Positive outlook on industrial REIT sector

Diversion from China by MNCs an advantage

PROPERTY

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>
> RHB Research

PETALING JAYA: Although there is increasing competition in the real estate investment trust (REIT) sector due to the incoming supply of malls, not every segment is affected by this scenario.

The outlook of the grade-A offices and the industrial segment looks promising, partly due to the strong demand for this type of REITs.

RHB Research said the office segment remained a tenant's market, brought on by the widening supply-demand imbalance stemming from an increase in supply and the adoption of hybrid work models.

It added that grade-A offices should remain competitive, as companies opt for higher-quality office space.

The industrial segment's positive outlook continues to be driven by strong demand, underpinned by the diversion from China by multinational corporations, it added.

"We believe Malaysian REITs (M-REITs) will continue to offer a steady defensive play with operating metrics mostly back to normal and the sector's dividend yield spread versus the 10-year Malaysian Government Securities (MGS) yield at above the historical average," the research house noted.

RHB Research is maintaining its "neutral" sector weighting, as the structural supply-demand mismatch continues to weigh on the long-term outlook.

It, however, said that it was positive on the industrial segment, which remains on an upward growth trajectory.

The current yield spread between the KL REIT Index and 10-year MGS is at around 195 basis points, close to plus-one standard deviation above the historical average, following the recent share price correction.

"We believe that, with interest rate hikes nearing an end, this should support the valuation for M-REITs and keep the yield spread hovering around current levels," it said.

The incoming supply of malls in the Klang Valley is expected to add 3.4 million sq ft of net lettable area in 2023

This will exceed the 2.7 million sq ft in 2022.

The two biggest malls would be The Exchange Mall at TRX (1.3 million sq ft and KSL Esplanade Mall (650,000 sq ft).

The research house said it was cautious on the impact on the increased competition in an already saturated market.

It said landlords would need to bring in footfall by refreshing their offerings and hosting events to keep its malls attractive.

"AME-REIT is our top pick on its acquisitions made to drive earnings growth in the medium to long term, backed by a visible pipeline of new assets from its sponsor.

"We also like IGB-REIT in the retail segment as a proxy to the strong retail momentum, due to its fully occupied malls and higher-than-average proportion of turnover rent," it said.

According to Retail Group Malaysia (RGM) in its latest industry report, the Malaysian retail industry recorded a better-than-expected growth rate of 13.8% in sales during the first quarter of 2023, compared to the same period in 2022.

RGM has revised upwards its annual retail industry growth rate for 2023 to 4.8%, due to the higher-than-expected retail results during the first quarter of this year.