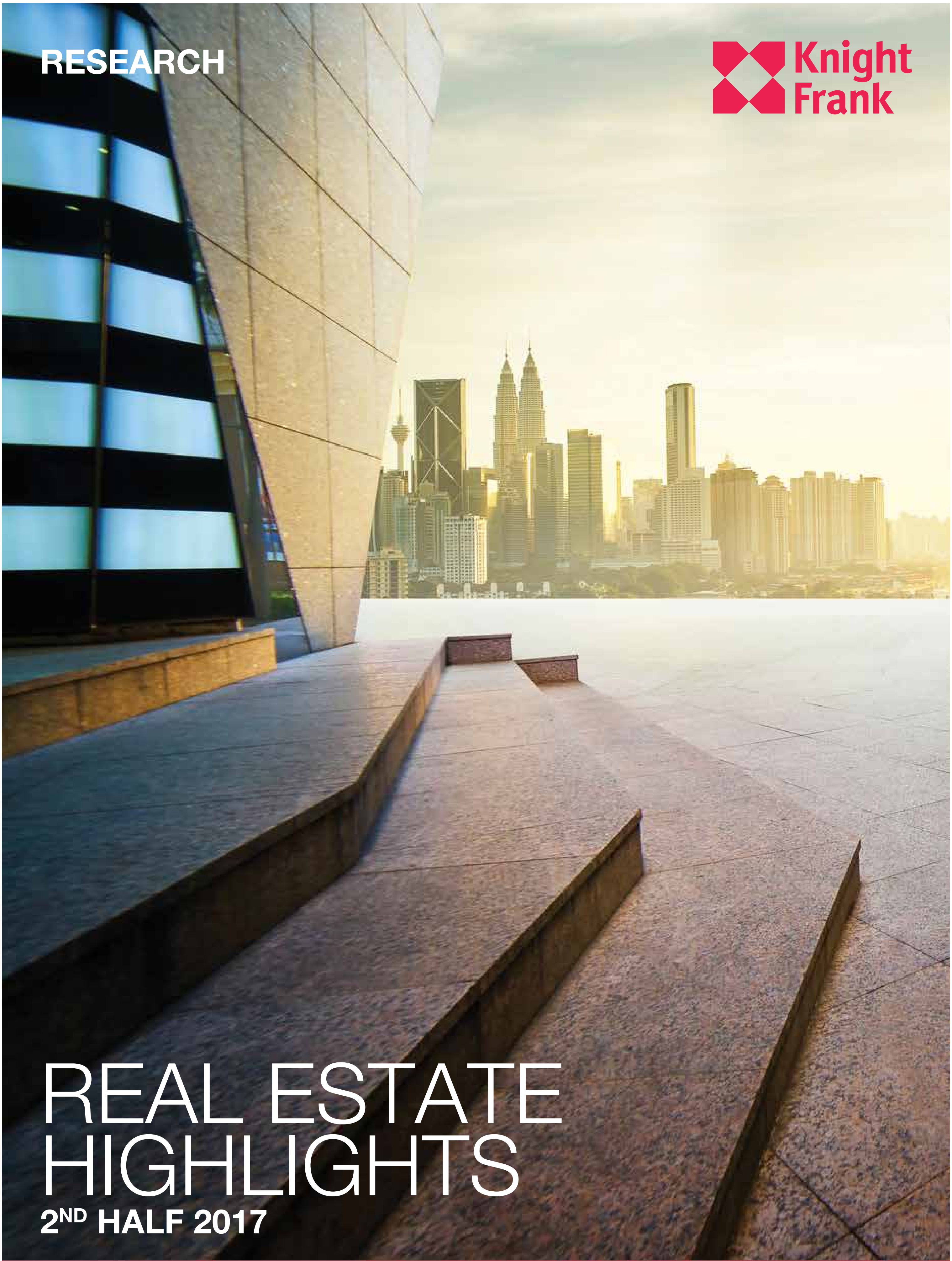
RESEARCH



REAL ESTATE HIGHLIGHTS

2ND HALF 2017

KUALA LUMPUR | PENANG | JOHOR BAHRU | KOTA KINABALU

HIGHLIGHTS

Secondary market pricing and rental remained flat during the review period.

Despite the weak market sentiment, sequels to selected projects were launched at higher pricing but with more discounts.

More developers diversifying their target market to other overseas countries / territories such as Singapore, Indonesia, Hong Kong and Taiwan following China's capital control.

The high-end condominium / serviced apartment market is expected to self-correct following the recent freeze on approvals for development of luxury condominium / serviced apartment priced above RM1 million, providing a breather to the oversupplied market.

The 50% tax exemption on rental income amounting up to RM2,000 a month as announced under Budget 2018, may improve demand for this category of investment properties.

KUALA LUMPUR HIGH END CONDOMINIUM MARKET

ECONOMIC AND MARKET INDICATORS

The Malaysian economy continued its strong growth momentum, expanding 6.2% in the third quarter of 2017 (2Q2017: 5.8%), its fastest growth since 3Q2014. Domestic demand grew 6.6% (2Q2017: 5.7%), driven by the private sector while on the supply side, the manufacturing and services sectors continued to be the main drivers of growth. For 2017, the country's GDP is expected to be higher between 5.2% and 5.7%.

Headline inflation moderated to 3.8% as of 3Q2017 (2Q2017: 4.0%), mainly attributed to lower transport cost.

In the labour market, the unemployment rate remained unchanged at 3.4% in 3Q2017.

During the review period, Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 3.0% although a hike is foreseeable following the uptick in economy.

For the first nine months of 2017, the bank loan approval for the purchase of residential property was RM75.6 billion, a 15.9% increase compared to the corresponding period (Jan to Sep 2016: RM65.2 billion). Despite the increase in the value of loan approval, the approval to application ratio continued to remain below 45%, a trend since 2016.

SUPPLY & DEMAND

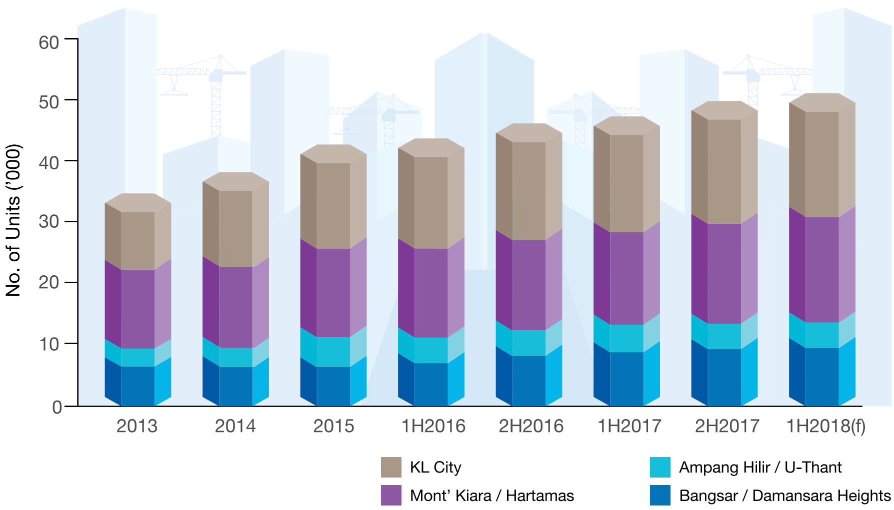
In Wilayah Persekutuan Kuala Lumpur, the condominium / apartment segment remains the most transacted type of property. In 3Q2017, a total of 1,310 units valued at RM1.07 billion changed hands. The figures reflect a 16.9% and 12.4% increase in volume and value of transactions over the preceding quarter (2Q2017: 1,121 units valued at RM954.75 million) respectively.

The cumulative supply of high-end condominiums / residences stood at 49,678 units following the completion of 2,298 units in the second half of 2017.

KL City has the highest number of completions with 1,243 units (54.1%)

FIGURE 1

Projection of Cumulative Supply for High End Condominiums / Residences 2013 - 1H2018(f)



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

Source: Knight Frank Research

from schemes such as The Mews (256 units), The Manhattan (129 units), Tribeca Bukit Bintang (318 units), Dorsett Residences Bukit Bintang (252 units) and The Ritz-Carlton Residences (288 units).


The Mews


The Manhattan

The remaining completions are from Residensi 22 in Mont' Kiara (534 units) and The Establishment in Bangsar (521 units).

By the first half of 2018, another three schemes with a total of 1,216 units are slated for completion. They are The Residences by Tropicana (353 units), Four Seasons Place (242 units) and Pavilion Hilltop (621 units).

During the review period, notable launches in KL City include Ascott Star KLCC (final tower of Star Residences) and Lucentia 2 of Bukit Bintang City Centre (BBCC). In the locality of Mont' Kiara, UEM Sunrise launched Residensi Solaris Parq, the third instalment of the Solaris development series after Solaris Mont' Kiara and Solaris Dutamas.

Alpine Return Sdn Bhd, a joint-venture company between Symphony Life Bhd and United Malayan Land Bhd, launched Ascott Star KLCC in September 2017. Formerly known as Star Residences Tower 3, it offers 471 fully-fitted units ranging from 700 sq ft to 2,972 sq ft. A total of 353 units will be managed by The Ascott Ltd while the remaining 118 units will be individually managed. Selling prices start from RM1.6 million per unit or RM2,450 per sq ft on average. Ascott Star KLCC is scheduled for completion by 2021.

Star Residences is an integrated development comprising condominium, serviced residence and retail components. The project features a 200m-long Star Walk of Fame that is modelled after the Los Angeles' Hollywood Walk of Fame.

The consortium of Bukit Bintang City Centre (BBCC) development made up of UDA, Eco World and the Employees Provident Fund (EPF) board, launched Lucentia 2 serviced apartments in October. The 36-storey block consists of 273 units ranging from 450 sq ft to 880 sq ft, selling at an average pricing of RM1,750 per sq ft. It is slated to complete by the first quarter of 2021.

Whilst Mitsui Shopping Park LaLaport Kuala Lumpur in BBCC is scheduled to open by 2021, the whole development is expected to be fully completed by 2025. A 300-metre pedestrian link to a mass rapid transit (MRT) station at Merdeka PNB 118 will be built for seamless connectivity.

Another project, Residensi Solaris Parq by UEM Sunrise Bhd launched on 9th October is the serviced apartment component of the the larger integrated development known as Solaris Parq in Dutamas. This first phase development comprises a total of 576 units housed in two 41-storey towers (288 units each). The units range from 721 sq ft (1+1 bed type) to 2,469 sq ft (4+1 bed penthouse) and are priced between RM873,800 and RM2,968,800 per unit (or RM1,100 per sq ft on average). As of November, the maiden phase has reportedly achieved about 80% sales. The project is expected to be completed in 2022.

PRICES AND RENTALS

The high-end condominium / serviced apartment market remained lacklustre amid mismatch in supply and demand as well as in product and pricing. Asking prices and rentals in selected locations remained under pressure.

In the primary market, several developers progressed with the launch of new phases of their on-going projects, at higher pricing (on per sq ft basis). However, it was observed more discounts were being offered.

Lucentia 2 of BBCC, an ambitious transformation of a former landmark in the capital city, offers 273 serviced

TABLE 1

Completion of High End Condominiums / Residences in 2H2017

Name of Project	Location	Area	Total Units
The Mews	Jalan Yap Kwan Seng	KL City	256
The Manhattan	Jalan Raja Chulan	KL City	129
Tribeca Bukit Bintang	Bukit Bintang	KL City	318*
Dorsett Residences Bukit Bintang	Bukit Bintang	KL City	252
The Ritz-Carton Residences	Jalan Ampang	KL City	288
The Establishment	Bangsar	Bangsar	521
Residensi 22	Jalan Kiara	Mont' Kiara	534

Note*: Comprises 318 units of studios, suites and lofts. About 108 units will be managed by Fairlane Hospitality.
Source: Knight Frank Research

apartment units priced at RM1,750 per sq ft (on average). The initial phase of Lucentia Residences, with similar unit sizing, was launched about 10 months ago at RM1,650 per sq ft (on average).

During the recent launch, the fully fitted units in Ascott Star KLCC, were priced at RM2,450 per sq ft (on average). In comparison, the standard units at Tower 1 of Star Residences, were launched at prices ranging from RM1,600 per sq ft to RM1,700 per sq ft while units at Tower 2 were priced higher at RM2,200 per sq ft (on average).

TABLE 2

Notable Launches in 2H2017

Name of Development	Ascott Star KLCC (formerly known as Star Residences Tower 3)	Lucentia 2 @ Bukit Bintang City Centre	Residensi Solaris Parq
Type	Serviced Apartment	Serviced Apartment	Serviced Apartment
Developer	Alpine Return Sdn Bhd (JV between Symphony Life Bhd and UM Land Bhd)	Bukit Bintang City Centre Development Sdn Bhd	UEM Sunrise Bhd
Area	KL City	KL City	Mont Kiara / Dutamas
No. of Units	471	273	576
Unit Sizing (Min - Max)	700 - 2,972 sq ft	450 - 880 sq ft	721 - 2,469 sq ft
Average Selling Price	RM2,450 per sq ft	RM1,750 per sq ft	RM1,100 per sq ft

Source: Knight Frank Research

OUTLOOK

Amid the prolonged slowdown in the high-end condominium market, impacted by the slew of local cooling measures as well as China's curb on capital flight, more developers are diversifying their target market to other countries / territories such as Indonesia, Singapore, Taiwan and Hong Kong to boost sales.

The Malaysia Property Tour 2017, held in Central Jakarta in August, saw the participation of 11 groups of Malaysian developers such as GuocoLand, Mah Sing Group and UEM Sunrise Group, displaying a total of 16 Malaysian projects.

The Eaton Residences by Singapore-based GSH Corporation Limited has done sales in regional countries / territories such as Singapore, Hong Kong, Indonesia and Taiwan.

The freeze on approvals for four categories of developments including condominiums and serviced apartments priced from RM1 million as of 1st November 2017 is causing market uncertainties as to its implementation. Although on a positive note, it may provide a breather to the oversupplied market.

Even without the freeze, the market has been self-correcting to find its equilibrium. The lower volume and value of transactions are reflective of the challenging market condition. Developers have been holding back and delaying launches while re-planning their products to cater to a changing market / buyers' profile. In the residential segment, more developers have switched their focus to affordable housing.

On a positive note, for the million Ringgit homes, the stamp duty stays at 3% as the proposal under Budget 2017 to increase stamp duty from 3% to 4%, will not be implemented. The move may not spur more transactions but it will maintain the market at the current levels.

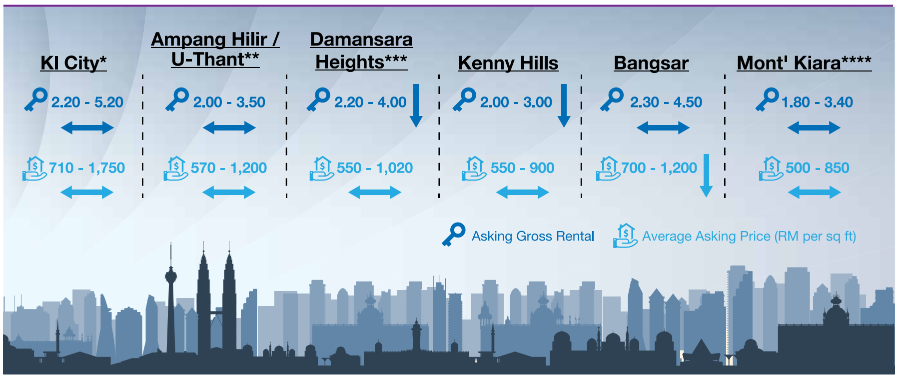
Meanwhile, under Budget 2018, a 50% tax exemption on rental income up to RM2,000 a month for residential properties have been announced to encourage the rental market. This may improve demand for investment properties that fall within this rental category. The Government has also proposed the formulation of the Residential Rental Act to protect the landlord and tenant.

Going forward, the high-end condominium / apartment market will continue to self-correct as it looks to find its equilibrium.

More developers are expected to shift their focus to established fringe locations as well as upcoming hot spots along the rail transportation routes targeting the middle and mid-upper income groups with niche and affordable housing products. Other developers with city centre high-end products will continue with their aggressive overseas marketing.

TABLE 3

Average Asking Prices and Rentals of Existing High End Condominiums, 2H2017



* Excludes Binjai on the Park but includes Pavilion Residences

** Excludes Seri Hening

*** Includes Twins @ Damansara Heights

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

Source: Knight Frank Research

HIGHLIGHTS

Office market to continue self-correction as increasing supply shadows low absorption.

Negative absorption of Kuala Lumpur office space following downsizing and consolidation of O&G and its related sectors.

Resilient demand for MSC certified space despite oversupplied office market.

Luxury property freeze, effective 1st November, affects new applications in four development categories, including office.

KUALA LUMPUR & BEYOND KUALA LUMPUR (SELANGOR) OFFICE MARKETS

MARKET INDICATIONS

Despite a stronger performing economy, the Kuala Lumpur office market continued to struggle with an oversupply of new buildings and subdued leasing activities. New buildings completed over the past three years continue to record vacancies and landlords in older buildings are having to lower their rental expectations to retain their existing tenants.

The office market for Beyond Kuala Lumpur (Selangor), however, appeared to be more resilient. Enhanced rail connectivity continues to support demand for decentralisation office locations.

SUPPLY

The cumulative supply of purpose-built office space in Kuala Lumpur and Beyond Kuala Lumpur (Selangor) increased to circa 100.1 million sq ft as of 2H2017. This follows the completion of three buildings with combined space of approximately 1.17 million sq ft during the review period.

The recent completion of JKG Tower increased the cumulative supply of KL City to 51.8 million sq ft while in KL Fringe, the completion of Mercu 3 of KL Eco City and Menara SUEZCAP 2 @ KL Gateway, brought its cumulative supply to 28.1 million sq ft.

The office stock for Beyond KL (Selangor) remained status quo in 2H2017 with no new completion.

Located along Jalan Raja Laut, the 32-storey Grade A JKG Tower is connected to a 13-storey car park annexe. It offers 390,000 sq ft NLA with typical floor plate ranging from 12,500 sq ft to 14,250 sq ft. The building, which boasts BCA Green Mark Gold and GBI certifications, features a grand lobby of 25-feet high and office space with floor-to-ceiling height of 9.5 feet. It is also complemented with state-of-the-art building management system.

Within the integrated development of KL Eco City, the newly completed Mercu 3 (formerly known as DBKL Tower) is a 39-storey corporate office tower offering 418,000 sq ft NLA and typical floor plate size in the region of 14,000 sq ft.

In the nearby development of KL Gateway, Menara SUEZCAP 2 is a 35-storey strata office building with circa 360,000 sq ft NLA and typical floor plate of 11,600 sq ft. Certified with Green Building Index (GBI) Gold, the office tower offers special facilities such as private access to retail mall, children day-care centre, grand central park, iconic ring retail piazza and private drop-off.

Moving into 1H2018, office buildings slated for completion include South Point Office @ Mid Valley City and Mercu 2 of KL Eco City in KL Fringe (formerly known as Setia Tower); and Nucleus Tower, Menara Star 2 and Tower 6 of Sky Park in Beyond KL (Selangor).

OFFICE ANNOUNCEMENTS

There were several notable office related announcements in 2H2017.

IJM Construction Sdn Bhd, a wholly-owned subsidiary of IJM Corp Bhd, has secured a RM451 million contract from UOB Properties (KL) Bhd to design, construct and complete the proposed UOB Tower 2 in Jalan Raja Laut. The proposed building will comprise five levels of basement car park, one level of lower ground floor, two levels of podium for a banking hall and 27 levels of office space including a green lounge reception, a sky lounge and mechanical floors. The development completion period is 40 months.

Hap Seng Consolidated Bhd’s property arm, Hap Seng Land Sdn Bhd, will be developing a new commercial office tower, named “Menara Hap Seng 3” on the former site of the group’s Mercedes-Benz Hap Seng Star Autohaus. To be constructed at a cost of RM312 million, the proposed tower will comprise 20 levels of office space, a five-level podium, a showroom and a six-level basement car park with total NLA of 240,000 sq ft. It will be linked to the existing Menara Hap Seng 1 and 2 via pedestrian walkways and basement connections. The Mercedes-Benz Autohaus will be relocated to the new office tower upon its completion slated by December 2019.

The construction of the iconic Merdeka PNB118, touted to be Malaysia's tallest and the world's fifth when completed, is progressing well. The sub-structure work for the skyscraper has been completed and work is progressing to the super structure stage. Construction is being undertaken by a joint-venture between South Korea's Samsung C&T and UEM Group Bhd. Only 20% of the tower space, representing about half a million sq ft, will be marketed with another 20 floors reserved for a 250-room hotel. The balance 60 floors will be occupied by Permodalan Nasional Bhd's (PNB) group of companies.

HSBC Bank Malaysia Bhd has appointed IJM Construction Sdn Bhd, a wholly-owned subsidiary of IJM Corporation Berhad as the contractor to undertake the design, construction and completion of its headquarters at the Tun Razak Exchange (TRX) for a contract sum of approximately RM392 million excluding lifts and facade works which will be procured directly by HSBC. The building is expected to be handed over to HSBC by December 2020.

Prudential will be relocating its headquarters to a 27-storey building in the upcoming TRX, Malaysia's first dedicated international financial district. Slated for opening by 2019, the Grade A, LEED Gold-certified office building sits on a 1.18-acre site adjacent to TRX's main pedestrian gateway from the Bukit Bintang area. The purpose-built building with gross floor area (GFA) of about 560,000 sq ft will house all of Prudential's life insurance and asset management businesses in Malaysia under one roof.

Etiqa Insurance Bhd, a subsidiary of Maybank Ageas Holdings Bhd, is set to complete its fourth property investment project with a gross development value (GDV) of RM500 million in Jalan Bangsar. The 38-storey building, named Menara Etiqa, offers 380,000 sq ft of sub-divided suites for leasing and is expected to be made available to tenants by July 2018. It is projected to be 98% occupied upon completion. The building, designed to have full range of 'MSC' compliance, has the Green Building Index 'Gold' rating, and Real Estate and Housing Developers' Association Malaysia GreenRE 'Platinum' rating.

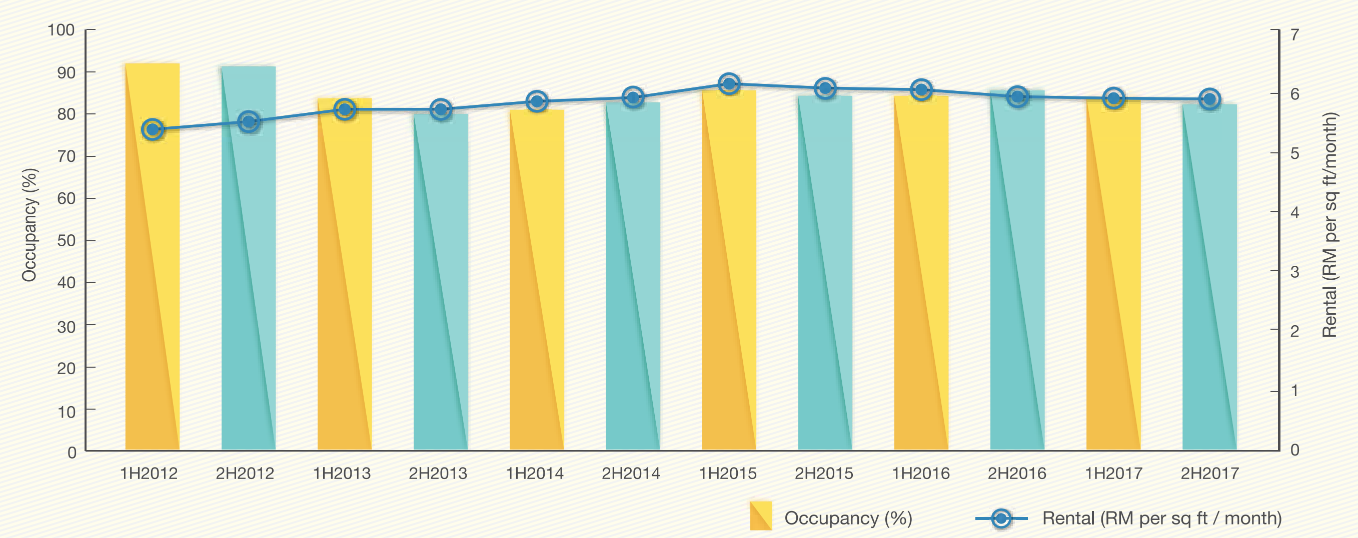
Over in Beyond KL (Selangor), IJM Construction Sdn Bhd has also secured a RM378 million contract from Damansara Uptown Retail Centre Sdn Bhd, a subsidiary of See Hoy Chan Sdn Bhd Group, to design, construct, complete and commission the proposed Uptown 8 office tower in Damansara Uptown. The 31-storey tower with net floor area (NFA) of approximately 480,000 sq ft will consist of 22 levels of office space, an eight-level podium incorporating a level of commercial space and seven levels of car park, one ground floor level and three levels of basement car park. Construction is expected to take 39 months.

Along Jalan Puchong in Mukim Petaling, Kuala Lumpur, a proposed mixed development comprising one block of 25-storey hotel and office building and two blocks of 53-storey service apartment buildings atop an 11-storey podium, one partial underground level and three levels of basement, is coming on-stream. Kerjaya Prospek (M) Sdn Bhd, a subsidiary of Kerjaya Prospek Group Bhd has secured a contract valued at RM64.22 million from Kerjaya Prospek Property Sdn Bhd for its foundation piling works and associated sub-structure works.

Mudajaya Group has been awarded a RM118.6 million contract by KLIAA-KLIACS Consortium to build the 16-storey Hevea Tower in Sungai Buloh. Set to be the headquarters of Malaysian Rubber Board, the office tower is expected to be completed by September 2019.

FIGURE 2

Occupancy and Rental Trends 1H2012 – 2H2017



Source: Knight Frank Research

OCCUPANCY

During the review period, the overall occupancy rate for KL City remained stable at 80.1% (1H2017: 80.7%). New take-ups in Integra Tower, Menara Binjai and Naza Tower balanced several tenant movements out of UOA Centre, Menara TH Perdana and Central Plaza, resulting in stable occupancy for KL City.

As for the decentralised office locations in KL Fringe, the overall occupancy rates declined to 87.3% (1H2017: 90.9%) following completion of Mercu 3 of KL Eco City, which is vacant. In addition, there were several tenant movements out of Wisma UOA Damansara II, HP Tower and Menara IGB.

As for Beyond KL (Selangor), the overall occupancy rates improved slightly to record at 79.5% in 2H2017 (1H2017: 77.8%), following positive absorption in recently completed and existing buildings that include SunGeo Tower in Bandar Sunway, Block 9 of UOA Business Park, Towers 2 and 4 of Puchong Financial Corporate Centre, Wisma Mustapha Kamal and Quill 18 (Block B).

ABSORPTION

During 2H2017, the net absorption of office space in Kuala Lumpur was recorded at -134,000 sq ft (1H2017: -101,000 sq ft) while for Beyond Kuala Lumpur, it was recorded at 398,000 sq ft (1H2017: 27,000 sq ft). The positive take-up in Beyond Kuala Lumpur was mainly contributed by SunGeo Tower, Block 9 of UOA Business Park and Wisma Mustapha Kamal.

RENTAL

Amid a growing mismatch between supply and demand, the average achieved rental rates in both KL City and KL Fringe continued to be under pressure, declining to record at RM5.98 per sq ft and RM5.67 per sq ft respectively.

The average achieved rental rate in Beyond KL (Selangor), however, remained resilient at RM4.13 per sq ft supported by sustained demand from domestic companies cum business operations.

In Kuala Lumpur, well located Grade A office space continued to command higher asking rents, ranging from RM7.00 per sq ft to RM12.50 per sq ft per month while in Beyond KL (Selangor), the asking rents are more competitive, ranging from RM4.50 per sq ft to RM6.00 per sq ft per month.

TABLE 4
Notable Tenant Movements (2H2017)

	Building Name	Approx. Space (sq ft)	Remarks
KL CITY	**Menara Binjai**	~12,000	Moving in • **Inscale Asia Sdn Bhd**
KL CITY	**Menara Capsquare**	~12,500	Moving in • **TPSC Engineering (M) Sdn Bhd**
KL FRINGE	**Menara Ken @ TTDI**	~50,000	Moving in • **Common Ground TTDI** • **Nestle Malaysia (Global Procurement Hub)**
BEYOND KL (SELANGOR)	**SunGeo Tower**	~105,000	Moving in • **BAT Aspac Service Centre Sdn Bhd** • **Seedri International** • **Nielsen Malaysia**
BEYOND KL (SELANGOR)	**Quill 18 (Block B)**	~35,000	Moving in • **Prudential Shared Services Asia Sdn Bhd**

Source: Knight Frank Research

INVESTMENT ACTIVITY

Despite the challenging and competitive office market environment, opportunities continue to be present. During the review period several sales of office buildings were recorded in KL City and Beyond KL.

On 7th September 2017, Amanahraya Real Estate Investment Trust (ARREIT) entered into a conditional Sale and Purchase Agreement with The Intermark Sdn Bhd for the proposed acquisition of Vista Tower at a purchase consideration of RM455 million in cash. The freehold property comprises a 63-storey office tower with 2 concourse levels and 3 basement levels. As at 31st July 2017, the occupancy rate of the tower was recorded at 74.4%, although this may fall to circa 66.3% due to non-renewal of one tenancy which expires on 30th November 2017. The sale of the Grade A office tower comes with an estimated net yield of 6.5%.

Great Eastern Life Assurance (M) Bhd reportedly acquired an office building currently under construction in Kuala Lumpur's Golden Triangle for a consideration between RM450 million and RM500 million. The sale translates to circa RM978 per sq ft to RM1,087 per sq ft on NLA. The office block forms part of the Equatorial Plaza integrated development, which also includes a luxury hotel that is being constructed on the site of the former Hotel Equatorial Kuala Lumpur. Targeted for completion in the third quarter of next year, the Grade A office building will offer circa 460,000 sq ft NLA.

Prestariang Systems Sdn Bhd, a wholly-owned subsidiary of Prestariang Berhad, has entered into eight (8) separate Sale and Purchase Agreements with Joyful Star Sdn Bhd to acquire an 8-storey semi-detached signature corporate block of offices / retail suites known as Block 11B, Star Central @ Cyberjaya for an aggregate net consideration of RM11,406,951.

Serba Dinamik Group Berhad, a wholly-owned subsidiary of Serba Dinamik Holdings Berhad, has entered into a Conditional Sale and Purchase Agreement with AFFIN Bank Berhad for the proposed acquisition of a 16-storey office building with a 4-storey basement car park known as Bangunan Affin Bank for a total cash consideration of RM43,500,000. As at 24th October 2017, the occupancy rate of the leasehold building stood at 100%, of which approximately 25% is occupied by AFFIN Bank. Upon completion of the proposed acquisition, Serba Group is expected to occupy 2 floors of the office building.

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

Pelaburan Hartanah Bhd (PHB), which has close to RM6 billion worth of commercial assets and land, has decided to sell its 39-storey Menara Bumiputra-Commerce in Jalan Raja Laut for a consideration of RM560 million. The 10-year-old building could be the real estate investment firm-cum-property developer's first asset sale. PHB had purchased Menara Bumiputra-Commerce for RM460 million from CIMB Group through a sale and leaseback arrangement in December 2007.

IJM Corp Bhd has entered into a share sale and purchase agreement with KLIFD Sdn Bhd, a wholly-owned subsidiary of TRX City Sdn Bhd, to acquire 100% equity interest in Fairview Valley Sdn Bhd for RM1 million. Fairview Valley is the land owner-cum-developer of a 27-storey office building within the upcoming TRX. IJM's construction division, IJM Construction Sdn Bhd, is undertaking the construction of the office tower. The Grade A, LEED Gold-certified office building with a gross floor area with a GFA of about 560,000 sq ft is being developed on a 1.18-acre site. Slated for completion in December 2018, it will be Prudential's new Malaysian headquarters. To date, it has already secured tenants for 84% of its net lettable area.

OUTLOOK

The outlook for the both Kuala Lumpur and Beyond Kuala Lumpur (Selangor) office markets continues to remain gloomy.

The Business Conditions Index retreated to 103.1 points in 3Q2017 from a higher reading of 114.1 points in the previous quarter (source: Malaysian Institute of Economic Research). As businesses remain cautious on expanding, the gap between the increasing office supply and weak demand continues to widen.

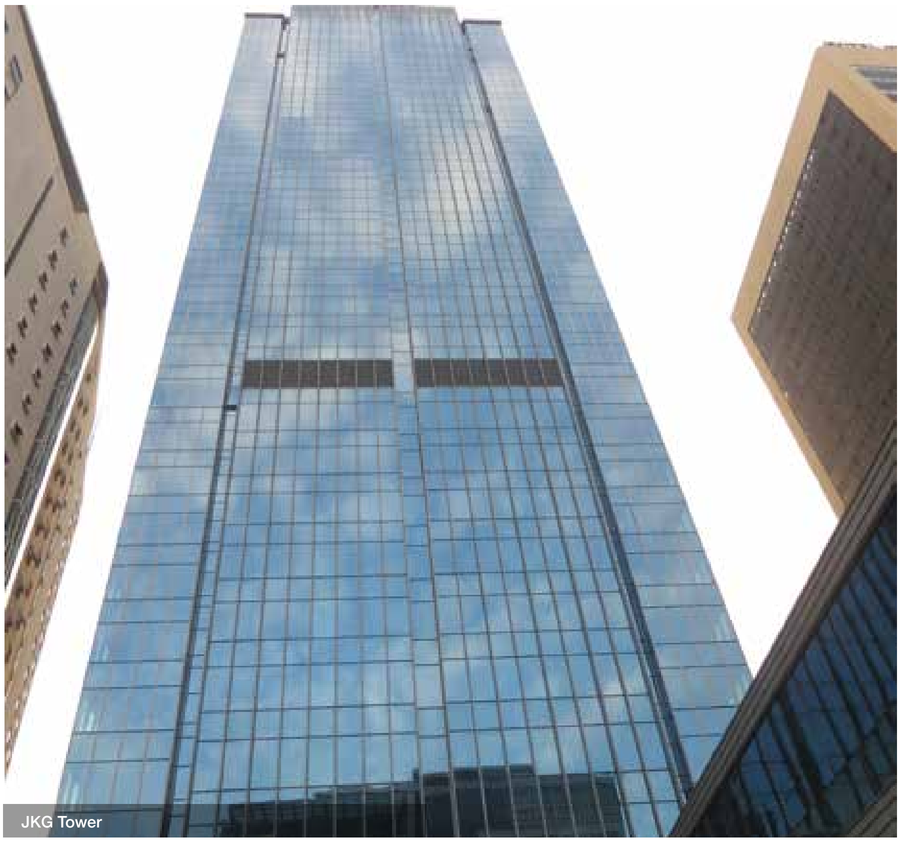
With reasonable yields (in comparison to other regional countries), well located good grade office buildings continue to attract investors' interest.

Effective 1st November, development approval for four types of development components, namely shopping complexes, offices, serviced apartments and luxury condominiums priced over RM1 million will be frozen indefinitely. The freeze will only affect new applications.

Whilst the freeze is expected to bring some relief to landlords of newly completed office buildings that have yet to achieve significant occupancy levels, it is not expected to correct the oversupply situation in the short to medium term. 16 million sq ft of incoming supply from on-going and upcoming mega developments, together with weak occupational demand will continue to drag on the market.

To remain relevant and competitive in a challenging tenant-favoured office market, there may be opportunities for dated buildings to undergo re-positioning and redevelopment to match market demand.

Mercu 3 of KL Eco City



JKG Tower

TABLE 5

Selected Grade A Office Asking Rentals

Building Name	Asking Gross Rental (RM per sq ft / month)
KL CITY	
Integra Tower	11.00
Menara Maxis	10.50
Vista Tower	9.00
G Tower	8.00
Menara Darussalam	9.50
Menara Binjai	8.80
Menara Prestige	7.50 – 8.50
KL FRINGE	
Menara CIMB	8.00
The Gardens North & South Towers	7.50
Axiata Tower (formerly Quill 7)	7.50
Menara Allianz Sentral & Nu Tower 2	7.00
1 Sentrum	7.80
Menara BRDB	6.50
BEYOND KUALA LUMPUR (SELANGOR)	
1 First Avenue	6.00
Surian Tower	5.50
The Ascent @ Paradigm	5.50
The Pinnacle	5.50
Puchong Financial Corporate Centre (Tower 4 & 5)	4.50
Wisma Mustapha Kamal	4.50
Quill 18 (Block B)	5.00

Source: Knight Frank Research

TABLE 6

Selected Office Investment Sales 2H2017

Building Name	Location	Approx. Lettable Area (sq ft)	Consideration (RM per sq ft)
Vista Tower[1]	Jalan Tun Razak, Kuala Lumpur	551,875	RM455,000,000 (RM824 psf)
Block 11B, Star Central[2]	Cyber 12, Cyberjaya	17,999	RM11,406,951 (RM634 psf)
Bangunan Affin Bank[3]	Seksyen 14, Shah Alam	81,771	RM43,500,000 (RM532 psf)

[1] Amanahraya Real Estate Investment Trust has entered into a conditional Sale and Purchase Agreement with The Intermark Sdn Bhd for the proposed acquisition of Vista Tower on 7th September 2017 at a purchase consideration of RM455 million. The freehold property comprises a 63-storey office tower with 2 concourse levels and 3 basement levels. As at 31st July 2017, the occupancy rate stood at 74.4%, although this may fall to 66.3% due to non-renewal of one tenancy which expires on 30th November 2017.

[2] Prestariang Systems Sdn Bhd has entered into eight (8) separate Sale and Purchase Agreements with Joyful Star Sdn Bhd for the proposed acquisition of an 8-storey semi-detached signature corporate block of offices / retail suites known as Block 11B, Star Central @ Cyberjaya for an aggregate net consideration of RM11,406,951 (gross price of RM12,265,540).

[3] Serba Dinamik Group Berhad, a wholly-owned subsidiary of Serba Dinamik Holdings Bhd, has entered into a Conditional Sale and Purchase Agreement with AFFIN Bank Berhad for the proposed acquisition of a 16-storey office building with a 4-storey basement car park known as Bangunan Affin Bank for a total cash consideration of RM43,500,000. As at 24th October 2017, the occupancy rate of the leasehold building stood at 100%, of which approximately 25% is occupied by AFFIN Bank.

Source: Knight Frank Research

HIGHLIGHTS

MIER Consumer Sentiment Index (CSI) retreated further to register at 77.1 points in 3Q2017.

In line with weak consumer sentiment, retail sales contracted 1.1% in 3Q2017 against a 4.9% growth in 2Q2017.

Retail Group Malaysia has again revised downwards its full year forecast for 2017 from 3.7% to 2.2%, its third revision from an initial projection of 5.0% as consumers continue to cut back on discretionary spending amid growing pressures on their purchasing power.

Recent completion of circa 0.78 million sq ft NLA of retail space brings Klang Valley's cumulative supply to 57.4 million sq ft in 2H2017. Retail space per capita, analysed at circa 7 sq ft per person, is one of the highest in the region.

In response to challenges on the current real estate glut, approvals for new applications for shopping complexes, offices, serviced apartments and luxury condominiums have been frozen

Growing e-commerce market sees more retailers embarking on 'click and mortar' concept.

KLANG VALLEY RETAIL MARKET

MARKET INDICATIONS

The MIER Consumer Sentiment Index (CSI) remains weak below the threshold level of 100 points, retreating 3.6 points from previous quarter to register at 77.1 points in 3Q2017.

Amid growing price pressures coupled with a weak job market hindering income growth, consumers continue to cut back on discretionary spending as disposable income falls.

Retail Group Malaysia has again revised its 2017 retail sales growth projection from 3.7% to 2.2%, its third revision from an initial projection of 5.0%.

SUPPLY & DEMAND

The review period saw the opening of two shopping malls with a combined NLA of about 0.78 million sq ft bringing the cumulative supply of retail space in Klang Valley to circa 57.4 million sq ft. The new completions are Melawati Mall (620,000 sq ft) and Amerin Mall (155,600 sq ft).

Melawati Mall, which opened its door in August 2017, targets to achieve 80% occupancy by year end. Its current key tenants include Padini Concept Store, Brands Outlet, Golden Screen Cinemas, MPH, Mr DIY and Kaison.

Part of a mixed-use development that also features serviced apartments in Cheras Selatan, Amerin Mall, opened in December. The mall has secured key tenants such as Pinnacles Screen cinema, SKM market, Aneka DIY Store, Upper Case café, Oppo, Cotton On, MPH, Texas Chicken and Burger King.

Empire City Damansara Mall located in Damansara Perdana was partially opened during the Sea Games in 2017. The shopping mall is expected to fully open in 2018.

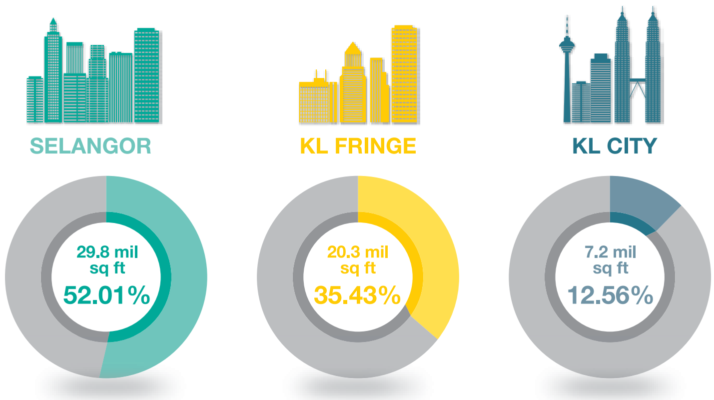
Empire City Damansara

Developers and operators of selected shopping centres embark on asset enhancement initiatives (AEIs) to address changes in the retail landscape and to continue creating value for their shoppers and tenants.

IPC Shopping Centre has reopened two levels, LG1 and LG2, as part of its

FIGURE 3

Existing Cumulative Supply of Shopping Mall (Net Lettable Area) (2H2017)



Source: Knight Frank Research

Phase 1 redevelopment project. New tenants making their debut in the newly refurbished mall include AEON Wellness, the Australian furniture retailer King Living Penang Road Famous Teochew Chendul and Ben's Independent Grocer. The three-phase redevelopment is expected to be fully completed by December 2017.

One of Kuala Lumpur's oldest departmental stores, Sogo, has undergone a facelift. It has refurbished its Lifestyle Floor as well as Food & Beverage (F&B) and Beauty Floor. The new look Sogo is home to luxury boutiques and brands such as Coach, Victoria Secret, Charles & Keith, Bath & Bodyworks, NYX and Starbucks as well as home-grown Asian Designers that include Christy Ng, Miss Suri and many more.

The nearby Pertama Shopping Complex has also completed its facelift recently and welcomed new F&B outlets such as TeaLive, Soulmate and a new renovated KFC.

Seven new shopping centres / supporting retail components with combined retail space of circa 3.9 million sq ft are expected to enter the Klang Valley market by 1H2018. They are KL Eco City Retail podium, Retail Mall @ Four Seasons Place, GM Bukit Bintang, Eko River Centre, Empire City Damansara Mall, Evo Shopping Mall Bangi and Pinnacle Petaling Jaya.

On top of that, two existing malls, namely Cheras Leisure Mall and Subang Parade will be adding up a total space of 20,000 sq ft to their current 260,000 sq ft and 500,000 sq ft of retail space respectively.

During the review period, the retail sector continues to witness a foray of new brands as well as the expansion of existing brands and outlets.

In the vibrant Kuala Lumpur City, Ladurée, the French luxury bakery and sweets maker house, has finally made its maiden debut at Pavilion Kuala Lumpur Mall in November. Other notable openings therein include a two-level Cartier boutique and the F&B outlets of American bistro TR Fire Grill and Marche Movenpick.

Meanwhile, Suria KLCC saw the expansion and relocation of the oldest independent, family owned Genevan watch manufacturer, Patek Philippe outlet, the reopening of Italian luxury fashion brand, Prada and the debut of Swiss watchmaking company, Longines. Malaysia's largest kiosk for Calvin Klein Watches & Jewelry is also located at Suria KLCC.

In Kuala Lumpur Fringe, Mid Valley Megamall continues to refresh its tenant mix. The F&B segment welcomed the opening of Tokyo Secret, Thai Hou Sek, MorganFields, Hey Cha, Zok Noodle House and A'PIEU while in the healthcare and beauty care segment, Watsons, opened its second outlet at level 3 of the mall, providing seamless payment via Tap & Go, Click & Collect.

Over at The Gardens Mall, Dyson opened its first concept store in Malaysia. The upscale mall also saw the opening of Michelin One Star Putien's fourth outlet and Inside Scoop's 15th outlet in Klang Valley as well as Kakigori, a Malaysian café serving Japanese desserts.

Phase Two of Mitsui Outlet Park KLIA Sepang, on a 27,500 sq m site adjacent to the current outlet, will be soft launched on December 15. About 35 new stores have been lined up for the opening. New brands at the outlet include Hummer bags store and The Beauty Laboratory by Shiseido. It will be officially launched in February 2018.

The average occupancy level for shopping centres in Kuala Lumpur was at 84.9% in 1H2017 while for Selangor, it was lower at 85.4% (source: NAPIC).

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

Mid Valley Megamall, which remains popular amongst local shoppers and tourists, registered near full occupancy (99.9%) while at neighbouring The Gardens Mall, occupancy was at 99.7%. During the review period, Suria KLCC's occupancy level was at 96.0%.

The occupancies of selected suburban malls improved marginally: The Mines (95.4%), Tropicana City Mall (93.7%), and Subang Parade (93.0%).

TABLE 7

Largest Flagship Stores Opened in Klang Valley during 2H2017

RETAILERS / OPERATORS	SHOPPING CENTRES	REMARKS
GT Max Fashion	• 1Utama • Sunway Putra	Largest value fashion brands across Middle East. Second and third outlets in Malaysia.
Moonshot	• Sunway Pyramid	Korean cosmetic brand flagship store. First outlet in Malaysia.
LC Waikiki	• 1Utama	Turkey's largest clothing retailer. First in Malaysia, 3rd in East Asian country.

Source: Knight Frank Research

PRICES & RENTALS

The investment market was fairly active during the review period. Notable retail-related investment announcements include the following:

Aeon Co (M) Bhd has entered into a sale and purchase agreement with Foremost Wealth Management Sdn Bhd for the proposed disposal of Aeon Mahkota Cheras Shopping Centre at a consideration of RM87.8 million. The 7-acre freehold land is erected upon with a two-storey building with built-up area of 308,000 sq ft. The sale price is analysed to circa RM285 per sq ft on built-up area.

Saujana Tunggal Sdn Bhd, a subsidiary of LBS Bina Group Bhd has inked an agreement with Jadi Wawasan Sdn Bhd and Chua Choon Yang to acquire Gerbang Mekar for RM105 million in cash and kind. Gerbang Mekar is the mall owner and operator of the M3 Mall in Gombak, part of a larger mixed development on 3.2 acres of leasehold land known as "Medan Mega Melati" that also includes 2 blocks of 16-storey

TABLE 8

Incoming Retail Supply

Name of Shopping Mall	Location	Net Lettable Area
2H2017 - New Completion / Opening		
Melawati Mall	KL Fringe	620,000 sq ft
Amerin Mall (Cheras Selatan)	Selangor	155,600 sq ft
1H2018 - Expected Completion / Opening		
Retail Mall @ Four Seasons Place	KL City	206,000 sq ft
GM Bukit Bintang	KL Fringe	100,000 sq ft
KL Eco City Retail Podium	KL Fringe	250,000 sq ft
Eko River Centre	KL Fringe	600,000 sq ft
Empire City Damansara Mall	Selangor	2,312,168 sq ft
Evo Shopping Mall	Selangor	251,000 sq ft
Pinnacle	Selangor	140,000 sq ft

Source: Knight Frank Research

TABLE 9

Retail Investment Sales 2H2017

Building Name	Location	Approx. Lettable Area (sq ft)	Consideration (RM per sq ft)
Aeon Mahkota Cheras Shopping Centre	Cheras, Selangor	308,000	RM87.8 million (RM285 psf)
M3 Mall	Gombak, Selangor	165,123	RM105.0 million[1]

[1] Saujana Tunggal Sdn Bhd, a subsidiary of LBS Bina Group Bhd has inked an agreement with Jadi Wawasan Sdn Bhd and Chua Choon Yang to acquire Gerbang Mekar for RM105.0 million via cash and kind. Gerbang Mekar is the mall owner and operator of the M3 Mall in Gombak. M3 Mall is part of a larger mixed development on 3.2 acres of leasehold land known as "Medan Mega Melati" which includes 2 blocks of 16-storey serviced apartments (M3 Residency) atop the mall.

Source: Knight Frank Research

serviced apartments (M3 Residency) atop the mall.

The monthly gross rentals of selected prime shopping centres remained resilient during the review period. Mid Valley Megamall command rentals ranging from RM21.40 to RM45.30 per sq ft while for Suria KLCC, rentals are from RM35.10 to RM103.25 per sq ft. As for Sunway Pyramid Shopping Mall, rentals range from RM12.10 to RM23.80 on average (source: NAPIC)

OUTLOOK

The short term outlook for the retail industry remains challenging although its mid to longer term prospects remain positive.

For 2017, Retail Group Malaysia has revised down its earlier retail sales growth projection of 3.7% to 2.2% from an initial projection of 5.0% as retail sales declined by 1.1% in 3Q2017. The Malaysia Retail Chain Association (MRCA), however, expects the country's overall sales to grow at 4.5%. The retail industry outlook remains subdued in the short term. Amid growing price pressures leading to lower disposable income, consumers continue to spend prudently, cutting back on discretionary purchases.

The high GDP posting of 6.2% in 3Q2017 (2Q2017: 5.8%) and the recent strengthening of the local currency may, however, lift consumer sentiment and improve retail sales going forward.

In 2018, we expect to see more consumers turning to online shopping for greater choices, bargains and convenience. Align with the rapid growth in e-commerce, more retailers are jumping on the bandwagon by embracing the concept of 'clicks and mortar'.

e-commerce is also gaining traction in the F&B segment. Uber has launched its food delivery service in Malaysia via its UberEATS app, joining other well-established food delivery service providers operating in the country, namely, FoodPanda, PappaDelivery and HonestBee.

Meanwhile, the popularity of e-hailing services has transformed the way we commute and helped to boost footfalls to selected shopping centres, with many having dedicated pick up stands at strategic locations.

However, despite the rise in online shopping, bricks-and-mortar outlets are still very relevant in the local retail industry. Online retail sales account for less than 5% of total retail sales in Malaysia as most shopping is done in stores. Visiting shopping centres remains a favourite pastime for Malaysians during weekends and holidays.

The current concern weighs more on the high impending retail stock and the growing pressures on occupancy levels of shopping centres across Klang Valley.

Amid this challenging market environment, it may be opportune for developers with yet to be launched retail developments to revisit their plans to ensure project feasibility in a very crowded and diluted market.

Melawati Mall

HIGHLIGHTS

Penang is top on the national list with approved investments worth RM7.71 billion in the manufacturing sector for the first half of 2017. This accounts for 45 per cent of the total RM17.02 billion investments approved nationwide and which has also surpassed the total investments for Year 2016 at RM4.29 billion.

The Federal Government has announced through Budget 2018 that the capacity of Penang International Airport (PIA) will be expanded to cater for 12 million passengers, an almost 100% increase from the current 6.5 million. There was an 8.2% increase in total passengers handled by PIA from January to October 2017 numbering 5.92 million passengers compared to 5.47 million over the same period of Year 2016. Growths at other airports in the country range from -8.5% to 13.5%.

PENANG PROPERTY MARKET

MARKET INDICATIONS

According to the latest figures released by the National Property Information Centre (NAPIC) for 3Q2017, there is an upturn of 10.5% in the total volume of transactions for all sectors in the State of Penang when comparing 3Q2017 to 2Q2017 and a slight drop of 2.0% when measured against 3Q2016. Residential transactions made up 73.0% in 3Q2017 (was 72.4% and 73.0% in 2Q2017 and 3Q2016 respectively) of the total volume and recorded an increase of 11.4% over 2Q2017 but a drop of 2.0% from 3Q2016. For the period compared, 3Q2017 vs 2Q2017, the various sub-sectors performed differently; residential with 11.4% increase; commercial with 7.1% drop; industrial with 72.7% increase; agricultural with 16.5% increase and a slight 1.8% decrease for development lands. When compared to 3Q2016, there is a drop of 2.0%, 9.8% and 26.5% for the residential, commercial and development land sub-sectors respectively but an increase of 50.5% for the industrial and 18.3% for the agricultural sub-sectors.

In terms of total value of transactions, there is a high 85.3% increase comparing 3Q2017 with 2Q2017 and a 76.6% increase in 3Q2017 over 3Q2016. Residential transactions for 3Q2017 only made up 39.3% of the total value compared to 61.5% in 2Q2017 and 62.5% in 3Q2016 whilst the agricultural and development land sub-sectors recorded a larger 20.6% and 28.1% share in 3Q2017, a jump from a 6.0% and 11.4% share in 2Q2017 respectively. In terms of performance for 3Q2017 vs 2Q2017, the agricultural sub-sector recorded a 540.6% increase, the development land sub-sector with 355.2% increase followed by the residential, commercial and industrial sub-sectors with 18.4%, 7.7% and 2.2% improvement respectively. When compared to 3Q2016, there is an improvement of 11.0%, 20.5%, 556.8% and 369.3% for the residential, commercial, agricultural and development land sub-sectors respectively but a drop of 19.6% for the industrial sub-sector.

Sunway Bhd is set to launch several projects in Penang worth a total gross development value (GDV) of RM5 billion over the next 10 years and with RM2 billion for long-term investment projects including malls and hotels. Sunway Valley City, a RM2 billion integrated project to be developed on a 24-acre site over 4 phases in Paya Terubong, will comprise shop offices, a shopping mall, service apartments, an education institute (Sunway College), an office tower and a medical centre. On mainland Seberang Perai, the group's mixed development project in Seberang Jaya will include their first healthcare centre in Penang, the 400-bed Sunway Medical Centre to be built over two phases, with the 1st phase featuring 250 beds.

Aspen Group has awarded Kerjaya Prospek Group Bhd with a contract worth RM442 million to undertake the main building works for "Vertu Resort" – a condominium project which will be jointly developed by Aspen Group and IKEA Southeast Asia. Vertu Resort, the first urban resort-inspired high-rise development in Aspen Vision City, comprises five condominium blocks with resort facilities and amenities.

EcoWorld has in October launched the first phase of Eco Horizon's township in Batu Kawan. Eco Horizon, with a GDV of RM7 billion and to be developed over 10 years, is a 300-acre township with 230 acres set for development of over 2,000 landed homes and 70 acres for commercial development. The first phase comprises 704 units of 2-storey terraced, super link and garden homes with scheduled completion in 2020.

On the industrial front, Boston Scientific Corporation has commenced operations at its new 375,000 sq ft facility over a 20-acre (8.1-hectare) plot in Batu Kawan, its 19th global manufacturing facility and first in Asia. UST Global, a leading digital technology services company, has also opened a new facility in Penang whilst leading semiconductor supplier Broadcom Limited has opened a new RM59 million global distribution warehouse in Batu Kawan which will see the shipping of over 90% of Broadcom's products directly to its customers.

New investments include a RM120 million investment by Federal Oats Mills Sdn Bhd to build a new facility on a 2.7-hectare site in Penang Science Park while Vitrox Corp Berhad will invest RM130 million to expand its operations this year and next year in view of the growing demand for its test equipment and systems.

HIGH-END CONDOMINIUM

In late June, Ideal Property Group launched Queens Residences 2, phase 2 of the "Queens Waterfront" project, a sea-front high-end development located in front of Queensbay Mall in Persiaran Bayan Indah. To be developed over 5 phases, Phases 1 to 4 comprising residential units known as Queens Residences 1 to Queens Residences 4 with the final Phase 5 for "Queens Sports Centre" and an International School. The sports centre is slated to feature a 200m track velodrome amongst other facilities. A marina has also been planned for the development.

Queens Residences 2 is a 24-storey exclusive condominium block featuring 450 residential units over 17 floors with commercial units on the ground floor and first floor, 1 level of facilities and 4 levels of car park. The standard units sized from 950 sq ft to 1,650 sq ft were pre-launched at prices ranging from RM806,700 to RM2,086,500 a unit or from RM850 per sq ft upwards. We understand that current prices have been reviewed upwards starting from RM1000 per sq ft.

Queens Residences 1, launched in 2016, comprises two 21-storey blocks with a total of 500 condominium units on the upper floors and commercial areas on the ground and first floors. The standard units featuring two-bedroom to four-bedroom types and sized from 950 sq ft to 1,650 sq ft were put up for sale at prices ranging from RM787,900 to RM1,966,900 a unit or stating from RM829 per sq ft. The unsold units are now for sale at RM1000 per sq ft.

Phases 3 and 4 of Queens Residences are expected to be launched soon.

In 2H2017, there were lesser sub-sale activities in the secondary market for condominiums sized from 3,500 sq ft to 6,000 sq ft although prices continue to hold steady. Sub-sale transactions is more brisk for developments in Tanjung Bungah compared with Pulau Tikus and at prices ranging from RM596 per sq ft (The Cove) to RM764 per sq ft (Infinity Condo and 1 Tanjong). A 2,537 sq ft unit at the newer Andaman at Quayside in Seri Tanjung Pinang was transacted at RM1,285 per sq ft whilst the latest two transactions for the larger sized units of 10,775 sq ft at 8 Gurney indicated an improvement from RM600 per sq ft to RM740 per sq ft.


Site for Queens Waterfront by Ideal Property Group

Asking rents for larger sized units in Tanjong Bungah generally range from RM1.20 per sq ft to RM2.00 per sq ft per month with the upper band in the range of RM2.10 per sq ft to RM2.56 per sq ft per month. For similar sized units in Gurney Drive, asking rents vary from RM1.90 per sq ft to RM3.00 per sq ft per month. For smaller sized units in Tanjong Tokong and Gurney Drive, asking rents are in the range of RM2.42 per sq ft to RM2.80 per sq ft per month whilst some landlords are still asking higher rents of more than RM3.00 per sq ft per month.

OFFICE

The existing supply of office space (buildings of 10-storey and above) on Penang Island remains at 1H2017's level of 5.71 million sq ft. There were no incoming supply for 2H2017.

The occupancy rates for the four prime office buildings monitored in Georgetown remain unchanged as at 1H2017's range of 90% to 100%. The newer buildings located out of Georgetown, namely One Precinct, Suntech and Menara IJM Land collectively has an average occupancy rate of about 97%, the same level as 1H2017.

In George Town, asking rents of upper floor space for three of the buildings monitored range from RM2.80 per sq ft to RM3.00 per sq ft per month while passing rents at the newer Hunza Tower is higher at RM3.80 per sq ft per month. For buildings located out of George Town, the asking rent for the only lot (459 sq ft) available for rent at SunTech, Bayan Baru is RM4.10 per sq ft per month; at One Precinct, a 7-storey office building with MSC status located in Bayan Baru, asking rents for upper floor space are at RM3.50 per sq ft per month exclusive of charges for air-conditioning usage.

In addition to the planned 370,000 sq ft from The Light City in the Light Waterfront, new future office supply may come from Sunway Valley City in Paya Terubong, a RM2 billion integrated project by Sunway Berhad; it will be developed over 4 phases on a 24-acre site and will feature shop offices, service apartments, a shopping mall, an educational institute, an office tower and a medical centre.

TABLE 10

Asking Gross Rents of Selected Purpose-Built Office Space on Penang Island

Building Name	Location	Asking Gross Rental (RM per sq ft / month)
Hunza Tower	Georgetown	3.80 (renewed rent)
Menara Boustead Penang	Georgetown	2.80 to 3.00
Menara KWSP	Georgetown	2.80 to 3.00
MWE Plaza	Georgetown	2.80 (fixed rent)
Wisma Great Eastern	Georgetown	3.00
Menara IJM Land	Jelutong	3.00 to 3.40
SunTech @ Penang Cybercity	Bayan Baru	4.10 (only lot available sized 459 sq ft)
One Precinct	Bayan Baru	3.50 (fixed rent)

Source: Knight Frank Research

RETAIL

The existing supply of purpose-built shopping space on Penang Island increased from 6.69 million sq ft in 1H2017 to 6.99 million sq ft in 2H2017, with a circa 300,000 sq ft contribution from the recent completion of City Mall in Tanjong Tokong. It is expected to start business in 1Q2018.

Retail developments under construction on Penang Island include 900,000 sq ft of retail space from Sunshine Tower in Bandar Baru Air Itam. Sunshine Tower comprises three high-rise towers (office, hotel & service apartments) sitting on a 9–storey commercial podium with basement car parks. Completion is scheduled for 2019. Also under construction is Phase 3 of Penang Times Square, namely The Wave with a commercial podium which is expected to complete in late 2019. Together with the upcoming Phase 4 (The Central, hotel & commercial), the retail section of both Phases 3 & 4 is expected to contribute some 340,000 sq ft to the existing supply when completed.

Future mall developments on Penang Island will include IJM Perennial Development Sdn Bhd's proposed development of a five-storey retail mall with a gross floor area (GFA) of circa 1.5 million sq ft at The Light City Waterfront and Sunway Group's proposed 1 million sq ft proposed development in Paya Terubong.

Over in Batu Kawan on mainland Seberang Perai, IKEA Store is currently under construction with target opening in early 2019. It will have 430,000 sq ft of space.

The several proposed shopping malls coming up over the next five years on the island are as listed in Table 11.

Occupancy rates for the prime shopping malls on the island range from 80% to 99% whilst for the secondary shopping malls, the range is generally from 70% to 90%.

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

TABLE 11

Future Supply of Retail Space within Penang Island

*SUNSHINE TOWER	*PENANG TIMES SQUARE	**SUNWAY VALLEY CITY	**THE LIGHT WATERFRONT MALL
900,000 sq ft	340,000 sq ft	1,000,000 sq ft	1,500,000 sq ft (GFA)
2019	• Phase 3 - late 2019 • Phase 4 - not available yet		

under construction* * planned*

Source: Knight Frank Research

OUTLOOK

The second half of 2017 did not witness any improvement to the overall property market. Sentiments are still very much subdued because of the overall financial / economic situation as well as political uncertainties. This is reflected in the overall volume of property transactions in the state which continues to decline and similarly, the value of transactions, although there is some slight improvement for 3Q2017 compared to 2Q2017.

However, the state has managed to attract a healthy RM7.71 billion in investments in the manufacturing sector in the first half of the year and some major developers have still been launching projects albeit at a slower pace. These augurs well for a possible medium term improvement in the public sentiments.

During 2H2017, the office sub-sector continues to remain relatively healthy with both occupancy rates and rentals holding steady. This is expected to continue over the next few quarters as future supply is not forthcoming for the time being.

The condominium sub-sector is still consolidating whilst the retail sub-sector is expected to face further challenges with additional incoming supply poised to come into the market in 2019.

HIGHLIGHTS

As of 3Q2017, total cumulative committed investment in Iskandar Malaysia stood at RM244.46 billion, with a 61:39 split between domestic and foreign investment.

Iskandar Puteri was accorded city status on 22nd November 2017, a milestone for Iskandar Malaysia 11 years after its establishment.

One Bukit Senyum, a high-end mixed development by Astaka Padu, has been granted node status that comes with incentives such as full income-tax exemption by IRDA and Ministry of Finance.

Berjaya Assets is set to reclaim 55 acres of land adjacent to its existing development. Work is expected to commence in 2018 and upon completion, the reclaimed land will be developed into mixed use components comprising hotels, high-end residential buildings and a hospital.

JOHOR BAHRU PROPERTY MARKET

MARKET INDICATIONS

In the third quarter of 2017, total volume and value of transactions in Johor increased by about 7.0% and 3.2% year-on-year (y-o-y) respectively.

There were mixed trends in the various sub-categories.

Compared to 3Q2016, the transacted volume increased for each sub-sector except for commercial. The industrial sub-sector showed the highest increment (53.8%), followed by development land (17.5%), residential (9.2%) and agricultural (1.8%).

Despite posting lower volume of transactions (-7.4%), the transacted value for the commercial sub-sector was 18.2% higher. As for the industrial sub-sector, the transacted value was 40.6% lower despite higher transacted volume (53.8%). This indicates that lower valued industrial properties were transacted during the review period.

On an annual basis, the value of transactions for the residential, agricultural and development land sub-sectors increased 4.3%, 18.1% and 21.8% respectively.

MARKET HIGHLIGHTS

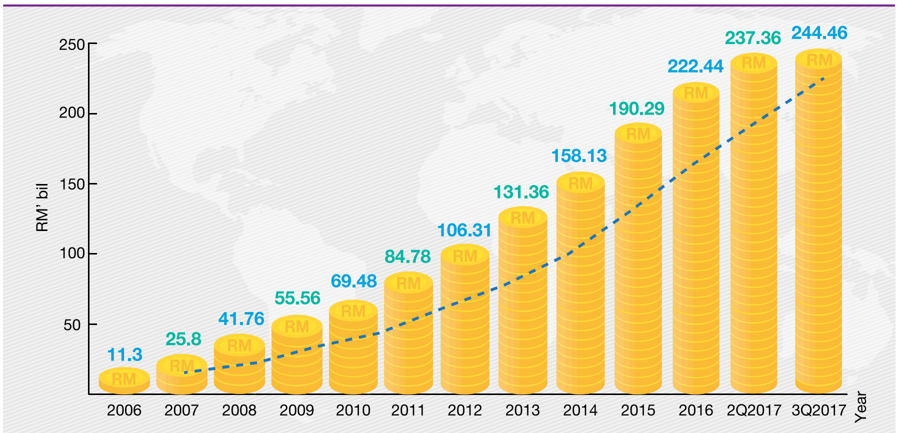
In November, MB Group entered into a Sales and Purchase Agreement (SPA) with Shiya Sdn Bhd to acquire 15.56 acres of land comprising 252 parcels of residential land in Taman Sri Pulai Perdana, Johor Bahru for RM8.15 million (about RM12.00 per sq ft). The vacant terraced plots earmarked for courtyard-type terraced houses. The development is expected to start 24 months after the completion of SPA and its estimated gross development cost and profit are worth about RM34.56 million and RM5.39million respectively.

Country Garden Pacific View (CGPV) has launched the second phase of the Forest City development, consisting of hotel and landed residential components as well as three golf courses. The 11-storey high, twin-towered 5-star hotel will feature 305 guest rooms with sizes ranging from 45 sq m to 323 sq m. Indicative room rates are from RM300 to RM6,000 per night. Meanwhile, the landed residential properties, consisting of two and three-storey cluster and semi-detached homes with built-up areas ranging from 2,034 sq ft to 6,975 sq ft per unit will be priced from RM1.38 million per unit. The hotel, golf courses and residential units are expected to be completed in stages from 1H2018 onwards.

Serba Dinamik Holdings Bhd intends to enter into two separate Memorandum of Agreements (MoA) for the development of industrial and commercial projects on a 15.87-acre land in Pengerang, Johor and

FIGURE 4

Total Cumulative Investment in Iskandar Malaysia (2006 - 3Q2017)



Source: Napic / Knight Frank Research

construction work of mixed residential and commercial project on a 70-acre land in Kota Tinggi, Johor. The latter project, known as Pengerang Northshore Residence, will feature landed residential properties, affordable apartments, shop-offices, a community complex and other amenities. The project forms part of Serba Dinamik's upcoming 132-acre, RM1.40 billion mega development which will also include the Pengerang Eco-Industrial Park (PeIP) and the Pengerang International Commercial Centre.

UEM Land, through its subsidiary, Bandar Nusajaya Development Sdn Bhd, has entered into a Sales and Purchase Agreement (SPA) with Country View Resources Sdn Bhd, to dispose a parcel of freehold land in Iskandar Puteri for RM310 million (analysed at RM43.42 per sq ft). The 163.92-acre land is zoned under commercial use.

Sunway Property has launched its latest mixed development, the GRID Collection within the Market Place precinct in Sunway Iskandar. The integrated development, on a 5.2-acre land in Medini Iskandar, comprises 41 retail units, 74 office units and 501 apartment units. The project with estimated gross development value (GDV) of RM374 million, is situated near the upcoming Coastal Highway Southern Link (CHSL).

Amari Johor Bahru, part of the Suasana Iskandar mixed development, officially opened in May 2017. The 242-room 5-star hotel, a collaboration between United Malayan Land Bhd (UM Land) and ONYX Hospitality Group, marks the debut of the hospitality group in Malaysia. Located along the busy Jalan Wong Ah Fook and Jalan Trus in the city centre, surrounded by established and well known office towers, retail malls and a convention centre, the hotel is expected to achieve good occupancy.

RESIDENTIAL

In 3Q2017, District of Johor Bahru continues to lead with 3,118 transacted units or about 50.9% of the state's total volume of transactions, followed closely by the District of Batu Pahat with 649 units (or 10.6%).

The two-storey terraced house category recorded the highest number of transactions (1,169 units) in Johor Bahru where the transacted volume had increased by about 7.8% from 1,084 units recorded in 3Q2016.

TABLE 12

Johor Bahru: Average Asking Prices and Rentals of Selected Existing High-Rise Projects in 2H2017

Name of Development	Location	Average Asking Price (RM per sq ft)	Average Asking Rental (RM per sq ft / month)
Tropez Residence @ Danga Bay	JB City Centre	500 - 700	2.20
Paragon Residence @ Straits View	JB City Centre	660 - 930	2.40
Setia Sky 88	JB City Centre	780 - 950	2.60
Meridin Suite Residences	Iskandar Puteri	520 - 830	2.40
Fairway Suites	Iskandar Puteri	460 - 640	2.00

Source: Knight Frank Research

TABLE13

Johor: Notable Launches of Landed Projects in 2H2017

Name of Development	Fern, Meridin East (Phase 2)	Taman Mutiara Rini (Phases 6a And 6b)	Elata Vita
Type	Double-storey Link / Terrace	Double-storey Terrace	Double-storey Terrace
Developer	Mah Sing Group	Boustead Holdings Berhad	SP Setia
Location	Masai, Pasir Gudang	Skudai, Johor Bahru	Setia Tropika, Johor Bahru
No. of Units	84	227	138
Built Up Area	From 1,622 sq ft	1,800 - 2,200 sq ft	1,880 sq ft
Average Selling Price	From RM410,550 per unit	From RM550,000 per unit	From RM588,588 per unit

Source: Knight Frank Research

RETAIL

As of 1H2017, the total retail space in Johor stood at 19.06 million sq ft, a 3.6% increase y-o-y (1H2016: 18.40 million sq ft). During the corresponding period, occupancy improved marginally to 77.1% (1H2016: 75.9%).

AEON Group continued its expansion with the opening of AEON Bandar Dato Onn in early September 2017. The 3-storey shopping mall has a net lettable area (NLA) of about 600,000 sq ft and will cater primary to the demand from within the larger neighbourhood of Bandar Dato Onn. This will be the sixth outlet for AEON in Johor besides Bukit Indah, Tebrau City, Kulai, Permas Jaya and Taman Universiti.

IKEA Tebrau was officially opened to the public on 16th November. This is the third outlet in Malaysia. It has a basement car park providing 1,771 parking bays. The retail mall is the largest in South-East Asia with approximately 46,731 sq m (503,008 sq ft) of retail space.

WCT's Paradigm Mall opened its doors to public on 28th November. Among the tenants are Parkson (anchor tenant), Golden Screen Cinemas, Padini Concept Store, Uniqlo, Brands Outlet, Harvey Norman, Blue Ice Skating Rink @ Paradigm Mall and Village Grocer. The seven-storey mall is located along the Skudai Highway. It has NLA of about 1.3 million sq ft. The other components of the 3-in-1 project include a 24-storey serviced apartment block and a 296-room hotel, to be built in the near future.

The opening of these three retail malls (total about 2.4 million sq ft) in Johor Bahru has thus increased the current


IKEA Tebrau

retail space in Johor to about 21.46 million sq ft.

UDA Holdings Bhd has announced plans to build Angsana 2, which is located next to its current retail mall. The proposed 800,000 sq ft mall is expected to be completed in 2021 and has an estimated GDV of RM1.5 billion.

Tampoi City Centre is another project by UDA Holdings. The integrated project, to be built near the Angsana 2 Mall, will comprise a business complex, a convention hall, hotels, luxury condominiums and low-cost apartments.

OFFICE

The total purpose-built office space increased by about 5.0% to record at 12.25 million sq ft in 1H2017 (1H2016: 11.67 million sq ft) while occupancy rate declined to 77.7% (1H2016: 80.7%).

BCB Berhad has launched its shop offices in Medini known as VERSIS. Currently, the project is under Phase 1A and consists of 54 units of 3-storey terraced and 3-storey semi-detached offices. The average selling price starts from RM2.28 million per unit. Offered with Guaranteed Rental Return (GRR) of 5% for four years, the shop offices are expected to be completed in 2019. Since its official launch in September, the project has received good response with circa 50% take-up rate.

INDUSTRY

Despite the soft market, 2H2017 has recorded several notable industrial land transactions in Johor. When compared to 3Q2016, there was a sharp hike in the volume of transactions (53.8%) in 3Q2017 despite a 40.6% decline in value.

In October, Luxx Newhouse Furniture Sdn Bhd, a subsidiary of Luxx Newhouse Group, entered into a Sales and Purchase Agreement (SPA) with UEM Sunrise Sdn Bhd to purchase a 100,000 sq ft of land for RM13.0 million. The land is located in Southern Industrial & Logistic Centre (SiLC), Iskandar Puteri.

Hsing Lung Sdn Bhd, a wholly-owned subsidiary of Karyon Industries Berhad (KIB) has entered into a Sales and Purchase Agreement (SPA) with Parit Yusof Oil Mill Sdn Bhd for the disposal of a freehold industrial land for a total sale consideration of RM4.72 million.

Johor Corporation has entered into an agreement with Xin Hwa Trading & Transport Sdn Bhd (subsidiary of Xin Hwa Holdings) to dispose two parcels of leasehold land in Pasir Gudang Industrial Area, Mukim of Plentong for about RM26.53 million (approximately RM13.82 per sq ft). Both the lands are located adjacent to the existing warehouse of the group and will be used for the expansion of a new warehouse.

In August, Country Garden Pacific View Sdn Bhd officially launched the 168.7-hectare Industrialised Building System (IBS) base with a projected cost of RM2.6 billion. The manufacturing plant, which will be the largest factory in the world, is to be built in two phases with expected completion within three to five years. The application of IBS in the industry will increase efficiency and productivity as well as speed up the completion period of the construction.

OUTLOOK

The second half of 2017 saw several new launches of landed residential properties in Johor Bahru and Iskandar Malaysia amid the soft property market condition. Instead of holding land banks, developers are gradually releasing their products amid in smaller numbers and offer reasonable prices and attractive sales package to attract potential buyers. Properties with reasonable selling prices that are strategically located with good accessibility and offer adequate facilities, are still in demand and continue to be well received by the market.

However, for non-landed properties, some developers are postponing new launches whilst clearing existing stocks by offering attractive discounts and incentives, including absorbing legal fees, stamp duties and providing furnishings in some projects.

The affordability issues of home ownership has triggered the State Government to come out with a new mechanism by introducing the Rent–to-Own scheme under Jauhar Prihatin Programme. Under this scheme, prospective buyers can choose to rent the houses and have the option to purchase the unit after five years renting period. The State government has recently launched 190 units within this scheme under the first phase. By 2020, the State Government is targeting to deliver 60,000 units of affordable houses across Johor.

The retail sub-sector is expected to be more competitive as the three newly opened malls have increased the supply of retail space by about 12.6%. In anticipation of the income tax reduction as announced in the Budget 2018, consumers' purchasing power should improve and in return will help to support the retail market in the near future.

Notable developments and catalytic projects in other sectors such as oil and gas (O&G), industrial and tourism will help to support the growth of residential, commercial and retail sub-sectors in Iskandar Malaysia and Johor, in general.

The Coastal Highway Southern Link (CHSL) which officially opened in 29th November 2017 will improve connectivity to the Second Link and its surrounding areas, thus attracting more investments into this part of Iskandar Malaysia.

The Pengerang Integrated Petroleum Complex (PIPC), which will contribute about RM8.3 billion to the nation's gross income by 2020, is expected to be fully completed in 1Q2019. Currently, the project is on track and about 77% completed as of end September. The project has generated a lot of job and business opportunities for the local community and this has indirectly helped the growth of the property market in the surrounding areas.

The recent opening of the Golf-Course in Desaru Coast near Bandar Penawar is expected to promote the tourism sector in Johor, and attracts visitors especially from Asia Pacific region.

HIGHLIGHTS

Sabah Chief Minister has proposed total budget expenditure of RM4.10 billion.

RM228 million allocated to the tourism sector, with focus to promote tourism development in rural areas.

Sabah State Government has yet to produce official guidelines for Airbnb, although Airbnb operations are declared non-permissible in residential lots.

Fewer new project launches during 2H2017, many comprising of re-launches of balance units or new phases of pre-launched schemes.

KOTA KINABALU PROPERTY MARKET

MARKET INDICATIONS

In the third quarter of 2017, Sabah registered 2,091 transactions with corresponding value of RM1.2 billion (source: NAPIC 3Q Property Sales Data). The volume and value of transactions registered a decline of 24.1% and 9.9% respectively when measured against the preceding period of 2Q2017. The residential segment (57.3% share) remains as the dominant sub-sector in Sabah followed by the agriculture sub-sector (24.8% share). Ranked third is the commercial sub-sector with 8.7% share while the development land and industrial sub-sectors account for the remaining 5.7% and 3.5% share respectively.

MARKET HIGHLIGHTS

For year 2018, a total budget expenditure of RM4.10 billion has been proposed by the Sabah Chief Minister. A sum of RM1.33 billion has been allocated for infrastructure and transportation developments in Sabah. The funds will be utilized to conduct studies on traffic congestions within Greater Kota Kinabalu, Putatan, Penampang, Likas, Inanam and Sulaman. Road upgrades in Kota Kinabalu, Penampang, Inanam, Tamparuli, Kota Belud and Ranau have also been included under the budget. The tourism sector has been allocated RM228 million, with focus on promoting tourism development in rural areas.

Having been identified under the Eleventh Malaysia Plan as a game changer to drive and stimulate economic growth within Greater Kota Kinabalu, Sepangar Bay Container Port received the approval of the Federal Government to commence an expansion programme under the Sabah Development Corridor Initiative (SDC) with funding of RM1.1 billion. The programme aims to upgrade and expand the infrastructure at Sepangar Bay Container Port with intention to develop the port into a transhipment hub, eventually serving as the main gateway for Sabah as well as the region to the ASEAN Economic Community. Sabah Ports Sdn Bhd, currently the operator of the port, has been appointed as the Implementing Agency for the expansion. In addition to the expansion programme, other major infrastructure works in the area include the extension of the Jetty at Sepangar Oil Terminal and the relocation of Kota Kinabalu Port operations to Sepangar Bay Container Port.

It was revealed in October 2017 that after the general cargo port operation is relocated to Sepangar Bay, Suria Group will also be undertaking the construction of a dedicated international cruise terminal at the Kota Kinabalu Port. The port will be utilized as a marine gateway as well as a second entry point to the heart of the city. Kota Kinabalu Port has been identified as one of the three ports alongside Penang and Klang with potential to contribute significantly to the Malaysian cruise industry.

The number of visitor arrivals to Sabah has grown from 1.1 million to approximately 3.43 million between 2002 and 2016, with a compound annual growth rate (CAGR) of 9.0%, showcasing the healthy growth of Sabah's tourism industry. As compared to the same period in 2016, the number of visitors entering Sabah for the January - August 2017 period was up by approximately 10.6%. With the influx of tourists entering Sabah, it is apparent that the tourism industry plays a vital role in the growth of the state's wealth. According to the Sabah Tourism Board (STB), total tourism receipts for year 2017 will surpass the amount recorded in previous year (RM7.249 billion) if the uptrend continues. As of August 2017, the state has already recorded estimated tourism receipts of RM5.158 billion.

Despite high tourist demand for online home-sharing service in Sabah, Airbnb operations have been declared non-permissible in residential lots. The state government is set to come out with guidelines arising from concern that residential properties are usually not well equipped to comply with fire safety regulations that are required by accommodation providers such as hotels and resorts. To legally operate Airbnb, properties must fall under the Hotels and Lodging House By-Laws 1996 and have been designated for commercial use or commercial mixed-use areas under the Development Plan (DP). Furthermore, whether the property is legally allowed for Airbnb operations have to be clearly made known to property purchasers before the execution of the Sales and Purchase Agreements. The main objectives behind such laws are to ensure that tourists entering Sabah are not taken advantage of as well as to protect interests of hospitality operators and investors.

Construction of a Sky Bridge linking Asia City to Oceanus Waterfront Mall with sub-links to Centre Point Shopping Complex and Warisan Square has commenced in May 2017. The bridge will enhance pedestrian's walking experiences within Kota Kinabalu city centre.

In line with Eastland Equity Bhd's vision to diversify its property development into new geographical areas, the company has proposed a rights issue to fund a RM23.26 million land acquisition located within the heart of Kota Kinabalu CBD. The land has been approved for a mixed commercial development comprising of a 28-storey three-star hotel and a 28-storey of hotel suites with four levels of retail lots. Both blocks will also incorporate six levels of multi-storey car park and a basement floor. The gross development value (GDV) for the proposed development is estimated at RM356.92 million.

In October 2017, Jesselton Group signed a Memorandum of Agreement (MoA) with China State Construction Engineering in Beijing, for its latest brainchild – Jesselton Twin Towers. Upon completion, the tallest development in Kota Kinabalu will feature two blocks of 56-storey buildings housing 819 units of high-end condominiums. The existing one-way lane along Jalan Bersatu, Damai will be upgraded to a dual carriageway for the convenience of future residents / occupants.

The Housing and Urban Development Board (LPPB) is undertaking a joint venture with a renowned local developer to rebuild Taman Makmur. Existing structures made up of 35 units of double-storey semi-detached and terraced houses, as well as the three-storey shop houses within the scheme have been demolished to pave way for redevelopment. Pending final approval, the proposed regeneration will comprise a mix of high-rise affordable condominiums, mid-end condominiums, a retail mall, multi-storey car park and a hotel block.

SBC launched the second block of its highly anticipated CityPads on 28th August 2017. Similar to its first block, market response was overwhelming whereby investors took advantage of the incentives offered during the 1-day exclusive event.

RESIDENTIAL

The residential market maintained its position as the dominant sub-sector in Sabah with a total of 1,199 transactions worth RM451.23 million during the review period (3Q2017), accounting for approximately 57.3% of the total volume of sales and 41.8% in value.

Due to looming oversupply and sluggish market activity, there were lesser new project launches in Kota Kinabalu in the second half of 2017, with many comprising re-launch of balance units or new phases from pre-launched schemes. Many developers are gauging market response through registration of interests before putting their projects into the market while others are reviewing and re-planning their products to align with current market demand and trend.

Hap Seng Properties Development Sdn Bhd recently launched the second phase of Kingfisher Inanam, comprising 484 units housed in two blocks of 28-storey towers with built-up areas ranging between 865 sq ft and 1,160 sq ft. The units are priced from RM460,000 to RM748,000.

Sinaland is making a strong comeback in Kota Kinabalu with its latest brainchild – Elemen Utara KK. Elemen Utara KK is part of a 100-acre integrated mixed development comprising of two high-rise residential towers (Tower A and Tower B) adjoined by one commercial complex. Each residential tower houses 294 apartment units (total 588 units) with built-up areas ranging between 1,055 sq ft and 1,636 sq ft (dual key unit) and priced reasonably from RM385,000 onwards. Meanwhile, the commercial complex, to be built at a later stage, will comprise of 2-storey commercial shop lots and multi-storey car park.


Elemen Utara KK

Despite fewer launches, about 1,006 residential units were added to the market as of first half of 2017, of which 960 units comprise of condominiums / apartments. There are still a number of impending supply, particularly high-rise residential products that are currently under construction. A summary of the selected high-rise residential developments is tabulated as follow:

TABLE 14

Selected High-Rise Residential Developments (Under Construction)

Name of Development	Location	Total Units
Pacific Heights @ PacifiCity	Likas Bay	204
The Riverside Residence @ Sodomon	Kepayan	134
One Jesselton @ Kepayan Ridge	Kepayan Ridge	125
Jesselton View @ Hilltop	Hilltop	80
SkyVue Residence	Kobusak	200
Maya @ Likas	Likas	483
Bukit Bantayan (Phase 1)	Inanam	296
Kingfisher Inanam (Block 1)	Inanam	257
Kingfisher Putatan	Putatan	120
Condominium Ria	Jalan Lintas-Khidmat	39
Triconic Tower	Bundusan	768
Elemen Utara KK (Tower A)	Jalan Tuaran Bypass	294
Likas Boulevard*	Likas Bay	368
Serviced Suites @ The Shore*	KK CBD	567
City Pads @ JQ Central*	Northern Fringe of KK CBD	598
Embun Tower Business Suites @ Grand Merdeka City*	Menggatal	179

Source: Knight Frank Research
Note: * Residential component forming part of larger mixed developments.

PURPOSE-BUILT OFFICE

With no new completion in second half of 2017, the cumulative supply of purpose-built office space (private and government) in Kota Kinabalu remained stable at circa 6.63 million sq ft with an average occupancy rate of 89.0%.

Although there is no additional supply of purpose-built office space during the review period, commercial office spaces from recently completed Signature Office Suites @ Sutera Avenue and Boutique Office @ Aeropod have been added to the market scene.

Plaza Shell, Kota Kinabalu's first Grade A office building continues to see improvements in its occupancy rate; currently standing at 79.0%. Plaza Shell continues to welcome well-established retailers (SugarBun, The Chub's Grill and Gaya Seafood Restaurant) as well as corporate tenants (KPMG PLT, Mega Legend Sdn Bhd, Knight Frank Malaysia Sdn Bhd) on board.

Rentals of prime and non-prime CBD office space remained stable with asking gross rental for Grade A prime office space ranging from RM4.50 per sq ft to RM6.00 per sq ft per month while non-prime office space command gross rental of between RM2.00 per sq ft to RM3.50 per sq ft per month.

RETAIL

Kota Kinabalu's retail market is a burgeoning sub-sector within the property market. As of first half of 2017, the existing supply of purpose-built shopping complexes in Kota Kinabalu stands at circa 5.8 million sq ft following the debut of multiple shopping centres such as Jesselton Mall @ Jesselton Residences, ITCC Penampang, and Grand Merdeka Mall. The emergence of new retail space has compressed the occupancy rate slightly to 88.8% in 1H2017 as compared to 89.2% in 1H2016.

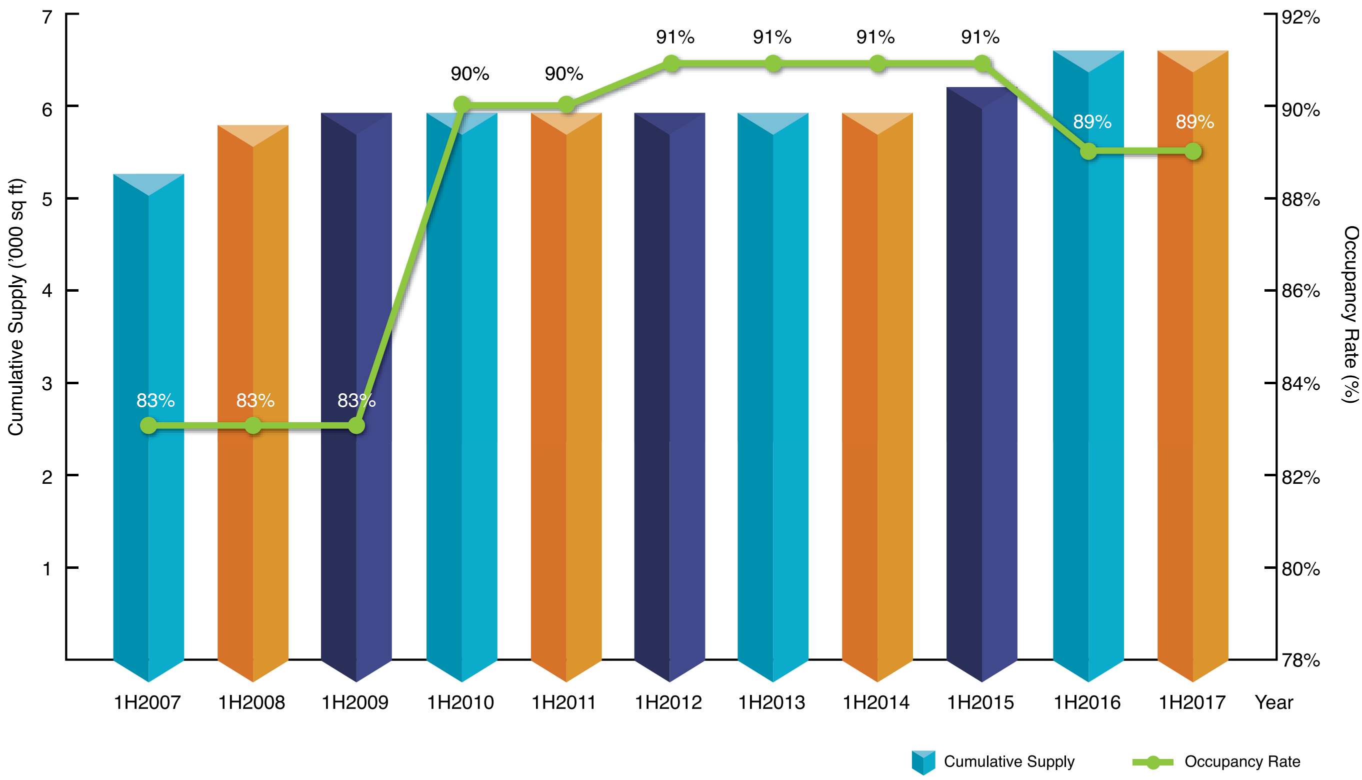
Sunsea Pavillion Sdn Bhd has appointed a consultant to revive and manage Oceanus Waterfront Mall within the integrated development known as Kota Kinabalu City Waterfront (KKCW). The development comprises a mix of components that include a shopping mall, a 5-star hotel to be managed by Marriot Hotels & Resorts, a residential designer suite (Pelagos Designer Suite) and a waterfront boardwalk. The consultant has proposed to reposition Oceanus as a tourist destination mall, with a focus to transform the boardwalk into a food and beverage haven whereby both locals and tourists are able to enjoy good food and beautiful sunsets under one roof among other things.

The review period saw the opening of the Commercial Square of Aeropod @ Tanjung Aru in August 2017. The 60-acre Aeropod project by SP Setia is poised to be the largest integrated linear city in Kota Kinabalu.

Meanwhile, ITCC Shopping Mall has secured anchor tenant, Bataras Hypermarket, occupying 34,000 sq ft of space within the newly officiated mall. A memorandum of understanding (MoU) has also been signed between the mall's developer (Sabanilam Enterprise Sdn Bhd) and mm2 Screen Management Sdn Bhd which will see the opening of the first

FIGURE 5

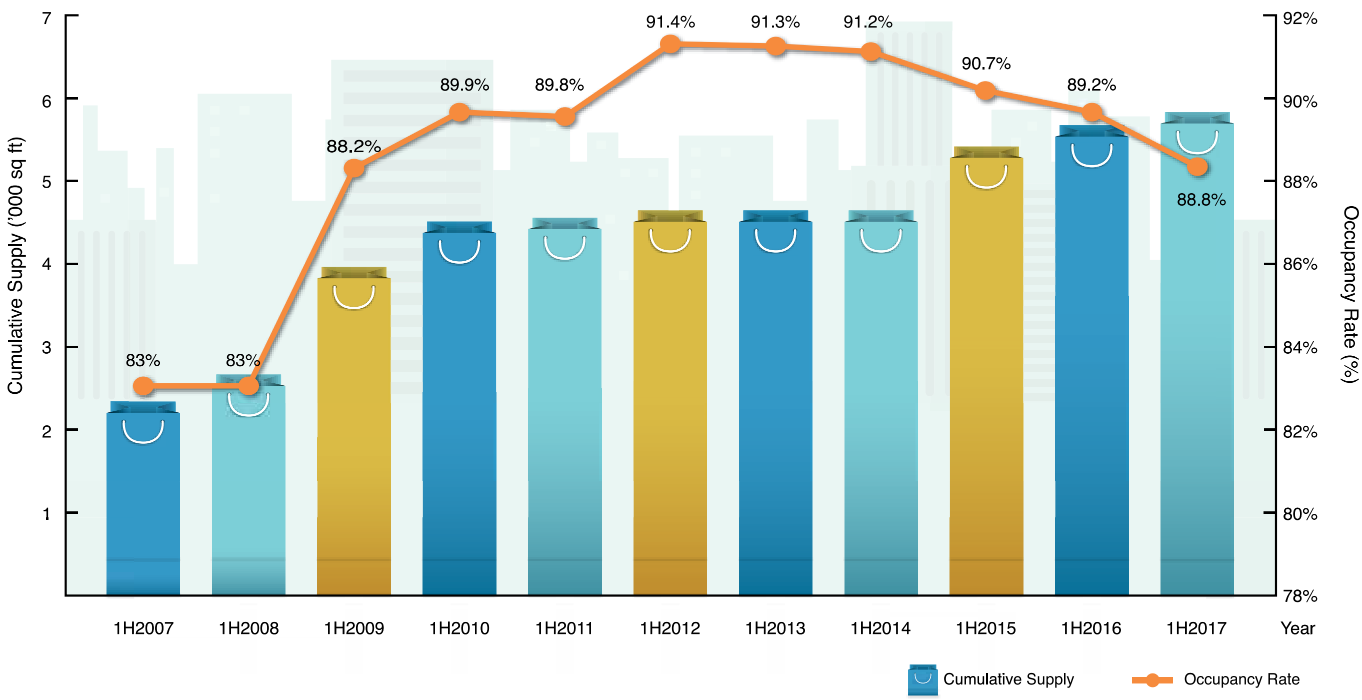
Cumulative Supply and Occupancy Rate of Purpose-Built Office Space in Kota Kinabalu



Source: Napic / Knight Frank Research

FIGURE 6

Cumulative Supply and Occupancy Rate of Shopping Complexes in Kota Kinabalu



Source: Napic / Knight Frank Research

mmCineplexes in East Malaysia at ITCC Shopping Mall. The former 10.5-acre plot of paddy field land is now home to ITCC Shopping Mall, a 1.68 million sq ft commercial facility that has successfully secured the Occupation Certificate for Phase 1A in August 2017.

Similar to the first half of 2017, there is an absence of new proposed launches for the retail sub-sector. However, approximately 700,000 sq ft of retail space will be coming on-stream in the near future.

MARKET OUTLOOK

Both developers and purchasers continue to be cautious amid the current challenging property market environment. The property market will need some time to self-correct and slowly shift back to its equilibrium level. The responsiveness will depend on multiple aspects such as regulatory factors, economic conditions, demographic factors, to name a few.

The overall residential market is expected to remain stable but challenging. Demand for affordable and quality properties in sought after locations, is expected to sustain as there are genuine buyers in the market. With affordability remaining a key issue, developers have responded to the market environment with more affordable projects leading the way.

The high supply pipeline of residential properties, particularly high-rise units from recently completed and soon to be completed projects is expected to exert pressures on the capital and rental market. Tenants continue to be spoilt for choice while landlords are faced with lower potential returns particularly in locations with weak occupational demand and high project completions. In addition, current issues regarding the legality of online home-sharing services such as Airbnb within residential schemes have also impacted investors' appetite towards products of this nature.

There were fewer property launches when compared to the previous years as many developers are in the midst of reviewing and re-planning their products to align with current market demand and trend. For instance, selected new launches in prime areas that would command higher price per sq ft were designed in smaller size configurations, to ensure that the lower absolute pricing remains competitive and attractive to potential buyers and investors. Besides that, with the propelling tourism market, many developers are riding along the tide by building projects that can cater to Airbnb operations legally.

Despite the fact that there is no new incoming supply, the purpose-built office market has plateaued with overall occupancy hovering at a healthy level.

Meanwhile, there is still concern on the "sustainability" of the retail sector. Having said that, the retail business should be viewed as a long-term game, therefore we opined that the success of a shopping mall fundamentally lies in its ability to attract patrons. High shoppers' traffic is usually generated and sustained by having a good tenant mix comprising complementary trades, as well as a well-planned positioning system that is in line with the demographic profile of its catchment population. A well-planned and executed tenant mix can help a mall to sustain its "destination" status even in the face of ferocious competition.

TABLE 15

Asking Gross Rentals of Selected Purpose-Built Office Space in Kota Kinabalu

Building Name	Location	Asking Gross Rental (RM per sq ft / month)
Menara Hap Seng	KK CBD	4.50 – 6.00
Menara MAA	KK CBD	2.00 – 3.50
Wisma Sabah	KK CBD	2.60 – 3.00
Wisma Great Eastern	KK CBD	1.90 - 3.00
Wisma Merdeka	KK CBD	3.00 – 4.00
Bangunan Central	KK CBD	1.80 – 2.40
Bangunan BSN	KK CBD	2.00 – 2.20
Wisma San Hin	KK CBD	2.30
CPS Tower	KK CBD	2.00 – 2.80
KK Times Square	Southern Fringe of KK CBD	2.60
Wisma 2020	Karamunsing	1.40 – 2.30
Wisma SESB	Karamunsing	1.50 – 3.20
Wisma Perindustrian	Likas Bay Area	2.70 – 3.50
Menara Tun Mustapha	Kuala Inanam	2.50 – 3.00
Wisma Innoprise	Kuala Inanam	2.50 – 2.70

Source: Napic / Knight Frank Research

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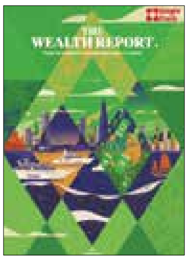

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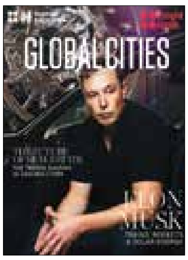

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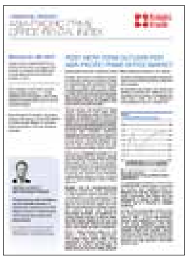

Asia-Pacific Prime Office Rental Index Q3 2017

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MALAYSIA CONTACTS
Eric Y H Ooi
Executive Chairman
+603 228 99 668
eric.ooi@ my.knightfrank.com

Sarkunan Subramaniam
Managing Director
+603 228 99 633
sarky.s@my.knightfrank.com

VALUATION
Chong Teck Seng
Senior Executive Director
+603 228 99 628
teckseng.chong@my.knightfrank.com

Keith H Y Ooi
Executive Director
+603 228 99 623
keith.ooi@my.knightfrank.com

Justin Chee
Executive Director
+603 228 99 672
justin.chee@my.knightfrank.com

RESEARCH & CONSULTANCY
Judy Ong Mei-Chen
Executive Director
+603 228 99 663
judy.ong@my.knightfrank.com

INVESTMENTS / CAPITAL MARKETS
James Paul Buckley
Executive Director
+603 228 99 608
james.buckley@my.knightfrank.com

Chelwin Soo
Associate Director
+603 228 99 737
chelwin.soo@my.knightfrank.com

INDUSTRIAL / DEVELOPMENT LAND
Allan Sim Song Len
Executive Director
+603 228 99 606
allan.sim@my.knightfrank.com

CORPORATE SERVICES
Teh Young Khean
Executive Director
+603 228 99 619
youngkhean.teh@my.knightfrank.com

RETAIL CONSULTANCY & LEASING
Rebecca Phan
Associate Director
+603 228 99 618
rebecca.phan@my.knightfrank.com

PROPERTY / FACILITIES MANAGEMENT
Matthias Loui
Executive Director
+603 228 99 683
matthias.loui@my.knightfrank.com

Natallie Leong
Executive Director
+603 228 99 638
natallie.leong@my.knightfrank.com

RESIDENTIAL SALES & LEASING
Kelvin Yip
Associate Director
+603 228 99 612
kelvin.yip@my.knightfrank.com

INTERNATIONAL PROJECT MARKETING
Dominic Heaton-Watson
Senior Manager
+603 228 99 741
dominic.hw@my.knightfrank.com

PENANG BRANCH
Tay Tam
Executive Director
+604 229 3296
tam.tay@my.knightfrank.com

JOHOR BRANCH
Ricky Lee
Executive Director
+607 3382 888
ricky.lee@my.knightfrank.com

SABAH BRANCH
Alexel Chen
Resident Director
+608 8279 008
yunngen.chen@my.knightfrank.com

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