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THE DEVELOPMENT OF REITs IN ASIA

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ABSTRACT

Although the first Asian REIT was established in 2001, the rapid development of REIT markets in Asia has raised capitalisation of around US$30 billion, with 50 REITs listed over 6 countries in Asia (till end of Oct. 2005). In addition, the first Hong Kong REIT, one of the biggest IPO in the world, was successfully launched in November 2005. This huge growth momentum gathered with the eagerly expansion of Australian LPTs has produced a significant growth within the Asia-Pacific region.

Using SWOT (strengths, weaknesses, opportunities, and threats) analysis, this paper exams the most recent development of REIT markets in Asia, and contains the study of the major internal and external factors/issues affecting Asian REITs. The framework of SWOT analysis is one of the most effective tools to assess the strategic situation for a market, and most importantly, provide a systematic understanding of the Asian REIT market in both the short and long term.

INTRODUCTION

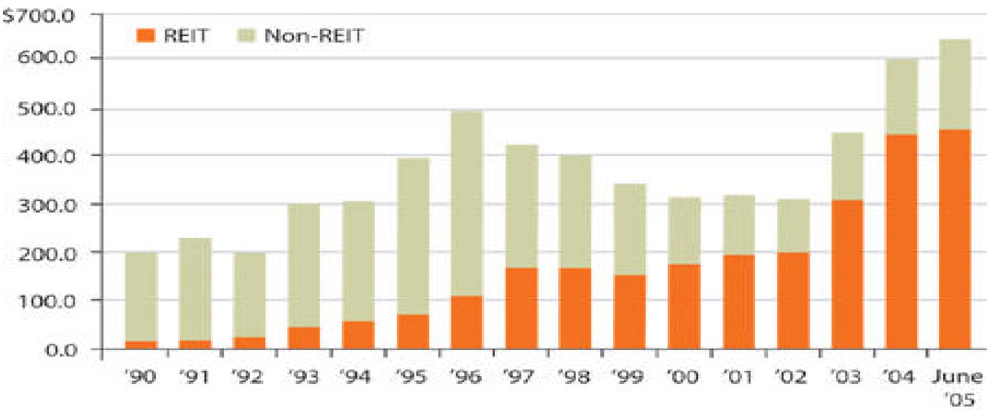
Real Estate Investment Trusts (REITs) has been an increasingly popular form of public property investment market globally. Nowadays, nearly 75% of all listed real estate are in the form of REITs. Following this trend, Asian REIT markets are developing rapidly, and the future of Asian REITs looks extremely bright.

The purpose of this paper is to exam the current development of REIT market in Asia, using SWOT analysis to conduct a study of major factors, which have impact on Asian REIT markets. The findings implicate that government play a crucial rule to support REIT market. While Asian REIT market is prosperous from both supply and demand side, there are more room for its further growth and more can be done to reduce the hurdles. The analysis also emphasizes that REIT investors should not purse extreme speculations on Asian REITs.

BACKGROUND

Nowadays, Real Estate Investment Trusts (REITs) have served as one of efficient public investment vehicles in global real estate market. As demonstrated in Figure 1, about 75% of all listed real estate is in the form of REITs; and according to the statistics, nearly all of the recent growth in the global securitisation of real estate assets has been through REIT structures. As stated by Steven Carroll, a global securities portfolio manager for LaSalle Investment Management, "I think we are witnessing a potential change in how global real estate is held; the public market is going to become increasingly important" (Napoli, 2004).

Figure 1: The growth of the global REIT market: US$bn.



Source: UBS, Thomson Financial Datastream

In theory, wherever the REIT-like public property companies located, or with whatever form of name (eg. Listed Property Trusts-LPTs in Australia), three key elements are of essential importance in the structure of REITs. They are:

1.) Underlying assets and most of the income of REITs are closely restricted to real estate, plus a limited portfolio of securities.
2.) REITs' units traded on stock market like normal share, but exempt from taxation at corporate level, such as enjoy the benefits of tax transparency.
3.) The compulsory distribution of most earnings was consistent with the idea that REITs are passive wealth management instruments.
(Campbell and Sirmans, 2002)

Exception of the above three essential elements, which are fundamental to the definition of all REITs, there are some other limitations on REIT structure, financing, operation issues. These restrictive issues aimed to reduce unfair competition with other taxable entities. In reality, they varied in response to the different region/market and the changing business environment (Campbell and Sirmans, 2002).

The most two matured REIT markets in the world - REITs in US and LPTs in Australia, adopted this concept and debuted their REITs in 1960 and 1971, respectively. Since then, REIT family underwent significant evolution over the past four decades. With their success and impressive growth in recent 10 years, REIT markets have grown bigger and matured.

From the following Figure 2 & Figure 3, it shows that up to the end of 2005, US REITs accounted for over US$301 billion in total market capitalization, dramatically increased with over 7 times in the past ten years. During the past three decades (since 1972), it outperformed major shares indices (Dow Jones Industrial, NASDAQ Composite, and S&P 500) with significantly less volatility (NAREIT, 2005).

Figure 2: Evolution of US REIT market capitalization

Source: Author's compilation based on NAREIT data

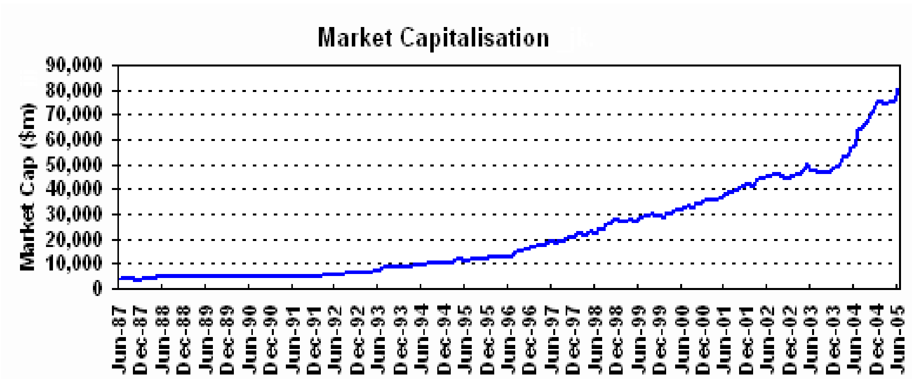
Figure 3: US REITs Performance (June 2004)

	1 Yr	3 Yrs	5 Yrs	10 Yrs	15 Yrs
REITs	27.0%	15.4%	14.5%	12.1%	11.6%
SHARE	19.1%	-0.7%	-2.2%	11.9%	11.3%
PROPERTY	10.8%	8.0%	9.4%	10.4%	6.8%

Source: NAREIT

In Australia, LPTs market has the same trend and performance with US REITs. As presented in Figure 4 & Figure 5, LPT market capitalization has been reach to over US$80 billion at the end of 2005; LPTs outperformed direct property and shares in terms of absolute return in all medium to long terms (3-year, 5-year and 10-year terms), and outperformed direct property for the 1-Year period.

Figure 4: Evolution of Australia LPT market capitalization



Source: Property Council of Australia (PCA)

Figure 5: Australian LPTs Performance (June 2004)

	1 Yr	*3 Yrs*	*5 Yrs*	*10 Yrs*
LPTs	17.2%	14.8%	14.1%	12.3%
PROPERTY	10.9%	10.4%	10.6%	10.1%
SHARE	22.4%	4.9%	7.4%	10.0%

Source: NAREIT

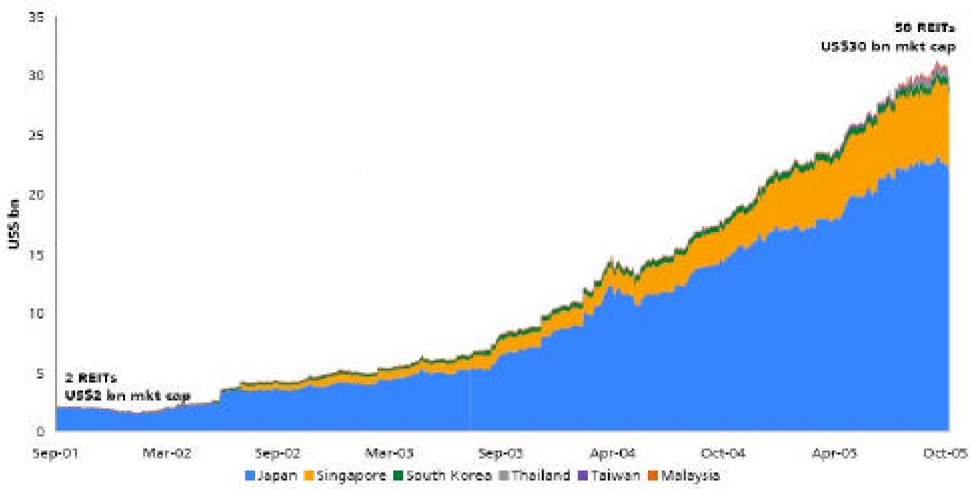
Nowadays, the development of REITs worldwide appears with two key characteristics:

1) REITs in US and LPTs in Australia getting bigger & mature, and expanding internationally;

2) The proliferation of REIT markets continuing, with steady developed in Europe and rapid growth in Asia.

In Asia, as the first REIT developed in Japan, 2001, the rapid development of REIT market has been compelling. Figure 6 shows the evolution of the Asian REIT market capitalization in the past four years, and Figure 7 below presents the current composition of Asian REIT market. In addition, more details about Asian REITs by countries were listed in Appendix 1(Asian REITs Profile).

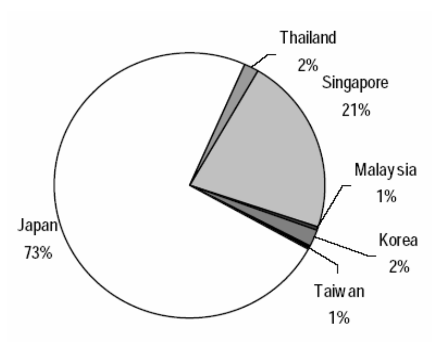
Figure 6: Evolution of Asian REIT market capitalization (at Oct. 2005)



Source : UBS investment Bank, Datastream at 21 Oct 2005

Figure 7: Current composition of Asian REIT market (at Oct. 2005)

Regimes	No. of REITs	Market Cap. US$bn	% of Total Cap.
Japan	23	22.1	73%
Singapore	7	6.5	21%
Korea	7	0.6	2%
Malaysia	4	0.2	1%
Thailand	8	0.5	2%
Taiwan	1	0.2	1%
Total:	***50***	***30.1***	***100%***



Source: Bloomberg, Credit Suisse First Boston

Overall, current Asian REITs are experiencing fast growth in its initial stage. As each country has a different set of real estate market conditions, economic environment and variety of tax, accounting and government regulatory policies relating to real estate investment (see Figure 8), the success of REITs in Asian would depend on how Asian REIT market evolutes with the changing internal and external economic environment. Therefore, timely research on these changing factors is an important task for REIT industrial participants.

Figure 8: Summary of regional regulatory framework in Asia

	Japan	**Singapore**	**Korea**	**Taiwan**	**Hong Kong**	**Malaysia**
Year Introduced	2000	1999	2001	2003	2003	2005
Management Structure	External	External	Both	Both	Both	External
Focus on Real Estate	75%	70%	70%	75%	90%	75%
Foreign Assets	Yes	Yes	Yes	with approval	Yes	with approval
Development Business	Yes(limit)	Yes(limit)	Yes(limit)	No	No	No
Gearing Limit	No limit	35%	<200%	35%	45%	35%
Payout (% taxable income)	>90%	100%	>90%	100%	>90%	No restrictions
Tax Transparency	Yes	Yes	Yes	Yes	No tax on dividends originally	Yes

Source: Author's compilation based on data from UBS

SWOT ANALYSIS ON RECENT ASIAN REIT MARKET

SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis is one of the most effective tools to assess the strategic situation for a specific market. Strength is internal resource that the organisation can use effectively to achieve its objectives. A weakness is a limitation, drawback, or defect in the organisation that will keep it from achieving its objective or limited of its growth. An opportunity is any favourable situation in the related environment. And a threat is any unfavourable situation in the related environment that is potentially damaging to its strategy (Rowe, 1994).

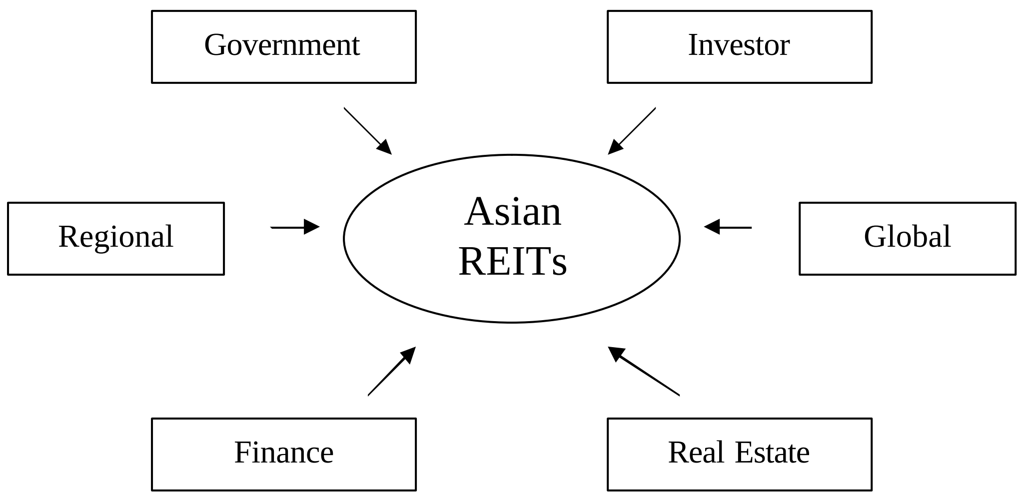
In this paper, we conduct SWOT analysis as a standard approach in market analysis to exam some major factors/issues affecting the recent development of REITs in Asia.

Major Aspects Affecting the Current Asian REITs

Many factors may influence the success and efficiency of the developing REIT markets in Asia.

Based on the current situation of Asian REITs, and combining the experiences of mature REIT markets in US & Australia, we construct six major aspects as the criteria for analysis. Although, many identify affecting factors involved in each aspect, we will pick up some representative issues to analyse, presenting an overview of the current developing Asian REIT market by using the SWOT analysis framework (see Figure 9).

Figure 9 : Major aspects impacting the developing Asian REITs



Asian REITs, under the current developing circumstances have emerged with many favourable and unfavourable factors.

- ***Government***

  Government from legislative aspect has always acted a crucial role in creating and developing a REIT market, even the possible market trends in the future.

As the Asian REIT at his early age of growing, it is absolutely necessary to have strong legislative framework that allows and supports the development of REITs. This includes favourable regulations with fewer restrictions on real estate investment, taxation and gearing. Specific designed incentives such as exemption from property related taxes and fees would also help the growth of this industry. Otherwise, legislative restrictions will limit and obstruct the development of REIT. It can be easily evidenced from the evolution of REITs in US and Australia, and the short history of Asian REIT market as well.

- ***Investor***

The demand of REITs was sourced from investor's interest in this sector. No matters of individual or institution, investors consider the return and risk profile as key issue while choosing investment instrument.

A huge trend in current investors is looking for safe investments based on the following two facts: 1. the aging population and high savings rate keep high in Asia. 2. the portion of extreme speculation decreased after Asian financial crisis. The high distributions, stable capitalization growth while low risk characteristics provided by REITs just match the common investor's appetite.

- ***Finance***

As an investment instrument related to specific asset of real estate, REITs provides real estate (property) market with great financing opportunities, while supplying the capital (stock) market with a less-correlated asset class to diversify the portfolio in their investment. Also, as REITs are listed and traded on stock market, therefore, financial environment affect the performance of the REIT markets directly.

- ***Real estate***

Most value of a REIT was on the value of underlying asset (real estate). For REITs was obligated to focus on real estate asset and its rental as major income resource, the change of real estate market will fundamentally vary the value of the REIT.

- ***Regional***

Regionally characteristics within Asia are classified as internal factors for REITs industry. Some positive factors such as overall economic and real estate market recovering in Asia and moderate competition of REITs hub between Hong Kong & Singapore governments, promote the growth of REITs in Asia. While some negative factors like immature local market system and potentially over-speculation in real estate normally being the weakness and threats of the market.

- ***Global***

As this analysis concentrates on the Asian REITs market, external factors from global aspect major come from matured REIT market in US and Australia currently.

Strength:

According to the major aspects stated above, the main strengths of current developing Asian REITs are listed as follows:

- ***Strong Demand and Supply***

On the demand-side:
REITs generally provide high dividend, low volatility and diversification benefits in investment portfolio, investors' thirty for yield has been and remains the biggest demand driver.

Comparison with other product, in many investors' view, stocks are too risky while bonds have less attraction with returns. The return and risk profile of REITs just filling the position. In addition, the considerable low correlation with shares and bonds, REITs product also show extremely competitive in portfolio risk diversification.

REITs products with these characteristics were warmly welcomed by both institutional and individual investors in Asia. The increasingly institutional investors, such as pension funds and insurance companies put REITs into their investment portfolio. As the aging society approaching in Asian and other countries, the related growing pension liability is expected to add further demand to REITs in Asia area.

From the supply-side:
The driving forces for REITs came mainly from the following three related groups: financial institutions, real estate owners or developers, and some government departments who in charge of social real estate assets. Using REITs, these groups activate the capital which was locked in these assets via transferred their ownership.

Commercial banks in Asia, always keep the risks in the balance sheet for their real estate borrowers. Especially after Asian financial crisis in 1990's, many banks burdened with amount of non-performing loans, are longing for the route to exit the situation. REITs just satisfied this huge demand.

Many real estate companies in Asia act as major developers and part of property owners as well. From one hand, REITs provides a alternative sources of funding for development business other than heavily depend on bank financing; on the other hand, divestment of these asset ownership to public make the capital of the asset to be recycled - redeployed to other investment or business. This also generate an opportunity to company who want adopt an asset light strategy in their business structure.

REITs also open a door for government to divest the social assets to public ownership. The new listed, biggest in the world, LINK REIT in Hong Kong, is the representative, which comprise much of prior government assets. After transferring into REITs, these assets were owned publicly, managed by professional asset manager.

In one words, REITs paved a relative board way to almost all major real estate participants to upgrade their financial situation, create financial support opportunity by transferring the ownership. And this function in practice, has been accepted widely in Asian market, which reflected by the current strong demand and supply situation.

According to a research report by UBS, it was said that " the consequence of introduction of REIT in Asia, create the opportunity to increasingly invest in real estate via a listed form which is able to efficiently capture underlying real estate returns (through REITs)", " Furthermore, given the positive supply dynamics (via increased securitisation and REITs) and demand dynamics (ongoing allocations from an under – allocated aging demographic) of listed real estate, the medium-term outlook remains positive. (Crowe, S., *et al*, 2005).

- ***Government Incentives***

Government incentives to establish and promote REIT market may be the most important impacting factors, at least in the current infancy stage of Asian REIT.

Government incentives to introduction of REITs largely rooted from their motivations, the following summary (Figure 10) reviews and compared their original intentions.

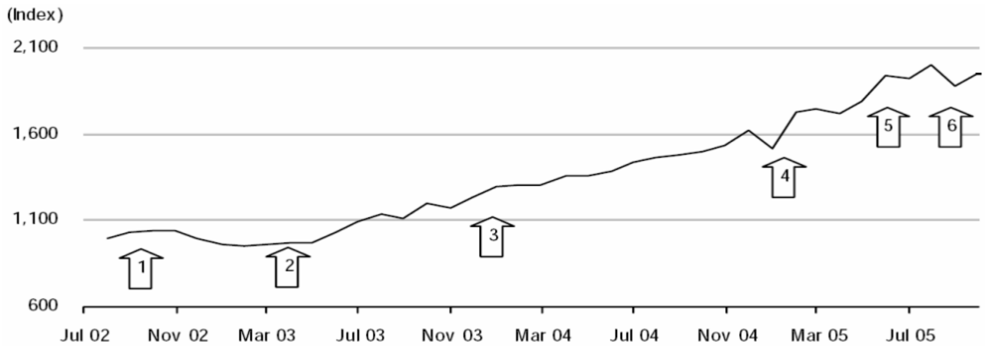
Figure 10: Summary of motivations of established REITs regimes in Asia

Countries	***Motivations***
Japan	as part of restructuring the economy and real estate market, started with bad-quality assets for both and financial institutions to dispose of the non-performing assets (Kitsuda, 2003).
Singapore	changing business strategy to grow fund management income; seeking property development opportunities in other Asian countries; Transferring ownership to public via REITs
Korea & Taiwan	help financial institutions and government asset management companies to divest non-core investment.
Hong Kong	divest real estate as it focus more on development, divest government asset by transferring ownership to public,

Source: Author's compilations based on vary publications.

To some extend, varied motivations reflect how local government understand the REITs for their domestic finance and real estate markets; however, the rapid growth of Asian REIT were directly benefit from government incentives imposed through REIT legislations. This applies in Singapore as well, where the government was considered as most proactive and progressive in the region in promoting the REIT industry.

Figure 11: Relationship between Singapore REIT index and government incentives



Source: MAS, IRAS, CPF, Bloomberg

Figure 11 shows six events that have improved the S-REIT market through government incentives, and the events were descript as follows:

1) CPF Board announced on 29 August 2002 that property funds (or REITs) would be included under the CPFIS-OA.

2) MAS issued revised guidelines on 28 March 2003 to raise gearing limit for S-REITs from 25% to 35%.

3) Resident and non-resident individuals would be exempted from tax on certain investment incomes, including distributions from S-REITs to which unit holders are entitled on or after 1 Jan 04.

4) From 28 February 2005, the following changes applied: a) 3% stamp duty waived and tax rate on distributions to foreign non-individual investors reduced from 20% to 10% for the next five years; b) to qualify for tax transparency, S-REITs trustees no longer need to furnish letter of indemnity to CIT and derive 100% income from property and related assets, as long as they distribute at least 90% of taxable income, c) S-REITs that invest in foreign properties may apply to the MOF for tax exemption on certain foreign income.

5) MAS released a consultation paper on 10 June 2005 to propose enhancements to the regulations of S-REITs, including improving the corporate governance practices, allowing REITs to engage in property development (subject to a 10% cap), and allowing borrowings in excess of 35% but not to exceed 60%.

6) MAS revised the guidelines on REITs on 20 October 2005 to effect key changes that included: improving corporate governance, facilitating overseas acquisitions and partial ownership of properties, allowing the total of borrowing and deferred payments to exceed 35% (subject to a 60% cap) provided credit rating is obtained from a major rating agency and disclosed (Fong, E. *et al*, 2005).

Reviewing the government incentives in the case of Singapore REITs, it is clearly demonstrated that government incentives directly support the growth of S-REIT and market response is prompt. Singapore government, apparently, played an important role in forming a successful environment for their local REIT market. Expanding the experience to other Asian countries, favourable regulatory as catalyst is one of necessary conditions for Asian REITs.

More over, as Singapore and Hong Kong government are competing to be the hub role in regional REIT market, it is reasonable to believe that more government incentives on issues of tax, gearing, and overseas investment, will spur the growth of local REIT market and channel the across-boarder listing for undeveloped REIT market, eg. China and India.

- ***Exceptional Returns***

Strong demand and supply composite the huge dynamic push Asian REIT market out performance. The returns generated by Asian REITs to date have been extraordinarily high and attractive. As per the established REIT track record in Japan and Singapore, Asian REITs have generated double-digit returns annually. Moreover, its low level of volatility means that the less risk profile can be more attractive than other equities in capital market.

Figure 12 shows the price performance (excluding dividend return) of the TOPIX REIT index and two longest running REITs (CapitaMall Trust & Ascendas REIT) over the last two years. On an annual basis, Japanese REITs obtained 19% in capital growth while the average market price of CapitaMall and Ascendas rose by 42%, 62% respectively per year (Reilly, 2005a).

Figure 12: Asian REIT Performance (end of May 05)

Source: NAREIT

As REITs in Singapore and Japan (together occupy over 95% of total Asian REITs capitalization) have delivered superior total returns in the past three years, it is one of the key attractive that kept the sustainable increase in demand for REIT products.

Weakness

Although REITs were warmly welcomed by investors, asset owners and regulators within financial and property industries in several Asian countries, as a diversified region, the overall economic strength and real estate market in Asia is immature. And Asian governments face a series of important decision regarding the features of Asian REITs, different regulatory still have a great impact on the development of REITs. Therefore, there is still a long way to go to establish a mature, wide spread Asian REIT markets.

- ***Immature Real Estate Market***

Rooted from real estate industry, the REITs industry cannot develop without its contribution. In other words, the immature industrial background will potentially limit the Asian REIT further growing.

In the aspect of real estate market information transparency, according to the JLL global property transparency index (Jones Lang LaSalle, 2004), Asian property markets range globally from Transparent (Hong Kong: 7th and Singapore: 9th) to Semi-Transparent (Japan: 26th, Taiwan: 27th and Korea: 34th) and quite low transparency level (P.R.China: 39th, India: 41th and Vietnam:47th) , among 51 countries surveyed. Although a couple of countries show little improvement, the overall Asian property industry remains diversified and has relatively low transparency. On the other hand, the most mature REIT market in US and Australia were both ranked at the top in the index.

The fact in Asia is that some leading countries like Japan, Singapore, Korea and Hong Kong have established REITs on their relative better market system, it is still too early to expect that REITs will be wide spread in whole Asia. Chris Reilly reported with his view of recent Asian REITs, "unfortunately, Asia (the fastest growing and most populous region in the world) has not been represented on the global property stage, and cross-border difference and poor transparency market appear to be a riskier investment prospect than Europe or the US" (Reilly, 2005b).

- ***Imperfect Legislative System***

Taking lessons from US and Australian experiences, to establish a successful REIT market, there must be a strong legislative framework that allows and supports the development of REITs. As other REITs leaders experienced before, most Asian governments is in a dilemma to how and when to liberalize the market. The creation of new REIT regimes within the region is finally subject to the resolution of regulatory issues. It is expected that REIT regulators in Asia offer more attractive tax incentives, encouraging the legislations to attract cross-border REIT activities and promoting local REIT listings.

Korea and Hong Kong have created REITs for a couple of years, however, the development of REITs in both countries have lagged Japan and Singapore, largely because of their more restrictive REIT structures. In Korea, two types of REITs were introduced, General REIT (K-REIT) and Corporation Restructuring REIT (CR-REIT). Because there are too much legislative restrictions to K-REIT, such as limitation on gearing, minimum capitalization requirements, and no enjoying any tax benefits, up to now, K-REITs have not been launched yet (Conner, Liang, 2005). While some other restrictions for CR-REIT, there are seven CR-REITs with only US$0.6bn in capitalization. Similarly, in Hong Kong, before June 2005, Hong Kong REITs was restricted overseas investment; and gearing ratio was limited under 30% of gross asset value. Under so many restrictions, plus no tax benefits incentive, at least till now, Hong Kong REIT industry developed slowly, far behind its counterpart – Singapore,.

It is lucky that most governments in Asia have noticed this problem, and are making the amendment on these restrictions. In Korea, new REITs legislation offer K-REITs has same tax benefits as CR-REITs, borrowing and initial capitalization restrictions were relaxed. And in Hong Kong, the recent lifting of restriction issues on overseas investment and gearing ratio is regarded to step to the right direction, and these reform have triggered several REITs which are in the pipeline for listing on Hong Kong Stock Exchange. Among them, GZI REIT is underlying 4-5 commercial properties in Mainland China. (Tan, 2005)

However, although a number of Asian countries have introduced and reviewed new regulatory framework for REITs recently, there are more can be done to reduce hurdles.

In Thailand, gearing has not been permitted until now. This makes Thailand less attractive than others in the region do. However, Thailand government is considering allowing a certain level of leverage. If this issue were amended, it would provide potential upside to REIT unit holders and create more interest to investors.

Malaysia draws a lesson from its previous experience, the new REITs guidelines finally issued in January 2005, which liberalized borrowing limits, relaxed rules on acquisitions of leasehold properties, and allowed more opportunities on non-real estate assets. However, the payout issue will be addressed later, because no mandatory payout ratio required will not guarantee the high payout ratio, which is contrary to the objective of making the REIT an income-oriented vehicle.

Even in Singapore, considered as one of the most proactive in promoting the S-REIT industry, there remain a few regulatory issues that need to be improved. A most recent consultant paper proposed a number of changes to enhance the REITs regulations. These include licensing managers of Singapore REITs; more disclosure of transaction-based acquisition and disposal fees imposed by REIT managers; permit to engage in the development of properties that they intend to hold after completion (subject to a cap of 10% of total portfolio value); and give REIT more flexibility in determining their debt ratios by increasing the maximum borrowing limit to 60% of a REIT's deposited property (real estate portfolio, 2005). Apparently, Singapore government has always and still active to ease restrictions, endeavour to establishing a better legislative system for S-REIT market, aim to promote the country as a world-classes financial centre in long-term.

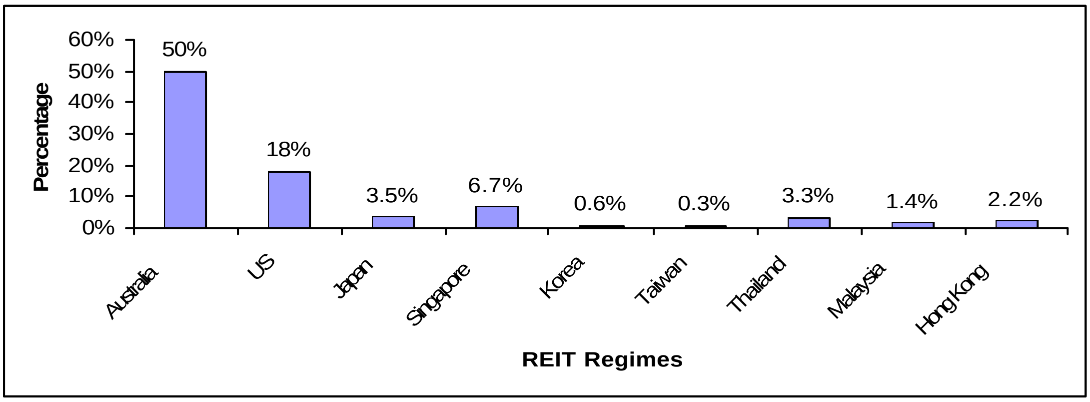
Opportunities

The key opportunity for Asian REITs is that the total capitalization of Asian REITs is still quite small, comparing to mature REIT market in US and Australia, the nascent Asian REITs market still have room for further growth.

So far, despite Asian REIT grown rapidly in recent years, the ownership of investment grade properties by REITs in Asia is estimated to be quite small, compared to about 18% for US, 50% for Australia (Fullerton, 2005). The percentage of REITs among investment grade property by capitalization was depicted in the following diagram (see Figure 13). Australia enjoys the highest percentage position in this diagram, which means half of investment grade property asset was securitised by

REITs form, while most of Asian countries are fewer than 5%. As REITs generally focus on investment grade property, it indicates that much of quality property asset has not been involved into REITs structure in Asia.

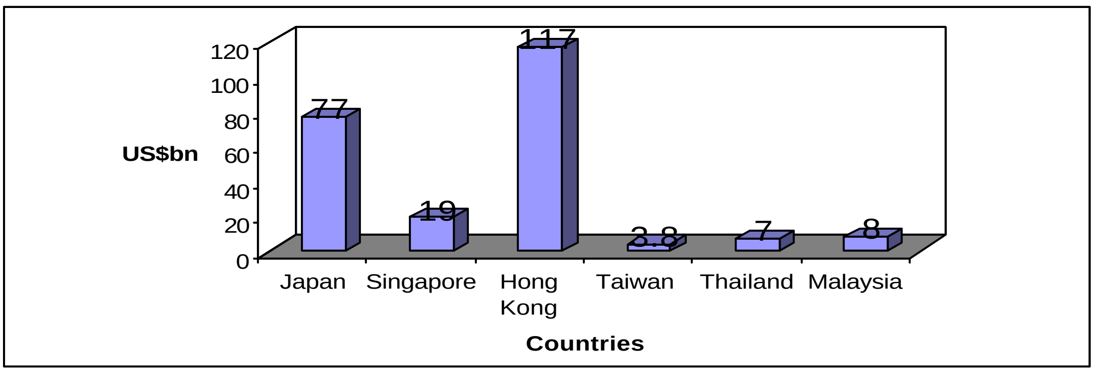
Figure 13: The percentage of REITs among investment grade property (by capitalization)



Source: Author's compilation based on information from Prudential Real Estate Investors, Henderson Global Investors, Bloomberg, and UBS research

Real estate assets held in private companies are typically less efficient in terms of management and taxes. As the property market continues to evolve, the trend will be that ownership shifting from the private to the public sector, i.e. REITs. It is estimated that total market capitalization of listed real estate company in Asia is over US$230bn. As REITs were accepted by private company owner as a favourable vehicle to reach their strategy goal at corporation level (1. unlock real estate capital and turn into higher return opportunities; 2. transfer the private ownership to public while adopt asset light strategy; 3. creation of REIT funds management plat form ensures fee based income.), the trend of transferring ownership via REITs form will open a greater space for Asian REIT to grow. Especially in Hong Kong, REITs will catch much attention from the owners of listed property company.

Figure 9: Distribution of market capitalization of listed real estate company in Asia



Source: Author's compilation based on information from Bloomberg, UBS research

Other research institutions put forward the same viewpoint as well. An investment research report by UBS said, "In Japan, REITs market growth has brought over seven-fold increase, total market capitalization reach around US$25bn within only four years". Although, it grows so fast when comparing to US and Australian REIT market (to reach the same size of capitalization, US takes 30 years and Australia takes 28 years), it only represents 0.5% of Japan's GDP. Consider that the US REIT market is equivalent to about 3% of US GDP and that the Australian LPT market is equivalent to about 10% of Australian GDP, it would seem that the J-REIT market has the potential to grow to five or even 10 times of its current size. (Crowe, *et al*, 2005).

As for Singapore, researched by JP Morgan, 7 S-REIT only own an estimated 5% of the country's net leasable office space, 10% of retail space and 3% of industrial space (Lau and Chu, 2005). However, as each five listed S-REITs occupying a specific sector with out-performance; more REITs in pipeline to listed, overseas asset were included, and more M&A activities involved, present S-REIT are regarded stepping into a new phase of development (Sung, *et al*, 2005).

As such, enhanced by considering the further improvement of real estate market in China and India, we believe there will be a significant scope for the nascent Asian REIT industry to continue to grow.

Threats

It is worth noting that REITs is a designed income-oriented investment vehicle for investors. The key threat come into mind is that REITs should not fuel speculation during the development of Asian REITs, because, the fundamental performance characteristics of the underlying asset are – stable, attractive yield, modest asset appreciation and low correlations for diversified portfolio(Corner, Liang, 2005).

Real estate investment has traditionally been a key investment in Asia, the strong propensity to invest real estate make the potential abused high historically. Compared to the current status of REITs in Europe and the evolution of REITs in US, recent amazing development in Asia, to some extend, reflect that potential force existed in the region.

It was broadly acknowledged that US and Australia introduced REITs after its real estate industry had accumulated decades of experience, but much of Asia real estate market relatively new. "Asia is more speculative than US and therefore more volatile" said by Pietro Doran, senior real estate advisor at Kearney Global in Seoul (Larkin, 2001).

The lack of property market expertise and investment grade property asset will not change in short time. Investors' blindly rush to invest in REIT sector might kill the industry.

REITs sector in Asia is still relatively small and sensitive to the changing economic environment, therefore, all REIT governor keep the guidelines on REIT market to avoid it becoming an extreme speculative tool. And also, some strict measures were proposed to check the trend of speculation, such as REITs stock index.

Overall, gaining the lessons from the financial crisis and speculative property markets in the late of 1990s, Asian REITs should be restricted to non-speculative instruments, related regulators should guard against the speculation trend in Asian REITs market, and keep the Asian REIT to build dividends and diversification - as the logo of NAREIT telling us (NAREIT website).

CONCLUSION

Since the first Asian REITs was floated in Japan, over the past 4 years, Asian REITs have achieved compelling market capitalization. Some other Asian government are considering REITs as an alternative financing mechanism, which offers liquidity, security and diversified benefits. The growth of Asian REITs is continuing at a rapid pace.

Using SWOT analysis framework, the current Asian REIT market statues was examined, the findings and its implications were summarized as follows:

Firstly, current Asian real estate investment market with strong supply and demand of REITs product reflects that REITs have been widely accepted by most of major real estate industrial participants: financial institutions, real estate owners and developers, and common investors. For REITs' suppliers, by transferring the ownership, their financial situation was upgraded and the financing options were broadened. For REITs' investors, the impressive return/risk profiles just satisfied the common investors favour -- looking for safe investment. Considering the trend of increased real estate securitisation and the fact of Asian specific demographic, the future REIT market will be quite bright.

Secondly, Asian government plays the most crucial role in establishment and development of Asian REITs. The different results between two cases: the case in Singapore, whose government promoted the REITs progressively; the other case in Hong Kong and Korea, whose government put more restrictive rules on REITs at initial stage, clearly evident that a REITs legislative environment will impact the development of REIT market greatly. Gaining the lessons from this point, it is suggest that Asian governments should review the REIT legislation and provide more favourable regulations, such as: allow tax transparency and overseas investment, comfortable gearing limitation, flexible management structure, and so on.

Thirdly, as Asian is a region with diversified economic environments, it is important to look at each country as distinct and separate markets. Each REIT market in Asia (such as Japan REIT market, Hong Kong REIT market, Malaysia REIT market) are actually evolute at various stages and these differences were fundamentally due to the levels of immature real estate market system and legislative system. No doubt, Asian REITs were established in imperfect conditions: most of Asian REIT regimes were created by the motivations to re-shape the local real estate market or divestment of "problem" real estates. Therefore, theoretically speaking, compared to US and Australian REIT markets, there are more potential risks in Asia.

Last but not least, the SWOT analysis also indicates that extreme speculation disobeys the main purpose of creation of REITs as an investment vehicle. Especially for Asian investors, who have experienced the financial crisis and speculative property market in the late of 1990s, the stable, attractive dividends and the diversification benefits should be the major objective for REIT investors to pursue.

Overall, with overwhelming favourite factors surrounded, the current Asian REIT markets are progressing well, and it is expected that Asian REITs will be moving forward healthily.

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Appendix 1: Asian REITs Profile (Oct.2005)

COUNTRY (# of REITs)	***TRUST***	***MARKET CAP. US$bn***	***SECTOR***
Japan	Nippon Building Fund Inc	3.0	Office
23	Japan Real Estate	2.1	Office
	Japan Retail Fund	2.7	Office
	Orix JREIT	1.1	Office/Other
	Japan Prime Realty	1.4	Office/Retail
	Premier Investment Trust	0.5	Office/Residential
	Tokyu Real Estate	0.9	Office/Retail
	Global One Real Estate	0.6	Office
	Nomura Real Estate Office	1.3	Office
	United Urban Development Corp	1.0	Diversified
	Mori Trust Sogo REIT	1.3	Diversified
	Nippon Residential	0.6	Residential
	Tokyo Growth REIT	0.1	Residential
	Frontier Real Estate	0.6	Retail
	New City Residence	0.4	Residential
	Crescendo Investment Corp	0.2	Office/Residential
	Japan Logistics Fund	0.4	Distribution
	Fukuoka REIT	0.6	Retail/Office
	Prospect Residential	0.3	Residential
	Japan Single-residence REIT	0.1	Residential
	Kenedix Realty	0.4	Office/Residential
	Joint REIT Investment Corp	0.3	Retail/Residential
	eASSET Investment Corp	0.2	Office/Residential
Singapore	CapitaMall Trust	1.7	Retail
7	Ascendas REIT	1.5	Industrial/Office
	CapitaComercial Trust	0.8	Office/Other
	Fortune REIT	0.4	Retail
	Suntec REIT	0.9	Retail/Office
	Prime REIT	0.5	Retail/Office
	Mapletree Logistics Trust	0.3	Distribution/Logistics
S. Korea	Kyobo Meritz	0.09	Residential
7	KOCREF1	0.20	Office
	KOCREF2	0.06	Office
	KOCREF3	0.07	Office
	Realty Korea CR	0.08	Office
	URES-Meritz First	0.05	Office/Leisure
	MCO CR REIT	0.09	Office

(Continued)

Appendix 1: Asian REITs Profile (Oct.2005)

COUNTRY (# of REITs)	***TRUST***	***MARKET CAP. US$bn***	***SECTOR***
Malaysia *4*	AHP (PTs)	0.03	Office
	AHP2 (PTs)	0.01	Office
	AMFPT (PTs)	0.01	Office
	Axis REIT	0.1	Office
Thailand *8*	Bangkok Commercial Property Funds	0.02	Office
	UOB Apartment Property Fund 1	0.02	Residential
	Ticon Property Fund	0.04	Industrial
	Thai Industrial Fund1	0.01	Industrial
	Millionaire Property Fund	0.05	Office
	MFC-Nichada Thani Property Fund	0.02	Residential
	Baan Sansiri Property Fund	0.02	Residential
	CPN Retail Growth Property Fund	0.27	Retail
Taiwan *1*	Fubon 1	0.2	Office/Other

Source: Author's compilation based on the data from Bloomberg, Stock exchange, and vary company websites.

*** Note:

1 Including 3 Property Trusts (PTs) in Malaysia and 7 Listed Property Funds in Thailand

2 First Hong Kong REIT namely LINK REIT launched in November 2005, with Market Cap.around US$3.3bn, investing in Retail and Car parking properties.