Unlocking asset Value in a pandemic

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GB Bhd's plan to unlock the value of its commercial assets through the listing of IGB Commercial REIT on the Main Market of Bursa Malaysia is seen as a bold move in the current tough business environment.

While the recent new listings on Bursa were impressive, the condition is slightly different for IGB Commercial REIT, whose performance will be very much linked to that of the economy. This is even more so as real estate investment trusts (REITs) are typically a longterm investment for investors.

Persistent lockdowns and weak market sentiment have prompted a delay in the flotation of IGB Commercial REIT units, the announcement of which was made last Friday evening. It is now scheduled for listing on Sept 20 instead of July 30. This will also allow more time for the book-building process in the

The closing date for the init offering application has been extended to Aug 20. Digital and cashless alternatives for application are available in addition to methods stated in the prospectus.

At the same time, the selling shareholders and the manager have pro- yet as they are weighing the distribution posed to slash the institutional offering to yield prospects. at least 130 million units from 282 million Note that the REIT has set a lower disunits, thus lowering the minimum public tribution yield of 3.9% for 2021 before raisunitholding spread from 25% to 20%. It ing it to 5% for 2022. To be fair, that is still needs to obtain Bursa Securities' approval higher than fixed deposit rates.

According to IGB Bhd, the decision to haven't secured a commitment yet. Many RM3.16 billion. delay the listing was made a day after *The* are very interested but all of them are just 5% yield," he says. Meng last Tuesday.

"In hindsight, I would prefer to delay "Here we are giving out over 90% of want something as good as EPF's (Employ- straits. We plan and look forward." go for this," he says during the interview Main Market entails a restricted offering

on the timing of the listing. His remarks do not come as a surprise stricted offer for sale (ROFS) of up to 378 as it may not be the "best timing" for the million units at RM1 each to IGB sharelisting, which was mooted in 2019. And holders on the basis of two ROFS units for Tan admits that the REIT has not received every five IGB shares held.



distribution-in-specie of up to 567 million units in IGB Commercial REIT on the basis of three units for every two units subscribed.

There is also an institutional offering of at least 130 million units, at a price determined by way of book building; as well as unsubscribed ROFS units.

When asked why there is no public offering for the Malaysian public, Tan says, "The advisers think this is the best way, so we just followed. We pay their fees, that's all. In hindsight, there could be another way of doing it."

Upon listing, IGB Commercial REIT is expected to have a market capitalisation of RM2.3 billion, based on the price of the ROFS units at RM1 each, making it the sixth largest REIT on the local bourse.

IGB Commercial REIT is not raising any amount from the IPO as there is no issuance of new units, but IGB will receive about RM2.87 billion from the asset disposals, before the settlement of bank loans and distribution.

Located within Mid Valley City and the Kuala Lumpur

city centre, assets in IGB Commercial REIT's portfolio include Menara IGB and IGB Annexe, Centrepoint South, Centrepoint North, Boulevard Properties, Gardens South Tower, Gardens North Tower, Southpoint Properties, Menara Tan & Tan, G Tower and Hampshire Place Ofto reduce the public unitholding spread. "We are talking to a lot of funds but we fice. Their total appraised value stands at

Touted to be the largest standalone Edge's exclusive virtual interview with its talking about yield. I tell them to show me office REIT in Malaysia by market capigroup CEO Datuk Seri Robert Tan Chung companies that can give me more than a talisation, IGB Commercial REIT boasts 3.4 million sq ft of net lettable area (NLA).

"All I can tell you is that all my assets [the listing]. But is there any difference our distributable income. So, this is the are good assets. We are able to replace if we delay? The market is very liquid and difference. If we can't achieve a 5% yield most of the tenants that we lost. At the there are people with a lot of money. If you — next year, then the economy will be in dire — moment, many tenants are not able to move in because of the lockdown. If not ees Provident Fund) returns, then you can IGB Commercial REIT's listing on the for that, the occupancy rate would have been higher," says Tan, who is also manof up to 945 million units, including a reaging director of IGB REIT Management Sdn Bhd, the management company of

IGB Commercial REIT. To demonstrate confidence in the REIT, he says IGB will still own a stake of over commitments from any institutional funds To sweeten the deal, there will be a 56% in IGB Commercial REIT post-listing.

the largest REIT in Malaysia capitalisation, IGB Commercial REIT boasts 3.4 million sq ft of net lettable area. Assets in the REIT's portfolio

appraised value of

RM3.16 billion.

are getting a good offer. "But [we are seeing] the wait-and-see but with a long-term view on yield and attitude. In this climate, it is better to capital gain. invest in something that is solid. Our assets and valuations are priced at pan- mainly due to tenants moving to other

the company, management, location and when it was first completed.

the REIT remains resilient, with enough 76.3% in 2020. reserves to last 12 to 18 months without While the pandemic has resulted in the having to borrow much from the banks. scaling down of business operations by It managed to expand its net property in- some office tenants, this has been mitigat-

come by 1.9% to RM132.5 million last year. ed by the expansion of office requirements out the current office supply glut easily. is already considered a discount because "The attrition rate is still very low. Not by other business sectors, from which the "We have survived [over the years]. If the revision rate is always 3% to 5%." many [tenants] are leaving us. We managed REIT has benefited, owing to its diversified the buildings in town rent at my rentto get the big guys in for our Southpoint portfolio mix of commercial properties. For al rate, they will lose money. During the Commercial REIT's portfolio was RM6.26, support, we will look at it on a case-by- gross rental income of RM31.66 million in it was RM6 psf for G Tower. case basis. We give as much as possible," 2020 among the REIT's properties, with an "For Merdeka 118, as the construction last year have been renewed. They occupy says the 68-year-old, who received *The* occupancy rate of 85.5%. Edge Malaysia Outstanding Property CEO Award for 2019.

Although the renewal rates for G Tower an advantage (36.2%) and Gardens North Tower (44.8%) With its competitive rental pricing, Tan ward pressure on rent. "Our rent is not that during the year.

He points out that IGB shareholders overly concerned. He says one should not invest just based on past performance,

Tan: If we can't achieve a 5% yield next year, then the

economy will be in dire straits. We plan and look forward.

demic levels. If you think the pandemic buildings and relocating to Southpoint will drag on longer, then don't touch the Properties. Southpoint Properties managed shares. My advice is to look at four things to achieve a 66% occupancy rate year to when you buy anything in the long term: date compared with a mere 20.6% in 2018,

As at June, IGB Commercial REIT's aver-Despite the pandemic's impact, Tan says age occupancy rate stood at 73.4% against

Competitive rental rates

were less than 50% last year, Tan is not believes the company will be able to ride expensive. We are not raising our rent. It

Properties even during this difficult envi- instance, G Tower, which is located in the opening of the Tun Razak Exchange, the RM6.15 and RM6.17 in 2018, 2019 and 2020 ronment. When our tenants ask for rental Golden Triangle area, raked in the highest rent offered was RM16 per sq ft (psf), but

The average rent of properties in IGB

A total of 153 tenancies that expired cost is very high, I don't think it will be an NLA of 1.08 million sq ft, or 64.7% of looking at the RM6 to RM7 psf rental rate. the total NLA. At the same time, RM4.4 So, we have a niche market in our products." million in relief was given to 150 eligi-At the same time, he downplays down- ble tenants of its commercial properties

Remote working unlikely to dampen office demand in Asia-Pacific IGB Commercial REIT's initial offering details

Listing market	Main		
Units issued (mil)	2,307.3		
Restricted offering (mil units)	945.0 130.0		
Institutional offering (mil units)			
Restricted offer for sale price per unit	RM1		
Listing date	Sept 20		
Market capitalisation	RM2.31bil		
Largest shareholder	IGB Bhd (56.6%-59.3%)		
Debt-to-asset ratio	26.30%		
Estimated free float	19.5%-22.3%		
Estimated distribution per unit (FYE21)	3.9 sen		
Distribution yield	3.90%		

A diversified tenant base helps mitigate the pandemic's impact

TRADE SECTOR	OCCUPIED NLA
Consultancy, marketing & business services	2
Information technology & communication	1
Oil & gas	1
Engineering & manufacturing	
Retail/fast-moving consumer goods	
Real estate/construction	
Financial services/insurance	
Government/NGO/ association office	
Pharmaceutical/medical	
Mining & quarrying	

A snapshot of the performance of IGB Commercial REIT's assets in 2020

PROPERTY	APPRAISED VALUE (RM MIL)	GROSS RENTAL INCOME (RM MIL)	OCCUPIED NLA (%)	OCCUPANCY RATE (%)
Mid Valley City				
Menara IGB & IGB Annexe	188.9	6.88	7.2	69.3
Centrepoint South	190.5	9.25	7.8	87.0
Centrepoint North	196.5	9.77	8.3	91.0
Boulevard Properties	78.0	2.73	1.9	92.0
Gardens South Tower	391.5	21.13	14.2	89.2
Gardens North Tower	382.1	18.77	12.8	79.5
Southpoint Properties	573.5	9.66	12.2	48.8
Golden Triangle				
Menara Tan & Tan	239.1	9.27	9.4	73.0
G Tower	739.8	31.66	20.2	85.5
Hampshire Place Office	180.6	6.13	6.0	63.4
Total	3,160.50	125.24	100.0	76.3

if all the people are vaccinated, it doesn't

for the nation to achieve herd immunity in

order for the economy to reopen. "It is very important for the government a friend like him," he says of the late Teo

unlikely, says Tan

need for bigger — not shrinking — offices. and BHP have been with the company

Employers still have the same space more than 10 years. requirements and even need a bigger space for employees for social distancing. Even

mean they won't be infected. We have a lot of companies requesting for more space. If the rental rate is right, I think they will l take our properties," he adds.

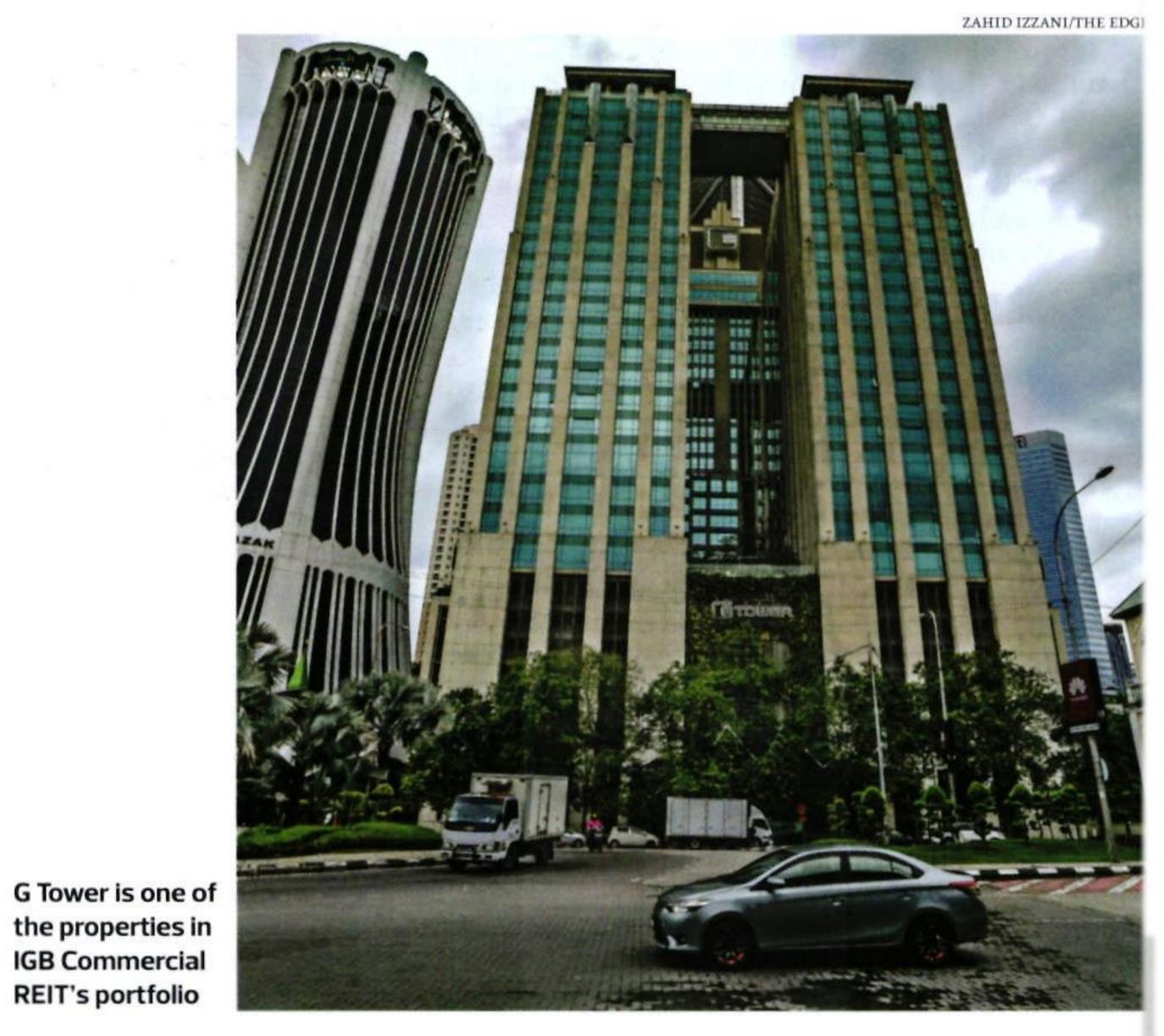
office demand in Asia-Pacific as over 70% of management prefer having their staff

sity in the new normal. "For instance, ocdensity to 70 to 80 sq ft/person may be forced to reconsider the norm and increase

Note that IGB Commercial REIT's anpost-pandemic era, Tan says there will be a chor tenants such as Bakers Hughes, Agoda

> The REIT is projected to register ini indebtedness of RM850.9 million or 26.3%

the properties in



age 32.9% for Malaysian REITs, acc

Based on the 50% limit allowed the REIT guidelines, the company st a debt headroom of about RM766.5 i or future expansion. To facilitate capital-raising activities, IGB Comr REIT has established a RM5 billion um-term note programme.