A Presentation to Singapore Exchange (SGX)

REIT Market in Singapore: Challenges Ahead

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National University of Singapore
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Presentation Outline

- REIT Concept
- Evolution of US REIT Market
- Characteristics of US REIT Market
- Some Issues:
  - Are REITs Stocks or Real Estate?
  - Do REITs Drive Real Estate Prices?
  - Does Size of REIT Matter?
- New Asian REIT Markets – Competition & Challenges Ahead

REIT Concept
What is a REIT?

- Real estate investment trust (REIT) is a (public or private) company that combines capital of many investors to acquire (or provide finance) and manage income generating properties.
- For public REITs, the shares are freely traded on stock exchanges.
- In the US, Qualified REITs must pass two tests:
  - Asset Test:
    - Invest at least 75 percent of its total assets in real estate assets.
    - Derive at least 75 percent of its gross income from rents from real estate property or interest on mortgages on real property.
    - Have no more than 20 percent of its assets consist of stocks in taxable REIT subsidiaries.
  - Dividend Test:
    - Pay annually at least 90 percent of its taxable income in the form of shareholder dividends (wef 2001).
    - It is a pass-through entity.

Motivations for REIT Creation

- REITs were created by US Congress in 1960.
- To make investments in large-scale, income-producing real estate accessible to smaller investors.
- There are about 180 REITs registered with the Securities and Exchange Commission in the United States.
- Total assets of these listed REITs exceed $400 billion.
- Source: NAREIT.
- In Singapore, the development of REITs is mainly driven by private sector’s initiatives.
  - Sponsoring companies take the opportunity to divest / spin-off their low-yielding income producing properties.
  - Unlocking the property values, and reducing gearing on book.

Comparison of Asian REIT Markets

<table>
<thead>
<tr>
<th>Country</th>
<th>Australia</th>
<th>Japan</th>
<th>Korea</th>
<th>Malaysia</th>
<th>Singapore</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of REITs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>History of REIT market</td>
<td>Launched in 1970s</td>
<td>September 2001</td>
<td>1989</td>
<td>July 1, 2002 delayed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No of REITs</td>
<td>24 (ASX300)</td>
<td>14</td>
<td>7</td>
<td>3</td>
<td>4</td>
<td>n.a.</td>
</tr>
<tr>
<td>Market Capitalization (US$billion)</td>
<td>50b</td>
<td>AS76.56b</td>
<td>13.3b</td>
<td>0.5</td>
<td>0.1</td>
<td>2.7</td>
</tr>
<tr>
<td>Market sector</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diversified, Industrial, Commercial, Retail, Hotel and International</td>
<td>Office, retail, industrial and residential</td>
<td>Office</td>
<td>Office, retail, and industrial</td>
<td>Office, retail, and industrial</td>
<td>Office, retail, and industrial</td>
<td></td>
</tr>
<tr>
<td>Management structure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Both External and Internal Managers</td>
<td>External manager</td>
<td>Internal manager</td>
<td>External manager</td>
<td>External manager</td>
<td>Internal manager</td>
<td></td>
</tr>
<tr>
<td>Minimum Real Estate Asset requirement</td>
<td>No minimum asset requirement</td>
<td>75%</td>
<td>70%</td>
<td>75%</td>
<td>90%</td>
<td></td>
</tr>
<tr>
<td>Dividend policies (minimum distribution)</td>
<td>100%</td>
<td>90%</td>
<td>90%</td>
<td>90%</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Gearing policies (% of total asset)</td>
<td>No restrictions</td>
<td>No restriction</td>
<td>No restriction</td>
<td>No restriction</td>
<td>30%</td>
<td>35%</td>
</tr>
<tr>
<td>Restriction on development activities in income producing properties?</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Tax transparency</td>
<td>Tax deferred</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

Source: Author, UBS Investment Bank, JP Morgan.
Evolution of US REIT Market

Growth of REIT Market in US

REIT in 1970s – Going through the rough patch
- Booming construction & development activities beginning in 1969
- Rapid growth & tight monetary policy
  - High interest rates and limited supply of funds for the construction & development loans
- Mortgage REIT flourishing
  - In 1973, real estate boom ended, coupled with rising interest rates, a national recession and an overbuilt real estate market
    - Builders default on loans
    - Inexperienced REIT managers & investment advisor
    - Finance long-term mortgages using 30-60 days commercial paper
- REIT price plummeted in 1974
- Rapid growth turned to rapid decline
The second half of 1970s
- The fitter REITs survive

- Equity REITs fared the best
- REITs survived the 1970s
  - Specialize in direct equity investments
  - Have a conservative investment strategy
  - Use low levels of leverage
- Good opportunity for surviving REITs
  - Equity REITs: purchased low-priced properties from distressed mortgage REITs.
  - Mortgage REITs: evolved into equity REITs when they foreclosed on properties

REITs in 1980s
- Periods of remaking / transformation

- Renewed interest on REITs toward the end 1970s
- Competition for real estate capital fund by other vehicles
  - Real Estate Limited Partnerships (RELPs)
  - Master Limited Partnerships (MLPs)
- New forms of REITs
  - Self-liquidating finite-life REIT (FREIT)
    - Assets will liquidated after a finite period of time (10 years)
    - Intention: investors will receive a capital gain upon liquidation of the FREIT's assets
  - Participating loans
  - Joint venture on projects to spread risk
- Tax Reform Act of 1986
  - Eliminated tax advantages of RELPs and MLPs
  - Changed the REIT concept by providing REITs with more flexibility
    - Internally managed.
    - Reduce conflicts of interest
    - Provided opportunity to improve efficiency

REIT in 1970s and 1980s –
Fighting for public acceptance

- “In 1985, a majority of investors did not know what a REIT was and, for that matter, did not care. Still others remembered the painful lessons of the 1970s and swore they would never again invest their money in REITs.”

  Decker (1997)
  The Real Estate Finance Journal
Modern REITs in 1990s and beyond - Period of Rapid Growth & Consolidation

- Major changes in 1990s that stimulate strong growth of REITs
- Omnibus Budget Reconciliation Act of 1993
  - Relax 5/50 rule
- Tax Reform Act 1986
  - New breed of REITs in 1990s:
    - Self-advised Model - Managers took a significant equity position
    - Specialize in property types - More focused
- The REIT Simplification Act 1997 and the REIT Modernization Act 1999:
  - REITs are allowed to:
    - perform certain services for tenants
    - own taxable subsidiaries
    - engage in development activities
    - form joint ventures
  - Distribution of earnings is revised to 90% from 95%
- New Umbrella Partnership REITs (UPREITs) and DownREIT structures

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**US REIT Operating Structure**

<table>
<thead>
<tr>
<th>Segment</th>
<th>UREIT</th>
<th>SREIT</th>
<th>MREIT</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Retail</strong></td>
<td>12</td>
<td>0</td>
<td>1</td>
<td>23</td>
</tr>
<tr>
<td><strong>Healthcare</strong></td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td><strong>Industrial/Office</strong></td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Residential</strong></td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td><strong>Self Storage</strong></td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td><strong>Specialty</strong></td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>20</td>
<td>2</td>
<td>1</td>
<td>23</td>
</tr>
</tbody>
</table>

Payout: 50% (Payout: 65%)

**Summary of Major Changes to Legislations and Regulations in the US**

- Tax Reform Act 1986
  - Allow internally-advised structure
  - Kimco Realty Corporation in 1991
  - Remove tax shelter for other investment vehicle like RELPs & MLPs
- Omnibus Budget Reconciliation Act of 1993
  - Relax 5/50 rule through “look-through” provision
- REIT Simplification Act 1997
  - perform certain services for tenants
- REIT Modernization Act 1999
- UPREIT structure introduced in 1992
  - Taubman Center
Risk & Return Characteristics of US and Singapore REITs

Yield Driven Instruments

Notes:
1. Domestic interbank overnight interest rate as at June 2003. (Source: MAS Website)
2. As at 30 June 2003. Source: MAS Website
3. Based on CPF Ordinary Account from April to June 2003. (Source: CPF Website)
4. Source: Bloombery data as at 30 June 2003
5. Based on A-Reit Market Price - $0.95 as at 30 June 2003
6. Based on CMT Market Price - $1.15 as at 30 June 2003

20-year Average Annual Total Return (December 1983 – December 2003)

Note: NAREIT® Composites are price only.
Source: National Association of Real Estate Investment Trusts®.
Risk & Returns for S-REITs and Property Stock Portfolios

<table>
<thead>
<tr>
<th>Stock/Portfolio Code</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>SXG All-Shares</td>
<td>0.06%</td>
<td>2.52%</td>
</tr>
<tr>
<td>SXG All-Property</td>
<td>0.01%</td>
<td>3.35%</td>
</tr>
<tr>
<td>Ascendas REIT</td>
<td>0.57%</td>
<td>2.22%</td>
</tr>
<tr>
<td>CapitalCommercial Trust</td>
<td>0.55%</td>
<td>4.29%</td>
</tr>
<tr>
<td>CapitalMall Trust</td>
<td>0.44%</td>
<td>1.78%</td>
</tr>
<tr>
<td>Fortune REIT</td>
<td>0.47%</td>
<td>2.17%</td>
</tr>
<tr>
<td>CapitalLand</td>
<td>-0.01%</td>
<td>5.04%</td>
</tr>
<tr>
<td>Portfolio 1 (largest Cap)</td>
<td>0.06%</td>
<td>4.13%</td>
</tr>
<tr>
<td>Portfolio 2</td>
<td>0.08%</td>
<td>3.29%</td>
</tr>
<tr>
<td>Portfolio 3</td>
<td>0.18%</td>
<td>2.85%</td>
</tr>
<tr>
<td>Portfolio 4</td>
<td>0.08%</td>
<td>3.17%</td>
</tr>
<tr>
<td>Portfolio 5</td>
<td>0.17%</td>
<td>3.08%</td>
</tr>
<tr>
<td>Portfolio 6</td>
<td>0.18%</td>
<td>2.76%</td>
</tr>
<tr>
<td>Portfolio 7 (smallest Cap)</td>
<td>0.27%</td>
<td>4.56%</td>
</tr>
</tbody>
</table>

Source: Datastream

US Equity REIT Dividend Yield vs 10-Year Constant Maturity Treasury Yield

Source: National Association of REITs (NAREIT)

S-REITs Dividend Yield Vs 10-year T-bond Yield

Source: Datastream
REITs behave more like small-capitalized property stocks

REITs outperform all categories of property stocks

Are REITs stocks or Real Estate?

Why is this question important?

- Traditionally, institutional investors hold common stocks and bonds in their portfolio. Real estate (direct or indirect) offers an alternative asset class for diversification purpose.
- Private (direct) real estate appeals as an “asset class”
  - Perceived low correlation with stocks
  - Downside has been the lack of liquidity
- Indirect vehicle (REITs) share prices are expected to be driven by real estate market fundamentals – 70% of asset holdings in real estate
- Higher trading volume and lower transaction costs, REITs are more susceptible to stock market shocks
- Ghosh, Miesa and Sirmans (1996) examines the liquidity and diversification benefits of REITs
- REITs historically have been found to be similar in many respects to small stocks
- They found that correlation between REIT and other stock market indexes declines over years (1985-1996)
Declining Correlations

Correlation Coefficient of Monthly Returns (% vs) Between NAREIT Index (Excluding Healthcare REITs) and the S&P 500, S&P 400, S&P Household, S&P Retail, and Houston Small-Cap indices from 1985 through June 1996

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>0.759</td>
<td>0.350</td>
<td>0.362</td>
<td>0.409</td>
<td>0.456</td>
<td>0.466</td>
</tr>
<tr>
<td>S&amp;P Retail</td>
<td>0.414</td>
<td>0.323</td>
<td>0.286</td>
<td>0.261</td>
<td>0.202</td>
<td></td>
</tr>
<tr>
<td>S&amp;P Household</td>
<td>0.513</td>
<td>0.428</td>
<td>0.326</td>
<td>0.360</td>
<td>0.319</td>
<td></td>
</tr>
<tr>
<td>S&amp;P Retail</td>
<td>0.318</td>
<td>0.217</td>
<td>0.249</td>
<td>0.249</td>
<td>0.193</td>
<td></td>
</tr>
<tr>
<td>Houston Small-Cap</td>
<td>0.879</td>
<td>0.506</td>
<td>0.355</td>
<td>0.355</td>
<td>0.666</td>
<td></td>
</tr>
</tbody>
</table>

Implications:
Improved diversification benefit by including REITs into a portfolio consisting of stocks & bonds

Source: Ghosh, Miles and Sirmans (1996), Real Estate Finance

Correlation Analysis

Sample period: 28 Dec 2000 – 05 Jan 2005

<table>
<thead>
<tr>
<th>Correlation Matrix</th>
<th>NAREIT Equity</th>
<th>Wilshire 500</th>
<th>NASDAQ Composite</th>
<th>S&amp;P 500</th>
<th>S&amp;P 400</th>
<th>Russell 2000</th>
<th>ML Govt/Corp Bond</th>
<th>Domestic High Yield Corp Bond</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAREIT Equity</td>
<td>0.32</td>
<td>0.87</td>
<td>0.34</td>
<td>0.39</td>
<td>0.4</td>
<td>0.55</td>
<td>0.02</td>
<td>0.39</td>
</tr>
<tr>
<td>Wilshire 500</td>
<td>1.00</td>
<td>0.87</td>
<td>0.98</td>
<td>0.35</td>
<td>0.84</td>
<td>0.01</td>
<td>0.51</td>
<td>0.93</td>
</tr>
<tr>
<td>NASDAQ Composite</td>
<td>0.87</td>
<td>1.00</td>
<td>0.85</td>
<td>0.01</td>
<td>0.71</td>
<td>0.05</td>
<td>0.49</td>
<td>0.64</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>0.39</td>
<td>0.35</td>
<td>1.00</td>
<td>0.01</td>
<td>0.36</td>
<td>0.01</td>
<td>0.51</td>
<td>0.93</td>
</tr>
<tr>
<td>S&amp;P 400</td>
<td>0.43</td>
<td>0.71</td>
<td>0.36</td>
<td>1.00</td>
<td>0.01</td>
<td>0.51</td>
<td>0.93</td>
<td>0.64</td>
</tr>
<tr>
<td>Russell 2000</td>
<td>0.55</td>
<td>0.01</td>
<td>0.36</td>
<td>0.01</td>
<td>1.00</td>
<td>0.01</td>
<td>0.51</td>
<td>0.93</td>
</tr>
<tr>
<td>ML Govt/Corp Bond</td>
<td>0.02</td>
<td>0.05</td>
<td>0.01</td>
<td>0.51</td>
<td>0.01</td>
<td>1.00</td>
<td>0.01</td>
<td>0.51</td>
</tr>
<tr>
<td>Domestic High Yield Corp Bond</td>
<td>0.39</td>
<td>0.49</td>
<td>0.64</td>
<td>0.93</td>
<td>0.64</td>
<td>0.93</td>
<td>0.64</td>
<td>0.93</td>
</tr>
</tbody>
</table>

Source: National Association of REITs (NAREIT)
Monthly percentage of Institutional Ownership (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>S&amp;P - Average</th>
<th>Small-Cap - Average</th>
<th>REIT - Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>7/95</td>
<td>65.82</td>
<td>66.27</td>
<td>67.10</td>
</tr>
<tr>
<td>8/95</td>
<td>66.43</td>
<td>66.79</td>
<td>67.16</td>
</tr>
<tr>
<td>9/95</td>
<td>63.59</td>
<td>64.30</td>
<td>66.99</td>
</tr>
<tr>
<td>10/95</td>
<td>64.80</td>
<td>64.73</td>
<td>67.00</td>
</tr>
<tr>
<td>11/95</td>
<td>64.40</td>
<td>64.40</td>
<td>67.36</td>
</tr>
<tr>
<td>12/95</td>
<td>64.10</td>
<td>64.80</td>
<td>67.23</td>
</tr>
</tbody>
</table>

Institutional investors investment is low but growing

Source: Ghost, Miles and Simons (1996), REF

High transaction costs for REITs

<table>
<thead>
<tr>
<th></th>
<th>Price (S$)</th>
<th>Standard Deviation (S$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High-Low</td>
<td>1.046</td>
<td>1.046</td>
</tr>
<tr>
<td>Bid-Ask</td>
<td>2.011</td>
<td>2.011</td>
</tr>
</tbody>
</table>

REITs are traded with higher transaction costs (upper end of bid-ask spread) and lower volume

Source: Ghost, Miles and Simons (1996), REF

Should REITs be regarded as stocks or real estate in a portfolio?

- If REITs behave more like a small-cap stocks, diversification benefits may be diluted.
- REITs price movements will not be perfectly correlated with stock market price because of the unique structure and restrictions imposed on REITs.
- Glascock, Lu and So (2000) found that before 1992, REITs behave more like bonds than stocks.
- Structural changes occurred after 1992, REIT price movements are more closely correlated with stock market shocks.
- Relationships between REITs and direct real estate markets are more controversial.
Some Issues:
Do REITs drive real estate price?

What drive the rent of real estate space?

“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

- CMT posts $49m in distributable income
  Joyce Teo
  28 January 2005
  Straits Times
Going back to basic:

- Rent is residual after deducting operating costs and expenses, profit from gross revenue.
- Performance REIT-owned properties versus properties owned by non-REIT companies - are they different?
- Can REIT pay more for a property than other non-REIT company?
- What are news in the asset enhancement strategies undertaken by REITs companies?
- Does cost of capital matter?
  - “Risk is in the asset not in the beholder.”
  - Unless there is difference in ability to alter the risk of future CFs of a homogenous property.
- Should there be difference in rents between REIT and Non-REIT properties? Why? And why not?
  - Management expertise?

Is there a bubble in REIT price?

- When REIT valuation > Private valuation (positive REIT premium to NAV):
  - REIT has growth opportunities (NPV > 0, "accretion") from buying in the private market.
  - REIT raise capital by issuing stock in the public market, use proceeds to buy properties.
- When REIT valuation < Private valuation (negative REIT premium to NAV):
  - REIT are no longer "growth stocks", and their shares are re-priced accordingly in the stock market (price/earnings multiples fall, REITs are priced like "value stocks", or "income stocks").
  - In the extreme, REITs may become "shrinking stocks", maximizing shareholder value by selling off property equity (or debt) and paying out proceeds in dividends.
- The 2 markets swing between these 2 conditions, also with periods when they are nearly equal valued.

Which valuation is "correct"? Price correction mechanism in the market – information is essence.

More Issues:
Does REIT Size Matter?
Growing REIT via 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.

- CCT buys $159m HSBC Building

Another growth story of REIT...

- "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."

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

CMT seeks views on move abroad

Kalpana Rashmika
28 January 2005

Top-10 Equity REIT by Market Capitalization

<table>
<thead>
<tr>
<th>Ranking of REITs</th>
<th>Company</th>
<th>Subsector</th>
<th>Equity Market Capitalization (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Simon Property Group, Inc.</td>
<td>Regional Malls</td>
<td>11,106.1</td>
</tr>
<tr>
<td>2</td>
<td>Equity Office Properties Trust</td>
<td>Office</td>
<td>11,273.4</td>
</tr>
<tr>
<td>3</td>
<td>Equity Residential</td>
<td>Apartments</td>
<td>8,106.8</td>
</tr>
<tr>
<td>4</td>
<td>Vornado Realty Trust</td>
<td>Diversified</td>
<td>8,008.6</td>
</tr>
<tr>
<td>5</td>
<td>General Growth Properties, Inc.</td>
<td>Regional Malls</td>
<td>8,008.6</td>
</tr>
<tr>
<td>6</td>
<td>Prologis Trust</td>
<td>Industrial</td>
<td>6,984.3</td>
</tr>
<tr>
<td>7</td>
<td>Public Storage, Inc.</td>
<td>Self Storage</td>
<td>6,957.1</td>
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<td>10</td>
<td>Boston Properties, Inc.</td>
<td>Office</td>
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Source: National Association of REITs (NAREIT)
Comparison of Equity Market Capitalization

Market Size Comparison

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<thead>
<tr>
<th>No.</th>
<th>Company</th>
<th>Code</th>
<th>Historical Average</th>
<th>Current</th>
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<tr>
<td>1</td>
<td>CITY DEVELOPMENTS</td>
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<td>6145.44</td>
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<td>1597.71</td>
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</tr>
</tbody>
</table>

*In REIT Market Cap include the A-REIT (A) share and the recent S$200 million capital raised
*Historical average for listed property companies are computed from Dec 2000 to Dec 2004 (weekly data)

Market Capitalization

Source: National Association of REITs (NAREIT)

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

Source: Datastream

Number of REIT

Source: National Association of REITs (NAREIT)
Moving forwards...

What do we learn from US experience?

- REIT concept to stay
- LegislationS and structure of REITs in US have evolved over time
- More internally-advised REITs and UPREITS
- Size does matter
- Institutional investors are important to monitor REIT management
- REIT characteristics change over time
  - Modern REITs are more like stocks
  - Fundamental of direct real estate market

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?
A Presentation to SGX

S-REITs Dividend Yield Vs 10-year T-bond Yield

Source: Datastream

REIT Share Price Premiums to Green Street NAV Estimates
January 1990 - January 2005

Source: Green Street Advisor

Discount/Premium to NAV Listed Property Company & REITs (FY2003)

Source: Datastream, author
Is the current pace of acquisitions 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."

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

A-Reit to launch $110m in new units
15 October 2004
Business Times Singapore

International Diversification through Asset Acquisitions

- No restriction on Asia REITs (with the exception of Hong Kong 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
- Hamelinck and Hoesli (2004) found significant country risk premia in international diversification

Attracting Cross-border REIT listing

- 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 II 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.”

Why is Li Ka-shing floating Fortune Reit in S’pore?
- 19 July 2003
  Business Times Singapore

Facing competition..

Some pointers..

- Continue to attract interests from institutional investors
- More competitive management fee structure
- Legislations & regulations changes
- Strengthening research on REIT
  - Information / database
- Benchmarking of REIT performance
  - NAREIT index
  - S&P/ASX 200 Property Trusts (Sector) index
- Establishment of an Asian Association of REITs?
  - A vehicle similar to NAREITs in the US
  - Bringing together REITs sponsors, fund and asset managers, institutional investors to share information
New Products Creation.

- **Global REITs**
- Debt instruments
  - Commercial Mortgage Backed Securities (CMBSs)
- Mortgage REITs
  - To invest in Mortgage backed securities
- Financial REITs
  - Restriction in current REIT guidelines
    - Not more than 5% of REIT’s total assets can be invested in any one issuer’s securities or any one manager’s funds
    - 35% of REIT’s total asset must be invested in real estate

Global REIT is seen to be a source of more stable returns

*First State to launch global property-securities fund*

First State Investments will launch a global real estate securities fund, the first exclusively committed to global real estate securities. The new fund will include exposure to the US, Asia, Europe and Australia. The fund is managed by a team of experienced real estate and financial services professionals.

Global REIT is seen to be a source of more stable returns

*Source: Business Times, 28 January 2005*
Thank you