RESEARCH

REAL ESTATE HIGHLIGHTS

2ND HALF 2016

KUALA LUMPUR | PENANG | JOHOR BAHRU | KOTA KINABALU

HIGHLIGHTS

Despite the subdued market, there were noticeably more launches and previews in the second half of 2016.

The secondary market, however, continues to see lower volume of transactions due to the weak economy and stringent bank lending guidelines.

The rental market in locations with high supply pipeline and a weak leasing market undergoes correction as owners and investors compete for the same pool of tenants.

The review period continues to see more developers introducing creative marketing strategies and innovative financing packages as they look to meet their sales target and clear unsold stock.

KUALA LUMPUR HIGH END CONDOMINIUM MARKET

ECONOMIC INDICATORS

Malaysia's Gross Domestic Product (GDP) grew 4.3% in 3Q2016 from 4.0% in 2Q2016, underpinned by private expenditure and private consumption. Exports, however, fell 1.3% in 3Q2016 compared to a 1.0% growth in 2Q2016.

Amid growing uncertainties in the external environment, a weak domestic market and continued volatility in the Ringgit, the central bank has maintained the country's growth forecast for 2016 at 4.0% - 4.5% (2015: 5.0%).

Headline inflation moderated to 1.3% in 3Q2016 (2Q2016: 1.9%).

Unemployment rate continues to hold steady at 3.5% since July 2016 (2015: 3.1%) despite weak labour market conditions.

Bank Negara Malaysia (BNM) lowered the Overnight Policy Rate (OPR) by 25 basis points to 3.0% in July 2016.

The loan approval for residential purchase remains weak with ratio of approvals/applications below 45.0%. Total outstanding / non-performing loans were recorded at RM5.306 billion in 3Q2016, a 4.0% increase from the previous quarter.

SUPPLY & DEMAND

Market activities in the condominium / apartment segment in Wilayah Persekutuan Kuala Lumpur continue to slow down. A total of 2,542 units valued at RM1.821 billion changed hands in 1H2016, reflecting a 26.0% and 30.0% drop in volume and value of transactions over the preceding period (2H2015: 3,433 units valued at RM2.599 billion).

The cumulative supply of high-end condominiums / residences stood at 46,047 units as at end 2H2016 following the completion of seven projects. They are KL Trillion (368 units), Le Nouvel (195 units), Setia Sky Residences (Divina Tower) (291 units), Three28 Tun Razak (166 units), Nadi Bangsar (416 units), KL Eco City (Vogue Suites) (708) and Serai Bukit Bandaraya (121 units).

TABLE 1

Completion of High End Condominiums / Residences in 2H2016

KL Trillion
Jalan Tun Razak
KL City
368 Units

Le Nouvel
Jalan Ampang
KL City
195 Units

Setia Sky Residences - Divina Tower
Jalan Raja Muda
KL City
291 Units

Three28 Tun Razak
Jalan Tun Razak
KL City
166 Units

Nadi Bangsar
Jalan Tandok
Bangsar South
416 Units

KL Eco City - Vogue Suites
Jalan Bangsar
Bangsar
(KL Eco City)
708 Units

Serai Bukit Bandaraya
Jalan Medang Serai
Damansara Heights
121 Units

Total = 2,265 units

Source: Knight Frank Research

The impending completion of another seven projects by the first half of 2017, will contribute some 3,185 units to the existing supply. The projects are Ritz Carlton Residences, Star Residences and Expressionz Professional Suites in KL City; Alila Bangsar and KL Gateway (Premium Residences) in Bangsar South; and Arcoris Mont' Kiara and One Kiara (Tower A) in Mont' Kiara.

There were noticeably more launches and previews during the review period compared to the first half of 2016. Notable launches and previews include The Estate, Sentral Suites and Setia Sky Seputeh in the locality of Bangsar South/ KL Sentral/ Seputeh and Aira Residences and Alya Kuala Lumpur (Senada Residences) in the locality of Damansara Heights / Bukit Kiara.

The 19.4-acre Bukit Bintang City Centre (BBCC) and 15.8-acre Pavilion Damansara Heights projects continue to remain on the watch list. Joining the list are ALYA Kuala Lumpur (formerly known as KLGCC Resort) and KL Metropolis.

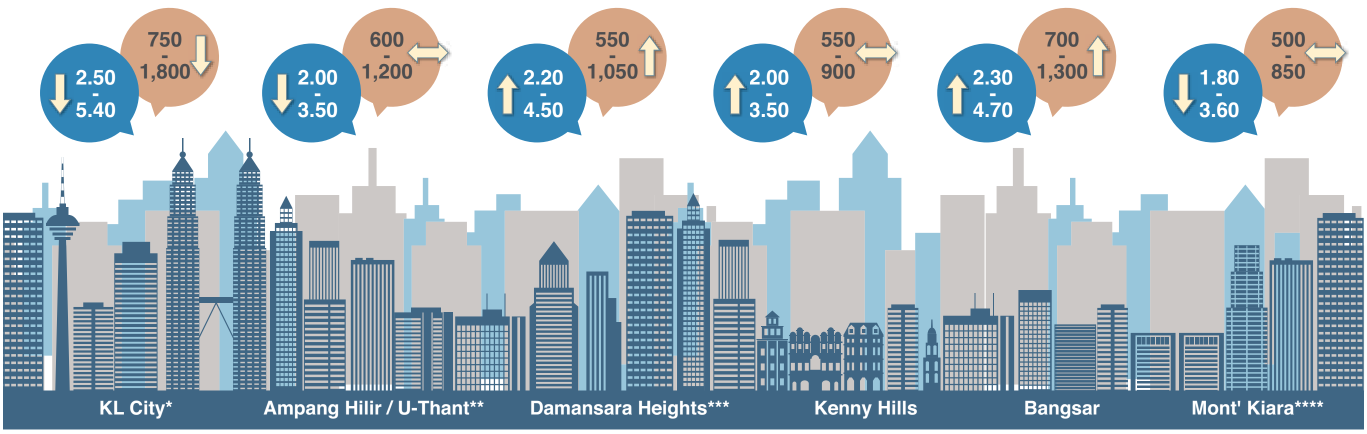
ALYA Kuala Lumpur by Sime Darby Brunsfield Holding Sdn Bhd marks the major brand repositioning of the KLGCC Resort. The eight development parcels spanning 61 acres will feature residential, office and retail components and have a total gross development value (GDV) of over RM8 billion. The first development within ALYA is Senada Residences which will feature two towers with 429 units of serviced apartments and suites.

The 75.5-acre KL Metropolis by Naza TTDI Sdn Bhd is envisioned to be the “International Trade and Exhibition District”. The mixed use development with estimated GDV of RM20 billion will house Malaysia’s largest exhibition space with gross floor area of 1 million sq ft. Besides Arte Mont’ Kiara, Met 1 and Met 5 (in partnership with Hap Seng Group) will also feature residential components. The Met 1 residences are targeted for official launch early next year. It will have about 616 units, sized from 650 sq ft to 1,600 sq ft. Gross pricing will be from RM1,000 to RM1,100 per sq ft.

Setia Sky Residences

TABLE 2

Average Asking Prices and Rentals of Existing High End Condominiums



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

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

Source: Knight Frank Research

PRICES AND RENTALS

Secondary pricing in established and popular areas like Damansara Heights and Bangsar, where there are limited new supply currently, continues to demonstrate growth while pricing in the locality of Ampang Hilir / U-Thant, Kenny Hills and Mont' Kiara generally remained resilient. In contrast, there were price corrections in selected older KL City projects due to growing mismatch in supply and demand and a tight leasing market.

In KL City, transactions of smaller condominium / apartment units (630 sq ft to 1,035 sq ft) in schemes such as Binjai 8 and Vortex Suite range from RM900 per sq ft to RM1,200 per sq ft while developer's pricing for newly launched units are from RM1,100 per sq ft to RM1,800 per sq ft.

Similar to prices, the asking rentals for Damansara Heights and Bangsar continued to hold with selected schemes commanding higher rents. However, in localities where there are a high supply pipeline leading to heightened competition amid shrinking pool of tenants, such as KL City, Ampang Hilir / U-Thant and Mont' Kiara, asking rentals are generally lower now.

OUTLOOK

The high end condominium segment will continue to self-correct in this challenging market environment as potential buyers adopt the 'wait and see' attitude due to concerns of a slowing economy, weaker job prospects, sharp fall in the Ringgit, amongst other factors.

Developers will continue to introduce more creative marketing strategies and innovative financing packages as they look to meet their sales target and clear unsold stock.

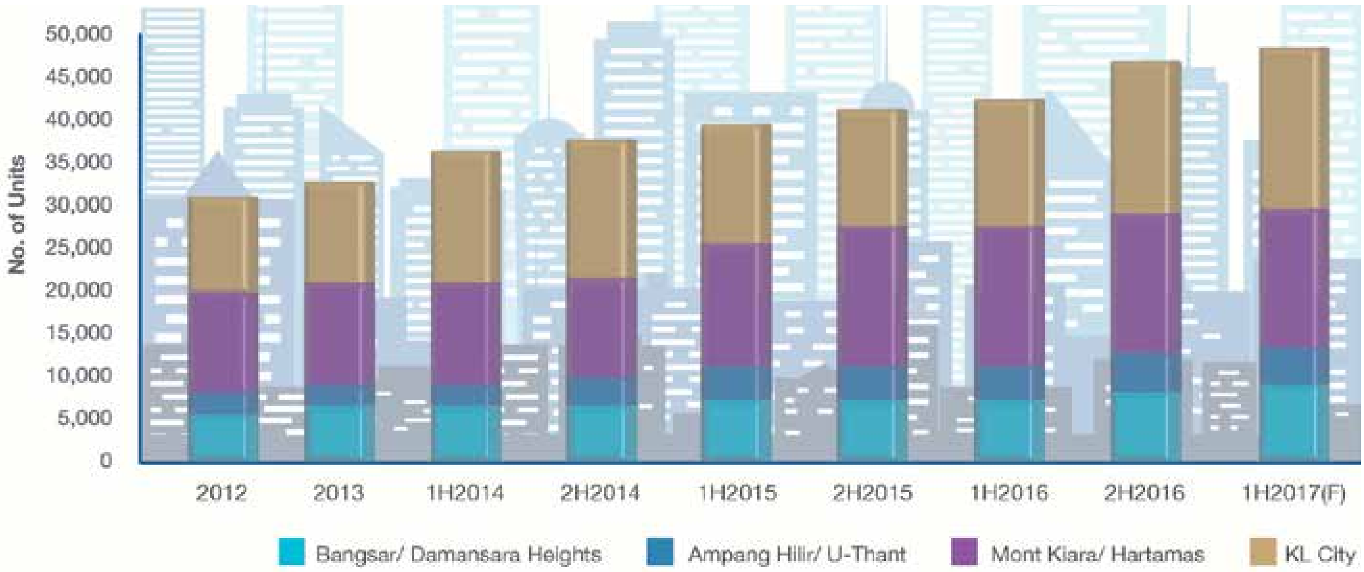
Budget 2017 announces that the stamp duty rate for real estate worth more than RM1 million will be increased from 3.0% to 4.0% effective 1st January 2018. Whilst this announcement is expected to further dampen the high end condominium segment in 2018, it may boost sales of million ringgit homes before 2018.

Post 2018, more developers may price their products below the RM1 million threshold, offering smaller built-up and lesser furnishing.

It is foreseen that more developers will go green, incorporate senior-friendly features, dual-key and dedicated home-

FIGURE 1

Projection of Cumulative Supply for High End Condominiums/ Residences (2012 - 1H2017(F))



(1) (F) = Forecast

(2) The locality of Bangsar includes Bangsar South and KL Eco City

Source: Knight Frank Research

office concepts in their new project launches in response to modern living and urban lifestyles.

The recent completion of Phase 1 of the MRT Line 1 and the on-going and upcoming rail infrastructure projects is a game changer. With improved connectivity within Greater KL, transit oriented developments (TOD) along the transportation routes will gather pace.


Setia Sky Seputeh

TABLE 3

Notable Launches/ Preview of High-End Condominiums/ Serviced Apartments

Project Name	Type	Developer	Location	Area	No. of Units	Unit Sizing (Min - Max)(sq ft)	Selling Price
Stonor 3	C	Tan & Tan Dev and Mitsubishi Jisho Residence	Jalan Stonor	KL City	400	649 - 1,232	RM1.1 mil to RM2.1 mil
Eaton Residence	SA	GSH Corp	Jalan Kia Peng	KL City	632	Typical: 635 - 2,874 PH: 2,271 - 2,982	Typical: from RM1.1 mil PH: from RM4.2 mil
Sky Suites (Ph 1)	SA	Monoland Group	Jalan P.Ramlee	KL City	986	589 - 890	from RM1,100 per sq ft
Alya KL (Senada Residences)	SA	Sime Darby Brunsfield	KLGCC	Damansara Heights	429	700 - 1,900	RM1,100 to RM1,200 per sq ft
Aira Residences	C	Selangor Properties	Jalan Batai	Damansara Heights	105	2,679 - 7,730	average RM1,700 per sq ft
Sentral Suites	SA	MRCB	KL Sentral	KL Sentral	1,434	651 - 1,166	from 1,200 per sq ft
ViiA @ KL Eco City	SA	SP Setia	Jalan Bangsar	KL Eco City	326	636 - 1,252	average RM1,600 per sq ft
The Estate	C	Bon Estate	Jalan Kerinchi	Bangsar South	328	2,346 - 3,110	from RM750 per sq ft
Setia Sky Seputeh	C	SP Setia	Taman Seputeh	Seputeh	290	2,339 - 2,998	average RM1,300 per sq ft

C= Condominium, SA = Serviced Apartment

Source: Knight Frank Research

HIGHLIGHTS

Growing pressure on the office sector to continue with no catalysts to boost demand in the near term.

More fitted office space available for sub-let as restructuring of oil & gas related companies continues.

Newly operational Phase 1 of the MRT Line 1 boosts demand for good grade office space along its route.

KUALA LUMPUR & BEYOND KUALA LUMPUR (SELANGOR) OFFICE MARKETS

MARKET INDICATIONS

Looming supply and a challenging business operating environment continued to exert pressure on the Kuala Lumpur and Beyond Kuala Lumpur (Selangor) office markets with both overall occupancy and rental levels recording marginal declines during the second half 2016 review period.

SUPPLY & DEMAND

With no new completion in 2H2016, the cumulative supply of purpose built office space for KL City and Beyond KL (Selangor) remained stable at 51.0 million sq ft and 19.5 million sq ft respectively while in KL Fringe, the recent completion of Menara Hong Leong in Damansara City and office space in KL Eco City, totalling circa 0.78 million sq ft, brought its cumulative supply to about 24.6 million sq ft.

Menara Hong Leong

As of 2H2016, the cumulative office stock for KL and Beyond KL (Selangor) stood at circa 95.1 million sq ft.

Another 2.5 million sq ft of space is expected to come on-stream by 1H2017 from buildings that include South Point Office and Menara Ken@TTDI in KL Fringe; and Menara Star 2 and Mercu Mustapha Kamal (Tower 1) in Beyond KL (Selangor).

There were several notable office related announcements in 2H2016.

The first phase of Warisan Merdeka development, which consists of the Merdeka PNB118 iconic tower, is under construction and is slated for completion by 2020. To date, piling and foundation works for the 118-storey tower and the perimeter diaphragm wall for the main car park have been completed.

Lot 91 KLCC, a mixed commercial development to be jointly undertaken by KLCC (Holdings) Sdn Bhd and Sapura Resources Bhd, will comprise a premier office tower, exhibition space and a retail podium. Located along Jalan Kia Peng, the 52-storey building with an estimated gross development value (GDV) of RM1.5 billion will adjoin the Kuala Lumpur Convention Centre. It is scheduled for completion by 2020.

Also in the locality of KLCC, an integrated development is taking shape at Lot 185, adjacent to Suria KLCC. The mixed use commercial project, a joint-venture (JV) between KLCC Holdings Sdn Bhd and Qatari Investment Authority will comprise circa 340,000 sq ft of retail space, a 75-storey office tower and a 54-storey five-star hotel. It is slated for completion by late 2019.

The former open car park site at Jalan 19/70A in Desa Sri Hartamas is proposed for a 33-storey office block. The proposed project, The Societe @ Desa Sri Hartamas, will comprise two floors of underground car parks, a facilities floor with shops, seven floors of above ground car parks, one floor for the management office, 22 floors of offices and two office lounges on the top floor. SCP Traders Square Sdn Bhd, a subsidiary of SCP Group, acquired the plot of land measuring approximately 23,478 sq ft early this year for RM26 million (analysed to about RM1,107 per sq ft).

Boustead Holdings Berhad's upcoming Nucleus (office) tower in Mutiara Damansara is under construction. The

25-storey Grade A dual compliant building (MSC status and GBI certified) offers a total NLA of about 237,717 sq ft. Two multinational companies (MNCs) have reportedly expressed interest in occupying the space.

TSR Mix Sdn Bhd, a subsidiary of TSR Capital, purchased a plot of commercial land measuring 5,078 sq m in February 2016 for a total consideration of RM48.1 million. The land in Mutiara Damansara is located behind its headquarters, Menara TSR, and comes with a Development Order for two blocks of office towers (19-storey and 11-storey) with a 4-storey basement car park. The proposed project has an indicative GDV of RM230 million.

During the review period, KL City maintained its overall occupancy rate at 82.8% despite selected Grade B buildings recording marginal decline in their occupancy levels.

In KL Fringe, the overall occupancy rate inched up marginally to record at 91.6% (1H2016: 90.1%). The newly completed Wisma Guocoland in Damansara City continues to receive notable take-ups.

Despite improved take-ups in Top Glove Tower, SkyTech Tower 1 (formerly Cyberview 12) and SkyTech Tower 2 (formerly Cyberview 12A), the overall occupancy rate for Beyond KL (Selangor), dipped from 79.5% in 1H2016 to 78.6% in 2H2016 as the recently completed Mercu Mustapha Kamal (Tower 2) and office towers in UOA Business Park have yet to achieve significant occupancy levels.

PRICES AND RENTALS

During the review period, the average achieved rental rates in both KL City and KL Fringe dipped marginally to RM6.08 per sq ft and RM5.70 per sq ft respectively.

Similarly, the average achieved rental rate Beyond KL (Selangor) also declined marginally to RM4.13 per sq ft.

Well located Grade A office space in Kuala Lumpur, however, continued to command higher asking rents, ranging from RM7.00 per sq ft to RM12.50 per sq ft per month.

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

Tvibe, a leading provider of media services and technology for both traditional media and news media for broadcasters, digital cable, IPTV, connected TV, app and content owners, has opened its Kuala Lumpur office in KL Trillion as part of the company's strategy in improving the quality of its services and increasing its capacity to meet the growing demand of the company's regional and international clients.

DMT Environmental Technology from The Netherlands, a global player in the field of biogas upgrading and desulfurization plants, has opened an office at Menara CIMB in KL Sentral to increase its capabilities in the Asian region and boost current activities in the agricultural and water treatment sectors.

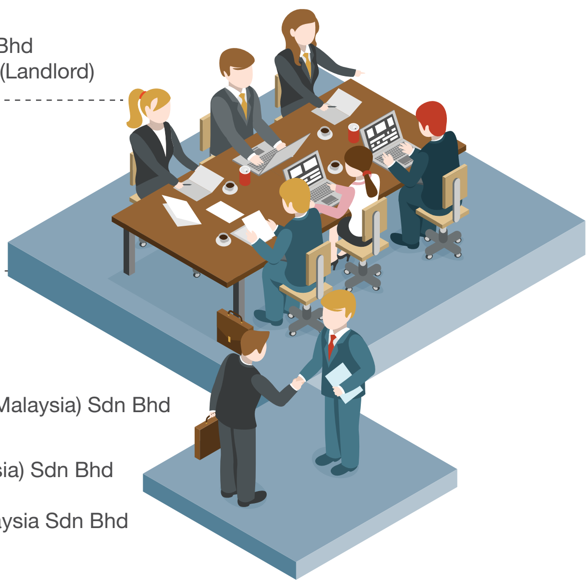
GBG's new office at Wisma Miramas, Taman Desa in Kuala Lumpur supports the company's ability to increase delivery of fraud, risk and compliance solutions in Malaysia and the Asia Pacific region.

Japan-based semiconductor process equipment developer and manufacturer, Samco, has opened its Malaysia branch office at Block C, Centum at Oasis Corporate Park in Petaling Jaya, Selangor.

Apelby Communications, a global telecommunications provider of carrier-to-carrier, retail and outsourcing services, has opened a new office at PJ Exchange in Petaling Jaya, Selangor.

TABLE 4
Tenant Movements

Name of Building	Approx. Space (sq ft)	Remarks
KL City		
Integra Tower	150,000	Moving in • Huawei Technologies (M) Sdn Bhd • Retirement Fund Incorporated (Landlord)
KL Fringe		
Menara Allianz Sentral	10,000	Expansion • Celcom Planet Sdn Bhd
Nu Tower 2	56,000	Expansion • Convergys Malaysia Sdn Bhd • GE Malaysia
Beyond KL (Selangor)		
1 First Avenue	27,000	Relocating • My E.G. Services Berhad
Prima 10	40,000	Downsizing • RBC Dexia Investor Services (Malaysia) Sdn Bhd
The Ascent @ Paradigm	81,000 (total)	Moving in • Merck Sharp & Dohme (Malaysia) Sdn Bhd • Green Packet Berhad • BANDAI NAMCO Studios Malaysia Sdn Bhd • Medtronic Malaysia • A. Menarini Singapore Pte Ltd • Air Liquide Business Services



Systems integrator and solution provider, CitySoft Consulting Group's new office is located at the Boulevard in Bandar Puchong Jaya, Selangor.

The investment market was fairly active during the review period.

In September, MyEG Services Bhd (MyEG) proposed to acquire seven storeys of stratified parcels (combined NLA of 79,284 sq ft) for office use at a total consideration of RM44.29 million. The premises form part of the 45-storey corporate office tower identified as Iconic Office (Block N) at Empire City @ Damansara.

Kumpulan Wang Persaraan (Diperbadankan) (KWAP), the country's second largest pension fund, has acquired Cap Square Tower in Jalan Munshi Abdullah, Kuala Lumpur, from Germany-based investment company Union Investment Real Estate GMBH for a total consideration of RM511 million or RM850 per sq ft. The 41-storey Grade A office tower, which has an NLA of 601,574 sq ft and 461 parking bays, enjoys over 90% occupancy with the bulk of its tenants coming from the banking and finance sector, such as Citibank group and RHB Bank.

TABLE 5

Office Investment Sales (2H2016)

Building Name	Location	Approx. Lettable Area (sq ft)	Consideration (RM per sq ft)
Cap Square Tower [1]	Jalan Munshi Abdullah, Kuala Lumpur	601,574	850
Seven (7) storeys of stratified parcels within Iconic Office (Block N) [2]	Empire City @ Damansara, Petaling Jaya	79,284	559
The Ascent [3]	Paradigm, Petaling Jaya	516,633	672
Axis Eureka [4]	Jalan Teknokrat 7, Cyberjaya	116,903	480

1 Retirement Fund Incorporated (KWAP) has acquired Cap Square Tower from Germany-based investment company Union Investment Real Estate GMBH for a total consideration of RM511 million or RM850 per sq ft. The 41-storey Grade A office tower formerly known as Office Tower 2, form part of the Capital Square development by Bandar Raya Developments Berhad (BRDB), which comprises offices and retail outlets.

2 MyEG has proposed to acquire 7-storey of stratified parcels within Iconic Office (Block N) in Empire City, Damansara for a total consideration of RM44.29 million.

3 Employees Provident Fund (EPF) has proposed to acquire The Ascent @ Paradigm that includes retail lots, a concourse level and office space from Level 2 to Level 31 together with 865 car park bays from Jelas Puri Sdn Bhd, a 70% subsidiary owned by WCT Land Sdn Bhd for a total consideration of RM347 million.

4 Axis Real Estate Investment Trust (Axis-REIT) has proposed to dispose Axis Eureka, a 4-storey purpose-built office building together with lower ground and roof floors and a basement car park level, to Malaysian Qualifications Agency for a total consideration of RM56 million.

Source: Knight Frank Research

TABLE 6

Selected Grade A Office Asking Rentals

KL CITY

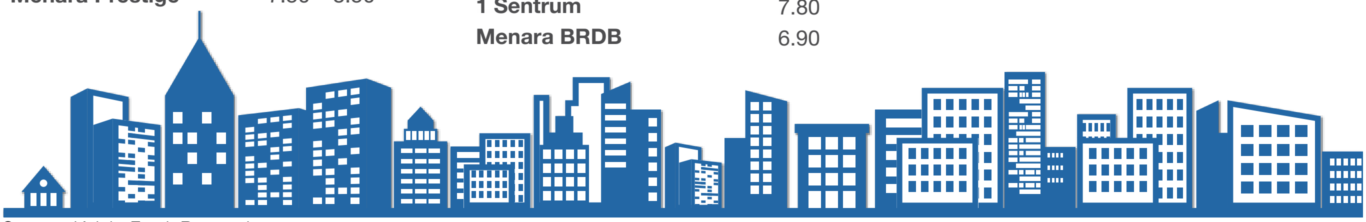
Building Name	Asking Gross Rental (RM per sq ft /month)
Integra Tower	11.00
Menara Maxis	12.00
Vista Tower	9.00
G Tower	8.50
Menara Darussalam	9.50
Menara Binjai	8.80
Menara Prestige	7.50 – 8.50

KL FRINGE

Building Name	Asking Gross Rental (RM per sq ft /month)
Menara CIMB	8.00
The Gardens North & South Towers	7.80
Axiata Tower (formerly Quill 7)	7.50
Menara Allianz Sentral & Nu Tower 2	7.00
1 Sentrum	7.80
Menara BRDB	6.90

BEYOND KUALA LUMPUR (SELANGOR)

Building Name	Asking Gross Rental (RM per sq ft /month)
1 First Avenue	6.00
Surian Tower	5.50
The Ascent @ Paradigm	5.50
Wisma Mustapha Kamal	4.50
Puchong Financial Corporate Centre	4.50
Plaza 33	4.50



Source: Knight Frank Research

OUTLOOK

The outlook for the Kuala Lumpur and Beyond Kuala Lumpur (Selangor) office markets remains cloudy.

With no catalysts to boost office demand in the near term, the high supply pipeline amid softer demand is expected to exert downward pressure on the sector. Both rental and occupancy levels are forecast to decline in the coming review period.

The on-going restructuring and consolidation by the oil and gas (O&G) related companies have led to the availability of more fitted office space for sub-let and this further heightens competition in the sector.

Moving forward, buildings located within Information Technology Outsourcing (ITO) and MSC corridor remain good performing stock.

Similarly, decentralised office locations along the route of the newly operational Phase 1 of the Sungai Buloh – Kajang Mass Rapid Transit (MRT) line, are expected to benefit from improved accessibility and connectivity.

FIGURE 2

Occupancy and Rental Trends (2010 - 2016)

Source: Knight Frank Research

HIGHLIGHTS

Malaysia continues to be on the radar of prominent international retailers as it retains its position as one of the top-notch shopping heavens in the world. The review period saw the debut of several new and international brands as well the opening of their flagship stores in South East Asia / Malaysia.

Second half 2016 welcomed the opening of an upscale retail mall in the established Bukit Bintang shopping belt and lifestyle cum neighbourhood malls in the city fringe and suburbs despite growing headwinds in the local retail scene.

The upcoming retail supply of some 2.51 million sq ft by 1H2017 will further dilute the market and heighten competition. Mall operators and retailers are expected to step up their marketing efforts and re-strategize in order to stay competitive in a crowded market.

Retail sales growth to remain weak going forward as consumers grapple with rising cost of living and lower disposable income amid a weak job market and growing economic uncertainties.

KLANG VALLEY RETAIL MARKET

MARKET INDICATIONS

The MIER Consumer Sentiment Index (CSI) continued to plummet from 78.5% in 2Q2016 to 73.6 points in 3Q2016, remaining below the threshold of confidence.

The on-going domestic and external headwinds leading to a slowdown in the economy, sharp depreciation of the Ringgit, weaker job prospects amongst others, continued to impact the local retail landscape. Retail sales grew by a meagre 0.5% in 1H2016 with consumers cutting back on discretionary spending as they brace for tougher times ahead.

SUPPLY & DEMAND

The review period saw the completion of four new shopping centres with combined NLA of approximately 2.02 million sq ft. This brings the cumulative supply of retail space in Klang Valley to circa 55.49 million sq ft. The bulk of completion (1.64 million sq ft or 81%) is located in Kuala Lumpur whilst the only opening in Selangor, with 0.38 million sq ft, accounted for the remaining 19% of new space.

Pavilion Elite, an extension of Pavilion Kuala Lumpur, offers circa 240,000 sq ft NLA spread across a 10-level retail

Pavilion Elite

podium. Opened in late November, it hosts a unique selection of new and international brands. Making their debut in Malaysia are COS, VLV Life, The Wallet Shop, Simmer Huang, the ABC Cooking Studio and The Planet Traveller. Besides housing Malaysia's largest and flagship outlets for ABC Cooking Studio, The Planet Traveller, Huawei, Lego, Muji, JD Sports – King of Trainers, this new retail landmark is also home to Coach's largest flagship outlet in South East Asia (SEA). As of August 2016,


Sunway Velocity

Pavilion Elite has reportedly secured more than 85% occupancy rate.

Opened on December 8, Sunway Velocity Mall is the retail component of the 23-acre Sunway Velocity development that integrates the 1.0 million sq ft lifestyle shopping mall with a medical centre, hotel, residences, commercial space (shop-office blocks) and a 2-acre central park. The development, which comes with over 6,500 car park bays, is also well served by transport infrastructure, namely, the Cochrane MRT station and Maluri MRT and LRT stations. Spanning over 7-storey, the shopping mall features four distinct precincts: Market Place, Vanity Hall, Food Street Food and The Balcony. It houses TGV Cinemas' fifth IMAX hall in Malaysia, the first AEON MaxValu Prime supermarket concept from Japan, as well as the latest fitness club concept by the first Chi-X.

The newly completed but yet to open KL Gateway Mall is part of an integrated development dubbed KL Gateway that also comprises corporate office towers and high-rise residences. Located in the vicinity of Bangsar South, the seven-storey shopping mall with circa 400,000 sq ft NLA is linked to the KL Gateway - Universiti LRT Station via a 100m covered pedestrian bridge. Key tenants include The Twee (Korean fashion retailer), Village Grocer, Yamazaki Bakery, Doutor Coffee, H&M, Home's Harmony, Mr DIY, Yubiso, Daiso, Times Bookstore and Cotton On. Scheduled to open in January 2017, the mall is currently circa 80% occupied and is looking to achieve 100% occupancy by April 2017.

TABLE 7

Proposed Integrated Developments with Retail Component

Building Name	Developer	Location	Estimated NLA (sq ft)	Project Details
Precincts MET 1 and MET 3, KL Metropolis	Naza TTDI	KL Fringe	MET 1 : 85,000 MET 3 : n/a	Precinct MET 1 on 4.29 acres of land will comprise two blocks of office towers, a serviced residence and a destination mall with 85,000 sq ft NLA. A lifestyle mall is also planned for Precinct MET 3 which will also feature a signature tower, luxury condominiums, a 5-star hotel and Grade A office towers
Proposed retail podium @ Senada KL, ALYA Kuala Lumpur	Sime Darby Property	KL Fringe	300,000	Integrated with residential towers and office tower
EcoHill Walk Mall @ Setia EcoHill	SP Setia Bhd	Semenyih	170,000	Mixed use development comprising commercial retail shops, retail mall and serviced apartments. MBO Cinemas will anchor the mall, occupying circa 58,000 sq ft space
Paragon @ KL Northgate	KL Northgate Properties	Selayang	1,600,000	Mixed development comprising a shopping mall, serviced suites and hotels

Source: Knight Frank Research

The Starling Mall, a new 5-storey neighbourhood mall in the established Damansara Uptown area, opened in November. Named after the starling bird, the eco-friendly lifestyle mall features a 27,500 sq ft landscaped park with a meandering brook, bird bath and a variety of shady spots. It aims to have a tenancy mix comprising 35% F&B, 20% fashion and 10% home decoration. Notable tenants include MBO flagship cineplex, Jaya Grocer, SSF Home Décor, Padini Concept Store, Nichii & Kitschen, Rakuzen, Sushi Zanmai, Daiso, ACE Hardware, ESH, Popular Bookstore, Rakuzen, and Tang Room from Oriental Group of Restaurants.

Table 7 provides details of four new projects that were unveiled in 2H2016.

Located in Selayang, Paragon @ KL Northgate mall aims to be the largest retail mall in northern Klang Valley, integrating shopping, entertainment, dining and leisure activities under one roof with amenities that will include a bowling alley, a hologram concert hall, an indoor water theme park, virtual reality game park, ice skating rink and a natural hot spring resort. As of September 2016, the retail mall has reportedly secured Sogo, Parkson, Golden Screen Cinema (GSC), and Thailand-based HomePro, a home and living concept store. The retail mall is expected to complete by the first quarter of 2019.

Amid challenges in the local retail industry, retailers are introducing new concepts and other experiences into the market to attract discerning shoppers and customers.

In November, Isetan The Japan Store Kuala Lumpur, opened its second upscale specialty concept store, after Paris, at Lot 10 Shopping Centre. Occupying the former space of Isetan Department Store, the six-storey 118,400 sq ft outlet, offers six different themes for each floor according to product category: The Market – food; The Museum – technology; The Studio – fashion; The Room – beauty; The Cube – culture; and The Table – premium dining.

Guardian Malaysia opened its new concept store at Suria KLCC in October, incorporating shopping-friendly features such as a ‘Make Me Up’ corner which focuses on offering the needs of shoppers, as well as a semi-private area for shoppers to experiment new products.

New foreign retailers and franchises have continued to make inroads into the Klang Valley retail market.

Bookoff, one of Japan’s largest second hand chains, opened its first SEA outlet at One City in Subang Jaya. Called “Jalan Jalan Japan”, the 23,000 sq ft outlet offers a wide range of Preloved (second hand) products imported from Japan.

The new KitKat Chocolatory concept store, also the first of its kind in SEA, opened at Mid Valley Megamall in October, offering chocolate lovers the opportunity to create their own custom-made KitKat and personalised wrapping services.

Other notable store expansions and openings during the review period include Manolo Blahnik’s first boutique outlet in Pavilion Kuala Lumpur, Yves Saint Laurent boutique in Suria KLCC; HomePro in Summit USJ Shopping Centre; and Family Mart in Mid Valley Megamall.

A summary of the first / largest flagship stores opened in Malaysia during 2H2016 is tabulated in Table 8.

Several acquisition and disposal activities relating to the retail industry were also reported during the review period.

In July, government-linked private equity fund management company, Ekuiti Nasional Bhd, acquired a 35% stake in Al-Ikhsan Sports Sdn Bhd for RM68.60 million. The investment also includes the 100% acquisition and injection of Al-Ikhsan’s home-grown sportswear apparel brand, AL Sports, under the Al-Ikhsan umbrella which currently commands a 36% market share in the multi-brand sports retail industry with 119 outlets in Peninsular Malaysia.

In December, McDonald’s Corp has reportedly sold the franchise rights of its restaurants in Malaysia and Singapore to Saudi Arabia’s Lionhom Pte Ltd. This signified the withdrawal of its direct ownership in Asia. McDonald’s has about

120 restaurants in Singapore and about 260 in Malaysia.

Malaysia's cinema chain, Golden Screen Cinemas Sdn Bhd, is reportedly up for sale for circa US$500 million. The potential sale, however, is yet to be confirmed as of November.

The first half of 2017 is expected to see the completion of four new shopping malls in Klang Valley, offering a combined retail space of circa 2.51 million sq ft. They are MyTown Shopping Centre, Melawati Mall, Pacific Star Shopping Centre and Selayang Star City Mall.

Amid a challenging retail scene with high supply pipeline, rising costs and weak consumer sentiments, prime and established shopping centres such as Suria KLCC, Pavilion Kuala Lumpur, Mid Valley Megamall, The Gardens Mall, Sunway Pyramid and 1Utama Shopping Centre continued to record above 95% occupancy.

PRICES AND RENTALS

During the review period, prime shopping centres listed under the property portfolio of IGB REIT, Sunway REIT and Pavilion REIT continued to record higher revenue.

IGB REIT's gross revenue grew by 4.0% in 3Q2016 to record at RM125.9 million due to higher rental income when compared to the corresponding period in 2015 (3Q2015: RM121.0 million).

Sunway Pyramid Shopping Mall recorded 3.3% increase in gross revenue to RM74.37 million for the period ended September 30, 2016 compared to the corresponding period in 2015 (3Q2015: RM71.97 million) mainly due to higher average net rent per sq ft.

Meanwhile, the retail segment of Pavilion REIT recorded gross revenue of RM114.30 million in 3Q2016, a 14.7% increase from 3Q2015, attributed to rental income contribution from the newly acquired properties, The Intermark Mall and da:mén USJ Shopping Mall.

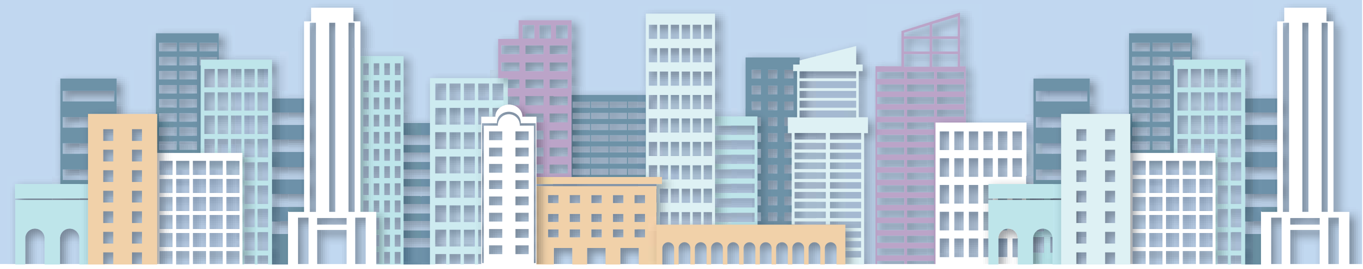
It was reported in October that BBCC Retail Portfolio JV, which is 50% owned by Mitsui Fudosan, will acquire the BBCC Retail Portfolio Space for RM505.8 million (Mall: RM472.5 million and Podium: RM33.3 million). It comprises (1) Mall space of 1.35 million sq ft and 2,400 car parks on 'land basis' at RM350 per sq ft and will construct it at the JV's own cost and (2) Podium space of 40,000 sq ft on a completed basis at RM830 per sq ft.

ASIAN Retail Mall Fund II (ARMF), which owns the SStwo Mall in Petaling Jaya, continues to seek buyer for the retail asset. Earlier plans to redevelop the site had been shelved following the freeze on approvals for serviced apartments, small offices/home offices and small offices/virtual offices in Selangor and the uncertainties surrounding the lifting of the freeze on June 28.

TABLE 8

First / Largest Flagship Stores Opened in Malaysia during 2H2016

Shopping Centres	Notable Feature	Retailers / Operators
Pavilion Elite	First & Largest in Malaysia & Flagship	ABC Cooking Studio, The Planet Traveller
	Largest in SEA & Flagship	Coach
	Largest in Malaysia & Flagship	Huawei, Lego, Muji, JD Sports – King of Trainers
	First in Malaysia	Collection of Style (COS), VLV Life, The Wallet Shop, Simmer Huang
Lot 10	Second Upscale Specialty Concept Store in the World	Isetan The Japan Store Kuala Lumpur
Sunway Velocity Mall	First in Malaysia	AEON MaxValu Prime
One City @ USJ25	First SEA outlet	"Jalan Jalan Japan" by Bookoff from Japan



Source: Knight Frank Research

OUTLOOK

Malaysian consumer confidence continues to remain low following the recent increase in fuel prices and the removal of cooking oil subsidy. Coupled with the sharp depreciation of the Ringgit, consumers, faced with lower disposable income and rising cost of living will continue to adopt a more prudent spending approach.

The Klang Valley retail landscape is facing strong headwinds and the impending completion of some 2.51 million sq ft of space by 1H2017 will further heighten competition in an already crowded market. Rental and occupancy levels, particularly for lesser established shopping malls, will be under pressure.

Mall operators and retailers will have to step up their marketing efforts and re-strategize to continue to attract customers.

More ‘bricks and mortar’ retailers have transformed into ‘clicks and mortar’ by incorporating internet sales into their business. The Performance Management and Delivery Unit (Pemandu) have urged local retailers to improve their internet sales from online shopping as there is huge potential in the rapidly growing e-commerce market.

In addition, the Government will promote Malaysia through Visiting ASEAN@50 Year Campaign in conjunction with the 50th anniversary of ASEAN as well as Malaysia as the host for the 2017 SEA and Para ASEAN Games. To achieve the target of 32 million of tourist arrivals next year, the Government will extend eVisa, currently available to Chinese tourists, to countries in the Balkans and South Asia regions.

The retail sales growth for 2016 has been revised downwards from 3.5% to 3.0% as Malaysians continue to cut back on spending. The retail sales growth rate of 0.5% for the first half of the year is, however, expected to pick up by the end of the year supported by the 1Malaysia Year-End Sale, one of the country’s thrice yearly nationwide sales, that coincides with school holidays and festive seasons.

TABLE 9

Shopping Centres Scheduled for Completion / Opening in 1H2017

Source: Knight Frank Research

HIGHLIGHTS

The Penang state government recently announced an increase in development density to 128 units per acre, up from the current 87 units per acre, in order to provide more affordable housing in the state. To take effect only next year, units built under this new guideline must not be less than 900 sq ft. Prices are being fine-tuned at the moment.

As part of the RM46 billion Penang Transport Master Plan (PTMP), the Penang state government has decided on a RM4.8 billion elevated light rail transit (LRT) system, rather than a tram system in the state. This proposed 22km LRT system will operate between Weld Quay and the Penang International Airport and under the PTMP, it will also feature a 20km Pan Island Link highway.

PENANG PROPERTY MARKET

MARKET INDICATIONS

According to Property Market Report 1H2016, the total volume of transactions for all sectors in the State of Penang for 1H2016 registered a drop of 18.2% and 11.6% when measured against 1H2015 and 2H2015 respectively. Similarly, in terms of value of transactions, the decreases are recorded at 26.7% and at 11% when compared against 1H2015 and 2H2015 respectively. Residential transactions which made up 73.1% [was 69.1% (1H2015) & 72.9% (2H2015)] of the total volume, recorded a drop of 13.5% and 15.7% in terms of volume and value of transactions done respectively when compared against 1H2015 and with decreases of 11.3% & 12.6% against 2H2015. For the period compared, namely 1H2016 vs 2H2015, all sub sectors recorded lower number of transactions; in terms of value of transactions, the scenario is the same with decreases varying from 10.2% (development lands) to 72.2% (others) except for Industrial properties which recorded an increase of 60%.

The Eco World Group has purchased two parcels of land, totaling 374 acres, in Seberang Perai Selatan, Penang from Batu Kawan Development Sdn Bhd for RM875.24 million (or about RM53.64 per sq ft collectively). Plans are afoot for a RM7.76 billion mixed-development project comprising gated and guarded strata landed properties and integrated commercial projects to be developed over a period of 10 years via Eco Horizon and Eco Sun.

SP Setia Bhd is planning to develop an eco-themed mixed development township on a recently acquired site in Seberang Perai Utara in Penang. The developer had been successful with their tender bid of RM620 million for a 1,675-acre freehold site in Seberang Perai Utara. The mixed development township has a potential gross development value (GDV) of RM9.6 billion spanning over 15 to 20 years.

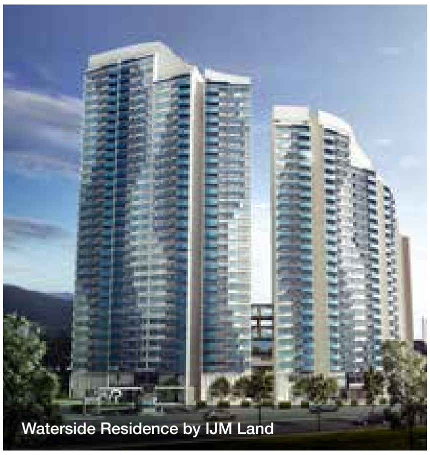
IJM Land Bhd will start work on the 2nd phase of The Light Waterfront project at the end of 2016. This RM3 billion JV project with Perennial Real Estate Holdings Ltd will comprise a retail mall with 1.6 million sq ft of gross floor area (GFA), an office tower block with 540,000 sq ft GFA, a convention hall and function rooms with 100,000 sq ft GFA, two residential towers, and two hotels offering a total of 750 rooms. It is understood that of the RM3 billion development cost, RM678 million will be for the residential component, RM270 million for the office tower, RM580 million for the hotels, RM330 million for the Penang Waterfront Convention Centre with the balance for the mall and retail outlets.

Paramount Group's property arm has launched its first development in Penang, the 44.3-acre Utropolis Batu Kawan university metropolis development worth an estimated GDV of RM1.8 billion. To be developed over a 10-year span, this integrated development will be divided into four phases comprising residential, commercial, retail and hotel components and a new flagship campus for KDU Penang University College to be on a 10.5 acre site. The campus, which is owned and operated by Paramount's education division, will be able to house up to 5,000 students when completed in 2H2019.

HIGH END CONDOMINIUM

With the slowdown of the property market coupled with tightened lending conditions from financial institutions and the cautious attitude of local buyers, property developers face a slow take-up in their offerings. There are not many launches of high end condominiums in 2H2016.

IJM Land has, in November, soft launched their Waterside Residence condominium to be built on a 4.27-acre site as part of The Light Waterfront phase 2. Located close to a planned shopping mall and convention centre and with an estimated GDV of RM240 million, it is targeted at buyers who are looking for modern lifestyle homes. Waterside Residence will feature 256 units of 2- and 3-bedroom units with built-up sizes of 1,055 sq ft, 1,249 sq ft and 1,270 sq ft and at prices starting from RM749,000 onwards or an average of about RM820 per sq ft. Construction work is expected to commence by end of 2016.



Waterside Residence by IJM Land

Asia Green has also soft launched their latest project, QuayWest Residence in Bayan Mutiara which comprises 2 blocks of 24-storey towers on a 3-hectare freehold site located a short distance from Queensbay Mall.   There will be a total of 1,235 condominium units, made up of 669 units in Tower A and 566 units in Tower B; there are various sizes ranging from 1,200 sq ft to 2,013 sq ft. Prices start from RM860,000 upwards. It is understood that more than 60% of them have been taken up. The overall project is scheduled for completion by early 2020.

The project will feature a wide range of resort-style facilities namely lounge, gymnasium, sky pool with infinity pool edge, children's pool, lazy pool and volcano whirlpool tub, pool deck with lounge, children's play area, sky whirlpool tub, corridor walkway, private garden, woodland shrubs and sky view deck.

Buyers of high end condominiums have higher expectations; thus, many of the newer launches offer units which are fitted out with built-in cabinets to bedrooms, kitchen cabinets c/w hood / hob / electrical items as well as light fittings, air-conditioning units and quality sanitary fittings.

There are much lesser recorded transactions of high end condominiums in the secondary market in 2H2016 compared to 1H2016. One large unit, 6,523 sq ft in size at Sky Home in Tanjung Bungah was transacted at RM598 per sq ft whilst smaller sized units of 2,000 to 2,400 sq ft in Gurney Paragon, Gurney Drive and Quayside Condo, Seri Tanjung Pinang were resold at prices ranging from RM1,000 per sq ft to RM1,170 per sq ft. Past transactions in Year 2015 for smaller sized units in Gurney Paragon and Seri Tanjung Pinang had been recorded at prices ranging from RM830 per sq ft to RM1,330 per sq ft.

Asking rents are noted to be slightly lower when compared to 1H2016. For larger sized units (3,500 sq ft to 6,500 sq ft) in Tanjong Bungah, asking rents generally range from RM1.10 per sq ft to RM2.00 per sq ft per month whilst the upper band of asking rents are also noted to be lower – ranging from RM2.10 per sq ft to RM2.50 per sq ft per month. For similar sized units in Gurney Drive, asking rents vary from RM1.80 per sq ft to RM2.60 per sq ft per month. For smaller sized units in Tanjong Tokong and Gurney Drive, asking rents are in the range of RM2.20 per sq ft to RM2.90 per sq ft per month with some landlords asking higher rents of RM3.00 per sq ft to RM3.80 per sq ft per month.

OFFICE

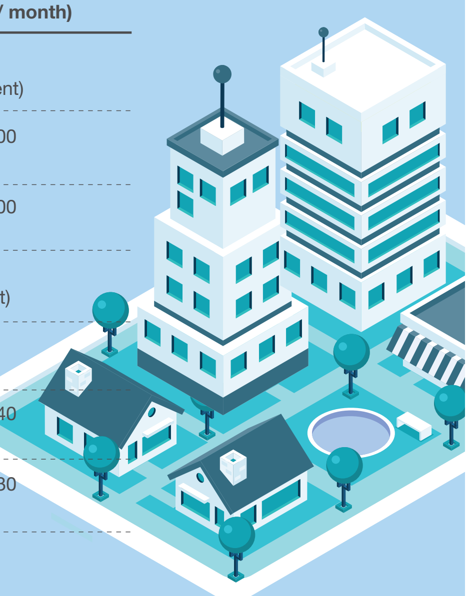
The existing supply of office space (buildings of 10-storey and above) on Penang Island remains at 1H2016's level of 5.59 million sq ft.

The occupancy rates for the four prime office buildings monitored in Georgetown generally remain at 1H2016's level, ranging from 85% to 100% whilst the newer buildings namely Suntech and Menara IJM Land, located out of the city, recorded an average occupancy rate of approximately 97% as of December.

Office buildings under planning include the 540,000 sq ft office tower under Phase 2 of the Light Waterfront by IJM Land. Construction for a 32-storey VOS lifestyle office by Inma Development Sdn Bhd, a subsidiary of the Stallion Group, is expected to commence in 2Q2017 with completion scheduled in 2020. This office suite concept featuring 24-hour security system, swimming pool, gym, sky bistro or café, a conference hall and eight levels of multi-level parking and located in Bukit Dumbar on the island will have a total of 439 freehold units, measuring between 364 sq ft and 521 sq ft each. There will be 20 units per level, to be served by five lifts.

TABLE 10
Asking Gross Rental of of Selected Purpose-built Office Space on Penang

Building Name & Location	Asking Gross Rent (RM per sq ft / month)
Hunza Tower Georgetown	3.50 (secured rent)
Menara Boustead Penang Georgetown	2.80 to 3.00
Menara KWSP Georgetown	2.70 to 3.00
MWE Plaza Georgetown	2.80 (fixed rent)
Wisma Great Eastern Georgetown	3.00
Menara IJM Land Jelutong	3.10 to 3.40
SunTech Bayan Baru	3.00 to 3.30
One Precinct Bayan Baru	3.50



Source: Napic / Knight Frank Research (as of December 2016)

RETAIL

With no new purpose-built shopping malls completed in 2H2016, the existing supply of purpose-built shopping space on Penang Island remains unchanged at 1H2016's level of 6.69 million sq ft.

Balik Pulau will have their first "shopping mall" following MTT Group's plans to start construction of a shopping hub on a 3.2-hectare plot in Botanica.CT in late 2016 and with completion scheduled for late 2018. It will comprise single and double-storey shophouses which will link to a three-storey building that will house the mall's anchor tenant.

Over in Batu Kawan on mainland Seberang Perai, Design Village Penang by PE Land Group is the first premium outlet mall in the northern region. Opened on 23rd November, this 400,000 sq ft premium outlet mall is easily accessible via the North South Highway and the Sultan Abdul Halim Muadzam Shah Bridge.

In Seberang Jaya, Sunway Group has plans to expand the existing Sunway Carnival Mall by 500,000 sq ft with works expected to commence in 2017. The expansion plans also include a refurbishment exercise, a proposed 10-storey office block and a 9-storey 150-bed hospital.

Perda City Mall in Bukit Mertajam, which was re-opened for business in September 2014 after 3 months of upgrading works, has closed its doors since August.

The several proposed shopping malls coming up over the next 5 years on the island are as listed in Table 11 below.

OUTLOOK

The general performance and outlook for the market is still lacklustre as both economic conditions and general public sentiments are down. Declines in both volume and value of transactions have set the mood resulting in some developers deferring their launches and pushing back plans for development.

The residential sub-sector is experiencing a period of consolidation and readjustment in terms of both rentals and sales prices and improvements are not expected in the short term.

The office sub-sector, on the other hand, is more stable with both occupancies and rentals maintaining the levels of what was registered during the previous period (ie 1H2016). This scenario can probably be maintained in view of the fact that there is little incoming supply although some have been planned and these will impact the market in the medium term.

The retail sub-sector is generally one of concern. Although the prime malls continue with their commendable performance, pressures on rentals are building up. Secondary malls are expected to experience mounting downward pressure on rentals and serious challenges on maintaining occupancy rates. Recent additions and significant incoming supply are expected to further aggravate the situation over the next year or two.

TABLE 11

Future Supply of Retail Space within Penang Island

Building Name	Estimated NLA (sq ft)	Scheduled Completion
*City Mall	Circa 300,000	1H2017
*Sunshine Tower	900,000	2019
**Penang Times Square Phase 3/4	230,000	
**Sunway (Paya Terubong)	1,000,000	
** The Light Waterfront Mall	1,600,000	

* Under construction
** Planned

Source: Napic / Knight Frank Research (as of November 2016)

HIGHLIGHTS

Total volume and value of transactions have dropped 15% and 1.4% respectively from 1H2015.

Johor manufacturing sector attracted total proposed capital investment of RM18 billion in 2016, the highest in the country.

As of 3Q2016, Iskandar Malaysia recorded cumulative investments of RM218.84 billion, an 18% increase (RM33.5 billion) year-on-year.

Mega projects such as Forest City and the Pengerang Integrated Petroleum Complex continue to drive investment (and development activities) in the respective areas.

Road infrastructure continues to improve. A new expressway linking Senai to the North-South Expressway enhances accessibility and connectivity in Iskandar Malaysia. Meanwhile, the Coastal Highway, connecting to the Tuas Second Link via Medini, is set to open in 1Q2017.

Singapore and Malaysia signed a bilateral agreement on 13th December, paving the way for the implementation of the highly anticipated Singapore-Kuala Lumpur High-Speed Rail (HSR) project.

JOHOR BAHRU PROPERTY MARKET

MARKET INDICATION

Based on data from NAPIC, 1H2016 recorded 20,680 transactions across all sectors in the state of Johor for a total value of RM10.87 billion. This represents a drop of 15% in total transactions and a 1.4% drop in total value of transactions when compared to 1H2015.

All sectors experienced a fall in number of transactions with the industrial sector experiencing a 47.6% shortfall when compared to the previous year. This is followed by commercial (-33.6%), agricultural (-14.4%), development land (-14.3%) and residential (-10.9%) for the same period.

Commercial, agricultural, and development land managed to register increases in total value of transactions (6.4%, 11.6% and 10.3% respectively) with residential and industrial sectors bucking the trend with -6% and -28.1% when compared with 1H2015.

MARKET HIGHLIGHTS

In November 2016, Al-Aqar Healthcare REIT entered into a Sales and Purchase Agreement with Optimum Impress Sdn Bhd for the sale of its commercial development (Hotel Selesa and Metropolis Tower, comprising a 27-storey and a 31-storey building respectively) erected on a 5,156.62 sq m freehold land in Johor Bahru for RM100 million.

Meanwhile, KPRJ Healthcare Bhd intends to develop a RM67.6 million hospital in Batu Pahat, to be known as KPJ Batu Pahat Specialist Hospital. The seven-storey proposed hospital has a gross floor area (GFA) of 157,500 sq ft and consists of 90 beds with 162 car park bays. The hospital is scheduled to be completed in 24 months.

Iskandar Waterfront City (IWCity), through its wholly-owned, Success Straits Sdn Bhd (SSSB) has entered into an agreement to purchase two parcels of freehold land at Jalan Sg.Danga, with a combined area of about 3.89 hectares (9.55 acres) for RM90 million to develop a mixed-used project.

A Hard Rock Hotel is set to open in the prestigious Desaru Coast Development. A project by Themed Attractions Resorts & Hotels Sdn Bhd (TAR & H), the hotel offering 365 rooms, is slated to commence operations by 4Q2017.

RESIDENTIAL

The residential sector continues its lead in overall market activities. In Johor, the sector accounted for 66.2 % of all transactions with corresponding value of RM4.30 billion. This represents a 10.9% and 6% drop in volume and value or transactions respectively when compared with 1H2015.

SP Setia's double-storey homes in Bukit Indah were well received during its launch, recording circa 80% take-up rate.

Melia Residence by UEM Sunrise was also well received: Phase 1 fully sold while only Bumiputra units are available for sale in Phases 2 and 3. The project offers a total of 160 units of 2-storey terraced homes that are priced from RM596,888 to RM1.21 million per unit.

Some 80% to 90% of high-rise residential units (total: 7,574 units) within Phases 1 and 2 of Country Gardens latest massive 4-island integrated project known as Forest City, have been sold.

Mah Sing Group has launched the Meridin East township. Set upon 1,313 acres of land, it is currently the largest township development in Zone D of Iskandar Malaysia with an estimated GDV of RM5 billion. To be developed over five phases, the first phase consists of linked, semi-detached and detached houses.

Astaka Padu Sdn Bhd has entered into a joint-venture with Saling Syabas Sdn Bhd to develop an integrated township on 360 acres of land in Bukit Pelali, Pengerang. The township, to be located near the PIPC project in Pengerang, will feature mainly landed properties and commercial buildings (shophouses).

RETAIL

The total retail space in Johor Bahru currently stands at about 11.85 million sq ft with an incoming supply of circa 3.40 million sq ft. Overall occupancy rate improved from 74.8% in 1H2016 to 75.9% in 2H2016 while take-up / absorption grew by 258,064 sq ft.

The first Malaysian IKEA outlet to be located outside Klang Valley is currently under construction. The store with a net floor area of circa 502,814 sq ft at Jalan Desa Tebrau, near Mount Austin, is expected to open by the end of 2017.

Southkey Megamall Sdn Bhd has reportedly raised about RM1.0 billion to fund the construction of the Mid-Valley Megamall in Southkey, Johor Bahru. The shopping mall is a part of the integrated development of Southkey with an estimated GDV of about RM6.0 billion.

The shopping mall will consist of six levels of retails space, two levels of basement car parks and eight levels of elevated parking bays. Upon completion the mall is expected to have a NLA of 1,506,047 sq ft.

UDA Holdings Bhd plans to build Plaza Angsana 2, adjacent to the current Angsana Mall. The building will be erected on the adjoining 5-hectare vacant land and is expected to take three to five years to complete. The project also includes the Ancasa Hotel, a convention centre and commercial lots.

OFFICE

As at 1H2016, the total supply of purpose built office space in Johor Bahru stands at about 8.9 million sq ft with an overall occupancy rate of about 79.1%.

Asking gross rentals of prime and non-prime CBD office space remain stable, ranging from RM2.50 per sq ft to RM3.50 per sq ft per month.

Astaka Padu Sdn Bhd has entered into an agreement with Johor Bahru City Council (MBJB) to design and construct a 15-storey Grade A office tower with 445,848 sq ft of space to be known as MBJB Tower for an agreed sum of RM308 million. To be located within the Astaka development in Bukit Senyum, the tower is slated for completion by 2019.

Menara JLand, a purpose built Grade A office tower at Jalan Wong Ah Fook, will add some 262,592 sq ft of space to the current office stock when completed next year.

INDUSTRY

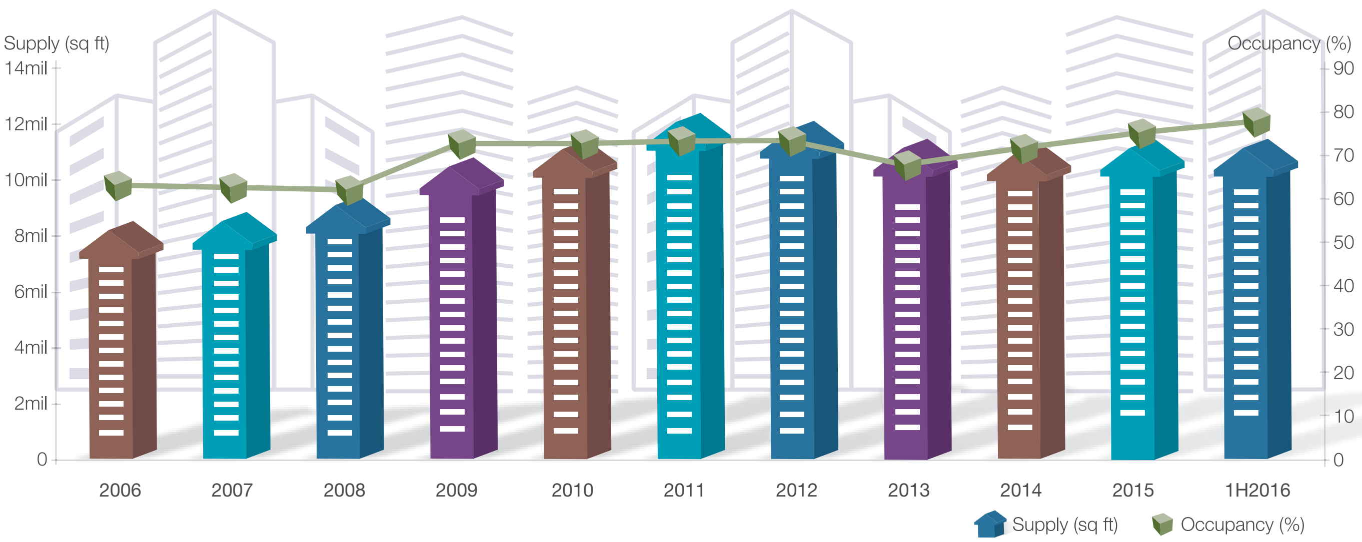
According to data from MIDA, the manufacturing sector in Johor attracted over RM18 billion in total proposed capital investment for the January to September 2016 period, the highest in the country. The ratio of domestic and foreign investments is 52%:48%.

Real estate activity in the industrial sector, however, slowed down significantly. Over

Southkey Megamall

FIGURE 3

Retail Supply and Occupancy Trend in Johor Bahru (2006 - 1H2016)



Source: Knight Frank Research / NAPIC

the 1H2015 to 1H2016 period, there were a total of 358 transactions in the industrial sector with a corresponding value of RM931 million, reflecting a sharp decline of 47.6% in volume and 28.1% in value respectively when compared to the preceding period.

In July 2016, Tropicana Corporation Berhad, via its wholly-owned subsidiary, Tropicana Desa Mentari (TDM), entered into a sales and purchase agreement with Tiarn Oversea Group Sdn Bhd, for the disposal of a freehold land for a consideration of RM569.9 million. The 251.60-acre land located in Gelang Patah, is zoned under agricultural and industrial land use.

Chin Hin Group Sdn Bhd acquired a parcel of land located in Kota Tinggi for RM22 million from TKW Capital Sdn Bhd. Chin Hin Group plans to consolidate all of its subsidiaries into one integrated manufacturing facility.

AmorePacific Corporation, a South Korean cosmetics manufacturer has entered into an agreement to purchase 25.37 acres of land within the Southern Industrial and Logistics Clusters (SiLC) in Iskandar Puteri. The Koreans are set to invest about RM691 million into a new intergrated R&D and manufacturing facility.

Super Group Ltd, which is a Singapore-based food & drinks manufacturer will invest RM500 million to set up its principal hub on a 16.18-hectare land in Johor. The hub will operate as a regional centre for procurement and distribution of its food ingredients business segments. It is expected to contribute more than RM826 million to the company's overall export by 2018.

Chocolat Moderne New York, a US-based chocolate firm is planning to set up a 5,500 sq ft chocolate factory in Johor's Halal Park (JHP) with a RM10.0 million investment.

MTD ACPI Engineering Berhad, via its wholly-owned subsidiary, ACP Marketing Sdn Bhd has entered into a sales and purchase agreement with Kong Hwee Iron Works & Construction (M) Sdn Bhd to dispose of a parcel of vacant land for a consideration of RM5.54 million. The 2.4281-hectare leasehold land is located in Senai.

OUTLOOK

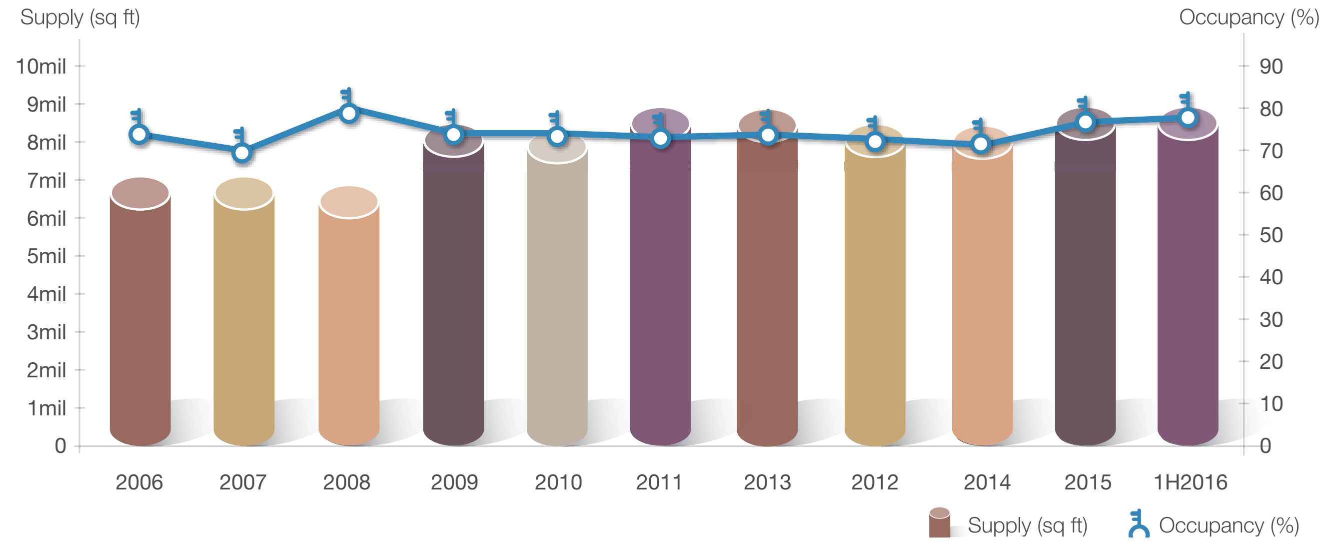
The slowdown in market activity in Johor looks set to continue into 2017. With many developments, particularly high rise residential projects, set to be completed next year, the large impending supply will present tenants with a wide range of choices. This will depress potential rental returns to landlords.

New offerings of landed residential have performed well throughout 2016 and with more phases to be released in 2017, this trend looks set to carry on next year. Properties priced between RM350,000 and RM600,000 have proven to be popular in Zone D of Iskandar Malaysia.

Similarly for retail, new space will be added throughout 2017. With over 3 million sq ft of retail space opening up, this will generate greater pressure on rental rates. With the consumer market being affected by global and domestic economic trends, the retail sector will need to be resilient in the year to come.

New announcements on the development of the High Speed Rail (HSR) connecting Kuala Lumpur and Singapore will see investors jockey for positions close to the proposed station locations. Additionally, the extension of the Southern Link connecting the Coastal Highway to the Second Link will be a strong catalyst as traffic will be directed through the Medini / Iskandar Puteri areas. This extension is set to open by 1Q2017.

FIGURE 4
Office Supply and Occupancy Trend in Johor Bahru (2006 – 1H2016)



Source: Knight Frank Research / NAPIC

HIGHLIGHTS

Department of Urban Wellbeing, Housing and Local Government as well as developers have launched initiatives to improve conditions of the property market.

Public transportation and infrastructure in Kota Kinabalu to be paid particular attention to in the immediate future.

Market sentiment shows that consumers are still fairly confident in established developers.

KOTA KINABALU PROPERTY MARKET

MARKET INDICATIONS

According to the latest NAPIC Property Market Report (1H2016), Sabah registered 3,155 transactions with a total value of RM1.52 billion, a decrease of 27% and 31% in volume and value respectively against 1H2015. The residential segment has constantly been the dominant sub-sector in Sabah, accounting for approximately 58% of the total volume of transactions and circa 37% of the total value of transactions in 2015. However, the residential segment continued to soften in terms of volume and value of transactions during the review period. In the first half of 2016, the volume of sales fell by circa 15% to record at 1,667 transactions (2H2015: 1,954 transactions). In tandem with the lower volume, the value of transactions also contracted by 6% to RM558.88 million as compared to the preceding period (2H2015: RM594.56 million). Despite the drop in terms of the overall volume and value of transactions, industrial and development land sub-sectors registered growth of 6% and 46% respectively in term of number of transactions as compared to 2H2015. Similarly, both subsectors experienced increment in value by 45% (industrial) and 10% (development land) respectively during the review period.

Malaysia Airlines Berhad (MAB) will be undertaking a RM10 million project to carry out upgrading works at the Kota Kinabalu International Airport (KKIA) as announced in October 2016.

Sabah Railway Department will commence its operation at its new building in Tanjung Aru by the end of 2016. This is part of the effort to upgrade and modernise the services rendered by the department, and to fulfil the public transportation needs of the people at a more affordable price as well as to spur the tourism industry in Sabah.

Effective from September 2016, eligible housing developers can obtain licenses to provide housebuyers with up to 100 percent of their home loans. According to the Minister of Urban Wellbeing, Housing and Local Government, this proposal is regarded as a win-win solution for both developers and housebuyers as to overcome difficulties faced by buyers in securing bank loans especially during this market downturn.

According to Mayor Datuk Yeo Boon Hai, the relevant authority (Economic Planning Unit) had in principle, approved an allocation of RM643 million to implement a one-way traffic system in Kota Kinabalu. The aforesaid plan would re-organize the road system for the whole of Kota Kinabalu, particularly to ease the congestion issue in the city. The one-way traffic would include connecting roads at Api-Api Centre, Kampung Air and Sinsuran Complex as well as providing a special lane for public transport and conducive linked pedestrian walkways throughout the city.

SBC launched the first phase of its highly anticipated Jesselton Quay – JQ Central. As the commercial jewel of the larger masterplanned Jesselton Quay, JQ Central, spanning 1.62 hectares, will consist of Grade A i-offices, SOHO-styled CityPads, three-storey Gallery Shoppes, and a tropical themed commercial recreation club. In term of accessibility, an elevated walkway connections to the waterfront precinct and the proposed BRT station will be built as well for the convenience of the residents.

Market response was overwhelming when SBC launched the first block of its CityPads on 26th October 2016. Avid investors took advantage of the incentives offered during the 1-day exclusive event. Following the good response, the company also launched its Grade A office tower – i-offices. JQ Central's i-offices is a 24-storey Grade A office tower comprising 67 office units with a total built-up of approximately 100,000 sq ft, and a selling price of circa RM1,000 per sq ft.

Asian Pac Holdings Berhad ventured into Kinarut area with its new mixed development known as the "The Zil @ KK South". The company saw the potential of Kinarut in providing housing and industrial needs of the nearby districts once the Pan Borneo Highway is completed. The Zil @ KK South is a mixed commercial and residential development which comprises of Zil Avenue (three-storey retail office), 118 units of gated terraced houses, and a condominium component which is expected to be introduced at a later stage.

The masterplan for the Tanjung Aru Eco Development (TAED) and also its Special Environment Impact Assessment (SEIA) had both been submitted to the relevant departments. The conceptual masterplan for the 314-hectare beachfront site would entail the revitalisation of the 1.35km Tanjung Aru beach as well as the rejuvenation of Prince Philip Park. In addition, TAED would also comprise a mixed commercial, residential and accommodation offerings as part of TAED's unique character zones, which will feature a marina and an eco-signature golf course. Ultimately, TAED will establish a set of principles which will positively impact the future of this re-energised region of Sabah.

market environment with smaller units at a more affordable price point. There are, however, developers who have continued to enter the market, recognizing the strengths and opportunities of their development and have managed to command a premium.

Updates of selected residential projects in Kota Kinabalu are as follow: Singapore-listed GSH Corp Ltd will launch two luxurious oceanfront residential projects by 2017. The two projects are within the gated precinct of the 154-hectare Sutera Harbour Resort and will have a gross development value (GDV) of RM3 billion. The company will kick off with the first project early next year which is known as the Coral Bay @ Sutera. Coral Bay will feature two residential buildings that are integrated in a resort environment with a total of 450 residential units, with selling price estimated at between RM1,400 per sq ft and RM1,700 per sq ft, or starting from RM1.5 million. The second project – the Point @ Sutera will be located at the tip of the Sutera Harbour vicinity, featuring 450 residential units.

Strategically located at Bundusan, Triconic Tower by Kinsabina Group of Companies is nearing its official launching. The development will feature three blocks of 16-storey condominiums with a GDV of RM390 million. The project consists of 768 units and will be available in two sizes, namely 1,000 sq ft priced from RM448,000 onwards and 1,200 sq ft priced from RM528,000 onwards; both comes with three bedrooms and two bathrooms along with upscale facilities.

The highly anticipated Jesselton Residences is scheduled for completion around first quarter 2017 after some delay. The development features three towers comprising 333 luxury condominium units and a mall in the podium. The mall will have 123 lots spread over three floors with a net lettable area (NLA) of 80,000 sq ft. The building is 28 storey high and will be the tallest building in the Kota Kinabalu CBD waterfront area upon completion.

Pacific Heights, the luxury residential component of PacifiCity is achieving a healthy take-up rate of 85% as recorded during the second half of 2016. The development comprises of three luxury residences with a total of 204 units and is scheduled for completion by the end of 2017.

Artist Impression of the eco-signature golf course of TAED

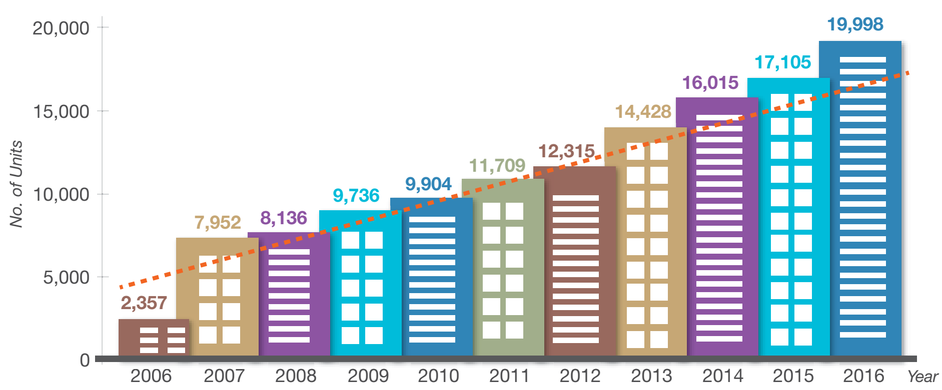
RESIDENTIAL

According to data from NAPIC, the total supply of condominiums/apartments in Kota Kinabalu tallies at 19,998 units as of second quarter of 2016, an increment of 2,893 units as compared to end of 2015. In terms of future supply, there will be a major influx of high-rise residential units into the market with circa 15,237 units currently in the pipeline. Looking forward, the total number of high rise residential units will soon surpass its landed counterpart in the near future.

The looming oversupply and sluggish market activity has justifiably caused uncertainties in the market and is represented in the reduced number of launches so far in the second half of 2016. It is observed that most developers leading the way have responded to the

FIGURE 5

Supply of Condominium/Apartment Units in Kota Kinabalu (2006 - 2016)



Source: Knight Frank Research / NAPIC

Artist Impression of Coral Bay @ Sutera

OFFICE

At the end of 2015, the total net lettable area (NLA) of the purpose-built office space which includes private buildings and government building in Kota Kinabalu stands at approximately 6.3 million sq ft with an average occupancy rate of about 91.8%.

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.

Petroliam Nasional Bhd (Petronas) has kicked off a project to build its second office tower next to its existing headquarters tower in Sembulan. The 11-storey office tower with a GDV of RM136.9 million will have the capacity to house over 500 employees and is scheduled for completion in August 2018. The project was a part of the company's long-term planning whereby the decision was made two years ago so as to cater for future manpower growth, which is increasing now, as well as operational needs that are in line with the progress of Petronas' businesses in Sabah.

As for second half of 2016, there is no new launches for the office subsector. Similar to the first half of 2016, approximately 1.5 million sq ft of office spaces will be added to the market in the near future, with the completions of Signature Office Suites @ Sutera Avenue, SOVO Exchange @ Aeropod, Boutique Office @ Aeropod, Sabah State Administrative Centre and Pacific Enterprise @ PacifiCity.

Looking forward, major integrated developments such as Jesselton Quay, One Jesselton, Likas Boulevard, and ITCC Penampang will incorporate prime office spaces as one of their key development components.

TABLE 12

Asking Gross Rental 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 SESB	Karamunsing	1.50 – 3.20
KWSP	Sadong Jaya	2.20 – 2.40
Wisma Great Eastern	KK CBD	1.90 – 3.00
Wisma 2020	Karamunsing	1.40 – 2.30
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 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: Source: Napic / Knight Frank Research (as of November 2016)

TABLE 13

Incoming Supply of Selected New Office Space (Under Construction) (Estimated NLA)

Signature Office Suites @ Sutera Avenue	Southern Fringe of KK CBD	**233,544 sq ft**
SOVO Exchange @ Aeropod	Kepayan	**331,720 sq ft**
Boutique Office @ Aeropod	Kepayan	**233,544 sq ft**
Pacific Enterprise @ PacifiCity	Likas Bay	**144,679 sq ft**
Sabah State Administrative Centre	Likas Bay	**645,834 sq ft**
TOTAL		**1,589,321 sq ft**

Source: Knight Frank Research (as of November 2016)

RETAIL

Kota Kinabalu's retail market is a burgeoning sub-sector within the property market. The existing supply of purpose-built shopping space in Kota Kinabalu tallies at 4.7 million sq ft as of second half of 2016. Since the new debut of Imago Shopping Mall, there is no new launches of purpose-built shopping complex in the market.

Occupancy rates for the prime shopping malls in Kota Kinabalu are achieving healthy occupancy rates, ranging from 79% to 95%. In prime shopping malls, gross rental rates for ground floor retail lots generally range from RM9.00 per sq ft to RM25.00 per sq ft per month, depending on the location and size of the retail units.

Imago Mall as the first non-stratified mall in town is gaining momentum in terms of occupancy rate; which currently stands at 85%. Combining factors such as being the newest mall in Kota Kinabalu, renowned anchor tenant as well as international mall management brand, it is no surprise that Imago Mall has flourished from an economic point of view albeit the subpar economic situation in the country. Recently, Imago Mall successfully drew multiple well-known retailers on board such as Morganfield's, Cortina Watch and Baskin Robbins.

Pacific Parade, a revival project by Pacific Sanctuary Holdings Sdn Bhd is scheduled for completion by the end of 2017. The retail space with total net lettable area (NLA) of 615,000 sq ft has two separate and distinct retail concepts, the strata bazaar – Pacific Parade Bazaar and a fully retained lifestyle mall – Pacific Parade Premier Lifestyle. Pacific Parade Bazaar is located on the lower ground floor of the retail component, whereby approximately 90% of the units have been sold off on a strata titled basis. On the other hand, the Premier Lifestyle Mall currently has an estimated take-up rate of 50% with number of secured anchor tenants, namely TGV Cinema, IMAX, Everrise Supermarket, and Maybank.

Similar to the first half of 2016, there is an absence of new proposed supply as for the retail sub-sector. However, there will be approximately 1.5 million sq ft of retail spaces emerging into the market in the near future.

MARKET OUTLOOK

Based on the current economic conditions, weak property market sentiment and influx of supply, experts are not anticipating a recovery in the immediate future. The property market is expected to remain flattish in 2017 due to multiple uncertainties.

The residential sub-sector, which has been contributing the lion's share of the local market, influenced the overall performance. Further softening and consolidation of the residential sector is expected with increasing supply and poorer take up rates, particularly high-rise residential. The region will take time to digest the existing and incoming high-rise residential supply. However, we opined that prices of residential properties in good locations are expected to hold and there are also increasing demand for affordable homes because the market is dense with first-time homebuyers.

Developers are keen to sell off their existing stock before starting new launches. In order to entice buyers in this current weak property sentiment, developers have offered multiple incentives such as the rebates and discounts, as well as bearing the legal fees for SPA and loans. Moreover, innovative marketing strategies such as financing packages are also offered by some of the major developers as a step to overcome difficulties faced by homebuyers in securing bank loans.

Commercial office occupancy may see some pressure towards the end of the year and early 2017, when we expect to see completions of new purpose built offices around the CBD fringes.

As for retail sector, the incoming supply of retail space will place some pressure on the rental market. Shopping centres may also face new challenges due to decrease in consumer spending as the increase in income is not proportionate to the increase in the cost of living. Despite a drop in domestic consumer spending, we believe that the tourism sector in Sabah will pick up pace and contribute to stabilising retail spending.

Catalytic projects are needed to spur growth and investment. Spearheading these will be the infrastructure improvements such as the Bus Rapid Transit (BRT), Pan Borneo Highway and the proposed Light Rail Transit (LRT). With the commencement of infrastructure improvements, it is likely that there will be fresh injection of interest and added development impetus in Kota Kinabalu.

TABLE 14

Future Supply of Retail Space in Kota Kinabalu (Under Construction)

Name of Development	Location	Total Net Lettable Area (sq ft)
Pacific Parade @ PacifiCity	Likas Bay	615,000
Jesselton Mall @ Jesselton Residences	KK CBD	74,666
Lifestyle Retail + Festive Avenue Retail @ Sutera Avenue	Southern Fringe of KK CBD	153,168
ITCC Penampang	Penampang Bypass Highway	318,340
Grand Merdeka Mall	Menggatal	271,000
Inanam Mal	Inanam	72,000
TOTAL		**1,504,174**

Source: Knight Frank Research (as of November 2016)

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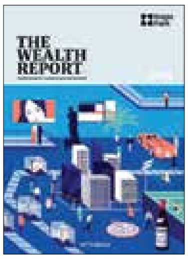

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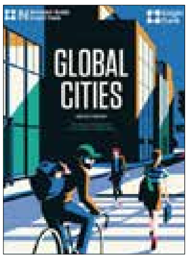

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