

# Real Estate Investment Trust (REIT) Opportunity

29 March 2018



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THE **Q**UANTGROUP BLUE WHALE ASSETS



## Discussion Points

- REIT Opportunity
- Thailand REIT Market Landscape and Property Market Outlook
- REIT Regulatory Framework





# **I. REIT Opportunity**

## What is REIT?

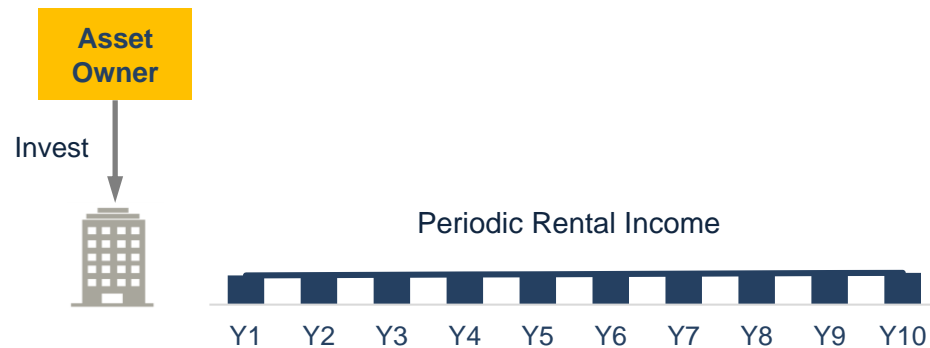
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# What is REIT? – An Alternative Funding Vehicle for Real Estate Company

Real Estate Investment Trust (REIT) is an alternative fund-raising vehicle for real estate development companies, allowing them to monetize yielding assets through cash flow securitization and redeploy capital for future growth.

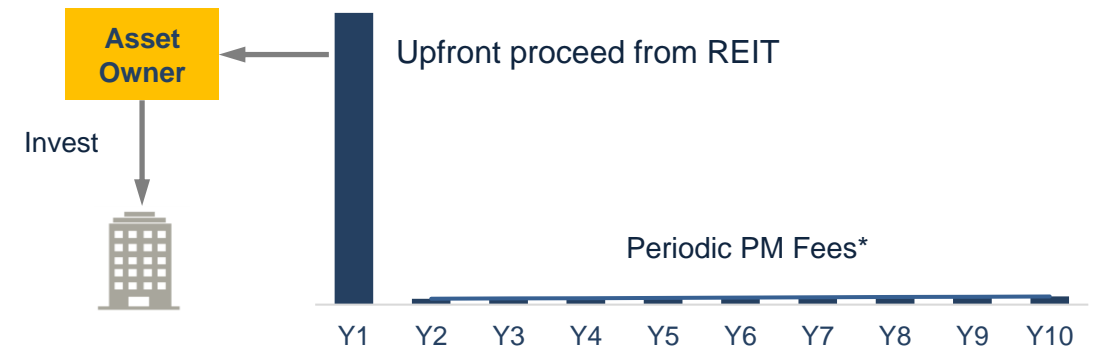
## Asset Monetization

### AS-IS



- Receive periodic cash flow from income generating properties

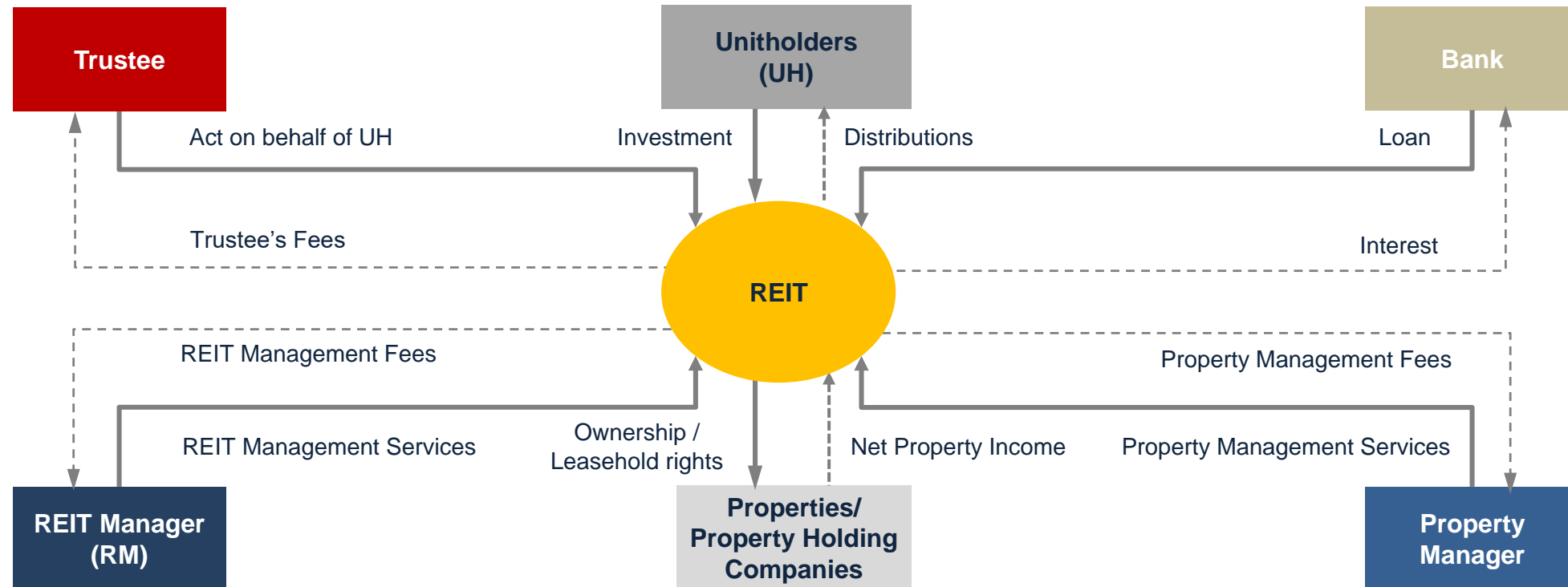
### REIT



- Securitize future cash flow in exchange for upfront proceeds

# REIT Structure and Roles of Relevant Parties

## REIT Framework



### Trustee

- Oversee activities of manager and ensure that manager undertakes reporting and disclosures as per the regulation
- Ensure manager makes timely payment of distributions to unitholders

### REIT Manager

- Identify and recommend investment opportunity
- Invest and manage portfolio
- Report and disclose to relevant stakeholders

### Property Manager

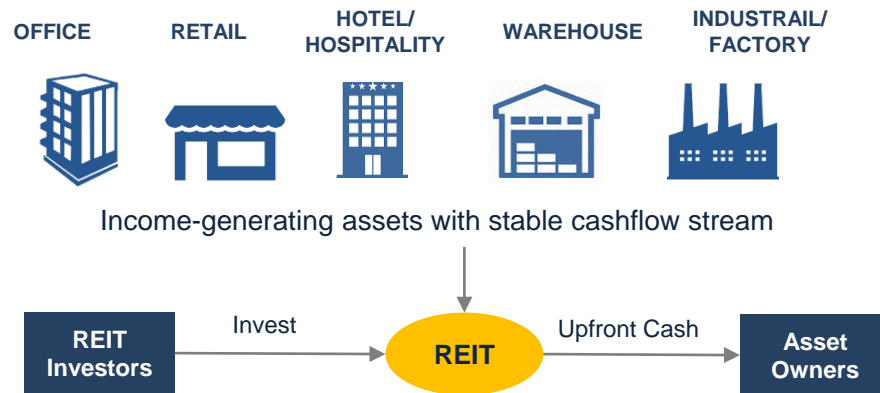
- Marketing and leasing – new tenant acquisition
- Tenant service– setting initial rent, collecting rent , assessing customer satisfactions
- Manage physical building

## What are benefits to asset owners / Sponsors?

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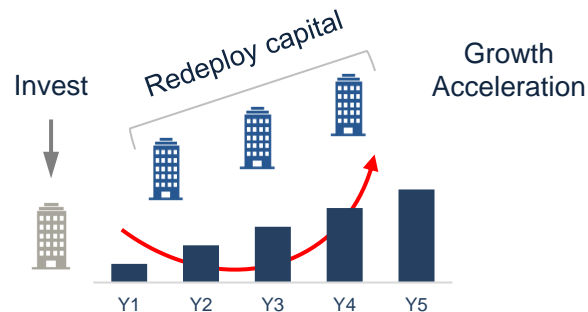
# What are benefits to asset owners ?

## Unlock asset values and receive upfront cash proceeds



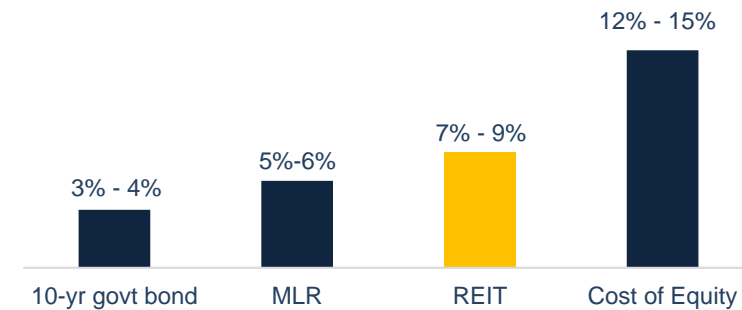
- REIT investors look for stable-income investment with limited risk exposure
- Opportunity to free up capital, increase flexibility, and improve ROE
- Transform to asset-light model

## Redeploy capital for future growth



- Capital recycling for growth acceleration
- Improve Asset Turnover and capture full value of the assets

## REIT as an alternative source of fund



- Relatively lower cost of fund. REIT investors command approximately 7%-9% yield. Principal repayment or pledge is not required.
- Improve liquidity without increasing leverage level and remain strong balance sheet

## Other Benefits

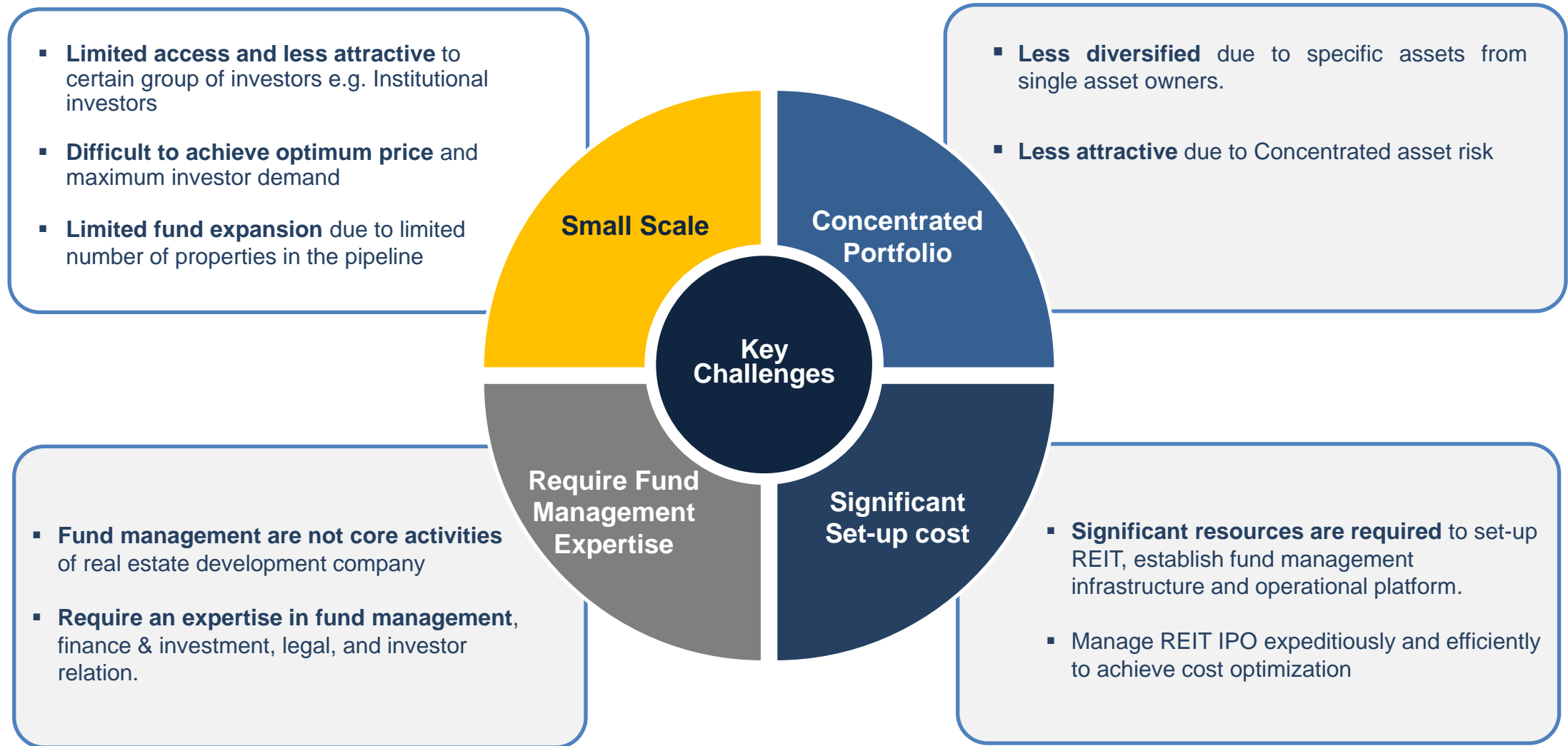
- **Remain control of the assets** The companies can retain the property management role and receive property management fees from the REIT
- **Shift operational risk to REIT** Future cash flow from operation is securitized through REIT in an exchange for cash proceeds.
- **Tax amortization** Under leasehold structure, asset owner receives upfront cash flow while tax payment is amortized over the lease term.
- **Exit option** An alternative to cash out



**What are key challenges encountered by small-to-medium sponsors?**

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# Key Challenges encountered by mid-to-small real estate companies

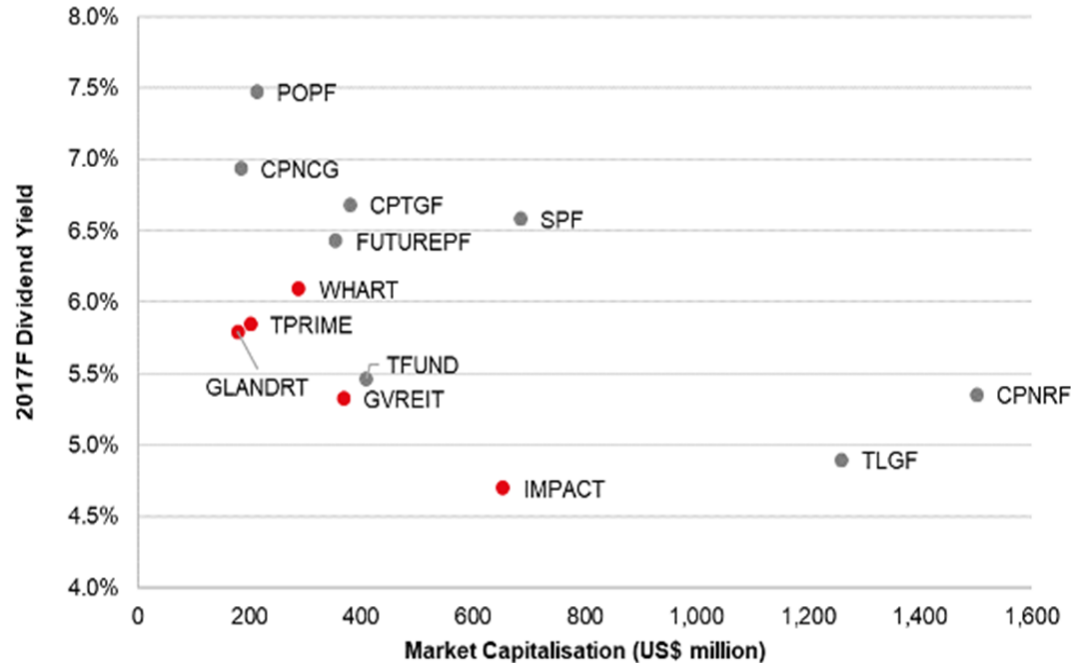


## What are the solutions for small-to-medium sponsors ?

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# Key Considerations for successful REIT Establishment

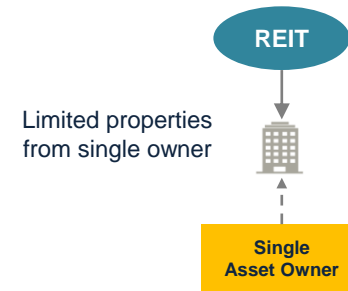
## 1 Optimal scale with growth opportunity



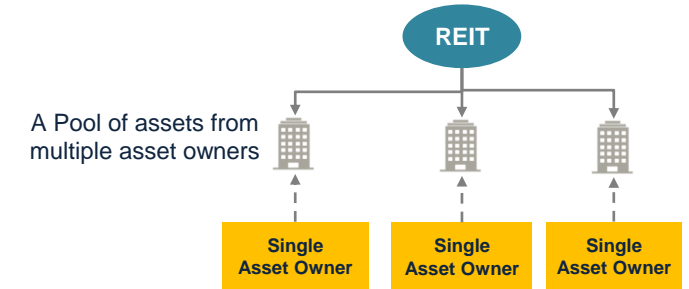
- REITs with higher market capitalisation and trading liquidity tend to trade better. They typically do so at more favourable yields to sponsors, adjusting for size
- Visible assets in the pipeline
- Small fund size has limited access and is less attractive to certain group of investors e.g. Institutional investors

## 2 Diversified asset portfolio to increase attractiveness

### Sponsor REIT Platform



### Independent REIT Platform



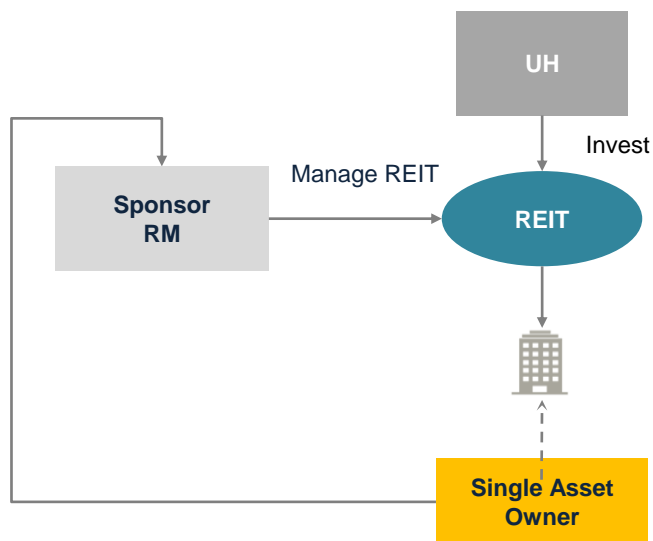
- Diversified assets, location, and tenant profile to help minimize concentration risk
- Well-balance stream of income to ensure return stability
- More attractive to REIT investors

## 3 Significant issuance cost and time commitment

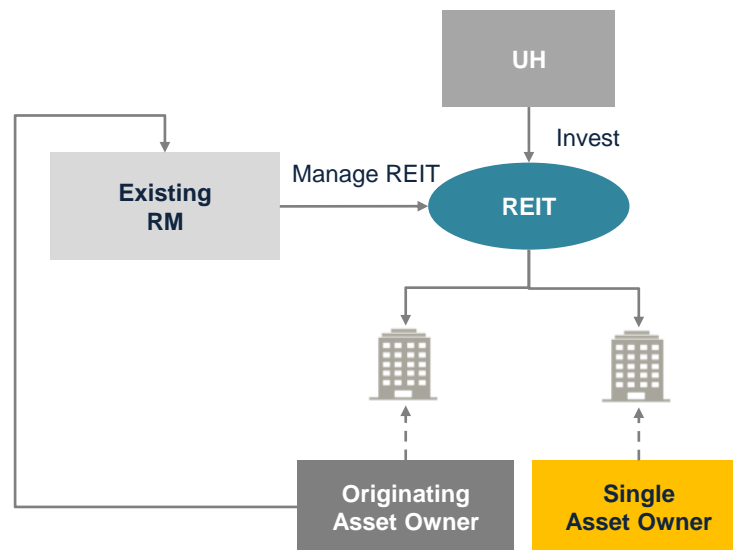
- Significant resources are required to set-up REIT and establish fund management infrastructure and operational platform
- It is required to manage REIT IPO expeditiously and efficiently to achieve cost optimization
- Require an expertise in fund management, finance & investment, legal, and investor relation

# REIT Establishment Alternatives

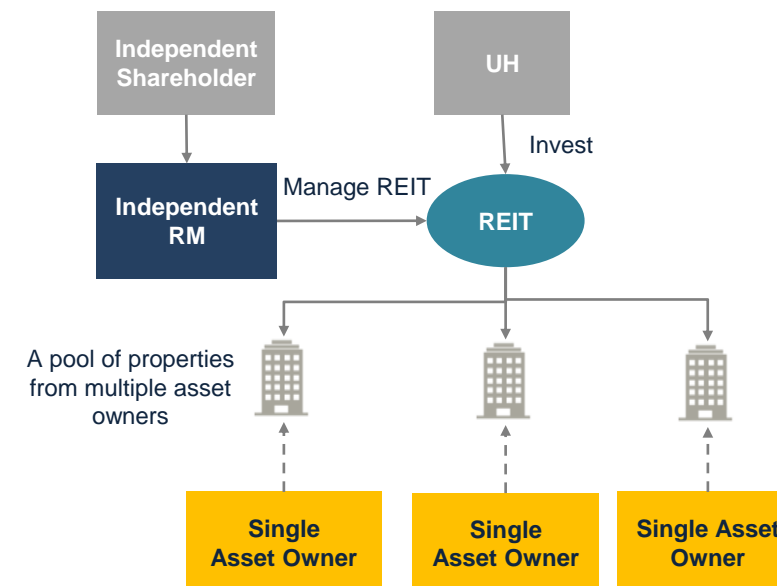
## 1 Set-up own Sponsor REIT



## 2 Sell/Lease Assets to Existing REIT



## 3 Structure REIT with Independent REIT Manager



### Independent REIT Manager A well-balanced solution

- Achieve optimum price
- Larger-scale diversified portfolio
- Achieve economies of scales
- Experienced team efficiently manages a complex REIT IPO process on a timely basis
- Hassel free due to the presence of skilled management team
- Well-established fund management infrastructure
- Minimize conflict of interest

#### Advantages

- Achieve optimal price
- Align management's interest due to sponsor-backed REIT manager

#### Disadvantages

- Significant set-up cost
- Less diversified
- No economies of scales
- Time and resource commitment to manage the complex REIT IPO Process
- The best option for large-scale development companies with multiple assets in a pipeline

- Relatively less REIT set-up cost
- Hassle free
- Shortened time

- Not achieve optimal price.
- Conflict of interest

## How to achieve an optimal price ?

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# Critical factors to achieve an optimal price

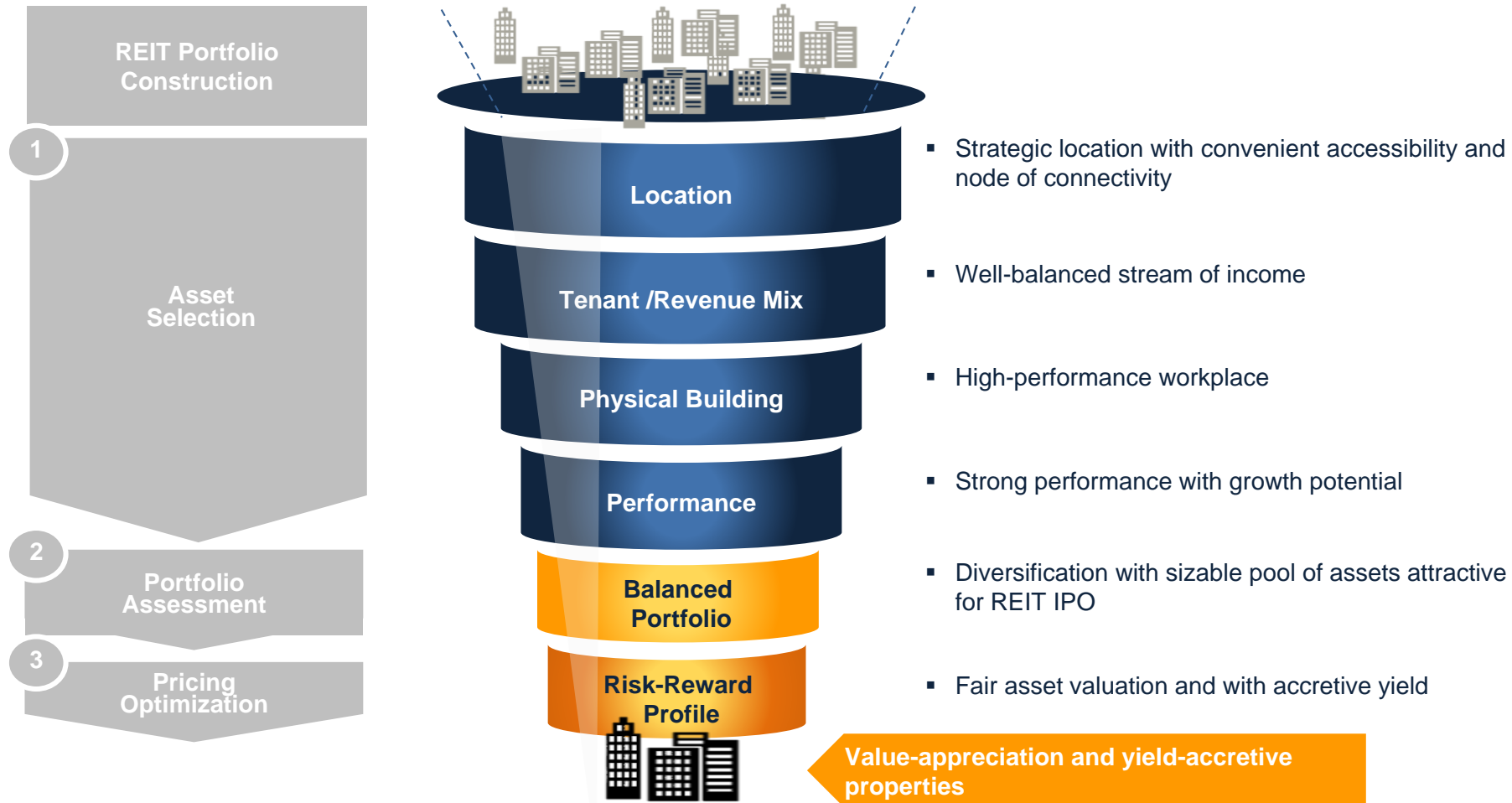
**1. Attractive asset portfolio**

**2. Right timing**

**3. Efficient go-to-market plan**

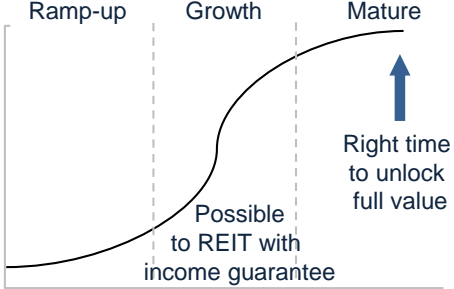
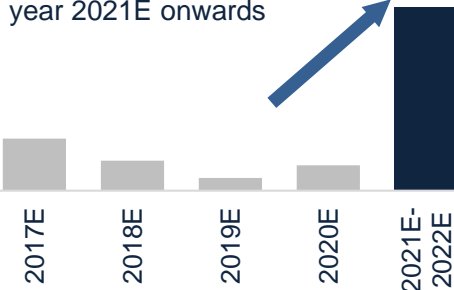
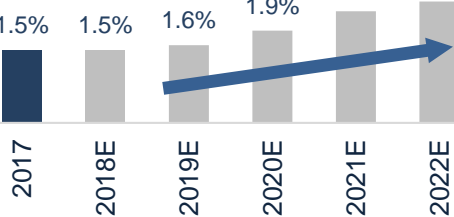
# 1. Well-diversified and sizable portfolio of assets

A value-added income-generating properties with potential upside,  
aiming to deliver stable and competitive returns to unitholders



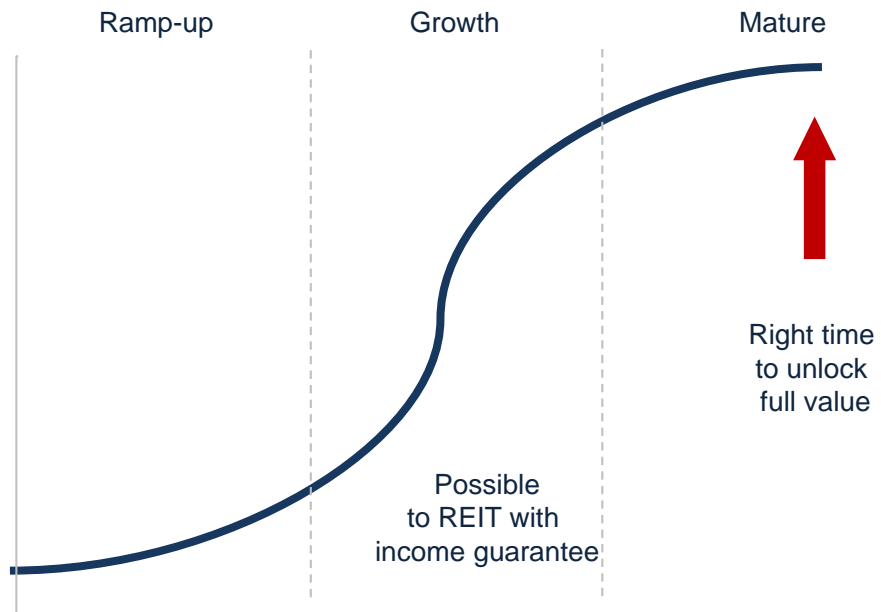


## 2. Right Timing

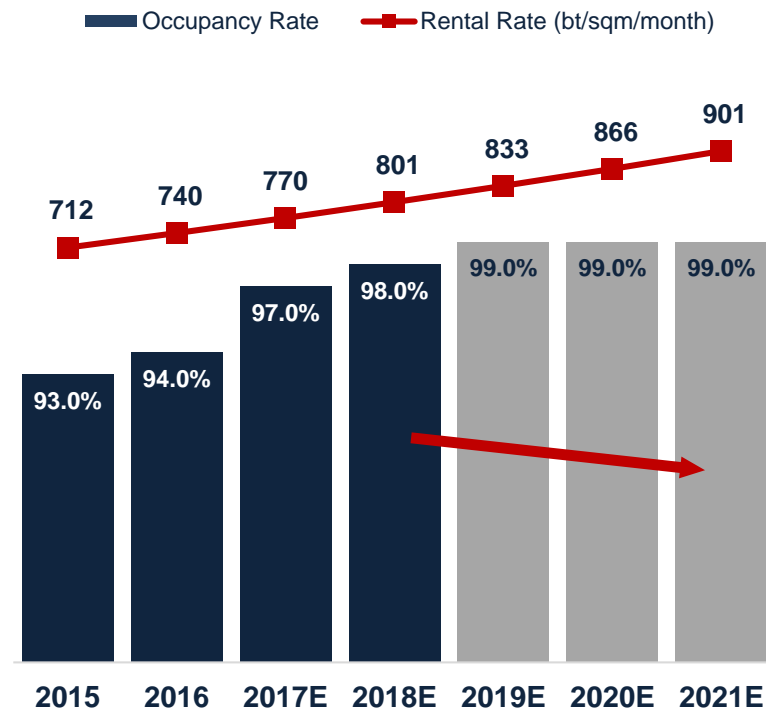
	Key Considerations	Implication
Asset Performance	 <ul style="list-style-type: none"> <li>▪ <b>The assets have reached a mature stage, achieving their highest potential</b> <ul style="list-style-type: none"> <li>• Rent is on the rise and occupancy is at peak</li> <li>• EBITDA margin hits the highest range</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Opportunity to REIT at a full value and redeploy capital for future growth</b> <ul style="list-style-type: none"> <li>• Extract value of the asset at its full potential</li> </ul> </li> </ul>
Bangkok Office Market Outlook	<p>Office supply surges year 2021E onwards</p>  <ul style="list-style-type: none"> <li>▪ <b>Over 650,000sqm of Supply is expected to flood the market starting from year 2021</b> <ul style="list-style-type: none"> <li>• Strong demand with slower growth over the past two years</li> <li>• CBD Grade-A office supply will substantially increase after mega projects complete, expecting year 2021 onwards</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Delayed REIT establishment, an optimum asset price may not be achievable</b> due to <ul style="list-style-type: none"> <li>• A weaker asset performance as a result of coming competition and excess supply;</li> <li>• Higher operational risk exposure</li> </ul> </li> </ul>
Macro Economic Outlook	<p>Interest rate hike putting pressure on asset price</p>  <ul style="list-style-type: none"> <li>▪ <b>Policy rate is expected to be on a prolonged hold at 1.50% for the rest of this year and 2018, with a gaining economy momentum</b> <ul style="list-style-type: none"> <li>• The consensus is pencilling in a 25bp hike by end of 2018</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>An interest rate hike lays ahead, driving up REIT yield and putting pressure on asset price</b> <ul style="list-style-type: none"> <li>• Less favorable yield limits an upside gain from asset injection into the REIT</li> </ul> </li> </ul>

## 2. Right Timing –Unlock Asset Value at Peak Performance

### Property has reached mature operation



### Unlock value at maximum level—High occupancy with competitive rental rate

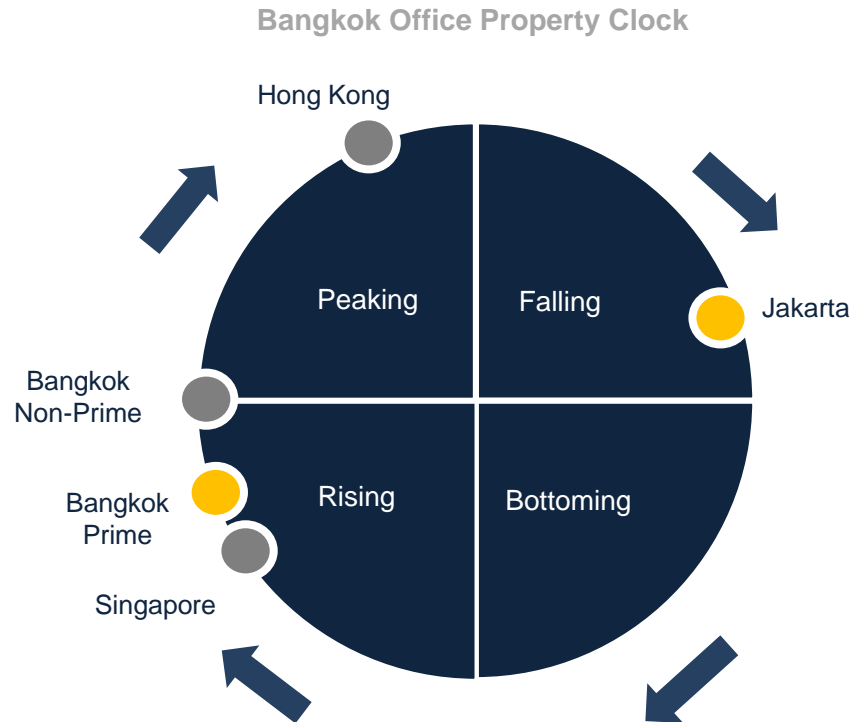


- Assets achieving mature operation with stabilized rental rate and occupancy

- Rental rate is expected to gradually increase with sturdy occupancy

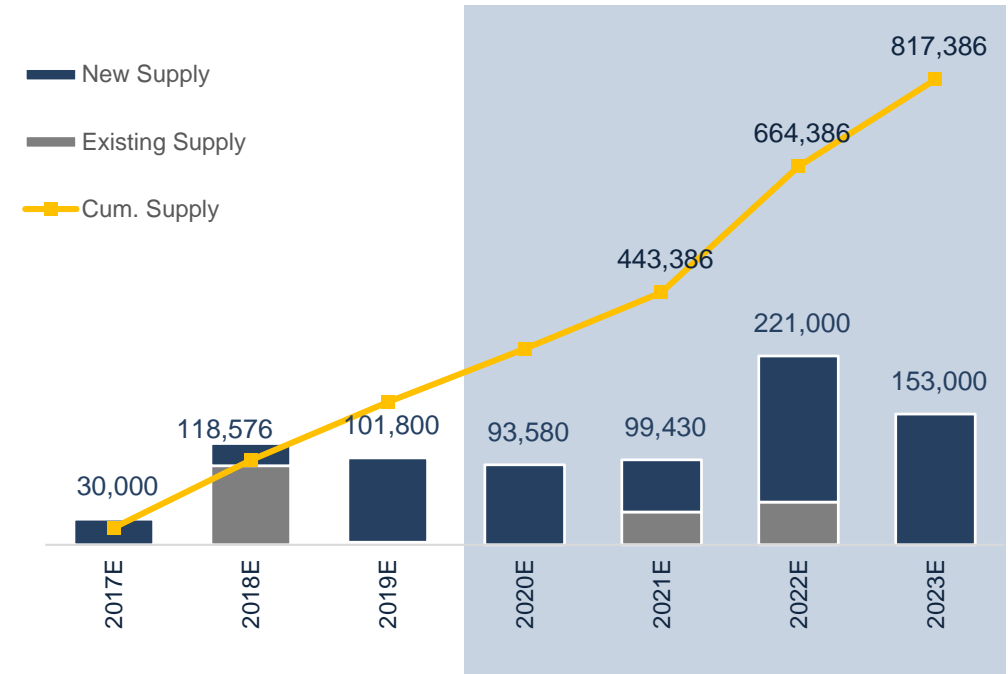
## 2. Right Timing –Rising Market before the Clock Ticks Down to Oversupply

### Office market still on an upward trend



- CBD rent is at all-time high level 759 bt/sqm. Vacancy are moving towards all-time low level.
- Landlords in older buildings are fiercely competing to retain existing anchors who may look to relocate to newly completed buildings that offer better locations, amenities, and ample contiguous space.

### A surge in supply is expected from year 2020E onwards



- Mega CBD project expected to be completed in 2021-2022, adding up supply over 650,000 sqm
- Net absorption over the next 12 months will continue to be driven primarily by movement into newly completed projects.

# Future Bangkok CBD Office Supply

Mega CBD project  
expected to be  
completed in 2018-  
2025, adding up...

**1,109,586 sqm**

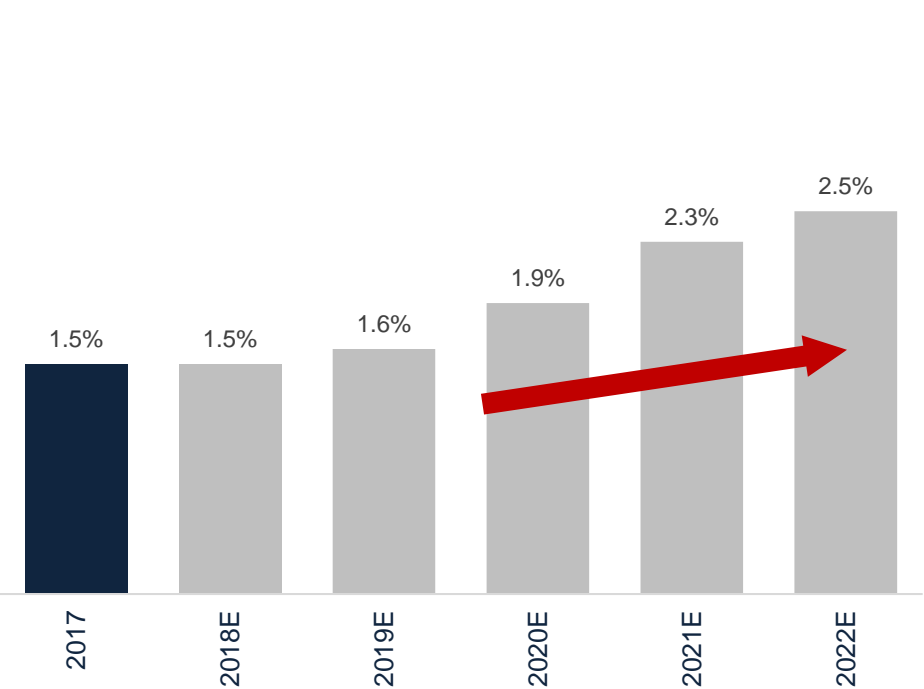
Proposed for  
completion by 2025

## 2018-2025 New office CBD Supply Pipeline

CBD Project	Grade	NLA (sqm)	Completion Date	Building Use	Status
Gaysorn Office Tower	0	30,000	2017	For-lease	Completed
<b>Total 2017</b>		<b>30,000</b>			
Krungsri Ploenchit Tower	A	30,000	2018	Own-use	Under Construction
Bhiraj Tower at Sathorn	B	3,200	2018	For-lease	Under Construction
T-One Building	A	22,824	2018	For-lease	Under Construction
MEA Headquarters	A	62,552	2018	Own-use	Under Construction
<b>Total 2018</b>		<b>118,576</b>			
Silom Center Renovation	B+	10,800	2019	For-lease	Proposed
AUA Office at Sootareeya	B+	3,000	2019	Own-use	Under Construction
The Market by Platinum	B	18,000	2019	For-lease	Under Construction
The Parq Tower 1	A	60,000	2019	For-lease	Under Construction
Summer Hill	B	10,000	2019	For-lease	Under Construction
<b>Total 2019</b>		<b>101,800</b>			
Vanissa Building Redevelopment	A	22,000	2020	For-lease	Proposed
Royal Symphony / 140 Wireless	A	18,000	2020	For-lease	Under Construction
Samyarn Mitrtown	A	48,750	2020	For-lease	Under Construction
Market Place Thonglor 4 Office	B	4,830	2020	For-lease	Proposed
<b>Total 2020</b>		<b>93,580</b>			
548 Ploenchit (by Raimon Land)	A	61,000	2021	For-lease	Proposed
UOB Sukhumvit HQ	A	38,430	2021	Own-use	Under Construction
<b>Total 2021</b>		<b>99,430</b>			
One Bangkok Towers 2	A+	88,000	2022	For-lease	Proposed
One Bangkok Tower 3	A+	83,000	2022	For-lease	Proposed
Silom Square	A	50,000	2022	Own-use	Proposed
<b>Total 2022</b>		<b>221,000</b>			
Dusit Thani Redevelopment	A	60,000	2023	For-lease	Proposed
One Bangkok Tower 1B	A+	93,000	2023	For-lease	Proposed
<b>Total 2023</b>		<b>153,000</b>			
One Bangkok Tower 1A	A+	74,000	2024	For-lease	Proposed
The Parq Tower 2	A	80,000	2024	For-lease	Proposed
<b>Total 2024</b>		<b>154,000</b>			
One Bangkok Tower 4	A+	139,000	2025	For-lease	Proposed
<b>Total 2025</b>		<b>139,000</b>			
<b>Future Supply 2017 - 2020</b>		<b>343,956</b>			
<b>Future Supply 2021 - 2025</b>		<b>766,430</b>			

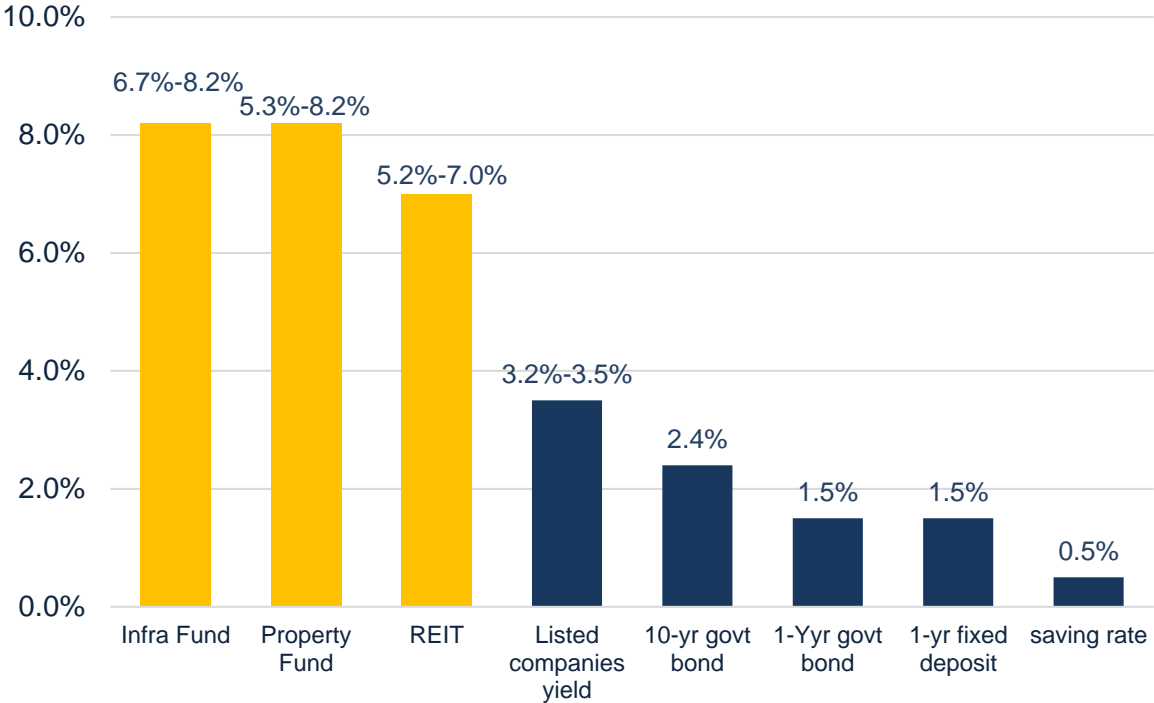
## 2. Right Timing –Favorable macro outlook and positive REIT sector sentiment

Extremely low interest rate environment to be extended, raising the attractiveness of REIT investment—Thailand Policy Rate 2017-2022E



- Despite entering a likely interest rate up-cycle in 2019F, the hike would come from a very low base at a gradual pace

Thailand REIT yield gap widens implying sector upside



- Limited downside risk for REIT as being reflected in widened yield gap over the two-year bond nearly match the peak level

### 3. Efficient Go-To-Market Plan



- Value-added income generating assets with visible growth in strategic location
- Return-enhancement or risk-mitigation structure e.g. sponsor guarantee, undertaking, gearing

#### Equity summary to attract a broad range of investors

- Individual Asset highlights
- Industry outlook
- Well-balanced portfolio
- Return-enhancement structure
- Expected return



Compelling equity story

#### Planning suitable allocation for different group of investors

##### Retail Investors

- Small volume
- Market taker (Less market control)
- Less research
- Liquidity
- Free form regulation

##### Institutional Investors

- Large volume
- Market maker (Higher market control)
- Research teams
- Price stability
- Required to disclose information to SEC

#### Educate investors with different marketing tools

##### Retail Investors

- Press conference
- Online media
- Newspaper / Radio

##### Institutional Investors

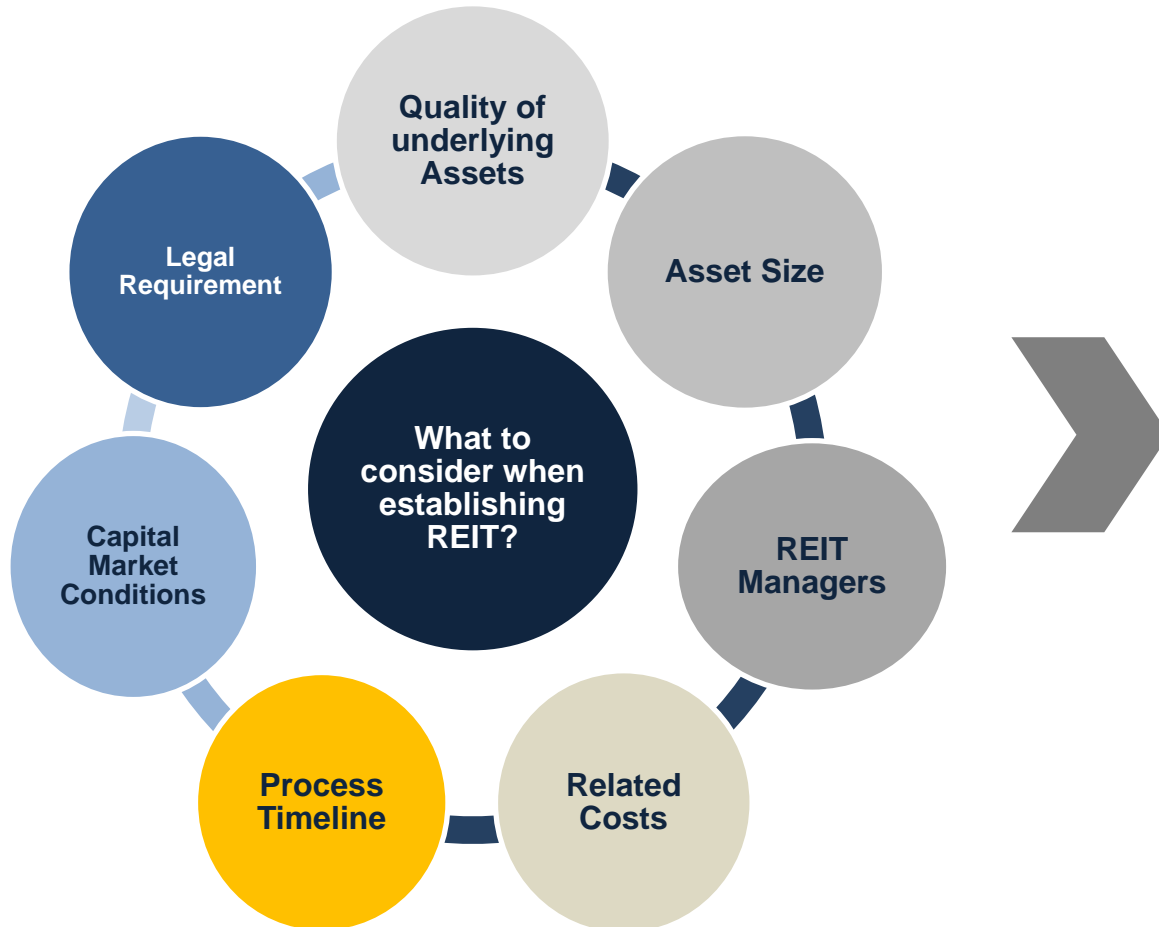
- Roadshow
- Site visit
- Researches

## What are key success factors for REIT establishment ?

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# Key Success Factors for REIT Establishment

## Key Considerations



## Key Success Factors

- **Quality of underlying assets.** Properties with strong cash flow provide stable distribution and sustainable return to investors.
- **Attractive fund size.** Relatively larger fund will be more appealing to a broader range of investors due to higher liquidity and less price volatility.
- **Experienced REIT Manager** with a committed team of professionals and expertise is crucial to the success of the REIT.
- **Cost optimization.** Manage the REIT process expeditiously and efficiently to minimize transaction cost.
- **Capital market knowledge and experience** are necessary in managing relevant market risks and achieving optimum asset price.
- **Manage on-going compliance** to be qualified as a REIT. Strong governance and transparency are required in a regulated public market.



**Is REIT the right solution for my business ?  
REIT or IPO ?**

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## IPO and REIT, both bring in additional capital to the company, but at different cost and risk exposure

	IPO	REIT
<b>Funding Vehicle</b>	<ul style="list-style-type: none"> <li>Capital raised through the issuance of the company's <u>share</u> to the public</li> <li>Raise fund from the public, stock listed in SET</li> </ul>	<ul style="list-style-type: none"> <li>Capital raised through the issuance of unit trust for ownership/leasehold right on the company's <u>property</u></li> <li>Raise fund from the public, unit trust listed in SET</li> </ul>
<b>Performance Pressure</b>	<ul style="list-style-type: none"> <li>Significant pressure exists to deliver strong earning visibility with promising growth to meet investors' expectation</li> </ul>	<ul style="list-style-type: none"> <li>Relatively less pressure</li> <li>REIT investors expected stable cashflow stream with some potential upside from asset appreciation</li> </ul>
<b>Cost of Fund</b>	<ul style="list-style-type: none"> <li>Higher cost of fund</li> <li>Equity investors command relatively higher return, generally 10%-15%, from dividend and capital gain</li> </ul>	<ul style="list-style-type: none"> <li>Lower cost of fund</li> <li>REIT investors command relatively lower return, 8% - 10% IRR, mainly driven by distribution each period</li> </ul>
<b>Control of the Business</b>	<ul style="list-style-type: none"> <li>Potentially losing control of the business through share dilution</li> </ul>	<ul style="list-style-type: none"> <li>Retain ownership stake of the company</li> <li>Retain ownership of the property through leasehold structure</li> <li>Retain control of the operation by taking Property Manager role</li> </ul>
<b>Transfer of Operational Risk</b>	<ul style="list-style-type: none"> <li>No</li> </ul>	<ul style="list-style-type: none"> <li>Operational risk is transferred to REIT</li> <li>The owner/sponsor receive an upfront proceed and securitize future income through REIT.</li> </ul>
<b>Disclosure</b>	<ul style="list-style-type: none"> <li>A relatively much greater amount of information is required to be disclosed to the public</li> </ul>	<ul style="list-style-type: none"> <li>Disclose information that are related to such particular property and affect its performance</li> </ul>

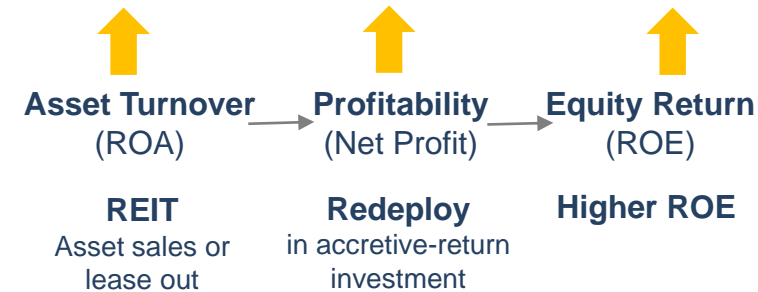
# REIT to fuel growth before IPO

The company can use REIT as a vehicle to fund future expansion and establish a compelling growth story for successful IPO

Successful  
IPO

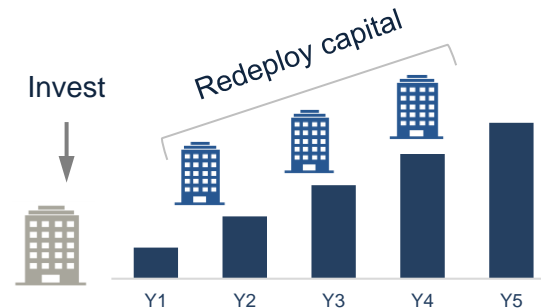
Improve  
Company's Valuation

## Return enhancement



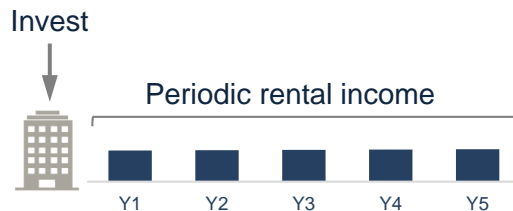
- Asset-light –A key to success for most small-to-medium companies.
- Exploit new revenue opportunities faster
- Invest in value-added or higher-return business to improve profitability

## Growth Acceleration



- Free up capital through REIT and redeploy for expansion
- Scale up faster effectively and efficiently at lower cost of expansion

## Organic Growth



- Large capital investment, limited expansion, and low earning growth visibility,



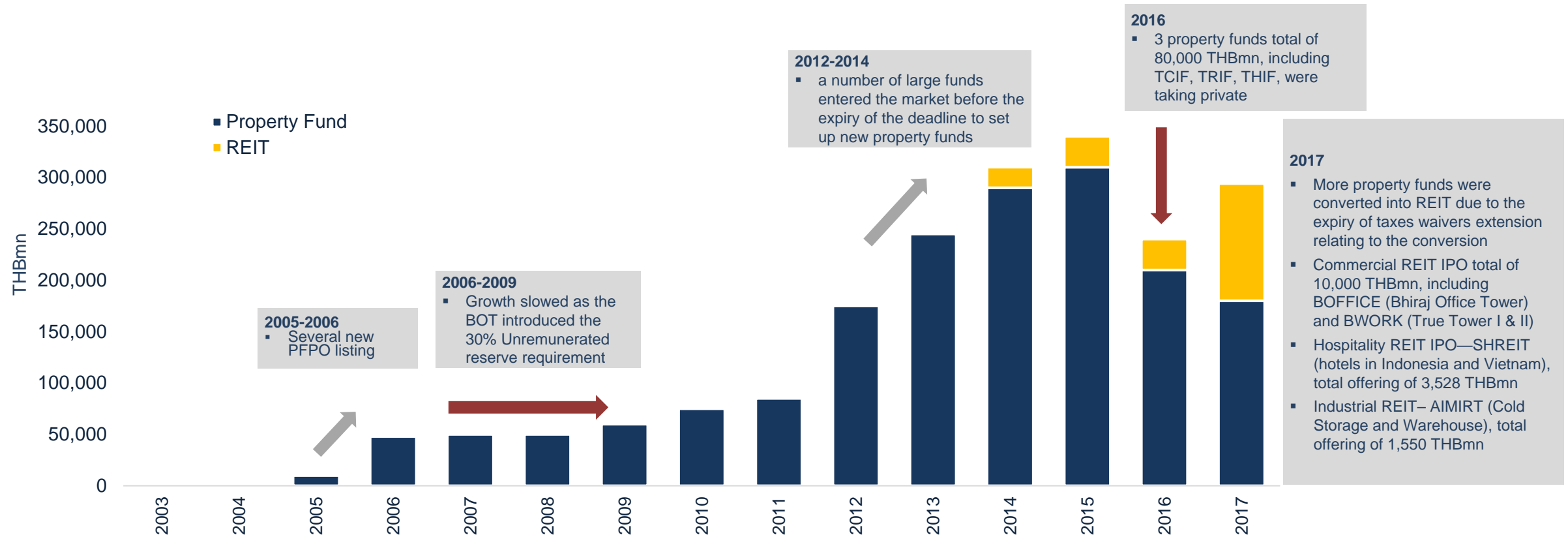
## **II. REIT Market Landscape and Key Transactions**

## Thailand REIT Market Landscape

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# Evolution of Thailand PFPO/REIT Market

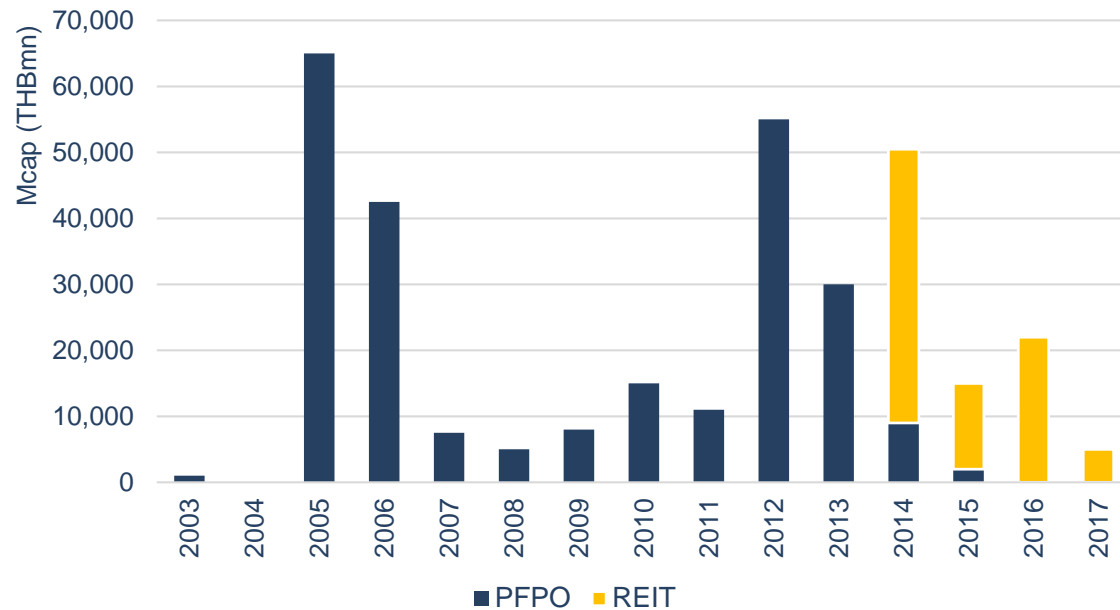
As of March 2018, a total of 60 PFPO/REITs have a combined Mcap of 294 THBbn, accounting for 1.4% of the SET's total Mcap



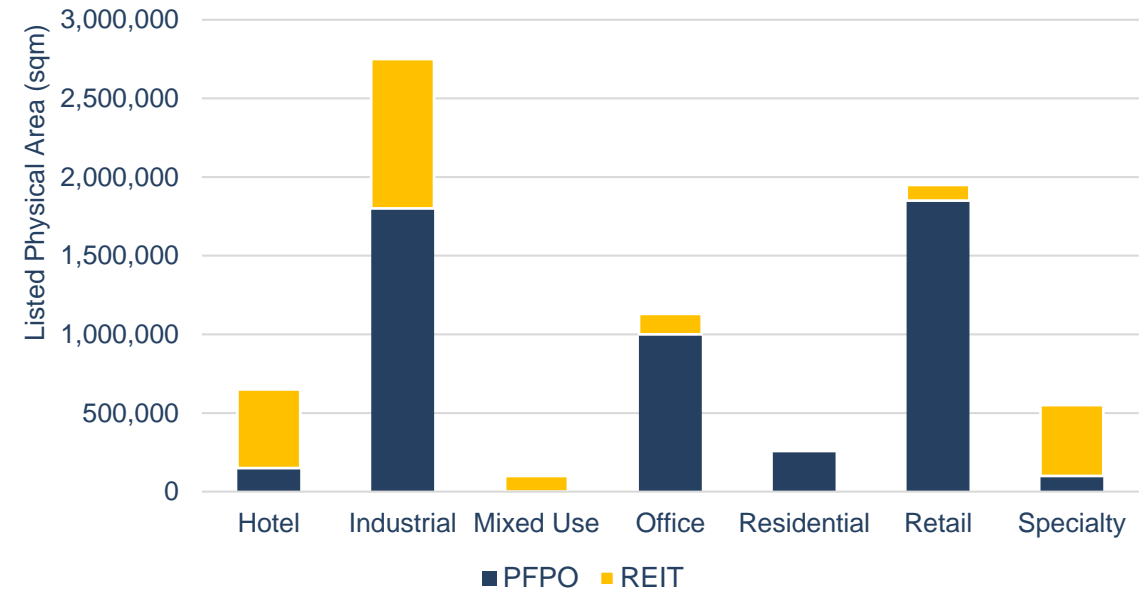
- The first Thai PFPO entered the market in late 2003. As of December 2017, there are 60 PFPO/REITs listed on the SET with a combined market capitalisation of 294 THBbn, accounting for 1.4% of the SET's total Mcap.
- REIT regulations took effect on 1 Jan 2013. All new fund setups have to be under the REIT structure. The Thai government has agreed to extend all taxes waivers relating to the conversion from property funds into REITs until end-2017. It is expected to see more property funds being converted into REITs.

# The Arrival of REIT in 2014—Thailand PFPO/REIT Market Snapshot

## Current Mcap of PFPO/REIT by year of disposition



## PFPO and REIT asset portfolio size (sqm) by sector



- Launched in 2003 and ending in 2013, the PFPO scheme supported investment in dozens of assets spanning more than five million square metres.
- In 2014, the Stock Exchange of Thailand launched a new REIT scheme based in large part on the Singaporean REIT model to replace the outmoded and illiquid PFPO vehicle.
- Since its introduction, total REIT Mcap has reached THB 85 bn (USD 2.6 bn) across two million square metres of assets.
- Measured by asset size, industrial REITs presently constitute about half of the market, followed by specialty assets (e.g., MICE facilities) and office properties.

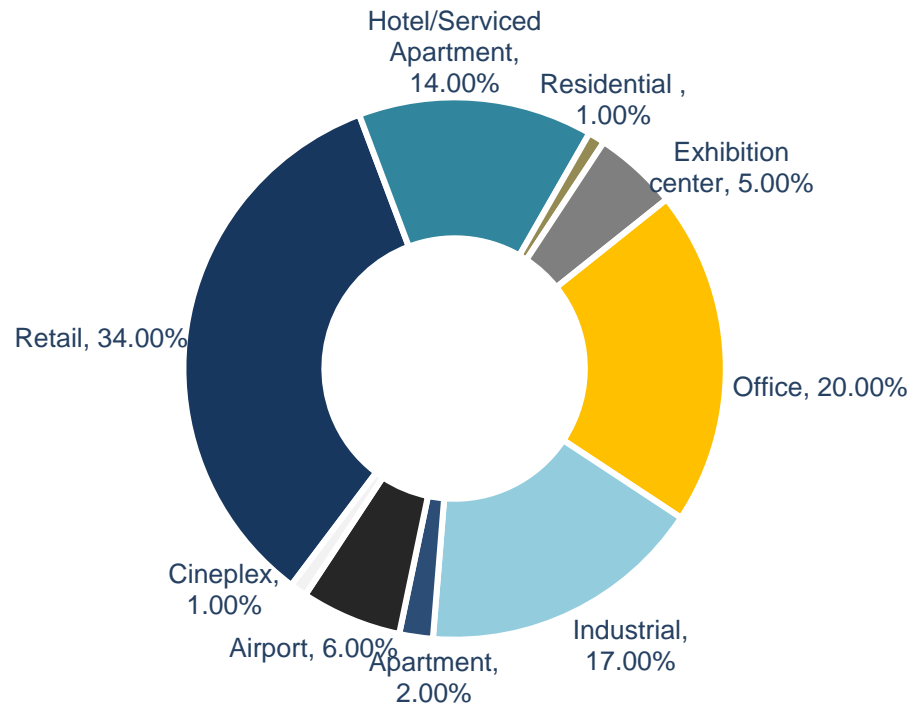
# What makes REIT more attractive than PFPO ?

	PFPO	REIT
<b>More flexibility in permissible investments</b>	PFPO can only invest in the specified category (positive list)	REIT can invest in any real property so long as it is not illegal or immoral (negative list)
<b>Borrowing restrictions</b>	The gearing ratio of PFPO is limited at only 10% of its NAV	REIT can borrow money from 35% up to 60% and can issue debenture
<b>Holding restrictions</b>	1/3 of total units sold	1/2 of total REIT certificates sold
<b>Management</b>	Fund management company	Asset management company or real estate expert
<b>Investment in property holding company</b>	No	Yes



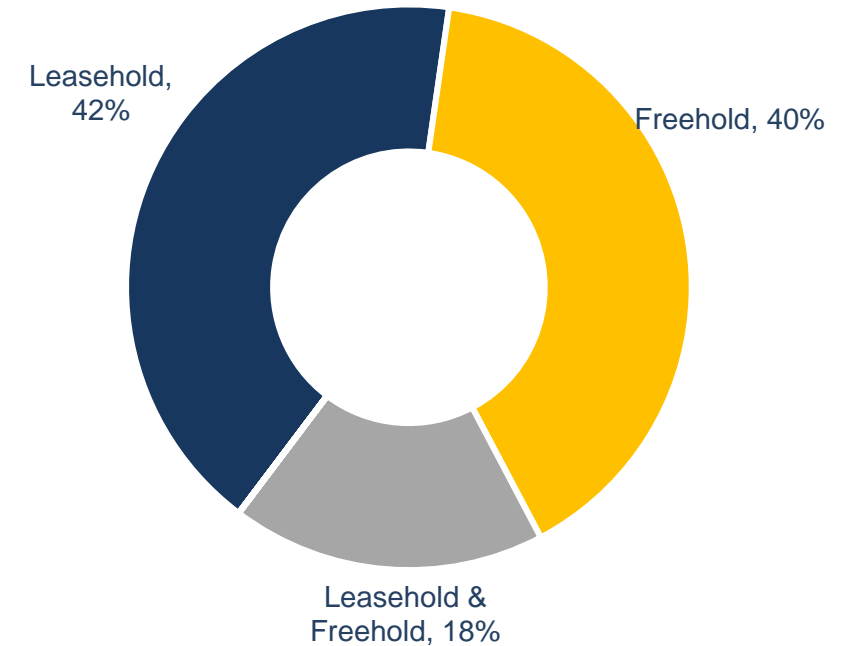
# Thailand REIT Market Landscape—Sector Breakdown

## Sectors breakdown by asset type



- Retail now make up 34% of the sector's market capitalization, followed by office (20%), Industrial (17%) and Hotel/Service Apartment (14%) respectively.

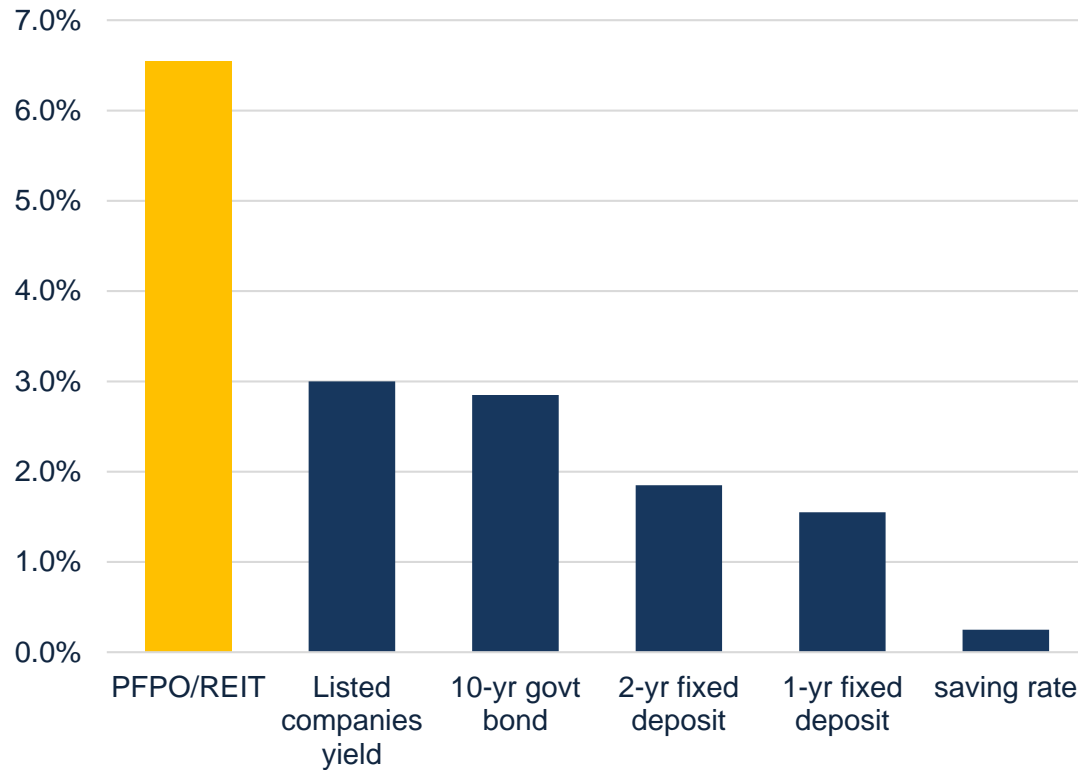
## Sector breakdown by asset ownership



- Of the total, 40% hold freehold assets, 42% hold leasehold assets, and 18% hold both.
- For leasehold assets, the remaining leasehold life for most funds is 20-30 years.

# Offering Attractive Distribution Yield

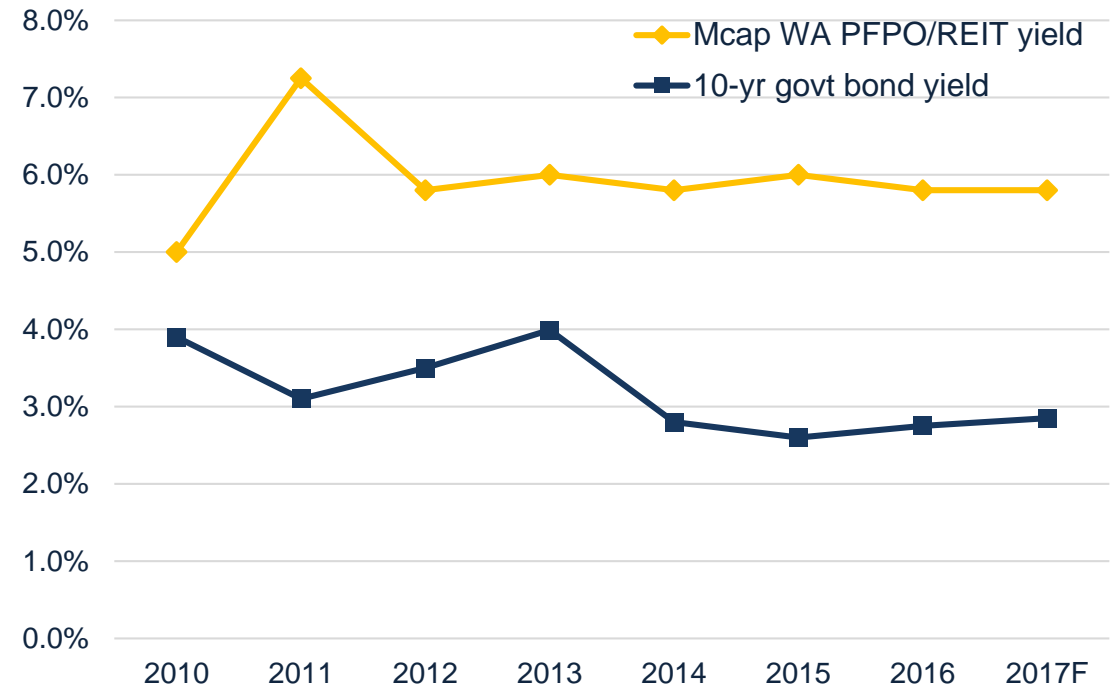
## REITs offer attractive yields comparing to other investments



- Thai REITs pay higher yields than bank deposits, government and corporate bonds, and dividend yields of listed corporates
- Sector is offering moderate distribution yield of 6.0 – 7.0%

Source: SET, DBS Vickers, EIC analysis

## Yield spread over Thai 10-year government bond



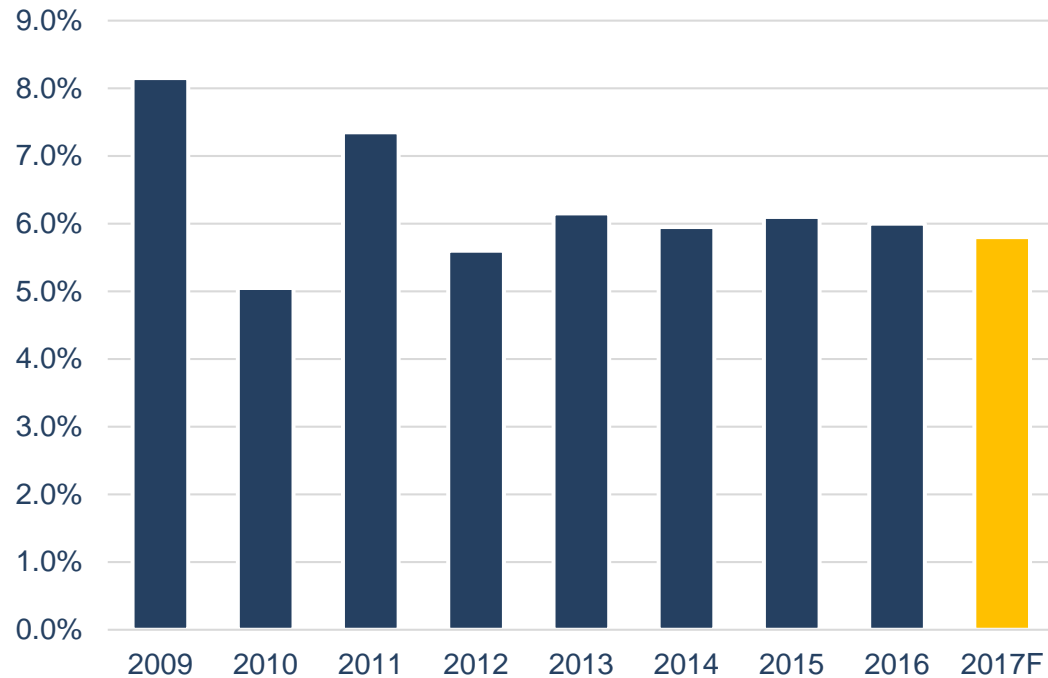
- The yield-spread between the Mcap weighted average Thai PFPO/REIT and Thai 10-year government bond averaged 2.98% over the past decade

**How have REIT performed ?  
Have they taken up higher gearing and are they trading better ?**

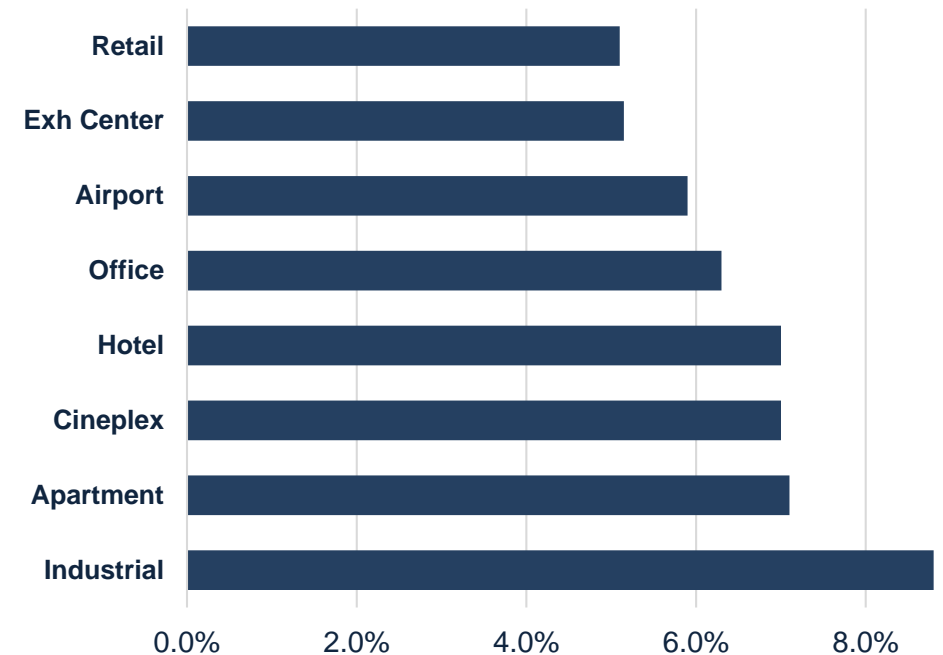
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# Overall Distribution Yield ranges between 4.6%-8.8%

## REITs offer moderate 2017F Mcap weighted distribution yield of 5.8%



## 2017F yield comparison by asset types



- Sector offers moderate 2017F market-cap weighted distribution yield of 5.8%. This is a 304-bp premium to the Thai 10-year government bond yield of 2.78% currently. Most funds pay quarterly dividends, while some pay semi-annually.
- Mcap weighted yields ranges between 4.6% - 8.8%.

# Office PFPO/REITs yield ranges between 5.3%-7.5%

## 13 Office PFPO/REIT yield average of 6.4%

PFPO/REIT	Underlying Assets	Mcap (THBmn) (Jan 18)	Remaining Years (Jan18)	2017E Distribution Yield (%)
POPF	UBC II Prompong, Ploenchit Center, Bangna Tower	6,936	22	7.5%
BOFFICE <sup>(1)</sup>	Bhiraj Office Tower @ Emquartier	6,700	30	7.3% IPO 2017
CPTGF	CP Tower Silom, Phayathai, Fortune	12,184	26	7.3%
BWORK <sup>(1)</sup>	Office True Tower 1 and 2	3,688	30	7.1% IPO 2017
QHPF	Q House Ploenchit, Q House Lumpini, Wave Place	9,086	18	7.0%
CPNCG	The Office @ Central World	6,229	15	6.3%
GLANDRT	The Nine Tower, Unilever House	5,797	27	6.3%
GVREIT	Park Venture EcoPlex, Sathorn Square	11,896	24	5.9%
WHABT	Bangna Business Complex, SJ Infinite OneBusiness Complex	2,020	91	6.2%
BKKCP	Charn Issara Tower, Charn Issara Tower II	1,120	Freehold	6.2%
SIRIPF	Siripinyo Building Project	1,836	Freehold	5.9%
TPRIME	Exchange Tower, Mercury Tower,	6,625	75	5.4%
KPNPF	KPN Tower	1,764	Freehold	5.3%
Overall Simple Average		73,801		6.4%
Mcap-Weighted Average				6.5%
Leasehold Average				6.8%
Freehold / >90YR LH Average				5.8%

# Thailand Hotel PFPO/REITs Yield Comparison

## Hotel PFPO/REIT offering yield ranges between 6.0% - 7.6% (As of March 2018)

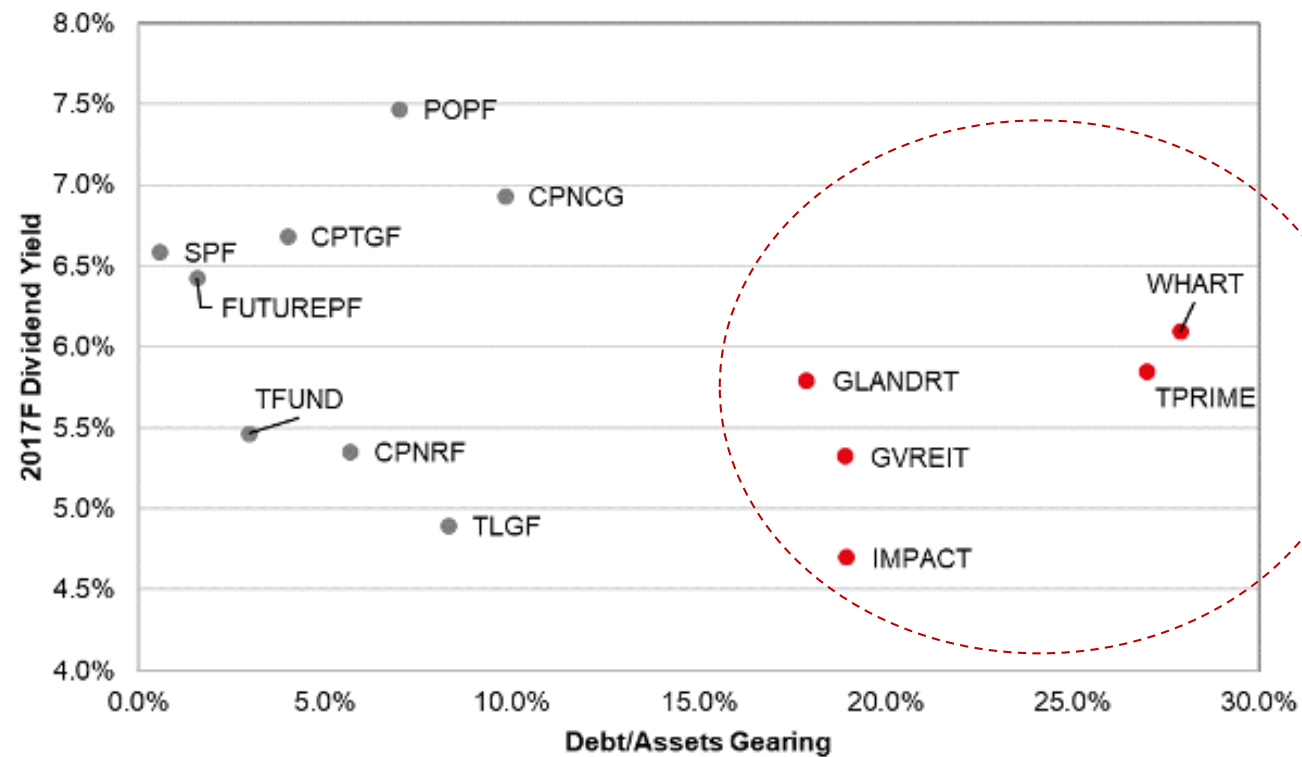
PFPO/REIT	Underlying Assets	Mcap (THBmn)	Rights on Properties	2017A Distribution Yield (%)	
DTCPF	Dusit Thani Laguna Phuket, D2 Huahin, Dusit Thani Huahin	2,661	LH and FH	7.3%	
QHHR	The Center Point Hotel - Pratunam, Sukhumvit 10, Chidlom	2,960	LH and FH	6.8%	
SPF	Samui Airport	21,950	LH	6.5%	
LHHOTEL	Grand Center Point Terminal 21	8,340	LH	6.1%	
CTARAF	Centara Grand Beach Resort Samui	1,630	LH	6.1%	
QHOP	Amari Boulevard Hotel	742	LH	3.6%	
SHREIT	Pullman Jakarta Central Park, Capri by Fraser, IBIS Saigon South	3,528	FH	7.6%	IPO 2017
M-PAT	Patong Heritage	992	FH	7.1%	
LUXF	Sixth Sense Yaonoi Pang-nga	1,590	FH	6.9%	
SRIPANWA	Sri Panwa Phuket	3,100	FH	6.8%	
ERWPF	IBIS Pathong, IBIS Pataya	1,070	FH	6.4%	
GAHREIT	Sheraton Huahin Resort & Spa	1,760	FH	6.0%	IPO 2017
SBPF	Mercure Samui Buri Resort	290	FH	n.a.	
Simple Average		52,183		6.4%	
Mcap-weighted Average				6.6%	
Simple Average – Leasehold				6.8%	
Simple Average – Freehold				6.6%	

- 2017A Hotel REIT yield ranges between 6.0% - 7.3% with an average of 6.4%. Freehold and Leasehold yield were 6.6% and 6.8% respectively.
- Most of Hotel Property Funds/REITs offer guaranteed scheme in the first 3-5 years

# Gearing structure for return enhancement and investment flexibility

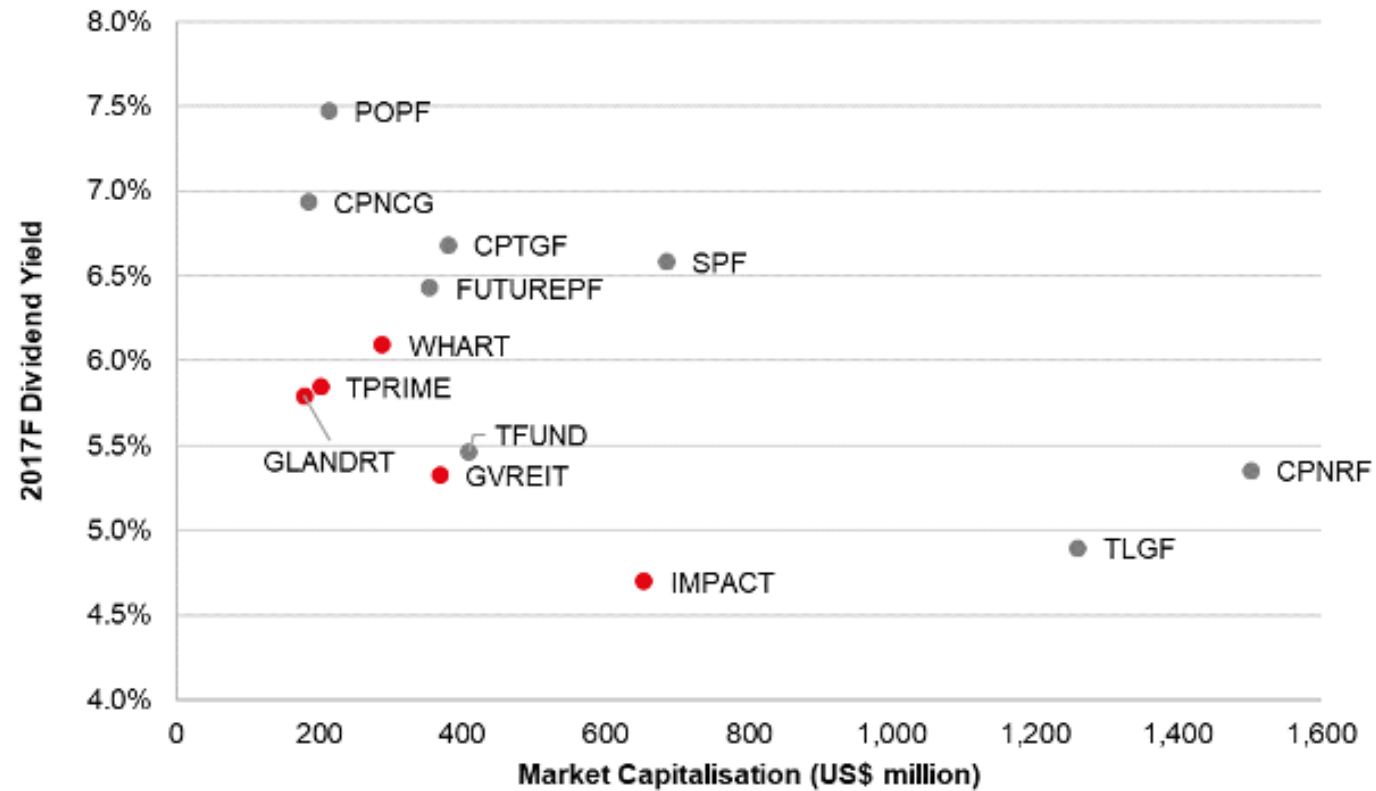
The average REIT gearing level is 20%, while the average gearing for PFPO remains below 5%, well below the 10% regulatory limit.

PFPO (grey) and REIT (red) dividend yield and gearing, end-2017  
PFPOs and REITs with market capitalisation above THB 5,500mn



# REITs with higher market capitalisation and trading liquidity tend to trade better

PFPO (grey) and REIT (red) dividend yield and market capitalization, end-2017  
PFPOs and REITs with market capitalisation above THB 5,500mn



- REITs with higher market capitalisation and trading liquidity tend to trade better. They typically do so at more favourable yields to sponsors, adjusting for size.
- Investors tend to command higher yield from REITs or PFPOs with a relatively smaller market capitalization.
- In the 6,000 – 18,000 THBmn market capitalisation range, REITs trade at 5.6% dividend yield, compared to 6.2% for PFPO.



## 2017 Key Transactions

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## Bhiraj Office Leasehold Real Estate Investment Trust (BOFFICE)

Offering Yield	7.10%
Investment Asset	30-year Leasehold right of the Bhiraj Tower at Emquartier
Leaseable area	49,732 sqm
Total Fund Raised	6,903 THBmn
Equity	5,153 THBmn
Gearing	1,750 THBmn
% Gearing	26.5%
2019E Dist. Income	366 THBmn
Offering yield	7.1%
Debt-Free yield	6.6%
IPO Period	4Q2017



## Bualuang Office Leasehold Real Estate Investment Trust (BWORK)

Offering Yield	7.31%
Investment Asset	30-year Leasehold right of land and office building True Tower 1 and True Tower 2
Leaseable area	62,386 sqm (True 1: 37,314 sqm, True 2: 25,072 sqm)
Total Fund Raised	4,608 THBmn
Equity	3,688 THBmn
Gearing	920 THBmn
% Gearing	20.0%
2019E Dist. Income	273 THBmn
Offering yield	7.3%
Debt-Free yield	6.7%
IPO Period	4Q2017

# 2017 Thailand REIT IPO—Hospitality and Industrial (Independent REIT Platform)



## Strategic Hospitality Real Estate Investment Trust (SHREIT)

Offering Yield	7.67%
Investment Asset	Extendable Freehold of Pullman Hotel and 26-year Leasehold right of Capri and IBIS Hotel
Number of rooms	Pullman:317, Capri:175, IBIS:140
Total Fund Raised	5,098 THBmn
Equity	3,528 THBmn
Gearing	1,570 THBmn
% Gearing	30.8%
2019E Dist. Income	231 THBmn
Offering yield	7.67%
IPO Period	4Q2017

## AIM Industrial Growth Freehold and Leasehold Real Estate Investment Trust (AIMIRT)

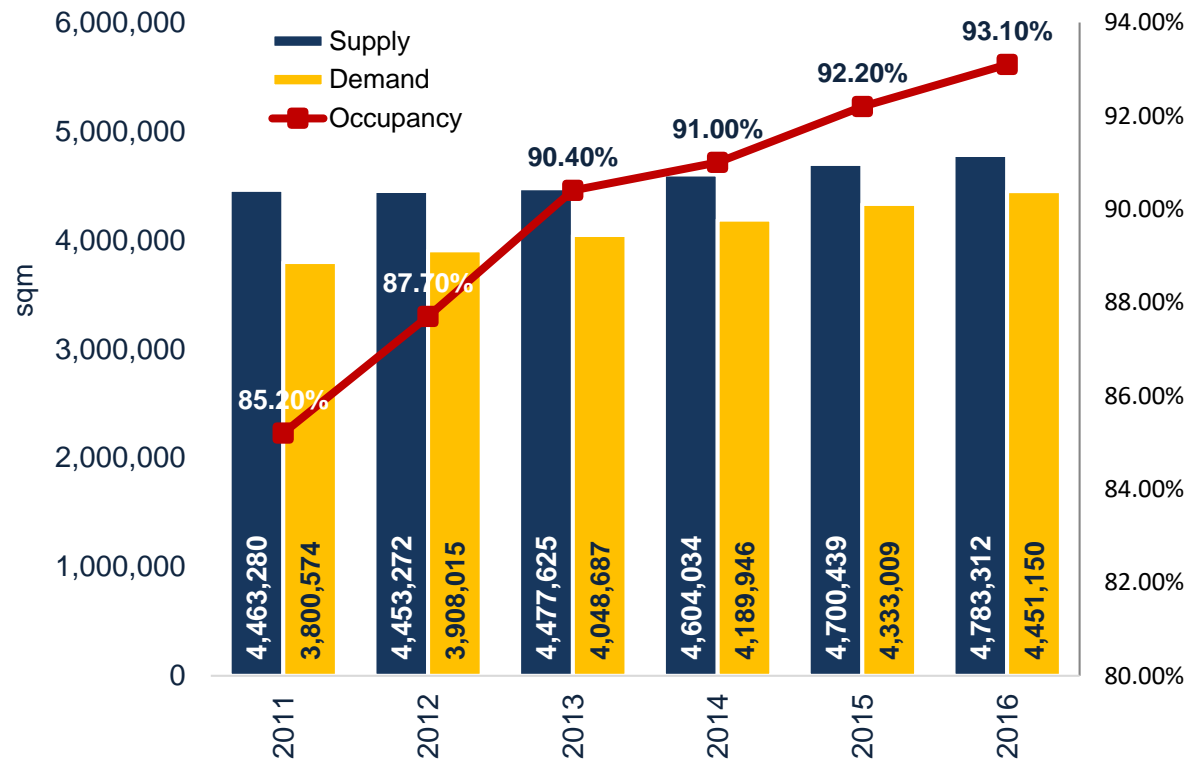
Offering Yield	7.38%
Investment Asset	Freehold of Land, Cold Storage and Warehouse
Leaseable area	Cold Storage 27,620 sqm and Warehouse 30,939 sqm
Total Fund Raised	2,215 THBmn
Equity	1,550 THBmn
Gearing	665 THBmn
% Gearing	30.0%
2019E Dist. Income	114 THBmn
Offering yield	7.38%
IPO Period	4Q2017

## Bangkok Office Market Outlook

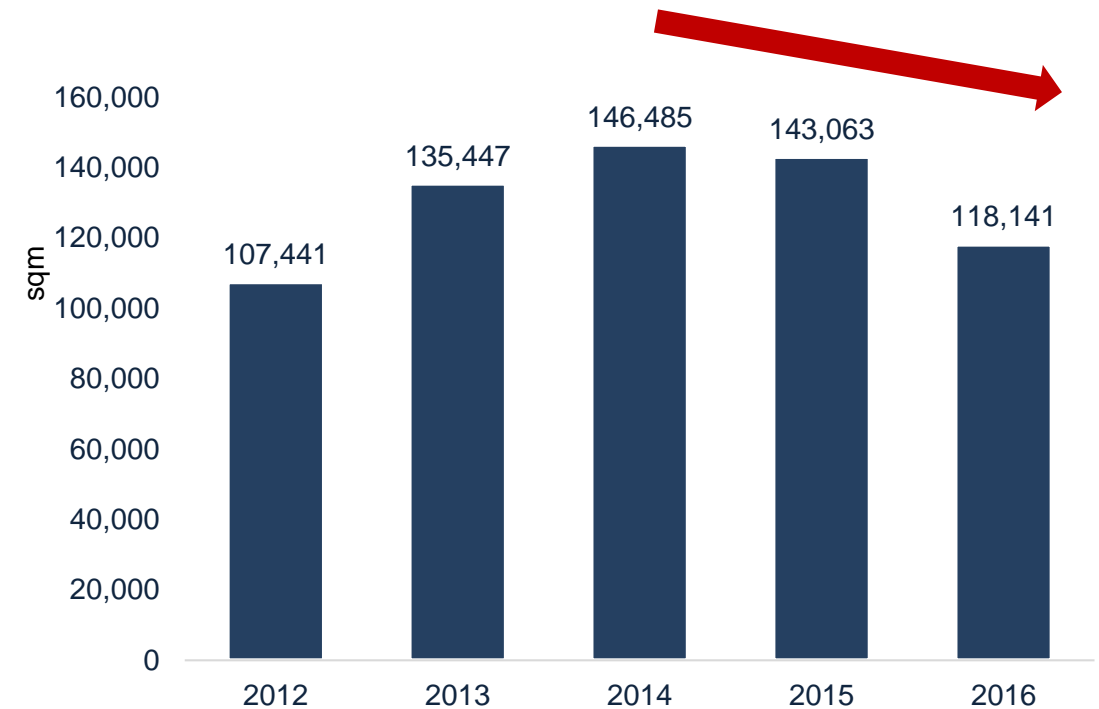
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# Limited Supply and Steady Demands with Positive Net Take Up

**Rising overall occupancy from limited supply and steady demand but higher vacancy among Grade A offices**



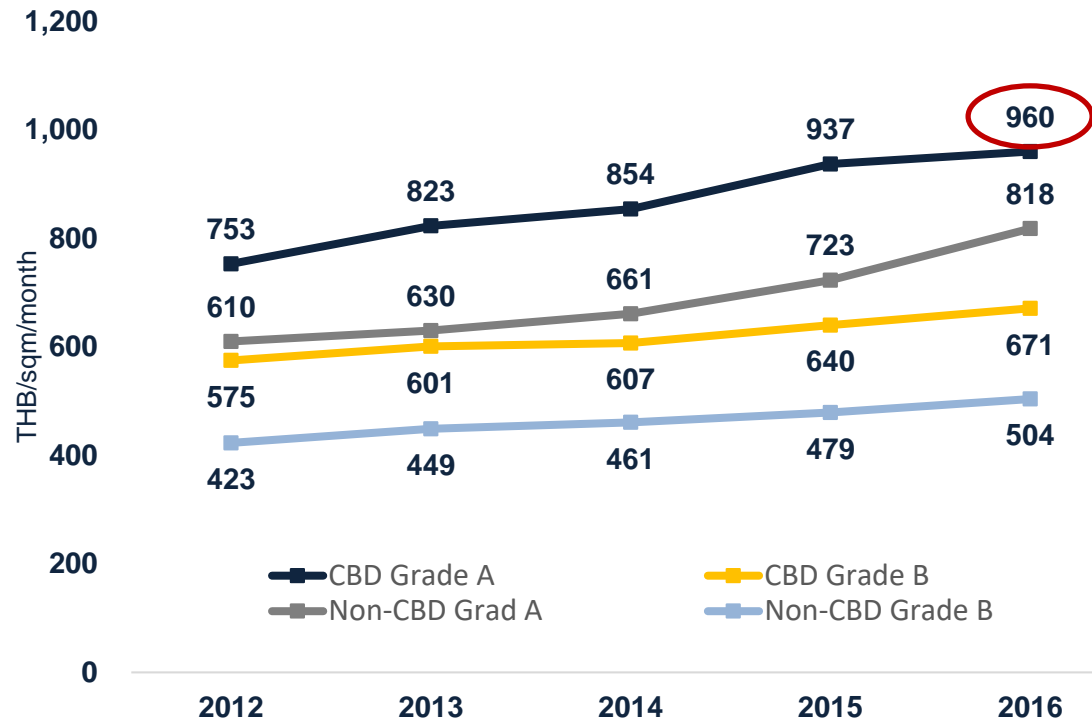
**Net Take-Up was approximately 118,141 sqm, slightly decreasing over the past two years**



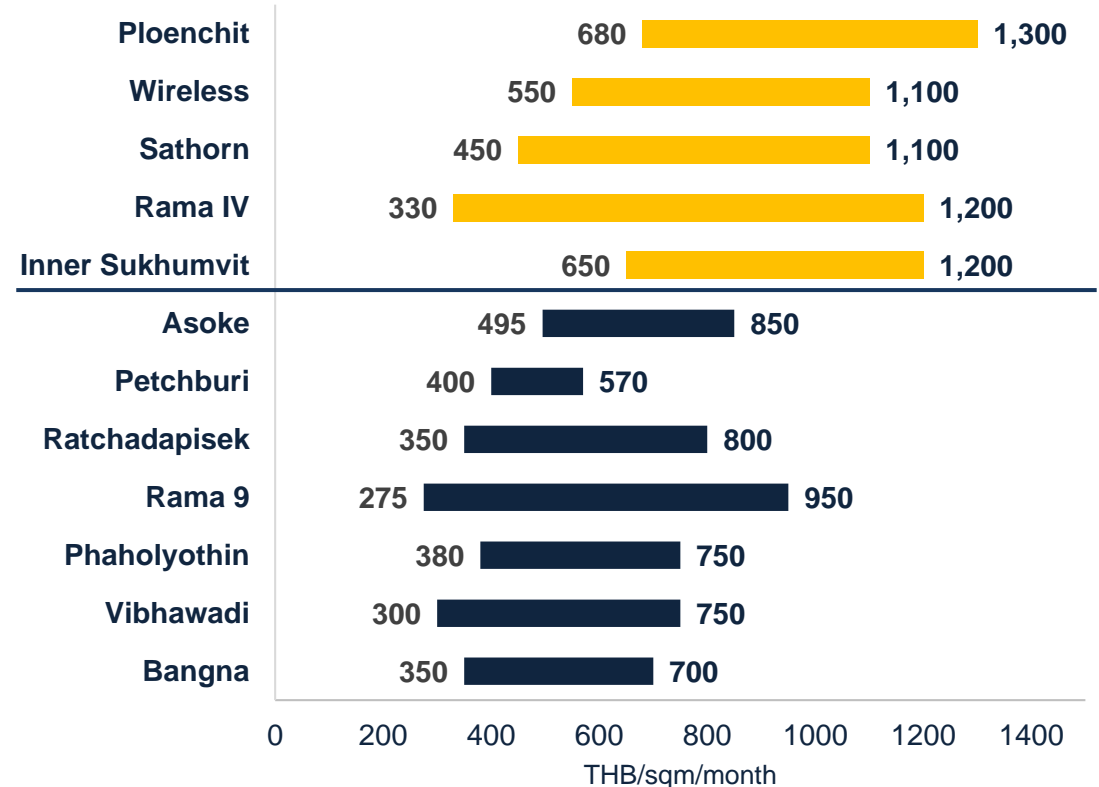
- Bangkok office market condition will remain stable in the next three years (2017-2019) with dropping vacancy rate and rising rents, resulting from limited supply and steady demand.
- Overall occupancy increase from 92.2% to 93.1%, an all-time high over the past five years. The occupancy rate of Grade A CBD offices decreases to 91.7% from 93.7% in the previous quarter.
- The market condition from 2020 will depend on when planned projects with a combined net area of 2,000,000 sqm will start construction
- In 2016, total annual take up is approximately 118,141sqm. Demand for office space has been positive since 2012 and slightly dropped over 2014-2016

# Rising Rental Rate with Healthy Occupancy

Grade A CBD Office shows the highest rate of 960 bt/sqm with a healthy average YoY growth of 6.3% (2012-2016)



4Q2016 asking rent by major street



- The office space on Ploenchit road commands the highest average asking rent among all major roads, followed by Rama 4 and Inner Sukhumvit roads.
- The office building with the highest rental price is Siam Tower, at the average of 1,350 bt/sqm, followed by Park Venture, Bhiraj Tower at EmQuartier, and Exchange Tower respectively.

## Flood of New Office Supply in CBD

### Expected new supply in Bangkok CBD

Mega projects will substantially add up high-quality office supply over 650,000 sqm in the next 3-4 years.

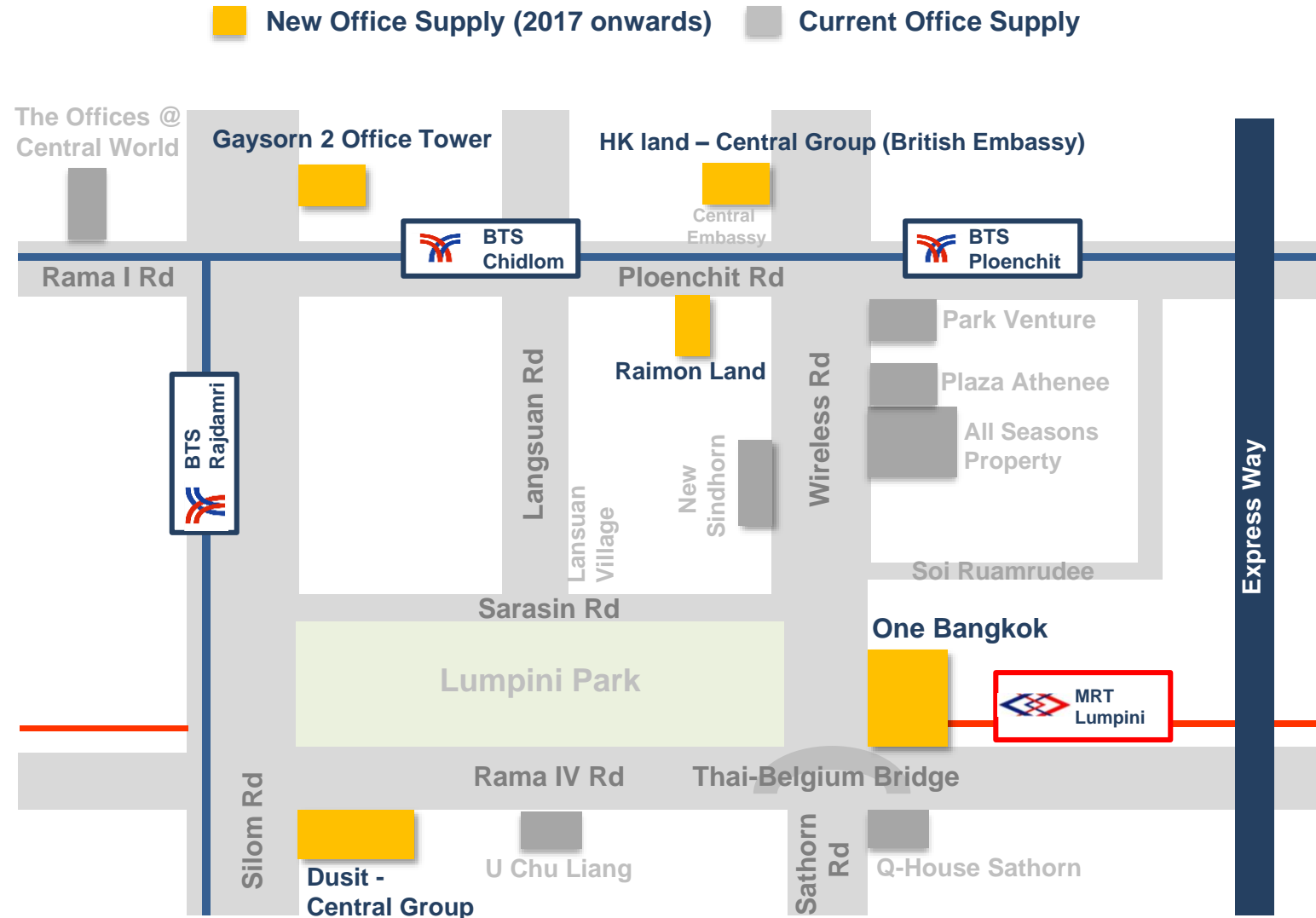
### An intense competition lays ahead

The new supply are planned for high-standard office buildings suitable for well-known Thai and international companies aiming to attract highly qualified new talents

### Threats to existing players.

Competitive advantages of the new supply:

- Prime location
- High-standard building, LEED and WELL standard
- Convenient transportation
- Connected to retail hubs and other key communities



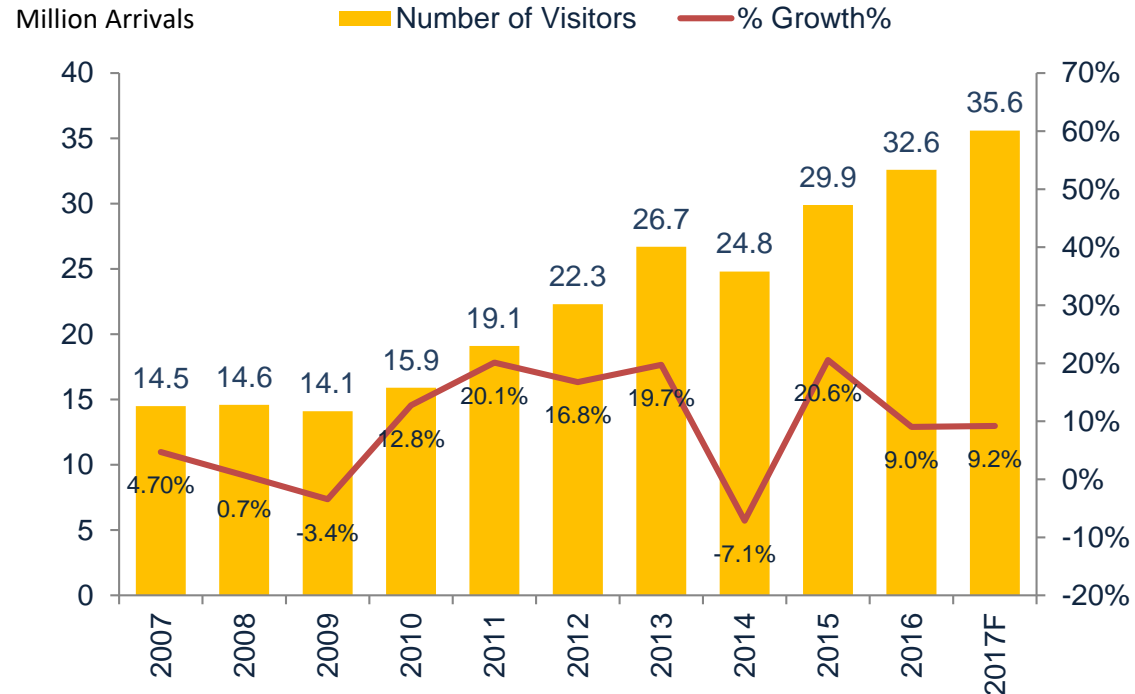
## Thailand Tourism Industry Snapshot

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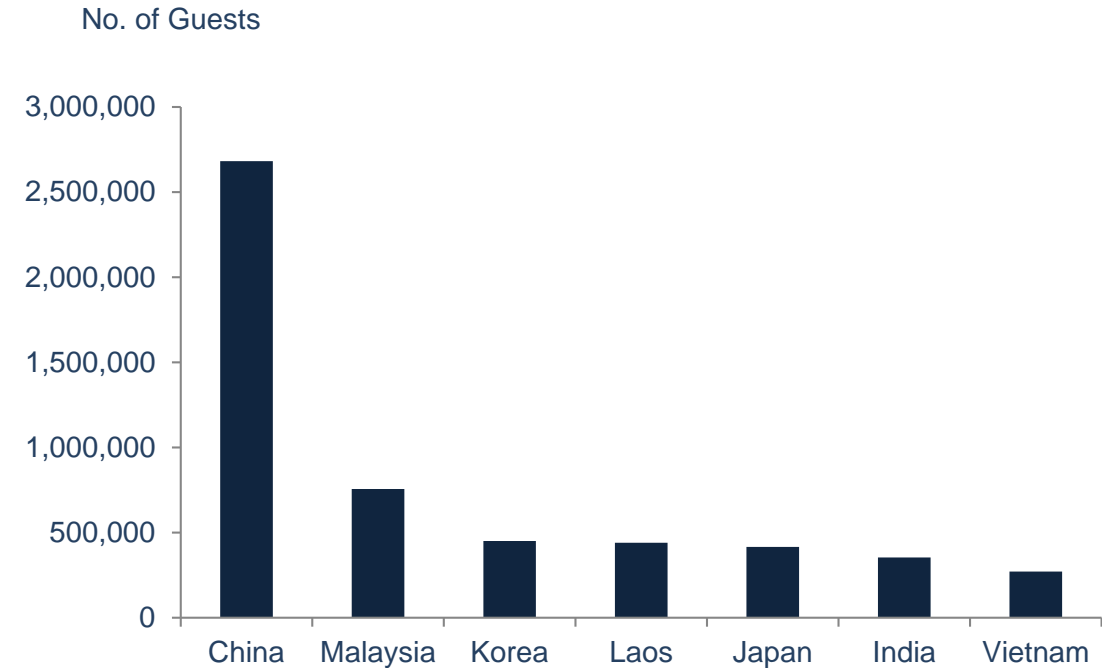
# Thailand tourist industry continues robust growth with strong positive outlook

## Thailand has continued to be a top destination for all types of travellers



- The country has long built its reputation as a tourist destination. Well-developed transportation and communication infrastructure, modern retail centers, rich cultural and religious attractions helped the country to stay ahead of its competitors in the region.
- The Tourism and Sports Ministry reported 35.6 million international tourists arrivals in 2017, setting a new record with a 9% growth. Tourism revenue also increase by 14% to THB 25 trillion.

## Mainland China is Thailand's largest source market (2017F)



- East Asian countries accounted for 71% of the total arrivals. There was a return to growth in Chinese arrivals with 11% YoY increase, resulting in Chinese tourists accounting for 30.5% of total arrivals.
- Korea was the other feeder market which showed dramatic growth with an 18% YoY increase in arrivals.

## Bangkok and Phuket Hotel Market Synopsis

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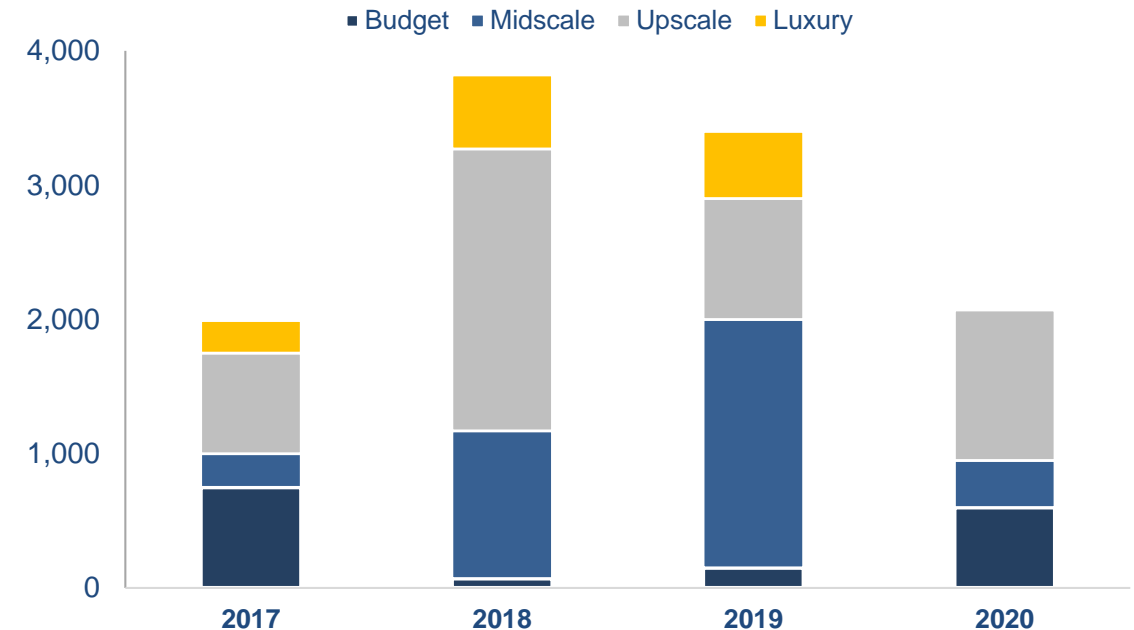
# Bangkok was ranked second in 100 Top City Destinations Ranking 2017

## Growing number of tourist arrivals.



- Bangkok was ranked second in the latest Euromonitor international's 100 Top City Destinations Ranking, welcomed 23.4 million international visitors in 2017, representing a 10-year CAGR of 9.5%.
- In 2017, Chinese visitors continue to be the top source market, followed by Japan, South Korea and India, accounting for 25.0%, 5.7%, 5.3% and 5.1%, respectively. The fastest growing source market y-o-y were South Korea 912.3%, India (7.4%) and Mainland China (2.7%).

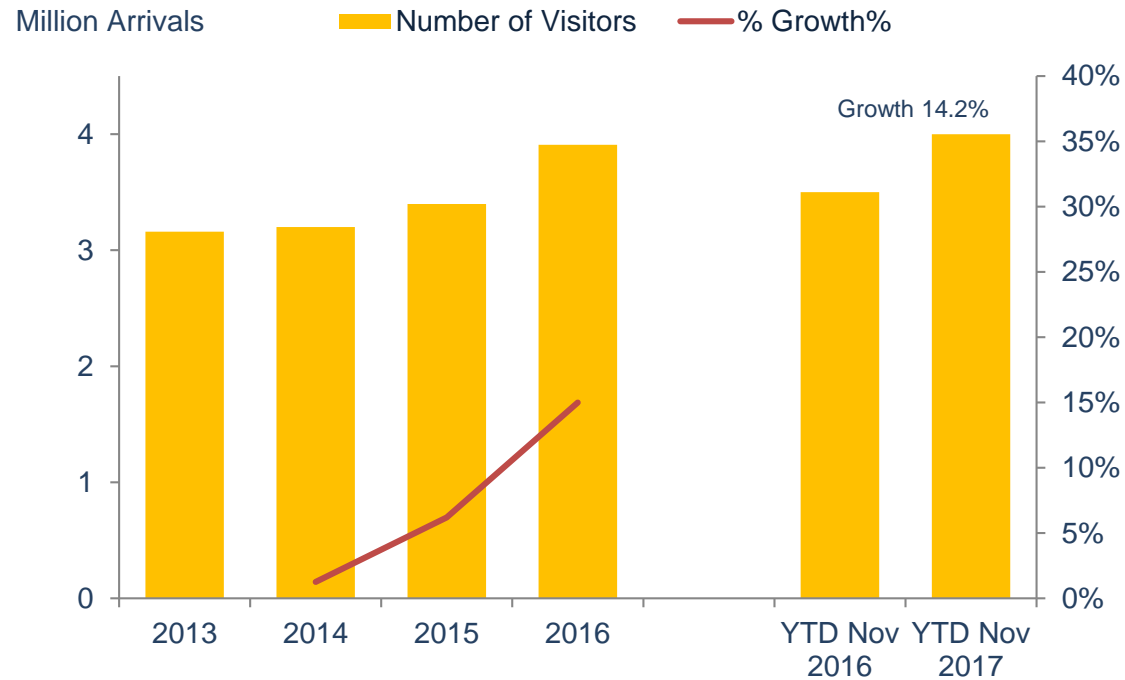
## Future Bangkok Hotel Supply



- In 2017, a total of 1,991 hotel rooms have been added to Bangkok hotel supply. In 2018, 3,881 new hotel rooms will be added to the Bangkok hotel market.
- Between 2018 and 2020, future hotel opening are concentrated in the upscale and midscale segments, accounting for 45.1% and 34.4% of the total future supply (total 9,133 rooms)

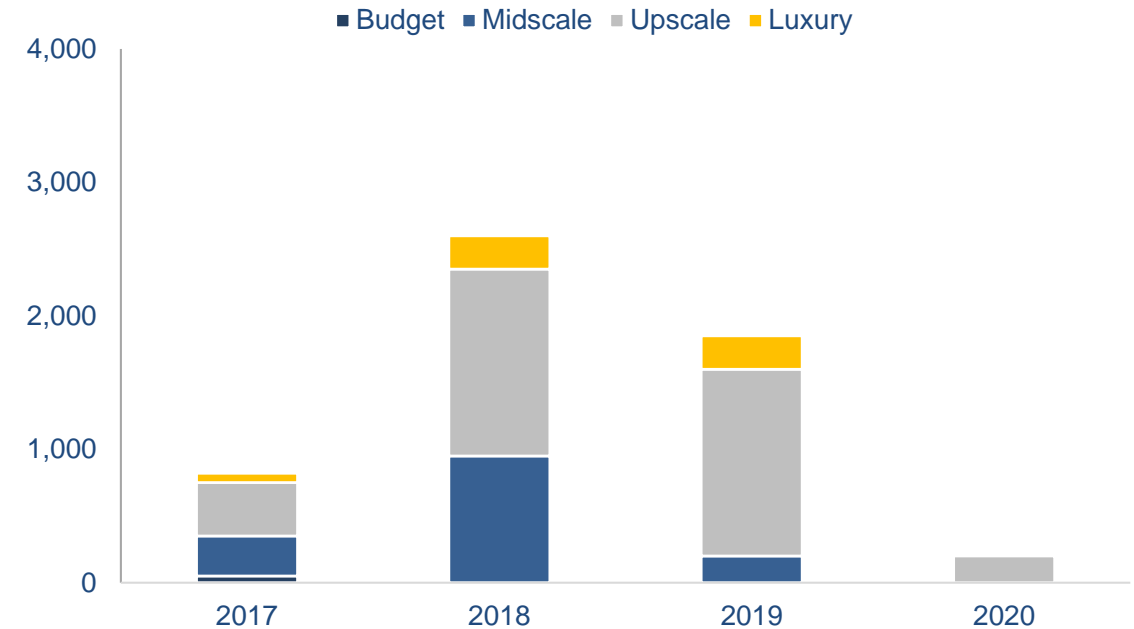
# Phuket saw further growth in tourist arrivals in 2017

## Growing number of tourist arrivals.



- As at Nov 2017, the upward trend continued with international arrivals increasing by 14.2% over the same period from 3.5 mn Nov 2016 to almost 4.0 Nov 2017.
- In 2017, Mainland China, Russia and Australia remained the top three source markets to Phuket, accounting for 41.6%, 11.3% and 6.0% respectively.
- Visitors arrivals from China experienced 20.6% y-o-y growth, while Russia saw a slight decline, dropping by 0.6% y-o-y.

## Future Phuket Hotel Supply



- In 2017, a total of 816 hotel rooms have been added to Bangkok hotel supply. In 2018, 2,525 new hotel rooms will be added to the Phuket hotel market.
- Between 2018 and 2020, future hotel opening are concentrated in the upscale and midscale segments, accounting for 63.5% and 25.6% of the total future supply (total 4,661 rooms)



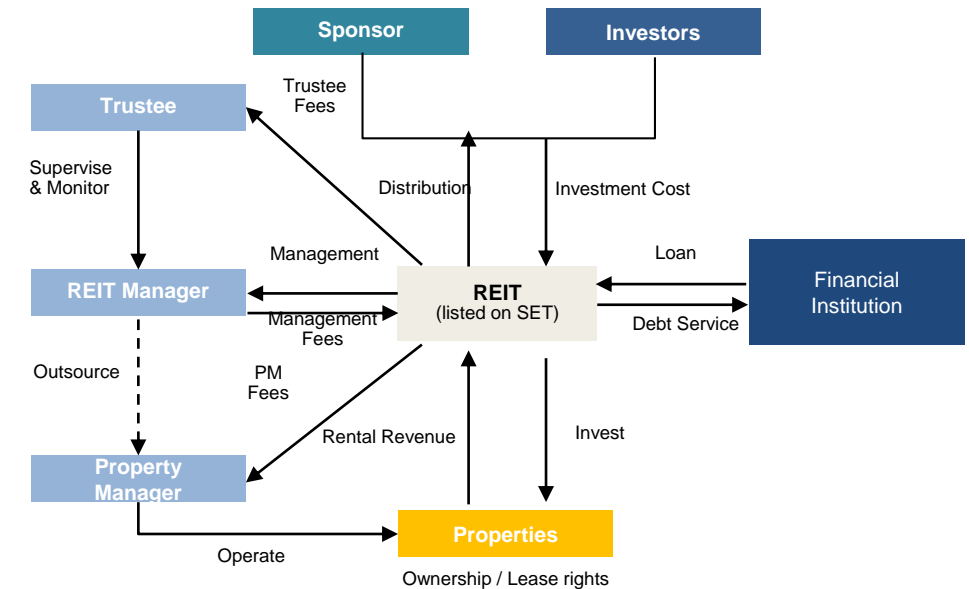
### **III. REIT Regulatory Framework**

**Real Estate Investment Trust (“REIT”) is an internationally accepted investment vehicle with flexible investment choices and leveraging capability**

## REIT Overview

- A pool of assets owned and held by a Trustee for the benefit of trust unitholders
- The operation of REIT will be managed mainly by REIT Manager as supervised by Trustee
- REIT units shall be listed in the Thai Stock Exchange.

## General REIT Structure



## Key Features

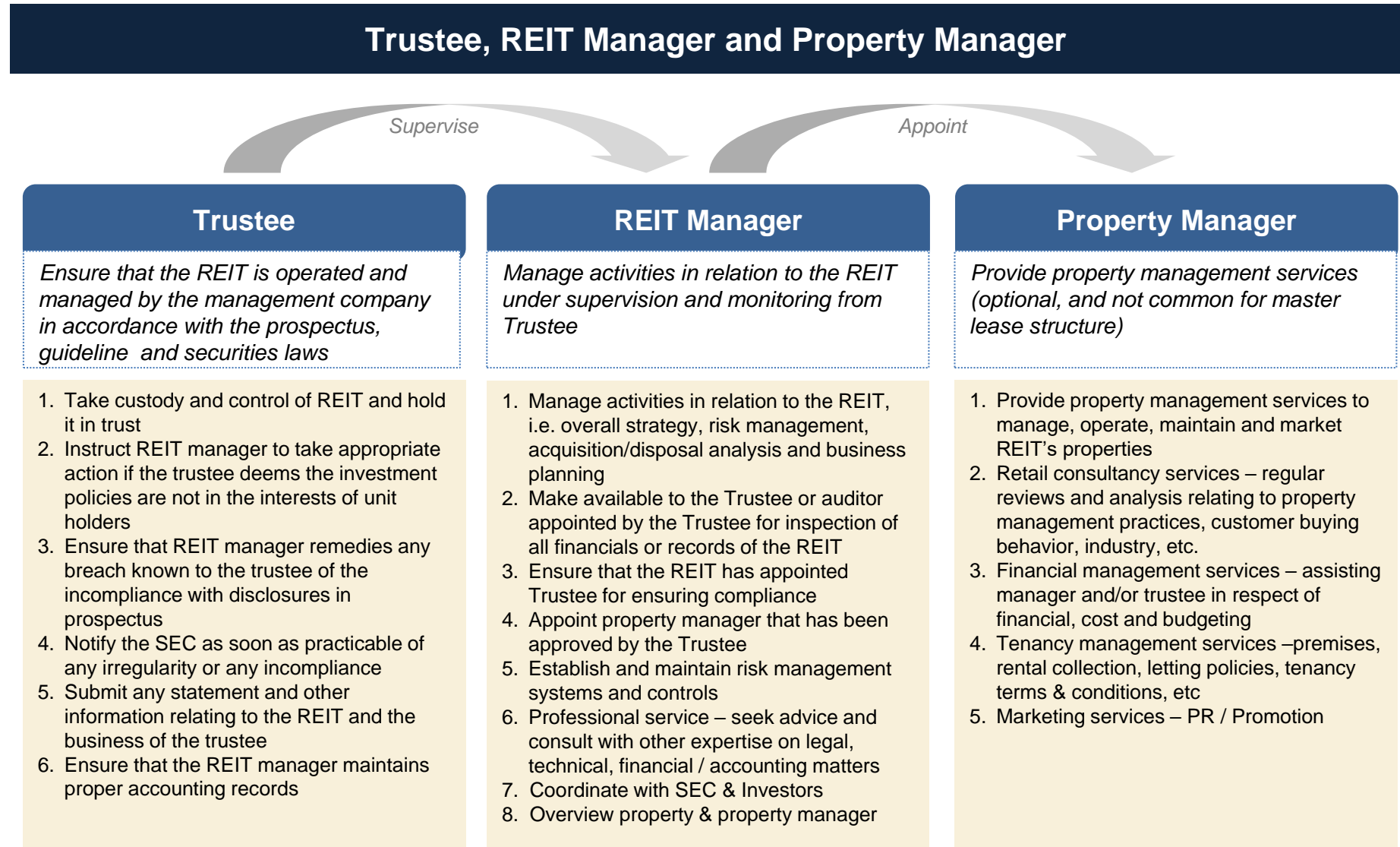
- Flexible investment choices in various types of property and shares of property companies (at least 99%) both domestically and overseas
- Leverage limit is at 35% of the total asset value, or not more than 60% of the total asset value subject to credit rating
- Ability to lease and lease back
- Ability to invest in undeveloped or incomplete project but not more than 10% of the total asset value
- Ability to create security over its asset and issue debentures
- Tax benefits:
  - No corporate income taxes on REIT level
  - No capital gain taxes on selling REIT units in SET/MAI for individual
- Minimum cash-retention vehicle: Must distribute at least 90% of adjusted net profit to unitholders
- Unitholding Limit: a person and its persons in the same group may not hold more than 50% of REIT units



# Comparison of REITs Regulatory Framework

	Thailand	Singapore	Hong Kong
<b>Regulatory Body</b>	SEC Securities and Exchange Commission	MAS Monetary Authority of Singapore	SFC Securities and Futures Commission
<b>Shareholding restriction</b>	Foreign investment limits on underlying properties apply	None	None
<b>Geographic restriction</b>	None	None	None
<b>Investment in real estate</b>	At least 75% invested in income-producing asset	At least 75% invested in income-producing asset	100%. Only allowed to invest in income-generating assets
<b>Property Development</b>	<10% of gross asset value	<10% of gross asset value	<10% of gross asset value
<b>Gearing limit</b>	<35% and <60% for investment grade credit rating	<35% of gross asset value	<45% of gross asset value
<b>REIT legal structure</b>	Unit Trust	Unit Trust or Corporate (Generally trust in practice)	Unit Trust
<b>Tax treatment of the REIT</b>	Exempt	Exempt	Exempt





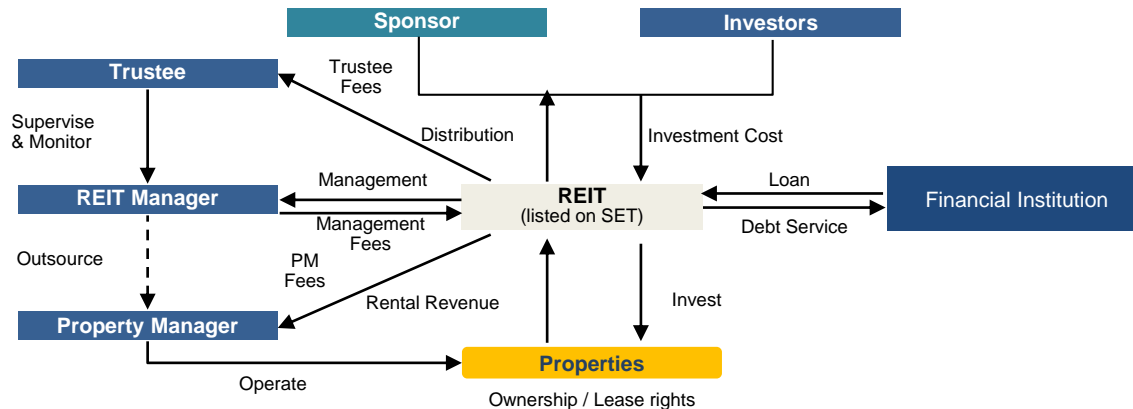
## Issues to consider for REIT structuring

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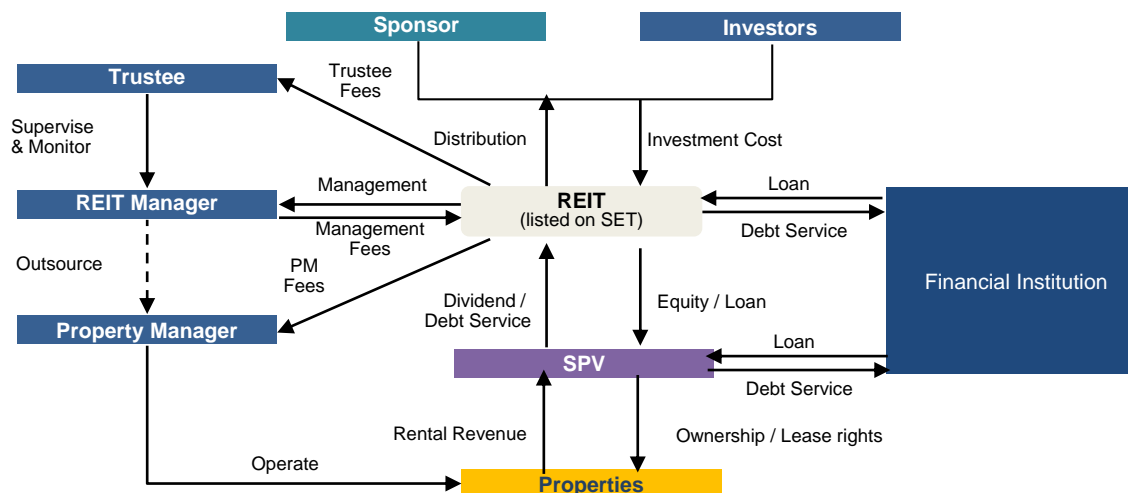
# Issues to consider for REIT structuring

## Investment in Assets vs Investment in Shares

### Investment in Assets



### Investment in Shares



### General Requirements

- REIT must hold shares in SPV not less than 99% of SPV total issued and voting shares.
- SPV must have same objectives as REIT (limited to the investment in real property of at least 75% and generation of rental revenue).
- Shareholders' loan from REIT to SPV is allowed and does not count towards 35% - 60% leverage requirements.
- Valuation must take into accounts taxes to be borne by SPV and other factors which may impact on real property value that the REIT will indirectly invest.
- REIT must have mechanism to ensure that trustee and REIT manager can control SPV in the same manner as direct investment by REIT.

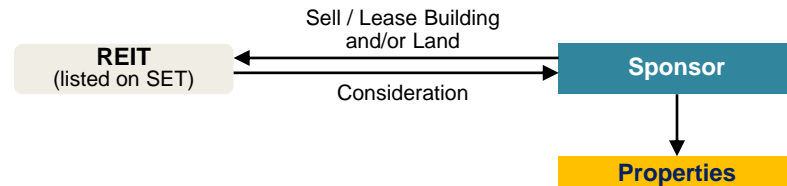
### Issues to Consider

- ✓ Transaction cost upon investment
- ✓ Tax implications from operation of assets
- ✓ Legal restrictions (for offshore investment)
- ✓ Corporate governance of SPV
- ✓ Flexibility for asset disposal

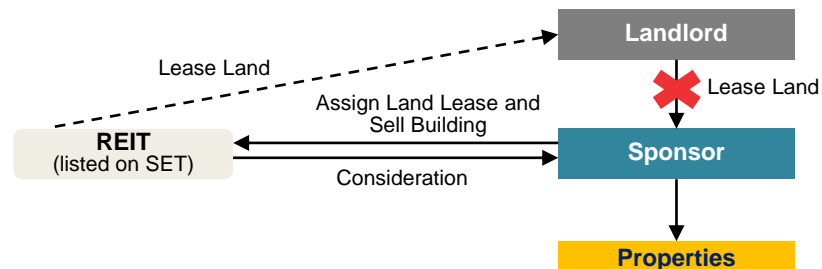
# Issues to consider for REIT structuring

## Freehold, Leasehold or Sub-Leasehold

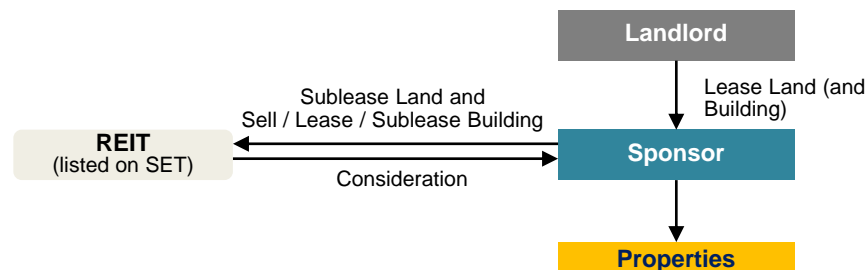
### Freehold / Leasehold



### Assignment of Land Lease



### Sub-leasehold



### General Requirements

- In case of sublease, the prospectus must disclose risks which may arise from the termination of head lease, and mechanisms for risk mitigation.

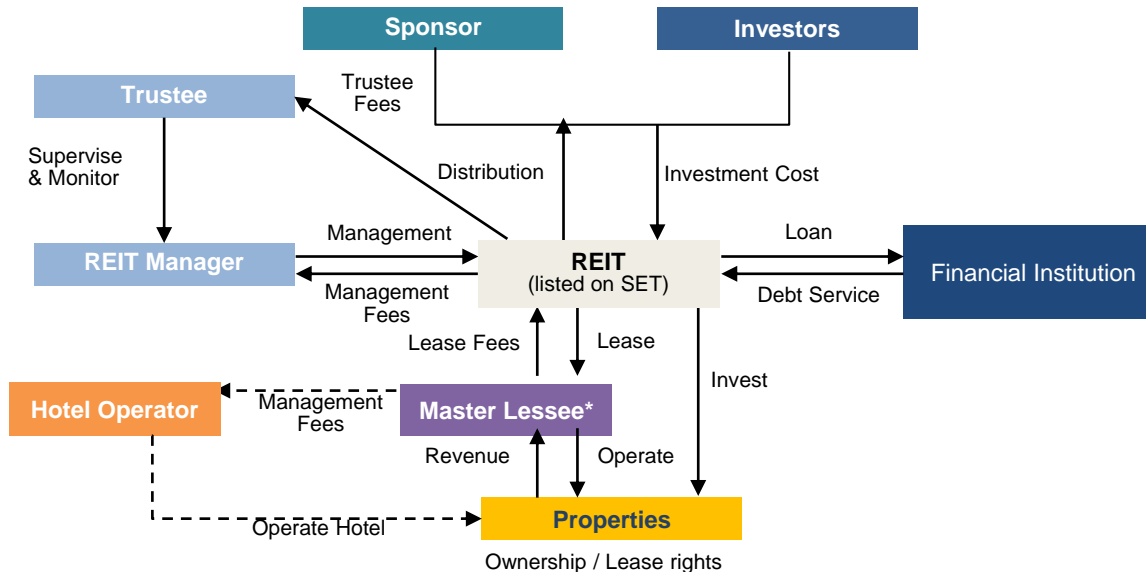
### Issues to Consider

- ✓ Understanding ownership structure (BTO v BOT)
- ✓ Landlord consent and cooperation
- ✓ Risk mitigation
  - Head lease guarantee and sponsor undertakings
  - Step-in rights for lease / conditional assignment
  - Leasehold insurance
- ✓ Decision upon total loss and insurance proceeds allocation



## Master Lease Structure

### Master Lease Structure (Normally for Hotels & Hospitals)



### Issues to Consider

- ✓ Master lessee entity and conflict of interest management
- ✓ Replacement of master lessee and risks to REIT
  - Fixed rent guarantee and form of guarantee
  - Ability for REIT to find new master lessee
  - Stapled REIT (Singapore concept)?
- ✓ Revision of fixed and variable rent
  - Increase in fixed rent
  - Extraordinary events (good and bad)
- ✓ Involvement of REIT
  - Audit of master lessee's financial statement and management accounts
  - Review of hotel operator's budget
  - Change in hotel operator

### General Requirements

- REIT could not conduct other businesses than leasing out real property to tenants. Conduct of hotel business or hospital business by the REIT is therefore prohibited.
- In case REIT will lease out the entire assets to hotel or hospital business operator, the majority rental scheme must be fixed, and the variable rent tied with the performance of the operator must not exceed half of the fixed rent, i.e. two-thirds of total rent received by REIT must be fixed rent.

# Issues to consider for REIT structuring

## Tax Consideration for Sponsor and REIT

### Sponsor Level

Taxes / Fees		REIT
Income Tax	Sale of assets	<ul style="list-style-type: none"> <li>▪ <b>Immovable Assets:</b> 1% WHT(creditable) Capital gains are subject to 20% CIT</li> <li>▪ <b>Movable Assets:</b> 20% CIT</li> </ul>
	Lease of assets	<ul style="list-style-type: none"> <li>▪ <b>Immovable Assets:</b> 5% WHT</li> <li>▪ Capital gain can be amortized over the lease period</li> </ul>
SBT/ VAT/Stamp Duties/Registration Fee	Sale of assets	<ul style="list-style-type: none"> <li>▪ <b>Immovable Assets:</b> No VAT, 3.3% SBT, No Stamp Duties, 2% Registration Fee</li> <li>▪ <b>Movable Assets:</b> 7% VAT, No SBT, No Stamp Duties, No Registration Fee</li> </ul>
	Lease of assets	<ul style="list-style-type: none"> <li>▪ <b>Immovable Assets:</b> No VAT, No SBT, 0.1% Stamp Duties, 1% Registration Fee</li> </ul>

### REIT Level

Taxes / Fees		REIT
Income tax from operation		<ul style="list-style-type: none"> <li>▪ N/A (only at REIT level) Holding companies are subject to normal CIT</li> </ul>
VAT from operation		<ul style="list-style-type: none"> <li>▪ 7% VAT</li> </ul>
Income tax from disposal of assets		<ul style="list-style-type: none"> <li>▪ 0%</li> </ul>
SBT / VAT / stamp duties / registration fee from disposal of assets		<ul style="list-style-type: none"> <li>▪ <b>Immovable Assets:</b> No VAT, 3.3% SBT, No Stamp Duties, 2% Registration Fee</li> </ul>
		<ul style="list-style-type: none"> <li>▪ <b>Movable Assets:</b> 7% VAT, No SBT, No Stamp Duties, No Registration Fee</li> </ul>

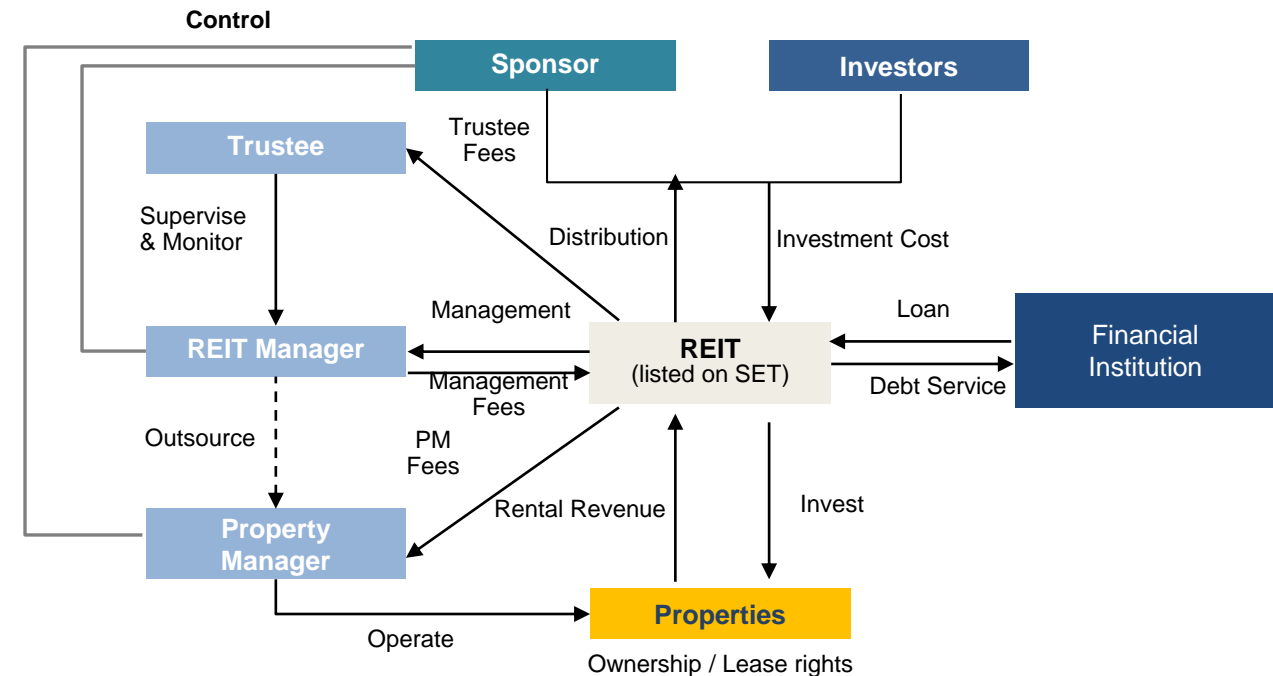
## Trend and Opportunities

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# Sponsor REIT v Non-sponsor REIT

## Sponsor REIT

- Sponsor's undertaking
  - Income / Shortfall guarantee
  - Unitholding by sponsor to enhance investors' confidence
  - Sponsor's support during crisis
  - Rights to invest in other assets of sponsor's group
  - Experience in real estate business and track record of performance
  - No change in management and operation of assets
- 
- Lack of experience in capital markets and investment
  - Conflict of interest in multiple roles of REIT management (lessor/vendor v REIT manager v property manager / master lessee v major unitholder)
  - Limitation in investment opportunities and growth of REIT
  - Limitation for small to mid sized assets to set up REIT
  - REIT performance dependent upon Sponsor
  - Impact on decision to sell/purchase assets, and assets price





## Non-sponsor REIT

- ✓ Expertise in capital markets and investment
- ✓ Undivided interests in maximizing profits for REIT
- ✓ Increased investment opportunities for REIT growth
- ✓ Ability for small to mid sized assets to inject assets into REIT
- ✓ Independence from vendor's performance
- ✓ No vendor's influence in valuation and transaction negotiation process
- ✓ Aligned interest between REIT manager and REIT performance (most of compensation is paid in form of RM fee)
  - Investors' confidence in ability to operate assets without vendor's support
  - No income/shortfall guarantee (unless provided by vendor)
  - No commitment for investment in other assets of vendor's group (unless provided by vendor)
  - No aligned interest between previous assets owner and REIT (unless previous assets owner holds units in REIT)
  - No aligned interest between REIT manager and investors (unless REIT manager holds units in REIT, depending on REIT manager compensation formula)
  - Change in management and operation of assets – unpredictable outcome)

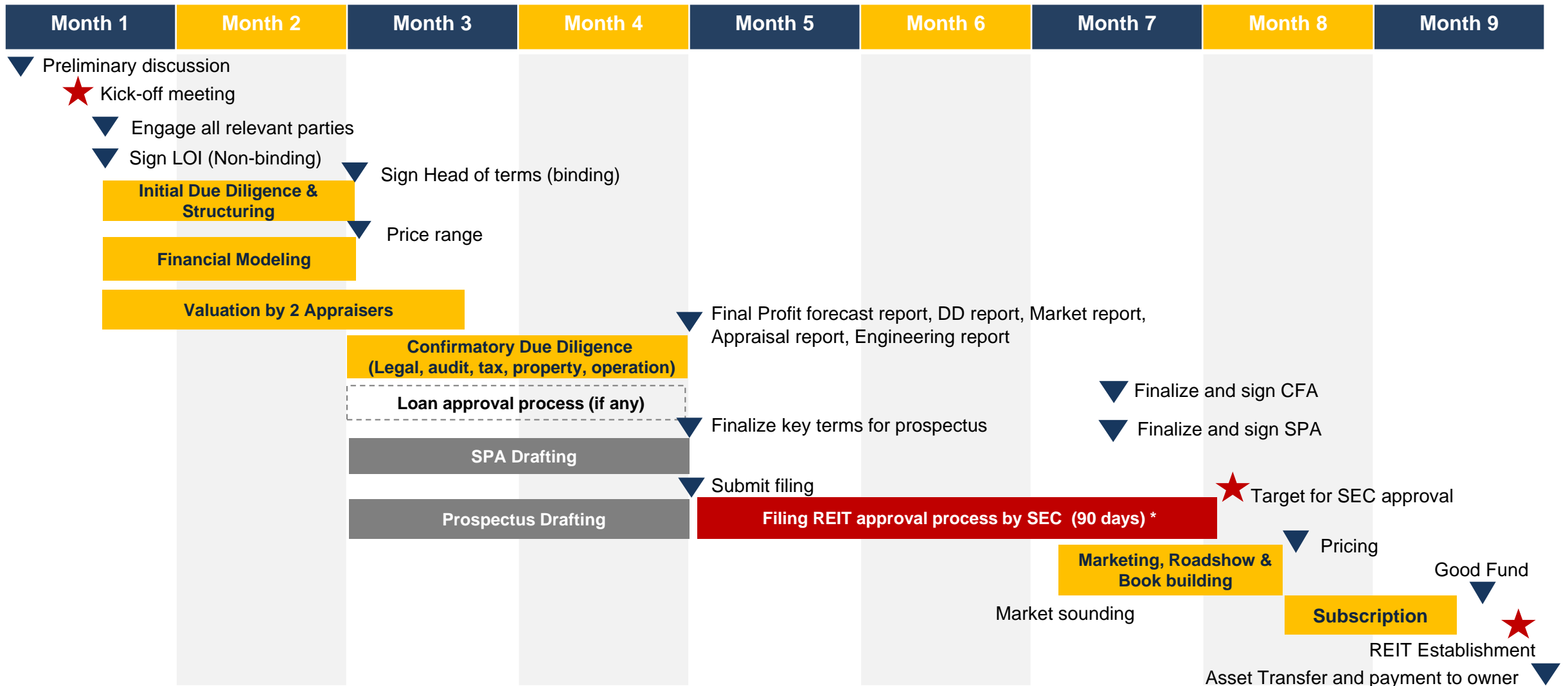


## REIT IPO Process and Timeline

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# REIT Indicative Process and Timeline

Once concluded, the transaction can be completed within about 9-month timeframe.  
The placement process can be adjusted subject to market conditions.



Remark: \* Subject to the approval process by SEC



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**Education and admission**

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- University of Bristol (LLM, 1994)
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Sorachon is co-head of Corporate/M&A Practice Group; and head of the Real Estate, Hotel/Resort & Property Development Practice Group in Bangkok Office. He also heads the Insurance Practice Group within the Bangkok Office. He is recognized for providing advice and applying his expertise to serve a wide variety of multinational clients, in a broad range of commercial transactions involving mergers & acquisitions; insurance company acquisitions; power projects, and oil, gas, and petrochemical matters; real estate, hotel/resort, and property development; real estate investment trusts (REITs) and infrastructure funds.

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Berm has more than 15-year experiences in strategy consulting and investment banking across a broad spectrum of sectors including real estate, financial services, and industrials. His practice extends to cross-border M&A and advising private equity funds.

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- Sasin Graduate Institute of Business Administration of Chulalongkorn University (EMBA)
- Kingston University (Manufacturing Engineer)

Rungyos has more than 20 years of experiences in investment, development, marketing and property management spanning across asset classes, including retail, office and residential properties. Prior to joining Blue Whale Assets, Rungyos was Executive Director of Gaysorn Property Group, overseeing commercial, marketing and development of the most prestigious commercial offices and shopping malls in Thailand.

Blue Whale Assets (BWA) is an independent REIT manager with an expertise in real estate investment and management, primarily focusing on a portfolio of well-located income-generating commercial properties across geographic regions, aiming to deliver stable and sustainable return to investors