



Hektar REIT Continues To Be Resilient In Difficult Times

Despite the current economic conditions, Hektar's occupancy rate stood at 97 per cent as at Q2.



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Can you tell us more about Hektar Real Estate Investment Trust (Hektar REIT)? What were your challenges during the early years?

Hektar REIT remains Malaysia's first retail-focused REIT. We listed in December 2006 and currently own a property portfolio valued at around RM700 million. Our portfolio consists of shopping centres: Subang Parade in Subang, Mahkota Parade in Melaka and Wetex Parade in Johor. In total, we now own more than 1 million square feet of space and over 300 retailers in our portfolio.

Some of our challenges in the initial period were attracting interest from investors. Most people did not know about Hektar and many felt our property portfolio was past its prime. We had to spend some efforts to demonstrate our business model and the work accomplished at our flagship property, Subang Parade. We showed investors how we transformed Subang parade from a has-been property to a prime neighbourhood mall. For Hektar REIT, the numbers eventually spoke for itself.

Tell us more about Hektar's performance over the past few years.

Hektar had a great year in 2007, outperforming the KLCI. First of all, we delivered Dividend Per Unit (DPU) of 10.71 sen, which was 11.2 per cent over our budget forecast.

That represented a dividend yield of 10.2 per cent for our retail investors. Second of all, our unit price appreciated from an IPO price of RM1.05 to end the year at RM1.51, an increase of 43.8 per cent.

In 2008, we had a challenging year, like most listed companies on Bursa Malaysia. Our unit price declined by almost half, but so far in 2009, it is up 44 per cent year-to-date, closing at RM1.09 at the end of August.

Our second quarter 2009 results remain solid, with our net income per unit reaching 2.77 sen, or 5.62 sen for the first 6 months of 2009. Our revenue this year is 10 per cent higher than for the same period in 2008. Based on our dividend record of 2.4 sen per quarter and closing price of RM1.09, Hektar is trading at an implied yield of 8.8 per cent

Did the global economic slowdown have an impact on your company?

Since late 2008, we've had a difficult year for the stock market in general, but it has not affected our operating environment for Hektar's retail assets at this time. So far this year, our occupancy is solid at 97 per cent as of the second quarter of 2009.

Our business model is unique in that we also track the performance of our retailers. More than 90 per cent of our retailers in Subang and Mahkota Parade report their sales figures to us. So far, sales figures remain on trend.

One of the reasons for this is due to the fact that Subang Parade is a neighbourhood mall, versus a regional mall.

Hektar's malls are mainly suburban, neighbourhood malls with a focus on market catchment. As a result, they are smaller than some of the other regional malls and so do not need to depend on a larger market. For

example, Subang Parade is a neighbourhood mall, just large enough to serve the consumers of Subang Jaya and USJ. Consequently, it does not have any direct competition as there are no nearby malls of a similar size within 10 minutes. It does receive indirect competition from the larger, regional malls which are 20 minutes away, but other than that, its tenant mix is focused on the needs of the 700,000 people living within 15 minutes drive time distance. As a result, Subang Parade's tenant mix tends to focus on basic necessities, which consumers need even in times of a recession. Therefore, we think neighbourhood malls have a more resilient business model than compared to the larger, regional malls.

There are differences between regional and neighbourhood malls. For a start, neighbourhood malls are smaller, around 500,000 sq feet or about half the size of KLCC. Regional malls like KLCC are therefore much larger, starting at over a million sq feet.

The difference in sizing therefore reflects the mall's positioning. At 1 million sq feet, regional malls would thus have a strategy of 'one-size-fits-all', meaning a wide variety of leisure, entertainment, F&B and fashion all under one roof. As a result of its size, regional malls must concentrate on attracting traffic from local neighbourhoods and other regions, or roughly people living as far as 30-45 minutes away.

In contrast, a neighbourhood mall, like Subang Parade, with less space, is thus more focused. It is focused mainly on people living within 15 minutes of the mall, hence the term 'neighbourhood' mall' and second, its tenant mix is thus concentrated on the needs and requirements of the 'neighbourhood'.

As a result, neighbourhood malls like Subang Parade, tend to focus on basic goods

and necessities and other lifestyle elements, but not on luxury items. Therefore, during a downturn, consumers tend to cut back on luxury items, entertainment such as movie visits and so on, but still need to spend on basic necessities such as visits to the pharmacy, fast food, and so on.

In difficult times, neighbourhood malls are considered more resilient.

Do you think consumer spending will continue for the rest of 2009? What is your view on the present global economic situation? Do you think we are in a recovery?

We believe the global economic situation remains uncertain with several conflicting points of view. On one hand, the capital markets appear to have staged a decent rebound from its low earlier in the year, on the other hand the economic indicators such as unemployment remain fairly high in developed countries – how will this drive consumer growth? The 'China effect' remains to be seen how it will impact global economies as most of the Chinese government stimulus has been directed towards the domestic sector. We will continue to monitor the global situation carefully.

Closer to home, we have seen some moderation in spending in certain categories, however most of the impact has been felt in our Melaka market. We attribute the impact from increased competition in that market, hence our initiative to fully refurbish Makhota Parade over the next year. In Subang Parade, we still continue to see positive consumer spending growth. We believe that is due to the relative affluence of the white-collar professionals living in around Subang Jaya, a segment which has not been affected in Malaysia at this time, employment-wise. Our

statistics are based on the turnover records provided by more than 90 per cent of the retailers in Subang and Mahkota Parade, which therefore give us a good grip on consumer spending in these markets. We have just initiated the same programme in Wetex Parade in Muar, so we now have a monitor on the north-west Johor market.

Your share price has been steadily climbing since July 2009? Do you see this upward trend resulting from the recent new changes or liberalization in government policies or perhaps new management initiatives? Or improved market sentiments? What are your views?

We believe REITs as an investment vehicle is finally catching on with individual investors, though the most important factor has been the establishment of a track record. Hektar REIT now has 2 years of track record, which has been a positive factor for investors in their decision-making; in 2007, we paid investors 10.71 sen over a 13-month period (since Hektar REIT IPO was in December 2006), which works out to 9.89 sen annualised. In 2008, we paid 10.20 sen, which was a 3.1 per cent increase over 2007. We pay our dividends on a quarterly basis, so investors receive cheques every 3 months. Finally, in June 2009, when our price was trading in the 90 sen range, that demonstrated a trailing (past) yield of 11 per cent. I believe these factors were very appealing to investors and as a result, the share price has been climbing since July.

For this year alone, we have already paid out 2 quarterly dividends at 2.4 sen. Our third quarter ended in September and we will likely announce the results and dividend

payout in November.

Are there plans for acquisitions or additions to the current portfolio? What are your strategic plans for the future? What kind of short and long-term challenges do you expect?

Hektar will continue to focus on retail assets and to grow our asset base via acquisitions. There is close to 90 million square feet of shopping centre net lettable area (space for rent) in Malaysia, according to Jabatan Pencilanaan & Perkhidmatan Harta. We currently own 1.1 million square feet of shopping centre space. That means we have a market share of just over 1 per cent. We see huge opportunities for us to consolidate shopping centres throughout Malaysia. Almost a quarter of shopping centre space is in Kuala Lumpur alone. That means there remain big opportunities for growth and development, particularly outside of the Klang Valley.

Our strategic plans for the future include initiatives to develop shopping centres. Hektar REIT's sponsor includes a private company which is focused on developing retail assets. We aim to develop and own world-class retail shopping centres serving the needs of ordinary Malaysians. There are more than 34 towns and cities in Malaysia with a population of more than 100,000 and we intend to ultimately have a presence in each key market. Research published by market researcher, UrbisJHD in 2006 indicates that there is roughly 3 sq feet of shopping centre space for every Malaysian, compared to about 7.5 sq feet in Australia. As Malaysia moves towards a developed country status within the next decade or so, we can foresee that this gap will close and to reach Australia's levels today, Malaysia will

need to build a lot of shopping centres.

We also plan to leverage our strategic partnership with Frasers Centrepoint in Singapore. Currently, Frasers Centrepoint Trust owns about 31 per cent of Hektar REIT and is a solid cornerstone investor. We continue to explore ways to work together in Malaysia.

In terms of challenges, we do see short-term issues, particularly with the capital markets. While the equity markets have rebounded decently over the last half year, we will observe carefully before committing to an equity issuance to acquire new properties for Hektar REIT.

Over the long term, we hope to create a positive association with Hektar Group and excellence in shopping centre development. "Creating The Places Where People Love To Shop" is our motto and over time, we hope to achieve our vision of owning and managing world-class shopping centres for Malaysians. ■