

IPO WATCH 34 | INSIDER MOVES 38 | BROKERS' DIGEST: LOCAL EQUITIES 40 |  
MARKET RECAP 42 | COFFEE BREAK 43

# CAPITAL



## Retail REITs expected to stay resilient amid SST shift, subdued consumer spending, say analysts

BY CHERYL POO

Despite subdued consumer sentiment that is likely to be exacerbated by the expanded scope of the sales and service tax (SST), which will be implemented on July 1, retail real estate investment trusts (REITs) are expected to continue to hold up as a defensive sector, underpinned by attractive dividend yields, resilient footfall in prime malls and a shift in investor preference towards stable income plays.

Market experts to whom *The Edge* spoke last week said current dividend yields for Malaysian retail REITs within the range of 4% to 6% offer a compelling case for yield-seeking investors, especially as government bond yields have fallen to around 3.5% as a result of lower interest rate expectations globally.

"The sector remains attractive to investors, even in a soft bond yield environment, with the average [REIT] yield currently exceeding 5.5%. While there is a risk of slower rental reversions due to higher SST-related costs, we believe the defensive nature of REITs will support long-term growth," Malacca Securities head of research Loui Low Ley Yee tells *The Edge*.

Year to date, the REIT sector's performance improved 2.4%, having rebounded 8.46% from its April 9 low of 822.64 points to close at 892.83 last Thursday.

"We expect investors seeking defensive investments to consider REITs amid heightened geopolitical tensions and uncertain US trade policies," Low observes.

An analyst from UOB Kay Hian concurs, adding that REITs are still attractive in that the sharply lower bond yield is a much bigger positive factor while SST impact is not expected to have a significant negative effect.

The analyst points out that under the new SST rule, commercial ten-

ants — excluding small and medium enterprises (SMEs) with annual income not exceeding RM500,000 — will be required to pay 8% SST, and that this may weigh on consumption sentiment since tenants are believed to typically pass such costs on to end-consumers.

"We estimate this tax could lead to a modest 2% increase in consumer prices, assuming rent comprises 20% of a tenant's total cost base. Given the uncertainty around consumer sensitivity to price hikes and the variation in variable rent structures across REITs, we assume a 2% to 3% decline in tenant sales and a 15% to 20% variable rent structure. Under this scenario, the impact on retail REITs' total rental income would be minimal (<1%) given the typically small contribution of variable rent," the analyst explains.

The majority of the market experts with whom *The Edge* spoke last week agree that SST-related costs may cap rental growth during the second half as capital appreciation may be more selective, favouring REITs with high-traffic locations, strong anchor tenants or diversified tenant mixes.

This will inevitably be the case in the foreseeable future as customers become more cautious on spending and landlords potentially face increased resistance to rent hikes. "Over the longer term, we still believe that it is not fatal for the REIT sector but a drag on growth. Retail REITs with dominant malls or high footfall locations may hold up better, while those with smaller suburban or niche malls could underperform. There remains upside for well positioned REITs in the portfolio, but capital appreciation may be more selective and modest in nature," explains Tradeview Capital Sdn Bhd chief investment officer Nixon Wong.

Despite concerns about subdued consumer spending, MIDF Research in a June 18 note says it expects retail momentum to remain broadly sup-

Comparison of selected REITs on Bursa Malaysia as at June 19, 2025

TRUST	MARKET CAPITALISATION (RM MIL)	LAST PRICE AS AT JUNE 19 (RM)	CONSENSUS TARGET PRICE (RM)	UPSIDE / DOWNSIDE (%)	NET ASSET VALUE PER UNIT (RM)	PRICE-TO-BOOK VALUE (TIMES)	PRICE-EARNINGS RATIO (TIMES)	DISTRIBUTION YIELD (%)
Pavilion REIT	5,643.2	1.54	1.70	10.39	1.35	1.14	13.51	6.14
Sunway REIT	7,363.3	2.15	2.13	-0.93	1.69	1.27	12.09	4.65
IGB REIT	8,365.8	2.31	2.27	-1.73	1.18	1.97	14.21	4.73
YTL REIT	1,840.7	1.08	1.08	0	1.69	0.64	10.94	6.48
Sentral REIT	926.5	0.78	0.85	8.97	1.14	0.68	11.80	8.21
Hektar REIT	305.0	0.43	0.58	34.88	1.04	0.41	13.52	7.33
KIP REIT	670.8	0.84	1.07	27.38	1.04	0.81	11.27	5.69
AXIS REIT	3,900.1	1.93	2.06	6.74	1.65	1.17	16.33	3.74
AME REIT	845.8	1.60	1.75	9.38	1.12	1.43	17.88	4.64

SOURCE: BLOOMBERG

portive, underpinned by structural tailwinds such as civil service wage hikes, minimum wage adjustments, targeted cash assistance and the ongoing recovery in tourism activity.

"These factors are anticipated to bolster household disposable income and sustain private consumption despite external macroeconomic uncertainties," says the research house.

It states that AEON Co M Bhd (KL:AEON) ("buy", target price (TP): RM1.77) is its top pick within the sector, given its defensive positioning, mass market focus and steady contribution from its property management services, which continue to provide earnings stability across cycles.

### REITs with 'smaller tenancy' profile more vulnerable

While the new 8% SST on leasing income may raise operational costs, analysts say the impact is manageable.

"These factors are not expected to weigh significantly on REITs, as any impact should normalise in the long run," says Low.

"Tariff policies may take some time to settle but we believe REITs will still be resilient. We forecast growth in the sector. However, it is hard to quantify for now given that landlords and tenants can only conduct negotiations upon renewal

of their lease contracts. With some negotiations taking place this year and others not due until next year or so, we can't yet factor in the full impact," says RHB Investment Bank deputy director and head of regional property Loong Kok Wen.

RHB is maintaining its "overweight" call on the REIT sector and has "buy" calls on Axis REIT (KL:AXREIT), Pavilion REIT (KL:PAVREIT), Sentral REIT (KL:SENTRAL) and Sunway REIT (KL:SUNREIT), with target prices of RM2.08, RM1.77, 93 sen and RM2.13 respectively.

"REITs with high SME exposure are particularly vulnerable. These tenants typically have thinner margins and less pricing power to absorb SST. Also, risk of early terminations, delinquencies or downsizing is rising. Hence, this increases concerns that REITs may need to provide incentives to help tenants manage costs. Potentially higher operating costs for the REITs may weigh on distributions in the short term but are unlikely to result in systemic REIT distress. More like an SST adjustment period, while waiting for recovery in consumer sentiment and consumption trend," cautions Wong.

Since gross turnover-linked rental structures for certain REITs are flagged as sensitive to consumer sentiment in the near term, Tradeview

Capital's Wong foresees that for high-performing tenants, landlords may negotiate hybrid models with stronger fixed components to lock in income.

"For struggling categories, REITs may retain variable models with performance thresholds to share upside when recovery comes. Variable structures will likely remain, especially for prime malls, as they align incentives during good times. But smaller REITs may lean more defensive with fixed leases to ensure base income," he predicts.

"Many REITs that own anchor malls in the Klang Valley will be able to better withstand the SST impact. Assets with long-term tenancies that should be relatively shielded from the new tax include supermarkets (Sunway REIT) and hotels (Pavilion REIT's ongoing acquisitions), as rental reversion is typically pre-agreed upon before signing a master lease agreement," notes RHB's Loong.

And while there may be a period of adjustment within the retail sector as businesses adjust to the implementation of the SST, the outlook on tenant churn, if any, remains location-dependant.

"Tenancy churn may occur, depending on supply and demand. Tenants with sufficient consumer demand may remain, suggesting

LOW YEN YEONG/THE EDGE

a 'survival of the fittest' dynamic. Relocating to non-prime assets may not yield similar results if the location misaligns with a brand's target market," forecasts Malacca Securities' Low.

Tradeview's Wong concurs, adding that lower-tier malls and suburban centres with weaker catchment income levels or higher exposure to small retailers will see more volatility. "Malls without experiential or lifestyle anchors may suffer disproportionately from both SST and cautious spending. Landlords may need to fill gaps with pop-up stores, temporary leases, or reposition the tenant mix such as less fashion, more services/necessity-based," he articulates.

However, the analyst from UOB Kay Hian notes that trusts like KIP REIT (KL:KIPREIT), which serves the mass market in suburban areas, are expected to have a stable performance, thanks to the consumption of necessities and consumer staples.

"Rising minimum wages and civil servant salaries, cash handouts and population growth will support demand in these secondary townships," the analyst opines, further articulating that the outlook on consumer spending remains mixed given that the demand optimism from phased hikes on civil servant salaries and minimum wages could be impacted by inflationary pressures going into the second half, which also includes an electricity

cost hike of about 15%.

"The first-tier retail REITs have appreciated, resulting in yields falling less than 6%. The current low government Treasury yield environment should ensure the eventual rerating of second-tier REITs with niche markers like KIP REIT," the analyst adds.

Highlighting retail assets in the listed REIT portfolios viewed as resilient, Tradeview's Nixon highlights IGB REIT (KL:IGBREIT) due to its prime, high traffic, diversified tenant base; Pavilion REIT, for its international tourist and luxury demand draw, even if it is still sensitive to retail sales; as well as Sunway REIT, which is expected to continue benefiting from the integrated catchments of residences, healthcare and education, and events-based footfall.

"Following its recent share price increase, upside potential to share price may become less appealing," he says.

### Industrial REITs relatively insulated

While retail REITs remain relevant, some fund managers are turning to industrial REITs as a core allocation for stability and longer-term growth.

Wong notes that industrial REITs tend to be more insulated from the direct impact of weaker consumer spending, turnover linked rent models, and SST impact on retail activity.

"Most industrial leases are long

term, fixed rate and triple net (tenants cover most outgoings). Tenants are often logistics players, manufacturers or data centre operators with relatively stronger covenants and cash flows," he says.

"For one, Axis REIT continues to benefit from steady demand in warehousing, last-mile logistics and e-commerce-related infrastructure. AME REIT (KL:AMEREIT), with

its more concentrated exposure to purpose-built industrial facilities, is leveraged to the long-term relocation and expansion of high-tech and precision manufacturing tenants, particularly in Johor and the southern industrial corridor, with government incentives for nearshoring and high-value manufacturing.

"We believe that industrial REITs are well positioned as a core or

even 'overweight' sector allocation, especially for investors prioritising stability and gradual growth," says Wong. **E**



Scan/click  
**ASK EDGE**  
12 Things You Must Know About Any Stock

## EN BLOC OFFICE BUILDING FOR SALE



**Located near to Desa Parkcity**  
**11- Storey Office**  
*A rare opportunity in this prime location*

- Freehold
- Gross floor area 155,000 sq.ft
- Net lettable area 113,000 sq.ft
- 301 car parking bays
- 10,000 sq.ft floor plate
- Building naming rights



EXCLUSIVE MARKETING AGENT



**BRYAN YEO (REN15618)**  
**+6017 686 6638**

