

Hektar REIT sees steady rentals next year

Income to be driven by high occupancy rates of retail properties

By **RACHAEL KAM**
rachael@thestar.com.my

PETALING JAYA: Hektar Real Estate Investment Trust (Hektar REIT) is expecting stable rental incomes next year due to the high occupancy rate of its retail properties as well as a positive trend in its rentals.

The REIT also sees less impact from the economic slowdown as its portfolio consists of the more resilient neighbourhood shopping malls.

Hektar Asset Management Sdn Bhd, the manager of Hektar REIT, said as of the third quarter of this year, the occupancy rate of its retail properties was a solid 96.8%.

“With the majority of our income secured by multi-year leases (three to four years), we will have stable income in 2009,” Hektar Asset executive director and chief financial officer Zalila Mohd Toon told StarBiz.

Zalila said Hektar REIT, which currently owns a property portfolio valued at around RM700mil, remained positive on rental rates.

As at end September, rental rates for 30 new or renewed tenancies in its portfolio had increased by an average of 6%.

Hektar REIT’s retail properties are mainly suburban and neighbourhood malls, which are smaller than regional or city malls.



Zalila Mohd Toon

Its portfolio consists of Subang Parade in Subang, Mahkota Parade in Malacca and Wetex Parade in Muar, Johor.

Hektar REIT now owns more than one million sq ft of space and has over 300 retailers in its portfolio.

The size of neighbourhood malls averages around 500,000 sq ft, or about half the size of so-called regional malls like Suria KLCC.

Zalila said a neighbourhood mall, like Subang Parade, was focused in two ways.

Firstly, it was geared toward serving the surrounding communities living within 15 minutes’ driving distance.

Secondly, the tenant mix was concentrated on basic goods and necessities, and other lifestyle elements,

Occupancy rates of Hektar REIT’s properties (%)

Property	As at Dec 31, 2003	As at Dec 31, 2004	As at Dec 31, 2005	As at Dec 31, 2006	As at Dec 31, 2007	As at June 30, 2008
Subang Parade	97.7	93.4	98.3	98.5	99.9	100.0
Mahkota Parade		86.8	96.9	94.9	93.9	97.3
Wetex Parade						90.8
Overall*	97.7	91.3	97.6	96.7	96.9	97.4

* Approximate average weighted by net lettable area.

but not luxury items.

“Therefore, we think neighbourhood malls have a more resilient business model than the larger regional malls in difficult times (recession),” Zalila said.

Hektar REIT has also kept track of their retailers’ performance.

“More than 90% of our retailers in Subang and Mahkota Parade so far reported that their sales figures remained intact,” Zalila said.

On the flip side, she said when the economy was booming, the regional malls could do better as they could charge higher rental rates.

“The challenging financial market and stock market, in general, has not affected the operating environment for Hektar REIT’s retail assets at this time,” she said.

Going forward, Zalila said Hektar REIT would continue to focus on completed or nearly completed retail assets, and it would grow its asset

base via acquisitions.

According to the Malaysian Valuation and Property Services Department, there is close to 90 million sq ft of shopping centre net lettable area, or space for rent, in Malaysia.

“That means we have a market share of just over 1%,” Zalila said. “We see big opportunities for growth and development, particularly outside of the Klang Valley as almost a quarter of Malaysia’s shopping centre space is in Kuala Lumpur.”

On the impact of the global credit crunch, Zalila said in terms of securing financing in Malaysia, the REIT had long-term relationships with major financiers.

For the financial year ended Sept 30, Hektar REIT generated a total revenue of RM61.98mil, of which RM61.83mil was from rentals.

It also declared a dividend of 2.4 sen per unit.