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Managing REITs

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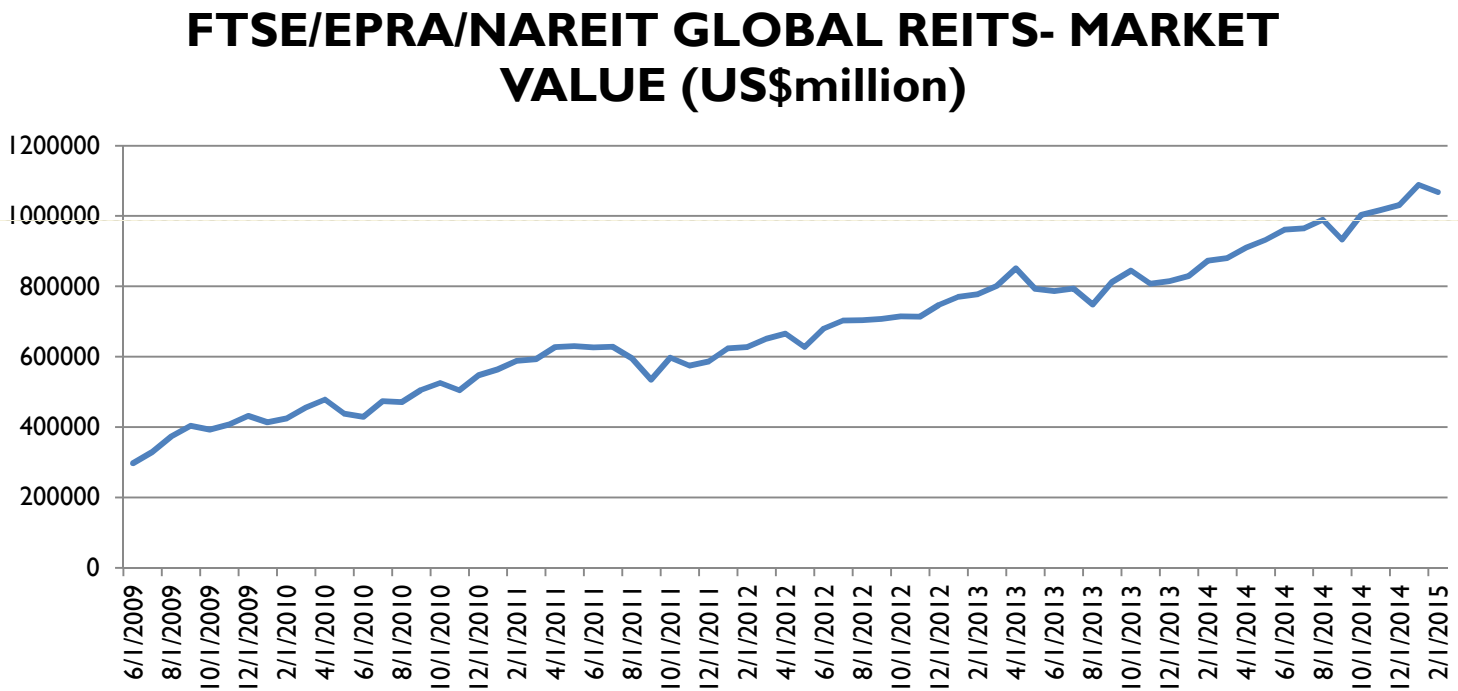
The 2nd International Research Conference

Sections

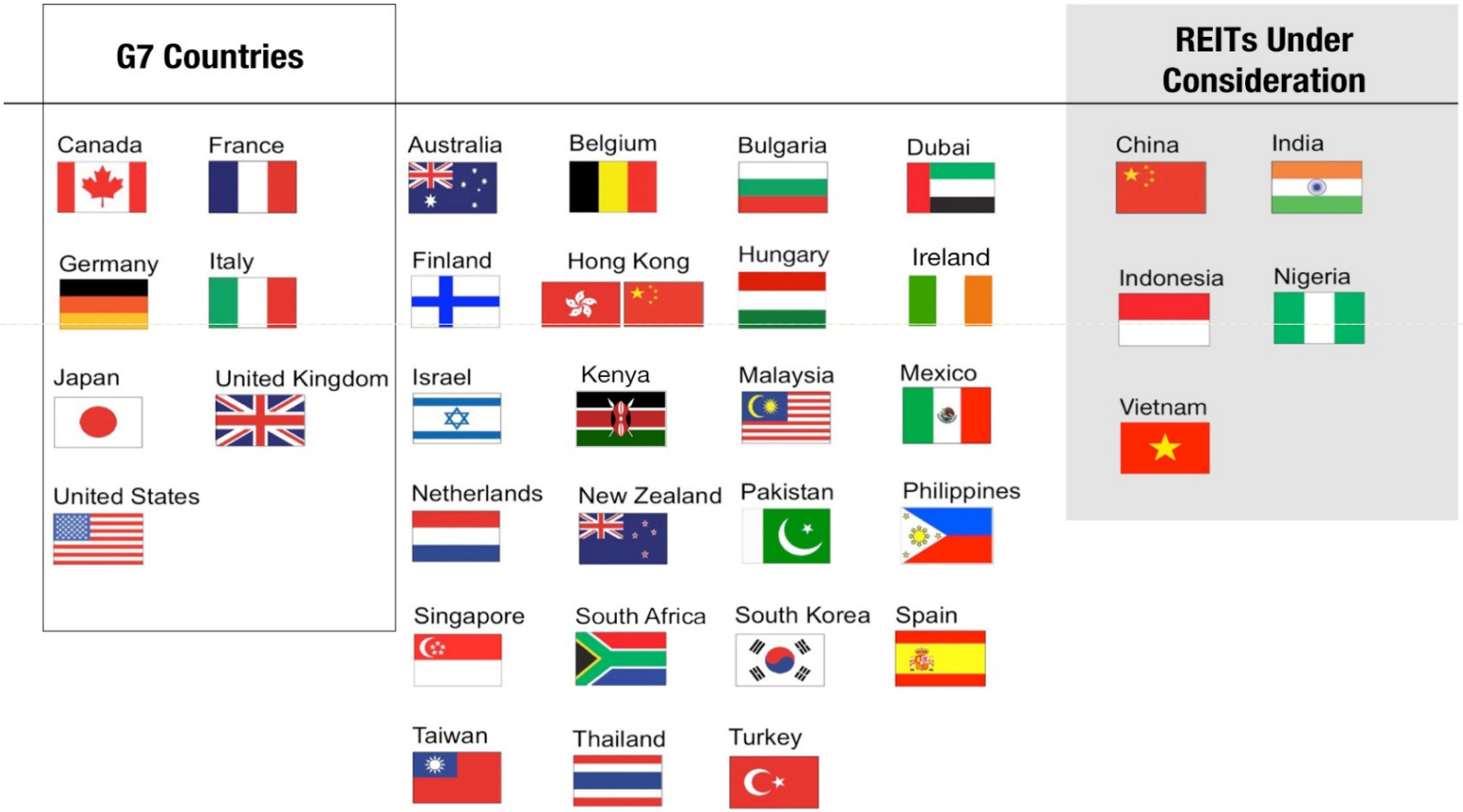
- REITs are expanding considerably
- REIT structures
- Australian REITs
- Externally Vs internally managed REITs
- Where to go from here

REITs are expanding considerably…



Source: EPRA (2015)

As of 30 June 2014…



Source: NAREIT (2014)

Significance of Asian REITs: July 2014

Market	Number of REITs	Market Capitalisation (US$)	Percentage of Asian REIT Market
Japan	45	85,403	50%
Singapore	30	48,896	30%
Hong Kong	9	23,748	14%
Malaysia	13	6,948	4%
Taiwan	6	2,542	2%
Total	103	164,537	100%

Source: APREA (2014)

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REIT Structures

	US	Australia	Japan	Singapore	Hong Kong	Malaysia
Management Structure	Either	Either	External	External	Either	External
Real Estate Investment	75%+	50% + of revenue	75% +	70%+	70%+	75%+
Overseas Investment	OK	OK	OK	OK	OK	OK
Gearing Limit	None	None	None	35%	45%	50%
Payout	90%+	100%	90%+	90%+	90%+	90%+
Tax Transparency	Yes	Yes	Yes	Yes	Yes	Yes

Source: APREA (2014), CBRE (2012) and EPRA (2015)

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Australian REITs

- The second largest REIT market with 48 A-REITs and a total market capitalization of US$121.67 billion (EPRA, 2015)
- Leading REITs:

Scentre (A$20,552million)

Westfield (A$18,753million)

Stockland (A$11,016million)

Goodman (A$9,596million)

GPT (A$7,966million)

Types of A-REITs

Types	A-REITs	Examples
Office	✓	Investa Offic… $2,468million)
Retail	✓	Scentre…
Industrial	✓	Go…
Diversified	✓	…lion)
Residential	✓	…ntial Property
Specialised	✓	…ducation (A$543million) …operty Investment …1million) …eneration Healthcare (A$280million)

Significant investor choice; sector-specific REITs and diversified REITs

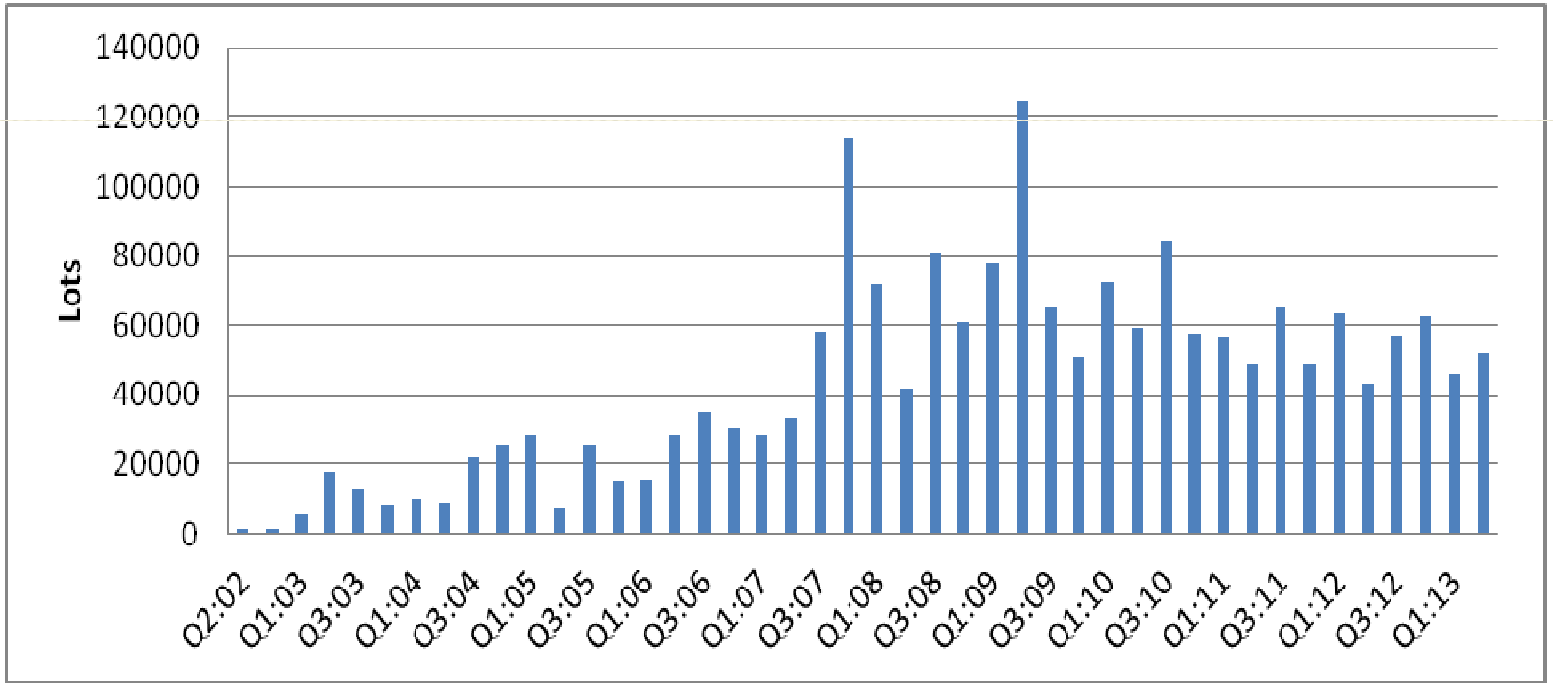
Source: UBS (2015)

A-REIT Futures

- In 2002, the ASX launched the first REITs futures in the world (S&P/ASX A-REITs Index Futures).
- It offers:
  - reduce the risk of their portfolios,
  - an alternative means of gaining exposure to the real estate security sector,
  - enhance the liquidity of listed real estate investment (Lee, 2009; Lee and Lee, 2012; Lee, Stevenson and Lee, 2014).

The increasing popularity of A-REIT futures

- This suggests the maturity of A-REIT market.



Source: ASX (2014)

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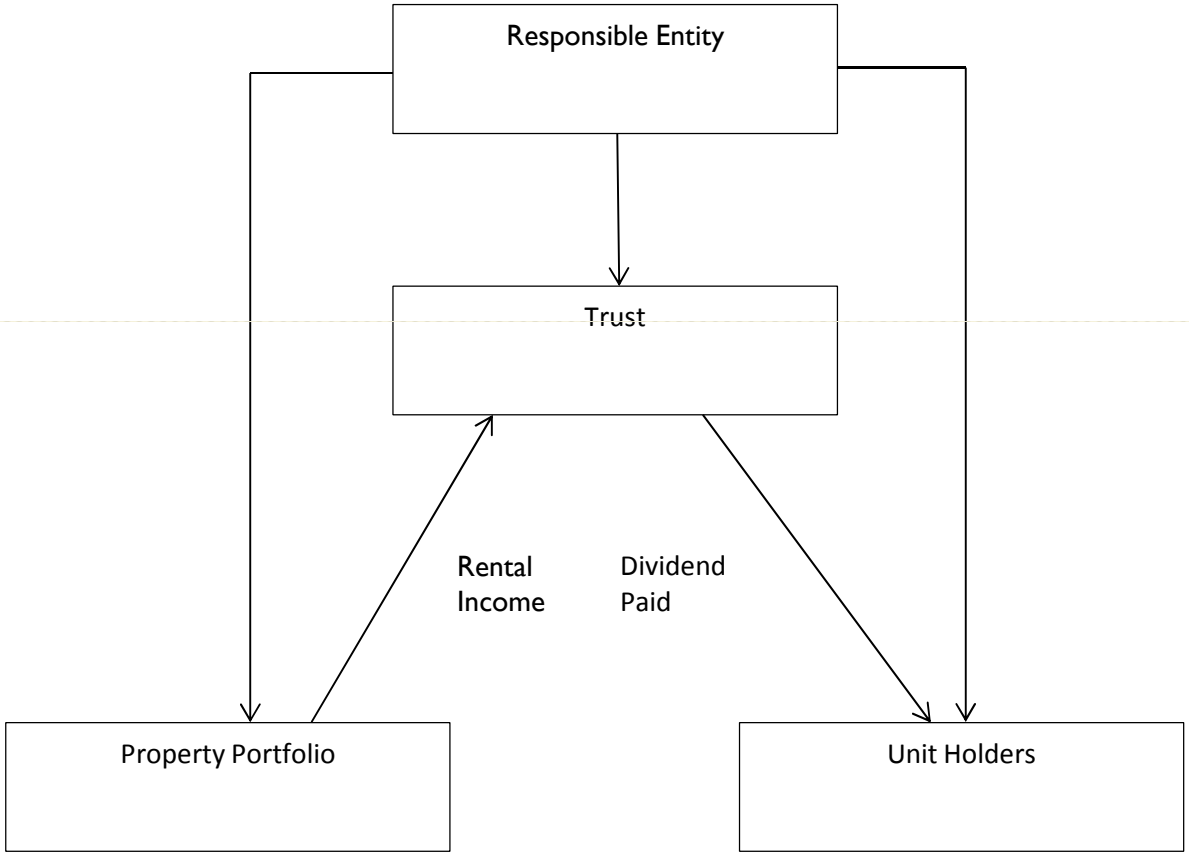
A-REITs: Structures

- Traditional unit structure: Externally managed
- Stapled structure: Internally managed

A-REITs: Traditional Unit Structure



Source: ASX (2015)

A-REITs: Stapled Structure

Source: ASX (2015)

Stapled securities

- Structure= trust + company
- Advantages:
  - Internally managed
  - Alignment of unit holders and manager interests
  - No fee leakage
  - Link to other income streams
  - Stronger growth potential

Stapled securities

- Disadvantages:
  - Higher business risk
  - Property development risk
  - Non-conventional property activities such as fund management

Unit Vs Stapled REITs

Structure	Unit structure	Stapled structure
Management style	External	Internal
Activities	Passive (i.e. income from ownership of property assets)	Diversified (i.e. income from property assets, fund management, property development)
Structure	Trust only	Trust and company
"Pass–through"	Yes	Yes, only the trust component

Internally Vs Externally Managed

REITs	External	Internal
Number of REITs	19	29
Average Market Cap (A$million)	A$376.8million	A$3,617.6million
Leading REITs	BWP Trust (A$1,906million) GrowthPoint (A$1,675million) US Masters Residential (A$588million) Folkeston Education (A$543million) 360 Capital Ind (A$323million)	Scentre (A$20,552million) Westfield (A$18,753million) Stockland (A$11,016million) Goodman (A$9,596million) GPT Group (A$7,966million)

Source: Author's compilation from DataStream (2015)

An increase in the number of A-REITs employing an internal management structure…

- Traditionally, external management
- The first internal management structure: 1988 with the Stockland Trust

An increase in the number of A-REITs employing an internal management structure…

	1993	2003	2015
Number of A-REITs	38	46	48
Externally managed REITs	32	34	19
Internally managed REITs	6	12	29
% of internally managed REITs/total number of A-REITs	16%	26%	60%

Source: Authors' calculation (2015) and Lee, Robinson and Reed (2008)

Internally Vs Externally Managed: 28 Feb 2015

REITs	External	Internal
Return		
1 Year	32.42%	28.24%
3 Years	23.83%	23.43%
5 Years	17.57%	16.33%

Source: Authors' compilation from UBS (2015)

Internally Vs Externally Managed : 28 Feb 2015

REITs	External	Internal
Risk		
3 Years	28.83%	32.41%
5 Years	26.57%	33.21%

Source: Authors' compilation from UBS (2015)

Take outs

- The increasing popularity of stapled securities; the level of maturity of the market.
- Externally managed A-REITs ✓✓✓

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Where to go from here

- Externally managed ✓✓✓
- Benefits:
  - Larger scale
  - A broader set of employees; skills and experiences
  - Specific performance criteria

Where to go from here

- Potential risk
  - Conflict of interests
  - Senior executives
  - Cost leakages

Critical Success Factors

- Tax-exempt status
- Management structure
- Professional fund managers
- Quality investment-grade properties
- Corporate governance and transparency
- Benchmarking; performance analysis and monitoring
- Market cycle timing
- Liquidity and trading
- Support from the industry (e.g. APREA etc).
- Gearing levels

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THANK YOU

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