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CORPORATE

Time of reckoning for Port Klang Authority

BY NG KAR YEAN |

Some four years after Port Klang Authority (PKA) bought 999.5 acres of land in Pulau Indah to be developed into a free zone facility, the project is finally ready. Now all eyes will be on the project to see if it will gain traction in the market.

The major reason the project has been under public scrutiny is the mammoth investment pumped in to develop PKA's Port Klang Free Zone (PKFZ). The total cost of the project is estimated to be RM2.91 billion. Out of this, RM1.09 billion will be used to purchase the land from Wijaya Baru Global Bhd and another party and the remaining RM1.82 billion will be used for the free zone's development.

The other contentious point is the view of some who question whether PKA, a statutory corporation which oversees the development of port facilities in Port Klang, should be involved in financing the development of and owning the free zone facility.

However, any discussion on this now is merely academic as the money has been spent, and the facilities are now ready for tenants.

PKFZ general manager Noel Gulliver is spearheading efforts to make the free zone a commercial success. He has been seconded to PKFZ from Jafza International, which has been given the job to manage and market PKFZ. Jafza is the international management division of Jebel Ali Free Zone in Dubai. The idea behind this arrangement is that Jafza could draw on its experience managing Jebel Ali Free Zone to make PKFZ a well-run and commercially viable free zone facility.

Gulliver is working on finding tenants for the 512 warehouses already built, each with a built-up area of about 6,000 sq ft. The rent is RM18 per ft per annum. The minimum tenancy period is three years.

There are 640 acres of land for those who need a larger space. The rent is RM1.80 per sq ft per annum and the leasing period is between 10 and 30 years.

There are also four blocks of eight-storey office complexes. The built-up area is 19,000 sq ft per floor and the rent is RM22.80 per sq ft per annum. The minimum tenancy period is three years.

Gulliver believes PKFZ has what it takes to be the market leader in providing world-class facilities and services as an integrated industrial and commercial hub in South-east Asia.

"We have 640 acres of land for offer to the customers. Land and labour costs are affordable compared with free zone areas in Singapore and China," Gulliver tells *The Edge*.

He says although many might see Singapore's free zone area as PKFZ's competitor, he does not, because of land scarcity in Singapore and the ensuing high rental rate, as well as higher labour costs.

"It will be hard for companies to get a plot of 10 to 20 acres of land in a free zone area in Singapore," says Gulliver. High production and operating costs are the main reason why companies have moved their manufacturing operations out of Singapore, he adds.

With the vast land and affordable labour cost, companies can make PKFZ their manufacturing and logistic hub in Southeast Asia, Gulliver says.

PKFZ is located next to Westport and

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close to Northport. Both are linked by major shipping lines to 500 ports worldwide. This will make export and import of goods easier. PKFZ is also connected to mainland via highways and railways.

So far, PKFZ has seven committed tenants occupying the 71 acres of the land and five warehouses have been rented out. Noel says tenancy agreements for 59 acres of land, 26



ABDUL GHANI ISMAIL/THE EDGE

Gulliver expects PKFZ to be fully tenanted in 5 to 10 years

warehouses and office space for eight clients are in the process of execution.

This year, PKFZ will go all out to market itself. "We want to make PKFZ known to the decision makers, so that when their companies need a hub in Southeast Asia, they will consider us," Gulliver says.

Getting a free zone facility fully tenanted will not happen overnight, as companies need to do careful studies before investing millions of ringgit.

Gulliver expects a fully tenanted PKFZ in 5 to 10 years. "Once the pace picks up and people know about PKFZ, there will be a rush of tenants," he says, adding that

this trend is common in free zone facilities worldwide.

As for the warehouses, Gulliver says these are mainly for small to medium-sized businesses. He says these companies will only start to consider renting the warehouses when they are completed. "They want a place they can move in tomorrow, not in two years' time," he explains.

It is still early days for PKFZ. However, PKA does not have much time on its side to wait for PKFZ to generate returns. It needs to start paying its turnkey developer and land seller in 2007 on a staggered basis.

Kuala Dimensi Sdn Bhd is the special purpose vehicle used by Wijaya Baru Global to issue papers based on an undertaking by PKA to finance the development of PKFZ.

Kuala Dimensi is also the turnkey developer to design, build, complete and finance the development of PKFZ. Via a financial vehicle, Kuala Dimensi has issued RM1.09 billion bonds and RM360 million commercial papers. Kuala Dimensi's unit issued another RM510 million bonds and RM85 million commercial papers to finance additional development works in PKFZ. ■