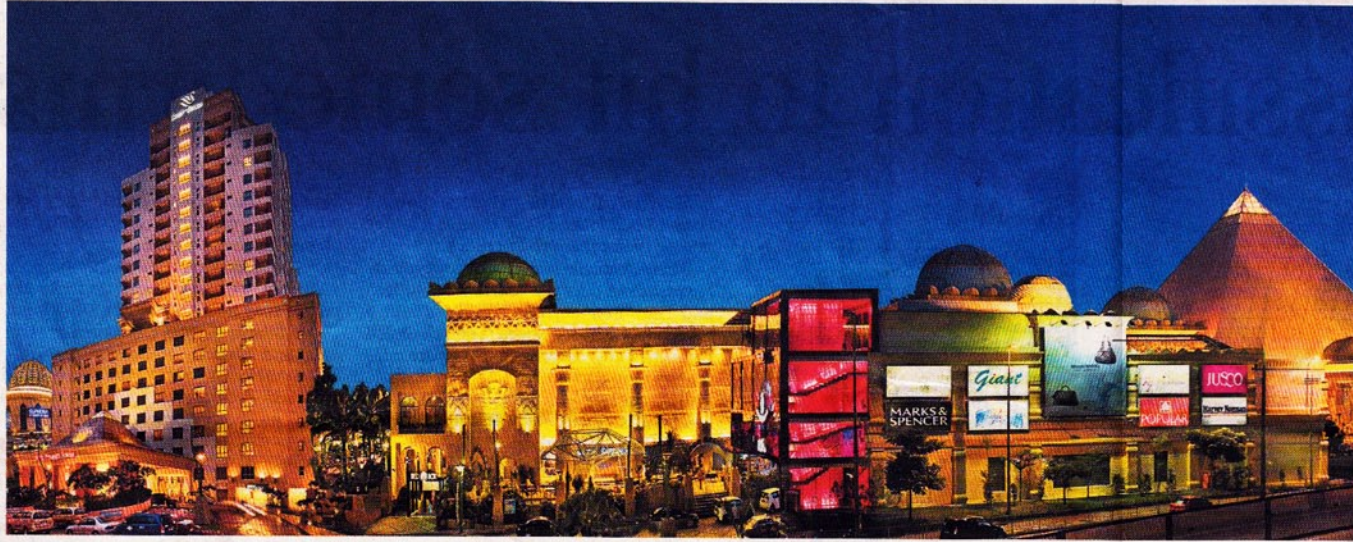


A SPECIAL FEATURE BROUGHT TO YOU BY



# M-reits best value in region



One of the newest M-REITs, Sunway REIT - targeting to double its asset size from RM3.729 billion to more than RM7 billion over the medium term of next five to seven years. (Photo courtesy of Sunway REIT)

A strong upside in valuations and the resurgence in activity are creating a buzz in Malaysia's real estate investment trusts (REITs) market, observers and managers tell **Sreerema Banoo**.

**T**he prospective real estate investment trusts (REITs) investor may not have Malaysian REITs (M-REITs) immediately on their radar - given that Singapore and Hong Kong appear more attractive - but the strong upside in valuations is a major plus for M-REITs, say observers and managers.

In addition, the anticipated entry of new REITs players to Malaysia, and the overseas expansion of certain Malaysian REITs are creating a buzz in the market, says Malaysia Property Inc CEO Kumar Tharmalingam. He adds that average gross yields of 7.5% (and 6.75% after tax) coupled with a stable ringgit make M-REITs among the most attractive in the region.

Malaysian Reits Managers Association chairman Stewart LaBrooy concurs, adding that Malaysian assets are the cheapest and represent the best value in the region. "There is a strong upside in valuations and this is the main attraction when you compare Malaysia with the region," he adds.

That M-REITs are on an acquisition trail, he says, will also serve to boost the Malaysian REITs market. "As M-REITs emerge from trading below their net asset values to trading above them they now can efficiently raise capital to purchase assets without diluting unit holders," he says.

He adds the planned acquisitions announced in 2010 include AmanahRaya REIT's proposed acquisitions amounting to RM497 million, UOA REIT's RM500 million asset acquisition plan, the injection of eight hospitals amounting to RM383 million into Al-Aqar KPJ REIT, and Axis REIT's purchase of four major assets worth RM238 million. "Some M-REITs are also venturing overseas for example Al-Aqar KPJ REIT's announcement to purchase an Australian nursing home for RM135 million," he adds.

One of the newest M-REITs, Sunway REIT has also committed to increasing its asset size. Sunway REIT Management Sdn Bhd CEO Datuk Jeffrey Ng Tiong Lip says Sunway REIT is targeting to double its asset size from RM3.729 billion to more than RM7 billion over the medium term of next five to seven years. He adds that an estimated RM2.7 billion worth of pipeline assets under a first right of refusal will be sourced from its sponsor (Sunway City Bhd) while another RM1 billion to RM1.5 billion will be from new acquisitions from third parties.

On the outlook, Ng is optimistic, adding that M-REITs will perform well due to improving consumer spending and increasing business confidence. He also expects more new sizeable and quality M-REITs to come into the market in year 2011.

Kumar concurs, adding that Malaysia is viewed favourably as a destination for Islamic REITs. "We are seeing a lot of interest from Middle East REITs players," he adds.

Although M-REITs managers had hoped that the government would waive the 10% withholding tax for resident and non-resident individuals - in line with the tax exemption accorded to REITs retail investors in Singapore - observers are nonetheless positive about M-REITs. Maybank IB Research in a sector update in October says, with or without the withholding tax, it is bullish on M-REITs "for their natural defensive qualities, solid property market fundamentals, as well as attractive 8.1% yield (7.3% net), vs. 5.7% for S-REITs and 3.7% for 10-year MGS (Malaysian Government Securities)."

Reviewing the performance of M-REITs in 2010, LaBrooy who is also CEO and executive director of Axis REIT says, selected REIT stocks have seen their share prices rise and in some cases have touched record highs.

"In addition we have had a number of large-cap listed companies that have been privatised and capital returned to the fund managers. All this money has to find a home and REITs have benefited from this large pool of liquidity in search of yields. This is witnessed by the strong demand for REIT units in the current markets by both institutional as well as retail investors, as evidenced by the successful listing of CapitaMalls Malaysia Trust and Sunway REIT earlier this year," he says.

Ng believes that the listing of Sunway REIT on 8 July 2010 has been a key catalyst for the positive performance in the M-REIT market. "The average daily trading volume of M-REITs, from 8 July 2010 to 30 November 2010, was 8.6 million units where Sunway REIT contributed about 5.1 million units or 59% of total M-REITs' average daily trading volume. The M-REIT market capitalisation has also increased from RM5.6 billion as at 30 June 2010 to RM10.4 billion as at 30 November 2010," he points out.

REITs observers and managers say that while there are advantages to investing in REITs compared to physical property or property stocks, there are several issues prospective investors need to consider. "One should always look for quality assets, strong management expertise, strong sponsor, growth potentials including clear future asset pipeline visibilities and gearing ratio," says Ng.

Reiterating the emphasis on prudent capital management, LaBrooy says REIT managers should focus on reducing existing gearing levels and extend debt maturity profile, focus on refinancing debts and capping interest spreads, as well as explore the possibility of selling assets to stabilise balance sheets.

He adds that investors should also put a greater scrutiny on the REIT manager by looking for focused management teams with a proven track record, and good governance and transparency practices. He also says that investors should avoid REITs that exercise dilutive capital raisings.

Ng adds that prospective investors should also consider the total return when considering the choice of REITs, as opposed to the yield alone. "Investors must understand their own risk appetites and match their individual risk-return profile with those of the REIT investments that they plan to invest. Avoid REITs with high gearing ratio or/and short loan tenure that might face refinancing pressure. It is also important to invest in REITs that are liquid that will provide easier entry and exit opportunities for investors," he adds.