

THE PERFORMANCE OF ISLAMIC REITS IN MALAYSIA: A CASE OF AL-‘AQAR HEALTHCARE REIT

Norazlina Ripain
Nurul Wajhi Ahmad

Department of Accounting and Finance,
Faculty of Management and Muamalah,
Kolej Universiti Islam Antarabangsa Selangor (KUIS)
norazlina.ripain@kuis.edu.my, nurulwajhi@kuis.edu.my

ABSTRACT

Islamic REIT (I-REITs) is a fund or a trust that owns and manages income-producing commercial real-estate which complies with Shariah. The world's first Islamic REIT, the Al-‘Aqar Healthcare REIT (previously known as Al-‘Aqar KPJ REIT) was established on August 2006 and listed on Bursa Malaysia by issuing an initial public offering (IPO) valued at more than RM340 million (US\$100.6 million) with an underlying asset focused on hospitals. I-REITs are an attractive investment tool whereby it provides steady income in the form of dividend to the shareholders and is backed by quality underlying assets. Therefore, the aim of the paper is to study the performance of Al-‘Aqar Healthcare REIT starting from year 2006 until year 2015. Trend analysis will be used to analyse the performance focusing on dividend distribution per unit and net asset value (NAV).

Keywords: *I-REITs, performance, dividend distribution per unit and net asset value (NAV).*

1. Background

The development of Islamic capital market in Malaysia begins as early year 2000. Up to June 2015, there are 905 total listed securities in Bursa Malaysia. It comprises of 674 of Shariah-compliant securities. In terms of the market capitalization, Shariah-compliant securities worth RM1, 022.63 billion as at June 2015. It contributes to 61.6% to total market capitalization.

Table 1. Market Capitalization of Shariah-compliant Securities

	Up to June 2014	Up to June 2015
Shariah-compliant Securities (RM billion)	1, 087.91	1, 022.63
Total Market Capitalization (RM billion)	1, 770.42	1, 659.02
% to Total Market Capitalization	61.40	61.60

(Source: Securities Commission of Malaysia, 2015).

In order to encourage and support the market to consistently increase year to year, Securities Commission of Malaysia (SC) as the main regulator has set up various guidelines to the market players. One of the efforts was by introducing Guidelines for Islamic Real Estate Investment Trusts in 21 November 2005. Effect after the issuance date, Malaysia has become the pioneer in the world introduce Islamic REITs.

On 28th June 2006, the first Islamic REIT called Al'Aqar Healthcare REIT (previously known as Al-Aqar KPJ REIT) was released. At the beginning, Al'Aqar Healthcare REIT invested in 6 hospitals with the market value of the properties estimated at USD138mln. Al-'Aqar Healthcare REIT has set many milestones. It has become as The World's First Listed Islamic REIT, Asia's First Islamic Healthcare REIT and A Benchmark for the Development of Islamic REITs in Malaysia, as well as in the region.

Since its establishment, the number of properties increased from 6 to 22 properties in Malaysia as listed below:

KPJ Ampang Puteri Specialist Hospital	KPJ Perdana Specialist Hospital
KPJ Damansara Specialist Hospital	Kuantan Specialist Hospital
KPJ Johor Specialist Hospital	Sentosa Medical Centre
KPJ Puteri Specialist Hospital	KPJ Kajang Specialist Hospital
KPJ Selangor Specialist Hospital	Kedah Medical Centre
KPJ Ipoh Specialist Hospital	Damai Specialist Hospital
KPJ Penang Specialist Hospital	KPJ International College, Penang
Tawakkal Health Centre	KPJ Healthcare University College, Nilai
KPJ Tawakkal Specialist Hospital	Kluang Utama Specialist Hospital
KPJ Seremban Specialist Hospital	KPJ Klang Specialist Hospital
Taiping Medical Centre	

Then, on the following year, another Islamic REITs was introduced on 8th February 2007. It is known as Al-Hadarah Bousted REIT which was listed on main board of Bursa Malaysia. Then, on May 2013, the third Islamic REITS is introduced. The fund is introduced as KLCC Real Estate Investment Trust. It is the world's first Shariah-compliant stapled REITs.

The numbers of I-REITs keep increasing. Up to year 2015, there are 17 REITs is in the market with 3 of them are Islamic REITs. Table 2 shows the statistic of REITs in terms of market capitalization.

Table 2. Market Capitalization of Islamic REITs

	Up to June 2014	Up to June 2015
Market Capitalization Islamic REIT (RM billion)	14.30	15.35
Market Capitalization Total Industry	34.10	36.46
% to Total Industry	41.90	42.10

(Source: Securities Commission of Malaysia, 2015).

Based on the above figure, the market capitalization of Islamic REITs as at June 2014 is RM14.30 billion. Then, in June 2015, the number increase to RM15.35 billion. It is increased by 7.34%. If we compare market capitalization of Islamic REIT to the total REITs Industry, it contributes to 41.90% as at June 2014 and increase to 42.10% as at June 2015. The performance tells us that Islamic REITs is increasing but at a slow

rate. Here, we can conclude that; First, Islamic REITs is suitable more for long-term investment. Secondly, it seems like the target investors is institutional investors and not for retail investors.

Definition

The Securities Commission of Malaysia defined REITs as “unit trust scheme that invests or proposes to invest primarily in income-generating real estate (Leong et al., 2015). The definition of REITs can be explained as an investment vehicle that invests or proposes to invest at least 50% of its total assets in real estate. An investment in real estate may be by way of direct ownership or a shareholding in a single-purpose company whose principal assets comprise real estate (Engku Rabiah, 2006; SC, 2005).

Therefore, we can conclude that Islamic REITs will represent the same meaning except that income-generating real estate and fund management of IREITs must fully comply with Shariah rules and regulation.

Motivation of Issuing I-REITs

Basically, the reasons or motivations of issuing Islamic Real Estate Investment Trusts (I-REITs) fundamentally not have much difference with the conventional REITs. However, there is certain factor that make it unique compared to the conventional. Some of the reasons are discussed below:

(i) Shariah – Compliance

Currently, many players in the capital market such as investors and issuers are looking for Shariah-compliant instruments either for investment or financing purposes. This is the main unique reason that differentiates between Islamic REITs with the conventional. All Islamic REITs must fully comply with Shariah standard.

The regulator of Islamic Capital Market (ICM) always keep monitoring and promoting the growth of ICM instruments. Thus, in 21 November 2005, Guidelines for Islamic Real Estate Investment Trusts was issued. The aim was to facilitate the establishment of an Islamic REITs. The guidelines also must be adhered to by the market players in the process of establishing an I-REITs. As mentioned in the guidelines, it must be read together with the Guidelines on Real Estate Investment Trusts. Generally, the guidelines issued consist of the following:

- An Islamic REIT must ensure that all forms of investment, deposit and financing instruments comply with the Shariah principles.
- An Islamic REIT must use the Takaful schemes to insure its real estate.
- An Islamic REIT is permitted to participate in forward sales or purchases of currency, and is encouraged to deal with Islamic financial institutions
- Syariah-compliant assessments must be carried out by the appointed Syariah committee/Syariah adviser to assess any property to be acquired by an Islamic REIT.
- Rental incomes from non-permissible activities must not exceed 20%.
- The Syariah committee/adviser must advise the Islamic REIT fund manager not to accept a new tenant (s) whose activities are fully non-permissible.

Apart from that, the guidelines also list the rental activities that are classified as non-permissible. The activities are:

- Financial services based on riba (interest)
- Gambling/gaming
- Manufacture or sale of non-halal products or related products
- Conventional insurance
- Entertainment activities that are non-permissible according to the Shariah
- Manufacture or sale of tobacco-based products or related products
- Stockbroking or share trading in Shariah non-compliant securities
- Hotels and resorts

Other than the activities listed above, the Syariah committee/adviser can apply ijthad for other activities that may be deemed non-permissible to be included as a criterion in assessing the rental income for the Islamic REIT.

Up to 30 September 2015, there are 17 funds under management. Four funds are classified as Shariah-compliant and another 13 are non-Shariah compliant. The data extracted from Securities Commission website is presented below:

a) Islamic REITs

Axis Real Estate Investment Trust
Al-`Aqar Healthcare REIT
Al-Salam Real Estate Investment Trust
KLCC Real Estate Investment Trust

b) Conventional REITs

AmFirst Real Estate Investment Trust
AmanahRaya Real Estate Investment Trust
Atrium Real Estate Investment Trust
CapitaMalls Malaysia Trust
Tower Real Estate Investment Trust
Hektar Real Estate Investment Trust
IGB Real Estate Investment Trust
Pavilion Real Estate Investment Trust
Amanah Harta Tanah PNB
YTL Hospitality REIT (formerly known as Starhill Real Estate Investment Trust)
MRCB-Quill REIT (formerly known as Quill Capita Trust)
Sunway Real Estate Investment Trust
UOA Real Estate Investment Trust

(ii) Liquidity

The shares of Islamic REITS are listing at the Main Market of Bursa Malaysia Berhad. It is more liquid compared to physical properties. The units of listed IREITs can be readily bought and sold in the stock exchange market.

(iii) Diversification

The establishment of IREITS benefitted the participants in terms of diversification effect. It helps the participants to broaden their investment portfolio and diversify risk (Momna, 2011).

Besides the above reasons, there are many other that can be further discussed. Engku Rabiah Adawiyah (2006) identifies that tax transparency and expert management are also the reasons why investors keep looking for I-REITs. In this study, we suggest that quality assets and income stability do attract institutional investors to invest in I-REITs.

Key Investment Objective

The key investment objective of issuing Al'Aqar Healthcare REITs is to provide unit holders with stable distributions per unit with the potential for sustainable long-term growth of such distributions and the net asset value per unit.

Research Objective

Thus, the aim of this paper is to study the performance of Al-'Aqar Healthcare REIT.

2. Research Methodology

Trend analysis will be used to analyses the performance starting year 2006 until year 2015. Income distribution per unit and net asset value will be used to indicate the performance.

3. Findings and Analysis

The performance of Al-Aqar Healthcare REIT is measured by the performance of dividend distribution per unit (DPU) and also net asset value per unit (NAV).

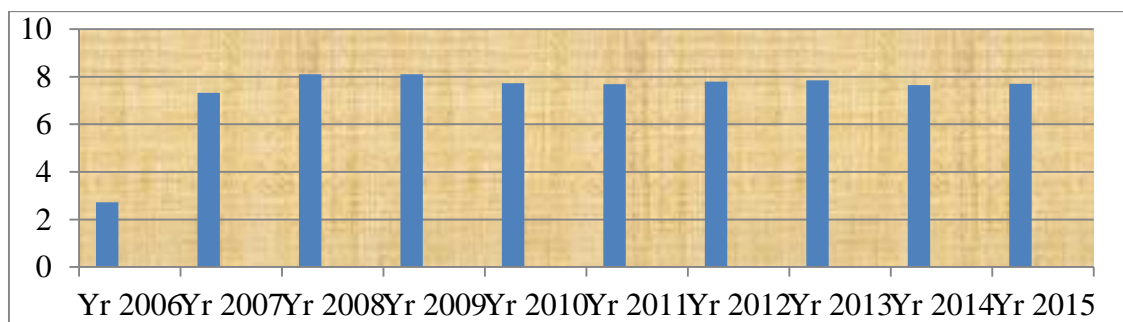


Figure 1. Dividend Distribution per Unit

(Source: Annual Report of Al-'Aqar Healthcare REIT).

As we can see in Figure 1, starting the issuance year in 2006, the company has distributed dividend at 2.72 cents per unit. Then, the distribution capability of the company jumps high to 7.32 cents in 2007. After that the distribution is increasing at a steady rate. As shown in the Figure 1, the distribution in year 2008 and 2009 is 8.1 cents. Financial crisis that hits in 2009 give some effect to the dividend distribution. A slightly drop in year 2010. The distribution is decreased to 7.73 cents and 7.69 cents in year 2011. In the following year, it steadily increased. The distribution is increased to 7.8 cents in year 2012 and 7.85 cents in year 2013. The distribution in year 2014 and 2015 is 7.65 cents and 7.70 cents respectively. The implementation of Good and Services Tax (GST) in year 2015 seems not effect this industry too much.

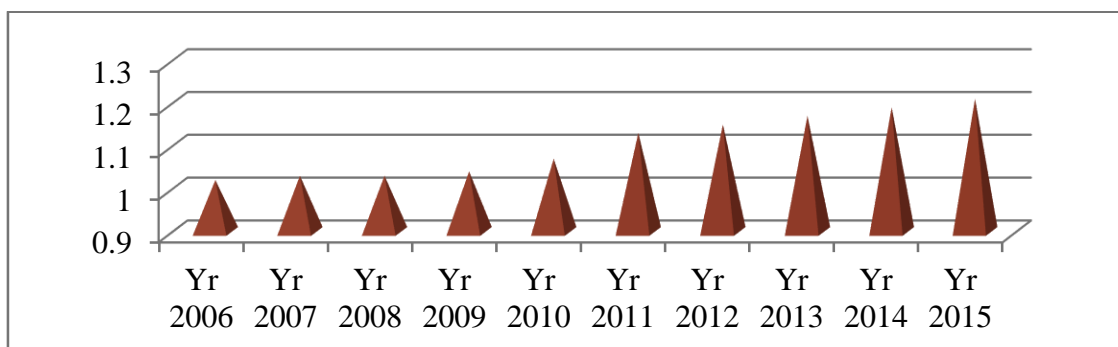


Figure 2. Net Asset Value Per Unit

(Source: Annual Report of Al-‘Aqar Healthcare REIT).

Another indicator to identify the performance of real estate investment trust is net asset value (NAV). Similar to dividend distribution per unit (DPU), the performance of NAV is increasing at steady rate. At the end of the issuance year, the NAV is RM1.02. Then, it increased to RM1.03 in year 2007 and 2008. Even though the distribution per unit is decreased in year 2010, the net asset value moves in different ways. The value keeps establish at RM1.07, RM1.13, RM1.15, RM1.17, RM1.19 and RM1.21 in year 2010 until year 2015.

4. Conclusions

Overall performance of Al-‘Aqar Healthcare REITs shows that it has capability to attract investor invest in this security. The dividend distribution per unit and net asset value keep moving on the positive trend. It is because Al-‘Aqar Healthcare REITs is backed by various quality assets.

Most of the IREITs instrument issued is backed by various quality underlying real estates as mentioned before. It has performed steadily in terms of the income generated from rental income and capital gains (Momna, 2011). It tends to pay out steady incomes (similar to dividends), which are derived from existing rents paid by tenants who occupy the IREITs’ properties. This is supported by JCorp President and CEO on Al Salam Real Estate Investment Trust. He believes that Al-Salam REIT will not be affected by the current market scenario since the REIT is backed by assets and steady income and generally not subjected to the volatility of the market and is stable in nature. Momna (2011) explained the same reason that the additional attractions of IREITS to investors are: low correlation with common stocks and as a potential hedge against inflation; high dividend yields and the higher certainty of income.

The establishment of I-REITs is back up by various quality underlying real estates with sustainable growth prospects. In the case of Al-‘Aqar Healthcare REITs, for example, a portfolio of hospital buildings had a 100 percent guaranteed occupancy rate and Al-Hadarah specializes in oil palm (Momna, 2011). Other funds are specializing on industrial properties, office buildings and retail purposes such as KLCC Real Estate Investment Trust.

The establishment of IREITs is aims to provide new investment alternative to investors in order to diversify their portfolio as well as minimize risk. Finally, the I-REITs are targeted to contribute more to the development of Islamic capital market in Malaysia.

References

- Assoc Prof Dr. Engku Rabiah Adawiyah Engku Ali. (2006). Islamic Real Estate Investment Trusts (REITs): Prospects & Opportunities. *Seminar on Islamic Banking & Capital Market: Products & Instruments*. 23-24 May 2006.
- Leong, B. T. & Abdul Rashid A. Z. (2015). GFC Impact on Real Estate Investment Trusts (REITs) in Malaysia, *21st Annual Pacific-RIM Real Estate Society Conference*, 18-21 January 2015.
- Momna Saeed. (2011). The Outlook for Islamic REITs as an Investment Vehicle. Gulf One Lancaster Centre for Economic Research.
- Datuk Kamaruzzaman Abu Kassim. (2015). RM242.86m to buy five properties: Al-Salam REIT. The Sun Daily, 7 September 2015.
- Malaysia Issues World's First Guidelines for Islamic REITs – SC Sets Global Benchmark for Islamic REITs Development. Securities Commission of Malaysia, <http://www.sc.com.my>.
- Guidelines for Islamic Real Estate Investment Trusts. Date Issued: 21 November 2005. Securities Commission of Malaysia, <http://www.sc.com.my>.
- Bursa Malaysia Berhad, <http://www.bursamalaysia.com.my>.
- Malaysia International Islamic Financial Centre (MIFC), <http://www.islamicfinance.com.my>.
- Annual Report of Al-‘Aqar Healthcare REIT, 2006.
- Annual Report of Al-‘Aqar Healthcare REIT, 2007.
- Annual Report of Al-‘Aqar Healthcare REIT, 2009.
- Annual Report of Al-‘Aqar Healthcare REIT, 2010.
- Annual Report of Al-‘Aqar Healthcare REIT, 2011.
- Annual Report of Al-‘Aqar Healthcare REIT, 2012.
- Annual Report of Al-‘Aqar Healthcare REIT, 2013.
- Annual Report of Al-‘Aqar Healthcare REIT, 2014.
- Annual Report of Al-‘Aqar Healthcare REIT, 2015.