Singapore’s pivotal role in Asian real estate

Cost efficiencies and incentives encouraging firms to domicile within city-state’s borders

by ALOK CHANANI and SUSAN WACHTER

The story of Singapore as a resident and host growing REIT market is not a new one. The new story, however, is that Singapore is quickly becoming Asia’s real estate investment trust (Reit) hub.

A Reit is a fund that allows individual investors to participate in real estate ventures, such as acquiring and managing high-rise office buildings, and distributes most of its income to shareholders as dividends bypassing corporate-level taxes. It’s an “liquid real estate” because they can be traded as shares in public markets.

While the global Reit market was in the depths of the downturn, many questioned the viability of the Reit model. However, as the global Reit market led the world economy into the downturn, it was now grasping the global economy back.

The Reit market in Singapore has almost doubled to 29 in the past five years – the fastest growth rate of any Asian country. The market also supports a capitalization of around US$20 billion, second only to Japan in Asia.

In June, Moody’s raised its Singapore Reit outlook to stable and Mapletree, a real estate firm which owns or manages about S$13 billion of assets, unveiled plans to list two more Reits. This optimistic outlook on real-estates has taken hold in the investment community as well, as evidenced by Mapletree CEO Hwee Yoon Khong’s stated goal to “launch more Reits and private real estate funds.”

Mr Hwee’s bullish market view is propelled by emerging Asia’s powerful economic rebound, with real gross domestic product growth of 5.7 per cent in 2009 and International Monetary Fund projections of 5.5 per cent annualized growth in 2010. Mr Hwee and other investment executives like him plan to use Singapore’s attractive regulatory environment as a platform to expand into the regional fund management business. Singapore’s current reputation as a hub for cross-border Reits did not emerge effectively. The first Reit to list on the Singapore market, Singapore Technologies Reit (S-REIT), listed in 2001, but the attempt fell short due to a lack of investor interest.

The next year, however, in mid-2002, SPT was restructured with the same three retail assets but under a new name. This time the initial public offering IPO was successful with a five-time subscription – it likely helped that the shares were priced more conservatively relative to net asset values.

Since then, many Reit sponsors have held significant control of S-Reits shares after IPOs and subsequently set up management companies designed to act as independent subsidiaries managing the assets within these Reits. Often, however, these Reit structures engendered agency problems including misaligned incentives which resulted in above-market property acquisitions from the sponsor’s affiliate.

Singapore has attempted to minimize such highly reprehensible behavior by implementing measures that include a 33 per cent maximum debt-to-equity capitalization rate, third-party appraisals, required disclosure of self-dealing and an impartial board of directors.

Moreover, in 2005, the Monetary Authority of Singapore, after careful survey and analysis of the current Reit regulatory framework, further improved corporate governance by requiring more thorough disclosure of acquisition loss paid to Reit managers and certification of Reit managers. Reit sponsors are also required to be a 10 per cent withholding tax on any distributions made to overseas corporate and institutional investors, as well as a stamp duty exemption when listing property in Singapore.

While the Asian Reit market is still in its infancy, Singapore is providing cost efficiencies and incentives that are encouraging companies to domicile within Singapore’s borders. Although the city-state may not rivalling all the regional Reits to list on the Singapore market, Singapore may eventually solidify its position as Asia’s centre for investing in public real estate if the government continues offering major tax incentives and a transparent, efficient marketplace that continues to satisfy investor demands.

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