



**SECURITIES AND
FUTURES COMMISSION**
證券及期貨事務監察委員會

Hong Kong REITs regime

**Investment Products Division
June 2021**

Contents

- **Hong Kong REITs regime**
- **New REIT listings**
- **Enhancements to the REIT Code**
- **Recent developments**
- **Grant scheme for REITs**

Hong Kong REITs regime

- **SFC as primary regulator** – authorisation of REIT as a collective investment scheme under section 104 of the SFO
- **Code on Real Estate Investment Trusts (REIT Code)** – sets out authorization and ongoing requirements on REITs
- **Key product features**
 - Dedicated investments in real estate that generate recurrent rental income
 - Not less than 90% of after tax net income shall be distributed to unitholders
 - Gearing ratio of not more than 50%
 - Professionally managed by SFC-licensed REIT manager
 - Assets held in custody by independent trustee
 - Must be listed on the Hong Kong Stock Exchange (SEHK)
- Regulations for Hong Kong REITs are **broadly in line with comparable major overseas jurisdictions**

Hong Kong REITs regime

▪ Reference to Listing Rules

- Hong Kong REITs are generally regulated with reference to requirements applicable to listed companies under the Listing Rules if there are no specific requirements in the REIT Code (e.g. corporate governance, disclosure and environmental, social and governance reporting)
- Requirements on connected party transactions and notifiable transactions are broadly aligned with the Listing Rules

▪ Regulatory approach

- Principles-based, balanced and pragmatic approach
- Welcome consultation and maintain close dialogue with REIT managers and industry
 - Provide practical guidance on application of the REIT Code
 - Issue FAQs to clarify requirements where necessary
 - Regular review of the REIT Code to keep abreast of international regulatory developments and local market conditions
- REIT transactions
 - Early engagement on transaction timetable
 - Consultation and timely guidance on applicable REIT Code requirements

New REIT listings

Application process

- **5 business days** to take up new REIT authorization application
 - Process REIT manager's licensing application in tandem with the REIT authorization application
- **14 business days** from take up to issue 1st requisition letter
- Where the application is in order, approval-in-principle (AIP) may be granted as soon as **2 months** from take-up
- Following AIP, apply for SEHK in-principle listing approval
- SFC to grant formal authorization after in-principle listing approval from SEHK
- **Appointment of Listing Agent(s)** – to assume the role of a sponsor of an IPO, including conducting independent due diligence, similar to Main Board Listing
- **Welcome pre-filing consultation on product and licensing related issues** – Investment Products Division to provide one-stop liaison

New REIT listings

REIT-specific features

1. Must be managed by an SFC-licensed REIT manager
 - To expedite process, applicant may submit the profiles of responsible officer candidates to the SFC for review in advance of formal licensing application
 - Generally expect to have 3 responsible officers
2. Good marketable legal and beneficial title in real estate owned by the REIT
 - Duty on REIT manager to conduct due diligence with proper legal advice
 - Properties with immaterial title issues may be acceptable subject to full disclosure and mitigation measures (with reference to Listing Rules requirements and practices)
3. Stapled structure may be adopted

New REIT listings

REIT-specific features (cont'd)

4. Focus on recurrent rental income generation and subject to full disclosure and proper risk warnings:
- No profit test or market capitalisation/revenue/cash flow requirement
 - New properties with less than 3-year track record acceptable
 - REIT with single property permissible
 - A wide range of acceptable real estate asset classes - such as logistics, data centres and hospitals
 - Connected party transactions conducted at arm's length and on normal commercial terms allowed (eg. master lease entered into with REIT sponsor of hotel REITs)
 - REIT sponsor may engage in a competing business (eg. REIT sponsor may own other investment properties in the same area) provided proper measures are put in place (eg. Chinese walls and clear reporting lines to safeguard confidential information and mitigate conflicts of interests)

Potential applicants are welcome to contact the SFC on new REIT listing proposals

Enhancements to the REIT Code

- **Key enhancements to the REIT Code which took effect on 4 December 2020**
 - Allow REITs to invest in **minority-owned properties** (subject to various conditions)
 - Allow REITs to invest in **property development projects** in excess of the existing sub-limit of 10% of gross asset value subject to unitholders' approval (*Note: refurbishment, retrofitting or renovations are not regarded as property development projects and are not subject to any caps*)
 - Increase the **borrowing limit** from 45% to 50% (with no minimum interest coverage ratio requirement)
 - Broadly align connected party transactions and notifiable transactions with Listing Rules

- Aim to provide Hong Kong REITs with **more flexibility in sourcing of properties** as well as in conducting asset enhancements

Enhancements to the REIT Code

Investment restrictions applicable to REITs

REIT's Gross Asset Value

Property developments

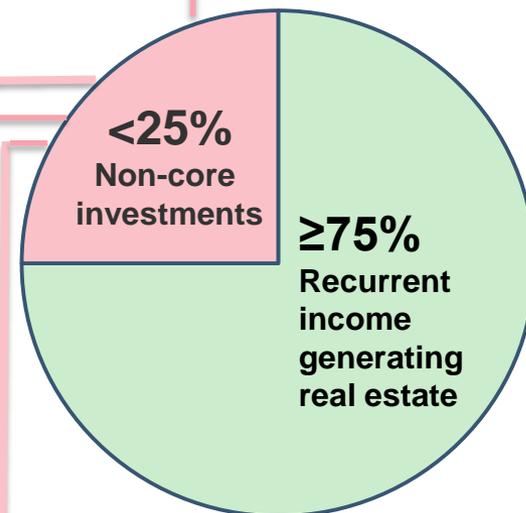
- Up to 25% if approved by Unitholders

Non-qualified Minority-owned Properties

- Single holding must not exceed 10%

Relevant Investments

- Single holding must not exceed 10% (previously 5%)



Include **Qualified Minority-owned Properties** that satisfy certain criteria to ensure they will be income generating and the REIT will have proportionate control and veto rights over some key matters

Other ancillary investments

- Aggregate holding must not exceed 10%

Recent developments

- **Mainland's launch of public infrastructure REITs**
 - More potential opportunities and connectivity
- **Relaxation of Hong Kong MPF regulations**
 - The 10% aggregate investment cap on Hong Kong REITs was removed with effect from May 2020 (i.e. MPF funds may invest 100% in Hong Kong REITs)
 - REITs listed in Canada, France, Japan, Singapore or the Netherlands are restricted to a maximum of 10% of the assets of MPF funds being invested in such REITs
- **Further streamlining** of vetting process of announcements / circulars after successful pilot launched in 2018

Enquiries contact: REIT-enquiry@sfc.hk or 2231 2400

Grant scheme for REITs

- On 24 February 2021, the Financial Secretary announced in his 2021-22 Budget Speech new subsidies for the coming 3 years designed to encourage listing of REITs in Hong Kong
- The SFC launched and opened the grant scheme for applications on 10 May 2021

Eligible applicants	SFC-authorized REITs listed on The Stock Exchange of Hong Kong Limited on or after 10 May 2021 with a minimum market capitalisation of \$1.5 billion (or equivalent) at the time of listing
Grant amount	Equivalent to 70% of the eligible expenses for each application, subject to a cap of HK\$8 million per REIT
Eligible expenses	Must be expenses paid to Hong Kong-based service providers in relation to the listing of the REIT (e.g. Fees relating to legal services, audit, tax and accounting services, underwriting, valuation, roadshow expenses, listing agents)
Minimum operation condition	The Government reserves the right to claw back the grant if the REIT is delisted or suspended from trading within two years of its listing date

Grant scheme for REITs

- Submit an application form together with the required supporting documents to the SFC within **three months** from the listing date
- First-come-first-served basis – based on submission time of the grant application
- Designated enquiry mailbox: grantscheme@sfc.hk
- Relevant application form and FAQs are accessible via the designated webpage for the grant scheme on the SFC's website

REIT managers are welcome to consult the SFC about the scheme before making an application

A large, stylized teal graphic of a bird in flight, positioned on the left side of the page. The bird's wings are spread wide, and its tail feathers are visible. The graphic is semi-transparent, allowing the white background to show through.

Thank You

www.sfc.hk