Singapore

Flash Note

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DBS Group Research . Equity

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Regional REITs

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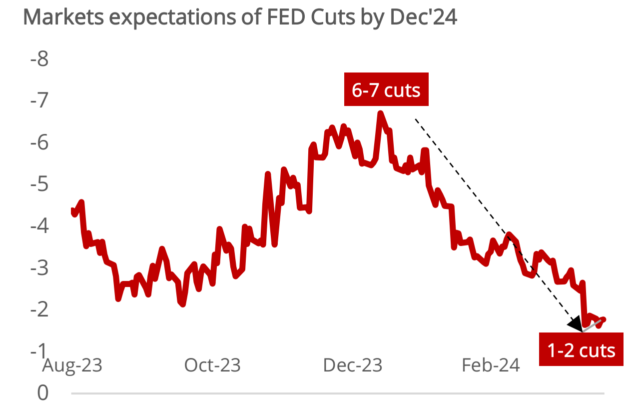
Interest rate narratives unchanged

- Interest rate narrative held broadly unchanged, with Singapore and China REITs staging a flattish month
- Hong Kong REITs saw gains backed by rally from HK-listed China commercial REITs, while Thai property fund & REIT registered a mild decline
- Upcoming FOMC meeting a key to near-term performance
- Sector preference: SG – retail & industrial; HK – retail; CN – warehouse, TH – retail

Market pricing for rate cuts has been pushed back



Source: Bloomberg, DBS

What's New

A quiet month. Earlier in May, the Federal Open Market Committee (FOMC) concluded the meeting in line with market expectations, with interest rates unchanged. US macro data, i.e., personal consumption expenditure (PCE) growth and unemployment insurance (UI) claims held firm but came in broadly in line with market expectations. Fed Chair Jerome Powell reiterated the unlikeliness rates would be raised further but holds a wait-and-see approach on whether inflation would support rate cuts. The market is still pricing in one to two rate cuts in the year, likely in Sep 24 and Dec 24. Meanwhile, US 10-year treasury bond yield hovered around 4.5%-4.7% in May 24.

HK REITs outperformed, led by HK-listed China commercial REITs on the back of improved expectations on China's economy. This was followed by Europe, US, and Australia REITs, which rose 5.3%, 4.5%, and 1.9%, respectively, in the month. Singapore and China REITs recorded a broadly flattish month, retreating 0.4% and 0.7%, respectively, in the month. The Thailand property fund & REIT sector, on the other hand, dropped 2.9% in the month, mainly dragged by the weak performance of the exhibition centre and industrial subsectors.

ed: BM/ sa: AS, PY, CS

Upcoming FOMC meeting a key to near-term performance. Investors should keep an eye on the upcoming FOMC meeting, scheduled on 11-12 Jun, for any changes in the Fed's stance. In Singapore, asset recycling is a key theme to watch out for. The release of details on the implementation of the inclusion of REITs into Stock Connect remain on HK and China REIT investors' radar, with evolving local consumption patterns in HK and potential asset injections in C-REITs also worth monitoring. The ongoing conversion of property funds into REITs in Thailand is a positive development for the sector, allowing funds to gear up to pursue acquisition-led growth.

Sector views

REIT market	Review	What to look out for
Singapore REITs	• For the month of May, the S-REIT index retreated 0.4% m/m, underperforming the broader STI, which rose 1.3% m/m. Amongst sectors, retail was the best performer, rising 1.0% m/m, broadly across all REITs within the subcategory. We also see superior share price performance by selected names within higher yielding sectors such as the US office space (Prime US REIT: +5.4% m/m), CapitaLand India (+6.0% m/m), and Keppel Data Centre REIT (+5.3% m/m), alongside China retail stocks, which delivered flattish performance within the month, at + c.0.7%-0.8% m/m. Net investment flows are picking up high-yielding plays in preparation for a turn in the interest rate environment as selected names within the sector have fallen to c.-2 standard deviation from a price-to-book perspective. • Smart money entering the market for selected S-REITs? The mid-cap overseas-focused REITs have seen more modest interest in recent times but trade at attractive valuation multiples of <0.7x P/B and offer yields of >10%. In May 24, we saw strategic investors entering the S-REIT fray and new sponsors for two mid-cap REITs with overseas exposure. We estimate that the transactions reflect a 1%-2% enterprise value (EV)/assets under management (AUM) for the REITs or an implied P/E of 15-18x, and see strategic stakes being acquired in the REITs at attractive valuations.	• More divestments to deleverage. A common theme that we have gathered in recent meetings is that S-REIT managers are looking more at asset recycling to fund/deleverage their balance sheets, given the soft capital markets. Mapletree Pan Asia Commercial Trust (MPACT) delivered on that with a divestment. Per our previous report, we see this strategy as value accretive, if executed well and close to net asset value (NAV), bringing forth a new era of funding for acquisitions. • Preferred sector positioning unchanged. With an average yield of 6.7% and a P/B of 0.8x, we see good value within S-REITs at the current levels. With interest rates still high, we prefer names that offer resilience, with the preference hierarchy as follows: retail > industrial > hotels > office.
Hong Kong REITs	• Closing the gap on underperformance. Hong Kong REITs rallied 7.2%, on average, along with strong performance from HK-listed China commercial REITs, backed by better-than-expected China economic data. Yuexiu REIT outperformed, rising 12.6% in the month, followed by 5.3%-9.1% increases in other HK-listed China commercial REITs. Despite a 7.4% drop from Champion REIT following the strong outperformance in Apr 24, the office sector gained 2.8% in May 24, mainly led by a rebound from Prosperity REIT and Sunlight REIT, which had underperformed in past months. The hotel and industrial segments saw a similar trend, surging 26.5% and 9.2%, respectively, in May 24. Retail REITs were broadly flat in the month, partly dragged by renewed concerns over the impact of increasing Northbound travel.	• Investors continue to keep an eye on the impact of outbound travel. We believe the recent correction on Link REIT is unwarranted, as we think Northbound travel has a minimal impact on essential spending. Apr 24 sales figures published recently demonstrated the resilience of non-discretionary trades over discretionary goods. We believe investors will keep an eye on the evolving consumption patterns of locals. Meanwhile, the release of details on the implementation of the inclusion of REITs into Stock Connect should remain on investors' radar. • Maintaining Link REIT and Fortune REIT as our preferred picks. The unwarranted share price correction for Link REIT offers investors an attractive entry point. With a portfolio of community malls, Link REIT should benefit from the potential

		consumption downgrade trend amid economic uncertainty. In addition to its resilient qualities, Fortune REIT should see rental earnings improving, led by the gradual completion of its asset enhancement initiative (AEI) at +WOO. Therefore, both REITs should show higher resilience compared to their peers in the near term. Meanwhile, the upcoming REIT Connect should broaden its unitholder base, adding investment appeal to both stocks.
China REITs	• Indpark REITs outperformed in May. The performance of the C-REIT sector was rather flat in May, with a 0.7% m/m retreat, slightly outperforming the CSI300, which corrected 1.1% in the month. The People's Bank of China (PBoC) has recently been more vocal on bond yields. For example, the media reported that the PBoC is concerned about the continued decline in bond yields and potential risks, and will take necessary action, including by selling low-risk bonds, such as government bonds, when needed. China's 10-year bond yield has rebounded 122bps from Apr's low to 2.33%. This led to some volatility in the unit prices of C-REITs. The best performing subsector was indparks (+1.4% m/m), followed by retail (+1.1%), and rental housing (+0.7%). However, the warehouse sector suffered the highest drop of 2.4%, JD Warehouse REIT in particular.	• More asset injections on the cards. The compression in trading yield in recent months has expanded spreads between asset yields, essentially strengthening the accretion that can be expected from equity-funded acquisitions. In May, three rental housing REITs, with trading yields at c.3.5%-3.8%, have announced they are pursuing inorganic growth via asset injections. The market is questioning the valuation and quality of the injected assets from sponsors. We believe C-REITs that can build a good track record and deliver DPU-accretive acquisitions will be key outperformers. • Prefer warehouse sector. We sense that investors are increasingly looking to add laggards like indpark, warehouse, and retail C-REITs, although they are not fully convinced of the consumption outlook and business leasing demand. We believe this is an opportunity to look at selected names with a more stable operating profile. While share prices have recovered recently, valuations of these three subsectors are still attractive at forward DPU yields of c.4.4%-6.5%.
Thailand REITs and funds	• The Thai property fund & REIT sector dropped 2.9% last month, underperforming the Thai market's 0.4% loss. The sector was dragged down by the exhibition centre (-5.1%) and industrial (-4.3%) subsectors. Impact Growth REIT (IMPACT)'s share price dropped 5.1% last month, following disappointing 1QFY24 (ending Mar 2024) results that fell short of the market's expectation. The industrial REIT sector was dragged down on concerns over the outlook for the warehouse industry due to declines in occupancy rates. • The overall REIT sector is now offering a generous distribution yield of 8.5%, a hefty spread of 573bps over the Thai 10-year treasury yield of 2.8%. We prefer retail and hospitality REITs, which are poised to benefit from the continued tourism recovery.	• Looking forward, the ongoing conversion of 10 property funds into REITs is a positive development. To qualify for the government's tax and fee waivers, these funds must complete the transactions – including the transfer of assets into REITs – by the end of 2024. This shift should help unlock growth potential via the acquisition of new assets. Currently, property funds face limitations on capital increases, relying solely on organic growth, with maximum gearing restricted to only 10% of NAV. By transitioning to REITs, they can increase gearing to a maximum of 35% of the total asset value (TAV), or up to 60% with an investment-grade rating. • Among the 10 property funds undergoing conversion, Lotus's Retail Growth Freehold and Leasehold Property Fund (LPF), soon to be rebranded as AXTRART, stands out for its exceptional potential to expand its assets and DPUs.

Source: DBS, DBS Hk, DBSV TH

Summary of REIT sector performance

S-REIT subsector performance	Sept'23 % chg	Oct'23 % chg	Nov'23 % chg	Dec'23 % chg	Jan'24 % chg	Feb'24 % chg	Mar'24 % chg	Apr'24 % chg	May'24 % chg
Office (SG)	-4.7%	-4.9%	4.9%	10.6%	-3.3%	-4.8%	-2.6%	-0.4%	-1.7%
Retail (SG)	-4.3%	-5.6%	8.7%	6.9%	-0.9%	-6.5%	0.5%	-1.7%	1.0%
Industrial large-caps (SG)	-4.8%	-7.9%	8.1%	6.9%	-6.6%	-4.9%	1.3%	-4.8%	0.1%
Industrial mid-caps (SG)	-3.7%	-5.2%	9.1%	7.4%	-3.2%	-3.5%	-0.8%	-1.3%	0.2%
Data-center (SG)	-3.9%	-9.5%	12.2%	7.0%	-5.2%	-5.3%	2.5%	-0.8%	-0.9%
Hospitality (SG)	0.1%	-3.4%	3.8%	4.5%	-4.6%	-5.1%	4.1%	-3.0%	-1.3%
Healthcare (SG)	-10.0%	0.1%	1.7%	9.2%	-3.0%	-1.9%	1.7%	-1.6%	-0.3%
Office US (SG)	-9.1%	-16.4%	24.8%	65.2%	-26.9%	-30.0%	27.7%	-11.3%	0.7%
Office EUR (SG)	-6.3%	-12.1%	10.6%	11.3%	-1.3%	-5.2%	-1.7%	0.4%	-1.2%
Retail Others (SG)	-2.8%	-5.2%	4.0%	1.4%	-4.1%	-9.2%	0.0%	-5.5%	0.7%
Office (HK)	-5.3%	-5.2%	-1.0%	2.4%	-15.5%	-4.6%	-3.6%	3.1%	2.8%
Retail (HK)	-5.7%	-3.4%	8.0%	9.0%	-10.1%	0.0%	-14.6%	1.0%	0.0%
Hospitality (HK)	-7.5%	-10.8%	-6.1%	-1.6%	-11.5%	3.7%	-16.1%	4.3%	26.5%
Industrial (HK)	-5.3%	2.0%	1.6%	3.1%	-4.1%	-1.6%	-4.8%	0.0%	9.2%
China Commercial (HK)	-4.4%	-6.2%	3.5%	6.4%	-9.7%	-0.3%	-8.8%	-7.8%	8.7%
Warehouse (CN)	-0.2%	-9.0%	-10.1%	3.4%	-18.1%	18.0%	-1.2%	3.3%	-2.4%
Indpark (CN)	0.2%	-7.0%	-10.3%	-2.9%	-12.1%	15.9%	1.8%	1.0%	1.4%
Tollroad (CN)	-1.7%	-5.0%	-5.5%	1.0%	-1.1%	9.8%	-0.2%	-0.1%	-2.7%
New energy (CN)	-1.2%	-4.6%	-6.1%	2.8%	-2.9%	8.1%	2.7%	2.6%	-1.8%
Rental housing (CN)	-1.0%	-4.7%	-1.9%	0.3%	-4.1%	9.6%	-0.5%	2.5%	0.7%
Retail (CN)*								7.2%	1.1%
Retail (TH)	-6.9%	-7.1%	11.9%	2.1%	-3.4%	-1.5%	-0.8%	-0.7%	-5.4%
Industrial (TH)	-4.2%	-7.3%	3.8%	1.6%	-2.4%	0.1%	1.4%	-2.2%	-2.9%
Office (TH)	-4.1%	-9.6%	1.4%	0.8%	4.5%	-6.0%	-4.2%	-0.2%	-2.3%
Hospitality (TH)	-5.5%	-8.8%	10.3%	-0.6%	1.2%	-1.1%	-3.2%	-3.8%	-0.4%
Exhibition Center (TH)	-3.7%	-3.1%	0.0%	-0.8%	-2.4%	-2.5%	0.0%	0.0%	-5.1%
Transportation IFF (TH)	-3.3%	-8.8%	3.1%	0.7%	7.4%	-0.7%	-2.9%	-3.1%	-1.2%
Telecom IFF (TH)	-2.2%	-8.0%	1.5%	-4.8%	2.1%	-2.9%	-4.4%	2.1%	-2.5%

Source: Refinitiv, Bloomberg, DBS

** Retail CN limited trading history due to recent listing*

Regional REITs benchmark	Sept'23 % chg	Oct'23 % chg	Nov'23 % chg	Dec'23 % chg	Jan'24 % chg	Feb'24 % chg	Mar'24 % chg	Apr'24 % chg	May'24 % chg
Singapore REIT	-4.4%	-5.8%	6.7%	8.9%	-4.4%	-5.1%	0.6%	-3.1%	-0.4%
Australia REIT	-8.2%	-6.4%	11.0%	10.1%	1.3%	4.5%	9.6%	-7.8%	1.9%
US REIT	-7.6%	-4.4%	10.2%	9.0%	-3.3%	0.8%	1.2%	-7.2%	4.5%
Japan REIT	-2.8%	-1.3%	1.6%	-2.1%	-0.5%	-5.6%	6.0%	0.4%	-3.7%
HK REIT	-5.2%	-5.1%	2.1%	4.7%	-11.0%	-1.2%	-8.7%	-1.5%	7.2%
Thailand REIT	-4.8%	-7.2%	6.2%	2.4%	-1.3%	-2.2%	-0.8%	-1.8%	-3.4%
KL REIT	0.0%	-0.2%	1.4%	-0.3%	3.6%	0.4%	n.a.	n.a.	0.6%
Europe REIT	-5.2%	-3.4%	12.3%	9.1%	-2.9%	-7.3%	7.6%	-1.6%	5.3%

Source: Refinitiv, Bloomberg, DBS

Regional interest rate benchmark movement (absolute, ppt)

	Sept'23 (ppt)	Oct'23 (ppt)	Nov'23 (ppt)	Dec'23 (ppt)	Jan'24 (ppt)	Feb'24 (ppt)	Mar'24 (ppt)	Apr'24 (ppt)	May'24 (ppt)
SORA 3 Mth	3.71	3.75	3.75	3.71	3.66	3.65	3.68	3.65	3.67
SOR 6 Mth	3.69	3.73	3.74	3.72	3.72	3.72	3.71	3.67	3.67
SG 10 year	3.47	3.38	2.97	2.69	2.91	3.10	3.11	3.45	3.36
US 10 year	4.57	4.93	4.33	3.88	3.91	4.25	4.20	4.68	4.50
Hong Kong 1 Mth	5.40	4.90	5.52	5.27	4.59	4.48	4.80	4.30	4.47
Hong Kong 10-year	4.23	4.32	3.72	3.22	3.52	3.80	3.70	3.97	3.83
China PBoC policy rate	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80
China 10-year	2.68	2.69	2.69	2.56	2.43	2.35	2.31	2.31	2.32

Source: Bloomberg, DBS

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**Share price appreciation + dividends*

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