IGB going ahead with commercial REIT IPO

BY **VASANTHA GANESAN**

The Covid-19 pandemic and its economic fallout may have spooked many companies into putting their business plans on the back burner, but not IGB Bhd.

The property developer is marching ahead with plans to spin off its commercial assets into a commercial real estate investment trust comprising nine of its office buildings, and listing it on Bursa Malaysia.

Although IGB remains tight-lipped on the schedule for the planned initial public offering (IPO), sources say it could be as early as November.

"Yes, the plans are still on for IGB's planned commercial REIT listing and would include the same list of assets announced to Bursa [Malaysia] in November," IGB's head of group strategy and risk Tan Mei Sian tells *The Edge*, without providing additional details.

Hong Leong Investment Bank had been appointed the principal bookrunner for the proposed REIT establishment and listing.

Of the nine office buildings in Kuala Lumpur to be included in the proposed REIT, seven are within Mid Valley City. They are Menara IGB, Centrepoint South, Centrepoint North, The Gardens South Tower, The Gardens North Tower, Menara Southpoint (excluding the residential units) and Boulevard Offices (Blocks 25 and 27). The remaining two — Menara Tan & Tan and GTower — are located in Jalan Tun Razak.

Collectively, the nine properties have some 3.5 million sq ft in net lettable area. A source estimates that "at an average price of RM900 to RM1,000 psf, the assets are roughly valued at between RM3.15 billion and RM3.5 billion".

However, industry experts believe it may be better for IGB to defer the listing until the market recovers in order to obtain a better valuation for the proposed REIT, or to consider alternative listing options.

"The value of these commercial assets would definitely have been impaired with the shrinking economy, owing to the Covid-19 pandemic. Many industries such as oil and gas, discretionary retail, hospitality and entertainment, food and beverage, and [small and medium enterprises] have been severely affected and are expected to downsize their offices or seek rent reviews to survive in the post-pandemic 'new norm'. Thus, it would be advisable to defer the listing until a vaccine is ready," VPC Alliance (M) Sdn Bhd managing director James Wong tells *The Edge*. "On the plus side, with social distancing, some companies will require additional space." Wong is hopeful that things will return to normal with the introduction of a vaccine by year-end or early next year.

Chief real estate consultant/CEO for ExaStrata Solutions Sdn Bhd Sr Adzman Shah Mohd Ariffin says office space rental is likely to come under pressure.

"Rental is linked to capital valuation, as it affects the yield. If a rental waiver, reduction or deferment is given to tenants for a significant period of time, coupled with the premature termination of tenancy agreements by tenants because of the pandemic, this could have an impact on the valuation of the assets, owing to the impact on actual rental income earned as at the date of the valuation," Adzman explains.

"Unless there is a rental guarantee by the seller (IGB) for a certain period of time until the pandemic is no longer affecting the tenancy agreements and economic sentiment is stable again, it may be safer to defer it to the first quarter of 2021 and reassess the situation at the time."

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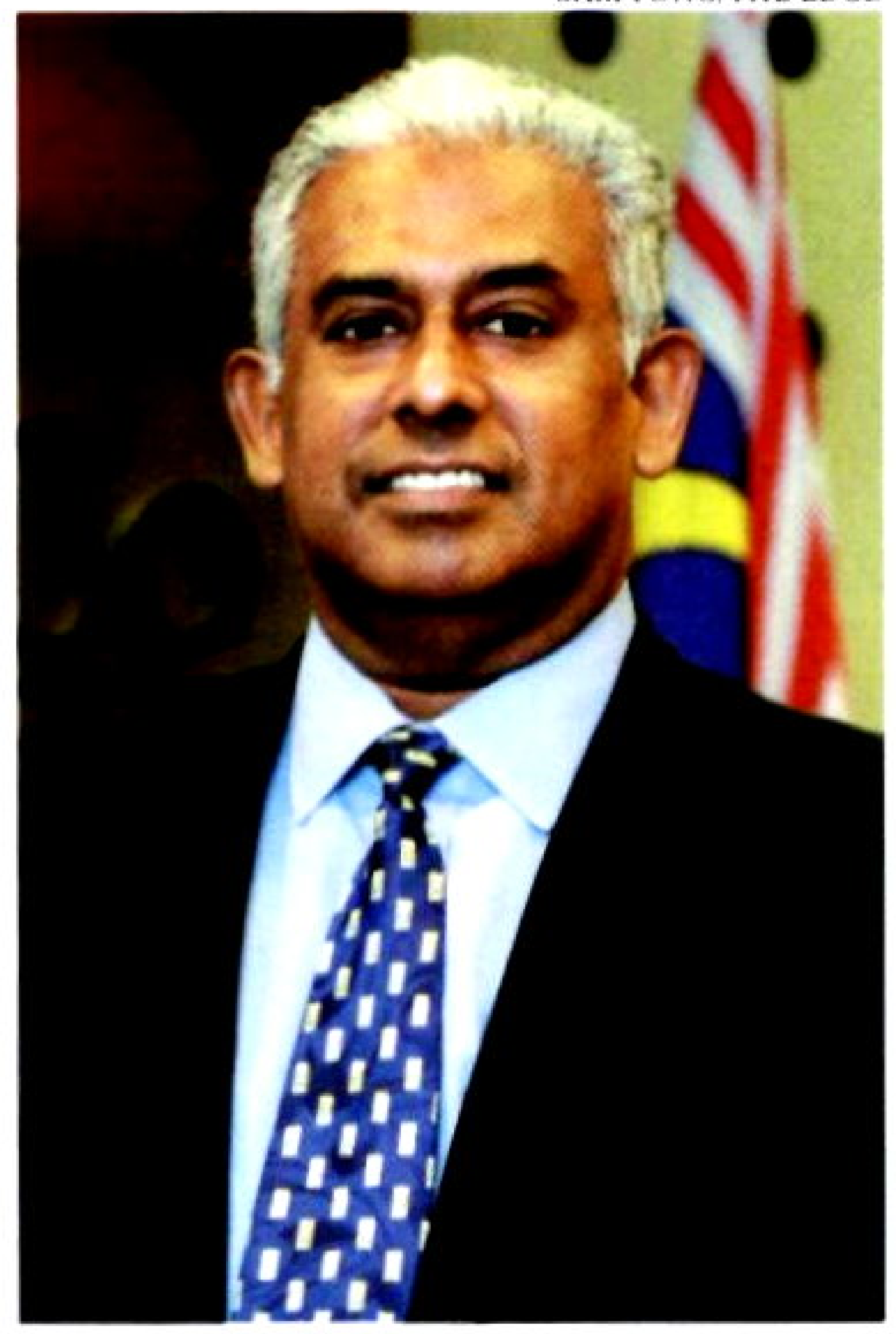

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LOW YEN YEING/EDGEPROP.MY

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Rahim & Co CEO, real estate agency Siva Shanker agrees that postponing the IPO may be a good option.

"Based on the current situation, it would be best for IGB to defer the listing of the REIT until the market recovers. This pandemic has turned out to be a bigger economic problem than a medical problem," Siva tells *The Edge*, citing the Malaysian Employers Federation, which has said that two million people are likely to lose their jobs after Hari Raya, as well as reports of numerous hotel closures. "We don't know the quantum of the impact and how long it will last as we have not even opened the entire economy.

"The property market was on a slow upswing in 2018 and 2019 and was expected to continue the upward curve in 2020, [but] that is now not going to happen. Having said that, office occupancy rates in areas like Mid Valley City, Bangsar South and KL Sentral are above average, as they are integrated developments with good transportation and other facilities. They are the hip-and-happening places offering a wide range of food and beverage and lifestyle options."

An alternative, Siva says, would be for IGB to consider injecting Menara Tan & Tan and G Tower in at a later stage. "Doing this may get it a better valuation for the Mid Valley assets, owing to their higher occupancy rates, which are palatable to investors and the market in general, as they carry the Mid Valley City branding," he suggests.

It is learnt that the average occupancy rate of the office assets in Mid Valley is above 85%. In comparison, the average occupancy rate nationwide in 2019 was 80.6%; in Kuala Lumpur, it was 76.9%.

Siva adds, however, that IGB has to be cautious if it decides to inject the other two assets at a later date, as there is insufficient data to project what could happen later, which could include a further softening of the market.

Meanwhile, an investment banker who declines to be named says going for an IPO in the current circumstances will be challenging and could remain so for up to two years.

"I believe that the worst is yet to come economically and on a global level. There are going to be shifts in the work environment now that all of us have gone through this work-from-home experiment. Thus, the demand for office space will definitely decline," he adds.

While deferment is an option, he suggests two other possibilities — injecting the assets into the existing IGB REIT or another existing REIT.

"Maybe [another] option is to work with an existing REIT, that is, to inject their assets into the REIT instead of attempting an IPO. IGB holds relatively good assets; I believe they can explore this route. Eventually, they could probably take over that REIT," he says, acknowledging that this would be a more complicated process.

Otherwise, IGB could inject the assets into its existing IGB REIT, which comprises only the retail assets of Mid Valley Megamall and The Gardens.

He says while this would change the complexion of the REIT from retail, he points out that Sunway Real Estate Investment Trust has managed to do it successfully. Assets held by Sunway REIT include retail, hotel and commercial properties.