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LISTED PROPERTY TRUSTS IN MALAYSIA : A COMPARATIVE PERFORMANCE ANALYSIS

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Abstract

This paper measures and analyses the investment performance of listed property trusts for the 1991 to 1997 period. The investment performance is compared with shares (represented by Kuala Lumpur Composite Index, the Property and Plantation Sector Sub-indices) and direct residential property investment in Malaysia.

The Kuala Lumpur Composite Index is used as a proxy to the performance of the Kuala Lumpur Stock Exchange. Direct residential property investment is represented by the Malaysian House Price Index published by INSPEN (National Institute of Valuation).

The aims of this study are to determine :-

- (a) whether listed property trusts achieved higher risk adjusted return than shares and direct investment in residential properties;*
- (b) whether listed property trusts could offer portfolio diversification potential when included in an investment portfolio;*
- (c) whether listed property trusts could act as substitute for direct residential property investments.*

AHP and FMPT had achieved higher risk adjusted returns than shares but lower than direct residential investment. AMFPT has the lowest risk adjusted ranking among the investment options. Listed property trusts could not offer diversification possibilities nor to act as substitutes to direct residential investment.

1.0 Introduction

Property trust is a new property investment vehicle in Malaysia. It was first introduced in March 1989 when Amanah Hartanah PNB (AHP), an unlisted property trust was launched. The first listed property trust on the Kuala Lumpur Stock Exchange was Arab Malaysian First Property Trust when it made its debut on 28 September 1989.

There are now four listed property trusts in Malaysia :-

- (a) Arab Malaysian First Property Trust (AMFPT);
- (b) First Malaysia Property Trust (FMPT);
- (c) Amanah Hartanah PNB (AHP);
- (d) Mayban Property Trust Fund One (MPT).

The initial size of the listed property trust funds are as follows :-

Table 1 : Initial Issued Capital of Property Trust Funds in Malaysia

Property Trusts	Initial Public Offer	Issue Price (RM)	Size of fund (RM)	NTA/unit (RM)	Gross yield on property
AHP	21.3.1989	1.00	100,000,000	1.00	7.1%
AMFPT	17.8.1989	1.00	134,999,000	1.00	9.5%
FMPT	10.10.1989	1.05	105,000,000	1.00	8.7%
MPT	31.12.1996	1.28	104,894,760	1.22	5.9%

Source : Prospectus of AHP, AMFPT, FMPT and MPT.

After in operation for nine years the market capitalisation of listed property trusts had suffered a huge setback due to the currency crisis which started in July 1997. Table 2 shows the impact of the currency crisis on market capitalisation.

Table 2 : Market capitalisation of listed property trusts in Malaysia (28.8.1998)

Property Trusts	Units Issued	Market Price (RM)	Market capitalisation (RM)	NTA/unit (RM) (30.6.1998)	Premium/ (Discount) (RM)	% of Premium/ (Discount)
AHP	100,000,000	0.46	46,000,000	1.69	(1.23)	(72.8)
AMFPT	138,375,641	0.47	65,036,551	1.77	(1.30)	(73.4)
FMPT	105,837,211	0.34	35,984,652	1.08	(0.74)	(68.5)
MPT	106,037,000	0.40	42,414,800	1.21	(0.81)	(66.9)

The objectives of this paper are to examine :-

- (a) whether listed property trusts achieved higher risk adjusted returns than shares and direct investment in residential properties;
- (b) whether listed property trusts could offer portfolio diversification potential when included in an investment portfolio;
- (c) whether listed property trusts could act as substitute for direct investment in residential property.

The first objective is answered by carrying out a risk-return analysis followed by Sharpe Index. The second objective is answered by examining the correlation of returns between the listed property trusts and Kuala Lumpur Composite Index. The third objective is answered by comparing the risks-returns and the correlation of returns of the listed property trusts with the Malaysian House Price Index (MHPI).

2.0 Data Sources

Data on annual closing prices of the three listed property trusts (i.e. AMFPT, FMPT and AHP) and the Kuala Lumpur Composite Index are obtained from the Kuala Lumpur Stock Exchange. The Mayban Property Trust Fund One has been excluded as it was newly listed on the 25 March 1997. The Kuala Lumpur Composite Index (KLCI) is used as a proxy for the performance of the Kuala Lumpur Stock Exchange. Direct residential property investment is represented by the Malaysian House Price Index series published by INSPEN (National Institute of Valuation).

Annual data series are collected from the Kuala Lumpur Stock Exchange and INSPEN for the study period from 1991 to 1997. The beginning period for the year 1991 is chosen as it coincides with the maximum period covering all the three listed property trusts and the Malaysian House Price Index.

To allow comparisons of performance, the stock exchange sub-indices related to property i.e. the Property Sector and Plantation Sector Sub-indices are also included.

3.0 Risk-return analysis for the period 1991 to 1997

For the risk-return analysis, risk is measured by the standard deviation of the annual returns which quantifies the variability of the returns over time. The standard deviation provides a statistical summary of the dispersion of the assets return.

The returns are computed based on :-

$$R_t = (P_t - P_{t-1}) / P_{t-1}$$

where R_t = return for the period t
 P_t = price of security at period t
 P_{t-1} = price of security at previous period

An analysis of the annual risks and returns are carried out and the results are shown in Table 3. To provide a meaningful assessment of the performances of the various investment alternatives, the Sharpe Index has been used as an index of performance. The risk free return of 7.28% for the Sharpe Index is based on the average coupon rate of the Malaysian Government Securities for the same period.

Table 3 : Average annual risks and returns of investment options (1991 – 1997)

Investments	Average Annual Return (%)	Annual Risk (%)	Sharpe Index	Risk adjusted ranking	Risk/Return Ratio
<u>Listed Property Trusts</u>					
AMFPT	5.03	70.46	-0.032	7	14.01
FMPT	33.08	155.13	0.166	4	4.69
AHP	56.65	218.88	0.225	2	3.86
<u>Shares</u>					
KLCI	10.69	46.61	0.073	6	4.36
Property Sector	14.75	84.68	0.088	5	5.74
Plantation Sector	24.42	87.81	0.195	3	3.60
<u>Direct Residential Property</u>					
Malaysian House Price Index	11.94	8.09	0.576	1	0.68

4.0 Analysis of Results

4.1 Overall performance

Table 3 shows the Sharpe Index and risk adjusted ranking. The result shows a mixed performance for the three listed property trusts. AHP and FMPT performed better than the KLCI and Property Sector except for AMFPT. The difference in performance is attributable to the higher returns enjoyed by AHP and FMPT.

AMFPT has the highest risk/return ratio and ranked lowest among the investment options. The result provided an anomaly of returns among the property trusts as AMFPT has the best office property portfolio compared to the other two property trusts. This is reflected through the NTA of AMFPT which is the highest among the three trusts since launching (refer Table 2). Investors have probably down-rated AMFPT for the fact that it has poorer diversification in its portfolio which has only two office buildings.

The best performance on a risk-adjusted basis comes from MHPI. The MHPI has lower risks and this has caused direct residential property to be ranked higher than the rest of the investment options. This result is expected as direct property has more stable prices and lower volatility in prices.

4.2 Correlation

Table 4 shows the correlation matrix for all the investment options. For the period of analysis, The listed property trusts showed a high positive correlation with the stock market (i.e. KLCI, Property and Plantation Sector) with correlation coefficients greater than 0.87.

The listed property trusts have also exhibited a high correlation with each other.

Thus listed property trusts could not offer portfolio diversification potential when incorporated in a share portfolio due to its high positive correlation with KLCI returns.

Listed property trust cannot be viewed as substitutes for conventional direct investment in residential property as exhibited by the low positive correlation coefficient between listed property trusts and MHPI returns.

Table 4 : Correlation matrix of investment options

	<i>KLCI</i>	<i>MHPI</i>	<i>PROPERTY</i>	<i>PLANTATION</i>	<i>AMFPT</i>	<i>FMPT</i>	<i>AHP</i>
KLCI	1.000						
MHPI	0.043	1.000					
PROPERTY	0.961	-0.179	1.000				
PLANTATION	0.919	-0.276	0.988	1.000			
AMFPT	0.947	-0.187	0.996	0.994	1.000		
FMPT	0.895	-0.219	0.970	0.990	0.987	1.000	
AHP	0.880	-0.331	0.971	0.996	0.984	0.991	1.000

4.3 Limitations of study

Han and Liang (1995) pointed out that the use of a short sample period to draw inferences on the performance of REITs is inappropriate as the sample period may coincide with a boom or bust period. The findings on short term performance are not predictors of short term performance of subsequent periods or reliable indicators of the long term performance of listed property trusts.

In view of the short 10 year history of listed property trusts in Malaysia which coincide with a recovery of the economy and property market from the 1985-1987 recession, the performance of the listed property trust for the 1990 to 1997 period is biased towards an upside performance. The recent currency crisis which sparked the economic downturn had nipped the performance of listed property trusts for the past one year. The full impact of the crisis on the property market is yet to be seen. However when the stock market and property market recover, it would provide the opportunity for the study of the performance of listed property trust on a full economic and property cycle.

Major proxy for the stock market such as S & P Index is not an appropriate performance benchmark as it does not include small stocks while most REITs/listed property trusts are small stocks (Han and Liang *ibid*).

The same argument maybe applied to the use of KLCI as a proxy for the KLSE performance whereby its index components are comprised of high capitalisation issues/companies. On the other hand listed property trusts in Malaysia are small cap stocks at less than RM150 million for each listed property trusts.

It would be ideal to include Government Securities/Bonds into the study. However, there is a difficulty to establish the Government bond capital returns despite the existence of a RAM-Quant Shop Malaysian Government Securities Index. The Index is an accumulation index and the fact that the Malaysian Government Securities are long-term bonds of varying terms, different year of issue and varying interest rates makes it a difficulty to establish a new bond capital series that would allow returns to be analysed and compared.

Currently there is no commercial property indices being developed in Malaysia. The lack of such property performance measures hampers any analysis that compares the performance of listed property trusts with direct property investments in commercial properties.

The results of the performance analysis have been constrained by the lack of a higher frequency Malaysian House Price Index. The results of the analysis could have exhibited a higher volatility on risk and returns due to the data used is based on an annual basis.

For the study period from 1991 to 1997, there was an episode of over-speculation in the KLSE from December 1993 to February 1994. This has led to highly excessive returns for the listed property trusts with a monthly (Dec.1993) return of 502%, 233% and 115% for AHP, FMPT and AMFPT respectively. As a result of the speculation, the risk-return profiles of the listed property trusts could have been distorted.

4.0 Conclusion

In general the listed property trusts have performed better than shares. However this result has to be interpreted with caution as the analysis is based on annual data series which could have introduced higher volatility.

Although the results of the study do not cover a full property cycle nevertheless it shows that once direct property has been securitised, its performance is dependent upon the share market movements and less on the underlying assets. A longer period of analysis is necessary to draw useful conclusions.

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