Real test begins after **asset sale**

- Menara AmBank sale tests capital allocation, not just disposal
- Low yield turns the asset into a negative spread
- Focus shifts to higher-yield, diversified assets

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AMFIRST Real Estate Investment Trust's (AmFirst-REIT) proposed RM331mil disposal of Menara AmBank may be seen as walking away from an ageing office tower.

But for the trust manager, it is more about breaking out of a capital-allocation trap that has constrained the REIT for years.

The sale, if approved by unitholders, will slash AmFirst-REIT's gearing from 46.6% to 33.94%, reduce interest-bearing borrowings from RM767.63mil to RM447.59mil, and give the manager significantly more financial flexibility.

But the more important question is what happens next.

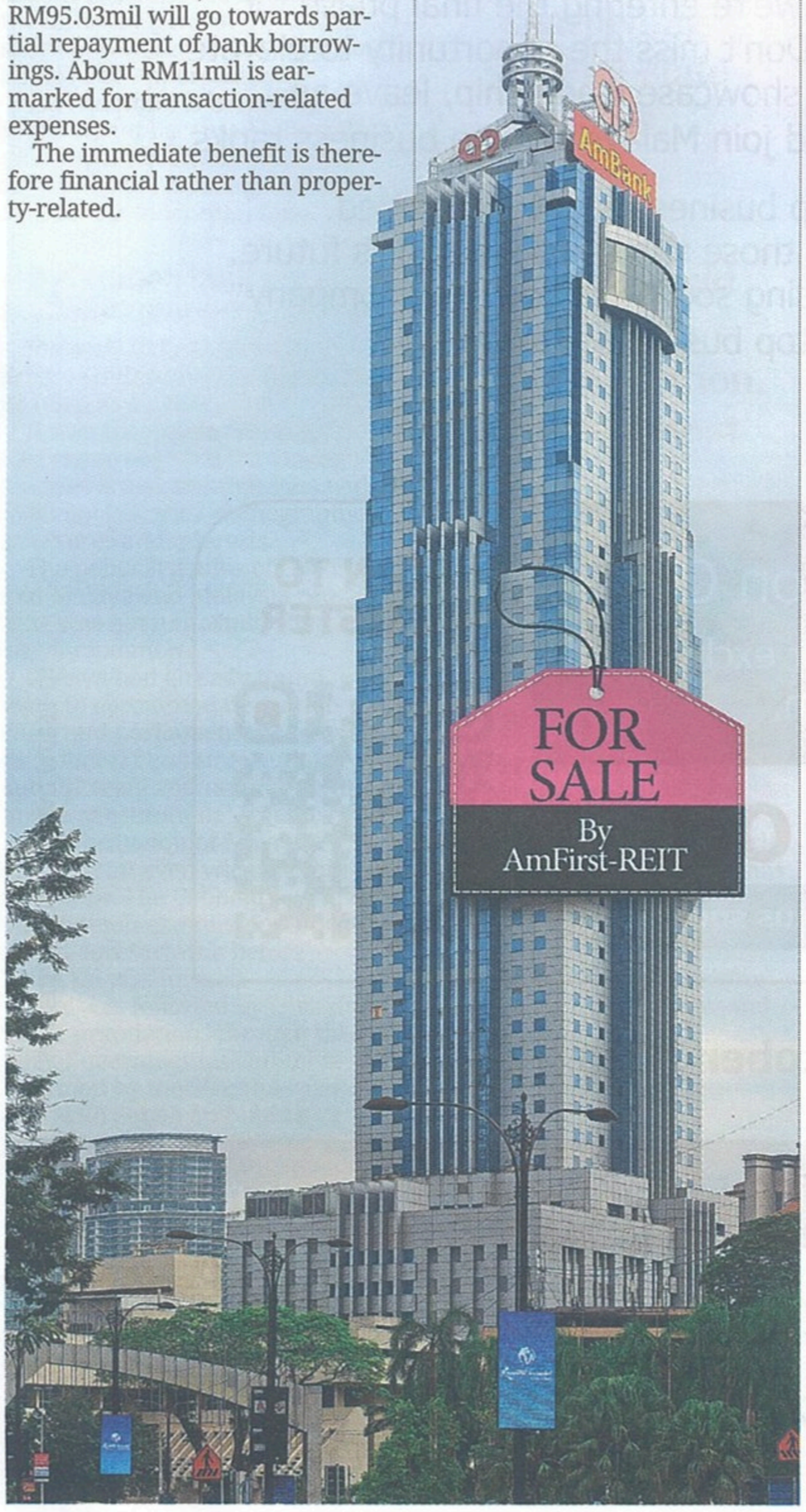
For the first time in more than a decade, AmFirst-REIT will have the balance-sheet capacity to reshape its portfolio – potentially moving away from its heavy dependence on offices towards assets capable of delivering more resilient and sustainable income.

That makes the Menara AmBank transaction a test of capital allocation rather than simply a property disposal.

"The story doesn't end at just paying the borrowings," AmREIT Managers chief executive officer Chong Hong Chuon tells *StarBiz 7*.

The circular shows that RM225mil of the RM331mil proceeds will be used to settle the redemption sum relating to Menara AmBank, while another RM95.03mil will go towards partial repayment of bank borrowings. About RM11mil is earmarked for transaction-related expenses.

The immediate benefit is therefore financial rather than property-related.





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Removing drag

Menara AmBank generated a net property income (NPI) yield of only 3.69% in the financial year ended March 31, 2026, below AmFirst-REIT's borrowing costs.

According to Chong, the building's low yield meant the REIT was effectively carrying a negative spread, borrowing at a higher cost than the return generated by the asset.

The problem was not simply that the building was empty. Occupancy stood at 77.8% as at March 31, 2026, with AmBank taking up about 66% of the net lettable area.

More fundamentally, the property faced structural challenges from an oversupplied Kuala Lumpur office market, competition from newer buildings and subdued rental rates.

Its occupancy had remained below 75% for much of the 2021-2025 period, according to the independent adviser.

That meant retaining the building could require further refurbishment spending without any certainty that higher occupancy or rental rates would follow.

For Chong, the arithmetic had become increasingly difficult to justify.

"It's like a negative carry asset. Negative spread," he says, adding that the disposal removes this drag immediately.

The circular estimates potential annual interest savings of about RM8.99mil from settling borrowings attributable to Menara AmBank.

Separately, the RM95.03mil partial repayment of revolving credit facilities is expected to save another RM3.92mil a year.

The combined savings, together with lower manager fees and administrative costs, more than offset the loss of Menara AmBank's NPI.

On a pro forma basis, realised net income from operations would rise from RM19.72mil to RM22.25mil, while distribution per unit would increase from 2.87 sen to 3.24 sen, assuming the disposal had taken place at the beginning of FY26.

That is perhaps the most important financial takeaway: AmFirst-REIT does not need to immediately replace every ringgit of Menara AmBank's rental income for the disposal to be earnings-accretive.

The balance-sheet repair does much of the work.

Identifying better reinvestment assets

For years, AmFirst-REIT's ability to grow was restricted by its balance sheet.

With gearing at 46.6%, taking on significant additional debt was difficult. Raising equity was also unattractive, given the REIT's depressed unit price and the potential dilution to existing unitholders.

Asset recycling consequently became one of the few practical ways to unlock capital.

The Menara AmBank sale changes that equation.

The transaction effectively moves AmFirst-REIT from asking "Which assets can we afford to sell?" to asking "Which assets should we own?".

The circular states that the manager is evaluating potential acquisition opportunities, although no firm assets had been identified as at the latest practicable date.

The focus will be on higher-yielding assets across diversified property sectors.

Chong says the REIT is looking at sectors including industrial, education and healthcare, with an emphasis on stable, defensive and income-generating assets.

"We want to build a diversified asset portfolio," he says.

That would mark a significant change for a REIT whose portfolio has historically been dominated by offices.

Reducing that concentration is potentially just as important as lowering gearing.

A more diversified portfolio could make AmFirst-REIT less vulnerable to a single property cycle and provide a broader platform for future earnings growth.

But there is a catch.

AmFirst-REIT has done the easier part – identifying an asset with a negative yield spread and selling it.

The harder task is finding a replacement capable of generating a better risk-adjusted return.

The circular does not identify a committed acquisition. This means the REIT could spend some time with substantially lower leverage but without immediately redeploying all the capital into income-producing assets.

Management will therefore have to resist the temptation to buy simply because it has regained balance-sheet capacity.

A high-yielding property may look attractive on paper, but still be a poor REIT investment if the yield comes with excessive tenant concentration, short leases, high capital expenditure requirements or a cyclical income stream.

The circular states that the manager will undertake market assessments, feasibility studies and financial evaluations before pursuing acquisitions.

The objective is to acquire higher-yielding assets that can enhance returns to unitholders.

That makes the next acquisition potentially more important than the Menara AmBank sale itself.

A successful disposal merely removes a drag on earnings. A successful reinvestment would create a new earnings engine.

Catalyst for earnings improvement

There is also an interesting distinction between the accounting and economic outcomes of the transaction.

AmFirst-REIT expects to record a net loss on disposal of about RM8.72mil because Menara AmBank is already carried at fair value.

Its audited net book value as at March 31, 2026, was RM328.75mil, against the RM331mil sale price, while estimated disposal expenses amounted to RM10.97mil.

Economically, however, the picture is more favourable.

AmFirst-REIT's total investment cost in the property, including capital expenditure, was RM269.33mil.

Against the RM331mil disposal consideration and after transaction expenses, the REIT expects to crystallise a net capital gain of about RM50.71mil.

AmFirst-REIT bought Menara AmBank in December 2006 for RM230.17mil and subsequently invested another RM39.16mil in capital expenditure.

The disposal therefore allows the REIT to monetise accumulated value while removing an asset that has become a relatively weak contributor to recurring income.

It will also increase distributable realised income from RM12.13mil to RM62.84mil following crystallisation of the accumulated fair value gains.

If AmFIirst-REIT can deploy its lower gearing and restored debt headroom into assets that generate yields comfortably above its financing costs, the disposal could become the catalyst for a genuine improvement in the REIT's earnings quality.