

UNDERSTANDING THE UNDERLYING POTENTIAL OF LISTED PROPERTY COMPANIES

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ABSTRACT

Listed property companies are considered as another type of investment in the area of property investment in the global market. Therefore, listed property companies attract interest from a wide market globally. It has been observed that most of the previous researches have focused on risk adjusted return, diversification potential, optimal asset allocation and the dynamics of volatility of the investment whilst studying the performance of listed property companies. In addition, there have been some researches also conducted on the Malaysian listed property companies in the past. Hence, this paper attempts to provide a thorough understanding and knowledge of the listed property companies globally especially in Asia.

Keywords : *Listed Property Companies; Property Market; Performance Analysis, Property Investment; Listed Property Companies Studies.*

ABSTRAK

Syarikat-syarikat hartanah yang tersenarai adalah dianggap sebagai satu bentuk pelaburan dalam bidang pelaburan hartanah di pasaran global. Oleh itu, syarikat-syarikat hartanah yang tersenarai juga menarik minat pasaran yang luas di peringkat global. Pemerhatian telah dibuat bahawa kebanyakan kajian terdahulu telah memberi tumpuan kepada larasan risiko pulangan, potensi kepelbagaian, peruntukan aset yang optimum dan dinamik turun naik pelaburan ketika mengkaji prestasi syarikat-syarikat hartanah yang tersenarai. Di samping itu, terdapat beberapa kajian dijalankan mengenai syarikat-syarikat hartanah tersenarai Malaysia sebelum ini. Oleh itu, kertas

kerja ini dijangka dapat memberi kefahaman yang mendalam dan pengetahuan mengenai syarikat-syarikat hartanah yang tersenarai di peringkat global terutamanya di Asia.

Kata kunci: *Syarikat-syarikat Hartanah Tersenarai; Pasaran Hartanah; Analisis Prestasi; Pelaburan Hartanah; Kajian Syarikat-syarikat Hartanah Tersenaraikan*

1.0 PENGENALAN

This paper reviews the literature of studies on listed property companies globally, especially in Asia. With the said review, the study aims:

- I. To identify the position of listed property companies globally.
- II. To discuss previous researches and studies conducted on listed property companies especially in Malaysia.

The study on the market for listed property company has been broken up into 3 sections. The first section concentrates on expanding the literature on listed property companies. The second section consists of a review of the study conducted on listed property companies which will hopefully contribute towards a better understanding of listed property companies. The last section attempts to enhance investors' knowledge on the subject in order to convince investors to invest in listed property which to date have not received sufficient attention, especially in Malaysia. Hence, to present some background for this study, sections 2, 3, 4, 5, 6 and 7 are provided. Section 2 consists of a discussion on property investment in brief. Section 3 consists of a discussion on global listed property companies. Section 4 discusses on Asian listed property companies followed by section 5 which contains a discussion on the Malaysian listed property companies. Section 6 reviews the literature of studies done on listed property companies especially in Malaysia. Section 7 outlines the property investment implications and the conclusion.

2.0 PROPERTY INVESTMENT

Property investment can be classified into two (2) categories; unsecuritised physical asset (direct property), and securitised investment backed by property (indirect property). Direct property investment is made through real and tangible assets and enjoys a steady cash flow from rental income [5]. Indirect property investments such as, property shares are considered property related in the sense that their returns are derived from direct property. Additionally, the type of indirect property investment can be further subdivided into two (2) subcategories; listed property

securities and unlisted property securities. Listed property investment consists of listed property companies (LPCs) and real estate investment trust (REITs). To elaborate, a listed property company is in itself a listed property investment and is made up of shares which are quoted on the stock market. As pointed out by [1], LPCs are also defined as listed real estate operating companies (REOCs), whereas those companies listed on stock exchanges engaged in real estate investment or development activities and property shares [2]. However, REITs provide a share in a portfolio of income producing properties listed on stock market. Meanwhile property security fund is the third form of property investment besides LPCs and REITs [3]. [1] share a similar view that real estate securities are defined as listed real estate operating companies (REOCs) and real estate investment trust (REITs). Listed real estate securities can be regarded as one of the most important indirect vehicles for real estate investment, providing investors with liquidity, sector divisibility and diversification with low transaction costs [1]. REITs are generally less risky due to lower level of debt and generate higher dividend yields, while REOCs tend to exposed to many development project (high liability) and produce lower dividend yields [1]. In Malaysia, the securitised real estate in Malaysia are largely dominated by listed property companies known as property shares and real estate investment trust (REITs) [2].

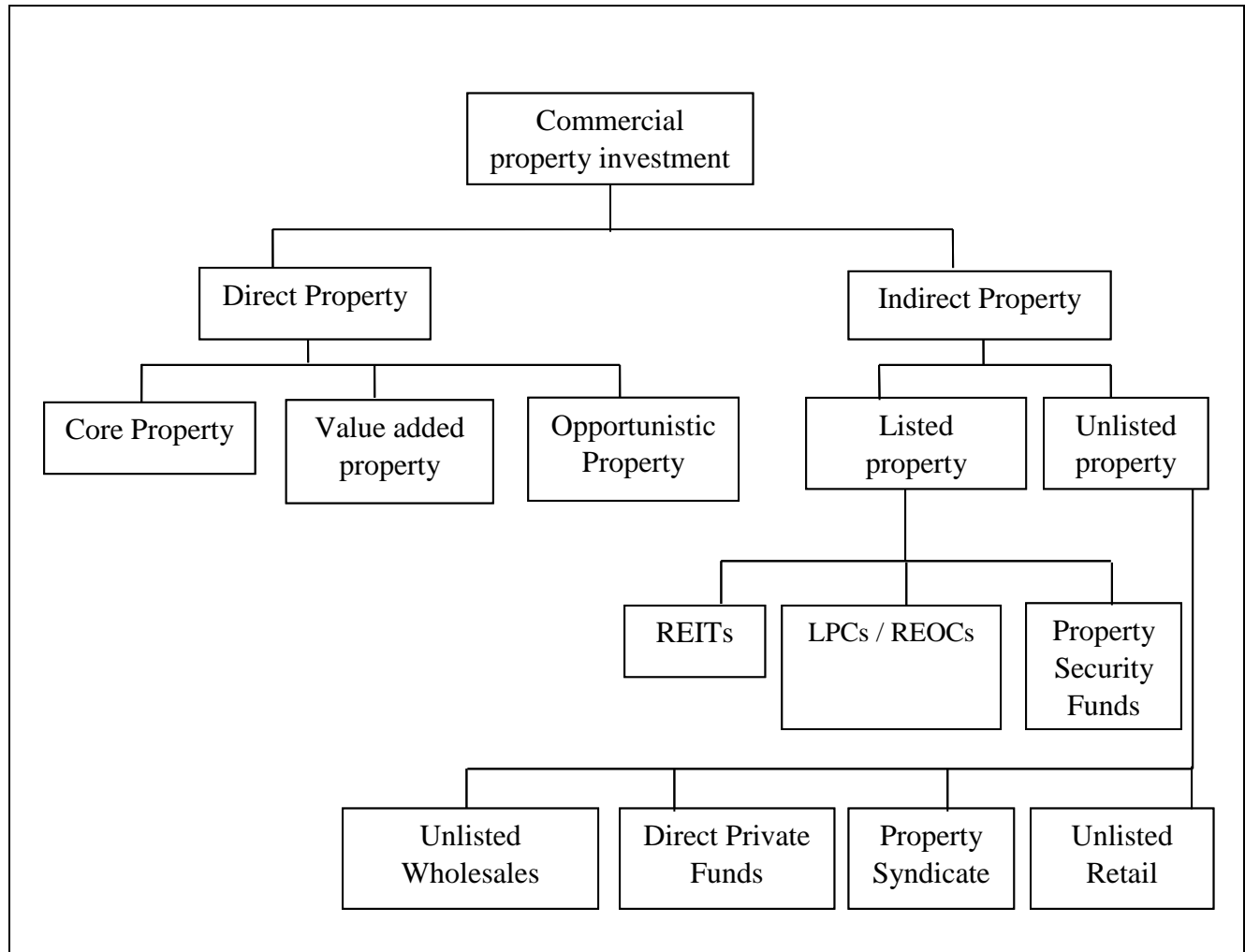


Figure 1: Commercial property investment **Source:** Nguyen (2011a)

3.0 GLOBAL LISTED PROPERTY COMPANIES

The Global asset class as at October 2013 is shown as Figure 3.1. Global Listed Real Estate has the highest ranking, with 8.2% of total global asset class. Global Real Estate ranked second with 7.5%, followed by Global Equities with 7.2%. Coming fourth is Global Bonds with 5.1%. From Figure 3.1, can be conclude that Global Listed Real Estate has the highest percentage ranking. As highlighted by [4], the key attributes which are highlighted in the rankings of listed real estate securities are dividend yield, geographic diversification, cost efficiency and liquidity. However, when considering dividend yield, it is important to acknowledge REITs as the most superior; this is because the majority of their net relevant profits are in the form of dividend payments paid out to equity investors.

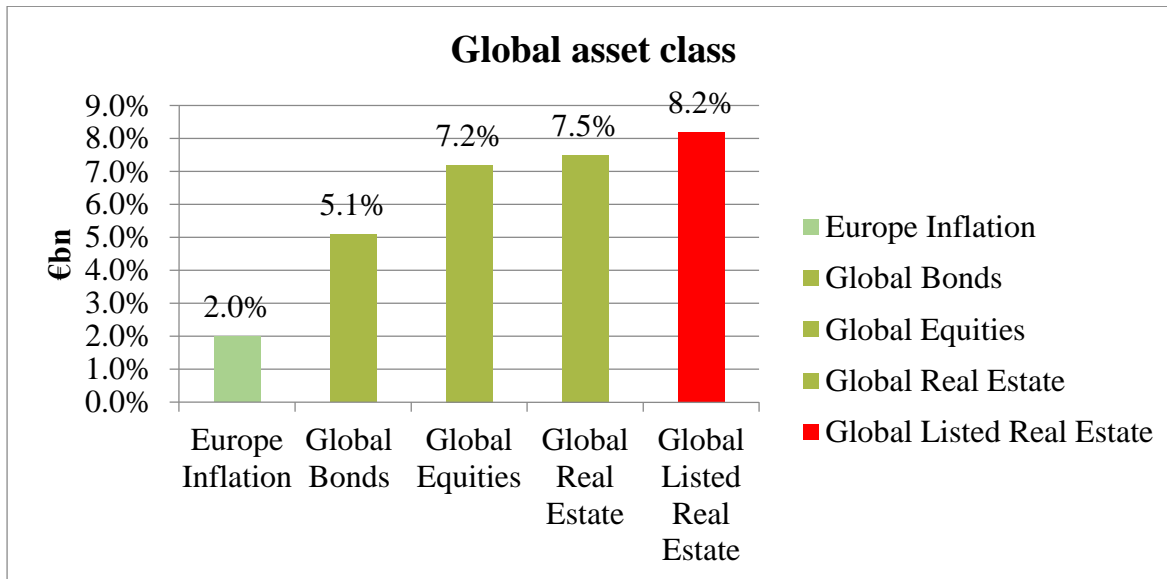


Figure 2: Global asset classes **Source:** EPRA (2014a)

With regards to [5], real estate securities around the globe have grown rapidly during the past decade with the total size of both FTSE and S&P indexes. As demonstrated in Figure 3.2 the S&P index grew to US\$1.1 trillion by year end 2012 from US\$66 billion in 1990. The FTSE index increased in total market capitalisation to US\$1 trillion in 2012 from US\$107 billion in 1990.

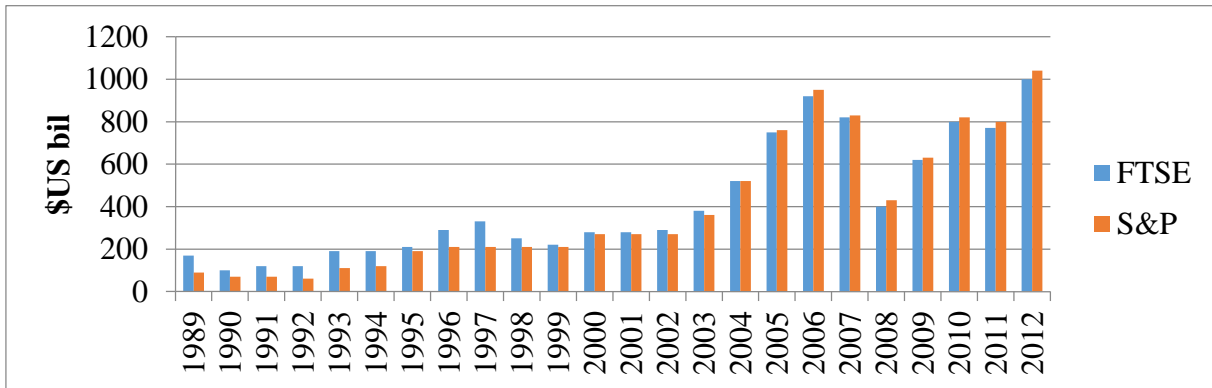


Figure 3: Growth of global real estate securities (Market Cap \$US bil)

Source: Bucchianeri (2013a)

From 1994 to 2014, real estate securities have a track record of delivering compelling total returns over the long term. As illustrated in Figure 3.3, real estate securities have significantly outperformed stocks and bonds in both United States and global markets during the modern REIT era. [16] believe that there are fundamentally strong reasons why real estate securities have been able to do well. More importantly, real estate securities tend to have stable business models which attract long term investment capital, while also offering the valuable inflation fighting characteristics of tangible assets. Therefore, this fact implies that listed property companies are in a good position globally.

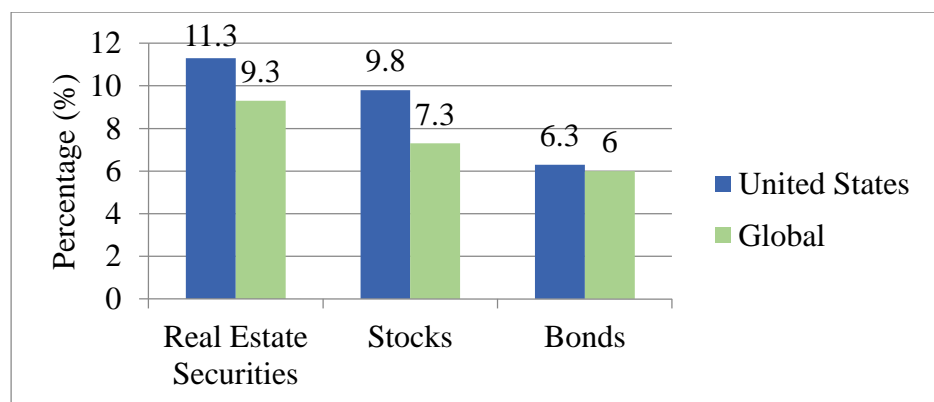


Figure 4: Real estate Securities have outperformed stocks and bonds from 1994-Q2 2014 (The Modern REIT Era).

Source: Cohen and Steers (2014)

4.0 ASIAN LISTED PROPERTY COMPANIES

The Asia Pacific real estate investment momentum will remain strong in 2015; this is supported by the excess amount of equity capital and adequate debt financing for investors [7]. The Asia Pacific debt markets will continue to evolve rapidly in the upcoming year. As illustrated in Figure 4.1, the data shows that the total capital raised by Asia Pacific real estate companies from issuing debt was nearly US\$80 billion in 2014; well up on the US\$50 billion raised in 2013. Chinese developers accounted for nearly 60% of the capital amount of bond issued in 2014 compared to 54% in 2013. Many Chinese developers are issuing bonds as it enables them to secure financing whilst bank lending remains restricted by policy measures. Increasing issuance bond by the Asia Pacific indicates growth of listed real estate companies in Asia Pacific. To elaborate, [7] has highlighted that the overall investment turnovers in 2015 will exceed last year's and increase to US\$118 billion. Asia Pacific equity and debts markets remain liquid. In addition, institutional investors continue to increase their allocation to real estate and several newly raised capital real estate funds will reach the capital deployment stage. Furthermore, Asia Pacific region continues to be the growth engine for the global economy and is attracting global investors to diversify their portfolios. It shows Asia Pacific markets are becoming more mature and transparent.

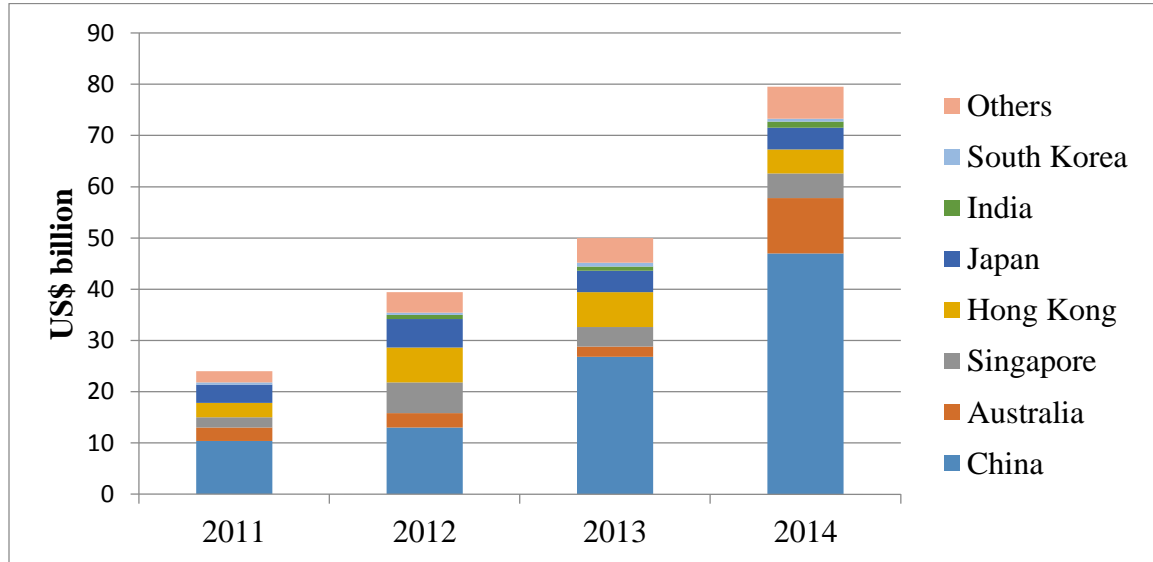


Figure 5: Total size of bond issuance by listed real estate companies in Asia Pacific

Source: CBRE (2015)

Table 4.1 shows the total size of the real estate market for the emerging market on April 2014. The total transaction of real estate market totaling 3168.58 billion in Asia Pacific on December 2013 was the highest among the emerging markets when compared to emerging Europe and emerging Americas. While in Malaysia, the total transaction of listed real estate was 50.38 billion. Total of real estate or listed real estate transaction in Asia Pacific emerging markets stands at 18.35% compared to emerging Europe at 6.5%, emerging Americas 5.81%. Out of the 18.35% in Asia Pacific, Malaysia's share is at 49.18%. In brief, Asian listed property companies' show performance improvement from year to year in the developed Asian countries and there is potential for its emerging neighbors.

Table 1: Size of the Total Real Estate Market – Emerging Markets (April 2014)
Source: EPRA (2014b)

	13-Dec	14-Apr	14-Apr	14-Apr	14-Apr	14-Apr	14-Apr	14-Apr	14-Apr
	Real Estate (\$ Bn)	Total Listed (\$ Bn)	Number of Companies	Of Which REITs	Index Market Cap (\$Bn)	No. Index Constituents	Total real estate/Listed real estate %	Stock Market (\$ Bn)	Stock market/ real estate %
Countries									
Asia-Pacific									
China	2230.06	295.47	193	NA	39	36	13.29%	3170	9.35%
India	329.58	41.59	149	NA	2	5	12.32%	1257	3.23%
Indonesia	203.29	36.71	45	NA	7	13	17.59%	415	8.62%
Malaysia	98.27	50.38	146	16	8	18	49.18%	510	9.47%
Pakistan	29.79	0.02	4	NA	NA	NA	0.05%	NA	0%
Philippines	48.73	38.62	44	NA	9	6	81.62%	237	16.82%
Taiwan	134.07	27.21	70	6	0	1	20.44%	953	2.88%
Thailand	94.79	93.87	170	38	6	15	98.34%	383	24.32%
Total Asia									
Pacific	3168.58	583.84	821	60	72	94	18.35%	6925	8.40%
Total									
Europe	1516.17	99.76	221	28	33	27	6.50%	1289	7.65%
Total									
Americas	1471.8	83.62	92	27	23	27	5.81%	2025	4.22%
Total									
Emerging									
Market	6156.56	767.22	1134	115	128	148	12.44%	10238	7.48%

5.0 MALAYSIAN LISTED PROPERTY COMPANIES

Listed property companies in Malaysia have been around for a while as it was established about 28 years ago. The oldest company was listed on 2nd January 1986 and another 24 of these companies were established a year later. From the 79 companies listed on Bursa Malaysia in March 2015, forty four (44) of them practice property development as their core business, while seven (7) companies practice property investment as their core business. Most of these companies are active property development companies. Property development activities are concentrated in major urban areas in Peninsular Malaysia namely; Klang Valley, Putrajaya, Penang and Johor Bahru where there are high concentrations of population and employment opportunities. For property developers, the township is normally a mix of housing types ranging from low cost to high cost housing. During buoyant economic situations, developers tend to take advantage of the opportunity to launch high cost residential units. During slower economic growth period, developers would market medium cost housing. As subsidiaries of plantation holding companies' property development companies have a steady supply of development land in the form of agricultural land from the parent companies and land bank for future development [8]. By observing Table 5.1, among the top ten listed property companies in Malaysia, KLCC property holdings had the highest market capitalisation with 11987.41 MYR billion. This is followed by the IOI properties group which was listed in 2014 with a capitalization of 8453.82 MYR Million. SP Setia had the third highest market capitalisation of 8351.11 MYR Million.

Table 2: Top 10 listed property companies in Malaysia

	Company Name	Year Listed	Market Capitalization at 2014 (MYR Million)
1	KLCC Property Holdings	2004	11987.41
2	IOI Properties Group	2013	8453.82
3	SP Setia	1993	8351.11
4	UEM Sunrise	2008	7713.63
5	Sunway	2011	5712.27
6	IJM Land	1991	4995.99
7	IGB	1986	3916.97
8	MAH Sing Group	1992	3497.42
9	UOA Development	2011	3006.67
10	Eastern and Oriental	1986	2875.18

Source: Author's compilation from Datastream (March 2015)

6.0 A REVIEW OF THE INVESTMENT ON LISTED PROPERTY COMPANIES

A number of studies have demonstrated the compelling case by including real estate securities in investment portfolios. Most of the past studies focused on the analysis of behaviour at a national level [1]. Many studies were done on the United States (US) stock market, Real Estate Investment Trusts (REITs), as well as on the markets of developed Asian countries such as Japan, Singapore and Hong Kong. However, there are limited number of literature and analysis done on the emerging markets such as, China, Taiwan, South Korea, Malaysia and Indonesia [3].

The way to measure the performance of listed property companies in mixed asset is by using risk adjusted performance [9],[10],[11] and using correlation analysis to measure the diversification potential. Lower correlation between the asset classes indicates that those markets have high diversification benefits. Previous research and studies on listed property companies done in Europe, developing countries and Asian countries [3],[11],[12],[13]. In addition, efficient frontier and optimal allocation can illustrate the combination asset classes and produce important information to get a better picture about the risk levels and expected returns. Efficient frontier is important to draw the riskiness and returns from each portfolio as the study is completed by [11],[14],[15]. Lastly, volatility is related to unpredictability and uncertainty and can significantly impact performance as well as variance risk. Changes to volatility in the property securities market are capable of having a negative effect on the risk factor, thus making property securities an unfavourable choice with investors and the economy. This was recognised by [16] in his comprehensive study on time varying volatilities in property with linkages to mixed asset which caught the attention of several researchers. There are a few examples of previous studies discussing volatility, such as [11],[17],[18].

However, in the Malaysian context, investors have to put Malaysia on the property investment radar as part of their investment strategy [3]. Most of the investors believe that the property industry in Malaysia offers better risk-adjusted returns as compared to other industries [19]. As revealed by [19], there are limited empirical research done on the Malaysian property industry, especially on the risk-return performance which is sufficient enough to initiate a study on performance of Malaysian property stock. The performance and significance of property securities in Malaysia has not been analysed due to the lack of available data related to the property industry [19]. In addition, from an academic point of view, the lack of awareness and lack of expertise in Malaysia particularly on property investment also contributes to the lack of study being carried out on the performance of Malaysia's listed property companies. There were only two studies carried out on listed property companies in Malaysia. They are carried out by [8] which analysed Malaysian listed property companies by comparing shares and direct residential property. The latest study was by [16] which examined the dynamic of return and dynamic volatility across the Malaysian and Pan-Asian countries listed property companies over a 12-year period from 1998 to 2012. Previously, [8] found that listed property shares could not offer portfolio diversification due to its high correlation with shares. Recent evidence conducted by [16] described performance of listed property companies in the current Malaysian context as 'still being explored'. The study on property market in Malaysia when compared to other

countries is still limited, however there is a lot of opportunities to do research on the Malaysian property market.

7.0 PROPERTY IMPLICATIONS

This paper had intended to enhance the audiences' understanding and knowledge on listed property companies through its broad literature review. Based on the literature, we could agree that listed property companies have good positioning in the global, Asian and Malaysian market. However, we can conclude that the emerging Asian market listed property companies are moderately positioned, especially, in the Malaysian market. Nevertheless, Malaysian listed property companies still have potential through diversification using bonds rather than stocks. Future study on the significance and performance of listed property companies in the International, Asian and Malaysian market can give us an insight to the true potential, growth and development of listed property companies; with special emphasis given to the Malaysian listed property companies. From the global performance perspective and to complement future studies on the Malaysian listed property companies, research should be conducted by including those that have conducted in developed countries.

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