Local REITs offer a safe haven for investors

Rental revisions and acquisitions drive stable outlook

PROPERTY

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> RHB Research

PETALING JAYA: Despite the uncertainty roiling the global economic landscape, Malaysian real estate investment trusts (REITs) are expected to provide a reliable shelter for investors seeking defensive assets, given their stable domestic focus.

According to RHB Research, local REIT' under its coverage display strong fundamentals with high occupancy rates and stable earnings outlook, driven by positive rental revisions and asset acquisitions.

"The wider spread between Malaysian REITs and 10-year Malaysia Government Securities' (MGS10) yields also support valuations over the medium term," said the research house in a report yesterday.

RHB Research also highlighted that the MGS10 yield has eased roughly 10 basis points (bps) year-to-date (down 16bps year-on-year) alongside the expectations of interest rate cuts globally, as well as higher demand for government bonds as investors seek defensive assets.

"We think the wide yield spread is attractive for REITs as a dividend-yield play as REITs' dividend growth is expected to remain stable," it added.

In the retail sector, RHB Research said major malls owned by REITs under its coverage were recording close to full occupancy rates, which should help capture positive rental rates, with management teams generally guiding for mid-single digit rental revision this year.

"We think the outlook remains positive as retail spending remains resilient, and Visit Malaysia 2026 affords more upside to tourist spending, but we are keeping an eye on cost risks to tenants.

"Although the new electricity tariffs have not been finalised at the time of writing, we estimate that a 14% increase to the base tariff will only directly reduce the earnings of retail REITs by around 2%," the research house noted.

RHB Research said Sunway-REIT is its top pick among retail REITs.

"Sunway-REIT's asset enhancement initiatives for Sunway Pyramid's new Oasis wing opened last November and ongoing refurbishment of Sunway Carnival's existing wing allows it to attract higher-quality tenants, leading to a boost in rental rates," said the research house.

It also has a "buy" call on Pavilion-REIT, which is expected to offer a high yield of 6.6% for this year.

"We think its flagship Pavilion Kuala Lumpur mall will be a key beneficiary of the tourism recovery. We are also positive on the performance of Pavilion Bukit Jalil as well," said RHB Research.

As for IGB-REIT, the research house noted that the REIT should also see a boost in rental rates thanks to its major asset-enhancement initiatives.

Mid Valley Megamall now has over 20 tenants replacing its previous anchor tenant, with the full impact expected to show this year, "but we keep our 'neutral' call as we think the upside has been priced in, being one of the best REIT performers over the past year," said RHB Research.

That said, the potential acquisition of Mid Valley Southkey Mall could be a rerating catalyst, especially as the REIT has the lowest gearing ratio among those under its current coverage.

RHB Research also noted that industrial REITs are growing rapidly.

"We expect strong earnings growth from Axis-REIT and AME-REIT over the next two years," it added.

AME-REIT is undergoing RM148mil worth of asset acquisitions, with RM73mil completed in the first quarter of this year.

This will increase its total asset value by 31% to RM931mil from RM710mil last December.

"Despite issuing its largest ever private placement in October 2024, we still expect Axis-REIT to record a strong 8% earnings per unit growth this year after it completed RM719mil in acquisitions in last year," the research house said said.

The placement also paired down its gearing level back to 33%, providing RM1.7bil for new acquisitions before hitting the 50% gearing limit.

However, RHB Research said it remains neutral on office space, saying that it continues to be cautious on the office sector as the occupancy rate in Kuala Lumpur remains low at about 70%, compounded by an increasing supply of new offices.

However, for the subsector, the research house said it likes Sentral-REIT for its attractive high dividend yield.