

SECTOR ANALYSIS RESEARCH SERIES - REIT AS AN ASSET CLASS FROM THE INVESTOR PERSPECTIVE

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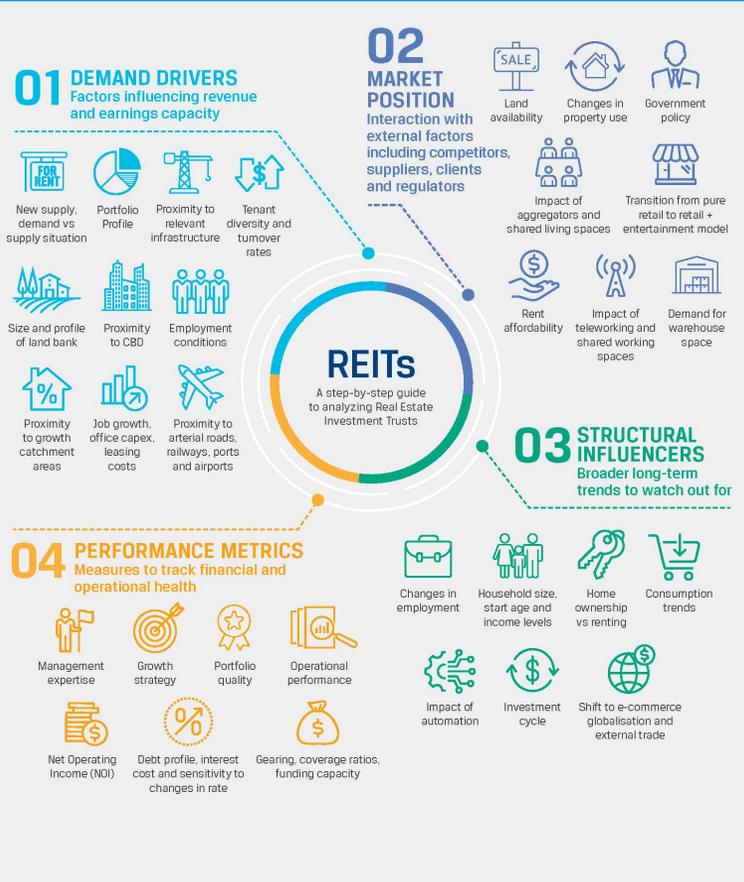
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Sector Analysis: A Framework for Investors



REITS



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KEYNOTE

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Understanding Real Estate Investment Trusts (REITs)

By Eunice Chu

Head of Policy, ACCA Hong Kong

Overview

- Vehicles that own and typically operate a portfolio of income-yielding real estate assets.

Advantages

- Low-hurdle entry
- Exposure to a diversified pool of real estate assets
- High level of liquidity
- Stable source of recurrent income – yield play instead of reaping capital gains
- Publicly listed REITs declare over 90% of their earnings as dividends

Demand Drivers

- Tenant profile
- Location – proximity to facilities
- Supply pipeline
- Occupancy level
- Average lease tenure
- Turnover rates
- Credit worthiness of tenants
- Anchor tenants

Market Position

- Number of competitors
- Relative market sharer?
- Dominant player?
- e.g. operator of hospital with monopoly would fare well
- Availability of gazetted land → supply of real estate

Structural influencers

- Ability to innovate and adapt to structural changes
- e.g. shift to online shopping impacts Retail REITs

Performance Metrics

- Net Operating Income (NOI) as % of revenue / property value
- Funds from Operations (FFO)
- Funds Available for Distribution (FAD) → dividend yielding capacity
- Gearing ratio, interest coverage
- Expertise of senior management in executing strategies

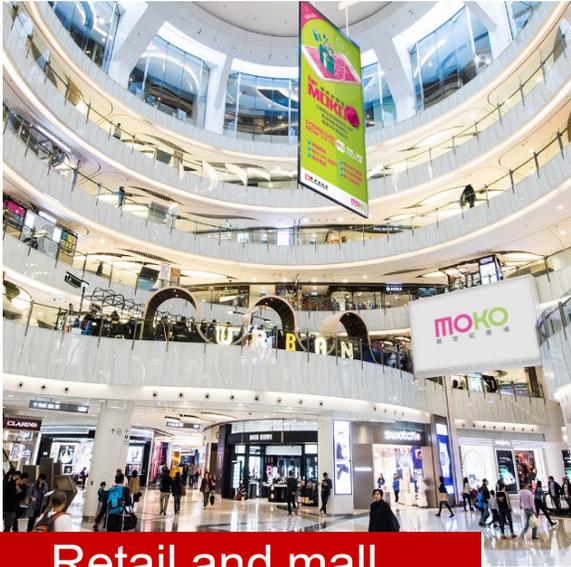


ESG Compliance

- Strategy & track record of environmental / ecological footprint
- Leadership in Energy and Environmental Design (LEED) rating
- Equipped with smart metering applications
- Recycled, eco-friendly & locally sourced material
- Penalties for violating ESG

Analysis of Four Categories of REITs

Four categories of REITs



Retail and mall



A-grade office and commercial



Industrial



Residential

1. Retail and mall REITs

1. Health of the economy → real income & consumption growth
2. GDP per capita, consumer confidence → rental rates
3. Tenant mix: diversified mix → lower revenue concentration risk
4. Properties portfolio → greater number, lower concentration risk

Long term drivers

e-commerce: shifting from purely retail to a retail-plus-entertainment mall



2. A-grade Office and Commercial REITs

1. Outlook of job growth (white-collar section)
2. Build rate of new A-grade office
3. Proximity to central business district (CBD) \ airport \ suburban areas
4. Impact of automation on job growth & workspace demand
5. Remote working & shared workspaces.



3. Industrial REITs

1. Key focus: sensitivity of property demand and rental rates to economic investment cycles
2. Manufacturing growth, capital investment, warehouse needs
3. External trade performance & globalisation
4. Proximity to arterial roads, railways ports and airports
5. E-commerce → opportunity to leverage on this growth area



4. Residential REITs

- Demographic, economic, social elements affect rental & prices
- Income levels, employment rates, household size, affordability.



- Transport links
- Proximity to social infrastructure, place of work
- Government policies
- Tax regime
- Airbnb & share living spaces



Thank you

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PANEL DISCUSSION



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THANK YOU

