Mid-size players too can shine in Iskandar Malaysia

All it takes is a prime piece of land and a great masterplan

by ZOE PHOON

SELIA Pantai Sdn Bhd is neither a government-linked company, a public listed developer nor a player in the big leagues. Rather, it's a 70:30 smart partnership between Selia Group and the Johor state government via Kumpulan Prasarana Rakyat Johor Sdn Bhd – and it owns the last large piece of developable land (330 acres) in Johor Baru city that's part of Iskandar Malaysia (IM) where properties are enjoying burgeoning demand from locals and foreigners.

The 330-acre site is where the SouthKey mixed development is taking shape and where investors are expressing interest to jointly develop certain parcels.

Of that, 37 acres will be for the Mid Valley Megamall Southkey project to be developed with IGB Corp Bhd.

Meanwhile, Selia Pantai is reviewing SouthKey's master layout and phasing plan.

"In the revised development, we're proposing a large central park which will be one of the focal points within SouthKey. This is in addition to the megamall which is expected to have a gross development value (GDV) of RM6 billion," Quek Cham Hong, executive director, Southkey Properties Sdn Bhd, a member of Selia Group and the development manager of SouthKey, tells *Real Reserve*.

As the review of the masterplan is still in progress, he said, they have yet to finalise the revised GDV of the whole development which will include "the largest shopping mall in the southern region" and the magnet of SouthKey, hotels, serviced apartments, private medical centre, private/international school, shop-offices, standalone boutique outlets, offices and condominiums.

To be launched in Q2 2013 will be the immediate phase, the RM600 million Southkey Mosaic, which offers five units of four-storey standalone boutiques (built-ups of 22,400sq ft, 32,500sq ft, 43,600sq ft; indicative unit price from RM15 million), 41 units of four-storey shop-offices (5,630sq ft to 13,870sq ft; from RM2.4 million) and 584 units of serviced apartments (676sq ft to 1,509sq ft; from RM485,000 to RM925,000) in two 34-storey blocks .

Meanwhile, The Lakefront shop-offices comprising 127 units in three-, four- and five-storey blocks and a nine-storey office building – with a total GDV of RM235 million and released in early 2011 – are almost fully sold.

This component, of which eight units of Bumiputera-reserved shop-offices are still available, is expected to be completed in January 2014.

"Even though we didn't market The Lakefront overseas, foreign buyers constituted a significant 10% of our sales while Malaysians bought the rest, mostly for own use," Quek said.

"Within a year of launch, the shop-offices appreciated more than 35%. We expect their capital value to go up further when The Lakefront is completed and Mid Valley Megamall Southkey commences construction."

SouthKey is located less than a five-minute drive from the Sultan Iskandar Customs, Immigration and Quarantine (CIQ) complex and within the flagship Zone A of IM. It is served by the Tebrau Highway, Jalan Bakar Batu and Eastern Dispersal Link that connects directly to the CIQ and North-South Expressway. Jalan Bakar Batu, directly fronting the SouthKey site, is currently being upgraded to six lanes from two and the works are expected to be completed in 2014.

"SouthKey's prospects are very good as it's located in a part of JB city with excellent accessibility.

"Location is crucial to the success of commercial developments and we envisage the mall's positive impact on the entire SouthKey development," Quek noted.

(According to media reports, there are plans to inject the mall into IGB REIT by 2015 but that's another story.)

Quek is sanguine about IM, pointing to the growing investments by foreign and local companies and the proposed infrastructure projects such as the Malaysia-Singapore rapid transit system link and Singapore-Kuala Lumpur high speed rail link that will greatly enhance connectivity.

"The recent news on large investments in IM by foreign companies such as Country Garden (Holdings) Ltd and Temasek Holdings Pte Ltd and the joint announcement by the two leaders of Malaysia and Singapore of the enhanced physical connectivity, which itself signifies the vast improvement in bilateral relations, have further boosted confidence of the public and investors in the Johor property market."

Temasek's participation in IM will be positive for sentiments, Quek added, citing the total cumulative committed investments in IM in 2012 which surpassed the target. He also noted that of the committed investments, real estate, at RM35.1 billion, contributed the largest share.

Kenanga Research, following its visit to Johor this month since its last in November 2012, said it's time to position for IM plays.

According to its study visit note, Malaysians and Singaporeans on the ground are becoming increasingly upbeat and are numbed to Malaysia's potential general election risks. This is reflected in the recent well received launches such as Teega, Medini Signature and the ongoing ones in Johor townships which achieved 80%-90% take-ups within weeks, if not days.

And the further government-to-government tie-ups on property (Danga Bay, Medini) and infrastructure projects lend strength to IM's macro story. Meanwhile, direct beneficiaries such as UEM Land Holdings Bhd have also been busy with believable demand drivers such as EduCity, Ascendas' plans to develop a technology park in Nusajaya, Singaporean billionaire Peter Lim's proposed Motorsports City, and China Mall.

The research house thinks the Iskandar Waterfront Holdings Sdn Bhd (IWH) listing on Bursa Malaysia in mid-2013 will likely be done at premium levels to UEM Land and allow other Johor-based developers to play valuations catch-up.

It said it has an upside bias on developers with significant exposure to Johor or those with fast-turnaround projects, noting UEM Land is an obvious bet as, coming after IWH, it will be one of the best newsflow proxies to IM.

Kenanga Research recently initiated coverage on Hua Yang Bhd, tracking the KL-based developer from an affordable housing angle and decent (20%) exposure to Johor.

It also noted that Sunway Bhd (not rated by it) looks attractive given the latter is the third most exposed listed developer in Johor after IWH (when listed later this year) and UEM Land.

Similarly, Eastern & Oriental Bhd (not rated) will also benefit from its joint development of the Avira wellness-related residential project in Medini with Khazanah Nasional Bhd and Temasek.

Crescendo Corp Bhd and KSL Holdings Bhd (both not rated) will also enjoy the ride with their high exposure and low land cost – Crescendo with 100% exposure to Johor and KSL 46% exposure in terms of land banks – although their liquidity is tight, Kenanga Research noted.

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The development's entrance statement

Southkey Mosaic, to be launched in Q2 2013, offers four-storey standalones, four-storey shop-offices and serviced residences with a total GDV of RM600 million. Indicative prices range from RM485,000 for a 676sq ft serviced apartment to over RM15 million for a 22,400sq ft, four-storey standalone. The sales preview is on April 20.

Quek of Southkey Properties says Temasek's participation in IM will be positive for sentiments, citing the total cumulative committed investments in 2012 that surpassed target and of the committed investments, real estate at RM35.1 billion accounted for the largest share

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Sunway, entrepreneur-driven IM play

by ZOE PHOON

BASED on Sunway Group's track record with the development of the Bandar Sunway integrated township in Petaling Jaya, Selangor, Sunway Bhd has the capability to repeat its success with Sunway Iskandar (proposed gross development value of RM25 billion) on its 1,770 acres in Medini/Pendas, according to RHB Research.

The research house also pointed out that while the market is concerned with the impact of general election (GE) risks on government-linked property development companies, Sunway Bhd – which is 48% held by Sunway Group founder and chairman Tan Sri Jeffrey Cheah and 12% by Government of Singapore Investment Corp – is an attractive entrepreneur-driven Iskandar Malaysia (IM) play that's cheaper and low risk.

"Regardless of the GE's outcome, Sunway Bhd's property developments in IM will still take off and the various crossborder agreements executed as these involve Singapore government bodies and corporates. In a worst case scenario, we foresee only potential delays," it noted.

According to RHB Research's company visit note, the tentative Sunway Iskandar masterplan shows 60% residential content and 40% commercial. It will include river (Sungai Pendas)-and sea (the Straits of Johor)-fronting resort residences, theme park as well as components for aged care and education.

Developments in the Medini parcel, where infrastructure is in place, will be rolled out first. Plans for the recently-acquired parcels in Pendas are not finalised yet.

Sunway Iskandar's first phase (GDV: RM350 million to RM400 million), targeted for launch in Q4 2013, will be facing terrace units to be unveiled by Eastern & Oriental Bhd and comprise serviced apartments, a hotel as well as retail and office suites.

The units will be pegged between RM500psf and RM600psf (slightly below the average selling price of WCT Bhd's 1Medini project) to attract crowds for the initial phases and sustain demand for subsequent launches.

The commercial content will serve both Sunway Iskandar and early phases of the residential development at the integrated wellness hub.

Also to hit the market will be Sunway Bhd's semi-dees and bungalows priced around RM1.5 million at another development named Sunway Bukit Lenang near the Mid Valley Megamall Southkey to be jointly developed by IGB Corp Bhd and Selia Pantai Sdn Bhd.

Sunway Bhd entered the IM market at end-2010 when it bought 65 acres in Bukit Lenang for RM48psf. That was followed by purchase of 691 acres in Medini/Pendas at end-2011 for RM25psf, 779 acres adjacent to the parcel in December 2012 for RM12psf and another 300 acres in January 2013 for RM14psf. The latter three parcels totalling 1,770 acres cost RM1.34 billion to be paid over 10 years.

RHB Research said not many local property companies have the financial capacity as well as strategic reasons to accumulate such large pieces of land.

For instance, SP Setia Bhd has considerable exposure to IM but the company's focus over the medium term will be on the RM40 billion Battersea Power Station redevelopment in London in view of the project's size and importance in driving the company's growth.

"Mah Sing Group Bhd may not have enough financial strength to undertake a project of such a scale as Sunway Iskandar. Sunway Bhd, on the other hand, has track record in developing an integrated township, Bandar Sunway in the Klang Valley," the research house added.

With the basic infrastructure for connectivity already in place at the site, RHB Research estimates it would take a shorter time to develop the Sunway Iskandar township compared to 15-20 years for the 800-acre Bandar Sunway *(above)* in Petaling Jaya