

## RealInvestment

By Ivan Tan



# Parading In Style

19 years ago, when Subang Parade was launched, shoppers were awe-struck with the massive structure of this new shopping centre. It provided a place for families and friends to shop, gather and dine with enough room for kids to roam freely. But that was it! Subang Parade was just a massive shopping centre that over the years have found itself lost amidst the growing retail malls around Klang Valley. Today, 19 years later, families and friends are coming back in droves again. Find out why as Hektar Group tells Home Finder about what it has done to draw the crowd back to this long forgotten mall.

**E**stablished in 1988 with over 472,000 sq ft of retail space, Subang Parade was acquired by the Hektar Group at RM233mil from the Lion Group in August 2003. At that time, it was already on its downward spiralling mode without much of its fanfare today.

One of the main problems faced by

Hektar during the takeover was the lack of a good management structure and limited experience in shopping centre management.

“They didn’t even have the right tools to manage a shopping centre aggressively,” shared Christopher Mears, Executive Vice President of Hektar Asset Management responsible for bringing Hektar’s properties to

international standards.

Hektar also had difficulties in sourcing for financing because local financiers did not fully understand the retail proposition. “Basically they couldn’t understand how a shopping centre could be transformed without adding more floor space because conventionally, you’d get more income when you have more floor space,” said Chris.

And if that's not bad enough, Hektar also acquired Mahkota Parade, Melaka's leading shopping mall within a space of 8 months from Subang Parade. So then, whatever the problems faced by Hektar from Subang Parade alone had suddenly doubled. To top it all off, they were both considered as aging malls.

So, what was the game plan then to convince the naysayers?

"The key is to bring the best practices into our malls and localise it," says Chris. With over 17 years of shopping centre management ranging from community to regional malls, he led the team by implementing change from the very first day!

Together with his team, they went on to analyse every bit of the mall, from tenants to space utilisation, lightings to floorings and even the systems used to manage the malls. It was also prepared to accept a drop in income and traffic flow in case it needed to take time off to implement the changes for long term benefits.

## Subang Parade

- Occupancy increased from 96% to 100% since takeover
- Seeking more homeware and fashion stores
- Refurbishing car parks, adding pavements and 2 more entrances and exits
- Increase more kiosks in centre court
- Expanding 2 acres over a three year plan by early 2008

## Mahkota Parade

- Occupancy increased from 83% to 95% since takeover
- Seeking more fashion stores and restaurants
- Expanding 3-acre land bank to create 120 more retail outlets



The upgraded exterior of Subang Parade

Among the first things Chris and his team did was to streamline the systems by employing the right tools. For instance, Footfall was installed at every entrance and exit points to measure the traffic flow; a brand new accounting system which include up-to-date marketing information such as performance indicators and leasing information; and internet broadband ready computers for the staff.

"With these systems in place, we were then equipped with qualified data to help us make timely and informed decisions," explained Chris.

Utilising this information, they went on to discuss upgrade plans with each retailer in an unconventional way.

"We presented our plans to the retailers and make them part of it instead of the conventional way where they are only informed of the changes after implementation. This way, we'll have the trust of the retailers and the implementation will be smoother," says Chris. This strategy proved successful as the turnaround in Subang Parade was perhaps the least painful compared to the ones Chris dealt with in Australia.

"Retailers were even asking when their upgrade will be instead of the complaints I received in the past in Australia!"

Part of its turnaround plan involves a

heavy investment into its people. Staff were sent overseas, mostly to Australia, for training so that they are exposed to professional management in areas like leasing, marketing and management outside Malaysia. Some were even sent to Singapore recently to attend a Risk Management Conference. The rationale? To keep their knowledge current with what others are doing and to change their mindset beyond merely creating a beautiful shopping centre.

Unlike most corporate takeovers, Hektar retained most of the staff from the original team. As Chris points out, "We took over the malls as they were and the only thing that changed is our way of managing shopping centres. Essentially, it is giving them the right tools and the autonomy to manage because most of them already have the aptitude for do the job."



Chris, you can make your mall different but to turn the mall around is a different thing



Zalila, double digit growth in rent is possible

Hektar understood that by empowering the staff and giving them the right tools, they could manage the malls better because the staff already had some kind of relationship with the retailers. To further show its commitment, Hektar adopted a flat organisation structure to encourage open communication between management and the staff. This added another dimension for the staff where they are not only equipped with the right tools but also the right communication channel and most importantly, the morale support to carry out their daily tasks.

The confidence has indeed shown through the changes in the malls. Over a period of 2.5 years, the malls have taken a new look, style and vibes. People are back, shops are open and the mood is livelier than ever.

When asked what were the most significant changes in the malls, Chris said, "There's a whole gamut of stuff that were changed like the restrooms, mothers' rooms, new directory boards, hand-held directories, brighter car parks, better tenancy mix and much more."

He also explained that since female shoppers often walk away when the restrooms are unpleasant, Hektar took it as a top priority to upgrade them.

"Today, our toilets are air-conditioned, have music, a toilet roll in every cubicle and are cleaned every 20 minutes. We also made sure that the floor is not slippery," he says. Coming from Australia, Chris recognised the potential problems

of public liability. To ensure the shopping experience is not marred by such problems, Chris actually took 2 years to search of the right flooring for the malls.

"This way, we can concentrate on our daily jobs without worrying who is going to be hurt next," says Chris.

While these changes do not really translate directly into sales dollars, it does create a more satisfied customer. More importantly, the number of shoppers has since increased and they now tend to stay in the malls longer than before.

### Appreciation

Like the traffic flow, other important figures have also chunked up. According to Pn Zalila Mohd Toon, Executive Director and Chief Financial Officer of Hektar, property value of the malls have increased about 40% in 2 years. Mahkota Parade saw a larger increase due to the heavier and effective marketing. Subang Parade did not really increase as much because it was initially under rented and being in Klang Valley made it more difficult to raise rents.

"The appreciation says a lot about our rental values because rent rates are used to appraise the value of our properties," Zalila says. She also affirmed that as the malls become increasingly viable, a double digit increase in rents will not be out of the ordinary. This will surely boost the value of Hektar's REIT (Real Estate Investment Trust) in the market.

As of December last year, Hektar joined the Malaysian REITs bandwagon by injecting both the malls into Hektar REIT. This amounted to RM523mil for a total net lettable area of over 944,000 sq ft. According to some analysts, Hektar REIT's forecasted yield of 8.5% actually ranks among the highest in Malaysia. The top executives of Hektar were quick to point out that in matured markets like America and Australia, retail REITs have always been classified as blue chip and commands premium value. So, is Hektar going that route? "Most definitely and that's the reason we're here!" Chris exclaims.

From the perspective of a REIT, Hektar will look at injecting one to

two properties yearly. At present, it is evaluating up to 10 properties and one or two of it may make the cut into Hektar REIT within the next 12 months. Being the pioneer of a purely retail REIT (*Starhill REIT is a mixed of retail and hotel*) in the market seems to fuel Hektar's passion to succeed even further as it believes the infancy of Malaysia's REIT market will give it the time and space to grow the segment properly.

When asked if Hektar intends to diversify to include non-retail properties, a resounding no for the immediate future is the answer. The Hektar Group explain that if diversification is an important factor, it should be done at the investor's portfolio level. Further, it adds that the size of the local REIT market is small yet good enough for one to specialise.

Moving forward, both Subang and Mahkota Parade will be expanded aggressively in the coming years (*see Subang Parade and Mahkota Parade*). With the almost new malls serving as testament to what Hektar is capable of, this weirdo at the fringe has finally won the hearts of many and proved its point on how Retail can actually be transformed without adding on more space, well at least for the short term. With the market's buoyant mood off late, Hektar's mission seems to be crystalising everyday. A walk in Subang Parade on a weekday was enough to attest to Hektar's calibre. Now, if only all shopping centres can be turned around this way, it would make shopping more pleasant when Christmas comes around!

### Hilltop, Nusajaya (pending approvals)

- Super-regional lifestyle shopping centre marrying outdoor and air-conditioned experience
- 1.1 million net lettable area over 2 storeys
- Popular in United States
- Architectural design is from Australia
- Artworks throughout the mall