

Fostering Growth of REITs in Hong Kong Luncheon remarks at Hong Kong REITS Association

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George, honorary guests, ladies and gentlemen, good afternoon. Thank you for inviting me to deliver the keynote for today's event.

We are delighted to witness the establishment of the Hong Kong REITS Association last year to gather the strength of our REIT sector and promote its development in Hong Kong. On behalf of the SFC, let me applaud your efforts to set up this platform to fortify the city's REIT market and enhance our position in the global REIT market.

The SFC shares the Government's vision to promote REITs and develop Hong Kong into a leading REIT market. This will not only help strengthen our position as a capital raising hub and premier asset management centre, but also broaden investors' choice with investments that offer a relatively more stable return.

We are pleased that the market capitalisation of Hong Kong REITs has increased by around eight-fold since its launch in 2005. The Hang Seng Total Return Index for REITs was launched in 2008 and, as of 12 May, its cumulative growth of around 600% has outperformed the around 200% growth of the Hang Seng Index (Gross Total Return Index) for the same period. In addition, our REITs invest in a wide range of properties across Hong Kong, Mainland China, Europe and Australia. These properties include offices, shopping malls, hotels, mixed-use and industrial buildings, car parks as well as logistics properties.

Initiatives to promote Hong Kong REIT market

As a regulator, we follow closely local and international market developments to ensure our regulatory regime remains up-to-date and competitive without compromising investor protection. The latest REIT Code enhancements provide REIT managers with additional investment flexibility. In fact, a number of REIT managers have already made use of the new flexibility to grow their portfolios.

We have also clarified that Hong Kong REITs may invest in infrastructure properties, such as highways, bridges, tunnels and power plants if the key requirements in the REIT Code are complied with in substance. Since Hong Kong REITs are free to invest in any geographical location or type of property, we would likely see our REITs investing in more diversified asset types to broaden product choices for investors.

The HKSAR Government's grant scheme for REITs is an important initiative to promote REIT listings. Launched in 2021, the three-year scheme is indeed the first of its kind. This shows the Government's strong support for Hong Kong's REIT market development. Also, in August 2022, the Financial Services and the Treasury Bureau and the Qianhai Authority jointly

Note: This is the text of the speech as drafted, which may differ from the delivered version.



announced further support for Hong Kong REIT issuers: they will receive a one-off reward of RMB 1 million for listing high-quality Qianhai infrastructure projects on the Hong Kong Stock Exchange.

Fostering further development and growth

In addition, we understand the industry would like to see several enhancements to further develop our REIT market. Let me share some of my thoughts with you today.

Mainland REIT regime and Stock Connect

One key suggestion is to include Hong Kong REITs as eligible securities under the Stock Connect regime.

As we know, the Mainland REIT, or C-REIT, market has blossomed since the first batch of nine public infrastructure REITs were listed under the pilot scheme on the Mainland in June 2021. The asset class has since expanded to cover more types of infrastructure assets, affordable rental housing as well as consumption-themed infrastructure projects.

With a fast-growing C-REIT market, we expect to see more opportunities and greater connectivity in the long run. The SFC will continue to work with Mainland regulators to explore potential regulatory cooperation and connectivity between Hong Kong REITs and C-REITs. This should facilitate the long-term development of both markets, especially when the C-REIT market is more mature.

In fact, even with the C-REIT market growth, we believe Hong Kong REITs remain competitive as we have no restrictions on the types and locations of properties; we do not restrict the use of proceeds raised in REIT listings, either. Moreover, setting up a Hong Kong REIT would not prevent the same REIT sponsor from listing other properties on the Mainland as C-REITs, so we believe the two markets could complement each other and provide more options for potential listing applicants.

In this regard, we welcome potential applicants to consult us on their REIT listing proposals. With a relatively simple business model, our authorisation and listing process for REITs is indeed fairly streamlined. If the application is in order, approval-in-principle may be granted as soon as two months from the application take-up date.

Tax incentives

We understand tax is another key area the industry would like to see enhancements, such as stamp duty exemption and tax transparency. As these concern Government revenue and may have read-across implications, the SFC will continue to explore these initiatives with relevant stakeholders.

Further regulatory enhancements

In terms of further regulatory enhancements, we are aware of the suggestion that Hong Kong REITs be allowed to structure in a corporate form in addition to the current trust form. When



we rolled out our regime back in 2003 after public consultation, the trust form was mandated to ensure clear segregation of REIT assets and a layer of oversight by the trustee.

The REIT Code amendments in 2020 have clarified that a REIT may adopt a stapled structure by stapling its units with securities of another listed entity, so long as similar governance and investor protection measures are in place and requirements in the REIT Code are complied with in substance. With the new RA13 regime coming into effect in October 2024, depositaries providing oversight and custody services to Hong Kong REITs will have to obtain our licence and be subject to our supervision. This would cover the REIT's trustee, or its custodian if the REIT is structured in a form other than a trust. As regulatory oversight will be enhanced for REITs not structured as a trust, we will explore the possibility of allowing a REIT to be structured in a corporate form.

We are also working with the Government on the legislative amendments to address the lack of a compulsory acquisition and scheme of arrangements mechanism to facilitate privatisation or exit for Hong Kong REITs. Once we put the legislative framework in place, we hope to see a more vibrant REIT market with more mergers and acquisitions.

Another recent hot topic is the new HKD-RMB Dual Counter Model to be introduced by the Hong Kong Stock Exchange. Some of you have asked whether REITs can make use of the Model. Let me shed some light on this: the Model will be available to REITs in the same manner as other listed companies. Once the scheme is launched, which is expected by the end of June, REITs may apply to add a renminbi counter for trading under the Model. In fact, Hui Xian REIT started RMB trading more than 12 years ago and was the first ever RMB-denominated equity outside Mainland China. At present, more than 20 leading listed companies that account for about 40% of the daily stock market turnover have signed up for the Dual Counter Model, while a number of market makers are ready to provide liquidity between the two counters. We believe Hong Kong's status will only grow as the world's leading offshore RMB centre. So REITs that are interested in participating in the new Model are welcome to get in touch with us.

Promotion and investor education

Last but not least, we know the Association has called for more REIT promotion. Your earlier online survey found that REITs are less sought after by Hong Kong investors, and a major reason being that they are not familiar with the product. Therefore, we will continue our work with the industry and with the Investor and Financial Education Council to enhance investors' understanding of REITs and raise public awareness. We believe this is critical to the healthy development of the Hong Kong REIT market in the long run.

Fostering REIT market growth is one of our priorities. We look forward to keeping in close touch with the Hong Kong REITS Association and making concerted efforts with industry practitioners like yourselves. On this note, I would like to thank you all again for your contributions over the years. I wish the Association every success in many more years to come.

Thank you.