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REIT industry posts exponential growth

Its initial market cap of RM356 million as at Dec 31, 2005 leaps to RM11.2 billion as of end-Sept 2011

By Zoe Phoon

The real estate investment trust (REIT) industry is expected to see healthy growth with new players such as Pavilion REIT and possibly crossborder REITs entering the market in a year or two.

Sunway REIT Management Sdn Bhd chief executive officer Datuk Jeffrey Ng Tiong Lip expects these developments to bring the Malaysian REIT industry to the next level, also citing clarity of tax policy as another plus point that boosts the industry and attracts more investors.

(Budget 2012 confirmed the REIT industry's importance by extending the withholding tax rate of 10 per cent on dividend received for non-corporate institutional and individual investors.)

"Investors should consider including REITs as part of their investment portfolio as they provide steady dividend distribution ... the average yield for REITs in Malaysia as at end-Sept 2011 is 7.6 per cent with a beta of 0.54, meaning REITs are generally more defensive than the general equity market," Ng said.

On Sunway REIT's prospects, he expects the eight assets in the township REIT's initial portfolio during its July 2010 listing to continue to do well with healthy growth from the retail assets and hotel assets.

The retail component is driven mainly by its trophy asset, Sunway Pyramid Shopping Mall, which achieved rental revision of 16.3 per cent of 1.11 million square feet of net lettable area renewed for year-to-date June 30, 2011.

The hotels enjoy high occupancy of 75 to 85 per cent and average daily rates thanks to increased economic activities and growing tourism.

Not overly concerned

Ng is not overly concerned about the potential oversupply of office space in Kuala Lumpur and Selangor given management's competitive pricing strategy for Sunway Tower while Menara Sunway is located in a captive market in Bandar Sunway.

With the office component contributing only 10 per cent to Sunway REIT's net property income, he said, it will not impact significantly on the overall portfolio.

He pointed out that a sustainable growth component of Sunway REIT is due to the fact 85 per cent of net profit are contributed by four assets – Sunway Pyramid Shopping Mall, Sunway Resort Hotel and Spa, Pyramid Tower Hotel and Menara Sunway, all situated at the renowned Sunway Integrated Resort City (SIRC).

The 800-acre masterplanned township – comprising world class retail, leisure, hospitality, education and healthcare businesses among residential developments – is also strategically located in Greater KL and flanked by five expressways.

Its vibrancy is driven by Sunway REIT's sponsor's ongoing developments in SIRC. Among these, luxury lakeside Sunway South Quay will add 4,000 new homes when completed and provide the inner population catchment to SIRC.

The sponsor is also developing commercial properties such as the Grade A office tower Pinnacle and retail-cum-office Sunway Pyramid.

Furthermore, the addition of Sunway Putra Place to Sunway REIT's portfolio brings the number of assets to 11 from eight. Ng is confident of repositioning and turning around the three-in-one mixed-use property comprising retail mall, hotel and office tower into a prime asset in KL.

Sunway REIT's manager intends to carry out major renovation on the mall to improve vehicle traffic flow and tenancy layout and increase net lettable area.

Attracting investors

To another question, he said the listing of Pavilion REIT will be positive for the stock market and the REIT industry's growth.

"Being a landmark asset in the country, it will place Malaysian REITs on the radar screen of foreign institutional investors once again as such leading REIT players will set performance benchmarks for the local industry to be internationally competitive.

"Institutional and retail investors make their investment choices based on the value proposition the REITs are able to offer from a growth and/or yield perspective. It's the REITs' role to execute strategies to ensure sustainable growth and income in meeting investor expectations."

He noted investors in Sunway REIT since its initial public offering in July last year will have generated total annual returns of 29 per cent as at June 30, 2011, made up of six per cent dividend yield and 23 per cent price appreciation. Its share price has also been resilient in recent months despite the uncertain global economy.

"An unsettling global market may see investors become more cautious and demanding in terms of pricing to compensate for higher risk premium during these challenging times."

On the impact of the uncertainties in the United States and Europe on local REITs, he said, "We see non-performing assets prevail and buying opportunities for financially strong players. We also see potential merger and acquisition activities in the REIT industry and are keeping an eye on them."

External influence mild

On such external influence on Sunway REIT, he added: "It will be mild. Typically, tenants request for rebates during difficult times. Past records show Sunway REIT has been able to weather bad times by virtue of its quality assets that are also strategically located.

"Sunway Pyramid Shopping Mall generated 6.2 per cent compounded annual growth rate from 1999 to 2009 even with the 2008 global financial crisis.

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"Sunway REIT's core assets are located in the townships masterplanned and developed by the sponsor. With that, Sunway REIT's portfolio offers income resiliency in the long run."

Last month, Sunway REIT received the NST Property 2011 Editors' Choice Award for management's ability to position the township REIT's assets to achieve income resilience in good and bad times by optimising cross business synergies between the key assets.

The Pinnacle.

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