

property quotient

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THE LAND BELOW THE WIND

Unleashing potential from foreign real estate investor interest



by Afiq Syarifuddin & Grace Chang

The “land below the wind” is a mountainous terrain with rivers traversing across it, creating deltas inhabited by some of the earliest human populations. Up till today, the landscape remains mostly covered with dense rainforest. Sabah, as it is formally known, makes up one of Malaysia’s 16 states and federal territories.

With the unification of Sabah within the Federation of Malaysia in 1963, the state experienced a development boom in 1967. This is still very visible in its current architecture. In 2000, Kota Kinabalu was granted city status, making it the 6th city in Malaysia.

Sabah also experienced a population boom, growing at a rate of 285% between 1970 to 2000. By 2010, Sabah’s population stood at 3.21 million people with 27.75% of the total being foreigners, according to 2010 Census concluded by Malaysia’s Statistic Department. Over three quarters of the general population inhabit the coastal plains of the state.

Sabah has recorded a steady growth in GDP from 2005 to 2009 from RM25.29 billion to RM30.8 billion, a total increase of 23%. Sabah’s GDP is largely fuelled by its service sector with a monetary value of RM15.1 billion has been growing in an average of 2.8% per annum.

Sabah has strong agricultural muscle whereby agriculture land accounts for 30% of its surface area, abundant in crops, cocoa, rubber and high yield oil palm plantations.

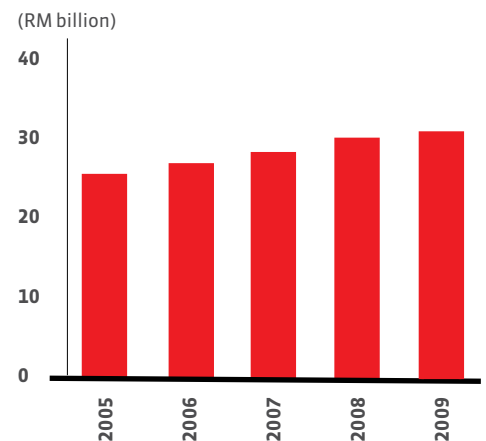
The services sector, which is the largest provider of jobs, is also a major contributor to Sabah’s GDP. Its share of Sabah’s GDP was about 48% in 2009, in which wholesale and retail trade, and government services were the highest contributors.

During the 60 years administration of the British North Borneo Chartered Company, Kota Kinabalu (or Jesselton as it was known then) became a major trading post for Borneo Island due to its harbour and ports as well as the terminus for the North Borneo Railway

On the Real Estate Front

Sabah residential property performance has grown steadily over the past 5 years, in tandem with the stable nature of Malaysia’s general property growth trend. The compounded average growth rate (CAGR) of Sabah residential properties total supply for these 5 years

Figure 1: Sabah’s GDP trend from 2005 to 2009



Source: MPI Research

was recorded at 6.18%, well supported by the 11% CAGR in property demand.

Saleha Yusoff, Rahim & Co’s head of research quoted that prices and rental trends in the Kota Kinabalu secondary residential market continued to be positive in 2Q2011. This was recently reported in The Edge/Rahim & Co Kota Kinabalu Housing Property Monitor for 2Q2011.

One prime integrated development coming up in Sabah is the RM2.5 billion Jesselton Waterfront. The 70.21 acres project across the eastern coastal line of Kota Kinabalu has a development period of 8 years. Modelled after the famed Victoria & Albert waterfront of South Africa, Developer Suria Capital Holdings Berhad has completed the Jesselton Point which functions as passenger ferry terminal to islands near Kota Kinabalu. This project was recently showcased to the Shanghai market in September 2011.

(continued next page)

Figure 2: Notable projects in Sabah

Project	Project Type	Date of completion	Gross Development Value (GDV)
Jesselton Waterfront (Suria Capital Holdings Berhad)	70.21-hectare integrated development	2017	RM2.5 billion
Sandakan Harbour Square (Aseana Properties Ltd)	30-hectare commercial integrated development	n/a	RM500 million
KK Times Square Phase 2	Commercial development	End 2011	RM350 million
Gleneagles Medical Centre Kota Kinabalu	Healthcare development	2014	RM200 million (cost)
Karambunai Integrated Resort City	Eco-tourism development	2020	RM9.6 billion
Aeropod @ Tanjung Aru	60-acre prime land mixed-use	n/a	RM1 billion

Source: MPI Research

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Another integrated mixed-use development with an attached transportation hub is currently being planned by SP Setia with a gross development value (GDV) of RM110 million. Strategically located opposite Kota Kinabalu International Airport, the 59.21-acre development to be known as Aeropod @ Tanjung Aru will consist of shopping mall, offices, serviced apartment, SOHO, a 3-star and a 5-star hotel and Corporate Office.

The retail market in Sabah is currently bustling with activities with the RM500 million Sandakan Harbour Square development's 200,000 sq ft Sandakan Harbour Mall and the 300-room Four Points by Sheraton Hotel, slated to open by 1Q2012. This 30-hectare integrated development by ICSD Ventures Sdn Bhd, a wholly-owned subsidiary of London-listed Aseana Properties Ltd, sits on a reclaimed land facing the Sulu Sea jive well with Sandakan's development plan as Sabah's education hub.

Furthermore, Phase 2 of KK Times Square development in Kota Kinabalu would consist of a 4-storey tourist arcade, a basement car park with retail/arcade, five blocks of 631 units service apartments and a five-storey elevated car park. Located in the prime area of Kota Kinabalu, this development is expected to satiate growing retail demands.

Acknowledging the need to better utilise the resources that is bountiful in Sabah, the state government has introduced programmes to spur the industrial sector. Sabah Economic Development and Investment Authority (SEDIA) was formed to spearhead Sabah Development Corridor (SDC) with the primary responsibility to plan, coordinate, promote and accelerate the development of the SDC.

One of these initiatives is the Kota Kinabalu Industrial Park, introduced in 1995, which now boasts 217 companies operating within it. It is reported in The Sabah Report 2011 that the manufacturing sector in Sabah has grown an average of 9.7% compared to overall Malaysia at 6.9% average.



In 2010, Sabah attracted about 2.5 million tourists of which 795,953 are international tourists

Natural Resources

As one of the biggest producers of palm oil in the world and located in the middle of the Brunei-Indonesia-Malaysia-Philippines East Asean Growth Area (BIMP-EAGA), it is natural that Sabah steer its industrial growth by tapping on oil palm-based industry. The Palm Oil Industrial Clusters (POIC) was established to streamline produce from the 1.4 million hectares of oil palm cultivation in Sabah.

One of the perks associated to POIC is the deep-water ports meant to serve international vessels and steady supply of electricity with construction of a new 300MW power plant in Lahad Datu worth RM2.2 billion scheduled to be complete by 2015.

Healthcare

While the healthcare tourism industry has been robust in Malaysia, especially in Kuala Lumpur, Penang, Malacca and Johor Bharu – increasing activities in Kota Kinabalu clearly recognise the opportunity and potential from this sector. A collaboration on a premium tertiary-care hospital called Gleneagles

Medical Centre Kota Kinabalu was announced between Jesselton Wellness, the state investment arm Warisan Harta Sabah Sdn Bhd as the building owner and Parkway Holding Limited as the lease-operator. Costing about RM200 million (USD66.67 million), the private medical centre will become part of the Sutera Harbor mixed integrated development with targeted completion in 2014.

Tourism

In 2010, Sabah attracted about 2.5 million tourists of which 795,953 are international tourists. Evidence of the state's reputation as a key tourism hub is proven through publicity such as Nexus Residence Karambunai (Malaysia) being listed as one of the top ten luxury villa resorts in South-East Asia (July 2011 South-East Asia Property Report).

The 1,500-acre Karambunai Integrated Resort City (KIRC), a project under the government Economic Transformation Plan, currently comprises a 5-star 500 room Nexus Resort Karambunai and Karambunai Resort Golf Club. Envisioned as the premier world-class ecotourism destination it will include a water theme park, water spectacles and fountain, cable car, mangrove research centre, harbour cruise, aqua and spa village amongst others.

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The appeal of eco-tourism in Sabah has also prompted Best Western International to grow its hotel stable in Malaysia with Best Western Sandakan Hotel and Residence in Sandakan. Moreover, The Royal Kinabalu located on a 6.58-acre land facing the majestic Mount Kinabalu is another notable hospitality development by Kinsabina Group of Companies .

This development consists of a 5-storey hotel comprising 124 hotel rooms; two blocks of 5-storey Hotel suites totalling 220 units and one block of 60 units Hotel suites.

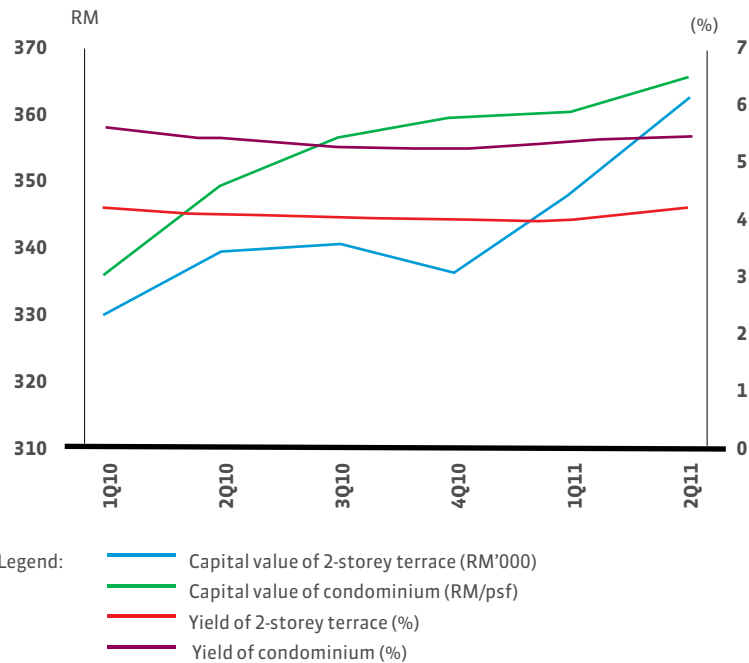
Accessibility

To date, foreign investors, especially from China, Korea and Japan are very keen on the property industry in Sabah. They are particularly interested in the Malaysia My Second Home (MM2H) programme, which also registered strong interest amongst the Bruneians.

To ensure that the supporting sectors in Sabah can be utilised to attract more real estate investment into Sabah, crucial connectivity issues need to be addressed. Currently MASwings Sdn Bhd (MASwings) is on a route development plan to connect the Brunei-Indonesia-Malaysia-Philippines East Asean Growth Area (BIMP-EAGA) that would involve Kota Kinabalu to Bandar Seri Begawan in Brunei, Tarakan in East Kalimantan, Palawan and Mindanao in Philippines together with connectivity to Pontianak in West Kalimantan.

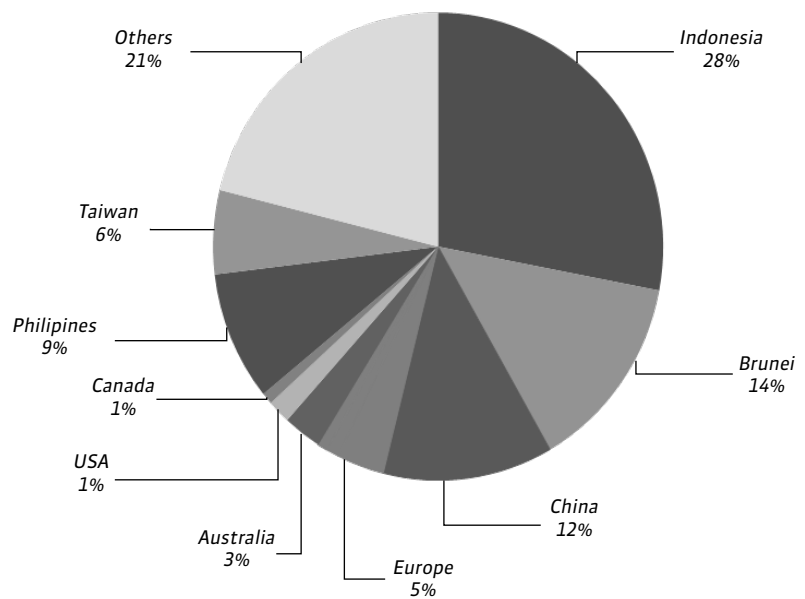
Better infrastructure and the potential to have more direct flights into Sabah in the future allow growth possibilities to materialise and ensure spillover into the real estate sector. While often being touted as the desired tourism destination by foreigners, SEDIA engages with industry players to market Sabah as an attractive business and investment location. The aims is to translate this potential investor traffics to real investment through its investor-friendly policies and incentives. ■

Figure 3: Average capital value and yield in Kota Kinabalu, 1Q10-2Q11



Source: MPI Research

Figure 4: International Tourist Arrivals in Sabah, 2010



Source: Sabah Tourism Board

MALAYSIAN ECONOMY

Chief Economist of MARC, Nor Zahidi Alias gives his insights on the current global economic condition and its effects



by S. Sulocana & Grace Chang

The surging commodities prices, sovereign debt crisis in the US and Europe and rising inflation has set off alarm bells all over the world. Many countries are facing multiple challenges and are trying to find their footing on stable ground, while others brace for the fear of spill over effects.

PQ caught up with Nor Zahidi, Chief Economist of MARC to gain insights on the current global economic conditions and its potential effects to Malaysia.

Nor Zahidi is the Senior Vice President and Chief Economist of MARC. He oversees MARC's macroeconomic research and analysis, focusing on domestic and major economies' fiscal and monetary policy issues and economic outlook. Prior to this, he was the Chief Economist at Alliance Merchant Bank Berhad and Kuala Lumpur City Securities Sendirian Berhad, as well as Head of Research/Economist at MCIS Zurich Insurance Berhad. He actively speaks at conferences and occasionally writes in local newspapers on Malaysian economic trends and outlook.

PQ: Will the current US debt crisis affect the South East Asian economies?

Nor Zahidi: According to the IMF July report, article 4, the US government gross debt is expected to reach 112% of GDP by 2016. With current debt level of 93.5% of GDP, there is possibility of future downgrades on the US credit rating by other rating agencies such as Moody's and Fitch (S&P downgraded it by a notch on Aug 5) especially if Washington is seen as not having enough political will to agree on suitable deficit reduction process in the future. With rising budget deficits equivalent to 10% of GDP, there is a considerable stress in the government finances as we are uncertain about the timeframe that

the new debt ceiling can last before it has to be raised again. Whether or not further downgrades take place, there is definitely a change in the sentiment and perception towards the US macroeconomic stability. Therefore, from investors' point of view, the financial risk is very real despite the US being the largest economy in the world.

The question now is whether the US economy is undergoing the same stress as it did couple of years ago, and to some extent, the fear of a double dip recession is heightening. Even before the downgrade by the S&P, macro indicators have been deteriorating, suggesting an increasing downward momentum. The manufacturing indicator – the ISM – is heading towards the demarcation line, the jobless rate remained above 9% and the wobbly financial market will only exert greater downward pressure on private consumption.

Should the US economic growth stall, export-dependent countries such as Singapore and Malaysia are likely to be affected as they are largely exposed to the trade with the US. This can be the repeat of 2001 whereby, the US economy faltered following the September 11 incident and resulted in a sharp deceleration in growth of the Malaysian economy to almost zero percent.

PQ: The US has finalised plans to raise the debt ceiling by two stages followed by expenditure cuts of USD2.4 trillion over the next 10 years. What's in store for the US economy?

Nor Zahidi: It was a good thing that the US did everything it could and consequently prevented a default. But the economy is still struggling and being bogged down by problems in the labour market. Growth in private consumption has slipped from about 2% in the first quarter this year to almost 0% in the second quarter. With expenditures going to be slashed by USD2.4 trillion over the next 10 years without any tax hike on the rich, the economy will be struggling to recover. Again and again history has taught us that excessive effort to balance the budget during hard times will kill the economy as revenues are hard to come by because of mediocre growth performance.

On a slightly more positive note, the demand for USD is not likely to wane as there is lack of better alternatives for investors. Gold and commodity markets are too small and equity markets are too volatile at this juncture. So investors will



refocus their attention back on the Treasuries. This is good as there will still be inflows to support the current account gap in the US.

PQ: Some quarters had mentioned that Asian economies particularly India and China will lead the economic recovery, what is the likelihood of this happening?

Nor Zahidi: I think this is highly likely in the next decade or so. For now, China and India could support the global economy but only to a certain level as they are still depending on the G3 economies. China is performing extremely well but hindered by some structural problems. These problems include low consumption, increasing house prices and rising inflation. The dependency on the export sector makes it more prone to the volatility in the global trade. It is true that domestic demand is huge but consumption as a percentage of GDP is still relatively small. Banks are also lending too aggressively and as liquidity builds up, inflationary pressures will be more difficult to diffuse.

India is also facing the same issue with inflation where food prices have hit double digits.

PQ: What is the outlook of Malaysian economy in 2011 and 2012?

Nor Zahidi: We initially projected the Malaysian economy to register a 5.3% growth this year. But with the external headwinds – Japan's disasters, US economic slowdown and European debt debacle – the economy has slowed down in the second quarter to circa 4% in our view. Going forward, we foresee the likelihood of a persistent volatility in the financial market until the end of the year.

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Meanwhile, the US economy will likely soften more than we initially anticipated. As there is a high degree of correlation between the GDP growths of both nations, we are of the view that Malaysia's GDP growth will be slightly lower than 5% for this year.

Fortunately, Malaysia's consumer spending is still resilient as the labour market remains relatively steady. Moreover, easy access to credits from financial institutions will support consumers' consumption binge for the time being. Investments also look more encouraging. FDIs have rebounded and the ETP efforts to re-vitalise domestic investments have to some extent boosted the sentiment in the economy.

PQ: Will Malaysia fall into the middle income trap? What measures does Malaysia need to incorporate in order to steer clear from this anticipated conundrum?

Nor Zahidi: We are in the middle income trap. In Malaysia, 70% of the population are earning less than RM1,500 per month and within Kuala Lumpur, 34% are earning below RM 1,500 per month. This is critical as the cost of living is rising and people are getting queasy. Between July 2007 and now, the CPI has risen by 11% and the cost of food has climbed by 22%. That has put some pressure on consumers' pockets.

However, looking it from a broader angle, I think that we are a bit fixated with GDP measures. My view is that we should also consider citizens' well-being.

Rising national income is not equivalent to rising citizens' well-being. We can see what had happened in some Middle Eastern countries where people took the street even though their income levels are higher than us. Not surprisingly, recent research indicates that developed countries such as France now prefer to use well-being indicators when evaluating the state of their economy.

Therefore, the government should find a balance, and they are trying this through the combination of ETP and GTP. In terms of the Human Development Index (HDI), Malaysia is actually within the high income category. HDI takes into account of other aspects of "well-being" such as life expectancy, education, literacy levels and standards of living. In addition, if we also look at the GINI index, Malaysia's coefficient has fallen, implying an improvement in income equality in the past 10 years.

To steer clear from the middle income trap, the government is planning to introduce minimum wage for workers in certain types of jobs. Further to this, we also need to liberalise some areas of our economy, especially those related to the knowledge-based industries. We are also focusing on the services sector instead of relying mainly on the manufacturing sector. FDIs in high-value added sectors are also promoted and efficient technology transfers can be realised through implementation of joint effort programs between transnational corporations (TNCs) and the government. There also should be more allocations for R&D as Malaysia's expenditures on R&D are relatively low (below 1% of GDP).

PQ: What are the challenges faced by Malaysia in attracting more FDIs?

Nor Zahidi: The challenge is the lack of knowledge workers. As mentioned previously, there is a need for more government partnership with TNCs to establish training centres that help workers acquire the skills sets and allow greater technology transfer. Different regulations in each state are also a concern, as it confuses investors. Thus, centralisation of information is needed to ease investors in making investment decisions. But the government has done a fair bit by having a body like PEMUDAH (The Special Taskforce to Facilitate Business) which is helping to cut down on cumbersome investment procedures. MIDA is also doing a fine job in "holding hands" of foreign investors.

PQ: Is Malaysia experiencing the property bubble phenomenon?

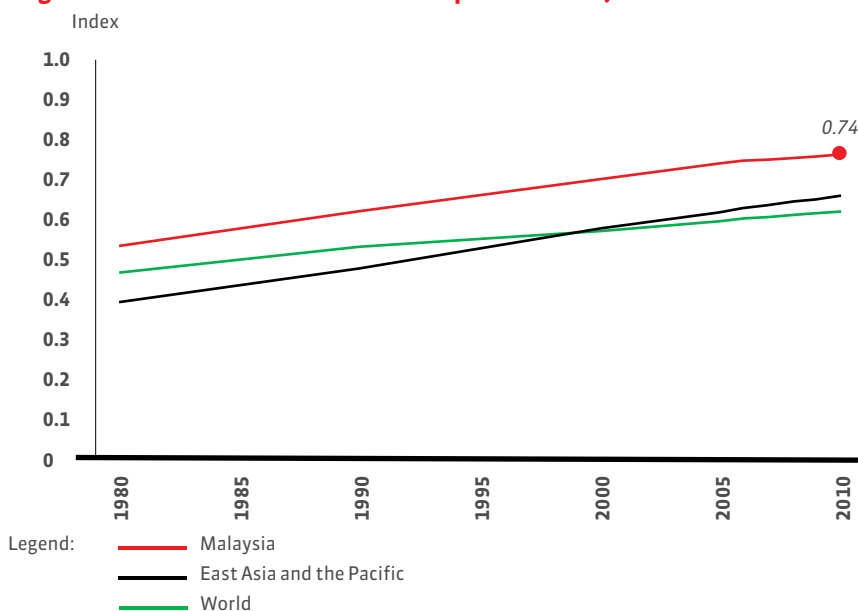
Nor Zahidi: No, I don't think so. Property prices have climbed tremendously at certain areas within Klang Valley but it is not a broad based phenomenon. There are some elements of speculation in the market in this segment and this is the reason that the Bank Negara Malaysia has introduced measures like lower Loan-to-Value (LTV) ratio in order to clamp down on these speculative activities. The BNM is also using more administrative measures such as increasing down payment on property purchases and other macro prudential measures. Overall however, the Malaysian demographics are supporting the demand for properties. So it looks pretty okay at this juncture.

PQ: What is the property and construction industry outlook for 2011 and 2012?

Nor Zahidi: There is a slight concern on the construction industry as there is some delay in project awards. This is reflected in the CIDB statistics. There is a strong correlation between project awards and construction output, the growth of this sector may moderate in the short term. Therefore, the government may wish to speed up the project awards to boost the activities in the construction industry.

The property industry has a neutral outlook. Measures such as the LTV limit of 70% by the Malaysian Central Bank on a consumer's third property as well as higher capital charge for mortgages will unlikely slow down property purchases. ■

Figure 5: Trends in the Human Development Index, 1980-2010



Source: UNDP

For more information about MARC, visit <http://www.marc.com.my>

KL CITY CENTRE CONDOMINIUM OUTLOOK



by S.Sulocana

Ever drove past the KL City Centre (KLCC) and wondered why very few people are staying in the condominiums despite the 80% take up rate?

This is because most of the condominium units are bought by speculators who are expecting capital appreciation of 20-30%. Post 2008 global financial crisis, the prices of these properties had remained stagnant due to slower demand. The price growth is also losing momentum due to speculators holding on to these properties waiting for economic recovery. The high end condominium market especially at the KLCC has not seen strong capital appreciation since 2008. Average rental yield in Tier 1 area is almost less than 50% of Tier 4 areas signalling dampening demand of high-end condominium properties in KLCC.

In a recent CB Richard Ellis report, it was stated that in the first quarter of this ye-



Kuala Lumpur city centre skyline

ar, the total supply of existing condominiums and serviced residences (mid-range and above, with average prices of RM350 per sq ft or higher) in Kuala Lumpur was 32,742 units, representing a 4% increase since the end of last year.

Global economic recovery is leading to a return in investor confidence. The positive trickledown effect of the Economic Transformation Programme is a futher catalyst for return in demand for KLCC high-end properties

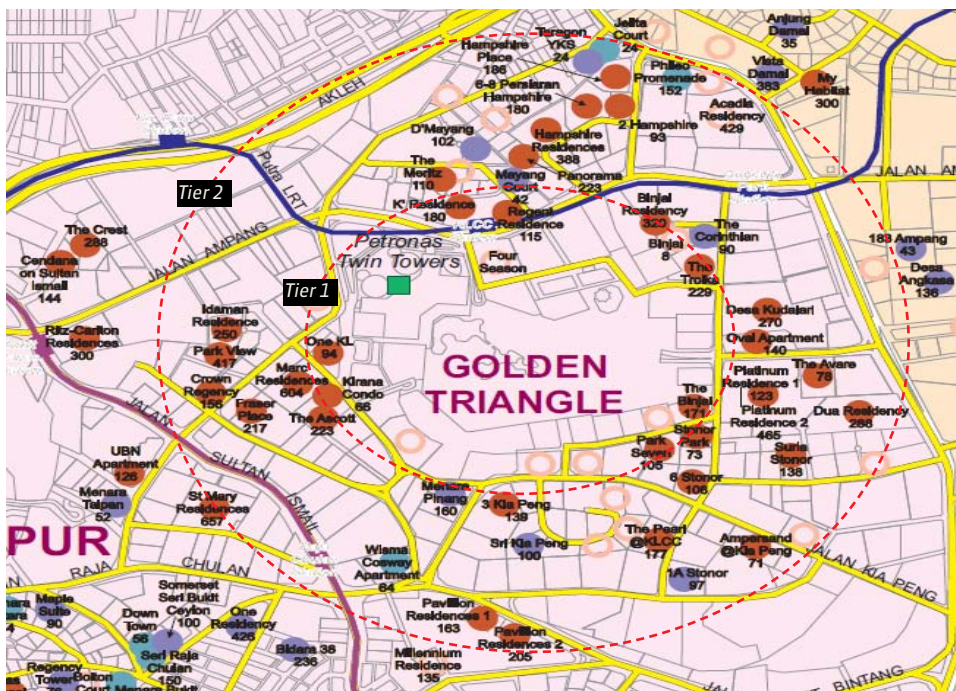
Figure 6: Range of rental yield (%)

Tier	Range of Rental Yield (%)
Tier 1	3.00 - 8.46
Tier 2	2.70 - 11.00

Source: CBD Properties, MPI Research

Of these, about 44% or 14,514 units were located in the Golden Triangle, central business district and Ampang areas, with 34% or 11,121 units in Mont'Kiara and Sri Hartamas. About 38% of the supply of condominiums and serviced residences were tagged at between RM350 and RM499 per sq ft, with a further 38.6% priced at between RM500 and RM799 per sq ft. The remainder, or 24% of the units, were priced at RM800 per sq ft onwards and categorised as luxury residential units, most of them located in the vicinity of the Suria KLCC shopping centre.

Christopher Boyd of CB Richard Ellis concurred that average capital values in the three main condominium markets (KLCC, Bangsar and Mont Kiara) in Kuala Lumpur had remained relatively steady since the 2008 global financial crisis. ■



Source: Ho Chin Soon Research

RESOURCE RICH BALIKPAPAN

Bountiful gains attracting Balikpapan wealthy to look outwards



by Afiq Syarifuddin

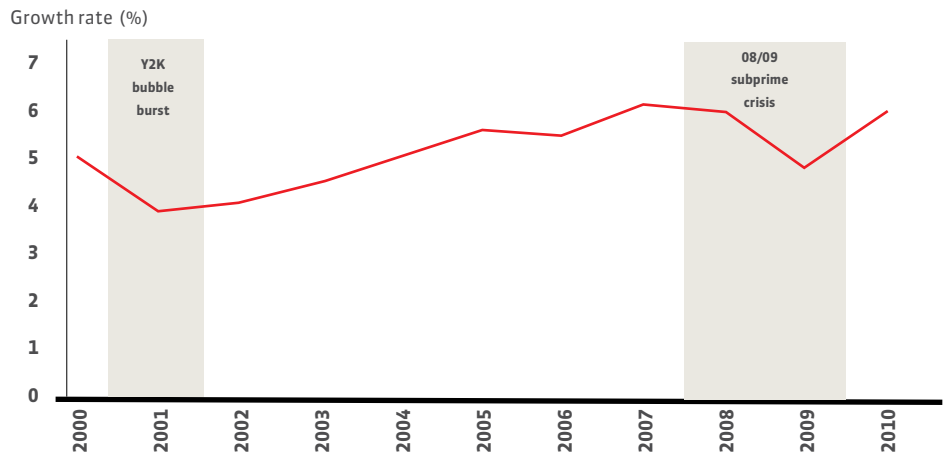
East Kalimantan, located on the Borneo Island with Malaysia’s Sabah and Sarawak states as direct neighbours, is well known to be resource-rich and also for having the largest coal deposit in the world. As one of the leading province of East Kalimantan, Balikpapan serves as the gateway to the East Kalimantan through its Sepinggan International Airport and seaports.

Best known as the central oil refinery town for East Indonesia, Balikpapan is one of Indonesia’s leading cities with 2010 population of 614,681 people and 2010 GDP growth of 5.65%.

It has also managed to attract foreign interest, further evidenced by the participation of a Russian investment in its railway project that would in the future link East Kalimantan to Central Kalimantan. Total investment of this project is Rp 17 trillion.

Enjoying the strong windfall generated by oil palm industries, wealthy businessmen in Balikpapan are on the lookout for avenues to park their money.

Figure 7: Indonesia Real GDP growth, 2000-2010



Source: Various sources

Property Quotient general survey during a recent trade and investment mission found out that their current preferred markets are Singapore and Australia.

However with improved connectivity and regular engagement, Sabah should be seen as a natural preferred destination due to its shared geographical terrain and cultural similarities. To spur this, governments of both sides should address infrastructure needs such as direct flight servicing Kota Kinabalu and Balikpapan route and also improving road networks linking both towns. ■

Upcoming MPI Indonesia Market Events open for participation from Malaysian developers and real estate companies.

- 12-13 November 2011: Malaysia Property Showcase, Jakarta
- 2012: Malaysia Property Showcase, Balikpapan, East Kalimantan

For more information please contact Mr. TJ Cheah: tj.cheah@malaysiapropertyinc.com

Figure 8: Indonesia Economic Factbox, 2010

Population (millions)	237.6
Working age population (millions)	171.0
Total employment (millions)	107.4
GDP at current prices & current exchange rate (USD billions)	540.3
GDP per capita at current prices & market exchange rate (USD)	2,349.4
Average annual real growth over previous 5 years (%)	5.6
Current account (USD billions)	10.7
Export of goods (USD billions)	118.0
Import of goods (USD billions)	85.3
Outstanding external debt (USD billions)	172.3

Source: OECD Economic Survey, Indonesia

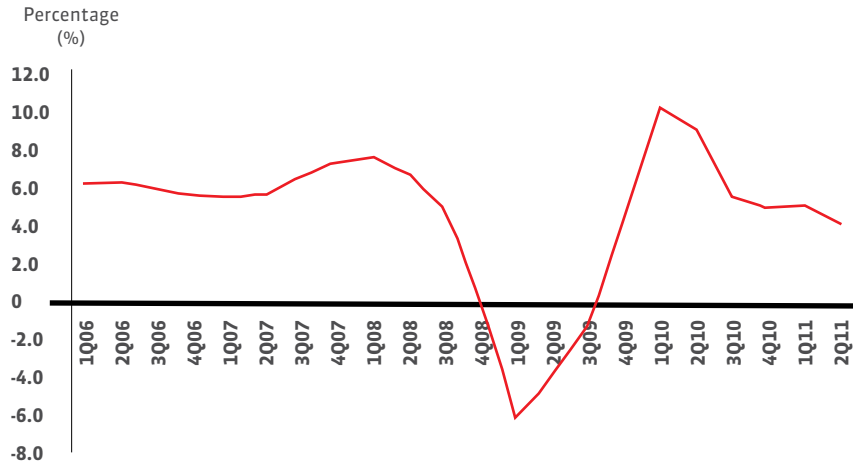


Balikpapan, East Kalimantan

2Q2011 GDP FALLS TO 4.0%

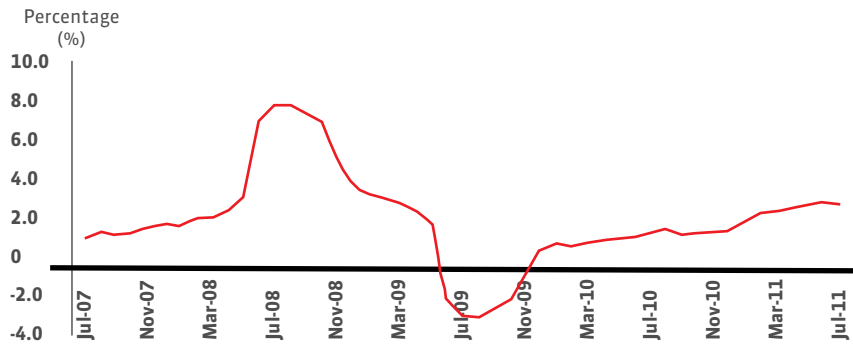
Malaysia's 2Q 2011 GDP declined to 4% y-o-y from 4.9% in 1Q 2011, signaling that the current economic turmoil is affecting growth. This growth rate number is slightly higher than Bloomberg's consensus estimates of 3.6%. Domestic demand during 2Q grew 5.2% y-o-y due to sustained growth in private spending. Private consumption remained healthy amid robust labour market conditions, while private capital spending was sustained by expansion in production capacity and investment in new growth areas. Malaysia's manufacturing sector dropped to 2.1% y-o-y in 2Q, compared with 5.5% in the preceding quarter. According to Bank Negara Malaysia (BNM), full year GDP growth rate will hover around 5%. Malaysia's GDP for the first half of the year grew 4.4% y-o-y, compared with 9.5% y-o-y in the corresponding period last year. BNM also highlighted that the country's inflation, as measured by the consumer price index (CPI), had eased marginally last month. CPI for July gained 3.4% y-o-y, compared with 3.5% y-o-y. ■

Figure 9: Malaysia GDP Growth Rate (%)



Source: Department of Statistics

Figure 10: Inflation Rate (y-o-y % change)



Source: Department of Statistics

11TH MOST SOUGHT-AFTER DESTINATION FOR HIGHER LEARNING



Malaysia's Private Higher Education Institutions deputy director-general, Datin Dr Siti Hamisah Tapsir recently reiterated that Malaysia remains the 11th most favourable destination for higher learning among international students.

Accounting for two per cent of the international student population around the world, as reported by UNESCO, international students in Malaysia has exceeded 90,000 people as of June 2011.

US Newsweek World's Best Countries survey in 2010, places Malaysia in the top 8 of its education category rated among upper middle-income nations. Malaysia is also ranked by Asian Correspondent as one of the top 5 education destinations for Asian students.

Asian Correspondent recently conducted a poll among its readers to identify students' decision-making process in choosing a higher-learning destination. The students based their decision on these factors, namely:

- internationally recognised degrees
- well-known research works
- distinctive campus experience
- varied community, and
- employability advantages

With this strong interest registered in this segment, Property Quotient posit that the demand for student-friendly accommodation will continue to grow, especially in higher-learning centric locations such as Petaling Jaya in Selangor and the Iskandar region in Johor. ■

GREEN AND GROWING

Greater Kuala Lumpur's future supply of "Green" office buildings is set to grow



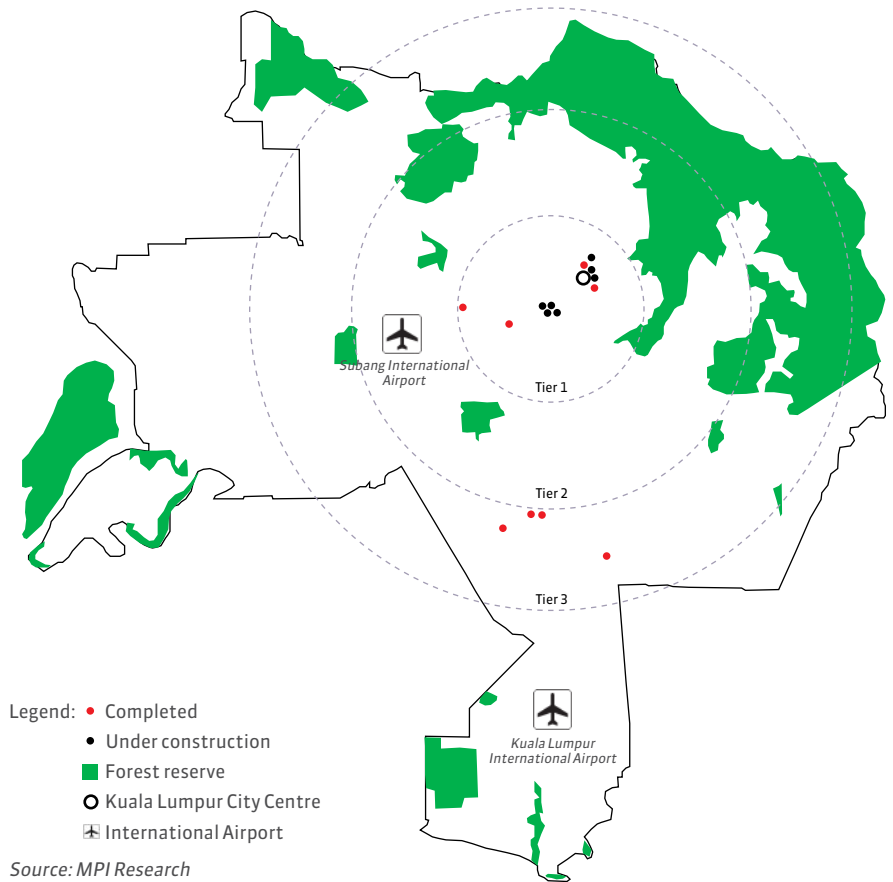
by Hazrul Izwan

As countries strive for development, there is an increasing need to encourage a "Green" and sustainable environment through infrastructure, facilities and buildings that will enable us to work, live and play peacefully in a real green atmosphere. Now, under the "I Greened KL" campaign launched by Kuala Lumpur City Hall (DBKL), which is one of the Entry Point Projects under Malaysia's Economic Transformation Programme, every resident can enjoy sufficient green space. In other words, the GKL will be among the world's top-20 cities in terms of economic growth and liveability by 2020.

The term "Green" is not new to us. Back in 2004, Kuala Lumpur International Airport's (KLIA) effort to promote environment responsibility for all local and foreign travelers was recognized by Green Globe, making it the first and only airport in the world at the time to receive a Green Globe 21 certification. After five years, a proper rating tool for green building in Malaysia was established, called the Green Building Index (GBI). The GBI is used to preserve and save the environment in line with the interests of most companies, which is evident from the increasing importance of corporate social responsibility (CSR) that supports environmentally-friendly initiatives.

The supply of green buildings in GKL is growing significantly regardless of whether the buildings are for private or government use. Within our analysis, there are currently 12 green office buildings located within Tier 1 and the four other remaining buildings are within a radius of 30 km from KL Sentral, not including a proposed project and three sales offices which are KRC Sales Gallery, Eco Gallery of Setia Eco Garden and The Sage: Seringin Residences Sales Gallery.

Figure 11: GKL's Green Office Building Radar



82% of the 5.5 million square feet of green office space which is expected to be completed by 2012 in Tier 1 submarkets are currently certified green

In Tier 1, we found that four buildings have been completed and seven developments are in progress, scheduled to be completed between the fourth quarter of 2011 to 2014 with a total net lettable area (NLA) of 4,270,656 square feet and 1,239,000 square feet respectively. Most buildings in Tier 3 are completed and have been built since 2009. The Green Energy Office (GEO) building is Malaysia's first green-rated building, located in Bandar Baru Bangi or within Tier 3. It was officially awarded with a GBI platinum status on July 24, 2009. The building was planned earlier in 2005 as a showcase of an energy-efficient building in order to create awareness among industry players, particularly in Malaysia.

From the Green Office Building Radar, we can clearly see that new developments that were reported until the year 2014 are concentrated in the KL Sentral development and within the Kuala Lumpur City Centre (KLCC) vicinity. Another important point to note is that 82% of the 5.5 million square feet of green office space which is expected to be completed by 2012 in Tier 1 submarkets are currently certified green.

Kuala Lumpur Sentral, developed by Malaysian Resources Corporation Berhad (MRCB), has established many milestones which have contributed significantly towards shaping its reputation as the new central business district (CBD) in Malaysia. It is well positioned to offer state-of-the-art solutions and value for business advantages for local, regional and international brands.

(continued next page)

Figure 12: List of green buildings in Tier 1 submarkets, 2009-2014

Project	Location	Rental Rate (RM/sq.ft./month)	No. of Floor	Net Lettable Area (NLA) (sq.ft)	Completion Date	MSC Status	Certification by
GTower	Jln Tun Razak	7.50	30	120,000	2009	Yes	BCA & GBI
The Horizon, Phase 2	Bangsar South	5.50	4x13	216,000*	2009	Yes	GBI
1 First Avenue	Bandar Utama	5.50	25	630,000	2010	Yes	GBI
KL Sentral Park	KL Sentral	8.50	4-7	514,827	3Q2011	Yes	BCA
Menara Worldwide	Bukit Bintang	6.00	27	273,000	3Q2011	No	GBI
Menara Binjai	KL City Centre	7.50	35	330,000	4Q2011	No	BCA & GBI
348 Sentral	KL Sentral	n/a	30 & 24	557,152	2012	No	LEED
Menara Felda	KL City Centre	n/a	50	689,000	2012	Yes	GBI
Integra Tower	Jln Tun Razak	12.00	39	736,000	2Q2012	No	LEED
PHB Office Tower	KL Sentral	7.00	27	440,000	4Q2012	Yes	LEED
Q Sentral	KL Sentral	n/a	42	1,003,677	2014	Yes	GBI

Source: Various sources, MPI Research
 Note: * Gross Floor Area (GFA)

(from previous page)

Phased until 2016, Kuala Lumpur Sentral is a world-class city valued at a massive RM15 billion; comprising Malaysia’s largest transit hub Stesen Sentral, corporate office towers and business suites, 5-star international hotels, luxury condominiums and a shopping mall.

With RM4 billion completed and RM6.3 billion development in progress, Kuala Lumpur Sentral is the single largest commercial development in Kuala Lumpur today. Kuala Lumpur Sentral has already attracted prominent investors to set up their businesses, as well as an international community to set up their homes and offices within the environment.

As a market leader, Kuala Lumpur Sentral have five green buildings currently being constructed that will contribute to more than 2.5 million square feet to the market with an average rental rate of RM7.00 to RM8.50 psf.

All new developments currently under construction within Kuala Lumpur Sentral meet local and international green building certifications. These buildings include 348 Sentral (Menara Shell and serviced residences managed by Ascott), KL Sentral Park, Nu Sentral retail mall and two office towers at Lot G.

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Generating “Green” Track Record Overseas

Sunway Berhad now has over 30 ongoing developments on its 2,160 acres of land bank with potential total GDV of RM23 billion. With RM2.9 billion market capitalisation reported recently, Sunway Berhad stands among the Top 10 developers in Malaysia.

Sunway’s overseas ventures make up 32% of total future GDV where 23% is contributed by the China market. Based on recognized track records, continuous efforts and high commitment in developing green projects in Malaysia, Sunway was chosen as the sole Malaysian developer to participate in the development of Tianjin-Eco City together with other top regional developers from Singapore, Taiwan, Hong Kong and Japan.

Spanning across 102 acres, located in the Tianjin Binhai New Area, a 40km away from Tianjin city centre, Tianjin Eco-city project will be carried out on a 60:40 joint-venture basis with the master developer, Sino-Singapore Tianjin-Eco City (SSTEC) Investment and Development. With estimated GDV of RM5 billion, this will consist of 80% residential and 20% of commercial properties. The company is expected to begin construction of Phase 1 residential project in 4Q 2011 and the period of development is expected to be 5-7 years.

By introducing a LOHAS (Lifestyles of Health and Sustainability) concept with five guiding principles that emphasize conservation of energy, water, materials, land and maintenance is a must, Sunway aims to get the highest rating from the Green Building Tianjin Eco-City Standard Assessment (GBES). Sunway’s Tianjin Eco-city development is balanced in terms of environmentally-friendly, sustainability, practical and replicable. It will be Sunway’s pilot project for further property developments in China.

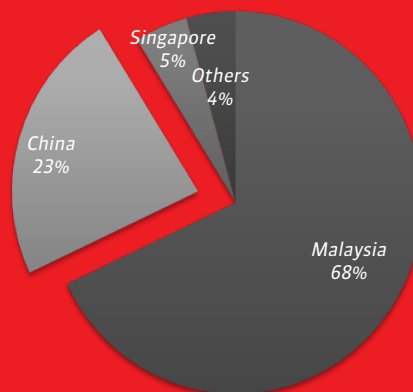


Figure 13: Sunway’s Remaining GDV breakdown

Note: Based on Sunway’s effective interest in all projects

Source: Company data

(from previous page)

KL Sentral Park, a unique, state-of-the-art, distinctive and green campus office, has achieved the highest green international certification – the Platinum rating (provisional) from Singapore’s Building and Construction Authority (BCA) Green Mark and is the first commercial development in Malaysia to meet the standards. This RM720 million development consists of five blocks of low-rise office buildings with a unique green artistic feature where SME Corporation and SBM Malaysia are amongst the anchor tenants.

Certified Gold Standard by US Leadership in Energy and Environmental Design (LEED) developments such as 348 Sentral is scheduled for completion in 2012. It consists of 33-storey office tower that will be leased to Shell as their regional office for 15 years and another 21-storey serviced residences that will be managed by Ascott. Whilst at Lot G - the office tower owned by Pelaburan Hartanah Berhad (PHB) is Silver Leed Certified and Green Building Index (GBI) certified and adjoining to the office tower is the 7-storey Nu Sentral retail mall which is also certified BCA Green Mark of Singapore and certified GBI.

Other new developments in Kuala Lumpur Sentral include the Q Sentral office tower, the latest stratified office tower built on a 1.85 acres site that will supply 440 units of office space with a gross floor area (GFA) of 1.4 million square feet. This final phase of grade A stratified office tower in Kuala Lumpur Sentral is available for sale to individual investors, MSC-status companies and



Green Energy Office Building, Bandar Baru Bangi

world-class tenants with price ranges from RM1, 190 to RM1, 575 per square foot.

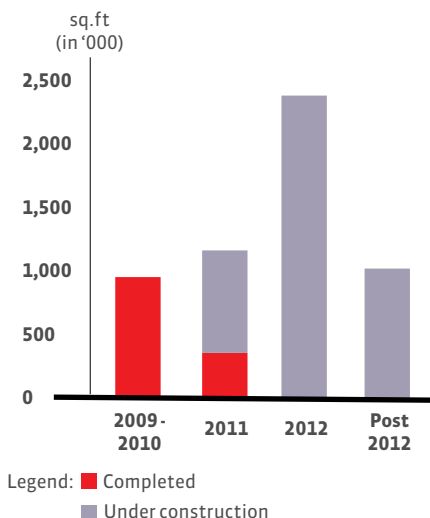
Apart from KL Sentral green projects, the KLCC vicinity also provides competitive rental rates; Menara Worldwide in Bukit Bintang offers the lowest rates within this area at the rate of RM6.00 per square foot per month while the most expensive rental rate in the market is headed up by Integra Tower which is attached to The Intermark with RM12.00 per square foot per month, further enhanced by the presence of DoubleTree by Hilton. In July 2007, both these buildings were taken over by MGPA, a private equity real estate investment advisory including Vista Tower, a 62-storey grade A office tower and a retail podium, previously known as Yow Chuan Plaza. Menara Binjai and GTower also provide competitive rental rates, 15% more expensive than the market average rate. These green buildings have similar characteristics to the development in KL Sentral whereby both are connected via the light rail transit network that is only within five minutes walking distance.

tenants and investors a rent-per-floor basis and open for sale by en-bloc basis, also making available office spaces ranging from 100,000 to 125,000 square feet.

In a nutshell, the supply of green-mark buildings in GKL in 2011 is growing by 15.7% compared to the total existing stock reported in 2010. On the rental rate front, we found that the average rental rate of green buildings in KL Sentral and KLCC vicinity is 26.9% higher than the average rental rate of standard prime buildings in the city centre. Although the rates are higher, it has the capability to attract a large number of occupiers and multi-national corporations (MNCs) such as Shell, as the CSR factor becomes increasingly more important for them. Furthermore, most of these buildings are connected via the public transportation system allowing further accessibility.

On another note, developers and investors must take this opportunity to explore the potential development of green buildings through acquisition or refurbishment of existing buildings in the GKL to support a growing demand. The government also offers incentives to encourage green development, such as tax incentives that entitles developers to an exemption on statutory income of up to 100% of their expenditure. Through pursuing green development, we will be able to generate economic growth through increased investments as well as develop our country towards a more sustainable and liveable future. ■

Figure 14: Future Supply of Green Office Buildings within 10km Radius from Kuala Lumpur Sentral



Legend: ■ Completed
■ Under construction

Source: MPI Research

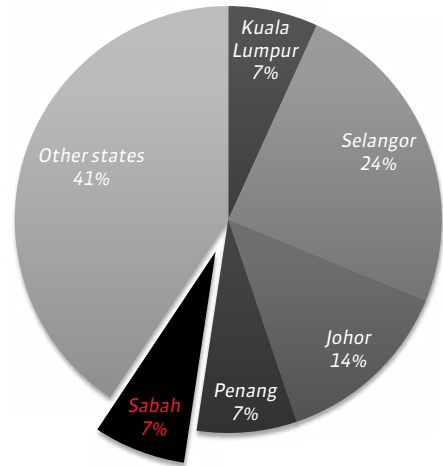
1 First Avenue in Bandar Utama is the closest competitor to The Horizon in Bangsar South, offering the same rental rate at RM5.50 per square feet. However, in terms of capability to occupy office space and attracting quality tenants, we find that 1 First Avenue has the strength to attract foreign companies because of its strategic location near the Subang International Airport via New Klang Valley Expressway (NKVE). 1 First Avenue attracted Quintiq, Schlumberger Global Business Center and many others. From recent reports, the occupancy rate is 100% while The Horizon uses a different approach by offering potential

If you interested in making GKL greener, please register at: <http://www.igreenedkl.com.my>

RESIDENTIAL PROPERTY STOCK BY STATE, 1H2011

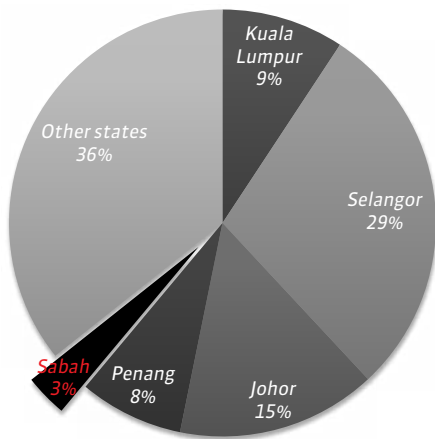
growth
+4.5%

UNDER CONSTRUCTION = 535,971 units



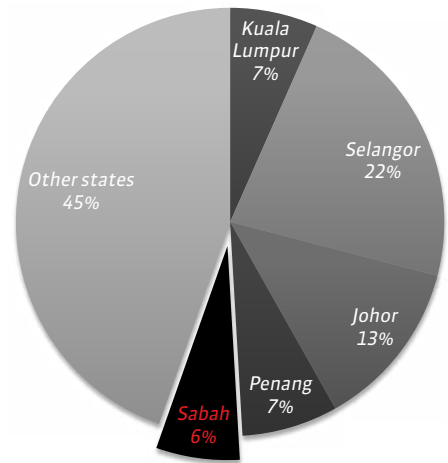
growth
+18.4%

EXISTING STOCK = 4,466,062 units



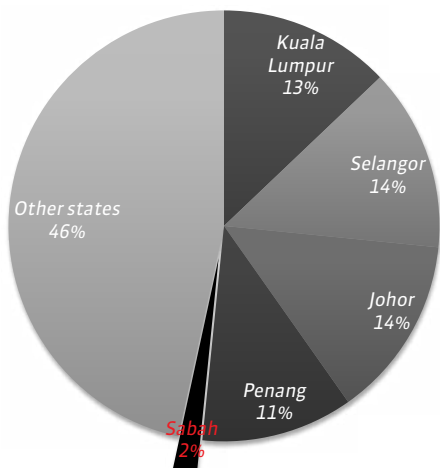
growth
+5.3%

INCOMING SUPPLY = 560,636 units



growth
+23.6%

HOUSING STARTS = 24,665 units



Source: NAPIC, MPI Research
Note: Percentage growth is calculated based on the figures in 1H2011 compared with 1H2010

CROSS-BORDER QUERIES

Malaysia Property Incorporated (MPI) receives foreign investor queries on an ongoing basis. For any parties interested to pursue these investment requirements, please contact the MPI team.

Request	Client	Requirement	Location
3Q 2011			
Landbank, development rights	Singapore	10 acres and above of freehold land to build logistic park	Klang Valley (Shah Alam, Bukit Raja)
Landbank, development JV	Singapore	Mixed development with medical component, medical resort (e.g medical themed service apartments), Retirement village	Klang Valley, Johor, Penang
2Q 2011			
Landbank, development rights	Seoul, Korea	20 acres, mixed development	KL city centre
Asset acquisition	Shenzen, China	Golf course with land for residential development	Greater KL vicinity
Landbank, development rights	Singapore	Industrial park development, (size TBA)	Greater KL vicinity, Iskandar region
Landbank, development JV	Jakarta, Indonesia	High-end residential development (size TBA)	Greater KL vicinity, Iskandar region
Asset acquisition, development JV	Kuala Lumpur, Malaysia	Commercial development opportunities, Grade A office en-bloc	Greater KL vicinity
Landbank, development rights	Shaanxi, China	Mixed development land or construction	Kuala Lumpur or Johor Bahru
1Q 2011			
Construction JV	Seoul, Korea	Infrastructure projects with Minimum Return Guarantee	Nationwide

ABOUT US

Malaysia Property Incorporated is a Government initiative set up under the Economic Planning Unit to drive investments in real estate into Malaysia.

As the first port-of-call for real estate investment queries, Malaysia Property Inc. connects interested parties through an extensive network of government agencies, private sector companies, real estate firms, business councils and real estate-related associations.

MPI has two core objectives; to create international awareness and to establish connections between foreign interests and Malaysian real estate industry players, ultimately contributing to real estate investments into the country.

For further information and up-to-date tracking of Malaysian real estate data, visit:
www.malaysiaproertyinc.com

For further enquiry, write to:
info@malaysiaproertyinc.com

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