

The Listed Property Trust Industry in Malaysia: Factors Constraining Its Growth and Development

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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 was 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 lengthy capital market requirements in capital raising, restrictive Securities Commission's Guidelines on Property Trust Funds and the lack of demand from the institutional investors.

An analysis of the annual stock turnover ratio is used to measure the level of transactional interests by investors. The analysis shows that the transactional activities are low as there is poor demand from investors.

An analysis of unit holdings in listed property trusts is also carried out to determine the extent of investments by institutional investors. Institutional ownership is found to be low due to the small number of institutional investors interested in indirect property investment.

Keywords : listed property trusts, chief executive officer/property manager survey, annual stock turnover ratio, institutional ownership.

Introduction

It is noted that since the debut of property trusts in 1989 there has been little development and expansion in the Malaysian listed property trust industry. The number of listed property trust funds has 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. This static situation had occurred within the context of an active property market, a buoyant stock exchange and economy from 1989 to 1997.

Background to Study

Azim (1992, 1993) had commented that the property trust industry is too regulated by the Guidelines on Property Trust Funds 1991. The restrictions imposed by the Guidelines are related to property acquisition, disposal, development and borrowing limit (Ting, 1996 and Ting et al, 1998).

The Guidelines provisions relating to property acquisition had prevented property trust funds from expanding their investment portfolio through new property acquisitions. Subsequently promoters and managers of trust funds had sought major reviews on the Guidelines from the regulatory authorities particularly the Securities Commission.

A revised Guideline on Property Trust Funds was issued by the Securities Commission on 26 June 1995. The new guideline provides a more systematic format outlining the various provisions regulating the property trust funds. The key amendments are related to property acquisition, property disposal, property

development and borrowing limits. The revised guidelines are well received by property trust managers (Azim, 1995).

The amendments have enabled property trust funds to acquire property more easily by providing more options and flexibility in property acquisitions. In particular, property trusts can now acquire property interests such as :-

- (a) strata properties,
- (b) equities of real estate companies,
- (c) properties in foreign countries,
- (d) properties such as office buildings which are not fully tenanted but have the potential of achieving full occupancy.

The wider property acquisition options are supported by corresponding changes in financing and borrowings regulations.

Despite the relaxation on the Guidelines, property portfolios of property trusts have not expanded significantly. In the case of First Malaysia Property Trust, property acquisitions from 1994 - 1997 are merely reinvestments of the proceeds from the sale of its flagship property investment, Plaza MBf in 1994. The seven property acquisitions by Amanah Hartanah PNB are small properties comprising six shop premises and one office building (refer Appendix I). The property acquired by Mayban Property Trust in 1997 is an acquisition of a property owned by the Maybank Group.

In short, the revised Guidelines 1995 have not made a positive impact on the property trust industry and there are impediments that prevent property trust managers from taking full advantages of the revised provisions under the Guidelines.

Objectives of the Study

To investigate further the problems that had constrained the growth and development of the property trust industry, this study investigated :-

- (1) the views of Chief Executive Officers(CEO)/Property Managers of listed property trusts on the development and growth of the listed property trust industry,
- (2) the level of interest by investors in listed property trusts,
- (3) the extent of institutional shareholdings in listed property trusts.

The first question is answered by carrying out a questionnaire survey on CEO/Property Managers of listed property trusts. The second question is investigated by analysing the listed property trust stock turnover ratio. The third question is answered by analysing annual reports on the unit holdings by institutional investors in the listed property trusts.

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

A questionnaire survey was carried out to obtain views/opinions of CEO/Property Managers on the development and growth of the listed property trusts in Malaysia. The survey was conducted in May 1998 with intent to cover all the four existing listed property trusts in Malaysia. Only three had responded, of which two of the respondents were property managers and the other is a CEO.

The survey addressed key issues concerning property securitisation including:-

- (1) The growth and development of the listed property trust industry;

- (2) Factors affecting the performance of listed property trusts;
- (3) Suggestions on improvements to the listed property trust industry.

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

The Growth and Development of the Listed Property Trust Industry

- (a) *Problems that have constrained the expansion of existing property portfolios*

The problems identified by the respondents were as follows:-

- Lengthy capital market requirements in raising capital for property acquisition.

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 could take up to 12 months from the date of signing of the sales 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.

- Restrictions on bank borrowings by the Securities Commission's *Guidelines on Property Trust Funds 1991 and 1995*.

The Securities Commission's *Guidelines on Property Trust Funds* restrict borrowings 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 related capital market regulatory authorities. Property owners are reluctant to be tied down while awaiting the approvals.

- Poor investor perceptions on property trust investments.

The initial performance of listed property trusts upon its debut in the Malaysian capital market (January 1991 - November 1993) was worse than the stock market and the monthly closing prices were hovering at around RM1.00, the initial issue price (Kok and Khoo, 1995). This performance brought a stigma on the potential of listed property trust as an investment option. Property trust funds are ignored in the stock market as it is not perceived to be a speculative counter that could provide quick capital gains to speculators. The lack of interests by investors is supported by the findings of low annual stock turnover ratios (see Section 5.0).

- The lack of interests from institutional investors.

The lack of interests from major investors to invest in listed property trusts has been a deterrent for property trusts in their acquisition of property. One of the trust funds had experienced the difficulty of marketing their units upon the creation of new

units. Demand from major institutional investors was low on these new units. The fact that there is a lack of interest from institutional investors is evident from the low level of unit holdings by institutional investors (see Section 6.0).

- Properties available for acquisitions are providing low yields.

The respondents commented that properties available for acquisition are available at a high market price and low yields. Such acquisitions would bring about a dilution in the earnings of the trusts. Unit holders and regulatory authorities may not approve of such property purchase. Also underwriting support may be lacking.

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

The reasons offered by the respondents are as follows:-

- Secondary properties are easier to negotiate and to acquire.
- Prime properties are capital intensive and the lack of demand from institutional investors had deterred trust funds from making major property acquisitions.
- It was difficult to acquire prime properties at a good yield without diluting the high yield of the property trusts.
- Few prime properties are available in the market for sale and properties available are going for high asking prices.

- Prime property owners are not keen to sell to property trusts due to the lengthy approval process.

(c) *Factors that hinder the launching of more property trust funds in Malaysia (ranked in descending order of importance)*

The responses from the survey are:-

- Competing investment alternatives (e.g. initial public offerings (IPOs) and unit trust funds). In the past, IPOs on the KLSE had achieved high premiums upon listing resulting in high capital gains by stags. Property trusts which have a trust structure are not allowed to speculate and are viewed as defensive stocks offering stable returns and prices.
- Poor investor perceptions on property trust investments (see section 4.1a),
- A restrictive Securities Commission's *Guidelines on Property Trust Funds*,
- The lack of demand from institutional investors (see section 5.0).
- Too few institutional investors are interested in property trust investments (see section 6.0).

The Performance of Listed Property Trust Funds

(a) *Factors that drive the performance of listed property trusts*

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

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

(b) *Aspects of listed property trust funds which attract investments from institutional investors*

Feedbacks from the respondents indicate the following:-

- Substitute for direct property investment
- Liquidity of property trusts
- Diversification for investment portfolios
- Access to prime property
- High yields of property trusts.

Suggestions to Improve the Listed Property Trust Industry

The respondents offer the following suggestions:-

- Greater relaxation on the *Guidelines on Property Trust Funds*.
- Allow further property trust funds to declare tax exempt dividends.
- Allow major expenses of the property trust funds to be tax deductible.

- Generate greater interests among the institutional investors.
- Educate the investing public.
- Relax the requirement on the sponsorship of new property trust funds by allowing other institutions/parties to be sponsors e.g. entrepreneurial owner developers/builders apart from financial institutions.

Stock Turnover Ratio

The stock turnover ratio is used to measure the transactional 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 Investors Digest published by the Kuala Lumpur Stock Exchange (KLSE).

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 indicate a low level of trading activities in listed property trust funds reflecting poor interests and demand from Malaysian investors. The average ratio of 0.33 over the 8 year period compares poorly against a ratio of higher than 1 for the Property Sector of the KLSE.

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

Institutional Ownership in Listed Property Trusts

The extent of institutional ownership is analysed using information on the twenty largest unit holders disclosed in the annual reports of listed property trusts. Institutional investors are categorised 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 (i.e. Amanah Hartanah PNB, Arab Malaysian First Property Trust and First Malaysia Property Trust) held by Institutional Investors (1989 - 1997)

Year	Insurance companies	Unit trusts (%)	Pension funds	Institutions (%)	Total (%)
1989	4.4	0.0	0.0	0.0	4.4
1990	0.3	0.0	0.6	0.0	0.9
1991	1.7	0.3	0.3	0.0	2.3
1992	1.3	0.5	0.3	0.0	2.1
1993	3.7	1.5	0.3	0.0	5.5
1994	2.7	0.2	0.3	0.0	3.2
1995	5.8	0.0	0.3	0.0	6.1
1996	2.7	0.0	0.2	0.0	2.9
1997	3.2	0.0	0.3	1.1	4.5
1998	5.6	0.1	0.2	1.1	7.0
1999	5.6	0.1	0.2	1.1	7.0
Mean	3.36	0.25	0.26	0.30	4.17
Std.	1.86	0.45	0.14	0.51	2.07
Deviation					

The above analysis shows that institutional ownership is low in listed property trust units with an average annual unit holdings of 3.43% for the 1989 - 1997 period. Generally direct property does not constitute a significant asset holding in institutional portfolios. Properties owned by these institutions are basically used as headquarters or for their own operational use. Real estate is rarely purchased for investment purposes and 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 transactional activities in the stock market 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 Malaysian property investment market is 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 Malaysian property market is moving towards a maturing property market where institutional investors would constitute the major players in property investment.

(b) *The small number of institutional investors*

Existing public provident and pension funds in Malaysia are limited to Employees Provident Fund (EPF), Social Security Organisation (SOCSO), Armed Forces Fund, Pensions Trust Fund, Teachers Provident Fund and Malaysian Estates Staff Provident Fund. Other significant institutional investors are Permodalan Nasional Berhad and unit trust funds.

Among these institutional investors, those interested in property investment are small and their investment portfolios are limited to cash, money market instruments, government bonds and securities. In fact, the bulk of investments by institutional investors are in government bonds and securities. A change in perception of property investment as an asset class would help to increase demand for property. Once direct property is accepted as an investment class, the listed property trusts will play their role in offering the benefits of liquidity, divisibility, diversification, etc.

(c) *Restrictions on foreign institutional investors*

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

This has exacerbated the lack of demand from foreign investors who

could provide the support and stability to the Malaysian 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 could provide occupational demand for office space in the office market.

Limitations of the Study

The weakness on the extent of institutional ownership analysis is that institutional investors may have holdings in listed property trusts through nominee companies. However, beginning 1999, annual reports are required to disclose the names of the beneficiaries to the nominee companies/accounts.

Another weakness is that the analysis could not take into account changes in institutional ownership within and less than a financial year.

Conclusions and Suggestions

The CEO/Property Manager Survey has revealed regulatory requirements which are not supportive of the investment operations of the trust funds pertaining to property acquisition, property disposal, property development and borrowings.

The annual stock turnover ratio analysis shows that investors interest is very low due to a poor perception of listed property trust as a profitable investment option, and this led to poor demand for the trusts. This perception is not expected to improve in the near future due to the current overhang in the property market which will affect future dividend distributions.

The analysis on institutional ownership shows a low level of unit holdings by institutional investors. The poor level of demand by institutional investors is because property is not perceived as an investment class of its own comparable to bonds and shares.

The potential of the Malaysian property trust industry is yet to be fully realised. It is pertinent that interest in the listed property trust industry is revived and given a new lease of life as property securitisation in the form of listed property trusts provides a key solution to the current oversupply of commercial properties. The large supply overhang needs to be cleared to lessen the drag on the recovery of the Malaysian economy.

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Appendix I : Existing Property Portfolios of Listed Property Trusts in Malaysia (1999)

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
	10 1/2-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
MPT	14-storey office building	1990	Bangunan Mayban Trust, Lebuh 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
	9 1/2-storey office building	1997	Bangunan TAR, Jalan Tuanku Abdul Rahman, Kuala Lumpur

Source : Annual reports of AHP, AMFPT, FMPT and MPT.