Business Times | 2014-03-05
Reits attract capital, create high-value jobs: study
By Lee Meixian

BESIDES the oft-cited predictable income and low cost of exposure to property that Reits offer, a new study has found that this relatively new asset class has improved the way the real estate market operates, and by their nature brought about other social and economic benefits.

An independent report commissioned by the Asia Pacific Real Estate Association (APREA), a non-profit industry association, reckons that Reits in Asia have become a positive force in the healthy development of property markets.

Reits attract capital, including foreign capital, into the property sector by creating a new vehicle for institutional and retail investors to invest in commercial real estate.

Essentially a financial innovation that breaks up large pieces of property into smaller, tradable pieces, Reits offer investors the steady income and potential for capital gain in real estate investment - but in a more manageable quantity and with better liquidity.

"Reits have essentially changed the nature of property investment, giving individual investors pure and easy access to high-value property, which is a domain previously reserved for large institutional investors," APREA said.

Property developers, by selling stabilised assets to Reits, can also unlock capital which can be more effectively deployed in new development projects.

This in turn generates real economic output and creates new jobs in high-value areas, such as asset management, investment appraisal, senior management, legal and trustee services, investment banking, development management and construction.

Reits, acting as landlords, also often help to improve the quality of real estate assets through refurbishments, repositioning and other enhancements.

"This translates to a better environment for tenants and for the community at large. Over the medium term, this feeds through into deeper professional expertise of asset managers and related professions," said APREA.

Furthermore, Reits improve market transparency in the property industry, the study said.

"As listed vehicles, they are required to provide detailed information to shareholders about rental and capital values, as well as occupancy rates and tenant mix, thereby improving the capacity of all industry players to plan responsibly and helping to smooth out property cycles."

All these are on top of the positive attributes of Reits such as low cost of equity capital, thanks to their better liquidity (being able to raise and borrow funds at a lower cost of capital than property developers), mandated dividends of 90-95 per cent of their income, tax concessions and a lower perceived risk profile due to limits on their borrowing and development risk.

Singapore is among the most developed Reits markets in the Asia Pacific, together with Japan and Hong Kong. Reits have also listed on the stock exchanges of Malaysia, Thailand, South Korea and Taiwan, with other markets like India and the Philippines introducing or mulling Reit legislation.

Since the introduction of Reits in the Asia Pacific in the early 2000s, they have grown into a market worth more than US$140 billion, APREA said. Even as Asian countries seek to introduce or improve their Reit legislation, some governments continue to fear a loss of tax income, since corporate income tax is waived on Reits conditional on their high dividend payout.

But the study maintains that Reits actually result in higher tax revenues. "The resultant increased economic activity and job creation far outweigh any impact of tax concessions," it said.