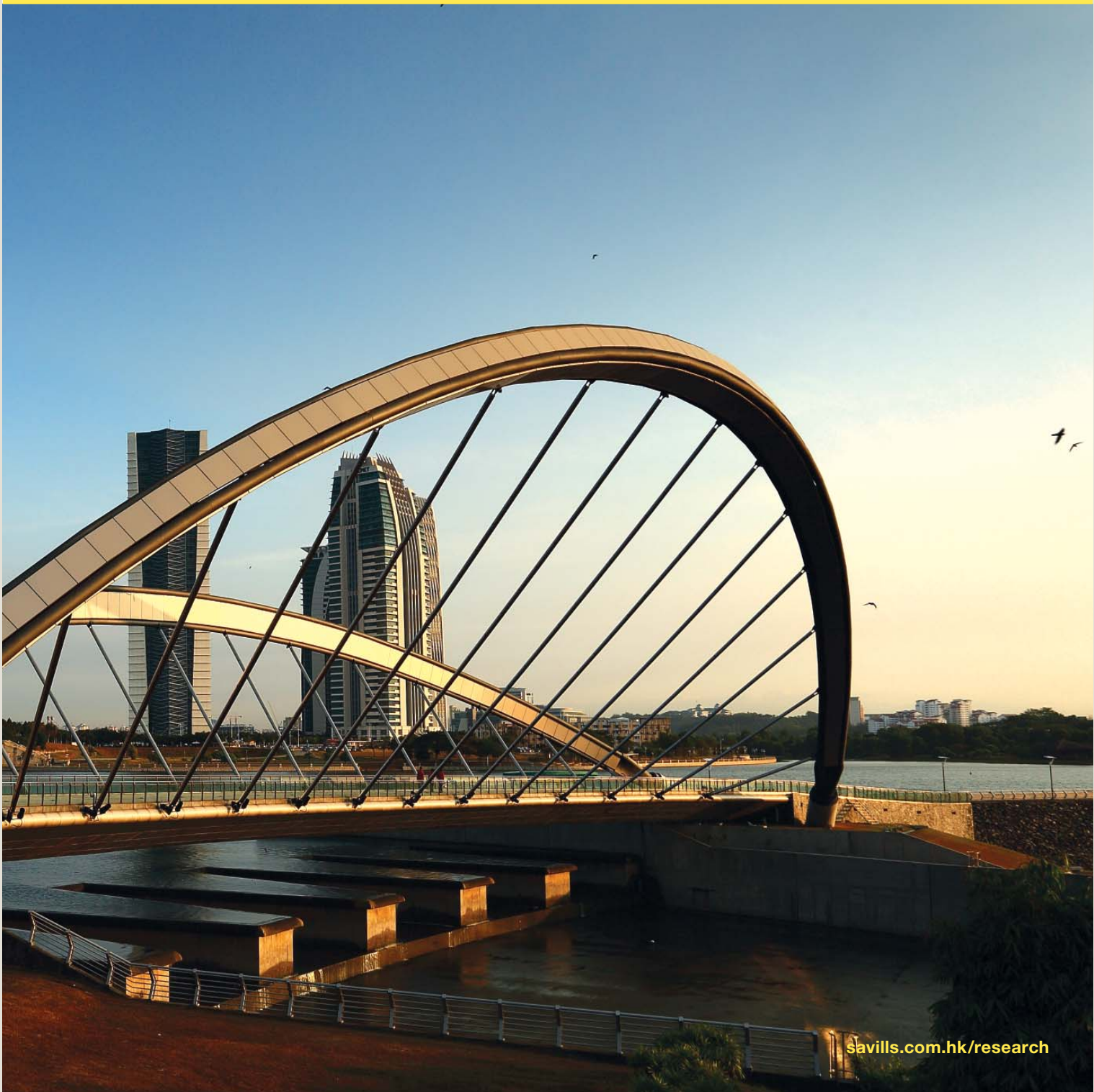


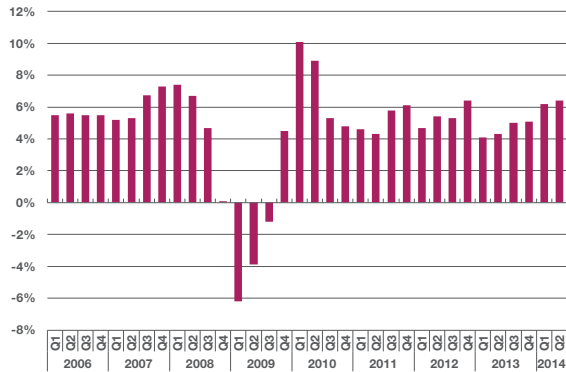


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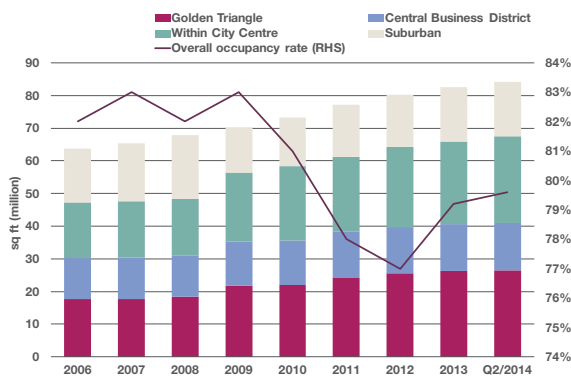


GRAPH 1
Malaysia GDP growth, Q1/2006–Q2/2014



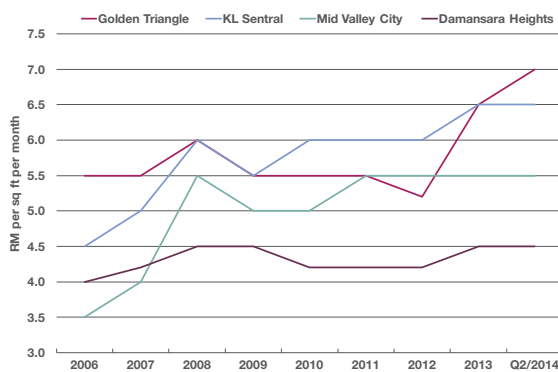
Source: Bank Negara Malaysia, Savills Rahim & Co Research

GRAPH 2
Existing office stock and occupancy rates, 2006–Q2/2014



Source: Property Market Report, Savills Rahim & Co Research

GRAPH 3
Average office rents by location, 2006–Q2/2014



Source: Savills Rahim & Co Research

Malaysian economy

Malaysia's economic growth continued in the first and second quarters of 2014, with the gross domestic product (GDP) increasing faster than expected. Malaysia's economy grew 6.2% in the first quarter of 2014 and 6.4% in the second quarter, when many economists had expected growth of between 5.7% and 5.8% in both quarters.

The fast pace of economic growth is due to the rise of exports and private domestic demand. Private investment continued to register double digit growth, and increased by 12.1% in the second quarter (14.1% in Q1/2014). Private consumption increased by 6.5% for the same period (7.1% in Q1/2014), while public sector expenditure declined by 2.1% (2.7% in Q1/2014).

According to Bank Negara Malaysia (BNM), private sector activity will likely remain as the key growth driver for Malaysia's economy in the second half of 2014, while exports may continue to benefit from the recovery in the advanced economies and from regional demand.

In response to the higher growth rate in the first half of 2014, BNM governor Tan Sri Dr Seti Akhtar Aziz said that Malaysia's GDP growth for 2014 would likely exceed BNM's forecast range of 4.5% to 5.5%, during the media briefing on the country's second quarter GDP performance. The government will announce a new growth forecast during the budget in October.

According to BNM, the rate of growth of exports is expected to moderate slightly in the second half of 2014, partly due to the significant base effect in the corresponding period in 2013. Malaysia's economy is expected to remain on a steady growth path.

Office market conditions at a glance

- Demand remains steady for well located, good quality office buildings.
- Average rents are rising moderately, mainly due to high rents in recent completions.
- The investment market remains inactive.

In the second quarter of 2014, the cumulative supply of purpose built offices in Kuala Lumpur increased to approximately 84.25 million sq ft. Another two office buildings with a total net lettable area of 704,000 sq ft will be completed by the end of 2014, namely Menara Bangkok Bank and Menara MBMR.

Some notable purpose built offices which are expected to be completed in 2015 include Naza Tower at Platinum Park, IB Tower, Q Sentral and The Vertical (Phase 1) at Bangsar South, with a total net lettable area of 2.41 million sq ft.

Naza Tower is the third corporate office tower within the Platinum Park development, which includes the two completed office towers Menara Felda and Menara Lembaga Tabung Haji. The new 50-storey office tower will be the main headquarters of the Naza Group of Companies. The ground floor will house automobile sales showrooms.

IB Tower is a 60-storey building located at Jalan Binjai, comprising 33 levels of Grade A office suites and 22 levels of luxury serviced apartments. The largest floor plate is approximately 15,300 sq ft. The smart Grade A office building is designed to Greenmark Gold+ specifications and is MSC compliant.

Q Sentral is a 45-storey Grade A office tower located within KL

Sentral. It has two distinct zones – the spacious High Zone offices on Levels 30 through 42, and the Low Zone offices on Levels 13A through 29. Q Sentral's High Zone offers the biggest floor plate in the country, up to 40,000 sq ft. Q Sentral will contribute 1.12 million sq ft of net lettable area.

The Vertical (Phase 1) is one of the commercial components in Bangsar South. It is 35 storeys high and offers 420 office units ranging from 735 to 13,664 sq ft, with ten high-speed lifts. The entire Vertical development consists of six blocks of high rise office towers and one block that is a hotel, along with a six-acre park.

Despite the completions during the first half of 2014, the occupancy rate of purpose built offices in Kuala Lumpur remained fairly stable at 79.60% in Q2/2014 (79.20% in 2013).

Office market conditions – looking ahead

The office sector is expected to remain challenging, especially for smaller offices and older office buildings, as supply continues to overtake demand. Furthermore, it is being seen that green buildings, MSC status and larger floor plates have become standard features offered by the new purpose built office developments.

More completions in 2015 will keep the office rental market competitive and the vacancy rate is estimated to increase marginally. The supply of office space in Kuala Lumpur City Centre will increase substantially upon the completion of major developments such as KL Eco City, Tun Razak Exchange (TRX), Bukit Bintang Commercial Centre, Bandar Malaysia and Warisan Merdeka KL. The office market will face an oversupply situation once all these projects

are completed, together with other office developments which are currently under construction. These major developments are situated on large land parcels with a variety of facilities and amenities, which will make them more attractive to office end-users and result in the migration of businesses from older stock to these newer, higher quality buildings.

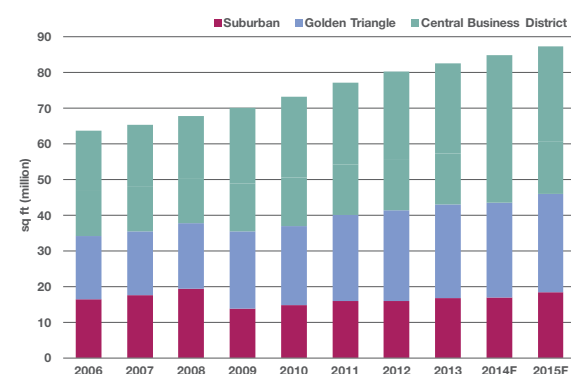
Amid a challenging leasing market environment with a high supply pipeline, several developers have adopted a cautious stance by deferring construction of their projects, with works to commence only when they have secured preleasing commitment from potential anchor tenants. Good grade dual compliant (MSC Cyber Centre status and Malaysia's Green Building Index rating) buildings will continue to be popular with MNCs and tenants in the oil and gas sector, particularly those located within prime and established or upcoming office areas in the city centre and fringe locations. ■

TABLE 1
Significant office leasing transactions, 2013–2014

Building	Tenant	Area occupied (sq ft)
Menara Shell	Tradewinds Corporation Bhd	30,000
Menara Binjai	Fuji Xerox	Floor plate: 12,000-13,000 sq ft Floor occupied: 23, 23A and 25
Integra Tower	Aker Solutions	155,000
Integra Tower	Petronas Lubricants	50,000
Menara Tun Ismail Mohd Ali	Kuala Lumpur Metropolitan University College	101,600
Quill 7	Google Malaysia	10,000
Sunway Tower 2	Worley Parsons Services	10,000
Sunway Tower 2	ACCA Malaysia	10,000
Bangsar South	Swift	N/A

Source: Savills Rahim & Co Research

GRAPH 4
Cumulative office supply, 2006–2015F



Source: Savills Rahim & Co Research

TABLE 2
New office supply in KL city centre, End 2014–2018

Building name	Location	NLA (sq ft)	Expected completion
Menara Bangkok Bank @Berjaya Central Park	Jalan Sultan Ismail	464,000	End 2014
Ilham Baru Tower (IB Tower)	Jalan Binjai	408,000	End 2014
Menara MBMR	Jalan Syed Putra, KL (formerly Federal Auto Building)	240,000	End 2014
KL Trillion	Jalan Tun Razak	304,587	2015
NAZA HQ Tower@Platinum Park	Jalan Binjai	679,000	2015
Vortex (formerly Menara Mulpha)	Jalan Sultan Ismail	270,000	2015
Centara Tower	Jalan Tuanku Abdul Rahman	228,000	2015
Tradewinds Tower@ Tradewinds Centre	Redevelopment of Kompleks Antarabangsa	2.64 mil	2015
Q sentral	Lot B, KL Sentral, KL	1.12 mil	2015
Aurora Tower	Jalan Ampang	968,000 (GFA)	2016
JKG Tower	Jalan Raja Laut	499,053	2016
3 Towers	Jalan Ampang	N/A	2017
Bangunan MAS	Jalan Sultan Ismail	N/A	2017
Menara Warisan Merdeka	Stadium Merdeka	1.7 mil	2018
Times Avenue	Jalan Imbi	N/A	N/A

Source: Savills Rahim & Co Research

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