

THE EDGE THE WEEK OF JANUARY 14 | 2008

# City & Country

Viva 2008!  
MY SPACE PG2



## Top developers’ views on the property market in 2008

Turn to **Pages 10, 12, 14 & 15** for the thoughts of winners of **THE EDGE Top Property Developers Awards 2007**



Left to right: (Top row) John K H Lim, Tan Sri Francis Yeoh, Chan Wan Leong; (Middle row) Datuk Mohd Azahari Kamil, Stewart LaBrooy, Chan Say Yeong; (Bottom row) Anthony Ooi, David Khor, Datuk Jaa'far Abdul Hamid

# PUTTING THE SPARKLE BACK IN REITS

This year marks the third anniversary of the local REITs industry. After taking off in 2005, the excitement seems to have waned. What do players wish for? Turn to **pages 2, 4, 6 & 7** to find out.

## Do more to stay competitive

**Datuk Jaafar Abdul Hamid**  
CEO Hektar Asset Management  
Sdn Bhd (manager of **Hektar REIT**)



ABRIL GUNANTO/STAR/THE EDGE

### Outlook for commercial property market in 2008

Hektar REIT is focused on the retail sector, which is unique because its fortune is influenced by consumer spending and the overall health

of the economy.

Driven by stable consumer confidence and economic sentiment, the retail sector is in a healthy state. Retail sales recorded growth of 8.4% in 2006, reaching RM59.5 billion. While official figures are not yet available, the projected growth rate for 2007 was around 8%, as published by the Retail Group Malaysia.

With retail spending healthy, the demand for retail-focused property is consequently strong. In terms of development potential, the retail supply in the Klang Valley and Penang is quite adequate and the demand for retail shopping space in other states is high.

The Hektar group sees that significant opportunities exist for the development of purpose-built shopping malls in towns, which have population exceeding 100,000 throughout Malaysia. Currently, residents in those towns usually shop at supermarkets or small department stores and travel to the main metropolitan areas, such as Kuala Lumpur, on the weekends to patronise the larger malls.

These consumers represent pent-up demand for purpose-built malls and should drive mall development, which is something we can do on our own or in partnership with local developers.

### As a REIT manager, what kind of properties interest you and in which locations?

Hektar REIT is primarily focused on retail properties and as such, is interested in acquiring and refurbishing shopping malls throughout Malaysia.

Our current portfolio includes a fully refurbished Subang Parade, which has recently experienced a resurgence in consumer traffic and is 99% occupied. In Melaka, we have the Mahkota Parade, which was recently named the Best Shopping Experience-Shopping Complex by the state government. We are also selectively refurbishing the mall.

We see a significant business opportunity in refurbishing established purpose-built malls, with a department store or supermarket anchor and a minimum size of net lettable area 150,000 sq ft.

The established older malls have great potential. For example, a 10-year-old mall would have a ready catchment in a well-developed residential township. There may be limited land left, thus creating barriers to entry for new entrants.

In addition, while the township's demographics would be established, often the mall's tenants are a tired mix due to a mismatch between the existing tenants and the market demographics they are expected to serve. As a result, they do not get much patronage from the local market and the mall manager

is not able to charge premium rents.

The opportunity for Hektar REIT is to acquire these malls, study the local demographics, refurbish, reposition and improve the tenant mix. This will result in an appreciable upside for the asset. We believe that applying international retail management best practices and understanding the local markets is a winning formula for our business.

### Comments on the Malaysian REIT industry

Hektar remains an enthusiastic player in the Malaysian REIT industry. Since 2005, 11 new REITs have been launched in Malaysia, owning or controlling more than RM5 billion in commercial property assets. It is a good start, but obviously we have a long way to go when compared to other REIT markets in the Asian region.

The government continues to provide incentives to facilitate growth of the sector, such as waiving the Real Property Gains Tax. Other incentives include raising the REIT gearing to 50% and increasing the foreign equity ceiling for REIT management companies to 70%.

### Your wish list for the industry

Given the pace of reform in other countries, Malaysia needs to do more to stay competitive.

The tax regime for Malaysian REITs or M-REITs must continue to remain competitive. In Singapore, resident investors in REITs are not taxed, while in Malaysia, the tax bracket is 15% for individual investors. For foreign institutions, the tax rate in Singapore is 10%, while here we have a withholding tax rate of 20%.

The typical overseas-based fund managers or analysts would view our REITs on a helicopter basis, that is, from a big picture perspective in comparison with other REITs in the region. Thus, if a M-REIT yields 6%, they would value it on a net basis of 4.8%, less 20% withholding tax. Even before factoring in currency risk, this will then be compared to other regional REITs in Singapore and Hong Kong.

A reduction in withholding rates would thus boost M-REIT regional competitiveness and encourage further foreign investment.

Hektar REIT's foreign ownership is almost 40%, with established institutional investors from Singapore, Hong Kong and Europe. We believe that our key investors have invested in Hektar REIT based on the long-term prospects of the retail business in Malaysia and our proven track record and capability.

Another area we would like to see some relaxation is in the development scope for REITs. Currently, M-REITs are prohibited from undertaking any development, which is not the case in the US, where REITs were first established in the 1960s. We would welcome a proposal for REITs to conduct development projects in value, say, of up to 20% of gross asset size, particularly for retail REITs, where there is always a fair scope for redevelopment and refurbishment. This development scope would allow Hektar REIT to conduct more redevelopment projects, thus providing a greater prospect of return for our investors. ■

### HEKTAR REIT

The REIT focuses on investing in commercial retail shopping centres and was listed on the Main Board of Bursa Malaysia in December 2006.

#### Building name/location

Subang Parade, Jln SS16/1, Subang Jaya  
Mahkota Parade, Jln Merdeka, Malacca

#### Description/net lettable area (NLA)

Shopping centre/500,000 sq ft  
Shopping centre/541,120 sq ft