Research on Real Estate Trust Model in China

-Real Estate Trust and Investment Fund (REITs)

Ying-yue HU

The School of Physical Education
Wuhan Business University
Wuhan, China
huyingyue0321@163.com

Min WANG

Hongjiang Subbranch
China Construction Bank Corporation Limited Enshi branch
Enshi, China
27742478@qq.com

Abstract—The real estate trust as a new tool of financing, with its flexibility, has attracted a large amount of private capital, solving the financial problem effectively for the real estate developers. With the continuing updated macro-control measures and great changes of economy environment, how to explore the model of fund raising of the real estate trust with untraditional financial ideas has great significance on both theoretical and practical sides. In this article, the author casts out several suggestions to the development of the real estate industry of our country by referencing the conditions of developed countries. There are five important reorganizations in the history of the real estate trust in our country. However, there is still a long way to go on the task of reforming the real estate trust, as well as the whole monetary market. With referencing experience abroad and national conditions, the jobs related to the reform task should be done creatively and actively.

Keywords—Real estate trust; REITs; tool; model

I. INTRODUCTION

With years of development, the real estate of our country has become one of the most important industries which have a significant influence on our national economy development. But with the applying of a series of macro-control measures by the government, it is hard for the real estate industry to raise sufficient fund with the bank loan. With this growing problem, the real estate trust as a new tool of financing, with its flexibility, has attracted a large amount of private capital, solving the financial problem effectively for the real estate developers. With the continuing updated macro-control measures and great changes of economy environment, how to explore the model of fund raising of the real estate trust with untraditional financial ideas has great significance on both theoretical and practical sides. In this article, the author casts out several suggestions to the development of the real estate industry of our country by referencing the conditions of developed countries.

A. Concept of real estate trust and investment fund (REITs)

REITs are equity certificate issued by the trust company, belonging to the securities standardized products, with characteristics of a high payment proportion of dividends, high return on investment, light tax burden. Investors purchase REITs with their own funds, the trust company will collect the funds raised by the investors and transferred the fund to

professional investment managers to implement strategic and purposeful investment in the real estate industry. The income is mainly rental income and the appreciation of assets. After the income is subtracted from the daily management fee, the residual income is distributed to investors, as investors' return on investment on REITs.

The biggest advantage of this product is its high liquidity, because after the release the securities product, the holders can conduct free trading of second transaction in the secondary market, and they can implement the same listing transaction as the stocks, investors not only can receive annual income, but can get the forward margin through the transfer [1].

Professional workers manage and use the collected investment funds uniformly and conduct diversified investment through portfolio theory, which will be able to effectively reduce the investment risk, so as to obtain a relatively stable investment income. The characteristics of REITs will be described specifically in the following content, these features also happen to provide great reference value for the future development of real estate trust in China, being the main direction of development for the real estate trust in China in the future.

(1) REITs own high liquidity. Because REITs can circulate in the secondary market, so its liquidity are much higher than real estate trust products belong to traditional categories for investors. According to Hong Kong's regulations in China, REITs can be listed and make transaction as long as it can meet the following two conditions: First, it need be approved by the Securities and Futures Commission (SFC); Second, it need in line with the regulations on listing for collective investment in main board listing guidelines. This provision provides investors on the REITs reliable legal basis, so REITs own higher liquidity in the secondary market liquidity.

(2) Investment is highly specific. For example, the US provision on investment direction in REITs: REITs need invest in real estate companies for at least 75% of total investment, there are strict restrictions on REITs' income, rental income, interest income from real estate mortgages, and Real estate sales income need account for at least 75% of total revenue. In Hong Kong, for example, Hong Kong's REITs can only invest in real estate projects that can generate periodic rental income to avoid malicious speculation and short-term profits [2].

(3) Make real estate investment simple and micro-scale. Because the direct investment in real estate being large amount of money for the vast majority of investors, most people can only be the rider ahead, while the emergence of REITs happened to solve this problem. For REITs raise funds from the majority of investors with beneficiary certificate to conduct a unified real estate investment, which reduces the barriers for investors enter into the real estate investment and the operation difficulty on actual investment [3].

(4) Relatively remain low correlation with the stocks, effectively diversify the risk of investors for investing in financial markets. China's current securities products cover almost all areas of social economy, and REITs focus on investment in real estate, so the correlation between the two sides being low, investors can not only invest their own funds in the stock and bonds market, but also can invest in REITs, thus to diversify the risk of capital investment effectively.

(5) Tax concessions. Tax incentives are actually one of the biggest strengths of REITs and the basis for its existence. In all developed countries which REITs are more mature, tax preferences policies for REITs are defined in tax laws or in their specific laws and regulations. This advantage is far beyond other real estate trust products' reach, as well as the pointing point for the production and development of REITs.

B. Classification of real estate trust and investment funds(REITs)

There are several definitions of the classification of REITs. The following is a description on classification in accordance with one of the different categories of capital investment (Wen Bin, 2010) [7]:

Equity type: equity REITs refers to the investors through the form of shares to achieve the effect of investment in real estate companies, the main source of income is dividends and profits from transfer, the advantage is its high income, but corresponding side is the high risk.

Debt type: refers to the real estate enterprises need financing issue loans, or direct invest in real estate business mortgage bonds to achieve the purpose of indirect financing for housing company. In this way, the risk is small for the borrowers, while the corresponding income is also lower than the equity type [4].

Mixed type: As the name implies, the mixed REITs are the combination of the above two types, that is, it own both the nature of the equity and the nature of the debt type. This form of REITs is more flexible and can be used to achieve the desired results according to different ratios.

II. THE NECESSITY OF DEVELOPMENT OF REAL ESTATE TRUST AND INVESTMENT FUNDS (REITs) IN CHINA

China's current trust institutions have generally become institutions which offer loans for real estate businesses, the trust funds are almost only invested in one trust product. Thus, in such a process, the trust company acts almost as a second bank, but it being much more flexible in the design of borrowing programs. China's current trust function is still only

remain the level that collect funds through the trust plan and offer loans for real estate company with the raised funds, real estate companies then targeted use the funds in the development and construction of the project. And even some real estate companies borrow money from the trust company only to meet its 30% of its own financial requirements, and then apply to the bank for development loans. This operation mode is closely linked to the national economic policy, once the bank tighten monetary policy, the original trust loan funds will face a certain risk.

China's real estate trust remain single model in the use of funds. In the western mature real estate financial market, the real estate trust mainly uses the real estate trust investment fund operation mode (Sun Jing, 2005). This mode of operation is also based on the more mature capital market, because REITs are securities products, it can circulate in the secondary market freely. China's capital market is still imperfect, slow and orderly implementation of REITs is very necessary. In the United States, for example, more than two-thirds of US assets in real estate trust can be circulated in a legitimate stock market, as there is no need to commit to the specific date for the return of principal for investors in the REITs market, so the trust funds can invest in longer-term or larger real estate projects, which makes the fund companies receive more stable return with lower risk.

On the other hand, there is a prevailing problem in China's real estate trust products, that is, financing period of real estate trust products is less than the development and construction for real estate industry, so the unbalanced structure is easy to expose the risks, which also indirectly lead to inversion phenomenon between the real estate trust products and their income existing in the market (Ma Yaming, 2004). At present, China's 1-3 year real estate trust products are the most common, because most of the investors pay more attention to short-term interests, the uncertainty of long-term housing prices makes them do not willing to invest products with longer period.

Drawing on the experience of foreign developed countries, the introduction of REITs not only can deepen China's capital market, but also can change the real estate industry management form gradually, continue to deepening reform on China's financial market with the national macro-control. Through the promotion of REITs in China, it can not only reduce the burden on the banking system, while as for investors, REITs can attract a large number of private individual investors. Because for most people, although they want to invest in real estate, the huge amount of investment make them cannot really put the investment into practice. But the existence of REITs let them do not need to invest directly in the housing enterprises, but access to real estate investment through the purchase of REITs securities in order to achieve profits through the appreciation of real estate and enjoy the benefits of dividends. What is more important is that China's current real estate industry is mostly finish the return of capital from the land purchase, the development and construction to the final sales, and often overlook the long-term management of the property. But because REITs is a long-term securities investment process, forcing real estate enterprises to pay attention to the maintenance and management of daily real estate, so that we can not only ensure the comfortable life for people, but achieve

a stable and healthy business and operation conditions for real estate companies.

III. SUGGESTIONS ON THE DEVELOPMENT OF REAL ESTATE TRUST INVESTMENT FUND (REITs) IN CHINA

A. *Establish an appropriate legal system*

As the REITs involved a wide variety of investment, and its influence on the capital market is very large, so it we want to gradually promote REITs in China, the first step is to support the promulgation and implementation of laws and regulations. Only in this way can protect the standardized and orderly development in the promotion process of REITs. Since REITs was first developed in the United States, we could learn some of their experience, but we could not copy it completely because of different national conditions. We all know that the continuous improvement of legislation is based on the sum up of the lessons from objective facts, so our country can take measures: conduct pilot in the developed areas and then carry out the legislation gradually. It is also worth mentioning that reform on China's current "Tax Law" need be implemented, because now China levy two business tax on real estate company, which is not conducive to the development of real estate trust. Therefore [5-6], REITs development should avoid the existence of the problem--double taxation, thus to create a good tax environment for the future development of REITs in China.

B. *Standardized and rigorous information disclosure system*

At present, China's real estate trust is only at the end of each quarter and the end of the year to disclose the situation of the project, but compared with developed countries, China's trust industry in this area is still not enough, China's real estate trust for the investment information disclosure (Liu Junxian, 2007), China should learn from the relevant mechanisms of developed countries to improve China's information disclosure system, such as investment in real estate business financial information, the project is not easy to do, and the corresponding risk situation is not fully open to the civilians and transparent Information and the actual control of the full disclosure of information, as well as the relevant national economic policy, the real estate market, such as primary information disclosure is equally important, it not only tries to achieve the accuracy of information content but also tries to achieve the timely disclosure of information [8].

C. *Improve the talents training system*

Since REITs have just started in our country, it is a relatively new concept for most practitioners, although most of the real estate trusts and REITs are similar in some way, but in specific business processes, there is also a lack of professional personnel. REITs for the practitioners are relatively high requirements, it require strictly both on the real estate business, financial analysis of the professional knowledge , but also

requires the stuffs have the sensitivity to the market, on this basis it requires to grasp the risk of REITs product dispersion and profit situation.

To this end we can cooperate with the Western developed countries, economic institutions to establish cooperative relations, we have the potential of this talent transported to foreign learning. But also in several major universities in China's colleges and universities we should set up the relevant professional to develop targeted talent, due to the importance of REITs practical experience and specific operational, the training of relevant personnel in colleges and universities should focus on the combination of theory and practice. With specific cases to continue to consolidate and strengthen the practical experience of students in the summer or winter vacation students will be sent to the major banks, securities, funds, trust financial institutions, investment banking, so that the school will be put into practice.

IV. CONCLUSION

The establishment of real estate trust for China's real estate business financing has added a standardized channel in China's macro - control efforts in order to continue to increase the statue, the bank for real estate business financing received more and more restrictions. The trust company has facilitated the individualized financing needs of the real estate business with its flexible trading structure. However, due to China's real estate trust is often not more than three years, it cannot guarantee investors to achieve stable returns. Most of our trust business is still "rigid payment" to provide investors with the bottom, but such a rule is not suitable for its long-term healthy development, so the introduction of REITs is particularly necessary, it can not only promote China's real estate business development Construction project management philosophy, but also benefit the long-term maintenance of the real estate industry, the steady development of the financial industry is conducive to continuously strengthen the real estate industry in the national economy. And it plays a supporting role in the status. The risk of the real estate industry, originally undertaken by banks, can be distributed to the trust industry as REITs are introduced, which reducing the concentration of risk. But in the process of advancing process, we should follow the first easy, step by step, and cannot ask one step in place. We should develop the real estate trust and investment fund with Chinese characteristics on the basis of fully drawing lessons from the experiences of developed countries and combining with China's specific national conditions. In this process, the government, the relevant support and cooperation are very important, while the rationality of investors is also a necessary prerequisite for the development of China's REITs. This is a slow process, but I believe that in our joint efforts, the real estate trust investment fund will be there for China's real estate industry, it will make outstanding contributions to the financial industry so that China's long - term economic development will be achieved.

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