

Securitization a potential boon for real-estate sector

(Published by the Nation 04June2007)

[Ki Woo looks at how new capital market initiatives might one day prove to be a long-term boon for Thailand's property sector](#)

Thailand still has a way to go before it can really take advantage of the booming global real-estate capital markets. The capital markets today are awash with cash, insurance companies, pension funds, hedge funds, private equity funds, mutual funds and other investment vehicles are all virtually fighting to invest in various forms of real estate to gain better returns.

At the recent Third Annual Asian Securitization Conference in Macau, The Nation learned that some major real-estate developers in Asia-Pacific, including several regional developers operating in Thailand, have constructed their corporate financing infrastructures so that they can easily access a wider range of capital-market investors. Olivier Lim, CapitaLand's group chief financial officer, said his Singaporean company, which operates a joint venture, TCCC CapitaLand in Thailand uses a wide range of strategies to attract funds from different global capital-market sectors. "We have definite funding strategies that target specific capital markets at most appropriate time," he said. Depending on market conditions, Lim's company raises funds by using such alternatives as real-estate investment trusts (REITS), property funds, securitization or raising funds by issuing new shares or new debt. Here in Thailand, property companies and developers have traditionally raised capital by floating shares, using commercial bank loans or issuing new debt. In the past several years, many have also accessed capital by operating property funds. However, the real-estate mortgage-backed securities (RMBS) market is still in its prenatal stage. The Government Housing Bank recently said it was planning to launch a THB40-billion securitization of its home-loan mortgages some time late this year or early next year.

Without a benchmark issue, the real-estate industry has been unable to really capitalize on many new capital-markets-related global financing options. Leland Sun, chairman and founder of Pan Asian Mortgage, a leading pioneer of innovative securitization funding products in Asia, chaired a panel of leading real-estate financing experts. Many of them predicted that RMBS would continue developing into more sophisticated and complex instruments that would attract a wider range of new investors. "Real-estate securities have become an asset class that most investors need to be in,' he said. To ensure that these securities attract the widest range of possible investors, issuers segment the securities into different classes or 'tranches', based on investors' risk appetites. "These tranches can range from AAA-rated securities to pure equity pieces," he said. Each tranche attracts a different class of real-estate investor. The finite tranching of these asset-backed securities has created much work for lawyers, accountants and investment bankers who must put together the transactions.

Sun, who was a senior managing director with Bear Stearns and an executive director with Goldman Sachs responsible for Greater China fixed-income distribution and capital markets before becoming the Hong Kong

Mortgage Corp's first COO, said rating agencies such as Fitch, Standard & Poors and Moody's were also called in to give ratings for each tranche. "Investment funds use these ratings to determine the securities suitability for their portfolios," he said. The securitization market's move deep into global investment pools has also been accompanied by arrival of hedge funds, private equity funds, property funds and REITs, all of which provide funding at different parts of the real-estate value chain.

Khan Prachuabmoh, president of Government Housing Bank, told the Macau conference that his bank had received securitization proposals from more than 20 domestic and foreign investment banks after a recent request for a proposal for Thailand's first RMBS issuance. "We expect that our bank will set a benchmark not only for real-estate securities but also will be a catalyst for the Thai capital market's overall development," he said. "Ultimately it will mean more money for home loans and lower long-term mortgage interest rates for middle- and low-income Thai home-buyers," he said.



Source by Leland Sun, Chairman of Pan Asian Mortgage Company Ltd.