REITs sector earnings expected to strengthen

Growth supported by acquisitions and occupancies

PROPERTY

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>
> Hong Leong Investment Bank Research

PETALING JAYA: Hong Leong Investment Bank (HLIB) Research expects the future earnings of the real estate investment trusts' (REITs) sector to be underpinned by company specific strategies such as asset injections, tenant remixing and improving occupancies.

The research house in a report said retail REITs in the fourth quarter of financial year 2025 (4Q25) should also benefit from the seasonal uplift during the year-end festive period and school holidays, which typically drive higher tenant sales and variable rents.

During the recent 3Q25 results season, five REITS under its coverage namely Sentral-REIT, IGB Commercial-REIT, Axis-REIT, KLCC Property Holdings Bhd and Pavilion-REIT reported earnings broadly in line, while Sunway-REIT exceeded expectations on stronger hotel occupancy.

It noted quarter-on-quarter earnings were mostly muted given limited seasonality in office and industrial segments and the non-festive retail period.

Year-on-year growth was supported by acquisitions, with further uplift expected from upcoming asset injections.

HLIB Research pointed out that the office segment also continued to show improving occupancy, despite oversupply.

From 4Q25 onwards, the research house expects that REITs with recently completed acquisitions should see stronger contributions, and IGB-REIT's earnings will be supported by the injection of Mid Valley Southkey completed in November 2025.

Moving forward, several near term acquisition pipelines are worth monitoring, including Paradigm-REIT which is planning to inject Hyatt Place Johor Baru Paradigm Mall, Le Méridien Petaling Jaya, and Premier Hotel Klang valued at around RM500mil and targeted for the second half of financial year 2026.

In addition, AmanahRaya-REIT is acquiring an industrial building in Telok Panglima Garang, Selangor for RM39mil while UOA-REIT announced plans to acquire Tower 2A, Tower 2B and a car park facility at UOA Business Park in Glenmarie, Shah Alam for RM200mil.

Meanwhile, office recovery continued to strengthen across the sector, with most REITs reporting higher occupancies and sustained positive rental reversions.

Despite ongoing oversupply in the Klang Valley, the broad-based occupancy uplift indicates that office recovery is firmly underway, supported by improving tenant demand and flattish-to-positive rental reversions.

"In our view, Malaysia's pivot toward high-tech and high-value sectors is creating structural demand for office-based functions such as research and development, design and regional operations," added the research house.

HLIB Research has maintained an "overweight" stance on the REITs sector, underpinned by its inherent defensive characteristics, resilient income profile and attractive valuations.

It said Sunway-REIT, with a target price of RM2.52, remains its top pick, backed by a well diversified portfolio across four asset classes and a visible pipeline of high quality asset injections that should strengthen earnings resilience.

The second top pick is Pavilion-REIT, replacing Axis-REIT, as it upgrades Pavillion-REIT to a "buy" with a higher target price of RM2.02, following the recent share price correction and the rollover of earnings to financial year 2026.

"Pavilion-REIT's prospects remain favourable, supported by a constructive tourism outlook that is expected to drive higher footfall and spending at its flagship assets including Pavilion KL and Pavilion Elite, reinforcing its growth trajectory," HLIB Research added.