

# Real Estate Investment Trusts (REIT) Conference

## Management and Pivotal Role of the REIT Manager

25 – 26 June 2012

Hotel Istana Kuala Lumpur



# DISCLAIMER

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This presentation may contain forward-looking statements that involve risks and uncertainties. Actual future performance, outcomes and results may differ materially from those expressed or implied in forward-looking statements as a result of a number of risks, uncertainties and assumptions. Such as (without limitation) general industry and economic conditions, interest rate trends, cost of capital and capital availability, availability of real estate properties, competition from other companies and venues for the sale/distribution of goods and services, shifts in customer demands, customers and partners, changes in operating expenses, including employee wages, benefits and training, governmental and public policy changes and the continued availability of financing in the amounts and the terms necessary to support future business. You are cautioned not to place undue reliance on these forward-looking statements, which are based on current view of management on future events. Please also note that past performances do not necessary reflect similar future trend.

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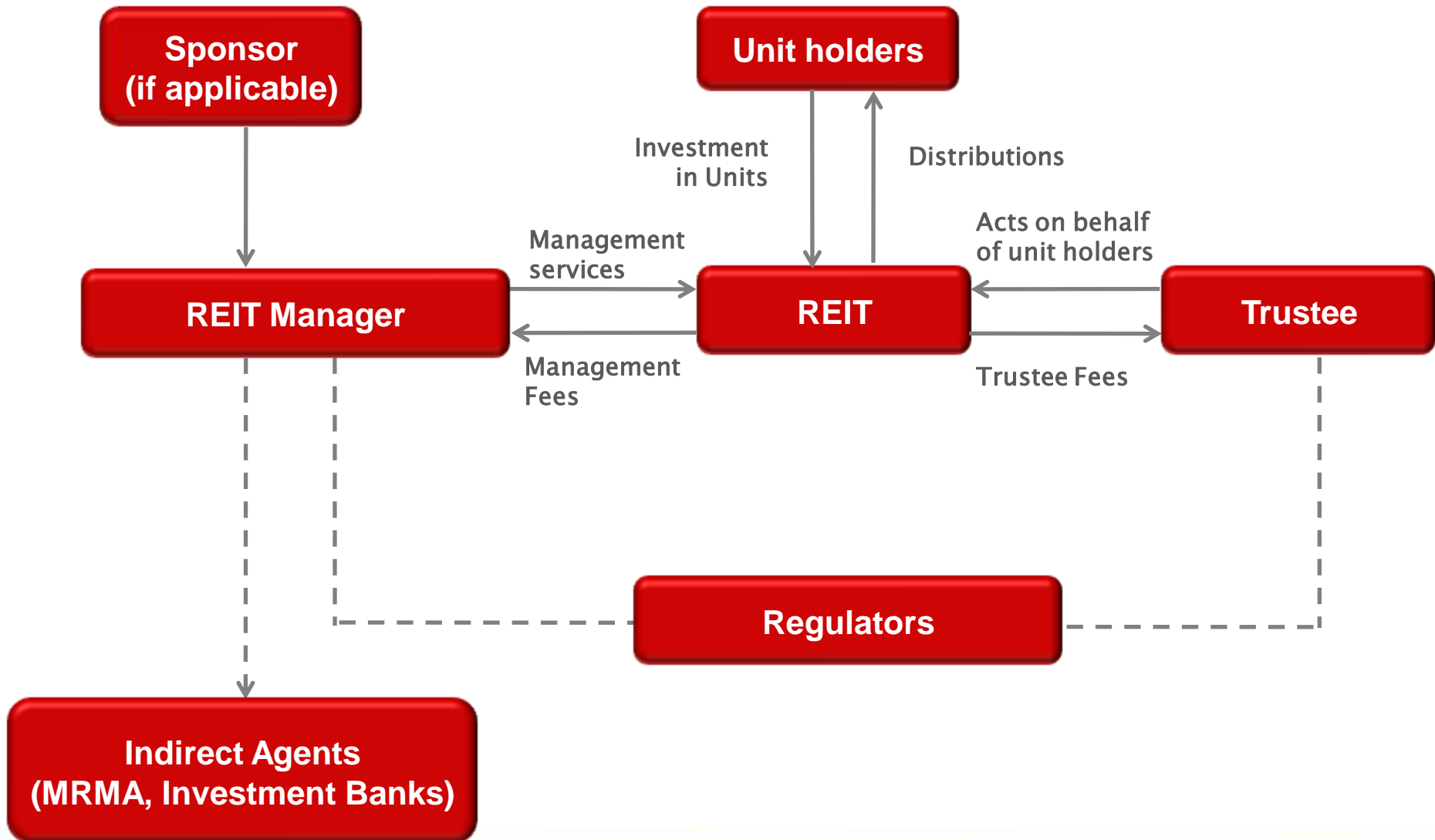
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1. Collaborating the role of promoters, trustees, regulators and indirect agents in developing a competitive REIT market
2. Highlighting innovative techniques for improvement of capabilities
3. Ensuring continuous measurement throughout the lifecycle of the project

**Part 1:**

**Collaborating the role of promoters, trustees, regulators and indirect agents in developing a competitive REIT market**

# REIT Structure – REIT Manager operates alongside with the various external stakeholders



# REIT Manager and Regulators

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- Over the years, regulators have played pivotal role in supporting the growth of REIT industry in enhancing the competitiveness of Malaysian REITs (M-REITs) vis-à-vis regional players.
- To further enhance the competitiveness of M-REITs, regulators may assess and consider the needs for further relaxation in the following areas:
  - I. Withholding tax
  - II. Gearing limit
  - III. Issuance of new units
  - IV. Limits on greenfield development
  - V. Property acquisition valuation
  - VI. Property manager

# Withholding Tax – Room for relaxation

Type of Unitholders	Malaysia	Singapore
Resident / non-resident individuals	10%	NIL
Resident companies	No withholding tax – income tax at 25%	17%
Non-resident companies	25%	10%
Resident / non-resident institutional investors	10%	10%

- The withholding tax for Malaysia was extended for 5 years to December 2016.
- In Singapore, non-resident companies are offered a concessionary tax of 10% until March 2015 which is aimed at developing the S-REIT market and encouraging foreign investment. In order to be competitive, Ministry of Finance should consider reducing the withholding tax for non-resident companies.
- Relaxation of withholding tax in the individuals category may encourage more retail investors participation in M-REITs.

# Gearing Limit – To provide for higher debt headroom

Malaysia	Singapore
Total borrowings should not exceed 50% of the total asset value of the fund.	Total borrowings should not exceed 35% of the total asset value of the fund.  The gearing limit may increase to a maximum of 60% if a credit rating from Fitch Inc, Moody's or Standard and Poor's is obtained.

Source: SC Guidelines for REITs and MAS Code on Collective Investment Schemes

- Gearing levels for M-REITs averaged at 31.0% based on latest financial period ended March 2012.
- Higher gearing limit provides flexibility for debt headroom to facilitate acquisitions via debt which is typically speedier than equity fund raising in terms of SPA legal completion period.
- M-REITs with sizeable assets under management can obviously benefit more arising from the additional 10% debt headroom.

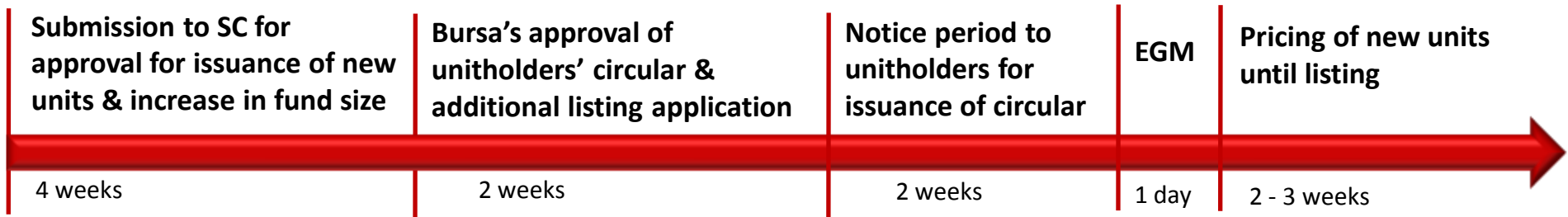


# Issuance of New Units – Strive for speedy completion

The typical timeline for issuance of new units (*subject to change depending on circumstances*)

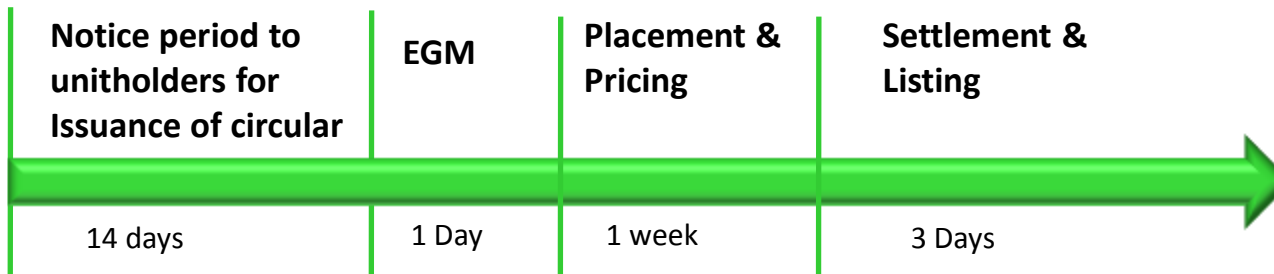
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## Issuance of new units in Malaysia (Without general mandate from unitholders)



**Estimated Duration : 10 - 11 weeks (excluding preparatory time)**

## Issuance of new units in Singapore (Without general mandate from unitholders)



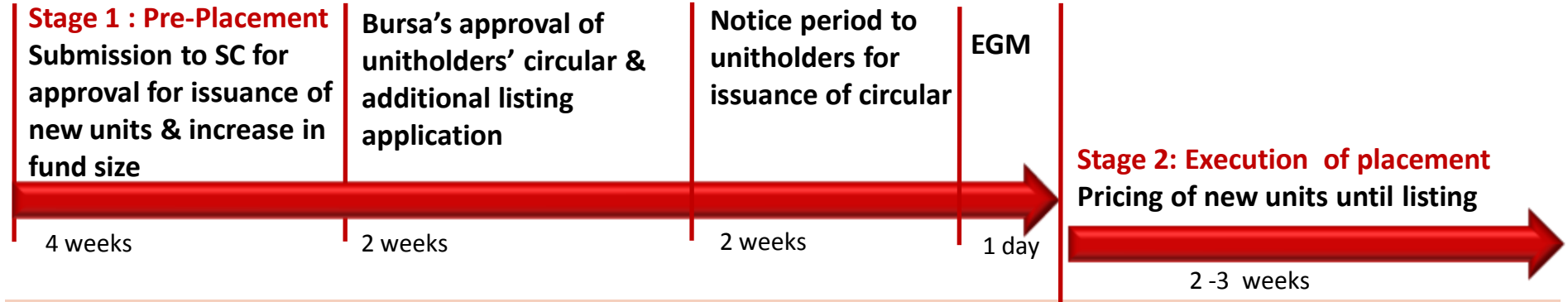
**Estimated Duration: 4 weeks (excluding preparatory time)**

# Issuance of New Units – Strive for speedy completion

The typical timeline for issuance of new units (*subject to change depending on circumstances*)

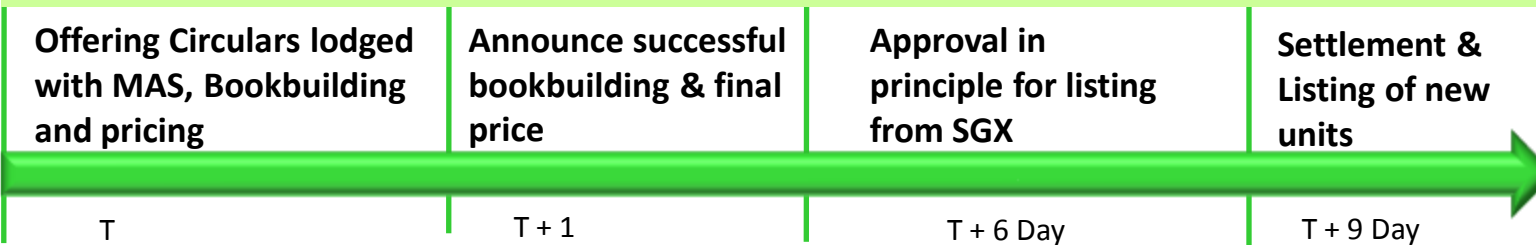
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## Issuance of new units in Malaysia (up to 20% approved fund size with general mandate)



Estimated Duration : 2 – 3 weeks (execution of placement and excluding preparatory time)

## Issuance of new units in Singapore (Up to 20% approved fund size with general mandate)



Estimated Duration: Within 10 market days (excluding preparatory time)

# Issuance of New Units – Strive for speedy completion

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- In Singapore, issuance of new units do not require approval from Monetary Authority of Singapore (MAS). Only require lodgement of the Offerings Circulars.
- In Malaysia, any issuance of new units require approval from Securities Commission (SC) which typically take 4 weeks.
- Adoption of full disclosure based regime by SC would speed up the process.

# Greenfield Development- Allows greater flexibility

Malaysia	Singapore
<p>The exposure to real estate under construction does not exceed 10% of total asset value (after the acquisition) provided that:</p> <ol style="list-style-type: none"><li>1) No substantial dilution in EPU during construction period</li><li>2) Purchase agreement to take into consideration of construction risks</li><li>3) Favourable prospects upon completion</li></ol>	<p>The total contract value of property development activities undertaken should not exceed 10% of total asset value.</p>

Source: SC Guidelines for REITs and MAS Code on Collective Investment Schemes

- In matured REITs market, limited acquisition potentials have led to REITs venturing into greenfield development. (Eg. Joint development for Jurong Gateway by CMT, CMA and Capitaland)
- The 10% limit may act as an impediment for future growth.
- For a more competitive environment, any proposals that exceed the 10% limit should be subject to unitholders' approval via EGM.

# Property Acquisition Valuation – Towards disclosure based regime

	Related Party Transaction				Non-Related Party Transaction <sup>3</sup>	
	Acquisition via debt		Acquisition via equity		Acquisition via debt	Acquisition via equity
	Below 5% <sup>2</sup>	Exceed 5% <sup>2</sup>	Below 5% <sup>2</sup>	Exceed 5% <sup>2</sup>		
Unitholder's approval	X	✓ <sup>1</sup>	X	✓ <sup>1</sup>	X	X <sup>4</sup>
SC's approval	X	X	✓ <sup>1</sup>	✓ <sup>1</sup>	X	✓ <sup>1</sup>

<sup>1</sup> Where transactions requiring SC & Bursa approval, time required to obtain approval is longer because of SC Valuation department's scrutiny and may potentially affect the transaction by virtue of the pre-agreed pricing versus SC's valuation.

<sup>2</sup> Acquisition consideration in relation to total asset value after acquisition

<sup>3</sup> Under the Chapter 10 of the Bursa Main Market Listing Requirement ("Listing Requirement"), unitholders approval is required where the percentage ratio (total value of assets for transaction compared with the total assets) of a non-RPT is equal to or exceed 25%. However this is not applicable to REIT. The SC Guidelines for REITs (SC REIT Guidelines) is silent on the requirement. Therefore in view of the current lacuna in the Listing Requirements and SC REIT Guidelines, it is at the discretion of REIT whether to adopt the whole or part of the Chapter 10 Listing Requirement in its internal policies for transactions entered by the REIT.

<sup>4</sup> Assuming general mandate is obtained

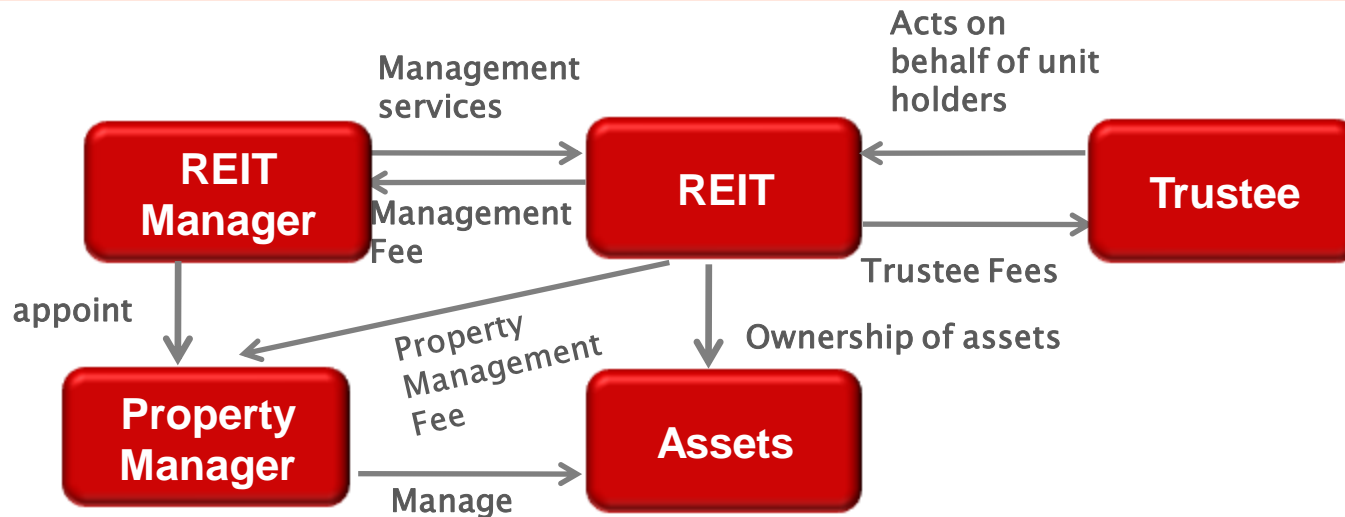
Source: SC Guidelines for REITs, Bursa Main Market Listing Requirement

- Propose to SC to compress the timeline and encourage SC to adopt full disclosure based practices where the REIT Manager and independent professional valuers are held responsible.

# Property Manager – REIT is property based business

## Current Practice

Valuers, Appraisers & Estate Agent Act 1981 under section 19 (c): Only registered independent valuers can be appointed as Property Managers for properties of REITs. Under section 19 (c) of Act 242, exemptions are granted to property based businesses such as hotels, plantations, cinemas, hospitals amongst others.



- REIT Management is considered a **property based business** and therefore should be exempted from the Act.

# REIT Manager and Sponsor – Incentives for Sponsor

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- The relationship between the REIT Manager and Sponsor is mutual. A REIT affiliated to reputable Sponsor usually garner favourable perception amongst investors.
- Sponsor plays vital roles in:
  - ✓ Supplying pipeline assets to the REIT to ensure continuity in growth
  - ✓ Incubation of assets
- The prevailing incentives are RPGT exemption for property investment companies that dispose property to REIT while REIT will enjoy the stamp duty exemption.
- Propose further incentives to be offered to Sponsors involved in incubation of assets to be injected into REIT. Eg. Waiver of stamp duty for the purchase of the incubation asset by the Sponsor.

# REIT Manager and Trustee – Bridging the gap

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- A Trustee should actively monitor the operation and management of the fund to safeguard the interest of unitholders.
- A Trustee should ensure the fund is operated and managed in accordance to the Deed, Securities Commission Guidelines on REIT and Capital Markets Services Act 2007 (CMSA).
- In relation to acquisition and disposal, the Trustee will need to ensure that the transaction is in the best interest of unitholders.
- In order to bridge the gap of the better understanding of the business and operation and to facilitate quicker decision making, it will be good practice that the Trustee to be invited to the Board of Director meeting.



# REIT Manager and Indirect Agents – Facilitate the future growth of M-REITs

- REIT Managers work closely with external stakeholders including:
  - ✓ Malaysian REIT Manager Association (MRMA)
  - ✓ Investment Bankers

## **Malaysian REIT Manager Association (MRMA)**

- MRMA is an association of the Malaysia REIT players in establishing a collective voice for the growth of M-REITs.
- MRMA is working towards the inclusion into the Annual Budget Dialogue with Ministry Of Finance and establishing a consultation platform with SC on a periodic basis.

# REIT Manager and Indirect Agents – Facilitate the future growth of M-REITs

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## Malaysian REIT Manager Association (MRMA) – cont'

- M-REITs operate in a highly regulated regime, governed by the Capital Markets Services Act 2007 (CMSA), Securities Commission Guidelines on REITs, Trust Deed and Securities Commission Corporate Governance Blueprint 2011.
- M-REITs players practice strong governance and high level transparency as well as efficiency by providing timely information to unitholders. For instance, annual report for REITs is published within 2 months from the end of the financial period as oppose to other public companies listed on Bursa Malaysia with a 6 months time horizon in publishing the annual report.
- In order to attract foreign investors and to place M-REITs into the radar screen of the international investment community, M-REITs players must set higher benchmark against international best practices and standard of governance and transparency such as APREA Handbook, Corporate Governance Index, Global Real Estate Sustainability Benchmark (GRESB).

# REIT Manager and Indirect Agents – Facilitate the future growth of M-REITs

## **Investment Bankers**

- REIT Managers are supported by investment bankers through knowledge transfer in the areas of corporate exercise, funding requirement amongst others. Sharing of regional expertise and benchmarking on regional industry players will further enhance the capabilities of M-REIT players in breath and depth of the REIT market.
- International investment bankers will facilitate capital inflows by tapping into foreign institutional funds.
- In order to leverage on the expertise of the investment bankers, M-REITs need to ensure that the players grows their assets to meaningful size, quality assets and good management track record.

## **Part 2: Innovative techniques for improvement of capabilities**

# Innovation in REIT Management

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- The skills of REIT Managers are being recognized based on the value enhancement of assets under management via growth strategies that the managers are capable to create for unitholders in terms of DPU growth and total return.
- REIT Managers can value-add through the following:
  - ✓ Asset management initiatives (AMIs) and asset enhancement initiatives (AEIs)
  - ✓ Acquisitions
  - ✓ Capital management
  - ✓ Distribution Policy

# Asset Management Initiatives & Assets Enhancement Initiatives

- Traditionally, the key skill sets of REIT Managers lie in asset management initiatives (AMIs) and asset enhancement initiatives (AEIs).

AMIs	AEIs
<ul style="list-style-type: none"><li>✓ Rental reversion</li><li>✓ Optimization of tenancy mix</li><li>✓ Operational efficiency enhancement</li></ul>	<ul style="list-style-type: none"><li>✓ Increase in net lettable area (NLA)</li><li>✓ Reconfiguration of space</li><li>✓ Refurbishment</li></ul>

Innovative examples:

- Creation of themed shopping, new lifestyle retail concepts and distinctive shopping precincts (entertainment / F&B concepts) to offer customers a new shopping experience.
- Introduction of new branded tenants that are first to market.
- Offerings of privilege parking zones, parking guiding systems, unique architectural features, smart phone apps. providing interactive direction guidance within the shopping mall, etc.

# Acquisitions – Structuring innovative deals

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- REIT Managers are challenged by scarcity of strong quality assets and intense competition amongst M-REIT players eyeing for the same pool of assets.
- In view of the circumstances, REIT Managers are moving towards structuring of innovative acquisition deals such as:
  - ✓ Collaboration with property developers or land owners to jointly develop a property and acquire by the REIT upon completion. Designs are catered to acquirer's requirement in order to ensure success of the project.
  - ✓ Tapping into the Sponsor to incubate assets for future asset injections into the REIT.
  - ✓ Acquire non-performing assets and turnaround such assets with yield accretive returns.
  - ✓ Deferred payment consideration until completion of the asset under construction.

# Capital Management – Flow through to unitholders

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- Increasingly, REIT Managers are playing more active role in capital management. The benefits of undertaking a proactive capital management role is aimed to achieve the following:
  - ✓ Exploit the prevailing interest rate environment
  - ✓ Potential interest savings and lowering average cost of debt
  - ✓ Tapping into debt capital market to diversify sources of funding
- The use of derivatives (interest rate swap) on commercial papers to lock variable rates to fixed rates at the respective tenures.
- Issuance of unrated bonds (medium term notes) subscribed by banks on a bilateral basis.
- The results of proactive capital management will flow directly to distributable income which ultimately benefits unitholders.



# **Distribution Policy – Unitholders enjoy higher distribution payout**

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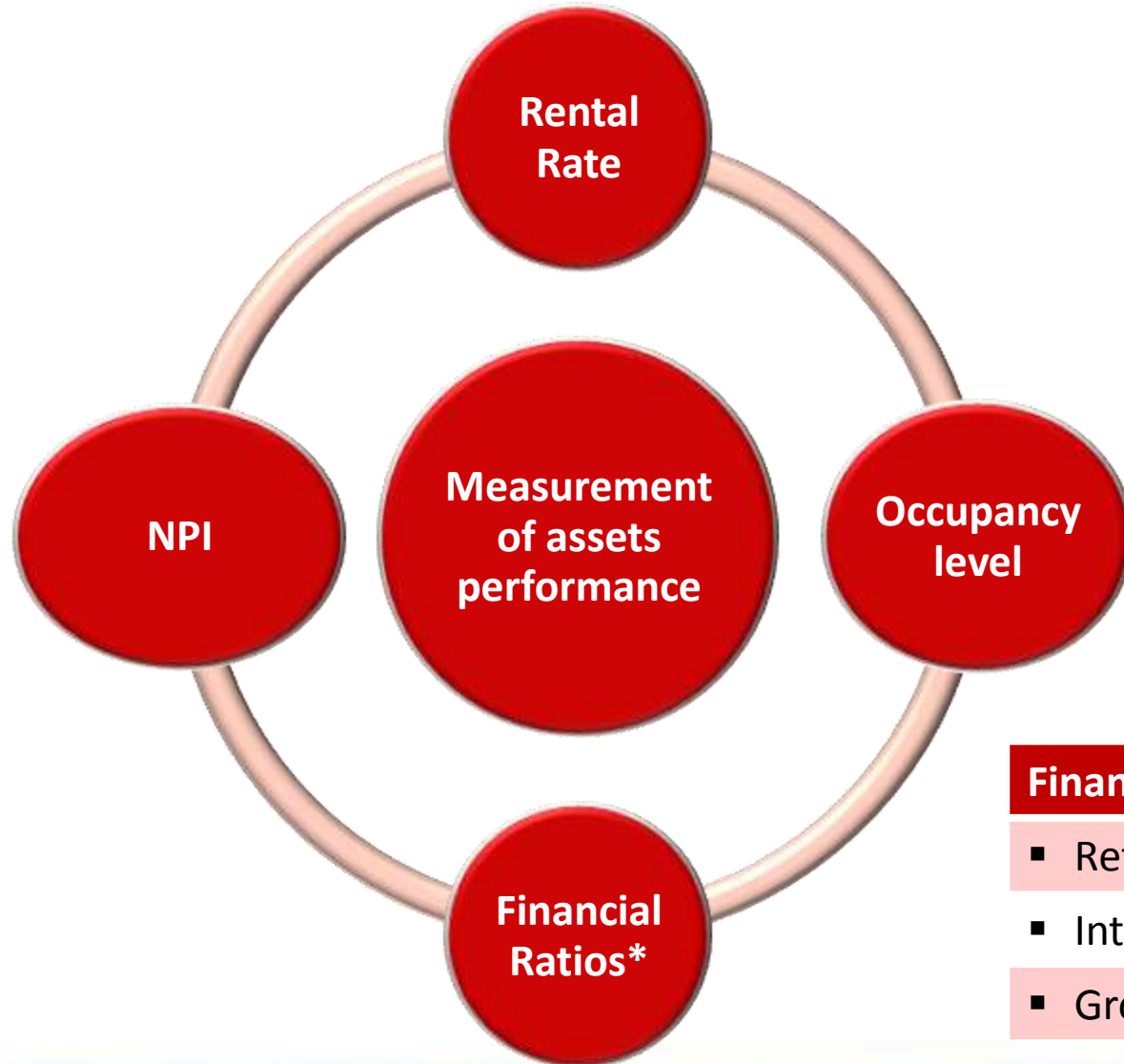
- REIT Managers can embark innovative distribution policy where managers' fees are paid partially in units.
- This methodology will benefit unitholders in receiving higher dividend payout as distribution exceeds earnings.

**Part 3:**

**Continuous measurement throughout the  
lifecycle of the project**

# Measurement of assets performance

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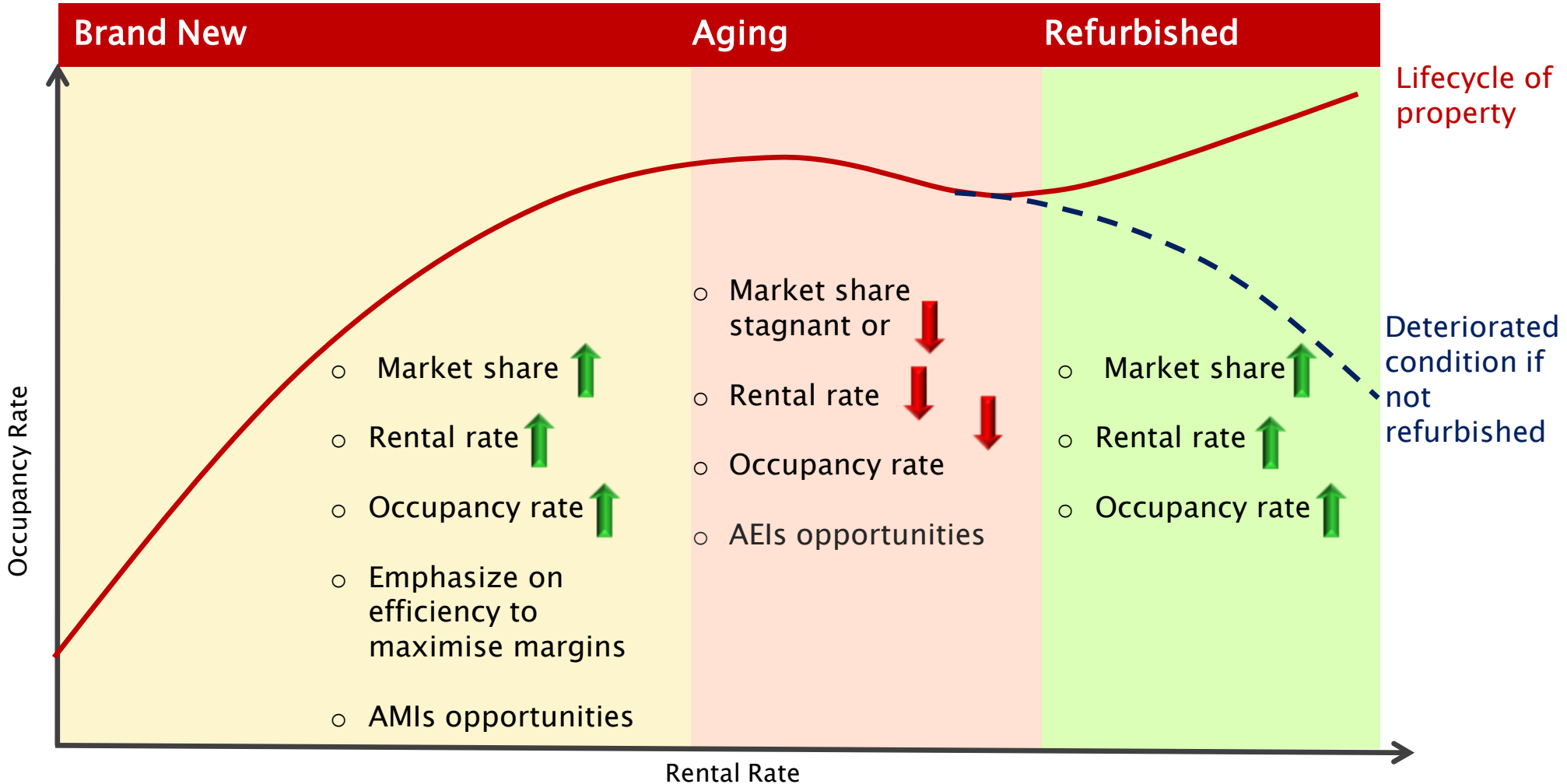


## Financial Ratio

- Return on Investment (ROI)
- Internal Rate of Return (IRR)
- Gross Operating Margins

# Measurement of assets performance

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# Thank you

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