LANDMARK STUDY HIGHLIGHTS THE BENEFITS THAT REITS HAVE BROUGHT TO ASIAN ECONOMIES

A landmark independent research report commissioned by APREA has established that the introduction of REITs to Asia has delivered benefits to economies in a number of areas.

In addition to Asian REITs having, since their inception and particularly since the global financial crisis, generally performed better than equities and bonds on a risk and risk-adjusted return basis, they have provided a range of broader benefits to economies and investors as well.

The study establishes how REITs have become a valuable option for long-term institutional and individual investors, how they have contributed to capital market diversity and development, and how they have become a positive force in the healthy development of property markets.

- They offer institutional and individual investors liquid exposure to income generating real estate
- They attract capital
- They enjoy a relatively low cost of capital
- They have helped to improve market transparency
- They have helped to improve the quality of real estate assets
- They unlock capital, generating additional economic output and creating more jobs

REITs offer institutional and individual investors liquid exposure to income generating real estate. Real estate has investment characteristics that are distinct from equities and bonds, and so offer diversification benefits in a mixed portfolio. This means REITs are an investment that can help investors achieve better return/volatility outcomes. Pension funds and insurance companies have long valued real estate investment for its steady income and potential for capital gain. REITs allow both institutional and individual investors to access this investment sector in a more manageable quantity and with the benefit of better liquidity.

These different and superior performance characteristics call into question the investment strategies of some institutional investors who have no separate allocation to REITs, simply regarding them, if at all, as part of their equities allocation.

REITs attract capital, including foreign capital, into the property sector by creating a new and attractive vehicle for institutional and individual investors to invest in commercial real estate. REITs enjoy a relatively low cost of capital because of several factors, including liquidity, mandated dividends, tax concessions and limits on borrowing and development risk. By selling stabilised assets to REITs, property developers can unlock capital that can be more effectively deployed in new development projects. Beyond the capital markets activity, this generates real economic output and creates new jobs in high value areas such as asset management, investment appraisal, senior management, legal and trustee services, investment banking, development management and construction.

Being dedicated landlords, REITs are often associated with improving the quality of real estate assets via refurbishments, asset repositioning and other enhancements. This translates to a better environment for tenants and for the community at large. Over the medium term, this feeds through into deeper professional expertise of asset managers and related professions.

REITs also support the healthy development of the property industry by improving market transparency. As listed vehicles they have significant disclosure obligations, thereby improving the capacity of all industry players to plan responsibly and helping to smooth out property cycles.

For the reasons outlined above, many Asian countries are looking to introduce REIT legislation or enhance their existing REIT regimes. Although some governments fear a loss of tax income because of tax transparency that underpins the attraction and success of the REIT product, the report shows that REITs can actually encourage higher tax revenues. It establishes that the resultant increased economic activity and job creation far outweigh any impact of tax concessions.

This study is an important adjunct to the body of research that APREA has been producing to explain the unique characteristics of this relatively new asset class.

The report was commissioned for a number of reasons. First, in establishing the case for the introduction of REITs in new markets, governments are principally concerned with broader possible impacts and not simply their performance against other asset classes. While isolated studies exist on particular aspects of some of these issues, no comprehensive independent study has been undertaken.

Another reason for the study is that in markets where REITs exist there is sometimes a misunderstanding or insufficient appreciation of the broader role that this relatively new asset class can perform, and therefore its potential importance. This can be reflected from time to time in the approach to regulation and taxation and in media comments.

Accordingly, there has been a compelling need for an independent comprehensive study to be undertaken to understand what impact REITs have had in the broader context and what impact they can potentially have.

The study was underpinned by a survey of the Asian REIT industry and interviews with key participants. All sections of the industry – global institutional investors, local investors, REIT managers, owners and developers, private equity real estate managers, professional advisors, financial institutions – participated. The study was scoped and supervised by an independent cross-sectional committee.