circa 10% from RM2.669 billion in 2015 to RM2.940 billion. This shows that there is still appetite for Sabah property market from the developers' perspective, despite the economic turbulence and political uncertainties.

MARKET HIGHLIGHTS

With the abolishment of the cabotage policy for Sabah, Sarawak and Labuan effective 1st June 2017, potential investors and businesses are encouraged to set up manufacturing facilities in the proposed Sepanggar Free Zone (SFZ) and domestic hub of Sepanggar Bay Container Port (SBCP). The SBCP is in the midst of securing the involvement of Main-Line Operators (MLOs) to enhance global connectivity. Positioned in a strategic geographic location to serve as a transhipment point for north- and south-bound container ships along the major shipping lines of the Far Eastern and South Pacific regions, SBCP shall also be developed to serve as a transhipment hub, linking the rapidly growing BIMP-EAGA (Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area) and the Northeast Asian Economies, which serves as the global port of entry to the global economy.

KKIP Sdn Bhd had signed a collaboration proposal agreement with Malaysian Biotechnology Corporation Sdn Bhd for a biotechnology hub development in Kota Kinabalu Industrial Park (KKIP). The proposed development is positioned on a 30-acre land at the Commercial Zone 1 Phase 2 within the park with possible expansion of another 100 acres.

Hap Seng, together with its Credit Division, has introduced its new 100% margin of finance scheme to assist buyers who intend to purchase homes developed by the company.

Pearl D'costa Resort @Waterfront

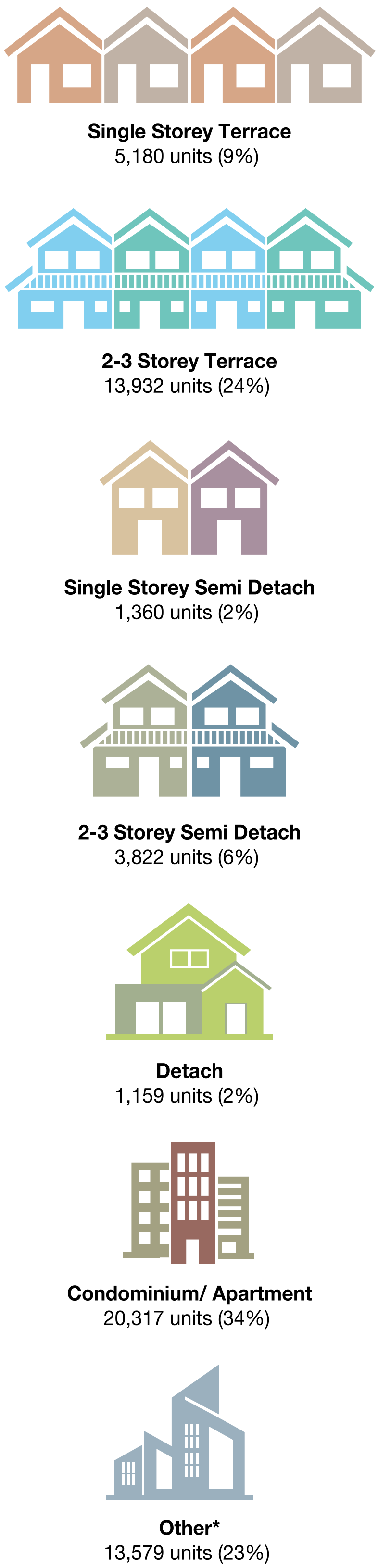
Pearl D'costa Resorts @Waterfront, a joint-venture (JV) development between Yayasan Sabah and Leadmont Land (Sabah) Sdn Bhd, is poised to be the new tourism hub for Sabah. The proposed development will be strategically located in front of the renowned waterfront esplanade – Kota Kinabalu Waterfront. Pearl D'Costa will comprise of a single-storey retail and marine walk; a 20-storey serviced apartments, a 4-storey conventional car park, a 6-star hotel lobby and lounge, rooftop infinity pool and roof garden.

The launching ceremony of Sky City between Homesign Network Sdn Bhd and MCC Sdn Bhd was officiated on 6th December 2016. Sky City is an integrated and self-contained development that will feature two towers of 28-storey luxury residential suites, a lifestyle mall, Grade A office and a 5-star hotel. As a JV with the Ministry of Local Government and Housing Sabah (KKTP) Sdn Bhd, this is a revival and rescue project of a former development called "Taman Hartawan".

Titijaya Land Bhd and CREC Development (M) Sdn Bhd (CRECD) have

TABLE 9

Existing Supply of Residential Property by Type (2016)



Source: Knight Frank Research / NAPIC

entered into a framework agreement for its latest brainchild, The Shore. In addition, Titijaya has also signed a serviced residence management agreement with Ascott Group for the upcoming serviced residence.

RESIDENTIAL

The residential segment has constantly been the dominant sub-sector in Sabah. As of 1Q2017, this sub-sector accounted for approximately 60% of the total volume of transactions and circa 49% of the total value of transactions in the state.

The Sabah residential segment has picked up its pace in 1Q2017, recording circa 28% increase in sales volume with 1,057 transactions (1Q2016: 829 transactions). In tandem with the higher volume, the value of transactions have also surged by 34% to RM379.96 million as compared to RM283.62 million recorded in the first quarter of 2016.

According to data from NAPIC, the total supply of residential property in Kota Kinabalu stood at 59,349 units as of end of 2016, an increase of only 409 units as compared to year 2015. The majority of existing residential stocks are made up of condominium/apartment units with about 34% share, followed by units in the 2 to 3-storey terraced house category (24%), single-storey terraced houses (9%) and 2 to 3-storey semi-detached houses (6%).

In term of future supply, there will be a major influx of high-rise residential units into the market with circa 15,907 units currently in the pipeline. Looking forward, the total number of high-rise residential units will surpass the landed residential stock in the near future.

With the property market slowdown, tightened lending conditions and cautious attitude of local buyers, many developers have held back new launches. There were no notable launches during 1H2017. The majority of high-rise developments in the market were initiated in previous years, 2015 and 2016, and comprise mainly of units in the mid-range segment.

Selected high-rise residential developments currently under construction are summarised as follows:

TABLE 10

Selected High-rise Residential Developments Currently Under Construction.

Name of Development	Location	Total Units
Pacific Heights @ PacifiCity	Likas Bay	204
The Residences @ Sutera Avenue	Southern Fringe of KK CBD	320
The Riverside Residence @ Sodomon	Kepayan	134
One Jesselton @ Kepayan Ridge	Kepayan Ridge	125
Jesselton View @ Hilltop	Hilltop	80
SkyVue Residence	Kobusak	200
Maya @ Likas	Likas	483
Bukit Bantayan	Inanam	296
Kingfisher Inanam	Inanam	257
Kingfisher Putatan	Putatan	120
Condominium Ria	Jalan Lintas-Khidmat	39
E Residence Phase 1	Telipok	320
University Utama Condominium Phase 6	Telipok	660
Bukit Saujamas	Telipok	1,664

Source: Knight Frank Research / NAPIC

As for landed residential developments, there were eight new launches in 2016 and one in 2017 as tabulated on the right:

In response to the high demand for affordable housing, some efforts are seen through government initiatives such as the Housing Assistance Programme (BPR). Desa Impian, a new scheme to meet the growing demand for affordable housing, is being developed by Borneo Estate Development Sdn Bhd. The 72-acre project to be developed over 10 years will comprise a total of 7,800 apartments housed in 15 blocks and an integrated commercial component. The apartments with built-ups of between 700 sq ft and 1,055 sq ft, will be priced between RM295,000 and RM450,000 per unit.

TABLE 11

Landed Residential Developments Currently Under Construction

Name of Development	Location	Property Type	Total Units
Taman Ganang Phase 2	Kepayan	Terrace	64
Prestige Residence	Menggatal	Terrace	48
Taman Casa Ria	Tuaran	Terrace	54
Taman Limbai Ria Phase 2	Tuaran	Terrace	76
Taman Muhibbah	Ranau	Terrace/Semi - D	32
Taman Seri Tuaran	Tuaran	Terrace/Semi-D/Detached	29
Berungis Villa	Tuaran	Terrace	14
Taman Sinar Jaya 2A-4	Tuaran	Terrace	41
Vision Garden	Penampang	Terrace	52

Source: Napic / Knight Frank Research

PURPOSE-BUILT OFFICE

As of end of 2016, the total supply of purpose-built office space in Kota Kinabalu stood at about 6.3 million sq ft with an overall occupancy rate of 89%.

Most of the existing offices in Kota Kinabalu are concentrated along Jalan Coastal, Jalan Kemajuan and Jalan Tuaran within the Kota Kinabalu city centre. A few others are scattered along Jalan Istiadat and near Yayasan Sabah. On average, asking gross rentals of offices within the city centre hover around RM1.80 per sq ft to RM2.50 per sq ft per month, while several prime offices command higher rentals, ranging from RM2.50 per sq ft to RM3.50 per sq ft per month. On the other hand, Plaza Shell, the first Grade A Office in the city is achieving rental rates of RM4.50 per sq ft to RM6.00 per sq ft per month.

Similar to the second half of 2016, there is no new supply of purpose-built offices. Incoming supply of office space from on-going developments such as the Sabah State Administrative Complex and Pacific Enterprise @ PacifiCity as well as signature offices from Sutera Avenue and Aeropod are expected to come on-stream in 2017.

TABLE 12

Average Transacted Prices of Selected Existing Mid/ High-End Condominiums

Development	Transacted Price (RM per sq ft)
KK CBD	
The Loft	700 - 1,000
Marina Court	500 - 650
Jesselton Residences	900 - 1,100
LIKAS BAY / LIKAS	
The Peak Vista	700 - 900
The Peak SOHO / Suites	500 - 900
Bayshore Condominium	500 - 600
Likas Square	400 - 450
DAMAI / LUYANG/FUNG YEI TING/JALAN LINTAS	
Puncak Luyang	500 - 600
Alam Damai	500 - 650
Jesselton Condominium	550 - 650
Radiant Tower	500 - 550
Jade Residence	500 - 600
Kondominium Seri Manis	450 - 500
KEPAYAN / BUNDUSAN	
Surian Residences	400 - 600
Lido Avenue	450 - 500
Lido Four Season	400 - 550
Hartamas Heights	450 - 500
The Garden @ Bundusan	450 - 550

Source: Knight Frank Research / JPPH

RETAIL

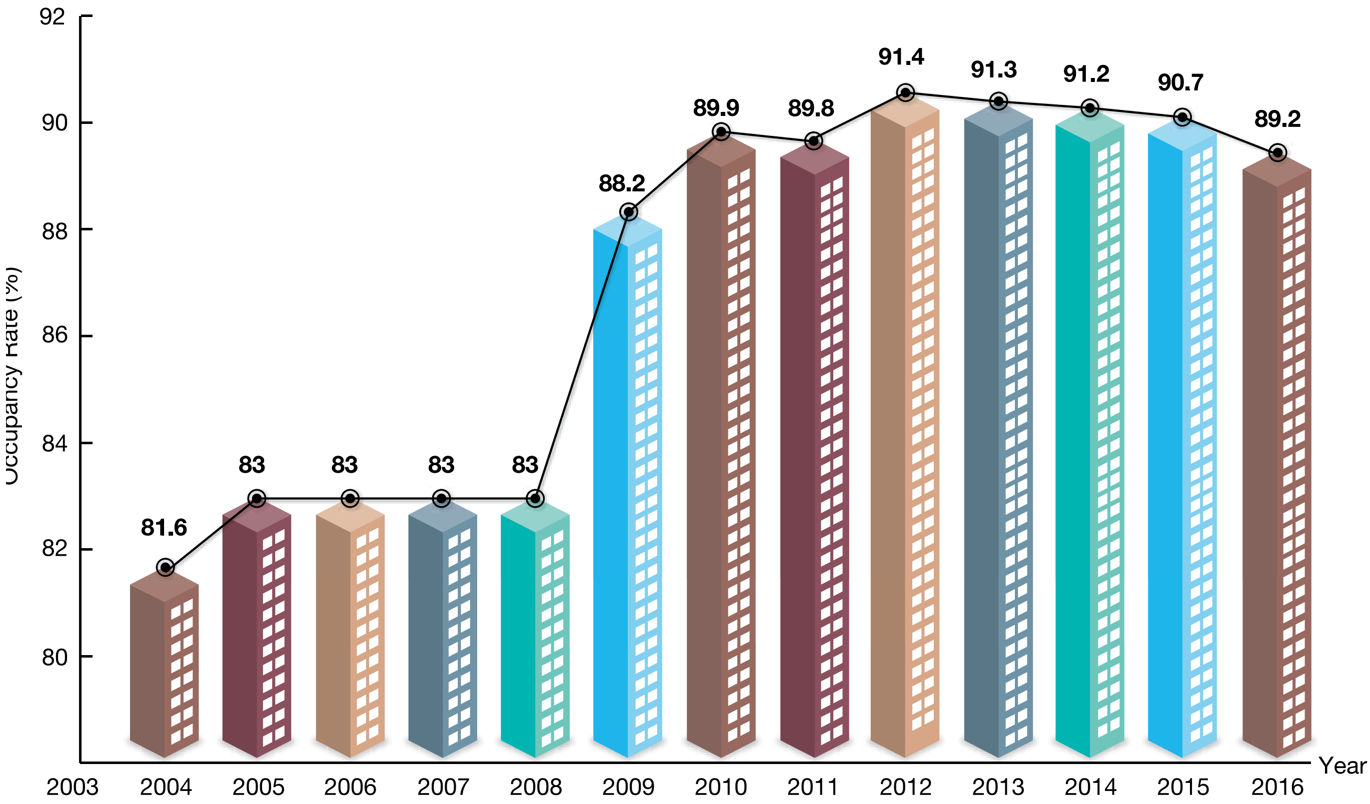
The total retail space in Kota Kinabalu currently stands at circa 5.65 million sq ft with the addition of some 74,666 sq ft from the newly completed Jesselton Mall @ Jesselton Residences. Overall occupancy rate improved from 78% in 2H2015 to 86% in 2H2016.

Pacific Sanctuary Holdings recently announced that its soon-to-be-opened Pacific Parade has successfully secured the Australia-based consumer electrical products retailer, Harvey Norman. Harvey Norman will take up 43,000 sq ft of retail space spread over two floors to mark its debut into the East Malaysia market. Other anchor tenants of the mall are TGV Cinemas' IMAX and Everrise Supermarket.

Imago Mall is still gaining its momentum in term of occupancy rate; which

FIGURE 6

Occupancy Rate of Purpose Built Office Spaces in Kota Kinabalu (%)



Source: Napic / Knight Frank Research

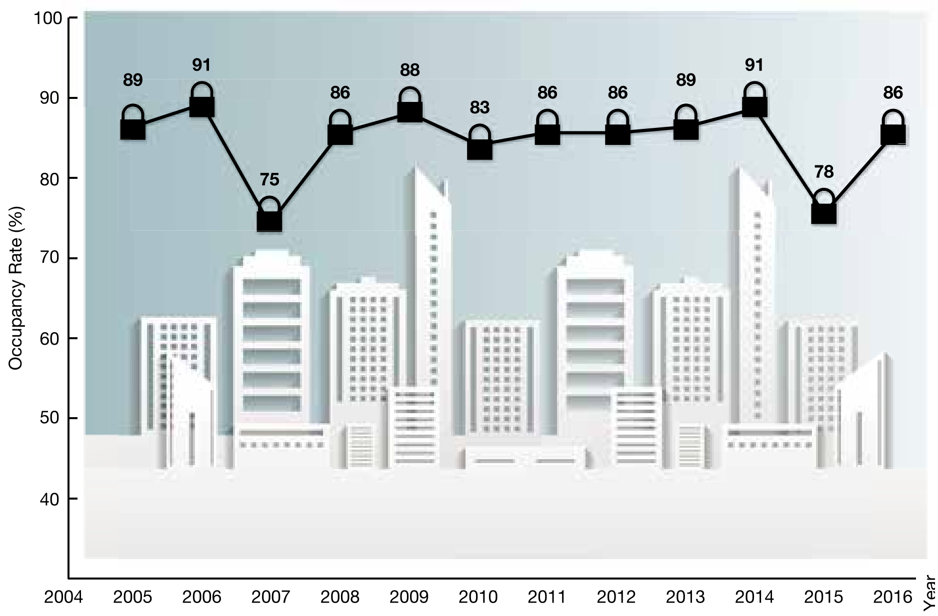
currently stands at 87% as compared to 85% recorded in 1H2016. Besides retailers such as Morganfield, Cortina Watch and Baskin Robbins who made their debut in 2016, Imago Mall has welcomed a few more well-known retailers on board such as Pandora, Habib, Ripcurl and Daiso Japan.

Grand Merdeka Mall will have its official opening in June 2017 following the recent issuance of its Certification of Occupation. It features 3-storey retail shops of various sizes with over 90% of the allocated units sold to date. The mall which has achieved occupancy rate of about 40% will see key tenants such as Food Craze, Tong's Departmental Store, SS Supersave, Amusement Centre and other junior tenants commencing business in May.

In the near future, there will be approximately 1.2 million sq ft of retail space entering the market.

FIGURE 7

Occupancy Rate of Shopping Centres in Kota Kinabalu (%)



Source: Napic / Knight Frank Research


Desa Impian

MARKET OUTLOOK

Similar to the national trend, the slowdown in market activity in Kota Kinabalu looks set to continue into 2017. With many developments in the pipeline, particularly high-rise residential projects set to be completed in the near future, the large impending supply will present tenants with a wide range of choices which will depress potential rental returns to landlords. Moreover, it will take some time for the market to fully absorb the incoming units of high rise residential projects with possibility of some downward adjustments to values which have been observed in the secondary market. However, we still maintained our view that prices of residential properties in good locations are expected to hold and there are also increasing demand for affordable homes as the market is dense with first-time homebuyers and young families.

During the review period, the office sub-sector continued to hold steady with both occupancies and rentals maintaining at relatively healthy levels. Looking forward, the occupancy for purpose-built office may face some downward pressure with the impending completion of new offices by the second half of 2017. Locally, requirements for office space are also being met by conventional shop offices which continue to remain as the preferred option for local businesses and SMEs due to lower rentals.

Meanwhile, there is still concern on the "sustainability" of the retail sector in view of the high impending supply. With heightened competition, the retail sector will face a more challenging phase and turnover is expected to be diluted. Overall occupancy rates are anticipated to be affected with new malls coming on-stream coupled with slower take-up rate for new retail space. Conversely, occupancy rates for well-managed malls with good tenant and trade mix are expected to hold.

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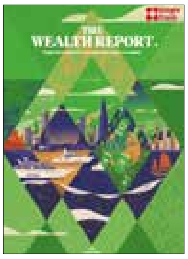

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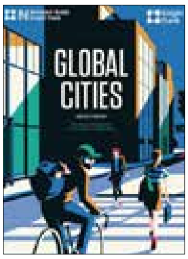

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