

Offices



Savills Research

www.savills.com.hk/research

savills

Offices

Review of 2010

The aftermath of the global financial crisis of 2008/2009 resulted in an immediate rise in vacancy rates and a decline in the average rental rate for prime offices by 6.3 per cent from RM6.4 to RM6 per sqft during the same period. These changes in market conditions were due to new demands from office occupiers. A demand for new but cheaper office premises has meant increased take up of office space in young commercial districts outside the city centre, such as Bandar Utama. A further demand for convenience has meant buildings close to public transport or offering high car park ratios have been more successful at securing tenants. Probably the most significant demand of 2010 has been for MSC Malaysia-status office buildings.

Economic improvement began in Q4/2009 and Malaysia's GDP expanded by 10.2 per cent and 8.9 per cent in Q1/2010 and Q2/2010 respectively. The economy is expected to continue to recover at a slower rate (Q3/2010 GDP was recorded at 5.3 per cent). As sentiment improves, the soft market for office space has improved slightly with more multi national corporations now considering the capital expenditure of office relocation and/or expansion worthwhile.

The year 2010 saw the completion of four office buildings located outside KL city centre, adding 849,000 sqft of new space in the market. Occupancy levels in these buildings range from as low as 20 per cent to as high as 100 per cent (Quill 6 is fully occupied by HSBC). Four more buildings which were supposed to be completed in 2010, MAIWP Tower, Menara Worldwide, Hampshire Tower, and Cap Square Tower, are now only about 90 per cent to 95 per cent completed, and are expected to be ready in the early part of 2011.

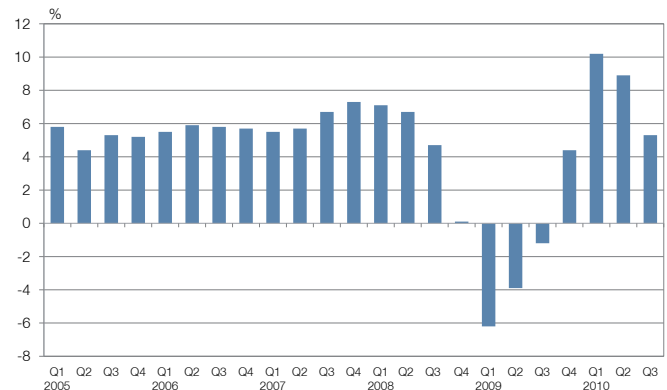
In terms of average capital value, based on the limited number of transactions in 2010, we note that there was an improvement after a sharp decline between 2008 and 2009 by 19 per cent to RM775 per sqft. Capital values are expected to remain steady ranging from RM750 to RM1,000 per sqft with an average net yield estimated to be between 6 and 7 per cent.

In summary, the office market may stabilize in the short term but will continue to be challenging in the long term as tenant demands quickly change and as tenants take advantage of the new supply.

Economic Transformation Programme

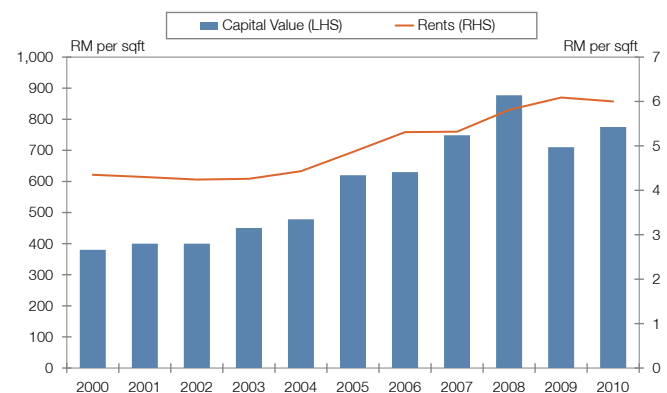
The 3rd Economic Transformation Programme update was announced by the Prime Minister on 11th January 2011. Stocks involved in the oil and gas sector advanced sharply on the local stock market on 12th January with several recording 52-week highs following the latest announcement. In November 2010, new tax incentives under the Petroleum Income Tax Act were announced to stimulate domestic exploration activity. In line with this, Exxon Mobil, in conjunction with its production sharing contract partner, Petronas Carigali, plans to invest over RM10 billion in new oil and gas assets to help ensure energy supplies for Malaysia. Shell Malaysia will also be investing RM5.1 billion in multiple projects.

Malaysia GDP Growth Rates, Q1/2005 - Q3/2010



Source: Department of Statistics Malaysia, Rahim & Co Research

Average Prime Rents & Capital Values, 2000 - 2010



Source: Rahim & Co Research

MSC Malaysia Status Companies Performance Indicators, 2009 - Jan-Sep 2010

Indicators	2009	Jan - Sep 2010
Local Sales (RM mil)	17,652	13,431
Export Sales (RM mil)	7,174	5,142
Revenue (RM mil)	24,826	18,574
R&D Expenditure (RM mil)	1,512	1,097
Total Jobs	99,590	107,017
IP Registered	1,752	1,765

Source: MDEC, Rahim & Co Research

The government also announced its intention to establish Malaysia as a world-class data centre hub. The aim is to increase sales of Malaysia data centre floor space and it was announced that MyTelehaus, CSF Group and Teliti data centres will help Malaysia close in on this aspiration. With investments of over RM671 million collectively, these three organisations will develop new and upgrade existing facilities to supply 475,000 sqft of data centre floor space to cater for the increased demand. To enable Greater Kuala Lumpur/Klang Valley's initiative to attract 100 multinational companies, the city needs adequate supply of top-grade office space and supporting amenities. To this end, Guocoland Berhad will invest RM1.9 billion in an integrated development called Damansara City, located in Pusat Bandar Damansara. Comprising two office blocks of 560,000 and 285,000 sqft each, a 290,000 sqft retail block, a 300 room hotel and a 260-unit serviced apartment block, this project is expected to be launched in 2011.

MSC Malaysia

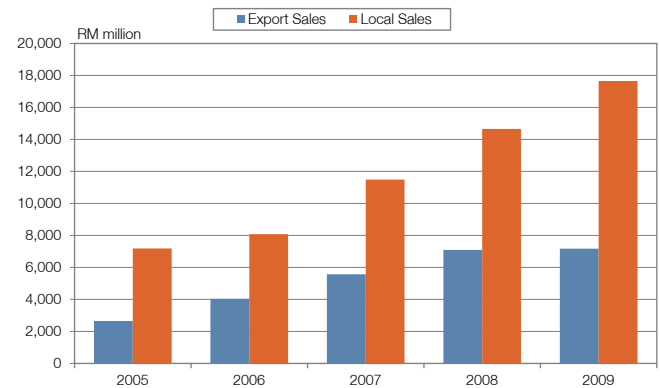
MSC Malaysia plays a significant role in the office market as MSC status companies must occupy a currently limited number of MSC status buildings. The growth of MSC status companies, which started with 94 companies in 1997, has been impressive. Of the total of 2,520 MSC status approvals granted to companies in 2009, 78 per cent are in operation and 75 per cent are Malaysian owned. There are now 2,738 MSC Malaysia status companies as at 17th January 2011. Foreign MSC status companies include Netherlands based Quintiq which expanded by 50 per cent in 2010 and relocated from the city centre to the suburb of Bandar Utama and took up the two storey penthouse in new office building 1 First Avenue. This new office building succeeded in securing major tenants during construction and is now approximately 80 per cent occupied. The findings of MSC Malaysia Industry Reporting Q3/2010 continue to support the conclusion that MSC Malaysia Status companies have regained their growth momentum and are steadily recovering the ground lost between 2008 and 2009. In 2010, MSC Malaysia Status companies are expected to contribute RM6.5 billion to the nation's GDP. As of Q3/2010, these companies have already generated RM6.25 billion, 96 per cent of their annual forecast. Overall, 2010 has been a strong year for MSC Malaysia Status companies which has also meant a strong year for the landlords of MSC status buildings which these companies must occupy. A survey of MSC Malaysia Status companies in Q3/2010 showed that 43.3 per cent estimated their projected growth to be between 10 and 20 per cent.

Office Supply

Over the last five years, the total supply of purpose built office buildings of all grades in the Klang Valley has grown at a Compounded Annual Growth Rate (CAGR) of 4.5 per cent and currently stands at 95 million sqft. About 25 million sqft is concentrated in the Golden Triangle area. In the next five years, an estimated 14.5 million sqft of new office space will be completed, about 27 per cent of which will be located in the suburbs. With the growth of new townships in the suburbs, the traditional office market in the city centre will have to compete with new commercial developments in these suburbs.

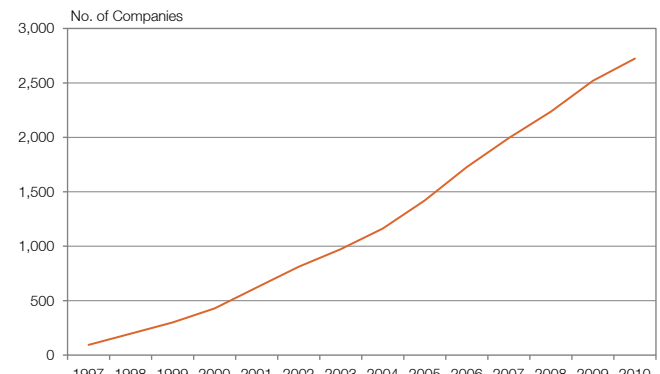
The general outlook for the office market remains cautious until a more convincing and firmer economic performance is achieved. Also, with the new supply of office space, building owners especially of older buildings are expected to come up with better leasing offers and ideas to retain current tenants and attract future demand.

Export & Local Sales MSC Malaysia Companies, 2005 - 2009



Source: MDEC, Rahim & Co Research

MSC Malaysia Status Companies: Accumulated Awards, 1997 - 2010



Source: MDEC, Rahim & Co Research

Take-up at 1 First Avenue, Bandar Utama

Company	Area (Sqft)
Halal Development	10,000
RHB	3,168
Hong Leong Asset Management	2,898
Asia Media Animation	3,148
Application Performance Management	4,652
DNP Clothing	12,000
ISA Innovation	5,700
DKE Technology	1,400
Yara	3,700
Magic Telecom	18,500
Schlumberger	100,000
Kraft Malaysia	25,000
MyEG	25,000
Hong Leong Investment	25,000
Regus	12,500
Vale	25,000
Scomi	75,000
Quintiq	50,000
Paypal	50,000

Source: Rahim & Co Research

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, Greater China
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-002993

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: Lucy Rumanfir E-mail: lucy.rumanfir@procon.co.id

Savills - Japan

Savills Japan Co., Ltd.
CR Kamiyacho Building 10F, 1-11-9 Azabudai, Minato-ku,
Tokyo 106-0041, 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 Taepyungro-1-ga,
Chung-gu, Seoul, Korea 100-768
Tel: (82) 2 2124 4201 Fax: (82) 2 2124 4188
Contact: Moonduck Kim E-mail: mdkim@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: Chris Marriott E-mail: cjmarriott@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 Email: 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 throughout Sydney, Adelaide, Brisbane, Canberra, Gold Coast,
Liverpool, Melbourne, Parramatta, Perth and Sunshine Coast.*

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

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
*Offices throughout the United Kingdom, Belgium, France, Germany,
Hungary, Italy, Netherlands, Poland, Spain and Sweden. Associate offices
in Austria, Greece, Norway, Portugal, Russia, Turkey and South Africa.*



Savills, the international real estate advisor established in the UK since 1855 with over 200 offices and associates worldwide.

This document is prepared by Savills for information only. Whilst reasonable care has been exercised in preparing this document, it is subject to change and these particulars do not constitute, nor constitute part of, an offer or contract; interested parties should not rely on the statements or representations of fact but must satisfy themselves by inspection or otherwise as to the accuracy. No person in the employment of the agent or the agent's principal has any authority to make any representations or warranties whatsoever in relation to these particulars and Savills cannot be held responsible for any liability whatsoever or for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document. This publication may not be reproduced in any form or in any manner, in part or as a whole without written permission of the publisher, Savills. © Savills (Hong Kong) Limited. 2011. (1/11)