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Glossary

Business model canvas (BMC) - a highly visual strategic management template for planning new or deciphering existing business models. It was initially proposed by Alexander Osterwalder in 2005.

Capital asset pricing model (CAPM) – a Nobel prize winning formula that is commonly used to calculate a theoretical required rate of return of an asset for portfolio management.

Caveat Emptor – the latin equivalent for “Let the buyer beware”. A well-known long-standing doctrine of American law.

Dead weight loss – a cost to society when both supply and demand are out of equilibrium. This cost results from an inefficient allocation of resources.

Efficient market hypothesis (EMH) - a Nobel prize winning hypothesis that stipulate share prices should reflect all information available such that persistent excess return becomes impossible.

Investor and Financial Education Council (IFEC) - Established in 2012 and supported by the four financial regulators and the Education Bureau, IFEC is an organization dedicated to improving financial literacy in Hong Kong.

Final questioning framework - the fifth version of my questioning framework. A product after the Third draft questioning framework was mapped onto the modified BMC.

Pilot questioning framework – the first version of my questioning framework. It was sent out to six industry experts for initial review.

First draft questioning framework – the second version of my questioning framework. A product after the comments from six industry experts were analyzed and assimilated into the pilot questioning framework.

Second draft questioning framework - the third version of my questioning framework. A product after the multiple rounds of comments from 16 industry experts were analyzed and assimilated into the first draft questioning framework.

Third draft questioning framework - the fourth version of my questioning framework. A product after two rounds of focus study session with 6 retail investors where their comments were analyzed and assimilated into the second draft questioning framework.

Validated questioning framework - the sixth and last version of my questioning framework. A product after the final questioning framework have been validated by a three-layered process.

Appendix 1 - Draft participant interview invitation email

Title: Interview request for REIT Business model project

HI XX,

How are you?

This email provides you with more information on the REIT business model project that I have shared with you recently.

Background (*Why this project?*): During IPO, AGM and quarterly results release, potential investors have very little time and information to make a judgement call on the listed company. Take for instance during IPO roadshow: faced with a prospectus with average thickness of around 500 pages, it is impossible for any human being to fully digest it.

To make things worse, the style of narration is typically boiler-plate, long winded and packed with numerous footnotes that do not add value to any reader attempting to gain a holistic understanding of what the business is all about.

Aims (*What do I proposed to do about it*): Financial documents produced by listed companies such as the IPO prospectus comprises of a huge array of information which encompassed accounting, economics, industry, legal, strategy and risk management aspects of the company.

Against these rich literatures of conventional theories and practices in the following areas, I will not attempt nor do I possessed the capability to pursue a thorough revamp of the entire drafting mandate. What I hope to distill out is a comprehensive, practical and self-rejuvenating questioning framework for prospective investors of listed REITs.

From an investor[1] perspective, my framework will also be the base from which they can jump-start the analysis of companies within their investable universe. At the bare minimum, investors can infer from my framework the appropriate questions to ask during IPO roadshows, AGMs and EGMs. Scope wise, only the REITs industry will be analyzed.

How you can contribute to this mission: From an intensive literature review, I have come out with a pilot list of questions for the REIT industry. This pilot list of questions has been sent out for review by six professionals within the REIT industry. The major purpose during this

[1] *By investors, we are referring to both institutional and retail investors.*

stage was to gauge the appropriateness of the language and whether the questions are clear enough for a formal face-to-face interview.

Following that, I came out with a revamped list of questions that will be used for the face-to-face interview with you. This formal interview will be repeated with 16 professionals across the REIT industry value chain. The comments and suggestions will be aggregated, while the identity of the source will be masked out.

Post that, these congregated comments and suggestions will be shared out among a subset of the 16 experts – 12 of them to be more specific. Each expert is then given a second opportunity to amend their initial comments and suggestions.

Contributors can opt to remain anonymous or be quoted for your effort. I would be more than glad to engage in a 1-to-1 chat with you, date and time subject to your availability.

Look forward to hearing from you real soon.

Cheers,

Alan Lok, CFA, FRM, MBA

Appendix 2 - Selection and size of samples for interview

Number of case studies within the REITs industry analyzed: 4.

Number of corporate insiders: from two companies and two persons each. For each company, the interviewees consist of one from either C-suite level or mid management executive and another one from front-line department.

Financial regulators interviewed: 2 in total

- Hong Kong - 1
- Singapore - 1

Distribution of equity analyst interviewed: 2 in total

- Hong Kong – at least 1
- Singapore – at least 1

Distribution of investor relation interviewed: 2 in total

- Hong Kong – at least 1
- Singapore – at least 1

Distribution of fund manager interviewed: 2 in total

- Hong Kong – at least 1
- Singapore – at least 1

Distribution of private equity manager interviewed: 2 in total

- Hong Kong – at least 1
- Singapore – at least 1

Distribution of retail investors interviewed: 6 in total

- Hong Kong: at least 3
- Singapore: at least 3

Distribution of IPO prospectus preparer interviewed: 2 in total

- Hong Kong: at least 1
- Singapore: at least 1

Total number of interviewees: at least 22 individuals

Methods of data extraction: focus group study for retail investors and 1-on-1 interviews for the rest of the interviewees.

Appendix 3 - List of relevant REITs on HKEX:

Name	Country	Type	Listing Date
RREEF China Commercial Trust	China	Industrial/Office	22-Jun-2007
New Century Real Estate Investment Trust	China	Hotels	10-Jul-2013
Spring Real Estate Investment Trust	Beijing	Office	5-Dec-2013
Prosperity Real Estate Investment Trust	HK	Industrial/Office	16-Dec-2005
Regal Real Estate Investment Trust	HK	Hotel/Lodging	30-Mar-2007
Sunlight Real Estate Investment Trust	HK	Retail	21-Dec-2006
Yuexiu Real Estate Investment Trust	Guangzhou	Diversified - Retail, Office, Hotel	21-Dec-2005
Hui Xian Real Estate Investment Trust	Beijing	Diversified- Retail, Office, Hotel	19-Apr-2011
Fortune Real Estate Investment Trust	HK	Retail	20-Apr-2010
Champion Real Estate Investment Trust	HK	Industrial/Office	24-May-2006
Link Real Estate Investment Trust	HK	Retail	25-Nov-2005

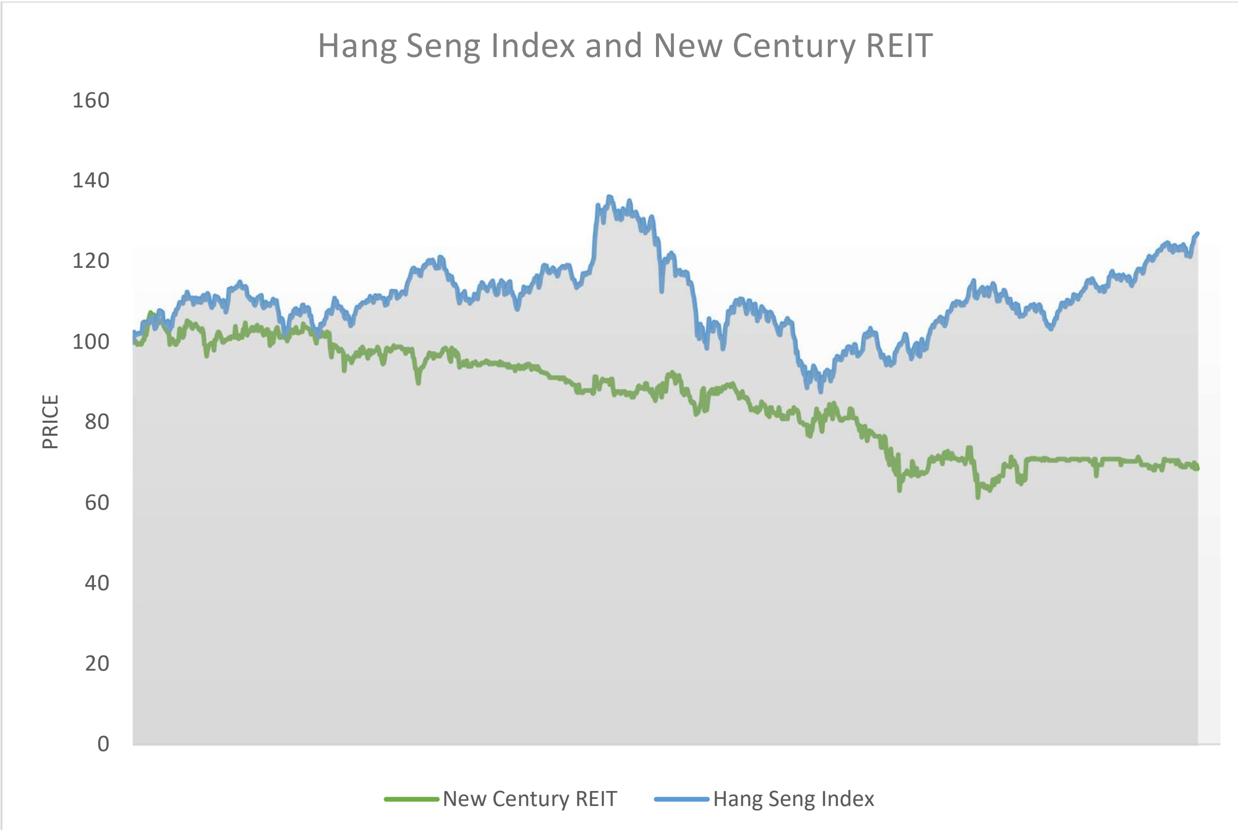
Appendix 4 - List of relevant REITs on SGX:

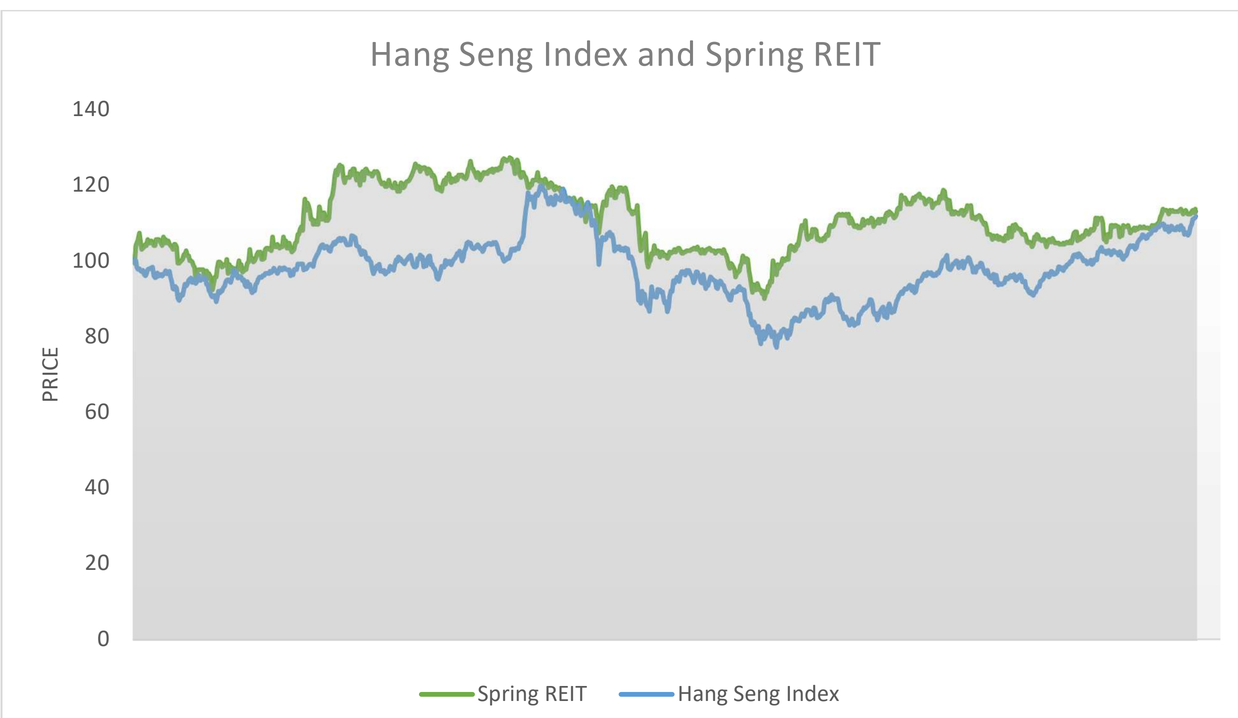
Name	**Country**	**Type**	**Listing Date**
BHG Retail REIT	Singapore	Retail	2-Dec-15
Sabana Shariah Compliant Industrial REIT	Singapore	Industrial/Office	22-Nov-10
IREIT Global	Europe	Industrial/Office	4-Aug-14
EC World Real Estate Investment Trust	Singapore	Specialty	20-Jul-16
ESR-REIT (Cambridge Industrial Trust)	Singapore	Industrial/Office	21-Mar-06
Soilbuild Business Space REIT	Singapore	Industrial/Office	7-Aug-13
Cache Logistics Trust	Singapore, Australia, and China	Industrial/Office	1-Apr-10
Viva Industrial Trust	Singapore	Industrial/Office	28-Oct-13
Manulife US Real Estate Investment Trust	U.S.	Industrial/Office	27-Mar-15
AIMS AMP Capital Industrial REIT	Asia-Pacific region	Industrial/Office	12-Apr-07
Ascendas Hospitality Trust	Singapore	Hotel/Lodging	18-Jul-12
First Real Estate Investment Trust	Singapore	Specialty	4-Dec-06
Frasers Commercial Trust	Australia and Singapore	Industrial/Office	23-Mar-06
OUE Commercial Real Estate Investment Trust	Singapore and China	Diversified	17-Jan-14
Far East Hospitality Trust	Singapore	Hotel/Lodging	16-Aug-12
Lippo Malls Indonesia Retail Trust	Indonesia	Retail	9-Nov-07
Frasers Hospitality Trust	Singapore	Hotel/Lodging	30-Jun-14
OUE Hospitality Trust	Singapore	Hotel/Lodging	18-Jul-13
Keppel DC REIT	Asia Pacific and Europe	Industrial/Office	5-Dec-14

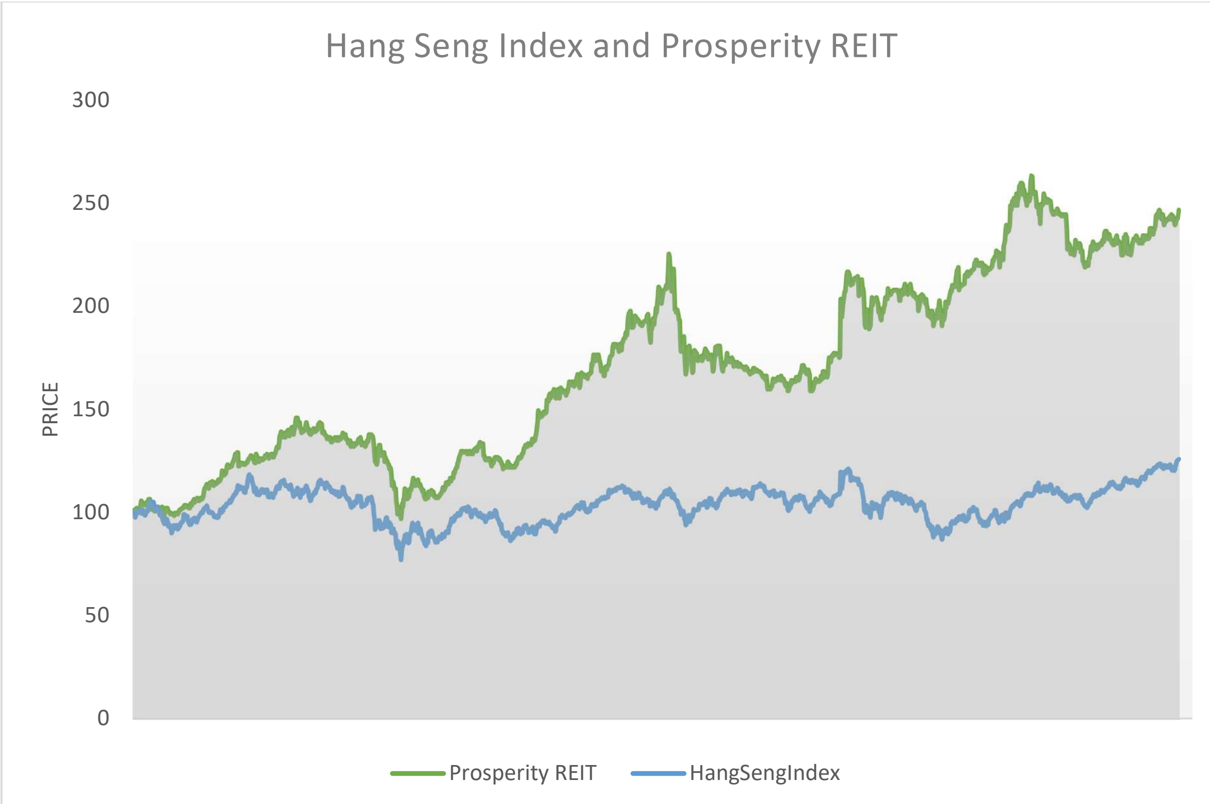
CapitaLand Retail China Trust	China, Hong Kong and Macau	Retail	29-Nov-06
CDL Hospitality Trusts	Singapore, New Zealand, Australia, Maldives, Japan and the United Kingdom	Hotel/Lodging	10-Jul-06
Parkway Life Real Estate Investment Trust	Singapore	Healthcare	12-Jul-07
Frasers Logistics & Industrial Trust	Globally, directly or indirectly	Industrial/Office	10-Jun-16
Starhill Global Real Estate Investment Trust	Singapore, Australia, China, Tokyo, Malaysia	Retail	25-Aug-05
Frasers Centrepoint Trust	Singapore	Retail	27-Jun-06
Ascott Residence Trust	Americas, Asia Pacific and Europe	Residential	6-Mar-06
SPH REIT	Singapore	Retail	17-Jul-13
Mapletree Logistics Trust	Singapore, Hong Kong, PRC, Malaysia, Japan, Korea, and Vietnam	Industrial/Office	5-Jul-04
Mapletree Greater China Commercial Trust	China, HK	Diversified	27-Feb-13
Fortune REIT	Hong Kong	Retail	28-Jul-03
Mapletree Industrial Trust	Singapore	Industrial/Office	12-Oct-10
Keppel REIT	Singapore	Industrial/Office	20-Mar-06
Mapletree Commercial Trust	Singapore	Retail	27-Apr-11
Suntec Real Estate Investment Trust	Singapore	Diversified	29-Nov-04
CapitaLand Commercial Trust	Singapore	Industrial/Office	16-Mar-04

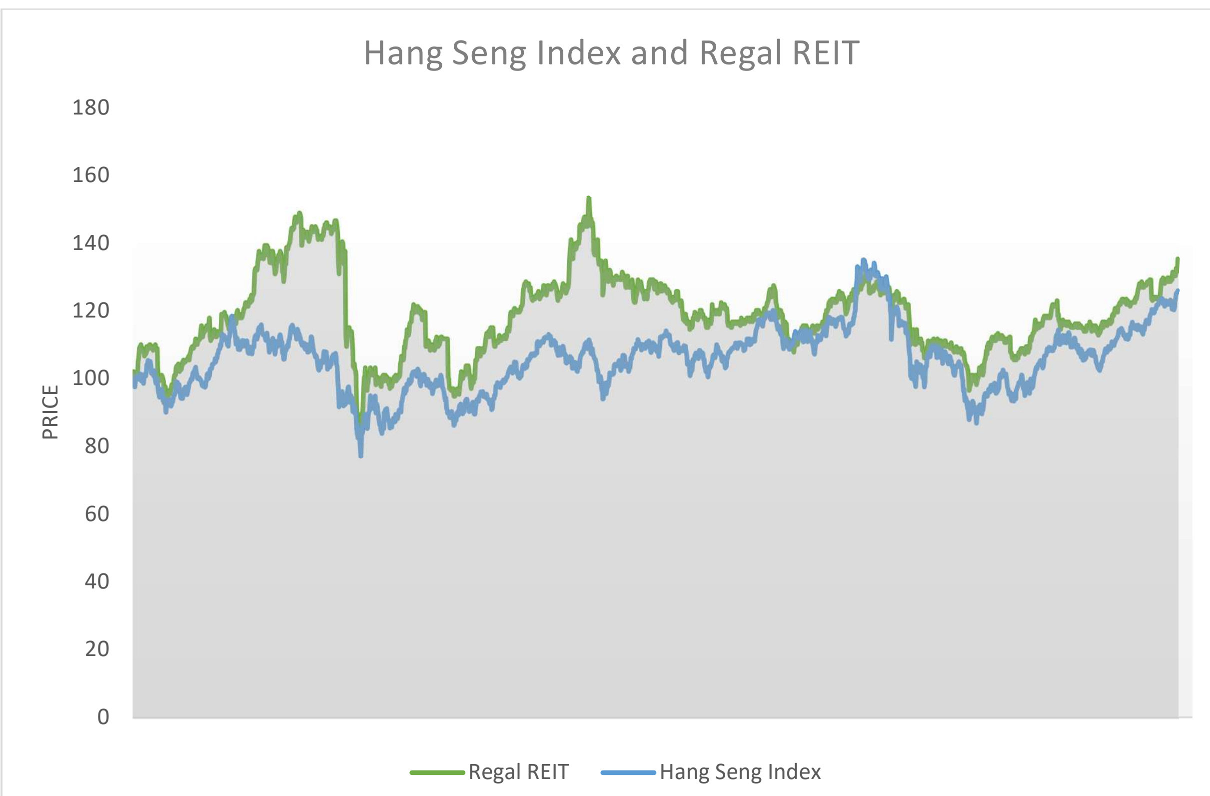
CapitaLand Mall Trust	Singapore	Retail	29-Oct-01
Ascendas Real Estate Investment Trust	Singapore	Industrial/Office	5-Nov-02

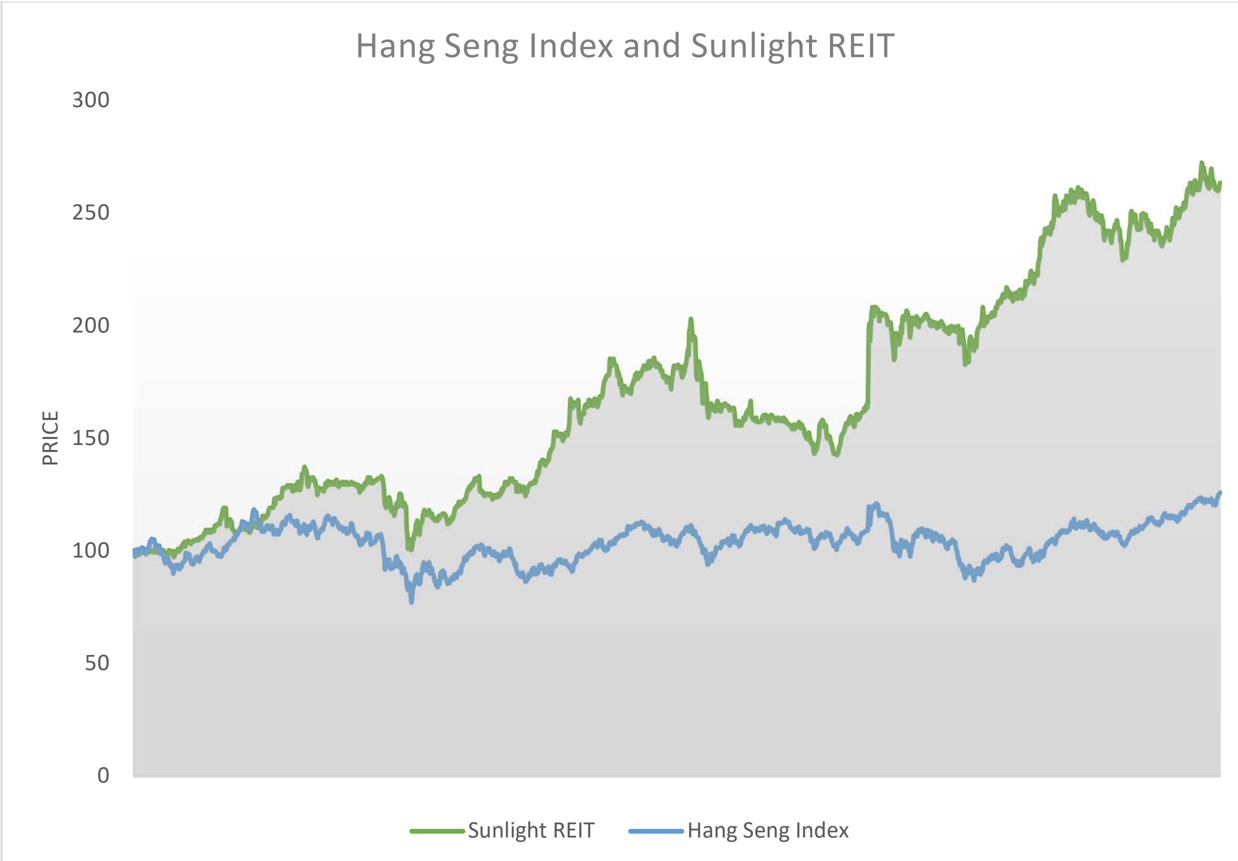
Appendix 5 - Price charts for Hong Kong listed REITs and Hang Seng Index

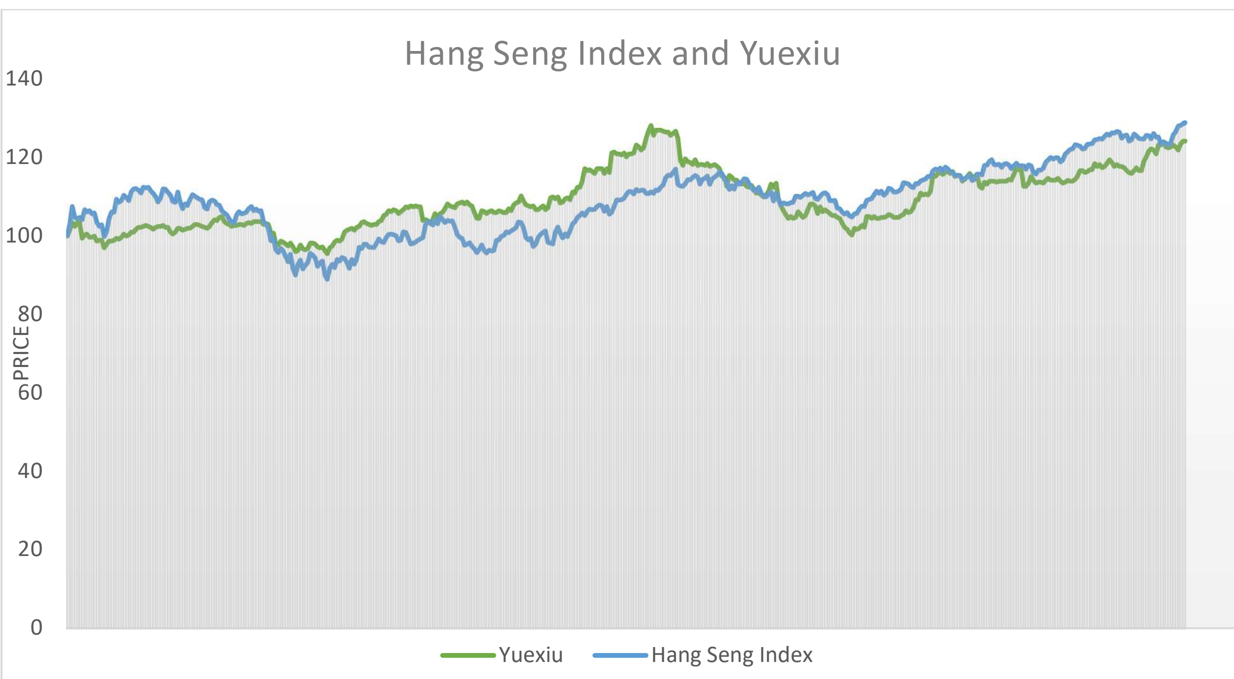


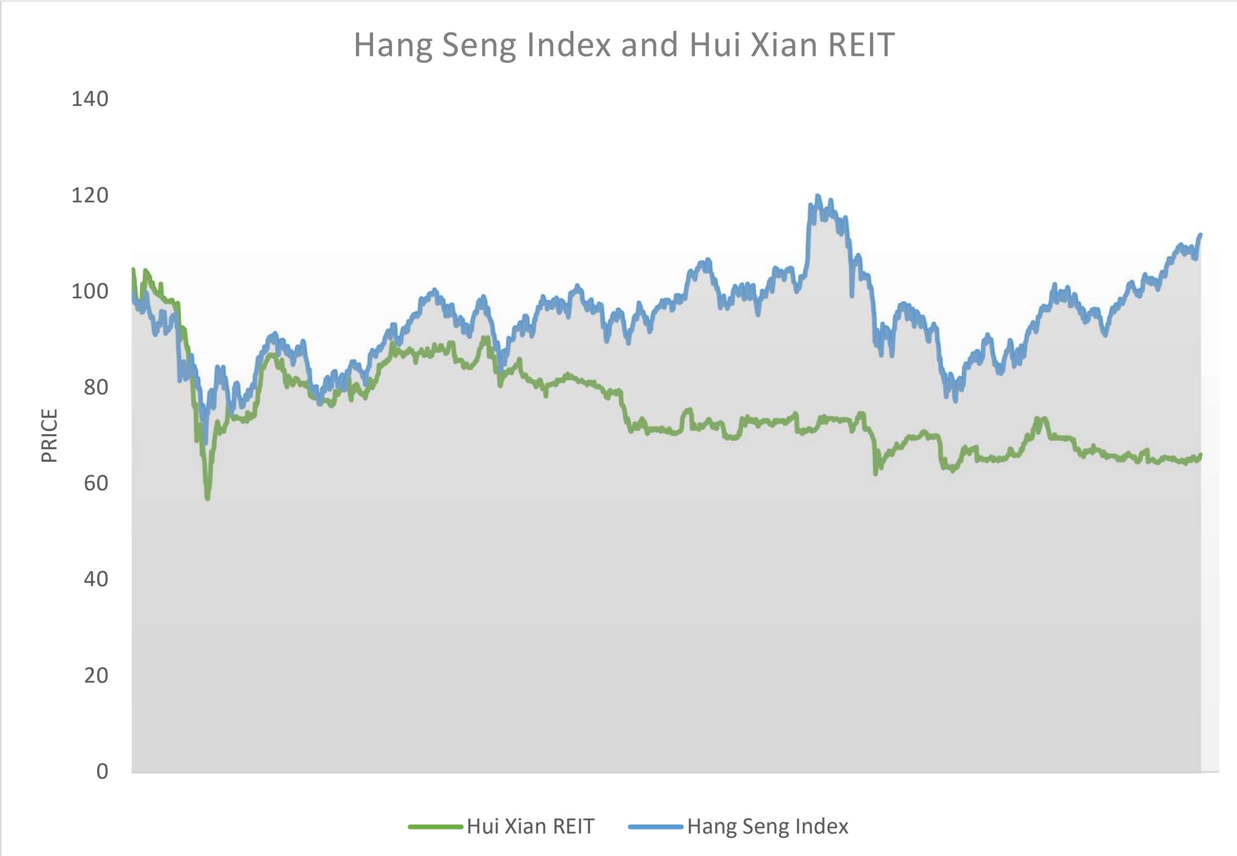


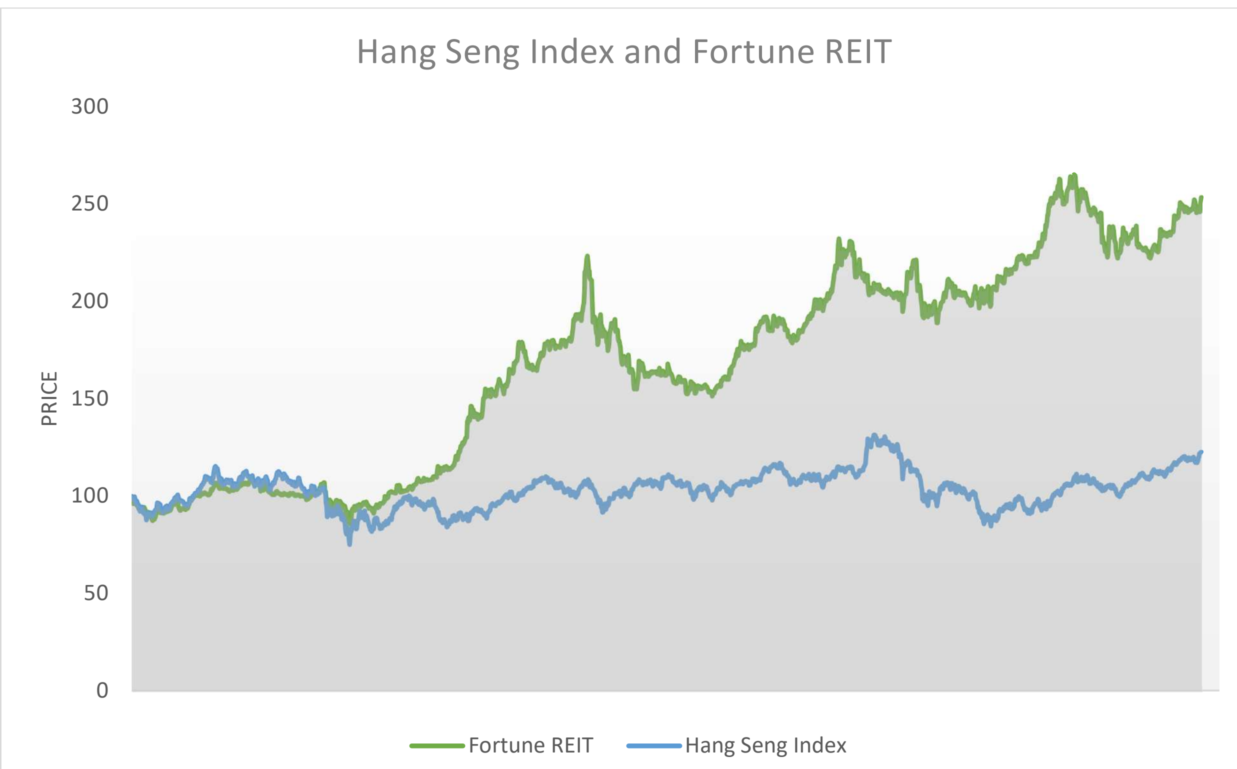

Hang Seng Index and Prosperity REIT
300
250
200
150
100
50
0
PRICE
Prosperity REIT
HangSengIndex

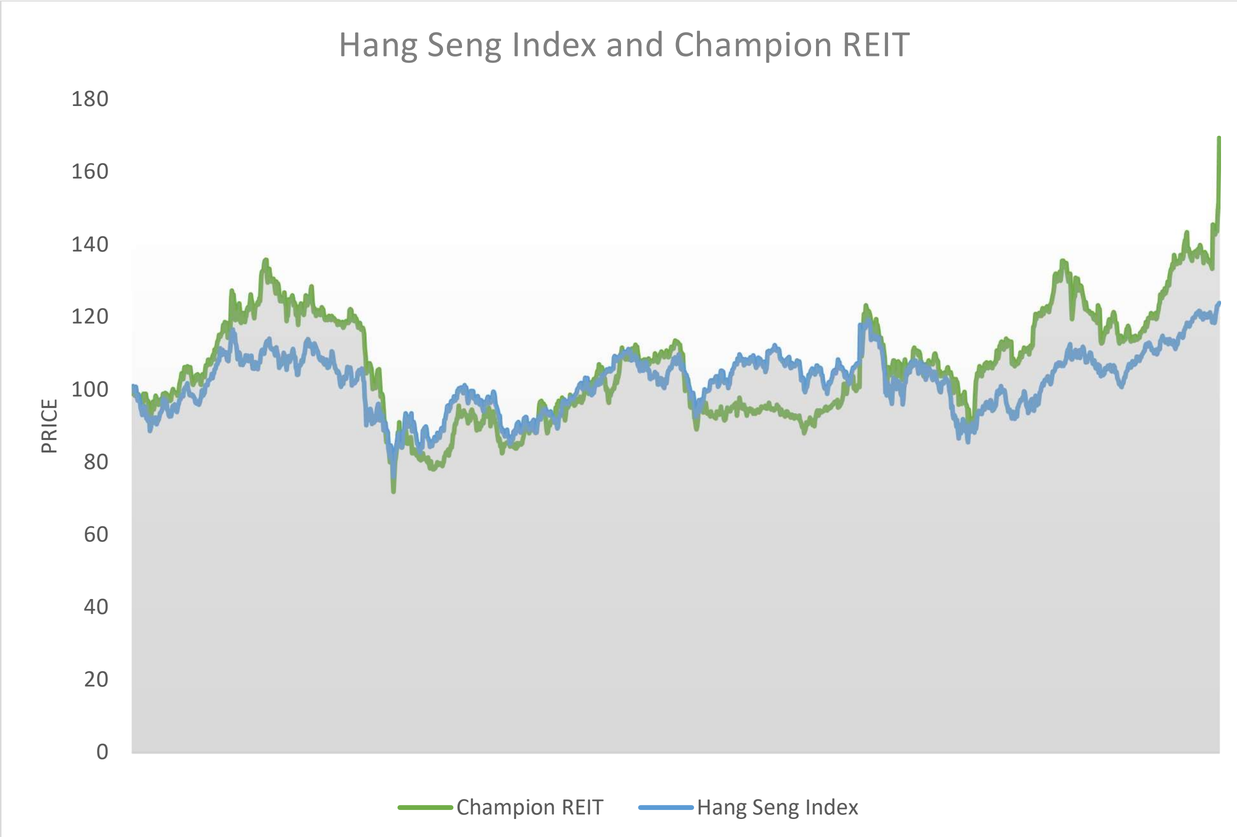

Hang Seng Index and Regal REIT
180
160
140
120
100
80
60
40
20
0
PRICE
Regal REIT
Hang Seng Index


Hang Seng Index and Sunlight REIT
300
250
200
150
100
50
0
PRICE
Sunlight REIT
Hang Seng Index

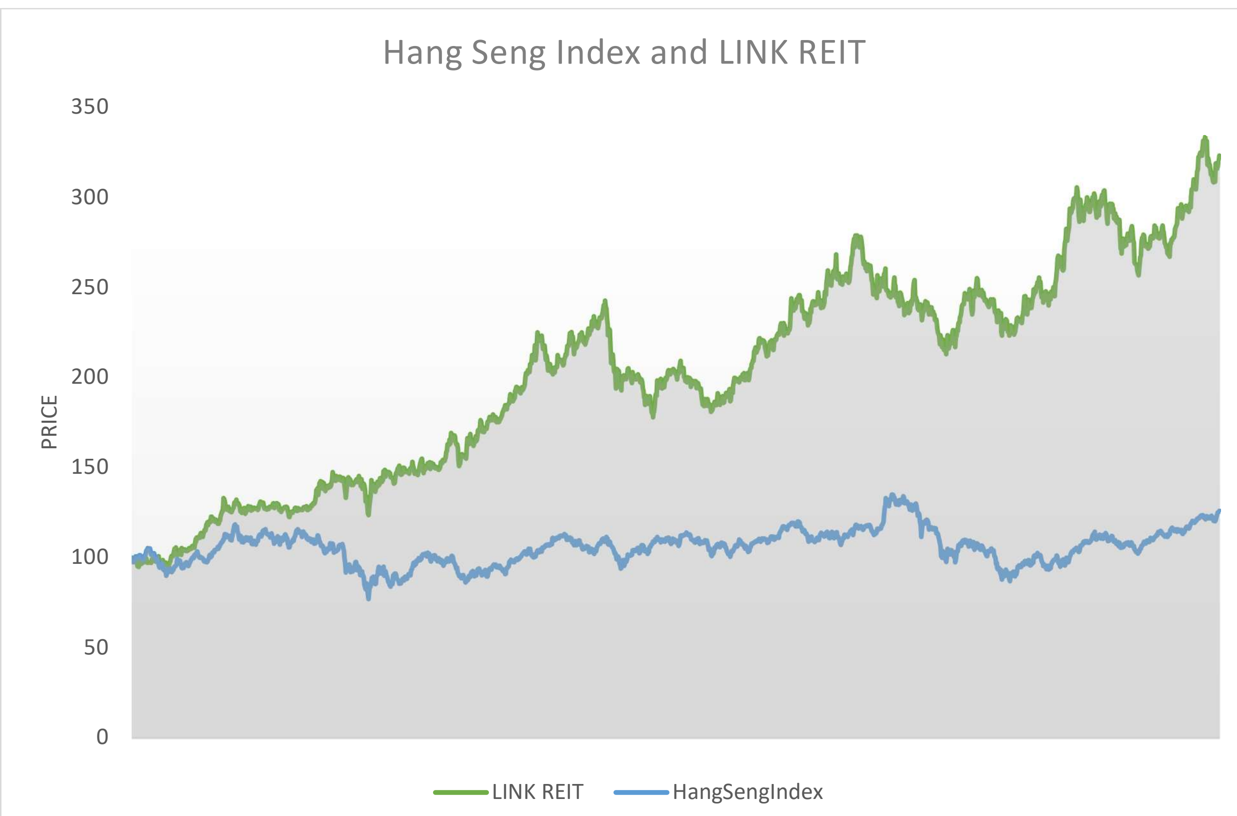

Hang Seng Index and Yuexiu
140
120
100
80
60
40
20
0
PRICE
Yuexiu
Hang Seng Index


Hang Seng Index and Hui Xian REIT
140
120
100
80
60
40
20
0
PRICE
Hui Xian REIT
Hang Seng Index


Hang Seng Index and Fortune REIT
300
250
200
150
100
50
0
PRICE
Fortune REIT
Hang Seng Index

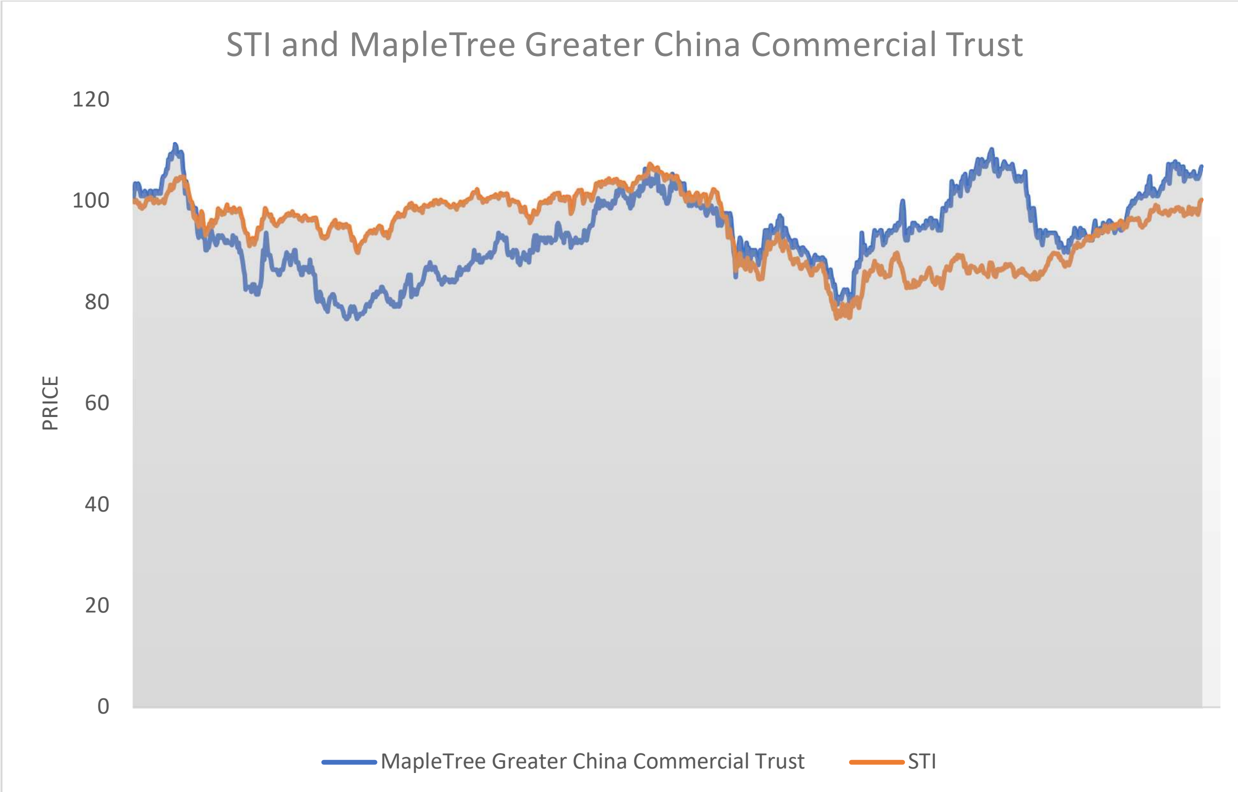


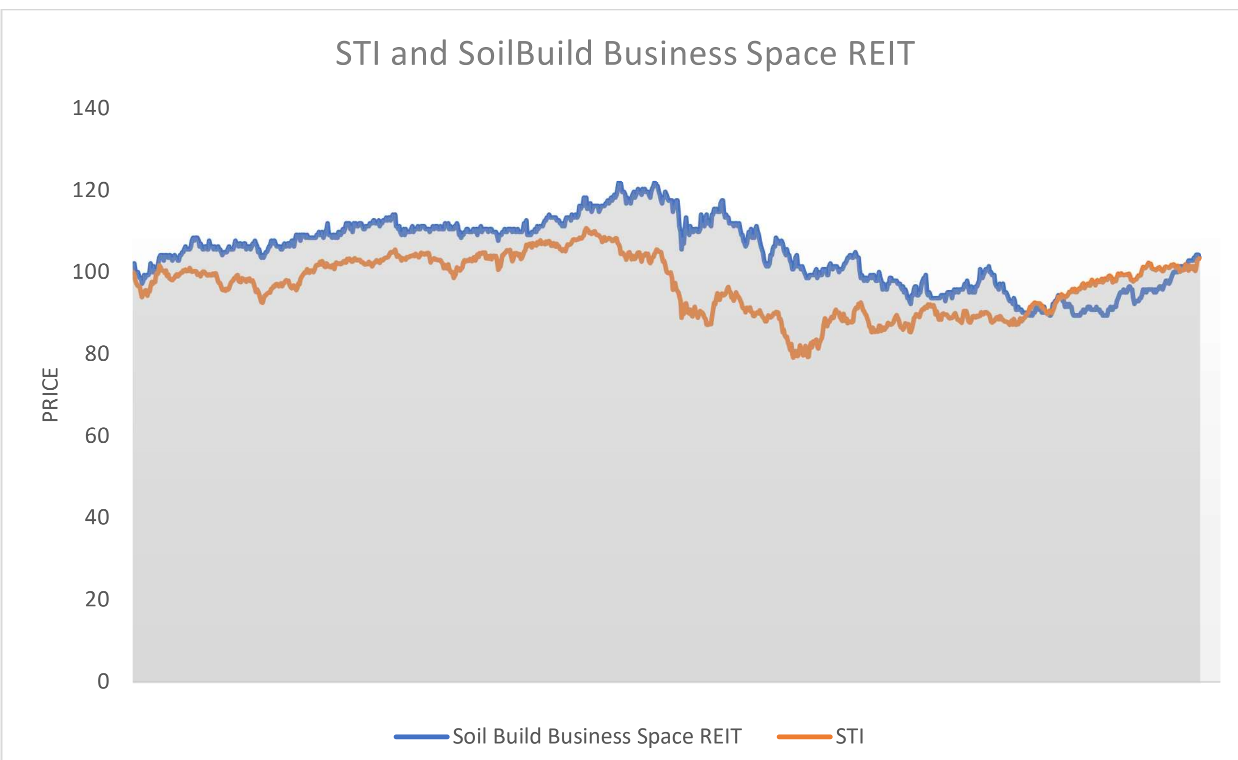
Hang Seng Index and Champion REIT
180
160
140
120
100
80
60
40
20
0
PRICE
Champion REIT
Hang Seng Index

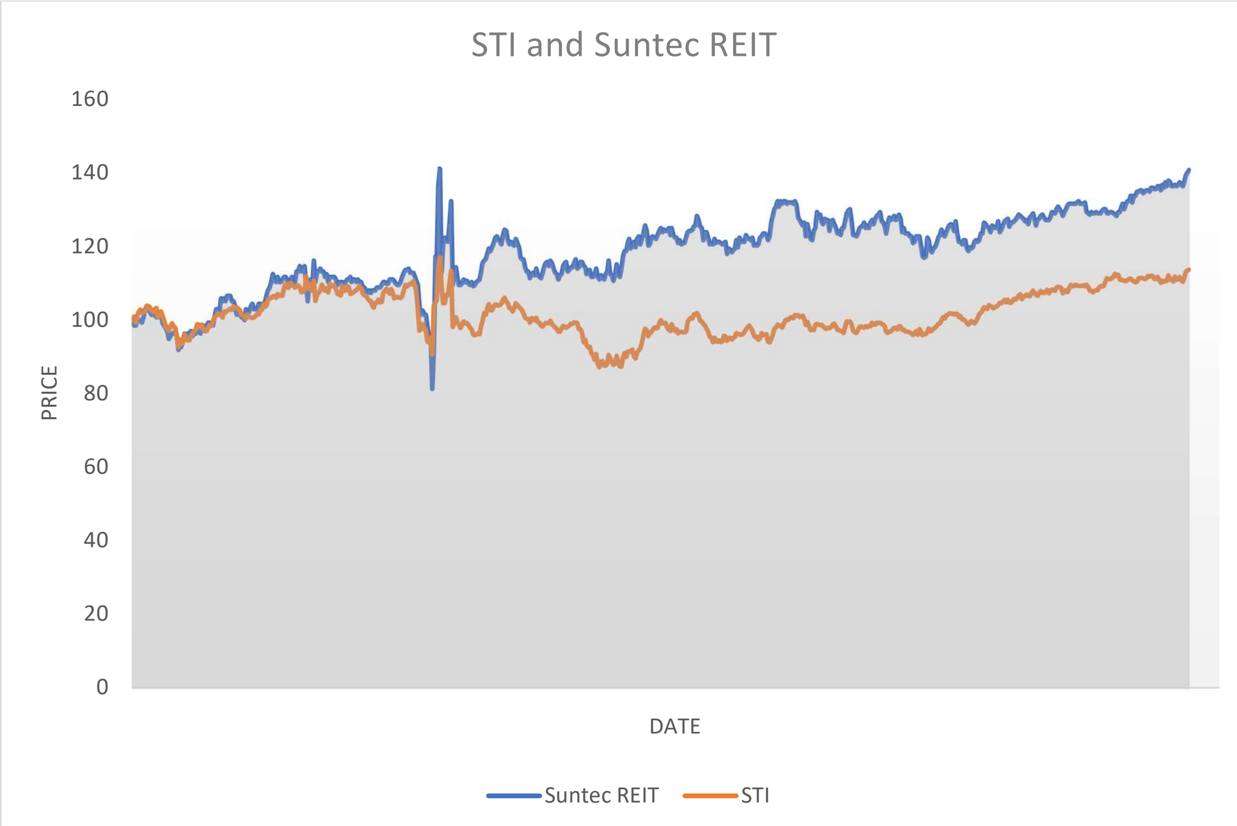


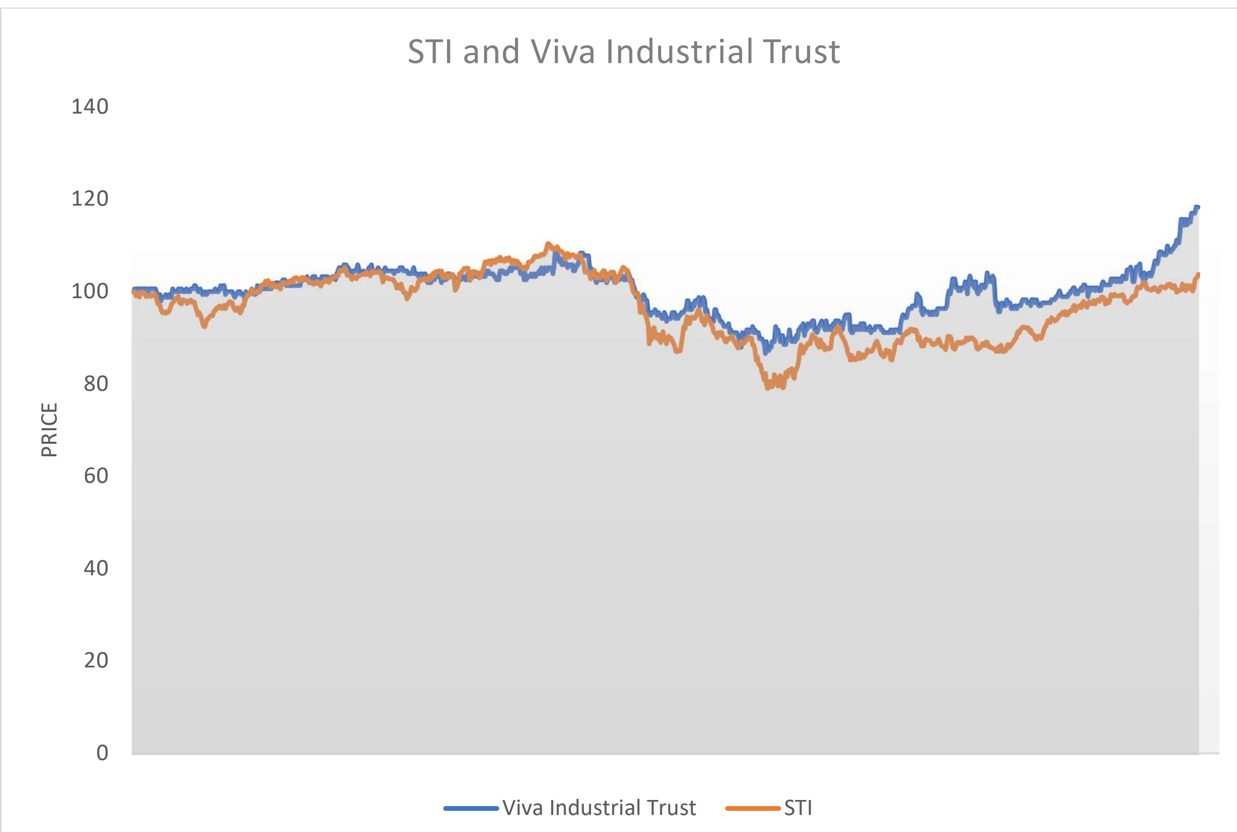
Hang Seng Index and LINK REIT
350
300
250
200
150
100
50
0
PRICE
LINK REIT
HangSengIndex

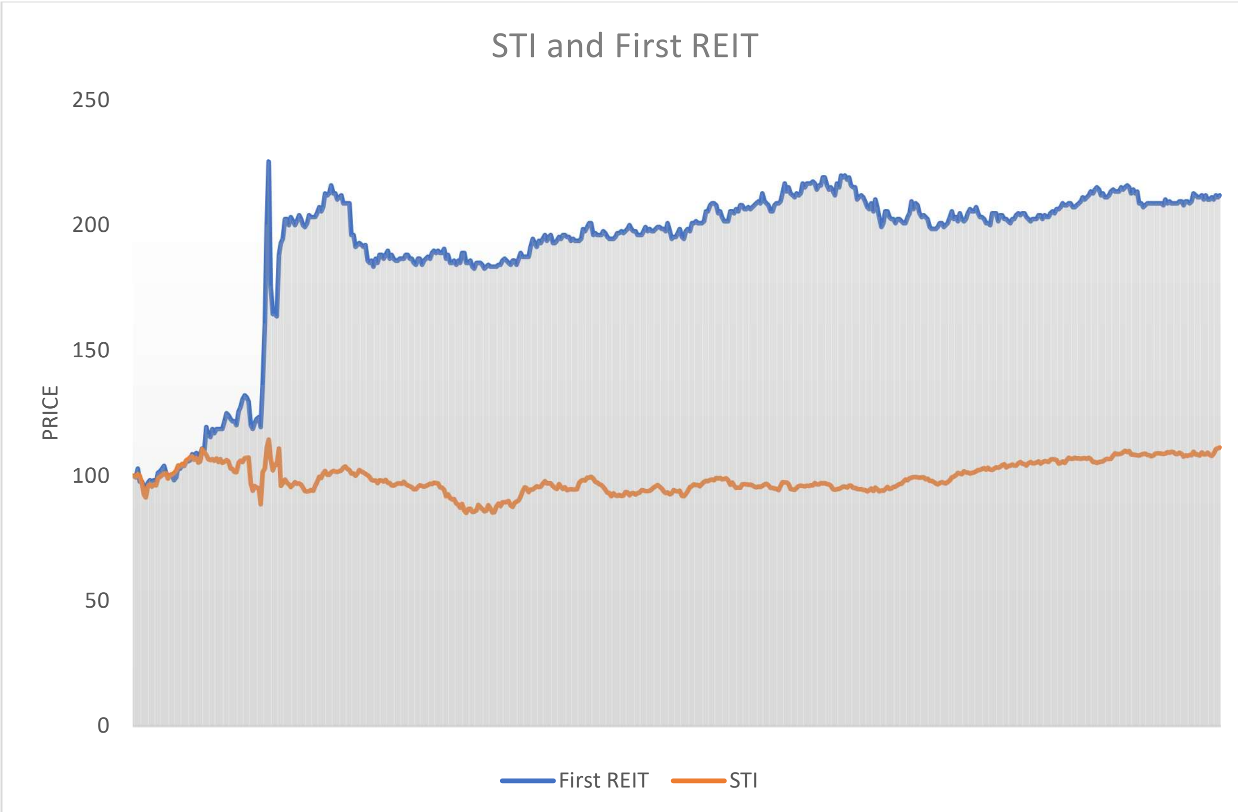
Appendix 6 Price charts for Singapore listed REITs and Straits Time Index

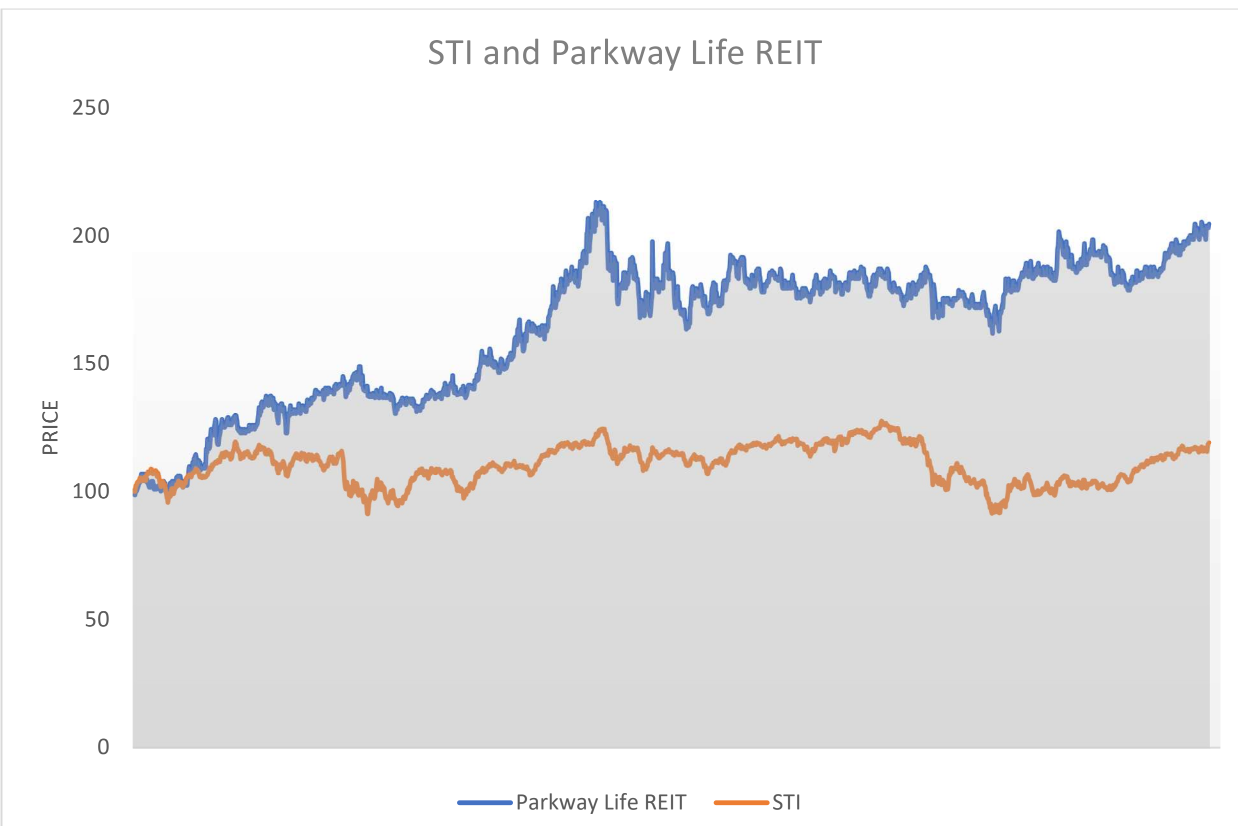


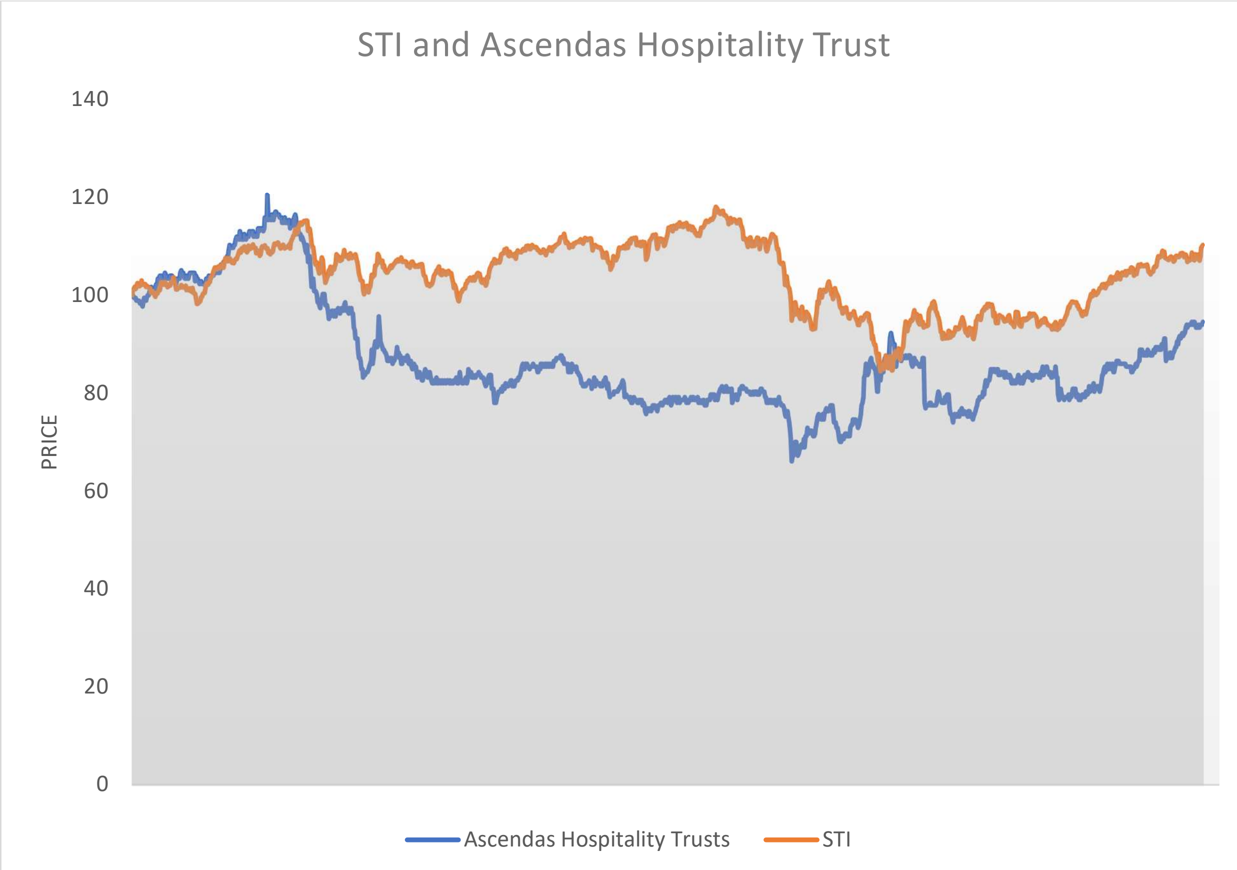


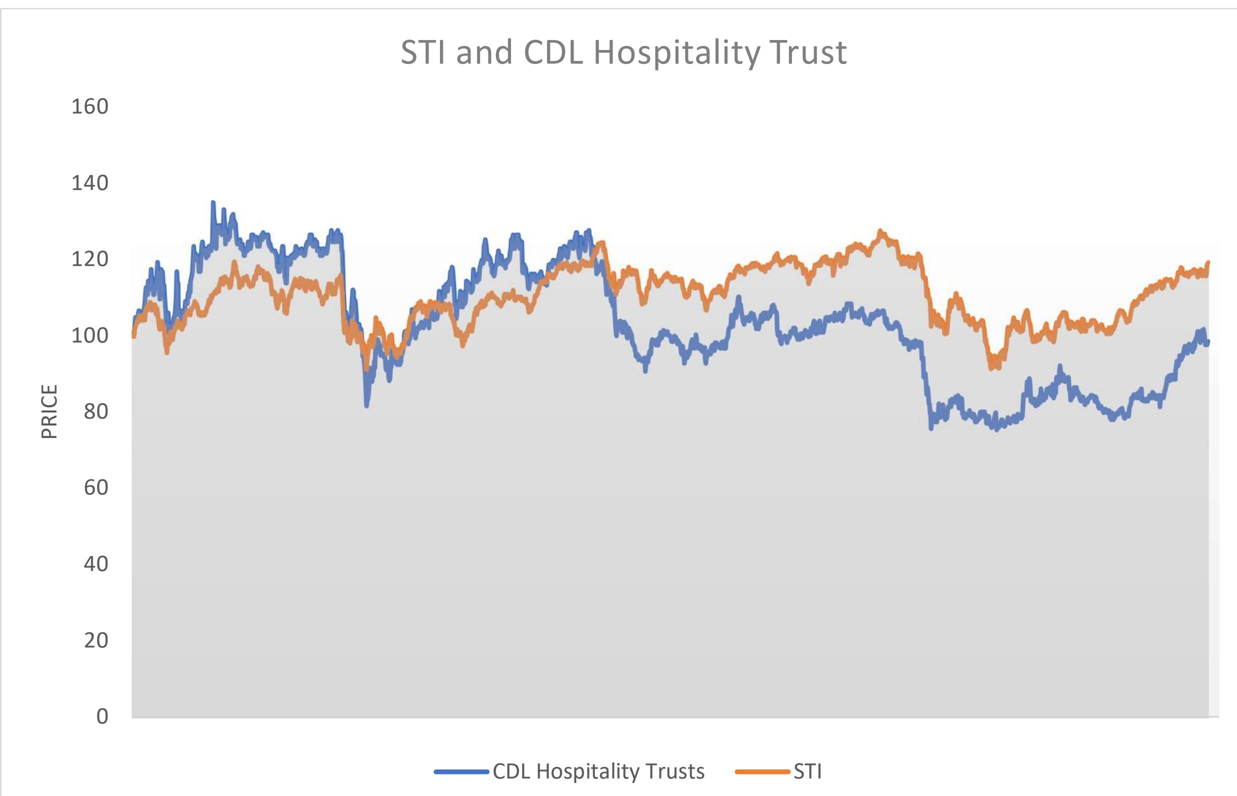

STI and Suntec REIT
160
140
120
100
80
60
40
20
0
PRICE
DATE
Suntec REIT
STI

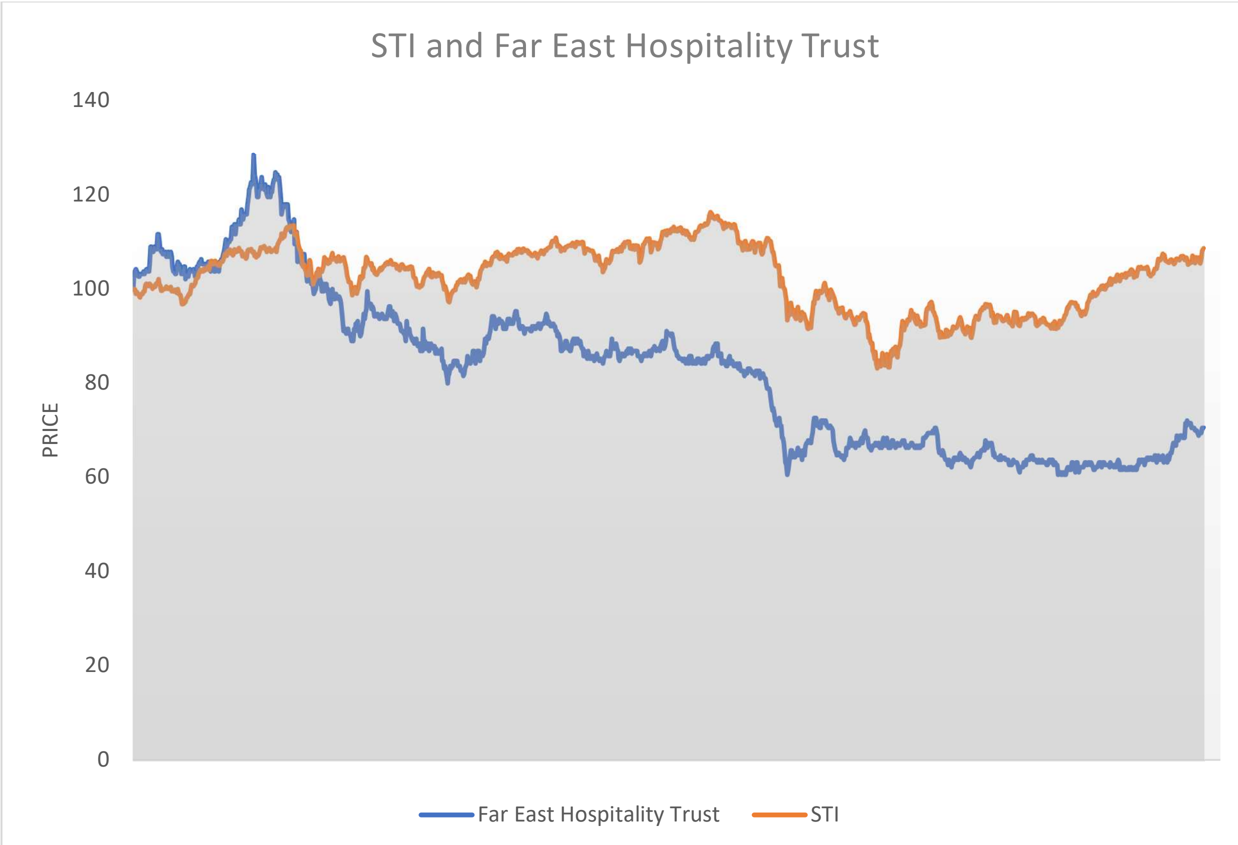

STI and Viva Industrial Trust
140
120
100
80
60
40
20
0
PRICE
Viva Industrial Trust
STI

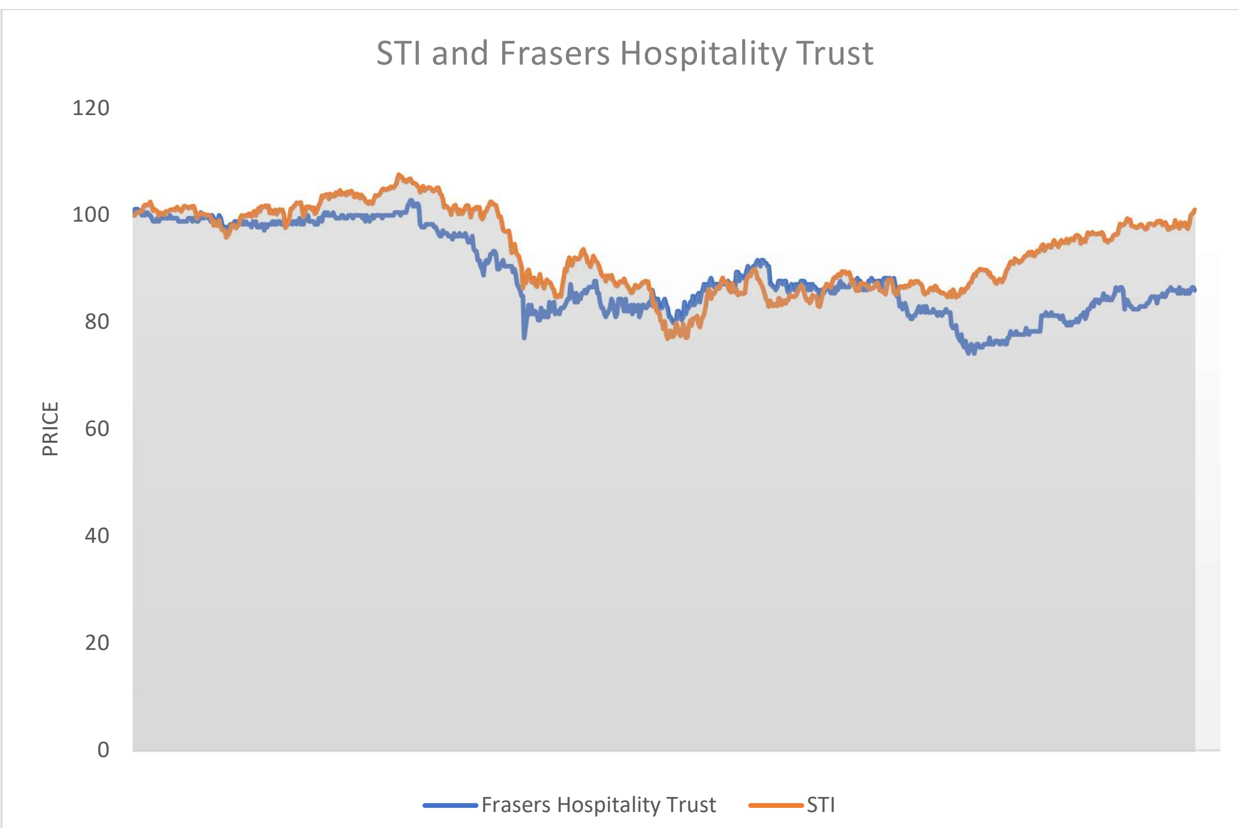

STI and First REIT
250
200
150
100
50
0
PRICE
First REIT
STI

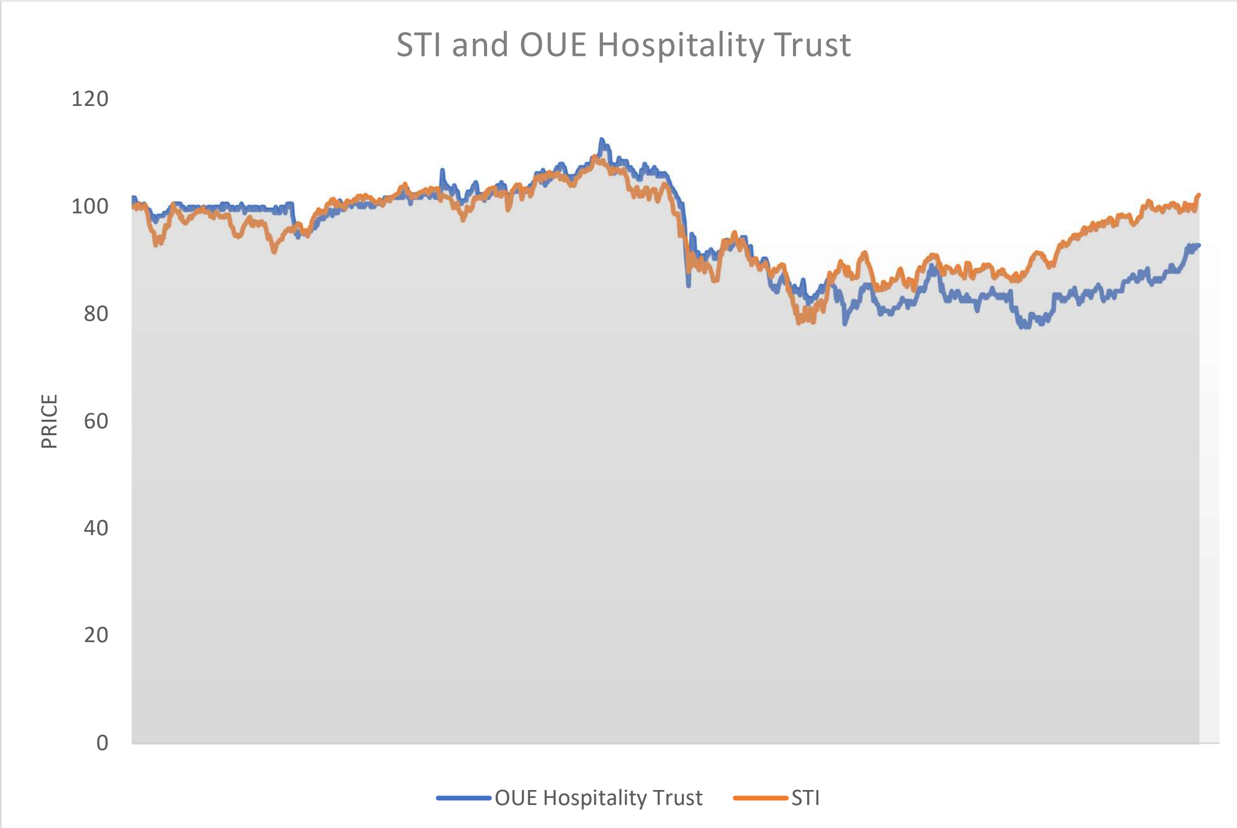

STI and Parkway Life REIT
250
200
150
100
50
0
PRICE
Parkway Life REIT
STI

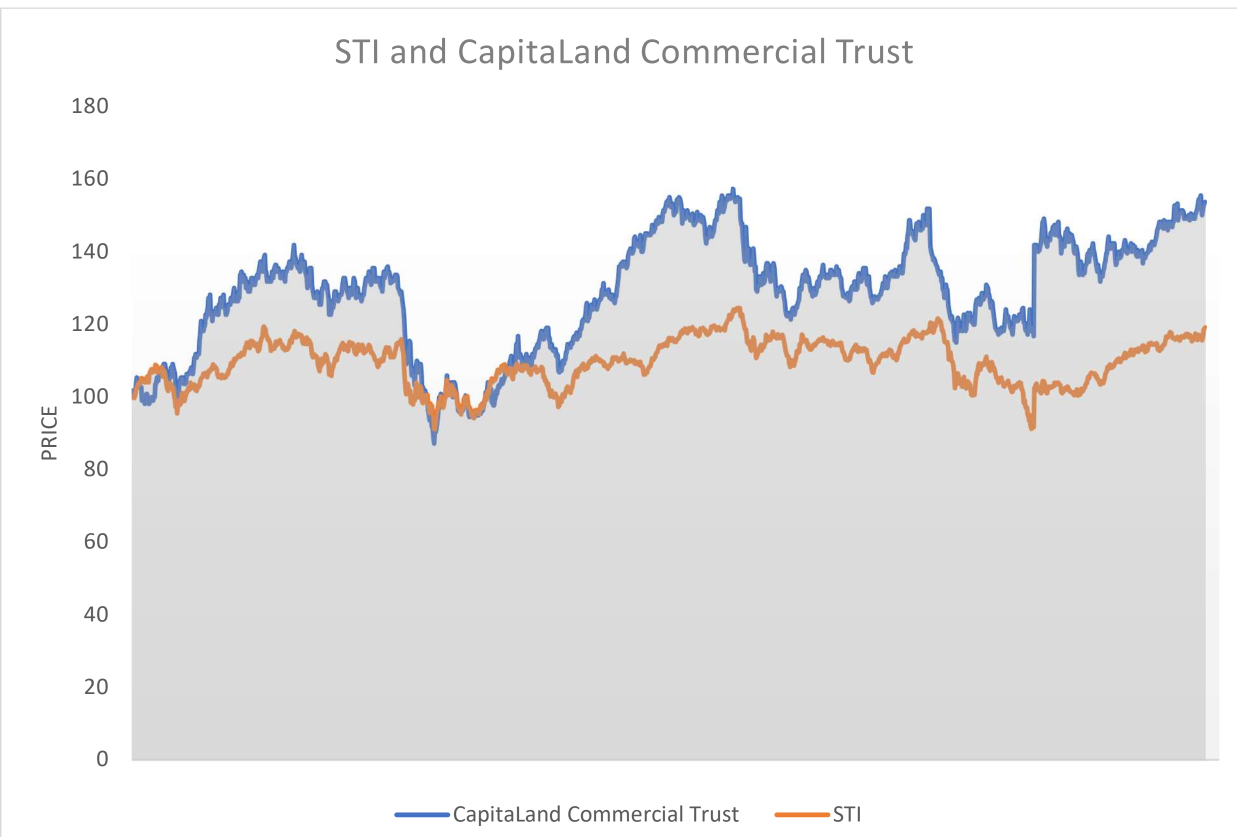

STI and Ascendas Hospitality Trust
140
120
100
80
60
40
20
0
PRICE
Ascendas Hospitality Trusts
STI

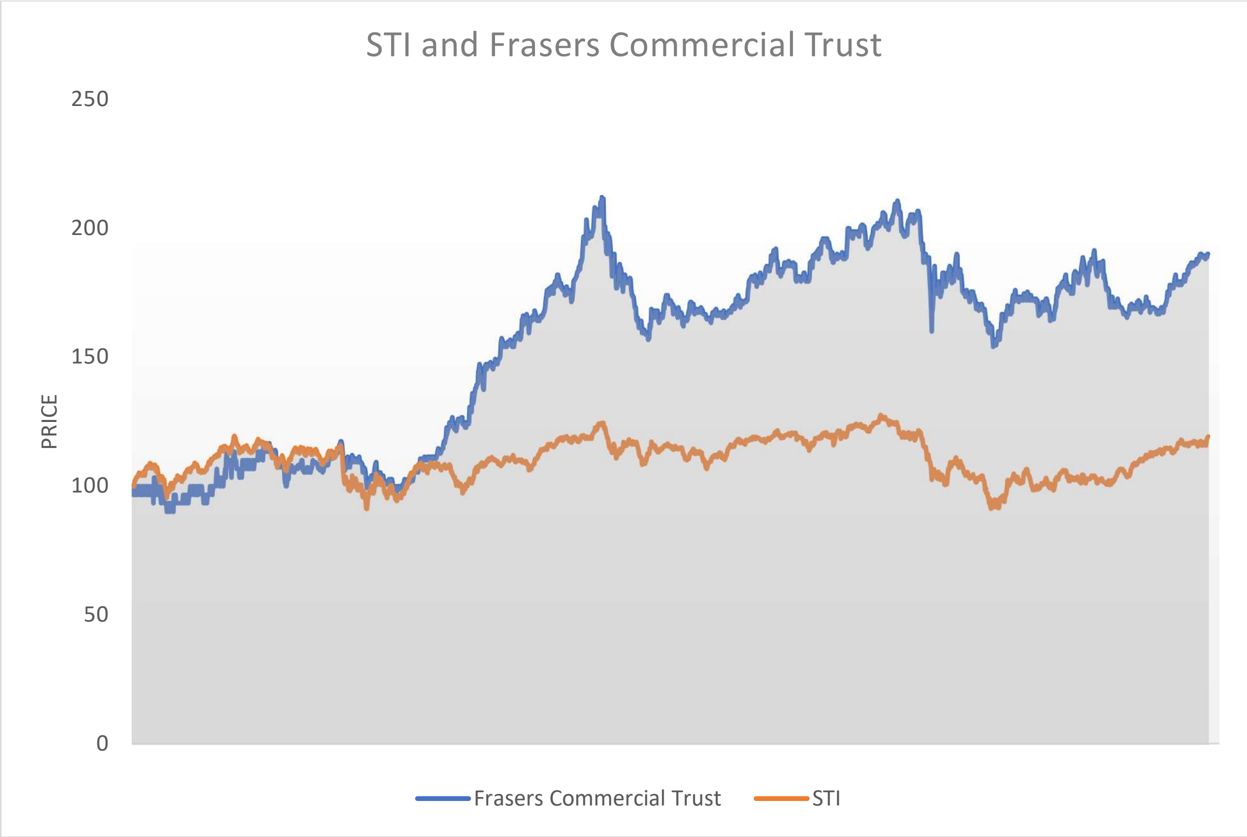

STI and CDL Hospitality Trust
160
140
120
100
80
60
40
20
0
PRICE
CDL Hospitality Trusts
STI


STI and Far East Hospitality Trust
140
120
100
80
60
40
20
0
PRICE
Far East Hospitality Trust
STI

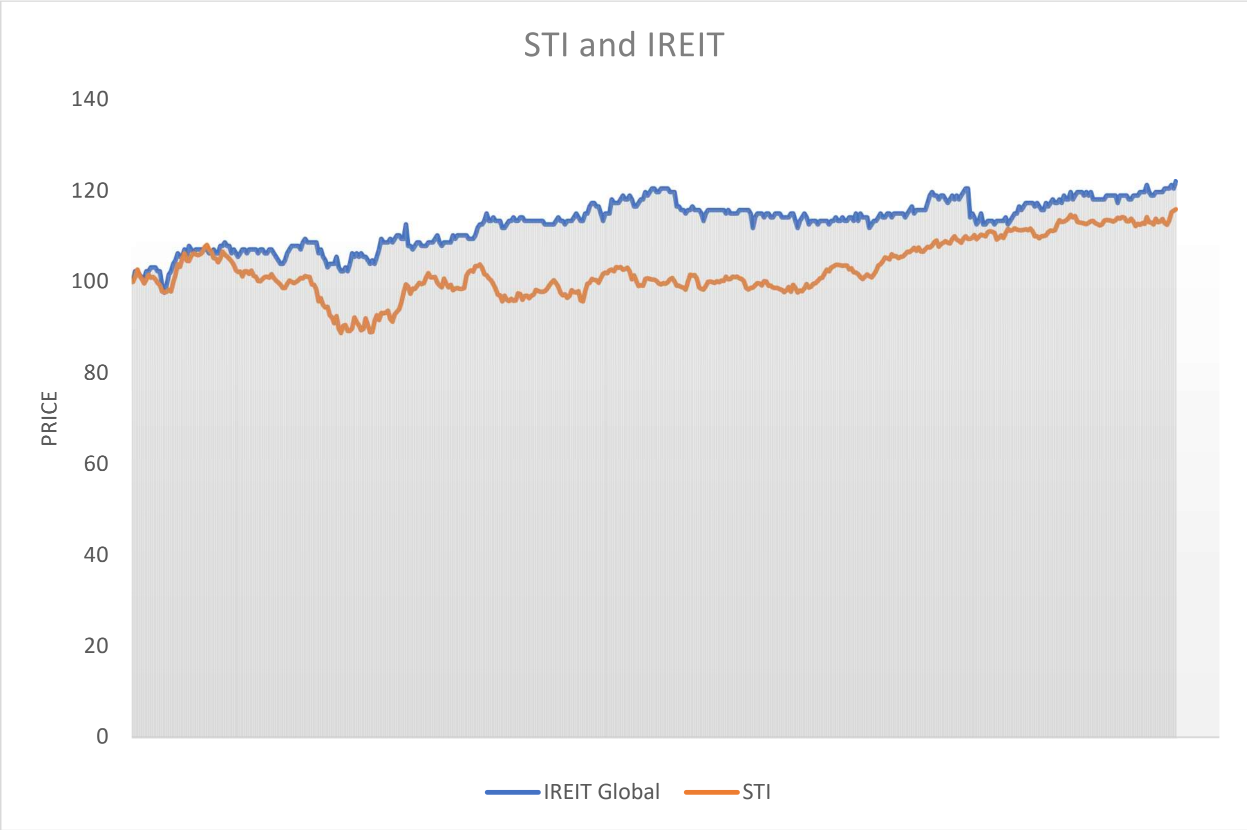

STI and Frasers Hospitality Trust
120
100
80
60
40
20
0
PRICE
Frasers Hospitality Trust
STI


STI and OUE Hospitality Trust
120
100
80
60
40
20
0
PRICE
OUE Hospitality Trust
STI

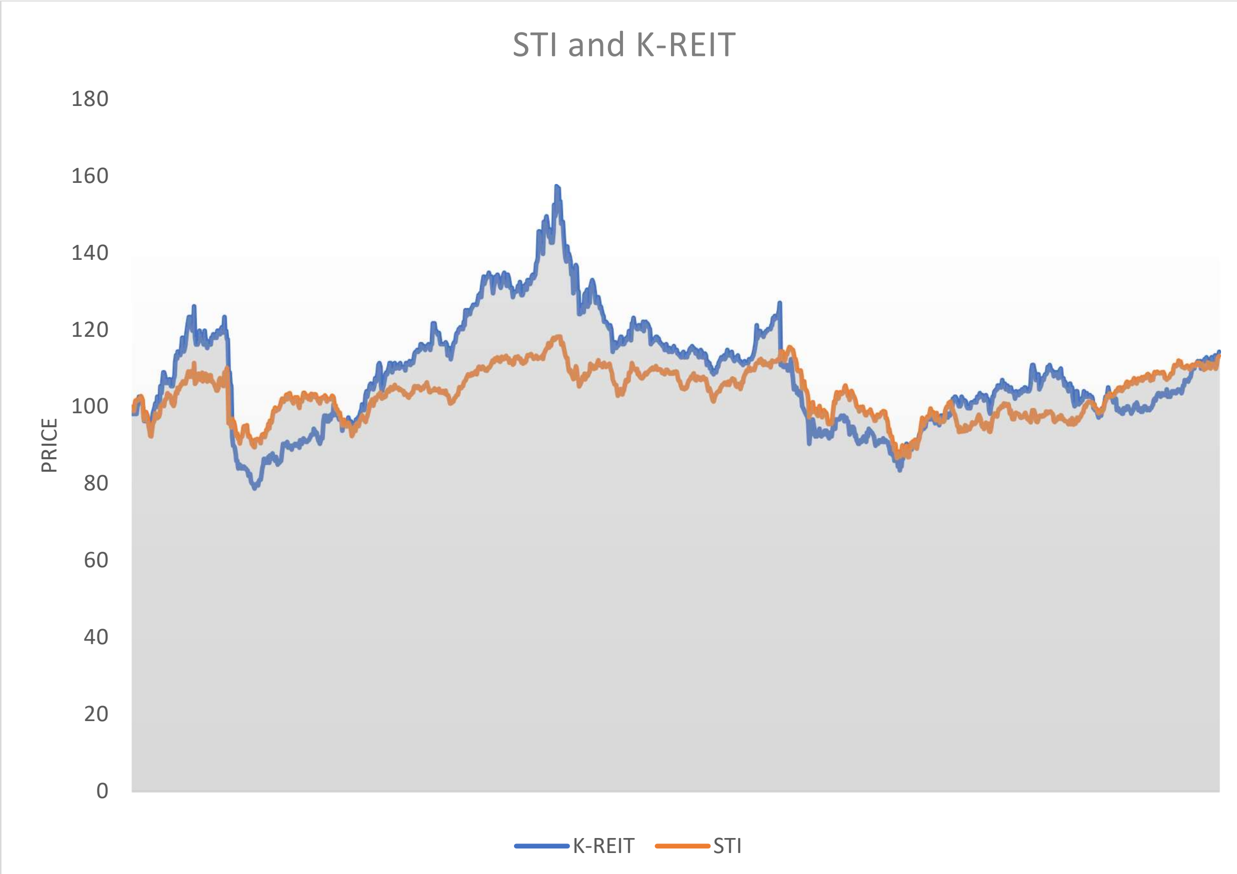

STI and CapitaLand Commercial Trust
180
160
140
120
100
80
60
40
20
0
PRICE
CapitaLand Commercial Trust
STI

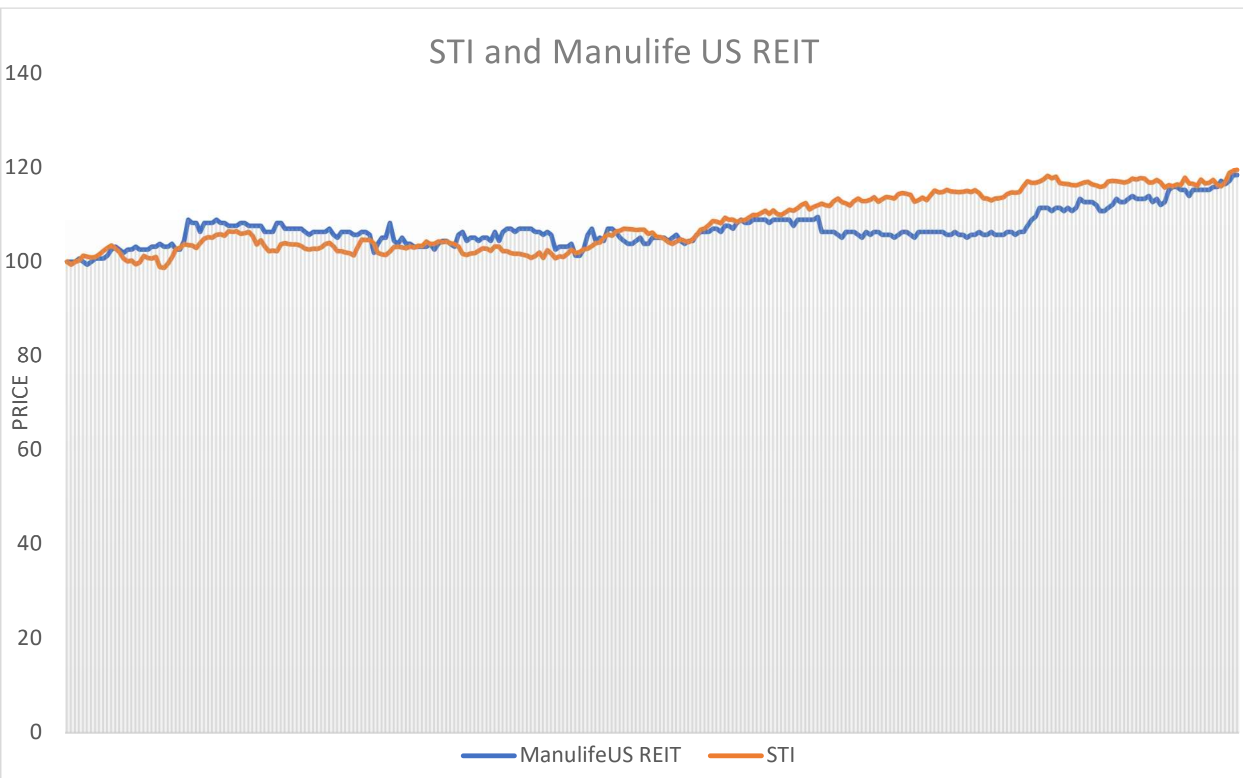


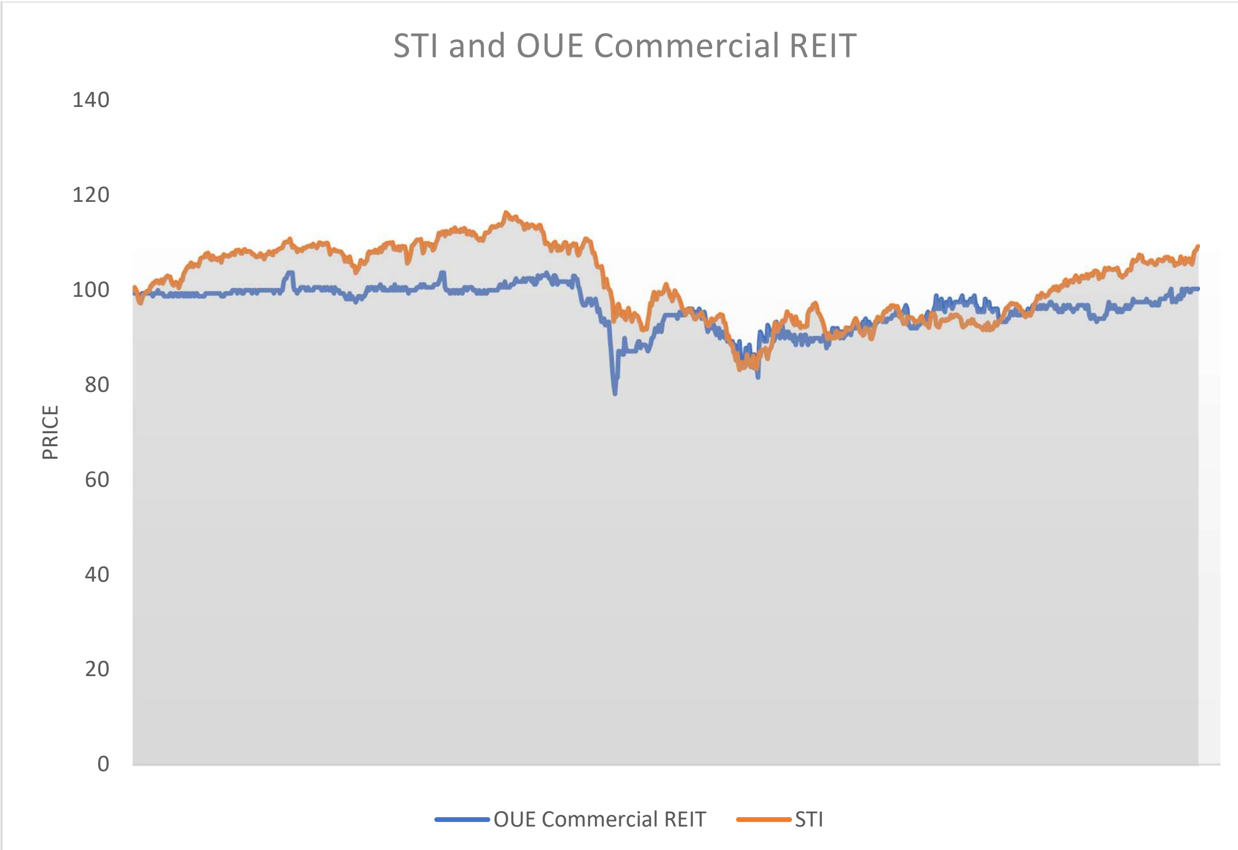
STI and Frasers Commercial Trust
250
200
150
100
50
0
PRICE
Frasers Commercial Trust
STI

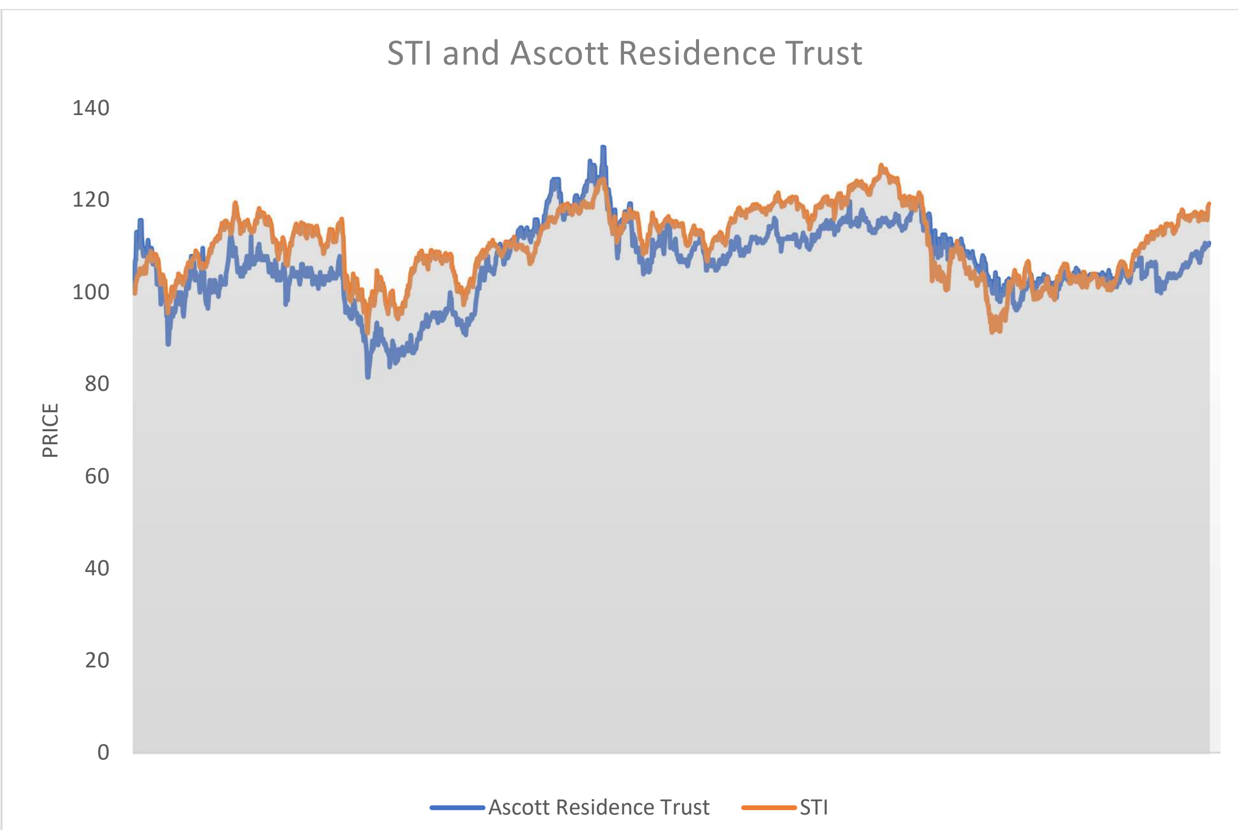


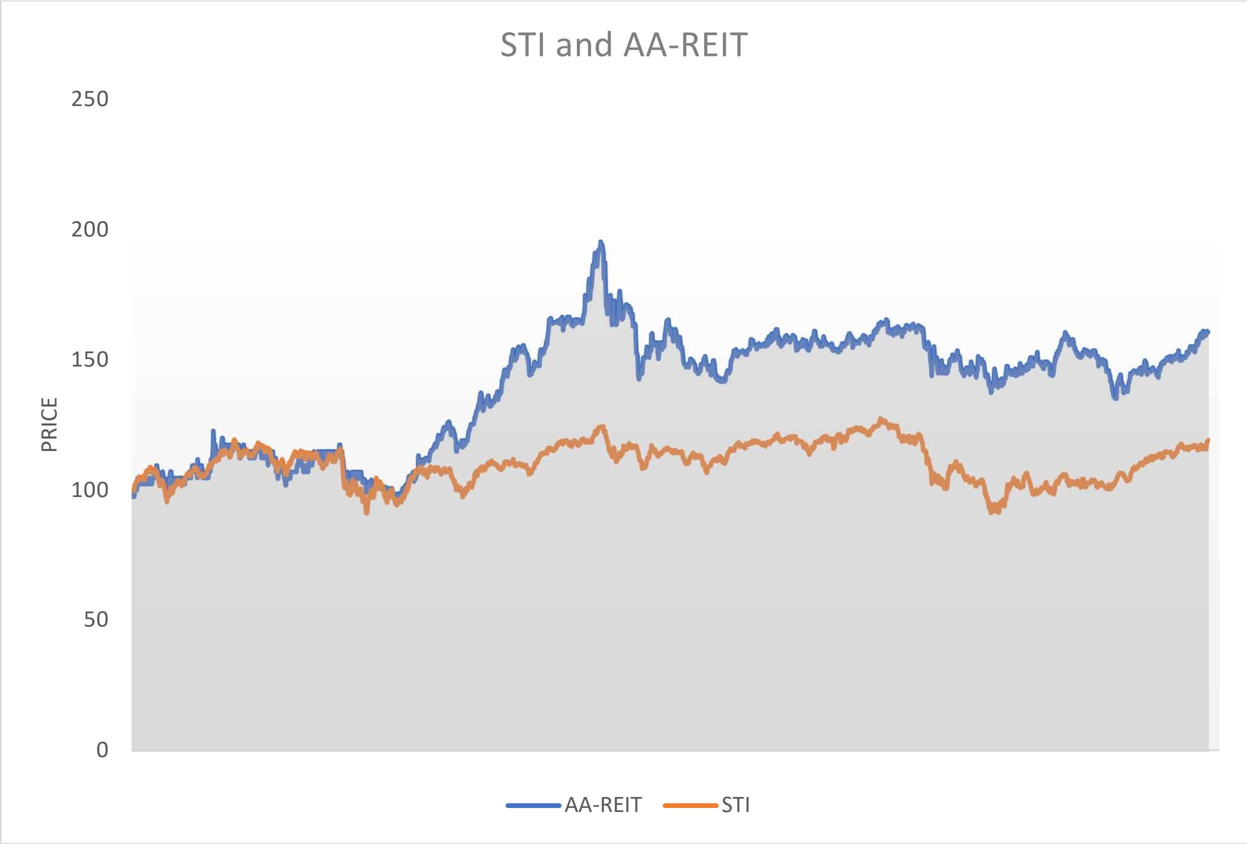
STI and IREIT
140
120
100
80
60
40
20
0
PRICE
IREIT Global
STI

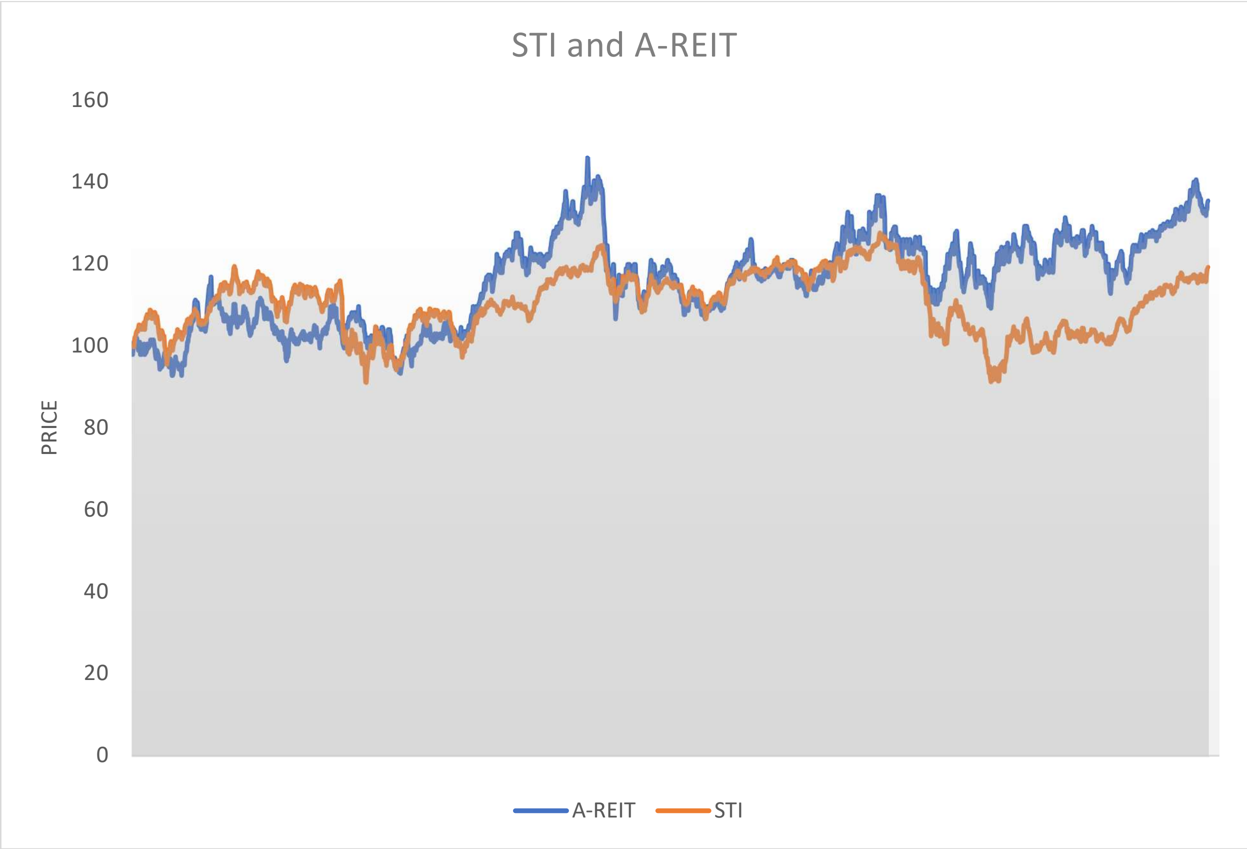

STI and K-REIT
180
160
140
120
100
80
60
40
20
0
PRICE
K-REIT
STI

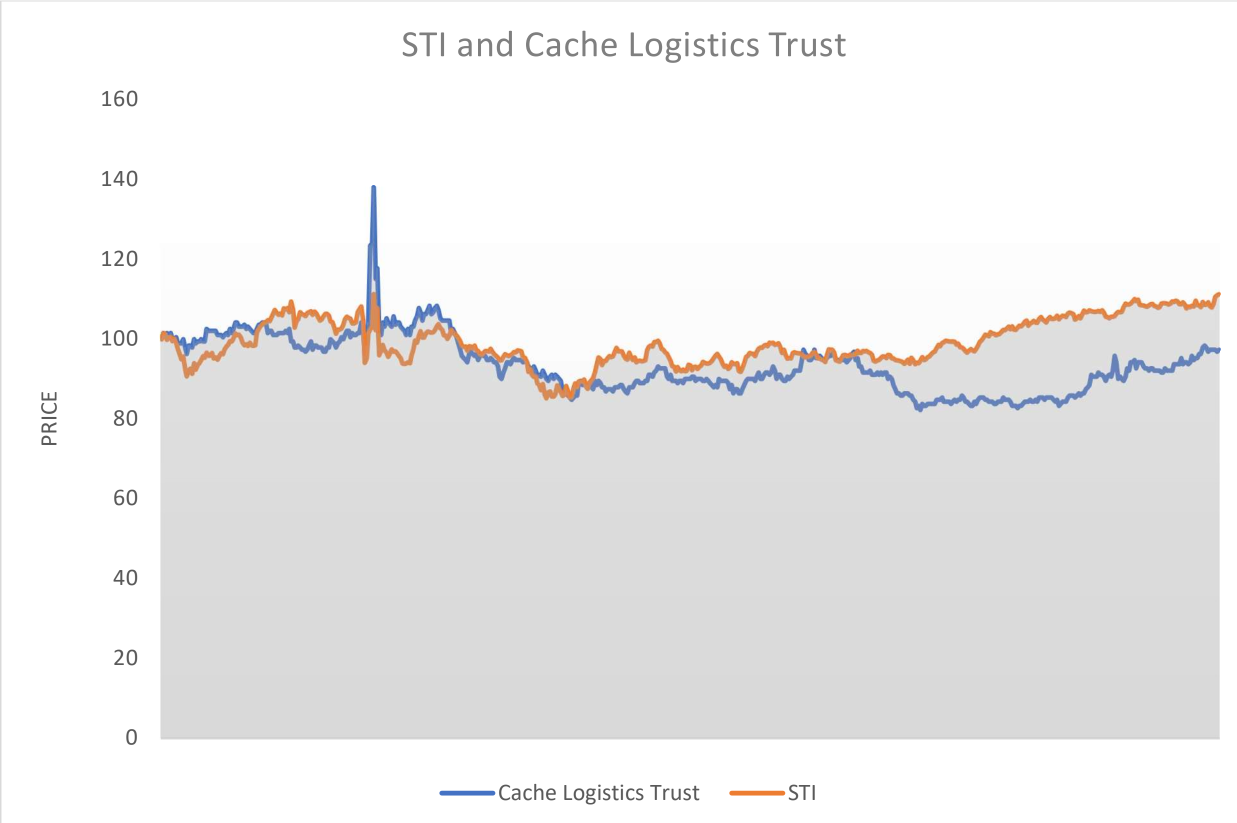

STI and Manulife US REIT
140
120
100
80
60
40
20
0
PRICE
ManulifeUS REIT
STI

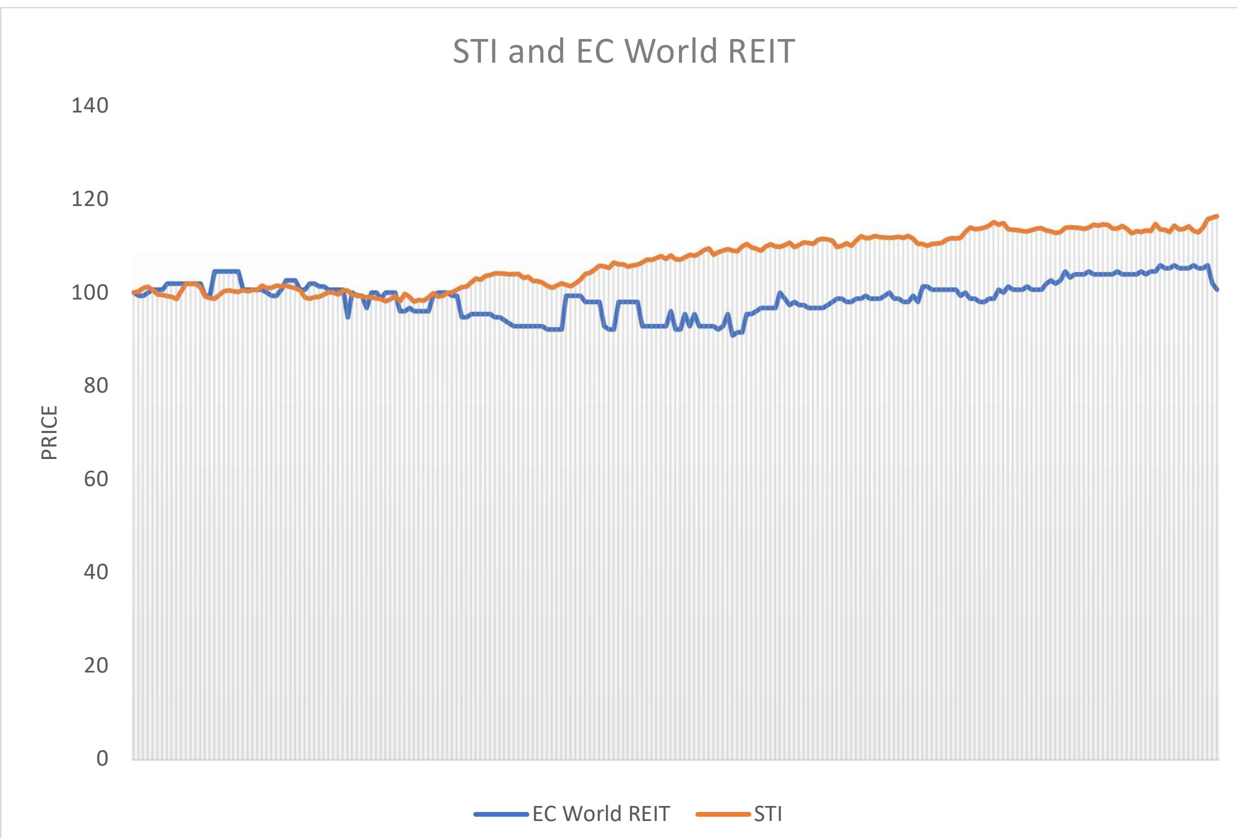

STI and OUE Commercial REIT
140
120
100
80
60
40
20
0
PRICE
OUE Commercial REIT
STI

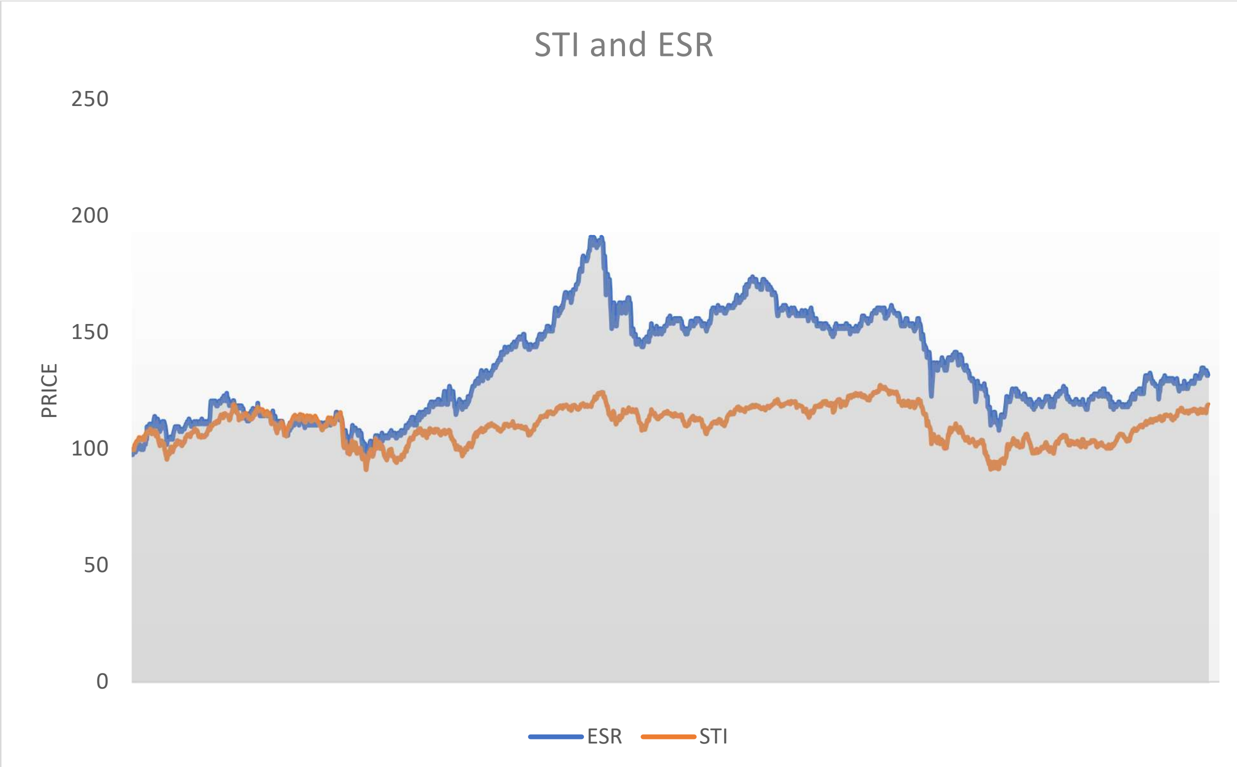

STI and Ascott Residence Trust
140
120
100
80
60
40
20
0
PRICE
Ascott Residence Trust
STI

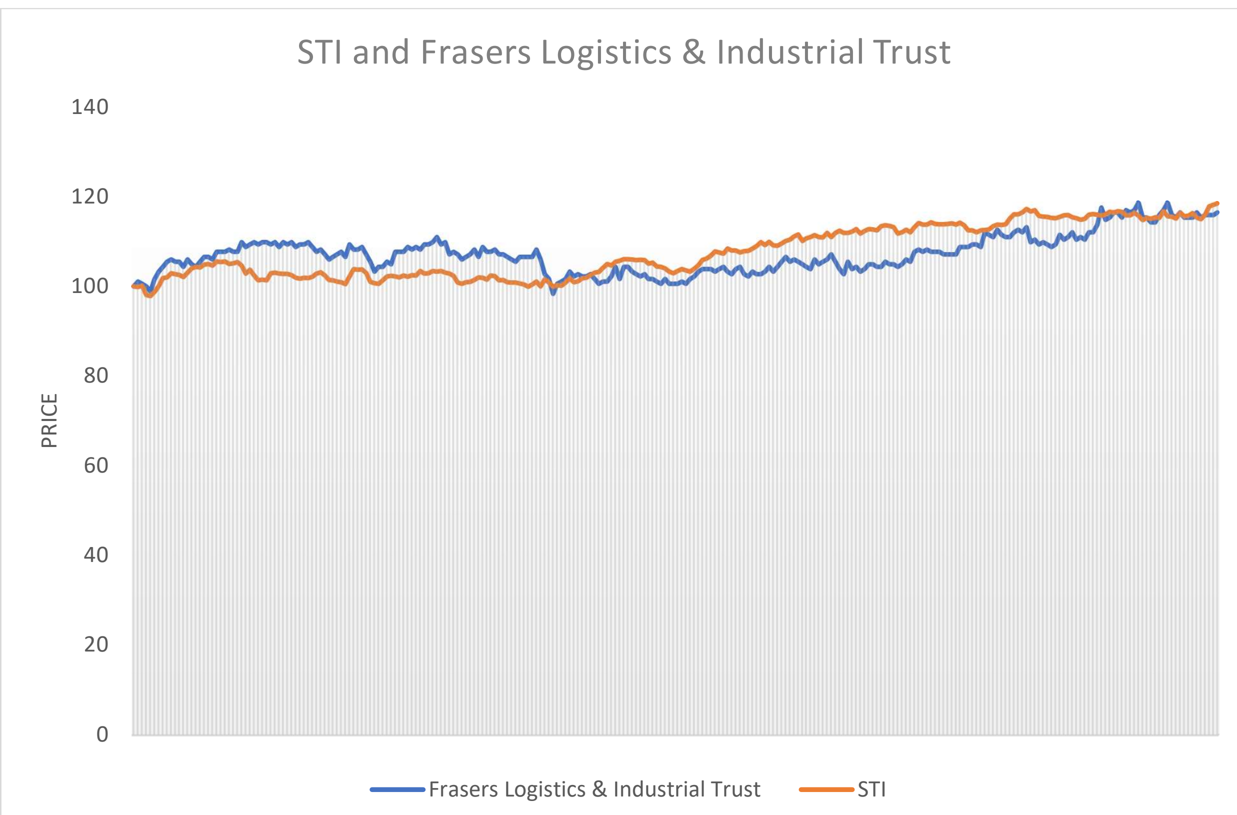

STI and AA-REIT
250
200
150
100
50
0
PRICE
AA-REIT
STI

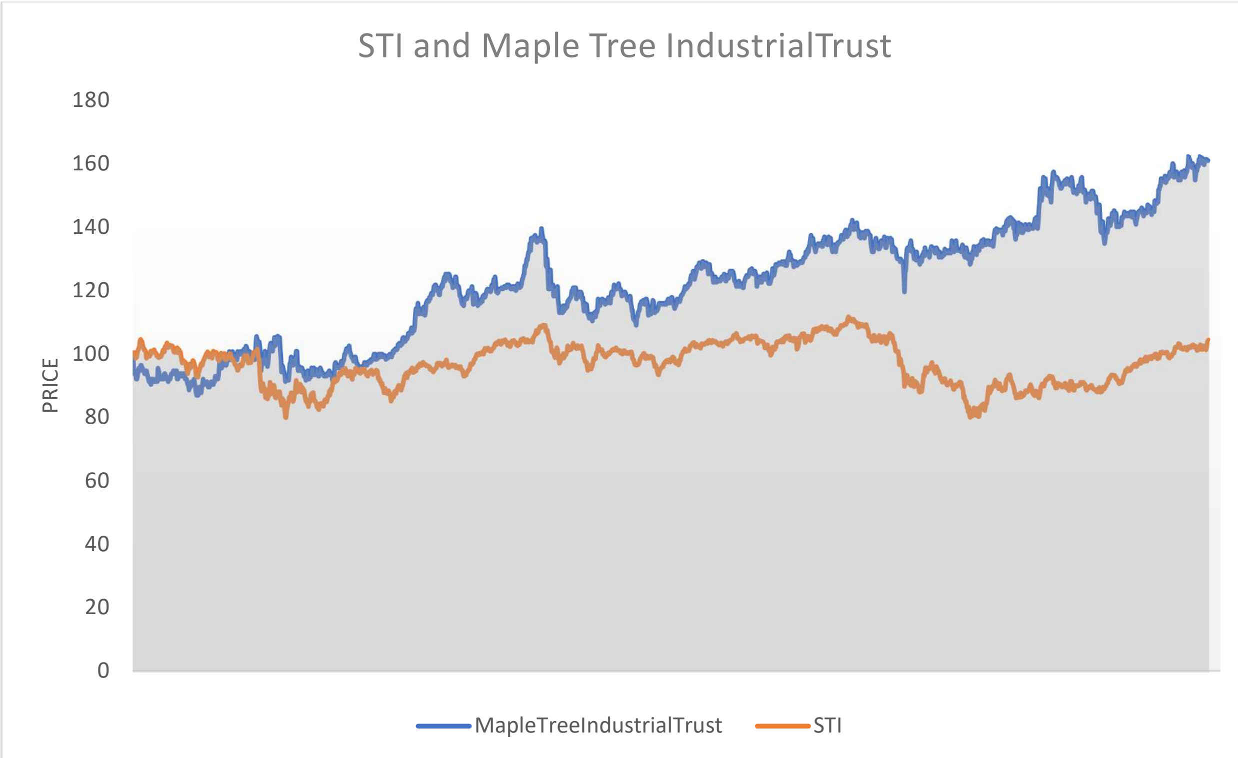

STI and A-REIT
160
140
120
100
80
60
40
20
0
PRICE
A-REIT
STI

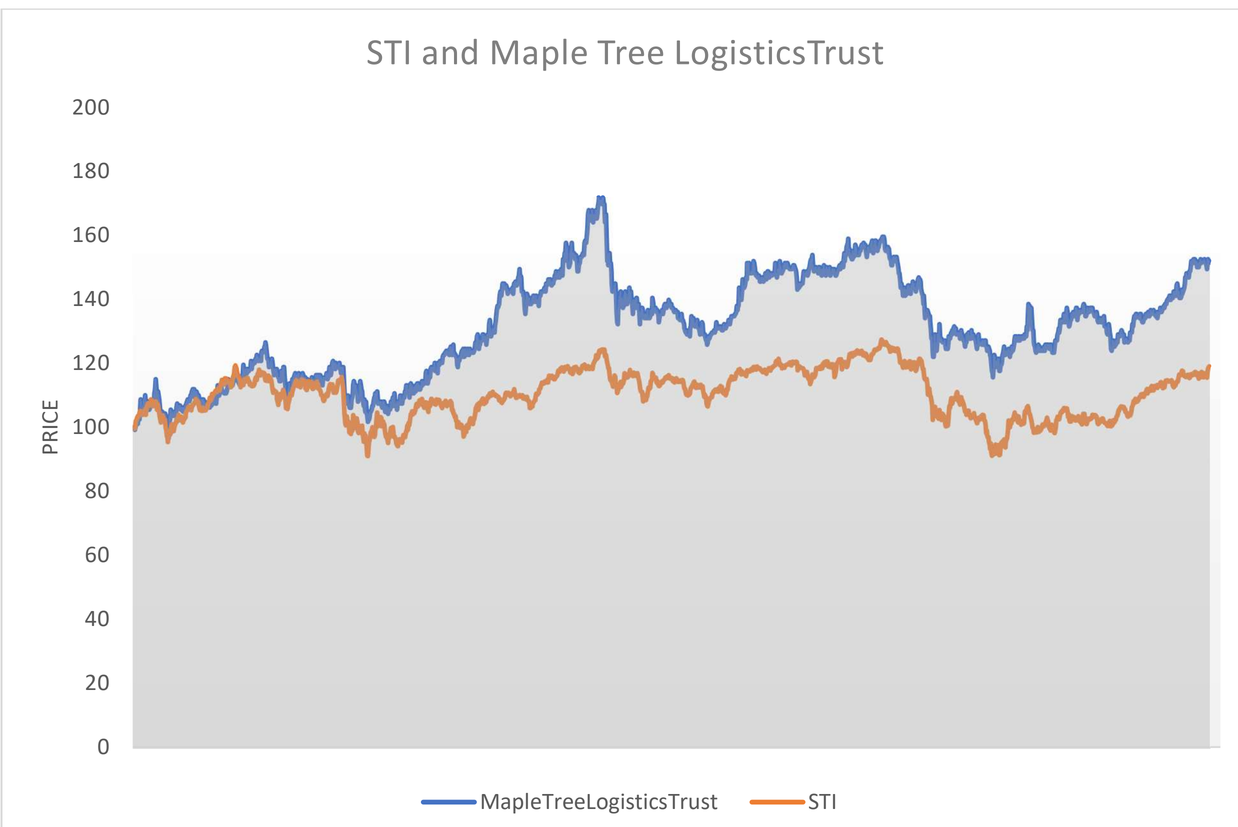

STI and Cache Logistics Trust
160
140
120
100
80
60
40
20
0
PRICE
Cache Logistics Trust
STI

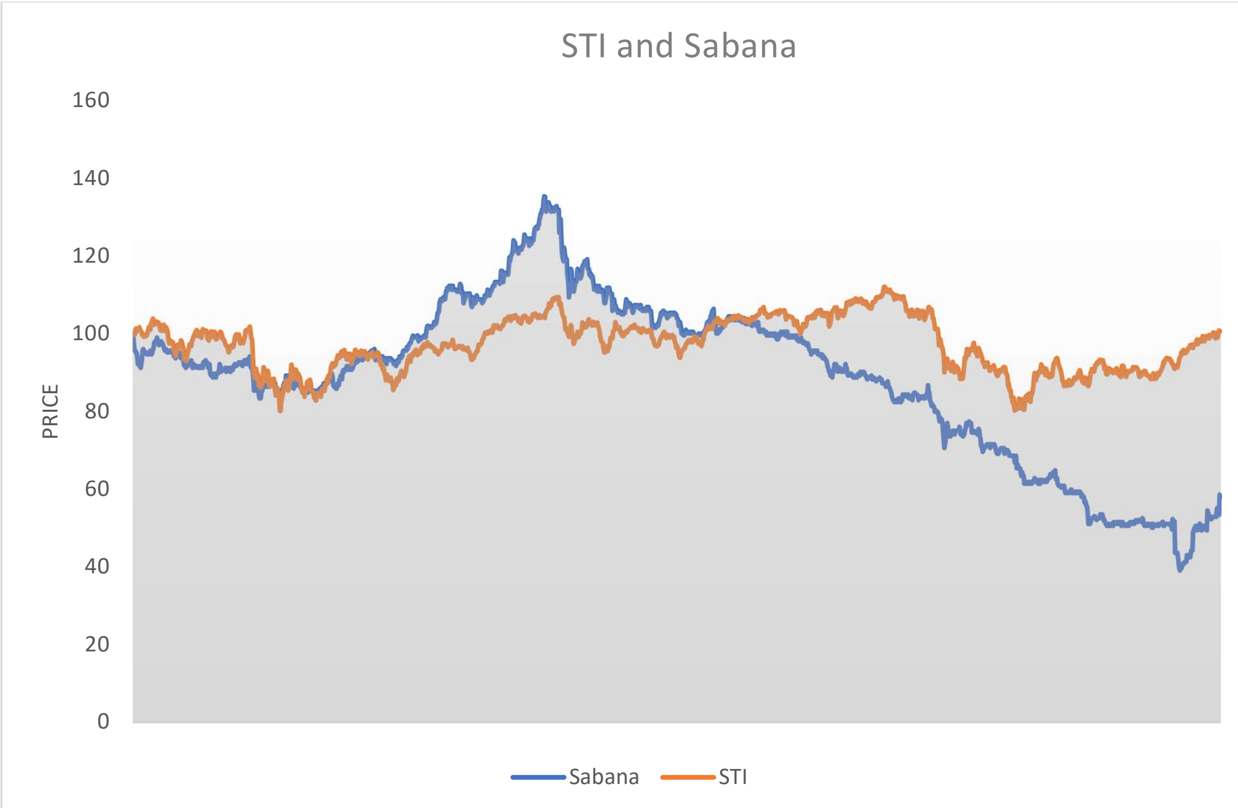

STI and EC World REIT
140
120
100
80
60
40
20
0
PRICE
EC World REIT
STI

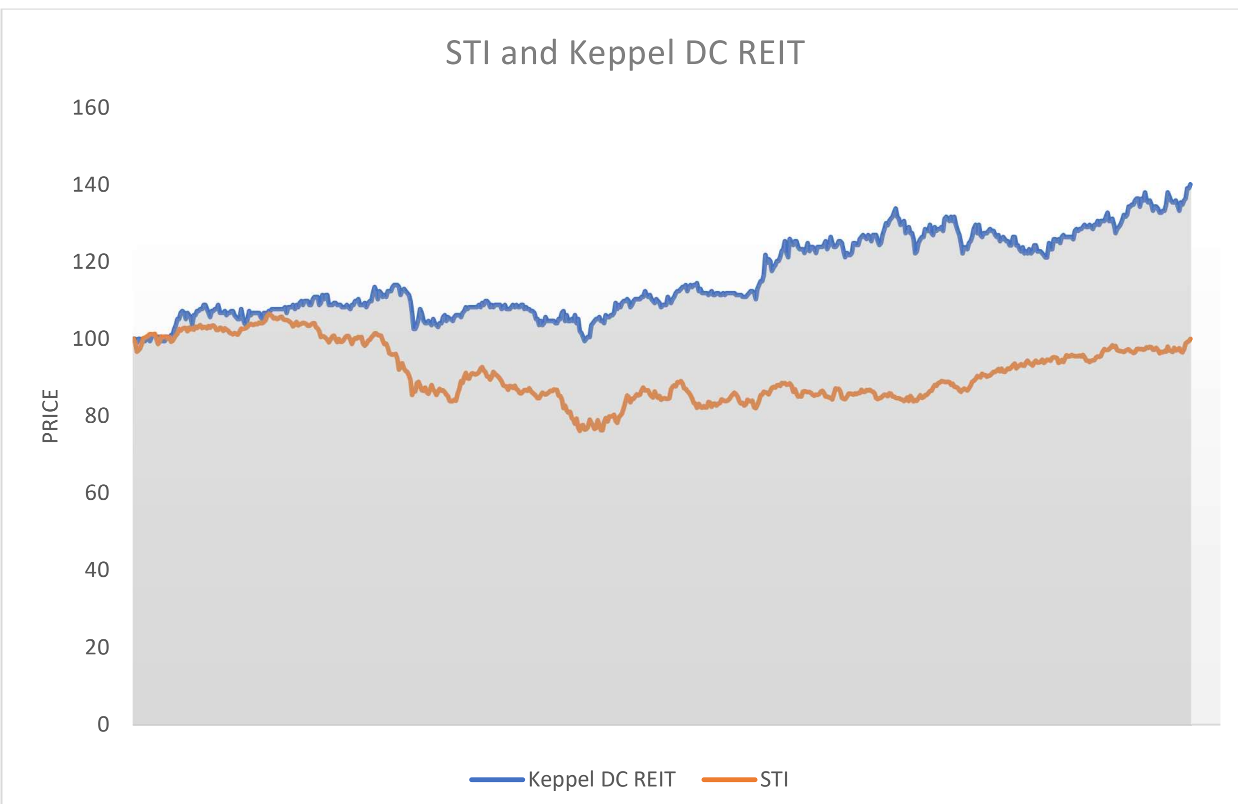

STI and ESR
250
200
150
100
50
0
PRICE
ESR
STI

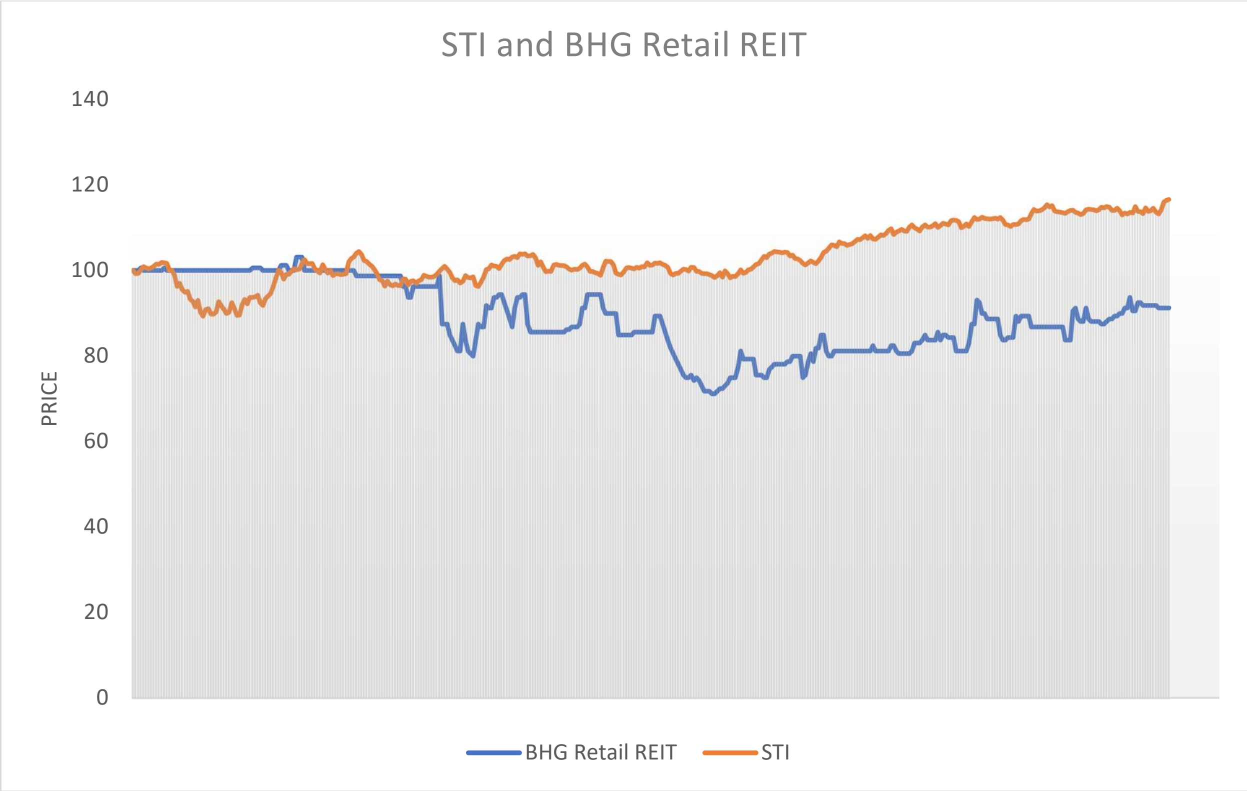

STI and Frasers Logistics & Industrial Trust
140
120
100
80
60
40
20
0
PRICE
Frasers Logistics & Industrial Trust
STI

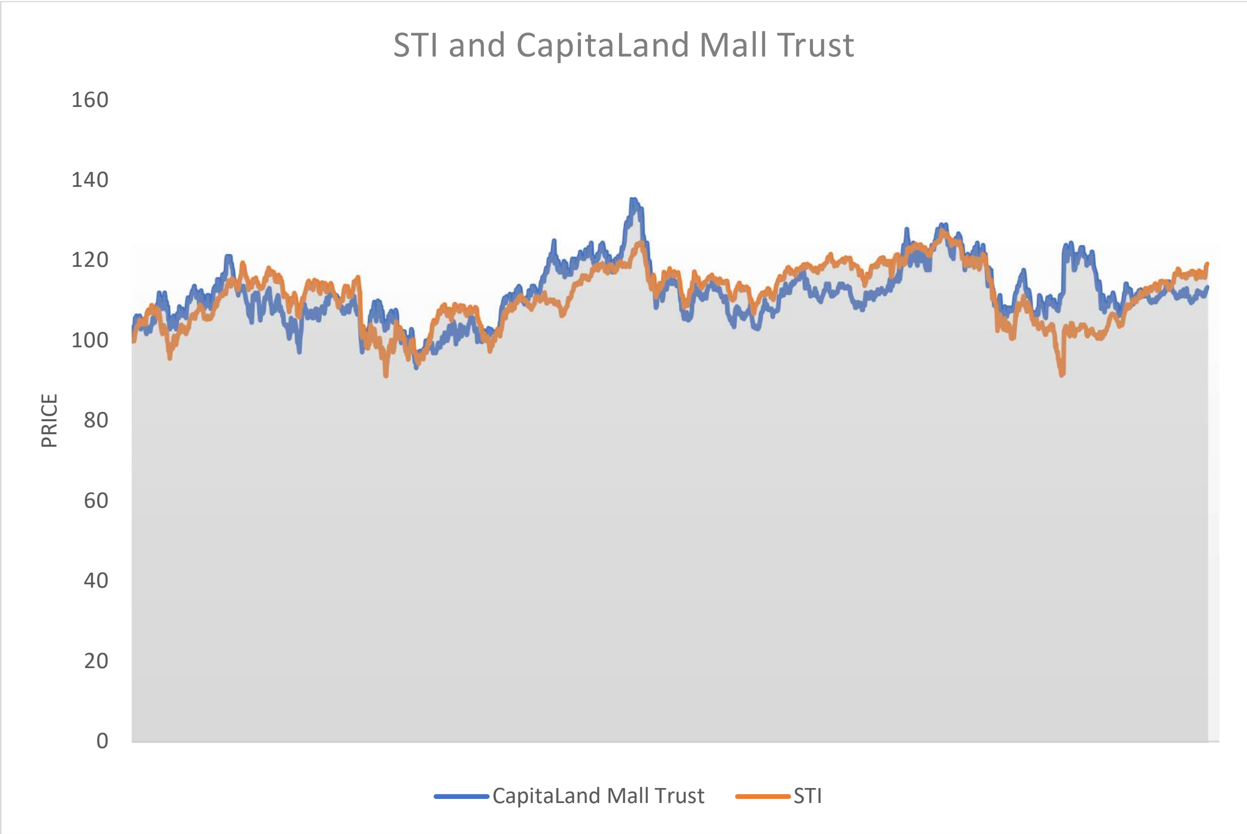

STI and Maple Tree IndustrialTrust
180
160
140
120
100
80
60
40
20
0
PRICE
MapleTreeIndustrialTrust
STI

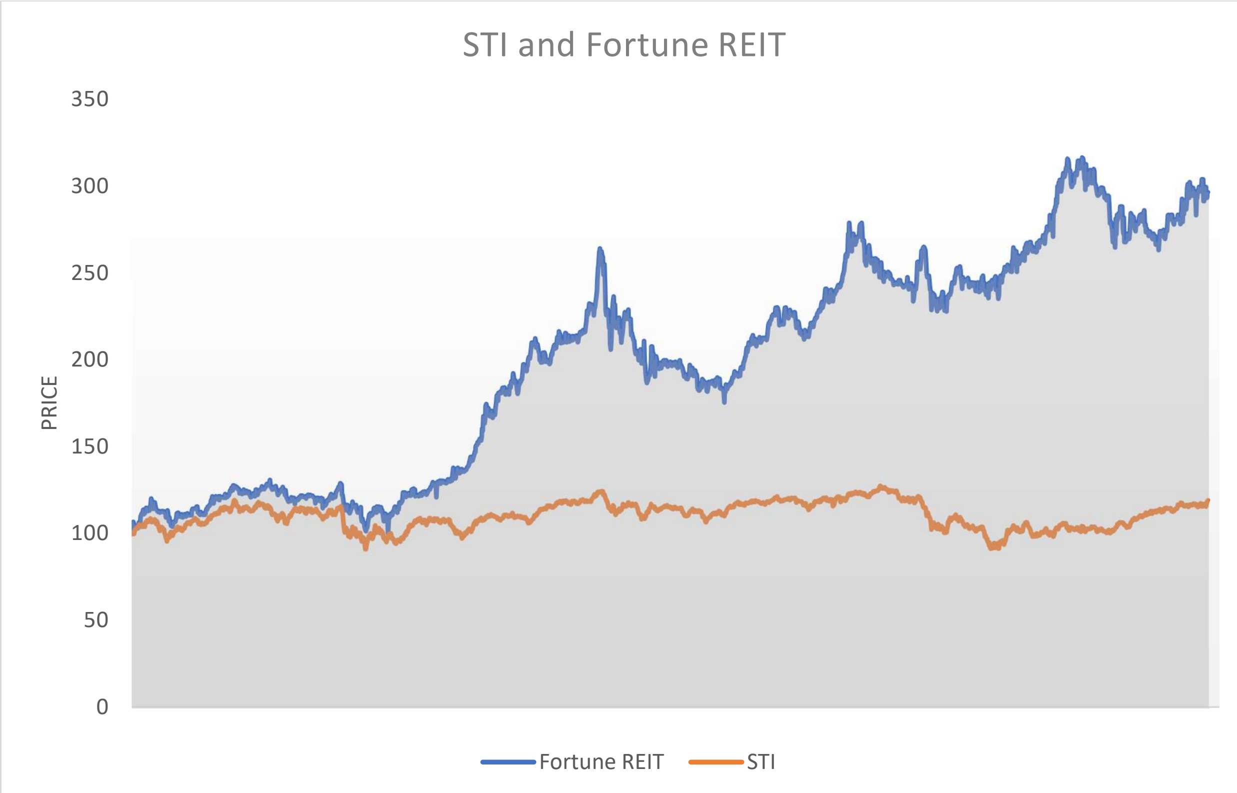

STI and Maple Tree LogisticsTrust
200
180
160
140
120
100
80
60
40
20
0
PRICE
MapleTreeLogisticsTrust
STI


STI and Sabana
160
140
120
100
80
60
40
20
0
PRICE
Sabana
STI

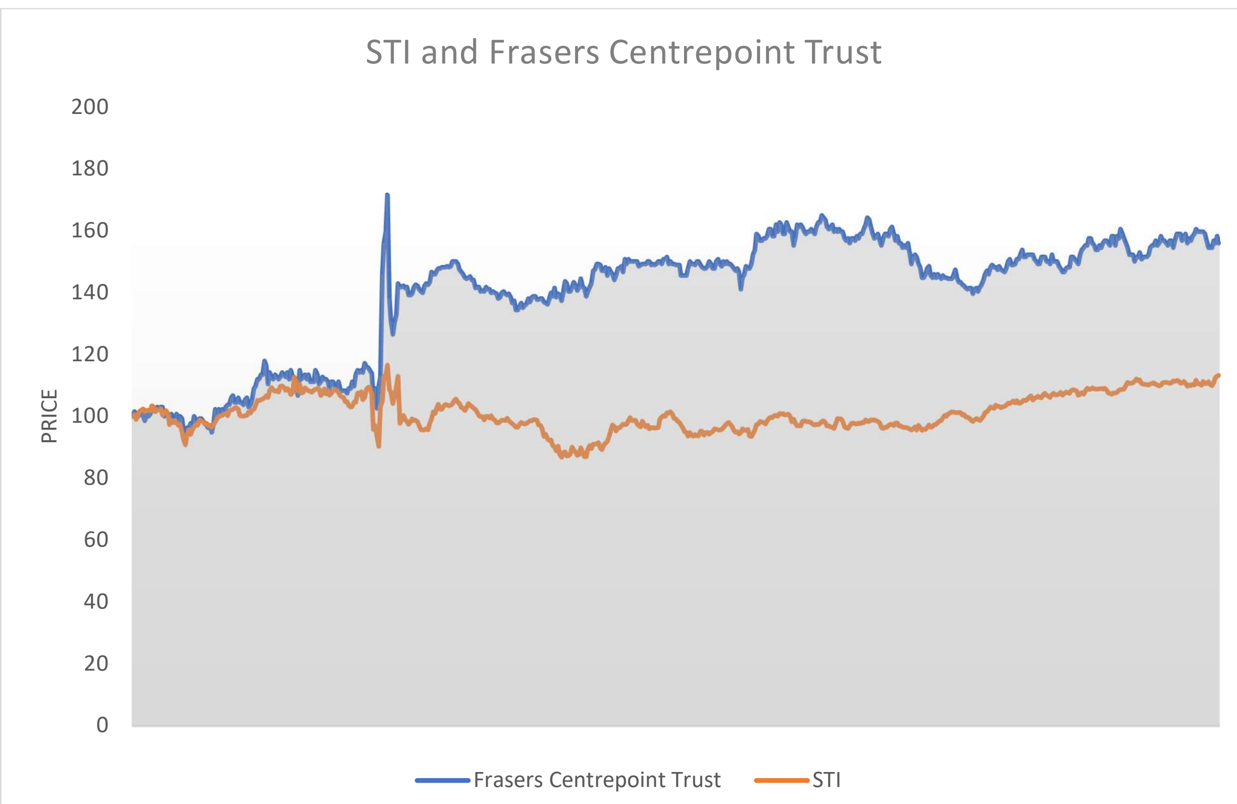

STI and Keppel DC REIT
160
140
120
100
80
60
40
20
0
PRICE
Keppel DC REIT
STI


STI and BHG Retail REIT
140
120
100
80
60
40
20
0
PRICE
BHG Retail REIT
STI

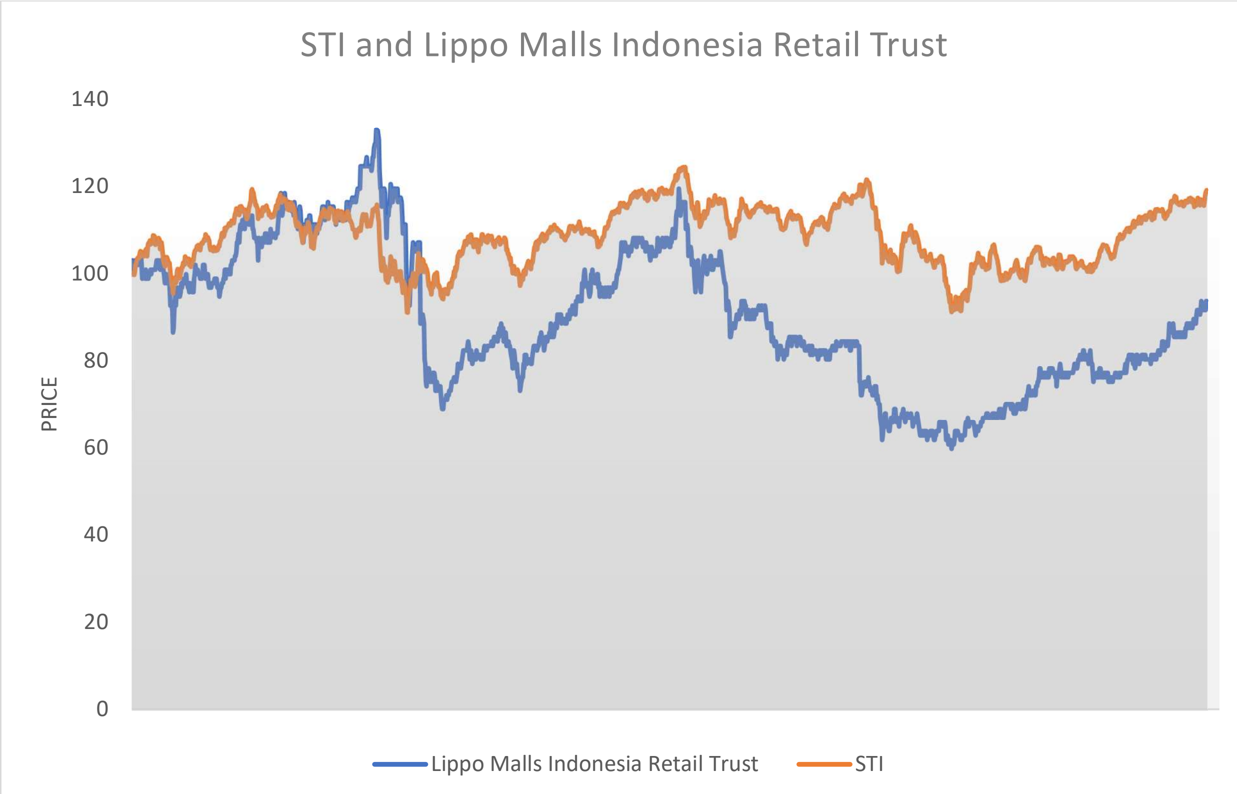

STI and CapitaLand Mall Trust
160
140
120
100
80
60
40
20
0
PRICE
CapitaLand Mall Trust
STI

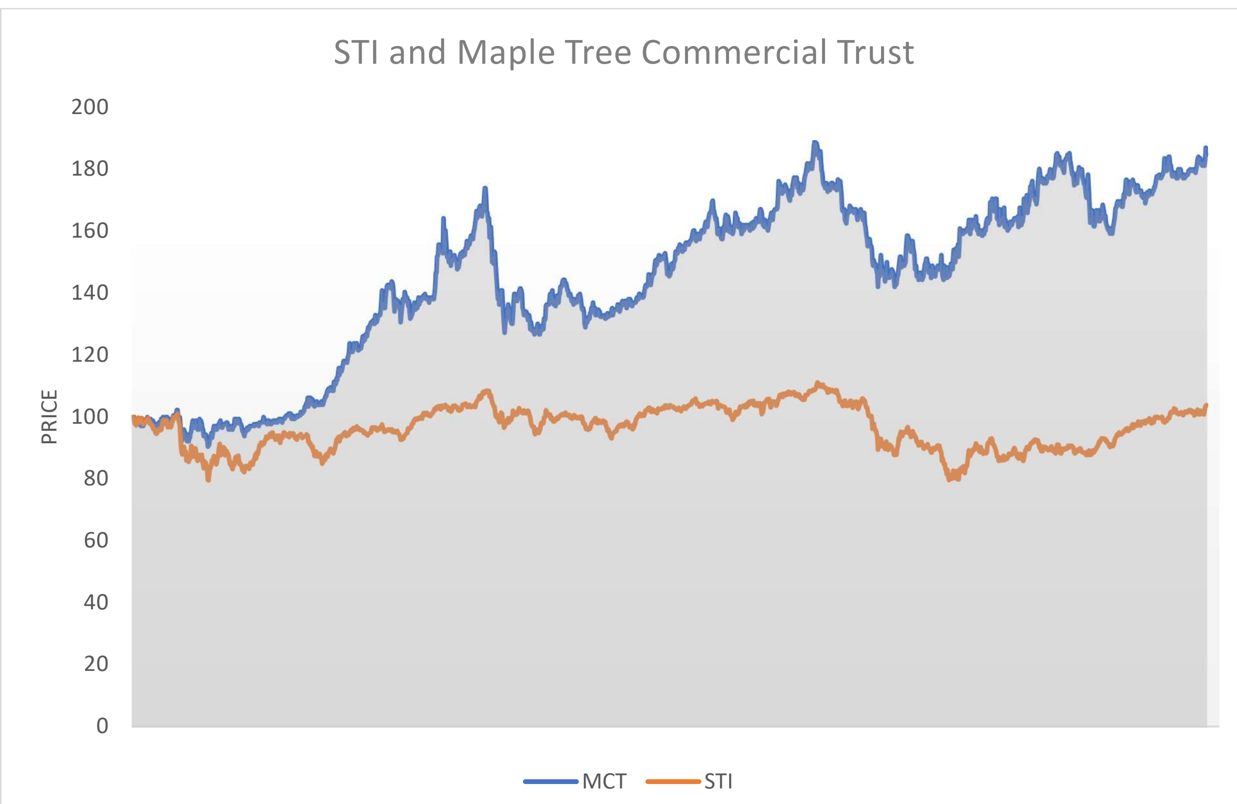


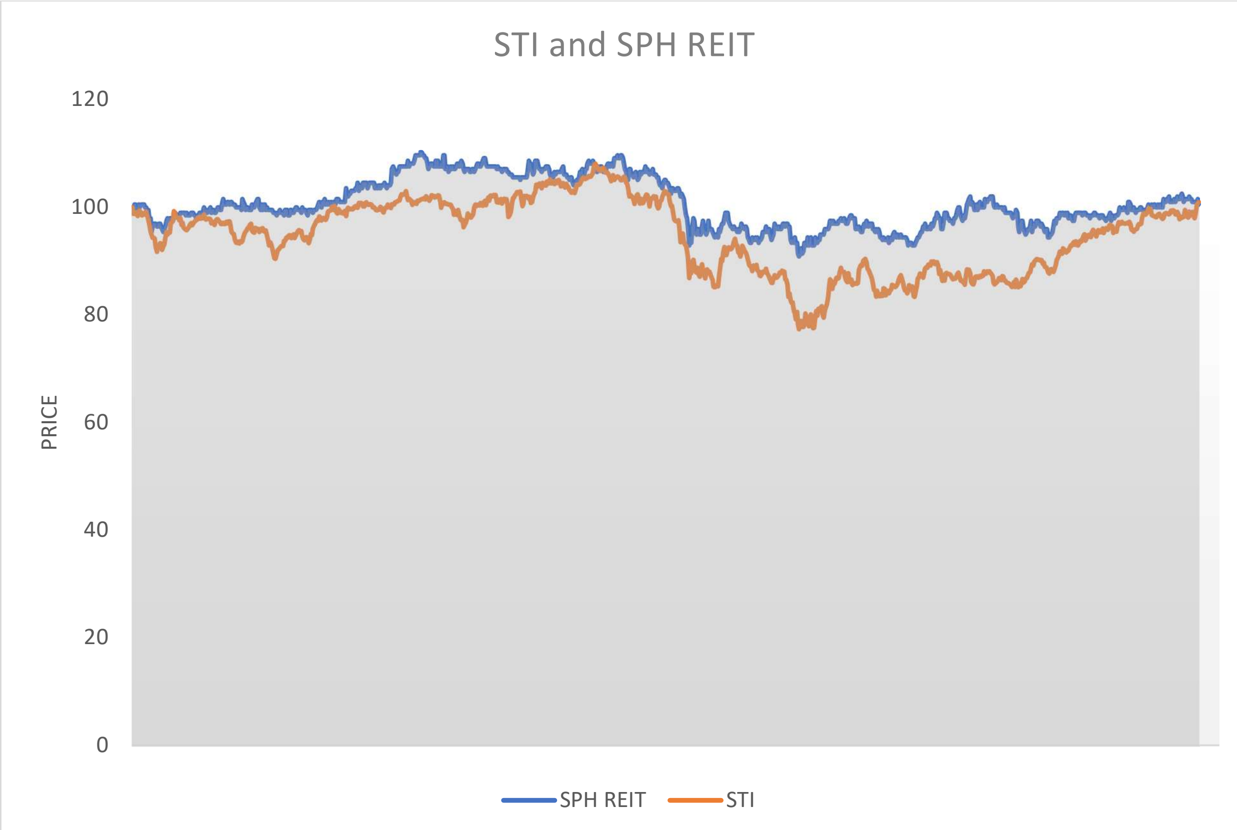
STI and Fortune REIT
350
300
250
200
150
100
50
0
PRICE
Fortune REIT
STI

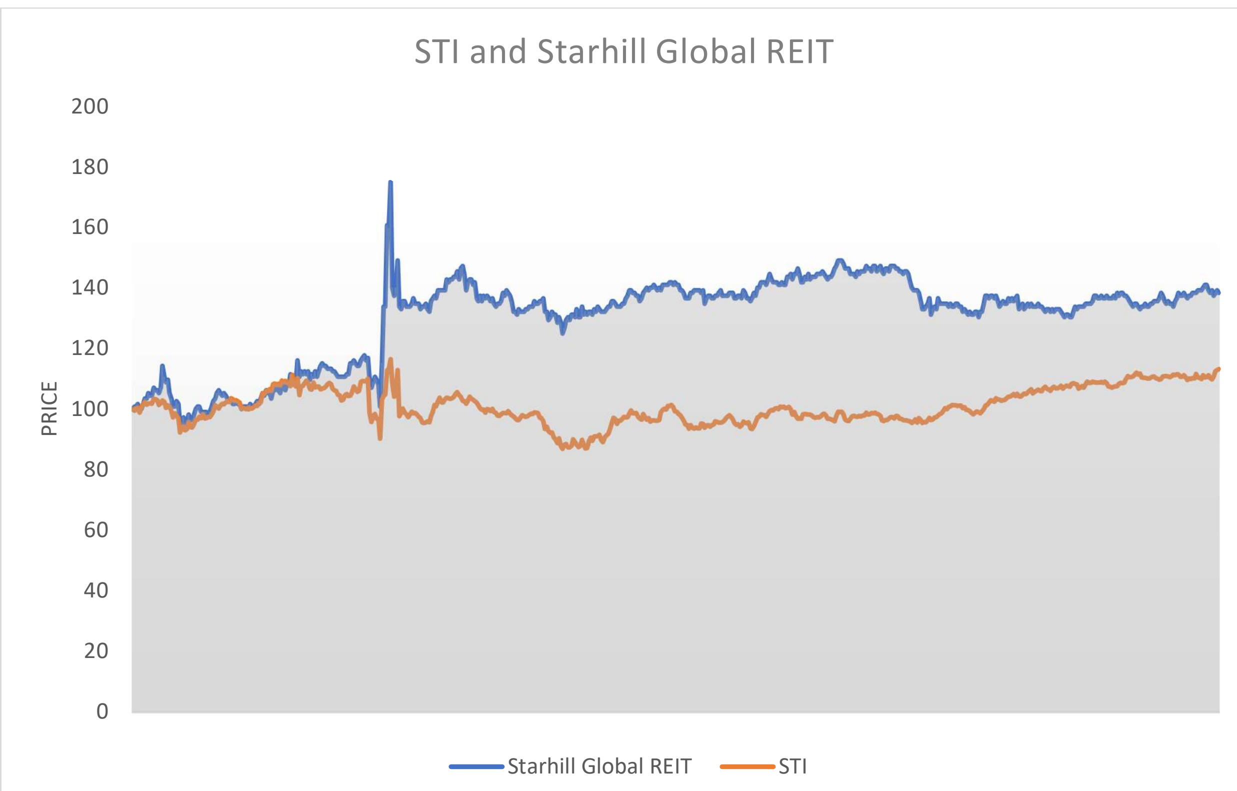


STI and Frasers Centrepoint Trust
200
180
160
140
120
100
80
60
40
20
0
PRICE
Frasers Centrepoint Trust
STI


STI and Lippo Malls Indonesia Retail Trust
140
120
100
80
60
40
20
0
PRICE
Lippo Malls Indonesia Retail Trust
STI


STI and Maple Tree Commercial Trust
200
180
160
140
120
100
80
60
40
20
0
PRICE
MCT
STI


STI and SPH REIT
120
100
80
60
40
20
0
PRICE
SPH REIT
STI


STI and Starhill Global REIT
200
180
160
140
120
100
80
60
40
20
0
PRICE
Starhill Global REIT
STI

Appendix 7ai – Key pilot factors

Key pilot factors - General:

- Relevant macroeconomics statistics

  - Sustainable economic growth. Generally measured by GDP growth rate. Relying on GDP growth rate alone to measure the sustainability of economic growth is not complete. To paint a more accurate picture, two other qualitative measures are required:
    - Income inequality as measured by the Gini Coefficient and the number of years it takes for a median income family to purchase a decent size property. These are proxy measure (Fisher & Smeeding 2016) of how stable the social fabric is and its likely trend going forward. A city with 50 million population but in which 45 million are living below middle class standard would not have much discretionary purchasing power relative to another city with a 30 million population but in which 27 million are middle class and above. Size of population does matter but quality of population matters even more when it comes to demand for real estate.
    - Average number of hours spent on commuting by the average working resident. A growing city needs efficient commuting infrastructure to sustain its economic activities. If a typical white-collar worker needs to spend more than 3 hours commuting daily, the city will encounter attrition of human talent in the long run and with it a drop in economic growth as well as demand for real estate.

    Any qualitative factors that make it more efficient for economic activities to take place will be beneficial to the physical clustering of human activities in concentrated geographical pockets.

  - Property business cycle – real estate takes years to build. From laying ground foundation, civil engineering, laying of water and gas pipes to fixing the electrical linings, the process can take 3 to 7 years to finish (Lee 2011), depending on the complexity of the project. The demand and supply dynamics during the starting point of construction might be a seller market for the property developers. But at the point of delivery, it might have already changed to an oversupplied market. Such scenario is quite common given that property developers tend to overbuild during the midst of bull market (DiRocco & Miller 2013). During bear market, construction slows down and when economic activities pick up, the developers will not be able to react in time. REITs that participate in property development will be subject to the same impact from changes in property business cycle. Even for REITs that purely manage properties for rental income, their property book value on balance sheet will still be influenced by changes in the business cycle. When the decline of property book value is huge, their debt ratio might exceed statutory limit.

- US Federal Fund rate – the interest rates of G7 member nations[2] and China are interconnected to each other through complex relationships, the hub of which is the US Federal Fund rate. If US opt to increase its Federal rate, most other nations will probably follow suit for fear of hot money flowing out to the US. The influence of US Federal Fund rate on other interest rates is more complex than that; but the degree of entanglement and synchronization has been relatively stable (Yellen 2017). Therefore, the cost of debt financing for REITs is closely related to changes in US Federal Fund rate.

- FOREX rate volatility – globalization has greatly intensified the trade volume among various nations. It is extremely rare to find a company that source for raw material, manufacture, distribute and sold to end customers within one single country (Karoui 2006). Instead, it is more common for multinational companies to import their raw material from the cheapest source, set up their human intensive operation in the most labor law friendly jurisdiction, outsourced their product distribution to a reputable global supply chain logistic company and sell their products to every country on the planet. The result is a rapid movement of goods and capital on a 24/7 basis. Given the accompanying porosity of capital flow, volatility of FOREX rate can change rapidly. And once we factor in speculative FOREX positioning[3] based on perception of future FOREX movement, the short-term volatility of FOREX rate can be greatly magnified. The degree of

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[2] *G7 member nations refer to Canada, France, Germany, Italy, Japan, UK and the USA.*
[3] *The volume of speculative FOREX positioning has been estimated by (WTO 2015) to be at least 60 times that of global trade value at any one time.*

adverse impact from FOREX rate volatility on REITS depends on to what extent did the REITs hedge its non-reporting currency cash flows (Li 2012).

- Demographics changes
  - Organic population growth – growth in population has direct correlation with demand for real estate. This relationship is stronger if the additional population is congregating in a geographical zone that possessed the necessary infrastructure to support additional job creation. Otherwise, the additional population will migrate to another city.
  - Aging profile – housing habits change with aging. Young aspiring adults in their 20s look forward to purchasing their own downtown apartments. For this group of people, moving out from their ancestral homes and away from their parents is top priority (UN 2015). Fast forward the age group by 10 years and we have our young parents in their 30s who are looking for bigger apartment in the suburban zones to house their newborn babies. For those in their 50s, their kids have already grown up and are ready to leave their ancestral home to lead an independent life. Our folks in their 50s start to feel that their large apartments are hard to clean, and very often too empty. They began to consider selling it away in exchange for a cheaper and smaller apartment in the rural region where they will most probably retire in 10 to 15-year time. Fast forward our age group by 15 years and we have our retirees in their 65s to 70s who have already bought their small retirement home in the rural region. Some people in this group are starting to feel the full onslaught of physical deterioration and seriously pondering whether they should move to elderly nursing homes. The above narration depicts the changes in residential housing needs of a typical city white collar as he or she ages (UN 2015). The same story also takes place for changes in discretionary consumption habit such as demand for car, medical health care, fashion and dining which will have direct implications on the respective industries and their associated demand for retail, industrial and office real estate.
  - Migration trend. Usually, when people congregate in a zone, their demand for real estate increases. And depending on their purpose for congregation, the impact on the various REIT sub sectors will vary. If the migration trend in the location is due to an explosion

of white color job opportunities, demand for residential apartment, retail mall and warehouses will rise (OECD 2017). Few years forward, the demand for childcare and the associated businesses will grow. And with it a positive spiral growth cycle. On the other hand, if the migration trend occurred due to retirees coming in to establish their retirement houses, the impact on small apartment, elderly health care and hospitals will be positive (Kerr & Kerr 2011). But this trend may not last, once the retirees passed away, so would be their demand for all the above services. If the supply of inward retiree migration cannot keep up with the rate of population attrition, demand for the associated industries will shrink. Finally, for a location to attract inward migration and at the same time reduce outward migration, the associated infrastructure and pro-migration policy must be relatively more attractive than neighboring cities. Migration trend is therefore a highly fluid statistic that is influenced by a wide array of different factors (Kerr & Kerr 2011).

  - Changes in governmental immigration policy. Several cities with organic population growth rate that is below natural fertility level rely on favorable immigration policy to restore economic vibrancy. Examples of such cities are Hong Kong and Singapore (Aspire 2014). While adopting an open policy towards foreign immigration is positive for spiking up the demand for local real estate, it does come with its fair share of social problems when not probably managed. Common problems include the rise of racist sentiments, congestion of living conditions and erosion of the sense of belonging among residents (Teh 2011). These are precisely the main reasons why countries such as Japan is still erecting a high barrier against inwards migration despite their shrinking population. Even for traditionally pro-immigration city such as Singapore, the gate for inward migration has become higher due to the development of anti-foreign resident sentiments among the electoral population (The Economist 2011). Indeed, the current slowdown in private property market transaction in Singapore is partially the results of this shift in governmental immigration policy (Ng *et al.* 2017).

- Short term demand and supply dynamics. Both perceived and real changes in real estate outlook can generate tremendous amount of volatility in properties price (Carey *et al.* 2017). Examples of these changes include governmental policy, mortgage rate, bank financing policy and flow of hot money. I need to emphasize that these changes need not be real. Perception when sufficiently broadcasted through mass media can have real influence on property prices as well (Huang & Ge 2012). According to (Hong Kong Monetary Authority 2017), subtle changes in market sentiments due to perception exert stronger impact on property prices during crisis time. Even though REITs usually revalued their real estate assets on balance sheet once a year, their value is still affected if market volatility occurred during the point of revaluation (Hudgins 2012).

- Asset base – economies of scale[4] can be gained in the form of:

    - Lower management cost per dollar of asset managed. Given that basic management fee is usually calculated as a percentage of AUM, having a larger portfolio implies the REIT will have more capacity to hire better quality talent to manage their funds. First, the REIT can hire specialized manager dedicated for each sub asset class. With dedicated attention paid to each sub asset class, the respective manger will have greater bandwidth to do a better job (Cnplaw 2011). Second, more experienced adviser can be hired to scout for acquisition deals. Third, despite having to pay more for better human resources, the management expense per dollar of asset managed will still be relatively lower than other smaller sized REITs (Capozza & Seguin 1999). This is because upon scaling up, each human talent is individually allocated to manage a much bigger pool of real assets.

    - Lower cost of debt funding. Turkmen & Demirel (2012) found empirical evidence that banks provide better terms and conditions when funding REITs with AUM that exceed US$1 billion. To be more specific, REITs with AUM exceeding US$1 billion incurred on average 130 basis point less interest expense than REITs with smaller AUM (Turkmen & Demirel 2012). In addition, their loan approval process usually got processed faster. One common explanation lies with the need for banks to do a more thorough and robust due diligence on REITs that are

[4] *There is empirical evidence pointing towards a size premium being place on the share price of public REITs. For example, in the Singapore market, the average dividend yield of REITs with a market capitalization of more than USD 1 billion dollars is lower than that of the average dividend yield of REITs with market capitalization of less than USD 1 billion dollars by 156 basis point.*

smaller in size (Turkmen & Demirel 2012). From the bank's perspective, the size of their customers is inversely correlated with default risk.

- Lower cost of equity. By similar token, Turkmen & Demirel (2012) also uncovered empirical evidence that equity market rewards bigger size REITs through imposing a lower cost of equity. This tendency can be observed through the higher rental yield of REITs with market capitalization less than US$1 billion. In Singapore, as at 15th August 2017 that would be AAREIT @ 8.2 percent, CLT @ 8 percent and CIT @ 7.1 percent. Compared to other REITs with market capitalization more than US$1 billion such as Ascendas REIT @ 5.9 percent, CapitaLand Commercial Trust @ 5.3 percent, CapitaLand Mall Trust @ 5.6 percent and Suntec REIT @ 5.3 percent, it is obvious that the equity premium is at least 200 basis points. In other words, equity investors, like their banker counterparts also regard bigger sized REITs as being less risky.

- Enhancement to brand equity. Anchor tenants preferred to work with more established landlords (Harmse 2012). This is because good reputation provides cushion for operational risk mitigation (Harmse 2012). With a strong brand asset to safeguard, bigger sized REITs have more to lose if they did a second rated job in managing their stakeholder relationships (Madu 2007). For a REIT, having more assets under its flagship means its logo and brand image can be spread out across a wider geographical spectrum. This aids towards building up a "one seems to be everywhere" kind of brand image and perception for outsiders.

- More bargaining power with stakeholders[5] within the ecosystem. Having a bigger and more diversified real asset portfolio also implies that the REIT is not too reliant on any one real asset, anchor tenant or banking relationship to fund its operation. These provide better bargaining chips for the REIT during lease renewal and/or debt refinancing (Wilton 2016). Also, having a bigger and more well dispersed portfolio of real assets mean that tenants are more reliant on the REIT for strategic location positioning. A very good example in Hong Kong would be Link REIT which has spread its influence throughout the entire Special

[5] *According to Porter's 5 forces, the relevant stake holders are customers, suppliers and competitors.*

Administrative Region to the point that the word “Link” is tantamount to shopping mall in Hong Kong (LINK 2017). This sort of relationship where landlords hold the ultimate trump card also exists between supermarket chain stores and the consumer household brands they carry. In Hong Kong, these would be Welcome and ParknShop while in Singapore, that would be NTUC and Sheng Siong. In short, through spreading their physical location strategically across multiple nodes in a city, mammoth REITs have erected a superior advantage through being the default entry point for other businesses.

- Better diversification. Through managing real assets across multiple sectors, REITs gained more opportunities to position their assets across wider geography as well as source from a more diverse pool of tenants (Chesbrough 2010). In doing so, REITs effectively diversify their operational risks. One example would be the minimization of reliance on anchor tenants for rental income. The only concern with diversification is overdoing. First, while diversification is healthy at most fronts, being a pure play in one or two real asset classes do generate operational efficiency as proven by (PlazaReit 2016) with empirical evidence. Unless there are operational synergies with operating two or more real asset classes at the same location, the management team is usually better off managing a single type of real asset.

- Operational efficiency and efficacy

  - Rental rates relative to other REITs in the same sector. Through comparing the rental rates levied by a REIT with its counterparts operating on the same type of assets, insights can be gained on its pricing strategy (Chiang 2014). A lower rental rate may be reflecting a tenant portfolio dominated by long lease in a bullish rental market (JLL 2016). Once most of these leases is due to be renewed, positive rental reversion may occur, providing upside to the REIT cash inflow. The question lingering is when would this happen? Another possibility for levying a lower than market rental rate might be physical depreciation which crippled the REIT ability to levy market level rental rates. On the other hand, a higher rental rate may be reflecting a tenant portfolio dominated by long lease in a bearish rental market (MacGrath 2016). During such situation, analysts and investors ought to be cognizant of whether there will be a negative rental reversion during lease expiry. And if that was to be the case, when will it take place?

- Rental lease renewal strategy. Upon tenant lease expiry, REITs renegotiate with their tenants for a better deal. Even though there are market rental rates for benchmarking, there might still be rooms (Galloway 2015) for REIT managers to negotiate for rental rates above that of market rates. First, strategic tenant mix – where a REIT may have erected an environment where supporting companies for a specific industry have all gathered in a single building or zone. If the need for these companies to be located closely together is crucial, they might be willing to pay premium rental rates (Galloway 2015). Such situation is more common for industrial REITs. Second, the REIT manager and tenant might have different projection for future rental outlook. If the REIT manager is projecting a flat or declining rental outlook while the tenant is projecting a rising rental outlook, signing a long-term lease for 5 years and beyond at the current rental rates might be agreeable for both parties. And if the REIT manager is pessimistic about the rental outlook for the next 10 years, they can even sweeten the deal by including an optional clause for an additional 5-year lease renewal. Of course, if the rental outlook projection turns out to be wrong, it will be financially detrimental for the REIT. There are other reasons for REITs to justify levying above market rental rates, such as fringe benefits, packaged deal, brand reputation and world class infrastructure (Galloway 2015).

- Asset enhancement activities. Physical refurbishment of real assets has been touted as one of the primary means of improving rental yield (LINK 2017). There are numerous ways to implement asset enhancement, the specifics of which is beyond the scope of this inquiry. In the broadest sense, asset enhancement can be divided into two categories: more efficient use of space versus renovation. One example of a more efficient use of office space would be the co-working space concept where REITs craved out their assets into subunits to be rented out to tenants on an open concept format (CBRE 2016). These co-working space format appeals to companies that focused on cost minimization through sharing their secretarial, cleaning and customer hotline functions. To further improve the co-working space format appeal among its tenant pool, REITs must provide additional physical convenience such as soundproof barriers to reduce noise pollution and prestigious looking meeting rooms for tenants to impress their clients. Renovation on the other hand, is a more thorough revamp of the physical real assets to enhance tenant experience. One good example would be the S$410 million remake of its shopping mall undertaken by Suntec REIT which took place from mid-2012 until mid-2015[6]. Despite having to forfeit three years of rental income from the affected physical assets, this massive renovation is expected to eventually increase Suntec REIT's net property income by 33 percent which will translate to a 10.1 percent improvement in return on investment for unitholders when the full effect of the renovation kicks in.

- Income stability. Dividend payout history provides a glimpse of income stability. Putting uncontrollable market conditions aside, income stability is a good proxy for gauging the operational efficiency of the REIT manager. Many factors affect income stability. These include finding tenants with stable business models, diversifying income sources across a wider spectrum of tenants and matching the duration (Chivukula *et al.* 2015) of rental income and debt financing[7]. These factors are dynamic and can seldom be precisely finetuned. Usually, the finetuning process involved forecasting certain market variables such as interest rate movements. The income stability of a REIT therefore depends on how accurate the REIT managers are at forecasting these dynamic market variables.

- Income growth potential. Rental reversion and yield attractive acquisition (Song *et al.* 2017) are the two major sources of income growth. Putting uncontrollable market conditions aside, income growth potential is a good proxy for gauging the investment acumen of the REIT adviser. To achieve positive rental reversion, REIT manager needs to convince their tenants that their properties are worthy of the higher rents. Examples of bargaining

[6] *http://www.suntecreit.com/admin/dir/20111031071042310ct11%20Suntec%20REIT%20announces%20remaking%20of%20Suntec%20City%20-%20Press%20Release.pdf*

[7] *This refers to Asset Liability Management (ALM) where the fluctuation of rental income is intentionally being managed to fall in line with that of its debt financing.*

chips that could be used by REIT managers would be asset enhancement, superior brand equity and customizing the rental leases with fringe benefits that are highly valuable for the tenants but at minimal costs to the REIT (LINK 2017). Truly yield accretive acquisitions are hard to come by. Real assets might be undervalued for hidden and unknown reasons (Song *et al.* 2017). If the physical environment surrounding a real asset is fully transparent, the initially high rental yield potential would be bided down by competitive acquirers. Because of that, REIT mangers often have to perform their due diligence on potential acquisition targets in murky waters and made their call fast. Unfortunately, most of the property acquisition deals by REITs often occurred during the peak of property cycles (Song *et al.* 2017). At the other extreme, asset disposals by REITs often occurred during the trough of property cycles where the REITs need to recapitalize to trim down their debt gearing ratio. Knowing when to pull the trigger for property acquisition and avoiding asset disposal at the wrong time made up two of the most important attributes of a capable REIT manager.

- Physical asset attributes

    - Location. Location is the topmost important characteristics influencing the value of a real estate (NSW 2006). Usually, value drives from the proximity and convenient aspects of a location, such as being closed to a prestigious school, having a sea view or being near to a national relic. At other times, value may derive from the community aspect of a location, such as the premium housing price for being in an ultra-high-income residential zone or for being located within a zone that is frequently patronized by expatriates and university professors. A location can be valuable for a myriad of reasons, some of which can be culturally unique.

    - Asset quality. Ceteris Paribus, newer buildings are more valuable than physically older ones. Whether in terms of resale price or rental income, newer real assets will fetch more value (Piazzesi & Schneider 2012). Also, buildings that come with more modern furnishings and facilities will fetch higher value. Examples would be electronically controlled ramp for industrial warehouses and smart unit for office buildings. These additional furnishings and facilities must be functionally relevant for the potential tenants before the extra value can be reflected in the form of higher rental income.

- Type of real asset classes. Lok (2013) has found empirical evidence for the market value of REITs to be heavily influenced by the type of their underlying asset classes. The same inquiry however also uncovered that certain type of REITs tended to outperform the rest over certain time period. Lok (2013) explored the relationship between industry cycle and the associated property cycle. First, the inquiry confirmed the positive relationship between manufacturing industry outlook and the rental rates of factory space. Second, the same study also confirmed the negative relationship between retrenchment exercises in the finance industry and CBD office rental rates. Lok (2013) however went on to argue that business cycles for different industries do not exist in isolation. In other words, the enquiry argued that business cycles across most industries are interrelated to one another and differ only with the lead-lag timing of their occurrences.

- Degree of asset class homogeneity among its real assets. Piazzesi & Schneider (2012) gave empirical evidence that pure play REIT tended to command premium pricing among investors. The most likely reason for that might lie with the ease of business model comprehension for investors. Also, pure plays come with natural cost savings through their economies of scale impact on management and operation as explained in a previous section (PwC 2015). Having said that however, pure play REIT is not always a panacea. In unique instances where there are operational synergies awaiting to be exploited, an REIT manager might also find it cost effective to manage a single real asset with residential units at high floors, office units at low to mid floors and a shopping mall at the ground floor. So long as the REIT manager can leverage on the advantages of proximity among the different units as a selling point for potential tenants while at the same time minimizing the extra management effort required for the three different types of asset class, such diversified REITs can still outperform.

- Rental lease expiry profile. The presence or absence of an anchor tenant has great impact on the income stability of a REIT. Most anchor tenants can commit to a longer lease contract and are also more likely to renew their rental contract upon maturity. This however comes at a price. First, anchor tenants have strong bargaining power and they usually request for steep discount from the prevailing market rental rates (Rosiers *et al.* 2008). Second, in a volatile business environment, anchor tenants can also go into financial difficulties if their business model cannot keep up with competitors. The time gap between the anchor tenant moving out and the next anchor tenant coming in is typically much wider than the vacancy created by the departure of a smaller tenant. Therefore, the business model sustainability of the anchored tenant is also an important consideration (Afuah 2003) when analyzing the rental income stability of a REIT. As previously observed during the SGP2 case study, having an anchor tenant is a double-edged sword. Some REITs have overwritten conventional strategy by giving similar rental rates to both anchor and specialty tenants to optimize their income yield. Regardless of their policies towards anchor tenants, it is always preferable for REITs to have in placed a well staggered rental lease expiry profile to provide some degree of stability for their rental income (Hwa & Rahman 2007). When any tenant decides not to renew their lease upon maturity, the staggered lease expiry profile will provide some breathing space for the REIT manager to look for new clientele. At the bare minimum, a well staggered lease expiry profile minimizes the chance of a massive turnover of units that could theoretically make a huge dent on the REIT stable cash flow for that year. Finally, as mentioned in previous section, the average tenant lease length is also a double edge sword. In a bullish property market, having a short lease would favor the REIT as upon expiry, the manager can quickly rent out at the higher market rates. In a bearish property market, however, having a long lease would have been better since it effectively shields the REIT from been exposed to the falling market rental rates.

- Diversity of tenant base. Presence of an anchor tenant versus a well-diversified pool comprising of multiple specialty tenants. As mentioned previously, anchor tenant has stronger bargaining power but tends to sign up longer lease and provide more stable income. Specialty tenants on the other hand turnover faster, are usually unwilling to commit to longer lease but has less bargaining power. Neither combination is better in terms of rental yield optimization; depending on the contemporary market conditions and management expertise (A-REIT 2017).

- Occupancy and base rental rates relative to competition. Both occupancy and rental rates are influenced by a cocktail of factors – business cycle, industry cycle, asset enhancement or rather the lack of it or inadept property management (ChampionREIT 2016). Through comparing these figures with peer REITs and the market average, a lot of insights can be obtained on whether the REIT management has done a good job.

- Surrounding environment of the underlying real assets. By surrounding environment, I am referring to the availability, proximity and interconnectivity of the neighboring amenities (Lok 2013). These would be the usual clinics, hospital, food centers, restaurants, schools, police station and sport stadium. Real assets located in a well-planned out urban zone fetch higher rents (Lok 2013). In addition, the public commuting system for residents as well as the airport express train system for long distance travelers are valuable amenities as well. Finally, even though current amenities have direct influence on property value, future urban zoning plan and the master blueprint for the next generation of public transportation development are key items that should not be ignored in analyzing the value of the real assets.

- Risk of natural disasters. One very basic risk that is often ignored by analysts and investors when it comes to analyzing REITs would be how exposed and vulnerable are their underlying real assets to natural disasters (BDO 2017)? Some might argue that buying sufficient insurance coverage would have solved this problem. The truth is most property insurance does not cover catastrophic events. And even for those that did, the premium will be exorbitant for real assets located in natural disasters prone regions. On top of that, there have been incidents of insurance company going bankrupt for providing catastrophic coverage in history (BDO 2017).

- Financial metrics
    - Fund flow from operation (FFO). According to (Coumarianos *et al.* 2011), FFO is one of the most common metrics used to measure the strength of cash flow generated by the underlying properties. FFO is obtained through adding back depreciation as well as subtracting any gain on property sales. Compared to net profit, FFO is a better measure of the cash generating capability of a REIT. This is because depreciation being a non-cash item often occupy a huge portion of yearly accrual expense. The major problem with FFO is that it does not consider maintenance expenses[8] (Coumarianos *et al.* 2011) which are real cash outflow required to maintain the real assets in operational mode.
    - Adjusted fund flow from operation (AFFO). AFFO is the more advanced version of FFO where extra adjustments are made for recurring capital maintenance that are essential to upkeep the real assets in operational mode (Shahar *et al.* 2010). However, the definition of what kind of capital maintenance is considered recurring is still arguable in the practitioner field (Shahar *et al.* 2010). Moreover, not all REITs provide disclosures that are granular enough for the analysts to work out AFFO. Against this background, FFO is the more commonly reported figure on the financial statements of REITs.
    - Dividend yield. Dividend yield is cash distribution per share to unit holder divided by the current share price. This is the most watched financial figure for analyst and investor. In the broadest sense, dividend yield provides a quick yardstick to gauge the value of the REIT (Chiang 2014), much like the way investors gauge the value of a bond through looking at its Yield-to-Maturity. When dividend yield of a REIT is being used to compared with other REITs holding similar asset class, investors can obtain an idea of its relative over or under performance (Hobbs & Schneller 2012). In practice, the process is seldom so simple though. First, investors need to adjust for differences in debt leverage, size or AUM and the real assets' country of domicile (Hwa & Rahman 2007). Most of the time, these factors would fully explain for the

[8] *Maintenance expenses refer to money spent on repairing wear out ceiling, tarnished floor, leaking pipes or any other structures that are crucial for the real assets to function properly.*

differences in dividend yield. Following that, investors also need to adjust for any difference in corporate governance that might have explained the difference in dividend yield. Once all these are filtered off, any remaining difference in dividend yield will stand a higher chance of being the elusive alpha (Shahar *et al.* 2010).

- Debt profile. REITs either obtain their bullet maturity loans from banks or issue bullet maturity bonds in the capital markets. If all these debts were to mature at the same time, it can be financially very stretching for the REITs to seek out such a big amount of money for refinancing (Song *et al.* 2017). Therefore, the preferred practice within the industry is to stagger out the debt maturity such that during each financial year, only a fraction of its entire portfolio of debt reached maturity. And as the movement of market interest rates can be highly volatile and unpredictable, having a portfolio of debts with different maturities provides two other advantages. First, as the portfolio of debts are built up at different points in time, their interest rates are locked in at varying market rates. This serves as diversification. Second, having a well staggered portfolio of debts effectively shielded the REITs from corporate predators who are looking to acquire quality real assets at distressed pricing (Sun *et al.* 2013). For example, if the debt maturity date coincides with a downturn in property cycle, the REIT might be forced to dispose their real assets at fire sale prices in order to raise cash.

- Debt gearing ratio. For both Hong Kong and Singapore, the statutory limit of gross debt ratio[9] for REITs is 45 percent. Once REITs breached this 45 percent gross debt ratio (SFC 2014 & MAS 2016), they are mandated to pare it down. Since REITs cannot take up more loan beyond the 45 percent threshold, the only way this gross debt ratio can be legally breached is when their real assets experienced a significant write-off during revaluations. Significant write-off can occur during black swan market events; these are rare but possible events. Because of that, REITs should not leverage themselves too near to the 45 percent legal threshold. It is suggested that REITs should keep some buffers for their gross debt ratio (SFC 2014 & MAS 2016). In this way, they will not be caught off-guard when market conditions deteriorate

[9] *Gross debt ratio equal to total interest bearing debt divided by total assets.*

drastically. Indeed, as at 7th August 2017, a quick check across all 37 REITs listed on SGX uncovered only two REITs with gross debt ratio above 40 percent.

  - Book value per share. Book value per share is obtained through dividing total shareholder equity by the total number of shares outstanding. As the book value of REITs predominantly comprise of real assets that are re-valued at least annually, it is comparable to market value (NYU 2000).

  - Price-to-book value per share. Price-to-book value per share is obtained through dividing share price by book value per share. As explained previously, the book value of REITs is comparable to its market value (NYU 2000). Because of that, most REITs are priced very close to their book value. Theoretically, an REIT that is priced below book implies that the market does not agree with the appraised value of its asset or that the REIT is not managing their real assets to their fullest potential. On the other hand, if a REIT is priced above their book value, it implies that the market is rewarding the REIT for having managed the underlying assets beyond their average potential. In practice, there might be a host of other reasons for the prices of REITs to deviate from their book value.

  - Details of property revaluation. These are sourced from independent reports drafted up by external realty valuators on the respective real assets owned by the REITs. During the end of each financial year, the final appraised value of each property is recorded on the annual report. From these figures, analysts and investors gain insights on the changes in real asset values as well as the chief reasons behind the changes. Through examine these figures over time, investors can gauge whether the REIT managers have done a good job during previous asset acquisitions and disposals. The details of the independent reports are not included on the annual report, but they can be requested from the listed REITs upon request.

- Corporate governance issues

- Track record of property acquisitions and disposals. During property acquisition and disposal, look out for the following issues:
  - Were the rationales given justifiable?
  - Are these actions yield-accretive?
  - Track records of property acquisition and disposal.

- Independence of realty valuator. All underlying real assets of REITs are mandated to go through annual revaluation. Is the 3rd party realty valuator related to the sponsor, trustee and/or manager?

- Track record of related party transactions. For good corporate governance practice, REITs should adopt specifically written policies with regards to related party transactions (Pica 2011). These policies should require them to explain clearly the need to engage with related parties and how the internal control procedures work towards minimizing conflict-of-interest potential (Pica 2011).

- Track record of non-preemptive rights issuance. As discussed previously, non-preemptive rights issuance heavily dilute existing unitholders. If the reason given for the non-preemptive rights issue during the time of execution is not convincing, or if there is a better alternative channel to raise the required funds; the corporate governance structure of the REIT is questionable.

- Anchor tenant. Are the anchor tenants related to the sponsor? Are the terms of rental with the anchor tenants very different from that of the average specialty tenants?

- Property management company. Is the property management company related to the sponsor? If so, how are their fees structured? Is it predominantly a flat fee or is part of the fees incentive driven?

- Frequency of conducting AGMs. How proactive is the REIT management in their communication with shareholders? AGMs provide the opportunity for unitholders to meet up with top management, voice out their doubts and question about the way

REIT manager is operating. The positive spin-offs from these stakeholder communications include encouraging the REIT manager to become more accountable (Pica 2011) to unitholders as well as providing them with an opportunity to clarify misunderstood corporate decisions. In Hong Kong, REITs are not governed by Companies law due to their trust structure. They are therefore not required to hold regular AGMs. Instead, REITs are only required to conduct EGM when there is a need to secure unitholder approval on major corporate issues. In Singapore however, it was made compulsory in January 2010 for all REITs to hold their AGM once every calendar year. The gap in between any two successive AGMs cannot be more than 15 months apart (Ma & Michayluk 2014).

- Board independence. For REITs that adopt the external manager structure, they do not have a board of directors (Ma & Michayluk 2014). Only the manager of the REIT has a board of directors. Unitholders of REITs do not have any rights to nominate, appoint or remove directors from the board of the REIT manager (Minaya 2013). However, as previously mentioned, unitholders can vote to discharge the REIT manager of its duties under certain special circumstances (Pica 2011); as listed on the Trust deed.

  Most REITs in Hong Kong and Singapore have adopted the external manager structure. In view of this, Minaya (2013) recommended specific governance requirements to be included in the licensing requirements for REIT managers. They further recommended that the board of directors should provide independent review and oversight over the REIT manager as well as how they operate the REIT. The benefits from this oversight expand beyond the shareholders of the REIT manager and benefit the unitholders of the REIT as well (Ma & Michayluk 2014).

  For REITs with internal manager structure where there is a board of directors, the following are key corporate governance issues that warrant extra attention[10]:
  - How are the board members selected?
  - Remuneration committee members and selection process

[10] *Do not that these transparent corporate governance practice is valid for the board of directors of the REIT manager as* well.

- Audit committee members and selection process
- Reporting process for the internal audit committee
- What is the percentage of independent directors on the board of directors? By definition, senior management of the REIT, sponsor and substantial unitholders are classified as related parties. In Singapore, the Code of Corporate Governance requires one-third of the board to be independent[11]. In Hong Kong, their Code of Corporate Governance specifies the needs to have at least three independent directors for listed companies. However, the regulation for Collective Investment Schemes[12] is not so specific on the requirements for independent directors. Nevertheless, all Hong Kong REIT managers have exactly three independent non-executive directors on their boards. Pica (2011) also recommended an independent chairperson whose role should be separated from that of the CEO and at the same time independent from senior management, sponsor and substantial unitholders.
- Cross directorships across related parties, in particularly across different REITs are potential zones for conflict-of-interest as well.

o REIT manager
  - External versus internal. Most REITs in Hong Kong and Singapore have adopted the external manager structure. For captive REITs, their sponsor usually owned the REIT manager. Because of that, the sponsor has complete control over the nomination and appointment of the REIT manger's board of directors (Minaya 2013). This is another potential breeding ground for conflict-of-interest between the sponsor and the unit holders of the REIT.

    And if there is an overlap of directorships between the board of the sponsor and the board of the REIT manager, the potential conflict-of-interest between the sponsor and unitholders of the REIT deepens (Ma & Michayluk 2014). Finally, if the manager of a REIT is also the mangers of other

[11] See the MAS, Guideline 2.1, in Code of Corporate Governance (July 2005).
[12] REITs came under the umbrella of Collective Investment Schemes.

REITs, the room for conflict-of-interest further deepens (Pica 2011).

- High agency costs. Ma & Michayluk (2014) has shown that external REIT manager has more propensity to gear up the REIT balance sheet resulting in future financial hardship for the REIT. A comparison of the REIT's debt to asset ratio relative to its peers should reveal the level of relative risk.

- REIT manager's compensation scheme. The overall fee structure should align the manager's interest with that of the unitholders. In other words, overall fee structure should be set up to ensure that good performance is duly rewarded while poor performance is penalized.

    - Basic salary. The usual industry practice is to peg the REIT manager fees as a fixed percentage of the AUM. This percentage ranges from 0.1~0.6 for REITs listed in Hong Kong and Singapore. This format implies that the basic fees for REIT manager is proportional to the REIT's NAV. By itself, this practice has a major flaw – it encourages REIT manager to be incentivized to grow the size instead of quality of the AUM. A larger portfolio may not always equate to more tangible benefits for unit holders (Minaya 2013).

    - Incentive bonus. Performance fees for REIT manager is usually tied to net property income. There are two major flaws inherent within this structure. First, loan interest expenses are not subtracted from net property income. This means that when net property income grows, there is a chance that distributable income for unitholders could drop if the cost of borrowing escalates (Portal *et al.* 2016 & Pagliari 2013). The manager has no intrinsic incentives to search for a favorable rate on the debt market. Second, the REIT manager could be motivated to expand the AUM at all cost, including making yield dilutive acquisitions. Since the performance fees are tied to net operating income, it does not matter to them if the distribution per share to unitholder deteriorates (Pagliari 2013).

- Is there any linkage with rental yield sustainability? The manager's incentive can be aligned with that of the unitholders through stapling it with rental yield sustainability. Take Ascendas REIT in Singapore as an example (A-REIT 2017). The performance fees for the manager is 0.1 percent of the AUM and is only payable if the growth in cash distribution per unit (DPU) for the financial year exceeds 2.5 percent. The manager is entitled to another 0.1 percent of AUM as performance fees if the DPU growth exceeds 5 percent. Ascendas REIT manger is therefore still motivated to grow the NAV while at the same time ensuring that unitholders' interests are not diluted. In the long run, rental yield sustainability becomes feasible because it is in the very interest of the manager to ensure that it stays that way.

- Acquisition and disposal fees. REIT manager is entitled to asset acquisition and disposal transaction fees on a fixed percentage basis. Pagliari (2013) lamented that these fees encourage REIT manager to "churn[13]" the real assets portfolio too frequently, at the expense of unitholders. These transactions might be DPU destructive for unitholders on one hand but highly rewarding for the REIT manager on the other hand.

- Is there any claw back clause? If so, how does it work?

▪ How many other REITs are the manager concurrently managing? A manager that operates two or more REITs at the same time may find it difficult to manage the inherent conflict-of-interest; especially during asset acquisition and disposal deals.

[13] *By "Churn", it means selling and buying assets for transaction commissions optimization purpose.*

        - Specifics on scenarios when the manager can be ousted. These must be clearly stated on the Trust deed. Beware of special clauses on the Trust deed that make it difficult for the REIT manager to be removed. There are various details to look out for on the Trust deed with regards to good practice on manger entrenchment prevention. First, the thresholds required to call for an EGM to remove the manger should not be set too high. Similarly, the required threshold to be obtained through voting among those unitholders who are present during the EGM should not be set too high as well. Second, during certain scenarios when it is suspicious that the sponsor is leveraging on their substantial shareholding to benefit themselves at the expense of other unit holders, other institutional investors might want to launch a takeover to remove the manager. During such situations, the sponsor may activate embedded pre-emptive rights (Pica 2011) to increase their shareholdings till above 50 percent to fence off the takeover attempt. It is therefore crucial to keep a watch out for pre-emptive right clause embedded in the Trust deed. For captive REITs, the manager is usually owned by or related to the sponsor, the substantial shareholding of the sponsor can already be leveraged upon to block any resolutions (Pica 2011) by other unitholders to remove the manager.

        - What is the compensation provision for early termination of the manager; as stated on the trust deed? This compensation should commensurate with that of industry average.

    - REIT adviser
        - Does the REIT employ an adviser company for property acquisition and disposal?
        - Fee structure for engaging the REIT adviser.
        - Advisory process followed by the REIT adviser.

    - REIT trustee
        - Is the trustee independent from the REIT manager?
        - Fee structure for engaging the REIT trustee

- REIT sponsor
  - Is the REIT structure captive?
  - If the structure is captive, what is the process flow for valuation during real estate transfer from the sponsor to the REIT? As previously mentioned, this is one of the most contentious corporate governance areas within the REIT industry.
  - Is the REIT manager related to the sponsor?
  - Is the REIT property management company related to the sponsor?

- Opportunities and threats

  - Real assets available for portfolio injection at reasonable prices. REITs predominantly rely on rental income from their real assets to generate DPU to REIT unitholders (Roth & Kaspar 2016). To maintain their tax transparency status, more than 90 percent of their net profit must be distributed back to unitholders. Relying on retained earnings to grow their AUM is therefore not feasible. As previously mentioned, REITs have to reply on issuing new debt and equity to raise funds for acquiring new assets (Grinis 2017). When utilizing debt financing, the rental yield of newly acquired assets must exceed the interest rate for unitholders to benefit from the asset acquisition. This goal is made tougher due to the tax transparency of REITs which implies there is no tax shield benefit from debt financing (Veld 2005). When using equity financing via rights issue to unitholders, the rental yield of the new assets must exceed the REIT's current dividend yield; failing which unitholders would be worse off. The key therefore lies in the acquisition price of the real assets. Acquiring properties at value-for-money prices would mean less pressure on the REIT manager to improve the incremental rental yields as they are most probably already above that of the REIT's rental yield. The opposite occurred for properties acquired at inflated prices. The availability of properties to be injected into the REIT portfolio by itself is therefore not enough. For asset acquisition to be yield accretive, the prices of the acquired properties must be cheap or at least reasonable.

- Presence of a sponsor. On surface, the presence of a sponsor seems favorable in enhancing the growth rate of REIT. After all, most sponsors gave their REITs a first right of refusal for any properties they cash out. This provided some support to the REITs, in the form of a steady supply of real assets, queuing up to be injected. And if potential conflict-of-interest for these related-party-transactions is a problem, the engagement of independent valuators to provide an objective assessment of the fair value for transaction can be a solution. In reality however, the truth is never further. First, realty valuation in practice is more of an art than science. There is no such thing as a completely objective valuation for property. Second, the independent valuators are funded by the REIT but are usually recommended by the manager or the sponsor. These third-party valuators are profit making organizations that owe no fiduciary duty to the unitholders of the REIT. As such, whether or not they are truly independent is fully opened for interpretation. Finally, the sponsor can always time the acquisition to occur during peak of property cycle where the market pricing benchmarks for all properties are near their peak. Hoo (2010) has found empirical evidence of the higher tendency for captive REITs to purchase properties from their sponsors during property market bull run. Subsequently, when the asset value gets write down massively during the eventual property bear market, these captive REITs will go for rights issuance to bring down the debt to asset ratio to fulfill legal threshold. As observed, all these took place at the expense of minority shareholders. The presence of a sponsor is therefore a double edge sword. For while the sponsor does indeed provide a stable source of real assets to be injected into the REIT, the motive when doing so can at times be questionable.

- Governmental policy towards the REITs industry. Government policy for REITs changes with time according to the social needs of the country. For example, during the initial stage of REIT listing in Singapore, the Government exempted REITs from paying the three percent stamp duties for (Sing 2005) any properties they acquired during the 5-year window period commencing at 2005. Further on, in 2015, MAS increased the upper debt to asset limit of REITs by 10 percentage points to 45 percent. This provided additional funding flexibilities to REITs.

Key pilot factors - Industrial:

- Pick up in consumption generates the additional need for factory and warehouse spaces to manufacture and store the goods respectively. Demand for industrial real assets is a derived need (Brookfield 2016) that is highly dependent on the economic vibrancy of other industries. Relevant industries that heavily utilized industrial real assets include aerospace, automobile, consumer electronics, food and pharmaceutical (FTSE 2017). Among these subsectors, the demand for industrial spaces is more stable for the food and pharmaceutical sectors (FTSE 2017). This is because most of their products and services constitutes non-discretionary demand. Automobile and consumer electronics on the other hand are cyclical industries. Therefore, their demand for industrial spaces tend to be more volatile. Because of that, the business model dynamics of industrial REITs can be highly variable depending on the industries composition of their tenants (Spector *et.al.* 2013). In other words, the mix of their tenant pool by industry types commands huge impacts on the economic well-being of industrial REITs.

- Consumer spending (Lazard 2016) and retail sales. As will be discussed in later section, consumer spending and retail sales make up the demand bedrock for tenants of retail REITs. These retailers in turn source their products from suppliers and manufacturers; the latter of which make up the demand bedrock for industrial REITs.

- Import/export statistics (Spector et al 2013). Goods scheduled to be transported required temporary storage in warehouses. The faster the turnover cycle, the greater the demand for smart warehouses (ZEBRA 2016). Smart warehouses provide full automation facilities in loading and unloading. Also, the tracking, storage and retrieval of goods are linked up with vendor software to provide 24/7 online services.

    - Export. Consecutive increases in export of products can be attributed to improving global trade sentiments (WTO 2015). For countries that are heavily relying on export for economic growth, export is a pertinent statistic to monitor. And as mentioned previously, goods scheduled to be transported required temporary storage in warehouses. There is hence a direct relationship between export and demand for warehouses.

- Import. For country like Singapore which does not have any natural resources to export, her manufacturing industry rely on imported raw material (UNIDO 2016). But given Singapore's small population base, internal consumption is insufficient to satisfy the local production capacity. Exporting to overseas market provides the alternative answer. That is the reason why entrepot trade started off as one of the key pillars of Singapore and remained so till today. With a vibrant entrepot trade culture, the turnover of goods at the ports and warehouses of Singapore tend to be relatively higher than most other cities (UNIDO 2016). As observed from the Singapore example, import can drive up the demand for industrial real assets. By itself however, the process is unsustainable. The host country needs to have a huge population base to consume the imported products. And even then, the host country still needs to either export sufficient service or goods to balance off its trade deficit. In other words, for import to be sustainable, there must be equivalent amount of export. For analyst and investor therefore, purely examining the changes of import figures alone is insufficient, the analysis must complement with export figures as well.

- <u>Structural changes within the local economy</u>. Changes in the structure of the local economy has huge impact on industrial REITs. Demand patterns reflect the types of industrial properties required (NSW 2006) as well as which zones will be in demand. If manufacturing demand is picking up, the demand for wide factory floor located near working class residential area would be in high demand. If trading instead of manufacturing activity picks up, the demand for high internal clearances warehouse space near the ports would be in high demand. Changes in economic structure occurred at various paces, ranging from gradual to abrupt as well as in varying sequences. Demand for industrial facilities may begin with a take up rate for warehouses during a country's Entrepot trading boom to greater needs for flatted factories when the electronic OEM industry picks up and followed by huge demand for wafer fab establishment when the semi-conductor giants take over. Eventually though, the cycle might reverse back to Entrepot trading when new technology development once again bestowed the country with a new set of competitive advantages that favor trading.

- Oil price. Oil is the raw material for many products. When economic environment is vibrant, consumption increases which in turn supports the demand for oil. Therefore, oil price or rather the trend of oil price in the absence of supply shock serves as an indicator of economic health (Voigt *et al.* 2015).

- Purchasing Manager's Index. This is one of the most watched leading indicators for the health of local economy (Yardeni *et al.* 2017). This index looks at five major areas, namely: new orders, current inventory level, production volume, supplier deliveries and unemployment rate.

- Land space dynamics. Usually, Industrial spaces cannot be used for other purposes. The same rule also applied to other real estate subsectors. During severe economic distress however, government tends to be more flexible with cross usage and even re-zoning (Song *et. al.* 2017). In other words, during peaceful time, land spaces for different usages are not substitutes for each other. During abnormal economic environment where there is over supply of land spaces in one sector, the substitutability of land spaces across multiple sectors will be revitalized (Song *et al.* 2017). Therefore, keeping a close watch on the supply environment is paramount for both analyst and investor:

    - Total stock. Supply analysis should begin with the total industrial land space available. This figure will provide a glimpse into the proportional amount of land allocated for industrial usage within the country (HK Planning Department 2016). And if time series dataset is available, analyst and investor would be able to get some sense of the on-going trend. Even better, if the occupancy data for other land usages [14] is available, the tendency for government to rezone the current land usage will become more predictable. Before embarking on these cross sectoral analyses, Staniskis & Arbaciauskas (2009) suggested to first take a look at the degree of substitutability of land spaces among the various usage categories under the industrial land use sector. The relevant statistics are:
        - Total existing stock for private multiple-usage factory (Song *et al.* 2017)
        - Total existing stock for private single-usage factory

[14] *Other land uses include residential, office and retail.*

        - Total existing stock for private business park (Wu 2009)
        - Total existing stock for public business park
        - Total existing stock for private warehouse
        - Total existing stock for public warehouse (Staniskis & Arbaciauskas 2009)
        - Total existing stock for self-storage hub (Song et al. 2017)

    - Country wide occupancy. Having taken a good look at the total land spaces allocated for industrial use, the picture is not complete without gaining a knowledge of the current occupancy rate (Leow 2017). For that, the country wide occupancy rate will illustrate the tightness of the current supply of industrial land spaces. This number should trigger the analyst and investor to question whether the current trend is short term or long run as well as the underlying rationales (Leow 2017).

    - Regional occupancy. The geographical substitutability of a real estate asset is around one-hour diameter by car. Therefore, each geographical region has its own supply and demand dynamics. Because of that, regional occupancy is another metrics that is commonly analyzed (Song *et al.* 2017).

    - Potential supply of industrial land in the future. Future supply of new industrial land space is dependent on the amount of land being zoned out for redevelopment to industrial usage (Song *et al.* 2017 & HK Planning Department 2016). In developed cities such as Hong Kong and Singapore, the three-year blueprint for land rezoning is public information. Subject to the absence of extreme market pricing volatility, these three-year blueprints are usually quite stable. The relevant statistics are usually available in the following format (JTC 2017):
        - Upcoming supply of multiple-usage factory space in gross floor area (GFA)
        - Upcoming supply of single-usage factory space in GFA
        - Upcoming supply of business park space in GFA
        - Upcoming supply of warehouse space in GFA

- <u>Inventory and stock of finished goods</u>. As one of the components that make up the Purchasing Manager's Index, inventory and stock of finished goods is a closely monitored statistic among analysts and investors (McCarthy & Zakrajsek 2002). Through monitoring the changes in stockpile of inventory, insights can be gained on the general consumption turnover. This is one of the most direct indicators that provides a glimpse of whether consumer products are moving smoothly along the value chain into the hands of consumer or are accumulatively getting stuck in warehouses.

- Diversity of tenant industry mix. As mentioned previously, industrial REITs are impacted by similar business cycles as the underlying industries of their tenants. If a huge percentage of the tenants are thriving in a particular industry, the risk exposure to that industry becomes overwhelmingly huge (Atchison & Yeung 2014). For example, if 40 percent of an industrial REIT's assets are rented out to OEM shoe manufacturers, the rental income of the REIT will be relatively vulnerable to the business cycle of shoe manufacturing industry.

- Changes in industrial property price index. This provides an average picture of the industrial REITs, relative to other real estate sector.

- Changes in transaction volume. Rapidly slowing transaction volume at high prices might be signals of tight supply at overinflated prices. This is usually not sustainable.

- Strategic positioning. Interdependence among different industry clusters. Spin-off benefits from having the entire value add ecosystem located close to one another might be great enough to offset higher rental (NSW 2006). This might explain the difference in rental rates between industrial buildings in highly developed industrial park versus that within an emerging industrial area. This clustering beneficial effect on companies in the same value chain has enabled some industrial REITs to provide additional benefits to their tenants at almost no extra cost.

- Automation facility is important for industrial real assets. A modern warehouse that offer robotic logistic supply management can speed up the efficiency of inventory management and at the same time cut down on manual labor cost (NSW 2006). For tenants that can leverage on these modern facilities, it will drastically reduce both their inventory expenses and labor costs. Indeed, just-in-time inventory system has been one of the most quoted buzz wordings in modern supply chain management because of huge improvement in automation technology.

- Access to transportation network. Proximity to major points of loading and unloading, rail and highways are important given that industrial tenants need to obtain and distribute raw material and products in a cost effective and time efficient manner respectively (NSW 2006). Do note however that specific tenants have varying needs for different type of transport. Further evidence to support the above can be found in (Oh & Shin 2016) where there is quantitative evidence for the deterministic factors for warehouse rents. These factors include wider adjacent street, as well as accessibility to expressways and nearby cities.

- Time enduring innovations. Technological changes result in better construction materials and more appealing architectural design for industrial buildings. Newer generations of industrial premises therefore tend to hold greater appeal. First, they come with newer automation technology and better fiber optics connection. Second, they are most likely custom fitted with facilities that are more relevant for modern tenants. Because of that, physical depreciation of old industrial buildings usually occurred at the fastest rate compared to those in other real estate subsectors. Technological improvements therefore speed up the rate of obsolescence of industrial buildings. A classic example would be the widespread adoption of forklift technology between 1978 and 2002. During this time period, the internal clearance of warehouses had increased on average by four meters (NSW 2006). Asset enhancement might be a plausible solution for older industrial buildings. However, it can be very costly; especially for major revamp such as the one described above. Under certain scenarios, the cost of a major asset enhancement might even be above that of rebuilding the entire structure. Therefore, it pays for both analyst and investor to be on the lookout for pending changes in technology and user requirement (NSW 2006) that would become a new standard in the near future. When that occurs, REITs with old industrial building will experience negative rental reversion.

- Government policy for attracting new industries. During the early days of nation building, Jurong Town Corporation (JTC) offers several tax incentives to multi-national companies to relocate their factories and offices in Singapore. On top of that, transport network, water treatment plants and healthcare facilities were designed, built and customized for these industrial estates in Singapore (Tan & Tan 2016). In tandem, the Government back then also undertaken draconian measures to remove the barriers in labor regulations to ease the hiring of foreign engineering talents. This move was not easy given the great tension between the government and labor unions back then (Song *et al.* 2017). Concurrently, the Ministry of Education also focused on training more engineering graduates from the local universities (Tan & Tan 2016). This series of policy changes resulted in the instantaneous availability of suitable engineering talents for the multi-national companies who relocated to Singapore to employ. And five to ten years onwards, to be backed up with locally bred engineering talents. As observed, any governmental policies to attract new industries is ineffective on a stand-alone basis. It must be drafted up as part of a comprehensive blueprint and be executable given the unique constraints imposed by the local political environment (APREA 2014). Therefore, whenever there is a new government policy coming on board, investor and analyst should analyze beyond the written content. Instead, they should focus on whether the written aspirations are indeed executable given the current political constraints. After all, most stuffs in politics are easier said than done.

Key pilot factors - Hospitality:

- <u>Changes in tourist arrival numbers</u>. Plessis & Saayman (2011) stressed on the importance of tourism contribution towards demand for hospitality REITs. Hospitality REITs operate two major classes of assets, namely hotel and service apartment. For cosmopolitan cities like Hong Kong and Singapore, hotels derive most of their revenue from overseas guests (STB 2016). These overseas guests are divided into two categories, namely business and leisure. For business visitor, I will not narrate in detail as their dynamics would be covered in later section. My focus for this section will be on the leisure visitors, also known as tourists. Tourists on average are relatively more price sensitive than business travelers. For young travelers on backpack, their preferred mode of accommodation are youth hostels or budget hotels. For most middle-class travelers, their ideal choice of accommodation can range from budget business to three- or four-star hotels. More affluent tourists and business travelers opt for five-star hotels (IHG 2015). These three groups of tourists have very different spending power.

Because of that, changes in overall tourist arrival numbers exert varying impacts on the demands for different mode of accommodation. During a general downturn in tourist arrival numbers, demand for three and four-star hotels tend to be hit harder than that of luxury five-star hotel. This is because middle class travelers accounted for the majority of tourist arrivals (IHG 2015). The bulk of any general drop in tourist arrival numbers therefore very likely originates from this group. In addition, middle class travelers are more value conscious. During a general drop in tourist arrivals, a portion of them may be lured away by steeply discounted five-star hotel room tariffs (IHG 2015) as well.

- Diversity of tourist arrival sources. For most cities, visitors from the neighboring countries usually accounted for a bulk of its tourist arrival. Regardless of whether it is leisure or business tourism, time of travel and cost of travel will always serve as the two biggest barriers for long distance travelers (Tourism Commission 2016). Tourism potential from neighboring cities therefore have strong impact on hospitality REITs. And if the hospitality REITs in country A over rely on tourists from country B, their business will be relatively sensitive to changes in political tension between the two nations (Tourism Commission 2016). As an investor of hospitality REITs, one would prefer the host nation to spend their effort in cultivating tourism traffic from various neighboring countries instead of focusing their effort to just pluck the lowest hanging fruit.

- Changes in average duration of tourist stay. Each extra day of stay by a tourist translates to an extra night of revenue for the hotel. This is the simple reason why the average duration of tourist stay is such a closely watched number for analyst and investor of hospitality REITs (Legislative Council Secretariat Research Office 2015). The spin off benefits in consumption extends well beyond the extra hotel night to food, entertainment and luxury products. Because of that, both Hong Kong and Singapore government typically set aside sizeable amount of annual budgets to run national level tourism campaigns targeted at extending the average duration of tourist stay (Legislative Council Secretariat Research Office 2015).

- Growth of disposal income (Lazard 2016). Changes in spending power of the tourists from neighboring nations will affect their ability and willingness to travel. One good example is the rise of Chinese affluent middle class during the past 20 years which have benefited many hotels and retail outlets in neighboring Japan and Korea (ECB 2014 & Prasad 2011).

- Changes in consumer sentiments (Lazard 2016). A perceived drop in future income might temporarily alters the spending mindset of tourists. The triggering catalyst might be as simple as an online rumor.

- Relative fluctuation of domestic currency with respect to US dollar. An appreciation of the host currency with respect to US dollar[15] usually means other currencies have less spending power in the host country. This is highly detrimental for both hospitality and retail REITs in the short run. The impact is most felt among the three and four-star hotels given that their client base is more price elastic (Ivanov 2014). Therefore, analyst and investor of hospitality REITs should keep a close watch on currency fluctuations.

- New development in political sensitivities. On sunny days, two nations can establish bilateral visa free immigration travel for their citizens. But when the bilateral relationship suddenly turns sour, the tourist traffic can be abruptly brought to its knees. The most classic example would be the dearth of Chinese tourists visiting Jeju Island[16] post the THAAD missile shield row between China and South Korea. Once fully occupied hotels and crowded retail stores became "ghost towns" overnight. Even during the 2017 Labor Day long weekend public holiday in China, there was hardly any Chinese tourist traffic flow. This episode also clearly illustrated the risk of over relying on a single source of tourist traffic.

- Business spending (Lazard 2016). Both five-star hotels and service apartments derive most of their rental income from business travelers and expatriates respectively. During normal times, lodging demand from these two groups is relatively inelastic. But post the global financial crisis in 2009, both financial institutions and conglomerates have drastically cut their travel budgets. The effect is most felt in the executive service apartment sector which largely serve the investment banking expatriates (JLL 2016).

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[15] *For the sake of convenience in narration, I have assumed all other currencies to remain unchanged with US dollar.*
[16] *http://www.scmp.com/news/china/diplomacy-defence/article/2092007/chinese-tourists-shun-south-korean-resort-amid-missile*

- Aggregate statistics for MICE[17] events. The demand for MICE events is highly sensitive to the business cycles of the various industries which supply the underlying demand for MICE events and the associated demand for accommodation (Tourism Commission 2016).

- Changes in the banking and finance industry business cycle and hiring preferences. Most of the demand for expatriate accommodation (Singh 2017) originates from the banking and finance industry. Because of that, changes in their business cycle and hiring preference directly affect the demand for service apartments.

- Market wide hotel occupancy trend. Saleem & AI-Juboori (2013) classified factors with an impact on hotel occupancy rate into three distinct categories – hotel characteristics, internal factors and external factors. Hotel characteristics refer to location, size and number of rooms. Internal factors include service quality, room facilities, room tariffs, service attitudes and hygiene. External factors would be the state of local economy, exchange rate, political stability and degree of rivalry.

- Expected add-on to room supply for the upcoming three years. For cosmopolitan cities like Hong Kong and Singapore, the three-year blueprint for new hotel room supply is public information.

- Disruptive innovations within the hospitality industry (Buhalis *et.al.* 2016). The most classic example would be Airbnb[18]. Airbnb does not own any hotel room. It is merely an online broker that unlock the renting potential of more than three million residential units and matching them with individual demand across 4,416 cities in 191 countries (Zervas *et.al.* 2016). Airbnb disruptive impact is most felt across the price elastic budget and three-star hotel categories. Airbnb has been in existence for less than a decade. Its maximum disruptive impact within the hospitality industry still remained to be observed.

- Gradual innovations within the hospitality industry[19]. The rise of smart phone has slowly but surely changed the way hotels are serving their guests (Kim 2012). First, it enables potential guests to seek out nearby

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[17] *MICE stand for meetings, incentives, conferencing and exhibitions.*
[18] *Dawn of Air-bnb, an Uber equivalent in the short stay lodging industry where private residential units are turned into temporary hotel rooms.*
[19] *https://www.inc.com/adam-fridman/3-ways-technology-is-disrupting-the-hospitality-industry.html*

hotels at the click of a button as well as customizing their accommodation needs on the fly. Second, when bundled with mobile app and social media, potential guests can easily compare the room tariffs of various hotels. This has made it much harder for hotels to practice price discrimination. Hospitality REITs that are able to adapt to these innovations and make beneficial use of them will capture the eyeballs of analyst and investor.

- Relevant government blueprints. As previously mentioned, national level policy and development can exert a huge impact on the demand for hospitality REITs (Ashley 2006). Examples of such include the following:
    - Enhancement of transportation infrastructure[20]
    - Enhancement of tourist hotspots
    - National tourism promotion campaign

Key pilot factors - Retail:

- Favorable surrounding amenities encourage the physical clustering of human activities in concentrated geographical pockets. Another name for these geographical pockets is prime location. Indeed, (Fongkam 2015) found quantitative evidence that being in a prime location is the most important factor for improving the value of a retail real asset. The basic must-have amenities of prime location for retail real assets include the following – presence of ATM, proximity to subway network and parking lots.

- GDP growth rate. GDP figure provides a glimpse of the total dollar value of all goods and services produced within a geographical region. GDP growth rate therefore indicates changes in the size of the local economy. It does not however provide any indication of income distribution. Nor is it an accurate measure of the total disposable income available for retail consumption (WTTC 2016).

- Perceived and/or actual wealth effect from economic growth can motivate the general population to spend more. When the general population have positive expectation for their future salaries, they are motivated to consume more discretionary products and services (WTTC 2016).

[20] *Heavily reliant on the intensity of collaboration among the relevant governmental body. In the case of Singapore, it will be Civil Aviation Authority of Singapore, Land Transport Authority and Tourism Promotion Board. In Hong Kong, that will be the Transport Department, Civil Aviation Department and Travel Industry Authority.*

- Changes in tourist arrival numbers. The positive relationship between tourist arrival traffic and demand for retail space had been narrated in the previous section on hospitality REITs. I will therefore proceed to describe briefly about the retail business environment in Hong Kong and Singapore in subsequent tourism related factors for retail REITs.

- Diversity of tourist arrival sources. Similar to hospitality REITs, if the tenants of retail REITs rely on a monotonous source of tourist arrival for their businesses, they are in a very vulnerable position. A good example would be Hong Kong retail industry. From 1997 until 2007, Hong Kong retail industry has grown by leaps and bounds, all thanks to mainland China tourist consumption. During those ten years, the middle class in mainland China underwent a stage of rapid wealth accumulation which bestowed them with the consumption power to shop in Hong Kong (IHG 2015). Topping that up with a lack of product diversity back then in mainland China, Hong Kong has strong appeal for Chinese consumers. Fast forward ten years to 2017, the retail industry environment in Hong Kong cannot be more different. First, middle class consumers in mainland China has elevated into the stage of wealth explosion where shopping in Hong Kong can no longer satisfy their needs. Demand for shopping tourism have shifted both in and out, towards major cities in mainland China as well as the cosmopolitan cities in Japan, US and Europe. Second, product diversity in mainland China is now comparable to that in Hong Kong. Topping that up with a general anti-mainland Chinese sentiment brewing among the Hong Kong residents, retail businesses that thrive on mainland tourist traffic is currently undergoing its harshest winter ever.

- Changes in average duration of tourist stay. As mentioned previously, an extra day spent by a tourist will result in more room tariffs, food consumption and shopping activity. Given her small population base, Singapore retail businesses have strong reliance on tourist spending (STB 2016). Despite having incurred a lot of efforts in their attempt to increase the average duration of tourist stay, the results have so far been mixed. These efforts include the building of two world class integrated convention centers with casinos as well as an island wide greenery revamp program. The average duration of tourist stays during 2015 was 3.7 days[21]. Without a huge hinterland of natural tourist

[21] https://www.stb.gov.sg/statistics-and-market-insights/marketstatistics/stb%20arts%202015.pdf

resources to attract visitors, it is relatively tough for Singapore to entice the average tourist to stay longer.

- Changes in tourist spending habit. Global Chinese tourist spending on retail products in 2016 declined by 17 percent[22]. On average, each Chinese tourist spent about US$986 in 2016 on discretionary product when they travel compared to about US$1,184 in 2015. The detrimental effect reverberated throughout the retail industry across the world, and as mentioned previously Hong Kong was especially hard hit. All these have occurred amid an overall increase of 3.5 percent in holiday expenditure by the Chinese tourists. In other words, even though the Chinese have spent more money on overseas trip in 2016, they are diverting more of it away from retail shopping. This is an obvious shift in tourist spending habit. For retailers to recapture these lost revenue dollars, they have to finetune their strategy to create a new shopping experience that will appeal to the new spending habits of Chinese tourists (IHG 2015).

- Relative fluctuation of domestic currency with respect to US dollar. The impact from domestic currency appreciation on tourist spending power has been narrated in detail for hospitality REITs. Being part of the entire tourism ecosystem, retail REITs are similarly affected (Singh 2017).

- New development in global political sensitivities. Similar to hospitality REITs, the tourist revenue of retail REITs' tenants is affected by sensitive political issues involving the host nation and the neighboring countries (Ashley 2006).

- Hiring trends among core retail demand sectors[23]. The big spenders of luxury consumer goods predominantly come from white collars working in the banking and finance industry. Changes in hiring trends within these industries have profound impact on the retail consumption of luxury consumer goods. Retail REITs with real assets in prime locations that house luxury brands are therefore more affected relative to retail REITs with real assets in the heartland areas (Fishbin & Roth 2014).

[22] https://www.bloomberg.com/news/articles/2017-07-10/-buy-buy-buy-is-no-longer-the-mantra-of-the-chinese-*tourist*

[23] *These sectors include banking and finance, commerce and other professional services.*

- Residential property market buoyancy. Bullish property market generates a sense of wealth effect which encourage shopping behavior (BOCHK 2014). Conversely, during bearish property market, consumers feel "poorer" and therefore more reluctant to spend on discretionary products.

- Trend of median income. Unlike hospitality REITs, a major portion of retail REITs income stream comes from local consumption. In short, most tenants of retail REITs derived their revenue dollar from local consumption rather than tourist dollars. The trend of median income therefore has a bigger impact on the rental rate of retail REITs relative to tourist arrival number (Bughin *et al.* 2016).

- Changes in consumer spending[24] (Lazard 2016). Ceteris paribus, a rise in median income should lead to an increase in retail spending (Fishbin & Roth 2014). The distribution of this increase in retail spending however can be relatively uneven across different categories of products. Relevant deterministic factors include changing demographics, better education, and technological enhancement (Bughin *et al.* 2016). Retail REITs need to maintain and finetune the appropriate tenant mixes as well as indulging in shopping mall level promotional campaign to attract the appropriate human traffic flow.

- Changes in Consumer Price Index (Lazard 2016). Consumer Price Index provides one of the most visible statistics that reflects inflation. When the increase in consumer price index is faster than that of median income, consumers might feel "poorer" and more reluctant to shop for discretionary products and services. Conversely, the opposite scenario may lead to a perceived wealth effect that can encourage more discretionary consumption.

- Deflationary risk or the perception of deflation. Contrary to changes in Consumer Price Index which provided lagged data point, market sentiments or perception of future prices are forward looking. If there is consensus that prices of goods and services will be cheaper in the future, the general population will be more inclined to save more and spend less (Fishbin & Roth 2014). This may not spell well for retail REITs.

[24] *Retail REITs usually adjust tenants' rental based on the latter sales growth rate.*

- Population growth rate (Lazard 2016). A young and growing population contributes fresh blood for discretionary consumption. The opposite logic unfortunately also runs for an aging population where overall consumption on discretionary product declines. The distribution of this decline in consumption however is uneven. Take Japan for example, the spending on discretionary product and services has gradually shifted from childcare to elderly care, from middle class tour package to luxuriously customized guided tour and from sport car to luxury automobile (Fishbin & Roth 2014).

- Changes in country wide retail net absorption (occupancy). In cosmopolitan cities such as Hong Kong and Singapore, occupancy rates of shopping malls usually hover above 90 percent during normal market environment. Occasional draconian changes in occupancy rates do occur during economic recession and/or systemic black swan events in the finance industry (IMF 2016).

- Changes in country wide new retail space supply. As mentioned previously, the three-year blueprint of new retail space supply is public information for both Hong Kong and Singapore (Murray 2013). Given the land scare situation in these two geographical regions, any abrupt rezoning of land for retail usage is unlikely. In addition, the expected add-on retail space for the upcoming three years is another key statistic.

- Occupancy and tenancy turnover. Relative to other types of REIT, occupancy and tenancy turnover rate of retail REITs in both Hong Kong and Singapore is not a critical factor (PwC 2016) during investment analysis. The only exception is during times of distress such as the SARs outbreak in 2003 and global credit crunch in 2009 where landlords trim down rental rates to improve occupancy.

- Innovation within the industry[25]. Nowadays, overseas products can be ordered online and delivered to the doorstep of their customers within three days. In addition, most of these products are consumption tax free and do not incurred any shelfing expenses. Compared to similar products in local bricks and mortar shops therefore, these online goods have distinct cost advantages. Indeed, the proportion of total tourist spending in APAC contributed by retail shopping has declined to 33

[25] The dawn of E-commerce platforms such as Qoo10, Ebay, Amazon and Alibaba.

percent in 2016 relative to 41 percent in 2015[26]. This decline in retail shopping has taken place even though total tourist spending in APAC has increased by 4.4 percent to US$ 261 billion in 2016. Because of this subtle shift in preference from physical retail consumption to online retail purchasing, LaoxCo – a duty free retail chain in Japan has reported a 33 percent drop in revenue during 2016 while Macy – a mega retail outlet in US has shut down 14 percent of its physical stores to curb its revenue hemorrhage (Macys 2017). Retail REITs must remain cognizant of disruptive innovation within the industry and work closely with their tenants to recreate shopping experience that can rival online consumption.

- How successful is the promotional campaign across the entire shopping mall flagship? Collective store decoration and promotional program executed at the shopping mall level can make a huge difference on crowd flow and customer experience. Even conventional activities such as lucky draw, live musical show and mini-circus performance can recreate a relax atmosphere to evoke shopping behavior. Do note however that pertaining to store decoration and sales promotion campaign, there is always a risk of overdoing - where doing more is not always beneficial. Indeed, the type of retail consumption style dictates the appropriate store layout, arrangement of goods (Fongkam 2015) and promotional activities. What is appropriate for a high-end luxury mall may not be suitable for a heartland middle class mall.

- Thematic shopping mall and vendor management[27]. When vendor management is optimized, the variety of goods and services should fulfill most consumption needs of the target customer group. That is basic and foundational. To differentiate themselves from other shopping malls, being able to provide a pleasurable shopping experience (Fongkam 2015) is also crucial. When executed well, this can result in a sizeable pool of return customers and eventually a stable customer base.

- Strategic asset enhancement initiative. As mentioned previously, the ability to recreate a pleasurable shopping atmosphere is crucial for shopping malls. This is particularly relevant within the retail REIT

[26] https://www.bloomberg.com/news/articles/2017-07-10/-buy-buy-buy-is-no-longer-the-mantra-of-the-chinese-tourist

[27] Coming up with a strategic mix of luxury, established home grown and niche retail brands that is appropriate for the geographical location and neighboring population culture can be a competitive differentiation factor.

sector where shopper experience is a dominant factor that triggers consumption. While thematic vendor management is useful, it still has to take place within the physical confine of the shopping mall. If the shopping mall is under renovated and functionally mismatched with the theme, the impact from a successful thematic vendor management will take a huge discount (LINK 2017). To back up this argument, Jeong (2011) found quantitative evidences where building age of retail malls exerted a significant influence on their prices. In other words, building age is inversely proportional with rental rates which reflects the great need for old building to undergo asset enhancement. Suntec REIT's major renovations during 2015 is a classic example of a relatively successful asset enhancement initiative.

- Tenant mix optimization. Having the appropriate vendor mix is paramount for shopping malls (PwC 2016). Within the industry, the term for this is thematic tenant mix. After successful execution, a particular shopping mall should become iconic for a specific type of retail consumption style. For instance, paragon shopping mall in Singapore is well-known for hosting a comprehensive suite of top end luxury brands; the equivalent in Hong Kong would be IFC. All in, the optimal outcome for retail shopping mall (Fongkam 2015) occurs when the name and brand image is more often associated with the specific shopping theme rather than the name of the mall or REIT.

- Relevant government blueprints:
    - Enhancement of transportation infrastructure (Ashely 2006)
    - Enhancement of tourist hotspots[28]
    - National tourism promotion campaign

Key pilot factors - Office:

- Physical clustering of human activities in concentrated geographical pockets. Office REITs usually concentrate their real assets in three zones, namely CBD, outer CBD and outlying business parks (JLL 2014). Office buildings in CBD mainly housed the front office of banks and financial institutions, regional headquarters of conglomerates as well as professional practices such as law firms and private medical clinics (JLL 2014). Office buildings in outlying business parks housed the back

[28] An example is the up and coming Changi Airport Terminal 4 in Singapore that will contribute 159,100 square feet of new retail space.

office of banks and financial institutions, small and medium enterprises, working office of start-ups as well as the administrative units of businesses. The outer CBD zone falls some way in between. As observed, an office building can house a wide spectrum of tenant type, the mixture of which changes with the zone it is in. The industry of each tenant type comes with a unique set of demand and supply dynamics. Analyst and investor should therefore be cognizant on these underlying unique demand and supply dynamics that are affecting the occupancy of the office REITs.

- Changes in unemployment rate. According to (Spector *et al* 2013), job growth has always remained the key driver of office space demand.

- Hiring trends among the core demand sectors. Changes in unemployment rate only provides a proxy for the overall labor environment. These changes in practice are not distributed evenly among the various industries. Granular information on hiring trends among the various core demand sectors for office units therefore holds more value for analyst and investor of office REITs (Wright 2016).

- Corporate profits outlook (Lazard 2016). Another source of information that can be used to gauge the business outlook of office tenants, particularly for office REITs with real assets in the CBD. If more granular information such as revenue and profit growth rates for the various core demand sectors for office REITs can be obtained, the analysis will be more thorough.

- Changes in GDP. As previously mentioned in the retail REITs section, GDP figure provides a glimpse of the total dollar value of all goods and services produced within a geographical region while GDP growth rate indicates changes in the size of the local economy. Compared to retail REITs, changes in GDP has bigger impact on office REITs given that business outlook is heavily correlated with GDP figures.

- Changes in country wide office net absorption (occupancy) as measured in square feet on annual, three-year and five-year basis. Through examining how occupancy rate of office REITs have changed in tandem with national average, their relative performances can be uncovered and where appropriate, made visible the underlying bottlenecks (Adnan 2010).

- Changes in country wide office space supply as measured in square feet. Ceteris paribus, comparing the trend of office space supply during the past five years with the occupancy rates of office REITs during the same period will provide a glimpse of how robust their operational models have been. And once we add in pro-forma data in the form of expected add-on office space for the upcoming three years, relatively accurate assumptions can be made in the financial projection model of these office REITs (Zialcita 2016).

- Occupancy and tenancy turnover rate (Long 2014). As usual, analyst and investor aspire to compare office REITs occupancy and tenancy turnover rate with national average. Through relative comparisons, both strengths and weaknesses of the office REITs can be better understood.

- Substitutes for CBD spaces in the outlying area. Post the global credit crunch in 2009, there have been a rising trend of back office migration from CBD to the outlying zone. The number one rationale for doing so is cost savings given the rental rate of business parks in outlying zone is merely a fraction of that in CBD. Also, by locating the back office closer to heartland residential area of the middle class, it is easier to attract talented employees. Going forward, this trend of substitution is expected to gather greater pace once the full impact of future advancement in transport mobility (Deloitte 2016) kicks in. Gradually, with the adoption of driverless car, the livable zone for commuters working in the CBD will be enlarged dramatically. Even the effective area of CBD itself will be enlarged. These will increase the degree of substitutability between the spaces in outlying areas versus the CBD zone (Zialcita 2016).

- Average lease maturity – what percentage of tenants are on long term lease?[29] Cheah *et al* (2015) found empirical evidence that tenancy duration is inversely proportional to rental charged. The inquiry also recommended adopting tenancy duration as a price discriminator[30]. The effect is especially prominent during property bear market. Therefore, office REITs that adopt the right strategy will enjoy longer tenancy duration and hence lower turnover costs.

[29] More than 5 years.
[30] Charging longer lease tenant lower rent in exchange for stability of rental income during property bear market.

- Innovations within the industry[31]. Shared workspaces or co-working space have been touted as the Airbnb[32] of the office real estate (Zervas *et al.* 2016) industry. Shared workspaces allow co-workers from different companies to work in an open space location. This mode of office operation is relatively popular among entrepreneurs, contractors and freelancers. Office REITs who have real assets in the outlying zone will find it beneficial to tap onto this evolutionary trend. Other potential innovations affecting the office REITs include the internet of things, 3D printing and future advancement in transport mobility (Deloitte 2016).

- Tenant characteristics (Cheah *et.al.* 2015). Bigger sized firms are usually able and willing to pay premium rents for a better office environment. The rationale is that these firms believe in the culture of providing their employees a pristine working environment. They view their employees as core resources to sustain the competitive advantage of their business models. Office REITs aspiring to earn premium rental income must therefore ensure their asset enhancement program is regular, up-to-date and delivering what these bigger sized firms need (Hills & Levys 2014).

- Green building certification. Eichholtz *et al* (2013) has uncovered significant positive impact of green certification on rental performance. The exact rationale behind is not conclusive but is probably related to both cost savings and the rise of ESG consciousness during the recent decade (Aulin & Elland 2013).

- Buildings with smart units, modern facilities and efficient maintenance services command higher rents. Office REITs that provide smart units can collect higher rents. Features such as ultrahigh speed internet, remote control of basic building functions on smart phones and efficient security automation can be attractive selling points for modern tenants. Especially those in the fintech industry. Indeed, the ability of the property manager to provide desirable services and facilities at affordable rents play a pivotal role in differentiating themselves from

[31] One good example is the partnership between Capital Commercial Trust and co-working space operator – Collective Works. This partnership involved the redevelopment of the entire 12th floor at Capital Tower into a 22,000 square feet co-working space sufficient to house up to 250 companies. It is expected to attract small office space demand from the fin-tech, social media, venture capital and other niche sub sectors. Commercial REITs that are unable to evolve their business models to accommodate such new megatrend underlying demand dynamics will face strong headwinds during the next economic downturn.
[32] https://www.reit.com/news/reit-magazine/november-december-2016/office-reits-housing-innovation

competition (Adnan 2010). These services and facilities go beyond smart units to also include reasonable security and access control, responsive maintenance team as well as sufficient and accessible car parking space. Another desirable benefit which spun off from all these features is a prestigious building image and identity. In the same research, Adnan (2010) has found evidence of rent premium associated with better building image and identity. Also, well-resourced tenants tend to be more sensitive to these facilities and services (Cheah et al 2015). For office REITs who aspire for premium rental rate and low tenant turnover, they should ensure these facilities and services are well kept, maintained, and strategically enhanced where necessary.

Appendix 7aii – Pilot questioning framework

Pilot Questions for the REIT industry – General:

1. Macroeconomics and demographics
    a. Is the economic growth rate in your target markets sustainable?
    b. If not, how will it impact upon your business model in both the short and long run?
    c. Is widening income inequality in your target markets influencing your business strategy? How are you coping with it?
    d. Is traffic congestion a serious problem in your target markets?
    e. If so, how have it impacted upon your business model and how you intend to cope with it?
    f. How are the property business cycles in your respective target markets? Are you coping well with all the headwinds?
    g. All REITs are affected by the threat of an interest rate hike. How are you coping with this imminent threat? Or rather, is this an imminent threat in your point of view?
    h. Tell us more about the FOREX rate volatilities that your business model is being exposed to. Did you undertake any hedging? If so, how did you do it? What are the associated expenses? How much would that be? And what are the residual risks?
    i. Tell me more about the demographics profile in your target markets? Within the next 5 to 10 years, how would these demographics changes impact on your business model?
    j. Is migration a key factor in your business model?
    k. Is the government immigration policy in your target market favorable for your business model? Are there any anti-foreign resident sentiments building up among the masses in your target market?

2. Short term demand and supply dynamics.
    a. How are the short-term demand and supply dynamics of your target markets affecting your business model?
    b. Is there anything we as investors should take not of; especially pertaining to market sentiments.

3. Scale[33] related factors

[33] The greater the AUM, the more prominent the scale effect.

a. What is the size of your average AUM for every unit of expense paid out as management fees? I hope to gain some sense of the scaling benefit in terms of reduction in management fees.
b. What is your average cost of debt financing? Can you provide a range?
c. Why is there such a wide range? (If the range is too wide) Can you explain?
d. Does size (in terms of AUM) exert any influence on your relationship with anchor tenants? Is it always the bigger the merrier?
e. In terms of asset class, both pure play and diversified mode have their respective pros and cons. How do you strike an optimal balance between these two operational styles?

4. Operational efficiency and efficacy
    a. Will there be rental reversion in the near term, mid-term, and long term? What is the underlying logic?
    b. How did you achieve above market rental reversion? (if any).
    c. Please describe your lease renewal strategy.
    d. What are your asset enhancement strategies? Track records, near future and in the long run.
    e. How stable was your dividend payout history? What strategies did you deploy to maintain stability in DPU?
    f. Please share with me the yield accretive acquisitions you have undertaken. (if any). How did you convince the property owners to sell you at such an attractive price?

5. Physical asset attributes
    a. Please describe the locational advantages of your prime assets.
    b. Would your prime assets be affected by any future developmental work by the local government? If so, please describe them in detail.
    c. Are your prime assets exposed to catastrophic risks? If so, what did you do to mitigate them?
    d. Is having modern facilities a major selling point of your physical assets? If so, please provide the examples.
    e. For diversified REITs - How did you minimize the structural disadvantage associated with your diversified asset portfolio?
    f. Please cast some light on your rental lease expiry profile. Is it well staggered?

g. Do you rely on anchor tenants to stabilize the rental income for your prime assets? If so, how much discount in rental rate have you given them?
h. Can I have some sense of where you currently stand from market average in terms of occupancy and rental rate?

6. Financial metrics
    a. Can you provide a snapshot of your annual FFO and or adjusted FFO per share for the past five years? What is the definition of recurring capital maintenance expenses?
    b. Can you provide a snapshot of your annual DPU for the past five years?
    c. Is your debt profile sufficiently staggered? Can you provide the break down?
    d. Is your debt gearing ratio healthy? How do you intend to finance future property acquisition?
    e. Would you like to explain why your price-to-book value per share is above/below market average?
    f. Can you provide a snapshot of your annual net asset revaluation per share for the past five years?

7. Corporate governance issues
    a. During EGMs for asset acquisition and disposal, voice out the following questions (if relevant) to management:
        i. What are the rationales for undertaking such yield destructive acquisition?
        ii. You seem to have a long history of acquiring properties at inflated prices. Can you provide the reasons for doing so?
    b. Can you share with me the process of selecting the realty valuator during annual property valuation? Who makes the final selection decision?
    c. With regards to related party transactions, are there sufficient internal safeguards to mitigate potential conflict-of-interest?
    d. Are there any track records of non-preemptive rights issuance?
    e. For REITs with internal managers:
        i. How are the board members selected?
        ii. How are the remuneration committee members selected?
        iii. How are the audit committee members selected?
        iv. Can you describe the internal audit reporting process?
        v. How independent are the board of directors?

    vi. Did any of the director seat on the board of other REITs?
f. Is the REIT structure captive?
g. If the structure is captive, what is the process flow for valuation during real estate transfer from the sponsor to the REIT?
h. Are there any anchor tenants that are related to the sponsor? If so, what is the percentage discount in rental rates relative to that of average specialty tenants in the same building?
i. Is the property management company related to the sponsor? How are their fees structured? Is it predominantly a flat fee or is part of the fee incentive driven?
j. Do you engage an advisor? If so, how is the compensation being structured? And is the advisor related to the sponsor?
k. Is the trustee independent from both the REIT manager and the sponsor? And how is the compensation being structured?
l. Is the REIT manager related to the sponsor?
m. Is there any overlap in directorship between the board of the sponsor and the board of the REIT manager?
n. Does the REIT manager manage other REITs concurrently?
o. Can you describe the compensation scheme of the REIT manager?
    i. Is the base salary derived as a fixed percentage of total AUM?
    ii. If so, how much would that be?
    iii. Is there any measure put in place to prevent the manager from amassing AUM for its own benefits?
    iv. How does the incentive bonus award work? Is there a proportional relationship between incentive bonus and DPU?
    v. Can you provide a breakdown of the percentage of remuneration that is derived as a fixed percentage of total AUM versus incentive bonus during the past five years?
    vi. How will the manager be awarded during property acquisition and disposal?
    vii. Is there any measure put in place to mitigate devious property churning?
    viii. Is there any claw back clause for the bonus incentive portion? If so, how does it work?
p. Can you describe the circumstances within which the manager can be replaced?
q. Can you also describe the process flow for ousting a manager?
r. During the removal of the REIT manager, is there any golden parachute? If so, does the compensation commensurate with industry average?

s. Is there any embedded clause on the trust deed that could be utilized by the sponsor to issue pre-emptive shares to themselves to fence off hostile takeover?

8. Opportunities and threats
    a. Can you provide some visibility of the assets available to be acquired in the near future? Are these potential acquisitions rental yield accretive?
    b. Can you provide some guidance on the pipeline of assets that will be acquired from the sponsor?
    c. Are the governmental policies in your key markets favorable for your business model? Please narrate with specific explanations.
    d. Are these governmental policies in your key markets feasible for implementation? Please narrate with specific explanations.

Pilot Questions for the REIT industry – Industrial:

1. Demand side
    a. Is your business model highly correlated with consumer spending across the respective geographies?
    b. If so, how are the consumption outlooks in these key markets?
    c. What are the key sectors underpinnings your tenant mix?
    d. To what extent is your business model influenced by the intensity of export and import activities in your key markets? Can you elaborate more on how they work?
    e. Are there any structural changes within the local economy of your key markets that are expected to have huge impact on your business mode?
    f. How does oil price correlate with your business model?
    g. Do you keep a close watch on the Purchasing Manager's Index in your key markets? If so, can you briefly discuss how you strategized your three-year plan with the information obtained from the Purchasing Manager's Index.
    h. Do you closely monitor the subtle changes in inventory and stock of finished goods statistics across your key markets? How does the information fits into your three-year strategic plan?

2. Supply side
    a. How is the land space dynamics evolving in your key markets? Especially pertaining to changes in occupancy across the various industrial land use sub sectors as well as across other non-

industrial land use sectors. Relative to the market, how did your occupancy rates fare?
    b. How has the average tenancy turnover rate changed during the past five years?
    c. Are different industrial land use sectors good substitutes for each other in your key markets?
    d. Are you affected by re-zoning at the country wide level?
    e. Based on existing government blueprint, is there any significant increase in new industrial land space across your key markets
    f. How do you mitigate all the above potential supply side risks?

3. Asset specific issues
    a. How diversified is your pool of tenant mix?
    b. Are your tenants interdependent to each other to reap the benefits from proximity cluster across your key markets? Please elaborate further.
    c. Is facility automation one of your key selling points? Please explain with examples.
    d. How are your key assets faring in terms of having access to transportation network? Detailed examples would be great.

4. Opportunities and threats
    a. Do you agree that the industrial REIT sector is relatively more vulnerable to physical asset depreciation compared to other sectors such as office, retail and hospitality?
    b. How are your key assets coping with asset enhancement?
    c. Are there any major disruptive innovations that are expected to have a huge impact on existing industrial REITs?

Pilot Questions for the REIT industry – Hospitality:

1. Demand side
    a. Does changes in tourist arrival statistic exert strong impact on your business model?
    b. Can you share with me the geographical diversity of your guest pool? Are you particularly reliant on guests from a specific country?

c. On average, how many nights does each guest stay for a trip? For the past five years, how has this trend evolved?
d. How have the spending power of your guests changed over the past five years?
e. Has currency fluctuation exerted strong influence on your business revenue?
f. Are you affected by any new development in geopolitical sensitivities?
g. Are changes in business spending affecting your business model?
h. Is there a secular shift in the hiring preferences within the banking and finance industry? If so, how would it affect your business model?
i. Do you derive a big portion of your guest traffic from MICE events? If so, do you foresee any changes in the demand for MICE events?

2. Supply side
    a. How has the market wide occupancy rate been evolving in your key markets during the past five years? How has your occupancy rate been faring when compared to it?
    b. How is the add-on room supply trend in your key markets for the upcoming three years?
    c. Is your business model heavily affected by Airbnb? Do you foresee any other disruptive innovations within the hospitality REIT industry?

3. Relevant government blueprints
    a. Are the government in your key markets doing anything to improve their transportation infrastructure?
    b. Are the major tourist hotspots in your key markets undergoing any major physical enhancement?
    c. Are the government in your key markets launching any tourism promotion campaign?

Pilot Questions for the REIT industry – Retail:

1. Demand side
    a. Does changes in GDP statistics correlate strongly with your top and bottom lines?
    b. Have you experienced a change in consumption sentiments among the mass population in your key markets? Is the shift in

consumption sentiments due to real or perceived changes in general wealth?

c. Is the revenue in from your key markets sensitive to changes in tourist arrival numbers?
d. For the key markets that are relying heavily on tourist traffic; are the sources of tourist arrival well diversified or concentrated among a few locations? If concentrated among a few locations, which are those?
e. For the key markets that are relying heavily on tourist traffic; is there a subtle shift in spending habit? If so, how do you intend to cope with it?
f. Is FOREX fluctuation a major concern for your business model? Please elaborate.
g. Are there any geopolitical sensitivities brewing in the background that are expected to be detrimental for your key markets?
h. Are your key markets sensitive to subtle shifts in the hiring trend within the banking and finance industry?
i. In a bullish residential market, do consumers spend more on discretionary products? Did you encounter the same experience in your key markets?
j. Is there a positive relationship between the level of median income in your key markets and your revenue?
k. Have you experienced changes in consumer spending across your key markets that are the results of changing demographics, educational level and/or technological evolution? How did you cope with them?

2. Supply side
    a. Can I have some sense of the country wide retail net absorption rates for the past five years across your key markets? Relative to the market, how did your occupancy rates fare?
    b. For the next three years, are you expecting significant amount of add-on retail spaces across your key markets? If so, how would you cope with it?
    c. How has the average tenancy turnover rate changed during the past five years?

3. Asset specific

a. Is online shopping platform given your business model a run for your money? How has it affected your respective key markets? How do you intend to deal with it?
b. What are the key surrounding amenities you look for when acquiring a shopping mall?
c. Do you conduct thematic promotional campaign that cut through all your assets in each key market? Has it been successful?
d. Can you provide some insights on how you undertake thematic vendor management in your key markets? In other words, how do you optimize your tenant mix?
e. How do you decide which asset to undergo physical enhancement? What do you look out for during asset physical enhancement?
f. Can you narrate on the asset enhancement blueprints for the next three years across your key markets?

4. Relevant government blueprints
    a. Are the government in your key markets doing anything to improve their transportation infrastructure?
    b. Are the major tourist hotspots in your key markets undergoing any major physical enhancement?
    c. Are the government in your key markets launching any tourism promotion campaign?

Pilot Questions for the REIT industry – Office:

1. Demand side
    a. Can you provide some details on the geographical zoning of the physical assets across your key markets? Are they concentrated in the CBD, outer CBD or outlying business park regions?
    b. Are changes in unemployment rate the critical drivers behind office space demand across your key markets? If so, please provide a detailed narration of your worst and best key markets on this aspect.
    c. Are changes in corporate profits outlook exerting a big impact on the business models across your key markets? IF so, please provide a detailed narration of your worst and best key markets on this aspect.
    d. Do changes in GDP statistics correlate strongly with your top and bottom lines? Which are the key markets whose occupancy rates

have demonstrated exceptional sensitivity towards changes in GDP?

2. Supply side
    a. Can I have some sense of the country wide office net absorption rates for the past five years across your key markets? Relative to the market, how did your occupancy rates fare?
    b. For the next three years, are you expecting significant amount of add-on retail spaces across your key markets? If so, how would you cope with it?
    c. How has the average tenancy turnover rate changed during the past five years?
    d. Across your key markets, do you see a significant shift of office demand out from CBD to the outlying zone? If so, how have your business model been affected? And what are you going to do about it?

3. Asset specific
    a. What is the average lease maturity?
    b. Is your business model under the challenge of disruptive innovations? If so, what are they? And how do you intend to cope with them?
    c. Can you briefly describe your tenant characteristics? Are you collecting premium rental rates from them? If so, why are you able to do so?
    d. Does getting green building certification enhances your ability to collect premium rent? If so, can you narrate with some examples?
    e. When it comes to collecting premium rent rates; what are the other factors that your business model has successfully relied upon?

Appendix 7b - First draft questioning framework

Concise question set (General):

- How are the macroeconomics environments in your major markets? Are they challenging or favorable to your business model?
- How about the impact from changes in local demographics?
- How tolerant are you towards a general hike in interest rates?
- Can you provide us with some sense of the short-term demand and supply dynamics in your key markets?
- I hope to gain some sense of the scaling benefit in terms of reduction in management fees. What is your management fees to AUM ratio?
- What is your average cost of debt financing?
- Do you expect positive rental reversion in the near future?
- Can you share with us your asset enhancement strategies?
- Please share with us the yield accretive acquisitions you have undertaken (if any). How did you convince the property owners to offload at such attractive pricings?
- Please cast some light on your rental lease expiry profile. Is it well staggered?
- Can I have some sense of where you currently stand from market average in terms of average occupancy and rental rate?
- Is your debt gearing ratio healthy? How do you intend to finance future property acquisitions?
- Can you provide a snapshot of your annual net asset revaluation per share for the past five years?
- With regards to related party transactions, are there sufficient internal safeguards to mitigate potential conflict-of-interest?
- Are there any track records of non-preemptive rights issuance?
- For captive REIT only - Is the property management company related to the sponsor? How are their fees structured? Is it predominantly a flat fee or is part of the fee incentive driven?
- Is there any overlap in directorship between the board of the sponsor and the board of the REIT manager?
- Can you describe the compensation scheme for the REIT manager?
- Is there any embedded clause on the trust deed that could be utilized by the sponsor to issue non-pre-emptive shares to themselves to fence off hostile takeover?

Concise question set (Industrial):

- Is your business model highly correlated with consumer spending across the respective geographies?
- What are the key sectors underpinnings your tenant mix?
- Are there any structural changes within the local economy of your key markets that will exert huge impact on your business model?
- How is the land space dynamics evolving in your key markets?
- Relative to the market, how did your occupancy rates fare?
- How diversified is your pool of tenant mix?
- How are your key assets coping with asset enhancement?
- Are there any major disruptive innovations that are expected to have a huge impact on existing industrial REITs?

Concise question set (Hospitality):

- Can you share with me the geographical diversity of your guest pool? Are you particularly reliant on guests from a specific country?
- Has currency fluctuation exerted strong influence on your business revenue?
- Are changes in business spending affecting your business model?
- Is secular shift in the hiring preferences within the banking and finance industry affecting your business model?
- Do you have any contingency plans for catastrophic events such as disease outbreak and terrorist attack?
- How is the add-on room supply trend in your key markets for the upcoming three years?
- Is your business model heavily affected by Airbnb? Do you foresee any other disruptive innovations within the hospitality REIT industry?

Concise question set (Retail):

- Have you experienced a change in consumption sentiments among the mass population in your key markets?
- Is the revenue from your key markets sensitive to changes in tourist arrival numbers?
- Is there a positive relationship between the level of median income in your key markets and your revenue?

- Can I have some sense of the country wide retail net absorption rates for the past five years across your key markets?
- Relative to the market, how did your occupancy rates fare?
- For the next three years, are you expecting significant amount of add-on retail spaces across your key markets?
- How do you decide which asset to undergo physical enhancement? What do you look out for during asset physical enhancement?
- Is the rise of online shopping platform given your business model a run for your money? How has it affected your respective key markets? How do you intend to deal with it?

Concise question set (Office):

- Do changes in GDP statistics correlate strongly with your top and bottom lines? Which are the key markets whose occupancy rates have demonstrated exceptional sensitivity towards changes in GDP?
- Are changes in unemployment rate the critical drivers behind office space demand across your key markets? If so, please provide a detailed narration of your worst and best key markets on this aspect.
- Are changes in corporate profits outlook exerting a big impact on the business models across your key markets? If so, please provide a detailed narration of your worst and best key markets on this aspect.
- Can I have some sense of the country wide (and where applicable city wide and district wide as well) office net absorption rates for the past five years across your key markets? Relative to the market, how did your occupancy rates fare?
- For the next three years, are you expecting significant amount of add-on retail spaces across your key markets? If so, how would you cope with it?
- What is the average lease maturity? Is it well staggered?
- Is your business model under the challenge of disruptive innovations? If so, what are they? And how do you intend to cope with them?

Detailed question sets:

First draft questions for the REIT industry – General:

1. Macroeconomics and demographics
    a. Is the economic growth rate in your target markets sustainable?
    b. How would a deviation in your forecasted growth rate impact your business in the short and long run?
    c. There has been evidence of widening income equality across the world, how does this affect your business strategy?
    d. Is traffic congestion a serious problem in your target markets?
    e. How are the property business cycles in your respective target markets? Are you coping well with all the headwinds?
    f. All REITs are affected by the threat of an interest rate hike. How tolerance is your business model towards a general hike in interest rate, in terms of both magnitude and duration?
    g. What measures can be taken to mitigate the impact of an interest rate hike?
    h. Tell us more about the FOREX rate volatilities that your business model is being exposed to. Did you undertake any hedging? If so, how did you do it? Please quantify your hedging cost as a percentage of the operating income and/or operating expenses.
    i. Is there a natural hedge between your source of financing and your operating cash flow?[34]
    j. Tell me more about the demographics profile in your target markets? Within the next 5 to 10 years, how will these demographics changes impact your business?
    k. Is migration a key factor in your business model?
    l. Is the government immigration policy in your target market favorable for your business model? Are there any anti-foreign resident sentiments building up among the masses in your target markets?

2. Short term demand and supply dynamics.
    a. How are the short-term demand and supply dynamics of your target markets affecting your business model?
    b. Is there anything we as investors should take note of; especially pertaining to market sentiments.
    c. Is there any regulatory issue that is affecting the short-term demand and supply dynamics?

[34] Natural hedge occurs when a REIT's property is in a country similarly to its debt provider.

3. Scale[35] related factors
    a. I hope to gain some sense of the scaling benefit in terms of reduction in management fees. What is your management fees to AUM ratio?
    b. What is your average cost of debt financing? Can you provide a range?
    c. Why is there such a wide range? (If the range is too wide) Can you explain[36]?
    d. Does size (in terms of AUM) exert any influence on your relationship with anchor tenants? Is it always the bigger the better?
    e. In terms of asset class, both pure play and diversified mode have their respective pros and cons. How do you strike an optimal balance between these two operational styles[37]?
    f. How many properties have you acquired over the last three years?

4. Operational efficiency and efficacy
    a. Will there be rental reversion in the near term, mid-term, and long term? What is the underlying logic?
    b. How did you achieve above market rental reversion? (if any).
    c. Please describe your lease renewal strategy.
    d. What are your asset enhancement strategies? Track records, near future and in the long run.
    e. How stable was your dividend payout history? What strategies did you deploy to maintain stability in DPU?
    f. Can I have a feel of the dividend yield that most of your institutional investors are expecting? What is your strategy to meet or perhaps exceed this expectation?
    g. Please share with me the yield accretive acquisitions you have undertaken? (if any). How did you convince the property owners to sell you at such an attractive price?
    h. When scouting for properties to acquire, what are the key attributes[38] you typically look at behind making the final decision?

[35] The greater the AUM, the more prominent the scale effect.
[36] One of the most common reason given: different funding sources have varying cost of capital.
[37] A common reason given is that the optimal style is dependent on both the mandate of the REIT as well as the expectations of cornerstone investors.
[38] Examples of such attributes would include location, size of project, demographics of the surrounding neighborhood, expected break-even time horizon, potential capital gain, expected rental yield, suitable co-invest partner and suitable property management company.

5. Physical asset attributes
    a. Please describe the locational advantages of your prime assets.
    b. Would your prime assets be affected by any future developmental work by the local government? If so, please describe them in detail.
    c. Are your prime assets exposed to catastrophic risks? If so, what steps can be taken to mitigate the effects from these risks.
    d. Is having modern facilities a major selling point of your physical assets? If so, please provide the examples.
    e. For diversified REITs - How did you minimize the structural disadvantage associated with your diversified asset portfolio?
    f. Please cast some lights on your rental lease expiry profile. Is it well staggered?
    g. Do you rely on anchor tenants to stabilize the rental income for your prime assets? If so, how much discount in rental rate have you given them?
    h. Can I have some sense of where you currently stand from market average in terms of occupancy and rental rate?

6. Financial metrics
    a. Can you provide a snapshot of your annual FFO and or adjusted FFO per share for the past five years? What is your definition of recurring capital maintenance expenses?
    b. Can you provide a snapshot of your annual DPU for the past five years?
    c. Is your debt profile sufficiently staggered? Can you provide the break down?
    d. Is your debt gearing ratio healthy? How do you intend to finance future property acquisition?
    e. Would you like to explain why your price-to-book value per share is above/below market average?
    f. Can you provide a snapshot of your annual net asset revaluation per share for the past five years?

7. Corporate governance issues
    a. During EGMs for asset acquisition and disposal, voice out the following questions (if relevant) to management:
        i. What are the rationales for undertaking such yield destructive acquisition?

    ii. You seem to have a long history of acquiring properties at inflated prices. Can you provide the reasons for doing so?

b. Can you share with me the process of selecting the realty valuator during annual property valuation? Who makes the final selection decision?
c. With regards to related party transactions, are there sufficient internal safeguards to mitigate potential conflict-of-interest?
d. Are there any track records of non-preemptive rights issuance?
e. For REITs with internal managers:
    i. How are the board members selected?
    ii. How are the remuneration committee members selected?
    iii. How are the audit committee members selected?
    iv. Can you describe the internal audit reporting process?
    v. How independent are the board of directors?
    vi. Did any of the director sit on the board of other REITs?
f. Is the REIT structure captive?
g. If the structure is captive, what is the process flow for valuation during real estate transfer from the sponsor to the REIT?
h. Are there any anchor tenants that are related to the sponsor? If so, what is the percentage discount in rental rates relative to that of average specialty tenants in the same building?
i. Is the property management company related to the sponsor? How are their fees structured? Is it predominantly a flat fee or is part of the fee incentive driven?
j. Do you engage an advisor? If so, how is the compensation being structured? And is the advisor related to the sponsor?
k. Is the trustee independent from both the REIT manager and the sponsor? And how is the compensation being structured?
l. Is the REIT manager related to the sponsor?
m. Is there any overlap in directorship between the board of the sponsor and the board of the REIT manager?
n. Does the REIT manager manage other REITs concurrently?
o. Can you describe the compensation scheme for the REIT manager?
    i. Is the base salary derived as a fixed percentage of total AUM?
    ii. If so, how much would that be?
    iii. Is there any measure put in place to prevent the manager from amassing AUM for its own benefits? In other words, is there any measure put in place to mitigate devious property churning?

iv. How is the incentive bonus awarded? Investors preferred management fees that is aligned to their interest; is there a proportional relationship between incentive bonus and DPU?
v. Can you provide a breakdown of the percentage of remuneration that is derived as a fixed percentage of total AUM versus incentive bonus during the past five years?
vi. How will the manager be awarded during property acquisition and disposal?
vii. Is there any claw back clause for the bonus incentive portion? If so, how does it work?

p. Can you describe the circumstances in which the manager can be replaced?
q. Can you also describe the process flow for ousting a manager?
r. During the removal of the REIT manager, is there any golden parachute? If so, does the compensation commensurate with industry average?
s. Is there any embedded clause on the trust deed that could be utilized by the sponsor to issue non-pre-emptive shares to themselves to fence off hostile takeover?

8. Opportunities and threats
    a. Can you provide some visibility of the assets available to be acquired in the near future? Are these potential acquisitions rental yield accretive?
    b. Can you provide some guidance on the pipeline of assets that will be acquired from the sponsor?
    c. Are the governmental policies in your key markets favorable for your business model? Please narrate with specific explanations.
    d. Are these governmental policies in your key markets feasible for implementation[39]? Please narrate with specific explanations.

[39] In other words, I am trying to gauge whether these announced governmental policies are merely hearsays or would eventually be executed.

First draft detailed questions for the REIT industry – Industrial:

1. Demand side
    a. Is your business model highly correlated with consumer spending across the respective geographies?
    b. If so, what are the consumption outlooks in these key markets?
    c. What are the key sectors underpinnings your tenant mix?
    d. To what extent is your business model influenced by the intensity of export and import activities in your key markets? Can you elaborate more on how they work?
    e. Are there any structural changes within the local economy of your key markets that are expected to have huge impact on your business model?
    f. How does oil price correlate with your business model?
    g. Do you keep a close watch on the Purchasing Manager's Index in your key markets? If so, can you briefly discuss how you strategize your three-year plan with the information obtained from the Purchasing Manager's Index?
    h. Do you closely monitor the subtle changes in inventory and stock of finished goods statistics across your key markets? How does the information fit into your three-year strategic plan?

2. Supply side
    a. How is the land space dynamics evolving in your key markets? Especially pertaining to changes in occupancy across the various industrial land use sub sectors as well as across other non-industrial land use sectors. Relative to the market, how did your occupancy rates fare?
    b. How has the average tenancy turnover rate changed during the past five years?
    c. Are different industrial land use sectors good substitutes for each other in your key markets?
    d. Are you affected by re-zoning at the country wide level?
    e. Based on existing government blueprint, is there any significant increase in new industrial land space across your key markets?
    f. How do you mitigate all the above potential supply side risks?

5. Asset specific issues
    a. How diversified is your pool of tenant mix?

b. Are your tenants interdependent to each other to reap the benefits from proximity cluster across your key markets? Please elaborate further.
c. Is facility automation one of your key selling points? Please explain with examples.
d. How are your key assets faring in terms of having access to transportation network? Detailed examples would be great.

6. Opportunities and threats
    a. Do you agree that the industrial REIT sector is relatively more vulnerable to physical asset depreciation compared to other sectors such as office, retail, and hospitality?
    b. How are your key assets coping with asset enhancement?
    c. Are there any major disruptive innovations that are expected to have a huge impact on existing industrial REITs? How do you intend to cope with it?

First draft detailed questions for the REIT industry – Hospitality:

1. Demand side
    a. Do changes in tourist arrival statistic exert strong impact on your business model?
    b. Can you share with me the geographical diversity of your guest pool? Is there strong reliance on guests from a specific country?
    c. On average, how many nights does each guest stay for a trip? For the past five years, how has this trend evolved?
    d. How has the spending power of your guests changed over the past five years?
    e. Has currency fluctuation exerted strong influence on your business revenue?
    f. Are you affected by any new development in geopolitical sensitivities?
    g. Are changes in business spending affecting your business model?
    h. Is there a secular shift in the hiring preferences within the banking and finance industry? If so, how would it affect your business model?
    i. Do you derive a big portion of your guest traffic from MICE events? If so, do you foresee any changes in the demand for MICE events?
    j. Do you have any contingency plans for catastrophic events such as disease outbreak and terrorist attack?

4. Supply side
    a. How has the market wide occupancy rate been evolving in your key markets during the past five years? How has your occupancy rate been faring when compared to it?
    b. How is the add-on room supply trend in your key markets for the upcoming three years?
    c. Is your business model heavily affected by Airbnb? Do you foresee any other disruptive innovations within the hospitality REIT industry?

5. Relevant government blueprints
    a. Are the government in your key markets doing anything to improve their transportation infrastructure?
    b. Are the major tourist hotspots in your key markets undergoing any major physical enhancement?
    c. Are the government in your key markets launching any tourism promotion campaign?

First draft detailed questions for the REIT industry – Retail:

1. Demand side
    a. Do changes in GDP statistics correlate strongly with your top and bottom lines?
    b. Have you experienced a change in consumption sentiments among the mass population in your key markets? Is the shift in consumption sentiments due to real or perceived changes in general wealth?
    c. Is the revenue from your key markets sensitive to changes in tourist arrival numbers?
    d. For the key markets that are relying heavily on tourist traffic; are the sources of tourist arrival well diversified or concentrated among a few locations? If concentrated among a few locations, which are those?
    e. For the key markets that are relying heavily on tourist traffic; is there a subtle shift in spending habit? If so, how do you intend to cope with it?
    f. Is FOREX fluctuation a major concern for your business model? Please elaborate.

g. Are there any geopolitical sensitivities brewing in the background that are expected to be detrimental for your key markets?
h. Are your key markets sensitive to subtle shifts in the hiring trend within the banking and finance industry?
i. In a bullish residential market, do consumers spend more on discretionary products? Did you encounter the same experience in your key markets?
j. Is there a positive relationship between the level of median income in your key markets and your revenue?
k. Have you experienced changes in consumer spending across your key markets that are the results of changing demographics, educational level and/or technological evolution? How did you cope with them?

2. Supply side
    a. Can I have some sense of the country wide retail net absorption rates for the past five years across your key markets? Relative to the market, how did your occupancy rates fare?
    b. For the next three years, are you expecting significant amount of add-on retail spaces across your key markets? If so, how would you cope with it?
    c. How has the average tenancy turnover rate changed during the past five years?

3. Asset specific
    a. Is the rise of online shopping platform given your business model a run for your money? How has it affected your respective key markets? How do you intend to deal with it?
    b. What are the key surrounding amenities you look for when acquiring a shopping mall?
    c. Do you conduct thematic promotional campaign that cut through all your assets in each key market? Has it been successful?
    d. Can you provide some insights on how you undertake thematic vendor management in your key markets? In other words, how do you optimize your tenant mix?
    e. How do you decide which asset to undergo physical enhancement? What do you look out for during asset physical enhancement?
    f. Can you narrate on the asset enhancement blueprints for the next three years across your key markets?

4. Relevant government blueprints
    a. Are the governments in your key markets doing anything to improve their transportation infrastructure?
    b. Are the major tourist hotspots in your key markets undergoing any major physical enhancement?
    c. Are the governments in your key markets launching any tourism promotion campaign?

First draft detailed questions for the REIT industry – Office:

1. Demand side
    a. Can you provide some details on the geographical zoning of the physical assets across your key markets? Are they concentrated in the CBD, outer CBD, or outlying business park regions?
    b. Are changes in unemployment rate the critical drivers behind office space demand across your key markets? If so, please provide a detailed narration of your worst and best key markets on this aspect.
    c. Are changes in corporate profits outlook exerting a big impact on the business models across your key markets? If so, please provide a detailed narration of your worst and best key markets on this aspect.
    d. Do changes in GDP statistics correlate strongly with your top and bottom lines? Which are the key markets whose occupancy rates have demonstrated exceptional sensitivity towards changes in GDP?

2. Supply side
    a. Can I have some sense of the country wide (and where applicable city wide and district wide as well) office net absorption rates for the past five years across your key markets? Relative to the market, how did your occupancy rates fare?
    b. For the next three years, are you expecting significant amount of add-on retail spaces across your key markets? If so, how would you cope with it?
    c. How has the average tenancy turnover rate changed during the past five years?
    d. Across your key markets, do you see a significant shift of office demand out from CBD to the outlying zone? If so, how have your

business model been affected? And what are you going to do about it?

3. Asset specific
    a. What is the average lease maturity? Is it well staggered?
    b. Is your business model under the challenge of disruptive innovations? If so, what are they? And how do you intend to cope with them?
    c. Can you briefly describe your tenant characteristics? Are you collecting premium rental rates from them? If so, why are you able to do so?
    d. Does getting green building certification enhances your ability to collect premium rent? If so, can you narrate with some examples?
    e. When it comes to collecting premium rent rates; what are the other factors that your business model has successfully relied upon?

BMC – detailed mapping:

- Infrastructure
  - **Dealings with key partners**
    - During EGMs for asset acquisition and disposal, voice out the following questions (if relevant) to management:
      - What are the rationales for undertaking such yield destructive acquisition?
      - You seem to have a long history of acquiring properties at inflated prices. Can you provide the reasons for doing so?
    - Can you share with me the process of selecting the realty valuator during annual property valuation? Who makes the final selection decision?
    - With regards to related party transactions, are there sufficient internal safeguards to mitigate potential conflict-of-interest?
    - Are there any track records of non-preemptive rights issuance?
    - For REITs with internal managers:
      - How are the board members selected?
      - How are the remuneration committee members selected?
      - How are the audit committee members selected?
      - Can you describe the internal audit reporting process?
      - How independent are the board of directors?
      - Did any of the director sit on the board of other REITs?
    - Is the REIT structure captive?
    - If the structure is captive -
      - What is the process flow for valuation during real estate transfer from the sponsor to the REIT?
      - Is there embedded clause on the trust deed for sponsor to issue non-pre-emptive shares to themselves to fence off hostile takeover?
      - Is the property management company related to the sponsor? How are their fees structured? Is it predominantly a flat fee or is part of the fee incentive driven?
      - Are there any anchor tenants that are related to the sponsor? If so, what is the percentage discount in rental rates relative to that of average specialty tenants in the same building?
      - Is the trustee independent from both the REIT manager and the sponsor? And how is the compensation being structured?
      - Is the REIT manager related to the sponsor?
      - Is there any overlap in directorship between the board of the sponsor and the board of the REIT manager?
    - Do you engage an advisor? If so, how is the compensation being structured? And is the advisor related to the sponsor?
    - Does the REIT manager manage other REITs concurrently?
    - Can you describe the compensation scheme for the REIT manager?
      - Is the base salary derived as a fixed percentage of total AUM?
      - If so, how much would that be?

        - Is there any measure put in place to prevent the manager from amassing AUM for its own benefits? In other words, is there any measure put in place to mitigate devious property churning?
        - How is the incentive bonus awarded? Investors prefer management fees that is aligned to their interest; is there a proportional relationship between incentive bonus and DPU?
        - Can you provide a breakdown of the percentage of remuneration that is derived as a fixed percentage of total AUM versus incentive bonus during the past five years?
        - How will the manager be awarded during property acquisition and disposal?
        - Is there any claw back clause for the bonus incentive portion? If so, how does it work?
    - Can you describe the circumstances in which the manager can be replaced?
    - Can you also describe the process flow for ousting a manager?
    - During the removal of the REIT manager, is there any golden parachute? If so, does the compensation commensurate with industry average?
    - Are the governmental policies in your key markets favorable for your business model? Please narrate with specific explanations.
    - Are these governmental policies in your key markets feasible for implementation? Please narrate with specific explanations.
    - Industrial subsector specific:
        - Are you affected by re-zoning at the country wide level?
        - Based on existing government blueprint, is there any significant increase in new industrial land space across your key markets?
    - Hospitality subsector specific:
        - Are you affected by any new development in geopolitical sensitivities?
        - Are the government in your key markets doing anything to improve their transportation infrastructure?
    - Retail subsector specific:
        - Are there any geopolitical sensitivities brewing in the background that are expected to be detrimental for your key markets?
        - Are the governments in your key markets doing anything to improve their transportation infrastructure?

- **Key process flow**
    - What measures can be taken by you to mitigate the impact of an interest rate hike?
    - Tell us more about the FOREX rate volatilities that your business model is being exposed to. Did you undertake any hedging? If so, how did you do it? Please quantify your hedging cost as a percentage of the operating income and/or operating expenses.

- I hope to gain some sense of the scaling benefit in terms of reduction in management fees. What is your management fees to AUM ratio?
- Please describe your lease renewal strategy.
- What are your asset enhancement strategies? Track records, near future and in the long run.
- How are your key assets coping with asset enhancement?
- Please share with me the yield accretive acquisitions you have undertaken (if any). How did you convince the property owners to sell you at such an attractive price?
- For diversified REITs - How did you minimize the structural disadvantage associated with your diversified asset portfolio?
- Hospitality subsector specific:
  - Has currency fluctuation exerted strong influence on your business revenue?
- Retail subsector specific:
  - Is FOREX fluctuation a major concern for your business model? Please elaborate.
- Retail subsector specific:
  - How do you decide which asset to undergo physical enhancement? What do you look out for during asset physical enhancement?
  - Can you narrate on the asset enhancement blueprints for the next three years across your key markets?

- **Key Resources**
  - How many properties have you acquired over the last three years?
  - Please describe the locational advantages of your prime assets.
  - Would your prime assets be affected by any future developmental work by the local government? If so, please describe them in detail.
  - Are your prime assets exposed to catastrophic risks? If so, what steps can be taken to mitigate the effects from these risks.
  - Can you provide a snapshot of your annual net asset revaluation per share for the past five years?
  - Can you provide some visibility of the assets available to be acquired in the near future? Are these potential acquisitions rental yield accretive?
  - Can you provide some guidance on the pipeline of assets that will be acquired from the sponsor?
  - Office subsector specific:
    - Can you provide some details on the geographical zoning of the physical assets across your key markets? Are they concentrated in the CBD, outer CBD, or outlying business park regions?

- Revenue generator
  - **Sensitive factors affecting client take-up rate**
    - Is the economic growth rate in your target markets sustainable?
    - How would a deviation in your forecasted growth rate impact your business in the short and long run?
    - There has been evidence of widening income equality across the world, how does this affect your business strategy?
    - Is traffic congestion a serious problem in your target markets?
    - How are the property business cycles in your respective target markets? Are you coping well with all the headwinds?
    - Tell me more about the demographics profile in your target markets? Within the next 5 to 10 years, how will these demographics changes impact your business?
    - Is migration a key factor in your business model?
    - Is the government immigration policy in your target market favorable for your business model? Are there any anti-foreign resident sentiments building up among the masses in your target markets?
    - How are the short-term demand and supply dynamics of your target markets affecting your business model?
    - Is there anything we as investors should take note of; especially pertaining to market sentiments.
    - Is there any regulatory issue that is affecting the short-term demand and supply dynamics?
    - Industrial subsector specific:
      - Is your business model highly correlated with consumer spending across the respective geographies?
      - If so, what are the consumption outlooks in these key markets?
      - What are the key sectors underpinnings your tenant mix?
      - To what extent is your business model influenced by the intensity of export and import activities in your key markets? Can you elaborate more on how they work?
      - Are there any structural changes within the local economy of your key markets that are expected to have huge impact on your business model?
      - How does oil price correlate with your business model?
      - Do you keep a close watch on the Purchasing Manager's Index in your key markets? If so, can you briefly discuss how you strategize your three-year plan with the information obtained from the Purchasing Manager's Index?
      - Do you closely monitor the subtle changes in inventory and stock of finished goods statistics across your key markets? How does the information fit into your three-year strategic plan?
      - How is the land space dynamics evolving in your key markets? Especially pertaining to changes in occupancy across the various industrial land use sub sectors as well as across

other non-industrial land use sectors. Relative to the market, how did your occupancy rates fare?

- Are different industrial land use sectors good substitutes for each other in your key markets?

- Hospitality subsector specific:
  - Do changes in tourist arrival statistic exert strong impact on your business model?
  - Are changes in business spending affecting your business model?
  - Is there a secular shift in the hiring preferences within the banking and finance industry? If so, how would it affect your business model?
  - Do you derive a big portion of your guest traffic from MICE events? If so, do you foresee any changes in the demand for MICE events?
  - Do you have any contingency plans for catastrophic events such as disease outbreak and terrorist attack?
  - How is the add-on room supply trend in your key markets for the upcoming three years?
- Retail subsector specific:
  - Do changes in GDP statistics correlate strongly with your top and bottom lines?
  - Have you experienced a change in consumption sentiments among the mass population in your key markets? Is the shift in consumption sentiments due to real or perceived changes in general wealth?
  - Is the revenue from your key markets sensitive to changes in tourist arrival numbers?
  - Are your key markets sensitive to subtle shifts in the hiring trend within the banking and finance industry?
- Office subsector specific:
  - Are changes in unemployment rate the critical drivers behind office space demand across your key markets? If so, please provide a detailed narration of your worst and best key markets on this aspect.
  - Are changes in corporate profits outlook exerting a big impact on the business models across your key markets? If so, please provide a detailed narration of your worst and best key markets on this aspect.
  - Do changes in GDP statistics correlate strongly with your top and bottom lines? Which are the key markets whose occupancy rates have demonstrated exceptional sensitivity towards changes in GDP?

- **Channels**
  - Hospitality subsector specific:
    - Are the major tourist hotspots in your key markets undergoing any major physical enhancement?

        - Are the government in your key markets launching any tourism promotion campaign?
    - Retail subsector specific:
        - Do you conduct thematic promotional campaign that cut through all your assets in each key market? Has it been successful?
        - Can you provide some insights on how you undertake thematic vendor management in your key markets? In other words, how do you optimize your tenant mix?
        - Are the major tourist hotspots in your key markets undergoing any major physical enhancement?
        - Are the governments in your key markets launching any tourism promotion campaign?

- **Customer relationships**
    - Does size (in terms of AUM) exert any influence on your relationship with anchor tenants? Is it always the bigger the better?
    - In terms of asset class, both pure play and diversified mode have their respective pros and cons. How do you strike an optimal balance between these two operational styles?
    - Please cast some lights on your rental lease expiry profile. Is it well staggered?
    - Do you rely on anchor tenants to stabilize the rental income for your prime assets? If so, how much discount in rental rate have you given them?
    - Can I have some sense of where you currently stand from market average in terms of occupancy and rental rate?
    - Industrial subsector specific:
        - How has the average tenancy turnover rate changed during the past five years?
        - How diversified is your pool of tenant mix?
        - Are your tenants interdependent to each other to reap the benefits from proximity cluster across your key markets? Please elaborate further.
    - Hospitality subsector specific:
        - Can you share with me the geographical diversity of your guest pool? Is there strong reliance on guests from a specific country?
        - On average, how many nights does each guest stay for a trip? For the past five years, how has this trend evolved?
        - How has the spending power of your guests changed over the past five years?
        - How has the market wide occupancy rate been evolving in your key markets during the past five years? How has your occupancy rate been faring when compared to it?
    - Retail subsector specific:
        - For the key markets that are relying heavily on tourist traffic; are the sources of tourist arrival well diversified or

concentrated among a few locations? If concentrated among a few locations, which are those?

- For the key markets that are relying heavily on tourist traffic; is there a subtle shift in spending habit? If so, how do you intend to cope with it?
- In a bullish residential market, do consumers spend more on discretionary products? Did you encounter the same experience in your key markets?
- Is there a positive relationship between the level of median income in your key markets and your revenue?
- Have you experienced changes in consumer spending across your key markets that are the results of changing demographics, educational level and/or technological evolution? How did you cope with them?
- Can I have some sense of the country wide retail net absorption rates for the past five years across your key markets? Relative to the market, how did your occupancy rates fare?
- For the next three years, are you expecting significant amount of add-on retail spaces across your key markets? If so, how would you cope with it?
- How has the average tenancy turnover rate changed during the past five years?

▪ Office subsector specific:

- Can I have some sense of the country wide (and where applicable city wide and district wide as well) office net absorption rates for the past five years across your key markets? Relative to the market, how did your occupancy rates fare?
- For the next three years, are you expecting significant amount of add-on retail spaces across your key markets? If so, how would you cope with it?
- How has the average tenancy turnover rate changed during the past five years?
- Across your key markets, do you see a significant shift of office demand out from CBD to the outlying zone? If so, how have your business model been affected? And what are you going to do about it?
- What is the average lease maturity? Is it well staggered?
- Can you briefly describe your tenant characteristics? Are you collecting premium rental rates from them? If so, why are you able to do so?

- <u>Financing</u>
  - **Cost Structure**
    - All REITs are affected by the threat of an interest rate hike. How tolerance is your business model towards a general hike in interest rate, in terms of both magnitude and duration?
    - What is your average cost of debt financing? Can you provide a range?
    - Why is there such a wide range? (If the range is too wide) Can you explain?
    - Can you provide a snapshot of your annual FFO and or adjusted FFO per share for the past five years? What is your definition of recurring capital maintenance expenses?
    - Is your debt profile sufficiently staggered? Can you provide the break down?
    - Is your debt gearing ratio healthy? How do you intend to finance future property acquisition?

  - **Revenue Streams**
    - Will there be rental reversion in the near term, mid-term, and long term? What is the underlying logic?
    - How did you achieve above market rental reversion? (if any).
    - How stable was your dividend payout history? What strategies did you deploy to maintain stability in DPU?
    - Can I have a feel of the dividend yield that most of your institutional investors are expecting? What is your strategy to meet or perhaps exceed this expectation?
    - Can you provide a snapshot of your annual DPU for the past five years?

- **Unique propositions**
  - Is there a natural hedge between your source of financing and your operating cash flow?
  - Is having modern facilities a major selling point of your physical assets? If so, please provide the examples.
  - When scouting for properties to acquire, what are the key attributes you typically look at behind making the final decision?
  - Industrial subsector specific:
    - Is facility automation one of your key selling points? Please explain with examples.
    - How are your key assets faring in terms of having access to transportation network? Detailed examples would be great.
    - Are there any major disruptive innovations that are expected to have a huge impact on existing industrial REITs? How do you intend to cope with it?
  - Hospitality subsector specific:
    - Is your business model heavily affected by Airbnb? Do you foresee any other disruptive innovations within the hospitality REIT industry?
  - Retail subsector specific:

    - Is the rise of online shopping platform given your business model a run for your money? How has it affected your respective key markets? How do you intend to deal with it?
    - What are the key surrounding amenities you look for when acquiring a shopping mall?
- Office subsector specific:
    - Is your business model under the challenge of disruptive innovations? If so, what are they? And how do you intend to cope with them?
    - Does getting green building certification enhances your ability to collect premium rent? If so, can you narrate with some examples?
    - When it comes to collecting premium rent rates; what are the other factors that your business model has successfully relied upon?

BMC – 3 clusters version:

Infrastructure

Dealings with Key Partners

- Track record of yield destructive asset acquisition?
- Who is the gatekeeper for the selection of 3rd party valuator during asset acquisition?
- Internal safeguards to mitigate potential conflict-of-interest during related party transactions?
- Track records of non-preemptive rights issuance?
- Independent realty valuator selection process?
- For captive REIT only – Is there embedded clause on the trust deed for sponsor to issue non-pre-emptive shares to themselves to fence off hostile takeover?
- For captive REIT only - Is property management company related to the sponsor?
- For captive REIT only - Is the REIT manager related to the sponsor?
- For captive REIT only - Are there any anchor tenants that are related to the sponsor?
- For captive REIT only – Is there any overlap in directorship between the board of the sponsor and the board of the REIT manager?
- Manager's compensation scheme - Is it predominantly a flat fee or is part of the fees incentive driven?
- Would your prime assets be affected by any future developmental work by the local government?
- Is the manager ousting protocol feasible?

Key Resources

- How many properties have you acquired over the last three years?
- Snapshot of your annual net asset revaluation per share for the past five years?
- Can you provide some visibility of the assets available to be acquired soon? Are these potential acquisitions rental yield accretive?
- For captive REIT only - Pipeline from sponsor?
- Locational advantages of your prime assets?

Key Process Flow

- Management fees to AUM ratio?
- Against interest rate hikes, what are your mitigation measures?
- Tell us more about the FOREX rate volatilities that your business model is being exposed to. How are you coping with it?
- What is your management fees to AUM ratio?
- Please describe your lease renewal strategy.
- What are your asset enhancement strategies?
- Please share with me the yield accretive acquisitions you have undertaken? (if any). How did you convince the property owners to sell you at such an attractive price?

Unique Proposition

- Natural hedge between source of financing and operating cash flow?
- Key attributes you look at during real estate acquisitions?
- Modern facilities of physical assets?
- Effective solutions to deal with disruptive innovations?

Revenue generator

Sensitive Factors affecting Client take-up rate

• Macroeconomics - Is the economic growth rate in your target markets sustainable?
• Macroeconomics – Are there property business cycle head winds in your key markets?
• Income inequality – How does the widening income gap impact upon your business strategy?
• Local demographics - Tell me more about the demographics profile in your key markets? Within the next 5 to 10 years, how will these demographics changes impact your business?
• Local demographics - Is migration a key factor in your business model?
• Local demographics - Is the government immigration policy in your target market favorable for your business model?
• Short-term DD and SS dynamics in key markets - Is there anything we as investors should take note of, especially pertaining to market sentiments?
• Regulatory policy - Is there any regulatory issue that is affecting the short-term demand and supply dynamics?

Customer Relationships

• Does size (in terms of AUM) exert any influence on your relationship with anchor tenants? Is it always the bigger the better?
• Please cast some lights on your rental lease expiry profile. Is it well staggered?
• Do you rely on anchor tenants to stabilize the rental income for your prime assets? If so, how much discount in rental rate have you given them?
• Can I have some sense of where you currently stand from market average in terms of occupancy and rental rate?

Channels

• Relationship with intermediaries?
• Thematic promotional campaigns?
• Pull promotion activities?

Unique Proposition

• Natural hedge between source of financing and operating cash flow?
• Key attributes you look at during real estate acquisitions?
• Modern facilities of physical assets?
• Effective solutions to deal with disruptive innovations?

Financing

COST STRUCTURE

• Pertaining to a general hike in interest rates; how would it impact upon your cost structure?
• What is your average cost of debt financing?
• Please provide a five-year snapshot of your FFO and definition of recurring capital maintenance expense?
• Is your debt profile sufficiently staggered? Can you provide the break down?
• Is your debt gearing ratio healthy? How do you intend to finance future property acquisition?

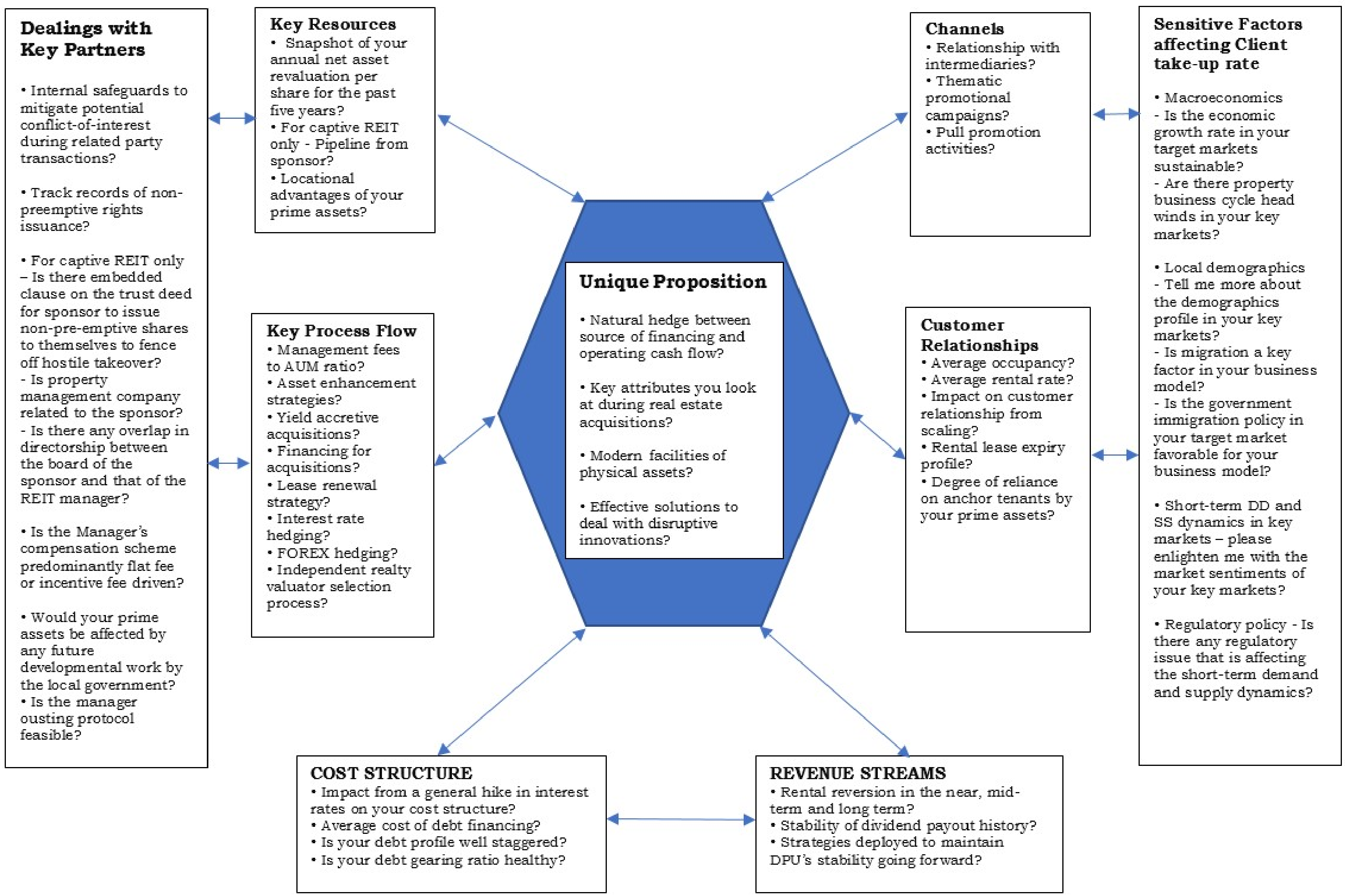
REVENUE STREAMS

• Will there be rental reversion in the near term, mid-term and long term? What is the underlying logic?
• How did you achieve above market rental reversion? (if any).
• How stable was your dividend payout history? What strategies did you deploy to maintain stability in DPU?
• Can you provide a snapshot of your annual DPU for the past five years?

Unique Proposition

• Natural hedge between source of financing and operating cash flow?
• Key attributes you look at during real estate acquisitions?
• Modern facilities of physical assets?
• Effective solutions to deal with disruptive innovations?

BMC – grand structure version:



Appendix 7c – Categorised output from first round of email exchange and interview

Comments pertaining to essential issues:

- **Comprehensiveness – themes and questions that must be added or removed to enhance the comprehensiveness of my questioning framework**.
  - The nature of the relationship between REITs and their sponsors.
  - Is the REIT operationally over reliant on the manager?
  - Percentage of rentals deriving from sponsor, the lower the better.
  - Percentage ownership in REIT owned by the sponsor, the higher the better.
  - Percentage ownership of the REIT manager owned by the sponsor, the lower the better.
  - Cost per gross floor area of each asset within the REIT compared with similar assets in the industry.
  - Rental rate of each asset within the REIT compared with the rental rate of similar assets in the industry.
  - Availability of alternative debt funding options such as medium-term-note, and revolving line of credit will minimize re-financing risk.
  - Think too little emphasis given to equity financing, though it makes up 60-70% of asset funding. As Reit management is an AUM business, there is an incentive for Reits to grow their portfolio, which would mean a recurrent cash call from equity holders. How is this generally done – through placement, rights issue, preferential shares? It matters to existing unit holders, as it has implications on dilution.
  - Also, there has also been a recent trend of tapping on alternative forms of financing, like perpetuals. The section focuses too narrowing on debt financing.
  - A small circle industry behind the scene among the population of REIT manager where almost everyone knows each other. Having the appropriate talent behind the helm is therefore very critical.
  - Logical justification for asset acquisition is important; especially with regards to the price paid for.
  - Rather than relying on so-called "3rd party" valuation report, the tracking of the mark-to-market value of asset during the subsequent years post acquisition might generate better insights into the business acumen of REIT managers.

- Erosion of asset value is the key risk for most REITS, expensive acquisition during boom time that turn sour in down time has occurred from time to time.
- Is the current yield distribution sustainable over the long run? Some REITs have a strong tendency to overdistribute their net income.
- Example of a more immediate revenue generators will be lease expiration profile. A large degree of near-term lease expiration is generally beneficial in an upcycle, while a large degree of near-term expirations is mostly negative in a downcycle. Understanding this will enable investors to better assess the risk or opportunities to the revenue outlook (vis-à-vis something more vague like income inequality).
- The unique proposition at the centre is very good - keep that.
- I think u may want to add a few key questions inside unique proposition:
    - Frankly for me (and some property investors), to grow DPU, the most important person / team is the one buying and selling properties - it really bores down to HOW good are you in smelling out OPPORTUNITIES.
    - People who are good may not stay in the company for long - they may work for themselves or somebody who can really pay.
    - Most often then not, we do not know who are the key decision makers.
    - Therefore, I am likely to favour reits that have PROPER and ROBUST processes like mapletree (govt ma), capita family reits and ascendas - the other problem is that these reits are likely to be expensive
- So far, the analysis, have not touched on profile of investor. For unique proposition, you may want to highlight the uniqueness of the reit to WHOM? Like for me, I prefer a global reit (none in Sg), the closest is Ascott hospitality trust for diversification purpose across regions. Other may prefer a focused European play. You may want to add a question to address this
- Having in pace a strong corporate governance structure is extremely pertinent.
- The real estate is a relatively cyclical industry where demand and supply often went to excesses. This is something beyond the control of even the most rock-solid business model.

        - Macro factors henceforth are key.
        - Interest rate is one obvious driver as well.
        - Diversity in term of asset profile and geography help to cushion volatility during difficult times.
        - At the end of the day, timely execution might be all that matters.
    - Unique Proposition:
        - For office subsector, it maybe useful to ask specifically the rise of shared office (eg WeWork etc) is positive (e.g. more demand for office space) or negative (better bargaining power of tenants) under the challenge of disruptive innovations. (note: you listed Airbnb and e-commerce for hotels and retail segments).
    - Revenue stream
        - For DPU, you may want to add a question about if there is any special dividend policy when the REIT disposed off assets
        - For DPU, you my want to ask the practice of Manager getting units in lie of cash for management fee (maybe under key process but such practice is common)
        - Also the practice of topping up or forgoing DPU for some captive REIT sponsors (ie more distributable profits for minority)
    - Channel
        - Under retail subsector, it may be useful to include the use of O2O
    - Dealings with key partners
        - A question on the choice of financing when the REIT acquires assets from the captive sponsors, ie via a rights issue where all minority shareholders have a chance to participate or via share placement to sponsor, which is subject to EGM approval.
        - I particularly like to hear the response on how the manager can be removed as there is such as case (a petition by a major minority shareholder to remove the REIT Manager in HK).
    - On the document BMC 3
        - For dealing with key partners - There is are questions to add

            - how about the common ownership between the REIT and the sponsor?
            - Is there a high water mark scheme or claw back in case of poor investment?
            - is there ROFR for sponsor asset
    - On Revenue
        - Anything on the current trend of online shopping and the O2O trend in the future?
        - If not, this is deemed to be quite comprehensive
    - Looking at the raw set of questions, I have two more to add.
        - On deadling with partners
            - How is the investment committee selected - will make it more comprehensive
        - On the part of captive Reit, maybe can illustrate how that is being defined?
    - I wonder if there is anything about the geographic diversification in the investment portfolio?
    - For infrastructure – Dealing with Key Partners
        - What are the rationales for undertaking such yield destructive acquisition?
        - What are the rationales for undertaking non yield accretive acquisition ?
        - You seem to have a long history of acquiring properties at inflated prices?
        - Most of your acquiried properties came with a substantial market premium, could you provide the reasons for doing so?
        - Are there any track records of non-preemptive rights issuance ? And if so is there a discount or cumulative cap on these issues
        - Could you also share with me the maximum discount at which the non pre-emptive rights can be issued at? (You might want to change the wording to “ what you think is an appropriate discount “ to avoid them just quoting the max discount allowed by SGX rules which we can find out ourselves anyway. I think its 10% for SG)
        - While unitholders generally understand the need to get the right balance between financial flexibility and unitholder rights, how do you ensure that there is no transfer of value to new investors from existing ones?

        - What are the factors that influence the discount given to rights and private placements (Might want to separate the questions into two as the reasons could differ.) I.e – discounts for private placements could be because of synergy, stragetic investors involved etc)
        - Is there any measure put in place to prevent the manager from amassing AUM for its own benefits? In other words…..to mitigate devious property churning (This one quite aggressively phrased. A more general question that would get a similar response would be the following:
        - What are the measures to ensure that the REIT manager and investors interests are aligned?
    - Your articles and the Business Model Canvas look good to me. I believe you have included those important questions. My only two cents for your consideration are as follows:
        - How does the REIT choose which RE projects (location, size, business nature) to invest? Is the goal to create stable rental income or long-term capital gain?
        - How often is the valuation assessment done for the REITS's investments?   Is it done in-house (e.g. investment committee) or external valuation experts are used?
        - For those REITS investing in retail/office/mixed use projects, what factors are considered to contract the property manager and hence manage the property (mall, offices) and get tenants?
    - Legal constraint as well as support are also key driving factors within the REIT industry.
    - Speculative factor is another.
    - Basically, if the tendency for human activities to congregate around a city is on the rise, it will spell well for REITs; and conversely if it does not.
    - A very simple industry in my opinion. As such, the wild card usually boils down to integrity of management. And that is where the CG aspect is particularly important.
    - Is the manager's performance incentive in-line with unitholder's interest and is it sustainable going forward?
    - If managers are given fees for acquisition; there is a risk that manager might churn the portfolio.
    - During asset acquisition, is the purchase price truly reasonable?

- REIT manager’s ability to convert asset’s usage to optimize yield might be handy. The option available to do so however depends on the jurisdiction of operation.
- Asset enhancement is especially important for shopping mall.
- Particularly in HK where the characters of REIT managers can be easily inferred from the way they manage the malls:
    - Budget and complete absence of asset enhancement – these are your run-down malls on HK island. Sustainability of yield questionable during down cycles.
    - Regular asset enhancement to retain crowd flow and in the process minimizing tenant turnover.
    - Luxurious asset enhancement and highly reactive mall management culture – the upscale malls which command premium rent. Short term dent on cash flow more than made up with higher yield averaged out over the longer term.
- Efficiency daily operation of property management company is important but tough to be inferred from financial statements.
- Attached my thoughts on some of your questions. To frame our subsequent discussion, I think it would be pertinent to share some general thoughts on my approach to REIT analysis - this is based on a mix of my work experience as well as personal investment decisions.
    - As mentioned to you previously, I think the investor's time horizon has a rather significant influence on the approach that should be taken. In that regard, I have broadly classified the areas that I would analyse into several categories below, with the later ones being less important to a short-term investor.
    - Sectoral view - macro and micro economic conditions, sector supply and demand factors, current leasing and rental conditions
    - Portfolio characteristics and unique features
    - Financials - yield, gearing/headroom
    - Management, strategy (in terms of tenant retention and mix, leasing and facilities management strategies, etc), corporate governance, relationship with sponsor
    - Outlook - external factors (disruptive technologies, industry shifts, economic policy changes, etc) and internal (pipeline, acquisition strategy and criteria)

- As I mention earlier on, we need a high-level matrix that at its minimal form should include the following:
  - Economic environment, outlook
  - Location of property.
  - Quality of management
  - Valuation. More like a summary of the analysis of the first two. How is the DPU sense.
  - Purchasing asset via financing asset
  - DPU value is a balance between how much cash was taken out and how much cash can be generated.
  - Overall ability to mitigate operational risks. This aspect is hard to gauge from financial statements but it can be inferred.
  - Current operating environment, is it conducive for the REITs?
  - Risk factors?
  - How did the management do in the past with regards to capital raising? were they able to tap into different sources of funding?
  - Whether the debt is spread out well or not
  - How they react during difficult times is always going to be testimonial.
- Quality of acquisition as well as the price paid for is instrumental. Investors got to ask all the common sense questions pertaining to: Why an asset was bought? Why at this price? Why into this new geographical region? How do you value it? Basically looking from a value to price perspective.
- In short, quality of the assets injected into the portfolio matters a lot.
- And so is the kind of lease arrangement - Is there a renewal option? How many more year to the lease?
- I am not so worried for the potential interest rate hike impact on REIT performance as all these are already priced in.
- Most REITS have fixed the cost of debt for the upcoming five years.
- Interest rates grow slowly than before. Not expecting US to be so aggressive.
- Do that note that most REIT go extreme with leveraging to improve yield, when they enjoy lower cost of debt. Watch out for such classic traps.
- Staggered loan profile is always the preference.

- In terms of reviewing/ examining REITs for investment, here's the key information from the REIT reporting I personally find useful:
  - Property type
  - Property location
  - Property leasing strategy - including anchor tenants, tenant mix, lease expiry, etc.
  - Asset valuation - including valuer, valuation methodology, presence of income support arrangements or other off-market rental support, re-election methodology of the valuer
  - Capital management - including leverage, loan tenure profile, forex exposure and management, other capital management exposure, etc.
  - Management discussion - of property leasing strategy, asset acquisition and divestment strategy, capital management strategy
  - Fees - level and mix of base, performance and acquisition/ divestment fees for asset management and property management; any other fees
  - Directors' profile - more about competence and level of independence based on their reputation
- One very serious red flag is that after lease expired, rent immediately drop; Something suspicious is very likely going on.
- A lot of sales and lease back are just cash out attempts by the sponsors.
- Rentals are artificially inflated by Sponsors prior to IPO improve their chance of getting a better offer price. Beware of that.
- Must examine carefully when the properties are re-lease out again. How have the contractual clauses change?
- Factories in Singapore are short lease. And short lease is a big problem with HPH; Govt can change the entire dynamics when 2047 is due.
- Asset enhancement scheme (AEI) - how and when should an REIT decide that AEI is required? This is one of the most important question an investor should throw out to the management.
- My take on these
  - Maybe shopping mall and hotel needs frequent AEI?
  - Depending on competitors? Surroundings.
- And always remember, whatever assets that have gone into REITs is almost always overpriced. Sour Lemon.

- All you need to gauge is: what is at the back of the mind of the sponsor? Do they have ill intentions?
    - Sponsor looks at REITs as recurring rental, management fees …
    - During crunch time, these recurring incomes will be their monetary buffer.
- Concise Question:
    - What are the likely macro-economic scenarios that will affect your operation and its effect on the total returns of the REIT?
    - What is the outlook for the operating sector of the REIT in the next 5 years and how does it effect on the total returns of the REIT?
- Industrial:
    - Are there any properties that can only be rented out for specific specifications/tenants?
    - What is the potential of your properties to maximize their plot ratio?
    - What is the redevelopment potential of the land and properties the REIT own?
- Retail:
    - What is the average sales/revenue to rent ratio?
- Physical asset attributes
    - Are there any uniqueness about the land deed or land lease that investors should take note about?
- Financial Metrics
    - Can you provide a history of your AFFO versus the dividend payout?
    - Can you provide a year by year history of the amount of scrip dividend taken by manager, sponsor versus total dividend declared
    - Can you provide a year by year history of the amount of management fees paid in units, versus total management fees
    - How much of your properties, or total gross rental income is above passing market rent?
    - Can you compare year on year, each year's dividend declared versus the total dividend taken by scrip and management fees paid in units?

- Important to make sense of each action undertaken by the manager.
- Especially what did the manager do during supply over flux period.
- With Challenges, we are able to weave out the poor and better managers
- Vibrancy of local environment is key – for instance, Gateway cities such as Sydney, HK, Singapore and Tokyo.
- Govt policy plays a huge role as well.
- One needs to be more street smart when trying to understand the business model of REIT. Take for instance, book value isn't exactly useful. And relative to historical figures - yield spread, dividend yield, and price to book over time will more or less revert to some long run averages.
- Infrastructure:
  - Most relevant question: You seem to have a long history of acquiring properties at inflated prices. Can you share the reasons for doing so? - It is reflective of reality especially in captive REITs, where the sponsor tends to pass properties to the captive at inflated prices, albeit too confrontational. Management will probably get defensive.
  - Comments: Questions are reflective of my concerns as an investor, about the agency problem for REIT managers, especially with regards to compensation and sponsor's victimisation of unitholders.
- Key Process Flow:
  - Most relevant question: I hope to gain some sense of the scaling benefit in terms of reduction in management fees. What is your management fee to AUM ratio?
  - Suggested question: When REITs seem to be diversifying beyond mandate - The recent acquisitions seem to be beyond your purported specialisation. Is there any reason to believe that you might have an advantage in terms of either valuation or management of the property?
- Key Resources:
  - Most relevant question: Can you provide some visibility of the assets available to be acquired in the near future? Are these potential acquisitions rental yield acquisitive?
  - Suggested question: In light of recent and prospective low rental yield, have you considered disposal of assets and

capital reduction? Perhaps such a move might be more accretive for the unitholders?

- Sensitive questions affecting client take-up rate:
  - Comments: I have little knowledge as to operating an asset. I seldom look at such factors. I don't foresee myself asking these questions in the near future either since I am unlikely to have better insights into such factors than anyone else.
- Channels:
  - Comments: I am also unlikely to better insights than management in operating an asset. I would prefer not to focus on such factors though I know of their importance.
- Customer relationships:
  - Most relevant question: In terms of asset class, both pure play and diversified mode have their respective pros and cons. How do you strike an optimal balance between these two operational styles?
  - Comments: Again, I am unlikely to have better insights into operations than management. But I would like to know more about how management balances the agency problem.
- Cost structure:
  - Most relevant question: Can you provide a snapshot of your annual FFO and or adjusted FFO per share for the past five years? What is your definition of recurring capital maintenance expenses?
  - Comments: I would like to have a better idea of the financing risks involved in the REIT to have better weigh competing ideas.
  - Suggested question: In times of distress, is the sponsor open to providing subsidized loans or guarantees on the REIT's debts?
- Revenue streams:
  - Most relevant question: How stable was your dividend payout history? What strategies did you deploy to maintain stability in DPU?
  - Comments: I would like to know more about DPU maintenance policy since DPU and prospective DPU is usually the most important metric in looking at a REIT.
  - Suggested question: What are your views with regards to the prospective DPU? Do you foresee any changes to the DPU to suit your operating needs?

- Unique Propositions:
    - Most relevant question: Is there a natural hedge between your source of financing and your operating cash flow?
    - Comments: I have no unique insights into operations so I would prefer to focus on the financials.
- My focus of questions would include the following:
    - Where are the assets based?
    - Quality of management
    - Who is the sponsor?
    - How is the customer/tenant profile like; do they have
        - Anchor tenant?
        - Master Lease?
        - In reality, it is usually a tradeoff between anchor versus high tenant turnover rate.
    - Having anchor tenant however is not always a rock-solid defense against high tenant turnover. Take for instance: Fraser commercial trust; one of their asset's anchor tenant HP laid off 5,000 staff on a global basis. The spin off impact on Fraser was widely unexpected.
    - You need to look at country & political factors which could impose huge distress on the REIT business model; such as disease outbreak, travel embargo and terrorism. These are macro factors that are beyond management control.
    - Sponsor attitude – this is a double-edged sword. SGP2 would be the classic example.
- A lot of insights can be inferred from track record of dividend payout.
- Success and failure stories of their acquisition and disposal? Over time REITs can't hide these stories.
- A leopard never changes its spot. Poor acquisition and disposal track record is very likely persistent for all sort of dubious reasons. And more so in the world of REIT where it is very tough for unitholders to oust incompetent manager.
- Is their FOREX exposure hedged?
- What is the true motivation behind every manager's action?
- It is better to conduct AEI one at a time. When executed appropriately, the REIT structure can generate tremendous scaling effects. But as always, over leverage can be catastrophic if mishandled.

- Market valuation of REIT dictate the ease of securing debt for property acquisition.
- Debt profile with staggered expiry is usually preferred; so that the REIT does not incurred undue funding risk.
- Market crisis is the best moment to gauge managers' resilience.
- Perhaps too much focus on macroeconomic factors which may be difficult for users of the framework to pin down the meaningful relevance to a specific Reit. For instance, on migration policy, this is now being tightened in Singapore, yet the office market, at least in terms of Grade A spot rents, is starting to see a recovery (from the September quarter).
- As I have always stressed, good business model revolved around great management. The key always lies in human which I can already see that you have focused a great bulk of the questions to seek clarity of the CG structure put in place. That to me is a correct direction to dive deeply into the human aspect of a business model.
- What is the geographical distribution of the REIT? (To see if the REIT is well diversified)
- What is the volatility of the REIT? (Relative comparison to other stocks and REITs for the investor)
- What is the breakdown of the fees (Management, administration fees)
- How does market forces affect your reit (Eg. Impact of commercial reits by the impact of e-commerce players?)
- What is the short, mid and long term outlook for the REIT? (For investors to decide if the future is rosy and also serves to see how good the management's forecast is a few years down the road)
- What are the company's organic and inorganic plans to increase its yield? (Inorganic is more exciting but carries more risk as it could involve equity financing and relies on the management's good judgement to acquire yield accretive rather than yield destructive assets)
- How many properties in the portfolio have master lease rentals that are higher than actual market rents? (Risk of downward rental revision when these expire , can ask follow up on how they intend to sustain the rents)
- Diversification - whether across geography or asset class is a double-edged sword. The key question is: does the management possessed the quality to ride this through.

- How does the company prioritise the interest of unitholders when it comes to pre-emptive rights and deciding on new acquisitions?
- What are the current challenges/headwinds the company is facing and how does do you intend to deal with the problem?
- Any equity financing needed ?
- What is the company's comfortable gearing ratio (Actually a pre-emptive question to watch out for equity financing if company is honest about this)
- What is the existing FFO and interest cost? Gives an idea of how much of the REITs OCF is consumed by financing costs/interest ?
- What is the debt distribution like for the next five years (Gives investor an idea on whether the debt is well spread out and serves as an early warning signs for possible equity financing)

- **East of understanding – suggestions to enhance the readability of my questioning framework**.
    - A long and detail questioning framework might not be useful for the typical investor. A more concise version that highlight the very core of what drives the industry might be more fitting.
    - Little knowledge is a dangerous thing; you must be clear with your potential end users the limitation of your research.
    - I particularly like the way you approach the question set from detailed, to intermediate and finally to a holistic approach. Very pictorial and easy to digest even for an outsider.
    - Validating your final format with industry experts as well as end users is a great idea.
    - What does "Infrastructure" mean, and does this framework hope to achieve? What is the commonality behind the questions in "Dealings with Key Partners"? What is the relevance of acquisition track record (performance related) to "Infrastructure"? Users of this framework need to under what "Infrastructure" is trying to address, which perhaps is not that clear at this point?
    - Don't believe there is a flat fee for Reit management. Like most active asset management firms (whether the asset class is bonds, stocks or property), there is typically an AUM component and a performance fee component. Why is management fee under this section?
    - Under key process flow, why is hedging strategies for interest rate hike under the "Infrastructure" umbrella? On a big picture basis, Reit manager attempt to create value (their business model) through three broad strategies – i) physical asset management (optimize rental yield and occupancy of the properties); ii) acquisitions; and iii) capital management (managing the funding aspect to minimize cost of capital). The interest rate hedging strategy would fall under capital management; so broadly speaking, why does capital management fall under "Infrastructure"? Likewise for the questions on lease renewal, acquisition pipeline and asset enhancement.
    - Regulatory risk is broad and can affect all aspects so maybe not at all clear why it is under revenue generation. One recent regulatory decision is on tax (eg. for foreign non-individual investors); so this affects dividend but not exactly revenue. Another non-revenue regulatory decision in recent years is the

cap on gearing to 45%. Again, this does not fall under revenue generation.

- For infrastructure, I think the first question in the box should be something along the lines of - What is your business model? (how do you make money). Be direct and to the point with your questioning template.
- It can be difficult to fully understand the entire chart at first glance. If you have time, would be ideal to select an REIT, put it through the questioning framework. If for any reason, the REIT cannot be explicitly named, mask out its name. Once you have a real reit, then you can see if the story flows AND if your charts are indeed useful.
- To begin with, perhaps it would be more effective to shoot management with more general questions, such as the following:
    - What are the big risk factors you look for?
    - What are the big success factors you look for?
    - Can you share with me some unique stories pertaining to your business model?
    - If you have got only 15 mins, what are the key things you would highlight out for me to look at?
- I particularly enjoy looking at the one diagram BMC as that provides a holistic guide that focused my attention to look at the key driving factors during industry analysis. Prevent myself from putting unduly weightage on certain factor. Very good instrument for minimizing analytical biases.
- Very nicely articulated work!
- You have very effectively categorized the 3 main areas of the business as
    - Infrastructure
    - Revenue generator
    - Financing
- I would suggest simplifying it further into less financial jargon terms without making too aggressive a shift. Have you perhaps considered
    - Business Model
    - Income
    - Cost/Expense
- I could put most of your very relevant points into the 3 categories above without much effort.

- Additionally, based on the queries, I am getting the impression that the questions are based on predominantly interviewing management and getting answers from them. I highly encourage looking at the problem from another perspective, the key question being "What can I learn about this firm WITHOUT asking management?"
- As an example: "Track Record of Yield Destructive Asset Acquisition" can be rephrased as "What is the track record of the acquisition by the management? Did their purchase increase the percentage yield of the firm or reduce it?"
- Further to my original suggestion that the 3 key clusters could be given alternative names, I have expanded the scope of Financing to include all types of costs associated with the business with financing being a key component.
- This is to encourage the layperson to drill into necessary understanding of how a REIT operates, whether management is effective at maintaining their assets and their operational methods. The 3 of them tie into each other, having a better understanding of operational expenses helps one have a better idea of a firm's business model/structure. Even non cash related queries such as "Does the management assume properties have an infinite life and have little or no depreciation accounted for, or do they have a plan to renew and rejuvenate assets?"
- A practice I try to adhere myself when trying to simplify concepts and understanding when providing material to anyone. This isn't a rule but a method. I call it 3 key points 3 tiers.
- Your framework pretty much fits into the structure where you have it presented so any cosmetic changes to help a layperson grasp the concepts before drilling into the detailed 3rd tier would help.
- Unique Proposition:
    - It is not clear as to the natural hedge refers to currency, or operations/business (eg a portfolio of hotels and office)
    - Diversification across assets (ie portfolio of hotels, offices and shopping malls) or diversification across geographic region (e.g shopping malls in China, Malaysia and HK etc) can be a unique proposition for REIT
    - Listing domain vs the location of underlying assets (e.g. listing in SGX but hold a portfolio of offices in the US).
- Revenue stream

        - Dividend should not be group under this as it is not revenue per se.
- Some of the Key Points you listed under unique proposition (For the BMC 3 Cluster file) does not really seem relevant to some of the clusters (I.e Modern facilities of physical assets and effective solutions to deal with disruptive innovations seems detached from Financing).
- As mentioned before, making the intent clear for interviewees is very key. Especially for practitioners who are not used to long sets of questions.
- I can see that you have attempted to come out with multiple versions of the questioning framework, which varies according to level of depth. This is a great idea given different user has varying needs.
- BMC Structure
    - Comes off as a massive web that may not be easily comprehensible to readers. Rather, I would prefer a pictorial illustration showing similar to attached capture.png file
    - From that illustration, we can derive the sub-structure of questions into the following: 1) income generator - focusing on operational aspects on deriving rental income from properties (OPERATIONS); 2) management and financing - focusing on area relating to mgt and trustee fees via REIT and trust structure and debt interest via financing arrangements (MANAGEMENT); and lastly 3) shareholders' entitlements - focusing on the area relating to dividends entitlement to unitholders, factors that affect these dividend streams (SHAREHOLDERS RIGHTS).
    - Proposed 1) income generator is similar to your revenue generator compartment originally depicted while proposed 2) fees & financing is to your financing compartment as well. To me, the questions in the "infrastructure" compartment can be categorised in either of the earlier two categories.
    - Thus my 3rd proposed compartment on shareholders' entitlements could be a new injection into the BMC structure of questions, depending on your scope of your BMC (it could be contained within just to business model of REIT and not overall REIT structure)
- Sub-structure - revenue generator

        - Sensitive affecting tenants take-up rate - questions are mostly relevant and well categorised in its current box
        - Customer relationships - suggest to rephrase questions on anchor tenants discount to something like "How much discount in rental rate you've given them and how has that range of discount been trending over the years?
    - Sub-structure - Financing
        - Cost structure - question on five-yr snapshot of FFO should be re-categorised into revenue generator box, probably under opreational maintenance
        - Proposed questions to add: how many principal banks you rely on for your financing? Which banks are they?
        - Proposed additions (under new management and financing): how is your (REIT manager) fees (incl bonus from assets/disposal of assets) derived? Is it a direct function to how much payouts unitholders will receive in a fiscal period?
        - Also to add: how are property manager's fees derived? Pegged to a function of rental income derived from assets or to valuation of the asset?
        - Questions under revenue stream can be categorised into either "revenue generator" or my proposed 3rd compartment - shareholders' entitlements (esp qn relating to DPU)
        - Add question: any ROFR rights to asset acquisitions and how exercising ROFR ensures you could acquire asset at the best possible value?
    - Sub-structure - infrastructure
        - Dealing with key partners - questions can be re-categorised proposed 2nd compartment "management and financing". Questions on rights issuance can be moved to 3rd compartment on shareholders' entitlements
        - Key Process - think these questions can also be moved to management and financing.
        - key process flow - questions can be moved to either revenue generator or management and financing
    - Newly proposed shareholders entitlement compartment
        - Proposed to include question if there's income support structure in the REIT whereby sponsor forgoes its rights to distributions. If so how much and how long before support cessation?

        - Add questions relating to how much REIT manager can opt for compensation in unitholdings instead of cash at best?
    - Relating to your REIT BCM, I found the questions generally reasonable. However, depending on how the questions are framed and the source of the answers, there can generally be politically correct answers that do not get to the nub of the issue.
    - If I were to be conducting your research, I would be asking my interviews the following question as well:
        - Tell me about REITs in Singapore & HK especially on:
            - What are the big risk factors to look for?
            - What are the big success factors you look for?
        - What do you normally hope to seek out of Senior management? Especially pertaining to stuffs that you can't find on annual reports.
        - Can you tell me some unique story during your analysis of REITs?
        - Tell me some sexy encounters you have with REIT investments?
        - If you got only 15 mins, what are the key things you look out for?
        - What other key questions that should be asked?
    - I understand that most of these questions have already been embedded in your BCS framework. What I am doing here is to "re-ask" them in an even more layman method which should appeal more with industry experts. With that, you should be able to "squeeze" out more "juice" from them.
    - I can see that the scope of your research is locked on the hospitality, industrial, office and retail sub sectors. This is crucial for the following reasons:
        - When analyzing REIT business model; it is not possible to cover the entire spectrum.
        - Rather the scope should be limited to those sectors where you can gain access to professional insights.

<u>Comments pertaining to important but not essential issues</u>:

- Not practical to solely rely on publicly available financial disclosures.
- The SGP2 presents a great case study.
- Every property is different. It is very hard to formulate a panacea-like questioning framework.

- An industry itself is too comprehensive to be covered within a simple questioning framework. And it is even more challenging for REIT which in essence is not an industry but rather more like an asset class with multiple industries.
- So while you aim for optimal comprehensiveness within each subsector, be cognizant that it is unlikely to cover every key factors; and more so with the passage of time where the weightage of each driving factor changes.
- A best effort approach is already highly admirable.
- Nevertheless, this research is a good effort and quite refreshing for the research industry. Look forward to seeing the analytical approach being applied by future researchers on other industries.
- REIT as an asset class has different characteristics, subject to their geographical location. While I understand that this is beyond the scope of this research, would be ideal if this caveat can be brought to the attention of readers as well as future researchers.
- Congratulations on your current endeavour, I wholeheartedly believe and am supportive of helping the public get a better understanding of investment choices and am happy to be part of your project.
- Execution is at the backbone of most businesses, particularly within the real estate industry. That cannot be observed directly through asking a set of questions; questions however can be used for gauging the quality of management and that should give you some sense of how good their execution truly is.
- The questioning framework is quite ideal for end users to start a debate during their desktop research, in the midst of questioning management in AGM as well as during financial modeling.
- At the very minimum, the framework should get investors to start asking the right question.
- In its most ideal form, it should become matrix that investors look at when analyzing REITs. Be it during, top down or bottom up fundamental analysis.
- The framework should rectify the following issues among REIT investors
    - Investment is all about making money while controlling the risk of losses.
    - Keep using the framework to debate why is this or that a good investment.
    - Money has to be invested for a period of time to generate sustainable dividend. Capital gain is a bonus for REIT industry, it should not be the core essence.

- Most REITs in Singapore are yield play. As such, their pricings are affected mostly by the market expectation of their forward yield.
- Most investors do not long at the long-term viability; which to me is myopic.
- Be it to buy or sell a stock, there needs to be a catalyst and this catalyst can often be found from a business model and be spun off into a story. Just that, sometime, this story can be fictitious.
- Investors should take note that an REIT should not be valued as a perpetual asset; which unfortunately many investors did.
- The proper mind set should be to extract an objective estimate of how much income can be derived from the asset in their finite life. Usually when it comes to expiry, value will tend to drop; and capital loss will occur.
- SGP2 just want to offload their assets to the REITs. If not, how come same environment, SGP2 perform so badly relative to AA REIT, Ascendas. So cross sectional comparison in this sense will shed a lot of lights.
- You questioning framework can carry a lot of weight in the sense that if management can't answer any of these questions; investors should just walk away.
- One question that retail investor should ask is can we just throw money onto REIT and leave it there. Remember REIT is not exactly a bond issue.
- Take the stuffs on IPO prospectus with a pinch of salt as mostly are boiler plate anyway.
- Your framework is not perfect but nonetheless a good start for market participants to rely upon and for future researchers to benchmark with.
- When looking at REIT, I focused around getting the real story behind the target company business model.
- Alpha of REIT should originate from yield; yet most investors look at REITs as a platform that can keep generate capital gain. There is hence a very wide disconnect between reality and fantasy. Investors should get this clear.

Comments pertaining to unconventional comments and/or themes:

- A small circle industry behind the scene among the population of REIT manager where almost everyone knows each other. Having the appropriate talent behind the helm is therefore very critical.
- So far, the analysis, have not touched on profile of investor. For unique proposition, you may want to highlight the uniqueness of the reit to WHOM? Like for me, I prefer a global reit (none in Sg), the closest is Ascott hospitality trust for diversification purpose across regions. Other may prefer a focused European play. You may want to add a question to address this.
- I am not so worried for the potential interest rate hike impact on REIT performance as all these are already priced in.
- I am also unlikely to have better insights than management in operating an asset. I would prefer not to focus on such factors though I know of their importance.
    - Sensitive questions affecting client take-up rate
    - Channels
    - Customer relationships
- Perhaps too much focus on macroeconomic factors which may be difficult for users of the framework to pin down the meaningful relevance to a specific Reit. For instance, on migration policy, this is now being tightened in Singapore, yet the office market, at least in terms of Grade A spot rents, is starting to see a recovery (from the September quarter).
- Additionally, based on the queries, I am getting the impression that the questions are based on predominantly interviewing management and getting answers from them. I highly encourage looking at the problem from another perspective, the key question being "What can I learn about this firm WITHOUT asking management?"

Comments that specifically address the appropriateness of the nine business model buckets:

- Unique proposition:
    - It is not clear as to the natural hedge refers to currency, or operations/business (eg a portfolio of hotels and office)
    - Diversification across assets (ie portfolio of hotels, offices and shopping malls) or diversification across geographic region (e.g shopping malls in China, Malaysia and HK etc) can be a unique proposition for REIT
    - Some of the Key Points you listed under unique proposition (For the BMC 3 Cluster file) does not really seem relevant to some of the clusters (I.e Modern facilities of physical assets and effective solutions to deal with disruptive innovations seems detached from Financing).

- Infrastructure (in general):
    - What does "Infrastructure" mean, and does this framework hope to achieve?
    - What is the relevance of acquisition track record (performance related) to "Infrastructure"?
    - Users of this framework need to under what "Infrastructure" is trying to address, which perhaps is not that clear at this point?
    - Under key process flow, why is hedging strategies for interest rate hike under the "Infrastructure" umbrella?
    - On a big picture basis, Reit manager attempt to create value (their business model) through three broad strategies – i) physical asset management (optimize rental yield and occupancy of the properties); ii) acquisitions; and iii) capital management (managing the funding aspect to minimize cost of capital). The interest rate hedging strategy would fall under capital management; so broadly speaking, why does capital management fall under "Infrastructure"?
    - Likewise for the questions on lease renewal, acquisition pipeline and asset enhancement.
    - For infrastructure, I think the first question in the box should be something along the lines of - What is your business model? (how do you make money). Be direct and to the point with your questioning template.

- Infrastructure - Dealings with key partners:
    - What is the commonality behind the questions in “Dealings with Key Partners”?
    - Dealing with key partners - questions can be re-categorised proposed 2nd compartment "management and financing". Questions on rights issuance can be moved to 3rd compartment on shareholders' entitlements

- Infrastructure - Key process flow:
    - Think these questions can also be moved to management and financing.
    - Questions can be moved to either revenue generator or management and financing

- Revenue generator (in general):
    - Sensitive affecting tenants take-up rate - questions are mostly relevant and well categorised in its current box
    - Customer relationships - suggest to rephrase questions on anchor tenants discount to something like "How much discount in rental rate you've given them and how has that range of discount been trending over the years?

- Financing:
    - Further to my original suggestion that the 3 key clusters could be given alternative names, I have expanded the scope of Financing to include all types of costs associated with the business with financing being a key component.
    - Proposed additions (under new management and financing): how is your (REIT manager) fees (incl bonus from assets/disposal of assets) derived? Is it a direct function to how much payouts unitholders will receive in a fiscal period?
    - Also to add: how are property manager's fees derived? Pegged to a function of rental income derived from assets or to valuation of the asset?

- Financing - Cost structure:
    - Question on five-yr snapshot of FFO should be re-categorised into revenue generator box, probably under opreational maintenance
    - Proposed questions to add: how many principal banks you rely on for your financing? Which banks are they?

- Financing - Revenue streams:
    - Regulatory risk is broad and can affect all aspects so maybe not at all clear why it is under revenue generation. One recent regulatory decision is on tax (eg. for foreign non-individual investors); so this affects dividend but not exactly revenue. Another non-revenue regulatory decision in recent years is the cap on gearing to 45%. Again, this does not fall under revenue generation.
    - Dividend should not be group under this as it is not revenue per se.
    - Questions under revenue stream can be categorised into either "revenue generator" or my proposed 3rd compartment - shareholders' entitlements (esp qn relating to DPU)

- General:
    - Comes off as a massive web that may not be easily comprehensible to readers. Rather, I would prefer a pictorial illustration showing similar to attached capture.png file
    - From that illustration, we can derive the sub-structure of questions into the following: 1) income generator - focusing on operational aspects on deriving rental income from properties (OPERATIONS); 2) management and financing - focusing on area relating to mgt and trustee fees via REIT and trust structure and debt interest via financing arrangements (MANAGEMENT); and lastly 3) shareholders' entitlements - focusing on the area relating to dividends entitlement to unitholders, factors that affect these dividend streams (SHAREHOLDERS RIGHTS).
    - Proposed 1) income generator is similar to your revenue generator compartment originally depicted while proposed 2) fees & financing is to your financing compartment as well. To me, the questions in the "infrastructure" compartment can be categorised in either of the earlier two categories.
    - Thus my 3rd proposed compartment on shareholders' entitlements could be a new injection into the BMC structure of questions, depending on your scope of your BMC (it could be contained within just to business model of REIT and not overall REIT structure)

    - Add question: any ROFR rights to asset acquisitions and how exercising ROFR ensures you could acquire asset at the best possible value?
    - Newly proposed shareholders entitlement compartment
        - Proposed to include question if there's income support structure in the REIT whereby sponsor forgoes its rights to distributions. If so how much and how long before support cessation?
        - Add questions relating to how much REIT manager can opt for compensation in unitholdings instead of cash at best?

Themes that were frequently mentioned:

- Corporate Governance (CG) related aspect:
    - The nature of the relationship between REITs and their sponsors.
    - Having in pace a strong corporate governance structure is extremely pertinent.
    - A very simple industry in my opinion. As such, the wild card usually boils down to integrity of management. And that is where the CG aspect is particularly important.
    - Is the manager’s performance incentive in-line with unitholder’s interest and is it sustainable going forward?
    - If managers are given fees for acquisition; there is a risk that manager might churn the portfolio.
    - As I have always stressed, good business model revolved around great management. The key always lies in human which I can already see that you have focused a great bulk of the questions to seek clarity of the CG structure put in place. That to me is a correct direction to dive deeply into the human aspect of a business model.

- The importance of asset and/or geographical diversification:
    - Diversification across assets (ie portfolio of hotels, offices and shopping malls) or diversification across geographic region (e.g shopping malls in China, Malaysia and HK etc) can be a unique proposition for REIT
    - What is the geographical distribution of the REIT? (To see if the REIT is well diversified)

    - Diversification - whether across geography or asset class is a double-edged sword. The key question is: does the management possessed the quality to ride this through.
    - I wonder if there is anything about the geographic diversification in the investment portfolio?

- Is the asset acquisition justifiable?
    - Logical justification for asset acquisition is important; especially with regards to the price paid for.
    - Rather than relying on so-called "3rd party" valuation report, the tracking of the mark-to-market value of asset during the subsequent years post acquisition might generate better insights into the business acumen of REIT managers.
    - During asset acquisition, is the purchase price truly reasonable?
    - A leopard never changes its spot. Poor acquisition and disposal track record is very likely persistent for all sort of dubious reasons. And more so in the world of REIT where it is very tough for unitholders to oust incompetent manager.
    - What are the rationales for undertaking such yield destructive acquisition?
    - What are the rationales for undertaking non yield accretive acquisition?
    - You seem to have a long history of acquiring properties at inflated prices?
    - Most of your acquiried properties came with a substantial market premium, could you provide the reasons for doing so?
    - And always remember, whatever assets that have gone into REITs is almost always overpriced. Sour Lemon.
    - Success and failure stories of their acquisition and disposal? Over time REITs can't hide these stories.

Appendix 7d - Categorized output from 2nd round of email exchange and interview

<u>Comments pertaining to essential issues</u>:

- Comprehensiveness – themes and questions that must be added or removed to enhance the comprehensiveness of my questioning framework.
    - Nothing too major. Participant 10 says most Reits have fixed the cost of debt for the upcoming five years. I don't believe that to be the case. It depends on how the debt cost is being hedged – whether through swaps or fixed rate bond. In the case of a swap, the expiry of the contract may not coincide with the duration of the debt (see Far East Hospitality Trust for example). Also, the average debt maturity of most Reit is less than five years, probably closer to three. I am worried about the interest rate hike impact on Reits as I believe much of this has not been priced in.
    - The incentive structure should be aligned as much as possible with the interest of reit shareholders - eg management fee as a percentage of NAV should be scrapped in favour of DPU growth and perhaps a base fee.
        - Similarly, fees for acquisition and disposal should be aligned to reit shareholders.
        - This goes for rights issue and placement if these are indeed possible.
        - It is the typical principal agent problem found in textbooks.
        - I am in favour of reit managers earning their keep rather than it being a given year upon year.
        - Perhaps even the removal of reit managers should be along the line of performance rather than a flat % fee out of NAV or equivalent.
    - It is very difficult to establish the quality of a reit management.
        - Therefore, reit investors should perhaps use track record as a proxy.
        - And look closely at underlying operating philosophy of the reit as well as strategy of the reit (if they do have one)
    - The sponsor versus non-sponsor nature of REITs has great implication pertaining to how they acquire and dispose their real assets.
    - A number of them also touched on the relationship between the REIT and its sponsor. Questions like whether or not the sponsor

is genuinely injecting a quality asset to the reit or "pressuring" the REIT into accepting a subpar or inflated asset is worth discussing. I would be especially keen on finding out how we can determine this. Otherwise, as one of your participants(1st one I think) shrewdly pointed out, the higher the % of ownership in the REIT the better ! We have also witnessed that the sponsors played a key role in helping SG Reits weather the credit crisis by getting behind the fund raising exercises (rights etc).

- Can't say I totally agree with some of the comments which points out a red flag whenever rent drops immediately after lease expiry (pertaining to office/retail/industrial reits). Rents are after all a function of current market dynamics and property manager's strategy to obtain the best price from the current economic conditions.
- There is a question suggested to be added which include "what is the volatility of the REIT?". I believe this should not be added as it's pertaining to capital market conditions and irrelevant to the REIT manager's ability on managing the REIT assets and maximising value to unitholders.
- My main comment is I agree with some of the comments that the questions could depend on the competence level of the expected reader.
- I'm super pro better governance as well; but as we've seen with the spike in bitcoin and all these crypto-currencies (despite all the central bank warnings), sometimes there is just no saving the man on the street from his own greed.
- Success and failure stories of their acquisition and disposal? Over time REITs can't hide these stories.
- What is the true motivation behind every manager's action?
- Debt profile with staggered expiry is usually preferred; so that the REIT does not incurred undue funding risk.
- Some comments are very focused on operation side of REIT, for me, I am not into meeting management; prefer desktop research.
- For me, I will pay a visit to malls and physical assets.
- Forecasting the macro events is even harder than analyzing REIT itself; so while macro factors are important, it may not be doable in reality.
- Some REIT actually backdate the price for management fees, or pay it in unit base, at level where it is not inline with current

market conditions. Even for big REITs like maple tree and capital ground. Remuneration lagging.

- I would like to see a large part of the management compensation being deferred, and preferable with reasonable claw back; so that they got paid only when the projected yield got realized or the performance of acquired and/or injected assets are truly as yield accretive as they have projected.
- When management have a choice of opting for their compensation in units or cash – I would like to see them making the choice years in advance instead of during the time period where the KPI results are announced. In short, we hope to strengthen the interest alignment between unit holders and management; reduce agency cost.
- I like this comment "Efficiency daily operation of property management company is important but tough to be inferred from financial statements." For instance, REIT performance can be front loaded, take for instance, they can boast current yield at the expense of staying out from acquisition which might be costly now but yield accretive in the future. Another example would be, not undertaking comprehensive AEI to save on cost, which might look good on P&L statements but will be yield destructive in the long run; especially for shopping malls.
- A lot of sales and lease back are just cash out attempts by the sponsors. fully agree, as the frequency of occurrence is high. The prices of these deals do not make objective sense and their value usually depreciate sharply post acquisitions; during the yearly market to market ….
- My finale comment for your BCS framework: more focus on CG.
- Management's execution track record?
- What are some of the things to lookout for in M&A?
- Do the REIT managers take a short/long term view on their acquisitions? freehold land? WALE length? Occupancy? Earnings accretive? Partnership with existing management after acquisition? cost of funding etc?
- I would place a lot of emphasis on Corporate Governance and level of engagement with investors.
- Price to RNAV, Yield, Gearing etc
- Who are their biggest investors and where are they investing in?
- Have the management spotted any excellent opportunities in the last 5 years?

  - What is the trend of their management remuneration package and did they manage to recruit anyone whom they felt could value add to their team/shareholders?
  - What is their debt distribution and have their dividends been consistent? If not then when and why? What steps have they taken to reduce the possibility of that happening again?

- East of understanding – suggestions to enhance the readability of my questioning framework.
  - From the interview feedback, participant 2 says that the framework is very pictorial and easy to digest, even for an outsider. Likewise, Participant 5 feels that the framework has been effectively categorized. Tend to agree more with Participant 4 in the email feedback that it is difficult to understand and digest. Comments from Participant 7 in the email feedback seems to point in this direction too.
  - Take "Infrastructure" for instance. Participant 4 and 5 believe it refers to business model (in other words, how the Reit makes money/ creates value?). Other participants seem to have inferred that it is more to do with corporate governance, given the list of questions (though it is then less clear why the subsector specific questions will fall under CG). Participant 8 believes that corporate governance should rightfully fall under business model.
  - Adding to the lack of clarity is the heading "Infrastructure" and sub-heading "Dealing with Key Partners" – nothing about these headings would train the thoughts of user's (of the framework) immediately towards corporate governance or business model. These are subsequently inferred from the questions.
  - From the experience of the various participants, it seems that users of the framework (as it is) may come away with different ideas as to what it is about. My take is that the framework is not that easy to understand – there are many relevant questions raised, but it may be a case of more information but less understanding (for the user).
  - Participant 4 says it is difficult to understand and digest the entire chart. The use of an example, as was suggested by Participant 4, may be worth considering.

- Perhaps rethinking the broad headings and reducing the list of questions.
- Under each heading, it might be helpful to state upfront what this part of the framework hopes to achieve and why it is important in appreciating a Reit structure/business model. When users grasp this, the questions are like to form more naturally, so can be less concerned about coming up with comprehensive list of questions for them.
- Very comprehensive framework, the missing touch is how to better facilitate end users to use it. I share with you the flow that I used during analysis on REIT counters.
    - Asset quality – to have a general feel of how things are going, current situation of the REIT
        - Geographical distribution
        - Asset type
    - Organic growth
        - Rental rate escalation → for retail sector, this may be a derivation of AEI
        - Occupancy % improvement
    - Inorganic growth – acquisition, for mega cap REIT, one or two acquisitions are not going to make a big difference to their overall yield;
    - Gearing - There have been instances of fund managers acquiring REIT with low gearing as these counters have more financial muscles to make yield accretive acquisition
    - Internal REIT manager might not be a good thing; most sponsors own the fund manager as a subsidiary, meaning they derive REIT management fees from the REIT vehicle; if the REIT manager is internalized, sponsors will lose this source of income and no longer aligned towards enhancing the REIT vehicle.
    - For retail sector, branded tenant is an asset.
    - And so on so for, …. As you observe, I am deploying a water fall cascading structure.
- I haven't seen anything "antagonistic" and have seen a few interesting points for myself. What I was surprised though, is that some of the replies would not be what I consider something for the Lay Person. [Even a very educated layman is going to be confused] Perhaps being a person who has been in multiple industries and having to learn jargon all over again makes me

more sensitive and emphatatic to what a non-insider would know and wouldn't know.

- Details as follow:
  - Particapent 1
    - "Long question framework might not be useful for the typical investor" [Totally agree. I suggested a middle ground myself by drilling into 3 levels]
    - VIP QUESTION: Are the managers' performance incentive in line with unit-holders' interest and is it sustainable? [very important for an investor to realise the enormity of this question. It is a very simple and logical question but requires some work to derive the answer.]
  - Participant 2
    - "Acquisition value versus price" [Common Warren Buffet quoute "Price is what you pay, value is what you get" He didn't orginate it, he mentions it often]
  - Participent 9
    - - "Particularly in HK where characters of REIT managers can be easily inferred from the wy they manage the malls...(the the 3 sub points)
    - [this is a very good way to look at REIT where it is more specific to such a business vs other businesses]
  - Participent 10
    - "Investors should take onte that a REIT should not be valued as a perpetual asset; which unfortunately many investors did." [Too true]
    - "The proper mind set should be to extract n objective estmae of how much income can be derived from the asset in their finite life" [Too many people don't consider this when looking at any business]
    - "Staggered loan profile is always the preference" [Another example of a specific thing to watch for in asset->long term loan heavy types of business. REITs or Utilities etc.]
  - Participant 11
    - "Money has to be invested for a period of time to generate sustainable dividend. Capital gain is a bonus for REIT industry, it should not be a core essense." [Like 10 before, a very important mindset.

If an investor is looking at capital gain for a REIT, they really need to go back to even higher level fundamentals on what they are looking for: cashflor or capital gains? You don't buy REIT for capital gain exposure]

- Participant 12
    - "One needs to be moe street smart when trying to understand the busines model of REIT. Take for instance, book value isn't exactly useful. And relative to historical figues - yield spread, div yield and price to book over time will more or less revert to some long run averages." [Another area more specific to REIT to watch for when going into intermediate details]
- Participant 13
    - "Asset Enhancement Scheme (AEI) - how and when shold a REIT decide that AEI is required? This is one of hte most important question an investor should throw out to the managment"
- Participant 16
    - "It is better to conduct AEI one at a time. When executed appropriately, the REIT structure can generate tremendous scaling effects. But as always over leverage can be catastriphic if mishandled." [And adds in the next point abot staggering debt again. REIT *NEEDS* debt to work, so looking into the debt structure is unfortunately something a detail oriented investor should look into]

- There is *nothing* I particularly disagrree with. I do respectfully disagree with Particpant 2 that the approach of being detailed, to intermediate and finally holistic is pictorial and easy to digest even for outsider. The only thing an outside would be able to grasp will be top level general/holistic stuff. I talk to outsiders all the time and I consider myself semi-outsider.
- I have suggested my modifications in my original reply. As a simple test, just pull out your presentation or matrix to any learned outsider. Give them 5 minutes. See if they understood your key points. Nothing beats testing it on a real outsider.
- Give a real life example to illustrate your points. A few emphasized Corporate Governance which is important.

- For DPU, you my want to ask the practice of Manager getting units in lieu of cash for management fee (maybe under key process but such practice is common)
- CG is a very important aspect of REIT, I have seen quite a few respondents emphasizing this aspect of the business model; which goes to highlight its core importance.
- I have seen this on the BMC framework; it might be worth making it more prominent to users on your final version.
- I have read through the responses by the other participants and am impressed by not just the breath but the sheer depth of understanding each of them possess. I am in agreement with Participant 5's suggestion on simplifying the 3 core areas of the business into more universally understandable terms such as Business Model, Income and Cost/Expense could help in engaging your target audience further.
- I have not much more to add. The overall idea is that it is very comprehensive. Perhaps too much that management would find be wary to reveal enough without their competitors finding out some of their secret sauce. As such I wonder if the investors can piece all these information together through crowd sourcing.
- Like the comment on asking management why they are taking yield destructive acquisition. I understand it may turn out to be strategic and yield accretive if the long run, if so, please justify?

Comments pertaining to important but not essential issues:

- If they want extra funding, instead of private placement; should give minority shareholders the first rights of refusal.
- Using DUPONT analysis, one can tell that for S-REITs, most of their yield are pure leverage game.
- In the absence of leverage, dividend yield should trend towards 3~4%. This is common for REITs listed in Europe.
- Also, for S-REIT, there is a lack of diversification; be it geography or type.
- In short, the high average dividend yield for REIT in Singapore might be reflective of the underlying risk.
- Investors value REITs as perpetual assets (ie industrial REITs which have short lease are traded at discount). US yield will not rise a lot.
- No framework is perfect and your framework looks ok to me.
- Dividend should not be grouped under this as it is not revenue per se.

- I applaud to the case study method; both during the desktop research as well as during the validation stage. Do pay particular attention to land mark cases involving misbehavior in CG.
- I like the part which suggest that REIT should not valued as a perpetual asset which I totally concur. I believe questions to be added to the framework should include "what is the weighted (land) lease expiry of properties in the REIT's portfolio?"
- For the SGP2 case, most instis' were aware the income support artificially inflated asset value by a large margin and therefore steered clear. Plus the income support was quite widely disclosed.
- If there is a governance oversight, it might be MAS needs to ban income support and to require all acquisitions by REITs to have shareholder approval.
- Perhaps the area that is least covered is dealing with what are some of the right valuations to use. In some ways the comments on valuation is what i agree the most. I dont have an antagonistic view towards what was written.
- One needs to be more street smart when trying to understand the business model of REIT. Take for instance, book value isn't exactly useful. And relative to historical figures - yield spread, dividend yield, and price to book over time will more or less revert to some long run averages.
- Investors should take note that an REIT should not be valued as a perpetual asset; which unfortunately many investors did.
- Like the comment on participant 10, REIT should not be valued as perpetuity.
- My main comment is I agree with some of the comments that the questions could depend on the competence level of the expected reader.

<u>Comments pertaining to unconventional comments and/or themes</u>:

- Nothing too major. Participant 10 says most Reits have fixed the cost of debt for the upcoming five years. I don't believe that to be the case. It depends on how the debt cost is being hedged – whether through swaps or fixed rate bond. In the case of a swap, the expiry of the contract may not coincide with the duration of the debt (see Far East Hospitality Trust for example). Also, the average debt maturity of most Reit is less than five years, probably closer to three. I am worried about the interest rate hike impact on Reits as I believe much of this has not been priced in.

- Can't say I totally agree with some of the comments which points out a red flag whenever rent drops immediately after lease expiry (pertaining to office/retail/industrial reits). Rents are after all a function of current market dynamics and property manager's strategy to obtain the best price from the current economic conditions.
- There is a question suggested to be added which include "what is the volatility of the REIT?". I believe this should not be added as it's pertaining to capital market conditions and irrelevant to the REIT manager's ability on managing the REIT assets and maximising value to unitholders.
- My main comment is I agree with some of the comments that the questions could depend on the competence level of the expected reader.
- Some comments are very focused on operation side of REIT, for me, I am not into meeting management; prefer desktop research.
- For me, I will pay a visit to malls and physical assets.
- Forecasting the macro events is even harder than analyzing REIT itself; so while macro factors are important, it may not be doable in reality.
- Who are their biggest investors and where are they investing in?
- What is the trend of their management remuneration package and did they manage to recruit anyone whom they felt could value add to their team/shareholders?
- What is their debt distribution and have their dividends been consistent? If not then when and why? What steps have they taken to reduce the possibility of that happening again?

<u>Comments that specifically address the appropriateness of the nine business model compartments</u>:

- Take "Infrastructure" for instance. Participant 4 and 5 believe it refers to business model (in other words, how the Reit makes money/ creates value?). Other participants seem to have inferred that it is more to do with corporate governance, given the list of questions (though it is then less clear why the subsector specific questions will fall under CG). Participant 8 believes that corporate governance should rightfully fall under business model.
- Adding to the lack of clarity is the heading "Infrastructure" and sub-heading "Dealing with Key Partners" – nothing about these headings

would train the thoughts of user's (of the framework) immediately towards corporate governance or business model. These are subsequently inferred from the questions.
- I have read through the responses by the other participants and am impressed by not just the breath but the sheer depth of understanding each of them possess. I am in agreement with Participant 5's suggestion on simplifying the 3 core areas of the business into more universally understandable terms such as Business Model, Income and Cost/Expense could help in engaging your target audience further.

<u>Theme that was frequently mentioned</u>: Corporate governance (CG):

- The incentive structure should be aligned as much as possible with the interest of reit shareholders - eg management fee as a percentage of NAV should be scrapped in favour of DPU growth and perhaps a base fee.
    - Similarly, fees for acquisition and disposal should be aligned to reit shareholders.
    - This goes for rights issue and placement if these are indeed possible.
    - It is the typical principal agent problem found in textbooks.
    - I am in favour of reit managers earning their keep rather than it being a given year upon year.
    - Perhaps even the removal of reit managers should be along the line of performance rather than a flat % fee out of NAV or equivalent.
- The sponsor versus non-sponsor nature of REITs has great implication pertaining to how they acquire and dispose their real assets.
- A number of them also touched on the relationship between the REIT and its sponsor. Questions like whether or not the sponsor is genuinely injecting a quality asset to the reit or "pressuring" the REIT into accepting a subpar or inflated asset is worth discussing. I would be especially keen on finding out how we can determine this. Otherwise, as one of your participants(1st one I think) shrewdly pointed out, the higher the % of ownership in the REIT the better ! We have also witnessed that the sponsors played a key role in helping SG Reits weather the credit crisis by getting behind the fund raising exercises (rights etc).
- I'm super pro better governance as well; but as we've seen with the spike in bitcoin and all these crypto-currencies (despite all the central bank

warnings), sometimes there is just no saving the man on the street from his own greed.

- What is the true motivation behind every manager's action?
- Some REIT actually backdate the price for management fees, or pay it in unit base, at level where it is not inline with current market conditions. Even for big REITs like maple tree and capital ground. Reumberation lagging.
- I would like to see a large part of the management compensation being deferred, and preferable with reasonable claw back; so that they got paid only when the projected yield got realized or the performance of acquired and/or injected assets are truly as yield accretive as they have projected.
- When management have a choice of opting for their compensation in units or cash – I would like to see them making the choice years in advance instead of during the time period where the KPI results are announced. In short, we hope to strengthen the interest alignment between unit holders and management; reduce agency cost.
- A lot of sales and lease back are just cash out attempts by the sponsors. fully agree, as the frequency of occurrence is high. The prices of these deals do not make objective sense and their value usually depreciate sharply post acquisitions; during the yearly market to market ….
- My finale comment for your BCS framework: more focus on CG.
- CG is a very important aspect of REIT, I have seen quite a few respondents emphasizing this aspect of the business model; which goes to highlight its core importance.
- I would place a lot of emphasis on Corporate Governance and level of engagement with investors.

Appendix 8 - Second draft questioning framework

Concise question set (General):

- Tell me more about your core competencies?
- If there is only 15 minutes, what would the management advise investors to look at to gain a holistic snapshot of the business model?
- What are the likely macro-economic scenarios that will affect your operation and its tangible effect on the total returns of the REIT?
- What are your major headwinds? And how do you intend to deal with them?
- Can the management share some unique stories pertaining to the REIT business model?
- Any impact from changes in demographics across your key markets?
- How tolerance is your business model towards hikes in interest rate?
- Can you provide some sense of the short-term demand and supply dynamics in your key markets?
- What is your average cost of debt financing?
- Do you expect positive rental reversion soon?
- Can you share with us your asset enhancement strategies?
- Please share with us the yield accretive acquisitions you have undertaken (if any). How did you convince the property owners to offload at such attractive pricings?
- Please cast some lights on your rental lease expiry profile. Is it well staggered?
- Can I have some sense of where you currently stand from market average in terms of average occupancy and rental rate?
- Is your debt gearing ratio healthy? How do you intend to finance future property acquisitions?
- Can you provide a snapshot of your annual net asset revaluation per share for the past five years?
- With regards to related party transactions, what are the internal safeguards to mitigate potential conflict-of-interest?
- Are there any track records of non-preemptive rights issuance?
- **For captive REIT only** - Is the property management company related to the sponsor? How are their fees structured? Is it predominantly a flat fee or is part of the fee incentive driven?
- Is there any overlap in directorship between the board of the sponsor and the board of the REIT manager?

- I hope to gain some sense of the scaling benefit in terms of reduction in management fees. What is your management fees to AUM ratio?
- Can you describe the compensation scheme for the REIT manager?
- Is there any embedded clause on the trust deed that could be utilized by the sponsor to issue non-pre-emptive shares to themselves to fence off hostile takeover?

Concise question set (Industrial):

- Is your business model highly correlated with consumer spending across the respective geographies?
- What are the key sectors underpinnings your tenant mix?
- How diversified is your pool of tenant mix?
- Are there any structural changes within the local economy of your key markets that will exert huge impact on your business model?
- How is the land space dynamics evolving in your key markets?
- Relative to the market, how did your occupancy rates fare?
- How are your key assets coping with asset enhancement?
- Are there any major disruptive innovations on the horizon that are expected to have a huge impact on industrial REITs?

Concise question set (Hospitality):

- Can you share with me the geographical diversity of your guest pool? Are you particularly reliant on guests from a specific country?
- Has currency fluctuation exerted strong influence on your business revenue?
- Are changes in business spending affecting your business model?
- Is secular shift in the hiring preferences within the banking and finance industry affecting your business model?
- Do you have any contingency plans for catastrophic events such as disease outbreak and terrorist attack?
- How is the add-on room supply trend across your key markets for the upcoming three years?
- Is your business model heavily affected by Airbnb? Do you foresee any other disruptive innovations within the hospitality REIT industry?

Concise question set (Retail):

- Have you experienced a change in consumption sentiments among the mass population in your key markets?
- Is the revenue from your key markets sensitive to changes in tourist arrival numbers?
- Is there a positive relationship between the level of median income in your key markets and your revenue?
- Can I have some sense of the country wide retail net absorption rates for the past five years across your key markets?
- Relative to the market, how did your occupancy rates fare?
- For the next three years, are you expecting significant amount of add-on retail spaces across your key markets?
- How do you decide which asset to undergo physical enhancement? What do you look out for during asset physical enhancement?
- Is the rise of online shopping platform giving your business model a run for your money? How has it affected your respective key markets? How do you intend to deal with it?

Concise question set (Office):

- Do changes in GDP statistics correlate strongly with your top and bottom lines? Which are the key markets whose occupancy rates are relatively more sensitive towards changes in GDP?
- Are changes in unemployment rate the critical drivers behind office space demand across your key markets? If so, please provide a detailed narration of your worst and best key markets on this aspect.
- Are changes in corporate profits outlook exerting a big impact on the business models across your key markets? If so, please provide a detailed narration of your worst and best key markets on this aspect.
- Can I have some sense of the country wide (and where applicable city wide and district wide as well) office net absorption rates for the past five years across your key markets? Relative to the market, how did your occupancy rates fare?
- For the next three years, are you expecting significant amount of add-on retail spaces across your key markets? If so, how would you cope with it?
- What is the average lease maturity? Is it well staggered?
- Is your business model under the challenge of disruptive innovations? If so, what are they? And how do you intend to cope with them?

Detailed question sets:

Questions for the REIT industry – General:

1. Macroeconomics and demographics
    a. Is the economic growth rate in your key markets sustainable? Where suitable, provide specific examples to highlight the vibrancy of the local environments.
    b. How would a deviation in your forecasted growth rate impact your business in the short and long run?
    c. There has been evidence of widening income equality across the world, how does this affect your business strategy?
    d. How are the property business cycles in your respective key markets? Are you coping well with all the headwinds?
    e. All REITs are affected by the threat of an interest rate hike. How tolerance is your business model towards a general hike in interest rate; in terms of both magnitude and duration?
    f. What pre-emptive measures did you undertake to mitigate the potential impact of an interest rate hike?
    g. Tell us more about the FOREX rate volatilities that your business model is being exposed to. Did you undertake any hedging? If so, how did you do it? Please quantify your hedging cost as a percentage of the operating income and/or operating expenses.
    h. Is there a natural hedge between your source of financing and your operating cash flow?[40]
    i. Tell me more about the demographics profile across your key markets? Within the next 5 to 10 years, how will these demographics changes impact your business?
    j. Is migration trend a key factor in your business model?
    k. Is the government immigration policy in your key markets favorable for your business model?

2. Short term demand and supply dynamics.
    a. How are the short-term demand and supply dynamics of your target markets affecting your business model?
    b. Is there anything we as investors should take note of; especially pertaining to market sentiments?
    c. Is there any regulatory issue that is affecting the short-term demand and supply dynamics across your key markets?

[40] Natural hedge occurs when a REIT's property is in a country similarly to its debt provider.

3. Scale[41] related factors
    a. I hope to gain some sense of the scaling benefit in terms of reduction in management fees. What is your management fees to AUM ratio?
    b. Does size (in terms of AUM) exert any influence on your relationship with anchor tenants? Is it always the bigger the better?
    c. In terms of asset mix, both pure play and diversified mode have their respective pros and cons. How do you strike an optimal balance between these two operational styles[42]?
    d. How many properties have you acquired over the last three years?

4. Debt financing
    a. What is your average cost of debt financing? Can you provide a range?
    b. Why is there such a wide range? (If the range is too wide) Can you explain[43]?
    c. Is the REIT able to tap into multiple sources of funding? How many principal banking relationships do you reply on for debt financing?
    d. How has the management performed in the past with regards to capital raising?
    e. Pertaining to leverage, how much room for maneuver does the REIT still has in place?
    f. During times of distress, is the sponsor open to providing subsidized loans or guarantees for the REIT's debts?
    g. What is the long term comfortable gearing ratio for management? How did they arrive at this number?

5. Equity financing
    a. Given that rights issue is always undertaken at a discount to market value, how did management safeguard the interest of existing unitholders?
    b. Are the unitholders given first-right-of refusal during rights issue?
    c. What are the factors that influence the size of price discount given to rights issue for private and public placement?

[41] The greater the AUM, the more prominent the scale effect.
[42] A common reason given is that the optimal style is dependent on both the mandate of the REIT as well as the expectations of cornerstone investors.
[43] One of the most common reason given: different funding sources have varying cost of capital.

d. How has the management reacted during financing crises?
e. How pervasive is non-preemptive rights issue during financing crises?

6. Operational efficiency and efficacy
    a. Is the average rental for your key markets above or below market level? What are the reasons for deviation (if any)?
    b. If the average rental is higher than industry average, how they intend to sustain it going forward?
    c. Will there be rental reversion in the near term, mid-term and long term? What is the underlying logic?
    d. Please describe your lease renewal strategy.
    e. What are your asset enhancement strategies? Track records - near future and in the long run.
    f. The process flow for asset enhancement initiative. When and how would the REIT embark on AEI?
    g. What are the options available to management for further yield optimization through asset management?
    h. How stable was your dividend payout history? What strategies did you deploy to maintain stability in DPU?
    i. Can you provide a history of your AFFO versus dividend payout?
    j. Does the management foresee any changes to DPU to suit their operating needs?
    k. Does the REIT adopt any special dividend policy when disposing real asset?
    l. Can I have a feel of the dividend yield that most of your institutional investors are expecting? What is your strategy to meet or perhaps exceed this expectation?
    m. Please share with us the yield accretive acquisitions you have undertaken (if any). How did you convince the property owners to sell you at such an attractive price?
    n. When scouting for properties to acquire, what are the key attributes[44] you usually examine before making the final decision?
    o. How have historical asset acquisitions performed over time? Have mark-to-mark revaluation led to unrealized losses? Over a five-year period, post-acquisition, have these assets been yield accretive or erosive?

[44] Examples of such attributes would include location, size of project, demographics of the surrounding neighborhood, expected break-even time horizon, potential capital gain, expected rental yield, suitable co-invest partner and suitable property management company.

p. What selection criteria does the management use when deciding on the property management vendor?

7. Physical asset attributes
   a. Can we have a holistic understanding pertaining to the locational advantages of your prime assets across various key markets?
   b. Would your prime assets be affected by any future developmental work by the local government? If so, please describe them in detail.
   c. Are your prime assets exposed to catastrophic risks? If so, what steps can be taken to mitigate the effects from these risks.
   d. Is having modern state-of-the-art facilities a major selling point of your physical assets? If so, please provide the examples.
   e. For diversified REITs - How did you minimize the structural disadvantage associated with your diversified asset portfolio?
   f. Please cast some lights on your rental lease expiry profile. Is it well staggered?
   g. What is the average asset lease expiry profile compared to that of general market in each geography?
   h. Do you rely on anchor tenants to stabilize the rental income generated from your prime assets? If so, how much discount in rental rate have you given up?
   i. Can I have some sense of where you currently stand from market average in terms of occupancy and rental rate?
   j. Is there any uniqueness about the land deed or land lease that we as investors should take note about?

8. Financial metrics
   a. What is your definition of recurring capital maintenance expenses – what does it include? Can you provide a snapshot of your annual FFO and or AFFO per share for the past five years?
   b. Can you provide a snapshot of your DPU for the past five years?
   c. Is your debt profile sufficiently staggered? Can you provide the break down?
   d. Is your debt gearing ratio healthy? How do you intend to finance future property acquisition?
   e. Would you like to explain why your price-to-book value per share is above/below market average?
   f. Can you provide a snapshot of your annual net asset revaluation per share for the past five years?

9. Corporate governance issues
    a. During EGMs for asset acquisition and disposal, voice out the following questions (<u>if relevant and appropriate</u>) to management:
        i. Why was the asset bought? Can you explain step-by-step how is it going to be yield accretive over the long run?
        ii. What are the risks involved?
        iii. Why have you chosen this new geographical region to invest in?
        iv. For REIT that diversify beyond their mandate/out of their specialization – What is the reason? What makes the management believe that they might have a competitive advantage to undertake such alien execution?
        v. During low rental rate environment - did the management undertake strategic disposal of assets as well as capital reduction to generate value for unitholders?
    b. Can you share with us the process of selecting the realty valuator during property revaluation?
    c. With regards to related party transactions, what are the specific internal safeguards put in place to mitigate potential conflict-of-interest?
    d. Are there any track records of non-preemptive rights issuance?
    e. For REITs with internal managers:
        i. How are the board members selected?
        ii. How are the remuneration committee members selected?
        iii. How are the audit committee members selected?
        iv. Can you describe the internal audit reporting process?
        v. How independent are the board of directors?
        vi. Did any of the director sit on the board of other REITs?
    f. Is the REIT structure captive?
    g. If the structure is captive, what is the process flow for asset revaluation during real estate transfer from the sponsor to the REIT?
    h. Is the first-right-of-refusal given to the REIT when sponsor has asset to dispose?
    i. What is the percentage of rental income deemed to the sponsor (inclusive of management fees)?
    j. What is the percentage ownership of the REIT held by the sponsor?
    k. What is the percentage ownership of the REIT manager held by the sponsor?

l. Are there any anchor tenants that are related to the sponsor? If so, what is the percentage discount in rental rates relative to that of average specialty tenants in the same building?
m. Is the property management company related to the sponsor? How are their fees structured? Is it predominantly a flat fee or is part of the fee incentive driven?
n. Do you engage an advisor? If so, how is the compensation being structured? And is the advisor related to the sponsor?
o. Is the trustee independent from both the REIT manager and the sponsor? And how is their compensation being structured?
p. Is the REIT manager related to the sponsor?
q. Is there any overlap in directorship between the board of the sponsor and the board of the REIT manager?
r. Does the REIT manager manage other REITs concurrently?
s. Can you describe the compensation scheme for the REIT manager?
    i. What is the management fee to AUM ratio? How has this ratio evolved over the years?
    ii. How is the manager's performance incentive in-line with unitholder's interest and is it sustainable going forward?
    iii. Can you provide a breakdown of the percentage of remuneration that is derived as a fixed percentage of total AUM versus incentive bonus during the past five years?
    iv. Is the REIT manager getting units in lieu of cash for their management/incentive fees? How is the balance between cash and unit reward strike?
    v. Can you provide a year by year history of the amount of management fees paid in units, versus total management fees?
    vi. What are the measures put in place to prevent the REIT manager from amassing the AUM for their own benefit?
    vii. How will the manager be awarded during property acquisition and disposal?
    viii. Is there a high-water mark scheme or claw back clause for REIT manager's incentive for yield erosive investment? If so, what are the key criteria that must be fulfilled?
t. Is there a formal process for the removal of incompetent manager? If so, what are the key criteria that must be fulfilled?
u. Can you also describe the process flow for ousting a manager?

v. During the removal of the REIT manager, is there any golden parachute? If so, does the compensation commensurate with industry average?
w. Is there any embedded clause on the trust deed that could be utilized by the sponsor to issue non-pre-emptive shares to themselves to fence off hostile takeover?
x. How is the investment committee selected?

10. Opportunities and threats

a. What are the most pressing current challenges faced by the REIT and how the management intend to deal with these headwinds?
b. What is the REIT's growth strategy, is it organically dominant or inorganically dominant? What are the rationales behind?
c. Can you provide some visibility of the assets available to be acquired in the near future? Are these potential acquisitions rental yield accretive?
d. Can you provide some guidance on the pipeline of assets that will be acquired from the sponsor?
e. Are the governmental policies in your key markets favorable for your business model? Please narrate with specific explanations.
f. Are these governmental policies in your key markets feasible for implementation[45]? Please narrate with specific explanations.

[45] In other words, I am trying to gauge whether these announced governmental policies are merely hearsays or would eventually be executed.

Detailed questions for the REIT industry – Industrial:

1. Demand side
    a. Is your business model highly correlated with consumer spending across the respective key markets?
    b. If so, what are the consumption outlooks in these key markets?
    c. What are the key sectors underpinnings your tenant mix?
    d. To what extent is your business model influenced by the intensity of export and import activities across your key markets? Can you elaborate more on how they work?
    e. Are there any structural changes within the local economy of your key markets that are expected to have huge impact on your business model?
    f. How does oil price correlate with your business model?
    g. Do you keep a close watch on the Purchasing Manager's Index in your key markets? If so, can you briefly discuss how you strategize your three-year plan with the information obtained from the Purchasing Manager's Index?
    h. Do you closely monitor the subtle changes in inventory and stock of finished goods statistics across your key markets? How does the information fit into your three-year strategic plan?

2. Supply side
    a. How is the land space dynamics evolving in your key markets? Especially pertaining to changes in occupancy across the various industrial land use sub sectors as well as across other non-industrial land use sub sectors. Relative to the market, how did your occupancy rates fare?
    b. How has the average tenancy turnover rate changed during the past five years?
    c. Are different industrial land use sub sectors good substitutes for each other in your key markets?
    d. Are there any properties that can only be rented out for specific specifications/tenants? More granular information is appreciated.
    e. Are you affected by re-zoning at the country wide level?
    f. Based on existing government blueprint, is there any significant increase in new industrial land space across your key markets?
    g. How do you mitigate all the above potential supply side risks?

3. Asset specific issues
    a. How diversified is your pool of tenant mix?

b. Are your tenants interdependent on each other to reap the benefits from proximity cluster across your key markets? Please elaborate with specific examples.
c. Is facility automation one of your key selling points? Please explain with specific examples.
d. How are your key assets faring in terms of having access to transportation network? Please narrate with specific examples.
e. What is the potential of your properties to maximize their plot ratio?
f. What is the redevelopment potential of the land and properties the REIT own?

4. Opportunities and threats
    a. Do you agree that the industrial REIT sector is relatively more vulnerable to physical asset depreciation compared to other sectors such as office, retail and hospitality?
    b. How are your key assets coping with asset enhancement?
    c. Are there any major disruptive innovations that are expected to have a huge impact on existing industrial REITs? How do you intend to cope with it?

Detailed questions for the REIT industry – Hospitality:

1. Demand side
    a. Do changes in tourist arrival statistic exert strong impact on your business model?
    b. Can you share with me the geographical diversity of your guest pool? Is there strong reliance on guests from a specific country?
    c. On average, how many nights does each guest stay for a trip? For the past five years, how has this trend evolved?
    d. How has the spending power of your guests changed over the past five years?
    e. Has currency fluctuation exerted strong influence on your business revenue?
    f. Are you affected by any new development in geopolitical sensitivities?
    g. Are changes in business spending affecting your business model?
    h. Is there a secular shift in the hiring preferences within the banking and finance industry? If so, how would it affect your business model?

i. Do you derive a big portion of your guest traffic from MICE events? If so, do you foresee any changes in the demand for MICE events?
j. Do you have any contingency plans for catastrophic events such as disease outbreak and terrorist attack?

2. Supply side
   a. How has the market wide occupancy rate been evolving in your key markets during the past five years? How has your occupancy rate been faring when compared to it?
   b. How is the add-on room supply trend in your key markets for the upcoming three years?
   c. Is your business model heavily affected by Airbnb? Do you foresee any other disruptive innovations within the hospitality REIT industry?

3. Relevant government blueprints
   a. Are the government in your key markets doing anything to improve their transportation infrastructure?
   b. Are the major tourist hotspots in your key markets undergoing any major physical enhancement?
   c. Are the government in your key markets launching any tourism promotion campaign?

Detailed questions for the REIT industry – Retail:

1. Demand side
   a. Do changes in GDP statistics correlate strongly with your top and bottom lines?
   b. Have you experienced a change in consumption sentiments among the mass population in your key markets? Is the shift in consumption sentiments due to real or perceived changes in general wealth?
   c. Is the revenue from your key markets sensitive to changes in tourist arrival numbers?
   d. For the key markets that are relying heavily on tourist traffic; are the sources of tourist arrival well diversified or concentrated among a few locations? If concentrated among a few locations, which are those?

e. For the key markets that are relying heavily on tourist traffic; is there a subtle shift in spending habit? If so, how do you intend to cope with it?
f. Is FOREX fluctuation a major concern for your business model? Please elaborate.
g. Are there any geopolitical sensitivities brewing in the background that are expected to be detrimental for your key markets?
h. In a bullish residential market, consumers tend to spend more on discretionary products. Did you encounter the same experience across your key markets?
i. Is there a positive relationship between the level of median income in your key markets and your revenue?
j. Have you experienced changes in consumer spending across your key markets that are the results of changing demographics, educational level and/or technological evolution? How did you cope with them?

2. Supply side
    a. Can I have some sense of the country wide retail net absorption rates for the past five years across your key markets? Relative to the market, how did your occupancy rates fare?
    b. For the next three years, are you expecting significant amount of add-on retail spaces across your key markets? If so, how would you cope with it?
    c. How has the average tenancy turnover rate changed during the past five years?

3. Asset specific
    a. What is the average sales to rent ratio of the REIT’s tenants? How has this trend evolved during the past five years?
    b. Is the rise of online shopping platform given your business model a run for your money? How has it affected your respective key markets? How do you intend to deal with it?
    c. What are the key surrounding amenities you look for when acquiring a shopping mall?
    d. Do you conduct thematic promotional campaign that cut through all your assets in each key market? Has it been successful?
    e. Can you provide some insights on how you undertake thematic vendor management in your key markets? How do you optimize your tenant mix?

    f. How do you decide which asset to undergo physical enhancement? What do you look out for during asset physical enhancement?
    g. Can you narrate on the asset enhancement blueprints for the next three years across your key markets?

4. Relevant government blueprints
    a. Are the governments in your key markets doing anything to improve their transportation infrastructure?
    b. Are the major tourist hotspots in your key markets undergoing any major physical enhancement?
    c. Are the governments in your key markets launching any tourism promotion campaign?

Detailed questions for the REIT industry – Office:

1. Demand side
    a. Can you provide some details on the geographical zoning of the physical assets across your key markets? Are they concentrated in the CBD, outer CBD or outlying business park regions?
    b. Are changes in unemployment rate the critical drivers behind office space demand across your key markets? If so, please provide a detailed narration of your worst and best key markets on this aspect.
    c. Are changes in corporate profits outlook exerting a big impact on the business models across your key markets? If so, please provide a detailed narration of your worst and best key markets on this aspect.
    d. Are your key markets sensitive to subtle shifts in the hiring trend within the banking and finance industry?
    e. Do changes in GDP statistics correlate strongly with your top and bottom lines? Which are the key markets whose occupancy rates have demonstrated exceptional sensitivity towards changes in GDP?

2. Supply side
    a. Can I have some sense of the country wide (and where applicable city wide and district wide as well) office net absorption rates for the past five years across your key markets? Relative to the market, how did your occupancy rates fare?

b. For the next three years, are you expecting significant amount of add-on retail spaces across your key markets? If so, how would you cope with it?
c. How has the average tenancy turnover rate changed during the past five years?
d. Across your key markets, do you see a significant shift of office demand out from CBD to the outlying zone? If so, how have your business model been affected? And what are you going to do about it?

3. Asset specific
   a. What is the average lease maturity? Is it well staggered?
   b. Is your business model under the challenge of disruptive innovations? If so, what are they? And how do you intend to cope with them?
   c. Can you briefly describe your tenant characteristics? Are you collecting premium rental rates from them? If so, why are you able to do so?
   d. Does getting green building certification enhances your ability to collect premium rent? If so, can you narrate with some examples?
   e. When it comes to collecting premium rent rates; what are the other factors that your business model has successfully relied upon?

Appendix 9 - Third draft questioning framework

Concise question set (General):

- Can you provide an overview on the current REIT landscape?
- Relative to the current landscape, what are your core competencies?
- If there is only 15 minutes, what would the management advise investors to look at to gain a holistic snapshot of the business model?
- What are the major risk factors; how do you intend to deal with them?
- Can the management share some unique stories? Especially pertaining to unique incidents of asset acquisition.
- Please share with us the yield accretive acquisitions you have undertaken (if any). How did you convince the property owners to offload at such attractive pricings?
- Any impact from changes in demographics across your key markets?
- How tolerance is your business model towards hikes in interest rate?
- What is your average cost of debt financing?
- Is your debt gearing ratio healthy? How do you intend to finance future property acquisitions?
- Do you expect positive rental reversion soon?
- Can you share with us your asset enhancement strategies?
- Please cast some lights on your rental lease expiry profile. Is it well staggered?
- Can I have some sense of where you currently stand relative to market average in terms of occupancy and rental rate?
- With regards to related party transactions, what are the internal safeguards to mitigate potential conflict-of-interest?
- Are there any track records of non-preemptive rights issuance?
- **For captive REIT only** - Is the property management company related to the sponsor? How are their fees structured? Is it predominantly a flat fee or is part of the fee incentive driven?
- Is there any overlap in directorship between the board of the sponsor and the board of the REIT manager?
- I hope to gain some sense of the scaling benefit in terms of reduction in management fees. What is your management fees to AUM ratio?
- Can you describe the compensation scheme for the REIT manager?
- Can you provide some sense of the short-term demand and supply dynamics across your key markets?

Concise question set (Industrial):

- What are the key sectors underpinnings your tenant mix?
- How diversified is your pool of tenant mix?
- Are there any structural changes within the local economy of your key markets that will exert huge impact on your business model?
- How is the land space dynamics evolving in your key markets?
- How are your key assets coping with asset enhancement?
- Are there any major disruptive innovations on the horizon that are expected to have a huge impact on industrial REITs across your key markets?

Concise question set (Hospitality):

- Can you share with us the geographical diversity of your guest pool? Are you particularly reliant on guests from a specific country?
- Has currency fluctuation exerted strong influence on your revenue?
- Are changes in business spending affecting your business model?
- Is secular shift in the hiring preferences within the banking and finance industry affecting your business model?
- Do you have any contingency plans for catastrophic events such as disease outbreak and terrorist attack?
- How is the add-on room supply trend across your key markets for the upcoming three years?
- Is your business model heavily affected by Airbnb? Do you foresee any other disruptive innovations within the hospitality REIT industry?

Concise question set (Retail):

- Have you experienced a change in consumption sentiments among the mass population in your key markets?
- Is the revenue from your key markets sensitive to changes in tourist arrival numbers?
- Can I have some sense of the country wide retail net absorption rates for the past five years across your key markets?
- For the next three years, are you expecting significant amount of add-on retail spaces across your key markets?
- How do you decide which asset to undergo physical enhancement? What do you look out for during asset physical enhancement?

- Is the rise of online shopping platform giving your business model a run for your money? How has it affected your respective key markets? How do you intend to deal with it?

Concise question set (Office):

- Which are the key markets whose occupancy rates are relatively more sensitive towards changes in GDP?
- Are changes in unemployment rate the critical drivers behind office space demand across your key markets? If so, please provide a detailed narration of your worst and best key markets on this aspect.
- Are changes in corporate profits outlook exerting a big impact on the business models across your key markets? If so, please provide a detailed narration of your worst and best key markets on this aspect.
- Can I have some sense of the country wide (and where applicable city wide and district wide as well) office net absorption rates for the past five years across your key markets?
- For the next three years, are you expecting significant amount of add-on retail spaces across your key markets? If so, how would you cope with it?
- What is the average lease maturity? Is it well staggered?
- Is your business model under the challenge of disruptive innovations? If so, what are they? And how do you intend to cope with them?

Detailed question sets:

Detailed questions for the REIT industry – General:

1. Macroeconomics and demographics
    a. Is the economic growth rate in your key markets sustainable? Can you provide specific examples to highlight the economic vibrancy of your key markets?
    b. How are the property business cycles in your respective key markets? Are you coping well with the associated headwinds?
    c. Widening income inequality is gathering pace as a global phenomenon, how does this affect your business strategy?
    d. All REITs are affected by the threat of an interest rate hike. How tolerance is your business model towards a general hike in interest rate, in terms of both magnitude and duration?
    e. What pre-emptive measures did you undertake to mitigate the potential impact of an interest rate hike?
    f. Tell us more about the FOREX rate volatilities that your business model is being exposed to. Did you undertake any hedging? If so, how did you execute it? Please quantify your hedging cost as a percentage of the operating income and/or operating expenses.
    g. Is there a natural hedge between the source of financing and your operating cash flow?[46]
    h. Tell us more about the demographics profile across your key markets? Within the next 5 to 10 years, how will these demographics changes impact your business?
    i. Is migration trend a key factor for consideration in your business? If so, are the immigration policies in your key markets favorable?

2. Short term demand and supply dynamics.
    a. How are the short-term demand and supply dynamics of your target markets affecting your business model?
    b. Is there any regulatory issue that is affecting the short-term demand and supply dynamics across your key markets?

3. Debt financing
    a. Can you provide a range for your average cost of debt financing? Can you explain[47] why (if the range is too wide)?

[46] Natural hedge occurs when a REIT's property is in a country similarly to its debt provider.
[47] One of the most common reason given: different funding sources have varying cost of capital.

b. Are you able to tap onto multiple sources of funding? How many principal banking relationships do you rely on for debt financing?
c. For debt leverage, how far off are you away from statutory limits?
d. What is the long-term comfortable gearing ratio for management? How did they arrive at this number?
e. Is your debt profile sufficiently staggered? Can you provide the break down?
f. Do you intend to finance future property acquisition with more debt issuance?

4. Equity financing
    a. Rights issue is always undertaken at a discount to market value, how do you safeguard the interest of existing unitholders?
    b. Are unitholders given first-right-of refusal during rights issue?
    c. What are the factors that influence the size of price discount given to rights issue during private and public placement?
    d. Are there any track records of non-preemptive rights issuance?
    e. Can you share with us your experience of dealing with financing issues during economic crises?
    f. Do you intend to finance future property acquisition with more equity issuance?

5. Operational efficiency and efficacy
    a. I hope to gain some sense of the scaling[48] benefit in terms of reduction in management fees. What is your management fees to AUM ratio?
    b. Does size (AUM) exert any influence on your relationship with anchor tenants? Is it always the bigger the better?
    c. In terms of asset mix, both pure play and diversified mode have their respective pros and cons. How do you strike an optimal balance between these two operational styles[49]?
    d. Is the average rental for your key markets above or below market level? What are the reasons for deviation (if any)?
    e. If the average rental is higher than industry average, how do you intend to sustain it going forward?
    f. Will there be rental reversion in the near term, mid-term, and long term? What is the underlying logic?
    g. Please describe your lease renewal strategy.

[48] The greater the AUM, the more prominent the scale effect.
[49] A common reason given is that the optimal style is dependent on both the mandate of the REIT as well as the expectations of cornerstone investors.

h. What are your asset enhancement strategies? Share with us your track records - near future and in the long run.
i. Can you share with us your process flow for asset enhancement initiative (AEI)? Under what situation will AEI be activated?
j. What are the options available to management for further yield optimization through asset management?
k. How stable was your dividend payout history?
l. Can you provide a history of your AFFO versus dividend payout?
m. Does the management foresee any changes to DPU to suit their operating needs?
n. Does the REIT adopt the practice of giving out special dividend payout during asset disposal? If not, why?
o. How many properties have you acquired over the last three years?
p. Please share with us the yield accretive acquisitions you have undertaken (if any). How did you convince the property owners to sell you at such an attractive price?
q. When scouting for properties to acquire, what are the key attributes[50] you usually examine before making the final decision?
r. How have historical asset acquisitions performed over time? Have mark-to-mark revaluation led to unrealized losses? Over a five-year period, post-acquisition, have these assets been yield accretive or erosive?
s. What selection criteria does the management use when selecting the property management vendor?
t. Can I have a feel of the dividend yield that most of your institutional investors are expecting? What is your strategy to meet or exceed this expectation?

6. Physical asset attributes
    a. Can we have a holistic understanding pertaining to the locational advantages of your prime assets across various key markets?
    b. Would your prime assets be affected by any future developmental work by the local government? If so, please describe them in detail.
    c. Are your prime assets exposed to catastrophic risks? If so, what steps have been taken to mitigate the effects from these risks.
    d. Is having modern state-of-the-art facilities a major selling point for your physical assets? If so, please provide specific examples.

[50] Examples of such attributes would include location, size of project, demographics of the surrounding neighborhood, expected break-even time horizon, potential capital gain, expected rental yield, suitable co-invest partner and suitable property management company.

e. For diversified REITs - How did you minimize the structural disadvantage associated with your diversified asset portfolio?
f. Please cast some lights on your rental lease expiry profile. Is it well staggered?
g. What is your average asset lease expiry profile compared to that of general market in each of your key markets?
h. Do you rely on anchor tenants to stabilize the rental income generated from your prime assets? If so, how much discount in rental rate did you give up?
i. Can I have some sense of where you currently stand from market average in terms of occupancy and rental rate?
j. Is there any uniqueness about the land deed or land lease that we as investors should take note about?

7. Financial metrics
    a. What is your definition of recurring capital maintenance expenses – what does it include? Can you provide a snapshot of your annual FFO and or AFFO per share for the past five years?
    b. Can you provide a snapshot of your DPU for the past five years?
    c. Would you like to explain why your price-to-book value per share is above/below market average?
    d. Can you provide a snapshot of your annual net asset revaluation per share for the past five years?

8. Corporate governance issues
    a. During EGMs for asset acquisition and disposal, voice out the following questions (<u>if relevant and appropriate</u>) to management:
        i. Why was the asset bought? Can you explain step-by-step how is it going to be yield accretive over the long run?
        ii. What are the risks involved?
        iii. Why did you choose a new geographical region to invest in?
        iv. For REIT that diversify beyond their mandate/out of their specialization – What is the reason? What makes the management believe that they might have a competitive advantage to undertake such alien execution?
        v. During low rental rate environment - did the management undertake strategic disposal of assets as well as capital reduction to generate value for unitholders?
    b. Can you share with us the exact process of selecting the realty valuator during property revaluation?

c. With regards to related party transactions, what are the specific internal safeguards put in place to mitigate potential conflict-of-interest?
d. For REITs with internal managers:
    i. How are the board members selected?
    ii. How are the remuneration committee members selected?
    iii. How are the audit committee members selected?
    iv. Can you describe the internal audit reporting process?
    v. How independent are the board of directors?
    vi. Did any of the director sit on the board of other REITs?
e. Is the REIT structure captive?
f. If the structure is captive, what is the process flow for asset revaluation during real estate transfer from the sponsor to the REIT?
g. What is the percentage ownership of the REIT held by the sponsor?
h. Is the REIT manager related to the sponsor? If so, what is the percentage ownership of the REIT manager held by the sponsor?
i. Is the first-right-of-refusal given to the REIT when sponsor has asset to dispose?
j. What is the percentage of rental income deemed to the sponsor (inclusive of management fees)?
k. Are there any anchor tenants that are related to the sponsor? If so, what is the percentage discount in rental rates relative to that of average specialty tenants in the same building?
l. Is the property management company related to the sponsor? How are their fees structured? Is it predominantly a flat fee or is part of the fee incentive driven?
m. Do you engage an advisor? If so, how is the compensation being structured? And is the advisor related to the sponsor?
n. Is the trustee independent from both the REIT manager and the sponsor? And how is their compensation being structured?
o. Is there any overlap in directorship between the board of the sponsor and the board of the REIT manager?
p. Does the REIT manager manage other REITs concurrently?
q. Can you describe the compensation scheme for the REIT manager?
    i. What is the management fee to AUM ratio? How has this ratio evolved over the years?
    ii. How is the manager's performance incentive in-line with unitholder's interest and is it sustainable going forward?

iii. Can you provide a breakdown of the percentage of remuneration that is derived as a fixed percentage of total AUM versus incentive bonus during the past five years?
iv. Is the REIT manager getting units in lieu of cash for their management/incentive fees? How is the balance between cash and unit reward strike?
v. Can you provide a year-by-year history of the amount of management fees paid in units, versus total management fees?
vi. What are the measures put in place to prevent the REIT manager from amassing AUM for their own benefit?
vii. How will the manager be awarded during property acquisition and disposal?
viii. Is there a high-water mark scheme or claw back clause for REIT manager's incentive for yield erosive investment? If so, what are the key criteria that must be fulfilled prior to scheme/clause activation?

r. Is there a formal process for the removal of incompetent manager? If so, what are the key criteria that must be fulfilled prior to process activation?
s. Can you also describe the process flow for ousting a manager?
t. During the removal of the REIT manager, is there any golden parachute? If so, does the associated monetary compensation commensurate with industry average?
u. Is there any embedded clause on the trust deed that could be utilized by the sponsor to issue non-pre-emptive shares to themselves to fence off hostile takeover?
v. How is the investment committee selected?

9. Opportunities and threats
    a. Enlighten us on the most pressing challenges faced by the REIT and how management intend to deal with these headwinds?
    b. What is the REIT's growth strategy, is it organically dominant or inorganically dominant? What are the rationales behind?
    c. Can you provide some visibility of the assets available to be acquired in the near future? Are these potential acquisitions rental yield accretive?
    d. Can you provide some guidance on the pipeline of assets that will be acquired from the sponsor?

e. Are the governmental policies in your key markets favorable for your business model? Please narrate with specific explanations.
f. Are these governmental policies in your key markets feasible for implementation[51]? Please narrate with specific explanations.

[51] In other words, I am trying to gauge whether these announced governmental policies are merely hearsays or would eventually be executed.

Detailed questions for the REIT industry – Industrial:

1. Demand side
    a. Is your business model highly correlated with consumer spending across the respective key markets?
    b. If so, what are the consumption outlooks in these key markets?
    c. What are the key sectors underpinnings your tenant mix?
    d. To what extent is your business model influenced by the intensity of export and import activities across your key markets? Can you elaborate more on how they work?
    e. Are there any structural changes within the local economy of your key markets that are expected to have huge impact on your business model?
    f. How does oil price correlate with your business model?
    g. Do you keep a close watch on the Purchasing Manager Index (PMI) in your key markets? If so, can you briefly discuss how you strategize your three-year plan with the information obtained from PMI?
    h. Do you closely monitor the subtle changes in inventory and stock of finished goods statistics across your key markets? How does this information fit into your three-year strategic plan?

2. Supply side
    a. How is the land space dynamics evolving in your key markets? Especially pertaining to changes in occupancy across the various industrial land use sub sectors as well as across other non-industrial land use sub sectors.
    b. How has the average tenancy turnover rate changed during the past five years?
    c. Are different industrial land use sub sectors good substitutes for each other in your key markets?
    d. Are there any properties that can only be rented out for specific specifications/tenants? More granular information is appreciated.
    e. Are you affected by re-zoning at the country wide level?
    f. Based on existing government blueprint, is there any significant increase in new industrial land space across your key markets?
    g. How do you to mitigate all the above potential supply side risks?

3. Asset specific issues
    a. How diversified is your pool of tenant mix?

   b. Are your tenants interdependent on each other to reap the benefits from proximity cluster across your key markets? Please elaborate with specific examples.
   c. Is facility automation your key selling point? Please explain with specific examples.
   d. How are your key assets faring in terms of having access to transportation network? Please narrate with specific examples.
   e. What is the potential of your properties to maximize their plot ratio?
   f. What is the redevelopment potential of the land and properties the REIT own?

4. Opportunities and threats
   a. Do you agree that the industrial REIT sector is relatively more vulnerable to physical asset depreciation compared to other sectors such as office, retail, and hospitality? Why is that so?
   b. How are your key assets coping with asset enhancement?
   c. Are there any major disruptive innovations that are expected to have a huge impact on existing industrial REITs? How do you intend to cope with it?

Detail questions for the REIT industry – Hospitality:

1. Demand side
   a. Do changes in tourist arrival statistic exert strong impact on your business model?
   b. Can you share with me the geographical diversity of your guest pool origination? Is there strong reliance on guests from a specific country?
   c. On average, how many nights does each guest stay for a trip? For the past five years, how has this trend evolved?
   d. How has the spending power of your guests evolved over the past five years?
   e. Has currency fluctuation exerted strong influence on your business revenue?
   f. Are you affected by new development in geopolitical sensitivities?
   g. Are changes in business spending affecting your business model?
   h. Is there a secular shift in the hiring preferences within the banking and finance industry? If so, how it is going to affect your business model?

i. Do you derive a big portion of your guest traffic from MICE events? If so, do you foresee any changes in the demand for MICE events?
j. Do you have any contingency plans for catastrophic events such as disease outbreak and terrorist attack?

2. Supply side
    a. How has the market wide occupancy rate been evolving in your key markets during the past five years?
    b. How is the add-on room supply trend in your key markets for the upcoming three years?
    c. Is your business model heavily affected by Airbnb? Do you foresee any other disruptive innovations within the hospitality REIT industry?

3. Relevant government blueprints
    a. Are the government in your key markets doing anything to improve their transportation infrastructure?
    b. Are the major tourist hotspots in your key markets undergoing any major physical enhancement?
    c. Are the government in your key markets launching any tourism promotion campaign?

Detail questions for the REIT industry – Retail:

1. Demand side
    a. Do changes in GDP statistics correlate strongly with your top and bottom lines? How does this relationship differ across your key markets?
    b. Have you experienced a change in consumption sentiments among the mass population in your key markets? Is the shift in consumption sentiments due to real or perceived changes in general wealth?
    c. Is the revenue from your key markets sensitive to changes in tourist arrival numbers?
    d. For the key markets that are relying heavily on tourist traffic; are the sources of tourist arrival well diversified or concentrated among a few locations? If concentrated among a few locations, which are those?

e. For the key markets that are relying heavily on tourist traffic; is there a subtle shift in spending habit? If so, how do you intend to cope with it?
f. Is FOREX fluctuation a major concern for your business model? Please elaborate.
g. Are there any geopolitical sensitivities brewing in the background that are expected to be detrimental for your key markets?
h. In a bullish residential market, consumers tend to spend more on discretionary products. Did you encounter the same experience across your key markets?
i. Is there a positive relationship between the level of median income in your key markets and your revenue?
j. Have you experienced changes in consumer spending across your key markets that are the results of changing demographics, educational level and/or technological evolution? How did you cope with them?

2. Supply side
    a. Can I have some sense of the country wide retail net absorption rates for the past five years across your key markets?
    b. For the next three years, are you expecting significant amount of add-on retail spaces across your key markets? If so, how would you cope with it?
    c. How has the average tenancy turnover rate changed during the past five years?

3. Asset specific
    a. What is the average sales to rent ratio of your tenants? How has this trend evolved during the past five years?
    b. Is the rise of online shopping platform given your business model a run for your money? How has it affected your respective key markets? How do you intend to deal with it?
    c. What are the key surrounding amenities you look out for when acquiring a shopping mall?
    d. Do you conduct thematic promotional campaign that cut through all your assets in each key market? Has it been successful?
    e. Can you provide some insights on how you undertake thematic vendor management in your key markets? How do you optimize your tenant mix?

f. How do you decide which asset to undergo physical enhancement? What do you look out for during AEIs?
g. Can you narrate on the asset enhancement blueprints for the next three years across your key markets?

4. Relevant government blueprints
   a. Are the governments in your key markets doing anything to improve their transportation infrastructure?
   b. Are the major tourist hotspots in your key markets undergoing any major physical enhancement?
   c. Are the governments in your key markets launching any tourism promotion campaign?

Detail questions for the REIT industry – Office:

1. Demand side
   a. Can you provide some details on the geographical zoning of the physical assets across your key markets? Are they concentrated in the CBD, outer CBD, or outlying business park regions?
   b. Are changes in unemployment rate the critical drivers behind office space demand across your key markets? If so, please provide a detailed narration of your worst and best key markets on this aspect.
   c. Are changes in corporate profits outlook exerting a big impact on the business models across your key markets? If so, please provide a detailed narration of your worst and best key markets on this aspect.
   d. Are your key markets sensitive to subtle shifts in the hiring trend within the banking and finance industry?
   e. Do changes in GDP statistics correlate strongly with your top and bottom lines? Which are the key markets whose occupancy rates have demonstrated exceptional sensitivity towards changes in GDP?

2. Supply side
   a. Can I have some sense of the country wide (and where applicable city wide and district wide as well) office net absorption rates for the past five years across your key markets?

b. For the next three years, are you expecting significant amount of add-on retail spaces across your key markets? If so, how would you cope with it?
c. How has the average tenancy turnover rate changed during the past five years?
d. Across your key markets, do you see a significant shift of office demand out from CBD to the outlying zone? If so, how have your business model been affected? And what are you going to do about it?

3. Asset specific
    a. What is your average lease maturity? Is it well staggered?
    b. Is your business model under the challenge of disruptive innovations? If so, what are they? And how do you intend to cope with them?
    c. Can you briefly describe your tenant characteristics? Are you collecting premium rental rates from them? If so, why are you able to do so?
    d. Does getting green building certification enhances your ability to collect premium rent? If so, can you narrate with some examples?
    e. When it comes to collecting premium rent rates; what are the other factors that your business model has successfully relied upon?

Appendix 10 - Final draft questioning framework

Detailed classification version:

Internal stakeholder & process flow related

- Is the REIT structure captive? If yes, what is the process flow for asset revaluation during real estate transfer from the sponsor to the REIT?
- What is the percentage ownership of the REIT held by the sponsor?
- Is the REIT manager related to the sponsor? If so, what is the percentage ownership of the REIT manager held by the sponsor?
- Is the first-right-of-acquisition given to the REIT when sponsor has asset to dispose?
- What is the percentage of rental income deemed to the sponsor (inclusive of management fees)?
- Are there any anchor tenants that are related to the sponsor? If so, what is the percentage discount in rental rates relative to that of average specialty tenants in the same building?
- Is the property management company related to the sponsor? How are their fees structured? Is it predominantly a flat fee or is part of the fee incentive driven?
- Do you engage an advisor? If so, how is the compensation being structured? And is the advisor related to the sponsor?
- Is the trustee independent from both the REIT manager and the sponsor? And how is their compensation being structured?
- Is there any overlap in directorship between the board of the sponsor and the board of the REIT manager?
- Does the REIT manager manage other REITs concurrently?
- Can you describe the compensation scheme for the REIT manager?
    - What is the management fee to AUM ratio? How has this ratio evolved over the years?
    - How is the manager's performance incentive in-line with unitholder's interest and is it sustainable going forward?
    - Can you provide a breakdown of the percentage of remuneration that is derived as a fixed percentage of total AUM versus incentive bonus during the past five years?
    - Is the REIT manager getting units in lieu of cash for their management/incentive fees? How is the balance between cash and unit reward strike?
    - Can you provide a year-by-year history of the amount of management fees paid in units, versus total management fees?
    - What are the measures put in place to prevent the REIT manager from amassing AUM for their own benefit?
    - How will the manager be awarded during property acquisition and disposal?

    - Is there a high-water mark scheme or claw back clause for REIT manager’s incentive during instances of yield erosive investment? If so, what are the key criteria that must be fulfilled prior to scheme/clause activation?
- Is there a formal process for the removal of incompetent manager? If so, what are the key criteria that must be fulfilled prior to process activation?
- Can you also describe the process flow for ousting a manager?
- During the removal of the REIT manager, is there any golden parachute? If so, does the associated monetary compensation commensurate with industry average?
- Is there any embedded clause on the trust deed that could be utilized by the sponsor to issue non-pre-emptive shares to themselves to fence off hostile takeover?
- How is the investment committee selected?
- With regards to related party transactions, what are the specific internal safeguards put in place to mitigate potential conflict-of-interest?
- Can you share with us the exact process of selecting the realty valuator during property revaluation?
- For REITs with internal managers:
    - How are the board members selected?
    - How are the remuneration committee members selected?
    - How are the audit committee members selected?
    - Can you describe the internal audit reporting process?
    - How independent are the board of directors?
    - Did any of the director sit on the board of other REITs?

Physical asset related

- Please describe your lease renewal strategy.
- What are your asset enhancement strategies? Share with us your track records - near future and in the long run.
- Can you share with us your process flow for asset enhancement initiative (AEI)? Under what situation will AEI be activated?
- What are the options available to management for further yield optimization through asset management?
- How many properties have you acquired over the last three years?
- Please share with us the yield accretive acquisitions you have undertaken (if any). How did you convince the property owners to sell you at such an attractive price?
- When scouting for properties to acquire, what are the key attributes you usually examine before making the final decision?
- How have historical asset acquisitions performed over time? Have mark-to-mark revaluation led to unrealized losses? Over a five-year period, post-acquisition, have these assets been yield accretive or erosive?
- What selection criteria does the management use when selecting the property management vendor?
- Can we have a holistic understanding pertaining to the locational advantages of your prime assets across various key markets?
- Would your prime assets be affected by any future developmental work by the local government? If so, please describe them in detail.
- Are your prime assets exposed to catastrophic risks? If so, what steps have been taken to mitigate the effects from these risks.
- Is having modern state-of-the-art facilities a major selling point for your physical assets? If so, please provide specific examples.
- Please cast some lights on your rental lease expiry profile. Is it well staggered?
- Is there any uniqueness about the land deed or land lease that we as investors should take note about?
- During EGMs for asset acquisition and disposal, voice out the following questions (if relevant and appropriate) to management:
    - Why was the asset bought? Can you explain how it is going to be yield accretive over the long run?
    - What are the risks involved?
    - Why did you choose a new geographical region to invest in?
    - For REIT that diversify beyond their mandate/out of their specialization – What is the reason? What makes the management believe that they might have a competitive advantage to undertake such alien execution?
    - During low rental rate environment - did the management undertake strategic disposal of assets as well as capital reduction to generate value for unitholders?

Funding related

- Can you provide a range for your average cost of debt financing? Can you explain why (if the range is too wide)?
- Are you able to tap onto multiple sources of funding? How many principal banking relationships do you rely on for debt financing?
- For debt leverage, how far off are you away from statutory limits?
- What is the long-term comfortable gearing ratio for management? How did they arrive at this number?
- Is your debt profile sufficiently staggered? Can you provide the break down?
- Do you intend to finance future property acquisition with more debt issuance?
- Rights issue is always undertaken at a discount to market value, how do you safeguard the interest of existing unitholders?
- Are unitholders given first-right-of refusal during rights issue?
- What are the factors that influence the size of price discount given to rights issue during private and public placement?
- Are there any track records of non-preemptive rights issuance?
- Can you share with us your experience of dealing with financing issues during economic crises?
- Do you intend to finance future property acquisition with more equity issuance?

Accounting figures related

- How stable was your dividend payout history?
- Can you provide a history of your AFFO versus dividend payout?
- Does the management foresee any changes to DPU to suit their operating needs?
- Does the REIT adopt the practice of giving out special dividend payout during asset disposal? If not, why?
- What is your definition of recurring capital maintenance expenses – what does it include? Can you provide a snapshot of your annual FFO and or AFFO per share for the past five years?
- Can you provide a snapshot of your DPU for the past five years?
- Would you like to explain why your price-to-book value per share is above/below market average?
- Can you provide a snapshot of your annual net asset revaluation per share for the past five years?

External factors related

- Is the economic growth rate in your key markets sustainable? Can you provide specific examples to highlight the economic vibrancy of your key markets?
- How are the property business cycles in your respective key markets? Are you coping well with the associated headwinds?
- Widening income inequality is gathering pace as a global phenomenon, how does this affect your business strategy?
- All REITs are affected by the threat of an interest rate hike. How tolerance is your business model towards a general hike in interest rate, in terms of both magnitude and duration?
- What pre-emptive measures did you undertake to mitigate the potential impact of an interest rate hike?
- Tell us more about the FOREX rate volatilities that your business model is being exposed to. Did you undertake any hedging? If so, how did you execute it? Please quantify your hedging cost as a percentage of the operating income and/or operating expenses.
- Is there a natural hedge between the source of financing and your operating cash flow?
- Tell us more about the demographics profile across your key markets? Within the next 5 to 10 years, how will these demographics changes impact your business?
- Is migration trend a key factor for consideration in your business? If so, are the immigration policies in your key markets favorable?
- Are the governmental policies in your key markets favorable for your business model? Please narrate with specific explanations.
- Are these governmental policies in your key markets feasible for implementation? Please narrate with specific explanations.
- How are the short-term demand and supply dynamics of your target markets affecting your business model?
- Is there any regulatory issue that is affecting the short-term demand and supply dynamics across your key markets?
- Will there be rental reversion in the near term, mid-term, and long term? What is the underlying logic?

Peer comparable metrics related

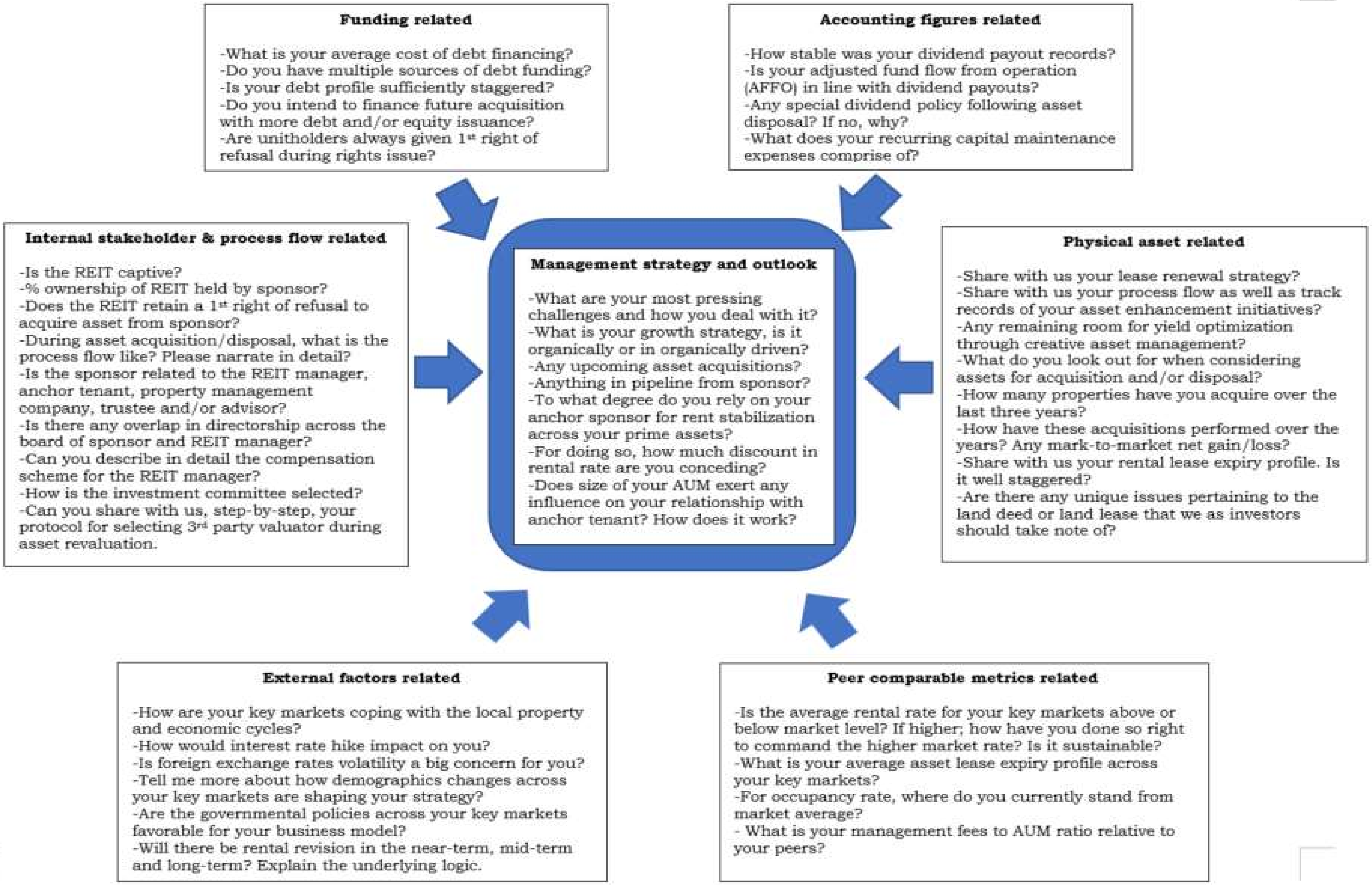
- Is the average rental for your key markets above or below market level? What are the reasons for deviation?
- If the average rental is higher than industry average, how do you intend to sustain it going forward?
- What is your average asset lease expiry profile compared to that of general market in each of your key markets?
- Can I have some sense of where you currently stand from market average in terms of occupancy rate?

- I hope to gain some sense of the scaling benefit in terms of reduction in management fees. What is your management fees to AUM ratio?

Management strategy and outlook

- Enlighten us on the most pressing challenges faced by the REIT and how management intend to deal with these headwinds?
- What is the REIT's growth strategy, is it organically dominant or inorganically dominant? What are the rationales behind?
- Can you provide some visibility of the assets available to be acquired in the near future? Are these potential acquisitions rental yield accretive?
- Can you provide some guidance on the pipeline of assets that will be acquired from the sponsor?
- In terms of asset mix, both pure play and diversified mode have their respective pros and cons. How do you strike an optimal balance between these two operational styles?
- For diversified REITs - How did you minimize the structural disadvantage associated with your diversified asset portfolio?
- Do you rely on anchor tenants to stabilize the rental income generated from your prime assets? If so, how much discount in rental rate did concede?
- Can I have a feel of the dividend yield that most of your institutional investors are expecting? What is your strategy to meet or exceed this expectation?
- Does size (AUM) exert any influence on your relationship with anchor tenants? Is it always the bigger the better?

Pictorially condensed version:



Appendix 11 – Out-of-sample case studies

Case 1 – Singapore: Cambridge Industrial Trust (CIT) and Aims Amp Cap Industrial Trust (AAREIT) during 2009

Background Information: CIT is an industrial REIT listed on Singapore Exchange (SGX) in 25th July 2006. During the time of this case study, CIT owns a portfolio of 42 properties which comprised of logistics, storage and warehousing, manufacturing, and showroom facilities in Singapore. On 6th to 9th November 2009, CIT acquired 9.76 percent of MacArthur Cook Industrial REIT[52] (MI-REIT) and became its substantial shareholder (Pica 2011).

MI-REIT was listed on SGX in 19 April 2007. During the time of this case study, MI-REIT owns a portfolio of 12 properties in Singapore. On 30th November 2009, MI-REIT was acquired by AIMS Financial Group in a recapitalization plan. Subsequently, MI-REIT was renamed to AAREIT (Pica 2011).

The REIT manager of CIT was Cambridge Industrial Trust Management (CITM). CITM was a joint venture between Cambridge Real Estate Investment Management (CREIM), CWT, and Mitsui & Co (Pica 2011).

The REIT manager of MI-REIT was MacArthur Cook Investment Managers (MIM). MIM was a joint venture between MacArthur Cook and United Engineers Development (Pica 2011).

Case Development: Post global financial crisis in the middle of 2009, MI-REIT got into liquidity problems. Two of its major loans were set to mature at the end of 2009. To make matter worse, its debt to total asset ratio has escalated beyond the statutory limit of 35 percent at that time to about 65 percent (Pica 2011). The reason being real estate prices in Singapore had also undergone a steep correction during that period which resulted in the asset side of MI-REIT balance sheet to shrink drastically in a short period.

There are two major implications from these. First, MI-REIT need to refinance the two loans that are due to mature soon. Post global financial crisis, it is extremely hard to secure bank loans (Pica 2011). Even if bank loans can be secured, the credit terms would be highly unfavorable.

Second, in addition to sourcing for new liquidity to refinance the soon to mature loans, MI-REIT also need fresh capital to lower its gearing ratio back to below 35 percent. Like debt financing, it is extremely hard to secure capital injection in the midst of the 2009 global credit crunch. Even if equity capital

[52] MI REIT was later renamed as AAREIT.

can be found, the terms are likely to be highly unfavorable. The other channel to source for new capital would be through real asset disposal.

In light of this, CIT was keen to acquire MI-REIT's real asset. In July 2009, CIT proposed a merger plan which was eventually rejected. Four months later, on 6th November 2009, CIT once again approached MI-REIT with a new merger plan. But once again, it was rejected. Because of that, CIT spent S$10.5 million in the open market to purchase 9.76% of MI-REIT shares. Henceforth, CIT became one of MI-REIT substantial shareholder.

On 13th November 2009, CIT requested MI-REIT to remove MIM as the manager and appoint CTTM as the new manager. This request was eventually veto down by MAS on 20th November 2009. The reason given by the Singapore regulator was that there will be potential conflict of interest if CTTM was to take up a dual role as asset manager for two REITs at the same time.

At the same time, MI-REIT announced its recapitalization plan of S$217 million involving two institutional investors. The proposed deal involved S$62 million shares placed out to the two institutional investors at heavily discounted price. Also, another S$155 million raised through a two-for-one pro-rata rights offer for all existing unitholders. The two institutional investors are AIMS Financial Group and AMP Capital.

On 16th November 2009, CIT voted against the above proposal by MI-REIT. CIT also convened an extraordinary general meeting to encourage minority shareholders to support their vote.

On 20th November 2009, CIT announced that they are dropping the recommendation for CITM to be appointed as MI-REIT's manager. However, CIT still encourage other shareholders to vote against the proposed recapitalization plan by AIMS Financial Group and AMP Capital.

On 23rd of November 2009 however, an extra ordinary meeting was held by MI-REIT where the recapitalization proposal was approved with a vote of simple majority by the participants who were present.

On 30th November 2009, the recapitalization was completed. The new units issued represented 85 percent of the total units outstanding. Subsequently MI-REIT was renamed AAREIT.

This recapitalization exercise has resulted in draconian share dilution for unit holders who were holding onto MI-REIT shares before the recapitalization exercise where:

- Before the recapitalization plan, cash distribution per share was 3.45 cents.
- After the recapitalization plan, cash distribution per share dropped to 1.04 cents (Pica 2011).

Post recapitalization, AAREIT's share prices dropped by more 50 percent.

Lessons learnt: There are several takeaways from this saga. First, CITM attempted to be the manager for both MI-REIT and CIT at the same time. Even though this was eventually turned down by MAS. The attempt itself reflected a lack of specific regulations on addressing potential conflict-of-interest issues with regards to the same asset manager operating multiple REITs during that time.

Second, MI-REIT was in a financially distressed mode post global financial crisis. MI-REIT registered huge balance sheet write-off due to a market black swan event. That resulted in their gearing ratio to breach statutory limit. To make matters worse, MI-REIT is due to refinance two of their biggest loans; and doing so at a time when banks are freezing their balance sheet while the primary bond market are essentially dried up.

It is therefore apparent that REIT as an asset class is not immune to systemic volatility that plagued the equity market. In addition, despite enjoying scale economies[53] and portfolio diversification[54], REIT as an asset class still faces the same margin call risk as per any leveraged instrument. When market black swan arrives, all leveraged financial instruments are at risk.

Most importantly, the long-held perception that REITs as an asset class is akin to bond investment in terms of income regularity do not hold. REIT is not bond, nor is it the usual equity instrument. REITs behave more like a leveraged real estate investment pool that is exposed to downturn in property cycle as per any direct physical real estate investment.

Finally, the recapitalization move by AIMS Financial Group and AMP Capital is a classic example of legal but opportunistic behavior within the capital markets. On hind sights, both these institutional players are bottom fishing.

Under normal circumstances, the extremely dilutive non-preemptive shares issues would most probably never get pass shareholder voting. But during November 2009, the environment was anything but normal.

[53] Given the size of an REIT, investing in a REIT should incur less operating expenses compared to investing in a single physical property. Most of these cost savings comes in the form of a centralized asset management team and lower insurance expenses on a per unit basis.

[54] An REIT invests in a huge basket of real estate, and with it the potential risk diversification.

Case 2 – Singapore: Fortune REIT during 2009

Background Information: Fortune REIT is a retail REIT listed on SGX in August 2003. During the time of this case study, Fortune REIT owns a portfolio of 14 retail malls in Hong Kong (Pica 2011). In April 2010, Fortune REIT was dual listed on HKEX. The sponsor of Fortune REIT is Cheung Kong Holding (CKH). Fortune REIT's manager is ARA Asset Management (ARA).

Cheung Kong Holding is listed on HKEX. The company is the second largest property developer by market capitalization on HKEX. Cheung Kong Holding controlling shareholder is their Chairman – Li Ka-shing (CK Property 2016). Cheung Kong Holding owns indirect substantial share holdings of ARA Asset Management through its subsidiaries. In other words, Cheung Kong Holding have substantial voting rights in both Fortune REIT and ARA Asset Management (CK Property 2016).

ARA Asset Management is listed on SGX. ARX Asset Management is concurrently the REIT manager of 10 other REITs spanning across Hong Kong, Korea, Malaysia and Singapore (ARA 2015).

Case Development: On 24th August 2009, Fortune REIT announced the 1-for-1 rights issue to raise HK$1.89 billion. Given the size of this issue, CKH and its subsidiaries agreed to be the underwriter for the full issue. This means that any new shares issued that were not taken up by existing shareholder would be automatically taken up by CKH and its subsidiaries.

CKH was already a substantial shareholder of Fortune REIT, there is a risk that if sufficient number of unitholders opt to give up their pro-rata entitlement to the rights issue, CKH might end up having to buy up all these excess shares. If that were to occur, it will trigger the percentage threshold in the Takeover Code. This implies that CKH would have to make a mandatory offer to privatize Fortune REIT.

To avoid the above scenario, CKH made full use of the Whitewash waivers clauses available on the listing code of both HKEX and SGX. Under the Whitewash waivers, a substantial shareholder under unique circumstances can apply to the regulators for a waiver from having to make a mandatory share offer to minority shareholders even if their shareholding were to exceed the statutory threshold.

The fund raised was to be used to acquire three properties as well as paying for the associated fees. Owners of the three properties were either a subsidiary of CKH or was indirectly affiliated with the CKH group. And because the transaction size had exceeded the statutory threshold for related party transaction, the usual disclosure protocol is not sufficient. For these acquisitions to go through, Fortune REIT unitholder approval must be obtained.

During the voting process at the extra ordinary meeting, all vendors in the deal as well as unit holders who are related to the vendors must abstained from voting.

This 1-for-1 rights issue doubled the total shares outstanding and reduced the original NAV per share of HK$7.5 to HK$4.8. Also, the dividend yield of Fortune REIT was reduced from the original 9% to 7.2%.

Under Fortune REIT trust deed, ARA as the manager is entitled to a 1 percent acquisition fee based on the acquisition price of the three properties. This amount to HK$20.4 million. In addition, ARA will also receive annual management fees of 0.3 percent based on the value of the properties. Finally, ARA will also enjoy annual incentive fees of 3 percent based on the net property income generated by the three properties. Do note that ARA is partially owned by CKH (CK Property 2016).

On 11th September 2009, an extraordinary general meeting was held for unitholders to vote on the following resolutions:

- Acquisition of the three properties
- Whitewash resolution
- Trust deed amendment to facilitate equity fund raisings

Both the independent adviser and the independent directors of Fortune REIT recommended unitholders to vote for the above three resolutions. All resolutions were passed, but the actual breakdown of the votes was not provided in the press release on SGX website. Share price of Fortune REIT subsequently plunged by 10.5 percent on the very same day.

Lessons learnt: In this case study, several conflict-of-interest elements were present. First, as both the vendor (seller) and substantial shareholder of Fortune REIT (buyer) are related, there is significant conflict-of-interest. Even though an independent valuator and financial adviser were appointed during the acquisition, that still does not eliminate all notion pertaining to conflict-of- interest.

Second, the manager got tremendous benefit from three sources in the form of a one-time acquisition fee based on the total acquisition price of the three properties, a flat annual management fees based on the yearly appraised value of the newly acquired properties and an annual incentive fees based on the net property income generated by these properties.

Do note that these fees will be paid to ARA regardless of whether the net income growth rate of Fortune REIT is superior to industry average. In other words, the fee structure for the asset manager is not tied to rental yield performance. There is hardly any incentive for the asset manager to improve the yield.

The entire deal resembles CKH disposing its assets, getting back a huge sum of money in doing so and in the process retained the profitable business of managing these assets.

Finally, as per any rights issue, existing minority shareholders are faced with either coughing out extra money to subscribe to the new units or opt to give up their pro-rata right issue entitlement and suffer the agony of waiting for their shares get diluted after the new issues go live.

Case 3 – Singapore: Cache Logistics Trust (CLT) during 2016

Background Information: CLT is an industrial REIT listed on SGX in 12th April 2010. During the time of this case study, CLT owns a portfolio of 19 warehouses in Australia, China and Singapore. CLT owns 51 Alps Avenue (CacheReit 2010). C&P Land rented 51 Alps Avenue under a master lease agreement which expired on August 2016 (ARA-CWT 2016). C&P Land in turn sublet the same property to Schenker under an anchor lease agreement. Schenker is an international supply chain management and logistics solution company.

Case Development: Prior to CLT IPO, there was already in place a lease agreement signed in June 2005 (Cai 2016) between C&P Land – the Master Lease Tenant and Schenker. In this lease agreement, there was a clause that gives Schenker the option to renew the warehouse rental at a pre-agreed rate for another 5 years[55] upon expiry. This rate was way below current market rate (Rahmat 2016).

In May 2016, three months before C&P Land master lease with CLT was set to expire, Schenker formally submit to CLT their intention to renew the lease at the pre-agreed rate. CLT responded that they are not aware (Cai 2016) of this agreement between C&P Land and Schenker and therefore refused to

[55] https://www.reitsweek.com/2016/05/cache-logistics-trust-wades-into-lease-dispute-over-alps-avenue-property.html

acknowledge it. CLT further pointed out that since the master lease with C&P Land will expire soon, Schenker should pay the prevailing market rental rate if they opt to continue renting the warehouse (Cai 2016).

On August 2016, Schenker refused to back out and insisted on their rights to exercise the rent extension clause at the pre-agreed rate[56]. Given that C&P Land was unable to deliver an empty property to CLP on the expiry date of the Master lease agreement, CLP filed a writ with the courts against C&P.

While the court case proceeds, CLT reluctantly agreed to a holding agreement for 51 Alps Avenue where Schenker will pay the pre-agreed rate of rental under the anchor lease agreement to CLT[57].

The implication for CLT's unit holders is that they will receive less rental income from the above property. As the court case will most probably take some time to unravel itself out, the contractual entangle between the three entities remains.

<u>Lessons learnt</u>: There is a shroud of mystery as to why C&P Land had offered a 5-year renewal rate to Schenker that did not accounted for inflation or expected future rental increment during the inception of the anchor lease agreement. When I dug deeper, it turned out that the REIT manager of CLT is a joint venture between ARA Asset Management and CWT. Both these entities are listed on SGX. C&P Land, on the other hand is affiliated with C&P Holdings, the latter which is the holding company of CLT and CWT. Such complex entanglement of inter-relationship makes me wonder whether there are more stories waiting to be uncovered. It is therefore highly advisable to undertake a background check on the complex relationships (if any) among the REIT's sponsor, manager, trustee, and adviser before making an investment decision.

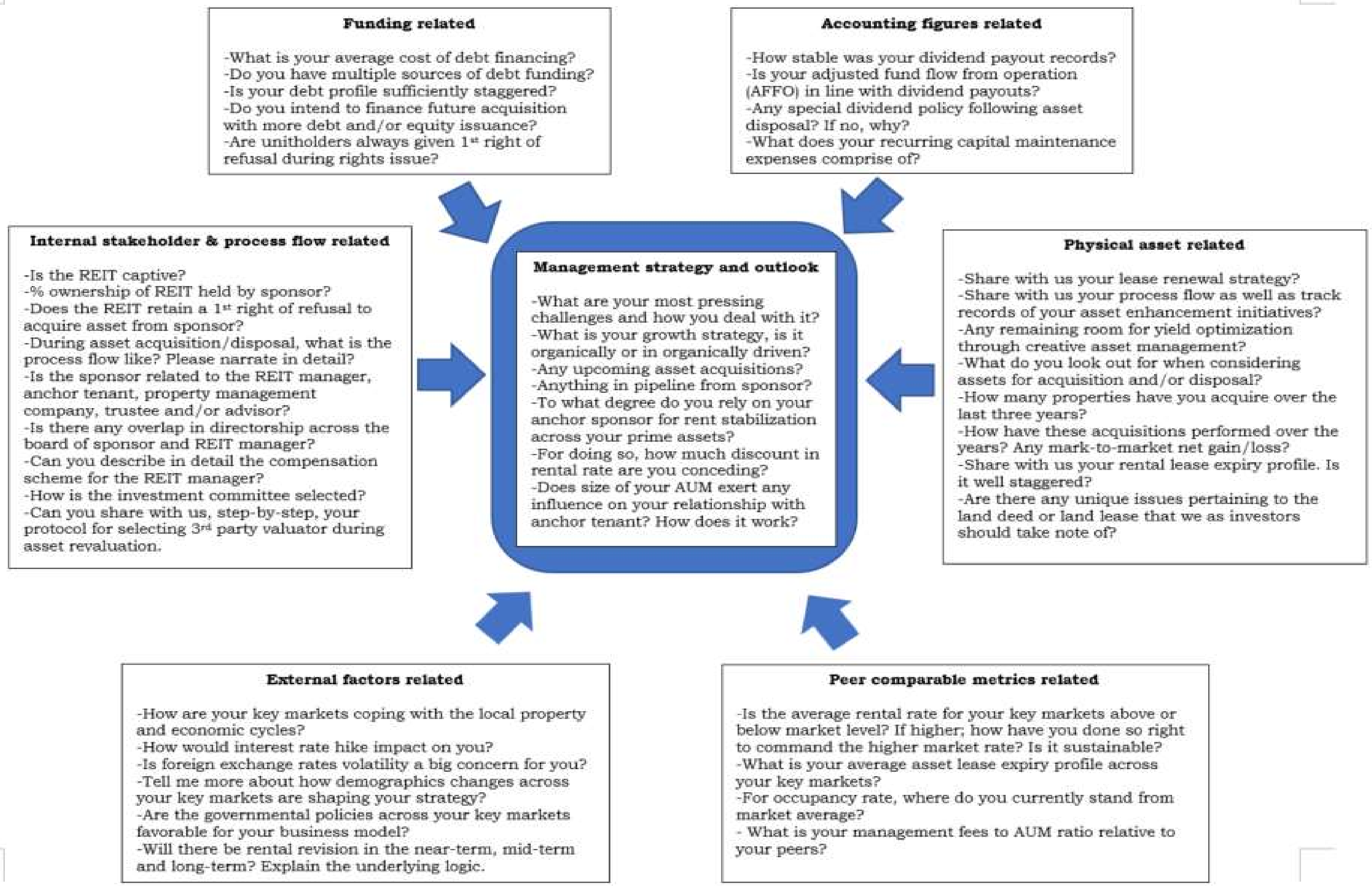
[56] The pre-agreed rate was S$0.77 per square foot per month.
[57] http://www.businesstimes.com.sg/companies-markets/cache-logistics-trust-agrees-to-accepting-schenkers-rent-under-holding-arrangement

Appendix 12 - Validated questioning framework

<u>Concise question set (General)</u>:

- Can you provide an overview on the current REIT landscape?
- Relative to the current landscape, what are your core competencies?
- If there is only 15 minutes, what would the management advise investors to look at to gain a holistic snapshot of the business model?
- What are the major risk factors; how do you intend to deal with them?
- Can the management share some unique stories? Especially pertaining to unique incidents of asset acquisition.
- Please share with us the yield accretive acquisitions you have undertaken (if any). How did you convince the property owners to offload at such attractive pricings?
- Any impact from changes in demographics across your key markets?
- How tolerance is your business model towards hikes in interest rate?
- What is your average cost of debt financing?
- Is your debt gearing ratio healthy? How do you intend to finance future property acquisitions?
- Do you expect positive rental reversion soon?
- Can you share with us your asset enhancement strategies?
- Please cast some lights on your rental lease expiry profile. Is it well staggered?
- Can I have some sense of where you currently stand relative to market average in terms of occupancy and rental rate?
- With regards to related party transactions, what are the internal safeguards to mitigate potential conflict-of-interest?
- Are there any track records of non-preemptive rights issuance?
- **For captive REIT only** - Is the property management company related to the sponsor? How are their fees structured? Is it predominantly a flat fee or is part of the fee incentive driven?
- Is there any overlap in directorship between the board of the sponsor and the board of the REIT manager?
- I hope to gain some sense of the scaling benefit in terms of reduction in management fees. What is your management fees to AUM ratio?
- Can you describe the compensation scheme for the REIT manager?
- Can you provide some sense of the short-term demand and supply dynamics across your key markets?

Pictorially condensed version for the REIT industry in general:



Concise question set (Industrial):

- What are the key sectors underpinnings your tenant mix?
- How diversified is your pool of tenant mix?
- Are there any structural changes within the local economy of your key markets that will exert huge impact on your business model?
- How is the land space dynamics evolving in your key markets?
- How are your key assets coping with asset enhancement?
- Are there any major disruptive innovations on the horizon that are expected to have a huge impact on industrial REITs across your key markets?

Concise question set (Hospitality):

- Can you share with us the geographical diversity of your guest pool? Are you particularly reliant on guests from a specific country?
- Has currency fluctuation exerted strong influence on your revenue?
- Are changes in business spending affecting your business model?
- Is secular shift in the hiring preferences within the banking and finance industry affecting your business model?
- Do you have any contingency plans for catastrophic events such as disease outbreak and terrorist attack?
- How is the add-on room supply trend across your key markets for the upcoming three years?
- Is your business model heavily affected by Airbnb? Do you foresee any other disruptive innovations within the hospitality REIT industry?

Concise question set (Retail):

- Have you experienced a change in consumption sentiments among the mass population in your key markets?
- Is the revenue from your key markets sensitive to changes in tourist arrival numbers?
- Can I have some sense of the country wide retail net absorption rates for the past five years across your key markets?
- For the next three years, are you expecting significant amount of add-on retail spaces across your key markets?
- How do you decide which asset to undergo physical enhancement? What do you look out for during asset physical enhancement?

- Is the rise of online shopping platform giving your business model a run for your money? How has it affected your respective key markets? How do you intend to deal with it?

Concise question set (Office):

- Which are the key markets whose occupancy rates are relatively more sensitive towards changes in GDP?
- What are the top 3 critical drivers behind office space demand across your key markets?
- Are changes in unemployment rate the critical drivers behind office space demand across your key markets? If so, please provide a detailed narration of your worst and best key markets on this aspect.
- Are changes in corporate profits outlook exerting a big impact on the business models across your key markets? If so, please provide a detailed narration of your worst and best key markets on this aspect.
- Can I have some sense of the country wide (and where applicable city wide and district wide as well) office net absorption rates for the past five years across your key markets?
- For the next three years, are you expecting significant amount of add-on retail spaces across your key markets? If so, how would you cope with it?
- What is the average lease maturity? Is it well staggered?
- Is your business model under the challenge of disruptive innovations? If so, what are they? And how do you intend to cope with them?

Detailed classification version – REIT industry in general:

Internal stakeholder & process flow related

- Is the REIT structure captive? If yes, what is the process flow for asset revaluation during real estate transfer from the sponsor to the REIT?
- What is the percentage ownership of the REIT held by the sponsor?
- Is the REIT manager related to the sponsor? If so, what is the percentage ownership of the REIT manager held by the sponsor?
- Is the first-right-of-acquisition given to the REIT when sponsor has asset to dispose?
- What is the percentage of rental income deemed to the sponsor (inclusive of management fees)?
- Are there any anchor tenants that are related to the sponsor? If so, what is the percentage discount in rental rates relative to that of average specialty tenants in the same building?
- Is the property management company related to the sponsor? How are their fees structured? Is it predominantly a flat fee or is part of the fee incentive driven?
- Do you engage an advisor? If so, how is the compensation being structured? And is the advisor related to the sponsor?
- Is the trustee independent from both the REIT manager and the sponsor? And how is their compensation being structured?
- Is there any overlap in directorship between the board of the sponsor and the board of the REIT manager?
- Does the REIT manager manage other REITs concurrently?
- Can you describe the compensation scheme for the REIT manager?
    - What is the management fee to AUM ratio? How has this ratio evolved over the years?
    - How is the manager's performance incentive in-line with unitholder's interest and is it sustainable going forward?
    - Can you provide a breakdown of the percentage of remuneration that is derived as a fixed percentage of total AUM versus incentive bonus during the past five years?
    - Is the REIT manager getting units in lieu of cash for their management/incentive fees? How is the balance between cash and unit reward strike?
    - Can you provide a year-by-year history of the amount of management fees paid in units, versus total management fees?
    - What are the measures put in place to prevent the REIT manager from amassing AUM for their own benefit?
    - How will the manager be awarded during property acquisition and disposal?

    - Is there a high-water mark scheme or claw back clause for REIT manager's incentive during instances of yield erosive investment? If so, what are the key criteria that must be fulfilled prior to scheme/clause activation?
- Is there a formal process for the removal of incompetent manager? If so, what are the key criteria that must be fulfilled prior to process activation?
- Can you also describe the process flow for ousting a manager?
- During the removal of the REIT manager, is there any golden parachute? If so, does the associated monetary compensation commensurate with industry average?
- Is there any embedded clause on the trust deed that could be utilized by the sponsor to issue non-pre-emptive shares to themselves to fence off hostile takeover?
- How is the investment committee selected?
- With regards to related party transactions, what are the specific internal safeguards put in place to mitigate potential conflict-of-interest?
- Can you share with us the exact process of selecting the realty valuator during property revaluation?
- For REITs with internal managers:
    - How are the board members selected?
    - How are the remuneration committee members selected?
    - How are the audit committee members selected?
    - Can you describe the internal audit reporting process?
    - How independent are the board of directors?
    - Did any of the director sit on the board of other REITs?
- Can you provide a holistic profile of your key institutional investors?

Physical asset related

- Please describe your lease renewal strategy.
- What are your asset enhancement strategies? Share with us your track records - near future and in the long run.
- Can you share with us your process flow for asset enhancement initiative (AEI)? Under what situation will AEI be activated?
- What are the options available to management for further yield optimization through asset management?
- How many properties have you acquired over the last three years?
- Please share with us the yield accretive acquisitions you have undertaken (if any). How did you convince the property owners to sell you at such an attractive price?
- When scouting for properties to acquire, what are the key attributes you usually examine before making the final decision?
- How have historical asset acquisitions performed over time? Have mark-to-mark revaluation led to unrealized losses? Over a five-year period, post-acquisition, have these assets been yield accretive or erosive?
- What selection criteria does the management use when selecting the property management vendor?
- Can we have a holistic understanding pertaining to the locational advantages of your prime assets across various key markets?
- Would your prime assets be affected by any future developmental work by the local government? If so, please describe them in detail.
- Are your prime assets exposed to catastrophic risks? If so, what steps have been taken to mitigate the effects from these risks.
- Is having modern state-of-the-art facilities a major selling point for your physical assets? If so, please provide specific examples.
- Please cast some lights on your rental lease expiry profile. Is it well staggered?
- Is there any uniqueness about the land deed or land lease that we as investors should take note about?
- During EGMs for asset acquisition and disposal, voice out the following questions (if relevant and appropriate) to management:
    - Why was the asset bought? Can you explain how it is going to be yield accretive over the long run?
    - What are the risks involved?
    - Why did you choose a new geographical region to invest in?
    - For REIT that diversify beyond their mandate/out of their specialization – What is the reason? What makes the management believe that they might have a competitive advantage to undertake such alien execution?

  - During low rental rate environment - did the management undertake strategic disposal of assets as well as capital reduction to generate value for unitholders?

Funding related

- Can you provide a range for your average cost of debt financing? Can you explain why (if the range is too wide)?
- Are you able to tap onto multiple sources of funding? How many principal banking relationships do you rely on for debt financing?
- For debt leverage, how far off are you away from statutory limits?
- What is the long-term comfortable gearing ratio for management? How did they arrive at this number?
- Is your debt profile sufficiently staggered? Can you provide the break down?
- Do you intend to finance future property acquisition with more debt issuance?
- Rights issue is always undertaken at a discount to market value, how do you safeguard the interest of existing unitholders?
- Are unitholders given first-right-of refusal during rights issue?
- What are the factors that influence the size of price discount given to rights issue during private and public placement?
- Are there any track records of non-preemptive rights issuance?
- Can you share with us your experience of dealing with financing issues during economic crises?
- Do you intend to finance future property acquisition with more equity issuance?

Accounting figures related

- How stable was your dividend payout history?
- Can you provide a history of your AFFO versus dividend payout?
- Does the management foresee any changes to DPU to suit their operating needs?
- Does the REIT adopt the practice of giving out special dividend payout during asset disposal? If not, why?
- What is your definition of recurring capital maintenance expenses – what does it include? Can you provide a snapshot of your annual FFO and or AFFO per share for the past five years?
- Can you provide a snapshot of your DPU for the past five years?
- Would you like to explain why your price-to-book value per share is above/below market average?

- Can you provide a snapshot of your annual net asset revaluation per share for the past five years?

External factors related

- Is the economic growth rate in your key markets sustainable? Can you provide specific examples to highlight the economic vibrancy of your key markets?
- How are the property business cycles in your respective key markets? Are you coping well with the associated headwinds?
- Widening income inequality is gathering pace as a global phenomenon, how does this affect your business strategy?
- All REITs are affected by the threat of an interest rate hike. How tolerance is your business model towards a general hike in interest rate, in terms of both magnitude and duration?
- What pre-emptive measures did you undertake to mitigate the potential impact of an interest rate hike?
- Tell us more about the FOREX rate volatilities that your business model is being exposed to. Did you undertake any hedging? If so, how did you execute it? Please quantify your hedging cost as a percentage of the operating income and/or operating expenses.
- Is there a natural hedge between the source of financing and your operating cash flow?
- Tell us more about the demographics profile across your key markets? Within the next 5 to 10 years, how will these demographics changes impact your business?
- Is migration trend a key factor for consideration in your business? If so, are the immigration policies in your key markets favorable?
- Are the governmental policies in your key markets favorable for your business model? Please narrate with specific explanations.
- Are these governmental policies in your key markets feasible for implementation? Please narrate with specific explanations.
- How are the short-term demand and supply dynamics of your target markets affecting your business model?
- Is there any regulatory issue that is affecting the short-term demand and supply dynamics across your key markets?
- Will there be rental reversion in the near term, mid-term, and long term? What is the underlying logic?

Peer comparable metrics related

- Is the average rental for your key markets above or below market level? What are the reasons for deviation?
- If the average rental is higher than industry average, how do you intend to sustain it going forward?
- What is your average asset lease expiry profile compared to that of general market in each of your key markets?
- Can I have some sense of where you currently stand from market average in terms of occupancy rate?
- I hope to gain some sense of the scaling benefit in terms of reduction in management fees. What is your management fees to AUM ratio?

Management strategy and outlook

- Enlighten us on the most pressing challenges faced by the REIT and how management intend to deal with these headwinds?
- What is the REIT's growth strategy, is it organically dominant or inorganically dominant? What are the rationales behind?
- Can you provide some visibility of the assets available to be acquired in the near future? Are these potential acquisitions rental yield accretive?
- Can you provide some guidance on the pipeline of assets that will be acquired from the sponsor?
- In terms of asset mix, both pure play and diversified mode have their respective pros and cons. How do you strike an optimal balance between these two operational styles?
- For diversified REITs - How did you minimize the structural disadvantage associated with your diversified asset portfolio?
- Do you rely on anchor tenants to stabilize the rental income generated from your prime assets? If so, how much discount in rental rate did concede?
- Can I have a feel of the dividend yield that most of your institutional investors are expecting? What is your strategy to meet or exceed this expectation?
- Does size (AUM) exert any influence on your relationship with anchor tenants? Is it always the bigger the better?

Detailed questions for the REIT industry – Industrial:

1. Demand side
    - Is your business model highly correlated with consumer spending across the respective key markets?
    - If so, what are the consumption outlooks in these key markets?
    - What are the key sectors underpinnings your tenant mix?
    - To what extent is your business model influenced by the intensity of export and import activities across your key markets? Can you elaborate more on how they work?
    - Are there any structural changes within the local economy of your key markets that are expected to have huge impact on your business model?
    - How does oil price correlate with your business model?
    - Do you keep a close watch on the Purchasing Manager Index (PMI) in your key markets? If so, can you briefly discuss how you strategize your three-year plan with the information obtained from PMI?
    - Do you closely monitor the subtle changes in inventory and stock of finished goods statistics across your key markets? How does this information fit into your three-year strategic plan?

2. Supply side
    - How is the land space dynamics evolving in your key markets? Especially pertaining to changes in occupancy across the various industrial land use sub sectors as well as across other non-industrial land use sub sectors.
    - How has the average tenancy turnover rate changed during the past five years?
    - Are different industrial land use sub sectors good substitutes for each other in your key markets?
    - Are there any properties that can only be rented out for specific specifications/tenants? More granular information is appreciated.
    - Are you affected by re-zoning at the country wide level?
    - Based on existing government blueprint, is there any significant increase in new industrial land space across your key markets?
    - How do you to mitigate all the above potential supply side risks?

3. Asset specific issues
    - How diversified is your pool of tenant mix?

- Are your tenants interdependent on each other to reap the benefits from proximity cluster across your key markets? Please elaborate with specific examples.
- Is facility automation your key selling point? Please explain with specific examples.
- How are your key assets faring in terms of having access to transportation network? Please narrate with specific examples.
- What is the potential of your properties to maximize their plot ratio?
- What is the redevelopment potential of the land and properties the REIT own?

4. Opportunities and threats
    - Do you agree that the industrial REIT sector is relatively more vulnerable to physical asset depreciation compared to other sectors such as office, retail, and hospitality? Why is that so?
    - How are your key assets coping with asset enhancement?
    - Are there any major disruptive innovations that are expected to have a huge impact on existing industrial REITs? How do you intend to cope with it?

Detail questions for the REIT industry – Hospitality:

1. Demand side
    - Do changes in tourist arrival statistic exert strong impact on your business model?
    - Can you share with me the geographical diversity of your guest pool origination? Is there strong reliance on guests from a specific country?
    - On average, how many nights does each guest stay for a trip? For the past five years, how has this trend evolved? In short, what is the change in your client turnover with time.
    - How has the spending power of your guests evolved over the past five years?
    - Has currency fluctuation exerted strong influence on your business revenue?
    - Are you affected by new development in geopolitical sensitivities?
    - Are changes in business spending affecting your business model?

- Is there a secular shift in the hiring preferences within the banking and finance industry? If so, how it is going to affect your business model?
- Do you derive a big portion of your guest traffic from MICE events? If so, do you foresee any changes in the demand for MICE events?
- Do you have any contingency plans for catastrophic events such as disease outbreak and terrorist attack?

2. Supply side
   - How has the market wide occupancy rate been evolving in your key markets during the past five years?
   - How is the add-on room supply trend in your key markets for the upcoming three years?
   - Is your business model heavily affected by Airbnb? Do you foresee any other disruptive innovations within the hospitality REIT industry?

3. Relevant government blueprints
   - Are the government in your key markets doing anything to improve their transportation infrastructure?
   - Are the major tourist hotspots in your key markets undergoing any major physical enhancement?
   - Are the government in your key markets launching any tourism promotion campaign?

Detail questions for the REIT industry – Retail:

1. Demand side
   - Do changes in GDP statistics correlate strongly with your top and bottom lines? How does this relationship differ across your key markets?
   - Have you experienced a change in consumption sentiments among the mass population in your key markets? Is the shift in consumption sentiments due to real or perceived changes in general wealth?
   - Is the revenue from your key markets sensitive to changes in tourist arrival numbers?
   - For the key markets that are relying heavily on tourist traffic; are the sources of tourist arrival well diversified or concentrated

among a few locations? If concentrated among a few locations, which are those?
- For the key markets that are relying heavily on tourist traffic; is there a subtle shift in spending habit? If so, how do you intend to cope with it?
- Is FOREX fluctuation a major concern for your business model? Please elaborate.
- Are there any geopolitical sensitivities brewing in the background that are expected to be detrimental for your key markets?
- In a bullish residential market, consumers tend to spend more on discretionary products. Did you encounter the same experience across your key markets?
- Is there a positive relationship between the level of median income in your key markets and your revenue?
- Have you experienced changes in consumer spending across your key markets that are the results of changing demographics, educational level and/or technological evolution? How did you cope with them?

2. Supply side
    - Can I have some sense of the country wide retail net absorption rates for the past five years across your key markets?
    - For the next three years, are you expecting significant amount of add-on retail spaces across your key markets? If so, how would you cope with it?
    - How has the average tenancy turnover rate changed during the past five years?

3. Asset specific
    - What are the average sales to rent ratio of your tenants? How has this trend evolved during the past five years?
    - Is the rise of online shopping platform given your business model a run for your money? How has it affected your respective key markets? How do you intend to deal with it?
    - What are the key surrounding amenities you look out for when acquiring a shopping mall?
    - Do you conduct thematic promotional campaign that cut through all your assets in each key market? Has it been successful?

- Can you provide some insights on how you undertake thematic vendor management in your key markets? How do you optimize your tenant mix?
- How do you decide which asset to undergo physical enhancement? What do you look out for during AEIs?
- Can you narrate on the asset enhancement blueprints for the next three years across your key markets?

4. Relevant government blueprints
    - Are the governments in your key markets doing anything to improve their transportation infrastructure?
    - Are the major tourist hotspots in your key markets undergoing any major physical enhancement?
    - Are the governments in your key markets launching any tourism promotion campaign?

Detail questions for the REIT industry – Office:

1. Demand side
    - Can you provide some details on the geographical zoning of the physical assets across your key markets? Are they concentrated in the CBD, outer CBD, or outlying business park regions?
    - What are the top 3 critical drivers behind office space demand across your key markets?
    - Are changes in unemployment rate the critical drivers behind office space demand across your key markets? If so, please provide a detailed narration of your worst and best key markets on this aspect.
    - Are changes in corporate profits outlook exerting a big impact on the business models across your key markets? If so, please provide a detailed narration of your worst and best key markets on this aspect.
    - Are your key markets sensitive to subtle shifts in the hiring trend within the banking and finance industry?
    - Do changes in GDP statistics correlate strongly with your top and bottom lines? Which are the key markets whose occupancy rates have demonstrated exceptional sensitivity towards changes in GDP?

2. Supply side
    - Can I have some sense of the country wide (and where applicable city wide and district wide as well) office net absorption rates for the past five years across your key markets?
    - For the next three years, are you expecting significant amount of add-on office spaces across your key markets? If so, how would you cope with it?
    - How has the average tenancy turnover rate changed during the past five years?
    - Across your key markets, do you see a significant shift of office demand out from CBD to the outlying zone? If so, how have your business model been affected? And what are you going to do about it?

3. Asset specific
    - What is your average lease maturity? Is it well staggered?
    - Is your business model under the challenge of disruptive innovations? If so, what are they? And how do you intend to cope with them?
    - Can you briefly describe your tenant characteristics? Are you collecting premium rental rates from them? If so, why are you able to do so?
    - Does getting green building certification enhances your ability to collect premium rent? If so, can you narrate with some examples?
    - When it comes to collecting premium rent rates; what are the other factors that your business model has successfully relied upon?