

Determinant Factors of Profitability in Malaysia's Real Estate Investment Trusts (M-REITS)

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ABSTRACT

The performance of Real Estate Investment Trust (REIT) can be literarily explained in terms of its operational success which is revealed in its profitability to the investors (Grupe & DiRocco, 1999). A company's success in investments is usually measured by its profitability. The objective of this study is to examine the role of determinant factors towards the profitability of M-REITs. This research was conducted using procedures of panel data for a total sample of 8 Malaysia's Real Estate Investment Trusts (M-REITs) for a period of 8 years, starting from 2008 until 2015. The profitability of M-REITs was measured by the return on equity (ROE) as the dependent variable, whereas the determinant factors for M-REITs' profitability are dividend yield (DY), net asset value (NAV) and price earnings ratio (PER) as the independent variables. The outcome from the research revealed that only dividend yield (DY) has a positive significant relationship with M-REITs profitability, and no significant relationship was found between both net asset value (NAV) and price earnings ratio (PER) towards M-REITs profitability.

Keywords: Real Estate Investment Trust (REIT), Profitability, return on equity, dividend yield, net asset value, price earnings ratio.

INTRODUCTION

A stock market is a virtual form of intermediation where buyers and sellers can trade their assets such as shares and company securities (Reilly & Keith, 2012). Stock market has played a crucial role which determine the price of underlying assets at any particular time by matching all the available information. When there are buyers and sellers who are willing to participate in trade in an asset, stock market works. High demand of an asset will cause the value of the asset to rise. The first stock market was initially developed in London in 1606 which means the stock market has roughly over 400 year of histories. Today, due to the advancement of technology, the stock markets have risen to become extensive exchanges of capital and funding, trading in trillions 24/7 across the world. Real estate is considered to be one of the largest sectors within the economies, and yet to be the portent in several financial crises during the past decades. Therefore, to conduct a research on this sector would be beneficial for many, especially for investors to understand what real estate can really offer them and to see its potential in the present and future market. According to Yee et al. (2011), investments in real estate can be done by owning any physical properties or to invest in any property stocks that are listed publicly as well as debt securities that are related to property such as bonds that are issued on developing property projects. The continuous financial innovation has made the investment spectrum expanded within the real estate sector with the development of Real Estate Investment Trusts.

A real estate investment trust (REIT) is a type of public company that invests or finances in real estate whether through purchasing properties or mortgages. REITs trade their shares in the major stock exchange and can be highly attractive to income-seeking investors as one of the asset class investment options due to the fact that REITs usually distribute a minimum of 90% of their taxable income as dividends to their shareholders. Investors also seek to invest and own a share in REITs as it can be said to be less risky with indirectly own a property and able to provide high dividend yields. According to Alias