REIT Index will help spur more offerings

> It is Bursa Malaysia's 11th in-house calculated indicator

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KUALA LUMPUR: Bursa Malaysia hopes the newly launched Real Estate Investment Trust (REIT) Index will spur the REIT market with the creation of new offerings such as alternative REITs and REIT exchange-traded funds (ETFs).

"The index has the potential to provide a further boost to liquidity in the market and provide greater visibility for the development of a wider range of REITs such as exotic types of REITs including those related to renewable energy or child care centres. In the US, there are also REITs for the prisons," Bursa Malaysia CEO Datuk Seri Tajuddin Atan told reporters at the launch yesterday.

Tajuddin Atan

He said products like ETFs with REITs as underlying will have more liquidity, which will attract more asset owners and provide an option for investors who do not want to invest in individual REITs.

The REIT Index is Bursa Malaysia's 11th in-house calculated index which will track all listed REITs on the exchange, aimed at increasing the profile of these REITs and will serve 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 the total market capitalisation. As at Sept 30, 2017, the market capitalisation for REITs stood at RM44 billion compared with RM5 billion in 2007, representing a compound annual growth rate of 24%.

The index is market capitalisation weighted, 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.

"In developing the readiness of the Malaysian REIT (M-REIT) industry for this index, we back tested against the performance of the FBM KLCI over the past three years. Our findings showed that the index would have outperformed the FBM KLCI and the property index by 15% and 26% respectively.

"Further to this, the dividend yield offered by REITs is already an attractive proposition for investors looking for high dividend payout. As a recent comparison, the dividend yield for REITs in September 2017 was 5% compared with FBM KLCI dividend yield of 3%. The M-REIT industry has therefore matured to a point where the exchange feels it is the right time to launch the first REIT Index in Malaysia," said Tajuddin.

He said with the launch, Malaysia joins developed markets like the US, Hong Kong, Japan, Australia and Singapore in having a dedicated REIT Index.

Jeffrey Ng

Malaysian REIT Managers Assocation (MRMA) chairman Datuk Jeffrey Ng said the M-REIT industry is relatively young compared with regional peers such as the Japanese and Singapore REIT markets whose market capitalisations are 10 times and seven times larger, respectively.

"We urge the regulators and authorities to continue to liberalise and incentivise M-REITs with favourable regulatory and tax regimes to attract more players to accelerate the growth of the REIT industry in Malaysia," he said.

Commenting on the outlook of M-REITs, Ng said it will be challenging in the near term due to the oversupply in the commercial segment of the property market.

"That has an impact on the growth of revenues and therefore, impact on the ability to distribute dividends so, probably most of the REITs will just enjoy at best, moderate growth, if not flattish for the near term," he said.

On Budget 2018 which will be revealed today, Ng said MRMA hopes for exemption of withholding tax for individual investors. Currently, individual investors who buy REITs have their dividends taxed at the withholding tax rate of 10%.