3 March 2020

Property | REITS

IREIT Global (IREIT SP)

Buy

Stable High Yielding German Office Play; BUY

Target Price (Return):	SGD0.92 (16.5%)
Price:	SGD0.785
Market Cap:	USD358m
Avg Daily Turnover (SGD/USD)	0.40m/0.29m

- **Initiating coverage with BUY and SGD 0.92 TP, 17% upside with a dividend yield of c.7%.** We like IREIT Global – whose office portfolio comprises nine office assets valued at EUR630m – for its exposure to the resilient German economy and good quality stable tenant profile. It is also led by a capable sponsor and strategic investor. IREIT's yield is an attractive c.100bps, 200bps, and 800bps higher than its peers, the SREIT average, and 10-year German bonds, which we believe is due to a lack of analyst coverage and unfamiliarity over its assets.
- **Income stability the key attraction amid uncertainty.** IREIT derives its strength from two key tenants – Deutsche Telekom and Europe's largest pension fund, Deutsche Rentenversicherung (DRV) – which we see as sticky in nature and account for c.77% of its rental income. Weighted average lease to expiry (WALE) remains healthy at 4.2 years, while leases have inbuilt Consumer Price Index (CPI) based rent escalation mechanisms. With German and Spanish office market rentals on the uptrend, and backed by favourable demand supply dynamics, we see good medium-term growth potential.
- **Minimal impact from COVID-19; Share price trading close to strategic investor's entry price.** IREIT is minimally impacted from ongoing COVID-19 outbreak, as its tenants are mainly domestic centric and only 2% of leases are due for renewals in the next two years. We see value at current share price levels which is close to strategic investors' entry price of SGD 0.76/share, offering downside support. Additionally, overseas SREITs also offer tax advantages for institutional investors, as dividends are not taxable vs 17% and 10% tax for domestic and foreign funds invested in Singapore-based REITs.
- **Expect acquisition of remaining Spanish stake; equity fund raising likely.** We expect IREIT to acquire the remaining 60% stake in Spanish assets from its sponsor before end-2020. It acquired a 40% stake in the office portfolio in Dec 2019 at an initial net property income (NPI) yield of c.5%. The asset offers growth potential in terms of occupancy and rent. With the REIT's gearing on the high side (39.3%), we expect a combination of debt and equity fund raising of EUR50-100m to fund it. With EUR borrowing costs remaining low at <2% levels, we believe the potential acquisition will remain accretive to unitholders.
- **Driven by capable sponsor and strong strategic investor.** IREIT's sponsor Tikehau Capital (TKO FP, NR) has deep Pan European asset management experience providing operational capability and sourcing quality assets. It currently handles real estate assets under management (AUM) of EUR8.5bn as at end Sep 2019. In 2019, City Developments (CDL) (CIT SP, NEUTRAL, TP: SGD10.50) entered as a strategic investor with a 12.4% stake plus 50% in the REIT manager. CDL's strong real estate brand reputation, deep pockets, and good knowledge of the local REIT market is positive for unitholders.
- **Key risks:** Inability to retain its top tenants, sharp slowdown in the German economy, continued EUR depreciation, and sell down by a major shareholder.

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (EURm)	34.8	35.1	38.5	39.2	39.8
Net property income (EURm)	30.6	29.9	33.5	34.0	34.6
Reported net profit (EURm)	57.0	69.3	30.2	30.7	31.3
Total distributable income (EURm)	25.1	25.6	27.1	27.6	28.2
DPS (EUR)	0.04	0.04	0.04	0.04	0.04
DPS growth (%)	(4.0)	(0.4)	6.9	1.3	1.4
P/B (x)	1.06	0.92	0.90	0.89	0.87
Dividend Yield (%)	7.0	7.0	7.4	7.5	7.7
Return on average equity (%)	19.9	21.0	8.4	8.4	8.3
Return on average assets (%)	11.2	11.9	4.7	4.7	4.7

Source: Company data, RHB

Analyst

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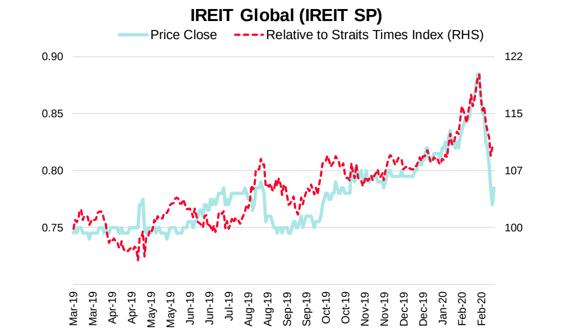
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.1)	(5.4)	(1.9)	4.7	6.1
Relative	3.5	(0.9)	3.7	7.0	12.6
52-wk Price low/high (SGD)					0.74 – 0.89



Source: Bloomberg

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Valuation basis

DDM

Key drivers

i. Sustained economic growth in the Eurozone area (Germany and Spain in particular);
ii. Occupancy improvements in the Spanish portfolio;
iii. Accretive acquisition of new properties;
iv. Improvement in trading liquidity.

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Key risks

i. Inability to retain its key tenants;
ii. Sharp slowdown in the German economy;
iii. Prolonged depreciation of the EUR against the SGD.

Company Profile

IREIT is the first Singapore REIT established with the investment strategy of principally investing, directly or indirectly, in a portfolio of income-producing real estate in Europe which is used primarily for office, retail and industrial (including logistics) purposes, as well as real estate-related assets. Its portfolio currently consists of 5 freehold office properties in Germany and 4 freehold office properties in Spain, with a total attributable lettable area of c.230,000sqm and valuation of €630.2m

Financial summary	**Dec-18**	**Dec-19**	**Dec-20F**	**Dec-21F**	**Dec-22F**
Recurring EPS (EUR)	0.09	0.11	0.05	0.05	0.05
EPS (EUR)	0.09	0.11	0.05	0.05	0.05
DPS (EUR)	0.04	0.04	0.04	0.04	0.04
BVPS (EUR)	0.48	0.56	0.57	0.58	0.59
Return on average equity (%)	19.9	21.0	8.4	8.4	8.3
Weighted avg adjusted shares (m)	629.21	634.45	637.60	641.06	644.58

Valuation metrics	**Dec-18**	**Dec-19**	**Dec-20F**	**Dec-21F**	**Dec-22F**
Recurring P/E (x)	5.65	4.69	10.81	10.68	10.54
P/E (x)	5.65	4.69	10.81	10.68	10.54
P/B (x)	1.1	0.9	0.9	0.9	0.9
FCF Yield (%)	8.9	8.8	9.8	9.6	9.8
Dividend Yield (%)	7.0	7.0	7.4	7.5	7.7
EV/EBITDA (x)	- 0.29	- 2.78	- 2.84	- 3.12	- 3.40
EV/EBIT (x)	- 0.29	- 2.83	- 2.84	- 3.12	- 3.40

Income statement (EURm)	**Dec-18**	**Dec-19**	**Dec-20F**	**Dec-21F**	**Dec-22F**
Total turnover	34.8	35.1	38.5	39.2	39.8
EBITDA	27.2	26.7	29.6	30.1	30.6
Depreciation and amortisation	0.0	(0.5)	0.0	0.0	0.0
Operating profit	27.2	26.2	29.6	30.1	30.6
Net interest	(3.9)	(6.1)	(4.7)	(4.7)	(4.7)
Pre-tax profit	65.4	82.6	33.5	34.1	34.8
Taxation	(8.3)	(13.3)	(3.4)	(3.4)	(3.5)
Recurring net profit	57.0	69.3	30.2	30.7	31.3

Cash flow (EURm)	**Dec-18**	**Dec-19**	**Dec-20F**	**Dec-21F**	**Dec-22F**
Cash flow from operations	29.2	29.2	32.9	32.6	33.2
Capex	(0.5)	(0.7)	(1.0)	(1.0)	(1.0)
Cash flow from investing activities	(0.5)	(31.6)	(1.0)	(1.0)	(1.0)
Dividends paid	(23.2)	(22.8)	(24.4)	(24.9)	(25.4)
Cash flow from financing activities	(29.4)	9.3	(28.9)	(28.8)	(29.2)
Cash at beginning of period	19.1	18.4	25.3	28.4	31.2
Net change in cash	(0.7)	6.9	3.0	2.9	3.0
Ending balance cash	18.4	25.3	28.4	31.2	34.3

Balance sheet (EURm)	**Dec-18**	**Dec-19**	**Dec-20F**	**Dec-21F**	**Dec-22F**
Total cash and equivalents	18	25	28	31	34
Total investments	506	607	616	626	636
Total other assets	2	2	2	2	2
Total assets	529	636	649	662	675
Short-term debt	96	0	0	0	0
Total long-term debt	97	231	232	233	234
Total liabilities	223	282	287	291	295
Shareholders' equity	306	354	363	371	380
Total equity	306	354	363	371	380
Net debt	175	206	204	202	200
Total liabilities & equity	529	636	649	662	675

Key metrics	**Dec-18**	**Dec-19**	**Dec-20F**	**Dec-21F**	**Dec-22F**
Revenue growth (%)	(0.4)	0.8	9.8	1.7	1.7
Recurrent EPS growth (%)	90.9	20.4	(56.6)	1.2	1.4
Operating EBITDA margin (%)	78.0	76.1	76.8	76.7	76.8
Net profit margin (%)	163.8	197.4	78.3	78.4	78.6
Dividend payout ratio (%)	39.7	32.8	80.9	81.0	81.0
Capex/sales (%)	1.4	1.9	2.6	2.6	2.5
Interest cover (x)	6.88	4.29	6.35	6.42	6.51

Source: Company data, RHB

Investment Highlights

A stable portfolio located across key German and Spanish cities. In 2014, IREIT became the first Singapore-listed REIT with a mandate to invest in the European real estate market: Office, retail, industrial and related assets. Its key German portfolio comprises five freehold campus style office buildings located across the key cities of Berlin, Bonn, Munich, Munster, and Darmstadt. Most of the office campus were completed in late 2000 and are relatively new (and remain fully refurbished). They are well connected to transport hubs and surrounded by amenities, making them an ideal choice for IREIT's sticky tenant base. As a testament its overall portfolio, valuation grew a healthy 14% in 2019 reflecting the strong German market and positive leasing activity at its assets.

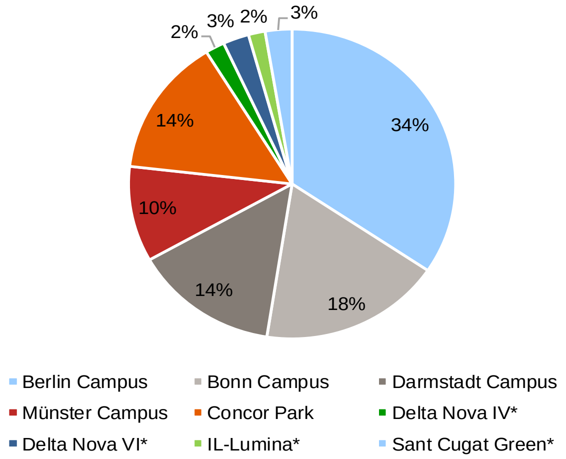
In Dec 2019, the REIT acquired a 40% stake in four Spanish office buildings in Barcelona (two) and Madrid (two) for EUR55.3m (based on its stake). The remaining 60% stake is held by its sponsor, Tikehau Capital. In terms of portfolio value, Germany accounts for the bulk with 91%, with the Berlin and Bonn campuses accounting for slightly more than half of the total.

- Portfolio is geared towards the stable German office market – Germany continues to be the most resilient economy in Europe
- Recent Spanish portfolio offers upside potential for income growth

Figure 1: Germany assets overview

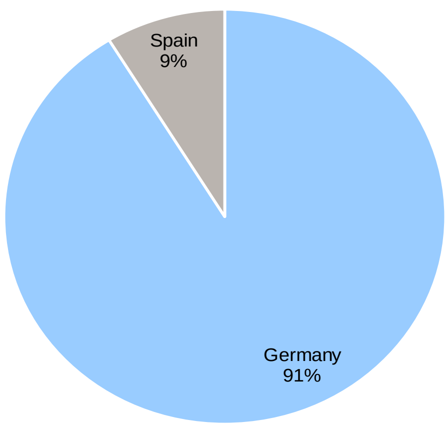
*Note: *As of 30 Jun 2019*
Source: Company

Figure 2: Valuation breakdown by asset



*Note: *based on IREIT's 40% stake*
Source: Company data, RHB

Figure 3: Valuation breakdown by geography



*Note: *Spanish Portfolio based on IREIT's 40% stake*
Source: Company data, RHB

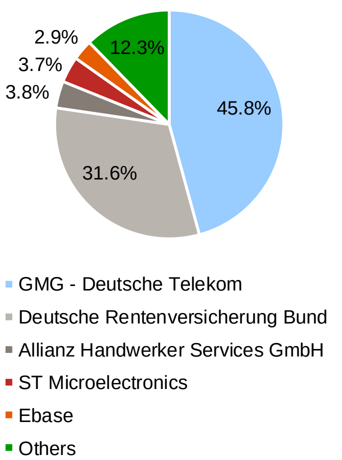
Good quality and a stable tenant profile offers income stability... One of the key strengths of IREIT, in our view, is its sticky and quality tenant base. The Top 2 tenants, which account for c.77% of rental income are Deutsche Telekom (46%) – a leading German integrated telecom operator with around c.178m mobile customers and a good credit rating – and DRV. The latter is Europe's largest statutory pension insurance company. The Bonn and Darmstadt campuses are fully leased to Deutsche Telekom, which – in our view – is long-term focused and less likely to move its entire operations to another building.

Similarly, DRV has been the sole tenant in the Berlin campus since its construction in 1994 – highlighting the sticky nature of its client. Other major tenants in its properties are also well-known multinational operators – indicating the attractive nature of IREIT's assets.

...with near full occupancy since listing. The stable tenant base has been reflected in the portfolio occupancy – overall portfolio occupancy has remained above 98% over the last five years. In 2019, IREIT also managed to fill up some of the vacant spaces at its Munster campus, bringing the asset back to full occupancy. Overall, this brought its Germany portfolio occupancy to 99.7%. Currently, except for Concor Park (98.2%), the rest of its German assets are fully occupied.

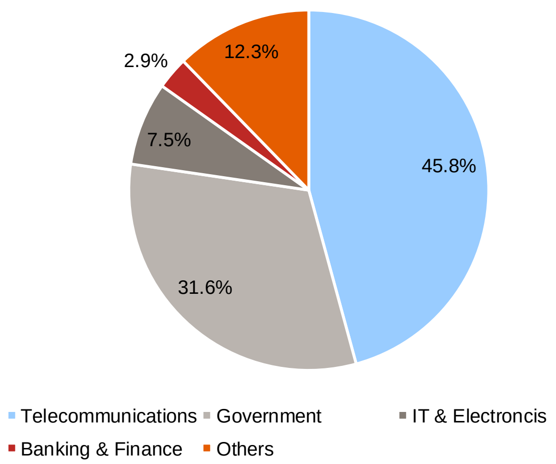
- The Top 2 tenants – which account for nearly 80% of income – are Germany's leading telecoms player and Europe's largest pension insurance company
- Portfolio occupancy has remained high (>98%) in the last five years

Figure 4: Key tenants – by gross rental income



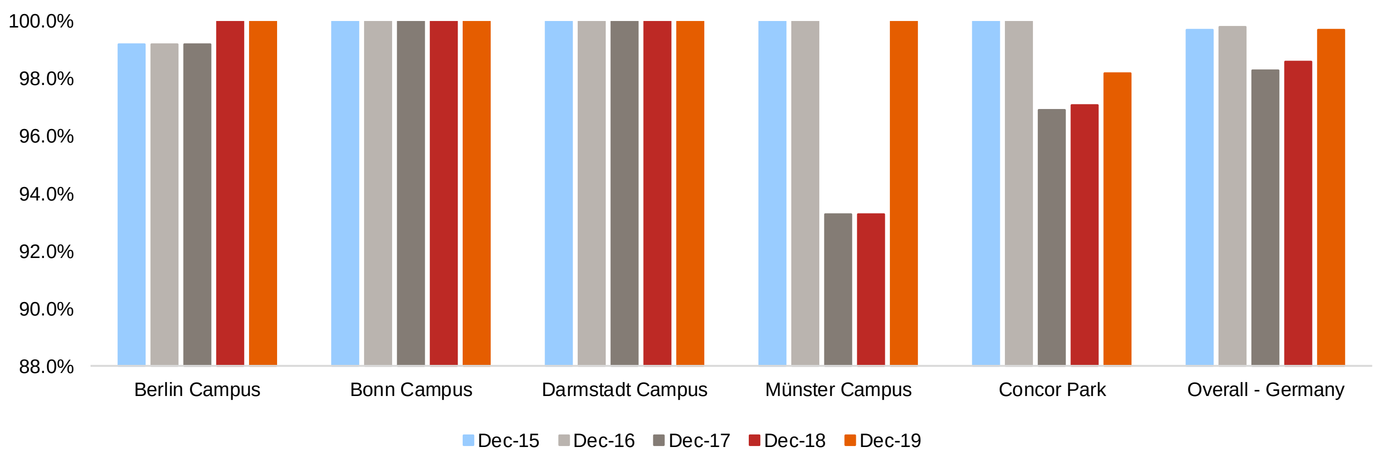
Source: Company data, RHB

Figure 5: Trade sector breakdown – by gross rent



Source: Company data, RHB

Figure 6: Historical occupancy trend



Source: Company data

CPI indexed in-built rent escalations for all assets. For the Darmstadt, Bonn, and Munster campuses, rent adjustments take place once the cumulative CPI growth reaches 10% levels – the most recent rent escalations happened in Dec 2016, Jan 2013, and Aug 2014. At Concor Park, the CPI-linked rent escalation kicked in at the 5-7% threshold, with recent escalations in 2017-2018.

For the Berlin campus, there was a 5.5% escalation in rent in Jul 2019, with another 2.5% increase expected in 2022. With inflation in Germany expected to remain low at around 1%, we believe it will take a few more years for indexation levels kick in again, with the Berlin Campus (2.5%) being the likely one to see next rental increase.

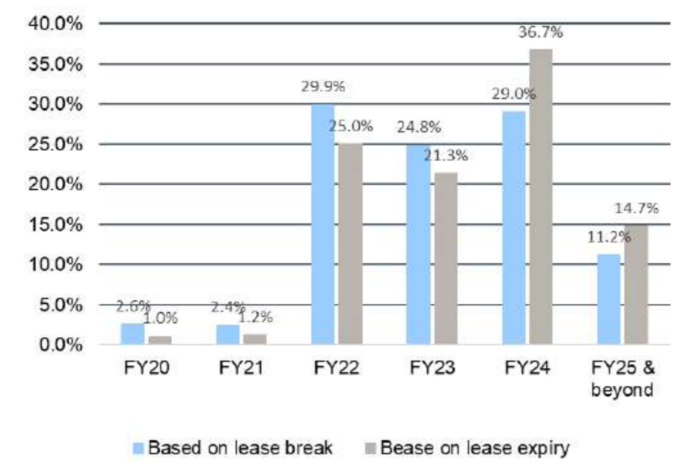
- In-built annual rent escalations based on CPI growth, which kicks in upon reaching the threshold

Minimal lease expiries until 2021, office rentals on an uptrend. Over the next two years, only about 2% of leases are due for expiry (5% leases including lease breaks). The next major lease expiry will only be at the end of 2022 when the Darmstadt campus' lease expires. As such, we believe there is a good probability of lease extension, given that it is the second-largest Deutsche Telekom campus in Germany. Beyond 2022, the leases are well spread across the years, mitigating concentration risks.

Based on Jones Lang LaSalle's (JLL) latest office report (see the Industry Outlook section for further details), aggregate prime office rents in the Big 7 cities rose 5.4% YoY in 2019 and are expected to grow by 3.9% this year. Overall vacancy rates also fell 0.6ppts to 3%. JLL expects this to fall further to 2.9% in 2020. Rising rent and limited office supply represent good scope for healthy positive rent reversions in the medium term, in our view.

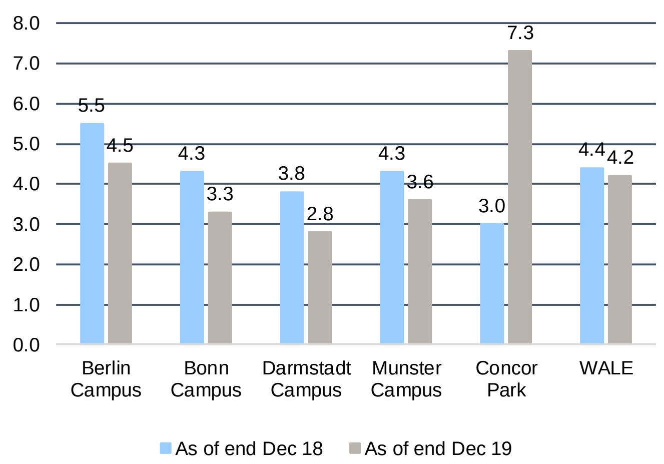
- Only about 2% of leases are due for expiry until 2021, offering strong near-term income visibility
- Prime Office rent rose 5.4% in 2019 and are expected to rise 3.9% in 2020 across the Big-7 German cities

Figure 7: Portfolio lease break & expiry profile



Source: Company data, RHB

Figure 8: German portfolio lease expiry by assets



Source: Company data, RHB

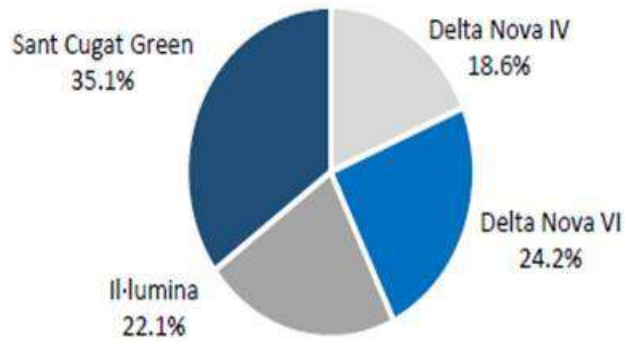
Spanish portfolio offers room for growth. In Dec 2019, IREIT – along with its sponsor Tikehau Capital – announced the acquisition of four assets in Spain: Delta Nova IV, Delta Nova VI, Il Lumina, and San Cugat Green for a total consideration of EUR133.8m. This represents a 3.3% discount to the latest valuation. IREIT and Tikahau will hold 40% and 60% stakes in the acqusiton. The acquisition was done at an initial NPI yield of c.5%.

While there were some market concerns over the relatively low portfolio occupancy of 80.7%, especially for the Barcelona assets, we understand from management that therein lies the growth potential. With occupancy and rent in Barcelona and Madrid on an uptrend (see the Industry Outlook section for details) management sees opputunities to improve overall occupancy in the near term. We also understand that in-place property rents are 5-15% below market rates, which offer upside potential as leases expire.

- Acquired 40% stake in four assets in Spain along with its sponsor at initial NPI yield of 5%
- Room for growth via occupancy improvements and rental uplift

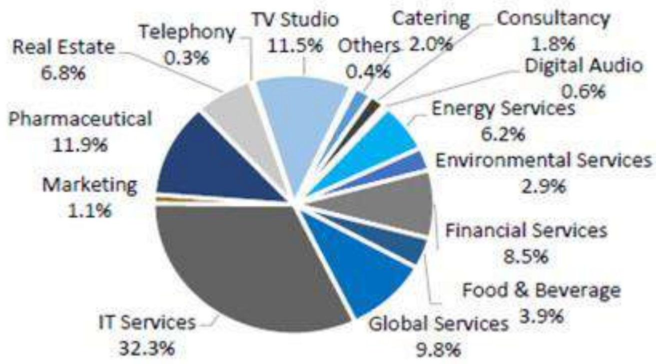
On the lookout for new CEO. IREIT's current CEO Mr. Aymeric Thibord announced his resignation recently to pursue other career opprtunities and will be serving notice period until 10th May 2020. The Board is currently on the lookout for a new CEO. We are not overly concerned on this development as we believe the REIT manager/sponsor has other capable management members currently in place to manage the REIT during the interim period.

Figure 9: Spanish assets rental income by property



Note: As at end Sep 2019
Source: Company data

Figure 10: Rental income by trade sector



Note: As at end Sep 2019
Source: Company data

Acquisition of remaining 60% stake in the cards. The Spanish asset acquisition (40% stake) was fully funded by a combination of internal debt and bridging loan from strategic investor CDL. The acquisition is yield accretive, with an intial accretion of 1.2% (FY18 *pro forma* DPU) based on the aforementioned funding.

IREIT has stated its intention to acquire the remaining 60% from its sponsor in the near term – probably before the end of this year – and is currently exploring different funding options to do so. Post acquisition and recent valuation uplift, the current gearing is on the high side at 39.3%. The maximum allowable limit currently is 45%.

Consequently, we expect the potential acquisition of the remaining stake to be done by a combination of debt and equity financing of EUR50-100m. With the low borrowing costs of EUR-denominated debt (around 1.5% pa), we believe it is still possible to have accretion with a combination of debt and equity.

- Expecting acquisition of remaining 60% stake by end of this year
- The acquisition is expected to be a combination of debt and equity: Placement, preferential offering or rights issue

Minimally impacted by COVID-19, overseas SREITs could see more fund flows if the outbreak worsens in Asia. The economic impact of COVID-19 in European markets – Germany and Spain in particular – has been minimal so far. Besides, IREIT's tenants are largely domestic focused, hence further buffering any potential fall out. The office leases are locked in with minimal expiries in the near term.

Conversely, since the outbreak, we have noticed a heightened interest among investors for stable-yielding overseas REITs that provide diversification benefits. Hence, we expect more investors to increase their exposure to stable overseas SREITs if the COVID-19 outbreak continues to worsen.

- Minimal impact from the COVID-19 outbreak, as tenants are mainly domestic centric with minimal near-term lease expiries

Strong local sponsor and an experienced strategic investor. Sponsor Tikehau, which has a 50% stake in the REIT manager, has deep asset and investment management experience across Europe. It also has investments across various asset classes. Its real estate business is the second-largest operating segment within its portfolio, with an AUM of EUR8.5bn as at 30 Sep 2019.

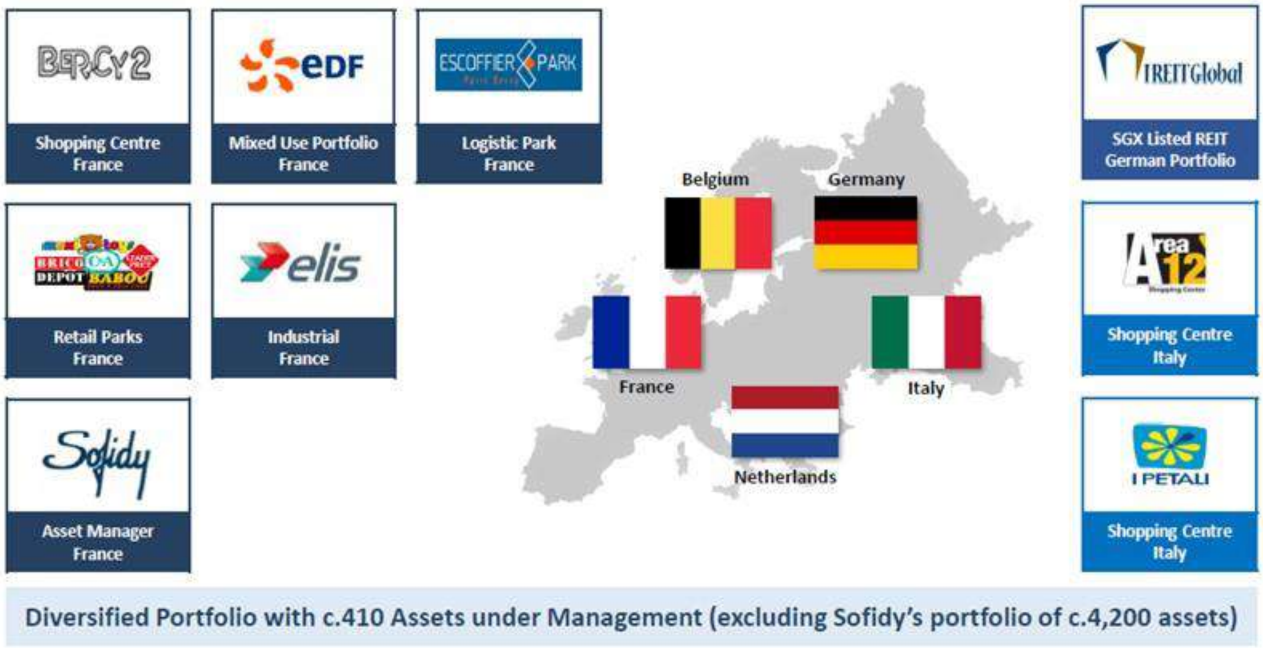
Tikehau first entered into IREIT in 2016 with the stake acquisition in the REIT manager and c.4% shareholding. Since then, it has been gradually increasing its stake in the REIT – its current stake stands at 16.4%. This shows its commitment in growing the REIT's portfolio. By leveraging on Tikehau's extensive pan-European network and intricate knowledge of local markets, the REIT has been able to improve its portfolio operating metrics and acquired assets at discounts to market valuations.

- Sponsor Tikehau has a strong European network and a diversified real estate portfolio
- IREIT's Singapore-listed strategic investor, CDL, has a good reputation in building real estate assets globally. It also has intrinsic knowledge of local REIT markets

In Apr 2019, Singapore-listed CDL also entered into IREIT as a strategic investor, with the purchase of a 50% stake in the REIT manager from Tikehau and a 12.4% shareholding in the REIT at SGD0.76 per share. CDL is a leading real estate developer with a strong brand reputation in Singapore. It also has good knowledge of the local REIT market, as it is a sponsor of a locally listed hospitality REIT: CDL Hospitality Trusts (CDREIT SP, NEUTRAL, TP: SGD1.62).

We believe the presence of an experienced local sponsor and strong strategic investor augurs well for the REIT's long-term growth.

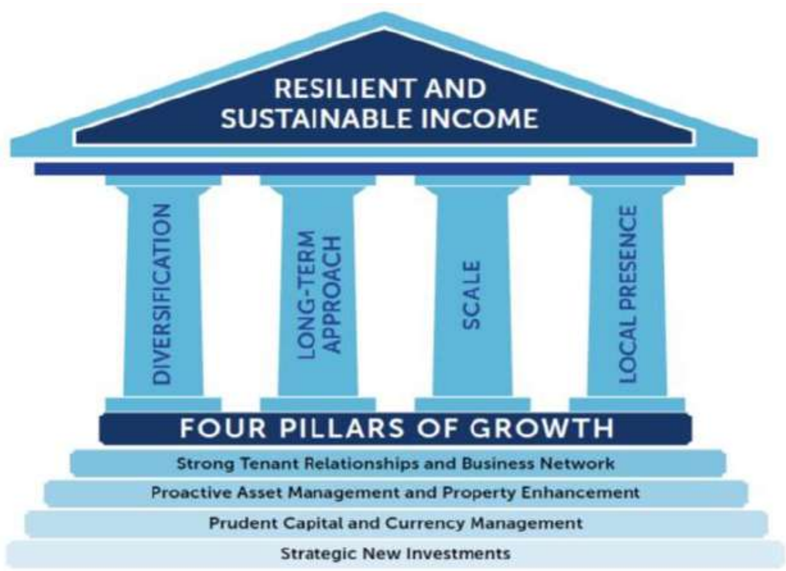
Figure 11: Selected assets in Tikehau's real estate portfolio



*Note: *As of 30 Jun 2019*
Source: Company data

Long-term growth based on four key pillars. First, IREIT will focus on efforts to diversify its portfolio across markets and asset class. Second, it will take a longer term approach in building relationships with its tenants and business partners by anticipating their changing needs. Third, IREIT plans to build up scale and deepen its presence in target markets – it will also continue to invest in its existing portfolio to keep it relevant to changing market trends. Lastly, IREIT plans to leverage on its sponsors' local market knowledge and networks to propel its growth and enhance shareholders value.

Figure 12: Four pillars of growth strategy



Source: Company

Fee structure based on DPU and growth. The base (10% of distributable income) and performance (25% of DPU growth) fees are well aligned to deliver stable DPU returns and generate better shareholder value. By comparison, the majority of office SREITs' base and performance fees are pegged as a proportion of portfolio value and NPI.

The acquisition fee rate is set at 1%, but can be adjusted lower at the manager's discretion for acquisition from the sponsor.

Lower property management fees when compared to peers at 0.6% pa of gross revenue for all properties. The exception: Concor Park, which is at 2.1% pa. By comparison, 0.6-3% of gross revenue are on the lower side when compared to the majority of its office REIT peers.

- Management and performance fees are based on distributable income and DPU growth
- Property management fees are relatively lower vs peers

Figure 13 : A comparison of office REIT fee structures

	Property management fees	REIT management fees		Trustee fees	Acquisition fees	Divestment fees
		Base	Performance	% of property value	% of purchase price	% of sale price
IREIT Global	**0.6% of gross revenue except for Concor Park - 2.1%**	**10% of distributable income**	**25% YoY DPU difference * weighted average number of units**	**0.10% subject to minimum of SGD10,000 per month**	**1.0%**	**0.50%**
Elite Commercial REIT	1.0% pa of revenue as lease management fee and a fixed property management fee of GBP235,600 pa	10.0% of distributable income	25.0% YoY DPU difference * weighted average number of units	0.015% subject to minimum of SGD15,000 per month	1.0%	0.50%
Cromwell European REIT	0.67% pa of property value	0.23% pa of portfolio value	25.0% YoY DPU difference * weighted average number of units	0.015% subject to minimum of SGD 15,000 p.m.	1.0%	0.50%
Prime US REIT	0.85-3% of gross revenue of properties except for Village Centre Station II, which is fixed at USD2,750 per month	10% of annual distributable income	25.0% YoY DPU difference * weighted average number of units	0.1% subject to min of SGD15,000 p.m.	1.00%	0.50%
Keppel Pacific Oak US REIT	1.5-3% of gross revenue	10.0% of distributable income	25.0% YoY DPU difference * weighted average number. of units	0.015% subject to minimum of SGD14,000 pa	1.0% or lower	0.50%
Manulife US REIT	2.5% of gross income >300k sq ft of NLA and 3.0% for gross income with <300k sq ft of NLA	10.0% of distributable income	25.0% YoY DPU difference * weighted average number of units	0.100%	0.75% for related parties, 1.0% for all others	0.50%
CapitaLand Commercial Trust	3.0% pa of NPI	0.10% pa of portfolio value	5.25% pa of NPI	0.100%	1.0%	0.50%
Frasers Commercial Trust	3.0% of gross revenue	0.50% of portfolio value	3.5% of NPI	0.030%	1.0%	0.50%
Keppel REIT	3.0% of gross revenue	0.50% of portfolio value	3.0% of NPI	0.030%	1.000%	0.50%
OUE Commercial REIT	2.0% of gross rev + 2.0% of NPI + 0.5% of NPI for lease management fees	0.30% p.a. of portfolio value	25.0% YoY DPU difference * weighted average number. of units	0.02%	0.75% for related parties, 1.0% for all others	0.50%

Source: Respective companies data, RHB

Financials

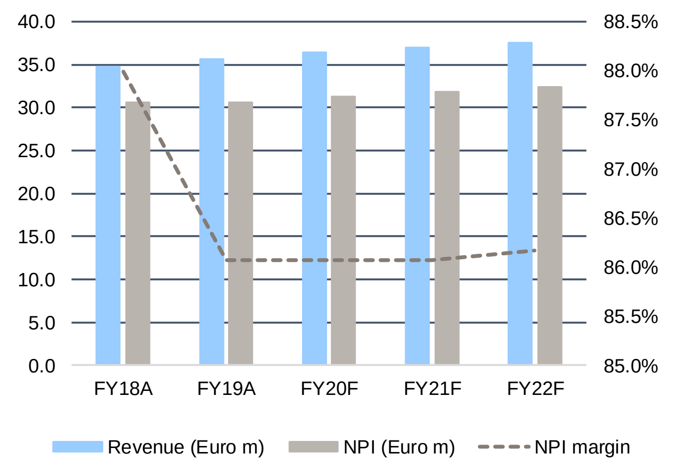
Revenue and NPI expected to see steady growth. We expect revenue and NPI to see a modest 3-year CAGR growth of 2% CAGR, mainly on occupancy improvements and flow-throughs from positive rent reversions. Overall, we have assumed the Germany portfolio occupancy remaining stable at around the current 99% levels. We have assumed NPI margins to remain stable at the current 86% levels.

JV contributions. As IREIT only has a 40% stake in the recently acquired Spanish portfolio, the contributions from these properties will be equity accounted. We expect the Spanish assets to contribute EUR2.1m for 2020 and increase by 3% in subsequent years. This is on occupancy improvements and in-built rental escalations.

Forecasting a 5% DPU growth for FY20. The higher DPU growth is mainly driven by lower financing costs, absence of one-off finance expenses, and accretive contributions from the Spanish acquisition. Our DPU forecast assumes 100% of management fees being paid in units similar to the previous years.

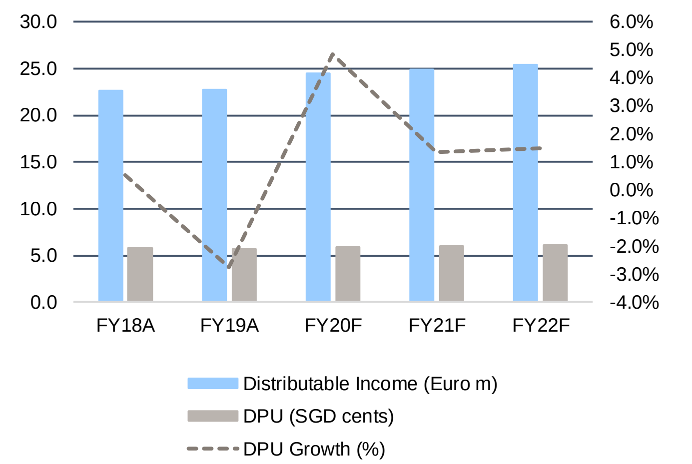
Conservative payout ratio of 90% represents room for upside. Since FY17, IREIT has been retaining 10% of its distributable income to fund future capex requirements of its assets. We see this as a prudent move – the REIT is also among only a handful of REITs that retain income, as the majority distribute the entire amount. Our forecasts also assume a conservative 90% payout ratio (the minimum required for REIT), which is similar to FY19 – this leaves room for upsides if the payout ratio is increased.

Figure 14: Revenue, NPI and NPI margins trends



Source: Company data, RHB

Figure 15: Distributable income and DPU growth



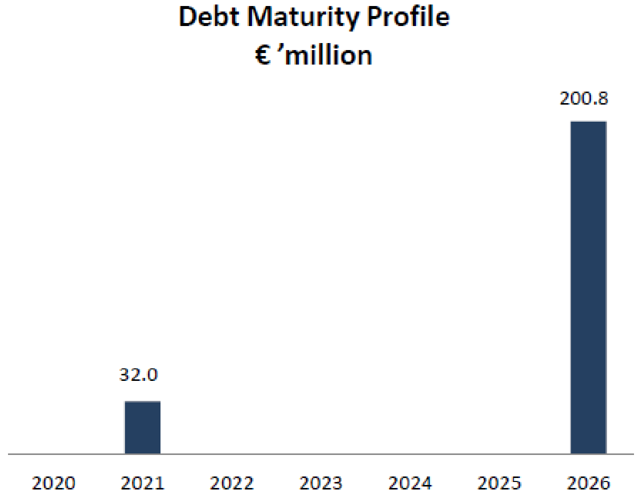
Source: Company data, RHB

Semi-annual distributions and 80% of income hedged one year ahead. IREIT's distribution policy is to pay at least 90% of its distributable income on a semi-annual basis. As the distributable income in EUR will be paid out in SGD, the REIT has implemented a policy of hedging approximately 80% of its income to be repatriated from overseas to Singapore on a quarterly basis – one year in advance. In our model we have assumed a EUR to SGD exchange rate of 1.55 for the forecast period.

No major debt expiry until 2026, majority of debt in fixed terms. On 1 Feb 2019, IREIT drew down new loan facilities of EUR200.8m – maturing in Jan 2026 – to repay the then existing bank borrowings of EUR193.5m. Concurrent to the debt drawdown, interest rate swaps were entered into – this was to hedge 100% of the interest of the new loan facilities, which resulted in an all-in cost of debt of c.1.5 % pa over the loan tenure.

The long-dated debt maturity provides stability in terms of finance expenses. The EUR32m expiring in 2021 is the bridging loan for Spanish portfolio with a tenure of 18 months, and will bear an interest at a rate of 3.875% above the EURIBOR rates pa. IREIT is likely to switch this to a longer-dated loan at a much lower interest cost upon completion of its acquisition of the remaining 60% stake in its Spanish assets.

Figure 16: Debt maturity profile



Source: Company data

Figure 17: Debt key metrics

	As at 31 Dec 2019	As at 31 Dec 2018
Gross Borrowings Outstanding (€'m)	232.8	193.5
Aggregate Leverage[1]	39.3%	36.6%
Effective Interest Rate per Annum[2]	1.8%	2.0%
Interest Coverage Ratio[3]	10.4x	8.4x
Weighted Average Debt Maturity	6.1 years	1.1 years

Source: Company data

Gearing slightly below 40% on a strong jump in portfolio valuation. In 4Q19, IREIT's portfolio registered a valuation increase of 13%, or EUR69m, due to occupancy improvements, longer WALE for new leases, and a cap rate compression of c.50-65bps. This has resulted in gearing falling to 39.3% vis-à-vis 42.9% upon completion of its Spanish asset acquisitions. Gearing, however, still remains on the higher side – maximum allowable limit of 45% – and we expect IREIT to fund future acquisitions – potentially the remaining 60% stake in its Spanish assets – via a combination of equity and debt.

Capex requirements remain minimal. Based on our discussions with management, we understand there are no imminent big capex requirements for IREIT's German assets. In our model, we have assumed an annual maintenance capex of EUR1m pa for the next few years, which is slightly higher than the last 3-year average of EUR0.5m pa.

Zero tax on dividends for all unitholders. A key advantage of overseas SREITs – IREIT included – that derive income from overseas assets, is that dividends are tax-exempted for all types of unitholders. In the case of SREITs with Singapore assets, local institutional investors incur a 17% corporate tax – their foreign institutional investors are subject to a 10% corporate tax. This is because foreign-sourced income by REITs are not subject to taxes under Singaporean regulations, which results in a substantial tax savings for institutional investors.

Currently, the foreign-sourced income is tax exempted until 2025 – this is to promote the listing of overseas based REITs – but we believe this could well be extended beyond 2025.

Valuation

A stable high yield play, BUY with a TP of SGD0.92, 17% upside. Our DDM-based 5-year TP is based on a cost of equity (CoE) of 7.6% (risk-free rate: 2.0%, TG: 1%). We believe our higher COE – c.50-100bps higher vis-à-vis Singapore office REITs – and a modest TG assumption of 1% sufficiently buffers in IREIT's small portfolio size, liquidity, and lower long-term growth rates for the economies of Germany and Spain.

It is also noted that IREIT's DPU is based on a conservative 90% payout ratio vis-à-vis the Singapore office REITs' 100%. At our TP, the REIT will be trading at a FY20F P/BV of 1.1x and yield of 6.4%, which we believe adequately buffers in its smaller size and lower trading liquidity.

Figure 18: DDM valuation table

	FY20F	FY21F	FY22F	FY23F	FY24F	Terminal Value
DPU (SGD Cts)	5.91	5.99	6.08	6.23	6.29	96.8
Target price (SGD)	**0.92**					
Current Price (SGD)	0.79					
Price Upside (%)	17.2					
Distribution Yield FY20F (%)	7.5					
Total Return (%)	24.7					
Assumptions						
Risk-free rate (%)	2.0%					
Beta	0.9					
Cost of equity (%)	7.6%					
Terminal growth (%)	1.0%					
Equity Risk Premium	6.0%					
Market risk return	8.5%					

Source: RHB

Sensitivity analysis. As our TP is highly sensitive to CoE and TG assumptions, we have performed a sensitivity analysis to highlight the impact. Based on our sensitivity analysis, we note that every 50bps change in CoE has ±c.8% change and every 50bps change in our TG assumptions results in a ±c.7 % change to our TP.

Figure 19: TP sensitivity analysis for COE and terminal growth assumptions

COE vs Terminal Growth	6.6%	7.1%	7.6%	8.1%	8.6%
0.0%	0.95	0.88	0.82	0.77	0.73
0.5%	1.01	0.93	0.87	0.81	0.76
1.0%	1.08	0.99	**0.92**	0.85	0.80
1.5%	1.17	1.07	0.98	0.90	0.84
2.0%	1.28	1.15	1.05	0.96	0.89

Source: RHB

Trading at an attractive valuation when compared to its peers. IREIT's current yield of 7.5% is:

i. 100bps higher than comparable newly listed Elite Commercial REIT (a UK office portfolio with similar size and tenant profile);

ii. ~200bps higher than the SREIT average;

iii. 220bps higher than the office SREIT average;

iv. Extremely attractive in comparison to German 10-year treasuries, which are yielding -0.64%.

We believe this is due to lack of analyst coverage on the stock and market unfamiliarity of its assets. Hence, we see good scope for yields compression. It is also important to note that IREIT's assets are freehold in nature and have in-built rental escalation clauses pegged to inflation. This enhances their appeal when compared to a typical 99-year lease for Singaporean commercial assets and fixed rental structures.

Figure 20: Peer comparison table

	Mkt cap (USDm)	3M-ADVT (USD '000)	Last price (LCY)	1D (%)	5D (%)	1M (%)	3M (%)	6M (%)	12M (%)	YTD (%)	vs 52W-low (%)	vs 52W-high (%)	P/B (x)	Div yield (FY-1)	Div yield (FY-2)	Yield Spread (%)	Gearing/simple ave	WALE (years)	% FY-1	% FY-2
REITs (42)	**77,032**	**206,854**		**0.5**	**(5.5)**	**(4.8)**	**(2.6)**	**(1.3)**	**8.6**	**(3.0)**	**13.8**	**(12.8)**	**1.2**	**5.6**	**5.9**	**4.3**	**35.2%**			
Office (5)	**14,690**	**38,864**		**1.2**	**(4.7)**	**(5.4)**	**(5.7)**	**(7.3)**	**(3.2)**	**(5.2)**	**4.9**	**(13.5)**	**0.92**	**5.3**	**5.6**	**3.9**	**36.1%**			
CapitaLand Commercial Trust	5,367	15,740	1.93	3.8	(4.0)	(6.3)	(4.5)	(9.4)	(0.5)	(3.0)	6.0	(16.5)	1.04	4.7	5.2	3.3	35.2%	5.6	7%	27%
Suntec REIT	3,502	12,651	1.73	1.8	(3.9)	(6.0)	(6.0)	(10.4)	(9.9)	(6.0)	3.6	(13.9)	0.81	5.8	5.8	4.4	38.3%	2.8	4%	21%
Keppel REIT	2,922	6,480	1.21	(1.6)	(4.7)	0.0	(1.6)	(0.8)	(3.2)	(2.4)	3.4	(6.9)	0.89	4.8	5.1	3.4	38.4%	5.3	2%	12%
OUE Commercial Trust	1,825	1,221	0.47	(2.1)	(8.7)	(13.8)	(16.1)	(8.7)	(6.0)	(16.8)	0.0	(18.3)	0.76	6.8	7.2	5.4	39.3%	2.2	8%	26%
Frasers Commercial Trust	1,074	2,772	1.63	(0.6)	(3.6)	0.0	(4.7)	(1.8)	9.4	(1.8)	16.4	(7.4)	1.00	6.1	6.1	4.8	29.3%	4.3	3%	17%
Retail (6)	**17,278**	**52,085**		**1.2**	**(5.9)**	**(7.3)**	**(6.5)**	**(7.4)**	**7.4**	**(6.7)**	**11.4**	**(13.7)**	**1.07**	**5.0**	**5.3**	**3.7**	**32.2%**			
CapitaLand Mall Trust	6,191	22,023	2.33	2.6	(5.7)	(7.5)	(6.8)	(12.4)	(3.3)	(5.3)	4.5	(15.3)	1.11	5.2	5.6	3.8	34.2%	2.2	7%	27%
Mapletree Commercial Trust	5,073	19,957	2.13	1.4	(7.4)	(9.4)	(10.1)	(5.5)	20.0	(10.9)	20.7	(14.1)	1.21	4.4	4.6	3.0	33.1%	3	4%	25%
SPH REIT	1,986	2,237	1.00	(1.0)	(4.8)	(5.7)	(5.7)	(8.3)	(2.0)	(6.5)	0.0	(13.8)	0.94	5.7	5.9	4.3	30.1%	1.9	11%	23%
Frasers Centrepoint Trust	2,281	4,744	2.83	1.4	(4.7)	(1.7)	3.3	1.8	24.8	0.7	27.6	(7.2)	1.28	4.6	4.6	3.2	23.5%	1.7	6%	37%
Starhill Global REIT	1,039	1,084	0.66	(2.2)	(5.7)	(10.2)	(8.3)	(11.4)	(5.0)	(9.0)	0.0	(17.5)	0.75	7.0	7.1	5.6	36.1%	5.4	14%	15%
Lendlease Global Commercial REIT	706	2,040	0.84	(2.3)	(5.6)	(8.7)	(10.2)	N.M	N.M	(9.7)	1.8	(12.5)	N.M	5.5	6.4	4.1	36.4%	4.9	0%	0%
Industrial (10)	**25,579**	**68,607**		**0.7**	**(5.0)**	**(0.7)**	**5.8**	**9.6**	**23.2**	**4.5**	**25.7**	**(8.8)**	**1.52**	**5.2**	**5.4**	**3.8**	**36.2%**			
Ascendas REIT	8,155	27,158	3.13	2.3	(3.4)	(0.6)	5.4	1.6	13.9	5.4	14.7	(6.6)	1.45	5.1	5.4	3.8	37.2%	4.1	9%	21%
Mapletree Industrial Trust	4,327	11,746	2.73	1.9	(5.2)	(1.8)	7.1	16.7	35.8	5.0	36.5	(8.4)	1.73	4.6	4.8	3.2	33.4%	3.4	12%	24%
Mapletree Logistics Trust	5,063	15,751	1.85	0.0	(6.6)	0.5	9.5	18.6	31.2	6.3	33.1	(11.1)	1.57	4.4	4.6	3.0	36.8%	4.8	16%	22%
Frasers Logistics Trust	1,971	N.M	1.21	(2.4)	(6.2)	(0.8)	(2.4)	(0.8)	8.0	(2.4)	9.0	(9.7)	1.33	6.3	6.3	4.9	35.4%	6.27	0%	6%
Keppel DC REIT	2,728	8,117	2.32	0.0	(7.2)	2.7	14.9	27.6	60.6	11.5	65.1	(9.0)	2.03	3.9	4.2	2.5	31.9%	7.8	2%	5%
Aims AMP Capital Industrial REIT	709	1,356	1.40	0.0	(3.4)	(4.1)	(2.1)	(1.4)	0.0	(2.1)	4.5	(6.7)	1.02	7.5	7.7	6.1	33.8%	2.4	0%	19%
Cache Logistic Trust	523	682	0.67	(2.2)	(5.0)	(4.3)	(5.6)	(7.6)	(6.9)	(6.3)	1.5	(17.3)	0.98	8.8	9.1	7.4	37.9%	3.2	9%	20%
ESR REIT	1,333	2,987	0.53	0.0	(2.8)	(2.8)	(0.9)	4.1	(1.7)	0.0	6.2	(6.0)	1.23	7.7	7.9	6.4	39.0%	3.6	13%	18%
Soilbuild Business Space REIT	437	499	0.48	(3.0)	(4.0)	(5.0)	(7.7)	(12.7)	(19.2)	(7.7)	3.2	(24.9)	0.81	9.4	9.6	8.0	39.4%	3.8	3%	22%
Sabana Industrial REIT	334	310	0.44	(2.2)	(3.3)	(5.4)	(5.4)	(3.3)	3.5	(4.3)	8.6	(9.3)	0.78	6.6	6.8	5.2	36.8%	2.4	22%	38%
Hospitality (4)	**5,543**	**13,595**		**(0.2)**	**(6.9)**	**(8.5)**	**(13.6)**	**(10.3)**	**(4.5)**	**(13.0)**	**2.5**	**(18.1)**	**0.81**	**6.4**	**6.8**	**5.1**	**35.5%**			
Ascott Residence Trust	2,598	6,832	1.17	(0.8)	(7.9)	(7.1)	(13.3)	(10.0)	2.6	(12.0)	2.6	(17.6)	0.78	6.4	6.8	5.0	32.8%	N.A	N.A	N.A
CDL Hospitality Trusts	1,197	4,837	1.37	(0.7)	(8.1)	(12.2)	(15.4)	(14.9)	(14.9)	(15.4)	2.2	(18.5)	0.90	6.6	6.9	5.3	34.1%	N.A	N.A	N.A
Far East Hospitality Trust	834	1,395	0.60	0.0	(5.6)	(12.5)	(19.6)	(10.5)	(7.8)	(19.6)	2.6	(24.2)	0.69	5.9	6.6	4.5	39.8%	N.A	N.A	N.A
Frasers Hospitality Trust	914	531	0.67	2.3	(3.6)	(3.6)	(6.3)	(5.0)	(8.3)	(6.3)	2.3	(13.6)	0.92	6.8	6.9	5.4	35.2%	N.A	N.A	N.A
Healthcare (2)	**2,046**	**2,809**		**(0.6)**	**(6.0)**	**(4.5)**	**1.9**	**6.6**	**13.2**	**1.4**	**16.1**	**(11.0)**	**1.54**	**5.3**	**5.3**	**3.9**	**35.7%**			
Parkway Life REIT	1,490	1,022	3.42	(0.3)	(6.6)	(4.5)	4.9	10.3	20.4	3.0	20.8	(10.0)	1.75	4.0	4.1	2.7	36.9%	6.66	N.A	N.A
First REIT	556	1,787	0.97	(1.5)	(4.5)	(4.5)	(6.3)	(3.5)	(6.3)	(3.0)	3.2	(13.8)	0.97	8.8	8.7	1.8	34.5%	8	N.A	N.A
Overseas - commercial (15)	**11,896**	**30,894**		**(1.3)**	**(6.2)**	**(7.4)**	**(6.3)**	**(5.4)**	**(1.5)**	**(7.1)**	**7.2**	**(16.8)**	**0.84**	**7.5**	**7.5**	**6.0**	**35.2%**			
ARA US Hospitality Trust	411	268	0.73	(3.3)	(14.7)	(14.7)	(14.7)	(14.7)	N.M	(16.7)	3.6	(19.4)	N.M	6.1	10.2	4.7	31.9%	N.A	N.A	N.A
Eagle Hospitality Trust	332	2,074	0.38	(6.2)	(19.1)	(24.0)	(26.9)	(43.3)	N.M	(30.3)	1.3	(51.3)	0.43	15.8	15.5	14.4	37.5%	N.A	N.A	N.A
Dasin Retail Trust	377	309	0.81	(0.6)	(1.8)	(3.0)	(3.0)	(5.8)	(9.0)	(3.0)	0.6	(10.5)	0.58	8.6	N.M	5.9	33.0%	3.9	19%	13%
EC World REIT	410	1,505	0.71	0.7	(2.1)	(1.4)	(4.7)	(2.7)	(6.6)	(4.7)	1.4	(11.8)	0.74	9.2	9.6	6.4	32.4%	4.6	3%	14%
Prime US REIT	1,003	170	0.96	0.0	(3.5)	(5.4)	(3.5)	6.7	N.M	(1.0)	10.4	(10.7)	1.07	6.9	7.3	5.5	37.0%	5.5	7%	7%
Mapletree NorthAsia Comm Trust	2,461	9,635	1.07	(2.7)	(7.8)	(10.1)	(8.5)	(18.3)	(15.7)	(7.8)	1.9	(27.7)	0.75	6.6	6.9	5.3	36.9%	2.8	21%	21%
CapitaLand Retail China Trust	1,219	4,186	1.40	(0.7)	(4.8)	(9.7)	(11.9)	(10.3)	(5.9)	(13.0)	2.9	(17.6)	0.90	7.1	7.5	4.3	33.8%	2.8	16%	26%
Lippo Malls Indonesia Retail Trust	427	635	0.21	(2.4)	(8.9)	(4.7)	(14.6)	(10.9)	0.0	(8.9)	7.3	(16.3)	0.73	11.7	11.2	4.7	35.2%	4.31	7%	20%
Manulife US REIT	1,477	4,741	0.94	(3.1)	(7.8)	(11.3)	(3.1)	4.3	12.3	(6.0)	13.7	(13.0)	1.18	6.6	6.7	5.5	37.1%	6.2	2%	8%
BHG Retail REIT	232	492	0.64	0.8	(1.6)	(3.1)	(8.6)	(8.0)	(9.9)	(7.3)	5.0	(16.4)	0.80	N.M	N.M	N.M	37.0%	3.5	29%	24%
Keppel Pacific Oak US REIT	679	1,651	0.73	(1.4)	(8.8)	(8.2)	(5.8)	(4.0)	9.0	(7.1)	9.0	(11.6)	0.82	8.3	8.3	7.2	37.7%	3.8	4%	14%
Sasseur REIT	689	2,554	0.80	1.3	0.6	0.6	(7.0)	1.9	3.9	(9.6)	11.1	(13.0)	0.94	7.9	8.4	5.1	29.7%	1.5	42%	29%
Cromwell European REIT	1,511	2,377	0.54	0.9	(4.5)	(1.8)	2.9	7.0	4.9	(0.9)	15.1	(8.5)	1.04	7.7	7.7	8.3	35.4%	4.7	8%	6%
Elite Commercial REIT	312	N.M	0.74	(0.7)	(2.0)	N.M	N.M	N.M	N.M	N.M	5.0	(3.3)	1.39	6.5	6.7	6.5	33.6%	8.6	0%	0%
IREIT Global	356	298	0.78	0.6	(6.1)	(6.6)	(3.1)	3.3	4.7	(4.3)	5.4	(12.4)	0.91	7.6	7.7	8.2	39.7%	4.2	1%	1%

Price as at 3rd Mar 2020
Source: Bloomberg, RHB

Key Risks

Ability to retain its key tenants: Medium risk

Nearly 80% of IREIT's income comes from two of its largest tenants – telecoms player Deutsche Telekom and pension fund DVR. Hence, the ability to retain these Top two tenants play a vital role in providing stable income for REIT holders. Although the two tenant's sectors are sticky in nature, any major plans to move or rationalise their office space might result in transitional vacancies and higher capex. In turn this will have an adverse impact for unitholders

Dilutive equity fundraising to fund acquisitions: Medium risk

IREIT's current trading yields are in the high 7% level when compared to office cap rates in Germany and Spain: c.5%. As a result, acquisitions – including IREIT's Spanish portfolio – which are funded by a combination of equity and debt pose near-term DPU dilution risks. However, we believe such moves – as long as it merits a longer-term view (in terms of occupancy and rent growth) – should benefit unitholders in the long run. The fundraising should also help in improving the trading liquidity and visibility, which – in our view – is one of the reasons behind the higher trading discount when compared to peers.

Unfavourable FX movements: Medium risk

Over the last two years, the EUR has been on a depreciating trend against the SGD – declining by nearly by 8%. While IREIT has a policy of hedging c.80% of its income – to be repatriated to Singapore from overseas on a quarterly basis, one year in advance – a continued depreciation of the EUR will have a mid- to long-term negative impact on distributions on a SGD basis.

Sharp economic slowdown in Eurozone: Medium risk

Eurozone economic growth has moderated over the years on trade tensions and geopolitical uncertainties, including Brexit. Based on the European Central Bank's Sep 2019 forecasts, the EUR area's expected 2019-2021 GDP growth are: 1.1%, 1.2%, and 1.4%. By comparison, it stood at 1.9% in 2018. A prolonged slowdown in GDP on trade tensions could weigh in on office market demand.

Disorderly sell down by major shareholder: Low risk

Summit Property Development Chairman and Chinese real estate developer Tong Jinquan is currently the largest shareholder in IREIT with a 35% stake. While he has sizeable stakes in other SREITs too and the risk of a disorderly sell down remains low, a potential open market sell down – due to unavoidable circumstances – could have a negative impact on the share price. However, we believe that, in such circumstances, the REIT's sponsors could step up and mitigate the impact.

Changes in tax structures: Low Risk

SREITs currently enjoy zero taxes on distributions made from foreign-sourced income. These tax concessions – which were supposed to lapse in March – have been extended until Mar 2025. Our base case is that the Government will continue to maintain this tax concession beyond 2025 to maintain Singapore's status as global REIT hub. However, any adjustments to this tax structure will adversely impact IREIT and other overseas REITs.

Terrorism and natural disaster risks: Low Risk

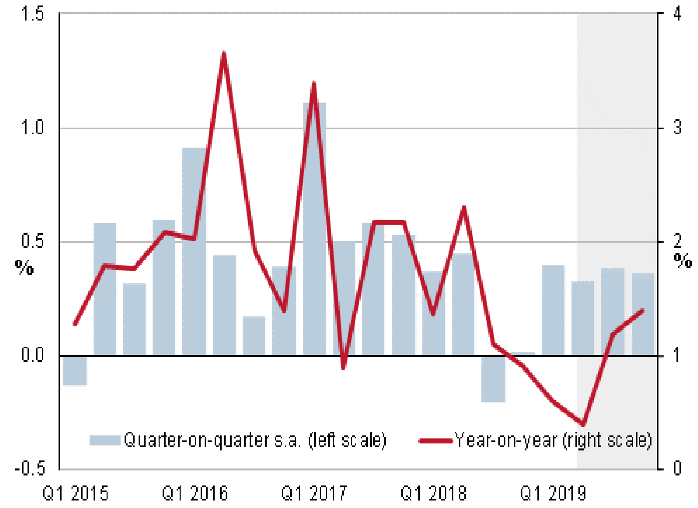
The rising global terrorism scourge and natural disasters poses a threat to IREIT's office properties. While most of these risks are adequately covered by insurance claims, there could be temporary loss of income or tenant movements arising from such disasters. These could potentially impact IREIT's performance.

Industry Outlook

Germany seeing slower export-led growth, but domestic demand remains resilient. Germany's economic growth slowed in 2019 with GDP growth of 0.6%, the lowest rate in the last six years on the back of export weakness. However, the sustained weak world trade growth is expected to be offset by domestic forces, with consumer confidence remaining high. Private consumption remains a key pillar of the economy, and is expected to increase by 1.3% this year. However, the manufacturing sector is unlikely to generate much in the way of growth. The OECD expects GDP to grow by 0.4% in 2020 and 0.9% in 2021.

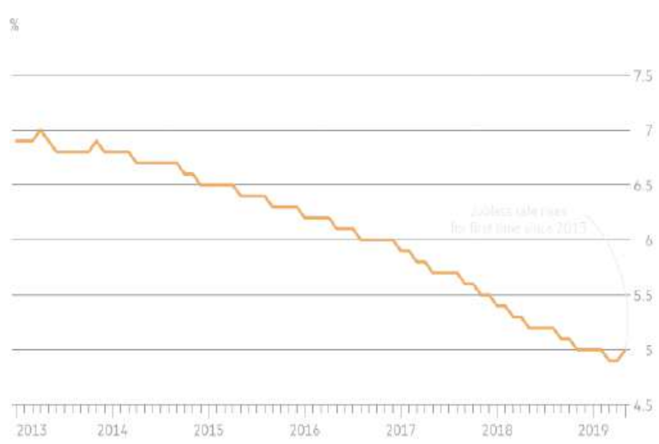
Employment growth slowed over the course of 2019, but remains positive based on the latest data showing the unemployment rate at a record low of 5% (Figure 22). The OECD noted that the implementation of various fiscal measures such as higher tax allowances, child benefits and pensions is expected to continue stimulating demand, albeit at a slower pace in 2020. Overall, it expects unemployment to increase only slightly as the flexible government-supported short-term work programmes absorb some labour market slack as long as the slowdown is temporary.

Figure 21: Germany GDP growth chart



Source: Federal Statistics Office, Focus Economics Consensus Forecast

Figure 22: Unemployment rate (%)



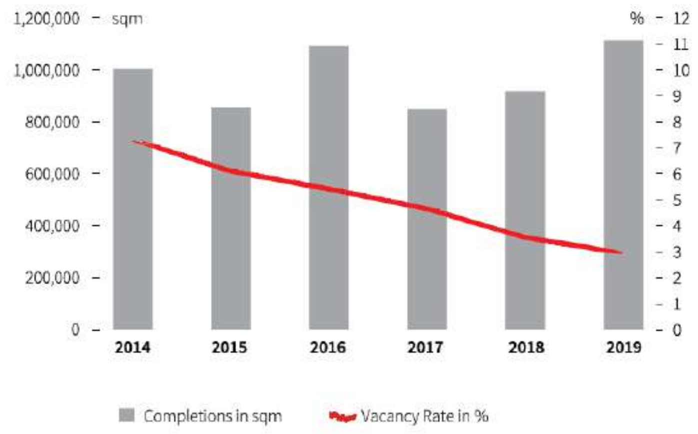
Source: Factset, Financial Times

Healthy take-up rates in Germany's Big 7 cities. Based on JLL's office report on the Big 7 cities (Berlin, Dusseldorf, Frankfurt, Hamburg, Cologne, Munich region and Stuttgart), office space take-up exceeded 4m sq m in 2019 (+1.8% YoY). For 2020, JLL expects take-up in most of the seven large markets to decline by an average of 4% compared to 2019, to reach just under 3.9m sq m on a muted demand outlook.

Tech still a growth driver, co-working space demand slowing down. Germany is proving to be an internationally competitive location for the tech industry. In 2019, Apple and Google expanded their presence significantly in Munich, while Tesla announced Berlin as the site of its manufacturing plant. For the third consecutive year, take-up by flexible operators exceeded the 200k sq m mark, but demand was down 18% YoY in 2019. JLL notes that the main reason for the decline has been shortage of space in primary locations and landlords looking more closely at the sustainability of the concept. It expects the demand from this segment to be below the 200k sq m mark in 2020.

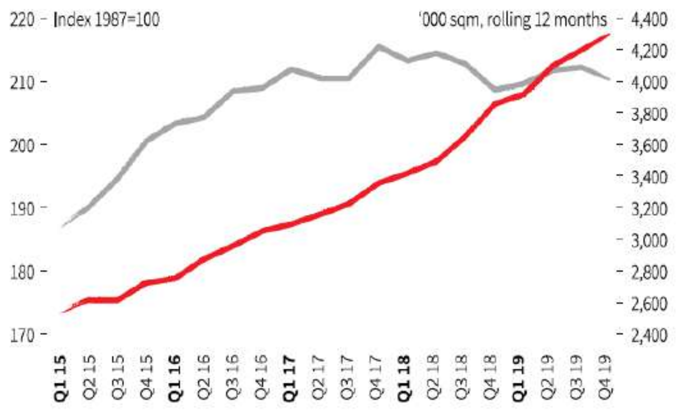
Supply remains limited, with the vacancy rate reaching 3% threshold. On the supply side, it is still the case that little space is available at central locations. In terms of demand, the weakening economy will likely affect the office lettings markets with a corresponding time lag. JLL adds that companies have for some time been seeking office spaces beyond sub-market borders and at times in secondary locations or even in surrounding areas, but increasingly without success. As a consequence, tenants are staying put, and are restructuring and renovating their existing premises. The aggregate vacancy rate for the Big 7 stood at exactly 3% by the end of December, 0.6 percentage points below the previous year's level. Even the increase in construction activity in 2020 will not be enough to prevent vacancies from falling again. On the contrary: we expect the average vacancy rate to hit the bottom this year at 2.9%.

Figure 23: Office completion and vacancy rates in Big 7



Source: JLL Report 4Q19

Figure 24: Prime rental index and take-up in Big 7



Source: JLL Report 4Q19

Figure 25: Prime office rents (EUR/sq m/month)

	Q4 2018	Q4 2019	%
Berlin [1]	34.00	37.00	8.8
Düsseldorf [2]	28.00	28.50	1.8
Frankfurt/M [3]	40.00	41.50	3.8
Hamburg [4]	28.00	29.00	3.6
Cologne [5]	23.50	26.00	10.6
Munich Region [6]	39.00	41.00	5.1
Stuttgart [7]	23.50	24.50	4.3

Source: JLL Report 4Q19

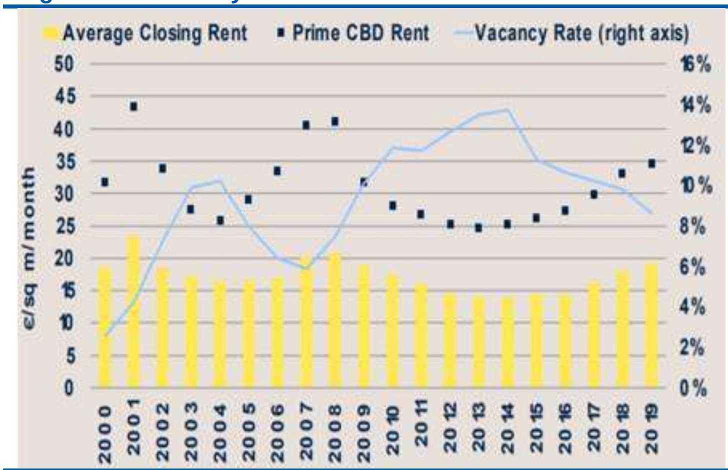
Berlin overview: Strong take-up results in rents surging. According to JLL, the Berlin office space market ended the year with a new record take-up of c.998,500 sq m let last year, 276,100 sq m of which were concluded in the fourth quarter. It is interesting to note that the letting market was shaped particularly by a number of major transactions, with the five largest deals accounting for 17% of the total take-up. JLL notes that it is increasingly apparent that a growing number of companies are relocating to or expanding their headquarters in the capital, and in the course of this are looking for large premises – which is positive. As a result of the shortage of space and high demand, Berlin's rental prices reached new record levels in 2019. For instance, the prime rent increased by 9.0% to EUR37.00/sq m/month and the weighted average rent rose by 22% to EUR25.70/sq m/month.

Spain – Economic overview. Spain's GDP grew 0.5% QoQ and 1.8% YoY in 4Q19, bringing 2019 GDP growth to 2% YoY (2018: 2.4% YoY). The better performance was mainly driven by higher export growth, offset by weakness in private consumption and lower investment, especially in the construction sector, and lower inventory build-up. OECD expects this economic growth moderation to continue, with a projected GDP growth of 1.6% in 2020 and 2021. Employment growth similarly continues to grow, albeit at a slower pace of 2% in 2019. The overall unemployment rate, which is currently at 14.2%, is thus expected to decline further to 13.6% by 2021 based on OECD forecasts.

Madrid office market overview. Based on Savills Aguirre Newman (Savills) data, 9M19 office take-up of close to 515k sq m in Madrid is higher 13% YoY, and represents 84% of 2018 total office take-up. The volume of available space in the Madrid office market continues to decrease. Nearly 1.17m sq m of available space was vacant at the end of September, leaving the vacancy rate of the total market at 8.6%. According to Savills, about 390k sq m of supply is expected to hit the market in 2020-21, of which 75k sq m are already committed (20% of the total).

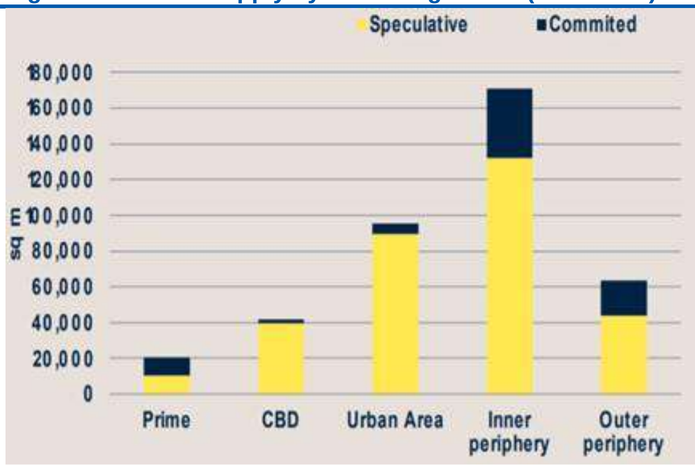
As at end-3Q19, the achievable prime CBD rent stood at EUR34.50/sq m/month (+6.2% YoY), while prime rent outside the core M-30 market remained at EUR18.50/sq m/month (+5.7%). With growing demand and lack of availability of quality office space, rents are expected to continue its rising trend based on Savills' analysis.

Figure 26: Vacancy rates and rents - Madrid



Source: Savills Aguirre Newman 3Q19

Figure 27: Future supply by marketing status (2020-2021)



Source: Savills Aguirre Newman 3Q19

Barcelona office market overview. For 9M19, the accumulated take-up of office space in Barcelona stood at 328,000 sq m, a 5% increase from the same period last year based on Savills' data. The report adds that the supply of office space in Barcelona maintains a downward trend that began in 2013. Prime CBD and the city centre, with vacancy rates of 1.3% and 2.7%, respectively, are close to 100% occupancy. Office market rents continue to rise, with an increase of 8.3% YoY for the weighted average rent by surface area size, with the periphery market registering the most notable growth. Savills notes that lack of quality spaces for immediate occupancy pushes demand towards pre-let agreements, especially for large spaces, which will allow the persistence of insufficient supply. As such, the imbalance between supply and demand will maintain an upward trend in rents.

Annex A: Portfolio Property Details

IREIT's portfolio comprises nine freehold office assets. Five are located across key German cities and account for the bulk of its value at 91%, and boast near full occupancy. The assets are mainly campus style with inbuilt amenities like canteens and other services surrounding the buildings, and have a sticky tenant base. In Dec 2019, IREIT also acquired a 40% stake in four Spanish assets in Barcelona and Madrid.

Figure 28: German portfolio assets summary

	BERLIN CAMPUS	BONN CAMPUS	DARMSTADT CAMPUS	MÜNSTER CAMPUS	CONCOR PARK	TOTAL
City	Berlin	Bonn	Darmstadt	Münster	Munich	
Completion Year	1994	2008	2007	2007	1978 and fully refurbished in 2011	
Ownership	100.0%	100.0%	100.0%	100.0%	100.0%	
Lettable Area (sqm)	79,097	32,736	30,371	27,258	31,401	**200,863**
Car Park Spaces	496	652	1,189	588	516	**3,441**
Occupancy Rate[1]	100.0%	100.0%	100.0%	100.0%	98.2%	**99.7%**
No. of Tenants	7	1	1	2	17	**25**
Key Tenant(s)	Deutsche Rentenversicherung Bund	GMG, a wholly-owned subsidiary of Deutsche Telekom	GMG, a wholly-owned subsidiary of Deutsche Telekom	GMG, a wholly-owned subsidiary of Deutsche Telekom	Allianz, ST Microelectronics, Ebase, Yamaichi	
WALE[2]	4.5	3.3	2.8	3.6	7.3	**4.2**
Independent Appraisal[3] (€ m)	217.0	113.7	90.6	62.8	90.8	**574.9**

Source: Company

Berlin Campus. This is the largest property in IREIT's portfolio, accounting for 34% of total value. Comprising two fully connected 8- and 13-storey blocks, the property is tailored to the requirements of DRV, the current single office tenant which has occupied the office space since construction in 1994. In 2018, DRV did not exercise its lease break option to return part of its leased space, thus effectively bringing the next break option to 2022. The ground floor units are leased to local retailers and service providers.

The campus is located in Schreiberhauer Straße in the Lichtenberg district, 6km east of Berlin city centre. Lichtenberg is located near the well-established Media Spree commercial centre. Within walking distance to the Ostkreuz railway station, the campus is easily accessible by the S-Bahn (local railway) as well as regional trains and buses.

Bonn Campus. This is the second largest asset, representing 18% of total portfolio value. Centrally located in Bonn's prime office area of Bundesviertel (federal quarter), the campus is well-served by regular bus services, while the nearest underground train station, U-Bahn, is only 100m away. A footbridge links the property to the global headquarters of Deutsche Telekom, which is located directly opposite.

The U-shaped development comprises four 2-, 4- and 6-storey blocks that can be sub-divided into smaller offices, or function as independent self-contained units. The campus has been built to high standards, with extensive and state-of-the-art technical equipment. It currently operates as a single tenant property with a central entrance and a canteen facility for employees.

Figure 29: Berlin Campus

Source: Company

Figure 30: Bonn Campus

Source: Company

Figure 31: Darmstadt Campus

Source: Company

Figure 32: Munster Campus

Source: Company

Figure 33: Concor Park

Source: Company

Darmstadt Campus. This is the third largest asset, accounting for 14% of total portfolio value. The property is occupied by a single tenant, Deutsche Telekom, and is its second largest campus in Germany. The property is well-incorporated into the overall Deutsche Telekom campus, which provides canteen and other services in the surrounding buildings.

Located in the TZ Rhein Main Business Park, approximately 30km south of Frankfurt, the campus is a convenient 100m from the nearest bus stop and 600m from the Darmstadt central railway station. The six 5- and 7-storey office blocks are linked to form a double-H shape, and offer 363 underground parking spaces. There is also a separate car park located 300m away with eight above-ground parking decks for another 826 vehicles. The campus meets high building standard specifications and its office blocks can be sub-divided into smaller units.

Concor Park. Concor Park accounts for 14% of total portfolio value. The property operates as a multi-tenanted (17 tenants) business park with a central canteen and a coffee bar. It is located within a commercial area in the community of Aschheim-Dornach, adjacent to the city limits of Munich, Germany's third largest city by population. Convenient and easily accessible, it is adjacent to the S-Bahn (local railway) train and bus depot for the area.

The 5-storey building (with three independent wings and entrances) was fully refurbished with a modern office fit-out in 2011. In 2016, Concor Park became the first redevelopment project in Germany to be awarded the prestigious Green Building Gold Certificate by the German Sustainable Building Council.

Munster Campus. This is the smallest German asset, accounting for 10% of portfolio value. Located in Zentrum Nord, approximately 2.5km north of the Munster city centre, the campus is within walking distance to the nearest train and bus depot.

The development comprises two independent high quality office buildings, Munster North and Munster South. Each 6-storey building is built around an open courtyard to allow for maximum penetration of natural light. The campus includes a standalone multi-storey carpark.

Figure 34: Spanish portfolio assets summary

	DELTA NOVA IV	DELTA NOVA VI	IL·LUMINA	SANT CUGAT GREEN	TOTAL
City	Madrid	Madrid	Barcelona	Barcelona	
Completion Year	2005 and refurbished in 2015	2005 and refurbished in 2015	1970s and fully redeveloped in 2004	1993	
Ownership	40.0%	40.0%	40.0%	40.0%	
Agreed Value[1] (€ m) 100% (40%)	28.7 (11.5)	39.8 (15.9)	25.4 (10.2)	39.9 (16.0)	**133.8 (53.5)**
Lettable Area (sqm) 100% (40%)	10,218 (4,087)	14,855 (5,942)	20,922 (8,369)	26,134 (10,454)	**72,129 (28,852)**
Parking Spaces	249	384	310	580	**1,523**
Occupancy Rate[2]	93.6%	94.5%	69.2%	77.1%	**80.7%**
No. of Tenants	11	9	12	4	**28**
Key Tenant(s)	Gesif, Anticipa, E-Voluciona, Aliseda	Almaraz, Clece, Digitex	Catalan Media, Digitex, Coca Cola European Partners	DXC Technology, Roche, Sodexo	
WALE[3]	4.2	2.7	3.2	5.7	**4.1**
Independent Appraisal[4] 100% (40%) (€ m)	30.1 (12.0)	40.4 (16.2)	26.1 (10.4)	41.7 (16.7)	**138.3 (55.3)**

Source: Company

Delta Nova IV and Delta Nova VI are two office buildings forming an office complex located in the consolidated business office area of Manoteras, north of Madrid. Delta Nova IV comprises a ground floor, four upper floors and two basement parking levels with 249 parking spaces, while Delta Nova VI comprises a ground floor, six upper floors and two basement parking levels with 384 parking spaces. In 2015, the two office buildings had renovations done to their facades, awnings, atriums, lobbies, central patio and green areas, and were awarded the Gold certification under the Leadership in Energy & Environmental Design (LEED) rating system from the US Green Building Council.

Delta Nova IV and Delta Nova VI are currently multi-tenanted and are leased to a number of blue-chip companies, including:

i. Clece (service provider of logistics, facility management, cleaning, education, social, hotel, catering, public administration, laundry, and waste management services in Spain, Portugal and the UK),

ii. Digitex (a multinational company providing integrated management solutions across its offices in Spain and the Americas),

iii. Gesif (part of Cabot Credit Management Group, the UK and Ireland's largest servicer of non-performing loans), and

iv. Almaraz Nuclear Power Plant (largest electricity generation plant in Spain).

As at 1 Dec 2019, Delta Nova IV has 11 tenants and a WALE of 4.3 years, while Delta Nova VI has nine tenants and a WALE of 2.8 years.

Il·lumina is an office building located in Esplugues de Llobregat, a mixed use office and industrial area which includes a technology and audio-visual office cluster, located 5km from the financial district of Barcelona (Avenida Diagonal). It has a total GLA of 20,922 sq m over two basements, a lower ground floor, a ground floor, three upper floors and 310 parking spaces (of which 87 are for motorbikes). Il·lumina was originally built in the 1970s, and was fully refurbished in 2004 into an office building, maintaining its original exterior while enhancing its functionality and design. Further recent investment was made to provide for recent technologies, earning it the LEED Silver certification. It provides flexible office floors with ceilings from 2.7m up to four metres high, and supplies a wide variety of services including meeting rooms, gym, changing rooms, a cafeteria and an auditorium with 90 seats for its tenants. Il·lumina also offers over 3,800 sq m of fully equipped TV studios.

Il·lumina is currently home to 12 tenants, including the Catalan Media Corporation (public radio and Television Company in Catalonia owned by the Government of Catalonia), Digitex and Coca-Cola European Partners plc (multinational bottling company dedicated to the marketing, production and distribution of Coca-Cola products) as its main tenants. As at 1 Dec 2019, Il·lumina has a WALE of 3.2 years.

Sant Cugat Green is a modern office building in Barcelona comprising three basement levels, a ground floor and four upper floors, and 580 parking spaces (of which 30 are for motorbikes). It is also equipped with a 5,146 sq m data centre space and a restaurant for internal use by its tenants. Sant Cugat Green is LEED Gold certified.

Sant Cugat is an attractive periphery office submarket within the metropolitan area of Barcelona. This has attracted a number of well-known companies such as Hewlett-Packard, Grifols, Roche, Sabadell Bank, Ricoh to be situated in the area.

Originally built in 1993 as Deutsche Bank's Southern Europe headquarters, it then became the main local office for two important international companies, DXC Technology (spin-off from Hewlett-Packard) and Roche (Swiss multinational healthcare company). As at 1 Dec 2019, Sant Cugat Green has four tenants and a WALE of 6.8 years.

Annex B: Sponsor Details

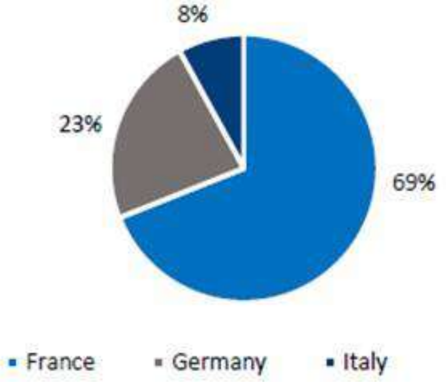
IREIT Global Group, a subsidiary of Tikehau Capital, is an asset management and investment group listed in France. City Developments Limited (CDL), a leading real estate operating company listed in Singapore, is also a strategic investor in the REIT manager. Tikehau and City Developments own equal 50% stake in the REIT manager and have a stake of 16.4% and 12.4% respectively in the REIT.

Tikehau Capital

Tikehau Capital is an asset management and investment group with EUR25.8bn of assets under management as at 30 Dec 2019 (up 17% YoY), and shareholders' equity of EUR3.1bn as at 30 June 2019, with first tier institutional investors such as Temasek Holdings, MACSF, FFP and Credit Mutuel ARKEA. Tikehau Capital is listed on the regulated market of Euronext Paris, compartment A. In Jun 2019, Tikehau Capital raised EUR715m of additional shareholders' equity, the second largest capital increase in France so far in 2019, to finance its next phase of growth. With the capital increase, Tikehau Capital is the third largest capitalised alternative asset manager in the world.

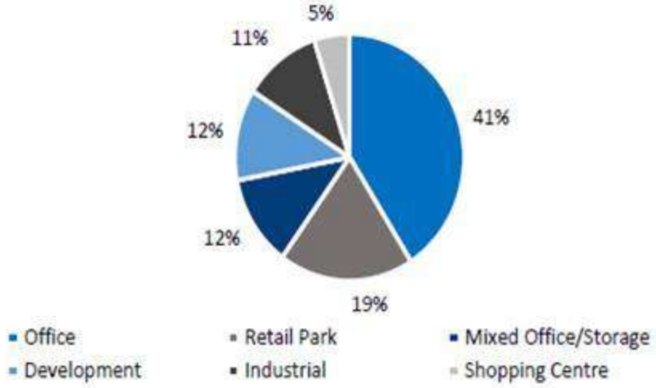
The group invests in various asset classes (private debt, real estate, private equity and liquid strategies), including through its asset management subsidiaries, on behalf of institutional and private investors. Controlled by its managers, alongside leading institutional partners, Tikehau Capital employs more than 500 staff in its Paris, London, Amsterdam, Brussels, Luxembourg, Madrid, Milan, New York, Seoul, Singapore and Tokyo offices.

Figure 35: Tikehau's real estate AUM by country



Source: Company Data, As at end Dec-18

Figure 36: Real estate lettable area by asset class



Source: Company Data, As at end Dec-18

City Developments

City Developments Limited (CDL) (CIT SP, NEUTRAL, TP: SGD 10.50) is a leading Singapore-listed real estate operating company with a global network spanning 103 locations in 29 countries and regions. Building on its proven track record of over 55 years in real estate development, investment and management in Singapore, CDL has developed its growth platforms in its key international markets of China, United Kingdom, Japan and Australia, and is also developing a fund management business.

CDL's London-based subsidiary, Millennium & Copthorne Hotels, is one of the world's largest hotel chains with over 145 hotels worldwide. Besides IREIT, the group also manages hospitality-based SREIT CDL Hospitality Trusts (CDREIT SP, NEUTRAL, TP: SGD1.62).

CDL became a strategic investor in Apr 2019 with a purchase of stake in the REIT manager and becoming a major shareholder. The strategic investment in IREIT is expected to bring the following benefits:

i. Further diversification of its unitholders base;

ii. Greater expertise and reach in the real estate sector;

iii. Stronger financial capabilities.

Annex C: Key Management Team

Figure 37 : Key management team

Name	Designation	Major Appointments/Past Experience
Aymeric Thibord*	Chief Executive Offer	20 years of experience, having worked for several major real estate investors such as Archon Group France (Goldman Sachs' real estate arm) and Société Générale Asset Management.
Choo Boon Poh	Chief Financial Officer	More than 18 years of experience in audit, banking and corporate finance-related work. Previously served as Director of Corporate Finance for Southeast Asia with BNP Paribas Capital (Singapore). Focusing mainly on the real estate sector and REIT transactions, he and his team successfully launched several initial public offerings of REITs in Singapore.
John Lim Kok Min	Chairman and Independent Non-Executive Director	John Lim has over 45 years of senior corporate experience in both the private and public sectors, and has worked in various countries in Southeast Asia, holding board appointments in these countries and in Australia and New Zealand. He has been the Chief Executive Officer of Cold Storage Holdings, President and Executive Deputy Chairman of LMA International NV, and Group Managing Director of Pan-United Corporation and JC-MPH.
Kelvin Tan Wee Peng	Independent Non-Executive Director and Chairman of Audit and Risk Committee	Kelvin Tan has more than 30 years of professional experience in the private and public sector. He has held senior management positions, serving as President of AETOS Security Management from 2004 to 2008 and as Global Head of Business development at PSA International from 2003 to 2004. From 1996 to 2003, he was with Temasek Holdings, where his last held position was as Managing Director of its Private Equity Funds Investment Unit.
Nir Ellenbogen	Independent Non-Executive Director and Chairman of Nominating and Remuneration Committee	Nir Ellenbogen has over 20 years of leadership and experience in the fields of medical technology and IT systems & software. He is the Managing Director of Eye-Lens, a multidisciplinary medical devices distributor, and the Chief Executive Officer of CeePro, a medical devices manufacturer. He is also the Managing Director of Focalpoint Asia, a sole proprietorship that provides medical consultancy services.
Bruno De Pampelonne	Non-Executive Director	Bruno de Pampelonne has 33 years of experience in various segments of the financial markets, from debt and real estate to equity, and from banking to asset management. He is currently a Senior Partner at Tikehau Capital and Chairman of Tikehau Investment Management SAS.
Tong Jinquan	Non-Executive Director	Tong Jinquan has more than 20 years of experience in property investment, development and management in China. He is the founder and Chairman of the Summit Group, which he established in 1994 and whose growth he has been responsible for overseeing.
Ho Toon Bah	Non-Executive Director	Ho Toon Bah has over 20 years of experience in the banking and real estate industry. As an Executive Director of Soilbuild Construction Group, a general construction group with three decades of operating history, he supports the strategic growth of its operations, and drives the development and execution of its business strategies. His areas of responsibilities include capital management, human resources and investor relations.

** The CEO tendered his resignation recently and is serving its notice period until 10th May 2020*

Source: RHB, Company data

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