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Singapore Real Estate Investment Trusts (S-REITs): A 10 year success story **September 2012**

Within the last month, two new REITS have been listed on the Singapore stock exchange. On 27th July 2012 Ascendas Hospitality Trust went public and one month later on 27th August 2012, the Far East Hospitality Trust had its first trading day.

We would like to dedicate this article to the history of Singapore listed REITs from the first Initial Public Offering in 2002 till today. We will look into the mechanics/definition of REITs, the regulatory framework, taxation, the different sectors [Office space, Retail, Mixed (Retail & Office), Industrial as well as Hospitality & Healthcare] and their performance and trends.

What is a S-REIT?

A REIT uses the pooled capital of many investors to purchase and manage income property (equity REIT) and/or mortgage Loans (mortgage REIT). REITS are traded on major exchanges just like stocks. You will find below an illustrated timeline on the first Initial Public Offering of a REIT by country.

1960s	1970s	1980s	1990s	2000s	2010s	future
USA Netherlands	Australia		Canada Belgium Turkey New Zealand	Japan South Korea Singapore South Africa France Greece Taiwan Brazil Thailand Hong Kong Bulgaria Malaysia Israel Germany UK Italy		China Philippines

(Source: The Association of Real Estate Securitization and CFA Institute)

The first REIT listed on the Singapore stock exchange was Capitamall Trust in July 2002. Singapore REITs hold a variety of properties in countries including – but not limited to – Singapore, Japan, China, Indonesia, Europe and Hong Kong. S-REITs are regulated by the Monetary Authority of Singapore's [MAS] Code of Collective Investment Schemes.

A S-REIT comes with several benefits for its investors:

- Traded on the Singapore stock exchange which ensures transparency
- Distributions are tax exempt (see below further explanations)
- A mandatory and high distribution of income (see below regulatory framework)
- A multi property portfolio allowing to invest in hotels, malls, industrial- and other commercial properties
- Regulated by the MAS

Obviously we cannot only look at the benefits but should also consider the risks involved. There might be a potential conflict of interest if most properties have been sold to the Trust by the same sponsor who was also the developer of the property. There is a risk that a two class system exists in which the sponsor keeps the A class properties for himself and sells the B class properties into the REIT. It is therefore also essential to look into the individual REIT and how the properties have been acquired. An investment in REITs comes also with the volatility of the individual stock's market price, it is dependent on the overall market & business conditions and – last but not least – the quality of the underlying assets.

What is the regulatory framework for REITs in Singapore?

REITs in Singapore are governed primarily by the Securities and Futures Act (SFA), the MAS' Code of Collective Investment Schemes (in particular the Property Funds Guidelines) and by SGX (Singapore Stock Exchange) listing requirements. REITS that are to be offered to the retail market in Singapore must be authorised by the MAS if constituted in Singapore or recognised by the MAS if constituted outside Singapore.

Below is a list of the most important requirements, restrictions and obligations of a REIT. Please note that the list is not complete but rather addresses the most important points.

A REIT denominated in Singapore dollars must fulfill the following requirements in order to be approved for listing at the SGX:

- a minimum asset size of at least S$20 million
- at least 25% of its units are to be held by 500 public unit holders
- limit its investments in companies related to its substantial unit holders' investment managers or management companies to a maximum of 10% of gross assets
- restrict investments in unlisted securities to 30% of gross assets
- minimum mandatory debt ratio of 35% but this can be exceeded up to a maximum of 60%, if rating requirements are satisfied

Investments are restricted to the following permissible investments:

- real estate

- real estate-related assets
- listed or unlisted debt securities and listed shares of or issued by a local or foreign non property company
- government securities
- cash or cash equivalent items.

Within the investment universe, the following restrictions apply:

- at least 75% of its deposited property should be invested in income-producing real estate
- it must not undertake property development activities whether on its own, in joint ventures or by investing in unlisted property development companies, unless the REIT intends to hold the developed property upon completion
- it must not invest in vacant land and mortgages (except for mortgage-backed securities)
- its investments in uncompleted property developments (local and foreign) should not exceed 10% of its total assets
- for investments in listed or unlisted debt securities and listed shares of or issued by local or foreign non-property companies, government securities and securities issued by supranational agencies or a Singapore statutory board, and cash and equivalent items, not more than 5% of the REIT's deposited property can be invested in any one issuer's securities or any one manager's funds, but note this does not apply to deposits placed with eligible financial institutions and investments in high-quality money market instruments or debt securities
- not more than 10% of the REIT's revenue should be derived from sources other than rental payments to be made by tenants and interest, dividends and other similar payments from investments held by the REIT
- borrowings and deferred payments (aggregate leverage) must not exceed 35% of the REIT's deposited property, except if a credit rating of the fund has been obtained and disclosed to the public, in which case the aggregate leverage can be up to 60% of the deposited property

Beside investment universe, restrictions and requirements, the following periodic obligations need to be met for SGX listed REITS:

- financial statement announcements on a quarterly and half yearly basis
- distributions to unit holders in form of dividends must be announced
- preparation of financial reports and announcements of net asset value
- a full valuation of each of the REIT's real estate assets to be conducted once a year by a valuer
- at financial year end, the issue of an annual report containing information required under the Property Funds Guidelines of the CIS Code and under the SGX Listing Manual (for example, the chairman's statement, audited accounts, details of all assets of the REIT and description of its corporate governance practices)
- Holding of an AGM.

What are the tax benefits for S-REITs' investors?

The Singapore Government announced in the 2004 Budget that distributions made by Real Estate Investment Trusts ("REITs") to Individuals - whether foreign or local - on or after 1 January 2004 will be tax exempt, provided that at least 90% of any taxable income will be distributed. Arising from this tax exemption, the Inland Revenue Authority of Singapore ("IRAS") has allowed S-REITs to make gross distributions (i.e. without tax deducted at source) to all Individuals (excluding partnerships). Individuals who derived the distributions through a partnership in Singapore or from the carrying on of a trade, business or profession are not eligible for this tax exemption and are required to declare the distributions in their income tax returns, notwithstanding, that gross distributions are made to them.

To encourage foreign investors to invest in and further develop the Singapore REITs market, the Singapore Government had also announced in the 2005 Budget a reduction in the withholding tax rate on REITs distributions to Foreign Non-individual Unit holders from 20% to 10% for distributions made during the period from 18 February 2005 to 17 February 2010.

The deadline of 17 February 2010 has expired and the Budget Statement 2010 proposed that the reduced rate of 10% will be renewed for the period from 18 February 2010 to 31 March 2015.

Arising from these changes on the taxation of REITs distributions to Individuals (both local and foreign) and Foreign Non-Individual Unit holders, procedures have been established to allow eligible Unit holders to claim a refund of tax, if any, over-deducted from distributions made to them.

Which are the REITs listed on the Singapore Stock Exchange (STX) and how did they perform since listing?

REIT name	Bloomberg ticker	IPO date	Dividend Gross Yield	Capital appreciation since IPO	Total return since IPO	% of Buy recomm.	% of Hold recomm.	% of Sell recomm.	Property sector
CapitaCommercial Trust	CCT SP	April 2005	5.5% p.a.	32.22%	100.70%	60	20	20	Office space
Fraser Commercial Trust	FCOT SP	March 2006	5.87%p.a.	-55.82%	-23.77%	100	0	0	Office Space
K-REIT	KREIT SP	August 2007	6.80%p.a.	-39.89%	-12.56%	41	47	12	Office Space
Capitamall Trust	CT SP	July 2002	4.88%p.a.	143.65%	309.60%	47	47	6	Retail
CapitaRetail China Trust	CRCT SP	August 2006	6.47%p.a.	-31.67%	-4.75%	55	45	0	Retail
Frasers Centrepoint Trust	FCT SP	May 2006	5.79%p.a.	69.81%	146.44%	65	35	0	Retail
Starhill Global REIT	SGREIT SP	September 2005	5.80%p.a.	-11.88%	44.32%	70	30	0	Mixed
Suntec REIT	SUN SP	September 2004	6.47%p.a.	30.18%	128.53%	43	29	28	Mixed
Mapletree Commercial Trust	MCT SP	April 2011	5.59&p.a.	21.59%	30.90%	82	18	0	Mixed

Asencas REIT	AREIT SP	November 2011	5.83%p.a.	155.26%	380.35%	22	68	10	Industrial
Mapletree Industrial Trust	MINT SP	October 2010	6.72%p.a.	22.65%	38.25%	47	33	21	Industrial
Mapletree Logistics Trust	MLT SP	July2005	6.27%p.a.	14.03%	93.02%	81	6	13	Industrial
Cambridge Industrial Trust	CREIT SP	July 2006	7.74%p.a.	-10.41%	65.68%	40	20	40	Industrial
Cache Logistics Trust	CACHE SP	April 2010	7.05%p.a.	15.10%	37.94%	63	37	0	Industrial
Ascott Residence Trust	ART SP	March 2006	7.23%p.a.	7.43%	68.55%	73	27	0	Hospitality & Healthcare
CDL Hospitality Trust	CDREIT SP	July 2006	5.70%p.a.	125.27%	224.14%	48	42	10	Hospitality & Healthcare
Ascendas Hospitality Trust	ASHT SP	July 2012	N/A	0.57%	0.57%	67	33	0	Hospitality & Healthcare
Far East Hospitality Trust	FEHT SP	August 2012	N/A	6.45%	6.45%	N/A	N/A	N/A	Hospitality & Healthcare

(Source: Bloomberg as per 30th August 2012)

What are the key drivers of the different sectors and what are today's trends in the Singapore Property Market?

Land supply and overall economy

Land supply and the overall economy have an obvious impact on all property sectors (Retail, Office, Industrial and Hospitality). Singapore with its relatively small size of only 710km2 has limited land available for its over 5mio inhabitants. For the second half of 2012, the government has placed 13 sites for private residential development on the confirmed list for Government Land Sale which can yield about 7,100 residential units. This is comparable to the supply made available in 1H2012. On the commercial side, there was only 1 land plot added to the confirmed list for Government Land Sale near Jurong to further develop the Jurong Lakeside. There are 3 additional sites foreseen for office development.

The Government Land Sale (GLS) Programme is reviewed regularly to ensure that there is sufficient supply of land to meet demand for economic growth and to maintain a stable and sustainable property market. Sites in the GLS Programme are released through two main systems – the Confirmed List and the Reserve List. Confirmed List sites are released on a fixed, pre-determined date; while a site on the Reserve List will only be released for sale if the criteria for triggering the sale of the site are met.

Key Drivers for demand in the different sectors

Retail properties	employment, demographics, tourist arrivals, occupancy cost
Office properties	financial & business sector, employment

Industrial properties manufacturing sector & government regulations
Hospitality properties tourist arrivals, MICE (meetings, incentives, conferencing, exhibitions)

Several restrictions on the residential property market implemented over the last few years and a hunt for yield are channeling capital into industrial properties such as warehouses and flatted factories. What does that mean for our Industrial REITS?

In fact there are more industrial property REITs listed in Singapore today than retail and office property REITs. However, they have never been as popular with investors as the other two sectors. A number of industrial REITs were casualties of the 2008/9 global financial crisis. However, many industrial REITs have delivered better total returns than the leading retail property and office property REITs, despite their yields not having been compressed as much over the years by investor enthusiasm. Industrial REITs deliver a relatively high proportion of their total returns through dividend payouts rather than capital appreciation and are therefore usually less volatile. In addition, industrial REITs favor tenant stability over revenue growth. Notably, their weighted average lease expiry (WALE) tends to be longer than those of commercial and retail REITs. Since 2008, Singapore REITs have also managed their liability side much more actively compared to previous years. Liabilities are in general well distributed over several years without any major liabilities expiring in any single calendar year. This has resulted in REITs being recognized as truly low beta, high dividend yield stocks. Dividend yields of Singapore listed REITs currently range between 5.50% - 7.50% p.a.

Please do not hesitate to contact us if you have any additional queries on S-REITs or if you wish to discuss individual investment opportunities with us.

Your Helvetic Team/AW