



UNIVERSITI TEKNOLOGI MARA

**FACTORS INFLUENCING THE
PERFORMANCE OF I-REITS IN MALAYSIA**

**MIMI SYAHIRAH BINTI ABDUL LATIF
2020966259**

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ABSTRACT

Malaysia's Islamic capital market is emerging in achieving a total worth of 1.9 million or 61 percent of the overall Malaysian capital market as of December 2018. The establishment of Islamic Real Estate Investment Trust (i-REIT) gained demand from investors in the Islamic capital market that claims to be a safe investment as it is attached to the real estate to generate the source of income. Nevertheless, the Islamic REITs are structured and operating in accordance with the Shariah principle laid out by the Malaysia securities commission, as it is beneficial to the potential investors given its high liquidity and diversification opportunity compared to investing in physical property. This study determines the factors influencing the performance of i-REITs in Malaysia by looking into dividend yield, interest rate, trading volume, and crude oil price. This study adopts a quantitative analysis approach. Panel data was performed on the collected data from the four listed i-REITS, Al-'Aqar Healthcare REIT, Axis REIT, KLCC REIT, and Al-Salam REIT. Data was extracted from annual reports on their websites, World Bank Data, and Bursa Malaysia of selected REIT for a six-year transaction period (2015-2020). The research suggested that dividend yield is positively significant to i-REITs stock return. The results of the study also suggest and support rebutting the commonly held belief that crude oil price is correlated with the performance of the stock market. It is hoped that the study can contribute to a better understanding of this innovative investment product.

Keywords: i-REITs, Stock Return, Dividend Yield, Interest Rate, Trading Volume, Crude Oil Price

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CHAPTER ONE: INTRODUCTION

1.1 Introduction

Over the past few decades, the demand around the world for investable instruments has emerged for innovative investment opportunities (Laeven et al., 2015; Sukor et al., 2020). Despite the rising sophistication in financial instruments, the real estate sector is still in favor (Sukor et al., 2020). Typically, before Real Estate investment trust (REITs) was introduced, an investor may invest in property stocks and/or physical (landed) property to get exposure in the real estate sector. Now, the real estate investment spectrum has evolved and investors have an option to invest in REITs by paying only a fraction of the real estate prices (Sukor et al., 2020). In other words, REITs offered to invest in quality large-scale commercial real estate without owning the properties (Bursa Malaysia, 2021). According to Guidelines on REIT, issued by the Securities Commission of Malaysia, REIT can be defined as *“a unit trust scheme that invests or proposes to invest primarily in income-generating real estate”* (Wong, 2015). REITs are listed in a stock trade exchange simply like other stocks (Lee Kwan Hyen, 1970). REITs comprise a pool of funds from the selling of unit shares to the investors and raised capital invested in diversified property that produces an income stream for the REIT company (Et.al, 2021). Two main methods for an investor to invest in a REIT are through direct share purchasing in an open exchange or making investments in real estate mutual funds (Et.al, 2021). Bursa Malaysia stated that all REITs seeking a listing on Bursa Malaysia will require Securities Commission’s approval, under Section 212 of the Capital Market Services Act 2007. REITs are relatively more liquid than other physical real estate due to their smaller capital outlay requirement and tradability in the stock market (H.-C. Chen et al., 2005; Sukor et al., 2020).

The capital market in Malaysia is unique as the market comprises conventional capital markets and Islamic capital markets (Soon et al., 2020). Islamic capital market in Malaysia has