

Opening Remarks by Ms Abigail Ng, Executive Director, Monetary Authority of Singapore, at the REITAS Conference 2019 on 2 July 2019

Mr Andrew Lim, REITAS President
Members of REITAS
Ladies and gentlemen

Introduction

- A very good morning to all of you. I am delighted to join you at this year's REITAS Conference.
- The conference is into its second year, and I am sure it will again provide a platform for REITAS members and REIT practitioners to share valuable experiences and keep up to date with developments in the S-REIT market.
- Today, I will share MAS' perspective on some of the trends in the sector.

S-REITs – A resilient asset class amidst macro uncertainties

- Among the many global events currently playing out, I am sure most of us are keeping a close watch on the ongoing trade and tech war.
- Another trend that is less visible, but also of impact to the capital markets, is the accelerating growth of private markets.
- Globally, private-market capital has grown at more than double the rate of public capital over the past 20 years, causing private market valuations to surge, and businesses to stay private longer [\[1\]](#).
- Given the strong growth of the private market and against the backdrop of increasing geopolitical tensions, the S-REIT market has done very well to maintain its growth trajectory the past few years.
- Five years ago, there were 33 REITs listed on the Singapore Exchange (SGX) with a combined market capitalisation of about S\$60 billion.
- Today, there are over 40 REITs with a combined market capitalisation of about S\$100 billion. They comprise one-tenth of Straits Times Index (STI) constituents, as well as the total market capitalisation of stocks listed on SGX [\[2\]](#).
- Given its stable income-generating nature, S-REITs have continued to be an asset class sought after by both institutional and retail investors, as they look to build a diversified and resilient portfolio.
- As a sign of a market that has grown in breadth and depth, we are starting to see some **consolidation** amongst REITs.
 - The first merger between REITs took place last year, and another has been announced and is being worked through.
 - This is not a surprising development, as larger-sized REITs have certain advantages – a bigger platform to scale up, greater research coverage which brings visibility, and opportunities to broaden the investor base.
- As the REIT market matures, it has also become more sophisticated and increasingly outward-looking.
 - A key trend (that the panels will no doubt discuss later) is the higher number of REITs investing in **overseas** assets, driven partly by a search for assets with higher yield spreads.
 - Increasingly, overseas assets also make up a larger proportion of REITs' portfolios.

Capitalising on Opportunities and Mitigating Risks

- There are certainly benefits to expanding overseas – such as achieving geographical diversification and making yield-accretive acquisitions that increase distributable income.
- But there are also risks that REITs should keep a look out for when going further afield – for example, being mindful of possible complexities that may arise in relation to foreign rules and regulations.
- **Advisers** therefore play an even more important role now, both at point of IPO and post-listing, to ensure that rigorous due diligence is conducted on assets prior to acquisition.
- Common things to pay attention to would include making sure that the REIT's operations comply with local regulations and restrictions on foreign ownership or overseas remittances; identifying defects in assets that may require significant capital expenditure to rectify; verifying ownership rights and enforceability; and managing currency risk.

Right-sized regulations that engender trust and sustain growth

- The regulatory regime for REITs and REIT managers has served us well. Over the years, we have reviewed and enhanced the regime – looking towards fostering stronger governance practices, achieving better alignment of interests between REIT managers and unitholders, and pushing for greater transparency in disclosures.
- MAS' approach to regulating the REIT sector is no different from other sectors that come within our remit – the guiding principles are the same.
 - We seek to establish a sound regulatory framework that allows well-managed risk-taking, which would promote stable and sustainable development of the sector.
 - We tighten rules when we see risks that need to be addressed. We refine or 'right-size' when there are rules or regulations that have become less relevant, for instance where the risks that the rules are meant to guard against no longer exist, or have evolved into something else altogether.
- We always take a fresh look, asking ourselves – what are the risks facing us now, and what might future challenges or risks look like?
- How can we make our rules effective and targeted, so that they mitigate the risks of today, but do not stifle legitimate commercial endeavours; and also, where possible, flexible enough to address the risks of tomorrow.
- Let me share more on the **rules that we are reviewing**.
- First, the requirement for a REIT to file a **notification with MAS** to obtain a "Restricted Scheme" status.
 - This requirement kicks in when a REIT undertakes fundraising from accredited investors. The notification must be accompanied by an information memorandum setting out salient information about the REIT and the offer.
 - This requirement to file a notification is not required of listed companies and business trusts. It therefore makes the fundraising process for REITs more cumbersome, as REITs would incur additional time and costs to prepare the information memorandum and submit the notification.
 - To streamline the fundraising process for REITs and bring it in line with that of listed companies and business trusts, we will be proposing that the requirement for such notifications be removed.
- Another rule that we have looked at closely is the **leverage limit**.
 - As you would know, the leverage limit is something that MAS has reviewed and made changes to before.
 - The industry has provided feedback that at the current leverage limit of 45%, REITs face challenges when competing against other bidders such as private equity funds, property companies and foreign REITs. These bidders often have more flexibility to use debt to optimise their capital structure.

- Some have also pointed out that other REIT jurisdictions have higher or no leverage limits.
- We have undertaken a review of this area, and we see some room for recalibration.
- We have some ideas on how to do this, and would also like to hear views and suggestions on other possible approaches and methods to recalibrating the leverage limit.
- MAS will be putting out the proposals for consultation very soon on these two areas that I have just mentioned. We look forward to hearing your views, and engaging all stakeholders in constructive discussions on how we can best together address the risks and challenges we face.

REITAS as the standard-bearer for the REIT sector

- Let me now say a few words about REITAS' role as the standard-bearer for the REIT sector.
- REITAS has a mandate to develop and promote the REIT sector, and has done well. You also play an active role in facilitating the sharing of information and experiences among members and the wider REIT community, on topical or emerging issues impacting the sector.
- It is therefore important for REITAS to take the lead in driving industry standards and promoting market transparency. I would like to offer a few ideas in this regard.
- REITAS has a wide membership base, encompassing REIT managers, financial and legal advisers, as well as other specialist service providers.
 - You should consider tapping on this to develop industry codes, guidelines and best practices for the industry.
 - For instance, given the trend towards acquisitions of overseas properties, REITAS could draw on members' experiences to formulate guidelines on the due diligence process and practices for asset acquisitions; and draw attention to some of the common potential pitfalls.
 - REITAS could also explore setting out guidance for areas where there are differing practices, such as the computation and disclosure of sector-specific operational, financial or credit metrics. Consistency in these areas will allow the investing public to have a clearer basis to compare the operational and financial performance of the different types of REITs.
- REITAS is also well-placed to step up **education**. This can be done on two fronts.
 - First, in terms of **continuing education** - to equip REIT professionals with the requisite technical expertise needed to support the REIT sector – which is a sector that will only continue to grow in sophistication. I am therefore heartened to hear that this is an area of focus for REITAS.
 - Secondly, and very importantly, stepping up **investor education** - especially in strengthening investors' understanding of the risk-return trade-off for REITs, and helping investors better understand the evolving trends of the REIT sector. I see much potential for REITAS to work more closely with MAS, and alongside MoneySense our national financial education programme, in this endeavour.

Conclusion

- To conclude, I would like to reiterate MAS' commitment to maintain open channels with the industry and other stakeholders to discuss matters of mutual interest and concern.
- It is through this interaction that we can continue our collective efforts in building and sustaining a dynamic, trusted and resilient S-REIT market for the future. On this note, I wish you all a fruitful session this morning. Thank you.