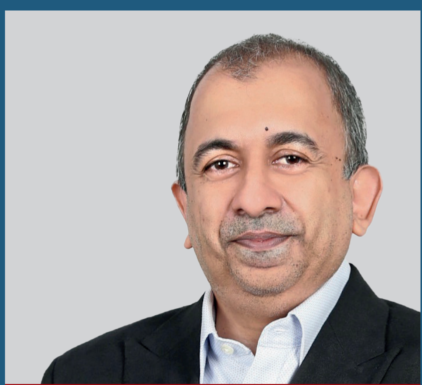
Are private equity real estate investment fund platforms the new FDI?

ON March 21, Prime Minister Datuk Seri Anwar Ibrahim announced that Malaysia had drawn RM76.1bil worth of potential foreign investments in the first quarter of 2024, largely from Australia, Germany and France. This follows the record-breaking RM329.5bil in approved investments last year.

While the latest FDI numbers are often shared with the public, the million-ringgit question remains unanswered – how much of that has been realised as actual investments?

This issue is related to the current model in which investments here are realised, where companies typically buy land to set up manufacturing bases, then leave once they find an even cheaper country to set up shop.

We do not realise that global investment models have evolved. We have failed to understand that global investors are strongly linked to foreign capital providers and they are only interested in investing in scalable platforms as much as foreign manufacturers are interested in investing in physical factories at prime locations.



Trends & perspectives
RAJESH KUMAR THARMALINGAM
AREA Group of Companies
Executive Director

Few adopting scalability

Scalable platforms are nothing new to the mature capital markets but then again, not many Malaysian institutions or fund managers seem to have adopted it. One exception would be the SDPLOG, a synergistic fund management platform jointly developed by Sime Darby Property Bhd and LOGOS Property. Sime Darby Property manages the Fund together with LOGOS as its joint GP.

Their focus is on developing and investing in world-class industrial and logistics assets within Bandar Bukit Raja 2 in Klang Valley, Malaysia. The move has been a game-changer for Sime Darby Property and is reflected in the very positive earnings outlook and the investor confidence they enjoy today.

Around the region, we have seen this happen, particularly with the large property-based investment funds based in Singapore. Good examples include the S$11.9bil (RM13.54bil) Capitaland Ascendas REIT and Mapletree Industrial Trust (S$6.52bil), Mapletree Logistics Trust (S$7.23bil), and Mapletree Pan Asia Commercial Trust (S$6.67bil), which enjoy a symbiotic relationship with Temasek and GIC, which has propelled them into a leading position as exemplary fund managers and platform developers for attracting foreign capital into Singapore.

In 2022, government-linked pension fund Kumpulan Wang Persaraan (KWAP) announced its strategic move to allocate more funds into real estate, infrastructure, and alternative investments as they move towards a higher allocation of their investments into private equity. Rebalancing their investment portfolios allows them to meet the current changing market conditions, adapt strategies and chase higher returns, amongst others.

These investments will most probably take the form of investment funds structured as a General Partner (GP) or a Limited Partner (LP) arrangement. We believe that their goal is to diversify their portfolio and enhance long-term returns for the benefit of the civil servants' retirement fund in Malaysia.

It is our hope that, as part of KWAPs plans to invest in these new funds, they will request that the foreign GPs partner up with our local GPs.

This will also allow KWAP to encourage local fund management companies to tap into the international capital markets, resulting in creating new platforms and investment mandates.

Malaysia currently lacks a dynamic local fund management industry, and this will go a long way in addressing this shortcoming.

A lack of interest

However, KWAP is sadly the exception rather than the rule. To date, most of our local institutions have shown scant interest in developing local fund platforms. They need to adopt a strategy to create more core-plus Malaysian-centric investment funds and attract other international investors and managers to place their capital with them. As Malaysia develops into an investment destination of choice, we will need billions to upgrade our infrastructure, our cities, our schools, and our manufacturing capabilities.

Many of these funds have mandates to invest in many of these projects and if we have the right platforms available for them to invest in, would be a good start in attracting foreign capital to Malaysia.

Core and core plus funds, REITS and public listings are all divestment options available to platforms to utilize in their modelling. For example, ESR Group Limited (ESR), an Asia-focused Real Estate services and investment company with an AUM of US$156bil (RM737.65bil) have moved assets from its industrial development fund to an open-ended Core Fund in Korea. This strategy allows it to control the income streams, adjust to a longer investment mandate and attract longer-term capital.

The foreign capital movements into the country are key to demonstrating Malaysia as a viable investment destination. FDI will surely follow when we show foreign capital that we have viable investable platforms that mean business. We must have such platforms available in Malaysia if we are to grow our economy.

The Institute for Capital Market Research Malaysia (ICMR) reported that the local private equity market has also attracted the interest of international capital with larger deals such as Columbia Asia Hospital and Nirvana Asia being executed over the past five years. However, the PE market size remains relatively small compared with its regional peers. AUM has been growing at a sluggish pace of 4.3% annually from US$3.7bil in 2010 to US$4.9bil in December 2020 compared to some advanced countries that recorded growth of over 10% over the same period. There is clearly a lack of investible platforms to attract them here.

The time to change has arrived. And we must evolve .... Otherwise, we will be left behind.