

Malaysian REITs to continue healthy growth

Malls, hotels to benefit from improved tourist arrivals

PROPERTY

PETALING JAYA: Malaysian retail real estate investment trusts (REITs) are expected to benefit from stable occupancy rates across key assets, positive rental revisions and improving foot traffic.

According to AmInvestment Bank Research (AmInvest Research), these factors will help retail REITs to continue enjoying healthy growth this year supported by a stable labour market, modestly higher inflation of 2.5% to 3.5% as well as the gradual recovery in tourist arrivals.

The research house, which maintained an “overweight” call on the sector, added that the hospitality segment of REITs is poised to benefit from government policies aimed at boosting tourism.

“The gradual influx of international tourists back to pre-pandemic levels is expected to contribute to retail sales improvement,” the research house said.

Its top picks are Pavilion-REIT (fair value of RM1.62 per unit), IGB-REIT (fair value of RM1.92 per unit) and YTL-REIT (fair value of RM1.11 per unit).

It foresees Pavilion-REIT’s earnings to be resilient, mainly underpinned by its prime asset portfolio anchored by Pavilion Kuala Lumpur and Elite Pavilion Mall, which are tourist hotspots that will benefit from the return of international tourists.

“A further increase in earnings is expected from Pavilion Bukit Jalil (PBJ) in 2024. We believe PBJ is positioned for a positive rental reversion in 2024, supported by improving footfall and occupancy rates,” AmInvest Research said.

The research house said the reason it likes IGB-REIT is due to its resilient long-term outlook underpinned by its strategically located assets in the Klang Valley,

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AmInvestment Bank Research

where its retail lots are at near full-occupancy rates.

As for YTL-REIT, AmInvest said it offers stable recurring rental income and minimal occupancy risks for its hotel properties in Malaysia and Japan, which are secured by master lease agreements.

“Additionally, we anticipate higher financial year 2024 (FY24)-FY29 distributions due to the receipt of rental repayments which had been deferred earlier in the pandemic years of FY21-FY22. Currently, the REIT already offers an impressive FY24 dividend yield of 10%,” it said.

AmInvest Research added that rental reversions and occupancy rates for prime malls are edging closer to pre-pandemic levels.

“Considering the strategic locations and strong market positioning of renowned shopping destinations such as Mid Valley Megamall, Pavilion Kuala Lumpur and Sunway Pyramid, we anticipate a positive mid-single-digit rental reversion of 5% to 6% in first half of 2024 versus 3% to 6% in 2023, aligning with pre-pandemic levels.”

It said this is underpinned by the high occupancy rates of the malls and healthy tenant sales on the back of higher forecast

private consumption growth of 5.7% in 2024 versus 5.6% in 2023.

“We envisage this to present an opportunity for REITs with prime malls to negotiate for higher rental rates over the coming years.

“Meanwhile, the expected increase of 24% year-on-year in foreign tourist arrivals in 2024 will be another upside for these prime malls in view of their strategic locations with numerous attractions,” it added.

The research house said it expected tenant sales in high-end malls such as Pavilion Kuala Lumpur, The Garden Mall, and Suria KLCC Kuala Lumpur to be affected by the implementation of the high-value goods tax (HVGT), which will come into force on May 1.

“Despite a potential reduction in variable rents due to the adverse impact of HVGT, the impact on REITs is deemed manageable due to a stable rent base supported by a resilient occupancy rate.

“Notably, the portion of variable rent (tied to sales) typically accounts for only 8%-12% of the malls’ total rental income,” it said.

However, it expected office occupancy and rental reversion rates to be flattish mainly due to oversupply issues impacting occupancy rates and rental reversion recovery.

The Stride Strata Office in Bukit Bintang City Centre and the recent opening of The Exchange TRX further added to the increase in supply of office space in the Klang Valley.

AmInvest Research believes that the sector has an attractive valuation at an average yield spread of 3.6%.

“The expectation of widening yield spread due to the lowering of 10-year Malaysian Government Securities (MGS) yields to 3.8% in 2024 will provide further upside to REIT valuations.

“We see buying opportunities in Malaysian REITs, given widening yield spreads against 10-year MGS yields with appealing distribution yields of 6% to 10%.”