

REIT

Real Estate Investment Trust



Real Estate Investment Trust: REIT

What is a REIT?

A REIT is a type of “trust” where a trustee is determined its true owner on behalf of its beneficiary and does not have a juristic person status. The trust settlor will eventually become the REIT Manager (RM) whom will offer trust units to the public. Once received capital from the sale of trust units, the RM will entrusted the following fund with the REIT’s designated trustee in order to establish the REIT. The trust deed will assign the REIT Manager to manage the REIT and the trustee to supervise the performance of the REIT Manager and administer the REIT in the best interest of the beneficiary.

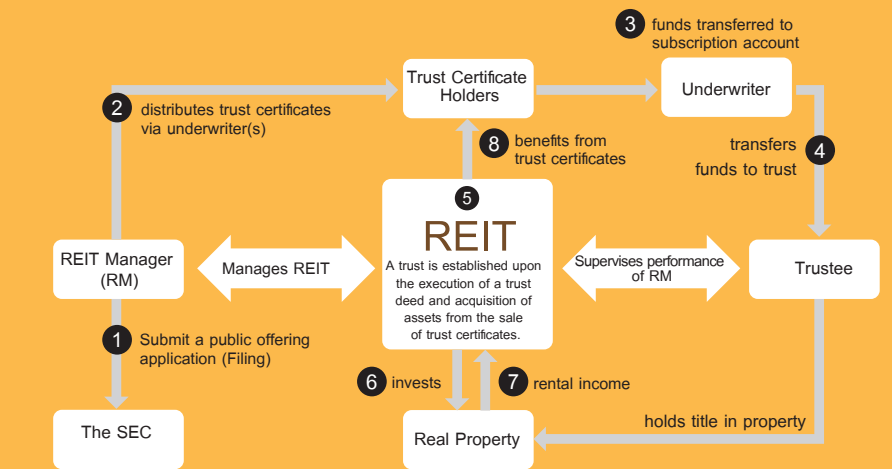
Benefits of REIT

Owners of Property	REIT
Owners may raise capital from real property that is already generating revenue and use that capital to invest and/or develop new projects.	<ul style="list-style-type: none">• Able to invest in varied types of real property, including real property abroad;• Able to use leverage to invest and/or develop real property for higher returns;• Able to partially develop its own real property;• Allow a company with expertise in managing real estate to become REIT Manager;• Adheres to international standard.
Investors	
<ul style="list-style-type: none">• Smaller investment is required than to directly invest in real property;• Greater confidence in management under the management of real estate experts;• Offer variety of ways to invest in real property.	

Relevant Codes Regarding a REIT

A REIT is governed by two relevant codes. Issues related to the operation of REIT and its trustee are governed by the Trust for Transactions in the Capital Market Act B.E. 2007 (2550). Trust certificates are considered a type of security under the Securities and Exchange Act B.E. 2535 (1992) (Securities Act). Therefore, the issuance, the public offering of trust units, and the disclosure of information must all comply with the Securities Act.

Establishing a REIT and Its Structure



The REIT Manager (RM) will file a public offering of trust certificates application with the SEC. After the SEC’s approval is granted, the RM will appoint an underwriter to distribute trust certificates* to the general public. Trust Unit holders will become the REIT’s beneficiaries. After the underwriting process is complete, the underwriter will transfer capital raised (commission deducted) to the trustee to invest in real property that generates rental income on a recurring basis in order to pay dividend to trust unit holders.

* Trust certificates are instruments which present the right of the holder as the beneficiary of the trust, represented by units; units of the same tranche have equal value (unitization).

Public Offering Application of REIT Certificates

Seeking Permission to sell REIT Units

The trust settlor (application for a public offering of units prior to the establishment of the REIT) or the REIT Manager (REIT has been established) shall submit an application to the SEC complete with the following documents:

1. Trust deed or a drafted trust deed if the REIT has not yet been established;
2. Underwriting of Trust Units Proposition Particulars regarding the offer for sale of trust units (Filing)
3. Assessment and asset appraisal report of real estate in which the REIT will invest;
4. Letter of certification from the designated trustee. The SEC will take at least 45 days to revise the submitted application from the date on which the application was submitted and all required documents were received.

Relevant Parties

REIT Manager (RM)

Important Qualifications	Important Duties and Responsibilities
<ul style="list-style-type: none">• A REIT Manager must<ol style="list-style-type: none">1. be an asset management company that is well equipped with personnel and work systems2. be a Thai juristic person<ul style="list-style-type: none">- with ≥ 10 million Baht of paid-up capital- main business is to manage REIT/ in the event that the REIT Manager also operate other businesses, a system to prevent conflict of interest must be established- at least one third of the board members being independent directors- no directors, executives, or major shareholders possessing prohibited characteristics• Apparent organizational structure equipped with work systems and personnel whom are experienced in investment management / has been in the real estate business for no fewer than three of the last five years prior to the application submission• Approved by the SEC (renew every five years)	<ul style="list-style-type: none">• Submits an application of public offering with the SEC ;• Determines REIT operation and investment strategies;• Invests and seeks benefits from real property;• Manages the REIT in accordance to the trust deed and relevant codes;• Calculates and discloses the value of real in the REIT and the value of the trust unit;• Maintains property in a condition suitable to seek benefits;• Determine dividend payment ;• Organizes an annual meeting and any requested by the unit holders.

Reference: Notification of the Office of the Securities and Exchange Commission No. SorChor. 29/2555
Re: Rules, Conditions and Procedures for Approval of Trustees and Performance Standards

Trustee

Important Qualifications	Important Duties and Responsibilities
<ul style="list-style-type: none">• Trustee must<ol style="list-style-type: none">1. a financial institution permitted to become a trustee;2. a company in which ≥ 99% of the shares is held by a financial institution that is permitted to become a trustee (REIT only);• paid-up capital ≥ 100 million Baht;• independent from REIT Manager;• holds ≤ 5% of the total REIT units distributed	<ul style="list-style-type: none">• Ensures that REIT Manager manages the trust in accordance with the trust deed;• Accounts assets which belong to the trust separately from the trustee’s assets. And oversees all transactions occurred at the REIT level;• Attends unit holders meeting and provide opinions when the REIT Manager seeks resolution on whether certain matters are in accordance with the trust deed;• Organizes a meeting with unit holders to seek resolutions when selecting a new REIT Manager (in case a change in REIT Manager is required).

Reference: Notification of the Securities and Exchange Commission No. GorRor. 14/2555 Re: Rules for Being a Trust Settlor and for Being a REIT Trustee.

Important Codes Regarding REIT

Criteria	Details
Establishment	Trust deed/drafted trust deed must comply with the Trust for Transactions in Capital Market Act B.E. 2550 (2007) and relevant notifications issued by the SEC.
Name	Must reflect the main characteristics and investment policy of the trust.
Size	The paid-up capital after units offering must be ≥ 500 million Baht.
Units Transaction	REIT units must be listed on the SET.
Tranche	REIT units can be categorized in tranches in accordance with the prescribed rules stated in the trust deed.
Main Investment	<ul style="list-style-type: none">All kinds of real estate, with the objective of seeking benefits in the form of rental income, but in a manner which is not immoral or illegal;May invest in real estate abroad;Real estate already generating income must be ≥ 75% of the total value of units offered plus loans (if any). The remaining fund may be used to invest in other assets/securities such as government bonds, savings, etc.;Invests no more than 10% of NAV in green-field projects.
Types of Investment	The REIT may choose between two types of investment types: <ul style="list-style-type: none">Direct investment by acquiring/obtaining ownership in the real estate/asset;Indirect investment by investing through a company which the REIT holds ≥ 99% of the total shares. A system must be in place to ensure that such company complies with rules similar to those of the REIT.
Nature of REIT	<ul style="list-style-type: none">Leasing real estate without operating other businesses such as hotels and hospitals;Lessees must not use the real estate to operate immoral or illegal businesses;In the case of leasing real estate for the operation of other businesses, the portion of rent dependent on the operating results of the lessee must be ≤ 50% of the fixed rent.
Leverage Limit	<ul style="list-style-type: none">≤ 35% of the total assets; in the case of assets with an investment grade, ≤ 60% of the total assets;In accordance with the trust deed;May collateralize REIT asset;Other commitments or agreements shall be customary commercial transactions or ordinary course of business transactions.
REIT Manager	The REIT manager must possess all required qualifications
Distribution and Allocation of REIT units	<ul style="list-style-type: none">Distribute trust units through an underwriter;Unit holders ≥ 250;Distributed to individual unit holders in accordance with the listing criteria of trust (no less than 20% of all trust units (in case of tranches, 20% applies to each tranche)).
Unit Holding Restriction for Any Person or Group of Persons	<ul style="list-style-type: none">Not exceeds 50% of the total number of trust units (in case of tranches, 50% applies to each tranche)

Relevant Tax

Trust	Corporate Income Tax	Other Taxes
	Exempt	<ul style="list-style-type: none">In an event of transferring assets into REIT, the settlor shall pay all relevant taxes;A transfer fee is payable at the normal rate of 2%.
Investor	Dividend Tax	Capital Gain Tax
	<ul style="list-style-type: none"><u>Natural person</u> – 10% withholding tax<u>Juristic person</u> – normal rate	<ul style="list-style-type: none"><u>Natural person</u> – exempt<u>Juristic person</u> – normal rate

Relevant Fees

Item	Fee
The SEC	
• Application Fee	100,000 Baht per application
• Filing Fee	0.01% of all REIT units offered for sale
• Fees Relevant to REIT Manager <ul style="list-style-type: none">+ application for approval+ application for renewal of approval	250,000 Baht per application 250,000 Baht per application
• Fee Relevant to Trustee <ul style="list-style-type: none">+ application for operation of business	Full license/limited to REIT 30,000 Baht per application
The SET	
• Registration Fee <ul style="list-style-type: none">+ application fee	Similar to securities 50,000 Baht *
+ initial listing fee	0.05% of the paid-up capital* minimum 100,000 Baht, maximum 3,000,000 Baht
+ annual fee	0.035%: paid-up capital ≤ 200 million Baht 0.030%: 200 million Baht < paid-up capital ≤ 1 billion Baht 0.025%: 1 billion Baht < paid-up capital ≤ 5 billion Baht 0.020%: 5 billion Baht < paid-up capital ≤ 10 billion Baht 0.010%: paid-up capital > 10 billion Baht minimum 50,000 Baht, maximum 3,000,000 Baht
• Fee for capital increase	waived

* Application fee and initial listing fee are waived for property fund converting to REIT

Listing of a REIT

In order for unit holders to enjoy liquidity after the distribution of units is complete, the SEC requires that all REIT units must be listed on the SET. A REIT and its REIT units shall have the following qualifications:

REIT Qualifications	REIT Unit Qualifications
<ul style="list-style-type: none">Obtained approval from the SEC*;Have a REIT Manager and a Trustee with the qualifications specified by the SEC;Have free float no less than 20% of the total number of REIT units in each tranche;Appoint Thailand Securities Depository Co., Ltd. or a person approved by the SET to be its securities registrar.	<p>Similar to the listing of securities</p> <ul style="list-style-type: none">Capital is fully paid-upSpecify the name of holderNo restrictions on the transfer of REIT units

* Under Notification of the Capital Market Supervisory Board No. TorJor. 49/2012 Re: Issuance and Offering for Sale of REIT Units for Investment in Real Property

Reference: Regulation of the Stock Exchange of Thailand re: Listing, Disclosure of Information, and Delisting of Real Estate Investment Trust Units B.E. 2556 (2013)

Governance as Listed REIT

• **Disclosure of important information: similar manner to listed companies**

Information Disclosure Based on Accounting Period	Type of Information	Time of Disclosure
	• Asset value, net asset value and REIT unit value	Within 45 days from the last day of each quarter
	• Financial statements <ul style="list-style-type: none">- quarterly (reviewed)- annually (audited)	- 45 days from the end of the accounting period - three months / 60 days (in case the financial statements for quarter 4 are not submitted)
	• Report on progress of investment project <ul style="list-style-type: none">- investment in green-field project- change in investment in core assets	- Within 30 days from the last day of the six-month period - Delivered with quarterly financial statements
	• Annual Registration Statement	3 months from the end of the accounting period
	• Annual Report	120 days from the end of the accounting period
Event Disclosure		
+ Price-sensitive Information	Such as the date of the meeting of REIT unit holders, acquisition and disposition of assets / anticipated transactions with related parties, and announcement of dividend payment	Disclosed immediately
+ Important Information (should be disclosed)	Such as the change of REIT Manager, Trustee, auditor, or registrar	Within 3 business days
+ Other Relevant Information	Such as the minutes of the unit holders meeting and the report of the percentage free float	Within 14 days from the date of the event

• **Maintaining Listing Status**

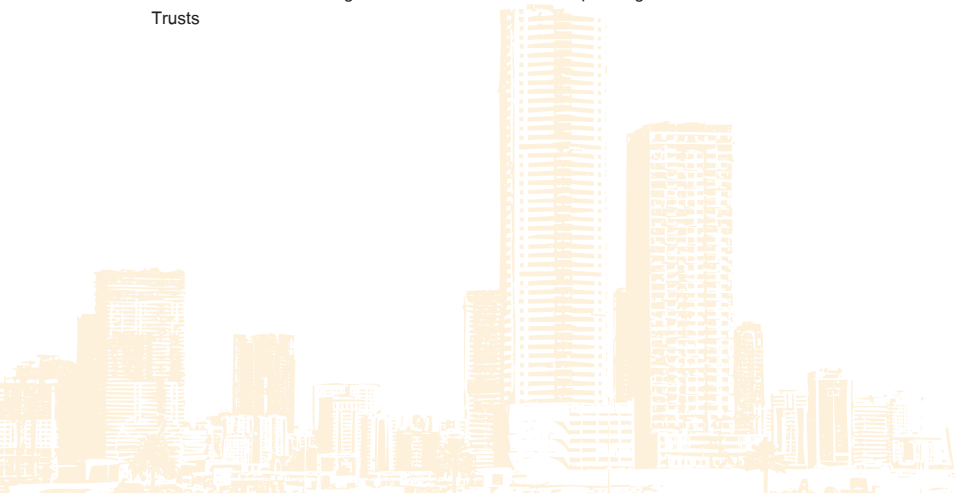
Free Float	Percentage of free float unit holders, in aggregate, is no less than 15% of the total number of units and each tranche (if any)
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Reference: Regulation of the Stock Exchange of Thailand re: Listing, Disclosure of Information, and Delisting of the Real Estate Investment Trust Units B.E. 2556 (2013), and Notification of the Capital Market Supervisory Board No. TorJor. 51/2555 rR: Rules, Conditions, and Procedures for the Disclosure of Information Concerning the Financial Position and Operating Results of Real Estate Investment Trusts

Differences between REIT and Property Fund

Both REIT and property fund have the same objective, which is to invest in and seek benefits from real estate. However, the investment, supervision, as well as benefits of REIT are different from those of property fund in certain aspects, as follow:

Topic	Property Fund	REIT
• General		
Legal Structure	Mutual fund	Trust
Minimum Size	Not less than 500 million Baht	Same
Number of Unit holder	Upon establishment: ≥ 250 After establishment: ≥ 35	Same
Listing of Unit	Investment units must be listed	REIT units must be listed
Management	Asset management company	REIT Manager, namely an asset management company or a company with expertise in managing real estate and is qualified according to the criteria set by the SEC
Registrar	Not required to be TSD	Requires consent of the SET
• Investment		
Type of property in which investment can be made	Only ones listed on the SEC's positive list	Not specified; however, the real estate shall not be used by the lessee to operate immoral or illegal business
Investment in real estate abroad	Not permitted	Permitted
Development of real estate (Green-field project)	Not permitted	Not exceeding 10% of the total assets
• Leverage limit	Not exceeding 10% of the net asset value (NAV)	Not exceeding 35% of the total assets and not exceeding 60% in the case REIT has received an investment grade.
• Distribution and allocation of units		
Distribution	At least 25% must be offered to the public, and units must be allocated to all free float subscribers equally, one board lot at a time, until all subscribed units are allocated (Small Lot First)	Not specified; allocated to free float REIT unit holders in accordance with the criteria for listing (no less than 20% of the total trust units and of each tranche (if any))
Holding Restriction for Any Person or Group of Persons	No more than 1/3 of the total number of investment units	No more than 50% of the total number of REIT units and of each tranche (if any)
• Disclosure		
Annual meeting of unit holders	Similar to mutual funds Not specified	Similar to listed companies Annually, within four months from the end of the fiscal year
Codes concerning the acquisition and disposal of assets / related parties transactions	Resolution of unit holders not required	Resolution of unit holders required for transactions of a significant size, as prescribed
Maintaining listing status (free float)	Not specified	Having free float unit holders holding an aggregate of not less than 15% of the total REIT units and of each tranche (if any)
• Tax		
	• Fund is exempt from CIT. • In some cases, unit holders are not subject to tax levied on dividends such as a company holding units for three months prior and three months after the date of dividend payment.	• Trust is exempt from CIT. • REIT unit holders of all types are subject to tax.



Investment in REIT

The first group of investors of REIT consists of persons purchasing trust units in the initial public offering (IPO) through underwriters. The SEC does not specify the rules regarding allocation units, but the SEC permits any one investor or group of investors to invest in not more than 50% of the total trust units and of each tranche (if any).

After the IPO, the unit holders may trade the trust units on the SET by opening a trading account with a broker, similar to when trading securities. A REIT is traded under the real estate and construction sector in the property fund section.

Consideration Prior to Investing in REIT

- 1. Real estate which the REIT invests in :** Investors must learn what type of real estate the REIT invests in. This will affect the returns to be received by the investors; for example, a REIT might invest in real estate abroad or real estate in a green-field project. The lessees' ability to pay rent also affects the consistency of the income received from the particular real estate.
- 2. Categorizing REIT units :** A REIT may categorize its REIT units into tranches offered for sale to different types of investors. Investors must learn about the rights and limitations of each tranche as specified in the prospectus.
- 3. Liquidity of trade and price uncertainty of REIT units :** As REIT is required to be listed on the SET, investors may suffer risks of liquidity when trading REIT units. Moreover, the price of REIT units depends on the market conditions as well as the demand of buyers and sellers. There may be many influential factors such as economical conditions, politics, trends of real estate business, and predicted future operating results of the REIT.

Therefore, investors must vigorously study the particular investment to determine which type of investment and risk level are suitable and familiarize themselves with the nature of REIT before making any decision. Investors must thoroughly study all information provided in the prospectus concerning investment policies, details of real estate which the REIT invests in, default risk and relevant risk factors, which help determine the factors in which the return of the REIT is dependent on, its dividend policy, and relevant fees and expenses. Investors may also consult with an investment advisor when making investment decisions.

For more information:

The Stock Exchange of Thailand

New Listing - Domestic Department

Tel. 0-2229-2000 Ext. 2023, 2031

Securities and Exchange Commission

Corporate Finance - Equity Product Department

Tel. 02-695-9999 Ext. 9530, 9542