Bound to Become a Global Trend of the Future: Analysis of REITS

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Abstract. In recent years, the real estate investment trusts as they are commonly known are investment vehicles known for their low risk, low volatility, moderate returns, and high liquidity nature for investors. Contemporarily, REITs invest primarily in real estate and tend to receive regular rental income from real estate owned and managed by the trust. REITs have only recently begun to emerge in many countries. Since the success of REITs in the United States, many countries have begun to plan to join the REIT regime. On this basis, this study mainly investigates the reasons for the success of REITs mainly in the United States, the successful implementation of REIT tools in Japan and Singapore, and analyzes the global trend of REITs in the future in developing countries, including China. According to the evaluations, the suggestions and implications will be presented following the analysis. Overall, these results shed light on guiding further exploration of development of REITs.

Keywords: REITs, United States, Japan, Singapore.

1 Introduction

REITs are the product of the effective integration of the capital market and the real estate market, investing in real estate that can generate stable cash flow, effectively reducing risks while distributing the income generated by leasing real estate to investors in the form of dividends, providing investors with long-term stable investment income. REITs generally acquire real estate asset packages (mainly commercial properties, industrial properties, office buildings, etc.) from listed or unlisted companies, and strictly restrict asset sales, and a larger part of the income comes from real estate rental income, real estate mortgage interest or income from the sale of real estate, which can be listed and circulated on the stock exchange.

REITs markets vary from country to country and are decisive factors for REITs' performance in a particular market. Regulation is the main difference between REITs in different countries. In addition to this, there are several factors, such as the country's real estate market environment, that may directly affect the performance of REITs in the country. The REIT market has been successful in many countries, especially the United States [1].

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The United States is the first country in the world to develop REITs. REITs in the Asia-Pacific market developed late, but in the past decade or so, the REIT market size of Japan, Singapore and other countries has ranked among the top in the world. In the United States, where real estate finance is the most developed, the total market capitalization of the REIT sector once exceeded the total market capitalization of real estate company stocks.

Table 1. Comparable analysis of REITs for different countries

	Financing methods	Market size	Portfolio	Tax policy
U.S	There are three main ways: public shares, private bonds and equity investment trusts (REITs ETFs). The most common of these is the issuance of public shares, as it is able to gain greater visibility and liquidity in the market.	It has now exceeded $1.5 trillion	REITs invest in commercial properties such as offices, shopping malls and residences.	REITs in the United States are exempt from corporate income tax.
Japan	There are two main ways: fundraising trusts and market trusts. Currently, in Japan, most REITs are financed by market trusts.	$550 billion	REITs invest more in office buildings and commercial land.	Distribution gains from Japanese REITs are essentially tax-free.
Singapore	There are two main ways: public shares and bonds. Bonds can provide REITs with more sources of funding and are also a diversified way to raise funds [2].	$100 billion	REITs are more focused on diversifying their portfolios, including retail, hospitality, industrial and healthcare.	Distribution gains from Singapore REITs are eligible for tax relief.
China	At present, there are two main methods: issuing public shares and issuing bonds. The development of Chinese REITs is still in its infancy, and there are many policy restrictions. Only a handful of companies have been able to successfully issue REITs.	The Chinese REIT market is still small, but it has great potential for future development.	According to the relevant policy plan, China's REIT portfolio will mainly cover urban infrastructure, public service facilities, logistics parks and other fields.	The tax policy and legal framework for Chinese REITs is still being improved.

As the pandemic draws to a close, the real estate economy in various places is also on the decline due to population decline and economic depression, and REITs' real estate financing tools are once again on the cusp. In line with the changes of the times, the era of asset securitization in the real estate industry has followed. The development history of real estate varies from country to country, and these markets usually follow some basic stages: 1) initial stage 2) rapid growth stage 3) mature stage 4) stagflation or decline stage. However, since REIT financial instruments can be applied to different stages of real estate development, a new wave of REITs era has followed.

By comparing the advanced development cases of REITs in the United States, Japan and Singapore and the still imperfect REITs financing in developing countries and China, we will find barriers and illustrate the future prospects of REITs. By analyzing the non-digital data of REITs development in various countries, understanding the development process of REITs, putting forward their own theories or conclusions, and conducting in-depth research on REITs' real estate financial tools. Through SW analysis, the advantages and disadvantages of REIT development in various countries are analyzed. Through OT analysis, the opportunities and risks of REIT financing can be developed in the international real estate financial market are analyzed.

Table 2. Real estate market valuations.

Country	GDP per capita ($)	GDP ($ billion)	Commercial Real Estate ($ billion)	Listed Real Estate ($ billion)	Number of listed companies (units)	REITs Market Cap ($ billions)	Number of REITs	Non-REITs Market Valuation ($ billion)	Number of non-REIT companies
US	63358.49	20893.75	9370.20	1722.47	237	1696.25	190	26.21	47
Japan	40088.60	5045.10	2276.67	256.97	153	148.22	63	108.75	90
Singapore	59794.60	339.98	322.05	115.33	64	77.92	35	37.41	29
China	10511.34	14866.74	4515.16	516.72	260	8.87	6	507.85	254

2 Analysis of the Current Situation of REITS Scale & Real Estate Market Risk

A comparable analysis is shown in Table. 1. To realize real estate market valuation, one extracts data from real estate market valuations in 79 countries and regions around the world. Seen from Table. 2, at the end of 2021, global commercial real estate was valued at approximately $32.5 trillion. According to the above statistics, the valuation of commercial real estate is $32.45 trillion, of which the market capitalization of listed companies is $4.22 trillion and the market capitalization of REITs is $2.49 trillion. As the total economic volume of each country continues to increase, this value will continue to increase. Therefore, as an important business model and financial operation mode of the real estate industry, REITs must also have broad market space and prospects in various countries.

Table 3. The SWOT analysis results.

S	1. Good industry prospects: With the increase of population and the advancement of urbanization, the real estate market still has great development potential, and REITs can take full advantage of this opportunity to obtain more investment returns. 2. Stable cash flow: Real estate is a stable investment, REITs can obtain stable cash flow by renting out real estate, reducing investment risks. 3. Diversified portfolio: REITs can diversify their portfolios by investing in multiple properties and reducing the risk of a single property.
W	1. High management costs: REITs need to pay a certain amount of management fees to the management company, which may put some pressure on the return on investment. 2. High property maintenance costs: REITs are responsible for the repair and maintenance of investment properties, which can cost a lot of money. 3. Sensitivity to market fluctuations: The real estate market is volatile, and the investment returns of REITs may fluctuate accordingly.
O	1. Real estate market growth: With the continuous development of the economy, the real estate market is expected to maintain growth, providing more investment opportunities for REITs. 2. National policy support: The government has placed the real estate market in an important position, providing support in taxation and capital markets, and creating a better investment environment for REITs.
T	1. Market downturn due to market downturn: During economic downturns, the real estate market is usually sluggish, which may put some pressure on the investment returns of REITs. 2. Declining profits: When the real estate market contracts, REITs may be at risk of falling profits, reducing investment returns. 3. Regulatory policy risk: Government policy changes may bring uncertainty to REITs' investments.

Based on the SWOT analysis table given in Table. 3, following statements are given. For SW analysis

- Market development. With the increase of population and the advancement of urbanization, the real estate market still has great growth potential, REITs can achieve income growth through investment and management of properties, thereby bringing good market development prospects.
- Competitive advantage. REITs can improve their competitiveness through diversified investment, economies of scale, and professional management. In addition, REITs have stable rental income and cash flow, bringing consistent income, while also reducing their risk and increasing returns through better asset management.
- Financial position. REITs are generally financially sound and can expand their investments through debt financing. In addition, REITs will focus on the control of

management expenses and the management of maintenance costs, so as to maintain high financial efficiency.

- Globalization. With the development of the global real estate market and the strengthening of the trend of internationalization, REITs are also facing more opportunities and challenges of globalization. At present, some REITs have begun to enter the establishment of overseas investment platforms to expand their investment scale and profit opportunities. At the same time, REITs also need to face the complex environment of the international market and changes in overseas policies.

Regarding to OT analysis:

- Industry performance. REITs are generally closely related to the real estate market, so their performance is usually affected by the real estate market. The trend of REITs can be roughly guessed by looking at the performance of the real estate market. At the same time, because REITs are independent of the real estate market, and buyers and business tenants often have different needs and requirements, REITs may also be affected by other macroeconomic factors such as interest rates, financial policies, etc.
- Development of the domestic market. The domestic REIT market has been in the exploration and testing stage in the past few years, and China's REIT market has begun to enter the stage of commercial operation in 2019. The overall performance of the real estate industry is stable and the market demand is strong, which brings good market development opportunities for REITs.
- Competitive landscape of the global market. Globally, the United States is the most developed country in the REIT market, with the most complete REIT market system and regulatory mechanism, and many other countries such as Australia and Japan have also carried out REIT business. The REIT markets in these countries tend to compete and influence each other. Understanding the competitive landscape of global markets helps investors better mix them based on different regions.
- Financial Condition and Investment Prerequisites for Specific REIT Products. The financial position and business characteristics of REITs products depend on their specific portfolio of assets and the rules for offering and managing the products. For example, attention should be paid to factors such as the total asset size of REITs, the total return on investment of the trust fund, and the net income profit. At the same time, it is also necessary to understand the requirements for investors in such products, for example, REITs may set investment prerequisites such as minimum subscription amount, convertible investment share and investment period [3].

3 The Rapid Development of REITs

3.1 U. S. REITs

From the perspective of investment demand, the generation of US REITs is more based on the investment needs of investors, and the establishment and issuance of

REITs from the bottom up is driven by investors. At the same time, the legislative intent of U.S. REITs is to make REITs an inclusive way to invest, so that all Americans, not just large financial intermediaries and wealthy people, can enjoy the benefits of investing in high-quality commercial real estate. In order to protect the returns of small and medium-sized investors, if you want to set up REIT products, in addition to meeting the basic requirements of the Securities Law, the entity must also meet the following seven conditions:

- Market demand driven
- Invest at least 75% of its total assets in real estate;
- At least 75% of gross income comes from real estate rent, real estate mortgage interest or real estate sales;
- Pay at least 90% of your taxable income annually in the form of shareholder dividends;
- It is a taxable entity of the company;
- Managed by a board of directors or trustee;
- At least 100 shareholders;
- No more than 50% of the shares are held by 5 or fewer individuals (5/50 principle).

From the perspective of financing demand, REITs products have brought new financing channels to the real estate industry, and this product has realized the transformation of real estate developers from asset-heavy operation to asset-light operation. REITs have such a rapid development speed in the United States, an effective legal system provides another level of protection, the gradual adjustment of the tax law has mobilized the enthusiasm of REIT participants, and the "penetrating tax treatment" model has driven the vigorous development of REITs in the United States.

3.2 Japanese REITs

From a legislative point of view, Japan has carried out special legislation for REIT products, and this series of bills has also laid a theoretical and policy foundation for Japanese REITs.

In 1998, Japan promulgated the Law Special purpose vehicles implement the specific asset liquidity metho (hereinafter referred to as the SPC Law), the main purpose of which is to dispose of a large number of non-performing loans and collateralized assets through asset securitization, help Japanese enterprises revitalize their assets, and get out of the crisis by increasing liquidity. The law stipulates that the real estate is separated from the original company by establishing an SPC (Special Purpose Company), so that the SPC can raise the funds needed to purchase real estate by issuing corporate bonds, preferential capital contribution bonds, etc., so as to realize securitization and effectively realize the risk isolation between the target real estate and the original real estate holder (original equity holder).

The SPC Law provides a respite for Japanese companies under the crisis by raising funds through real estate securitization. On the one hand, a large number of enterprises on the verge of bankruptcy can rely on real estate securitization to obtain cash flow and temporarily tide over the difficulties; On the other hand, compared with the transfer or mortgage of assets at a low price, securitization enables the original owner to maintain the participation and management of real estate assets to a certain extent, and at the same time, the original owner can continue to lease and use the transferred real estate property through sale and leaseback. The SPC Law also stipulates that companies can pay dividends to shareholders before tax and deduct a considerable amount of tax, thereby avoiding the double taxation risk caused by real estate securitization - which also determines that the main form of Japanese public REITs is the corporate system, and the impact of basic policies on the structure of financial products can be seen. For the Japanese financial market, the introduction of the *SPC Law* has profound positive significance for Japan to contain the economic crisis and revitalize the financial market, and can be said to be the first method of Japan's real estate asset securitization market.

On the one hand, SPCs can publicly issue securities with the help of the Law, and individual investors can also participate in real estate investment through SPC, reducing restrictions on investors and broadening the scope of investors; On the other hand, the investment system has been innovated, so that investors can invest in real estate through investment trusts, which enhances the liquidity of the real estate market. A large number of individual investors and deposits entered the real estate investment market. The revision of the Investment Credit Law also opens the door for private REITs to enter the securitization market later.

At the same time, Japan's Special Tax Law (also known as the Special Tax Measures Law) stipulates that although SPCs are subject to the same tax as ordinary companies, if more than 90% of the taxable SPC can be distributed in the form of dividends or dividends under certain conditions stipulated by law, these distributed dividends or dividends can be treated as expenses for pre-tax deduction to avoid the burden of double taxation.

In 2008, the international financial crisis brought about by the subprime mortgage crisis in the United States hit the Japanese real estate market, and real estate companies went bankrupt. In order to rebuild market confidence, in 2009, Japan revised the merger system for investment corporations, stipulating the tax and approval conditions for mergers. With the improvement of the merger system, there have been many J-REIT M&A cases in the market, and large companies have expanded their asset scale, improved asset creditworthiness, and improved the liquidity of REITs by M&A of small companies. At the same time, the Japanese government set up a rescue fund for the J-REIT market, the "Real Estate Market Stabilization Fund" (also known as the "Public and Private Fund"), to buy J-REIT in the secondary market and endorse J-REIT with the "national team" credit [4].

3.3 Singapore REITs

Singapore is the second Asian country to launch REITs after Japan. Stimulated by the recession and market appeals, the Singapore government passed legislation to lay down the legal framework for REITs from 1999 to 2002. More importantly, the Singapore government's openness and the rapid response of regulators to market changes have brought a favorable environment for the development of Singapore REITs, making the Singapore REIT market attractive to investors and issuers from all over the world. In 1999, the Monetary Authority of Singapore issued the Singapore Real Estate Fund Guide, which allowed REITs to be listed in the form of trusts or mutual funds, laying the foundation for the development of REITs. The Monetary Authority of Singapore is under the Ministry of Finance of Singapore, which can be said to be the "Central Bank of Singapore", which undertakes almost all the central bank responsibilities except currency issuance, including formulating and implementing monetary policy, supervising and guiding various business activities of the financial industry. However, due to the ambiguity of the guide on tax incentives, property developers have not become interested in REITs as a result of the guidelines.

In 2001, Singapore enacted the Securities and Futures, which specifically regulates the listing of REITs. In the same year, the Inland Revenue Authority of Singapore issued a tax transparency policy on REITs, requiring REITs to distribute more than 90% of their profits as dividends to investors every year, and the distribution part can be exempted from income tax at the REIT level, and subsequently formulated policies including "individual investors are exempt from income tax, domestic corporate investors are taxed at 17%, and foreign enterprises investing in REITs in Singapore enjoy tax incentives". The tax incentives have solved the main cost barriers to issuing REITs, increased the interest of real estate enterprises, and Singapore REITs have entered a period of rapid development [5].

4 Suggestions, Implications & Prospects

In summary, the success of REITs in the United States, Japan and Singapore has a lot to do with the legislative policy support of various countries, so the key to the success of REITs is first and foremost the support of national policies and legislation. Secondly, market maturity and market demand are also necessary environments for the development of REITs.

As a tradable financial instrument, REITs inject transferable assets into the real estate market and improve market liquidity. Real estate is a relatively fixed asset, investors need a longer investment period when investing, and REITs can provide a more flexible and convenient investment opportunity, allowing investors to realize without affecting their own capital composition and interest rate more easily [6].

The introduction of REITs can attract more funds into the real estate market and diversify the sources of funds in the real estate market. Traditional real estate investment requires a relatively high capital threshold, which is difficult for small investors, while the issuance mechanism of REITs has greatly reduced the capital threshold of investors, and more people can participate in real estate investment [7].

The involvement of REITs has made real estate investment no longer a single-asset investment, but through asset securitization to obtain more real estate portfolios. This diversifies the risk of real estate and makes investing safer. At the same time, it can also help investment help to enter more different types and geographies of asset investment with less capital, and obtain more profit pools.

The introduction of REITs can promote transparency in the real estate market. In the past, the real situation of the real estate market was often obscured, and it was difficult for investors to obtain suitable information, which made the efficiency of market circulation very low. The introduction of REITs helps to force all parties in the real estate market, making them open and transparent, and further improving the trading efficiency of the market [8].

As a global investment vehicle, REITs have a wide range of commercial applications internationally. With the introduction of REITs, the real estate market of various countries will have easier access to foreign capital injection, thereby promoting economic development. Meanwhile, foreign investors can also obtain more information about the real estate market of other countries through REITs, so as to further expand the openness and development prospects of the real estate market in various countries.

Because the maturity of US REITs is high and the stability of earnings is more comparable than that of other countries, only the data given on the official website of US Nareit are analyzed and researched. Compared to direct real estate investments, REITs can provide greater liquidity and scalability while offering comparable or superior returns. With their focus on income-producing real estate assets, REITs can provide a reliable and steady stream of dividend income to investors [9].

According to Nareit, the growth of the global REIT market size is mainly divided into several stages. Between 2000 and 2006, the global REIT market grew 3.5 times, from $250 billion to $880 billion. Then between 2007 and 2009, the REIT market declined due to the impact of the global economic crisis. However, after 2009, the REIT market began to grow again. The global REIT market exceeded $1 trillion in 2014 and exceeded $2.5 trillion by the end of 2020. Among them, the US REIT market has always been the world's largest REIT market, and its market capitalization accounts for more than two-thirds of the total market value of the global REIT market. The REIT market in Europe and Asia is also gradually expanding [10].

REITs are well regulated and guaranteed transparency. Because REITs are subject to strict regulations, investors can get a high level of transparency and protection. Numerous financial and performance information can be disclosed in a timely manner, through which investors can understand and evaluate the risks and benefits of REITs. With the acceleration of global population growth and urbanization, there is an increasing demand for real estate and real estate investment. REITs can provide a low-threshold, highly liquid, diversified investment option, allowing investors to better participate in real estate investment.

5 Conclusion

In summary, REITs are piloting in increasingly congested countries around the world, and the era of securitization in the real estate industry has followed, and the number of REITs has increased over time. Investing in REITs Real estate financial diversification makes the structure not too monolithic, and the financial crisis will not bring avalanche collapse. With the increasing prevalence of asset securitization in the real estate industry, the rise of real estate finance may once again bring about a boom in real estate investment. Moreover, REITs have good market prospects and competitive advantages, their financial position is usually relatively sound, and they have opportunities for global investment. However, it is important to note that factors such as the impact of market cycles, intense market competition and policy risks may have an impact on the return on investment of REITs. Overall, these results offer a guideline for development of REITs.

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