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Save Our Suffering REITs

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THERE has indeed been much ado about our Malaysian Real Estate Investment Trusts (or MREITs) since its "face lift" introduction to Malaysia in 2005. However, despite Malaysians' evergreen love affair with their favourite asset class – property, it is these very same class of investors who continue to shun MREITs in their investment portfolio, preferring instead to invest directly in property.

Given this uniquely peculiar Malaysian state of mind, against the backdrop of limited investment alternatives currently available to the average Malaysian investor (excluding those categorised as "High Net Worth" investors, defined as those investors with net investable liquid assets of over RM1mil), it is now in our interests to generate fresh ideas to structurally improve and boost the allure and appeal of MREITs to investors. The writing is on the wall, they say, particularly when the promoters of a certain large local REIT is contemplating listing on the Singapore Stock Exchange instead of on its home ground, Bursa Malaysia.

Name of MREITS	Current market capitalisation (RM mil)	Price earnings ratio (P/E) (times)	Price to book ratio (P/B) (times)	Gross dividend 12 month yield (%)
Amanah Raya REIT	407.82	16.62	1.01	9.59
Al-Aqar KPJ REIT	385.85	12.08	0.88	4.09
Amanah Harta Tanah PNB	86.00	4.61	0.58	6.98
Amanah Harta Tanah PNB2	59.38	14.36	0.60	4.29
Amfirst REIT	377.52	12.06	0.85	8.29
Axis REIT	429.91	5.04	1.03	4.93
Atrium REIT	95.00	8.92	0.79	15.04
Hektar REIT	377.60	4.69	1.01	9.08
Quill Capital Trust	390.13	4.63	0.83	9.82
Starhill REIT	990.27	12.19	0.86	8.21
Tower REIT	302.94	2.76	0.75	12.48
UOA REIT	268.08	2.68	0.79	8.17
Simple Average:	347.54	8.39	0.83	8.41

All I want for Christmas is ...

With Budget 2009 around the corner, this would be the perfect time for the removal, or at the very least, a drastic reduction to, what in my view is the single greatest impediment overhanging the appeal on MREITs, the 15%-27% withholding tax presently levied on various categories of investors. Its removal or reduction is especially crucial in this era where the battle for every foreign investment dollar is being hard fought by every nation. This, more so for Malaysia who has lagged behind the regional REIT sector despite having a first-mover advantage. And especially so, when a foreign investor has our next door neighbour, Singapore, as a close investment substitute that presently only levies a 10% withholding tax on its foreign REITs investors. Don't forget, further up north, in Hong Kong, REITs has no withholding tax.

Cash Out?

Another frequent grouse is that certain MREITs have failed to articulate their acquisition strategy or dividend pay-out. This further compounds the perception of MREITs being a convenient cash-out vehicle for sellers, issuers of property and also an avenue for existing property developers to carve out existing investment properties, to enhance their holding company's value rather than benefiting the REIT's investors.

Furthermore, the small market capitalisation and lack of trading liquidity of MREITs make them unattractive from the viewpoint of prospective investors, especially foreign ones. A clear illustration of this is the recent drop in research coverage by a prominent foreign brokerage on one of the larger REITs, citing "limited investor appetite and no immediate clear catalyst".

Smart Partnerships

The recent 40% equity stake acquisition by Frasers Centrepoint Ltd of Hektar Asset Management Sdn Bhd – the manager of Hektar REITs – as well as the proposed joint venture between SP Setia Bhd and a real estate development fund managed by Land Lease of Australia are steps in the right direction to develop our REIT market. Such "smart partnerships" clearly yield benefits such as higher profiling, exposure, branding, expertise transfer and access to international best-of-class REITs management practices and strategies.

Diversity, the spice of life

To date in Malaysia, we have REITs with underlying property assets in the commercial, retail, office and specialty (e.g. hospital, plantation) space. Should an investor's choice be limited to these types of properties while being restricted to only Malaysian/ringgit assets?

A truly vibrant capital market has to have the breath, depth and variety of investment instruments to cater to all investment needs, tastes and profiles.

Out of the REIT Box

Time to have Malaysian REIT champion

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We applaud the creativity in the recent call to establish a REIT on the development of Malay reserve land in the East Coast Economic Region and by the Selangor Government to set up a REIT known as the Bumiputra Housing Fund. Concerns over legal considerations and economic viability aside, such undertakings need to be seriously looked into and evaluated. But where there's a will (and investor demand), there's a way!

As for diversifying outside Malaysian shores, it is heartening to note Glomac Bhd's venture overseas via its involvement in the creation of a Thai REIT comprising industrial properties, with the early indications of whopping 13% yields, far outstripping the yields of most regional REITs. Excluding all the usual risks (market risk, political risk, forex risk) associated with a foreign investment, this creativity might prove to be a catalyst of sorts if only it was floated on Bursa Malaysia.

The creation of a national REIT champion is an idea worth mulling over. Think of emulating Singapore's Capitaland Ltd and its agility to seize opportunities, leverage on winning competencies, enlarge geographical footprint and extend regional market leadership to have a scaleable business model. As the property sector is a mainstay in Malaysian economy, and includes world-class infrastructure such as the Petronas Twin Towers, KLIA and Putrajaya Administrative Centre, to name a few, this idea can be further enhanced to pitch its appeal towards international investors, especially those from the Middle-East, via the formation of an "International MREIT".

This can be structured as a syariah compliant champion REIT, allowing the nation an avenue to showpiece its strengths not just in infrastructure/property know-how, but also as a leading innovator of new international Islamic financial instruments.

Malaysia can be a world-class property investment destination market. The first step would be to get out of the present conventional "real estate" mindset and adopt a more dynamic, versatile, creative approach. A naturally competitive and viable niche for Malaysia would be to aspire to become an Islamic REIT hub, one that ranges across property sub-segments, topped with cross-border flavour, and garnished with a tax exemption cherry.

Now, that would definitely whet any international REIT investor's appetite!

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