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COUNTRY REPORT

MALAYSIA COUNTRY REPORT

HANOI, VIETNA M

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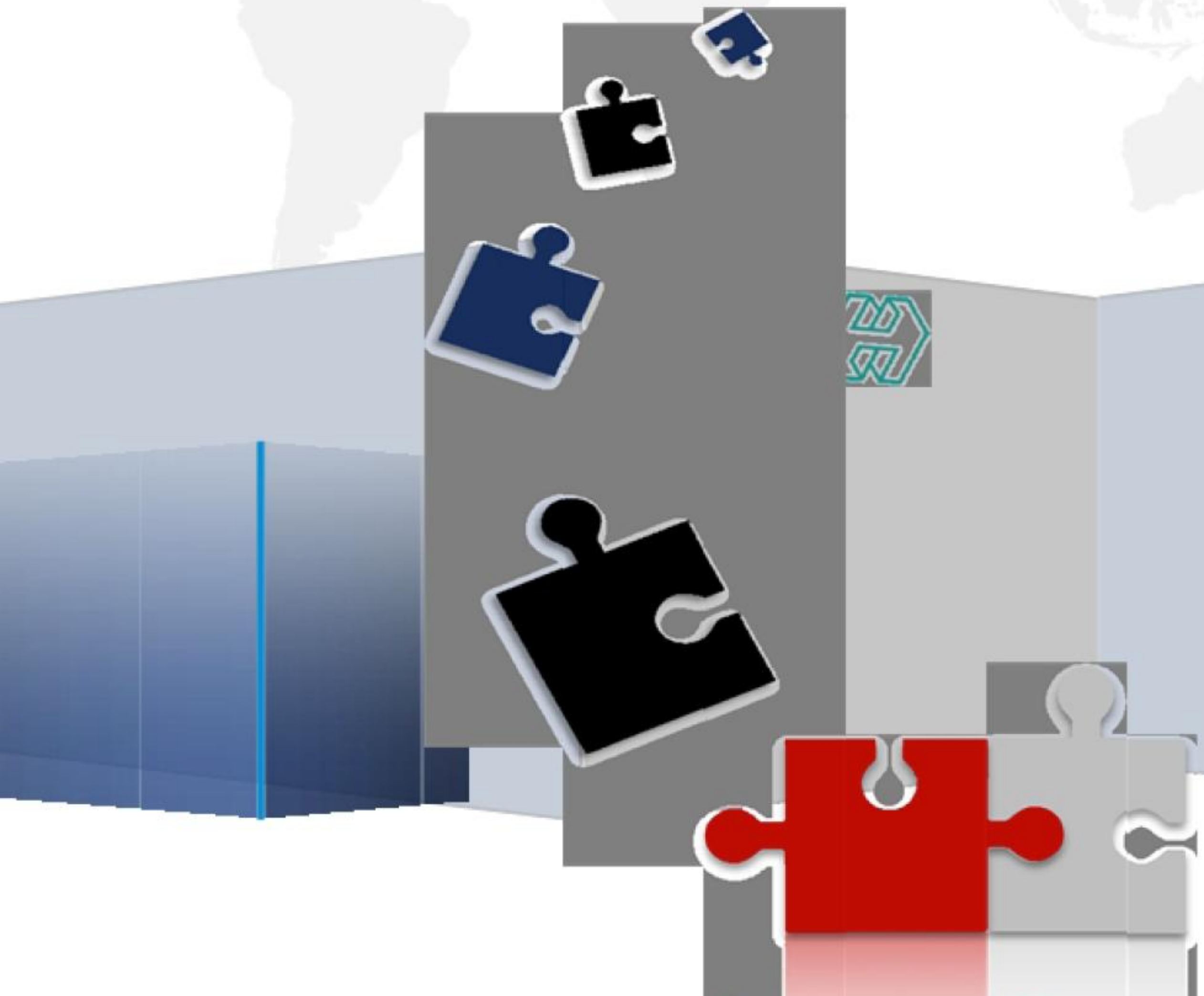

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1. Executive Summary

Malaysia, a country that is strongly dependent on world trade, was adversely affected when world trade plummeted in 2009 following the global financial crisis triggered by the subprime imbroglio in the US. The world's output dropped by 0.6%[1] while trade declined by 12.2% in 2009[2]. As a result, the Malaysian economy experienced a significant contraction of 1.7% in 2009, the lowest annual growth registered since 2001 (0.3%). The decline was notably steeper in the first half of 2009 (1H09: -5.1%), but rebounded with positive growth in the second half of the year (2H09: 1.6%). The decline was evident in the first quarter of 2009 (-6.2%) after four out of the five economic sectors experienced contractions in their respective quarterly growth (agriculture sector: -4.4%; mining and quarrying sector: -5.2%; manufacturing sector: -17.9%; and services sector: -0.2%). Nonetheless, the economy started to show signs of recovery during the second half of the year attributable mainly to the effect of the allocation for two stimulus packages worth RM67 billion and the accommodative monetary policy to counter the impact of the world financial crisis. For 2010, Malaysia's economy is forecasted to grow by 7%, slightly lesser than the World Bank's projected growth rate of 7.4%.

Bucking the trend, in 2009, the construction sector managed to grow by 5.8% notwithstanding the challenging economic climate. The high construction growth rate was due to projects from the two stimulus packages, the majority of which was allocated to development expenditure. In addition, the completion of several construction projects awarded in the earlier phases of the Ninth Malaysia Plan (9MP) contributed to the robust growth of the construction sector. Most of the construction projects in 2009 came from the non-residential, social amenities and infrastructure segments, while the residential segments took a tumble amid consumers' concerns over the economic instability, the wait-and-see approach by developers and the weak economic climate which, in turn, forced banks to tighten the conditions for loan approvals that ultimately affected construction developers.

The share between public and private projects closed to a ratio of 48:52 mainly because of the high Federal Government expenditure generated by the two stimulus packages and the deferment of private projects due to instability in the economic climate. The construction material prices also returned to the 'normal' level in 2009 after increasing in 2008 following the hikes in fuel prices. The average daily wages for construction personnel remained stable throughout 2009. For 2010, the construction sector is projected to grow at 4.9% fuelled by the award of, at least, RM72 billion worth of construction projects, whilst, in 2011, growth is forecasted to moderate to 4.4%, nonetheless, with at least RM82 billion worth of construction projects expected to be awarded.

2. Macroeconomic Review

2.1. Overview of National Economy

The Malaysian economy contracted by 1.7% in 2009 with two of the five economic sectors posting negative annual growth. The biggest contraction for the year 2009 was experienced by the manufacturing sector (-9.4%) after weak demand in world trade led to a contraction in its annual growth. The construction sector registered better-than-average performance amid the slowdown in the general economy registering among the biggest growth rate lately at 5.8%. This was followed by the services (2.6%) and agriculture sectors (0.4%) which continued to sustain their growth, while the mining and quarrying sector continued its decline from -2.4% in 2008 to -3.8% in 2009.

Table 1- Growth of Malaysia Gross Domestic Product (GDP) (%)

Sector	2005	2006	2007	2008	2009	2009			
						Q1	Q2	Q3	Q4
Agriculture	2.6	5.2	1.3	4.3	0.4	-4.4	0.4	-0.4	5.9
Mining and Quarrying	-0.4	-1	2	-2.4	-3.8	-5.2	-3.5	-3.6	-2.8
Manufacturing	5.2	6.7	2.8	1.3	-9.4	-17.9	-14.5	-8.6	5
Construction	-1.5	-0.3	7.3	4.2	5.8	1.2	4.5	7.9	9.3
Services	7.2	7.4	10.2	7.4	2.6	-0.2	1.7	3.4	5.2
GDP	5.3	5.8	6.5	4.7	-1.7	-6.2	-3.9	-1.2	4.4

* GDP at constant price 2000.   Source: BNM Monthly Statistical Bulletin August 2010

Table 2 - Value of Malaysia Growth Domestic Product (GDP) (RM million)

Sector	2005	2006	2007	2008	2009	2009			
						Q1	Q2	Q3	Q4
Agriculture	35,835	37,701	38,177	39,828	39,992	8,957	9,837	10,734	10,465
Mining and Quarrying	42,472	42,030	42,881	41,831	40,246	10,300	9,825	9,979	10,142
Manufacturing	137,940	147,154	151,257	153,171	138,809	31,770	33,682	36,502	36,855
Construction	14,685	14,639	15,707	16,366	17,321	3,851	4,306	4,680	4,484
Services	230,043	247,099	272,406	292,555	300,153	70,496	73,489	76,730	79,438
GDP	449,250	475,526	506,341	530,181	521,095	121,660	127,256	134,717	137,463

*GDP at constant price 2000. Source: BNM Monthly Statistical Bulletin August 2010

** Numbers may not necessarily add up due to rounding.

2.2. Main Economic Indicators

2.2.1. Agriculture Sector

The Agriculture sector grew by 0.4% for the year 2009 after a decline in the output of major agriculture commodities such as rubber, saw logs and cocoa in the first half of 2009. The rubber output fell by 20.2% to 856,000 tonnes in 2009 (2008: 1,072,000 tonnes), while major commodities such as saw logs and cocoa fell by -10.9%, and -35.1% respectively following low production output. Crude palm oil meanwhile decline by -1.0% largely caused by low commodity prices (2009: RM2,236 per tonnes) after experiencing two years of relative high prices (2007: RM2,388 per tonnes; 2008: RM3,085 per tonnes).[3]

2.2.2. Mining and Quarrying Sector

Along depleting natural resources, the mining and quarrying sector contracted by 3.8% for 2009. The decline was experienced throughout the years in 2009 (Q1: -5.2%; Q2: -3.5%; Q3: -3.6%; Q4: -2.8%). The negative growth was mainly attributed to the reduction of three major outputs of tin concentrates (-7.4%), crude oil & condensates (-4.1%) and natural gas (-4.0%). The output of crude oil moderated following poor prices in the international market. Based on the Malaysia's TAPIS blend weekly database, the price of crude oil fell to the lowest in January 2009 with an average price of US$ 45.96 per barrel. However, the price slowly expanded in the following months and attained its highest in November 2009 with an average price of US$ 80.20 per barrel.[4]

2.2.3. Construction Sector

For the fiscal year 2009, the construction sector expanded by 5.8% as against other economic sectors. Strong growth was reflected in the second quarter of 2009 (2Q09: 4.5%) and remained so throughout the year (Q309: 7.9%; Q409: 9.3%). The strong growth for the most part of 2009 was mainly driven by the effects of the two stimulus packages that were announced in November 2008 and March 2009.

Meanwhile, the housing price index fell to its lowest at 1.5% since 2001 when it recorded 1.1% (2000 = 100) after registering 4.7% in 2008.[5] The residential sub-sector experienced mixed performance in 2009 as the weak economy resulted in slow property sales early in the year. However towards the end of 2009, private projects started to rebound owing to growing consumer confidence that persuaded developers to resume projects postponed earlier due to the uncertainty in the economy.

2.2.4. Manufacturing Sector

The biggest decline was experienced by the manufacturing sector which contracted by 9.4% in 2009. The major decrease could be seen in the first three quarters of 2009, but regained its momentum with positive growth after exports started to pick up in the last quarter of 2009 (Q109: -17.9%; Q209: -14.5%; Q309: -8.6%; Q409: 5.0%). The positive growth during the fourth quarter was due to the increase in the output of food, beverages and tobacco (9.9%), petroleum, chemical, rubber and plastic (8.1%) and wood products, furniture, paper products and printing (5.6%).

For the year 2009, sales of manufactured products fell by 19.0% to RM469.5 billion (2008: RM579.3 billion), in response to the large contraction during the first quarter of 2009. Gradual improvements, however, could be seen during the subsequent quarters (Q109: RM104.5 billion; Q209: RM112.1 billion; Q309: RM123.9 billion; Q409: RM129.0 billion).[6]

2.2.5. Services Sector

The services sector recorded smaller but sustained growth of 2.6% in 2009 as against those of previous years (2007: 10.2%; 2008: 7.4%). Nearly every service sub-sectors registered a decline in 2009 except for the communication sub-sector that registered a strong growth of 6.0% to RM21,619 million (2008: RM20,404 million). The biggest decline was experienced by the transport and storage sub-sector that shrank by 2.8% to RM19,733 million. It reflected the weak environment in the export market manifested by the low demand for storage services at ports.

On the average, the services sector contributed 6.5% annually from 2001 to 2008, but the negative growth in the first quarter 2009 (: -0.2%) contributed significantly towards the smaller annual growth in 2009. Nevertheless the services sector in 2009 was still the largest contributor to the economy compared to its contribution in the preceding years (2007: 53.8%; 2008: 55.2%; 2009: 57.6%).

2.2.6. Demographic Indicator

In 2009, labour force expanded by 0.8% to 12,061,100 persons (2008: 11,967,500 persons), while employment rose slightly by 0.3% to 11,609,100 persons (2008: 11,576,500 persons). The unemployment rate rose by 3.7%, largely due to retrenchment of workers from the manufacturing sectors as factories began to cut productions. The retrenchment of workers was distinctly higher in the first quarter of 2009 but continued to ease in the following quarters (Q109: 12,590 persons; Q209: 7,470 persons; Q309: 2,879 persons; Q409: 2,125 persons) and is expected to further consolidate in 2010 given the positive economic forecast for 2010.

The majority of retrenchments came from the manufacturing sector as 9,778 or 77.7% workers were laid off in the first quarter of 2009. The retrenchments gradually decreased in the second half of 2009 as economic performance improved and as world trade began to pick up in late 2009 (Q209: 5,307 persons; Q309: 1,411 persons; Q409: 1,354 persons). On a positive note, inflation decrease to 0.6% after deflating from a high rate of 5.4% in 2008. The decline which began in August 2008 continued well into 2009 after the sluggish economic climate eased the demand pressure, from increasing further.

Table 3 - Demographic Indicator

	2005	2006	2007	2008	2009*
Population (million persons)	26.1	26.6	27.2	27.7	28.3
Annual Change (%)	2	1.9	2.3	1.8	2.2
Employment ('000 persons)	10,892.80	11,159.00	11,398.00	11,576.50	11,609.10
Annual change (%)	4.1	2.4	2.1	1.6	0.3
Labour Force ('000 persons)	11,290.50	11,544.50	11,775.10	11,967.50	12,061.10
Annual Change (%)	4.1	2.2	2	1.6	0.8
Unemployment Rate (% of labour force)	3.5	3.3	3.2	3.3	3.7
Inflation Rate (%)*	3	3.6	2	5.4	0.6

* Inflation rate year 2005 is based on year 2000.

* Inflation rate year 2006-2009 is based on year 2005.

Source: BNM Annual Report 2009

2.2.7. Financial Indicator

The move by the central bank of Malaysia, Bank Negara Malaysia (BNM) to reduce the Overnight Policy Rate (OPR) and Statutory Reserve Requirements (SRR) in 2009 also helped to cushion the impact on the domestic economy by encouraging public spending and enhancing liquidity. The OPR was reduced three times from November 2008 and February 2009 by a total of 150 basis points from 3.5% to 2.00%. The rate remain unchanged through the end of 2009. As for the SRR, it was reduced from 3.5% to 1.0% from November 2008 to March 2009.

The action by BNM has in turn resulted in lowering the interest rate of commercial banks. The average inter-bank interest rate fell from 3.07% in 2008 to 2.06% in 2009. This was also evident from the short term and long term interest rate of commercial banks that also moderated to 2.08% and 2.56% respectively. On average, the value of Ringgit Malaysia (RM) depreciated against U.S. Dollar (USD$) from RM3.33 in 2008 to RM3.52 in 2009.

Table 4 - Financial Indicator

Interest Rate	2005	2006	2007	2008	2009
Inter Bank Interest Rate (1 month)	3	3.09	3.09	3.07	2.06
Short Term Interest Rate (commercial bank fixed deposit for 3 months)	3	3.15	3.16	3.13	2.08
Long Term Interest Rate (commercial bank fixed deposit for 12 months)	3.7	3.74	3.71	3.68	2.56
Average Change (RM against USD$)	3.79	3.67	3.44	3.33	3.52

Source: Bank Negara Malaysia Monthly Statistical Bulletin August 2010

3. External Trade

3.1. Annual Export and Import

Export and import decreased equally at a rate of -16.6% for 2009. Export fell to RM553,295 million (2008: RM663,494 million), while import fell to RM434,940 million (2008: RM521,611 million). Trade surplus declined by 16.6% to RM118,355 million in 2009 (2008: RM141,883 million).

The decline for both export and import for 2009 was due to the weak demand in world trade and the impact could be seen in the first half of 2009 after export fell to RM250,495 million in contrast to the increase registered in the second half of 2009 (RM302,800 million). Import fell to RM191,258 million in the first half but expanded in the second half to RM243,681 million. This trend will not significantly affect external trade as the recovery shown by Asian economies in the last quarter of 2009 is expected to rejuvenate Malaysia's exports to put it back on its track.

Table 5 - Annual Export and Import

Years	Export		Import		Trade Balance	
	RM million	Annual Change	RM million	Annual Change	RM million	Annual Change
2005	536,234	11.40%	432,871	8.30%	103,363	26.60%
2006	588,965	9.80%	478,148	10.50%	110,818	7.20%
2007	604,300	2.60%	502,045	5.00%	102,255	-7.70%
2008	663,494	9.80%	521,611	3.90%	141,883	38.80%
2009	553,295	-16.60%	434,940	-16.60%	118,355	-16.60%

Source: Economic Planning Unit (EPU)

3.1.1. Major Trading Countries

In 2009, China surpassed Singapore and even United States to emerge as Malaysia's biggest trading partner. Almost all of Malaysia's trading partners experienced downfalls in export values except for China and Hong Kong. Singapore maintained its position as the major export market for Malaysia in 2009 with a total trade of RM77.2 billion or 14.0% (2008: RM97.8 billion). China surprisingly was the second biggest market for Malaysia exports products with RM67.24 billion or 12.2%. The figure represented a 6.4% increase from the previous year (2008: RM63.2 billion) and recorded the highest gain among Malaysian export trading partners. The U.S. fell to the third position with a total export of RM60.58 billion or 10.9%. The decline in export also contributed to the drop in imports. In 2009, China maintained its position as the main source of Malaysia import destination with a total value of RM60.6 billion or 13.9%. This was followed by Japan (RM54.29 billion or 12.6%) and U.S. (RM48.64 billion or 11.2%).

Table 6 - Major Trading Countries

Country	2007			2008			2009		
	Exports	Imports	Total Trade	Exports	Imports	Total Trade	Exports	Imports	Total Trade
China	53,038	64,713	117,751	63,210	66,882	130,092	67,241	60,660	127,901
Singapore	87,884	57,559	145,443	97,784	57,326	155,110	77,195	48,115	125,310
United States	94,485	54,158	148,643	82,728	56,454	139,182	60,584	48,635	109,219
Japan	55,648	64,799	120,447	71,800	65,126	136,926	54,424	54,288	108,712
Thailand	29,576	26,977	56,553	31,735	29,275	61,010	29,853	26,308	56,161
Korea	23,165	24,927	48,092	25,887	24,226	50,113	21,100	20,125	41,225
Indonesia	17,680	21,477	39,157	20,736	24,185	44,921	17,294	23,030	40,324
Hong Kong	27,893	14,498	42,391	28,317	13,658	41,975	28,845	10,812	39,657
Germany	14,813	23,425	38,238	15,361	22,471	37,832	14,830	18,417	33,247
Taiwan	16,516	28,706	45,222	16,233	25,094	41,327	14,431	18,467	32,898

Source: Economic Planning Unit (EPU)

3.1.2. Major Export and Import Products

All of the export products experienced a decline in terms of value compared from 2008. Despite the weak demand from the international market, electrical and electronic products continued to be Malaysia's main export products earning RM227.8 billion or 41.2% share of the total exports in 2009. Other export products managed to sustain their markets albeit with declining growth (palm oil: RM38.48 billion or 7%; chemicals and chemical products: RM32.98 billion or 6%;

liquefied natural gas: RM31.2 billion or 5.6%; crude petroleum: RM25.57 billion or 4.6%). All of these export products experienced a decline in terms of value compared to 2008.

Electrical and electronic products maintained its position as the main products imported in 2009 contributing RM159.31 billion or 36.6% of the total import. The other imported products also continued to retain their positions from the previous year with machinery, appliances and parts contributing RM38.23 billion or 8.8%; chemicals and chemical products RM37.03 billion or 8.5%; transport equipment RM25.05 billion or 5.8%; and manufacture of metal RM 21.76 billion or 5%. All the imported products listed registered decrease from the previous year except for transport equipment that gained by 11.8% to RM25.05 billion.

Table 7 - Major Export Products

No	5 Major Export Products	2009	
		Value (RM Billion)	Percentage Share (%)
1	Electrical and electronic products	227.78	41.2
2	Palm oil	38.48	7
3	Chemicals and chemical products	32.98	6
4	Liquefied natural gas	31.2	5.6
5	Crude petroleum	25.57	4.6

Table 8 - Major Import Products

No	5 Major Import Products	2009	
		Value (RM Billion)	Percentage Share (%)
1	Electrical and electronic products	159.31	36.6
2	Machinery, appliances and parts	38.23	8.8
3	Chemicals and chemical products	37.03	8.5
4	Transport equipment	25.05	5.8
5	Manufactures of metal	21.76	5

Source: Malaysia External Trade Development Corporation (MATRADE)

4. Overview Of Construction Industry

4.1. Value of Contracts

In 2009, the aggregate value of construction projects declined by 19.4% to RM68.6 billion (2008: RM85.25 billion). However, the number of projects grew by 1.4% to 6,531 projects (2008: 6,443 projects). This indicated that the increase was contributed by smaller-value projects.

The non-residential segment led the category in 2009 with RM21.64 billion worth of projects followed by infrastructure (RM18.52 billion) and the social amenities segments (RM14.76 billion). The residential segment meanwhile registered a total project value of RM13.53 billion in 2009. The projects with values between RM 1 million to RM 5 million made up the largest number of projects in 2009 constituting 48.2% or 3,146 projects. However, the category of projects with values between RM10 million to RM50 million topped the list in terms of aggregate value of RM20.4 billion or 29.8% of the share in 2009.

The gap between the value of Government and private projects also grew closer with a ratio of 48:52 due to the projects allocated under the two stimulus packages coupled with the fewer private projects launched in 2009. Approximately 40% of the allocation in the two stimulus packages was allocated to the construction sector as the construction sector has been proven to be capable of complementing the other economic sectors. To secure pump-priming effect on the economy most of the construction projects under the two stimulus packages were designed to be implemented on short-term basis whilst the completions of existing construction projects were expedited. This in turn, saw the proliferation of projects in the form of upgrading, maintenance and repair works of infrastructure and social amenities. In addition, the increase in value of Government projects was supplemented by the completion of several construction projects which were distributed during the earlier phases of 9MP in 2006, and 2007.

A total of 2,900 projects valued at RM33.11 billion made up of social amenities (RM13.53 billion), infrastructure (RM11.38 billion) and non-residential segment (RM6.07 billion) remained the core of public sector projects. Private sector projects nosedived in 2009 after achieving robust performance in the preceding year with

3,631 projects valued at RM35.49 billion. Non-residential (RM15.57 billion), residential (RM11.43 billion) and infrastructure segment (RM7.14 billion) were the top three categories of private projects. Among the biggest projects awarded in 2009 were the Gumusut-Kakap pipeline project in Sabah (RM2.93 billion), the construction of super-structure (package 2) for the Penang Second Bridge (RM1.55 billion), and the Pahang-Selangor raw water transfer project (RM1.31 billion).

Table 9 - Construction Contracts

Type of Projects	2006		2007		2008		2009	
	Number of Projects	Projects Value (RM b)	Number of Projects	Projects Value (RM b)	Number of Projects	Projects Value (RM b)	Number of Projects	Projects Value (RM b)
Private Projects								
Residential	1,610	14.53	1,619	14.89	1,243	14.72	1,364	11.43
Non-Residential	1,648	14.28	1,776	19.48	1,580	18.17	1,409	15.57
Social Amenities	397	0.78	196	1.11	178	2.68	189	1.23
Infrastructure	774	7.92	797	9.35	721	10.04	643	7.14
Others	16	0.96	18	0.21	25	0.99	26	0.12
Total Private Projects	4,445	38.47	4,406	45.04	3,747	46.6	3,631	35.49
Public Projects								
Residential	168	2.02	134	1.99	223	2.12	173	2.1
Non-Residential	331	3.43	525	6.94	550	5.42	484	6.07
Social Amenities	160	3.21	1,184	10.98	1,078	16.43	1,259	13.53
Infrastructure	750	13.7	990	28.26	832	14.65	971	11.38
Others	3	0.1	19	0.08	13	0.03	13	0.03
Total Public Projects	1,412	22.46	2,852	48.25	2,696	38.65	2,900	33.11
Grand Total	5,857	60.93	7,258	93.29	6,443	85.25	6,531	68.6

*As at 30 June 2010 Source: Economic Planning Unit (EPU)

4.2. Construction Companies

4.2.1. Registered Contractors by Grade

As of 31st December 2010, CIDB Malaysia's record showed a total of 64,924 registered contractors in 2009. More than 80% or 52,709 of the contractors were registered under G1, G2 and G3 grades while the rest consisted of contractors registered under G4-G7 grades and foreign contractors.

Table 10 - Number of Contractors by Grade

Grade	Bidding Limit	2006	2007	2008	2009
G1	Not exceeding RM200,000	36,141	34,581	34,060	33,633
G2	Not exceeding RM500,000	6,937	7,300	7,516	8,095
G3	Not exceeding RM1,000,000	10,043	10,572	10,963	10,981
G4	Not exceeding RM3,000,000	2,140	2,340	2,420	2,613
G5	Not exceeding RM5,000,000	2,816	3,078	3,363	3,673
G6	Not exceeding RM10,000,000	1,003	1,065	1,206	1,437
G7	Unlimited	3,736	4,191	4,285	4,326
Foreign	Unlimited	163	163	164	166
Total		62,979	63,290	63,977	64,924

Source: CIDB Malaysia

4.2.2. Registered Consultant by Type

As of 31 August 2010, a total of 62,956 engineers were registered with the Board of Engineers Malaysia. The figures consisted of 83.8% graduate engineers, 16.1% professional engineers and 0.1% temporary engineers. On the corporate side a total of 1,837 engineering firms were registered with Board of Engineers Malaysia.

Table 11 - Registered Engineers

No	Registered Engineers	Number
1	Graduate Engineer	52,804
2	Professional Engineer	10,133
3	Temporary Engineer	19
	Total	62,956

* As at 31 August 2010 Source: Board of Engineers Malaysia

Table 12 - Registered Engineering Firms

No	Registered Engineering Firms	Number
1	Sole Proprietorship	760
2	Partnership	179
3	Body Corporate	847
4	Multidisciplinary	19
5	Accredited Checker	32
	Total	1,837

* As at 31 August 2010 Source: Board of Engineers Malaysia

For the same period, a total of 1,060 graduate quantity surveyors, 887 registered quantity surveyors and 1 temporary registered quantity surveyor were registered with the Board of Quantity Surveyors Malaysia. A total of 313 quantity surveyors' firms, comprising of sole proprietorship (157), partnership (51), body corporate (94) and multidisciplinary (11) were registered as at 31 August 2010.

Table 13 - Registered Quantity Surveyors

No	Registered Quantity Surveyors	Number
1	Graduate Quantity Surveyors	1,060
2	Registered Quantity Surveyors	887
3	Temporary Registered Quantity Surveyors	1
	Total	1,948

* As at 31 August 2010 Source: Board of Quantity Surveyors Malaysia

Table 14 - Registered Quantity Surveyors Firms

No	Registered Quantity Surveyor Firms	Number
1	Sole Proprietorship	157
2	Partnership	51
3	Body Corporate	94
4	Multidisciplinary	11
Total		313

* As at 31 August 2010 Source: Board of Quantity Surveyors Malaysia

Similarly, a total of 3,376 architects were registered with the Board of Architects Malaysia consisting of 51.4% graduate architects, 43.0% architects and 5.6% building draughtsmen. At the corporate side 1,424 architect firms were registered with the Board of Architects Malaysia as of 31 August 2010.

Table 15 - Registered Architect

No	Registered Architects	Number
1	Graduate Architects	1,736
2	Architects	1,450
3	Building Draughtsman	190
Total		3,376

* As at 31 August 2010 Source: Board of Architects Malaysia

Table 16 - Registered Architect Firms

No	Registered Architect Firms	Number
1	Sole Proprietorship	1,105
2	Partnership	94
3	Body Corporate	197
4	Multidisciplinary	28
Total		1,424

* As at 31 August 2010 Source: Board of Architects Malaysia

4.2.3. Number of Construction Companies by Employment Size

The largest group of 206,080 or 34.6% came under the employment size group of 100-499. This was followed by the larger companies that employed more than 1,000 employees providing 26.8% of total employment (159,443 employees).

A majority of these construction companies (4,355 or 76.8%) employed less than 100 persons but contributed only 22.9% (RM13.9 billion) of overall gross output and generated 22.4% employment as compared to the remaining 1,188 or 21.4% of construction companies in the group size of more than 100 persons that contributed 77.1 % (RM46.8 billion) of gross output and 77.6% (461,980 employees) of total employment.

Table 17 - Number of Construction Companies and Employment by Group Size, 2007

Employment Group Size	Construction Companies	Total Employment
< 100	4,355	133,159
100 - 499	976	206,080
500 - 999	140	96,457
≥ 1,000	72	159,443
Total	5,543	595,139

Source: Department of Statistics Malaysia: Report on Survey of Construction Industries 2008

4.3. Registered Construction Workers

CIDB recorded a total of 345,198 valid registered construction personnel as of 2009. This figure represented an increase by 1.3% over the previous year. From this figure, 164,919 personnel or more than 47% of the total represented general workers reflecting the general dependence of the construction industry in Malaysia on manual labour qualifying it as a labour-intensive industry.

Table 18 - Registered Construction Workers

Category	2005	2006	2007	2008	2009
General Worker	114,615	125,992	141,463	152,235	164,919
Semi-skilled Worker	16,213	15,478	16,284	14,416	15,442
Skilled Worker	42,166	42,244	46,267	41,336	38,506
Administration Personnel	35,646	51,552	68,344	74,510	64,477
Site Supervisor	29,197	31,578	34,706	34,856	36,491
Construction Manager	20,241	21,757	23,251	23,472	25,363
Total	258,078	288,601	330,315	340,825	345,198

*As at 20 August 2010

Source: CIDB Malaysia

4.4. Value-added per Employee

In 2009, the value-added per employee grew by 5.6% to RM22,728 (2008: RM21,514). Both the value-added and employees for the construction sector expanded moderately to RM17,321 million and 762,100 employees in 2009. This translated into RM22,728 value-added per employee for the construction sector, an increase of 5.6% from the previous year (2008: RM21,514 value-added per employee). The value-added per employee for the construction sector has been growing since 2006 reflecting improved productivity.

Table 19 - Value -Added Per Employee

	2005	2006	2007	2008	2009
Construction Sector Value Added (million)	RM14,685	RM14,639	RM15,707	RM16,366	RM17,321
Construction Sector Employees ('000 persons)	762.5	781.1	775.1	760.7	762.1
Value-Added Per Employee	RM19,259	RM18,742	RM20,264	RM21,514	RM22,728

Source: Economic Planning Unit (EPU)

4.5. Construction Cost

4.5.1. Construction Material Prices

Generally, in 2009, prices of almost all construction materials fell except for ready mix concrete (7.8%), sand (11.9%) and cement (10.2%), while the price of clay brick remained unchanged at RM0.32 a piece. The decrease was significantly higher for mild-steel reinforcement bars (MSRB) and high-tensile deformed bar (HTDB) at -33.0% and -34.16% respectively that could be attributed to slow demand in private projects and the weaker world trade.

Table 20 - Construction Material Prices

Construction Material	Unit	2007	2008	2009
Mild Steel Round Bar (MRSB)	MT	2,060.54	3,086.09	2,067.39
High Tensile Deformed Bar (HTDB)	MT	2,082.31	3,109.48	2,047.43
Ready Mix Concrete	m3	146.77	188.46	203.22
Granite Agregate 3/4"	MT	26.36	25.46	22.71
Cement (50 kg)	bag	11.05	13.05	14.38
Sand	MT	25.03	29.24	32.72
Clay Brick (Retail)	piece	0.25	0.32	0.32
Bitumen	litre	1,247.50	1,616.67	1,525
Diesel (Industry)	litre	2.25	2.92	2.15

*As at 31 December 2009.
MT = metric tonne, m3 = meter cube

Source: CIDB Malaysia

4.5.2. Construction Industry Wages and Salaries

a. Wages of Machine Operators in Peninsular Malaysia

Local machine operators earned slightly more than their foreign counterparts with average daily wages between RM56.00 to RM130.00 for skilled local workers and RM43.00 to RM97.00 for semi-skilled local workers. A foreign machine operator meanwhile earned lower than the average local worker with average daily wages of between RM42.00 to RM103.00 for skilled foreign workers and RM38.00 to RM83.00 for semi-skilled foreign workers. From Table17, it can be seen that a mobile crane operator earned the highest paid average daily wages at an average daily wage between RM70.00 to RM190.00 while a slinger/dogger earned the lowest wage in this category at an average daily wage between RM31.00 to RM82.00.

Table 21 - Construction Machine Operator Wage Rates in Peninsular Malaysia (RM daily)

Category of Machine Operators		Skilled Workers				Semi-skilled Workers			
		Local		Foreign		Local		Foreign	
		Min.	Max.	Min.	Max.	Min.	Max.	Min.	Max.
1	Excavator Operator	55.00	120.00	41.00	115.00	n.a.	n.a.	n.a.	n.a.
2	Pile Rigger	50.00	120.00	45.00	100.00	40.00	95.00	37.50	77.00
3	Off Road Truck Operator	50.00	110.00	40.00	90.00	45.00	90.00	35.00	75.00
4	Backhoe Loader Operator	54.00	130.00	40.00	100.00	n.a.	n.a.	n.a.	n.a.
5	Roller Operator	50.00	110.00	40.00	100.00	40.00	82.00	35.00	80.00
6	Roller / Compactor Operator	50.00	110.00	35.00	90.00	40.00	90.00	35.00	82.00
7	Scrapper Operator	50.00	130.00	40.00	100.00	45.00	92.00	35.00	87.00
8	Motor Grader Operator	55.00	130.00	40.00	92.00	n.a.	n.a.	n.a.	n.a.
9	Wheel Loader Operator	50.00	120.00	40.00	90.00	45.00	85.00	38.00	72.00
10	Paver Operator	60.00	125.00	45.00	100.00	45.00	100.00	38.00	82.00
11	Mobile Crane Operator	70.00	190.00	51.00	140.00	45.00	103.00	45.00	92.00
12	Crawler Crane Operator	70.00	150.00	51.00	120.00	45.00	120.00	45.00	92.00
13	Tower Crane Operator	70.00	180.00	50.00	120.00	45.00	110.00	40.00	92.00
14	Forklift Operator	50.00	100.00	36.00	92.00	40.00	92.00	35.00	82.00
15	Slinger/Dogger	50.00	120.00	36.00	100.00	45.00	100.00	31.00	82.00
Average wage		56.00	130.00	42.00	103.00	43.00	97.00	38.00	83.00

n.a. = Not Available

Source: CIDB Malaysia

Note : Data as at July 2009

b. Wages of General Construction Worker in Peninsular Malaysia

In 2009, overall local construction worker earns an average daily wage of between RM52.00 to RM103.00, while the foreign construction workers earn an average daily wage of between RM37.00 to RM85.00. The rate also differed for skilled workers and semi-skilled workers. Skilled local workers earn an average daily wage of between RM56.00 to RM114.00 as compared to RM47.00 to RM88.00 for semi-skilled local workers. Foreign skilled workers earn less than local skilled workers but more than their foreign semi-skilled workers at an average daily wage of between RM40.00 to RM91.00 as against RM34.00 to RM77.00 for the latter.

Table 22 - Construction General Worker Wage Rates in Peninsular Malaysia (RM daily)

	Category of workers	Skilled Workers				Semi-skilled Workers			
		Local		Foreign		Local		Foreign	
		Min.	Max.	Min.	Max.	Min.	Max.	Min.	Max.
1	General Construction Worker-Building	40.00	80.00	30.00	70.00	n.a.	n.a.	n.a.	n.a.
2	Concretor	60.00	100.00	32.00	80.00	45.00	80.00	30.00	72.00
3	Barbender	55.00	120.00	38.00	100.00	45.00	80.00	34.00	72.00
4	Carpenter-Formwork	55.00	120.00	42.00	100.00	45.00	88.00	35.00	83.00
5	Bricklayer	60.00	105.00	40.00	90.00	46.00	90.00	34.00	72.00
6	Roofer	56.00	120.00	38.00	100.00	45.00	80.00	35.00	72.00
7	Carpenter-Joinery	60.00	120.00	42.00	100.00	50.00	93.00	32.00	83.00
8	Steel Structure Fabricator	60.00	120.00	45.00	87.00	50.00	90.00	35.00	82.00
9	General Welder	55.00	180.00	40.00	120.00	40.00	90.00	35.00	82.00
10	Plumber-Building & Sanitary	60.00	120.00	45.00	82.00	48.00	80.00	30.00	72.00
11	Plumber-Reticulation	60.00	120.00	45.00	97.00	50.00	97.00	30.00	87.00
12	Building Wiring Installer	50.00	110.00	35.00	87.00	n.a.	n.a.	n.a.	n.a.
13	Scaffolder - Prefabricated	56.00	100.00	45.00	82.00	46.00	80.00	35.00	67.00
14	Scaffolder - Tubular	56.00	120.00	45.00	82.00	50.00	90.00	35.00	72.00
15	Plasterer	60.00	110.00	41.00	90.00	43.00	95.00	35.00	78.00
16	Tiler	60.00	120.00	41.00	100.00	50.00	100.00	34.00	82.00
17	Painter-Building	60.00	120.00	38.00	100.00	50.00	85.00	34.00	75.00
18	General construction Worker-Civil	40.00	72.00	32.00	67.00	n.a.	n.a.	n.a.	n.a.
19	Electrical Wireman PW2 (RM monthly)	1,300.00	2,600.00	1,040.00	2,100.00	n.a.	n.a.	n.a.	n.a.
20	Electrical Wireman PW4 (RM monthly)	1,560.00	3,120.00	1,170.00	2,500.00	n.a.	n.a.	n.a.	n.a.
	Average wage	56.00	114.00	40.00	91.00	47.00	88.00	34.00	77.00

n.a. = Not Available

Source: CIDB Malaysia

Note : Data as at July 2009

4.6. Import and Export of Construction Services

Overall, 45 foreign contractors managed to secure RM2.65 billion worth of domestic construction projects in 2009. The value of projects awarded to foreign contractors also decline by a staggering 65.4% to RM2.65 billion (2008: RM7.67 billion).
Among the biggest projects secured by the foreign contractors in 2009 were the two largest projects in 2009 and the construction of hydrocarbon facility at Tanjung Bin.

Meanwhile, the involvement of Malaysian construction companies in foreign countries dropped by more than half from 50 contractors in 2008 to 23 contractors in 2009, but the project value expanded by 53.1% to RM14.22 billion (2008: RM9.29 billion). The Middle-East market continued to be the main market for Malaysia's construction companies with 19 construction projects worth RM 3.95 billion in the region alone. Among the biggest projects undertaken by Malaysian companies were the housing development project at Parand, Tehran (RM2.0 billion), the Convention Centre Extension-Education City in Qatar (RM0.276 billion) and the internet new city project in Ho Chi Minh (RM0.194 billion).

Table 23 - Import and Export of Construction Services

Type of Contractors	2007		2008		2009	
	No. of Projects	Projects Value (RM b)	No. of Projects	Projects Value	No. of Projects	Projects Value
Local Contractors in Domestic Market	7,264	87.37	6,372	77.58	6,486	65.95
Foreign Contractors in Domestic Market	94	5.93	71	7.67	45	2.65
Local Contractors Doing Projects Overseas	67	19.25	50	9.29	23	14.22

* As at 30st June 2010 Source: CIDB Malaysia

5. Economic Outlook 2010-2011

The Malaysian economy is projected to grow by 7% in 2010, more conservative then the World Bank's forecast of 7.4% growth but more optimistic than the IMF projected growth of 6.7%. The manufacturing sector is projected to grow at 10.8%, services at 6.5%, mining at 1%, agriculture at 3.4%, while construction sector is expected to grow at 4.9%.[7] Private investment is expected to expand by 15.2% while private consumption is projected to grow by 4.9%.

As 2010 is the last year in the 9MP, fewer Government projects remained after many of the projects had already been implemented in the earlier phases of 9MP, particularly in the year 2007. The projects under the two stimulus packages have also been fully implemented in 2009. As such, the construction industry is expected to rely more on private projects in 2010. For 2010, residential projects will be playing a more prominent role following the return of confidence in consumers' sentiments and the recovery shown in the property sector.

At least RM72 billion worth of projects are expected to be implemented this year, including, among others, the expansion of the Light Rapid Transit (LRT), the new Low Cost Carrier Terminal (LCCT) terminal, Electricity Generation Plants and the development of world-class luxury condominium projects in Iskandar Malaysia. As of 31 October 2010, a total of RM44 billion worth of projects have been awarded. In the first 10 months, the non-residential segment led the category with RM13.5 billion worth of projects, followed by the infrastructure segment with RM12.6 billion and the residential segment with RM13.2 billion.

In 2011, the global economy and trade are expected to grow moderately by 4.2% and 7% respectively. In line with this, the Malaysian economy is expected to expand between 5 - 6%, with the World Bank on one hand forecasting a 4.8% growth and IMF on the other projecting 5.3%.[8] The manufacturing sector is projected to grow at 6.7%, services at 5.3%, mining at 2.9%, agriculture at 4.5%. Private investment is expected to expand by 10.2%, while private consumption and exports are projected to grow 6.3% and 6.7%, respectively.[9]

The year 2011 is the first year under the Tenth Malaysia Plan (10MP), the last but one five-year development plan before 2020, the deadline for Vision 2020. As it is, the Asian financial crisis and the subprime crisis of 2009 have already, to some extent, derailed Malaysia's programme to become a developed nation by 2020. The 10MP is an attempt to revamp the economy via the Economic Transformation Programme (ETP) deemed necessary to put back Malaysia onto its economic trajectory and to position Malaysia as a developed, high-income nation. The ETP contains initiatives that address both the short and long-term needs of the economy. The main focus under the 10MP is to re-energise the private sector and to provide a more conducive environment that will boost private spending, business activities and investments. To address the issue of widening budget deficit efforts will be undertaken to intensify financing of public projects through the Public Private Partnership (PPP) initiative with the Government reserving RM20 billion to provide financing that will act as a tipping point to make infrastructure projects feasible and bankable without burdening the people.

The Government has allocated a budget of RM212 billion for 2011 which is 2.8% higher than the allocation for 2010. From this amount, RM49.2 billion was earmarked for development expenditure for the first year of 10MP, of which RM 28.3 billion will be given to the economic sector and another RM15.5 billion to the social sector. [10] Several PPP projects identified under 10MP including, among others, the Ampang-Cheras-Pandan Elevated Highway, will be implemented in 2011 through private investments worth RM12.5 billion.[11]

Private investment will also focus on the 12 National Key Economic Areas (NKEAs) that have been identified to bring high-impact projects under the 10MP. In budget 2011, the Government announced that approximately RM114 billion worth of projects will be implemented. Among the projects identified are the Mass Rapid Transit project serving the commuter needs of Greater KL, new hospitals, upgrading of city roads, supply of water and electricity in rural areas, construction of 100-storey tower "Warisan Merdeka", and projects required to clean the rivers and environment.[12] During the launch of Economic Transformation Programme (ETP), a total of nine projects worth RM30 billion from the 131 projects identified as Entry Point Projects (EPP) were announced. Meanwhile the residential sub-sector is envisaged to recover with developers more-than-ready to launch new projects in tandem with better buying sentiment and improved economic conditions. [13] From the implementation of these high-impact projects and other projects envisaged to emerge in tandem with the economic recovery, at least RM82 billion worth of construction projects are expected to be awarded in 2011.

Currently, the acceleration of projects under construction such as KLIA 2, the Second Penang Bridge, SKVE (Package 3), the Sabah - Sarawak Gas Pipeline, the LRT extensions and the entry of new projects under the 10MP, which includes PFI funded projects such as the Electrified Double Track from Gemas - Johor Bahru, the West Coast Banting - Taiping Expressway, the Guthrie - Damansara Expressway, the Elevated Ampang - Pandan - Cheras Expressway, the Integrated Transport Terminal (ITT) in Gombak and the 300MW Gas-Fired Power Plant in Sabah will all contribute towards the growth of the construction sector in 2011.[14] Taking into account the fact that these high-impact projects will be in the early stages of construction, the construction sector is projected to expand by 4.4% in 2011 (2010: 4.9%).

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[1] IMF World Economic Outlook August 2010

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[5] Bank Negara Malaysia House Price Indicators

[6] Department of Statistics Malaysia Monthly Manufacturing Statistics December 2009

[7] [9] [12] Budget 2011 Speech

[8] Berita Harian newspaper 25 October 2010

[10] [13] [14] Ministry of Finance Economic Report 2010/ 2011

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THEME PAPER

AMANAHRAYA
REIT MANAGERS

Real Estate Investment Trust & Sustainable Urbanization in Real Estate Sector

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Director, AmanahRaya REIT Managers Sdn Bhd

1. INTRODUCTION

The term REIT stands for Real Estate Investment Trust (“REIT”). It is a trust fund that holds / invests in rental properties. Its major incomes are rental income and it is required to distribute most of its profit as dividend to its holders. REIT can be one of the very exciting instruments for the purpose of cumulating income generating assets.

REIT structure is an ownership and operating construct wrapped around properties that might otherwise be in institutional real estate investment portfolios (REITs and Real Estate: A Perfect Pair; Peyton, Park & Lotito; 2007).

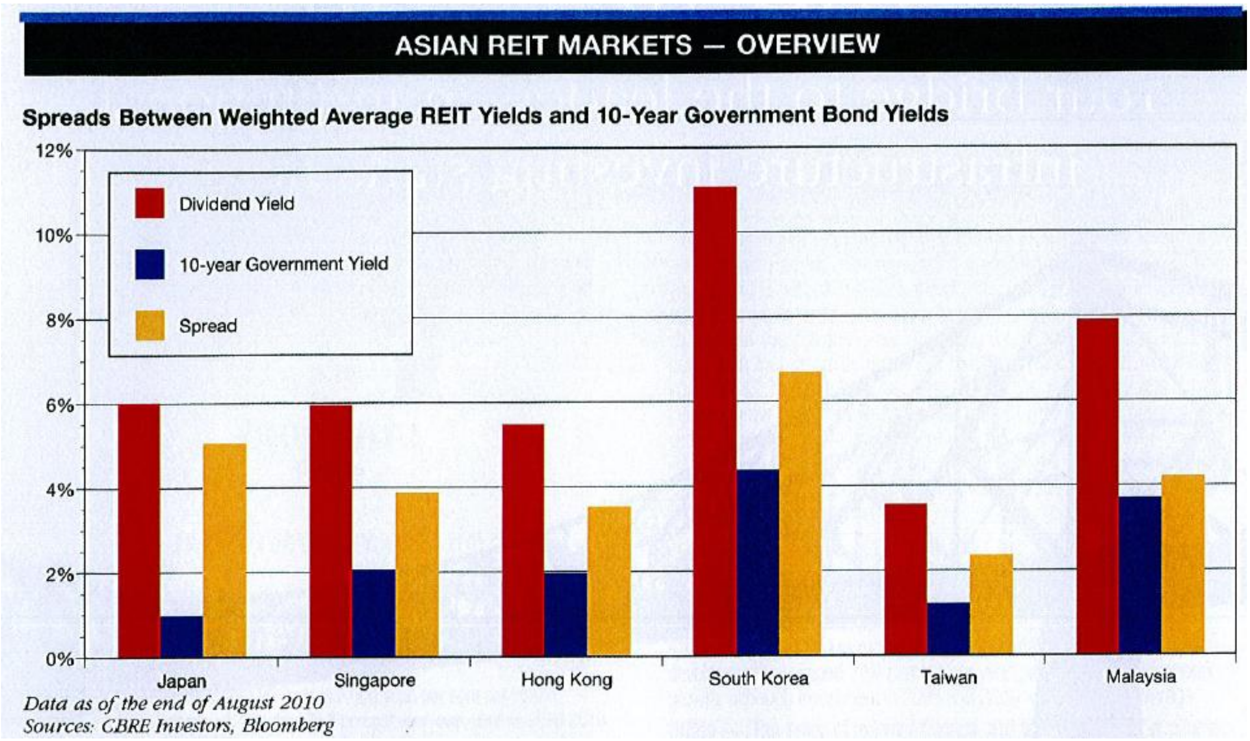
2. ASIA (EXCLUDING JAPAN) REIT PERFORMANCE

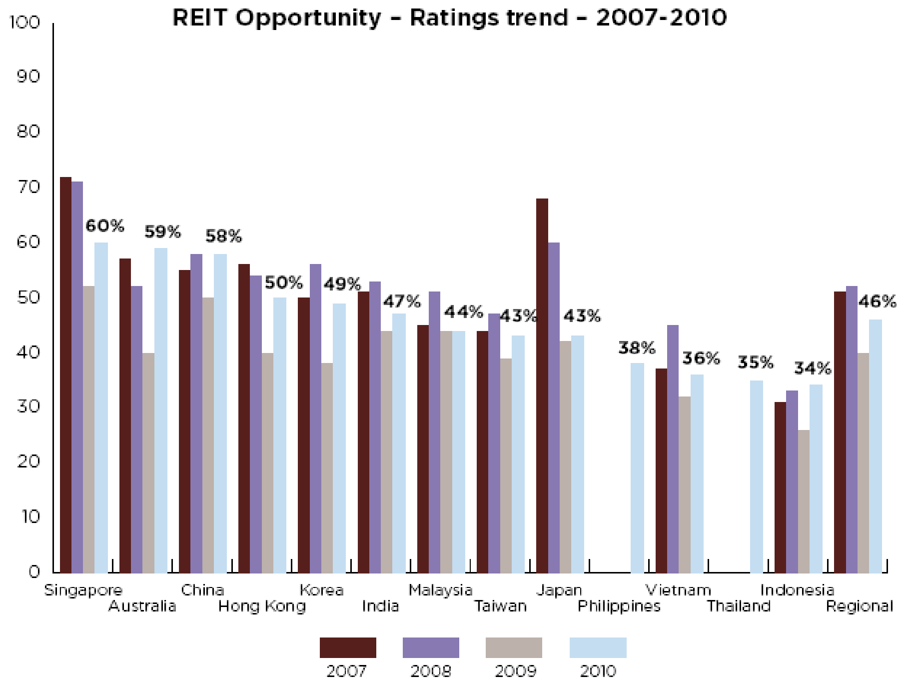
Property is generally considered to be a lagging indicator of economic downturns since investors flee falling equity markets to the perceived safe haven of real estate. Only later, when unemployment threatens, does the property market feel the pinch. In this most recent downturn, however, while underlying property values have still lagged the wider economy, REIT stocks led other asset classes as prices declined and investors quickly sold down their positions. Perhaps the catalyst for this downturn — a dislocation of credit markets — holds the key. REITs are the public face of a very capital-intensive industry that requires substantial levels of financing. The evaporation of credit exposed the vulnerability of an illiquid asset class, and the liquidity of the public markets provided investors with an exit — albeit at a price.

But just as they led the market into the downturn, global REITs are leading the way out. Share prices have rebounded sharply since March 2009, with many markets surging 60%–100% from their lowest points (although prices remain below the peaks of a few years ago). Since then, REITs have raised billions in capital through secondary offerings, and they are using it mainly to reduce their debt, recapitalize their balance sheets and position themselves for growth.

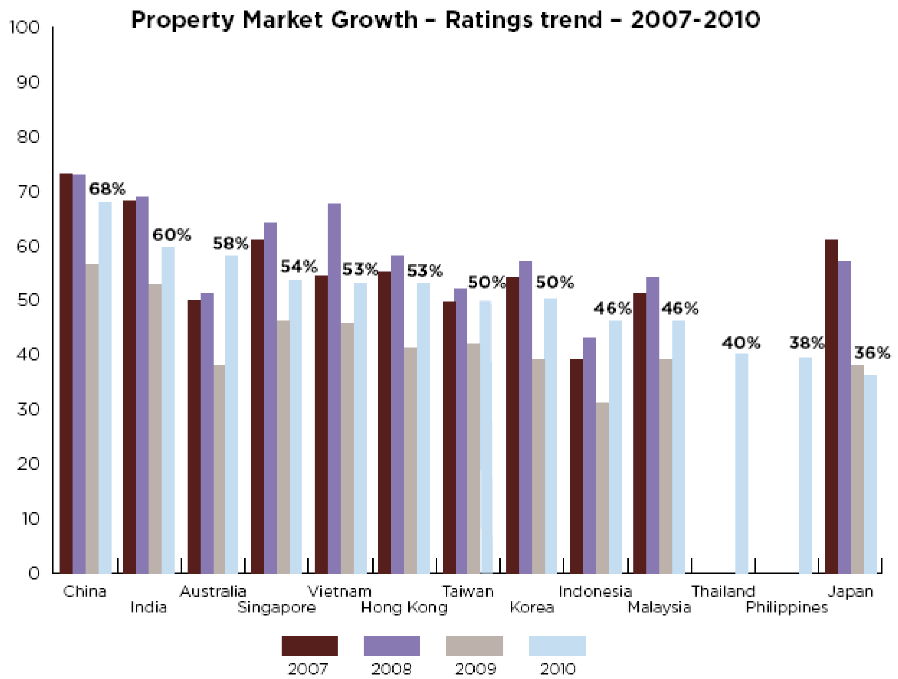
While globally, the REIT experience was consistent, with significant drops in market capitalization and negative rates of return, the Asian REIT markets, excluding Japan, had a milder decline and have recovered. Rates of return in South Korea, Malaysia and Hong Kong are overall in positive territory at the end of three years. Of the Asian markets analyzed (again excluding Japan), only Singapore recorded a negative three-year rate of return, of -4%. Compared with Australia, the UK and the US (-26%, -25% and -14%, respectively), the Asian region has performed remarkably well. In fact, South Africa was the only REIT market outside of Asia that recorded a positive three-year return.

This positive performance can be attributed to a combination of factors. First, **Asian REITs continued to follow a more passive investment model** (and therefore a perceived lower risk profile) than some other global markets. And second, many investors see Asia **as a region with a more promising long term growth story**. The global REIT market is perhaps now becoming a barometer of broader risk-return sentiment around the world.

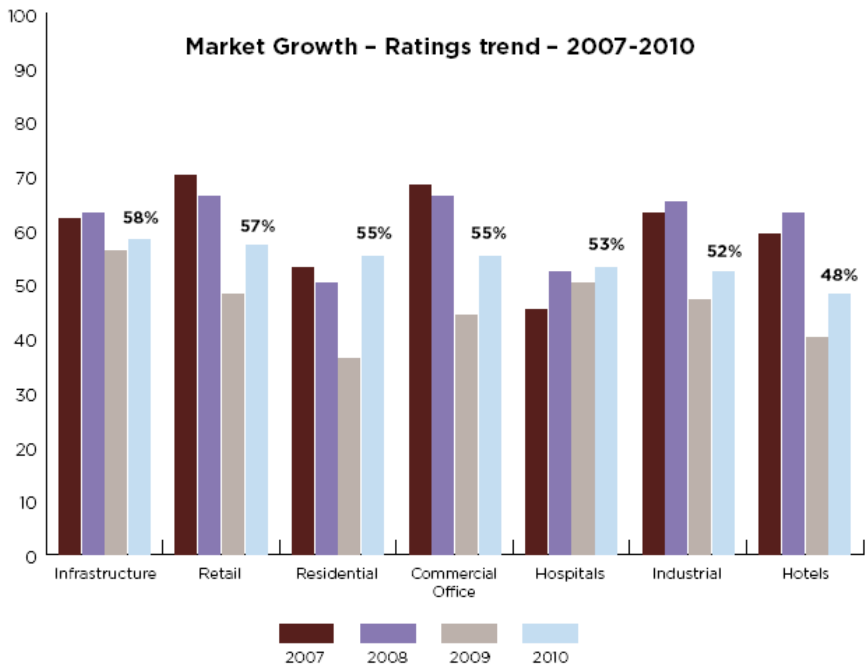




Source: Asia-Pacific REIT Survey June 2010 (The Trust Company & Baker & McKenzie)



Source: Asia-Pacific REIT Survey June 2010 (The Trust Company & Baker & McKenzie)



Source: Asia-Pacific REIT Survey June 2010 (The Trust Company & Baker & McKenzie)

Country Rating 2010

	Overall potential	% +/- 2009	property market growth	% +/- 2009	REIT opportunity	% +/- 2009	Regulatory support	% +/- 2009
SINGAPORE	62%	5%	54%	8%	60%	9%	70%	-3%
AUSTRALIA	61%	15%	58%	20%	59%	20%	66%	4%
CHINA	56%	10%	68%	11%	58%	8%	44%	10%
HONG KONG	53%	9%	53%	12%	50%	10%	55%	6%
INDIA	48%	5%	60%	7%	47%	2%	37%	5%
KOREA	48%	10%	50%	11%	49%	11%	46%	9%
TAIWAN	46%	6%	50%	8%	43%	4%	43%	6%
MALAYSIA	45%	2%	46%	7%	44%	0%	46%	0%
JAPAN	44%	2%	36%	-2%	43%	2%	53%	6%
VIETNAM	41%	8%	53%	8%	36%	5%	32%	11%
PHILIPPINES	39%	n/a	38%	n/a	38%	n/a	42%	n/a
THAILAND	37%	n/a	40%	n/a	35%	n/a	37%	n/a
INDONESIA	37%	11%	46%	16%	34%	8%	30%	10%
REGIONAL AVERAGE	47%	5%	50%	8%	46%	5%	46%	5%

Source: Asia-Pacific REIT Survey June 2010 (The Trust Company & Baker & McKenzie)

3. ELEMENTS OF URBAN FORM

There are four main elements that make up urban form. These are **land use, density, position / transport infrastructure and characteristics of the built environment**. The dominant land use is residential but a functional urban area requires industrial, retail, offices etc. and some of these uses will be located together in one building, i.e. mixed land use (as distinct from an area with a mix of uses). Density has a number of sub-elements - gross population, net residential, commercial and industrial employment densities.

Position / Transport infrastructure is closely linked to the idea of accessibility and is related to the ease at which buildings / spaces / places can be reached. Characteristics of the built environment, is a concept encompassing various features of an urban area such as building type, building height and intensity of land use.

4. ASSETS UNDER REIT

REIT returns averagely in develop market is around 3-5% depending on its individual performance. However, REIT in Malaysia is very attractive because it is in a so-called last phase of developing nation before developed.

For the purpose of explaining the relation between REIT and the Sustainable Urbanization in the Real Estate Sector for this paper, we shall zoom in directly into the REIT market in Malaysia.

Malaysia property values are still a gap behind many developed countries in Asia. This emerges as an opportunity with an average attractive yield between 6-8% which is higher than other major developed countries. Especially when REITs are in the infant stage in Malaysia, most REIT managers are with option and plan to grow their property portfolio to trade or manage rental in order to achieve even a better yield for investor.

As Malaysia property value is undervalued for decades, there will be a high potential of asset revaluation will bring capital growth to the investor. There is a potential of upside between 20-30% around five (5) years period. An example of an early REITs launched in 2006 – STAREIT. It has till date performed a 7% dividend yield based on the NTAB of RM0.97. If compare to Fix Deposit of 3-4%

and even with government based senior bond that offer 5.5%. STAREIT becomes much attractive and excluding the potential of its asset revaluation that includes all its prime location properties located at Bintang Walk, Kuala Lumpur.

REIT is not just having the existing property to rent out, manage and collect rental. A high performance REIT is like your property fund manager. They will develop new opportunities, acquire more properties into their portfolio and to some countries, jointly develop property projects. This will provide even a higher potential return compare to those low to moderate risk investment instruments. Thus, REIT is the best vehicle and good investment tool for your long term retirement plan. REIT will be attractive with a fair risk to be tolerated in compare to Fix Deposit. As equities are high risk to some extent, bonds are relatively moderate return but without asset revaluation opportunity, investing in property directly will require high investment fund and it is difficult to manage. REIT will be a good choice as alternative asset class for investment.

The latest two (2) REITS was listed on the main market of Bursa Malaysia are Sunway Real REIT and CapitaMalls Malaysia Trust .

Sunway REIT's portfolio assets are in the retail, hospitality and office segments with the bulk of revenue derived from properties in the Sunway Integrated Resort City in Bandar Sunway, Petaling Jaya, Selangor. CapitaMalls Malaysia Trust is the country's largest pure-play shopping mall REIT comprising Sungei Wang Plaza in Kuala Lumpur's Bukit Bintang tourist belt, The Mines in Seri Kembangan and Gurney Plaza in Penang.

The table below outlines the asset class of Malaysia REIT market.

Figure 7 : Classification of M-REITs

REIT	Office	Retail	Industrial / Warehouse	Hospitality	Others
Sunway	●	●		●	
CapitaMalls		●			
Starhill		●		●	
Al-Hadharah					● (plantation)
Axis	●		●		
Al-Aqar KPJ					● (hospital)
AmFirst	●	●		●	
Quill	●	●	●		
AmanahRaya	●	●	●	●	● (education)
Hektar		●			
Tower	●				
UOA	●				
Atrium			●		

Source: ECM Libra

The sector of properties related to the REIT market in Malaysia varies from office building, retail mall, industrial / warehouse, hospitality, plantation, hospital and education.

5. AMANAHRAYA REIT – A CASE STUDY OF SUSTAINABLE URBANIZATION IN REAL ESTATE SECTOR

AmanahRaya REIT ("ARREIT") was listed on Bursa Malaysia on February 2007 with eight (8) properties comprising office buildings, hotels, industrial properties and higher learning institutions building. It is the first REIT in Malaysia established by a Government-owned company ("GOC") with total injection value of RM336.5million and the first REIT in Malaysia rated by Standard &Poor's as an investable grade REIT at BBB-.

In December 2007, ARREIT acquired five (5) properties at a total acquisition value of RM308.7 million and became the second largest REIT in Malaysia in terms of properties value with total asset value of RM645.5 million. ARREIT distributed 100% of its income – a total dividend distributed from listing date to 31 Dec 2007 was 5.4412 sen per unit, translating to an annualised yield of 6.9% (based on RM0.94 sen).

Total asset value was revalued in November 2008 from RM645.52 million to RM686.33 million. In December 2008, ARREIT declared a total dividend of 7.0105 sen per unit which translated to a dividend yield of 7.46%, which is above forecasted yield of 7.40%. In August 2009, Standard & Poor's reaffirmed investable rating of 'BBB-" for AR REIT with a standalone rating of 'BB+'.

In March 2010, ARREIT managed to complete a successful refinancing exercise of the existing loan of RM168 million. The rate secured was at 4.45% which is 80 basis points lower from 5.25% (secured in 2007). The refinancing exercise is translated to a saving of RM1.3 million a year which should then be distributed to the unitholders.

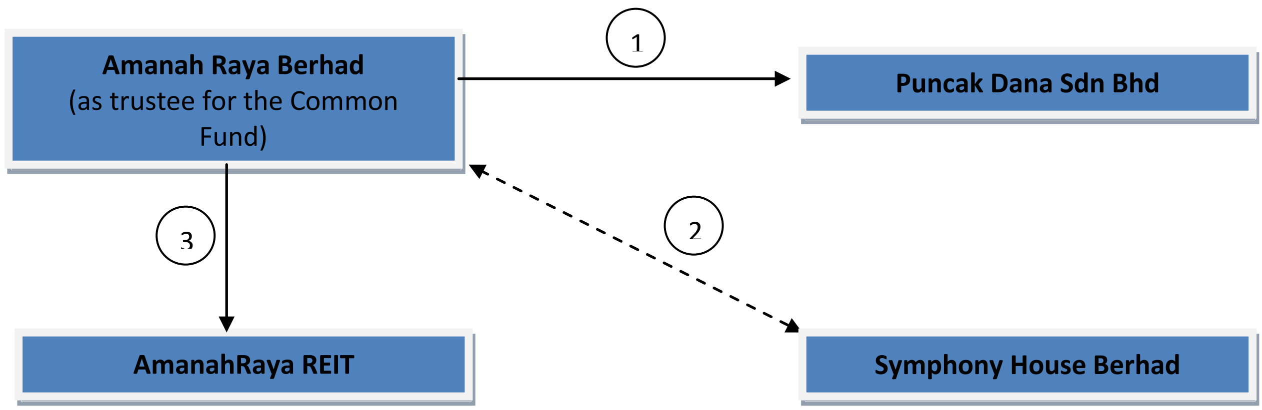
ARREIT completed its acquisition of Selayang Mall (retail mall) and Dana 13 (office tower) for a total consideration of RM227 million in May 2010. This enlarged the total asset size from RM686.33 million to RM913.33 million and increase by 33%. Another asset sector added to the portfolio which is retail (Selayang Mall).

For the purpose of this paper, we would like to take Dana 13 as case study for this Theme Paper. This is a good case study to show how ARREIT position this as a sustainable structure for the urbanization in real estate sector. Details of Dana 13 are as follows:

Proposal	Acquisition for cash consideration of RM99 million.
Description	A 13-storey stratified office building with 300 parking bays.
Location	Off Jalan Lapangan Terbang Subang, PJ
Age of Building	CF obtained from August 2009
Existing Use	Office building

Current Occupancy Rate	100% (Master Lessee: Symphony House Berhad, one of Malaysia's leading business process outsourcing company's and is listed on the Main Market of Bursa Securities.)
Net Lettable Area (sq. ft.)	268,850 sq ft
Date of Lease Agreement	3 September 2007
Tenure of land	Leasehold for a term of 99 years expiring on 4 September 2097 (unexpired term of 88 years)
Master Lease Tenure	10 years from 2009 (2019)
Rent Review Frequency	3+3+2+2
Market Value	RM107.8m (as at 2 November 2009)
Current Rental per month	RM591,470

Dana 13 is a 13-storey stratified office building with 300 parking bays. It is occupied by Symphony House Berhad ("Symphony House"), one of Asia's leading business process outsourcing outfit that is listed on the Main Board of Bursa Securities.



The structure above shows the process flow of ARREIT involvement in real estate transaction of Dana 13.

Puncak Dana Sdn Bhd ("Puncak Dana") is the master developer for the entire development. Amanah Raya Berhad ("ARB") acquired the office building from Puncak Dana in September 2007. ARB paid 10% of the purchase price upon signing the Sale & Purchase Agreement in 2007 and the balance 90% of the purchase price was paid in September 2009 upon issuance of the Certificate of Fitness of the building.

In September 2007, ARB signed an Agreement to Lease with Symphony House. Based on the agreement, Symphony House has agreed to lease the entire building from ARB for a period of ten (10) years with pre-determined four (4) time rental increment within the tenure. The rentals are on a 'triple net' basis.

In May 2010, ARREIT acquired the property from ARB for a total consideration price RM99 million where the market value stood at RM107.8 million as at inspection date 2nd November 2009 by a registered valuer. ARREIT also signed a Novation Agreement with ARB and Symphony House to Novate the existing Lease Agreement.

ARB and Symphony House have executed a supplemental lease agreement to amend the terms of the existing lease agreement, whereby Symphony House will receive a rent-free period of two (2) months as Symphony House require two (2) months to proceed with works to upgrade the High Tension cables / system and has applied for MSC status.

The example above clearly shows the structure of how we position ARREIT as the vehicle to assure the important role to develop a sustainable impact on the real estate sector.

ARREIT's involvement in this structure can be seen as an exit strategy for ARB after the acquisition of the property but nevertheless it is clear that upon the disposal of the property to ARREIT, the Managers assures that the property is backed by a long term lease with a reputable party.

This structure also shows that good potential buildings can be secured by REIT if the REIT is backed by a strong promoter. ARB as the promoter of ARREIT acquired the building during the construction period and later injected into ARREIT. The disposal of the building into ARREIT gives ARB the opportunity to scout for other good potential buildings in the market. By having this sort of structure, the real estate market will be able to generate more cash from the public to acquire good properties in good locations.

ARREIT as one of the biggest REIT in Malaysia plays an important role in the sustainability of the real estate sector in Malaysia. As shown in the table earlier, ARREIT has a diversified portfolio that invest in most of the sector in the real estate market (i.e. office building, retail mall, industrial / warehouse, hospitality, and education). These sectors play an important role in the growth of the country's economy and to ensure sustainable urbanization in the real estate sector.