

AME Capital

ASIAN REIT MARKET OVERVIEW

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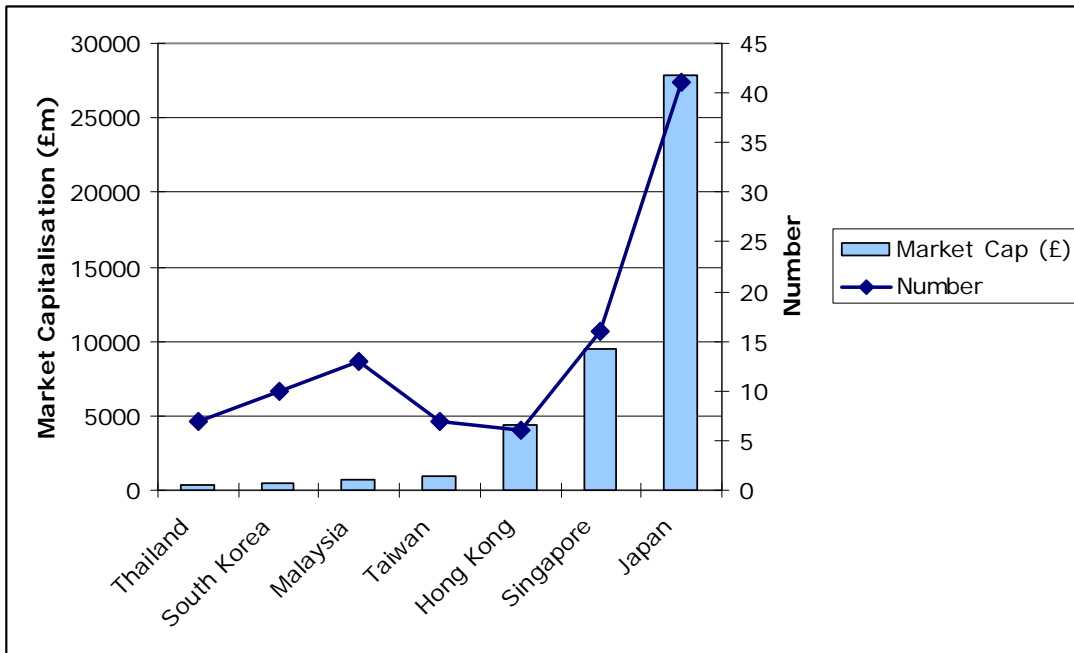
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The Asian REIT Market

Of all the global REIT markets it is the Asian market which has shown the most dramatic growth in the last two years. This article looks at this market in a global context and examines the individual characteristics of each Asian REIT market.

Size of the Asian REIT market

Chart 1: The Asian REIT market at May 2007



Source: AME Capital / Bloomberg

As can be seen the Japanese market dominates both by number and size, as defined by market capitalization, although it should be noted that the Malaysian market has a large number of small REITs, whilst the number of Hong Kong REITs is low, but sizeable in terms of market capitalization.

The Global REIT market

It is however, important to look at Asian REITs in a global context, and the table below shows how Asian REITs are placed globally. Asian REITs account for 10.6% of all Global REITs, which compares to 8% a year ago, although it should be remembered that UK REITs, which comprise c.8% of Global REITs were only introduced in January 2007.

Table 1 : The Global REIT market at May 2007

Listing Country	Number of Companies	Market cap > £1bn	Sector Mkt cap £	% of Global Listed Real Estate Equity mkt	% of Global REIT mkt	% of Local Listed Real Estate mkt
FAR EAST	100	11	44,131,085,321	4.03%	10.55%	
FAR EAST DEVELOPED	63	11	41,670,503,920	3.81%	9.96%	
Japan	41	7	27,901,152,940	2.55%	6.67%	23.87%
Singapore	16	3	9,438,870,530	0.86%	2.26%	19.85%
Hong Kong	6	1	4,330,480,451	0.40%	1.03%	2.91%
FAR EAST EMERGING	37	0	2,460,581,400	0.22%	0.59%	
Taiwan	7	0	909,904,901	0.08%	0.22%	15.09%
Malaysia	13	0	702,189,598	0.06%	0.17%	8.26%
South Korea	10	0	520,103,542	0.05%	0.12%	93.49%
Thailand	7	0	328,383,360	0.03%	0.08%	8.14%
AMERICAS	217	58	227,295,795,807	20.77%	54.32%	
AMERICAS DEVELOPED	217	58	227,295,795,807	20.77%	54.32%	
US	184	54	213,161,891,100	19.48%	50.94%	82.22%
Canada	33	4	14,133,904,707	1.29%	3.38%	38.24%
EUROPE	99	19	85,667,584,452	7.83%	20.47%	
EUROPE DEVELOPED	67	19	84,194,854,083	7.69%	20.12%	
UK	14	7	35,457,662,000	3.24%	8.47%	47.28%
France	30	7	31,058,560,977	2.84%	7.42%	69.14%
Netherlands	9	4	14,109,065,270	1.29%	3.37%	75.69%
Belgium	14	1	3,569,565,835	0.33%	0.85%	82.11%
EUROPE EMERGING	32	0	1,472,730,369	0.13%	0.35%	
Turkey	11	0	940,551,316	0.09%	0.22%	99.18%
Greece	2	0	373,431,814	0.03%	0.09%	17.22%
Bulgaria	19	0	158,747,239	0.01%	0.04%	92.33%
OCEANIA	69	13	59,934,650,941	5.48%	14.32%	
OCEANIA DEVELOPED	69	13	59,934,650,941	5.48%	14.32%	
Australia	61	13	58,385,635,580	5.34%	13.95%	84.88%
New Zealand	8	0	1,549,015,361	0.14%	0.37%	91.23%
AFRICA	5	0	1,444,061,549	0.13%	0.35%	
AFRICA EMERGING	5	0	1,444,061,549	0.13%	0.35%	
South Africa	5	0	1,444,061,549	0.13%	0.35%	26.60%
GLOBAL REIT	490	101	418,473,178,069	38.24%	100.00%	
GLOBAL DEVELOPED	416	101	413,095,804,751	37.75%	98.72%	
GLOBAL EMERGING	74	0	5,377,373,318	0.49%	1.28%	

Source: AME Capital / Bloomberg

North America still dominates the Global REIT market, but its overall percentage has declined over the last year, from 68% at the end of June 2006 to 54% at the end of May 2007. The reasons for this are fourfold:

- 1) A significant number of public to private transactions in the US reducing the aggregate market capitalization
- 2) Stronger performance from the Far Eastern markets
- 3) A higher number of IPOs from non American jurisdictions
- 4) The conversion to REIT status of the largest UK companies, which immediately accounted for c.8% of the Global REIT market

Asian REIT Market Overview – June 2007

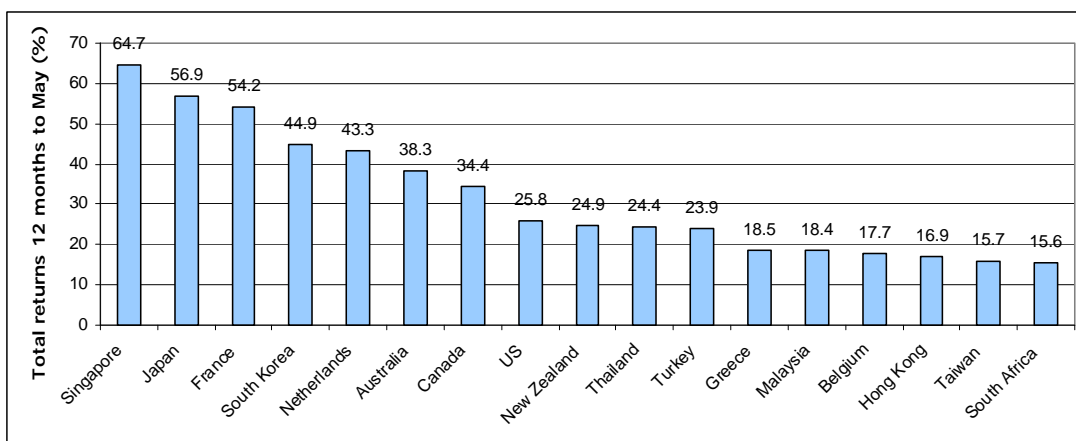
We view the global REIT market as comprising four separate segments:

- 1) Developed markets where REITs are the most common listed ownership structure for property assets. Examples include the US (where REITs account for 82% of US listed property securities) Australia, Belgium, and the Netherlands.
- 2) Developed markets where the majority of the largest companies have recently converted to REIT status, such as France and the UK.
- 3) Developed markets where REITs are not primarily conversions but new companies with assets specifically acquired for the purpose of a REIT listing, such as the Asian markets in general, and Japan and Hong Kong in particular.
- 4) Emerging markets such as Bulgaria and Turkey where REITs form the majority of the local listed real estate market.

Global REIT Performance over the last twelve months

Although the REIT structure might lend a certain degree of homogeneity to different markets, the performance of the various markets has been far from similar over the last year

Chart 2: Global REIT performance 12 months to May 2007



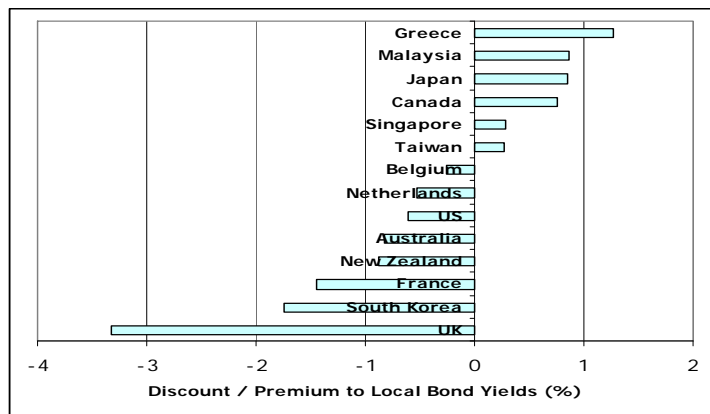
Source: AME Capital / Bloomberg

Although all the REIT markets generated positive returns in the 12 months to May, this needs to be put into the context of how global property securities markets performed overall. Our global universe produced a market capitalization weighted total return of 41.2% over the period, broken down into a return of 37.2% for the developed markets and 69.7% for emerging markets. The REIT markets of Japan, Singapore, France, South Korea and the Netherlands have therefore outperformed the total global property securities market over the period. This performance is particularly impressive as, by definition, REITs are thought to have a lower risk / return profile than PropCos due to the structural constraints of dividend distribution, and in certain cases restrictions on development activity and gearing

Valuation Metrics

Although there is a lack of consistency between global REIT markets regarding the use of net asset values and multiples of funds from operations there is one valuation metric that is universally applicable for REITs (and to a lesser extent PropCos), and that is the relationship between the dividend yield on REITs and the local 10 year bond yield.

Chart 3: Global REIT market valuations – dividend yields relative to local bond yields May 2007



Source: AME Capital / Bloomberg

As can be seen from the table above the market splits into three using this criteria:

- 1) Markets which are trading at a premium to local bond yields e.g. Japan and Canada
- 2) Markets which are trading at close to local bond yields, e.g. Belgium
- 3) Markets which trade at a clear discount e.g. France and the UK

It should be noted that these figures relate to historic dividend yields, and will therefore understate the REIT dividend yield in certain cases

ASIAN REIT Legislation

Although REIT legislation differentiates the structure from local PropCos there is significant variance between REIT legislations globally. The key points of REIT structures and the points of difference are:

- 1) The level of tax transparency at the corporate level
- 2) The required level (if any) of dividend distribution to qualify for REIT status
- 3) Whether REITs have to be listed vehicles
- 4) The maximum level of gearing allowed
- 5) The extent to which overseas assets and development activities are permitted

The table below summarises the key elements of the Asian REIT legislation

Table 2: Summary of specific Asian REIT legislation

		Hong Kong	Japan	Malaysia	Singapore	South Korea	Taiwan	Thailand
General	Stock Exchange Listing	Mandatory	Optional	Optional	Optional	Mandatory except for CR REITs	Optional	Mandatory
	Management	External	External	External	External		External or Internal	external
	Max Leverage (% of gross assets)	45%	unlimited for qualified lenders	50%	between 35% and 60%	200%	35%	none
Distribution	Operative Income minus Capital Gains	90%	90%	none explicit	90%	none for K-REITs, 90% otherwise	100%	90% of net profit
								75% rental income requirement; 75% of NAV must be invested in property
Asset Type	Real Estate Investment	100%	75%	70%- 75%	70%	70%	75%	property must be minimum 80% completed
	Development Activities	max 10%	allowed, but 50% of assets must be income producing	maximum 30%	max 10%	removing of restrictions is expected	not allowed	property must be minimum 80% completed
	Vacant Land	not allowed			not allowed			
	Overseas Investment	allowed	allowed, subject to rigid regulations	subject to approval	subject to conditions		allowed	not allowed

Source: Various

Japan

Japanese REIT legislation was effectively introduced in November 2000 as a revision of The Law Concerning Investment Trusts and Investment Corporations. All current J-REITs are passive externally advised structures, and under the current legislation it is not obligatory for J-REITs to be listed companies. Development properties can be held by J-REITs, but they cannot account for more than 50% of the portfolio. Whereas the largest property companies such as Mitsubishi and Mitsui Fudosan have other trading activities such as construction, asset management, and brokerage the J-REITs offer a pure property investment exposure to investors

Table 3: Largest Japanese REITs May 2007

Company Name	1 Year Return %	Market Cap £	Asset Type	Geographic Focus
Nippon Building Fund Inc	76.515	4,152,272,680	Office	Tokyo Central 67.2%, Greater Tokyo 19.2%, Other Japan 13.6%
Japan Real Estate Investment Corp	62.753	2,772,856,461	Office	Tokyo 82.6%, Other Japan 17.4%
Japan Retail Fund Investment Corp	38.102	1,988,517,312	Retail	Greater Tokyo 43.7%; Osaka and Nagoya 40%; Other Japan 16.3%
Nomura Real Estate Office Fund Inc	63.084	1,632,829,492	Office	Tokyo Central 61.1% ; Greater Tokyo 13.8%, Other Cities Japan 25%
Japan Prime Realty Investment Corp	53.701	1,405,514,180	Office 67.8%, Retail 32.2%	Tokyo Central 38.7%, Greater Tokyo 29.1%, Other Cities 32.2%
Orix JREIT Inc	53.851	1,094,061,780	Office 87%, Hotels 7%, Residential 2%, Retail 2%, Others 2%	Tokyo Central 3 Wards 36%, Tokyo Other Wards 38%, Tokyo Other 11%, Other 15%
Mori Trust Sogo Reit Inc	59.324	1,042,258,781	Office 64.7%, Retail 19.7%, Other 15.6%	Central Tokyo 53.3%, Other Japan 46.7%

Source: AME Capital / Bloomberg

Singapore

Singapore REIT legislation was introduced in 2002 and is widely regarded as one of the more liberal regimes. Indeed, the Singapore authorities are trying to position the Singapore exchange as the most important in the region, competing against Tokyo and Hong Kong. REIT legislation was last modified via a revision of the Property Fund Guidelines in October 2005. In March 2007 the Monetary Authority of Singapore issued a list of recommendation for further development of the REIT code including increasing the minimum requirement of investment in real estate from 35% to 75% to match closer equivalent rates in Hong Kong, as well introducing a licensing framework for REIT managers.

Table 4: Largest Singapore REITs May 2007

Company Name	1 Year Return %	Market Cap £	Asset Type	Geographic Focus
CapitaMall Trust	96.125	2,138,786,005	13 Shopping Centers	Singapore
Ascendas Real Estate Investment Trust	42.619	1,216,410,949	Business & Science Park 29% , Industrial 40.1%, Logistics 11%, Others 19.9%	Singapore
CapitaCommercial Trust	73.695	1,380,665,828	Office 83.7%, Retail 16.3%	Singapore
Suntec Real Estate Investment Trust	69.481	951,733,805	Office 97%, Retail and Leisure 3%	Singapore
Mapletree Logistics Trust	68.19	530,961,851	Non-FTZ 3PL 57%, Distribution Centre 14.4%, Industrial Warehousing 13%, Other Logistics 15.6%	Singapore 50%, Hong Kong 25%, Japan 12%, China 7%, Malaysia 6%

Source: AME Capital / Bloomberg

Hong Kong

Hong Kong REIT legislation was first established in July 2003, but did not initially meet the same level of success as other countries, partly because of a lower level of tax transparency - a Hong Kong REIT is subject to 16% property tax for property held directly. Since then a number of changes have been made to the legislation in an effort to stimulate demand including holding international assets and the ability to hold property via SPVs. There is 17.5% profits tax on profits from SPVs.

Table 5: Largest Hong Kong REITs May 2007

Company Name	1 Year Return %	Market Cap £	Asset Type	Geographic Focus
The Link REIT	20.338	2,461,234,917	Retail, Car park facilities	Hong Kong
Champion REIT	12.288	777,083,224	Office & Health Club, Office, Retail Shop, Car Parking Space	Hong Kong
GZI Real Estate Investment Trust	13.563	201,832,405	Commercial	Guangzhou, China
Prosperity REIT	-4.988	135,404,897	Grade A Office 67.5%, Industrial/Office 30.0%, Industrial Building 2.5%	Colon, North Point, Hong Kong

Source: AME Capital / Bloomberg

Taiwan

REITs came into effect in Taiwan following the Real Estate Securitization Law of 2003. This legislation was passed in response to the need to stimulate the real estate market in Taiwan and to provide another investment alternative to institutional investors as well as the general public, whose choices had been limited mostly to funds focusing on corporate bonds and shares.

To meet the REIT laws, a trust must have been established for three years and meet certain standards of credit rating. Subject to approval, REITs can invest in overseas assets, whereas investment in development is not allowed, despite efforts of interest groups to reverse this regulation when it was introduced in 2003.

Table 6: Largest Taiwanese REITs May 2007

Company Name	1 Year Return %	Market Cap £	Asset Type	Geographic Focus
Cathay No 1 REIT	4.906	224,472,770	Hotel	Taiwan
Fubon No 1 REIT	30.113	123,215,959	3 properties: Office, Residential	Taiwan
Shin Kong No.1 REIT	13.495	197,093,956	4 properties: Office	Taiwan
Fubon No 2 REIT	27.633	144,855,108	Office	Taiwan

Source: AME Capital / Bloomberg

Malaysia

A proper REIT market started in Malaysia at the beginning of 2005; since when there have been a number of revisions, including increasing the maximum gearing to 50% of total assets. Interestingly, unlike most regimes there is no explicit requirement for income distribution to investors.

Malaysia listed the first Islamic REIT in the world – Al-Afar KPJ REIT. The REIT has six hospital buildings in its portfolio. In January 2007, a second Islamic REIT was launched -- Al-Haphtarah Boustead REIT, which has eight oil palm estates in its portfolio.

Islamic REITs follow Syariah finance – assets should not include entertainment activities (hotels, cinemas, resorts etc) or manufacturing of products such as tobacco, alcohol, arms and ammunition. The most well known feature of Syariah finance is that interest rates are not charged or paid in any transaction. Under certain conditions, Islamic REITs can invest up to 20% of their funds in non- Syariah assets.

Table 7: Largest Malaysian REITs May 2007

Company Name	1 Year Return %	Market Cap £	Asset Type	Geographic Focus
Starhill Real Estate Investment Trust	16.84	180,547,303	Shopping centre 63.5%, Hotel 25.5%, Residential & Conference Centre 11%	Kuala Lumpur
Al-Hadharah Boustead REIT		72,011,008	Oil palm estates, Palm oil mills	Malaysia
Quill Capita Trust		64,593,455	Office	Cyberjaya, Malaysia
Hektar Real Estate Investment Trust		61,855,140	Shopping Centers & Lifestyle Centers	Johor, Subang Jaya & Melaka City
Axis Real Estate Investment Trust	25.741	60,618,442	Commercial	Location wise: Selangor, Petaling Jaya and Shah Alam, Malaysia

Source: AME Capital / Bloomberg

South Korea

There are three types of Korean REITs, two of which started in 2001. The so called K-REITs or General REITs are fully integrated operating companies that own, manage and develop property. K-REITs are subject to tax on both the corporate and individual income level. Corporate Restructuring REITs (CR-REITs), introduced in May 2001 by a revision of the Estate Investment Company Act, are designed for investment in real estate owned by corporate and financial institutions. CR-REITs are companies with a finite life, with external asset management; they are exempt from corporate taxation if 90% of their income is distributed; there are no limitations on share holding by individual and listing on the Korean Stock exchange is optional. The main incentive to introduce CR-REITs was restructuring of the corporate and financial institutions.

Table 8: Largest South Korean REITs May 2007

Company Name	1 Year Return %	Market Cap £	Asset Type	Geographic Focus
Korea Real Estate Investment Trust Co	43.503	134,180,503	Land, Not Specified	South Korea
Kocref Cr-Reit 3	99.808	73,785,183	Office, Retail	South Korea
MCO CR-REIT	33.789	66,268,880	Commercial	South Korea
Realty Korea CR REIT Co Ltd No 1	49.421	64,719,300	Retail, Office	Seoul, Dejon-city, Seongnam-city.
Kocref Reit 7	31.321	42,380,008	Office, Retail	South Korea
Ures-Meritz First CR-REIT	6.215	27,154,114	Office, Leisure	South Korea

Source: AME Capital / Bloomberg

Thailand

REITs in Thailand exist as Property Funds for Public Offering, and are publicly listed closed-ended mutual funds. They were established as a recovery vehicle for the 1997 financial crisis. However the Thai PFPO code is more rigid than other REIT regulations overseas. This is mainly due to the fact that Thai REITs cannot hold debt, must be distributed on "small lots first" basis, which hampers its acquisition by institutions. Other characteristics of a Thai REIT are no limitations on foreign ownership, external management by licensed managers, 75% real estate investment requirement in at least 80% developed property, 90% net income distribution. PFPOs are exempt from income and capital gains taxes. Individuals are subject to 10% withholding tax on dividends. These tax rates are applicable to dividends from non-REIT structures as well.

Table 9: Largest Thailand REITs May 2007

Company Name	1 Year Return %	Market Cap £	Asset Type	Geographic Focus
Ticon Industrial Connection Pcl	25.107	194,336,994	Industrial	Thailand
TICON Property Fund	14.916	61,840,109	Factories and Logistics Warehouses	Factories: Bangpa-In, Amata Nakorn, Laemchabang, Hi-Tech, Amata City, Rojana, Ladkrabang, Bangpoo, Bowin, Pinthong, Navanakorn, ESIE, Bangna-Trad, Laemchabang

Source: AME Capital / Bloomberg