THE WEALTH EFFECTS OF SECURITISING COMMERCIAL REAL ESTATE: A CASE ON RAFFLES HOLDINGS, SINGAPORE

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ABSTRACT

This paper examines the impact of property securitisation on the corporate wealth of a major hotel company. Using the case example of Raffles Holdings, a leading hotel group in Singapore, the study shows that the securitisation of a real estate asset significantly improves the financial position of the company in terms of its gearing ratio, earnings per share (EPS), economic value added (EVA), and stock price performance. In addition, securitisation may be the only viable route for asset divestment for property owners in a depressed property market.

Keywords: Real estate securitisation, wealth creation, EVA

INTRODUCTION

Following the increased pressure on companies to maximize shareholder value, several key developments such as corporate restructurings, acquisitions and mergers, share buybacks and asset divestment have been observed more frequently in the corporate world. The economic value added (EVA) metric has been presented as the real measure of a company's success in creating shareholder value (Stewart, 1990). Proponents of the metric argue that EVA eliminates accounting distortions by taking into account the total cost of capital employed, which includes both debt and equity capital.

The corporation's quest for value has significant implications on the desirability of owning real estate. Empirical evidence shows that corporations with large real estate holdings tend to rank poorly in terms of wealth creation. For example, a recent study indicated that most Singapore property companies destroy rather than create shareholders' wealth over a ten-year window (Ooi & Liow, 2002). Recognizing that the value of corporate real estate is not fully appreciated by the capital markets, researchers have looked at various ways such as asset revaluation, sale-and-leaseback arrangements and spin-offs to show that corporations can unlock the hidden value of real estate ownership (Rodriguez & Sirmans, 1996).

Another parallel phenomena that was first introduced in the U.S. in the 1930s, but has recently spread widely to the European and Asian property markets is property securitisation. London continues to be the main centre of Europe's most significant deals in property securitisation. The GBP 1.54 billion securitisation of British Land's Broadgate office development in central London in 1999 remains as one of the world's largest securitisations involving a single piece of real estate.[1] Securitisation has also hit Japan, where 14 commercial-mortgage backed securities (CMBS) with a cumulative face value of JPY 440 billion were issued in the financial year 2000.[2] The largest commercial real estate securitization in Japan involved the JPY 78.1 billion securitisation of Seibu's department store in Tokyo in August 2000. Other property markets in Asia, such as Hong Kong and Singapore, are also not exempt from the securitisation trend (Ong et al., 2000). In the Pacific Rim, Australia has also developed a mature securitised real estate market.

We seek to link the two phenomena by examining the effects of real estate securitisation on corporate wealth in this paper. In particular, the case study, which is based on the securitisation of a commercial complex in Singapore by a leading hotel group, supports the hypothesis that real estate owners can increase corporate wealth through asset securitisation. The economic value added (EVA) methodological framework is employed to measure corporate wealth. As compared to an outright sale, asset securitisation deals, which also depend on the condition of the financial market, appear to be more prevalent in a weak property market.

The organisation of the remaining parts of this paper is as follows: Section 2 presents the basic structure of the Raffles City complex securitisation; Section 3 discusses the corporate profile of Raffles Holding; Section 4 analyses the impact of the securitisation deal on the shareholders' wealth; Section 5 discusses the market timing issue of asset securitisation, and Section 6 concludes with a summary of the findings of the case study.

THE SECURITISATION OF RAFFLES CITY

In Singapore, eight property securitisation deals have been structured since 1999 with a combined value of S$ 2.905 billion (see Table 1). DBS Land was the prime player with three deals - Robinson Point, 268 Orchard Road and 6 Battery Road. The three issues together raised SGD 1.26 billion, which represented 77% of the total securitisation deals in 1999. Two other companies that have divested their property interests through asset securitization were DBS Bank and First Capital

1. One GBP is equivalent to A$ 2.92 as at 30 July 2002.
2. JPY 1 billion is equivalent to A$ 15.6 million as at 30 July 2002.

Corporation (FCC). In another interesting deal, Pidemco Land securitised the expected cash flows from a sold residential project, the Clearwater condominium.

The most recent securitisation deal in Singapore involved the securitisation by Raffles Holdings of the Raffles City complex in June 2001 with an issue size of SGD 984.5 million. The relevant property details and the structure of the deal, which are extracted from the issuing documents, are detailed in the following sub-sections.

The Property

Located in downtown Singapore, the Raffles City complex is one of Singapore's landmark buildings. The property, which was designed by the architects I.M. Pei and Partners as an integrated mixed-use development to function like a 24-hour city-within-a-city, was awarded first prize in the Tall Structure Buildings category of 1987 Engineering Excellence Award organized by the New York Association of Consulting Engineers. Officially opened in October 1986, the property has a 99-years tenure commencing from July 16, 1979. The complex, which is served by three levels of basement car park (1,073 parking lots), has three main components; namely (a) two hotels towers and a convention centre, (b) an office tower, and (c) a 7-storey retail podium. A summary of the gross floor areas of the Raffles City complex is provided in Table 2 below.

Table 1: Property Securitisation Deals in Singapore

	NOL Building	**Century Square**	**Robinson Point**	**The Clearwater**	**268 Orchard Road**	**Tampines Centre**	**6 Battery Road**	**Raffles City**
Issue date	March 1999	June 1999	July 1999	August 1999	Sept 1999	Nov 1999	Dec 1999	June 2001
Property type	Office	Retail	Office	Residential	Office	Retail	Office	Mixed Use
Originator	NOL	FCC	DBS Land	Pidemco Land	DBS Land	DBS Bank	DBS Land	Raffles Hdg.
SPV	Chenab	Pemberton	Visor	Silverlac	Baronet	Tampines	Clover	Tincel
Manager	DBS Bank	DBS Bank	DBS Bank	Tokyo-Mitsubishi	DBS Bank	DBS Bank	DBS Bank	DBS Bank
Issue Size (SGD)	185 m	200 m	193 m	100 m*	184 m	180 m	878 m	984.5 m
Senior tranches	129.5 m	100 m + 70 m	125 m	100 m	120 m	108 m	550 m	639 m
Junior tranche	55.5 m	30 m	68 m	-	64 m	72 m	328 m	295.5 m
Retail tranche	-	-	20 m	-	30 m	20 m	50m - 100m	50 - 100 m
Interest rate	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed
Term-to-Maturity	10 year	7 year	10 year	3 year	10 year	7 year	10 year	10 year
Coupon	6.75%, 7.25%	n.a.	6%, 2%	4.75%	6%, 6.5%	5.625%, n.a.	6%, 6.5%	5%, 7.4%
Share of capital gains	yes.	n.a.	yes	n.a.	yes	yes	yes	Junior only

* The bonds are securitized by receivables/sales proceeds from the Clearwater Condominium project, which was still under construction at the date of issuing of the bond.

\# Century Square had a total lettable area of 217,759 sq ft, of which 197,055 sq ft were under the ownership and securitized by the First Capital Corporation.

Table 2: Breakdown of Gross Floor Area (GFA) in Raffles City

Building	Usage	Number of Storeys	GFA (sq. m)	% of Total GFA
Westin Stamford	Hotel	73	89,217	28
Westin Plaza	Hotel	28	51,749	16
Raffles City Tower	Office	42	38,701	12
Raffles City Shopping Centre and Convention Centre	Retail & Convention	7	101,815	32
Basement	Car park & Retail	3	39,170	12
Total	-	-	320,652	100

The two hotel properties and the convention center in the Raffles City complex were leased to RC Hotels, which was the operator of the Westin Plaza and Westin Stamford as well as the Raffles City Convention Centre. The 73-storey Westin Stamford, which was formerly the world's tallest hotel, had 1,263 rooms and suites. The 28-storey Westin Plaza, which had 769 rooms and suites, was operated separately from the Westin Stamford with its own entrance and reception areas. Whist the Westin Stamford focused on the conventions, tours and leisure market segments, the Westin Plaza marketed its services principally to the corporate and executive traveler. The Convention Centre, with approximately 6,700 sq. m. of meeting space, provides the largest in-hotel conference and meeting facilities in Singapore.

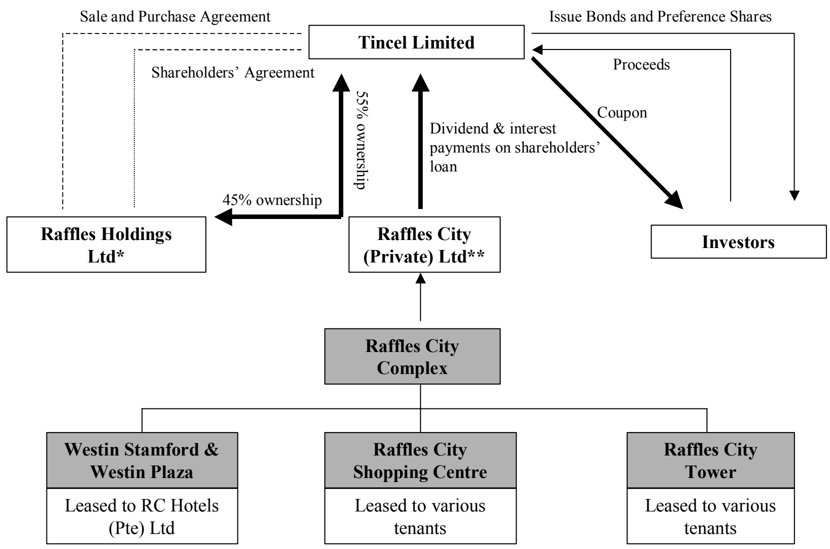
The 42-storey Raffles City Tower had 35,255 sq. m. of office space, housing 20 office tenants. The major tenants of the tower include the Economic Development Board of Singapore, the Ministry of Foreign Affairs, and Accenture. The historical occupancy rate of the office space ranged from 98% to 100%. As at end December 2000, the office space was fully occupied with a majority of the 3- to 6-year leases grossing a monthly rental of between S$ 75 to S$ 86 psm pm.

The Raffles City Shopping Centre comprised 26,139 sq. m. of retail space over the podium floors of Raffles City complex. Positioned to appeal to mid-upper-tier shoppers, the Centre had also achieved high levels of occupancy over the years, ranging from 93% to 99% since 1996. As at December 31, 2000, approximately 96% of the retail space was tenanted to 106 tenants, with 4 major tenants (namely, Robinsons Department Store, Jason Marketplace, Esprit and Mango) occupying 47.4% of the available rental space as major tenants. Rental for the retail space was typically charged on the basis of the higher of a fixed rate per month and a percentage of gross revenues. The average gross rental achieved for 2000 ranged from S$160 to S$ 320 psm pm.

The Securitisation Issue

Figure 1 shows the flow chart detailing the securitisation structure of the Raffles City complex. The whole Raffles City complex was owned by Raffles City Pte Ltd (RCPL), which was in turn 100% owned by Raffles Holdings Limited, a luxury hotel and resort company listed on the Stock Exchange of Singapore (SGX). On June 1, 2001, Raffles Holdings entered into an agreement to sell 55% of RCPL shares for S$ 984.5 million to Tincel Limited, which is a special purpose vehicle (SPV) set up with the sole object of purchasing and financing the property. To finance the proposed purchase, Tincel issued an equivalent amount of 10-year fixed rate bonds, comprising S$ 689 million 5 % senior secured bonds and S$ 295.5 million 7.4 % junior secured bonds. S$ 50 million of the senior tranche bonds were offered to the public, with the balance of S$ 639 million senior bonds together with the S$ 295.5 million junior bonds privately placed.

Figure 1: Flowchart of the securitisation of Raffles City



*The property, Raffles City, is owned by Raffles City Pte. Ltd. (RCPL), which is in turn a wholly-owned subsidiary of Raffles Holdings.

The bonds, denominated in S$ 10,000 each, would be listed on the SGX. The coupon, which is payable semi-annually in arrear, would be serviced through the annual income from Tincel's 55% stake in RCPL, which derived its revenue through rental and service charge income from the Raffles City complex. For the year 2000, RCPL's revenue totalled S$ 144.7 million - with 44.6% from the Hotels and Convention Centre, 26.0% from Raffles City Tower, and 26.2% from the Raffles City Shopping Centre. The operating profit for RCPL in 2000 was S$ 112.6 million, which amounted to 77.8% of rental and service charge revenue. The net income (after interest and taxes) for the year amounted to S$ 103 million. Assuming an unchanged RCPL's net income, Tincel's 55% share of the net income would amount to S$56.65 million each year, which is marginally above its annual coupon obligations of S$ 56.317 million to the bondholders. Any residual amount earned by Tincel would be distributed as preference dividends to the holders of preference shares, which are issued to the junior bondholders at a nominal value of S$0.10 at a ratio of one preference share for every S$10,000 junior bonds.

In essence, the structure of the Raffles City securitisation is no different from any securitisation transaction in the U.S. or in Europe. Basically, the commercial complex was sold to a SPV, which funds the purchase by selling bonds backed by cash flows from the property. However, one key difference in the Raffles City case is that the bonds were not credit rated nor do they carry guarantee by a third party financial institution. Credit enhancement of the senior bonds came mainly in the form of subordinated bonds, which constituted 30% of the total issue amount. In addition, Raffles Holdings provided a warranty to reimburse the SPV in the event that the net earnings of RCPL's fell below S$102.6 million, the threshold income level to satisfy the coupon payments.

RAFFLES HOLDING LIMITED

In this section, the profile of Raffles Holdings is presented together with a computation of the company's EVA based on its financial performance in year 2000. The company's strategies to enhance shareholders wealth are also reviewed.

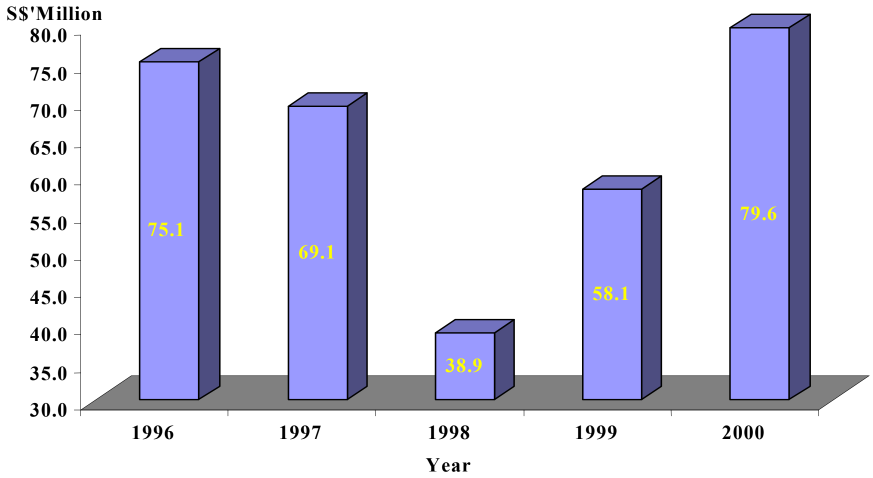
The Company Profile & Financial Position

Raffles Holdings is one of Singapore's leading luxury hotel and resort owners. Formed in 1995 as a wholly owned subsidiary of DBS Land in 1995, it obtained public listing status in December 1999. By end December 2000, it held an inventory of 6,000 rooms within a portfolio of 16 hotels and resorts in 13 cities across Asia, Australia, Europe and North America. With its current asset base of S$ 2.9 billion, Raffles Holdings aimed to double its inventory of rooms to 12,000 by 2003.

The principal strategy of the group was to build a global presence through a chain of hotels worldwide marketed on a two-tier branding strategy, namely the *Raffles* and the *Merchant Court* brand name. Hotels marketed under the *Raffles* brand are positioned at the top end of their local markets. Catering for affluent leisure and business travelers, the hotels under this brand name included the Raffles Hotel in Singapore, Brown's Hotel in London, Hotel Vier Jahreszeiten in Hamburg, Cambodia's Hotel Le Royal and Grand Hotel d'Angkor, and the recently acquired Raffles L'Ermitage Beverly Hills in Los Angeles. The *Merchant Court* brand of hotels is aimed at the modern business traveler. With an emphasis on quality and comfort, the hotels are located strategically in city centres to offer convenient access to business and shopping districts and local attractions.

For the fiscal year 2000, Raffles Holdings recorded a turnover of S$336.3 million, a 13.9% increase over the previous year. Earnings before interest, taxes, depreciation and amortization (EBITDA) also increased 9.4% to S$157.0 million. Earnings per share after extraordinary items for 2000 was 3.83 cents, which was an increase of 6.4% over 3.60 cents registered in 1999. As a result of the good performance, the profit after tax attributable to shareholders rose by 37.1% to S$79.6 million. Figure 2 shows the net profit of Raffles Holdings between 1996 and 2000.

Figure 2: Raffles Holdings' Profit After Tax (1996-2000)



Source: Raffles Holdings (2001)

EVA of Raffles Holdings

Table 3 shows the steps involved in deriving the EVA of Raffles Holdings for the financial year 2000. The following EVA formula was employed in the computation:

$$EVA = NOPAT - (WACC \times K) \qquad (1)$$

where *NOPAT* is the business' net operating profit after taxes, *WACC* is the weighted average cost of capital, and *K* is the company's total invested capital, which includes both debt and equity capital.[1]

Table 3: EVA of Raffles Holdings & RCPL (For the year ended December 2000)

	RH (before divestment) S$' million	**RCPL** S$' million	**RH (after divestment)** S$' million
Profit Before Tax	99.25	110.661	38.386
Adjusted for: Interest expenses Extraordinary items	 24.005 (1.286)	 3.717 0.877	 - (1.681)
Adjusted Profit Before Interest & Tax	121.969	115.255	36.705
Adjusted for: Income tax expense Tax deductibility of interest expense	 (18.628) (6.241)*	 (8.582) 0.966	 (9.543)* -
Net Operating Profit After Tax (NOPAT)	97.100	105.707	27.162
Average Capital Employed	2,676.481**	1,805.071	1,683.692
Weighted Average Cost of Capital	10%	10%	10%
Capital Charge	267.648	180.507	168.369
Economic Value Added	**(170.548)**	**(74.800)**	**(141.207)**

* Assuming a marginal tax rate which is equivalent to the prevailing corporate income tax rate of 26%.

** Average total assets (S$ 2.849 billion) less non-interest bearing liabilities (S$ 172.1 million).

The computation of EVA starts with the calculation of NOPAT, which is defined as profits derived from the company's operations after taxes but before financing costs and non-cash bookkeeping entries. The only non-cash charge that is

1. The EVA of a company can also be computed by taking the spread between the rate of return on invested capital (ROIC) and its WACC and then multiplying the result by the capital employed by the business.

subtracted from NOPAT is depreciation, which represents a real economic expense because the assets consumed in the business must be replenished before investors achieve a return on their investment (Stewart, 1991). NOPAT, which is not affected by any changes in the company's debt-equity structure, measures the productivity of the capital employed and represents the pool of profits available to provide a cash return to all financial providers of funds to the firm (Stewart, 1991). For the financial year 2000, the NOPAT for Raffles Holdings was S$ 97.1 million.

The next step involves the computation of the total capital employed to generate NOPAT. The main difference between total capital invested and the conventional accounting term of total assets is the exclusion of non-interest-bearing current liabilities (NIBCLs), such as accounts payable and accrued expenses that arise as spontaneous sources of financing in the natural course of business and which offset the need to raise permanent capital. The rationale for excluding them from capital is that the financing costs associated with paying supplies and employees with some delay are already incorporated in the cost of goods sold.[2] The average invested capital of Raffles Holdings for the financial year 2000 was S$ 2.676 billion. This represented a 3.63% return on the invested capital (*ROIC)*.

A 10% WACC was assumed for the company corresponding to the cost of capital for CapitaLand, the parent company of Raffles Holdings. The company's capital charge for 2000, based on the 10% WACC, would be S$ 267.65 million. Deducting this figure from Raffles Holdings' NOPAT, the company's EVA for 2000 is - S$ 170.5 million. Proponents of the metric would interpret the negative EVA to mean that Raffles Holdings did not generate sufficient returns to distribute to its capital providers. In other words, it did not add but instead eroded shareholder wealth.[3]

Strategies to Increase Corporate Wealth

Theoretically, equation (1) shows that there are basically three routes in which a firm can increase shareholder wealth. Firstly, the company can improve its EVA by increasing the efficiency of its operational decisions. This involves utilizing existing resources more efficiently, i.e. making existing capital work harder to

2. Reserves for bad debts, inventory obsolescene, warranties, and deferred income should be considered as equity equivalents if they are a recurring part of the business and will grow along with the general level of business (Stewart, 1991).

3. Ooi and Liow (2001), however, argued that although the EVA may be negative, it does not necessarily imply that the company is destroying value because potential capital growth has not been accounted for in the EVA calculation. In particular, real estate investors are generally prepared to accept a lower yield during the initial period in anticipation of future capital growth. Based on the gap between the company's *ROIC* and *WACC*, the company could still be creating value if its assets grew by more than 6.4% that year.

produce higher earnings. Secondly, the company can divert more of its capital into positive net present value (NPV) projects and at the same time, withdraw capital from assets yielding low returns. Finally, the company can seek to employ a more optimal capital structure and alternative sources of financing to reduce its WACC from the current 10%.

In line with its explicit aim to increase corporate performance and enhance shareholder values, Raffles Holdings highlighted five key value drivers, which it would be focusing its attention on:

maximizing existing assets,
increasing scale,
strengthening brand awareness,
harnessing technology, and
investing in human resources.

Following the lead of its parent company, Raffles Holdings has also started streamlining its performance management programme to reward EVA performance.

To give the company critical mass and geographical reach in key gateway cities, Raffles Holdings declared that it was actively seeking to acquire a medium-size chain of 10-20 deluxe hotels. In addition, it aimed to transform itself into a more fee-based business by aggressively sourcing and identifying management contracts and operating leases. It also undertook the divestment of the majority stake in Raffles City complex to underpin its growth strategy by redeploying the company's capital into comparable or higher yielding investments to create long-term shareholder value. The impact of the divestment and asset securitisation deal on shareholders' wealth, as measured by the EVA metric, will be evaluated in the following section.

THE WEALTH EFFECTS OF DIVESTMENT

Applied at the separate business unit (SBU) level, the EVA performance metric could also help corporate managers to identify where values have been created or destroyed within a business organization. In particular, the company can increase shareholder wealth by divesting away business activities or assets that yield returns, which are lower than the company's cost of capital. The EVA contribution from the whole of Raffles City complex is - S$ 74.80 million (refer to the second column of Table 3). Since the 5.86% current yield of Raffles City is below the company's WACC of 10%, the EVA of Raffles Holdings should show an improvement if the property is taken off-balance sheet.

The company could disburse the sale proceeds (S$ 984.5 million) back to the equity holders in the form of increased dividend or share buybacks, or to the debt holders by reducing existing debt, or both. Assuming the proceeds are used to redeem outstanding loans with the balance returned to the equity investors and a constant WACC, the EVA of Raffles Holdings after the securitisation would improved by 17% to -S$141.368 million instead of –S$170.548 million before the divestment (refer to the last column of Table 3).

By taking the property off-balance sheet, the financial position of Raffles Holdings improved significantly and the company was able to present a more favorable outlook to its investors and shareholders. In particular, Raffles Holdings employed S$ 456 million from the sale proceeds to pay off debts. This reduced the company's gearing to zero from 0.14. In addition, the company gets to book in a net gain of S$ 350 million from the sale, thus giving a boost to the company's earnings per share (EPS), which improved significantly to 18.70 cents compared to 3.83 cents before the divestment.[4]

Since net borrowings of the group reduced to zero after the divestment, the financial risk of Raffles Holdings would accordingly be eliminated. Another effect of the asset divestment is a diversification of the company's portfolio risk, since the Raffles City complex accounted for more than 60% of the company's total assets. The company can, therefore, expect an improvement in its credit rating, and possibly enjoy a reduction in its marginal cost of capital. Hence, the company's EVA would be improved not only by a reduction in the total capital employed, but also through a lower WACC. For example, if the WACC of Raffles Holdings could be reduced by 1 basis point, the company's EVA would improve by 12%.

The asset divestment also provided the company with an opportunity to achieve higher returns through asset switching, by releasing the huge capital locked in a non-core asset and reinvesting the funds in strategic assets with growing yield. Following the securitisation, Raffles Holdings used S$ 430 million of the proceeds to pay for its purchase of the Swissotel Hotels and Resorts. Analysts commented that the Swissotel chain fits Raffles Holdings' growth strategy of becoming a premier international hotelier, as the purchase would significantly expand *Raffles* overseas presence, boosting the number of its hotels outside Asia to 21 from three. The acquisition, which also included two Swissotels in China and three under

4. Wainwright (2000) examines the various options available for corporate users seeking to extract value from their property assets in the UK context. The paper also detailed a similar asset securitisation arrangement undertaken by J Sainsbury plc in the UK, where the retailer raised GBP 340 million through the sale of 16 stores to an offshore SPV. As part of the deal, Sainsbury leased back the stores for a term of 23 years at a rental of GBP 25 million pa. To finance the purchase, the SPV sold 7% fixed interest partial amortisation bonds.

development in Egypt and Germany, would meet the company's goal of managing 12,000 rooms be the end of 2003 (Jafri, 2001).

The market reacted positively when details of the securitisation package was announced, with Raffles Holdings' stock rising 3% to S$ 0.535 on June 4, 2001 and a further 3.9% the following day. In comparison, the equity stocks of all the listed hotel groups on the SGX recorded a marginal increase of 0.9% on June 4, and a drop of 0.1% on June 5, 2001. In summary, the divestment and securitisation of the majority stake in Raffles City complex has the effect of improving the company's balance sheet, EVA and share price. It also facilitated the company's expansion of its hotel operations, while maintaining a strong balance sheet by adhering to a low gearing level.

ASSET SECURITISATION VERSUS DIRECT SALE

To divest an existing asset, the owner has to consider the merits of securitization versus that of an outright sale. In particular, a direct property sale would be more straightforward and a less costly approach to dispose of an unwanted asset. This could be done either through the appointment of a marketing agent or the conduct of a competitive tender exercise. In Singapore, the brokerage costs would be between 0.5% and 1.0% of the selling price. In comparison, the total expenses associated with an asset securitisation issue would be much higher.

Table 4 tabulates the direct expenses of four securitisation issues in Singapore. The direct expenses, which include fees payable to the issuing bank, averaged 0.545% of the property value, with the rates declining with issue size. Adding a spread of between 1% and 1.5% for the underwriting fees, the total cost involved in asset securitisation would be in the region of 1.5% to 2.0%, excluding the extra management effort and time involved in structuring such deals. In addition, the sponsor had to provide a warranty to reimburse the SPV in the event that the net earnings of the securitised asset fall below the coupon payments.

Table 4: Direct Expenses of Securitisation Issues

Property	Property Value	Expenses	% of Value
Robinson Point	$193 million	$1.4 million	0.725%
268 Orchard Rd	$172 million	$1.1 million	0.640%
6 Battery Road	$835 million	$4.7 million	0.563%
Raffles City	$985 million*	$4.7 million	0.477%
Total	$2,185 million	$11.9 million	0.545%

* 55% of S$1.79 billion.

Source: Prospectus of respective issues.

Although divestment of asset through securitisation is generally more expensive and time consuming than an outright sale, securitisation may be the only viable option for some owners, especially in a weak property market. It is, therefore, interesting to note that most of the asset securitization deals in Singapore were structured when the property market was depressed. In addition, there exists a perception that property owners may be able to get a higher price if they sell the property via asset securitisation. This perception is based on the argument that since the capital requirement for real estate are broken into smaller units, the securitisation process facilitates value enhancement by reducing the liquidity premium associated with real estate investment. In particular, securitisation may be the only viable option to dispose of an asset at a reasonable price in a depressed property market due to the difficulty of finding buyers who are prepared to pay S$ 984.5 million for a 55% stake in a single property.

In addition to facilitating the sale, the securitisation structure also allowed Raffles Holdings to retain 45% ownership of the Raffles City complex. By maintaining a significant minority interest in RCPL, Raffles Holdings retained the opportunity to participate on a pro-rate basis in the risks and rewards of owning the property, as well as benefiting from any potential appreciation in the capital value of the property. Through the securitisation contract, Raffles Holdings also included a first right of refusal to buy back RCPL at prevailing market value. Furthermore, Raffles International, a wholly-owned subsidiary of Raffles Holdings, continued to act as the managing and marketing agent of the office and retail premises of the complex. In addition, the partial ownership structure allowed Raffles International to take over the management of the hotels and convention centre of the Raffles City when the management agreement with Westin expired in December 2001. In summary, the securitisation structure benefited the sponsor more than the bondholders.

CONCLUSIONS

In the corporation's pursuit to improve shareholder wealth, the traditional belief that there is a competitive advantage in owning real estate should be re-examined. In particular, non-real estate companies may find that locking a substantial part of their capital in real estate ownership may not be the most optimal strategy in their quest for wealth creation. The case for divestment and securitisation of property assets is especially attractive in low property inflation environments, where the scope for large capital gains is limited.

In summary, securitising the majority stake in Raffles City complex has the effect of improving the company's balance sheet, EVA and share price. The case illustrated how an aspiring hotelier optimised its limited capital resources by securitising a majority stake in a non-core property asset to underpin its strategic corporate goal without forfeiting the competitive advantages associated with owning the real estate. As an alternative form of property financing, securitisation is value enhancing because it creates an avenue for the company to diversify its sources of funding and prevent an over reliance on bank loans. Moreover, securitisation enables the company to borrow at fixed interest rates over a longer maturity, as compared to traditional bank loans, which tend to be on variable rates and of shorter duration in Singapore.

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