

PROPERTY COUNTRY REPORT : MALAYSIA

15th March 2012

Phnom Penh

By James Wong

Conversion Rate:

US\$1 = RM3.05

vpcasiapacific.com



VPC Network of Offices



Base 801957 (R02595) 11-98

vpcasiapacific.com



CONTENT



- **Economic Brief**
- **Property Market : General**
- **Sectoral Property Market**
 - Residential
 - Offices
 - Retail
 - Hotel
 - Industrial
 - REITs
- **Opportunities in the Property Industry and Property Market**
- **Cross Border Investment: Malaysia United Kingdom**
- **Conclusion**



ECONOMY



Period	2009	2010	2011	2012
GDP Rate	-1.7%	7.2%	5.2%	4.0-4.5% (forecast)

Source: Department of Statistics, Malaysia



ECONOMY



Although the economy had moderated to a growth rate of 5.2% in 2011, the economy was still resilient and boosted by:-

- High liquidity, with banks highly capitalized and liquid
- Firm commodity prices: oil palm, rubber, petroleum
- Foreign Direct Investments shot up to RM56 Billion (US\$18.4 Billion) in end 2011.
- Strong private domestic consumption – which is driving the economy.



BRIEF ECONOMY INDICATORS

Main income sources : Oil & gas, manufacturing, tourism, palm oil, retail.

- Population : 28.6 million.
- Population Growth rate : 2.4%
- Unemployment Rate : 3.5%
- Base Lending Rate : 6.6%
- Overnight Policy Rate (OPR) : 3.0%
- Mortgage Rate : $\pm 2\%$ BLR
- International Reserves : RM423.4 B (US\$138.82 B) as at 31.12.2011
- Inflation Rate : 3.4%
- Per Capital Income : RM29,000 (2011) or US\$9508



Economic Outlook : 2012

In 2012, the economy is expected to slowdown to 4 % – 4.5% due to :-

- Reduced exports due to the E.U. debt crisis, flat US economy and slow down in the emerging world economies, including China.
- Loan growth of Malaysian banks will moderate to 6-8%, compared to 10.1% loan growth in 2011 & 9% in 2010.
- Foreign Direct Investments expected to decline in 2012.
- Softer consumer spending expected.



PROPERTY MARKET: GENERAL



	1 st 3 Q 2010	1 st 3 Q 2011	% Increase
Volume of Transactions	273,600	323,000	18.0%
Value of Transactions	RM77 Billion (US\$25.25 Billion)	RM103 Billion (US\$33.77 Billion)	33.7%

- Property Market in 2011 : Active
- The volume and value of transactions increased against 1st 3 Q 2010 by 18% and 33.7%.

The active property market was boosted by:-

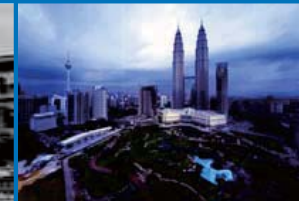
- Easy home loan package and high bank liquidity
- Increased property launches by developers.
- Sustained demand from investors, professionals and 1st time house buyers.



PROPERTY MARKET OUTLOOK : 2012



- The property had started to slowdown from the 4Q of 2011, after 2 years of property price increases.
- In tandem with the slowdown in the economy, the property market in 2012 will moderate due to :-
 - Global economic slowdown
 - Declining liquidity due to tightening of credit by banks.
 - Since Nov 2010, Government had imposed the maximum Loan-to-Value ratio of 70% for the 3rd and subsequent purchase.
 - Effective 1.1.2012, loan eligibility is calculated based on net income (previously gross income)
 - Manufacturing slowdown due to reduced exports.
 - Developers will be launching less residential developments and sales take-up rate is expected to be slower.
 - Oversupply in many property sectors.
 - General Elections expected in 2012 : Investors cautions due to political uncertainty.



Residential Property Market



- Residential Market : The largest property sector, which contributes about 60% of the total volume of transactions.
- Growth of Residential Property Sector :
 - 2010 : 8.8% growth
 - 2011 : 23.2% growth



Residential Property Market

- 2011 was a good year or residential property launches.

	Residential Units Launched	Sales Performance
1 st 3 Q 2010	28,850	39.5%
1 st 3 Q 2011	32,307	42.8%

Positives

- Malaysia : Young population : 65% of population below age 35.
- Increasing household income.

Negatives

- Oversupply
- Tightening of bank loan lending
- Poor rental market.



Landed Residential Property



- Still the preferred choice of Malaysian buyers compared to condominium apartments.
- According to NAPIC, total of 5415 residential units in 66 developments launched in 2011, with a healthy 65% take-up rate.
- Demand for landed residential in Kuala Lumpur – still strong – pushing up prices further, except for lower middle income houses, with an oversupply.
- Yield : 3 – 4%

Trend

- Growing demand is for the gated and guarded residential community development. A typical success story is Desa Park City, which witness capital appreciation of 50% - 100%.





Desa Park City Development

vpcasiapacific.com



Condominiums Apartments Supply in Kuala Lumpur : 2011



Supply as at end 2010	2011 Completion	Total Supply End 2011
29,364	5,363	29,897

- 50% of the condo. developments completed in 2011 are located in the Mont Kiara / Sri Hartamas area.
- Generally, a glut of condos in Kuala Lumpur.
- Occupancy rate : Decline to 68% in 2011.
- Yield : 5 - 6%



Condominiums Apartments Supply in Kuala Lumpur : 2011

- Selling Prices of Condo Launches in 2011

Area	Price Range
KLCC	RM900 – RM2000 psf (US\$295 – US\$655 psf)
Mont Kiara / Sri Hartamas	RM700 – RM1200 psf (US\$230 – US\$393 psf)

- Condominium Rentals : 2011

Area	Rental
KLCC	RM4 – RM5.50 psf (US\$1.30 – US\$1.80 psf)
Mont' Kiara / Sri Hartamas	RM3 – RM3.50 psf (US\$1.00 – US\$1.15 psf)
Bangsar	RM3.50 psf (US\$1.15 psf)



Condominiums Outlook : 2012

- KLCC and Mont Kiara / Sri Hartamas will experience price correction and rentals and slowdown in sales.
- Buyers will be more cautious and selective.
- Treat of large incoming supply.
- Occupancy rate may decline further.
- With Government incentives, more affordable housing will be built.
- Developers are going for more smaller size units.



OFFICE MARKET: KUALA LUMPUR : 2011

Office Market : Active in 2011

Supply : Completed Office Buildings 2011

Area	No. of Buildings	Floor Area (sq.ft.)
Kuala Lumpur	11	4.81 million (sq.ft.)
Kuala Lumpur Outskirts	5	1.72 million (sq.ft.)

Demand

Take-up Rate : 2010 : 2.5 million sq.ft.
 2011 : 3.5 million sq.ft.



Major Leases in 2011



Office Building	Tenant	Floor Area (sq.ft.)
The Icon	RHB Insurance	100,000
Cap Square Tower	Citibank	117,000
Vista Tower	Worley Parsons UOB Singapore UOB Malaysia	60,000 77,000 33,000
The Horizon Block 6, Bangsar South	Touch & Go	67,000
Quill 9, Petaling Jaya	Dutch Lady Glaxo Smith Kline	53,000 50,000
Block B & C Lot E KL Sentral	SME Corporation	209,000



Rent



Location	Average Rental (psf)	Occupancy Rate
Golden Triangle	RM6.50 (US\$2.13)	84%
KL City Centre	RM5.20 (US\$1.70)	80%
Damansara	RM4.20 (US\$1.38)	87%
Mid Valley / Bangsar	RM5.20 (US\$1.70)	88%
KL Sentral	RM6.20 (US\$2.03)	95%
KL Outskirts	RM3 – RM4.50 (US\$1 - \$1.45)	75%



Office Buildings Sale : 2011

Kuala Lumpur



- Sale of office buildings : Active in 2011
- 12 office buildings were sold in 2011 with a gross sales value of RM1.879 Billion.

Location	Office Building	Floor Area (sq.ft.)	Consideration	Remarks
KLCC	Platinum Park : 50 storey	-	RM640.7 Million (US\$210 M)	Buyer : Felda
	Platinum Park : 38 storey	-	-	Buyer : Tabung Haji
KL City Centre	Menara Multi Purpose	541,424	RM375 Million (US\$123 M) (RM693 psf)	Buyer : MCA



Office Buildings Sale : 2011

Kuala Lumpur (con't)



Location	Office Building	Floor Area (sq.ft.)	Consideration	Remarks
KL Golden Triangle	Wisma Goldhill	-	RM170.157 Mil (US\$55.8 M) (RM630 psf)	-
KL Sentral	Dua Sentral	-	RM232.2 Mil (US\$76 M) (RM540 psf)	Buyer : TNB
KL Golden Triangle	Pavilion Office Tower	-	RM128 Mil (US\$42 M) (RM763 psf)	Injected into Pavilion REIT
	Berjaya Central Park (Banking Hall & 8 Floors of office suites)	105,950	RM100 Mil (US\$32.7 M)	Buyer : Bangkok Bank
Petaling Jaya	Menara Taiko	-	RM100.603 Mil (US\$33 M) (RM595 psf)	-
Cyberjaya	Bangunan Lestari Kumpulan Emkay	-	-	Long term lease to Shell at 5.7% return
Cyberjaya	Prima 9	-	RM72 Mil (US\$23.6 M) (RM647 psf)	-
	Prima 10	-	RM61 Mil (US\$20 M) (RM608 psf)	-

vpcasiapacific.com



Office Market Outlook : 2012

- Another 5 million sq.ft. expected to enter the market.
- With the office glut, office market is expect to soften.
- New office buildings will face intense competition for tenant market.
- Rents under pressure to come down.
- New office buildings with green certification and MSC status will command slightly higher rentals and can compete better.



Retail Market



Supply : Greater Kuala Lumpur

1 H 2011

End 2011

43 million sq.ft.

46.6 million sq.ft.

- Some of the shopping malls completed in Kuala Lumpur in 2011 are:-

Suria KLCC Extension (140,000 sq.ft.), 1-Shamelin (420,000 sq.ft.), Citta Mall, Kenanga Wholesale City (500,000 sq.ft.), Publika@Solaris Dutamas (300,000 sq.ft.), Intermark Phase 2, Space U8 EcoMall (619,000 sq.ft.), KL Festival City (450,000 sq.ft.).

- Interesting to note that Suria KLCC Extension and KL Festival City (owned by Parkson) was 100% occupied on opening.



Retail Market



Demand

- Of the 131 shopping centres in Greater Kuala Lumpur, only 49 are performing well.
- Other new shopping malls : Experience low leasing rate : 20% – 50 %.
- Kuala Lumpur : Becoming an Asian shopping destination.
- Kuala Lumpur is attracting new international retailers – H&M, Abercrombie & Fitch, Central Pattana PCL, Sophie Paris.
- Retail Sales Turnover : 6% increase in 2011.
- The bonus and annual increment to 1.4 million civil servants and RM500 cash to poor families of income less than RM3,000 per month had boosted consumer spending.



Retail Market



Occupancy Rate

KL City : 90%

KL Outskirts : 86%

Rental : Kuala Lumpur : 2011

- Popular shopping malls such as Suria KLCC, Pavilion Mid Valley & 1-Utama still experiencing an increase in rentals.
- Highest rental achieved in Pavilion : RM93 psf (RM1000 psm)
- Rentals of retail space in KL in 2011 : Mainly stable.
- Pavilion : Average Rental : RM16 psf (US\$170 psm)
- Yield : 7%



Retail Market



Shopping Mall Transactions in 2011: Malaysia

- 2011 : A Bumper year for shopping mall transactions with total sales of about RM5 Billion (US\$1.64 B).
- The Majority of the buyers are REITs and Property Funds.
- Highest value was Pavilion Kuala Lumpur at RM2,390 psf (RM25,725 psm), resulting from an injection into Pavilion REIT, after IPO Listing.



Retail Market

Shopping Mall Transactions in 2011



Shopping Mall	Vendor	Buyer	Consideration
<ul style="list-style-type: none"> Gurney Plaza Extension, Penang 	Gurney Plaza	Capita Malls Malaysia Trust	RM215 M (US\$70.5 M) (RM1536 psf)
<ul style="list-style-type: none"> East Coast Mall, Kuantan 	Astral Realty S/B	Capita Malls Malaysia Trust	RM310 M (US\$101.5 M) (RM702 psf)
<ul style="list-style-type: none"> Klang Parade , Klang 	TMW S/B, Asia Property Fund	Ava Asia Dragon Fund	} RM450 M (US\$147.5 M)
<ul style="list-style-type: none"> Seremban Parade, Seremban 	-As above -	-As above -	
<ul style="list-style-type: none"> Ipoh Parade, Ipoh 	- As above -	-As above -	
<ul style="list-style-type: none"> The Citta Strip Mall, Ara Damansara 	- As above -	-As above -	RM245 M (US\$80 M)
<ul style="list-style-type: none"> One Mont Kiara 	-As above –	- As above -	RM330 M (US\$108 M)
<ul style="list-style-type: none"> The Mall Putra Place, KL 	Commerce International Merchant Bank	Sunway REIT	Auction Sale RM513.95M (US\$168.5M) (including Hotel & Office Tower) (Mall only RM224 M (US\$73.5M)



Retail Market

Shopping Mall Transactions in 2011

(con't)



Shopping Mall	Vendor	Buyer	Consideration
<ul style="list-style-type: none"> ▪ Landmark Central Shopping Centre, Kedah ▪ Central Square Shopping Centre, Kedah 	<p>Sri Awana Sdn Bhd</p> <p>Awana Larel Sdn Bhd</p>	<p>HEKTAR REIT</p> <p>HEKTAR REIT</p>	<p>} RM181 M (US\$55 M)</p>
<ul style="list-style-type: none"> ▪ Pavilion KL 	<p>Urusharta Cemerlang S/B</p>	<p>Pavilion REIT</p>	<p>IPO Listing, Valuation : RM3.5 B (US\$1.15 B) (Mall & Office) Mall : RM2390 psf</p>
<ul style="list-style-type: none"> ▪ The Gardens Mall, Midvalley KL 	<p>IGB Berhad</p>	<p>Krisassets Holdings</p>	<p>RM 820 M (US\$269 M) (RM1025 psf)</p>



Retail Market



Latest Trends/Developments

- Johore Premium Outlets (Joint venture between Genting and Simon Property Group, USA) : Warehouse factory outlet opened in December 2011, offering discount of 25% - 65%.
- Many old malls are undergoing refurbishment : Sunway Putra Place, Phoenix Plaza, Plaza UE3.



Outlook for Retail Market : 2012



- Retail sales turnover may decline slightly to 6%.
- Overall, oversupply of shopping malls, which may put pressure on rents.
- Less active transactions of shopping malls in 2012 – Sellers market and shortage of quality malls available in the market.
- The two most popular shopping areas in Kuala Lumpur – Suria KLCC and Bukit Bintang – Rentals will still be uptrend.
- Retailers facing challenges of rising costs and shortage of labour.



Hotel Market



- 2011 : A **flat** year for the tourism industry.
- Tourism Receipt in 2011 : RM58.3 Billion (US\$19.1 B)
- Tourism Receipt in 2010 : RM56.5 Billion (US\$18.5 B)
(only a 3% increase)
- Tourism Arrivals in 2011 : About 25 million compared to 24.6 million tourist arrivals in 2010, only a 2% increase)
- 2011 : A challenging year for the tourism industry –
Tsunami in Japan, Floods in Thailand and weakening global economy.
- Tourism Industry : 2nd biggest foreign exchange earner.
: Employs 1.2 million people.



Hotel Supply



	No. of Rooms	No. of Hotels
Malaysia	170,000 hotel rooms	
Greater Kuala Lumpur	40,932	132 *
Kuala Lumpur	24,417	

*Include 17 serviced apartments developments with 3,647 rooms.

- In Kuala Lumpur, only 2 hotels were opened in 2011.
 - Furama Bukit Bintang : 433 rooms
 - Swiss Garden Residences : 478 rooms



Hotel Supply



- More hotels will be opened in Kuala Lumpur in 2012.

Hotel	No. of Rooms
Pullman Bangsar	513
Best Western Premier Dua Sentral	507
Iblis Styles Fraser Business Park	500
Grand Hyatt Kuala Lumpur	412
Imperial KLCC Hotel Extension	188
Iblis Styles Cheras	156





Average Occupancy Rate

Greater Kuala Lumpur :	<u>2010</u>		<u>2011</u>	
	67%		62%	
• Kuala Lumpur : 2011	<u>3 Star</u>	<u>4 Star</u>	<u>5 Star</u>	
	70%	78%	75%	
• <u>Average Room Rates :</u>				
Kuala Lumpur 2011				
3 Star : RM145				
4 Star : RM235				
5 Star : RM350				



Hotel Sales



- The following hotels were recorded sold in 2011:-

Name	No. of Rooms	Consideration	Remarks
Hotel Furama, Bukit Bintang	433	RM150 million	28 Storey. 4 star.
Legend Hotel & Service Apartments	414 rooms + 206 apartments	RM218 million	Purchased by Sunway REIT in auction.
Renaissance Hotel, Kuala Lumpur		RM277.5 million	IGB Bhd purchased of 50% of Great Union Properties
9 Hotels throughout Malaysia		RM1.054 billion	YTL sold to STAR REIT



Trends



- Tune Hotels : A branded budget hotel chain. Currently own 15 hotels and plans to open 30 new hotels in Malaysia, United Kingdom, India, Thailand & Philippines in 2012.
- Ascott Serviced Residences : Currently operate 3 services residences under the Ascott & Somerset brands and manages Somerset Seri Bukit Bintang and Tiffany by i-Zen. Over the next 5 years, Ascott will manage 5 more properties and introduce the Citadines brand.



Hotel Outlook



- 2012 : With economic slowdown, will be a challenging year for the hotel market.
- Average Room Rate (ARR) and Average Occupancy will be stable as more upcoming hotels opening in 2012.
- Many international hotel chains still interested to operate hotels in Malaysia, including Bayan Tree, Four Seasons, Movenpick, Best Western Premier.



Industrial Market Sector



General

- Manufacturing :
 - Contribute 69.7% of Malaysia exports in 2009 – 2010.
 - Contribute 27.7% of GDP (2010)
- Foreign Direct Investment : Malaysia is world's 10 top most attractive destination for FDI.



Industrial Market Sector



Total Approved Manufacturing Projects : 2010 & 2011

	No. of Projects	Approved Investment (RM Billion)			Potential Employment
		Domestic	Foreign	Total	
2010	910	RM18.1 B	RM29 B	RM47.1 B (US\$15.4 B)	97,319
2011	846	RM21.9 B	RM34.1 B	RM56 B (US\$18.4 B)	100,533

- Malaysia : Caught in the middle income trap.



Industrial Market Sector



Supply

- Total supply of industrial units in Malaysia : 93,139 units (2010)
- No new supply of private industrial parks.
- Total supply of terrace, semi-detached and detached industrial units in Greater Kuala Lumpur : Only 38,794 units.
- Shortage of logistic warehouses, sought after by REITs.



Industrial Market Sector



Demand

- In 2011, 12 semi-detached and detached factories development were launched in Greater Kuala Lumpur. Take up rate was good.
- Demand for industrial units from small and medium scale enterprises (SME)
- Demand for vacant industrial lands from manufacturing companies.



Industrial Market Sector



Average Rentals in Greater Kuala Lumpur

Location

Shah Alam

Petaling Jaya

Balakong

Segambut

Average Rents

RM1.70 psf

RM2.00 – RM2.20 psf

RM1.40 psf

RM1.80 psf



Industrial Market Sector



Sample of Prices of Vacant Industrial Land in Greater Kuala Lumpur

Bukit Jelutong	RM100 psf
Shah Alam (Section 15 & 16)	RM60 psf
Shah Alam (Section 23&24)	RM75 psf
Segambut	RM130 psf
Balakong	RM70 psf
Port Klang	RM30 psf

- Owing to shortage of vacant industrial lands, prices have shot up by 20% – 35% over the last few years.



Industrial Market Sector



Industrial Properties Purchased by REITs in 2011

<u>Property</u>	<u>Buyer</u>	<u>Consideration</u>
Plot D8 Distripark A Pelepas FZ Warehouse	AXIS REIT	RM30 million
Warehouse in Damansara	Atrium REIT	RM25 million
Factory in Bkt Tengah	AXIS REIT	RM59 million
Logistics Warehouse Complex Bayan Lepas Ind. Park, Penang	AXIX REIT	RM48.5 million



Outlook for Industrial Market

- Outlook is good as demand exceed supply.
- With increase in approved manufacturing projects for 2011, there will be spinoffs for industrial lands and factories.



REITS



General

- 1ST introduced in 2005.
- Total no. of REITs listed : M-REITs : 14
- Latest REIT : Pavilion REIT listed in Dec 2011 with a market capitalization of RM3.14 Billion.
- Total Asset of M-REIT : RM20.2 Billion (As at Dec 2011)
- Total Net Income after tax of M-REIT : RM520 million (as at Dec 2011)



REITS



Average Yield : 2011 (Gross)

<u>Name</u>	<u>Average Yield (2011)</u>
Capita Mall Malaysia Trust	6.6 %
Axis REIT	6.8%
Pavilion REIT	6.5%
Hektar REIT	8.0%
Sunway REIT	5.72%



REITS



Benefits of Buying M-REITS

- High liquidity
- Consistent annual dividends of between 6% - 8%.
- Reasonal price gain.
- Majority have strong tenant covenants and long leases to counter property cycles.
- REITs is a defensive asset class.



OUTLOOK FOR M-REITS



- M-REITs are aggressively seeking investment properties to purchase but not many quality investment properties are available in the market.





THANK YOU

vpcasiapacific.com

