

CMFAS Module 10 – Rules and Regulations for REIT Management, with Product Knowledge and Analysis

Summary of Updates

(August 2019 – Version 2.3)

The updates made to the CMFAS Module 10 (March 2016 – Version 2.2) are summarized as follows:

**Additions / updates / corrections are indicated in blue italics.*

Deletions are indicated in strikethrough.

Chapter	Page No.	Update / Amendment								
6 – Pricing and Investing in S-REITs										
Section 6.2.1 – Discounted Cash Flow Model	Pg 59	<p>Example: Using Multi-Period Discounted Cash Flow Model</p> <p>Estimate the value of Gem REIT units that has the following cash flows over a 3 year holding period:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">Year</th> <th style="text-align: center;">1</th> <th style="text-align: center;">2</th> <th style="text-align: center;">3</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Dividend payouts</td> <td style="text-align: center;">\$2.00</td> <td style="text-align: center;">\$2.50</td> <td style="text-align: center;">\$2.75</td> </tr> </tbody> </table> <p>At the end of the 3rd year, the terminal value is estimated at \$25. The discount rate for Gem REIT is 8.5%.</p> $P_{\text{GEM REIT}} = \frac{\$2.00}{(1+0.085)} + \frac{\$2.50}{(1+0.085)^2} + \frac{\$2.75}{(1+0.085)^3} + \frac{\$25}{(1+0.085)^3} = \del{\$31.50} \mathbf{\$25.69}$	Year	1	2	3	Dividend payouts	\$2.00	\$2.50	\$2.75
Year	1	2	3							
Dividend payouts	\$2.00	\$2.50	\$2.75							
7 – Key Ratios and Performance Measures										
Section 7.4.1 – Leverage Ratios	Pg 70	The <i>aggregate</i> leverage limit for S-REITs is <i>45%</i> . 35% or 60% if the S-REIT obtains a credit rating from a reputable rating agency.								
9 – Legal Framework of S-REITS										
Section 9.10 – Aggregate Leverage Limits	Pg 101	<p>However, the Property Funds Appendix restricts the total borrowings⁶⁴ and deferred payments⁶⁵ (together, the “aggregate leverage”) of an S-REIT to 35% <i>45%</i> of its deposited property at the time the borrowing is incurred.</p> <p>However, the aggregate leverage of an S-REIT may exceed 35% (up to a maximum of 60% of its deposited property) if it obtains a credit rating from Fitch Inc, Moody’s or Standard & Poor’s and discloses it to the public. The S-REIT should also continue to maintain and disclose a credit rating as long as its aggregate leverage exceeds 35% of the S-REIT’s deposited property.</p>								

Chapter	Page No.	Update / Amendment
		If circumstances beyond the control of the manager <i>Manager</i> result in the level of aggregate leverage exceeding the 35% or 60% (as the case may be) <i>45%</i> , there is no breach on the part of the manager.