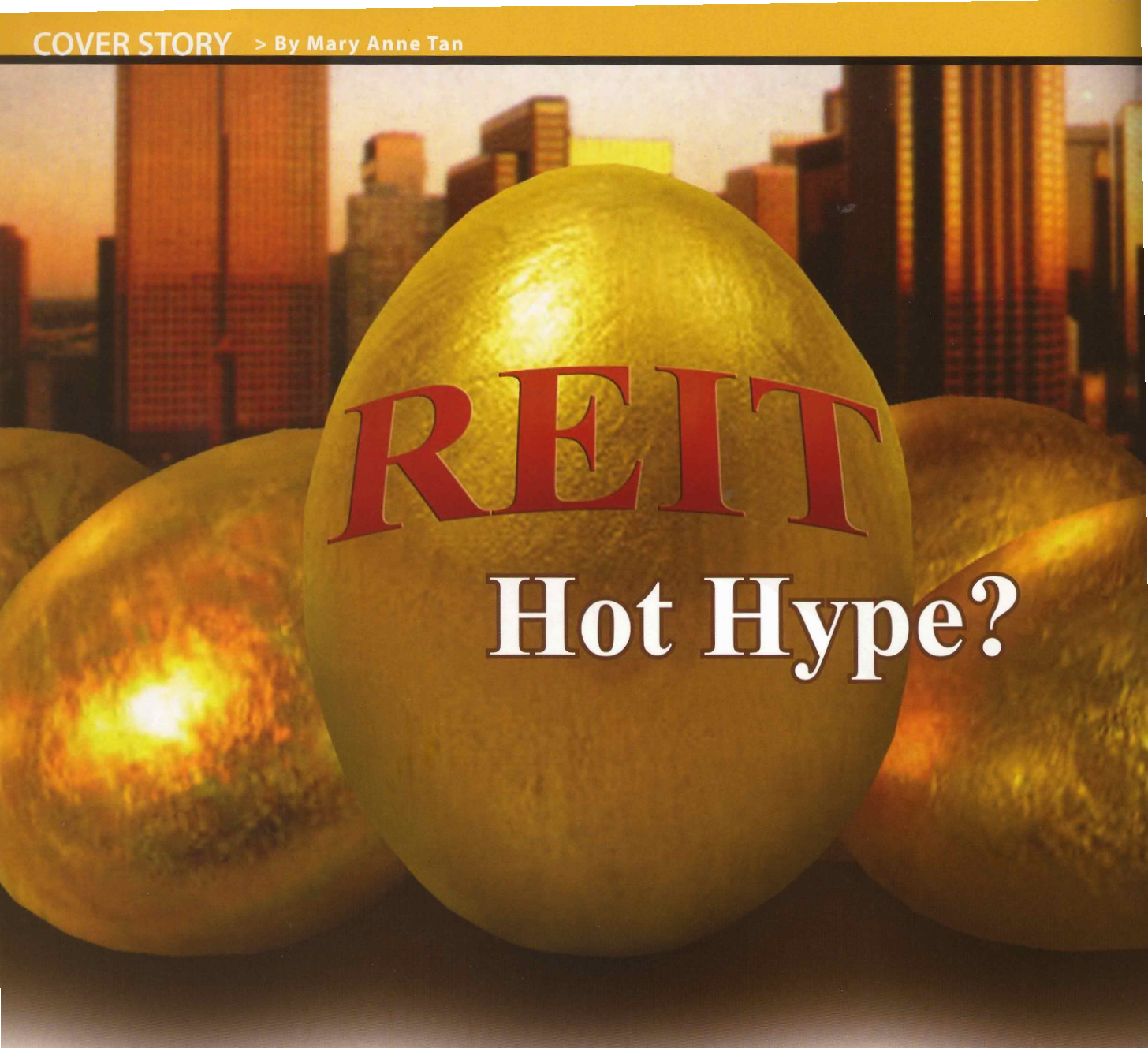




REIT Hot Hype?

The nesting instinct is strong in many of us and this is usually translated into home purchases that have fuelled the Malaysian property boom all these while. Home buying is great because while the physical assets we buy serve to house both our families and our belongings, it also doubles as a high ticket investment vehicle for many of us.

Effects from last year's property slump still jolts the nerves of most people while the dismal fixed deposit rates offered by banks is a definite turn off since it didn't beat the inflation rate. So what is one left with? Go into the stock market which is currently in a frenzied rush to the top and get badly burnt again after nearly a decade of waiting to sell out all the old shares? Never again! Okay so what's the next best investing vehicle that offers one good yields in terms of dividends and capital gains while still being a safe enough instrument for one's savings and retirement funds?

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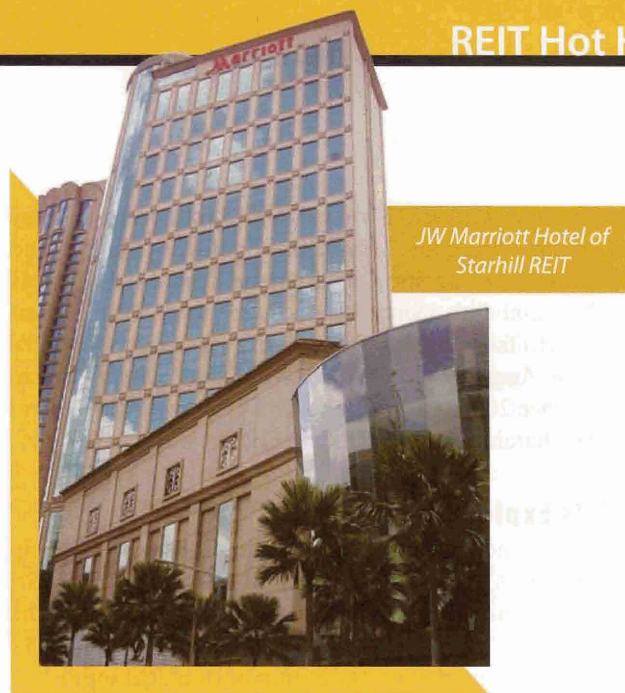
All The REIT Moves

How about Real Estate Investment Trusts or REITs? REITs have been the hot favourite of the investing crowd, many of whom were desperately looking for a relatively safe vehicle to invest in since 2005. The current bull run in the Malaysian stock market appears to have removed some of the shine from REITs but even so its juggernaut has not dissipated with more than half a dozen new REITs adding to the list since Axis-REIT was first listed on 3 August 2005.

In fact it was the Securities Commission (SC) that kick-started the Malaysian REIT (M-REIT) movement when towards the end of 2004, it decided to review the regulatory framework pertaining to its earlier guidelines for Property Trusts (first published in November 2002) in order to make the local investors more interested in REITs. The new REITs guidelines were introduced on 3 January 2005 and the salient changes included the liberalisation of borrowing limits and the lifting of certain restrictions on the purchase of leasehold properties and properties encumbered by financial charges.

Accordingly, a REIT's fund should not exceed 35% of its total asset value at the time the borrowings are incurred. All leases must be registered and all real estate must be free from encumbrances at the time of acquisition except for charges entered by financial institutions, trustees and management companies with regard to the loan facilities granted.

A press release issued by the SC stated that the revised guidelines requirements "are aimed at attracting new players and enhancing awareness amongst local industry players and property owners/developers on the



JW Marriott Hotel of
Starhill REIT

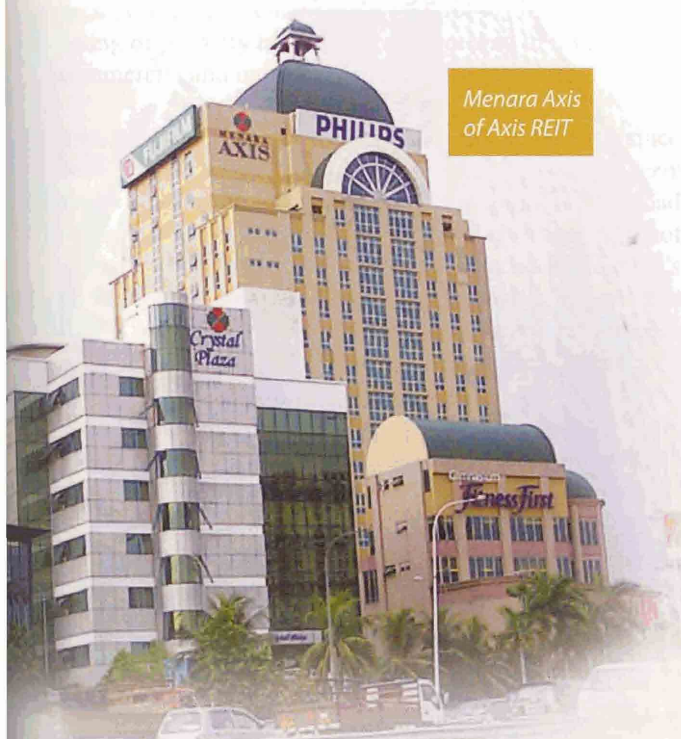
benefits of establishing a REIT. An active, vibrant and competitive REIT industry provides investors with an alternative investment opportunity and is also expected to enhance liquidity in the local property market."

First Movers

Local property players reacted to the relaxation of the guidelines positively. Axis REIT was the first to take advantage of the new guidelines by getting itself listed on Bursa Malaysia. It injected five prime investment properties for the listing which included Menara Axis, Axis Business Park, Crystal Park, Infinite Centre and Axis Plaza. These five comprise office and office/industrial properties measuring in total about a million square feet of lettable space within the vicinity of Klang Valley and boast a market value of around RM300mil.

By December 30 last year, it had added another four properties which include Kompleks Kemajuan, Kayangan Depot, Axis North Port Logistics Centre 1 in Port Klang and Wisma Bintang (Cycle & Carriage) Head Office in Petaling Jaya. These nine properties, after the year end revaluation, were worth RM408mil.

This was followed soon after by the launch of the Starhill REIT and UOA REIT in December 2005. Valued at RM1.15bil, the Starhill REIT launched by the Pintar Projek Sdn Bhd which is a subsidiary of YTL Corporation Bhd is deemed as one of Malaysia's mammoth REIT and comprises some of YTL Group's crown jewels. These included the Lot 10 Shopping Centre, the StarHill Gallery and the JW Marriott Hotel, all of which are located smack in the business centre of Kuala Lumpur. Starhill REIT plans to distribute all of its projected net profit as dividends in 2006, yielding 6.43% based on its retail offer price of 98 sen each.



Menara Axis
of Axis REIT

Meanwhile UOA REIT's assets are all freehold properties in prime locations within the golden triangle and Petaling Jaya, specifically within the Damansara Heights commercial hub. Since then, there have been several other REITs including Tower REIT in April 2006, KPJ REIT in August 2006, AmFirst REIT and Hektar REIT in December 2006, Quill Capita Trust in January 2007 and Al-Hadharah Boustead REIT in February 2007.

REITs Explosion

At the launch of the Al-Hadharah Boustead REIT in January this year, the Minister of Finance II, Tan Sri Nor Mohamed Yakcop in his speech said that "since the introduction of REITs, the SC had approved a total of 11 issues with a market capitalisation of over RM3bil."

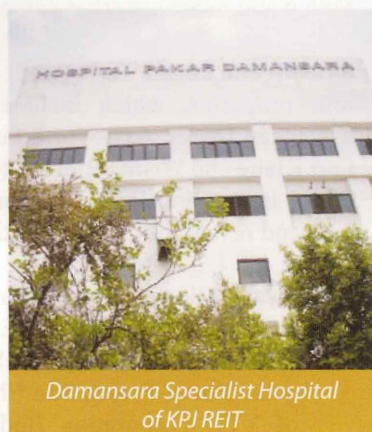
More REITs are expected to come on stream and be listed in quick succession. For instance, Sunway City Bhd is slated to float its own REIT which will include its flagship Sunway Pyramid Mall and annex and its 12-acre Monash University campus which is being built some 25km out of Kuala Lumpur, its Senior Managing Director Wong Choon Kee was quoted by Dow Jones Newswires as saying.

Analysts have predicted that Sunway City's REIT could be worth over RM2bil which will dwarf the RM1.2bil StarHill REIT. A CB Richard Ellis report states that "Mapletree, a joint venture between CIMB Bhd and Mapletree Capital Management (a subsidiary of Temasek

Holdings, Singapore), plans to develop a REIT with an initial portfolio valued at RM500mil. Meda Inc Bhd, which owns shopping centres outside Kuala Lumpur with a value of RM450mil, also has plans for a REIT.

Malaysian Resources Bhd is believed to be merging with UDA Holdings Bhd, to create a combined portfolio of RM800mil composed of shopping centres and offices but there are no details as yet. Sunrise Bhd is in the initial planning stages of establishing a REIT and Cendera Holdings Bhd is planning to set up a REIT with commercial properties in Sarawak. Finally, Tradewinds Corp Bhd (formerly Pernas International Holdings Bhd) which owns hotels and office buildings valued at RM1.76bil as well as KLCC Property Holdings Bhd with properties worth RM5.91bil, including hotels, retail and office buildings are seen as possible REIT players in future.

Meanwhile, two Islamic REITs, the health related Al-'Aqar KPJ REIT (which had a portfolio of six hospital buildings bought from KPJ Healthcare for RM461.3mil and now valued at around RM481mil) and the plantation centric Boustead REIT, are setting the pace for more variety in terms of choice for investors to park their investible funds. Landmark REIT with its prime shopping centre Sungei Wang Plaza and its Andaman and Datai resorts in Langkawi was also set for a listing but this has since been held back. So yes, the REITs are coming and their numbers are going to be staggering because even the Government Linked Companies (GLC) are getting into the REIT game.



Damansara Specialist Hospital of KPJ REIT



Subang Parade of Hektar REIT



UOA Centre of UOA REIT

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Sunway Pyramid may form one of the first assets under Sunway City's REIT

investing community than that of PTs, he said.

The listed PTs were also viewed as a non-growth stock and largely ignored by the investment community. The REITs of today on the other hand are focused on ensuring the assets injected into the REIT are of high quality, strategically located and well maintained so that it will continue to attract good tenants mix and who are willing to pay premium rentals and take longer leases, thereby ensuring a steady income stream.

"REITs are seen as a defensive stock, providing regular income with the potential for capital gains but in a bull market like now, attention is focused elsewhere".

James Wong, Managing Director of international property consulting firm VPC Alliance (Malaysia) Sdn Bhd, says PTs were hampered by certain restrictions. "For instance PTs could only invest in completed buildings, must be majority tenanted, not less than 60 years lease and unencumbered. PT borrowings could not exceed 10% of gross assets, PT

The REITs of today on the other hand are focused on ensuring the assets injected into the REIT are of high quality, strategically located and well maintained...

A Rebranding Exercise?

But hey wait a minute, isn't REIT just another fancy name for Property Trusts (PTs) and didn't we have them in a rather comatose state all the while? Yes, indeed! Malaysia with its penchant even then for garnering first mover status, became the first Asian country in 1989 to allow for the listing of property trusts as an indirect way to invest in the commercial and industrial real estate sector.

It initially had four property trusts but the number has since been whittled down to only three by 2002 (*see Property Trusts*). Unfortunately, the three remaining PTs have had a somewhat sonambulistic track record which has not endeared them to the investing public in general. So what's so different this time around and how sure are we that REITs will be the right investment vehicle and not slumber away in anonymity as PTs did once the hype is over?

Axis REIT Managers Sdn Bhd's Chief Financial Officer Lim Yoon Peng says one of the major differences between present M-REITs and the previous PTs is that the M-REITs are being actively managed by the property players themselves and not by the financial institutions as in the case of the PTs. It is for this reason M-REITs have taken off much better and gained more awareness among the

had no tax transparency and only financial institutions could be managers of PTs.

Property Trusts

Launched in 1989, Property Trusts were only allowed to be managed by banks and had restrictive guidelines. Soon after the launch the equity market entered into a long bull run and peaked in 1996 and as a result PTs were left to languish and traded well below their net asset values.

Arab Malaysian First Property Trust (AMFPT) was the first in September 1989 followed by First Malaysia Property Trust (FMPT) in November 1989, Amanah Harta Tanah PNB (AHT-PNB1) in December 1990, Amanah Harta Tanah PNB2 (AHT-PNB2) in March 1997 and lastly Mayban Property Trust Fund One in 1997. AmFirst Property Trust was restructured and rebranded as AmFirst REIT and listed on Bursa Malaysia in December 2006.

What's Changed?

Lim says that what has changed now is that in 2001/2002, Singapore launched its first REIT and that took off rapidly. Malaysia's policy makers then recognised that REITs could be a good investment vehicle and decided to dust off the country's old PT guidelines to make M-REITs as attractive as that of its regional neighbours. "The new REITs guidelines were issued on 3 January 2005 and since then have been updated through issuance of new guidance notes to keep abreast of necessary changes and developments," Lim says.

According to Wong, what made M-REITs more attractive now is that income from REITs that are distributed to unit holders are exempted from tax payments and subsequently taxed at the unit holders' individual tax rate. The REIT lending limits were also raised to 50% of the gross assets and this limit can be expanded further with approvals from the unit holders. Today's REITs are allowed to acquire properties in the process of construction as well as invest in properties abroad. The SC also allows property development and property investment company to be fund managers of REITs.

"The M-REITs' compelling attractiveness to developers is that REITs provide an opportunity for developers to dispose off their properties to reduce their loan borrowings so that they can utilise the cash to concentrate on their core businesses. By injecting into a REIT that is controlled by

the parent company rather than disposing off the property outright, the developer gets back his original investments and also has cash to spare.

"Investors in REITs will find that REITs is a new category of low risk investments with a minimum "guaranteed" yield of at least 6%, which is higher than most of the other fixed income investments such as fixed deposits placed in banks and financial institutions.

"For most REITs, 90% of their income is distributed to unit holders. Buying into REITs gives small investors an opportunity to partly own office buildings, shopping malls and hotels. For institutional investors such as EPF, Amanah Raya, they are looking at REITs as another investment vehicle providing safe but reasonable returns for their large portfolio of investments. And lastly, there are also possibilities for capital appreciation for the REITs itself," Wong elaborated.

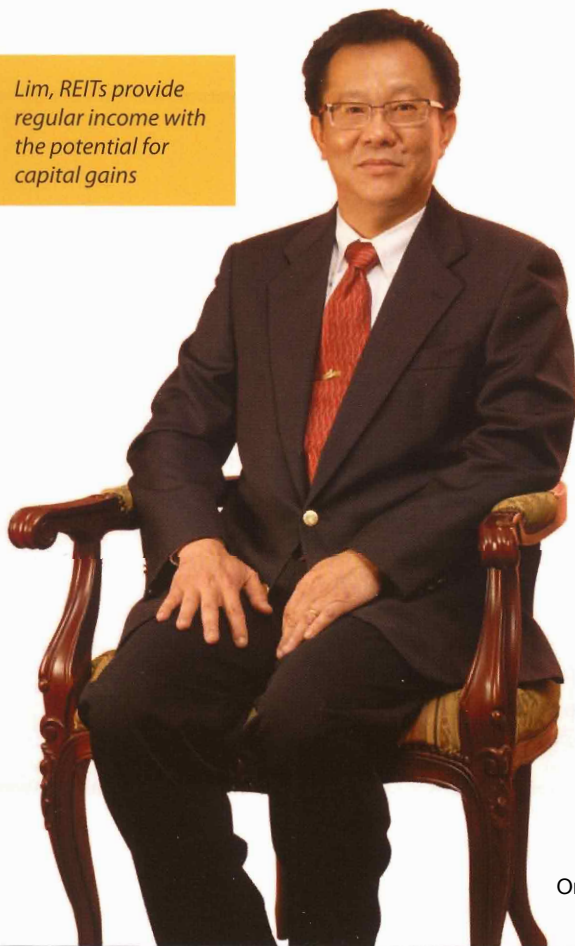
Not An Asset Dumping Exercise

When queried on whether M-REITs are just riding on the current hype and how does one know if it isn't merely an asset dumping exercise? Wong says "there are signs that certain REITs listed in Malaysia are perceived to be "asset dumping" exercises due to the high valuation of their assets upon listing. Partly for this reason, it is noted that these REITs currently did not perform well in their share price after the listing.

"However, we are of the opinion that M-REITs are not just hype and will peter off. In fact, there will be more REITs being listed, REIT companies are expanding and aiming to buy property assets overseas. The SC is expected to come out with more guidelines to make REITs a lot more attractive," he said.

What is interesting to note is that while the SC as a regulator is trying its best to make a thriving market for REITs, the tax department doesn't quite seem to subscribe to this same objective and many tax issues are actually hampering and not assisting the industry players in the least. Wong and Lim are both unanimous in saying that the new tax breaks introduced in Budget 2007 is not competitive enough (see *Tax Breaks*).

Lim, REITs provide regular income with the potential for capital gains



Tax Breaks

- 15% Withholding tax for Resident and Non-Resident Individual.
- 20% Withholding tax for Resident and Non-Resident Institutional Investor.

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"It is generally perceived that if M-REITs are going to compete with S-REITs and HK-REITs, the tax breaks are not enough. To generate greater investment interest in REITs, we recommend that full exemption on income taxes be offered and there should be no discrimination between Malaysian and foreign investors," Wong says.



Wong, recommends that full exemption on income taxes be offered and there should be no discrimination between Malaysian and foreign investors

"A minimum of 90% of the annual profit distribution should be mandatory whereas currently it is discretionary with the tax exempt incentive. The banks should be mandated to maintain low stable interest rates and REITs should be approved as low risk assets suitable for fixed income fund portfolios of unit trusts and other institutional investors," he suggested. This latter part means that investors should be allowed to withdraw their EPF funds to invest in REITs since these are seen as risk averse investments.

Lim concurs, saying that REITs will constantly evolve and the tax laws governing REIT's income distribution must be attractive in order to further boost the REIT sector. "Unfortunately, the current tax regime is not very helpful. In order to help the REIT industry to grow, the tax changes must keep pace with the regional markets in order to attract foreign investors."

The Flak On Tax

What exactly has been the impact of the tax changes as announced under Budget 2007? "In 2006, resident individuals enjoyed 'tax flow through' meaning that if a REIT distributes income of RM100 to them, they will declare this income under self assessment and pay the appropriate tax based on their existing rate or the next tax bracket, whereas all foreign investors pay a 28% withholding tax.

"From 2007 onwards all individuals (residents or foreigners) are levied a final withholding tax of 15% across the board – so this means that resident individual investors on low income and especially retirees will have to re-look at their investment strategies because now they have to pay more tax for investing in REITs unlike before," Lim points out.

tax changes must keep pace with the regional markets in order to attract foreign investors

which are tax-residents in Malaysia will not be subjected to any withholding tax, that is tax flow through, and the company declares and pays its corporate tax of 27% effective 2007.

He goes on to point out that the withholding tax issue is another contentious matter that needs to be resolved fast if the REITs sector is to remain attractive to both local and foreign investors. "At least 6 M-REITs will begin paying dividend by end of February yet there are certain niggling issues that need to be clarified.

"The policymakers have introduced a new withholding tax categorisation. All individuals, resident or non resident, who own units in REITs will have to pay a withholding tax of 15%. Companies on the other hand, incorporated whether in Malaysia or otherwise

"Other than the above, all other resident unit holders are subject to a 15% withholding tax such as local pension funds, local investment schemes or such other person approved by the Minister as well as private trusts, estates etc.

"Non-resident institutional investors and non-resident companies are subject to a final withholding tax of 20% and 27% respectively. Usually these foreign investors invest via local nominees companies and REIT managers are required to seek declaration from these nominees companies for categorisation purposes. This is a painstaking task (seeking declaration) especially when the timing of book closure for entitlement and payment is a matter of days apart," Lim says.

He adds that the Ministry of Finance needs to consult the practitioners and develop a more simplified approach to resolving this withholding tax issues.

A report issued by commercial real estate services firm CB Richard Ellis, stated that Asia's REITs markets fuelled by buoyant equity markets and robust economies, expanded briskly, with a total of 27 new REITs or property trust funds being floated during the first eleven months of last year, pushing the total market capitalisation to US\$63bil (RM221.27bil), compared to an estimated US\$38bil (RM133.46bil) at the end of 2005.

Asia in Brief

Japanese REITs market set new records in 2006 with the number of REITs topping 40 and average market prices reaching new highs in November.

Singapore REITs market was also positive, with sentiment boosted by a flurry of IPOs and an encouraging post-listing performance by recently launched REITs, as well as sustained high levels of acquisitions both within and outside Singapore.

Hong Kong and South Korea were laggards in the region, each with only one listed REIT or property trust fund coming on stream in the year to November.

Thailand's public listed property fund market grew significantly in 2006, doubling its size in terms of capital value.

Asian REITs are expected to follow their present expansionary trend this year as robust economic conditions, as well as a more benign interest rate outlook and support continued to fuel the demand for property. Trends towards sectoral diversification and cross-border listings with overseas assets have become deeply entrenched in the Asian REITs market.

Source: CB RE report on Asia REITs

Singapore

Singapore-REIT development has been significantly supported by proactive Monetary Authority of Singapore initiatives, which also enhanced the regional competitiveness of S-REITS. At end-November last year, there were 13 listed S-REITS with a total of about S\$23.43bil (RM53.65bil) worth of assets. This reflects tremendous growth since the first S-REIT, CapitaMall Trust, was listed just four years ago. Three new S-REITs, namely Frasers Centrepoint Trust (FCT), Cambridge Industrial Trust (CIT) and CDL Hospitality Trusts, a stapled group comprising a REIT and a Business Trust were listed in July 2006.

Source: CB RE report on Asia REITs

Developing A Common Front

On the home-front, Lim says with more M-REIT players coming on-stream it would be appropriate to have all REIT Managers come together to express their views on practical issues and how to further grow and develop this new industry. "In early January this year, Axis-REIT Managers Bhd called the other M-REIT managers for a networking session to discuss matters relating to the new tax changes and to consider the formation of an association for M-REITs, which was warmly received.

"We also needed to have a unified voice of our own rather than be grouped under the umbrella of the Federation of Malaysian Unit Trust Managers which operates quite differently from REITs," Lim said.

Wong agrees with him and goes further to suggest that the FIC Guidelines in relation to any property assets purchased by a REIT be abolished. "Notification to the FIC on the transaction and the parties involved should be sufficient meanwhile Bursa Malaysia should allow for the listing of foreign REITs and this may need a separate set of more liberal listing guidelines and a faster approval process," Wong adds.

Malaysia earned the distinction of being the first in the world to list an Islamic REIT with KPJ REIT

Product Diversity

Finance Minister II, Nor Mohamed Yacop said that when the first Islamic REIT (KPJ Health REIT) was listed on the Main Board of Bursa Malaysia on 10 August 2006, Malaysia earned the distinction of being the first in the world to list an Islamic REIT.

"The Al-Hadharah Boustead REIT is the second Islamic REIT to be listed on Bursa Malaysia. These achievements will further enhance Malaysia's position in the forefront of Islamic REITs market. The way forward is to further expand product diversity to meet the growing requirements of more sophisticated investors. Innovative products, such as the Al-Hadharah Boustead REIT, will also strengthen and sustain our competitive edge. At the same time, to ensure products are globally acceptable, our efforts continue to focus not only on *Syariah* compliance but also in ensuring international compatibility and acceptability through benchmarking against international best practices and standards," he said.

Tan Sri Dato' Lodin Wok Kamaruddin, the Group Managing Director of Boustead Holdings Bhd says the Boustead REIT is different from other property centric REITs because it is the first to marry a *Syariah* compliant instrument with a real estate investment trust that utilises plantation assets.

"One of the main attractions is the annual profit sharing of net incremental income based on a formula pegged to crude palm oil (CPO) and fresh fruit bunches (FFB) prices. This net incremental income is based on the actual CPO price realised for the year, above the reference price of RM1,500 per metric ton (MT) less expenses and this will be shared on a 50:50 basis between the tenants and the Fund. This profit sharing payment is the first of its kind in the REITs market and that may translate into additional dividend distributions for unit holders," Tan Sri Lodin says.

Wong chips in with his view. "As the first country to introduce Islamic REITs (I-REITs), it is very impactful as Malaysia is telling the whole Islamic world that Malaysia is promoting Islamic banking and its products in a big way to tap the billions of Islamic funds to invest in our country."

"As foreign direct investment from the traditional investing countries such as USA, Japan and EU countries are dwindling, investments from the Middle East and other Islamic countries will revive FDI in our country. Islamic REITs create an additional special market niche for Muslim investors to invest in *Syariah*-compliant investments which other REITs may not be able to tap. This can have a widespread impact for investors from the oil-rich Middle East countries to be attracted to participate in the REITs market in a big way."

"To add further depth to the REITs sector, it's been said by analysts and REIT players alike that Property Trusts such as the AHP2 and AHTP (both managed by PNB) are the only two property trust funds left on Bursa Malaysia. PNB should be well-equipped to inject some of their property assets and apply to Bursa Malaysia for a transfer to be a REIT company similar to what AmFirst REIT did," he highlights.

Protecting The REIT Investors

Lim also iterated that REITs operate in a very transparent and highly regulated environment including internally set investment strategies and operational benchmarks. "Managers of M-REITs won't simply go and buy something that won't add value to the investment portfolio or to the fund. If we want to buy a property and we're told it's worth RM100mil we have to ensure it can be supported by an independent valuation and it is yield accretive," he points out.

Managers of M-REITs, Wong says, can counter yield compression and potential lack of capital appreciation by doing what REIT managers in Singapore are doing. "Pro-actively search for properties whose values have not been fully rated by the market, identify ways to improve their existing properties for better future yields such as moving up-market, target market segments where rental rates are higher etc and expanding their property portfolio to other countries where the property market is still in the early stages of the market up-swing."

Korea

Two new REITs were launched in the May to November period, including one listed on the Korea Exchange and the other being privately offered. As of November, there were a total of 14 K-REITs of which eight were listed.

Two listed REITs reached maturity in 2006-2007 period. Kyobo Meritz 1 CR-REIT reached maturity on 20 December 2006, and KOCREF 1 will reach maturity in May 2007. Kyobo Meritz 1 CR-REIT will be the first K-REIT to be liquidated after payment of the special maturity dividend in accordance with its trust deed. Upon maturity, ownership of its residential properties will be transferred to Korean Air at K\$79bil (RM0.29bil). K\$500mil (RM1.86mil) from the disposal, as the properties were originally acquired for K\$79.5bil (RM0.3bil) in 2002. Kyobo Meritz REIT has performed slightly below investors' expectations given its limited price appreciation against the backdrop of Seoul's housing boom, despite its average yield of 8-9%.

KOCREF 1, which is due for dissolution in May 2007, has outperformed all K-REITs during the period under review. Its share price rose more than 20% on better-than-expected dividend payments. The valuation of KOCREF 1's Hanwha Janggyo Building was buoyed by the restoration of the Cheonggye River fronting the property (completed in June 2005), and a large capital gain is expected when the building is sold upon liquidation.

Source: CB RE report on Asia REITs

Malaysian REITs

REITs	Launch Date	Properties	Listing Price (RM)	Launch Values (RM)
Axis REIT	August-05	Menara Axis Axis Business Park Crystal Park Infinite Centre Axis Plaza Kompleks Kemajuan Kayangan Depot Axis North Port Logistics Centre 1 Port Klang Wisma Bintang (Cycle & Carriage) Head Office Petaling Jaya	1.25	708mil
Starhill REIT	December-05	Lot 10 Shopping Centre StarHill Gallery JW Marriott Hotel	0.96	1.15bil
UOA REIT	December-05	UOA Centre UOA II UOA Damansara	1.15	310.5mil
Tower REIT	April-06	Menara HLA HP Towers	1.07	390mil
Al-'Aqar KPJ REIT	August-06	Ampang Putri Specialist Hospital Damansara Specialist Hospital Johor Specialist Hospital Ipoh Specialist Hospital Puteri Specialist Hospital Selangor Medical Centre	0.95	481mil
AmFirst REIT	December-06	Bangunan AmBank Group Menara AmBank Menara Merai AmBank Group Leadership Centre Kelana Brem Towers	1.00	575mil
Hektar REIT	December-06	Subang Parade Mahkota Parade	1.05	523mil
Quill Capita Trust	January-07	Quill Building 1 DHL 1 Quill Building 2 HSBC Quill Building 3 BMW Quill Building 4 DHL 2	0.84	280mil
Al-Hadharah Boustead REIT	February-07	Telok Sengat Estate Telok Sengat Palm Oil Mill Lepan Kabu Palm Oil Mill Chamek Estate Bekoh Estate Malaya Estate Kulai Young Estate Bukit Mertajam Estate Batu Pekaka Estate	0.99	472mil
Amanah Raya REIT	January-07	Holiday Villa Alor Star Holiday Villa Langkawi Wisma Amanah Raya Damansara Heights Permanis Factory Bandar Baru Bangi SEGI College Wisma UEP USJ South City Plaza (Block A/B) Seri Kembangan	1.02	337mil
Atrium REIT	March-07*	Atrium Shah Alam 1 Exel Properties Atrium Shah Alam 2 TNT Logistics Atrium Puchong Danzasmal Domestic Logistics Services Atrium Rawang Unilever Foods	1.05*	154.8mil

* Scheduled

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In addition, the M-REITs can also try to avoid potential conflict of interest situations by making a clear demarcation that the REIT managers acquiring properties are independent of the property companies selling their properties to the REIT. More importantly he says, M-REITs must be allowed to be innovative, which means the regulations cannot be restrictive. "Over time, REITs should become self-regulating," he stressed.

And what about the issue of lack or slow capital gains for REITs versus the equity stocks which offer faster returns in the current bull market? All three are quick to point out that REITs is an asset class that is essentially risk averse. "As such it is more attractive to investors looking at a stable and regular income stream in the form of income distribution plus potential capital gain in the unit price."

In terms of income stream, Tan Sri Lodin says that 98% of the distributable earnings of the REITs are expected to be paid to investors for the first three financial years. "The REIT is also set to offer investors a projected dividend yield of over 7% which is better than the average dividend yield of 3% for selected plantation stocks.

"In addition, what makes the REIT unique is that the performance-based profit sharing has a yield-protected feature where investors will only share in the upside in CPO prices but not in the downside. To achieve its primary objectives and to alleviate risks that may arise, the Boustead Group will adopt a combination of strategies.

"The first is the organic growth strategy where plantation assets will be managed for maximum returns under a professional and experienced management team. This is followed by the acquisition growth strategy whereby selected plantation assets with growth potential will be acquired to provide attractive cash flows and yields. This will enable the Group to capitalise on opportunities in the Malaysian plantation sector and help to enhance value for investors. These prudent yet ambitious strategies reflect the approach taken by Boustead to mitigate risks and to achieve enhanced growth for investors, Tan Sri Lodin stressed.

Measuring The REITs Performance

When asked the metrics to measure Boustead REIT's performance, Tan Sri Lodin said that the first performance indicator that investors can look out for is the MER (management expense ratio) which is the ratio of expenses incurred in operating a REIT to the NAV (net asset value) of the REIT. MER enables the investors to compare expenses incurred by other REITs and see whether the expenses of a specific REIT is excessive.

"The average annual return is another performance indicator that shows the percentage change in a REIT's price for the period to the number of years under review. Investors will be able to compare the annualised return of the REIT with alternative investments. The third performance indicator would be the distribution yield that is essentially the ratio of the distribution paid to investors from the REIT's income to the price paid for the units of the REIT.

Taiwan

The divergence in T-REITs performance became more apparent during the period under review, with the two Fubon REITs outperforming the rest of the market. Of the three newly listed T-REITs, Trident and Kee Tai Star moved in narrow price bands, and ended the period at roughly their IPO prices while Cathay No. 2 REIT got off to a strong start.

The market showed a strong preference for REITs, backed by familiar local financial/ insurance groups, while the issue of asset quality and diversification also seemed to impact on investor confidence. In July, the Financial Supervisory Commission issued its "Principles Concerning Procedures and Standards for Review of REIT Beneficiary Certificate Offerings by Trustee Institutions and Post-Issuance Regulation" with a view to streamlining T-REIT application procedures and providing guidelines on the assessment criteria to facilitate self-reviews by interested parties. This new policy is expected to shorten the approval period to within three months, from up to four to six months at present. Amongst other things, the FSC document set out the principles used in assessing REIT applications, including valuation methods, standards of income stability and the eligibility of REIT managers. More importantly, the new regulations also establish gearing limits. T-REITs rated at twAA or above by two agencies will have a gearing limit of 50%, those rated at twA or above, 35%. Gearing limits had hitherto been self-imposed, with target ratios ranging from 25-35% for the existing REITs.

Source: CB RE report on Asia REITs

"The Al-Hadharah Boustead REIT made its debut on the Main Board of Bursa Malaysia with its units opening at RM1.10, a premium of 11% over the IPO of RM0.99. It closed at RM1.14 as at 12 February 2007. One of the key factors that will play a major impact on the performance of the Al-Hadharah Boustead REIT would be the prices of crude palm oil (CPO). However, with the healthy demand for palm oil, we expect CPO prices to hover over RM1,900 per MT which will further heighten the prospect for performance dividends which have been structured into the REIT itself. Moreover, investors will only share in the upside in CPO prices but not in the downside," he said reassuringly.

As for Axis REIT, Lim points out that at its IPO, retail investors paid RM1.25 whilst institutional investors paid RM1.38 per unit. Based on Axis REIT's income distribution of 4.7 sen per unit for 5 months ended 31 December 2005, retail IPO investors were rewarded with a yield of 9.02%, on an annualised basis, as compared to the prospectus projection of 8.02%.

"For the year ended December 2006, Axis REIT paid a total income distribution of 12.95 sen per unit and if you were an IPO investor, Axis REIT would have given you a return of 10.36% and if you sold your unit today you would have made a capital gain of 50 sen (based on a unit price of RM1.75), which certainly yield a better return than the FD rates of 3.7% offered by the banks," he declares.

REITs therefore are highly attractive investment instruments for those who want more bang for their ringgit since REIT actually straddles the investment gap between the low paying yet risk free FDs and the high paying but highly volatile equity stocks. However to make REITs more enticing to the local and foreign investors, the Malaysian policymakers should formulate the kind of rules and regulations that are fully in sync with the needs and market demands of the local and global REIT

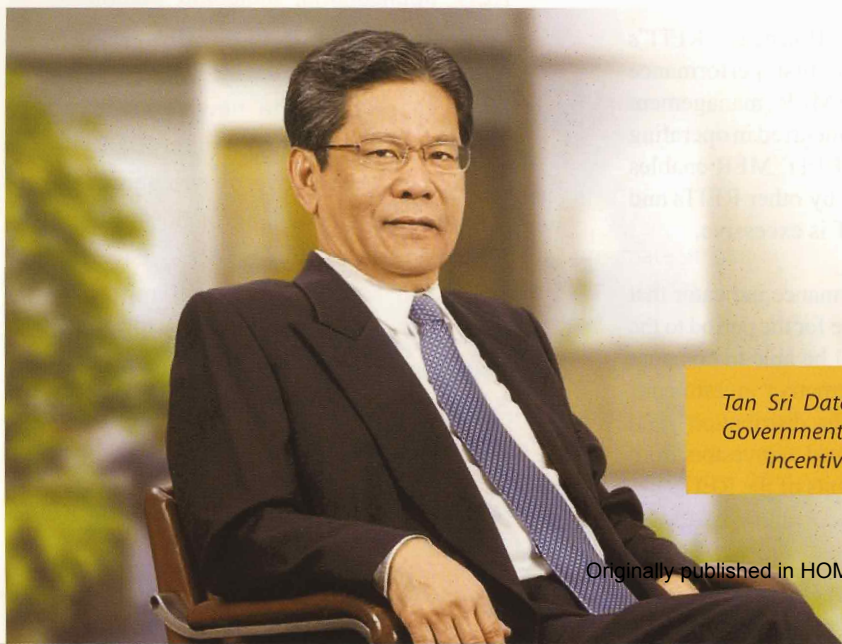
industry players and the financial practitioners.

For instance, while the tax structure encourages REITs to pay out as high a dividend as is possible, there is currently, no precise minimum dividend payout requirement outlined for M-REITs. Investors who fail to read the fine print on this will eventually be disappointed if the REIT chooses not to adhere to the tax benefit because it is not mandatory to do so.

Tan Sri Lodin says the Government has taken the first step by reducing the tax rates for institutional and retail investors which is a good move towards enhancing the attractiveness of M-REITs on a global scale. "Moving forward, we believe the Government will continue in its efforts to support the REITs market especially with the growing interest from other more developed markets within the international investing community.

"There are certain measures that can be adopted by the Government to enhance the REITs market as a whole. This would include formulating more attractive tax incentives to promote greater participation among investors. We believe the Government will provide more incentives in the upcoming Budget 2008 that will ensure the growth of a vibrant and competitive REITs market in Malaysia."

The key point to note here is that industry players' engagement is absolutely necessary. Otherwise if new rules and guidelines for REITs continue to be formulated in a vacuum or purely on the basis of ensuring there is no loss of revenues for the Tax Department, sooner rather than later, the REITs sector will lapse into perpetual hibernation the way Property Trusts did over the last 15 years. Engaging the players and the practitioners to iron out all the ground level, niggling issues as well as replicating the best policies of the stellar REIT performing nations is the "REIT" way to making M-REITs irresistible to all. The question is, are the policymakers up to the task?



Tan Sri Dato' Lodin, believes the Government will provide more incentives in Budget 2008