SUMMARY

Property investment has been criticised for its shortcomings which include illiquidity, indivisibility and involving large capital outlay. These have precluded many institutional investors from allocating property in their investment portfolio.

In the mature property markets of the USA, UK and Australia, the disadvantages of property investment have been overcome by the securitisation and/or unitisation of property assets. The most established vehicles are Real Estate Investment Trusts (REITs) in the USA since the 19th century and Property Trusts (PTs) in Australia since 1970. The UK is in advanced stages of seeking approval to establish REITs. So is Thailand, while Malaysia launched their first Property Trust in 1989.

In Singapore, the Property Market Consultative Committee recommended the introduction of equity REITs in 1986. However, attempts to implement them have been unsuccessful.

Nevertheless, various empirical studies have since been undertaken to assess the impact of REITs on the Singapore property market. REITs are believed to be able to offer advantages such as increasing investment activities, spreading of risks, encouraging the growth of local fund management groups, attracting overseas investors, and particularly attracting long-term investors who are able to provide stability to the market. The key ingredients for REITs to succeed are said to be support from the Government and institutions or corporations of good standing in the form of participation in the REITs, as well as permitting the use of CPF funds for investment.

This dissertation investigates the potential of REITs in Singapore in the light of the characteristics of the Singapore property investment market, the performance of REITs, PTs and other prevalent securitised vehicles in the overseas markets, and their investment issues.
It is found that REITs and PTs achieve higher returns than direct property investment (at lower risks in the case of PTs). In fact, they behave more like equities than property, and yet possess the inherent characteristics of the underlying property assets. Owing to the vehicles’ advantages, particularly liquidity and tax-transparency, they have received tremendous investors’ participation resulting in their spectacular growth over the years. The market outlook appears optimistic; institutional investors in Australia are even shifting from direct property investment to listed PTs.

Acknowledging the importance of “investor demand”, this dissertation is augmented by a survey conducted among institutional investors in Singapore to evaluate their attitude towards REITs as well as direct and indirect property investment.

The main findings show that investors acknowledge the disadvantages of direct property investment and want access to larger properties, liquidity and reduced investment risk through securitised property vehicles. There is a 93% consensus among the respondents that there is potential for REITs in Singapore. They envisage that, for REITs to be successful, the choice of properties, liquidity, and the REITs’ management ability are among the most critical factors.

Given the increased maturity of the Singapore property market and Singapore’s goal to attain the position as a world-class financial and fund management centre, perhaps the time is now right for REITs to be launched in Singapore.

(495 words)