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Malaysia Economy

The Malaysian economy registered strong growth of 10.1 per cent in Q1/2010. Domestic economic activity has been strong in the first half of of the year and coming out of recession has been largely due to private domestic consumption, industrial production and external trade, boosted by financing activity and an improvement in labour market conditions. The sovereign debt crisis in several advanced economies may still have an impact on stock markets, international trade and currencies. With the consumer price index rising and the cost of borrowing increasing, it is likely the pace of domestic consumption will moderate thus slowing the economic recovery. The Ringgit continues to appreciate against the pound making the UK still a favourite destination for private spending and investment at the expense of domestic growth.

Stock Market and REIT Activity

July saw two major REIT IPO's, namely Sunway REIT and CapitaMalls Malaysia Trust. With these listings, retail will overtake office as the largest asset class among Malaysia's REITs. Retail which currently makes up 22 per cent of all assets will be boosted to 45 per cent after the listings while office will shrink from 42 to 28 per cent.

Sunway REIT, now Malaysia's largest real estate investment trust, made a relatively subdued debut on Bursa Malaysia on 8th July. The stock opened at 89 sen, traded within a narrow range of 87.5 to 89.5 sen, before closing at 88.5 sen on its first day of trading. Eight properties, with an appraised value of RM3.7 billion, have been injected into the REIT. Of these eight properties, only two are office buildings, namely Menara Sunway and Sunway Tower. Both buildings are about the same net lettable area at approximately 268,000 sqft and both about the same age, having been built in the 1990's. They were also both enjoying near 100 per cent occupancy in February 2010. However, the locations of the two office buildings are very different and because of this they have a very different mix of tenants. Almost 70 per cent of Menara Sunway is occupied by entities owned by or affiliated with Sunway City Berhad. Another risk is that the office properties operate in a highly competitive environment and the office properties are at risk of non renewal of expiring tenancies. Approximately 40 per cent of tenancies in both office towers are due for renewal in 2011. To improve competitiveness, Sunway Tower was refurbished at a cost of RM16 million and Menara Sunway is in the process of being upgraded.

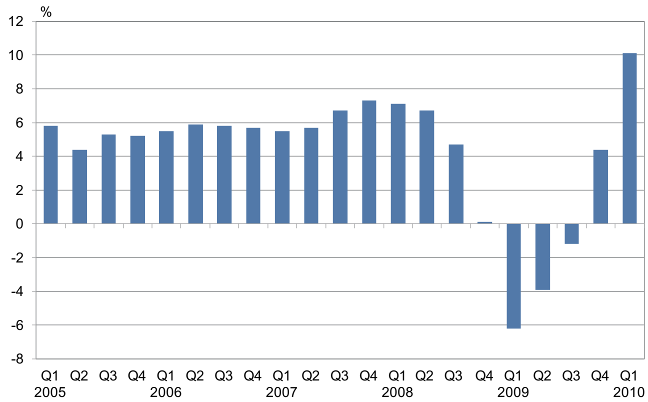
CapitaMalls Malaysia Trust (CMMT), now the country's largest pure shopping mall REIT, made its debut on 16th July. The stock opened at 98 sen and also traded within a narrow range of 97.5 to 98.5 sen. Three properties, with an appraised value of RM2.1 billion, have been injected into the REIT. CMMT is the owner of the Sungei Wang Mall in Kuala Lumpur, The Mines mall south of the city centre, and Gurney Plaza on the Malaysian island of Penang.

Office Market Overview

Following the announcement made on 27th April 2009 on the liberalisation of the financial services sector, Bank Negara Malaysia has received strong interest from financial institutions to establish a presence in Malaysia. On 17th June 2010, Bank Negara Malaysia announced five commercial banking licenses to be issued to the wholly-owned subsidiaries of the following banking institutions:

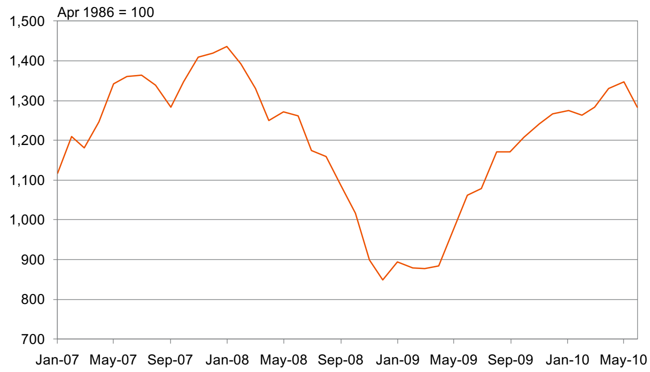
1. BNP Paribas SA, France;
2. Mizuho Corporate Bank, Japan;
3. National Bank of Abu Dhabi, United Arab Emirates;
4. PT Bank Mandiri (Persero) Tbk., Indonesia; and
5. Sumitomo Mitsui Banking Corporation, Japan.

Malaysia GDP Growth Rates, Q1/2005 - Q1/2010



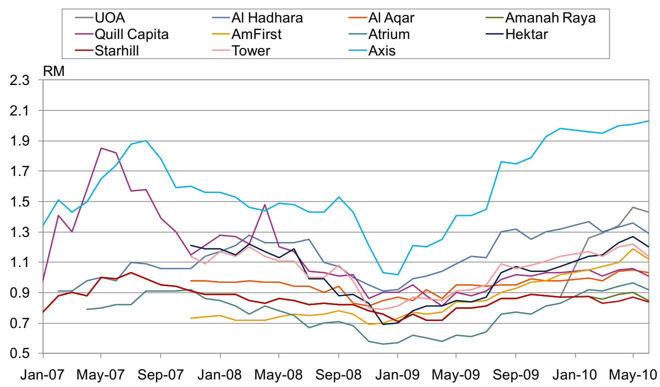
Source: Department of Statistics Malaysia, Rahim & Co Research

FTSE Bursa Malaysia KLCI, 2007 - June 2010



Source: Yahoo Finance, Rahim & Co Research

Malaysian REIT Stock Market Performance, 2007 - May 2010



Source: Yahoo Finance, Rahim & Co Research

In addition, in April 2010, the national bank approved the issuance of a commercial banking licence to a locally- incorporated company to be established by three Indian banks - Bank of Baroda (40 per cent), Indian Overseas Bank (35 per cent) and Andhra Bank (25 per cent). This licence is issued as a reinstatement of a commercial banking licence to an Indian bank which previously operated in Malaysia. The issuance of this licence is therefore not part of the new commercial banking licences which will be issued under the liberalisation initiative which was announced in 2009. It has been part of an engagement between India and Malaysia since 2003.

The decentralised office locations of Petaling Jaya, Bangsar, Mid Valley City and KL Sentral are still proving attractive to large office occupiers seeking convenient and sometimes cheaper office premises and it is hoped that the new banking institutions will provide a necessary boost to the prime office markets of KLCC and the Golden Triangle.

Focus on KL Sentral

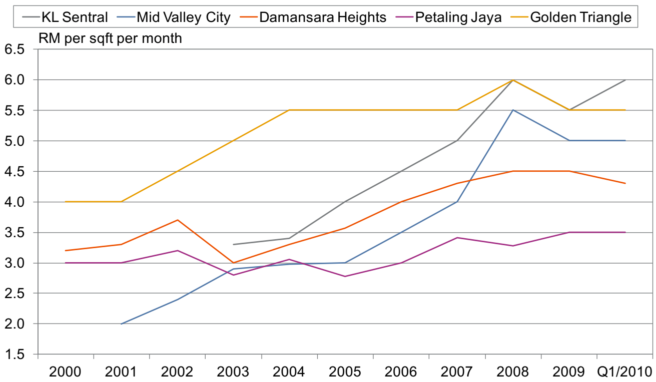
Phased until 2015, Kuala Lumpur Sentral is a world-class city valued at a massive RM11.7 billion and built around Malaysia's largest public transport hub. Over the next 4 years, approximately 4 million sqft of new office space will be ready for occupation and over one quarter of this is likely to be occupied by corporate giants such as Shell and CIMB Bank. The high rise office at Lot B is likely to be sold on a strata title basis with unit sizes ranging from 1,400 sqft to whole floors in the high zone measuring approximatley 40,000 sqft. Asking prices are likely to be above RM1,000 per sqft and the launch of sales may begin in Q3/2010. Tenants in the location are diverse and include major multi-national corporations, local companies and government agencies. They currently include General Electric, British Telecom, Maxis, Samsung, PricewaterhouseCoopers, Cisco Systems, Malaysian Industrial Development Authority and Companies Commission of Malaysia.

On 30th June 2010, the master developer MRCB entered into a conditional share purchase agreement with Gapurna to buy out their 60 per cent stake in the company building new green-rated office building 348 Sentral. Since Lot 348 is adjacent to the KL Sentral Development, this acquisition could be perceived as an extension to the existing KL Sentral development. The proposed acquisition will cost RM105 million and will allow MRCB to hold 100 per cent of the equity interest in GSSB and thus have full control over its management and operations and reap the full benefits of all future revenues and profits. In April 2009, Shell People Services Asia Sdn Bhd ("Shell") signed an agreement with the developer whereby the developer would build an office tower in accordance Shell's agreed specification and on completion for Shell to execute a 15-year period Lease Agreement.

Foreign Direct Investment

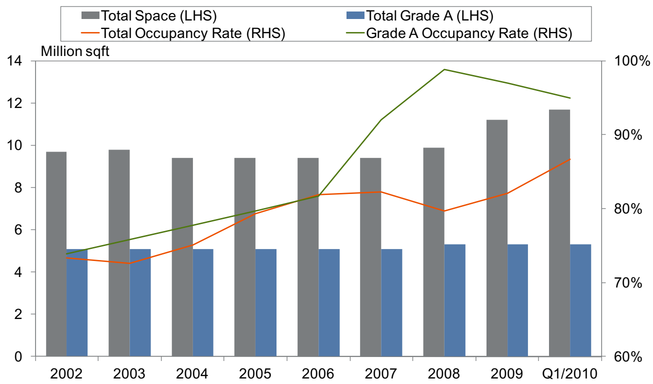
In 2009, the country's first sovereign wealth fund Terengganu Investment Authority was expanded to a federal entity called 1Malaysia Development Bhd (1MDB) with the aim of investing billions of Ringgit in the energy, real estate and hospitality sectors in the country. It is now a strategic development company wholly owned by the Government of Malaysia. The business model is to attract foreign direct investment and form equal capital joint ventures. It has been reported that the Abu Dhabi government will invest an estimated US$2 billion to develop 34.4 hectares of land near the prime office market of KLCC. The concept is to create an international financial district with a mix of office, retail and residential components.

Average Rents by Location, 2000 - Q1/2010



Source: Rahim & Co Research

Total Stock & Grade 'A' Stock, 2002 - Q1/2010



Source: Valuation and Property Services Dept, Ministry of Finance, Rahim & Co Research

Future KL Sentral Office Supply, 2011 - 2014

Development	Net Lettable Area (sqft)	Completion Date
Lot E (Campus Style Office)	578,291	Q3/2011
Lot G (High-rise Office)	1,267,000	Q3/2012
348 Sentral (High-rise Office for Shell)	525,000	Q3/2012
Lot A (High-rise Office for CIMB)	834,000	Q1/2013
Lot B (High-rise Office for Sale Strata)	1,400,000	Q4/2014
Total Lettable Area	4,604,291	

Source: Rahim & Co Research

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