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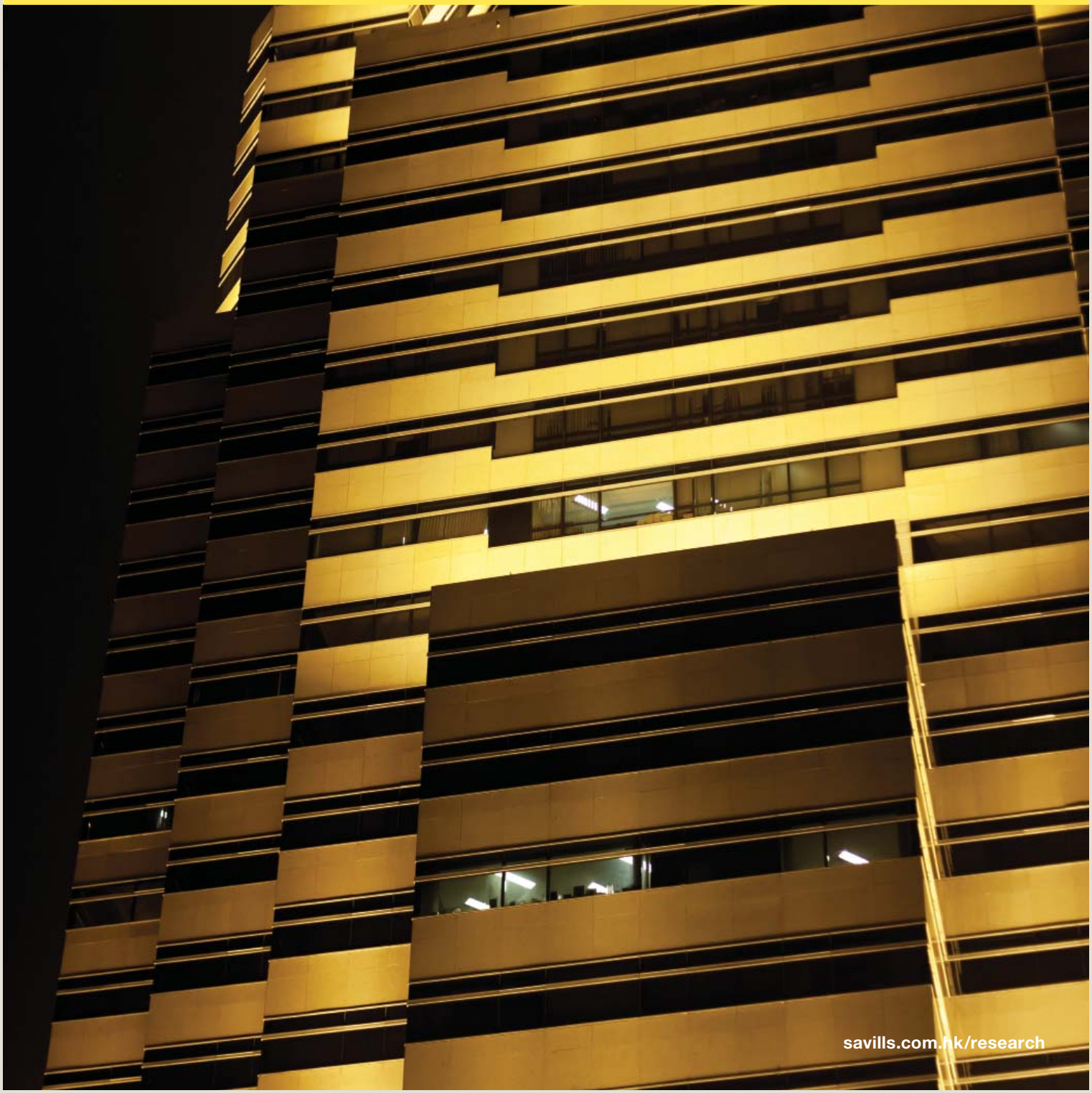
Savills World Research
Malaysia

Asian Cities Report
Kuala Lumpur Investment

1H 2015



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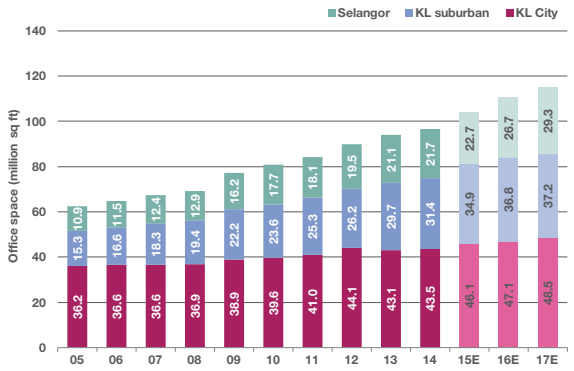
GRAPH 1

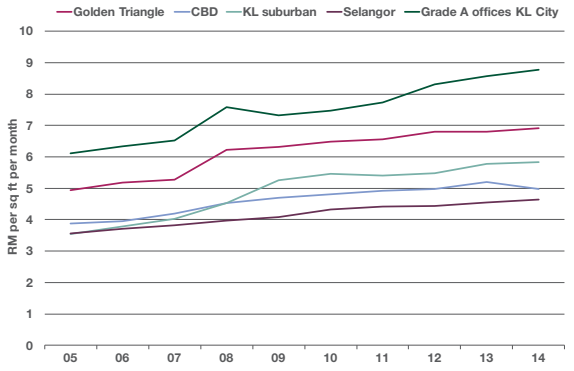
Greater KL office space supply, 2005–2017E



Source: Savills Research Malaysia

GRAPH 2

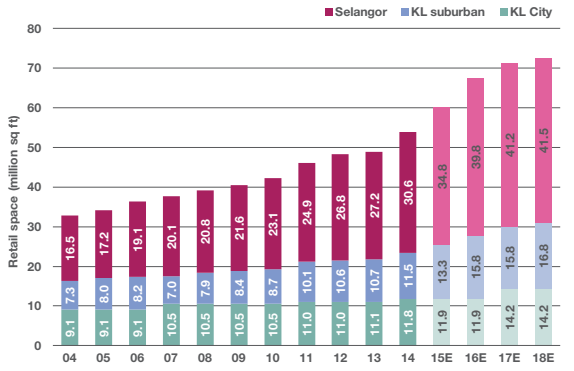
Greater KL office gross asking rents, 2005–2014



Source: Savills Research Malaysia

GRAPH 3

Greater KL retail space supply, 2004–2018E



Source: Savills Research Malaysia

Office sector

Supply

At the end of 2014, the total stock of office space in Greater Kuala Lumpur (Greater KL) stood at 96.6 million sq ft, a 2.9% increase from 2013's total stock.

Three office buildings were completed in Kuala Lumpur during 2H/2014, all of them in November-December: one in the city centre (Menara Hap Seng 2) and two in suburban areas of Kuala Lumpur (Menara MBMR and Sunway Velocity V Office). These three buildings represent about 720,000 sq ft of additional office space. In total, about 2.9 million sq ft of office space was completed in Greater Kuala Lumpur in 2014, which is less significant than in 2013, which saw a completion of 5.1 million sq ft with a substantial portion of that new supply located in KL Sentral.

We estimate that 7.2 million sq ft of office space will be completed in 2015 in Greater KL and 6.7 million sq ft in 2016. There are concerns about a risk of oversupply which will lead to rising vacancy rates. However, throughout the years and crises, Kuala Lumpur's office market has proven to be resilient.

Rents

Gross passing rents did not see any significant increase between 1H/2014 and 2H/2014, averaging RM7.79 per sq ft per month (based on a basket of prime office buildings in KL City) against RM7.76 per sq ft six months earlier. An overall office rental decrease is not expected yet, given the inflation sentiment in the country.

Vacancy rates

The overall vacancy rate in Greater KL stood at 13.1% as at 2H/2014, which is an improvement compared to 1H/2014 (14.2%), thanks to a moderate number of completions recorded which gave the occupancy rate the opportunity to improve.

Absorption and leasing activities

Demand for office space in Kuala Lumpur is traditionally driven by the oil and gas and banking/finance sectors. But with oil prices going down, oil and gas players will be cautious about expanding or relocating in 2015.

Transactions

In the investment sector, AmTrustee Bhd, the trustee of Tower REIT, announced on 29th December 2014 that the company signed a sale and purchase agreement with Goldstone Kuala Lumpur for the proposed sale of 19 office parcels and 190 car park bays at Menara ING, a 25-year-old office building located in Jalan Raja Chulan, Kuala Lumpur, for RM132.3 million (cash). Only three transactions of high-rise office buildings occurred in 2014, for a cumulative value of RM1.01 billion, compared to 13 transactions in 2013 totalling RM1.78 billion.

2015 outlook

Despite a rapidly growing supply and intensifying competition amid a tenant's market where opportunities to shop around are plenty, good offices in central locations will continue to do well.

Retail sector

Supply

At the end of 2014, the total retail stock in Greater KL stood at 53.9 million sq ft, spread across 155 malls, which represents a year-on-year (YoY) growth of 10%, the highest level of growth since 2011.

Notable newly-completed projects in 2014 include Nu Sentral (650,000 sq ft), Quill City Mall (763,725 sq ft) and IOI City Mall (1.35 million sq ft). In total, 4.6 million sq ft of new supply was poured into the existing stock.

In 2015, the retail market will witness the completion of 6.2 million sq ft of retail space, with a focus mainly outside the city centre of Kuala Lumpur.

Prime rents

Prime rents for major malls in Greater KL increased 0.9% YoY and averaged RM42.32 per sq ft by the end of 2014. Moving forward, prime rental growth will be limited and the rental market in suburban areas is expected to be pressured due to the influx of retail supply.

Occupancy rates

Based on our basket of 63 shopping malls, shopping centre occupancy rate averaged 91.2%, a decline of 70 basis points over 2013, due to the large amount of square feet completed in 2014. It is worth noting that IOI City Mall, the largest mall in southern KL, opened in November 2014 with a rather impressive occupancy of 85%.

Capital market
Transactions of shopping malls have been limited for the past couple of years, but 2015 kicked off with CapitaMalls purchasing Tropicana City Mall and the adjoining office tower for RM540 million in January. Only one shopping centre, KL Festival Mall, was transacted during 2H/2014, at RM716 per sq ft.

Retailers
Several new-to-market retailers and brands have recently entered the local market. The luxury sector saw the entrance of brands such as Tory Burch, MCM, Anya Hindmarch, Stuart Weitzman, Versus Versace, and Bao by Issey Miyake (all located in Pavilion Kuala Lumpur). The F&B sector saw new entries from Tim Ho Wan, Naughty Nuri's, Quinoz Sub and Red Lobster. The cosmetics and beauty sector welcomed NARS, Tony Moly and Innisfree, with the fashion sector embracing Factorie and Under Armour.

Market outlook
Given the high supply situation and other external factors such as inflation and GST implementation on 1st April 2015, the retail market is expected to be challenging in 2015. However, the best shopping malls will continue to perform well, and new mall openings will have to be distinctly conceptualised in order to compete in Greater KL's retail market.

Luxury residential sector

Interest rates and loans
The base lending rate (BLR) currently remains at 6.79%, with typical mortgage rates offered by banks for residential properties at BLR minus 2.20% to 2.40%. As of 1st January 2015, the central bank of Malaysia has adopted the Base Rate, which is more transparent and banks are not allowed to lend below these rates which are determined by the individual banks (without intervention by the central bank). Loans already approved and extended prior to 2nd January 2015 will still be following the BLR terms until the end of the loan tenure.

The cumulative value of residential loans applied in 2014 was RM224.2 billion, which is 8.8% lower than in 2013. However, the cumulative value of mortgages approved in 2014 was RM121.0 billion, which translates into a better approval rate than in 2013, reaching 54.0%.

Supply
There were 21,069 units priced above RM800 per sq ft in Kuala Lumpur at the end of 2014, which is a 21.0% increase YoY.

Six new completions were recorded in Kuala Lumpur over the last quarter of 2014, with a total of approximately 1,800 units. These projects include Setia Sky Residence Block C (Jalan Tun Razak, KL), The Greens (TTDI, KL) and Icon Residence Mont Kiara (Tower 1 & 2) at Dutamas KL. Luxury developments launched at the end of 2014 include The Residences @ Platinum Park along Jalan Stonor, KLCC and The Robertson (South Tower) at Jalan Pudu, KL.

Capital values
The secondary market of the luxury high-rise residential sector in the three main study areas (KLCC, Bangsar and Mont'Kiara) continued to see increases in values in 2014. Average transaction price for the three areas was RM871 per sq ft at the end of 2014. The secondary market in these prime locations continues to remain very attractive to buyers and investors, compared to new developments in other areas.

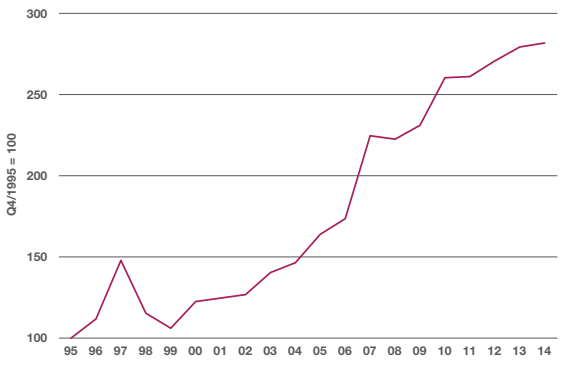
Rents
Average asking rents saw some stability or little change in 2014, with rents in KLCC at about RM3.95 per sq ft per month, while the rents in Bangsar and Mont'Kiara stood at RM3.35 per sq ft per month and RM2.97 per sq ft per month respectively, at the end of 2014.

Market outlook for 2015
The subdued overall property market sentiment in 2014 is expected to extend into 2015. Buyers will remain cautious and may adopt a wait-and-see approach with the GST implementation on its way.

However, the weakening of the Malaysian Ringgit may attract foreign buyers as property prices will be more competitive.

GRAPH 4

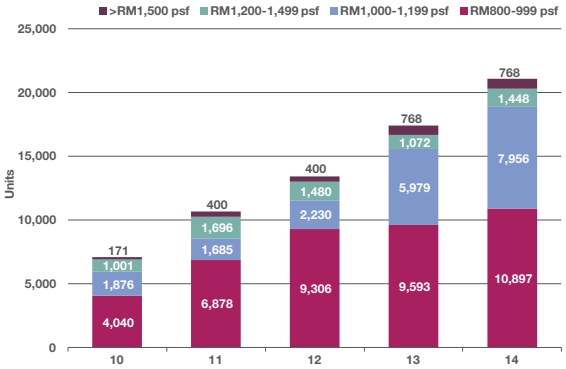
Greater KL prime retail rental index, 1995–2014



Source: Savills Research Malaysia

GRAPH 5

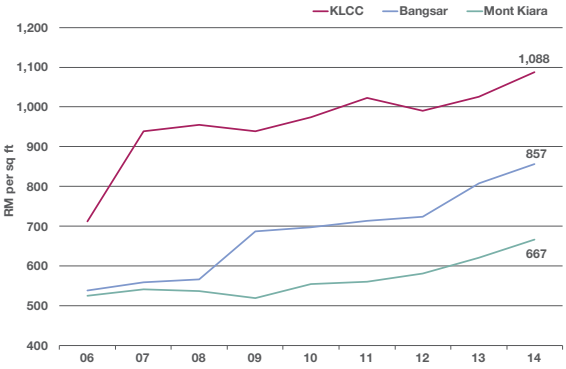
Kuala Lumpur luxury condominium supply, 2010–2014



Source: Savills Research Malaysia

GRAPH 6

Capital values for secondary market luxury condominiums in Kuala Lumpur, 2006–2014



Source: Savills Research Malaysia

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