Asia REIT Hub: Is Singapore on track to realizing the goal?

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Presentation Outline

- Rapid rise of Asia REIT markets
  - A glimpse of Singapore REIT market
- What is the growth story moving forward?
- What are the drivers of growth?
- Growth strategies
- What are the challenges and uncertainties faced?
- Milestones for An Asia REIT hub
- Lessons to be learnt – Malaysia REIT market
Rapid rise of Asia REIT markets

- Relatively short history of development compared to the US and Australia markets
- Started in 2001 with the first Japanese REIT, Nippon building Fund Inc, being listed on the Tokyo Stock Exchange (TSE)
- Currently 102 REITs across seven countries (ex-Australia & NZ)
- Combined market capitalization of US$77.72 billion, which constitutes 12% of the world market share (based on World total of $646.44 bil by MSCI/Citigroup Global Equity estimate).
World REIT Markets – by value (US$’000) (as at 1 August 2007)

Total market capitalization: US$646.44 billion
Total number of REIT: 273

North America, $334,905.00, 52%
Europe, $129,661.00, 20%
Asia Pacific, $181,873.00, 28%

Source: S&P/Citigroup Global Equity Indices
Asia REIT Markets - by Value (US$) (as in 3Q2007)

- Japan: 60%
- Singapore: 23%
- Taiwan: 2%
- Thailand: 2%
- Hong Kong: 10%
- Korea: 1%
- Malaysia: 2%
- Korea: 2%

Source: Datastream, the author
Asia REITs – by market comparison

- Japan is the largest market with 40 J-REITs with a market capitalization of US$46.70 billion
- Singapore is the second largest REIT in Asia with a market share of 23.3% by market cap. (18 REITs with market value of US$18.1 billion – 3Q2007)
- Hong Kong is catching up fast with 7 REITs (market cap US$7.99 billion) currently listed and several in the pipelines
- Malaysia REITs (ex earlier LPTs) constitute only 1.7% of the Asia REIT share (11 REITs with a market cap of US$1.37 billion)
Asia REIT markets – country comparison (as in 3Q2007)

Source: Datastream, the author
Expansion of the Asia REIT markets – by value (US$’000)

Source: Datastream, the author

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“Promoting REITs will help enlarge our capital market, grow our local fund management business, and benefit other areas of the financial sector. While we have good progress, Australia, Malaysia and Hong Kong are all actively developing their REIT markets. We therefore need to do more.”

Mr Lee Hsien Loong
Prime Minister, Singapore
18 February 2005

Source: “Govt unveils incentives to build Singapore into finance hub” Channelnewasia.com
Growth story of Singapore REITs
- Emergence and expansion

- In Singapore, the idea of creating a REIT, which was first mooted by the Property Market Consultative Committee in 1986.
- It has finally come into fruition in July 2002 following the successful launch of the maiden CapitaMall Trust (CMT) by the listed property giant CapitaLand.
- Ascendas rode on the strong momentum created by CMT and followed up with its Ascendas REIT (A-REIT) launch on 19 November 2002.
- As of today, there are 18 REITs listed on the Singapore Stock Exchange
- The S-REIT growth in the recent years have been fueled by both new REIT listings and escalating REIT stock prices
- Newer REITs are more specialized by asset type (healthcare & cross-border) and they also adopt more sophisticated structure (business trust and stapled)
Singapore REITs (S-REITs) by market capitalization (as in 3Q2007)

Total Market Cap. = US$18.13 bil. (S$27.68 bil)

Source: Datastream, the author
Maturing of S-REIT market

1st REIT listed on SGX was CapitMall Trust (Jul02)

New REIT listings (#)  Incremental Market Cap. (US$'000)

Source: Datastream, the author
Asia REIT performance

Source: Datastream, the author

- Total Return
- Dividend Yield

Singapore: 6.68% 3.97%
Japan: 4.65% 4.29%
Malaysia: 7.45% 3.47%
Korea: 5.28% 5.73%
Taiwan: 2.91% 0.62%
Thailand: 6.28% 0.62%
Hong Kong: 7.18% -2.73%

Source: Datastream, the author

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Analysis of S-REIT Performance
- Total return (%)

Source: Datastream, the author
Growth story moving forward...
Engines of growth

- Supply-side drivers
  - Liquidity premiums for converting asset from private to public markets
  - Improving credit rating through reduction of debt burden – asset light strategies
  - New sources of revenue through fund management and structuring
  - Moving beyond “brick and mortar” - asset warehousing, structuring and asset management

- Demand-side drivers
  - Strong demand from institutional investors
  - Attractive yield-centric and tax-efficient investment products for pension funds, and other investors (individuals and institutions)
  - A conduit for intermediating flows of funds across capital markets
Underperformance of assets of listed property companies

Average P/B ratio for 15 listed property companies
3Q2001 - 4Q2004 = 0.62; 3Q2001 - 3Q2007 = 0.88

Source: Datastream, the author
Favorable valuation of assets in REIT portfolios

Average P/B ratio of 12 S-REITs (as of 3Q2007) = 1.17

Source: Datastream, the author
S-REITs yielding good returns
- Performance analysis

Source: Datastream, the author
Growth strategies

Source of Funds and assets

- Organic & dynamic growth
- Cross-border acquisitions
- Listing of new REITs in traditional and specialized sectors
- Cross-border listing of new REITs

Existing REITs

New REITs

Supply-side drivers

Demand-side drivers

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Domestic Growth

- Organic / non-acquisition growth strategies
  - Asset enhancement
  - Improved revenue (turnover leases, step-up rents, increased non-rental income)
  - Pro-active asset management
- Dynamic growth – yield accretive acquisitions
  - Steady stream of acquisition pipelines fed by sponsors
  - First right of refusal given to sponsoring REITs
  - Fee-based revenue for asset management arms of sponsors
- Consolidation via mergers of competitive REITs is not anticipated in near term
Pro-active Management

- continued alignment of tenancy mix with market trends
- enhancing the shopper experience to attract and retain increased traffic
- formulating strategies and initiatives to deliver higher returns
- setting optimal rental and expense benchmarks at each mall
- reviewing space usage to optimise income
- managing rental arrears to minimise bad debts
- monitoring expenses to maximise net property income
- addressing all key operational issues to ensure alignment with the strategies

Source: Capitamall Trust
Active enhancement of real estate space efficiency

“*We believe so long as we do all the good work to enhance our asset, to improve the traffic, carry out more A&P activities, and if our tenants do more sales, they will pay us.*”

“*There's no limit to the rent that they will pay us?*”

Mr Pua Seck Guan
CMT Management's chief executive officer

Source: “CMT posts $49m in distributable income” Joyce Teo, Straits Times, 28 January 2005
Growing REIT via accretive acquisitions

- CCT, which is 40 per cent owned by property developer CapitaLand, plans to double its asset size to $4 billion within three years.

- “The Reit will continue to grow its portfolio by buying more commercial properties covering different sectors, such as carparks, business parks and mixed developments.”

  **Mr Martin Tan**
  Chief executive, CCT Management

- It will also consider acquiring local and overseas properties that offer higher returns for its unit-holders.

  *Source: “CCT buys $159m HSBC Building”, Tan Hui Yee, Straits Times, 4 February 2005*
Aggressive acquisitions
- Is the current pace of by REITs sustainable?

- "It is a significant portion because we are able to assemble a pretty large portfolio of properties.' He said at the briefing that there is a lot more room for A-Reit to grow, with the trust aiming to expand to '$3-4 billion in time to come.”

- “There are about 20-25 million sq m in the investible universe for A-Reit out of some 26.4 million sq m of business space in Singapore.”

- Mr Tan Ser Ping
  - CEO of A-Reit manager Ascendas-MGM Funds Management

Source: “A-Reit to launch $110m in new units” Business Times Singapore, 15 October 2004
Another growth story for S-REITs..

“We can have China retail. It provides good growth but there could be some traditional investors in Reits that may not have mandate to invest in China because it's still a new market to them. A lot of people are concerned that CMT doesn't have growth potential in Singapore. I want to dispel that. We strongly believe that growing our asset size to $4-5 billion in three years (from $2.2 billion currently) through acquisitions in Singapore alone can be achieved.”

- Mr Pua Seck Guan,
  - CEO of CapitaMall Trust Management Ltd (CMTML)

Is bigger better for REIT?

- Scale effects via merger or organic growth (by acquisition)
- Positive economic of scale effects achieved by larger firms – size efficiency
  - Management economies of scale
  - Lower cost of capital
  - Brand imaging
  - Increased bargaining power with customers and suppliers
- The relationship is non-linear, which suggests that possible diminishing effects when critical size is reached
- Yang (2001) found scale advantages in total expenses, interest expenses, property management expenses and G&A costs
- Ambrose and Linneman (2001) confirm that every billion dollar increase in market capitalization of REIT translates into a 2.2% reduction in capital costs
Moving beyond “brick and mortar”

- Private equity and opportunistic funds are increasingly active in real estate deals / acquisitions
- Appetite for high risk-return trade-offs in short terms
- Always on the look-ups for opportunities for acquisitions, warehousing and enhancement of income producing properties
- CapitaLand’s private property funds: CapitaLand Retail Singapore, CapitaRetail China Development Funds (US$600 million), CapitaRetail China Incubator Fund (US$425 million), CapitaRetail India Development Fund
- Other funds: Asia Retail Mall funds by GRA
- Real estate are becoming more portable and exportable through fund flows in international capital markets
- Exit strategies of the funds:
  - Public offerings
  - Disposal of assets wholesale to other private funds or REITs
Selected private property funds

- **CapitaRetail Singapore**
  - Securitization of 3 Singapore shopping malls with junior bonds sold to CMT and other investors

- **Japan Rental Apartment Fund**
  - A JV with Arcapita Bank (Bahrain) to form CapitaLand’s first Shari’ah compliant property vehicle. Focuses on acquiring rental apartment buildings in key Japan cities

- **CapitaLand China Development Fund**
  - US$400m fund co-sponsored with Citigroup. Invest in large real estate development projects in China.

Source: CapitaLand Financial
“Pushes” for cross-border acquisitions

- Small size of the property market in Singapore
  - Limits supply of quality income-generating properties - tightly held by owners/developers
  - Competitive bids drive down property yields in home markets

- Economics of scale in selected sectors eg. service apartment, logistics

- Diversification/ risk reduction

- Pulls from overseas property markets
  - Larger pool of yield accretive acquisitions in emerging markets
  - First mover advantage in overseas markets
How do REITs execute cross-border Strategies?

Cross-border options (from the sponsors’ perspective):

1. Expanding existing portfolios of REITs to include overseas property
   - Mapletree Logistics REITs, Macquarie MEAG Prime REIT

2. Offshore listing while keeping asset portfolio focused in home base
   - Fortune REIT, First REIT (listed in Singapore), GZI REITs (listed in Hong Kong)

3. Home country listing for overseas assets
   - CapitaRetail China, Ascendas India, Ascott Residence Trust

4. Onshore listing in country where assets are based
   - Exporting expertise & maximizing institutional/ tax advantages in listing countries
   - MaCarthurCook Industrial Trust, Allco Commercial Trust (listed in Singapore) an dQuill Capita Trust (listed in Malaysia)
Which are cross-border REITs?

<table>
<thead>
<tr>
<th>Asset Holdings</th>
<th>Home country</th>
<th>Overseas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home country</td>
<td>CMT, A-REIT, CCT, Suntec REIT, Cambridge Industrial Trust, Frasers Centrepoint Trust, CDL-Hospitality Trust</td>
<td>Fortune REIT, First REIT</td>
</tr>
<tr>
<td>Overseas</td>
<td>MapleTree Logistics REIT, Ascott Residence Trust, Macquarie MEAG Prime REIT, CapitaRetail China, Ascendas India Trust</td>
<td>Allco Commercial Trust, MaCarthurCook Industrial Trust</td>
</tr>
</tbody>
</table>

*The REITs’ status as cross-border REIT may change as acquisition strategies evolve and expand over time.

- Cross border REITs are either listed / traded in overseas stock exchanges (Type 1) or invest in real estate assets in one or more countries outside their home base (Type 2).
- Represented by REITs in shaded boxes.
- The origin of the sponsor is not a relevant factor in determining the cross-border status.
Economic motivations of cross-border strategies

- REIT listed in foreign exchanges
  - Access to international capital (equity and debt)
  - Optimize asset value - Positive signaling
  - Increase exposure via institutional ownership of REIT shares

- REITs with geographically diversified portfolios (spread by markets)
  - Portfolio diversification benefits
  - Smoothing out cyclical risks
  - Access to larger pool of assets with attractive yields
Cross-border strategy is independent of REIT size

Evidence from US REITs (1985-1992)

<table>
<thead>
<tr>
<th>REITs by size</th>
<th>1st quartile</th>
<th>2nd quartile</th>
<th>3rd quartile</th>
<th>4th quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average total asset ($million)</td>
<td>29</td>
<td>70</td>
<td>124</td>
<td>279</td>
</tr>
<tr>
<td>Value-weighted premium (%)</td>
<td>-24.70%</td>
<td>-14.40%</td>
<td>-3.70%</td>
<td>8.40%</td>
</tr>
<tr>
<td>Leverage ratio (%)</td>
<td>30.00%</td>
<td>31.00%</td>
<td>37.00%</td>
<td>38.00%</td>
</tr>
<tr>
<td>Property concentration index (%)</td>
<td>72.80%</td>
<td>60.60%</td>
<td>59.20%</td>
<td>65.50%</td>
</tr>
<tr>
<td>Regional concentration index (%)</td>
<td>53.90%</td>
<td>58.50%</td>
<td>55.80%</td>
<td>59.00%</td>
</tr>
<tr>
<td>General &amp; Administrative Expenses/Total Asset (%)</td>
<td>1.70%</td>
<td>1.40%</td>
<td>1.20%</td>
<td>0.90%</td>
</tr>
<tr>
<td>Cash Flow Yield (%)</td>
<td>8.60%</td>
<td>7.70%</td>
<td>8.50%</td>
<td>7.90%</td>
</tr>
</tbody>
</table>

Small REITs are more highly concentrated by property type

No significant variation in regional distribution for REITs of different size

Source: Capozza and Lee (1995)
Warehouse REITs are more likely to have “cross-border” portfolios

Evidence from US REITs (1985-1992)

<table>
<thead>
<tr>
<th>REITs by type</th>
<th>Office</th>
<th>Warehouse</th>
<th>Retail</th>
<th>Apartment</th>
<th>Diversified</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average total asset ($million)</td>
<td>102</td>
<td>64</td>
<td>162</td>
<td>173</td>
<td>142</td>
</tr>
<tr>
<td>Value-weighted premium (%)</td>
<td>-7.50%</td>
<td>-24.20%</td>
<td>-1.10%</td>
<td>-10.70%</td>
<td>-8.70%</td>
</tr>
<tr>
<td>Leverage ratio (%)</td>
<td>31.00%</td>
<td>39.00%</td>
<td>34.00%</td>
<td>54.00%</td>
<td>32.00%</td>
</tr>
<tr>
<td>Property concentration index (%)</td>
<td>69.20%</td>
<td>68.30%</td>
<td>71.60%</td>
<td>64.50%</td>
<td>34.70%</td>
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Source: Capozza and Lee (1995)

Warehouse REITs are relatively small in term of asset size, and the assets are well diversified by geographical regions.
Potential cross-border REITs in the pipeline

- Potential new listing of REITs with assets distributed across countries
  - Mapletree Pan-Asia Industrial REIT (2007)
  - Lippo Group
  - CDL’s Millennium & Copthorne Hotels REIT

- Foreign REIT planned for listing in foreign exchanges
  - Allco REIT (Singapore)
  - Legend Holdings (parent of Lenovo group) (Hong Kong)

- Expansion of existing REITs’ portfolio to include overseas assets
  - CCT and MEAG Prime REIT may expand portfolio to include overseas properties
Does diversification affect the returns of cross-border REITs?

- Diversification across borders does not affect total expenses
  - Diversification by property type however increases style expenses
  - Style expenses are related to managerial effort in focus/diversification strategies
  - Increase expenses are compensated by higher return
  - Investors view investment as zero-NPV projects
  - (Capozza and Seguin, 1998 and 1999)
- Diversification affects liquidity of REIT
  - Less focused firms are harder to value and monitor
  - Information is more costly to collect, agency cost increases and liquidity reduces
  - Lower cost of capital for focused REITs
Cross-border REITs in institutional investors’ portfolio

- Expected rate of returns from cross-border REITs
- Cost of diversification in regional portfolio
  - Internal vs external strategy
- Does diversification matter?
  - Evidence in the US suggest otherwise (Gyourko and Nelling, 1996)
- Will the story of capital cost prevail over the diversification story?
  - No empirical evidence
- Expected outcome: possible clientele effects exist
  - Institutional vs retail investors
International Diversification through Asset Acquisitions

- No restriction on Asia REITs (except for Japan and Thailand REITs) to acquire properties overseas
- Many Australia’s listed property trusts are actively pursuing international diversification strategy
  - 52% securitization level (UBS, 2004)
- LPTs with international exposure
  - WESTFIELD AMERICA
  - LEND LEASE
  - MACQUARIE COUNTRYWIDE
  - MACQUARIE GOODMAN
- 2002 INTERNATIONAL EXPOSURE BY LPTs = 18% (Newell, 2002)
  - 1998 EXPOSURE = 8% & 1995 EXPOSURE = ZERO
- Hamelink and Hoesli (2004) found significant country risk premia in international diversification
Diversification by geographical and property type

- Diversifications by geographic region and property type are the common portfolio strategies adopted by institutional property investors and equity Real Estate Investment Trusts (REITs).
- Gyourko and Nelling (1996) examined the effects of these two strategies on the market-based measures of diversification and systematic risk.
  - They found no evidence that the market-based equity REIT diversification measures are related to the diversification strategies either by property type, by geographic or by broad economic regions.
  - The systematic risks of equity REITs varied with respects to the type of property in their portfolio holdings, but not with geographical dispersion of the properties.
- Campbell, Petrova and Sirmans (2003) found negative wealth effects with acquisitions that result in geographical diversification.
Uncertainties in macro-economic & environment

Challenges ahead...
Potential threats

- Interest rate uncertainty and sub-prime woes
- Yield compression
- Leveling of playing field
Greater integration of international capital markets

Sub-prime turmoil in US has removed US$802,440 (4.4% of MV) of S-REITs value from the market between 2Q and 3Q2007

Source: Datastream, the author
Those days of high dividend yields are gone.

*Most REITs are traded within a narrow yield band of 4-5%*

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Source: Datastream, the author
Are playing fields leveling?

- Singapore’s competitive edge
  - One of the most tax-friendly REIT regimes in Asia
  - Established REIT players and managers with tested track-records
  - Strong government’s supports

- Convergence of REIT models by competing markets
  - Tax transparency incentives (except Hong Kong and Korea)
  - Lifting of restrictions for oversea acquisition (except for Japan and Thailand)

- Keen competition from Hong Kong for China cross-border REITs

- Malaysia REITs offer complimentary real estate options, and not substitution / direct competition

- Expanding REIT products – Islamic REITs, stapled REITs, Business Trust model,
Asia REITs are expanding steadily.

*Competition for new REIT listings in Asia is intensifying!*

Source: Datastream, the author

Sing Tien Foo, Dept of Real Estate, NUS
Milestones for an Asia REIT hub – Has it arrived..?

Some possible benchmarks

- High level of securitization in home country assets
- Attracting institutional investors and increasing of REIT composition in their portfolio
- Ratio of cross-border to local REITs & asset based distribution (by type and geographical region)
- Sophisticated structuring and financial engineering in new REIT products to satisfy different appetite for risks (market depth and breadth)
- Professionalism and expertise in fund and asset management
- Transparency and corporate governance
- Representation of REITs in benchmark international indices (MSCI etc)
- Efficient tracking and performance indicators like NREIT
- Comprehensive database and promoting active research (academic and market-based)
Many Australia’s listed property trusts are actively pursuing international diversification strategy
  - 52% securitization level (UBS, 2004)

LPTs with international exposure
  - WESTFIELD AMERICA
  - LEND LEASE
  - MACQUARIE COUNTRYWIDE
  - MACQUARIE GOODMAN

INTERNATIONAL EXPOSURE BY LPTs (Newell, 2002)
  - 2002 = 18%
  - 1998 = 8%
  - 1995 = 0%

In US, REITs own 19% of total real estate equity (2002)
Still room for public ownerships of real estate in the US..

Source: Roulac Group (Investment Property Report, 12/11/02), & PPR Inc.
Asia REIT hub – milestones and roadmap

- Plus points for listing in Singapore
  - Attractive premium to NAV for REITs
  - Acceptance of instruments
  - Strong interest of institutional investors
  - Reputable sponsors & good quality assets
  - Established framework for REIT trading
  - Transparency and good corporate governance
  - Asset & fund management expertise
  - Coverage by Analysts

- Competition from other new REIT markets like Hong Kong, Malaysia
Conspiracy theory? or Market is inefficient?

“At its proposed offer price range, Fortune Reit offers a yield close to CMT's. However, property analysts and consultants familiar with the location of Fortune's five shopping malls in Hong Kong - mostly in the New Territories - say they are inferior to CMT's. Whereas CMT's suburban shopping complexes, like Junction 8 in Bishan, are in high customer traffic locations, the bulk of Fortune's are part of mixed developments and their primary role may be to serve the people living or working in the area.”

“So according to the conspiracy theory, Cheung Kong may be hoping that Singaporeans unfamiliar with Fortune's malls will assume they are of similar quality to CMT's, and rush to subscribe to its IPO. Whereas, if Cheung Kong were to list Fortune in Hong Kong, the locals there would be better able to gauge the risks.”

Source: “Why is Li Ka-shing floating Fortune Reit in S'pore?”
Business Times Singapore, 19 July 2003
What could we expect from Singapore REIT market?

- REITs are traded at premium to NAV
  - Yields are compressed
  - Put pressure on non-REIT property companies to enhance the returns of assets

- REITs will continue to grow their size through accretive acquisitions

- More REITs will be listed to take advantage of the market premium to book values
  - Will the competition drive down the premium in the long run?
Discount/Premium to NAV
Listed Property Company & REITs (FY2003)

% Premium/Discount to NAV

Source: Datastream, author
What lessons to be learnt for Malaysia REITs?
M-REITs offer attractive returns

Source: Datastream, the author
The market is relatively thin

Malaysia REITs by market capitalization (as in 3Q2007)

<table>
<thead>
<tr>
<th>REIT Name</th>
<th>Market Capitalization (US$'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UOB REIT</td>
<td>$107.2</td>
</tr>
<tr>
<td>Tower REIT</td>
<td>$114.8</td>
</tr>
<tr>
<td>Starhill REIT</td>
<td>$330.6</td>
</tr>
<tr>
<td>Quill Capital Trust</td>
<td>$94.9</td>
</tr>
<tr>
<td>Hektar REITs</td>
<td>$135.5</td>
</tr>
<tr>
<td>Al Hadharah Bous. REIT</td>
<td>$171.5</td>
</tr>
<tr>
<td>Al-'Aqar KPJ REIT</td>
<td>$93.4</td>
</tr>
<tr>
<td>Axis REIT</td>
<td>$121.4</td>
</tr>
<tr>
<td>A trium REIT</td>
<td>$36.6</td>
</tr>
<tr>
<td>AM First REITs</td>
<td>$117.8</td>
</tr>
<tr>
<td>AmanahRaya REIT</td>
<td>$49.5</td>
</tr>
</tbody>
</table>

Lacking the scale economics!

Source: Datastream, the author
Potentials of Malaysia REITs - Catching the wave..

- Attracting institutional investors
  - Reduction in withholding tax
  - Tax rate for non-resident institutional investors was cut from 20% to 10%
  - Scale effect and liquidity (floatation of share) are important "pulls"

- Focusing on domestic markets in growing REIT portfolio
  - Room for injecting assets into REITs
  - Building up pipelines for more aggressive yield accretive acquisition activities

- Developing expertise in professional fund and asset managers
  - Deregulating the industry and relaxing foreign equity constraints

- Enticing cross-border listing of REITs
  - Uphill challenge in near term
Thank you

Questions & Answers
Analysis of Total Returns of M-REITs

Source: Datastream, the author