Bleak outlook for REITs – Analysts

KUCHING: Malaysia's real estate investment trusts (REITs) outlook remains bleak despite the reopening of the economy, analysts observed.

Following a talk with Savills Malaysia, Hong Leong Investment Bank Bhd's research team (HLIB Research) paint a bleak outlook for Malaysia's REITs but pointed out that offices are still relevant in the sector.

"Notwithstanding the WFH trend driven by the pandemic, offices remain an important asset for many companies as it still serves as an ideal platform for collaborative work and social activities. Greater KL's office vacancy rates remain elevated at 25.4 per cent in 2Q22, but it saw a slight improvement from 27.3 per cent in 2021.

"The impact is mostly felt in older grade B buildings as tenants are able to relocate to grade A offices without steep rental increment due to various incentives granted by landlords. Meanwhile, office gross asking rent in Greater KL has largely stayed flattish since 2020 at RM8.50 per sf," it said.

Malaysia's REITs outlook remains bleak despite the reopening of the economy, analysts observed. — Bernama photo

As for malls, despite the retail boom in 1H22 following the transition to endemicity, the overall occupancy rate of retail malls continued to decline amidst the rising retail spaces and store closures.

"In 2022, a total NLA of 3.4m sqft came on stream, comprising Mitsui Shopping Park Lalaport, IOI City Mall Phase 2, Setia Ecohill Mall etc, alongside completion of another 3.3m sq ft in the pipeline for 2023.

"However, existing prime malls operators such as Sunway REIT, IGB REIT, Pavilion REIT under our coverage should remain resilient, premised on its established brand names and strategic location, at least in the medium term. Moreover, we gathered that new malls tend to take on greater risk than the established ones as landlords offer incentives to attract tenants," it explained.

It also pointed out that hotels are not out of the woods yet despite the reopening of borders and the easing of most pandemic restrictions.

"While enjoying steady increase in demand for hotel rooms due to lifting of travel restrictions, manpower shortage remains a pertinent challenge for the hospitality sector to operate at an optimal capacity.

"Coupled with the prolonged border closures of many countries, overall average occupancy rates for hotels in Greater KL remains well below pre-pandemic level. On a positive note, ADR for hotels has rebounded favourably, nearing 2019 levels," HLIB Research said.

It also highlighted that as accessibility to loans is vital for the real estate market, the recent hike of OPR has elevated the borrowing cost, which may hamper new potential acquisitions.

"Though our economics team expects BNM to pause its OPR hike in November at 2.5 per cent until end-year, the yield spread between M-REITs and the 10-year MGS (MAG10YR) is currently at circa 2.2 per cent, which has dipped slightly below -1SD with its five-year mean of 2.86 per cent.

"Hence, we take a prudent stance as we believe the narrowing yield spread will continue to deteriorate the appeal of M-REITs," it said.

All in, HLIB Research retained its 'neutral' view on the sector while being selective on names that delivered commendable showing throughout 2022 and its ability to tide over a recessionary environment.