

Chapter 20

SPECIFIC REQUIREMENTS FOR REAL ESTATE INVESTMENT TRUSTS

20.01 The following information must be disclosed in the prospectus of a real estate investment trust (REIT), in addition to that specified under Chapters 1–15 of these Guidelines, unless otherwise specified.

Statements of disclaimer

20.02 There shall be an additional statement of disclaimer, displayed in bold font, as follows:

“The valuation approved or accepted by the Securities Commission Malaysia is only for the purpose of the proposal submitted to and approved by the Securities Commission Malaysia, and shall not be construed as an endorsement by the Securities Commission Malaysia on the value of the real estates for any other purpose.”

Key data section or information summary

20.03 The key data and information summary section should include, but is not limited to, the following

information:

(a) Fund information

(i) Brief but relevant details on the real estates to be acquired, including a table highlighting principal statistics of the real estates;

(ii) Revaluation policy;

(iii) Gearing policy; and

(b) Fees and charges

Details on other substantial fees to be paid by the REIT (e.g. property management fees, etc.).

The fund

20.04 Subparagraphs 4.02(e), (f), (g), (k) and (w) are not applicable to a REIT. Instead the prospectus of a REIT must disclose information as required in this section.

General

20.05 The information to be disclosed should include, but is not limited to, the following:

- (a) The investment objective of the REIT and a statement that material changes to the investment objective would require investors' approval;
- (b) The policies and investment strategies to achieve the REIT's investment objective. The disclosure must include the future plans of the REIT (e.g. growth strategies) and steps taken, including the time frame, to realise the plans;
- (c) The types and characteristics of real estates which the REIT will acquire (e.g. location, types of real estate, income/rental prospects of the real estate, etc.);
- (d) Permitted investments and investment limits/restrictions of the REIT, including the policy on holding of liquid assets to meeting repurchase requests;
- (e) The policy on gearing and the REIT's level of gearing at the point of establishment, including source, type, nature of borrowings and the interest rate payable;
- (f) Distribution policy and mode of distribution to investors;

- (g) Investors profile most suitable for the REIT;
and
- (h) Details of any existing or proposed arrangement which materially enhances short-term yields but may not be sustainable in the long term and the risks associated with such arrangements. An analysis of how such arrangements affect current and future yields must be disclosed together with a computation of the forecast distribution yields without such arrangements.

20.06 For an Islamic REIT, the prospectus must also include–

- (a) clear description of the Shariah approval process, including details on methodologies, screening process and rules on purification process; and
- (b) a statement to the effect that the investment of the Islamic REIT is carried out in accordance with the ruling issued by the Shariah adviser. Where the fund also invests in other Shariah compliant instruments, the statement should include that the instruments have been classified as Shariah compliant by the SAC of the SC and, where

applicable, the SAC of BNM. For instruments that are not classified as Shariah compliant by the SAC of the SC and, where applicable, the SAC of BNM, a statement stating that the status of the instruments has been determined in accordance with the ruling issued by the Shariah adviser.

Investments in real estates

20.07 A prospectus must include specific disclosures on the real estate, including but not limited to, the following:

- (a) Details and description of the real estates held by the REIT and/or real estate to be acquired:
 - (i) Description of the real estate which includes type, location, age, existing use, net lettable area, number of car parks, information specific to the type of the real estate, such as hotel, hospital and agriculture properties, the market value and purchase consideration;
 - (ii) Particulars of the tenancies, which include major tenants and their corresponding percentage

contribution to total gross rental income, tenancy periods, periodic reviews and occupancy rates for the past three years, where applicable, and, in the case of a sale and leaseback, the basis of arriving at the rental entered into by the REIT;

- (iii) Details of incomes and expenditure including gross rental income, outgoings, net income, estimation of future income and major capital expenditures likely to be incurred in the immediate future; and
 - (iv) Any encumbrance or limitations in the title or interest to the real estate;
- (b) Where a real estate acquired or to be acquired is leased or is proposed to be leased, details of the lease excluding any sub-lease, including details of financial arrangements, stamp duty and options, or other rights given to a lessee or proposed lessee to purchase the real estate. If none, a statement to the effect must be made;

- (c) For a real estate to be acquired, the expected period within which the transaction will be completed and its status at the date of prospectus;
- (d) Where a REIT has entered into an agreement to purchase a real estate upon its completion, the rationale and justification of acquiring such real estate and the future prospects of acquiring tenants and future incomes; and
- (e) Relevant information, in particular, risks associated with the following acquisitions:
 - (i) Real estate without a track record;
 - (ii) Buildings which are not fully tenanted;
 - (iii) Equity of single-purpose companies;
 - (iv) Part of a real estate; and
 - (v) Real estate located outside Malaysia.

20.08 A prospectus must also state the management company's valuation policy for the fund's real estate, disclosing the following information:

- (a) Frequency of valuation;
- (b) Date of the last valuation;
- (c) The likely date for the next valuation;
- (d) Revaluation surplus or deficit comparative to last valuation; and
- (e) Net book value of the real estate.

20.09 An overview of the real estate/property market and the outlook for the types of real estate which are or to be acquired by the REIT must also be included in the prospectus.

Investments in real estate-related assets and non-real estate-related assets

20.10 Where a REIT invests in real estate-related assets or non-real estate-related assets, the prospectus must disclose, but is not limited to, the following:

- (a) The investment policy and investment strategies to achieve the investment objective of the fund, including–
 - (i) the investment focus of the fund (e.g. equities, debt securities, money market instruments, etc.), the characteristics of the securities or

instruments to be invested and the asset allocation strategy. Where appropriate, the investment focus must also include the countries or markets (e.g. global, regional or country-specific, developed or emerging markets, etc.) and target sector/industry;

- (ii) practice, technique or approach used by the fund manager in managing the investment portfolio, including the policy with regard to active and frequent trading of securities; and
 - (iii) where applicable, disclosure on whether the fund manager may take temporary defensive positions which may be inconsistent with the fund's principal strategy in attempting to respond to adverse market conditions, economic, political or any other condition. There must also be a disclosure on the types of securities/instruments the fund would invest in during defensive positions;
- (b) The risk management strategies and techniques to be employed by the fund manager;

- (c) The permitted or authorised investments and the investment limits and restrictions for the fund;
- (d) Valuation bases for all types of investments invested or to be invested by the fund, including treatment for suspended counters; and
- (e) Policy with respect to the valuation point to determine the values of the investments, including policy on timing for valuation of a fund's foreign investments and frequency of valuation of the fund's property.

Financial information

Proforma income statement

20.11 For a newly-established REIT, a proforma income statement must be disclosed for each of the last three years. The proforma financial information is presented for illustrative purpose only and on the assumption that the REIT was in existence throughout the period under review.

20.12 The following must also be stated:

- (a) The basis upon which the proforma income statement is prepared;
- (b) Where applicable, that the financial statements used in the preparation of the proforma income statement were prepared in accordance with approved accounting standards in Malaysia. Details of any auditor's qualification to these underlying financial statements must also be highlighted;
- (c) Whether the proforma income statement has been properly prepared in a manner consistent with both the format of the financial statements and the accounting policies to be adopted by the REIT; and
- (d) Any adjustment, which was dealt with when preparing the proforma income statement, must be prominently disclosed and highlighted.

20.13 A detailed analysis of the fund over the past three financial years and latest financial period, where applicable, must be provided.

Proforma balance sheet

20.14 A proforma balance sheet at the date of establishment of the REIT must be prepared and adjusted for the following:

- (a) Acquisitions connected with the proposed establishment of the REIT; and
- (b) Proceeds received and proposed utilisation of funds.

The prospectus must also set out the details of such adjustments. The proforma balance sheet will assist investors or analysts in determining the financial effects of the acquisition and the notional financial position of the REIT.

20.15 The proforma balance sheet must also include the following information:

- (a) NAV per unit; and
- (b) Proforma NAV per unit.

20.16 The following must also be stated in the prospectus:

- (a) The basis upon which the proforma balance sheet is prepared;
- (b) Where applicable, the financial statements used in the preparation of the proforma financial information were prepared in accordance with approved accounting standards in Malaysia. Details of any auditor's qualification to these underlying financial statements must also be highlighted;
- (c) Whether the proforma balance sheet has been properly prepared in a manner consistent with both the format of the financial statements and the accounting policies of the fund/ to be adopted by the REIT; and
- (d) Any adjustment, which was dealt with when preparing the proforma balance sheet, must be prominently disclosed and highlighted.

20.17 The proforma balance sheet must be accompanied by a reporting accountants' letter. The reporting accountant's letter shall state the following:

- (a) The proforma balance sheet has been properly prepared on the basis stated in subparagraph 20.16(a) and in a manner consistent with the format of the balance sheet and accounting policies of the REIT to be adopted by the REIT;
- (b) Where applicable, the proforma balance sheet has been properly prepared using financial statements prepared in accordance with the approved accounting standards in Malaysia; and
- (c) Each material adjustment made to the information used in the preparation of the proforma financial information is appropriate for the purposes of preparing such financial information.

Future financial information

20.18 Profit estimates or forecasts must be provided and be dealt with in accordance with paragraphs 20.20 to 20.26. Where profit estimates or forecasts are submitted as part of an application for the establishment of a REIT, the profit estimates or forecasts should be provided in the prospectus.

- 20.19 The accounting policies and calculations for profit estimates or forecasts must be reviewed and reported on by the reporting accountants and be accompanied by a reporting accountant's/auditor's letter. The report/letter should be in the prospectus and the opinion stated in the letter should be consistent with those submitted pursuant to the application referred to in paragraph 20.18.
- 20.20 There should be notes to future financial information, including whether such information was prepared on bases and accounting principles consistent with those adopted or to be adopted in the preparation of the financial statements of the REIT.
- 20.21 Sufficient details on the bases and assumptions of the estimates or forecasts must be disclosed to enable the investor to assess the reliability of the estimates or forecasts and the effect of any change to the assumptions used. Profit estimates or forecasts must include at the minimum, the following:
- (a) Revenue;
 - (b) Property operating cost;

- (c) Profit before tax;
- (d) Tax expense; and
- (e) Profit after tax.

20.22 The bases and assumptions for the profit estimates or forecasts must–

- (a) provide useful information to assist investors to form a view on the reasonableness and reliability of the estimates or forecasts;
- (b) draw investors' attention to, and where possible quantify, uncertain factors which can materially affect the ultimate achievement of the estimates or forecasts;
- (c) be specific rather than vague;
- (d) where possible, avoid generalisations and all-embracing assumptions and those relating to the general accuracy of the assumptions made in the estimates or forecasts; and
- (e) be stated and reviewed for reasonableness by the directors of the management company who are responsible for the

estimates or forecasts, bases and assumptions.

20.23 The following requirements must apply for profit estimates or forecasts:

- (a) Estimates or forecasts should be realistic and achievable to provide investors with information on the REIT's prospects. An unrealistic estimates or forecasts, irrespective of whether it is too high or too low, may mislead investors into making investment decisions based on the information in the prospectus;
- (b) Estimates or forecasts must be compiled with utmost care and objectivity; and
- (c) Where estimates or forecasts are subject to a high probability of variation, the management company must provide a sensitivity analysis based on the key variables.

20.24 For a newly-established REIT, forecast for the first financial year must be presented. However, if the period represented is less than 9 months, forecast for the second financial year of the REIT must be included in the prospectus.

20.25 Directors' analysis of estimates or forecasts and commentary on achievability must be disclosed, in light of the following:

- (a) Future prospects of the industry;
- (b) Future plans and strategies to be adopted; and
- (c) The level of gearing, liquidity and other requirements.

20.26 Distribution estimate or forecast must be disclosed, which include the following:

- (a) Distribution policy;
- (b) Distribution rate;
- (c) Distributable amount;
- (d) Distribution cover; and
- (e) Distribution yield.

20.27 The following warning statement, to appear in bold, must be included in the prospectus:

“The rental yield on real estate held by the scheme is not equivalent to the yield of the units.”

“Current rental receipts and yields may not sustain.”

“The value of the real estate may rise as well as fall.”

Fees, charges and expenses

20.28 The disclosure on the list of expenses must also include fee paid to the property manager.

The property manager

20.29 A prospectus must disclose information on the appointed property manager which includes–

- (a) corporate information of the property manager, including number of years in real estate/property management, total property under management and staff strength;
- (b) information on key personnel of the property manager, highlighting the academic and professional qualification, as well as experience possessed by the

- respective personnel;
- (c) functions, duties and responsibility of the property manager;
- (d) the annual fee and basis of the fee calculation; and
- (e) where applicable, unit holding of the property manager in the fund.

Valuation certificate

20.30 A prospectus must contain a valuation certificate prepared in accordance with *the Guidelines on Asset Valuation*.

Related-party transactions and conflict of interest

20.31 The relationship between the management company (including the management company's related corporations and associated persons) and the vendors must be explained.

20.32 There must also be disclosed brief particulars of any transaction within the two preceding years relating to any real estate to be purchased or to be purchased out of the proceeds of the issue that may give rise to a conflict of interest.

Additional information

- 20.33 The inclusion of photographs in the prospectus is only permitted on condition that the photograph is not more than six months old and the REIT owns a major portion of the real estate. Drawings of real estate must not be included in the prospectus.
- 20.34 Full disclosure of the salient terms of the material agreement relating to the proposed acquisition of real estate.