Long term stability for office, industry REITs

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KUCHING: The team at Hong Leong Investment Bank Bhd (HLIB Research) foresee selective office and industrial real estate investment trusts (REITs) to remain stable, while retail and hotel REITs will recover gradually in an endemic reopening towards 2022.

It maintained its neutral outlook on the sector as we expect reopening sentiment to be balanced off by rising rate expectations.

"We expect a gradual recovery in retail and hotel segment in line with expectations of improving business activities in 2022. Since economic reopening started in mid-Aug, we saw footfall improvement in malls and in hotel occupancy and thus, we feel this would pave up the momentum for 2022.

"However, we think the traction is not as rapid due to the absence of foreign tourists."

"While we expect retail rental assistance to decline, with affected tenants being allowed to start back operations, we are concerned on rental reversion as we foresee muted or negative rental reversion as an attempt to retain tenants.

"That said, we still like IGB REIT for its prime asset location, high occupancy and reliant on domestic footfall, which we believe would experience a faster recovery among other retail REITs."

For office REITs, HLIB Research expect the oversupply issue to linger in 2022. This was on the back of new supply and completion of new buildings has pushed down the average occupancy rates due to the vacancies in new buildings.

"However, this is an exception to offices under our coverage; Sentral REIT, IGB Commercial REIT, UOA REIT and KLCCSS office buildings, due to their prominent location of assets," it said.

"Furthermore, office REITs under our coverage managed to maintain strong occupancy of above 80 per cent; this is backed by the longer tenancy in office REITs paired with resilient rental reversion (especially for prime areas), thus providing dividend certainty.

"Additionally we anticipate improvement in occupancy, following the economic recovery in an "endemic reopening", with more workers coming back to office leading to increase in demand for office space.

"We like Sentral REIT for its stable portfolio occupancy as well as attractive dividend yield of 8.4 per cent – the highest among REITs in our universe."

As for industrial REITs, the category has been steadily strong even during the pandemic, backed by the robust growth of e-commerce which drives up the demand for logistics and fulfilment centres.

"The average price of industrial land in greater KL continues to increase. We reckon industrial REITs will continue its stable growth trajectory in 2022.

"We favour Axis REIT for its strong resiliency throughout the pandemic driven by high occupant tenancy in its diversified portfolio, and also, one of the few shariah compliant REITs."