Evolution of Investments through Sale and Leaseback Investment: A Qualitative Investigation from Malaysian REITs

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Abstract. Sale and leaseback is known as a voluntary investment by owners to free up their equities for other uses while maintaining the use of the facility. In Malaysia, Real Estate Investment Trust (REIT) is one of the institutional investors adopting the sale and leaseback approach for the wide range of new investment technologies to enhance the value of the investment. The aim is to revolutionize the property industry by switching the design of physical asset investments from direct investments to indirect investments influenced by factors determining the property investment yield by analysing and responding to the information received. The research uses a qualitative method due to the limitation in the number of REITs involved in sale and leaseback investments in Malaysia. Using semi structured interviews, the data was recorded, transcribed and analyzed using thematic analyses for multiple interviews. Results indicated three factors that influence the yield which are location, tenants and property type. The result of the study would be a useful guide to Real Estate managers in developing countries to use sale and leaseback as one of the alternative ways to increase the revenue from the property investments.

1. Introduction
The traditional form of transaction, which is the direct investment, has transformed into a new generation of indirect investments in the form of sale and leaseback arrangements. These investments are currently enjoying a new wave of demand among Real Estate Investment Trusts in Malaysia intending to acquire new properties in their portfolios. The institutional investor sector is largely dominated by listed property companies (or known as property shares) and real estate investment trusts (REITs; formerly known as listed property trusts (LPTs)) [12]. Thus, sustainable efforts have been undertaken by the Government to improve the structure of REITs and accelerate their growth. These efforts have renewed the vigour of institutional investors towards the Malaysian securitized real estate market. The total number of Malaysian REITs listed on Bursa Malaysia has increased rapidly from 3 in 2004 to 18 in 2016. According to records of listed Real Estate Investment Trusts as at 31 December 2018, the total net asset value was at RM34.5 million and the total market capitalization was RM41.4 million [2]. Unfortunately, previous studies on Malaysian REITs only emphasized on the performance analysis in their asset portfolios. To date, there is still a lack of studies conducted specifically on the sale and leaseback investments in Malaysian Real Estate Investment Trusts.
1.1 Purpose of the study
The purpose of this study was to investigate the Malaysian REIT’s preference in purchasing property through the arrangement of sale and leaseback investments. Results of the investigation will lead towards the formulation of factors influencing the yield which aids in the investor’s decision-making process when expanding their property portfolio.

1.2 Objective of the study
In line with the above purpose, the objective of the study was to forecast the factors affecting the Yield from the perspective of Malaysian REITs in the arrangement of sale and leaseback investments. The ability among Malaysian REIT Managers to make useful forecasts of yield is crucial especially in investment decisions and portfolio construction. Similarly, the ability to identify factors affecting yield is valuable for academic research.

Brief overview of sale and leaseback investment by Real Estate Investment Trusts (REITs)
Real estate is traditionally considered a lumpy and illiquid investment. Purchase of real estate investment involves the transfer in ownership of land rights, usually with buildings. It involves long-term investment and commitment due to the nature of its returns. It commonly involves substantial capital expenditure which, in most cases, is beyond the reach of small investors. Therefore, indirect property investment becomes the closest alternative where small investors can cater for property cycles and raise economic benefits by investing in stocks of listed property companies. In this study the listed property companies will become the Real Estate Investment Trusts. Indirect investments are now seen by institutional investors as means of improving real estate performance in the medium term by creating a diversified market for property investment. Sale and leaseback investments are examples of such investments made in listed real estate companies.

Sale and leaseback is a special financing technique used in real estate market transactions. It is often used among large real estate investors such as Real Estate Investment Trusts and Operator Company firms. The sale and leaseback approach is a valuable way to release the capital needed to invest in lieu of constructing a new building. It is an alternative extension where it needs a continuous supply of buildings by finding new sites and the onus of obtaining planning permission lies in the future occupants or developer’s partners.

Historically, many large REIT companies in Malaysia have amassed large portfolios of real estate. These properties were either acquired through organic growth over a considerable time or through the amalgamation and takeover of existing businesses such as sale and leaseback investments [13]. The REITs industry has been diversified through segmentation which depends on the functional category of property such as hotels, offices, industrial, residential, healthcare, retail and diversified REITs [8]. The purpose is to allow the investors to be vigilant on the performance of every REIT sector.

Investors such as the REIT companies need to recognize the importance of acquiring quality property in their property portfolio. Hence, their professional advisors need to identify the greatest factors that influence their yields in order to maximize the returns on their property investments in dealing with sale and leaseback arrangements. The ratios between income and capital value or cost in the property market are reflected in the terminologies used; such as rate, return and yield [15]. There are a few factors that may affect the performance of yields in property investments.

2. Research Methods
This research adopts a descriptive and exploratory method, with 'what' and 'how' questions as a guide [6]. The explanatory approach was employed to have a better understanding on the phenomenon. Therefore taking all these into account, a qualitative approach with case study design approach was adopted for this research.

Besides that, Malaysian REITs hold great potential in raising local financial markets as a whole [5]. This is also supported by the Malaysian Securities Commission Annual Report 2013 which concluded that the Malaysian REITs market has matured over the years particularly in the period of post-Global
Financial Crisis of 2008/2009 (GFC) [7]. Taking all these into account, this research survey was thus conducted only on Malaysian REIT companies especially those involved in sale and leaseback investments. Data was obtained through semi-structured interviews conducted directly with persons in charge of the process of arrangement of sale and leaseback investments. Only 6 out of 9 REIT companies involved in sale and leaseback investments participated in the survey out of a total of 18 REIT companies in Malaysia. The use of multiple case studies is the best choice to be explored in this research as these case studies act as intervention reflecting the real-life context in which it occurred. Besides that, similarities and differences within and between cases can be better explored through multiple case studies [1]. As limited conclusive views have been given on the factors influencing yields within the context of sale and leaseback in Malaysian REITs, qualitative triangulation of multiple case studies were conducted to establish the factors through expertise interviews survey. Multiple-case studies can produce results with a higher degree of certainty for external validity when theoretical replications and analyses are conducted in similar contexts [11]. Cross case analyses provide benefits to this research through multiple case studies. The results of the cross-case analyses can be holistically achieved between cases [10].

3. Methods

3.1 Data Collection

The data collection procedure implemented by the researcher in this study is divided into two phases which are:

3.1.1 Phase 1: Literature Review. This research commenced with a review of a range of literature on the research topic itself. In particular, it draws upon a limited amount of academic literature either in Malaysia or from world-wide studies including theoretical and conceptual framework studies. This research deals only with
i) Real Estate Investment Trusts (REITs)
ii) Sale and leaseback transactions in other countries
iii) Factors most influencing the yields.

3.1.2 Phase 2: The Main Survey. The main survey for this study is through semi-structured interviews since the number of participants is limited and data was gathered through field research technique.

**Figure 1. Before the Process of Main Survey**

Figure 1 shows the process of main survey conducted in this research. In step A, the questions prepared were relatively straightforward, aimed at identifying any of the property portfolio among the 18 REIT companies that are involved in the arrangement of sale and leaseback investments.
After the preliminary survey was conducted, the next step is to shortlist the potential participants to be selected in the main survey whereby they fulfil the criteria that have been determined before the preliminary survey was completed. The main selection criterion of a participant is: only REIT companies experienced in dealing of sale and leaseback arrangements were selected. It transpired that only 9 out of 18 REIT companies have their properties under the arrangement of sale and leaseback investments. Once the potential participants were selected, the researcher then approaches the participants to request for interview appointments by either telephone calls or email communication. The main survey of this research uses semi-structured interviews with the participants who are the professionals in charge at the case studies. This is done to allow the participants to generate their own perspectives that act as guide questions leading to the topics and issues about which the interviewer aims to explore. As a consequence of the short-listing of the participants, only 6 out of 9 REIT companies agreed to participate in the main survey. 4 REIT companies agreed to participate through face-to-face interviews while 2 REIT companies were interviewed by telephone. The interviews were conducted in October 2018. The number of interviews was considered sufficient and tallies with the minimum sample size ranging from 5 to 25 for semi-structured or in-depth interviews [3].

3.2 Data Analysis
After the interview surveys recorded individually for each of the participants were completed, the data was subsequently transcribed into a paper script. The interview transcripts were analysed using content analysis and was imported into QSR NVIVO Version 12 for the process of coding and quotations that have been identified are as illustrated in Figure 2.

Through NVIVO the data coding that have been labelled were converted into codes known as nodes which refer to the answers or responses from the interviewees. These codes were then grouped into categories, and themes were then developed. The themes were identified from a pattern or trend for these nodes using thematic and content analyses. The thematic analysis began with familiarization of data, data coding, searching for a theme, and recognizing relationships; and ended with refining themes and testing propositions [3].

![Diagram of Data Collection and Data Analysis]

**Figure 2.** Data Collection and Data Analysis

4. Result and Findings
This research highlights the main factors that influence the yields in order to maximize the returns on property investments dealing with the sale and leaseback arrangements by Real Estate Investment Trusts. Even though the current revenue in investments cannot be calculated until the transaction is made, an investor "may set a target yield for an investment prior to or during ownership". Historical
rates obtained from comparable transactions may be relevant, albeit they do not embrace the future. Therefore, the focus should be on the yield forecast. Predicted rates are estimated either through market participants’ interviews and their views on future market expectations; or through indirect evaluations of factors affecting yields. There are 3 factors that have been identified in this survey to be the critical considerations by all investors prior to purchasing the property under the sale and leaseback investment agreement. They are:

4.1 Location
Location of the property has been identified as the main factor influencing the yield. Whether the property is located in the urban area or the suburbs will produce a different rate of yield. The REIT may consider a property located in the suburban area but they will demand for a higher yield to ensure that it is more secure for the shareholder returns. Properties that are located in the urban areas are more favoured by REITs. This preference is supported by research findings that location in main town centres and prosperous market towns were favoured and considered to be more likely to retain their business over time [4]. Each of the REIT companies have their own target rate.

4.2 Tenant
Selecting an owner or also known as potential tenant is important for the REIT because it may influence the yield of the building itself, as it is dependent on the ability of the tenant to secure income from the business in the building for a long-term tenure in order to pay the rental to the REIT companies. The financial background of the tenants is a determining factor to guarantee their incomes are stable enough to sustain the business. The number of tenants in the building whether single tenant or multiple tenants will influence the returns of the building in future. Simultaneously, it will also affect the distribution of income by the REITs to their shareholders.

4.3 Property Type
Each type of building produces a different type of yield due to the risks that the building face. Some of the REIT companies prefer to invest in a different type of properties, for example mixed type of development or it can be single type of building such as industrial, office or commercial buildings. For instance, Participant 1 prefers to invest his property in the industrial sector in his company’s property portfolio because the yield is more secure compared to Participant 2 who has different preferences such as to have a mixed property portfolio because the yield received is more reliable. In support of these findings, it has been shown that factors having the most influence on yields have a clear emerging theme in the form of property type and each of it may have different forms of variables [4][14].

5. Conclusion
A sale and leaseback investment is a surrogate method of investment transaction in Malaysia. It has been adopted by Malaysian REITs since the establishment of REITs in Malaysia in 2005. This kind of investment is beneficial to both parties; the seller (operational companies) and the buyer (REIT Companies). It is an opportunity for the operation companies to expand their business in the long term by receiving a bunch of capital through selling off their properties but maintaining their businesses and activities in the same building.

Concurrently, REIT companies could increase their property portfolio with low risks due to long term guaranteed rental income. This research paper has identified three factors that influence the yield in sale and leaseback arrangements for Real Estate Investment Trust Companies in Malaysia which are location, tenant and property type. With these factors, it becomes possible to maximize returns by professional practitioners and investors in predicting high yields for portfolio building purposes. Nevertheless, REITs are calling for those sale and leaseback arrangements from the strong operation companies to remain high.
This research focuses on Real Estate Investment Trusts as investors involved in the arrangement of sale and leaseback investments. Further research may also be expanded to cover the other types of investors such as individuals or organizations that are involved in sale and leaseback investments.

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