FACTORS AFFECTING THE PERFORMANCE OF REAL ESTATE INVESTMENT TRUST IN MALAYSIA: A CASE OF Al-'AQAR KPJ REIT

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ABSTRACT

The Al-'Aqar KPJ Healthcare REIT is the world's first Islamic REIT. It 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. The Al-'Aqar KPJ Healthcare REIT becomes one of the attractive investment instruments. Instead of complying with Shariah, the net asset value performance is stable every year. It also provides steady income in the form of dividend to the shareholders. There are various factors were identified to influence the REITs performance. Therefore, the aim of the paper is to study the factors that affecting the performance of Al-'Aqar KPJ Healthcare REIT starting from year 2006 until year 2014. As the beginning, the study will only focused on firm size and dividend yield as independent variables. Regression analysis will be used to analyse the relationship between independent variables and net asset value.

Keywords: REITs, performance and regression analysis.

1. BACKGROUND OF AL'AQAR HEALTHCARE REIT

On 28th June 2006, the first Islamic REIT called Al'Aqar KPJ REIT was released. The Al-Aqar REIT invested in 6 hospitals with the market value of the properties estimated at USD138mln. 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. Figure 2 shows the statistic of REITs in terms of market capitalization.

According to Securities Commission (2015), 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.

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.

Back to the background of Al-'Aqar Healthcare REIT (previously known as Al-'Aqar KPJ REIT) was listed on the Main Board of Bursa Malaysia Securities Berhad on 10 August 2006. Al-'Aqar Healthcare REIT has set many milestones as The World's First Listed Islamic REIT, Asia's First Islamic Healthcare REIT, 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.

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

1.1   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.

1.2   RESEARCH OBJECTIVE

The aim of the paper is to study the factors that affecting the performance of Al-'Aqar KPJ Healthcare REIT starting from year 2006 until year 2015.

1.3   SCOPE OF THE STUDY

This research will only focus on one company that is pioneer in REITs industry – Al-'Aqar Healthcare REIT. It will observe the performance of Al'Aqar Healthcare REIT starting from the issuance year, 2006 until year 2015.

1.4   RESEARCH METHODOLOGHY

Secondary data on IV and DV is obtained from Bursa Malaysia website. This study set NAV and Dividend Distribution per unit (Dependent variables) as the proxy of REITs' performance. IV is represented by Net Income, Firm Size (TA) and Gearing Ratio (Debt to Equity Ratio). Linear regression analysis will be used to analyze the relationship between IV and DV.

2.   THEORETICAL FRAMEWORK

The following theoretical framework shows how the independent variables that represented by net income, firm size and gearing ratio will influence REITs performance.

INDEPENDENT VARIABLES	DEPENDENT VARIABLES

Net Income
Firm Size
Gearing Ratio

REITS PERFORMANCE:
- NAV per unit
- Dividend distribution per unit

RESEARCH HYPOTHESIS:

H1:   There is a significant relationship between NAV per unit and its independent variables.

H2:   There is a significant relationship between Dividend distribution per unit and its independent variables.

FINDINGS AND ANALYSIS

H1:   There is a significant relationship between NAV per unit and its independent variables.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.997[a]	.994	.991	.00683

   a. Predictors: (Constant), DTE, NIRM, FIRMSIZETARM

The Model Summary provides the correlation coefficient and coefficient of determination (r2 / r square) for the regression model.

As we have already seen a coefficient of .997 suggests there is a strong positive relationship between net income, firm size and gearing ratio (independent variable) with net asset value (dependent variable) while r2 = .994 suggests that 99% of the variance in net income, firm size and gearing ratio can be explained by the net asset value score.   In other words the enhancement of net asset value is strongly predicted by net income, firm size and gearing ratio. This finding is supported by Nor Edi (2016). She found that NAV has negative coefficient with risk but positive significant correlation with dividend yield, net income and size.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.049	3	.016	348.425	.000[b]
	Residual	.000	6	.000		
	Total	.049	9			

a. Dependent Variable: NAVRM

b. Predictors: (Constant), DTE, NIRM, FIRMSIZETARM

The ANOVA tells us whether our regression model explains a statistically significant proportion of the variance. Specifically it uses a ratio to compare how well our linear regression model predicts the outcome to how accurate simply using the mean of the outcome data as an estimate is. The F ratio of 348.425 (see column F) is statistically significant at $p < .0001$ (Column: Sig=.000), suggesting that our model does improve the prediction.

H2: *There is a significant relationship between Dividend distribution per unit and its independent variables.*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.620[a]	.385	.077	1.54962

a. Predictors: (Constant), DTE, NIRM, FIRMSIZETARM

The Model Summary provides the correlation coefficient and coefficient of determination (r^2) for the regression model. As we have already seen a coefficient of .620 suggests there is moderate relationship between net income, firm size and gearing ratio (independent variable) and dividend distribution (dependent variable) while $r^2 = .385$ suggests that 39% of the variance in net income, firm size and gearing ratio cannot be explained by the dividend distribution.

In other words the dividend distribution is not influence by net income, firm size and gearing ratio. This finding is supported by Olusegun (2014) that none of the predictor variable has individual significant contribution to the dividend. Meanwhile Hardin and Hill (2008) revealed in their study that the relationship between size and the dividend payment is statistically significant negative relationship.

3.0 CONCLUSIONS

This study aims to identify the factor affecting REITS performance using a proxy of Net Asset Value and Dividend Distribution per unit. From the findings, it revealed that NAV are influenced by net income, firm size and gearing ratio. While none of the factors effects the performance of dividend distribution. Perhaps in future, there will be more researchers study on the performance of REITs.

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