A STUDY ON THE PERFORMANCE OF MALAYSIAN REAL ESTATE INVESTMENT TRUSTS FROM 2005-2010 BY USING NET ASSET VALUE APPROACH

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ABSTRACT
This paper is to understand the definition and the development of REIT in Malaysia and further examine performance of Malaysia REIT based on the Net Asset Value approach (NAV). This study also assesses the noise theory and explains why Malaysia REIT trade at NAV premium and NAV discount. Annual data series for annual closing price of the thirteen listed real estate investment trusts (ARREIT**,** AXREIT, TWREIT, AMFIRST, BSDREIT, AHP, AHP2, ALAQAR, HEKTAR, UOAREIT, QCAPITAL, ATRIUM and STAREIT) are obtained from the Kuala Lumpur Stock Exchange, also called Bursa Malaysia for the study period from 2005 to 2010. Information about total asset, total liabilities and number of shares outstanding are getting from the 13 MREIT's respective annual financial report. The result showed that AHP2 has the lowest NAV value among the thirteen listed REIT in Malaysia and traded at NAV discount. This was compatible with the NAV discount in NAV approach. NAV discounts below the current stock prices are reflection of poor current and future prospects for firm earnings, mistakes in financing and operations decision. AXREIT is traded at NAV discount due to the irrational behaviour of investors in noise trader theory and not because it's poor performance. Investors are overly optimistic about AXREIT according to noise theory. Overall, MREIT are traded at NAV premium. In conclusion, MREIT are generally much better companies in terms of disclosure, transparency, share liquidity, corporate democracy and depth of management.

Overview/background of the study

Real Estate Investment Trust (REIT) are attracting global investor's attention more and more as their superior performance and advantages are recognized step by step nowadays. The performance of REIT is the vital factor when investors consider allocating capitals for the investment.REIT let investors invest in income producing real estate or a single purpose organization whose principal assets make up of real estates. Income from the properties can use by REIT to provide earnings to investors.

The first Asian country to develop REIT is Malaysia. Malaysia develops REIT as a valuable indirect real estate investment vehicle in 1989. Asian countries like Japan, Singapore and Korea only now are beginning to establish REIT markets after the consequence of 1997 Asian financial crisis. The numbers of listed property companies have doubled in numbers on the Property Sector of the Kuala Lumpur Stock Exchange (KLSE) nowadays. Arab Malaysia First Property was introduced in September 1989. It is Malaysia's primary real estate investment trust with further real estate investment trusts and follows by AmanahHarta Tanah PNB in December 1990. No further real estate investment trusts were listed until AmanahHarta Tanah PNB2 in 1997.

However, Malaysia Real Estate Investment Trust (M-REIT) is not eye-catching as global market which shown on Table 1. This is due to M-REIT are too small in asset size to attract foreign fund. Besides this, M-REIT are also too small in term of capital value due to the low exchange value of the Ringgit and have very limited external potential because their current market prices do not allow new acquisition as there is no yield accretion. Large investors are not capable to make consequential investment that would maintain their liquidity due to the

capitalization of REIT market were simply too small.

Table 1: Total Global Market Capitalization of REIT in 2010

Country	Market Capitalization (US million)
US	271,850
Australia	70,747
France	64,526
UK	37,176
Japan	29,432
Singapore	23,134
Canada	20,610
Netherlands	12,234
Hong Kong	9,519
Belgium	6,761
South Africa	3,401
New Zealand	2,540
Turkey	1,890
Malaysia	1,543
Germany	713
South Korea	133

Source: Global Real Estate Investment Trust Report 2010

Due to this reason, investors perceived that Malaysian REIT had slow growth in returns. A survey of Chief Executive Officer and managers of REIT in Malaysia had also identified several constraining factors to the up and coming development of Malaysia REIT (Ting, 1999). For example, lack of demand and poor perception among institutional investors, properties accessible for acquisition are not provide a good return and strong performance by competing investment option. All of these factors have become a restrictive investment environment for REIT to develop and establish a significant investment profile in Malaysia (Newell, Ting and Acheampong, 2002).

In short, the small market capitalization of approximately US$1543 million (Global Real Estate Investment Trust Report, 2010) caused Malaysia' investors to feel that it is a major factor that prevent effective development of M-REIT market compare to others country. The involvement amongst Malaysian institutional investors in real estate investment has been comparatively low, with an average of only 4% of real estate investment trusts held by institutional investors over 1990-1999 (Ting, 1999).

According to Clayton et. al., (2007), Net Asset Value (NAV) is the simplest technique and reliable valuation method to capture similar items among different markets and funds.

This study aims to analyze the performance of Malaysia Real Estate Investment Trust using NAV approach and understand what REIT is and how REIT can bring investment benefits to the investors to be another viable investment alternative. Hopefully that the empirical findings can assist both institutional and retail investors know the relationship between REIT prices and the value of real estate (NAV) and allocate their money to invest in REIT.

Research Objectives

1. To understand the definition and development of Real Estate Investment Trust (REIT).
2. To examine Real Estate Investment Trust (REIT) performance in Malaysia using Net Asset Value Approach (NAV).

Real Estate Investment Trust's Definition and Classification

Real Estate Investment Trusts (REIT) are investment tools to create flow of funds from investors to the real estate and property sector of the country (Corgel, Mcintosh and Ott, 1995). According to Wong (2004), REIT is a company or a trust that pools fund from individual investors, acquires and operates income-generating real estate, and distributes the income derived from their own properties as dividends. REIT has attributes of both stock and bond so it is regarded as a hybrid of stocks and bonds. In addition, according to Wong (2004), REIT increase strength from the pool of resources gathered from investors and invests into high profile and

high value property for greater return as lots of investors may not be able to invest in huge real estate portfolio.

Generally, there are three sub categories of REIT based on the different investment types; these are investment in the equity REIT, mortgage debt that finance income producing properties, and hybrid REIT invest in both the equity and mortgage debt income producing properties (Grupe and Dirocco, 1999). REIT's industry has been further segregated into diverse segments based on the functional category of property such as hotel, office, industrial, residential, healthcare, retail and diversified REIT. This classification design can let the investors watchfully examine the performance of every REIT sector.

Diversified REIT can have a strategy of diversified property sectors, operate and invest mostly in core property types, retail, industrial, residential, and office REITs (Wong, 2004). The proportion of REIT property types is show in below pie chart.

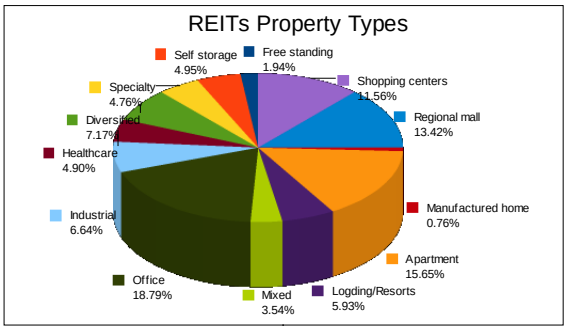

Figure 1: REITs Property Types
Sources: Wong (2004)

History of REIT

According to Taylor and Bailey (1936), REIT was begun in Boston in the middle of 1880's.The significant events of REIT history can be revealed on Table 2

Table 2:

Years	Event
1960	President Eisenhower signs REIT Act into law
1961	The first REIT are created
1965	First REIT listed on NYSE
1974	First significant change to REIT tax rules
1976	REIT allowed to incorporate
Early 1980s	REIT find it difficult to compete for capital due to tax laws
1989	Worst real estate recession since 1930s
1991	First publicly traded REIT to achieve a $1 billion equity market capital
1992	First IPO of an UPREIT
1997	REIT Simplification Act of 1997
1999	REIT Modernization Act of 1999

Sources: Liang, 2000

Since 2001, REIT have been included in the Standard& Poor's (S&P) 500 Index, mainly due to recognition and acceptance of the importance of REIT and the real estate and property sector in the public capital markets. Besides that, REIT has also gained popularity across the continents of Europe and Asia, offering a new opportunity for international funds to diversify into foreign real estate assets without worrying about liquidity. European countries which have adopted the REIT concept include Belgium, Germany, France, and Netherlands. REIT markets have been successfully established in Asia country like Japan, Singapore, Taiwan, Malaysia, Thailand, South Korea and Hong Kong. Table 1 shown the latest Total Global Market Capitalization of REIT in 2010

REIT's Valuation Methods

According to Clayton et al, (2007), there are three REIT valuation methods used by academicians and practitioners to value REIT. Discounted cash flows (DCFs), earnings based valuation done through dividend discount model (DDM) or adjusted funds from operations (AAFO) and net asset value (NAV) methods. NAV is the simplest technique to capture similar items among different markets and funds. This makes NAV a reliable valuation method. NAV gives a better insight about

the value of evaluated company for long term investment and asset and liabilities are better indicator of the true of the company.

Net Asset Value Approach

A company's NAV or book value indicates the total value of the company's assets that shareholders would receive and how should the company be liquidated. We can compare a company's share price to its NAV and this will let investors know whether the stock is under or overpriced (The Edge, 2010). According to Hua (2001), Net Asset Value (NAV) is use to measure per share of company's net assets market value.

Noise Theory

According to Clayton and MacKinnon (1998), changes in investor's sentiment can cause fluctuations in NAV. The REIT share is underlying value when investors become pessimistic about REIT. REIT's share prices will above NAV if investors are overly optimistic about REIT. Rational investors cannot arbitrage away the mispricing asset due to the unpredictability of investor's sentiment. They are exposing to "noise trader risk". Hence, rational investors have to predict noise trader's behavior and this cause them face extra risk. This implied that REIT's prices may be down due to noise trader risk premium. The noise theory is match and consistent with many explanations provide by investment professionals in discuss REIT's behavior. During 1993-1997, REIT attracted the noise traders and this helped push up the REIT price. When noise trader moved on to high tech glamour stocks, the REIT price is push below NAV.

Information Theory

The information theory departures from NAV are based on the idea that REIT market is more efficient in information than the unsecuritized real estate market. Dramatically fall in REIT price was forecasting a future downturn in direct property market and NAV. In the other words, REIT prices fall may rationally reflected expectations of future performance of unsecuritized property markets (Clayton and MacKinnon, 1998).

REIT Overall Performance Comparison

According to Ermina, Henry and Peter (2007), real estate has performed exceptionally well and one of the major advantages of direct real estate is low correlation with the other main asset classes. These results demonstrate that global direct real estate provides significant diversification benefits for investors.

2.12 Correlation between Major Global Asset Classes

Table 3: Correlation between major global asset classes

	Direct RE	RE securities	Stock equities	10 year govt bond
Direct RE	1			
RE securities	0.26	1		
Stock equities	0.2	0.35	1	
10 year govt bond	-0.37	-0.28	-0.18	1

Sources: Ermina, Henry and Peter, 2007

Table 4: Correlation matrix of investment options

	KLCI	MHPI	PROPERTY	PLANTATION	AMFPT	FMPT	AHP
KLCI	1						
MHPI	0.043	1					
PROPERTY	0.961	-0.179	1				
PLANTATION	0.919	-0.276	0.988	1			
AMFPT	0.947	-0.187	0.996	0.994	1		
FMPT	0.895	-0.219	0.97	0.99	0.987	1	
AHP	0.88	-0.331	0.971	0.996	0.984	0.991	1

Sources: Ting, 1999

In contrast, according to Ting (1999), AHP and FMPT had achieved higher risk adjusted returns than shares but lower than direct residential investment. In addition, REIT cannot offer diversification benefits when included in a share portfolio due to positive correlation with KLCI returns.

According to Ahmad, Mohammad and Izah (2010), risk adjusted return performance of M-REIT vary over time and M-REIT in general outperforming the market portfolio during the 1997-1998 financial crises but under performing during the pre crisis (1995-1997) and post crisis period (1998-2005). In addition, the finding show that average systematic risks of REIT were slightly higher than the market portfolio during the pre crisis and crisis period were significantly lower in the post crisis period. In the pre crisis period, mostly all REIT recorded higher betas in the range of 0.896 to 1.259 as against to KLCI. During the crisis period, the average betas stand at 1.047 against KLCI. However, the average beta of all REIT decreases significantly to 0.519 in the post crisis, thus indicating lower systematic risks than market portfolio.

REIT NAV Premium and NAV discount

According to Young (1998), high premium REIT trade at high premium considered to have more growth potential than the REIT trade at lower premium to their NAV. He finds that relative premium to NAV is related to differences in firm specific growth opportunities and proxies for administration quality and governance.

NAV discount can impact REIT's ability to raise funds and tend to slow down company development. Irrational behavior of investors (noise trader theory) cause the misalignment between market price and NAV figures (Clayton and MacKinnon, 2001). Highly liquid REIT will trade at higher NAV premiums and thus higher realized returns than highly leveraged REIT when times are good. However, highly leveraged REIT trade at higher NAV premiums (higher realized returns) in bad times. In addition, REIT will be trade at higher NAV premiums with low leverage because they able to take advantage of exploitable development opportunities in the underlying property markets. They also found that there is strong common component to REIT pricing relative to NAV and this is partially related to REIT liquidity as measured by the transaction costs of trading.

Barkham and Ward (1999) suggest irrational investor's sentiment is the major cause of discounts to NAV. There is evidence to suggest the wide swings observed in the average REIT sector premium to NAV are related to real estate market fundamentals at turning points in the REIT pricing cycle, but the magnitude of the swings is exacerbated by irrationally optimistic or pessimistic noise traders pushing prices above or below fundamental value (Clayton and MacKinnon 2001).

REIT in Malaysia

Development of Malaysia Real Estate Investment Trusts (M-REIT)

Central Bank Malaysia approved the regulatory framework for Real Estate Investment Trusts in Malaysia in 1986 under the Companies Act 1965 and the Securities Industry Act 1983. Guidelines for real estate investment trust was first developed in 1991 by Specific Securities Commission and revised in 1995. REIT will enjoy the tax treatment as follows under Finance Act 2004:

1. The undistributed income will be taxed at 28 percent while distributed income will be tax exempted.
2. The tax payable at 28 percent will be withheld by REIT for non residents.
3. Accumulated income has been taxed and subsequently distributed is eligible for tax credit

In 3 January 2005, Securities Commission issued the new Guidelines on Real Estate Investment Trusts to govern the REIT's operation and administration in Malaysia. The amended guidelines have generated a lot of excitement and discussion among

industry players, especially those with sizeable investment properties.

REIT is formed as Malaysian registered trusts. The minimum fund size for MREIT is RM 100 million and the REIT's management Company is entitle to a maximum 70% of foreign effective equity. A REIT can be listed or unlisted. Listed REIT must comply with the relevant listing and share holding requirements issued by Malaysian Stock Exchange. Table 5 indicates the summary of Malaysia's REITs and property types.

Table 5: Summary of Malaysia's REITs property types

REIT	*Stock Quote*	*Types of property*
Amana hRaya	AREI T	Office/industrial/hotel/ education/hospital
Axis	AXRE IT	Diversified
Tower	TWRE IT	Office
AmFirs t	AMFI RST	Office/hotel/retail
Al-Hadhar ah	BSDR EIT	Plantation
Amana h PNB	AHP	Real estate and other authorized investment
Amana hHarta Tanah PNB 2	AHP2	Real estate and other authorized investment
Al-'Aqar KPJ	ALAQ AR	Hospital/office/hotel
Hektar	HEKT AR	Retail
UOA	UOAR EIT	Office/commercial
Quill Capita Trust	QCAP ITAL	Office/commercial/ind ustrial
Atrium	ATRI UM	Industrial(warehouse)
Starhill	STAR EIT	Retail/residential/hot

Sample Size for period 2005-2010

All Malaysia thirteen listed REIT is included in this study. The thirteen listed REIT include ARREIT, AXREIT, TWREIT, AMFIRST, BSDREIT, AHP, AHP2, ALAQAR, HEKTAR, UOAREIT, QCAPITAL, ATRIUM and STAREIT. There are three listed REIT in year 2005 which are AXREIT, AHP AND AHP2. Due to later listing on 2006, the performance analysis for the TWREIT, ALAQAR, HEKTAR and AMFIRST is only presented for 2006-2010. In addition, due to QCAPITAL, BSDREIT, ARREIT and ATRIUM are listed only in 2007; performance analysis is presented on 2007-2010.

Net Asset Value (NAV) and Annual Closing Price Analysis from 2005-2010

For each analyzed REIT, the market price NAV was calculated on the following basis:

REIT stock value = NAV per share
= Net Asset Value of Firm/ Number of Shares Outstanding
= Total Asset-Total Liabilities/ Number of Shares Outstanding

To allow the comparison of performance Malaysian Real Estate Investment Trust, Net Asset Value obtained from each Real Estate Investment Trust's annual report is used to compare with REIT annual closing share price from years 2005 to 2010.

According to David and Andy (2003), NAV is a per share measure of market value for a REIT's underlying assets. This means NAV can use to measure a REIT's intrinsic value. More specifically, NAV is equal to the estimated market value of a REIT's properties, including any development projects value plus the non real estate assets value minus the value of REIT's debt obligations. This estimated net asset value is divided by the number of outstanding shares to obtain the REIT's NAV per share. When REIT's share price is below NAV value, it is considered undervalue and the stock market perceives positive growth opportunities for the

REIT. Conversely, if NAV is below the share price, this may signal market and investors perceives there are negative growth opportunities for the REIT.

Finding and Discussion

From table 6 and figure 2, NAV in years 2005 is shown only three listed REIT. UOAREIT and STAREIT's NAV is included in year 2006 when they are just listed on 30 December 2005 and 16 December 2005. AHP2 has the lowest NAV value in year 2005, which are 0.9109. The NAV value for AHP2 increased for the next two years and decrease to 0.9168 in year 2008. From table 6, AHP2 has low NAV value in each year from 2005-2010 compared to others 12 listed REIT in Malaysia. From AHP2's financial statement, it shows that AHP2's distribution yield was between 5.1% and 6.3% which was lower than other listed REIT's average income distribution yield of 6.1% to 8.4%. In year 2009, AHP2's trustee has entered into a sale and purchase agreement with SeeniNaina Holding Sdn Bhd. This had contributed to the increase in AHP2's NAV in year 2009. AHP2's NAV value has slightly increased to 0.9181 for year 2009 and increase to 0.9675 in year 2010.

From table 6, AMFIRST's NAV value increases tremendously compared to others listed REIT. This is because AMFIRST had increase in 20% distributable income due to improved rental income stream when AMFIRST recognizing the full year's contribution from KelanaBrem Towers and Summits Subang USJ. QCAPITAL have achieved its objective for its unit holder since the NAV value is the highest among the 13 listed MREIT. According to annual report QCAPITAL, QCAPITAL main objectives is to provide long-term growth and sustainable distribution of income to unit holders and to achieve long-term growth in the net asset value per unit of the trust.

Figure 2: Malaysian Real Estate Investment Trust's NAV from years 2005 to 2010

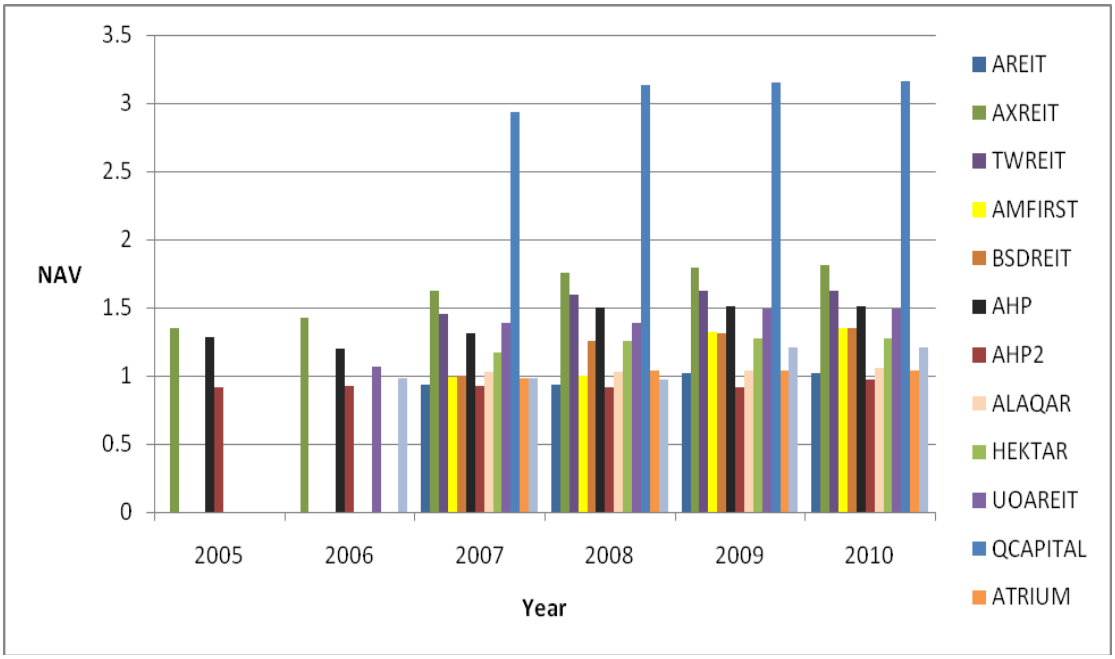

Table 6: Malaysian Real Estate Investment Trust's NAV from Year 2005 to 2010

REITs				NAV		
	2005	2006	2007	2008	2009	2010
AREIT			0.9384	0.9349	1.0198	1.0194
AXREIT	1.3490	1.4280	1.625	1.7501	1.7922	1.8117
TWREIT			1.4484	1.5919	1.6196	1.6187
AMFIRST			0.9950	1.0000	1.3200	1.3500
BSDREIT			1.0000	1.2585	1.3148	1.3447
AHP	1.2809	1.2000	1.3149	1.5008	1.5079	1.5101
AHP2	0.9109	0.9254	0.9267	0.9168	0.9181	0.9675
ALAQAR			1.0300	1.0300	1.0400	1.0600
HEKTAR			1.1700	1.2566	1.2696	1.2760
UOAREIT		1.0650	1.3860	1.3890	1.4870	1.4887
QCAPITAL			2.9347	3.1338	3.1546	3.1577
ATRIUM			0.9803	1.0367	1.0378	1.0392
STAREIT		0.9830	0.9840	0.9720	1.2047	1.2047

Sources: REIT's annual report from 2005 to 2010

REIT has been a consistent performer in recent years.

From table 7, AXREIT had never traded below RM1.60 since its start listed in 2005 except year 2008. AXREIT's annual closing price is the highest among the thirteen Malaysia listed REIT from year 2005 to Jun 2010.

AXREIT is a very well managed business with a good portfolio of properties and has low earnings volatility compared to other REIT. It owns around 20 properties at that time from buildings to warehouses to even shopping mall. The trust registered a total RM 40869 million in revenue for the current year to date ended 30, June 2010. The revenue had increase 17.8% compared with the year 2009 with RM 34691 million. AXREIT's annual financial report stated that AXREIT is well positioned to enjoy steady earnings per unit (EPU) growth for year 2008 to 2010 from increased rental rated upon contract renewals. Besides that, AXREIT's managers have generates many alternatives strategies like future properties acquisitions in order to generate highest return to its unit holders. According to information theory in Clayton and MacKinnon (1998), high expectations of investors towards future performance of AXREIT cause the increase in its price.

As show in figure 3, MREIT's market has not shown drastic change in price except year 2008. During 2008 global crisis, Malaysia REIT's stock price drop as well as Malaysia REIT's share price. According to Ting (1999), REIT cannot offer diversification benefits when included in a share portfolio due to positive correlation with KLCI returns. MREIT was performed predictably well before the 2008 global financial crisis which yielding 6% to 7% dividend returns with marginal growth in share premium. The REIT's share price drop when the stock market fall.

According to noise theory, changes in investor's sentiment can cause fluctuations in NAV. When the 2008 global crisis kick, investor especially risk adverse investors and individual investor that knows nothing about investment will sell their REIT. According to Clayton and MacKinnon (1998) research in noise theory, REIT's share price is pushed below their true when investors become pessimistic about

REIT. They become pessimistic towards REIT and start to sell their REIT. Even fund managers have no choice but to sell the REIT even at low price. They need cash to pay the redeemers.

The main reason for REIT dropping in stock price in year 2008 is due to global credit crisis. Demand for real estate and public REIT disappeared when credit began to constrict. REIT becomes impossible to value when investors are without credit and with great uncertainty about the future of occupancies and rents. From table 7, AHP and STAREIT are trading at low price compared to other REIT. The pricing of AHP and STAREIT may reflect its poor return on shareholder's funds of only 6.98% and 6.59%. This figure is low when compared with AMFIRST 10.48% and AXREIT 12.98%. By referring to table 7, the annual closing price for AHP2 is unchanged from year 2009 to Jun 2010.Since 11 March 2009, AHP2 is not listed when AHP2 REIT unit holders passed a special resolution on 11 March 2009 to terminate AHP2. The reason behind this is due to the poor performance of AHP2 since 1997. Hence, there is only 12 REIT left in Malaysia.

Table 7: Malaysia Real Estate Investment Trust's Annual Closing Prices from Years 2005 to 2010

REITs		Annual Closing Prices				
	2005	2006	2007	2008	2009	2010
AREIT			0.9900	0.7300	0.8550	0.8500
AXREIT	1.7300	1.6800	1.8500	1.1200	1.9300	2.0000
TWREIT			1.3800	0.8800	1.1400	1.1900
AMFIRST			0.9000	0.8000	1.0400	1.1600
BSDREIT			1.4100	0.9900	1.3000	1.3200
AHP	0.7400	0.7500	0.8600	0.7300	0.9000	0.9400
AHP2	0.7400	1.0300	1.6000	0.7700	1.1200	1.1200
ALAQAR			0.9700	0.9400	0.9850	1.0300
HEKTAR			1.5100	0.7700	1.1200	1.2300
UOAREIT		1.0800	1.3800	1.0700	1.2700	1.4400
QCAPITAL			1.2900	0.9200	1.0800	1.0300
ATRIUM			0.9900	0.6200	0.9200	0.9400
STAREIT		0.8300	0.9200	0.7250	0.8550	0.8650

Sources: (Kuala Lumpur Stock Exchange, 2010)

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Table 8: Comparison between Malaysia Real Estate Investment Trusts' NAV and Annual Closing Price: 2005-2010

Years	2005		2006		2007		2008		2009		2010	
REIT	NAV	Closing Price	NAV	Closing Price	NAV	Closing Price	NAV	Closing Price	NAV	Closing Price	NAV	Closing Price
AREIT					0.9384	0.9900	0.9349	0.7300	1.0198	0.8550	1.0194	0.8500
AXREIT	1.3490	1.7300	1.4280	1.6800	1.6250	1.8500	1.7501	1.1200	1.7922	1.9300	1.8117	2.0000
TWREIT					1.4484	1.3800	1.5919	0.8800	1.6196	1.1400	1.6187	1.1900
AMFIRST					0.9950	0.9000	1.0000	0.8000	1.3200	1.0400	1.3500	1.1600
BSDREIT					1.0000	1.4100	1.2585	0.9900	1.3148	1.3000	1.3447	1.3200
AHP	1.2809	0.7400	1.2000	0.7500	1.3149	0.8600	1.5008	0.7300	1.5079	0.9000	1.5101	0.9400
AHP2	0.9109	0.7400	0.9254	1.0300	0.9267	1.6000	0.9168	0.7700	0.9181	1.1200	0.9675	1.1200
ALAQAR					1.0300	0.9700	1.0300	0.9400	1.0400	0.9850	1.0600	1.0300
HEKTAR					1.1700	1.5100	1.2566	0.7700	1.2696	1.1200	1.2760	1.2300
UOAREIT			1.0650	1.0800	1.3860	1.3800	1.3890	1.0700	1.4870	1.2800	1.4887	1.4400
QCAPITAL					2.9347	1.2900	3.1338	0.9200	3.1564	1.0800	3.1577	1.0300
ATRIUM					0.9803	0.9900	1.0367	0.6200	1.0378	0.9200	1.0392	0.9400
STAREIT			0.9830	0.8300	0.9840	0.9200	0.9720	0.7250	1.2047	0.8550	1.2047	0.8650

Sources: MREIT's annual report from year 2005 to 2010

According to Young (1998), high premium REIT trade at high premium considered to have more growth potential than the REIT trade at lower premium to their NAV. He finds that relative premium to NAV is related to differences in firm specific growth opportunities and proxies for management quality and governance. From table 9, most of the MREIT are traded at NAV premium from year 2008-2010 except AHP2 and AXREIT. Since 11 March 2009, AHP2 is not listed when AHP2 REIT unit holders passed a special resolution on 11 March 2009 to terminate AHP2. The reason behind this is due to the poor performance of AHP2 since 1997. This was compatible with another researcher: Hua's result. NAV discounts below the current stock prices are reflection of poor current and future prospects for firm earnings, mistakes in financing and operations decision like investment in poor performing assets and oversold nature of REIT capital markets due to negative spread perceptions (Hua, 2001).

On the other hand, from Table 9, AXREIT has been traded in NAV discount from year 2005 to 2010 except NAV premium in year 2008. AXREIT traded in NAV discount is not due to its poor performance but the irrational investor's sentiment is the major cause of discount to NAV. In real world, AXREIT show good potential when looking at its price has not traded less than RM1.60 except for 2008 global crisis year. According to news in The Edge, QCAPITAL, AXREIT, UOAREIT and STAREIT have plans to make their assets more vibrant to attract foreign investors. AXREIT's financial statement show AXREIT is a very well managed business with a great portfolio of properties compared to other REIT. AXREIT owns 20 properties from buildings to warehouse to even shopping mall. Some of the properties owns by AXREIT are Menara Axis, Nestle house, Crystal Plaza, Axis Plaza, Axis business park, WismaKemajuan, Kayangan Depart, SeberangPerai warehouse 1& 2, Giant hypermarket in Sungai Petani and FCI in Johor. According to AXREIT financial report, Axis business park is the largest gross and net rental income generator and will remain as a important income contributor to the portfolio going forward. AXREIT also become Malaysia first Islamic industrial/ retail REIT.

Clayton and MacKinnon's research (1998) in noise theory can explain why AXREIT in table 9 traded in NAV discount for year 2005 to 2010 except year 2008. According to their result, REIT's share prices will above NAV if investors are overly optimistic about REIT according to noise theory. In addition, the trading price of REIT will adjust by the market supply and demand. If the REIT is in high demand and low supply, the REIT's market price will typically exceed the REIT's NAV. The market price of AXREIT is high because investors feel AXREIT show good potential when looking at its price has not traded less than RM1.60 except for 2008 global crisis year. Besides that, AXREIT has proposed to acquire Tesco Johor Bahru hypermarket for a lump sum cash consideration of RM75.6 million. AXREIT's manager expects the proposed acquisition to contribute positively to the fund's earning.

Since most investors consider shopping center REIT is more defensive due to they are associated with necessary retail rather discretionary retail. This is why AXREIT traded at NAV discount.

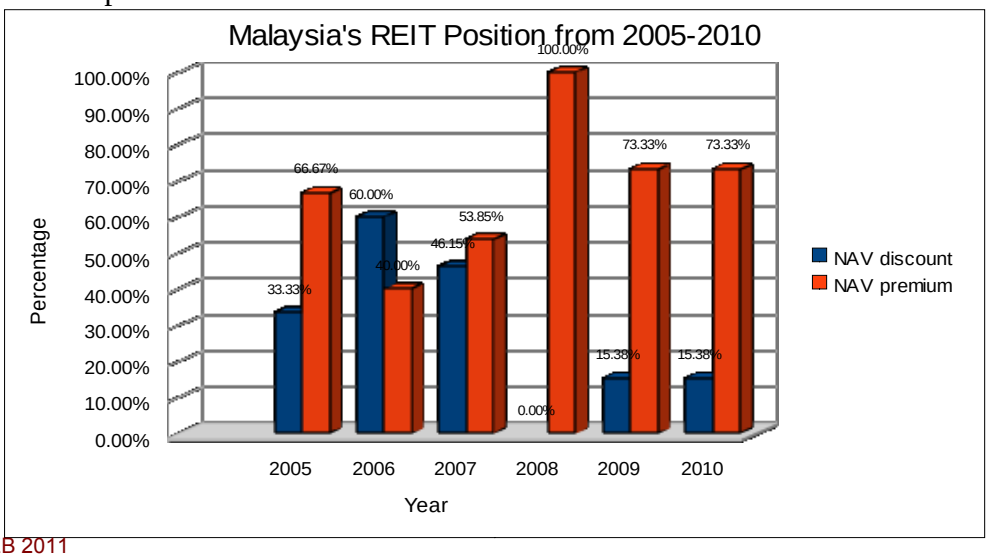
Table 9: Malaysia Real Estate Investment Trust's NAV Position When Compare With Annual Stock Closing Price

REIT	2005	2006	2007	2008	2009	2010
AREIT			NAV discount	NAV premium	NAV premium	NAV premium
AXREIT	NAV discount	NAV discount	NAV discount	NAV premium	NAV discount	NAV discount
TWREIT			NAV premium	NAV premium	NAV premium	NAV premium
AMFIRST			NAV premium	NAV premium	NAV premium	NAV premium
BSDREIT			NAV discount	NAV premium	NAV premium	NAV premium
AHP	NAV discount	NAV premium	NAV premium	NAV premium	NAV premium	NAV premium
AHP2	NAV premium	NAV discount	NAV discount	NAV premium	NAV discount	NAV discount
ALAQAR			NAV premium	NAV premium	NAV premium	NAV premium
HEKTAR			NAV premium	NAV premium	NAV premium	NAV premium
UOAREIT		NAV discount	NAV premium	NAV premium	NAV premium	NAV premium
QCAPITAL		NAV premium	NAV premium	NAV premium	NAV premium	NAV premium
ATRIUM			NAV discount	NAV premium	NAV premium	NAV premium
STAREIT			NAV premium	NAV premium	NAV premium	NAV premium

MREIT should be taken consideration by investors. The main reason for this is a number of MREIT has secured guaranteed returns on a sale and lease basis. Therefore, the downturn in the market is shielded. Besides that, the current downturn in the market also provide a great opportunities to the company for acquisition of better quality and more competitive pricing real estate related assets.

MREIT overall are traded at NAV premium in figure 4. Company's superior historical and future earning capabilities, organizational and operation efficiencies and quality of management can be reflect in NAV premiums over the current stock price. There are significant reason why MREIT valued at premiums to NAV over the year and why investors pay premium valuation to MREIT. The good reasons are liquidity, access to more capital sources, transparency and good management team. With REIT recapitalized and signs of stabilization in real estate market, forward looking investors may discounting improvement in earnings growth thus pushing REIT's valuations to premiums relative to NAV.

Figure 4: Malaysia Real Estate Investment Trust's Position from Year 2005 to 2010



Conclusion

There are now 13 REIT in Malaysia excluded SUNWAY REIT as it is newly listed on 8 July 2010. AHP2 is no longer listed in Bursa Malaysia when AHP2 REIT unit holders passed a special resolution on 11 March 2009 to terminate AHP2. The reason behind this is due to the poor performance of AHP2 since 1997.

In contrast, AXREIT is traded at NAV discount due to the irrational behavior of investors in noise trader theory and not because it's poor performance. AXREIT is a very well managed business with a great portfolio of properties compared to other REIT. AXREIT owns 20 properties from buildings to warehouse to even shopping mall. This is why AXREIT traded at NAV discount.

Overall, MREIT are traded at NAV premium. There are significant reason why MREIT valued at premiums to NAV over the year and why investors pay premium valuation to MREIT. The good reasons are liquidity, access to more capital sources, transparency and good management team. As

In conclusion, MREIT which generally trading in NAV premiums has superior historical and future earning capabilities, organizational and operation efficiencies and quality of management (Hua, 2001). REIT also has low correlation with other assets when include in portfolio and enhance diversification. Investors should consider MREIT as one of the good potential investment.

Limitations of Study

Due to different years of REIT's introduction in Malaysia, the data selected from the thirteen REIT are not in the same time period. There are still limitations to select one index to represent the whole REIT market in Malaysia. SUNWAY REIT, the new listed MREIT in year 2010 is excluded in this study due to time constraint. SUNWAY REIT is newly listed on July 2010. The data collection period for this study is from year 2005 to Jun 2010.

Recommendations

Further research should focus on the comparison between Islamic REIT and non Islamic REIT. It is hopeful that the empirical findings can help both institutional and retail investors to comprehend the risk return trade off and to consider REIT as another viable investment alternative. Besides that, future research can focus on the performance of different sector in REIT property types such as the industrial, healthcare, shopping mall or diversified. This can provide useful information to the investors to decide which REIT that match their investment style. In addition, future research could contribute significantly to this discussion by exploring the reason of lukewarm from institutional and retail investors towards Malaysia REIT and their desirable investment conditions for participating in the Malaysia REIT using more traditional survey methodology.

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