Stable prospects forecast for REITs

Compressed yields, tighter spread limit upside however

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>
> MBSB Research

PETALING JAYA: The narrowing yield spread between the 10-year Malaysian Government Securities (MGS) yield and the aggregate yield of Bursa Malaysia's KL REIT Index is making real estate investment trusts (REITs) unattractive to investors, according to MBSB Research.

It said while domestic REITs' earnings prospects remain stable going into 2026, supported by positive rental reversions and Visit Malaysia 2026 (VM2026), the increase in their share price has caused yield distribution to compress to an average of 4.6%.

MBSB Research noted that the yield spread between 10-year MGS and aggregate KL REITs narrowed to 127 basis points (bps) in December from 141 bps in November.

This was mainly due to the increase in 10-year MGS yield to 3.56% in December from 3.44% in November.

"The yield spread has narrowed significantly year-to-date from 168 bps in January 2025 to below 130 bps following the good run in KL REIT Index (year-to-date: 7.5% rise) and the overnight policy rate cut in July 2025, which prompted a lower 10-year MGS yield," it said.

The research house has maintained its "neutral" recommendation on domestic REITs, highlighting that the narrowing yield spread should keep their upside limited.

Its top pick among Malaysian REITs remains Sunway-REIT with a "buy" call and a target price of RM2.34 per unit.

"We see a positive outlook for Sunway-REIT, mainly underpinned by solid contribution from the retail division. The decent performance of Sunway Pyramid Mall and Sunway Carnival Mall will continue to drive the performance of the retail division," it said.

It noted that, overall, REITs with exposure to retail and industrial assets should see growth next year, while the office segment is expected to see limited growth.

Mall occupancy rates remained stable at 78.7% in the second quarter of 2025 (2Q25), compared with 78.8% for the whole of 2024, supported by a robust retail backdrop and VM2026.

For the industrial segment, MBSB Research expects rising transaction volumes in the first half of the year compared with the same period in 2024 to underpin positive rental reversions.

However, prospects for the office segment remain subdued, with privately owned buildings' occupancy rates muted at 71.7% in 2Q25.