

Singapore REITs

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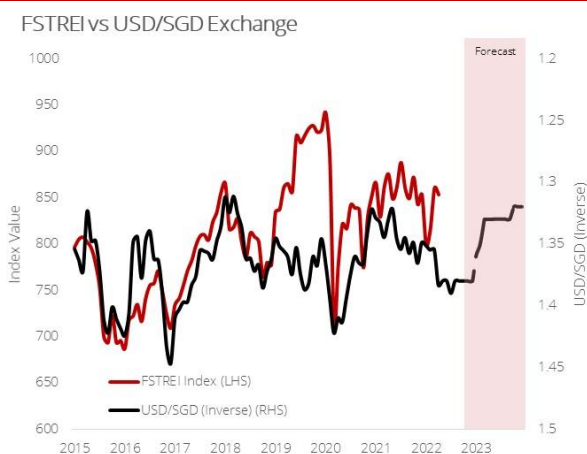
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S-REITs to benefit as a “safe haven” SGD proxy in the midst of market volatility

- S-REITs performed admirably in a volatile Apr 22 as rate hike expectations dialed up in the run-up to Fed meeting
- Hospitality S-REITs continue to charge higher on the back of positive datapoints, coupled with M&A possibilities
- Looking ahead, clarity in rate hike trajectory likely to lead to more price stability for S-REITs with its defensive attributes a positive for the sector.
- A strong SGD/USD rate is positive for S-REITs, which are seen as SGD proxies

A strong/strengthening SGD is positive for S-REITs



Source: DBS Bank, Bloomberg Finance L.P.

What's New

Hospitality S-REITs led the charge in April 22. The FSTREI outperformed the FSSTI index, retreating 0.8% m-o-m, as opposed to the FSSTI, which declined 1.5% m-o-m. Top sectors for the month included the hospitality sector (+7.5% m-o-m), US hospitality sector (+3.0% m-o-m), and healthcare sector (+3.0% m-o-m). Interest continues to persist for hospitality REITs post the breakthrough in March, when the sector surged 14.4% m-o-m. The sector's strong performance in April may have potentially stemmed from strong datapoints shared by the hotel S-REITs in the recent 1Q22 update, where major markets recorded a y-o-y surge in RevPAR, up to 34%, despite the Omicron overhang.

For individual stocks, top performers for the month include a hospitality REIT (+20.6% m-o-m), Ascendas India Trust (+5.9% m-o-m), and Suntec REIT (+5.1% m-o-m). Market interest was renewed for hospitality S-REITs due to encouraging results coupled with talks about how M&A may be a next catalyst for the sector. This is especially when recently the SO/ Singapore hotel, located within the Central Business District, priced a hotel room key at S\$1.8m, as opposed to the implied price of c.S\$700k-800k amongst hotel S-REITs. Ascendas India Trust completed S\$128.4m in acquisitions and redevelopments in 1Q22, which is to start contributing incremental net property income. Suntec REIT also posted strong 1Q22 results, with a 17% y-o-y increase in DPU for the quarter.

Flash Note

Key views

Fed infused markets with visibility but volatility likely remains given economic growth outlook. The 50bps Fed hike in May 22, coupled with a clear message ruling out a 75bps hike at a go in the upcoming meetings, was the clarity that the market needed. This is driving a near-term relief rally in the S-REITs, but we believe that outlook remains uncertain given expected slowing of the global economy on the back of these hikes. That said, we are comforted that while the Fed is expected to hike rates by 50bps further in the next meeting, the clarity in the hike trajectory has led to the paring down of “rate hike” expectations, which is a net positive for S-REITs. This visibility will likely lead to stability in S-REIT prices in the immediate term.

A strong SGD is positive for S-REITs. From a macro perspective, the Monetary Authority of Singapore (MAS) is expected to keep a close eye on inflation risk and will likely tighten monetary policy in the upcoming policy meetings. This is expected to result in the SGD remaining as a safe haven currency, and we expect flows into S-REITs. Historically, we saw that a strong SGD is generally positive for S-REITs’ price performance.

Watching out for growth amidst a rising cost environment. We believe that attention will turn back towards S-REITs’ for its defensive attributes with attractive yields and the continued ability to continue growing its distributions in the face of interest rate increases and operational cost challenges a well valued trait. Overall, we believe that S-REIT prices will remain stable, given that it’s viewed as a safe haven asset class in the midst of volatility.

Performance Summary

	Nov'21 % chg	Dec'21 % chg	Jan'22 % chg	Feb'22 % chg	Mar'22 % chg	Apr'22 % chg	2021 % chg	2022 % chg
Office	-1.2%	-0.8%	-5.2%	3.5%	5.8%	1.3%	2.6%	5.6%
Retail	-1.6%	0.9%	-5.0%	-0.7%	1.9%	0.2%	15.9%	-3.8%
Industrial	-1.3%	0.7%	-8.0%	0.3%	3.2%	-3.4%	9.9%	-7.9%
Hospitality	-4.5%	1.1%	-3.7%	1.1%	14.4%	7.5%	-7.6%	19.9%
Hospitality (US)	-2.1%	5.3%	-3.0%	3.1%	-1.0%	3.0%	11.1%	2.0%
Healthcare	7.3%	2.6%	-6.6%	-6.7%	5.1%	3.0%	34.6%	-5.7%
Office (US)	-2.6%	-1.1%	-6.1%	-1.5%	2.0%	-3.6%	2.3%	-9.2%
Office (EUR)	-3.4%	1.2%	-5.3%	1.4%	-2.7%	1.2%	4.0%	-5.3%
Retail (Others)	-2.2%	-3.0%	-4.3%	0.8%	-1.0%	0.8%	-14.4%	-3.8%
FSTREI	-1.9%	-0.3%	-6.3%	2.1%	5.5%	-0.8%	0.3%	0.0%
FSSTI	-2.4%	0.1%	4.0%	-0.2%	5.1%	-1.5%	9.7%	7.5%

Source: Bloomberg Finance L.P., DBS Bank

Flash Note

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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