

## **Lim Hng Kiang: Review of the property sector in Singapore and Asia**

Opening speech by Mr Lim Hng Kiang, Deputy Chairman of the Monetary Authority of Singapore and Minister for Trade and Industry, at Citigroup Asia Pacific Property Conference 2007, Singapore, 23 April 2007.

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Thank you Catherine  
Distinguished guests  
Ladies and gentlemen

A warm welcome to Citigroup's inaugural Asia Pacific Property Conference. This is an excellent opportunity for developers, investors and financial intermediaries to share ideas and network with other key players in the market. I am certain that this conference will be interesting and fruitful.

### **Strong regional prospects**

Asia is witnessing robust growth, led by sustained growth of the Chinese and Indian economies and the welcome recovery of Japan – now into its fifth year of expansion. The regional economy is consistently growing at a much faster pace than the rest of the world.

Singapore is fortunate to be strategically located to enjoy the positive effects of Asian growth. We are well positioned to serve as a gateway for global investors to access regional opportunities.

As the regional economics grow, they present exciting opportunities for direct investment in real estate, as well as through real estate financial investments, whether in office developments, commercial and retail complexes or industrial estates.

### **Prospects in Singapore property sector**

Singapore is a good example. Demand for all property sectors in Singapore has been rising, underpinned by Singapore's economic expansion, particularly in the financial, business services and tourism sectors. Demand for office and retail space is strong. The high hotel occupancy rates have spurred new interest in hotel developments. In private housing, annual take-up of uncompleted residential units has surpassed the previous high in 1994.

The Government land sales programme will continue to provide new development opportunities in Singapore. Already, we have seen strong market interest supporting the development of the Marina Bay and Orchard Road areas. With the positive outlook for Singapore and the government's strategic plans for development of key industries, investments in real estate from foreign investors have substantially increased. Investors in Singapore real estate now come from many countries, namely the U.S., Hong Kong, Australia, Germany, Japan, the Middle East and Indonesia.

### **Singapore as a gateway to property finance**

Investment opportunities in Asia, including Singapore, have not gone unnoticed by global investors. Property and property-related assets are also gaining popularity with investors seeking high-yielding and predictable returns with exposure to capital gains. Attracted by the region's rapid economic growth and positive outlook on Asia, global investment funds are increasing their allocation to Asia, specifically in Asian real estate.

Singapore can play an important role as a gateway for global investors to access Asian opportunities via our capital markets. As a leading home for global fund managers, total assets under management in Singapore exceed S\$720 billion with over 50% of these funds invested into Asia Pacific. The Singapore Exchange is an established listing venue for regional property companies based in Singapore as well as foreign property developers. Alongside Singapore's vibrant REIT market, we offer a strong value proposition for real estate players to tap on Singapore's capital market to finance the rapid growth in the Asian real estate sector.

## **Singapore's Real Estate Investment Trust (REIT) market**

Singapore was the first country in Asia to introduce a regulatory framework to facilitate the offering of Real Estate Investment Trusts (REITs). This framework allows property companies to securitise their completed real estate assets in the capital markets, realise capital gains and re-invest into developing new properties. By offering investors direct exposure to assets with stable cash-flows, REITs tap a new pool of investors who are seeking higher-yielding securities, including pension funds and insurance companies.

Since the first REIT listing in 2002, the Singapore REIT market has become the largest REIT market in Asia outside of Japan. Currently, Singapore has 16 listed REITs, making up a total market capitalization of over S\$26 billion. Singapore REITs offer investors access to a diversity of real estate assets including retail malls, office buildings, industrial properties and serviced apartments. In 2006, we also saw the first dedicated hotel REIT as well as Asia's first healthcare REIT.

Several key factors have contributed to the growth of the Singapore REIT market. Our established and robust, yet pro-business regulatory framework and competitive tax regime have drawn the attention of global investors, attracting the securitization of not just domestic, but increasingly offshore assets.

The number of cross-border REITs listed on the Singapore Exchange has increased, further consolidating Singapore's status as a regional REITs hub. These REITs offer global investors exposure to properties throughout Asia Pacific via the Singapore market, including properties in China, Hong Kong, Australia, Indonesia, Vietnam, Malaysia and Japan.

To sharpen Singapore's edge as an Asian REITs hub, it is crucial for us to maintain a conducive environment both for issuers and for investors. To this end, MAS regularly reviews its regulatory regime to keep pace with market development while providing adequate safeguards for investors and issuers, in close consultation with the industry.

Despite substantial growth in market capitalization of REITs in Asia, from approximately US\$40 billion in 2005 to US\$63 billion in 2006, estimates suggest that the current market only represents 4% of investible-grade real estate in Asia, whereas in Australia estimates lie in the region of 50% to 60%. This suggests immense potential for increased securitization of Asian real estate assets, and for diversification beyond the conventional types of properties.

## **Innovations in property finance**

The success of our REIT market has also spurred growth in other areas. Take for example our debt market. Singapore-listed REITs have also been large issuers of commercial mortgage-backed securities, contributing 20% of all issuance of mortgage-backed securities in Asia-ex-Japan last year. Indeed, Asia's largest ever commercial mortgage-backed security was issued jointly by two Singapore REITs – CapitaMall Trust and CapitaCommercial Trust. Another example of product innovation is in the growth of investment products such as property securities unit trusts and listed property securities funds.

A potentially exciting area for innovation is in the property derivatives market. Property derivatives offer the potential for property companies, asset managers, banks and investors to hedge or re-balance their property exposure according to their views on the market. A key criterion to develop the property derivative market in Singapore would be the existence of transparent, reliable and well-followed direct property indices, which serve as reference points or benchmarks for structuring of property derivative products.

Given the prospects of the Singapore property market, industry players are currently studying the construction of property indices based on the Singapore property market. We are excited to see the introduction of these property indices which would enhance information on Singapore's property market and provide benchmarks for structuring property derivatives and other innovative investment products. These developments will add to the breadth and depth of Singapore's markets by providing investing and hedging tools for market participants in a cost-effective and flexible manner. Moreover, they would lead to development of expertise in product structuring as well as real estate portfolio analysis and performance measurement.

## **Conclusion**

So ladies and gentlemen, general positive sentiments suggest that 2007 and the years ahead will be exciting for Asia and its property sector. I am certain that with judicious planning and sound execution, the sector will see strong growth, sustained by liquidity from the capital markets. I wish you continued success as we build together on our strong foundations.

With this, I wish all participants at this conference a fruitful exchange of ideas and discussion.