小組委員會文件編號 SC(1)-S11
SC Ref.No.SC(1)-S11

4th Annual Real Estate Investment IQ 2008

Alexa Lam
Executive Director and Deputy Chief Executive Officer

4 November 2008

Good morning, ladies and gentlemen.

Let me start by thanking the organisers for this invitation. It's my pleasure to be here again today to share with you the latest developments in Hong Kong's financial market, and also on Hong Kong REITs.

I was here last year talking about on the development and outlook of the Hong Kong REIT market. The world has changed quite dramatically in a year.

Over the past one and half months, we have gone through the most severe financial crisis that we have ever experienced. We have witnessed regime changing events-the collapse of giant financial institutions, the failure of the whole investment banking model and governments pouring billions of dollars into banks and major financial institutions that are on the verge of collapse.

The abrupt demise of Lehman Brothers sent shockwaves around the world and sparked fears of global financial meltdown. Many countries are grappling with the aftermaths of Lehman Brothers' collapse and Hong Kong is no exception.

We are in a difficult time right now. A lot of people seem to be losing faith in the financial services industry and are demanding reassurance from their governments that their investments are protected and that the institutions in which they have placed their monies are good for their promise. Investors question whether sufficient disclosure regarding the risks associated with products has been made. Full and prompt disclosure is one of the key cornerstones that underpin investor confidence. Products are not good or bad per se, but they are bad if bought by investors for whom they are not suitable. We have reminded product issuers of their duty to ensure their offering documents contain sufficient information for investors to make an informed investment decision, and that there are upfront, prominent, adequate and fair disclosure of all risks associated with their products. You may recall that in the earlier public offering of REITs in Hong Kong, we required issuers to disclose, in prominence, when complex financial engineering was adopted to enhance yield, and the risks that investors must consider before investing in these REIT offerings.

Review of Hong Kong REIT market

Let me now briefly talk about what has been happening in the Hong Kong REIT market in the past year, and our vision going forward.

Like other Asian REIT markets, the Hong Kong REIT market turned very quiet in the past year. Pessimistic market sentiments and continuing credit squeeze made fund raising activities difficult. Across Asia, the REIT IPO market generally quieted down in 2008. The proposed spin-off and listing of a second hotel REIT in Hong Kong scheduled earlier this year was also postponed.

Nonetheless, we did witness acquisition activities among Hong Kong REITs despite this market environment. We saw the completion of the first very substantial acquisition by a Hong Kong REIT in June this year, with a substantial amount of funds raised by way of a secondary offering to finance the transaction. We also saw the first acquisition by a Hong Kong REIT of Mainland property.

As mentioned to those of you who were here last year, we issued a circular in October 2007 to clarify that REITs making overseas acquisitions do not require re-authorisation or re-approval. Following the issue of that circular, a number of REITs responded by amending their constitutive documents to expand their geographical investment scope, thus preparing them for making overseas acquisitions once suitable opportunities arise.

It is also worth noting that despite the market volatility, the Hang Seng REIT Index was launched by the Hang Seng Indexes Company Limited last week. The REIT Index provides the market with a benchmark to track the performance of Hong Kong REITs. It also serves as a basis for funds or derivatives to gain exposure to this asset class. The launch of the index signifies the importance of the Hong Kong REIT market, and would certainly be beneficial to the development of the market in the long run.

Outlook

While we are speaking of the serious crisis that engulfs all of us at the moment, one may note that the Chinese ideogram for "crisis" is composed of two characters signifying "opportunity" and "danger". Danger always comes with opportunity. The challenge is therefore to deflect the danger and embrace the opportunity.

It will be a bumpy road ahead for the real estate industry at least in the short run. The deteriorating economic and business environment will put the REIT managers to the test. With the financial tsunami spilling over to the real economy, we will probably see a slowing demand for office, industrial and retail space, and a fall in rentals and property prices. The tight credit environment may also make it difficult for REITs to raise further funds to finance new acquisitions. Some analysts have already downgraded the REIT sector overseas on concern over the funds' ability to secure future financing. We also saw the first Japanese REIT declaring bankruptcy last month as it could not refinance existing loans or raise funds to pay for properties that it had committed to buy.

Yet in the depths of the crisis today lies the opportunities of tomorrow. The region's stock market slide increases the levels of dividend yield and the discounts to the net asset value at which REITs are trading at present. Recent press articles have already reported that some private equity funds are looking for opportunities to buy bargain properties in the region and in particular in mainland China, seeing that there are "exceptional opportunities" in Asian real estate over the medium to longer term. We have also seen some takeover and merger activities among REITs in the Asian markets recently, and we anticipate seeing more consolidations in the REIT market.

Concluding remarks

As regulator, we will continue to work with the industry to enable the market to continue to mature. For those of you who were here last year, you may recall that I told you that REIT mangers are always welcome to come in and talk to us on any issue, be it in their quest for new acquisitions or other matters in general. Our doors are always open. We will continue our open dialogue with market practitioners and industry players to understand their needs, and will enhance our regulations as and when necessary. The current crisis, like all crises before, will pass. By working closely with the industry, we hope that when the torment is over, we will have a better system going forward.

On this note, may I wish you fruitful discussions and a successful conference.

Thank you.