

# Retail and hotel industry REITs to improve further in 2023

**KUCHING:** Earnings of real estate investment trusts (REITs) with exposure to retail and hotel industry to improve further in 2023 due to recovery of consumer spending at malls and higher tourist arrivals, analysts observed.

In a report, the research team at MIDF Amanah Investment Bank Bhd (MIDF Research) pointed out that most of the retail REIT reported earnings growth in 2022 due to recovery in rental income and lower assistance to tenants.

"Tenant sales and shopper footfall recovered to pre-pandemic level post reopening of economy. That led to rental reversion of shopping malls in prime location returning to positive territory in 2022," it said.

"Looking forward, performance of retail REIT is expected to remain steady particularly for REIT with mall in good location such as IGB REIT, Sunway REIT, Pavilion REIT and KLCCP Stapled Group. Besides, retail spending is also expected to be supported by festive season in 2Q23 and higher tourist arrival.

"Hence, we expect stronger tenant sales in 2Q23 and rental reversion to remain in positive territory," it added.

The hotel industry is also expected to turnaround in 2023 due to growth in domestic tourism and higher tourist arrival.

Recall that hotel industry suffered from heavy losses in 2020 and 2021 due to closure of



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MIDF Research

country border.

"With recovery of tourism industry and opening of more country borders particularly China, tourist arrival is expected to increase significantly in 2023 and that will support recovery of hotel industry.

"Occupancy rate and average room rate (ARR) of hotels improved in 2H22 post

reopening of economy and we expect further recovery of occupancy rate and ARR in 2023 due to higher tourist arrival," it said.

Meanwhile, MIDF Research noted that BNM paused OPR hike for two consecutive time in 2023.

"As our economist expect OPR to remain unchanged at 2.75 per cent for the rest of

2023, we see that to be positive for REIT as it eases concern over rising borrowing cost for REIT.

"Particularly, the pause in OPR provides relief to REIT with high floating rate borrowings such as Al-Aqar Healthcare REIT with 100 per cent Islamic financing on floating rate, Sunway REIT with 68 per cent debt on floating rate and Pavilion REIT with 65 per cent financing on floating rate.

"Hence, we see risk of higher borrowing cost for REIT is low in the near-term and earnings growth should remain intact," it said.

All in, MIDF Research maintained its 'positive' stance on the sector.