RESEARCH

2ND HALF 2012

REAL ESTATE HIGHLIGHTS

Kuala Lumpur | Penang | Johor Bahru

Knight Frank

HIGHLIGHTS

Kuala Lumpur:

- Branded residences are emerging as the latest trend in the luxury housing segment. In the mainstream market, the trend continues towards smaller average home sizes to meet first time buyer demand.
- The office market remained fairly resilient despite mounting pressures from new completions and a high supply pipeline. Dual-compliant buildings (MSC status and green) continue to do well.
- The retail industry attracts new international brands and drives the expansion of existing ones. Kuala Lumpur ranked world's fourth best shopping city and second best shopping destination in Asia Pacific.
- The hotel sector is expected to remain resilient on the back of strong growth in tourist arrivals and various Government-led initiatives.

Penang:

- Currently, works on the 2nd Penang Bridge is ahead of scheduled completion targeted for September 2013. The aim is to reach 90% by end 2012.
- Works on the RM3billion Penang Sentral project in Butterworth will start in 2013 after a long delay. It will feature a transport terminal for ferries/buses/taxis/trains and a projected monorail station.

Johor:

- Property market outlook remains cautiously optimistic, spearheaded by residential sector.
- Activities in Nusajaya and Johor Bahru city are spurring the growth of retail and hospitality sectors as well as other property sub-sectors in the region.
- Iskandar Malaysia continues to be the main catalyst to the property market particularly in the high-end range.

KUALA LUMPUR HIGH END CONDOMINIUM MARKET

Market Indications

The Malaysian economy is expected to slow down for the rest of the year, having achieved a lower growth of 5.2% in the third quarter of 2012 (2Q2012: 5.6%), affected by slower external demand. However, domestic demand continued to support the country's growth, recording 11.4% during the third quarter (2Q2012: 14.0%) with robust year-on-year growth in private and public consumption and investment outlays.

The strong support provided by domestic demand, underpinned by activities in both the private and public sectors, have ensured sustained growth amidst the challenging global environment. The Economic and Government Transformation Programmes (ETP and GTP) are expected to continue to be the main drivers of the domestic economy. However, the European sovereign debt crisis and fiscal issues in the US are expected to weigh on market sentiments and growth prospects.


Amarin Wickham

The headline inflation rate, as measured by the annual change in the Consumer Price Index (CPI), moderated further to 1.4% in the third quarter (2Q2012: 1.7%), reflecting lower inflation in the transport, recreation services and culture and miscellaneous goods and services categories. At the recent Monetary Policy Committee (MPC) meeting, Bank Negara Malaysia (BNM) decided to maintain the Overnight Policy Rate (OPR) at 3.0% due to easing inflation while remaining accommodative and supportive of economic activity.

Supply & Demand

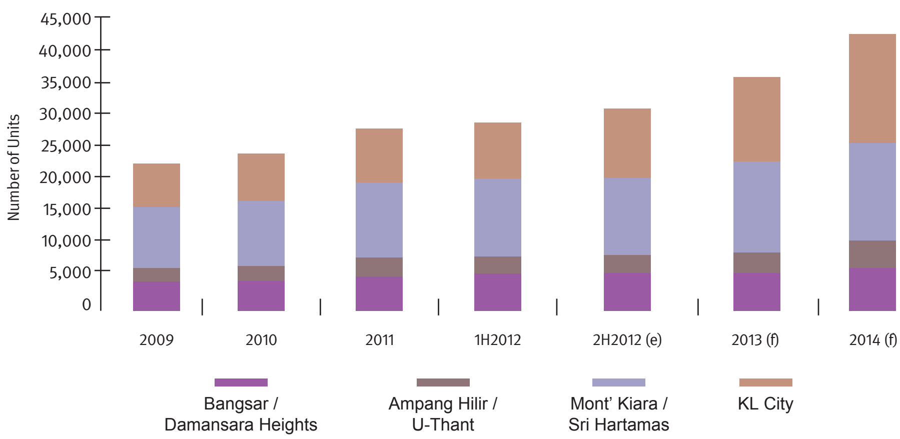
There were two new completions during the review period with a total of 967 units from St. Mary Residences and Binjai 8, bringing the cumulative supply in Kuala Lumpur to 30,849 units. Notable developments that have been physically completed but pending issuance of Certificate of Completion and Compliance (CCC) include Verticas Residensi and Setia Sky Residences (Tower 1A & 1B) in KL City, Amarin Wickham in Ampang and Kiaramas Danai (Block A) in Mont' Kiara. Together, these developments will offer a total of 1,002 units of high end condominiums, bringing the cumulative stock in Kuala Lumpur to some 31,851 units by 1Q2013.

Setia Sky Residences (Tower 1A & 1B) and Binjai 8 are fully sold while Verticas Residensi and St. Mary Residences have demonstrated an encouraging level of sales, averaging about 80% and 95% respectively. The sales rate for Amarin Wickham has also been encouraging despite its larger unit sizing (mostly › 3,000 sq ft) translating into higher quantum pricing.

Meanwhile, a high level of impending supply of high end condominiums is expected next year from on-going projects which include Crest @ Jalan Sultan Ismail, The Quadro Residence, Vipod Residences and 6 Capsquare in KL City, 9 Madge, Sastra U-Thant, Seri Ampang Hilir, Nobleton Crest and M-Suites Residences in Ampang / U-Thant and and One Kiara (Phase 1), 28 Mont' Kiara and Kiaramas Danai (Block B) in Mont' Kiara. These completions will significantly increase the cumulative supply by some 4,917 units.

The market was evidently quiet during this review period with developers and buyers playing the "waiting" game, the former waiting for the right timing by putting

Figure 1
Projection of Cumulative Supply for High End Condominiums 2009 – 2014 (f)



Source: Knight Frank Research
Note: [e] = estimate; [f] = forecast

launches on hold and extending completion dates while the latter prospecting for a good buy at the right time.

During the review period, launches identified include Concerto @ North Kiara (Phases 1 & 2), Tribeca, Serai and D'Majestic, while Nobleton Crest had its soft launch.

Incoming projects that are currently opened for registration and anticipated to be officially launched by early next year include Platinum Residences at Platinum Park, serviced apartments at KL Trillion in KL City, and the residential tower at Damansara City 2 in Damansara Heights.

Meanwhile, other notable launches planned for 1H2013 include The Manhattan Residence at Jalan Raja Chulan, Kia Peng Residences, and W Kuala Lumpur Hotel & Residences in KL City, The Ambangan in Ampang, and One Kiara (Phase 2) in Mont' Kiara.

The indicative selling price for Kia Peng Residences by MRCB is RM1,200 per sq ft to RM1,300 per sq ft for unit sizing ranging from 600 sq ft to 2,600 sq ft.

An increasingly popular trend in luxury housing is the branded residences concept whereby developers tie up with international luxury hospitality and lifestyle brands to set a new definition to luxury living. Hotel-like services such as concierge, security and room service provided by a luxury brand will help maximise the value of a development. KL City is certainly getting a fair share of this new residential concept evident from the success of Banyan Tree Signatures Kuala Lumpur (441 private residences) which were sold out at an average pricing of RM2,000 per sq ft. Other notable luxury brands coming on-stream include Four Seasons Place, W Kuala Lumpur Hotel & Residences, Ritz-Carlton and Harrods Hotel and Residences.

Designed by Skidmore, Owings & Merrill LLP from New York, W Kuala Lumpur Hotel & Residences along Jalan Ampang will have 150 rooms and 353 units of residences with indicative pricing of RM2,000 per sq ft. W Kuala Lumpur Hotel will be managed and operated by Starwood Hotels & Resorts Worldwide Inc while The Residences will be managed by Dijaya Corporation Berhad.

Meanwhile, Ireka Corp Bhd has unveiled a mixed-use development, called The RuMa Hotel & Residences. Previously referred to as Kia Peng @ KLCC, the project with an estimated gross development value (GDV) of RM635 million will comprise a 40-storey tower with a 263-room boutique hotel and 200 serviced residences. An international hotel operator will manage the hotel and serviced residences upon its completion. The luxury serviced residences with sizes ranging from 915 sq ft to 1,819 sq ft have an indicative price from RM2,000 per sq ft.

Even though developers continue to offer attractive payment schemes and incentives such as low down payments, discounts and free legal fees for sale and purchase agreement, the sales rates of selected recent launches and on-going developments, particularly those in certain locations offering large unit sizing, are seen to be slow in comparison to the preceding review periods impacted by the high level of existing and impending supply as well as a challenging leasing market stemming from low occupational demand.

Prices & Rentals

Occupational demand for high-end condominiums remains one of the challenges amid a high level of existing supply / new completions and a cautious leasing market. During the review period, the rental market continued to face downward pressure. There was a slight decline in rental rates in selected locations. The rental rates in Bangsar locality, however, continue to remain stable due to sustained demand and limited incoming supply.

The performance of high-end residential units in certain areas were understandably impacted by the 2008 global financial crisis and events since then, with prices in certain locations still below pre-crisis levels. The high end condominium sector saw a slight drop in average asking prices in KL City while KL City Fringe and suburban areas generally demonstrated a stable trend. Buyers actively looking for condominium properties for investments in the KLCC and Mont' Kiara

Table 1
Completion of High End Condominiums in 2H2012

Project	Location	Area	Total Units
Setia Sky Residences (Tower 1A & 1B)*	Jalan Raja Muda Abdul Aziz, Off Jalan Tun Razak	KL City	422
Binjai 8	Lorong Binjai	KL City	310
Verticas Residensi*	Jalan Ceylon	KL City	423
St Mary Residences	Jalan Tengah	KL City	657
Amarin Wickham*	Jalan Wickham	Ampang/U-Thant	21
Kiaramas Danai (Block A)*	Jalan Desa Kiara	Mont' Kiara	136

* Pending Certificate of Completion and Compliance (CCC)

areas continue to have more leeway for negotiation of prices.

In the primary market, local buyers' interest continues to radiate towards fringe locations, particularly for projects located along the light and mass rail transit routes.

The first phase of Tropicana Gardens' Arnica Residence was fully taken up at a recent two-day preview. Arnica Residence comprises six types of apartments, ranging from 597 sq ft studio units to the 2,700 sq ft penthouse with prices ranging from RM445,000 to RM2.3 million (average RM800 per sq ft). It forms part of the integrated development project of Tropicana Gardens which will feature a shopping mall, cinema, hotel, offices and SoHo suites with a total GDV of RM1.8 billion. The project is well located in Kota Damansara, between Sunway Giza, Seri Selangor Golf Course, and the upcoming Dataran Sunway MRT station.

Outlook

The implementation of a number of cooling measures, which include a maximum loan-to-value (LTV) ratio of 70% on third mortgages, guidelines on responsible financing and the recent upward revision in Real Property Gains Tax 'RPGT' (for property owned less than 2 years the increase is from 10% to 15% and for property owned more than 2 years but less than 5 years the increase is from 5% to 10%) continue to impact the residential property market. Collectively, these measures have led to a deteriorating trend in real estate loans growth which recorded 26.6% in September this year as compared to 31.5% in August and 34.1% in July.

While activities in the secondary market appeared to have slowed down, new launches in Kuala Lumpur, particularly, those in selected fringe locations continue to be well received as developers offer attractive and innovative payment schemes, discounts, rebates and other incentives to improve their sales and take-up rates. The shift in trend favouring KL City Fringe continues with more sales and leasing activities in these areas supported by more affordable pricing and improved accessibility.

Projects that benefit from good connectivity, particularly those with potential access to public transport links such as the Light Rail Transit (LRT) extension and the on-going Klang Valley My Rapid Transit (MRT) lines as well as the four proposed expressways appear to be popular with purchasers and investors due to potential capital appreciation in the near future. Likewise, with affordability now a key consideration among local buyers, many developers are moving towards marketing smaller units, to meet first time buyer demand.

Mega projects in the pipeline that will influence and change the city's landscape include the Warisan Merdeka mixed redevelopment and the Tun Razak Exchange (TRX) financial hub. Coupled with the roll-out of various initiatives under the ETP as well as the Government's concerted efforts to further liberalise the services sector, highlighting Malaysia's growing importance both regionally and globally as an attractive investment destination, the mid-term outlook for the Kuala Lumpur high-end residential sector in Kuala Lumpur appears cautiously optimistic.

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

Locality	Asking Gross Rental (RM psf / month)	Average Asking Price (RM psf)
KL City*	3.00 – 5.50	700 – 1,650
Ampang Hilir / U-Thant	2.50 – 4.00	500 – 1,000
Damansara Heights**	2.50 – 4.00	500 – 950
Kenny Hills	2.30 – 3.50	500 – 900
Bangsar	2.50 – 4.50	500 – 1,100
Mont' Kiara***	2.50 – 3.50	450 – 750

* Excludes Binjai On The Park
** Includes Twins@ Damansara Heights
*** Excludes Verve Suites which comprise mainly fully furnished small units

KUALA LUMPUR OFFICE MARKET

Market Indications

The Kuala Lumpur office market continued to remain fairly resilient during the review period despite mounting pressures from new completions and a high supply pipeline providing greater competition and wider choice to occupiers seeking new or additional space.

While rental rates continued to hold steady in this tenant-favoured office environment, the average occupancy rate in KL City declined marginally due to the completion of new buildings and the growing demand for decentralised locations. The office investment market recorded three notable transactions in 2H2012.

Supply & Demand

During the review period, the cumulative supply of purpose built office space in KL City was recorded at 48.3 million sq ft while in the KL City Fringe, cumulative supply was unchanged at 17.5 million sq ft. There were three new completions in KL City - Menara Binjai (330,000 sq ft NLA), Menara Darussalam (185,874 sq ft NLA) and Integra Tower @ The Intermark (760,000 sq ft NLA). Menara Binjai, a 35-storey green office tower, located right next to Ampang Park LRT station, recently emerged as the first Malaysian building to win the Cityscape Awards for Emerging Markets 2012 for the Best Sustainable Development Award (Built). Designed by the award-winning Veritas Architects, Menara Binjai is the first dedicated officer tower in Malaysia to be awarded dual green certification - Malaysia's Green Building Index Design Assessment for GBI Certification and a Green Mark Gold Certification (Provisional) by Singapore's Building and Construction Authority.

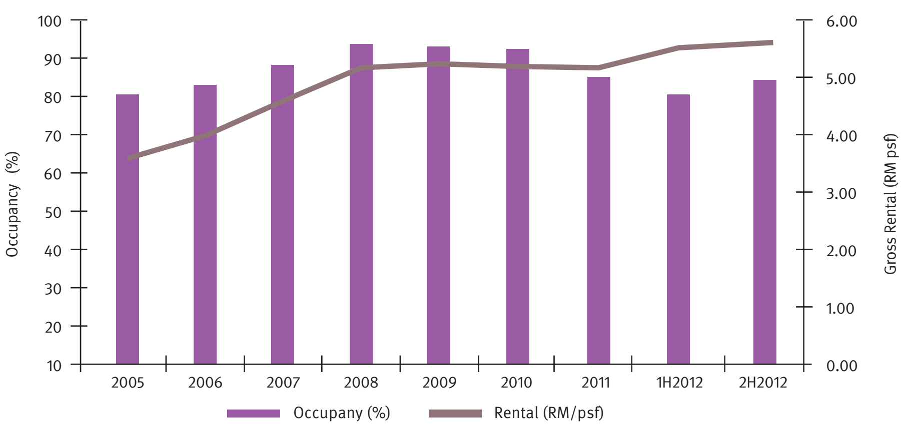
In 2013, buildings due for completion in KL City include Menara Hap Seng 2 and Crest Sultan Ismail. Together, these two buildings with a combined NLA of some 580,000 sq ft will bring the cumulative supply in KL City to 48.9 million sq ft. The bulk of incoming supply for 2013, however, is expected to come from KL City Fringe which will see the addition of approximately 4.1 million sq ft NLA from buildings such as Menara LGB, Bank Rakyat Headquarters, Menara Shell (348 Sentral), CIMB HQ (Lot A KL Sentral), Menara 1 Sentrum and Nu Towers (Lot G - KL Sentral). Most of these buildings which are located within the MSC Cybercentre boundaries are also expected to be green compliant.

The high impending supply coupled with recent new completions has yet to adversely impact the general office market. During the review period, average occupancy in KL City was marginally lower at 79.3% (1H2012: 81.1%) while KL City Fringe bucked the trend by posting higher average occupancy at 86.0% (1H2012: 77.0%) indicating a strong demand for office space in decentralised locations.

Tun Razak Exchange (TRX), renamed from Kuala Lumpur International Financial District) was launched In July 2012. With an indicative GDV of RM26 billion, TRX will house a total of 26 buildings (with approximately 9.7 million sq ft of office space) over a 70-acre site on the fringe of the KL City. The 15-year project which will be developed in plots spread over four phases is expected to comprise office (48%), residence (31%), retail (10%), hospitality (10%) and institutional (1%) components. TRX will differentiate itself from comparable business districts within Kuala Lumpur, offering 21 acres of open spaces and parks to create a garden-like city. It is designed to house hundreds of multinational companies, financial institutions, government agencies, hotels and support services. TRX is expected to attract over 250 global companies and is slated to become a global centre for international finance, trade and services.

Menara Darussalam

Figure 2
Occupancy and Rental Trends 2005 – 2H2012



Source: Knight Frank Research
Note: The figure above excludes the recently completed Integra Tower @ The Intermark.

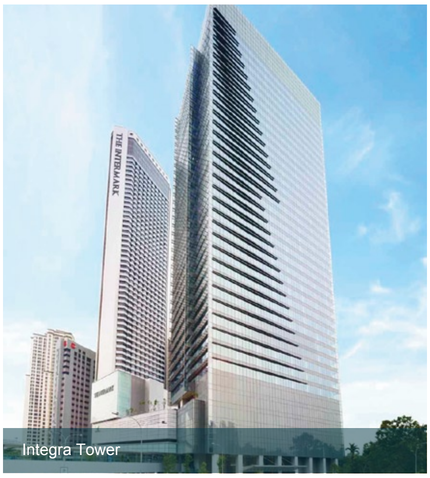
The project's first phase which is slated to kick off in the middle of next year will comprise prime Grade A offices offering a gross floor area (GFA) of between 750,000 sq ft and 1.2 million sq ft depending on demand; retail and residential blocks. TRX may see the country's most prominent regulators relocating to the modern financial district with efforts to relocate the Securities Commission (SC) and Bursa Malaysia currently headquartered in Bukit Damansara and Bukit Kewangan respectively, already underway. TRX has been granted a Leadership in Energy and Environmental Design (LEED(R)) for Neighbourhood Development (LEED-ND) Plan Gold Level Conditional Approval which puts it to the penultimate stage of being pre-certified.

Meanwhile, in KL City, Menara Warisan Merdeka will have 118 storeys and not 100 as originally planned. Permodalan Nasional Bhd (PNB) has to fulfil a list of six conditions before Kuala Lumpur City Hall (DBKL) approves the project. The proposed mega tower which is to be officially launched by the end of 2012 has received pre-booking enquiries for over 60% of its lettable space. Approximately 30% of the space is being reserved for its developer, Permodalan Nasional Bhd (PNB), and several government-linked companies under PNB's stable. The office tower which will have a GFA of 3.0 million sq ft and 2.2 million sq ft of NFA is targeted for completion 2015. Once completed, Menara Warisan Merdeka will be over 600m tall compared with Petronas Twin Towers at 453m; Burj Khalifa at 829m; and Taipei 101 at 509m.

With a GDV of RM15 billion, KL Metropolis is Naza TTDI's 30.2-hectare project that is poised to propel the country as a preferred meetings, incentives, conventions and exhibitions (MICE) destination in the region. Recently, Naza TTDI and Australia's Lend Lease signed a Heads of Agreement (HOA) to jointly develop 4.376 hectares of the land into a mixed development comprising a regional retail centre, office, hotel and residences with a GDV of RM4 billion. The hub is created to complement the new Matrade Exhibition Centre where superstructure works has commenced with completion expected by mid-2015.

The former Bangunan MAS in Jalan Sultan Ismail will be redeveloped. PNB which acquired the site in late 2006 recently awarded a contract valued at RM673 million to Ahmad Zaki Resources Bhd, which involves the refurbishment of the 35-storey building as well as demolition of an existing podium to make way for the construction of a 50-storey hotel. A section of the project is expected to be completed in 2013, while the entire redevelopment will be finished in 2017.

During the second half of 2012, Emkay Group launched the first phase of Star Central, a mixed development in Cyberjaya with a GDV of RM1.8 billion. The project, sited on an 18-acre freehold commercial site, is to be developed in seven phases over the next seven to 10 years. The first phase (known as Corporate Park) which has a GDV of RM420 million will offer 17 blocks of 8-storey semi-detached offices with a NFA of between 1,881 sq ft and 2,838 sq ft per floor, priced from RM550 per sq ft to RM650 per sq ft. Each semi-detached office block comes with 32 covered parking bays with two additional VIP bays at ground level and allows naming rights for its tenants' businesses. The corporate park will also feature two other office buildings, each with a NFA of 4,823 sq ft to 6,008 sq ft per floor. Built-up areas for each block are from 18,000 sq ft to 45,000 sq ft. Construction of the first phase will begin in October and it is expected to be completed in 2015.


Integra Tower

Rentals & Capital Values

The availability of a substantial amount of new and impending office space has yet to translate into a decline in average rental rates. During the period under review, average achieved office rental rates in both KL City and KL City Fringe (which includes areas such as KL Sentral, Mid Valley City, Bangsar and Pantai) saw marginal increments recording at RM5.81 per sq ft (1H2012: RM5.65 per sq ft) and RM5.38 per sq ft (1H2012: RM5.30 per sq ft) respectively. The marginal increase in the average rental rates is attributable to the availability of more new and refurbished buildings with improved specifications which tend to command higher rental rates. Prime A and A+ grade offices continued to command higher monthly rental rates ranging from RM6.50 per sq ft to RM11.50 per sq ft. Dual-compliant office space (GBI + MSC) continue to perform well with buildings such as G Tower and Platinum Sentral achieving almost full occupancies at a commendable average rental rate of RM8.50 per sq ft.

In July, Pelaburan Hartanah Bhd (PHB) acquired three office buildings, two retail buildings and two levels of basement car parks in Peremba Square, Shah Alam, increasing the total value of its assets to about RM1.5 billion. The office blocks are currently 90% occupied by local and international companies. At the time of the acquisition, Block D of Peremba Square is already under PHB's list of properties. The agreement signed will see PHB owning 86% of Peremba Square (Blocks A, B, D, E, F and G). Meanwhile, Block C of Peremba Square is owned by another entity.

During the review period, there were two transactions of office buildings (Tower 6 and Tower 1, The Horizon Phase 2) in Bangsar South at RM700 per sq ft and RM750 per sq ft on GFA respectively. There was also a forward purchase comprising 27 to 30 floors of strata office space (281,455 sq ft NLA) at PJ Sentral Phase 1, analysed at RM850 per sq ft.

KLCC Property Holdings Bhd (KLCCP) has proposed a stapled REIT where three prime properties - Petronas Twin Towers, Menara 3 Petronas and Menara ExxonMobil, will be injected into the REIT for a total value of RM8.76 billion. The REIT together with KLCCP will be listed as a single entity called KLCCP Stapled Group. The exercise is expected to be completed by the second quarter of 2013.

Outlook

The office market is expected to remain stable in the short term particularly for good grade dual-compliant office space located in growing decentralised locations with good accessibility and close proximity to LRT stations and the proposed MRT stations.

With the level of new and impending supply, tenants will continue to enjoy greater choice at competitive rates and attractive tenancy terms while with growing pressure from the number of upcoming dual-compliant office buildings, developers and owners are expected to take proactive measures to remain competitive by attracting new tenants and maintaining their existing tenants.

The majority of major leasing enquiries regarding office expansion / relocation are expected to come from the Oil & Gas, financial and IT industries.

Table 3
Office Investment Sales 2H2012

Building Name	Location	Approx. Lettable Area (sq ft)	Consideration (RM) / (RM psf)
Tower 6, Avenue 5, The Horizon Phase 2*	Bangsar South	146,000**	102,200,000 (700)**
Tower 1, Avenue 7, The Horizon Phase 2	Bangsar South	231,000**	173,250,000 (750)**
Proposed Tower 3, PJ Sentral Phase 1***	Petaling Jaya	281,455	239,236,750 (850)

Note:
* The Purchaser and the Vendor shall not be obliged to complete the purchase of the Property unless the sale and purchase of Tower 2A, Avenue 5, Horizon Phase 2, Bangsar South, which is owned by Paramount Properties Sdn Bhd, another wholly owned subsidiary of the Company is completed simultaneously.
**Based on estimated gross floor area
***The proposed Grade A office building with LEED Gold status, GBI accreditation and MSC compliant will comprise between 27 and 30 floors of strata office space.

Table 4
Selected Grade A Office Asking Rentals

Building Name	Asking Gross Rental (RM psf / month)
Menara Maxis	10.50
Menara Darussalam****	8.50
Vista Tower****	9.00
G Tower	8.50
Menara Felda	9.00
Menara Standard Chartered	6.50
Menara Citibank	6.50
Menara Binjai	7.50
Kenanga International	7.00
The Icon	6.20
Quill 7	7.50
Menara Prestij	7.50 - 8.50

****Knight Frank Malaysia is the appointed Property Manager of the buildings.

KLANG VALLEY RETAIL MARKET

Market Indications

The country's economy expanded by 5.2% in 3Q2012 as against 5.6% growth recorded in the preceding quarter, affected by slower external demand. Despite this commendable quarterly expansion, the country's full-year outlook for 2012, remains unchanged with GDP expected to range between 4.5% and 5.0% as financial and economic restructuring in developed nations continue to impact global growth.

Although Malaysia's retail industry slowed down to record 5.9% sales during the second quarter of 2012 (1Q2012: 6.9%), the figure, however, was still above the 5.5% forecast by the Malaysia Retailers Association (MRA) / Retail Group Malaysia (RGM). The Malaysian Consumer Sentiment Index (CSI) added 3.4 points to 118.3 points in 3Q2012 against a quarter ago as consumer confidence continues to hold steady.

Supply & Demand

During the review period, with no opening or completion of new retail centres, the cumulative supply of retail stock for Klang Valley remained unchanged at circa 44 million sq ft.

One notable refurbishment project known as Cheras Sentral (the former Plaza Phoenix), located off Jalan Cheras is earmarked for a December launch. With a reduced net lettable area (NLA) of some 400,000 sq ft and more open spaces, Cheras Sentral will feature about 450 retail outlets. Notable anchor tenants include Jaya Grocer (27,000 sq ft); Tanjung Golden Village with an 8-screen Cineplex; Japan Home Centre (7,000 sq ft to 8,000 sq ft); Moon Palace Chinese Restaurant (20,000 sq ft) and Celebrity Fitness (15,000 sq ft). Another 7,000 sq ft to 8,000 sq ft of space has been allocated for information technology (IT) products. The repositioned mall will also house a broad range of food & beverage (F&B) brands such as Starbucks, Old Town White Coffee and Nando's Restaurant.

During the review period, Avenue K which is situated along the prestigious Jalan Ampang, was partially closed for refurbishment. The 7-storey mall with over 360,000 sq ft of retail space will be repositioned to meet the daily needs of the city's workforce and its visitors. The renovation work is scheduled to be completed by early next year.

Mitsui Outlet Park KLIA, the first Mitsui Outlet Park in Southeast Asia and 14th for Mitsui, will be built on a 20.25-hectare site at an estimated gross development cost (GDC) of RM335 million. The upscale Japan factory outlet complete with F&B and entertainment facilities will boast a total lettable area of about 500,000 sq ft. The first phase of development is expected to open its doors to the public by end of 2014.

Forever 21, a popular American-based fashion retailer, opened its first flagship store at Mid Valley Megamall on 27th June, providing the most coveted trends at affordable prices. The new store, the fourth outlet in the Klang Valley, boasts 22,000 sq ft of retail space spanning over two floors (Levels G and 1).

The eagerly awaited Swedish brand, Hennes and Mauritz AB, or better known as H&M, opened its first Malaysian flagship store in downtown Kuala Lumpur to much fanfare on 22nd September. The 3-storey outlet occupies approximately 36,000 sq ft of prime space at YTL's Lot 10 Shopping Centre in Bukit Bintang with two levels dedicated to woman's wear and the upper level for men's and kids wear. The popular fashion brand is expected to bring a new surge of energy to help transform Bukit Bintang into a world renowned shopping district. On the back of its first flagship store in Lot 10, the multinational retail clothing company opened its second outlet spread across 17,000 sq ft in Setia City Mall in Shah Alam on 3rd October.

H&M at Lot 10

Meanwhile, at the Pavilion Kuala Lumpur mall, the space vacated by Tangs departmental store has been transformed to accommodate a new precinct known as the 'Fashion Avenue'. Occupying some 68,000 sq ft of retail space at Levels 2 and 3, Fashion Avenue has circa 90% of committed tenants featuring more than 30 new brands like Sacoor Brothers, La Martina, Hackett, Denim & Supply Ralph Lauren, and Jo Malone, which are making their debut in Malaysia. This new precinct complements the six existing precincts in the mall – Couture Pavilion, Connection, Seventh Heaven, Tokyo Street, Gourmet Emporium and Centre Court and will be further supported by the Pavilion extension offering some additional 250,000 sq ft of NLA. Piling works on the 8-level extension which will adjoin the existing mall at Levels 1, 2 and 3 have commenced in 3Q2012 and completion is expected by 2016.

Parkamaya, an Asian concept store inspired by the fashion fusion culture of Shibuya, Japan will open in December, occupying the entire third floor of fahrenheit88 (73,000 sq ft). A total of 26 brands have signed on as tenants and they include Japanese and South Korean inspired labels such as Chic Yamada, F Block, Corgi and Gage-O. Parkamaya is conceptualised and project managed by PARCO (Singapore) Pte Ltd, a wholly-owned subsidiary of PARCO Co. Ltd Japan. It provides an innovative platform for retailers to venture into a modern trendy Asian concept. Parkamaya will also house 10 Singapore designers' merchandise as well as Taiwanese beverage chain, Mr Wish and a Japanese themed entertainment arcade.

The local retail industry which remains cautiously optimistic continues to attract new international brands and drives the expansion of existing ones. The leading American specialty retailer of lingerie and beauty products, Victoria's Secret Beauty & Accessories, recently opened its second and third outlets at Fashion Avenue in Pavilion Kuala Lumpur and 1 Utama Shopping Centre. The review period also witnessed the opening of Michael Kors' second outlet at 1 Utama.

UNIQLO Malaysia is also geared towards rapid growth with two additional new stores. Its third outlet in Sunway Pyramid, located on the lower ground floor opened on 15th November spanning close to 10,100 sq ft while its fourth store measuring some 12,900 sq ft on the upper ground floor of Paradigm Mall opened on 6th December. Meanwhile, MUJI, the upmarket Japanese household and consumer retail chain which first made its debut at Pavilion Kuala Lumpur mall in April this year is set to open its second outlet in Mid Valley Megamall in December 2012.

Australian-based Premier Investments Limited (Premier) which now operates 13 Smiggle stores in Singapore has also identified Malaysia as one of its next target markets as it expands into the region. The plans to expand Smiggle, a stationery brand, into Malaysia are well-advanced, with new Smiggle stores expected to open in Malaysia in late 2013.

The scheduled completions of two shopping centres, namely Encorp Strand Mall at Kota Damansara (308,800 sq ft) and Setia Walk at Puchong (300,000 sq ft) have been pushed back to 1H2013. Nu Sentral Mall at Lot G, KL Sentral (650,000 sq ft) has also delayed its opening to 2H2013. The Place @ One City (Phase 3), a boutique shopping mall with a NLA of 220,000 sq ft in USJ, is tentatively scheduled to open in mid-2013.

The average occupancy rates of prime shopping centres in the Klang Valley continue to hold firm. This may be attributed to the centres having a good tenant mix consisting of well-known local, regional and international brands as well as a strong centre management team who organises continuous promotional activities to attract local and tourist shoppers.

Table 5
Shopping Centres Scheduled for Completion / Opening in 1H2013

New Projects	Location	Estimated Net Lettable Area (sq ft)
The Place @ One City (Phase 3)	USJ	220,000
Encorp Strand Mall	Kota Damansara	308,800
Setia Walk	Puchong	300,000

Prices and Rentals

The rental performance of retail space generally remained stable with higher rental rates achieved from new and renewed leases of most notable shopping centres. Suria KLCC continued to live up to its reputation as the premier landmark centre in Klang Valley. In 1H2012, the ground floor rental of its specialty shops was recorded at RM82.88 per sq ft per month, reflecting a 16.4% growth (source: NAPIC 1H2012).

IGB Real Estate Investment Trust (IGB REIT), the largest pure retail REIT in Malaysia was listed on Bursa Malaysia on 21st September, posting strong gains in active trade due to optimism over its property rental income and outlook. The Gardens Mall is still in the early stages of its rental cycle compared to the more mature Mid Valley Megamall with about 54% of its NLA reportedly due to expire next year. The final considerations for Mid Valley Megamall and The Gardens Mall at RM3.44 billion and RM1.16 billion are analysed to about RM2,001 per sq ft (on 1,718,951 sq ft NLA) and RM1,420 per sq ft (on 817,053 sq ft NLA) respectively.

Outlook

Despite the uncertainty surrounding the global economy, the outlook for the local retail industry remains cautiously optimistic evident from the entry of more international retailers and their rapid store expansion programme. Well-positioned shopping centres that are proactively managed continue to perform strongly, drawing in high shoppers' traffic that translates into good tenant demand and low vacancy, high sales turnover and competitive rental rates.

The positive outlook for the tourism industry also contributes to sustained growth in retail sales. Kuala Lumpur was ranked fourth best for shopping in the recent global news network CNN's survey after New York, London and Tokyo. The city also achieved the second most visited shopping destination status in the world after Hong Kong.

The recently launched GO-KL City bus service, part of the ETP, looks set to further improve connectivity within the main shopping belts of Kuala Lumpur – servicing the central business districts of KLCC–Bukit Bintang and Central Market–Bukit Bintang. Together with the elevated pedestrian walkways in the city, this will further boost the performance of the retail industry as it provides seamless integration between the prime shopping destinations.

An increasing number of large-scale mixed developments have been proposed in the Klang Valley, with retail as one of the key components – encourage residents, tenants, consumers and investors to "live, work, shop and play" within the projects. This growing trend may lead to a further dilution of the retail market as competition heightens between existing and new shopping centres.

In the near term, the retail industry of Malaysia is expected to remain resilient with retail sales forecast to grow by 6.0% in 2013 supported by the various incentives and goodies unveiled in the recent budget.

KUALA LUMPUR HOTEL MARKET

Market Indications

The Kuala Lumpur hotel market remained resilient in 2H2012 on the back of consistent growth in the Malaysian tourism industry. Malaysia, which is ranked as the ninth most visited country in the world registered 11,632,478 tourist arrivals in the first six months of the year, depicting a 2.4% increase over the corresponding period last year (1H2011: 11,362,862). During the same period, tourist spending also saw a 4.3% increment, generating some RM26.8 billion in revenue (1H2011: RM25.7 billion).

The largest number of tourists was from neighbouring ASEAN countries whilst the strongest tourist growth was from West Asia. Malaysia's top 5 countries for tourist arrivals in the first six months of 2012 were Singapore (50.1%), Indonesia (9.5%), China (6.5%), Thailand (5.5%) and Brunei (5.1%).

The growth in tourist arrivals is attributable to the rapid expansion of budget airlines offering attractive-priced air fares, competitively-priced travel packages as well as increased air connectivity to several key destinations such as Hong Kong, Beijing and Kansai. International-level tourism events such as Formula 1 Petronas Malaysia Grand Prix, 1Malaysia GP Sale, Malaysia International Shoe Festival, Malaysia Open ATP World Tour and Citrawarna as well as aggressive promotional activities in the MICE (meetings, incentives, conventions and exhibitions) business are also key contributors to the healthy growth of the sector.

In a recent independent study, Malaysia was hailed as the top destination for the multi-billion dollar Muslim tourism sector, followed by Turkey and the UAE. The local tourism industry is one of the key economic growth sectors, contributing almost 12% to the nation's GDP. The Ministry of Tourism anticipates tourist arrivals to grow to 25 million in 2012 with corresponding receipts of RM60 billion (2011: 24.7 million arrivals and RM59.3 billion receipts).

Going forward, the tourism industry is expected to scale greater heights in conjunction with the Visit Malaysia Year 2013/2014 campaign as there will be a 42% increase in allocations to RM358 million from RM250 million previously under Budget 2013. The government has also proposed that the 100% income tax exemption be extended for three years to tour operators who bring in at least 750 foreign tourists or handle 1,500 local tourists a year. The new low-cost terminal, KLIA 2, which is due to be operational by May 1, 2013, is also expected to help boost the tourism industry as the bulk of the nation's target to bring in 26.8 million tourist arrivals next year is expected to consist of a combination of both low-cost and premium travellers.

Recently, Mines Marketing signed a joint-venture agreement with South Korean Travel Agency, JaU Tour, to form Mines Global Holidays Sdn Bhd in an effort to further promote golf and medical tourism and leisure packages to South Korean and other foreign tourists. In 1H2012, Malaysia recorded a commendable 18.0% growth in tourist arrivals from South Korea (1H2011: 117,124 arrivals).

Supply & Demand

The recent opening of the 412-room 5-star Grand Hyatt Kuala Lumpur marks the debut of the Grand Hyatt brand in Malaysia.
The luxury hotel occupies the upper floors of Menara Darussalam at Jalan Pinang and is within easy reach of KLCC as well as the shopping and entertainment district of Golden Triangle Kuala Lumpur.

The cumulative supply of 4-star and 5-star hotel rooms in Kuala Lumpur currently stands at 7,676 and 11,276 respectively, reflecting a total stock figure of 18,952 as at October 2012.

During the review period, 4-star and 5-star hotels in KL City saw marginal increments in average occupancy rates with both categories registering 73% (1H2012: 4-star 68%, 5-star 69% respectively). Novotel KLCC, The Dorsett Regency and Concorde Hotel were among the 4-star hotels that registered occupancy levels in excess of 80% while 5-star hotels achieving occupancy rates above 80% include Parkroyal Kuala Lumpur and Grand Millennium Kuala Lumpur.

The legendary Majestic Hotel Kuala Lumpur by YTL Corporation, once a grand hotel back in the colonial days, re-opened its doors on 8th December 2012 following a RM250 million restoration programme. The 300-room hotel is the only one in Kuala Lumpur to be included in the portfolio of luxury hotels of the US-based The Leading Hotels of The World (LHW) group.

Ireka Corp Bhd has unveiled a mixed-use freehold development with an estimated GDV of RM635 million called The RuMa Hotel & Residences in Jalan Kia Peng, near KLCC. The development, previously referred to as Kia Peng @ KLCC, will comprise a 40-storey tower with a 263-room boutique hotel and 200 serviced residences.

Meanwhile, Crown Plaza Mutiara Kuala Lumpur, a 35-storey 5-star hotel with over 500 rooms which has been in operations for more than 40 years is planned for closure by January 2, 2013 to pave way for a RM6 billion mixed development project dubbed the "Tradewinds Centre".

Malaysia could be home to the world's first Harrods Hotel under a RM2 billion collaboration between Qatar Holding LLC and Jerantas Sdn Bhd. The project will be developed on two parcels of land measuring 5.48 acres located between Jalan Raja Chulan and Jalan Conlay where Chulan Square and Sri Melayu Restaurant are currently sited. The proposed development will comprise a single structure building housing the 7-star hotel with 250 to 300 rooms, serviced apartments and some retail space.

Meanwhile, the Tourism Ministry also welcomes the setting up of more boutique


The Majestic Hotel Kuala Lumpur

hotels but in the right context and in the high end (quality and rates) direction. The Ministry is looking at classifying the term boutique hotels to those with a room inventory of fewer than 10 and a room rate of above RM500 a night.

Average Room Rates & Capital Values

As at October 2012, average room rates (ARR) for selected 4-star hotels was recorded at RM212 (1H2012: RM205) depicting a 3.4% growth while the ARR for 5-star hotels saw a lower increment of 2.0%, recording at RM351 (1H2012: RM344). Notable 4-star hotels recording an ARR above RM250 include Boulevard Hotel, Swiss Garden and Concorde Hotel while 5-star hotels that achieved an ARR in excess of RM450 include Shangri-la, Ritz-Carlton and Westin KL.

Outlook

The Malaysian hospitality sector is expected to remain optimistic in the short to medium term and will continue to illustrate steady growth albeit at a slower pace despite the prolonged global economic crisis. Government initiatives as set out in the recent Budget 2013 to ensure that the tourism sector remains at the forefront of Malaysia's economic development, as a sustainable and high-yielding sector, is expected to contribute positively towards the betterment of the

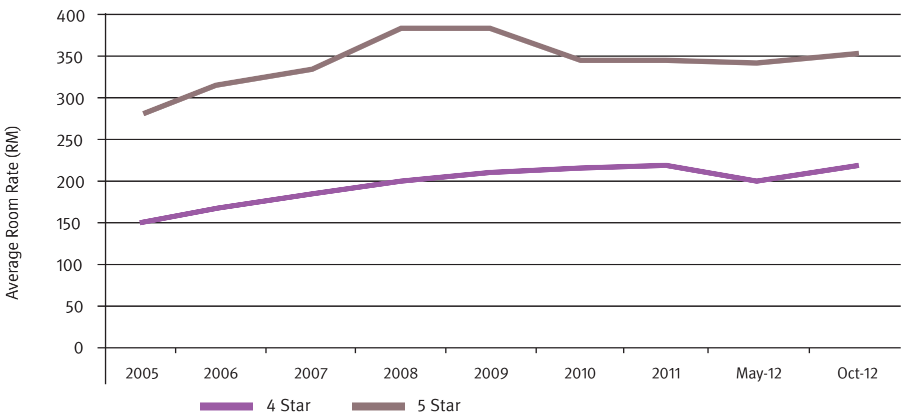
Figure 3

Supply and Occupancy Rate of Selected 4-Star & 5-Star Hotels in KL City 2005 – Oct 2012.

Source: Knight Frank Research / MIHR

Figure 4

Average Room Rate of Selected 4-Star & 5-Star Hotels in KL City 2005 – Oct 2012.



Source: Knight Frank Research / MIHR

hospitality industry.

The Ministry of Tourism will continue to focus on attracting a larger share of high-end travellers, capturing a bigger share of high-growth segments and increasing the number of tourist arrivals with the aim of achieving the sector's full potential. More luxury hotels such as Harrods Hotel, W Hotel and Four Seasons Hotel are being proposed and planned to cater to the growing needs of high-end travellers and to catch up with the growth development of prime areas in KL City.

The country's tourism spending and occupancy levels are expected to remain resilient in response to continuing promotional activities and further access in attracting high economic value MICE, business, sports and medical tourists. The new Matrade Exhibition Centre, the nucleus for Naza TTDI's flagship 75.5-acre KL Metropolis development, will feature the country's largest exhibition centre measuring a gross floor area of 1 million sq ft and put the country on the map as a preferred MICE destination in the region. This coupled with Kuala Lumpur's growing reputation as a dynamic and competitive shopping hub and host for global sporting events and business / conference activities will continue to augur well for the hospitality sector.

PENANG PROPERTY MARKET

Market Indications

Works on the 2nd Penang Bridge is about 2.5% ahead of scheduled completion targeted for September 2013. The aim is to reach 90% at end 2012. The Federal Government has allocated a total of RM423 million to upgrade the coastal expressway leading from Penang Bridge to the 2nd link and for the roads leading south from the Batu Maung exchange. Works on both traffic dispersal projects will start next year.

The RM250 million upgrading works at the Penang International Airport, scheduled to be completed by end of 2012, will double the airport's capacity to handle 6.5 million passengers. The airport recorded a 5% growth in passenger traffic for the first 9 months of 2012, registering 3.5 million as against 3.3 million for 2011 and this is set to grow further.

Seaport Terminal Sdn Bhd, the operator of the Port of Tanjung Pelepas and Johor Port is the successful bidder for the privatisation of Penang Port. It plans to invest RM1 billion over the next 5 years to position the country's oldest port to be a regional hub to serve markets as far as India and China apart from Northern Thailand, Sumatra and Myanmar.

Kuala Lumpur and Penang-based developers have together planned some RM6.463 billion worth of residential and commercial properties on the island and the mainland in 2H2012 and 2013. About 94.5% or RM6.105 billion is on the island with the remaining RM358 million in Seberang Perai.

During the recent opening of its new 100,000 sq ft manufacturing and R&D facility in Bukit Tengah, Blaupunkt announced a further RM40 million investment over the next 5 years. National Instruments aims to set up the largest R&D facility out of the US by expanding its Penang facilities which includes a new 314,000 sq ft R&D and operations plant on part of its 23-acre site in Batu Maung.

High End Condominium

Eastern & Oriental soft launched Tower 1H of its Andaman at Quayside in 3Q2012 and has achieved a take-up rate of 40%. Units in varying sizes from 914 sq ft to 2,755 sq ft are offered for sale from RM1.25 million to RM6 million or an average of RM1,500 per sq ft to RM1,700 per sq ft. The earlier phases have achieved good take-up rates ranging from 70% to 90%.

The Landmark Penang

The Landmark Penang by Katana Developments in collaboration with BSG Property is a 41-storey skyscraper in Tanjung Tokong with 308 units of residential and commercial corporate suites sitting atop a boutique mall. The residential units are sized from 2,622 sq ft to 7,266 sq ft with the smallest unit currently priced at RM2.767 million onwards or RM1,055 per sq ft. Pre-launch take-up rate is about 50%.

It should be noted that several of the newer launches are fitted out with kitchen cabinets c/w hood, hob, oven, light fittings, air-conditioning units and quality sanitary fittings amongst the main items offered.

Compared to 2011, prices have increased. For units sized from 3,500 sq ft to 6,000 sq ft in older completed projects within the prime areas of Tanjung Bungah and Pulau Tikus, sub-sale prices generally range from RM430 per sq ft to RM650 per sq ft whilst those in newer developments command a higher range of RM500 per sq ft to RM800 per sq ft.

Asking rentals for fully furnished units in newer developments have generally dropped and they now start from RM7,000 to RM12,000 per month as against RM8,000 to RM13,000 previously. In older condominiums, asking rentals range from RM5,000 to RM8,500 per month.

Office

The existing supply of office space (buildings of 10-storey and above) remains unchanged as at 1H2012's level of 5.54 million sq ft.

Average occupancy rate of the two most prime office buildings in the city remains stable at about 96% while rental rates range from RM2.50 per sq ft to RM2.80 per sq ft per month

The two newer office buildings with better IT facilities located outside the city, namely Suntech and Menara IJM Land, together recorded a slight drop in average occupancy rate from 98% in 1H2012 to 95%. Rental rates range from RM2.80 per sq ft to RM3.40 per sq ft per month with one building recording slightly higher rentals.

Retail

Supply of purpose-built shopping complex space within Penang Island is unchanged at 6.09 million sq ft as per 1H2012.

There is no immediate future supply except for the 2nd phase of Gurney Paragon Mall comprising 599,000 sq ft which is due for completion in early 2013.

Prime shopping malls on the island have recorded a slight increase in average occupancy rate to 96% compared to 95% in 1H2012 whilst for secondary shopping malls, occupancy rates range from 50% to 90%.

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

Outlook

The outlook is one of increasing caution as prices are high and the residential rental market appears to be weakening although capital values are holding. A period of consolidation is likely to follow.

Table 6
Future Supply of Retail Space within Georgetown

Project	NLA (sq ft)	Expected Completion
Gurney Paragon Mall (Phase 2)*	599,000	2013
Penang Times Square (Phase 3)**	290,000	2015

* Under construction ** Planned

JOHOR BAHRU PROPERTY MARKET

Market Indications

As at end November 2012, Iskandar Malaysia has secured RM105.14 billion cumulative investments since 2006.

On the infrastructure front, the high-speed rail project linking Malaysia and Singapore is targeted to start next year following discussions between the two governments.

In a joint-venture (JV) between Iskandar Investment Bhd and Beijing-based Zhuoda Real Estate Group, a 2,600-unit condominium with an estimated gross development value (GDV) of RM2.6 billion will be built at Medini, Nusajaya.

Following its RM267 million investment in developing two theme parks at Desaru earlier this year, Khazanah Nasional Bhd is set to develop its 1,800-acre Desaru Coast Phase 1 which comprises tourism and residential components, carrying a GDV of RM5 billion.

In July 2012, Ken Holdings Bhd has acquired 4 parcels of leasehold land in Johor Bahru measuring about 22.78 acres for a price of RM56.17 million to be developed into a green township with an estimated GDV of RM1.22 billion.

Crescendo Corp Bhd plans to launch its 1,390-acre Bandar Cemerlang township near Ulu Tiram, starting with Phase 1 medium-cost housing which will generate a GDV of about RM150 million.

In August 2012, WCT Bhd bought a parcel of commercial land with an abandoned shopping mall (previously Kemayan City Mall) along Jalan Skudai, Johor Bahru through public tender for a consideration of RM180 million.

In a separate announcement in November 2012, WCT Bhd has signed a lease purchase agreement for a 17.9-acre commercial site at Medini, Nusajaya for a consideration of RM99.47 million, bringing its total number of projects in Johor state to five.

In August 2012, Tradewinds Corp Bhd has proposed to sell its 270.28-acre freehold agricultural land at Pulai for RM235.47 million.

Dijaya Corp Bhd has in June 2012 entered into a sales and purchase agreement to acquire 11 parcels of land at Kampung Sungai Danga measuring a total of 55.07 acres, for RM105.07 million.

Research and consulting firm, Frost & Sullivan opened its Global Innovation Centre at Medini, Nusajaya in August 2012 and is committed to provide 830 employment opportunities by 2020.

In September 2012, Legoland Malaysia, the first Legoland Theme Park in Asia, opened its doors to the public, offering 40 rides and toy bricks displays. Later in October 2012, the four-storey Puteri Harbour Indoor Theme Park which houses the first Sanrio Hello Kitty Town outside Japan also had its opening.

In September 2012, Fiamma Holdings Bhd entered into a JV agreement to develop two parcels of leasehold land in Johor Bahru measuring 5.87 acres with an estimated GDV of RM367 million. The cost for the development rights is RM19.75 million.

In October 2012, Mah Sing Group Bhd proposed to lease purchase and develop an 8.19-acre site at Medini, Nusajaya for a consideration of RM74.7 million. The mixed development, dubbed The Meridin@Medini, is expected to generate a GDV of RM1.1 billion.

In October 2012, UEM Land Holdings Bhd entered into a JV agreement with Singapore-based Ascendas Group to develop a 519-acre site in Nusajaya into a RM3 billion industrial park.

Work on the Lido Boulevard project along Jalan Skudai worth over RM4 billion has started in November 2012, with the 908-unit condominium of Lido Residences planned to be the launched in 2013.

In November 2012, UEM Land Holdings Bhd unveiled its plan to build an “Auto City’ through JV on a 250-acre site at Gerbang Nusajaya, an integrated mixed development located at Tanjung Kupang, Gelang Patah.

In November 2012, Distinctive Group has signed a lease purchase agreement to develop a mixed commercial development at Medini, Nusajaya for a consideration of RM99.9 million over an 18.05-acre land. The expected GDV is RM1.5 billion.

Salcon Bhd has ventured into property development through the acquisition of two parcels of land in Johor Bahru, measuring 12.72 acres for a consideration of RM99.7 million in November 2012.

According to sources, the long-abandoned Pacific Mall at Johor Bahru has been taken over by Mahabuilders Bhd to be refurbished into a retail-cum-office development. Currently, the building has approximately 371,567 sq ft of net lettable area (NLA) of retail space and 262,615 sq ft of office space.

Outside of Johor Bahru, Sime Darby Bhd has proposed to sell five parcels of leasehold agriculture land totalling 506.07 acres at Pagoh, Muar for RM50.6 million to the federal government in November 2012. At the same time, the company has entered into a JV which in turn has signed concession agreements worth RM3.54 billion to build and maintain new campuses for four institutions of higher learning on the land.

Residential

New major launches include:

Sky 88 Luxury Serviced Apartment by S P Setia Group, located along Jalan Dato Abdullah Tahir, Johor Bahru. The 55-storey building will be the tallest building in Johor and is offering 588 units of apartments for sale. Floor areas range from 500 sq ft to 1,389 sq ft and the prices are from RM750 per sq ft to over RM1,000 per sq ft for units facing Singapore.

Sky Oasis Residences, another high-rise residential development by the S P Setia Group, located within Taman Setia Indah, Johor Bahru. The development is offering 434 units of apartments for sale. Floor areas range from 756 sq ft to 1,003 sq ft and the prices are from RM300,000 per unit (from about RM400 per sq ft).

Encorp Marina Puteri Harbour by Encorp Bhd located within Puteri Harbour, Nusajaya. There are 538 units of apartments for sale with floor areas ranging from 683 sq ft to 1,788 sq ft and the prices are from RM625,000 to RM2,300,000 per unit (from about RM915 per sq ft).

Office

As at 3Q2012, the total NLA of purpose-built office space in Johor Bahru is approximately 8,534,000 sq ft, a slight reduction from 1Q2012 as Wisma LKN along Jalan Wong Ah Fook has been converted into a hotel. The overall average occupancy rate is in the region of 74.5%.

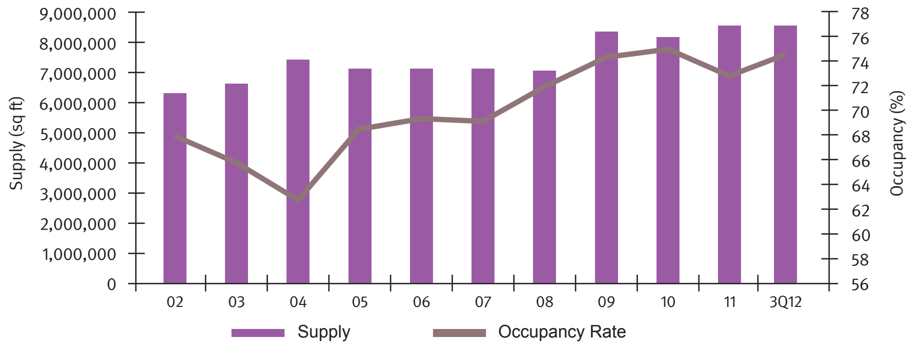
Prime CBD office space is let at a gross rental range of RM2.50 per sq ft to RM3.00 per sq ft per month. Non-prime CBD office space commands a gross rental range of RM1.60 per sq ft to RM2.50 per sq ft per month whilst offices in secondary locations gross below RM1.50 per sq ft per month.

Retail

As at 3Q2012, the total NLA of retail space (includes shopping centres, arcades and stand-alone hypermarkets) in Johor Bahru is estimated at 11,934,080 sq ft with average occupancy at 73.3%. Prime centres have all recorded occupancy rates in excess of 80% and prime lots generally command gross rentals ranging from RM15 per sq ft to RM40 per sq ft per month.

Figure 5

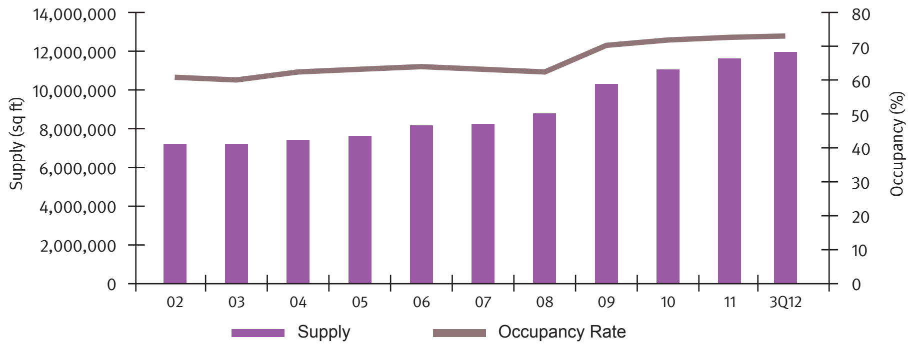
Office Supply and Occupancy Trend in Johor Bahru 2002 - 3Q2012



Source: Knight Frank Research

Figure 6

Retail Supply and Occupancy Trend in Johor Bahru 2002 - 3Q2012



Source: Knight Frank Research

Newly completed developments:

The first phase of Mall of Medini by Nusajaya Lifestyle Sdn Bhd offers 250,000 sq ft of Gross Floor Area (GFA). 90% of the retail lots have reportedly been taken up.

Proposed developments:

Southkey Megamall, a JV between Kota Southkey Sdn Bhd and IGB Corporation, is a 'Mid-Valley City' style commercial development in Johor Bahru to be developed on a plot of 36-acre land located within Southkey City.

Outlook

Despite the uncertainties in the global economy, the Johor property market outlook remains cautiously optimistic, supported by robust growth in Iskandar Malaysia. Developers are expecting more receptive demand towards high-rise living from the younger generation in general and from across the border in particular.

Additional supply of retail space and hotels are anticipated in the upcoming year, sustained by leisure activities in Bandar Nusajaya and the transformation of Johor Bahru city centre into a financial and commercial metropolis.

Moving forward, Iskandar Malaysia will continue to be the main catalyst to Johor's property market especially in the high-end range.

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