

Real estate investment trust development in Malaysia



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Real estate investment trust (REITs) have been receiving greater attention as an instrument of investment in the Malaysian capital market over the last six years. This is expected to increase since the Government announced further incentives and provisions, including in the annual Budget for 2013, to boost the sector.

Structural Framework of REITs

The Securities Commission of Malaysia (SC), the country's capital market regulator, issued a guideline known as Guidelines on Real Estate Investment Trusts (Guidelines on REIT) in August 2008 to better regulate and develop the REIT market in Malaysia. Under Section 212 of the Capital Market Services Act 2007, all REITs seeking listing on Bursa Malaysia will require the SC's approval. In addition, the SC has also introduced Guidelines for Islamic Real Estate Investment Trusts (Islamic REIT). The guideline as outlined by the Syariah Advisory Council (SAC) of the SC is to facilitate the establishment of Islamic REITs. This Islamic REIT Guidelines must be adhered to by the market players in the process of establishing an Islamic REIT. However, it must be read together with the Guidelines on Real Estate Investment Trusts.

In Islamic REIT, Syariah-compliant assessments must be carried out by the appointed SAC to assess any property to be acquired by an Islamic REIT. In general, an Islamic REIT is a collective investment scheme in real estate, in which the tenants' operate permissible activities according to the Syariah.

In January 2013, the SC has amended the Guidelines on REIT whereby the listed REITs in Malaysia are now required to hold an Annual General Meeting within four months of their financial year-end. The new law will enhance the corporate governance structure under Malaysia framework.

In essence, the trustee is the vital person who safeguards the interest of unit holders and is the custodian of the unit holders in REIT structure. In a way, REIT is passive investment vehicle which acquires and holds income generating real estates. REIT is driven entirely by recurrent rental income from real estates and with the present tax structure governing REIT, distributes at least 90 percent

of its income to unit holders, thus providing stable and consistent income to unit holders.

Some of the major REITs in the past five years

An Islamic REIT known as Al Aqar KPJ Real Estate Investment Trust (Al Aqar KPJ REIT) was the first of its kind and listed in Main Bursa Malaysia in 2006. Al Aqar KPJ REIT acquired six hospitals worth RM481 million, which includes the Ampang Puteri Specialist Hospital, the Johor Specialist Hospital, the Damansara Specialist Hospital, the Ipoh Specialist Hospital, the Puteri Specialist Hospital and the Selangor Medical Centre.

IGB Real Estate Investment Trust (IGB REIT) was listed to Main Bursa on September 21st, 2012 and posted strong gains in active trade due to optimism over its property rental income and outlook. The market capitalisation of IGB REIT on its listing day was RM4.25 billion.

As a sign of further positive development of the market in Malaysia, one of Malaysia's largest REITs, Pavilion REIT was also listed in Main Bursa on December 7th, 2011. The market capitalisation of Pavilion REIT on its listing day was RM2.6 billion. The listing has attracted various cornerstone investors, among others were Permodalan Nasional Bhd, Employees Provident Fund, Kumpulan Wang Persaraan, Great Eastern Life Assurance (M) Bhd, American International Assurance Bhd and HwangDBS Investment Management Bhd.

In addition to the above, Malaysia's largest REIT, KLCC Property Holdings Bhd, a subsidiary of PETRONAS, is set to be listed in April 2013. It is expected to have RM15.4 billion in assets and nearly RM13 billion market capitalisation upon

listing. Hence, investors are looking forward to be a part of this proposed listing.

Conclusion

The Malaysian REIT market is set to expand further with the various incentives offered by the Government, the clarity of legal framework, the growing size of the surplus liquidity and the openness of the Malaysian market generally.

The guideline as outlined by the Syariah Advisory Council of the Securities Commission is to facilitate the establishment of Islamic REITs

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