



TIME TO DO THE REIT THING

In opinion piece 14 back in October 2006 I wrote about Singapore and I highlighted an investment I had made in A- REIT (Ascendas Real Estate Investment Trust). I also explained what a REIT is because it is something that many Irish people will not have come across. (I can summarise it now by saying that it is basically a special type of quoted property company.)

In recent times more people here might have heard the term REIT because a number of UK property companies like British Land and Land Securities converted into them when the UK introduced the appropriate legislation.

REITs now exist in many countries around the world with America and Japan being leading players. France, Holland, Germany Hong Kong and Australia also have them.

Singapore with a population similar to that of Ireland has quite a few REITs. Here is a selection of the largest:

S-REITs valuation comparison

Specified	Share price 16-Mar-10 (S\$)	Current Mkt Cap (S\$ MM)
A-REIT	1.94	3,630
CapitaCommercial Trust	1.13	3,183
CapitaMall Trust	1.85	5,885
CapitaRetail China Trust	1.20	747
CDL Hospitality Trust	1.76	1,474
Frasers Centrepoint Trust	1.33	1,019
Mapletree Logistics Trust	0.81	1,664
Suntec REIT	1.37	2,468

They have REITs that own offices, retail outlets, industrial properties, hotels and they even have one that owns private hospitals. Some of them own properties outside of Singapore but you can buy ones that invest purely in Singapore.

If a small country like Singapore can have such a vibrant REIT market is it not possible that Ireland could do the same? I ask this question because I am trying to think about possible solutions to our own property related problems.

As far as I am aware I believe that NAMA will ultimately end up owning quite a number of properties that might be suitable to be put into a REIT structure.

I am therefore suggesting that the government should introduce legislation that would allow REITs. Once the legislation has been passed NAMA could start the process of getting the REITs to market.

Most readers might think that nobody in their right mind would currently want to buy into Irish property but the sale of the Tommy Hilfinger and Boodles shops on Grafton

Street make me think that there might be appetite for a REIT with buildings that have the following characteristics:

- Quality tenants: most likely, government, semi-state or multinationals.
- Long leases: the tenant is going to be around to pay rent for a good few years.
- Good locations: Mainly Dublin.

Unfortunately I do not know how many buildings NAMA will own that have these characteristics but I am assuming that it will be enough to achieve a REIT big enough to justify putting it together.

I would also recommend that the financing structure backing the REIT should be reasonably conservative. In other words most of the money should be in the form of equity rather than debt. This would make it attractive for some international lenders like HSBC to lend money to the REIT at a reasonable rate.

NAMA should consider taking some equity themselves because then they will benefit from any future pick up in the market. If they genuinely believe in the idea of “long term economic value” they will not want to sell all their best assets straight away at knock down prices.

The price that the REIT pays for the properties will be determined by investors needing to achieve a decent yield. Given that ten year Irish government bonds currently yield about 4.4%, I presume investors would look for a reasonably higher yield than this. The investment banks advising NAMA would find out just how big that premium would need to be. (They have to justify their fees somehow!)

If NAMA managed to successfully launch one REIT they may then be able to launch further REITs that would have properties in secondary locations with shorter leases and lesser known tenants. There is usually a price for everything!

In Singapore REITs are allowed to have 10% of their assets in development projects. I would assume that the Irish legislation should consider a similar rule. This might mean that eventually NAMA could sell one or two development sites or half completed projects to the REITs. This might be a few years away because at the moment we have plenty of spare offices and shops but allow me to delude myself into thinking that there is light at the end of the tunnel!

I know my suggestion does not allow NAMA to sell off any of the really crazy developments that were started at the height of the bubble. It might just be that a few golf courses will end up back as agricultural land but so be it. The sooner we start doing things the sooner we can look forward to the day when we no longer have forced emigration.

As far as I know my old boss and retired fellow struggling soccer player, John Corrigan, head of NTMA (NAMA is under the aegis of NTMA) does not read my opinion pieces but maybe I should send this one on to him to see what he thinks. I’m pretty sure he will want to do the right thing or should I say the REIT thing!



John Corrigan