Hotel and REIT industry poised to get a lift

KUALA LUMPUR: The reopening of international borders this Friday is set to be a boon especially for hotel and retail real estate investment trusts (REITs) players, which has been hit hard by the pandemic.

MIDF Research in a report yesterday said the reopening of country borders, which have remained closed for two years, is expected to stimulate tourism activities in Malaysia.

"As a result, we expect the hotel industry to see the light at the end of the tunnel, as this segment has been heavily reliant on tourism activities.

"In this context, we expect REITs with exposure to the hotel industry, namely Sunway REIT and KLCCP Stapled Group, to see a turnaround in the hotel segment in the second half of 2022."

Additionally, the research house said malls that are tourist hotspots such as Pavilion KL and Suria KLCC should also benefit from the reopening of country borders, as shopper footfall at malls is expected to improve.

"Nevertheless, we reckon that rental reversion of shopping malls to remain flattish in 2022, as tenant sales take time to recover.

"We expect rental reversion to return to positive territory in 2023 for established malls in the Klang Valley such as Mid Valley Megamall, Pavilion KL, Sunway Pyramid and Suria KLCC."

In a report on Sunway REIT, TA Research said its management anticipates the hotel segment to progressively benefit from the gradual relaxation in travel activities, as well as pockets of meetings, incentives, conferences and exhibitions activities.

"Management anticipates that the phased re-opening of Sunway Resort Hotel in the first half of 2022 will contribute positively to the hotel segment's performance.

"However, management believes that for hotel occupancy to return to pre-pandemic levels, international border travel restrictions and travel anxieties must be entirely lifted."

Additionally, TA Securities said Sunway REIT expects the office space assets within its portfolio to remain stable in the future, as they are strategically located within vibrant, integrated developments and transit-oriented developments.

"Meanwhile, services and industrial and other segments offer a steady source of income, as the assets are on a triple-net master lease with fixed rentals and predetermined annual rental reversions."

Separately, MIDF Research pointed out that the KL REIT Index is at a multi-year low.

"REITs succumbed to a sell-down since 2020 amid the Covid-19 pandemic. The spread of Covid-19 has severely hit retail REITs as people avoided going to shopping malls.

"That dragged the KL REIT Index to a multi-year low of 754.34 points on March 18, 2022. We think that the KL REIT Index should stage a recovery from its multi-year low, considering that the worst should be over for REITs as the global economy is recovering from the pandemic," said MIDF Research.