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M'sian REITs to ride on Asia-Pacific growth

Region is expected to account for 44.7% of global real estate transactions by 2030

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KUALA LUMPUR: To attract more investor interest, Malaysia's real estate investment trusts (REITs) should leverage Asia- Pacific's journey towards becoming the world's largest real estate market.

"Investors are putting more money into Asia, where the real estate sector is a sizeable and fast growing market," said Assoc Prof Dr Ting Kien Hwa, director of the Centre of Real Estate Research, University of Technology Mara, in his keynote address at the REIT Conference organised by the Asian Strategy and Leadership Institute (Asli) yesterday.

Asia-Pacific is expected to account for 44.7% of global real estate transactions by 2030 from 25.8%.

It is currently the third biggest market behind Europe and the US. Ting said sales volume in Asia-Pacific has grown over the past three years, helped by the improving level of transparency and competitiveness in its real estate sector.

"China has taken up a large proportion of the real estate transactions made in Asia, with office space accounting for over 60% of them," said Ting.

He said active mergers and acquisitions in the region's real estate sector mean that REITs have begun expanding aggressively.

Although Malaysia has been one of the first countries in the region to develop its REIT sector, Ting said it may have lost out to its peers due to restrictive guidelines and high taxes.

The total market capitalisation of Malaysia's REIT companies catapulted to RM15 billion last year from RM356 million in 2005. However, Malaysia is fourth in terms of market capitalisation behind Japan, Singapore and Hong Kong.

Ting emphasised that within the region, countries are more likely to invest in their own real estate assets. However, Singapore REITs have been active in acquiring properties abroad due to the strength of the country's currency and the lack of domestic assets.

REITs regionally were hit during the global financial crisis in 2008 when the availability of short-term loans for new property acquisitions was affected by tighter liquidity.

Malaysia proved to be more resilient. REITs in Malaysia saw their total market capitalisation fall 30%, while Singapore lost 50%.

Ting added that REIT markets have begun to recover and show encouraging performance in recent months. Companies have divested non-core properties via REITs, he added, and REITs have been recognised as a reliable source of sustainable income.

"It would be good for institutional investors to allocate more of their money for REITs, as they provide better risk-adjusted returns [compared to equities]," Ting said.

REITs and equities are still highly correlated, especially in countries like Japan and Singapore, where the correlation is above 0.9.

"REITs were started six to seven years ago but they are emerging and drawing attention now. REITs target long-term investors with moderate risk appetite, such as insurance companies, pension funds, unit trusts and individual investors," Housing and Local Government Minister Datuk Seri Chor Chee Heung said in his opening address at the conference yesterday.

Chor said it is important for the REIT sector's legislation to be accommodative in order to retain its attractiveness.