Championing REITs & Property Funds In Singapore & Asia — The CapitaLand Experience



UBS Global Real Estate Forum
November 2004

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Disclaimer

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Favourable Factors For Asian REITs & Property Funds

- **Economic stability**
- **Growing pool of provident funds – Asia's ageing population**
- **Low interest rate environment favouring high-yield investments**
- **Property market** – Improving transparency & recovery offer entry opportunities
- **Institutionalisation of Real Estate in Asia**
  - Movement away from 'opportunitistic' cycle in mature Asian markets to yields
  - Institutionalising real estate with dedicated investors (US & Dutch property funds)

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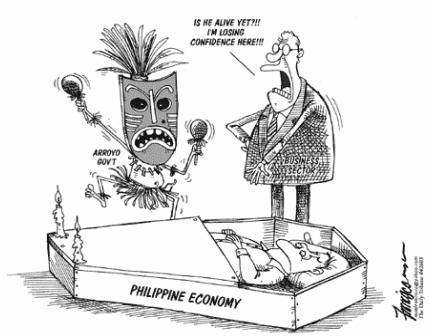
Overview of General Economy

- **Asia** : Remains the world's fastest growing region – an export-led recovery with good consumer confidence
- **US** : Strong expansion to end-2004; possible slowdown in 2005
- **Japan** : Broad recovery should continue to 2005
- **China** : Likely soft landing but still strong

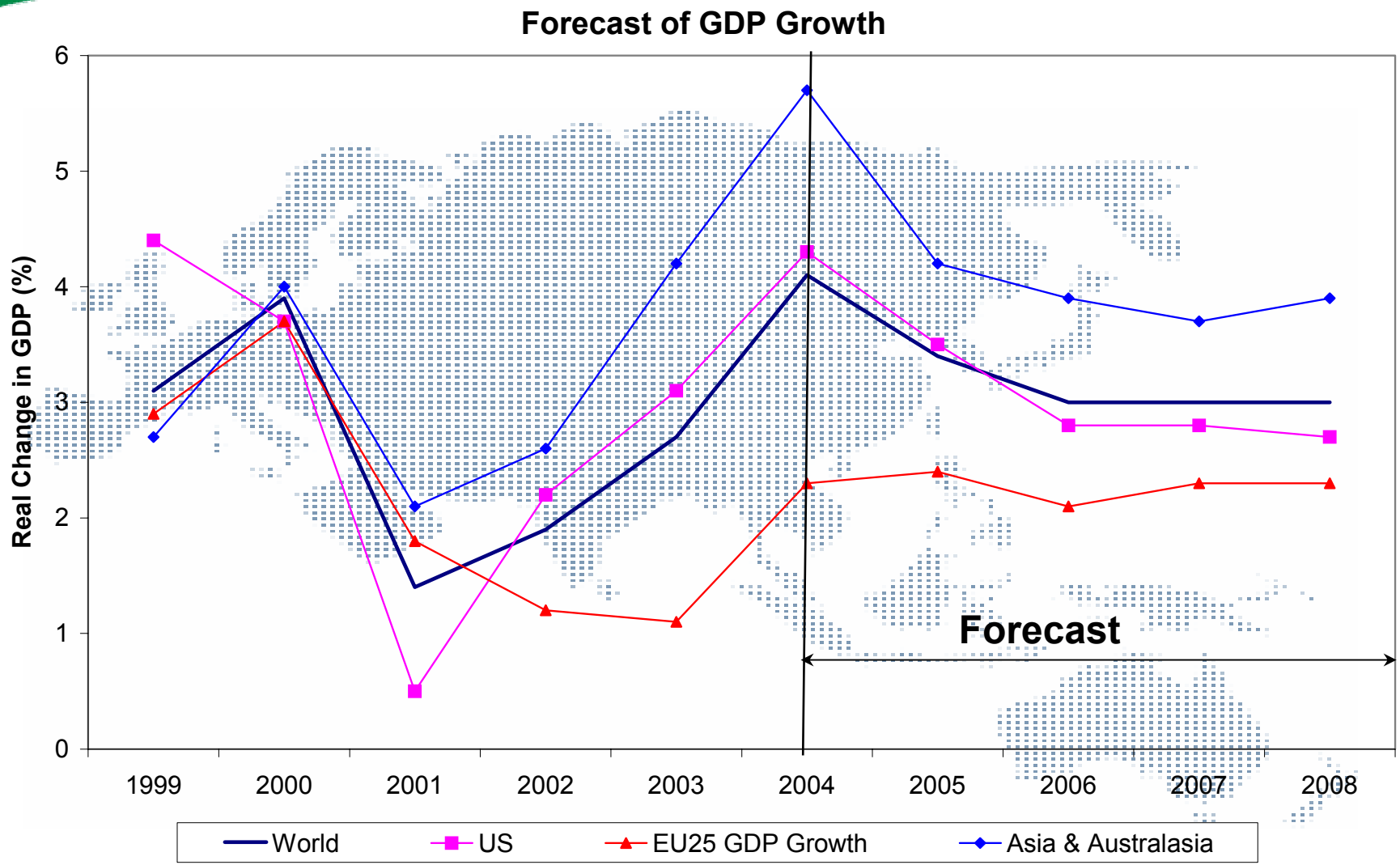






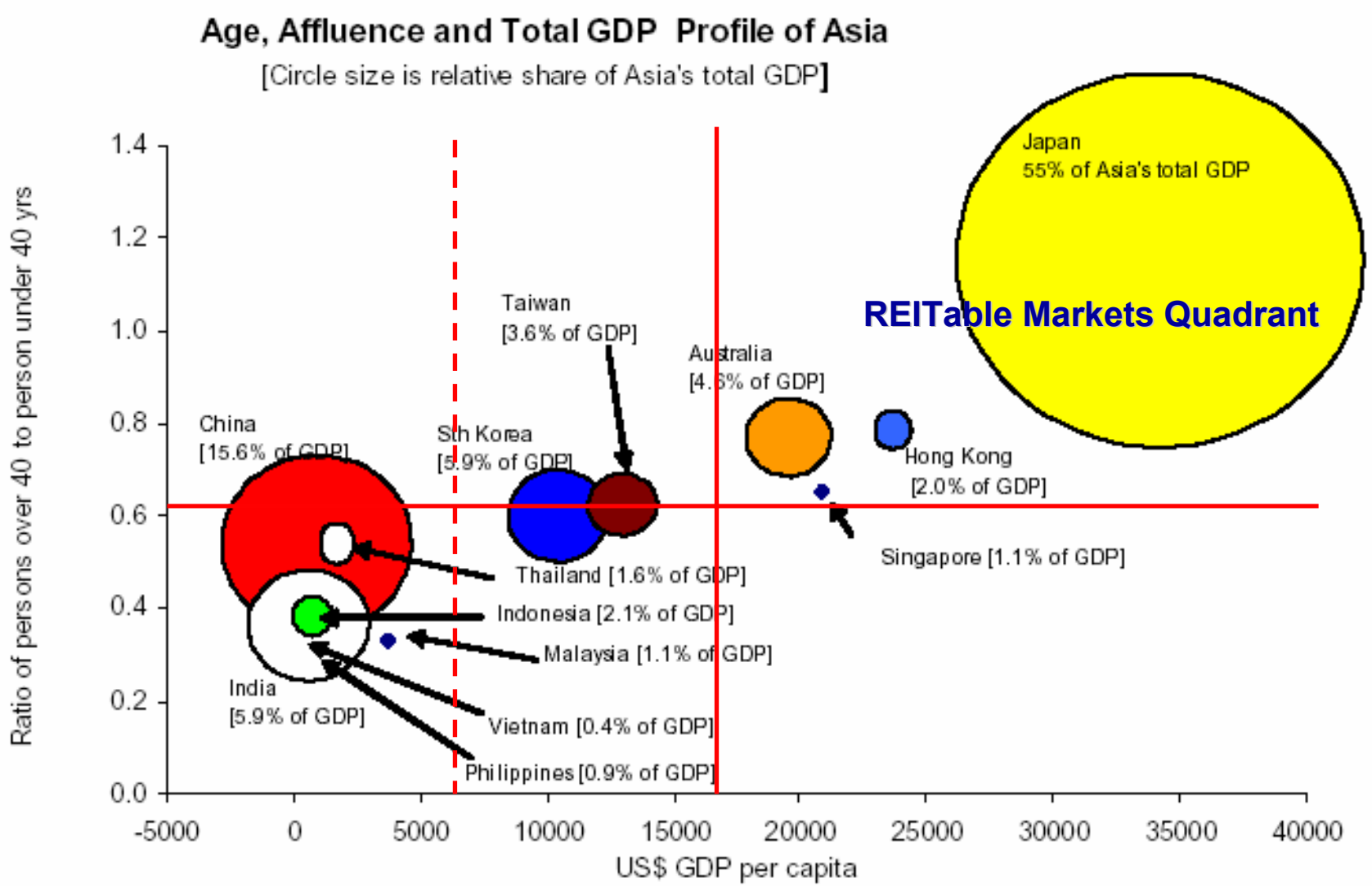


Asia Growing Faster than Rest of the World



Source: EIU & CapitaLand Research

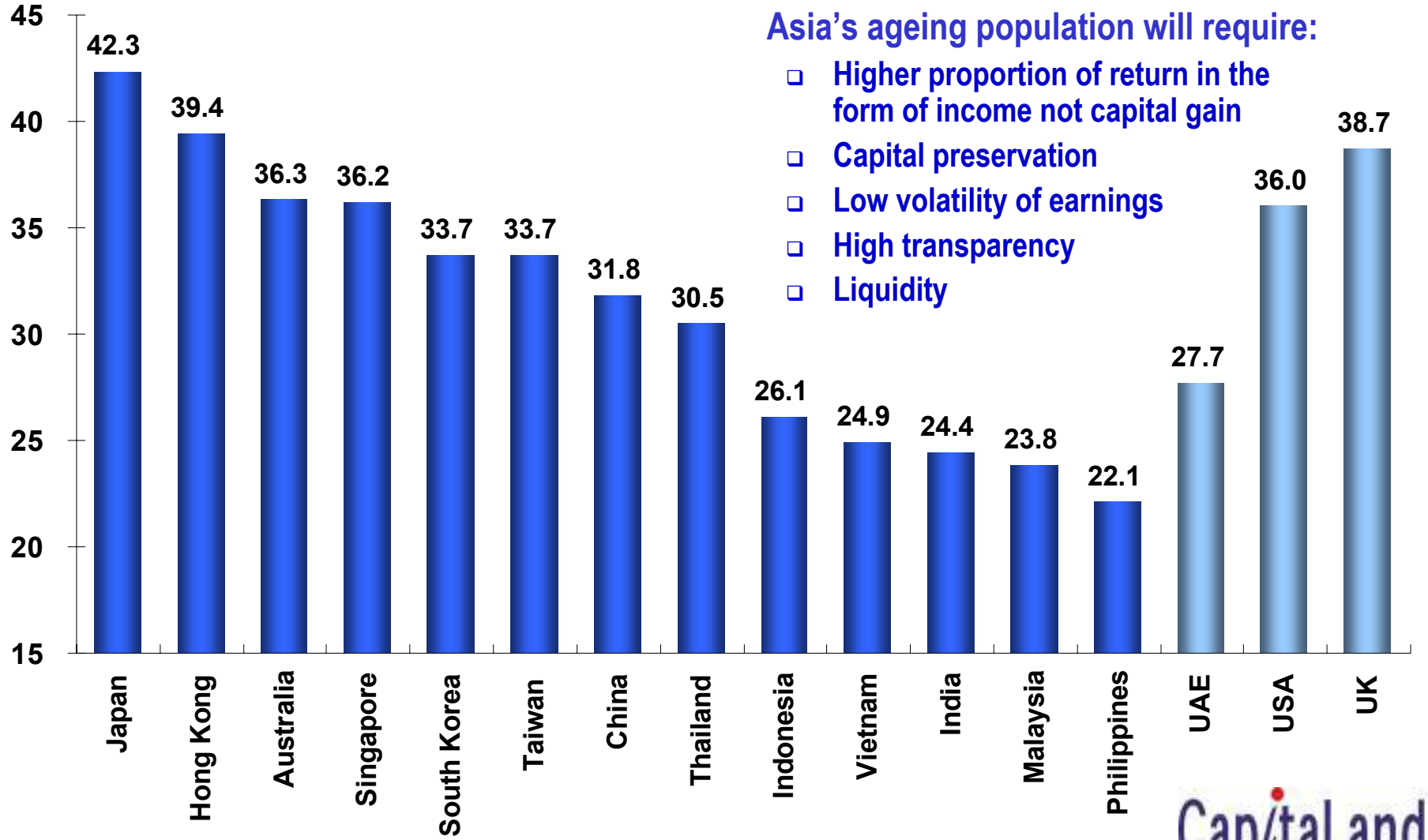
Age, Affluence and Total GDP Profile of Asia



Source: Asia Demographic & CapitaLand Research

REITs Satisfy Requirement of an Ageing Population

Asia Demographic--Median Age of Asian Economies



Asia's ageing population will require:

- Higher proportion of return in the form of income not capital gain
- Capital preservation
- Low volatility of earnings
- High transparency
- Liquidity

Median age is the age that divides a population into two numerically equal groups, i.e.half of the people are younger than this age and half are older.

Source: CIA World Factbook 2004 & CapitaLand Research

"Institutionalisation" of Real Estate in Asia

- **Asian Financial Crisis – Strategic inflection point in Asian real estate landscape**
  - Over building – collapse of demand and prices
  - Liquidity crunch
- **Consequences**
  - Shift from bank borrowings to capital market funding
  - Shift from capital gains to yield focus
  - Change in traditional model of asset heavy property developer
- **Growing depth & liquidity of public & private Real Estate Capital Market**
  - Securitisations, REITs, unrated and rated CMBS, funds, mezzanine debt, etc.

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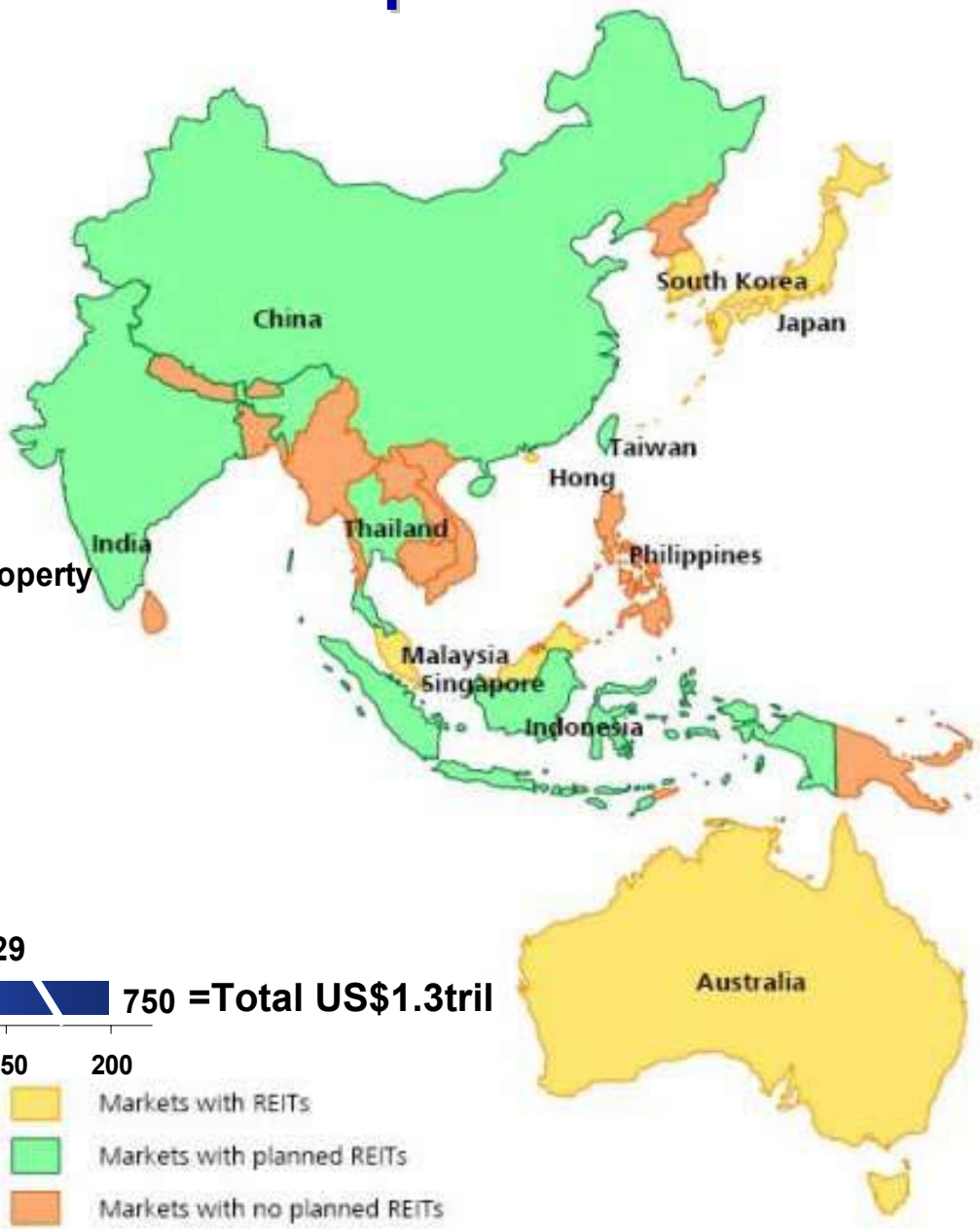
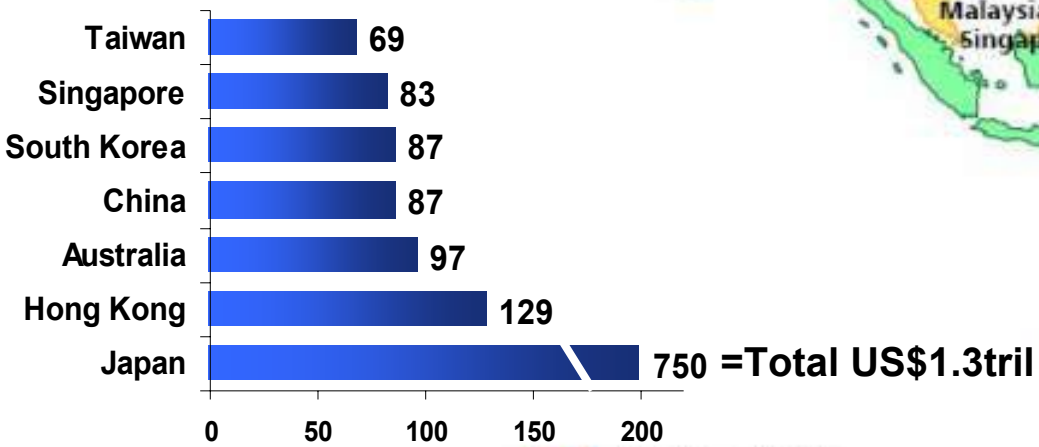
The Asia REIT Landscape



Asian Investment Grade Property (US$ bn)



Source: UBS AG & CapitaLand Research

Asia-Pacific REIT Market – Existing

Country	REIT Mkt Cap (US$ bn)	No. of REITs	% of Equity Market	Approx. % of Real Estate
Japan	13.6	14	0.8	2.5
Singapore	3.0	4	2.0	2.2
Korea	0.5	7*	0.2	1.0
Malaysia	0.1	3**	0.1	0.9
Total Asia (Ex-Australia)	**17.2**			
Australia	50.8	30	8.4	45.4
Total Asia	**68.0**			
USA	229.9	150	1.5	12.3
Total Global	**297.9**			

* Corporate Restructuring REIT
** Property Trust Funds

Source: JP Morgan & CapitaLand Research

Medium Term Outlook
- Investment Activities Expected To Strengthen

- Increasing capital into real estate from rich-old countries
- Improving transparency of real estate markets -- lower overall investment risk
- Increasing globalisation of real estate -- generate substantial capital flows into indirect property markets
- Increasing economic power of Asia-Pac -- attracting funds to Asia
- Easing regulatory barriers relating to foreign investment -- Seoul, Tokyo, Shanghai and Beijing expected to mature further, giving investors more choices
- Moving towards single ownership of assets in Asia
- Shifting paradigm from capital growth to yields

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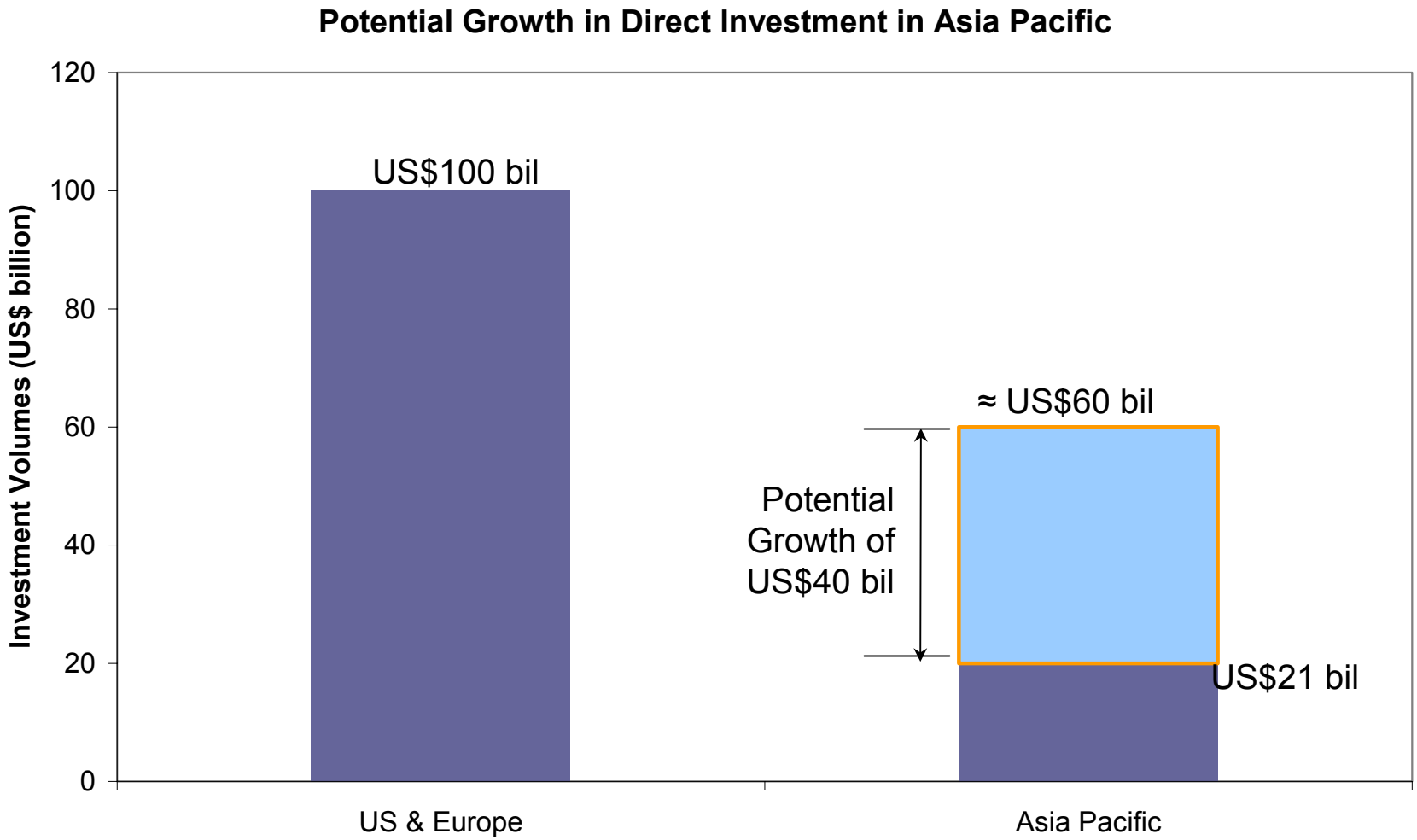
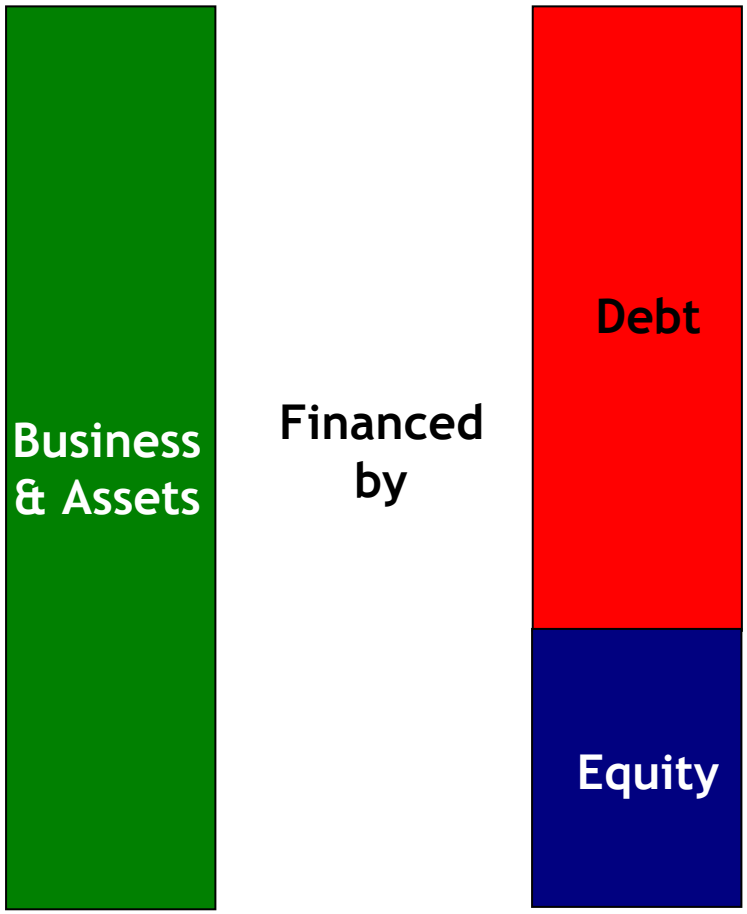
Potential Growth of Asia's Investment Universe



Source: Jones Lang LaSalle & CapitaLand Research

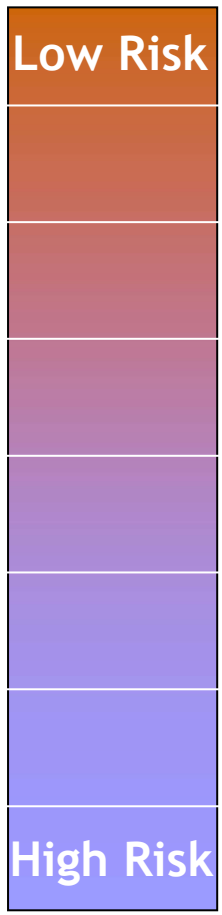
Traditional Model: One size fits all



Now: Stratification of Capital



Financed by



The appropriate return, for the desired risk.

- Senior Debt
- Subordinated Debt
- Mezzanine
- Junior
- Preference Shares
- Convertibles
- Equity

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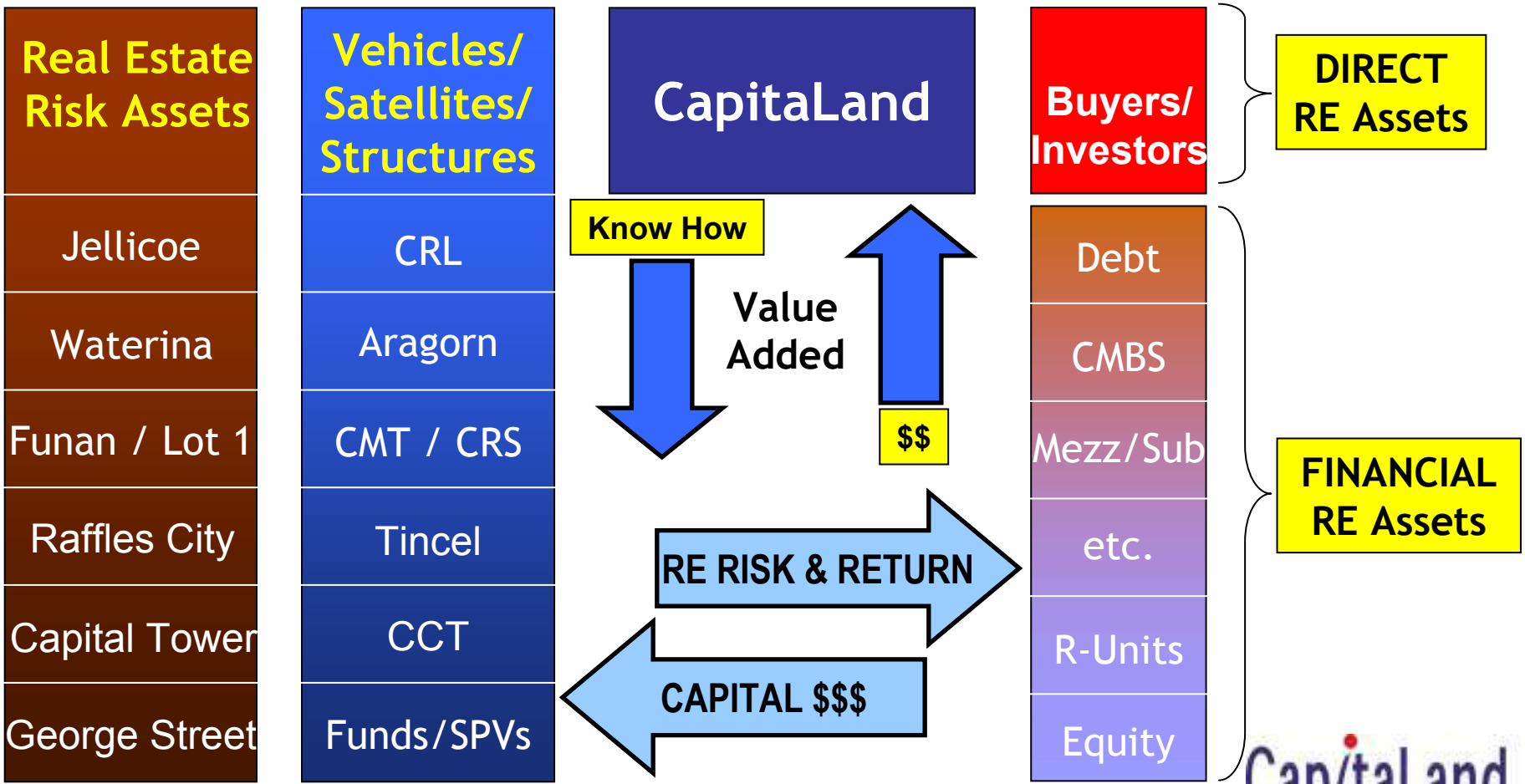
CapitaLand's Model

① Origination → ② Structuring → ③ Underwriting → ④ Distribution



CapitaLand Group Structure

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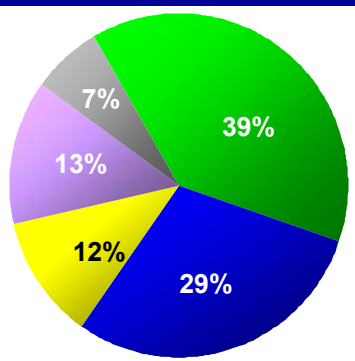
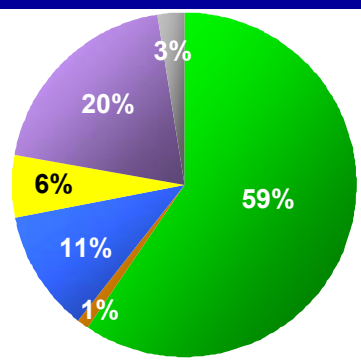
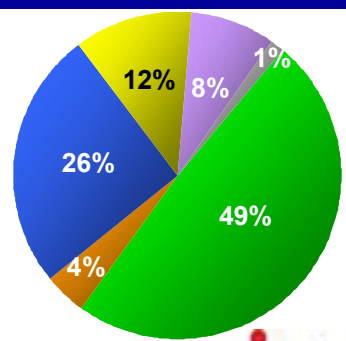
- **Real Estate**
  - **Residential** — 100% CapitaLand Residential — 55%* Australand
  - **Retail** — 100% CapitaLand Retail — 39%* CapitaMall Trust
  - **Commercial & Integrated Devt** — 100% CapitaLand Commercial — 40%* CapitaCommercial Trust
  - **Property Management** — 100% Premas International
- **Hospitality**
  - **Hotels** — 60%* Raffles Holdings
  - **Serviced Residences** — 69%* The Ascott Group
- **Financial Svcs**
  - **Financial** — 100% CapitaLand Financial

*Listed Subsidiaries

9M Sep 04 Assets: $15.7b	9M Sep 04 Revenue: $2,578m	9M Sep 04 EBIT: S$572m







Commercial | Residential | Ascott | Raffles | Premas & Others | Financial

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Developed REIT Markets

Australia

- Most developed REIT market in the Asia-Pacific region with **43** REITs listed to date worth **US$50.8 billion**

Japan

- **14** REITs listed to date – market cap of **US$260 million** in Sep 2001 is now worth **US$15.6 billion** (increase by 60 times in three years), **0.8%** of TSE market cap

Singapore

- First Asian cross-border REIT—Fortune REIT
- **4** REITs listed to date worth **US$3.0 billion** (**2%** of SGX market cap)

South Korea

- Currently **7** listed CR-REITs which have a limited life-span, market cap **US$ 267 million** at Nov 2004, less than **0.1%** of KSE market cap
- No conventional REITs exist

Malaysia

- Likely expansion of REIT market following improvement in existing REIT legislation in Budget 2005

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Nascent REIT Markets

Hong Kong

- HK REIT code issued by SFC[1] in July 2003
- HKHA[2] to divest properties via **Link** REIT[3](**US$2.5b**)—IPO scheduled end-2004

China

- Unit trust structure currently prevents REITs
- Potential list PRC REIT on either Singapore or Hong Kong stock exchanges (when allowed)

Taiwan

- Real Estate Securitization Law (RESL) issued in July 2003
- Fubon REIT announced in Aug 2004 (US$ 171 mil, office & resi properties)

India

- Finalizing framework for Real Estate Mutual Funds

Philippines

- No specific REIT legislation exists but regulators reviewing

Indonesia

- Considering setting up REITs

Thailand

- Guidelines in place for REITs/Property Fund for public offering
- Legislation allows for tax transparency for REITs

Notes:

1. SFC: The Securities and Futures Commission of Hong Kong
2. HKHA: Hong Kong Housing Authority
3. CapitaLand will invest US$180 million in the Link REIT and will be manager of the REIT

REITs & Property Funds

CapitaLand Experience



Factors driving growth of S-REIT

- CapitaLand pioneered the first REIT, CapitaMall Trust, in S'pore. Asian financial crisis & property market downturn presented opportunities
- Market pressure for consolidation and restructuring of real estate corporations to better manage their balance sheet and divest non-core assets
- Growing pool of provident fund (result of ageing population) in S'pore searching for high-yielding and relatively safe "bond-like" investments
- Low interest rate environment and dearth of attractive alternative fixed income securities favouring high-yield REITs
- Shift of return focus on yields and cashflow rather than capital appreciation.
- Yield requirement to decline along with lower perceived risk as investors gain better understanding of the product

CapitaMall Trust (CMT)

CapitaMall Trust
1st listed REIT in S'pore
Asset Size : S$2bn
NLA : 2.2mn sq ft
Assets in Singapore • Tampines Mall • Junction 8 • Funan The IT Mall • IMM Building • Plaza Singapura



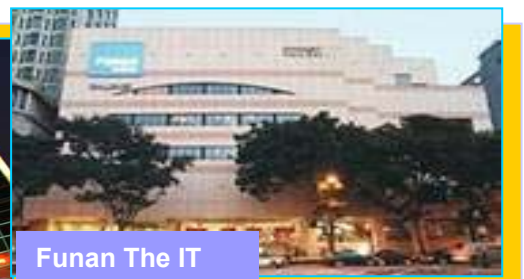
Tampines Mall



Junction 8



Plaza Singapura



Funan The IT Mall



IMM Building

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Using Structure to Overcome Regulatory Constraints

	Guideline	CMT Structural Remedy
• Management	External	Use external mgt structure to leverage yield
• Gearing	25%	Funding for capex back-stopped by sponsor
• Payout	100%	Provide 2-year distribution projection
• Tax transparency	No	Granted with provision of tax indemnity
• Growth	-	Explicit asset enhancement plan
• AUT status	No	Granted

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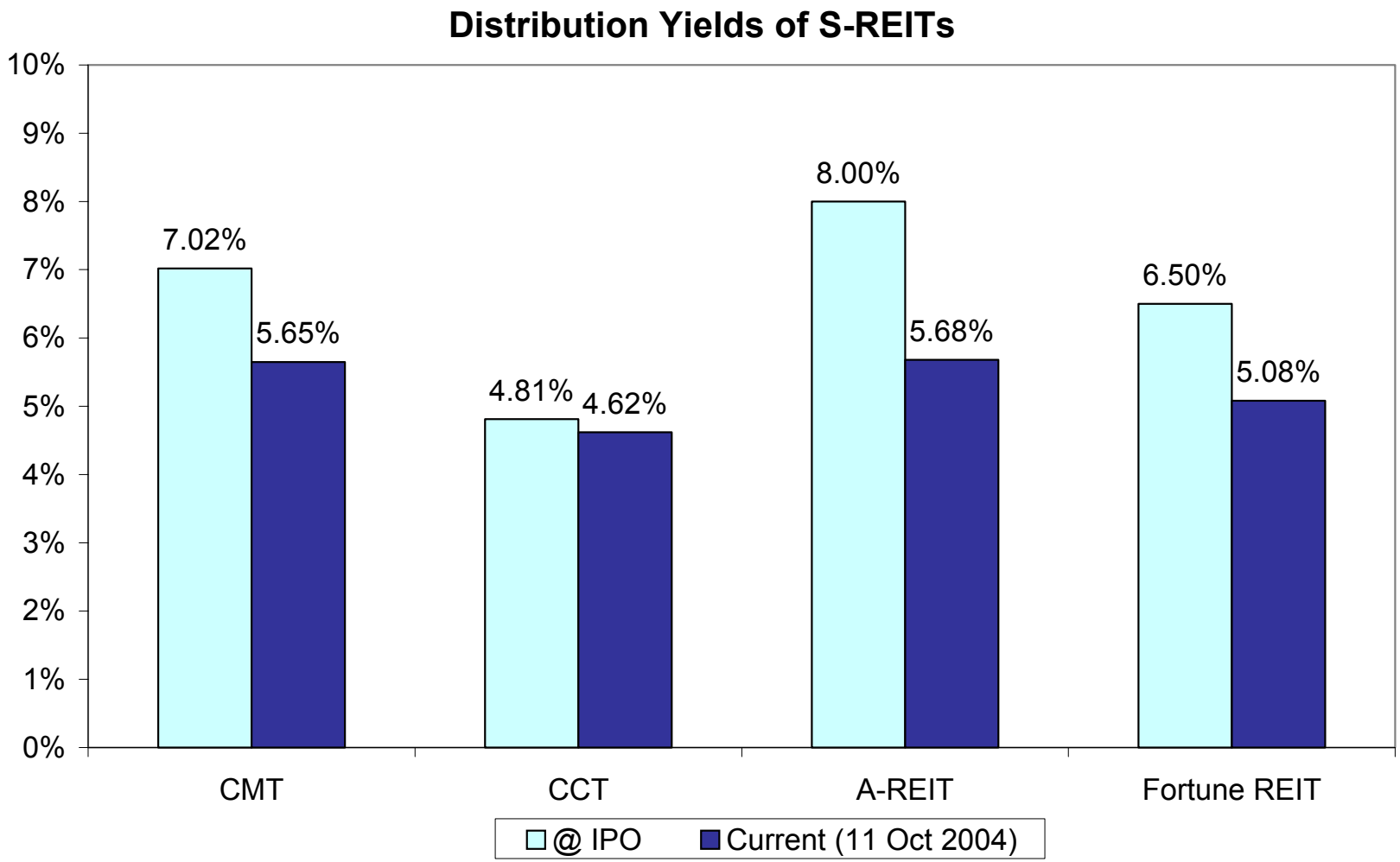
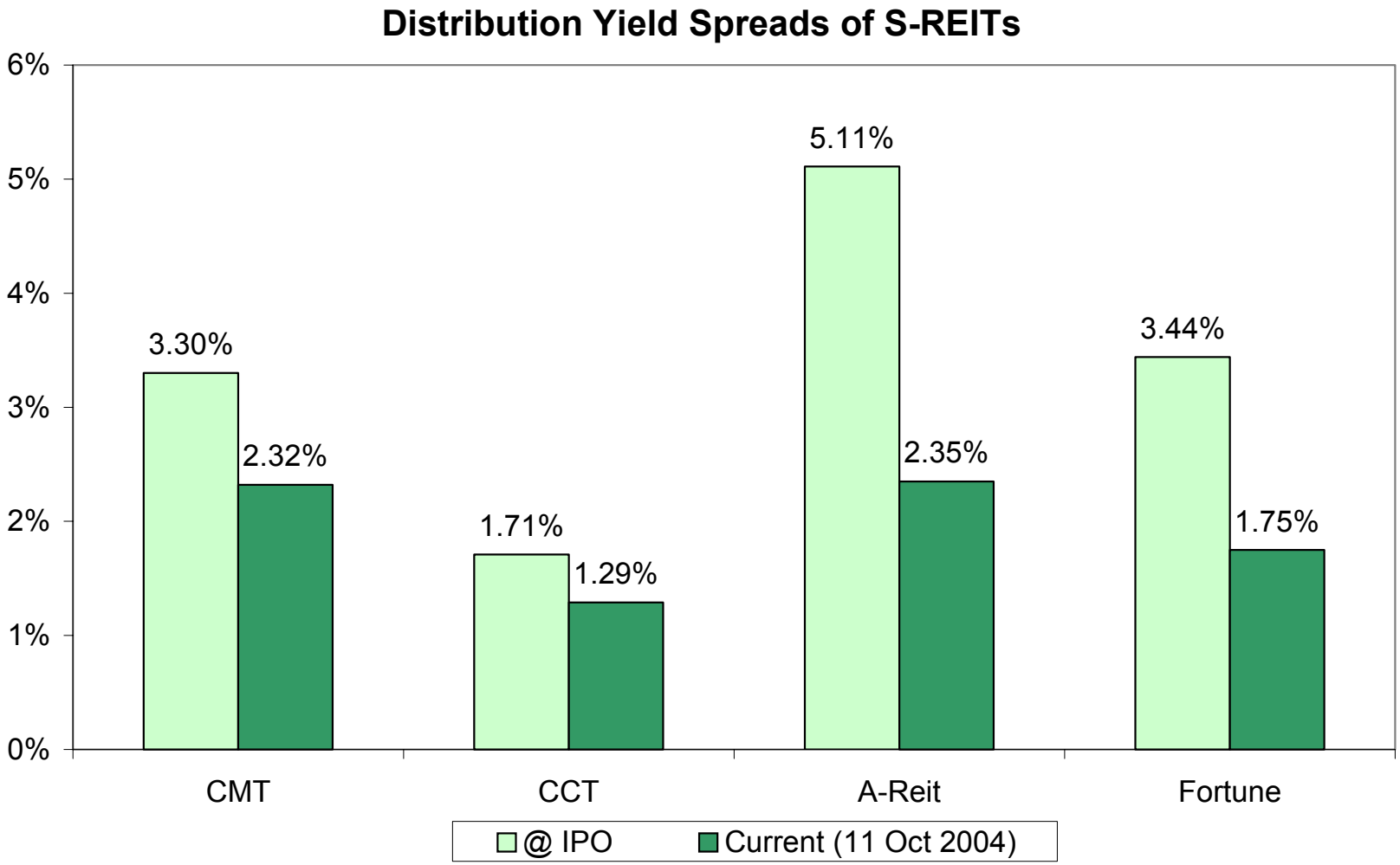
Declining Distribution Yields



Average yield compression of 130 basis points since IPO

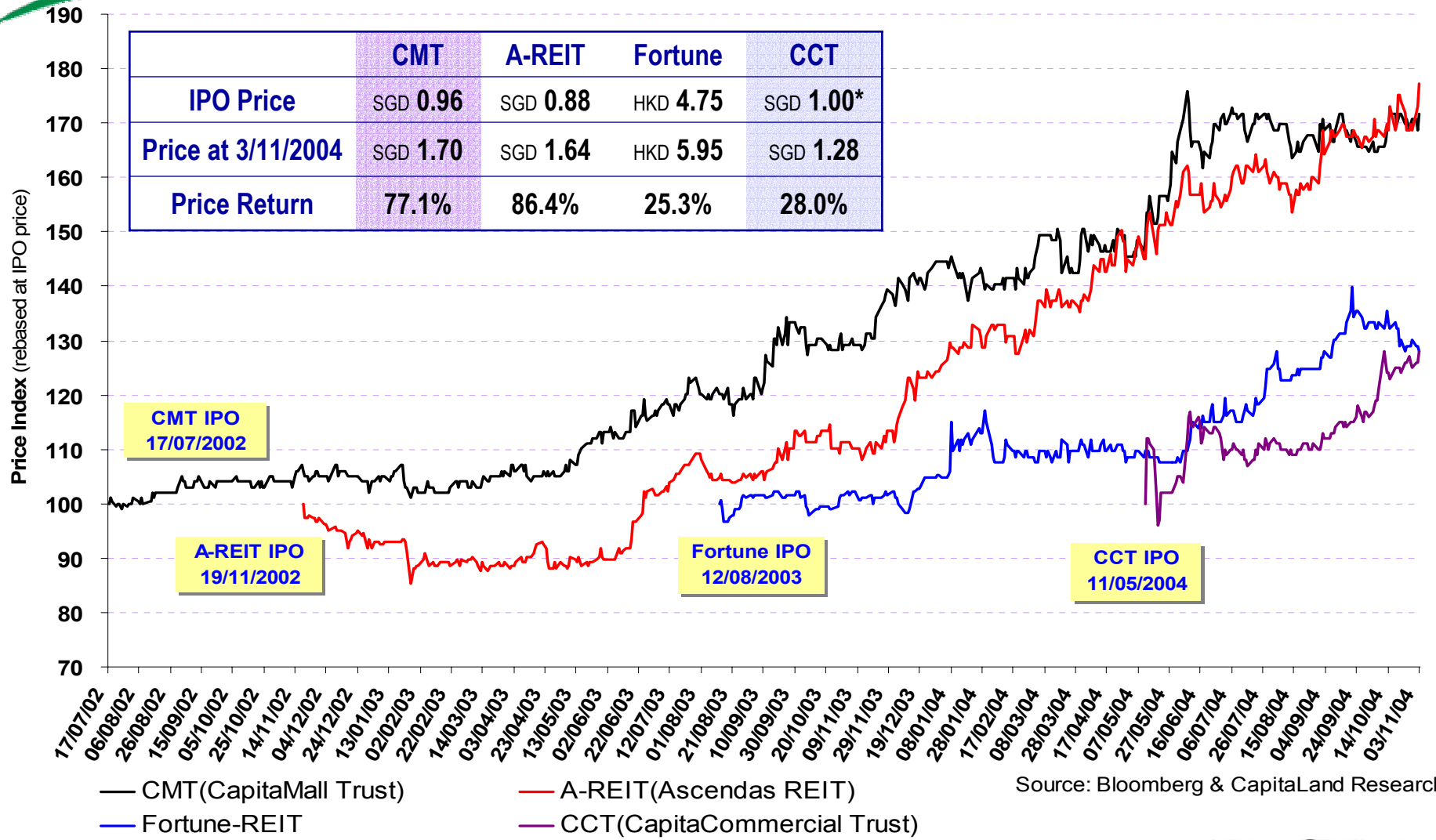
Yield Spread Compression



Spreads over 10YGB narrowed to 190 basis point

S-REITs Price Performance

	CMT	A-REIT	Fortune	CCT
IPO Price	SGD 0.96	SGD 0.88	HKD 4.75	SGD 1.00*
Price at 3/11/2004	SGD 1.70	SGD 1.64	HKD 5.95	SGD 1.28
Price Return	77.1%	86.4%	25.3%	28.0%



Source: Bloomberg & CapitaLand Research

*Units in CapitaCommercial Trust (CCT) were distributed to CapitaLand shareholders at five CAPL shares per unit instead of IPO

CapitaLand's Local Sponsored Funds

- **CapitaLand leading the game by sponsoring a series of regional property funds**
  - **CapitaLand China Residential Fund (CCRF)**
    - Private equity fund with asset size US$ 61 mil
    - Invest primarily in residential development projects in PRC, focusing on mid to high-end residential segment in Shanghai and Beijing
  - **CapitalRetail Singapore Fund (Sep 2003)**
    - Private equity fund with asset size US$ 298 mil
    - Holding Lot 1 Shoppers' Mall, Rivervale Mall and Bukit Panjang Plaza

Local Sponsored Funds

- **CapitaRetail Japan Fund (Dec 2003)**
  - Private equity fund with asset size US$ 600—1,000 mil (target)
  - Investing in retail assets located in key cities in Japan
- **Eureka Office Fund (Jan 2002)**
  - Singapore's first wholesale property fund, asset size US$ 476 mil
  - A 50-50 JV with ERGO Insurance Group (Germany)
  - Comprises three office properties—Temasek Tower, Pidemco Centre (One George Street) and The Adelphi
- **The IP Property Fund Asia (IPPFA)**
  - A US$ 239 mil private opportunistic property fund (JV with ING Real Estate) focusing on Hong Kong and South East Asia Countries
  - Investing in a diversified portfolio of office, retail, residential and industrial properties

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Increase Fee Based Income

- Growing portfolio through funds and REITs

Existing Funds / REITs	Year	Fund/Asset Size
IP Fund (JV with ING Real Estate)	1998	US$239m
Eureka Office Fund (JV with Ergo)	2001	S$875m
Tincel Securitisation (Retail)	2001	US$131m
CapitaMall Trust	2002	S$2,100m
CapitaLand China Residential Fund	2003	US$61m
CapitaRetail Japan Fund	2003	US$600-1,000m (target)
CapitaRetail Singapore	2003	S$500m
CapitaCommercial Trust	2004	S$2,000m

AUM Rise from S$3 billion (Dec 03) to S$6 billion

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Increase Fee Based Income

- **Targeting New Investments:**
  - Singapore commercial office sector
  - Retail funds
  - Direct investment opportunities
  - Country funds, eg. S'pore, Thailand, China, HK and UK
- **Grow existing funds/REITs:**
  - Target one acquisition per year

Target Growth in AUM to S$13 billion

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Property Funds in Singapore

- Retail sector, especially suburban retail malls, still the crown jewel
- Potential buying opportunities amid financial institution's effort to divest non-core assets
- Competition among property funds for limited local property investment opportunities
- Foothold of a number of regional property funds

Overview of Property Funds in Asia



Overview of Property Funds in China

- Residential projects in gateway cities being main focus
- JV with strong local players essential for success
- Most funds are still "opportunistic" in nature
- Increasingly active amid credit tightening
- Disposal of NPLs by SOEs offering new opportunities
- Domestic developers eager to explore new channels of financing amid credit tightening since Aug 2003, property funds is one alternative being considered and actively discussed

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…and this Prompts CBRC to Issue *Property Trust Rules*

- **CBRC** (China Banking Regulatory Commission) issued the draft of ***Property Trust Rules*** on **Oct 18th 2004**
- **Purpose of the rules:** Protect the rights of trust investors and promote the stable development of the property trust industry*
- **Salient Features:**
  - Only invest in **China domestic real estate sector**
  - **Not a listing structure** like REIT—private equity in nature
  - The limit of 200 maximum contract is lifted**
  - Minimum amount of each trust contract:
    - **RMB 1 mil** for **individual** investors
    - **RMB 5 mil** for **institutional** investors
  - The missing part:
    - **NO Tax Transparency**
    - **NO Distribution Requirement**

* There are a number of fraud and cheating cases in the promotion and selling of trust products in China in recent years, such as the DeLong case

** Subject to the approval from CBRC

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China REITs:
-- Potential and Challenges

Potential	Challenges
❑ Significant amount of untapped real estate in gateway cities for securitization	❑ Inadequate regulatory framework for REITs
❑ Huge potential demand for REITs product (bank deposit, insurance and pension funds)	❑ High corporate tax (33%) caps distribution yield
❑ Credit tightening—developers explore new financing channels offering entry opportunity	❑ Foreign exchange control—barriers to cross-border REITs
❑ Retail property – the best REITable sector	❑ Local investors lack of long-term investment mindset
	❑ Lack of transparency in local property market

CapitaLand's China REITs Strategy:

- Structure private fund with retail properties with a view to eventually list in China as a public REIT

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Property Funds in Malaysia

- **Limited activities by international property funds so far despite favourable regulatory framework in place, strong demand from institution investors and sound fundamentals**
- **GIC RE's JB City Square Purchase**
  - May 2004, GIC Real Estate acquired 70% stake (valued at US$ 270 mil) in Johor Bahru City Square
  - A mixed development of retail and residential project
- **Potential Players**
  - CapitaLand
  - Khazanah (1.3 bil ringgit property portfolio)
  - Maybank
  - PNB (Permodalan Nasional Berhad)
  - UDA (Developer, 3 bil ringgit property portfolio)

Improved Outlook – M'sia Poised For Revitalization

- **Favorable Economic & Political Outlook**
  - Bullish property market and availability of good assets
  - Potential for currency gains
- **Catching up with Singapore**
  - Singapore has already launched 4 REITs and are doing very well
  - Pressure of property owners to monetise assets
- **Revised Regulatory Framework**
  - Nov. 2002, Revised **gearing** to 30% (from 10% of NAV)
  - Sep. 2003, **Real property gains tax** and **stamp duty** waived in Budget 2004
  - Sep. 2004, **Tax Transparency**--Tax exemption granted in Budget 2005 for income distributed to unit holders
  - Active lobbying by businesses for regulators to further relax and implement REIT-friendly regulations

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Potential Malaysia REITs Players

- **PNB (Permodalan Nasional Berhad)**
  - Ringgit 5.4 bil (S$ 2.3 bil) property portfolio
  - Office, serviced residence, industrial, mixed development
- **YTL Corporate Bhd** (Malaysia's leading integrated infrastructure conglomerates)
  - Planning a diversified REIT (retail & hospitality)
  - Ringgit 1.5 bil (S$664 mil) in assets, property yield 7-8%
- **UDA (developer)**
  - Ringgit 3 bil (S$ 1.3 bil) property portfolio
- **EPF (Employees Provident Fund) & KWAP (Pension Trust Fund) – Investors**
- **Institutions—Insurance Companies**
- **Increasing interest from foreign fund managers**
  - GRA (now Pricoa Real Estate Investor Asia, established by Prudential USA)
  - Mapletree Investment (Singapore)
  - American fund managers on logistic REIT
- **2005 Budget brings more foreign fund managers…**

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Malaysia REITs:
-- Potential and Challenges

Potential	Challenges
❑ Favorable REITs regulatory already in place ❑ Sound property market fundamentals ❑ Strong potential demand from institutions	❑ Competition among potential players for investment grade properties

CapitaLand's Malaysia REITs Strategy:

- Structure <u>private fund</u> to acquire <u>retail properties</u>
- <u>List in Malaysia</u> as a public REIT

Property Funds in Japan—Hotting Up

- 13-year long economic slump--buying opportunities, especially in Tokyo
- Foreign funds are dominant players, spearheaded by US investment bankers
- Lack of local competition, but hotting up recently
- J-REITs as exit strategy
- Hotting up in 2004--pending asset impairment accounting standards in 2005
- The pie is big enough
  --July 2004, Ministry of Land estimates
  - Securitized real estate backing equity and debt is worth up to JPY 12,000 bil (US$ 110 bil),
  - J-REIT market worth JPY 1,300 bil (US$ 12 bil)

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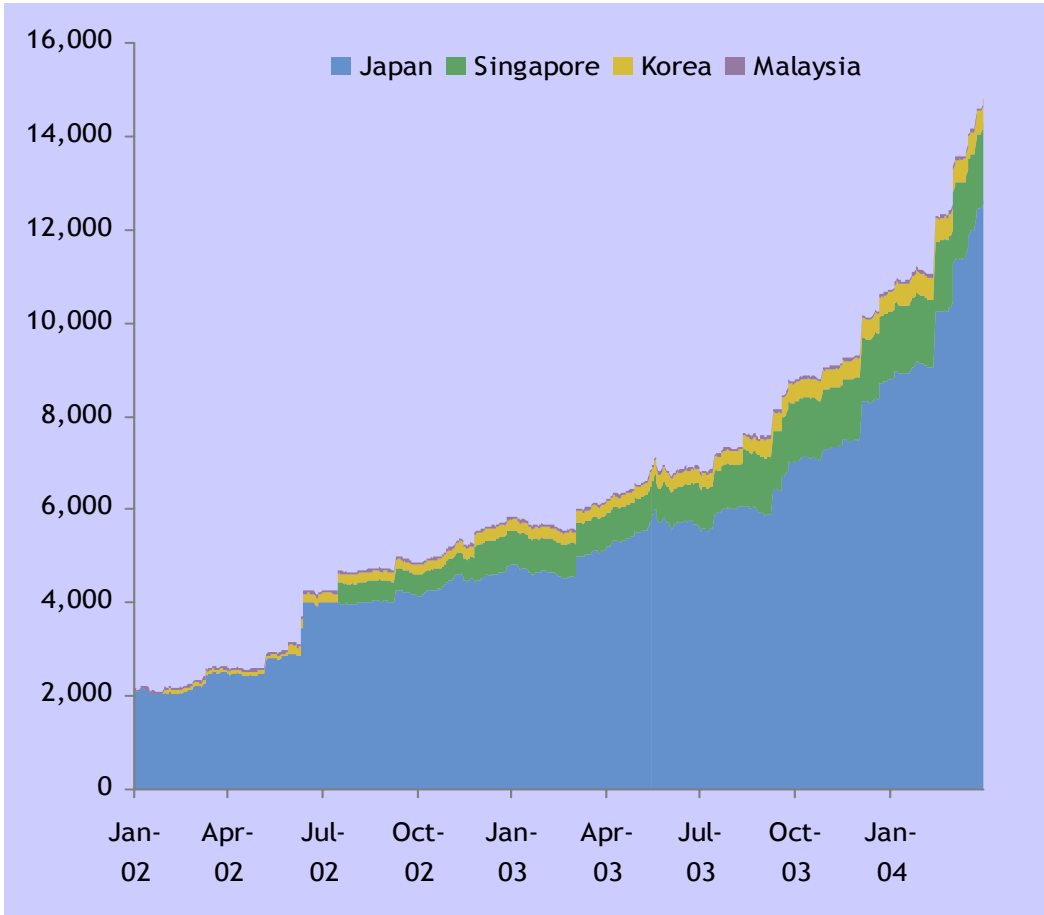
Asian REITs now represent nearly US$16bn in market capitalisation

Market capitalisation of Asian REITs (excluding Australia, US$mm)



Source: JP Morgan

Using Australian REIT market example in which over 45% of investment grade real estate is owned by REITs, the Asia ex. Japan REIT sector could potentially grow to hold US$250bn of Asian real estate

Thank You

