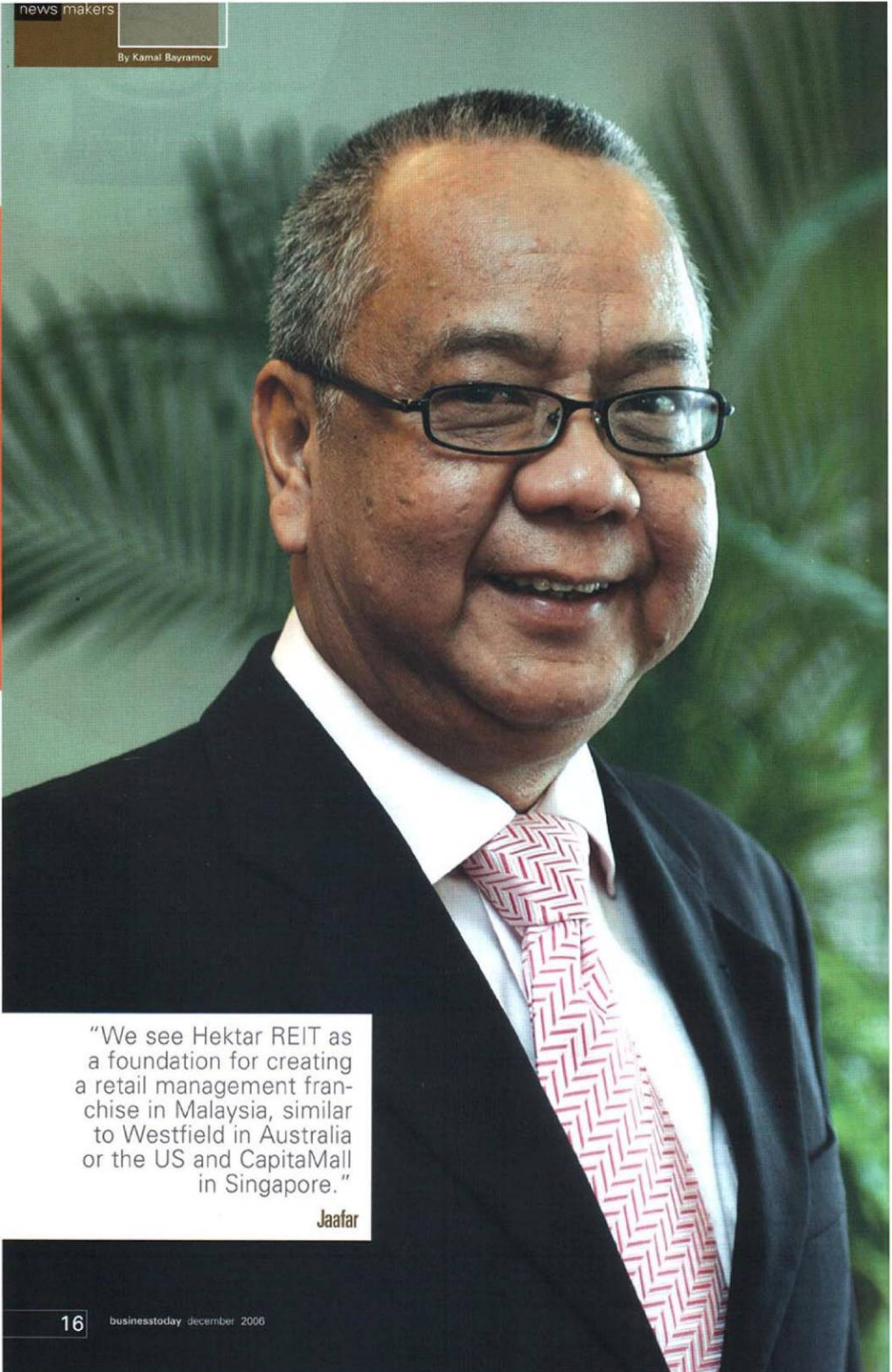


news makers

By Kamal Bayramov



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Jaafar

Elevating the retail experience

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retail experience

Hektar reit is joining the ranks of malaysia's up-and-coming reits as a pure-play retail reit - part of the group's plans to create a superior retail lifestyle



Hektar Group, which plans to build top-notch retail environments for Malaysian consumers, has positioned its real estate investment trust (REIT) to ensure a defensive investment, with a focus on improving capital value over the long term.

The Hektar Group of Companies, which was founded in 2002, focuses on the ownership, management and operation of shopping centres. It comprises Hektar Premier Sdn Bhd and Hektar Black Sdn Bhd, which fully owns and manages Subang Parade (SP) and Mahkota Parade (MP), respectively. A third company, Hektar Klasik owns a land bank in Nusajaya, Johor, which is to be developed into a new lifestyle shopping centre.

Hektar Asset Management Sdn Bhd, a subsidiary of Hektar Klasik which was incorporated in 2006 (formerly known as Impiland Sdn Bhd), will manage Hektar REIT. Hektar REIT's fund size will be 320,001,000 units.

Elaborating on Hektar REIT, Hektar Group chairman and chief executive officer, Datuk Jaafar Abdul Hamid says: "We see Hektar REIT as a foundation for creating a retail management franchise in Malaysia, similar to Westfield in Australia or the US and CapitaMall in Singapore."

Jaafar points out that Hektar REIT is the first pure-play retail REIT in the country. "We are committed to one sector and focus on retail properties. We benchmark ourselves internationally," he notes.

the appeal in retail properties

SP, one of the first regional malls built in Selangor in 1988, was popular among Klang Valley residents and visitors from all over Malaysia. With the rising number of new malls throughout the country, it was important to ensure SP maintained its appeal.

"The malls selected for acquisition possessed solid fundamentals, but were not optimised to their full performance.

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These malls have been upgraded, with enhancements ranging from a new food court in MP in Malacca, a new digital centre and an extensive internal refurbishment in SP," he explains. According to him, feedback from shoppers and retailers of SP and MP has been positive and the company plans to expand the Hektar shopping centre management franchise and identify promising shopping centres around Malaysia.

SP is being sold at RM280 million to the REIT, a slight discount of 3.4% to valuation of RM290 million, while MP is being sold at RM232 million to the REIT, a slight discount of 0.4% to valuation of RM233 million.

Says Jaafar: "We will retain a 50.16% stake in the REIT after listing and expect a good yield in terms of nettable rent. From an investor's point of view, the advantages of REITs include being able to invest in commercial-grade real estate such as shopping centres and the opportunity to invest in another asset class aside from bonds and stocks.

"However, it is vital that investors take a long-term view when investing in REITs for greater capital appreciation." Hektar Asset Management has a committed dividend policy of distributing 90% of Hektar REIT's distributable income for the next three years. modern management of shopping centres
SP's current occupancy rate is 98.5%

as at September 30 this year, with pedestrian traffic of 5.7 million visitors last year or 109,000 visitors a week. Meanwhile, MP had 95% occupancy during the same period, with pedestrian traffic of eight million visitors in 2005 or 153,000 visitors a week. SP and MP possess high occupancies due to their strategic locations, relevant tenant mix and large population catchment.

Says Jaafar: "We use modern shopping centre management indicators. Some shopping centres have high occupancy levels but declining rental rate growth. This is because the management is forced to reduce rental rates to retain tenants."

The company's portfolio includes 221 tenants as at September 30 this year, with 57.9% of tenancies having step-up rental and 87.3% of tenancies, turnover rent. He sees tremendous potential in Malaysia for retail development and refurbishing retail properties to suit modern standards.

The company aims to create more world-class malls by providing state-of-the-art facilities such as well-designed car parks with adequate parking bays and little touches such as automated toilets which are popular among shoppers and tenants alike.

"Another key element is aligning the business with tenants and viewing tenants as partners. Helping our retailers increase their sales is part of our business model."

servicing the underserved

Jaafar believes Malaysia has a good share of shopping centres but the concentration of first-class shopping centres is located in Kuala Lumpur. "To a large extent, Kuala Lumpur can be considered fairly well-served with shopping centres. But outside the capital and the Klang Valley, there are plenty of Malaysian shoppers who are underserved," he opines.

"We are planning a world-class lifestyle retail shopping centre in Nusajaya to serve the southern Johor region and Singaporean visitors. We want to increase our rentable space and such a centre will enable us to do so more efficiently than an enclosed mall.

Jaafar envisions significant potential for retail development and a wide scope for refurbishing retail properties to update to modern standards. "We have a goal of owning and managing five million sq ft of space within five years," he concludes.

HEKTAR PROPERTIES RENEWED TENANCIES FOR BOTH SP & MP:

For FYEs 31 December	Number of expired tenancies renewed	Renewed tenancies average rental increase over previous rental rate (%)
2004	66	17.1%
2005	49	21.4%
As of 30 Sept 2006	14	16.9%

Source: Hektar Group.

