RAHIM & CO RESEARCH

Property Market Insight

Q1 2011

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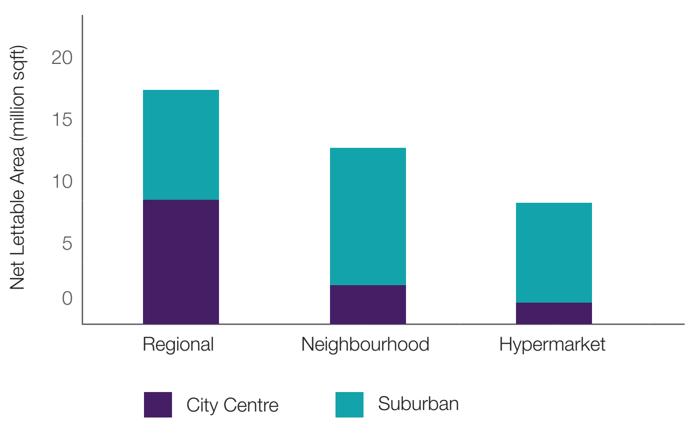
RETAIL

- With the population expected to increase to 29.6 million in 2014, the Q4 2010 BMI Malaysia Retail Report forecasts that total retail sales will grow to about 21.9% from approximately RM137 billion in 2010 to about RM167 billion this year. Malaysia's retail industry recorded sales growth of 8.5% in the last quarter of 2010 due to rising prices of retail goods and year-end holidays. Growth for Q1 2011 was expected to rise by 10.8% due to positive consumer sentiment and encouraging financial and job expectations. Consumer Sentiments Index surged by 1.4 points to 117.2 points in Q1 2011 from the previous quarter. The World Bank has classified Malaysia as an upper-middle-income country, with more than 50% of the total households estimated as middle-income households and about 65% of the population as urban population. Since urban population is estimated to spend on average 1.8 times more than the rural population, this pattern is expected to contribute positively to the growth of retail sales.

- Retailers are also expected to benefit from the Government's continued effort to re-position Malaysia as a duty-free haven for most luxurious goods, effective from 1st January this year. This would create a snowball effect on luxury retail in the country.

- As of Q1 2011, cumulative retail stock in the Klang Valley stood at approximately 50.43 million sqft made up of 61% of regional malls, 27% of neighbourhood malls and the remaining 12% of hypermarkets.

Distribution of Retail Malls in Klang Valley by Area



Source: Rahim & Co Research

- The market witnessed the opening of SSTwo Mall in SS2, Petaling Jaya, and 1 Mont Kiara in Mont Kiara, marking the continuous growth of neighbourhood lifestyle centers in the suburbs. Aiming to serve their immediate communities, tenants of these two malls are mainly local retailers with supermarkets as their anchor tenants. Developed by Asian Retail Mall Fund II, SSTwo Mall spreads across a net lettable area of 470,000 sqft housing approximately 200 retail lots. Anchored by My Fresh Supermarket, the five-storey mall is positioned as a 'mall that cares' offering a local family mall experience, which emphasises on all-round active and healthy living. Haven@2 is the mall's main feature with an open air courtyard dedicated to food and beverage tenants ranging from casual and fast food cafes to signature concept restaurants. 1 Mont Kiara is another five-storey retail mall developed by Aseana Properties Ltd and Capitaland. Offering a total of 250,000 sqft of net lettable area housing approximately 110 retail lots, the mall's star attraction is a 6,000 sqft light-filled atrium under a geometric-patterned ethylene tetrafluoroethylene (ETFE) roof. Village Grocer is its anchor tenant occupying approximately 25,000 sqft retail space.

- Overall average occupancy remained high, averaging 90%, with regional malls achieving higher occupancy rate at 96%, hypermarkets at 95%, and neighbourhood malls at 93%.

- While rental rates have remained relatively stable for prime lots in regional malls ranging from RM7.80 psf to RM50.00 psf, the rates for neighbourhood malls have declined slightly from RM13 psf - RM25 psf to RM7.00 psf - RM20 psf. It was also noted that malls that have gone through refurbishment managed to achieve higher rental rates. For example, rates at Bangsar Shopping Centre range from RM25 psf to RM50 psf for prime lots. However, with the substantial retail space coming on-stream, rental growth is expected to moderate or may face some downward pressure. Net yield is estimated to be between 6.5% and 7.5%.

Average Occupancy and Rental Rate Range for Selected Retail Malls

Retail Mall	Average Occupancy Rate	Range of Rental Rate (RM psf) for prime lots
Regional Mall	96%	7.80 - 50.00
Neighbourhood Mall	93%	7.00 - 60.00
Hypermarket	95%	10.00 - 25.00

Source: Rahim & Co Research

- Towards the middle of 2011, eleven new shopping complexes are expected to open offering a total of 4.25 million sq ft of retail space. There are seven malls to be completed in Kuala Lumpur such as Suria KLCC Lot C, Kenanga Wholesale City, Southgate, Viva Mall, 1 Shamelin, Festival Mall and Publika@Solaris Dutamas while another four malls to be located in Selangor namely Subang Avenue, Citta Strip Mall, Space U8 and The Mines Phase 2.

- It was also noted that new concepts of retailing are gaining popularity, such as semi-detached retail offices and Shop Unit Mall Office (SUMO). These concepts focus on a wide array of alfresco style F&B and small retail outlets to accommodate the business outlets surrounding it and actively being constructed outside the city centre area to serve mainly its immediate catchment. SUMO is a dual frontage model that arranges shop offices on the outer frontage of the complex, with the retail units facing inward fronting a central open-area courtyard. Semi-detached retail offices come with private courtyard and parking space with retail outlets surrounding the business outlets. On another note, commercial strata shop office with a unique common area for street and cultural activities such as Rawang One would be perfect for business operators of boutique F&B outlets and serviced based enterprises.

- Among the examples of semi-detached retail offices are Sunrise Avenue in Setia Alam, Shah Alam and SHS Aspira in Gombak. Featuring rooftop garden terrace as their unique selling point, this new 'work style' concept hosting multiple retail and F&B outlets is expected to pose indirect competition to mall retailers especially the F&B and retail boutiques.

- In line with greater awareness in promoting sustainable resources, several developers have taken the initiative to develop retail malls with eco-theme and cutting edge design. For example, Space U8 in Bukit Jelutong, Shah Alam, which is expected to be opened in July 2011, is designed as an eco-friendly and energy efficient mall.

- Looking ahead, the retail market is expected to remain favourable, backed by improving economy and positive consumers' sentiment. However, competition is expected to intensify due to upcoming supply.

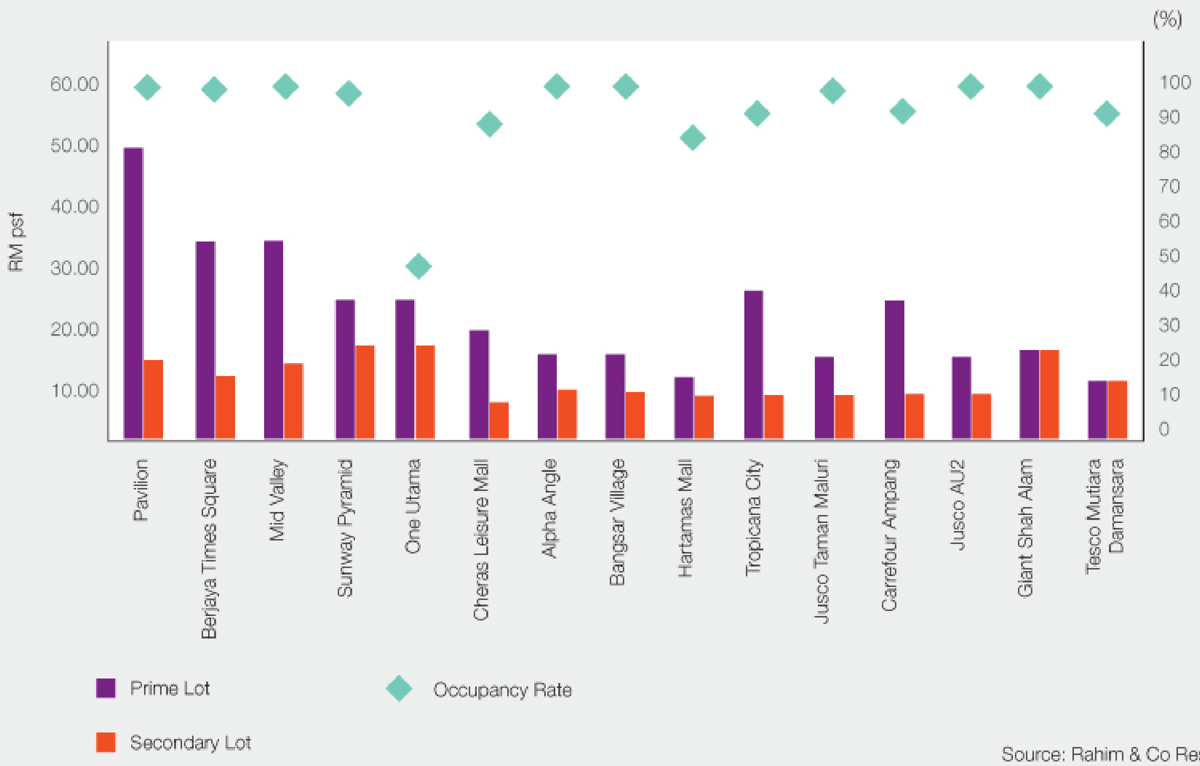
Definition:

Regional Mall *is defined as a large shopping centre with more than 800,000 sqft of retail space that draws customers beyond its primary and secondary trade areas, typically covering market area with a radius of 8km to 30km. It normally has a high percentage of fashion stores with two or more anchor tenants taking up more than 50% of the retail space. In Malaysia, a regional mall typically has a high percentage of international retailers.*

Neighbourhood Mall *is defined as a shopping centre comprising 50,000 sqft to 800,000 sqft of retail space offering convenience goods and personal services that meet the daily needs of an immediate neighbourhood trade area of less than 10km radius. A supermarket is typically the anchor tenant and based on the current trend in Malaysia now, it also offers entertainment outlets as well as enrichment centres.*

Hypermarket *is defined as a large retail store offering shoppers a one-stop shopping experience that combines a department store and a grocery supermarket.*

Rental Rates and Occupancy Rates for selected Shopping Malls in Klang Valley, Q1, 2011



Source: Rahim & Co Research

INDUSTRIAL

- In 2010, Malaysia's economy expanded by 7.2% compared with a contraction of 1.7% in 2009, bolstered by a rebound in manufacturing and services as well as brisk exports and imports. Estimated to contribute about 27.0% of the total GDP in 2010, the manufacturing sector has remained the second largest contributor to the Malaysian economy, next to the services sector, which contributed about 57.0% of the total GDP.

- It was reported by the Statistics Department that the manufacturing sector rebounded significantly by 11.4% in 2010 from a negative 9.4% in 2009 due mainly to the growth in petroleum, chemical, rubber and plastic products. This improvement was noted in the sales value of the manufacturing sector, which had increased by 14.7% between 2009/10 .

- Between January to June 2010, export-oriented industries registered growth of 12.1% compared to negative 12.3% during the same period in 2009, as a result of strong external demand. Growth was contributed by electrical & electronic products (27.4%), wood & wood products (19.7%), rubber products (25.3%), machinery & equipment (43.2%) and medical, optical & scientific instruments (4.9%). Growth in domestic-oriented industries was also robust, expanding 16.3% during the same period, driven mainly by the chemicals & chemical products (20.4%), basic metals (30.0%), non-metallic mineral and other related products (20.2%), paper & paper products (20.5%), transport equipment (36.5%) and beverages (27.3%).

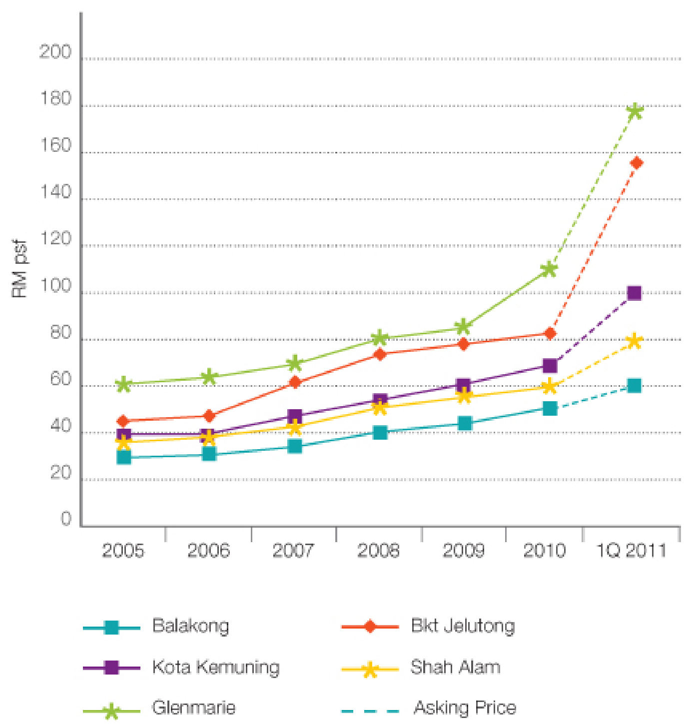
- As the economy recovers, we have also seen a positive trend in the number of manufacturing projects approved in 2010. Between January to November 2010, a total of 812 projects were approved, with 57% (RM18.8 billion) contributed by foreign direct investment.

- The industrial property sector is the smallest sector of the overall property market, contributing about 2.5% of the total property transactions and 8.7% of the total value of property transactions in Malaysia as of 1H 2010. The volume of industrial property transactions increased by 29.3% in 1H 2010 to 4,648 from 3,596 in 1H 2009, while the total supply of industrial properties in 1H 2010 stood at 92,857 units. The value of transactions increased by 44.0% from RM3.6 billion in 1H 2009 to RM4.4 billion in 1H 2010.

- Selangor, which saw the highest number of transactions in the country, recorded an increase of 15% or 1,399 units sold in 1H 2010. The most popular properties transacted were the terraced factory/warehouse types, with 754 transactions (54.0%), followed by vacant industrial plots, with 321 transactions (23.0%). Total value of transactions increased by 48.0% from RM1.57 billion to RM2.32 billion during this period. Meanwhile, both Johor and Penang also recorded an increase in the number of transactions during the same period, by 83% (827 transactions) and 18% (248 transactions) respectively. The bulk of demand for industrial properties continues to originate from local SMEs, which prefer to be located in terraced factories and semi-detached factories.

- Due to a limited supply of industrial land in the Klang Valley, prices in prime locations have increased at a compound average growth rate between 11% and 15% over the last five years, and up to 29% between 2009 and 2010. Currently average selling prices range from RM50 psf to RM110 psf, with Glenmarie Estate accounting for the upper-range values.

Prices of Vacant Industrial Lots in Prime Industrial Areas, Klang Valley



Source: Rahim & Co Research

- For industrial buildings, asking prices currently stand between RM300 psf to RM400 psf. Rents of industrial space in prime industrial locations have shown a slight increase from the previous quarter ranging from RM0.80 psf to RM3.75 psf.

Asking Rentals of Semi-Detached Factories in Selected Areas

Locality	4Q 2010	1Q 2011
	Gross Rent (RM psf)	Gross Rent (RM psf)
Shah Alam	1.25-1.98	1.21-2.00
Bukit Jelutong	1.00-2.13	1.90-2.05
Puchong	0.66-1.88	2.50-3.75
Rawang	0.80-1.00	0.80-1.00
Klang	0.80-1.00	0.80-1.00

Source: Rahim & Co Research

- Moving forward, the industrial market is likely to sustain the present momentum and may possibly see better opportunities as industrial projects related to ETP take off.

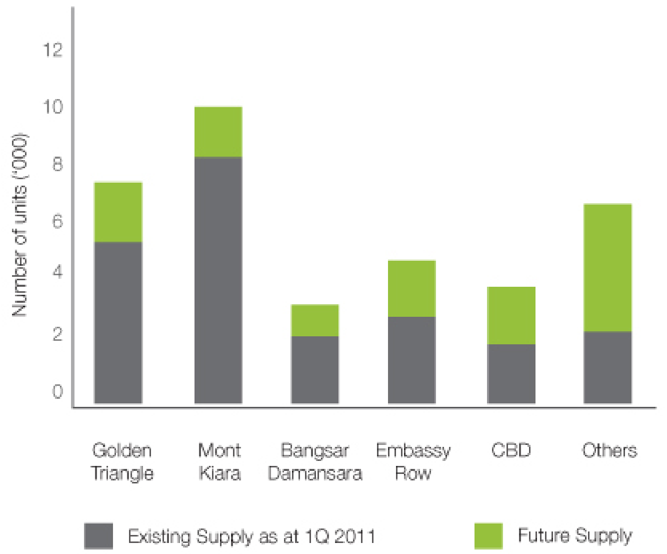
HIGH END CONDOMINIUMS

- Despite the significant oversupply of high end condominiums, especially in the Klang Valley, developers are still active in launching new projects offering very attractive packages to sell their units. Take-up rates have been quite encouraging for small-scale projects in the city center. Dedaun Condo priced at RM1,100 psf to RM1,200 psf and offering only 38 units was 90% sold in six months from its launch in October 2010. Sizes vary from 3,240 sqft to 4,921 sqft. Similarly take up rates for projects offering smaller sized units are also encouraging. M-Suites, which was launched at the end of last year offering 442 units was more than 80% sold. Priced between RM900 psf and RM1,000 psf, sizes offered range from 502 sqft to 1,630 sqft. Similarly, The Elements@Ampang, which was launched in the middle of last year, was at least 50% sold. Priced between RM750 psf to RM800 psf, sizes vary from 640 sqft to 1,570 sqft. The Capers in Sentul East by YTL Land, which also offers smaller built-ups of 697 sq ft to 1,567 sq ft, selling at an average RM550 psf to RM600 psf, were sold out in just a few days after its preview this month.

- In terms of profile of buyers, majority of the buyers are local buying mainly for owner occupation. Thus, the 30:70% LTV cap imposed by BNM on borrower's third and subsequent house-financing facility has not affected genuine buyers who buy to stay, but only those who buy to speculate. It was reported by BNM that loan applications to buy residential property have reduced since last November. However, this reduction could be due to the festive seasons at the end and beginning of the year and the full impact has yet to be seen.

- Q1 2011 saw the completion of Hampshire Place in the Golden Triangle Area and Swiss Garden Residences in the CBD supplying 186 units and 436 units respectively. These have brought the total supply of high end condominiums in Kuala Lumpur to 23,992 units with about 20% of these units concentrated in the Golden Triangle Area and 9% in the CBD respectively, widening choices in the leasing market in the city center.

Existing Supply and Future Supply of High End Condominium in Kuala Lumpur



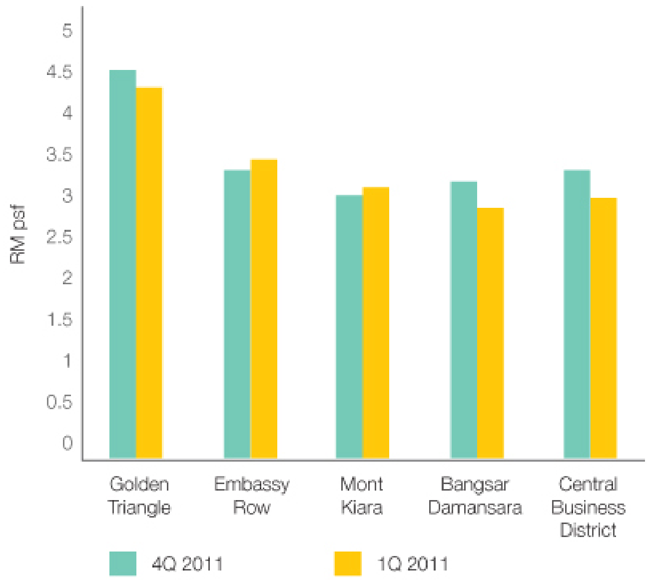
Source: Rahim & Co Research

- By 2014, there will be an additional 11,604 units coming to the market, of which about 32% will be concentrated in the Golden Triangle Area and in Embassy Row. Among projects that will be completed in 2011 are The Crest@Jalan Sultan Ismail, The Pearl KLCC, Ritz-Carlton Residences, Panorama, Gaya Bangsar, Twins Damansara, and 11 Mont Kiara, adding another 1,930 units into the market.

- Average asking selling price of our selected sampled high end condominiums in the secondary market has remained stable at RM814 psf compared to the previous quarter. Prices range from RM650 psf to RM1,230 psf. The secondary market was less active this quarter as we noted more buying activities for landed homes.

- The leasing market was also less active. Due to stiff competition, rental rates in most areas have shown declines of between 10% - 15% compared to the previous quarter, except for selected condominiums in Mont Kiara. Asking gross rental rates range from RM3.40 psf to RM4.00 psf.

Average Asking Gross Rental Rate in Selected Areas in Kuala Lumpur



Source: Rahim & Co Research

- Moving forward, prices of residential properties in Malaysia are projected to increase by an average of 13% from January to June 2011 due to higher costs of building materials and petrol prices and land prices especially in hotspots are expected to remain high. Landed properties are expected to continue performing better than condominiums. In view of the increasing number of upcoming supply, prices and rentals are expected to remain competitive.

PURPOSE BUILT OFFICE BUILDING

- The decentralisation trend of the office market is noted not only among companies but also developers and investors. This trend is marked by the growing number of companies, including MNCs, selecting office location in the suburbs like Petaling Jaya, instead of Kuala Lumpur city center and the significant growth of new supply of office buildings in the suburbs. Among factors influencing this pattern are traffic congestion in the city center, lower rental rates combined with newer buildings in the suburbs, and the availability of land for development or redevelopment in areas like Section 13 in Petaling Jaya.

- Between 2011 and 2015, there will be fifteen new office buildings to be completed in Petaling Jaya offering about 6.7 mill sqft of new space, reflecting growth of 47% from the current total supply of 14.2 mill sqft. About 56% of this new supply will be completed in 2012. There was no completion of purpose-built office in Q1 2011 but PJ Exchange, with NLA of 304,152 sqft, will be ready for occupation in the second quarter of this year. About 95% of the space was sold on strata basis and selling price is currently at RM760 psf.

- In Kuala Lumpur, two prime office buildings completed during the quarter under review are Hampshire Place (NLA: 240,527 sqft) located in the city center and One Mont Kiara (NLA: 185,000 sqft) located in the suburb, bringing the total supply in Kuala Lumpur to 70.55 mill sqft. Meanwhile, in the next five years, Kuala Lumpur will have an additional 10.6 million sq ft of new office space (excluding the proposed 100-storey Warisan Merdeka), of which more than 50% of the new supply will be located in the Golden Triangle Area. About 50% of the total future supply will be completed in 2012.

Existing and Future Supply (2011-2015) of PBOs in Kuala Lumpur and Petaling Jaya

Source: Rahim & Co Research

- While occupancy rates of prime offices in Petaling Jaya range between 75% and 98%, rates in Kuala Lumpur range between 60% and 97%. The overall average occupancy rate of our sampled prime office spaces in Petaling Jaya and Kuala Lumpur remained unchanged at 87% and 90% respectively compared to the previous quarter. Though the leasing market was rather active in Q1 2011, stiff competition for tenants was noted due to wider choices available in the market. Landlords have come up with attractive tenancy terms to entice tenants, such as longer rent free periods. Demand for office space in the city center came mainly from the expansion of Oil & Gas related-activities and financial institutions

- Several notable new take-ups in Kuala Lumpur in Q1 2011 were Worley Parsons (60,000 sqft in Vista Tower), SP Setia (12,000 sqft in Hampshire Place), and SAP (18,000 sqft in G Tower). Whereas in Petaling Jaya, GSK and Dutch Lady took up 50,000 sqft and 53,000 sqft respectively, both in Quill 9.

- While rental rate of prime office space in Petaling Jaya range from RM3.50 psf to RM4.50 per month, the rates in KL city center range from RM5.50 psf to RM8.50 psf. Asking gross rental rate for new buildings in KL city center range from RM5.00 psf to RM6.50 psf.

- A notable investment sale during the quarter under review was the acquisition of a 33-storey office tower, Dua Sentral, at Jalan Tun Sambanthan with NLA of approximately 430,000 sq ft by Tenaga Nasional Berhad from Magic Coast Sdn Bhd for RM232.3 million (analysed at RM540 psf). The sale, which includes 460 car parking bays, is said to consolidate most of TNB's departments and division within the areas of Petaling Jaya and Bangsar.

- Average capital value has increased only marginally by 1% to RM783 psf from RM775 psf in the previous quarter, with net yield hovering between 6.0% and 7.0%.

- In view of the extensive incoming supply and tenant-favoured market, the office market is expected to remain soft in the next few quarters, with occupancy rates and rental rates expected to come under pressure. Prime office buildings with strategic locations supported by public transportation and amenities will continue to be favoured by tenants.

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