17 March 2023

Property | REITS

REITS

Neutral (from Overweight)

Rate Volatility Takes Hold; D/G To NEUTRAL

Stocks Covered	13
Rating (Buy/Neutral/Sell):	8 /5 / 0
Last 12m Earnings Revision Trend:	Neutral

- **Downgrade to NEUTRAL from Overweight.** Amid rising interest rate volatility (likely to persist in the near term), we expect S-REITs' price performance to be range-bound. We recommend investors stay selective and defensive, rooted on valuations. Our preference remains the industrial sector and REITs with strong balance sheets and sponsor support. Overseas S-REITs, on the other hand, are trading at distress valuations and could see a sharp bounce back once the dust settles. CapitaLand Ascendas REIT, AIMS APAC REIT, and Keppel REIT are our picks.
- **US Federal Reserve (US Fed) rate path holds the key.** As Singapore adopts monetary policy, its benchmark interest rates are closely correlated to the US' Federal Funds Rate (FFR). The RHB Economics team's FFR forecast is for the US Fed to continue hiking in March, with a peak of 5.25-5.5%, and no cuts in 2023. As S-REITs are considered as yield instruments, its performance is highly sensitive to the interest rate curve. A key sector catalyst would be an earlier-than-anticipated rate cut or pause without significant deterioration in the economic outlook. The converse is a key risk.
- **DPU growth to flatten on rising interest cost pressures.** For FY23-24F, we expect flattish (average) DPU for stocks under our coverage, with hospitality and industrial S-REITs being key growth drivers. DPU outlook is mainly weighed down by rising borrowing costs, which have risen (sector average) by 60bps since 2H22, and are expected to rise by 75-100bps this year, as the full effect of rate hikes gets transmitted. This is despite S-REITs having a good hedge profile of c.73% of debt. On the other hand, cost pressures have likely peaked, as utility costs – a key contributor to higher expenses last year – have normalised, and most S-REITs have adjusted service charges to offset inflationary pressures.
- **Operationally, S-REITs remain resilient.** Most S-REITs are guiding for positive rent reversions (low to mid-single digits) to continue in FY23, albeit at a slightly lower pace. High occupancy levels are expected to be maintained for industrial S-REITs. Office and retail S-REITs are likely to see some fluctuation in occupancy levels amid softening demand, but remain well supported by limited supply. Unsurprisingly, Singapore asset values have held steady with slight increases in hospitality, office, and logistics assets. On the other hand, overseas portfolios (particularly the office sector) have seen a drop in value. Looking ahead, we expect a modest cap rate expansion (5-25bps) and do not expect any significant drop in asset value.
- **Prefer industrial SREITs; valuations at reasonable entry level for mid- to long-term investors.** YTD S-REITs stayed flat (Fig 28) with healthcare and industrial SREITs outperforming. We expect investors to stick to a defensive posture amid increased volatility, while industrial and healthcare REITs continue their outperformance. Overseas, office and retail S-REITs could potentially make a comeback in the second half of the year, upon normalisation of interest rates and a clearer view on the economic outlook.

Company Name	Rating	Target	% Upside (Downside)	P/E (x) Dec-23F	P/B (x) Dec-23F	ROAE (%) Dec-23F	Yield (%) Dec-23F
AIMS APAC REIT	Buy	SGD1.50	12.6	10.7	0.9	8.7	7.2
Capitaland Integrated Commercial Trust	Neutral	SGD2.00	4.3	18.2	0.9	4.9	5.7
CapLand Ascendas REIT	Buy	SGD3.25	16.6	19.1	1.2	6.2	5.9
CDL Hospitality Trusts	Neutral	SGD1.25	5.2	25.4	0.8	3.3	5.8
Cromwell European REIT	Buy	EUR2.15	30.5	10.6	0.7	6.5	9.8
Frasers Centrepoint Trust	Neutral	SGD2.10	(6.2)	18.0	1.0	5.3	5.5
IREIT Global	Neutral	SGD0.55	9.7	11.3	0.6	5.7	7.8
Keppel Pacific Oak US REIT	Buy	USD0.69	58.6	15.8	0.6	3.5	12.4
Keppel REIT	Buy	SGD1.10	26.0	12.7	0.6	5.0	6.9
Manulife US REIT	Buy	USD0.43	64.0	6.4	0.5	7.3	16.0
Prime US REIT	Buy	USD0.67	87.0	8.2	0.5	5.9	16.0
Starhill Global REIT	Buy	SGD0.60	12.5	11.8	0.7	5.8	7.0
Suntec REIT	Neutral	SGD1.47	2.7	20.6	0.7	3.3	5.2

Source: Company data, RHB

Top Picks

Top Picks	Target Price
CapitaLand Ascendas REIT (CAREIT SP) – BUY	SGD 3.25
Keppel REIT (KREIT SP) – BUY	SGD 1.10
AIMS APAC REIT (AAREIT SP) – BUY	SGD 1.50

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Latest sector rental rates at a glance

4Q22	SGD psf/month	% YoY	% QoQ
Office (Grade A)	11.7	8.3	0.9
Office (Grade B)	7.9	9.0	0.6
Retail (Orchard)	34.6	1.0	0.3
Retail (Suburban)	30.8	2.3	1.0
Factory (Ground Floor)	1.6	2.6	0.6
Warehouse (Ground Floor)	1.8	6.6	1.7
Business Park (Island wide)	3.7	1.4	0.8
Hotel RevPAR 2022 (SGD)	188.6	106.7	11.9

Source: CBRE, STB, RHB

Expecting flattish DPU growth for FY23F. Over the last two quarters, we have lowered our FY23F-24F DPU for S-REITs by 3-15%, and now anticipate flattish DPU growth for the next two years. The earnings downgrade came on the back of sharper-than-expected rate hikes impacting interest costs and a weakening economic outlook moderating operational growth. DPU growth ahead will be primarily driven by the industrial, hospitality, and selective office REITs. Our current DPU forecasts are based on the assumption of US Fed rates peaking at 5.5% and a soft landing scenario (no prolonged recession).

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

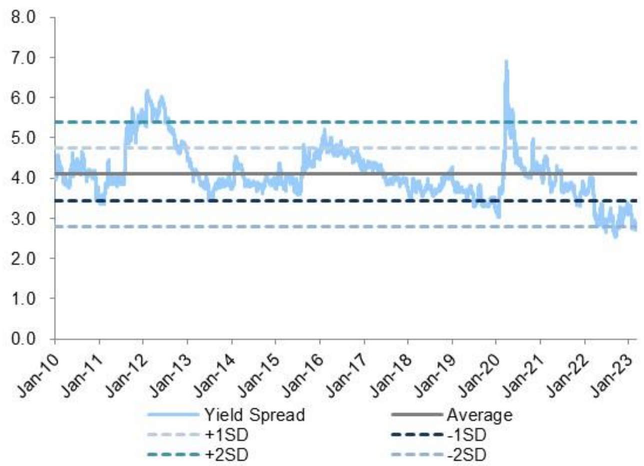
	Market cap		TP	P/E (x)			P/BV (x)			Yield (%)			DPU growth (%)		
Company name	(USDm)	Rating		1FY	2FY	3FY	1FY	2FY	3FY	1FY	2FY	3FY	1FY	2FY	3FY
AIMS APAC REIT	707	Buy	1.50	10.4	10.7	10.8	0.9	0.9	0.9	7.2	7.2	7.3	1.8	0.2	1.5
CapitaLand Ascendas REIT	8,442	Buy	3.25	18.6	21.5	19.1	1.1	1.1	1.1	6.0	6.1	6.2	3.6	0.7	2.7
CDL Hospitality	1,106	Neutral	1.25	25.8	26.3	28.4	0.8	0.9	0.9	5.7	5.7	5.8	22.6	-0.6	2.2
Capitaland Integrated Commercial Trust	9,258	Neutral	2.00	17.9	16.6	16.6	0.9	0.9	0.9	5.8	5.7	0.0	1.2	-0.6	-0.1
Cromwell European REIT	990	Buy	2.15	10.7	9.9	9.5	0.7	0.7	0.7	9.6	9.9	10.2	-6.3	2.3	3.3
Frasers Centrepoint	2,748	Neutral	2.10	18.1	16.1	16.1	0.9	0.9	0.9	5.7	5.7	5.7	0.4	1.0	0.2
IREIT Global	422	Neutral	0.55	11.2	9.5	11.3	0.6	0.6	0.6	7.9	8.2	8.6	1.4	4.4	4.3
Keppel Pacific Oak	475	Buy	0.69	16.5	11.1	8.3	0.6	0.6	0.6	11.9	11.8	12.0	-7.1	-0.8	1.9
Keppel REIT	2,431	Buy	1.10	12.8	13.0	17.6	0.6	0.6	0.7	6.9	6.9	7.0	2.3	0.9	1.0
Manulife US REIT	462	Buy	0.43	6.3	3.8	5.9	0.5	0.4	0.5	16.3	16.7	17.0	-10.1	2.3	1.9
Prime US REIT	455	Buy	0.67	8.8	7.1	6.9	0.5	0.5	0.5	15.0	15.3	15.8	-12.2	1.9	3.5
Starhill Global REIT	905	Buy	0.60	13.7	10.7	10.7	0.7	0.7	0.7	6.8	6.9	6.9	-2.8	0.6	-0.1
Suntec REIT	2,962	Neutral	1.47	20.0	16.8	16.0	0.7	0.7	0.7	5.4	5.4	5.6	-15.4	1.0	2.6
REIT Total	**33,115**			**17.0**	**16.6**	**16.4**	**0.9**	**0.9**	**0.9**	**6.6**	**6.6**	**5.1**	**-0.2**	**0.4**	**1.5**

*Note: *Price as of 8 Mar's close*
Source: Company data, RHB

Yield spreads have narrowed but valuations are reasonable in P/BV terms. The sharp spike in treasury and bond yields has resulted in the spread between Singapore's 10-year treasury and S-REIT's average yield to 290bps, which is below the 10-year mean yield spread of c.400bps and closer to -2SD levels. However, the yield spread is still among the highest across key global REIT markets such as the US, UK, and Australia, where spreads are below 100bps. The compression comes mainly on the back of Singapore's 10-year bond yield spike, which has risen about 40bps since the start of the year amid concerns of persistent inflation fears and a hawkish US FFR.

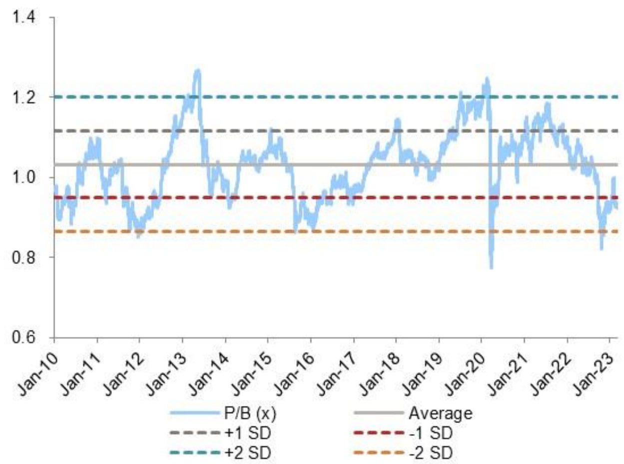
In terms of P/BV, S-REITs are currently trading at 0.9x, -1SD from the long-term mean (since 2010) of 1.03x book value. While asset value could see some decline on the back of further cap rate expansions, we believe the bulk of the decline is already behind us, and as such, do not expect more than a 5% decline in overall value for Singapore assets.

Figure 2: Yield spread vs Singapore's 10-year bond has narrowed



Note: Data as at 8 Mar 2023
Source: RHB, Bloomberg

Figure 3: P/BV attractive at -1SD levels



Note: Data as at 8 Mar 2023
Source: RHB, Bloomberg

Balance sheet and debt profile

Interest costs have risen sharply, with full impact likely to be felt this year. Despite a reasonably well hedged profile for S-REITs before entering into the rate upcycle in 2022, the sector was not spared from the sharp increase in interest rates impacting the unhedged portion of debt as well as refinanced and new loans secured last year. Based on our analysis, overall average interest cost for the sector has risen by 60bps since 2H22 to 3.1% as of 4Q22. As a consequence, the average(simple) interest cover ratio (ICR) for S-REITs has also fallen to 4.8x (from 5.4x). We expect overall borrowing costs for the sector to rise by another 75-100bps this year, as the full effect of the rate hikes only started kicking in from 4Q last year. Based on our back-of-envelope calculations, this will likely have an eroding effect of 7-10% of distributable income growth for FY23.

Risk of S-REITs facing breach of Monetary Authority of Singapore's (MAS) gearing limit remains low, for now. Overall S-REITs' sector gearing has risen by 70bps to an average (simple) of 37.5% as of the end of last year, mainly on the back of valuation declines. According to MAS regulations, 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 regulation, as it is deemed to be out of the control of the S-REIT manager's hands. In that scenario, however, the S-REIT manager will not be able to take on more debt or enter into further deferred payment agreements until it remedies the situation. The concern in this case, however, is that typically bank debt covenants are generally closely tied to MAS limits, and therefore, a breach of this limit could result in a potential breach of the bank's covenant, which will pose default/refinancing risks.

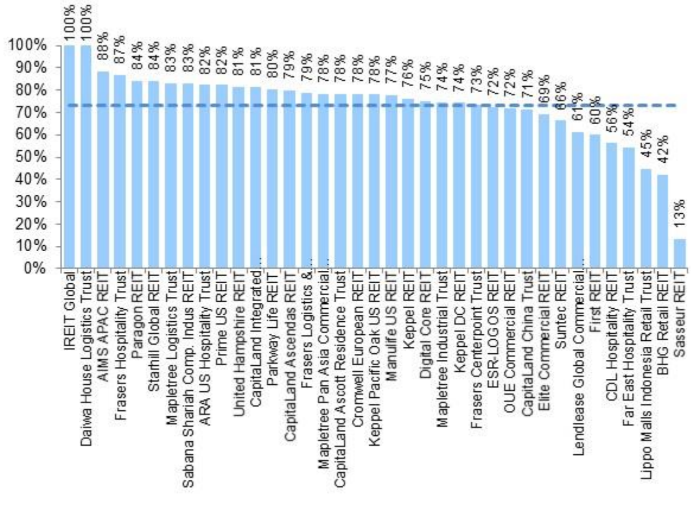
Among the S-REITS, two have come closer to the limit of potential gearing breaches: Manulife US REIT – on the back of sharp valuation decline and is currently undergoing a strategic review/potential asset sale to its Sponsor to remedy the situation and – Lippo Malls Indonesia Trust (LMRTR SP, NR), which has also appointed a financial advisor to evaluate various possible capital management initiatives. Currently, in our view, the risk of the other S-REITs breaching their respective gearing limits is low.

S-REITs facing refinancing risks. Another concern facing S-REITs is the possibility of non-renewal of loans upon maturity. This has been mostly felt by some of the China-focused S-REITs – EC World REIT (ECWREIT SP,NR) and Dasin REIT (DASIN SP, NR) – as banks have cut back on their loan exposure to China post stringent policy measures targeting real estate sector (three red-lines policy) and due to the impact of its zero-COVID stance. These S-REITs are currently in various stages of exploring options for loan refinancing, along with plans of asset sales. The failure to successfully refinance their loans would result in a potential default and possession of the assets by lenders. Similarly, LMRTR has been facing financial stress and has had its debt ratings downgraded by Fitch Ratings. Other than the S-REITs mentioned above, we do not foresee any near-term refinancing risks for the sector and, as such, do not anticipate any contagion effects at this juncture.

S-REITs' debt hedges remain relatively healthy at c.73%, which is a slight decline from 77% at the start of 2022. Most of the S-REITs have hedged over 60% of their debt (Fig.6) and therefore are relatively shielded from any potential sharp near-term impact from rate hikes. However, the proportion of overall debt hedging is expected to progressively decline as the year progresses – as we believe S-REITs are unlikely to fully hedge their refinancing debt amidst current high interest rates and an inverted yield curve, as cost of such moves have gotten much higher. In terms of sector debt maturity, c.10% of overall sector debt is expected to be rolled over this year, which, in our view, is manageable.

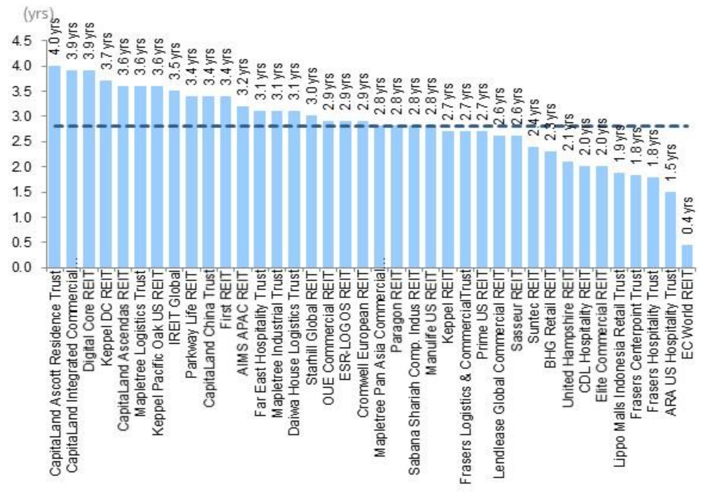
Among the stocks under our coverage, CDL Hospitality Trusts (CDREIT), Frasers Centrepoint Trust, and Suntec REIT have the highest proportion of total debt refinancing due this year (22%, 21% and 13%), and are therefore susceptible to roll over into higher refinancing costs. In terms of hedging profile, IREIT Global stands out among stocks under our coverage with 100% of its debt hedged until late 2026, while CDREIT has the lowest hedge at 56%.

Figure 4: More than half of the S-REITs have hedged over 75% of their debt



Source: RHB, Company data

Figure 5: Weighted average debt maturity (years)



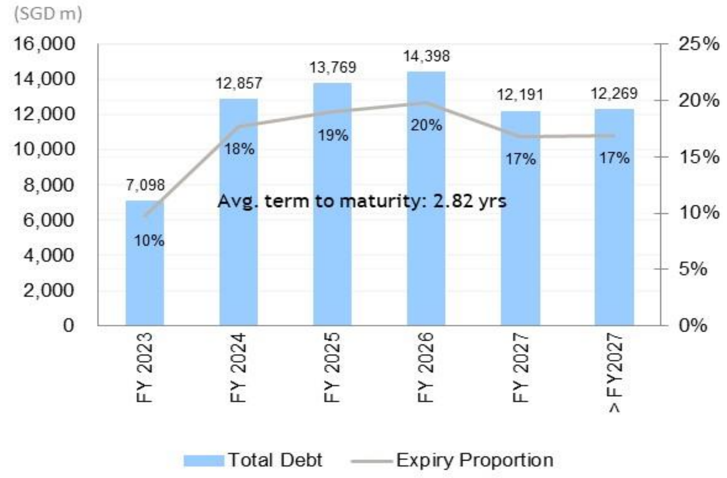
Source: RHB, Company data

Figure 6: S-REITs' debt profiles*

Company	Gearing (%)	Average borrowing rate (%)	Average term to maturity (years)	Interest cover (x)	Fixed debt (% of total)	Unencumbered assets (% of total)
Keppel REIT	38.4%	2.3%	2.7	3.3	76%	85%
OUE Commercial REIT	38.8%	3.4%	2.9	2.6	72%	69%
Suntec REIT	42.4%	2.9%	2.4	2.4	66%	Not reported
CapitaLand Integrated Commercial Trust	40.4%	2.7%	3.9	3.7	81%	94%
Frasers Centerpoint Trust	33.9%	3.5%	1.8	4.7	73%	100%
Mapletree Pan Asia Commercial Trust	40.2%	2.6%	2.8	3.8	78%	100%
Paragon REIT	29.8%	2.1%	2.8	6.8	84%	Not reported
Lendlease Global Commercial REIT	39.2%	2.4%	2.6	2.1	61%	Not reported
Starhill Global REIT	36.3%	3.3%	3.0	3.3	84%	81%
First REIT	38.5%	3.7%	3.4	5.0	60%	Not reported
Parkway Life REIT	36.4%	1.0%	3.4	18.3	80%	100%
CapitaLand Ascott Residence Trust	38.0%	1.8%	4.0	4.4	78%	61%
Far East Hospitality Trust	32.0%	2.2%	3.1	3.8	54%	100%
CDL Hospitality REIT	36.6%	3.5%	2.0	3.7	56%	95%
Frasers Hospitality Trust	35.2%	2.7%	1.8	3.0	87%	97%
AIMS APAC REIT	36.4%	3.2%	3.2	4.1	88%	Not reported
CapitaLand Ascendas REIT	36.3%	2.5%	3.7	4.9	79%	92%
ESR-LOGOS REIT	41.8%	3.7%	2.9	2.8	72%	100%
Mapletree Industrial Trust	37.2%	3.3%	3.1	5.3	74%	100%
Mapletree Logistics Trust	37.4%	2.6%	3.6	4.3	83%	Not reported
Sabana Shariah Comp. Indus REIT	32.4%	3.9%	2.8	3.8	83%	100%
Frasers Logistics & Commercial Trust	27.9%	1.7%	2.7	13.6	79%	86%
Keppel DC REIT	36.4%	2.2%	3.7	7.6	74%	100%
Manulife US REIT	48.8%	3.7%	2.8	3.1	77%	89%
BHG Retail REIT	37.7%	4.4%	2.3	2.2	42%	Not reported
EC World REIT	38.8%	4.9%	0.4	2.7	Not reported	Not reported
Keppel Pacific Oak US REIT	38.2%	3.2%	3.6	4.0	78%	100%
CapitaLand China Trust	39.6%	3.0%	3.4	3.6	71%	73%
Cromwell European REIT	39.4%	2.4%	2.9	6.1	78%	73%
Sasseur REIT	27.6%	5.8%	2.6	4.4	13%	Not reported
ARA US Hospitality Trust	39.4%	3.8%	1.5	2.6	82%	Not reported
Elite Commercial REIT	45.8%	4.6%	2.0	4.6	69%	61%
United Hampshire REIT	41.8%	2.8%	2.1	3.3	81%	Not reported
Prime US REIT	42.1%	3.4%	2.7	4.1	82%	Not reported
Lippo Malls Indonesia Retail Trust	44.6%	7.3%	1.9	2.3	45%	Not reported
IREIT Global	32.0%	1.8%	3.5	7.9	100%	Not reported
Daiwa House Logistics Trust	32.2%	1.0%	3.1	8.0	100%	Not reported
Digital Core REIT	34.0%	3.9%	3.9	Not reported	75%	Not reported
Average (simple)	**37.5%**	**3.1%**	**2.8**	**4.8**	**73%**	**89%**

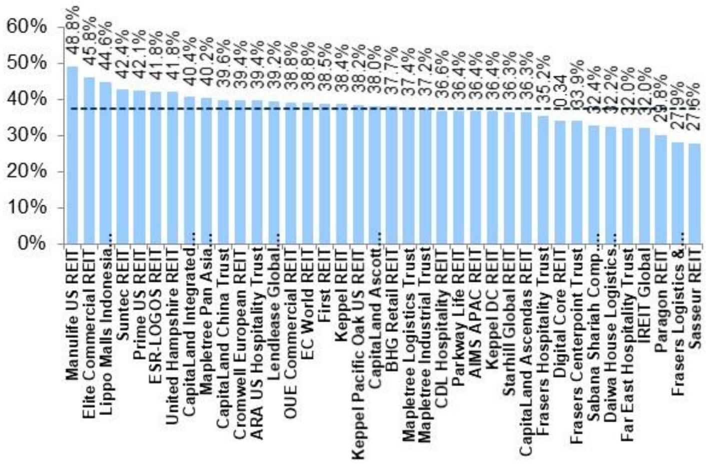
*Note: *Based on latest reported data*
Source: RHB, Company data

Figure 7: S-REITs' sector debt maturity profile



Source: RHB, Company data

Figure 8: S-REITs' individual gearing profile



Source: RHB, Company data

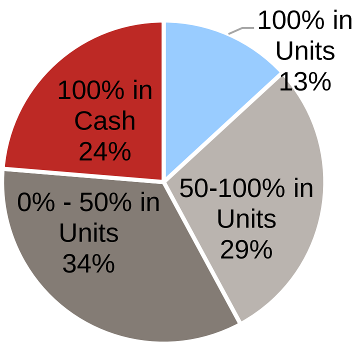
Cost pressures likely to have peaked with NPI margins expected to stabilise. An area of investor concern for S-REITs last year was the rising operating expenses, mainly from the spike in utility charges along with inflationary pressures impacting costs. The impact was most acute in Singapore-focused S-REITs, as overseas assets are mostly structured on a pass-through basis in terms of operational cost. This broadly has resulted in slight net property income (NPI) margin compression (0-5ppts), depending upon the utility hedge position and cost control initiatives taken by REIT managers.

However, we believe the impact of the rising costs has peaked, and expect NPI margin to stabilise to around the current levels in FY23. This is on the back of the normalisation of utility costs with energy prices stabilising (and decreasing in some cases) and most of the S-REIT managers have now locked-in or entered into new long-term contracts to mitigate the impact. In addition, most of S-REITs have now increased service charges across assets in Singapore to counter rising cost pressures.

More REIT managers opting for fees in cash. Another notable observation from the S-REITs' latest reporting season (FY22) has been the increasing proportion of REIT managers switching their fees to cash instead of units. Based on the latest published results, only 5 out of the 38 S-REITs received their fees fully in units, compared to nine of them fully electing fees in cash. (Figure 9), while in the past the above used to be inverse.

The key reason managers attribute to the switch is the decline in unit prices, which are now trading at a good discount to book value, and to avoid long-term NAV dilution to unitholders by issuing more units below book value. We also believe the move is done partly to cover the REITs managers' increasing operating expenses and conserve cash at the Sponsor level. With rising interest rates and increasing funding costs, the trend should continue, with more S-REITs likely to elect and pay their fees in cash instead of units.

Figure 9: Proportion of REITs fees in cash and units (total:38)



Source: Company data, RHB

Marginal further expansion of cap rate likely, but Singapore's asset value unlikely to decline significantly. As anticipated, Singapore's asset value held steady last year – with marginal improvement in valuation for sectors such as office and logistics, on the back of improvements in underlying cashflow. One outlier was hospitality, which saw an up to 7% increase in asset values on the back of earlier and stronger-than-anticipated sector recovery and a positive outlook from China's reopening. On the other hand, overseas assets (office) in particular, across the US, UK and Europe were more impacted by rising interest rates and an uncertain outlook, causing valuation decline (typically 3-15%) with the exact quantum depending on the micro market outlook and fundamentals. Looking ahead, we believe a 5-25bps cap rate expansion for the Singapore market is possible, amid a continued rise in interest rates. However, we do not expect overall asset value of S-REITs to decline sharply, by more than 5%.

Acquisitions to take a back seat in 2023; focus likely on tapping value-add opportunities within portfolio. S-REITs acquisitions have been on the wane since 2H, as rising borrowing costs, tight valuation, and a challenging equity funding environment have limited the accretion potential and opportunities. On the other hand, S-REITs have been increasing their pace of divestments and are looking to recycle capital into higher yielding assets or diversify into new markets. This, in our view, is the right strategy under current market conditions. S-REITs are expected to continue to focus on enhancing their operational performance, while looking at value-add opportunities in their portfolio via redevelopment or untapped GFA and asset enhancements with very selective acquisitions until market conditions stabilise.

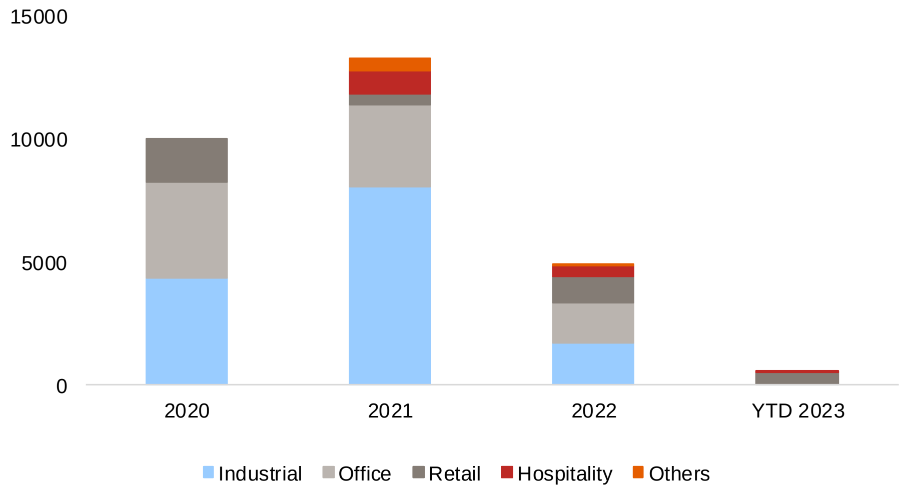
YTD, S-REITs have made only two acquisitions (worth SGD0.6bn) and we expect full-year acquisition value to be at SGD2-3bn. In comparison, S-REITs made 26 acquisitions last year worth SGD5bn, following a record 2021, in which S-REITs acquired 52 assets for a total value of SGD13.3bn.

Figure 10: S-REITs' acquisitions (YTD 2023)

No.	Announcement Date	REIT Name	Property name	Country	Acquisition cost (SGD m)
1	4-Jan-23	ARA US Hospitality Trust	Home2 Suites by Hilton Colorado Springs South	US	39
2	26-Jan-23	Frasers Centrepoint Trust	Nex mall (25% stake)	Singapore	519
			Total		**558**

Source: Company data, RHB

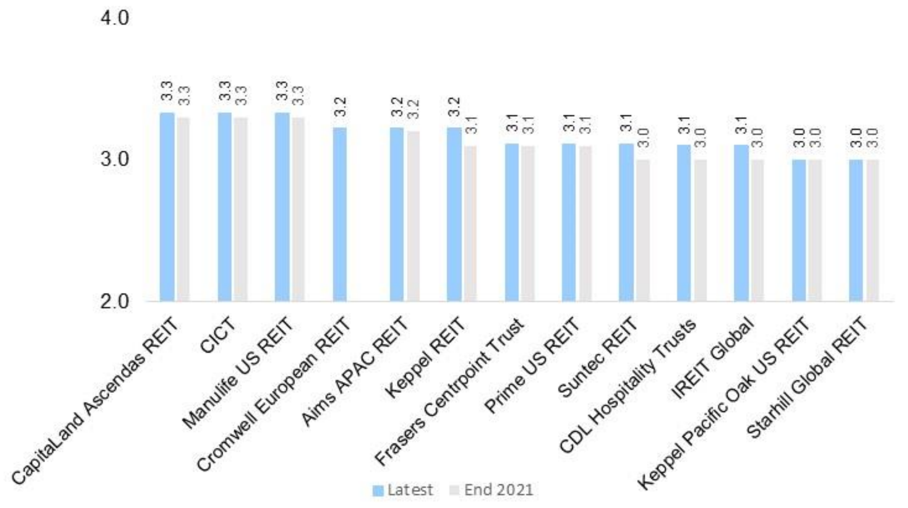
Figure 11: S-REITs' acquisitions by sector over the last three years (SGDm)



Source: Company data, RHB

ESG metrics continue to improve. Overall, we note that S-REITs have increasingly become more active on the ESG front in the last two years, since we started incorporating our proprietary ESG scoring and evaluation mechanism in 2021 (ESG: The New Way Forward For Singapore Equities). This is especially visible in terms of enhancing portfolio resilience by modernising, increasing the energy efficiency of their assets, and obtaining green certifications for their buildings. This, in our view, has considerably helped REITs maintain their high occupancy rates and rents, and to capture the flight to quality trends seen in the current market conditions. On the social front, we observe that more REITs are starting to pay attention to employee welfare and training, and we note an increase in tenant engagement scores. Corporate governance standards have also increased, with more timely disclosures, investor engagements, and board diversity – although there is room for improvement and there is a wide disparity among various REITs. Sustainable, green, and social financing also gained a lot of traction over the last two years, with an estimated >75% of the loans financed by REITs during the period coming under such schemes. S-REITs under our coverage that saw improvements last year in their ESG scores include Keppel REIT, Suntec REIT, CDL Hospitality Trusts, and IREIT Global, while none have been downgraded.

Figure 12: ESG scores for REITs under our coverage



Source: RHB

Sector Outlook

Industrial – Still The Most Resilient Sub-Sector

Key takeaways from the latest industrial REIT results and briefings. Among the latest quarterly set of results for various S-REIT sub-sectors, industrial REITs had the most positive surprises and saw the biggest improvements across operational numbers with continued increase in occupancy and healthy positive rent reversions. These are some of the key takeaways from industrial REIT briefings:

i. Overall industrial REIT managers continued to guide a cautiously optimistic tone on the outlook and noted that the industrial demand on the ground remains healthy despite an increase in supply. Occupancy is expected to stay healthy and rent reversions (Singapore assets) are anticipated to stay positive in low single-digits.

ii. Despite a sharp increase in occupancy and rents over last two years, logistics was still highlighted as the bright spot in the sector with no slowdown in demand seen so far, and availability of quality supply remains limited. This is followed by high-specs industrial, multi-user factory, and business parks. Many tenants are also still in expansion mode and there has been some consolidation of operations.

iii. Flight to quality trends are generally observed across all sub-sectors with tenant preferences for locations near amenities and connectivity, and willingness to pay a premium for such a space. This is in particular more visible for the high quality business parks segment which has been attracting demand from fringe sub-urban offices.

iv. Cost pressures from higher utility charges have been to some extent passed through with an increase in service charges. Managers do not expect costs to increase further as volatility in utility rates has subsided, and most of them have locked in the rates for the next few years.

v. Asset values are stable with cap rates remaining largely steady for most of the segments, with a slight 5-25bps cap rate compression seen for logistic segments.

Demand and supply outlook

Singapore reported record fixed asset investment (FAI) of SGD22.5bn in 2022, nearly double the FAI inflow of SGD11.8bn in 2021. The Economic Development Board (EDB) noted that the strong inflow was driven by large manufacturing projects from the electronics sector, which accounted for 66.7% of FAI last year, but cautioned that it is not expecting similar inflows this year on the back of macro uncertainties.

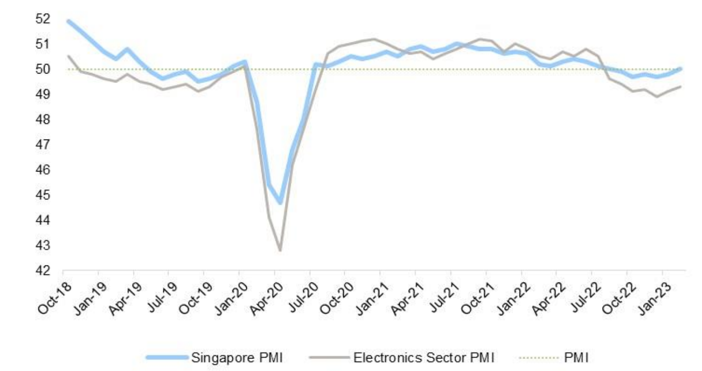
This was mainly driven by strong demand for semiconductor chips, and the setting up as well as expansion of manufacturing players. As highlighted in our previous report, United Microelectronics Corp (UMC), Taiwan Semiconductor Manufacturing Co (TSMC), and GlobalFoundries have announced investments or expansion plans for chip-making facilities in Singapore.

The above investments significantly raise Singapore's positioning as an advanced chip manufacturing destination, which in our view, aligns with the Government's target to bring high-end value-add segments with strong growth potential. It is also expected to result in the growth of supporting industrial sectors here and help achieve the Government's target to grow manufacturing sector output by 50% this decade.

Singapore PMI rebounds to neutral, China re-opening likely a key positive ahead. The Purchasing Managers' Index (PMI) rebounded by 0.2 to 50 in Feb 2023, after a reading of below 50 for the previous five months. PMI is a monthly survey of economic health of private sector manufacturing firms using a combination of five different indicators: New orders, production, employment, supplier deliveries, and inventories. A reading of below 50 indicates contraction from the previous month, while one above represents growth. The latest PMI data indicated that the key linchpin electronics sector remains in contraction territory, though it improved MoM. However, improvements were see in the new order index, and an expansion in the factory output index. The data highlights that the manufacturing sector is starting to show signs of recovery from China's reopening as well as better-than-expected economic data from the US and Europe.

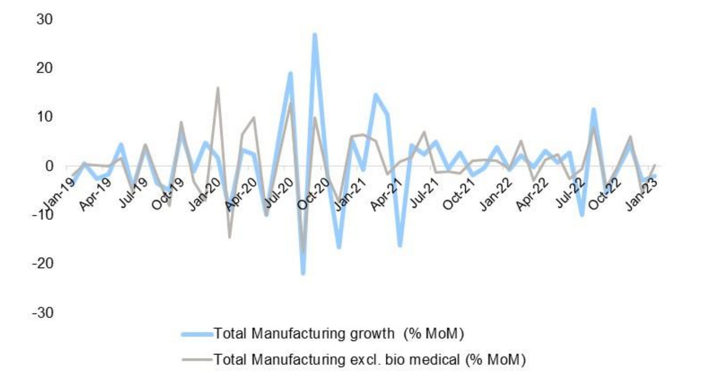
Manufacturing output recovery likely to follow. The index has been following a similar trend and has been on a decline since Sep 2022. Manufacturing output fell 2.7%YoY in January. Excluding biomedical manufacturing, output fell 6.3%. On a seasonally adjusted MoM basis, manufacturing output fell 1.1% YoY – excluding biomedical manufacturing, output grew 0.4%. Based on a business expectations survey of the manufacturing sector, the transport engineering cluster has the brightest outlook over the next six months – reflecting a recovery from the economic reopening and resumption of travel.

Figure 13: Singapore PMI has turned neutral



Source: JTC Corp

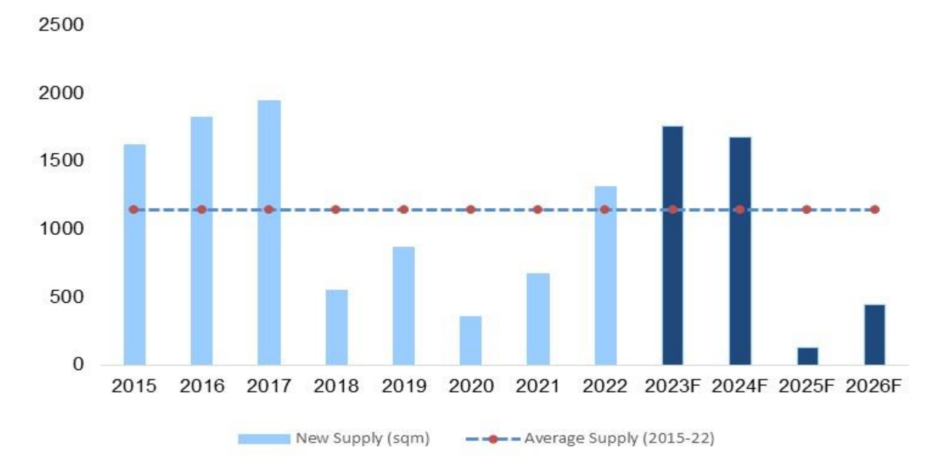
Figure 14: Manufacturing output growth



Source: Singapore Institute of Purchasing & Materials Management

Supply mostly concentrated in factory space. As of end 2022, there is 52m sqm of industrial space based on JTC Corp data. Between 2023-2026 an estimated 4m sqm or c.1m sqm pa of industrial space is expected to be completed. In comparison, average annual supply and demand for the last three years have been 0.8m sqm and 0.7m sqm respectively. About half of this supply is single-use factory space, typically developed by industrialists for their own use and, hence, are not a direct competition to market. Warehouse supply accounts for another 28%, with multi-user and business park spaces accounting for the remaining 23%.

Figure 15: Industrial supply (historical and upcoming) in sq m

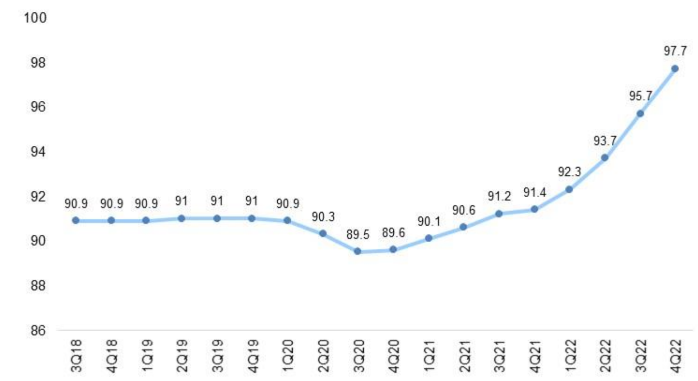


Source: JTC, RHB

Industrial rent continues to inch up. Overall, industrial sector occupancy dipped 0.3ppts QoQ to 89.4% (-0.3ppts QoQ, -0.4ppts YoY). The decline in occupancy mainly came from business parks and factory space, as more supply came on stream during the quarter after COVID-19-led construction delays in the past. Notwithstanding the slight occupancy decline, industrial rents continue to rise (+2.1% QoQ, +6.9% YoY). All segments registered positive QoQ/YoY rent growth, indicating that it is still a landlords' market.

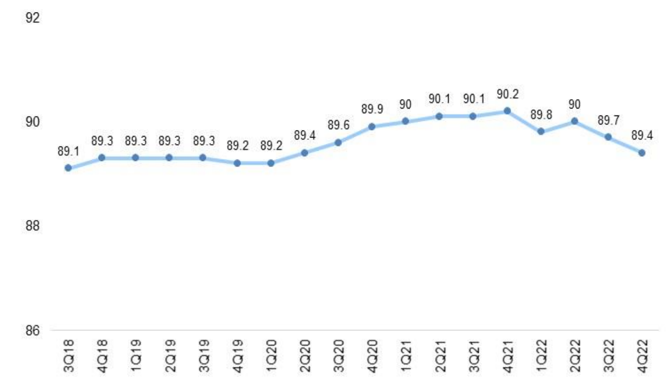
Our discussions with industrial REITs also indicate that the rents are likely to be maintained at current levels or slightly higher this year. For 2022, we expect industrial rents to grow by 0-3%, with logistics, high-tech, and selective business parks continuing to outperform. This means that rent reversions are expected to stay positive at 3-7% for industrial REITs, as most of rents are marked to market upon expiry. Occupancy is expected to remain flattish at c.90% levels for 2023.

Figure 16: JTC All Industrial Rental Index



Source: JTC

Figure 17: All industrial occupancy rate



Source: JTC

Our picks are CapitaLand Ascendas REIT (CAREIT) and AIMS APAC REIT (AAREIT). CAREIT is a pioneer in the Singapore business park space, which caters to a good mix of R&D and tech companies, as well as high-tech manufacturing sectors. It is also the largest industrial SREIT with a well-balanced and diversified portfolio across the sectors, and a strong balance sheet. AAREIT remains an attractive proxy to the favourable Singapore industrial sector outlook, with the majority of its income derived from the attractive logistics sector and long-lease Australian business parks.

Office – increasing headwinds, limited supply offers support

Key takeaways from latest office S-REIT results and briefings. Singapore-focused office REITs broadly surprised last year with firm rent growth and occupancy improvements, largely bucking global trends. The momentum, however, has begun to slow down in 4Q amidst the economic slowdown and tech sector volatility. The following are some of the key takeaways from the various Singapore-focused office S-REIT briefings:

i. Office REIT managers were more moderate on the outlook for rent growth ahead, as tech sector demand – one of the key demand drivers in the last three years – has slowed down considerably. Current office demand in the market is more bite-sized – ie in the 5,000-20,000sq ft range – mostly from family offices, legal and insurance firms, etc. Large space demand has more or less dried up;

ii. The adoption of hybrid and flexible work has not impacted office demand much in Singapore. The return to physical offices has reached up to 80%, with Tuesdays to Thursday's seen as peak working days;

iii. Shadow or sub-lease spaces within the office portfolio space has not seen any notable increases so far (below 3%), although this is likely to see a rise this year from the scaling down by tech and crypto companies. Based on news flows, some tech tenants are likely to be on the lookout towards reducing or giving back space. These tenants include Sea, Google, Netflix, etc;

iv. The flight-to-quality trend remains strong – more tenants are taking into account sustainability aspects of a building, and are willing to pay rental premiums for such assets. Typical rent premiums for such assets in the market vary between 10% and 20%;

v. Similar to industrial REITs, cost pressures from higher utility charges have been mostly passed through via increases in service charges. Managers do not expect costs to increase further, as utility rate volatility has subsided. Additionally, most of them have locked in the rates for the next few years;

vi. In our view, asset values for Singapore office buildings are likely to see slight reductions this year amidst market volatility and demand slowdown. Capitalisation rates are likely to increase by 5-15bps.

Demand and supply outlook

Singapore sees a better-than-expected return to physical offices vs other key markets. According to Knight Frank (KF), long-term adoption of hybrid working might not be as pervasive and permanent in Singapore as initially perceived during the height of the pandemic. KF noted that the proportion of staff working remotely is likely to decline from an expected average of 20% to a range between 10% and 15% – depending on the nature of the work and functions. In comparison, our checks with office landlords in Australia, the UK and US, this figure is at c.50%. We are of the view that the high return to physical offices is one of critical drivers for long-term office demand, as it allows tenants to plan and lease long-term workspace solutions that bring out the best productivity from employees.

Hiring activity remains healthy for now… Based on latest data from the Manpower Ministry, employment levels improved significantly in 2022 on the back of a rebound in foreign workers – this was as border restrictions were lifted and employers backfilled position. Resident unemployment rates among professionals, managers, executives and technicians or PMETs declined from 3.4% in 2021 to 2.6% in 2022. KF expects that, as Singapore continues to evolve as an international hub with established sophisticated financial and legal structures, businesses on the growth path will still look to expand their headcount, albeit cautiously.

…but shadow spaces, especially from tech players, are likely to increase further in 2023. The wave of tech sector layoffs globally has started to impact Singapore too – this sector, in particular, was one of the key office demand drivers over the last three years in the central business district (CBD) market. While the layoffs in Singapore so far remain benign, hiring plans have been broadly put on hold – tech firms are also looking at rationalising office space as a cost-savings measure.

According to Cushman & Wakefield (C&W), CBD Grade-A office shadow spaces reached about 0.3m sq ft in 2022, ~2x the pre-pandemic level of 0.2m sq ft (2015-2019 average). Some of the key announcement in this regard includes:

i. Google exercising its rights to surrender a portion of c.344,000sq ft of space at Alexandra Technopark, which is owned by Frasers Logistics & Commercial Trust (FLCT SP, NR);

ii. Sea, the parent company of e-commerce firm Shopee, reportedly looking for replacement tenant for a c.200,000sq ft of Grade-A office space at Rochester Commons;

iii. Netflix is understood to have given up one of its two floors (c.30,000sq ft) at Marina One West Tower, according to EdgeProp Singapore.

Leasing demand supported by corporate relocations, and financial and insurance sectors... KF noted that, despite the volatility caused by the tech sector, demand is set to be sustained by corporates shifting business functions from other parts of Asia – with Singapore as a flight-to-safety destination – as uncertainty grows. In particular several media reports and official sources have pointed to the explosion in family office space, which has nearly grown seven fold since 2017 to 700. International firms that are looking to tap into South-East Asia's post-pandemic growth are also looking to setup or expand in Singapore as a base from which they have access to a steadily growing middle class population within this region.

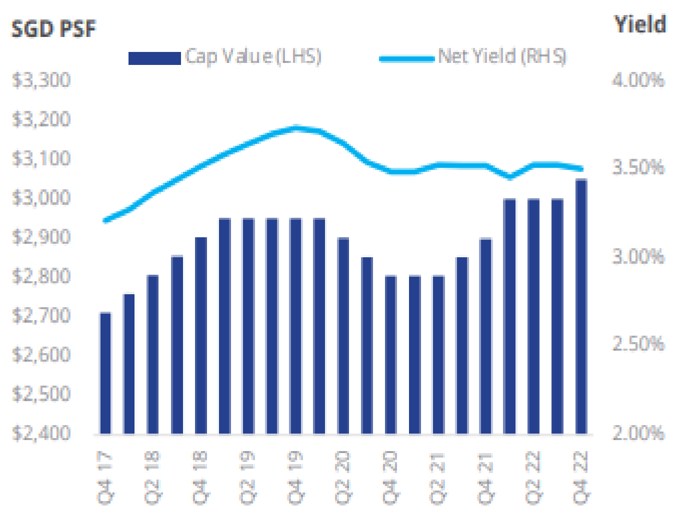
According to C&W, although economic headwinds and the recalibration of tech growth are expected to weigh on CBD office demand, a continued flight to quality and resilient demand from other sectors could partially mitigate a slowdown in tech demand. Financial and professional services firms, which contributed to a quarter of new leases in the CBD in 2022, could also expand in this market segment as they tap into the Asia-Pacific's rising wealth. Co-working operators could also expand, albeit gradually, amidst occupiers' greater demand for more flexible spaces and leases that can help reduce capex and support such firms through tough economic times.

Figure 18: Office rents and vacancy (4Q)

	Rents (S$ psf pm)	QoQ (%)	YoY (%)	Vacancy (%)
Core CBD Premium & Grade A	**11.40**	**0.9%**	**5.9%**	**2.3%**
Premium	12.44	0.2%	7.1%	2.2%
Raffles Place/New Downtown	10.53	1.3%	5.1%	1.4%
Shenton Way/Tanjong Pagar	9.44	0.7%	2.4%	5.2%
Fringe CBD Grade A	**9.65**	**1.4%**	**4.5%**	**3.4%**
City Hall	9.84	0.6%	4.4%	4.8%
Beach Road/Bugis	9.60	6.7%	9.5%	2.3%
Orchard Road	9.23	0.4%	1.9%	0.2%
City Fringe	**7.84**	**0.3%**	**4.5%**	**1.5%**
Suburban	**5.08**	**1.4%**	**2.4%**	**5.5%**
Core CBD Grade B	**8.72**	**0.6%**	**3.8%**	**10.8%**
Raffles Place	8.80	0.6%	2.8%	9.0%
Shenton Way/Tanjong Pagar	8.56	0.7%	6.9%	5.2%
Fringe CBD Grade B	**7.94**	**0.8%**	**2.6%**	**5.2%**
Beach Road/Bugis	7.78	0.6%	3.5%	5.5%
Orchard Road	7.99	0.9%	2.2%	5.0%
City Fringe	**6.74**	**0.4%**	**2.6%**	**5.0%**
Suburban	**4.53**	**0.0%**	**5.9%**	**3.9%**

Source: Colliers

Figure 19: CBD premium Grade-A capital values and yields



Source: Colliers

…and displacement demand from office redevelopment. Over the last few years many developers have commenced redevelopment of older office assets by tapping into various government initiatives such as the CBD Incentive Scheme and Strategic Development Initiative, which gives bonus GFA for redeveloping old office buildings into integrated developments. This includes Maxwell House, Central Square, Fuji Xerox Towers, AXA Tower, Shaw Towers. This has aided in a steady stream of displacement demand as tenants have looked to consolidate or modernise their spaces into newer office developments in the CBD.

This trend is likely to continue this year, with redevelopments commencing for Clifford Centre and a few others in the CBD likely in the pipeline.

Office supply remains modest. According to CBRE, an estimated c.4m sq ft of office spaces are expected to come on-stream over the next three years. 30% of this supply is in the core CBD market, mainly from one office development (IOI Central Boulevard), which – according to market sources – is already 30% pre-committed by Amazon. Colliers estimates that new CBD Grade-A office stock will only amount to about 0.7m sq ft pa from 2023 to 2028, ie lower than the 10-year historic annual average of 1m sq ft.

Overall, we expect Grade-A CBD office rents to rise 0-3% in 2023, with the pace of rent growth decelerating to flattish levels in 2H. Grade-B office rents, on the other hand, are expected to be flattish to slight negative in some cases. Occupancy for Grade-A CBD offices and Grade B buildings are expected to stay relatively flattish at 95% and 90% levels, in our view, with some volatility expected between quarterly data. Based on Colliers data, office rents grew 0.9% QoQ in 4Q and 5.9% last year, supported by tight vacancy, which currently remains low at 2.3%.

Undervalued but lacks strong catalyst – NEUTRAL on office REITs, Top Pick: Keppel REIT (KREIT). Despite the Singapore office sector being in a relatively better position when compared to other global markets, we believe sentiment is likely to be weighed down by recession fears, continuing tech staff layoffs, and downsizing concerns. KREIT is our sector Top Pick due to its high quality assets, limited tech sector exposure, and healthy balance sheet position. The REIT currently trades at a more than 30% discount to BV and offers 6%-plus yields for FY23.

Retail – sales momentum slowing, tourist spend likely a key catalyst

Retail sales marked their first YoY decline after 16 months of growth, contracting 0.8% YoY in January vs Bloomberg's forecast of a 4.9% YoY expansion. Excluding motor vehicles, retail sales rose 2.1% YoY. Overall, this segment was led by F&B (+36.3% YoY), wearing apparel & footwear (+23.7% YoY), recreational (+9.7% YoY), and medical (+5.4% YoY) goods sales. From a sequential basis, retail sales declined 3.9% in January, underlining the slowing momentum.

E-commerce remains elevated at above 10% levels. The proportion of online sales as a percentage of the total has remained at double-digit levels when compared to pre-pandemic's mid-single-digits – this was despite the relaxation of almost all COVID-19 restrictions. January online sales (excluding motor vehicles) stood at 12.6% of total sales (11.5% if motor vehicle sales are included) – about double the pre-COVID-19 levels of 6-7%. Two key segments that are seeing a high proportion of online sales: Computer telecommunications & equipment and furniture & household equipment, where nearly half and a third of their respective sales were done online in recent periods.

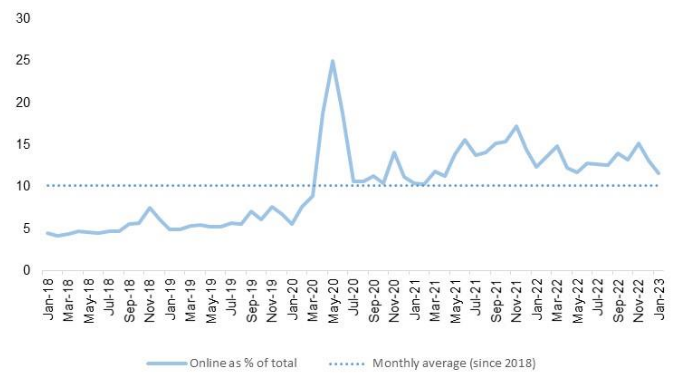
We expect this trend to stay and likely reach c.15-20% in the next 3-5 years, as more retailers adopt an omni-channel approach, as well the rise of Super Apps such as Grab, Alibaba, GoTo, etc. While e-commerce is a good complement to traditional sales, we think the impact to physical retail will be gradual, ie a slow reduction in total space requirements and c. 5-10% in overall demand in the medium to long-term.

Expecting a softer 1H, but a recovery in 2H driven by tourist spend. Our economists expect retail sales momentum to decelerate into 1H, considering the dissipation of front-loading buying in 2022. Our view is that domestic demand may be softer this year, although some support may be seen from the recent Budget 2023. Separately, some reprieve may be seen in tourism-related products, especially in discretionary goods in 2H23, on improving tourism arrivals during the same period. Overall, we expect 2023 retail sales growth of 6%.

Figure 20: Retail sales slowing down

Source: Singapore Statistics (SingStat)

Figure 21: Online sales as a percentage of total retail sales



Source: SingStat

Cost pressures have subsided while manpower constraint persist. Another key near challenge faced by retail REITs last year was the sharp increase in utility charges due to spikes in oil prices that impacted overall NPI margins. Cost pressures have now stabilised and are contained in our view – this is as utility prices have stabilised. In addition, mall operators have taken various steps to mitigate this impact in terms of raising service charges and installing more energy-efficient devices. Hence, we expect overall NPI margins for retail REITs to stabilise and, in some cases, see slight improvements in FY23. On the other hand, manpower constraints and higher costs associated with hiring manpower for retailers continue to persist. This, in our view, will limit expansion plans and new store openings by tenants.

Tenant sales across REITs' malls have well surpassed pre-COVID-19 levels, at 5-20% higher during 4Q22 – this is based on the S-REITs' mall portfolio data. Downtown malls have been seeing a sharp rebound (15-30% higher) since 2Q, with more employees returning to offices, while suburban malls have maintained their resilience. This comes on S-REITs owning among the best retail malls in Singapore – which are well located – along with the active management of such malls by the landlords. We expect overall tenant sales across malls to remain higher at c.10% above pre-pandemic numbers – mainly aided by the tourist spend recovery, as mentioned before.

Uneven sales recovery poses challenges in terms of mall curation... While tenant sales have recovered above pre-COVID-19 levels, the recovery in retail sales has been very uneven across all trade sectors. Unevenness is also seen within certain trade categories such as F&B which, in our view, poses challenges to landlords in terms of mall curation, space allocation, and extracting value from retail assets.

Trade sectors that have been facing challenges include the ones that have been hit by e-commerce and changing buying trends, eg electrical & electronics, IT & telecommunication, home furnishing etc. These segments, in our view, are likely to increase more tenant churns in malls and, consequently, could result in a possible increase in the vacancy period and rent-free effects. In addition, we think the growth of experiential retails may also pose some rental pressures in terms of rental per sq ft, as the likely large footprints from this could result in a decreased overall average rental for the malls.

… but limited new supply offers respite. Based CBRE's latest data (4Q), c.1.7m sq ft or c.0.6m sq ft pa of retail supply is expected to hit the market in the next three years, vs the past 10-year average supply and demand of 0.6m and 0.5m. Supply is mostly concentrated in the fringe and suburban areas of Singapore. Key new retail supply for 2023 will be the opening of The Woodleigh Mall (c.208,000sq ft), One Holland Village (c.117,000sq ft), and Sengkang Grand Mall (c.109,000sq ft).

Maintaining occupancy to remain key focus while offering rental flexibility. For 2023, we expect landlords to remain focused on maintaining high occupancy in malls while remaining flexible on rental structures. Overall, we expect the island-wide occupancy to remain stable at 92-93% levels. In terms of retail rents, we expect overall rent to be in the range of 0-2% with the downtown and Orchard Road malls likely to see slightly more upside rebounds (+1-4%) from pent-up demand and tourist spending while suburban mall rents remain resilient at 0% to +1%). Based on CBRE's 2022 data, island-wide rents rose 2%, with both suburban and downtown malls registering growth. Overall island-wide retail occupancy (private) rose 1.3ppts to 92.2% last year, based on Urban Redevelopment Authority or URA data.

Key catalysts

Upside risks or catalysts for the sector include:

i. Continued surge in domestic pent-up demand with better-than-expected economic performances;

ii. Surge in capital in-flows and new wealth creation from relocations as well as creation of family offices (with the retail sector emerging as one of the beneficiaries);

iii. Stronger-than-expected recovery from retail tourist spend, with Chinese visitors driving demand.

Downside risks:

i. The economy tips into recession and, as a result, buyers slow down their purchases;

ii. More-than-expected negative effects from rising inflation and an increase in GST, which has been raised to 8% starting 2023 from 7% – it is targeted to be raised to 9% by 2024;

iii. Lacklustre tourist spend.

NEUTRAL on the retail segment; Orchard Road malls could see a recovery from a return of tourists – Starhill Global REIT is our Top Pick. Overall, we maintain our NEUTRAL view on the retail REIT segment, as recovery remains clouded by risks from economic slowdowns, persistent inflation, manpower constraints, and the e-commerce spectre. We expect retail REITs' share prices to see more of a sideways movement.

Starhill Global REIT is our pick on valuation grounds and the Orchard road sales recovery from the return of tourists, with the stock trading at >30% discount to book value. For defensive suburban mall exposure, we recommend investors to buy on dips Frasers Centrepoint Trust.

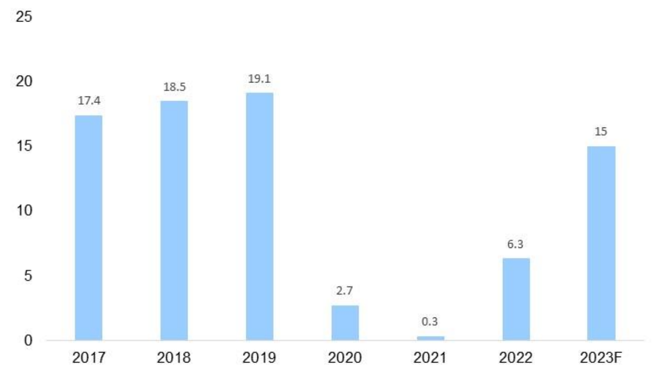
Hospitality – faster-than-anticipated recovery but largely priced in

Singapore – visitor arrivals to recover to 13-15m or c.70-80% of pre-pandemic levels in 2023. Singapore's tourism sector has benefitted from the nation being one of the early movers in the region in terms of relaxing COVID-19-related border restrictions. Since the relaxation of almost all travel measures in Apr 2022, the tourism sector has been seeing a sharp recovery, buoyed by pent-up demand.

For 2022, Singapore saw total visitor arrival of 6.3m, which is one-third of 2019's arrivals – this came in better than our expectations of 4-6m visitors. 2M23 visitor arrivals climbed to the highest since COVID-19 restrictions began with a total of 1.9m or 60% of 2M19 levels.

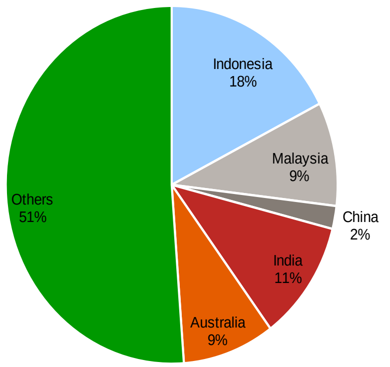
Indonesia was the top visitor arrival market last year, accounting for 18% of the total. This was followed by India, Malaysia, and Australia. Meanwhile, the pre-COVID-19 top visitor arrival market – China – accounted for only 2% of the total. This was as flight capacity remains limited and has kept Mainland China visitors at bay.

Figure 22: Singapore visitor arrivals (m)



Source: Singapore Tourism Board (STB), RHB

Figure 23: Visitor profile by markets



Source: STB, RHB

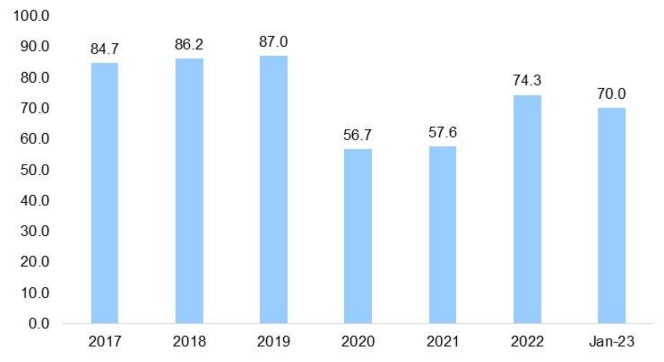
Chinese travellers expected to bounce back in 2H. With the earlier-than-expected full relaxation of COVID-19 curbs and border measures in China, we expect Chinese visitor numbers to Singapore see a sharp pick-up in 2H. Prior to the pandemic, Chinese visitors were the largest group of visitors to Singapore, accounting for c.19% of 2019's total. We understand from hotel operators that a recovery in Chinese visitor number have been slow so far, as airline operators have yet to add capacities towards China. There are also permit restrictions associated with the influx of Chinese tourists, but the situation is likely to change by 2Q. At present Singapore Airlines – the largest national carrier in terms of overall flight capacity – stands at 90% of pre-COVID-19 levels.

Sharp jump in average daily rate (ADR) likely to plateau in 2023. Singapore hotels' revenue per available room or RevPAR (2022 average) nearly doubled to SGD180.70 last year from SGD93.20 in 2021, driven by a c.17-ppt increase in occupancy and 50% jump in room rates. Average hotel room rates in 4Q of SGD283 were also the highest recorded – driven by a surge in pent up-demand.

Our channel checks with hoteliers show that operators are looking to continue to increase room rates, or at best, keep it steady as demand remains robust. There is also the added anticipation of a strong return of Chinese visitors, as well as corporate demand. Our base case scenario is for overall hotel occupancy to be maintained at 75-80% levels while room rates see a 0-5% rise in 2023.

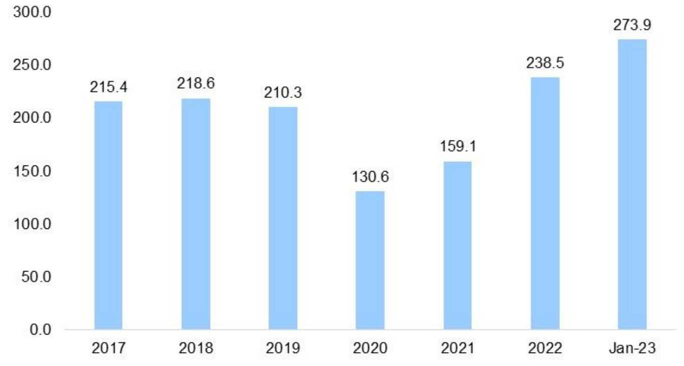
However, this has not factored in a potential scenario of the global economy tipping into a recession, which we believe could pull back room rates by 10-20%.

Figure 24: Hotel average occupancy (%)



Source: STB, RHB

Figure 25: Hotel average ADR (SGD)



Source: STB, RHB

Hotel supply is slowly catching up. An estimated 2,561 rooms (Figure 40) are expected to hit the market in 2023 or c.3.7% of the existing stock. Another 1,882 rooms are likely to open in 2024, ie 2.6% of stock. The majority of this supply is in the upscale/luxury segment and within the city centre area. This supply increase, although not excessive, is likely to keep a lid on runaway ADR growth rates. In addition, we understand that a handful of hotels (c.10-15) are still under government contracts to cater for any emergency situation from potential COVID-19 resurgences. We believe these hotels could also be released into the market from 2H23, given that the situation has now normalised.

Recovery largely priced in, with risks tilted towards the downside. Hospitality sector REIT valuations are not cheap, in our view, trading at 0.9x P/BV and closer to the long-term (5-year) average. This indicates that optimism from a post-pandemic surge has been priced in. With increasing inflationary pressures and recessionary risks, we believe there is a possibility of some of the hospitality demand slowing down post the initial surge from the lockdown.

As such, we expect hospitality stocks to trade more range-bound in the near term, with risks tilted towards the downside. We recommend investors to pick up CDREIT at lower levels, ie below SGD1.

Overseas REITS: Bombed-out valuations outweigh market challenges

Among overseas S-REITs under our coverage, US office REITs have heavily underperformed last year (last 12 months: c.-45%) when compared to their Singapore office REIT peers (-19%). Key reasons have been due to the challenging outlook for the sector post COVID-19-led changes to the US office segment, namely:

i. Right/down-sizing of office spaces on the back of hybrid working models and cost-cuts, particularly from the tech sector slowdown;

ii. Demand slowdown from workspace requirement uncertainties on slower-than-expected return to office trends;

iii. Rising interest rates and lack of bank financing for office transactions, which have resulted in up to 100bps cap rate expansions in most markets – this has resulted in a decline in the value of the assets and an increase in gearing for the US office S-REITs.

Despite a challenging outlook, there are some clear positives, eg the labour market continues to remain extremely tight. The latter is one of the key drivers for office leasing activities. Retail spending also remains healthy, as reflected in stable gross leasing activities and tenants signing longer office leases despite the turbulent market conditions.

Overall, all the three US office REITs we monitor have been able to maintain decent portfolio occupancies within the 88-93% range. Moving ahead, with more planned vacancies on the cards, we do expect occupancy volatility for the REITs at ±5ppts from current levels.

On the positive side rents have held up well, with all three US office REITs under our coverage universe reporting positive rent reversions last year. We expect modest positive rent reversions to continue in 2023, as passing rents are still below market rents.

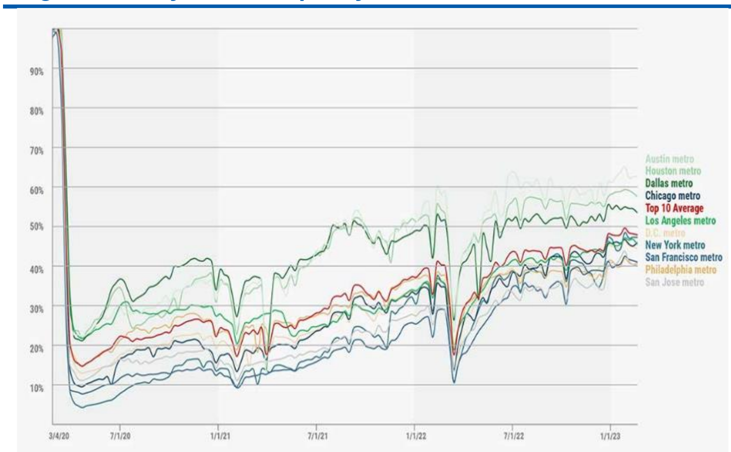
Flight-to-quality trends expected to continue in 2023. JLL expects high-quality spaces to outperform as the flight-to-quality trend continues, with high rents and low vacancy rates for best-in-class assets. However, second-generation spaces will struggle to backfill, according to the global commercial real estate firm, with an increase in demolitions and/or conversions.

According to JLL, sublease spaces remain at all-time highs, but not all tenants will find those options desirable. Landlords will grapple with rising capital and deal costs, making some segments of the market uncompetitive and requiring financial restructuring. Tenants, on the other hand, possess strong leverage in today's market, but quality space options will quickly diminish as new speculative ground-breakings come to a halt. Vacancies will be concentrated in inferior, second-generation spaces, JLL believes, limiting future options for tenants that prefer high-quality spaces if they do not act quickly.

Return to office picking up. Based on Kastle's Back to Work barometer, which tracks more than 2,600 buildings in 138 US cities, average office physical occupancies at 10 key metro centres have crossed the 50% mark since mid-February (Figure 26) from 30-40% levels last year. However, this is still well below the 65-75% levels typically seen during the pre-COVID-19 period. Notably, sun-belt cities in Texas continue to lead the pack – a trend that has been positively correlated to an increase in leasing activities – as it aids in companies better planning their workspace requirements.

The data also highlights fluctuations in office demand over the course of a week with the highest physical occupancy typically seen on Tuesdays and lowest on Fridays with 20- to 25-ppt gap between these days (Figure 27). While the longer-term office demand impact from work-from-home or WFH trends remain unclear at this juncture, most surveys show that employees and employers expect to return to the office for 2-3 days per week post the pandemic, indicating a continued use of the hybrid work model.

Figure 26: Physical occupancy trends over time



Source: Kastle Systems

Figure 27: Return to office trends over the course of a week

Source: Kastle Systems

Eurozone economic outlook rosier than anticipated… Eurozone economic growth is likely to be stronger than expected this year while inflation will be lower than in forecasts made towards the end of 2022 – this is according to the European Commission's (EC) latest report in February. This comes after the Eurozone posted a flattish QoQ GDP growth in 4Q – allowing it to avoid an anticipated technical recession. The economic growth in the 20 countries of the Eurozone is expected to be at 0.9% this year rather than the 0.3% predicted by the EC in Nov 2022. This comes on the back of a strong labour market – with very low unemployment rates – despite the ongoing Russia-Ukraine war.

…but persistent high inflation levels risk more interest rate hikes ahead. Based on the latest data, the Eurozone's consumer price growth dipped only slightly to 8.5% YoY in February from 8.6% in January – well surpassing initial expectations of 8.2%. While energy price inflation has slowed, price rises for services, goods, and food all gained pace. Conversely, core inflation rose to 5.6% YoY in February from January's 5.3%. This has now raised market expectations of more interest rate hikes ahead, with a 4% peak anticipated by the middle of 2023.

Keppel Pacific Oak US REIT (KORE) and Cromwell European REIT (CERT) are our Top Picks in overseas S-REITs, as valuations are attractive. The sharp correction in US- and European-focused S-REITs last year – amid market concerns over the economy and outlook – has resulted in REITs currently trading at 30-50% below the revised-down book value at the end of 2022.

While the outlook remains challenging in the near term, we believe we are nearing the tail-end of interest rate upcycle and expect a soft landing for the global economy.

Based on the view above, we believe overseas REITs could be nearing the bottom of the current market cycle. Among US office REITs, KORE is our Top Pick due to its right market focus, densified portfolio, and limited concentration risks. It also has superior leasing capabilities.

For European exposure we recommend CERT for its diversified portfolio, right asset mix, and high quality assets. Management's proven leasing track record and asset recycling abilities are also plus points.

S-REITs: Looking Into The Numbers

Figure 28: 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 (38)	**71,337**	**151,680**		**(1.6)**	**(2.4)**	**(5.5)**	**(0.3)**	**(9.5)**	**(10.1)**	**0.0**	**12.0**	**(17.8)**	**0.9**	**6.2**	**6.3**	**2.9**		**37.5%**	**4.6**		
Office (3)	**6,759**	**14,805**		**(1.3)**	**(2.6)**	**(3.0)**	**(2.2)**	**(15.2)**	**(19.2)**	**(0.7)**	**8.4**	**(26.3)**	**0.6**	**6.0**	**6.0**	**2.7**		**39.9%**	**4.4**		
Suntec REIT	2,962	7,722	1.39	(1.4)	(1.4)	(1.4)	(1.4)	(13.1)	(15.2)	0.7	11.2	(25.3)	0.7	5.4	5.4	2.1	Q	42.4%	3.99	19%	25%
Keppel REIT	2,445	6,676	0.89	(1.1)	(3.8)	(4.8)	(1.1)	(19.5)	(25.0)	(2.7)	4.1	(29.8)	0.6	6.8	6.8	3.5	Q	38.4%	6	9%	15%
OUE Commercial Trust	1,353	407	0.34	(1.5)	(2.9)	(2.9)	(5.6)	(11.8)	(17.3)	0.0	9.8	(22.1)	0.6	6.0	6.0	2.6	S	38.8%	3.3	9%	13%
Retail (6)	**22,547**	**53,737**		**(1.5)**	**(2.1)**	**(5.3)**	**(1.0)**	**(8.5)**	**(7.4)**	**(2.0)**	**11.0**	**(15.8)**	**0.9**	**5.8**	**5.9**	**2.5**		**36.6%**	**3.4**		
CapitaLand Integrated Commercial Trust	9,256	30,650	1.89	(1.0)	(2.1)	(6.9)	(6.0)	(9.1)	(10.4)	(7.4)	8.6	(19.9)	0.9	5.8	5.8	2.5	Q	40.4%	3.7	17%	23%
Mapletree Pan Asia Commercial Trust	6,536	13,141	1.69	(2.3)	(1.7)	(5.1)	0.6	(10.6)	(6.1)	1.2	11.2	(13.8)	0.9	5.7	5.7	2.4	S	40.2%	2.6	3%	23%
Paragon REIT	1,964	950	0.94	(1.1)	(2.6)	(3.6)	6.2	0.5	(1.1)	4.4	19.0	(6.0)	0.8	5.6	5.7	2.3	Q	29.8%	2.8	17%	30%
Frasers Centrepoint Trust	2,747	3,812	2.18	(2.2)	(2.2)	(1.8)	6.9	(5.2)	(2.7)	3.8	14.7	(12.8)	0.9	5.5	5.5	2.2	Q	33.9%	1.8	20%	35%
Starhill Global REIT	913	570	0.55	0.0	(0.9)	(0.9)	3.8	(5.2)	(6.8)	1.9	15.8	(10.6)	0.7	7.3	7.3	3.9	S	36.3%	4.5	6%	17%
Lendlease Global Commercial REIT	1,131	4,614	0.67	(0.7)	(3.6)	(9.5)	(5.0)	(18.3)	(13.1)	(5.0)	2.3	(21.6)	0.8	7.0	7.0	3.7	S	39.2%	5.3	10%	18%
Industrial (8)	**27,450**	**65,767**		**(1.7)**	**(2.4)**	**(4.9)**	**1.1**	**(6.9)**	**(8.4)**	**1.9**	**12.8**	**(14.3)**	**1.1**	**6.0**	**6.0**	**2.7**		**35.7%**	**3.9**		
CapitaLand Ascendas REIT	8,440	19,335	2.72	(1.8)	(2.2)	(6.2)	(1.4)	(4.9)	(2.9)	(0.7)	11.0	(10.2)	1.1	5.9	5.9	2.6	S	36.3%	3.8	21%	17%
Mapletree Industrial Trust	4,584	7,558	2.28	(2.1)	(3.0)	(3.4)	3.2	(12.6)	(11.3)	2.7	7.5	(16.5)	1.2	6.1	6.1	2.7	Q	37.2%	3.9	18%	16%
Mapletree Logistics Trust	5,794	16,468	1.63	(1.2)	(3.6)	(4.7)	1.2	(4.7)	(7.4)	2.5	15.6	(13.3)	1.2	5.5	5.3	2.1	Q	37.4%	3.2	27%	22%
Frasers Logistics & Commercial Trust	3,348	9,366	1.22	(1.6)	(3.2)	(6.9)	7.0	(10.9)	(14.1)	5.2	16.2	(18.7)	0.9	6.1	6.1	2.7	S	27.9%	4.6	5%	12%
Keppel DC REIT	2,514	8,516	1.98	(1.5)	(0.5)	(1.5)	4.8	4.2	(9.6)	11.9	23.8	(14.7)	1.4	5.2	5.5	1.9	S	36.4%	5.1	15%	24%
AIMS APAC REIT	707	954	1.33	(1.5)	(2.2)	(1.5)	10.8	(2.9)	(0.7)	7.3	19.8	(7.6)	1.0	7.5	7.5	4.2	Q	36.4%	4.5	23%	16%
Sabana Shari'ah Compliant REIT	340	347	0.42	(1.2)	(1.2)	0.0	(2.3)	(4.5)	(6.7)	(3.4)	10.5	(12.5)	0.8	6.9	7.1	3.6	S	32.4%	3	27%	19%
Hospitality (4)	**5,244**	**7,224**		**(2.1)**	**(1.5)**	**(7.7)**	**2.4**	**(9.2)**	**2.6**	**(2.1)**	**17.3**	**(16.3)**	**0.8**	**5.9**	**6.5**	**2.6**		**35.5%**	**N.A**		
CapitaLand Ascott Residence Trust	2,551	4,920	1.00	(2.9)	(1.0)	(9.1)	2.6	(9.1)	(2.9)	(4.8)	14.9	(15.3)	0.9	6.3	7.0	3.0	S	38.0%	N.A	N.A	N.A
CDL Hospitality Trusts	1,106	1,356	1.21	(3.2)	(4.0)	(6.9)	(0.8)	(3.2)	7.1	(3.2)	23.5	(13.6)	0.8	5.8	5.8	2.5	S	36.6%	N.A	N.A	N.A
Far East Hospitality Trust	926	632	0.63	1.6	0.0	(6.0)	3.3	0.8	7.7	1.6	21.2	(9.4)	0.6	5.9	6.3	2.5	Q	32.0%	N.A	N.A	N.A
Frasers Hospitality Trust	661	315	0.47	(2.1)	(1.1)	(6.1)	5.7	(33.6)	9.4	4.5	10.7	(34.5)	0.7	4.9	6.0	1.6	S	35.2%	N.A	N.A	N.A
Healthcare (2)	**2,199**	**1,541**		**(0.6)**	**(4.2)**	**(1.8)**	**7.7**	**(13.4)**	**(12.9)**	**6.1**	**10.6**	**(18.6)**	**1.5**	**3.0**	**3.0**	**-0.3**		**37.5%**	**14.7**		
Parkway Life REIT	1,804	1,299	4.04	(0.7)	(5.2)	(1.0)	8.0	(15.1)	(13.5)	7.4	10.1	(18.9)	1.7	3.6	3.6	0.3	Q	36.4%	16.99	1%	1%
First REIT	395	242	0.26	0.0	0.0	(5.5)	6.1	(5.5)	(10.3)	0.0	13.0	(17.5)	0.8	N.M	N.M	N.M	Q	38.5%	12.5	5%	0%
Overseas (15)	**7,137**	**8,606**		**(1.5)**	**(3.1)**	**(10.6)**	**(5.9)**	**(16.6)**	**(24.6)**	**(0.1)**	**12.1**	**(30.7)**	**0.7**	**9.5**	**9.7**	**6.2**		**38.8%**	**4.0**		
ARA US Hospitality Trust	228	29	0.40	(1.3)	(1.3)	1.3	9.7	(10.2)	(17.7)	12.9	16.2	(23.3)	0.5	11.6	13.4	7.7	Q	39.4%	N.A	N.A	N.A
Daiwa House Logistics Trust	312	272	0.61	0.0	(5.4)	(2.4)	(5.4)	(10.3)	(23.8)	(3.9)	17.3	(29.9)	0.8	8.2	8.5	1.1	S	32.2%	6.4	14%	21%
Digital Core REIT	623	1,375	0.56	(3.5)	(6.7)	(12.6)	(8.3)	(26.5)	(50.4)	0.9	12.1	(52.2)	0.6	7.5	8.3	3.5	S	34.0%	4.5	4%	13%
EC World REIT	206	135	0.35	1.5	(10.4)	(23.3)	(20.7)	(37.3)	(53.1)	(22.5)	7.8	(53.7)	0.4	17.4	17.4	14.5	Q	38.8%	1.6	23%	77%
Prime US REIT	455	114	0.39	0.0	(1.3)	(26.7)	(18.1)	(36.9)	(48.0)	(4.9)	6.9	(50.0)	0.5	15.6	15.6	11.6	S	42.1%	4.1	15%	13%
CapitaLand China Trust	1,421	3,001	1.15	(2.5)	(2.5)	(6.5)	0.0	4.5	1.8	2.7	23.7	(10.2)	0.8	7.2	7.7	4.3	S	39.6%	2	21%	16%
Lippo Malls Indonesia Retail Trust	148	71	0.03	0.0	(3.7)	(24.6)	(8.9)	(33.7)	(44.7)	(12.0)	4.0	(53.8)	0.3	N.M	N.M	N.M	Q	44.6%	3	15%	14%
Manulife US REIT	471	887	0.27	0.0	(3.6)	(19.7)	(28.4)	(49.0)	(56.9)	(11.7)	1.9	(61.3)	0.5	15.1	15.1	11.1	S	48.8%	4.7	11%	11%
BHG Retail REIT	183	2	0.48	0.0	(1.0)	0.0	(4.0)	(4.0)	(11.9)	(4.0)	4.3	(19.3)	0.6	N.M	N.M	N.M	S	37.7%	3.4	44%	18%
Keppel Pacific Oak US REIT	475	801	0.46	0.0	2.2	(15.0)	(16.5)	(30.5)	(34.5)	(1.1)	5.8	(39.3)	0.6	11.0	11.0	7.0	S	38.2%	3.5	14%	17%
Sasseur REIT	695	1,003	0.77	(1.9)	(0.6)	(7.8)	(1.9)	(1.3)	(8.4)	1.3	16.8	(12.6)	0.8	8.4	8.6	5.5	Q	27.6%	1	76%	14%
Cromwell European REIT	960	574	1.62	(3.0)	(5.3)	(5.3)	3.8	(19.0)	(25.3)	8.0	11.0	(31.1)	0.6	9.9	9.9	7.2	S	39.4%	4.6	27%	26%
Elite Commercial REIT	267	55	0.47	0.0	2.2	(12.1)	(4.1)	(19.7)	(26.0)	0.0	2.2	(29.9)	0.9	8.1	8.3	4.2	S	45.8%	4.8	10%	1%
United Hampshire REIT	269	189	0.48	(3.1)	(4.0)	(10.4)	(3.1)	(21.5)	(22.1)	2.2	5.6	(29.1)	0.62	12.4	10.9	8.4	S	41.8%	7.5	3%	8%

Note: As at 8 Mar 2023
Note 2: DPU frequency – Q: quarterly, S: semi-annual
Sources: Bloomberg, RHB

S-REITs Investment Thesis

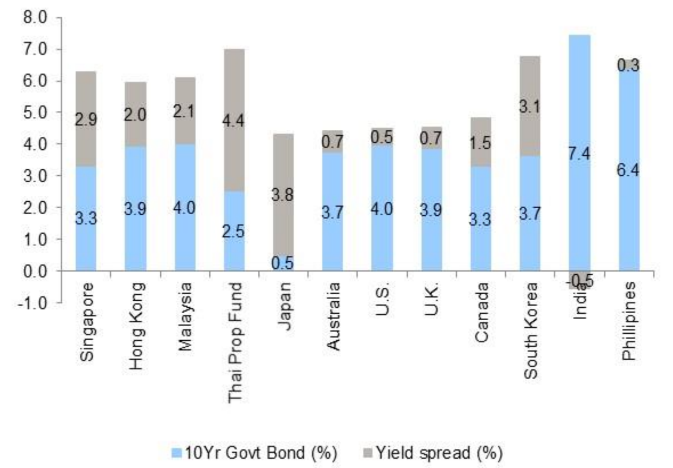
Figure 29: Investment thesis

REITs	BBG ticker	Share price	TP	Potential upside	FY-1 dividend yield (%)	Rating	Investment thesis
AIMS APAC REIT	AAREIT SP	1.33	1.50	12.8	7.5	BUY	• High-quality industrial REIT portfolio with focus on logistic assets in high demand with investors post-COVID-19 • Earnings recovery driven by occupancy and rent increases • Untapped potential to enhance portfolio value from asset enhancements. Medium-term M&A candidate
CapitaLand Ascendas REIT	CLAR SP	2.72	3.25	19.5	5.9	BUY	• Largest industrial REIT with diversified exposure to business parks, logistics, and hi-tech industrial space • Organic growth from asset redevelopment, occupancy, and rental improvement • Backed by a strong and experienced sponsor
CapitaLand Integrated Commercial Trust	CICT SP	1.89	2.00	5.8	5.8	NEUTRAL	• Largest S-REIT with good quality office and retail assets • Continued recoveries in office portfolio but uneven retail portfolio recoveries (especially downtown malls) • Strong and capable sponsor but valuations are relatively fair
CDL Hospitality Trust	CDREIT SP	1.21	1.25	3.3	5.8	NEUTRAL	• Good quality mid– to high-tier hotel assets, of which 60% are in Singapore • Upside from continuous recovery of hospitality sector • Risks remain on low-debt hedge and dissipation of pent-up demand. Current valuations have priced-in most of the positives
Cromwell European REIT	CERT SP	1.62	2.15	32.7	17.4	BUY	• A pan-European REIT with a good mix of logistics and office assets • Under-rented portfolio with proven leasing capabilities • Value-added strategies include asset redevelopments and recycling assets to produce higher yields • Attractive valuation that has priced-in most of the Eurozone risks
Frasers Centrepoint Trust	FCT SP	2.18	2.10	(3.7)	5.5	NEUTRAL	• A stable and defensive 100% Singapore-focused suburban retail player • Low-debt hedge and high near-term debt expiry • Aided by retail sector recovery but rising inflation, cost pressures, and GST hikes pose challenges
IREIT Global	IREIT SP	0.50	0.55	11.1	8.7	NEUTRAL	• Rising risks of tenant non-renewals and slow backfilling amid weak demand • Upside from built-in rental escalation pegged to inflation and utility charges are pass-through • Debt full hedges with no expiry until 2026 • Backed by two strong sponsors
Keppel REIT	KREIT SP	0.89	1.10	24.3	6.8	BUY	• High-quality Grade A office assets in Singapore, Australia, and South Korea • Positive rental reversion set to continue with low expiring rents and high occupancy levels to be maintained • Trading at significantly below book value
Keppel Pacific Oak US REIT	KORE SP	0.46	0.69	51.6	11.0	BUY	• Diverse US office portfolio and good assets in attractive sub-markets • Well-spread lease expiries and minimal tenant concentration risks • Risks: Structural demand impact from “work from home” trends and co-working sector’s failure impacting overall office market demand
Manulife US REIT	MUST SP	0.27	0.43	62.3	15.1	BUY	• Potential for value-unlocking from strategic review and sponsor support • Trading at bombed-out valuations, ie half of marked-down asset valuations Risks: Non-emergence of a white knight and potential need for a highly dilutive rights issue
Prime US REIT	PRIME SP	0.39	0.67	74.0	15.6	NEUTRAL	• High-quality assets with a mix of presence in growth and core US markets • Well-hedged balance sheet position • Trading at attractive valuations • Key risks: Exit of top 10 tenants and US office market’s structural demand decline.
Starhill Global REIT	SGREIT SP	0.55	0.60	9.1	7.3	BUY	• Recovery expected for its Orchard malls following the return of tourists and pent-up demand • Master tenancies, which accounts for nearly half the rents, mitigates impact • Office portfolio to remain relatively resilient
Suntec REIT	SUN SP	1.39	1.47	5.8	5.4	NEUTRAL	• Possible impact to its office portfolio from technology sector slowdown • Retail and convention segment to continue on its recovery • High-gearing and low-debt hedges place it in a vulnerable position to combat rising interest rates

Note: Prices as at 1 Jul 2022
Source: RHB

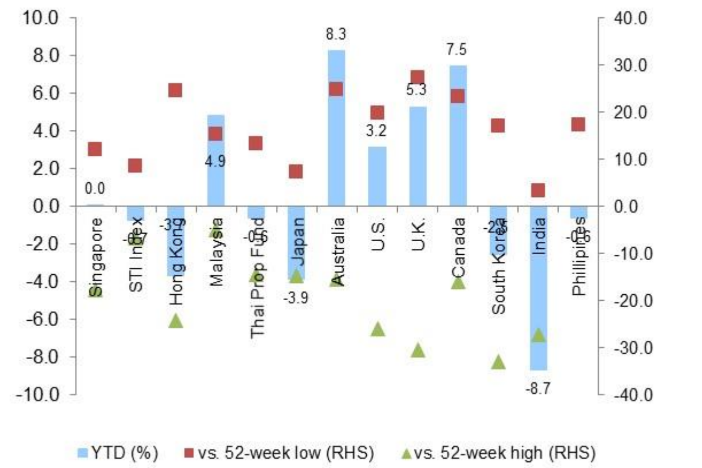
S-REITs: Snapshot

Figure 30: Global REITs yield comparison



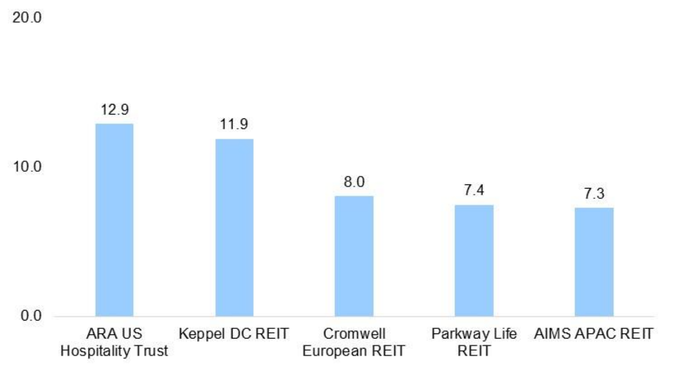
Note: As at 8 Mar 2023
Sources: Bloomberg, RHB

Figure 31: Global REITs performance YTD 2023



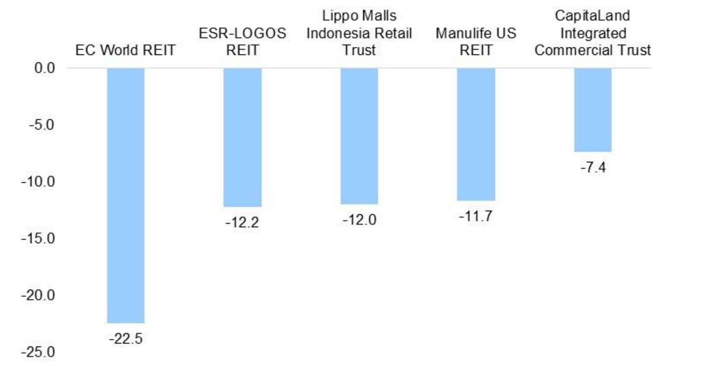
Note: As at 8 Mar 2023
Sources: Bloomberg, RHB

Figure 32: S-REITs' top 5 performers –YTD (%)*



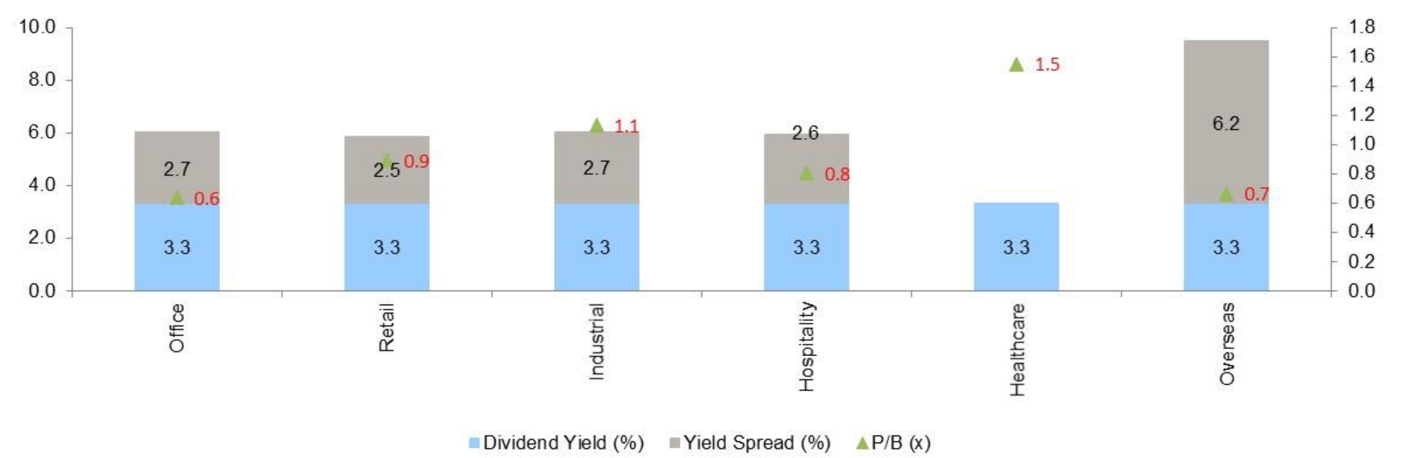
*Note: *Absolute returns; As at 8 Mar 2023*
Sources: Bloomberg, RHB

Figure 33: S-REITs' bottom 5 performers – YTD (%)*



*Note: *Absolute returns; As at 8 Mar 2023*
Sources: Bloomberg, RHB

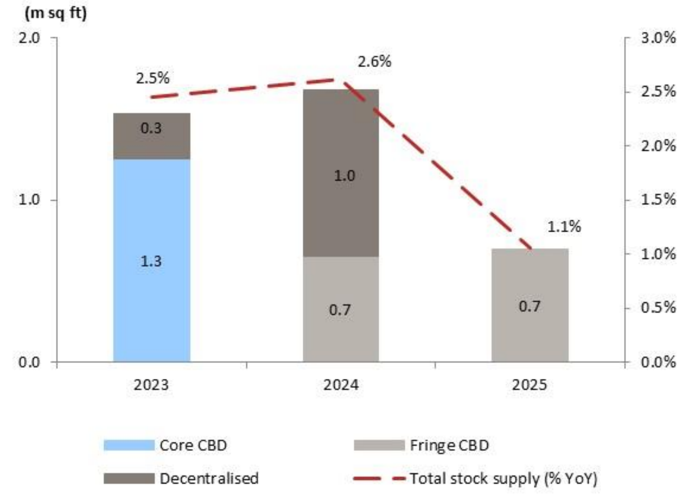
Figure 34: S-REITs – segmental yield spread



Sources: Bloomberg, RHB

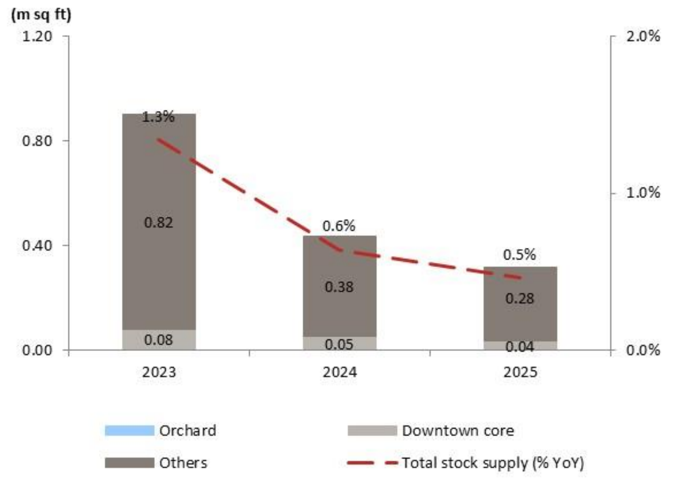
Supply Pipeline Snapshots

Figure 35: Office supply pipeline (2023-2025)



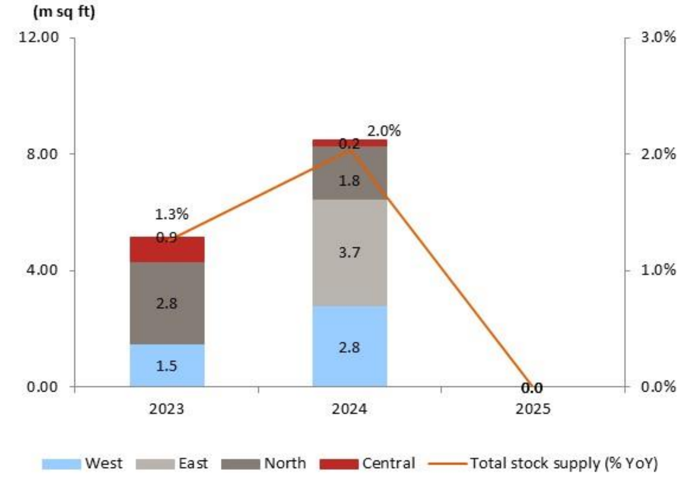
Sources: CBRE, RHB

Figure 36: Retail supply pipeline (2023-2025)



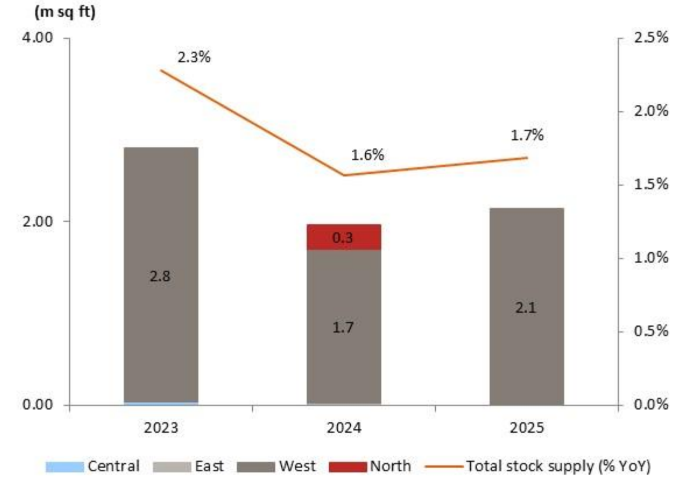
Sources: CBRE, RHB

Figure 37: Factory supply pipeline (2023-2025)



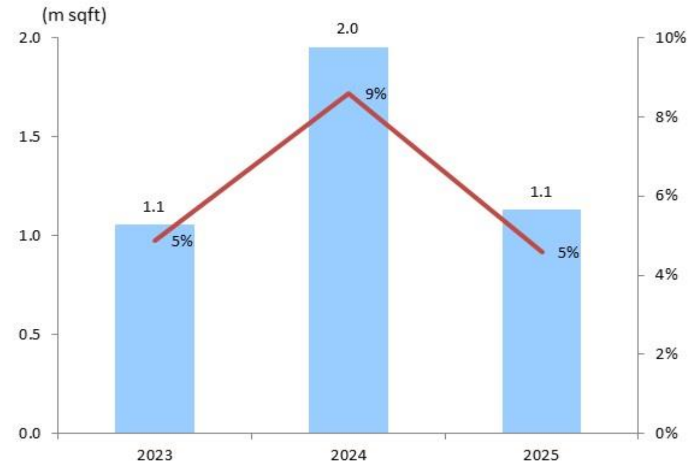
Sources: CBRE, RHB

Figure 38: Warehouse supply pipeline (2023-2025)



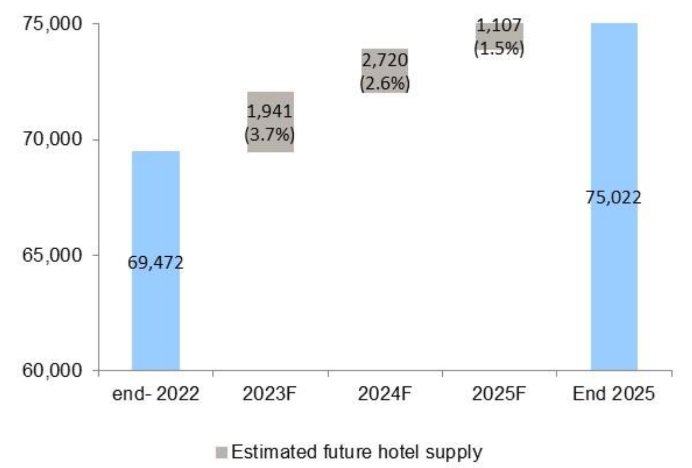
Sources: CBRE, RHB

Figure 39: Business and science park pipeline (2023-2025)



Sources: CBRE, RHB

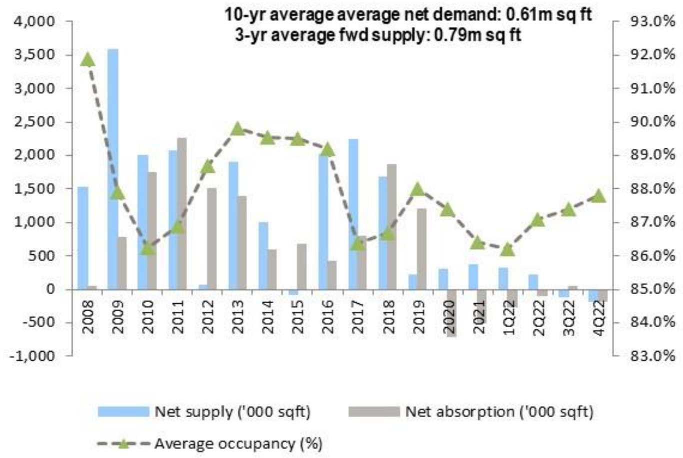
Figure 40: Hotel room supply pipeline (2023-2025)



Sources: Singapore Tourism Board, Horwath Hotel, Tourism & Leisure, and CDL Hospitality Trusts

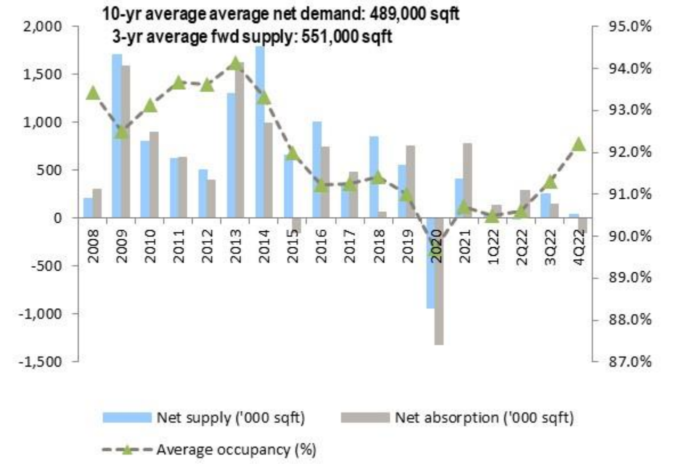
Supply And Demand Dynamics At a Glance

Figure 41: Office net supply vs absorption



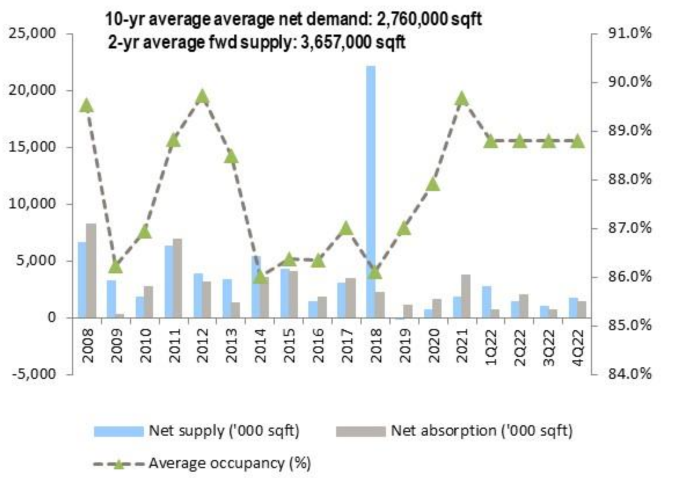
Sources: URA,CBRE, RHB

Figure 42: Retail net supply vs absorption



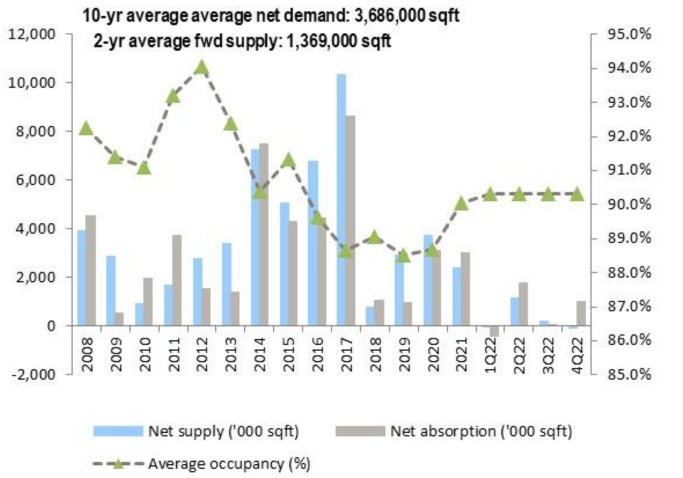
Sources: URA, RHB

Figure 43: Factory net supply and absorption



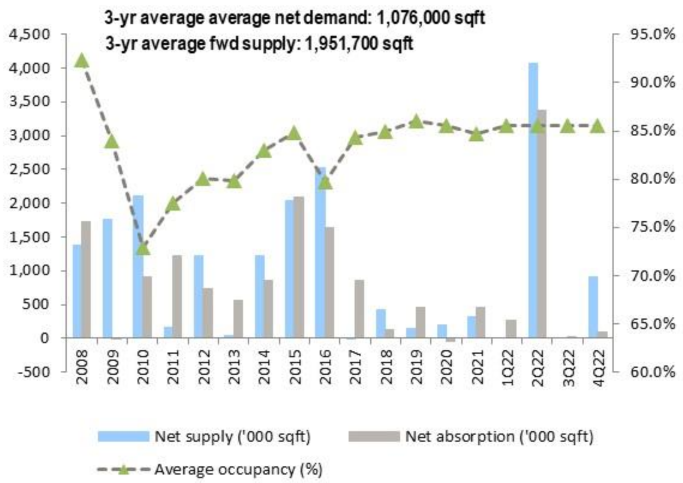
Sources: JTC,CBRE, RHB

Figure 44: Warehouse net supply and absorption



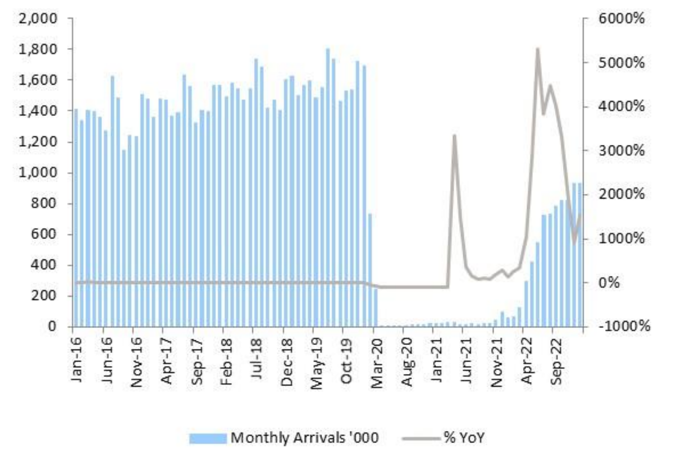
Sources: JTC, RHB

Figure 45: Business park net supply and absorption



Sources: JTC, RHB

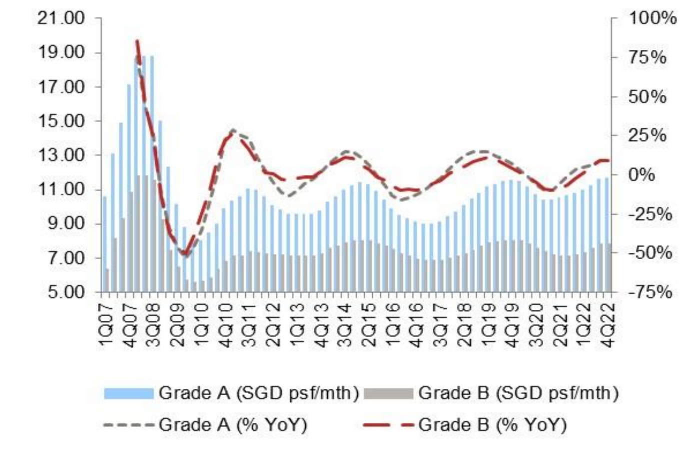
Figure 46: Singapore monthly visitor arrivals since 2016



Sources: Singapore Tourism Board, RHB

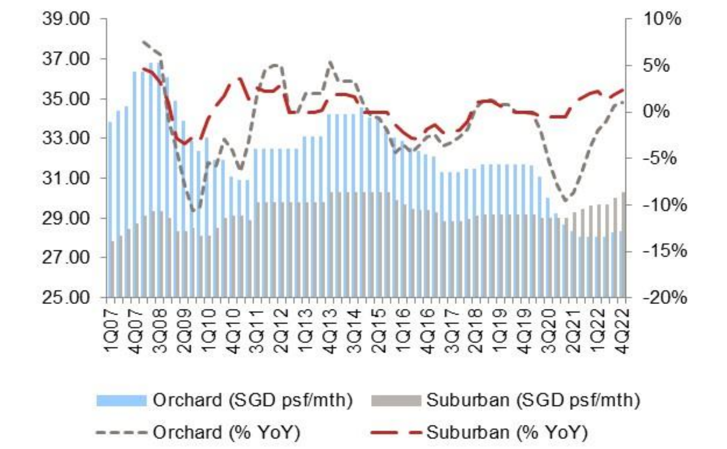
Rental Rates At a Glance

Figure 47: Office rental rates (Grade-A vs Grade-B)



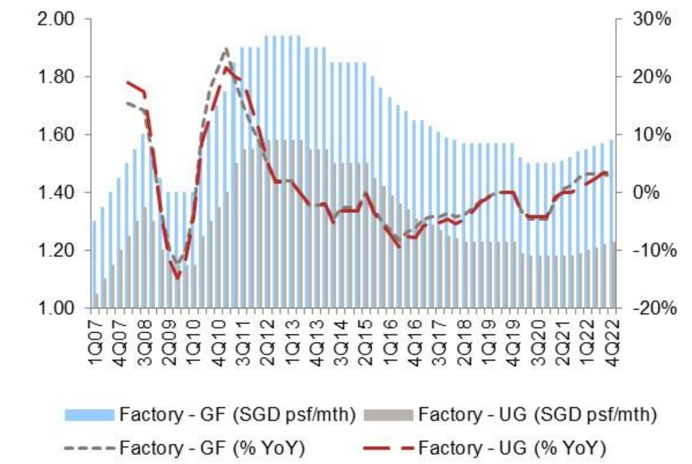
Sources: CBRE, RHB

Figure 48: Retail rental rates (Orchard Road vs suburban)



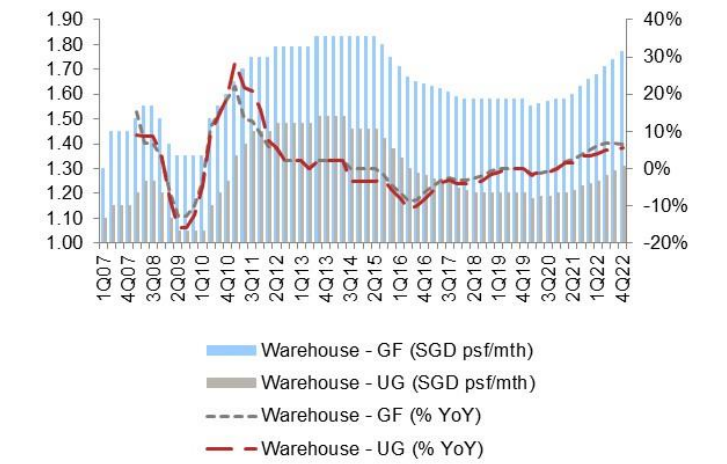
Sources: CBRE, RHB

Figure 49: Factory rental rates



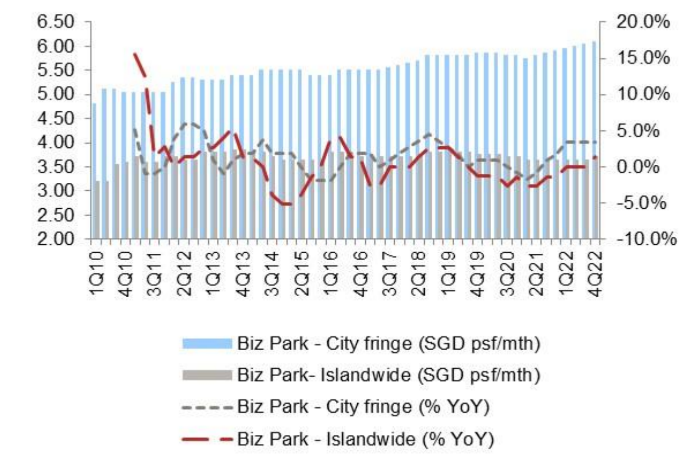
Sources: CBRE, RHB

Figure 50: Warehouse rental rates



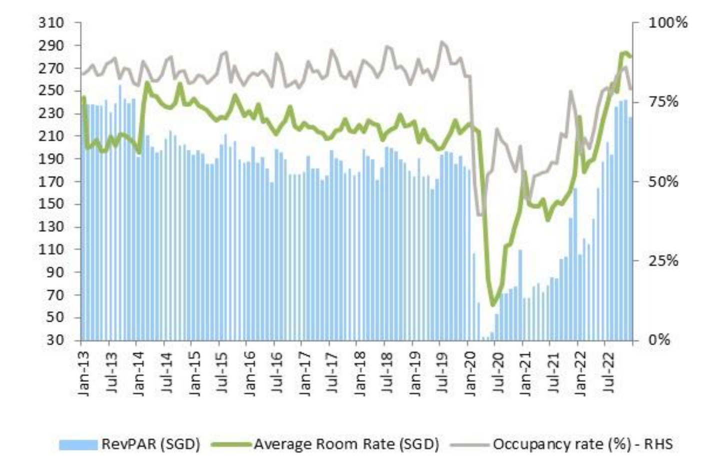
Sources: CBRE, RHB

Figure 51: Business park rental rates



Sources: CBRE, RHB

Figure 52: RevPAR* and RevPAR growth rates since 2013



*Note: *RevPAR: Revenue per available room*

Sources: Singapore Tourism Board, RHB

Regional REITs Closest To 52-Week Lows

Figure 53: Regional REITS closest to their 52-week lows

REITs	BBG ticker	Market cap(USDm)	Country	Vs 52-week low	Rank
AmFIRST Real Estate Investment Trust	ARET MK Equity	52	Malaysia	1.5%	1
ESR-LOGOS REIT	EREIT SP Equity	1724	Singapore	1.6%	2
Embassy Office Parks REIT	EMBASSY IN Equity	3517	India	1.9%	3
Embassy Office Parks REIT	EMBASSY IN Equity	3517	India	1.9%	3
Manulife US Real Estate Investment Trust	MUST SP Equity	471	Singapore	1.9%	5
Elite Commercial REIT	ELITE SP Equity	267	Singapore	2.2%	6
Brookfield India Real Estate Trust	BIRET IN Equity	1090	India	2.7%	7
AmanahRaya Real Estate Investment Trust	AARET MK Equity	73	Malaysia	2.7%	8
Sentral REIT	SENTRAL MK Equity	208	Malaysia	3.5%	9
UOA Real Estate Investment Trust	UOAR MK Equity	170	Malaysia	3.6%	10
Shinhan Alpha REIT Co Ltd	293940 KS Equity	358	South Korea	3.9%	11
Lippo Malls Indonesia Retail Trust	LMRT SP Equity	148	Singapore	4.0%	12
Keppel REIT	KREIT SP Equity	2445	Singapore	4.1%	13
Tower Real Estate Investment Trust	TRET MK Equity	28	Malaysia	4.7%	14
CapitaLand Malaysia Trust	CLMT MK Equity	256	Malaysia	5.0%	15
K-Top Reits Co Ltd	145270 KS Equity	33	South Korea	5.2%	16
Filinvest REIT Corp	FILRT PM Equity	477	Philippines	5.3%	17
Atrium Real Estate Investment Trust	ATRM MK Equity	82	Malaysia	5.3%	18
IREIT Global	IREIT SP Equity	422	Singapore	5.3%	19
United Hampshire US REIT	UHU SP Equity	269	Singapore	5.6%	20
Mindspace Business Parks REIT	MINDSPCE IN Equity	2216	India	5.7%	21
Keppel Pacific Oak US REIT	KORE SP Equity	475	Singapore	5.8%	22
Axis Real Estate Investment Trust	AXRB MK Equity	731	Malaysia	6.7%	23
Prime US REIT	Prime SP Equity	455	Singapore	6.9%	24
Mapletree Industrial Trust	MINT SP Equity	4584	Singapore	7.5%	25
EC World Real Estate Investment Trust	ECWREIT SP Equity	206	Singapore	7.8%	26
KLCCP Stapled Group	KLCCSS MK Equity	2736	Malaysia	8.0%	27
Link REIT	823 HK Equity	15876	Hong Kong	8.5%	28
CapitaLand Integrated Commercial Trust	CICT SP Equity	9256	Singapore	8.6%	29
OUE Commercial Real Estate Investment Trust	OUECT SP Equity	1353	Singapore	9.8%	30
E KOCREF CR-REIT Co Ltd	088260 KS Equity	248	South Korea	10.0%	31
Parkway Life Real Estate Investment Trust	PREIT SP Equity	1804	Singapore	10.1%	32
Sabana Industrial Real Estate Investment Trust	SSREIT SP Equity	340	Singapore	10.5%	33
Frasers Hospitality Trust	FHT SP Equity	661	Singapore	10.7%	34
Cromwell European Real Estate Investment Trust	CERT SP Equity	960	Singapore	11.0%	35
CapitaLand Ascendas REIT	CLAR SP Equity	8440	Singapore	11.0%	36
Mapletree Pan Asia Commercial Trust	MPACT SP Equity	6536	Singapore	11.2%	37
Suntec Real Estate Investment Trust	SUN SP Equity	2962	Singapore	11.2%	38
NH Prime REIT Co Ltd	338100 KS Equity	62	South Korea	11.7%	39
Digital Core REIT Management Pte Ltd	DCREIT SP Equity	623	Singapore	12.1%	40
First Real Estate Investment Trust	FIRT SP Equity	395	Singapore	13.0%	41
Pavilion Real Estate Investment Trust	PREIT MK Equity	912	Malaysia	14.4%	42
SF Real Estate Investment Trust	2191 HK Equity	289	Hong Kong	14.5%	43
AREIT Inc	AREIT PM Equity	1114	Philippines	14.6%	44
Frasers Centrepoint Trust	FCT SP Equity	2747	Singapore	14.7%	45
YTL Hospitality REIT	YTLREIT MK Equity	365	Malaysia	14.8%	46
CapitaLand Ascott Trust	CLAS SP Equity	2551	Singapore	14.9%	47
Mapletree Logistics Trust	MLT SP Equity	5794	Singapore	15.6%	48
Starhill Global REIT	SGREIT SP Equity	913	Singapore	15.8%	49
ARA US Hospitality Trust	ARAUS SP Equity	228	Singapore	16.2%	50
Frasers Logistics & Commercial Trust	FLT SP Equity	3348	Singapore	16.2%	51
Sasseur Real Estate Investment Trust	SASSR SP Equity	695	Singapore	16.8%	52
Daiwa House Logistics Trust	DHLT SP Equity	312	Hong Kong	17.3%	53
RL Commercial REIT Inc	RCR PM Equity	1097	Phillipines	17.9%	54
Al-'Aqar Healthcare REIT	AQAR MK Equity	219	Malaysia	18.0%	55
SK REITs Co Ltd	395400 KS Equity	762	South Korea	18.4%	56
ESR Kendall Square REIT Co Ltd	365550 KS Equity	618	South Korea	18.6%	57
PARAGON REIT	PGNREIT SP Equity	1964	Singapore	19.0%	58
LOTTE Reit Co Ltd	330590 KS Equity	730	South Korea	19.4%	59
AIMS APAC REIT	AAREIT SP Equity	707	Singapore	19.8%	60
Sunway Real Estate Investment Trust	SREIT MK Equity	1203	Malaysia	20.5%	61
Far East Hospitality Trust	FEHT SP Equity	926	Singapore	21.2%	62
DDMP Reit Inc	DDMPR PM Equity	457	Phillipines	21.4%	63
Spring Real Estate Investment Trust	1426 HK Equity	466	Hong Kong	21.7%	64
CDL Hospitality Trusts	CDREIT SP Equity	1106	Singapore	23.5%	65
D&D Platform REIT Co Ltd	377190 KS Equity	182	South Korea	23.5%	66
CapitaLand China Trust	CLCT SP Equity	1421	Singapore	23.7%	67
Keppel DC REIT	KDCREIT SP Equity	2514	Singapore	23.8%	68
IGB Real Estate Investment Trust	IGBREIT MK Equity	1372	Malaysia	25.4%	69
Koramco Energy Plus Reit	357120 KS Equity	344	South Korea	25.4%	70
MREIT Inc	MREIT PM Equity	651	Phillipines	27.0%	71
Al-Salam Real Estate Investment Trust	SALAM MK Equity	55	Malaysia	30.3%	72
Fortune Real Estate Investment Trust	778 HK Equity	1709	Hong Kong	36.9%	73
Sunlight Real Estate Investment Trust	435 HK Equity	733	Hong Kong	39.6%	74
Prosperity REIT	808 HK Equity	442	Hong Kong	44.9%	75
Langham Hospitality Investments and Langham Hospitality Investments Ltd	1270 HK Equity	438	Hong Kong	45.8%	76
Hui Xian Real Estate Investment Trust	87001 HK Equity	1038	Hong Kong	48.1%	77
Regal Real Estate Investment Trust	1881 HK Equity	531	Hong Kong	50.6%	78
Hektar Real Estate Investment Trust	HEKT MK Equity	75	Malaysia	54.5%	79
Champion REIT	2778 HK Equity	2694	Hong Kong	55.3%	80
Yuexiu Real Estate Investment Trust	405 HK Equity	1499	Hong Kong	86.4%	81

Note: As at 8 Mar 2023
Sources: Bloomberg, RHB

Highest-Yielding Regional REITS

Figure 54: Highest-yielding regional REITS*

REITs	BBG ticker	Market cap (USDm)	Country	Dividend yield	Rank
Prime US REIT	Prime SP Equity	455	Singapore	16.36	1
Manulife US Real Estate Investment Trust	MUST SP Equity	471	Singapore	15.85	2
United Hampshire US REIT	UHU SP Equity	269	Singapore	12.42	3
EC World Real Estate Investment Trust	ECWREIT SP Equity	206	Singapore	12.17	4
ARA US Hospitality Trust	ARAUS SP Equity	228	Singapore	11.65	5
Keppel Pacific Oak US REIT	KORE SP Equity	475	Singapore	11.43	6
Cromwell European Real Estate Investment Trust	CERT SP Equity	960	Singapore	10.06	7
SF Real Estate Investment Trust	2191 HK Equity	289	Hong Kong	9.15	8
Hektar Real Estate Investment Trust	HEKT MK Equity	75	Malaysia	9.12	9
Al-Salam Real Estate Investment Trust	SALAM MK Equity	55	Malaysia	8.84	10
IREIT Global	IREIT SP Equity	422	Singapore	8.65	11
Sasseur Real Estate Investment Trust	SASSR SP Equity	695	Singapore	8.37	12
Daiwa House Logistics Trust	DHLT SP Equity	312	Singapore	8.36	13
ESR-LOGOS REIT	EREIT SP Equity	1724	Singapore	8.31	14
YTL Hospitality REIT	YTLREIT MK Equity	365	Malaysia	8.25	15
UOA Real Estate Investment Trust	UOAR MK Equity	170	Malaysia	8.16	16
D&D Platform REIT Co Ltd	377190 KS Equity	182	South Korea	8.11	17
Elite Commercial REIT	ELITE SP Equity	267	Singapore	8.09	18
E KOCREF CR-REIT Co Ltd	088260 KS Equity	248	South Korea	7.93	19
Brookfield India Real Estate Trust	BIRET IN Equity	1090	India	7.59	20
Yuexiu Real Estate Investment Trust	405 HK Equity	1499	Hong Kong	7.33	21
LOTTE Reit Co Ltd	330590 KS Equity	730	South Korea	7.30	22
Sentral REIT	SENTRAL MK Equity	208	Malaysia	7.27	23
ESR Kendall Square REIT Co Ltd	365550 KS Equity	618	South Korea	7.26	24
CapitaLand China Trust	CLCT SP Equity	1421	Singapore	7.22	25
Starhill Global REIT	SGREIT SP Equity	913	Singapore	7.09	26
Capitaland Malaysia Trust	CLMT MK Equity	256	Malaysia	7.05	27
Digital Core REIT Management Pte Ltd	DCREIT SP Equity	623	Singapore	7.03	28
Embassy Office Parks REIT	EMBASSY IN Equity	3517	India	7.00	29
Embassy Office Parks REIT	EMBASSY IN Equity	3517	India	7.00	29
AIMS APAC REIT	AAREIT SP Equity	707	Singapore	6.99	31
MREIT Inc	MREIT PM Equity	651	Philippines	6.98	32
Sabana Industrial Real Estate Investment Trust	SSREIT SP Equity	340	Singapore	6.90	33
RL Commercial REIT Inc	RCR PM Equity	1097	Philippines	6.86	34
Koramco Energy Plus Reit	357120 KS Equity	344	South Korea	6.81	35
Keppel REIT	KREIT SP Equity	2445	Singapore	6.67	36
Fortune Real Estate Investment Trust	778 HK Equity	1709	Hong Kong	6.47	37
Mindspace Business Parks REIT	MINDSPCE IN Equity	2216	India	6.40	38
AREIT Inc	AREIT PM Equity	1114	Philippines	6.39	39
CapitaLand Ascott Trust	CLAS SP Equity	2551	Singapore	6.30	40
Filinvest REIT Corp	FILRT PM Equity	477	Philippines	6.30	41
Sunway Real Estate Investment Trust	SREIT MK Equity	1203	Malaysia	6.29	42
Pavilion Real Estate Investment Trust	PREIT MK Equity	912	Malaysia	6.22	43
Frasers Logistics & Commercial Trust	FLT SP Equity	3348	Singapore	6.07	44
Mapletree Industrial Trust	MINT SP Equity	4584	Singapore	6.05	45
Al-'Aqar Healthcare REIT	AQAR MK Equity	219	Malaysia	6.03	46
OUE Commercial Real Estate Investment Trust	OUECT SP Equity	1353	Singapore	5.97	47
CapitaLand Integrated Commercial Trust	CICT SP Equity	9256	Singapore	5.93	48
Far East Hospitality Trust	FEHT SP Equity	926	Singapore	5.87	49
IGB Real Estate Investment Trust	IGBREIT MK Equity	1372	Malaysia	5.84	50
Link REIT	823 HK Equity	15876	Hong Kong	5.82	51
CapitaLand Ascendas REIT	CLAR SP Equity	8440	Singapore	5.81	52
Mapletree Pan Asia Commercial Trust	MPACT SP Equity	6536	Singapore	5.68	53
KLCCP Stapled Group	KLCCSS MK Equity	2736	Malaysia	5.67	54
PARAGON REIT	PGNREIT SP Equity	1964	Singapore	5.64	55
CDL Hospitality Trusts	CDREIT SP Equity	1106	Singapore	5.62	56
Frasers Centrepoint Trust	FCT SP Equity	2747	Singapore	5.60	57
Suntec Real Estate Investment Trust	SUN SP Equity	2962	Singapore	5.54	58
Mapletree Logistics Trust	MLT SP Equity	5794	Singapore	5.46	59
Axis Real Estate Investment Trust	AXRB MK Equity	731	Malaysia	5.42	60
Champion REIT	2778 HK Equity	2694	Hong Kong	5.25	61
Keppel DC REIT	KDCREIT SP Equity	2514	Singapore	5.20	62
SK REITs Co Ltd	395400 KS Equity	762	South Korea	5.12	63
Frasers Hospitality Trust	FHT SP Equity	661	Singapore	4.95	64
Parkway Life Real Estate Investment Trust	PREIT SP Equity	1804	Singapore	3.64	65

*Note: As at 8 Mar 2023; *Based on Bloomberg Estimates*
Sources: Bloomberg, RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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