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Retail REITs with landmark assets to fare better in 2019

KUCHING: In light of oversupply fears, analysts believe Malaysian Real Estate Investment Trusts (M-REITs) with landmark assets will fare better than the market with above-average occupancy and positive reversions due to well managed assets.

REITs such as Pavilion REIT, IGB REIT, KLCC Stapled Group and Sunway REIT that own landmark malls such as Pavilion Shopping Mall, MidValley Megamall, Suria KLCC and Sunway Pyramid respectively will continue to remain stable from higher footfall traffic.

Researchers with Kenanga Investment Bank Bhd (Kenanga Reseach) said these assets are able to retain close to maximum occupancy of 95 to 100 per cent, versus domestic retail occupancy of about 80 per cent and command positive reversions, albeit at a slower growth rate.

“This is similar for landmark office assets which fare better than the industry average with close to full occupancy of 96 to 100 per cent, versus the Klang Valley’s average of about 80 per cent,” it said.

“Additionally, according to Bank Negara’s Financial Stability Review for the first half of 2019, banks will be more cautious when lending to the office space and shopping complex segments going forward.

“Although this may not help near-term reversion rates, we believe it is a long-term positive as it helps address the oversupply situation which bodes well for M-REITs.”

This observation was made by Kenanga Research in its outlook report yesterday for Malaysia’s first quarter of financial year 2019 (1QFY19), highlighting that tough reversions seen by REITs will continue to create unexciting fundamental outlook.

“We do not expect strong earnings improvements year on year (y-o-y) due to the oversupply of both office and retail spaces,” it said in the report. “As such, strong reversions will remain challenging as tenants will prefer to prioritise occupancy over reversions.

“FY18 had seen minimal lease expiries 14 to 30 per cent of net lettable area (NLA) for M-REITs under our coverage, save for CapitaMalls Malaysia Trust (CMMT) which have been mostly accounted for.

“Looking ahead at FY19, M-REITs will see circa 21 to 53 per cent of NLA for MREITs under our coverage up for expiry, with the largest being Pavilion REIT at 53 per cent of NLA.”

MIDF Amanah Investment Bank Bhd (MIDF Research) in its sector outlook for 2019 maintained its earnings forecast for most of the REITs in Malaysia as the 3QCY18 performance for REITs under its coverage are mostly in-line.

Similarly, AmInvestment Bank Bhd in its Strategy 2019 Market Outlook pegged a resilient outlook ahead for retail properties, mainly shopping malls, in the short to medium term.

“This is demonstrated by REITs under our coverage, namely Pavilion REIT and Sunway REIT, whereby both have high occupancy rates in their shopping malls,” it highlighted.

“The high occupancy rates are also due to strong management and brand names of the REITs; and shopping complexes becoming a one-stop centre for Malaysian lifestyle providing food and beverage, and entertainment.”