Malaysia, India tweak Reit regimes to spur market

There was a common thread in two new proposals by Malaysian and Indian regulators to reform their respective real estate investment trust regimes. Both countries are looking to increase Reit exposure to under construction or greenfield properties – moves that could give a much-needed boost to the asset class. John Loh reports.

By John Loh *21 Jul 2016*

Securities Commission Malaysia (SC) issued a consultation last week that would allow Reits to buy vacant land for development, so they can build from the ground up. The value of these assets must be capped at 15% of a Reit's total assets. Reits in Malaysia are currently allowed to acquire assets that are under construction.

While Indian Reits will not be able to buy vacant land, the Securities and Exchange Board of India (Sebi) had similar ideas to the Malaysian regulator when it floated its own consultation this week. It is proposing to allow Reits to increase their exposure to under-construction properties from 10% to 20% of total assets.

Reit proponents in both Malaysia and India have welcomed the moves, saying it will help improve returns as Reits can now get in on the game earlier and keep more of the profits for shareholders.

Focus on returns

In the case of India, Reit managers could see discounts of as much as 20%-30% when buying under-construction properties, as half completed projects are often cheaper than the finished product, according to Ajay Jain, executive director and head real estate group for Indian boutique investment bank Centrum Capital.

"Private equity firms can earn returns of 20%-26% on property investments in India," he said. "Once Reits can invest in under-construction properties, those same returns could be available to them too."

Sebi's proposal is the latest in a raft of reforms aimed at encouraging the first Reit listing in India, a market which has been in the works since 2008 but has still not seen its maiden deal.

Private equity firms like KKR and Blackstone are raring to go, while big property developers like DLF have long indicated their interest in setting up Reits, according to market watchers, but to no avail.

For Malaysia, a local investment banker said the trick was to find a balance between what Reit managers and investors wanted.