Decent quarter for retail and industrial REITs

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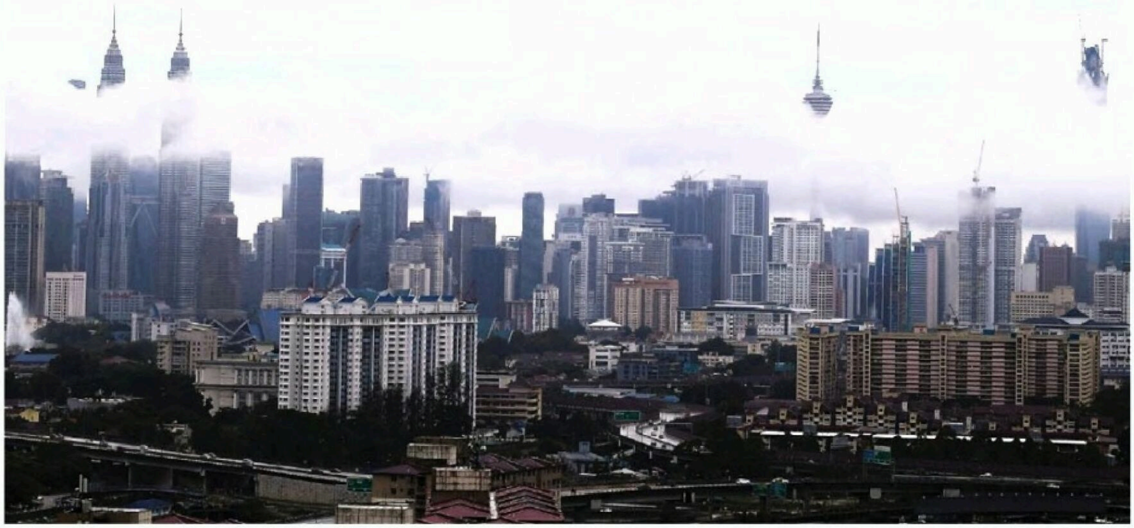

Following the transition to endemicity, HLIB Research saw that malls in prime locations experienced resurgence of shopper traffic and tenancy sales, returning to pre-pandemic levels if not surpassing, according to managements of REITs that possess flagship shopping malls. — Bernama photo

KUCHING: The real estate investment trust (REIT) sector saw largely-in-line results for the second quarter of 2022 (2Q22) as analysts with Hong Leong Investment Bank Bhd (HLIB Research) came away impressed with the performances of retail and industrial properties.

"The results were largely in line with six out of eight REITs under our coverage raked in profits that met our estimates (Axis REIT, IGB REIT, KLCC REIT, Pavilion REIT, Sunway REIT and UOA REIT) while the remaining two were below.

"IGB Commercial REIT was impacted by elevated operating expenses and Sentral REIT was dampened by declining occupancy rate."

Following the transition to endemicity, HLIB Research saw that malls in prime locations experienced resurgence of shopper traffic and tenancy sales, returning to pre-pandemic levels if not surpassing, according to managements of REITs that possess flagship shopping malls.

"Also, rental rebates of the said malls have diminished to a negligible level with occupancy rates holding steady compared to pre-pandemic levels. This positive backdrop has led to improved performance for Pavilion REIT, Sunway REIT and IGB REIT," it added.

"Nevertheless, oversupply woes continue to bite office owners. Sentral REIT and UOA REIT registered year on year (y-o-y) results decline, mainly due to falling occupancy rates of their properties.

"Notably, IGBC REIT also posted a marginal quarter on quarter (q-o-q) drop, no thanks to higher operating expenses.

"We opine that the overall tepid performance was attributableto the prevailing office supply glut, which has dampened their ability to source for new tenants, coupled with added pressure to their reversion rates.

"However, players with properties in prime locations and robust tenancy base have fared fairly resilient.

"Prominently, KLCC REIT which has displayed a double-digit growth, supported by long-term triple net lease agreements with established MNCs, while also riding on the strong recovery of hotel and retail segment."

HLIB Resarch foresee the positive momentum for retail REITs to persist inthe second half of 2022 due to minimal rental support going forward; and the transition to endemicity where imminent return of foreign tourists will further boost shoppers footfall, especially to malls that previously commanded sizable foreign tourists traffic.

Nonetheless, the research firm took a pinch of vigilance in view of persistent inflationary pressures and interest rate upcyle that are likely to weaken consumers' purchasing power.

Looking at industrial properties, HLIB Research saw that they remained resilient in 2Q22.

"We continue to view industrial REITs positively, where our optimism is backed by robust expansion and acquisition pipeline with sustained demand for their properties," it highlighted.

"On balance, we believe that the sector will continue to demonstrate decent recovery on a YoY basis, given the successful transition to endemicity and ongoing borders reopening of many countries.

"However, not all REITs are created equal as varying property classes fare differently, as reflected by respective REITs' 2Q22 results. Therefore, we are selective in names that displayed resiliency over the past two years and are best poised to capitalise on the broad recovery in economic activities.

"We are sanguine on industrial properties as we like Axis REIT for its robust track record and occupant tenancy in its diversified portfolio. For retail REITs, we favour Sunway REIT and IGB REIT for their strategically located prime retail malls and sturdy shopper footfall."