REAL ESTATE INVESTMENT TRUST (REITs) ANALYSIS: THE MALAYSIAN CASE

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MAY 2012

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3. Acknowledgements

Alhamdulillah, we finally put together everything that has been done. This research is made possible through our dynamic team efforts and teamwork.

We would like to thank Allah SWT for giving us strength to go on all the way to complete this research.

Thank you to *Research Management Institute (RMI)* for approving this grant to us to complete this research.

Million of thanks to our loved ones, families and friends for their support, love and understanding.

5.2 Enhanced Executive Summary

The terms REITs refer to Real Estate Investment Trust which is a trust fund that invests in rental properties. REITs are investment vehicles which enable the flow of funds from investors to the real estate sector of the economy. It major income is coming from rental income and most of the profits must be distributed as dividend to its holders. The purpose of conducting this research was to reveals the information on factors that contributed to the development of REITs in Malaysia. The development is important and serve as reliable information to the investors in order to give knowledge and valuable information on the direction of REITs market in the future. The information should be highlighted to the public to give clearer picture to the investors on the trends the REITs market are heading for. The potential investors love this type of information beforehand. This research will also provide evidence on the performance of 14 REITs funds in Malaysia from 2001 to 2010. The data used for this research is secondary data which had been gathered from DataStream and Thomson One Banker website. The analysis on the performance used the traditional Finance method from Capital Asset Pricing Model (CAPM) which is Sharpe Index will give better insight for future investor before they start their investment. The analysis conducted to investigate which REITs perform better using historical prices and KLCI. The correlation analysis was also conducted to know the correlation between KLCI and REITs fund prices. The outcome of this research will be; the knowledge on future direction of REITs market and which REITs is the market leader.

5.3 Introduction

Forty years ago, Real Estate Investment Trusts (REITs) was first traded in the United States and today, more than twenty countries have passed laws to allow REITs as one of the financial instruments that the investors can chose for their investment portfolio. Real Estate Investment Trusts (REITs) are investment vehicles that enable flow of funds from investors to the real estate sector of the economy. REITs investors aim to enjoy real estate return and portfolio objectives while retaining the investment liquidity provided by the secondary market for REIT shares (Corgel, et al. 1995). There are two unique features that REITS have: its primary business is managing groups of income-producing properties and it must distribute most of its profits as dividends. REIT is traded in stock exchanges and it gives investors returns through capital appreciation from price changes and dividends like any listed company's shares.

Malaysia was the first country in Asia to introduce property trust or REITs. The first REITs listed on the Kuala Lumpur Stock Exchange (KLSE) was in 1989. Before 2005, there were only four REITs listed on KLSE, which are; Arab-Malaysian First Property Trust (August 1989), First Malaysia Property Trust (November 1989), Amanah Harta Tanah PNB (December 1990) and Mayban Property Trust Fund One (March 1997); (Ooi, et al. 2006). These REITs were not popular among the institutional investors as their public listings had received mild responses from investors (Newell, et al. 2002)

As at January 31, 2011, there are 14 REITs listed in Bursa Malaysia with an aggregate market capitalisation of around USD3.50 billion (RM10.679 billion, RM 3.05/USD 1). The Malaysian REITs (M-REITs) market is small compared to Singapore, Hong Kong and Taiwan. The current M-REITs market has increasing demand from both local as well as foreign investors, especially in the past 3 years. With the huge potential on the domestic property sector through the initialising of the Government's Economic Transformation Plan (ETP) which targeted the domestic property sector to increase in medium to long-term,