# Offices

Kuala Lumpur, Malaysia

1H / 2010

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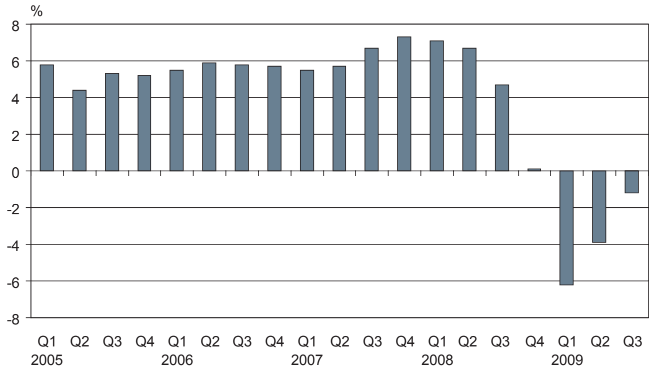
## Malaysia Economy

The Malaysian economy entered into recession in the first half of 2009, with the contraction slowing by Q3/2009. This improvement is largely attributed to the government's liberalisation of the financial and service sectors, two economic stimulus packages worth RM67 billion, the deregulation of the Foreign Investment Committee as well as traditional economic drivers such as improved domestic consumption. Domestic consumption is a favourite issue of the new Malaysian government as it is working hard to steer the country away from a manufacturing, export based economy, to a high income economy driving strong domestic consumption.

**Malaysia GDP, Q1/2005 - Q3/2009**




Source: Department of Statistics Malaysia, Rahim & Co Research

### Stock Market

The second half of 2009 has seen big improvements in stock market performance. In Q3/2009, the Securities Commission approved 12 proposals for equity raising by listed corporations compared with 10 approved in Q2/2009, raising RM1.43 billion, almost double what was raised in Q2/2009. At the same time, steady interest was noted in raising funds via initial public offerings – the Securities Commission received 8 IPO applications in Q3/2009 compared with 6 in Q2/2009. Rising banking stocks, led by CIMB Group, helped boost the local stock market index to it's highest level since May last year. In addition, the listing by Maxis this year which involved the sale of 2.25 billion Maxis shares is believed to enlarge Bursa Malaysia's market capitalization. Market sentiment also benefited from fresh signs that the economy is on its way to recovery.

**FTSE Bursa Malaysia KLCI, Jan 2007 - Dec 2009**

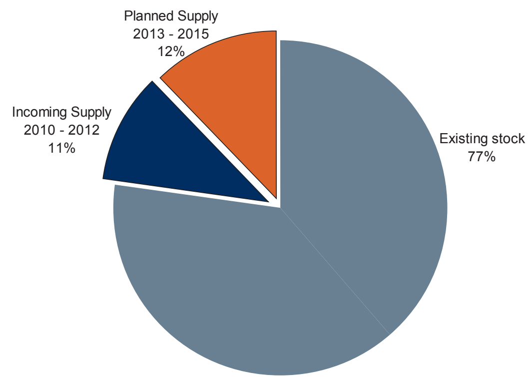

Source: Rahim & Co Research

### Office Market Overview

The government's market liberalisation initiatives have already begun to show results in the form of new licences granted to heavyweight institutions such as ICBC Bank from China and Goldman Sachs. However, investment in Malaysia from such institutions may be small initially. Such financial institutions are still likely to choose the prime CBD of Kuala Lumpur City Centre (KLCC) as their office location.

In addition, some international mergers and domestic company expansions have resulted in an increase in office market activity in the second half of 2009. In October, Nestle (Malaysia) Berhad relocated from a 30 year old office building in the suburb of Petaling Jaya to take up approximately 130,000 sq.ft. in new building Surian Tower in Mutiara Damansara. The former Nestle House in Petaling Jaya, owned by Axis REIT is now being refurbished with a budget of RM8 million and will be renamed Quattro West. Energy company Shell have also committed to lease a 323,000 sq.ft. built-to-suit office building in Cyberjaya, 26 km from Kuala Lumpur. The building will be completed in 2011 and will be a LEED rated green office building leased for a minimum period of 10 years. Shell has planned to reduce costs and increase efficiency by consolidating its entire group operations in Malaysia (10 centres) to two strategic locations, namely the public transport hub of KL Sentral and the MSC status business park Cyberjaya.

**Existing Office Supply, Incoming and Planned Supply, Dec 2009**




Source: Valuation and Property Services Dept., Ministry of Finance, Rahim & Co Research

### New Office Supply

The federal territory of Kuala Lumpur includes the city of Kuala Lumpur and many surrounding suburbs which are well established business addresses. Taking into account the entire federal territory, it is clear that millions of sq.ft. of existing office space stand vacant and millions more are either scheduled or have received planning permission. Incoming supply comprises units where physical construction works are in progress but the certificate of fitness for occupation has not been granted during this review period. Planned supply comprises units with building plan approval but the units have not started physical construction works.

The figures may seem alarming, considering the average take up of office space in the federal territory has been about 1.6 million sq.ft. per year since 1993. However, the government figures for incoming supply also include delayed units where the foundation work has started but no construction has taken place for a period of more than 3 years. It is possible that the number of delayed units may increase resulting in fewer actual completions. In addition, there have been some aborted sales of office buildings which may result in more delays or a change in concept for the developments. Finally, some of the new office supply is designed to cater for small and medium sized local companies and provide small office suites for sale or to let which will not compete with the international standard Grade 'A' supply.

### Grade 'A' Office Supply

Most of the eight existing Grade 'A' office buildings in the Golden Triangle have experienced slightly higher vacancy rates in the second half of this year and the downward pressure on rents in existing supply is likely to continue into 2010 as more new supply arrives. New office building Cap Square Tower is the most significant new Grade 'A' office building of 2010 in terms of location, size and quality. The location is a well established 15 acre mixed use development known as Capital Square (Cap Square) and it benefits from excellent road and public transport access, with two train lines and the monorail all within walking distance. Cap Square Tower will offer 600,000 sq.ft. of premium quality office space and with German institutional owners it is no surprise that the building efficiency will be high at nearly 80 per cent. The building will include an impressive main lobby with 52 ft tall ceilings, raised access floors and Low E glass surrounding the full façade providing “cold light” (maximum natural daylight and minimum heat) allowing tenants to reduce their power consumption and save money.

### Office Rents & Capital Values

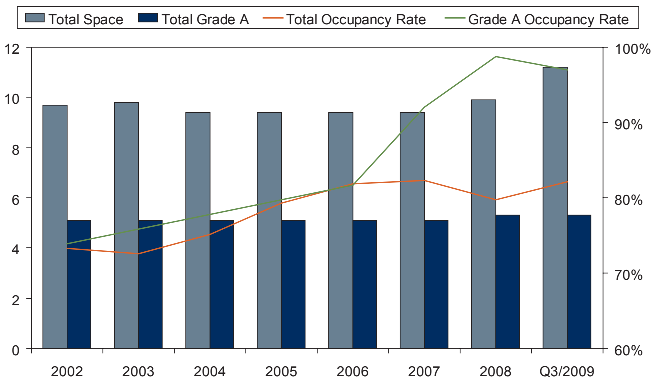
Prices of most office buildings in KL have declined, corresponding to the decline in office rental values. The fall in capital values has resulted in some aborted investment deals despite attempts to reach new agreements over pricing. Mah Sing Group lost a buyer for their 380,000 sq.ft. office building The Icon @ Mont Kiara worth RM285.4 million and now has plans to build small residential serviced suites. YNH Property also lost a buyer for their 1.2 million sq.ft. office building Menara YNH worth RM920 million. Mah Sing Group has managed to secure a new buyer for the East Wing of The Icon at Jalan Tun Razak. The new sale price is approximately 4.5 per cent off the original price agreed in 2007 and comes with a rental guarantee for 3 years, which was not part of the original deal.

Despite signs that some office tenants are exploiting the downward pressure on rents and signs that some investors are nervous about the future, there has been a recent success story. In December 2009, Permodalan Nasional Bhd (PNB) completed the purchase of the 370,000 sq.ft. office building Kenanga International for an estimated RM250 million, RM85 million more than was paid in 2007. The price difference can be attributed in part to the refurbishment of the building which included the creation of approximately 70,000 sq.ft. extra lettable office space.

### REIT Activity

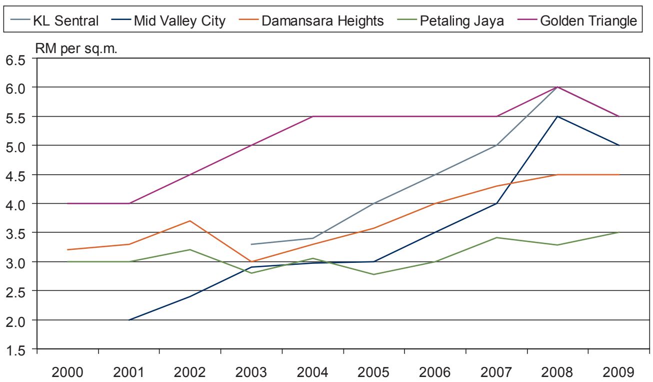
Before the global economic recession, Malaysian REITS were performing quite well, yielding 6 to 7 per cent dividend returns. By the end of 2008, the REITS took a sever beating along with the rest of the equities market. Axis REIT has performed well in 2009 due to a combination of factors. The REIT spent most of 2008 converting to be Shariah compliant and following the reclassification, the REIT appealed to an expanded investment base of both conventional and Shariah funds locally and abroad. Investor confidence was also boosted by the issuance of new units raising almost RM 85 mil. This amount will be used to pare down the borrowing of Axis REIT.

**Total Space & Grade 'A' Office Stock, 2002 - Q3/2009**



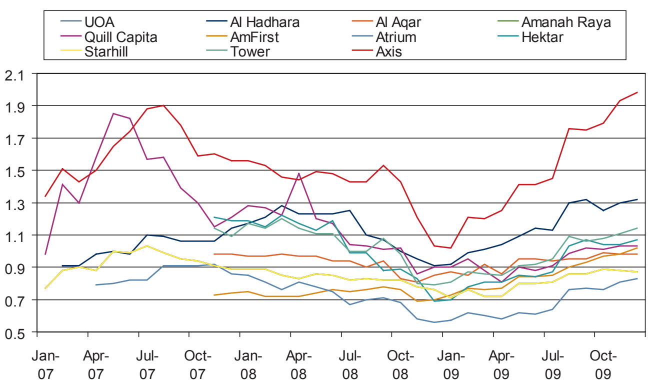

Source: Valuation and Property Services Dept, Ministry of Finance, Rahim & Co Research

**Average Rents By Location, 2000 - 2009**




Source: Rahim & Co Research

**Malaysian REIT Stock Market Performance, Jan 2007 - Dec 2009**




Source: Yahoo Finance, Rahim & Co Research

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