

MARKETBEAT

Kuala Lumpur Office Market

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



1Q09

AT A GLANCE

Significant Deceleration in Economic Growth

- The 4th quarter national accounts data confirmed the slump in economic activity towards the end of 2008 after real GDP advanced at its slowest rate in seven years, growing by a scant 0.1% (y-o-y), compared to a rate of 4.7% in the 3rd quarter of 2008.
- Meanwhile, inflation in February moderated to 3.8% (y-o-y), down from 3.9% in January, with price decreases mainly from Transport and Recreation Services & Culture.
- In view of diminishing upward price pressures and the increased risk of recession, the central bank reduced its policy interest rate by 50 basis points to 2.0% in late February. This marked the 3rd straight reduction in borrowing cost.

2nd Stimulus Package announced to boost the Property Sector with implementation of key measures:-

- Tax relief on housing loan interest paid up to RM10,000 p.a. for the next 3 years.
- Deferment of repayment of housing loans for 1 year from 10th March 2009 – for individual retrenched from 1st July 2008.
- Formulation of new FIC guidelines in order to attract more FDIs.
- Strengthen Malaysia My Second Home programme and consider issuing work permits to skilled spouses.
- Permanent Resident status for high net worth individuals bringing in more than USD2 Million for investments or savings in Malaysia.

The Office Sector – Challenging Time Ahead

- Rental rates of Grade A office space in KL have rose tremendously over the last 5 years. 4th quarter of 2008 continued to see growth despite heightened economic and political uncertainties, with average prime KL office space almost touching RM7 psf.
- Nevertheless, on-going financial crisis are starting to pose challenges to the office market beginning of 2009 with a slump in demand for new office space as companies froze expansion or even downsized. This could lead to supply being added back to the market.
- The situation is expected to worsen with large incoming new supply anticipated to enter the market by end 2009/2010 as the landlords of these upcoming buildings are as eager as the rest in securing quality tenants in this weak economic situation.

MARKET HIGHLIGHTS IN 1Q 2009

SIGNIFICANT NEW LEASE TRANSACTIONS

BUILDING	TENANT	SQ FT (APPROX)	BUILDING CLASS
Sunway Tower II (formerly Wisma Denmark)	Ranhill Worley Parsons	160,000 *	A
Surian Tower (expected completion in 3Q09)	Nestle	In excess of 100,000 *	A
Menara Olympia	Department of Fisheries Malaysia	24,000	A
Menara IMC	Skali	7,000	A
Menara Hap Seng	Korean Tourism Organization	2,000	A

* Concluded by YY Property Solutions Sdn Bhd

SIGNIFICANT SALE TRANSACTIONS

BUILDING	BUYER	SQ FT (APPROX)	PURCHASE PRICE (RM)
Bangunan Darul Takaful	Exim Bank	99,021	63 Million
Kompleks Kelana Centre Point	Perbadanan Nasional Berhad (PNS)	The sale comprises of Wisma Glomac 3 (Block C) and 3 units in Block A	50 Million

SIGNIFICANT CONSTRUCTION COMPLETIONS

BUILDING	MAJOR TENANTS	SQ FT (APPROX)	COMPLETION DATE
Quill Building 7@ KL Sentral	-	356,000	1Q 2009
DBKL Tower @ Pavillion	-	223,000	1Q 2009

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	MAJOR TENANTS	SQ FT (APPROX)	COMPLETION DATE
G Tower	-	500,000	2Q 2009
The Icon	-	507,265	2Q 2009
Surian Tower	-	340,000	3Q 2009

PRIME & FRINGE GRADE A OFFICE RENTS

District	Achievable Rent (Net Effective)			% Change From (in RM)				
	US\$ /SqFt/Yr	Euro /SqM/Yr	RM /SqFt/Mth	Last month	3 months ago	From Bottom (Mar 2000)	Peak (Q4 '07)	Short Term Trend
Prime KL Centre	21.42	181.10	6.55	-1.2	2.9	71.9	27.7	↓
Fringe KL	15.76	133.23	4.82	-1.6	2.7	75.2	7	↓

Note: Sample of buildings modified on 1 Dec 2008 for buildings in Prime KL & Fringe area, therefore some adjustments will occur in % change in the rental trends in immediate corresponding months.

With effect from Jul '07, the sample size is based on 16 buildings respectively for Prime KL Centre and Fringe, for size of 10,000 sq. ft.

ECONOMIC INDICATORS – 1 ST QUARTER 2009					
	Latest Release		Average 2008	Average 2009F	Average 2010F
Real GDP Growth	4Q08	0.1%	4.6%	-0.7%	3.6%
Unemployment	4Q08	3.1%	3.3%	3.4%	3.3%
Real Prices (CPI)	4Q08	5.9%	5.4%	1.3%	2.1%
Base Lending Rate	1Q09	5.55%	End 2008 6.5%	End June '09 5.3%	End Mar '10 5.5%

Source: Statistics Department, Malaysia; Bank Negara Malaysia; Consensus Economics March 2009



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