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Reits 'unlock capital, create jobs' in Asia
By Melissa Tan

Positive findings in new report, despite recent Reit criticism

REAL estate investment trusts (Reits) have brought significant benefits to Asian economies, an association promoting regional real estate investment said yesterday.

Reits - a big hit among Singapore and regional investors in recent years - have faced both criticism and stock market price pressure in recent times.

They have been blamed in some quarters for rental hikes that push up business operating costs, especially for smaller firms.

One of the benefits that Reits bring to Asian economies is that they let institutional and retail investors buy into income-generating real estate, said the Singapore-based Asia Pacific Real Estate Association yesterday.

Reits also attract capital, enjoy a relatively low cost of capital and have helped to improve market transparency and the quality of real estate assets, it added. "They unlock capital, generating additional economic output and creating more jobs."

These findings come from a report that has not been finalised yet, the association's chief executive, Mr Peter Mitchell, told The Straits Times over the phone.

He said the association surveyed 200 to 300 people around the globe, including investors, Reit managers and developers, in the first quarter of last year.

Mr Ken Atchison, managing director of Atchison Consultants and one of the report's authors, said the introduction of Reits in Asia "has and, in the future, will broaden and deepen capital markets" in the region.

"This will reduce dependency on short-term bank lending by mobilising longer-term capital."

Association chairman Lim Swe Guan noted Asian Reits have seen "phenomenal growth" in the past decade: The first Asian Reit was set up in Japan in 2001 and there are now seven Reit markets in Asia boasting a combined market capitalisation of more than US$138 billion (S$175billion).

Reit prices have been weighed down lately by fears of rising interest rates, which make them less attractive as a yield play.

CIMB research head Kenneth Ng said in a note yesterday that the house was neutral on the Reit sector in Singapore. On the one hand, many Reits can be bought relatively cheaply and offer high yields and high occupancy rates. They also have relatively low debt and do not need immediate refinancing. On the other hand, there is a "lack of clear growth drivers" and the threat of rising interest rates, he said.

Real estate assets have also become more expensive owing to stiff competition, which lifts the risk that Reits may make acquisitions that do not add much value.

"More Reits have highlighted the difficulty of choosing between expensive acquisitions and no growth," Mr Ng said.

CIMB's top pick in the sector is Suntec Reit due to its "well-executed" upgrading of Suntec City.

Reits could also come with higher costs for businesses. They may bump up rents as their managers are under pressure to grow rental revenue. The rise in business costs could add to inflation.

Mr Kurt Wee, president of the Association of Small and Medium Enterprises, said last month that "in the institutional landlord space, we are seeing signs of a bit of a cartel in operation".

"We do have limited real estate space in Singapore and, very often, we're hearing anecdotes of very draconian measures on individual tenants by institutional landlords," he said, according to a Business Times report.