



Offices

Kuala Lumpur, Malaysia



Malaysia Economy

The Malaysian economy entered into recession in the first half of 2009, with the contraction slowing by Q3/2009. This improvement is largely attributed to the government's liberalisation of the financial and service sectors, two economic stimulus packages worth RM67 billion, the deregulation of the Foreign Investment Committee as well as traditional economic drivers such as improved domestic consumption. Domestic consumption is a favourite issue of the new Malaysian government as it is working hard to steer the country away from a manufacturing, export based economy, to a high income economy driving strong domestic consumption.

Stock Market

The second half of 2009 has seen big improvements in stock market performance. In Q3/2009, the Securities Commission approved 12 proposals for equity raising by listed corporations compared with 10 approved in Q2/2009, raising RM1.43 billion, almost double what was raised in Q2/2009. At the same time, steady interest was noted in raising funds via initial public offerings – the Securities Commission received 8 IPO applications in Q3/2009 compared with 6 in Q2/2009. Rising banking stocks, led by CIMB Group, helped boost the local stock market index to it's highest level since May last year. In addition, the listing by Maxis this year which involved the sale of 2.25 billion Maxis shares is believed to enlarge Bursa Malaysia's market capitalization. Market sentiment also benefited from fresh signs that the economy is on its way to recovery.

Office Market Overview

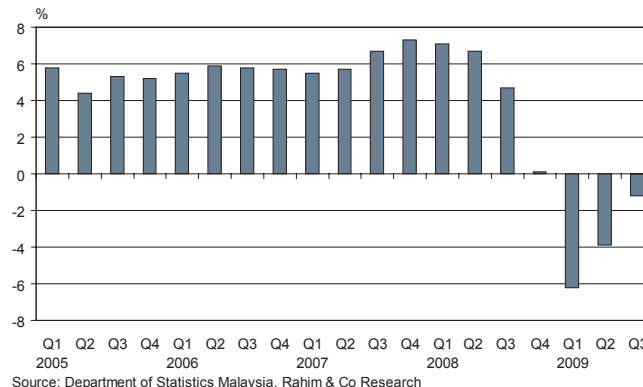
The government's market liberalisation initiatives have already begun to show results in the form of new licences granted to heavyweight institutions such as ICBC Bank from China and Goldman Sachs. However, investment in Malaysia from such institutions may be small initially. Such financial institutions are still likely to choose the prime CBD of Kuala Lumpur City Centre (KLCC) as their office location.

In addition, some international mergers and domestic company expansions have resulted in an increase in office market activity in the second half of 2009. In October, Nestle (Malaysia) Berhad relocated from a 30 year old office building in the suburb of Petaling Jaya to take up approximately 130,000 sq.ft. in new building Surian Tower in Mutiara Damansara. The former Nestle House in Petaling Jaya, owned by Axis REIT is now being refurbished with a budget of RM8 million and will be renamed Quattro West. Energy company Shell have also committed to lease a 323,000 sq.ft. built-to-suit office building in Cyberjaya, 26 km from Kuala Lumpur. The building will be completed in 2011 and will be a LEED rated green office building leased for a minimum period of 10 years. Shell has planned to reduce costs and increase efficiency by consolidating its entire group operations in Malaysia (10 centres) to two strategic locations, namely the public transport hub of KL Sentral and the MSC status business park Cyberjaya.

New Office Supply

The federal territory of Kuala Lumpur includes the city of Kuala Lumpur and many surrounding suburbs which are well established business addresses. Taking into account the entire federal territory, it is clear that millions of sq.ft. of existing office space stand vacant and millions more are either scheduled or have received planning permission. Incoming supply comprises units where physical construction works are in progress but the certificate of fitness for occupation has not been granted during this review period. Planned supply comprises units with building plan approval but the units have not started physical construction works.

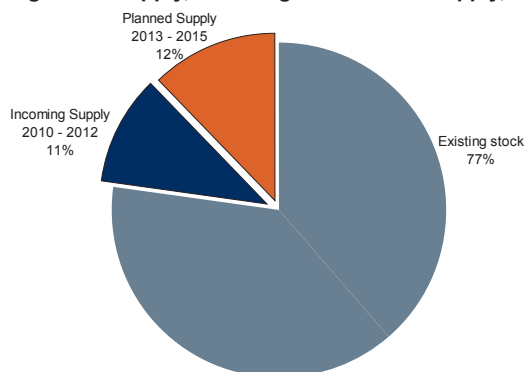
Malaysia GDP, Q1/2005 - Q3/2009



FTSE Bursa Malaysia KLCI, Jan 2007 - Dec 2009



Existing Office Supply, Incoming and Planned Supply, Dec 2009



The figures may seem alarming, considering the average take up of office space in the federal territory has been about 1.6 million sq.ft. per year since 1993. However, the government figures for incoming supply also include delayed units where the foundation work has started but no construction has taken place for a period of more than 3 years. It is possible that the number of delayed units may increase resulting in fewer actual completions. In addition, there have been some aborted sales of office buildings which may result in more delays or a change in concept for the developments. Finally, some of the new office supply is designed to cater for small and medium sized local companies and provide small office suites for sale or to let which will not compete with the international standard Grade 'A' supply.

Grade 'A' Office Supply

Most of the eight existing Grade 'A' office buildings in the Golden Triangle have experienced slightly higher vacancy rates in the second half of this year and the downward pressure on rents in existing supply is likely to continue into 2010 as more new supply arrives. New office building Cap Square Tower is the most significant new Grade 'A' office building of 2010 in terms of location, size and quality. The location is a well established 15 acre mixed use development known as Capital Square (Cap Square) and it benefits from excellent road and public transport access, with two train lines and the monorail all within walking distance. Cap Square Tower will offer 600,000 sq.ft. of premium quality office space and with German institutional owners it is no surprise that the building efficiency will be high at nearly 80 per cent. The building will include an impressive main lobby with 52 ft tall ceilings, raised access floors and Low E glass surrounding the full façade providing "cold light" (maximum natural daylight and minimum heat) allowing tenants to reduce their power consumption and save money.

Office Rents & Capital Values

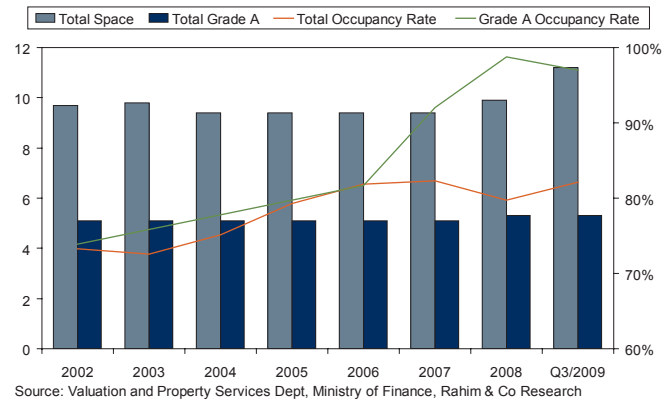
Prices of most office buildings in KL have declined, corresponding to the decline in office rental values. The fall in capital values has resulted in some aborted investment deals despite attempts to reach new agreements over pricing. Mah Sing Group lost a buyer for their 380,000 sq.ft. office building The Icon @ Mont Kiara worth RM285.4 million and now has plans to build small residential serviced suites. YNH Property also lost a buyer for their 1.2 million sq.ft. office building Menara YNH worth RM920 million. Mah Sing Group has managed to secure a new buyer for the East Wing of The Icon at Jalan Tun Razak. The new sale price is approximately 4.5 per cent off the original price agreed in 2007 and comes with a rental guarantee for 3 years, which was not part of the original deal.

Despite signs that some office tenants are exploiting the downward pressure on rents and signs that some investors are nervous about the future, there has been a recent success story. In December 2009, Permodalan Nasional Bhd (PNB) completed the purchase of the 370,000 sq.ft. office building Kenanga International for an estimated RM250 million, RM85 million more than was paid in 2007. The price difference can be attributed in part to the refurbishment of the building which included the creation of approximately 70,000 sq.ft. extra lettable office space.

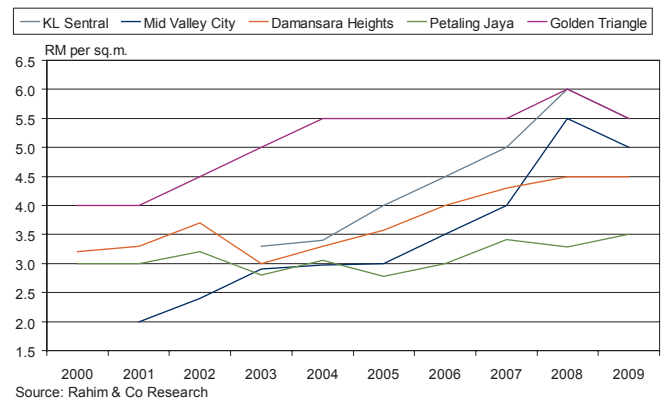
REIT Activity

Before the global economic recession, Malaysian REITs were performing quite well, yielding 6 to 7 per cent dividend returns. By the end of 2008, the REITs took a severe beating along with the rest of the equities market. Axis REIT has performed well in 2009 due to a combination of factors. The REIT spent most of 2008 converting to be Shariah compliant and following the reclassification, the REIT appealed to an expanded investment base of both conventional and Shariah funds locally and abroad. Investor confidence was also boosted by the issuance of new units raising almost RM 85 mil. This amount will be used to pare down the borrowing of Axis REIT.

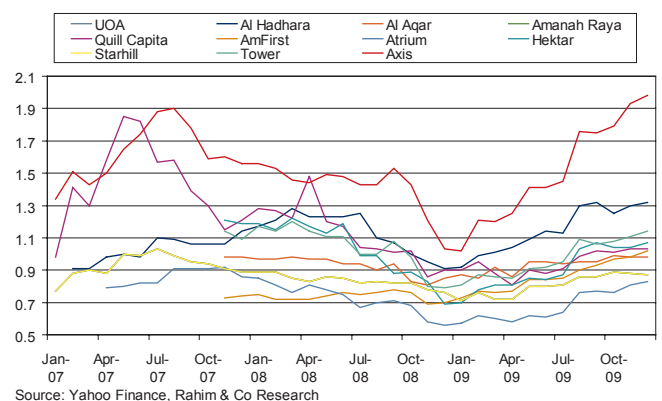
Total Space & Grade 'A' Office Stock, 2002 - Q3/2009



Average Rents By Location, 2000 - 2009



Malaysian REIT Stock Market Performance, Jan 2007 - Dec 2009



ASIA PACIFIC HEADQUARTERS

23/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2842 4400 Fax: (852) 2868 4386

Robert McKellar - CEO, Asia Pacific
Raymond Lee - CEO, Hong Kong and Macau
Randall Hall - CEO, China and Taiwan
Chris Marriott - CEO, South East Asia
Charles Chan - MD, Valuation & Professional Services, Greater China

HONG KONG SAR

Savills (Hong Kong) Limited

23/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2842 4534 Fax: (852) 2869 6738
Contact: Raymond Lee E-mail: rlee@savills.com.hk
EA Co. Licence: C-002450

Savills Valuation and Professional Services Limited

28/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2801 6100 Fax: (852) 2501 5810
Contact: Charles Chan E-mail: ccchan@savills.com.hk
EA Co. Licence: C-023750

Savills Property Management Holdings Limited

8/F Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong
Tel: (852) 2534 1688 Fax: (852) 2851 1249
Contact: Kendrew Leung E-mail: kleung@savills.com.hk
EA Co. Licence: C-002983

Savills Guardian (Holdings) Limited

7/F Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong
Tel: (852) 2512 1838 Fax: (852) 2887 3698
Contact: Peter Ho E-mail: peterho@savillsguardian.com.hk

MACAO SAR

Savills - Macao

Savills (Macao) Limited
Suite 1310, 13/F Macau Landmark, 555 Avenida da Amizade, Macao
Tel: (853) 8506 6288 Fax: (853) 2878 1805
Contact: Franco Liu E-mail: fliu@savills.com.mo

CHINA

Savills - Shanghai

20/F Shanghai Central Plaza, 381 Huaihai Middle Road, Shanghai 200020, China
Tel: (86) 21 6391 6688 Fax: (86) 21 6391 6699
Contact: Albert Lau E-mail: alau@savills-sh.com

Savills - Beijing

2101 East Tower, Twin Towers, B-12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022, China
Tel: (86) 10 5925 2288 Fax: (86) 10 5925 2299
Contact: Billy Chau E-mail: bchau@savills-bj.com

Savills - Guangzhou

Room 906, R & F Centre, No. 10 Hua Xia Road, Zhu Jiang New Town,
Guangzhou, 510623, China
Tel: (86) 3892 7168 Fax: (86) 3892 7030
Contact: Woody Lam E-mail: wlam@savills.com.hk

Savills - Shenzhen

Unit A, 5/F, Anlian Plaza, 4018 Jintian Road, Futian District, Shenzhen 518026, China
Tel: (86) 755 8828 5707 Fax: (86) 755 8828 5676
Contact: Woody Lam E-mail: wlam@savills.com.hk
Offices in Chengdu, Chongqing, Dalian, Hangzhou, Shenyang, Tianjin, Xiamen

ASIA

Savills - Indonesia

PT. Procon Indah
19/F Indonesia Stock Exchange Building, Tower 2, Jl Jenderal Sudirman Kav
52-53, Jakarta 12190 Indonesia
Tel: (62) 21 515 3777 Fax: (62) 21 515 3232
Contact: Hendra Hartono E-mail: hendra.hartono@procon.co.id

Savills - Japan

Savills Japan K.K.
Aoba Roppongi Building 3F, 3-16-33 Roppongi, Minato-ku,
Tokyo 106-0032, Japan
Tel: (81) 3 5562 1700 Fax: (81) 3 5562 1705
Contact: Christian Mancini E-mail: cmancini@savills.co.jp

Savills - Korea

Savills Korea
11/F Seoul Finance Center, 84 Taeyungro-1-ga,
Chung-gu, Seoul, Korea 100-768
Tel: (82) 2 2124 4201 Fax: (82) 2 2124 4188
Contact: Robert McKellar E-mail: rmckellar@savills.co.kr

Savills - Malaysia

Savills Rahim & Co
Level 17, Menara Uni. Asia, 1008 Jalan Sultan Ismail, 50250
Kuala Lumpur, Malaysia
Tel: (60) 3 2691 9922 Fax: (60) 3 2691 0096
Contact: Robert Ang E-mail: robertang@savillsrahim-co.com

Savills - Singapore

Savills (Singapore) Pte Ltd.
2 Shenton Way, #17-01 SGX Centre 1, Singapore 068804
Tel: (65) 6536 5022 Fax: (65) 6538 5540
Contact: Michael Ng E-mail: mng@savills.com.sg

Savills - Taiwan

Savills (Taiwan) Limited
17F-1, Exchange Square, No. 89, Sung Ren Road
Xin-Yi District, Taipei, Taiwan
Tel: (886) 2 8789 5828 Fax: (886) 2 8789 5929
Contact: Cynthia Chu E-mail: cchu@savills.com.tw

Savills - Thailand

Savills (Thailand) Limited
26/F Abdulrahim Place, 990 Rama IV Road,
Silom, Bangrak, Bangkok 10500, Thailand
Tel: (66) 2 636 0300 Fax: (66) 2 636 0339
Contact: Robert Collins E-mail: robertc@savills.co.th

Savills - Vietnam

18/F, Fideco Tower, 81-85 Ham Nghi Street,
District 1, Ho Chi Minh City, Vietnam
Tel: (84) 8 3823 9205 Fax: (84) 8 3823 4571
Contact: Brett Ashton E-mail: bashton@savills.com.vn
Office in Hanoi

AUSTRALIA

Savills - Australia

Savills (Aust) Pty Ltd.
Level 7, 50 Bridge Street, Sydney, Australia
Tel: (61) 2 8215 8888 Fax: (61) 2 8215 8899
Contact: Paul McLean E-mail: pmclean@savills.com.au
*Offices in Adelaide, Brisbane, Canberra, Gold Coast, Liverpool,
Melbourne, Parramatta, Perth, Sunshine Coast and Sydney.*

NEW ZEALAND

Savills - New Zealand

Barfoot & Thompson
Level 5, 50 Kitchener Street, Auckland, New Zealand
Tel: (64) 9 307 5523 Fax: (64) 9 303 1689
Contact: Peter Thompson E-mail: peter@barfoot.co.nz

MIDDLE EAST

Savills - Dubai

Asteco Property Management LLC (Associate)
P.O. Box 1714, Level 6, Capricorn Tower, Shk. Zayed Road
Dubai, United Arab Emirates
Tel: (971) 4 403 7700 Fax: (971) 4 403 7778
Contact: Andrew Chambers E-mail: andrewc@asteco.com

NORTH AMERICA

Savills - New York

Savills LLC
599 Lexington Avenue, 36th Floor, New York, NY 10022
Tel: (1) 212 328 2800 Fax: (1) 212 328 2828
Contact: John D. Lyons E-mail: jlyons@savills.com

UNITED KINGDOM / EUROPE / SOUTH AFRICA

Savills - Europe

20 Grosvenor Hill, London W1K 3HQ, U.K.
Tel: (44) 207 499 8644 Fax: (44) 207 495 3773
Contact: Jeremy Helsby E-mail: jhelsby@savills.com
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Hungary, Italy, Netherlands, Poland, Spain and Sweden. Associate offices
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