REIT players hope for better year

More active retail interest, assets expansion and new entries on the cards

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PETALING JAYA: After two quiet years in the local real estate investment trust (REIT) market, industry players are hoping for a better year in 2010 through more active retail interest, asset expansion plans, and entry of new players.

According to Malaysian REIT Managers Association (MRMA) protem committee chairman Stewart LaBrooy, news of some existing REITs' plans to grow their portfolios after a two -year hiatus is encouraging.

Quite a number of REITs have plans to expand their asset portfolio, with expansion by UOA REIT, AmanahRaya REIT and Al-Aqar REIT to involve new investments of RM1bil.

He said REITs would have better upside yields accretion potential if they had steady portfolio expansion through regular strategic asset acquisitions.

On whether raising enough funding for their asset expansion plans still posed a challenge to REITs, LaBrooy said: "Since the global financial crisis, there has been a game change on the regulatory environment that is helping REITs and capital markets cope with issues like faster capital raising and more self regulation."

"Although under existing Securities Commission (SC) rules REITs can place out new units of only up to 20% of their unit base and it can be done only once every 12 months, the SC is prepared to grant specific approval to REITs to raise additional capital within 12 months on a case to case basis," he told *StarBiz*.

It is possible that with the upcoming capital raising plans and new listings, there is potential for the market size to be increased to RM18bil from the current RM8bil.

LaBrooy said if the listing of a few more sizeable REITs took place by this year-end, it would further add to the depth and liquidity of the market.

The upcoming REITs include the Sunway REIT which is estimated to have asset value of around RM4bil and Malaysia's first cross-border REIT, the RM1bil Qatar REIT.

"The coming onstream of these new players will inject a lot of liquidity into the market. This will create more excitement in the REIT sector in terms of size and asset class diversification and should place REITs on the radar of more local retail investors and larger foreign funds," added LaBrooy, who is also Axis REIT Managers Bhd chief executive officer.

Currently, retail investors only account for 10% to 15% of the total REITs' market capitalisation of close to RM6bil. The biggest portion comes from institutional investors who account for close to 60% and REITs promoters at 25%.

To promote greater trading interest and volume for REITs, the target is to raise the retail portion to 40% of the market capitalisation.

"With the huge liquidity in the local system now, there is huge potential to expand the retail interest for REITs," LaBrooy said.

He added that retail investors were generally ill informed of the benefits of investing in REITs. "Investor education is essential and as a result the MRMA, has undertaken to conduct an investor outreach programme. So far we have conducted public roadshows in Penang, Ipoh, Klang Valley and Malacca. Our next roadshow will be held in Kuching on May 8."

»Since the global financial crisis, there has been a game change on the regulatory environment that is helping REITs«

MRMA PROTEM COMMITTEE CHAIRMAN STEWART LABROOY

LaBrooy said to make REITs more popular with the retail investor, there was a need for more liberalisation on the regulatory front and the removal of the withholding tax for individuals.

Currently, both local and foreign retail investors have to pay 10% witholding tax to the Government.

He said the recently established MRMA, with nine out of the 11 REIT managers as members, would engage the regulators to overhaul the prevailing regulations and speak as an industry body on tax issues affecting REITs in time for the 2011 budget.

On challenges ahead, LaBrooy said: "The biggest challenge for local REITs is to reach a size of US$500mil and grow beyond this. This is the minimum requirement if we are to attract foreign funds to our market and has to be an aggressive strategy for each manager.

"To achieve this, the REITs have to have four conditions in place – stock price that trades at a premium to net asset value (NAV), so that capital can be raised in a non- dilutive manner; an identifiable pipeline of new assets to acquire; market yield that is achievable at the time of acquisition; and a recovery in the bond market so that new sources of financing can be obtained without reliance on bank lending," he pointed out.