

# REITs to remain a defensive yield play

## Upside to earnings limited on increased competition

### PROPERTY

**PETALING JAYA:** While real estate investment trusts (REITs) remain as a defensive yield play, upside to earnings may be limited due to increased competition in the retail sector and increased tax rates, while subsidy cuts may limit consumer spending, according to analysts.

RHB Research said REITs earnings are expected to be stable amid sustained occupancy and rental rates.

Year-to-date, the KL REIT Index rose 3.4%.

It noted that the REITs yield spread had widened to above one standard deviation (SD) of the historical mean, with the easing of the 10-year Malaysian Government Securities (MGS) yield amid expectations that interest rate hikes have peaked.

"The current yield spread between the KL REIT Index and the 10-year MGS is at 250 basis points (bps), which is 1.5 SD above the historical average.

"RHB Economics is expecting the 10-year MGS to drop to 3.75% by year-end, which would result in a 2.6%-yield spread. Despite the expectations of the US Fed cutting interest rates by 75 bps in the second half of 2024 (2H24), the 10-year US bond yield has increased 9% year-to-date as inflation remains stronger than expected," the research house said in a report.

For retail REIT, RHB Research said growth would be dependent on rental reversions, which is expected to normalise to mid-single digit range following the high single-to double-digit growth recorded in

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RHB Research

the financial year 2023 (FY23).

Retail spending is projected to be driven by a strong recovery of tourist arrivals which is backed by the weaker ringgit and increase flight availability.

"For retail, we like IGB-REIT for its fully occupied buildings and high proportion of turnover rent.

"With its net gearing ratio at just 17%, there is plenty of headroom to acquire Mid Valley Southkey which is now five years old. The acquisition would be a strong catalyst for the REIT, especially with the positive news flow surrounding Johor and Singapore," the research house said.

RHB Research said Sentral-REIT is a good defensive play for the office REIT.

Sentral-REIT's occupancy rate is at 89% and FY24 will see the full-year contribution from Menara CelcomDigi after it was acquired in last December.

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Axis-REIT was RHB Research's top pick for industrial REIT. A significant pick-up in earnings is expected to be seen in FY24 for Axis-REIT, following the completion of two major developments – Bukit Raja distribution centre two and Axis mega distribution centre phase two.

"Despite the strong increase in industrial developments over the past few years, we think oversupply concerns are mitigated at the moment, as most major developments are built-to suit with long-term tenancies already committed," it said.