STABLE RENTAL GROWTH OUTLOOK

'Neutral' rating for REIT sector maintained

KUALA LUMPUR: Real estate investment trusts (REITs) will remain a strong defensive yield play next year, given the stable economic and rental growth outlook.

RHB Investment Bank Bhd (RHB Research) said the market was awaiting interest rate cuts to begin in the region.

The research firm has maintained its "neutral" stance on the sector, with Axis REIT and Sunway REIT its top picks.

"With high occupancy rates and normalised rental reversions moving forward, we prefer REITs with more inorganic growth prospects, especially as interest rates may have peaked at this juncture.

"We like Sunway REIT for its diverse property portfolio and active acquisition strategy.

"As for Axis REIT, it is our pick due to the resilient industrial sub-sector, and it should record strong distribution per unit growth in the financial year 2025 on the strength of new acquisitions made," it said in a note.

RHB Research said the potential acquisition of Mid Valley Southkey, Johor Baru by IGB REIT made it a wild card, especially given the high footfall to the mall during weekends due to the high spending power of travellers from Singapore.

It said IGB REIT had a low gearing ratio, which should enable it to easily fund the acquisition.

RHB Research said Sentral REIT was attractive for its high dividend yield.

It also did not foresee any significant risk to costs for REITs in the near term, after being hit by higher electricity tariffs and borrowing costs last year.

At the same time, it said rental reversions growth should also be normalised two years after the economic reopening, with most REITs' guidance for mid-single-digit rental reversions.

"For the malls under our coverage, the improving tourism industry will be a key driver for retail spending, and for Suria KLCC and Pavilion Kuala Lumpur specifically, this should help to offset the increased competition from The Exchange TRX."

RHB Research said the outlook for the office sector remained challenging due to the supply-demand imbalance.

It believed that earnings would be sufficiently supported by Sentral REIT's stronger office assets, especially following its acquisition of Menara CelcomDigi in December last year, while occupancy rates might fluctuate as tenants move around.