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**QUILL GROUP OF COMPANIES**

**PROPERTY MARKET REPORT ON THE OFFICE SECTOR  
IN KLANG VALLEY (INCLUDING CYBERJAYA)**

**FINAL REPORT**

**November 2006**

**[Our Ref: R/06/6028/SSF]**

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**C H Williams Talhar & Wong**



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**C H Williams Talhar & Wong Sdn Bhd** (18149-U)  
Juruukur Berkanun      Pêrunding Harta Antarabangsa  
Chartered Surveyors      International Property Consultants

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6 November 2006

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Dear Sirs,

### PROPERTY MARKET REPORT ON THE OFFICE SECTOR IN KLANG VALLEY (INCLUDING CYBERJAYA)

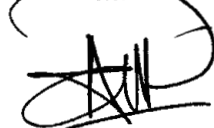
This Property Market Report has been prepared for inclusion in the Prospectus to be issued in relation with the initial public offering of units in Quill Capita Trust, and the listing exercise of Quill Capita Trust on the Main Board of Bursa Malaysia Securities Berhad.

In accordance with your instructions to proceed with the abovementioned study, this report contains economic overviews of Malaysia, Selangor and Federal Territory of Kuala Lumpur; the property market cycle; and an overview of the office market in Klang Valley and Cyberjaya as at second quarter 2006. Additionally, an overview of Cyberjaya as well as commentary of the Quill Capita Trust properties in Cyberjaya was also carried out.

Our findings are detailed in the following pages.

Yours faithfully

C H Williams Talhar & Wong Sdn Bhd



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## ABBREVIATIONS

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1.	WTW	C H Williams Talhar & Wong Sdn Bhd
2.	GDP	Gross Domestic Product
3.	RM	Ringgit Malaysia
4.	RM psf	Ringgit Malaysia Per Square Foot
5.	KL	Kuala Lumpur
6.	KLCA	Kuala Lumpur Central Area
7.	KLCA – P	Kuala Lumpur Central Area – Prime
8.	KLCA – S	Kuala Lumpur Central Area – Secondary
9.	KLM	Kuala Lumpur Metropolitan
10.	SUB	Klang Valley Suburban
11.	KV	Klang Valley
12.	Klg	Klang
13.	PJ	Petaling Jaya
14.	SA	Shah Alam
15.	SJ	Subang Jaya
16.	Cjy	Cyberjaya
17.	Pjy	Putrajaya
18.	sq ft	Square Feet (equivalent to 0.092903 square metre)
19.	REIT	Real Estate Investment Trust
20.	MSC	Multimedia Super Corridor
21.	IT	Information Technology
22.	ICT	Information & Communication Technology

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## CHAPTER 1: INTRODUCTION

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### 1.1 TERMS OF REFERENCE

C H Williams Talhar & Wong Sdn Bhd have been commissioned by **QUILL GROUP OF COMPANIES** to carry out a **Property Market Report on the Office Sector in Klang Valley (including Cyberjaya)**.

### 1.2 SCOPE OF WORK

Our Scope of Work is as follows:

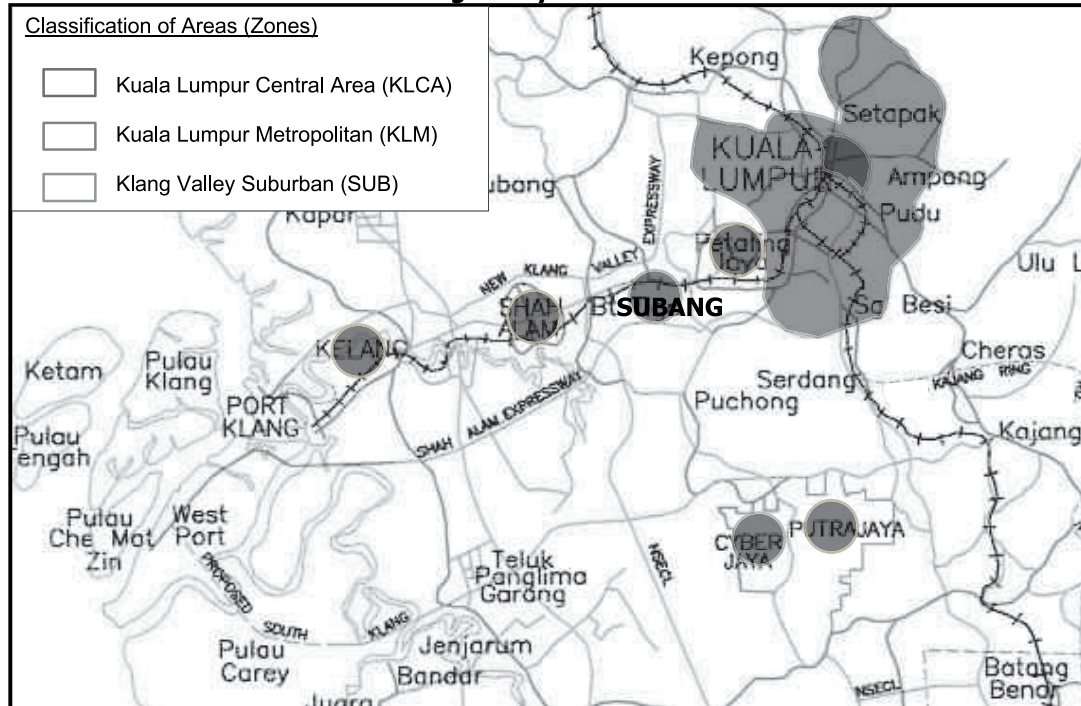
- 1.2.1 A geographical description of the study area.
- 1.2.2 A general overview of the Malaysian and State (Kuala Lumpur & Selangor) economy and property market cycle.
- 1.2.3 A general overview of the purpose-built office market in the study area. This will include:
  - Existing supply & known future supply
  - Demand trends (including occupancy rates and take-up rates) over the past 5 years, where available
  - Investment trends (including transactions, prime rent, prime capital value and yield) over the past 5 years, where available
  - 1 year market outlook
- 1.2.4 A general commentary on the subject properties.

### 1.3 STUDY AREA

The study area is defined as the Klang Valley Office Zones comprising Kuala Lumpur, Petaling Jaya, Subang Jaya, Shah Alam, Klang, Cyberjaya and Putrajaya. The locations of these office zones are illustrated below:

1.3 STUDY AREA (CONT'D)

Illustration 1 : Office Zones in Klang Valley



- Notes :
- 1) KLCA: Kuala Lumpur Central Area
  - 2) KLM: Kuala Lumpur Metropolitan
  - 3) KL: Kuala Lumpur = KLCA + KLM
  - 4) SUB: Klang Valley Suburban
  - 5) KV: Klang Valley = KL + SUB

Source: WTW Research, November 2006

The office zones as shown above are defined as follows:

Zone	Terminology	Description
KLCA	Kuala Lumpur Central Area	Areas bounded by Jalan Tun Razak (include the frontage lots on both sides), Jalan Tun Ismail, Jalan Kuching Jalan Kinabalu/Jalan Saitan Hishamuddin, Jalan Damansara, Jalan Istana, Jalan Wisma Putra, Jalan Loke Yew.
KLM	Kuala Lumpur Metropolitan	Comprises major suburban areas located within and surrounding of Kuala Lumpur city area and Damansara Business District (DBD) <sup>1</sup> which is outside KLCA within Federal Territory of Kuala Lumpur.
SUB	Klang Valley Suburban <sup>2</sup>	Areas under the jurisdiction of the Municipal Councils of Petaling Jaya, Subang Jaya, Shah Alam, Klang and Sepang.

Note: <sup>1</sup> With the exception of Taman Tun Dr. Ismail where it is categorized as Outer Kuala Lumpur under Petaling Jaya due to its proximity to the commercial areas of PJ Northern area.

<sup>2</sup> Suburban refers to towns and small cities within the outskirts of Kuala Lumpur, but within the Klang Valley vicinity.

Source: WTW Research, November 2006

## 1.4 DEFINITION

The market sector covered in this study is Purpose-Built Offices.

Purpose-built offices in the Klang Valley may be defined as private modern and free standing high rise buildings having more than 100,000 sq ft net floor area, with present day conveniences and amenities and adequate car parking facilities for tenants / visitors and aged not more than 30 years.

For the purpose of this study, WTW has further identified 3 types of purpose-built offices which are generally defined further as:

"Grade A / Premium A" purpose-built offices: Refer to high quality modern space, largely column free and includes recent generation of building services and amenities. These buildings are situated in prime location and possibly in major suburban towns.

"Grade B" purpose-built offices: Generally referred to as reasonably good quality modern space situated anywhere in Klang Valley.

"Grade C" purpose-built offices: Comprise usually older buildings or buildings offering good quality modern space situated anywhere in Klang Valley.

## 1.5 LIMITATIONS

Our findings contained herein is based on information made available to us at the time of our survey and have been derived from sources which we believe to be reliable. As such, we cannot guarantee its accuracy or completeness. No liability can be accepted for any loss arising from the use of this report. All opinions and estimates expressed herein reflect our judgment as of this date and are subject to change without notice. Our findings should be regarded as valid for a limited period of time and should be subject to examination at regular intervals.

Our findings contained herein is based on the assumptions that United States and ASIAN countries continue to enjoy favourable economic growth.



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## CHAPTER 2: BRIEF OVERVIEW OF THE NATIONAL AND STATE ECONOMIC PERFORMANCE

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### 2.1 THE MALAYSIAN ECONOMY

The Malaysian economy has performed remarkably well from 1990-1997 at an average growth rate of 8.7%. However, the growth momentum was disrupted by the severe economic contraction in 1998 arising from the East Asian financial and economic crisis with Malaysia's GDP recording a negative growth rate of 7.4% in 1998. Efforts by the government to resuscitate the economy starting from mid-1998 succeeded in generating a GDP growth of 6.1% and 8.9% in 1999 and 2000 respectively.

In the years 2001 to 2004, the Malaysian economy recorded a creditable performance despite the volatility in the global economy as well as uncertainties arising from international terrorism and the outbreak of the Severe Acute Respiratory Syndrome (SARS). From a GDP growth rate of only 0.3% in 2001, the Malaysian economy recovered strongly to register growth rates of 4.4% and 5.4% in 2002 and 2003 respectively. In 2004, the Malaysian economy registered a GDP growth rate of 7.1% on the strong performance of manufacturing and services sectors.

After growing by an impressive 7.1% in 2004, the Malaysian economy moderated in 2005. Although the quarterly GDP growth has slowed from 5.8% in first quarter 2005 to 4.4% in second quarter 2005, the economy regained some momentum with a 5.3% growth in third quarter 2005. Furthermore, the economy expanded at a strong growth rate of 5.2% in fourth quarter 2005. Driven by private consumption, the services sector grew briskly, more than offsetting the weakness in the manufacturing sector. A strong upturn in exports, particularly it being a net oil exporter has provided added support to domestic private sector activities. On the back of a highly diversified economic structure together with the combination of strong domestic demand and exports, the Malaysian economy recorded a growth rate of 5.3% in the 2005.

The inflation rate registered at 4.6% in April 2006, largely due to the 18.5% increase in fuel prices in February 2006. In an effort to cap inflation risks, the Central Bank lifted its overnight policy rate at 3.5% in April 2006 after it was raised by 25 basis point on February 2006 and another 25 basis point on November 2005. Although the Central Bank is monitoring the inflation rate closely, but the 12% electricity tariff rates increase since June 2006 is anticipated to put some pressure on the inflation rate.

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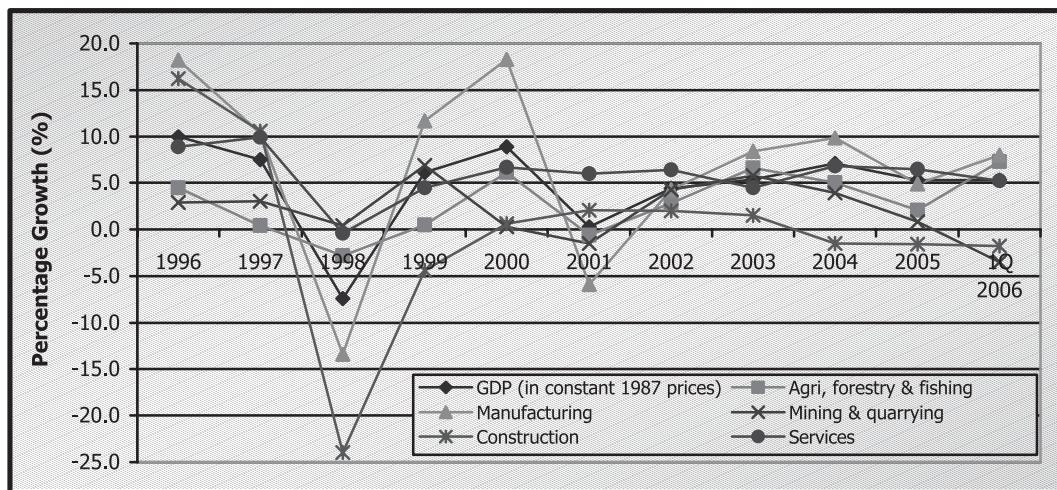
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2.1 THE MALAYSIAN ECONOMY (CONT'D)

However, amidst the high inflation rate and fuel prices as well as an electricity tariff rates hike, the Malaysian economy maintained its growth momentum at a rate of 5.3% in first quarter 2006. Prospects for the Malaysian economy growth in 2006 are expected to be strong. Of significance, the outlook for global economic growth remains sound and would be driven by the upturn in the global investment as well as the recovery of the global electronics cycle. Commodity prices have also shown signs of remaining firm. On balance, the Malaysian economy would benefit from the rebound in electronics, firm commodity prices and a resilient domestic demand. Under these conditions, Malaysian GDP growth rate could edge up to 6.0% in 2006. (Source: Bank Negara Malaysia)

Sectoral Growth of the Malaysian Economy (From 1996 to 1Q 2006)



Source: Bank Negara Malaysia, 1996 – 2006

## 2.2 THE FEDERAL TERRITORY OF KUALA LUMPUR ECONOMY

The economic performance in Kuala Lumpur for the years 1995, 2000 and 2005 (as presented below is extracted from Ninth Malaysia Plan.

The GDP for Kuala Lumpur has increased from RM21,157 million in 1995 to RM25,968 million in 2000, at an average annual growth rate of 4.2%. The GDP for Kuala Lumpur increased to RM30,146 million in 2005 and is estimated to achieve RM40,533 million in 2010. The following table shows the GDP for Kuala Lumpur for the period of 1995 to 2010:

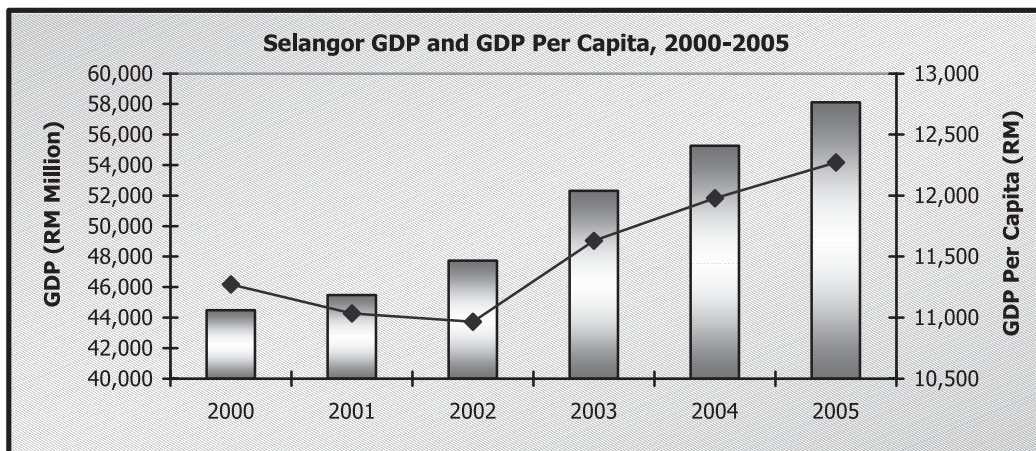
State	GDP (RM million)				Average Annual Growth Rate (%)		
	1995	2000	2005	2010 *	1995-2000	2000-2005	2005-2010 *
Federal Territory of Kuala Lumpur	21,157	25,968	30,146	40,533	4.2	3.8	6.1

Note: \* Estimate

Source: Ninth Malaysia Plan, 2005 – 2010 and WTW Research, November 2006

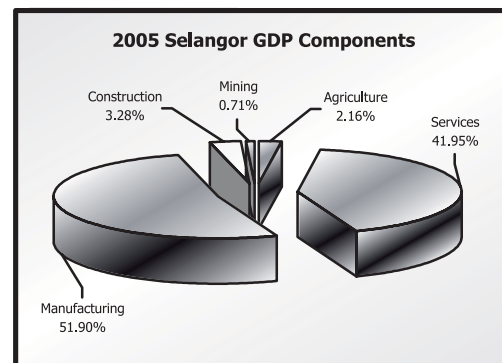
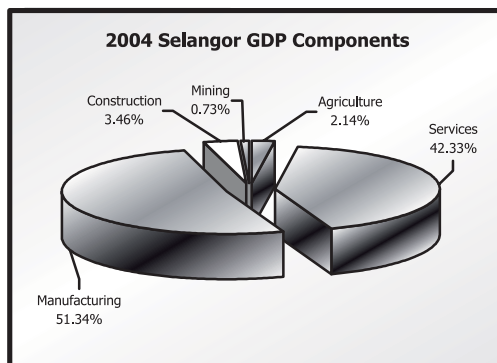
### 2.3 THE SELANGOR STATE ECONOMY

The following section looks at the performance of the state of Selangor for the years 2000-2005. The GDP per capita in the state of Selangor recorded an increase of 2.4% from RM11,977.8 in 2004 to RM12,269.8 in 2005. The state of Selangor registered a GDP growth of 5.2% from RM55,264.2 million in 2004 to RM58,110.8 million in 2005. The following chart shows the GDP and GDP per capita for Selangor in 2000-2005.



Source: Selangor State Investment Centre, 2000-2005

The following charts show the contribution of each economic sector to the state's GDP in 2004 and 2005 :

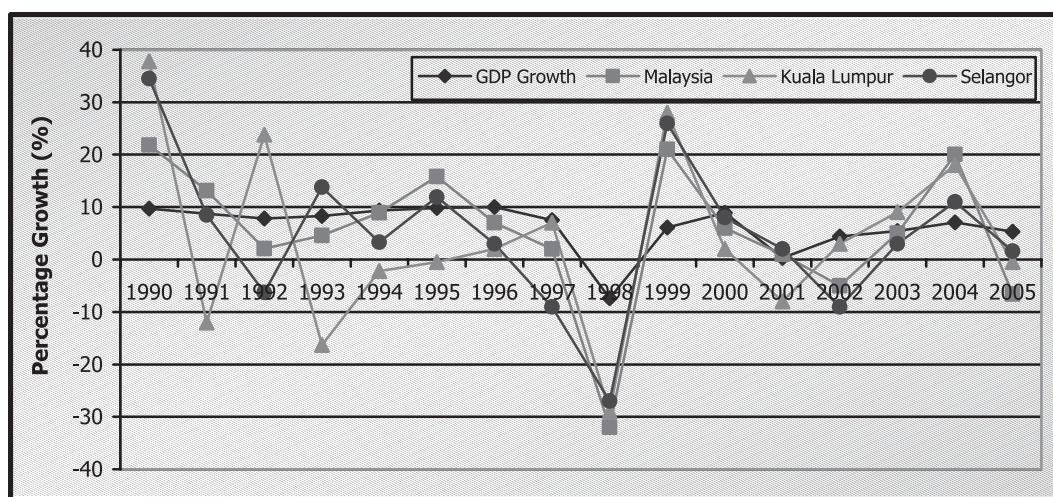


Source: Selangor State Investment Centre, 2000-2005

The major contributor to the state's GDP was the manufacturing sector contributing about 51.34% in 2004 and increased slightly to about 51.90% in 2005. The manufacturing sector generated a turnover of RM31,672.1 million in 2005. The second largest contributor to the state's GDP was the services sector contributing of about 41.95%, which generated RM25,603.2 million in 2005. In terms of GDP components, the agriculture sector, mining sector and construction sector contributed about 2.16%, 0.71% and 3.28% respectively in 2005.

## 2.4 PROPERTY MARKET CYCLE

The following chart shows the percentage change in the volume of transactions for Malaysia, Selangor and Federal Territory of Kuala Lumpur versus the Malaysia's GDP growth for the period of 1990 - 2005:



Source: Bank Negara Malaysia, 1990 – 2005 and Property Market Report, 1990 – 2005

The Malaysian economy has performed remarkably well from 1990-1997 at an average growth rate of 8.7%. The year 1990-1997 could be considered as the property boom period as the total volume of transactions in Malaysia recorded by the Valuation and Property Services Departments, Ministry of Finance were increasing annually from 165,272 transactions in 1990 to 275,328 transactions in 1997. Additionally, during the property boom period of 1990-1996, it is observed that the prime office spaces in Klang Valley enjoyed high occupancy rates of between 91%-94%.

However, the GDP growth momentum was disrupted by the severe economic contraction in 1998 arising from the East Asian financial and economic crisis with Malaysia's GDP recording a negative growth rate of 7.4% in 1998. Similarly, the total volume of transactions in Malaysia decrease significantly at 32.4% from 275,328 transactions in 1997 to 186,077 transactions in 1998. The declining situation was also observed in the performance of office space in Klang Valley whereas average occupancy rate is observed to dip from 91% in 1996 prior to the economic crisis to 77% in 1997. During the financial crisis in 1998, occupancy rate remained low at 77%.

Efforts by the government to resuscitate the economy starting from mid-1998 succeeded in generating a GDP growth of 6.1% and 8.9% in 1999 and 2000 respectively. This is matched with the improved total volume of transactions in Malaysia as well as the improvement in performance of office space in Klang Valley.

## 2.4 PROPERTY MARKET CYCLE (CONT'D)

In year 2001, Malaysia's GDP recorded a growth rate of only 0.3% as a result the volatility in the global economy. Hence, the total volume of transactions in Malaysia slowed down as well in 2002 registering a negative growth rate of 5%. Performance of office space in Klang Valley is also observed at a low occupancy rate of 76% in 2001 and 2002 respectively.

Despite the uncertainties arising from international terrorism and the outbreak of the Severe Acute Respiratory Syndrome (SARS), the Malaysian economy continued to register strong growth rates of 4.4%, 5.4% and 7.1% in 2002, 2003 and 2004 respectively. On the back of strong economy performance, the total volume of transactions in Malaysia are also noted to have increased from 231,394 transactions in 2002 to 243,376 transactions and 293,212 transactions in 2003 and 2004 respectively. In terms of the performance of office space, the occupancy rate of prime office buildings in Klang Valley has improved, registering 80% and 82% in 2003 and 2004 respectively.

After growing by an impressive growth of 7.1% in 2004, the Malaysian economy moderated with a recorded growth rate of 5.3% in 2005. The total volume and value of transactions is also noted to slow down registering 276,508 transactions at RM56,781.72 million in 2005. However, Klang Valley office market is still on an upward trend with the average occupancy rate recording 84% in 2005.

Prospects for the Malaysian economy growth in 2006 are expected to be strong with the GDP growth rate estimated to edge up to 6.0% in 2006. However, due to the concerns of the further increases in interest rates, petrol prices as well as electricity tariffs, the general property market is unlikely to be buoyant in 2006. However, interests shown by institutional investors / property funds both local and foreign would provide the impetus and most likely compress yields further, as quality investment properties continued to be much sought after.