REITs expected to outperform this year

Consumer spending, industrial growth to support yields

PROPERTY

> "A stable macroeconomic backdrop, resilient domestic demand and identifiable catalysts such as Visit Malaysia 2026, Johor-Singapore Special Economic Zone, New Industrial Master Plan 2030 and the National Energy Transition Roadmap remain supportive of local REITs."
>
> RHB Research

PETALING JAYA: Malaysian real estate investment trusts (REITs) are expected to continue outperforming the market this year on sustained consumer spending, industrial-investment momentum and favourable yield spreads between them and the 10-year Malaysian Government Securities (MGS).

RHB Research has maintained an "overweight" stance on Malaysian REITs with its top picks being Pavilion-REIT and AME-REIT, both with "buy" calls and target prices of RM2 and RM1.80, respectively.

The research house said a stable macroeconomic backdrop, resilient domestic demand and identifiable catalysts such as Visit Malaysia 2026, Johor-Singapore Special Economic Zone, New Industrial Master Plan 2030 and the National Energy Transition Roadmap remain supportive of local REITs.

With Malaysia's healthy economic growth this year plus manageable inflation, economists mostly expect Bank Negara Malaysia to maintain an accommodative monetary policy stance by keeping the benchmark overnight policy rate (OPR) at 2.75%, providing lower costs of funds.

Economists also expect another two cuts to the US federal funds rate totalling 50 basis points (bps) from the current target range of 3.5% to 3.75%, which could push investors to Asian markets, including Malaysia, in turn exerting downward pressure on MGS yields to widen the yield differential versus Malaysian REITs.

Another analyst said the yield differential compared with 10-year MGS makes for compelling valuations for Malaysian REITs.

The analyst expects the OPR to be maintained at 2.75% this year, which would help them with their borrowing costs.

"The stable OPR, positive economic growth and the policy focus on industrial expansion will also see more investments into industrial assets," the analyst said.

RHB Research said the combination of lower MGS yields and stable OPR "is favourable" to REITs and that any further decline in MGS yields would be a positive incremental tailwind, as the dividend yield spread between the KL-REIT and 10-year MGS stands at 150bps, slightly below its historical mean, reflecting 10% compression over the past year.

The research house said the withholding tax treatment on distributions particularly for foreign funds continues to be a structural overhang for Malaysian REITs as marginal foreign flows may rotate to Singaporean REITs should the tax concession, currently under review, be removed.

It said, for Malaysian REITs with gross yields of 5%, this translates to net yields of 4.5% and should the tax concession be removed, net yields could compress by between 50bps and 100bps to between 3.5% and 4% without any change in the underlying REIT fundamentals.

It pointed out that this matters more now as REIT yields have compressed, making global yield funds increasingly sensitive to net-of-tax differentials.

It added that this does not undermine Malaysian REITs' domestic investment case, as shareholdings remain anchored by government-linked companies and local institutions, which would not be affected by the tax changes.