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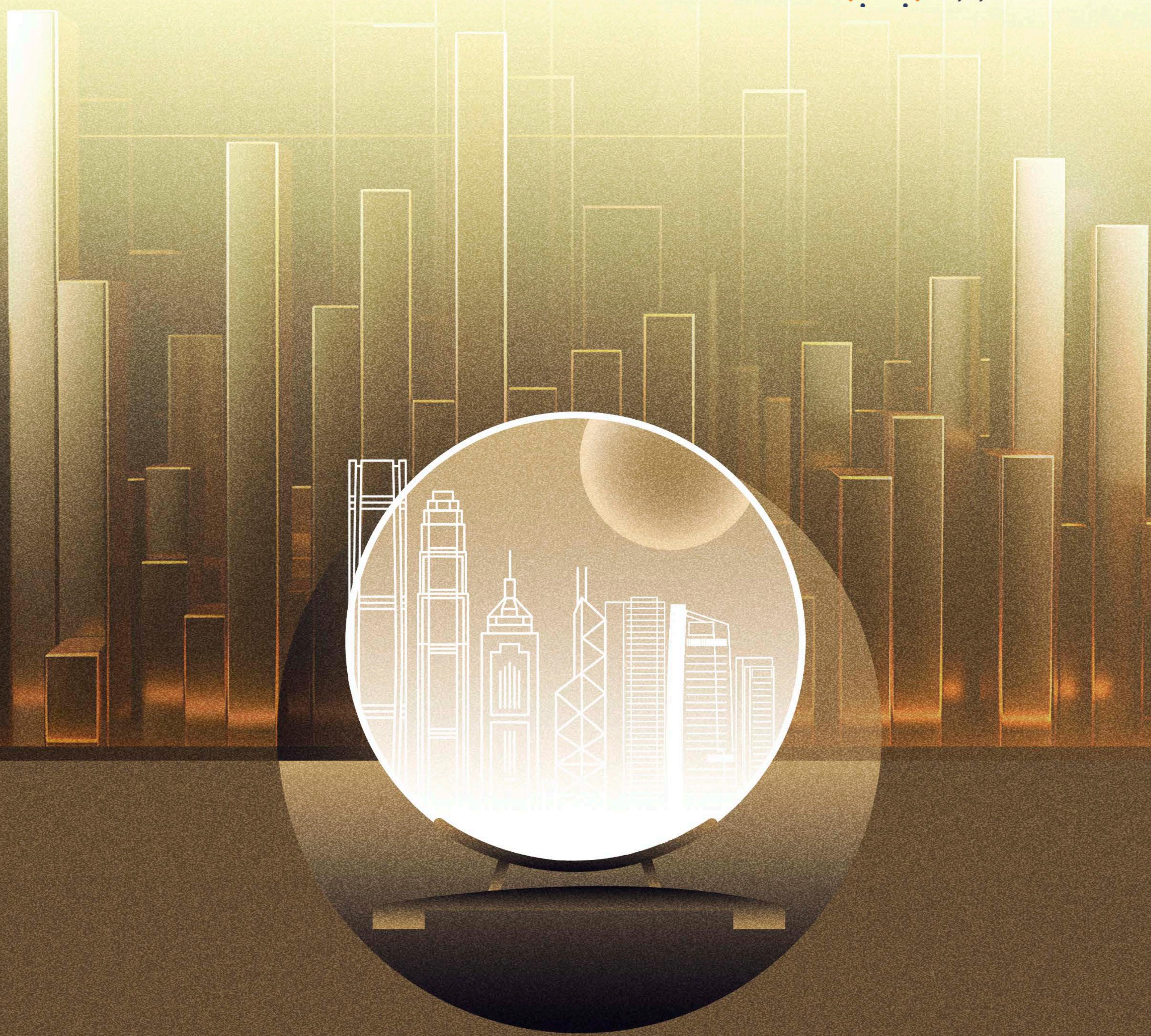
Hong Kong REITS Association Limited



Unlocking Future Growth through Reform:
A Vision for Hong Kong REIT Market

12 December 2024

MAKING AN IMPACT THAT MATTERS since 1845

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Foreword

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As global investors increasingly seek portfolio diversification and stable income streams, Real Estate Investment Trusts (REITs) have emerged as a compelling investment vehicle worldwide. Hong Kong recognised this opportunity early, establishing its REIT framework in 2003. Despite its long-standing presence, there remains significant potential for expansion in both market size and sector diversity, particularly when compared to the more developed REIT markets in the region.

Hong Kong's unique position as Asia's premier financial centre, coupled with its role as the gateway to the Chinese mainland, provides an excellent foundation for market development. The city's sophisticated capital markets infrastructure, deep liquidity pool and well-established international investor base create an environment conducive to sustainable growth. Recent initiatives, including the proposed expansion of the Stock Connect programme to encompass REITs and the extended subsidy scheme for REIT listing expenses, demonstrate strong commitment to market development.

Building on this momentum, we see opportunities to further enhance Hong Kong's REIT ecosystem through regulatory refinements, tax optimisation and other market development measures. Drawing on insights from industry leaders, we believe that a more flexible framework would better support market participants and attract more diverse listings and investments. Combined with Hong Kong's traditional strengths – including its simple tax system, transparent regulatory environment and strategic location – these changes will help realise the full potential of Hong Kong's REIT market.

We look forward to working collaboratively with all stakeholders to support the sustained growth and vibrancy of Hong Kong's REIT market, reinforcing the city's status as Asia's leading financial hub.

Executive Summary

An early adopter of REITs in Asia, Hong Kong was the fourth economy in the region to establish a REIT regime (2003) and the third to list a REIT on its stock exchange (2005). During its nascent stage, the Hong Kong REIT (H-REIT) market demonstrated impressive growth, catalysed by expanding property markets in both Hong Kong and the Chinese mainland, alongside first-mover listings by major institutions. Link REIT's debut as the city's first listed REIT set a global benchmark as the world's largest REIT IPO at the time.[1] Similarly, Yuexiu REIT, another early entrant, maintains an active presence in the market today.

This initial surge of growth was short-lived. Two decades after the listing of its first REIT, Hong Kong's market has plateaued at 11 listed REITs – a figure that falls short of the numbers seen in other major economies. Beyond cyclical market factors, industry leaders we interviewed highlighted regulatory requirements and tax considerations as ongoing factors impacting governance flexibility and sector development. They believe that enhancing the current H-REIT framework could create a more dynamic market environment, attracting both sponsors and global investors seeking portfolio diversification and stable returns.

Looking ahead, the outlook for the H-REIT market remains promising. The city is implementing measures to revitalise its REIT market, including the upcoming expansion of the Stock Connect scheme to encompass H-REITs – a move that will boost scale, liquidity and investment options while attracting fresh capital. The Government's extension of subsidies to REIT issuers until 2027, covering up to 70% of eligible listing expenses, further demonstrates its commitment. Strategically, Hong Kong's unparalleled position as China's capital and investment gateway presents a wealth of opportunities. These efforts and structural advantages, combined with shifting interest rate trends, signal a potential leap forward for H-REIT prospects.

To further strengthen the sector, this report recommends key reforms across regulatory and tax dimensions. Priority areas include introducing corporate REIT structures, providing greater flexibility in property holding and development rules, and implementing tax transparency to match international practices. These calibrated measures would complement Hong Kong's existing strengths and recent policy initiatives to boost its appeal as a premier REIT destination.

1. Hong Kong's REIT Market: Evolution and Global Standing

Brief History and Milestones

Since its inception in 2003, Hong Kong's REIT market has evolved from a new sector to an established component of Asia's real estate investment landscape. As of Q3 2024, it ranked as the third largest REIT market in Asia by total market capitalisation, behind Japan and Singapore. Although this position reflects the market's maturity, the current count of only 11 listed H-REITs suggests opportunities for further development.

Despite early momentum, the sector's growth has moderated since the early 2010s, with market size showing little expansion. Our interviews with H-REIT executives and industry experts revealed two main underlying factors. The first relates to Hong Kong's exceptionally strong property market during much of this period, which has given property companies less incentive to utilise REITs as monetisation vehicles, according to **Sherman Hung, Head of Large Corporate, Institutional Banking Group of DBS Bank (Hong Kong)**. With direct property investments commanding generally more attractive valuations and lower capitalisation rates compared to REITs, Mr Hung said, there has been limited impetus for asset securitisation.

Beyond market dynamics, H-REIT leaders pointed to regulatory and tax considerations as key factors in the sector's trajectory. While the existing framework has evolved through periodic updates, they noted how variations in governance structures across jurisdictions influence REIT formation and expansion. As competition intensifies among global financial centres for REIT listings and capital flows, ensuring the commerciality of the H-REIT framework becomes increasingly vital for sustaining the market's competitiveness and fostering its long-term development.

Figure 1: H-REIT: Key Development Milestones

2003

The Securities and Futures Commission of Hong Kong (SFC) introduced the Code on Real Estate Investment Trusts (REIT Code).

2005

Link REIT debuted as Hong Kong's first listed REIT and the world's largest REIT IPO at the time.[2] Within one month after its launch, two more H-REITs, including **Yuexiu REIT**, the first H-REIT to include Chinese mainland properties, were listed.

2011

The first RMB-denominated offshore mainland Chinese REIT was listed in Hong Kong.

2013

Nine H-REITs were listed at the time.[3]

2014

Link REIT became the first H-REIT to be included as a constituent of the Hang Seng Index.

2017

Spring REIT became the first H-REIT to acquire properties in the UK.[4]

2020

The first REIT ETF in Hong Kong, covering Asia-Pacific REITs, was launched.[5]

2020

The Mandatory Provident Fund Schemes Authority (MPFA) revised guidelines to broaden REIT investment options for MPF funds, which included expanding the asset allocation and markets for REITs.

2021

- **SF REIT** debuted as the first H-REIT that focused on logistics properties.
- The Hong Kong Government introduced a subsidy scheme for REIT issuers, offering to cover up to 70% of qualifying professional fees (capped at HKD8 million) incurred during their Hong Kong listing process. The scheme is set to continue operating until at least 2027.

2024

- The China Securities Regulatory Commission (CSRC) announced a plan to include REITs in the Stock Connect scheme linking the Shanghai, Shenzhen and Hong Kong exchanges. The SFC is actively collaborating with the relevant parties to materialise the proposal.
- As of Q3 2024, there were 11 listed H-REITs with a total market capitalisation of HKD145.62 billion (USD18.75 billion).

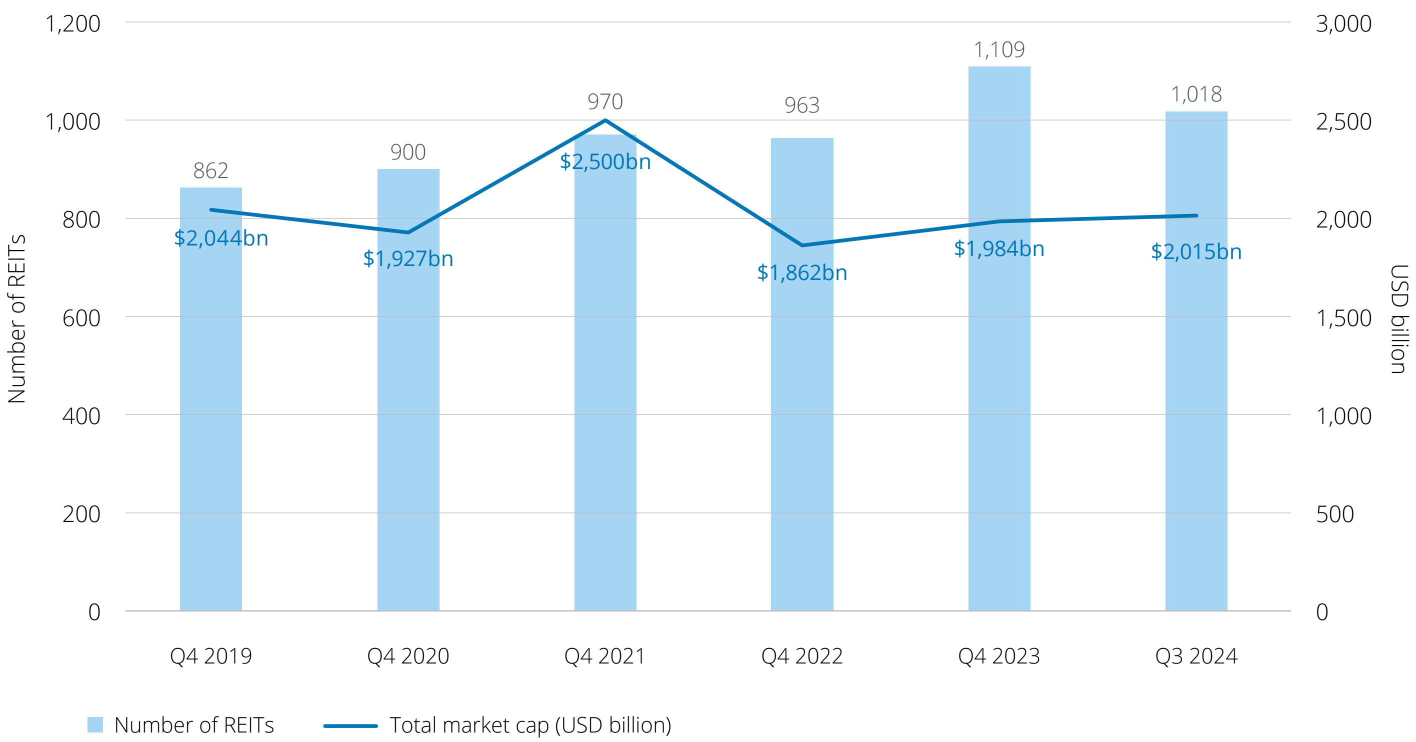
Market Size: Subdued amid Global Growth

While the global REIT sector has grown by over 150 new entities since 2019, reaching more than 1,000 worldwide, Hong Kong's market has maintained 11 REITs throughout the 2020s, suggesting room for further expansion.

Broadly speaking, the global REIT landscape demonstrates varying growth trajectories across different markets. Although Hong Kong's market has seen limited expansion, the Chinese mainland's emerging REIT sector has witnessed explosive growth. Starting as a pilot programme in 2020 and evolving into a normalised issuance mechanism in 2024, the mainland REIT market has developed rapidly, reaching 45 REITs in just three years (as of Q3 2024). This growth pattern, however, contrasts with the development seen in five of the world's most established REIT markets – Singapore, Japan, Australia, the US and the UK. These established markets have experienced modest contractions in their REIT numbers over the past five years, highlighting the uniqueness of expansion in the Chinese mainland. Meanwhile, among key Asian emerging economies that introduced REIT frameworks between the 2000s and 2010s, India, Malaysia and the Philippines have recorded measured growth, while Thailand has maintained relatively stable numbers.

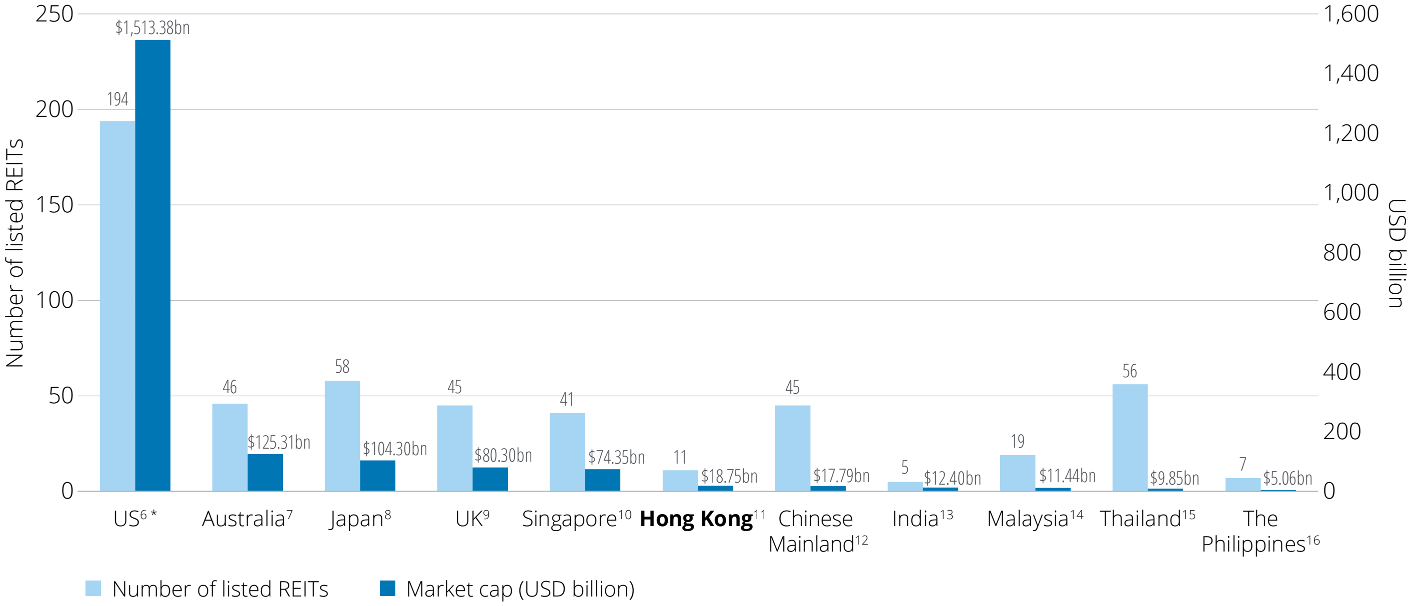
Notably, although the global REIT count has risen – primarily due to emerging markets – total market capitalisation has not grown proportionally, suggesting a complex interplay of factors shaping the REIT ecosystem worldwide.

Figure 2: Global REIT Market Overview



Source: European Public Real Estate Association (EPRA)

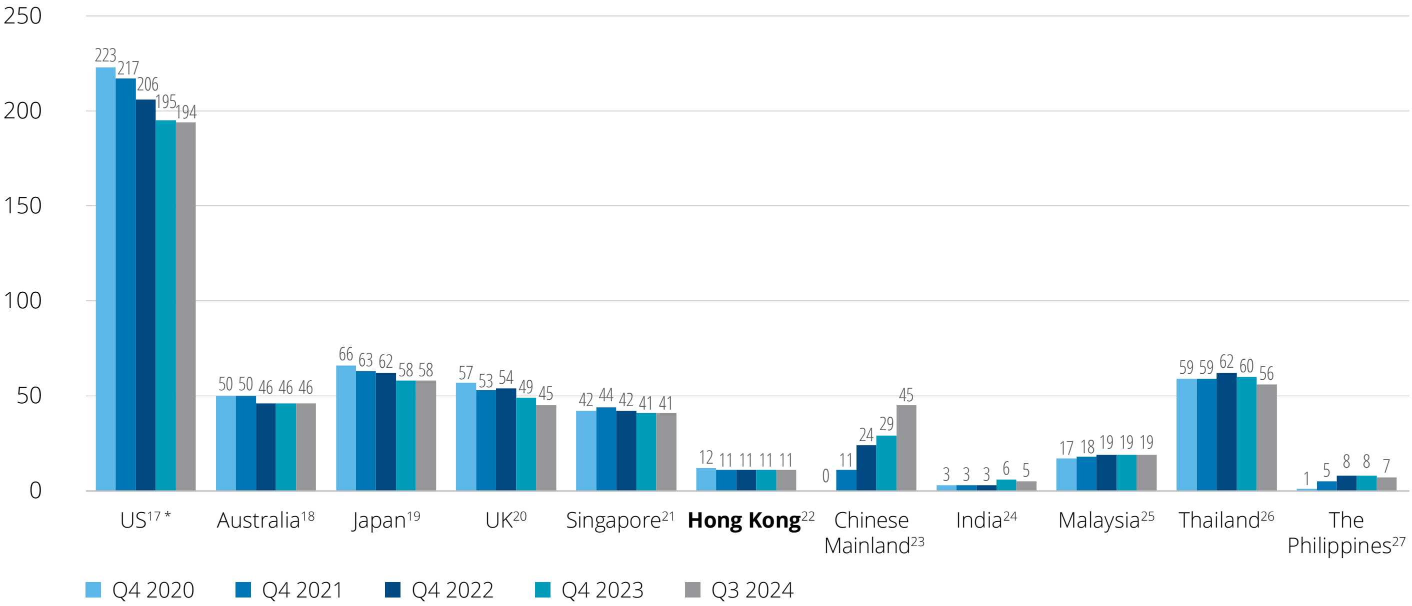
Figure 3: Selected REIT Markets Overview (as of Q3 2024)



*US data are as of 30 August 2024, based on the latest available statistic from the National Association of Real Estate Investment Trusts (NAREIT).

Source: NAREIT; Australian Securities Exchange; Listcorp.com; Japan-REIT.com; Japan Exchange Group; EPRA; Singapore Exchange; Hong Kong Exchanges and Clearing Limited (HKEX); Wind Financial Terminal; Securities Times, China.

Figure 4: Numbers of Listed REITs in Selected Markets in the Past Five Years



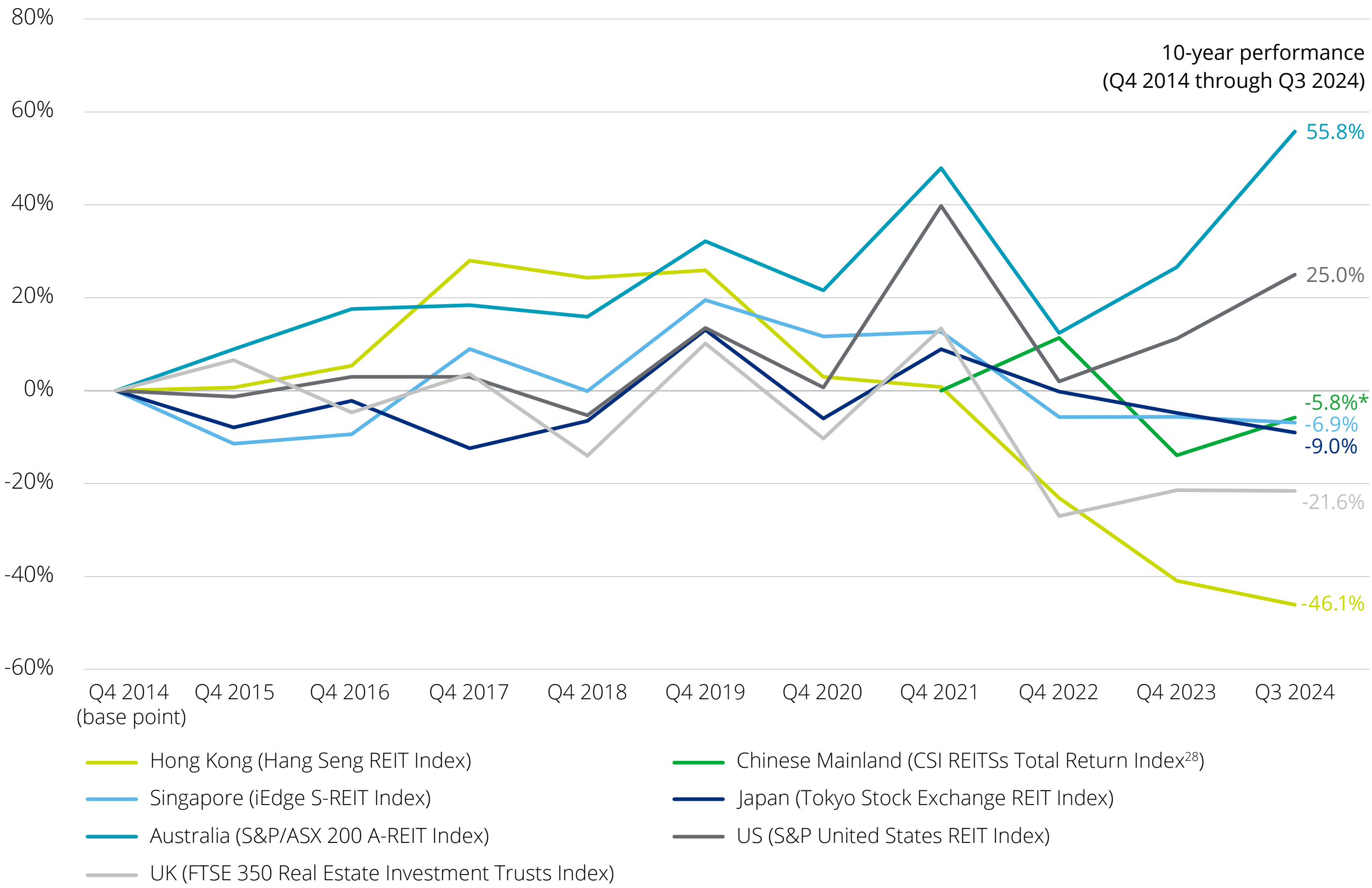
*US data are as of 30 August 2024, based on the latest available NAREIT statistic.

Source: NAREIT; Australian Securities Exchange; Japan-REIT.com; EPRA; Singapore Exchange; REIT Association of Singapore; HKEX; Wind Financial Terminal; Shanghai Stock Exchange; Shenzhen Stock Exchange; Haitong Securities.

Market Performance: Recent Headwinds in a Mixed Environment

In the past decade, REIT performance across key mature markets has shown divergent trends. Hong Kong REITs demonstrated robust growth momentum in the first half of the period, outperforming several major markets, before facing notable headwinds amid broader macroeconomic challenges post-2020. The US and Australia emerged as the strongest overall performers, benefiting from resilient property markets and sustained investor demand. Singapore and Japan exhibited relative stability throughout the period despite market fluctuations, although both markets softened in the latter phase. The UK market demonstrated mixed performance, with initial gains giving way to more challenging conditions in recent years.

Figure 5: Performance of Selected REIT Markets since Q4 2014



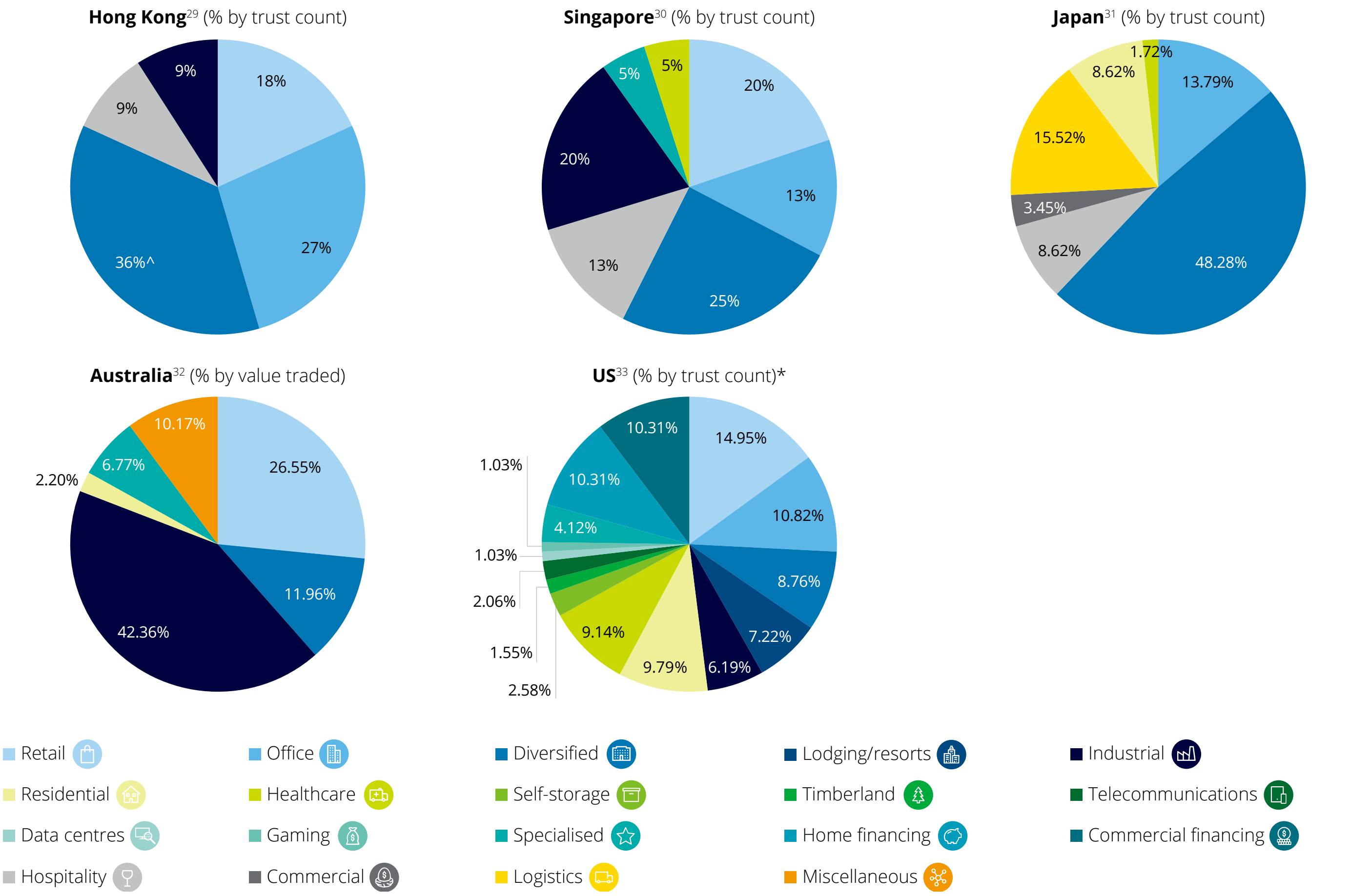
*October 2021 through September 2024. The CSI REITSs Total Return Index was launched in October 2021 with a base point of 1000.

Asset Diversity: Sector and Geographic Concentration

Hong Kong's REIT market primarily focuses on retail and office properties, while other major markets feature a more diverse and expansive range of offerings. The US market, in particular, stands out with its extensive array of asset types, encompassing traditional sectors alongside innovative niches like data centres, gaming facilities and telecommunications infrastructure. This diversification not only broadens investment opportunities but also provides a buffer against sector-specific downturns and a more resilient investment landscape.

In terms of geographical distribution, Hong Kong REITs show a strong local focus, with 73% of investments concentrated in Hong Kong and the Chinese mainland, while 27% include overseas assets. In contrast, Singapore REITs are more geographically diverse: over 90% of them have ventured beyond local borders, investing either partially or entirely in overseas markets. This broader geographical reach by Singapore REITs reflects their international investment strategy, while potentially offering additional risk mitigation through cross-border diversification.

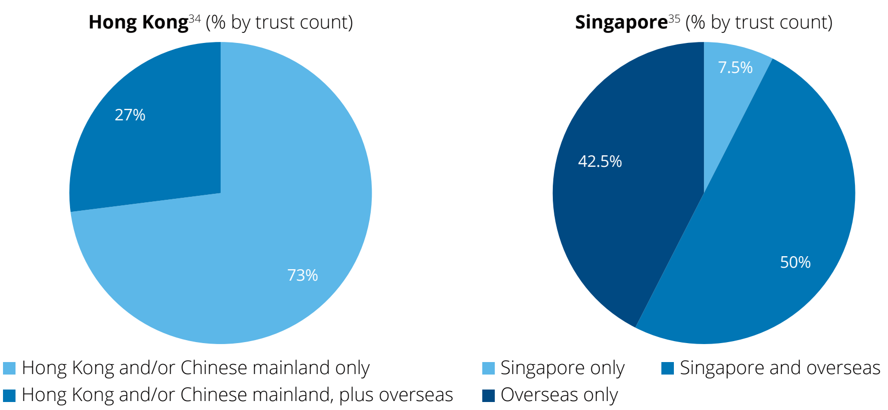
Figure 6: REIT Asset Portfolio (as of Q3 2024)



^ In Hong Kong, diversified assets primarily comprise retail and office properties.
*US data are as of 30 August 2024, based on the latest available NAREIT statistic.

Note: Percentage figures may not sum to 100% due to rounding. Source: Company reports of listed H-REITs; HKEX; Singapore Exchange; Japan-REIT.com; Australian Securities Exchange; NAREIT.

Figure 7: Geographical Exposure of REIT Assets*



*For Hong Kong, figures are as of end dates of the latest company reports of respective H-REITs. For Singapore, figures are as of September 2024. Excluding one S-REIT whose trading is now suspended.

Source: Company reports of listed H-REITs; Singapore Exchange.

2. Regulatory Regime

Development of H-REIT Regulations

The regulatory framework for Hong Kong REITs is primarily governed by the Code on Real Estate Investment Trusts (the REIT Code) published by the Securities and Futures Commission (SFC). The REIT Code establishes guidelines for REIT authorisation and has undergone multiple revisions since its inception in 2003 to adapt to market needs and international standards. Under the REIT Code, H-REITs are structured as closed-end trust funds and must list on the Hong Kong Stock Exchange.

The H-REIT regulatory regime has distinct characteristics compared to some other established markets, which have adopted varying approaches to areas such as legal structures, asset holding periods, property development activities, gearing limits and financial assistance provisions. During our interviews, market participants highlighted how these regulatory features have influenced the sector's development path, investment strategies and property type mix. As the global REIT landscape evolves, these existing regulations have prompted discussions about potential reforms to enhance the market’s appeal and competitiveness.

Figure 8: H-REIT Regulatory Milestones

2003
The SFC introduced the REIT Code.

2005
REIT Code second edition: Lifting the geographic limitation of assets held in H-REITs, i.e., **allowing H-REITs to invest in overseas properties**.[36]

2010
REIT Code third edition: Incremental amendments in areas such as governance standards and disclosure requirements.[37]

2013
REIT Code fourth edition: Minor revisions in areas such as investor protection and investment scope.[38]

2014
REIT Code fifth edition: **Allowing REITs to invest in property development projects and financial instruments**, subject to limitations.[39]

2020
REIT Code sixth edition: **Allowing REITs to invest in minority-owned properties, increasing property development project investments beyond the 10% GAV (gross asset value) limit, and raising the borrowing limit to 50% of GAV**.[40]

2022
REIT Code seventh edition: Miscellaneous definition and interpretation refinements.

2024
- REIT Code eighth edition: Incorporating clauses relating to the new public fund depositaries regime.[41]
- **The SFC has proposed a statutory scheme of arrangement and compulsory acquisition mechanism for H-REITs, similar to the existing provisions for companies under the Companies Ordinance, to facilitate privatisation and other corporate restructurings.**[42] It will work with the Government to introduce legislative amendments with a target to complete the legislative process before the end of the current legislative term in December 2025.

Comparative Analysis across Markets

In interviews, H-REIT CEOs shared their perspectives on the following regulatory features of Hong Kong's market:

Legal structure

H-REITs operate under a unit trust structure, while some other major REIT markets such as the US and Japan accommodate multiple legal forms. **Kevin Leung, Executive Director and CEO of Spring Asset Management Limited**, pointed to capital raising constraints as a key challenge in the trust structure: while REITs can theoretically fund acquisitions through debt or equity, unitholder approval requirements for equity issuance, combined with leverage limits, particularly restrict smaller REITs' growth. In contrast, alternative legal structures, he said, could provide significantly more flexible capital management options.

Deliang Lin, Chairman, Executive Director and CEO of Yuexiu REIT Asset Management Limited, highlighted the operational challenges under the trust framework, noting that 'every major decision requires additional processes and time' and that securing such authorisation, particularly for acquisitions, often involves a longer-than-usual execution period that reduces the attractiveness of capital market activities. Echoing these concerns, **George Hongchoy, Executive Director and Group CEO of Link Asset Management Limited ('Link')**, believes that a more balanced approach between trust and corporate structures could help enhance market development.

The trust framework also has specific accounting implications: H-REITs established before 1 December 2013 under legacy perpetuity rules have a limited lifespan of 80 years and are therefore classified as liabilities rather than equity on a sponsor's consolidated statement of financial position. **Mr Lin** noted that this treatment provides no financial advantage and reduces incentives for older REITs to expand their operations, because the liability classification weakens the sponsor's balance sheet metrics.

Holding period restriction

The REIT Code stipulates that H-REITs must hold their properties for a period of at least two years – a rule that is not commonly seen in other mature markets. This requirement influences the timing of portfolio adjustments when H-REITs seek to divest properties that may no longer match their investment objectives or risk parameters.

Mr Hongchoy of Link noted that the requirement has implications for managing different investment phases and return profiles: 'More often than not, a REIT divesting from a property is not about speculation, but a matter of acknowledging the property's stage of development.' This restriction, he explained, limits REITs' ability to react swiftly to market volatility or respond to unsolicited yet attractive offers. He said the additional layers of REIT manager and trustee oversight further constrain the acquisition and disposal process, effectively limiting options for auctions and tenders, leading to increased uncertainty and transaction risks.

Mr Hongchoy further pointed out that value-add opportunities through renovation and immediate sale – a legitimate strategy for portfolio optimisation – are effectively blocked because of this rule. 'Even when short-term divestment could be profitable, we're forced to hold, despite potentially different long-term returns,' he said, adding that this restriction is unique to Hong Kong among major REIT markets.

Borrowing threshold

H-REITs face a borrowing limit of 50% of total gross asset value compared to Japan, Australia, the US and the UK, where borrowing is essentially unlimited but subject to various financial restrictions or tax implications. This threshold shapes how H-REITs structure their financing for growth opportunities and market participation, particularly in terms of acquisition and expansion funding.

Mr Lin of Yuexiu REIT emphasised that the 50% gearing cap becomes particularly disadvantageous in designing the financial structure of a REIT. He suggested that the gearing cap should take into account factors such as the asset quality of a REIT, its rating by international rating agencies, and other qualitative elements that influence the overall investment outlook. Such an approach, he argued, could better align regulatory limits with the unique characteristics and strengths of individual REITs.

Limits on investment in development projects

H-REITs can only engage in property development activities up to 10% of their gross asset value (which can be increased to 25% subject to unitholders' approval). They are also generally prohibited from investing in vacant land. This cap can be viewed as an impediment to H-REITs' development, as it limits their ability to leverage debt for acquisitions, expansions or refinancing – activities that, as **Mr Hongchoy** noted, could improve risk-adjusted returns for investors. This limitation could in turn reduce H-REITs' competitiveness in fast-moving markets.

Prohibition of financial assistance provided by H-REITs

This rule prevents H-REITs from acquiring distressed properties through secured loan arrangements, a common market practice, and hinders them from engaging in beneficial transactions such as providing loans to joint venture partners for property development or enhancement.

Rule on perpetuity

Under the Perpetuities and Accumulations Ordinance, H-REITs created before 1 December 2013 are subject to the rule against perpetuity that limits their duration to 80 years. This restriction complicates long-term strategic planning, particularly for extensive property investments and development projects, and limits the financing options for H-REITs when compared with corporates that can issue perpetual bonds.

In an extensive interview with Deloitte and HKREITA, **Christina Choi, Executive Director, Investment Products Division, Securities and Futures Commission (SFC)**, highlighted that the SFC has always kept abreast of the latest regulatory developments overseas and maintained a regime that is generally on par with other comparable overseas jurisdictions in view of its product nature.

Regarding specific regulations, Ms Choi mentioned that apart from the trust structure, H-REITs may also adopt a 'stapled structure' as long as similar governance and investor protection measures are in place. She added that certain listed property companies that are majority holders of H-REITs have consolidated their investments in REITs in their financial statements despite the trust structure. She also noted that acquisitions, financial assistance, secondary offerings and other transactions undertaken by H-REITs are subject to the same requirements as applicable to other Hong Kong-listed companies under the Hong Kong Stock Exchange's Listing Rules.

Table 1: Regulatory Frameworks of Selected Regions

	Hong Kong	Chinese Mainland	Singapore	Japan	Australia	US	UK
Structure	Trust	Fund investing in asset-backed securities	Trust	Trust or corporation	Trust	Any legal US entity taxed as a domestic corporation (US entity classification rules allow flexibility for non-corporate entities, e.g. partnership, business trust, limited liability company, to elect to be treated as a corporation).	Closed-ended company (there is a separate regime for open-ended funds).
Primary regulatory body	Securities and Futures Commission	China Securities Regulatory Commission; National Development and Reform Commission	Monetary Authority of Singapore (MAS)	Financial Services Agency; Securities and Exchange Surveillance Commission; respective Local Finance Bureau	Australian Securities and Investments Commission	Securities and Exchange Commission (for public REITs); Internal Revenue Service; Treasury Department	HM Revenue and Customs
Main regulatory Framework	REIT Code, with reference to listing requirements	Guidelines for Publicly Offered Infrastructure Securities Investment Funds	Securities and Futures Act; Code on Collective Investment Schemes	Act on Investment Trusts and Investment Corporations; Securities Listing Regulations	Managed Investment Scheme (MIS) rules under Corporations Act	Securities Exchange Act; Internal Revenue Code; Treasure Regulations	REIT provisions under the Corporation Tax Act
Limits on investment in development projects	Must not exceed 10% of its gross asset value. This limit can be raised up to 25% subject to unitholders' approval.	At least 80% of assets should be invested in infrastructure assets. The remaining assets should be interest rate securities, AAA-rating credit securities, or money market instruments.	Must not exceed 10% of its deposited property. This limit can be raised to 25% under certain conditions, including that the additional allowance is used solely for redeveloping an existing property that has been held by the trust for at least three years and will continue to be held for at least three years after redevelopment completion.	Activities other than asset management are not allowed.	A-REITs that carry out trading business, such as developing land for sale, will not be eligible for flow through treatment.	At least 75% of gross assets must consist of real estate, cash items, and US government securities. It may develop properties for its own investment portfolio.	At least 75% of the UK REIT group's gross assets and accounting profits must relate to the property rental investment business. It may develop properties for its own investment portfolio, subject to a '3-year development rule' that requires properties which have been significantly developed to be held for at least 3 years after development to qualify for REIT tax exemptions.

	Hong Kong	Chinese Mainland	Singapore	Japan	Australia	US	UK
Real estate holding period restrictions	An H-REIT must hold its real estate for a period of at least two years, unless approval is obtained from its unitholders.	None	None	None	None, but real estate investments must be primarily to derive rent.	None	A UK REIT must have a property rental business where the properties should be held with an investment intention (typically evidenced by a hold period of at least 3 years).
Borrowing limits	Borrowings must not exceed 50% of the total gross asset value of the scheme.	Total assets must not exceed 140% of net assets. Borrowings for project acquisition shall not exceed 20% of net assets.	Borrowings must not exceed 45% of the total gross asset value of deposited property. The limit can be raised to 50% if the REIT has a minimum interest coverage ratio (ICR) of 2.5 times. The MAS is proposing to simplify these requirements with a single aggregate leverage limit of 50% and a lower minimum ICR of 1.5 times for all REITs.	Unlimited, but any borrowings by a REIT must be from a qualified financial institution.	Unlimited, but the default 'fixed ratio test' methodology broadly restricts net debt deductions to 30% of tax EBITDA, with limited grouping. An elective third-party debt test is also available.	Unlimited, but tax code caps interest deductions at 30% of the taxpayer's tax-adjusted EBIT with ability for REITs to have no limit by electing to be a 'Real Property Trade or Business' under which certain depreciation deductions are taken over an extended life.	Unlimited, but there is a cash penalty charge if Profit: Financing Cost Ratio is lower than 1.25 (i.e. rental profits need to be at least 1.25 times of finance costs), and tax deductions for interest expenses are limited by general corporate interest restriction rules.
Mandatory distributions	Yes, at least 90% of annual net income after tax.	Yes, at least 90% of annual distributable profits.	No, but an S-REIT must distribute at least 90% of its annual taxable specified income to enjoy tax concessions.	No, but a J-REIT must distribute over 90% of its annual distributable profits to qualify for the dividend payment deduction.	No, but A-REITs usually distribute 100% of annual taxable income.	Yes, at least 90% of annual ordinary taxable income, with some flexibility for subsequent year distributions to be counted toward prior year.	Yes, at least 90% of annual exempt rental profits within 12 months.

Table 2: Overview of Regulatory Regimes of Selected Regions

Region	Description
Chinese Mainland	Launched as a pilot programme in 2020 with the first batch of REITs listed in 2021, the Chinese mainland REIT market is governed by a regulatory framework primarily overseen by the China Securities Regulatory Commission (CSRC) and the National Development and Reform Commission (NDRC). Unlike traditional equity REITs, the Chinese mainland model is structured as a public fund investing in asset-backed securities (ABS) of infrastructure projects. Focusing on serving the nation's development strategy, the mainland REIT market initially concentrated on infrastructure assets such as industrial parks, toll roads, logistics warehousing and environmental protection projects. After three years of development, it has expanded to include clean energy, affordable rental housing and consumer infrastructure. Notably, the NDRC's approach to infrastructure REITs has always been pilot-based and gradual. In July 2024, the NDRC officially launched an updated policy that transformed the REIT pilot programme into a normalised issuance framework, removing previous restrictions on project return ratios and state-owned asset transfers.[43]
Singapore	Singapore's REIT market, launched in 2002, has evolved into one of Asia's most established and diverse REIT ecosystems. The regulatory framework, primarily governed by the Securities and Futures Act 2001 and the Code on Collective Investment Schemes, is characterised by its robustness and flexibility. The regime is designed to accommodate international assets, enabling S-REITs to grow through cross-border acquisitions and solidifying Singapore's position as a key hub for REITs with regional portfolios. It also allows for investment in a wide range of asset types, fostering innovation and diversification. In recent years, the Monetary Authority of Singapore has implemented several regulatory changes to enhance S-REITs' competitiveness, most notably raising the maximum leverage limit from 45% to 50% subject to certain financial requirements.
Japan	Japan's REIT market was established in 2000 with the amendment of the Act on Investment Trusts and Investment Corporations. J-REITs are structured as investment corporations with external management, a unique feature that requires the appointment of registered asset management companies. The regime mandates specific licences and registrations, including the Building Lots and Building Transactions Agent Licence and registration with the Financial Services Agency. A key regulatory aspect is the tax-efficient structure, which allows J-REITs to deduct distributed dividends from taxable income, subject to certain conditions. Recent regulatory developments have included measures to enhance competitiveness, such as allowing funds-of-funds and expanding into diverse asset types, solidifying J-REITs' position in the global REIT landscape.
Australia	Australia's REIT market has grown significantly since its inception in 1971. The regulatory regime is characterised by its flexibility, allowing for both listed and unlisted structures, as well as externally and internally managed trusts. A distinctive feature is the 'stapled securities' model, which combines a passive property trust with an active management company, enabling A-REITs to engage in both property ownership and development activities while maintaining tax efficiency. The regulatory framework is notably liberal, with no strict requirements on real estate investment ratios or dividend distributions, although market practice favours high payout ratios. A-REITs also face no limitations on overseas investments, fostering geographical diversification. This flexible approach has contributed to the market's maturity and global prominence. Recent innovations, including the introduction of the Corporate Collective Investment Vehicle (CCIV) regime in 2022, further demonstrate the ongoing evolution of Australia's regulatory landscape.
United States	The US REIT market, established in 1960 through revisions to the federal tax code, is the oldest globally and has served as a model for many international REIT regimes. The regulatory framework, primarily rooted in tax law, created a vehicle for small investors to access large-scale, income-producing real estate investments. A significant milestone was the Tax Reform Act of 1986, which reshaped the landscape by reducing real estate tax shelters and allowing REITs to own, operate and manage their properties directly. This legislative change catalysed the sector's expansion, enabling REITs to grow through property acquisition, development and management, rather than merely acting as passive investment vehicles. The regulatory regime's flexibility has allowed for the evolution of various REIT types, including equity REITs investing directly in real estate and mortgage REITs focusing on real estate financing. Over the decades, the US REIT market has transformed from a niche sector to a mainstream investment vehicle, demonstrating the effectiveness and adaptability of its regulatory structure in responding to market needs and economic changes.
United Kingdom	The UK REIT regime, introduced by the Finance Act 2006 and launched on 1 January 2007, was initially designed to provide tax-efficient structures for large-scale listed property investments. The regulatory framework has undergone several key amendments to enhance its attractiveness and accessibility. A transformative change came in 2012 with the institutional investor relaxation, which allowed institutional investors such as pension schemes to hold private/captive UK REITs – marking a major shift from previous restrictions on closely held companies. Other notable changes include the abolition of the entry charge in 2012, allowing listings on alternative markets like AIM, and introducing a three-year grace period for certain structural requirements. The regime's liberalisation continued with the 2019 extension of corporation tax exemption to include sales of shares in qualifying UK property-rich companies (in addition to asset disposals), and the 2023 amendments, which notably removed the mandatory listing requirement for some REITs.

3. Tax Treatment

Mixed Tax Picture for H-REITs

Hong Kong boasts a simple and highly competitive tax system, featuring notably low rates and a limited array of levies that have proven instrumental in attracting businesses and investors. This tax-friendly environment largely extends to investors in the REIT sector, who generally enjoy exemptions from taxation on both capital gains and dividend income derived from their investments. Foreign-sourced disposal gains and dividend income received by multinational enterprises are also tax exempt if certain conditions are met.

At the trust level, however, certain tax considerations create additional complexity for Hong Kong REIT operators and potential market entrants.

Tax transparency considerations

Tax transparency means income passes through the REIT structure untaxed, with unitholders responsible for paying taxes on distributions received. Unlike other major markets such as Singapore, where income is taxed at investors' rates rather than at the trust level, Hong Kong REITs are subject to property tax of 15% on direct property holdings or profits tax of 16.5% on rental income through special purpose vehicles (SPVs), regardless of unitholders' tax positions.

Tax transparency considerations create varying implications across the market, particularly for small investors in lower tax brackets who effectively pay higher rates than they would on direct property investments. Meanwhile, this tax framework is a key factor in sponsors' assessment of H-REIT listings and property acquisitions, influencing market dynamics. As noted by **a Hong Kong-based senior banker with extensive REIT experience at a multinational firm**, this lack of tax transparency represents 'the single largest' tax-related constraint on the local REIT market development.

Tax on REIT property transfers

Hong Kong's stamp duty rates for direct transfers of property incurs up to 4.25% of the consideration – often exceeding one year's net property income of a REIT. This rate is notably higher than in some competing REIT markets, such as Japan, where real estate acquisition tax for REIT properties is 1.2% or 1.6%, and registration license tax is 1.3%. This duty structure influence property owners' decisions on asset transfers to H-REITs and existing H-REITs' strategies for new property acquisitions.

While property transfers via Hong Kong SPV share sales attract a lower stamp duty rate of 0.2% of the consideration, this differential treatment creates distinct considerations for property owners who hold assets directly and affects their evaluation of REIT participation.

Hubert Chak, Executive Director and CEO of SF REIT Asset Management Limited, highlighted the prohibitive impact of stamp duty on potential REIT formations, explaining that companies considering REIT establishment face significant upfront costs for asset restructuring through stamp duty payments, even before knowing whether the REIT listing will succeed. 'This creates a major barrier to entry,' he noted.

Tax Treatment Comparison: REIT and Investor Levels

Table 3: Tax Treatment at REIT Level

	Hong Kong	Chinese Mainland	Singapore	Japan	Australia	US	UK
Profits tax	While the profits derived by REITs are generally tax-exempt, their SPVs remain subject to profits tax at 16.5% (8.25% on assessable profits up to HKD2 million).	Tax obligations flow through to investors, but fund managers pay 3% VAT on interest income from loans.	Under tax transparency treatment, REITs are not taxed at the entity level but rather at the unitholder level (subject to relevant conditions).	While c. 34% corporate income tax applies, investor distributions are tax-deductible.	Tax obligations flow through to investors.	Corporate level taxes apply to undistributed income, with shareholder dividends being tax-deductible.	REITs are tax-exempt on rental profits and capital gains realised from qualifying rental business assets, but generally pay 25% corporation tax on other profits.
Tax on capital gain and dividend income	Generally none. Foreign-sourced disposal gains received by multinational enterprises are also tax exempt if certain conditions are met.	Tax obligations flow through to investors.	None. To the extent the REIT is part of a relevant group and does not have sufficient economic substance, capital gains remitted into Singapore from the sale of foreign assets may be subject to corporate income tax.	While capital gain is taxed as ordinary income and subject to corporate income tax at about 34%, investor distributions are tax-deductible.	Flow through treatment.	Subject to corporate income tax if not distributed.	See 'Profits tax'.
Withholding tax on distributions	None.	Distributions are generally tax-free, but 10% withholding tax is applied on distributions to non-residents.	Distributions are generally tax-free, but a 10% rate is applied on distributions to non-resident non-individuals and qualifying non-resident funds.	Withholding tax on listed REIT distributions is levied at 15.315% in general, or 20.315% for distributions to Japanese resident individuals.	None for domestic distributions. For foreign distributions, a 15% rate generally applies for Australian net rental income and capital gains on taxable Australian property.	Generally no withholding tax for domestic shareholders; 30% withholding generally applies on ordinary REIT dividends to foreign shareholders, subject to reduction by treaty. Distributions attributable to the gain on sale of US real property interests is subject to withholding at reduced capital gains rates; however, certain exceptions may apply. Foreign shareholders that own less than 10% of a publicly traded REIT would treat a gain on sale of US real property.	A 20% withholding tax generally applies to REIT distributions from qualifying rental income and gains. Treaty relief may be available, subject to the investor's status.

	Hong Kong	Chinese Mainland	Singapore	Japan	Australia	US	UK
Tax on rental income	Rental income from Hong Kong properties directly held by REITs is subject to 15% property tax. SPV-held Hong Kong properties are subject to 16.5% profits tax, while rental income from overseas properties is generally tax-exempt.	The project company is generally subject to 25% enterprise income tax (EIT), 9% value added tax (VAT), 12% real estate tax, 0.05% stamp duty, and land use tax (based on occupied area and applicable rates).	Rental income can enjoy tax transparency treatment.	While rental income is taxed as ordinary income and subject to a corporate income tax rate at c. 34%, investor distributions are tax-deductible.	Flow through treatment.	Rental income is taxed as ordinary income at corporate rates. However, investor distributions can be deducted from taxable income.	See 'Profits tax'.
Tax on property transfers	For direct property transfers, stamp duty payable is up to 4.25% of the consideration. For property transfers via Hong Kong SPV shares, stamp duty payable by both buyer and seller is 0.1% each (total 0.2%) of the consideration.	The project company is generally subject to 25% EIT, 9% VAT, 0.05% stamp duty, and land VAT in the case of direct property transfer.	Direct transfers of non-residential properties incur up to 5% buyer's stamp duty. Transfers via Singapore company shares that are not considered Property Holding Entities are subject to a 0.2% stamp duty.	If concessionary rates are applicable to REITs: • Registration tax: 1.3% • Real estate acquisition tax: 1.2% for land and residential buildings, and 1.6% for non-residential buildings. The tax is based on the fixed asset assessment value rather than the acquisition price.	Stamp duties apply, varying by location, property type and scale.	Acquisition and registration taxes vary by property location.	Normal stamp duty rates apply to both direct UK property transfers and REIT share transfers. Sales of shares in a non-UK incorporated company (where the share register is held outside of the UK) are not subject to UK stamp taxes.

Table 4: Tax Treatment at Investor Level

	Hong Kong	Chinese Mainland	Singapore	Japan	Australia	US	UK
Distribution tax for domestic investors	None	Corporate investors are tax-exempt on REITs dividends.	17% corporate tax rate; individuals are exempt, except for those who derive distributions through partnerships in Singapore or from carrying on trade, business, or professional activities (where individual tax rates apply).	Withholding tax (including surtax): generally, 20.315% for individuals, and 15.315% for corporate (assuming listed REITs). This is creditable against final tax payable.	Tax rates vary based on investor's income tax classification.	Taxable at prevailing income tax rates: up to 37% for individuals plus potential additional 3.8% net investment income tax, and 21% for corporate, plus individual and corporate state and local income taxes.	UK corporate recipients pay 25% tax on property income distributions (PIDs) received from UK REITs. For UK individuals, PIDs are taxed as income at the individual's marginal rate (20% tax is withheld at source).
Distribution tax for foreign investors	None	10% withholding tax for foreign companies, 20% for foreign individuals.	10% withholding tax for foreign companies and qualifying foreign funds; foreign individuals are exempt.	Generally, 15.315% for foreign investors (assuming listed REITs).	Withholding tax: 15% generally applies for Australian net rental income and capital gains on taxable Australian property	Withholding tax: 30% on general dividends; on capital gain dividends attributable to US real property, 20% (25% to the extent of depreciation recapture) to the extent a foreign investor is taxed as an 'individual' or 'trust' for US tax purposes and 21% to the extent a foreign investor is a corporation for US tax purposes. Certain exceptions apply.	A 20% withholding tax applies to PIDs for both foreign corporate and individual shareholders. Treaty relief may be available, subject to the investor's tax status.
Tax on transferring REIT shares/ units	Stamp duty of 0.2% (0.1% each for buyer and seller) On 11 December 2024, the Legislative Council passed a government bill to waive the stamp duty on the transfers of REIT shares or units. The measure will come into effect on 21 December 2024.	Capital gains taxed at investor's applicable rate, and stamp duty of 0.05%.	No stamp duty.	Capital gains taxed at investor's applicable rate.	Capital gains taxed at investor's applicable rate. Capital gains tax exemption may be available for foreign investors on stakes of less than 10%.	Capital gains for US shareholders taxed at investor's applicable rate. For foreign shareholders, 15% withholding tax on gross proceeds for non-US-controlled REITs. Ultimate gain on sale of non-US controlled REITs taxed at capital gains rates (20% for individuals and 21% for corporations). If a REIT is considered 'domestically controlled' or the foreign shareholder owns less than 10% of a publicly traded REIT, no withholding is applicable provided proper certifications are obtained and ultimate gain is exempt from taxation.	Capital gains on disposal of shares in UK REIT taxed at investor's applicable rate, and 0.5% stamp duty if transferring shares in a UK-incorporated company.

4. Hong Kong REITs amid Competition

Competitive Landscape

Although Hong Kong's REIT market is often measured against regional competitors, industry leaders emphasise that the market's unique characteristics should not be overlooked. Senior executives across the sector note how varying stages of development, policy objectives and investor bases have shaped each market differently. Despite this varied landscape, they remain confident in Hong Kong's competitive advantages within the global REIT space.

Mr Chak of SF REIT noted that Hong Kong's relatively smaller REIT market reflects its distinct real estate development cycle, where attractive development returns often overshadow income-generating strategies. The strong balance sheets of most Hong Kong developers have also reduced their immediate incentive for REIT formation, he added. **Mr Hongchoy of Link** pointed out that Hong Kong's high concentration of real estate ownership among public and private developers – with lower institutional holding – has left a limited pool of assets available for REIT conversion, constraining the growth potential of listed REITs.

When comparing Hong Kong with the Chinese mainland REIT market, interviewees highlighted fundamental differences in market objectives and structure. **Mr Leung of Spring REIT** emphasised that 'it's not an apple-to-apple comparison,' explaining how mainland REITs have flourished under targeted policy support and macroeconomic conditions. The executives noted that the two markets serve distinct purposes, with mainland REITs primarily focused on infrastructure with a limited life cycle (annuity) rather than commercial real estate. **Mr Chak** and **Mr Hongchoy** also highlighted how Hong Kong and mainland REITs target separate market segments, with different capital sources and investor bases.

Adding to these market distinctions, **the Hong Kong-based senior banker** pointed out that while mainland REITs have drawn significant attention due to favourable interest rate conditions in the mainland in recent years, they face more stringent regulatory requirements compared to Hong Kong. Mainland regulators, he said, set particularly high standards for sponsors, who must also demonstrate long-term commitment to reinvesting capital and returns locally. **Mr Hongchoy** also noted that the stringent regulatory oversight has made secondary issues especially challenging for mainland REITs.

Jerry Koh, a Singapore-based veteran corporate lawyer specialising in REIT practice, highlighted how listing venue choices often reflect targeted investor bases. Hong Kong REITs typically aim to attract local and Chinese mainland capital, he said, while Singapore REITs generally seek international investors. Regarding the Chinese REIT market, he noted its unique regulatory framework, particularly around reinvestment rules and lock-up periods, adding that its structure is limited to onshore assets and aims to retain proceeds within the domestic economy.

Challenges Ahead

Industry leaders acknowledge the regulatory evolution while noting areas for enhancement in Hong Kong's REIT framework. **Mr Hongchoy** noted that while the regulator has implemented significant reforms, including allowing property development and flexibility on gearing ratios, the multiple regulatory layers continue to create friction.

'Without offsetting benefits, these restrictions make sponsors reluctant to pursue REIT structures,' he said. He highlighted that the current H-REIT framework imposes additional costs through trustee requirements, legal fees and supervisory expenses, contrasting with markets like the US and Australia where REIT regulations are embedded within existing tax or corporate rules – creating a more streamlined approach. He also questioned the classification of REITs as 'collective investment trusts' – which requires heightened regulatory supervision – noting that institutional investors such as income funds and real estate funds, rather than retail investors or high-net-worth individuals, dominate the H-REIT investor base.

Mr Leung echoed this sentiment, pointing out that while REITs operate similarly to traditional property investment companies, they face additional regulatory burdens that increase compliance costs and reduce operational effectiveness. He acknowledged that while there has been notable progress compared to the regulatory environment of the past decades, compliance burdens remain particularly challenging for smaller REITs.

The interviews revealed a call for a philosophical shift in the regulatory approach. **Mr Hongchoy** suggested moving away from excessive protective measures towards enhanced investor education: 'Rather than codifying extensive protections, we should focus on enabling investors to make informed decisions.' **Mr Leung**, meanwhile, added that although the H-REIT governance regime was historically viewed positively for ensuring stable returns, 'allowing investors greater choice in determining suitable investments might be more appropriate now.'

The executives emphasised that without greater flexibility, sponsors may simply choose alternative structures. 'From a sponsor's perspective, if there is no flexibility, they would rather not form REITs,' **Mr Hongchoy** added.

In a wide-ranging interview, **Ms Choi of the SFC** highlighted REITs' distinctive characteristics as an asset class, emphasising their global recognition for providing sustainable, steady returns with relatively low volatility. This stability, she explained, stems largely from the regulatory framework itself, which enhances investor confidence and positions REITs as a defensive investment option.

Ms Choi emphasised the SFC's proactive approach in developing Hong Kong's REIT market through continuous engagement with industry stakeholders and close monitoring of global regulatory developments. This engagement has translated into meaningful reforms, with the SFC demonstrating its responsiveness to market evolution. Notable examples, she said, include the relaxation of MPF investment restrictions, increased gearing limits, and the introduction of a statutory scheme of arrangement and compulsory acquistion mechanism for REITs to facilitate privatisation and corporate restructuring of REITs – changes that reflect the sector's maturing needs. Effective regulation, she added, should enable innovation while preserving the fundamental characteristics that make REITs attractive to investors.

Ms Choi also highlighted the SFC's collaborative efforts with the Government to enhance market competitiveness, citing initiatives such as the grant scheme for new REIT listings and stamp duty waivers for REIT unit transfers. On taxation, she noted that while H-REITs are not tax transparent, investors benefit from the absence of capital gains tax and dividend income tax in tax-transparent jurisdictions. In terms of time to market, she added that approval-in-principle can currently be granted to H-REITs within two months from take-up if the application is in order.

The SFC's commitment to market development extends to investor education, she explained. Through industry events, conferences and partnerships with the Investor and Financial Education Council, the SFC actively promotes investors' understanding of H-REITs. Ms Choi emphasised the regulator's ongoing commitment to engaging with REIT managers, market practitioners and other stakeholders to refine the REIT Code and implement measures fostering market growth.

Looking ahead, the SFC is advancing what could be a transformative development for Hong Kong's REIT market – the inclusion of REITs in the Stock Connect scheme. Ms Choi spoke with enthusiasm about this upcoming milestone, explaining how the maturation of the Chinese mainland's REIT market has created an unprecedented opportunity for cross-border synergy. The successful implementation of REIT Connect could catalyse a new era of growth for the H-REIT sector. 'We envision this as a pivotal development that could attract a diverse array of products and issuers to our market,' she said.

Beyond regulatory and tax considerations, industry leaders identified additional challenges facing the H-REIT market. **Mr Hongchoy** highlighted a critical gap in investor education, particularly regarding portfolio allocation strategies. Hong Kong investors tend to focus on short-term speculation instead of understanding the role of REITs in providing portfolio stability, he explained, noting that 'REITs serve a distinct function from property developers, but this distinction isn't widely appreciated in terms of asset allocation.'

Market dynamics are also shaped by broader economic factors. **Mr Chak** addressed concerns about the Chinese mainland's economic growth, placing current challenges within a historical context. 'Hong Kong's capital markets have benefited significantly from mainland connections over the past two decades,' he noted. Despite current headwinds, he remains optimistic about Hong Kong's position, emphasising its enduring appeal within the Asia-Pacific region.

Hong Kong's Strengths

Despite the said challenges, industry leaders emphasise Hong Kong's enduring advantages as a REIT market, particularly its sophisticated capital markets infrastructure and strategic position within Asia. These fundamental strengths, coupled with ongoing market development initiatives, position Hong Kong to capture emerging opportunities in the REIT landscape.

- **Sophisticated capital market:** Hong Kong's position as one of the world's most liquid markets underpins its appeal as a REIT listing destination. With a market capitalisation of HKD36.9 trillion as of September 2024 and average daily turnover reaching HKD113.3 billion in the first nine months of the year, the market offers REIT issuers access to substantial capital flows and a diverse investment community.[44] **Mr Koh, the Singapore-based veteran corporate lawyer**, said: 'Hong Kong has always been one of the deepest capital markets with a lot of liquidity, so sponsors would naturally be interested in mining that liquidity.' **Mr Hung of DBS Bank (Hong Kong)** also described Hong Kong's deep capital pool and its expanding capacity to channel mainland capital through various connect programmes as a 'clear advantage' for the city.
- **Strategic location:** As the dominant gateway to the Chinese mainland and a premier financial hub, Hong Kong bridges mainland REITs with global capital and international investors with the Chinese real estate market. The Stock Connect scheme exemplifies this connectivity, serving as a vital channel for cross-border investments: in September 2024, average daily trading reached HKD61.9 billion in Southbound turnover and RMB129.7 billion in Northbound flows.[45]

  In this context, **Mr Lin of Yuexiu REIT** emphasised the strategic value of drawing mainland REIT listings to Hong Kong – such listings, he believes, would significantly expand market depth, diversity and liquidity. **Mr Hung**, meanwhile, stressed Hong Kong's natural advantage in attracting Chinese assets, given local investors' familiarity with the mainland market. He added that securing landmark listings from prominent mainland companies would help establish the city as the preferred financing platform for property assets from across the border.
- **Simple tax system:** Although REIT sponsors face certain tax challenges, industry leaders recognise the broader advantages of Hong Kong's tax framework. 'Hong Kong has the simplest tax system among major markets in the world,' **Mr Chak** noted, highlighting how this streamlined approach contrasts favourably with more complex tax regimes elsewhere. Such a predictable tax environment reduces the administrative burden for REITs in the market.
- **Transparent regulatory environment:** Despite specific regulatory requirements where some industry players call for changes, they acknowledge Hong Kong's broader regulatory framework remains transparent and well-structured. The jurisdiction consistently ranks among top Asian financial centres for market transparency and governance metrics. This clarity extends to REIT operations and provides a clear roadmap for compliance and governance.

5. Promising Outlook for H-REIT Market

Notwithstanding regulatory and tax considerations, industry leaders believe that Hong Kong's REIT market outlook remains optimistic, bolstered by supportive measures from both mainland and Hong Kong authorities. Recent policy initiatives, including the planned expansion of the Stock Connect programme to include REITs and the extended subsidy scheme for REIT listing expenses, demonstrate strong governmental commitment to market development.

The evolution of the Chinese mainland REIT market has also opened new horizons for Hong Kong. Industry experts highlight the significant growth potential as offshore mainland REITs consider Hong Kong listings, which would enhance market diversity and scale. This development would both leverage Hong Kong's sophisticated financial infrastructure and offer investors broader access to the vast real estate sector of the Chinese mainland. Recent property market stimulus measures in the Chinese mainland have further strengthened the investment environment, lifting confidence in real estate-backed securities.

Mr Chak of SF REIT shares this optimistic outlook, noting sustained investor demand for stable income-generating investments. 'Institutional investors consistently seek diversified portfolios that balance new economy opportunities with stable returns,' he said. As US interest rates begin their downward cycle, he anticipates increased allocation to rate-sensitive investments, including REITs. This view is echoed by **Johnson Chui, Managing Director, Head of Global Issuer Services, Hong Kong Exchanges and Clearing Limited (HKEX)**, who pointed to H-REITs' compelling investment proposition. With average yields of about 8% over the past year and inherent advantages over direct property investments – including better diversification, liquidity and cost-effectiveness – Mr Chui believes the sector is well-positioned for growth as interest rates normalise and income-seeking demand strengthens.

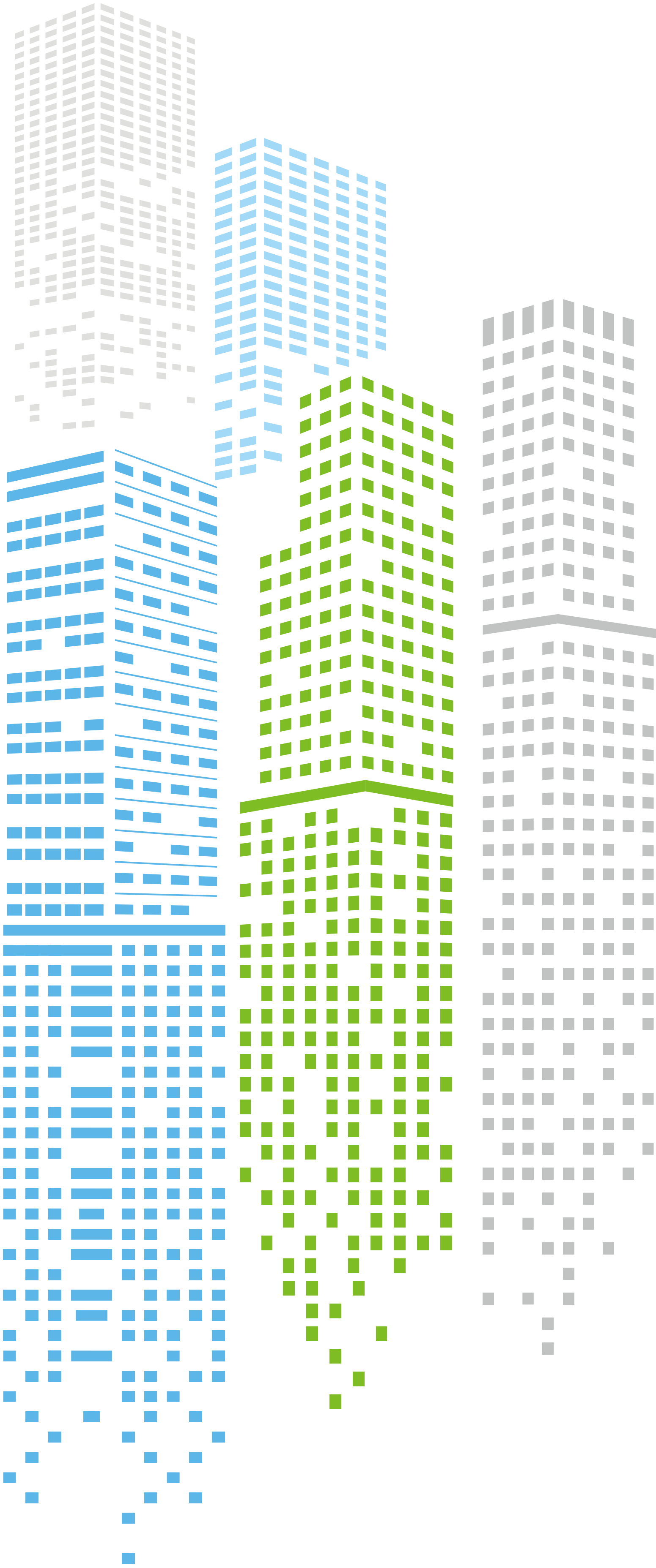
Government support measures

- **Inclusion of REITs in Stock Connect.** Following the April 2024 announcement by the China Securities Regulatory Commission (CSRC), the inclusion of REITs in Stock Connect is progressing through technical preparations. While local regulatory enhancements remain important, **Mr Leung of Spring REIT** emphasised that improving liquidity is equally crucial for H-REIT market development. He stressed the importance of understanding mainland brokers' and investors' preferences to support their participation in H-REITs. Once REIT Stock Connect is fully operational, he anticipates that marketing efforts to mainland investors will become more straightforward, as the connection will naturally facilitate better understanding of H-REITs among mainland investors..

  Mr Chui of HKEX highlighted the significant potential of REIT Stock Connect, drawing parallels with ETFs' increased trading activity following their inclusion in the scheme. Although REITs currently represent a smaller portion of market turnover, he expects the mutual market access scheme to enhance their liquidity. He also emphasised how the different asset focuses of mainland and Hong Kong REITs would offer investors broader real estate exposure opportunities, potentially leading to enhanced liquidity and valuations, as well as an increase in issuances in both markets.

- **REIT listing expense subsidies.** The Hong Kong Government's REIT subsidy scheme, introduced in May 2021 with a HKD8 million funding cap per listing, was in February 2024 extended until 2027. The programme provides a 70% subsidy for eligible professional services expenses, covering legal, accounting and other listing-related costs. This incentive is particularly significant for smaller REITs, as it helps reduce the proportionally higher burden of professional service fees that might otherwise deter smaller property portfolios from listing.

- **Stamp duty waiver for transfers of REIT shares or units.** On 11 December 2024, the Legislative Council passed a government bill to waive the stamp duty on the transfers of REIT shares or units. The measure will come into effect on 21 December 2024. Currently, both buyers and sellers pay 0.1% stamp duty on H-REIT transactions, whereas most international markets, including Japan, Singapore and the US, generally do not impose such duties.[46] This waiver would align with the Government's commitment to support H-REIT market development.



Offshore mainland REITs

Offshore mainland REITs complement their onshore counterparts by offering greater flexibility to both asset owners and global investors. For mainland property owners, offshore REITs allow securitisation of a broader range of income-generating properties beyond infrastructure projects, as markets like Hong Kong impose no specific property-type restrictions. Additionally, the higher gearing limits in offshore markets (50% in Hong Kong, for example) provide mainland REITs with greater financial capacity for property acquisitions.

For global investors seeking exposure to mainland properties and RMB-denominated dividend streams, offshore mainland REITs present an attractive portfolio diversification option, especially given their limited access to onshore products. As a key offshore financial centre strongly linked to the mainland, the H-REIT market is well-positioned to serve as a preferred listing venue for Chinese property assets.

Recent mainland property market stimulus

Since late September this year, the Chinese Government has launched a series of policies aimed at stimulating its real estate sector (through revitalising idle land, cutting mortgage interest rates and relaxing restrictions on housing purchases) and stock market (through injecting additional liquidity). These measures have led to improved market momentum, with property stocks and sales showing positive traction. Given Hong Kong's close economic ties with the Chinese mainland, **the Hong Kong-based senior banker** said these supportive measures would benefit both the broader market and REITs specifically, creating favourable conditions for sponsors and investors alike. He added that the anticipated US interest rate cuts could provide an additional tailwind for Hong Kong's REIT sector, depending on the pace and magnitude of the reductions.

6. Recommendations: Positioning Hong Kong as a Premier REIT Destination

To revitalise Hong Kong's REIT market, industry participants emphasise the need for regulatory and tax innovations that balance investor protection with market flexibility. They suggest that an environment favouring adaptability and responsiveness would allow market dynamics to play a more significant role in shaping the industry's development, while various complementary measures could further enhance market growth. As **Mr Hung of DBS Bank (Hong Kong)** noted, the current market cycle presents an opportune moment to optimise regulatory and tax frameworks, ensuring Hong Kong can fully capture future growth opportunities from REITs as an efficient tool for property companies to monetise assets and deleverage, and when market conditions improve.

Based on market observations and industry feedback, the following reforms and facilitating measures could help enhance market development:

Regulatory changes

- **Expanding legal structure options.** Introducing corporate structures for H-REITs, while maintaining asset protection through independent custodians, could address current structural limitations and attract more market entrants. This flexibility would also enable participation from institutional investors who face restrictions on trust investments or fund-of-funds structures, ultimately strengthening Hong Kong's competitive position against other marketplaces as a preferred REIT domicile.
- **Relaxing the two-year property holding rule.** This change would allow H-REITs to respond more swiftly to market dynamics, optimise their portfolios and maximise unitholder value. Such an adjustment would not compromise the fundamental characteristics of H-REITs, as other key principles in the REIT Code, such as the 75% investment in income-generating real estate and 90% dividend distribution requirements, would remain intact.
- **Increasing flexibility on the borrowing threshold.** This change could unlock H-REITs' growth potential by allowing REIT managers to determine appropriate gearing levels based on market conditions and lender requirements. The flexibility could be complemented by the introduction of diversified risk management measures, such as interest coverage ratios, investment grading or tiered leverage limits that account for asset quality, diversification and overall financial stability.
- **Allowing for more property development activities.** This would enable H-REITs to undertake more substantial property enhancements, capitalise on development opportunities and diversify their portfolios more effectively. Consideration could be given to raising the property development cap to 25% without requiring unitholder approval at general meetings, allowing more flexible portfolio allocation, provided that development projects are intended for rental income generation.
- **Easing restrictions on financial support offered by H-REITs.** By allowing H-REITs to provide loans to joint venture entities, senior management for fund subscriptions, and third parties secured by real estate, H-REITs' ability to pursue strategic opportunities would be enhanced. Safeguards such as comprehensive risk assessments, robust controls and detailed mitigation plans could be implemented to mitigate risks.
- **Removing lifespan limit for H-REITs created before 2013.** This could enhance their long-term planning capabilities and align older trusts with newer H-REITs and international standards.

Tax revisions

- **Introducing tax transparency for REITs.** Tax transparency represents a key consideration for REIT conversions. A framework that shifts taxation from the trust to investor level could potentially generate higher yields through more advantageous tax treatment, and offer the possibility of higher valuations for sponsors. This would in turn create an attractive economic incentive for new REIT launches and encourage more property acquisitions by existing H-REITs.

  With the introduction of tax transparency, where income would be taxed at the investor level through withholding tax, Hong Kong could set a competitive withholding tax rate for foreign entities investing in REITs, similar to Singapore's 10% rate. This would enhance Hong Kong's appeal to international capital.
- **Lowering stamp duty for property injections.** To facilitate growth through asset injection and encourage H-REIT establishment, the Government could consider either exempting H-REITs from stamp duty on property transfers or reducing the rate to 0.2% for direct property transfers into H-REITs, aligning with the rate levied on transactions through SPVs. This could effectively reduce sponsors' asset restructuring costs. Singapore's experience offers an instructive example: its stamp duty remission policy for local property transfers to REITs from 2005 to 2015 helped the industry build a substantial domestic asset base, which subsequently served as a foundation for international expansion.[47]

  Alternatively, **Mr Chak of SF REIT** suggested that stamp duty collection could be deferred until after successful listing, rather than requiring significant upfront payment regardless of listing outcome.
- **Foreign-sourced income treatment.** Given the Foreign-Sourced Income Exemption (FSIE) regime that came into effect in January 2023, the Government could consider carving out H-REITs from the regime's requirements on foreign-sourced income, including dividends, interest, disposal gains and intellectual property income.

Other market development initiatives

- **Including REITs in the HKD-RMB Dual Counter Model.** The expansion of dual counter trading to H-REITs would enhance RMB market development by offering investors trading flexibility in both currencies. This would improve market liquidity, reduce counter price gaps and expand capital pools. Together with Stock Connect inclusion, RMB-denominated H-REIT units would become particularly attractive to mainland investors via Southbound trading. As **Mr Lin of Yuexiu REIT** emphasised, the success of REIT Stock Connect hinges on RMB trading capability, as its absence would expose investors to currency risks.
- **Enhancing listing framework.** First, streamlining the REIT listing process, such as reducing documentation requirements, could help foster a more active REIT market.

  Second, authorities may explore establishing a streamlined dual listing framework between Hong Kong, Shanghai and Shenzhen for H-REITs and mainland REITs. Such a framework could address company structure requirements and approval processes, with a view to expediting the listing timeline. This mechanism could enhance market development and trading liquidity through wider investor reach.
- **Diversifying market mix.** Hong Kong's REIT market currently focuses primarily on traditional residential and commercial properties, potentially missing opportunities in emerging sectors. To enhance market appeal, industry players should encourage REITs with diverse portfolios spanning healthcare facilities, data centres, infrastructure assets, logistics networks and alternative investments. As the world's second-largest biotech financing centre and a leading data centre hub in Asia, Hong Kong stands ready to bridge financing gaps in these growing sectors through REIT expansion.
- **Strengthening investor education.** To address the knowledge gaps impacting REIT investment, market players and authorities should strengthen investor education and promote awareness through initiatives such as partnerships with investment banks and consulting firms for REIT-focused forums, integration of REIT topics into financial institutions' investment seminars and collaboration with financial media platforms. These initiatives should focus on REITs' unique role in providing stable, income-focused returns as part of a balanced investment strategy – for instance, REITs offer institutional investors better time value of money through immediate dividend income and high liquidity, enabling efficient capital deployment without the delays of direct property investment.
- **Building a collaborative REIT community.** Facilitating a vibrant ecosystem of industry players is crucial for market development. Drawing from Singapore's success, **Mr Koh** highlighted how the country's REIT association (REITAS), established with support from the local regulator, has fostered a dynamic community through regular industry conferences and events. These gatherings, he noted, bring together hundreds of professionals from across the sector, from REIT managers to service providers and regulators, creating an interconnected network that enhances market development through knowledge sharing and collaboration.

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Link Asset Management Limited ('Link') is a leading global real estate investor and asset manager based in Hong Kong. Link manages Link Real Estate Investment Trust ('Link REIT'), the largest REIT in Asia by market capitalisation. Link REIT has been entirely owned by independent investors since its listing in November 2005 as the first REIT in Hong Kong.

Starting as an owner and manager of a portfolio of shopping centres and car parks in Hong Kong valued at about HK$33 billion at its IPO, Link transformed into a market leader with a diversified portfolio worth HK$237 billion* through Link REIT, covering retail facilities, car parks, offices and logistics assets spanning Hong Kong, Mainland China, Australia's Sydney and Melbourne, Singapore and the UK's London (*as at 30 September 2024). Link seeks to extend its portfolio growth trajectory and grasp expansion opportunities in different markets in pursuit of sustainable development.

Link REIT is a constituent of the Hong Kong securities market benchmark Hang Seng Index, as well as a component of the Dow Jones Sustainability Asia Pacific Index, the FTSE4Good Index Series and the Hang Seng Corporate Sustainability Index.

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Spring Real Estate Investment Trust (Stock Code: 1426) is a real estate investment trust and was listed on The Stock Exchange of Hong Kong Limited in 2013. Spring REIT's property portfolio includes: (1) two premium office buildings strategically located in Beijing central business district - China Central Place Office Tower 1 and 2 (and the relevant portion of the car park); (2) a landmark shopping mall Huamao Place in Huizhou, located in Greater Bay Area, which comprises seven-storey shopping mall and 750 carpark spaces; and (3) the UK commercial portfolio comprises 83 separate commercial properties in diverse locations across the UK.

SF REIT is the first and only logistics-focused REIT listed in Hong Kong on 17 May 2021, which owns four high-quality modern logistics properties in Tsing Yi, Hong Kong, as well as in Changsha, Foshan, and Wuhu, Mainland China. SF REIT aims to deliver sustainable returns through effective asset management, providing investors with direct exposure to modern logistics properties. SF REIT has the full support of S.F. Holding Co., Ltd. ('SFH'), its controlling unitholder, in the development of its business. SFH is a leading integrated logistics services provider in the PRC, with comprehensive business segments covering express delivery, freight, cold chain, international and intra-city services, cross-border logistics, and supply chain management.

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Yuexiu REIT was listed on the Hong Kong Stock Exchange on 21 December 2005 and is the world's first listed real estate investment trust investing in properties in mainland China. Yuexiu REIT focuses on office, retail and other commercial assets, dedicates to managing properties that can bring considerable cash flows and returns, and identifies opportunities for achieving higher revenue growth through the optimisation of its operations. The current property portfolio comprises ten high-quality properties, with a total area of ownership of approximately 1.1 million sq.m. Properties are located in the central business district of Guangzhou, Shanghai, Wuhan, Hangzhou and Hong Kong SAR.

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The Securities and Futures Commission ('SFC') is an independent statutory body set up in 1989 to regulate Hong Kong's securities and futures markets.

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DBS has been named The World's Best Bank for Real Estate and the Best Bank for Real Estate in Asia Pacific, Singapore and Hong Kong and China in 2024 by Euromoney. In addition, DBS has been accorded the 'Safest Bank in Asia' award by Global Finance for 16 consecutive years from 2009 to 2024.

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About HKREITA

Hong Kong REITS Association Limited (HKREITA) is a collaborative platform of the city's real estate investment trusts (REITs) sector. We bring together REIT managers, industry practitioners and professionals working in the REIT sector who share our vision to jointly promote the overall development of the REIT market in Hong Kong.

We seek to pool ideas and serve as the representative voice of the REIT sector in Hong Kong, and work closely with policymakers and other stakeholders to boost Hong Kong's position in the global REIT market. We engage in active dialogue with government authorities, regulatory bodies, and industry leaders to address challenges, identify opportunities, and implement strategies that will drive the growth of the REIT sector. Through these efforts, we strive to create a favourable regulatory and business environment that attracts both local and international investors.

In addition to our advocacy work, HKREITA is committed to providing valuable resources and support to our members. We organise a range of activities, including seminars and networking events, to facilitate knowledge sharing and professional development. These initiatives help our members stay informed about the latest industry trends, regulatory updates and best practices, enabling them to make informed decisions and achieve their business objectives.

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