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Raising the bar for Bandar Malaysia

- **New master developer** has mammoth task to ensure project matches increasing land value
- **As the nexus** for High Speed Rail linking Kuala Lumpur to Singapore and other nations, project has potential to draw multinationals



by Joseph Wong



The new developer cannot make Bandar Malaysia anything less than it deserves, says Gambero

THE Ministry of Finance's (MoF) move in May to terminate the deal to sell 60% of the Bandar Malaysia mega project may well have a silver lining despite the controversy and concerns that it generated.

Now that the dust has settled, some property players say the government has the opportunity to revalue and capitalise on the vast potential of Bandar Malaysia as a transport nucleus serviced by the High Speed Rail (HSR), Mass Rapid Transit (MRT), KTM train line and 12 highways.

With the value of the 196.7ha (486 acres) parcel of land, which is the old Sungai Besi air force base, having risen from its 2015 valuation of RM12.35 bil, the project is now more than what was envisioned by the original master developer.

"The new master developer cannot make Bandar Malaysia anything less than it deserves. That parcel of land is prime property," says **Daniele Gambero**, CEO and co-founder of strategic marketing consultancy firm REI Group of Companies.

"That parcel of land has increased in value and being the confluence of the HSR station, two MRT stops and major highways,

it needs to be tapped to its full potential.

"The location is unparalleled especially when the HSR is extended northwards," he tells *FocusM*.

Gambero points out that if proposals to extend the HSR all the way to China become a reality, Bandar Malaysia, by virtue of it being a rail nexus for Singapore and China, will boom.

To recap, Iskandar Waterfront Holdings Sdn Bhd (IWH) and China Railway Engineering Corp (CREC) signed the deal to buy a 60% stake in Bandar Malaysia from 1Malaysia Development Bhd (1MDB) for RM7.41 bil on Dec 31, 2015. IWH is owned by tycoon Tan Sri Lim Kang Hoo while CREC is controlled by China's central government.

Under the deal, IWH would hold 60% of the venture and CREC 40% through the IWH CREC Sdn Bhd consortium (ICSB). The remaining 40% belongs to TRX City, formerly 1MDB Real Estate Sdn Bhd. The entire 196.7ha parcel was valued at RM12.35 bil and ICSB's 60% portion at RM7.41 bil.

The deal was terminated as "the buyers failed to meet the payment obligations", according to MoF.

"Looking ahead, given a significant appreciation in the value of the Bandar Malaysia land, TRX City's sole shareholder, the MoF, will now be retaining 100% ownership of the site to ensure that the Malaysian people benefit from its development in its entirety," TRX City said in a statement.

Bigger and better

A number of developers and property professionals believe the aborted deal is just a step back to something bigger.

"I don't know what will replace



the original design, but I believe it will be something bigger and better as the prime minister has implied," says a property investor.

"What IWH-CREC had proposed earlier looked impressive, but I believe it can be much more. I hope the new developers will maintain a sizeable area of greenery to reflect a healthier environment, not just in an ecological sense but economically as well," he says.

The question is how much more different can Bandar Malaysia be compared to what was planned by ICSB?

Rehda past president and Rehda Institute chairman **Datuk Jeffrey Ng Tiong Lip** thinks there

will not be many changes, especially the size of the development.

"Bandar Malaysia follows a long-term master plan, and as such is unlikely to change direction due to short-term market fluctuations such as the current oversupply of office space and so on," he says.

"However, it should naturally evolve with time as the market develops, though it's unlikely this will be to a drastic degree," says Ng, who is also CEO of Sunway REIT Management Sdn Bhd.

Another developer says the size of the development will remain unchanged but the designs will likely be different from ICSB's. "Any master developer will want

How much of Bandar Malaysia will change under a new master developer?



Huge disparity in land values

residential land at RM223 mil or about RM3,100 psf, and Tabung Haji paid RM188.5 mil or RM2,773 psf. Land transactions in the city centre area close to Kuala Lumpur City Centre fetched about RM3,000 psf.

Both transaction prices are much lower than what Indonesia's Mulia Group and Affin Bank Bhd paid for their parcels. Mulia Group bought 1.38ha at RM665 mil or about RM4,490 psf, and Affin Bank paid a record of about RM4,691 psf or RM225 mil for 0.5ha. All four deals were transacted in 2015. The Bandar Malaysia deal was sealed in December 2015.

As both TRX and Bandar Malaysia come under TRX City, the price tag for Bandar Malaysia has come under renewed scrutiny. TRX City, formerly 1MDB Real Estate Sdn Bhd, is now wholly owned by the Ministry of Finance.

However, there are counter arguments that the Bandar Malaysia land was priced at RM583.30 psf as it did not take into account access roads, parks and other public amenities that need to be provided.

THE government's termination of the Bandar Malaysia deal with a Malaysia-China consortium brings into focus the possibility that the land may have been grossly undervalued.

Observers note that the parcel was sold to the Iskandar Waterfront Holdings Sdn Bhd-China Railway Engineering Corp consortium at RM583.30 per sq ft (psf) based on a land size of 196.7ha (486 acres) and an estimated price of RM12.35 bil.

This is a far cry from what WCT Group and Tabung Haji paid for their parcels in the Tun Razak Exchange (TRX) development, a short distance from Bandar Malaysia.

WCT Group bought a 0.69ha

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The Bandar Malaysia land, which is the old Sungai Best air force base, was sold at RM583.30 psf



Bandar Malaysia should naturally evolve with time as the market develops, says Ng

to have its own identity imprinted into its project."

Though the bulk of the development will likely be high-end properties, property investor, speaker and author Ahyat Ishak wants to see some affordable high-rise components too.

"Bandar Malaysia is to benefit Malaysians, so some attention has to be given to the mid and lower income groups," he argues.

Regardless of whether these developments would be on the periphery of Bandar Malaysia, he says they would still make good investments as their values "would rise along with the Bandar Malaysia tide".



The subterranean concept was planned for Bandar Malaysia under IWH-CREC

been pushed back, giving him some breathing space, says a source.

"The bidding process will take some time. No date has been fixed for the new master developer to be announced, but TRX City is giving more companies the time to decide if they want to come aboard," he says.

A source reveals that three companies are in the queue to be selected as the master developer.

REP's Gambero says for mega projects like Bandar Malaysia, there will be no shortage of applicants.

Whether that developer will be Dalian Wanda Group, owned by one of China's richest men Wang Jianlin, remains to be seen, observers say.

While Wang had been reported to be interested, he did not seal the Bandar Malaysia deal when Najib met up with the billionaire during his recent trip to China, says a prominent developer who declined to be named.

Any possible move by China's big boys may have become more complicated as the country's banking regulator recently stepped up scrutiny of its most prolific overseas deal makers such as Dalian Wanda Group, Aianbang Insurance Group Co, HNA Group Co and Fosun International Inc.

A local bid?

New players

The other question on everyone's lips is who will take the helm as Bandar Malaysia's master developer.

There are several possibilities. Prime Minister Datuk Seri Najib Razak wooed Dalian Wanda Group in his recent trip to China, while IWH-CREC may still be in the running.

Najib made it clear the new consortium could include the previous consortium players, according to Minister in the Prime Minister's Department Datuk Seri Abdul Rahman Dahlan. "They can still participate, as long as the numbers are okay," he said in an earlier report.

"The deal was never a flip flop. There were certain conditions not fulfilled by the previous consortium, so the government terminated the deal, legally, and called for another tender, which is beneficial to the country as the value (of the land) has now appreciated a lot," he explained.

The government is soliciting new bids for the project with the doors opening for the bidding process on July 5.

TRX City's newly-appointed head Irwan Serigar Abdullah, who is the Treasury secretary-general, initially targeted the appointment of a new master developer on July 14.

However, the deadline has

been pushed back, giving him some breathing space, says a source.

However, several developers contacted by *FocusM* such as SP Setia Bhd, Sime Darby Bhd, UEM Sunrise Bhd, Malaysian Resources Corp Bhd and Gamuda Bhd have distanced themselves from such speculation.

"It is not that easy as anyone taking up the mantle as master developer will need over RM7 bil for the project. Which one of us has that kind of money at hand?" asks one of them.

Nevertheless, an observer suggests that PNB seems the likeliest candidate, being the largest investment manager handling funds of over RM255 bil.

It also has investments in over 200 companies involved in key economic sectors, including property development, SP Setia, Sime Darby and I&P Group Sdn Bhd are part of its stable, he says.

TRX City's selection process, he adds, involves "very strict criteria, including track record, speed of delivery and financial capability for such a large-scale development", and most of these can be met by companies under PNB.

China's current stance to curb capital outflows and tight monetary policy may be the key reasons Malaysia is facing difficulty getting a new master developer for Bandar Malaysia from China, says another developer.

"[In the event that no ideal bidder is identified], it may have to be done on a government-to-government level to find

Benefiting from China contractors' exit

THE China government's move to curb capital outflows and tighten monetary policy may have prompted several of the country's contractors and subcontractors to pull out of Malaysia.

A local contractor involved in development projects with China contractors and subcontractors has indicated that several of them have "packed up and left the country", leaving a vacuum to be filled.

He says these smaller companies suddenly closed shop with no explanation, adding that bigger developers were largely unaffected. "Smaller developers may face some difficulties if this scenario escalates," he tells *FocusM*.

However, Master Builders Association Malaysia president **Foo Chek Lee** believes this is an opportunity that would benefit local contractors and subcontractors.

"Contractors are always open to new businesses and opportunities to replenish their order books. I strongly believe Malaysian contractors have the capacity and resources to fill the gap if the business terms and contractual obligations are favourable to them.

"There will of course be some impact as some of the Chinese contractors are directly financing the projects."

Malaysia has 80,600 registered foreign and local contractors as of March 31, according to the Construction Industry Development Board.

Special skill

Zenith Group chairman **Datuk Zaru Ahmad Zulkifli** says most developers use local contractors unless the construction work requires expertise that cannot be sourced locally.

He says the Malaysian work practice is to source for registered local contractors first. "For our project in Penang, most of the construction work is



Foo believes Malaysian contractors have the capacity and resources to fill the gap



Most developers use local contractors, says Zaru

by local contractors. The exception is the undersea tunnelling works which are done by our China counterparts," he says, referring to the 7.2km undersea tunnel linking the island to the mainland.

Zaru's special purpose vehicle Consortium Zenith BUCG Sdn Bhd is constructing a RM6.3 bil infrastructure package involving three highways and the undersea tunnel.

The highways are the paired road from Tanjung Bungah to Teluk Bahang, the elevated four-lane expressway from Ayer Itam to Tun Dr Lim Chong Eu Expressway and the Gurney Drive to Tun Dr Lim Chong Eu Expressway By-Pass.

"We have no expertise for undersea tunnelling in Malaysia. The advantage of working with BUCG is the technological and knowledge transfer which we can apply to future projects," he says.

a suitable candidate," he adds.

The capital outflow stance has also seen other setbacks like a slowdown of China investors into Malaysia and a pullout by several contractors and subcontractors (see sidebar).

However, Zenith Group chairman **Datuk Zaru Ahmad**

Zulkifli believes there are always opportunities in uncertainties. "We have to look positively in such matters," he says.

TRX City's task, he says, is to ensure there is no detrimental impact on the long-term development of Bandar Malaysia following the recent fallout. *FocusM*