

# MALAYSIA: THE REAL DEALS



Private equity firm **Area Advisors** is making a big push into Malaysia's commercial real estate sector, moving from advising institutional investors on their real estate projects to making investments itself through an industrial development fund. Area's Executive Director **Jeyabalan Parasingam** explains the opportunities he sees in Malaysia and why it could become Area's regional distribution center for Asia Pacific.

**What made you switch from acting as an advisory company to institutional investors to setting up an industrial development fund?**

In 2012 Area made its first investment in a 230-acre industrial park in Iskandar Johor. That was a very successful project for us and it convinced us there was a need to set up a platform to deliver Grade A industrial assets to the Malaysian market. In particular, pension funds in Malaysia with large and growing capital that needs to be deployed lack real estate investment opportunities. They have had to invest in assets abroad such as in the UK. But now Area is providing them with similar investment-grade assets in Malaysia.

**Where do you see the investment opportunities in the next five years?**

We are excited by the prospects in Malaysia. With the demand for logistics facilities growing at over 10% per annum driven by investments in infrastructure, such as ports, airports, railways and roads, we are looking to build between 5 to 10 million square feet of logistics facilities across Malaysia. Given its lower cost structure compared to Singapore, we believe Malaysia makes a good regional distribution center for Asia Pacific.

We also see opportunities in Malaysia's ecommerce sector as more consumers shop online and use other delivery services. We are optimistic that demand for warehouses that cater to that segment will be strong for the next five years.

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**What trends do you see in the commercial real estate market?**

We are seeing a lot of consolidation of real estate space. The average size of warehouses has increased from 150,000 square feet to 500,000 square feet. The rising cost of land has meant that two-storey warehouses are becoming more of the norm. We also expect facility owners to become more focused on improving productivity through greater automation.

In Malaysia, logistics seems to be the least understood segment in the real investment world. As more investors look for the next investment opportunity and seek better returns, we expect more competition for logistics and warehousing assets in the future.

**In many Western markets green buildings are becoming an investment focus as more businesses seek to reduce their carbon footprints. What role does sustainable real estate play in your investments?**

Sustainable real estate plays a big role in our investment strategy, especially as the end users demand it. Our customers are not only looking for green buildings, but also strategically located warehouses that reduce their carbon footprint for transportation as well.

**Is the political and economic instability of Malaysia an issue for you?**

Like many countries in Asia Pacific and the Middle East, Malaysia is going through a major change in how government performance is measured. There is a stronger demand for accountability, transparency and competence. While the economic and political climate are factors we take into account, they are not risks we can control and they don't determine whether an asset is attractive from a medium to long-term investment perspective.

**Did the devaluation of the Malaysian ringgit impact your plans?**

The weakening of the ringgit has been a positive development for us as it has made Malaysia more competitive. Inflation has remained benign and there is ample liquidity in the banking system. The government has taken proactive measures to contain the budget deficit by introducing GST, reducing expenditures and encouraging foreign direct investments.

**How do you think the Malaysian economy will fare over the next two to three years compared to its neighbors?**

We think ASEAN as a whole will continue to grow at a steady pace and we expect the Malaysian economy to grow by 4% to 5% per annum. As the government continues to wean the economy from a range of subsidies, we expect the private sector to place greater emphasis on productivity and cost competitiveness. This is assuming that the liberalization of the Malaysian economy continues. The government's commitment to joining the Trans-Pacific Partnership Agreement is a good sign.

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