Publication: The Business Times, p 4
Date: 8 August 2013
Headline: Reit to deal with HDB demand-supply challenges?

Reit to deal with HDB demand-supply challenges?

By Ong Chor Hao
ongch@sph.com.sg
Singapore

ONE day, your neighbour in your public housing estate may be renting his flat from or co-owning it with a real estate investment trust (Reit).

A group of academics from the Singapore Management University (SMU) and a noted property consultant are making the case for a Reit comprising Housing and Development Board (HDB) residential and commercial units.

SMU professor David Lee is one of the authors of the paper that moots this idea, among others to deal with excess demand in the housing market.

"It's just a starting point of a discussion . . . to stimulate some out-of-the-box thinking," he said yesterday. The other authors of the paper are SMU professors Phang Sock Yong and Phoon Kok Fai, SMU researcher Karol Wee, as well as Alan Cheong, head of research at Savills Singapore.

The paper noted that the strong demand for public housing, which already has a low vacancy rate, has pushed up HDB rental yields. This coincides with a rising population and an increasing proportion of foreigners who tend to be tenants.

Building more is the answer, but this has to be balanced against creating too much supply which may crash the market. A marginal oversupply is optimal, the authors believe, and having an HDB-focused Reit can tackle some of these challenges simultaneously.

Here's how the scenario may play out. First, a number of units to be built by HDB will be sold to the Reit, which will put them up for rental. This can help to create a bigger pool of rental units, reducing pressure in that market.

"A very simple example, everytime you build a new block, 10 per cent is for rental, so instead of building nine blocks, now you build 10 blocks," Prof Lee said.

There can also be an option for the Reit to be a co-owner in the units, which makes home ownership cheaper as well.

Being able to tap capital markets means that HDB bears a smaller financial burden than if it were to supply the extra flats on its own, making public financing issues less of a worry.

The homes injected into the Reit can be sold to Singaporean CPF members, with HDB or banks as financiers and a subsidiary of HDB as the Reit's manager. The tax-exempt rental income earned by the Reit is returned to investors in the form of distributions.

There are no residential Reits in Singapore at the moment because yields for private homes have been low, the authors said.

Having this Reit can provide investment alternatives for Singaporeans. Prof Lee said that investors enjoy the upside of the property market without having to buy a physical home which can be illiquid.

Examples of beneficiaries are buyers constrained by funds who will not need to settle for shoebox units and CPF members who can draw down on their savings for investments beyond real estate.

The Reit can also provide higher yields than rental income due to the tax-free dividends, which can help to cool interest in property as a hedge against inflation.

Rental increases at the Reit's properties can be managed through regulation and not fully subject to market forces, the authors suggested, to ensure that social objectives are not at the expense of bottom lines.

Prof Lee acknowledged that the "devil is in the details" at this stage, and the team plans further studies to shed more light on the implementation of such a housing Reit.

But there is no such thing as a free lunch, and he urged caution should the idea come to pass eventually.

"It is not totally risk free," he said.

It may sound radical, but the concept of using Reits to provide affordable housing has been adopted in other countries. The first social housing Reit was set up in Britain last year, while the US's second such Reit was formed in April.