

## TALKING POINTS

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BY GUNAPRASATH BUPALAN



SO, in this troubled property market where people are less prudent with their investments, I have been asked several times if there is a more cautious investment tool. My advice to people would be REIT. This may just be a solution for those who want to get into the property game, but rather be more cautious.

**So what is REIT?**

If you haven't heard of the term Real Estate Investment Fund, or better known as REITs, it's best you familiarise yourself with this term and start doing some research on this alternative mode of property investment, especially in a property climate where physical property investment is at its peak.

A REIT is a type of security that invests in real estate through property or mortgages and often trades on major exchanges, some like similar to a stock. REITs provide investors with an extremely liquid stake in real estate. They receive special tax considerations and typically offer high dividend yields.

To understand REITs better, it would be easier to compare it to a mutual fund that allows both small and large investors to acquire ownership in real estate ventures, own and in some cases operate commercial properties such as apartment complexes, hospitals, office buildings, timber land, warehouses, hotels and shopping malls.

**How did REIT originate?**

REITs have been in existence since 1960 in the United States as congress granted legal authority to form REITs as an amendment to the Cigar Excise Tax Extension of 1960. That year The National Association of Real Estate Investment Funds, a professional group for the promotion of REITs was founded.

The following year it changed its name to the National Association of Real Estate Investment Trusts (NAREIT). In 1965 the first REIT, Continental

Mortgage Investors got listed on the New York Stock Exchange (NYSE).

By the late 1960s, major investors, including George Soros, became interested in research on the value of REITs. Mortgage based REITs accounted for much of the growth of REITs in the early 1970s, and they fuelled a housing boom.

On the local front however, it was only

# A property investment alternative you probably never considered



Sunway REIT is amongst the many sought after MREITs you could consider.

in 1989, the Amanah Harta Tanah PNB (AHTT) debuted on Bursa Malaysia as the first listed property trust in Malaysia with the Amanah Harta Tanah PNB 2 (AHTT2) and Arab Malaysian First Property Trust (AMFPPT) after it.

Malaysia is among the first in Asia to develop listed property trusts that encouraged small-time investments in the local property sector. Subsequently, the Government announced more incentives and provisions in the annual Budget to boost this sector.

This has set the scene for what is known today as Real Estate Investment Trust funds or REITs with the first REIT on Bursa Malaysia being the Axis REIT in 2004.

**Why invest in REITs?****1. Small starting capital**

Most property investments require a significant amount of money to start. Even with 90 per cent loan, a RM500,000 property would require at least RM50,000 down payment plus extras for legal fees and stamp duties. For Malaysian Real Estate Investment Trust (MREITs), you can start investing with as little as RM160 (example: 100 shares of Pavilion REIT at RM1.60 each).

**2. Get exposure to the top shopping malls and commercial buildings**

With MREITs, you will be able to buy into the top shopping malls in Malaysia. Malls such as Pavilion (Pavilion REIT), MidValley Megamall (IGB REIT), Sunway Pyramid (Sunway REIT) are all available on Bursa Malaysia. As an individual property investor, you would have little chance of owning such popular shopping malls, other than certain strata title types like Berlaya Times Square. With MREITs, your dream of owning a part of these popular commercial properties can be a reality.

**3. Minimal effort required**

One of the key advantages of MREITs

is that there is minimal effort required to maintain these investments. MREITs hire professional management teams to manage the tenants and upkeep of the properties, leaving you to enjoy the fruits of your labour. Anyone familiar with property investments will know that there is in fact a lot of work involved in managing your own properties.

At current market condition, dividend yields of most MREITs are pretty attractive compared to other investments, ranging from 5% to 6%. Given the stability of the dividend income and quality of the properties, MREITs are generally good investments to consider.

**4. Earn regular dividends**

Like property rentals, MREITs also generate income in the form of dividends. Since MREITs are usually diversified, vacancy rates are generally low so they are a more stable form of income as compared to physical properties, which could have vacancy periods.

The frequency of dividends pay out for REITs is quarterly or bi-annually, making them an ideal investment for retirement income. To make it even more attractive, the dividend pay-out for REITs tend to be pretty high as they need to pay out at least 90 per cent of their net income to be eligible for tax treatment. Their dividends are fuelled by the stable stream of contractual rents paid by the tenants of their properties.

**5. Ease of buying and selling MREITs**

As MREITs are exchange traded, buying and selling them is generally easier compared to physical properties. MREITs are bought and sold like normal stocks so the prices are transparent and the transactions take place instantly.

For physical property transactions, it is normal to take between six to 12 months at least to find the right buyer at the right price and go through the sales and purchase agreement (SPA) process.

**In conclusion, should you consider REITs over physical home ownership?**

Okay, don't get me wrong; I am not saying that home ownership is bad. It's just that in an uncertain property climate, it's good to have options. A REIT is a liquid investment that is diversified across a range of real estate properties in a variety of geographic locations. By comparison, a house is a comparatively illiquid asset whose investment risk is not diversified, but rather highly concentrated.

REITs are basically real estate working for you.

I would suggest that if you are afraid to purchase physical property at this moment, invest in REITs. Make some money, and then dump that to help with your down payment towards your physical home. This is smart investing.

*This article was researched / prepared or accomplished by Gunaprasath Bupalan in his personal capacity. The opinions expressed in this article are the author's own and do not reflect the view of any association, municipality, authority or governmental body.*

■ Please send your views on this topic or other areas that you would like to discuss to Gunaprasath Bupalan - gunaprasath.terravalue@gmail.com or call in to TRAXX FM (90.3 FM) at 03 22824746 / 03 22825491 on Fridays between 8:15am and 8:45am to discuss the topic of the day with Gunaprasath during the Property on TRAXX show.



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