

savills

Offices

Kuala Lumpur, Malaysia



The Office Market

Malaysia's Booming Economy Moderates

The growth of the economy slowed to 6.7 per cent in Q2/2008 and 4.7 per cent in Q3/2008 (7.1 per cent Q1/2008) and some analysts are anticipating a further slow down into 2009 with an estimated growth rate of 3.4 per cent. Growth was supported by domestic demand, which increased by 6.5 per cent in Q3/2008. Strong consumer spending was mainly driven by higher disposable income from stable employment conditions.

Net foreign direct investment amounted to RM2.7 billion in Q3/2008 but Malaysian companies investing abroad recorded a larger net outflow of RM16.1 billion for investments in the services and manufacturing sectors. Malaysian company YTL has been a big overseas investor this year, particularly in Singapore, where it purchased Singapore's second largest power producer Power Seraya for S\$3.8 billion and paid S\$285 million for Macquarie Prime REIT. The company also launched the luxury residential development Sandy Island in Sentosa Cove Singapore.

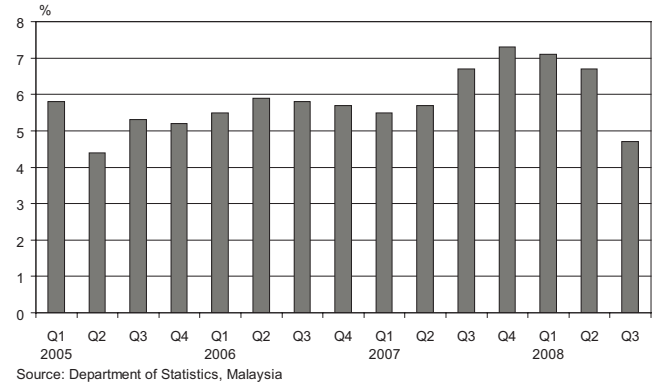
Global Economic Crisis

The global economic crisis is taking it's time to have an impact on Malaysia but in 2009 the effect on the country may be more pronounced. Loan applications and approvals have moderated due to lower demand, but the Malaysian financial system continues to provide access to financing and the average interest rate of 5.96 per cent is stable. Banking giant HSBC has decided to curb lending to palm oil projects in Malaysia and most other forestry projects but this is reported to be due to pressure from environmental groups and not due to the financial crisis.

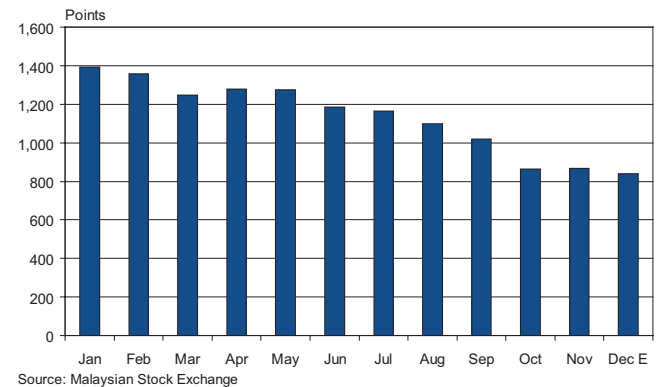
As a pre-emptive and precautionary move to maintain the stability of the financial system, Bank Negara Malaysia announced that effective 16th October 2008, all Ringgit and foreign currency deposits would be fully guaranteed by the government until December 2010. A RM7 billion National Stimulus Package was announced on 4th November 2008 and on 24th November 2008 the Overnight Policy Rate was reduced to 3.25 per cent in an attempt to support the main driver of domestic demand.

The Malaysian stock exchange (Bursa Malaysia) reported a 52 per cent decline in profits for the nine months from Jan to Sept 2008. This was primarily due to decreased trading revenue from a weak equities market. The stock exchange plans to seek strategic alliances and improve efficiency and leverage on natural competitive advantages such as commodities and the Islamic financial services sector. Bursa Malaysia successfully launched its Bursa Trade Securities trading platform in December. The launch of this trading platform for the equities market will provide greater accessibility for both local and international investors, as well as enhanced trading efficiency and greater transparency in the market.

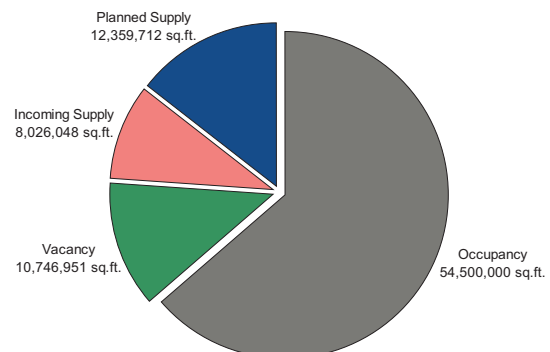
Malaysia GDP, 2005 - Q3/2008



Kuala Lumpur Stock Market Composite Index, January - December 2008



Federal Territory of WPKL* - Occupancy and Vacancy vs Incoming and Planned Supply, as at Q4/2008



Source: National Property Information Centre, Rahim & Co Research

* Wilayah Persekutuan Kuala Lumpur (WPKL) is a Federal Territory containing the city of Kuala Lumpur and including decentralised locations such as KL Sentral public transport hub, Mid Valley City, Damansara Heights and Bangsar.

Services & Commodities Sector Still Strong

The services sector managed to sustain its strong expansion in Q3/2008, increasing by 7.1 per cent on higher finance and insurance sub sector growth. Contributions are noted from new areas of growth in the business services sector including telecommunications and ICT and shared services and outsourcing. The oil and gas industry also continued to expand, welcoming the arrival of French company Total which will be involved in oil exploration and production. National oil and gas company Petronas has contributed RM62.8 billion or 44 per cent of the government's revenue in 2007.

New Supply vs Refurbished Supply

Over 3 million sq.ft. of new office space will be ready in 2009 and an additional 1 million sq.ft. of office space is being refurbished and re-positioned. While the average take up per year since 1993 has only been about 1.5 million sq.ft., some of the new office space will be owner occupied by corporations or government departments. Malaysian company UOA is contributing the majority of new office space in 2009 with major commercial projects in the decentralised market of Bangsar.

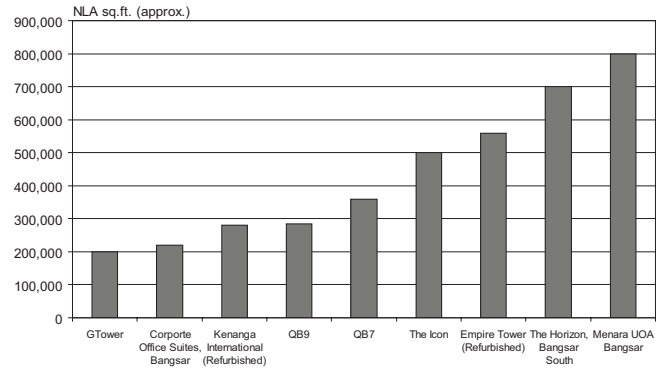
The Golden Triangle road of Jalan Tun Razak will be the scene of fierce competition in 2009. New office buildings The Icon and GTower will be completed, as will the refurbishment and re-branding of Empire Tower and all three buildings are within walking distance of each other near Ampang Light Rail Transit station. The touted Grade "A++" building GTower has the advantage of being closest to the train station and offers unique incentives and features and has only 100,000 sq.ft. of open office space to occupy. The soon to be refurbished Empire Tower is owned by Macquarie Global Property Fund II and managed by Macquarie Global Property Advisors (MGPA). The expertise and management style of MGPA will carry a great deal of weight with office tenants who have limited choice in terms of professionally managed office buildings. At 61 storeys, the building is one of the tallest in the city with uninterrupted views of the famous skyline and is expected to compete well against neighbouring new office buildings.

Vacancy and Rental Rates

Taking into account the entire Federal Territory of Kuala Lumpur, the vacancy rate is stable at approximately 15 per cent, but prime Grade 'A' office buildings in the Golden Triangle and KLCC are all practically 100 per cent occupied. It is for this reason that we expect the few new office buildings in the Golden Triangle to do well in terms of occupancy.

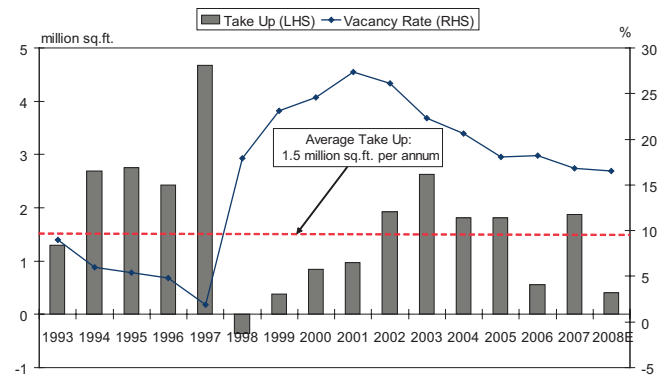
Rental rates have stabilized after an increase in the first half of the year. Excluding the Petronas Twin Towers, typical Grade 'A' offices in the Golden Triangle and KLCC are asking for gross rents of between RM7 and RM9 per sq.ft. per month. Some companies entering Malaysia for the first time have refused to commit to new office space and have occupied serviced offices so they can wait and see how the market performs in 2009. New serviced office operator The Nomad has expanded aggressively this year and has reached healthy occupancy levels due to competitive pricing and flexible terms and conditions for tenants.

New Supply vs Refurbished Supply, 2009E



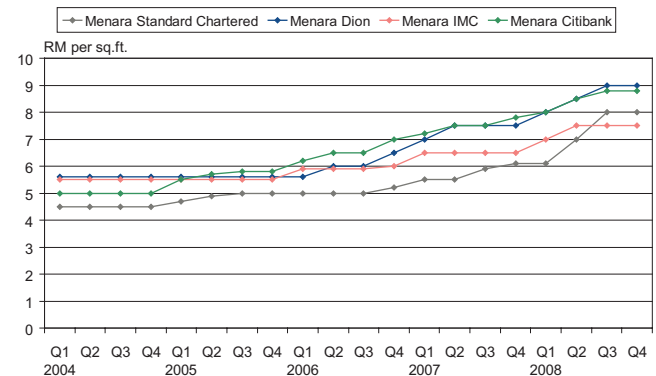
Source: Rahim & Co Research

WPKL Take-Up and Vacancy Rates, 1993 - 2008E



Source: National Property Information Centre, Rahim & Co Research

Major Prime Office Rents, Q1/2004 - Q4/2008



Source: Rahim & Co Research

