

3rd Annual Real Estate Investment IQ 2007
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Good morning Ladies and Gentlemen,

Thank you for inviting me to speak at this annual conference today.

Real estate is a vital part of our economy. The introduction of REITs to the Hong Kong market has added depth to our real estate market and broadened the range of investment products available to investors. While the development of our REIT market to date is encouraging, we believe that the time is right to take the next step forward. Let me take this opportunity to give you an overview of the Hong Kong REIT market as it stands now, what its next stage of growth may entail, and what we, as the securities regulator, are committed to do to take Hong Kong REITs to the next level.

Hong Kong's REIT market

Hong Kong has already established itself as a premier investment management hub in Asia, with an aggregate fund management business of HK\$6,154 billion as at the end of 2006, according to the SFC's annual fund management activity survey. We aim to develop Hong Kong as an international financial management powerhouse, not only in terms of size but also in terms of depth and diversity. To this end, the development of the REIT market in Hong Kong is very important. The introduction of REITs has not only contributed to the size of the fund management business, it has also established a new type of investment management expertise, and added a new dimension to the scope of alternative investment products offered in Hong Kong. REITs add depth to our real estate and asset securitisation markets and provide an alternative and long term source of funding capital for real estate.

Hong Kong currently has seven listed REITs that are invested in different types of real estate: commercial, retail and hotel properties in Hong Kong and the Mainland. The aggregate

market capitalisation of the Hong Kong REIT market has grown to HK\$67 billion at as end of September 2007, with an average daily turnover of HK\$207 million.

Due to the phenomenal growth and volume of the stock market this year, REITs have not yet caught investors' interest in a significant way. REITs are first and foremost steady yield plays and alternative investments with lower correlation to the equities market. Given that markets work in cycles and different investors have different needs at different stages of the cycle, REITs certainly have a place in a diversified investment portfolio. In addition, as the pool of unlisted real estate in the region, particularly from Mainland China, start tapping the capital markets for funding, we believe REITs will become a major investment choice and a significant contributor to the market capitalisation of Hong Kong over time.

Next stage of growth

REIT success stories in other major markets like the U.S. and Australia are primarily due to their ability to grow. This does not mean just growth income-wise, but also growth in the size, depth and diversity of their investment portfolio through acquisitions.

While we have not yet seen significant growth among the REITs in Hong Kong, we understand from our discussions with different REIT managers that they too see acquisition as the next phase of development for Hong Kong listed REITs and they are actively looking out for appropriate investment opportunities. Once Hong Kong REITs enter this next stage of development, this should attract more issuers (from both within and outside Hong Kong) to our market. Building up of such critical mass will in turn attract greater investor interest.

As a regulator, we are committed to facilitate this next stage of development of our REITs, and indeed, we are looking forward to see Hong Kong REITs not only expanding their presence within Hong Kong but also reaching out to other parts of the Asia Pacific region and possibly beyond. We issued a public circular last month to our REIT managers to clarify certain issues concerning acquisitions in response to feedback from the industry.

First, if you are a REIT manager licensed by us to manage a REIT, you do not have to seek a re-approval of your licence or a re-authorisation of the REIT you manage before proceeding to make an acquisition. In other words, there are no additional licensing or authorisation

requirements for REITs planning to expand their operations into other markets or jurisdictions or different property types. Of course, REIT managers will have to satisfy themselves that they have sufficient and appropriate skills and processes in place to manage the new properties, either as part of in-house skills or by way of outsourcing to a competent external party under the manager's oversight. This is a pure business decision.

Secondly, if you did not include overseas expansion as part of your strategic plans in your IPO offering document, it is not too late. As with listed companies, it is perfectly legitimate for a REIT to develop a new acquisition or growth plan after listing with a view to enhancing its value. For those new REIT applicants who already have a strategic plan to look abroad or expand into other property sectors down the road, please spell that out in the offering document. Investors are not only interested in the properties owned by a REIT initially when it first comes to the market, they would also like to know about the potential growth and business direction of the REIT.

REIT managers may have questions on various aspects of the REIT Code, which is a principle-based code to give the SFC flexibility in applying the regulations to this new product. As such, REIT managers are welcome to come in and discuss their case-specific issues with us, be it in their quest for new acquisitions or other matters in general.

SFC initiatives

The SFC maintains an active dialogue with the industry. As part of our initiatives to facilitate the growth of the Hong Kong REIT market, the SFC has also recently set up two REIT workgroups, comprising industry players such as existing REIT managers, investment bankers, legal advisers, valuers and accountants, to analyse the REIT market in Hong Kong and to identify new engines of growth. We have met with the workgroups and have had separate meetings with individual workgroup members and other industry practitioners over the last two months.

Discussions with the industry generally focus on two avenues for further development, namely growth of existing REITs by way of acquisitions and launch of new REITs IPOs.

I have spoken about acquisitions. With regard to IPOs, we are currently working with members of the workgroups on proposals to streamline our processes. Given that two years have passed since the listing of the first REIT in Hong Kong, we believe market practitioners are now familiar with the application of the REIT Code and believe it is an appropriate time to simplify or streamline our processes further to facilitate development of the REIT market. We are, of course, mindful of investors' interest and constantly seek to strike a proper balance between protection and facilitation. In this regard, we expect REIT managers and sponsors to conduct their due diligence to a high standard and to properly discharge their responsibilities.

Going forward

Naturally, Hong Kong REITs are also looking to invest in the Mainland. China's economy is growing rapidly and is now the world's fourth largest economy according to the National Bureau of Statistics. The Mainland is a major hinterland for us. We serve it, are partners with it and benefit from the tremendous opportunities arising from it.

As there is no equivalent regulatory framework for establishing REITs in the Mainland at present, Mainland real estate owners may be motivated to package their assets into a REIT structure in Hong Kong. Whilst recent austerity measures and changes in the legal requirements in respect of real property ownership have created administrative hurdles for bringing Mainland property REITs to the market, I am confident that the longer term potential of the Mainland market is indisputable and we will eventually see the securitisation of Mainland properties into REITs. In the meantime, we will continue to develop and strengthen our regulatory platform in preparation for these REITs.

Concluding remarks

By working closely with members of the REIT workgroups and industry practitioners, we have already started to identify areas where things can be improved and be more transparent. Step by step, I am confident that Hong Kong's REIT industry will achieve greater heights.

Thank you.