RESEARCH

REAL ESTATE HIGHLIGHTS

1ST HALF 2016

KUALA LUMPUR | PENANG | JOHOR BAHRU | KOTA KINABALU

HIGHLIGHTS

The residential market continues to remain lacklustre with lower volume and value of transactions recorded.

Limited project completions and new launches of high end condominiums / residences during the review period.

Growing pressure on rentals amid strong supply pipeline (existing and new completions) and a challenging rental market while prices in the secondary market generally continue to remain resilient.

Developers adopt innovative 'push marketing' strategies to boost sales of selected projects and improve revenue.

KUALA LUMPUR HIGH END CONDOMINIUM MARKET

ECONOMIC AND MARKET INDICATORS

Malaysia's economy expanded at a slower pace in 2015 with Gross Domestic Product (GDP) growing at an annual rate of 5.0% (2014: 6.0%). For 2016, the Government has trimmed the country's GDP growth forecast to 4 - 4.5% due to the volatility in crude oil prices and other economic challenges. GDP continued to moderate in the first quarter of 2016, posting 4.2% growth, its slowest since 3Q2009 (4Q2015: 4.5%), driven by domestic demand. Private consumption expanded by 5.3% while private investment moderated to 2.2%.

Headline inflation for April 2016 registered at 2.1%. It is expected to be lower at 2% to 3% this year, compared to an earlier projection of 2.5% to 3.5% and will continue to remain stable in 2017.

Meanwhile, labour market conditions continued to weaken with more retrenchment of workers, particularly in the manufacturing, mining and services sectors. Unemployment rate rose to 3.4% in February 2016 (2015: 3.1%).

Despite moderating growth in household debt, Malaysia's household debt-to-gross domestic product (GDP) ratio remained elevated at 89.1% in 2015 (2014: 86.8%).

The volume of residential loan applications was 10.0% lower in 2015 when compared to 2014 while the amount of loan approved declined by 14.6%, reflecting lower ratio of approvals / applications at 50.2% (2014: 52.9%) (source: Bank Negara Malaysia).

During the period under review, BNM continued to maintain the Overnight Policy Rate (OPR) at 3.25% to remain accommodative and supportive of current economic activity.

SUPPLY & DEMAND

The completion of 1,033 units of high-end condominiums / residences from three projects during the review period brought the cumulative supply in Kuala Lumpur to 43,782 units. The projects are Pavilion Banyan Tree Signatures (441 units), Vortex Suites & Residences @ KLCC (432 units) and The Residences at The St. Regis Kuala Lumpur (160 units).


Aria

By the second half of 2016, the scheduled completions of another five projects will contribute some 1,138 units to the existing stock. These projects are KL Trillion, Le Nouvel, Seti Sky Residences (Divina Tower), Three28 Tun Razak and One Kiara (Tower A).

Despite cautious sentiment in the high end residential segment, there were several notable previews and launches during the review period.

YOO8 (Tower A), a branded residence within the integrated project of 8 Conlay was launched in November last year. Tower A offers a total of 564 units with an average price of RM2,700 per sq ft while the upcoming Tower B is is slated for launch by 2Q2017.

Launched in March 2016, 8 Kia Peng, the project touted as the "King of the Hill", comprises 315 units of serviced apartments and 127 units of SoHo suites. The serviced apartments which are priced from RM2,300 per sq ft has to date, achieved circa 20% take-up rate.

In KL City Fringe, Novum South Bangsar, launched in March 2016, features three towers housing 654 units of serviced apartments. The units are priced at RM880 per sq ft on average.

TABLE 1
Completion of High End Condominiums / Residences in 1H2016

Project	Pavilion Banyan Tree Signatures	Vortex Suite & Residences @ KLCC	The Residences at The St Regis Kuala Lumpur
Location	Jalan Bukit Bintang	Jalan Sultan Ismail	Jalan Stesen Sentral
Area	KL City	KL City	Bangsar/ KL Sentral
Total Units	441	432	160

Source: Knight Frank Research *Pending Certificate of Completion and Compliance

Located in Mont' Kiara, Sunway Mont Residences, launched on May 28 carries a gross development value (GDV) of RM250 million. The 38-storey tower block will house 288 units (typical and dual-key). Priced from RM880,000 onwards, the project has reportedly achieved circa 80% sales.

In KL City, some notable projects were unveiled recently, inviting potential purchasers to register their interest. The projects are Latitud 8, a joint venture (JV) between Crest Builder Holdings Bhd, Prasarana Malaysia Bhd and Detik Utuh; and Aria by Hap Seng Land.

Latitud 8 is a transit oriented development (TOD) sitting above the existing Dang Wangi LRT station. The 43-storey single block mixed commercial development, with a GDV of RM1.1 billion, will feature a lifestyle retail (800,000 sq ft NLA), business facilities, office space and 402 residential units including SoFo, SoHo and duplexes.

Slated for launch by 3Q2016, the upcoming luxury residential project of Aria, located along Jalan Tun Razak, offers 598 units in two blocks. The project features a generous spread of facilities and leisure spaces covering 65,000 sq ft of area on four different floors. Aria will provide full-fledged 24-hour concierge service for all residents as well as housekeeping, leasing and sub-sale services. The units are sized from 630 sq ft to 1,502 sq ft.

Also on the watch list are mega projects with residential components, namely the 19.4-acre Bukit Bintang City Centre (BBCC) development and Pavilion Damansara Heights on a 15.8-acre site.

Meanwhile, the cooling measures previously introduced by BNM to curb excessive speculation in the property market have met its objectives. In Kuala Lumpur, the volume and value of residential property transactions declined by 8.3% and 11.4% respectively in 2015 when compared to 2014. Growth in the Malaysian House Price Index was also muted at 5.8% in 4Q2015, the lowest since 1Q2010 (5.7%).

PRICES & RENTALS

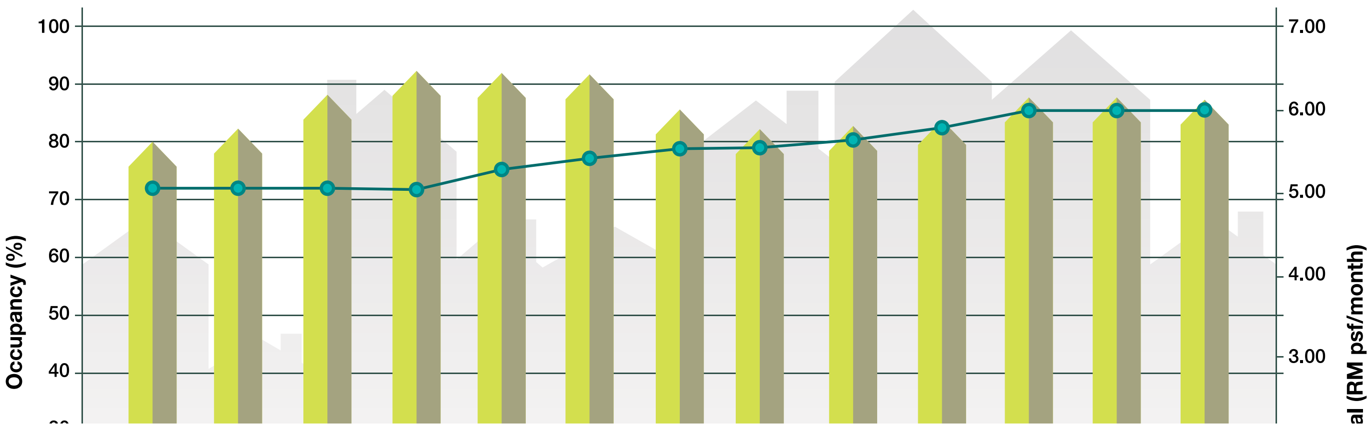
During the review period, asking prices continued to remain resilient in most locations.

Since last year, the rental market, particular in KL City, has been under pressure following job cuts due to the slump in crude oil prices and a slowdown in the economy. With heightened competition in a tenant-led market, there are owners willing to compromise on lower rentals to secure and retain tenants.

In the primary market, selling prices of high end condominiums / serviced apartments in KL City range from RM1,300 to RM1,900 per sq ft while branded residences are generally priced from RM2,000 per sq ft onwards. In KL Fringe such as Mont' Kiara, new launches of condominiums / serviced apartments are priced from about RM800 to RM1,200 per sq ft.

Prices in the secondary market continued to remain resilient. During the second half of 2015, small to mid-sized units (about 600 sq ft to 1,300 sq ft) in selected schemes such as ViPod Residences, The Horizon and The Troika were transacted at circa RM1,300 to RM1,800 per sq ft. Meanwhile, larger units (1,600 sq ft to 2,600 sq ft) in selected projects such as The Troika, Pavilion Residences and Quadro Residences, command prices from RM1,100 to RM1,600 per sq ft.

FIGURE 1
Projection of Cumulative Supply for High End Condominiums / Residences 2010 - 2016 (f)



Source: Knight Frank Research

OUTLOOK

The market outlook for the high end condominium segment remains lacklustre, impacted by weak sentiment as potential buyers and investors continue to adopt a 'wait and see' approach.

With widening gap between supply and demand as well as mismatch in product pricing and affordability in the domestic market, more developers are widening their target catchment by marketing overseas as the weak local currency translates to attractive pricing and low entry level for foreigners.

The challenging property market environment has led to greater level of marketing strategies with developers adopting "push marketing" to boost sales of selected projects and improve revenue. Notable offers and marketing programmes include Sunway Group's "Sunway Property Certainty Campaign" offers up to 88% financing; IOI Properties' deferred payment scheme over 18 to 24 months for the lump sum downpayment; Tropicana Corp Bhd's creative "Just Bid It" campaign; and SP Setia's 10:90 scheme.

While the impending completion of the LRT extension line and Phase 1 of the on-going Sungai Buloh-Kajang MRT line by end of 2016 will continue to promote more transit oriented developments (TODs) along the transportation routes, more developers are also looking to expand their land banks into the suburbs to offer a wider mix of affordable housing products that cater to the domestic market.

TABLE 2

Average Asking Prices and Rentals of Existing High End Condominiums

	KL City*	Ampang Hilir / U- Thant**	Damansara Height***	Kenny Hills	Bangsar	Mont' Kiara****
Asking Gross Rental (RM psf / month)	2.30 - 5.80	2.30 - 4.00	2.70 - 4.00	2.20 - 3.40	2.60 - 4.30	2.00 - 3.80
Average Asking Price (RM psf)	700 - 1,900	600 - 1,200	600 - 1,000	550 - 900	700 - 1,250	500 - 850

* 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

TABLE 3

Notable Launches of High-End Condominiums / Residences

Scheme	YOO8 of 8 Conlay	8 Kia Peng	Novum South Bangsar	Sunway Mont Residences
Description	Branded residences serviced by Kempinski	Serviced Apartments and SoHos	Serviced Apartment	Condominium
Launch Date	Tower A: Nov 2015 Tower B: 2Q 2017 (Target)	Mar 2016	Mar 2016	May 2016
Developer	KSK Land Sdn Bhd	I-Bhd	Eupe Corp Bhd	Sunway Berhad
Area	Jln Conlay (KL City)	Jln Changkat Kia Peng (KL City)	Jln Persekutuan (Bangsar South)	Jln Kiara 5 (Mont Kiara)
Target Completion	Dec 2020	Sep 2019	Nov 2019	Q2 2020
No. of Units	Tower A: 564 units Tower B: 468 units	Serviced Apt: 315 units SoHos: 127 units	Serviced Apt (Towers A, B & C): 654 units	288 units (including 90 dual-key units)
Unit Sizing	Tower A: 700 - 1,308 sq ft	718 - 1,738 sq ft	647 - 1,441 sq ft	Typical: 1,122 - 1,609 sq ft Dual-Key: 1,695 - 1,906 sq ft
Pricing	Average of RM2,700 psf	From RM2,300 psf	Average RM880 psf	RM787 psf (after discount)

Source: Knight Frank Research

HIGHLIGHTS

More multinational companies (MNCs) from marine & offshore sectors may be enticed to relocate to Kuala Lumpur in view of the attractive currency and competitive rental rates, translating to lower operational costs as well as to be near their clienteles amongst other reasons.

The investment market continued to remain active during the review period.

The rental and occupancy levels are expected to record marginal declines in the coming quarters amid weaker demand / lower absorption and strong supply pipeline.

KUALA LUMPUR & BEYOND KUALA LUMPUR (SELANGOR) OFFICE MARKETS

MARKET INDICATIONS

Amid looming supply and a challenging business operating environment, the office markets in Kuala Lumpur and Beyond Kuala Lumpur (Selangor) continued to see subdued leasing activity in 1H2016.

The tenant-led market saw marginal contraction in achieved rentals although occupancy levels continued to hold steady during the review period.

SUPPLY & DEMAND

The cumulative supply of purpose built office space in KL and Beyond KL (Selangor) stood at circa 92.7 million sq ft as of 1H2016.

The completion of some 0.18 million sq ft of space in Beyond KL (Selangor) brought its cumulative supply to 17.9 million sq ft while in KL City and KL City Fringe, with no completion, the cumulative supply remained unchanged at 51.0 million sq ft and 23.8 million sq ft respectively.

Tower 2 of Mercu Mustapha Kamal development, comprising 14 levels of purpose-built office space with approximately 179,844 sq ft NLA, was completed during the review period. Located in Neo Damansara, Damansara Perdana, the dual compliant project (GBI Gold certified and MSC status) features two office towers atop a podium with 2 levels of banquet hall, 5 levels of elevated car park and 4 levels of basement car park. Tower 1 with 26 levels of office space (about 275,642 sq ft NLA) is scheduled for completion next year.

By the second half of the year, some 5.8 million sq ft of space is expected on-stream from buildings that include Public Mutual Tower and JKG Tower in KL City; Menara Ken @ TTDI and Menara Hong Leong (Office Tower A – Damansara City) in KL Fringe; and Iconic Tower - Block N and Signature Tower - Block H at Empire City in Beyond KL (Selangor).

Despite several notable occupier movements in KL City and KL City

Office - Mercu Mustapha Kamal (Tower 2)

Fringe, the overall occupancies in both regions remained flat at 82.8% (2H2015: 82.5%) and 90.1% (2H2015: 89.3%) respectively. It is noted that much of these leasing activities relates to existing tenant movements, for upgrading or rent advantage, rather than for expansionary purposes.

Also, while there are tenants in the Oil and Gas (O&G) industry that are sub-letting part of their office space to reduce operational costs amid the challenging business environment, this has not translated into a decline in the overall occupancy rate due to their contractual obligations.

Beyond KL (Selangor), however, chalked up marginal improvement in its occupancy, recording at 79.5% (2H2015: 77.3%) with Block 3420 (former Ericsson Building) in Cyberjaya fully taken up by FTMS Global College (134,000 sq ft NLA) and improved occupancies in several other buildings.

There were several notable office related announcements in 1H2016.

Designed by Australian firm, Fender Katsalidis Architects, the planned 118-storey skyscraper dubbed 'Merdeka PNB118', forms the first phase of the Warisan Merdeka project that will also

TABLE 4
Office Investment Sales 1H2016

Building Name	Dijaya Plaza (1)	Block P of Garden Office @ Encorp Strand (2)	Menara Shell (4)
Location	Jalan Tun Razak	Kota Damansara	Jalan Tun Sambanthan
Approx. Lettable Area (sq ft)	156,488	47,977	557,053
Consideration (RM) / (RM psf)	895	628 (3)	1,149

(1) Tropicana Plaza Sdn Bhd (formerly known as Dijaya Plaza Sdn Bhd) has proposed to sell a piece of freehold land together with a 19-storey office building known as Dijaya Plaza with 2 levels of car park containing 322 parking bays and all equipment, fittings within the building to Kenanga Investment Bank Bhd.

(2) Encorp Bhd has sold a block (Block P) of office suites within Garden Office @ Encorp Strand in Kota Damansara, Selangor, to Koperasi Permodalan Felda Malaysia Bhd for RM27 million in cash plus goods and services tax (GST). The two-year-old building comprising 20 office suites is of 99-year leasehold tenure.

(3) The price consideration is based on total lettable space of 43,002 sq ft (exclude the accessory parcel of 4,675 sq ft).

(4) Pursuant to the Heads of Agreement (HOA) in December 2015, the Vendor (348 Sentral Sdn Bhd) had on June 30, 2016, entered into a conditional Sale and Purchase Agreement with Maybank Trustees Berhad (Trustee for MRCB-Quill REIT) for the proposed disposal. The property comprises one block of 33-storey office building erected on a 5-storey podium and a 4-storey basement car park.

Source: Knight Frank Research

feature a seven-storey shopping mall. Standing at 630 metres, the iconic tower, anticipated to be the fifth tallest building in the world when completed by 2020, will outstrip the 88-floor Petronas Twin Towers as the country's tallest building. The project comprises 82 levels of office space (60 floors to be anchored by Permodalan Nasional Berhad (PNB) with remaining 22 floors to be leased to local and international firms), 18 floors of mechanical and electrical facilities that will accommodate an observation deck and a sky lobby, and another 18 floors to house a 236-room six-star luxury hotel.

Mulia Property Development Sdn Bhd, which is part of Indonesia's commercial property developer Mulia Group, will be building its Signature Tower in Tun Razak Exchange (TRX), the 70-acre site that is being primed as Malaysia's financial and banking district. The 92-storey Signature Tower, with a GDV in excess of RM3.5 billion, will be among the top 15 tallest buildings in the world when completed by 2018. With gross and net lettable area of 4 million sq ft and 2.65 million sq ft respectively, the tower offers column-free floors with typical floor plate averaging 34,000 sq ft, the largest configuration of column-free floor space in the city. The group is eyeing banking and finance, information and technology, oil and gas sectors among its tenants.

Eco World Development Group Bhd (EcoWorld) plans to unveil the maiden launch of its Bukit Bintang City Centre (BBCC) mixed development by 2Q2016. The group has received positive response from buyers of The Stride, a 45-storey block with strata offices targeted at small and medium enterprises.

Naza TTDI is collaborating with Keystone Impetus Sdn Bhd to develop two blocks of stratified office buildings on a 2.47-acre site in KL Metropolis, with completion slated by 2021. The 75.5-acre mixed use development of KL Metropolis, located off Jalan Duta, will house the country's largest exhibition space, the Malaysia International Trade and Exhibition Centre (MITEC).

IJM Land Bhd will be unveiling its first commercial development in Pantai Sentral Park in Bukit Kerinchi, Kuala Lumpur, which carries a GDV of about RM500 million by the end of this year. It will comprise a 30-storey office and a 36-storey serviced apartment. The office tower, to be erected on parcel 13 of Pantai Sentral Park, will also be IJM's future corporate office. IJM Tower will also comprise retail components (includes F&B outlets) that will be retained by the group – to cater for the needs of the working population as well as the residents in the future.

Uda Legasi Sdn Bhd's upcoming mixed use project, Legasi Kampong Bharu, will feature a 29-storey office tower with 83 office suites. Located along Jalan Raja Muda Musa and adjacent to the Putra LRT Kg Bharu Station, Menara Legasi is targeted for launch this June with completion expected by 2019.

Mah Sing Group Bhd's office building in the integrated Icon City development is open for lease. Located at the intersection of the Federal Highway and the LDP, MSC Tower (pending official approval) is a nine-storey office building, LEED and Green Building Index (GBI) certified and in compliant with the MSC Malaysia Cybercentre status (stage 1). The building, with a GFA of 48,833 sq ft, offers approximately 3,662 sq ft of nett floor area (NFA) on each level.

PRICES AND RENTALS

During the review period, the overall average achieved rental rates in both KL City and KL Fringe dipped marginally to RM6.13 per sq ft and RM5.72 per sq ft respectively.

Similarly, the overall average achieved rental rate Beyond KL (Selangor) declined marginally to RM4.16 per sq ft.

Despite further completions and weaker business sentiment, rentals of Grade A offices in Kuala Lumpur continue to hold, ranging from RM7.00 to RM13.00 per sq ft per month.

Notable occupier movements during the review period include the following:

McDermott Asia Pacific, one of the leading engineering, procurement, construction and installation services, has relocated its regional office to Menara Hap Seng 2 in Kuala Lumpur.

Infoblox has opened its first Asian research and development facility (Uptown 1, Damansara Uptown) to help address global DNS (Domain Name System) threats.

Milliman, Inc., a premier global consulting and actuarial firm, has opened an office in Kuala Lumpur (1 Sentral, KL Sentral). The Kuala Lumpur office, its 12th in the Asia-Pacific region, will offer employee benefits, life, non-life, and health insurance consulting services.

CE+T Power Group, one of the leading manufacturers of modular power inverters for European and the US market, has opened its central APAC office in Kuala Lumpur (Plaza Sentral).

Hytera Communications, a world leading solution provider of professional mobile radio, unveiled its Malaysia office in Kuala Lumpur. The newly open office is located at Tower A of Vertical Business Suites in Bangsar South.

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

TSR Capital Bhd has proposed to acquire a private company that owns a parcel of freehold land (circa 5,000 sq m) with development approval for two blocks of office towers (19-storey and 11-storey) and a 4-storey car park. The project which has a preliminary estimated GDV of RM230 million is located adjacent to Menara TSR in Mutiara Damansara. TSR intends to partially sell / or lease the buildings to be developed on the land, where 70% of the lettable space is targeted to be sold and the remaining may be kept for rental income and capital appreciation.

TABLE 5
Selected Grade A Office Asking Rentals

KL City

Integra	11.00	Menara Darussalam	8.50
Menara Maxis	10.50	Menara Binjai	8.80
Vista Tower	7.50 - 9.50	G Tower	7.50 - 8.50

KL Fringe

Menara CIMB	8.00	Menara Shell	7.50
The Gardens North & South Towers	7.80	Menara Allianz Sentral & Nu Tower 2	6.50
Menara LGB	6.50	Menara BRDB	7.00

Beyond KL / Selangor

1 First Avenue	6.00	Wisma Mustapha Kamal	4.80
Surian Tower	5.50	Puchong Financial Corporate Centre (Towers 4 & 5)	4.50
The Ascent @ Paradigm	5.50	Plaza 33	4.50
The Pinnacle	5.50		

Source: Knight Frank Research

Tropicana Corp Bhd expects the disposal of Dijaya Plaza in Jalan Tun Razak to Kenanga Investment Bank Bhd for RM140 million cash to be completed by the second quarter of the year. The asset comprises a parcel of freehold land measuring approximately 3,674 sq m, together with an en-bloc 19-storey office tower with two levels of basement car park (322 bays).

Encorp Bhd has sold a block of office suites (Block P) within Garden Office @ Encorp Strand in Kota Damansara, Selangor, to Koperasi Permodalan Felda Malaysia Bhd for RM27 million in cash plus goods and services tax (GST). The two-year-old building comprising 20 office suites is of 99-year leasehold tenure.

OUTLOOK

Moving forward, the office markets in KL Fringe and Beyond KL (Selangor) are expected to remain subdued while in KL City, the office market is anticipated to face downward pressure in the view of persistent low oil prices.

Amid widening mismatch between supply and demand, office vacancies are expected to trend upwards due to a strong supply pipeline and lacklustre absorption as more firms cut workforce / freeze hiring / consolidate business operations.

Owners / landlords of newly completed office buildings which have not been pre-let / have yet to achieve significant occupancies may offer more competitive rental package to secure tenants while those of older / dated and secondary office buildings are expected to be more flexible in negotiations to retain existing tenants.

Well-located good grade, dual-compliant office space, however, is expected to remain resilient, maintaining healthy occupancy levels and attractive rental rates due to sustained demand and limited supply of good grade space.

Moving forward, more multinational companies (MNCs) from Marine and Offshore (M&O) sector may see Kuala Lumpur as an attractive proposition. Besides offering the lowest prime office rental amongst regional cities, MNCs relocating their regional offices here stands to benefit from lower operational costs (attractive local currency - lower office rentals, cheaper accommodation and staff costs, etc.)

Kuala Lumpur, ranked after Singapore in South-East Asia, also offers good quality living (source: Mercer's 18th annual quality of Living Survey).

The on-going Klang Valley Mass Rapid Transit (KVMRT) project, namely the 51km Sungai Buloh-Kajang Line, which remains on track for full completion by 2017 is expected to benefit decentralised office locations along its route.

Meanwhile, the Ministry of Territories has recently announced the tightening of approval for the construction of new office buildings in Kuala Lumpur, with the exception of corporate buildings constructed for businesses' own use to control the escalating supply and stabilise the office market.

FIGURE 2

Kuala Lumpur - Occupancy and Rental Trends 1H2010 - 1H2016

Source: Knight Frank Research

HIGHLIGHTS

Consumers continue to hold back on spending evident from weaker retail sales data in 1Q2016 (-4.4%) against 1.3% growth in 4Q2015.

Projected retail sales growth for 2016 revised downwards to 3.5% from 4.0%.

The recent completion of some 2.82 million sq ft NLA of retail space in Klang Valley and the scheduled opening of MyTown Shopping Centre and Sunway Velocity Mall in KL city fringe by 2H2016 (total 2.1 million sq ft NLA), is expected to further heighten competition in the already crowded retail market.

Owners of at least two suburban shopping malls are reportedly looking to divest their assets in this challenging operating environment.

Despite all negativity, there are opportunities in the retail market, particularly in selected and upcoming areas which are under served but well populated.

KLANG VALLEY RETAIL MARKET

MARKET INDICATIONS

The MIER Consumer Sentiment Index (CSI) which rebounded to 72.9 points in 1Q2016 from an all-time low of 63.8 points in 4Q2015 remains below the threshold level of confidence.

Retail sales continued to be impacted by rising cost of living amid a slowdown in the economy and weak job market, growing by a modest 1.4% in 2015 compared to a 3.4% expansion in 2014. With consumers continuing to hold back on spending, retail sales contracted sharply (-4.4%) in 1Q2016 (4Q2015: 1.3%).

SUPPLY & DEMAND

A total of 12 shopping malls with combined NLA of approximately 2.82 million sq ft were opened / completed during the review period, bringing the cumulative supply of retail space in Klang Valley to circa 53.72 million sq ft. The bulk of completion (1.88 million sq ft or 67%) is located in Selangor with the remaining 0.94 million sq ft (33%) from new malls in Kuala Lumpur. Of the total completions, eight have commenced operations whilst the remaining four malls, completed with Certificate of Completion and Compliance (CCC) issued, have yet to open for business.

Shopping malls that have commenced operations include LuLu Hypermarket & Department Store (250,000 sq ft), GLO Damansara (360,000 sq ft) and M3 Mall (165,000 sq ft) in Kuala Lumpur; and Sunway Pyramid Shopping Mall Phase 3 (63,000 sq ft), da:mén USJ Shopping Mall (420,000 sq ft), Aeon Mall Shah Alam (700,000 sq ft), Utropolis Marketplace (120,000 sq ft) and Gallerie @ De Centrum (160,000 sq ft) in Selangor.

Newly completed malls which have yet to be operational include Damansara City Mall (169,000 sq ft) in Kuala Lumpur; and The Square @ One City (120,000 sq ft), M Square Shopping Mall (186,000 sq ft) and Centrus Mall (109,000 sq ft) in Selangor.

Opened in June, LuLu Hypermarket & Department Store marks the entry of the Middle Eastern retailer, LuLu Group International, into the local retail scene. The new hypermarket-cum-department store occupies some 250,000 sq ft NLA in a refurbished building formerly occupied by PIKOM ICT Mall CapSquare (previously known as CapSquare Retail Centre). The latter is part of an existing integrated project dubbed Jakel Square, located at Jalan Munshi Abdullah in the older area of KL CBD.

Scheduled to open by August, Damansara City Mall (DC Mall) is positioned as a lifestyle mall, targeting the greater community of Damansara Heights and Bangsar as well as the KL-PJ population. Approximately 70% of the total space has been allocated to the food & beverage (F&B) trade with tenants such as Kampachi, Soleil, Charlie Chaplin, Awajiya Curry House, Cake Sense, I Love Yoo and Juiceworks. The mall forms part of the 8.5-acre Damansara City integrated development which consist of luxury high-rise residences (DC Residency), Grade A office towers, and the five-star Sofitel Kuala Lumpur Damansara hotel. The locality of Damansara Heights which is currently undergoing rejuvenation with notable upcoming project Pavilion Damansara Heights will see improved accessibility and connectivity with the scheduled completion of Phase 1 of the Sungai Buloh-Kajang Mass Rail Transit (MRT) Line by end 2016.

Located within Glomac Damansara, the six-storey GLO Damansara Mall which opened in April, is anchored by upscale grocery store, Ben's Independent Grocer (B.I.G). Other tenants include Imara Mediterranean Cuisine, Life Hot Yoga, The Tranquerah, Boost Juice bar, MiniPani and Soon Thye Hang.

M3 Mall in Taman Melati, Setapak, commenced operations in early 2016. Located approximately 100m from the Taman Melati Light Rail Transit (LRT) station and the planned Gombak Integrated Transport Terminal under a joint urban redevelopment initiative between Kuala Lumpur City Hall (DBKL) and Gerbang Mekar Sdn Bhd, the six-level mall offers 165,000 sq ft retail space with 550 parking bays and a large multi-purpose hall. Key tenants include The Store Supermarket, Texas Chicken, Georgetown White Coffee, Station Kopitiam, King's Confectionery, Mr. DIY, Nagoya Textile, Gintell, myNews.com, and Oppo Smartphone.

Meanwhile, in Selangor, all eight newly opened / completed shopping malls with the exception of Aeon Mall Shah Alam, form part of integrated developments.

Phase 3 of Sunway Pyramid Shopping Mall features a new retail podium with circa 63,000 sq ft NLA and a 4-star hotel, Sunway Pyramid Hotel West. Linked by a pedestrian bridge, the podium is predominantly occupied by F&B outlets with notable tenants that include The Parenthood, Sanook, Impresseoul, Hokkaido, Ramen and Starbucks.

Located at Persiaran Kewajipan in USJ 1, approximately 5-minute walk from the USJ7 LRT station, da:mén USJ Shopping Mall, commenced operations in January 2016. The six-storey mall (including lower ground floor) is part of an integrated commercial development that also comprises shop offices and apartment blocks with a 6-level podium car park. Key tenants of the new mall include Jaya Grocers, Suki-ya Japanese Shabu-shabu, Starbucks, Coffee Bean Tea Leaf, Grand Harbour Restaurant, Grandmama's, Morganfields, Tonkatsu, Nam Heong, Sukiya, Sangkaya plus Tea Press (Tea Roasters from Japan), Popular Bookstore, Sothys Paris, Crabtree and Evelyn, and Murad.

Completed in February 2016, The Square @ One City is one of the few retail components within the 77-acre integrated development of One City in USJ25. The three-level retail podium with two blocks of SoHo units atop has yet to commence operation.

On March 22, Aeon Co. (M) Bhd opened its 23rd mall. Touted as one of its largest flagship malls in the country, the 700,000 sq ft four-storey mall, anchored by Aeon Shah Alam Store, also features 200 specialty stores with notable tenants such as Padini Concept Store, H&M, Uniqlo, Cotton On, Brands Outlet, Index Living Mall, Red Lobster, and Olive Garden. Its four-season concept décor is inspired by Japan's seasonal changes – summer, autumn, winter and spring.

Utropolis Marketplace, the retail component of Paramount Utropolis integrated project by developer, Paramount Property, made its debut in May. The retail component caters mainly to the student population of the 10-acre flagship KDU University College campus with notable tenants that include Sam's Groceria, PapaRich, Texas Chicken, CaliBurger, Sushi Q, Subway, Little Fat Duck, Aroi Thai, Grab It, Level Up Fitness Xpress, RHB Bank and myNews.com.

Developed by Millennium Land Sdn Bhd, M Square Shopping Mall is the retail component of Millennia City, an integrated project in Puchong which also comprise commercial and residential properties. Phase 1 features the seven-storey shopping mall and Hilton Garden Inn with Phase 2 offering Millennia Residences. The mall, with Parkson as the anchor tenant, is slated to commence operation by 2H2016.

In Cyberjaya, the three-level Centrus Mall, completed in early 2016 forms part of the Centrus @ CBD Perdana 3 mixed commercial development that also comprises retail lots, office suites and SOHOs units. The developer has reportedly initiated a leasing negotiation that may lead to change of usage to office space if the deal is successful sealed.

Gallerie @ De Centrum is located within the 100-acre De Centrum City township in Kajang that also features residential, academic and recreational components. Key tenants of the mall which commenced operations during the review period include Kentucky Fried Chicken, 7-Eleven and Optical 88.

During the review period, one expansion plan and several new shopping mall projects in Klang Valley were unveiled, with a number of them set to transform the local retail landscape.

In June, IOI City Mall Sdn Bhd unveiled its plan to expand IOI City Mall via Phase 2 which will see another 1.0 million sq ft of retail space added to the existing mall.

In March, BBCC Development Sdn Bhd (BBCCD), a consortium made up of Eco World Holding, UDA Holdings Bhd and the Employees Provident Fund (EPF), inked an agreement with Mitsui Fudosan (Asia) Pte Ltd, a subsidiary of Japan's Mitsui Fudosan Group to develop and manage a retail mall with circa 860,000 sq ft NLA at the Bukit Bintang City Centre (BBCC) project in Jalan Pudu. The retail mall, to be developed under the Mitsui Shopping Park LaLaport concept which has evolved to "a place where people interact", will see the Japanese retail mall developer / owner bring in new retail brands / tenants from Japan.

Scheduled to complete by 2021, it will be the first LaLaport Mall in Southeast Asia. Other development components in the first phase of BBCC comprise a four-star hotel (to be operated by The Ascott Ltd), a 45-storey block of strata offices and two blocks of serviced apartments (680 units).

Also in March, Permodalan Nasional Berhad (PNB) revealed detailed building plan of Merdeka PNB118 mega development. The 118-storey tower which will overshadow the iconic Petronas Twin Towers will accommodate 1.7 million sq ft of office space and a six-star luxury hotel with 236 guest rooms. The development which will also feature a shopping mall with circa 900,000 sq ft space is slated for completion by 2020.

Earlier in January, M101 Holdings Sdn Bhd launched M101 SkyWheel, a mixed development located along Jalan Raja Muda Abdul Aziz. The project, scheduled for completion by 2020, will comprise the 200,000 sq ft First Sky Shopping Mall (from 48th to 52nd floors), a Planet Hollywood Hotel, small offices / flexible offices (SoFo) units, and a ferris wheel located at the 52nd Floor of the building.

In April, Crest Builder Holdings Bhd entered into a joint venture (JV) with Prasarana Malaysia Bhd and Detik Utuh Sdn Bhd to develop a 43-storey single block mixed-commercial development. Latitud 8 will comprise a retail podium with business and convention facilities (800,000 sq ft NLA), office space and residential units (SoFos, SoHos and duplexes). The JV companies plans to retain circa 20% to 30% of the retail space, with the remaining space to be sold to a single party with multiple equity partners. Located at the underground Dang Wangi LRT station at Jalan Ampang, it will be the first transit-oriented development (TOD) in Malaysia when completed by 2020.

In May, developer CK East Group unveiled its mixed development project, Rencana TTDI. Located in Taman Tun Dr Ismail in the city fringe, Rencana TTDI will encompass SOFOs, 2-storey garden terraced units, retail lots and strata office units. The developer plans to either dispose the retail podium (circa 100,000 sq ft) to a single buyer or retain and manage the same for better control of tenant mix.

Against headwinds in the country's retail industry, both foreign and local retailers continued to innovate and strategize. For example, the increasingly intense competition has led to departmental store

da : mén USJ Mall

giants, Parkson and Aeon, to introduce new elements in their business strategies.

In February, Parkson officially launched the refurbished Parkson Maju Junction (previously known as Maju Junction Shopping Centre) in KL CBD. The refurbished mall incorporates a gourmet-concept supermarket and food hall named Foodpark by Parkson, which is the retailer's first foray into this trade category. The second food hall similar to Foodpark will be unveiled at the newly completed M Square Shopping Mall by July.

Meanwhile, AEON Co (M) Bhd has allocated RM650 million for capital expenditure (capex) to develop new malls and to refurbish malls / stores that are five years old and above, including the existing AEON Mid Valley, as part of efforts to remain competitive in the industry.

Notable outlets that opened in Klang Valley during the review period include Balenciaga in The Gardens Mall; Sam's Groceria, Mydin Mohamed Holdings Bhd's premium grocery store in Utropolis Marketplace; Thailand's home furnishing retailer, Index Living Mall and Sushi King in AEON Mall Shah Alam; senQ in Alamanda Shopping Centre, Putrajaya; and The Store in M3 Mall, Setapak.

New retailers that entered the Klang Valley market include French-based Dior Homme with its first store in Malaysia at Suria KLCC Shopping Centre; Hong Kong-based eyewear retailer Mujosh's first overseas concept store at Pavilion Kuala Lumpur, Shoopen at Fahrenheit 88; and French sports retailer Decathlon's first flagship store at Courts Megastore in Sri Damansara.

Foreign new retailers / franchises that will open outlets in Klang Valley include Aeon MaxValue Prime at Sunway Velocity Mall while Pezzo, a Singapore-based pizza chain, will open its first outlet in Peninsula Malaysia at da:mén USJ Shopping Mall in June / July.

The review period also saw local food processor, QL Resources signing a master franchise agreement with Tokyo-listed FamilyMart Co Ltd, the world's second largest convenience store chain after 7-Eleven. FamilyMart is set to enter Malaysia with its first store slated to open by the end of this year.

Meanwhile, local franchiser, Texchem Corp Bhd plans to set up 11 Yoshinoya, 11 Hanamaru and 11 Sushi King outlets in the country this year.

Several acquisitions / disposals in the Malaysia retail industry were reported during the review period. In May, a 45% stake of Jaya Grocer was reportedly sold to Asean Industrial Growth Fund (AIGF), a private equity fund managed by CIMB Private Equity and Mitsubishi Corp. The Teng family will hold the remaining 55% and continue to manage the grocery chain.

In March, Marvellous Future Sdn Bhd, the holding company of the fashion apparel firm Voir Holdings Bhd, sold 50.71% of its Voir equity interests to Vista Lestari Development Sdn Bhd and its persons acting in concert (PACs). Vista Lestari is principally an investment holding company whilst its subsidiaries are in the business of general contractors, project management and trading in related products.

In tandem with the growing online shopping trend, Central Market shopping centre signed a Memorandum of Understanding (MoU) with online market, 11street, to offer Central Market's tenants products to on-line shoppers. The upcoming USJ Wholesale City Mall will also launch its e-commerce platform www.moora.com.my for its tenants to promote its products online this coming August.

The second half of 2016 is expected to see the completion of six new shopping malls with combined retail space of circa 3.36 million sq ft in Kuala Lumpur and Selangor. They include Pavilion Elite, KL Gateway, MyTown Shopping Centre, and Sunway Velocity Mall in Kuala Lumpur; and The Starling Mall and Amerin Mall in Selangor.

Prime and established shopping centres in the Klang Valley continued to enjoy high occupancies (> 95%). They include Suria KLCC and Pavilion Kuala Lumpur in KL City; Mid Valley Megamall and The Gardens Mall in KL Fringe; and Sunway Pyramid, 1Utama Shopping Centre, Empire Shopping Gallery, Subang Parade and The Mines in Selangor.

PRICES AND RENTALS

Overall, prime shopping centres listed under the property portfolio of KLCC Stapled REIT, IGB REIT, Sunway REIT and Pavilion REIT continued to record higher rates during the review period mainly from new and renewed leases.

For the 1Q2016 financial results, the combined revenue for KLCC Stapled REIT's retail property was recorded at RM123.48 million, depicting a 2.27% year-on-year (y-o-y) increase (1Q2015: RM120.74million), attributed to higher rental rates that became effective during the quarter.

The gross revenue of IGB REIT grew by 4.6% y-o-y to record at RM131.21 million compared to the corresponding quarter in 2015 (1Q2015: RM125.44 million).

The gross revenue of Sunway Pyramid Shopping Mall was 6.6% higher for the period ended March 31, 2016 compared to the corresponding period in 2015 mainly due to higher average net rent per sq ft.

As at March 31, 2016, the retail property portfolio of Pavilion REIT increased to three following the acquisition of da:mén USJ Shopping Mall and The Intermark Mall in September and December 2015 respectively.

During the 1Q2016, gross revenue of the retail property segment in Pavilion REIT was reported at RM103.64 million, up by 1.15% compared to the corresponding period in 2015 (1Q2015: RM102.46 million).

Meanwhile, owners of Empire Shopping Gallery and Evolve Concept Mall reportedly have intentions to divert their retail assets.

In June, Mammoth Empire Holdings Sdn Bhd, owner of Empire Shopping Gallery in Subang Jaya, cited that it intends to divest Empire Shopping Gallery if a concrete offer was received. The five-storey upper-middle retail mall with circa 350,000 sq ft NLA has a rental yield of between 6.5% and 7%. The property which was last valued at RM583 million attracts some 6.5 million shoppers per year.

Earlier in April, JAKS Resources Bhd also revealed its intention to dispose of Evolve Concept Mall in Ara Damansara to strengthen the company's balance sheet. Opened in November 2015, the four-storey retail mall with circa 400,000 sq ft NLA, was reportedly 75% leased as of December 2015.

OUTLOOK

The projected retail sales growth for 2016 has been revised downwards from 4.0% to 3.5% following the weak performance in 1Q2016.

Consumer spending remains a key challenge in the retail industry with many continuing to hold back on purchases due to growing concerns on rising cost of living and weaker job prospect.

Moving forward, the uncertainties following the recent Brexit referendum are expected to further weigh down market sentiments globally and this will not augur well for the local retail industry.

With the scheduled completion of some 3.36 million sq ft of new retail space in the second half of 2016, competition in the retail market will heighten.

MyTown Shopping Centre and Sunway Velocity Mall, with 1.10 million sq ft and 1.0 million sq ft NLA respectively are slated to open in the last quarter of 2016 in time for the year end festive and school holiday seasons. These two malls which have reportedly secured prominent retailers will further dilute the market, particularly in Kuala Lumpur.

There are, however, opportunities in retail market, particularly in selected / upcoming locations which are well populated and have low retail space per capita currently.

In the A.T. Kearney 2016 Global Retail Development Index (GRDI), Malaysia is ranked at third position, the highest since the index started in 2001, indicating that the country has vast growth potential both in traditional as well as online retail market.

Malaysia has also won the award of the world's Fifth Best Shopping Destination by Expedia UK, and the Second Best Shopping Destination 2015 for Muslims in the OIC Destination based on Crescent Rating and MasterCard Muslim Travel Shopping Index.

TABLE 6

Shopping Centres Scheduled for Completion / Opening in 2H2016

New Projects	Location	Estimated Net Lettable Area / Gross Floor Area (sq ft)
Pavilion Elite	KL City	225,000
Sunway Velocity Mall	KL Fringe	1,000,000
KL Gateway	KL Fringe	500,000
The Starling Mall	Petaling Jaya	380,000
MyTown Shopping Centre	KL Fringe	1,100,000
Amerin Mall	Cheras Selatan	155,000

Source: Knight Frank Research

HIGHLIGHTS

The RM337 million Bayan Lepas Expressway comprising an elevated structure of 3.2 kilometres and a street-level route of 4.2 kilometres linked to Sultan Abdul Halim Muadzam Shah Bridge (2nd Penang Bridge), was opened to traffic in early April 2016. The highway, capable of accommodating a traffic volume of 70,000 vehicles daily, is part of the traffic dispersal initiative in the area and is expected to ease traffic congestion between Batu Maung and Sungai Nibong.

The Penang State Government is hoping to secure a conditional approval for the first line of the RM27 billion Penang Transport Master Plan (PTMP) where plans for the Bayan Lepas Light Rail Transit (LRT) to the Land Public Transport Commission (SPAD) was submitted for approval on March 29, 2016. The 30km Bayan Lepas LRT, expected to provide a speedy route to the airport, will start from Komtar and traverse through densely populated residential, commercial and industrial areas of Jelutong, Gelugor, Bayan Baru / Bayan Lepas and Penang International Airport before ending at the proposed Penang South Reclamation Project development.

PENANG PROPERTY MARKET

MARKET INDICATIONS

According to the latest Property Market Report, the total volume of transactions for all sectors in the State of Penang for Year 2015 registered a drop of 15.6% against 2014. Similarly, in terms of value of transactions, the drop is recorded at 15%. Residential transactions which made up 70.9% [was 72% in 2014] of the total volume, recorded a drop of 16.9% and 18.5% in terms of the volume and value of transactions done respectively for the period compared – Year 2015 vs Year 2014. Whilst only the "industrial" and "others" subsectors registered growth of 25.4% and 215.4% respectively over 2014 in terms of number of transactions done, the "commercial", "industrial" and "others" sub-sectors registered positive growth showing increases of 19%, 5% and 1,034.5% respectively in the value of deals done for the same period compared.

Penang International Airport, which has reached its capacity of accommodating 6.5 million passengers per annum, has been earmarked for an expansion programme to cater for increased capacity of serving 10 million passengers a year. Malaysia Airports Holdings Bhd will construct a multi-storey car park that will house 3,000 lots of parking space to be done in two phases. The first phase that will include the completion of 1,500 lots will be operational in the first-quarter of 2017 (1Q2017), while the second phase will be opened in 1Q2018.

New investments and reinvestments into Penang's industrial sector include Boston Scientific's new facility in Batu Kawan Industrial Park where construction will start in 1H2016 and to be operational by 2H2017; SAM's reinvestment of RM100 million between 2016 and 2018 – RM70 million to build a new 120,000 sq ft facility in Bukit Minyak and RM30 million on its Penang plant for aerospace work; Robert Bosch's RM66 million expansion of its Penang plant; and Tek Seng Holdings Bhd, a solar cell maker, will spend RM237 million to expand its production capacity to triple its existing size this year.

HIGH END CONDOMINIUM

Hunza Group, a well-established and reputable property developer in Penang, has launched ALILA² as a sequel to their successful Alila Horizons and Alila Homes in Tanjong Bungah. ALILA² is sited away from the hustle and bustle of Georgetown and yet is close enough to the city, Batu Ferringhi, international schools, medical facilities, retail outlets and the varied dining choices Penang is known for.

ALILA² is a low density modern resort-inspired condominium development comprising 2 towers sitting atop a 6-storey podium over 9.8 acres of lush landscapes; the 2 towers have been designed to comply with Malaysia's Green Building Index (GBI) Certification. The comprehensive range of recreational facilities includes infinity pool with jacuzzi beds, seats and aqua gym equipment; two-storey lounge area with BBQ pit, dining table and seating, and entertainment deck; tennis court and half-size basketball court and themed pocket spaces with feature shelters, giant swings and cocoon seating to enjoy the beauty of nature.


Alila 2

Expected to complete by 4Q2017, ALILA[2] offers 270 large semi-furnished apartment units at prices ranging from RM790 to RM1,066 per sq ft for the typical units sized from 1,905 sq ft to 3,235 sq ft and from RM993 to RM1,000 per sq ft for penthouse and duplex units sized from 3,900 sq ft to 5,789 sq ft. Optional furniture packages are available and a minimum of 2 car parking bays are provided for each unit.

Buyers of the high-end condominium sector have higher expectations; thus, developers of many 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 very few recorded transactions of larger sized condominiums with built-up areas from 3,500 sq ft to 6,000 sq ft in the secondary market in 1H2016. Transactions in 1H2016 of such sized units in Tanjong Bungah range from RM446 / RM626 per sq ft (both at The Cove) to RM793 per sq ft. Smaller sized units at Gurney Paragon were resold at RM808 per sq ft to RM1,150 per sq ft whilst at Quayside, Seri Tanjong Pinang, units were resold at prices varying from RM768 per sq ft to RM1,138 per sq ft in 1H2016.

Asking rents are noted to be slightly lower when compared to last year. For larger sized units in Tanjong Bungah, asking rents generally range from RM1.10 to RM2.30 per sq ft per month whilst some landlords are still holding onto high asking rents of RM2.80 to RM2.95 per sq ft per month. For similar sized units in Gurney Drive, asking rents vary from RM1.80 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 to RM2.90 per sq ft per month whilst some landlords have higher asking rents of RM3.50 to RM4.40 per sq ft per month.

OFFICE

The existing supply of office space (buildings of 10-storey and above) on Penang Island remains at 2H2015's level of 5.59 million sq ft.

The occupancy rates for the 4 prime office buildings monitored in Georgetown generally remain at 2H2015's level, ranging from 80% to 100%. Current asking rentals for the older buildings generally range from RM2.80 to RM3.00 per sq ft per month, the same level as 2H2015. Rents secured at Hunza Tower is about RM3.50 per sq ft per month where the occupancy rate is 100%.

Average occupancy rates at Suntech and Menara IJM Land, both newer office buildings located outside the city, currently stands at 95%, a slight 1% increase compared to 2H2015. Asking rents at these two buildings range from RM2.60 to RM3.30 per sq ft per month, with one building recording slightly lower rents.

RETAIL

The existing supply of purpose-built shopping space on Penang Island remains unchanged at 2H2015's level of 6.69 million sq ft. No new purpose-built shopping malls were completed on the island in 1H2016. M Mall 020, Phase 2 of Penang Times Square which opened for business in late December 2015 had its official opening on May 28, 2016. There are several proposed shopping malls coming up over the next five years on the island, please refer to Table 7.

Occupancy rates for the prime shopping malls on the island range from 80% to 98.5% whilst for the secondary shopping malls, the range is generally from 70% to 90%.

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

OUTLOOK

With the continuing challenging global and national economic environment, the negative property market sentiments have remained and the scenario is not expected to improve in the immediate future.

Further softening and consolidation of the residential sector is expected with increasing supply and poorer take up rates.

Despite the fact that there is no new incoming supply, the office market has plateaued with occupancies generally stable.

Landlords of secondary buildings are expecting pressures from tenants to suppress rental rates.

In the retail sub-sector, the prime malls are still performing well but are not totally spared the effects of the weak economy. Occupancies and rental rates will also come under downward pressure. Secondary malls will face even greater challenges.

TABLE 7

Future Supply of Retail Space within Penang Island

Project	NLA (sq ft)
*Sunshine Tower	900,000
* Southbay Plaza	150,500
*City Mall	circa 300,000
**Penang Times Square Phase 3/4	230,000
**Sunway (Paya Terubong)	1,000,000
** The Light Waterfront Mall	1,000,000

Project NLA (sq ft) *under construction ** planned

Source: Knight Frank Research

HIGHLIGHTS

Iskandar still attractive to investors; cumulative investments now stand at RM202 billion from 2006.

The international launch of the Forest City development by Chinese developer Country Garden. Four man-made island over 1,384 hectares, to be developed over 20 years.

Despite difficulties, the PIPC project in Pengerang is still a key long term investment and stakeholders are committing more capital to the project.

JOHOR BAHRU PROPERTY MARKET

MARKET HIGHLIGHTS

The headliner for the 1H2016 for Johor is of course Forest City. The 1,386-hectare mixed development project spread over four man made islands by Chinese heavyweight developer, Country Garden, was officially launched by the Sultan of Johor and The Prime Minister on March 6, 2016. An entire city designed from scratch, this mega- development is set to include extensive green landscaping and to utilize clever design to create a green 'smart city'. The development is expected to take over 20 years to complete. The project has been heavily marketed and has generated a buzz around town that has been sorely missed over the last 6 months.

At the launch, the Prime Minister announced that Forest City will be accorded duty free status. In addition to that, further tax incentives for green developers, tourism, health and education sectors were also bestowed upon Forest City. Companies that are eligible for the above tax incentives are also free from the usual restrictions / equity conditions placed upon foreign ownership of company shares.

As of March 2016, Iskandar Malaysia has registered cumulative investments of RM202.45 billion starting from 2006, mainly from the manufacturing sector which accounted for about 27%. Of this total, RM103.50 billion or about 51% of the total investments has been realized. Foreign investors have contributed RM81.01 billion to the total cumulative investments which represents approximately 40% of the total investment thus far.

The locally listed JCY Group, a regional producer of hard disk drive components, has announced that it will be setting up its principal hub in Johor. Announced by MIDA on April 2, the principal hub will serve as a global procurement centre for the group. Supply chain management, key decisions concerning growth strategies and management of profit and loss of the group will be carried out at the hub. This adds to the growing list of global players setting up in Johor such as Pinewood studios and Hershey's.

In March 2016, 3Cnergy, a property solutions company has entered into a conditional sale and purchase agreement (SPA) for acquisition of all the issued shares in Liberty Bridge Sdn Bhd for RM186 million. Pursuant to the SPA, 3Cnergy will acquire Liberty which owns ten parcels of undeveloped land measuring approximately 37.4 acres in Puteri Harbour. 3Cnergy intends to continue with Liberty's existing plan to develop the land into an integrated development consisting of SOHO, serviced apartments, condominiums, office lots, office tower, hotel, street front retail and activity retail - a mixed development with predominantly residential components and complemented with retail and commercial components.

The 197km Gemas-Johor Bahru electrified double-tracking project (EDTP) is expected to start at year-end upon completion of its land acquisition; it is expected to take three to five years to complete. The double-tracking rail has a capacity for the train to run at 160km per hour and an operating speed limit of 140km per hour.

UEM Sunrise Bhd (UEMS) has entered into a JV and shareholder's agreement with Mulpha International Bhd (MIB) to jointly develop and optimise the value of 38 parcels of freehold land with a combined land size of 231.35 acres at Gerbang Nusajaya. UEMS and MIB will develop the land into a mixed residential and commercial development

Impression of Forest City

comprising luxury landed villas as well as mixed use and neighbourhood retail shop developments. The project is expected to span over a maximum period of 20 years with an estimated GDV of over RM5 billion.

In January 2016, Multimedia University (MMU) launched its new campus at Educity which was built on the success of its two campuses in Melaka and Cyberjaya. Occupying an area of 45,000 sq ft, the new campus can accommodate 500 students and provides state of the art facilities such as digital library, media resource centre, gallery, post production laboratories, shooting stage, recording studio and workshops.

Hua Yang Bhd has acquired Grand View Realty Sdn Bhd which owns the 73.16-acre freehold land at Pasir Gudang for RM52.9 million. It plans to develop it with cluster houses, semi-detached houses and shop offices with an estimated GDV of about RM346.4 million.

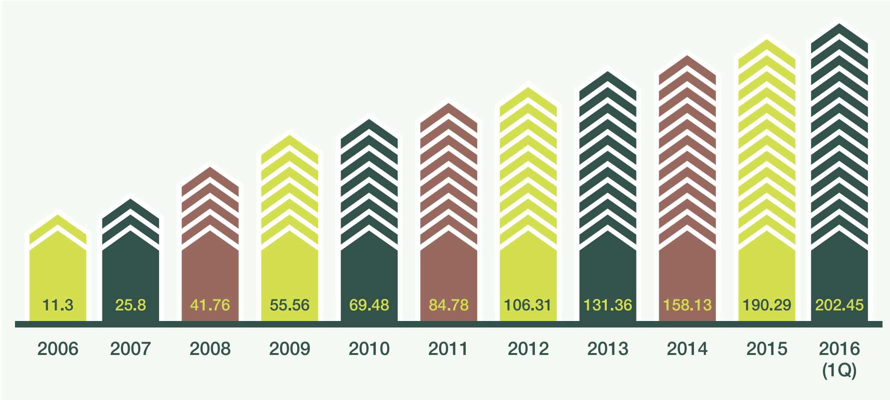
Swiss-Garden International Sdn Bhd had a soft opening for its 205-room Swiss-Inn Johor Bahru in Jalan Syed Mohd Mufti. The company had spent RM63 million and two years renovating and refurbishing the 10-storey existing office building into a mid-sized hotel.

The RAPID project in Pengerang is still seeing committed development from stakeholders in the face of the current global oil and gas crisis. As at April 2016, the committed investments in Pengerang Intergrated Petroleum Coplex (PIPC) are from Petronas developing the Petronas Integrated Complex (PIC) valued at RM104.73 billion, as well as the JV between Dialog Group Bhd, Royal Vopak of Netherlands and Johor State Secretary Inc (SSI) with their Pengerang Deepwater Terminal valued at RM11.64 billion. This is a welcome sign to many as it shows that PIPC is a long term investment with stakeholders that have visions that go beyond the current economic situation. The complex is expected to be operational early 2019.

Gleneagles Medini Hospital commenced its operation at the end of December 2015 with a capacity of 300 beds and 162 medical suites. Managed by IHH Healthcare, the RM400 million hospital is located on a 6-hectare land in Medini, Iskandar Puteri. The world-class hospital attracts local and foreign visitors especially from Singapore due to its strategic location and is set to offer one of the best medical services currently available in the country.

TABLE 8

Cumulative Investment In Iskandar Malaysia 2006-1Q2016 (RM ‘ Billion)



Source: IRDA

RESIDENTIAL

The looming oversupply and tepid market activity has justifiably caused uncertainties in the market and is representative in the reduced number of launches so far in 2016. Some developments that were in the pipeline have been shelved for now as the market sits in the ‘wait-and-see’ camp. That said there are still good deals to be found and the momentum is building for the buyers. Notable activities in the Johor Bahru residential sector for 1H2016 are as follows:-

The most anticipated new high rise apartments launched in 1H2016 is phase one of Forest City. It consists of 482 units with sizes ranging from 753 sq ft to 1,862 sq ft and gross selling price from RM1,200 per sq ft. This launch has received plenty of attention globally and is continuing to be aggressively marketed internationally.

Bukit Impian Residence, which was launched in March, offers 100 units of 2-storey terraced houses with built-ups of 2,567 sq ft to 2,638 sq ft, and priced from RM648,000 to RM1.13 million per unit.

UEM Sunrise Bhd has launched Melia Residences, the first freehold landed strata residential development in Gerbang Nusajaya. The 73.64-acre development offers 625 units of 2-storey terraced houses with built-up areas ranging from 2,006 sq ft to 2,594 sq ft. The selling prices for phase one starts from RM550,000 per unit. The positive response from the market has prompted the launch of Phase 3.

Mutiara Rini Sdn Bhd recently launched Phase 5B of Rini Homes comprising a total of 223 units of 2-storey terraced houses. These houses have built-up areas ranging from 1,694 sq ft to 2,327 sq ft, and are selling from RM480,000 per unit. All international units have been sold out. Taking advantage of the good response, the next phase is targeted to launch in July 2016.

Hua Yang Bhd has launched Tower A, the second tower of its Citywoods serviced apartment project, along Jalan Abdul Samad. Like Tower B, which was launched in September 2014, Tower A is also a 19-storey apartment block with only nine units per floor. Tower A offers three design layouts ranging from 764 sq ft, 958 sq ft and 1,249 sq ft respectively with prices starting from RM446,000 per unit.

In March, Mah Sing Group Bhd held a topping-up ceremony for The Meridin @ Medini which symbolizes the completion of the development’s structure. Launched in 2013, the completion of The Meridin@ Medini’s structural works comes with the CONQUAS Structural Assessment score above 80 point. The Meridin@Medini is an integrated development offering hotel-serviced suites, serviced residences, SOVO, and retail shops. One of the earlier headline developments of Medini, its completion is highly anticipated.

Meridin@Medini

Citywoods

Afiniti Medini that was launched in 2013 and developed by Pulau Indah Ventures, a JV between Khazanah Nasional and Temasek Holdings, has received its Certificate of Completion and Compliance. Keys were handed over to purchasers from end April. Development comprises of Afiniti Residences (147 units) Somerset Medini Serviced Apartments (310 units) a training centre, retail components and 50,000 sq ft of space dedicated to wellness and health anchored by Pantai Parkway.

OFFICE

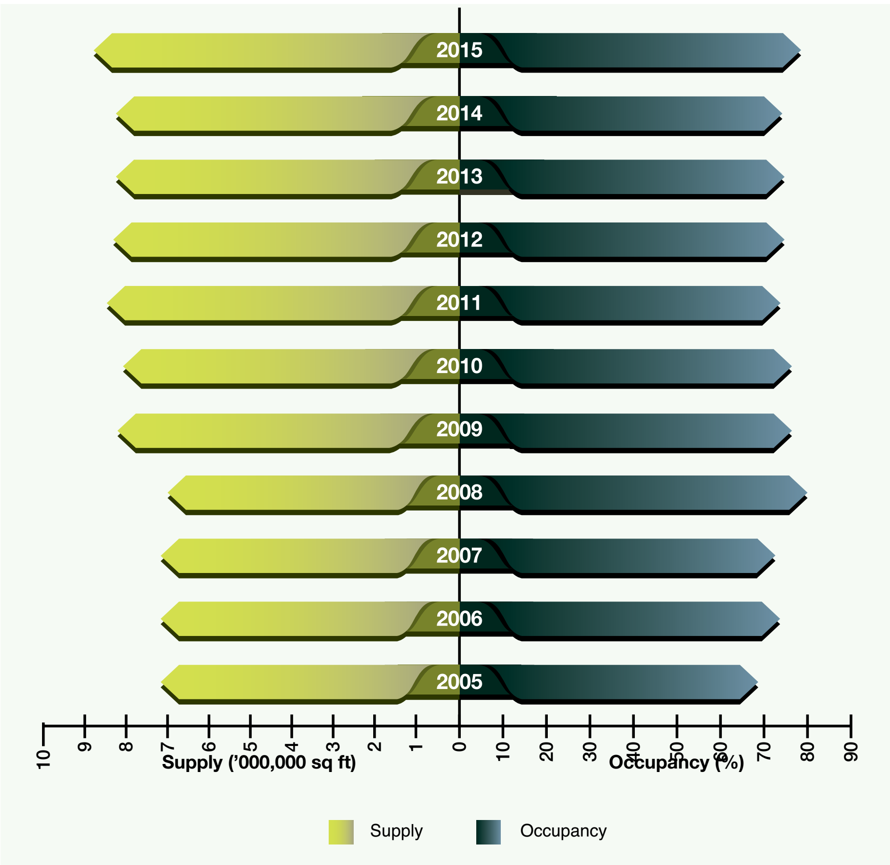
As at end of 2015, the total net lettable area (NLA) of purpose-built office space which includes private buildings and government buildings in Johor Bahru stands at approximately 8.87 million sq ft with an overall average occupancy rate of about 78%, a slight increase as compared to the previous year.

Rentals of prime and non-prime CBD office space remained stable with asking gross rental for prime space ranging from RM2.50 to RM3.50 per sq ft per month while non-prime office space command gross rental of between RM1.80 and RM2.50 per sq ft per month. These rates are generally inclusive of the provision of shared services comprising centralized air conditioning, security and cleaning services for the common areas.

Bank Rakyat Johor Tower, a 37-storey office building with a gross floor area of about 550,000 sq ft was recently unveiled by Sultan Ibrahim Ibni Almarhum Sultan Iskandar. It is located at Jalan Trus and Jalan Gereja within the Ibrahim International Business District, Johor Bahru city centre. The construction work has already started and is expected to complete in 2019.

D Pristine Medini Sdn Bhd (a wholly owned subsidiary of B&G Capital Resources Bhd) has entered into a sales and purchase agreement with Pelaburan Hartanah Bhd (PHB) to sell its Grade A Office Tower component of its d'Pristine@Medini project located in Medini. The sale of the 32-storey office building to the government agency was concluded on January 15, 2016. The office building is part of the 8.42-acre integrated mixed development, d'Pristine@ Medini that comprises two SOFO towers, a 4-star hotel, and interconnected lifestyle retail mall.

TABLE 9
Office Supply and Occupancy Trend in Johor Bahru (2005 – 2015)



Source: Knight Frank Research / NAPIC

RETAIL

By the end of 2015, the total NLA of Johor Bahru retail space (inclusive of shopping centres, arcades and stand-alone hypermarkets), stands at about 11.78 million sq ft with an average occupancy at 78.2%. Prime retail space continued to perform well with occupancy rates recorded in excess of 80%, commanding gross rentals ranging from RM15.00 to RM40.00 per sq ft per month.

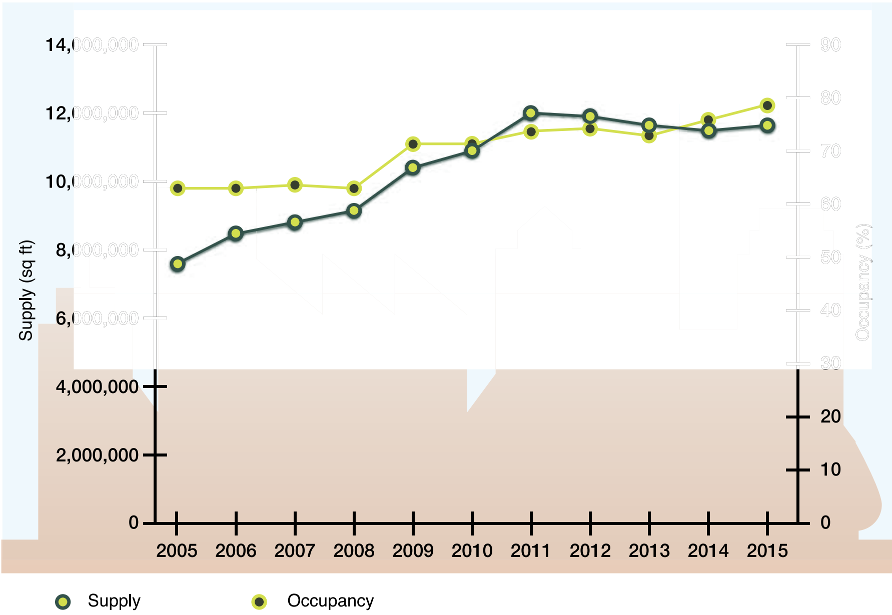
After a legal tussle lasting for 1½ years, the land amalgamation process for Mid Valley SouthKey is finally concluded with the completion of SouthKey mall to be delayed until end of 2018. Once complete, Mid Valley SouthKey Megamall will be one of the largest shopping centre in the Southern Region.

IKEA Malaysia's third store which is located in Taman Desa Tebrau, Johor Bahru is slated to open by the end of next year. IKEA Johor Bahru is to be located on the 36.94-acre tract next to AEON Tebrau City. Ikano had purchased the land for RM64.4 million, or approximately RM40.00 per sq ft in July 2007. The IKEA store will be integrated with a shopping centre. The proposed shopping centre revolves around F&B streets that straddle its frontage, with IKEA being the anchor tenant, together with a hypermarket, junior anchors and specialty shops.

The construction of Paradigm Mall set along the Skudai Highway, by WCT, is making good progress and is expected to be opening by the end of 2016. Its completion will see over 1.3 million sq ft (NLA) of retail space entering the market. SOGO Department Store (making its Johor debut), Village Grocer supermarket, an ice skating rink and a 16-screen Cineplex are anchor tenants.

TABLE 10

Retail Supply and Occupancy Trend in Johor Bahru (2005 – 2015)



Source: Knight Frank Research / NAPIC

INDUSTRY

In May 2016, Axis-REIT acquired a parcel of industrial land erected with a single-story warehouse building and other ancillary buildings located in Zone 12C of Kawasan Perindustrian Pasir Gudang for a total lump sum cash consideration of RM33 million from Orientant Int. Sdn Bhd. The property with GFA of approximately 168,428 sq ft on a 2.52-hectare land is tenanted to Kerry Ingredients (M) Sdn Bhd. Earlier, in November2015, Axis-REIT purchased four units of single-storey detached factories in Kulai.

AmanahRaya Real Estate Investment Trust has entered into a sale and purchase agreement (SPA) with Pipeline Distribution (M) Sdn Bhd on April 20, to acquire a parcel of freehold land in SiLC for RM24 million. A single-story factory annexed with a three-storey office building, known as Deluge Factory, with a GFA of approximately 78,360 sq ft is built on the 1.2-hectare land.

MSM Malaysia Holdings Bhd, the country's largest producer of refined sugar, will build the largest sugar refinery in Malaysia. Set on a 20-hectare plot in Tanjung Langsat, the RM1.09 billion integrated plant is expected to be operational by the end of 2018.

Amity-Energy Pte Ltd will build and operate a Refrigerated Liquefied Petroleum Gas (RLPG) terminal in the Tanjung Langsat Industrial Complex. The RLPG Terminal is the first of its kind in Malaysia and expected to be operational in Q1 2018. The facility is expected to cost between RM586 million and RM781 million.

Despite the recent difficulties, Petronas Chemicals Bhd, a unit of Malaysia's state energy company, will continue to spend RM16 billion over the next five years in the ongoing RAPID project in Pengerang. Most of this investment will be allocated to a refinery and petrochemicals complex. While Petronas is under pressure and has put other capital expenditure projects on hold, it is committed to the RAPID project in Pengerang as this injection clearly shows.

OUTLOOK

1H2016 has been impacted with multiple headwinds that include oil and gas crisis, weaker ringgit, and reduced mortgage availability. Several projects particularly high rise residential developments have been put on hold for the time being.

The state government made the decision to halt new approvals for high-rise residential projects to allow existing supply to be absorbed. As a result, new launches for these developments are expected to be fewer this year. The region will take time to digest the existing and incoming high-rise residential supply.

Developers are keen to sell off their existing stock before starting new launches. In order to entice buyers, a myriad of special incentives are being offered to potential purchasers. Rebates, free legal fees, fully furnished units, free moving services are all being offered by various developers. Some are even offering to help provide financing packages in order to encourage sales. This is also indicative of the difficulty potential purchasers are facing to obtain credit. Lending policies of banks appear to be more restrictive, with loan approval rates sitting at 50% as of the end of 2015.

The recent global launch of Forest City has done much to place Johor in the spotlight. However with the current economic climate, many consumers are prepared to wait for encouraging signs before committing to an investment in real estate.

Catalytic projects are needed here to spur growth and investment. Spearheading these will be the infrastructure improvements such as the High Speed Rail (HSR) connecting Kuala Lumpur to Singapore and the Rail Transit System which will connect Johor Bahru to the MRT of Singapore. The recent signing of the MoU between Singapore and Malaysia for the HSR is an encouraging sign. There is no doubt that when these mass transit links become operational there will be a fresh injection of interest and added development impetus in Johor Bahru.

Mid Valley Southkey Megamall

HIGHLIGHTS

Transaction volume and value down 27% and 49%, respectively.

Sabah to benefit long term from big infrastructure projects – Pan Borneo Highway and Bus Rapid Transport system.

Values expected to hold throughout 2016 with moderate launches of new developments across all sectors.

KOTA KINABALU PROPERTY MARKET

MARKET INDICATIONS

Similar to the second half of 2015, the Kota Kinabalu property market saw fewer new property launches and moderated transaction activities. Based on Property Sales Data (Q1 2016) by NAPIC, Sabah registered 1,595 transactions with a total value of RM820.90 million, a decrease of 27% and 49% in volume and value respectively against Q1 2015. Existing and known challenges such as the general buyer's sentiment, rising cost of construction, and general heightened restrictions of financial institutions regarding lending criteria have collectively contributed to the situation that the property market is currently facing. Notwithstanding, there has been no evidence of a drop in property prices.

Based on the Sabah Housing and Real Estate Developers Association (SHAREDA), the gross development value (GDV) for properties launched in Sabah has plummeted significantly from RM7.65 billion in 2013 to RM3.75 billion in 2014 and further dropped by approximately 28% to RM2.7 billion in 2015. Under such circumstances, developers have responded to the market environment with smaller units and more affordable projects leading the way rather than what developers prefer to build in terms of profitability.

In April 2016, Sabah witnessed a historical event when Prime Minister Datuk Seri Najib Tun Razak officially launched the first phase of the Pan Borneo Highway Sabah (PBHS), costing RM12.86 billion and expected to be completed by 2021. According to the Prime Minister, the PBHS has the highest impact on Sabah and will bring the state to a higher level in terms of socio-economic development, and the project alone is expected to create 400,000 new jobs for the local.

The RM1bn Bus Rapid Transport (BRT) system is expected to be completed in 2020, according to Chief Minister Datuk Seri Musa Aman. The project is an initiative under the blueprint of the Kota Kinabalu Public Transport Enhancement, and will be carried out by Prasarana Malaysia Berhad through the Public Private Partnership (PPP). The BRT involves an intelligent transport system comprising closed-circuit television (CCTV), automated fare collection and fleet tracking systems, allowing users to manage their journey efficiently with lower costs. A total of four integrated terminals will be developed under the Public Transport (Bus) Enhancement plan namely, Northern Inanam Integrated Bus Terminal, Southern Kepayan Integrated Bus Terminal (nearby Kota Kinabalu International Airport), Eastern Penampang Integrated Bus Terminal as well as the Wawasan Kota Kinabalu Main Terminal which is currently under construction. Besides that, three main routes covered under the project consists of Putatan – Kota Kinabalu – Inanam (20km), Kota Kinabalu – Penampang (11km) and Kota Kinabalu – Alam Mesra (13km).

The latest debut of mixed development is The Shore (previously known as Blue Summer Suites) which is strategically located in the heart of Kota Kinabalu City Centre. This mixed-use commercial hub docked within a prime waterfront enclave of Kota Kinabalu consists of Small Office Versatile Office (SOVO), Serviced Residences - managed by Citadines (under Ascott Limited), and a Retail Mall. With its SOVO units ranging from 409 sq ft to 541 sq ft and prices starting from RM1,200 per sq ft, the 1.8 acre new development is poised to bring a new wave of lifestyle and business opportunities to Kota Kinabalu.

Likas Boulevard is a joint development by GE Properties Sdn Bhd, a subsidiary of Naim Indah Corporation Berhad and Sabah Energy Corporation, the land owner of the 3.58 acres of prime land located along Likas Bay. The development is accessible and visible from the main coastal road of Jalan Tun Fuad Stephens with views of the pristine Likas Bay and merely two minutes from the city centre. This 30-storey mixed commercial development with a Gross Development Value (GDV) of RM2.4 billion will comprise three blocks of luxury condominiums (477 units), exclusive retail lots (88 units), boutique hotel (150 rooms), banquet hall, 200 room Sheraton Four Points hotel (managed by Starwood Group), and Menara SEC.

Borneo Estate Development Sdn Bhd's upcoming mixed-use development "Desa Impian" with a GDV of RM4.2 billion is slated for launch by 2H2016. To be developed over 10 years, the 72 acre project will comprise 7,800 apartments housed in 15 blocks and have an integrated commercial component. The project is an approved PR1MA affordable development modelled after Singapore HDB (Housing and Development Board) flats and with its initial concept planned by Singapore's CPG Group, Desa Impian aims to be the first of its kind in Sabah. In terms of the residential component, the apartments will have built-up areas of between 700 to 1,055 sq ft and be priced from RM295,000 to RM450,000.

RESIDENTIAL

As according to the information provided by NAPIC, the total amount of condominiums / apartments in Kota Kinabalu tallies at 17,105 units as of Q4 2015. This shows a substantial growth from year 2006 with only 2,357 registered units.

The market slowly but surely is looking at a gentle ascension towards improving its performance in the year 2016. The options presented to buyers for new developments is finite and as a result, projects launched in the first half of 2016 have been achieving healthy take-up rates, signifying that consumer sentiment is gaining traction from what some considered to be a challenging 2015. This is mainly because developers have responded to the market environment with smaller units and more affordable projects leading the way. Updates of selected residential projects in Kota Kinabalu are as follows:

Bukit Bantayan, the first property development of established peninsula-based company Gamuda Land in Sabah, is set to be the first condominium in the State that is designed to seismic specifications – an earthquake resistant structure. The 25-storey condominium offers a total of 296 units with sizes ranging from 904 sq ft to 1,100 sq ft, and was launched at a starting price of RM390,800 onwards. To date, 60% of the development has been sold.

Maya@Likas is the latest development by Borneo Estate Development Sdn Bhd after its maiden project – Riverson. Maya@Likas comprises three residential towers with a total of 483 units, with unit sizes ranging between 910 sq ft and 1,562 sq ft and which are priced from RM476,710 to RM830,800. The project's gross development value (GDV) is RM295 million and to date, 60% of its units have been sold.

Strategically located at Bundusan, Triconic Tower is a new proposed development by Kinsabina Group of Companies featuring three blocks of 16-storey condominiums with a gross development value 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.

Condominium Ria is a new proposed development by Makinsa Group. Located along Lintas Khidmat Road, this 11-storey condominium consists of 39 units with built-up areas ranging from 1,206 sq ft to 2,084 sq ft and priced from RM626,000 to RM1.3 million.

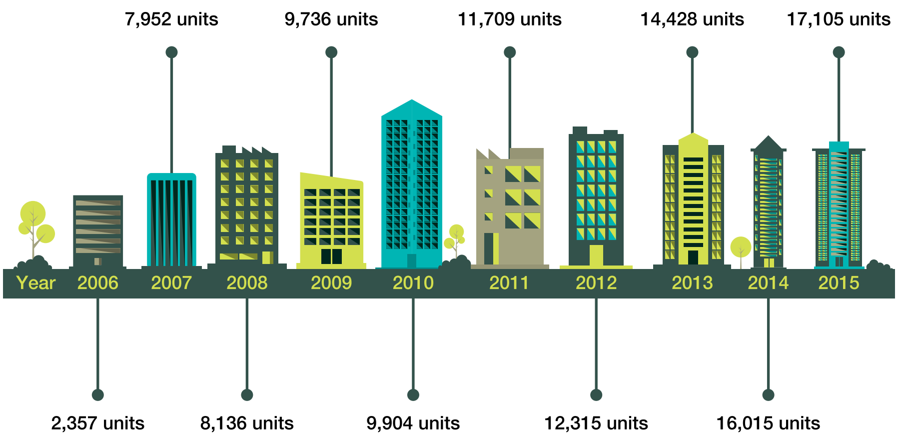
E Residence is the latest development of Cahaya Hartamas Sdn Bhd, a subsidiary of Eng Han Group. It is strategically located at the northern entrance into Kota Kinabalu Industrial Park, close to shopping malls and hypermarkets such as the Grand Merdeka Mall and 1-Borneo Hypermall and ringed by institutions of higher learning including Universiti Malaysia Sabah, University Teknologi Mara campus and Institut Sinaran. The development comprises of 1,280 units housed in a 5 storey apartment with built-up areas between 1,029 sq ft and 1,176 sq ft and priced reasonably from RM288,000 onwards. This 40.45 acres development is also complemented with a 3 storey shop office and supermarket blocks when fully completed.

Casablanca Residence by Kinsabina, located off Jalan Kolombong, is a gated and guarded community with 24-hour security at entry and exit points. An in-house 2-storey clubhouse with ample facilities is provided as well for community-based activities in a safe and welcoming environment. The well-planned landed development comprises 92 units of two- and three-storey terrace houses as well as two (2) units of two-storey semi-detached houses offering a spacious floor area of 2,293 sq ft to 2,842 sq ft. A two-storey terrace house price ranges from RM788,000 onwards while a three-storey is priced at RM973,000 onwards. All 94 units of Casablanca Residence come with readily available subdivided titles.

A summary of selected medium to high-end condominiums that are currently under construction are tabulated as follows:

TABLE 11

Supply of Condominium / Apartment Units in Kota Kinabalu (2006-2015)



Source: Knight Frank Research

TABLE 12
Notable Medium to High End Condominiums (Under Construction)

Name of Development	Location	Total Units
Jesselton Residences	KK CBD	333
Pelagos Designer Suites	KK CBD	111
Harrington Suites	Luyang	116
Pacific Heights @ PacifiCity	Likas Bay	204
The Residences @ Sutera Avenue	Southern Fringe of KK CBD	320
Jade Residences	Fung Yei Ting	135
The Gardens @ Bundusan	Bundusan	500
The Riverside Residence @ Sodomon	Kepayan	134
Lido Avenue	Jalan Lintas	228
One Jesselton @ Kepayan Ridge	Kepayan Ridge	125
Jesselton View @ Hilltop	Hilltop	80
D' Golden Gate Condominium	Jalan Nosoob	48
SkyVue Residence	Kobusak	200
The Light Residence	Jalan Penampang Bypass	228
Maya @ Likas	Likas	483
Bukit Bantayan	Inanam	296
Kingfisher Inanam	Inanam	257
Ashton Tower	Kolombong	391
Khidmat Condominium	Off Jalan Khidmat	36
Kingfisher Putatan	Putatan	120
Condominium Ria	Jalan Lintas-Khidmat	39
Manhattan Suites @ ITCC	Jalan Pintas	295
Total no. of units		**4,679**

Source: Knight Frank Research

OFFICE

Similar to the second half of 2015, the current supply stands at 6.22 million sq ft with the new influx of 289,740 sq ft of office space into the market due to recent completions of Plaza Shell and Riverson Suites. The average occupancy rate of office space in Kota Kinabalu also remains at 91.8%. Traditional rental rates have hovered around the RM2.00 to RM3.50 per sq ft range, except for Plaza Shell and Riverson Suites which would command a premium due to their quality and standard of construction.

A quick glance at the table above will show that approximately 1.5 million square feet of office spaces will be added to the market in one or two years' time, with the completions of Signature Office Suites @ Sutera Avenue, SOVO Exchange @ Aeropod, Boutique Office @ Aeropod and Pacific Enterprise @ PacifiCity. Moving forward, market values for purpose-built offices should be sustained given the general rise in the launch prices of new office and shop office developments though yields are compressed as growth in prices outpace increases in rental rates.

In February 2016, 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 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.

Besides Petronas' newly launched office building, there were no new launches for purpose-built offices after the completion of Plaza Shell and Riverson Suites. However, there is a significant portion of incoming office supply over the next one or two years, namely the Sabah State Administrative Complex, Sutera Avenue, Aeropod signature offices, Pacific Enterprise Tower A to E (PacifiCity) and ITCC i-Office Tower.

Looking ahead, major developers such as Mah Sing Group Bhd, SP Setia Bhd, and Gabungan AQRS Bhd have plans to incorporate Grade A purpose-built office buildings as one of their key components for their upcoming integrated developments. This is expected to attract more multinational and local corporations to venture into the Kota Kinabalu office sector.

RETAIL

Kota Kinabalu's retail space is a lucrative sub-sector within the property market. Recently the completion of Imago

TABLE 13

Incoming Supply of Selected New Office Space (Under Construction)

Name of Development	Location	Estimated Net Lettable Area (sq ft)
Signature Office Suites @ Sutera Avenue	Southern Fringe of KK CBD	233,544
SOVO Exchange @ Aeropod	Kepayan	331,720
Boutique Office @ Aeropod	Kepayan	233,544
Pacific Enterprise @ PacifiCity	Likas Bay	144,679
Sabah State Administrative Centre	Likas Bay	645,834
Total		**1,589,321**

Source: Knight Frank Research

Shopping Mall, Riverson Walk retail mall, retail space of Plaza Shell and Oceanus Shopping Mall drastically increased the amount of net retail space by roughly 1,000,000 square feet, totalling the net retail space to slightly over 5.8 million square feet.

Further elaborating on the notable growth of retail spaces in Kota Kinabalu, the highest growth rate of 48% was during the year 2009, whereby retail spaces increased by almost half of the existing supply. This is mainly due to Suria Sabah, a development by Makamewah Sdn. Bhd. located along the northern fringe of the KK CBD. The next largest increase in retail space was recorded in the year 2007, with the introduction of City Mall and Warisan Square increasing total retail space by 31%. Imago and Oceanus Shopping Malls increased the total retail spaces by 16% and 6% respectively.

Similar to previous years, transactions for retail mall units have been limited and values and yields of retail space in the CBD have been relatively stable. Currently, established and well-managed retail malls in Kota Kinabalu are maintaining good occupancy rates. However, we maintain that retail malls are likely to face continued fierce competition amongst one another as new supply is added to the market in one or two years' time, with the slated completions of multiple developments as follows:

Anchoring Imago and Suria Mall as the benchmarks, it is understood that international brands have a preference to take up retail lots within these modern Retail Malls. The presence of publicly known brands (e.g Uniqlo and H&M) would undoubtedly increase confidence in the overall growth of the retail sector due to these tenants contracting potentially longer lease terms which guarantees a stream of income for the Retail Malls.

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. In addition to the new Wuhan service from Airasia and new charter flights from Malaysia Airlines, Kota Kinabalu's China traffic will be boosted in 2016 from the recently launched services from Chinese carriers. According to Centre for Aviation and OAG, international capacity at Kota Kinabalu has increased by 7% over the last year to 45,000 weekly seats. The increase has been driven by the launch of services by four foreign airlines, including Korea's Jin Air and three Chinese carriers (Spring Airlines, China Southern Airlines and Shanghai Airlines). In view of this, foreign arrivals and state revenues will be bolstered, most of which are derived from accommodation and retail spending.

TABLE 14

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

TOTAL (sq ft) : 1,504,174

Source: Knight Frank Research

MARKET OUTLOOK

The overall property market is anticipated to see little change throughout 2016. As Kota Kinabalu is the State Capital and the administrative, commercial, education and tourism hub and the gateway into Sabah, property prices are envisaged to be sustained, provided that there are no major changes to macro-economic conditions and government policies. Overall, good, developable land in sought after locations will continue to be safe bets in the long term.

Well priced, mid-range and affordable residential properties are expected to be received well by the market as well as end financiers. Transactions are still anticipated to be skewed towards the secondary market as a result of limited new releases by developers. 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 fringe. Retail rents may compress as strata mall owners compete for the same tenants. Malls that are managed well, have good tenant mix, trade mix and advertising and promotions will absorb the windfall of tenants. The tourism market will play a critical part across all sectors and with the increase in hotel accommodation and flights, the outlook is positive in the medium to long term.

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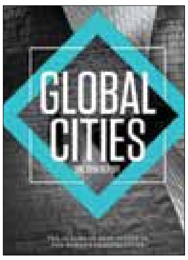

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