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REITs expand reach in Asia

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Heavyweight Thai developer Bangkok Land's huge Muang Thong Thani complex is being injected into the new Impact Growth REIT. © Courtesy of Impact Exhibition Management

SINGAPORE -- As Thailand's first real estate investment trust prepares for its listing on Oct. 1, more Asian markets are moving to open their doors to the high dividend securities, with new attention turning toward India and China.

REITs have proved popular in more developed Asian markets with both yield-seeking investors and policymakers, who see them as a means of mobilizing capital for investment in housing, commercial property and infrastructure. Since the region's first REIT listings in Japan in 2001, the market capitalization of Asia's REITs has grown to $140 billion, with about $30 billion more in Australia, according to the Asia Pacific Real Estate Association.

Peter Verwer, APREA's chief executive, said that developments in Thailand, India and China "show the REIT growth engine is shifting into a higher gear in the Asian real estate marketplace."

Thailand's Impact Growth REIT, controlled by property developer Bangkok Land, announced Sept. 18 that its retail offering had been fully subscribed in just a day and ultimately was 4.1 times oversubscribed. The 15.7 billion baht ($488 million) offering was priced at 10.60 baht, the top of the originally estimated range. It is the largest REIT initial public offering in Asia outside Japan so far this year, according to Dealogic, a financial data provider.

"Given the current volatile market situation, a financial product such as Impact Growth REIT is deemed to be a great choice for investors who look for an investment with consistent return over the long run," said Montree Sornpaisarn, CEO of Maybank Kim Eng Securities (Thailand), which acted as joint lead underwriter.

Impact Growth owns Bangkok's Muang Thong Thani complex, the largest indoor exhibition and convention center in Southeast Asia. While Thailand has had property funds since 2003, Impact Growth will be its first actual REIT and the regulator will no longer accept property fund listings.

The new legal regime for REITs allows them to take on more debt and invest in a wider range of assets than property funds did. Verwer called the listing a "positive step that will encourage more international investment interest."

Easier path in India

Officials are quickly clearing a path for REITs in India too, which could help the country's developers raise cash. The new budget presented in July by Finance Minister Arun Jaitley laid out favorable tax treatment for REITs. Then on Aug. 10, the Securities and Exchange Board of India set out detailed rules for REIT listings, saying they should be at least 2.5 billion rupees ($41 million) and only include commercial properties. It's unclear how soon the first Indian REIT will emerge, but property broker Cushman & Wakefield has forecast that up to $12 billion could be raised by Indian REITs in their first three to five years.

However, APREA has expressed concerns that the proposed tax structure for Indian REITs "could result in multiple levels of tax for domestic investors." Other challenges include a shortage of quality assets, issues over legal ownership of assets and the absence of standard valuation policies.

China passed a milestone in listing its first REIT in May. However, the new Citic Qihang Specific Asset Management Plan, promoted by Citic Securities in a 5.2 billion yuan ($846 million) offering, is only open to institutional investors and trades on a restricted platform of the Shenzhen stock exchange. The fund holds two office buildings in Beijing and Shenzhen.

Calling Citic Qihang "a promising step in the right direction." Verwer said his group was "engaging with Chinese regulators to craft a pathway to establishing REIT legislation in a country that will overtake the U.S. and Europe as an economic powerhouse within the next decade." Still, while Chinese officials have discussed allowing for retail REITs for more than a decade, they are likely still years away.

Merely legalizing REITs does not guarantee they will take off. Indonesia and the Philippines each opened their doors to REITs several years ago but still have a total of just one listing between them -- Indonesia's Dire Ciptadana, which owns a mall in the city of Solo.

Francis Ed Lim, who successfully campaigned for REIT legalization in 2009 as president of the Philippine Stock Exchange, complained in a newspaper column Sept. 18 that "the Philippines still has zero share in this huge global industry" because of government intervention. He cited Bureau of Internal Revenue moves to tax transfers of property into REITs and to require large provisions for income taxes as well as a Securities and Exchange Commission decision setting a high minimum public shareholding.

Would-be listings in Indonesia have faced similar barriers, according to Sindi Paramita, a property analyst with Bank Mandiri. "The high cost of taxes that investors must pay has resulted in low interest in REIT transactions," he said in a commentary Sept. 10, citing taxes on both property owners selling REIT shares and selling property into REITs, along with rental and income taxes.

Singapore's gain

The slow development of REITs in Indonesia, China and India has been a boon for Singapore. Its REIT sector has more than doubled in size in the last five years, in part by tapping investor interest in REITs that hold properties overseas.

Concerns about rising interest rates however have dramatically slowed new Singapore REIT listings in the past year though there are some recent signs of revival, with two recent IPOs of nearly 370 million Singapore dollars ($292 million) each. Frasers Hospitality Trust, backed by Thai billionaire Charoen Sirivadhanabhakdi, went public June 23 with a global portfolio of hotels and serviced apartments. On Aug. 13, IREIT Global, which owns German office properties, listed after placing 60% of its offering with Chinese property investor Tong Jinquan, who has large holdings in other Singapore REITs.

Hong Kong, already one of the region's leading REIT markets, is about to get a further boost -- the Securities and Futures Commission announced Aug. 29 that REITs could begin investing in new projects and financial instruments rather than just existing properties. The new rules also tighten disclosure and reporting requirements.

Hang Seng Indexes, the unit of Hang Seng Bank that manages Hong Kong's benchmark stock indices, said Aug. 15 that it would open all its indices to REITs, a step previously taken by Singapore, Japan and Australia. This could lead to the admission by year end of Link REIT, Asia's largest REIT by market capitalization, into the main Hang Seng Index; Link was listed by the Hong Kong government to hold shopping malls and car parks attached to public housing in 2005.

In Japan, prices of listed REITs have tripled in the last two years amid Prime Minister Shinzo Abe's reforms and have been particularly boosted this year by a new tax benefit. Since mid-August, a flurry of announcements of secondary offerings by Japanese REITs has caused share prices to dip amid worries of supply imbalance. Japan is second only to Spain in REIT IPO proceeds so far this year, according to Dealogic, with $1.5 billion raised in three deals.

Malaysia corners Sharia interest

The REIT market in Malaysia is a sixth of the size of Singapore's, but has grown fivefold since 2009. Growth is expected to continue, driven by domestic developments and the country's strong platform for Sharia-compliant investment products, said Ken Atchison, managing director of Atchison Consultants, a real estate advisory and property investment manager in Melbourne.

According to a survey commissioned by APREA and sponsored by financial services group Perpetual earlier this year, fund managers intend to increase their allocation to Asian REIT markets over the next three years, with a bias towards established jurisdictions such as Australia, Singapore, Japan and Hong Kong.

Singapore was regarded as the most conducive regulatory regime for REITs with a 64% vote, based on the survey of about 195 senior institutional investors and fund managers who invest in real estate and REITs. Australia was next, followed by Japan and Hong Kong. Taiwan and South Korea carry a "heightened level of uncertainty surrounding the regulatory regimes reflecting their relative recent introduction," the report said.