

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.

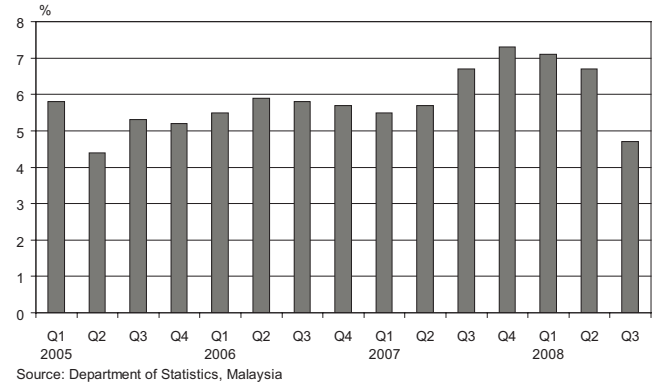
### Global Economic Crisis

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.

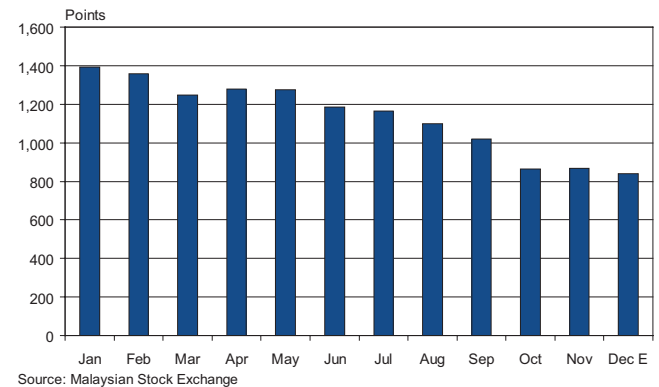
As a pre-emptive and precautionary move to maintain the stability of the financial system, Bank Negara Malaysia announced that effective 16th October 2008, all Ringgit and foreign currency deposits would be fully guaranteed by the government until December 2010. A RM7 billion National Stimulus Package 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.

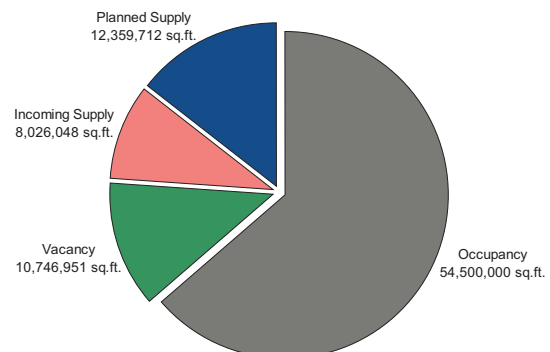
### Malaysia GDP, 2005 - Q3/2008



### 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.

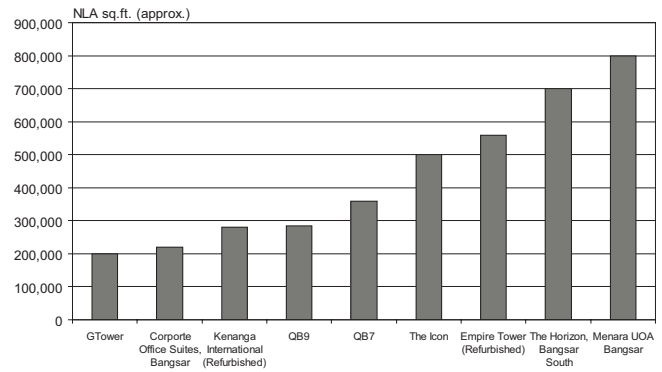
The Golden Triangle road of Jalan Tun Razak will be the scene of fierce competition in 2009. New office buildings The Icon and GTower will be completed, as will the refurbishment and re-branding of Empire Tower and all three buildings are within walking distance of each other near Ampang Light Rail Transit 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.

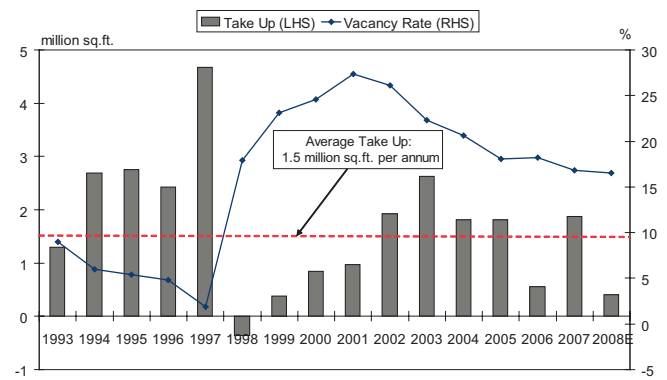
Rental rates have stabilized after an increase in the first half of the year. Excluding the Petronas Twin Towers, typical Grade 'A' offices in the Golden Triangle and KLCC are asking for gross rents of between RM7 and RM9 per sq.ft. per month. Some companies entering Malaysia for the first time have 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



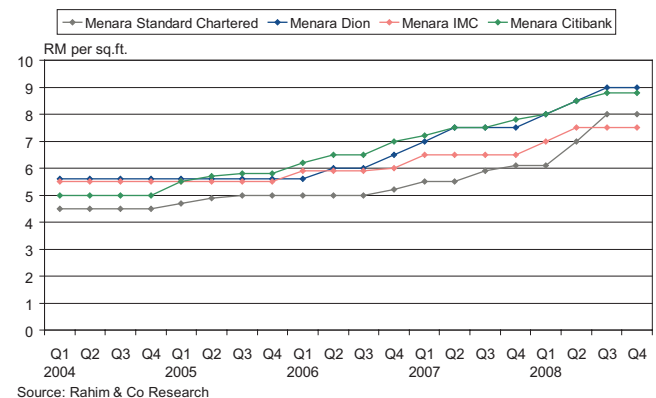
Source: Rahim & Co Research

### 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





## ASIA PACIFIC HEADQUARTERS

23/F Two Exchange Square, Central, Hong Kong  
Tel: (852) 2842 4400 Fax: (852) 2868 4386  
E-mail: [rmckellar@savills.com.hk](mailto:rmckellar@savills.com.hk)  
Contact: Robert McKellar CEO  
[savills.com](http://savills.com)

## 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](mailto: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: [cochan@savills.com.hk](mailto:cochan@savills.com.hk)  
EA Co. Licence: C-023750

### Savills Property Management Holdings Limited

805-13, 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](mailto: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](mailto:peterho@savillsguardian.com.hk)

## MACAO SAR

### Savills - Macao

Savills (Macao) Limited  
Suite 1310, 13/F Macau Landmark, 555 Avenida da Amizade, Macao  
Tel: (853) 2878 0623 Fax: (853) 2878 1805  
Contact: Franco Liu E-mail: [fliu@savills.com.mo](mailto:fliu@savills.com.mo)

## CHINA

### Savills - China

Contact: Randall Hall E-mail: [rhall@savills-sh.com](mailto:rhall@savills-sh.com)

### 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](mailto: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](mailto: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](mailto: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](mailto:wlam@savills.com.hk)  
*Offices in Chengdu, Chongqing, Dalian, Hangzhou, Shenyang, Tianjin*

## 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: Siswanto Widjaja E-mail: [siswanto.widjaja@procon.co.id](mailto:siswanto.widjaja@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](mailto: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 4114 Fax: (82) 2 2124 4166  
Contact: Hoky Lee E-mail: [hklee@savills.co.kr](mailto:hklee@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](mailto: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](mailto: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 Email: [cchu@savills.com.tw](mailto:cchu@savills.com.tw)

### Savills - Thailand

Savills (Thailand) Limited  
28/F, 990 Rama IV Road, Bangkok 10500, Thailand  
Tel: (66) 2 636 0300 Fax: (66) 2 636 0339  
Contact: Robert Collins E-mail: [robertc@savills.co.th](mailto: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](mailto: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](mailto:pmclean@savills.com.au)  
*Offices in Adelaide, Brisbane, Cairns, Canberra, Gold Coast,  
Ipswich, 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 3031689  
Contact: Peter Thompson E-mail: [peter@barfoot.co.nz](mailto: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](mailto: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](mailto: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](mailto:jhelsby@savills.com)  
*Offices throughout the United Kingdom, Belgium, France, Germany,  
Hungary, Italy, Netherlands, Poland, Spain and Sweden.  
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