MALAYSIA COMMERCIAL REAL ESTATE SENTIMENT SURVEY 2015

Some Words for the 2015 Goat

Welcome to our inaugural Commercial Real Estate Investment Sentiment survey. We believe 2015 is a good year to launch this survey as there is so much uncertainty surrounding the Malaysian commercial real estate's likely performance. It is predicted that at least for the first ten months of this year, the commercial investment market will see a softer subdued climate, as it will be grappling with rising cost of capital, selective lending and the implementation of the Goods & Services Tax. Opportunities will abound towards the end of the year when we are likely to see some pressured sales where prices become more realistic, driving yields to be attractive.

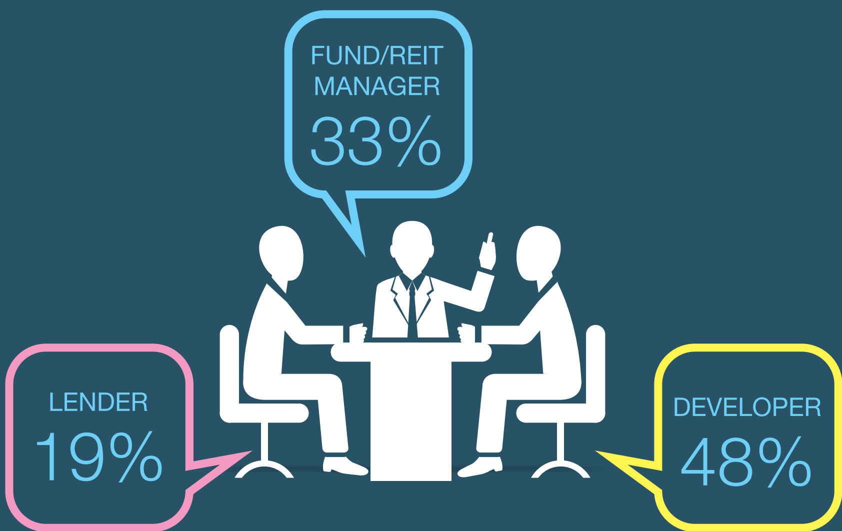
The healthcare/institutional and hotel/leisure sectors are likely to be more resilient whilst the office sector seems likely to see some strain. The retail sector will have a slightly poorer year but certainly better than offices. The logistics/industrial sector may actually turn up a good surprise to investors. But do remember whilst sentiments do drive the market, hard facts determine said sentiments.

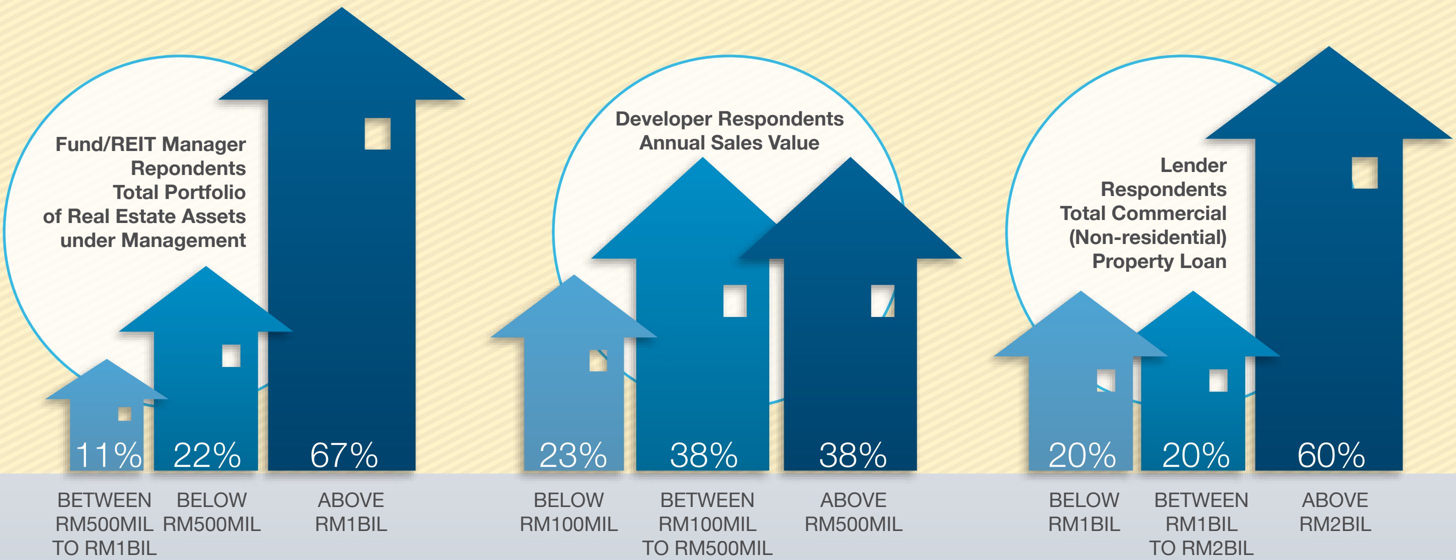
Thank you and happy reading.

Sarkunan Subramaniam, Managing Director, Knight Frank Malaysia

Survey Respondents

Our respondents comprised of a mixed representatives of developers, fund/REIT managers and commercial lenders. While almost half of our respondents were developers (48%), we had a fair share of respondents from fund/REIT managers (33%) and commercial lenders (19%) of senior management levels indicating a fair representation of the players in the commercial market.



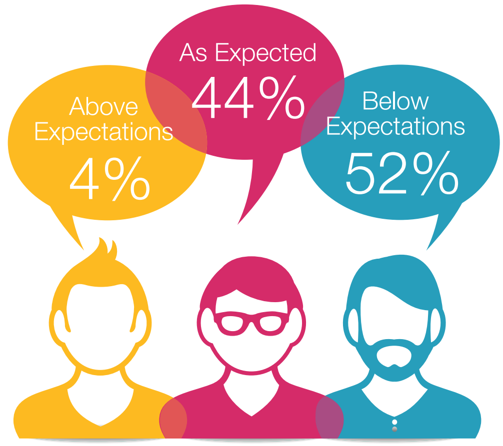


2014 – Past Snapshot

For the year 2014, more than half of the respondents (52%) believed that the commercial real estate market had performed below expectation in terms of yield, margin and return, while 44% were of the opinion that the commercial property market had performed as expected. A small minority (4%) felt the market performed better than expected.

"For Sunway REIT, key assets located in Sunway Resort City ("SRC") continued to enjoy healthy growth benefitting from the thriving integrated township. Hence, our portfolio remained resilient in 2014 despite the increasingly challenging operating environment and lack of rental income from Sunway Putra (Formerly known as Sunway Putra Place) due to the ongoing refurbishment. Going forward, the entire refurbishment of Sunway Putra is expected to be completed in CY2015 ." - Dato' Jeffrey Ng, CEO and Executive Director, Sunway REIT

78% of respondents were active in 2014, having invested in, lent to or developed commercial real estate in the year, whilst the rest remained dormant.

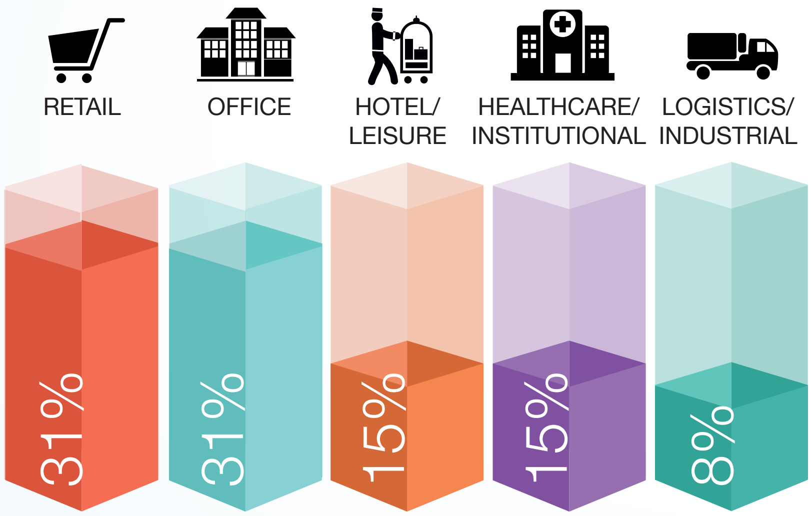


PERFORMANCE OF COMMERCIAL REAL ESTATE IN 2014 IN TERMS OF YIELD, RETURN OR MARGIN

The office and retail sub-sectors were most popular in 2014 with 31% of respondents from each sector having invested in, lent to and developed both sub-sectors throughout 2014. The hotel/leisure and healthcare/institutional sector followed with 15% each. While only 8% of respondents were active in the logistics/industrial sub-sector, it remains as an area with great potential to thrive in 2015 given its stable and promising cash flow performance throughout 2014.

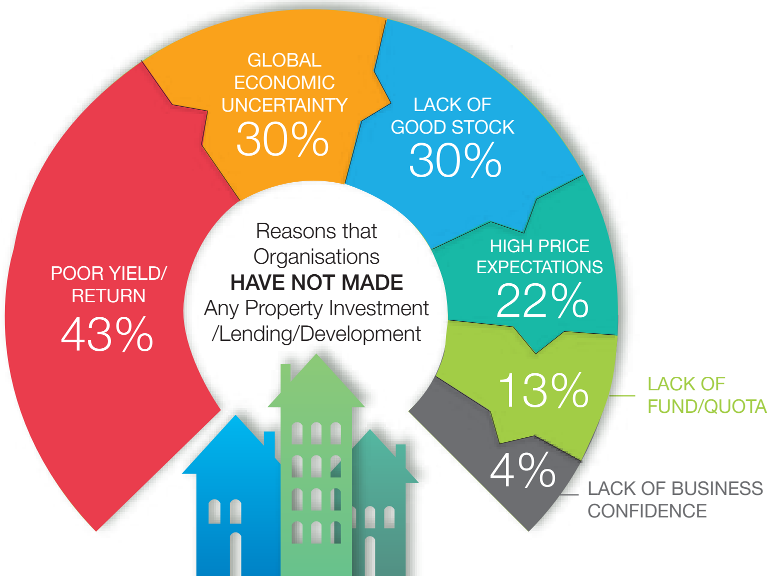
Our survey also revealed that 65% of those who have invested in, lent to and developed commercial real estate in 2014 had done the same in the residential sector while 35% solely invested in the commercial sector throughout 2014.

SUB-SECTORS INVESTED/ LENT TO/ DEVELOPED FOR THE YEAR 2014



More than 40% of the respondents that opted not to invest/lend or develop commercial real estate in 2014 cited poor yield/return as the main reason. 30% attributed their inactivity to global economic uncertainty and lack of good stock and the remaining 22% due to high price expectations.

"The yield is greatly affected by overambitious pricing on office and retail sectors. The commercial real estate market may still present great opportunity for investment if the prices adjust accordingly to the rising cost of construction and borrowing. However, vendors tend to be a little too assertive on their prices making yields unattractive." - Patrick Liau, Director, BlackRock Property Malaysia Sdn. Bhd. BlackRock Inc.



2015 – The Outlook

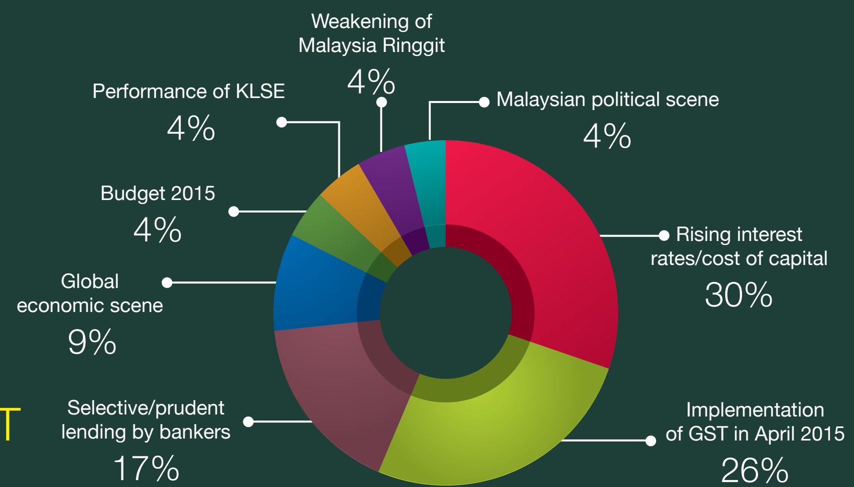
More than 80% of the respondents feel less optimistic about the overall economic scenario in 2015, while the rest believe that the market will remain unchanged from 2014. This same is reflected when asked about the investment outlook for commercial property for 2015, with 78% being less optimistic and the rest of the opinion that 2014 trends will continue. A key finding is that no respondents believe that the market will improve in 2015 citing rising interest rates and the implementation of the Goods and Service Tax (GST) in April 2015 as the significant reasons for this sentiment.

ASSESSMENT OF OVERALL ECONOMIC SCENARIO FOR 2015

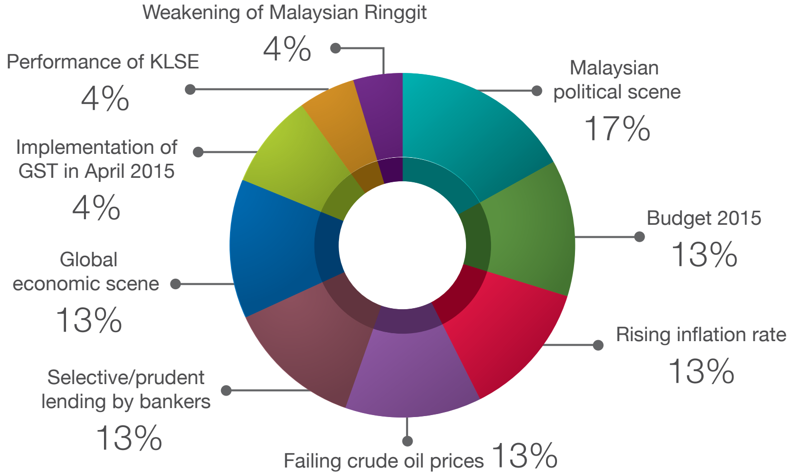
INVESTMENT OUTLOOK FOR COMMERCIAL PROPERTY IN 2015

Echoing the previous indication, rising interest rates/cost of capital appears to be the factor with the most impact on commercial investment in 2015 with a 30% response rate. This is closely followed with 26% of respondents citing the forthcoming implementation of the GST in April. Contrary to popular belief, the Malaysian political scene is considered to be the least important factor in having an impact on the commercial investment sentiment in 2015.

FACTORS RANKED **THE HIGHEST** IN TERMS OF IMPORTANCE IN HAVING AN IMPACT ON THE COMMERCIAL INVESTMENT SENTIMENT



FACTORS RANKED **THE LOWEST** IN TERMS OF IMPORTANCE IN HAVING AN IMPACT ON THE COMMERCIAL INVESTMENT SENTIMENT

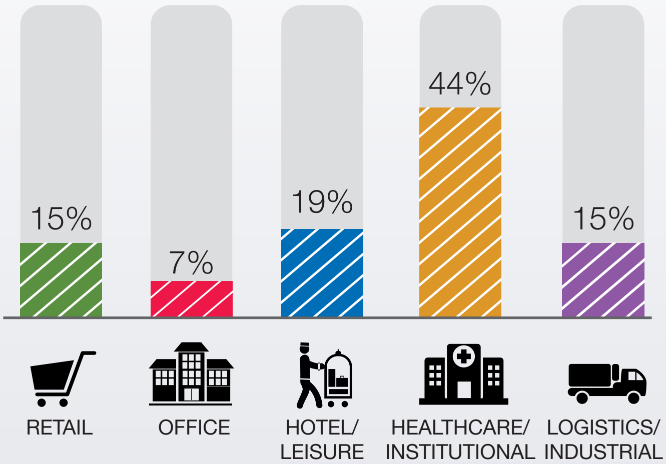


44% of our respondents believe that the healthcare/institutional sector is likely to outperform other sub-sectors in terms of return in 2015 while 56% felt that the office sector will underperform in 2015. Our analysis shows that the healthcare/institutional sector is expected to show the most growth in 2015 followed by the hotel/leisure sector. The general sentiment is that both the office and retail sectors will underperform in 2015 with respective responses of 56% and 30%.

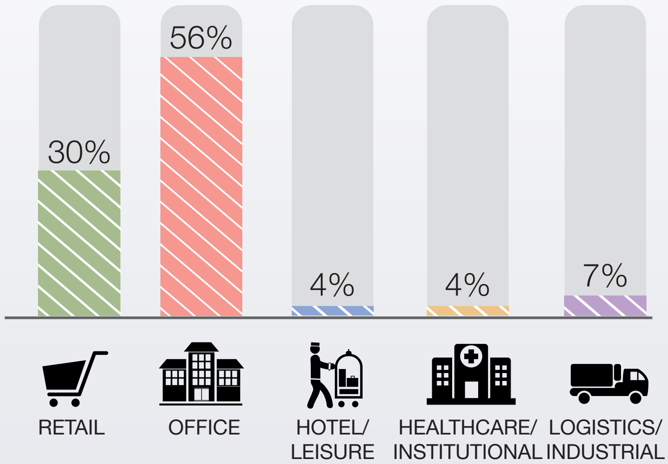
"Developers should undertake proper feasibility studies before venturing into any retail development. Good location still is and will always be a key factor and larger regional malls are the trend for 2015." - Dato' Soam, CEO & Managing Director, IJM Land

Our survey also revealed that more than half of the respondents are of the opinion that the residential property market will outperform the commercial property market in 2015 in terms of return/yield.

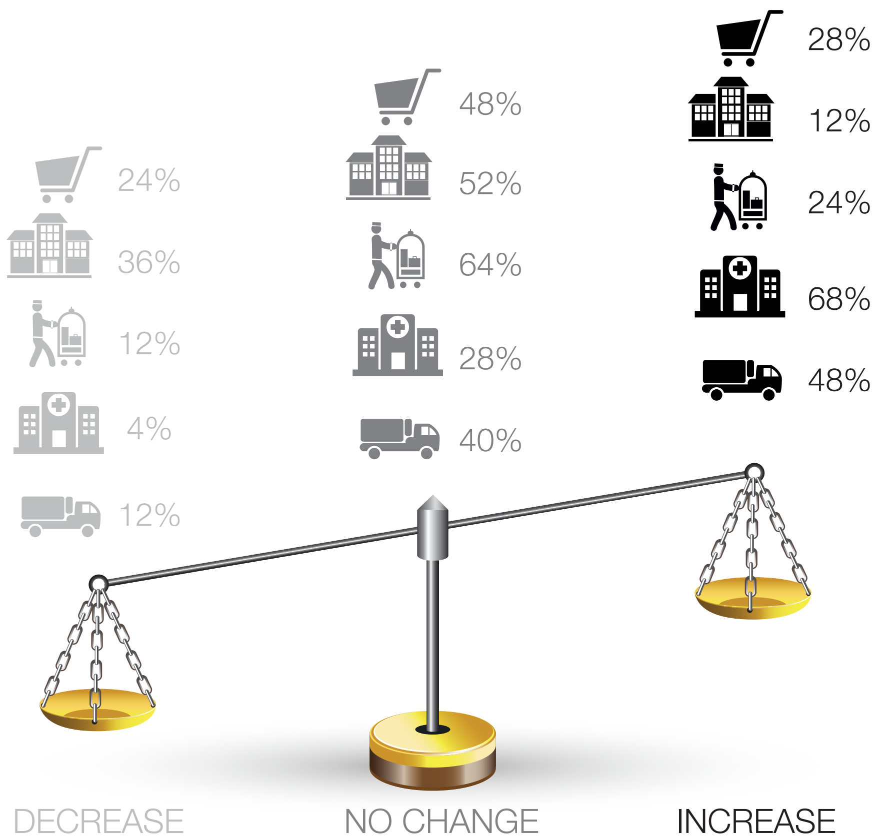
COMMERCIAL SUB-SECTOR THAT WILL **OUTPERFORM** IN TERMS OF RETURN IN 2015



COMMERCIAL SUB-SECTOR THAT WILL **UNDERPERFORM** IN TERMS OF RETURN IN 2015



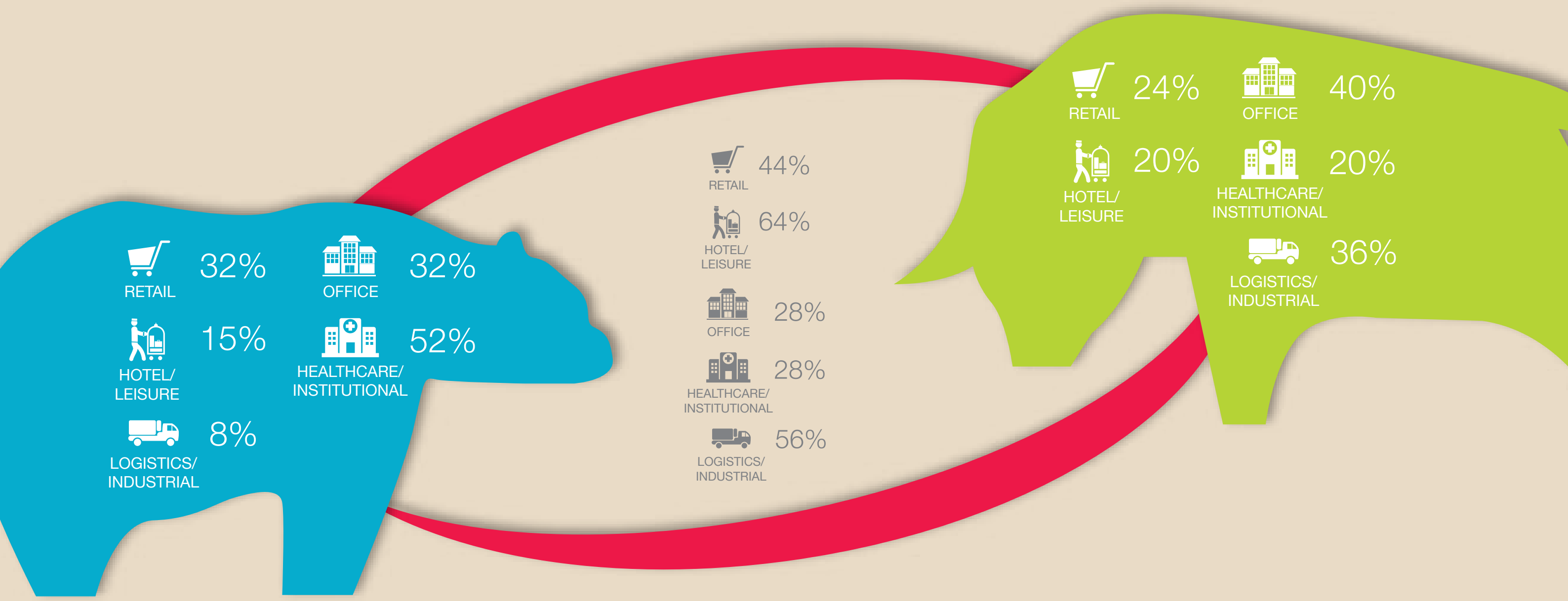
In terms of potential capital values performance, 68% of the respondents are of the opinion that capital values of the healthcare/institutional sector will increase in 2015. 64% of the respondents feel that there will be no change in capital values of the hotel/leisure sector in 2015 while 48% state that the logistics/industrial sector will see a rise in capital values. For the office sub-sector, 52% of the respondents believe there will be no change in the performance of capital values in 2015 while 36% feel that capital values will decline. The same is echoed in the Retail sub-sector with 48% of respondents opining there will be no change and 24% indicating a likely decline.



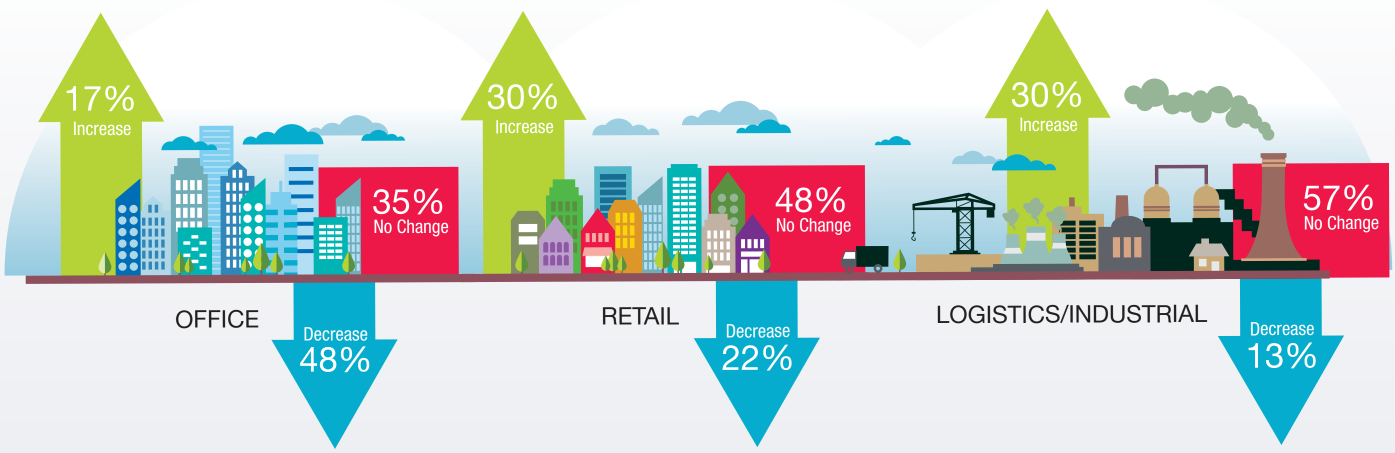
PERFORMANCE OF **CAPITAL VALUES** IN 2015 FOR EACH SUB SECTOR

When questioned on the potential performance of transaction cap rates/yields for the commercial sub-sectors, 52% of the respondents believe that yields for the healthcare/institutional sector will decrease in 2015 supporting the sentiment that the this sector will see an increase in capital values. Up to 64% of the respondents are of the opinion that the hotel/leisure sector will see no change in yields in 2015 while 56% and 44% of the respondents are of the same opinion about the logistics/industrial and retail sectors respectively. A rise in yields for the Office sector is a key prediction with 40% of the respondents. Overall commercial yields are predicted to be stable however office yields may trend upwards whilst healthcare/institutional yields may trend downwards.

PERFORMANCE OF TRANSACTION **CAP RATES/YIELD** IN 2015 FOR EACH SUB SECTOR



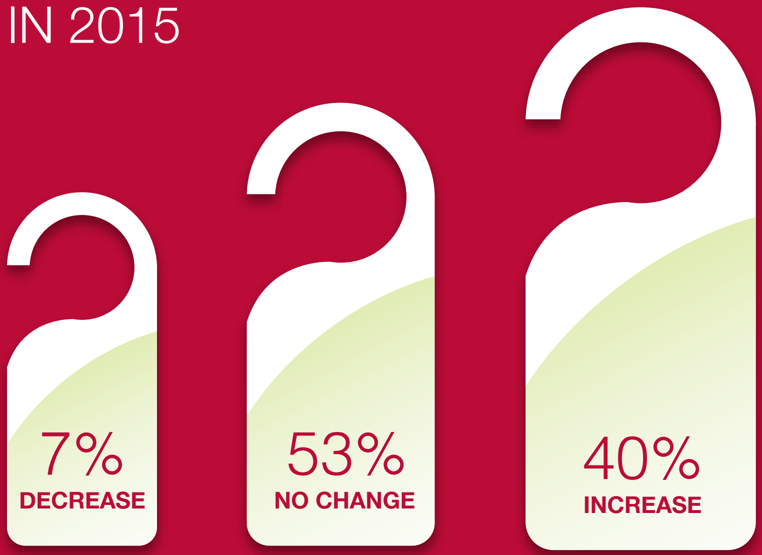
PERFORMANCE OF **RENTAL VALUE** IN 2015 FOR THE OFFICE, RETAIL AND LOGISTICS/INDUSTRIAL SECTORS



As far as rents are concerned, 48% of the respondents believe rental value of the retail sector is expected to remain unchanged in 2015 while another 30% believe that it will increase. The rental value of the office sector however is expected to decrease according to 48% of the with 35% saying no change. The opinion on the rental value for the logistics/industrial sector is mostly about 57% expecting it to remain unchanged while another 30% feel that it would increase in 2015.

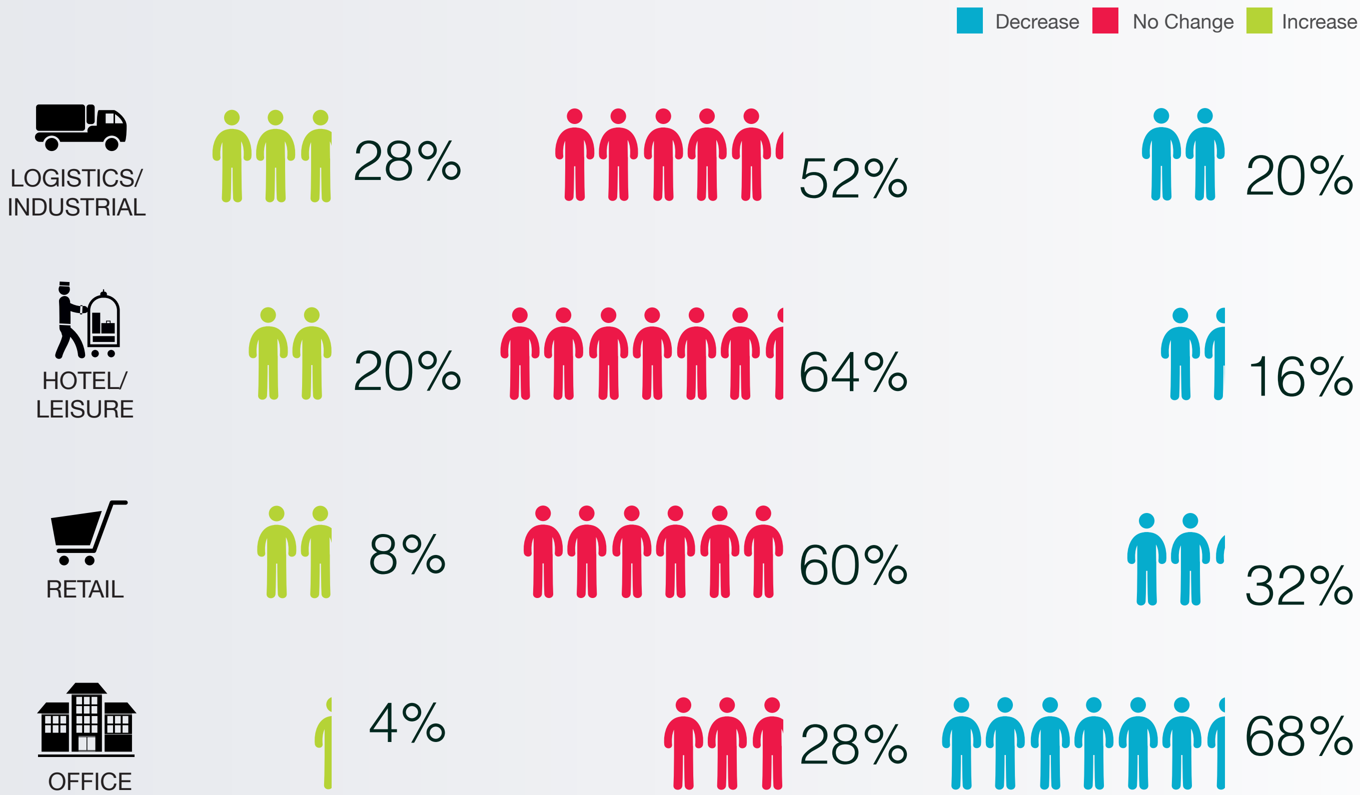
With regards to Bank Lending Rates, 62% of the respondents expect Bank Lending Rates to increase in 2015 while 38% expect no change indicating a significant rift in the overall sentiment

PERFORMANCE OF **AVERAGE ROOM RATES (ARR)** FOR HOTEL SECTOR IN 2015



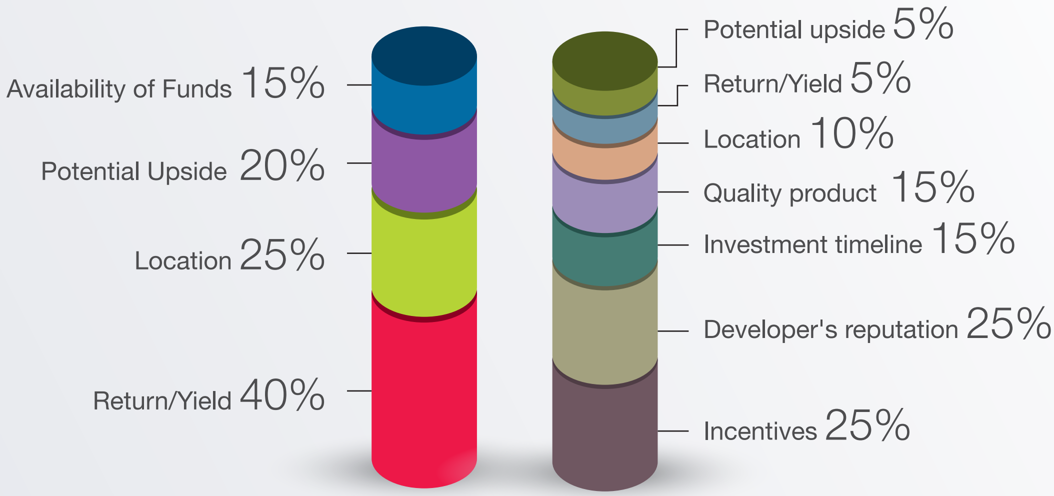
For the performance of Average Room Rates (ARR) in the Hotel sector, 53% of the respondents believe there will be no change with the ARR for hotels remaining the same while 40% are of the opinion that the ARR will increase over 2015.

In terms of occupancy rates, majority of the respondents believe that there will be no change in the retail, hotel/leisure and logistics/industrial sectors while a decline is anticipated for the office sector and an optimistic 28% predicting an upwards trend for the logistics/industrial sector in 2015.



PERFORMANCE OF **OCCUPANCY RATES** FOR OFFICE, RETAIL, HOTEL/LEISURE AND LOGISTICS/INDUSTRIAL SECTORS IN 2015

Majority (40%) of the respondents consider Return/Yield as the most important factor when making a commercial property investment, followed by Location (25%) and Potential Upside (25%). Incentives and Developer's Reputation were the lowest ranked factors.



FACTORS RANKED THE **HIGHEST** IN TERMS OF PRIORITY

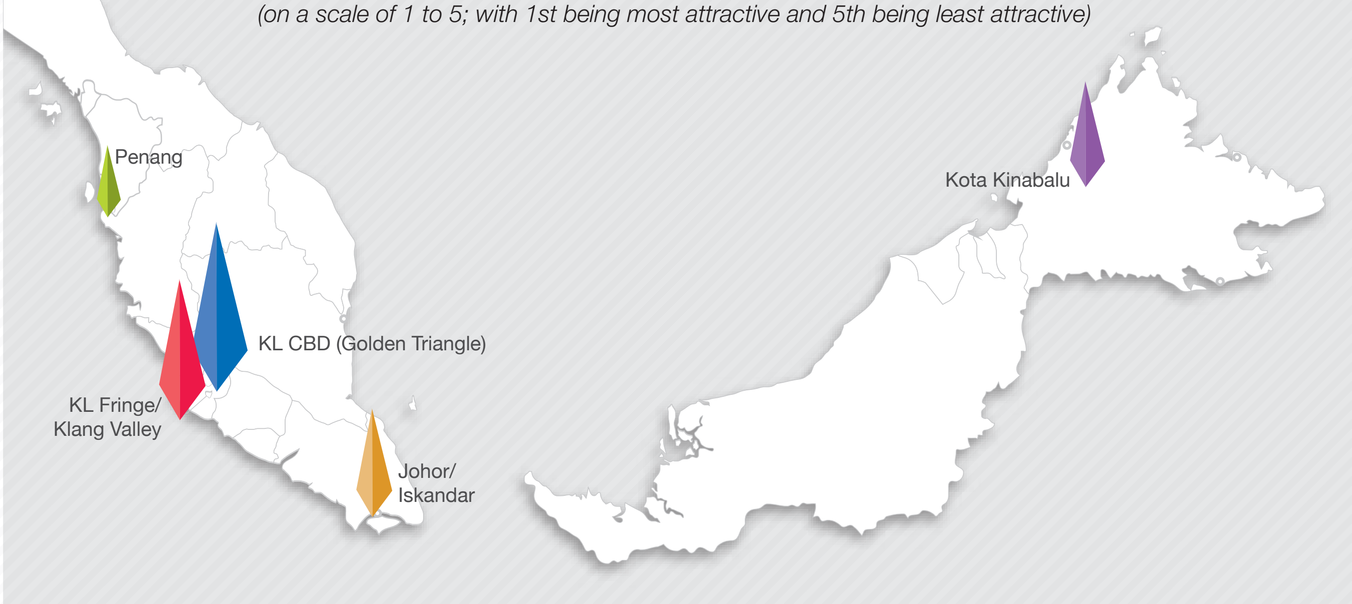
FACTORS RANKED THE **LOWEST** IN TERMS OF PRIORITY

Our analysis of the responses gathered has shown that the KL Central Business District (CBD) and Golden Triangle is still the most attractive region in Malaysia for commercial real estate investment for 2015. Up to 57% of the respondents ranked the KL CBD/Golden Triangle as their prime choice followed by 30% opting for the KL Fringe/Klang Valley instead, making it the second most attractive region for commercial investment. Kota Kinabalu and Johor/Iskandar had poorer responses with 87% and 61% marking them as their fourth and fifth preference.

For 2015, 85% of the respondents plan to invest in, lend to, and develop commercial real estate while a handful of 15% opted not to.

REGION FOR COMMERCIAL PROPERTY INVESTMENT

(on a scale of 1 to 5; with 1st being most attractive and 5th being least attractive)

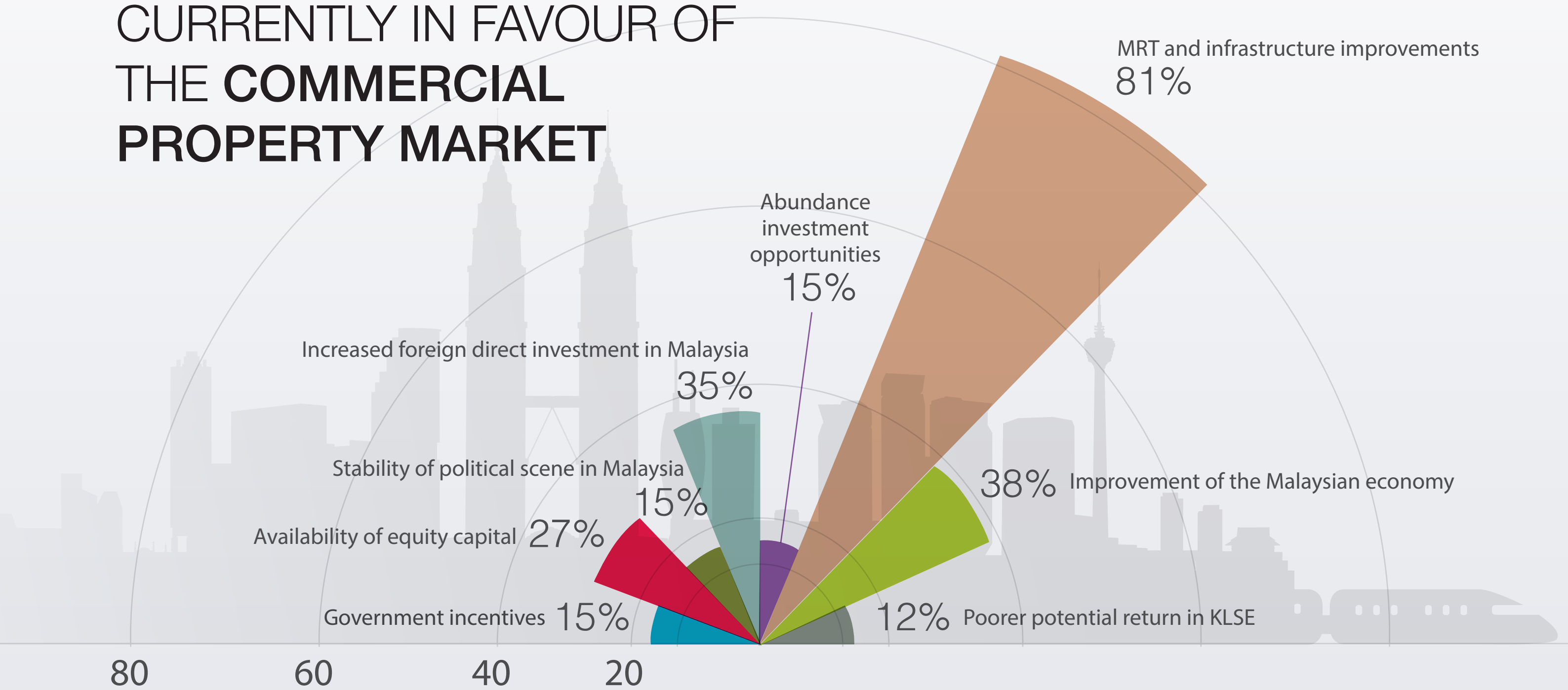


	KL CBD (Golden Triangle)	KL Fringe/ Klang Valley	Johor/ Iskandar	Kota Kinabalu	Penang
First	**57%**	**30%**	**9%**	**4%**	**0%**
Second	26%	48%	4%	4%	17%
Third	0%	13%	26%	4%	57%
Fourth	13%	0%	35%	26%	26%
Fifth	4%	9%	26%	61%	0%

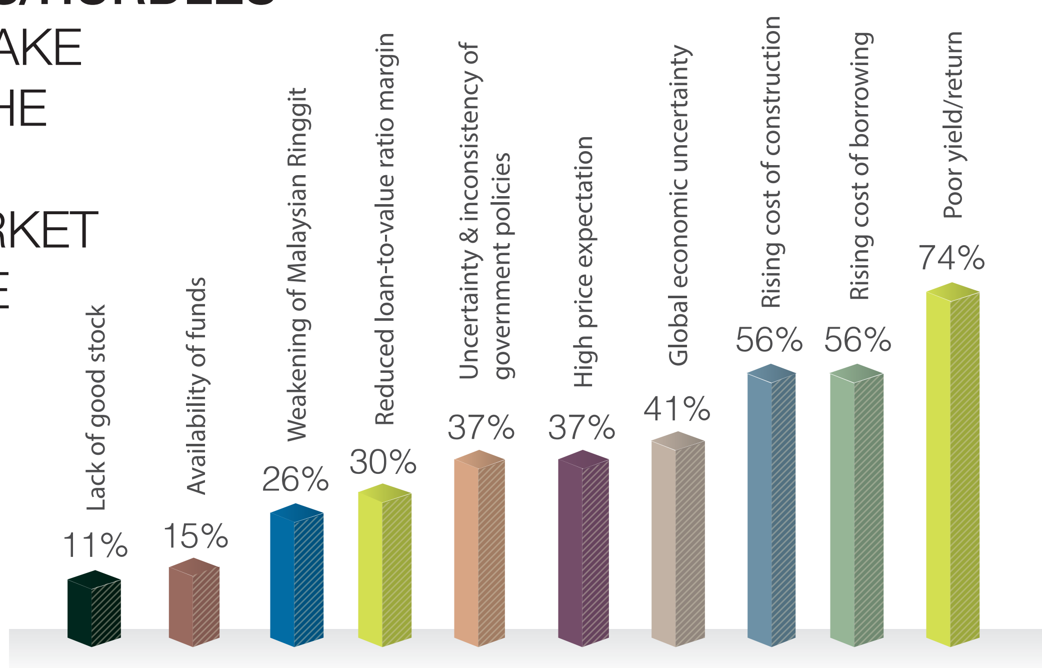
The on-going MRT development and infrastructure improvement is deemed the most important factor currently in favour of the commercial property market as seen by the high number of respondents (81%) while 38% believe that the improvement of the Malaysian economy will boost this sector.

On the other hand, 74% of the respondents believe that poor yield/return is the primary risk/hurdle that could hinder investment in the commercial property market in 2015 whilst 56% ranked both rising cost of construction and rising cost of borrowing as primary risks.

PRIMARY FACTORS CURRENTLY IN FAVOUR OF THE **COMMERCIAL PROPERTY MARKET**



PRIMARY RISKS/HURDLES THAT COULD MAKE INVESTING IN THE COMMERCIAL PROPERTY MARKET UNFAVOURABLE



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