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In MRMA we trust

The newly formed Malaysian REIT Managers Association is set to invigorate the industry

By Zoe Phoon

At long last and since the first Malaysian Real Estate Investment Trust (MREIT) was publicly listed in 2005, the industry now has an effective platform to hold regular dialogues with the regulators and the Ministry of Finance on issues affecting it.

While the recently established Malaysian REIT Managers Association (MRMA) is not promising the sky, hints of better things to come can be found in the words of its protem committee chairman Stewart LaBrooy:

"We have for some time recognised the need for Malaysian REIT managers to form an association so we can collectively lobby the regulators for changes we see as necessary to have a vibrant REIT market."

He discloses this, and more, in response to questions from *NST Property* on how MRMA can help the REIT industry broaden its horizon, bring more opportunities for local investors and foreign funds (see sidebar), deal with issues and emerging trends, and advance the industry.

The formation of MRMA, an initiative of Axis REIT Managers Bhd in which LaBrooy is chief executive officer and executive director, will be completed once the Registrar of Societies gives its go-ahead, which is expected in the first quarter.

MRMA, comprising the managers of 11 MREITs listed on Bursa Malaysia, in addition to lobbying the regulators will provide its members an avenue to network with fellow managers as well as other property and investment groupings.

On the industry's status, LaBrooy says the growth of MREITs has stagnated, the acquisition pace has been sluggish, and as a result the liquidity of MREITs has been very low.

"The lack of a unified voice as an industry adds to the problem because as individual business units, they have limited access to the banking system, the regulators and the government."

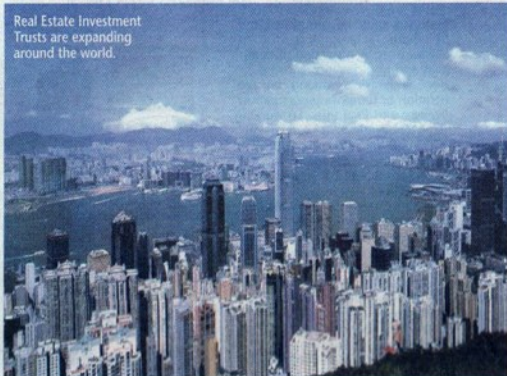
"An association will provide each member the tools to enable it to have better representation with the counterparties and stakeholders of the industry."

He says MREITs are in an unenviable position of having difficulty in raising capital due to the fact they are trading below their net asset values and market demands for high yields, which make finding matching assets very hard.

"MRMA will provide leadership for the industry to communicate MREITs' message to the retail market and fund managers."

"It'll bring out timely research and comparative studies as well as keep

Real Estate Investment Trusts are expanding around the world.



members abreast of developments in the regional and global REIT markets through the members' shared experiences.

"It'll also engage in setting standards for corporate governance, risk management, website development and annual reports ... in summary, it'll be a platform for best practices to be established for the REIT industry."

He says MRMA members must be up-to-date with what's happening regionally, especially regulatory reforms.

"For instance, many are unaware of the recent broad changes that Singapore's regulators introduced to assist its REIT industry in the areas of easing capital raising and rights issues ... there's now an emphasis on reducing the timelines to the market."

He therefore sees a crucial need for MREIT managers to collectively approach the local regulators to make MREIT regulations competitive vis-à-vis the region's, stressing that "without active engagement, the industry will trail the region and in a world where capital flows go to the best performers, MREITs will not be on the radar of foreign funds."

Citing Sunway REIT's potential listing as a real-time example, LaBrooy says the current 10 per cent withholding tax means that all distributions are effectively 90 per cent of the gross distribution.

As the average yields in MREITs are in the 7.5 per cent to 10 per cent range, Sunway may have to offer a gross eight per cent yield to get a full subscription. If the withholding tax was removed, it could effectively list, offering a 7.3 per cent net distribution and get a better return for its initial public offering price.

He notes a reduction in withholding tax will also provide MREITs with a



LaBrooy says MRMA wants to put local REITs on the radar of foreign funds.

unit price uplift to bring them closer to their net asset values, thereby triggering their ability to place more units into the market without diluting their existing unitholders. That will spell the industry's revival.

"MREITs need to grow aggressively to gain a following as this strategy assures unitholders of a steady stream of growing dividends, increasing share prices and a larger and more diversified asset base, thereby reducing risk."

"MRMA intends to take this message to the unitholders via seminars. Guest speakers who are managing foreign funds will share their criteria for selecting REIT counters and their appetite to invest in the country."

"Achieving excellence in best practices for the industry will be a clear message to all MRMA members. Through the association, we want to emerge as leaders in the REIT markets with broad-based industry representation," LaBrooy adds.

Free REIT seminars

Starting tomorrow, the Malaysian REIT Managers Association (MRMA) will be holding roadshows countrywide for the public to learn about real estate investment trusts (REITs).

MRMA protem committee chairman Stewart LaBrooy says those joining forces to do that are Axis REIT Managers Bhd, Am ARA REIT Managers Sdn Bhd, AmanahRaya-REIT Managers Sdn Bhd, Maybank, CIMB Bank and CB Richard Ellis (Malaysia) Sdn Bhd, a full-service property consultancy.

"We'll invite the public to free seminars to learn about REITs ... we aim to create a new type of customers for the industry which has traditionally been selling to major pension funds and insurance companies," says LaBrooy, who is also Axis REIT Managers chief executive officer and executive director.

The first seminar will be held tomorrow at Renaissance Melaka Hotel, Malacca.

The speakers are LaBrooy, CIMB Investment Bank Bhd's Malacca branch manager Louis Teh, CBRE (Malaysia) executive chairman Christopher Boyd, Am ARA REIT Managers head of asset management Zuhairi Md Isa, AmanahRaya-REIT Managers head of real estate investment and REITs, and Maybank Investment Bank Bhd head of equity capital markets Rajiv Vijendran.

LaBrooy says MRMA will highlight the benefits of REITs as an alternative investment option for retail investors compared to buying properties direct or keeping their cash in banks, referring to the RM400 billion currently locked away in fixed deposits earning

depositors a low interest of 2.5 per cent to 2.7 per cent per annum.

For the larger funds, he discerns an appetite for REIT units but says the lack of issuances in recent times has not enabled them to expand their holdings while some have dropped carrying the stock.

He says MRMA will engage the managers and the investing funds in regular dialogues so the managers can learn directly why their stock is favoured or not by analysts and funds.

On what foreign funds watch out for, he says these include transparent earnings and simplified operating models while complex financial engineering/cross-border structuring by REITs will be closely examined.

Also, investors insist on prudent capital management and over-leveraged REITs will be severely punished; put greater scrutiny on REIT managers; look for focused managements with proven track records, good governance and transparency; and want REITs to avoid dilutive capital raising.

"In addition, MREITs will have to quickly build up their portfolios to US\$500 million (RM1.70 billion) if they are to interest foreign funds."

"This will require concerted efforts by MRMA members and the regulators to make capital raising simpler, a break on withholding tax, and the industry's engagement with foreign fund managers to sell Malaysian properties."

"We do have some of the best regulations for foreign ownership in the region bar Singapore and Hong Kong but the message is still not getting across. An active association can address these issues," he notes.

- Zoe Phoon