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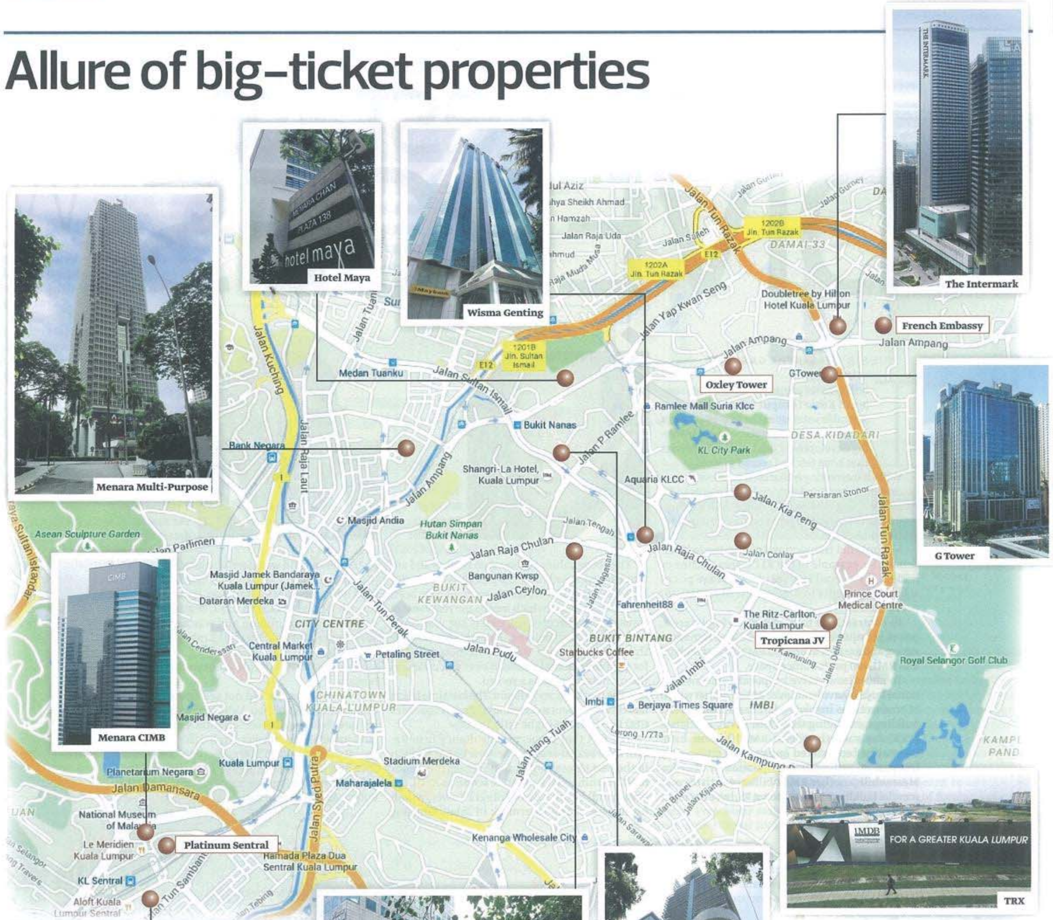
COVER STORY

Allure of big-ticket properties



Hotel Maya

Wisma Genting

The Intermark

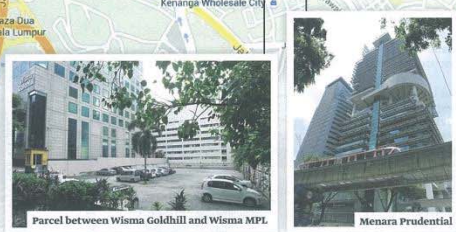
G Tower

Menara Multi-Purpose

Menara CIMB

TRX

NU Sentral



Parcel between Wisma Goldhill and Wisma MPL

Menara Prudential

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Why the sudden surge in interest?

Property experts cite a weak ringgit and ample liquidity in the financial system and capital market for the robust transactions. "The sudden surge in interest could be due to the Malaysian market looking attractive to investors. This is mainly due to the US dollar strengthening against the ringgit and the still strong fundamentals of our property market," reasons Previndran.

He points out that while institutional investors have always eyed KL's commercial real estate, the ailing local currency has boosted their interest.

The ringgit started to depreciate against the US dollar last September. It dropped to as low as 3.72 in early March from 3.14 in August last year, and is currently hovering at around 3.65.

Some point to the local institutional funds and major developers that are flush with cash. "There is a lot of liquidity in the market, whether from the Employees Provident Fund (EPF) or Lembaga Tabung Haji. Large developers, which have been making huge profits, are also contributing to the liquidity in the property market," Rahim & Co's Ang points out.

When these factors come together in an environment of stable and low interest rates, institutional investors are motivated to invest in real estate, he adds.

Moreover, government-linked companies (GLCs) and statutory bodies were directed by the Ministry of Finance (MoF) late last December to prioritise domestic investments and postpone foreign asset acquisitions in order to contain capital outflows and boost local consumption.

This could have motivated Putrajaya Ventures Sdn Bhd, a unit of Putrajaya Holdings Sdn Bhd, to recently buy the 7.98-acre French Embassy land in Jalan Ampang for RM834.26 million, a few weeks after another GLC, Malaysian Resources Corp Bhd (fundamental: 1.3; valuation: 0.8), bought the nearby 1.87-acre German Embassy site for RM259.2 million.

Putrajaya Holdings, the master developer of Putrajaya city, is owned by Petroliam Nasional Bhd, Kumpulan Wang Amanah Negara and Khazanah Nasional Bhd.

Meanwhile, after purchasing Integra Tower, KWAP was said to be considering buying a plot in TRX from 1Malaysia Development Bhd (1MDB) to build an office tower but that changed after Tabung Haji's acquisition of 1.56 acres in TRX for RM188.5 million caused a furore.

Nevertheless, Indonesia's Mulia Group has signed with 1MDB to acquire 3.4 acres in TRX for RM665 million, though there are scant details of the deal.

When contacted, LaurelCap Sdn Bhd director Stanley Toh agrees that the weak ringgit is contributing to the surge in commercial real-estate transactions in KL but adds that Malaysia's relatively cheap land on a psf basis is also a lure. Besides, he says, foreigners can wholly own freehold land in this country unlike in Thailand, the Philippines or even Cambodia.

If the price is right ...

In KL alone, a substantial number of commercial buildings — office, hotel and retail — as well as parcels of land are available for sale (see Table 2).

Rahim & Co was appointed to put all the components of The Intermark, except the Double Tree by Hilton, up for sale. Two of the components — Vista Tower and the mall — have yet to be sold. The former is going for RM600 million and the latter for RM155 million.

There are also some property owners who are willing to divest their assets "if the price is right". Goldis Bhd (fundamental: 0.5; valuation: 1.1) CEO Tan Lei Cheng recently said the

TABLE 1

Land and building transactions in Kuala Lumpur (Jan 2014–May 2015)

ASSET	SALE/ INDICATIVE PRICE (RM MIL)	LAND AREA (SQ FT)	PRICE PSF (RM)	PURCHASER
German Embassy land — Jalan Kia Peng	259.16	81,288	RM3,188	Malaysian Resources Corp Bhd
Integra Tower (The Intermark)	1,065	760,715	RM1,400	Retirement Fund Inc (KWAP)
Double Tree by Hilton (The Intermark)	388	540 rooms	RM720,000 per room	Royal Group Holdings
French Embassy	834.26	347,608	RM2,400	Putrajaya Ventures Sdn Bhd
Damanasara Heights (Selangor Properties Bhd)	450	276,482	1,628	Tan Sri Desmond Lim Siew Choon's Jendela Mayang Sdn Bhd
Menara CIMB	646	609,000 (NLA)	RM1,060	CIMB Group
NU Tower KL Sentral	285	259,632 (NLA)	RM1,100	Malaysian Communications and Multimedia Commission (MCMC)
Platinum Sentral	750	Five blocks	NA	Quill Capita Trust
NU Sentral (MRCB sells 51%)	119.77	NA	NA	Pelaburan Hartanah Bhd
Jalan Conlay (Suasana Simfoni Sdn Bhd)	568	172,149	RM3,299	KSK Group Bhd
8 parcels in Bukit Bintang (Tropicana Corp Bhd)	448.44	136,719	RM3,280	Offshore Triangle Sdn Bhd
Kia Peng land (Tropicana Corp Bhd)	132.44	63,087	RM2,100	GSH Corp Ltd
Menara PJD	220	445,114	RM494	Tan Sri Lim Wee Chai
Ampang parcel (estate of Leong Mai Leng)	446.67	135,356	RM3,300	Oxley Holding Ltd
TRX (residential)	188.50	67,832	RM2,778	Lembaga Tabung Haji
TRX Signature Tower	655	148,205	NA	Mulia Group
*TRX (retail, 3 residential, hotel)	1,929	740,520	NA	Lend Lease's 60:40 JV with 1MDB Real Estate Sdn Bhd

*Land cost based on initial marketing documents

Note: List is not exhaustive. Includes deals completed and entered into.

TABLE 2

Buildings that could be up for sale

LAND/BUILDING	INDICATIVE PRICE (RM MIL)
Vista Tower (The Intermark)	600
Mall (The Intermark)	155
Wisma Genting	500
Hotel Maya	230
Menara Prudential	155
GTower	1,300
Menara Multi-Purpose	410
Parcel between Wisma Goldhill & Wisma MPL	71
Citin Seacare Hotel	48
Other TRX parcels	NA
Galaxy Ampang	NA
OCBC Building, Jln Hang Kasturi	NA
Menara Shell @ KL Sentral	NA

Note: List is not exhaustive

company was willing to let go of its hotel-cum-office building, G-Tower, for RM1.3 billion. Renaissance Kuala Lumpur Hotel, which belongs to Goldis' subsidiary IGB Corp Bhd (fundamental: 1.2; valuation: 2.0), is probably another piece of real estate that may be sold if the price is right. In fact, over the years, news of this hospitality asset being available for sale has surfaced several times.

Within TRX itself, many more acres are likely available for sale based on news reports that have appeared thus far. The single largest area — covering 17 acres — of the 70-acre development is to be jointly developed by Sydney-based Lend Lease and 1MDB Real Estate Sdn Bhd. Other known transactions, including by Tabung Haji and Mulia Group, would take up just a fraction of TRX.

Of late, there have been some noticeable trends when it comes to the transaction of huge commercial property in KL with most of the selling parties being foreign investment funds and foreign governments. While the former typically recycle their property asset portfolio every few years, recently, the latter have begun to sell embassy land in order to move their consulates into office buildings and also to unlock value.

As for the sale of old office buildings, LaurelCap's Toh attributes this to the softening rental market and falling yields. "Yields are declining because offices are also moving out of the city to the fringe of Kuala Lumpur, such as Bangsar South and KL Sentral," he says.

SHAHRIN YAHYA/THE EDGE

Toh: Owners will liquidate their properties if they think the prices are high, ahead of a possible slowdown

These buildings offer their new owners the opportunity to refurbish, renovate, rebuild and even reposition. "The building should be redeveloped according to the demand for and supply of that particular product in the area," remarks Toh, citing office building Menara ING in Jalan Raja Chulan, whose transformation will include hotels because of the high demand for rooms in the city centre.

He also reckons that many owners will liquidate their properties if they think the prices are high, ahead of a possible slowdown.

The Kuala Lumpur City Council has also made redevelopment more alluring by approving a higher plot ratio, which means the developer can get more out of every square foot of space he invests in and potentially make higher margins.

In the meantime, Rahim & Co's Ang expects transactions of big-ticket commercial real estate in KL to continue to excite over the next two years, especially due to the scarcity of land.

And as Toh points out, there will always be buyers looking for bargains. "There are those who are flush with cash but they would rather adopt a wait-and-see stance. Their objective is to reserve cash and pounce on any good deal that arises in the softening property market." E

Note: The Edge Research's fundamental score reflects a company's profitability and balance sheet strength, calculated based on historical numbers. The valuation score determines if a stock is attractively valued or not, also based on historical numbers. A score of 3 suggests strong fundamentals and attractive valuations. Visit www.theedgemarkets.com for more details on a company's financial dashboard.

Prime tracts left idle

While transactions for land parcels and major commercial buildings are hotting up in Kuala Lumpur, there are still several prime tracts, valued in excess of RM3 billion, that have not seen any progress after the initial hype about their development plans.

A combination of factors, ranging from changes in management to land issues, decision to handle smaller projects and subdued demand, is causing these parcels to be left idle.

One such parcel is the site of the proposed Tradewinds Centre in Jalan Sultan Ismail, handled by Tan Sri Syed Mokhtar Albukhary's Tradewinds group.

News about this project first surfaced in 2011, and two old buildings — Crowne Plaza Mutiara Hotel and Kompleks Antarabangsa — were to make way for an integrated development with an estimated gross development value (GDV) of RM6 billion. Demolition work began on May 1, 2013.

Development plans for Tradewinds Centre submitted to Dewan Bandaraya Kuala Lumpur have been withdrawn and it is not clear when the project will get off the ground

While early architect drawings had indicated that the project would be completed next year, the date was later pushed back to 2020.

A new partner from the United Arab Emirates, Mohamed Ali Rashed Alabbar, was brought in last year and a company called Tradewinds International Sdn Bhd was set up. Observers then felt that the development would finally commence.

But now, even the development plans submitted to Dewan Bandaraya Kuala Lumpur (DBKL) have been withdrawn and it is not clear when the project will take off. The land measures 8.58 acres and could be worth RM1.23 billion today.

Meanwhile, Harrods Square, another of Syed Mokhtar's project, in a joint venture with Tan Sri Desmond Lim and a Qatari sovereign wealth fund, Qatar Investment Authority (QIA), has also not seen much progress.

News of the project first surfaced in September 2011 and its reported completion date is 2018. But now, the project is believed to have encountered some problems and is likely to be delayed.

The parcel is located between Jalan Raja Chulan and Jalan Conlay, and within the Bukit Bintang tourism and shopping enclave. The luxury development has an estimated GDV of RM5.5 billion.

As at end-March, the title to the said parcel had yet to be transferred to the developer, Jerantas Sdn Bhd, from the Federal Lands Commissioner. A registrar's caveat was also in force. An adjacent parcel, which was once home to Chulan Square, had also not been transferred and was still in the name of Datuk Bandar Kuala Lumpur.

Talk has emerged that QIA is reviewing the project.

Nevertheless, if the RM1,800 psf reportedly paid by Jerantas in 2012 is anything to go by, the parcels could be worth a lot more today. Together, the parcels measure 204,579 sq ft and are probably worth some RM650 million now.

Magna Prima Bhd's SJK (C) Lai Meng redevelopment in Jalan Ampang is another example where not much has happened on the site. It is said that the developer has decided to sell the land instead.

Magna Prima (fundamental: 1.1; valuation: 1.4) bought the 2.59 acres in 2009 and obtained the green light from the local authorities to proceed with the construction. The parcel has one of the highest plot ratios in the city centre, at 12.

However, six years on, Magna Prima has decided to divest the parcel. It was reported that the developer may have only paid just over RM1,700 psf, which covers the cost of the land and relocating the school to Bukit Jalil. With land parcels in Jalan Ampang fetching as much as RM3,300 psf now, the company could sell the parcel for at least RM373 million.

The former British High Commission property in Jalan Ampang is yet another prized site where development is still in the planning stage. The acquisition was announced in late 2012 and the High Commission moved out on Jan 29 last year.

S P Setia Bhd bought the 134,075 sq ft parcel for RM294.96 million, or RM2,200 psf. At the time of the acquisition, the developer said it had planned an integrated commercial development with a GDV of RM1.04 billion.

Also, in 2010, Pelaburan Hartanah Bhd bought Lot 61 in Jalan Bangsar, which was previously Unilever's premises. PHB submitted development plans for the 19.99-acre parcel in 2011 but nothing has materialised so far. Last October, it submitted yet another plan to DBKL.

All the proposed developments are supposed to have high-rise serviced residences, but as Knight Frank Malaysia managing director Sarkunan Subramaniam recently said, with the present high supply of high-rise residential units near KLCC, yields are expected to continue to be challenged.

Coupled with the cooling measures introduced by the government, which include stricter loan approvals, it is no surprise that these landowners are not rushing to develop their parcels. E