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PROSPECTS FOR ESTABLISHING REAL ESTATE MUTUAL FUNDS IN THAILAND

by

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ABSTRACT

This thesis examines the prospects for establishing real estate mutual funds in Thailand. The development of Real Estate Investment Trusts (REITs), particularly equity REITs in the United States, is used as a model. REITs are very useful to advance the development of real estate industry, and while REITs already exist in several countries, many other countries are now considering establishing REITs in their countries.

The usefulness of REITs is also recognized by the Thai government. At the beginning of this year, a sub-committee was established to study the applicability of REITs to the Thai economy. At present, the Securities and Exchange Commission (SEC) is expected to approve the establishment of property funds or real estate mutual funds in the near future.

The major merit behind the creation of property funds in Thailand is to provide small investors with opportunities to invest in a diversified portfolio of real estate. There is a need for small investors to have this type of investment alternative since their existing alternatives are limited. Investing directly in real estate, however, may not be viable for many of them because of the high capital requirements. Small investors also have difficulties entering the stock market to purchase shares of real estate companies because of the high initial deposits required by investment companies, as well as the high brokerage fee charged.

Real estate companies can use property funds as a source of capital by acting as the captive property managers of the fund. After the mutual fund management company raises funds from the public, it can acquire the desired properties. According to the research and questionnaire results (which are the methodology of this thesis), it was found that there is not as strong a need for an alternative source of capital for large real estate companies as there is for small to medium size companies.

The establishment of property funds in Thailand, therefore, should be of great benefit to investors, especially small investors, real estate companies and the Thai economy as a whole.

Thesis Supervisor: Blake Eagle
Title: Chairman, Center for Real Estate

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Chapter 1

Overview of Thai Economy

Overview

Thailand is situated in Southeast Asia sharing the same border with Cambodia in the East, Laos in the Northeast, Burma in the Northwest and Malaysia in the South. The country has a total land area of 514,000 sq.km. and a population of 60 million people in 1994. Bangkok is the capital city of Thailand with a population of 6 million. Although there is no restriction to the choice of religions, over 90 percent of the Thai people are Buddhists.

Political Background

Thailand is governed by constitutional monarchy. The country has an elected government with the King as the head of state similar to the political system in Japan and the United Kingdom. There are 2 houses in Parliament: the Senate and the House of Representatives. The senators are nominated by the prime minister. Members of the House of Representatives are elected by the people. The present government is a coalition of five political parties: the Democrat Party, the New Aspiration Party, the Palang Tham Party, the Ekaparp Party, and the Seree Tham Party. Mr. Chuan Leekpai, leader of the Democrat Party, is the Prime Minister.

Currently, Parliament is in the process of revising the constitution to make it more democratic and more effective in the implementation of the government's policies. The main amendments to the constitution include (1) The prime minister must be an elected member of the House of Representatives, (2) The number of senators and the power of the Senate would be reduced in order to make the Senate play a supporting role in Parliament and have less authority to obstruct the work of the House of Representatives, and (3) All Thai citizens reaching the age of 18 would be eligible to vote. The Parliamentary Committee, in charge of revising the constitution, has completed a major portion of its work. After the revision is completed, the committee will submit the revised draft to Parliament for consideration and adoption at a later date.

The Economy

After World War II, the Thai economy transformed from an agriculturally-based economy to one based on manufacturing. Thailand has sometimes been considered a Newly Industrialized Country (NIC)[1]. According to the latest data given by the National Economic and Social Development Board (NESDB), the percentage share of the agriculture sector accounted for 25.89 percent in 1970, and 11.87 percent in 1992. During the same period, the percentage share of the manufacturing sector increased steadily from 15.95 percent in 1970 to 28.29 percent in 1992. The percentage share of Thailand's Gross Domestic Product by Industrial Origin is given in Table 1.1.

Table 1.1
Thailand: Percentage Share of Gross Domestic Product by Industrial Origin, 1970-1992

Industrial Origin	1970	1975	1980	1985	1990	1992
Agriculture	25.89	26.88	23.21	16.75	12.75	11.87
Manufacturing	15.95	18.67	21.25	22.13	27.16	28.29
Others	58.16	54.45	55.54	61.12	50.09	59.84
Gross Domestic Product (GDP)	100.00	100.00	100.00	100.00	100.00	100.00

Source: National Accounts Division, National Economic and Social Development Board (NESDB), June 1994

[1] "Thailand's economy has undergone dramatic change over the last 25 years. From an agricultural economy based on a narrow range of export commodities--rice, rubber, tin and teak--the country is sometimes numbered among the world's 'Newly Industrialized Countries (NICs)' " The quotation is taken from p.11 of the Country Profile of Thailand, 1993/94, published by the *Economist Intelligence Unit*, London, 1994

In anticipation of peace in Indo-China, the government set its goal in 1987 for the country to become a regional financial center. The Bank of Thailand (BOT) has taken steps to liberalize controls governing interest rates and foreign exchange transactions. Moreover, BOT requires all commercial banks and financial institutions to comply with the Bank of International Settlements (BIS) standards, which came into effect on January 1, 1993. The major economic steps that BOT has taken are:

1) Expansion of operations into Indo-China;

2) Expansion of Baht's[2] role; and

3) Establishment of Bangkok International Banking Facilities (BIBF).

With the liberalization and internationalization plan, interest rates have declined. Additionally, there will be fewer controls on payments and transfers of foreign exchange in current account transactions. Consequently, more foreign capital will flow into the country.

Development Planning

The First Economic and Social Development Plan in Thailand began in 1961. The Thai economy achieved a very high growth rate during the Sixth Plan period, 1987-1991. The economy expanded at an average of 10.5 percent per year, twice the Plan target of 5 percent per year. The major economic and social development targets of the Seventh Plan, compared with the achievements of the Sixth Plan, are given in Appendix 1. At present, Thailand is under the Seventh Plan covering the five-year period of 1992-1996. The main objectives of the Seventh Plan are:

[2] Baht is the Thai currency. According to the Wall Street Journal, the exchange rate of 1 US dollar was equal to 24.97 Baht on July 13, 1994.

1) To maintain economic growth rates at appropriate levels to ensure sustainability and stability;
2) To redistribute income and decentralize development more widely to the regions and rural areas; and
3) To accelerate the development of human resources, and to upgrade the quality of life, the environment and the management of natural resources.

Economic Performance

The Thai economy has grown rapidly during the past 10 years. The growth rate was particularly high during the Sixth Plan period (1987-1991) with an average rate of 10.5 percent per annum. During the Seventh Plan period (1992-1996), the Thai economy continued to grow at a high rate of 7.6 percent in 1992, 7.9 percent in 1993 and is projected to grow at 8.2 percent in 1994[3].

In recent years, the growth rate of the Thai economy is higher than the aggregate rate of growth for the developing countries in Asia. The growth rates for industrial countries and developing countries in various regions of the world are given in Table 1.2.

The important factors contributing to the rapid expansion of the Thai economy are:

1) High growth of exports, investment[4] and tourism;
2) Favorable world economic conditions such as lower oil prices and lower interest rates;
3) General increase in world commodity prices;

[3] Data obtained from National Economic and Social Development Board
[4] This is taken from the report of the government on economic performance of the country during the first half of 1994. The high growth of investment is based on the information provided by the Board of Investment.

4) Comparative advantages in natural and human resources with reasonably low wages; and

5) Effective fiscal and monetary policies to stimulate and accelerate economic expansion.

Table 1.2
The World Economy: Selected Indicators
(Annual Changes in percent)

	1991	*1992*	*1993*	*1994*
Real GDP*				
World	0.1	.05	1.5	3.5
Industrialized Countries	0.5	1.5	1.9	2.7
United States	-1.2	2.1	1.9	2.7
Japan	4.0	1.5	2.1	2.5
Germany	1.0	1.4	0.0	2.7
Developing Countries	3.4	5.1	5.5	5.8
Africa	1.5	2.0	3.0	3.2
Asia	6.1	7.0	7.2	7.4
Latin America	2.8	2.4	2.5	3.0
Middle East and Europe	0.0	6.1	7.0	7.2
Eastern Europe and Former Soviet Union	-9.7	-16.0	-10.0	5.5

* In the case of Asia and some industrialized countries, GDP is used and for Eastern Europe and former Soviet Union, Net Material Product (NMP). The regional aggregates are computed using average GNP weights over a three year period, 1988-1990.
Source: Asian Development Outlook 1993, Asian Development Bank (ADB), p.4

The performance of the Thai economy in 1993 can be evaluated through the review of major macro-economic indicators given in Table 1.3. Additional detailed information is given in Table 1.4.

1) Production:

The production of agriculture sector increased by 1.7 percent in 1993 which is lower than the increase of 3.7 percent in the previous year. The production of non-agriculture sector increased by 8.4 percent in 1993 compared with an increase of 8.0

percent in 1992. The relative growth rates of the two production sectors reflected the continued transformation of the Thai economy from its agriculture-base to an industrial-base.

2) Price Level:

In 1993, the Consumer Price Index (CPI) rose by 3.2 percent while the wholesale price index declined by 0.6 percent. The relatively low levels of the CPI and the wholesale price index are necessary for the healthy economic expansion of the country.

3) International Trade:

The international trade sector continued to expand at a high rate in 1993, with a growth rate of 11.5 percent in exports and 12.8 percent in imports. The country registered a trade deficit of 242 billion Baht in 1993, but there was a surplus in the balance of payments of 132 billion Baht due to the surplus in the invisible trade[5]. Thailand was able to maintain a healthy amount of international reserves of 25.5 billion US dollars in 1993.

4) Fiscal Position:

The government had a prosperous fiscal position in 1993 owing to a 6 month delay in the approval of the budget following the change of government in September, 1992. The government revenue rose 12.3 percent while budgetary expenditures increased by 17.2 percent in 1993.

5) Monetary Condition:

The large capital inflows in 1993 increased the money supply (M2) by 19 percent and at the same time reduced the domestic interest rates. Deposit and lending rates of commercial banks decreased gradually throughout the year; deposit rates declined by

[5] Trade in services including air, land and sea transportation, tourism and travel, remittances, etc.

1.0-1.5 percent while the lending rates declined by 1.0-2.0 percent compared with the previous year.

Table 1.3
Thailand: Macro Economic Indicators, 1992-1993

	Value (Billion Bath)		*Percentage Change*	
	1992	*1993^E*	*1992*	*1993^E*
1. Production				
Gross Domestic Product				
(at 1972 constant prices)	734.2	789.6	7.4	7.5
- Agriculture	96.1	79.7	3.7	1.7
- Non Agriculture	638.1	691.9	8.0	8.4
2. Price Level				
Consumer Price Index (1986=100)	130.8	135.0	4.1	3.2
Wholesale Price Index (1985=100)	132.3	131.5	0.2	-0.6
3. International Trade and Finance				
Exports	815.4	909.0	13.2	11.5
Imports	1,020.6	1,151.0	5.5	12.8
Trade Balance	-205.2	-242.0		
Current Account Balance	-167.7	-192.0		
Balance of Payments	29.7	132.0	-73.6	344.4
Foreign Debt	37.1	40.9	11.4	10.2
International Reserves (US$ Billion)	21.2	25.5	15.2	20.3
Debt Service* (Percent of exports)	10.6	11.0	8.2	3.8
4. Fiscal Position				
Budgetary Revenue	497.7	559.0	7.0	12.3
Budgetary Expenditure	421.9	494.4	23.4	17.2
Budgetary Balance	75.8	64.6		
Cash Balance	85.9	69.1		
5. Finance				
Commercial Bank Deposits	2,010.6	2,402.7	16.2	19.5
Commercial Bank Credits	2,183.9	2,631.6	20.6	20.5
Money Supply				
M_1	249.7	289.7	12.3	16.0
M_2	2,117.8	2,520.2	15.6	19.0

* Including short-term debt
E = Preliminary Estimate
Source: Bank of Thailand

Table 1.4
Thailand's Key Economic Indicators

	1989	*1990*	*1991*	*1992*	*1993^P*
1. Population (million persons)	55.89	56.30	56.96	57.79	58.54
2. GDP					
2.1 Real GDP at 1972 prices					
(% change)	12.2	11.6	8.1	7.6	7.8
- Agriculture	9.6	-3.8	5.0	2.9	0.7
- Non Agriculture	12.7	14.5	8.6	8.3	8.8
2.2 GDP at current prices (billion Baht)	1,857.0	2,191.1	2,505.6	2,808.8	3,131.8
(% change)	(19.1)	(18.0)	(14.4)	(12.1)	(11.5)
2.3 Per Capita GNP (Baht)	33,204	38,582	43,335	47,920	52,783
3. Inflation (consumer price index)	5.4	6.0	5.7	4.1	3.3
4. External Sector (billion Baht)					
4.1 Exports	509.9	583.2	720.5	815.2	922.0
(% change)	(27.7)	(14.4)	(23.5)	(13.1)	(13.1)
4.2 Imports	650.1	838.3	967.8	1,020.6	1,143.0
(% change)	(29.9)	(29.0)	(15.4)	(5.5)	(12.0)
4.3 Trade Balance	-140.2	-255.1	-247.3	-205.4	-221.0
4.4 Current Account Balance	-65.0	-186.2	193.3	-161.3	-171.0
(as percentage of GDP)	-3.5	(-8.5)	(-7.7)	(-5.7)	(5.5)
4.5 Capital Movements (Net)	152.2	206.9	294.7	202.5	318.2
- Private Sector	159.9	238.6	268.7	199.0	313.7
- Public Sector	-7.7	-31.7	26.0	3.5	4.5
4.6 Overall Balance of Payments	111.5	57.0	112.4	29.7	129.6[4]
4.7 International Reserves (billion US$)	10.5	14.3	18.4	21.2	25.4
4.8 Total Outstanding Debt[1]	19.4	25.1	33.4	37.4	42.7
(Public Debt)	(11.8)	(11.5)	(12.8)	(13.1)	(14.0)
4.9 Debt Service Ratio	10.6	9.1	9.8	10.5	10.2
(Public Sector)	(5.8)	(5.0)	(4.2)	(3.7)	(3.7)
5. Public Finance (fiscal year)					
5.1 Cash Balance (billion Baht)	59.3	103.3	123.7	85.9	69.1
(as percentage of GDP)	(3.3)	(5.0)	(5.2)	(3.1)	(2.2)
6. Money and Banking[2]					
6.1 Money Supply (M_2)	1,207.1	1,529.1	1,832.4	2,117.8	2,507.1
(% change)	(26.3)	(26.7)	(19.8)	(15.6)	(18.4)
6.2 Domestic Credit (% change)	19.8	26.9	15.5	18.1	20.7
- Private Credit (% change)	29.8	33.3	21.0	20.6	21.4
6.3 Deposits[3] (% change)	26.8	27.5	21.4	16.2	19.2
6.4 Interest Rates (end of the year)					
- Prime Rates	12.5-13.5	16.25-16.5	14.0	11.5	15.5
- Time Deposit (1 year)	9.5	13.0-15.5	10.5	8.5	7.0
7. Exchange Rate (annual average)					
Baht : US$ (Exchange Equalization Fund)	25.7	25.59	25.52	25.40	25.32

Note:
1. Including short-term debt
2. Excluding the Government Savings Bank. That of the Bank of Thailand includes the account of the Exchange Equalization Fund.
3. Excluding foreign currency deposits and interbank deposits
4. Including BIBF's new lending
P = Preliminary figures

Source: Annual Economic Report 1993, Bank of Thailand, May 1994

Outlook

The target rate of growth of the Thai economy during the Seventh Plan period is set at 8.2 percent per annum. According to the assessment of the NESDB, the Thai economy is expected to grow at the target rate of 8.2 percent in 1994, although the Bank of Thailand and other Government and non-government organizations estimated the Thai economy will expand at even faster rates. According to the Ministry of Commerce, the exports of Thailand during January-May 1994 increased by 21.4 percent and imports by 10.1 percent compared with the same period in 1993. The high rate of exports is expected to continue during the second half of 1994. Up to the end of May 1994, the CPI increased approximately 4 percent which is still considered under control as the expected rate of growth of inflation during the current plan period is 5.6 percent[6]. However, there are internal and external problems which may hinder the development of the Thai economy, such as political instability, the high price of oil, etc. The NESDB, the BOT, and other government and non-government organizations, however, believe that the Thai economy should be able to expand at the target rate of 8.2 percent during the Seventh Plan period.

Table 5 provides some key economic indicators of the Thai economy up to the year 2000.

[6] Seventh National Economic and Social Development Plan, 1992-1996, NESDB, p. 20

Table 1.5
Thailand's Key Economic Indicators by the Year 2000

	1990	1991-1995	1995	1996-2000	2000
Economic Growth (%)	11.5	7.7	7.6	7.6	7.4
• Agriculture	-3.7	3.3	3.3	2.8	2.5
• Manufacture	15.9	10.2	8.4	8.6	8.4
• Services	13.0	7.0	7.6	7.4	7.2
GDP (Billion US Dollar)	86	121	144	202	247
Per Capital Income (US Dollar)	1,525	2,069	2,396	3,233	3,860
Export (Billion US Dollar)	22.9	36.8	47.0	69.6	87.0
- Growth Rate (%)	14.4	15.5	14.9	13.1	12.4
Import (Billion US Dollar)	32.9	46.6	56.4	74.8	88.6
- Growth Rate (%)	28.9	11.4	7.9	9.4	9.3
Trade Balance (Billion US Dollar)	-10.0	-9.8	-9.4	-5.2	-1.6
- As % of GDP	-11.7	-8.1	-6.5	-2.6	-0.6
Current Account (Billion US Dollar)	-7.3	-7.3	-6.2	-0.1	4.9
- As % of GDP	-8.5	-6.1	-4.3	-0.0	2.0

Source: Thailand 2000, A Guide to Sustainable Growth and Competitiveness, National Economic and Social Development Board, 1993, p. 29

Conclusions

The healthy development of the Thai economy has stimulated and accelerated the transformation of Thailand allowing it to move from an agricultural-base to an industrial-base, particularly during the period after 1970. During the Sixth Plan period (1987-1991), the economy expanded at a rate twice as high as the target rate for this period. Moreover, the growth of the economy is expected to exceed the target rate of the Seventh Plan period (1992-1996). With the recovery of the world economy and the prevailing condition in Thailand, the economy is expected to continue to grow at a high rate. Political stability and the continued expansion of the Thai economy both provide an important foundation for the continued development of Thailand's real estate markets. Current indicators predict that the Thai real estate markets will be more active and prosperous in 1994.

Chapter 2

Real Estate Market in Thailand

Definition

The term “Real Estate” refers to land, houses, office buildings, condominiums, apartments, townhouses, etc. According to Webster’s Third New International Dictionary, “Real Estate” means “land and its permanently affixed buildings or other structures together with its improvements and its natural assets (as minerals, crops, waters) and with the inclusion of corporeal rights and incorporeal rights that follow ownership of the land and with the interests in such rights.”

Historical Background/Development

Before the Second World War, land was very cheap in Thailand. Most of the cultivated land areas were owned by farmers although a large portion of the land in the rural area was uncultivated and belonged to the state. Because of the low return on investment, not many Thai people would invest in land. Investment in other forms of real estate was even less attractive. Apart from a limited number of low-cost houses constructed by government agencies intended mainly for government employees, the private sector had a very limited role in real estate development in Thailand. With the increase in population[1] and the expansion of the Thai economy, there was an increase in demand for housing, especially in the urban areas such as Bangkok and Chiengmai. According to official information, the private sector became more active in real estate development in 1957. In the early stages, real estate developers concentrated their

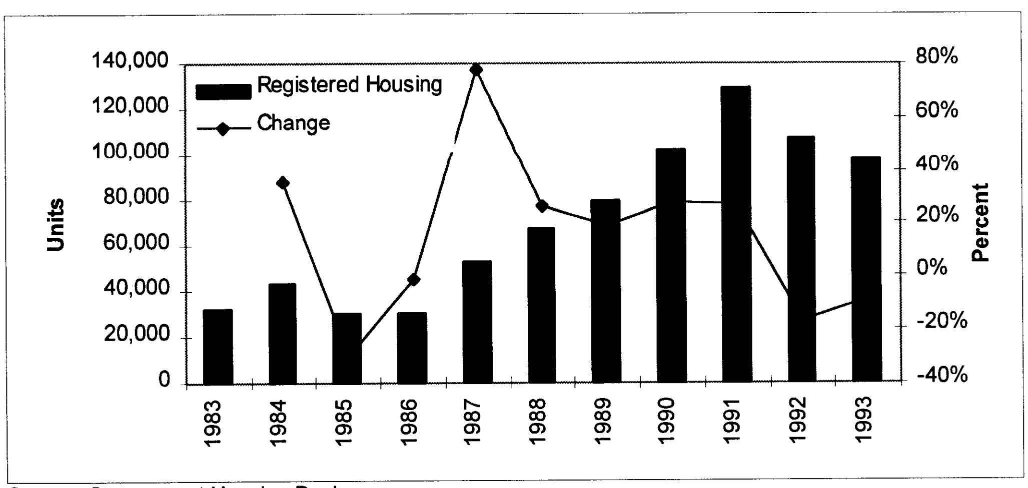
[1] This is a continuing process which increases housing requirements or demand for housing.

activities in the construction of "shop-houses,"[2] apartments and land development[3]. As the Thai economy continued to grow, there was an increase in demand for houses, apartments, condominiums, townhouses, office buildings, etc. and the real estate business expanded rapidly in the cities as well as the rural areas all over the country.

Market Boom in 1987-1990

As indicated earlier in Chapter 1, the Thai economy expanded at a high rate during the last ten years and real estate companies made huge profits during this period. The 1987-1990 period is known as the "Golden Age" for the real estate business in Thailand. As an indication of the expansion of the real estate business, the number of housing units registered increased at a very high rate of 78 percent in 1987, 70.2 percent in 1988, 10.7 percent in 1989 and 27.9 percent in 1990. Figure 2.1 shows the housing units registered in Thailand during 1983-1993.

Figure 2.1
Housing Units Registered during 1983-1993



Source: Government Housing Bank

[2] Relatively small units of townhouses standing side by side in the urban area, mostly 2-3 stories using the ground floor as a shop and the upper floors for living, storage, etc.
[3] Allotment of a big piece of land into smaller pieces for the construction of houses, growing fruit trees, and other purposes.

The major factors contributed to the boom in real estate business during this period are given below.

1) Rapid expansion of the economy

The growth rate for the Thai economy was 14.7 percent in 1987, 18.7 percent in 1988, 18.3 percent in 1989 and 14.4 percent in 1990[4]. Per capita income of the Thai people also increased at a high rate during this period, which is accompanied by the rise in the demand for housing, office space, shopping centers, etc.

2) High liquidity in financial system and low interest rates

During the 1987-1990 period, the liquidity in the financial system was very high. The Bank of Thailand reduced the ceiling of both borrowing and lending rates. As a result, interest rates were very low at 11.5-12.5 percent during this period, as compared with 15.5-16.5 percent in 1986. Government Housing Bank's rates were also very low at 11.5-13.5 percent. There was a large supply of money in the market with low interest rates. Moreover, there was a fierce competition among financial institutions for housing loans and attractive loan packages were made available to customers. All those developments increased the customers' demand for housing and helped the real estate developers to expand their activities.

3) Supportive government policy to residential *real estate development*

Government policy was an important factor contributing to the boom in real estate during this period. The Government had the policy to control the price of oil and other raw materials which resulted in the decline in the prices of construction materials. The Government also encouraged the commercial banks to make loans to real estate developers on housing projects and to the customers for housing purposes.

[4] Date obtained from the National accounts Division, NESDB.

4) Rapid rise in land price and speculation

Speculation on land and properties was another important factor leading to the boom in real estate business during this period. Because of the rapid rise in the price of land and properties, investment in real estate was very profitable and the developers expanded their business substantially. Speculations on land and properties were very profitable and became a common practice during this period. Moreover, a large amount of foreign capital[5] entered the country for this purpose, which also helped to push up further the price of land and properties.

Current Market Situation

The growth of real estate industry began to slow down towards the end of 1990 and the industry entered a period of stagnation, especially in Bangkok and other urban areas. There were many oversupplied houses and buildings from the boom during the 1987-1990 period. The industry was also adversely affected by the Persian Gulf War, the rise in oil prices, the slowdown in the Thai economy and political instability in the country. During this period, the government issued many regulations to control real estate business, such as the zoning code.

In 1993, the market began to recover due to the growth of the Thai economy. The favorable financial system and the attractive interest rates led to the inflow of foreign funds. There was a rise in the demand for housing and other kinds of properties and the market expanded once again. However, the demand for housing was a real demand and speculation was significantly reduced.

[5] Investment of foreign capital through joint ventures and multi-national corporations involving countries in the Far East such as Hong Kong, Taiwan and Singapore.

According to the information from the NESDB, in 1992, the market share for flats and condominiums was 34 percent of registered housing units, 32.2 percent for townhouses, 31.6 percent for single houses, and 2.2 percent for duplexes. The increase in demand for flats and condominiums was due to the expansion of urban areas, traffic congestion and attractive price levels. In 1993, the market share for flats and condominiums was still the highest followed by single houses, townhouses, and duplexes.

As indicated earlier, the performance of the real estate industry in Thailand depends on both the internal and external factors. With the recovery of the world economy from recession and the improvement of the Thai economy in 1994, the prospects for the property market became more promising in 1993-1994. According to the NESDB, there should be an increase in public and private investments, a rapid rise in foreign trade, an improvement in tourism, a high production growth and a promising capital market in Thailand. Other favorable factors contributing to the growth of the real estate market are given below:

1) Increase in consumers' demand:

a) An increase in the population which is expected to increase by 1 million per year

b) Changing of lifestyle to single family[6]

c) Need of second home in inner city due to traffic congestion

d) An increase in household-age population

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[6] Generally, Thai people live with their parents even after they are married. Currently, there is a tendency that the married couple will live separately, away from their parents.

2) Increase in consumers' purchasing power:

a) Substantial increase in income per capita due to salary and wage increases

b) Favorable housing credit condition due to large inflows of foreign capital

3) Lower cost for real estate developers:

a) Relatively stable land price[7]

b) Lower cost of construction materials

c) Lower borrowing rates

4) Increase in housing credit due to the decrease in risk asset ratio of commercial banks by BIS standard

The property market is expected to recover in 1994. The real estate industry is expected to grow at 9.0 percent in 1994 as compared to 7.9 percent in the previous year. The demand for housing is expected to be very high, but it will be a buyer's market as the competition among the real estate companies is very strong. The demand for low and medium price housing, offices, hospitals and vacant agricultural land is expected to remain very strong, whereas the prospects for golf courses and hotels are not very promising.

The market situation for selected types of properties in Bangkok during the first half of 1994 is given below[8]:

<u>Residential</u>: Worsening traffic continues to make the central business district residential market popular with investors and developers. The trend

[7] The price of land, which went up during the boom period several years ago, has remained rather constant, with little changes. Most of the real estate developers have acquired their land earlier at reasonable prices.
[8] Report of a property consultant's company published in the Bangkok Post on 16 June 1994.

has been toward smaller condominium units, although a number of leasehold projects are under construction on Crown-owned land in the center of Bangkok.

Offices: Quality buildings in the central Bangkok district are beginning to pull away from the remainder of the market. This prime market will see a hardening of rental levels in 1994 with an increase expected in 1995. Most of the 250,000 to 300,000 square meter demand (from service sector) for office space this year is likely to go into these quality buildings.

Hotels: Occupancy has improved over the first quarter but there is still an oversupply. Five-star properties' occupancy rates are picking up but (room) prices continue to fall. Continuing slow improvement is expected, although there will remain many opportunities to purchase hotels outright.

Retail: This year will see the opening of most of the large out-of-town shopping centers around Bangkok. The largest shopping center in Asia and fifth in the world, Seacon Square, is likely to become the market leader before long.

Industrial: Sales of industrial land have slowed but the activity is expected to pick up again as major industrial estates complete the bulk of their infrastructure, allowing new companies to come in and start operations.

Land: Land values generally remain artificially high, due to the lack of transactions in the quieter market of the last 18 months. However, land values in the central business district are expected to improve over the next five years.

Real Estate Investment in Thailand

1. Ownership Structure

In Thailand, the common forms of ownership are sole proprietorship, partnership, limited company, and public company. In the past, real estate businesses were held in partnership form and were family-owned businesses. Recently, most of those firms have changed themselves to limited companies (still family-owned) and new firms are also electing to become limited companies. The major reason for their decision to become limited companies is that it is more convenient to prepare financial reports that are acceptable to the Revenue Department for this type of entity.

In addition, there are other advantages of a limited company over a partnership. First of all, shareholders of a limited company have limited liability, unlike the general partner in a partnership who has unlimited liability. Moreover, a limited company can be liquidated only according to the laws. It will not be liquidated if one of its shareholders is dead or goes bankrupt, which is not the case for a partnership. In addition, shares of a limited company can be transferred all the time whereas shares in a partnership are not easily transferable.

At present, there are very few real estate public companies. Most of the real estate public companies are still a family business with the majority of the shares being held by one family. Although there are many benefits of being a publicly listed company, such as access to the capital market, most of the real estate companies could not meet the requirements imposed by the Securities and Exchange Commission (SEC).

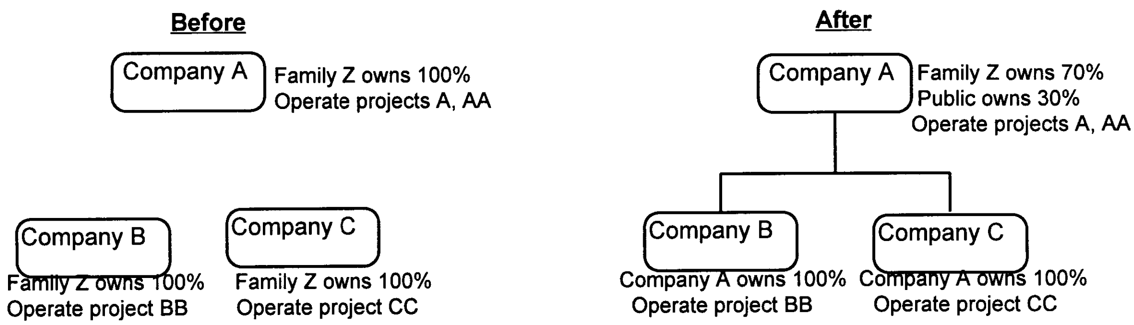
As mentioned earlier, the majority of real estate companies are family-owned business. In general, a family will set up a company in order to develop a couple of projects. Usually, the profits generated are not too high and the corporate income tax rates are quite low. After the family has finished with these projects, it will form a new company and develop new projects in a larger scale. This process will continue until the family chooses to enter the stock market to raise funds for larger scale operation.

These companies will be managed by members of the family (who generally have the same last name) and all the important areas of operation such as finance, sales, marketing and purchasing of land will be under their control. In addition, these companies may be established to operate many projects at the same time and the management of these companies is usually operated and controlled by members of the same family.

Before a company can become a listed company, it has to meet certain conditions established by the SEC. Usually, the company will find an underwriter to help in preparing the case before submission to the SEC. This often involves the restructuring of the company to meet the SEC requirements that prohibit the transfer of profits between these companies.

To illustrate a restructuring scheme, suppose Family Z owns 100 percent of Company A, Company B, and Company C, and each entity operates separate projects. When Family Z wants to raise capital from the public through the stock market, it must restructure its companies by having one company (Company A, for example) as a parent company holding ownership (usually 100 percent) in other Family Z's companies (Company B and Company C). Subsequently, Company A will enter the stock market and sell its shares to the public. Under the new ownership structure the general public owns a certain proportion of Company A, usually 20-30 percent, and Family Z owns the rest, about 70-80 percent. The structure of the companies before and after the restructuring is given in figure 2.2.

Figure 2.2
Structure of a family-owned business
Before and after being listed in the stock market



2. Property Ownership

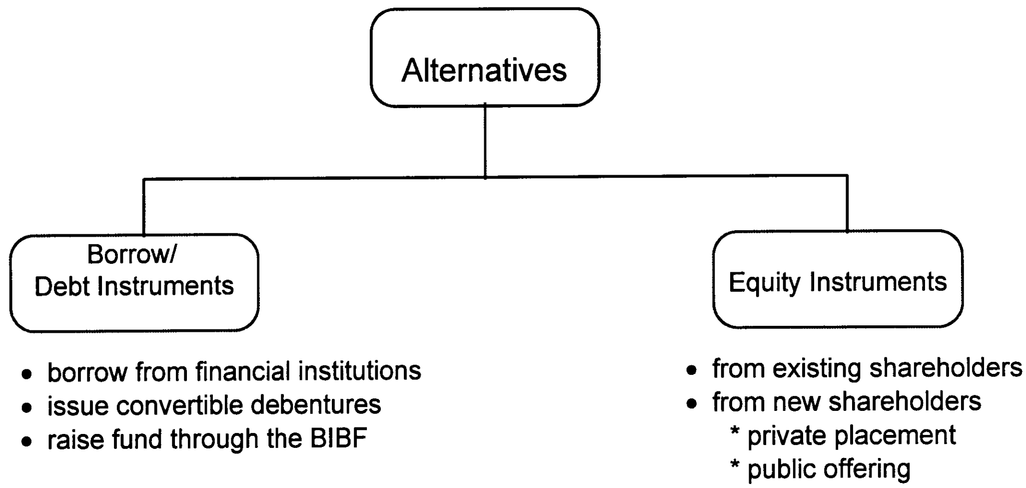
In Thailand, properties can be owned by any legitimate Thai nationals. Thai people can buy or sell properties and borrow money by using their properties as collateral.

Before 1991, foreigners could not own property in Thailand. The foreign condominium law which was passed in late 1991 allowed foreigners to own up to 40 percent of the salable area in any condominium complex. At present, foreigners can own freehold title to condominium units. They can also borrow against their properties.

3. Sources of Funds

For a new company which needs capital to run its business or for an existing company which needs additional capital to expand its business, pay back its debt, or develop its properties, two major sources of fund are available: the equity sources and the debt sources (see figure 2.3).

Figure 2.3
Alternatives for Sources of Funds



1) Equity Sources

With the equity sources, a company can raise additional funds by issuing common stocks, and preferred stocks. These shares can be sold to the sponsors of the companies or offered to the public.

The company may prefer to raise funds from equity sources instead of debt sources because there is no direct cost of capital (interest payment). Moreover, the debt-to-equity ratio of the company would be relatively lower and the company would have a better credit rating.

Generally, real estate companies in Thailand want to be listed in the stock market so that they can raise large amounts of relatively cheap capital. However, many companies cannot meet the SEC requirements[9]. The major requirements that most real estate companies must meet include:

(a) A company's net profit after tax must be at least 50 million Baht during the last 3 years, or at least 80 million Baht in the final year before the application;

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[9] See Chapter three for greater detail of the SEC requirements.

(b) A company must have the market capitalization of at least of 600 million Baht; and

(c) A company must have registered capital of at least 60 million Baht.

Hence, most of the small to medium size companies have to obtain additional funds to meet these requirements from financial institutions, such as commercial banks, finance companies, and the Government Housing Bank.

2) Debt Sources

Another way of raising fund is by issuing debt instruments, primarily corporate bonds and convertible bonds. In addition, a company can borrow money from financial institutions.

Recently, there has been great competition among real estate companies in raising capital since these companies want to increase their market share by having a large capital base to develop properties. Consequently, these companies have sought new sources of funds. At present, new major sources are convertible debenture and BIBF (Bangkok International Banking Facilities). Unfortunately, these new sources are only available to medium- to large-scale developers, and small developers still have to borrow mainly from commercial banks. The borrowing condition for small-scale developers would be more favorable if large-scale developers would raise their funds through issuing convertible debentures in the overseas market. Commercial banks would then be left with a large amount of funds available for lending.

a) Convertible Debenture

Convertible debenture is typically a corporate bond that gives the right to the bondholder to exchange it into common stock at a specified time. Convertible debenture issues are currently a major debt instrument for real estate companies because the interest rates are usually lower than conventional sources. This debt instrument is available to medium- to large-scale listed companies or registered public companies with permission from the SEC.

Since the local interest rates are very high at about 10 percent compared with overseas interest rates of 3-4 percent, issuing debt instruments in foreign countries is increasingly popular. The developers feel that Euro convertible debenture issues are the most effective method at the moment of acquiring money at lower interest rates.

(b) BIBF

As indicated in Chapter 1, Bangkok International Banking Facilities (BIBF) is a new service of commercial banks and finance companies. BIBF is an offshore banking system which will enable Thai businesses to have access to cheap foreign loans. However, large companies with high credit rating will have an advantage over small companies in getting loans through this service. The small developers will have to depend mainly on commercial banks for funding.

Although BIBF is a good source of funds, developers must consider the foreign exchange risk. In view of the anticipated severe fluctuation in the value of the US dollar and the Japanese Yen, special care must be given to acquiring BIBF funds for real estate investment in Thailand.

In short, sources of funds for large companies are quite sufficient because they have so many alternative sources such as raising funds from the public through the stock market (for listed companies), borrowing from financial institutions, issuing convertible debentures or funding through the BIBF. On the other hand, financial institutions are the major sources of funds for small to medium size companies and the loan conditions are less favorable (such as higher borrowing rates). From the beginning of this year, there was a tendency to form alliances among these companies.

During the first quarter of 1994, at least 12 alliances had been formed. The major reason for the alliance is to be qualified to use the BIBF that provides large companies with access to cheaper loans from overseas. Therefore, small to medium size companies need to merge into a larger company so that they will have better credit rating and be able to get cheaper loans through the BIBF.

4. Housing Loan Market

Housing credit in Thailand during 1987-1990 expanded at a very high rate because of the boom in real estate business.

1) Loans to individuals

In recent years, commercial banks and financial institutions are engaged in fierce competition in offering housing loans to individuals. Commercial banks, which have very high liquidity and have over 2,000 branches all over the country, have increased their dominant role in housing credits. Their market share increased from 54 percent in 1986 to 68 percent at mid-1992. The Government Housing Bank still maintained its share of 19 percent. The rest went to finance companies, credit foncier companies, the Government Savings Bank, insurance companies, and the National Housing Authority.

Beginning in January 1993, the Bank of Thailand required all financial institutions to comply with the Bank of International Settlement (BIS). Since the risk asset ratio of BIS is only 50 percent, compared with the existing ratio of 100 percent, these financial institutions were able to increase their credit lines with the same capital base.

2) Loans to real estate developers

At the end of 1991, loans to real estate developers amounted to 198,625 million Baht, a 28 percent increase from the previous year. Commercial banks held the highest shares of 68 percent while finance companies followed with 29 percent. Other financial institutions played a very limited role in this market.

At the end of June 1992, loans to real estate developers amounted to 224,709 million Baht, a 13 percent increase over the previous year. Commercial banks and finance companies still maintained their market share of 68 percent and 29 percent while the Government Housing Bank had only 2 percent.

Conclusions

In view of the rapid expansion of the Thai economy[10] and the continued decline in interest rates in recent years, the real estate market is becoming more active and prosperous. If the present trend continues, the real estate industry may have a promising future.

Most large real estate companies do not have much of a problem raising additional required funds. Large companies with high credit ratings have access to many sources of fund, both inside and outside the country. For instance, they can obtain funds from external sources through the BIBF. Medium and small companies, on the other hand, have limited sources of fund available to them and often only have access to smaller amounts with higher associated costs. Although small to medium size companies often receive support from the government for the development of residential projects, they are in a less competitive position than the larger companies which have easier access to less expensive loans from overseas.

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[10] According to the prevailing condition, the Thai economy is expected to grow at over eight percent in 1994.

Chapter 3

The Financial Market in Thailand

Financial Market in Thailand

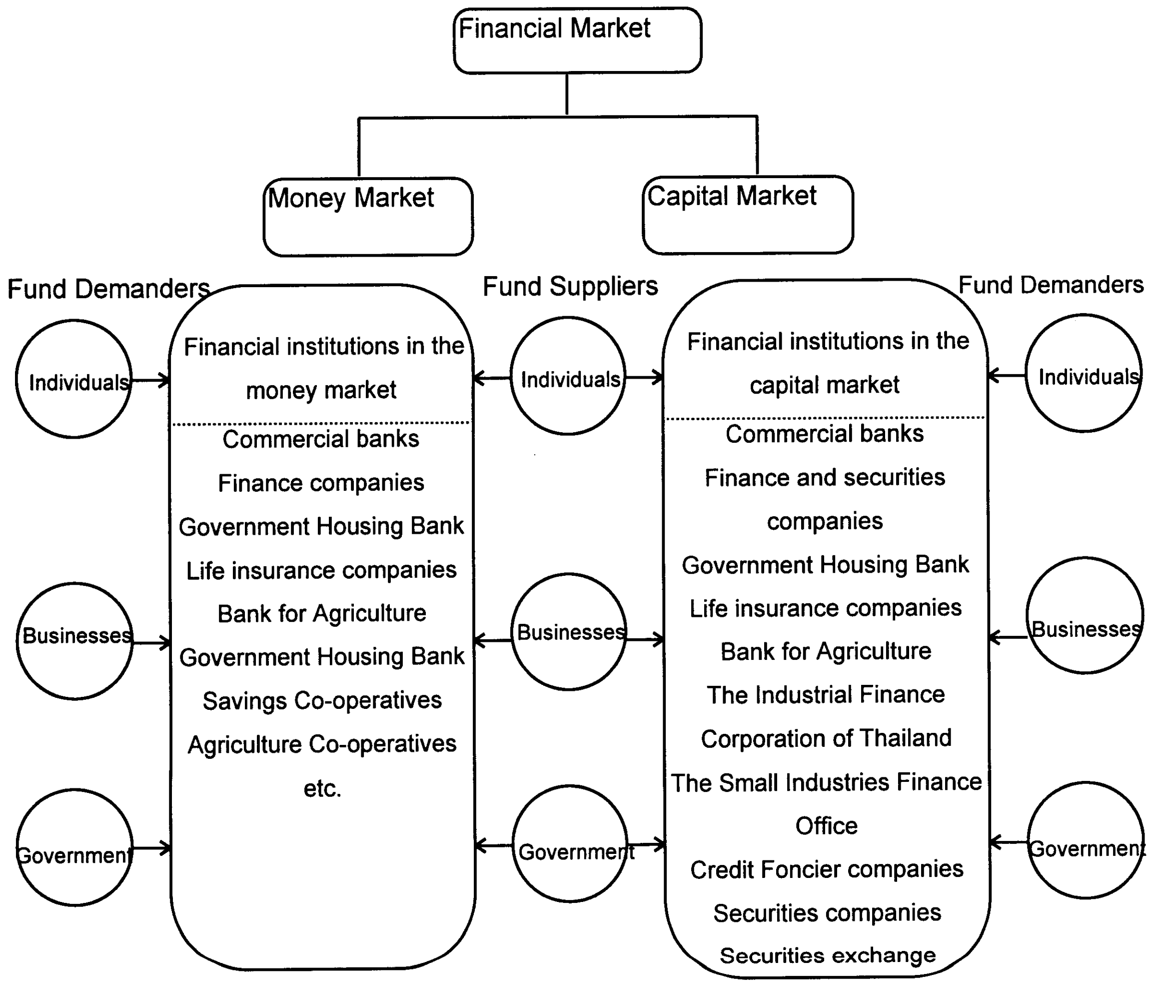
As mentioned in Chapter 1, the Thai economy has been growing very rapidly. Since the primary function of a financial market is to channel savings into investments in projects that will benefit the growing economy, this market is very important to the country.

The financial market can be classified into the money market and the capital market. Generally the money market is for short-term financing (less than 1 year) while the capital market is for long-term financing (more than 1 year). Both markets act as intermediaries between people who have excess money and people who need money. The intermediaries then receive interest, fee, or commission for compensation.

The channeling of money by financial intermediaries can be seen in Figure 3.1. The major financial institutions in the two markets can also be seen in this figure. Historically, commercial banks played a dominant role in the money market until around two decades ago when the stock market was introduced to the financial market. Since then, capital market has significantly enhanced its part in the financial market. This was due to the fact that the stock market could raise funds from both local and international markets. Nevertheless, commercial banks still have a dominant role in both markets in funding and credit financing.

In order to create the bridge between the real estate market and the financial market, securitization of real estate is necessary. Investment in real estate is considered a long-term investment. Greater attention, therefore, will be given to the capital market.

Figure 3.1
Channeling of Money in Financial Market



Source: Pittayavivit, Chanin, Financial Market in Thailand, 1991, p.43

1. Money Market

The money market is a market for short-term financing. It can be both an organized or unorganized market. Credit instruments in this market are for the short-term and they are in the form of commercial papers, bankers' acceptance, negotiable certificates of deposit, accounts receivable, treasury bills, and bonds.

2. CAPITAL MARKET

The capital market is a market for long-term financing. In general, the need for money in this market is not only for long-term period, but also in a large amount.

There are two ways of raising fund in this market:

a) Borrow from financial institutions. The term of the loan must be greater than one year.

b) Issue common stocks, preferred stocks, debentures, or corporate bonds to the market.

Financial instruments in the capital market can be classified as corporate securities and government securities. Corporate securities are common stocks, preferred stocks, and corporate bonds (secured or unsecured). These securities can be further divided into stock rights, convertible securities, warrants, and unit funds. Government securities in this market include government bonds, treasury notes, and treasury bonds.

<u>Structure of Capital Market</u>

The capital market can be divided into the primary market and the secondary market.

(1) *Primary market or new issue market:*

The primary market provides sources of funds through the issuing of common stocks, preferred stocks, debentures, and corporate bonds for the initial offering.

(2) *Secondary market or securities market*

The secondary market trades securities that have already been issued to the public. Securities change hands between investors, but no direct funding occurs in this market.

The securities market can be further divided into the organized stock market and the over-the-counter (OTC) market. In Thailand, the organized stock market is called the Stock Exchange of Thailand (SET) whereas a formally established OTC market does not exist.

Financial Institutions

Financial institutions are organized to be the financial intermediary which helps circulate money in the system. Some financial institutions are in either money markets or capital markets, but others are in both markets.

Financial institutions in Thailand can be classified by their operations as follows:

a) Operating as a bank: Bank of Thailand, commercial banks, and specialty banks such as Government Savings Bank, Government Housing Bank (GHB), Bank for Agricultural and Agricultural Co-operatives.

b) Operating as a limited company or a public company: finance companies, securities companies, finance and securities companies, credit foncier companies, Industrial Finance Corporation of Thailand (IFCT), etc.

c) Operating as a government organization or organized by the government with special purposes: The Small Industries Finance Office (SIFO), etc.

d) Operating as an association in which its members have the same occupation: Savings Co-operatives, Agricultural Co-operatives.

e) Operating as a market for securities exchange and organized by a special law with the objectives of developing a money market and capital market: Stock Exchange of Thailand (SET), repurchase market, etc.

f) Operating as another juristic person which may be organized as partnership: pawn shop.

The market share for the savings market and the credit market can be seen in Table 3.1 and Table 3.2, respectively.

Table 3.1

Market share and growth of financial institutions in savings market

Financial Institutions	*1962-1966*	*1967-1971*	*1972-1976*	*1977-1981*	*1982-1986*	*1987-1989*
1. Commercial Banks	76.44	77.33	71.27	62.32	67.36	56.48
	(23.84)	(17.10)	(18.80)	(19.80)	(20.77)	(20.73)
2. Stock Exchange	-	-	2.42	12.03	8.08	22.94
of Thailand	(-)	(-)	(35.19)	(40.63)	(27.21)	(113.84)
3. Government Savings	18.35	16.45	12.17	9.29	8.68	8.32
Bank	(17.64)	(14.14)	(15.22)	(15.87)	(25.19)	(9.95)
	-	1.29	10.15	11.05	9.81	6.48
4. Finance Companies	(-)	(100)	(61.19)	(32.73)	(9.62)	(27.29)
	5.21	4.93	3.99	5.31	6.07	5.78
5. Other Institutions	(22.58)	(17.10)	(23.38)	(28.34)	(22.04)	(25.19)
	100.00	100.00	100.00	100.00	100.00	100.00
Total (%)	(22.38)	(17.31)	(21.47)	(21.57)	(18.42)	(35.26)
Growth Rate (%)						

Source: Pittayavivit, Chanin, Financial Market in Thailand, 1991, p. 130

Table 3.2

Market share and growth of financial institutions in credit market

Financial Institutions	*1962-1966*	*1967-1971*	*1972-1976*	*1977-1981*	*1982-1986*	*1987-1989*
1. Commercial Banks	91.03	86.60	74.83	70.03	73.20	75.94
	(19.08)	(16.49)	(24.82)	(24.09)	(16.83)	(26.91)
2. Stock Exchange	-	-	-	-	-	-
of Thailand	(-)	(-)	(-)	(-)	(-)	(-)
3. Government Savings	1.36	0.79	0.41	0.28	0.33	0.41
Bank	(10.00)	(30.00)	(00.00)	(71.52)	(5.51)	(61.11)
4. Finance Companies	-	1.75	14.71	19.36	15.56	14.26
	(-)	(79.17)	(67.84)	(27.68)	(9.57)	(33.88)
5. Other Institutions	7.61	10.86	10.05	10.33	10.91	9.39
	(31.79)	(34.20)	(23.88)	(40.92)	(11.73)	(15.55)
Total (%)	100.00	100.00	100.00	100.00	100.00	100.00
Growth Rate (%)	(18.70)	(19.16)	(27.43)	(24.85)	(15.06)	(26.73)

Source: Pittayavivit, Chanin, Financial Market in Thailand, 1991, p. 131

The major financial institutions that have some roles in real estate market are as follows:

1. STOCK EXCHANGE OF THAILAND (SET)[1]

The securities market is a financial institution in a capitalistic system. It was established to be a vehicle of investment that helps the flow of capital funds. In Thailand, the Ministry of Finance and the Bank of Thailand have recognized the importance of the securities market and established the Stock Exchange of Thailand (SET) in 1975.

(a) Operations

The SET functions as a secondary market or securities market. It is an auction market for trading securities by members of the SET who represent their purchasers and sellers. The SET manages and administers the trading to make sure that everything is correct and fair in order to protect all parties.

(b) Performance

In the first year it was established, the total market capitalization of the SET was only 5.4 million Baht (which was equal to 5.82 percent of total household savings). Its market share was only at the fourth place, behind commercial banks, finance companies and the Government Savings Bank.

Since 1987, SET's market share has moved up to the second place behind only commercial banks. The highest growth rate of the SET occurred in 1989 which was 194.88 percent. In the same year, the total market capitalization rate equaled 35.29 percent of total household savings.

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[1] Pittayavivit, Chanin, *Financial Market in Thailand*, 1991, pp. 387-490

(c) Sources of Funds: membership fee, registered fee, authorized fee, service fee, and other revenues.

(d) Uses of Funds: personnel expense, operating expense, printing and public relations expense, and other expenses.

2. COMMERCIAL BANKS[2]

During the ruling of King Rama IV (1851-1868), Thailand began to trade with foreign countries. There was a need for commercial banks to facilitate foreign trade and payments. During that time, there were only "representative offices" of foreign banks until 1948 when the Hong Kong and Shanghai Banking Corporation established its branch office in Thailand. This bank is considered the first foreign commercial bank in Thailand.

The first domestic Thai commercial bank, established in January 1906, was known as the "Siam Commercial Bank". At present, there are only 15 Thai commercial banks and 14 foreign banks in Thailand. As the country is preparing to become the financial center of the region by liberalizing and internationalizing its financial system, the number of foreign banks is expected to increase.

(a) Operations

The structure of a commercial bank includes assets and liabilities. Major sources of funds are from deposits which are savings deposits, current account deposits, and fixed deposits. Moreover, it borrows money form the Bank of Thailand, and other financial institutions. The major use of funds is lending followed by investing in securities. In general, lending is the major source of revenue for the bank.

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[2] Pittayavivit, Chanin, *Financial Market in Thailand*, 1991, pp. 149-210

(b) Performance

Commercial banks have played the most important role in savings mobilization. During 1962-1966, the total market share of commercial banks was 76.44 percent per year and never fell below this level until 1976. Since 1976, market share of commercial banks has declined to a level of 62-67 percent because the securities market has played a more important role in the capital market. Nevertheless, the growth of savings for commercial banks has continuously expanded at 17-24 percent per year.

In the credit market, commercial banks have also played a dominant role. Their market share during 1962-1966 and 1967-1971 was 91.03 percent and 86.60 percent respectively. Since then, the role of commercial banks has declined slightly because finance companies have increased their share in the market. However, the market share to the private sector has never dropped below 70 percent and the growth rate is in the same range as in the savings market.

In 1974, commercial banks gave more loans to the trade and service segment (around 69.3 percent) than the production segment (agriculture, mining, industry, and real estate) of 30.7 percent. This has changed since 1975 and the new proportion in 1989 was 54.5 for the trade and service segment and 45.5 percent for the production segment.

(c) Sources of Funds: deposits, borrowings, capital funds, and other liabilities.

(d) Uses of Funds: cash and deposits at the Bank of Thailand, lending, investment in securities, and other assets.

3. GOVERNMENT HOUSING BANK (GHB)[3]

The Government Housing Bank (GHB) was established in 1953 by the Government Housing Act of 1953. GHB belongs to the government under the Ministry of Finance. Its main functions are: land allotment for commercial uses, housing construction, and financially helping people for housing purposes.

In 1973, the government established the National Housing Authority (NHA) and transferred some of the GHB functions to the NHA. Hence, the GHB was left with the function of financing real estate business.

The main objective of the government in establishing Government Housing Bank was to financially help people buy or build houses by giving them below market loans.

(a) Operations

GHB operates as a commercial bank. That is, it raises fund through the deposits of customers. However, it does not lend to all business segments. It gives housing loans to low-medium income people and construction and development loans to real estate developers.

(b) Performance

At the end of 1989, GHB had three branches and had total assets of 27,810.8 million Baht, 83 times higher than the 1974 level. The growth rate was very high at 66 percent per year during 1974-1981. It grew at 6 percent per year during 1982-1986 and 25 percent per year during 1987-1989.

*(c)) Sources of Fund*s: deposits, capital fund, borrowings, etc.

(d) Uses of Funds: cash, deposits, lending, investment in other assets.

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[3] Pittayavivit, Chanin, *Financial Market in Thailand*, 1991, pp. 363-370 and Government Housing Bank, *The Establishment of the Government Housing Bank*

4. FINANCE COMPANIES[4]

Finance companies began in 1961 primarily to finance car purchases. In 1966, the Thai economy expanded rapidly. There was an increase in the demand for money, but the commercial banks could not meet the rapid increase in credit requirements. Therefore, companies which needed capital began to use new credit instruments being used in foreign countries such as promissory notes, and bills of exchange.

The use of these credit instruments was the beginning of the services offered by the finance companies in Thailand. During the 1961-1969 period, these services were not available to the general public. Moreover, this business did not act as an intermediary in the same way as other financial institutions. The funding of capital was only for short-term periods with relatively high deposit rates.

In 1969, the Ministry of Finance began to feel the need to control the business for the safety of the public. Consequently, in 1972, a new regulation was issued to place this business under the control of the Ministry of Finance.

(a) Operations

Finance business means the business of acquiring capital for the need of the people. Finance companies can acquire the capital by borrowing from various sources including the general public. The common way of borrowing is by issuing commercial paper such as promissory notes. Money that they acquired will be used to lend, buy discount cheques, buy bills of exchange, and buy other credit or transferable instruments. The finance companies invest in both government and corporate securities.

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[4] Pittayavivit, Chanin, *Financial Market in Thailand*, 1991, pp. 211-244

(b) Performance

Finance companies were officially established in 1969. Their market share in the savings market was less than one percent in that year. However, the growth rate was around 100 percent each year during 1969-1971. From 1971-1985, their market share was second only to commercial banks. After that, they grew at an average of 61.19 and 32.73 percent per year during 1972-1976 and 1977-1981, respectively. In 1979, the growth rate was only 3.1 percent per year because of the first financial institution crisis resulting in the bankruptcy of many finance companies.

During 1982-1986, the growth rate of the savings market was only 9.62 percent per year since the second financial institution crisis occurred at the end of 1983-1984. Consequently, there was a negative growth of finance companies of -10.27 percent in 1984. As a result, their market share has been below that of the Government Savings Bank since 1986. In 1989, they grew at 47.68 percent per year and the market share of their business was 6.30 percent in that year.

For credit market, finance companies have been second only to commercial banks since their inception. Their market share has never gone below 13 percent since 1973 and was highest in 1978 at 25.48 percent.

Finance companies gave loans to the trade and service segment and the production segment in almost the same proportion. During 1977-1989, the share was 60 and 40 percent, respectively. The proportion for the industry segment was very high at 23.4 percent, 17.4 percent for individual loans, 15 percent for real estate developers, and 14.4 percent for retail businesses, while there was only 1.9 percent for the agriculture segment.

(c) Sources of Funds: borrowings, capital funds, other liabilities.

(d) Uses of Funds: cash, deposits, investment in securities, lending, accounts receivable, and other assets.

5. National Housing Authority (NHA)[5]

The National Housing Authority has played a very important role in the development of housing in Thailand. It helped to solve housing problems for low and medium-income group. It was established on February 12, 1973 to consolidate real estate functions which were distributed throughout many government offices. The objectives of the National Housing Authority are to:

(1) construct buildings for people to rent, purchase, or lease;

(2) financially help people who need their own houses or who want to rent, purchase, or lease;

(3) do construction business and land acquisition/distribution; and

(4) renovate or demolish slum areas.

(a) Operations

The operations of National Housing Authority is to meet its objectives outlined above.

(b) Performance

From 1976 to September 1992, the National Housing Authority developed a total of 166,741 housing units, of which 89,047 units were new buildings and 77,694 units were the redevelopment of housing in slum areas.

(c) Sources of Funds: capital funds, borrowings, and other liabilities.

(d) Uses of Funds: cash and deposits, and other assets.

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[5] National Housing Authority, *The Twentieth Anniversary of the National Housing Authority*, 1993

6. Credit Foncier Companies[6]

Credit foncier business began in Thailand in 1924. Credit foncier companies were under the control of Bank of Thailand under the Securities and Exchange Act of 1979. Since 1992, they have been under the administration of the Securities and Exchange Commission according to the Securities and Exchange Act of 1992.

(a) Operations

Credit foncier companies can raise funds by issuing bonds and making loans in the form of promissory notes with a maturity of greater than one year.

Credit foncier companies can do only three kinds of business:

(1) Credit foncier business

(2) Hired purchase business

(3) Other businesses related to real estate

(b) Performance

The credit foncier business began to expand in 1973. Total assets of all credit foncier companies increased at 22 percent per year from 1973 to 1983. Subsequently, there was the financial institution crisis and, therefore, total assets gradually declined. In 1988, the credit foncier business began to recover, growing at a rate of 2.2 percent in 1988 and 4.7 percent in 1989.

(c) Sources of Funds: capital funds, borrowings, other liabilities.

(d) Uses of Funds: cash and deposits at the Bank of Thailand, investment in securities, and lending.

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[6] Pittayavivit, Chanin, *Financial Market in Thailand*, 1991, pp. 371-386

7. LIFE INSURANCE COMPANIES[7]

The life insurance business began during the ruling of King Rama V (1868-1910). The first commercial law controlled the operations of insurance business. However, the Life Insurance Act of 1967 was issued by the Government to regulate and control the insurance business.

(a) Operations

The operation of life insurance companies is to ensure that when the holder of the policy has a problem as indicated in the policy, the beneficiary will be paid up to the limit of the coverage. There are six types of life insurance: term insurance, whole-life insurance, endowment insurance, annuity insurance, group life insurance, and industrial life insurance.

(b) Performance

At the end of 1989, total assets of life insurance companies were 37,656.5 million Baht, which was equal to 28 times greater than the 1972 level. Since 1989, the growth rates have remained above 20 percent per year.

The major source of funds is from insurance premiums. During 1969-1986, the premiums from insurance accounted for 85-89 percent of the total source of fund. During 1987-1989, premiums accounted for 83 percent of funds. The growth rate of insurance premiums was 23 percent per year during 1972-1981 and 21 percent per year during 1982-1986. In 1989, the growth rate was very high at 26.9 percent.

Most of the premiums were used to lend and invest in government bonds, corporate bonds, and other securities which was equal to 70-73 percent of total uses of funds. The growth rate of the investment portion was 36 percent during 1972-1981, 22

[7] Pittayavivit, Chanin, *Financial Market in Thailand*, 1991, pp. 251-260

percent during 1982-1986, and 30 percent during 1987-1989. For the lending side, it grew about 22 percent during 1972-1981 and 17 percent during 1982-1989.

(c) Sources of Funds: premiums, capital funds, etc.

(d) Uses of Funds: lending, investment in government bonds, corporate bonds, treasury bills, and other securities.

8. Government Savings Bank[8]

The Government Savings Bank was established on April 1, 1913 as an office under the Ministry of Finance. After WW2, the government had issued the Savings Bank Act of 1946 to administer its operations and change its position into a savings bank. The operations of the Government Savings bank began on April 1, 1947.

(a) Operations

The Savings Bank Act of 1946 assigned the Minister of Finance to control the operations of the bank. The Act imposed the functions and operations of the Savings Bank as follows:

(1) accept savings deposits, current deposits, and fixed deposits;

(2) issue savings bond and lottery;

(3) accept savings deposits for supporting life and family;

(4) pay and transfer money;

(5) buy and sell government bonds;

(6) invest in what the Ministry of Finance allows;

(7) other savings businesses as indicated in the laws; and

(8) other commercial businesses as indicated in the laws.

[8] Pittayavivit, Chanin, *Financial Market in Thailand*, 1991, pp. 245-250

(b) Performance

The Government Savings Bank ranked second in the savings market until 1978 when it was overtaken by finance companies. However, in 1986, the Government Savings Bank returned to its second place once again with a market share of 10.54 percent.

Since 1987, SET has taken the Government Savings Bank's place in the savings market. Thus, the position of the Savings Bank fell to third place.

With regard to credit, the market share of the Savings Bank was less than one percent for the private sector since most of its funds were invested in government bonds and treasury bills.

(c) Sources of Funds: deposits (85-89 percent), capital funds, and other liabilities.

(d) Uses of Funds: investment in government bonds and treasury bills, cash, deposits, lending, and other assets.

As mentioned in Chapter 2, the market share of commercial banks in housing loans was the highest at 68 percent by mid 1992 followed by the Government Housing Bank, finance companies, credit foncier companies, the Government Savings Bank, insurance companies, and the National Housing Authority.

For construction and development loans, commercial banks still held the highest shares of 68 percent in 1992, followed by finance companies (29 percent) and the Government Housing Bank (two percent) by the end of June 1992[9].

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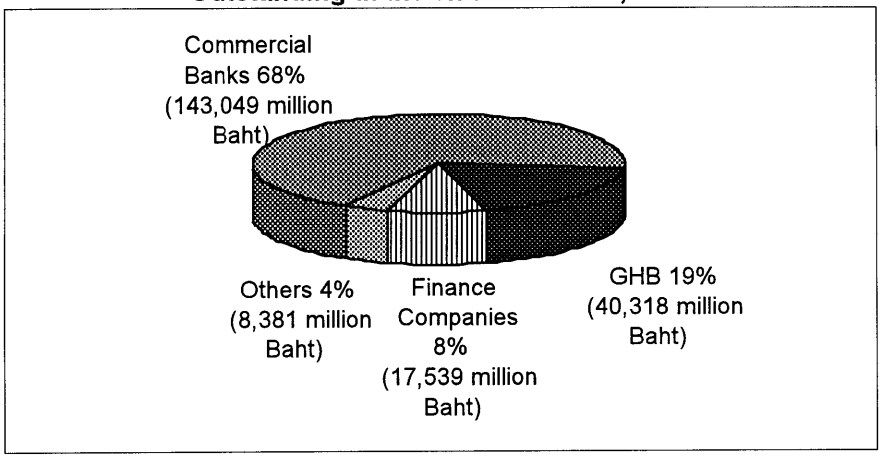
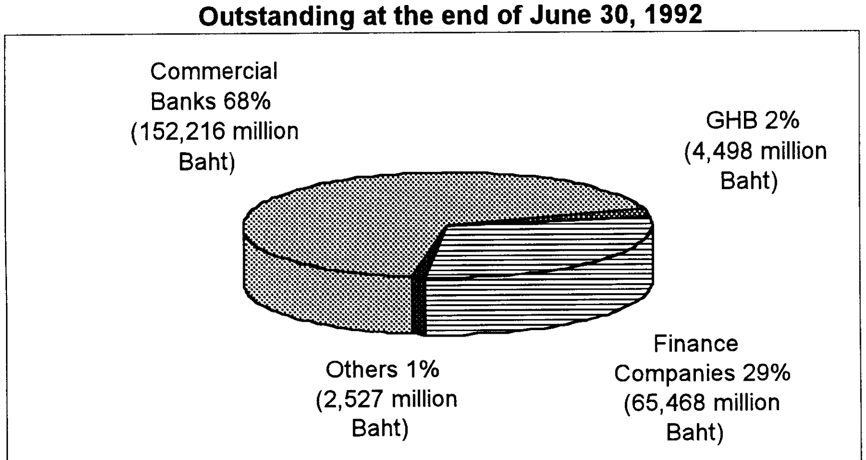
[9] National Economic and Social Development Board, Housing Situation Report 1991/1992

Figure 3.2
Housing Loans to Individuals
Outstanding at the end of June 30, 1992



Source: National Economic and Social Development Board

Figure 3.3
Construction and Development Loans to Real Estate Developers
Outstanding at the end of June 30, 1992



Source: National Economic and Social Development Board

Public vs. Private Real Estate Companies

In Thailand, most real estate companies are privately owned. Currently, 30 companies are listed in the Stock Exchange of Thailand (SET), representing approximately 85 to 90 percent of the total market[10]. Generally, real estate companies would like to be listed in the stock exchange so that they can easily raise additional capital as a member of the SET.

The advantages of being listed public companies are:

1) It would be easy to get long-term funds to expand its business. This can be done through public offering, whereas the unlisted public companies have to depend mainly on the existing stockholders for additional capital. Moreover, there is no need to negotiate on the price as the market price is already set in the stock exchange.
2) The cost of operation is lower as the funding from equity holders does not require the payment of interest.
3) The company would be able to make public offerings from time to time depending on the need to raise additional funds to expand its business. The debt to equity ratio of the company will remain at the appropriate, desirable level. The company can operate with more stability without the risk of interest rate fluctuation. With the ability to get additional funds at low cost, the company would be more secure and stable in its operation which would increase its credit rating.

[10]Source: One Investment Management Company Limited.

4) The company can issue long-term debt to the public[11]. Moreover, a listed company has the advantage over a small, unlisted company in raising funds from overseas. As a listed company in the stock exchange, it can use various financial instruments to raise new funding sources.

5) Tax advantages:

    a) A listed public company pays income tax at a rate of 30 percent while an unlisted company pays 35 percent of its net income.

    b) Income from the dividends of a listed company that it receives from a domestic Thai limited company, from a mutual fund, or from the Industrial Finance Corporation of Thailand (IFCT) are tax exempt. In contrast, an unlisted company must include half of its dividends, which in total must not exceed 15 percent of its gross income, into its taxable income.

REQUIREMENTS

If a company needs to raise capital through the stock exchange, it must meet certain qualifications required by the Securities and Exchange Commission (SEC). The qualifications are given in Table 3.3.

[11] New law allows unlisted, public companies with permission from the SEC to issue debt instruments to the public.

Table 3.3
Qualifications of applicants to be listed in the stock market

	Qualifications
1. Nature of business	The applicant must have a main business which is economically and socially beneficial to the country.
2. Paid-up capital	
2.1 Paid-up capital specifically for common shares	≥ 60 million Baht
2.2 Total market capitalization of common shares	≥ 500 million Baht
2.3 Paid-up capital in money	≥75% of paid-up capital
3. Shareholding structure with respect to small shareholders*	
3.1 Number of small shareholders	≥ 600 persons
3.2 Aggregate holding by small shareholders	≥ 30% of paid-up capital
4. Business operations	4.1 The main business of the company must have been operating for a minimum of 3 successive full accounting years under the same management and the applicant must be able to show that its business operations are sound according to the nature and type of the business. 4.2 Net profit from normal operation after taxes for the 3 consecutive years prior to the date of application for listing must total 50 million Baht in minimum. 4.3 The applicant's operations have good prospects, are supported by a continuous long-term plan, and have an opportunity to expand in the future.
5. Financial position and liquidity	5.1 The applicant must be able to show that it is in a stable and healthy financial position and has sufficient working capital. 5.2 The applicant has a suitable debt-to-equity ratio comparable with those for related industries. 5.3 There is no accumulated loss in shareholders' equity.

Note * In this context, small shareholder is defined as a shareholder who owns at least 100 shares but no more than 0.5% of the paid-up capital of the company.
Source: Asia Credit Public Company Limited

Conclusions

The eight financial institutions mentioned in this chapter constitute the major sources of funds for real estate market. The stock market is an equity source of funds while all the rest are debt sources. Commercial banks, finance companies, and the Government Housing Bank (GHB) are the major sources of loans for real estate developers and all together they hold over 90 percent of the total outstanding loans in Thailand. Commercial banks and the Government Housing Bank (GHB) hold almost 90 percent of total outstanding housing loans to individuals and the rest is held by finance companies, credit foncier companies, the Government Savings Bank, insurance companies, and the National Housing Authority.

At present, the only form of real estate securitization in Thailand is in the form of public ownership of real estate companies. However, not many real estate companies are listed in the stock market. More publicly-owned real estate companies, as well as an increase in other forms of real estate securitization will help to broaden the distribution of real estate ownership in Thailand.

With regard to the securitization of mortgages, there is virtually none in Thailand. However, the Government has already set up a committee to study the secondary mortgage market. The committee comprises permanent representatives from the Bank of Thailand, the Government Housing Bank, the Ministry of Finance, and the Securities and Exchange Commission. In view of the importance of securitization of mortgage-backed assets, the Seventh National Economic and Social Development Plan (1992-1996) included a section on this subject.

At the beginning of 1994, a sub-committee was set up to study the application of property trusts in Thailand. This subject will be dealt with in greater detail in Chapter 6.

Chapter 4

Real Estate Investment Trusts in the United States

An Overview of REITs

1. Definition

A Real Estate Investment Trust (REIT) is a corporation or trust established for the benefit of a group of investors which is managed by one or more trustees who hold title to the assets of the trust and control its acquisitions and investments[1]. Since REITs are managed by real estate professionals, they can be considered as real estate mutual funds.

A corporation or trust that qualifies as a REIT does not pay corporate income tax to the Internal Revenue Service (IRS). Consequently, investors will be taxed only at the individual level.

2. Major Characteristics

Major characteristics of a REIT are as follows:

a) A REIT invests substantially in real estate assets.

b) A REIT distributes virtually all income as dividends to shareholders free of tax at the corporate level.

c) A REIT centralizes management in knowledgeable professionals.

d) A REIT is owned through transferable shares.

e) A REIT provides a means for portfolio diversification.

f) A REIT has limited liability for the investor.

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[1] The National Association of Real Estate Investment Trusts (NAREITs), *REIT FACT BOOK, The REIT Concept*, 1989

3. Requirements

To be qualified as a REIT, a corporation or trust must comply with certain requirements of Internal Revenue Code which are listed below[2]:

a) A REIT must be a corporation, business trust, or similar association;

b) A REIT must be managed by a board of directors or trustees;

c) A REIT must have shares that are fully transferable;

d) A REIT must have a minimum of 100 shareholders;

e) A REIT must have no more than 50 percent of the shares held by five or fewer individuals during the last half of each taxable year;

f) A REIT must invest at least 75 percent of the total assets in real estate assets;

g) A REIT must derive at least 75 percent of gross income from rents from real property, or interest on mortgages on real property;

h) A REIT must derive no more than 30 percent of gross income from the sale of real property held for less than four years, securities held for less than one year or certain prohibited transactions; and

i) A REIT must pay dividends of at least 95 percent of its taxable income.

4. Types of REITs

Real Estate Investment Trusts can be classified in many ways. However, most REIT industry analysts classify REITs by their investment approach which are Equity REITs, Mortgage REITs, and Hybrid REITs.

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[2] The National Association of Real Estate Investment Trusts (NAREITs), *Real Estate Investment Trusts: Frequently Asked Questions about REITs*, May 1994.

(a)Equity REITs

Equity REITs own and operate properties. Their revenue comes principally from rent. This type of REIT depends less on interest rates and its yield is generally less than that of mortgage REITs. However, according to the historic data, equity REITs outperformed other types of REITs during most real estate cycles.

(b) Mortgage REITs

Mortgage REITs loan money to real estate owners or developers. They invest money in mortgages which are secured by real estate. Their revenue comes principally from interest earned on their mortgage loans. Mortgage REITs depend on interest rates in the market which may affect the profits of REITs.

(c) Hybrid REITs

Hybrid REITs combine investment strategies of both equity REITs and mortgage REITs.

In addition, REITs can be classified by their length of existence as *Finite-life Real Estate Investment Trusts (FREITs)* and *Infinite-life Real Estate Investment Trusts* or *Perpetual REITs.*

Infinite-life Real Estate Investment Trusts have existed since the inception of REITs. They operate for an indefinite length of time while Finite-life Real Estate Investment Trusts, established around 1975, have a specific length to their life. FREITs specify the length of their existence at the time of their initial public offering. The length of existence for FREITs is typically ten to twenty years. A FREIT's strategy is to liquidate a REIT's share at a level close to the net asset value of the trust since many REITs have been sold for less than the underlying value of the properties in their portfolios.

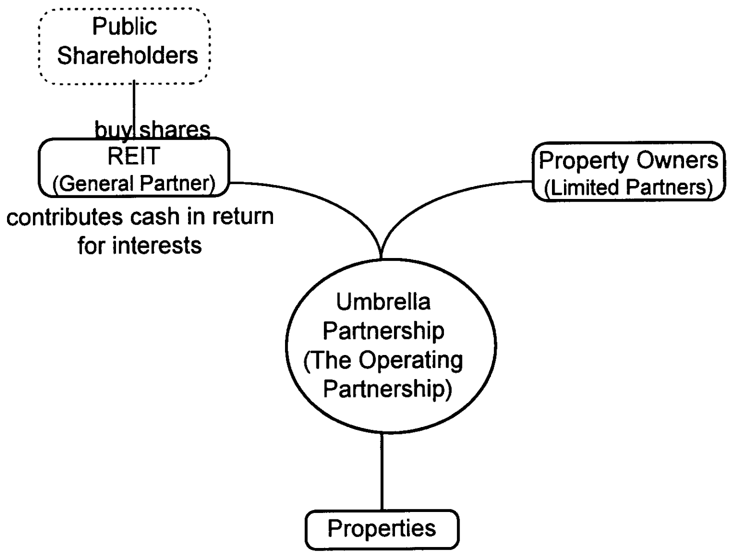
Recently, there is a new type of REIT: *Umbrella Partnership Real Estate Investment Trusts (UPREITs)*.

UPREITs can be formed by consolidating several existing partnerships into one partnership called an umbrella partnership. The contribution to the umbrella partnership from each partnership can be in the form of properties or interests in the existing partnerships. Each partnership in turn receives an interest (units) in that partnership. Subsequently, they would liquidate and distribute the units to their partners. These units typically represent limited partnership interests in the umbrella partnership. Since the properties' original owners retain their partnership interests rather than converting them to shares in the UPREIT, there is no tax consequence.

During the time the partnership is consolidated, a REIT is formed and makes a public offering. The cash from this public offering will be contributed to the umbrella partnership in exchange for units. The REIT will then become the UPREIT's general partner. The structure resulting from this transaction can be seen in Figure 4.1.

At present, the majority of real estate in the United States is in a partnership format. To convert a partnership format to a corporate form (i.e. REIT) would result in adverse tax consequences. This is because the conversion process will normally generate capital gain taxes on the property held by partners equal to the difference between the fair market value of the property at the date of the transfer and its tax basis in hands of the transferor. The UPREIT structure can mitigate this problem because it defers the tax liability of partners if they wish to sell the properties for cash or exchange them for stocks in the REIT.

Figure 4.1
UPREIT Structure

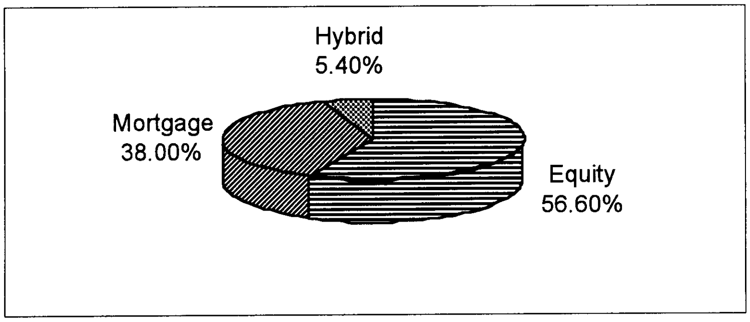


Furthermore, REITs can also be classified by types of property in which they invest (i.e., office, industrial, residential, retail, etc.). Some REITs focus on only one type of property and specialize in that type. Other REITs invest in a variety of property types (such as offices and shopping centers) in order to diversify their portfolio.

Finally, REITs can also be classified by their geographic concentration. Some REITs specialize only in one region such as the Midwest while others invest in many parts of the country.

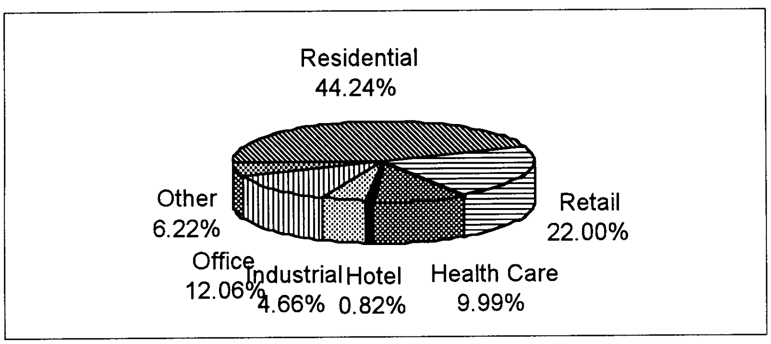
The distribution of REITs by their investment approach and by property type can be seen in Figure 4.2 and 4.3.

Figure 4.2
Industry Profile
Assets by Profile Mix
December 1993



Source: NAREIT, May 1994

Figure 4.3
Total Real Estate Investment
Publicly Traded REITs
December 1993



Source: NAREIT, May 1994

Historical Development of REITs in the United States

1. Establishment of REITs

Real Estate Investment Trusts (REITs) were created by the REIT legislation in 1960. The main purpose was to enable small investors to participate in diversified real estate projects managed by skilled, experienced real estate professionals.

2. Historical Development of REITs

The history of REITs began with the formation of a Massachusetts business trust which has been in existence since the 19th century. At that time, most of the real estate investments were held in the form of a business trust. This form of entity looked and operated like a corporation with transferable ownership interests but was structured as a trust. Therefore, it was tax-exempt at the entity level.

In the mid 1930's, the Federal Court demanded that a business trust be treated as a corporation for federal income tax purposes. Consequently, the number of business trusts declined. However, Congress passed the Real Estate Investment Trust Act of 1960 reversing the ruling. The Act allowed business trusts to be exempted from corporate income tax if they conformed with certain requirements.

From 1960-1969, the industry was in a slow growth period. The tight monetary policy in 1969 resulted in high interest rates, and available funds for construction and development from financial institutions were limited. In order to finance their projects, real estate people raised capital from the public through REITs. In fact, the majority of REITs during that period were mortgage REITs and their major business was to make loans to real estate owners or developers.

Rising interest rates, escalation in oil prices, a national recession and overbuilt real estate markets led to the decline of the REIT industry from 1973 to 1975. Many construction loans were defaulted on and some REITs could not meet their own loan payments. As a result, some REITs were forced to omit dividends and their stock prices plummeted. The National Association of Real Estate Investment Trusts (NAREIT) share price index dropped by as much as 50 percent during this period.

Although there was a severe setback in the REIT industry as a whole, some REITs maintained their regular dividend payments during this real estate recession. Most of them were equity REITs and their growth continued to expand at a slow but steady pace.

In 1976, REITs began to recover from recession. From 1976 to 1983, the industry was under the restructuring process and the total assets of the industry were relatively stable. In 1984, many investors found REITs very attractive because they offered good income, liquidity and growth prospects. Moreover, debates over reforming tax laws began to hint that the tax reform act would adversely affect many tax-motivated real estate vehicles such as partnerships. The Tax Reform Act of 1986 actually hurt these vehicles while REITs were unaffected. As a consequence, real estate investors turned to REITs as their preferred investment vehicles and the 1985-1986 period became another prosperous time for the REIT industry.

In 1987, the REIT industry began to enter a difficult period as most of the real estate markets had the problem of oversupply resulting in high vacancy rates. REITs' prices were also declining. The prices started to increase again in late 1990 and the market expanded again in 1991 because it was very difficult to raise funds through traditional sources. In 1992, the REIT market grew at a high rate of 9 percent[3]. During this period, the rates of return on bonds and bank accounts were very low and investors viewed REITs as an alternative.

In 1993, REIT initial public offerings (IPOs) increased substantially. The resurgence of REITs can be attributed to investors' recognition that the US real estate industry was going to recover. Moreover, REITs offered opportunities for investors to

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[3] O'Neil, Robert E., "The Rush to REITs: Caveat Mercator (Merchant Beware)", *MONITOR*, September/October 1993

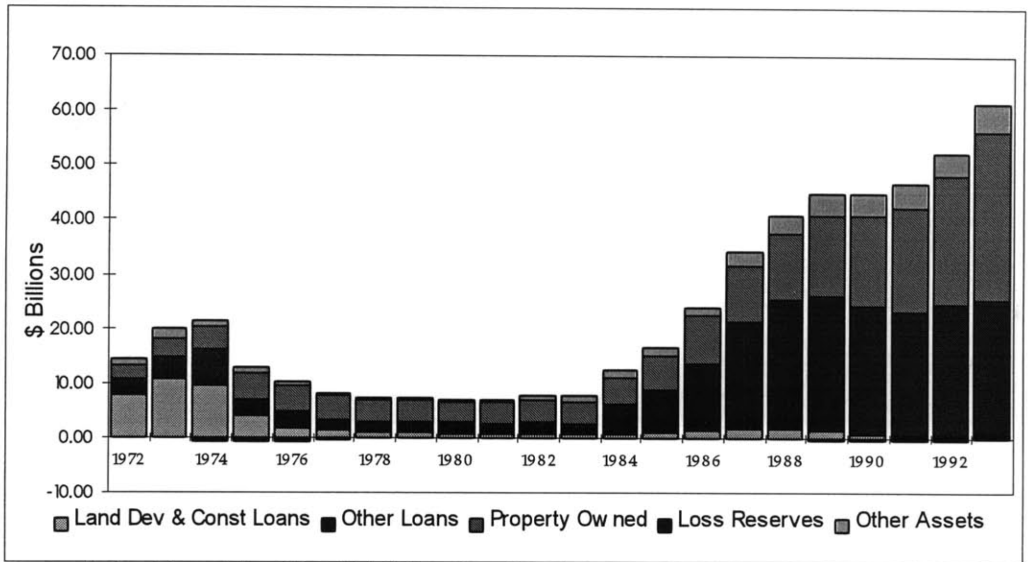
participate in the ownership of successful, income-producing properties without the drawbacks of limited partnerships. Furthermore, today's REITs are less risky than those in the 1970s and 1980s[4] as they are using less leverage. Most of the current REITs are also engaging in property ownership or property operation, but are not participating in high risk development deals or construction loans. In addition, the Clinton administration passed a tax package during the last quarter of 1993 that relaxed restrictions on participation by pension funds in REITs.

At the end of 1993, most major U.S. market were overbuilt and developers and investors were bracing for an expected rise in interest rates. While the combination of these factors could have a negative impact on the U.S. REIT market, several executives of REITs and NAREIT are optimistic and believe that any slowdown will be temporary[5]. In fact, interest rates went up only slightly during the first half of 1994. With the recovery of the US economy in recent years and its continued expansion in 1994, the future prospects for REITs appear healthy and promising. Figure 4.4 shows the growth of REIT Industry Assets.

[4] "REITs Are Hot", *Urban Land*, November 1993 pp. 29-32

[5] "REITs Forecast Roundtable: Has the Explosion Subsided for Good?", *National Real Estate Investor*, February 1994, 20-22

Figure 4.4
REIT Industry Assets



Source: National Association of Real Estate Investment Trusts

Organization of a REIT

According to the Internal Revenue Code, a real estate investment trust must be organized as a corporation, business trust, or association. The board of trustees or directors, both usually elected by shareholders, determines the REIT's investment and business strategies. A REIT's policy follows the objectives established in its charter. The board of trustees or directors typically delegate the day-to-day portfolio management responsibilities to the professionals. A REIT can be either internally managed or externally advised.

1) Self-administered or self-advised REIT

This organizational structure has become more popular in the past couple of years. With this structure, the REIT's management perform the major real estate functions.

Advantages

a) Lower overhead cost as the amount of advisory fees is usually less.

b) Avoid conflicts of interest between advisors and REIT's shareholders because the interests of the management and shareholders are similar and more agreeable, as compared to the interests of advisors and shareholders.

c) Management can take a more active role with more flexibility because it has more control over the REIT's operation.

d) With lower overhead cost, profitability should be enhanced.

e) Since this is a preferred form of organizational structure by the market analysts, REITs should be able to obtain capital more easily.

Disadvantages

a) A REIT must manage its assets by itself which may result in additional operating cost.

b) A REIT must perform the advisor's functions and may, therefore, need to hire additional managers and need additional work space.

c) A REIT has management risks as it usually depends on a few key internal personnel.

d) A REIT often lacks an institutional financial support and may, therefore, have to be liquidated when it encounters problems.

2) Externally Advised REIT

In this structure, the board of directors hires outside professional management which is selected based on its extensive real estate background and expertise. The management supervises the day-to-day operations in return for an advisory fee.

Advantages

a) A REIT can seek advice from advisors.

b) An advisor acts as agent for the REIT in certain activities.

c) An advisor supervises property management and provides reports to the trustees if services are performed by independent contractors.

Disadvantages

a) Developer or private operator who sponsors the issue and manages the REIT may take advantage of the favorable market condition to unload lower grade properties at inflated prices.

b) There is a potential conflict of interest between the advisor and shareholders if the advisor does not have an equity ownership in the REIT.

Conclusions

Recently, real estate analysts, wall street analysts, and investors all believe that self-advised REITs are the preferred form of organizational structure for the reasons given above. In fact, many existing REITs have changed from externally advised to self-administered REITs. Moreover, most of the new REITs are now being organized as self-advised REITs.

REIT Operations

There are two major ways that REITs can invest: through property ownership and through mortgage lending.

1) Investment through property ownership: REITs own, manage and develop properties. REITs may acquire properties in the form of existing improved properties, or vacant land, or may invest jointly with developers or other owners. REITs may pay the full amount in cash or may finance part of the purchase.

2) Investment through mortgage lending: REITs may loan money to real estate owners or developers. The common types of loans are participating mortgages, junior mortgages, construction and development loans and investments in mortgage pools.

This type of investment is affected by fluctuations in interest rates. When interest rates decline, some borrowers may prepay their existing loans and refinance with lower rates. Consequently, REITs may have idle funds to reinvest at unfavorable rates.

On the other hand, if interest rates increase, REITs may have an opportunity to make loans with higher yield. However, they may also face higher interest expenses.

Laws and Regulations Affecting REITs

Real Estate Investment Trusts were created by the Real Estate Investment Trust Act of 1960. Congress' objective was intended to provide small investors with an investment vehicle which would be tax free at the entity level.

Real Estate Investment Trust Act of 1960

Under the Real Estate Investment Trust Act of 1960, entities qualified for REIT status if they satisfy four tests on an annual basis:

a) REITs are required to have a certain structure, with the organization as an unincorporated trust or unincorporated association.

b) REITs' income must be derived from certain qualifying real estate sources.

c) REITs' assets must satisfy certain diversification tests.

d) REITs were required to distribute at least 90 percent of their taxable income to shareholders.

There are two major bodies of law that administer REITs: federal tax laws and securities laws. In addition, a REIT's organization is generally regulated by statutes of the state in which the REIT's declaration of trust, corporate charter or home office is located.

1) Tax Laws

The major objective of tax laws is that REITs will pay no corporate income tax provided that they comply with certain requirements of the Internal Revenue Code, primarily Sections 856 through 860.

Tax Reform Act 1976

The Tax Reform Act of 1976 made several changes in the operational requirements for a REIT that have a substantial tax impact for potential shareholders. This Act changed the requirements on the structure of a REIT, sources of income, taxation and income distribution, as well as asset structure[6].

a) The Tax Reform Act has permitted a REIT to be incorporated if it is neither an insurance company nor a financial institution.

b) If noncompliance with REIT income source requirements is due to reasonable cause, disqualification will not apply. Instead, a REIT would be taxed at applicable corporate rates on the portion income which is disqualified.

c) The Act has expanded REIT qualifying income sources and REIT qualifying assets.

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[6]Epley, Donald, *Basic Real Estate Finance and Investments*, 1980, pp. 34-35

d) The Act has increased a REIT's minimum distribution requirement from 90 to 95 percent.

e) The Act has allowed a REIT to obtain and hold property that is mainly for sale to customers. However, the gains from this property must be less than 30 percent of the REIT's total income.

Tax Reform Act 1986

The major changes of the Tax Reform Act of 1986 are intended to shift the emphasis of real estate investors from tax benefits to economic considerations. Moreover, the 1986 Act makes comprehensive changes in REIT provisions which modernize the operations of a REIT and enables it to compete more effectively in the real estate market. The major provisions are listed below[7]:

a) The Act has reduced tax rates by moving the top tax bracket down;

b) The Act has eliminated or reduced the tax benefits of real estate tax shelters. The Act has demanded that real estate be subjected to passive loss restrictions and the "at risk" rules and has eliminated preferential capital gain treatment. Since REITs are not a real estate tax shelter, they are a preferred form of investment vehicles.

c) The Act has allowed a more active role in property management by the trust itself rather than through independent contractors.

d) The Act has given REITs additional organizational and operational flexibility such as the flexibility to negotiate mortgage loan transactions with borrowers, the flexibility in meeting some of the shareholders' and other REIT organizational requirements in their start-up phase.

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[7] The National Association of Real Estate Investment Trusts (NAREITs), *REIT FACT BOOK, The REIT Concept*, 1989, pp. 37-38

e) The Act has allowed REITs to operate through wholly-owned subsidiaries.

2) Securities Laws

Securities laws are another source of regulation of REIT operations which can be divided into federal securities laws and state securities laws. Public REITs are subjected to both federal and state laws while private REITs are subjected to only state laws.

The Federal Securities Act of 1933 governs all securities offerings. The federal securities law generally focuses on the disclosure of key information to protect investors and are administered by the Securities and Exchange Commission (SEC). State laws may impose organizational and operational requirements that must be incorporated into the governing document of a REIT. They are generally administered by the state's securities commission. State laws also regulate the public offering of REIT securities. In general, state laws regarding REITs incorporate guidelines prepared by the North American Securities Administrators Association (NASAA).

Advantages and Disadvantages of REITs

The National Association of Real Estate Investment Trusts (NAREITs) believes that REITs combine the best features of real estate and stocks. The followings are advantages and disadvantages of REITs.

1. Advantages of REITs

a) *Tax Advantage*: No corporate income taxes have to be paid when 95 percent of income is distributed. Hence, all income can be distributed to shareholders.

b) *Current Income*: For equity REITs, most income is generated from rent. Therefore, equity REITs are usually stable and often provide an attractive return.

Mortgage REITs earnings come principally from interest earned on mortgage loans. Consequently, they fluctuate according to changes in interest rates. Income from mortgage REITs, however, is generally higher but riskier than from equity REITs. As REITs are required to distribute at least 95 percent of their income, the dividend payout ratio for all REITs is relatively high.

c) *Liquidity*: Shares of publicly traded REITs are readily converted into cash because they are traded on the major stock exchanges. This is the major advantage over investing directly in real estate assets. However, this may not be the case for private REITs.

d) *Flexibility*: A REIT can invest in any property type and location. Moreover, it can perform almost all real estate functions, with the exception of being a "dealer."

e) *Pooling of Resources*: Since individual resources are pooled together to acquire properties, REITs provide investors access to real estate investments with relatively low minimum investment requirements.

f) *Professional Management*: Since there is ample information available to investors, they can make an informed judgment when selecting REITs, insuring that their investment will be managed by skilled, experienced real estate professionals.

g) *Portfolio Diversification*: Equity REIT's shareholders have ownership in a portfolio of real estate equities. Consequently, risk is minimized.

h) *Performance Monitoring*: REITs are required to have directors or trustees to supervise their operations. They are also required to have independent trustees.

Moreover, independent analysts, independent auditors, and the business and financial media monitor REITs' performance.

2. Disadvantages of REITs

a) Most Wall Street analysts prefers REITs with high earnings per share. As REITs are required to distribute at least 95 percent of their taxable income, they may not be able to meet the analysts' expectations. Moreover, they may not be able to expand their activities or accumulate reserves to meet special needs. In order to get additional funds, REITs may have to make a secondary offering. If REITs wish to grow, they often have to acquire more properties, trade up some existing properties, acquire smaller REITs holding similar properties, or issue additional stock or umbrella partnership interests in an UPREIT structure to acquire properties.

b) REITs have a relatively high operational expense because they need more management than general organizations and they have to prepare reports to meet IRS and SEC requirements. The estimated costs for directors' salaries and insurance, as well as printing and distributing of annual reports ranges from $500,000 to $1 million per year.

REIT Valuations and Performance

1. Valuations of REIT Stocks

REIT share prices can be determined by using stock market valuation methods. However, Funds from Operations (FFO) is preferred over account earnings to measure current performance. The valuation analysis typically involves one or more of the following criteria[8]:

a) Underlying asset value of the real estate and/or mortgages, and other assets;
b) Anticipated total return from the stock, calculated from the anticipated price change and the prevailing yield;
c) Current prevailing dividend yield relative to other yield-oriented investments;
d) Dividend coverage from funds from operations;
e) Management quality structure; and
f) Anticipated growth in funds from operations per share.

2. REIT PERFORMANCE

Dividend Yields

Dividend yields of Real Estate Investment Trusts have been relatively stable for each type. In general, dividend yields of mortgage REITs have been the highest among three REIT types, while dividend yields of equity REITs have been the lowest. Figure 4.5 shows annualized dividend yields between 1972-1993.

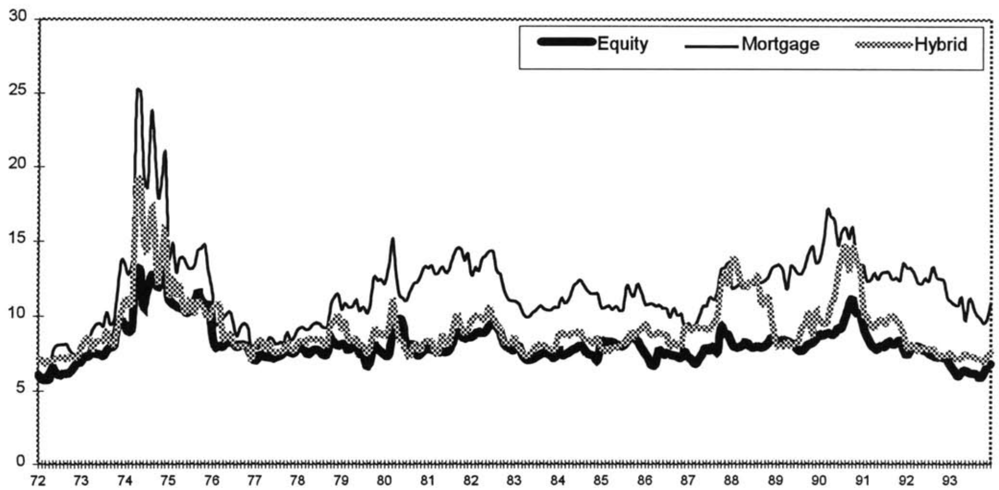
Total returns to Real Estate Investment Trusts

Total returns to Real Estate Investment Trusts have been quite volatile. The returns during 1973-1974 were negative since the REIT market was on the verge of collapse due to rising interest rates, escalation of oil prices, a national recession and an overbuilt real estate market. Most of the REITs during that time were highly leveraged and were, therefore, exposed to greater financial risks. The returns were negative again

[8] The National Association of Real Estate Investment Trusts (NAREITs), *Real Estate Investment Trusts: Frequently Asked Questions about REITs*, May 1994

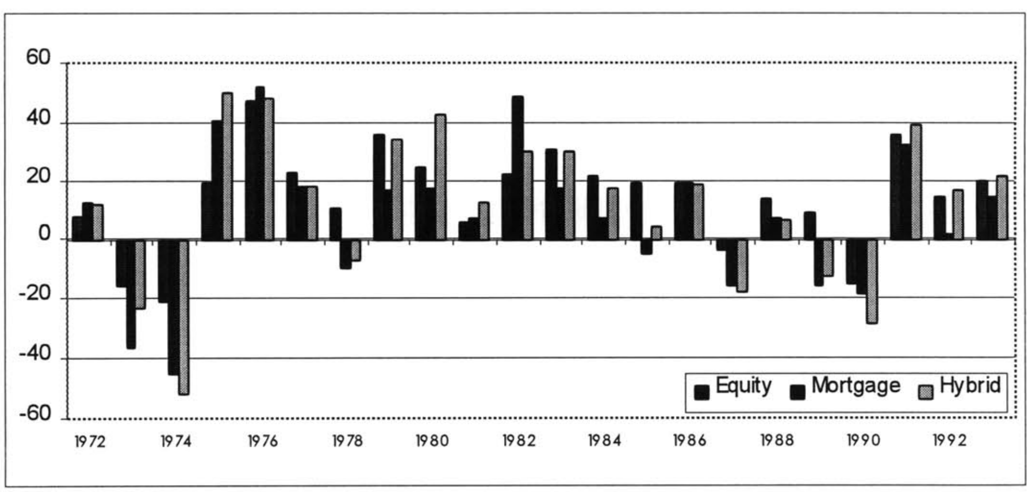
during the 1987-1990 period due to the oversupply in the real estate market. Figure 4.6 shows annual total return during 1972-1993.

Figure 4.5
Annualized Dividend Yields
(percent)



Dividend yields are calculated as a market value weighted average of all traded companies that were tax-qualified REITs. Dividend yields are based on the annualized, most recently paid regular dividend, plus any extra distributions paid during the preceding twelve-month period.
Source: NAREIT, The Complete Guide to Real Estate Investment Trust Industry, REIT Handbook, 1994.

Figure 4.6
Annual Total Return



Annual total returns represent price appreciation, plus actual dividends paid, plus dividends reinvested on a monthly basis, during the year for companies which have been included in the index for the entire period.
Source: NAREIT, The Complete Guide to Real Estate Investment Trust Industry, REIT Handbook, 1994.

The Comparisons of REITs and Other Forms of Real Estate Ownership

1) Real Estate Limited Partnership (RELP)

Typically, investors form a real estate limited partnership so that their combined capital can acquire one or more properties. Even though an individual investor may be able to acquire a desired property, this form of ownership will help him to diversify across several investment properties.

There are two kinds of shareholders: general partner and limited partner. A general partner has unlimited liability and usually has the exclusive control of the business of the partnership. On the other hand, the limited partner's liability is limited to the amount of money it has invested.

In general, shares of a limited partnership are not as liquid as those of publicly traded REITs because the secondary market for limited partnership shares is very small. On the other hand, shares of publicly traded REITs are listed on major stock exchanges.

Moreover, REITs have a board of directors or trustees to supervise their operations while a partnership does not need to have a board of directors. As shareholders elect a REIT's directors, they have control over the firm's operations. On the contrary, a general partner usually has complete control of the operation and limited partners cannot easily remove the general partner.

Furthermore, REITs can issue new shares when they need to raise capital whereas RELPs cannot grow through the issuance of new shares. Finally, conflicts of interest between management and investors are low since management incentives in REITs are more closely tied to investor interests. On the other hand, private limited partnerships are frequently burdened with various conflicts between the general partners and the limited partners.

2) Master Limited Partnership (MLP)

The driving force of organizing a master limited partnership (MLP) is from the separation of taxable income into passive and active income. The MLP combines several partnerships, some with taxable passive income and some with tax losses. The taxable income and tax losses are offset so the taxable income is minimized. An MLP is a limited partnership that is listed and traded on a stock exchange.

Both REITs and MLPs have interests or shares that are publicly traded. Major tax benefits shared by MLPs and REITs relate to their flow-through nature. They generally are not subject to an entity-level tax on their earnings. The principal advantage of MLPs is flexibility since there is no restrictions on its business operation or investment activities. Generally, REITs are far more complicated tax vehicles than MLPs.

Moreover, there are no statutory requirements with respect to distributions to MLP partners. Thus, MLPs can retain earnings for reinvestment or for other purposes. The lack of statutory requirements for independent directorships and minimum distribution out of earnings, however, may result in conflicts of interest.

3) Corporation

A corporation is a separate legal and taxpaying entity. Its liability is limited to its assets. Its income is subject to double taxation, first at the entity level and second at the individual level from dividends distributed, while a REIT is tax free at the entity level. REITs have to comply with certain requirements whereas a corporation does not have either business operations or investment activities restrictions.

The common characteristics of corporations and REITs are that major decisions are made by the board of directors. However, REITs' directors are required to be independent while corporations are not required. Moreover, shares of a public corporation and public REITs are traded on major exchanges and through the OTC. Furthermore, both have the ability to grow through additional public offerings.

Public Offerings

1. THE PROSPECTUS

The SEC requires REITs to register their public offerings, including the filing of a prospectus. Prospectuses are usually divided into the following sections: available information, prospectus summary, the company, use of proceeds, price range of shares and dividends, capitalization, investment and other policies, business, management, federal income tax considerations, description of shares, principal shareholders, underwriting, legal opinions, experts, and index to financial statements.

2. SUCCESSFUL OFFERING

The following major factors contributing to a successful offering are:

a) *Management Team*: The REIT's management team should have the depth and the track record that are deemed sufficient to preserve and maximize value over the long run. The property management should already be established and in place before the initial public offering (IPO).

b) *Focus*: Most REIT analysts believe that REITs that specialize by property types and geographic focus generally outperform diversified REITs. Diversified REITs may not be able to compete successfully against specialized REITs who focus on specific property types and locations.

c) *Overhead Expense*: REITs should have low overhead costs since the costs always decrease the revenues which will eventually be received as dividends by shareholders.

d) *Insider Ownership*: If a REIT's management team has equity ownership in the REIT, their principal motivation is to enhance share values which ultimately benefits shareholders.

e) *Conflicts of Interest*: The potential of conflicts of interest between the advisor and the REIT's shareholders would have a negative effect on pricing. If the trust is self-administered, the potential conflicts would be minimized.

f) *Balance Sheet Strength*: A more conservative use of leverage is preferred since highly leveraged firms generally have higher risk. Moreover, an absence of exposure to fluctuations in interest rates is desirable which can be created by matching liability maturities with asset lives.

Conclusions

Real Estate Investment Trusts (REITs) have gone through many cycles of the real estate market. One major event of the REIT industry encountered was the REIT market crash during the 1973-1975 period. Most of the REITs during this time were mortgage REITs with highly leverage. Beginning in 1991, the REIT market became popular once again. The majority of current REITs, however, are either equity REITs deriving their income principally from income-generating properties or mortgage REITs with relatively low leverage. In addition, self-advised and self-administered REITs are generally the preferred form of REITs for REIT analysts, Wall Street analysts, and investors.

The development of REITs is beneficial to both small investors and real estate companies. REITs provide opportunities for small investors to own diversified portfolios of real estate and they provide real estate companies with access to significant capital markets. REITs, therefore, constitute an important vehicle to facilitate the development of real estate market.

Chapter 5

Real Estate Investment Trusts in Other Countries

The usefulness of the Real Estate Investment Trust (REIT) as an investment vehicle is well known. It is also an important vehicle for the development of real estate industry, facilitating the mobilization of funds for investment in properties and helping small investors to invest in real estate.

Common characteristics of REITs in various countries are:

1. They provide an opportunity for investors to invest in a diversified real estate portfolio;
2. They are managed by real estate professionals and are supervised by trustees;
3. They provide real estate companies with access to capital markets; and
4. They provide liquidity for investment in real estate.

At present, REITs exist in some advanced industrialized countries, such as the United States, the United Kingdom and Australia. Japan and some other countries in the world, including Thailand, are considering establishing REITs in their countries; some countries have already conducted feasibility studies on the establishment of REITs. In view of the utility of REITs, additional countries may follow the United States by establishing their own domestically-based REITs.

The development of REITs in the United States serves as a useful model in the feasibility study of developing a REIT in Thailand. Various aspects of US REITs have been covered in other chapters. This chapter provides information on the development of REITs in countries outside the United States, particularly REITs in the United Kingdom and Australia.

1. United Kingdom

In the United Kingdom, there is an investment vehicle which is similar to the Real Estate Investment Trust (REIT) in the United States. The Property Unit Trust (PUT) was developed in the late 1960s and early 1970s and existed in "unauthorized" form only because the Department of Trade and Industry (DTI) refused to authorize trusts investing in real property. At that time, it was prohibited to make such a public offering without the permission of the DTI. A PUT could distribute offering documents only for projects formed exclusively for investment by pension funds and charities. PUTs were not available to the general public, however, until 1991.

In July 1991, the Securities and Investments Board issued regulations enabling authorized unit trusts to invest directly in commercial, industrial, agricultural and residential land and buildings which were previously prohibited. The new vehicles are known as authorized property unit trusts or APUTs and they are available to the general public.

An Authorized Property Unit Trust (APUT) is an open-ended fund which provides investors with access to a diversified portfolio of properties. It offers both current income and prospects for capital appreciation from the increase in unit value. The APUT portfolio is usually managed by its trustees which are typically the appropriate division of a major bank or an insurance company. An APUT also provides real estate companies with access to needed capital market.

An APUT may invest in properties and property related securities in all member countries of the European Community, as well as various other countries including the USA, Canada, Japan, Australia, Switzerland and Sweden. An APUT is an open-ended fund and unitholders can redeem their units at specified intervals. Fund managers may, however, be forced to sell the fund's properties during poor economic conditions at unfavorable prices in order to meet investors' redemption request.

The Finance Act of 1989 changed taxation of APUTs significantly. Before the Act was issued, APUTs were taxed as companies and their net income was subject to the 35 percent corporate tax rate. APUTs' capital gains, however, were tax-exempted and distributions to unit holders were treated as dividends.

While the Finance Act of 1989 allowed certain APUTs to be taxed at an income tax rate of 25 percent, the Finance Act of 1990 extended this provision to cover all authorized unit trusts, effective from January 1, 1991. Under the Act of 1990, APUTs will not be subject to corporate tax or capital gain on the disposition of properties, provided the APUT does not act as a dealer. Income distributions from APUTs to the investor will be considered as a dividend and the investor will be able to claim tax credits in accordance with the Advance Corporation Tax (ACT). The investor, however, is subject to a capital gain tax on any gain realized on the sale of his units in the APUT.

In the 1980's, there were attempts to introduce vehicles that would improve the liquidity of the UK property market. The three most widely discussed schemes of securitization have been Single Asset Property Companies (SAPCOs), Property Income Certificates (PINCs) and Single Property Ownership Trusts (SPOTs).

Single Asset Property Companies (SAPCOs): A company is set up to hold a single property (or a group of properties) as its sole assets. It may issue both debt and equity instruments. The company will be taxed as other property companies. The capital structure of a SAPCO is very flexible as it is able to create various forms of shareholdings and securities.

The Capital structure of a SAPCO is usually tiered with different classes of securities. Normally, there are two tiers of capital. The first tier includes preferred shares in which the holders have the benefits as if they had direct ownership of the property. The preferred shareholders are entitled to a specified rental income before taxes. The holders of preferred shares also have voting rights which provide for an effective control of the company's management. The second tier consists of common shares with the common shareholders receiving residual rights including the remainder of any net sale proceeds. It is the common shareholders, therefore, that carry the risk associated with any tax liabilities.

Property Income Certificates (PINCs): Investors holding a certificate are entitled to receive a proportion of the rental income and the capital value of the associated property. A company is set up to own and manage that property. In the event of a sale, the investor is entitled to the proceeds proportional to his share and the tax position is the same as if the investor directly owned the property. The PINC itself is traded on the Stock Exchange.

Single Property Ownership Trusts (SPOTs): The SPOT is set up to own and manage a property. Investors hold units of the property and are the beneficiaries of the trust. They receive a proportion of rental income and capital appreciation.

2. Australia

In Australia, property trusts have been among Australia's favorite form of real estate investment. The first Australian unit trust was launched in 1936, while most of the trusts came into existence in the 1970s and 1980s. In the 1980s, unit trusts were very popular because they provided good sources of income and capital gains to investors. The trusts were managed by professionals and supervised by trustees who offered the investors investment security.

Property trusts allow small investors to invest in a portfolio of real estate that is usually available only to large companies or institutions. Some trusts have a geographic focus while others specialize in particular property types. A property trust is tax free at the entity level as long as all taxable income is distributed.

A property trust is usually managed by a separate management company and the trust manager must be licensed under the Securities Industry Code. Assets of the trust are owned by a trustee company which has the power to control and manage the trust for the benefit of its unitholders. The trust is governed by a trust deed which incorporates the management agreement between the trustee, the manager and the unitholders.

There are two types of property trusts in Australia: unlisted property trusts and listed property trusts.

1. Listed property trusts

Listed property trusts are traded in the stock market and have to comply with stock exchange regulations. As shares are traded in the stock market, investors may trade their shares at a premium or a discount price to net asset value.

2. Unlisted property trusts

Unlisted property trusts are not traded in the stock market. If the unitholders would like to redeem their units, the price will be set at net asset value. There will be no discount or premium to the net asset value of the units. Unlisted trusts are governed by their trust deeds.

Well run unlisted trusts offer investors the opportunity to redeem their units generally within seven working days of their request at the net asset value of the fund. The problem of unlisted trusts is that they have to maintain high levels of liquidity or have in place other standby facilities to keep pace with potential redemptions.

Conclusions

Authorized Unit Trusts (APUTs) in the United Kingdom and property trusts in Australia constitute an important form of real estate securitization in each of these countries. They are, therefore, important vehicles to facilitate real estate development as both forms of trusts provide benefits of property ownership to small investors and access to the capital market for real estate companies. REITs in the United States provide similar benefits. All of these public forms of securitized ownership also provide liquidity in holding real estate because shares of these vehicles are easier to buy and sell than the direct ownership of properties.

Chapter 6

Real Estate Investment Trusts in Thailand

Fundamental Needs for Real Estate Investment Trusts

1. Real Estate Companies

As mentioned in Chapters 2 and 3, real estate companies generally have sufficient sources of funds to meet their requirements with the major sources of capital being commercial banks and finance companies. Large-scale, listed companies and public companies, with the permission of the Securities and Exchange Commission (SEC), are also allowed to issue debt instruments to the public. Large companies can also raise cheaper capital overseas through the BIBF[1] service, a new service provided by commercial banks and finance companies.

Although the existing sources of funds are sufficient, relying too heavily on commercial banks may not be a wise policy because the banks may not be able to accommodate all of the capital requirements of Thailand's real estate companies. Consequently, some projects may not be implemented as planned for lack of future funding. Moreover, the Bank of Thailand may issue instructions to the commercial banks to control and restrict loans to real estate developers if it believes that the market situation is not favorable for that market segment. It would be desirable, therefore, for the real estate companies to explore additional sources of funding for the implementation of their projects.

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[1] Bangkok International Banking Facilities (BIBF) is an offshore banking system. It is established in order to achieve the goal of developing Thailand into a financial center of Indochina region.

According to the replies to the questionnaire[2] used to gather data for this thesis, 75 percent of real estate companies believe that property funds[3] would be a good source of capital as real estate companies would be able to raise a large amount of money from the public at relatively low cost. Although real estate companies may not be able to obtain loans from the property fund, they may act as sponsors by contributing properties to such a fund and receiving money or investment units from that fund. Moreover, they may work with the fund and perform the required property management functions enabling them to acquire desired properties by using capital raised from the public[4].

2. Individual Investors

In view of the high capital requirement, only rich people have the capacity to invest in property, leaving very limited investment potential for small investors. When they have excess money, they usually deposit it at a bank or a financial institution. With the internationalization of the financial markets resulting in declining deposit savings rates, there is a tendency for investors to transfer their capital from the money market to the capital market (stock market). It would be very risky and expensive, however, for them to invest in the stock market because of the high risk involved in the selection of stocks and the timing to buy and sell them. Moreover, the investors have to pay brokerage fees for stock transactions. In fact, many potential investors are unable to open accounts with investment companies because of the required size of the initial

[2] See details of questionnaire results in Appendix 2.
[3] In Thailand, real estate investment trusts would be formed under mutual fund known as property fund. Its operation would be in line with equity REIT which will be referred throughout this Chapter as REIT.
[4] This subject is dealt with in greater detail in the 'Application' section of this chapter.

deposit stipulated by those companies. Generally, the investment companies require an initial deposit of at least one million Baht[5].

Mutual funds, however, may be a good investment alternative for small investors since they usually require a relatively small amount of initial investment. In Thailand, the number of mutual funds is still very small with only eight mutual fund management companies established to date. Several new management companies are expected, however, to be established by the end of this year (1994). Most of the existing funds tend to have a similar investment policy of investing in common stocks. Generally, small investors prefer "high returns" for their investment and they usually choose to invest in equity funds rather than money market funds as the latter tends to offer lower risk, but also lower returns. The market size of other financial instruments is quite small resulting in limited types of mutual funds. It is the policy of the government to establish new types of mutual funds which would benefit both investors and real estate developers.

In Thailand, the real estate industry is expected to have a promising future, and many small investors would like to invest in real estate. At present, there are two major ways to invest in real estate: to invest in stocks of real estate companies and to invest directly in real estate. As mentioned earlier, it is not convenient for small investors to invest directly in real estate as it requires a large amount of investment capital. Establishing a property fund will enable small investors to invest in both the real estate market and the stock market.

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[5] According to the Wall Street Journal, the exchange rate of 1 US dollar was equal to 24.97 Baht on July 13, 1994. One million Baht is approximately equal to 40,000 US Dollar.

According to the questionnaire results, all the respondents believe that the major merit of introducing a property fund in Thailand is to provide potential investors with access to real estate market, especially smaller prospective investors.

3. THE GOVERNMENT

The Thai government has an important role in the mobilization of domestic savings. According to the Seventh National Economic and Social Development Plan, covering the period of 1992-1996[6], the target is to increase household savings from 10 percent of GDP in 1991 to 14 percent of GDP in 1996. To attain this target, two broad measures for the mobilization of domestic savings have been identified: (1) reform of the tax system and its restructuring to promote savings, and (2) the development of financial instruments for long-term savings. It is the government's policy to support the establishment of newer types of mutual funds, including property funds. Another related measure would establish an organization to study and supervise the housing credit system. Currently, the SEC has the authority to establish new types of funds including vehicles such as Real Estate Investment Trusts.

Prospective Vehicle: Mutual Funds

1. Overview:

Types of Funds

1. Open-end Type

Under the open-end type of mutual fund, investors can buy or sell investment units of the fund any time at the price posted each day by the management company.

[6] The Seventh National Economic and Social Development Plan, 1992-1996, NESDB, pp. 28-29

This type of fund has very high liquidity and is very popular in many countries. Assets in the fund should be very liquid, easy to buy and sell, and easy to be appraised.

2. Closed-end Type

Under the close-end type of fund, the management company of the fund will not buy investment units back until the fund is liquidated. The length of the fund's existence is normally five to ten years. Since this type of fund is not as liquid as the open-end type, some countries provide a secondary market for these funds. The management of the fund can join the stock exchange of that country to allow the investors to buy and sell investment units through brokerage firms at the prevailing prices in the stock market.

Up to 1993, the closed-end fund was the only type of fund available in Thailand. After the Securities and Exchange Commission (SEC) made provision for the establishment of open-end type of fund in 1993, five open-end funds from the total of 76 funds have been established in Thailand.

Mutual funds can also be classified by their objectives.

1. Income Funds

An income fund invests in common stocks of high quality companies that distribute dividends regularly to their shareholders, thereby providing them with a steady return on their investment.

2. Bond Funds

A bond fund invests in both corporate bonds and government bonds. Unitholders of the fund also receive a constant return giving them security in their investment.

3. Balanced Funds

A balanced fund invests in many kinds of assets such as common stocks, preferred stocks, and bonds. The mix of assets is balanced within specific proportions in order to diversify the fund's portfolio.

4. Growth Funds

A growth fund invests in stocks of growing companies. These companies pay low dividends while reinvesting most of their retained earnings into their operation. This type of fund grows very quickly and the unitholders earn capital gains from the associated increases in unit value.

5. Stock Funds or Equity Funds

A stock fund invests in common stocks of many companies. This fund sometime invests in a specific industry, and while this type of investment strategy may have higher risk, the returns can also be greater.

6. Money Market Funds

A money market fund invests in commercial paper in the money market, and does not invest in either common stocks or preferred stocks. The revenues of this type of fund come principally from interest or discounted price of commercial papers. The fund generally has a lower return, but also lower associated risk.

As mentioned earlier, the majority of mutual funds in Thailand are equity funds which accounted for 88 percent of all of the country's mutual fund value in 1993. Money market funds and balanced funds contributed the remaining 12 percent of the total.

Objectives of Mutual Fund Operations

a) Allow low to medium income investors to have desirable investment alternatives;

b) Distribute stock ownership to the general public to enable the public income to increase with the growing economy;

c) Stimulate and mobilize savings to support the growing economy; and

d) Develop the capital market and the Stock Exchange of Thailand (SET).

2. Historical Development of Mutual Funds in Thailand

The first mutual fund management company was established in 1975 by the Government and the International Finance Corporation (IFC), an organization of the World Bank. The objectives of establishing the mutual fund were to distribute the benefits of an expanding economy to the general public and to mobilize household savings to support economic growth. Before 1992, there was only one mutual fund company in Thailand. In 1992, the government's policy to stimulate domestic savings began to materialize as seven mutual fund management companies were established. At present, there are eight mutual fund management companies operating in Thailand. These mutual fund companies have an important role in the development of the domestic capital market by mobilizing domestic savings to support and accelerate the expansion of the Thai economy.

In February 1994, the Securities and Exchange Commission (SEC) made provision for the establishment of more mutual fund management companies, in recognition of the important activities undertaken by the mutual funds over the past two years. Since investment by institutions is preferred to individuals, investment by mutual funds is desirable. Mutual fund investment may also help to mitigate the harmful effects that can occur with severe fluctuations in the stock market.

3. Performance of Mutual Funds

The first mutual fund in Thailand was established in 1977 and the number of the funds has increased steadily ever since. At present, there are 76 separate funds managed by the eight mutual fund management companies in Thailand.

The number of mutual funds increased rapidly in 1993. Total asset value of the funds in 1993 was 210,606 million Baht which represents a 185 percent increase over the 1992 level of 118,420 million Baht. International funds' registered value remained unchanged, whereas the registered value of domestic funds increased by 172 percent. Important factors that contributed to the rapid expansion of the domestic funds in 1993 include:

1) The capital inflows from foreign countries resulted in a continuous decrease in savings deposit rates. To cope with the decline in the savings deposit rate offered by the banks and financial institutions, depositors tended to transfer their funds from the money market to the capital market. This is evidenced by the increase of 18 percent in the deposits of commercial banks compared with the increase of 172 percent in the registered mutual fund value in 1993.

2) In recognition of the outstanding performance of the funds in 1992, the general public became more interested in investing in mutual funds.

3) The increase in Stock Exchange of Thailand (SET) index helped strengthen the confidence of small investors in the capital market. Mutual funds provide small investors with access to the stock market which they would otherwise have difficulty entering by themselves[7]. The minimum initial investment in mutual funds is quite low (about 1,000 Baht which is equivalent to 100 investment units at par value).

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[7] This problem of small investors to enter the stock market was dealt with earlier in this Chapter.

4 Laws and Regulations affecting Mutual Funds

A company that would like to manage mutual funds must receive a permit from the Ministry of Finance. All mutual funds are subject to the requirements of the Securities and Exchange Act of 1992, primarily Sections 117-132. However, funds established before the Act are exempted. These funds are subject to the regulations and requirements of the Bank of Thailand.

5. Role of Mutual Funds and its Benefits to the Thai Economy

1. Mutual funds can increase the stability of the Stock Exchange of Thailand as investments by these mutual funds are considered institutional-grade investments.

2. Mutual funds can raise capital from both domestic and foreign sources.

3. The capital raised by the mutual funds is intended for long term investment with no cost (interest payment).

4. Mutual funds distribute stocks to the general public, and its unitholders consist of a large number of small investors.

Application

A Thai mutual fund would be able to accomplish the same objectives as a REIT in the United States for the following reasons:

1. Mutual funds are tax exempt at the entity level;

2. Mutual funds in real estate can provide small investors with the access to this particular asset class;

3. Mutual funds have all the established regulations and requirements that are similar to REITs;

4. Mutual funds can provide real estate companies with the needed access to capital markets; and

5. Mutual funds can be an effective vehicle to help stimulate savings.

Sub-committee on Property Funds

The sub-committee on property funds was established in January 1994. It has studied the practice of property trusts of many countries to determine the format, application, and costs and benefits of introducing property funds to Thailand.

The sub-committee is expected to be represented by the SEC, real estate developers, mutual fund management companies, appraisal companies, the Valuers' Association of Thailand (VAT), and the National Appraisal Association of Thailand.

Application of Real Estate Investment Trusts

Mutual funds may be the most suitable vehicles for property funds in Thailand. It is instructive, therefore, to compare REITs in the United States and mutual funds in Thailand, focusing on the advantageous features of REITs. These advantageous features may be incorporated to the proposed "Property Funds".

(1) Governing Organization

United States: *The Securities and Exchange Commission (SEC), The Internal Revenue Service (IRS), and individual states' securities commissions*

REITs are regulated by the Internal Revenue Code (primarily Sections 856-860) through the Internal Revenue Service. The Code is a tax law that a company must comply with in order to qualify as a REIT. All REITs that would like to make public offerings must meet certain requirements of the SEC which deal mainly with the disclosure of key information to prospective investors. The regulations that govern

REITs are under the Securities Act of 1933. The SEC has prescribed certain forms for registering real estate securities. These forms are called "S-11" (prospectus) and "SEC Guide 5". In addition, REITs are generally subject to the securities law of the state in which the REIT declares its corporate charter.

Thailand: The Securities and Exchange Commission (SEC), The Bank of Thailand (BOT), The Internal Revenue Department

The Securities and Exchange Act of 1992 (primarily Sections 117-132) regulates the operation of all mutual funds in Thailand, except for those funds established before the Act. (Funds that pre-date the Act are subject to the regulation of the Bank of Thailand.) The Act is administered by the SEC and is mainly on the mutual fund's management. Major provisions govern how mutual funds are set up, what documents are required, what are the qualifications of the fund supervisor, and what must be included in the prospectus. Tax laws regulating mutual funds are administered by the Thai Internal Revenue Department.

(2) Real Estate Vehicle

United States: Real Estate Investment Trusts

REITs were established when Congress passed the Real Estate Investment Trust Act of 1960. US REITs pool the resources of many small investors and invest principally in real estate. REITs are managed by real estate professionals, supervised by trustees, and operated essentially like a mutual fund. While mutual funds invest mainly in stocks and bonds, REITs invest mainly in real estate.

Thailand: Mutual funds

Mutual funds were established in Thailand about two decades ago. Presently, mutual funds can invest only in debt and equity instruments imposed by the SEC[8]. To establish property funds, the laws governing mutual funds should be amended so that real property becomes an allowable class of investments.

(3) Management

United States: self-administered REIT, advised REIT

REITs are generally managed by real estate professionals with good track records. A REIT's board of directors may hire an advisor to manage the REIT's properties or the REIT may be self-administered and self-advised by the REIT's own internal employees.

Thailand: fund management, property management

A fund's managers are generally professionals who have extensive knowledge in financial management and investment, and have a good track record and a good reputation. One problem, however, for establishing additional property funds in Thailand is the country's lack of enough professional property managers.

PROPOSAL FOR A THAI PROPERTY FUND: There should be two levels of management in managing a property fund. The first level should be internal employees while the second level should be outside contractors. Capital market, financial reporting, acquisition, and shareholder relations should be the responsibilities of the first internal management level. Responsibilities relating to property management including leasing,

[8] Mutual funds are allowed to invest in Government bonds, treasury bills and notes, bonds issued by government organizations, listed shares or shares traded in the stock market, corporate bonds and notes, promissory notes, bills of exchange, certificates of deposit, deposits in financial institutions, and any security accepted by the SEC.

marketing, renovation can be shared by both internal and external management. Internal management should be responsible for monitoring the overall performance of outside consultants who would take care of the fund's day-to-day operations.

The external managers are hired by the mutual fund's management company. They may be a third-party property management company or sponsors of contributed properties. The mutual fund management company may form a joint-venture with a property management company giving the property management firm equity ownership in the fund. The property management firm's services include maintaining the physical condition of the properties, attending to tenants' concerns, collecting monthly rents, and assisting in the leasing of vacant space.

(4) Sponsors

United States: real estate owners, developers, banks, insurance companies, property management companies.

Sponsors of REITs typically contribute properties in exchange for units (shares) in the REITs. Some of them (typically developers) become managers of the REIT while others (banks, insurance companies) become REIT advisors.

Thailand: real estate owners, developers

PROPOSAL FOR A THAI PROPERTY FUND: Sponsors of a property fund may contribute properties in exchange for units (shares) in the fund, or for cash. If the sponsors who have knowledge in property management would like to manage the property, they should be allowed to fill the role of the outside management. For REIT's whose sponsors do not have expertise in property management or whose sponsors would not like to manage the REIT's properties, the mutual fund management company must hire third-party contractors to fulfill this function.

(5) The Fund

United States: REIT portfolio: focus and diversified or finite-life and infinite-life

Generally, the portfolio is diversified in the sense that it invests in many properties. The number of properties in a REIT can range from just a couple of properties to over a hundred, with the total capitalization generally over $100 million. There are generally two types of portfolios: focused (by property type or geographic location) and diversified. Most real estate analysts believe that focused REITs are better than diversified REITs since focused REITs specialize in certain product type or locations. Moreover, most REITs have indefinite life because, in general, liquidating a REIT at any point in time may not result in an optimum price for the REIT's properties.

Thailand: mutual fund: equity fund, fixed income fund/bond fund, and balanced fund OR open-end fund and closed-end fund

Currently, there are 76 mutual funds with a total registered value of 155,885 million Baht[9]. Most of the funds are equity funds. The government has the policy of establishing newer types of funds in order to stimulate savings and provide investors with more alternatives.

PROPOSAL FOR A THAI PROPERTY FUND: Property funds should be closed-end funds since it is difficult to value property at any point in time, unlike stocks and bonds which have the stock market as an active secondary market. It can be an advantage, therefore, to be an infinite-life fund so that the properties are not subject to being sold during

[9] Data obtained from One Investment Management Limited., July 17, 1994.

unfavorable conditions. These funds should also be allowed to make secondary offerings to the market when they need additional capital.

Each fund should invest in at least 2-3 properties to diversify its portfolio. Each fund should also invest in selected property types so that the fund's managers will develop particular expertise.

(6) Fund Supervisor/Trustee

United States : Trustee: individual with good reputation

A REIT's trustees are elected by its shareholders. The trustees determine the REIT's investment and business strategies. They set policy in accordance with the investment objectives established by the declaration of the trust or the charter. In most states, the majority of trustees are required to be independent. They must have no personal or business relationship with the REIT, its affiliates or contractors.

Thailand: Fund supervisors: large financial institutions with good qualifications

Since Thailand has no trust laws, trustees' functions are performed by the fund supervisors. The main responsibility of the supervisors is to supervise the management of mutual fund to ensure that the activities comply with the law and the objectives of the fund. Unlike a REIT's trustees who are elected by shareholders, a fund's supervisors are appointed by the management company.

The fund should be supervised by one of the following organizations: commercial bank, finance company, securities company or financial institution established by special act. Fund supervisors must not be shareholders of the mutual fund management company under their supervision. They are similar to independent trustees in the United States.

PROPOSAL FOR A THAI PROPERTY FUND: Apart from the existing fund supervisors, who are financial institutions, the property fund should include at least one supervisor who is an experienced, real estate professional with a good reputation.

According to the questionnaire results, approximately 70 percent believed that the establishment of a property fund should be done after the promulgation of the trust law since a trust law will give small investors more confidence to invest in such property funds.

(7) Appraiser

United States: licensed appraiser

Generally, when a REIT wants to acquire a property, it will look at the income stream that the property will generate. The REIT will then capitalize the income stream with an appropriate capitalization rate in order to determine that property's value. An independent appraiser is rarely used because of the high appraisal fee.

Thailand: unlicensed appraiser

PROPOSAL FOR A THAI PROPERTY FUND: The value of a property should be determined by the capitalization of its income stream and the determined price must be accepted by all trustees. Whenever a property is acquired from the trustees, sponsors, or affiliates, the price should be confirmed by an independent third party appraiser who is accepted by the SEC and the Association of Appraisers.

(8) Auditor

United States: licensed auditors

Licensed auditors audit a REIT's financial reports.

Thailand: licensed auditors

Licensed auditors audit a mutual fund's financial reports.

(9) Underwriter/Broker

United States: investment banker, brokerage firms

The investment banker prepares the required prospectus for public offering and submits it to the SEC.

Thailand: commercial banks, the Government Savings Bank, finance companies and securities companies

When a management company has set up a mutual fund, it must submit the fund's investment strategy to the SEC. Upon approval, it can distribute the fund's prospectus and sell investment units to the public. Sales of investment units can be done by the company itself or through commercial banks, the Government Savings Bank, finance companies, or securities companies.

Benefits of a Property Fund

a) Enable small investors to participate in diversified real estate projects managed by skilled, experienced real estate professionals;

b) Provide investors with access to real estate investment with relatively low initial investment requirements;

c) Provide liquidity in real estate investment since investment units are traded in the stock market;

d) Provide alternative source of funds to real estate companies;

e) Provide tax advantage because a mutual fund is tax-free at the entity level; and

f) Stimulate household savings to support the growing economy.

Problems and Obstacles for the Development of a Property Fund in Thailand

a) Legal system: At present, the laws that govern mutual funds do not allow them to own real estate. To establish a property fund organized as a mutual fund, the existing laws need to be amended by adding "real estate" as an allowed investment asset class. With the new legislation of the Securities and Exchange Act of 1992, the amendments of rules and regulations need not go through Parliament; the SEC secretariat or the board of the SEC has the authority to make the amendments of rules and regulations under the law.

b) Tax system: According to the current tax system, a mutual fund is tax-free at the entity level. With the introduction of the property fund, the tax exempt may be in question.

c) Speculation: According to the experience of the stock market, prices of some stocks are driven up by speculation. With the establishment of a property fund, speculators may inflate the price of the property fund, resulting in an unrealistic increase in the price of the underlying properties.

d) Lack of skilled, professional property management: There is a limited number of skillful real estate professionals. The managing company may have to raise the salary of the professionals to make it attractive for them to manage the property fund. The operation of the property fund, therefore, may become more expensive compared to other funds.

e) Trust law: Since the government is in the process of promulgating a trust law, it might be advisable to delay the establishment of a property fund until such law is in operation. As a property fund is a special fund with a high return, a manager may take advantage of the situation. The fund's manager may be tempted to be more concerned with its own interest rather than the interest of the fund's investors. The pending trust laws are expected to cover such potential conflicts, thereby enhancing the confidence of prospective investors.

f) Lack of a system to select qualified appraisers: At present, licensing of appraisers is not required in Thailand. The SEC, in cooperation with the Valuers' Association of Thailand (VAT), is in the process of setting up a system to screen and license qualified real estate appraisers in order to ensure the consistency and quality of their work.

g) Interest from management companies: Although the number of management companies in Thailand is limited, more management companies are expected to be formed in the near future and some of the existing management companies have expressed a strong interest in developing property trusts.

Conclusions

Real Estate Investment Trusts are important vehicles for real estate development in the United States as they facilitate the mobilization of funds for property investment. The REIT concept can be applied to Thailand's real estate and capital markets. Establishing a property fund in Thailand, based on the US REIT model, could be beneficial to the Thai real estate industry. Considering the current investment vehicles in Thailand, mutual funds seem to be the most viable form for property funds.

Overall, the potential benefits of establishing property funds in Thailand far outweigh potential problems and the preceding comparison of US REITs and the Thai mutual funds helps to identify some of the favorable features of REITs that should be included in the proposed property funds in Thailand.

Chapter 7

Conclusions and Recommendations

The development of real estate industry in Thailand is affected by both internal and external factors. The performance of the Thai economy will have direct impact on the performance of the real estate market in the country. The rise in oil prices, the fluctuation in interest rates in major industrialized countries such as the United States, as well as fluctuations in the value of major currencies in the world such as US Dollar and the Japanese yen can also affect the real estate market in Thailand.

The world economy is currently recovering from a recession. Some industrialized economies, such as the United States, are expected to improve in 1994 and an important development at the global level, the successful conclusion of the Uruguay Round of GATT in December 1993, should help to increase world trade and investment. These factors could combine to stimulate the expansion of the world economy in the coming years. Regional groupings such as the North American Free Trade Agreement (NAFTA), the ASEAN Free Trade Area (AFTA) and the Asia Pacific Economic Co-operation (APEC), are also expected to have positive impact on the economic performance of their member countries (Thailand is a member of AFTA and APEC). According to the economic indicators covering the first half of the year, the growth of the Thai economy is expected to exceed the target rate of 8.2 percent in 1994.

The continued expansion of the Thai economy provides a favorable condition to facilitate the development of the real estate industry in Thailand. After the boom during 1987-1990 period, the real estate industry experienced a period of stagnation in 1991-1992. In 1993, the real estate industry began to recover as the oversupply from the boom period is gradually absorbed by the increase in real demand for housing, office space and other types of property. Due to the worsening traffic problem in Bangkok, there is a significant rise in demand for housing and office space in the inner city area. Consequently, there is keen competition among real estate companies to construct high-rise buildings to accommodate this increased demand. With the exception of some types of property such as hotels and golf courses, the real estate market has recovered from its brief period of stagnation. In view of the continued expansion of the Thai economy in 1993 and 1994, the prospects for the Thai real estate markets appear promising.

The potential benefits of property funds as well as the problems and obstacles associated with the establishment of such funds in Thailand were discussed in Chapter 6. An important area for consideration, however, is the nature of investment in real estate which normally requires a large amount of capital. Small investors do not have access to prime real estate investments. While holding shares in a real estate company may be more practical, it is still a difficult investment option because of the relatively high initial deposits required by brokerage firms, as well as the required high brokerage fees. The establishment of property funds should help to relieve these problems and can act to stimulate and facilitate the expansion of the real estate market and to accommodate the expected increase in future demand for properties in Thailand.

The Securities and Exchange Commission (SEC) has full authority to establish property funds in Thailand. Currently, the SEC is working out the best model on which to base a property fund in Thailand by selecting the best features of existing property trusts in selected countries. The SEC is examining such models as REITs in the United States, PUTs in the United Kingdom, and property trusts in Australia.

A questionnaire[1] has been prepared and distributed to real estate companies, commercial banks and finance companies to seek their opinion on the establishment of property funds in Thailand. All the respondents believed that property funds are useful to the property market in Thailand. The responses to other questions have been reflected in the preceding chapters. Taking all factors into consideration, the author would like to offer some views and recommendations as follows:

(1) Property fund should be established in Thailand. There are problems in the establishment and operation of the funds, but special efforts can be undertaken to overcome these anticipated obstacles. The merits of the funds far outweigh the potential problems involved. In addition, property companies and financial institutions, as indicated in their replies to the questionnaire, support the establishment of such property funds.

(2) The timing of the establishment of the funds is important. To catch up with the rapid expansion of the Thai economy, the funds should be established at the earliest possible date. This would also be a benefit to the parties involved in the real estate market, such as real estate companies, financial institutions, and investors.

(3) The SEC may wish to send representatives to visit the United States and other countries to have closer consultations with the appropriate people and to obtain firsthand information on property trusts in these countries in order to design a property fund model suitable for Thailand.

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[1]The reply to the questionnaire is given in Appendix 2

Appendix 1

Major development targets of economic and social development during the Seventh Plan (1992-1996)

	Sixth Plan (1987-1991)	Seventh Plan targets (1992-1996)
1. Economic growth (% per year at constant prices)	10.5	8.2
1.1 Agriculture sector	3.4	3.4
1.2 Non-agriculture sector	12.1	8.6
- Industry	13.7	9.5
- Construction	18.7	8.9
- Services and others	11.0	8.1
2. Per capita income (baht/year)[1]	41,000	71,000
3. Expenditures (% per year at constant prices)		
3.1 Private sector		
- Consumption	9.1	5.7
- Investment	26.0	8.8
3.2 Public sector		
- Consumption	2.0	3.3
- Investment	6.5	8.5
4. Export of goods		
4.1 Average (billion baht)	496.0	1,063.0
4.2 Average growth rate per year (%)	24.5	14.7
5. Import of goods		
5.1 Average value (billion baht)	664.3	1,358.0
5.2 Average growth rate per year (%)	32.6	11.4
6. Trade balance		
6.1 Average value	(168.0)	(313.0)
6.2 Trade balance/GDP (%)	(8.4)	(9.4)
7. Income from tourism		
7.1 Average value (billion baht)	91.5	185.0
7.2 Average growth (%)	27.5	13.3
8. Current account balance		
8.1 Average value (billion baht)	(99.0)	(170.3)
8.2 Current account balance/GDP (%)	(4.9)	(5.2)
9. Inflation (%)	4.7	5.6
10. Commercial energy production[1] (Thousand barrels of crude oil/day)	280.0	410.0

(continued)

	Sixth Plan (1987-1991)	Seventh Plan targets (1992-1996)
11. Dependency ratio of foreign energy (%)	60.0	60.0
12. Ratio of telephone lines[1] per 100 population	3.6	10.0
13. Number of population (million)	56.9	61.0
Population growth rate (%)	1.4	1.2
14. Transition rate to secondary schools (%)	46.2[2]	73
15. Employment (million persons)	32.0	34.9
Unemployment rate (%)	0.6	0.5
16. Infant morality rate (per 1,000 live births)	29	23
17. Proportion of people under poverty line (%)	23.7[3]	20
18. Reserve forest (% of total)	18.4[4]	25
19. Control of noise level not to exceed (decibels)		85
20. Limited emission of hazardous wastes from commercial energy consumption compared with 1990		
- Lead level from vehicles	1,030	300
- Carbon monoxide from vehicles (thousand tons)	950	750
- Sulphur dioxide (thousand tons)	840	860
. motor vehicles	100	50
. electricity generation	535	620
. industry and others	205	190

1 Figures of the last year (1991 and 1996) of the Sixth and Seventh Plans respectively)
2 Year 1989/1990
3 Year 1988
4 In 1991 there were 59 million rai of reserve forest.

Source: NESDB, The Seventh National Economic and Social Development Plan (1992-1996)

Appendix 2

Reply to the Questionnaire

A questionnaire to assess the response on the prospects for establishing a property fund in Thailand was prepared and sent to 51 real estate companies and financial institutions in May, 1994. Up to the end of June 1994, 31 responses have been received. For some questions, the number of replies is greater than the number of respondents because some respondents provided multiple answer to questions. (They believed that more than one of the proposed answers was relevant to the question.) The calculation of percentage of the replies for each question is, however, based on the total number of replies. There are 17 questions in the questionnaire and the reply to each question is given below.

1. Are property funds useful to property market?

    (a) Yes (100%)

    (b) No (0%)

2. What are the merits of introducing property funds into Thailand?

    (a) To allow small investors to invest in real estate (70%)

    (b) To facilitate raising of capital (28%)

    (c) Others (2%)

3. Is a property fund concept applicable to the real estate business?

    (a) Yes (96%)

    (b) No (4%)

4. What are the attractions of property funds?

    (a) Tax advantage (23%)

    (b) Stable and attractive current income (21%)

    (c) Professional management (18%)

    (d) Liquidity (13%)

    (e) Pooling of resources (11%)

    (f) Flexibility (9%)

    (g) Others (5%)

5. What are the restrictions of introducing property funds?

    (a) Limited knowledge on property trusts (43%)

    (b) Legal system (28%)

    (c) Tax system (22%)

    (d) Others (7%)

6. What aspects of the real estate market in Thailand are best suited to property funds?

    (a) Well-managed projects (31%)

    (b) Well-diversified projects (23%)

    (c) Low risk development projects (18%)

    (d) High growth projects (18%)

    (e) High risk (high return) projects (2%)

    (f) Others (8%)

7. What would be your role in property funds?

(a) Investor (49%)

(b) Developer (40%)

(c) Management (11%)

8. What market functions are necessary in promoting property funds?

(a) Developer (42%)

(b) Management (38%)

(c) Investor (20%)

9. Is it better for property fund to wait until after the promulgation of the trust law to begin operations?

(a) Yes (71%)

(b) No (29%)

10. Which of the following is the best trustee?

(a) Commercial bank (43%)

(b) Securities company (30%)

(c) Major institution (13%)

(d) Well-known individuals (6%)

(e) Insurance company (4%)

(f) Others (4%)

11. For real estate companies: What are your sources of financing?

(a) Commercial banks (65%)

(b) Finance companies (18%)

(c) Government Housing Bank (5%)

(d) Others (12%)

12. For real estate companies: Will property funds be a good financing source for your company?

(a) Yes (76%)

(b) No (24%)

13. For real estate companies: Are you interested in being a management team in property funds?

(a) Yes (83%)

(b) No (17%)

14. Investors: Are you interested in investing in mutual funds more than investing in property funds?

(a) Moderate interest (65%)

(b) Strong interest (28%)

(c) No interest (7%)

15. Does your company have direct interest in property funds?

    (a) Yes (52%)

    (b) No (48%)

16. Is it a good idea to form property funds under a mutual fund?

    (a) Yes (93%)

    (b) No (7%)

17. Will property funds stimulate investors to speculate in real estate?

    (a) No (60%)

    (b) Yes (40%)

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