RESEARCH

Knight Frank

REAL ESTATE HIGHLIGHTS

2ND HALF 2018

KUALA LUMPUR | PENANG | JOHOR BAHRU | KOTA KINABALU

HIGHLIGHTS

There were noticeably more completions and launches during the review period.

Prices of high-end condominiums / serviced apartments remained resilient in the secondary market. As for the lettings market, there was a marginal rental decline in Damansara Heights.

Slight upward revision in stamp duty and real property gains tax (RPGT) rates as announced in Budget 2019 unlikely to have significant impact on the high-end condominium market.

The mass and affordable housing segments will kick-start the residential market moving into 2019, supported by various exemptions and initiatives under Budget 2019.

More launches of high-end residential products in the pipeline with improving market sentiment.

Malaysian buyers are becoming more discerning while foreign buyers find our residential products attractive for investment purpose due to the country's liberal ownership policies and with no additional stamp duty.

KUALA LUMPUR HIGH END CONDOMINIUM MARKET

ECONOMIC AND MARKET INDICATORS

Malaysia's economy recorded sustained growth at 4.4% in the 3Q2018 (2Q2018: 4.5%), driven mainly by expansion in domestic demand and higher private investment. The country's GDP for the whole year of 2018 is expected to be in the region of 4.8%.

The headline inflation at 0.5% in 3Q2018 was the lowest since 1Q2015 (0.7%) following the 3-month tax holiday from June until September. Overall headline inflation is expected to ease to 2.0% this year (2017: 3.7%).

The labour market conditions continued to remain favourable with unemployment rate at 3.4% in 3Q2018 (2Q2018: 3.3%).

During the review period, the central bank kept the Overnight Policy Rate (OPR) unchanged at 3.25% to remain accommodative and supportive of current economic activity.

SUPPLY & DEMAND

The cumulative supply of high-end condominiums / residences stood at 53,033 units following the completion of four projects during the review period. They are Ruma Residences (199 units), Pavilion Suites (383 units), Premium Residences @ KL Gateway (466 units) and Dorsett Residences Sri Hartamas (707 units).

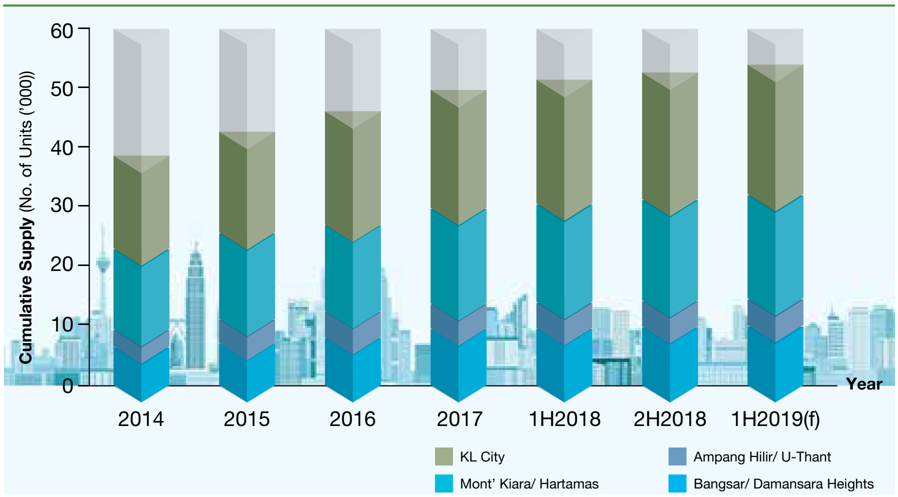
By 1H2019, the scheduled completions of Inwood Residences @ Pantai Sentral Park (211 units), One Kiara – Block A (118 units), Residensi Sefina (245 units) and Opus KL (357 units) will collectively contribute an additional 931 units to the existing stock.

During the review period, there were noticeably more previews and launches compared to 1H2018. Notable project launches include Agile Bukit Bintang (Block B) and Yoo8 of 8 Conlay (Block B) in KL City; Windsor Suites @ Pavilion Damansara Heights and; Trinity Pentamont and Residensi Astrea in Mont' Kiara.

Agile Bukit Bintang, a project that is jointly developed by Agile Group and Tropicana Corporation Berhad, features three residential towers offering a total of 1,501 units, 66 SOVO units and 14

FIGURE 1

Projection of Cumulative Supply for High End Condominiums / Residences 2014 – 1H2019 (f)



Notes:
(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 2H2018

Project	Location	Area	Total Units
The Ruma Residences	Jalan Kia Peng	KL City	199
Pavilion Suites	Jalan Bukit Bintang	KL City	383
Premium Residences @ KL Gateway	Bangsar South	Bangsar	466
Dorsett Residences Sri Hartamas	Sri Hartamas	Mont' Kiara / Sri Hartamas	707

Source: Knight Frank Research

commercial lots. Launched in June 2018, the first phase saw the unveiling of Tower B, a 60-storey building comprising 21 SOVO units and 678 semi-furnished residential units that come in six layouts with built-up areas ranging from 625 sq ft to 1,157 sq ft. The units are priced from RM1.1 million onwards with completion expected by 4Q2022.

KSK Land previewed Tower B, its second branded residence tower of Yoo8 @ 8 Conlay in July 2018. The 57-storey Tower B which was launched recently features 498 units of branded residences with sizing between 705 sq ft and 1,328 sq ft and priced from RM3,260 per sq ft. The units are designed by UK-based interior designer, Kelly Hoppen.

Trinity Group Sdn Bhd has launched its residential project in Mont' Kiara named Trinity Pentamont in September 2018. The 41-storey condominium sits on a 2.9-acre freehold site and offers 330 condominium units comprising 300 dual-key and 6 penthouse units sized from 1,379 sq ft to 4,115 sq ft. The units come with at least two car park bays and are priced from RM640 per sq ft. Slated for completion by 2022, the project features penthouse-style units targeted at the upper-middle class families with children and upgraders.

Officially launched in October, Residensi Astrea by UEM Sunrise is a 37-storey project featuring 240 condominium units. Available in six layouts with built-up areas from 1,364 sq ft to 1,859 sq ft, the units are priced between RM1.2 million and RM1.7 million. The freehold residential project is targeted for completion by 1Q2023.

Bukit Bintang City Centre (BBCC) and Pavilion Damansara Heights are two

Pavilion Suites

notable integrated developments that have been in the watch list since they were unveiled in 2016. Both projects have continued to launch their residential products braving the prevailing weak market condition in the high-end segment.

BBCC, which sits on a 19.4-acre prime address in KL City, is a joint development by UDA Holdings Bhd, Eco World and EPF. To date, the project has unveiled its initial phase comprising the Mitsui Shopping Park Lalaport KL Mall, Canopy by Hilton Hotel, the lifestyle street and landscape podium, transit and entertainment hubs, The Stride strata office and Lucentia Residences (Residential Suites 1 and 2 with total of 666 units). The upcoming phase will kick-start with the third serviced apartment block in 2019, focusing on different target market. Other components in Phase 2 include two blocks of serviced apartments and the BBCC iconic 80-storey signature tower.

Meanwhile, Pavilion Damansara Heights, the rejuvenation of the former Pusat Bandar Damansara, will feature nine office blocks, retail space and circa 1,300 residential units with sizes ranging from 600 sq ft to 2,800 sq ft in the first parcel. To date, three residential towers, namely Private Residences, Service Suites 2 and Windsor Suites (formerly known as Service Suites 1) have been unveiled. Windsor Suites, the latest tower previewed on 20th October 2018, offers 568 units of one to four-bedroom serviced residences with typical sizing ranging from 614 sq ft to 1,831 sq ft and penthouse sized 6,483 sq ft. The selling prices range between RM1,700 per sq ft and RM2,116 per sq ft.

PRICES AND RENTALS

Secondary pricing of high-end condominiums / serviced apartments in the selected localities under review were generally flat. As for the lettings market, there were marginal dip in rentals of selected schemes reviewed in the locality of Damansara Heights.

Typical units sized between 1,000 sq ft and 1,400 sq ft at Marc Serviced Residence and The Troika were transacted at around RM1,250 per sq ft and RM1,500 per sq ft respectively.

Meanwhile, in the primary market, available units of selected schemes launched previously, namely 8 Kia Peng, Eaton Residences and Lucentia Residences @ BBCC are selling from about RM1,500 per sq ft to RM1,950 per sq ft for units sized below 1,000 sq ft. Schemes launched recently are observed to have higher composition of units with smaller built-up area below 1,000 sq ft, resulting in lower quantum pricing but higher price on per sq ft basis.

In contrast to KL City, the latest launches in Mont' Kiara namely Trinity Pentamont and Residensi Astrea offer larger units sized above 1,300 sq ft with selling prices from RM640 per sq ft and RM800 per sq ft respectively.

As for the remaining units of schemes launched in 2016 and 2017 such as Arte Mont' Kiara and Solaris Parq Residensi, the selling prices are between RM900 per sq ft and RM1,350 per sq ft depending on the scheme, built-up area, floor level and other factors. The remaining units at Arte Mont' Kiara and Solaris Parq Residensi, both forming part of larger integrated developments, command higher selling prices (on per sq ft basis) due to their smaller unit sizing.

TABLE 2

Notable Launches in 2H2018

Name of Development	Agile Bukit Bintang - Block B	YOO8 - Block B	Pavilion Damansara Heights - Windsor Suites	Residensi Astrea	Trinity Pentamont
Type	Serviced Apartment	Branded Residence	Serviced Apartment	Condominium	Condominium
Tenure	Freehold	Freehold	Freehold	Freehold	Freehold
Developer	JV between Agile Group and Tropicana Corporation Berhad	KSK Land Sdn Bhd	Impian Ekspresi Sdn Bhd (Subsidiary of 1 Pavilion)	Milik Harta Sdn Bhd (Subsidiary of UEM Sunrise)	Modern Pandora Sdn Bhd (Subsidiary of Trinity Group)
Area	KL City	KL City	Damansara Heights	Mont' Kiara / Sri Hartamas	Mont' Kiara / Sri Hartamas
No. of Units	678	498	568	240	330
Unit Sizing (Min - Max)	625 - 1,157 sq ft	705 - 1,328 sq ft	614 – 1,831 sq ft	1,364 - 1,859 sq ft	1,379 – 4,115 sq ft
Selling Price	RM1,839 - RM2,107 per sq ft	RM3,262 - RM3,464 per sq ft	From RM1,700 per sq ft	From RM800 per sq ft	From RM640 per sq ft

Source: Knight Frank Research

OUTLOOK

Market sentiments have improved since the formation of Malaysia's new government in 2Q2018. In Kuala Lumpur's prime housing market, prices are generally holding firm. Looking ahead, the widening gap between supply and demand coupled with rising financing cost will continue to impinge on price growth as the market finds its equilibrium. However, with property developers generally more optimistic about the market outlook, we expect to see more launches moving into 2019 and beyond.

The slight upward revision in the rates of real property gains tax (RPGT) and stamp duty as announced under Budget 2019 are unlikely to have significant impact on the high-end condominium sector although the acquisition and disposal costs in property transactions may be higher.

In contrast, the exemptions and initiatives, in particular the waiver of stamp duty on the instrument of transfer and loan agreement for residential homes valued up to RM300,000 for a 2-year period and the 6-month waiver of stamp duty charges for properties priced from RM300,001 to RM1.0 million, are expected to kick-start the housing market moving into 2019 and beyond.

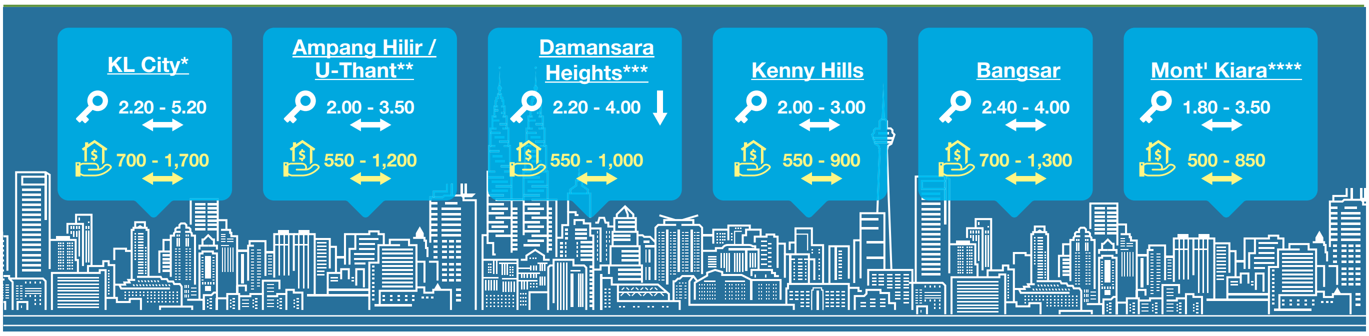
The introduction of alternative financing through 'Property Crowdfunding' will further assist first time homebuyers. Although lauded, it is imperative that the innovative financing platform is governed by stringent guidelines across the entire ecosystem to avoid potential sub-prime mortgage crisis moving forward.

The recent gazetting of the long awaited Kuala Lumpur City Plan (KLCP) 2020 is positive and will provide more clarity to developers and investors alike.

With improved transparency and accountability in the new government, the outlook for the Kuala Lumpur high-end condominium market remains one of cautious optimism with window of opportunities for recovery in the mid to longer term.

TABLE 3

Average Asking Prices and Rentals of Existing High End Condominiums 2H2018



Asking Gross Rental | Average Asking Price (RM per sq ft) | Decrease | Stagnant

* Excludes Pavilion Banyan Tree Signatures

** Excludes Damai 88

*** Excludes DC Residency and 10 Semantan

**** Excludes Icon Residence, The Signature and Verve Suites

Source: Knight Frank Research

HIGHLIGHTS

The overall occupancy recorded marginal decline during the review period following completion of more new office space while the average rental continued to hold steady as new buildings command higher rentals.

Co-working / shared services trend continues to gain momentum.

Dated office buildings in the city are expected to undergo repositioning / upgrading works to cater to the needs of occupiers.

Malaysia is ranked at 15th spot in the World Bank Doing Business 2019 Report, second after Singapore in the ASEAN region.

KLANG VALLEY OFFICE MARKET

MARKET INDICATIONS

Despite recording positive net absorption, the Klang Valley office market remained lacklustre during the review period as new completion continues to outstrip demand.

SUPPLY AND DEMAND

The cumulative supply of purpose-built office space in Kuala Lumpur and Selangor totalled circa 103.17 million sq ft as of 2H2018 following the completion of six buildings with combined space of approximately 1.84 million sq ft.

The recent completion of Menara Khuan Choo and Equatorial Plaza increased the cumulative supply of KL City to 52.35 million sq ft while in KL Fringe, the completion of Menara Etiqa and Menara Southpoint, brought its cumulative supply to 29.50 million sq ft.

In Selangor, the cumulative supply increased to 21.32 million sq ft following completion of Nucleus Tower and Tower 6 of Sky Park.

Equatorial Plaza is a mixed commercial development that is located at the former Hotel Equatorial site on Jalan Sultan Ismail The 50-storey development houses 23 levels of Grade A offices and 22 levels of luxury hotel with excellent accessibility via dual frontages on Jalan Sultan Ismail and Jalan Perak. The office component provides net lettable area (NLA) of approximately 460,000 sq ft, where 45% of the space have been committed as of December 2018.

Menara Etiqa is a new corporate office tower that has Green Building Index (GBI) Gold certification and is GreenRE Platinum rated. Located in Bangsar, opposite the LRT Station, the 38-storey tower offers 379,000 sq ft of office space with typical floor plate measuring 13,000 sq ft to 14,000 sq ft.

The newly completed Menara Southpoint is the final component of the Mid Valley City development. The 59-storey integrated tower is made up of a grand double volume lobby, 27 levels of office space, 22 levels of serviced apartments, a grand ballroom, eight levels of podium car park and four levels of basement carpark. Sandwiched between the podium car park and serviced apartment component, is 500,000 sq ft of office space with typical floor plate size of circa 20,000 sq ft.

Menara Etiqa
Source: Etiqa Life Insurance Berhad

Nucleus Tower is a newly completed Grade A office tower in Mutiara Damansara. The 25-storey tower offers circa 238,000 sq ft of column free office space with typical floor plate ranging from 9,300 sq ft to 11,000 sq ft.

Office buildings slated for completion in the next review period of 1H2019 include The Exchange 106 and Menara Prudential in KL City; and Menara Star 2, 1Powerhouse and Symphony Square in Selangor.

During the review period, the overall occupancy rate for KL City hovered around 78.7% (1H2018: 79.0%). While there were several tenant movements from Menara Citibank, Menara Dion and Rohas Purecircle, there were also new take-up at ILHAM Tower, Menara Worldwide and G Tower.

The overall occupancy rate for

decentralised office locations in KL Fringe declined marginally to record at 82.2% in 2H2018 (1H2018: 83.8%). Newly completed buildings such as Menara Etiqa and Menara Southpoint have yet to achieve significant occupancy levels.

As for the Selangor office market, the overall occupancy rate for 2H2018 was also slightly lower at 78.3% (1H2018: 79.2%). Similar to KL Fringe, newly completed buildings, namely Nucleus Tower in Mutiara Damansara and Tower 6 of Sky Park in Cyberjaya, have yet to achieve significant occupancy levels.

Meanwhile, notable work progressions and office related announcements in 2H2018 are summarised below.

In KL City, construction of the RM500 million 27-storey office tower of Menara Prudential at Tun Razak Exchange (TRX) is 93% completed and is on track to be ready by 2019. The Prudential Group is expected to move in by 1H2019. Committed occupancy is estimated at approximately 85%.

On the other hand, IJM Corp Bhd has secured a RM505 million contract from Affin Bank Bhd for the construction and completion of the superstructure works of its headquarters on a 1.25-acre site at TRX. The 47-storey Grade A office tower, made up of a 43-storey office tower atop a four-storey podium car park and a three-storey basement car park with 605 bays, will have gross floor area (GFA) of approximately 825,000 sq ft. It is scheduled to be completed by end 2020.

As for the 118-storey skyscraper of Merdeka PNB118 which offers a large floor plate measuring approximately 20,000 sq ft, it is expected to appeal to larger corporations who wish to take up the whole floor or several floors, while for smaller occupiers, it will be possible to sub-divide the space into quadrants. Permodalan Nasional Bhd, the parent company of PNB Merdeka Ventures Sdn Bhd will be taking up about half of the 83 floors of space in the building. The 3-phase project is expected to be fully completed by 2024.

Meanwhile, Pesona Metro Holdings Bhd has secured a contract valued at RM218.22 million from Pembinaan Kery Sdn Bhd, a wholly-owned subsidiary of Melati Ehsan Holdings Bhd, to build an office tower in Jalan Conlay. The 41-storey commercial tower will house 32 levels of office suites, one level of facilities, five levels of elevated car park, and three levels of basement car park. Construction is expected to be completed by end 2020.

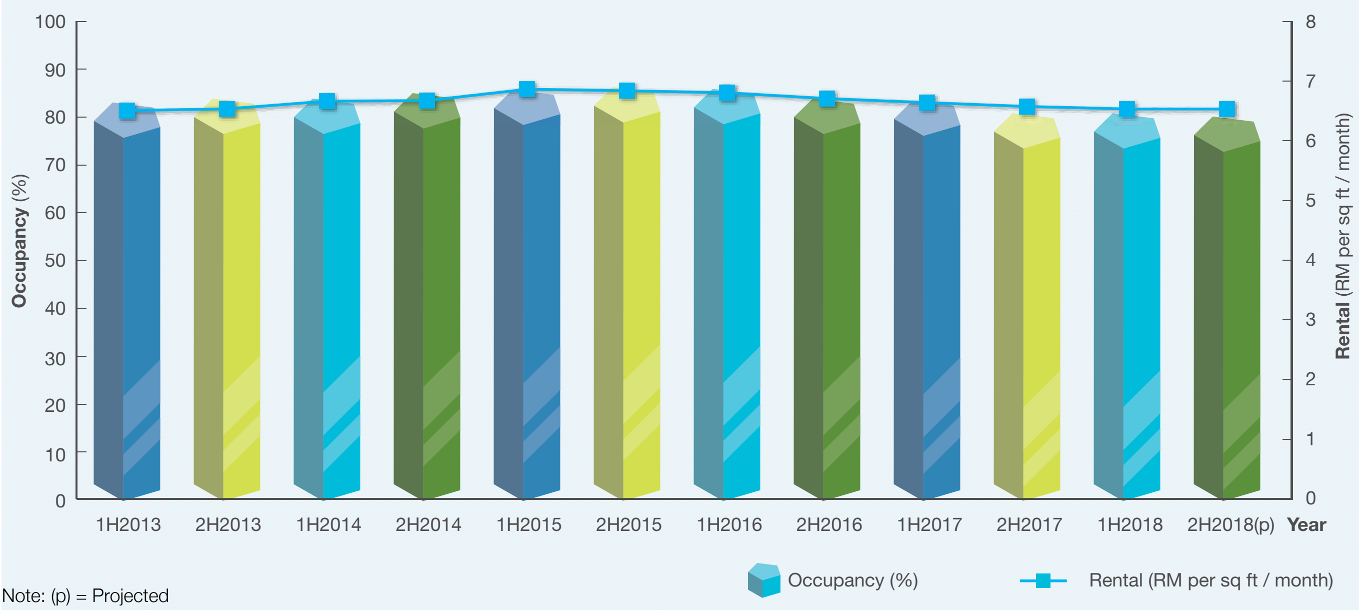
There are also plans to demolish the 23-storey Wisma MCA in Jalan Ampang, Kuala Lumpur and build a 70-storey skyscraper with estimated gross development value (GDV) of up to a RM1 billion. The new plans for an eight-storey basement car park, 27 floors of offices, a 328-room hotel on 24 floors and a two-storey sky lounge and restaurant on the 68th and 69th floors were approved by Dewan Bandaraya Kuala Lumpur (DBKL) on 2nd August 2018.

Over in KL Fringe, WCT Berhad, a wholly-owned subsidiary of WCT Holdings Bhd has secured a construction contract worth RM1.77 billion from Impian Ekspresi Sdn Bhd for the execution and completion of nine blocks of office towers and three blocks of serviced apartments on a podium block comprising retail space, mezzanine floors and works to lower ground floor and basement car park within the mixed-use commercial development of Pavilion Damansara Heights. Construction is expected to be completed by end of 2021.

State utility giant TNB is unlocking its assets by undertaking three development projects fronting the main road of Jalan Bangsar with a combined GDV exceeding RM2 billion. Earth-clearing and piling works for all the three projects have started. The first project involves the development of 3.76 acres at the corner

FIGURE 2

Occupancy and Rental Trends in Kuala Lumpur 1H2013 – 2H2018(P)



Note: (p) = Projected

Source: Knight Frank Research

of Jalan Bangsar and Jalan Pantai Baru, facing the New Pantai Expressway. The second project, comprising four office blocks with shared facilities and the Balai Islam Centre, is within the compound of the existing TNB headquarters while the third project involves the development of a complex for building generation on about 14.0 acres, also in the locality of Jalan Pantai Baru.

See Hoy Chan Holdings Group has launched its RM1 billion 1Powerhouse project that will comprise some 450,000 sq ft of office space in a 31-storey tower, 4-star Avante Hotel housing 640 rooms and circa 500 parking bays to increase the MRT station's park and ride capacity.

The group is also spending RM180 million on its elevated dispersal link, to connect 1Powerhouse to the old and new wings of 1 Utama Shopping Centre as well as exits to Dataran Bandar Utama. This is to ease congested traffic flow in and around the popular shopping centre. The mixed development is expected to be fully completed by 2H2019.

PRICES AND RENTALS

During the review period, the average achieved rentals for both KL Fringe and Selangor inched up marginally to record at RM5.75 per sq ft (1H2018: RM5.72 per sq ft) and RM4.22 per sq ft (1H2018: RM4.20 per sq ft) respectively following single digit growth in rentals of selected good grade office buildings during tenancy renewals.

The average achieved rental in KL City, however, remained flat at RM7.15 per sq ft as owners / landlords of newer office buildings offer competitive rental and attractive tenancy terms to improve take-up.

In Kuala Lumpur, well located Grade A office space continued to command higher asking rents, ranging from RM6.00 per sq ft to RM11.00 per sq ft per month while in Selangor, the asking rents are more competitive, ranging from RM4.50 per sq ft to RM6.00 per sq ft per month.

Investment activities for office buildings will continue to remain subdued moving into 2019.

Fund managers / REITs are more cautious in new office investments due to the current oversupply situation. There are, however, investors who continue to seek pockets of opportunities in strategically located prime office buildings.

A few notable office buildings were put up for sale during the review period.

Ahead of the completion of its new RM1 billion headquarters in the Tun Razak Exchange (TRX), HSBC Bank Malaysia Bhd has placed Menara HSBC South Tower (which currently houses its main office) in Leboh Ampang up for sale. With GFA of 238,000 sq ft and NLA of 173,000 sq ft, the 20-storey building may fetch about RM120 million (RM693 per sq ft). Should a deal be completed speedily, it will come with an initial guaranteed rental for the first couple of years, pending completion of the bank's new headquarters and relocation to TRX.

Felcra Bhd is looking for potential buyers for its Menara Felcra project at Jalan Sultan Yahya Petra which is 50% complete. Felcra has already held discussions with several interested parties. Under the original development plan, Felcra as the landowner was not obligated to bear any of the costs for the project, but after the change in the contract with the original developer, WZR Property Sdn Bhd, Felcra would have

TABLE 4

Selected Grade A Office Asking Rentals 2H2018

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	7.50
Menara Darussalam	10.50
Menara Binjai	8.80
Menara Hap Seng 2	7.00
KL FRINGE	
Menara Etiqa	7.00 - 7.50
Mercu 2 / Mercu 3	6.00 - 6.50
Axiata Tower	7.50
1 Sentrum	8.50
Menara LGB	6.50 - 7.50
The Gardens North & South Towers	7.50
Vertical Corporate Tower B	6.00
Menara BRDB	7.10
SELANGOR	
1 First Avenue	6.00
Surian Tower	5.50
The Ascent @ Paradigm	5.50
Puchong Financial Corporate Centre (Towers 4 & 5)	4.50
The Pinnacle	5.50
Wisma Mustapha Kamal	4.80
Quill 18 (Block B)	5.00

Source: Knight Frank Research

to bear the full construction cost. The construction was subsequently taken over by Felcra Properties Sdn Bhd due to difficulties in obtaining financing for the project.

OUTLOOK

The office market is expected to remain vibrant in the KL Fringe area moving into 2019.

Due to the influx of new buildings, particularly in TRX, occupancy rate in KL City is expected to decline marginally. However, rental rates will continue to hold steady as newer buildings tend to command higher rental rates.

The trend of co-working and shared services is a sweet spot in the challenging office market environment. Labelled "space as a service", the rising popularity of this market segment is demand driven by freelancers, start-ups and small and medium sized entrepreneurs (SMEs).

We will continue to see active take-up by co-working, shared services and IT related industries.

Dated but well located office buildings such as Menara Weld, Menara Standard Chartered, Menara Maxis and Menara Milenium will reportedly be undergoing repositioning / upgrading works to improve their market competitiveness in terms of rental and occupancy levels.

The new government's concerted efforts to implement numerous regulatory reforms augur well for the business operating environment and this is expected to be positive for the country's economic and property market performance over the longer term.

Malaysia moved up nine places to rank number 15 in the World Bank Doing Business 2019 Report. Among the ASEAN countries, Malaysia is ranked second with 80.60 points after Singapore with 85.24 points.

TABLE 5

Selected Notable Tenant Movements 2H2018

Building Name	Approx. Space (sq ft)	Remarks
KL CITY		
Menara Standard Chartered	~29,300	Moving in • Compass Offices
JKG Tower	~14,000	Moving in • Sime Darby Lockton Insurance
ILHAM Tower	~40,800	Moving in • Coway Malaysia
KL FRINGE		
Menara Southpoint	~80,000	Moving in • Garena Malaysia • Shopee Malaysia
Mercu 3	~135,000	• Moving in • Zurich Malaysia • F-Secure Corporation (M) Sdn Bhd
Mercu 2	~46,600	Moving in • Gibraltar BSN Life Berhad
Menara KEN TTDI	~ 26,000	Moving in • DKSH Global Corporate Services
SELANGOR		
UOA Business Park	~22,500	Moving in • WorQ Co-Working Space

Source: Knight Frank Research

TABLE 6

Selected Office Investment Sale 2H2018

Building Name	Location	Approx. Lettable Area (sq ft)	Consideration (RM per sq ft)
Fujitsu Building[1]	Cyber 5, Cyberjaya	52,473	549

Note:

(1) Michaelian Holdings Sdn Bhd has disposed Fujitsu Building, a three-storey office building with two levels of basement car park for a total consideration of RM28.8 million. The freehold building is the first MSC status-granted standalone building in Cyberjaya.

The deal was concluded by Knight Frank Malaysia

Source: Knight Frank Research

HIGHLIGHTS

The MIER Consumer Sentiment Index (CSI) remained above the optimism threshold of 107.5 points in 3Q2018 dropping from a 21-year high of 132.9 points in 2Q2018.

Projected retail sales of 6.1% and 4.3% for 3Q2018 and 4Q2018 respectively boosted by the 3-month tax holiday and reintroduction of Sales and Services Tax (SST) superseding the Goods and Services Tax (GST).

Recent completion of circa 1.40 million sq ft NLA of retail space brings Klang Valley's cumulative supply to 58.97 million sq ft in 2H2018.

More malls are embarking on asset enhancement initiatives (AEIs) and creating new experiences to stay relevant in the competitive retail market.

Grocery stores are offering wider selection of premium goods while incorporating food experiences.

The review period saw more creative ideas and trends embracing technological innovation. An unmanned restaurant and a selfie museum have made their debut, creating another level of experience in the local retail scene.

KLANG VALLEY RETAIL MARKET

MARKET INDICATIONS

The MIER Consumer Sentiment Index (CSI) slipped 24.5 points to 107.5 points in 3Q2018, from a 21-year high of 132.9 points in 2Q2018. It, however, remained above the demarcation level of 100 points threshold of optimism as consumers continue to be positive on their income levels and employment outlook.

The 3-month tax holiday and reintroduction of Sales and Services Tax (SST) superseding the Goods and Services Tax (GST) has boosted the retail industry with projected retail sales of 6.1% and 4.3% for 3Q2018 and 4Q2018 respectively. The Malaysia Retailer Association (MRA) has revised its full year 2018 retail sales forecast to 4.1%, an optimistic figure compared to the 2.0% growth for year 2017.

SUPPLY & DEMAND

Over the review period, five shopping centres with combined NLA of approximately 1.40 million sq ft were completed, bringing the cumulative supply of retail space in Klang Valley to circa 58.97 million sq ft.

The new completions are The Linc, GM Bukit Bintang, KL Eco City Retail Podium, Eko Cheras Mall and Kiara 163.

The Linc, a retail centre with about 127,000 sq ft NLA, opened in November with circa 75% occupancy.

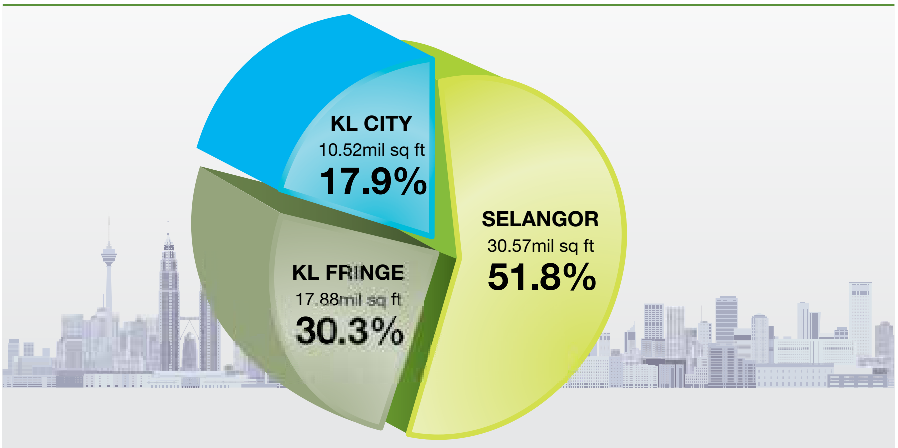
GM Bukit Bintang (GMBB) is part of a mixed development in Kuala Lumpur City with 100,000 sq ft retail space. Soft launched in October, its tenants include Jamaica Blue Fine Coffees, myNews.com and 7-Eleven.

KL Eco City Retail Podium with circa 250,000 sq ft NLA made its debut in September. Targeting the greater communities of Bangsar – Seputeh as well KL - PJ, the five-storey retail podium is home to the biggest Jaya Grocer store dubbed Bangsar Market, spanning 50,000 sq ft.

Eko Cheras Mall is an integrated development consisting retail, residential, office and hotel components. Located approximately 300 metres away from the Taman Mutiara MRT Station, the 4-storey lifestyle mall offers 625,000 sq ft of retail space.

Eko Cheras Mall

CHART 1
Existing Cumulative Supply of Retail Space (Net Lettable Area) 2H2018



Source: Knight Frank Research

Opened in December, Kiara 163 is a lifestyle mall with NLA of 300,000 sq ft.

Amid growing competition in the retail market, more owners and operators of shopping centres are embarking on asset enhancement initiatives (AEIs) and refreshing their trade and tenant mix to cater to changes in shopping trends as well as to attract higher footfalls.

In September, the Lower Ground Level at Midvalley Megamall underwent a layout repositioning; whereby partial space previously occupied by AEON Big was subdivided into smaller retail lots. The layout repositioning and tenant mix stimulation saw the entry of new tenants such as Ah Cheng Laksa, San Francisco Coffee Express, Spa Ceylon Luxury Ayurveda, and Marks & Spencer Food.

During the same month, the Lower Ground Level of The Gardens Mall also completed its AEI on an underutilised area that connects to the parking lifts at the north section of the mall. The 14,000 sq ft extension is now home to 12 tenants in


The Gardens Mall Extension

the F&B and lifestyle segments with new tenants such as Yu by Yuri, The Morning After, Mr Tuk Tuk, Jinjja Chicken and Wendy's.

Paradigm Mall in Petaling Jaya has completed its first AEI in October with new eateries and a food court on level LG.

Despite the closure of Parkson's 107,000 sq ft outlet in Sungei Wang Plaza, Capitaland Malaysia Mall Trust (CMMT), which owns 62% of the strata-titled shopping mall, continues to undertake AEI to transform the former iconic shopping destination, the third major refurbishment and reconfiguration since 2013. There will be a new zone, JUMPA, in its 5-storey annexe block. JUMPA will cater to modern retail needs, offering specialty retail, F&B, athleisure and family entertainment space with a brand-new attitude. The retail space is expected to launch in 1H2019.

The zero-rated Goods and Services Tax (GST) has created a positive lift in the retail segment.

Lush first outlet opens in Pavilion

The review period continued to mark the entrants and expansions of international and local brands. Notable openings include Lush, Jacob & Co, Dean & DeLuca, Blancpain, Steve Madden and Victoria Secret's flagship store.

There were also closures of outlets / exit of brands due to falling sales and changes in retail trends.

Lifestyle bakery and bistro, The Loaf, closed all its 12 outlets in the country after 12 years in business while the Harrods Café in Suria KLCC closed its doors in June 2018.

In August 2018, Aeon Malaysia which owns 49% of Thai-headquartered Index Living Mall business in Malaysia announced the closure of its Index Living furniture outlets in the country. The affected outlets in Klang Valley are located at Aeon Shah Alam and IOI City Mall in Putrajaya. The leading retailer will, however, continue to refurbish selected stores and employ appropriate marketing and pricing strategies for its retail business. As for its property management services, it expects occupancy and rental levels to remain stable and sustainable.

The remaining outlet of Rock Corner at The Gardens Mall closed down in September after 28 years in business.

Meanwhile, the closure of MPH Bookstore in 1 Utama Shopping Centre leaves the chain with less than 30 outlets across the country. Brick and mortar bookstores face competition from online options like ebooks and online bookstores.

PRICES AND RENTALS

The monthly gross rentals of prime shopping centres in Klang Valley remained resilient.

Prime and established regional and neighbourhood shopping centres with proven track record of high visitation remain as the preferred choice for retailers, both local and international, even at high rentals as there are potential to achieve better sales.

Pavilion Kuala Lumpur and Suria KLCC continued to command higher average monthly rentals, averaging at about RM26.00 per sq ft and RM37.00 per sq ft respectively.

As for the other popular retail destinations such as Sunway Pyramid and Mid Valley Megamall, the gross rentals range from RM14.00 per sq ft to RM17.00 per sq ft per month on average.

Newly completed / operational shopping centres which have yet to achieve high precommitted take-up are offering longer rent free period and competitive rates to boost occupancy levels amid challenges in the retail market.

OUTLOOK

Another six new shopping centres / supporting retail components within integrated developments, offering combined retail space of 4.04 million sq ft, are expected to come onstream by 1H2019.

Retailers continue to be spoilt for choice. Developers of new and less prominent shopping centres are offering attractive incentives, partnership and short-term tenancies to pop-up retailers to improve occupancy levels.

Moving forward, we will see the downsizing of hypermarkets as their owners respond to current consumer preference for smaller stores as well as the closure of non-profitable outlets due to changes in domestic retail trends.

Tesco Stores (M) Sdn Bhd is reportedly looking to venture into property development to monetise its assets by redeveloping its larger stores in selected localities in Klang Valley.

Premium neighbourhood grocers such

TABLE 7

Incoming Retail Supply 2H2018 - 1H2019

Name of Shopping Mall	Location	Estimated Net Lettable Area
2H2018 - New Completion/ Opening		
The Linc	KL City	127,000 sq ft
GM Bukit Bintang	KL Fringe	100,000 sq ft
KL Eco City Retail Podium	KL Fringe	250,000 sq ft
Kiara 163	KL Fringe	300,000 sq ft
EKO Cheras Mall	KL Fringe	625,000 sq ft
1H2019 - Expected Completion/ Opening		
TRX Financial Quarter (Mulia 106 Exchange)	KL City	126,000 sq ft
Star Boulevard	KL City	126,000 sq ft
Queensville	KL Fringe	412,000 sq ft
Pinnacle	Selangor	140,000 sq ft
Central i-City Shopping Centre (Central Plaza @ i-City)	Selangor	940,000 sq ft
Empire City Damansara Mall	Selangor	2,300,000 sq ft

Source: Knight Frank Research

TABLE 8

Retail Investment Sales 2H2018

Building Name	Location	Approx. Lettable Area (sq ft)	Consideration (RM per sq ft)
SStwo Mall[(1)]	Petaling Jaya	460,000	RM180.0 million (RM391 per sq ft)
Setapak Central Mall[(2)]	Setapak	494,000	-

Notes:

(1) The Puchong-based DK Group of Companies has completed the deal at the end of July. The deal is done between AsiaMalls Sdn Bhd and DK Group of Companies.

(2) The Singapore-based ARA Asset Management Ltd has entered the deal with AsiaMalls Sdn Bhd.

Source: Knight Frank Research

as Jaya Grocer, Village Grocer and Ben's Independent Grocer have successfully incorporated food experiences within their selected outlets that span 20,000 sq ft to 25,000 sq ft on average.

Retailers are also embracing technology to innovate in-store experiences.

Restaurant "grEAT" in 1 Utama Shopping Centre is the first automated restaurant without any waiters, where all orders are just one tap away.

China's BingoBox has hit Malaysian shores with stores at Bukit Ceylon and Shell Jalan Tun Razak. The company which operates unmanned convenience stores using technology in artificial intelligence, image recognition, facial recognition and theft prevention system, has tied up with Scientific Retail, a local company.

The country's very first Selfie Museum opened in Fahrenheit 88 in August 2018. This latest attraction spans over 7,000 sq ft and features nine different themes for photo fantasies, creating a multi-sensorial experience to match the contemporary "Insta-worthy' trend.

In conclusion, with supply continuing to outstrip demand, lesser established and new shopping centres without high pre-committed take-up will continue to face challenges in the diluted retail market.

Rentals will continue to be under pressure as operating costs rise although the new increase in minimum wage is not expected to have a major impact on the retail industry.

Owners and operators of existing shopping centres need to continuously refresh and reinvent their assets and offerings by embarking on AEIs while retailers need to ensure that their stores remain relevant to cater to current shopping habits. In terms of investment and revaluation, the market value holds steady with some of the prime shopping centres reporting an average increase of between 1.0% and 4.5%. The short term outlook for the retail sector is one of caution amid a slowdown in the country's economy.

HIGHLIGHTS

The construction of state-of-the-art, multi-storey warehouses that are sizeable in scale, continues to garner momentum as manufacturers and logistics operators seek to mitigate high land costs and centralise their operations.

The country's aerospace industry is poised for further growth as Khazanah will lead and develop an 80-acre site in Subang and transform it into an aerospace hub. By 2020, the government targets to develop 30 more small and medium enterprise (SME) players operating in the sector.

The proposed free trade zone (FTZ) on 380 acres of land in Pulau Indah will serve as a catalyst to spur more shipping and logistics activities in Port Klang.

The on-going trade war between China and the United States may serve as a window of opportunity for Malaysia to attract manufacturers from both economic superpowers to set up their production facilities here. Malaysia is not susceptible to tariffs which are imposed by the countries due to the trade war.

KLANG VALLEY INDUSTRIAL MARKET

MARKET INDICATIONS

Malaysia's industrial production index (IPI) was higher by 4.2% year-on-year (y-o-y) in October 2018. Growth in the IPI was supported by higher output in the manufacturing and electricity sectors.

Selangor, the gateway to the Asean market given its strategic location with well-developed infrastructure and pool of skilled labour, had the highest number of approved manufacturing projects (83) for the January to June 2018 period. The state was ranked in 3rd position in terms of proposed capital investment with RM3.10 billion.

In the aerospace sector, the government is looking to develop 30 more new SMEs by 2020. The "3S" aerospace belt of Selangor, namely Subang, Serendah and Sepang, is poised for growth moving into 2019 and 2020. Khazanah Nasional Berhad together with agencies such as Majlis Amanah Rakyat (Mara) will revive the 80-acre aerospace hub in Subang, a project first mooted in 1997.

Meanwhile, to spur trading activities, the government will convert 380 acres of land in Pulau Indah into a free trade zone (FTZ) to support and increase shipping and logistics activities in Port Klang.

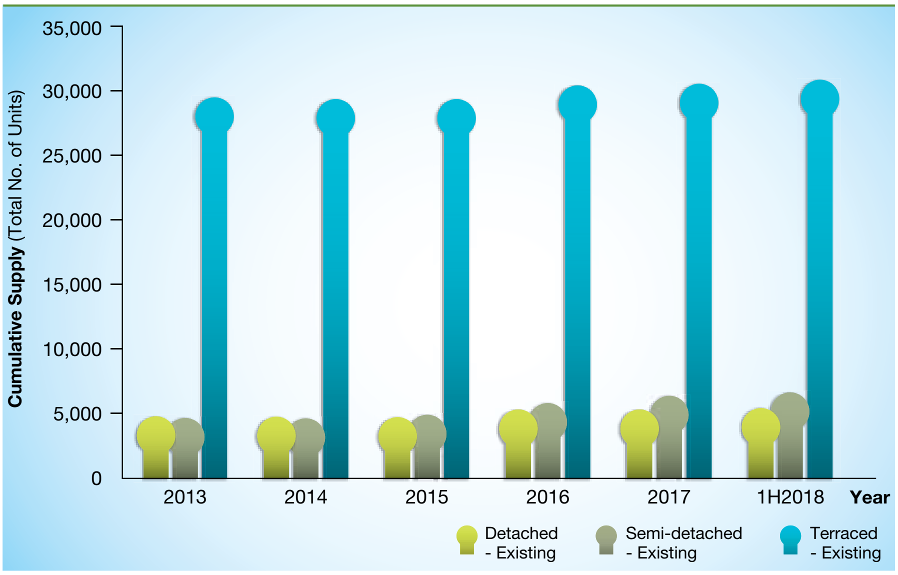
SUPPLY & DEMAND

LYL Group completed two build-to-suit warehouses measuring 118,000 sq ft and 154,000 sq ft respectively in August 2018. The new facilities which are located in the 65-acre LYL Logistics Park in Section U10 of Shah Alam are to be occupied by logistics firm, DB Schenker as part of its business expansion.

The first phase of Axis Mega Distribution Centre (AMDC) was recently completed. Located in Taman Industri Sijangkang Utama in Telok Panglima Garang, the facility by Axis Real Estate Investment Trust (Axis REIT) comes equipped with high specifications that include high-end sprinkler system, LED lighting and rainwater harvesting system. It is the new distribution centre for Nestle Products Sdn Bhd.

Alpha Galaxy Group of Companies is currently developing the Galaxy Logistics Hub on a 60-acre plot of land in Kuala Selangor. It will consist of two warehouse blocks with total built-up area of 1.5 million sq ft that come equipped with firefighting system in compliance with FM standard. More than half of the warehouse space, measuring 850,000 sq

FIGURE 3
Cumulative Supply of Terraced, Semi-Detached and Detached Factories 2013 - 1H2018



Source: NAPIC

ft, will be anchored by Continental Tyres PJ Malaysia as its national distribution centre. The facility is expected to be ready by 1Q2019.

In the industrial zone of Section 21, Shah Alam, Nippon Express (Malaysia) Sdn Bhd will be constructing a new warehouse on the former site of Silverbird Complex. The new double-storey facility on the 14.7-acre site will feature wide ramp up and offer a total built-up area of 682,658 sq ft. Groundworks are in progress with construction slated for completion by December 2019.

At Bandar Bukit Raja in Klang, the upcoming headquarters for CJ Logistics consists of a 3-storey warehouse with a 3-storey office building annexe that comes with wide multi-storey ramp up. The facility comes with a total built-up area of 525,949 sq ft. Construction is at 65% with full completion slated by 2Q2019. CJ Logistics will rent out part of the facility to other firms and upon its opening, it is expected to achieve close to full occupancy.

Sizeable industrial facilities with higher specifications such as generous clear height exceeding 40 ft, automated loading platforms, high standard sprinkler system and automated racking systems are also gaining popularity.

Mapletree Logistics Hub Shah Alam is a multi-tenanted facility that comes with wide multi-storey ramp up which are feasible for larger trailer trucks (for 40ft containers) to manoeuvre, top-notch sprinkler system, automated loading platforms and LED high beam lighting. The first phase was fully completed in November 2017 while the subsequent phase commenced operations in April 2018. As of December 2018, the entire facility has an overall occupancy rate of circa 89%, a testament that strong latent demand is present for industrial properties with high specifications.


Mapletree Logistics Hub

There are several notable incoming industrial developments within Klang Valley that share common features - gated and guarded concept with higher specifications that include high-speed fibre optic broadband and, separate heavy vehicle entry and exit gates.

Located in Section 23 of Shah Alam, Hap Seng Industrial Hub spans more than 20 acres and is the first in Malaysia that comes with a dedicated basement

TABLE 9

New Industrial Facilities with High Specifications

Name/ Description of Building	Location	Estimated Built-up	Status
EXISTING DEVELOPMENTS			
Axis Mega Distribution Centre	Taman Industri Sijangkang Utama	515,000 sq ft	Phase 1: Completed January 2018 Subsequent phases to be launched
Mapletree Logistics Hub - Shah Alam	Section 22, Shah Alam	2,294,115 sq ft	Second phase opened on April 2018 First phase opened on November 2017
INCOMING DEVELOPMENTS			
Headquarters for Century Logistics	Bandar Bukit Raja, Klang	470,000 sq ft	Under construction, expected completion 2Q2019
Warehouse for Nippon Express	Section 22, Shah Alam	682,658 sq ft	Under Construction, expected completion December 2019
Area Logistics @ Ampang	Ulu Kelang Free Trade Zone	1,200,000 sq ft	Under Construction, expected completion 3Q2019
Galaxy Logistics Hub	Kuala Selangor	1,500,000 sq ft	Under Construction, expected completion 1Q2019

Notes:
(1) Mapletree Logistics Hub – Shah Alam is professionally managed by Knight Frank Malaysia
(2) Both Mapletree Logistics Hub- Shah Alam and Axis Mega Distribution Hub were completed in 1H2018. At the time of writing, Mapletree Logistics Hub - Shah Alam was still in the process of securing tenants while Axis REIT was actively seeking opportunities for its Phase 2 development.

Source: Knight Frank Research

car park offering over 900 bays. The development comprises a 6-storey flatted warehouse; 12 units of 5-storey semi-detached factories and 4 units of 3-storey detached factories as well as a 5-storey retail cum office component with combined NLA of 59,809 sq ft. The project is currently at piling stage and is expected to be completed by 2020.

Eco Business Park V is an on-going gated and guarded industrial park on 518 acres of land in Bandar Puncak Alam. To date, launched components include cluster, service, semi-detached and detached factories, with estimated sales rate of circa 89% as of December 2018.

The rise of e-commerce activities has breathed a new life to the city's industrial property market. Area Management Sdn Bhd (AREA), a real estate private equity firm, is constructing a 1.2 million sq ft three-level warehouse in the Ulu Kelang Free Trade Zone. The warehouse, which is currently at 55% completion stage, is targeting to obtain its certificate of completion and compliance (CCC) by 3Q2019. Located approximately 6.8km from KLCC, this inner city distribution hub is targeted at tenants / occupiers in the e-commerce / logistics sector who strive to provide same-day delivery services to their customers within the capital city and its surrounding fringe areas.


AREA Ampang

During the review period, AREA acquired a parcel of industrial land measuring 212 acres at Kota Seri Langat in Banting for RM320 million. Unveiled as THE COMPASS @ Kota Seri Langat, the gated and guarded industrial park will feature ready built detached factories (built-ups of 12,000 sq ft to 75,000 sq ft) and customised build-to-lease units sized from 200,000 sq ft.

TABLE 10

Selected Developments: Existing and Future Supply

Name of Development	Location	Developer	Status	Remarks
LYL Logistics Park	U10 Shah Alam	LYL Group	On-going	• Within a 65-acre existing logistics park • 2 units of built-to-lease warehouses with built-ups of 118,000 sq ft and 154,000 sq ft respectively • To be occupied by DB Schenker
Hap Seng Industrial Hub	Section 23, Shah Alam	Hap Seng Land	Upcoming	• New industrial hub spanning more than 20 acres • Components include the following:
				
Eco Business Park V	Bandar Puncak Alam	Jointly developed by Eco World Development Berhad and KWSP	Upcoming	• Gated and guarded industrial park spanning 518 acres. • Products launched to date include: • 92 units of cluster factories • 64 units of service factories • 28 units of semi-detached factories • 12 units of detached factories
THE COMPASS @ Kota Seri Langat	Kota Seri Langat	AIDF Industrial Park Sdn Bhd (1)	Under Planning	**Components:** • Ready built detached factories measuring between 12,000 sq ft and 75,000 sq ft. • Build-to-lease detached factories measuring at 200,000 sq ft and above

Hap Seng Industrial Hub components:

Type	No. of Units	Approx. Built-up per unit
6-storey flatted warehouse	1	525,091 sq ft (mezzanine 16,881 sq ft)
5-storey semi-detached factory	12	42,052 sq ft
3-storey detached factory	4	35,565 – 62,760 sq ft
5-storey retail & office	1	59,809 sq ft

• Dedicated basement car park with over 900 bays

Note:
(1) AIDF Industrial Park Sdn Bhd is a special purpose vehicle of AREA Group of Companies

Source: Knight Frank Research

Similarly, Mapletree Dextra Pte Ltd had entered into an agreement to purchase 38.80 acres of industrial land in Section 15, Shah Alam, from UMW Holdings Bhd for a consideration of RM287.7 million. UMW will in turn rent part of the land from Mapletree for at least 3 years at a yearly rental totalling RM12.6 million.

PRICES & RENTALS

Established and mature industrial areas in selected localities within Klang Valley continue to undergo transformation over the years. Due to rapid developments in the surrounding areas and rising land prices, many of these industrial premises sit on lands which are ripe for redevelopment.

In Kuala Lumpur, the industrial hotspots of Chan Sow Lin and Segambut continue to witness redevelopments in the form of higher density projects which can generate higher gross development values (GDVs). Similar trend can also be observed in industrial areas such as Section 13 of Petaling Jaya in Selangor.

In contrast, new industrial parks on greenfield sites are coming up in areas supported by transport infrastructure developments and offer large tracts of land for development at lower and attractive land costs.

Notable on-going and upcoming industrial parks that are looking to capitalise on improved connectivity, for example via the RM6 billion West Coast Expressway (WCE) project include THE COMPASS @ Kota Seri Langat and Eco Business Park V.

The on-going WCE project which is over 50% complete will connect the main coastal towns such as Klang, Kuala Selangor, Teluk Intan, Setiawan, Manjung and Hutan Melintang. Spanning some 233km with 21 interchanges, of which, 10 are in Selangor and 11 in Perak, it will also be linked to existing highways including the North-South Expressway, South Klang Valley Expressway, North Klang Valley Expressway and Shah Alam Expressway.

The average asking rentals for detached factories in areas such as Chan Sow Lin and Segambut have exceeded RM2.50 per sq ft per month. In Shah Alam and Klang, rental rates hover between RM1.30 per sq ft and RM1.80 per sq ft per month.

Industrial cum warehouse space that come with state-of-the-art facilities and higher specifications (build-to-suit / build-to-lease) are able to command significant premium in rental rates.

Build-to-suit Axis Mega Distribution Hub, which is located at Taman Industri Sijangkang Utama, command high rental rate of circa RM3.11 per sq ft per month while the asking rental at Mapletree Logistics Hub in Shah Alam is in the region of RM2.00 per sq ft per month.

Meanwhile, we were given to understand that monthly asking rentals at the on-going Hap Seng Industrial Hub which is available for lease only range from RM1.80 per sq ft to RM2.50 per sq ft per month.

OUTLOOK

The prospects for Klang Valley's industrial and logistics property market remain positive as more clarity in the policies of the newly elected government unfolds.

Several measures announced under the recently tabled Budget 2019 will support growth of the industrial sector, especially high-technology industries. The National Policy on Industry 4.0 or Industry4WRD, strives to catalyse growth of key sectors in the realm of electrical & electronics, machinery & equipment, chemicals, aerospace and medical devices. It will pave the way for enhanced productivity, job creation and high skilled talent pool in the manufacturing sector.

Malaysia remains a competitive investment location for foreign investors despite rising competition and a challenging external environment. The country was ranked 25th out of 140 countries in the World Economic Forum's (WEF) 2018 Global Competitiveness Report (GCR). Within Asia-Pacific, Malaysia was ranked eighth most competitive behind Singapore, Japan, Hong Kong, Taiwan, Australia, South Korea and New Zealand.

From January to August 2018, Malaysia approved RM61.6 billion in both domestic and foreign investments, up from RM40.4 billion during the same period in 2017, with the manufacturing sector accounting for RM49.8 billion, or circa 80.8% of investments approved. Among the total investments approved, FDI stood at RM43.8 billion (71.1%) as opposed to RM24.4 billion (60.4%) in the corresponding period.

We will continue to see more global companies making Malaysia their hub, following in the footsteps of IKEA Regional Distribution Centre in Pulau Indah and Lazada e-Commerce Regional Distribution Centre in Sepang.

In the mid-term, the on-going US-Sino trade conflict is expected to benefit Malaysia, particularly in the electronic integrated circuits, liquefied natural gas and communication apparatus segments.

HIGHLIGHTS

New residential launches on the island comprised mostly serviced suites, mid-range residential developments and affordable homes whilst on the mainland, developers generally focus on landed housing schemes with some flatted developments.

Purpose-built office space continues to enjoy stable rents and high occupancies. Newer buildings command higher asking rents compared to older buildings.

The expected entry of new retail space in March 2019 from Ikea Batu Kawan will pose more challenges for the existing malls.

The industrial sector is staying strong with good demand for industrial premises, both for sale and rental.

Phase 1 of the Penang Transport Master Plan (PTMP) will proceed. All required studies will be conducted before implementation of the projects (including the Social Impact Assessment (SIA)). The SIA for Phase 1, comprising the Pan Island Link 1 highway, the Bayan Lepas light rail transit (LRT) system as well as several major roads are understood to have already been conducted and submitted to the relevant technical departments for approval.

PENANG PROPERTY MARKET

MARKET INDICATIONS

During 1H2018, Penang State saw increases in both volume and value of transactions of 5.3% and 5.5% respectively when compared to the corresponding half of 2017 (Source: NAPIC). Meanwhile, the residential sub-sector accounted for a 72.3% share of the total volume of transactions numbering 8,303 units and is worth RM2.458 billion or 57.3% of the total value for all sectors.

Tourist arrivals into Penang is set to rise if the planned low-cost carrier terminal (LCCT) by Air Asia takes off ground and is completed by 2022. The LCCT, to be constructed on the site of MAS Cargo Complex, will accommodate the increase of planes from the current five to sixteen and is targeted to bring eight million passengers per annum to Penang.

Additionally, the expansion of the Swettenham Cruise Terminal Pier from 400 metres to 700 metres, which will accommodate two mega cruise vessels simultaneously, will also bring in more tourists.

The first phase of Penang Sentral, the integrated transportation hub for land, sea and rail located in Butterworth, has opened in December 2018. To be developed over seven phases, three phases currently under construction and comprising retail mall, office tower and business hotel are expected to complete by 2030. Future phases are understood to include SOHO units, commercial development and serviced apartments.

HIGH-END CONDOMINIUM

Similar to 1H2018, condominiums and apartments form the main bulk of launches in Penang during the review period. There were no launches of high end condominiums in 2H2018.

There are lesser recorded transactions of high-end condominiums in the secondary market in 2018. Subsale transactions in early 2018 for condominiums sized 2,000 sq ft to 3,500 sq ft in the Gurney Drive vicinity were at prices ranging from RM800 per sq ft (11, Gurney Drive) to RM1,063 per sq ft (Gurney Paragon). Units sized from 1,137 sq ft to 2,828 sq ft in Quayside Condo in Seri Tanjung Pinang were resold at prices ranging from RM810 per sq ft to RM1,094 per sq ft whilst larger sized condominiums with built-up areas of 3,400 sq ft to 6,000 sq ft in the popular locality of Tanjung Bungah were sold at prices ranging from RM471 per sq ft (The Cove) to RM892 per sq ft (One Tanjong). Located at the south-eastern portion of the island, units sized from 1,367 sq ft to 1,528 sq ft at Light Collection I & II were resold at prices ranging from RM752 per sq ft to RM883 per sq ft as against RM1,219 per sq ft for studio units sized 517 sq ft at The Light Collection II.

Asking rents are noted to be similar to those during 1H2018. For larger sized units in Tanjong Bungah, asking rents are still generally between RM1.20 per sq ft and RM2.10 per sq ft per month with the upper band asking from RM1.80 per sq ft to RM2.56 per sq ft per month. For similar sized units in Gurney Drive, asking rents vary from RM1.70 per sq ft to RM2.60 per sq ft per month whilst for smaller sized units in Tanjong Tokong and Gurney Drive, it ranges from RM2.24 per sq ft to RM3.08 per sq ft per month. It is noted that some landlords are still asking higher rents of more than RM3.50 per sq ft per month.

OFFICE

The existing supply of office space (buildings of 10-storey and above) on Penang Island remains at 1H2018's level of 5.71 million sq ft. There was no incoming supply for 2H2018.

The occupancy rates for the four prime office buildings monitored in Georgetown average at about 92.0%, dipping slightly from 1H2018's level of 94.5%. The newer buildings located out of Georgetown, namely One Precinct, Suntech and Menara IJM Land also collectively recorded a slight drop in occupancy to 98.0% compared to 99.6% for 1H2018.

It is noted that the older buildings in George Town have lower asking rents averaging RM2.80 per sq ft to RM3.10 per sq ft compared to newer buildings at RM3.60 per sq ft to RM4.50 per sq ft, especially for buildings with MSC status accreditation. Following its Tier 1 MSC status accreditation in 1H2018, asking rents at Albukhary Building (Wawasan Open University) in George Town, jumped from RM2.80 per sq ft to RM3.60 per sq ft per month.

TABLE 11

Asking Gross Rentals of Selected Purpose-Built Office Space in Penang

Project/ Developer	Location	Asking Gross Rental (RM per sq ft / month)
Hunza Tower	Georgetown	3.80 (passing rents)*
Menara Boustead Penang	Georgetown	2.80 - 3.10*
Menara KWSP	Georgetown	2.80 - 3.00*
MWE Plaza	Georgetown	2.80 (fixed rent)*
Menara IJM Land	Jelutong	3.15 - 3.60 (passing rents)
SunTech @ Penang Cybercity	Bayan Baru	4.80 (last unit sized 6,800 sq ft and fitted out)
One Precinct	Bayan Baru	4.00

*Denotes rental inclusive of centralised air-conditioning

Source: NAPIC / Knight Frank Research (as at November 2018)

VOS Lifestyle Suites is a proposed 32-storey office block located at Bukit Dumbar. Built on SOHO concept, construction works will start in January 2019. Expected to complete by 2022, this development will have 439 units sized from 364 sq ft to 521 sq ft for sale on strata basis and at prices ranging from RM1,225 per sq ft to RM1,300 per sq ft. Recently soft launched with 40% of the units sold, this development offers club facilities featuring function hall, swimming pool, sky bistro, gym and enhanced 24-hour security. The individual units come with private washrooms and high-quality finishing.

RETAIL

The existing supply of purpose-built shopping space on Penang Island remained unchanged at 1H2018's level of 6.99 million sq ft. No new purpose-built shopping malls were completed on the

TABLE 12

Future Supply of Office Space in Penang

Project / Developer	Location	Net Lettable Area (sq ft)	Scheduled Completion	Remarks
STATUS: UNDER CONSTRUCTION				
VOS Lifestyle Suites	Bukit Dumbar	215,000	2022	Construction to start January 2019; sale on strata basis
Siuwah Corporation Bhd	Bandar Baru Air Itam	Not available	2022	18-storey
STATUS: PLANNED				
GBS@The Sea	Bayan Lepas	410,000	Beyond 2020	Proposal on hold for now
The Light City	Light Waterfront	370,000	Beyond 2020	28-storey
Hunza Group's PICC	Bayan Baru	-	Beyond 2020	54-storey commercial building (office & hotel) as Phase 2A of a 3-phase project with scheduled completion in 2026.
Sunway Group	Paya Terubong	410,000	Beyond 2020	9-storey office block / integrated development

Source: NAPIC / Knight Frank Research (as at November 2018) island in 2H2018.

Occupancy rates for the prime shopping malls on the island generally ranged from 80.0% to 98.0% whilst for the secondary shopping malls, the range is generally from 70.0% to 90.0%.

In the prime shopping malls, monthly rental rates for ground floor retail lots generally ranged from RM12.00 per sq ft to as high as RM45.00 per sq ft, depending on the mall, location and size of the units.

More retail space will enter the market when IKEA Batu Kawan opens its doors in 1H2019.

On mainland Seberang Perai, future supply will come from the extension of Sunway Carnival Shopping Mall (4Q2020), the 120,000 sq ft GEM Mall along Jalan Baru (2021) and a retail mall currently under construction as part of Penang Sentral which is being developed over seven phases with completion expected in 2030.

There are several proposed shopping malls coming up over the next five years on the island, namely Sunshine Tower, Penang Times Square (Phases 3 & 4), Sunway (Paya Terubong) and The Light Waterfront Mall.

INDUSTRIAL

For the first six months of 2018, Penang received RM1.984 billion of investments comprising RM1.268 billion and RM716 million of domestic and foreign investments respectively. In 2017, the state did well to record the highest foreign investments into the country worth RM8.5 billion and another RM2.27 billion of domestic investments.

The existing industrial parks managed by Penang Development Corporation are all matured and the Penang State Government is currently placing great emphasis to bring up the Batu Kawan Industrial Park, being part of a new township complemented by other developments of residential, retail, educational and recreational nature, all these being in various stages of planning, construction and completion.

CPI (Penang) Sdn Bhd, an indirect subsidiary of Kumpulan Peransang Selangor Bhd has bought a a 4.5-acre plot of land in Bayan Lepas Industrial Park for RM27.7 million. Construction for a new electronic manufacturing services (EMS) plant is set to commence in 1H2019 with scheduled completion by 2020.

Atrium REIT announced their proposed acquisition of two industrial properties in Bayan Lepas Industrial Park from Lumileds Malaysia Sdn Bhd on a sale and leaseback basis. Atrium REIT has accepted the Letters of Acceptance from Lumileds for (i) a 7.62-acre industrial manufacturing plant at RM50 million; and (ii) an 11.82-acre industrial complex at RM130 million. The sale and purchase of both properties is subject to getting the necessary approvals to transfer from Penang Development Corporation and the State Authority.

OUTLOOK

The general outlook for the Penang property market remains mixed without a dominant overall trend.

However, resulting from the interplay of supply and demand as well as the general economy, different sectors are performing differently.

The residential sector, which is the leading sector in terms of total volume and value of transactions, has shown some improvement during 1H2018. It registered a 5.4% increase in the volume of transactions year–on-year. This trend is expected to continue.

The office sector is still enjoying stable rents and high occupancies although the overall occupancy rates in some buildings have dropped marginally. This favorable state of affairs is expected to

TABLE 13
Future Supply of Retail Space in Penang

PENANG ISLAND		
Project	Estimated Net Lettable Area (sq ft)	Scheduled Completion
STATUS: UNDER CONSTRUCTION		
Sunshine Tower	900,000	2022
Penang Times Square Phases 3 & 4	340,000	Phase 3: Late 2019 Phase 4: Not available yet
STATUS: PLANNED		
Sunway (Paya Terubong)	1,000,000	-
The Light Waterfront Mall	1,500,000 (GFA)	-
SEBERANG PERAI		
Project	Estimated Net Lettable Area (sq ft)	Scheduled Completion
STATUS: UNDER CONSTRUCTION		
IKEA Batu Kawan	430,000	Opening in 1Q2019
Sunway Carnival Shopping Mall (expansion)	330,000	4Q2020
STATUS: PLANNED		
Gem Mall	1,200,000	2021
Penang Sentral	Not Available	2030

Source: Knight Frank Research

continue for the next few quarters as new supply is only expected to come on-stream beyond 2020.

Current supply in the retail sector remains unchanged but a more challenging scenario is anticipated for this sector with new supply to come on-stream next year with the expected opening of IKEA in Batu Kawan in 1Q2019 and the extension of Penang Times Square also in 2019. Other retail centres / expansion of retail centres will also be adding on the supply in 2020 and 2022.

The industrial sector, on the other hand, is still experiencing strong demand in both its rental and sale markets.

With the anticipated improvements and expansion of the Penang International Airport and the Swettenham Cruise Terminal together with the creation of a duty-free cruise centre here (as announced in Budget 2019), tourist arrivals can be expected to increase which will give a positive impact on the state's economy as well as the retail sector. All in all, future prospects are anticipated to be positive.

VOS Lifestyle Suites

HIGHLIGHTS

Iskandar Malaysia recorded total cumulative investment of RM272.90 billion as of 3Q2018. The mixed development segment leads with investment of RM9.7 billion, followed by logistics (RM670 million), creative industry (RM540 million), education (RM540 million) and tourism (RM320 million).

The trend for the residential sector, both landed and high-rise categories, remained similar to 1H2018 as developers continue to focus on the mass housing and landed residential segments.

The commercial sector saw the completions of two MSC office buildings, namely Medini 9 and Menara JLand Office Tower. Average rental rate continued to hold steady.

The retail supply in Johor Bahru increased by circa 1.50 million sq ft following the completion of Capital City Mall with more than a million sq ft NLA.

In the industrial sub-sector, there were limited new launches of industrial parks. Nonetheless, the industrial market was fairly active with a few notable transactions in the localities of Senai, Tebrau, Gelang Patah and Pengerang.

JOHOR BAHRU PROPERTY MARKET

MARKET INDICATIONS

As of 1H2018, the volume of property transactions for both residential and commercial sectors in Johor improved by 14.2% and 20.8% respectively whilst for the industrial sector, transaction volume was lower by 13.1% year-on-year (y-o-y).

The value of property transactions was marginally higher for the residential sector (0.6%), although it saw trickle down trend in the commercial and industrial sectors, at -18.7% and -20.8% respectively.

RESIDENTIAL

The existing residential stock in Johor Bahru stands at 420,004 units as of 1H2018.

Notable new launches in the Iskandar Malaysia region offer circa 555 units of double-storey terraced houses, 60 units of double-storey cluster homes and 40 units of semi-detached houses in the landed residential category.

A summary of the selected new launches is shown in Table 14.

In contrast, there were no new launches of high-rise residential properties during the review period. The completions of several notable projects which were initially scheduled for 2H2018, such as D'Pristine and The M in Medini, have been postponed to 2019. Meanwhile, the construction of Southern Marina in Puteri Harbour is on track and is expected to handover on January 2019 while Twin Danga Residences @ Perling was completed recently in November 2018.

RETAIL

As of 1H2018, the existing supply of retail space in Johor Bahru district stood at 15.8 million sq ft, an increase of 25.4% from 1H2017 (y-o-y). Average occupancy rate declined to 75.6% in 1H2018 (1H2017: 81.3%).

During the review period, three retail malls with cumulative supply of more than 1.50 million sq ft were completed. They are Helios Cove in Permas Jaya, Capital City Mall and Tesco Eco Tropics in Kota Masai.

TABLE 14

Notable New Landed Project Launches in Iskandar Malaysia 2H2018

Name of Development	Ayera Residences (Tropicana Danga Cove)	Harp (Taman Desa Tebrau)	Hazel (Meridin East)	The Mahligai (Nusa Damai)
Developer	Tropicana Danga Cove Sdn Bhd	Plenitude Tebrau Sdn Bhd	Mah Sing Group	Temokin Holdings Sdn Bhd
Location	JB City Fringe	JB City Fringe	Masai, Pasir Gudang	Kulai
Type	Double-Storey Terraced House	Double-Storey Cluster & Semi-D	Double-Storey Terraced House	Double-Storey Terraced House
No. of Units	Phase 1: 179	Phases 1 & 2: 212	236	Phases 1 & 2: 140
Built-Up Area	1,713 – 1,970 sq ft	from 2,580 sq ft	1,900 sq ft	1,679 - 1,752 sq ft
Selling Price (per unit)	From RM586,000	from RM1.12 million – RM1.22 million	from RM500,000	from RM480,000

Source: Knight Frank Research

TABLE 15

Average Asking Prices and Rental for Selected Existing High Rise in Johor Bahru in 2H2018

Name of Development	Location	Type	Average Asking Price (RM/ sq ft)	Average Asking Rental (RM per sq ft/ month)
Suasana Residences	JB City Centre	Serviced Residences	1,200	3.80
R&F Princess Cove	JB City Centre	Serviced Residences	1,000	2.70
Country Garden @ Danga Bay	JB City Centre	Condominium	930	2.50
Tropez Residences @ Danga Bay	JB City Centre	Condominium	600	1.80
The Astaka @ One Bukit Senyum	JB City Centre	Condominium	1,270	3.00
Paradiso Nuova	Iskandar Puteri	Condominium	1,000	2.50
Puteri Cove Residences & Quayside	Iskandar Puteri	Condominium	1,260	3.80

Source: NAPIC / Knight Frank Research

Capital City Mall

Helios Cove in Permas Jaya is located overlooking the Senibong seafront. The 300,000 sq ft mall with its edutainment concept has created a new level of experience in the Johor Bahru retail scene.

Capital City Mall, a new mega mall in Tampoi, spans over 1.20 million sq ft with an indoor theme park on the third and fourth floors.

In Kota Masai, the single-storey hypermarket of Tesco Eco Tropics caters to the residents of the on-going Eco Tropics Township by Eco World Group. Among its other notable tenants are Watsons, Samsung, Huawei, Gene Martino Apparel, XES and Sushi King.

Originally, 3.50 million sq ft of retail space from Southkey Mid Valley Megamall, D'Pristine Mall and The M in Medini are expected to come onstream by the end of 2H2018. However, the completions have been delayed to 2019.

Another 300,000 sq ft of retail space from Princess Quay @ R&F Mall is expected to enter the market by end 2H2018.

During the review period, UMLand held a signing ceremony with tenants for its upcoming Seri Alam Mall in Bandar Seri Alam. Among the committed tenants are TGV Cinemas, Village Grocer Supermarket, Morganfield's, Bread Talk, Toast Box, Gogirou Korean BBQ, Macgregor's Irish Pub and Romantika Home Décor. Construction of the mall with 340,000 sq ft of net lettable area (NLA) and about 1,020 car parks is scheduled to commence by 1Q2019 with completion in 2020.

Knight Frank Malaysia is the exclusive leasing agent for the Seri Alam Mall.

OFFICE

The existing supply of purpose-built office space stood at 9.4 million sq ft as of 1H2018. There was a slight improvement in the overall occupancy level which increased 4.5% y-o-y to 79.0% (1H2017: 75.6%).

Notable offices that have occupancies exceeding 80% are City Square Office Towers, Menara Komtar, Menara Ansar and Medini 6.

In the city centre, rental rates continued to remain firm, averaging at about RM3.00 per sq ft per month in 1H2018.

During the review period, two purpose-built offices with combined NLA of approximately 680,000 sq ft were completed.

TABLE 16

Notable Newly Completed/ Incoming Shopping Malls in Iskandar Malaysia in 2H2018

Name of Development	Location	Type	Net Lettable Area/ Average Unit Size (sq ft)	Completed / Expected Completion
Tesco Eco Tropics	Kota Masai, Pasir Gudang	Single-storey hypermarket	N/A	Newly completed
Helios Cove	JB Fringe	4-storey shopping mall	300,000	Newly completed
Capital 21	JB Fringe	6-storey shopping mall	1.0 million	Newly completed
Princess Quay @ R&F Mall	JB City Centre	3-storey shopping mall	300,000	End of 2018

Source: NAPIC / Knight Frank Research

Medini 9 is a 21-storey office tower with retail space on the ground level and a 5-storey car park in Medini City. The MSC status office building has secured Ernst & Young, a multinational professional services firm and OKAKICHI and Deluxe Games, Japanese game developers among its tenants.

Located in Johor Bahru City Centre, Menara JLand is a 37-storey Grade A office tower with circa 260,000 sq ft NLA. Its office suites, with floor plates ranging from 8,000 sq ft to 12,000 sq ft, rise above the existing mid to upscale retail podium of Komtar JBCC. Menara JLand is a GBI Gold accredited building and is currently in the process of applying for MSC status.

Knight Frank Malaysia is the exclusive leasing agent for Menara JLand Office Tower.

Menara JLand Office Tower

To-date, there are only three office towers with MSC status in Johor Bahru district. They are MSC Cyberport, Medini 9 Office Tower and Medini 7 Office.

Office towers in the pipeline include Medini 10, UM City Medini Lakeside and Menara MBJB @ One Bukit Senyum.

INDUSTRIAL

As of 1H2018, the existing supply of industrial properties in District of Johor Bahru stood at 10,317 units, contributing circa 62.2% of the state's total industrial stock (16,574 units).

There were no new launches of industrial parks in 1H2018 and the volume of transactions in the sub-sector was also lower.

During the period under review, MMAG Holdings Bhd entered into a Sale and Purchase Agreement (SPA) with Liangsiang Capital Sdn Bhd to acquire four units of one and a half storey semi-detached factories at Empire Park for a total consideration of RM10.46 million. The factories will be occupied by its subsidiary for future logistics storage and warehouse needs.

Kempas Food Industries Sdn Bhd (AKFI) entered into a Sale and Purchase Agreement (SPA) with Ayam Kempas Sdn Bhd (AKSB) for the acquisition of 1.96 hectares of land in Tebrau and a single-storey detached factory in Senai, both for RM14.30 million. AKFI also entered into a Supplemental Agreement with AKSB to acquire all the plant and machinery situated in the Senai factory for RM12.35 million.

The integrated industrial development of Senai Airport City (SAC) is expected to be fully developed and operational by 2025. Located on the northern part of Iskandar Malaysia, the industrial park with a total of 2,718 acres will be developed in five phases. Some 400 acres of the master plan has been allocated to a Free Zone. The first phase, covering 1,200 acres, has seen a 50% utilisation.

I-Park Development Sdn Bhd and EcoWorld Development Group Bhd, the catalyst developers, were awarded contracts to manage I-Park@Senai Airport City and Eco Business Park II in a move to complement each other and create the complete ecosystem for SAC.

In addition to logistics and food, SAC is also targeting hi-tech and green manufacturing, electrical and electronics, aerospace manufacturing and maintenance, repair and overhaul (MRO).

OUTLOOK

The overall market performance for Johor Bahru was generally quiet in 2H2018 with lesser market activity in terms of new launches and transactions.

For the residential market, the trend is most likely to continue into 1H2019 where supply from new launches will predominantly be made up of landed units.

In the strata residential segment, due to the high supply pipeline of condominiums / serviced apartments, the rental market remains under pressure. Investors are more likely to opt for smaller units - besides ease of leasing, these units are also more palatable in terms of pricing. Meanwhile, the freeze for high-rise developments still remains.

In the retail scene, newly completed and upcoming shopping malls are expected to add more pressure in 2H2018 and beyond. Malls with good concepts and better designs coupled with diverse trade and tenant mix such as Paradigm Mall, Aeon Tebrau and JB City Square continue to attract high footfalls.

Despite heightened competition, retailers are optimistic of Johor Bahru's retail market. Retailers making their debut in the city include Harvey Norman, Texas Chicken, Wendys, GSC Cinema, Jaya Grocer and San Francisco Coffee.

UEM Sunrise Berhad, via its wholly-owned subsidiary UEM Land Berhad, is forming a 40%:60% joint-venture company with Singapore's SUTL Enterprise Limited for the purpose of developing the existing marinas in Puteri Harbour of Iskandar Puteri into a private marina, a mega yacht marina and a public marina. The JV company will also be involved in developing and operating a proprietary yacht club, a sports centre and other complementary businesses.

The 9.4-hectare Shattuck-St Mary's Forest City International School campus, the first global campus in the American school's 160-year legacy and a RM1.8 billion golf resort and golf course opened in the US$100 billion (RM410 billion) Forest City project during the review period. These supporting and complementary components are expected to attract more international populace to the locality and augur well for the mega development, in line with Iskandar Malaysia's goal to hit 3 million population by 2025. The developer is also committed to working together with the state government to deliver affordable houses in the future to fulfil local needs.

Meanwhile, in eastern Johor, the spill over impact from the mega oil & gas (O&G) project in Pengerang, Kota Tinggi can be seen with more developers shifting their focus to the area. Notable incoming developments in the locality include Desaru Park City in Bandar Penawar and Pengerang Integrated Development Project (PIDP).

The uncertainties on the delayed High-Speed Rail (HSR) is expected to affect property values within the vicinity of the proposed stations. More landowners are seen to adopt a 'wait and see' attitude.

Meanwhile, the delayed Johor Bahru – Singapore Rapid Transit System (RTS) is expected to complete by 2024. The RTS is anticipated to reduce the congestion in the causeway and improve connectivity between Malaysia and Singapore.

Moving forward, despite market uncertainties, the pipeline of mega property developments, notably RAPID in Pengerang, R&F Princess Cove Development, Desaru Coast Water Themed Park to name a few, will create more job opportunities as well as complement the other property sub-sectors such as residential, office and retail in Iskandar Malaysia and Johor in general.

HIGHLIGHTS

In line with the general economic overview of Malaysia, Sabah's economy will grow at a slower pace due to global headwinds.

Re-evaluation of mega projects in Sabah is one of the measures to trim the country's fiscal deficit.

New project launches in Kota Kinabalu comprise mainly of mixed commercial developments catering for short-term leases.

In the residential segment, notable launches include the 56-storey Jesselton Twin Towers - the tallest iconic landmark in Borneo.

The office and retail segments remained stagnant with more building owners and operators embracing technological disruption by incorporating co-working space and omnichannel marketing respectively.

The hotel industry in Sabah has witnessed a breakthrough with the emergence of multiple chained hotel brands.

KOTA KINABALU PROPERTY MARKET

MARKET INDICATIONS

As of 1H2018, Sabah recorded a total of 4,110 property transactions, circa 8.7% and 0.4% lower when measured against 1H2017 and 2H2017 respectively.
The residential segment maintains its dominant position with 58.9% share of property transactions during the review period, followed by the agriculture sector (23.6% share) and commercial sector (11.1% share) (Source: NAPIC Property Market Report 1H2018).

Despite the decline in market activity, the overall transacted value for 1H2018 was higher by 37.2% and 7.4% when compared to 1H2017 and 2H2017 respectively. This in part may be attributed to a major transaction relating to oil palm estates worth RM750 million between Boustead Plantations Bhd and Dutaland Bhd during the review period.

MARKET HIGHLIGHTS

The historic victory by Pakatan Harapan in the 14th General Election has inevitably pave the way for new government policies and institutional reform. Under the new administration, several projects are placed under review in Sabah. These include the 662km gas pipeline from Kimanis Gas Terminal to Sandakan and Tawau, the Sabah International Convention Centre (SICC) and Sabah Pan Borneo Highway projects. Developers, contractors and investors are seen to adopt a 'wait and see' attitude.

Artist Impression of Jesselton Twin Towers.

There were a few notable announcements on mixed use commercial projects and development collaborations such as the Star City Project, The Crown Service Suites, 360 Boulevard Bundusan, K Avenue and Bay Suites.

Petrofiq Sdn Bhd is planning to rehabilitate the long-abandoned Star City Project, which involves the development of a 16-storey building consisting of a shopping mall, a 200-room hotel, 200 serviced apartment units, office space, international ice-skating rink and car park.

Ho Hup Group, a pioneer in Malaysia's construction and development industry, has launched its first brainchild in Kota Kinabalu. Located on one of the last remaining waterfront lands in the central business district of Kota Kinabalu, The Crown Service Suites is part of a larger integrated development boasting 323 luxurious suites, 50,000 sq ft of retail space, and the 376-room five-star Crowne Plaza Hotel. The suites with built-ups ranging from 715 sq ft to 4,852 sq ft are selling from RM654,000 onwards.

Homesign Network and Borneo Kemuncak Riang Sdn Bhd held a ground-breaking ceremony for their latest development project called 360 Boulevard Bundusan. With an estimated gross development value (GDV) of RM1.5 billion, the integrated mixed development will offer circa 3.01 million sq ft of commercial space consisting of approximately 540,000 sq ft of retail space, an eight hall cinema, an edutainment centre with co-working spaces, hotel, two blocks of office towers and 750 units of service suites on a 10-acre site within Bundusan town, Penampang.

K Avenue is the latest project by Mega City Development Sdn Bhd following the completion of Lido Avenue, its maiden project. Spanning across 4.78 acres of land in Kepayan, the project features two commercial blocks and a residential block offering 630 units. The commercial units, which come in nine different layouts with built-up areas ranging from 283 sq ft to 1,298 sq ft, are priced from RM155,000 onwards.

Bay Suites

Bay Suites is the latest development by Remajaya Sdn Bhd on a prime site in the locality of Likas Bay. The 32-storey development offers a total of 510 business suites in standard, duplex and dual-key configurations. The built-ups for the standard units are from 400 sq ft to 1,029 sq ft; 1,028 sq ft to 1,582 sq ft for the duplex units; and 1,267 sq ft for the dual-key type. Selling prices start from RM373,631 onwards.

RESIDENTIAL

The existing supply of residential properties in Kota Kinabalu stood at 61,820 units as of 1H2018, a slight increase from the previous year (2017: 61,739 units). The growth of the high-rise residential segment (condominium/ apartment) continues to outpace its landed counterpart, accounting for circa 38.9% (24,041 units) of the total residential stock. In terms of incoming supply, some 6,590 units or 80.9% of the total 8,142 units comprise of condominiums / apartments.

Escalating property prices and stringent lending regime have made homeownership more difficult, particularly for first time homebuyers. As one of the measures to confront this on-going issue, Sabah Housing and Real Estate Developers Association (SHAREDA) and NewParadigm Capital Markets Sdn Bhd have recently signed a Memorandum of Understanding (MoU) to work with the State Government of Sabah to establish and implement a rent-to-own (RTO) programme in the affordable housing segment. The RTO scheme allows tenants to rent a home for a certain period of time; and with the option to buy before the lease expiry at a predetermined price.

There were limited new launches of residential projects in 2H2018. The review period saw developers selling balance units of current projects and launching new phases of existing projects.

The tallest iconic landmark in Borneo, the 56-storey Jesselton Twin Tower will house a total of 819 condominium units in two towers along with a three-storey commercial annexe. Capitalising on the unobstructed panoramic views, the development promotes lifestyle opportunities by offering a wide range of facilities for the exclusive use of its residents. The typical condominium units sized from 649 sq ft to 2,041 sq ft, are selling from RM454,300 onwards.

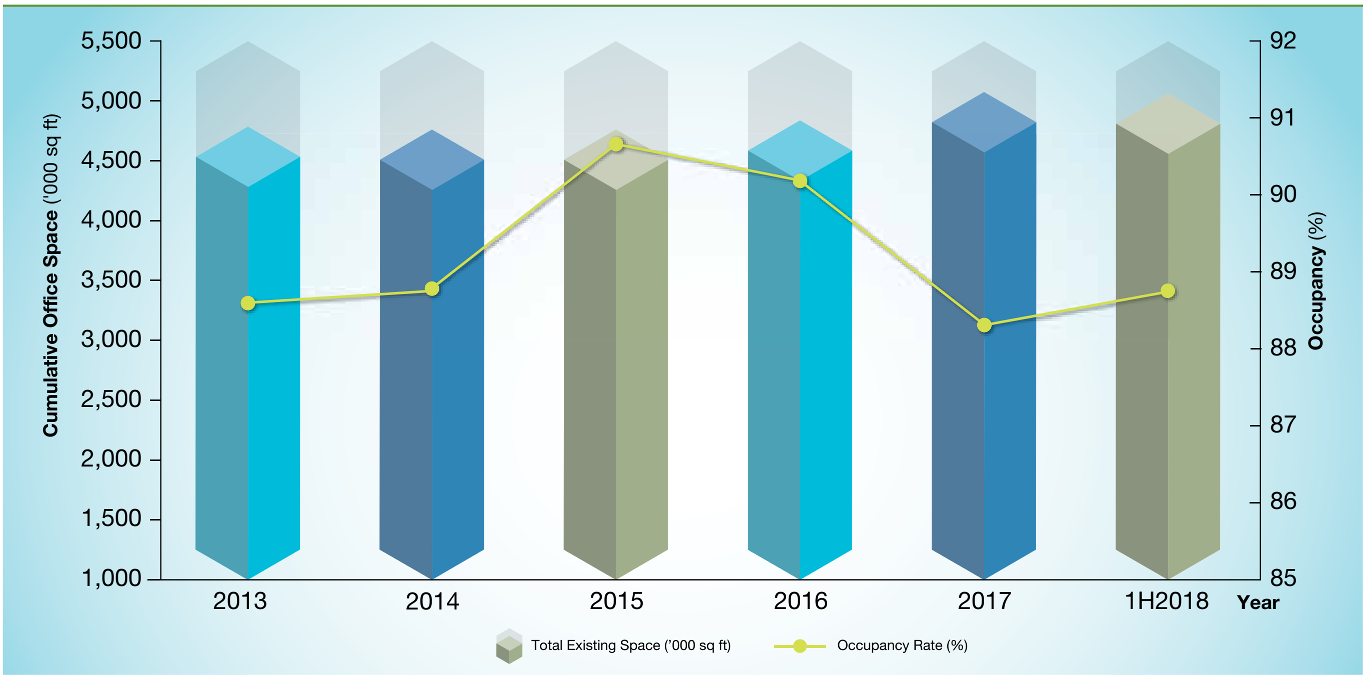
OFFICE

The existing supply of purpose-built office (privately owned) in Kota Kinabalu remained stagnant at 5.08 million sq ft as of 1H2018. The average occupancy rate was recorded at 88.8%, a slight increase of 0.7% when compared to 2017.

Asking gross rentals of prime CBD office space remained stable, ranging from RM4.00 per sq ft to RM6.00 per sq ft per month while non-prime CBD office space

FIGURE 4

Cumulative Supply and Occupancy Rate of Purpose-Built (Privately-Owned) Office Space in Kota Kinabalu 2013 - 1H2018



Source: NAPIC / Knight Frank Research command gross rentals of RM2.00 per sq ft to RM3.50 per sq ft per month.

The greater adoption of technology leading to changes in work patterns has transformed office space trends evident from the rapid expansion in the co-working segment across the globe, including Kota Kinabalu. Offering flexible workspace, it appeals to freelancers, start-ups and even larger corporations looking to house remote-working employees or special project teams. Regus, the world's largest provider of flexible workspace, which opened its first business centre in Kota Kinabalu at Suria Sabah Shopping Mall in 2014, is looking to add another flexible workspace in the city. Meanwhile, home-grown operator, GASpace has presence in Kota Kinabalu, Sandakan and Labuan as well as in Kuala Lumpur, Penang and Johor Bahru. Other notable providers that have their presence in Kota Kinabalu are Podders and The Protégé Hub.

RETAIL

The total retail space in Kota Kinabalu stood at 5.84 million sq ft as of 1H2018 with no additional stock added to the supply since 2017. Overall occupancy rate for the review period remained at a healthy level of 86.6%.

The 2H2018 will see the opening of the much anticipated Jesselton Duty Free, occupying the ground floor of Jesselton Mall. To be operated by the Valiram Group, one of Southeast Asia's leading specialist retailers, Jesselton Duty Free will offer 12 high-end brands that include Polo Ralph Lauren, Swiss Watch Gallery, Tumi, Versace, Godiva, TWG Tea, and Hugo Boss.

France-based multinational chain of personal and beauty stores, Sephora, has opened at Suria Sabah Shopping Mall. Other fashion, specialty and beauty & skincare brands that will make their debut at the mall include Superdry, Carlo Rino and Innisfree. In the food and beverage (F&B) category, new international and home-grown tenants include McDonald's, Llao Llao, Liang Sandwich Bar, Tealive, I Love Yoo, New WK Restaurant, Dragon Palace Sabah, Ichizo Ramen, Kuo Man, and Green Mug.

Dominos's Pizza, the market leader for pizza delivery in Malaysia has made its debut in Sabah by opening its first outlet at T1 Bundusan, second outlet at The Walk, Riverson and third outlet at ITCC Penampang.

EZY Box, which operates unmanned stores, has made its debut in Sabah. Its maiden store at Riverson offers 24-hour self-service supported by AI (artificial intelligence) system and cashless payment method powered by image and facial recognition as well as machine learning. EZY Box will be opening its second outlet at Asia City Complex soon. Other localities that have been earmarked for future expansion plans include Sandakan, Tawau, Semporna, amongst others.

E-commerce is also gaining traction in the F&B segment with online food delivery industry on the rise. Well-established food delivery service provider, Foodpanda has ventured into Kota Kinabalu and together with home-grown providers such as MoreFun and Zelda Delivery, are expected to benefit from untapped demand and market potential in the city's food delivery service.

TOURISM & HOSPITALITY

Sabah's Tourism industry achieved its best performance in 2017. The state welcomed 3.68 million visitors with corresponding tourism receipts of RM7.82 billion. As of September 2018, the State has already recorded 2.87 million in visitor arrivals, reflecting a 5.1% year-on-year (y-o-y) growth. According

FIGURE 5

Cumulative Supply and Occupancy Rate of Shopping Complexes in Kota Kinabalu 2013 - 1H2018

Source: NAPIC / Knight Frank Research

TABLE 17
Notable Hotel Establishments in Kota Kinabalu

Notable Hotel Establishments: Recently Completed		
Name of Hotel	**Star Rating**	**No. of Rooms**
Hilton Kota Kinabalu	5-Star	313
JW Marriott Kota Kinabalu	5-Star	332
Mercure Kota Kinabalu	4-Star	315
Ibis Styles Kota Kinabalu Inanam	3-Star	184
Notable Hotel Establishments: Future Supply		
Name of Hotel	**Star Rating**	**No. of Rooms**
Holiday Inn Express Kota Kinabalu	3-4 Star	250
Crowne Plaza Kota Kinabalu	5-Star	367
i-Hotel @ JQ Central	3-4 Star	288
Hotel Jen @ PacifiCity	4-Star	440
Pullman Hotel @ KKCC	5-Star	500

Source: NAPIC / Knight Frank Research

to the State Tourism, Culture and Environment Minister, Sabah is on track to achieve RM8 billion in total tourism receipts by the end of the year.

During the review period, there were a total of 203 international direct flights into Kota Kinabalu International Airport (KKIA) weekly, offering a total capacity of 34,537 seats on a weekly basis. Direct flights from China alone totalled 98 weekly; these flights from different Chinese cities are serviced by eight different airlines with a total capacity of 16,589 seats. Newly operated international direct routes include Singapore (Air Asia & Malindo Air), Bangkok (Air Asia), Macao (Air Asia), Xiamen and Beijing (Xiamen Air).

In line with the positive growth seen across the state's tourism industry, the hotel market in Sabah has also witnessed a breakthrough with the emergence of several international hotel brands (newly completed and upcoming).

According to the Sabah Tourism Board, the average occupancy rates for 3 to 5-star hotels in Sabah and Kota Kinabalu, are hovering at healthy levels of 70.7% and 73.5% respectively, as of 1H2018.

OUTLOOK

The overall residential market is expected to remain stable but challenging. The increasing supply of residential properties, particularly high-rise units is expected to exert pressures on the capital and rental markets for residential establishments that are located within areas with weak occupational demand and higher rate of project completions.

There were fewer property launches as many developers are in the midst of reviewing and repositioning their products to align with current market demand and trend. The market reception towards well-located properties is, however, expected to remain good. In general, various measures announced in Budget 2019, ranging from stamp duty exemption, SST exemption on construction and building materials, low-interest financing for low-cost housing purchases, and property crowdfunding, amongst others are expected to address the housing affordability issue impacting the B40 households and the property overhang in selected segments of the housing market.

Meanwhile, for the office sector, both occupancy and rental levels of purpose-built offices are expected to remain stable in the short term.

The rapid growth of the e-commerce industry in Malaysia has encouraged more retailers to embrace omni-channel retailing. In the race between e-commerce and brick and mortar store, omni-channel is the future of retailing whereby retailers adopt multiple channels to reach the consumers; either by way of physical store, retailer website, social media, inter alia for seamless experience.

In view of the burgeoning tourism industry, development of human capital, establishment of tourism products, directing tourism growth towards local needs, market diversification of tourist arrivals, are amongst other priorities in achieving sustainable growth in the industry.

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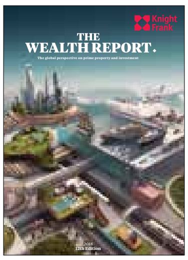

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