

# Real Estate Investment Trusts (REITs)

## Training for PSE Trading Participants

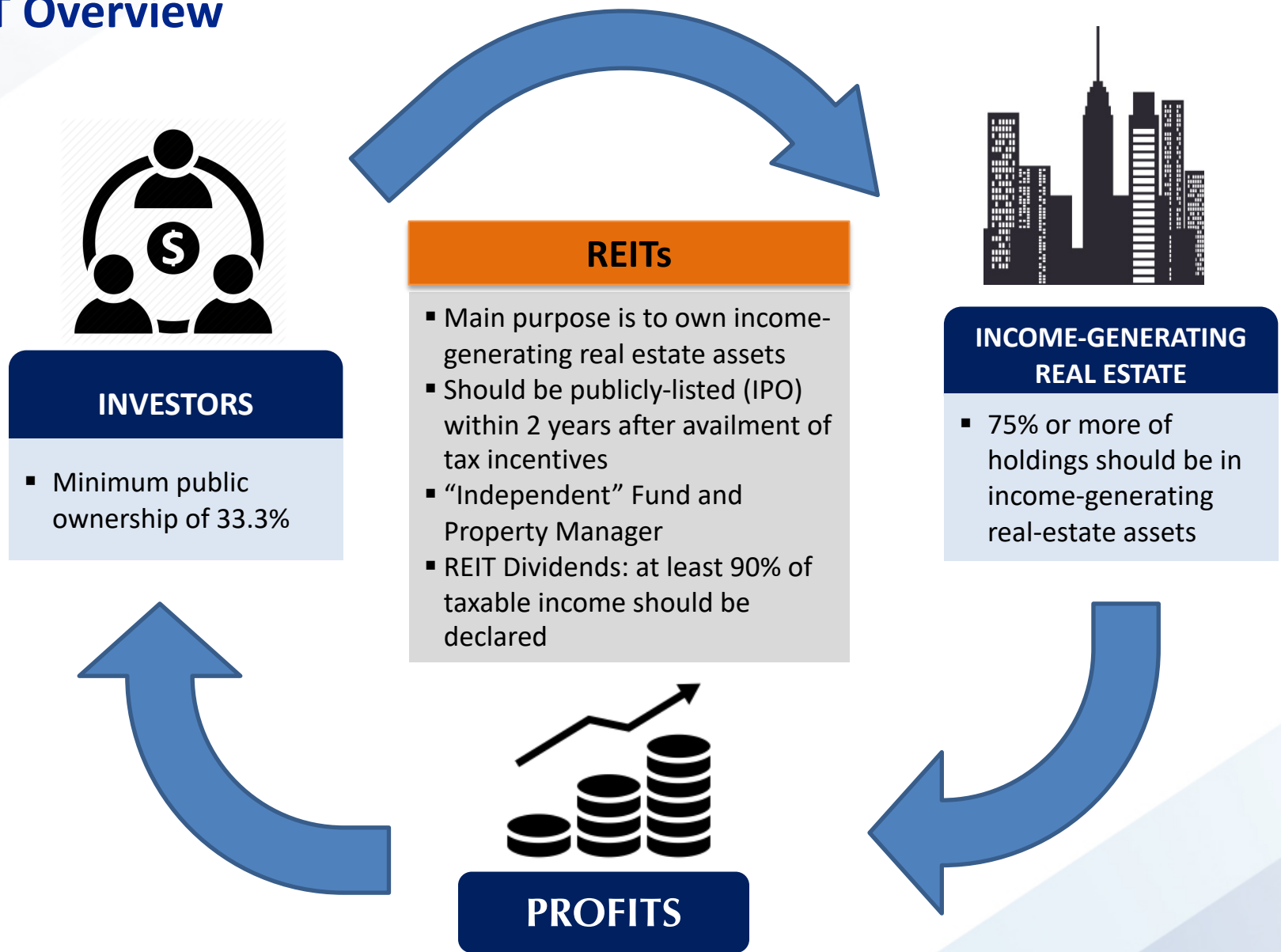
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# REIT Overview



## REIT Overview: main features and structural requirements

### REIT must be listed in the PSE

- 33.3% minimum public float
- PSE listing within 2 years of availment of incentives
- Must comply with foreign ownership limitations (40% if REIT owns land)
- Reinvestment of IPO proceeds within 1 year into real estate and/or infrastructure projects in the Philippines

### Financial requirements

- REIT must dividend annually at least 90% of distributable income
- 3-year track record either of the REIT-entity or the assets it owns (i.e. 3+ years of rental history)
- Maximum debt limit of 35% of REIT's deposited property (70% limit if REIT has an investment grade rating)

# REIT Overview: main features and structural requirements

## Appointment of independent parties

1. Fund Manager (strategy and governance implementation)
  - Implement investment strategies of the REIT and oversees/coordinates property acquisitions, leasing, operational and financial reporting
  - BSP-licensed trust entity or SEC-licensed REIT fund manager
2. Property Manager (day-to-day management of real-estate assets owned by the REIT)
  - Securing tenants, building management and maintenance, security, etc.)
3. Property Valuer
  - Annual valuation of REIT assets to be disclosed in the REIT's annual report

## Allowable investments (% of net asset value)

- At least 75% in freehold or leasehold income generating assets
  - Up to 40% in off-shore real estate income generating assets
  - Up to 10% in property development projects
- Up to 25% in cash, government securities, real-estate related assets, corporate bonds, commercial paper, etc.

## Assets that can be contributed into a REIT

Real properties (real estate or other immovable assets) that provide steady rental streams, such as:

- Retail malls, shopping centers
- Office buildings
- Residential developments, apartment buildings
- Hotels, resorts, leisure developments
- Industrial and commercial properties and immovable assets

## Types of REITs by asset types

Real properties (real estate assets or other immovable assets)

Office REITs	<ul style="list-style-type: none"><li>•Office buildings and complexes</li></ul>
Retail REITs	<ul style="list-style-type: none"><li>•Shopping areas (malls)</li></ul>
Leisure REITs	<ul style="list-style-type: none"><li>•Hotels, resorts, casinos</li></ul>
Logistic REITs	<ul style="list-style-type: none"><li>•Warehouse/storage/distribution facilities</li><li>•Airports, seaports, transit facilities</li></ul>
Healthcare REITs	<ul style="list-style-type: none"><li>•Hospitals, clinics, residences for seniors</li></ul>
Residential REITs	<ul style="list-style-type: none"><li>•Apartment buildings</li><li>•Subdivisions/villages</li></ul>
Specialty REITs	<ul style="list-style-type: none"><li>•Immovable equipment/assets (ex mobile phone towers, outdoor billboards, transmission lines, pipelines, etc.)</li></ul>
Diversified REITs	<ul style="list-style-type: none"><li>•Combination of the above</li></ul>

# Benefits of REITs

## CAPITAL MARKETS

- Broaden investor base for real estate investments
- Attract investments from new top quality institutional investors
- Attract foreign investors to Philippine real estate market
- Create more transparent real estate investment platforms
- Establish an investment fund platform in the Philippine financial market

## PROPERTY OWNERS (REIT sponsors)

- Provide alternative source of funding
- REIT allows them to monetize the assets on their balance sheet and provide alternate means of raising funds
- Allows them to revalue assets at full market value
- Effectively get capital from the public without diluting common share ownership
- Retains majority control (up to 66.7% shareholding over the REIT)
- Retains control of REIT management thru Fund and Property managers
- Benefits from up to 66.7% cash dividend distribution from REIT
- Additional cash flows from Fund & Property management fees
- Tax savings by REIT

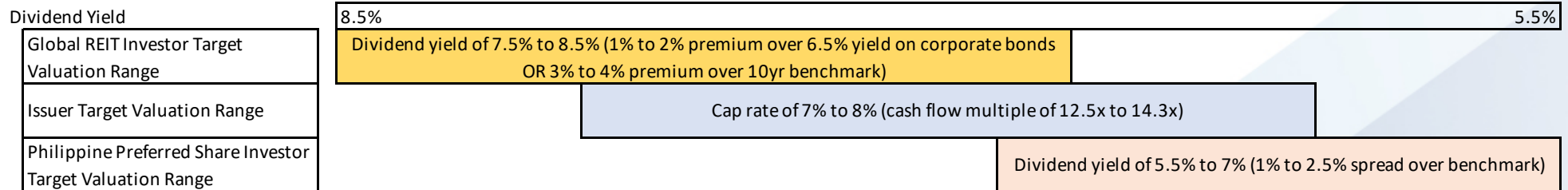
## INVESTORS

- Allow small investors to participate in traditionally prohibitive real estate investments
- Offers yield and capital appreciation potential similar to direct ownership of real estate
- Enables diversified exposure to various properties by type, geography, etc.
- Has the liquidity of an exchange-traded instrument
- Relatively stable yield; Return is higher than risk-free government bonds
- Provides portfolio diversification due to low correlation with broad market
- Typically offers protection against inflation
- Analysts are normally able to forecast results with some degree of accuracy
- Not called or redeemed at the issuer's option, but may be sold at the investor's option



## REIT: Valuation

ASEAN REITs	3% to 4% premium over 10-year government bonds 7.5% to 8.5% dividend yield (given ~4.5% 10yr BVAL)
Philippine Preferred Shares	1% to 2.5% premium over benchmark 5.5% to 7% dividend yield (given ~4.5% 10yr BVAL)
Philippine REITs	??? First REIT has yet to be book-built and brought to market



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