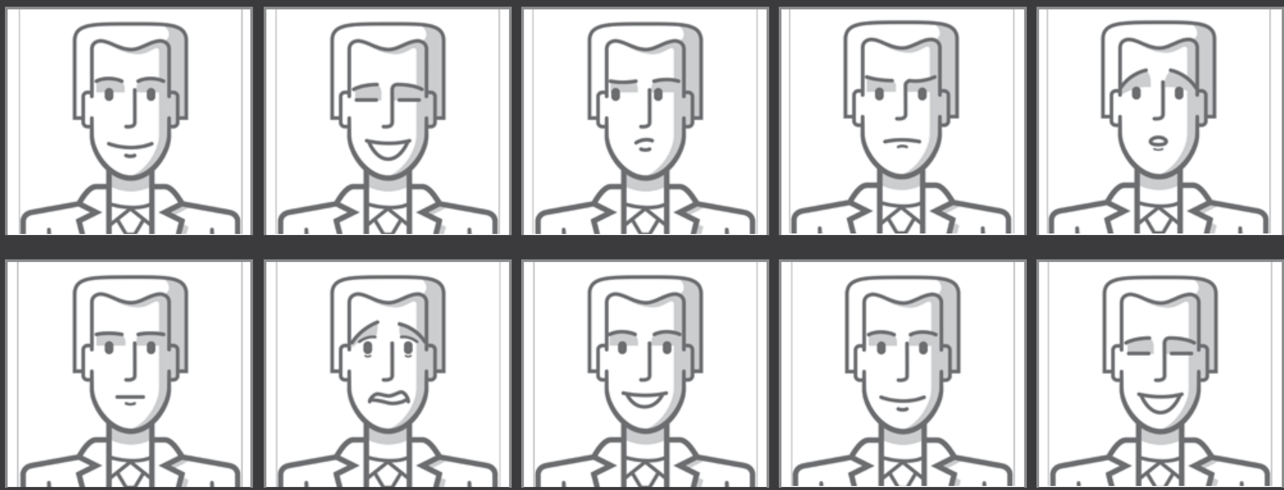
MALAYSIA COMMERCIAL REAL ESTATE INVESTMENT SENTIMENT SURVEY 2016



Some Words for the 2016 Fire Monkey.

2015 has been a year of revelations! From generous contributions to the ringgit slide, cheap oil in barrels but not so cheap at stations and yellow shirts to red shirts, Malaysians went for a ride. All these issues have affected investor confidence. The Business Confidence Index in Malaysia declined to 86.40 in 3Q2015 from 95.40 in the preceding quarter. Yes, we were expecting a soft market, but these unexpected events made it worst.

The 2016 outlook for selected property sub-sectors, namely office and retail, is one of caution due to supply and demand mismatch. Meanwhile, the healthcare/ institutional, hotel/ leisure and logistics/ industrial sectors are expected to be more resilient due to sustained demand in the healthcare and education industries and tight supply in the logistics/ industrial segment. The e-commerce business trend has led to demand for logistics warehouses.

We note from our survey that despite the challenging environment, savvy investors such as developers, lenders and fund/ REIT managers see opportunities in the property market. The slew of high impact infrastructure and investment projects (on-going and proposed) is positive for medium term property growth.

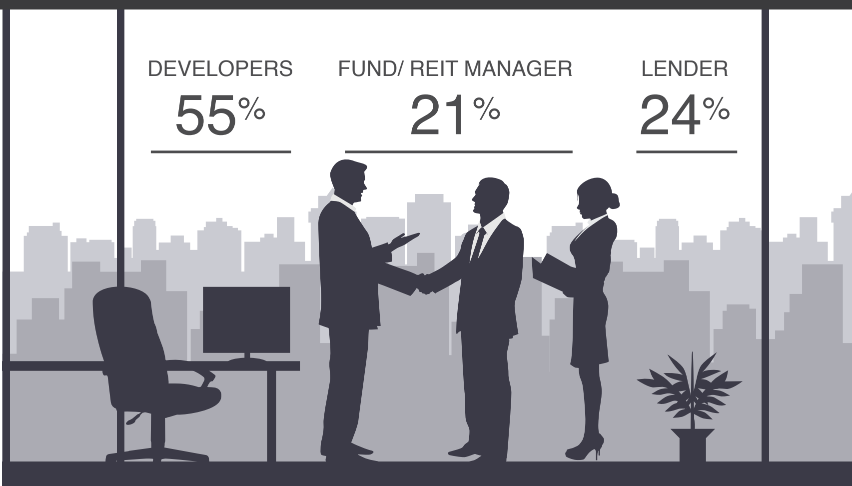
As we welcome the Year of the Fire Monkey with its mischievous and crafty traits, and amid domestic and external headwinds, we should seize opportunities in a slowing market.

Thank you and happy reading.

Sarkunan Subramaniam, Managing Director, Knight Frank Malaysia

Survey Respondents

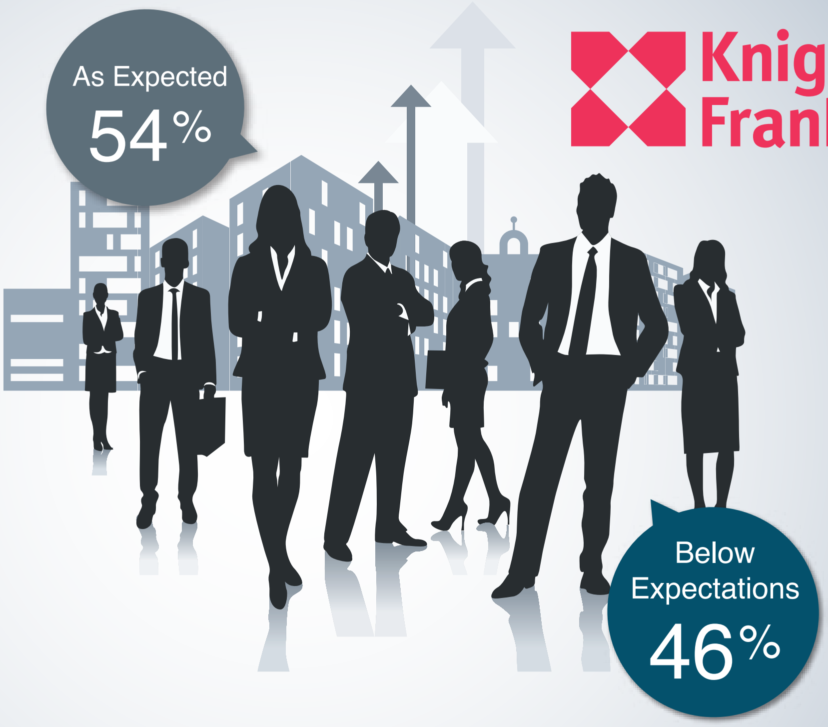
The survey targeted some 700 respondents in the senior management levels across the property industry. About half of the respondents (55%) were developers with the balance comprising a fair mix of commercial lenders (24%) and fund/REIT managers (21%), reflecting players in the commercial real estate market



2015 – Past Snapshot

For the year 2015, more than half of the respondents (54%) believed that the commercial real estate market had performed as expected whilst 46% of them opined that the market performance was below expectation in terms of yield, return or margin. None felt that market had out-performed.

The expectation early last year from most respondents was that 2015 would be worse off than 2014 and this sentiment fulfilled itself.



Favourable and Unfavourable Factors Affecting Commercial Real Estate Investment Sentiment in 2015

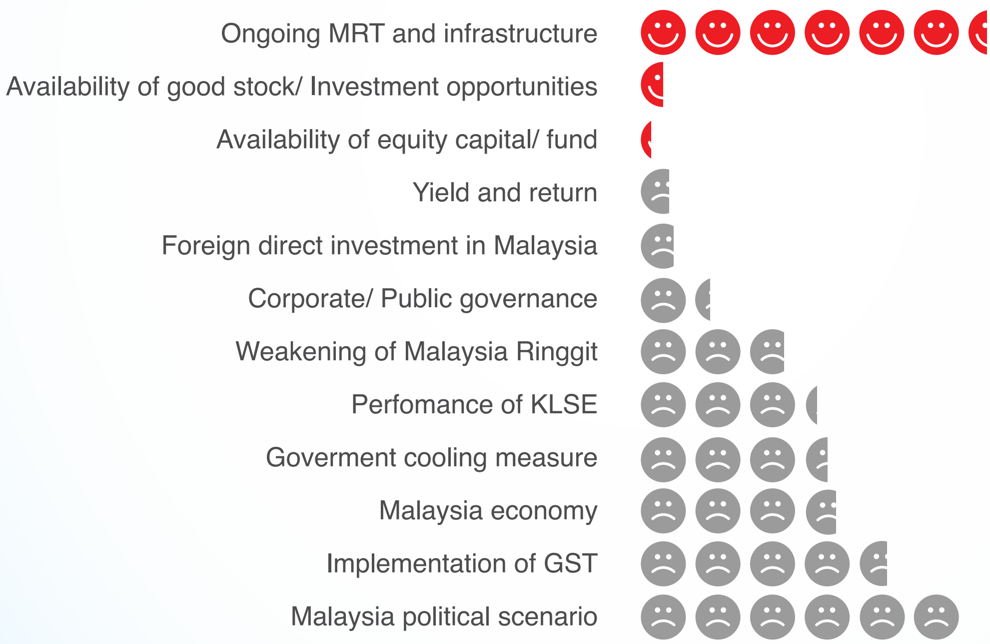
Negative factors outweigh the positive in 2015.

There were only three favourable factors with the on-going MRT and infrastructure project ranked first, well ahead of the two others, namely availability of good stock/ investment opportunities and availability of equity capital/ fund.

In terms of negative factors, the country's political scene was one of the great concern, followed by the unpopular GST, Malaysia's slowing economy, cooling measures, KLSE performance, ringgit depreciation and others.

It is also noted that the negative global media coverage of the politics have impacted the commercial real estate sentiment, affecting foreign direct investment (FDI) flow.

RANKING OF FAVOURABLE AND UNFAVOURABLE FACTORS IN THE COMMERCIAL REAL ESTATE INVESTMENT SENTIMENT IN 2015



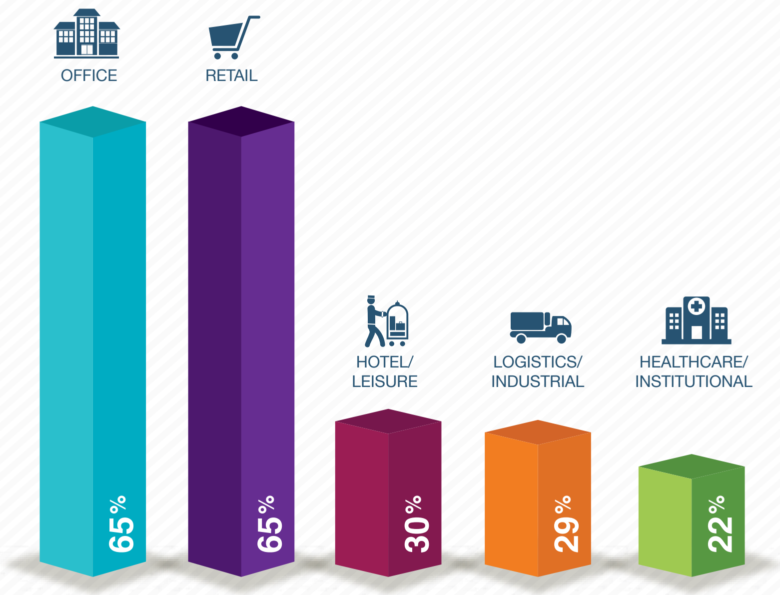
Favourable

Unfavourable

Note: Rankings calculated using the number of responses as scoring

Sub-sectors Invested/ Loaned/ Developed In 2015

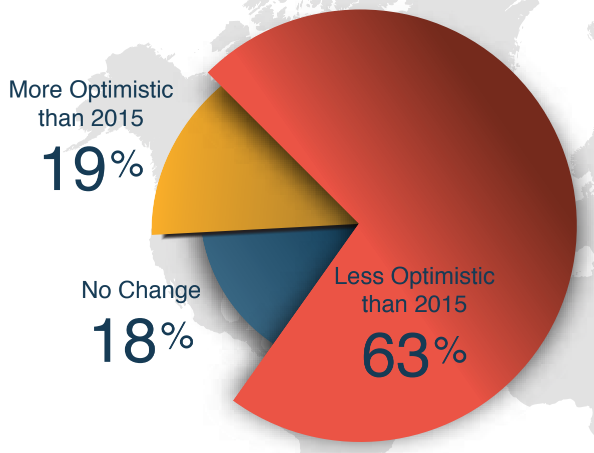
Players were active with 86% of the respondents having invested, loaned or developed in the commercial real estate market in 2015; mainly in the retail and office sub-sectors with 65% each, followed by the hotel/ leisure and logistics/ industrial segments with 30% and 29% respectively. The healthcare/ institutional sub-sector garnered 22% of the respondents' attention.



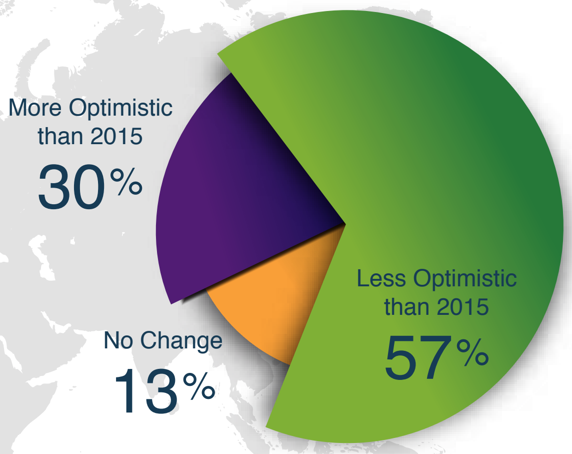
2016 – The Outlook

More than half of the respondents (63%) are less optimistic on the overall economic scenario for 2016 compared to 2015 with only 19% of them being more optimistic.

In terms of investment outlook, 57% of the respondents are less optimistic, followed by 30% who remained neutral, whilst the remaining 13% of the respondents are confident that the market will improve in 2016.



2016 OVERALL ASSESSMENT OF ECONOMIC CONDITION



2016 INVESTMENT OUTLOOK FOR COMMERCIAL PROPERTY

Commercial Sub-Sectors Investment in 2016

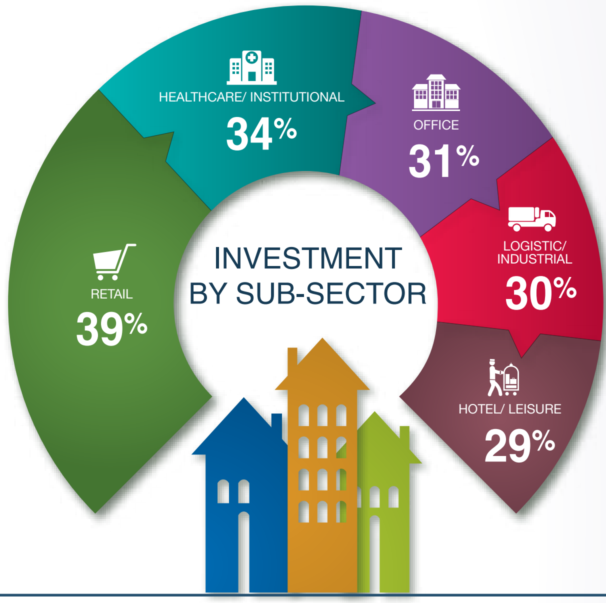
INVESTMENT IN COMMERCIAL SECTOR

The survey revealed that 72% of the respondents intend to invest in one or more commercial sub-sectors in 2016.

YES
72%

NO
28%

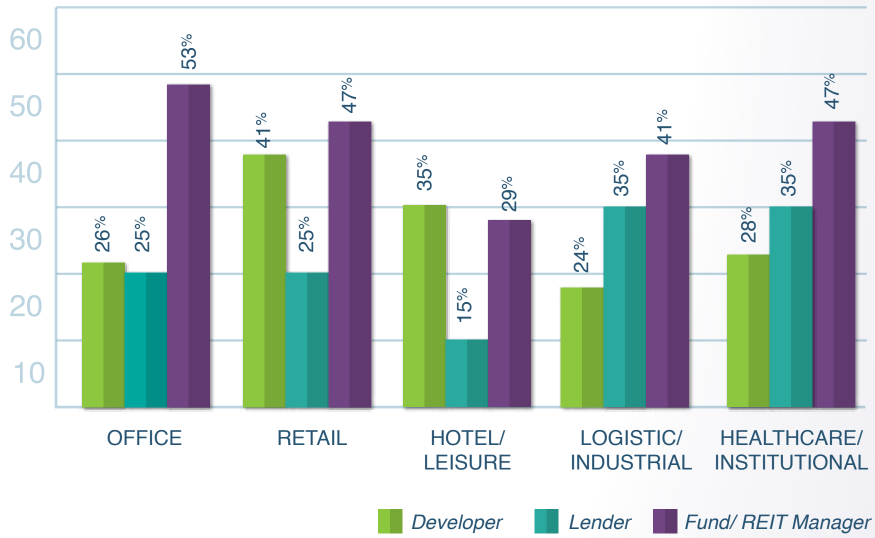
The retail segment was top choice with 39% interest whilst interests in other sub-sectors range from 29% to 34%. It is noted that developers continuing to complete the on-going retail projects could have skewed the interest for retail in 2016.



INVESTMENT BY INDUSTRY PLAYERS

Fund/ REIT managers are expected to be actively investing in 2016; seeking opportunities in a slow property market. 53% indicated their intention to invest in the office segment and 47% in the retail and healthcare/ institutional sub-sectors. This is provided yield expectations are met.

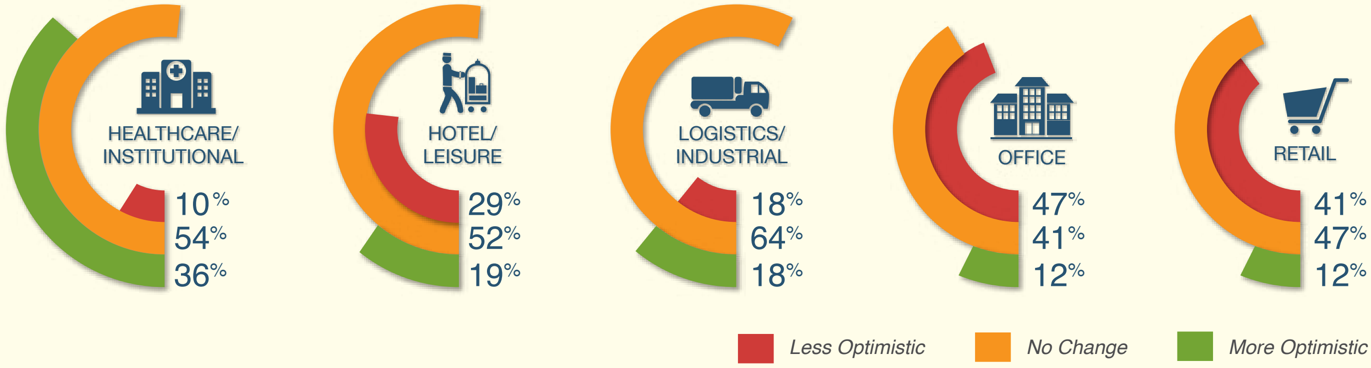
Meanwhile, although 41% of developers surveyed indicated that they will continue developing retail components, priority sector for lending is only 25% for the retail segment. This mismatch reflects challenges in funding the retail projects.



Commercial Sub-Sectors Expected Performance in 2016

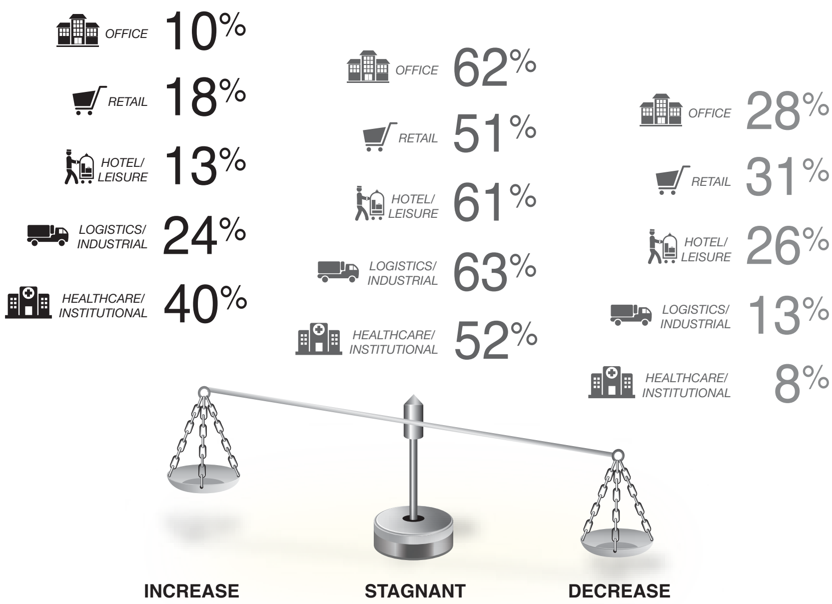
OVERALL PERFORMANCE BY SUB-SECTOR

36% of the respondents opined that the healthcare/ institutional segment will outperform the other sub-sectors whilst more than half of them remained neutral on the hotel/ leisure and logistics/ industrial sectors. Meanwhile, the outlook for the performances in the office and retail sub-sectors is less optimistic.



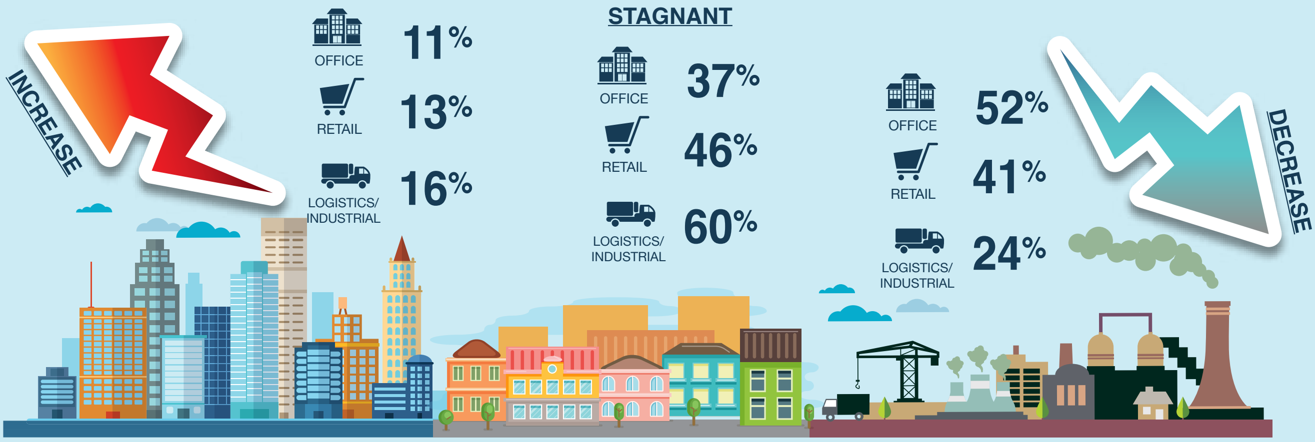
PERFORMANCE OF CAPITAL VALUES BY SUB-SECTOR

More than half of the respondents (51% to 63%) expect the capital values for all sub-sectors to remain unchanged although 40% of them foresee an increase in the values of properties related to the healthcare/ institutional sector. 31% and 28% of the respondents expect the capital values to decline in the retail and office sub-sectors respectively.



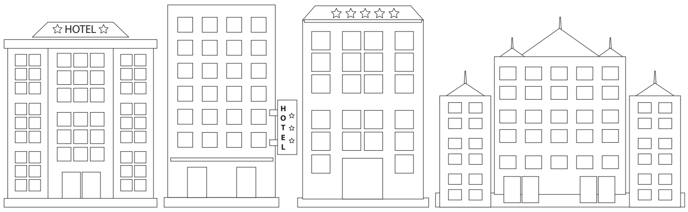
PERFORMANCE OF RENTAL VALUES FOR OFFICE, RETAIL AND LOGISTICS/ INDUSTRIAL SUB-SECTORS

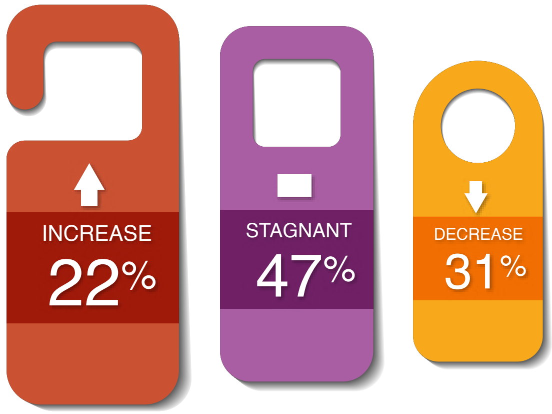
The respondents were generally less optimistic towards the office sector with 52% of them expecting falling rental values. In the retail and logistics/ industrial sub-sectors, 46% and 60% of the respondents surveyed, expect the rental values to remain flat.



PERFORMANCE OF AVERAGE ROOM RATES (ARR) FOR HOTEL SECTOR

The majority of the respondents (47%) expect flattish average room rates (ARR) for 2016. 22% of them are optimistic that the ARR will increase whilst the remaining 31% expect ARR to fall instead.





	INCREASE	STAGNANT	DECREASE
OFFICE	11%	34%	55%
RETAIL	12%	40%	48%
HOTEL/ LEISURE	23%	47%	30%
LOGISTICS/ INDUSTRIAL	16%	65%	19%

PERFORMANCE OF OCCUPANCY RATES FOR OFFICE, RETAIL, HOTEL/ LEISURE AND LOGISTICS/ INDUSTRIAL SECTORS

Most of the respondents surveyed (55% and 48%) expect a dip in occupancy levels for the office and retail sub-sectors respectively. As for the hotel/ leisure and logistics/ industrial sub-sectors, 47% and 65% of the respondents expect 2016 occupancy levels to remain stagnant.

	INCREASE	STAGNANT	DECREASE
OFFICE	15%	43%	42%
RETAIL	15%	48%	37%
HOTEL/ LEISURE	15%	54%	31%
LOGISTICS/ INDUSTRIAL	14%	70%	16%
HEALTHCARE/ INSTITUTIONAL	34%	59%	7%

YIELD PERFORMANCE BY SUB-SECTOR

Yields for the various sub-sectors are expected to remain fairly stable in 2016 although 42% and 37% of the respondents expect the office and retail sub-sectors to experience yield compression due to higher vacancy rates and declining rental income. However, 34% of them expect the healthcare/ institutional, sub-sector to have better yields.

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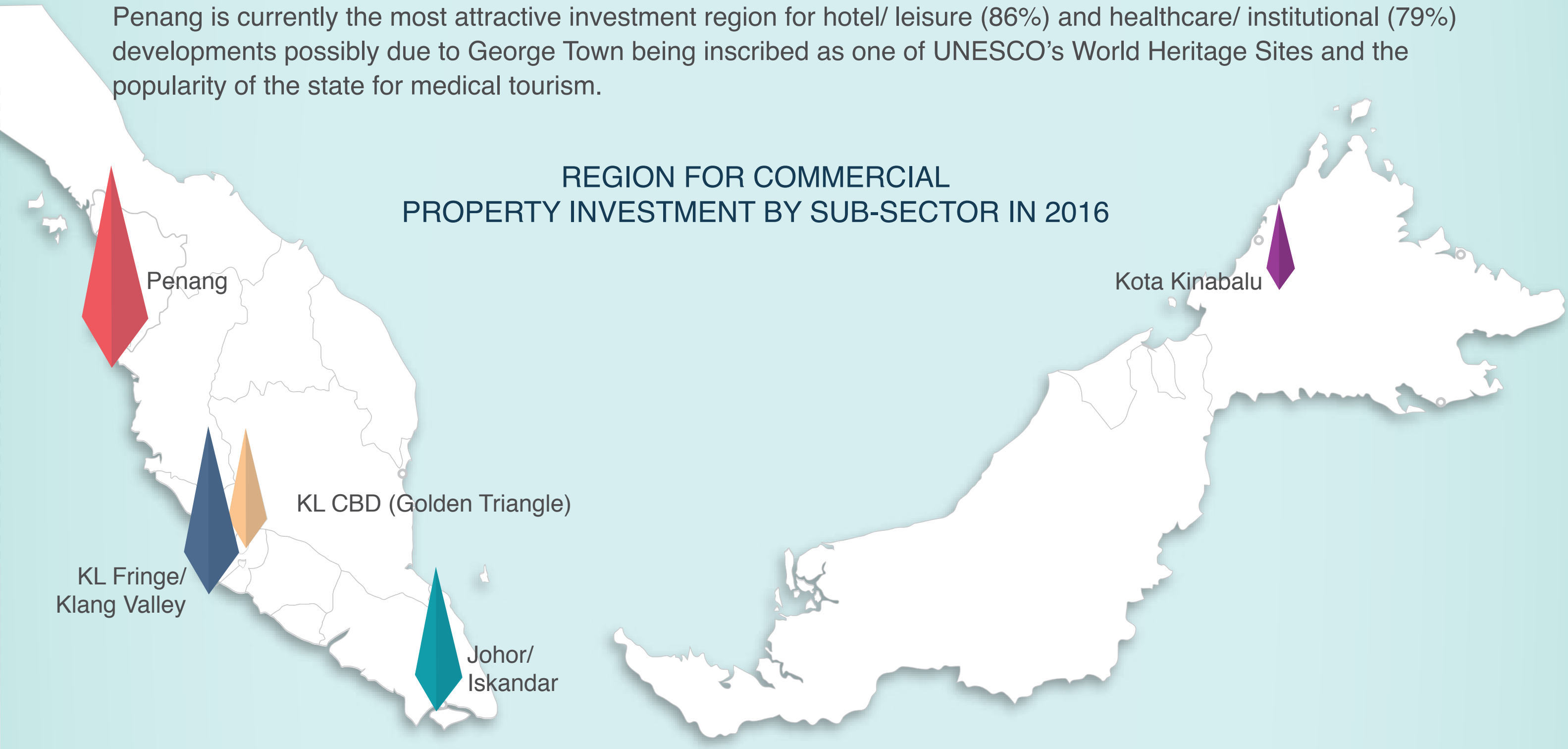
Region for Commercial Property Investment in 2016

Penang has overtaken Kuala Lumpur / Klang Valley as the most attractive region for investment, garnering 67% of the overall responses. KL CBD (Golden Triangle) which was the top investment choice in 2015 has retreated in the ranking to fourth position with 49% of responses after KL Fringe/ Klang Valley (56%) and Johor/ Iskandar (55%).

The healthcare/ institutional segment is the most attractive sub-sector for investment, garnering 69% of responses, followed by the hotel/ leisure segment (65%), logistics/ industrial (52%) and retail (50%). The least attractive segment for investment is the office sub-sector with a poor 36% response.

Penang is currently the most attractive investment region for hotel/ leisure (86%) and healthcare/ institutional (79%) developments possibly due to George Town being inscribed as one of UNESCO's World Heritage Sites and the popularity of the state for medical tourism.

REGION FOR COMMERCIAL
PROPERTY INVESTMENT BY SUB-SECTOR IN 2016



ATTRACTIVENESS OF COMMERCIAL SUB-SECTORS IN DIFFERENT REGIONS

REGION	OFFICE	RETAIL	HOTEL/ LEISURE	LOGISTICS/ INDUSTRIAL	HEALTHCARE/ INSTITUTIONAL	TOTAL AVERAGE
KL CBD (Golden triangle)	39%	50%	57%	35%	61%	49%
KL FRINGE / KLANG VALLEY	40%	53%	54%	62%	72%	56%
JOHOR / ISKANDAR	40%	49%	59%	61%	69%	55%
KOTA KINABALU	19%	38%	67%	37%	62%	45%
PENANG	44%	61%	86%	66%	79%	67%
TOTAL AVERAGE	**36%**	**50%**	**65%**	**52%**	**69%**	

Favourable And Unfavourable Factors Affecting Commercial Real Estate Investment Sentiment In 2016

The three favourable factors affecting commercial real estate investment sentiment in 2015 maintained their attractiveness in 2016. Apart from that, respondents are also positive on yield/ return and foreign direct investment flow this year.

Meanwhile, the country's political environment continues to weigh heavily on business sentiment. Other negative factors include the unpopular GST; Malaysia's slowing economy and weak KLSE performance, property cooling measures, ringgit depreciation as well as corporate/ public governance.

RANKING OF FAVOURABLE AND UNFAVOURABLE FACTORS ON THE COMMERCIAL REAL ESTATE INVESTMENT SENTIMENT IN 2016

Ongoing MRT and Infrastructure	Availability of Good Stock / Investment Opportunities	Availability of Equity Capital / Fund	Yield and Return	Foreign Direct Investment in Malaysia

Malaysia Political Scenario	Implementation of GST	Malaysia Economy	Performance of KLSE	Government Cooling Measure	Weakening of Malaysia Ringgit	Corporate / Public Governance

Note: Rankings calculated using the number of responses as scoring