

By **RACHAEL KAM**
rachael@thestar.com.my

LIKE many other asset classes, Malaysia's real estate investment trusts (REITs) have been sold down and are trading below their net asset values (NAV), made worse by the softening property market and weakening rent yields.

The challenges facing REITs is not only the negative market sentiment towards equity, but also the inability to raise capital due to tightening credit.

Despite the challenging economic conditions this year, REIT managers in the country are confident they can mitigate the impact by looking at various options to raise capital, acquiring properties prudently and focusing on existing assets to ensure strong tenancy.

Axis REIT Managers Bhd chief executive officer and executive director Stewart LaBrooy said part of the growth process of a REIT was to continuously acquire properties to enlarge its portfolio.

He said Axis REIT would not discount the possibility of future acquisitions this year although it may not be as intensive as 2008.

“But any potential acquisitions will need to be yield-accrative,” he told *StarBiz*.

With the reclassification of Axis REIT as syariah-compliant last December, the REIT hoped to appeal to a broader investment base of both conventional and syariah funds locally and abroad to facilitate Axis REIT's future capital raising exercises, he added.

Currently, Axis REIT's focus is on local properties as LaBrooy believes there are still many “reitable” assets in Malaysia.

He said many companies were exploring strategies such as sale and leaseback, which would help release cash back into the business and operations.

“In addition, we are proactively engaging with property developers or contractors to produce more reitable assets,” he added.

Axis REIT, which owns 19 properties, has put on hold its acquisition plans until further capital can be raised. LaBrooy said the company had always tried to maintain a policy to cap its gearing level at 40%.

He said its gearing level was at about 34% now, which means it can still borrow RM260mil.

Axis REIT is also proceeding with refurbishment activities at three of its properties - Menara Axis, Nestle House and Crystal Plaza - which will cost about RM8mil.

The refurbishment is aimed at attracting tenants and potential clients, and sustain asset valuations.

Atrium REIT Managers Sdn Bhd chief executive officer Paul Lim said the earnings outlook for REITs for the first half year of 2009 was expected to be stable.

“But beyond that I am holding (off) opti-

Multiple challenges facing REITs

Managers are looking at various options to raise capital



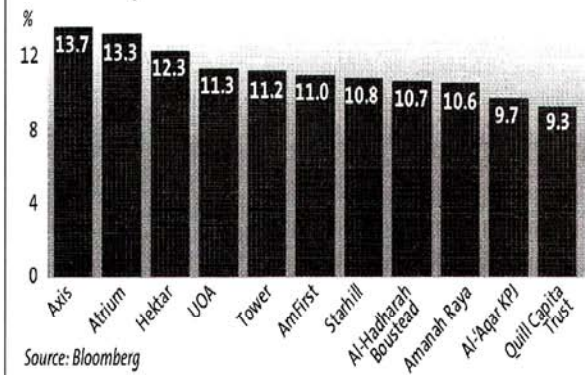
Stewart LaBrooy



Datuk Jaafar Abdul Hamid

PROJECTED PERFORMANCE

Forecast earnings per unit yield for local REITs for financial year 2009 based on unit prices as at Jan 9.



Source: Bloomberg



Menara Axis (left) and Quill Capita Trust's landmark building in Cyberjaya GRAPHICS © 2009