



International Real Estate Society Conference '99

**Co-sponsors : Pacific Rim Real Estate Society (PRRES)
Asian Real Estate Society (AsRES)**

**26 – 29 January 1999
Kuala Lumpur**

THE LISTED PROPERTY TRUSTS INDUSTRY IN MALAYSIA: FACTORS CONSTRAINING ITS GROWTH AND DEVELOPMENT

Ting Kien Hwa
*Department of Estate Management
Faculty of Architecture, Planning & Surveying
MARA Institute of Technology
40450 Shah Alam, Selangor
Malaysia*

Telephone : 03 - 5563697, Fax : 03 - 5596641, e-mail : tkhlsk@tm.net.my

Keywords : Listed property trusts, CEO/property manager survey, stock turnover ratio,
institutional ownership

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Ting Kien Hwa

*Department of Estate Management
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Abstract

This paper aims to investigate the factors which constrained the development and growth of the listed property trust industry in Malaysia.

The study includes an opinion survey, an analysis of stock turnover ratio and an analysis of the shareholding of institutional investors in listed property trusts.

An opinion survey of CEOs/managers of listed property trusts is carried out to find out the factors constraining the development and growth of the industry. Among the major factors hindering the growth of the industry are capital market requirements in capital raising, a restrictive Securities Commission's Guidelines on Property Trust Funds and the lack of demand from the institutional investors.

An analysis of the stock turnover ratio is used to measure the level of transactional interests by Malaysian investors.

An analysis of shareholding of institutional investors in listed property trusts is also carried out to determine the extent of investments by institutional investors. The extent of shareholding is found to be low among institutional investors due to the following factors :-

- (a) the state of evolution of the Malaysian property market;*
- (b) the small number of institutional investors interested in property investment;*
- (c) a high percentage of the institutional investors are owner-occupiers.*

1.0 Introduction

It is noted that since the debut of property trusts in 1989 there is little development and expansion in the Malaysian listed property trust industry. The number of listed property trust funds have remained the same i.e. three funds from 1989 to 1996. The fourth listed property trust fund was listed in 1997. In addition, the property portfolios of existing property trust funds have not expanded in a significant manner (refer Appendix I). This static situation had occurred within a context of an active property market, a buoyant stock exchange and economy from 1989 to 1997.

2.0 Questionnaire Survey on CEO/Property Managers of Listed Property Trust Funds

A questionnaire survey was carried out to obtain information on attitudes/opinions of CEO/Property Managers on the development and growth of the listed property trusts in Malaysia. The survey was conducted in May 1998 and it covers three of the existing listed property trusts in Malaysia.

The survey addressed key issues concerning property securitisation including :-

- (a) The growth and development of the listed property trust industry;
- (b) Factors affecting performance of listed property trusts;
- (c) Suggestions on improvements to the listed property trust industry.

2.1 Results and Discussions

The results of the survey are summarised in the following sections.

(a) The growth and development of the listed property trust industry

(i) Problems that have constrained the expansion of existing property portfolios.

The problems identified by the respondents are the following factors :-

- Lengthy capital market requirements in raising capital for property acquisition.
- Restrictions in bank borrowings by the Securities Commission's *Guidelines on Property Trust Funds*.
- Poor investor perceptions on property trust investments.
- The lack of interests from institutional investors.
- Properties available for acquisitions are providing low yield.

The property managers found that the approval process for property acquisitions from the regulatory authorities had been lengthy. Property purchased using equity financing such as rights issue may take up to 12 months from the date of signing the sale and purchase agreement to the date of purchase settlement due to the need for regulatory approvals and procedures to be observed. Property owners are not keen to sell to property trusts as the sellers would be tied down by their purchase offers.

The Securities Commission's *Guidelines on Property Trust Funds* restrict borrowings up to a maximum of 10% of the gross assets of the fund. Borrowings that exceed the 10% limit require prior approval from the Securities Commission. Approvals are also required for assets pledged to secure borrowings.

An associated problem is the long waiting period to obtain the necessary acquisition approvals from the related capital market regulatory authorities. Property owners are reluctant to be tied down while awaiting the approvals.

The lack of interests from major investors to invest in listed property trusts have been a deterrent for property trusts to be aggressive in their property acquisitions. One of the trust funds had experienced the difficulty of marketing their units upon the creation of new units. Demand from major institutional investors are difficult to come by in taking up these new units.

- (ii) The reasons why existing property trusts have expanded their portfolios by acquiring non-prime/small properties e.g. shop-offices, shophouses, secondary office buildings.

The responses from the survey are :-

- Secondary properties are easier to negotiate and to acquire.
- Prime properties are capital intensive and the lack of demand from institutional investors had deter trust funds from making major property acquisitions.
- Difficulty to acquire prime properties at a good yield without diluting the yield of the trusts.
- Few prime properties are available in the market for sale.
- Property owners are not keen to sell to property trusts.

(iii) Factors that hinder the launching of more property trust funds in Malaysia.

(Ranked in descending order of importance)

- Competing investment alternatives (e.g. unit trust funds and IPOs)
- A restrictive Securities Commission's *Guidelines on Property Trust Funds*
- The lack of demand from institutional investors
- Too few institutional investors interested in property trust investments
- Poor investor perceptions on property trust investments.

(b) The performance of listed property trust funds(i) Factors that drive the performance of listed property trusts.

The factors identified by the respondents ranked in descending order of importance are the following factors :-

- The performance of the stock market
- Investment decisions of institutional investors
- Analysis, promotions and recommendations of securities analysts
- Yield of the property trusts
- Interest rates of savings and fixed deposits
- Yield of Government bonds

(ii) Aspects of listed property trust funds which attract investments from institutional investors.

- Substitute for direct property investment
- Liquidity
- Investment diversification
- Access to prime property
- High yield

(c) Suggestions to improve the listed property trust industry.

- More relaxation on the *Guidelines on Property Trust Funds*.
- To allow property trust funds to declare tax exempt dividends.
- Major expenses of the property trust funds are to be tax deductible.
- To generate more interests from the institutional investors.
- Educate the investing public.
- To relax the requirement on the sponsorship of new property trust funds by allowing other institutions/parties to be sponsors e.g. entrepreneurial owner developers apart from banks/financial institutions.

3.0 Stock turnover ratio

The stock turnover ratio is used to measure the transaction intensity of the listed property trusts. Stock turnover ratio is defined as the number of shares traded in each year divided by the number of shares outstanding at the end of the year. Trading data of the listed property trusts is obtained from the Kuala Lumpur Stock Exchange.

The level of trading conveys information. An active trading activity shows interest from both sellers and buyers. The results of the analysis as shown in Table 1 indicated a low level of trading activities in listed property trust funds reflecting poor interests and demand from Malaysian investors.

Table 1 : Annual Stock Turnover Ratios of Listed Property Trusts in Malaysia (1990 - 1997)

Year	Stock Turnover Ratios
1990	0.153
1991	0.164
1992	0.095
1993	0.571
1994	0.994
1995	0.216
1996	0.218
1997	0.221
Mean	0.33
Std. deviation	0.30

4.0 Institutional Ownership in Listed Property Trusts

The extent of institutional ownership is analysed using the information on unitholders disclosed in the annual reports of listed property trusts. Institutional investors are categorized into three major categories i.e. insurance companies, provident/pension funds and unit trusts. Table 2 shows the extent of institutional unit holdings in listed property trusts.

Table 2 : Percentage of listed property trust units (AHP, AMFPT and FMPT) held by institutional investors (1989 – 1997)

Year	Insurance companies (%)	Unit trusts (%)	Pension funds (%)
1989	4.4	0.0	0.0
1990	0.3	0.0	0.6
1991	1.7	0.3	0.3
1992	1.3	0.5	0.3
1993	3.7	1.5	0.3
1994	2.7	0.2	0.3
1995	5.8	0.0	0.3
1996	2.7	0.0	0.2
1997	3.2	0.0	0.3
Mean	2.87	0.27	0.3
Std. deviation	1.67	0.48	0.16

The above analysis shows that institutional ownership is low in listed property trust units. Generally direct property does not constitute a significant asset holding in institutional portfolios. Properties own by these institutions are basically as headquarters or for their own operations. Real estate is rarely purchased for investment purposes. Real estate is not perceived by institutional investors as an alternative investment class comparable to government bonds, shares etc.

Thus there is little demand from institutional investors on listed property trusts which could offer property securitisation benefits of liquidity, divisibility, diversification etc.

In fact institutional investors who have invested in listed property trusts have difficulty in exiting the investments due to the low transaction activities and the lack of interests and demand from other institutional investors.

Coupled with the poor investment performance of listed property trusts in terms of discount to net tangible assets and market prices trading below IPO subscription prices, listed property trust is not perceived as an ideal investment vehicle.

The lack of institutional investors' participation in the property investment market are attributable to the following :-

(a) The state of evolution of the Malaysian property market

Building construction in Malaysia is predominantly for owner occupation. This is one of the characteristics of the initial stage of the property market evolution. The Malaysian property market has entered into a stage of overbuilding as indicated by the oversupply situation in the major sectors of the property market i.e. office, retail and hotel sectors.

The next stage of the property market evolution would be property development for tenants and investors.

In this respect, the Malaysian property market is moving towards a maturing property market where institutional investors would constitute the major players.

(b) The small number of institutional investors

The existing number of institutional investors interested in property investment is small and their investment portfolios are limited to cash, money market instruments, government bonds and securities. In fact the bulk of investments of institutional investors are invested in government bonds and securities. A change in perception of property investment as an asset class would help increase demand for property.

(c) Restrictions on foreign investors

Restrictive regulations in the past e.g. Foreign Investment Committee (FIC) requirements, unfavorable Real Property Gains Tax and inconsistencies in regulations/policies have reduced the attractiveness and competitiveness of property investment in Malaysia.

This has exacerbated the lack of demand from foreign investors which could provide the support and stability to the property investment market.

- (d) A high percentage of owner occupiers
A large number of the institutional investors are owner occupiers as opposed to tenants that dominate the office space market.

5.0 Property Investment and a Maturing Property Market

Property development and acquisitions in the past have been focused on the construction of buildings for owner occupation functioning as headquarters or operational branches. Property development involving the construction of corporate headquarters are boosted by the buoyant economy and stock market. Liberalization of the Kuala Lumpur Stock Exchange have increased the avenues for raising development finance and the loose monetary policies have increased the availability of credit for such development.

Due to a high proportion of owner-occupier, the tenants available to lease office spaces are proportionately reduced in the office leasing market.

The development of strata-titled office space, business parks and shop-offices have further enhanced ownership of office spaces among the medium and small corporate companies. This has invariably reduced the demand for office space and the tenant's market has lagged behind the proper evolution of an investment sub-market.

In a move towards a maturing property market, the following trends are expected to emerge in the future which are favourable for the evolvement of an investment market :-

Emergence of institutional investors in property

In a maturing property market a body of investing institutions would emerge supporting income led investment purchases. Provident/pension funds such as EPF are in the midst of adjusting their investment portfolios and strategies. Property investment is expected to play a more important role in the asset allocation of EPF investment funds.

Controls on foreign investment

The restrictions and controls on foreign investment in property are expected to be relaxed and will encourage the inflow of foreign capital funds.

Investment in urban infrastructure

Urban infrastructure projects such as light rail transit and monorail will continue to be implemented providing the crucial infrastructure that lend support towards sustaining capital and rental values in prime commercial locations.

Transition from manufacturing to service oriented economy

The service sector is expected to play a more important role in the urban land economy.

Limitations of study

The weakness on the extent of institutional ownership analysis is that institutional investors may have holdings in listed property trusts through nominee companies. Another weakness is that the analysis could not take into account changes in institutional ownership within and less than a financial year.

6.0 Conclusions

With a short history of ten years, the property trust industry in Malaysia is still in its infancy. The property trust industry was initiated during an economic recovery and subsequent upturn of the property market in 1989. However, promoters of property trusts did not take advantage to ride along the buoyant trend to expand the industry.

Property managers on the other hand were not able to expand their portfolios due to the restrictive Guidelines and there was a lack of demand from investors, particularly institutional investors, had curbed the creation of more property trusts and the supply of trust units in the past decade.

The potential of the Malaysian property trust industry has yet to be fully realised. Conditions conducive for the development of the industry are not present to spur the growth of the industry. The opportune time will arise in the future from the interaction of the tax regime, financial, regulatory and the economic circumstances creating an environment conducive for the development and growth of the Malaysian property trust industry.

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Appendix I : Existing Property Portfolios of Listed Property Trusts in Malaysia

Property Trusts	Types of property	Acquisition Year	Location
FMPT	4 units of shopoffices	1994	312-318, Jalan Pudu, K. Lumpur
	12-storey office building	1995	Wisma Suria, Butterworth, Penang
	101/2 storey-office building	1995	The Securities Commission Building, Bukit Damansara, Kuala Lumpur
	Industrial building	1995	Lot 14, Bukit Rajah Industrial Estate, Klang, Selangor
	Resort	1996	Homestead Beach Resort, Kuantan, Pahang
	Warehouse	1997	274, Whitehouse Road, Nunawading, Victoria, Australia
AMFPT	26-storey office building	1989	Bangunan Arab Malaysian, Jalan Raja Chulan, Kuala Lumpur
	14-storey office building	1994	Wisma Kimseah, Jalan Punchak, Kuala Lumpur
AHP	24-storey office building	1989	Plaza IBM, Taman Tun Dr Ismail, Kuala Lumpur
	4-storey shopping complex	1989	Jaya Jusco, Taman Tun Dr Ismail, Kuala Lumpur
	4-storey office building	1996	Sri Impian, Taman Setiawangsa, Kuala Lumpur
	1 unit of shop premises	1995	Taman Tun Dr Ismail
	1 unit of shop premises	1995	Kuantan, Pahang
	1 unit of shop premises	1995	Kota Kinabalu, Sabah
	1 unit of shop premises	1996	Miri Waterfront, Miri, Sarawak
	3 units of shop premises	1996	Taman Melawati, Kuala Lumpur
	1 unit of shop premises	1996	Taman Inderawasih, Penang
MPT	14-storey office building	1990	Bangunan Mayban Trust, Lebuah Penang, Penang
	15-storey office building	1990	Bangunan Mayban Trust, Jalan Tun Sambanthan, Ipoh, Perak
	5-storey shop-office	1991	Bangunan Mayban Finance, Medan Tuanku, Kuala Lumpur
	7-storey shop-office	1991	Plaza Mayban Trust, Jalan Masjid India, Kuala Lumpur
	91/2-storey office building	1997	Bangunan TAR, Jalan Tuanku Abdul Rahman, Kuala Lumpur