



IN FOCUS: CHINA REITs

BUILDING THE

C-REITS ECOSYSTEM

By David Xiaoou Chen

F.O.G. – Fields of Gold Capital & Asset Management Inc.



HISTORICAL BACKGROUND

Real estate financing in China has historically focused on the financing of development projects, fueled by bank financing. As China moves from the development stage to a greater focus on holding completed real estate projects, new types of real estate financing vehicles are coming to light. These new forms of financing include quasi-REITs, mortgage-backed securities, and publicly listed REITs.

While REITs are a relatively new development in China, they have a longer history on the international stage. The first REIT was launched in the United States in 1961. In the sixty years since, 43 countries and regions have launched REITs, including Hong Kong, Singapore, Japan, Australia, Germany, and Canada. Mainland China launched its first REITs in 2021.

Although China's first REITs were listed in 2021, efforts to engage in real estate securitization began much earlier. In 2004, China's State Council began exploring various ways to securitize real estate assets. At this stage, the potential that REITs held already drew the attention of top decisionmakers. The next year, in 2005, Yuexiu REIT was listed on the Hong Kong Stock Exchange, marking the first time Chinese real estate assets were included in a listed REIT. Over the next decade and a half, various instruments resembling REITs were listed in China. These came to be known as quasi-REITs. Finally, in 2020, China's National Development and Reform Commission introduced legislation allowing REITs to be formally listed in China, and China's first official REITs were publicly listed shortly thereafter.



CURRENT STATE OF REIT DEVELOPMENT IN CHINA

Following the NDRC’s 2020 legislation, 27 REITs have been listed in China, cumulatively raising more than 90 billion yuan, or the equivalent of \$12.6 billion, as of March 2023. At the current stage, China’s REITs cover six types of real estate infrastructure, as summarized in the table below.

Type of Real Estate Asset	Number of Publicly Listed C-REITs
Industrial Parks	8
Transportation	7
Logistics	3
Eco-Environmental	2
Subsidized Rental Apartments	4
Energy	3

FIGURE 1: C-REITs Currently Listed in China as of March 2023

Building on this foundation, on March 24, 2023, the relevant authorities announced that consumption-related assets (department stores, malls, shopping centers, etc.) will be the next area opened to C-REIT investment. It is expected that more types of real estate assets, including offices and hotels, will be added to the REITs framework in the near future. In addition, new economy assets, such as data centers and 5G towers, will also likely be made REIT-eligible.

Currently listed Chinese REITs typically have dividend yields of around 4%. While Chinese REITs as a group have seen their market values increase since listing first began in 2021, the sector is still transitioning from a period of irrational volatility to a more stable, mature market.

CURRENT STATE OF REIT DEVELOPMENT IN CHINA

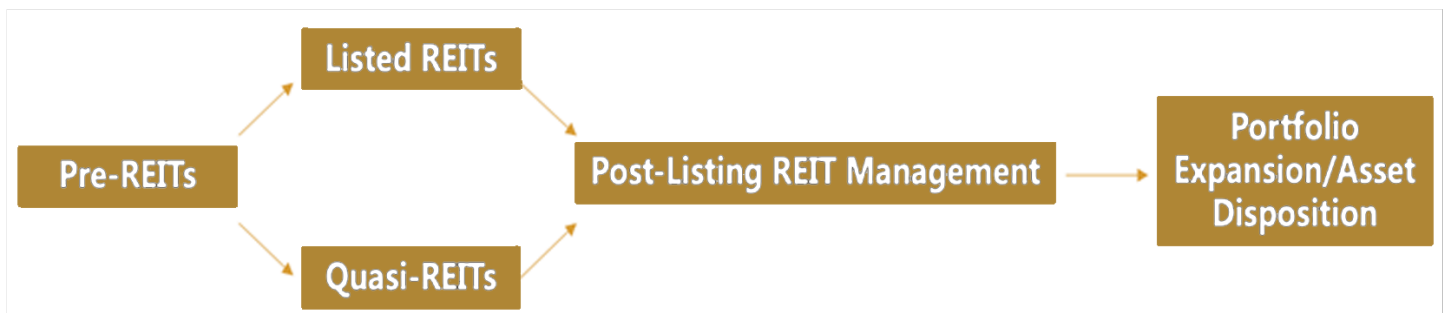


FIGURE 2: The Lifecycle of a REIT

PRE-REITs OPPORTUNITIES

A common starting point in the creation of a REIT is what is known as pre-REITs. Pre-REITs refers to an investment strategy in which investors engage in the purchase, development, and operation of real estate assets with the goal of eventually listing these assets in publicly traded REITs. Private real estate investment funds are an ideal vehicle for engaging in pre-REITs investments.

Globally, the total size of private real estate investment funds exceeds \$1 trillion, and the sector has seen sustained growth in recent years. However, Asia only accounts for around 10% of the sector, while North America and Europe account for the remaining 90%. This implies ample opportunity for the expansion of the private real estate fund industry in China, especially as a new form of exit strategy is now possible following the introduction of C-REITs.

	Number of Funds	Total Size
Private Equity Real Estate Funds	838	404.3 billion yuan
Private Equity Infrastructure Funds	1,424	1.21 trillion yuan

FIGURE 3: Overview of the Current Scale of Private Real Estate Funds in China

An example of pre-REITs activity in China is the 2016 acquisition of Zhangjiang Everbright Industrial Park (张江光大产业园) by Zhangjiang Hi-Tech (张江高科) and EBA Investments (光大安石) through a private fund vehicle. The investors later achieved a successful exit with the initial public offering of the Hua'an Zhangjiang Everbright Industrial Park REIT (华安张江光大产业园REIT). Zhangjiang Hi-Tech, the larger pre-REIT investor, realized proceeds of 198 million yuan by exiting its investment through the listing of the REIT.



POST-LISTING REIT MANAGEMENT

As REITs are long-term investment vehicles, their management after listing is just as important as the management of the underlying assets when they were privately held. The figure below demonstrates important factors REIT managers must keep in mind as they engage in post-listing REIT management.

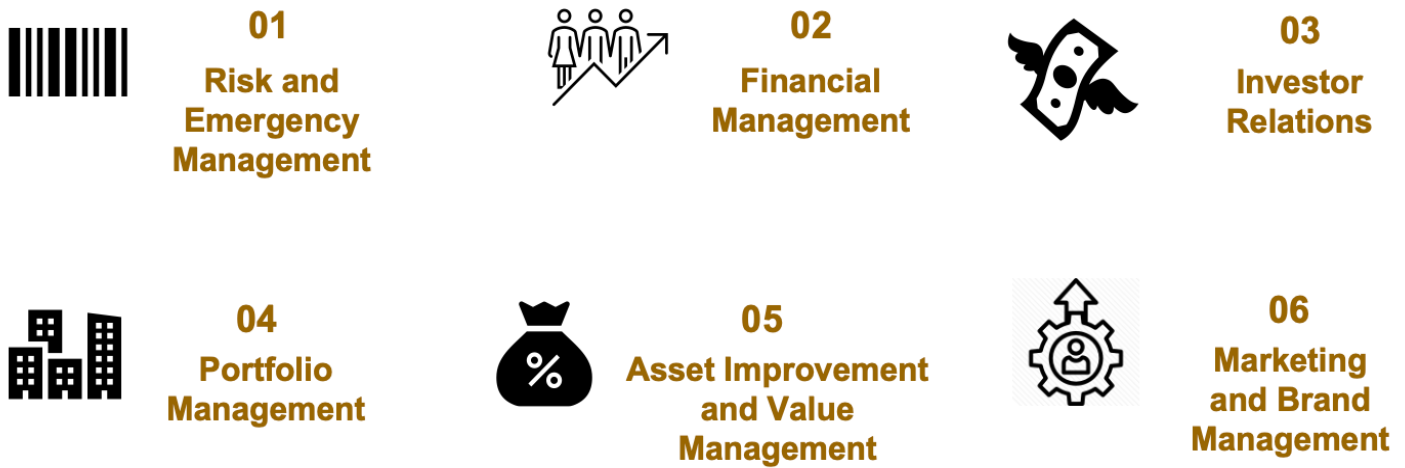


FIGURE 4: Significant Post-Listing Management Areas

Fields of Gold independently developed the **GAM®-Real Estate General Asset Management** system based on international asset management standards to assist developers, real estate owners, and investors effectively operate their real estate holdings. GAM takes advantage of global principles to provide users with actionable advice on 8 major areas: strategic management, financial management, investment and fundraising, development and construction, leasing, operations, marketing and sales, and human resources.

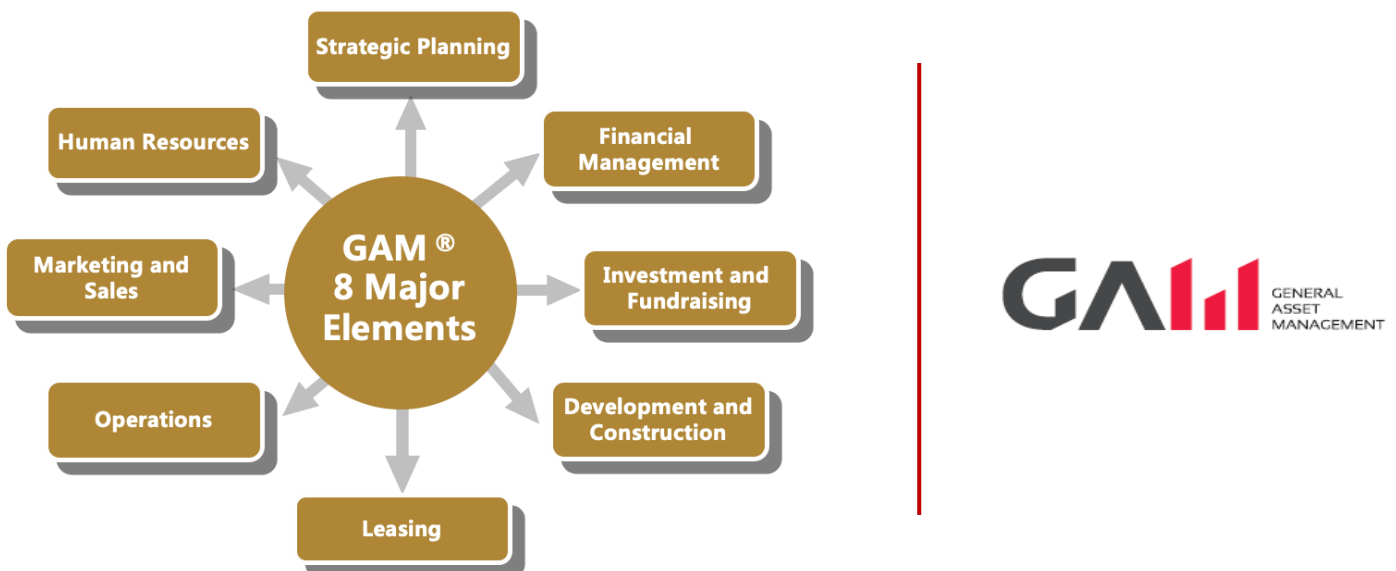


FIGURE 5: GAM®-Real Estate General Asset Management

PORTFOLIO EXPANSION

Although it has only been two years since REITs were first listed in China, many listed C-REITs have already begun expanding their real estate portfolios, reflecting the long-term potential that REITs hold. The table below summarizes some of the recent portfolio expansions that publicly listed C-REITs have undergone.

REIT Name	Portfolio Expansion Value	Acquired Properties
CICC GLP Warehouse Logistics REIT 中金普洛斯REIT	1.853 billion yuan	Logistics parks in Qingdao, Heshan, and Chongqing
Hua'an Zhangjiang Everbright REIT 华安张江光大REIT	1.64 billion yuan	Zhangrun Office Buildings
Bosera Shekou Industrial Zone REIT 博时蛇口产业园REIT	1.3478 billion yuan	China Merchants Guangming Science Park Science & Technology Accelerator Phase 2
Hotland Yantian Port Warehouse Logistics REIT 红土盐田港REIT	414.8 million yuan	Shenzhen Shiji Logistics Park

FIGURE 6: Recent Portfolio Expansion Conducted by C-REITs

FUTURE TRENDS AND PREDICTIONS

As Chinese REITs are still in the early stage of development, there are many trends to look forward to in the space.

1. Diversification of REIT assets – C-REITs may transition from being asset type-specific to comprehensive REITs holding many types of assets.
2. Improvement of valuation techniques – Transition from pure DCF valuation to more comprehensive valuation strategies.
3. Enhancement of management structure – New management structures where REIT sponsors have a larger role in post listing management.
4. Improvement of tax policies – Implementation of tax benefits in relation to REIT dividends.
5. Emergence of market leaders – Chinese REITs that are comparable to international leaders, such as BXP, CapitaLand, and Link.
6. Optimization of leverage restrictions – C-REITs are currently bounded by a maximum 28.57% debt ratio, compared with 50% in Hong Kong, 55% in Singapore, and no limit in the United States.

CONCLUSION

China is currently working hard to build a REITs ecosystem based on international standards. Although REITs in China will expectedly have Chinese characteristics, adopting international standards and practices will be essential to the continued development of REITs in the country. Therefore, further collaboration between Chinese and international stakeholders will be extremely significant in the development of the market. The team at Fields of Gold looks forward to a flourishing REITs ecosystem in China.



DAVID XIAOOU CHEN
Chairman & CEO
F.O.G. - Fields of Gold Capital & Asset Management Inc.

Mr. David Xiaou Chen is the Chairman & CEO of F.O.G. - Fields of Gold Capital & Asset Management Inc. and an Independent Director of Hong Kong-listed Yuexiu REITs (the first China REIT which publicly listed since 2005). He is a board member of APREA China. Mr. Chen is also a visiting professor of Cheung Kong Graduate School of Business (CKGSB, the leading business school in China).



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Asia Pacific Real Assets Association
18 Robinson Road #15-01
Singapore 048547