


Pavilion-REIT occupancy set for sturdy rebound

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PETALING JAYA: Occupancy at Pavilion Real Estate Investment Trust  (REIT) flagship Pavilion Kuala Lumpur mall (PKLM) is expected to recover progressively over the coming quarters as newly reconfigured retail spaces are filled by replacement tenants.

Operationally, portfolio occupancy slipped slightly in the first quarter of financial year 2026 (1Q26), mainly due to lower occupancy at PKLM which declined to 92.6% from 96.8% in the previous consecutive quarter.

The decline followed temporary vacancies arising from the ongoing reconfiguration of spaces previously occupied by anchor tenants Dadi Cinema and Parkson, according to CGS International (CGSI) Research.

Nevertheless, it expects the vacancies to be progressively filled over the next two to three quarters by new tenants, including TGV Cinemas, potentially at higher rental rates per sq ft (psf).

“We expect occupancy to pick up progressively over the next two to three quarters as these spaces are filled by new tenants with potentially higher

average rental psf, which should support robust financial year 2026 (FY26) rental income growth,” the research house said.

It noted that Pavilion-REIT delivered resilient 1Q26 results, with core net profit rising 17% year-on-year and 10% quarter-on-quarter (q-o-q) to RM105.8mil, which is broadly in line with expectations and accounting for 26% of both its full-year forecast and Bloomberg consensus estimates.

The stronger earnings performance was driven mainly by incremental contributions from Banyan Tree Kuala Lumpur and Pavilion Hotel Kuala Lumpur after both hotel assets commenced master lease arrangements in 2Q25.

Furthermore, higher contributions from Pavilion Bukit Jalil and the turnaround at Da Men Mall also supported earnings growth.

On a q-o-q basis, earnings were further lifted by stronger performances from PKLM, Pavilion Bukit Jalil and Elite Pavilion Mall, supported by seasonally stronger gross turnover rent amid robust consumer spending during the Chinese New Year and Hari Raya festive periods.

Moreover, the REIT’s proposed first interim dividend of 2.8 sen per unit is a 5% increase from a year earlier.

Meanwhile, occupancy at Pavilion Bukit Jalil improved to 93.4% from 92.3% in the previous consecutive quarter, while Intermark Mall’s occupancy edged up to 96.4% from 95.7%.

CGSI Research noted that despite lingering concerns surrounding Middle East tensions and potential impacts on tourism activity, Pavilion-REIT is still expected to achieve management’s FY26 rental reversion guidance of mid-single-digit growth, underpinned by resilient footfall and tenant sales across its retail assets.

The research house cautioned, however, that a notable slowdown in tourism could weigh on PKLM’s traffic and tenants’ sales, given the mall’s exposure to tourist spending.

Additionally, earnings contributions from the REIT’s newly acquired hotel assets are expected to remain resilient as both properties operate under master lease structures with guaranteed rental income.

The REIT’s gearing remained stable at 0.4 times as at end-1Q26, which CGSI Research views as manageable, although it noted that there is limited headroom for further acquisitions.

CGSI Research maintained its “hold” call with an unchanged target price of RM1.87 per unit, citing Pavilion-REIT’s relatively compressed FY26 dividend yield of 5.3%, slightly below the sector average of 5.6% which could cap near-term share price upside.

Still, the research house believes Pavilion-REIT’s FY26 to FY28 distribution per unit growth outlook remains intact, supported by healthy occupancy levels and positive rental reversions.