Headline **City-centre luxury villas in the sky**
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City-centre luxury villas in the sky

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Malaysia tends to undersell itself, says Choy-Soon Chua, managing director of Germany-based SEB Investment GmbH (SEB) as he takes *City & Country* on a tour of Pavilion Residences Tower 1's newly launched 4-bedroom Sky Villas.

Launched on June 26, at an average price of RM1,500 psf, the final phase of Tower 1 offers only 20 units of Sky Villas and six duplex units known as Sky Palaces. Since then, about 20% of the 26 units has been sold.

Featuring spacious interiors, imported marble and timber strip flooring, designer bath fittings, fully equipped kitchens and built-in wardrobes in all bedrooms, the Sky Villas range from 3,394 to 4,227 sq ft in size, while the Sky Palaces are 5,743 to 7,174 sq ft.

"You don't get this kind of quality in Europe. Some of our colleagues were impressed and surprised by the kind of building standards found in Asia," says Chua. Sitting in what he calls, the "ground zero" location in the heart of Kuala Lumpur's city centre, the Pavilion Residences is touted as a six-star residence and the epitome of luxury living.

SEB owns the RM485 million Pavilion Residences Tower 1 (163 units) through IMMO Pavilion, its local holding company.

SEB is the investment company for SEB Asset Management AG, a Northern European financial group with total assets worth €236 billion (RM948 billion) and €143 billion in assets under its management as at March 31, 2010. Tower 2 is owned by Kuwait Finance House (205 units) and Singapore-based Pacific Star Group. Tower 2 was 100% sold in 2007.

SEB acquired Tower 1 in 2008, at about RM1,000 psf, from Kuwait Finance House under its SEB ImmoPortfolio Target Return Fund. The asset manager for Tower 1 is Pacific Star Asset Management Ltd.

The Pavilion Residences are part of The Pavilion integrated development comprising four major components — Pavilion KL shopping mall, a premier corporate office block, the two towers of luxury residences (Tower 1 and 2) and a proposed boutique hotel

Since launching Tower 1 in November 2009, about 80% of the units have been sold including the Sky Villas and Sky Palaces. According to Chua, the buyers comprise 27 nationalities with the majority being Malaysians and Singaporeans.

"Interest has been very strong. The buyers recognise the value and the location so most of them are buying for investment. There are not many developments in the city centre which are fully integrated," says Chua, adding that Pavilion can be compared to CapitaLand's ION in Singapore.

Units in Tower 2 were sold at RM1000 psf in 2006/07, and at their peak just before the height of the global financial crisis prices hit RM1,800 to RM2,000 psf.

However, in tune with the sluggish market conditions following the crisis Tower 1 was first launched at end-2009 at a lower price of RM1,300 to RM1,400 psf.

Currently, units are going for an average RM1,500 psf, including the latest units in the final phase, he says.

"There is a general consensus that the market will fully recover within three to five years, so you can do the calculations as to how much the development will appreciate," adds Chua.

Pavilion Residences offers an estimated rental yield of 4% to 5%, which he says is generally the current average rental yield for such developments in Asia.

"When we came in during 2008, the market here was quiet and not doing as well as before but we recognised the value in this development. We looked at it historically — how prices performed over time. We also noted the scarcity of land for such developments in future in that location. Pavilion is a top class development and this is really a location that cannot be duplicated," he says.

Chua believes that with the Malaysian government's steps to liberalise the market to entice more foreign direct investment, the recovering economy and strong forecast for the country's GDP, there will be more room for growth in Malaysia's property sector. "All this bodes well for the capital value of this development," he says.

Pavilion Residences 1 is SEB's first investment in Malaysia, followed by the RM280 million Citta Mall near Ara Damansara in Petaling Jaya, an asset under the SEB Asian Property Fund SICAV-FIS.

Citta Mall, with a nett lettable area of 424,467 sq ft, is a joint venture with local developer Puncakdana Sdn Bhd and is expected to open by end-2010.

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"If you look at the equity markets, Malaysia is attractive in that it is fairly stable, especially compared with the more volatile markets of Singapore and Hong Kong. While we are not looking at any specific deals at the moment, we are in touch with the market here and we will look at all sectors," says Chua.

SEB welcomes joint ventures with local partners as a good way to access local expertise.

"We also welcome groups seeking a good partner to invest in Europe or the US," he adds.

Taking a global perspective, SEB will continue to invest in key markets in Europe, as they are viewed as stable, apart from the UK.

"We are also actively looking at the US market as there could be some good buying opportunities there this year," says Chua.

However, a key focus will be Asia, where SEB is looking into investing €150 million to €300 million a year over the next three to five years. A particular emphasis will be placed on the retail and residential property sectors.

Chua cites two reasons — the expected net population growth in Asia, which will drive up demand for housing, and the growing affluence of the people.

Since 2006, SEB has invested about €1.6 billion in Asia through real estate funds with properties in Singapore, China, Japan, Australia and Malaysia. Its flagship open-ended real estate fund, SEB ImmoInvest, has generated an annual return of 5.9% since its launch in 1989.

"We do not allocate a set investment amount for each market. It will be the returns that drive the allocation, but we definitely will see more substantial investment in Asia in the next three to five years. We will focus on the key countries where we already have a presence," he says.

A sign of SEB's growing Asia presence is the launching of a new fund — the SEB Asian Property Fund II — the second Asian fund following the Asian Property Fund SICAV-FIS in 2007. The fund has a current estimated portfolio value of about €550 million.

"We are looking to raise about €300 million in equity for the new fund," says Chua.

With 50% leverage, he says, the new fund would give SEB an investment capability of about €600 million. The fund aims to achieve a net internal rate of return (IRR) of 11% to 12% per annum for investors over an eight-year investment period. SEB has just begun its fundraising from various institutional investors, targeting a launch by end-2010.

"When we have raised €200 million, we will launch the fund and then continue to raise more equity. This would allow us at least have a certain critical mass of equity before we start," says Chua.

"We feel the timing is right to raise equity now so we can capitalise on potential investment opportunities [in terms of value] before the end of the year," he says. E

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PICTURES BY KENNY YAP/THE EDGE

Sky Villas feature spacious interiors, imported marble and timber strip flooring, designer bath fittings, fully equipped kitchens and built-in wardrobes in all bedrooms