Singapore Sector Update

22 January 2024

Property | REITS

REITS

Overweight (Maintained)

A "Pivot"-al Year

Stocks Covered	14
Rating (Buy/Neutral/Sell):	12 / 2 / 0
Last 12m Earnings Revision Trend:	Negative

- **Keep OVERWEIGHT; a better 2024 on the cards.** YTD, S-REIT's have retreated by -4%, slightly underperforming the STI (-3%). This comes after a sharp rally during last two months of 2023 from positive inflation data and earlier-than-expected dovish US Federal Reserve (US Fed) pivot. We see the current pullback as temporary and an opportunity, as we expect S-REITs to outperform in 2024, with tailwinds from better economic growth and rate cuts. Sector news flows is expected to be incrementally positive, both operationally and on the balance sheet front, over the course of 2024.
- **Investment strategy.** The US Fed's rate cuts and messaging surrounding the quantum and timing will continue to be the dominant theme and driver of S-REITs performance in 2024, in our view. RHB economists expect rate cuts to commence in 2H while expecting economic growth to be much stronger with a forecasted Singapore's GDP growth of 3%, ie >2x that of 2023's. Amid such market conditions, we expect cyclical recovery plays – ie office and hospitality – as key beneficiaries and to outperform. We continue to recommend investors to add on market corrections with a balanced mix of industrial REITs for stable yields, as well as a mix of office, hospitality, and retail REITs to ride on the recovery and rebound from the turn in the interest rate cycle. CapitaLand Ascendas REIT, Keppel REIT, AIMS APAC REIT, and CDL Hospitality Trusts remain our Top Picks.
- **Balance sheet metrics still the key near-term focus...** We expect the upcoming earnings season to be muted and unexciting from a DPU standpoint – the majority of the REITs are set to post YoY declines, dragged down by higher interest costs. Investors are likely to continue to place emphasis on the capital management front, ie gearing and hedging, as S-REITs navigate the tail-end of peak interest rates. Valuations outlook for overseas markets – Australia, the US, UK, and Europe – remains negative, with up to 10% declines expected from 50-150bps expansion in cap rates. Meanwhile, Singapore asset values are expected to remain largely stable. However, we do believe we are at the peak of the asset devaluation cycle, with the possibility of upward revisions in 2024 for overseas assets.
- **...with a shift to operational leverage expected in 2H.** With the Singapore economy set to gather pace this year, we expect investor emphasis to turn to operational resilience (occupancy and rent reversions) and the impact to bottomlines. S-REITs' focus since 2H22 has mainly been on divestments in order to lighten balance sheets and deploy some of this capital to extract value from existing portfolios via asset enhancements. We expect this trend to continue into 1Q24 but, moving into 2H, we expect acquisitions and potentially new listings to make strong comebacks. Overall, S-REITs made c.SGD3bn in acquisitions last year (-36% YoY). For 2024, we expect this to nearly double to SGD5-8bn in value.
- **Key catalysts** remain strong fund flows from institutional investors, rate cuts, and higher economic growth. The economy tipping into a severe recession remains the key risk.

Company Name	Rating	Target	% Upside (Downside)	P/E (x) Dec-24F	P/B (x) Dec-24F	ROAE (%) Dec-24F	Yield (%) Dec-24F
AIMS APAC REIT	Buy	SGD1.48	12.7	10.0	1.0	9.9	7.6
CapitaLand Ascendas REIT	Buy	SGD3.20	11.0	24.5	1.2	4.9	5.5
Capitaland Integrated Commercial Trust	Buy	SGD2.00	2.2	16.6	0.9	5.6	5.5
CDL Hospitality Trusts	Buy	SGD1.23	20.6	27.4	0.7	2.6	6.7
Cromwell European REIT	Buy	EUR2.10	48.9	9.2	0.6	6.6	11.1
ESR-LOGOS REIT	Buy	SGD0.38	17.9	11.5	1.0	8.8	7.8
Frasers Centrepoint Trust	Neutral	SGD2.12	(3.6)	18.2	0.9	5.2	5.5
IREIT Global	Buy	SGD0.47	15.2	10.9	0.6	5.1	8.5
Keppel Pacific Oak US REIT	Buy	USD0.48	46.9	11.4	0.5	4.3	14.5
Keppel REIT	Buy	SGD1.08	18.9	13.9	0.7	4.8	6.5
Manulife US REIT	Buy	USD0.13	89.9	2.2	0.2	8.6	-
Prime US REIT	Buy	USD0.35	80.4	5.5	0.3	5.4	20.0
Starhill Global REIT	Buy	SGD0.58	15.1	9.2	0.7	7.3	7.6
Suntec REIT	Neutral	SGD1.20	0.5	16.7	0.6	3.4	5.2

Source: Company data, RHB

Top Picks

Top Picks	Target Price
CapitaLand Ascendas REIT – BUY	SGD3.20
Keppel REIT – BUY	SGD1.08
CDL Hospitality Trusts – BUY	SGD1.23
AIMS APAC REIT – BUY	SGD1.48

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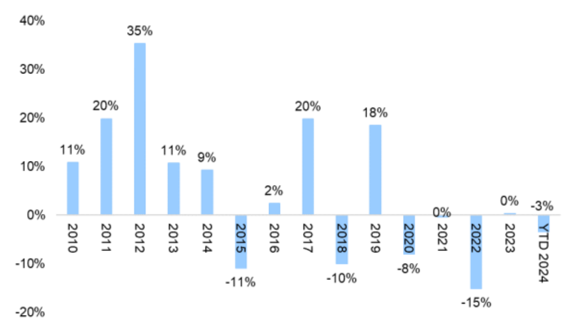
FTSE REIT index's performance

Source: Bloomberg

FTSE REIT annual absolute returns (%)



Source: Bloomberg

A flattish FY24 DPU outlook with a recovery anticipated in FY25. While interest rates have likely peaked, we believe the lag impact from high interest costs will continue to weigh heavily on S-REITs DPUs in FY23 and FY24 – outpacing topline growth. This is on the back of the ongoing repricing of cheap debt secured during the previous low interest rate cycle and floating rate loans. However, signs are emerging that financing costs are nearing their peak and, based on management teams' guidance during the latest briefing sessions season, we are likely to see this happening by mid-2024.

As such, we hold the view that downside risks to consensus' DPU forecasts, from here on, are likely to be minimal. Conversely, with the Singaporean economy expected to grow more than double that of last year's numbers, we believe there is room for operational upsides, especially in terms of rent growth and occupancy uplift. We also see room for upside revisions to our and Street's DPU forecasts should the US Fed start its interest rate cuts early, ie in March.

In addition, as we near the tail-end of the interest rate cycle, and with rate cuts projected across all major markets, this should mark the potential end of asset repricing as valuations decline. Hence, investors are likely to take cues from the steep trading discounts to S-REITs' BVs and could look for bargains across the sector instead of buying physical assets directly.

Figure 1: DPU growth, P/BV, and P/E comparison of S-REITS under our coverage

Company name	Market cap (USD m)	Rating	TP	P/E (x) 1FY	P/E (x) 2FY	P/E (x) 3FY	P/BV (x) 1FY	P/BV (x) 2FY	P/BV (x) 3FY	Yield (%) 1FY	Yield (%) 2FY	Yield (%) 3FY	DPU growth (%) 1FY	DPU growth (%) 2FY	DPU growth (%) 3FY
AIMS APAC REIT	796	Buy	1.48	10.7	9.9	9.6	1.0	1.0	1.0	7.5	7.5	7.7	-2.0	0.0	2.5
CapitaLand Ascendas REIT	9,514	Buy	3.20	20.8	24.8	21.4	1.2	1.2	1.2	5.4	5.4	5.6	-0.6	0.6	3.0
CDL Hospitality Trusts	955	Buy	1.23	27.6	27.7	27.8	0.7	0.7	0.8	6.5	6.7	6.8	19.3	2.4	2.8
CapitaLand Integrated Commercial Trust	9,760	Buy	2.00	18.3	16.6	16.6	0.9	0.9	0.9	5.5	5.5	5.6	1.3	0.1	1.9
Cromwell European REIT	882	Buy	2.10	18.0	9.4	8.6	0.6	0.6	0.6	10.8	10.8	11.0	-9.1	-0.1	1.6
ESR-LOGOS REIT	1,831	Buy	0.38	61.6	11.5	12.8	0.9	1.0	1.0	8.0	7.8	7.9	-14.4	-3.2	1.1
Frasers Centrepoint Trust	2,854	Neutral	2.12	19.2	16.8	16.6	1.0	1.0	0.9	5.4	5.5	5.5	-0.4	1.7	0.6
IREIT Global	405	Buy	0.47	na	10.9	10.3	0.6	0.6	0.6	7.1	8.5	9.2	-27.7	20.6	8.1
Keppel Pacific Oak US REIT	350	Buy	0.48	na	11.6	6.0	0.5	0.5	0.5	14.5	14.3	14.7	-16.5	-0.9	2.9
Keppel REIT	2,576	Buy	1.08	13.7	14.0	18.9	0.7	0.7	0.7	6.4	6.5	6.6	-0.8	0.8	1.9
Manulife US REIT	124	Buy	0.13	na	2.3	1.5	0.2	0.2	0.2	na	na	28.8	na	na	na
Prime US REIT	238	Buy	0.35	na	5.6	3.3	0.3	0.3	0.3	21.2	19.6	20.5	-35.3	-7.8	4.6
Starhill Global REIT	857	Buy	0.58	8.0	11.2	9.6	0.7	0.7	0.7	7.4	7.6	7.9	-0.3	1.7	4.0
Suntec REIT	2,587	Neutral	1.20	19.4	16.8	15.8	0.6	0.6	0.6	5.8	5.2	5.3	-21.3	-10.5	2.7
REIT total	**33,729**			**21.1**	**18.0**	**17.3**	**0.9**	**0.9**	**0.9**	**6.2**	**6.1**	**6.4**	**-2.8**	**-0.3**	**2.3**

*Note: *Price as of 18 Jan at 12pm*
Source: RHB, Bloomberg

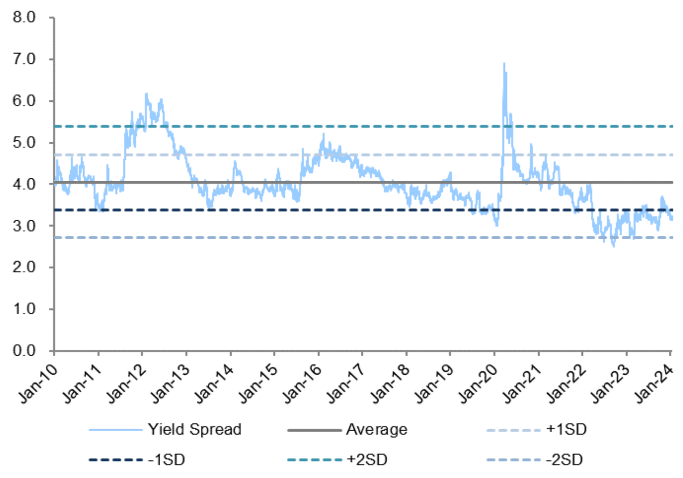
Yield spreads and P/BV remains reasonably attractive compared to global benchmarks. Overall, the S-REIT sector is trading at average FY24 yield of 6.2% based on Bloomberg estimates. This corresponds to the sector average yield spreads (over the 10-year Singapore bond yield) of c.320bps, ie closer to -1SD, from the average S-REIT yield spreads since 2010. The spread has narrowed by c.40bps since end Oct 2023 due to a combination of declines in government bond yields and share price rebounds. With interest rate cuts to commence later this year, we believe there is room for treasury yields to fall by another c.50-70bps – which should make S-REITs much more attractive.

The current S-REIT yield spreads are also still amongst the highest in comparison with major global REIT markets such as the US, UK, and Australia, where the spreads are currently below 100bps (Figure 11).

S-REIT valuations, on the other hand, look attractive in P/BV terms at 0.9x, ie well below the long-term mean (since 2010) of 1.03x. The reason for this divergence is the relatively stable cap rates across Singapore assets over the last two years, as well as investors' expectations of further declines in valuations. However, based on transactional evidence and discussions with valuers, the demand for Singapore assets continues to remain strong while cap rates are expected to remain largely stable.

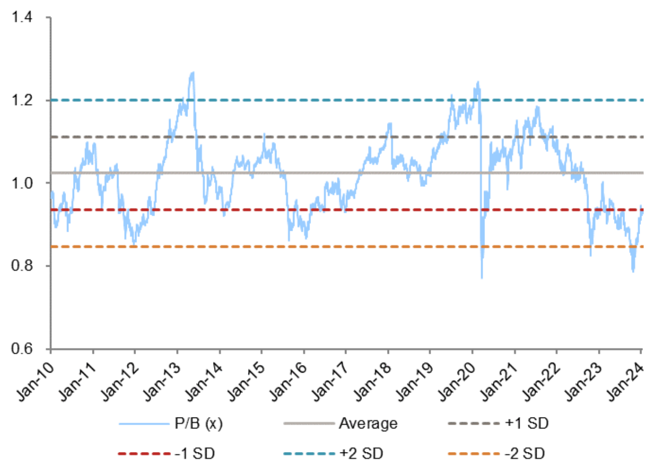
For overseas assets in the US, UK, and Australia, a further cap rate expansion of 50-150bps is expected during the year-end period, which could result in a potential 10% decline in valuations. This is, however, is well priced-in, with overseas S-REITs in general trading at much deeper discounts to BV vis-à-vis S-REITs with majority Singapore assets.

Figure 2: Yield spreads vs Singapore's 10-year bond yield



Note: Data as at 17 Jan
Source: RHB, Bloomberg

Figure 3: Historical P/BV chart

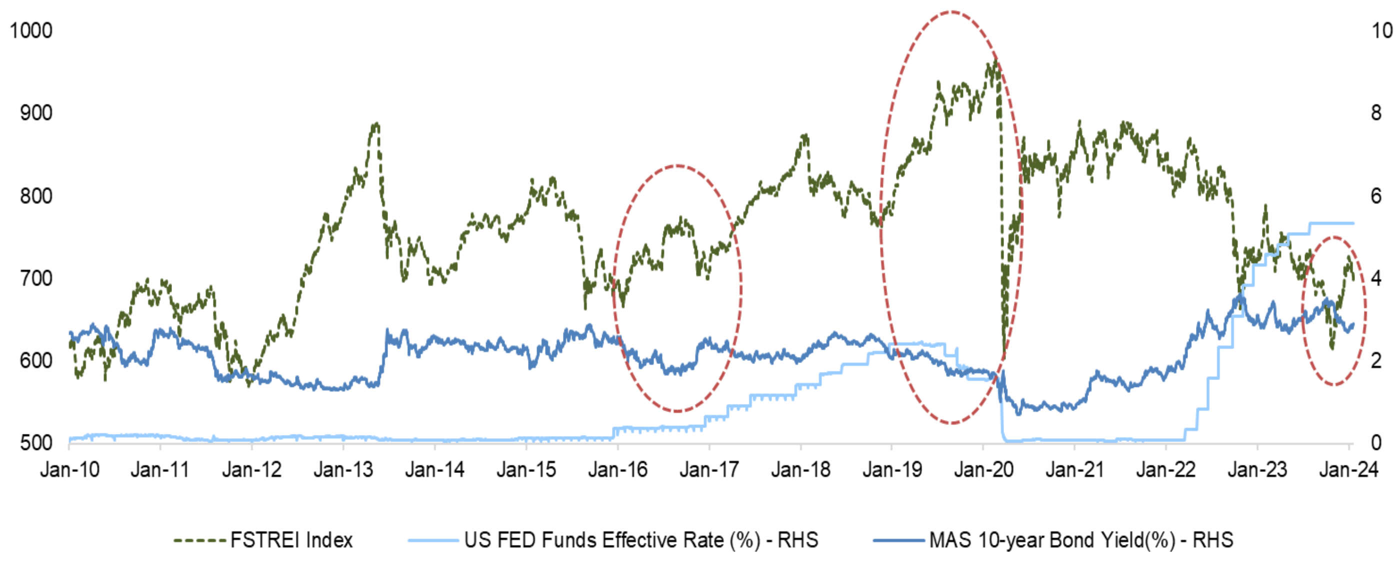


Note: Data as at 17 Jan
Source: RHB, Bloomberg

Materialisation of rate cuts and easing in yields point to a further more than 20% upside potential. As we had earlier anticipated, the easing of the Government's 10-year bond yields by c.40bps since Oct 2023 has had a positive effect on the FTSE ST REIT Index – the latter bounced close to c.20% before pulling back as rate cut expectations are now pushed back. The inverse correlation in our view is that, when risk-free rates come down, the alternative safe-yield options for investors in terms of fixed deposits – ie high-quality corporate bonds – become less attractive. This prompts a shift in investor capital towards higher-yield S-REITs, in our view.

We expect the next major leg of S-REIT rally to come in 2Q24 or later, when actual rate cuts start taking effect – this could result in further easing of treasury yields and a possible more than 20% upside for the sector. Looking at previous cycles, when the Government's 10-year bond yields came down by 60bps to 1.9% from end 2018 to mid-2019, the FTSE ST REIT Index saw a c.24% jump in value during this period.

Figure 4: FTSE ST REIT Index vs the Government's 10-year bond yields and US Fed fund rates

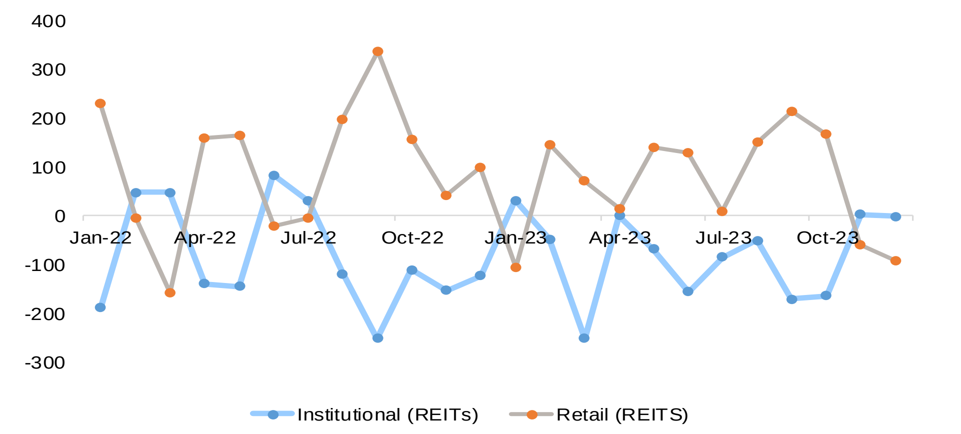


Source: Bloomberg, RHB

Institutional interest expected to make a comeback in 2024. Institutional investors have generally shied away from the S-REIT sector in the last two years, with them being net sellers of c.SGD2bn in value during this period. However, we have noted interest in S-REITs picking up among institutional investors over last two months of 2023 – this is on the back attractive sector valuations and rotational play on rate peaks. This is also corroborated from SGX fund flows data, with institutional investors turning into marginal net buyers during the above mentioned period.

We believe a sizeable comeback in institutional investor interest is possibly one of the key catalysts and drivers of the S-REIT sector's recovery later in this year.

Figure 5: Monthly net inflows into the REITs sector (institutional vs retail) (SGD m)



Source: SGX, RHB

Divestments still the focus in 1H, with acquisitions to make a comeback in 2H. S-REIT's acquisition values fell to their lowest in the last five years, with total transaction value falling 36% YoY to SGD3.2bn. Unsurprisingly, S-REIT acquisitions ground to a halt in 2H23 with a meagre total acquisition value of SGD0.8bn amid elevated interest rates and high cost of capital diminishing accretive acquisition opportunities in the market. Instead, S-REIT's have heavily focused on divesting opportunities in order to right-size their balance sheet profiles and reduce elevated interest cost expenses.

We expect this trend to continue into 1H as well despite signs of interest rate peak as cost of capital remains elevated. However, with rate cuts beginning, we expect transaction activity to make a comeback in 2H across all sectors. Overall, we expect acquisitions-led growth to be better than last year at SGD5-8bn in value 2024.

Figure 6: REITS 2023 acquisition (excludes asset enhancements and divestments)

No.	Announcement date	REIT name	Property name	Country	Purchase Price (SGDm)	Segment
1	4-Jan-23	ARA US Hospitality Trust	Home2 Suites by Hilton, Colorado Springs South	US	39	Hospitality
2	26-Jan-23	Frasers Centrepoint Trust	NEX mall (25% stake)	Singapore	519	Retail
3	30-Mar-23	Mapletree Logistics Trust	Acquisition of eight logistics assets	Japan (six), South Korea (one) and Australia (one)	914	Industrial (logistics)
4	16-May-23	CapitaLand Ascendas REIT	Seagate R&D facility	Singapore	218	Industrial
5	25-May-23	Mapletree Industrial Trust	Osaka Data Centre (98.47% stake)	Japan	508	Industrial (data centre)
6	1-Jun-23	IREIT Global	B&M (17 retail assets)	France	112	Retail
7	5-Jun-23	Lendlease Global Commercial REIT	Parkway Parade (10%stake)	Singapore	89	Retail
8	2-Aug-23	CapitaLand Ascott Trust	Three hospitality assets	UK, Ireland, and Indonesia	531	Hospitality
9	13-Oct-23	Frasers Logistics Commercial Trust	Maastricht forward purchase	Netherlands	21	Industrial (logistics)
10	19-Oct-23	Parkway Life REIT	Two nursing homes	Osaka, Japan	16	Healthcare
11	2-Nov-23	Digital Core REIT	Stake purchased in Frankfurt and Osaka Data Centre	Germany and Japan	205	Industrial (data centre)
12	13-Dec-23	Mapletree Logistics Trust	Grade-A warehouse	Delhi(NCR), India	15	Industrial (logistics)
13	30-Dec-23	Daiwa House Logistics Trust	Cold storage warehouse	Vietnam	27	Industrial (logistics)
		Total			**3213**	

Source: Company data, RHB

Balance sheets and debt profiles

Interest cost pressures expected to peak by 1H24. Higher interest cost pressures are expected to dominate S-REITs' upcoming results announcements. However, we expect the narrative to slowly shift as we move into 2H, by which we believe most of S-REITs will have neared peak interest costs – with selective overseas and US office S-REITs likely being exceptions. On the other hand, well-capitalised and strong sponsor-backed China-focused S-REITs are likely to enjoy lower interest costs by taking advantage of rate cuts and cheaper borrowing costs in onshore markets – raising debts there instead.

Based on the latest management team briefings, we note that the margins spread on loans are still compressing for high-quality S-REITs. Meanwhile, some of the small- and mid-cap overseas S-REITs are seeing slight margins expansions on their loans, indicating greater emphasis by borrowers on credit quality.

Overall, average interest costs for the sector have increased c.130bps since the start of the interest rate cycle to 3.8% as of 3Q23 (Figure 5). As a consequence, the average (simple) interest cover ratio (ICR) for S-REITs has fallen to 3.9x from 5.4x since early last year. We expect the overall sector interest cost to increase by another 30-50bps next year and peak around c.4.2% levels, after which it is expected to stabilise and fall slightly in FY25 as the effect of interest rate cuts start to be felt. S-REITs still have a relatively healthy hedge position of c.74%, which should continue to mitigate some borrowing cost pressures.

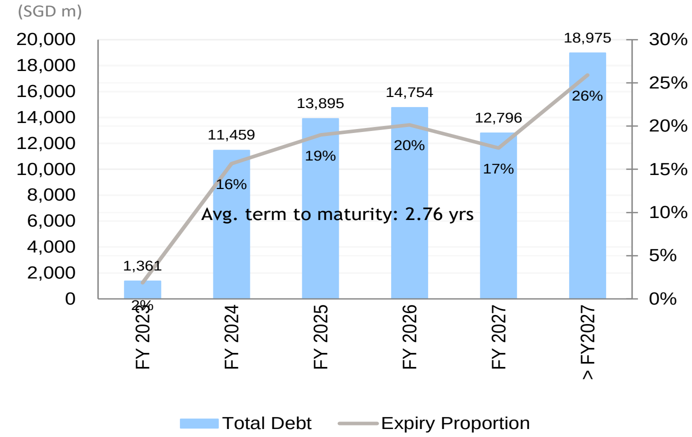
Overall, S-REITs' sector average gearing has risen by c.120bps to 38.2% since early 2022… The increase in gearing can mainly be attributed to valuation declines and FX impacts for overseas assets, as the pace of acquisitions have largely slowed down amid the challenging market conditions. According to regulations set by the Monetary Authority of Singapore (MAS), S-REITs have to maintain a gearing (total debt/total assets) of below the 45% limit if their ICR is below 2.5x. They are allowed to have a gearing of up to 50% if their ICR is above 2.5x.

Any breach of gearing limits due to annual asset devaluation is not considered a breach of the regulations, as it is deemed to be out of the control of the S-REIT manager's hands. In that scenario, however, the manager will not be able to take on more debt until the situation is remedied. The concern in this case, however, is that typically bank debt covenants are generally closely tied to MAS' limits. Therefore, a breach of this limit could result in the potential breaking of a bank's covenant – which could pose default/refinancing risks.

…but gearing pressures are expected to ease with asset values expected to stabilise. We believe we are near the peak of asset devaluation cycle from the expansion of cap rates, as the easing of interest rates from their high should lead to a corresponding stabilisation in cap rates and possibly compression in some markets. Overseas markets – eg the US, UK, Europe, and Australia – in particular (which have seen cap rates across assets expand by 50-300bps during the current cycle) are likely to be the beneficiary of a potential reversal of interest rates. These markets could potentially see a 50-100bps cap rate compression over next two years – depending on the pace of rate cuts – which could result in possible 5-15% gains in valuation (assuming similar operational performance of assets).

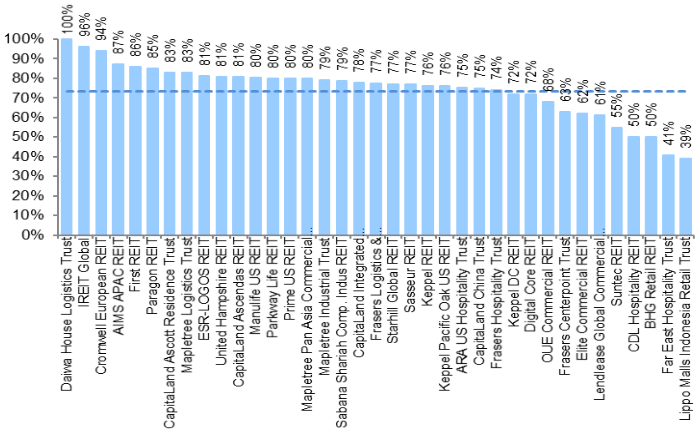
On the other hand, cap rates for Singapore assets have largely remained stable throughout this cycle and, hence, are not likely to see any compression. Consequently, any valuation gains ahead for local assets are most likely to come from increases in operational income and a better income outlook.

Figure 7: S-REIT sector's debt expiry profile



Source: RHB

Figure 8: Most S-REITs have hedged >70% of their debt



Source: Respective Companies, RHB

Figure 9: S-REITs' debt profiles*

Company name	Gearing (%)	Avg borrowing rate (%)	Est. avg borrowing rate (FY24)	Avg term to maturity (years)	Adj. interest cover (X)	Fixed debt (% of total)	Unencumbered assets (% of total)	% of total debt due until FY24
AIMS APAC REIT	32.90%	3.90%	4.10%	3	2.2	87%	Not reported	0%
ARA US Hospitality Trust	40.90%	4.70%	5.00%	2.7	2.6	73%	Not reported	0%
BHG Retail REIT	39.40%	5.50%	5.50%	1.7	Not reported	50%	Not reported	0%
CapitaLand Ascendas REIT	37.20%	3.30%	3.50%	3.3	3.8	81%	93%	22%
CapitaLand Ascott Residence Trust	35.20%	2.40%	2.80%	3.7	4.2	83%	63%	22%
CapitaLand China Trust	42.40%	3.60%	3.80%	3.5	3.2	75%	73%	15%
CapitaLand Integrated Commercial Trust	40.80%	3.30%	3.60%	4.1	3.1	78%	93%	16%
CDL Hospitality REIT	38.40%	4.20%	4.50%	2.2	2.9	50%	95%	33%
Cromwell European REIT	41.20%	3.00%	3.30%	2.8	4	91%	94%	0%
Daiwa House Logistics Trust	36.40%	1.00%	1.20%	2.3	11.8	100%	Not reported	29%
Digital Core REIT	34.40%	5.10%	5.40%	3.2	3.3	72%	Not reported	0%
EC World REIT	36.20%	5.70%	n.m	1.5	2.4	Not reported	Not reported	100%
ESR-LOGOS REIT	37.70%	3.90%	4.00%	2.4	2.4	81%	100%	21%
Far East Hospitality Trust	32.20%	3.20%	3.40%	3.2	3.7	41%	100%	17%
First REIT	39.00%	5.00%	5.20%	3.8	4.2	86%	Not reported	0%
Frasers Centrepoint Trust	39.30%	3.80%	4.20%	2.3	3.5	63%	61%	23%
Frasers Hospitality Trust	34.00%	3.10%	3.50%	2.3	3.6	76%	96%	21%
Frasers Logistics & Commercial Trust	30.20%	2.20%	2.90%	2.2	7.1	77%	86%	26%
IREIT Global	34.40%	2.00%	2.00%	3	6.5	97%	Not reported	0%
Keppel DC REIT	37.20%	3.50%	3.80%	3.7	5.4	72%	100%	4%
Keppel Pacific Oak US REIT	39.10%	4.00%	4.40%	2.9	3.3	76%	100%	14%
Keppel REIT	39.50%	2.90%	3.30%	2.7	2.9	76%	85%	24%
Lendlease Global Commercial REIT	40.60%	2.90%	3.50%	3.1	1.9	61%	Not reported	0%
Lippo Malls Indonesia Retail Trust	43.00%	8.80%	n.m	1.1	2	39%	Not reported	66%
Manulife US REIT	56.00%	4.40%	n.m	2.3	2.4	69%	89%	18%
Mapletree Industrial Trust	37.90%	3.20%	3.50%	3.3	4.3	79%	100%	21%
Mapletree Logistics Trust	38.90%	2.50%	2.80%	3.8	3.2	83%	Not reported	14%
Mapletree Pan Asia Commercial Trust	40.70%	3.30%	3.70%	3	3	80%	100%	23%
OUE Commercial REIT	39.40%	4.20%	4.50%	2.7	2.4	68%	70%	0%
Paragon REIT	30.10%	4.20%	4.50%	2.4	3.1	85%	Not reported	17%
Parkway Life REIT	36.00%	1.30%	1.60%	2.8	12.8	80%	100%	26%
Prime US REIT	43.70%	4.00%	4.50%	1.9	3.2	78%	Not reported	69%
Sabana Shariah Comp. Indus REIT	33.80%	3.90%	4.10%	3.1	3.4	79%	100%	0%
Sasseur REIT	25.40%	5.80%	5.80%	3	4	77%	Not reported	13%
Starhill Global REIT	37.40%	3.80%	4.00%	3.1	3	77%	86%	2%
Suntec REIT	42.70%	3.80%	4.40%	2.3	2	55%	Not reported	21%
United Hampshire REIT	41.70%	4.00%	4.00%	3.2	2.7	81%	Not reported	7%
Average (simple)	**38.2%**	**3.8%**		**2.8**	**3.9**	**74%**	**90%**	

*Note: *Based on latest reported results as of Nov 2023*
Source: RHB, Company data

Sub-sector outlook and picks

Office REITs – OVERWEIGHT. Singapore's office sector remains a major outlier across global markets, with healthy overall central business district (CBD) occupancy levels (more than 95%) and continued rent growth. This has been on the back of modest supply growth in the last three years, Singapore's growing allure as a global financial hub in Asia, and a high return-to-office trend (c.80%). In 2024, a higher office supply in the CBD is expected with the completion of IOI Central Boulevard Towers (1.26m sq ft) but, based on media sources, this is c.60% pre-committed with Amazon and Morgan Stanley being the key tenants.

Nonetheless, the higher supply is likely to put some pressure on overall market occupancy, with vacancy levels expected to increase 2-3% during the course of the year. We expect Singapore CBD rents to be flattish at 0-2% for 2024, as the strong economic growth supports a healthy labour market and office demand. This should continue to result in low- to mid-single-digit positive rent reversion for office S-REITs. Valuations for office REITs remain attractive at c.30% below book value. This, in our view, presents an opportunity to add deeply-discounted Singapore office REIT stocks, eg Keppel REIT.

Industrial REITs – OVERWEIGHT. Industrial sector demand is expected to remain resilient with non-oil domestic exports or NODX to grow 3% this year vs 2023's -13.1%. Broadly, most of the industrial S-REITs saw continued strengthening in operational metrics in 2023, with stable occupancy levels and healthy positive rental reversions. The logistics sector in Singapore and overseas markets (except China) continues to be the bright spot, with a healthy rental rate growth and continued demand for high-specification logistics facilities. While inflationary pressures have weighed on operating costs, the REITs have mitigated this – partly by passing on some of the costs to tenants by increasing utility charges. Hence, NPI margins are likely to be maintained around current levels moving forward.

The industrial sector remains a defensive safe haven, and one that offers earnings stability and stable asset values amidst the ongoing interest rate hikes. Among the sub-sectors, we like logistics, hi-tech, and good-quality business parks. These sectors continue to benefit from the shift in market dynamics – brought about by supply chain shifts – and the Government's longer-term push to transform Singapore into a smart nation. Our picks are CapitaLand Ascendas REIT, AIMS APAC REIT, and ESR-LOGOS REIT.

Hospitality REITs – OVERWEIGHT. We expect tourist arrivals to recover to 85-95% of pre-COVID-19 levels – at 16-18m – for 2024. The recovery in visitor arrivals is well supported by a series of upcoming events, including the Singapore Air Show, and Coldplay and Taylor Swift concerts. Additionally, the recent move to lift visa restrictions for Chinese travellers is expected to have a positive impact, considering that they were the largest visitor group before the pandemic, ie c.19% of the 19.1m visitor arrivals in total in 2019. For hotel revenue per available room or RevPAR, we expect a more modest 2-4% YoY growth in 2024 – mainly aided by occupancy improvements, with average room rate growth expected to be more flattish.

YTD-Nov 2023, visitor arrivals stand at 12.4m (+230% YoY), representing 71% of 2019's visitor arrivals during the same period. Chinese visitors – the largest group prior to the pandemic – made up c.20% of total visitors. They have started to recover nicely since 3Q23 despite slightly easing in 4Q23. For Nov 2023, Chinese visitors to Singapore slightly eased to 42% of pre-pandemic levels from 55% in Jul 2023.

However, with the increase in flight capacities and China's economy expected to recover in 2024, we expect Chinese visitors to rise to 60-75% of pre-pandemic levels – supporting overall visitors' growth. The recent pullback in hospitality REITs' share prices, in our view, represents good tactical opportunity for investors to re-enter the sector. CDL Hospitality Trusts is our pick for this segment.

Retail REITs – NEUTRAL. Retail REITs posted a strong set of operational numbers for the latest quarter ended Sep 2023. Tenant sales growth, though, are starting to taper off and normalise – which we attribute to slight easing in economic growth and cutbacks on the back of inflationary pressures. This, however, has been partially offset by a rising number of tourist arrivals. Moving into 2024, key challenges for the sector remain a further raise in GST charges and the impact of inflationary pressures on tenants, but is likely to be offset by higher tourist spending and economic growth in 2H.

Overall, we expect the focus for retail landlords to remain on maintaining high occupancy rates, curating their mall tenant mix, and attracting high-quality tenants while being slightly flexible in terms of rental rates. Overall, retail sector rents are expected to see a slight positive growth of 1-5%, translating into healthy positive rental reversions for retail S-REITs in the mid-to-high single digits. CapitaLand International Commercial Trust remains the best proxy to retail-cum-office exposure to Singapore. In the mid-cap space, Starhill Global REIT is still the best proxy to capture higher tourist spending-led growth, with the bulk of its portfolio located along Singapore's Orchard Road.

Overseas REITs – OVERWEIGHT. US office REITs share prices have rebounded strongly (+50-100%) during Nov-Dec 2023 and has seen a pullback since the start of 2024. While we continue to believe US office REITs remain relatively undervalued, we do expect the recovery in the US office sector to be a long-drawn affair, with further bumps expected in 2024 before a potential stabilisation and recovery in 2025.

Structural headwinds are likely to persist in 2024, as the US office sector finds an equilibrium from return-to-office policies and hybrid working strategies. However, with the economy remaining resilient and many firms implementing stricter hybrid working policies, the overall office sector is expected to gradually improve, with the worst likely behind us.

One of the key factors we are monitoring closely is the return of lenders' appetites towards the commercial sector, which has been a key impediment in loan refinancing as well as investment market activity. For European-focused REITs, the overall economic outlook has so far come in slightly better than anticipated, with inflationary pressures peaking. In this regard, we see high-risk high-return opportunities in some of the good-quality US office and European-focused REITs, ie Keppel Pacific Oak US REIT and Cromwell European REIT.

S-REITs: Looking Into The Numbers

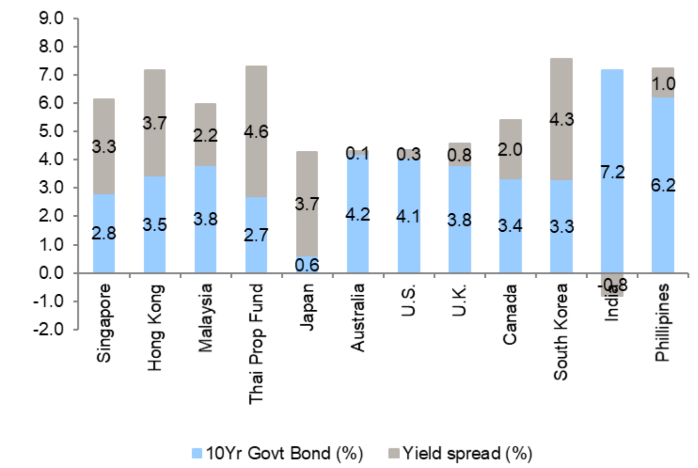
Figure 10: Peer comparison

	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 (%)	DPU Freq	Gearing/ simple ave	WALE (years)	% FY-1	% FY-2
REITs (37)	**70,676**	**146,889**		**(1.5)**	**(1.0)**	**(1.8)**	**7.6**	**(3.4)**	**(4.0)**	**(3.5)**	**17.9**	**(12.5)**	**1.0**	**6.2**	**6.2**	**3.4**		**38.2%**	**4.5**		
Office (3)	**6,334**	**12,895**		**(1.3)**	**(2.6)**	**(2.0)**	**9.4**	**(4.5)**	**(7.3)**	**(1.5)**	**19.8**	**(14.7)**	**0.6**	**6.4**	**6.0**	**3.6**		**40.5%**	**4.2**		
Suntec REIT	2,630	4,232	1.22	(1.6)	(2.4)	0.0	6.1	(6.2)	(10.9)	(0.8)	14.0	(16.4)	0.6	5.7	4.9	2.9	Q	42.7%	3.794	20%	24%
Keppel REIT	2,561	8,043	0.91	(1.6)	(3.2)	(4.2)	8.3	(0.5)	1.1	(2.2)	16.7	(7.6)	0.7	6.6	6.6	3.8	Q	39.5%	5.6	13%	15%
OUE Commercial Trust	1,143	620	0.28	0.0	(1.8)	(1.8)	19.1	(9.7)	(17.6)	(1.8)	40.0	(26.3)	0.5	7.5	7.1	4.7	S	39.4%	3.3	7%	12%
Retail (6)	**22,100**	**42,474**		**(1.7)**	**(1.2)**	**(2.2)**	**7.8**	**(4.8)**	**(7.6)**	**(4.3)**	**15.8**	**(12.7)**	**0.9**	**5.8**	**5.9**	**3.0**		**38.1%**	**3.4**		
CapitaLand Integrated Commercial Trust	9,808	25,394	1.98	(1.5)	0.0	(1.5)	8.8	(1.0)	(4.3)	(3.9)	17.9	(9.2)	0.9	5.6	5.6	2.7	Q	40.4%	3.5	11%	10%
Mapletree Pan Asia Commercial Trust	5,703	9,288	1.46	(2.7)	(3.3)	(3.9)	5.8	(13.1)	(18.9)	(7.0)	15.0	(21.1)	0.8	6.0	6.0	3.2	S	40.7%	2.5	12%	11%
Paragon REIT	1,773	445	0.84	(1.2)	(0.6)	(2.9)	2.4	(11.6)	(11.1)	(5.1)	6.3	(16.0)	0.8	5.5	6.1	2.7	Q	30.1%	3.1	22%	18%
Frasers Centrepoint Trust	2,866	4,059	2.25	(1.7)	(1.7)	0.4	6.6	3.2	6.1	(0.4)	11.9	(4.3)	1.0	5.3	5.3	2.5	Q	39.3%	1.8	29%	27%
Starhill Global REIT	865	492	0.52	0.0	0.0	(1.9)	5.1	(1.0)	(8.0)	(1.9)	17.0	(13.4)	0.7	7.8	7.8	4.9	S	37.4%	4.2	11%	36%
Lendlease Global Commercial REIT	1,085	2,796	0.62	(1.6)	(0.8)	(5.3)	22.8	(8.1)	(8.8)	(3.9)	26.5	(16.8)	0.8	7.1	7.3	4.3	S	40.6%	5.3	20%	26%
Industrial (8)	**29,262**	**74,394**		**(1.3)**	**(0.4)**	**(1.6)**	**6.3**	**(1.1)**	**2.3**	**(3.4)**	**16.2**	**(8.8)**	**1.2**	**5.8**	**5.7**	**3.0**		**35.7%**	**3.9**		
CapitaLand Ascendas REIT	9,546	28,705	2.92	(1.7)	0.0	(1.7)	7.7	3.9	6.6	(3.6)	18.2	(4.3)	1.3	5.5	5.5	2.7	S	37.2%	3.9	16%	20%
Mapletree Industrial Trust	5,144	8,445	2.44	(1.6)	(1.6)	(0.8)	9.4	8.0	7.0	(2.8)	16.2	(3.6)	1.2	5.4	5.6	2.5	Q	37.9%	4.2	16%	18%
Mapletree Logistics Trust	6,116	14,745	1.65	(1.2)	0.6	(2.9)	3.1	(4.1)	2.5	(5.2)	14.6	(8.3)	1.2	5.3	5.3	2.5	Q	38.9%	3	29%	20%
Frasers Logistics & Commercial Trust	3,176	7,215	1.14	(0.9)	0.0	(0.9)	6.5	(10.9)	(5.0)	(0.9)	14.0	(16.8)	1.0	6.1	6.3	3.2	S	30.2%	4.3	9%	22%
Keppel DC REIT	2,331	11,503	1.82	(1.6)	(1.6)	(3.7)	(4.2)	(17.6)	(4.2)	(6.7)	9.0	(20.9)	1.3	5.4	5.3	2.6	S	37.2%	4.7	28%	23%
AIMS APAC REIT	796	1,052	1.32	(1.5)	(1.5)	(0.8)	0.8	6.5	4.9	1.5	13.8	(7.5)	1.0	7.6	7.6	4.8	Q	32.9%	4.3	16%	18%
ESR-LOGOS REIT	1,831	2,666	0.32	0.0	(1.5)	1.6	16.4	(7.2)	(12.2)	0.0	28.0	(17.8)	0.9	9.4	6.3	6.6	Q	37.7%	3.4	17%	26%
Sabana Shari'ah Compliant REIT	323	63	0.39	0.0	(2.5)	(1.3)	1.3	(9.3)	(7.1)	(3.7)	4.0	(20.4)	0.7	7.7	7.7	4.9	S	33.8%	3.1	19%	22%
Hospitality (4)	**5,258**	**8,069**		**(1.7)**	**(1.4)**	**(3.3)**	**4.0**	**(9.7)**	**(9.7)**	**(4.4)**	**12.4**	**(15.7)**	**0.8**	**6.1**	**6.4**	**3.3**		**35.0%**	**N.A**		
CapitaLand Ascott Residence Trust	2,660	5,182	0.95	(2.1)	(1.6)	(2.1)	5.6	(14.4)	(12.8)	(4.0)	13.1	(16.7)	0.8	6.0	6.4	3.2	S	35.2%	N.A	N.A	N.A
CDL Hospitality Trusts	964	1,631	1.04	(2.8)	(1.0)	(3.7)	3.0	(14.0)	(20.0)	(6.3)	11.8	(25.7)	0.7	6.7	6.7	3.9	S	38.4%	N.A	N.A	N.A
Far East Hospitality Trust	946	739	0.64	0.0	(0.8)	(5.9)	6.7	(0.8)	(1.6)	(4.5)	13.4	(6.6)	0.7	6.1	6.8	3.3	Q	32.2%	N.A	N.A	N.A
Frasers Hospitality Trust	688	517	0.48	(1.0)	(2.0)	(4.0)	(4.0)	2.1	5.5	(3.0)	9.1	(10.3)	0.7	5.4	5.6	2.6	S	34.0%	N.A	N.A	N.A
Healthcare (2)	**2,035**	**1,385**		**(2.1)**	**(1.1)**	**0.0**	**2.2**	**(4.4)**	**(2.4)**	**(1.3)**	**12.6**	**(14.2)**	**1.4**	**5.2**	**5.2**	**2.4**		**37.5%**	**14.2**		
Parkway Life REIT	1,625	1,171	3.61	(2.2)	(1.4)	0.0	(1.1)	(5.5)	(3.5)	(1.6)	8.4	(16.0)	1.6	4.2	4.2	1.3	Q	36.0%	16.6	1%	2%
First REIT	410	214	0.27	(1.9)	0.0	0.0	15.2	0.0	1.9	0.0	29.3	(7.0)	0.9	9.4	9.4	2.7	Q	39.0%	11.7	5%	0%
Overseas (14)	**5,687**	**7,672**		**(1.2)**	**(1.4)**	**0.3**	**16.4**	**(2.8)**	**(13.4)**	**(3.0)**	**38.9**	**(25.0)**	**0.6**	**10.3**	**10.1**	**7.2**		**40.3%**	**4.0**		
ARA US Hospitality Trust	176	45	0.31	0.0	0.0	(1.6)	15.1	(9.0)	(16.4)	0.0	32.6	(26.5)	0.4	13.4	N.M	9.4	Q	40.9%	N.A	N.A	N.A
Daiwa House Logistics Trust	331	318	0.64	0.0	(3.0)	1.6	21.9	6.7	0.8	(2.3)	28.0	(5.9)	0.8	7.8	8.1	1.1	S	36.2%	6.3	23%	11%
Digital Core REIT	720	1,455	0.64	(1.5)	0.8	2.4	11.3	29.3	18.5	(0.8)	73.0	(7.9)	0.8	6.5	7.2	2.5	S	34.4%	3.6	19%	44%
Prime US REIT	237	149	0.20	(5.2)	(9.5)	(0.5)	76.1	(9.5)	(52.0)	(17.1)	128.7	(62.8)	0.3	20.1	20.1	16.0	S	43.7%	3.8	11%	19%
CapitaLand China Trust	1,087	1,887	0.87	(3.4)	(3.9)	(2.3)	1.2	(16.8)	(26.1)	(7.0)	13.1	(32.4)	0.7	8.4	8.6	5.9	S	42.4%	1.8	24%	11%
Lippo Malls Indonesia Retail Trust	92	45	0.02	6.7	0.0	(11.1)	(11.1)	(11.1)	(47.6)	(5.9)	14.3	(56.1)	0.2	N.M	N.M	N.M	Q	43.0%	2.3	24%	18%
Manulife US REIT	123	1,189	0.07	(1.4)	(12.7)	(16.9)	35.3	(59.2)	(75.4)	(13.8)	72.5	(80.0)	0.2	58.0	58.0	53.9	S	56.0%	5.1	13%	12%
IREIT Global	405	104	0.41	0.0	(3.6)	1.2	15.7	(8.0)	(20.4)	0.0	22.7	(29.4)	0.5	4.9	4.9	2.6	S	34.4%	4.9	27%	2%
BHG Retail REIT	180	1	0.47	0.0	(2.1)	(7.0)	(2.1)	(1.1)	(7.0)	0.0	27.4	(7.9)	0.6	N.M	N.M	N.M	S	39.4%	3.2	36%	17%
Keppel Pacific Oak US REIT	355	758	0.34	(2.9)	0.0	1.5	70.0	1.5	(29.2)	(9.3)	87.8	(41.4)	0.4	14.7	14.7	10.6	S	39.1%	3.4	13%	17%
Sasseur REIT	633	434	0.69	(1.4)	(0.7)	0.0	6.2	(4.2)	(12.7)	0.0	12.3	(18.9)	0.8	9.2	9.6	6.7	Q	25.4%	1.4	57%	26%
Cromwell European REIT	887	1,086	1.45	1.4	2.8	3.6	11.5	(8.8)	(1.4)	2.1	29.5	(16.7)	0.6	11.0	11.0	8.7	S	41.2%	4.6	12%	16%
United Hampshire REIT	294	148	0.51	0.0	(1.9)	12.2	18.8	18.8	12.2	0.0	46.4	(5.6)	0.68	9.9	9.5	5.8	S	41.7%	7.3	3%	4%

Note: As at 17 Jan 2024
Note 2: DPU frequency – Q: quarterly, S: semi-annual
Sources: Bloomberg, RHB

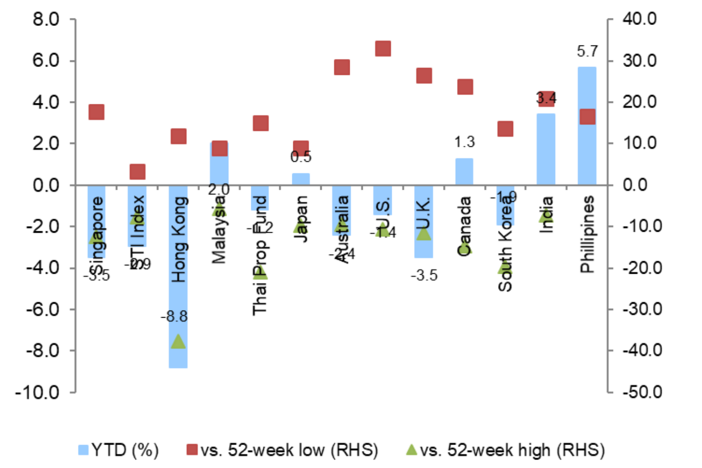
S-REITs: A Snapshot

Figure 11: Global REITs – a comparison of yields



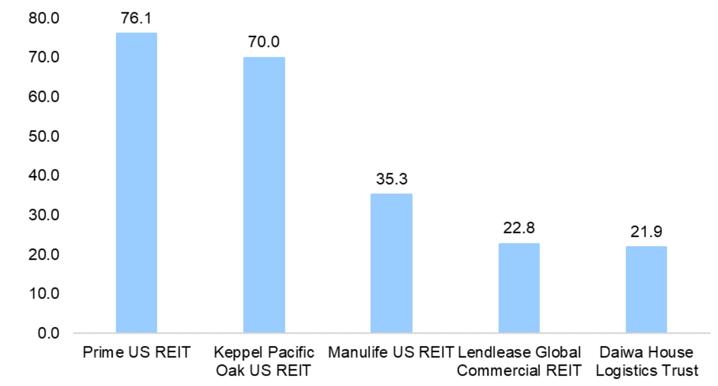
Note: As at 17 Jan 2024
Sources: Bloomberg, RHB

Figure 12: Global REITs' performance YTD



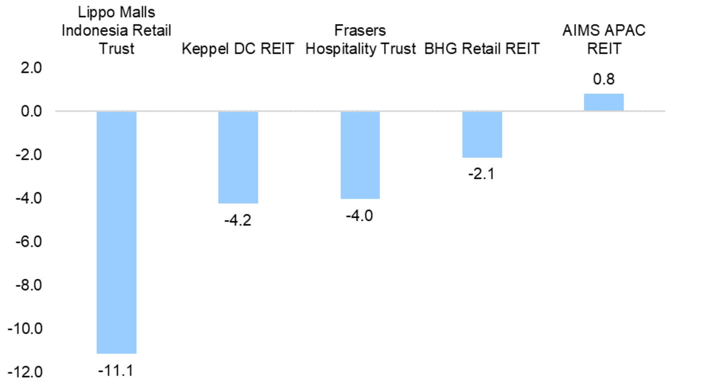
Note: As at 17 Jan 2024
Sources: Bloomberg, RHB

Figure 13: S-REITs' top five performers last 3 months (%)*



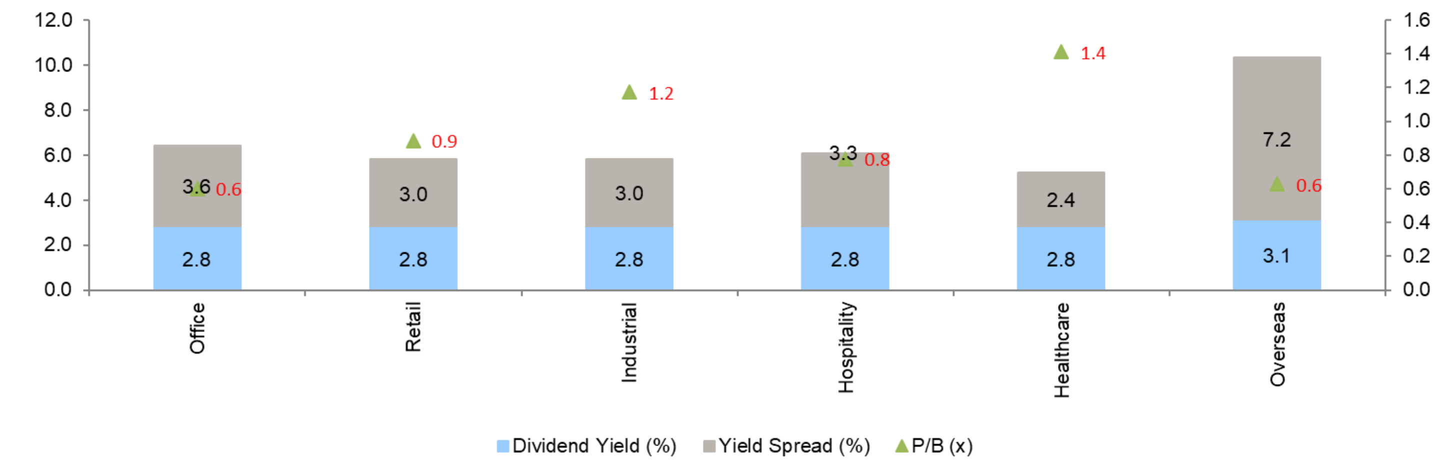
*Note: *Absolute returns; As at 17 Jan 2024*
Sources: Bloomberg, RHB

Figure 14: S-REITs' bottom five performers YTD (%)*



*Note: *Absolute returns; As at 17 Jan 2024*
Sources: Bloomberg, RHB

Figure 15: S-REITs – segmental yield spreads



Sources: Bloomberg, RHB

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