



RAHIM & CO RESEARCH :: Property Market Insight
:: Q4 2010

BRIEF OVERVIEW OF THE ECONOMY

Signs of economic improvement were noted at the beginning of 2010 as the global economy started to stabilize. Malaysia's GDP expanded by 10.2% and 8.9% in Q1 2010 and Q2 2010 respectively. Though GDP for Q3 2010 was recorded at only 5.3%, MIER projected GDP for the full year of 2010 to grow by 6.8%.

With the global economic and trade expected to expand moderately in 2011, Asia is poised to grow at 7.0% in 2011 and the Malaysian economy is projected to grow between 5.0% - 6.0%. Growth is projected to be led by strong expansion in the manufacturing and services sectors.

HIGH END CONDOMINIUM

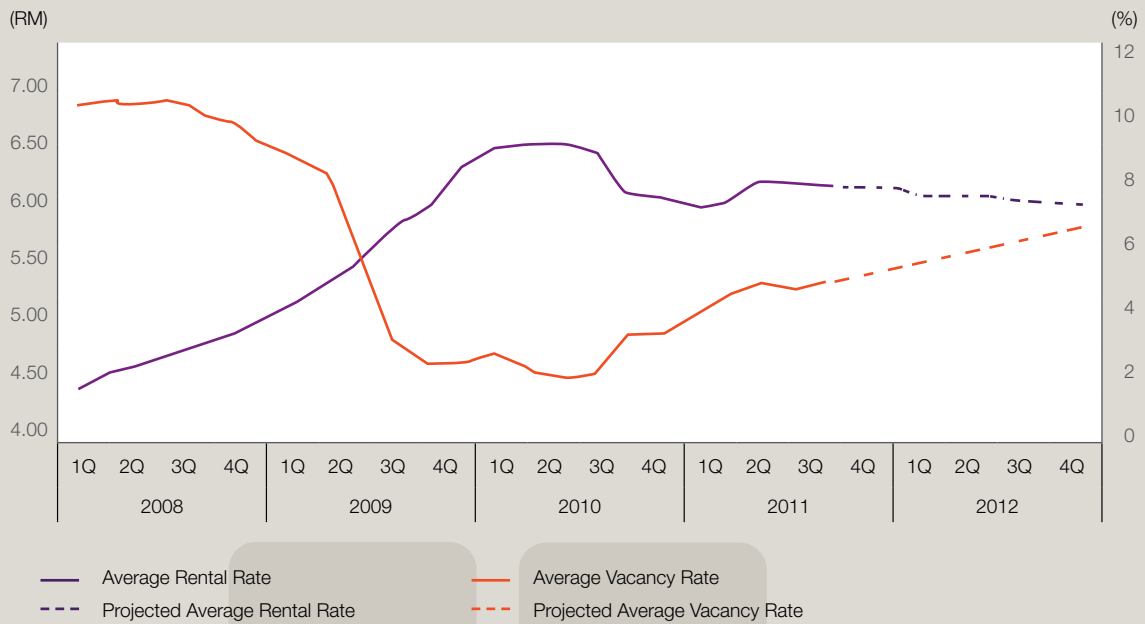
- The effects of the 2008 global financial crisis continued to be felt. In 2010, the high end condominium market trended sideways due to oversupply and general lack of interest by investors and purchasers.
- The current total supply of high end condominiums in Kuala Lumpur is 29,962 units, of which 44.2% are located in Kuala Lumpur city centre and the remaining 55.8% in the suburbs.
- In 2010, about 2,636 units of new high end condominiums were completed. In the city centre, completed developments included The Troika, The Binjai on the Park, Hampshire Place, The Oval, The Ampersand, Iringan Hijau, and Gallery U-Thant with prices ranging from RM800 psf to RM 1,800 psf psf, with the exception of The Binjai, which has a price tag of RM2600 psf.

- Developments completed during the same period in the suburbs include Lumina Kiara, Kiara 9, Kiara 3, Zehn Bukit Pantai, Suasana Bangsar and Clearwater Residence with prices ranging from RM700 psf to RM850 psf.
- Based on our selected samples of high-end condominiums, average prices in the secondary market fell by 29% from its highest of RM898 psf in Q2 2008 to its lowest of RM697 psf in Q2 2009. But, the average price improved by 13% as of Q3 2010.
- On the demand side, buyers were very selective. Developments offering good design, high quality materials, professional property management and developers with good track record have continued to attract buyers.
- The leasing market has not fully recovered due to the reduction in the number of expatriates and housing allowance budget cutbacks by most MNCs. Rental rates remained low at about RM4.30 psf compared to its high in 2008 at RM4.90 psf.
- The lackluster rental market had dampened investors' interest as the relatively low yield (between 4.0% - 5.0%) prompted investors to look at more exciting markets, such as overseas market, as prices are low due to favourable exchange rate or other investment options (e.g. landed homes).
- The gap between average price and average rental per square foot is set to break further in 2011 and 2012. While capital appreciation is moving north, yield is expected to move south from 4.5% in Q4 2010 to 4.4% in Q4 2012.

Chart 1
Average Price and Rental (psf) for Selected High End Condominiums in Kuala Lumpur



Chart 2
Average Vacancy Rate (%) vs Average Rental of Prime Office Building in Kuala Lumpur (RMpsf)

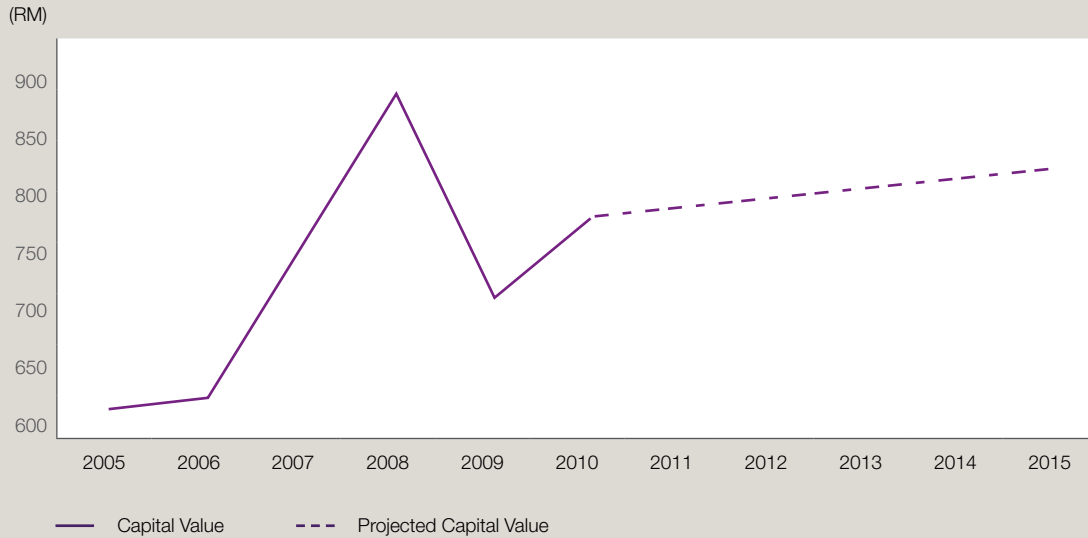


Source: Rahim & Co Research

PURPOSE BUILT OFFICE BUILDING

- The effects of 2008 Global Financial Crisis still echoed through the office market last year as vacancy rate increased (in our sampled prime office buildings) and average rental rates declined.
- Over the last five years, the total supply of purpose-built office buildings of all grades in the Klang Valley grew at a Compound Average Growth Rate of 4.5% and currently stands at 96.5 million sq ft. About 25 million sq ft is concentrated in the Golden Triangle Area, of which 75% is classified as prime buildings.
- The year 2010 saw the completion of four purpose-built office buildings located outside KL city centre, adding 849,000 sq ft. of new space in the market. Quill 6 Building in Leboh Ampang is fully leased by HSBC, which serves as an annexe to its current headquarters in Leboh Ampang. The other three buildings completed were Menara Kencana, BRDB Tower and Gateway Corporate Suites, which are all located outside the Kuala Lumpur city centre.
- With the completion of new stocks of prime office buildings in 2010, totaling 1.3 million sq ft, average vacancy rate for prime office buildings rose slightly from 4.0% in 2009 to 5.0% in 2010. This intensified the pressure on rental rates, which remained at an average of RM6.13 psf per month, compared to its peak at RM6.47 psf per month in 2007/08.
- There were limited transactions in 2010, but capital values did rise to an average of RM775 psf after a sharp decline of 19% in 2008/09. Net yield is estimated to be between 6.0% - 7.0%.
- In the next five years, an estimated 14.5 million sq ft of new office space will be completed, of which about 27% will be located in the suburbs. With the growth of new townships, traditional office markets in the city centre would have to compete with new suburban commercial developments. This is fueled by the vast improvement in suburban accessibility through the recent openings of major highways.
- With selling prices of between RM500 psf and RM1,000 psf, some companies in the city centre are relocating to new office buildings in the suburbs due to lower rental rate, opportunity to own their space and accessibility, which helps recruitment and retention of staff.
- With the economic recovery anticipated to continue in the second half of 2011 and the positive effects of the ETP expected to be felt, the office market may stabilize in the short term but continue to be challenging in the long term. Kuala Lumpur is still one of the lowest in terms of cost of occupation, supported by well-developed infrastructure and favorable government policies, for example, incentives given to MSC-status companies.

Chart 3
Capital Value (psf) of Prime Office Buildings in Kuala Lumpur



Source: Rahim & Co Research

INDUSTRIAL

- Following the retreat of manufacturing investments in 2008, a general recovery of manufacturing activities was noted in 2010. Sales value increased by 15% between 2009/10, y-o-y ending October.
- Strong demand from SMEs for small-sized industrial buildings, for example semi-detached factories, has encouraged developers to launch more projects, especially in the more established industrial areas located along major highways.
- A number of new projects launched in 2009 and 2010 received good take-up rate of between 80% - 100% as they were priced at relatively low prices, as low as RM2.5 million per unit. Demand came mainly from SMEs to expand their businesses and most new industrial properties suit their needs - though they are small in size but the buildings are designed in such a way that they can be used as a corporate office, manufacturing and warehousing.



I PARC 2



I PARC 1

- Based on our selected samples of rental rate for industrial buildings in Bukit Jelutong, Shah Alam, Rawang, Puchong and Klang, the rental rate range between RM0.70 psf and RM2.05 psf depending on location and type of building.
- Capital values of industrial buildings have remained at above RM100 psf and in prime areas like Bukit Jelutong can go as high as RM300 psf.
- With the expected expansion in manufacturing activities, more developers are expected to launch their projects in 2011. As the supply of industrial land within prime commercial areas is limited, more developments are expected to be launched in areas like Port Klang and Pulau Indah as well as in the outskirts of Klang Valley like Nilai in Negeri Sembilan. For example, F&N will relocate its current plant in Petaling Jaya to Pulau Indah to its new RM350 million plant, which is scheduled for completion in the second half of 2011.

- Positive sentiment on the industrial market in Malaysia in 2010 was further augmented by the setting up of a bottling plant by Coca-Cola involving an estimated investment of RM1 billion. Coca-Cola, which has bottling plants in 206 countries, acquired a piece of land in Nilai, Negeri Sembilan and the new facility is expected to start its operation by early 2011. In tandem with the growing need to preserve the environment, the plant is being constructed in accordance with Leadership in Energy and Environment Design (LEED) certification. One of the strengths of the location is that Nilai is easily accessible via the KL-Seremban PLUS, ELITE, SKVE and KESAS Highways that link to KLIA and Port Klang. The location was chosen due to its close proximity to Bandar Enstek Techpark, which has all the infrastructure required for industrial activity, such as stable & secured power and water supply. The plant is expected to create 800 jobs and is projected to create multiplier effects at supplier, distributor and trade levels by creating an additional 8,000 more jobs. The presence of Coca-Cola is expected to boost not only related-industrial activities within this area but also other commercial activities, which in turn create positive demand for properties.

RETAIL

- Retail Group Malaysia forecasted the total retail sales in Malaysia to increase from RM137 billion in 2010 to RM227 billion in 2014, giving a positive outlook in the local retail industry. Such optimism is driven mainly by relatively low unemployment rate at 3.6%, higher disposable income of the working population, and the growing tourism industry. Retail sales growth for 2010 is projected by Retail Group Malaysia to be at 5.0%, which is a drastic improvement from 0.8% in 2009.
- The current total supply of retail space in shopping centres in the Klang Valley is approximately 50 million sq ft, made up of regional malls, neighborhood malls and hypermarkets.



- The year 2010 saw the opening of two shopping complexes in the suburbs and one in the city centre, resulting in a total take-up of almost 800,000 sq ft during the year. Upon opening, Empire Shopping Gallery in Subang Jaya and Jusco Mahkota Cheras achieved occupancy rate of 97% and 95% respectively. Fahrenheit in Bukit Bintang recorded 90% occupancy upon opening.
- Overall, average occupancy rate of shopping complexes in Kuala Lumpur has always been maintained at a healthy level of above 80% in the past few years, and in 2010, it was at 84%.
- The gross monthly rental rates of shopping complexes in Kuala Lumpur have moved upwards with higher rate recorded by well-managed prime shopping complexes located in strategic locations, good tenant mix and the availability of public transportation. While average rental rates for prime lots in neighbourhood malls range between RM13psf and RM25psf, the rates in regional malls range between RM15psf and RM50psf. Net yield is estimated to be between 6.5% and 7.5%.
- In 2011, 13 new shopping malls will be opened offering a total of 4.5 million sq ft of retail space, including two malls that are being refurbished and rebranded - Intermark Mall (previously known as City Square) and Viva Mall (previously known as UE3 Mall). We expect more older malls in strategic locations to be refurbished and rebranded to take advantage of the growing population.
- With the expected economic improvement in 2011, rental rates and occupancy levels are expected to remain stable barring any negative news that will affect consumers' sentiment.

Chart 4
Rental Rates and Occupancy Rates for Selected Shopping Malls in Klang Valley, 4Q, 2010



Source: Rahim & Co Research

KUALA LUMPUR
 (Head office)
 T +603 2691 9922
 F +603 2691 9992 /
 +603 2691 0096 (Agency)
 E rccs@rahim-co.com /
 srcra@savillsrahim-co.com

ALOR SETAR
 T +604 732 0177 / 0178
 F +604 732 0185
 E rccsas@rahim-co.com

IPOH
 T +605 249 5586 / 5587
 +605 249 5588
 F +605 249 5585
 E rccsip@rahim-co.com

JOHOR BAHRU
 T +607 333 7166 / 7170
 F +607 331 7201
 E rccsjb@rahim-co.com

KEMAMAN
 T +609 859 3887 / 1887
 F +609 859 6887
 E rccskmn@rahim-co.com

KLANG
 T +603 3344 7579
 F +603 3344 7578
 E rccsklg@rahim-co.com

KOTA BHARU
 T +609 748 1252 / 8252
 F +609 748 5824
 E rccskb@rahim-co.com

KOTA KINABALU
 T +6088 484 995 / 996
 F +6088 484 997
 E rccskk@rahim-co.com

KUALA TERENGGANU
 T +609 622 7508
 F +609 623 5126
 E rccskt@rahim-co.com

KUANTAN
 T +609 513 6633
 F +609 513 1575
 E rccsktn@rahim-co.com

KUCHING
 T +6082 235 998 / 236 998
 F +6082 237 998
 E rccskch@rahim-co.com

MALACCA
 T +606 284 8237 / 7286
 F +606 283 0134
 E rccsmal@rahim-co.com

PENANG
 T +604 229 9913 / 9013
 F +604 227 3326
 E rccspg@rahim-co.com

PETALING JAYA
 T +603 7957 9528
 F +603 7956 5386
 E rccspj@rahim-co.com

SEREMBAN
 T +606-763 2492/ 764 8151
 F +606-762 0796
 E rccssbn@rahim-co.com

SUNGAI PETANI
 T +604-422 1619
 F +604-422 1718
 E rccssp@rahim-co.com

TEMERLOH
 T +609-296 5044 / 5042
 F +609-296 5642
 E rccstmh@rahim-co.com

Rahim & Co Research Sdn Bhd (200137 - X)
 Level 17, Menara Uni Asia
 1008 Jalan Sultan Ismail
 50250 Kuala Lumpur, Malaysia

T +(60 3) 2691 9922
 F +(60 3) 2691 0096
 E research@rahim-co.com

www.rahim-co.com

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