

PROPERTY MARKET REPORT 2012

1.1 The Global Financial Crisis

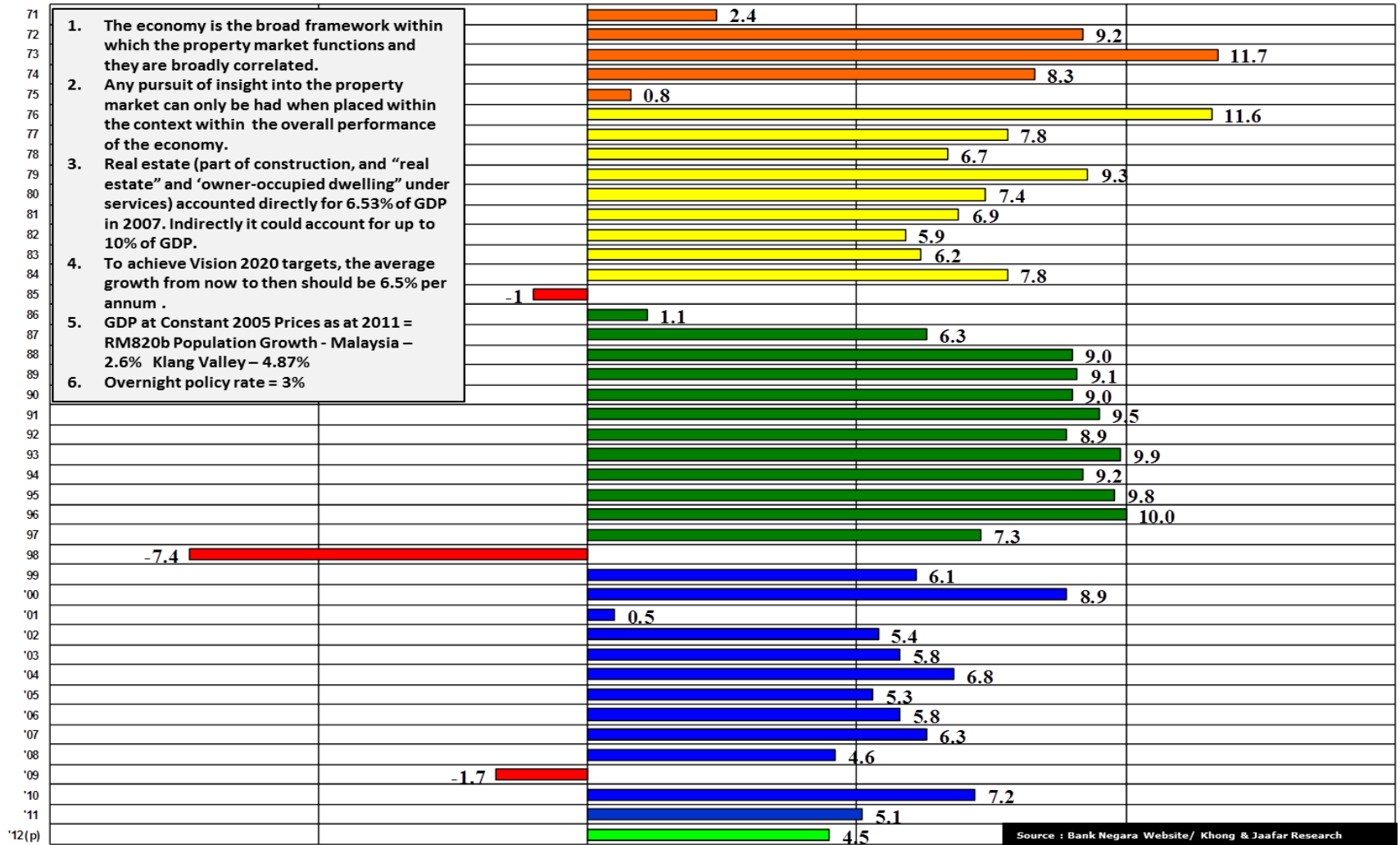
The Global Financial Crisis of 2007/2008 is still playing out and while the United States economy has seen some recovery, albeit slow, the Eurozone is still mired in crisis mode. Emerging markets such as China and India are also slowing. Malaysia has not seen any drastic slowdown in economic growth except at the height of the crisis, in 2009. The latest growth rate, for the third quarter of 2012 was 5.2% as compared with the first and second quarters of 2012 at 4.9% and 5.4% respectively. The forecast for 2012 is between 4% and 5%.

For the property market, during the Global Financial Crisis of 2008/9 there was a correction of 10 to 20 per cent in the high-end condominium market in the Kuala Lumpur City Centre and in the Mont Kiara area, and a similar correction in the Class "A" office market, also in Kuala Lumpur. Significantly, it identifies the areas of greatest weakness arising from external shocks such as the Global Financial Crisis, and today, the global volatility of economies and markets are a major threat.

1.2 The Property Market in General

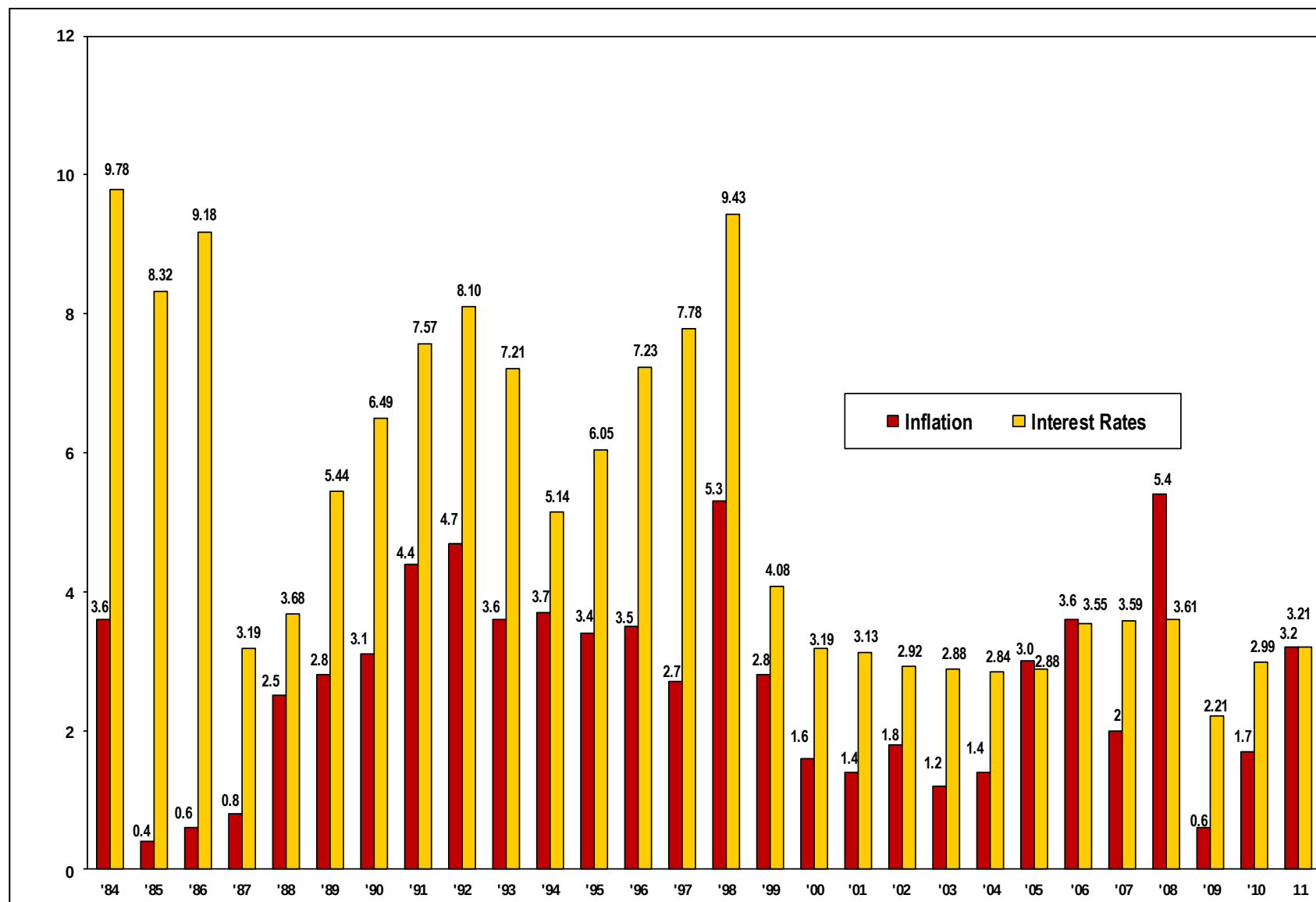
The economy is the framework within which the property market functions and in Malaysia they are closely correlated. GDP growth after the Asian Crisis did not rebound to the levels prior to the crisis. In order for Malaysia to realise Vision 2020 the economy has to grow by 6 to 7 per cent for this decade. Inflation which surged in 2008 and caused some concern, started to trend downwards, in sympathy with most economies around the world. To the extent that inflation stays low it gives the Malaysian Central Bank more manoeuvrability in keeping interest rates low and push growth.

THE MALAYSIAN ECONOMY - GDP AT CONSTANT 2005 PRICES OR REAL GDP(% CHANGE)



2003				2004				2005				2006				2007				2008				2009				2010				2011				2012		
1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
4.6	4.6	5.3	6.6	7.8	8.4	6.7	5.8	6.1	4.1	5.3	5.2	6	6.1	6	5.9	5.5	5.7	6.7	7.4	7.4	6.7	4.7	0.1	-6.2	-3.9	-1.2	4.4	10.1	8.9	5.3	4.8	5.2	4.3	5.8	5.2	4.9	5.4	5.2

In November 2009, Bank Negara cut its overnight policy rate by 25 basis points to 3.25 per cent for the first time post the Global Financial Crisis, and since 2003, and signalled it was ready to cut rates further to avoid a severe economic downturn. It also cut the statutory reserve requirement for commercial banks to 3.5 per cent from 4 per cent, effective from 1 December 2008, so as to boost liquidity. The current overnight policy rate, after the many ups and downs on the rates to adjust to the changing economic landscape, is 3% and the SRR, 2%.



Source : Bank Negara Website/ Khong & Jaafar Research

Property transactions matched against GDP (at market prices) is an indicator of the place of property in Malaysia. It peaked just before the Asian Financial Crisis and has been trending downwards since, but is rising again.

GDP MATCHED AGAINST PROPERTY TRANSACTIONS

Year	GDP at Market Prices (RM Bil.)	Property Transactions (RM Bil.)	(%)
1988	92.4	8.10	8.80
1989	105.2	11.3	10.70
1990	119.1	16.6	13.9
1991	135.1	18.7	13.8
1992	150.7	21.6	14.3
1993	172.2	23.6	13.7
1994	195.5	29.7	15.2
1995	222.5	39.9	17.9
1996	253.7	49.0	19.3
1997	281.9	53.2	18.9
1998	267.9	27.9	10.4
1999	279.9	34.4	12.3
2000	343.2	39.2	11.4
2001	334.4	38.6	11.5
2002	362.0	38.6	10.7
2003	418.7	43.4	10.4
2004	474.0	59.9	12.6
2005	522.4	56.8	10.9
2006	574.4	61.6	10.8
2007	642.0	77.1	12.0
2008	742.5	88.3	11.9
2009	679.9	81.0	12.0
2010	765.9	107.4	14.0
2011	847.3	137.8	16.3

Below 11
 Above 11 and Below 15
 Above 15

Source : Bank Negara Reports/Property Market Reports, Valuation Department

Another indicator of the importance of property to the Malaysia economy is loans to the property sector and for residential property as against total outstanding loans.

TOTAL OUTSTANDING LOANS, LOANS TO THE BROAD PROPERTY SECTOR AND LOANS FOR RESIDENTIAL PROPERTY - POST BOOM, CONSUMER LOANS ESPECIALLY HOME LOANS HAVE REPLACED CORPORATE LOANS AS A MAINSTAY FOR BANKS (Source : Bank Negara website & K&J Research)

MTH-YR	TOTAL OUSTANDING LOANS (RM MIL.)	LOANS TO THE BROAD PROPERTY SECTOR (RM MIL.)	% (BROAD PROPERTY SECTOR/OUT-STANDING LOANS	LOANS FOR RESIDENTIAL PROPERTY	% (RESIDENTIAL PROPERTY/ BROAD PROPERTY SECTOR
Dec-96	335,279.40	105,500.80	31.5%	41,185.80	39.0%
Dec-97	424,489.40	141,604.10	33.4%	52,021.10	36.7%
Dec-98	417,074.10	147,817.60	35.4%	57,658.50	39.0%
Dec-99	395,098.10	142,810.20	36.1%	62,306.40	43.6%
Dec-00	416,297.20	150,833.10	36.2%	73,474.80	48.7%
Dec-01	432,357.10	163,276.00	37.8%	86,186.30	52.8%
Dec-02	388,241.50	127,735.70	37.8%	100,041.60	78.3%
Dec-03	355,839.20	145,122.70	40.8%	116,245.60	80.1%
Dec-04	448,353.50	167,566.80	37.4%	131,403.10	78.4%
Dec-05	526,771.60	189,863.20	36.0%	148,349.10	78.1%
Dec-06	585,506.10	207,898.40	35.5%	161,786.40	77.8%
Dec-07	636,368.30	228,846.00	36.0%	173,101.00	75.6%
Dec-08	721,796.70	258,448.90	35.8%	191,047.40	73.9%
Dec-09	779,278.90	283,862.00	36.4%	209,619.90	73.8%
Dec-10	878,442.70	328,309.20	37.4%	237,380.00	72.3%
Dec-11	998,198.50	378,894.00	38.0%	268,788.70	70.9%

Outstanding loans for residential property has been persistently high and particular note should be had as to its substantial growth, from about RM41 billion in December 1996 to more than RM268 billion as at the end of 2011. Banks, influenced by Basel II leanings, find that residential loans are safer areas for lending. However this ought to be matched by a recognition of the state of the residential market, i.e. whether risk increases when the market is biased on the side of over-supply. Basel III promises to solve some of the disproportionate weightings on a global basis for residential property.

1.3 The Economic Transformation Plan

There has been a realisation in recent years that the country is, for various reasons, caught in a “middle-income trap” and to continue at the current pace of socio-economic development, it would not be able to realise Malaysia’s Vision 2020 of becoming a developed nation by the year 2020. The Malaysian economy which grew between 8% and 9% annually prior to the Asian Financial Crisis, has since 1997, grown annually at only between 4 and 5%.

With this in view, the present government has begun to chart an ambitious and new economic direction and framework for Malaysia, and whilst it still includes Vision 2020 as the target for reaching developed nation status by the year 2020, the new elements in the proposed acceleration of socio-economic development includes the New Economic Model or NEM, the 10th Malaysia Plan or 10MP (2011-2015), the 1Malaysia Government Transformation Plan or GTP, and the 1Malaysia Economic Transformation Programme or ETP (A Roadmap for Malaysia).

The NEM was a result of the establishment of an independent National Economic Advisory Council (NEAC) to develop recommendation on the design of a new economic model. The Council's report, released in April 2010, provided a diagnosis of the challenges and opportunities facing the Malaysian economy and recommends eight strategic reform initiatives. Much of this thinking has been built into the 10th Malaysia Plan and the Economic Transformation Programme.

The 10MP outlines the Government's development plan for the next five years. It focuses on unleashing economic growth, promoting socio-economic development, developing and retaining talent, building an environment that enhances the quality of life and transforming government. It identifies 12 National Key Economic Areas (NKEAs).

The GTP is a commitment by the Government to better delivery of goods and services to the Malaysian public. It involves National Key Results Areas (NKRA's) such as reducing crime, fighting corruption, improving student outcomes, raising living standards of low income households, improving rural basic infrastructure, improving urban public transport and addressing cost of living.

The ETP is a comprehensive effort that will transform Malaysia into a high-income nation by 2020. It will lift Malaysia's gross national income (GNI) per capita from USD6,700 or RM23,700 in 2009 to more than USD15,000 or RM48,000 in 2020, propelling the nation to the level of other high-income nations. This GNI growth of 6 per cent per annum will allow Malaysia to achieve the targets set under Vision 2020.

The starting point of the ETP will be the implementation of concrete changes in specific sectors and areas of the economy. Labs were established for each of the 12 NKEAs to determine specific initiatives and projects that would drive economic transformation. The 12 labs consisted of the private sector and the civil service and were facilitated by PEMANDU. An NKEA is defined as a driver of economic activity that has the potential to directly and materially contribute a quantifiable amount of economic growth to the Malaysian economy.

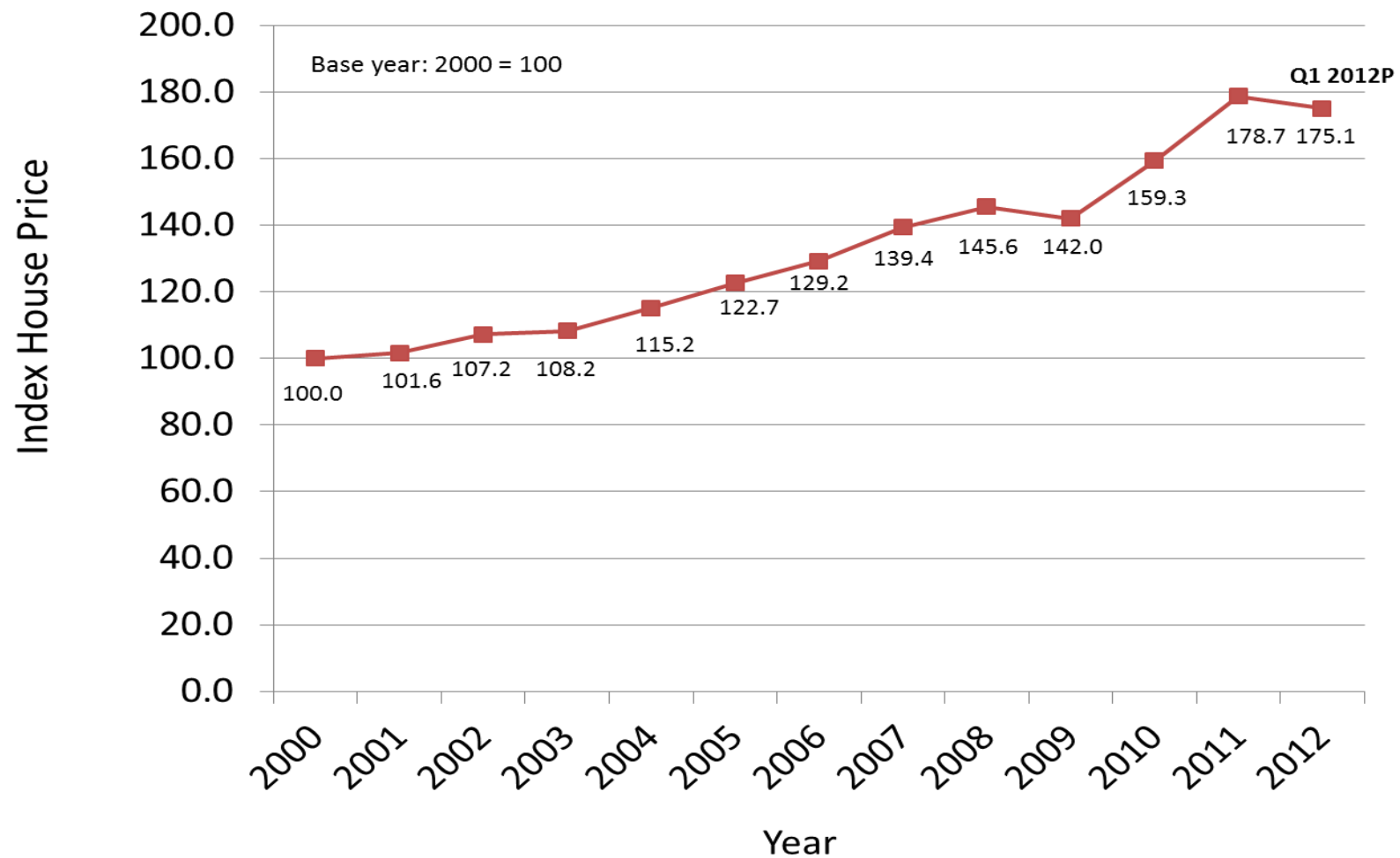
Of the 12 NKEAs, namely Oil, Gas and Energy, Financial Services, Tourism, Business Services, Electronics and Electrical, Wholesale and Retail, Education, Healthcare, Communications Content and Infrastructure, Agriculture and Greater Kuala Lumpur/Klang Valley, three of these, as highlighted, are more directly related to property investment and development. It would be obvious from this that there is a heavy reliance on the property market for the ultimate success of Vision 2020, New Economic Model, the 10th Malaysia Plan (2011-2015) and the Economic Transformation Programme.

1.4 The Residential Sector Of The Property Market

The residential sector of the market when viewed from the perspective of the country as a whole is still fundamentally sound as shown in the accompanying chart which is the House Price index for all houses, covering the whole country. The compounded annual growth rate (CAGR) from the 12.25 years that the chart covers is 4.68%. From the year 2000 to 2005 it is a more benign 4.18%, but accelerates to 5.03% for the period 2005 to 2012.

From 2008 to the first quarter of 2012 the House Price Index it recorded 4.44% and this was a dip in the index in the first quarter of 2012 at a CAGR of -7.82%. The country wide All House Price according to the report from NAPIC was RM212,085 in the third quarter of 2011. If we match that against the average household income for the country as a whole at about RM4,000 a month, the number of times the price is, as compared with the annual household income, it is an acceptable 4.42 times.

The Malaysia House Price Index



Source: Tables for The Malaysian House Price Index Data, National Property Information Centre (NAPIC)

In the Klang Valley where generally the 4 to 5 times ratio has held for long periods in the past, the residential “hot spots” have always been somewhat elevated as compared with the general level, but in recent years the gap has enlarged. See the accompanying table which shows movements of the ubiquitous and standard 2-storey terrace house price in selected areas in the Klang Valley and the prices are matched against the average household income in the Klang Valley, which now stands at about RM6,000 a month. The table also traces the relationship of price with rental income and the trend has been towards lower returns, slipping below the critical 3% benchmark. Below 3% is a cause for concern as houses should return between 3 and 6% (all risks net return) depending on house type and whether landed or strata.

Over the past six months, with the onset of greater volatility in global markets stemming mainly from the European sovereign debt crisis, sentiment has filtered down to the residential market in Kuala Lumpur, and coupled with the tightening measures by Bank Negara for loans, the market has slowed and demand has become subdued. It is hoped that this has taken some heat out of the speculative end of the market. Speculation is an accepted and needed element in any market, excessive speculation is not.

ANALYSIS OF HOUSE PRICES (2 STOREY TERRACE - 2ST) AND KEY FUNDAMENTALS (HOUSEHOLD INCOME AND RENTAL INCOME)														
An assumed, typical - 2ST	AUGUST 2000		AUGUST 2005		AUGUST 2007		AUGUST 2008		AUGUST 2010		DECEMBER 2011		CURRENT (November 2012)	
	Household income/ times	Rent/ Yield	Household income/ times	Rent/ Yield	Household income/ times	Rent /Yield	Household income/ times	Rent/ Yield	Household income/ times	Rent/ Yield	Household income/ times	Rent/ Yield	Household income/ times	Rent/ Yield
	(X)		(X)		(X)		(X)		(X)		(X)		(X)	
Bangsar Baru	12.73	3.48	11.01	3.86	12.69	3.51	12.49	3.43	18.21	2.49	17.50	2.49	21.54	2.36
Bandar Utama (1650 sft)	9.24	3.60	9.43	2.88	8.87	3.17	8.82	3.06	10.50	2.88	11.85	2.70	13.46	3.78
Subang Jaya (1650 sft)	6.57	3.71	5.97	3.98	5.50	4.50	5.29	5.40	6.30	4.80	7.40	3.93	9.42	3.86
Bandar Mahkota Cheras	3.49	2.54	3.14	2.70	3.06	2.97	3.38	2.58	3.50	3.89	3.77	3.66	4.98	3.50
Kajang Mewah (1300 sft)	3.69	3.60	2.20	6.17	2.60	5.08	2.94	4.32	3.50	3.67	3.77	3.86	4.31	3.38
Island Glades	14.97	2.19	10.10	2.16	12.08	1.84	12.49	1.96	13.71	1.83	14.92	1.87	18.89	1.82
Taman Sentosa	7.93	2.14	5.01	3.24	4.50	3.76	4.37	3.91	4.38	3.89	4.67	4.24	5.00	4.32
					Source: Khong & Jaafar Research									

1.5 The Commercial Sectors Of The Property Market

1.5.1 The Office Market

The table following this page shows the office market for the whole of Malaysia and it includes both government buildings and private buildings. The figures are from the latest release in September 2012 by the National Property Information Centre (NAPIC). This table shows that the occupancy rate for the Klang Valley (Government and Private Buildings) is 80.89% whilst for Johor and Penang it is 76.51% and 80.47% respectively.

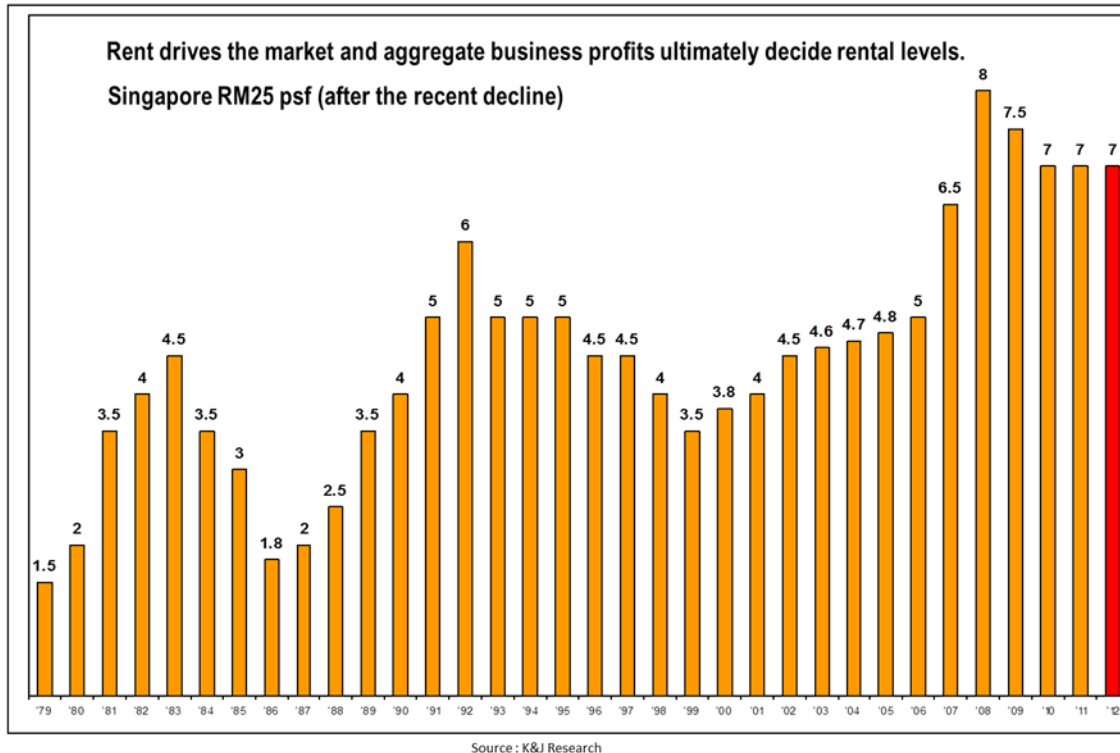
SUPPLY AND TAKE-UP OF OFFICE SPACE IN MALAYSIA AS AT SEPTEMBER 2012 - THIRD QUARTER ^P

	TOTAL (GVT & PRIVATE BUILDINGS)					PRIVATE BUILDINGS				
STATE	NO OF BLDGS	TOTAL SPACE IN SQ FT MIL	TOTAL SPACE OCCUPIED IN SQ FT MIL	VACANT SPACE IN SQ FT MIL	OCCUPANCY RATE (%)	NO OF BLDGS	TOTAL SPACE IN SQ FT MIL	TOTAL SPACE OCCUPIED IN SQ FT MIL	VACANT SPACE IN SQ FT MIL	OCCUPANCY RATE (%)
WP KL	386	77.32	60.69	16.63	78.49%	342	72.28	55.90	16.38	77.34%
SGOR	163	27.53	21.49	6.04	78.06%	145	25.17	19.17	6	76.16%
WP PJ'JAYA	36	21.29	19.86	1.43	93.28%	6	2.18	0.80	1.38	36.70%
K VALLEY	585	126.14	102.04	24.1	80.89%	493	99.63	75.87	23.76	76.15%
JOHOR	219	11.11	8.50	2.61	76.51%	135	7.61	5.61	2	73.72%
P PINANG	234	11.42	9.19	2.23	80.47%	177	9.04	6.84	2.2	75.66%
PERAK	209	6.33	5.93	0.4	93.68%	66	2.56	2.2	0.36	85.94%
N SEMBILAN	101	3.08	2.86	0.22	92.86%	38	1.31	1.14	0.17	87.02%
MELAKA	81	4.16	3.33	0.83	80.05%	46	2.24	1.57	0.67	70.09%
KEDAH	94	3.37	3.13	0.24	92.88%	47	1.65	1.47	0.18	89.09%
PAHANG	145	3.57	3.08	0.49	86.27%	71	1.88	1.44	0.44	76.60%
T'GGANU	115	3.35	3.28	0.07	97.91%	33	0.99	0.96	0.03	96.97%
KELANTAN	277	3.96	3.85	0.11	97.22%	121	1.84	1.72	0.12	93.48%
PERLIS	45	1.17	1.17	0	100.00%	19	0.44	0.44	0	100.00%
SABAH	94	7.26	6.45	0.81	88.84%	68	5.36	4.58	0.78	85.45%
WP LABUAN	11	0.71	0.57	0.14	80.28%	5	0.53	0.39	0.14	73.58%
SARAWAK	92	6.23	5.77	0.46	92.62%	63	4.46	4.01	0.45	89.91%
MSIA	2,302	191.86	159.15	32.71	82.95%	1,382	139.54	108.24	31.3	77.57%

Source : JPPH Commercial Property Stock Report (Q3 2012)

The fundamentals that bear watching for the office market are rents, but rents are a function of business profitability. Ultimately the profitability of businesses in any city sets the sustainable level of rents for that city and it also explains the different levels of rents that prevail in different cities. In Kuala Lumpur the long term yield for Grade A office space has been about 7 per cent net. From time to time this yield has compressed to lower numbers, as low as 5 per cent, but over the long term the market seems to return to the equilibrium level of 7 when the exuberance dies.

**PRIME OFFICE (KLANG VALLEY) – AVERAGE GROSS RENT
(RM PSF PER MONTH) NOT ADJUSTED FOR INFLATION**



We next present two tables which show the existing supply, the occupied space and the future supply ("incoming" generally meaning under construction and "planned" meaning approved but not commenced as yet) for the office market in Klang Valley, as at December 2004 and June 2012. The figures exclude government buildings.

OFFICE MARKET SIZE IN KLANG VALLEY AS AT DECEMBER 2004 (EXCLUDING GVT. BLDGS)										
Location	Existing Supply (Mil. sq.ft.) [A]	%	Total Space Occupied (Mil. sq.ft.)	Vacant Space (Mil. sq.ft.)	Occupancy Rate (%)	Future Supply (Mil.sq.ft.) (Approved) [B]			Total Supply (Mil. sq.ft.) [A+B]	% Increase [B/A]
KUALA LUMPUR						Incoming Supply	Planned Supply	Total		
KLCC/Golden Triangle	17.83	23.3%	14.26	3.57	79.98%	0.72	0.03	0.76	18.58	4,25%
Central Business District	11.83	15.49%	9.54	2.29	80.65%	2.52	0.03	2.55	14.38	21.58%
Within City Centre	14.22	18.6	10.26	3.95	72.19%	2.76	0.16	2.91	17.13	20.50%
Suburban KL	14.51	19.0%	11.53	2.99	79.42%	6.29	0.75	7.04	21.55	48.49%
TOTAL	58.39	76.45%	46.59	12.80	78.08%	12.29	0.98	13.26	71.65	22.71%
OUTSIDE KUALA LUMPUR										
Petaling Jaya	8.46	11.1%	6.77	1.68	80.07%	0.07	-	0.07	8.52	0.80%
Subang Jaya	1.03	1.3%	0.86	0.17	83.90%	0.43	-	0.43	1.45	41.43%
Sunway City	0.26	0%	0.24	0.01	95.00%	-	-	-	0.26	0.00%
Shah Alam	2.87	3.8%	2.54	0.33	88.36%	0.03	-	0.03	2.90	0.96%
Kelana Jaya	1.80	2%	1.58	0.22	87.55%	-	-	-	1.80	0.00%
Klang	0.77	1.0%	0.52	0.25	68.03%	-	-	-	0.77	0.00%
Putrajaya	0.35	0.5%	0.35	-	100.0%	-	-	-	0.35	0.00%
Other Areas	2.45	3.2%	1.82	0.63	74.33%	-	-	-	2.45	0.00%
TOTAL	17.08	23.55%	14.69	3.30	81.66%	0.52	-	0.52	18.51	2.89%

Source: Commercial Property Stock Report (Q42004)

OFFICE MARKET SIZE IN KLANG VALLEY AS AT SEPTEMBER 2012 (EXCLUDING GVT. BLDGS) - THIRD QUARTER ^P										
Location	Existing Supply (Mil. sq.ft.) [A]	%	Total Space Occupied (Mil. sq.ft.)	Vacant Space (Mil. sq.ft.)	Occupancy Rate (%)	Future Supply (Mil.sq.ft.) (Approved) [B]			Total Supply (Mil. sq.ft.) [A+B]	% Increase [B/A]
KUALA LUMPUR						Incoming Supply	Planned Supply	Total		
KLCC/Golden Triangle	23.44	23.53%	18.56	4.88	79.18%	2.38	0.81	3.19	26.63	13.61%
Central Business District	13.47	13.52%	11.30	2.17	83.89%	0.60	0.45	1.05	14.52	7.80%
Within City Centre	21.02	21.10%	15.47	5.55	73.60%	5.96	2.01	7.97	28.99	37.92%
KL CITY	57.93	58.15%	45.33	12.60	78.25%	8.94	3.27	12.21	70.14	21.08%
SUBURBAN KL	14.36	14.41%	10.57	3.79	73.61%	2.3	1.58	3.88	18.24	27.02%
TOTAL	72.29	72.57%	55.90	16.39	77.33%	11.24	4.85	16.09	88.38	22.26%
OUTSIDE KUALA LUMPUR										
Petaling Jaya	10.67	10.71%	8.10	2.57	75.91%	2.22	0.36	2.58	13.25	24.18%
Subang Jaya	1.54	1.55%	0.85	0.69	55.19%	0	0	0	1.54	0.00%
Shah Alam	3.00	3.01%	2.71	0.29	90.33%	0.52	0	1	3.52	17.33%
Klang	1.93	1.94%	1.47	0.46	76.17%	0	0	0	1.93	0.00%
Putrajaya	2.18	2.19%	0.80	1.38	36.70%	0.50	0	0.50	2.68	22.94%
Other Areas	8.01	8.04%	6.03	1.98	75.28%	2.38	0	2	10	29.71%
TOTAL	27.33	27.43%	19.96	7.37	73.03%	5.62	0.36	5.98	33.31	21.88%
TOTAL KLANG VALLEY	99.62	100%	75.86	23.76	76.15%	16.86	5.21	22.07	121.69	22.15%

Source: JPPH Commercial Property Stock Report (Q32012)

The "existing" office space grew from 76.37 million square feet in December 2004 to 99.62 million square feet by September 2012, i.e. adding on 23.25 million square feet or 2.91 million square feet a year on average between the intervening eight-year period. The compounded annual growth rate was 5.46% per annum. Occupied space on the other hand increased from 75.86 million square feet to 75.38 million square feet, i.e. adding on 15.59 million square feet or 1.95 million square feet a year on average. The compounded annual growth rate was 6.48% per annum.

The office submarket for dedicated office space in the Klang Valley may be heading towards a state of oversupply. This contention stems from an overall view of the market, as seen in the table above. The total existing supply of office space in the Klang Valley is 99.62 million square feet. Out of this, 75.86 million square feet were occupied as at 3Q2012 leaving 23.76 million square feet (23.85%) of the total space, within the various office buildings, vacant. A 5 to 10% vacancy is normal for most buildings, and viewed in this light, the aggregate of 23.85% across the office market is high.

Apart from this, there are 16.86 million square feet of incoming space (under various stages of construction) and a further 5.21 million square feet of planned supply, which are space that has been approved for development but for which construction has not commenced as yet, coming onto to market, as tallied by the National Property Information Centre (NAPIC). The 5.21 million square feet could balloon to a substantially higher figure if all the office space in the contemplation (now or in the near future) from all the new, major commercial projects, especially Economic Transformation Plan or ETP related projects, are taken into account.

In the years to come the challenge for developers of office space is to make extraordinary efforts to adjust their supply to conditions in the market when their projects are due to come on-stream and to do as much of pre-letting as possible. For owners of existing buildings, hang onto to your tenants! For regulators and lenders, watch this with greater interest. Much hope hinges on the roll out of the ETP and how it will create new office space demand and of the order required to balance demand and supply.

Having said all that, it must be remembered that the office market cannot be looked at, solely, through the lens of total numbers. The market exists in various submarkets, depending on location and product type and each segment has demand and supply dynamics of its own. Rents drive the market and post the Global Financial Crisis (GFC) rental levels have come down to about RM7 to RM8 per square foot per month for average prime space. At this level the office market for average prime space can sustain at RM700 to RM900 per square foot based on its historical yield expectation of about 7 to 7.5% per annum. The RM700 to RM900 holds in general, unless a particular office building has some extraordinary features or market acknowledged factor(s) or vice versa. At RM700 to RM900 per square foot it also approximates the replacement cost level (including for land) and for the market to slip below this level it will take a severe economic or market downturn. In other words, office values are bouncing along around the bottom. Post the Asian Financial Crisis, values did dip below the replacement cost (as it was then), for a number of years.

The Klang Valley office market is by far the predominant office market. Penang by comparison has only 9.03 million square feet of existing space and Johor Bahru, 6.21 million square feet (excluding government buildings).

OFFICE MARKET IN JOHOR BAHRU AND PENANG AS AT SEPTEMBER 2012 (EXCLUDING GVT. BLDGS.) - THIRD QUARTER 2012 ^P

Location	Existing Supply (Mil. sq.ft.)	%	Total Space Occupied (Mil.sq.ft.)	Vacant Space (Mil.sq.ft.)	Occupancy Rate (%)	Future Supply (Mil. sq. ft.)			Total Supply (Mil.sq.ft.) (Approved)	% Increase [Future/Existing]
						Incoming	Planned	Total		
JOHOR BAHRU										
JOHOR BAHRU	6.21	100%	4.65	1.56	74.88%	0.51	0.00	0.51	6.72	8.21%
PENANG - PENANG ISLAND										
Georgetown	6.00	66.45%	4.67	1.33	77.83%	0.00	0.25	0.25	6.25	4.17%
Other Areas*	1.40	15.50%	1.04	0.36	74.29%	0.07	1.34	1.41	2.81	100.71%
TOTAL	7.40	81.95%	5.71	1.69	77.16%	0.07	1.59	1.66	9.06	22.43%
PENANG - SEBERANG PERAI										
Butterworth	0.48	5.32%	0.33	0.15	68.75%	0.19	0.00	0.19	0.67	39.58%
Bukit Mertajam	0.43	4.76%	0.23	0.20	53.49%	0.05	0.00	0.05	0.48	11.63%
Perai	0.23	2.55%	0.17	0.06	73.91%	0.00	0.00	0.00	0.23	0.00%
Seberang Jaya	0.42	4.65%	0.32	0.10	76.19%	0.00	0.00	0.00	0.42	0.00%
Other Areas	0.07	0.78%	0.07	0.00	100%	0.00	0.00	0.00	0.07	0.00%
TOTAL	1.63	18.05%	1.12	0.51	68.71%	0.24	0.00	0.24	1.87	14.72%
TOTAL PENANG STATE	9.03	100%	6.83	2.20	75.64%	0.31	1.59	1.90	10.93	21.04%

1.5.2 The Retail Submarket

The fundamentals that drive the retail sector are also rents but rents for this sector are driven in turn by retail turnovers and it is this that bears closer monitoring.

Turnovers depend on the multitude of shoppers including tourists. In Kuala Lumpur the long term rental return on average for the Grade A, downtown shopping centres used to be about 8 per cent but this is, I believe, on a structural transit towards 7 as shopping centres become a more mainstream asset. Real Estate Investment Trusts or REITS have helped and are continuing to help in this re-rating of this sector.

The retail submarket (modern shopping centres) in the Klang Valley is relatively stronger than the office market and this is mainly because consumer spending has continued unabated despite the past few years of global volatility. But this submarket also has shadows of looming oversupply, and questions on the further continuation of support from shoppers if inflation accelerates and erodes purchasing power, or if the regulator crimps household spending to control the increase in household debt. But a well-managed retail centre by its inherent higher sophistication (than an office building), has better strength to tide over temporary downturns because once a shopping centre captures the loyalty of a target segment of clientele, usually through a prolonged period of astute mall management, it is extremely difficult for new comers to dislodge it.

RETAIL MARKET IN IN KLANG VALLEY AS AT SEPTEMBER 2012 - THIRD QUARTER 2012 ^P

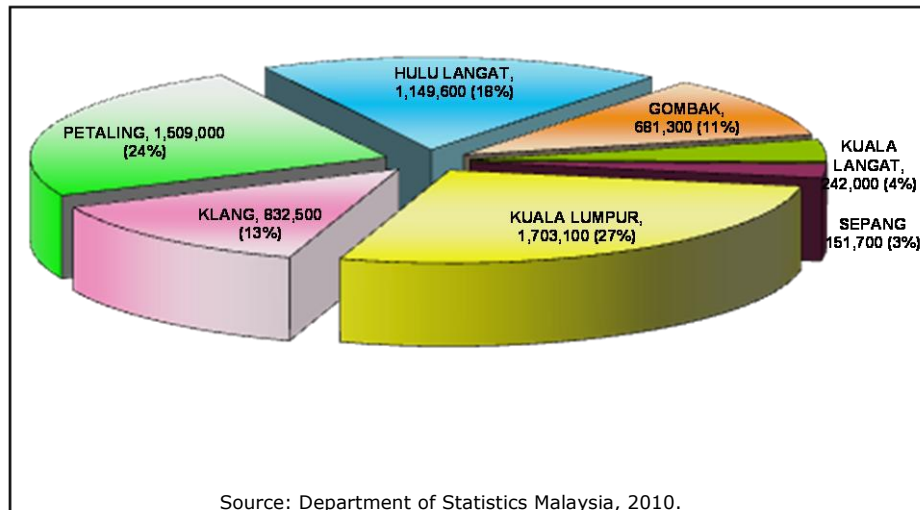
LOCATION	EXISTING SUPPLY (SQ FT)	EXISTING SUPPLY BREAKDOWN (SF)			%	TOTAL SPACE OCCUPIED (SF)	VACANT SPACE (SF)	OCCUPANCY RATES (%)	FUTURE SUPPLY (SF)			TOTAL SUPPLY (SF)	% INCREASE
	[A]	SHOPPING CENTRE	ARCADE	HYPERMARKET					INCOMING	PLANNED	TOTAL	[A+B]	[FUTURE/EXISTING]
											[B]		
KLANG VALLEY													
KL	26,138,153	20,364,736	4,679,072	1,094,345	46%	21,517,153	4,621,000	82%	3,909,581	537,507	4,447,088	30,585,241	17%
Selangor	30,422,060	18,644,039	1,822,739	9,955,282	53%	24,050,439	6,371,621	79%	178,724	340,796	519,520	30,941,580	2%
Putrajaya	737,360	621,982	115,378	0	1%	570,132	167,228	77%	54,078	0	54,078	791,438	7%
TOTAL KLANG VALLEY	57,297,573	39,630,757	6,617,189	11,049,627	100%	46,137,724	11,159,849	81%	4,142,383	878,303	5,020,686	62,318,259	9%

RETAIL MARKET IN JOHOR BAHRU AND PENANG AS AT SEPTEMBER 2012 - THIRD QUARTER 2012 ^P													
LOCATION	EXISTING SUPPLY (SQ FT)	EXISTING SUPPLY BREAKDOWN (SF)			%	TOTAL SPACE OCCUPIED (SF)	VACANT SPACE (SF)	OCCUPANCY RATES (%)	FUTURE SUPPLY (SF)			TOTAL SUPPLY (SF)	% INCREASE
		SHOPPING CENTRE	ARCADE	HYPERMARKET					INCOMING	PLANNED	TOTAL		
	[A]												
JOHOR BAHRU													
JOHOR BAHRU	11,933,689	8,245,392	828,660	2,859,637	100%	8,742,017	3,191,672	73%	1,281,207	9,166,783	10,447,990	22,381,679	87.55%
PENANG - PENANG ISLAND													
Georgetown	3,189,099	2,339,848	849,251	0	21%	2,502,426	686,673	78%	699,999	0	699,999	3,889,098	21.95%
Other Areas	6,298,513	3,024,874	2,377,802	895,837	42%	4,608,094	1,690,419	73%	215,827	0	215,827	6,514,340	3.43%
TOTAL	9,487,612	5,364,722	3,227,053	895,837	63%	7,110,520	2,377,092	75%	915,826	0	915,826	10,403,438	9.65%
PENANG - SEBERANG PERAI													
Butterworth	294,759	110,868	0	183,891	2%	285,717	9,042	97%	138,854	0	138,854	433,613	47.11%
Bukit Mertajam	2,924,867	2,427,326	35,575	461,965	19%	1,310,388	1,614,479	45%	514,719	86,251	600,970	3,525,837	20.55%
Perai	1,402,893	1,338,126	0	64,766	9%	846,312	556,581	60%	0	47,533	47,533	1,450,426	3.39%
Seberang Jaya	914,028	581,682	0	332,346	6%	774,743	139,285	85%	0	248,958	248,958	1,162,986	27.24%
Other Areas	110,545	16,824	15,392	78,329	1%	104,819	5,726	95%	15,134	0	15,134	125,679	13.69%
TOTAL	5,647,092	4,474,826	50,967	1,121,297	37%	3,321,979	2,325,113	59%	668,707	382,742	1,051,449	6,698,541	18.62%
TOTAL PENANG STATE	15,134,704	9,839,548	3,278,020	2,017,134	100%	10,432,499	4,702,205	69%	1,584,533	382,742	1,967,275	17,101,979	13.00%

Source : JPPH Commercial Property Stock Report (Q3 2012)

1.6 Demographic Composition

The Klang Valley currently has a population of about 6.75 million and the following chart shows the population of the main districts in the Klang Valley:-



Generally, the age composition of the population in Klang Valley and Malaysia in 2010 is as follows:-

AGE GROUP	KLANG VALLEY			PENANG			MALAYSIA		
	Person	(%)	Cumulative	Person	(%)	Cumulative	Person	(%)	Cumulative
0 - 14 yrs	2,167,931	31.1%	31.1%	445,030	27.6%	27.6%	9,165,043	31.7%	31.7%
15 - 24 yrs	1,077,441	15.5%	46.6%	257,421	16.0%	43.6%	5,199,182	18.0%	49.7%
25 - 34 yrs	1,112,884	16.0%	62.5%	264,492	16.4%	60.1%	4,489,629	15.5%	65.2%
35 - 44 yrs	1,097,174	15.7%	78.3%	243,963	15.2%	75.2%	3,751,169	13.0%	78.2%
45 - 54 yrs	799,902	11.5%	89.8%	184,781	11.5%	86.7%	3,038,025	10.5%	88.7%
55 - 64 yrs	453,698	6.5%	96.3%	122,148	7.6%	94.3%	1,916,613	6.6%	95.3%
65 - 74 yrs	185,624	2.7%	98.9%	62,361	3.9%	98.2%	921,780	3.2%	98.5%
+ 75 yrs	74,817	1.1%	100.0%	29,735	1.8%	100.0%	427,354	1.5%	100.0%
Total	6,969,471	100%		1,609,931	100%		28,908,795	100%	

Source: Department of Statistics, Malaysia

Household formation is high as the majority of the population is young and in the working class group.

Kuala Lumpur, within which the Project is located, is the main contributor of the population in the Klang Valley i.e. 1,703,100 persons (about 27%).

Generally, there ought to be continuous demand for housing due to high household formation and the income per capita of the population generated by the large percentage of working group.

Malaysia has a young population, said to be the third youngest in Asia and this together with the fact that our stage of economic development is relatively advanced. The high household formation is more easily translated to effective demand in housing as well as purchasing power in the retail industry. Household formation ensures a steady demand of about 80,000 units of new units of new houses of various types and for the country as a whole.

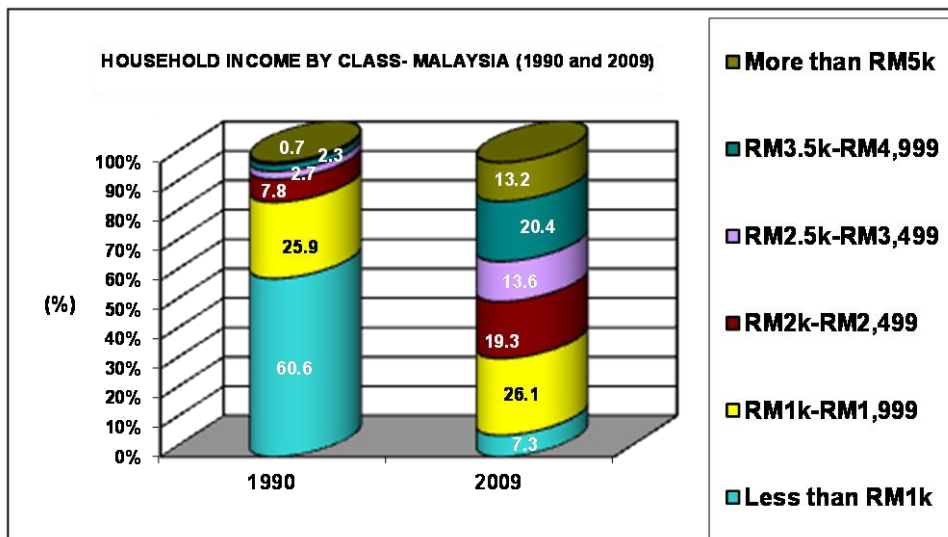
1.7 Income Distribution

Malaysia In General

In accordance with the 'Tenth Malaysia Plan', 2011 - 2015, all ethnic groups registered an increase in household income between 2004 to 2009. The mean monthly gross household income increased from RM3,249 in 2004 to RM4,025 in 2009 registering an average growth rate of 4.4% per annum. The increase was due to the greater employment opportunities generated during the period that enabled more Malaysians to be gainfully employed. The Bumiputera mean household income grew at an average rate of 6.0% per annum to RM3,624 in

2009 while that of Chinese increased by 2.5% per annum to RM5,011.

Chart 4-3 of the 'Tenth Malaysia Plan', 2011 - 2015, on the distribution of households by income class, 1990 and 2009 is re-produced, as follows:-



(Source: Prime Minister's Department Malaysia, 2011)

All of the above figures (13.1 and 13.2) are however average statistics. As valuers and property consultants who deal with the property market on a day-to-day basis we are aware of households (selected groups) with income levels much higher than the above and they exert their purchasing power in the property market all the time.

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