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Don: Investors should look at buying REITs

They are now selling at a discount to net asset value

KUALA LUMPUR: Investors should consider buying into real estate investment trusts (REITs) as the valuations are now very attractive.

Prof Datuk Mani Usilappan, former director general of the valuation and property services department at the Finance Ministry, said REIT yields had increased tremendously and most of the REITs were selling at a discount to their net asset value (NAV).

"The return or dividend is the same in absolute term but because the share price has been declining, investment return is higher. In addition, investors may enjoy capital appreciation in the future," he said in his speech during the summit yesterday.

Organised by the Association of Valuers and Property Consultants In Private Practice Malaysia (PEPS), the one-day event gathered prominent valuers and real estate players to discuss the current issues and the outlook for the property market in Malaysia.

Mani advised investors to look for REITs with a management team that was flexible in its decision making amid the volatile economic conditions. Other criteria to consider are location and rental revision structure of the REITs' properties.

Mani also pointed out the characteristics of a REIT's stock movement.

REIT Performance as at Dec 2008

	Discount to NAV (%)	Yield (%)
Tower	39.3	13.77
Star Hill	39.0	13.61
Atrium	38.8	12.47
Hektar	35.2	11.36
Axis	32.3	10.67
Amanah Raya	25.6	9.80
AmFirst	23.8	9.63
QCT	23.3	9.31
UOA	23.0	8.51
Al-AQAR KPJ	7.8	7.46
AL-Hadharah	5.7	5.63

"During a market downturn, the REIT's share price will decline in some correlation with the KL Composite Index.

"However, in bullish market conditions, the REIT behaves like a bond, where the share price does not escalate," he said.

According to his risk and return analysis, a REIT's average monthly total return does not discriminate the sector of assets the REIT is invested in.

REITs invest in different types of real estate classes such as office, retail, commercial, industrial, healthcare, retail and plantation.

Going forward, Mani predicted rental income to continue at current levels, as a "rental crash" was unlikely. He foresaw fewer new assets being injected into the REIT market this year because of yield disparity.

Until the economy recovered, he said major players such as Sunway Group, CapitaLand Ltd group, TA Enterprise Bhd and Country Heights Holdings Bhd would defer their listing plans.

As at December 2008, REIT yields ranged from 5.63% to 13.77%, which were much higher than the average yield of 6% before the economic slowdown. The share prices were also selling up to 39.3% discount to NAV.