

FSDC Industry Exchange Series Webinar on the Launch of Report

“Revitalisation of Hong Kong’s Real Estate Investment Trusts Market – Promoting Liquidity”

18 May 2021

Background

- In November 2013, the Financial Services Development Council (FSDC) released a research paper entitled “Developing Hong Kong as a Capital Formation Centre for Real Estate Investment Trusts”, setting out recommendations to develop the REITs markets in Hong Kong.
- Over the years, the Government and regulators have worked continuously to introduce policy enhancements for REITs, which have been well received by market players.
- Since the publication of the FSDC’s 2013 research paper, the global REITs market has seen tremendous growth and evolution driven by a combination of technological, economic and policy advancements, presenting ample growth opportunities that can potentially revitalise Hong Kong’s REITs market.

Capturing Growth Opportunities for REITs in Hong Kong

Synergising with existing public initiatives

Explore the convergence of REITs and existing public initiatives, including integrating transportation infrastructure across the GBA, improving healthcare facilities, and promoting 5G usage.

Capturing regional growth

Take proactive actions to capture cross-boundary / cross-border opportunities in emerging markets in Asia and the Belt and Road regions to grow into a regional REITs hub.

Mobilising the offshore RMB pool

Explore the role of REITs in RMB internationalisation by expanding and diversifying the offshore RMB product basket.

Riding on the momentum of Mainland infrastructure REITs and the GBA

Further improving efficiency of resource allocation in the GBA, facilitating the industrial upgrading in the field of real estate and infrastructure, invigorating the assets and enriching investment choices for investors.

Policy Recommendations

Recommendation 1: Refining the REITs Value Proposition

- In the face of the competitive landscape of global REITs, some of Hong Kong's unique edges, which previously may not have been articulated enough, should be highlighted more in a refined value proposition of Hong Kong REITs. Among others, the following strengths of Hong Kong's REITs regime should be highlighted:
 - Hong Kong welcomes different types of income generating assets to list as REITs.
 - Hong Kong's simple and low tax system, which does not impose tax on offshore profits, capital gain, dividends or value-added tax (VAT), automatically applies to REITs.
 - The Dual Tranche, Dual Counter (DTDC) model, which allows dual currency trading, is applicable to REITs.

Recommendation 2: Tapping into Cross-Boundary Investor Base

- REITs have not been included in the eligible securities under the Stock Connect schemes, leaving a large potential investor base untapped.
- The FSDC suggests including REITs as eligible securities under the Stock Connect schemes, starting with ‘southbound’ and potentially expanding to ‘northbound’ at a later stage, after the Mainland’s infrastructure REITs will have been rolled out. This proposal will not only broaden the investor base of REITs in Hong Kong, but also be beneficial to the development of the forthcoming Mainland infrastructure REITs.
- The inclusion of REITs under the Stock Connect schemes can facilitate the efficient matching of real estate assets with cross-boundary capital, to support regional economic growth and restructuring, thus establishing Hong Kong as a regional REITs investment hub.

Recommendation 3: Diversifying REITs Product Offerings

- To promote REITs as a competitive structure for listing real estate assets in healthcare, logistics parks and infrastructure sectors. The Securities and Futures Commission (SFC) should consider delivering a clear message as to the regulatory implications for such listings, so that potential issuers and intermediaries are provided clarity in this regard.
- Hong Kong has recently welcomed the first listing of logistics-related REIT, which is a timely and relevant example showcasing the diversity of the market.
- More product innovation based on REITs should be encouraged, e.g. REIT ETFs and REIT futures.

Recommendation 4: Exploring Tax and Financial Incentives

- To review the existing tax policies in relation to REITs. Consideration should be given to the necessity of potentially providing tax incentives in areas including the following:
 - Property tax on REITs;
 - Profits tax on asset holding SPVs;
 - Tax for transfer of properties acquired by REITs; and
 - Stamp duty on trading REITs.
- The FSDC notes and welcomes the Government's announcement to provide subsidies for qualifying REITs authorised by the SFC and listed in Hong Kong in the coming three years. The FSDC would encourage ongoing consideration of extension and further incentives to stimulate and harness the opportunities for Hong Kong.

Recommendation 5: Implementing Regulatory Enhancements Expeditiously

- Takeover and mergers are common ways for REITs to grow their businesses. However, such restructurings of REITs in Hong Kong suffer from two key regulatory difficulties, namely an absence of “squeeze-out” provisions facilitating takeover of a REIT, and the non availability of “scheme of arrangement” in the privatisation of a REIT.
- Legislative changes should be considered to facilitate compulsory acquisition and scheme of arrangement for REITs – by extending their application to listed collective investment schemes.
- The SFC should consider issuing a Practice Note on their application to ensure minority unitholders of REITs are accorded the same level of protection as shareholders in listed companies.
- The FSDC gladly notes that the SFC’s “Consultation Conclusions on Proposed Amendments to the Code on Real Estate Investment Trusts” issued in 2020 acknowledges such issues, and states that it is consulting the Government on the next step regarding the suggestions.

Recommendation 6: Stepping up Market Promotion and Regulatory Communication

International Market Promotion

- Step up regional and international promotion of REITs to establish Hong Kong as the go-to market.
- Hold dedicated REITs events such as “REITs day”.

Targeted Marketing by Investor Type

- Explore tailored means to engage institutional investors and retail investors, respectively.

Swift and Transparent Regulatory Communication

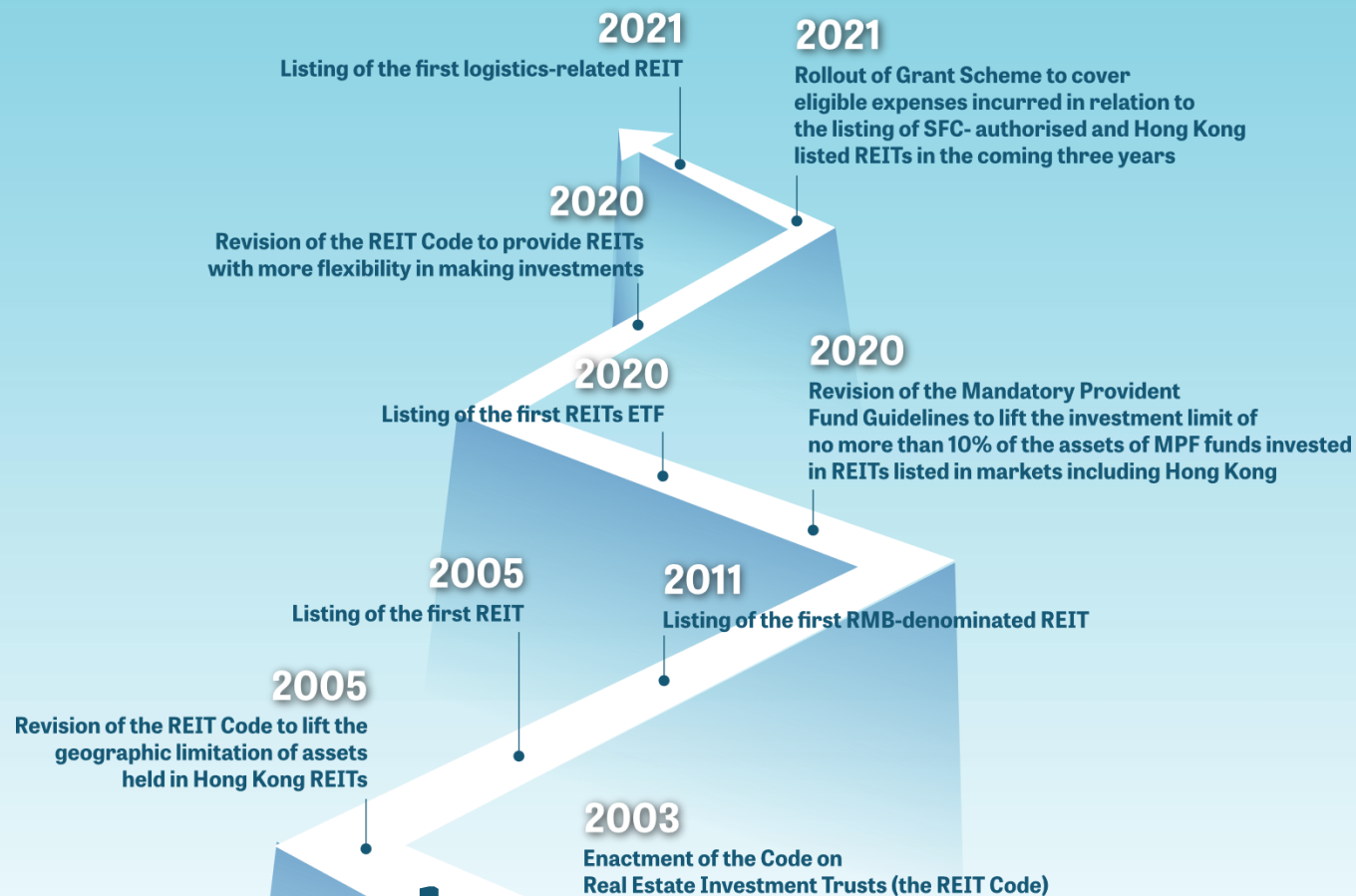
- Certain service level commitments would be highly appreciated by market players. The setup of a designated telephone hotline and enquiry email by the SFC in July 2020 is a timely example of such efforts.
- Other similar measures, including potentially shortening the processing time for application approvals – a key consideration factor in choosing the listing venue – will be highly welcomed.

Conclusion

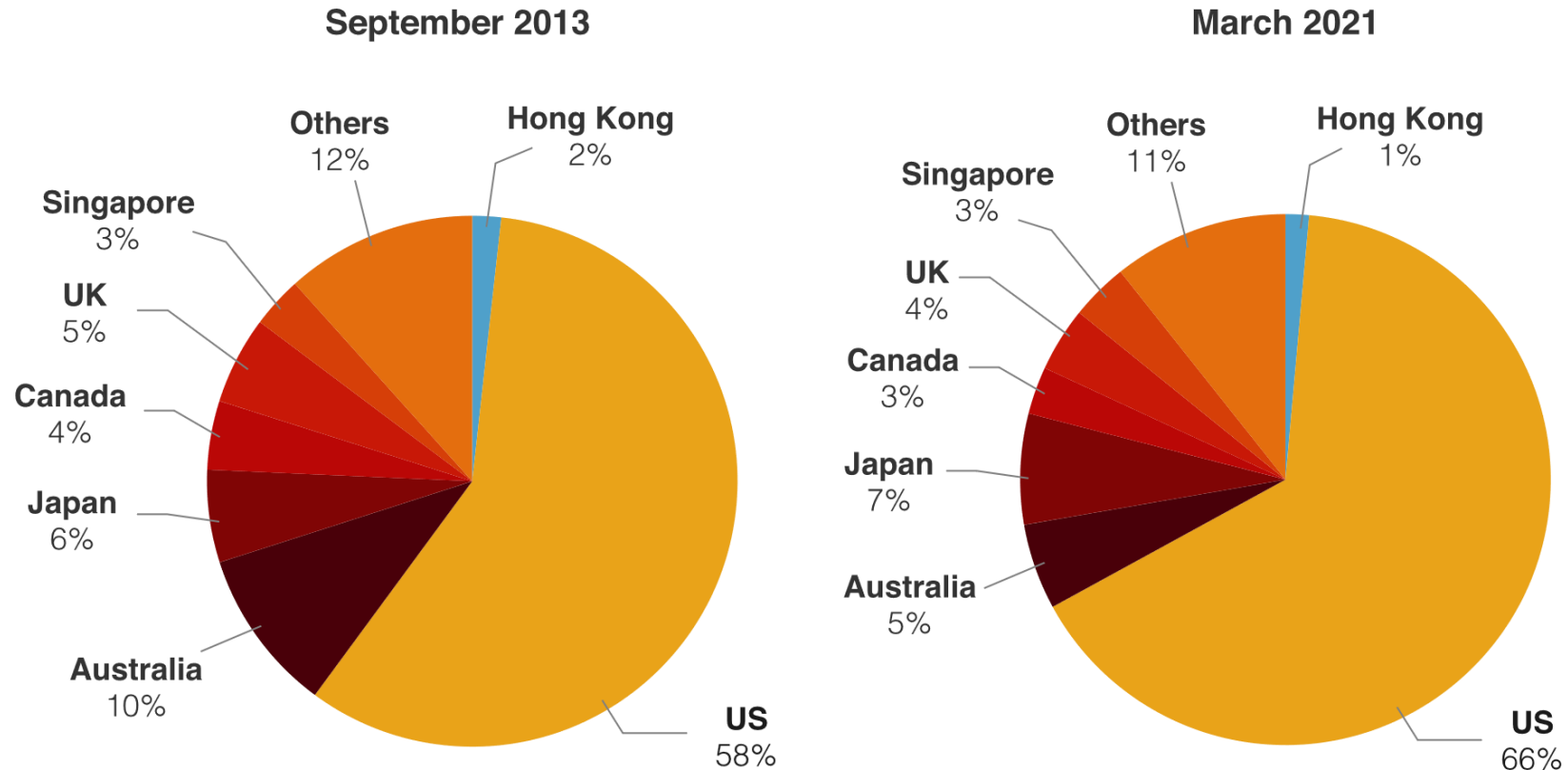
- The ability to capitalise on Hong Kong's unique competitiveness and to keep pace with the rapidly evolving global landscape is key to bringing prosperity to the REITs market.
- While this paper focuses mainly on real estate investment trusts, it is noted that there have been a number of positive developments for investment funds and private equity funds, including tax treatments thereof. It is also noted that Hong Kong is home to a number of listed properties companies and property-management-companies. Building an attractive capital market for real estate, including Mainland real estate, is important to Hong Kong's position in the international financial landscape.
- The FSDC hopes that the recommendations set forth in this paper can help nurture an ecosystem for real estate financing. As always, the FSDC looks forward to working closely with various stakeholders to cement Hong Kong's position as an international financial centre.

Panel Discussion

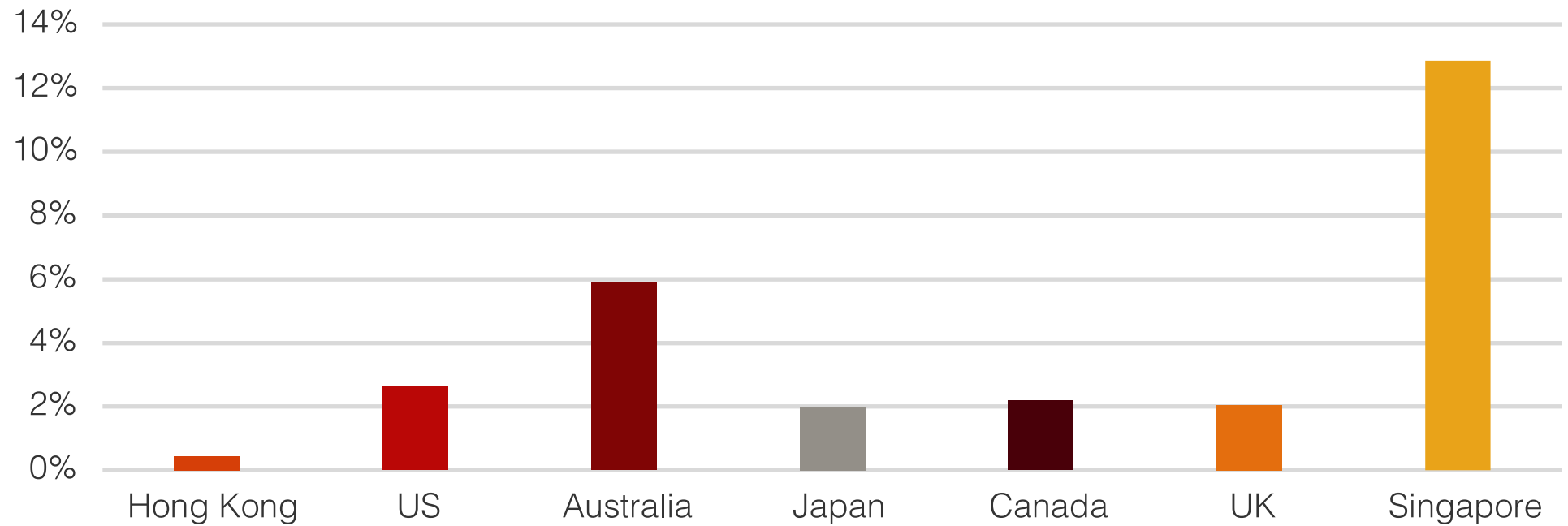
Regulatory and Market Development Milestones



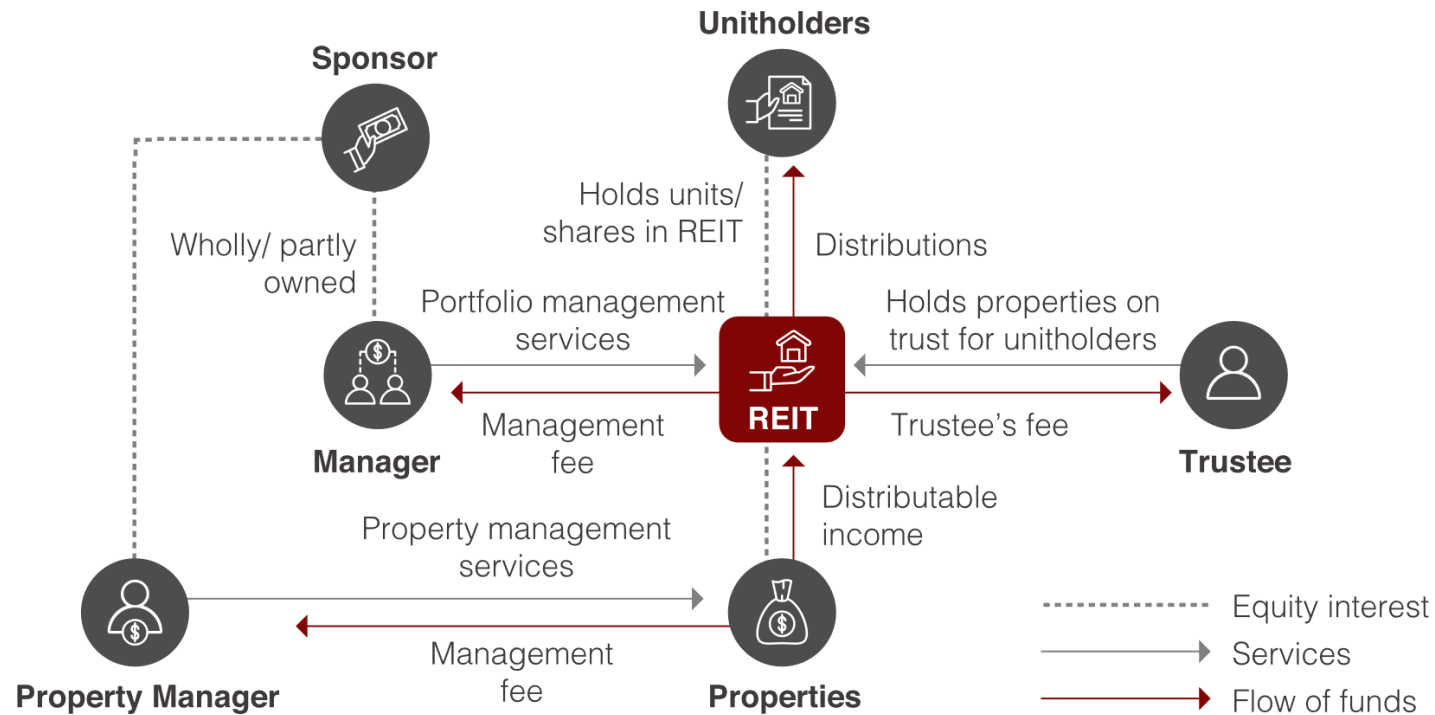
Market Share of the World's 7 Largest REITs Markets (September 2013 and March 2021)



Market Capitalisation of REITs as % of the Stock Market (as at March 2021)

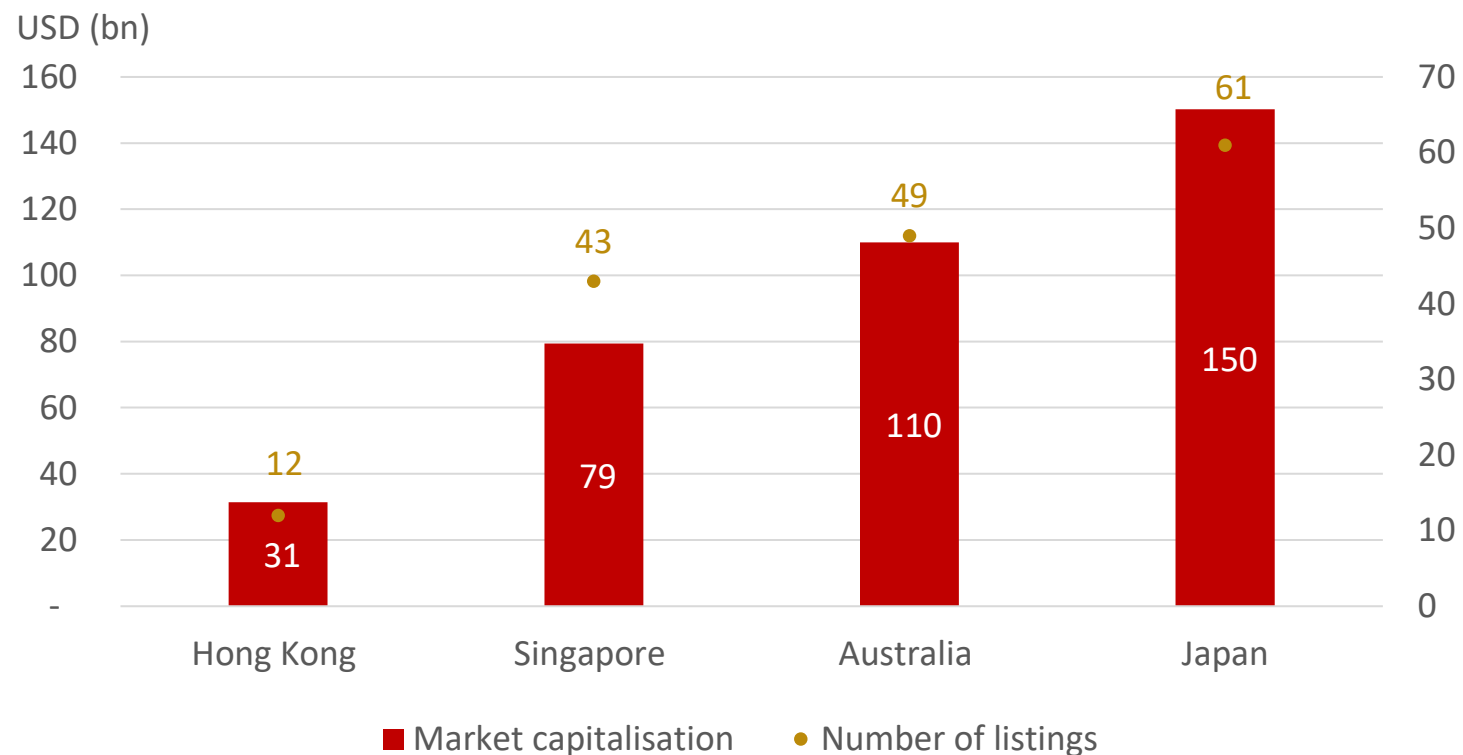


A Typical REIT Structure in Hong Kong



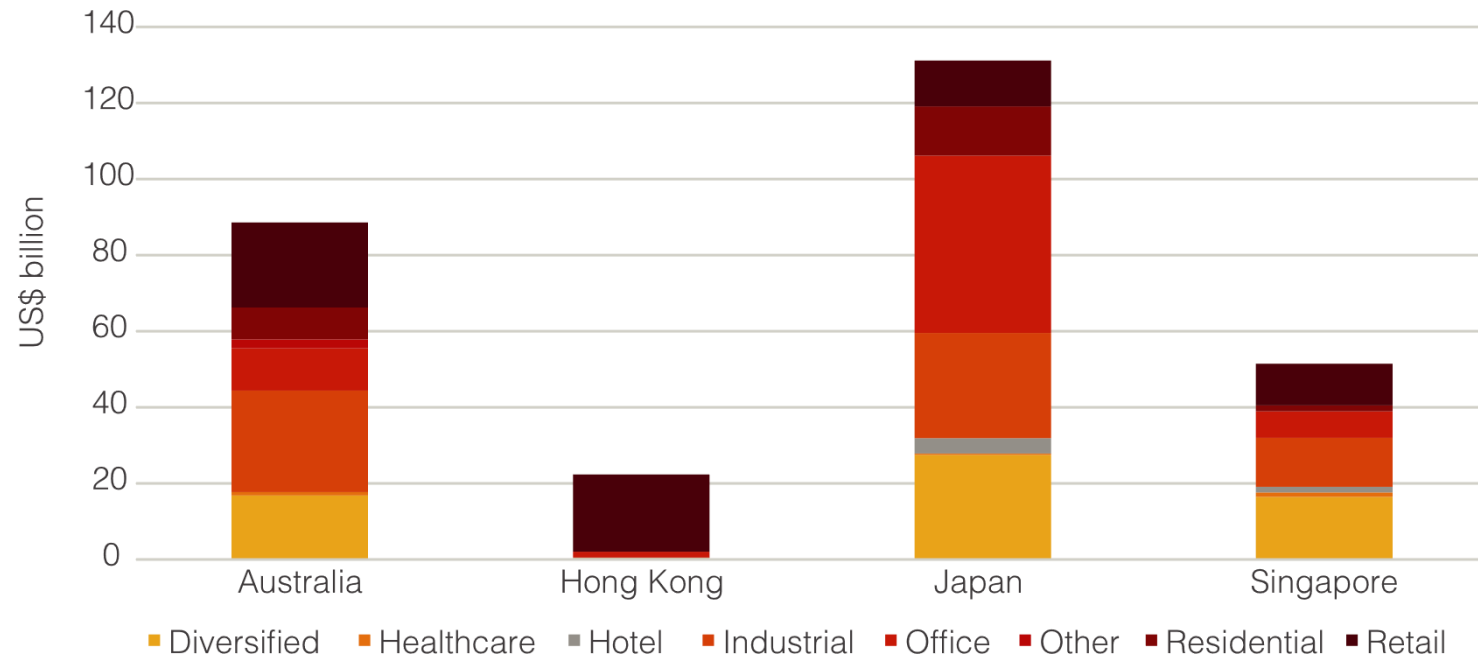
Market Capitalisation and Number of Listed REITs (APAC)

(as at March 2021)



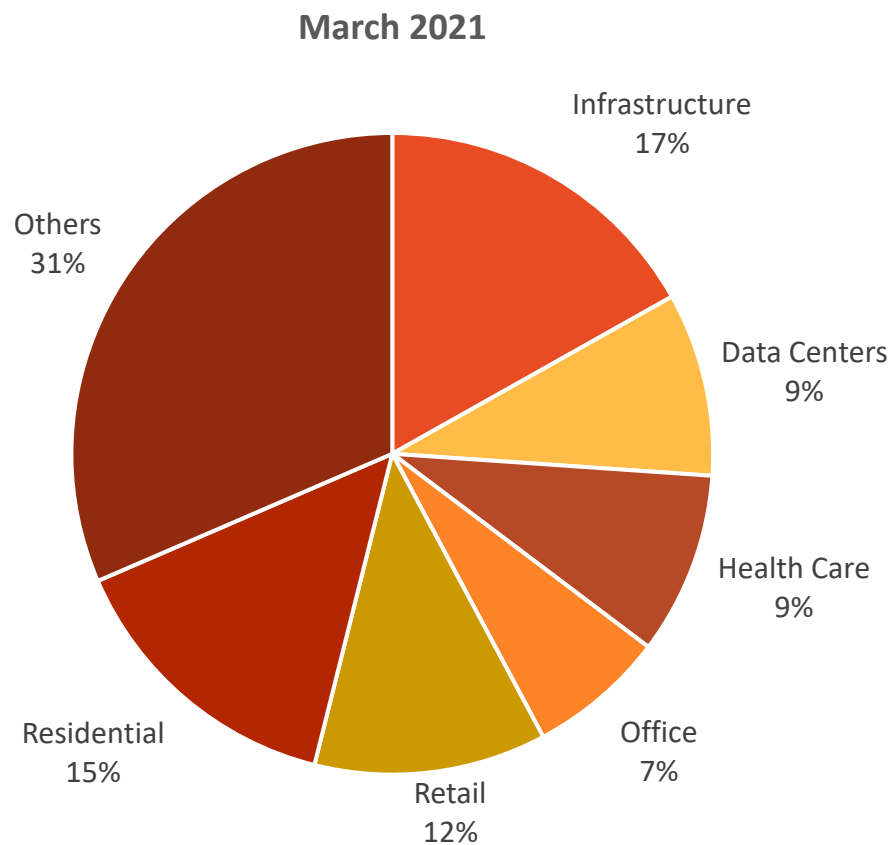
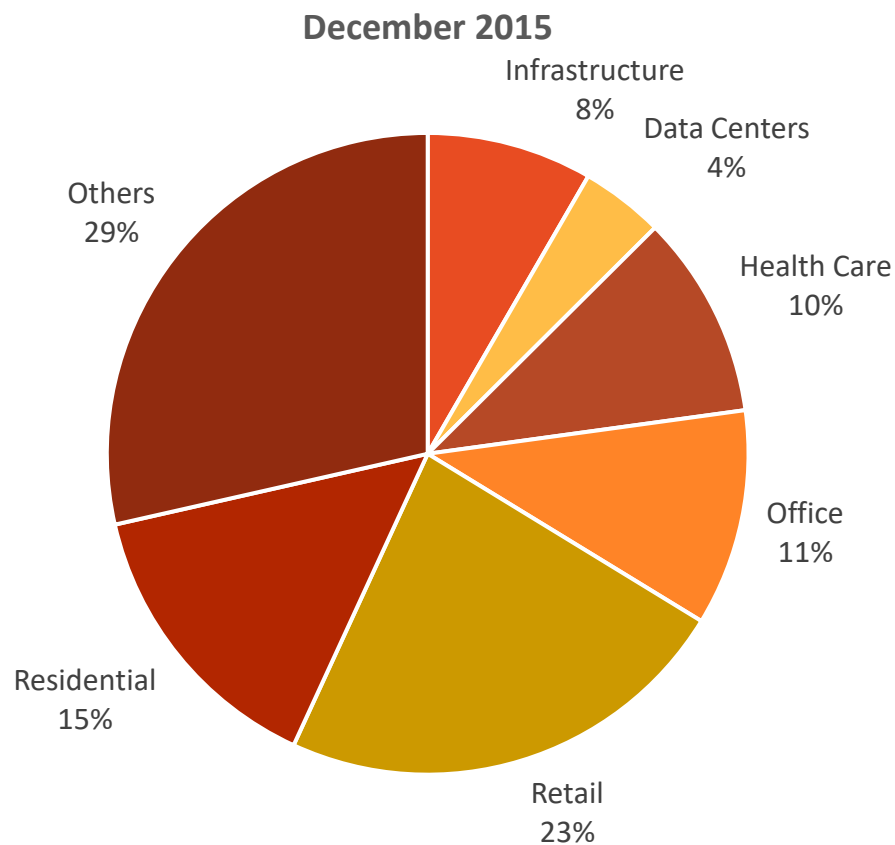
Free-float Market Capitalisation of REITs by Industry Sector (APAC)

(as at the end of 2020)



Share of Market Capitalisation by Industry Sector (US Equity REITs)

(as at the end of 2015 and March 2021)



Q&A