Listed Property Trusts in Malaysia : A Comparative Performance Analysis*

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Abstract

This paper analyses the investment performance of listed property trusts from 1991 to 1998. The investment performance is compared with the performance of shares and direct residential property.

Based on annual returns, Amanah Hartanah PNB and First Malaysia Property Trust had achieved higher risk adjusted returns than shares and direct residential property but lower than the Second Board Index. Arab Malaysian First Property Trust had the lowest risk-adjusted ranking among the investment options. Listed property trusts could not offer diversification possibilities due to high correlation with shares and do not act as substitutes to direct residential investment due to negative correlation.

Keywords: listed property trusts, Malaysian House Price Index, risk-return analysis, Sharpe Index

Introduction

Property trust is a new property investment vehicle in Malaysia. Property trusts are introduced to provide a wider range of alternative investment instruments available to the Malaysian public and at the same time to broaden the local capital market.

A property trust is an investment scheme organised in the form of a unit trust that pools the capital of a large number of investors in order to invest exclusively in real estate. A property trust fund is constituted by a trust deed which sets out the objectives of the trust, the rights and obligations of the trustee, the trust's manager and the unit holders. The assets in the trust are held by the trustee on behalf of the unit holders. The units are of equal value and of equal rights to unit holders. Each unit holder in the trust in effect beneficially owns a proportionate share in the properties and assets which comprise the trust fund.

The manager acts as the promoter of the property trust, issues the prospectus,

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undertakes the obligations under the trust deed and assumes responsibility for selecting and managing the trust's assets in accordance with the provisions of the trust deed.

A Brief History of the Property Trusts Industry in Malaysia

Unlisted property trusts

Property trust investment was first introduced in Malaysia in the form of an unlisted property trust on 21 March 1989 when Permodalan Nasional Berhad (PNB) offered for sale 100 million property trust units in Amanah Hartanah PNB (AHP) at RM1.00 per unit. Eligible investors were Malaysian citizens aged 18 years and above. The minimum investment was 500 units at RM1.00 per unit and additional investments must be in multiples of 100 units up to a maximum of 50,000 units per investor. Under the deed of trust, at least 60 per cent of the AHP units would be owned by Bumiputra investors and the remaining units up to a maximum of 40 per cent may be held by non-Bumiputra Malaysian investors (AHP Prospectus, 1989). PNB undertakes to repurchase the units at RM1.00 per unit until the day before it is quoted on the Kuala Lumpur Stock Exchange (KLSE). The initial investment portfolio of AHP comprised Plaza IBM and Jaya Jusco Shopping Complex and 30 per cent of its fund were invested in plantation and property counters of the KLSE.

The second unlisted property trust, Mayban Property Trust Fund One (MPT), was launched by Malayan Banking Berhad on 28 February 1991. The initial property portfolio comprised Wisma Manilal, a 14-storey commercial property in Penang and Wisma U-Meng, a 15-storey office building in Ipoh, Perak. The property trust is an open-ended fund which can increase in size as new properties are acquired over time and fresh units are offered for sale to investors. The trust initially issued 81,820,900 units. The initial minimum investment by investors was RM1,000 and subsequent investments were in multiples of RM100 with no limit to the amount of investment. For the first three years, the manager will repurchase units at a guaranteed price of RM1.00 per unit or the repurchase price per unit, whichever is higher (MPT Prospectus, 1991).

After one year and nine months as an unlisted property trust, AHP had subsequently become a listed property trust upon its listing on the KLSE on 28 December 1990. MPT on the other hand had expanded its property investment portfolio from an initial two to become five properties when it was listed on 25 March 1997.

Listed property trusts

The first property trust listed on the Kuala Lumpur Stock Exchange was Arab Malaysian First Property Trust when it made its debut on 28 September 1989. This was followed by First Malaysia Property Trust in the same year.

Since the debut of the property trust investment vehicle in 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).

After being in operation for ten years, the market capitalisation of listed property trusts suffered a huge setback due to the currency crisis which started in July 1997. Table 2 shows the impact of the currency crisis on the market capitalisation of the listed property trusts based on its lowest monthly closing prices since listing on the KLSE.

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

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

Property Trust	Initial Public Offer	Issue Price (RM)	Size of Fund (RM)	Net Tangible Asset/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, various years.

The regulatory framework for property trusts in Malaysia

The setting up of a property trust fund was first approved by Bank Negara Malaysia in October 1986. To facilitate the development of the property trust industry, a one-stop committee called the Informal Committee on Unit Trust Funds was set up to approve property trust applications and to set down regulatory guidelines for property trust investments.

The Informal Committee comprised Bank Negara Malaysia, the Capital Issues Committee (CIC), the Ministry of Trade and

Table 2 : Market Capitalisation of Listed Property Trusts in Malaysia*

Property Trusts	Units Issued	Market Price (RM)	Market Capitalisation (RM)	NTA/unit (RM)	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)

Source : KLSE

*(as at 28 August 1998)

Industry, the Public Trustee and the Registrar of Companies. The coordinator of the Committee is Bank Negara Malaysia.

In its initial years, the principal legislation governing the establishment and operations of a property trust in Malaysia was the Companies Act 1965. To set up a property trust, the Act requires the trust managers and trustee to exercise a trust deed to be approved by the Registrar of Companies.

The offer for sale of property trust units to the public is regulated by the Companies Act 1965 and the Securities Industry Act 1983. Any public issue must be made by way of a prospectus which must comply with the provisions of the Companies Act 1965 and Informal Committee's requirements. The Capital Issues Committee is empowered under the Securities Industry Act 1983 to oversee the orderly development of the capital market in Malaysia. It supervises the issue of shares and other securities by companies applying for listing or already listed on the Kuala Lumpur Stock Exchange.

In 1991 the Informal Committee issued a set of guidelines known as the "*Guidelines on Property Trust Funds (1991)*" which sets out the operational requirements of a property trust, the powers, duties and responsibilities of the managers and trustees.

In 1993, the functions of the Capital Issues Committee were absorbed into the Securities Commission which was set up under the Securities Commission Act 1993. Under the new act, the Securities Commission is now responsible for regulating all matters relating to unit trust schemes which include property trust funds (Ting, 1996).

A review of the 1991 Guidelines was carried out in 1995 by the Securities Commission together with the Federation of Malaysian Unit Trust Managers, the Registrar of Companies, the Kuala Lumpur Stock Exchange and the Valuation and Property Services Department, Ministry of Finance, Malaysia.

A revised "*Guidelines on Property Trust Funds (1995)*" was issued in June 1995. The objectives of the Guidelines were :

(a) to provide a regulatory framework which would protect investors' interests, and
(b) to facilitate an orderly development of the property trust industry by ensuring a fair and consistent application of policies.

The Guidelines applied in relation to :

(a) the procedures and requirements for the establishment of new property trust funds,
(b) duties and responsibilities of the managers and trustees,
(c) the structure and investments of property trust funds,
(d) the appointment and qualifications of the managers, trustees, auditors and valuers,
(e) the operational requirements of a property trust fund.

Background to The Study

There are limited studies on the performance of investment trusts in Malaysia with most of the studies focusing on unit trusts (Chua, 1985). Kok and Khoo (1995) had made a study on the listed property trusts and found that based on monthly returns, the listed property trusts generally did not perform better than the stock exchange for the 1991-1994 period.

Hutchison (1995) considered whether residential property investment was a worthwhile addition to the institutional investment portfolio in the United Kingdom. The study found that residential returns were less than the share market returns over the 1984 - 1992 period. Housing produced higher average annual returns than commercial properties. Housing also could offer the same diversification advantage as a commercial property investment.

Objectives of The Study

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 a substitute for direct investment in residential property.

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

Data Sources

Data on annual closing prices of three listed property trusts (AMFPT, FMPT and AHP) and the related KLSE indices were obtained from the Kuala Lumpur Stock Exchange. The Mayban Property Trust Fund One was excluded as it was only listed on 25 March 1997. The Kuala Lumpur Composite Index (KLCI) was used as a proxy for the performance of large capitalisation stocks, while the EMAS Index represents the overall performance of the Kuala Lumpur Stock Exchange. The Second Board Index was used to represent small capitalisation stocks. Direct residential property investment was represented by the Malaysian House Price Index published by the Valuation and Property Services Department, Ministry of Finance, Malaysia.

The study period was from 1991 to 1998. The year 1991 was chosen as the starting year since it coincided with the maximum period covering all the three listed property trusts and the MHPI. In order to allow comparisons with the MHPI, year-end values and indices had been used in this study as the semi-annual MHPI was only available beginning June 1997.

To allow comparisons of performance, the KLSE indices related to property i.e. the Property Sector and Plantation Sector sub-indices were also included in the study.

Risk-Return Analysis for The Period 1991 to 1998

For the risk-return analysis, the returns were computed based on :-

$$Rt = (Pt - Pt\text{-}1) / Pt\text{-}1$$

where
Rt = return for the period t
Pt = price of security at period t
$Pt\text{-}1$ = price of security at previous period

Total return was not adopted as total return indices for shares and MHPI are not currently available in Malaysia.

Risk was 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.

An analysis of the annual risks and returns was carried out and the results are shown in Table 3. To provide a meaningful assessment of the performances of the various investment options, the Sharpe Index has been used as an index of performance for risk-adjusted returns :-

$$\text{Sharpe Index} = \frac{2 - Rf}{s}$$

where 2 = average return for investment option
Rf = average risk free return
s = risk for investment option

The risk free return of 7.28 per cent for the Sharpe Index is based on the average coupon rate of the Malaysian Government Securities for the same period. By using the Sharpe index, investment options are able to be ranked on risk-adjusted performance.

Analysis of Results

Overall Performance

Table 3 shows the Sharpe Index and its risk adjusted ranking. The result shows a mixed performance for the three listed property trusts.

Except for the Second Board Index, AHP and FMPT had performed better than the shares. The difference in performance is attributable to the higher returns enjoyed by AHP and FMPT. For the study period from 1991 to 1998, 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 per cent, 233 per cent and 115 per cent 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.

AMFPT had the highest risk/return ratio and ranked lowest among the investment options. The results showed an anomaly of return 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 was the highest among the three trusts since launching (refer Table 2). Investors have probably down-rated AMFPT for the

Table 3 : Average Annual Risks and Returns of Investment Options (1991-1998)

Investment	Average Annual Return (%)	Annual Risk (%)	Sharpe Index	Risk Adjusted Ranking	Risk/Return Ratio
Listed Property Trust					
AMFPT	9.27	70.46	0.030	9	7.16
FMPT	36.13	155.13	0.201	3	3.98
AHP	52.87	218.88	0.225	2	3.84
Shares					
KLCI	9.17	43.36	0.044	8	4.73
EMAS Index	12.11	56.42	0.086	6	4.66
Second Board Index	26.27	69.69	0.272	1	2.65
Property Sector	13.25	78.52	0.076	7	5.93
Plantation Sector	21.23	81.77	0.172	5	3.84
Direct Residential Property Malaysian House Price Index	9.27	10.63	0.187	4	1.15

fact that it has poorer diversification in its portfolio which has only two office buildings.

The best performance on a risk-adjusted basis was the Second Board Index. The risk adjusted performance of AHP and FMPT is comparable to the Second Board Index which comprises small capitalisation shares.

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, EMAS Index, Second Board Index, Property Sector sub-indices and Plantation Sector sub-indices) with correlation coefficients greater than 0.78. One explanation for the high correlation is that Malaysian investors were treating listed property trusts as equities where capital appreciation is more important than dividend yield. Thus, investors were trading listed property trusts like shares which explains its equity-like characteristics and returns.

Thus, listed property trusts also have high returns correlation with each other. Investors were treating the listed property trusts as similar investment options despite the property trusts and the investment portfolios not being alike.

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

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

Table 4 : Correlation Matrix of Returns of Investment Options (1991-1998)

	AMFPT	FMPT	AHP	PROPERTY	PLANTATION	MINING	KLCI	EMAS	2ND BOARD	MHPI
AMFPT	1.00									
FMPT	0.98	1.00								
AHP	0.96	0.98	1.00							
PROPERTY	0.97	0.96	0.97	1.00						
PLANTATION	0.95	0.98	0.99	0.99	1.00					
MINING	0.98	0.98	0.98	0.99	0.99	1.00				
KLCI	0.91	0.88	0.88	0.96	0.92	0.92	1.00			
EMAS	0.94	0.93	0.93	0.99	0.96	0.92	0.92	1.00		
SECOND BOARD	0.81	0.78	0.78	0.89	0.84	0.86	0.95	0.93	1.00	
MHPI	-0.26	-0.20	-0.20	-0.09	-0.21	-0.17	0.10	0.03	0.22	1.00

Limitations of Study

Han and Liang (1995) pointed out that the use of a short sample period to draw inferences on the performance of real estate investment trusts(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 11 year history of listed property trusts in Malaysia which coincides 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 1998. However when the stock market and property market recover, they would provide the opportunity for a study of the performance of listed property trusts on a full economic and property cycle.

Major proxies for the stock market such as the 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 may be 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 capitalisation stocks with capitalisation of less than RM150 million for each listed property trust.

It would be ideal to include Government Securities/Bonds into the study. However, it is difficult 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, with different year of issues and varying interest rates makes it difficult to establish a new bond capital series that would allow returns to be analysed and compared.

Currently there are 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 since the data used is based on an annual basis.

Conclusions

Among the listed property trusts, only AHP and FMPT provided higher risk-adjusted returns 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 to the property trust return series.

The listed property trusts do not offer portfolio diversification when included in an equity investment portfolio due to its high correlation with shares. Also property trusts do not act as substitute to direct residential investment due to its low negative correlation and because property portfolios of property trusts comprise primarily commercial properties.

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 more upon the share market movements ($r = 0.78$ to 0.94) and less on the underlying assets. A longer period of analysis is necessary to draw more useful conclusions.❑

FIG. 1 : ANNUAL RETURNS OF AMFPT
(DEC 1991 - DEC 1998)

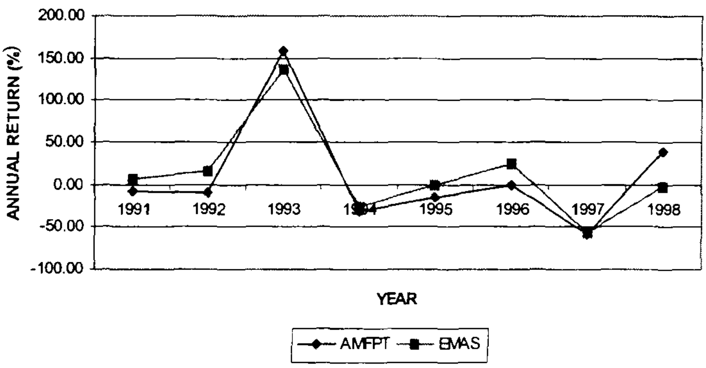


FIG. 2 : ANNUAL RETURNS OF FMPT
(DEC 1991 - DEC 1998)

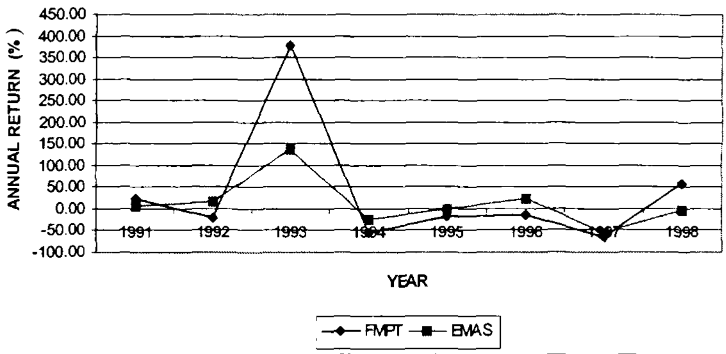
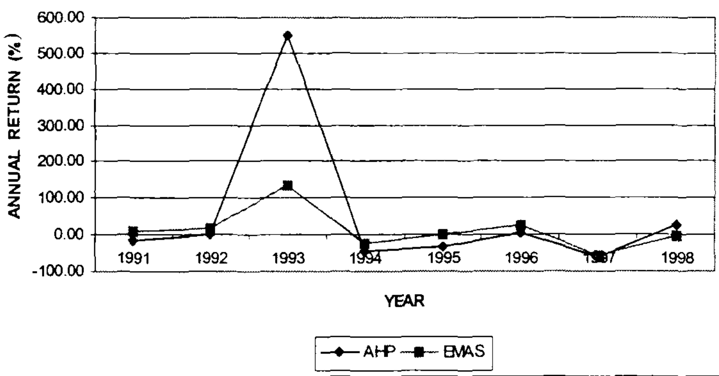


FIG. 3 : ANNUAL RETURNS OF AHP
(DEC 1991 - DEC 1998)



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