

Upside for REITs remains amid global uncertainty

BY ESTHER LEE

Real estate investment trusts (REITs) have outshone other sectors on the local bourse this year, emerging as one of the few to remain in positive territory amid global uncertainty — driven largely by US President Donald Trump's threat to impose higher tariffs on imports as the country continues to grapple with a massive trade deficit.

So far this year, the Bursa Malaysia REIT index has risen 6.2% to 930.59 points on July 23. In comparison, the benchmark KLCI ended at 1,529.79 points, representing a decline of 6% since the start of the year.

Market experts say the defensive sector remains attractive despite significant gains. The appeal of REITs becomes more obvious when compared to other classes of defensive investment.

"Both Malaysian Government Securities (MGS) yield and fixed deposit (FD) rates have come off quite a bit. REITs can offer a dividend yield of 5% to 8%," says TA Asset Management chief investment officer Choo Swee Kee.

Twelve-month FD rates are currently at 2.5% to 3% and the 10-year MGS yield stands at 3.4%, giving REITs a healthy spread of about 200 basis points (bps),

notes Fortress Capital Group CEO Thomas Yong, who points out that it is above the long-term average.

He believes there is still upside potential for certain REITs — particularly those with strong asset quality, high occupancy rates and clear inorganic growth pipelines through accretive acquisitions or asset enhancement initiatives — as these are better positioned to deliver sustainable returns.

For investors, REITs' steady income and positive rental reversion make them attractive in times of uncertainty. Choo also highlights that the current environment of lower interest rates benefits REITs, as lower financing costs lead to interest savings and can drive dividend payout growth.

In July, Bank Negara Malaysia lowered the overnight policy rate by 25bps to 2.75%.

UOB Kay Hian Malaysia director of strategy Vincent Khoo says his research house has a "market weight" recommendation on the sector, given how it has already outperformed in 1H2025, but he anticipates some high-yielding and laggard REITs, particularly in retail, to continue to do well.

"Retail REITs are domestic-oriented and not directly subject to the US' capricious trade policies, and we expect most REITs to be able to deliver respectable rental reversions despite challenges of pedestrian retail

sales growth and the effect of [the expanded] sales and service tax," Khoo says.

Among the three main subsectors of the REIT landscape, fund managers and analysts continue to favour retail and industrial REITs, whereas for commercial REITs, it would depend largely on the quality of assets in the portfolio.

"Office REITs remain the least favoured, especially older assets or those outside prime transit-oriented locations, because of a persistently low occupancy rate in the Klang Valley and an unresolved oversupply," says Yong.

He favours retail REITs, particularly those with well-established retail malls that have a high occupancy rate because they can continue to demand better rental renewal rates. Increased tourism numbers expected after a long lull are another reason for favouring retail REITs, he says.

Choo believes the industrial REIT segment remains relatively resilient because of increasing foreign direct investment in the county and the government's continued push to attract both domestic and foreign investment.

In a July 10 REIT sector report, RHB Research notes that the stable lease structure of industrial REITs is a boon for the subsector.

"Most industrial REITs are backed by weighted average lease expiries of four to five years, offering earnings visibility and

insulating them from near-term tariff risks," it says.

Nonetheless, RHB Research's top pick for the sector comes from the retail sub-sector. It says Pavilion REIT (KL:PAVREIT) is expected to provide more attractive dividend yields than its closest peers, backed by high occupancy rates. It has a "buy" call on the REIT, with a target price of RM1.77.

Pavilion REIT has gained a total of 16.33% this year, closing at RM1.71 last Tuesday. The REIT, which has assets in retail, commercial and hotel, derives the bulk of its net property income from its retail assets, such as Pavilion Kuala Lumpur, Elite Pavilion Mall, Intermark Mall and Pavilion Bukit Jalil, where occupancy rates are more than 90%.

The stock's trailing 12-month yield was 5.7%; among three analyst forecasts reviewed, the estimated FY2025 yield ranged from 5.6% to 6%. All analysts have "buy" ratings, with target prices between RM1.77 and RM1.79.

Analysts also point out that the catalyst for REITs in the second half of 2025 could come from ongoing asset disposals and new acquisitions. Some REITs, such as Sunway REIT (KL:SUNREIT) and IGB REIT (KL:IGBREIT), are also undertaking asset enhancement initiatives, which Maybank Investment Bank Research says in a report in early June should further support income growth.

RHB Research expects multiple REITs to record a bump in earnings from ongoing acquisitions and renovations.

Among the 20 REITs listed on Bursa Malaysia, AmFirst REIT (KL:AMFIRST) has the highest trailing 12-month yield at 8.14% on distribution per unit (DPU) of 2.4 sen over the same period. The REIT, which has a market capitalisation of RM202.5 million, is the second-smallest on the stock exchange, ahead of Tower REIT (KL:TWRREIT).

The average daily trading volume for the counter is thin, however, hovering below 300,000 units. Over the period of one year, it has gained only 1.7%. AmFirst's share price closed at 30 sen last Tuesday.

The eight properties in AmFirst's portfolio are mostly office buildings, boasting a total net lettable area (NLA) of 3.1 million sq ft. AmBank Group is its largest shareholder, with a 26.73% stake, and its largest tenant, contributing 37.3% of the REIT's total rental income.

The overall average occupancy rate for the financial year ended March 31, 2025 (FY2025), was 83.9%, a slight improvement from 83.4% in the previous financial year.

Income distribution is lower than it was five years ago. In FY2021, the DPU was 2.82

BLOOMBERG

More than half of Malaysian REITs have yields above 5%

| REIT | DIVIDEND PAYMENT FREQUENCY | DIVIDEND YIELD TTM (%) | DPU TTM (SEN) | NAV PER UNIT (RM) | PRICE AS AT JULY 22 (RM) | YTD PRICE GAIN/ (LOSS) (%) | MARKET CAP (RM MIL) |
|----------------------------|----------------------------|------------------------|---------------|-------------------|--------------------------|----------------------------|---------------------|
| AmFirst REIT | Semi-annual | 8.14 | 2.40 | 1.18 | 0.30 | 1.72 | 202.5 |
| Sentral REIT | Semi-annual | 8.00 | 6.36 | 1.13 | 0.80 | 5.16 | 950.4 |
| UOA REIT | Semi-annual | 7.27 | 6.14 | 1.43 | 0.85 | (6.63) | 570.9 |
| CapitalLand Malaysia Trust | Semi-annual | 6.89 | 4.75 | 0.97 | 0.66 | 1.54 | 1,928.2 |
| YTL Hospitality REIT | Semi-annual | 6.25 | 7.00 | 1.69 | 1.12 | (2.35) | 1,908.9 |
| IGB Commercial REIT | Quarterly | 6.22 | 3.73 | 0.95 | 0.60 | 9.29 | 1,446.1 |
| Pavilion REIT | Semi-annual | 5.70 | 9.78 | 1.32 | 1.71 | 16.33 | 6,705.8 |
| Al-Aqar Healthcare REIT | Quarterly | 5.64 | 7.11 | 1.24 | 1.28 | (2.29) | 1,074.7 |
| KIP REIT | Quarterly | 5.59 | 6.74 | 1.03 | 0.86 | 0.00 | 682.8 |
| Tower REIT | Semi-annual | 5.39 | 1.59 | 1.15 | 0.30 | 0.00 | 144.8 |
| KLCCP Stapled Group | Quarterly | 5.14 | 44.70 | 7.51 | 8.69 | 10.70 | 15,688.3 |
| Atrium REIT | Quarterly | 5.00 | 8.62 | 1.41 | 1.33 | 11.76 | 353.2 |
| Hektar REIT | Semi-annual | 4.77 | 3.15 | 1.04 | 0.47 | (14.39) | 333.4 |
| AME REIT | Quarterly | 4.73 | 7.43 | 1.11 | 1.60 | 17.22 | 845.8 |
| Sunway REIT | Semi-annual | 4.67 | 10.00 | 1.51 | 2.15 | 17.29 | 7,363.3 |
| IGB REIT | Quarterly | 3.97 | 10.92 | 1.18 | 2.74 | 31.73 | 9,923.1 |
| Amanahraya REIT | Semi-annual | 3.91 | 1.49 | 1.27 | 0.38 | (1.30) | 217.8 |
| Axis REIT | Quarterly | 3.66 | 9.47 | 1.65 | 1.97 | 17.26 | 3,980.9 |
| Al-Salam REIT | Quarterly | 2.28 | 0.09 | 1.11 | 0.40 | 12.36 | 232.0 |
| Paradigm REIT* | NA | NA | NA | 1.00 | 0.97 | NA | 1,544.0 |

*Paradigm REIT was listed on June 10, therefore no entitlement data is available. Projected yield estimated at more than 7%, based on prospectus. Note: Data as at July 22

CONTINUES NEXT PAGE