UNIVERSITI TEKNOLOGI MARA

THE DEVELOPMENT OF SALE AND LEASEBACK INVESTMENTS FRAMEWORK FOR REAL ESTATE INVESTMENT TRUSTS (REITS) IN MALAYSIA

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ABSTRACT

Sale and Leaseback has become one of the alternative investments by the institutional investors such as the Real Estate Investment Trusts (REITs). The number of Malaysian REITs (M-REITs) that are involved in Sale and Leaseback investments arrangements is increasingly year-by-year. It is the responsibility of the REITs managers to determine which property are suitable to be invested in this type of investment since currently there are no proper guideline for REITs in conducting Sale and Leaseback investments. The indicator used by the M-REITs Manager in decision-making is by looking at the All Risks Yield (ARY) of the property. Hence, it is important for the REITs Managers to identify those factors that have significant effects on the yields of the properties that they are going to invest in. This study aims to develop a framework which incorporates the Sale and Leaseback investments and factors affecting the yields that meet the needs of the M-REITs. It begins with a thorough review of the literature by understanding the current practices and theories of the main themes: Sale and Leaseback, REITs, and factors affecting the yield. Then, structured interviews were carried out with all the M-REITs in identifying the M-REITs that practice Sale and Leaseback Investments. Semi-structured interview surveys were conducted with six REITs Managers who are in charge of investments at the REITs, including the acquisition of properties that are involved in Sale and Leaseback investments. After conducting the interviews with the M-REITs, a list of findings is derived from the experts' viewpoints to fill in the gap from the Malaysian REITs' perspectives. The purpose is to gain a better understanding of the contextual factors based on the actual practice. The overall process of data analysis in this study was assisted with the use of computer software QSR NVIVO 12 to conduct qualitative data analysis. Although Sale and Leaseback investments are relatively new in Malaysia, in comparison with other countries such as the United States (US) and the United Kingdom (UK), having expert opinions to validate the findings in this study facilitated to describe the findings according to the M-REITs practices. The qualitative studies were conducted to validate that there are seven factors that are significant in affecting the yield, which are rental, location, and type of property, physical of the building, tenant, price, and time. The development of the new property investment framework that incorporates the Sale and Leaseback investments arrangements and factors affecting the yields that meet the needs of the M-REITs was based upon the qualitative data from six REITs Managers who are in charge of dealing for properties that are likely to produce high yield especially those involved in Sale and Leaseback investments. The professional practitioners and property investors in expecting higher yield in their property portfolios can use this framework as a guideline and to give new ideas to other investors to improve their investment approach in Sale and Leaseback. This study provides four contributions to the real estate investment market. Firstly, the research consists of prior studies and ideas from the current practices of Sale and Leaseback in the UK and the US into the requirements of REITs in Malaysia. Secondly, it introduces additional variables into the framework based on the surveys conducted with the M-REIT Managers. Thirdly, provides Sale and Leaseback investment framework for M-REITS practices as the guideline to other REITs investor. Lastly, the contribution to knowledge in the field can be seen from the point of view of the Sale and Leaseback concept and its relationship with M-REITs based on the current empirical evidence being studied.

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CHAPTER ONE
INTRODUCTION

1.1 Research Background

The current economic environment seems daunting to the operation company owners who find themselves in a growth mode (Hunsaker, 2012). At the same time, they are facing issues and difficulties to borrow further in order to sustain their businesses. This is due to higher debts and additional liabilities in their balance sheets (Devaney & Lizieri, 2004). This causes the operation companies to consider ways to obtain cash from their properties, especially if their property assets are debt-free hence there are no current costs, rents or mortgages to pay (Tipping & Bullard, 2007).

During the past two decades, numerous operation companies in Malaysia have released value from their operational properties through Sale and Leaseback investments transactions. Most of the assets belonging to the operation companies were traditionally held in real estate. Sale and Leaseback investments may be considered as the best avenues for them to release their asset capital in order to strengthen their balance sheets. This method is also able to fund their business expansion as well as to repay borrowings especially during the downturn of the economy (Hunsaker, 2012). Attractive Sale and Leaseback properties recorded very strong demand among institutional investors (Shawn, 2019) due to a limited supply of high quality properties with long term values in the property market (Kuek, 2019 and David et al., 2013). The Malaysian Real Estate Investment Trusts (M-REITs) are one of the pre-eminent types of institutional investors who purchased properties from the operational companies by adopting the sale and leaseback arrangement approach with respect as investor companies. These M-REITs received high gross dividend yields of approximately 8-10 per cent after the global financial crisis (Ting, 2009) as well as 33% growth in occupancy rates (Tik, Rashid & Aziz, 2015).

Each of the M-REITs have different ways and criteria in identifying the good qualities of a property in obtaining the maximum returns on investment. Yield is used as an indicator to measure the returns of the investment, where the higher the yield of the property, the higher the return is (French & Patrick, 2015). Moreover, the rate of the