



# Offices

Kuala Lumpur, Malaysia



## The Office Market

### Economy

Malaysia is almost certainly entering into a recession this year as GDP contracted to -6.2 per cent in Q1/2009 with little hope of positive growth in the months to follow. The Kuala Lumpur Stock Market Composite Index declined throughout 2008. The four largest Malaysian developers have seen a drop in their share price since mid 2007, however, many listed and private Malaysian developers have diversified their businesses which means less financial pressure.

Datuk Seri Najib Tun Razak was sworn in as Malaysia's sixth Prime Minister on 3rd April 2009 and on 22nd April an announcement was made confirming that 27 services sub sectors were to be immediately liberalised, with no "bumiputra" equity requirement. These sub-sectors are in the areas of health and social services, tourism services, transport services, business services and computer and related services. In particular, they include:

1. Theme parks
2. 4 and 5 star hotels and restaurants
3. Convention centres with 5,000+ capacity
4. Regional distribution centres
5. Management consulting services
6. Up to five international law firms to practice Islamic finance law

On 27th April, the liberalisation plan for the finance sector was announced. The plan will be implemented between 2009 and 2012 and will include up to two new Islamic banking licences to foreign companies. Al Rajhi Bank, Saudi Arabia's largest Islamic bank obtained its international Islamic banking licence to operate an investment bank in Malaysia on March 26th and the KL office will be the regional head quarters. More retail banks and regional headquarters are therefore expected to absorb some of the new commercial property supply.

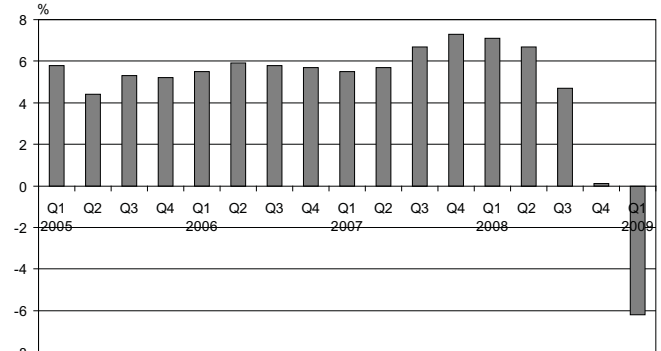
### Foreign Direct Investment

Multinational corporations investing new funds in Malaysia in 1H/2009 include California based companies Seagate, PMC Sierra and National Instruments from Texas. Vale International SA, the world's second largest diversified metals and mining company, has agreed to buy 16.5 ha of land in Perak from property developer KYM Holdings Berhad. The deal is believed to be related to recent statements by the Perak government of a RM9 billion South American investment in an iron ore centre in the state. Exxon Mobil have meanwhile signed a production sharing contract with Petronas in June 2009 worth US\$2.1 billion and this is expected to prove a major boost for oil and gas companies and those in supporting industries, which in turn may lead to a growing headcount and take up of more office space. Foreign direct investment has nearly doubled over the last two years and most foreign companies investing are involved in manufacturing or the import/export trade.

### Office Space Fit For a King

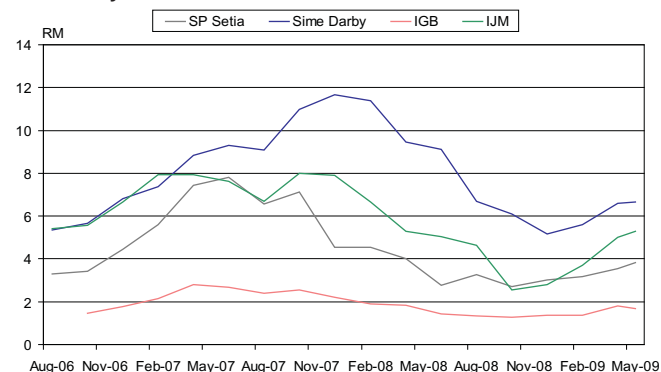
Malaysia's status as the global centre for Islamic financial services is strengthening and Islamic financial services in general are seen as a possible cure for the global financial crisis. The national bank (Bank Negara) will launch a total of RM5 billion worth of Islamic national savings bonds paying a return of 5 per cent per annum. The Islamic bonds, called Sukuk Simpanan Rakyat, will take 3 years to mature and the offering is an example of how personal savings are being encouraged. In addition, OCBC Al-Amin Bank Berhad has introduced four new shariah compliant trade finance products to meet the increasing demand from exporters using Islamic banking products.

### Malaysia GDP, 2005 - Q1/2009



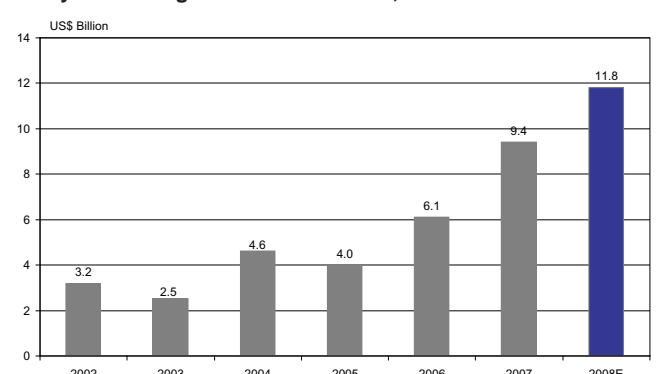
Source: Department of Statistics Malaysia

### Share Price of Largest Listed Developers of Malaysia, Aug 2006 - May 2009



Source: Yahoo Finance

### Malaysian Foreign Direct Investment, 2002 - 2008E



Source: Malaysia Industrial Development Authority



Terengganu Investment Authority is the country's first state-established sovereign wealth fund with an initial allocation of RM11 billion and a mandate to invest in recurring income assets and bring socio-economic development to the state of Terengganu. The fund size is made up of RM5 billion raised via a government backed 30 year Islamic medium term note and RM6 billion via a derivative programme which essentially sells forward the state's oil royalties for immediate payment today. The agency has embarked on an aggressive recruitment campaign and plans to hire up to 100 employees within the next 12 months and to take up large Grade 'A' office space suitable for a King - the Sultan of Terengganu is also Malaysia's current Yang di-Pertuan Agong. The state government of Penang has proposed that a similar investment vehicle to the Terengganu Investment Authority be set up in Penang. Chief Minister Lim Guan Eng has said that he has written to the Prime Minister to approve a RM5 billion federal guarantee to finance the investment body to be called the Penang Investment Authority.

Royal Dutch Shell Plc operates various sources of renewable energy such as wind farms and as part of their corporate social responsibility also occupy green rated office buildings. Shell Malaysia has committed to a new LEED rated green office building being constructed at the decentralised public transport hub of KL Sentral. The company will take up 340,000 sq.ft. in 2012. Malaysia has launched the Green Building Index rating system, which is claimed to be the ideal tool for measuring new buildings in tropical climates. Singapore's Green Mark is the other green rating tool developed for the tropics but it addresses specifically the priorities and needs of Singapore. A green building rating is increasing in demand and it may not be long before such a rating moves from being a market driven requirement to a statutory requirement.

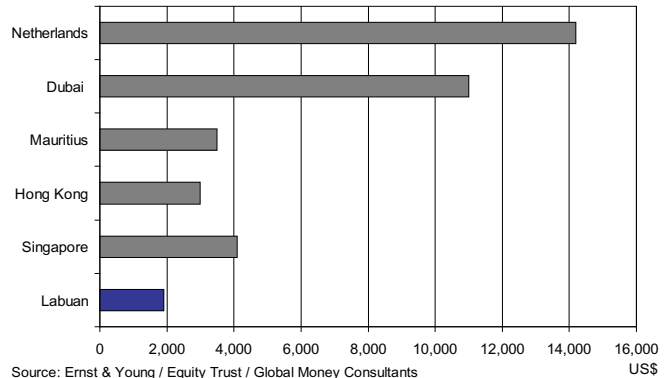
Companies which have been looking to set up their headquarters in Kuala Lumpur now have the added incentive to do so with the latest measure to allow offshore benefits in Kuala Lumpur. This initiative combines the convenience and connectivity of Kuala Lumpur with Labuan's favourable tax framework. Not only that, the access to 69 Double Taxation Agreements (DTAs) will also serve to enhance Kuala Lumpur as the ideal location for a corporate headquarters. From June 1, 2009, Labuan holding companies will be allowed to establish their operational and management office in Kuala Lumpur and they can primarily deal with non-residents, deal in non-Malaysian Ringgit business and pay tax under the rules of the Malaysian Income Tax Act (1967). Under this Act, companies can enjoy 0 per cent tax on foreign income and capital gains. There is also zero withholding tax on dividends. Labuan International Business & Finance Centre is offering free initial advice on this recent initiative.

### Grade A Office Vacancy and Asking Rents

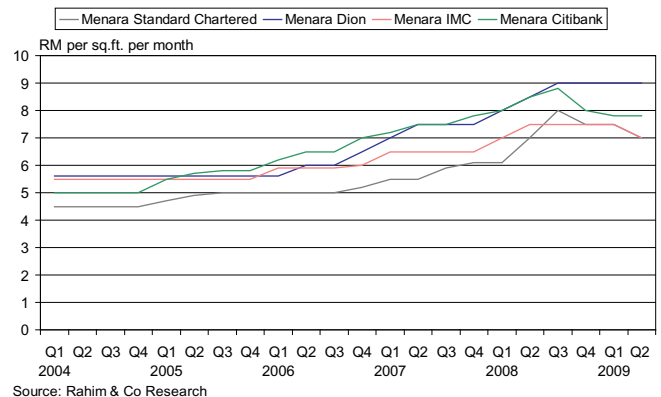
There are eight Grade 'A' office buildings in the prime CBD (KLCC/ Golden Triangle), totalling approximately 5.3 million sq.ft. The majority of these buildings were constructed in the 1990's and these older buildings are facing approximately 1 million sq.ft. of new space in the Golden Triangle in the second half of 2009. The threat to older buildings is greater than expected because of the impending availability of DBKL Tower in the heart of the Golden Triangle. This building was earmarked for the offices of the local authority but the 170,000 sq.ft. office building is now likely to come onto the open market.

Office asking rents have declined in certain buildings as landlords attempt to retain large tenants facing renewals. The new supply of office buildings throughout the entire federal territory includes Grade 'A' design features such as raised floors. One competitive new office building ready this year with raised floors is BRDB Tower in the growing decentralised location of Bangsar. Vacancy is beginning to increase in certain circumstances as some business units or HQ's take advantage of the new supply in the decentralised locations or downsize. While the market is consolidating, proactive landlords and forward thinking developers may still be able to buck the trend resulting in variable peaks and troughs rather than big declines in rents or high vacancy rates.

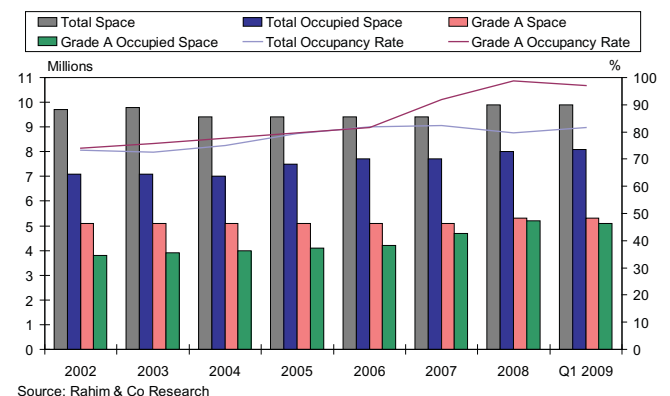
### Annual Operating Costs of a Labuan Holding Co., July 2008



### Selection of Grade 'A' Office Asking Rents, 2004 - Q2/2009



### Total Space & Occupancy VS Total Grade 'A' Space & Occupancy, 2002 - Q1/2009





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