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ASSESSING THE FINANCIAL AND MANAGEMENT STRENGTH OF ISLAMIC REAL ESTATE INVESTMENT TRUSTS (I-REITs) DURING THE GLOBAL FINANCIAL CRISIS (GFC)

Atasya Osmadi, Muhammad Najib Razali*

[1]School of Housing, Building and Planning
Universiti Sains Malaysia
[2]Faculty of Geoinformation and Real Estate
Universiti Teknologi Malaysia
* Corresponding Author: mnajibmr@utm.my

Abstract

By the end of 2008, there were only three Islamic REITs in the world, with all three in Malaysia, namely Al-'Aqar KPJ REIT (hospital properties), Al-Hadharah Boustead REIT (plantation properties) and Axis REIT (office/industrial properties). Axis REIT, which was the first Malaysian REIT, has reclassified itself as an Islamic REIT in December 2008. This paper will provide an increased understanding of the Islamic M-REITs performance in terms of its financial and management strength during the global financial crisis from 2007 to 2009. The result gave us an understanding on the relevance of the Islamic M-REIT development and the expected future growth in Islamic property investment products with opportunities globally. The findings have revealed the competitiveness of I-REITs in terms of financial and management strength within M-REITs although hit by GFC. This indicates that the Islamic principles outdid the more volatile conventional principles during the GFC.

***Keywords*:** M-REITs, Strength, Financial, Management, Global Financial Crisis

1.0 INTRODUCTION

Recent years have seen increased interest in the Real Estate Investment Trusts (REITs) at a global level; particularly amongst global property securities funds and international investors. With REITs gaining interests from international property investors, there is a need to further develop a more innovative performance analysis process and products that will identify the benefits and opportunities for an enhanced property portfolio diversification. By the end of 2008, there were only three Islamic REITs in the world, with all three in Malaysia, namely Al-'Aqar KPJ REIT (hospital properties), Al-Hadharah Boustead REIT (plantation properties) and Axis REIT (office/industrial properties). Axis REIT, which was the first Malaysian REIT, had reclassified itself as an Islamic REIT in December 2008. By end of December 2008, the total market capitalisation of these Islamic REITs was US$354.7 million (RM1.23 billion), representing 30% of Malaysian REIT market capitalisation. [1]

This research aims to contribute and expand on the existing research on M-REITs. The purpose of this research is to examine each M-REITs finance and management strength particularly focusing on the Islamic M-REIT during the Global Financial Crisis from 2007 to 2009.

2.0 LITERATURE REVIEW

Published evidence on the performance of listed property trusts in Malaysia is very limited. Earlier researches on the Malaysian property markets were on property companies, largely on the role of Malaysian property companies in a pan-Asia context [2]; [3]; [4]; [5], board composition issues [6], [7], [8], capital structure [9]; [10], sustainability issues [11] and corporate real estate [12].

The only research specifically on M-REITs assessed the development of Islamic M-REITs [14], and the risk-adjusted performance and portfolio diversification benefits of Islamic M-REITs in a portfolio over 2006-2008; particularly contrasting the performance of Islamic M-REITs and conventional M-REITs over this period and during the global financial crisis [15]. Overall, Islamic M-REITs were seen to be a differentiating property investment product from the conventional M-REITs, as well as displaying the defensive characteristics of low risk levels and portfolio diversification benefits. The robustness of these characteristics were further enhanced during the Global Financial Crisis [15]. [16] have assessed the Islamic REITs by establishing synthetic Shariah-compliant US REIT portfolios to assess their risk-adjusted performance against the broader US REIT sectors and the 'cost' of Shariah-compliance. However, a similar assessment by establishing synthetic Shariah-compliant A-REIT portfolios to assess the risk-adjusted performance against the broader A-REIT sectors and the 'cost' of Shariah-compliance is yet to be discovered. In order to understand how well the M-REIT company performed, an analysis which provides the financial and management strength statistics and ratios will be conducted; financial strength is one of the most critical measures of the worth of an investment (the other two are stability and growth) and buying companies with high management quality [17]. Greater detail on these statistics will be analysed further in the following section.

3.0 SIGNIFICANCE OF REITS IN MALAYSIA

Since the new issuance of REIT guidelines in 2005 and coupled with tax incentives, REITs in Malaysia appeared to have a positive outlook following their wider acceptance and increased attention from institutional investors. Revised guidelines have allowed more flexibility in terms of management, acquisition and borrowing limits, while the inclusion of Islamic REITs in 2006 have encouraged participation of international investors**.** Underpinned by a strong local commercial property market in Malaysia, M-REIT context will be further strengthened. Despite the global financial crisis, office and retail markets managed to attain a post-stage (low but increasing vacancy rates) position in 2008, with an increase in rent momentum. Meanwhile, the industrial market was at growth stage (low and declining vacancy rates stage) with a stable rent momentum [18].

Malaysia was the first Asian country to develop a REIT market. It was previously known as PTFs in 1986. Malaysia used the Australian LPT model to set up the regulatory framework; although there are some different aspects to the structure. This is mainly because of the ‘bumiputra’ rules which restrict foreign ownership in favour of indigenous people of Malaysia. The first regulatory framework was approved by Bank Negara Malaysia (the Central Bank of Malaysia), with the regulatory principles governing their establishment and operation being the Companies Act 1965 and the Securities Industry Act 1983 [19]. Later, the Securities Commission (SC) became the regulator when it was formed. Specific Guidelines on PTFs were introduced by the SC in 1991 and later revised in 1995 and 2002.

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Unfortunately, from 1989 to 2005, the PTF industry performed poorly [20]; [21]; [22]. The regulatory structure was still restrictive. During these periods, only subsidiary companies of financial institutions were permitted to set up and manage such funds. Before the inception of M-REITs in August 2005, only 3 PTFs were listed in the Kuala Lumpur Stock Exchange (KLSE), namely AmFirst Property Trust (AMFPT), Amanah Harta Tanah PNB (AHP) and Amanah Harta Tanah PNB 2 (AHP2). Other factors which have contributed to the poor performance of PTFs were the lack of prime properties and quality assets in their property portfolios. Even with the availability of these properties, the borrowing limits and the long acquisition period have depleted the interest to the parties involved (i.e. investors and property owners). The poor performance of Malaysian PTFs, together with the successful development of REIT-like structures in other countries (e.g. Australia and US), encouraged government and regulators to enhance the existing PTF framework. In the 2005 budget, the Malaysian Government introduced further improvements to its REIT-like structure which included a more tax transparent structure. However, the tax transparency in Malaysia is not as attractive as being offered by other countries in the region (e.g. Singapore).

4.0 METHODOLOGY

This section focuses mainly on the research methodology that was used in the data collection and tools applied throughout the process. In this research, an assessment of the financial and management strength of M-REITs shall be made through the data gathered from M-REIT's annual reports and Dynaquest. The financial strength includes Net Tangible asset backing per share, Liquid Asset Per Share, Debt to Equity Ratio and Altman's Z-Score, while management strength includes Asset Turnover, Gross Margin, Free Cash flow to Capital and Return on Shareholder's Equity (ROE). Conclusions and recommendation will be presented from the findings of the analyses.

There are limitations in this research due to the short time series of the Malaysian REIT data. Even though the Malaysian Property Trust Funds (PTF) data existed since 1989, REITs in Malaysia were only listed in August 2005, while an Islamic REIT in Malaysia was only listed in August 2006. This research acknowledges that the equivalent extensive time series of performance data for Malaysian REITs that can typically be used for empirical analyses for the traditional REIT markets of Australia and US does not exist. The shorter time series is clearly evident for all research involving REITs in Asia, given that they have only been established since 2002. While the performance data may not cover a full investment or property cycle, this limitation is recognised, and should not be considered to be an impediment towards a rigorous and insightful research study seeking to enhance our understanding on the strategic contribution of M-REITs in a global REIT context.

5.0 RESULTS AND DISCUSSIONS

This section will elaborate all M-REITs in Malaysia including 3 I-REITs in term of business background, structure and investment profile. This aims to give a full background literature of M-REITs as well as I-REITs in order to differentiate between the conventional REITs and the Islamic REITs. Consequently, the structure and investment portfolio profile between M-REITs and I-REITs will clearly be defined and explained. This section will also discuss the performance of M-REITs including I-REITs; the aim is to further assess the financial and management strength of M-REITs in particular I-REITs. The findings will elaborate on the performance between the two types of REITs in Malaysia to give policy makers, investors and property players a better understanding on the situation of the I-REITs compared to the other conventional REITs.

5.1 M-REITs and I-REITs Financial Analyses

AHP

AHP was established as a Property Trust Fund on 21 March 1989 and was listed on Bursa Malaysia Securities Berhad ("Bursa Securities") on 28 December 1990. It changed to a REIT on 1 August 2005, making AHP the first Property Trust Fund and also the first M-REIT listed, together with AHP2. By the end of 2008, the trust's market capitalisation was RM77 million which represented 1.89% of the overall Malaysian REIT market capitalisation. As at 31 December 2008, the trust's portfolio comprised of 14 properties of which 6 of them were primarily located in Kuala Lumpur while the others were in Sarawak, Kedah, Pahang, Penang, Sabah and Perlis. The total Net Lettable Area (NLA) for these properties was 393,895 sq. ft. The asset value for all 14 properties as at the end of December increased to RM143.29 million from its acquisition value of RM86.45 million. The properties which encompassed most of the commercial properties achieved an average occupancy rate of 96.68%.

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By 31 December 2008, the total gross income for AHP decreased by 37.93% from RM25.15 million in 2007 to RM15.61 million, which was a result of lower unrealised gain on the revaluation of real estate of only RM1.81 million (RM12.37 million in 2007). AHP performed better in net rental income by 31 December 2008 with an increase of 20.75% from RM7.23 million in 2007 since the renewal of rental rate and new tenancies. With the increase in real estate operating expenditure, the total trust expenditure rose to RM6.86 million by 2008 (RM6.49 million in 2007). The income before tax reduced to RM8.75 million from RM18.66 million in 2007.

Axis REIT

Axis REIT was the first M-REIT to be established on 15 June 2005 and listed in the Main Board of the Kuala Lumpur Stock Exchange (KLSE) on 3 August 2005. It has been reclassified to an Islamic REIT on the 11 December 2008 making it the 3rd Islamic M-REIT to be listed in the KLSE. In comparison to other REITs, Axis REIT has acquired new properties since it went public. The good management has driven the growth of the trust through acquisitions and increased rental incomes. The price is expected to improve further in the future, together with the growth of the industry. Good management strategies with mixed quality assets in prime locations have supported the trust to perform better in comparison to other REITs. Growth comes together with an increased interest from foreign investors and retirees. It is likely that most investors prefer prime properties as they are likely to easily generate income.

At the end of 2008, the trust's market capitalisation was RM286.61 million which represented 7.02% of the overall Malaysian REIT market capitalisation. By December 2008, the trust had 19 properties with the total NLA of 2.86 million sq. ft. (985,122 sq. ft. in 2005); it was comprised of office/industrial (48.83%), warehousing/logistics (24.63%), light industrial (4.78%), warehousing retail facilities (4.83%) and office (16.92%). The total asset value for all properties was RM723.10 million; an increase from its acquisition cost of RM591.64 million. In terms of NLA, properties were primarily located in Petaling Jaya (54.91%), Klang (4.69%), Shah Alam (14.71%), Johor (20.86%) and Kedah (4.83%). Occupancy rate for all properties are 100% except for Axis Business Park (93.3%), Infinite Centre (88.9%), Axis Plaza (81.9%), Wisma Kemajuan (83.1%) and Kayangan Depot (75%).

This gave the average occupancy rate of 95.19% by December 2008. Net rental income grew from RM38.18 million in 2007 to RM53.46 million in 2008; an increase of 40%. Total assets under management rose to RM726.37 million in 2008 from RM581.86 million in 2007; an increase of 25%. Axis REIT's sector exposure by NLA included services (24%), healthcare and lifestyle (8%), engineering/building materials (9%), financial services (8%), logistics (10%), automotive (9%), IT/electronics (10%), consumer products (10%), retail (5%), vacant (5%) and others (2%). Portfolio tenancy expiry profile based on NLA are 2009 (18.5%), 2010 (22.8%), 2011(18.2%), 2012 and beyond (40.5%) and based on the monthly rental income is 2009 (19.1%), 2010 (32.5%), 2011 (21.3%), 2012 and beyond (27.1%).

Starhill REIT

Starhill REIT is the 4th M-REIT established on the18 November 2005 and listed in the Main Board of Bursa Malaysia Securities Berhad on the16 December 2005. During its inception, the underpinned tax levied to foreign investors added constrain to the REIT's development which mainly focused on the retail sector and it has also been downcast due to it raising its interest rates because of its high valuations. According to Jones Lang LaSalle (2006), the occupancy and rental rates for retail have yet to reach their previous pre-1997 level. Starhill REIT had lost momentum over concerns of its potentially higher interest rates. Investors showed lacklustre interest and opted for other investment alternatives which offer more attractive returns. Higher interest rates are likely to deteriorate the performance of this REIT in the future.

However, the performance of Starhill REIT (the first international REIT) has improved since 2006. It is currently Malaysia's largest REIT with 4 property assets in Kuala Lumpur valued at RM1,549 million; an increase from its acquisition value of RM1,275 million. By end of 2008, the REIT's market capitalisation was RM854.69 million which represented 20.93% of the overall Malaysian REIT market capitalisation. Commenting on two of its retail properties, the risk of retail property is generally higher in comparison to the other property type especially in the prime areas as it is dependent on consumer spending and tourist arrivals. During the period of 2008, Starhill REIT traded at prices ranging between RM0.70 and RM0.93. As at 31 December 2008, all 2 properties, namely Starhill Gallery and Lot 10 achieved occupancy rates of 96.38% and 86.43% respectively. The total NLA for these properties is 475,028 sq. ft. Starhill REIT had no sector exposure by NLA and portfolio expiry profile as it is

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broadly hotel and retail exposure. Retail tenants are on 2-3 years renewal, while JW Marriott hotel is on a 15 year lease (to 2023) and Ritz Carlton Residence is on a 23 year lease (to 2031).

Despite the slowdown of the economy, Starhill REIT performed better than in 2007 with an increased revenue (RM108.2 million) and net property income (RM90.6 million) from RM98.8 million and RM81.6 million respectively in 2007. Income before tax also increased to RM81.3 million from RM72.7 million in 2007.

UOA REIT

The UOA REIT was established on 13 December 2005. UOA REIT is the 5th M-REIT listed in the Main Board of Bursa Malaysia Securities Berhad on 30 December 2005. Its sponsor is UOA Holding Group which is a wholly owned subsidiary of UOA incorporated in Australia and listed in ASX. Initial Public Offering (IPO) price of UOA REIT was RM1.15; while during the period of 2008, UOA REIT was trading at prices ranging between RM0.88 and RM1.39. By the end of 2008, the trust's market capitalisation was RM240.15 million which represented 5.88% of the overall Malaysian REIT market capitalisation. As at 31 December 2008, the trust's portfolio comprised of 4 commercial properties located in Kuala Lumpur, with a total NLA of 883,004 sq. ft. The asset value for all 4 freehold properties as at end of December 2008 was RM481.01 million; an increase from its acquisition value of RM396.50 million. The properties, namely UOA Centre Parcels, UOA II Parcels, UOA Damansara Parcels and Wisma UOA Pantai achieved 89.7%, 97.0%, 79.0% and 100.0% occupancy rates respectively. The average rental rates per month were RM5.02, RM4.35, RM4.25 and RM4.34 respectively and adjusted for the vacancy rate. UOA REIT has no sector exposure by NLA, while portfolio expiry profiles are 41.4% by 2009, 36% by 2010 and 22.6% by 2011 and beyond.

With good management and a mixed property type of office and retail space, it is likely that the UOA REIT has a potential to expand in the future. This is mainly because UOA REIT has a good tenant mix of nearly 200 tenants and the lease period is at two years with an option to renew. These seemed to be the attraction in the eyes of investors. A loss of one key tenant may not give a huge impact to the occupancy rate. Despite the slowdown of the economy, the UOA REIT performed better than in 2008 with an increase in revenue (RM42.1 million) and net property income (RM32.7 million) from RM34.1 million and RM26.3 million respectively in 2007. Income before tax also increased to RM25.2 million from RM21.2 million in 2007.

Tower REIT

The Tower REIT was established on 17 February 2006. Tower REIT is the 6th MREIT listed in the Main Board of Bursa Malaysia Securities Berhad on 12 April 2006. It is managed by GLM REIT management SB, a wholly-owned subsidiary of Guocoland (M) Bhd. and a member of Hong Leong Group. By end of 2008, the trust's market capitalisation was RM232.81 million which represented 5.70% of the overall Malaysian REIT market capitalisation. IPO price of Tower REIT was RM1.07, while during the period of 2008, Tower REIT was trading at prices ranging between RM0.83 and RM1.42. As at 31 December 2008, the trust's portfolio comprised of 3 commercial properties located in Kuala Lumpur having a total Net Lettable Area of 898,271 sq. ft. The asset value for all 4 properties as at end of December was RM589.9 million; an increase from its acquisition value of RM396.5 million. The properties, namely HP Towers, Menara HLA and Menara ING, achieved 89.7%, 97.0%, 79.0% and 100.0% occupancy rates respectively. Tower REIT sector exposure by NLA is insurance and finance (31%), IT (29%), manufacturing and trading (10%), oil and gas (8%), professional service (7%), stock broking (5%), property (5%), embassy (2%) and others (3%), while the tenancy expiry profile by NLA are 36% by 2009, 46% by 2010 and 7% by 2011.

Despite the slowdown of the economy, Tower REIT performed better in 2008 with an increase in revenue (RM46.3 million) and net property income (RM36.3 million) from RM40.3 million and RM31.3 million respectively in 2007. Income before tax also increased to RM27.8 million from RM23.8 million in 2007. The positive rental revision will allow more growth for the trust.

Al-'Aqar KPJ REIT

The Al-'Aqar KPJ REIT was established on 27 June 2006. The Al-'Aqar KPJ REIT is the 7th M-REIT listed in the Main Board of Bursa Malaysia Securities Berhad on 10 August 2006. It is the first Islamic REIT in the world. It is also the largest healthcare REIT in Malaysia and the only Malaysian REIT which comprises of only healthcare properties. By end of 2008, it had a total of 11 properties in its portfolio located in Kuala Lumpur and other major Malaysian

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cities in Selangor, Kelantan, Kedah, Perak, Pahang and Johor. Initially, it started with six hospitals, namely Damansara Specialist Hospital Building, Selangor Medical Centre Building, Ampang Puteri Specialist Hospital Building, Ipoh Specialist Hospital Building, Puteri Specialist Hospital Building and Johor Specialist Hospital Building, followed by an additional 5 properties, namely Perdana Specialist Hospital Building, Kuantan Specialist Hospital Building, Sentosa Medical Centre Building, KPJ Kajang Specialist Hospital Building, and Kedah Medical Centre Building. By the end of 2008, revaluations required by The Securities Commission's Guidelines on REITs in accordance with Financial Reporting Standard 140, showed an increase in the values of the six properties to RM4.8 million, which subsequently increased the total market value to RM663.0 million. The registered proprietor for all the property is AmanahRaya Berhad which also acts as a Trustee for and on behalf of Al-'Aqar KPJ REIT. At end of 2008, all the hospitals achieved an occupancy rate of 100%.

It is Malaysia's first Islamic REIT focusing on hospital buildings, with property assets valued at RM651.5 million from RM481.0 million in 2007. By the end of 2008, the Trust's market capitalisation was RM428.72 million, which represented 10.50% of the overall Malaysian REIT market capitalisation. IPO price of Al-'Aqar KPJ REIT was RM0.95 for retail offerings and RM1.00 for institutional offerings. During the period of 2008, Al-'Aqar KPJ REIT was trading at prices ranging between RM0.78 and RM0.98. Investors seemed to be encouraged by the introduction of this new investment vehicle. Despite the current market conditions, Al-'Aqar KPJ REIT performed better than in 2007 with an increase in revenue and net property income of RM47.8 million and RM45.2 million respectively. Income before tax also increased to RM31.9 million. By the first half of 2009, this Islamic REIT have acquired 9 more properties, comprising of 6 specialist hospitals operating in Indonesia (3), Bangladesh (2) and Saudi Arabia (1), a college and a hotel. Importantly, the total asset value by the first1 half of 2009 increased to RM1046.9 million. Al-Aqar KPJ REIT sector exposure by NLA is exposed to hospitals only, while portfolio expired by NLA are based on 15 years long term leases.

Hektar REIT

Hektar REIT was established on 5 October 2006. Hektar REIT is the 8th M-REIT listed in the Main Board of Bursa Malaysia Securities Berhad on 4 December 2006. It is Malaysia's first retail focused REIT with property assets valued at RM693.4 million; an increase of 19%

from its IPO value. It is also the first Malaysian REIT to receive an investment from a foreign REIT when Frasers Centrepoint Trust (FCT) secured a 31.06% stake in Hektar REIT. By the end of 2008, the Trust's market capitalisation was RM244.8 million which represented 5.99% of the overall Malaysian REIT market capitalisation. IPO price of Hektar REIT was RM1.05 for retail and RM1.11 for institutional. During the period of 2008, the Hektar REIT was trading at prices ranging between RM0.73 and RM1.54. As at 31 December 2008, all 3 shopping complexes, namely Subang Parade, Mahkota Parade and Wetex Parade which have a total Net Lettable Area of 1.11 million square feet achieved occupancy rates of 99.8%, 96.5% and 83.1% respectively; with an average of 95.8%. Hektar REIT tenants' profile are departmental store/supermarket (35%), fashion and footwear (16%), F&B/food court (14%), gift books/toys/specialty (10%), education services (4%), leisure and entertainment, sports and fitness (10%), electronics and IT (7%), homeware and furnishing (1%) and others (2%). Portfolio tenancy expiry profile based on NLA are 11% by 2009, 22% by 2010, 41% by 2011 and 14% by 2012 while by monthly rental income are 23% by 2009, 33% by 2010, 37% by 2011 and 10% by 2012.

Despite the current market condition, Hektar REIT performed better in 2008 with an increase in revenue (RM84.1 million) and net property income (RM52.7 million) from RM78.3 million and RM49.3 million respectively in 2007. Income before tax also decreased to RM36.7 million from RM36.2 million in 2007. Although the trust is starting to lose momentum with the impact from retailers (rent reduction and premature termination), this could reverse in the future.

AmFIRST REIT

The AmFIRST REIT was established on 28 September 2006. AmFIRST REIT is the 9th M-REIT which was listed in the Main Board of Bursa Malaysia Securities Berhad on 21 December 2006. The trust is managed by AM ARA REIT Managers Sendirian Berhad which is 70% subsidiary of AIGB and 30% held by Singapore-based ARA Asset Management Limited. By the end of 2008, the trust's market capitalisation was RM336.77 million, which represented 8.25% of the overall Malaysian REIT market capitalisation. As at 31 December 2008, the REIT's portfolio encompassed property assets located in Kuala Lumpur with an asset value of RM840.00 million; an increase from its acquisition value of RM835.99 million. All 6 commercial properties, namely Menara AmBank, Bangunan AmBank Group, AmBank Group

Leadership Centre, Menara Merais, Kelana Brem Tower and The Summit having a total NLA of 2.3 million square feet achieved occupancy rates of 100%, 94.4%, 64.8%, 92.2%, 98.9% and 69.6-84.3% respectively.

The average rental rates per month were RM4.92, RM3.96, RM2.37, RM2.77, RM2.74 and RM2.97 per sq. ft. respectively. During the period of 2008, AmFIRST REIT was trading at prices ranging between RM0.74 and RM0.95. Gearing has also been reduced from 45.12% on 31 March 2008 to 39.3 1% on 31 March 2009. Although AmFIRST REIT distributes 100% of its distributable income until 2010, there are still opportunity to increase their internal funds as the current borrowings is RM402.00 million with an additional capacity of RM219.25 million before reaching the SC's Guidelines on REITs limit of 50% borrowing of its total asset value. AmFIRST REIT sector exposures by rental income are office (67.5%), retail (21.3%), hotel (7.6%) and car park (3.6%). Tenancy expiry profile by NLA are 44.9% (2009) and (55.1%) by 2010 and beyond.

Despite the current market condition, AmFIRST REIT performed better in 2008 with an increase in revenue (RM93.1 million) and net property income (RM61.3 million) from RM57.9 million and RM40.6 million respectively in 2007. Income before tax also increased to RM36.5 million from RM31.3 million in 2007. The following figure shows the property details and major properties for AmFIRST REIT.

Quill Capita Trust

Quill Capita Trust was established on 12 October 2006. Quill Capita Trust is the 10th M-REIT which was listed in the Main Board of Bursa Malaysia Securities Berhad on 8 January 2007. Major shareholders for the trust are Quill Group of Companies (30%) and CapitaLand Ltd, Singapore. By the end of 2008, the trust's market capitalisation was RM351.12 million which represented 8.60% of the overall Malaysian REIT market capitalisation. As at 31 December 2008, the REIT's portfolio encompassed properties located in Kuala Lumpur with an increase asset value of RM786.8 million from its acquisition value of RM717.5 million. All 10 commercial properties with a total NLA of 1.28 million square feet (excluding 1,499 car park lots from Plaza Mont' Kiara) achieved an average occupancy rate of 100%. Quill Capita Trust's sector exposures by NLA are retail (21%), automotive (5%), IT/electronics (7%), property/construction (9%), oil and gas (19%), banking (19%) and logistics (20%). Portfolio expiries by gross income are 31% by 2009, 26% by 2011 and 43% by 2012 and beyond. For the financial year ended 31 December 2008, all the buildings of the Quill Capita Trust enjoyed occupancy rates of 100% and are tenanted mainly by subsidiaries of multi-national companies.

Despite the current market condition, Quill Capita Trust performed better in 2008 with an increase in revenue (RM54.4 million) and net property income (RM42.4 million) from RM31.4 million and RM25.4 million respectively in 2007. Income before tax also increased to RM29.4 million from RM19.3 million in 2007. IPO price of Quill Capita Trust (QCT) was RM0.84 for retail and RM0.92 for institutional while during the period of 2008, QCT was trading at prices ranging between RM0.82 and RM1.48.

Al-Hadharah Boustead REIT

The Al-Hadharah Boustead REIT was established on 11 December 2006. Globally, it is the first Islamic REIT which focused entirely on plantation related properties. It is the second Islamic M-REIT and the 11th M-REIT to be listed in the Main Board of Bursa Malaysia Securities Berhad on 8 February 2007. It is also the largest plantation REIT in Malaysia and the only Malaysian REIT which comprises only plantation-related properties focusing mainly on palm oil. Al-Hadharah Boustead REIT is 53.4% owned by Boustead Group. By the end of 2008, it had a total of 10 properties in its portfolio with a market value of over RM805 million. The property portfolio consists of eight palm oil estates (for cultivation of palm oils) located in Johor, Kedah, Kelantan, and Perak (Telok Sengat Estate, Chamek Estate, Bekoh Estate, Kulai Young Estate, Bukit Mertajam Estate, Batu Pekaka Estate, Lepan Kabu Estate, Malaya Estate) and two mills (for processing of palm oils) located in Johor and Kelantan (Telok Sengat Palm Oil Mill, Lepan Kabu Palm Oil Mill). The success of this REIT will very much depend on the planted crops and not the rental yield. There will definitely be a growing demand for this sector in the future with the need for biodiesel productions around the world (e.g. US, EU).

By end of 2008, the REIT's market capitalisation was RM551.43 million which represented 13.50% of the overall Malaysian REIT market capitalisation. Al-Hadharah Boustead REIT was trading at prices ranging between RM0.99 and RM1.60. Despite the current market condition, Al-Hadharah Boustead REIT performed better then in 2008 with an increase in net property income of RM67.5 million from RM51.4 million in 2007. Income before tax also increased to RM63.5 million from RM49.8 million in 2007. Al-Hadharah Boustead REIT sector are exposed to CPO price volatility while portfolio expiry are not applicable as it is subjected to the palm oil life cycle. The following figure shows the property details and major properties for Al-Hadharah Boustead REIT.

AmanahRaya REIT

AmanahRaya REIT is the 12th M-REIT listed in the Main Board of Bursa Malaysia Securities Berhad on 26 February 2007. The REIT has a BBB- rating by S&P. It is currently Malaysia's first government sponsored REIT and the second largest REIT with a portfolio of diversified property assets of RM686.33 million (RM649.52 million in 2007) as at 31 December 2008. The properties encompas hospitality (13%), industrial (29%), educational (31%) and commercial (27%) properties, namely Holiday Villa Alor Setar, Holiday Villa Langkawi, Permanis Factory, SEGi College-Subang Jaya, Block A & B, South City Plaza, Wisma AmanahRaya, Wisma AmanahRaya Berhad, Wisma UEP. It also included 5 newly acquired properties in 2007, namely Tamadam Bonded Warehouse, AIC Factory, Silver Bird Factory, Gurun Automotive Warehouse and SEGi College-Kota Damansara. The REIT's management issued new units to finance their newly acquired properties and reduce their current gearing level. These have increased the REIT's fund size and improved its trading liquidity.

Gearing has also been reduced from 37.9% to 35.6% with a fixed interest until 2011 to avoid refinancing risk. Together with a low interest rate, this will also allow the trust to acquire more assets in the future as the gearing limit is 50%. By end of 2008, the Trust's market capitalisation was RM353.87 million which represented 8.67% of the overall Malaysian REIT market capitalisation. As at 31 December 2008, all 13 properties which have NLA of 2.22 million sq. ft. achieved an average occupancy rate of 100%. The Trust recorded a Net Income of RM10.64 million which surpasses their forecast by 1.57%. The unit price ARREIT is exempted from Malaysian Income Tax as it distributes 90% of its taxable income to unit holders. This allowed an increase in total Distribution Per Unit by 0.05% over the forecast for the financial period ending 31 December 2008. The Trust approved a total distribution of 7.01 sen per unit

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(5.44 sen: 2007). This represented a distribution per unit of sen; when annualised an increase of 7.37%.

Although, the REIT has a well-protected downside with its diversified property assets, AmanahRaya REIT has a limited upside as rents are on single lessee in the long-term triple net leases which is between six to fifteen years. Triple net leases means that the lessee bears all the maintenance, property expenses and operating costs. This ensures ARREIT receives only the net rental income. Upward rental revision will be done annually for Wisma AmanahRaya Berhad. However, all the other properties' review will only be done every two to five years. High security deposits of 2 or 3 years are also required from most lessees. This minimises the risk of late rental payments. Tenancy expiry profiles by NLA are 63% by 2009, 24% by 2010, 9% by 2011 and 3% by 2012. The following table and figure shows the property details and major properties for AmanahRaya REIT.

Atrium REIT

Atrium REIT was established on 28 November 2006. Atrium REIT is the 13th MREIT listed in the Main Board of Bursa Malaysia Securities Berhad on 2 April 2007. It is a Malaysian industrial focused REIT with property assets valued at RM158.3 million; an increase from its acquisition value of RM154.80 million. It is managed by Atrium REIT Managers Sendirian Berhad whereby 60% is owned by Glory Blitz Industries Sendirian Berhad (GBISB) that holds 34% of Atrium REIT. By end of 2008, the Trust's market capitalisation was RM74.3 million which represented 1.82% of the overall Malaysian REIT market capitalisation.

IPO price of Atrium REIT was RM1.05, while during the period of 2008, Atrium REIT was trading at prices ranging between RM0.60 and RM1.00. As at 31 December 2008, all 4 freehold industrial properties, namely Atrium Shah Alam 1, Atrium Shah Alam 2, Atrium Puchong and Atrium Rawang with a total NLA of 809,668 square feet achieved occupancy rates of 100%. Each building is custom-built and single tenanted to 3 logistic companies, namely Excel Properties, CEVA (TNT) Logistics, Danzasmal (95.6% of NLA) and one branded food producing company, Unilever Malaysia (4.4% of NLA). Atrium REIT sector exposure by NLA are logistics (96%) and food (4%), while tenancy expiry profile by NLA are 32% by 2009, 64% by 2010 and 4% by 2011.

Despite the current market condition, Atrium REIT performed better in 2008 with an increase in revenue (RM13.7 million) and net property income (RM12.6 million) from RM10.1 million and RM9.5 million respectively in 2007. Income before tax also increased to RM10.3 million from RM7.7 million in 2007. The following table and figure shows the property details and major properties for Atrium REIT. Table 1 shows the individual M-REITs' financial and management strength from 2007 until 2009.

Financial and Management Strength

From the findings tabulated in Table 1, it is clear that AHP had the overall highest value of Z-Score (12.40) and the highest in yearly comparison for individual companies which indicates it was the strongest company financially for 2007 (12.67), 2008 (11.62) and 2009 (12.92). For the same number of years assessed, Starhill had achieved a score of above 2.00 which is regarded as good while Axis, Hektar, Tower, KPJ, Amanahraya, Atrium had achieved a score below 2.00 for each year, however UOA, QCT, Boustead and Amfirst have mixed financial strength for their companies to achieve a meaningful score.

In terms of free cashflow to capital, Starhill was more efficient in using its capital with an overall highest ratio of 5.31% from 2007 to 2009. In yearly comparison of individual companies, UOA had the highest ratio of 5.61% in 2007, while Atrium had the highest ratio in 2008 (6.70%). In 2009, Boustead had the highest ratio of 7.77% in comparison to other companies. The overall least efficient company in using its capital was AmFirst (-42.46%). In the yearly comparison of individual companies, Amanahraya had the lowest ratio of (-96.71%) in 2007, while AmFirst had the lowest ratio in 2008 (-35.02%). In 2009, KPJ had the lowest ratio of 15.95% in comparison to other companies.

From 2007 to 2009, KPJ was the only company with an ROE less than 10% for each year. This probably meant that the company was poor in managing assets or high in revaluing its assets or both. For the same number of years assessed individually, Axis REIT and Al-Hadharah Boustead REIT had more than 10% of ROE for each of the year assessed which meant that the management of the company was making use of the assets well in generating returns for its shareholders.

According to the Debt per Equity Ratio, the smaller the ratio, the stronger the company. From 2007 to 2009, AHP was financially the strongest company overall for each year assessed. The weaker company overall was Hektar (0.69) but it had the highest ratio of 0.82 in 2009. In comparing individual companies yearly, Axis (0.63) and AmFirst (0.93) were the weakest company in 2007 and 2008 respectively.

To determine the high financial strength of a company according to Liquid Asset per Share, Atrium was financially the strongest company overall for each year assessed; in 2007 (0.14), 2008 (0.16) and 2009 (0.17). The overall weakest performing company financially was UOA (0.01). In comparing individual companies yearly, Axis and Tower were the weakest performing companies financially in 2007 and 2009 respectively. Both companies together with UOA were the weakest company financially in 2008.

To realise the potential of earning more profit and gain better quality management, Boustead achieved the highest gross margin overall (97.75%) and for each year assessed in 2007 (97.67%), 2008 (97.77%) and 2009 (97.8 1%). It was observed that Hektar had the lowest margin of 62.02% overall. In comparing individual companies yearly, AHP had the lowest margin of 59.86% and 63.7% in 2007 and 2009 respectively while Hektar had the lowest margin of 62.69% in 2008.

A high company's total asset turnover indicates the efficiency of its assets being used to generate sales. Hektar had the overall highest turnover ratio of 0.12 and the highest turnover ratio in 2008 (0.12) and 2009 (0.12). Both Hektar and Boustead have had the highest turnover ratio in 2007. Overall, Amanahraya had the lowest turnover ratio of 0.06 and the lowest turnover ratio in 2007 (0.04). In 2008, KPJ, AmFirst and QCT have had the lowest turnover ratio of 0.07 and KPJ continued to have the lowest ratio of 0.06 in 2009.

Table 1: M-REIT Financial and Management Performance from 2007- 2009 (Source: Dynaquest)

Year	M-REIT	NAB/ Share (RM)	Liq Asset/Share (RM)	D/E Ratio	Altman's Z-Score	Rental Inc. To Prop. Assets	Nett Rental Margin	Free Cashflow To Capt	ROE
2007	AHP	1.48	0.08	0	12.67	0.09	59.86%	2.98%	12.62%
2008	AHP	1.5	0.09	0	11.62	0.1	63.74%	4.93%	5.83%
2009	AHP	1.51	0.08	0	12.92	0.1	63.70%	3.67%	4.95%
2007	Axis	1.63	0	0.63	1	0.08	81.55%	-17.49%	20.50%
2008	Axis	1.75	0	0.51	0.91	0.09	84.41%	-11.08%	14.17%
2009	Axis	1.79	0.05	0.3	0.88	0.08	83.71%	NA	11.26%
2007	Starhill	0.97	0.07	0.16	3.5	0.08	82.60%	5.26%	6.34%
2008	Starhill	0.97	0.09	0.16	2.77	0.08	83.73%	6.05%	7.09%
2009	Starhill	1.2	0.08	0.13	2.98	0.07	82.90%	4.61%	25.06%
2007	UOA	1.39	0.01	0.19	2.41	0.08	77.02%	5.61%	29.32%
2008	UOA	1.39	0	0.33	1.4	0.09	77.64%	-6.53%	7.37%
2009	UOA	1.49	0.01	0.32	1.36	0.09	78.66%	5.32%	14.34%
2007	Tower	1.45	0.06	0.33	1.81	0.07	77.69%	-7.92%	26.14%
2008	Tower	1.59	0	0.26	1.89	0.08	78.30%	5.21%	14.89%
2009	Tower	1.62	0	0.25	1.81	0.08	76.47%	5.04%	7.89%
2007	KPJ	1.03	0.04	0.38	1.71	0.07	94.22%	4.12%	7.27%
2008	KPJ	1.03	0.09	0.53	1.2	0.07	94.52%	-6.66%	9.93%
2009	KPJ	1.04	0.09	0.81	0.91	0.06	94.25%	-15.95%	9.94%
2007	Hektar	1.17	0.06	0.49	1.27	0.11	62.91%	-55.63%	17.37%
2008	Hektar	1.26	0.06	0.75	0.61	0.12	62.69%	-11.84%	15.01%
2009	Hektar	1.27	0.12	0.82	0.45	0.12	60.45%	2.48%	9.14%
2007	AmFIRST	1.01	0.04	0.15	3.22	0.1	72.49%	-95.07%	7.00%
2008	AmFIRST	1	0.08	0.93	0.12	0.07	70.25%	-35.02%	7.34%
2009	AmFIRST	1.32	0.08	0.71	0.5	0.09	65.85%	2.70%	31.50%
2007	QCT	1.2	0.09	0.19	3.12	0.06	80.91%	-34.38%	16.29%
2008	QCT	1.21	0.07	0.64	0.82	0.07	77.86%	-25.53%	6.83%
2009	QCT	1.22	0.07	0.64	0.86	0.09	77.23%	3.58%	6.97%
2007	Boustead	1.01	0.04	0	9.2	0.11	97.67%	-39.56%	10.43%
2008	Boustead	1.26	0.01	0.14	3.38	0.08	97.77%	-6.75%	27.13%
2009	Boustead	1.31	0.02	0.13	3.45	0.09	97.81%	7.77%	11.36%
2007	Amanahraya	0.94	0.14	0.62	0.77	0.04	96.22%	-96.71%	3.12%
2008	Amanahraya	1.02	0.15	0.57	0.96	0.07	96.82%	4.03%	15.24%
2009	Amanahraya	1.02	0.14	0.57	0.93	0.07	96.31%	4.38%	7.02%
2007	Atrium	0.98	0.14	0.37	1.44	0.09	93.46%	-86.65%	8.91%
2008	Atrium	1.04	0.16	0.36	1.15	0.08	92.22%	6.70%	13.55%
2009	Atrium	1.04	0.17	0.36	1.07	0.08	80.41%	4.71%	6.80%

6.0 CONCLUSION

This research aims to contribute and expand on the existing research on M-REITs. This will potentially provide clear empirical information on M-REIT and provide greater opportunity to all M-REIT investors. The first part of the analyses and findings presented financial profile and strength for each of M-REITs including 3 I-REITs. This is to give an overall overview of the current financial and investment profile for M-REITs. The comparison can be seen from the analysis of each M-REITs between the conventional and the Islamic. This research is only a preliminary analysis of M-REITs and Islamic REITs in Malaysia. A short sample period is not nearly long enough to analyse investment returns comparable to those achievable in regional markets (e.g. Singapore and Hong Kong) in a pan-Asia portfolio [22]. The use of a short sample period to draw longer term inferences on the performance of REITs is inappropriate as the sample period may coincide with a boom or bust period (Han and Liang, 1995). Moreover, a short time period accompanied by a small number of M-REITs is not a reliable indicator for the long term performance of M-REITs, let alone Islamic REITs. At this stage, M-REITs have only been available since September 2006, so a fuller time series will need to be subsequently analysed before any rigorous recommendations regarding M-REITs and Islamic REITs can be made. This research is only a preliminary analysis of M-REITs and Islamic REITs in Malaysia. Within the short time period, all 3 Islamic REITs have performed well in comparison to the conventional M-REITs in terms of ROE. It implied high quality management strength in the Islamic REIT during the Global Financial Crisis. This indicates an Islamic principle was able to give competitive advantage to property investment in particular REITs. However, there are number of issues that could limit further development for Islamic M-REITs discussed below:

i. Given the constraints and the limitations by Islamic law, would companies choose to issue an Islamic REIT? Islamic law restrictions would make Islamic REITs less desirable compared to conventional REITs. Policymakers need to tackle the regulatory framework.

ii. Efforts should be made to increase the capacity of Shariah compliant buildings.

iii. Attaining standardised guidelines for Islamic M-REITs should be generally acceptable to all Muslims investors around the world.

iv. There is a need to assign a specific compliance committee to monitor every potential investment decision made for an Islamic M-REIT.

v. To make the Islamic market a success, Shariah expertise should address the needs of Muslim investors worldwide and not just cater for investors in the Gulf region but target the local market as well.

vi. There is a need to educate investors-experts so as to raise the level of understanding, awareness and acceptance of Islamic M-REITs.

To make Islamic M-REITs a complete success, the regulators should consider a global marketing strategy. With the introduction of Islamic M-REITs, M-REITs will play an important role in the Malaysian real estate market and it is likely that the Islamic compliant property market is poised to become significant within the global financial markets. Islamic investment products are likely to see significant growth in many countries in the near future. The main purpose of Islamic finance is to eliminate unethical financial transactions such as interest. Currently, Islamic financial institutions are advancing and improving their products to attract more diversified global investors.

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