Headline	A REIT to deal with overhang units		
MediaTitle	Focus Malaysia		
Date	12 Jan 2019	Color	Full Color
Section	News	Circulation	16,405
Page No	17,20,21	Readership	49,215
Language	English	ArticleSize	2461 cm²
Journalist	JOSEPH WONG	AdValue	RM 42,699
Frequency	Weekly	PR Value	RM 128,097

A new kind of REIT

The Real Estate and Housing Developers' Association's (Rehda) proposal for a residential real estate investment trust (REIT) to provide public rental housing for the bottom 40 (B40) income group has sparked a lot of interest. As an alternative solution to home ownership with the rental market as the primary target, this REIT will be the first of its kind in Malaysia.

Still in its formalising stage with the association's research arm, Rehda Institute, the REIT does present an opportunity to solve housing issues. However, will investors bite? P. 20-21

Headline	A REIT to deal with overhang units		
MediaTitle	Focus Malaysia		
Date	12 Jan 2019	Color	Full Color
Section	News	Circulation	16,405
Page No	17,20,21	Readership	49,215
Language	English	ArticleSize	2461 cm²
Journalist	JOSEPH WONG	AdValue	RM 42,699
Frequency	Weekly	PR Value	RM 128,097

Status report: Residential 1Q 2018

	Overhang	Unsold under construction	Unsold not constructed
Q1 2018	25,193 units ▲ 1.8% *Value RM15,680.65 mil	61,266 units ▼ -1.0 %	14,000 units ▲ 10.9 %
vs 2017	24,738 units	61,882 units	12,626 units
2016	14,792 units	64,077 units	11,622 units
2015	10,285 units	49,568 units	8,032 units
2014	8,839 units	40,791 units	8,372 units
The most type	- Flat/Condo/ Apartment (10,238 units (40.6%)) - Terrace (8,489 units (33.7%))	- Flat/Condo/ Apartment (28,761 units (46.9%)) - Terrace (22,123 units (36.1%))	- Condo/ Apartment (10,449 units (74.6%)) - Terrace (2,272 units (16.2%))
The most price range	1st: Below RM100K (7,931 units (31.5%)) 2nd: RM300K - RM500K (7,447 units (29.6%)) 3rd: RM500K - 1 mil (6,179 units (24.5%)) 4th: > RM1 mil (3,636 units (14.4%))	1st: Below RM300K (19,825 units (32.4%)) 2nd: RM500K - 1 mil (19,677 units (32.1%)) 3rd: RM300K - RM500K (16,413 units (26.8%)) 4th: > RM1 mil (5,351 units (8.7%))	1st: Below RM100K (7,221 units (51.6%)) 2nd: RM300K - RM500K (4,136 units (29.5%)) 3rd: RM500K - 1 mil (2,172 units (15.5%)) 4th: > RM1 mil (471 units (3.4%))
The most units from state	- **Johor** (5,002 units & 40.3% from that are Flat/ Condo/ Apartment) - **Pulau Pinang** (4,092 units & 58.0% from that also are Flat/ Condo & Apartment)	- **Selangor** (11,191 units & 53.7% from that are Flat/ Condo/ Apartment) - **Johor** (10,880 units & 48.7% from that are Terraced house)	- **Kuala Lumpur** (8,008 units & 99.6% from that are Flat/ Condo/ Apartment)

Source: Napic

Will a Rental Housing REIT for the B40 work?

A REIT to deal with overhang units

- **A REIT** can take a year to be set up as it has to satisfy the criteria set by the Securities Commission
- **Developers** yet to see the full proposal and how it will fit in the bigger scheme

by **Joseph Wong**

The Real Estate and Housing Developers' Association's (Rehda) proposal for a residential real estate investment trust (REIT) to provide housing for rental to the bottom 40 (B40) income group is an eye-opener.

As an alternative solution to home ownership, this REIT could potentially be the first of its kind in Malaysia should it eventually take shape and be approved by the authorities. Moreover, the scheme is also very specific as it only focuses on property units for rental.

At the moment, the details of the REIT are still being ironed out by the association's research arm, Rehda Institute. Despite this, Rehda is moving forward by spearheading the proposal with the assistance of investment bankers and accountants.

"Once we have formalised it, we will be making submissions to the [Ministry of Finance and Ministry of Housing and Local Government]," says Rehda Institute chairman Datuk Jeffrey Ng during the Budget 2019 conference organised by the institute recently.

"If they are agreeable, then the next step is to go to the Securities Commission," he explains.

The process of formalising the establishment of the rental REIT, currently called the Rental Housing REIT, will be done by the Malaysian REIT Managers Association (MRMA), of which Ng is also the chairman.

According to Ng, providing more homes for the B40 through public social rental housing could be a way to improve their livelihood, rather than encouraging them to purchase the house.

This is despite the government making certain allocations to provide financial assistance to households earning no more than RM2,300 a month to purchase a house priced below RM150,000 in Budget 2019.

Ng points out that under the proposed REIT, the government will be able to provide land for social or public rental housing in suitable locations in urban centres. The Rental Housing REIT will then undertake the project at its own cost.

The REIT will also be given the right to rental returns from the development for 30 years at pre-fixed rental rates. Ng explains that the new scheme differs from existing public housing schemes, as the focus of the REIT is solely on rentals for the B40 group.

Using unsold units

However, building new properties for the REIT is widely believed to be just one of the ways of injecting assets into the REIT since the construction period could take up to three years.

As a result, some property observers are suggesting that the unsold units held by developers may be possible target assets that can be used as rental property by the REIT.

According to the National Property Information Centre (Napic), there are 685,468 low-cost houses, 470,249 low-cost flats and 322,799 mid-cost flats in the market, making up 26.6% of the current total residential supply.

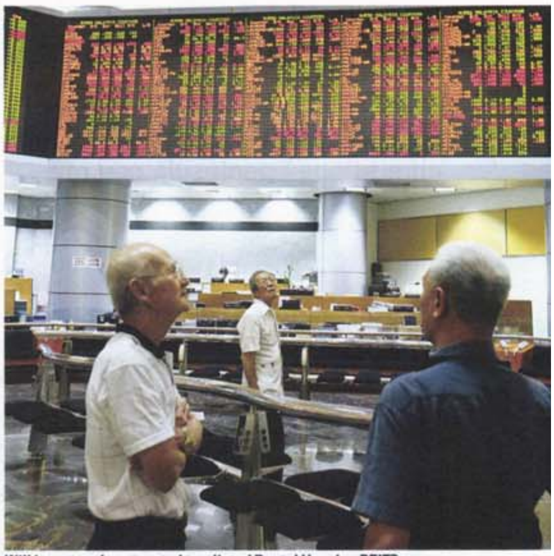
As of 3Q2018, there is an incoming supply of 7,509, 15,437 and 19,659 units, respectively, yet to be delivered.

A Rehda source says the REIT will more likely aid developers who have unsold low-cost units which are still under construction and those with an overhang of low-cost homes.

Echoing property observers, the Rehda source says there are quite a number of low-cost properties that are facing an overhang situation while others are worried that the incoming units would not be taken up.

Napic's 1Q2018 figures (see table) show that 40.6% of the overhang properties comprise 10,238 low-cost flats, apartments and condos. Of this figure, 7,931 units are below the RM100,000 mark.

For unsold incoming properties, low-cost flats, and apartment and condominium units number 28,761 or 46.9% for the corresponding period. Of this



Will investors be attracted to a listed Rental Housing REIT?

Headline	A REIT to deal with overhang units		
MediaTitle	Focus Malaysia		
Date	12 Jan 2019	Color	Full Color
Section	News	Circulation	16,405
Page No	17,20,21	Readership	49,215
Language	English	ArticleSize	2461 cm²
Journalist	JOSEPH WONG	AdValue	RM 42,699
Frequency	Weekly	PR Value	RM 128,097

figure, 19,825 units or 32.4% are units costing below RM300,000.

Property observers are saying that given the figures and current situation, it would be easier for the REIT to be set up within a shorter period if the existing supply was to be injected into it. "Why build more low-cost properties when there is already a big number of them in ready supply?" asks a property observer.

Once we have formalised it, we will submit it to the two ministries, says Ng

Setting up a REIT can take as long as 12 months, says Adzman

A proposal that's still in the works

It is learnt that both Rehda Institute and MRMA are still mulling over the details of the REIT.

"We have not seen the [REIT] proposal as yet," says LBS Bina Group Bhd executive director Datuk Chia Lok Yuen.

The REIT has yet to be finalised by Rehda Institute and the invitation to participate in it has also yet to be received, he says.

"We don't know what kind of property and who will be participating in the REIT. We believe it will be a vehicle to help developers who have a big number of unsold units that make up the current overhang," Chia says.

He adds that he was also unsure as to what kind of property will be injected into the REIT since it is targeted at the B40.

Chia also says it is unlikely that LBS will be a candidate for the REIT as it does not have an overhang issue.

Mechanism yet to be ironed out

At the moment, one thing is certain: the REIT will be an investment vehicle and has to abide by the guidelines set by the Securities Commission (SC), says ExaStrataSolutions Sdn Bhd chief real estate consultant and CEO Adzman Shah Mohd Ariffin.

"[Setting up a REIT] can take as long as 12 months depending on the size of the fund and the due diligence [taken to ensure its success]," he tells ***FocusM***.

The SC has an extensive number of guidelines that the REIT has to adhere to so unexpected delays could crop up, he explains.

Adzman, who has vast experience in REITs, set up Hektar Property Services Sdn Bhd to manage three shopping malls and undertake leasing for Hektar REIT.

He was also instrumental in the acquisition of two more shopping malls and various advisory work for Permodalan Hartanah Bumiputra Bhd (PHB), Permodalan Usahawan Nasional Bhd (PUNB) and several developers.

Similar REITS overseas

Another property observer points out that there are similar REITs overseas which deal with rental property but cautions that these countries have a strong and established market for rental properties.

For example, Japan Rental Housing Investments Inc in Japan has been in existence since 2005 and has 13,223 units with a value of RM8.5 bil which are targeted at the rental market, Adzman says.

"The US, UK and Australia have specialist companies which offer only student accommodation," he says.

In the USA, American Campus Communities Inc and the Education Realty Trust Inc (EDR) are the only two education-specific REITs that are listed, he says, adding that both specialise in student housing.

In Australia, the Folkstone Education Trust invests in real estate of early learning and pre-schools. The Australian Stock Exchange-listed REIT has total assets under management of A$1.03 bil (RM3.02 bil) as of November last year and 410 early learning properties in its portfolio.

In the UK, there are four REITs specialising in student housing. They are Empiric Student Property Plc, GCP Student Living Plc, Unite Group Plc and Amiri Capital LLP.

A rental REIT is not much different from other REITs as the *modus operandi* is still the securitisation of real estate assets, says an observer.

"However, the nature of asset allocation of the (proposed Malaysia rental) REIT is mainly rental property for the B40 which will be dependent on the master lessee's business performance to keep up the rental payments during the lease term," he says. FocusM

Will it work?

FOR anyone who has heard or read this exciting piece of news, the big question is: Will the residential real estate investment trust (REIT) to provide rental housing for the bottom 40 (B40) income group be able to take off?

Setting up a REIT is one thing, but getting investors to buy into this form of investment is another.

The proposed Rental Housing REIT's success depends on the return or yield expected from the assets, says ExaStrataSolutions Sdn Bhd chief real estate consultant and CEO Adzman Shah Mohd Ariffin.

"The yield must meet investors' expectation. If it's lower than fixed deposit then [the REIT] may not be attractive to investors," he says.

"As it is now, normal housing accommodation is fetching below 5% [as the current industry norm]," he says, questioning whether the cost of funds is much higher than the set up of the REIT.

While investors may be interested in REITs given the success of existing ones, this proposed REIT has yet to as a proven right move. Not only is this form of REIT new to our market, it is also largely untested in the local context, says another property investor.

A REIT is basically a form of public listed corporation which raises funds through its units and uses the money to acquire and run profit-making real estate or properties, he says.

"The profit from rental income is then distributed to investors in the form of dividend.

"It is a structure where investment comes through the buying of shares and investing them to buy real-estate property which is rented out in order to reap profits," he says.

Snag is you have to cap the rental

Some of the existing REITs in the country include one or more of the following assets – hotels, office and warehouse spaces, hospitals and shopping centres, says the investor.

"In the case of the one proposed by Rehda Institute, it is solely for residential units and focuses on the B40 population," he says.

"Therein lies a snag. You can't charge too high a rental for this group of income earners and a low rental revenue would also mean a lower rental yield. Can the dividend be at least 6%?" he asks.

If it's too low, the REIT will not attract the number of investors it will need to start it off, he says.

"For hotels, shopping centres and offices which are injected into REITs like Sunway REIT or Hektar REIT, they are usually shown to be profitable before they are taken as part of the REIT.

"How do you prove to investors that new or overhang units will draw in the tenants that the REIT will rely on to keep it afloat? And can it be sustainable?" he questions.

As for overseas experience, REITs for student accommodation are performing well. The six REITs in the US, UK and Australia are all seeing positive results.

American Campus Communities Inc (ACC), touted as America's largest developer, owner and manager of high-quality student housing, saw a cumulative revenue of US$213.5 mil (RM879.5 mil) for 3Q2018 versus US$196.9 mil in 3Q2017.

The other US education REIT, Education Realty Trust Inc (ERT), is a self-administered and self-managed REIT that saw US$167 mil revenue for the first half of 2018 compared to US$160 mil in the same period in 2017.

The UK has three student housing REITs – Empiric Student Property Plc (ESP), GCP Student Living Plc (GCP) and Unite Group Plc.

Listed in 2014, ESP is an internally managed REIT investing in modern, premium student accommodation located in prime city centre locations in top university towns and cities in the UK. It saw a gross annualised rent of £66.6 mil (RM350.2 mil) for its financial year ended March 2018.

GCP, a closed-end fund listed in 2013, owns student accommodation buildings predominantly in London. It has performed strongly since its launch in 2013. It saw a rental growth of 4.1% in its financial year ended June 2018 compared to an increase of 2.9% in the previous year.

Alongside the listed UK student housing REITs, Unite Group operates an open-ended non-listed Unite UK Student Accommodation Fund, as well as a joint venture with GIC Private Limited called London Student Accommodation Joint Venture.

The FTSE 250 student accommodation group reported a pre-tax profit of £142.5 mil for the first half of 2018, up from £83.9 mil in the same period a year ago.

Australia's Folkestone Education Trust, formerly known as Australian Education Trust, is also the nation's largest property trust in early learning properties.

This REIT has been seeing increasing revenue and distributable income for the last five years, affording it to increase its dividend payout year-on-year. Thus, with all these positive signs and if all goes well, Rehda Institute may be on the right track after all.