REITs

An Alternative Investment Tool for your Wealth Creation

by

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ATIC Kuala Lumpur 2010

REAL ESTATE INVESTMENT TRUST

Introduction

The biggest asset class that the average Malaysian invests in is his life time is:

Property

Introduction

Why Property?

Hedge against inflation
Measure of wealth
Inheritance for children

Introduction

What Property do we buy?

Houses
Shop lots
Office suites
Condos

Introduction

What Problems do we commonly face buying property for investment?

Quick disposal
Exposure to interest rates
Taxation on income
Finding tenants

Introduction

Until 2005 people who wanted to invest in property directly had only these choices

But all that has changed -Today There is a different form of investing directly in property

You can invest in REITs

What is a REIT?

“A real estate investment trust is a listed vehicle that invests in a portfolio of income-generating properties. Rents collected from tenants, less expenses are distributed on a regular basis to provide stable yields to Unitholders”

This distributed income to Unitholders is subject to a **one time withholding tax of 10% for individuals**. The REIT is **not taxed** by the IRB”

What is a REIT?

- ✓Units in a REIT represents equity ownership
- ✓Indirect access of large, stable estate portfolios in a tax efficient manner
- ✓Investors are only taxed once
- ✓Governed by a Trust Deed, the stock exchange and the securities commission regulations which define the operating procedures ensuring a high level of corporate governance

Why Listed REITs

- ✓Liquid proxy to physical assets
- ✓Priced daily in the market
- ✓Liquid pool of stocks / easy disposal
- ✓Linked to interest rate cycle
- ✓Hedge against inflation
- ✓Low entry / minimum purchase 100 units only
- ✓Excludes Property Business risk

REITs vs. Real Estate

	REITs	Real Estate
Capital Growth	Yes	Yes
Regular Dividends	Yes	Not certain
Liquidity	Yes	No
Tax Efficiency	Yes	No
Professional Management	Yes	No
Part ownership of Large assets	Yes	No
Correlation with other investments	Yes	No

REITs vs Property Companies

Earnings Profile

- A REIT is driven by recurring rental income

  A property company seeks a combination of property sales, development profits, rental income and property investments

Capital Structure and Cash Flow

- A REIT has low and defined level of retained earnings, low debt level defined by the regulators and strong cash flow from operations

  A property stock has a high gearing ratio due to high capital expenditure required for property development and sometimes negative cash flow. Low dividend payouts

REITs vs Property Companies

Dividend Distribution Policy

- A REIT will distribute 90-100% of its retained earnings before tax.

  A property stock has no certainty of a dividend payout.

Risk Profile

- A REIT is a low risk, passive investment vehicle with a high certainty of cash flow from rentals derived from lease agreements with tenants

  A property stock has a high development and financial risk.

REITs vs Property Companies

Corporate Governance

- REITs are governed by multiple layers of stakeholders - unitholders, manager, trustees, regulating authorities ensuring that interest of minority unitholders are protected.

A property stock is often dominated by a controlling shareholder which raises conflict of interest issues with minority shareholders.

REITs vs Unit Trusts

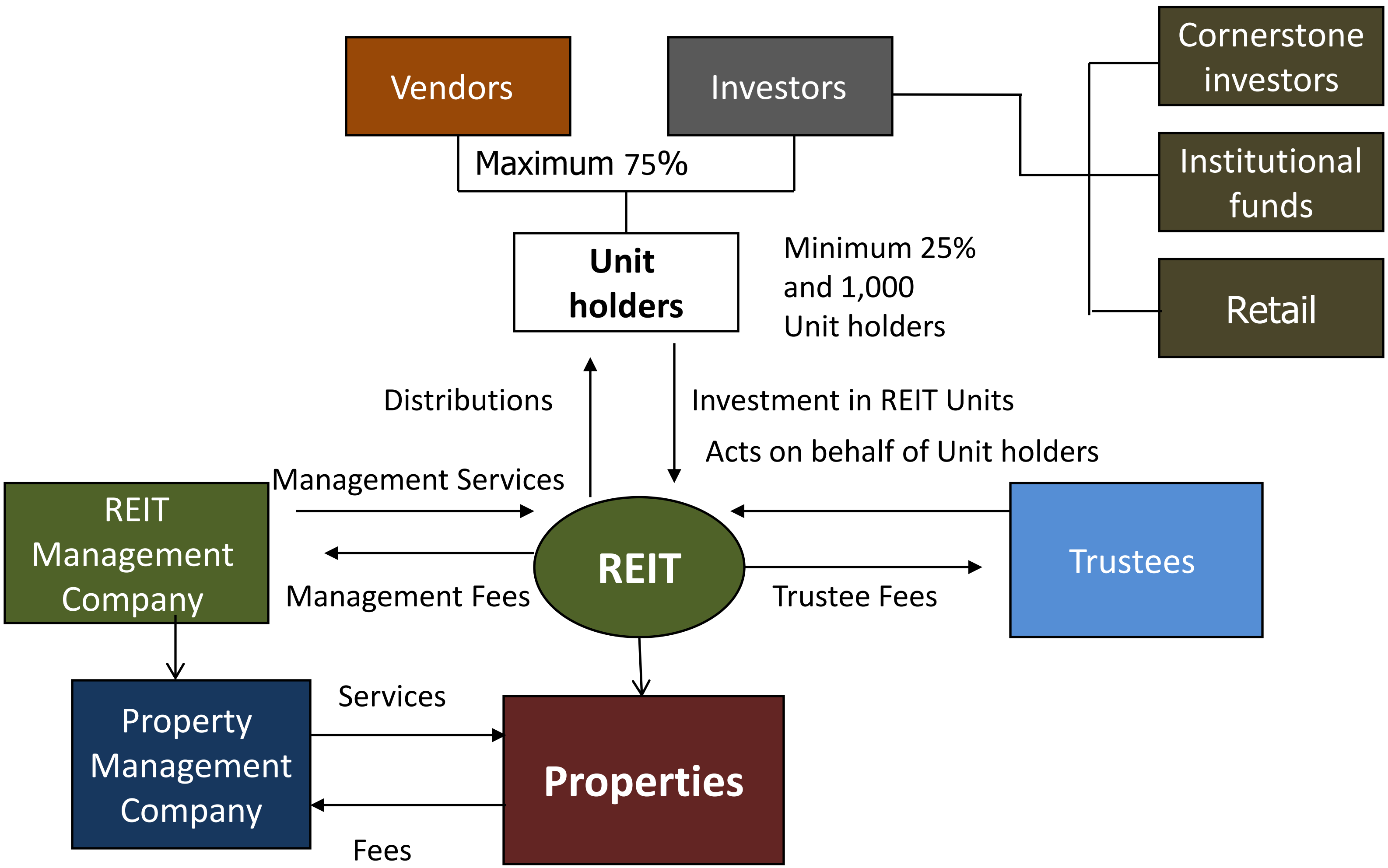
- A **REIT** unitholder has a **direct** investment in the underlying assets of a REIT.

- A **Unit Trust** unitholder has an **indirect** investment in the investments held by the Unit Trust.

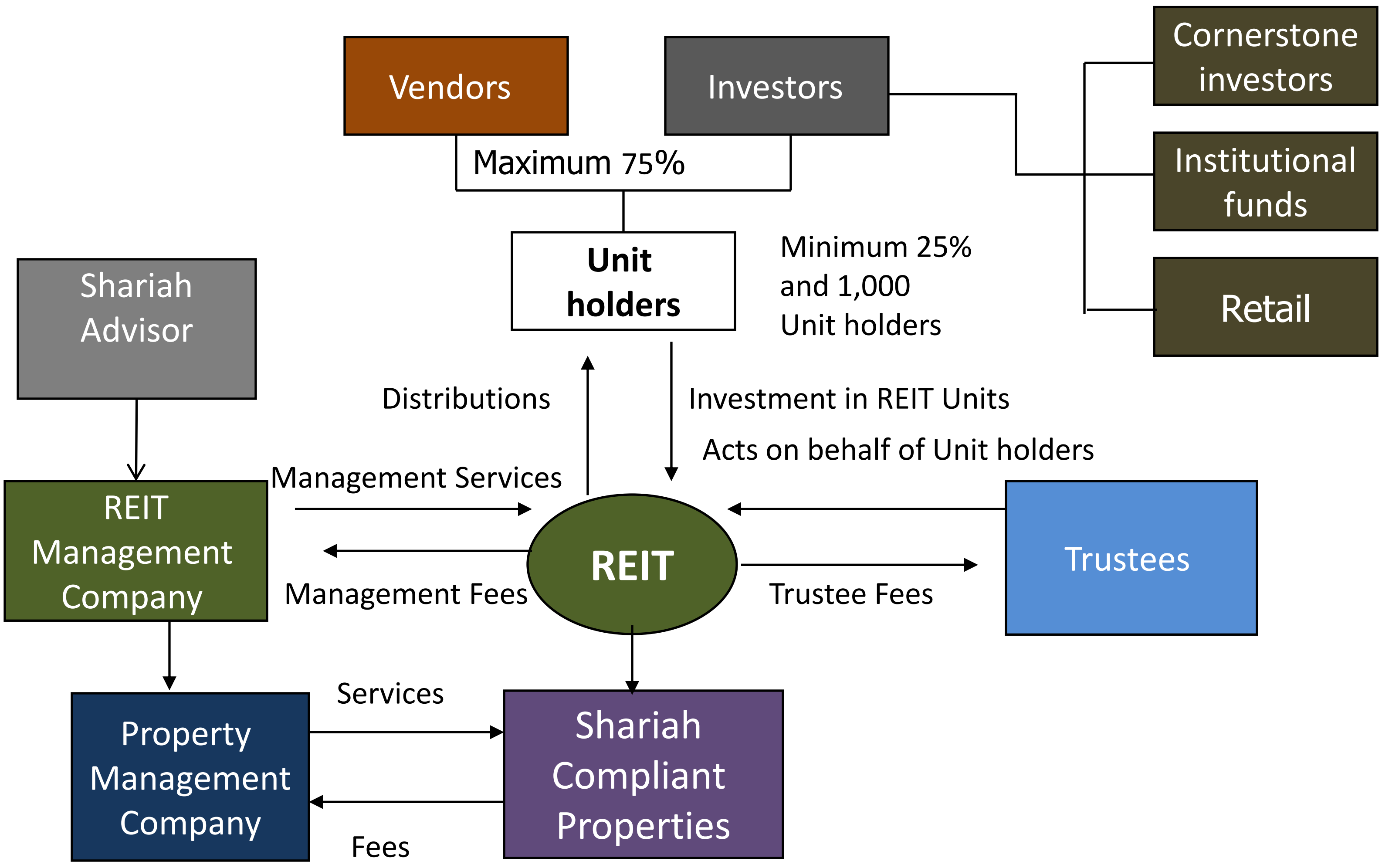
REITs vs Unit Trusts

Type of Fund	REIT	Unit Trust
Can Fund size be increased?	Yes	Yes/No
Dealings/Trading	Bursa Malaysia	Fund Manager
Pricing	Growth & earnings	NAV
Income Distribution	Quarterly/ Semi annually	Varies
Distribution	Cash	Units
Payout Policy	> 90%	Subject to performance

Typical REIT Structure



Typical Islamic REIT Structure



WHAT ARE ISLAMIC REITS ?

Islamic REITs – an Quick Introduction

Guidelines for Islamic Real Estate Investment Trusts were issued on 21 November 2005

Key Elements

- The total rental from non-permissible activities should not exceed the ***20% benchmark*** as determined by the SAC for the criteria on rental from non-permissible activities;
- An Islamic REIT must ensure that all forms of investment, deposit and financing instruments comply with the Syariah principles
- An Islamic REIT must use the *Takaful* schemes to insure its real estate.

Islamic REITs – Guidelines

Rental Activities that are Classified as *Non-permissible*

- Financial services based on *riba* (interest);
- Gambling/gaming
- Manufacture or sale of non-*halal* products or related products;
- Conventional insurance;
- Entertainment activities that are non-permissible according to the Syariah;
- Manufacture or sale of tobacco-based products or related products;
- Stockbroking or share trading in Syariah non-compliant securities; and
- Hotels and resorts.

Why REITs are an important Part of an Investment Portfolio - The Benefits

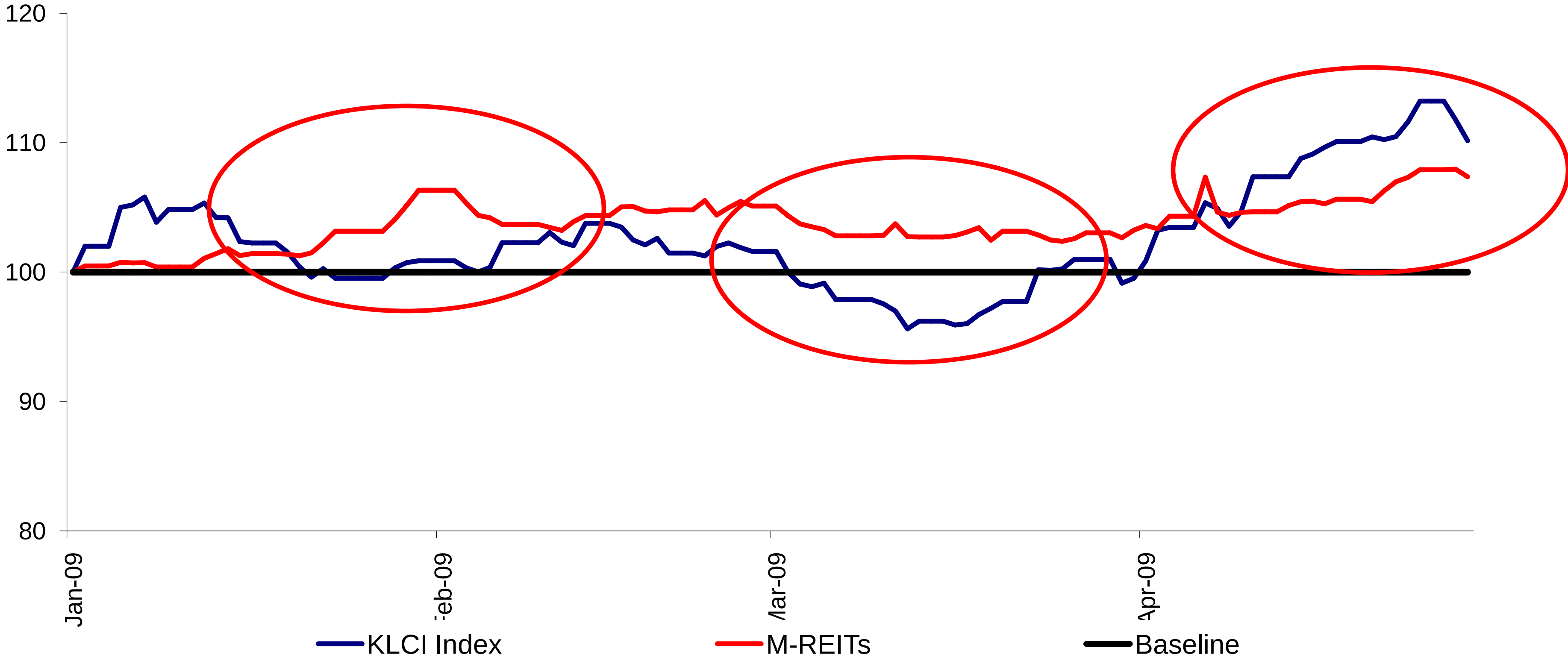
Why REITs ?

- REITs have a long history of impressive long term returns.
- REITs have a low correlation to stocks and Bonds
- They help reduce a portfolio's risk profile
- Data has shown that a portfolio that has a minority allocation to REITs have out performed those with only Bonds and equities.*

- Source: Ibbotson & Associates

Why REITs ?

REITs have a low Beta- doesn't follow the equity index



Source: Bloomberg / ASEAM

Why REITs ?

You can own properties around the world!

With a bigger global market we can see investors placing their funds in countries where they may never have a chance to invest in property – London , New York, Tokyo, Hong Kong & Singapore all have REIT stock to choose from.

More important they can choose between different countries at different points of the property cycle.

REIT vs. Fixed Deposit

RM 1,000,000 in Fixed Deposit will yield

RM 25,000 a year

With inflation running at 3.5% your RM 1,000,000 will be worth

RM 965,000

Your annual net loss = (RM 10,000)

REIT vs. Fixed Deposit

RM 1,000,000 in a REIT stock will yield

RM 80,000 a year (RM 72,000 after tax)

And with inflation running at 3.5% your portfolio could be worth RM 1,035,000 upon revaluation

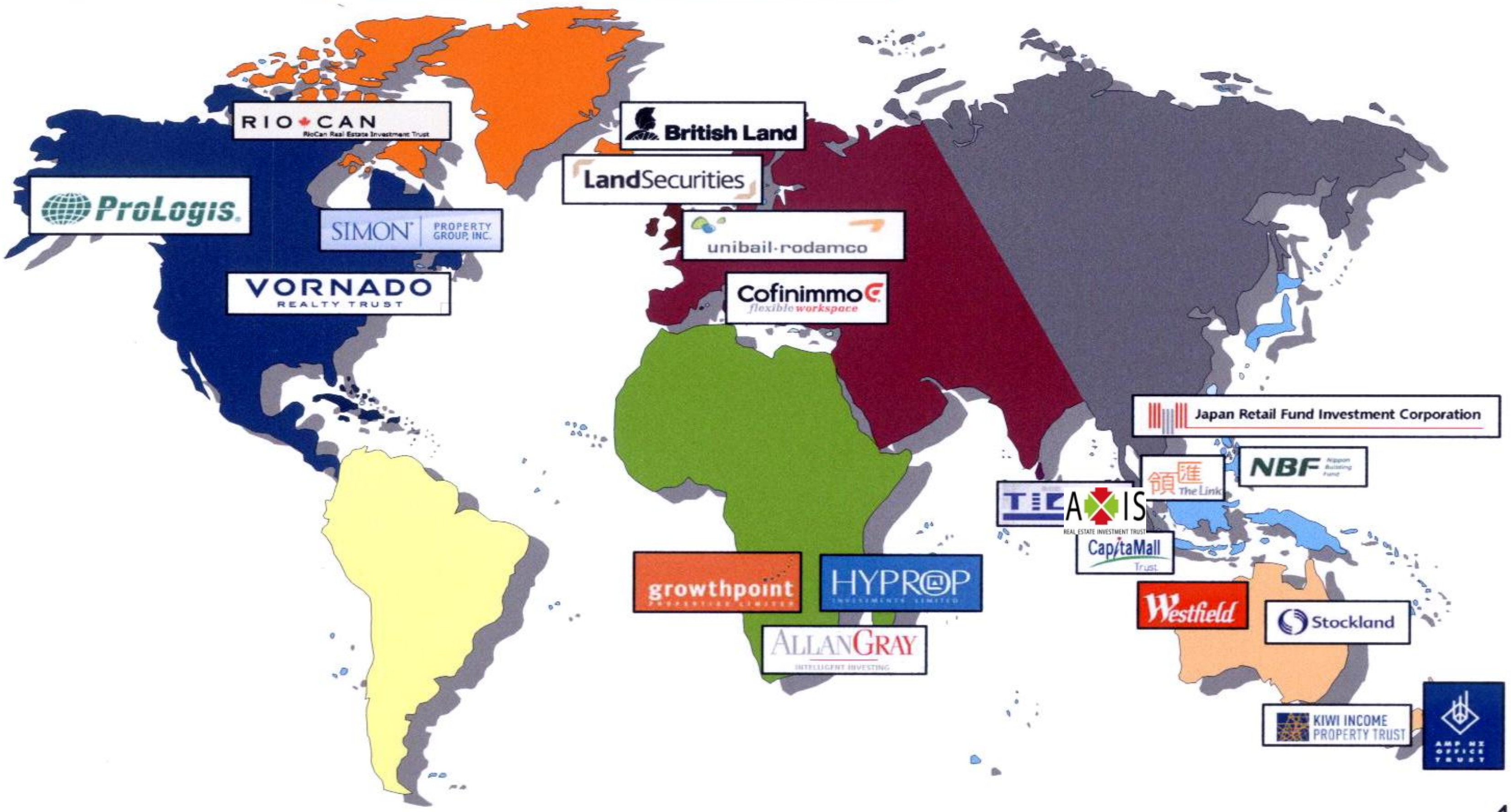
Your total gain = RM 72,000 + 35,000 = RM107,000

Advantages:

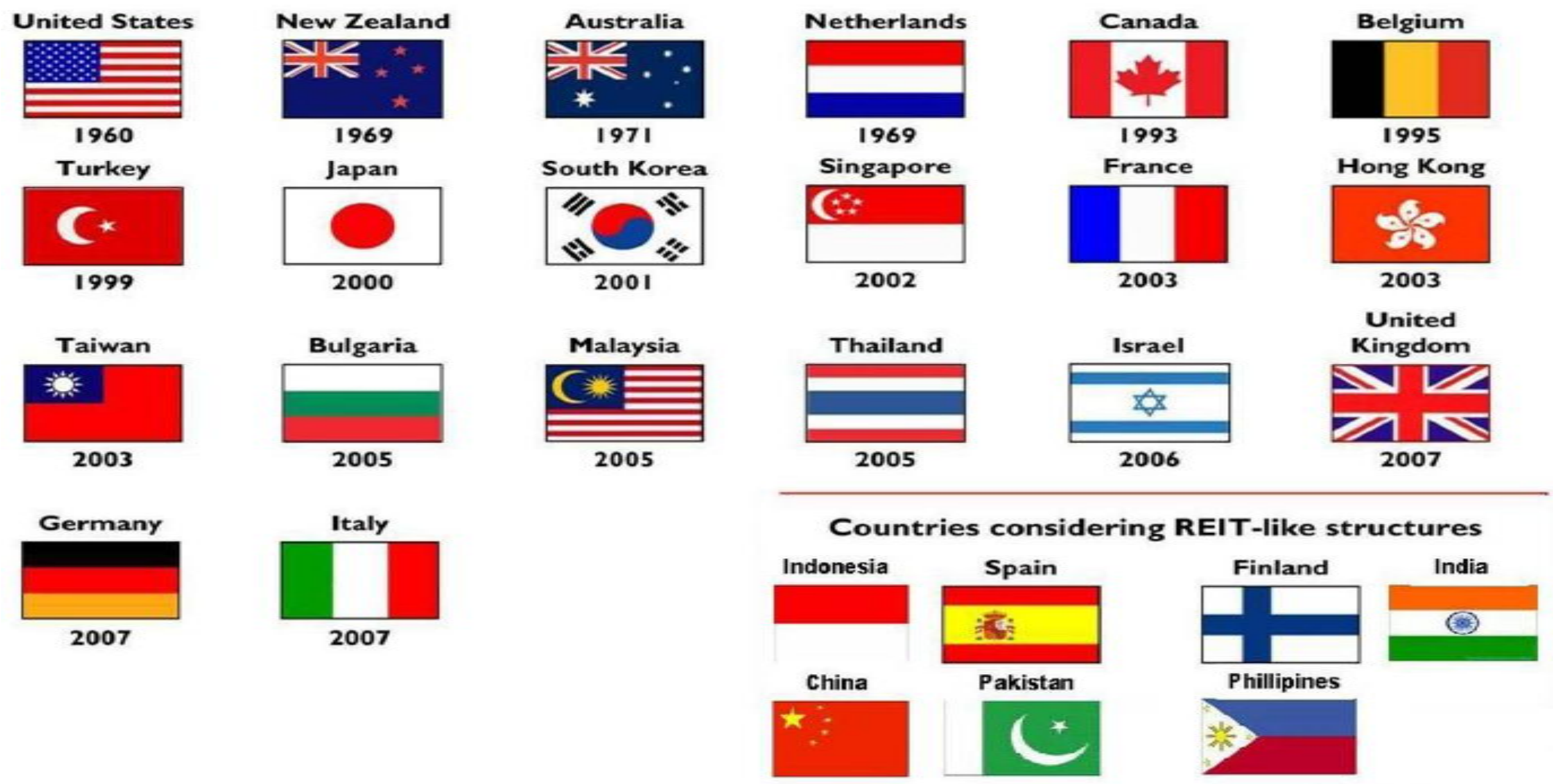
1. You can sell down stock when you want – break an FD and you will be penalised.
2. You get paid cash dividends Quarterly or Half Yearly

REITs – Global Context

REITs Worldwide



REITs Worldwide - Chronology



Date as of 30 Apr 2008
Source: APREA Research

REITs Worldwide – Market Capitalization

489 Trusts worth USD 710 Billion (Dec 2007)

North America 52.1%

US 48.5%
Canada 3.6%

Asia 11.1%

HK 1.1%
Japan 6.6%
Malaysia 0.2%
S'pore 2.5%
Taiwan 0.2%
S Korea 0.2%
Thai 0.1%

Europe 20.8%

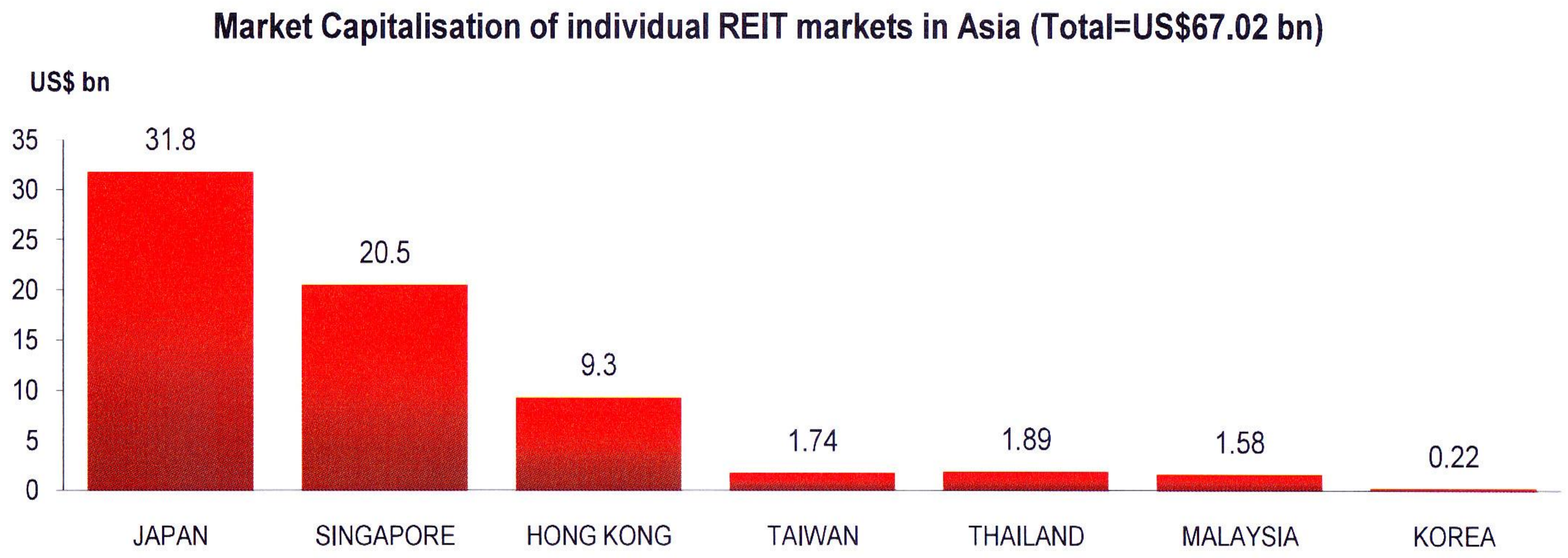
Belgium 0.9%
Bulgaria 0.1%
Greece 0.1%
Netherlands 1.7%
Turkey 0.3%
France 9%
UK 8.7%

Australasia 15.6%

Australia 15.2%
New Zealand 0.4%

An Overview of Asian REITs

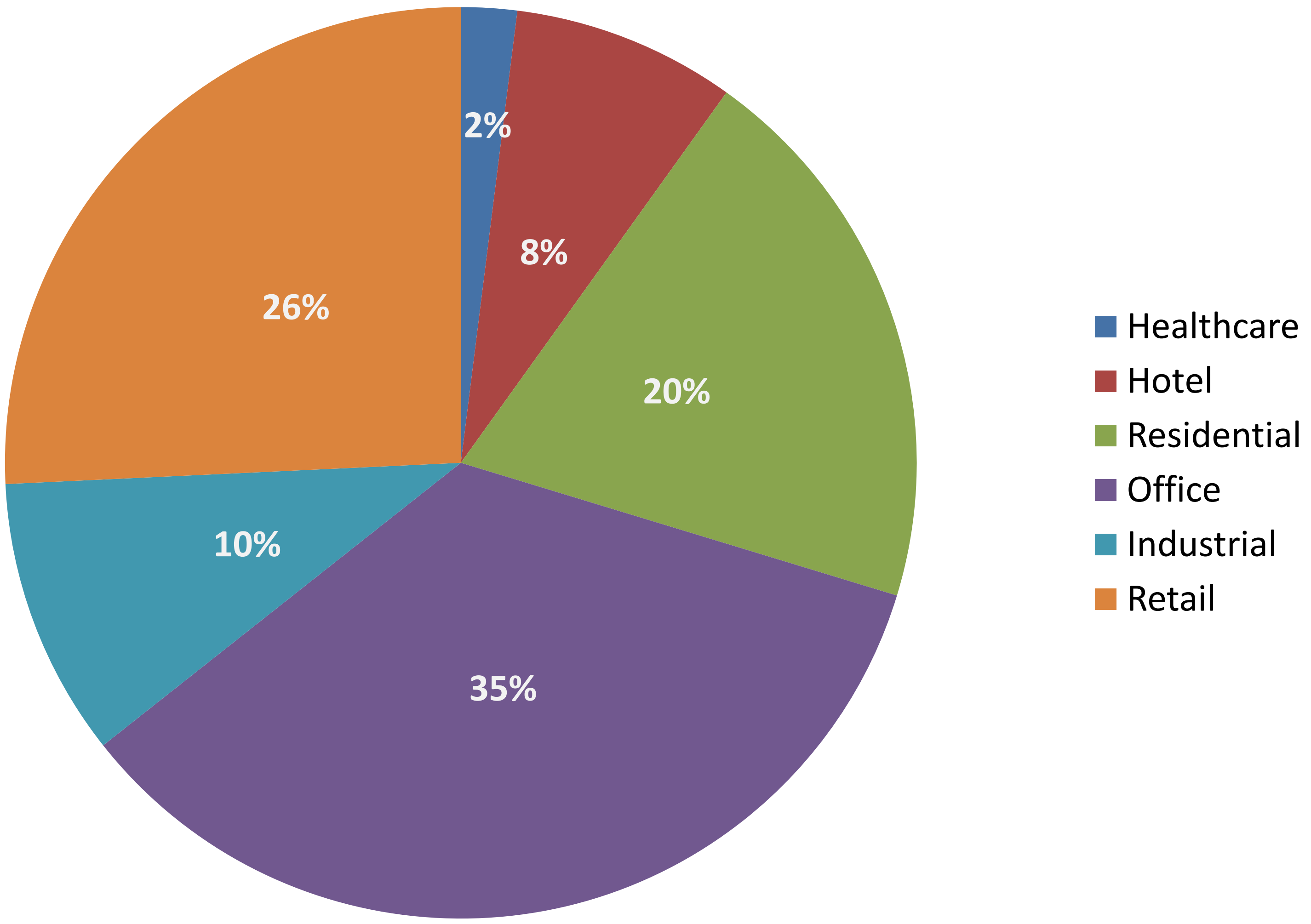
The Current Market Capitalization of Asian REITs



As of 22 Jan 2010
Source: Bloomberg, APREA Research

- The Asian REIT market has grown from USD2bil in 2001 to USD 67 billion in 2010.
- Number of REITs have grown from 2 to 117 in less than 6 years.

Asian REIT's are diversified

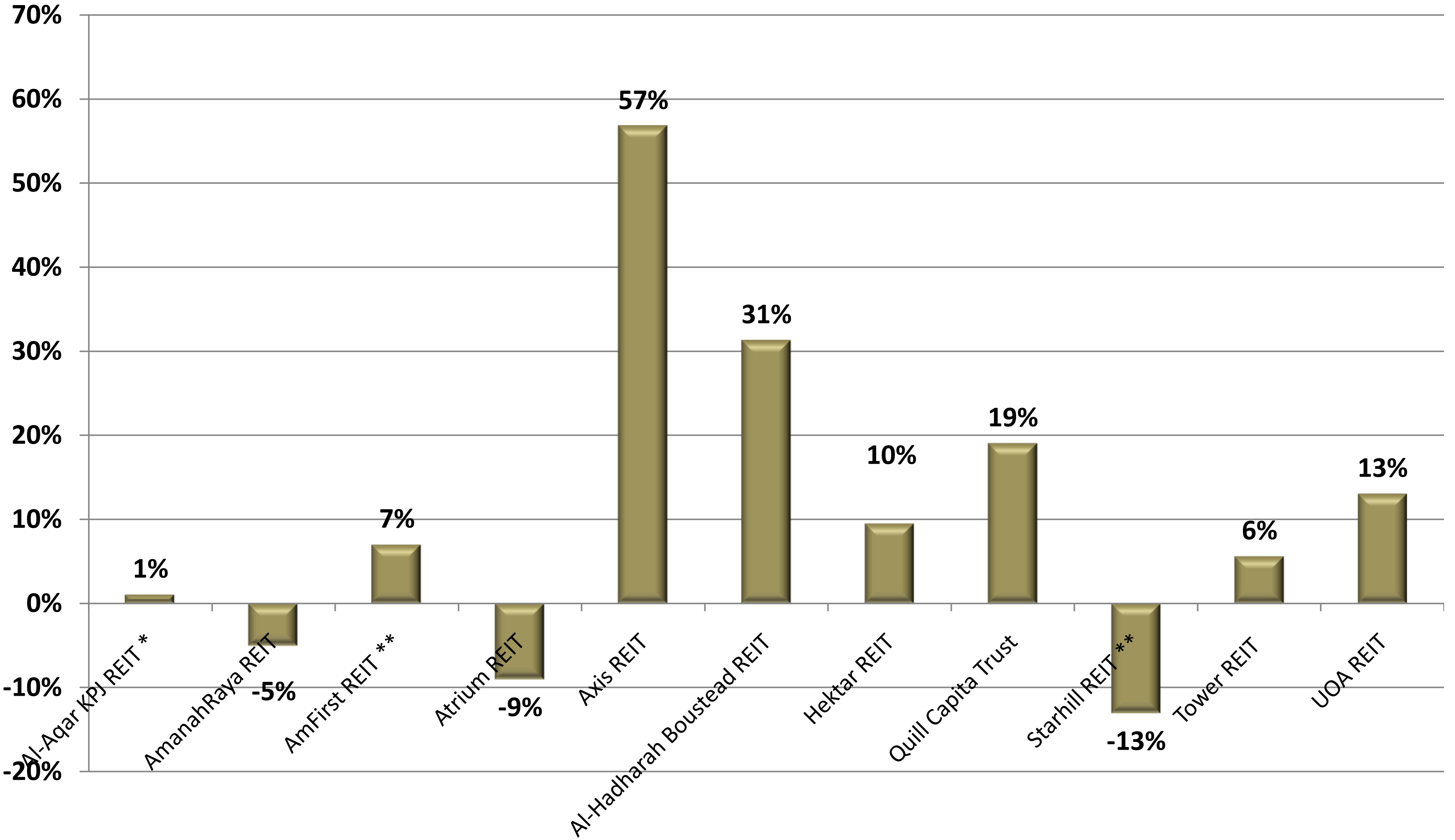


Asian REIT Market

Asian markets without REIT regulations

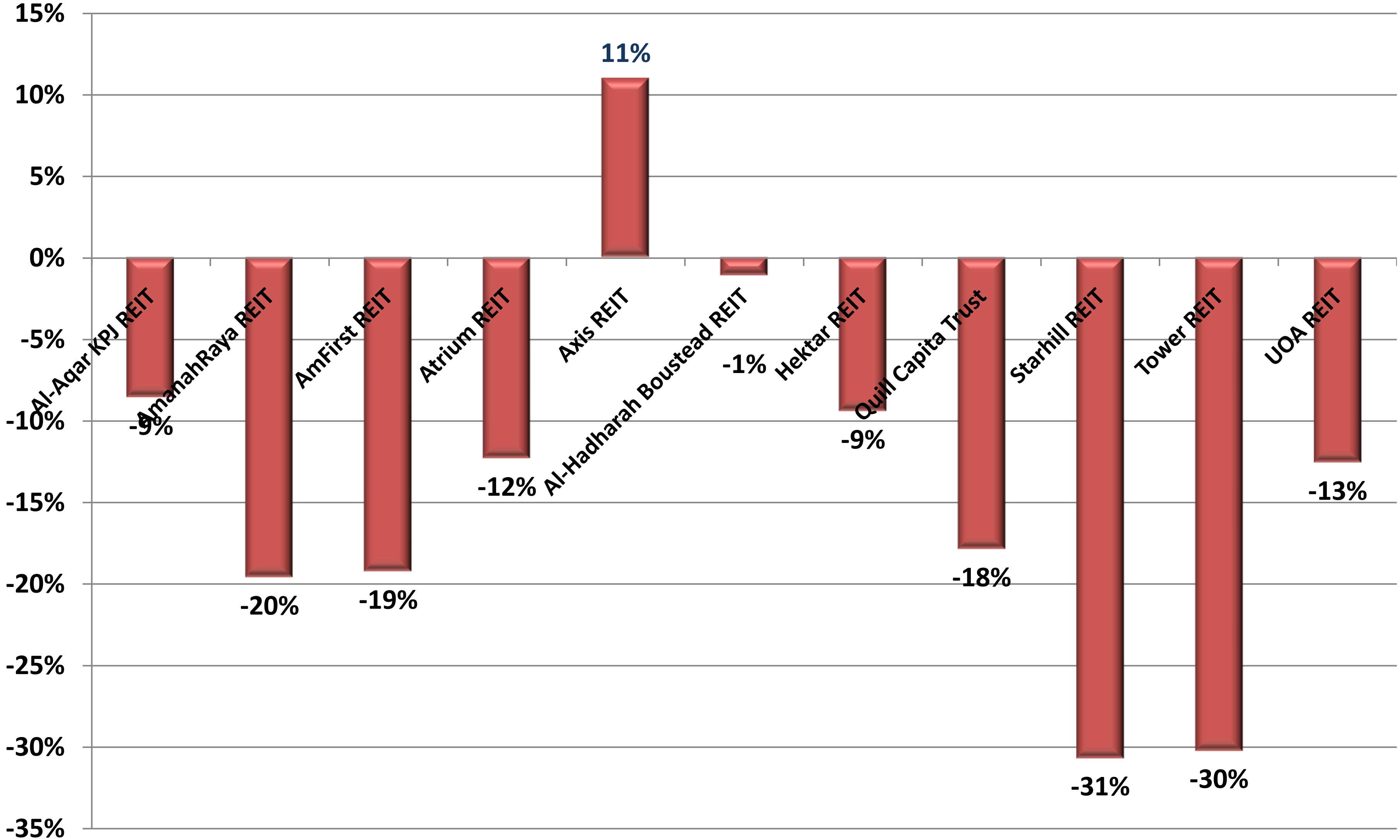
- **China**
  – Unit trust structure currently prevents REITs
  – APREA assisting on proposed REIT law
- **India**
  – Draft REIT law for public comment Dec 2007, APREA assisting
- **Philippines**
  – REIT legislation effective by January 2010
- **Indonesia**
  – Draft Law, APREA assisting
- **Pakistan**
  – REIT regulations launched for 2008
- **Middle East**
  – Dubai, Bahrain, Qatar, Abu Dhabi, Saudi Arabia

M REITs Scorecard



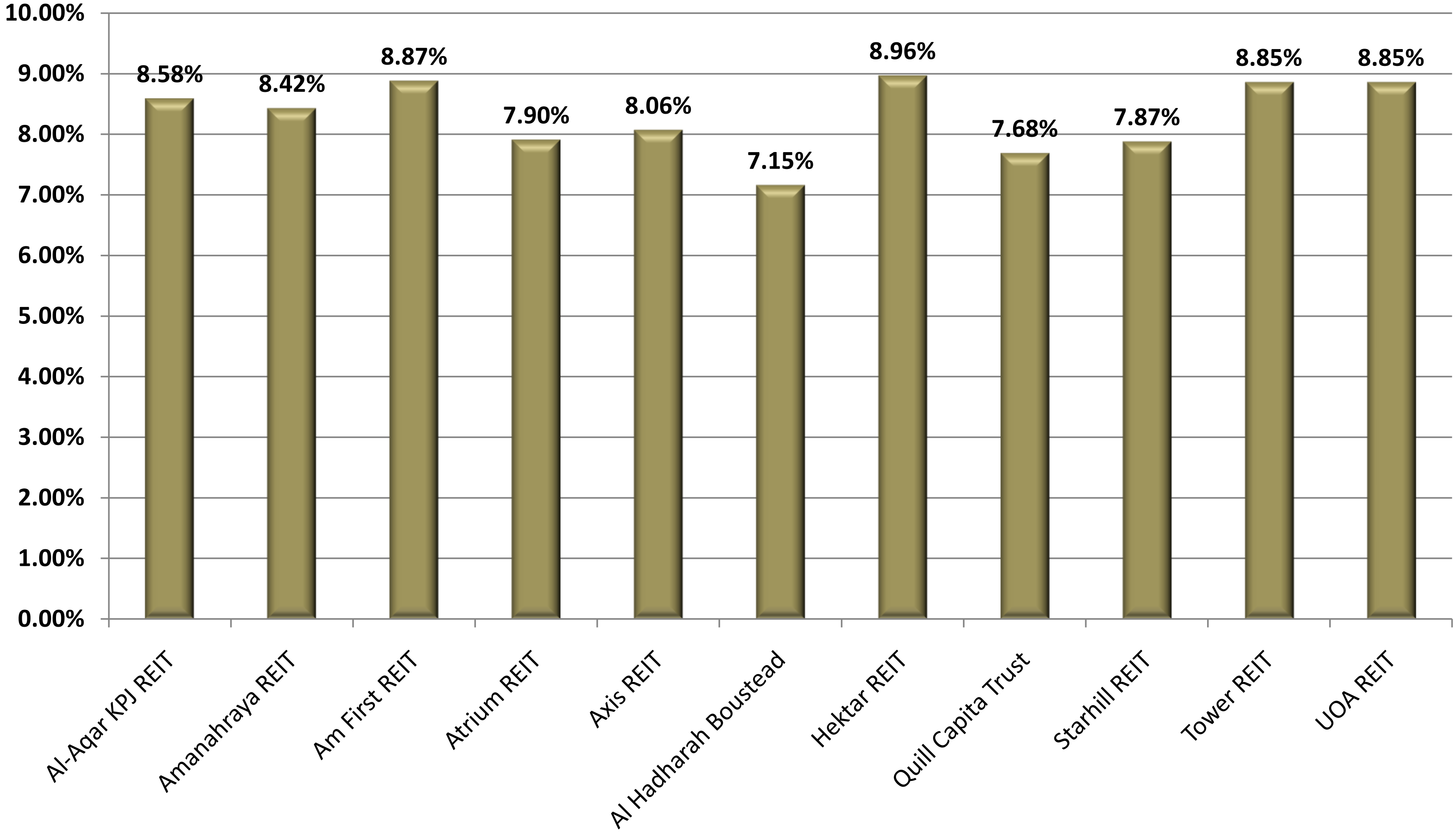
Source The Edge Daily Jan 2010

Capital Gain Since IPO



Source The Edge Daily Jan 2010

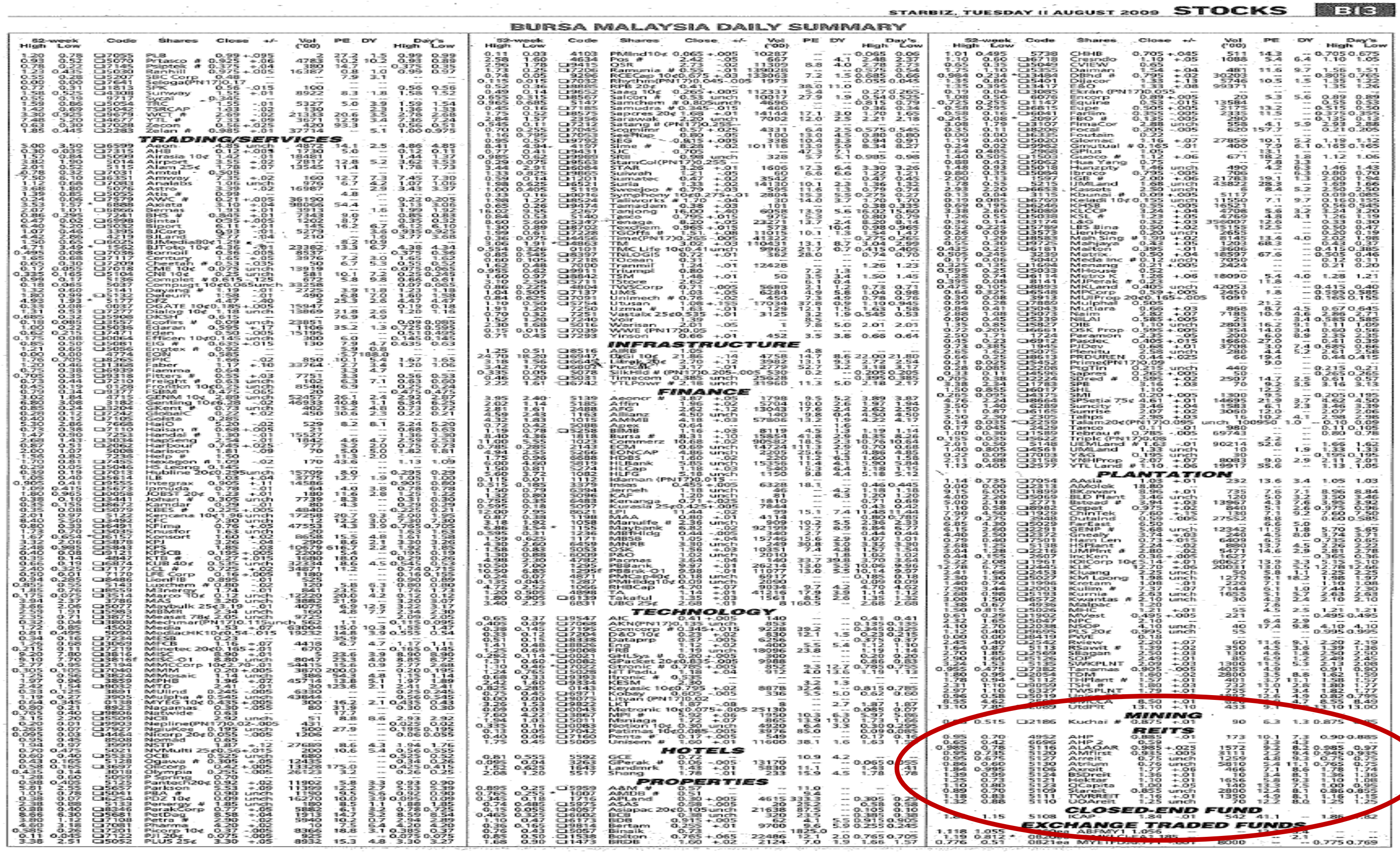
Discount to Net Asset Value



Source The Edge Daily Jan 2010

Distribution Yields of M REITs at Current prices

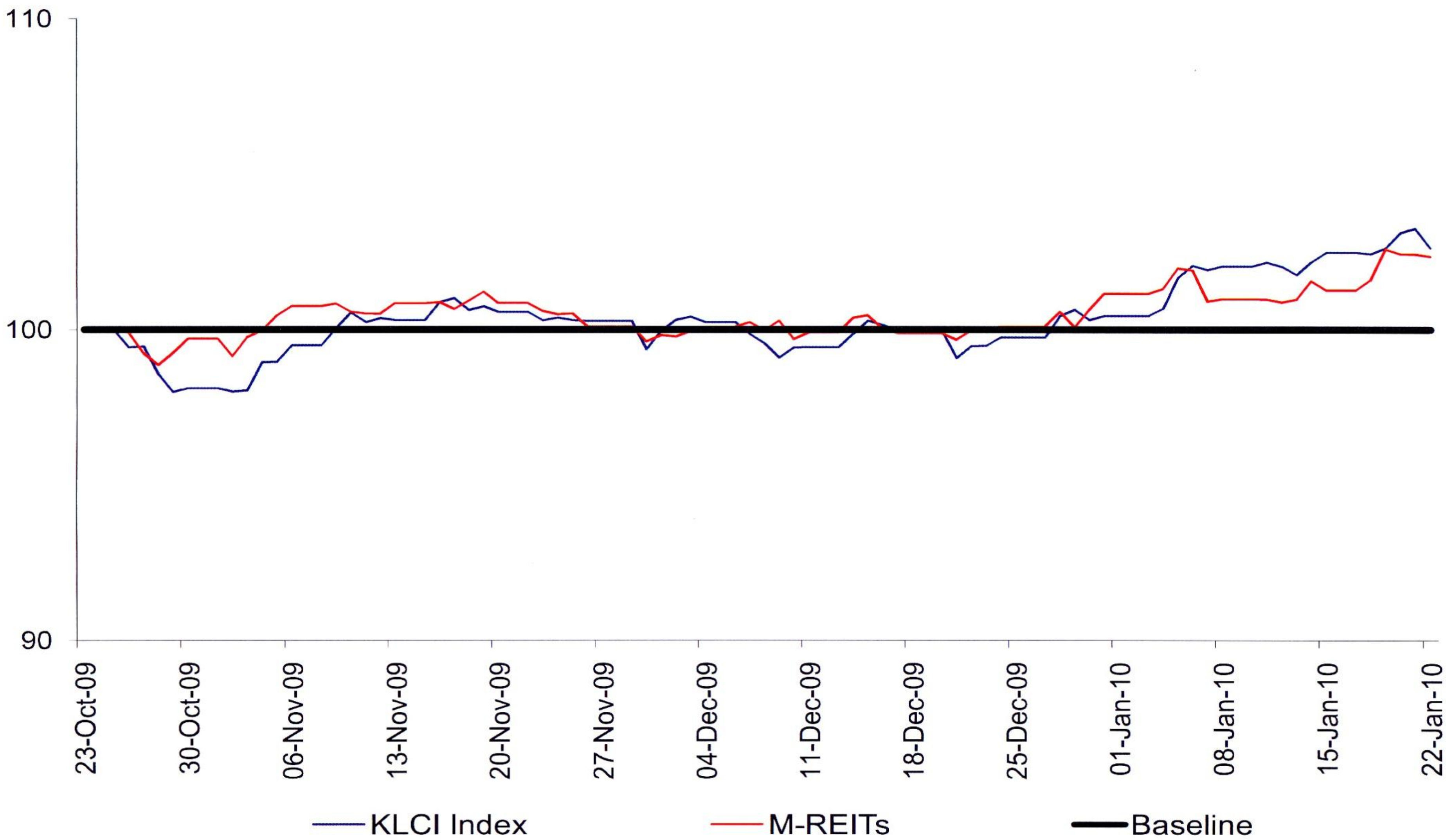
Tracking REIT Stocks



Tracking REIT Stocks

52-week High	52-week Low	Code	Shares	Close	+/-	Vol ('00)	PE	DY	Day's High	Day's Low
REITS										
0.96	0.74	4952	AHP	0.925	unch	210	12.4	7.6	0.925	0.925
1.04	0.85	5116	ALAQAR	0.955	-.025	2922	8.9	8.5	1.00	0.955
1.08	0.82	5120	AMfirst	1.07	unch	812	2.6	8.2	1.07	1.06
0.90	0.68	5127	Arreit	0.86	+.005	420	12.0	8.3	0.86	0.855
0.93	0.605	5130	Atrium	0.905	-.005	123	12.8	7.7	0.905	0.90
2.07	1.27	5106	Axreit	1.96	+.01	889	8.8	8.1	1.96	1.95
1.39	1.00	5124	BSDreit	1.32	+.02	460	8.8	7.0	1.32	1.28
1.18	0.865	5121	Hektar	1.14	-.01	1609	9.8	9.0	1.15	1.14
1.10	0.80	5123	QCapita	1.00	-.01	1876	12.0	7.7	1.02	1.00
0.92	0.725	5109	Stareit	0.83	unch	3662	12.0	8.3	0.84	0.83
1.19	0.875	5111	TWRREIT	1.14	unch	525	8.9	8.8	1.15	1.14
1.33	0.96	5110	UOAreit	1.29	unch	2371	6.0	8.9	1.30	1.29

Source Star March 2, 2010



How have we fared since October 2009

REITs –
The Risk Factors

REITs – Risk Factors

- **Refinancing Risks**
  - The ability for REITs to refinance their existing banking facilities are critical to their survival

- **Downside Dividend Yields**
  - Global recession putting strain across all businesses. As a result, dividend yields will come under tremendous pressure with negative rental reversions as businesses try to cut costs.
  - Increased interest cost/spreads will also affect the bottom line

REITs – Risk Factors

- **Valuations Pressure**
  - Property valuations will also come under stress should negative rent reversion persist.
  - As valuations fall, REITs gearing level will increase and possibly breaching debt covenants.
  - May require balance sheet recapitalisation.

- **Dilutive capital raising**
  - Dilutive capital raising may be unavoidable in the event of balance sheet recapitalisation.
  - REITs with ready sponsor participation will likely to be the first to come to the market.

REITs – Risk Factors

- **Economic, Political and regulatory risks**

The performance of the real estate industry is closely linked to the economic environment.
Any adverse developments in the political and economic environment and uncertainties in Malaysia can materially and adversely affect the property industry and hence the financial performance of REIT.
These include the risks of war, global economic downturn and unfavourable changes in the Government's policy such as changes in rates of tax, methods of taxation or introduction of new regulations.

REITs – Risk Factors

❖ **Risk associated with borrowings**

Significant fluctuations in interest rates may have an adverse impact on the financial performance of REITs and may lower income distribution to unit holders.

There is an inverse correlation between the interest rates and the distributable income to unit holders.

REITs – Risk Factors

Risk related to investments in real estate

The yields of the real estate may be adversely affected by a number of factors, including but not limited to:

- Vacancies following expiry or termination of leases that reduces the REIT's income;
- The Manager's ability to provide adequate management and maintenance;
- Not sufficient insurance cover for the real estate in case of fire;
- Sudden changes in tax regulations;
- Poor collection of rent from tenants on a timely basis or at all;
- tenants going bankrupt

REITs – Risk Factors

- **Risk related to investments in real estate**

  - Lower rent when leases are renewed;
  - Poor cost control resulting in higher operating and other expenses without a corresponding increase in revenue;
  - Unexpected expenses incurred due to changes in statutory laws, regulations or government policies
  - Amendment or revocation of the present tax incentives for REITs; and
  - Competition for tenants from other buildings which may affect rental levels and occupancy rates.

REITs
What to look for - the Investors Perspective

REITs – The Investors Perspective

- **Learn about REITs -Investor Education is necessary to gain confidence and support**

- Often neglected aspect of launching a new asset class is investor education. Misunderstanding of a new asset class can lead to a mismatch of expectations and subsequent disenchantment.

REITs – The Investors Perspective

❖ Look for Transparency

- ✓ Transparent earnings and simplified operating models are now preferred

- ✓ Complex financial engineering/cross border structuring by REITs are now being closely examined

REITs – The Investors Perspective

❖ Capital Management is increasingly important

Investors should insist on prudent capital management

✓ The manager should focus on reducing existing gearing levels and extend debt maturity profile

✓ Focus on refinancing debts and capping interest spreads

✓ Look into the possibility of selling assets to stabilize balance sheets

✓ Note that over leveraged REITs will be severely punished and their share prices can fall.

REITs – The Investors Perspective

❖ The Management Team is paramount for success

Investors should put a greater scrutiny on the REIT Manager

✓ Look for focused management teams with a proven track record

✓ Look for good governance and transparency by the manager

REITs – The Investors Perspective

❖ Capital Raising

Investors should avoid REITs that exercise dilutive capital raisings

REITs – The Investors Perspective

❖ Have a Sector Focus

Focus not only on acquisition growth but have an increasing focus on existing portfolios by:

✓Timely enhancements to preserve valuations

✓Emphasis on asset and leasing management to deliver rental growth and mitigate negative rent reversions

✓Improve operational efficiency to reduce operating costs

REITs – The Investors Perspective

❖ Look out for an Industry Consolidation

✓Small REITs with higher cost of capital, no sponsorship and visible pipeline of acquisitions will be vulnerable to takeover

✓REITS will lower cost of capital and strong sponsorship will continue to outperform and will be predators in any industry consolidation

Thank You

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