Launch of Bursa Malaysia REIT Index seen timely

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THE Malaysian Real Estate Investment Trust (REIT) segment has been attracting quite a bit of attention of late, but not for the right reasons.

With many investors turning cautious on the local property sector, local REIT firms have been feeling the impact.

Those who choose to invest in REITs see the newly launched Bursa Malaysia Real Estate Investment Trust (REIT) Index to be timely.

"The REIT Index represents the overall market movement that might not be apparent in a single stock," says an analyst from a local bank-backed brokerage.

"This also means that investor risk will be distributed throughout and not limited to one stock," he says, adding that profits would, however, be limited to overall market progress and not confined to the performance of the individual stock.

Another analyst says having an index would allow investors to gain exposure to all of the companies on that index.

"This means investors need not have to buy into a particular stock.

"This helps them save money and provide investment diversity."

The REIT Index, which was launched on Thursday, is Bursa Malaysia's 11th in-house calculated index and will track all listed REITs on the local bourse.

It is aimed at increasing the profile of these REITs and serves as a benchmark to gauge their overall performance.

There are currently 18 REITs listed on Bursa Malaysia, including four syariah-compliant REITs, accounting for 2.4% of total market capitalisation.

As at Sept 30, 2017, the market capitalisation for REITs stood at RM44bil compared with just RM5bil in 2007.

This represented a compound annual growth rate of 24%.

The listed REITs on Bursa Malaysia as at Sept 30, 2017 are Al-'Aqar Healthcare REIT, Al-Salam REIT, Amanah Harta Tanah PNB, AmanahRaya REIT, AmFIRST REIT, Atrium REIT, Axis REIT, CapitaLand Malaysia Mall Trust, Hektar REIT, IGB REIT, KIP REIT, KLCC REIT, MRCB-Quill REIT, Pavilion REIT, Sunway REIT, Tower REIT, UOA REIT and YTL Hospitality REIT.

The REIT Index is a market cap-weighted index, with constituents' weighting capped at 10%, to prevent any single constituent from exerting a disproportionate influence on the Index.

Newly listed REITs will be eligible for inclusion into the index three months after their initial public offering date.

The index design is formulated upon consultation with the industry, and is supported by the Malaysian REIT Managers Association.

The launch of the index comes at a time when industry observers and analysts believe that the local REIT market is enduring challenging times, given the tough property segment currently.

"The launch of the index will help investors have a closer, if not clearer view of how the sector will perform in trying times such as now," says an analyst.

In a recent research report, UOB Kay Hian Research points out that fears of oversupply in the commercial property market and sluggish retail sales are limiting investors' appetite for Malaysian REITs.

"We still believe that the oversupply of office malls and retail space is far from over," it says, adding however that the niche office building and prime retail mall segments will remain resilient in the long term.

One industry observer points out that most Malaysian REITs have been affected due to the fact that they own malls and offices - segments which have been experiencing a glut in space and subdued consumer sentiment.

"Many are still cautious about investing in local REITS, and this can be seen from their unit price performance.

"Most of them have been mixed this year - a reflection of local consumer sentiment and business conditions."

At the launch of the REIT Index on Thursday, Malaysian REIT Managers Association chairman Datuk Jeffrey Ng estimated challenging times ahead for local REITs - at least in the near term.

"There is much oversupply in the overall property market currently.

"This is impacting revenues and distribution of dividends.

"Most REITs will experience modest to flat growth in the near term," he says.

Bursa Malaysia chief executive officer Datuk Seri Tajuddin Atan, who was upbeat about the launch of the new REIT Index, seemed optimistic about the performance of Malaysian REITs.

"The introduction of the REIT Index is in line with global trends where REITs, which is a steadily rising sector, have become a major asset class for investors, especially those looking for high dividend pay outs.

"The dividend yields for REITs was 5% in September compared to the 3% dividend yield of the FBM KLCI.

"REITs also present a lower risk and hence, adding them to a diversified investment portfolio increases return and reduces risk."