The Investment Characteristics and Benefits of Asian REITs for Retail Investors

Professor Graeme Newell
November 2012

Professor Graeme Newell
Professor of Property Investment
University of Western Sydney, Australia
g.newell@uws.edu.au

Professor Graeme Newell is actively involved in applied research relating to the real estate industry at an international level. He has strong professional links with Asia, is a member of APREA and is a Fellow of both the Royal Institution of Chartered Surveyors and the Australian Property Institute. He has researched real estate and real estate investment vehicles in institutional portfolios in Europe, Australia, US and Asia. Recent major reports prepared by Professor Newell for APREA include *The Significance of Real Estate in Asian Pension Funds* and *The Benefits of an Allocation to Asian Real Estate for Institutional Investors.* This report serves to expand the level of investor understanding of Asian REITs by highlighting the importance, investment characteristics and benefits for retail investors, as well as enhancing the understanding of REITs by the regulators within the emerging markets in Asia.

Published by Asia Pacific Real Estate Association Limited (APREA)
www.aprea.asia

Table of Contents

Executive Summary

The establishment of Real Estate Investment Trusts (REITs) over the last ten years has seen a major transformation in the listed real estate market space and a focus on high quality commercial real estate investment portfolios. This has seen REIT markets established in seven countries in Asia. This includes major REIT markets in Japan, Singapore and Hong Kong, as well as the emerging markets of Malaysia, Thailand, Taiwan and South Korea. With 138 REITs and a total market capitalisation of over US$118 billion, the Asian REIT market accounts for over 12% of the global REIT market. The stature of Asian REITs is further reinforced by Japan (#4 globally), Singapore (#7) and Hong Kong (#8) being significant REIT markets globally.

This APREA report is designed to be simple and easy to read and aims to highlight the importance, investment characteristics and benefits of Asian REITs for general investors. The objective of the report is to expand the level of general investor education and understanding of Asian REITs as a high quality real estate investment opportunity. It also seeks to enhance the understanding of Asian REITs by the regulators in the emerging markets in Asia, to facilitate the development of REITs in these key future markets.

The report explains what a REIT is, the investment characteristics and benefits of Asian REITs, what distinguishes REITs from stocks and bonds, and how Asian REITs have performed. In each case, this is supported by statistical analysis, market commentary and professional insights from leading real estate industry professionals who work closely with the Asian REITs. The final section Top 10 lessons learnt from the Asian REIT story' articulates these findings and summarises the benefits of Asian REITs for retail investors, as well as for regulators in the emerging markets.

The report also highlights the important investment characteristics and benefits of Asian REITs including liquidity, diversification, high income yields, tax transparency, mandatory dividend payouts, quality real estate portfolios and quality professional REIT managers. REITs in Asia have both sector-specific and diversified real estate portfolios, and include access to both domestic and pan-Asia real estate portfolios.

Asian REITs also have some unique characteristics to further enhance their retail investor attractiveness; these include accessing the China and India real estate markets and the establishment of Shariah-compliant Islamic REITs in Malaysia and Singapore.

The risk-adjusted performance analysis for Asian REITs also presents a very positive picture for retail investors; particularly post the global financial crisis, as well as for Asian REITs compared to their respective stock markets.

Overall, REITs in Asia have been an important addition to the real estate investment landscape over the last ten years for both general retail investors and the large institutional investors (e.g., pension funds), both in an Asian and a global context. This is particularly important in the context of continued economic uncertainty in the US and sovereign debt issues in Europe. This sees REITs in Asia as well-placed moving forward; reflecting the increased growth, maturity, transparency and sophistication of the Asian real estate markets and the expected increased future role of the emerging real estate markets in Asia.

Importantly, Asian REITs provide a liquid, high quality commercial real estate investment opportunity to access the dynamics of the Asian real estate markets in a listed real estate investment product that is well-suited to general retail investors. APREA hope that this report will benefit both general retail investors and regulators in increasing their level of understanding of Asian REITs as an important investment opportunity in these dynamic Asian markets.

1.0
Introduction

Asia has seen considerable economic growth in recent years, across the developed markets (e.g., Japan, Singapore and Hong Kong) and the emerging markets (e.g., China and India). The region has become a major global economic growth engine, recovering strongly from the global financial crisis (GFC) and largely being isolated from the recent US economic uncertainty and the sovereign debt issues in Europe. Importantly, this strong economic growth has been a major stimulus to the real estate markets in Asia.

Asia accounts for US$7 trillion in investable real estate, being 25% of the global market. By 2020, this is expected to grow significantly to US$17 trillion and be 35% of the global market; largely driven by the strong growth in the Asian emerging real estate markets. Asia now also accounts for 18% of global commercial real estate transaction activity, being over US$335 billion in the last five years. Improved real estate market transparency has also been evident in the Asian markets, with the developed real estate markets of Singapore, Hong Kong and Japan classified as 'transparent' and most of the emerging real estate markets in Asia classified as 'semi-transparent'.

ASIA ACCOUNTS FOR US$7 TRILLION IN INVESTABLE REAL ESTATE, BEING 25% OF THE GLOBAL MARKET.

With improved market maturity and sophistication, this positive growth context for Asia has seen many major real estate investors have Asian real estate as a key ingredient in their global multi-billion dollar real estate portfolios. Examples include CBRE, RREEF, Pramerica, LaSalle and Morgan Stanley. Check **Investor Insight #1** for incisive comments by leading real estate professionals in Asia. These professionals were interviewed for this report and asked their opinions on the Asian economic growth context drivers and the implications for the real estate markets in Asia.

Listed real estate on the various Asian stock markets also has a significant role in real estate investment in Asia. Listed real estate in Asia accounts for over 40% of the global listed real estate market, with four of the top five securitised real estate markets globally being in Asia; namely Hong Kong, Japan, China and Singapore. Traditionally, listed real estate companies with their focus on real estate development activities and capital growth have been the main listed real estate vehicles used by general retail investors in Asia.

Importantly, the establishment of REITs in Asia has seen a major transformation in the listed real estate markets in Asia in the last ten years, focusing on high quality commercial real estate investment portfolios.

REIT markets are now established in seven Asian countries including Japan, Singapore and Hong Kong and there are 138 Asian REITs with a total market capitalisation of over US$118 billion which accounts for 12% of the global REIT market. The investment characteristics, the benefits for general retail investors and the performance of Asian REITs are detailed in subsequent sections of this report.

Despite these features, there is still only limited information available to general retail investors concerning the investment characteristics and benefits of Asian REITs. For example, concerns have been expressed that many general investors in Asia still consider REITs as growth stocks and are not fully aware of their strong income returns. Similarly, the regulators in several emerging markets in Asia need a greater understanding of the REIT product and the significant benefits that REITs can provide to real estate investors in their emerging Asian markets.

As such, this APREA report aims to provide a simple and easy to read report to highlight the importance, investment characteristics and benefits of Asian REITs for general investors. The objective is to expand the level of general investor education and understanding of Asian REITs as a listed real estate investment opportunity to access the performance of the high quality commercial real estate held in these Asian REIT portfolios. This report also seeks to enhance the level of understanding of Asian REITs by the regulators in the emerging real estate markets in Asia to help facilitate the future development of REITs in these key markets. In each case, this is supported by statistical analysis, market commentary and insight, and incisive interviews with leading real estate industry professionals who work closely with the Asian REITs.

#1

INVESTOR INSIGHT

"The growth opportunities in Asia are unique relative to almost all Western countries"

Richard Price
CBRE Global Investors

"Asian economic growth will drive the fundamentals of real estate"

Victor Yeung
LaSalle Investment Management

"A young demographic, with a growing and affluent middle class in Asia are important factors"

Stewart LaBrooy
Axis REIT

"Volatility is part and parcel of the emerging real estate markets in Asia; with growth comes risk"

Rico Kanthatham and Anna Zhong
Cornerstone Real Estate Advisors

2.0
REITs in Asia

2.1 What is a REIT?

A Real Estate Investment Trust (REIT) is a listed company that owns and actively manages a portfolio of high quality income-producing commercial real estate. REITs are listed on their respective stock markets and their shares are publicly traded via active trading as per other stocks. This liquidity is a key feature of REITs. This sees REITs having a sector-specific real estate portfolio (e.g., office, retail, industrial real estate) or a diversified real estate portfolio across several real estate sectors. REITs also use geographic diversification in managing the risk of their commercial real estate portfolios.

Whilst being listed on the stock market and publicly traded, the major income stream for REITs is the rental income from their real estate portfolios. This sees REITs being listed, but having commercial real estate portfolios as the underlying assets to secure their income stream and deliver attractive yields. As such, REITs are a hybrid investment, offering the liquidity of the stock market as well as the secure income stream from tenants on long leases in quality commercial real estate. Both are attractive investment features that have actively contributed to the success of REITs in achieving high quality listed real estate exposure for investors.

Whilst REITs typically see some short-term volatility due to stock market volatility and less diversification benefits with stocks than seen by direct real estate, REITs are expected to reflect the performance of direct real estate in the longer term. This is a key feature of the attractiveness of REITs to investors. That is, they offer liquidity but with underlying commercial real estate exposure and performance. These features will be explored in subsequent sections of this report.

REITs ARE A HYBRID INVESTMENT, OFFERING THE LIQUIDITY OF THE STOCK MARKET AS WELL AS THE SECURE INCOME STREAM THAT COMES FROM TENANTS ON COMMERCIAL LEASES.

Importantly, REITs have a focus on income-producing investment real estate, whereas listed real estate companies have a focus on real estate development. As such, both are listed real estate opportunities for investors, but offer different strategic agendas.

Often a listed real estate company will be the sponsor of a REIT by placing some of their income-producing real estate into the REIT. This has often been the case in establishing an Asian REIT.

REITs also have a strict regulatory structure that they must comply with to be considered tax transparent and hence able to deliver attractive yields with an income-return focus compared to other investments. This includes their primary source of income being rental income, mandatory dividend payouts and strict corporate governance requirements. Management structure, gearing restrictions, geographic restrictions and restrictions on real estate development activities can also apply in specific countries. These regulatory requirements vary across individual countries and will be examined in a subsequent section of this report, along with the benefits of REITs to general retail investors.

General retail investors can access REITs by purchasing shares in individual REITs (as per general stocks) to establish and manage their own REIT portfolio. Or, they can invest in a real estate securities fund or mutual fund for access to a fuller portfolio of REIT stocks at a local or international level. Both are successful investment strategies and see general investors accessing the opportunities of establishing a high quality REIT portfolio for the dual benefits of liquidity and high quality commercial real estate investment opportunities.

The development of an active REIT market in Asia has meant general retail investors in Asia are able to successfully implement these investment strategies in achieving effective listed real estate exposure in the Asian real estate markets and in a different manner to the traditional listed real estate companies. Often this has been achieved by a pan-Asia REIT strategy or Asia-Pacific REIT strategy.

2.2 Global REIT context

REITs have developed into a mature real estate investment vehicle over the last 50 years, providing access to high quality investment-grade real estate portfolios with liquidity (due to REITs being listed). REITs have a long and successful history in the US and Australia, but were only established in the UK in 2007 and in France in 2003, with the various REIT markets in Asia only established since 2001. Globally, there are over 500 REITs in 22 countries with a total market capitalisation of over US$850 billion. These 22 countries comprise 13 developed real estate markets and nine emerging real estate markets.

The leading REIT markets are the US (#1 and 55% global market share), Australia (#2 and 10%), France (#3 and 8%), Japan (#4 and 6%) and UK (#5 and 5%), with REITs in seven Asian countries, including Japan, Singapore and Hong Kong. Globally, REITs now account for 45% of listed real estate exposure with a strong investment real estate focus, compared to listed real estate companies with a real estate development focus.

REITs have both sector-specific and diversified real estate portfolios, and include access to both domestic and international real estate portfolios.

Real estate sectors in REITs include office, retail, industrial, hotel and residential real estate, with a strong emphasis on commercial real estate. Specialised REITs also include self-storage, health care, leisure, agricultural real estate and data centres in their real estate portfolios. While different management and regulatory structures for REITs apply in the various countries, REITs typically are conservatively managed, with low to moderate gearing and high quality commercial real estate portfolios. The requirement in most countries of REITs distributing at least 90% of their net income sees high dividend payouts, delivering attractive yields to general investors seeking annuity-style performance at low to moderate risk. Global, regional and country-specific real estate securities funds have also been established to provide investors with access to these global REIT markets. Examples include real estate securities funds by Morgan Stanley, Henderson, Schroder, BNP Paribas, Nomura, Cohen & Steers and Heitman.

REITs are seen as an effective listed real estate investment vehicle, providing the benefits of high quality commercial real estate portfolios including liquidity, tax transparency, high yields, domestic and global real estate exposure and professional management. These important features see REITs as well-suited to a beneficial added-value role in an investor's portfolio. More detail on the investment characteristics and benefits of Asian REITs for general retail investors is given in a subsequent section of this report. Importantly, REITs are expected to reflect the performance of direct real estate in the longer term; this being a key expectation for many general retail investors.

2.3 REITs in Asia

Traditionally, listed real estate exposure for investors in Asia was via the major listed real estate companies in Japan (e.g., Mitsubishi Estate, Mitsui Fudosan), Hong Kong (e.g., Cheung Kong, Sun Hung Kai), Singapore (e.g., CapitaLand, Keppel) and the various emerging markets in Asia. This has changed significantly with the establishment of REIT markets in Asia in the last ten years; namely Japan (in 2001), Singapore (2002), Thailand (2003), Hong Kong (2005), Malaysia (2005), Taiwan (2005) and South Korea (2006). This sees REITs in Asia in three developed markets and four emerging markets. The establishment of REITs in Asia has seen a major transformation in the listed real estate market space and a stronger focus on high quality commercial real estate investment portfolios delivering attractive yields to retail investors.

With 138 REITs and a total market capitalisation of over US$118 billion (see Table 1), the Asian REIT market accounts for over 12% of the global REIT market. The stature of Asian REITs is further reinforced by Japan (#4 globally), Singapore (#7) and Hong Kong (#8) being significant REIT markets globally. This also sees Asian REITs now accounting for 13% of listed real estate exposure in Asia, an increasingly important component for general retail investors to achieve their listed real estate exposure in Asia.

Table 1. Significance of Asian REITs: August 2012

COUNTRY	NUMBER OF REITs	MARKET CAPITALISATION (US$)	PERCENTAGE OF ASIAN REIT MARKET
Japan	35	$47.2B	40%
Singapore	27	$37.6B	32%
Hong Kong	9	$19.7B	17%
Malaysia	15	$6.3B	5%
Thailand	38	$4.7B	4%
Taiwan	6	$2.4B	2%
South Korea	8	$0.5B	<1%
TOTAL	**138**	**$118.4B**	**100%**

Source: *APREA (2012)*

In an Asian REIT context, the REIT market is dominated by Japan (40% market share), Singapore (32%) and Hong Kong (17%); with the developed REIT markets in Asia accounting for 89% of market share. REIT markets are yet to be established in China or India, with REIT legislation in place for the Philippines.

Table 2 shows the leading REITs in the seven Asia REIT markets, with the Link REIT, Nippon Building Fund, CapitaMall Trust, Japan REIT and Ascendas REIT being the largest REITs in Asia. This sees three Asian REITs in the top 50 REITs globally. Table 3 also highlights the range of REITs available in these Asian REIT markets, with REITs in the office, retail and industrial sectors and diversified REITs dominating and being available in most markets. Residential REITs and specialised REITs (e.g., healthcare) are also available in several Asian REIT markets. This clearly provides significant investor choice, with retail investors able to use sector-specific REITs or diversified REITs to achieve their listed real estate exposure.

Table 2. Leading REITs in the Asian REIT markets: August 2012

COUNTRY	MARKET CAPITALISATION (US$)
Japan:	
Nippon Building Fund	$6.2B
Japan Real Estate Investment	$5.4B
Japan Retail Fund Investment	$3.2B
United Urban Investment	$2.3B
Singapore:	
CapitaMall Trust	$5.3B
Ascendas REIT	$4.3B
CapitaCommercial Trust	$3.2B
Suntec REIT	$2.6B
Hong Kong:	
Link REIT	$10.3B
Hui Xian REIT	$3.0B
Champion REIT	$2.5B
Fortune REIT	$1.3B
Malaysia:	
Pavilion REIT	$1.3B
Sunway REIT	$1.3B
CapitaMall Malaysia	$1.0B
Axis REIT	$0.4B
Thailand:	
CPN Retail Growth Leasehold Prop. Fund	$0.8B
Tesco Lotus Retail	$0.8B
Samui Airport Prop. Fund	$0.4B
Ticon Property Fund	$0.3B
Taiwan:	
Cathay No.1 REIT	$0.8B
Shin Kong No.1 REIT	$0.5B
Cathay No. 2 REIT	$0.4B
Fubon No. 1 REIT	$0.3B
South Korea:	
Korea REIT	$0.2B

Source: *APREA (2012)*

Table 3. Types of Asian REITs

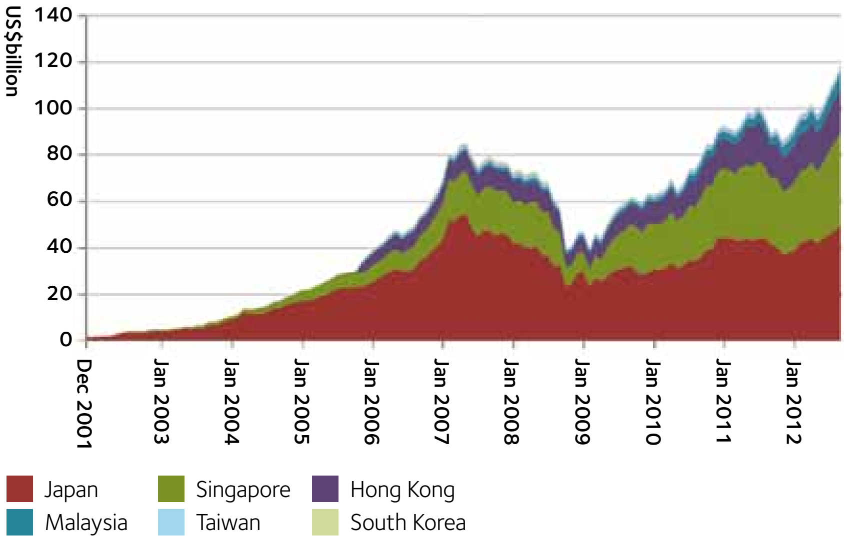
COUNTRY	OFFICE	RETAIL	INDUSTRIAL	DIVERSIFIED	RESIDENTIAL	SPECIALISED
Japan	✓	✓	✓	✓	✓	✓
Singapore	✓	✓	✓	✓	✓	✓
Hong Kong	✓	✓	✗	✓	✗	✓
Malaysia	✓	✓	✓	✓	✗	✓
Thailand	✓	✓	✓	✗	✓	✓
Taiwan	✓	✗	✗	✓	✗	✗
South Korea	✓	✗	✗	✓	✓	✗

Source: *APREA (2012)*

THE ASIAN REIT MARKET HAS INCREASED ITS MARKET CAP BY OVER 190% TO SIGNIFICANTLY EXCEED ITS PRE-GFC LEVELS.

Figure 1 highlights the significant growth in the Asian REIT market over 2001-2012. Like all global markets, the Asian REIT market was adversely impacted by the GFC. However, the Asian REIT market has recovered significantly, increasing its market cap by over 190% to significantly exceed its pre-GFC levels and has seen over 15 new REITs launched since the GFC in most of the Asian REIT markets. This extent of recovery by the Asian REIT markets has exceeded that seen for many of the mature REIT markets (e.g., US, Australia, UK). Asian REITs have also recovered from the stock market volatility seen in the second half of 2011. These performance characteristics highlight the robustness of the Asian REIT market; being a key risk management criteria for potential Asian REIT investors.

Figure 1. Growth of the Asian REIT market: Asian market capitalisation 2001-2012



Source: *APREA (2012)*

Figures 2 and 3 also present a selection of commercial properties in various REIT portfolios in Japan, Singapore, Hong Kong and Malaysia. This highlights the high calibre of commercial properties in the Asian REIT portfolios, where retail investors are able to access the income streams and capital growth from these real estate portfolios by investing in specific Asian REITs. Recent years have seen Asian REITs grow their real estate portfolios, as well as focusing on asset enhancement and tenant retention to strengthen the quality of their rental income-streams and their attractive yields. Asian REITs can acquire or sell properties, but typically hold properties as long-term real estate investments, further reinforcing their focus on commercial real estate investment.

Figure 2. Selection of Japan REIT and Singapore REIT properties

Japan REITs

Shiodome Bulding

Kitanomaru Square

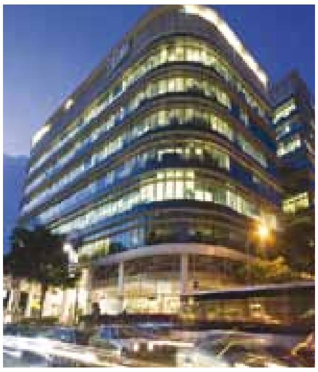
Shibuya Cross Bulding

Tokyo Opera City Tower

ON Building

Mitsubishi UFJ Trust & Banking Building

Singapore REITs



The Atrium @ Orchard

Raffles City

Capital Tower

Six Battery Road

One George Street

HSBC Building

Source: *Various REIT websites*

Figure 3. Selection of Hong Kong REIT and Malaysian REIT properties

Hong Kong and Malaysian REITs

Langham Place

Regal Hong Kong Hotel

Menara Axis

Beijing Oriental Plaza

Source: *Various REIT websites*

REITs IN ASIA HAVE BEEN AN IMPORTANT ADDITION TO THE REAL ESTATE INVESTMENT LANDSCAPE OVER THE LAST TEN YEARS, BOTH IN AN ASIAN AND GLOBAL CONTEXT.

Overall, REITs in Asia have been an important addition to the real estate investment landscape over the last ten years, both in an Asian and global context. Importantly, Asian REITs have provided general retail investors with an attractive way to achieve their listed real estate exposure via accessing the real estate investment performance of the high quality commercial real estate assets held in Asian REITs. This is particularly important in the context of continued economic uncertainty in the US and sovereign debt issues in Europe; seeing a relative performance advantage driven by Asia's strong economic growth expectations. This sees REITs in Asia as well-placed moving forward and reflects the increased maturity, transparency and sophistication of the Asian real estate markets and the expected increased future role by the emerging real estate markets in Asia.

The investment characteristics of Asian REITs and the benefits of Asian REITs for general retail investors are detailed in the following sections. The objective of this report is to increase the level of understanding of Asian REITs by general retail investors and by the regulators in the emerging markets in Asia. It also seeks to provide momentum towards new REIT markets being established in these key Asian markets. APREA's mandate to support the development of REITs in Asia sees APREA as actively facilitating this process within the emerging markets in the region.

3.0
Investment Characteristics and Benefits of Asian REITs

Real estate is an important investment and offers the attractive investment features of access to quality commercial real estate assets, portfolio diversification benefits and low risk. It's difficult for retail investors to access direct real estate as an investment due to the sheer financial scale of the investment needed, even if this is done via an unlisted real estate fund. As a result, direct real estate is generally seen as an expensive, lumpy and illiquid asset. This sees listed real estate as a more effective means for retail investors to achieve their commercial real estate exposure. In Asia, this was previously achieved via listed real estate companies.

However, the emergence of Asian REITs over the last ten years has significantly changed the listed real estate landscape in Asia for retail investors by providing a 'purer' real estate investment product on the Asian stock markets. This section highlights the attractive investment characteristics and benefits of Asian REITs for retail investors.

3.1 Investment characteristics of Asian REITs

Table 4 identifies the investment characteristics and general benefits of Asian REITs.

Table 4. Investment characteristics and general benefits of Asian REITs

MAJOR BENEFITS
Liquidity
Diversification
Strong income returns via attractive dividend yields
Mandatory dividend payouts
Tax transparency
Access to high quality commercial real estate assets
Quality professional managers with extensive experience
Low debt levels
Access to diversified portfolios and sector-specific portfolios
Restrictions on real estate development activities
Portfolio diversification: sectors/managers/regions
Strong corporate governance
Proxy for direct real estate in the longer term
OTHER BENEFITS
Lower management fees
Low entry costs
Divisibility
Proper disclosure re: stock market guidelines
Regularly priced to market; not valuation-based performance
No shareholder liability regarding debt
Track record of proven performance
Short term volatility due to stock market impact
Availability of REIT performance benchmarks

The major investment characteristics of Asian REITs are:

Liquidity
REITs are publicly listed on the various major Asian stock markets. Asian REITs are actively traded in the same way as other shares on the stock market (e.g., listed real estate companies). Asian REITs are able to be readily bought and sold and enjoy a high level of trading turnover. Importantly, Asian REITs are priced by the stock market each day and readily respond to changes in market sentiment.

ASIAN REITs ARE ABLE TO BE READILY BOUGHT AND SOLD AND ENJOY A HIGH LEVEL OF TRADING TURNOVER.

This sees Asian REITs as having high quality commercial real estate portfolios, as well as the liquidity of the stock market. These are two very attractive investment features and provide a very effective way for retail investors to achieve commercial real estate exposure and performance without the added risk of illiquidity.

Attractive dividend yields
To be classified as a REIT and be exempt from paying company tax, most Asian REIT markets require that at least 90% of the REIT's taxable income must be returned to shareholders as a mandatory dividend payout (see Table 5 for the Asian REIT regulatory environment).

Often Asian REITs will actually distribute 100% of their taxable income as a dividend yield to shareholders. This means Asian REITs deliver attractive dividend yields that are significantly higher than normally seen with other types of shares. Any taxes to be paid are therefore only at the individual REIT shareholder level, resulting in most Asian REIT markets being tax transparent.

Table 5. Asian REIT regulatory environment

COUNTRY	MANAGEMENT STRUCTURE	GEOGRAPHIC RESTRICTIONS	REAL ESTATE DEVELOPMENT	GEARING RESTRICTIONS	DIVIDEND PAYOUT
Japan	External	None	Restricted	None	≥ 90%
Singapore	External	None	<10%	<35% of asset value	≥ 90%
Hong Kong	Internal/ external	None	No	<45% of asset value	≥ 90%
Malaysia	External	None	No	<50% of asset value	Not specified
Taiwan	Internal/ external	None	<15%	<50% of asset value	≥ 90%
Thailand	External	Domestic only	Restricted	<10% of net asset value	≥ 90%
South Korea	Internal/ external	None	Yes	None	≥ 90%

Source: *CBRE (2012)*

With Asian REIT income streams being based on the rental income from high quality tenants on long-term leases, Asian REITs are able to deliver a reliable and consistent 'annuity style' income stream to retail investors. These consistent and attractive income yields by Asian REITs are a key factor in their success and acceptance for retail investors; with current average yields for the Asian REIT market being 5-6% (see Table 6).

The spread of REIT yields in each Asian REIT market is also given in Table 6, further confirming this Asian REIT yield-focus. This income-focus for Asian REITs sees income returns as an important component of the total return performance for Asian REITs, particularly in market conditions of limited capital growth and market uncertainty. Consequently, Asian REITs are able to deliver both attractive yields and capital growth for retail investors. These Asian REIT yields are more significant than the yields delivered by Asian listed real estate companies, which have a capital growth focus.

Table 6. Income yield features of Asian REITs: August 2012

COUNTRY	REIT DIVIDEND YIELD	10 YEAR BOND YIELD	YIELD PREMIUM*	DEBT LEVEL	INDIVIDUAL REIT YIELDS
Japan	5.90%	0.78%	5.12%	44%	3.81% - 7.87%
Singapore	6.39%	1.33%	5.06%	31%	4.81% - 8.69%
Hong Kong	5.16%	0.63%	4.53%	21%	3.74% - 7.41%
Malaysia	6.51%	3.45%	3.05%	30%	4.13% - 8.23%
Thailand	5.82%	3.35%	2.47%	0%	0.94% - 15.18%
Taiwan	3.33%	1.17%	2.17%	4%	2.80% - 5.35%
South Korea	2.98%	2.98%	0.00%	28%	3.84% - 9.84%
Other markets					
Australia	4.38%	3.05%	1.33%	42%	
US	3.4%	1.6%	1.8%	36%	

***Source:** APREA (2012)*
* Yield premium is the difference between the REIT dividend yield and the 10-year bond yield.

See **Investor Insight #2** for comments by leading real estate professionals in Asia on the importance of this income yield-focus for Asian REITs.

The importance of these attractive income yields for Asian REITs is shown in Table 6 in a comparison with the yield of 10-year bonds in these various Asian markets. This is a key comparison for retail investors focused on annuity-style income-focused investments. In most cases, Asian REITs were able to deliver significant yield premiums above 10-year bonds. This is particularly important for retail investors in Asian REITs in the current low bond yield environment in most countries. The magnitude of this yield premium for Asian REITs is also far more significant to that seen in the developed markets such as Australia and the US (see Table 6).

The consistent and attractive yields by Asian REITs is a key factor in their success and appeal to retail investors seeking a strong income focus to their Asian real estate exposure.

Access to high quality commercial real estate assets
Asian REITs have significant high quality income-producing commercial real estate portfolios, often being multi-billion dollar real estate portfolios. The real estate sectors include office, retail and industrial real estate, as well as hotel, residential and specialist sector real estate (e.g., health care). See Figures 2 and 3 for examples of these high quality commercial properties in Asian REITs.

#2
INVESTOR INSIGHT

"Investors have access to institutional grade real estate in REITs in multiple high growth Asia markets"
Rico Kanthatham and Anna Zhong
Cornerstone Real Estate Advisors

"Asian REITs give a higher yield than direct real estate, but you are also exposed to equity market volatility"
Tan Yen Keng
RREEF

"With lower economic growth globally, more of total return will need to come from yield; Asian REITs provide this stable income return source"
John White
Heitman

Asian REITs are structured as sector-specific REITs or diversified REITs (see Table 3). This enables retail investors to gain commercial real estate exposure in a specific real estate sector or diversify their real estate exposure across several real estate sectors. Both are effective real estate investment strategies. Similarly, the high quality of the commercial real estate often sees landmark or 'trophy' properties included in these Asian REITs, being properties well beyond the financial capacity of an individual retail investor to personally acquire.

In addition to domestic real estate portfolios, many Asian REITs provide exposure to other Asian real estate markets. This provides real estate diversification and potential for enhanced returns, as well as access to real estate investments in countries that are yet to establish their own REIT markets; this includes China and India. REITs in Singapore and Hong Kong have been most active in establishing these non-domestic Asian real estate portfolios. In some cases, they have also included real estate investments in non-Asian real estate markets. To grow their real estate portfolios, Asian REITs have been actively acquiring yield-enhancing properties, as well as undertaking asset enhancement of existing properties to attract and retain high quality tenants. Asian REITs have been amongst the major real estate investment players recently in several Asian real estate markets like Japan, for example.

Overall, the high quality commercial real estate in Asian REIT portfolios has been very attractive to retail investors seeking choice in their commercial real estate exposure via sector-specific or diversified real estate portfolios in both domestic and pan-Asia markets.

Achieving effective portfolio diversification
Having a diversified investment portfolio is a key investment consideration for retail investors in developing a low risk investment management strategy. This should see retail investors having different asset classes in their investment portfolio, as investments perform differently in different market conditions.

Asian REITs should be an essential component in a retail investor's portfolio. This is because Asian REITs only have a moderate correlation with their respective stock market performance and a low correlation with their respective bond market. This attractive feature of diversification by Asian REITs with stocks and bonds will be reinforced in the performance analysis for Asian REITs in a subsequent section of this report. Importantly, these diversification benefits have been enhanced in the post-GFC period in several Asian REIT markets. As Asian REIT performance is expected to match Asian direct real estate performance in the long-term, this further reinforces the use of Asian REITs as an effective strategy to achieve real estate performance in a diversified portfolio.

Diversification is a key component in a retail investor's investment strategy. Importantly, Asian REITs have significant portfolio diversification benefits that see Asian REITs as having an important strategic role with stocks and bonds in a portfolio for retail investors.

Strong corporate governance
As a result of being listed on their respective stock markets, Asian REITs are required to maintain strict requirements for high levels of corporate governance and financial reporting, at the same level as that expected for other listed stocks.

Asian REITs are required to provide regular financial disclosure and reporting to retail investors via audited financial statements using accepted international accounting procedures, as well as comprehensive annual reports regarding their real estate portfolios, operations and strategies.

ASIAN REITs SHOULD BE AN ESSENTIAL COMPONENT IN A RETAIL INVESTOR'S PORTFOLIO.

Regular independent valuations of individual properties are also required as part of this information disclosure by Asian REITs, with REIT analysts also providing independent reporting of the performance, outlook and growth opportunities for these Asian REITs.

As a consequence of being listed, Asian REITs are required to have boards of directors who are accountable to their shareholders and must conduct annual general meetings, as well as the Asian REIT's Chief Executive Officer being appointed by the REIT's board of directors. Full disclosure of executive remuneration and board representation is also required as part of this corporate disclosure process, which is supported by informative websites with full details and photos of the commercial real estate portfolio. See **Investor Insight #3** for comments by leading real estate professionals in Asia concerning the importance of corporate governance for Asian REITs.

Overall, Asian REITs implement strong corporate governance and financial reporting procedures in line with strict stock exchange requirements. This is particularly important for retail investors, as they can have confidence in the operational requirements and financial disclosure of Asian REITs concerning their often multi-billion dollar commercial real estate investment portfolios.

3.2 General benefits of Asian REITs

In addition to these attractive investment characteristics of Asian REITs, the general benefits of Asian REITs are also given in Table 4. Major benefits include:

Low debt levels
Asian REITs tend to have conservative and moderate debt levels in comparison to listed real estate companies, other sectors of the stock market and REITs in the mature developed markets. Table 6 shows these current average debt levels, with many Asian REIT markets having regulatory restrictions on their maximum debt levels (see Table 5).

During the GFC, and in comparison to the US, Australian and UK REIT markets, many of the Asian REITs did not have high levels of gearing. They also had access to successful local refinancing and focused on their core real estate investment activities. This resulted in fewer impediments for Asian REITs moving forward from the GFC, and has been a key factor in the strong success and performance of Asian REITs in the post-GFC period.

Restrictions on real estate development activities
Most Asian REIT markets have regulatory restrictions that severely limit or prohibit real estate development activities (see Table 5). This results in a key difference in the real estate focus of Asian REITs to that of listed real estate companies. REITs are focused on real estate investment activities instead of the higher risk real estate development activities of the listed real estate companies. This clear difference sees a 'purer' real estate investment focus to Asian REITs and a clear point of differentiation in the listed real estate exposure sought by retail investors.

High quality professional real estate managers
Most Asian REIT markets require an external management structure (e.g., Japan, Singapore), with several allowing either external or internal management (e.g., Hong Kong). See Table 5 for more detail. This sees high quality professional real estate managers involved with Asian REITs at all levels of the operations, including REIT funds management, portfolio management, asset management and property management. These professional real estate managers play an active role in Asian REIT operations, often having international experience as well as strong extensive local real estate market experience, knowledge and skills. This is important to retail investors as the quality of both the REIT's professional real estate team and the real estate asset performance are key drivers in the successful performance and growth of the Asian REIT markets.

Low management fees
Being listed on the Asian stock markets means Asian REITs have low annual management fees comparable to other companies listed on the stock market. The fees are significantly lower to that seen for an unlisted real estate fund. This is important to retail investors, as management fees are deducted before dividend payouts to shareholders; thus ensuring attractive yields for Asian REITs.

#3
INVESTOR INSIGHT

"Transparency has improved with APREA's role in the Asian countries with REIT markets"

Stewart LaBrooy
Axis REIT

"Governance is less of an issue now, as there are very competent management teams in the higher risk real estate markets"

Richard Price
CBRE Global Investors

"Regulators have been proactive in adapting rules to attract capital into REITs in the Asian real estate markets"

Stewart LaBrooy
Axis REIT

Track record of proven performance
Globally, REITs have a track record of proven performance over the last 50 years in the mature REIT markets of the US and Australia. While Asian REITs have only been established in the last ten years, they have been able to learn from this global REIT market experience to ensure Asian REITs are effectively developed and managed. This has seen Asian REITs make considerable progress in recent years and grow strongly since the GFC; leveraging these previous REIT market experiences in enhancing the Asian REIT story.

Strong investment performance
Later sections of this report clearly highlight the strong investment performance by Asian REITs, particularly in comparison to the overall stock market and in the post-GFC period. Typically, Asian REITs have shown strong returns, low to moderate risk, strong risk-adjusted returns and diversification benefits; often out-performing the stock market. This makes Asian REITs an attractive listed real estate investment that delivers strong investment performance, a key requirement for retail investors.

Regular pricing to market
While direct real estate performance is based on infrequent real estate valuations, Asian REITs are priced to market every day by the stock market. This ensures real estate market sentiment is quickly factored into the pricing of Asian REITs, rather than relying on infrequent valuations of the individual properties. Asian REITs typically do more frequent and independent revaluations today to ensure the value of the underlying commercial real estate portfolio is accurately conveyed to retail investors. This provides retail investors with regular pricing of the Asian REITs, as well as more frequent revaluations of their real estate portfolios, and enables more informed investment decision-making.

3.3 Specific benefits of Asian REITs

As well as having the traditional investment characteristics and beneficial features of REITs generally, Asian REITs also have unique characteristics to further enhance their investor attractiveness (see Table 7).

Table 7. Specific benefits of Asian REITs

Access to domestic and pan-Asia commercial real estate portfolios
Supportive financial regulators
Islamic REITs available
Renminbi-denominated REITs available
Supportive role of APREA

These specific benefits include:

Access to domestic and pan-Asia real estate portfolios
As well as providing access to high quality domestic real estate, several Asian REIT markets provide access to pan-Asia real estate portfolios. This is particularly the case in the Singapore REIT market where over 35% of assets are outside Singapore and over 65% of Singapore REITs have non-Singapore real estate in their portfolios.

This includes Singapore REITs with China real estate portfolios (e.g., CapitaRetail China Trust, Perennial China Retail Trust) and India real estate portfolios (e.g., Ascendas India Trust, Indiabulls Property Investment Trust). There are also several Hong Kong REITs which have China real estate portfolios (e.g., Hui Xian REIT, Yuexiu REIT).

As neither China nor India have their own REIT markets, these Singapore REITs and Hong Kong REITs enable retail investors to effectively access these China and India real estate portfolios via the mature developed Singapore and Hong Kong REIT markets.

Amongst the Asian REIT markets, only the Thailand REIT market does not allow international real estate in the REIT portfolios.

Supportive financial regulators
The regulators in several Asian REIT markets have made changes to further support their REIT markets being more viable and attractive to investors; this includes Japan, Singapore and Malaysia. In particular, Singapore is seen as having the most supportive regulatory environment amongst the Asian REIT markets. This reflects the aim of the financial regulators in Singapore seeking to develop it as the regional hub for REITs in Asia.

Islamic REITs available
Both Malaysia and Singapore have Islamic REITs offering real estate features incorporating Shariah compliance for real estate asset selection, tenant selection and the use of Islamic financing. This includes the Axis REIT, Al-Hadharah Boustead REIT and Al-Aqar Healthcare REIT in Malaysia and the Sabana Shariah REIT in Singapore. These Islamic REITs are particularly suited for retail investors seeking Asian REITs which are Shariah compliant.

Renminbi-denominated REITs available
The Hui Xian REIT in Hong Kong is a China real estate REIT and is the first Renminbi-denominated REIT. Although being a Hong Kong-listed REIT, being Renminbi-denominated sees retail investors in the Hui Xian REIT able to achieve China real estate exposure and also the upside from China currency appreciation.

Supportive role of APREA
Based in Singapore, APREA is the professional association that represents the interests and ongoing development of Asian REITs. The role and mandate of APREA regarding Asian REITs is discussed more fully in the next section. Also in Japan, the Association for Real Estate Securitisation

(ARES) represents the interests of REITs in Japan, as does the Malaysian REIT Managers Association (MRMA) in Malaysia.

These unique features of Asian REITs have seen a conducive and supportive environment for retail investors to include Asian REITs in their investment portfolios. A subsequent section of this report explores how these investment characteristics and benefits have resulted in the strong investment performance of Asian REITs, particularly in the post-GFC period.

3.4 Proactive role of APREA

APREA is taking a strong, proactive leadership role in increasing the awareness and understanding of Asian REITs as a key real estate investment and as an important investment opportunity for retail investors in Asia. This includes:

1. Establishing local APREA chapters in most countries in Asia to enhance the local real estate infrastructure, professionalism, information flows and networks around all aspects of real estate markets and real estate investment decision-making. This includes a supportive professional environment for the Asian REIT markets.

2. Producing an informative website, with up-to-date information and reports on REITs, real estate and real estate investment in Asia and globally. The APREA Regional REITs Monthly Report provides the most informative Asian REIT performance analysis update currently available.

3. Conducting intensive real estate education programs run by leading real estate professionals to enable the real estate sector in Asia to improve its knowledge and skills in real estate investment, including Asian REITs. These programs are delivered across a number of key real estate markets in Asia.

4. Producing a range of informative reports concerning the benefits of real estate investment in Asia for both Asian and international investors. This includes reports on Asian REITs.

5. Conducting an annual Property Leaders Forum to enable the exchange of information concerning best practice procedures and the latest strategic developments for Asian REITs.

6. Establishing APREA excellence awards for recognising international best practice in key areas relevant to Asian REITs.

7. Actively supporting and assisting regulators in the emerging markets to facilitate the development of new REIT markets.

These important initiatives by APREA actively contribute to the enhanced integrity and understanding of REITs in Asia as an important commercial real estate investment opportunity for retail investors.

IMPORTANT INITIATIVES BY APREA ACTIVELY CONTRIBUTE TO THE ENHANCED INTEGRITY AND UNDERSTANDING OF REITs IN ASIA.

4.0 Investment Performance of Asian REITs

This section highlights the investment performance of Asian REITs. It clearly illustrates how the investment characteristics of Asian REITs have resulted in a strong investment performance; particularly in the post-GFC period. This performance analysis shows the added-value contribution by Asian REITs compared to stocks and listed real estate companies, and reinforces the significant benefits of Asian REITs to retail investors.

4.1 Overall investment performance of Asian REITs

The investment performance of each of the seven Asian REIT markets was analysed over the full time period since each REIT market was established until April 2012, as well as being assessed against its respective stock market. The average annual return, annual risk[1] and risk-adjusted returns[2] were assessed. Table 8 presents this performance analysis for Asian REITs.

1. Risk is a measure of the volatility of the investment's performance; the smaller the value, the better. Low to moderate risk is an attractive feature for REITs to display; particularly compared to the stock market. Risk is calculated as the standard deviation of returns.

2. Risk-adjusted returns combine risk and return into one performance measure to examine the trade-off between risk and return. Larger risk-adjusted returns show better risk-adjusted performance. Risk-adjusted returns are calculated by the Sharpe ratio, which is the standard measure of risk-adjusted performance in investment analysis.

Table 8. Asian REIT performance

	AVERAGE ANNUAL RETURN		RISK		RISK-ADJUSTED RETURNS	
COUNTRY	REITs	STOCKS	REITs	STOCKS	REITs	STOCKS
Japan	5.6%	0.2%	26.3%	21.5%	0.21	0.01
Singapore	14.2%	11.5%	26.0%	22.9%	0.50	0.45
Hong Kong	13.6%	11.7%	22.4%	26.9%	0.55	0.38
Malaysia	9.0%	13.0%	11.9%	16.3%	0.51	0.62
Thailand	3.5%	13.5%	10.4%	26.7%	0.07	0.40
Taiwan	11.1%	5.8%	17.8%	27.3%	0.56	0.17
South Korea	1.5%	10.5%	20.9%	27.3%	-0.09	0.26

Source: *Author's analysis*

Most of the Asian REIT markets achieved higher returns than their respective stock market. This included all of the developed markets (i.e., Japan, Singapore, Hong Kong) and some of the emerging markets (e.g., Taiwan).

Several Asian REIT markets had lower risk than their respective stock markets, including both developed markets (Hong Kong) and all of the emerging markets. This reinforces the defensive characteristics of REITs, with their strong yield-focus. Japan REITs saw comparable risk to its stock market (26% versus 22%), as did Singapore REITs (26% versus 23%), but these were not considered to be excessively higher risks than their respective stock market. Overall, Asian REITs were generally seen to have risk levels below or comparable to their respective stock markets. This is an attractive investment feature and clearly shows the lower volatility of Asian REITs.

For risk-adjusted returns, all of the developed Asian REIT markets showed superior risk-adjusted performance compared to their respective stock markets. Amongst the emerging markets, Taiwan REITs delivered superior risk-adjusted performance, with Malaysia showing similar risk-adjusted performance compared to their respective stock markets. Overall, the developed Asian REIT markets have shown the best risk-adjusted performance compared to their respective stock markets. Taiwan REITs also delivered strong risk-adjusted returns. The superior risk-adjusted performance of REITs in Japan, Singapore and Hong Kong compared to their respective stock markets is very important. These are the largest and most mature and sophisticated REIT markets in Asia and reflect the potential performance up-side opportunities as the emerging REIT markets grow and mature.

It is also important to see if Asian REITs provide diversification benefits[3] with stocks and bonds. Table 9 presents this diversification analysis for Asian REITs compared to their respective stock markets. Importantly, Asian REITs were seen to provide some degree of diversification benefits with stocks. Amongst the developed markets, this diversification benefit was most evident for Hong Kong REITs (0.66) and Japan REITs (0.70), with lesser diversification benefit seen for Singapore REITs (0.88). Diversification benefits were also seen for REITs in all of the emerging markets, particularly South Korean REITs (0.44) and Taiwan REITs (0.58). These diversification benefits tended to be more significant in the emerging Asian REIT markets. Significant diversification benefits were also seen for Asian REIT markets with bonds; namely Japan (-0.09), Singapore (-0.01), Hong Kong (-0.10), Malaysia (-0.27), Thailand (-0.34), Taiwan (-0.26) and South Korea (0.03). This sees the important result of Asian REITs providing diversification benefits with both stocks and bonds.

Table 9. Asian REIT diversification benefits

COUNTRY	REITs/STOCKS CORRELATION	REAL ESTATE COMPANIES/ STOCKS CORRELATION	REITs/REAL ESTATE COMPANIES CORRELATION	DO REITs PROVIDE BETTER DIVERSIFICATION BENEFITS THAN REAL ESTATE COMPANIES?
Japan	0.70	0.86	0.73	✓
Singapore	0.88	0.93	0.88	✓
Hong Kong	0.66	0.95	0.65	✓
Malaysia	0.65	0.84	0.59	✓
Thailand	0.68	0.86	0.70	✓
Taiwan	0.58	0.77	0.54	✓
South Korea	0.44	0.37	0.23	✗

Source: *Author's analysis*

Asian REITs were also seen to provide more diversification benefits with stocks than listed real estate companies provided with stocks. This was the case for every Asian REIT market; except for South Korea where the diversification benefits were comparable. REITs and listed real estate companies were also clearly seen to perform differently, particularly in the emerging markets. Given that listed real estate companies have been the traditional way for retail investors to obtain their listed real estate exposure in Asia, this diversification benefit result is very important for Asian REITs. It clearly shows Asian REITs providing more diversification benefit than listed real estate companies, as well as Asian REITs performing differently to Asian listed real estate companies. This further reinforces the attractive investment feature that Asian REITs are a different listed real estate product to that of real estate companies in delivering real estate performance to retail investors.

3. Diversification benefit is a measure of the role that an asset plays with other assets in a portfolio. Diversification benefit is calculated as the correlation between two assets; this value is in the range of -1 to +1. The smaller the value and closer to zero, the better the diversification benefit.

This performance analysis has highlighted the returns, risk, risk-adjusted performance and diversification benefits of the Asian REIT markets. Given that this analysis includes the excessive stock market volatility of the GFC that impacted on REITs, it highlights the superior risk-adjusted performance by the developed market Asian REITs and some of the emerging market Asian REITs. It also highlights the important diversification benefits of Asian REITs with stocks and bonds in most of the Asian REIT markets.

To summarise this Asian REIT performance, Table 10 presents the comparison of Asian REITs compared to their respective stock market around the following key investment issues:

- Have Asian REITs delivered superior returns to stocks?
- Have Asian REITs seen lower risk than stocks?
- Have Asian REITs delivered superior risk-adjusted returns to stocks?
- Have Asian REITs delivered superior risk-adjusted returns to real estate companies?
- Have Asian REITs shown diversification benefits with stocks?

Table 10. Summary of Asian REIT dynamics

COUNTRY	OUTPERFORMED STOCKS	LOWER RISK THAN STOCKS	BETTER RISK-ADJUSTED RETURNS THAN STOCKS	BETTER RISK-ADJUSTED RETURNS THAN LISTED REAL ESTATE COMPANIES	DIVERSIFICATION BENEFITS WITH STOCKS
Japan	✓	✗	✓	✓	✓
Singapore	✓	✗	✓	✓	Marginal
Hong Kong	✓	✓	✓	✓	✓
Malaysia	✗	✓	Equal	✓	✓
Thailand	✗	✓	✗	✓	✓
Taiwan	✓	✓	✓	✓	✓
South Korea	✗	✓	✗	✗	✓

Source: *Author's analysis*

As is evident in Table 10, this summary provides a very positive picture for the performance of Asian REITs and provides further validation of Asian REITs as a high quality listed real estate investment vehicle that is well-suited to retail investors moving forward.

4.2 Post-GFC investment performance of Asian REITs

The post-GFC period has provided a more positive investment environment for real estate in Asia, particularly as Asia has not been subject to the levels of economic uncertainty seen in the US and the sovereign debt issues in Europe. As such, a separate post-GFC performance analysis for Asian REITs over June 2009 – April 2012 will provide a clearer and more incisive picture of the benefits of Asian REITs for retail investors moving forward.

Table 11 presents these post-GFC average annual returns, risk, risk-adjusted returns and portfolio diversification benefits since June 2009. Major changes in performance are clearly evident; most clearly being in favour of Asian REITs.

Table 11. Asian REIT performance: post-GFC

	AVERAGE ANNUAL RETURN		RISK		RISK-ADJUSTED RETURNS	
COUNTRY	REITs	STOCKS	REITs	STOCKS	REITs	STOCKS
Japan	8.4%	3.7%	21.0%	19.9%	0.40	0.18
Singapore	28.5%	24.6%	18.5%	21.8%	1.52	1.11
Hong Kong	30.2%	19.5%	14.2%	24.6%	2.11	0.79
Malaysia	23.3%	25.6%	9.2%	13.5%	2.25	1.71
Thailand	20.9%	44.5%	6.3%	20.6%	3.00	2.06
Taiwan	25.2%	17.0%	13.7%	23.7%	1.80	0.70
South Korea	0.2%	19.3%	23.0%	21.6%	-0.10	0.78

Source: *Author's analysis*

Average annual returns for Asian REITs have increased significantly (except for South Korea). In most cases, the Asian REIT returns exceeded their respective stock market returns and often by significant amounts (e.g., Hong Kong, Taiwan). Risk levels for Asian REITs have significantly reduced in the post-GFC period, seeing all Asian REIT risk levels being below their respective stock market risk level; except for Japan and South Korea which had comparable risk levels for REITs and stocks. Often these Asian REIT risk levels were significantly below their respective stock market risk levels (e.g., Hong Kong, Taiwan, Thailand).

These enhanced returns and reduced risk levels for Asian REITs in the post-GFC period are very attractive investment features moving forward. Importantly, this sees superior risk-adjusted performance by the Asian REIT markets compared to their stock markets in every REIT market (except South Korea). In most cases, this superior risk-adjusted performance was clearly evident; for example, in Japan, Hong Kong, Singapore, Malaysia, Taiwan and Thailand. That is, it is evident across both the developed REIT markets and emerging REIT markets in Asia. This presents a very positive perspective for the risk-adjusted performance of the Asian REIT markets compared to their respective stock markets in the post-GFC environment.

To have a fuller picture of Asian REITs post-GFC, Table 12 presents the reduction in risk from the GFC period to the post-GFC period. In most cases, Asian REITs have seen reduced risk levels of 50% or more. Importantly, this reduction in risk for Asian REITs was more significant than the reduction in risk for their respective stock market in all cases, except for Malaysia and South Korea. This presents a positive performance picture post-GFC for Asian REITs and highlights the major reduction in Asian REIT volatility levels since the GFC.

Similarly for the diversification benefits by Asian REITs in the post-GFC period, Table 12 shows that improved diversification benefits are evident with stocks in all cases. This was most evident for the emerging market REITs, with the developed markets showing lesser diversification benefits; for example, Singapore (0.90). Post-GFC, Asian REITs also showed significant diversification benefits with bonds in every Asian market; that is, in Japan (-0.01), Singapore (0.18), Hong Kong (0.07), Malaysia (0.16), Thailand (0.05), Taiwan (-0.04) and South Korea (0.19). This diversification benefit with both stocks and bonds in all Asian REIT markets further adds to the improved performance of Asian REITs in the post-GFC environment, to the benefit of retail investors.

Table 12. Improvement in Asian REIT performance: post-GFC (versus GFC)

COUNTRY	REDUCTION IN REIT RISK	REDUCTION IN STOCKS RISK	HAVE REITs REDUCED THEIR RISK MORE THAN STOCKS?	CHANGE IN DIVERSIFICATION BENEFITS WITH STOCKS
Japan	66%	52%	✓	0.95 → 0.74
Singapore	62%	48%	✓	0.98 → 0.90
Hong Kong	69%	48%	✓	0.90 → 0.61
Malaysia	29%	45%	✗	0.80 → 0.74
Thailand	69%	57%	✓	0.93 → 0.35
Taiwan	59%	42%	✓	0.77 → 0.41
South Korea	16%	52%	✗	0.69 → 0.30

Source: *Author's analysis*

In a pan-Asia REIT context, Table 13 presents the diversification benefits across the various Asian REIT markets in the post-GFC period. Diversification benefits are clearly evident across all Asian REIT markets, with an average diversification benefit of 0.39. This clearly highlights the added-value benefits of a pan-Asia REIT strategy versus a single-country REIT strategy. This is also an important risk reduction and diversification strategy for retail investors and highlights the popularity of pan-Asia REIT managed funds to achieve this diversification. These diversification benefits by Asian REITs are also highlighted by the pan-Asia stock market diversification benefits shown in Table 14. In every case, Asian REITs delivered more diversification benefits than their respective stock market. This saw an average diversification benefit of 0.39 for Asian REITs compared to only 0.73 for Asian stocks. This emphasises the added-value investment benefits of a pan-Asia REIT strategy compared to a pan-Asia stocks strategy, as well as reinforcing the stature of each of the Asian REIT markets.

Table 13. Asian REIT diversification benefits: post-GFC

	Japan	Singapore	Hong Kong	Malaysia	Taiwan	Thailand	South Korea
Japan	1.00						
Singapore	0.48	1.00					
Hong Kong	0.40	0.56	1.00				
Malaysia	0.23	0.65	0.37	1.00			
Taiwan	0.05	0.46	0.46	0.48	1.00		
Thailand	0.28	0.50	0.33	0.44	0.44	1.00	
South Korea	-0.02	0.50	0.11	0.49	0.33	0.55	1.00

Source: *Author's analysis*

Table 14. Asian stock diversification benefits: post-GFC

	Japan	Singapore	Hong Kong	Malaysia	Taiwan	Thailand	South Korea
Japan	1.00						
Singapore	0.61	1.00					
Hong Kong	0.58	0.92	1.00				
Malaysia	0.48	0.85	0.86	1.00			
Taiwan	0.61	0.88	0.87	0.80	1.00		
Thailand	0.48	0.69	0.73	0.67	0.65	1.00	
South Korea	0.61	0.84	0.81	0.82	0.85	0.72	1.00

Source: *Author's analysis*

To summarise Asian REIT performance in the post-GFC period, Table 15 presents the comparison of Asian REITs compared to their respective stock market. This shows the added value of the performance of Asian REITs compared to their respective stock markets. This was evident across all of the Asian REIT markets except for the very small South Korean REIT market. To further reinforce the investment stature of Asian REITs moving forward, Table 16 presents a summary of Asian REIT performance in the post-GFC period versus the GFC period. In every Asian REIT market for every investment criteria, Asian REITs have improved in the post-GFC period; clearly showing major progress and improvement since the GFC.

Table 15. Summary of Asian REIT dynamics: post-GFC

COUNTRY	OUTPERFORMED STOCKS	LOWER RISK THAN STOCKS	BETTER RISK-ADJUSTED RETURNS THAN STOCKS	BETTER RISK-ADJUSTED RETURNS THAN REAL ESTATE COMPANIES
Japan	✓	Equal	✓	✓
Singapore	✓	✓	✓	✓
Hong Kong	✓	✓	✓	✓
Malaysia	Equal	✓	✓	✓
Thailand	✗	✓	✓	✓
Taiwan	✓	✓	✓	✓
South Korea	✗	Equal	✗	✗

Source: *Author's analysis*

Table 16. Summary of Asian REIT dynamics: post-GFC vs. GFC

COUNTRY	ENHANCED RETURNS	REDUCED RISK	ENHANCED RISK-ADJUSTED RETURNS	ENHANCED DIVERSIFICATION BENEFITS WITH STOCKS
Japan	✓	✓	✓	✓
Singapore	✓	✓	✓	✓
Hong Kong	✓	✓	✓	✓
Malaysia	✓	✓	✓	✓
Thailand	✓	✓	✓	✓
Taiwan	✓	✓	✓	✓
South Korea	✓	✓	✓	✓

Source: *Author's analysis*

Overall, the composite performance analysis profile for Asian REITs in the post-GFC period is very positive. This includes both developed market REITs and emerging market REITs in Asia. Along with the attractive characteristics of REITs (e.g., liquidity, yield), this clearly highlights the potential benefits that Asian REITs can provide to a retail investor in their investment portfolio.

4.3 Role of pan-Asia REITs

With this strong investment performance by the various Asian REIT markets, retail investors will also get further benefits by considering a pan-Asia REIT strategy and investing across the various Asian REIT markets. Table 17 presents a summary of these pan-Asia REIT dynamics over 2003-2012 and clearly highlights the effectiveness of this pan-Asia REIT investment strategy for retail investors.

All of the attractive investment features of Asian REITs are clearly evident, particularly concerning better risk-adjusted returns than stocks and diversification benefits. Major improvements were evident in the post-GFC period compared to the GFC and in most cases, even exceeded the pre-GFC performance levels in the rapid growth phase of the Asian REIT markets. Compared to a pan-Asia stock strategy, a pan-Asia REIT strategy out-performed for most of the investment criteria. This further validates the effectiveness of Asian REITs for retail investors.

Table 17. Summary of pan-Asia REIT dynamics

December 2003 – February 2012	
Outperformed stocks:	Equal
Lower risk than stocks:	✓
Better risk-adjusted returns than stocks:	✓
Diversification benefits with stocks	✓

Post-GFC versus GFC:	
Enhanced returns:	✓
Reduced risk:	✓
Enhanced risk-adjusted returns:	✓
Enhanced diversification benefits with stocks:	✓

Post-GFC versus pre-GFC:	
Enhanced returns:	✓
Reduced risk:	✓
Enhanced risk-adjusted returns:	✓
Enhanced diversification benefits with stocks:	✗

Pan-Asia REITs versus pan-Asia stocks: post-GFC	
Outperformed stocks:	Equal
Lower risk than stocks:	✓
Better risk-adjusted returns than stocks:	✓
Diversification benefits with stocks:	✓

4.4 Top 10 lessons learnt from the Asian REIT story

The previous sections have highlighted the added-value investment performance of Asian REITs for retail investors, particularly in the post-GFC period.

While past investment performance is no guarantee of future investment performance, these analyses provide important market evidence and insight on why the Asian REIT story has been very successful. This is particularly useful for retail investors to gain a better understanding of the benefits of Asian REITs as a listed real estate investment opportunity. It is also useful for regulators in the emerging markets to understand why Asian REITs have been successful and the process needed to establish a robust REIT market in these important emerging markets.

The Top 10 lessons learnt from the Asian REIT story are:

LESSON 1

Asian REITs are an important part of the global REIT market, offering listed real estate exposure in the developed and emerging markets in Asia.

LESSON 2

Asian REITs are a listed real estate product offering the important features of liquidity, high yields, diversification, tax transparency, strong corporate governance, and access to high quality real estate portfolios and professional real estate fund managers.

LESSON 3

Asian REITs provide the liquidity of the stock market and attractive yields, as well as matching the performance of the underlying high quality commercial real estate in the longer term. This sees Asian REITs as an attractive real estate investment opportunity for retail investors, offering the benefits of both the stock market and the real estate market.

LESSON 4

Asian REITs perform differently to Asian listed real estate companies. Asian REITs offer an income-producing real estate investment focus and a ‘purer’ real estate investment product versus the higher risk real estate development focus of Asian real estate companies. The income-focus for Asian REITs is clearly different to the capital growth focus of listed real estate companies.

LESSON 5

Asian REITs have delivered strong investment performance, particularly in the post-GFC period. This has applied to both the developed and emerging Asian REIT markets.

LESSON 6

Asian REITs have typically shown attractive returns, low to moderate risk and strong risk-adjusted returns. In many cases, this added-value Asian REIT performance has exceeded that of their respective stock markets.

LESSON 7

Asian REITs provide diversification opportunities with their respective stock markets and bonds markets, with these diversification opportunities being more evident for Asian REITs than for Asian real estate companies.

LESSON 8

Asian REITs have recovered positively from the GFC at all levels of investment performance and with strong growth prospects moving forward.

LESSON 9

A pan-Asia REIT strategy offers an effective listed real estate investment strategy for retail investors to achieve diversification and access to the high quality commercial real estate portfolios in the various Asian REIT markets.

LESSON 10

The growth in the dynamic Asian real estate markets will continue to see Asian REITs expand their significance as key players in the Asian real estate markets. This will see new REITs established in existing Asian REIT markets, as well as new Asian REIT markets established in the emerging Asian markets.

Overall, this will see continued growth in the Asian REIT markets, providing retail investors with major commercial real estate investment opportunities to access the performance of these high quality real estate portfolios in a liquid listed stock market format.

5.0 Future Opportunities for Investing in Asian REITs

This report has clearly identified the investment characteristics and benefits of investing in Asian REITs for general retail investors and demonstrated Asian REITs as an effective and attractive way to achieve listed real estate exposure in the dynamic real estate markets in Asia.

Challenges and opportunities still remain for REITs in Asia. This includes the development of REIT markets for China and India, as well as REIT markets for the emerging markets in Indonesia, Vietnam and Philippines. This will see a more effective and truly pan-Asia platform for Asian REITs, as well as capitalising on the significant real estate developments in these emerging markets over the next ten years. This is an excellent opportunity for regulators in these emerging markets to build on the Asian REIT experience and success story and facilitate the delivery of this fuller pan-Asia REIT platform. This will ensure investors have access to REIT products that deliver the full Asian REIT perspective across the breadth of the developed and emerging real estate markets in Asia. Major lessons and insights can be taken from the vibrant and successful Asian REIT markets in further implementing the Asian REIT story in the emerging markets.

Ensuring sufficient investment-grade commercial real estate is available for quality REIT portfolios will be an initial challenge in these emerging markets, but will be addressed with increased maturity and transparency over time. Improving levels of corporate governance, transparency and depth across both the developed and emerging REIT markets in Asia will also need to be addressed to ensure international best practice for the ongoing effective operation of these Asian REIT markets.

REITs have had an outstanding track record globally for over 50 years and in Asia over the last ten years. They have provided general retail investors with exposure to high quality commercial real estate portfolios with the added benefit of the liquidity of the stock market. **This sees Asian REITs offer the best of both worlds: high quality commercial real estate exposure in a liquid format.** REITs in Asia are also seen as a different and 'purer' listed real estate investment opportunity compared to the traditional listed real estate companies with their focus on higher risk real estate development.

Importantly, APREA will continue to play a strong leadership role in increasing the awareness and understanding of Asian REITs as a key listed real estate investment and as an important asset class for general retail investors in Asia and globally. APREA will actively work with the regulators in the emerging Asian markets to facilitate the development of REITs in these increasingly important markets. The 'Top 10 lessons learnt from the Asia REIT story' should greatly assist regulators in the emerging Asia markets in developing these important future REIT markets. This will bring ongoing benefits to all investors, as Asian REITs increase in maturity and stature as a significant listed real estate investment opportunity in the expanding Asian real estate markets.

Key References and Websites

The following reports provide useful information for investors seeking a fuller understanding of Asian REITs:

APREA (2010), *The Significance of Real Estate in Asian Pension Funds.*

APREA (2011), *The Benefits of an Allocation to Asian Real Estate for Institutional Investors.*

APREA (2012), Regional REITs Monthly Reports.

Association for Real Estate Securitisation (2012), ARES J-REIT Report: August 2012.

CBRE (2012), Asia REIT Viewpoint: August 2012.

Pramerica Real Estate Investors (2012), *A Bird's Eye View of Global Real Estate Markets: 2012 Update.*

The following websites provide useful, up-to-date information for retail investors on Asian REITs:

Asia Pacific Real Estate Association (APREA): www.aprea.asia

Association for Real Estate Securitisation (ARES): www.ares.or.jp

The following websites provide useful, up-to-date information on REITs in general:

European Public Real Estate Association (EPRA): www.epra.com

National Association of Real Estate Investment Trusts (NAREIT): www.reit.com

Acknowledgements

Thank you to the Asian REITs and leading real estate professionals in Asia who kindly provided important information to give a much richer Asian REIT context and depth to this report. The author would also like to acknowledge the APREA Investor Outreach Committee for their helpful assistance with this report.

Importantly, a number of key real estate organisations provided information that added considerably to this report. This includes APREA, CBRE Global Investors, Jones Lang LaSalle, Macquarie Securities, NAREIT, Pramerica Real Estate Investors and Real Capital Analytics.

The support of these real estate organisations is appreciated and acknowledged.

Disclaimer

This report is prepared by APREA to increase the level of understanding of Asian REITs by retail investors. This APREA report is not meant as financial advice concerning Asian REITs. APREA accepts no responsibility from this report for individual investors in making their real estate investment decisions regarding Asian REITs.

Asia Pacific Real Estate
Association Limited

Reg. No. 201116215Z

Representing and promoting the
Asia Pacific real estate asset class

www.aprea.asia

APREA