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Real Estate Investment Trust in Thailand

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Abstract

This study is about real estate investment, specifically Real Estate Investment Trusts (REITs) in Thailand. The objectives are to provide information for using in future by using the USA's REITs as a benchmark for Thailand. With a minimal REIT history in Thailand and therefore data limitations, a quantitative methodology is not suitable, so that this body of study uses a quantitative method of analysis instead. This paper shows that future REITs growth in Thailand should be tied into three actions: a) Educating citizens and investors about REIT benefits such as a long-term tool for retirement savings, and the strength of REITs in mature and developing economies; b) Recognizing that efficient information flow results in greater transparency, which lends confidence to all investors; c) Well-managed systems and infrastructure, including transparent oversight agencies, fair rules/taxation with strong enforcement, and ongoing strategic analysis of infrastructure to ensure Thailand's competitiveness is not limited by inefficient technologies,laws/taxes and processes. Furthermore, outcome also mentions that Thai REIT market is still very young because it was opened in 2014. Therefore, with this limited history, it is important to apply existing knowledge to Thai's markets and to utilize successful international models. With the confidence of familiar legal structures and processes, investors will be able to make decisions based on the accurate and timely information. Therefore, this paper provides general recommendations to the market for ensuring on confidence, equity and prosperity to all investors in nearly future.

Key words: Real Estate Investment Trusts Quality method, Investment, Real Estate, The Stock Exchange of Thailand (SET) and National Association of Real Estate Investment Trusts (NAREIT)

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Introduction

In a century of economic modernization, the globalization process can be linked to many aspects of finance, especially investment-grade products. Investment is essential for the creation of wealth, and financial markets give investors benefits such as managing savings for their future, growth of principal through primary or secondary markets, currency markets, or by investing in real estate sector. The Real Estate Investment Trust (REIT) is a well-known and concentrated worldwide investment vehicle, in 2014 became available in Thailand. However, analysis of the Thai REIT market is not practicable because of the lack of historical data. A substitute or analogous set of REIT data is readily available in the U.S. REIT market. Since both markets have similar REIT operations, one should be able to predict Thai REIT performance through decision-making tools tailored to serve investors at the Stock Exchange of Thailand (SET). In Thailand, the Securities Exchange of Thailand (SET) made available regulations and guidelines regarding the issuance and offering of Thai REIT's, on 1 January 2014. This model of financial instrument generally replaced the Property Fund for Public Offering (PFPO), which was an unproductive financial vehicle. However, REIT had started in recently, so it will motivate the paper to conduct the wide knowledge to inform society. Therefore, paper wants to find out the idea of REITs market in USA to construct the guideline performing be better for Thailand via the qualitative exploring the history on REIT in USA pursuing the better of operating REIT in Thailand. The main reason is on choosing the qualitative method because there is the limitation of data available on Real Estate Investment Trusts (REITs) in Thailand.

Literature review

Many theories and empirical studies have described the starting idea of investment that linking to REIT. This is more important to clarify in details because society must learn how to use the REIT for future investment to earn benefits return like in USA and worldwide. REITs investment in the U.S becomes a model of worldwide. More than 30 countries in the world adopted regular of legislation. REITs are typically provided high distributions and the potential growth for long-term capital investment. RIET returns are likely between high-growth of stocks and the lower risky bonds. Therefore,REITS tend to be among of these companies paying high dividends relatively stable and predictable of contractual rents by the tenants.The world adapted REIT markets that creates an opportunities are available for the investors in developed countries and in emerging markets.The investors can invests similar securities options from around the world such as in Asia, Europe and North America.

Theoretical review

Theory of Planned Behavior is explained by Ajzen (1991), and states that there are four main variables affecting behavior. Those are attitude toward the behavior, perceived behavior control, subjective norm and intention. However, the direct conduct to behavior is intention, and that is called motivation. The behavior of investor is one factor affecting on decision making in investment which it can give information for investing on REIT market.

Prospect Theory is explained by Kahneman and Tversky (1979), it is about an analysis of decisions under risk that can be chosen between prospects or gambled, by using the basic tenets of utility theory, the certainty effect that shows risk involved in choices for gains and losses. They also explained about the isolation effect, that inconsistent preferences when having the same choice occurs in different forms. This theory provides idea of investors' choices for gains and losses that investors can use to be the guide on REIT market analysis.

Investment Theory by Bob Murphy (2016) explained that different types of investment are business fixed investment, with the neoclassical model of investment that shows how investment depends on marginal product of capital (MPK), interest rate and tax rules affecting firms. The result, the fluctuations in employment affected the MPK and incentive of business fixed investment. Demand for price of housing and the incentive for residential investment are affected by the movement of income. The factors to shift the investment functions are technological improvements, an increase in population lead to increases demand for price of housing and residential investment. The concept of investment theory can be used as fundamental base for investment analysis applied on REIT market.

Consumer Preferences Theory by Voicu (2007) explained that the structure of consumer preference is influenced directly from an intention of attitude toward the behavior and the subjective comparison norm. Attitude toward the behavior is the incentive from consumer's belief in the choice will lead a certain desired functional and emotional evaluation of the results. The subjective comparison norm is the belief of consumers that their choice is considered correct by others, and had motivation to act in accordance with the opinion of others. The investors' motivations can be launched by the theory of consumer preferences theory for desirable considering on REIT investment.

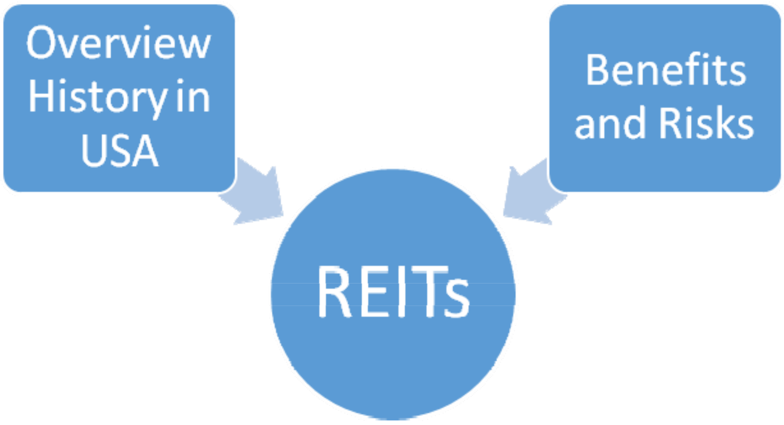
Demand and Supply Theory by Whelan and Msefer (1996) explained supply and demand in the framework of system dynamics. The system dynamics approach, demand is affected directly in two ways to supply by the shipments inventory and desired inventory. Demand dictated by demand price schedule that present by price. The supply or flow in inventory affected by supply price schedule that detected by price. This model shows the big picture how the price is affected to demand and supply. This is the basic theory that is used in all market including REIT market for consumers checking on number of investment in REIT in Thailand.

Empirical review

According to the study of McCue, and Kling (1994) used a Vector Autoregressive Model explained relationship between macroeconomics and real estate returns that result show all macroeconomic variables are significant influence directly to real estate series. The study of Redman and Gullett (1998) showed that foreign investor purchase of U.S. commercial properties was significant and positive on purchase price, but showed a negative effect on sale prices which showed lower than properties sold by a U.S. investor. Darrat and Glascock (1993), with an eight-buy eight VAR model, had results the real estate market is efficient with respect to available information on the industrial production. Glascock (1991) has test for excess returns and/or change in risk behavior across market condition in New York Stock Exchange. The result, real estate firms has no excess return and no changes in beta were found. Darrat and Glascock (1989) also talk about impact of monetary policy on the returns of investment in the stock market. The monetary policy and market returns had significant lagged effects on current real estate returns. In the future the stock market could be effective channel in transmitting the monetary policy rather than the traditional credit channel. Yonder, Eicholtz and Kok (2010) examined the relationship between corporate governance and the performance of listed property companies in the U.S. during the pre-crisis and the recent period. The result, the corporate governance did not influence performance of real estate equity investment before the crisis, but the structure had become an important performance driver of real equity investment during and after financial crisis.

The study of Sanger, Sirman and Turnbull (1990) explained about market reaction with tax reforms in 1976 and 1986 in the return of REITs and other real estate firms. A positive and significant are in 1976 response to 1986. Lopez (2009) comparison of scale and regulatory values of the average asset correlations that find out the current regulatory formulas generate high values of assets. Gerlowsly, Fung and Ford (1994) explained foreign investors' property prefers location with large, developed, and active economies but the state taxation variable is discouraged. Goebel and affiliations (2012) find out the period 1993 through 2009, with REIT momentum emerges as the dominant driver, book-to-market, institutional ownership and illiquidity. All variables are strongly associated with REIT returns and also find out the heavily influenced on REIT returns by interest rate changed. Raitio (2004) showed the degree of diversification affects the closed-end fund puzzle in REITs that provide discount to net asset value (NAV) has important consequences to REIT investment strategies. Pham (2011) examined South Korean REITs (K-REIT), a result is poorly performance over the entire period from 2002 to 2010 as compare to stock, bonds and property companies. Pham (2012) used EGARCH models to explore the dynamics of returns and volatility across the Asian REIT markets and the emerging REIT markets in Asia. The emerging markets offer lower returns than the developed markets but also lower risk. Correlations among emerging markets are not constant and increase during the global financial crisis. The result from EGARCH model has shown a strong tendency for REIT returns from developed markets; Japan and Singapore. Pham (2015) has a result returns in Thai-REITs during period of 2003 to 2010 that Thai REITs only played a minor role in the mixed-asset portfolio at a low risky due to poor risk-adjusted performance. Newell, Pham and Ooi (2015) explained for Singapore REITs (S-REITs) over period 2003 to 2013 that delivered strong risk-adjusted returns which become the best performed asset class. A strong risk-adjusted performance is that highlights the ongoing strategic role of S-REIT to be an important pan-Asia hub for REIT markets.

Methodology



Conceptual Framework

Source: Developed for this study

This paper uses a qualitative concept to explore the history of REITs in the U.S. for decision-making guidelines for the Thai REIT, and thus benefiting Thai investors and society, in general. Guidelines are for Thai Investors/Society on Investment Strategies in REIT Markets, including Current Tax Implications. Qualitative analysis is used as the evaluation methodology throughout this paper.

Results

Real Estate Investment Trusts (REITs) in U.S.

History: REITs have existed for more than 50 years when legislation was signed into existence by President Eisenhower, in 1960. The REIT laws provided a way for individual investors to invest in large-scale, income–producing real estate by combining the stock-share income producing vehicle with purchase and ownership of commercial real estate.

Nation Association of Real Estate Investment Trust (NAREIT), a worldwide representative for REITs and public traded real estate companies with interests in U.S. real estate and capital markets, claims REIT total equity market capitalization to be more than $1 trillion. REITs have experienced better growth than typical market indexes, and during the last five year have grown 60% in value of daily transactions. These factors and the outstanding growth demonstrate the REIT sectors are a meaningful component in the equity market. REITs generally separate in three (3) categories: Equity REITs is a company that owns and operates income-producing real estate and are typically related to assets including office buildings, shopping malls, apartments, hotels, resorts, self-storage facilities, and warehouses. Mortgage REITs are the second category; these consist of typical mortgages or other types of real estate loans that are acquired through mortgage-backed securities. The third category is Hybrid REITs, which originally consisted of both equity REITs and mortgage REITs, but were discontinued in 2010. Currently listed on the New York Stock Exchange (NYSE), for September 2016 there were 190 REITs representing an equity market capitalization at $972 billion (REIT.com)?

Real Estate Investment Trusts (REITS) in Thailand

History: The Stock Exchange of Thailand (SET) introduced Property Funds for Public Offering (PFPOs) in 2003. REITs had been planned for introduction in 2007 to replace these property funds with a more effective, attractive and transparent investment vehicle. The first Thai REIT became listed in 2014, Impact Growth Real Estate Investment Trust (IMPACT). According to DBS Vickers research, currently there are 51 PFPOs and 5 REITs listed on SET with a combined market capitalization of Baht 333.4 billion (US$9.3 billion). Types of REITs: Investors may choose between two investment types: direct investment, by acquiring or obtaining ownership in the real estate or asset and indirect investment, by investment through a company which the REIT holds more than or equal to 99 percent of the total shares, and a governance system must be in place to ensure that such company complies with rules similar to those of the direct REIT. All REIT units must be listed on the SET and a REIT and its REIT units should following the obtained approval from SET in order in the market.

Discussion

Within this study paper determines that U.S. REITs have performed well more than 50 years. The information that is provided by FTSE NAREIT (Nation Associated of Real Estate Investment Trust) and All REITs Index (FNAR), has market capitalization at $1.052 trillion with 221 REITs in FTSE NAREIT and All REITs Index, and 190 REITs traded on the New York Stock Exchange market capitalization is $972 billion. Dividends payout is 3.70 percent for FTSE NAREIT ALL Equity REITs (September 2016). REITs are traded in real time so that investors can trade as a stock on the major stock exchange, New York Stock Exchange (NYES), The American Stock Exchange or the NASDAQ nation market list. For investor security, REITS are registered with the Securities and Exchange Commission (SEC). Some REITs are traded on a stock exchange, and these are called publicly traded. Others may be registered with SEC but are not publicly traded, and known as non- traded or private REITs. Publicly traded REIT information is based on limited transparency and real time trading, and these two features offer increased data visibility and frequent updates, improving investor confidence in Thai REITs versus the PFPO.

Non-traded REITs have some risks involved; such as lack of liquidity, because they cannot be sold readily on the open market. Share value transparency: typically are not required to update their share value until 18 months after the initial offering. In this case, investors may not able to assess value or volatility for a significant time period. Up-Front fees are usually higher than the publicly traded counterpart. According to the empirical review of Darrat and Glascock (1993) had a results showed that real estate markets were more efficient with access to important information regarding industrial production. While this study uses different methodology, it concludes similarly that market efficiency improves with access to up-to-date information. The study of McCue, and Kling (1994) that explained about the factors of microeconomic variables: output, prices, nominal rates, Investment, and Equity REIT index (RE) all had significant and positive to the real estate market series. The results of both studies can be related to REIT market trends of growth that is based on strong economic indicators and information is transparent and available to the public.

Thai REITs market must be compared with the developed countries and the good performing REITs in Asian countries such as Japan and Singapore. However, some fundamental limitations of public information are the issue; and certain types of assets cannot be included in REITs. This study finds that Thai REITs, since 2014, have better performed than property of funds (PFPO) because investors can invest in both existing and new (Greenfield) projects, but again limited access to decision-making information plagues the REIT system.

These differences negatively affect the REITs ability to adjust to changing market conditions. Presumably these practices are put in place to protect the Thai investor from fraudulent asset management firms, but this also suggests governing agencies are unprepared to curb dishonest practices. Transparent reporting of asset management information would put the investor in the strongest position.

Under the current Thai REIT structure, the values of underlying assets are evaluated at least every two years or after significant changes in the asset. However, none of that underlying asset valuation data is ever provided to the public. Another major obstacle to Portfolio Investment is the limitation prohibiting foreign investors from participating in Investment Public Offerings (IPO). At this time there are very few REIT listed companies on SET, and it may be the IPO restriction placed on the international investor is a major factor in the slow growth of the Thai REIT market.

Conclusion

REIT's in the U.S., Europe and Asia have performed well for many years. Within the economic sphere, REIT's have become a dynamic income-producing sector. REIT's are attractive because there are many types available, performance is strong, and typically financial information is readily available for the investor and public. REIT trading has become safer and is improved by better information flow and reporting practices. Real-time trading requires immediate transparency, and this improved visibility adds greatly to investor confidence in the market. Transparency is one of the supporting pillars of the concept of valuation, a primary measure of underlying assets that REIT's are holding.

The world's largest economic partners have adopted a market model of transparency, efficiency of information, and a rules-based system. With these guidelines enacted by the core G20 countries, a sustainable economic future is likely, and with that success, developing countries will desire to be included in the economic windfalls. We must ask the question, “Why should investors invest in the REIT market?” Because the REIT market sector continues to show high potential growth with the expansion of globalization, and that process is fueled by the rapid development of high technology internet facilities that connect worldwide financial centers.

In Thailand, there are tremendous opportunities to create future saving plans and REIT's are good long-term growth vehicles. Thailand's citizens would benefit by creating retirement accounts for future wealth. As a developing country, Thailand's private and government expansion of financial infrastructure coupled with improved transparency in reporting should lead investors to appreciate and value Thai property assets. These improvements should move Thai financial markets into mainstream international trading.

However, of all the pieces that could be improved, it is transparency that carries the greatest impact because without transparency Thailand will remain isolated and unrecognized by the international investor, but with reporting and transaction transparency, Thailand will gain international investor confidence, and then Thai REIT's will have opportunities to be traded worldwide.

Policy Implementation

It is suggested that Thai REITs would include an open IPO process for an international pool of investment. This approach quickly leads to an increased interest in the REIT, likely an abundance of investment cash, and international representation in the share voting body.

To be competitive internationally, Thai REITs must provide disclosure of high-quality public information, transparent reporting of the underlying assets, and their values. These measures would improve the demand for the Thai REIT market as an alternative investment, especially with individual investors.

Improve Thai REIT market efficiency similar to the developed Asian countries of Japan, and Singapore, to diversify from real estate into REIT markets that provides liquidity, which would ensure investors’ confidence. Thai REITs should utilize existing

REIT frameworks leading to uniform reporting and quicker market development, by giving investor's familiar organizational structures and consistent data reporting.

The governing agencies should focus on the education of highly skilled professionals to ensure the success of the future REIT market. These professionals, on both sides of the public/private line, must provide superior quality assets managed with excellent corporate governance; discourage conflicts of interest and breach of public trust through permanent license suspension and strong penalties. These measures will build the confidence of investors and bring much needed foreign investors into Thailand's REIT market.

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