**Speech By Tan Boon Gin, CEO Of Singapore Exchange Regulation, At The REITAS Webinar On "What You Need To Know As An Independent Director Of A REIT Manager"**

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Good morning everyone.

1. Thank you for inviting me this morning to be your guest-of-honour at this webinar on "What you need to know as an independent director of a REIT manager".

2. As most of you are aware, REITs has become one of the most important and well-recognised sectors within the Singapore securities market. Today, 44 REITs and property trusts with a combined market value of almost S$100 billion are listed on our market. We are ranked number 4 globally and the largest in Asia ex-Japan.

3. Last year, close to 45% of REIT IPOs worldwide debuted on SGX, surpassing the largest REIT markets of US, Australia and Japan. And there is a lot more headroom for us to grow. The US REIT sector, which is the oldest and largest one, has a market capitalisation of over US$1 trillion.

4. As our REIT sector grows and matures, 3 clear trends have emerged over the past 2 to 3 years.

5. First, SGX continues to see growing interest from listing aspirants with international assets. This presents new opportunities for investors and the market at large, as well as new challenges for Independent Directors (IDs) and regulators.

6. While this diversity means investors coming to SGX can assemble a global portfolio of REITs assets, it also means a more pressing need for all of us in the industry to raise standards.

7. Second, even REITs that started with largely Singapore assets are beginning to look overseas as well. This is to be expected. Singapore is limited by size. We are relatively densely built-up, and many of the key properties here are already held by REITs.

8. In other words, REITs with Singapore assets are mature and so must look elsewhere for continued growth. In October alone, at least 5 S-REITs: ARA Logistics Trust, Mapletree Logistics Trust, Elite Commercial REIT, Suntec REIT and Lendlease Global Commercial REIT announced proposed property acquisitions. Besides Singapore, the property locations spanned Australia, China, Malaysia, and the UK. Other data, this time from The Business Times, showed that between July and as recently as last week, S-REITs acquired S$7.33 billion of assets. And of these 84% were assets from outside Singapore including China, Australia, the US and the UK.

9. Third, REITs want to get bigger in order to achieve and improve economies of scale. This helps if the REIT has ambitions to join key global REIT indices and wants to increase its international and institutional unitholder base.

**What this means for independent directors and regulators**

1. So what does this mean for IDs and regulators?

2. **Number one** is that crises such as COVID-19 can have a much more varied and uneven impact as the REIT sector becomes more diversified. Covid-19 itself has impacted certain sectors more than others. The foreign hospitality sector in countries with high infection rates has been particularly impacted, compared to the local hospitality sector which has had the benefit of government quarantine programs.

3. Now in the hospitality sector, it is common for the sponsor to be the master lessee of all the hotel properties in the REIT portfolio. There are certain advantages to this arrangement, including the smoothing out of lumpy income streams throughout the year by swapping variable rents for a fixed rent payable to the REIT. However, as recent events have shown, it also introduces a high degree of concentration risk.

4. There are several ways to potentially address this concentration risk. Let me caveat at this point that I am merely laying out the universe of potential solutions and it does not mean that we have decided on any of them.

5. The first possible solution is to introduce a cap on the numbers of hotel properties that can be leased to the sponsor. Let me be the first to admit there are certain drawbacks to this suggestion. It could, for example, prejudice a big sponsor versus a smaller one and therefore mean potential REIT listings of a certain size may shun our market. I'm sure you agree with me that that would be unfortunate.

6. The second possible solution is to tighten the criteria for master lessees. For example, by ensuring that the master lessees are of sufficient financial capabilities such that they would be able to fulfil their obligations. Some might say that this could be by way of a credit rating. But even those ratings have in the past proven not to be foolproof. So, we would be inclined to consider other measurable means to ascertain the financial worthiness of the lessees.

7. Finally, we operate a disclosure-based regime and so maybe comprehensive disclosures might be one way to address the risk. For example, we may require the master lessees to provide comprehensive disclosures on their financials in the prospectus at IPO.

8. Whatever we do, we will work very closely with you to find the best solution.

9. Now, concentration risk is not a new risk by any means. In the past, the traditional way of managing this risk was to require a higher security deposit so that in the event of a master lessee default, the REIT would still be able to fulfill its financial

obligations including distributions to unitholders while it searched for a new master lessee. But recent events have shown that enforcement of security deposits can run into complications if the REIT's assets are overseas, as the lending practices and conventions over there may differ from those that we are used to locally.

10. How then can we improve the enforceability of these security deposits?

- The first possible solution is to better ring-fence the security deposits. For example, we may require them to be held by financial institutions that are independent of the REIT and its creditors.
- Second, we could require additional legal due diligence on the lease documents and lending agreements to ensure that the REIT is able to freely draw on the security deposits when it needs them the most.
- Finally, we can require a legal opinion confirming the enforceability of the security deposits to be disclosed in the prospectus.

1. Again, let me emphasize, I am merely canvassing the universe of possible solutions. We haven't decided on anything yet.

2. So that was point number 1 on master leases. I'm moving on to point number 2 on mergers and acquisitions. When it comes to mergers and acquisitions, valuations are always top of mind. Which is why earlier this year, we consulted on enhancements to the property valuation regime, to require property valuers to meet minimum qualification criteria and for valuations to be performed in accordance with acceptable valuation standards. This will ensure that there is an independent, objective view on the market value of properties. We'll be announcing our responses to the consultation early next year.

3. In particular, we received your feedback about the challenges involved in valuing overseas properties. So thank you very much for that. Please be assured that we are taking your feedback into account. You highlighted, and we agree, that each market has its own specific laws and requirements on property valuation. Therefore, in particular for REITs with overseas properties across several markets, IDs should check that the property valuers they engage for these properties have the appropriate qualifications and experience in the relevant market and that the valuations conducted for these properties adhere to the relevant local requirements.

4. **Thirdly and finally** I move on to director independence. A lot of ink has been spilled this year both in print and online about the independence of REIT Manager IDs. It has been commented that these IDs are appointed by the sponsor and not by unitholders. Or they have perceived conflicts of interests because of certain business relationships that may exist between them and the controlling shareholders of the manager.

5. The whole raison d'etre for IDs is to give confidence to unitholders that their interests are being protected. If there is anything you can do to boost this confidence, you should do it. That is why some of you have voluntarily chosen to

let unitholders vote on the election of IDs.

6. If this confidence is being questioned, the focus should be on addressing the doubts squarely, rather than by falling back on meeting the technical definition of an ID. REITs must be prepared to dive into details and provide the transparency to address the concerns raised head-on. Once this has been done, REITs should then draw a line under it, and move on to focus the minds of unitholders on the merits of the real issues at hand and stop questions of independence from being a distraction.

**Conclusion**

1. In conclusion, the REITs sector is a key strength of the Singapore market. Investors are coming from all over the world because they are seeking yield products that operate within a well-regulated environment. This puts the onus on all of us within the REIT community to ensure that investor confidence is preserved.

2. I have floated some ideas, and I am sure you have many more to suggest and I look forward to working closely with all of you to develop our market and position this sector as a leading one globally. Thank you very much.