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A relook at M-REITs following removal of preferential withholding tax rate

The Edge, Malaysia

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BY KAMARUL AZHAR

After hitting a year-to-date (YTD) low of 890.79 points on March 24, the Bursa Malaysia REIT Index (KLREIT) has rebounded, climbing 5.36% to 938.53 points on April 22. In contrast, the benchmark FTSE Bursa Malaysia KLCI was little changed during the same period, closing at 1,710.36 on April 22 as opposed to 1,708.76 on March 24.

The resurgence in Malaysia's REIT sector follows a sharp 12.33% decline in the index between Feb 19 and March 24. While the recovery since then has pushed the REIT index back into positive territory, it remains significantly below its YTD high of 1,016.02 points recorded on Feb 19.

Is there more steam to the rally, given that one of the factors that render Malaysian REITs attractive has been removed, with the expiry of the long-standing 10% preferential rate for withholding tax (WHT) on REIT distributions?

The concessionary rate, which has been in place for roughly a decade (2016 to 2025), was a key incentive used to stimulate the domestic REIT industry by imputing a flat 10% WHT on distributions to certain categories of taxpayers, except for resident and non-resident companies.

"With this (the end of the concessionary rate) now confirmed and largely priced in, we believe the overhang from the WHT change has been resolved," says RHB Research in a sectoral report dated April 20. "The KLREIT's derating post-announcement has, in our view, more than compensated for the removal of the 10% concessionary rate. Sector dividend yields are up about 10%, broadly offsetting the anticipated 50bps-100bps initial compression in net yields."

The Inland Revenue Board has confirmed that from the 2026 year of assessment, individual unitholders will be taxed based on the rates applicable to their respective tax profiles rather than the previous flat concessionary rate.

Geopolitics driving 'risk-off' interest

The return of investors to local REITs is partly due to the "risk-off" sentiment that was triggered by the conflict in the Middle East, and the subsequent on-again, off-again negotiations between the US and Iran.

RHB Research, which has maintained an "overweight" call on REITs — with five "buy" calls and three "holds" — believes the sector remains relatively insulated from the geopolitical tensions, underpinned by a defensive, domestic-centric earnings profile.

MBSB Research, which upgraded the sector to "positive" on March 16 — less than three weeks after the joint US and Israel attacks on Iran on Feb 28 — also considers REITs a safe haven despite the global volatility.

However, some analysts remain cautious. One covering the sector notes that valuations for many

REITs now appear "rich", potentially capping upside — particularly for those with low indicative yields.

HLIB Research, in a note on April 22, highlights increasing competition from alternative income-generating assets, including high-dividend equities, fixed-income instruments and other yield-focused investments.

"Within equities, sectors such as banking offer post-tax yields of 5% to 5.5% in CY2026 to CY2027, exceeding those of REITs following the recent increase in withholding tax. This relative yield disadvantage is further accentuated by more favourable tax treatment in regional peers such as

Singapore," the research house says.

Nevertheless, RHB Research points out that the yield spread between KLREIT and the 10-year Malaysian Government Securities (MGS) stands at roughly +190 basis points, which is +0.5 standard deviation above its long-term mean — indicating REITs are actually looking relatively cheap now and investors are being compensated more than they typically would be for investing in REITs instead of bonds.

"We are upbeat on this, following the recent sector sell-off after the confirmation of the WHT concession expiry," it says.

Performance not broad-based; office buildings not favoured

The recent rally in REIT counters, however, was not broad-based. Only nine out of 20 REITs on Bursa Malaysia had positive unit price movements between March 24 and April 22, and most were in the low single-digit range.

AmanahRaya REITs (KL:ARREIT) led the pack with a 38.7% jump during the period to 43 sen per unit, followed by IGB REIT (KL:IGBREIT) with a 4.06% rise to RM2.82. Axis REITs (KL:AXREIT) came next, after climbing 3.61% to RM2.01 per unit. Pavilion REIT (KL:PAVREIT) saw a 3.45% increase to RM1.80, while Sunway REIT (KL:SUNREIT) added 2.59% to RM2.38.

The worst-performing REIT during the period was AME REIT (KL:AMEREIT), whose unit price dropped 4.76% to RM1.60 during the period. Sentral REIT (KL:SENTRAL), Hektar REITs (KL:HEKTAR), UOA REITs (KL:UOAREIT) and CapitalLand Malaysia Trust (KL:CLMT) also retreated.

An executive with a large and diversified REIT explains that REITs with higher proportions of their investment assets under long-term lease would be more insulated from the impact of the Iran war, compared with those with a shorter-term tenant profile.

The long-term leases include hotels, industrial assets, hypermarkets and certain malls with large anchor tenants. Offices and normal shops in the malls are mostly on normal "3+3"-year leases — three year fixed with an option for a three-year renewal.

"If they are on a master lease, that is, they are not affected by day-to-day operations, there will be no impact [from the war] because rental is locked in for the long term," says the executive.

Offices made up 87% of Sentral REIT's investment assets by valuation. It was the second-worst performing REIT during the period, declining 3.4% to 71 sen even when the KLREIT index was trending upwards.

According to HLIB Research, one of Sentral REIT's assets — Sentral Building 2, a four-storey office with a sub-basement and a two-level basement car park in Cyberjaya — remains vacant, and may stay that way through to the end of the next quarter. The research firm has downgraded Sentral REIT to "hold", while trimming its target price to 70 sen from 78 sen.

Bursa Malaysia-listed REITs' unit price performance and indicative dividend yields

COMPANY	UNIT PRICE (MARCH 24) (RM)	UNIT PRICE (APRIL 22) (RM)	UNIT PRICE MOVEMENT (%)	MARKET CAP AS AT APRIL 22 (RM MIL)	INDICATIVE YIELD AS AT MARCH 24 (%)	INDICATIVE YIELD AS AT APRIL 22 (%)	12-MONTH CONSENSUS TARGET PRICE (RM)	UPSIDE POTENTIAL FROM APRIL 22 (%)
AmanahRaya REITs	0.31	0.43	38.71	226.42	2.48	1.79	NA	NA
IGB REIT	2.71	2.82	4.06	12,111.51	4.38	4.21	2.834	0.50
Axis REIT	1.94	2.01	3.61	4,029.54	5.67	5.47	2.264	12.64
Pavilion REIT	1.74	1.8	3.45	7,109.60	2.89	2.79	2.039	13.28
Sunway REIT	2.32	2.38	2.59	8,219.54	2.08	2.03	2.563	7.69
Al-Aqar Healthcare REIT	1.21	1.24	2.48	1,024.31	6.20	6.15	1.293	4.27
KLCCP Stapled Group	9	9.1	1.11	16,428.53	5.22	5.16	9.133	0.36
IGB Commercial REIT	0.595	0.6	0.84	1,452.73	7.40	7.33	0.69	15.00
YTL Hospitality REIT	0.995	1	0.50	1,794.39	6.19	6.16	1.235	23.50
KIP REIT	0.86	0.86	0.00	829.21	7.91	7.91	1.074	24.88
Atrium REIT	1.27	1.27	0.00	337.25	3.15	3.15	NA	NA
AmFIRST REIT	0.31	0.31	0.00	212.78	8.19	10.32	NA	NA
Tower REIT	0.28	0.28	0.00	137.45	NA	NA	NA	NA
Al-Salam REIT	0.455	0.45	-1.10	272.60	6.15	6.22	0.57	26.67
CapitalLand Malaysia Trust	0.62	0.61	-1.61	2,069.53	6.16	6.26	0.76	24.59
UOA REITs	0.84	0.82	-2.38	553.99	9.33	9.56	NA	NA
Paradigm REIT	0.99	0.96	-3.03	1,552.00	8.28	8.54	1.36	41.67
Hektar REITs	0.445	0.43	-3.37	304.99	5.08	5.26	NA	NA
Sentral REIT	0.735	0.71	-3.40	848.81	8.14	8.42	0.845	19.01
AME REIT	1.68	1.6	-4.76	849.76	4.90	5.15	1.865	16.56
					5.78	5.89		

Notes:
 Yield being the most recently announced gross dividend, annualised based on the dividend frequency, then divided by the current market price.
 If the security is paying an interim/final dividend, then the indicated yield is calculated by adding the gross amount from the most recently announced interim and the most recently announced final, and dividing the sum by the current market price.
 Abnormal dividends are not included in this yield calculation.

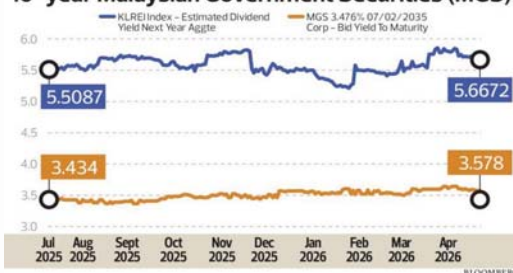


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Yield gap between Bursa Malaysia REIT Index and 10-year Malaysian Government Securities (MGS)



But not all office-focused REITs are the same.

IGB Commercial REIT (KL:IGBCR), whose portfolio is almost entirely made up of office buildings, still saw positive unit price movement during the period under review, inching up 0.84% to 60 sen as at April 22.

"It's yield. For institutional investors, it is compared against MGS yield. For retail investors, they are likely to compare REITs' yields with fixed deposit (FD) rates. As long as the net yield is superior to MGS/FD rates, REITs can still be appealing," says the REIT executive on why investors are returning to selected REITs.

However, the bigger REITs with market capitalisations of more than RM1 billion tend to have lower indicative yields, compared with the smaller ones. Based on March 24 prices, Sunway REIT and Pavilion REIT's indicative yields were less than 3%. (Indicative

yield is defined as the latest announced distribution, annualised.)

The Amanah Raya REIT jump also cannot be explained by its yields, as it was trading at an indicative yield of 2.48% on March 24. The 10-year yield on MGS issued in February 2025 was 3.597%.

And while IGB Commercial REIT had the highest indicative yield of 7.4% (as at March 24), among the commercial REITs, its unit price gain of less than 1% indicates it was not part of the counters that rallied. Likewise, UOA REIT, with an indicative yield of 9.33% on March 24, was a sectoral laggard, alongside AmFIRST REIT (8.19% indicative yield) and Sentral REIT (8.14%).

These lagging REITs share a common vulnerability: high exposure to the office market where rental reversions are modest due to oversupply,

IGB REIT, KLCCP 'fully valued'

IGB REIT and KLCCP Stapled Group (KL:KLCC) appear to be fully valued. The consensus target price (TP) of RM2.834 for IGB REIT was already almost fully realised as at April 22, when the counter closed at RM2.82, while KLCCP Stapled Group was trading at RM9.12, just one sen from its consensus TP of RM9.13.

Both REITs have large, "super-regional" malls. IGB REIT owns the Mid Valley Megamall and The Gardens Mall in Bangsar, and The Mall Mid Valley Southkey in Johor Bahru, while Suria KLCC is a key asset of KLCCP.

"KLCCP's unit price still seems fair now, but its luxury Suria KLCC mall performance will be subject to the Middle East conflict, as 30% of its shoppers are tourists," one analyst says.

MBSB Research notes that while a REIT's base rental income is generally fixed during the lease period, lower consumer spending due to inflation could reduce "turnover rent" — the variable portion of rent based on a tenant's sales.

"REITs with higher turnover rent will see their earnings more sensitive to the reduced consumer spending at malls," MBSB Research writes in its April 20 report.

Among mall owners, IGB REIT has the highest turnover rent rate at 15%, followed by Sunway REIT (around 10%) and Pavilion REIT (8%). While MBSB Research is "neutral" on IGB and Sunway, it maintains a "buy" on Pavilion REIT with a TP of RM2, indicating a potential 11% up-

side from its RM1.80 level on April 22.

The research house also warns that a weaker outlook for tourism could negatively impact REITs with hotel exposure, such as KLCCP, Pavilion REIT and Sunway REIT, as lower tourist arrivals reduce occupancy and room rates.

Domestic-consumption REITs, industrials more insulated

RHB Research is cautious on REITs that are dependent on tourism and variable turnover rent, favouring those that are more anchored by domestic consumption as they are better placed to weather any shifts in near-term tourist flows.

One example is KIP REIT, which has an indicative yield of 7.91% as at April 22. The REIT owns hypermarkets in smaller towns as well as suburban malls, making it rather defensive amid the global economic uncertainties.

UOB KayHian initiated coverage on KIP REIT with a TP of RM1.15 on Feb 11, noting that its community-centric suburban malls remained resilient even during the pandemic. KIP REIT closed at 86 sen on April 22, providing a potential upside of 33.7%. The consensus TP as at April 22 was RM1.07. "Notably, during the Covid-19 national lockdowns, the REIT was able to maintain a stable DPU (+1% year on year [y-o-y] in 1H20) compared with other REITs (-10% to -69%

y-o-y in 1H20), which underpinned a resilient income distribution."

Finally, the industrial segment is expected to remain the most insulated from the immediate impact of any prolonged geopolitical uncertainty, due to long-term lease structures and triple net lease arrangements, where tenants cover taxes, insurance and maintenance.

"While sustained, elevated energy prices could incrementally raise tenant operating costs — particularly for logistics and manufacturing tenants — we do not expect this to flow through to REIT-level distributions in the near term, given the protective lease structures in place," RHB Research notes.

Despite taking a cautious view on REITs, Axis REIT remains among HLIB Research's top picks — though it has trimmed its TP for Axis REIT to RM2.12 from RM2.25 — due to its proactive acquisition strategy and Johor exposure that positions it to benefit from the Johor-Singapore Special Economic Zone theme.

Meanwhile, RHB Research views AME REIT favourably due to its Johor-centric portfolio, placing it on "buy" with a TP of RM1.95. ■



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