Sector updates

Singapore REITs – Climbing the "higher for longer" wall of worry

Singapore | Real Estate

Research Team

Global Growth: A Delicate Balance

Investment summary

The S-REITs sector endured a tumultuous period in Oct 2023, correcting 6.9% before finding some reprieve in early Nov 2023 as share prices rebounded due to weak US payrolls data for the month of Oct 2023 and uptick in US unemployment rates which provided a signal that the Federal Reserve's (Fed) rate hikes are likely now over. Our house view is for the fed funds rate to stay at 5.25-5.50% until next summer to curb inflation, before turning to rate cuts from Jun 2024, with a fed funds rate forecast of 4.50-4.75% over a 12-month horizon.

During the recently concluded 3Q23/9M23 earnings season, out of the eight S-REITs under our coverage which reported distribution per unit (DPU) data, seven declared lower year-on-year (YoY) DPU. The average and median DPU growth came in at -4.7% and -3.6% YoY respectively, for the reporting period. However, the lacklustre performance did not come as a surprise, as all these S-REITs' results met our expectations.

Following this round of earnings, we adjusted our DPU forecasts by -0.7% for the current financial year (FY-1) and -0.9% for the next financial year (FY-2) on average, and by -0.2% for FY-1 and -0.7% for FY-2 on a median basis. Following these revisions, we now expect S-REITs under our coverage to register average/median DPU growth of -3.2%/-1.9% for FY-1, followed by a slight rebound of 1.8%/1.3% for FY-2. Our forecasts are 1.1% (average) and 1.4% (median) below the street for FY-1, and 0.5% (average) and 1.4% (median) lower than the street for FY-2. We have cut our fair value estimates by a larger magnitude of 7.5% on average and 6.9% on a median basis. This can be attributed largely to higher discount rates given increased market volatility and lower terminal growth assumptions as risks of a "higher for longer" interest rate environment could curtail both organic and inorganic growth prospects for the sector.

As we moved from 2Q23 to 3Q23, overall balance sheet metrics were stable for the S-REITs under our coverage. On a like-for-like basis, aggregate leverage ratio inched up quarter-on-quarter (QoQ) from 38.3% to 38.5%; proportion of debt hedged increased QoQ from 75.9% to 76.1%; interest coverage ratio declined QoQ from 4.4x to 4.0x; while weighted average cost of debt increased only 6 basis points (bps) sequentially to 3.23%, versus an increase of 9bps QoQ in the preceding quarter.

From a valuation viewpoint, the FTSE ST Real Estate Investment Trusts Index (FSTREI) is trading at a forward price-to-book (P/B) multiple of 0.82x (as at 10 Nov 2023), which is 2.2 standard deviations (s.d.) below its 10Y average of 0.99x. The forward distribution yield of 6.8% is 60bps or 1.2 s.d. above the 10Y average of 6.2%. Given the pullback in the Singapore 10Y government bond yield to 3.10% from a recent high of 3.51%, the current distribution yield spread between the forward distribution yield of the FSTREI and the Singapore 10Y government bond yield increased to 369bps, as at 10 Nov 2023, or 0.6 s.d. below the 10Y mean of 403bps. This current yield spread is close to the 5Y average of 386bps, and is a tad above the 3Y mean (363bps). Based on fund flow data from the Singapore Exchange, we can infer that S-REITs are among the least crowded trades for institutional investors, and reinvestment risks from shorter tenor alternative yield instruments such as the Singapore 6-month and 1Y Treasury bills lead us to opine that S-REITs can still warrant a position within investors' portfolio.

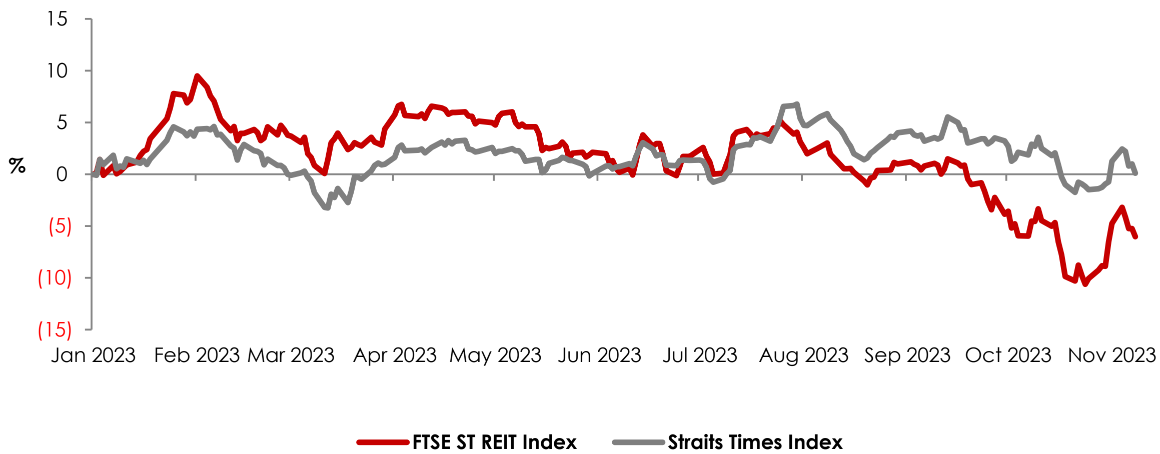
As such, we reiterate our constructive stance on the S-REITs sector, but on a selective basis. We would avoid painting a broad brush across the entire sector as the macroeconomic environment remains uncertain and risks of a "higher for longer" interest rate environment would still have an adverse impact on DPUs both from an organic and inorganic perspective. From a bottom-up stock picking strategy, we continue to favour higher quality S-REITs with strong sponsors and robust balance sheets that can allow them to participate in more active inorganic growth when opportunities arise, and to better withstand a "higher for longer" interest rate environment. We also like S-REITs with at least some Singapore asset exposure given their relatively more resilient capital values and avoidance of FX translation losses. Besides reiterating our preference for **CapitaLand Ascendas REIT [CLAR SP; FV: SGD3.17]**, **Frasers Logistics & Commercial Trust [FLT SP; FV: SGD1.33]**, **CapitaLand Ascott Trust [CLAS SP; FV: SGD1.14]** and **Mapletree Industrial Trust [MINT SP; FV: SGD2.59]**, we include **Frasers Centrepoint Trust [FCT SP; FV: SGD2.35]** as a replacement for Mapletree Logistics Trust [MLT SP; FV: SGD1.72]. We remain cautious on the outlook of **Suntec REIT [SUN SP; FV: SGD1.06]** and **Keppel REIT [KREIT SP; FV: SGD0.84]**, while ongoing concerns over the financial health of **Keppel DC REIT's [KDCREIT SP; FV: SGD2.02]** master lessee in China may continue to cast on overhang on its share price, in our view.

- DPU forecasts and fair value estimates lowered for S-REITs under coverage, but reiterate our constructive stance on the sector, though on a selective basis
- P/B multiple of 0.82x and forward distribution yield of 6.8% compare favourably to historical averages; distribution yield spreads increased to 369bps but still tighter than 10Y average
- Continue to recommend higher quality S-REITs with strong sponsors and robust balance sheets. Our preferred sector picks are CLAR SP, FLT SP, CLAS SP, MINT SP and FCT SP. We remain cautious on SUN SP and KREIT SP, and opine that ongoing concerns over the financial health of KDCREIT's master lessee in China may continue to cast on overhang on its share price.

It's all about the yields

The S-REITs sector endured a tumultuous period in Oct 2023, correcting 6.9% before finding some reprieve in early Nov 2023 as share prices rebounded due to weak US payrolls data for the month of Oct 2023 and uptick in US unemployment rates which provided a signal that the Fed's rate hikes are likely now over. Our house view is for the fed funds rate to stay at 5.25-5.50% until next summer to curb inflation, before turning to rate cuts from Jun 2024, with a fed funds rate forecast of 4.50-4.75% over a 12-month horizon. Correspondingly, we have seen the 10Y US Treasury (UST) yields pull back from its recent highs to 4.65% (as at 10 Nov 2023). The Singapore 10Y government bond yield has also eased, and given that the FSTREI has tracked the inverse of the Singapore 10Y government bond yield relatively closely since Feb 2023, this pullback has provided some support to the S-REITs sector. However, year to date (YTD), the FSTREI's total returns are still mired in negative territory (-6.1%), versus -0.1% for the Straits Times Index and 0.2% for the MSCI Singapore Index. Given our Chief Economist's projection for the 10Y UST yield to trend downwards to 3.25% over a 12-month horizon and the high correlation between the 10Y UST yield and Singapore 10Y government bond yield, we expect this to provide a potential re-rating catalyst for the S-REITs sector.

Exhibit 1: Total returns trend comparison YTD



Source: Bloomberg, as at 10 Nov 2023

Exhibit 2: Historical trend between FSTREI and Singapore 10Y government yield (inverted)

Source: Bloomberg, internal estimates, as at 10 Nov 2023

Exhibit 3: Trend between fed funds rate, FSTREI and Singapore 10Y government bond yield

Source: Bloomberg, internal estimates, as at 10 Nov 2023

3Q23/9M23 DPU performance remained subdued as expected

During the recently concluded 3Q23/9M23 earnings season, most of the S-REITs under our coverage which reported DPU data registered declines on a YoY basis. The high interest rate environment has continued to adversely impact the S-REITs due to an increase in borrowing costs. The compounded 3-month Singapore Overnight Rate Average (SORA) averaged 369 basis points (bps) in 3Q23, an increase of 227bps YoY and

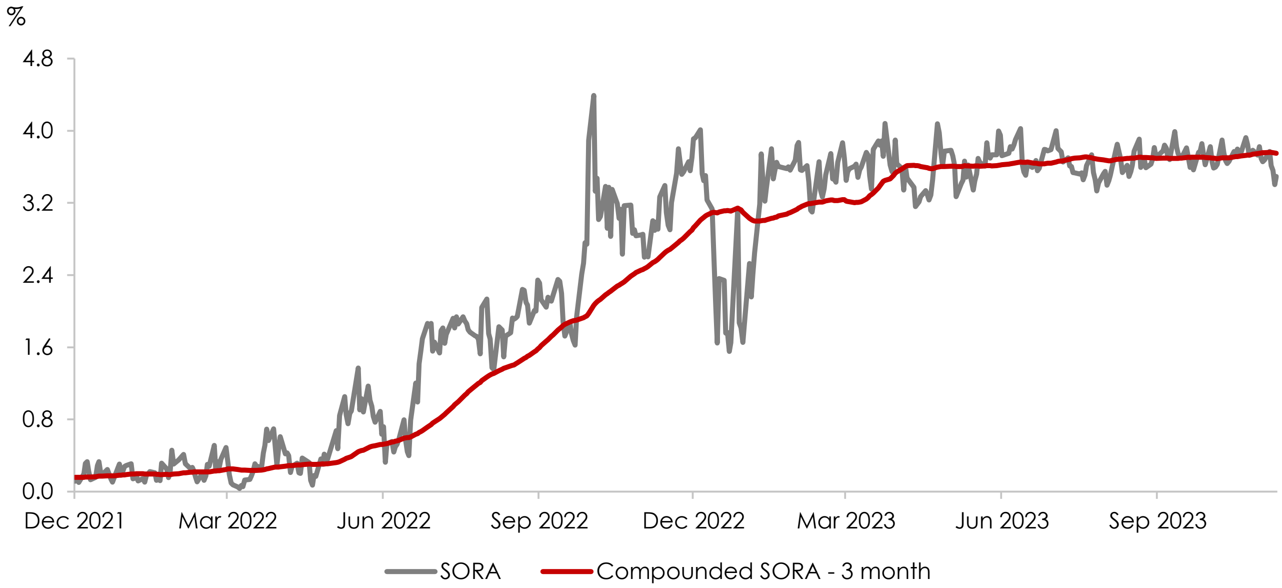
360bps higher as compared to the average of 3Q20, with the latter a reflection of the much higher refinancing costs that S-REITs are exposed to for a 3Y SGD loan taken in 2020. Most other common funding currencies for S-REITs have also seen a huge increase as compared to three years ago. Higher operating expenses, FX translation losses and enlarged unit bases (especially for S-REITs which carried out equity fund raising exercises) also contributed to the weaker DPU performance. Out of the eight S-REITs under our coverage which reported DPU data, seven declared lower YoY DPU, with only Mapletree Logistics Trust recording higher DPU on a YoY basis, partly due to capital distributions from divestment gains. The average and median DPU growth came in at -4.7% and -3.6% YoY respectively, for the reporting period. However, the lacklustre performance did not come as a surprise, as all these S-REITs' results met our expectations.

Exhibit 4: Results performance of S-REITs under coverage

	Reporting Period	Reporting Currency	NPI	Dist. income (DI)	DPU (cents)	NPI YoY Chg	DI YoY Chg	DPU YoY Chg
OFFICE								
Keppel REIT	9M	SGD m	134.0	163.6	-	1.1%	-1.1%	N.M.
Suntec REIT	3Q	SGD m	84.6	52.0	1.79	9.7%	-13.3%	-14.0%
		SGD m	**218.6**	**215.6**	**1.79**	**4.2%**	**-4.3%**	**-14.0%**
RETAIL								
CapitaLand Int. Comm. Trust	9M	SGD m	827.3	-	-	6.7%	N.M.	N.M.
CapitaLand China Trust	3Q	SGD m	58.9	-	-	-8.4%	N.M.	N.M.
Frasers Centrepoint Trust	2H	SGD m	129.6	103.1	6.02	1.1%	-0.7%	-1.2%
Mapletree Pan Asia Comm.	2Q	SGD m	183.2	118.0	2.24	8.7%	0.3%	-8.2%
Starhill Global REIT	1Q	SGD m	37.4	-	-	0.5%	N.M.	N.M.
		SGD m	**1236.3**	**221.1**	**8.26**	**5.4%**	**-0.2%**	**-3.2%**
INDUSTRIAL								
CapitaLand Ascendas REIT	9M	SGD m	-	-	-	N.M.	N.M.	N.M.
Frasers Logistics & Comm Trust	2H	SGD m	157.1	131.6	3.52	-4.9%	-5.8%	-6.6%
Mapletree Industrial Trust	2Q	SGD m	128.6	94.1	3.32	-1.4%	3.5%	-1.2%
Mapletree Logistics Trust	2Q	SGD m	162.0	112.5	2.27	1.2%	4.2%	0.9%
		SGD m	**447.6**	**338.1**	**9.11**	**-1.7%**	**-0.1%**	**-2.9%**
HOSPITALITY								
CapitaLand Ascott Trust	9M	SGD m	-	-	-	N.M.	N.M.	N.M.
		SGD m	**N.M.**	**N.M.**	**N.M.**	**N.M.**	**N.M.**	**N.M.**
HEALTHCARE								
First REIT	9M	SGD m	79.1	38.4	1.86	0.0%	-1.0%	-6.1%
		SGD m	**79.1**	**38.4**	**1.86**	**0.0%**	**-1.0%**	**-6.1%**
DATA CENTRE								
Keppel DC REIT	9M	SGD m	191.9	135.2	7.54	2.5%	-2.1%	-1.2%
		SGD m	**191.9**	**135.2**	**7.54**	**2.5%**	**-2.1%**	**-1.2%**
AGGREGATE:		**SGD m**	**2,094.5**	**910.0**	**28.56**	**3.4%**	**-1.5%**	**-3.5%**
AVERAGE:						**1.4%**	**-1.8%**	**-4.7%**
MEDIAN:						**1.1%**	**-1.0%**	**-3.6%**

Source: REIT managers, internal estimates

Exhibit 5: Trend of SORA and 3-month SORA



Source: Monetary Authority of Singapore, as at 10 Nov 2023

Following this round of earnings, we adjusted our DPU forecasts by -0.7% for FY-1 and -0.9% for FY-2 on average, and by -0.2% for FY-1 and -0.7% for FY-2 on a median basis. Following these revisions, we now expect S-REITs under our coverage to register average/median DPU growth of -3.2%/-1.9% for FY-1, followed by a slight rebound of 1.8%/1.3% for FY-2. Based on Refinitiv consensus projections, FY-1 and FY-2 DPU forecasts were lowered by 0.9% and 2.2% on average (-0.7% and -2.0% on a median basis), respectively, as compared to end-Sep 2023 levels which was prior to the start of the reporting season. Our forecasts are 1.1% (average) and 1.4% (median) below the street for FY-1, and 0.5% (average) and 1.4% (median) lower than the street for FY-2. We have cut our fair value estimates by a larger magnitude of 7.5% on average and 6.9% on a median basis. This can be attributed largely to higher discount rates given increased market volatility and lower terminal growth assumptions as risks of a higher for longer interest rate environment could curtail both organic and inorganic growth prospects for the sector. Similar to our DPU projections, our fair value estimates are below the street (average: -3.3%; median: -2.6%).

Exhibit 6: Comparison of our internal projections versus the street's forecasts

S-REIT	Crncy	Historical DPU (cents)	FY-1 DPU (internal forecasts in cents)	FY-2 DPU (internal forecasts in cents)	% change FY-1 DPU	% change FY-2 DPU	Consensus FY-1 DPU (cents)	Consensus FY-2 DPU (cents)	Variance vs. consensus (DPU FY-1)	Variance vs. consensus (DPU FY-2)	% consensus DPU revision FY-1	% consensus DPU revision FY-2	% internal DPU revision FY-1	% internal DPU revision FY-2
CapitaLand Ascendas REIT	SGD	15.80	15.34	15.71	-2.9%	2.4%	15.62	15.87	-1.8%	-1.0%	0.1%	0.3%	0.4%	2.5%
CapitaLand Ascott Trust	SGD	5.67	5.78	6.29	1.9%	8.9%	5.92	6.41	-2.4%	-1.8%	-1.1%	-4.5%	-0.1%	0.3%
CapitaLand Int. Comm Trust	SGD	10.58	10.61	10.65	0.3%	0.3%	10.94	10.97	-3.0%	-2.9%	-0.2%	-0.4%	-2.0%	-2.6%
CapitaLand China Trust	SGD	7.50	7.51	7.65	0.1%	1.8%	7.74	7.84	-3.0%	-2.5%	-3.7%	-6.7%	-0.3%	-1.7%
First REIT	SGD	2.64	2.48	2.60	-6.2%	4.8%	2.48	2.53	-0.1%	2.6%	0.0%	0.0%	-0.1%	-0.1%
Frasers Centrepoint Trust	SGD	12.15	11.91	12.02	-1.9%	0.9%	11.95	12.24	-0.3%	-1.8%	-1.4%	-2.0%	-0.4%	-1.2%
Frasers Logistics & Comm. Trust	SGD	7.04	7.00	7.05	-0.6%	0.8%	7.12	7.20	-1.7%	-2.1%	-0.8%	-2.0%	-5.0%	-5.2%
Keppel DC REIT	SGD	10.21	10.00	10.30	-2.1%	2.9%	9.98	10.13	0.2%	1.7%	-1.0%	-4.3%	-1.6%	-1.4%
Keppel REIT	SGD	5.92	5.75	5.70	-2.9%	-0.8%	5.89	5.90	-2.5%	-3.4%	-0.7%	-0.5%	-1.8%	-0.3%
Mapletree Industrial Trust	SGD	13.57	13.31	13.52	-1.9%	1.6%	13.23	13.55	0.6%	-0.2%	-0.6%	-0.9%	0.3%	-1.7%
Mapletree Logistics Trust	SGD	9.01	9.06	9.02	0.5%	-0.4%	8.77	8.75	3.3%	3.0%	-1.3%	-2.0%	2.4%	1.0%
Mapletree Pan Asia Comm. Trust	SGD	9.61	8.85	9.16	-7.9%	3.5%	8.85	8.94	-0.0%	2.4%	-1.9%	-2.6%	-0.1%	-0.1%
Starhill Global REIT	SGD	3.80	3.80	3.84	0.1%	1.1%	3.92	3.96	-3.0%	-2.9%	0.0%	0.0%	-0.9%	-1.1%
Suntec REIT	SGD	8.88	7.00	6.82	-21.2%	-2.6%	7.08	6.67	-1.1%	2.2%	-0.3%	-5.1%	-0.1%	-0.3%
Simple average					**-3.2%**	**1.8%**			**-1.1%**	**-0.5%**	**-0.9%**	**-2.2%**	**-0.7%**	**-0.9%**
Median					**-1.9%**	**1.3%**			**-1.4%**	**-1.4%**	**-0.7%**	**-2.0%**	**-0.2%**	**-0.7%**

Source: Refinitiv consensus, internal estimates, REIT managers, as at 10 Nov 2023
Note: Change in percentage consensus DPU revision is in comparison to consensus' forecasts as at 30 Sep 2023

Exhibit 7: Comparison of our internal fair value estimates versus the street

S-REIT	Crncy	Fair value (internal estimates)	Consensus fair value	Variance vs. consensus (fair value)
CapitaLand Ascendas REIT	SGD	3.17	3.04	4.2%
CapitaLand Ascott Trust	SGD	1.14	1.15	-0.7%
CapitaLand Int. Comm Trust	SGD	2.00	2.13	-6.1%
CapitaLand China Trust	SGD	1.02	1.14	-10.8%
First REIT	SGD	0.29	0.30	-3.3%
Frasers Centrepoint Trust	SGD	2.35	2.34	0.3%
Frasers Logistics & Comm. Trust	SGD	1.33	1.30	2.4%
Keppel DC REIT	SGD	2.02	2.13	-5.1%
Keppel REIT	SGD	0.84	0.97	-13.6%
Mapletree Industrial Trust	SGD	2.59	2.46	5.5%
Mapletree Logistics Trust	SGD	1.72	1.75	-1.9%
Mapletree Pan Asia Comm. Trust	SGD	1.58	1.60	-1.1%
Starhill Global REIT	SGD	0.52	0.57	-9.4%
Suntec REIT	SGD	1.06	1.14	-6.8%
Simple average				**-3.3%**
Median				**-2.6%**

Source: Refinitiv consensus, internal estimates, as at 10 Nov 2023

Little change to overall balance sheet metrics; targeting divestments and lower cost funding currencies as means of capital management

As we moved from 2Q23 to 3Q23, overall balance sheet metrics were stable for the S-REITs under our coverage. On a like-for-like basis, aggregate leverage ratio inched up QoQ from 38.3% to 38.5%; proportion of debt hedged increased QoQ from 75.9% to 76.1%; interest coverage ratio declined QoQ from 4.4x to 4.0x; while weighted average cost of debt increased only 6bps sequentially to 3.23%, versus an increase of 9bps QoQ in the preceding quarter. Based on our sensitivity analysis, for every 100bps increase in borrowing costs, the impact to our DPU forecasts would be -3.2% for FY-1, and -3.1% for FY-2 on average. Although reference rates for loans have likely peaked or close to peaking, refinancing risks remain, and some REIT managers have been targeting divestments and/or drawing down on lower cost funding currencies such as JPY as a means of managing their capital position. Examples for these include Frasers Centrepoint Trust, Mapletree Industrial Trust and Mapletree Logistics Trust. Acquisition activities continue to be sluggish, but those with sponsor pipelines and manageable gearing ratios are still on the lookout for inorganic growth opportunities, including potential penetration to new markets such as Japan.

Exhibit 8: Debt profile and statistics of S-REITs under coverage (as at 30 Sep 2023)

	Aggregate leverage (%)	Debt duration (years)	Debt cost (%)	Interest coverage (x)	Proportion of debt fixed/hedged (%)	Impact of 100 bps increase in borrowing costs on FY-1 DPU (%)	Impact of 100 bps increase in borrowing costs on FY-2 DPU (%)
OFFICE							
Keppel REIT	39.5	2.7	2.9	3.3	76.0	-3.3	-3.3
Suntec REIT	42.7	2.7	3.8	2.0	55.0	-10.7	-10.9
Average:	**41.1**	**2.7**	**3.3**	**2.7**	**65.5**	**-7.0**	**-7.1**
RETAIL							
CapitaLand Int. Comm. Trust	40.8	4.1	3.3	3.1	78.0	-3.0	-3.0
CapitaLand China Trust	42.4	3.5	3.6	3.2	75.0	-4.0	-3.9
Frasers Centrepoint Trust	39.3	2.3	3.8	3.5	63.0	-3.3	-3.3
Mapletree Pan Asia Comm.	40.7	3.0	3.3	3.0	79.9	-2.9	-2.8
Starhill Global REIT	37.4	3.1	3.8	3.3	77.0	-2.8	-2.8
Average:	**40.1**	**3.2**	**3.6**	**3.2**	**74.6**	**-3.2**	**-3.2**
INDUSTRIAL							
CapitaLand Ascendas REIT	37.2	3.3	3.3	4.0	80.6	-2.0	-1.9
Frasers Logistics & Comm Trust	30.2	2.2	2.2	7.1	77.2	-1.9	-1.8
Mapletree Industrial Trust	37.9	3.3	3.2	4.6	79.2	-1.8	-1.7
Mapletree Logistics Trust	38.9	3.8	2.5	3.8	83.0	-2.1	-2.1
Average:	**36.1**	**3.2**	**2.8**	**4.9**	**80.0**	**-1.9**	**-1.9**
HOSPITALITY							
CapitaLand Ascott Trust	35.2	3.7	2.4	4.2	83.0	-2.4	-2.0
Average:	**35.2**	**3.7**	**2.4**	**4.2**	**83.0**	**-2.4**	**-2.0**
HEALTHCARE							
First REIT	39.0	3.8	5.0	4.2	85.9	-1.3	-1.3
Average:	**39.0**	**3.8**	**5.0**	**4.2**	**85.9**	**-1.3**	**-1.3**
DATA CENTRE							
Keppel DC REIT	37.2	3.7	3.2	5.4	72.0	-2.7	-2.6
Average:	**37.2**	**3.7**	**3.2**	**5.4**	**72.0**	**-2.7**	**-2.6**
Overall Average:	**38.5**	**3.2**	**3.3**	**3.9**	**76.1**	**-3.2**	**-3.1**

Source: REIT Managers, internal estimates

Exhibit 9: Breakdown of asset portfolio by asset value in geographical region

	Singapore	Hong Kong	China	South Korea	Japan	Rest of Asia	Australia	Europe ex. UK	United Kingdom	United States	Others
OFFICE											
Keppel REIT	79%	-	-	3%	1%	-	17%	-	-	-	-
Suntec REIT	74%	-	-	-	-	-	15%	-	11%	-	-
RETAIL											
CapitaLand Int. Comm. Trust	93%	-	-	-	-	-	4%	4%	-	-	-
CapitaLand China Trust	-	-	100%	-	-	-	-	-	-	-	-
Frasers Centrepoint Trust	100%	-	-	-	-	-	-	-	-	-	-
Mapletree Pan Asia Comm.	54%	26%	10%	2%	9%	-	-	-	-	-	-
Starhill Global REIT	71%	-	1%	-	1%	14%	13%	-	-	-	-
INDUSTRIAL											
CapitaLand Ascendas REIT	63%	-	-	-	-	-	14%	9%		14%	-
Frasers Logistics & Comm Trust	10%	-	-	-	-	-	49%	30%	11%	-	-
Mapletree Industrial Trust	47%	-	-	-	4%	-	-	-	-	49%	-
Mapletree Logistics Trust	19%	23%	19%	9%	14%	8%	8%	-	-	-	-
HOSPITALITY											
CapitaLand Ascott Trust	5%	-	5%	2%	30%	10%	13%	22%	4%	10%	-
HEALTHCARE											
First REIT	3%	-	-	-	23%	74%	-	-	-	-	-
DATA CENTRE											
Keppel DC REIT	55%	-	8%	-	-	1%	8%	23%	5%	-	-

Source: REIT Managers, SGX Securities, internal estimates, data as at 30 Sep 2023
Note: Figures may not add to 100% due to rounding

Sub-sector trends - mostly solid operating metrics but obvious weakness from China

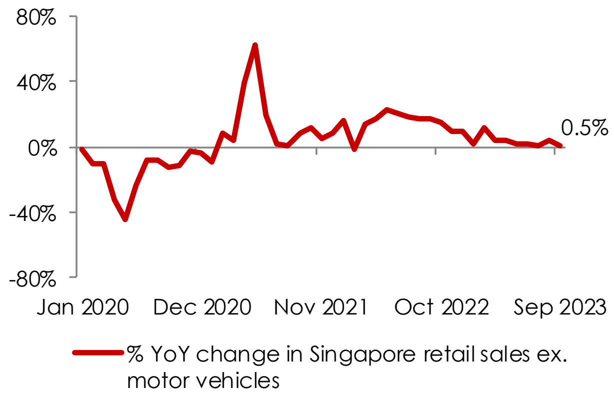
Delving into the operational performance of the S-REITs sector, we provide detailed commentary on the various sub-sectors below, with a focus on the Singapore market.

Retail: Singapore's YoY retail sales growth (excluding motor vehicles) remained positive for 19 consecutive months from Mar 2022 to Sep 2023, although this moderated to 0.5% in Sep 2023 as low base effects have worn off. Retail sales failed to get a meaningful uplift even though international visitor arrivals jumped 37.8% YoY in Sep 2023 (refer to Hospitality section for more details). This could be due to an increase in outbound travel by locals during the school holiday period. E-commerce penetration rates remained relatively stable; online retail sales accounted for 15.2% of overall retail sales (excluding motor vehicles) for the month of Sep 2023, higher than the 13.8% registered in the preceding month, but this has been hovering within a narrow range of 12.5% to 15.3% YTD. Looking ahead, with the increase in goods and services tax (GST) from 8% to 9% set to kick in from 1 Jan 2024, we believe consumers may look to front-load their purchases before the end of this year, especially for bigger ticket items.

On the rental front, both URA and CBRE Research's data pointed to broad based QoQ increases. The URA Retail Rental Index (Central Region) rose 0.5% in 3Q23, a slight acceleration as compared to 2Q23's 0.3% increase. As for CBRE Research, figures pointed to a larger 1.0% and 1.6% QoQ increase in Singapore's suburban and Orchard Road retail rents respectively during the same period. However, there was a divergence between the data sources from a YoY point of view, with retail rents still negative based on URA statistics (-0.6%), but positive for both suburban (+3.1%) and Orchard Road rents (+3.8%) according to CBRE Research.

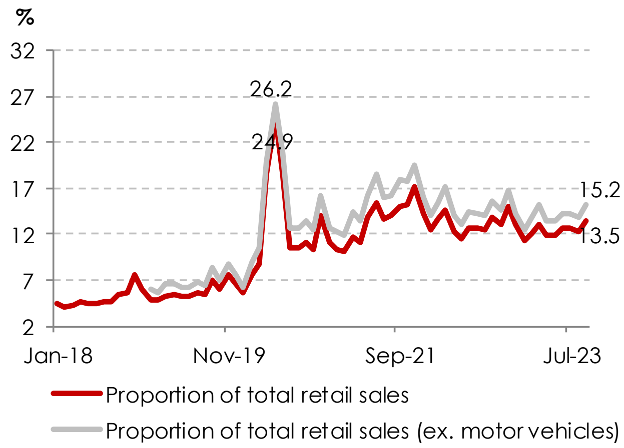
Looking next at the operating metrics of S-REITs under our coverage with significant retail footprint, we note that occupancy rates remain close to 100%, while rental reversions for Singapore assets came in healthy. On the contrary, Mapletree Pan Asia Commercial Trust's Festival Walk property in Hong Kong recorded negative rental reversions of 9.5% for 1HFY24 (financial year ending 31 Mar 2024). CapitaLand China Trust's retail portfolio eked out positive rental reversions of 2.8% for 9M23, but this paled in comparison to most S-REITs with Singapore operations (refer to Exhibit 12). Tenants' sales remained largely healthy, and this has given retail landlords more leeway to push for higher signing rents.

Exhibit 10: Singapore retail sales ex-motor vehicles trend (non-seasonally adjusted)



Source: SingStats, internal estimates

Exhibit 11: E-commerce penetration rates in Singapore



Source: SingStats, internal estimates

Exhibit 12: Key operating metrics for selected S-REITs with retail operations

REIT	Period ended 30 Sep 2023	Retail rental reversions (average vs. average)	Retail occupancy	Tenant sales YoY	Shopper traffic YoY
CapitaLand China Trust (CLCT)	9M22	2.8%	97.8%	30.2%	33.0%
CapitaLand Integrated Commercial Trust (CICT)	9M23	Overall: 7.8%; suburban: 7.4%; downtown: 8.4%	99.0%	4.0%	12.9%
Frasers Centrepoint Trust (FCT)	FY23	4.7%	99.7%	7.3%	24.7%
Mapletree Pan Asia Commercial Trust (MPACT)	1HFY24	VivoCity: 14.2%; Festival Walk: -9.5%	VivoCity: 100%; Festival Walk: 100%	VivoCity: 4.0%; Festival Walk: 7.8%	VivoCity: 17.4%; Festival Walk: 7.4%
Starhill Global REIT (SGREIT)	1QFY24	Undisclosed	100.0%	14.5%	6.5%
Suntec REIT (SUN)	3Q23	20.2% (9M23) / 25.3% (3Q23)	98.7%	0.4%	2%

Source: REIT Managers, internal estimates, as at 30 Sep 2023
Note: For Suntec REIT, retail rental reversions, occupancy, tenant sales, and footfall figures are for Suntec City Mall only

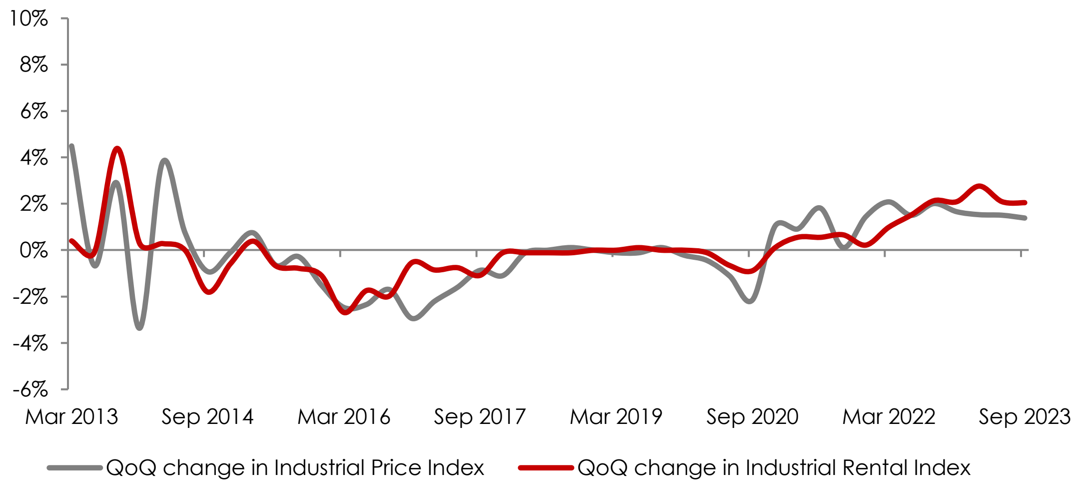
Industrial: Although Singapore's manufacturing sector contracted by 5.0% YoY in 3Q23 (advance estimates) and 7.7% YoY in 2Q23, Singapore's industrial rents continued to exhibit resiliency, with the JTC Rental Index of All Industrial Space increasing by 9.3% YoY and 2.0% QoQ in 3Q23. This was the 12th consecutive quarter of sequential growth, and the fifth straight quarter of rental growth of at least 2%. The increase was broad based across all segments. Capital values exhibited the same trend, with the JTC Price Index of All Industrial Space increasing 6.2% YoY and 1.4% QoQ. However, there was some softness on occupancy rates, which slipped 0.2 percentage points (ppt) QoQ to 88.9%, with only the warehouse segment achieving higher occupancy. JTC is of the view that demand for industrial space is expected to remain strong, and occupancy rates are likely to stay stable notwithstanding the impact of economic uncertainties and upcoming new supply.

Statistics from CBRE Research painted a slightly different picture. Although rents increased QoQ for most segments, business park properties underperformed, with city fringe rents unchanged in 3Q23 from the preceding quarter, while rest of island business park properties recorded a 1.4% QoQ dip in rents. Rental growth for warehouse prime logistics space continued to shine (+2.8% QoQ), which we believe was due to tight supply and still healthy demand.

Industrial S-REITs under our coverage delivered another quarter of robust rental reversions, with the exception of Mapletree Logistics Trust (+0.2%). This flattish headline figure was due to the drag from China, which registered negative rental reversions of 8.6% because of weakness in the Tier 2 cities. Excluding its China assets, Mapletree Logistics Trust's rental reversions came in solid at 9.1%, and this ranged from 3.2% in Malaysia to 16.5% in Hong Kong. Management highlighted that sentiment on the ground in China remains soft, and expects rental reversions to come in around the negative high single-digit to negative low-teens range over the next 12 months.

Occupancy rates remained mostly firm, but Mapletree Industrial Trust acknowledged that the ramp up in occupancy at its Mapletree Hi-Tech Park@Kallang Way property has been slow, while there will also be some pressure on occupancy rates in its US portfolio due to non-renewals from its second largest tenant AT&T.

Exhibit 13: QoQ changes in price and rental indices of industrial space in Singapore



Source: JTC

Exhibit 14: Key operating metrics for industrial S-REITs under coverage

REIT	Period ended 30 Sep 2023	Rental reversions (average vs. average)	Industrial portfolio occupancy
CapitaLand Ascendas REIT (CLAR)	3Q23	Overall: 10.2%, Singapore: 9.8%, US: 8.5%, Australia: N.A., UK/Europe: 28.8%	Overall: 94.5%, Singapore: 92.7%, US: 92.1%, Australia: 99.0%, UK/Europe: 99.3%
Frasers Logistics & Commercial Trust (FLT)	4QFY23	33.5%	100.0%
Mapletree Industrial Trust (MINT)	2QFY24	Singapore: 8.8%	Overall: 93.2%, Singapore: 93.4%, US: 92.7%, Japan: 100%
Mapletree Logistics Trust (MLT)	2QFY24	0.2%	96.9%

Source: REIT Managers, internal estimates, as at 30 Sep 2023

Office: The office market in Singapore has remained on a firm footing, with low vacancy rates. However, rental growth showed contrasting fortunes, with data from CBRE Research showing positive QoQ growth of 0.4% for Core CBD Grade A leases signed in 3Q23, but JLL Research's data pointed to a 0.3% QoQ dip in rents for CBD investment grade offices during the same period, the first decline in 10 quarters. JLL Research expects downward pressure on rents to intensify in the coming quarters, and capital values will also continue its downward trajectory due to the current high interest rate environment. CBRE Research reiterated its expectations for positive Core CBD Grade A office rental growth in 2023, with a forecasted growth range of 1.5% to 2.0% (9M23: +1.3% from end-2022 level). For Core CBD Grade B office spaces, rents fell 0.6% QoQ in 3Q23 and was the first decline in seven quarters.

There were further developments on WeWork (non-rated), which filed for Chapter 11 protection under the US Bankruptcy Code after previously warning that there was substantial doubt about its ability to continue as a going concern. WeWork is requesting the ability to reject leases at certain locations which are largely non-operational as part of its restructuring process. As such, there are concerns on the impact of this on the Singapore office market, in particular the S-REITs that count on WeWork as their tenant. According to an article by The Business Times, a WeWork Singapore spokesperson said that "there are no plans to downsize or shut down any of the locations here for now, even as we are in a real estate rationalisation exercise globally." We do see room for co-working operators to play an important role in Singapore's office ecosystem, given relatively high 'work in office' rates and the need for more flexible workspaces as companies rethink their real estate footprints.

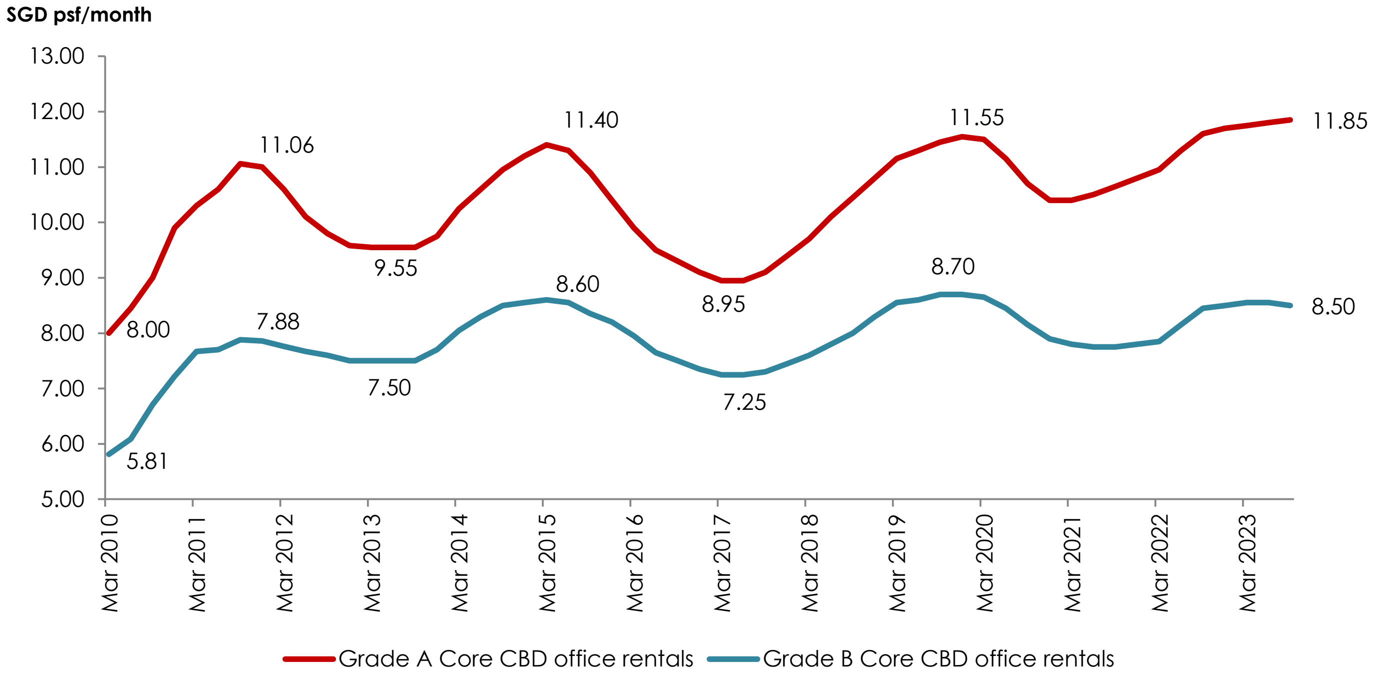
Looking at the operating metrics of office S-REITs under our coverage, we note that rental reversions in Singapore came in at the high single-digit to low teens range, and even accelerated in 3Q23 as compared to 1H23 for both Keppel REIT and Suntec REIT. Although Mapletree Pan Asia Commercial Trust's commercial properties in Singapore achieved healthy rental uplifts ranging between 7.1% and 9.0%, its China and Japan commercial assets recorded negative rental reversions of 3.5% and 0.8%, respectively. South Korea continued to be a standout performer for the REIT, with rental reversions of 45.5% given low market vacancy rates.

Exhibit 15: Key operating metrics for office S-REITs under coverage

REIT	Period ended 30 Sep 2023	Rental reversions (average vs. average)	Office portfolio occupancy
CapitaLand Integrated Commercial Trust (CICT)	9M23	8.8%	Overall: 96.4%, Singapore: 98.0%, Germany: 95.5%, Australia: 87.7%
Keppel REIT (KREIT)	9M23	Singapore: 8.6% (9M23) / 10.6% (3Q23)	Overall: 95.9%
Mapletree Pan Asia Commercial Trust (MPACT)	1HFY24	Singapore: 7.1%-9.0%, China: -3.5%, Japan: -0.8%, South Korea: 45.5%	Singapore: 96.8%-97.7%, China: 88.9%, Japan: 97.3%, South Korea: 97.5%
Suntec REIT (SUN)	9M23	Singapore: 12.2% (9M23) / 14.0% (3Q23), Australia: 12.0% (3Q23)	Overall: 97.4%, Singapore: 99.5%, Australia: 95.4%

Source: REIT Managers, internal estimates, as at 30 Sep 2023
Note: MPACT's China metrics include Sandhill Plaza, which is Business Park property located in Shanghai.

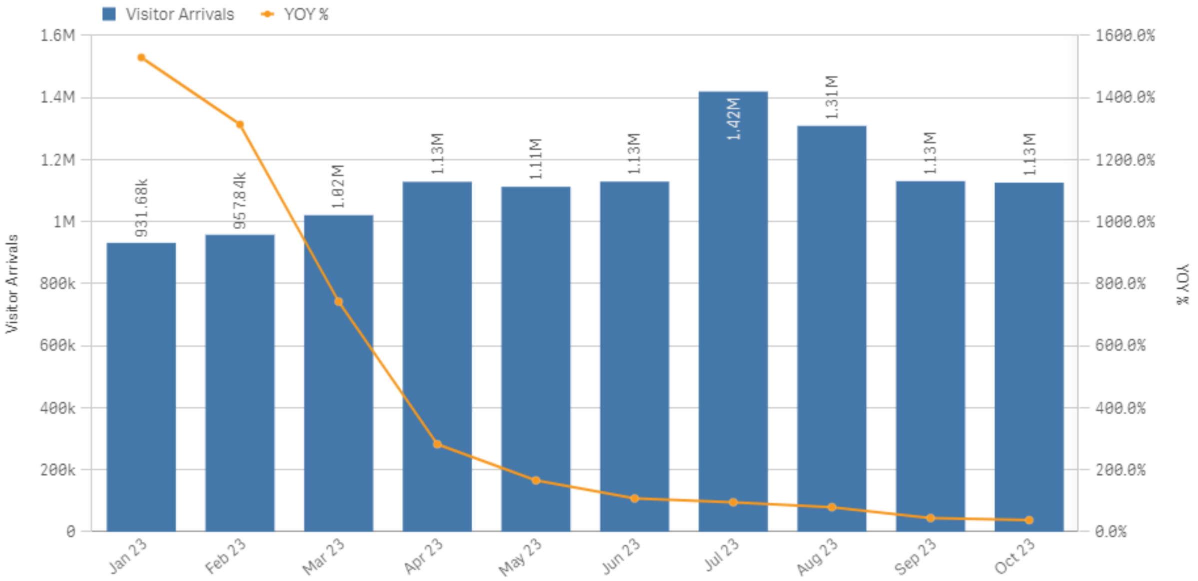
Exhibit 16: Singapore Core CBD office rental trends



Source: CBRE

Hospitality: Singapore received 1.13m visitors in Oct 2023, representing a 37.8% YoY increase and flat month-on-month (MoM) despite 4Q23 being seasonally softer than 3Q23. YTD, Singapore has seen 11.3m visitors, tracking at 71.1% of total inbound visitors during the same period in 2019 (15.9m).

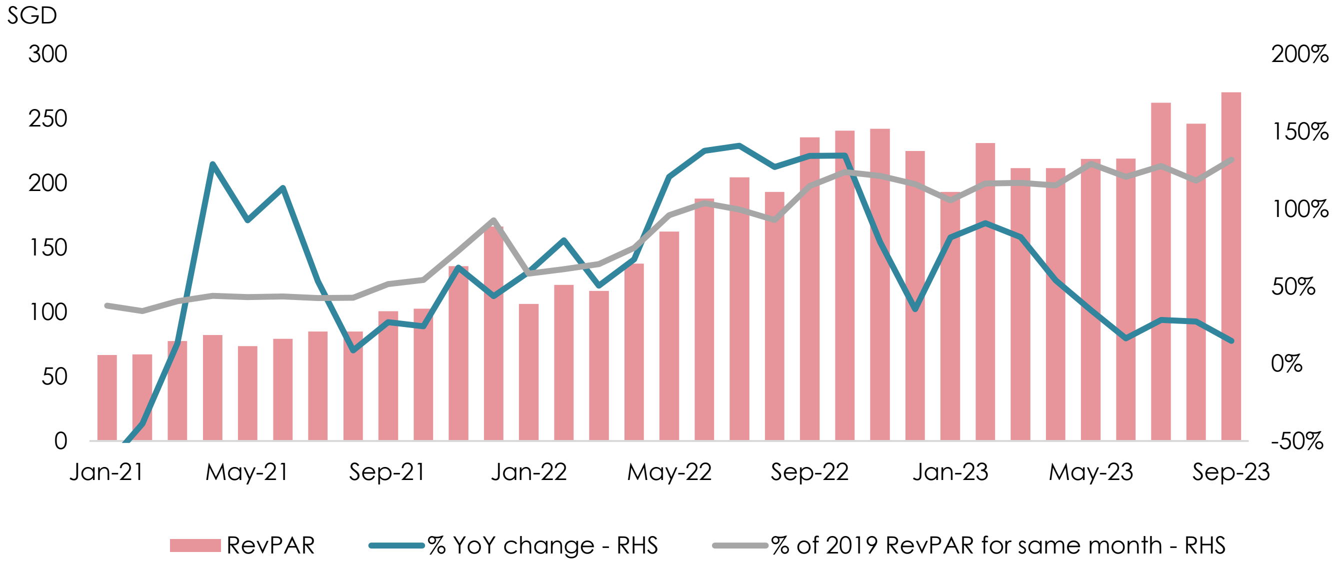
Exhibit 17: Monthly visitor arrivals to Singapore



Source: Singapore Tourism Analytics Network

Singapore's hotel revenue per available night (RevPAR) grew at a slower pace of 14.8% YoY to SGD270.60 in Sep 2023, but the moderation was expected given high base effects and the drop in visitor arrivals during the month. Notwithstanding the moderation, RevPAR remained elevated at a solid 132% of Sep 2019 levels. This was largely driven by a 14.1% YoY increase in average daily room rates (ADR) to SGD325.24, while average occupancy rate nudged upwards by 0.5 ppt YoY to 83.2%.

Exhibit 18: Singapore hotel industry RevPAR performance

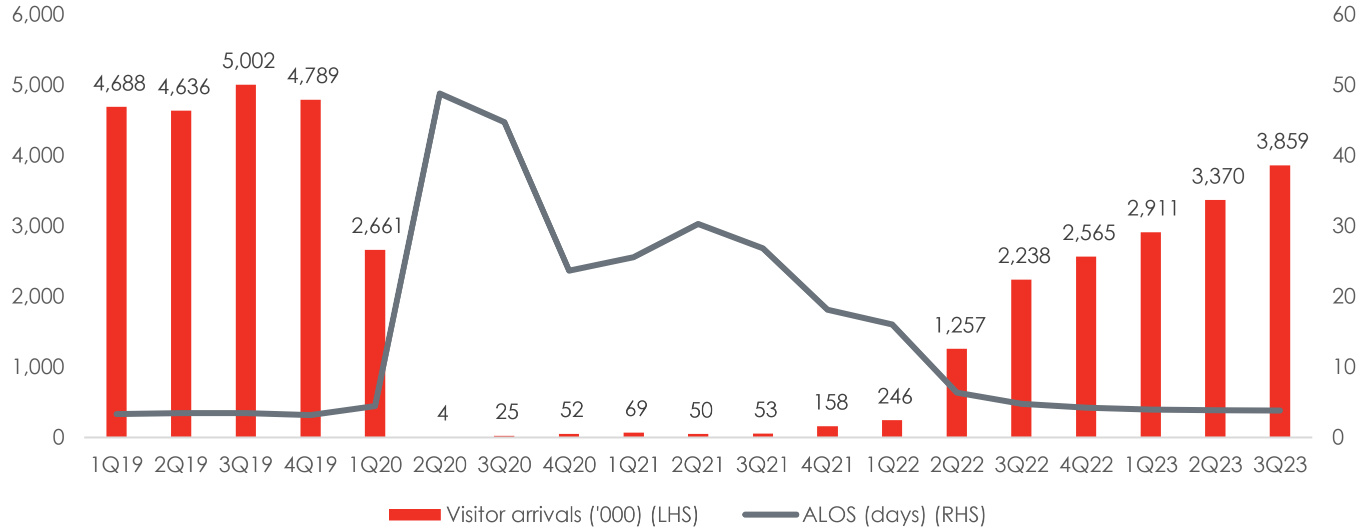


Source: Singapore Tourism Board

We remain optimistic that there could be further legs to Singapore's tourism recovery, especially given that the number of visitor arrivals YTD has not yet recovered to pre-pandemic levels. A large part of this can perhaps be attributed to subdued outbound travel recovery from China, which has been hamstrung by international flight capacity constraints (although this has been improving gradually in recent months), lingering visa-related issues, and CNY depreciation. We note that China was dethroned in Sep 2023 as

Singapore's top source of inbound tourists, falling to second place behind Indonesia – though the directionality of the 36.7% MoM decline in Chinese visitor numbers was in line with pre-pandemic trends. Another catalyst that we have been highlighting are major entertainment events, which may spur regional fan travel.

Exhibit 19: Singapore hotel industry RevPAR performance

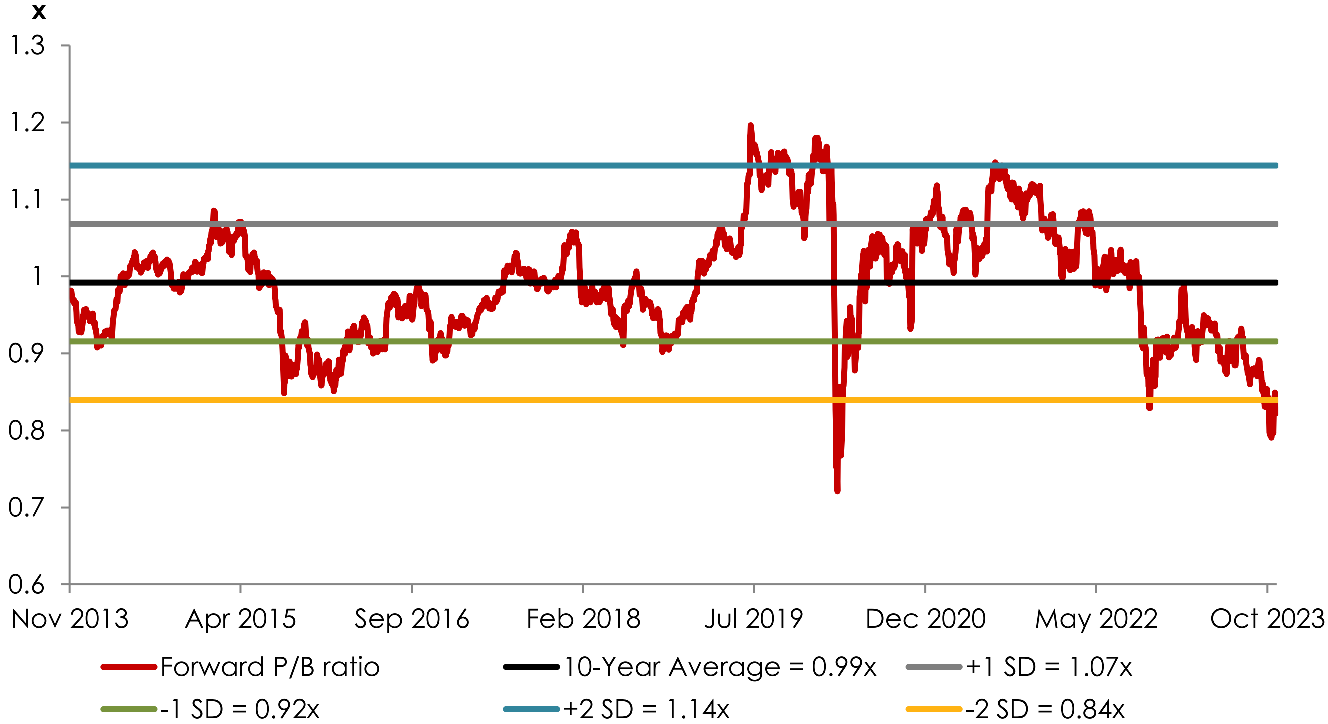


Source: Singapore Tourism Board
Note: ALOS represents the average length of stay

Light at the end of the tunnel with rates potentially peaking, but stick with quality names with strong balance sheets amid higher for longer interest rates environment

From a valuation viewpoint, the FSTREI is trading at a forward P/B multiple of 0.82x (as at 10 Nov 2023), which is 2.2 s.d. below its 10Y average of 0.99x. We previously highlighted that historically, the FSTREI had found valuation support when it traded at 2 s.d. below its 10Y mean. The FSTREI reached a recent low of 0.79x in late Oct 2023, before rebounding to its current level. There will be more S-REITs which will have to undertake their year-end independent asset valuation exercise. While we do expect write-downs on most overseas properties, we do have a better sense of where S-REITs' asset capital values are trending, thanks to recent revaluation exercises undertaken by Frasers Logistics & Commercial Trust (FLCT) and Frasers Centrepoint Trust (FCT). For FLT, its Australian logistics & industrial (L&I) properties saw an uplift to their carrying values as strong rental growth outweighed expansion in cap rates, but carrying values for its L&I properties in Germany, the Netherlands and UK came in lower. FLT's commercial properties in Australia and UK saw impairments of 9.2% and 20.6%, respectively, but their single commercial property in Singapore recorded a slight uptick even though it was made known that one major tenant was vacating the premises in phases. All of FCT's properties (mostly suburban malls in Singapore) recorded stable cap rates, but total appraised value inched up by 0.6% due to slightly higher rental assumptions adopted by the independent valuers, supporting our prior opinion that Singapore properties and those assets with strong rental growth are likely to better withstand any cap rates expansion.

Exhibit 20: Forward P/B trend of FSTREI



Source: Bloomberg, internal estimates, as at 10 Nov 2023

From a yield perspective, the FSTREI is currently trading at a forward distribution yield of 6.8%, which is 60bps or 1.2 s.d. above the 10Y average of 6.2%. The Singapore 10Y government bond yield has eased to 3.10% from a recent high of 3.51%, and hence the current distribution yield spread between the forward distribution yield of the FSTREI and the Singapore 10Y government bond yield increased to 369bps, as at 10 Nov 2023, or 0.6 s.d. below the 10Y mean of 403bps. This current yield spread is close to the 5Y average of 386bps, and is a tad above the 3Y mean (363bps). While 10Y yield spreads remain below the historical average, we believe periods of higher Singapore 10Y government bond yields have tended to coincide with periods of tighter yield spreads and vice versa, and does not necessarily mean that spreads will widen back to historical average levels. The same can be said for the current cycle, even during times when there was less visibility on when the fed funds rate was going to peak. At this current juncture, we believe there are clearer indications that rates have already peaked or at least close to peaking. Furthermore, based on fund flow data from the Singapore Exchange, we can infer that S-REITs are among the least crowded trades for institutional investors, and reinvestment risks from shorter tenor alternative yield instruments such as the Singapore 6-month and 1Y Treasury bills lead us to opine that S-REITs can still warrant a position within investors' portfolio.

As such, we reiterate our constructive stance on the S-REITs sector, but on a selective basis. We would avoid painting a broad brush across the entire sector as the macroeconomic environment remains uncertain and risks of a higher for longer interest rate environment would still have an adverse impact on DPUs both from an organic (borrowing costs to trend down slower than expected) and inorganic perspective (tougher to make DPU accretive acquisitions due to tighter spreads unless property capital values see a meaningful decline).

Exhibit 21: Fund flow data trend by sector

Institutional Investors net buy/sell (SGD'm)

Overall	Month	SGX Sector Classification											
		Consumer Cyclicals	Consumer Non-Cyclicals	Energy/ Oil & Gas	Financial Services	Health care	Industrials	Materials & Resources	Real Estate (excl. REITs)	REITs	Technology (Hardware/ Software)	Telcos	Utilities
(302.3)	Jan 2023	4.5	(17.4)	(0.4)	(168.1)	4.4	(4.9)	(0.4)	(2.9)	1.6	48.6	(181.4)	14.2
(445.9)	Feb 2023	101.7	11.7	4.6	(241.7)	4.3	(195.4)	(0.5)	(24.0)	(41.8)	(12.8)	(58.9)	7.0
(876.5)	Mar 2023	96.5	63.5	2.6	(732.5)	2.8	(24.1)	(1.0)	(52.5)	(245.4)	(14.6)	(46.6)	74.8
(261.0)	Apr 2023	49.7	(28.2)	1.0	(337.4)	20.8	38.6	(0.9)	(37.8)	(7.7)	(10.7)	75.2	(23.5)
(602.1)	May 2023	(21.2)	(34.2)	7.3	(535.0)	4.4	83.3	(1.9)	(13.8)	(85.1)	(71.2)	15.1	50.1
(180.1)	Jun 2023	(33.9)	(16.6)	(2.3)	(82.3)	(3.8)	86.0	(0.1)	(32.5)	(106.9)	9.4	(13.8)	16.5
(221.1)	Jul 2023	(39.0)	4.5	0.5	(163.2)	7.9	73.8	(1.4)	(5.7)	(86.4)	(21.6)	29.5	(20.1)
407.0	Aug 2023	(15.1)	20.8	(4.8)	631.0	(1.3)	112.2	(0.0)	(10.5)	(94.3)	(151.3)	(103.0)	23.5
(76.7)	Sep 2023	(18.9)	5.7	0.1	133.7	(5.3)	(38.4)	(0.8)	(21.7)	(104.3)	(17.0)	(1.4)	(8.3)
(291.3)	Oct 2023	14.0	(46.3)	(9.3)	11.7	(0.2)	(60.3)	(3.2)	(21.7)	(224.4)	52.1	(2.7)	(0.9)

Retail Investors net buy/sell (SGD'm)

Overall	Month	SGX Sector Classification											
		Consumer Cyclicals	Consumer Non-Cyclicals	Energy/ Oil & Gas	Financial Services	Health care	Industrials	Materials & Resources	Real Estate (excl. REITs)	REITs	Technology (Hardware/ Software)	Telcos	Utilities
(483.4)	Jan 2023	(46.1)	(4.3)	0.4	(315.9)	(2.3)	(66.8)	0.5	(12.7)	(44.3)	(69.4)	98.1	(20.6)
810.7	Feb 2023	(72.8)	25.6	(2.4)	441.6	(8.7)	197.9	0.6	29.7	88.5	31.7	77.3	1.7
458.3	Mar 2023	(125.9)	(73.9)	(4.1)	528.9	(14.8)	24.6	0.5	47.4	142.1	(3.3)	3.3	(66.4)
11.3	Apr 2023	(48.7)	34.8	(0.2)	136.1	(15.2)	(59.0)	1.4	35.2	(40.3)	16.6	(66.1)	16.7
700.0	May 2023	9.3	31.1	(0.2)	536.0	0.3	(68.3)	1.8	26.1	143.5	75.6	(4.2)	(50.7)
(4.4)	Jun 2023	2.4	12.1	0.5	16.6	7.9	(151.2)	(0.0)	42.5	99.9	10.6	7.5	(53.2)
(548.9)	Jul 2023	9.8	(9.9)	(2.2)	(313.3)	(8.4)	(176.5)	1.7	(13.1)	8.2	30.4	(62.6)	(12.9)
601.1	Aug 2023	51.7	14.6	6.1	37.6	2.4	21.7	(0.2)	56.8	187.7	52.1	160.3	10.2
225.4	Sep 2023	30.6	(18.4)	(7.1)	(93.5)	8.3	96.3	0.9	31.4	113.7	22.4	0.3	40.6
726.5	Oct 2023	11.3	42.3	19.9	181.1	3.0	155.5	3.5	48.2	275.2	(39.4)	19.0	6.9

Source: Singapore Exchange (SGX)
Note: Sectors are categorised by SGX. Fund flow data for all SGX-listed companies only

From a bottom-up stock picking strategy, we continue to favour higher quality S-REITs with strong sponsors and robust balance sheets that can allow them to participate in more active inorganic growth when opportunities arise, and to better withstand a higher for longer interest rate environment. We also like S-REITs with at least some Singapore asset exposure given their relatively more resilient capital values and avoidance of FX translation losses. Besides reiterating our preference for **CapitaLand Ascendas REIT [CLAR SP; FV: SGD3.17]**, **Frasers Logistics & Commercial Trust [FLT SP; FV: SGD1.33]**, **CapitaLand Ascott Trust [CLAS SP; FV: SGD1.14]** and **Mapletree Industrial Trust [MINT SP; FV: SGD2.59]**, we include **Frasers Centrepoint Trust [FCT SP; FV: SGD2.35]** as a replacement for Mapletree Logistics Trust [MLT SP; FV: SGD1.72]. Although we continue to like Mapletree Logistics Trust at current valuations, we believe headwinds from its exposure to second tier cities in China would continue to impact investors' sentiment. On the other hand, we like Frasers Centrepoint Trust's recent capital recycling activities, which has reduced its gearing level and removed the risks of equity fund raising to pare down debt. Its portfolio of suburban malls will also provide a defensive positioning amid recessionary risks, while its Singapore centric operations also mean it would not face FX headwinds unlike several of its peers. We also find comfort that brick and mortar retail is still able to achieve commendable growth despite higher e-commerce penetration rates as we move into a normalised post-Covid era.

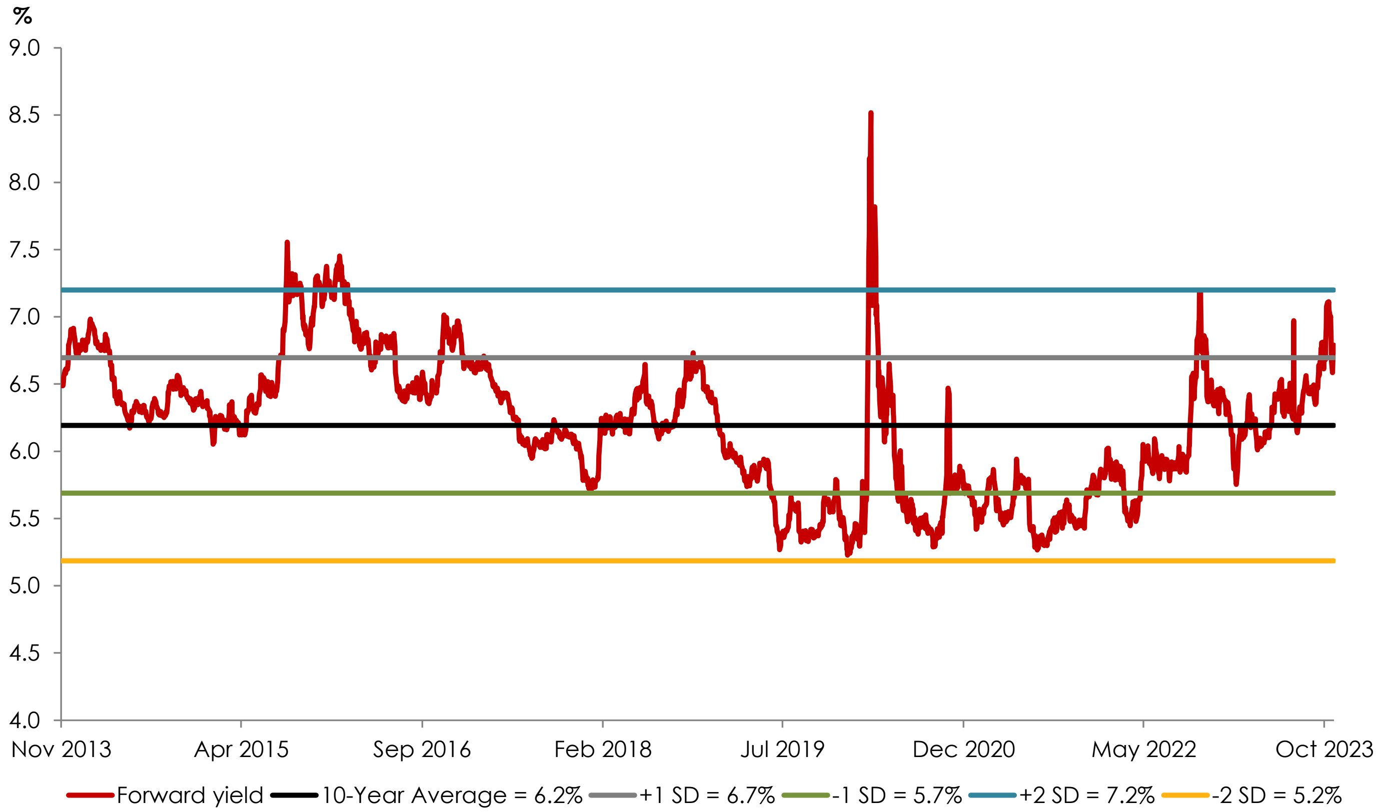
We remain cautious on the outlook of **Suntec REIT [SUN SP; FV: SGD1.06]** and **Keppel REIT [KREIT SP; FV: SGD0.84]**, while ongoing concerns over the financial health of **Keppel DC REIT's [KDCREIT SP; FV: SGD2.02]** master lessee in China may continue to cast on overhang on its share price, in our view.

Exhibit 22: Most preferred S-REIT picks

REIT	Ticker	Last Close (SGD)	Fair Value (SGD)	Distribution Yield FY-1	Distribution Yield FY-2	P/B FY-1 (x)	P/B FY-2 (x)	Potential Total Returns	Rating
CapitaLand Ascendas REIT	CLAR SP	2.69	3.17	5.7%	5.8%	1.1	1.1	24%	**BUY**
Frasers Logistics & Comm. Trust	FLT SP	1.05	1.33	6.7%	6.7%	0.9	0.9	33%	**BUY**
CapitaLand Ascott Trust	CLAS SP	0.90	1.14	6.4%	7.0%	0.8	0.8	33%	**BUY**
Mapletree Industrial Trust	MINT SP	2.17	2.59	6.1%	6.2%	1.2	1.2	25%	**BUY**
Frasers Centrepoint Trust	FCT SP	2.11	2.35	5.6%	5.7%	0.9	0.9	17%	**BUY**

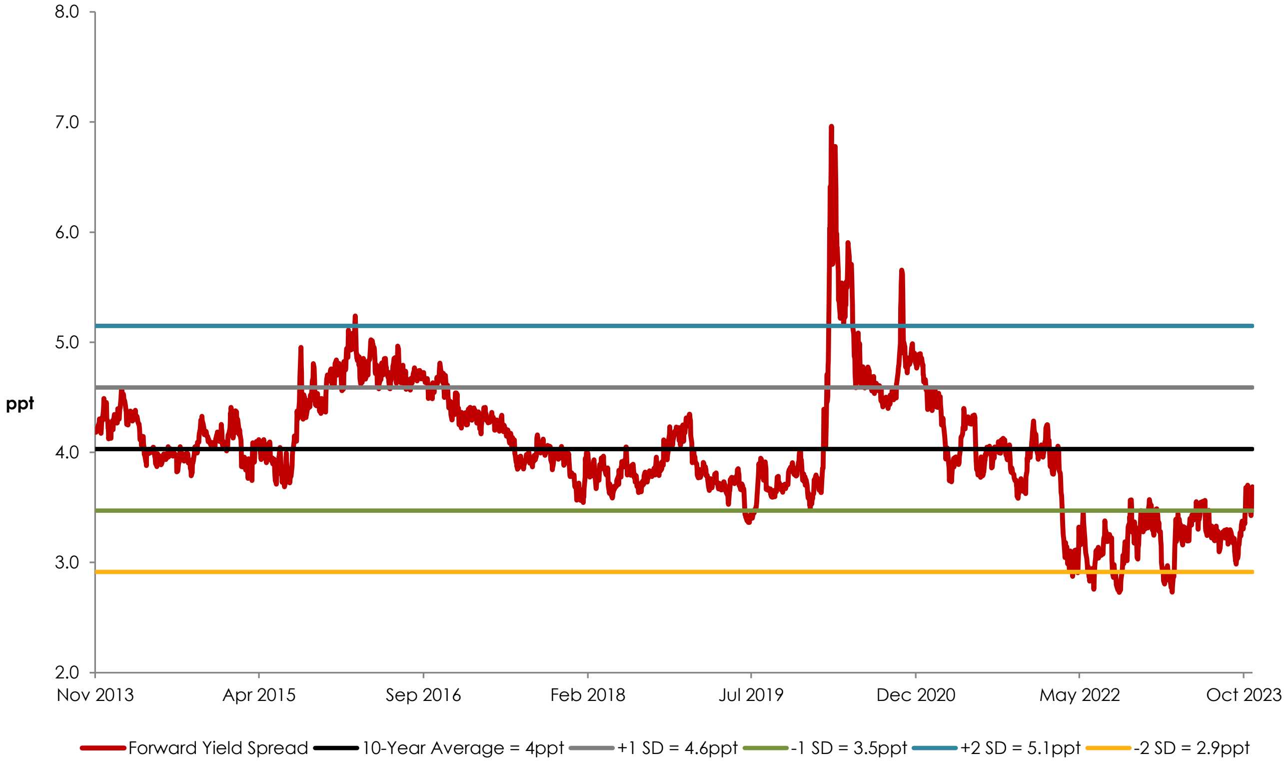
Source: Refinitiv, internal estimates, as at 10 Nov 2023 closing prices
Note: FY-1 denotes current financial year; FY-2 denotes next financial year. Figures are internal forecasts

Exhibit 23: Forward distribution yield trend of FSTREI



Source: Bloomberg, internal estimates, as at 10 Nov 2023

Exhibit 24: 10Y distribution yield spread between FSTREI and Singapore 10Y government bond yield

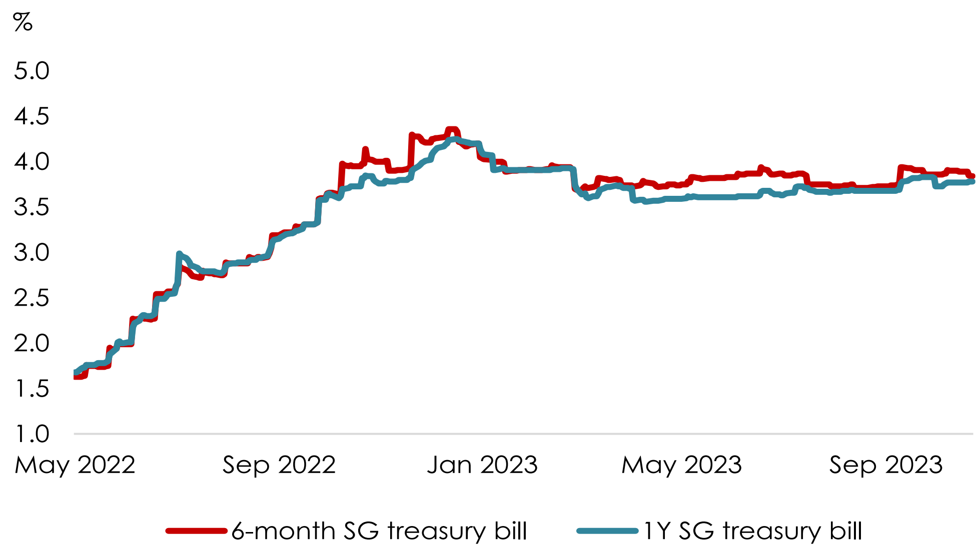


Source: Bloomberg, internal estimates, as at 10 Nov 2023

Exhibit 25: 5Y distribution yield spread between FSTREI and Singapore 10Y government bond yield

Source: Bloomberg, internal estimates, as at 10 Nov 2023

Exhibit 26: Benchmark yields for Singapore's 6-month and 1Y Treasury bills



Source: Monetary Authority of Singapore, as at 10 Nov 2023

ANALYST DECLARATION:

For analysts' shareholding disclosure on individual companies, please refer to the latest reports of these companies.

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