Singapore

Flash Note

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Singapore REITs

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Re-opening theme remains in focus

- Re-opening plays a key theme as S-REITs held firm in Dec'21.
- Hospitality S-REITs rebound as omicron fears subside; more optimistic outlook come 1Q22 results to drive further upside
- Retail sales and office operational metrics may spring a surprise as workers return to office.
- Re-opening trade to remain a dominant theme for the S-REITs

S-REIT yield and yield spreads

Source: Bloomberg Finance L.P., DBS Bank

What's New

Re-opening plays a key theme in Dec'21.

The FSSTI index (+0.1% m-o-m) outperformed the FSTREI (-0.3%), in a relatively flat month leading up to 2022. Hospitality-related sectors including US Hospitality (+5.3% m-o-m) and SG Hospitality (+1.1% m-o-m) continued to witness rotational interest with the opening theme still looked upon favourably albeit the initial hiccups, as the Omicron impact has proven to be milder than the Delta variant. The Healthcare sector continued to do well, rising 2.6% m-o-m as the successful renewal of master leases continued to see strong interest for Parkway Life REIT following a stellar performance in November.

The re-opening theme continues to see favour ahead of the new year, albeit initial Omicron woes. We anticipate a strong retail sales performance in 4Q to propel domestic festivity spending for the retail REITs as overseas travel was once again jeopardised by the onset of Omicron. The Hospitality sector continued to see strong domestic demand across the December holidays even as Vaccinated Travel Lane ticket sales were announced to be halted until the 20th of January 2022. Office sector sees brighter skies going into 2022, as more corporates will be setting clearer instructions on staff return to office in 2022.

Where were the outperfomers?

November outperformers include ARA US Hospitality Trust (+5.3% m-o-m), Keppel DC REIT (+4.2% m-o-m), and CDL Hospitality Trusts (+3.5% m-o-m). ARA US Hospitality Trust saw a surge in performance, as the impact of Omicron was lesser than feared, with borders still remaining primarily opened to vaccinated foreign travellers into the States.

What to look out for in 1Q22

With inflation and rate hikes at the top of investors' mind, we believe that the rotational interest happening with the re-opening trades (retail, office and hospitality) to outperform industrial subsectors given (i) cheaper relative valuations and (ii) stronger growth on a relative

basis. Upcoming results season will see a brighter outlook especially with the Singapore economy showing strength.

We see stronger domestic retail sales driving a 5-6% rise in DPUs for retail and selected commercial S-REITs (prefer FCT, LREIT, CICT, SUN) while construction delays are pushing back office supply completions to 2023/24, implying that rentals are likely to remain firm. We like plays such as ART for its globally diversified portfolio which will lead peers in a recovery. We prefer MINT and FLCT within the industrial space for their relative stronger dividend growth profiles.

Performance by subsectors

	Aug'21 % chg	Sep'21 % chg	Oct'21 % chg	Nov'21 % chg	Dec'21 % chg	2020 % chg	2021 YTD % chg
Office	-5.4%	1.7%	4.3%	2.5%	-1.0%	-16.9%	2.6%
Retail	**-1.7%**	**0.9%**	**3.3%**	**3.5%**	**0.9%**	**-21.1%**	**15.9%**
Industrial	**-1.1%**	**-1.2%**	**-0.4%**	**2.2%**	**0.7%**	**-1.0%**	**9.9%**
Hospitality	-2.1%	-5.4%	9.1%	1.2%	1.1%	-20.7%	-7.6%
Hospitality (US)	-7.4%	-4.0%	1.0%	15.2%	5.3%	-48.3%	11.1%
Healthcare	**4.3%**	**-3.9%**	**0.2%**	**4.8%**	**2.6%**	**14.8%**	**34.6%**
Office (US)	-3.8%	1.6%	1.3%	3.9%	-1.1%	-17.1%	2.3%
Office (EUR)	-0.2%	3.0%	1.5%	-2.3%	1.2%	-11.6%	4.0%
Retail (Others)	-4.4%	-7.1%	5.4%	2.4%	-3.0%	-22.4%	-14.4%
FSTREI	-3.2%	-1.2%	2.7%	-1.5%	-0.3%	-7.9%	0.3%
FSSTI	-2.8%	10.4%	3.6%	2.5%	0.1%	-19.0%	9.7%

Source: Bloomberg Finance L.P., DBS Bank

	Aug'21 (ppt)	Sep'21 (ppt)	Oct'21 (ppt)	Nov'21 (ppt)	Dec'21 (ppt)	2020 chg	2021 YTD chg
SOR 1 Mth	0.16	0.16	0.27	0.25	0.32	-1.36	0.19
SOR 3 Mth	0.19	0.21	0.28	0.34	0.36	-1.32	0.14
SOR 6 Mth	0.21	0.23	0.32	0.36	0.43	-1.30	0.25
SG 10 year	1.41	1.59	1.84	1.75	1.67	-0.90	0.82
US 10 year	1.31	1.49	1.55	1.50	1.51	-0.98	0.57

Source: Bloomberg Finance L.P., DBS Bank

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**Share price appreciation + dividends*

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