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Singapore Real Estate Investment Trusts (S-REITs)



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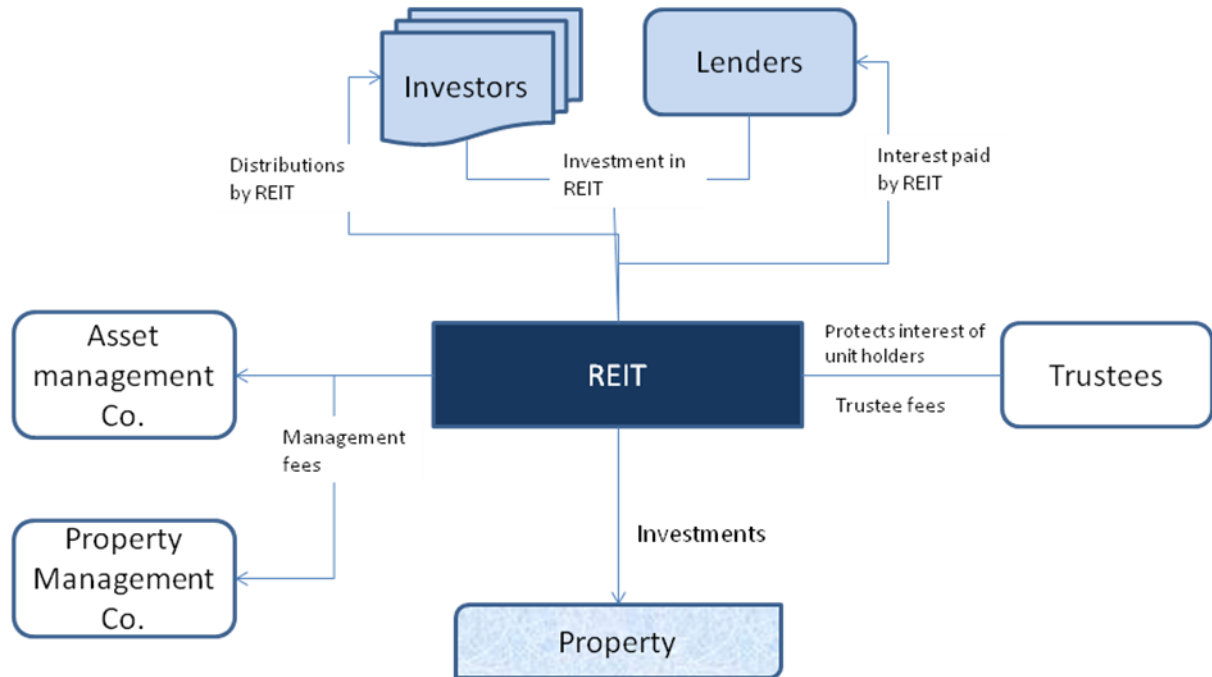
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As is typical to any REIT, S-REITs as well are vehicles that invest in a portfolio of real estate assets to generate income for unit holders. The revenue so generated from such assets is distributed to the unit holders regularly. The distributions made by the REITs are exempt from tax and the units are traded on stock exchanges. A typical S-REIT structure is illustrated below –

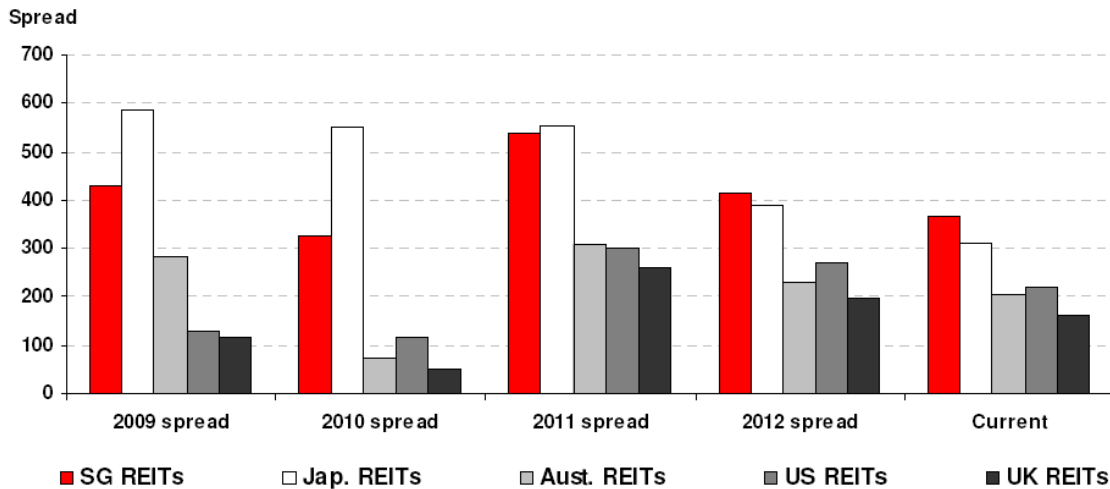


Japan was the first market in Asia to introduce REITs, other Asian markets also introduced regulations to facilitate growth of REITs in the region. Singapore is the largest REITs market in Asia (ex-Japan). REITs were introduced in Singapore by Monetary Authority of Singapore (MAS) in the early 2000s and the first REIT listed on Singapore stock exchange was in 2002. As on June 2012, there were 26 REITs listed on the Singapore Exchange (SGX) with an aggregate market capitalization of about USD 33.3 billion¹. S-REITs have been consistently strong on the fundamentals which ensured that even post the global financial crisis S-REITs recorded annual growth of 5.8% between 2008 and 2011. Historical spreads of REITs in the major sovereign markets² is indicative that the Singapore REITs have done well over a period of time.

¹http://www.cbcre.co.jp/EN/Research_Center/GlobalReports/REITsAroundAsia/Asia_REIT_Viewpoint_1h_2012.pdf

²http://www.ocbcresearch.com/pdf_reports/S-REITs%20Sector-130604-OIR.pdf

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Source: Bloomberg, OIR

Note: REIT yields for specific markets are calculated on a market-cap weighted basis.

Regulatory issues

Property funds in Singapore can be structured as collective investment schemes and business trusts. Real estate investment trusts are restricted to such property funds that are structured and regulated as collective investment schemes. S-REITs are regulated by MAS-Code of Collective Investment Schemes³ and Securities and Futures Act.

The Code on Collective Investment Schemes is defined in Securities and Futures Act, 2001⁴ to mean the Code on Collective Investment Schemes referred to in section 284⁵ which is issued by the Authority under section 321(1).

Section 286 of the Act, requires the collective investment scheme investing primarily in real estate and real estate-related assets to be in form of a trust and listed.

The Code on Collective Investment Schemes, Appendix 6 provides for the requirements for ‘investment in property fund.’

³ Appendix 6 – Investment: Property Funds of the Code of Collective Investments Schemes of MAS is applicable to REITs; http://www.mas.gov.sg/~media/resource/legislation_guidelines/securities_futures/sub_legislation/Revised_Code30Sep2011final.pdf

⁴ http://statutes.agc.gov.sg/aol/search/display/view_w3p:page=0;query=DocId%3A25de2ec3-ac8e-44bf-9c88-927bf7eca056%20Depth%3A0%20Status%3Ainforce:rec=0;whole=yes

⁵ **Code on Collective Investment Schemes**

284.—(1) For the more effective administration, supervision and control of collective investment schemes, the Authority shall, under section 321, issue a code, to be known as the Code on Collective Investment Schemes.

(2) The Authority may from time to time revise the Code on Collective Investment Schemes by deleting, amending or adding to the provisions thereof.

(3) The Code on Collective Investment Schemes shall be deemed not to be subsidiary legislation.



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Under the Code on Collective Investment Schemes sets down the qualification criteria for the managers of the trust. The manager of a listed property fund should be a corporation with a physical office in Singapore, and have minimum shareholders' funds of S\$1 million.

The Code lists down the permissible investments, restrictions on investments for a property fund and are extracted from the Code and reproduced below—

Permissible Investments

- a. Real estate, whether freehold or leasehold, in or outside Singapore. An investment in real estate may be by way of direct ownership or a shareholding in an unlisted special purpose vehicle (“SPV”) constituted to hold or own real estate. An investment in another property fund that is authorised under section 286(1) of the Securities and Futures Act (Cap. 289) and this Appendix will be considered as an investment in real estate;
- b. Real estate-related assets⁶;
- c. Listed or unlisted debt securities and listed shares of, or issued, by local or foreign non-property corporations;
- d. Government securities;
- e. Cash and cash equivalent items.

Restrictions and requirements on investment and activities:

- a. At least 75% of the property fund's deposited property should be invested in income-producing real estate (other than in case of disinvestment).
- b. A property fund should not undertake property development activities whether on its own, in a joint venture with others, or by investing in unlisted property development companies, unless the property fund intends to hold the developed property upon completion.
- c. A property fund should not invest in vacant land and mortgages (except for mortgage-backed securities). This prohibition does not prevent a property fund from investing in real estate to be built on vacant land that has been approved for development or other uncompleted property developments.
- d. The total contract value of property development activities undertaken and investments in uncompleted property developments should not exceed 10% of the property fund's deposited property. For the purpose of this paragraph, the value of the investment refers to the contracted purchase price and not the value of progress payments made to date; and

⁶ Real estate-related assets have been defined in the code to mean listed or unlisted debt securities and listed shares of or issued by property corporations, mortgage-backed securities, other property funds, and assets incidental to the ownership of real estate (e.g. furniture).



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- e. Not more than 5% of the property fund's deposited property may be invested in any one issuer's securities or any one manager's funds. A corporation and its subsidiary companies are regarded as one issuer or manager.
- f. A property fund should not derive more than 10% of its revenue from sources other than:
 - i. Rental payments from the tenants of the real estate held by the property fund; or
 - ii. Interest, dividends, and other similar payments from SPVs and other permissible investments of the property fund.
- g. The leverage can be in excess of 35% of the fund's deposited property only if the fund obtains a credit rating and discloses the same to the public.

With regard to listing of the REITs on Singapore Stock Exchange (SGX), Chapter 2, 4 and 6 of the SGX-ST Listing Manual lays down compliance requirements for REIT issuers to get the units listed on SGX. For offering units of S-REITs the issuer also has to comply with Securities and Futures (Offers of Investment) (Collective Investment Scheme) Regulations, 2005.

REITs denominated in Singapore Dollars need to fulfil the following conditions for listing on the Singapore Stock Exchange (SGX):

- a. Minimum asset size of S\$20 million (For REITs denominated in foreign currency the minimum asset size is of at least US\$20 million);
- b. At least 25% of the units are to be held by 500 public unit holders;
- c. Not more than 10% of its investments should be in such companies that are related to substantial unit holders' investment, managers or manager companies;
- d. Not more than 30% of the gross assets to be invested in unlisted securities;
- e. The leverage should not exceed 35% of the fund's deposited property.
- f. It must abide by the same investment and borrowing restrictions that govern "investment companies" prescribed by the Companies Act;

Tax benefits

Any distributions made by S-REITs to foreign or local investors shall be exempt from tax provided atleast 90% of the taxable income is distributed. Inland Revenue Authority of Singapore (IRAS) allows S- REITs to make gross distributions to all individuals, i.e. without deduction of any tax at source. Further the withholding tax on S- REITs for non-resident investors is 10%.

Stamp Duty

A stamp duty remission is allowed for the sale or property or interest thereof to a REIT which is either listed or to be listed within six month from executing the chargeable



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documents⁷. Stamp duty remission is also available for the transfer of shares in a special purpose vehicle that holds, directly or indirectly, immovable property located outside Singapore. Any document relating to the transfer, lease or mortgage of properties situated outside Singapore is exempt from stamp duty.

⁷ The stamp duty remission was available 18 Feb 2005 to 17 Feb 2010 and was later extended to 31 Mar 2015; <http://www.iras.gov.sg/irasHome/page04.aspx?id=8620>