

REAL ESTATE APPRAISERS, VALUERS AND COUNSELLORS

MELBOURNE CONVENTION AND EXHIBITION CENTRE, MELBOURNE, VICTORIA, AUSTRALIA

The Real Estate Investment Trust INDUSTRY IN MALAYSIA



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(Concurrent Session 2C Funds & Asset Management)

THE REIT INDUSTRY IN MALAYSIA

1. **Highly & well regulated** - a major positive post the Global Financial Crisis

2. **Regulation** is astute and does require some tweaking from time to time

3. The “**Guidelines on Real Estate Investment Trusts**” is administered by the Securities Commission Malaysia (SC) and complemented by Guidelines for Islamic REITs. For listed REITs there are also Listing Rules

4. At least **50% of the fund** in real estate and/or a single-purpose company, non-real estate related assets, cash etc. cannot exceed 25%

5. **Property rights** - well enshrined in the Constitution of Malaysia and adequately protected

15. Related party transactions between the REIT sponsor and the vendors of the real estate are usually scrutinised more vigorously.

16. A revaluation of all the real estate in the fund's investment portfolio should be carried out at least **once every three years**. But IFRS usually also requires **update of values for every balance sheet date**.

17. Usually the SC approved Fees are:-

Base Fee - 0.3%

Performance Fee - 5% of NPI

Acquisition Fee - 1% of value

Divestment Fee- 0.5% of value

Trustee's fee - 0.03% of NAV

18. REIT Unitholders in Malaysia are required to pay a withholding tax (in lieu of income tax) as follows:-

- **Individuals (residents and non-residents) - 10% (income tax 1% to 26% after deduction of tax relief)**
- **Non-resident Institutional investors - 10%**
- **non resident corporates - 25%**

19. The SC is in the process of studying the introduction of Business Trusts (they exist in Singapore). Hopefully this will be followed with the introduction of a property derivatives market for the further broadening and deepening of the capital markets

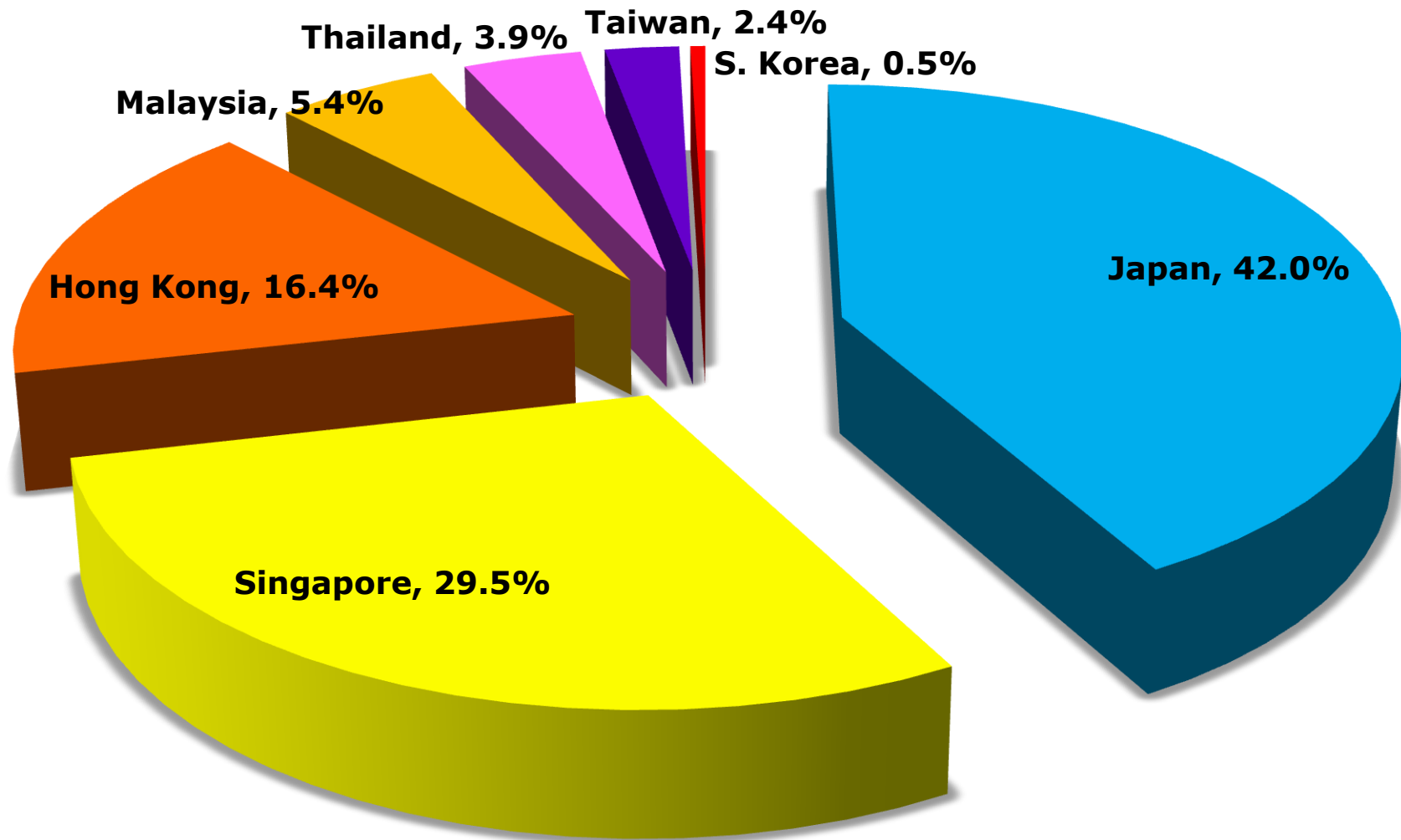
THE KEY DRIVERS



**Management
Company**



Asia Market Cap. Segmentation



Source : Asia Pacific Real Estate Association (APREA)

REIT ISSUES

1. Structure of the REIT

The **structure** of the REIT itself is an issue because it is a structure that is **reliant on short term financing**.

In a Universe that is flush with liquidity [such as prior to the Global Financial Crisis and perhaps post the massive quantities easing measures by major central banks] it is an environment that the REIT may thrive in but **when financing is not easy the REIT and the REIT industry can be challenged**. During the period post the GFC the Singapore REITs for example, exposed as they are to international markets, was severely challenged.

A **downward revaluation** of the properties at that time could exacerbate the challenge.

2. REIT Management

REIT Management needs to be **extraordinarily transparent** because an underlying proposition in REIT attractiveness is that it is an alternative to ownership of physical property.

Physical property in the hands of an owner is **very transparent**. **BUT REITs are securities** and information is largely in the **hands of the REIT Manager** and flows to the owner of REIT securities at only the behest of the Manager.

13. Engineered Rents

We suggest that **engineered rents** be guarded against. For example in sale and lease back transactions, parties can easily collude and **fix rents at unrealistic levels**, to the **long term detriment of unitholders and the industry**. If the fundamental measurement as specified in the Guidelines is market value, rents used in arriving at the market value should be market rents. **It is market rents that lead to market value. Contracted rents higher than market rents** in some circumstances are **allowable** to be included simply because they are concluded rents but the **variance** between concluded rents that are higher than market rents **must be explained**. Potential rents that are used in valuation models to arrive at market value and which vary substantially for market rents **must be highlighted and be subject to higher risk management assessments**.

Thank you ...

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Note:

**A pdf copy can be obtain by sending a request
email to khongja@po.jaring.my**

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