Championing REITs & Property Funds In Singapore & Asia — The Capitaland Experience

UBS Global Real Estate Forum
November 2004
Disclaimer

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Favourable Factors For Asian REITs & Property Funds

• Economic stability
• Growing pool of provident funds – Asia’s ageing population
• Low interest rate environment favouring high-yield investments
• Property market – Improving transparency & recovery offer entry opportunities
• Institutionalisation of Real Estate in Asia
  ▪ Movement away from ‘opportunitistic’ cycle in mature Asian markets to yields
  ▪ Institutionalising real estate with dedicated investors (US & Dutch property funds)
Overview of General Economy

- **Asia**: Remains the world’s fastest growing region – an export-led recovery with good consumer confidence
- **US**: Strong expansion to end-2004; possible slowdown in 2005
- **Japan**: Broad recovery should continue to 2005
- **China**: Likely soft landing but still strong
Asia Growing Faster than Rest of the World

Forecast of GDP Growth

Real Change in GDP (%)


World

US

EU25 GDP Growth

Asia & Australasia

Source: EIU & CapitaLand Research
Age, Affluence and Total GDP Profile of Asia

Source: Asia Demographic & CapitaLand Research
REITs Satisfy Requirement of an Ageing Population

Asia Demographic--Median Age of Asian Economies

Asia’s ageing population will require:
- Higher proportion of return in the form of income not capital gain
- Capital preservation
- Low volatility of earnings
- High transparency
- Liquidity

Median age is the age that divides a population into two numerically equal groups, i.e. half of the people are younger than this age and half are older.

Source: CIA World Factbook 2004 & CapitaLand Research
Institutionalisation of Real Estate in Asia

• Asian Financial Crisis – Strategic inflection point in Asian real estate landscape
  ▪ Over building – collapse of demand and prices
  ▪ Liquidity crunch

• Consequences
  ▪ Shift from bank borrowings to capital market funding
  ▪ Shift from capital gains to yield focus
  ▪ Change in traditional model of asset heavy property developer

• Growing depth & liquidity of public & private Real Estate Capital Market
  ▪ Securitisations, REITs, unrated and rated CMBS, funds, mezzanine debt, etc.
The Asia REIT Landscape

Asian Investment Grade Property (US$ bn)

- Taiwan: 69
- Singapore: 83
- South Korea: 87
- China: 87
- Australia: 97
- Hong Kong: 129
- Japan: 750

=Total US$1.3tril

Source: UBS AG & CapitaLand Research
## Asia-Pacific REIT Market – Existing

<table>
<thead>
<tr>
<th>Country</th>
<th>REIT Mkt Cap (US$ bn)</th>
<th>No. of REITs</th>
<th>% of Equity Market</th>
<th>Approx. % of Real Estate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>13.6</td>
<td>14</td>
<td>0.8</td>
<td>2.5</td>
</tr>
<tr>
<td>Singapore</td>
<td>3.0</td>
<td>4</td>
<td>2.0</td>
<td>2.2</td>
</tr>
<tr>
<td>Korea</td>
<td>0.5</td>
<td>7*</td>
<td>0.2</td>
<td>1.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.1</td>
<td>3**</td>
<td>0.1</td>
<td>0.9</td>
</tr>
<tr>
<td><strong>Total Asia (Ex-Australia)</strong></td>
<td><strong>17.2</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>50.8</td>
<td>30</td>
<td>8.4</td>
<td>45.4</td>
</tr>
<tr>
<td><strong>Total Asia</strong></td>
<td><strong>68.0</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>229.9</td>
<td>150</td>
<td>1.5</td>
<td>12.3</td>
</tr>
<tr>
<td><strong>Total Global</strong></td>
<td><strong>297.9</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Corporate Restructuring REIT  
** Property Trust Funds

Source: JP Morgan & CapitaLand Research
Medium Term Outlook
- Investment Activities Expected To Strengthen

• Increasing capital into real estate from rich-old countries
• Improving transparency of real estate markets -- lower overall investment risk
• Increasing globalisation of real estate -- generate substantial capital flows into indirect property markets
• Increasing economic power of Asia-Pac -- attracting funds to Asia
• Easing regulatory barriers relating to foreign investment -- Seoul, Tokyo, Shanghai and Beijing expected to mature further, giving investors more choices
• Moving towards single ownership of assets in Asia
• Shifting paradigm from capital growth to yields
Potential Growth of Asia’s Investment Universe

Potential Growth in Direct Investment in Asia Pacific

Investment Volumes (US$ billion)

US$100 bil

US$21 bil

≈ US$60 bil

Potential Growth of US$40 bil

US & Europe

Asia Pacific

Source: Jones Lang LaSalle & CapitaLand Research
Traditional Model: One size fits all

Business & Assets

Financed by

Debt

Equity
Now: Stratification of Capital

Assets

- Low Risk
- High Risk

Financed by

The appropriate return, for the desired risk.

- Senior Debt
- Subordinated Debt
- Mezzanine
- Junior
- Preference Shares
- Convertibles
- Equity
CapitaLand’s Model

① Origination
② Structuring
③ Underwriting
④ Distribution

Real Estate Risk Assets
- Jellicoe
- Waterina
- Funan / Lot 1
- Raffles City
- Capital Tower
- George Street

Vehicles/Satellites/Structures
- CRL
- Aragorn
- CMT / CRS
- Tincel
- CCT
- Funds/SPVs

CapitaLand

 Buyers/Investors
- Debt
- CMBS
- Mezz/Sub
- etc.
- R-Units
- Equity

Value Added

RE RISK & RETURN

CAPITAL $$$

Know How

DIRECT RE Assets

FINANCIAL RE Assets
CapitaLand Group Structure

Real Estate
- Residential: 100%
- Retail: 100%
- Commercial & Integrated Devt: 100%
- Property Management: 100%

Hospitality
- Hotels, Serviced Residences: 60%*
- Financial

Financial Svcs
- Listed Subsidiaries

9M Sep 04 Assets: $15.7b
9M Sep 04 Revenue: $2,578m
9M Sep 04 EBIT: S$572m

*Listed Subsidiaries

- Commercial
- Residential
- Ascott
- Raffles
- Premas & Others
- Financial
Developed REIT Markets

Australia

- Most developed REIT market in the Asia-Pacific region with 43 REITs listed to date worth **US$50.8 billion**

Japan

- 14 REITs listed to date – market cap of **US$260 million** in Sep 2001 is now worth **US$15.6 billion** (increase by 60 times in three years), 0.8% of TSE market cap

Singapore

- First Asian cross-border REIT—Fortune REIT
- 4 REITs listed to date worth **US$3.0 billion** (2% of SGX market cap)

South Korea

- Currently 7 listed CR-REITs which have a limited life-span, market cap **US$ 267 million** at Nov 2004, less than 0.1% of KSE market cap
- No conventional REITs exist

Malaysia

- Likely expansion of REIT market following improvement in existing REIT legislation in Budget 2005
Nascent REIT Markets

Hong Kong
- HK REIT code issued by SFC\(^1\) in July 2003
- HKHA\(^2\) to divest properties via Link REIT\(^3\)(US$2.5b)—IPO scheduled end-2004

China
- Unit trust structure currently prevents REITs
- Potential list PRC REIT on either Singapore or Hong Kong stock exchanges (when allowed)

Taiwan
- Real Estate Securitization Law (RESL) issued in July 2003
- Fubon REIT announced in Aug 2004 (US$ 171 mil, office & resi properties)

India
- Finalizing framework for Real Estate Mutual Funds

Philippines
- No specific REIT legislation exists but regulators reviewing

Indonesia
- Considering setting up REITs

Thailand
- Guidelines in place for REITs/Property Fund for public offering
- Legislation allows for tax transparency for REITs

Notes:
1. SFC: The Securities and Futures Commission of Hong Kong
2. HKHA: Hong Kong Housing Authority
3. CapitaLand will invest US$180 million in the Link REIT and will be manager of the REIT
REITs & Property Funds
CapitaLand Experience
Factors driving growth of S-REIT

• CapitaLand pioneered the first REIT, CapitaMall Trust, in S’pore. Asian financial crisis & property market downturn presented opportunities

• Market pressure for consolidation and restructuring of real estate corporations to better manage their balance sheet and divest non-core assets

• Growing pool of provident fund (result of ageing population) in S’pore searching for high-yielding and relatively safe “bond-like” investments

• Low interest rate environment and dearth of attractive alternative fixed income securities favouring high-yield REITs

• Shift of return focus on yields and cashflow rather than capital appreciation.

• Yield requirement to decline along with lower perceived risk as investors gain better understanding of the product
## CapitaMall Trust (CMT)

<table>
<thead>
<tr>
<th><strong>CapitaMall Trust</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1st listed REIT in S’pore</td>
<td></td>
</tr>
<tr>
<td>Asset Size : S$2bn</td>
<td></td>
</tr>
<tr>
<td>NLA : 2.2mn sq ft</td>
<td></td>
</tr>
</tbody>
</table>

### Assets in Singapore
- Tampines Mall
- Junction 8
- Funan The IT Mall
- IMM Building
- Plaza Singapura
## Using Structure to Overcome Regulatory Constraints

<table>
<thead>
<tr>
<th>Guideline</th>
<th>CMT Structural Remedy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>Use external mgt structure to leverage yield</td>
</tr>
<tr>
<td>Gearing</td>
<td>Funding for capex back-stopped by sponsor</td>
</tr>
<tr>
<td>Payout</td>
<td>Provide 2-year distribution projection</td>
</tr>
<tr>
<td>Tax transparency</td>
<td>Granted with provision of tax indemnity</td>
</tr>
<tr>
<td>Growth</td>
<td>Explicit asset enhancement plan</td>
</tr>
<tr>
<td>AUT status</td>
<td>Granted</td>
</tr>
</tbody>
</table>
Declining Distribution Yields

Distribution Yields of S-REITs

- CMT: 7.02% @ IPO, 5.65% Current
- CCT: 4.81% @ IPO, 4.62% Current
- A-REIT: 8.00% @ IPO, 5.68% Current
- Fortune REIT: 6.50% @ IPO, 5.08% Current

Average yield compression of 130 basis points since IPO
Yield Spread Compression

Distribution Yield Spreads of S-REITs

- CMT: 3.30% @ IPO, 2.32% Current (11 Oct 2004)
- CCT: 1.71% @ IPO, 1.29% Current (11 Oct 2004)
- A-Reit: 5.11% @ IPO, 2.35% Current (11 Oct 2004)
- Fortune: 3.44% @ IPO, 1.75% Current (11 Oct 2004)

Spreads over 10YGB narrowed to 190 basis point
S-REITs Price Performance

<table>
<thead>
<tr>
<th></th>
<th>CMT</th>
<th>A-REIT</th>
<th>Fortune</th>
<th>CCT</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPO Price</td>
<td>SGD 0.96</td>
<td>SGD 0.88</td>
<td>HKD 4.75</td>
<td>SGD 1.00*</td>
</tr>
<tr>
<td>Price at 3/11/2004</td>
<td>SGD 1.70</td>
<td>SGD 1.64</td>
<td>HKD 5.95</td>
<td>SGD 1.28</td>
</tr>
<tr>
<td>Price Return</td>
<td>77.1%</td>
<td>86.4%</td>
<td>25.3%</td>
<td>28.0%</td>
</tr>
</tbody>
</table>

*Units in CapitaCommercial Trust (CCT) were distributed to CapitaLand shareholders at five CAPL shares per unit instead of IPO.
CapitaLand’s Local Sponsored Funds

- CapitaLand leading the game by sponsoring a series of regional property funds

  - **CapitaLand China Residential Fund (CCRF)**
    - Private equity fund with asset size **US$ 61 mil**
    - Invest primarily in residential development projects in PRC, focusing on mid to high-end residential segment in Shanghai and Beijing

  - **CapitalRetail Singapore Fund (Sep 2003)**
    - Private equity fund with asset size **US$ 298 mil**
    - Holding Lot 1 Shoppers’ Mall, Rivervale Mall and Bukit Panjang Plaza
Local Sponsored Funds

- **CapitaRetail Japan Fund (Dec 2003)**
  - Private equity fund with asset size **US$ 600—1,000 mil** (target)
  - Investing in *retail assets* located in *key cities* in Japan

- **Eureka Office Fund (Jan 2002)**
  - Singapore’s first wholesale property fund, asset size **US$ 476 mil**
  - A 50-50 JV with *ERGO Insurance Group (Germany)*
  - Comprises three office *properties*—Temasek Tower, Pidemco Centre (One George Street) and The Adelphi

- **The IP Property Fund Asia (IPPFA)**
  - A **US$ 239 mil** private *opportunistic* property fund (JV with *ING Real Estate*) focusing on *Hong Kong and South East Asia Countries*
  - Investing in a diversified portfolio of office, retail, residential and industrial properties
Increase Fee Based Income

- Growing portfolio through funds and REITs

<table>
<thead>
<tr>
<th>Existing Funds / REITs</th>
<th>Year</th>
<th>Fund/Asset Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>IP Fund (JV with ING Real Estate)</td>
<td>1998</td>
<td>US$239m</td>
</tr>
<tr>
<td>Eureka Office Fund (JV with Ergo)</td>
<td>2001</td>
<td>S$875m</td>
</tr>
<tr>
<td>Tincel Securitisation (Retail)</td>
<td>2001</td>
<td>US$131m</td>
</tr>
<tr>
<td>CapitaMall Trust</td>
<td>2002</td>
<td>S$2,100m</td>
</tr>
<tr>
<td>CapitaLand China Residential Fund</td>
<td>2003</td>
<td>US$61m</td>
</tr>
<tr>
<td>CapitaRetail Japan Fund</td>
<td>2003</td>
<td>US$600-1,000m (target)</td>
</tr>
<tr>
<td>CapitaRetail Singapore</td>
<td>2003</td>
<td>S$500m</td>
</tr>
<tr>
<td>CapitaCommercial Trust</td>
<td>2004</td>
<td>S$2,000m</td>
</tr>
</tbody>
</table>

AUM Rise from S$3 billion (Dec 03) to S$6 billion
Increase Fee Based Income

• Targeting New Investments:
  ▪ Singapore commercial office sector
  ▪ Retail funds
  ▪ Direct investment opportunities
  ▪ Country funds, eg. S’pore, Thailand, China, HK and UK

• Grow existing funds/REITs:
  ▪ Target one acquisition per year

Target Growth in AUM to S$13 billion
Retail sector, especially suburban retail malls, still the crown jewel

Potential buying opportunities amid financial institution's effort to divest non-core assets

Competition among property funds for limited local property investment opportunities

Foothold of a number of regional property funds
Overview of Property Funds in Asia
Overview of Property Funds in China

- Residential projects in gateway cities being main focus
- JV with strong local players essential for success
- Most funds are still “opportunistic” in nature
- Increasingly active amid credit tightening
- Disposal of NPLs by SOEs offering new opportunities
- Domestic developers eager to explore new channels of financing amid credit tightening since Aug 2003, property funds is one alternative being considered and actively discussed
...and this Prompts CBRC to Issue *Property Trust Rules*

- CBRC (China Banking Regulatory Commission) issued the draft of *Property Trust Rules* on Oct 18th 2004

- **Purpose of the rules:** Protect the rights of trust investors and promote the stable development of the property trust industry*

- **Salient Features:**
  - Only invest in *China domestic real estate sector*
  - *Not a listing structure* like REIT—private equity in nature
  - The limit of 200 maximum contract is lifted**
  - Minimum amount of each trust contract:
    - *RMB 1 mil* for *individual* investors
    - *RMB 5 mil* for *institutional* investors
  - The missing part:
    - NO Tax Transparency
    - NO Distribution Requirement

* There are a number of fraud and cheating cases in the promotion and selling of trust products in China in recent years, such as the DeLong case

** Subject to the approval from CBRC
### China REITs: Potential and Challenges

#### Potential
- Significant amount of untapped real estate in gateway cities for securitization
- Huge potential demand for REITs product (bank deposit, insurance and pension funds)
- Credit tightening—developers explore new financing channels offering entry opportunity
- Retail property – the best REITable sector

#### Challenges
- Inadequate regulatory framework for REITs
- High corporate tax (33%) caps distribution yield
- Foreign exchange control—barriers to cross-border REITs
- Local investors lack of long-term investment mindset
- Lack of transparency in local property market

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**CapitaLand’s China REITs Strategy:**

- Structure private fund with retail properties with a view to eventually list in China as a public REIT
Property Funds in Malaysia

- Limited activities by international property funds so far despite favourable regulatory framework in place, strong demand from institution investors and sound fundamentals

- GIC RE’s JB City Square Purchase
  - May 2004, GIC Real Estate acquired 70% stake (valued at US$ 270 mil) in Johor Bahru City Square
  - A mixed development of retail and residential project

- Potential Players
  - CapitaLand
  - Khazanah (1.3 bil ringgit property portfolio)
  - Maybank
  - PNB (Permodalan Nasional Berhad)
  - UDA (Developer, 3 bil ringgit property portfolio)
Improved Outlook – M’sia Poised For Revitalization

- Favorable Economic & Political Outlook
  - Bullish property market and availability of good assets
  - Potential for currency gains

- Catching up with Singapore
  - Singapore has already launched 4 REITs and are doing very well
  - Pressure of property owners to monetise assets

- Revised Regulatory Framework
  - Nov. 2002, Revised gearing to 30% (from 10% of NAV)
  - Sep. 2003, Real property gains tax and stamp duty waived in Budget 2004
  - Sep. 2004, Tax Transparency--Tax exemption granted in Budget 2005 for income distributed to unit holders
  - Active lobbying by businesses for regulators to further relax and implement REIT-friendly regulations
Potential Malaysia REITs Players

- **PNB (Permodalan Nasional Berhad):**
  - Ringgit 5.4 bil (S$ 2.3 bil) property portfolio
  - Office, serviced residence, industrial, mixed development

- **YTL Corporate Bhd (Malaysia’s leading integrated infrastructure conglomerates):**
  - Planning a diversified REIT (retail & hospitality)
  - Ringgit 1.5 bil (S$664 mil) in assets, property yield 7-8%

- **UDA (developer):**
  - Ringgit 3 bil (S$ 1.3 bil) property portfolio

- **EPF (Employees Provident Fund) & KWAP (Pension Trust Fund) – Investors**

- **Institutions—Insurance Companies**

- **Increasing interest from foreign fund managers:**
  - GRA (now Pricoa Real Estate Investor Asia, established by Prudential USA)
  - Mapletree Investment (Singapore)
  - American fund managers on logistic REIT

- **2005 Budget brings more foreign fund managers…**
Malaysia REITs: Potential and Challenges

<table>
<thead>
<tr>
<th>Potential</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Favorable REITs regulatory already in place</td>
<td>Competition among potential players for investment grade properties</td>
</tr>
<tr>
<td>Sound property market fundamentals</td>
<td></td>
</tr>
<tr>
<td>Strong potential demand from institutions</td>
<td></td>
</tr>
</tbody>
</table>

**CapitaLand’s Malaysia REITs Strategy:**

- Structure private fund to acquire retail properties
- List in Malaysia as a public REIT
Property Funds in Japan—Hotting Up

- 13-year long economic slump--buying opportunities, especially in Tokyo
- Foreign funds are dominant players, spearheaded by US investment bankers
- Lack of local competition, but hotting up recently
- J-REITs as exit strategy
- Hotting up in 2004--pending asset impairment accounting standards in 2005
- The pie is big enough
  --July 2004, Ministry of Land estimates
  - Securitized real estate backing equity and debt is worth up to JPY 12,000 bil (US$ 110 bil),
  - J-REIT market worth JPY 1,300 bil (US$ 12 bil)
Asian REITs now represent nearly US$16bn in market capitalisation

Market capitalisation of Asian REITs (excluding Australia, US$mm)

Using Australian REIT market example in which over 45% of investment grade real estate is owned by REITs, the Asia ex. Japan REIT sector could potentially grow to hold US$250bn of Asian real estate.
Thank You