Maybank

REITs

Singapore

Singapore REITs

REIT roadmap - higher peaks, deeper valleys

NEUTRAL *[Unchanged]*

2024 outlook

Expectation of continued fall in cost of capital, manufacturing green shoots and cash on the sidelines offers promise. However, with asset values facing downside risk and continued DPU downside as debt reprices and operating costs inch up, bottom-up view is more circumspect. With a winding road to recovery ahead, we stay selective and tactical with CICT, CLAR (liquid large caps) and LREIT (high yielding beta play).

Macro outlook - slowing growth, sticky inflation

We forecast global growth to drift lower to +2.8% in 2024 from +3.3% in 2023. We hold the view that inflation rates have peaked and are moderating. That said, indicators on inflation expectations remain "sticky". Consequently, we are more "guarded" on the timing and quantum of interest rate cuts globally. Rate cuts are expected to start from 3Q24 with US benchmark rates ending 2024 at 4.5-4.75%. In Singapore, GDP growth will be stronger and more balanced at +2.2% from +1.2% in 2023. Core inflation will remain sticky and above historical norms. MAS will ease only in late 2024 with 3m SORA falling to 3.25% from 3.7%.

Sub-sector views - seeking rental growth

With inflation likely to stay above real growth for the second consecutive year, we prefer REITs, which can grow rents (at least pass the costs). Without a soft-landing, repricing of borrowing and higher operating expenses will weigh on distribution. If capital markets remain challenging, the sector may decide to pre-emptively increase retained distributions due to elevated working capital needs. Industrials did well last year due to rental growth but with rising supply and slowing growth, we are unsure if the feat can be repeated, unless manufacturing gathers steam and/or AI takes over all jobs. The fortunes of hotels hinge upon return of Chinese travelers, and growth is likely to be occupancy led. Limited supply should keep spot rents supported for CBD offices; but the debate between offices and data centres may be akin to malls and warehouses of last decade. We dare not bet against the resilient Singapore consumer, though recent retail sales has been patchy. Asset values are likely to face the litmus test. However, widening cap rates and stable funding conditions may lead to more M&As. With negative spreads, bonds are still better than buildings, though entry points can be better.

Stock picks

We turn sector agnostic. Industrial is well owned and supply pressure has kicked in. Pandemic-induced low-base effects and reopening momentum has dissipated for retail and hospitality, while offices grapple with hybrid work. After the recent rally, valuations are stretched but CICT and CLAR provide better risk-adjusted exposure to navigate a volatile year. LREIT gives an optionality on rate cuts. Other preferred picks are AAREIT, EREIT and FCT but DPUs may be impacted by recent divestments, delayed AEIs (AAREIT, EREIT) and weaker consumer sentiment (FCT). A soft-landing scenario in the US and an improving China economy can reignite the sector, and REITs with a robust acquisition pipeline are likely to lead the next cycle. We leave our estimates and TPs unchanged for the upcoming results but assuming risk-free rates don't move, we foresee 10% upside to target prices on average as rates are down 50bps from our current inputs.

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1. Key charts and tables

Fig 1: Key macro forecasts

	2021	2022	2023E	2024E
Singapore				
Real GDP (%)	8.9	3.6	1.1	2.2
Headline inflation (%, period average)	2.3	6.1	4.8	3.0
Unemployment Rate (%, period average)	2.7	2.1	2.0	2.0
Exchange Rate (per USD, period-end)	1.35	1.34	1.37	1.34
10-Year Govt. Bond Yield (%, period-end)	1.64	3.10	3.10	2.75
3M SORA (%, p.a., period-end)	0.19	3.10	3.80	3.25
Global Inflation & Benchmark Interest Rates				
US Inflation, %	4.7	8.0	4.1	2.6
US Fed Funds Rate, %	0.125	4.375	5.375	4.625

Source: Maybank IBG Research

Fig 2: MIBG coverage and estimates

Name	Ticker	Curr. price	Target Price	FY1 Div.yield	Total return (%)	FY0 DPU	FY1 DPU	FY2 DPU	FY3 DPU	FY0 NAV	FY1 NAV
Commercial											
CapitaLand Int. Commercial Trust	CICT	2.03	1.90	5.4	(1.0)	10.58	10.93	10.96	11.10	2.12	2.12
Mapletree Pan Asia Comm. Trust	MPACT	1.54	1.25	5.5	(13.4)	9.61	8.41	8.29	8.23	1.76	1.75
Frasers Centrepoint Trust	FCT	2.25	2.25	5.4	5.4	12.11	12.05	12.33	12.45	2.33	2.40
Suntec Real Estate Invest. Trust	SUN	1.24	1.15	5.7	(1.6)	8.88	7.03	6.96	7.35	2.25	2.21
Keppel REIT	KREIT	0.94	1.00	6.3	13.3	5.93	5.90	5.89	6.07	1.37	1.27
Lendlease Global Comm. Trust	LREIT	0.64	0.70	6.6	16.9	4.70	4.22	4.28	4.32	0.96	0.96
Industrial											
Capitaland Ascendas REIT	CLAR	2.96	2.65	5.2	(5.3)	15.81	15.44	15.77	16.17	2.37	2.32
Mapletree Logistics Trust	MLT	1.69	1.60	5.2	(0.1)	9.00	8.79	8.78	8.83	1.44	1.44
Mapletree Industrial Trust	MINT	2.50	2.15	5.2	(8.8)	13.57	12.92	12.86	13.01	1.85	1.81
ESR-LOGOS REIT	EREIT	0.32	0.31	7.6	4.5	3.00	2.43	2.45	2.48	0.36	0.34
Aims Apac REIT	AAREIT	1.33	1.36	6.9	9.2	9.88	9.24	9.55	9.90	1.37	1.34
Hospitality											
Capitaland Ascott Trust	CLAS	0.98	1.00	5.9	7.9	5.54	5.75	5.91	6.22	1.15	1.13
CDL Hospitality Trust	CDLHT	1.11	1.05	5.4	(0.1)	5.64	5.94	6.20	6.79	1.45	1.50
Far East Hospitality	FEHT	0.66	0.75	6.0	19.7	2.84	3.97	3.98	4.01	0.90	0.95
Frasers Hospitality Trust	FHT	0.50	0.53	5.0	12.1	2.44	2.48	2.51	2.64	0.66	0.65

Source: Maybank IBG Research, FactSet Current price as of 4th Jan 2024, Target price and NAV in SGD, DPU in SGDc.

Fig 3: MIBG vs FactSet consensus

	MIBG DPU (cts)		FactSet DPU (cts)		% Difference (MIBG vs. FactSet)
	FY1	FY2	FY1	FY2	Avg (FY1, FY2)
CICT	10.93	10.96	10.91	10.97	0
MPACT	8.41	8.29	8.75	8.82	-5
FCT	12.05	12.33	11.84	12.16	2
SUN	7.03	6.96	6.97	6.73	2
KREIT	5.90	5.89	5.83	5.80	1
LREIT	4.22	4.28	4.38	4.45	-4
CLAR	15.44	15.77	15.61	15.79	-1
MLT	8.51	8.32	8.82	8.61	-3
MINT	12.61	11.66	13.32	13.40	-9
EREIT	2.45	2.48	2.63	2.41	-2
AAREIT	9.24	9.55	9.65	9.78	-3
CLAS	5.75	5.91	5.79	6.16	-2
FEHT	3.97	3.98	3.93	4.22	-2
CDLHT	5.94	6.20	6.16	6.83	-6
FHT	2.48	2.51	2.72	2.83	-10
Average					-3

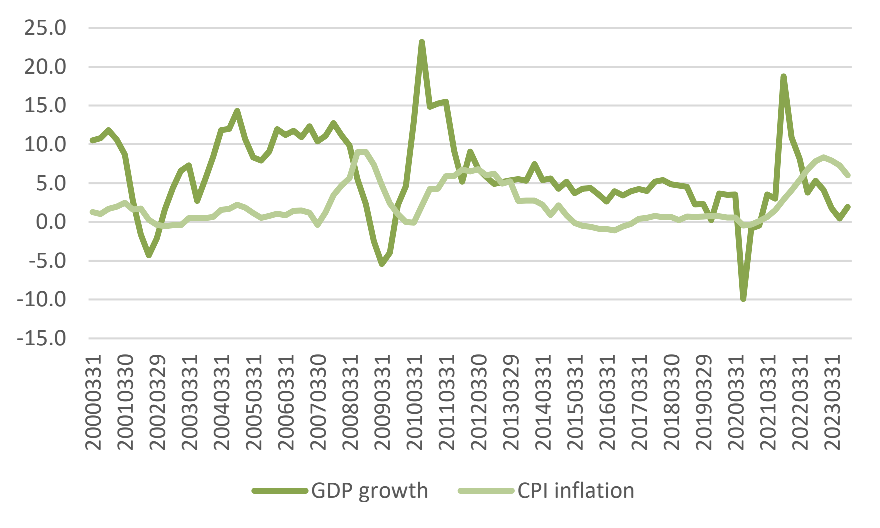
Source: Maybank IBG Research, FactSet

Fig 4: Sub-sector views and forecasts

		2019	2020	2021	2022	2023E	2024E	2025E	2026E	Comments
Hospitality										
Available rooms		68,697	68,440	69,261	69,472	71,471	74,262	75,369	77,000	Accelerated visitor arrivals from China remain the key wild card for the sector. In addition, better economic outlook should also generate growth from corporate transient travellers and larger MICE events. Calendar full of events (Taylor Swift, Coldplay, Twice etc.) should cause spike in bookings. Operators are likely to move to occupancy led strategy. We expect room rates to come off from YTD (till Oct) room rates of SGD228 per night in 2023 but more than offset by increase in occupancy to high-80s. Ease of hiring can lower cost pressures and a slightly weaker SGD can be demand-enabler. Serviced residences can be under pressure as resi rents weaken. Key things to watch: supply (4%) + rooms under renovation coming back online (est. 6%), slower liesure demand.
YoY	%	2.3	(0.4)	1.2	0.3	2.9	3.9	1.5	2.2	
Avg. monthly occupancy	%	86.9	58.1	57.0	76.0	82.0	88.0	89.0	89.0	
Tourist arrivals	mn.	19.1	2.7	0.3	6.3	13.5	19.0	20.0	21.0	
RevPAR	SGD	192	88	91	189	235	242	247	252	
YoY	%	2.1	-54.0	3.0	107.0	24.3	3.0	2.0	2.0	
Industrial		2019	2020	2021	2022	2023E	2024E	2025E	2026E	
Multi user factory space	mn. sq. ft.	121.7	122.4	124.2	131.1	134.6	138.2	138.7	140.2	Overall, the industrial sector saw healthy rental growth in 2023 of 9-10% for flatted factories and warehouses and 4% for business parks. This was supported by demand and shift to newer specs esp. for business parks and ramp-up logistics. 2024 may see slowdown in rental growth due to combined effect of supply and sluggish economy. Upside can come if manufacturing strengthens. More active portfolio rejuvenation by REITs can lead to 2-way price discovery esp. for older spec-assets. Spot rents for multi-user factory space will be weighed down unless green shoots in manufacturing strengthens momentum. End users may cap occupancy cost by shifting to cheaper flatted factories, which will put pressure on spot rents. Worth noting is structural fall in occupancy in single-user factory space. Warehouse rent growth is likely to slow following c.9% growth in 2023 due to supply and slowing trade. More supply is coming online in 2025, esp. with 3PL setting up their own space. Occupiers are likely to keep that in mind while negotiating rents. Business parks are likely to exhibit a trend similar to offices. We expect vacancy to rise for the overall sub-sector due to lack of demand for older assets and hybrid work patterns. But spot rents may be supported by renting of better spec assets and possibly smaller spaces. However, this may eventually sort itself out as older assets are taken out of supply and some new tech demand relocates. Upcoming key supply in 2024 (Jurong Innovation District) is about 60% pre-committed.
YoY	%		0.5	1.5	5.5	2.7	2.7	0.3	1.1	
Occupancy	%	87.5	88.5	90.2	89.1	89.7	89.5	90.5	91.0	
Spot rent	S$ psf pm	1.57	1.50	1.54	1.56	1.73	1.73	1.75	1.77	
YoY	%		-4.5	2.7	1.3	11.1	0.0	1.0	1.0	
Warehouse	mn. sq. ft.	118.2	119.2	121.6	122.8	125.9	129.9	134.6	134.7	
YoY	%		0.8	2.0	1.0	2.5	3.2	3.6	0.1	
Occupancy	%	88.0	89.9	90.6	91.7	91.3	91.0	90.0	90.0	
Spot rent	SGD psf pm	1.58	1.58	1.66	1.71	1.87	1.90	1.88	1.90	
YoY	%	0.0	0.0	5.1	3.0	9.1	2.0	-1.0	1.0	
Business Park	mn. sq. ft.	23.7	23.6	24.5	25.6	26.3	28.2	30.3	30.3	
YoY	%		-0.1	3.8	4.3	2.7	7.2	7.6	0.0	
Occupancy	%	86.3	85.8	84.5	82.5	80.5	80.0	79.5	80.0	
Spot rent	SGD psf pm	4.25	4.00	4.13	4.10	4.27	4.25	4.23	4.25	
YoY	%	2.9	-5.9	3.3	-0.7	4.1	-0.5	-0.5	0.5	
CBD Office		2019	2020	2021	2022	2023E	2024E	2025E	2026E	
Core CBD office stock	mn sq. ft.	30.7	31.5	32.0	32.0	33.0	34.9	35.4	35.8	It may be a tale of two halves of the sector. 1H will see new supply coming in (IOI Central Boulevard) amidst muted demand. Patchy demand for tech and longer wait times for family offices may combine with ongoing space rationalization by existing tenants. Viability of co-working tenants may also pose headwind. However, with higher fit out costs, tenants may chose to renew leases than relocate, even if for shorter term which may support rents. 2H may see limited supply and nascent demand coming up from the pick-up in economic growth and space required by new tech areas such as AI, though competition from other business centeeres can be keen. Overall, we expect spot rents to fall in 2024 before growing in 2025. Office values continue to trade tighter than funding cost but transaction volumes are softening even for strata sales.
YoY	%		2.6	1.6	0.0	3.1	5.8	1.4	1.1	
Core-CBD Occupancy	%	93.9	93.8	93.3	94.7	96.0	95.0	95.5	96.0	
Spot rent	SGD psf pm	11.55	10.40	10.8	11.70	11.87	11.51	11.63	11.86	
YoY	%		-10.0	3.8	8.3	1.5	-3.0	1.0	2.0	
Retail		2019	2020	2021	2022	2023E	2024E	2025E	2026E	
Island wide stock	mn sq. ft.	67.0	66.1	66.7	67.1	68.0	68.6	69.0	69.1	Retail landlords have seen rising spot rents, led by prime city centre assets (+5%yoy) while suburban has been relatively flat. With retail sales growth undershooting inflation, we expect landlords to temper rental growth and focus more on rejigging of tenant and trade mix. Return to office and tourism growth, albeit at a slower pace, should generate low-to-mid single digit growth for retail rents in city centre malls. Meanwhile, suburban malls pay face a few cross winds with positives from hybrid working and focus on necessity shopping offset by overseas travel and slight rise in unemployment. Transaction market can enliven with peaking rates and normalizing demand.
YoY	%		-1.4	1.0	0.5	1.3	0.9	0.6	0.1	
Occupancy - Orchard Road	%	92.0	88.4	88.7	90.2	87.9	87.5	88.5	88.5	
Occupancy- Outside Central Area	%	92.9	92.5	93.9	94.5	94.2	94.0	95.0	95.0	
Island wide spot rent	SGD psf pm	22.9	24.7	24.7	25.1	26.3	26.9	27.5	27.6	
YoY	%	-8.6	8.0	-0.2	1.6	4.7	2.5	2.0	0.5	

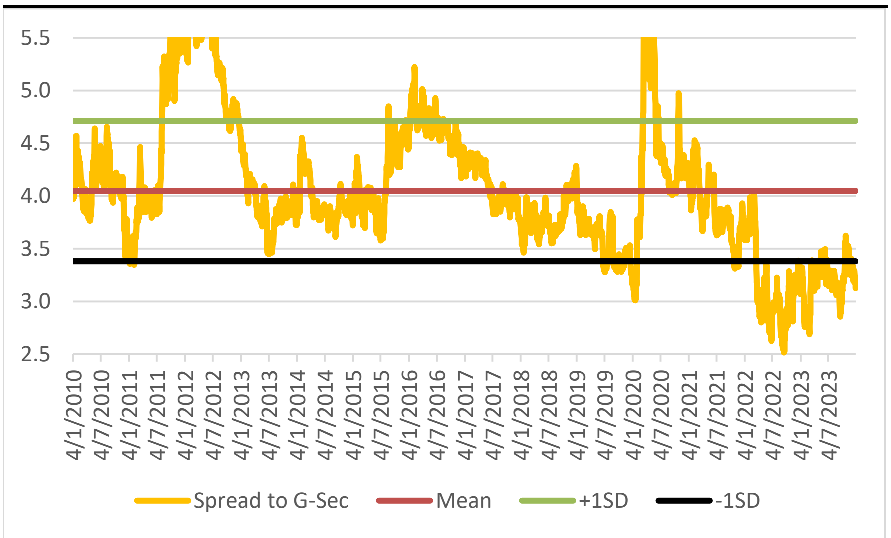
Source: Maybank IBG Research, STAN, JTC, URA, CBRE, CLAR, CICT

Fig 5: Singapore quarterly GDP growth and inflation, YoY, % - inflation above real GDP growth for record six consecutive quarters since 2000



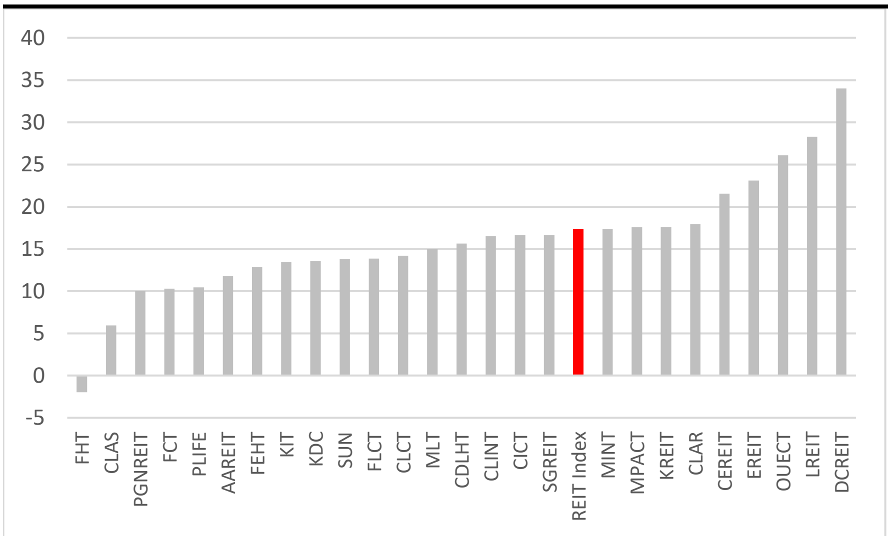
Source: Maybank IBG Research, FactSet

Fig 6: SREIT Index historical yield spread



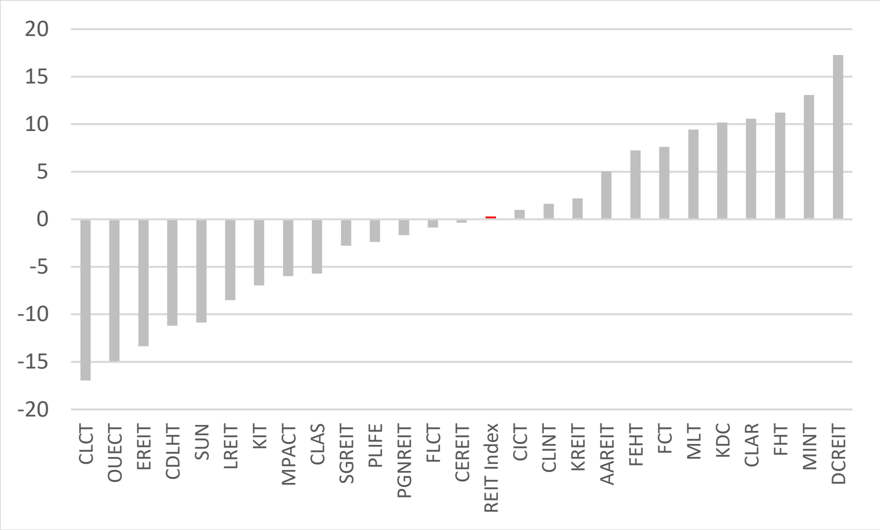
Source: Maybank IBG Research, FactSet, Bloomberg

Fig 7: SREIT performance since 26 Oct 2023



Source: Maybank IBG Research, FactSet, Bloomberg

Fig 8: SREIT performance over past 12 months



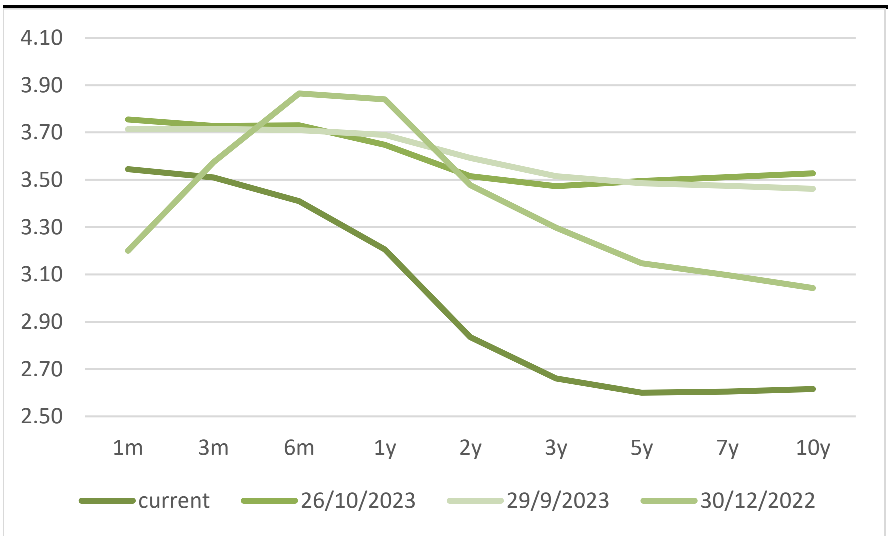
Source: Maybank IBG Research, FactSet, Bloomberg

2. Embracing volatility

Falling cost of capital lowers valuation threshold and can potentially boost distributions if deeper rate cuts follow. Further, there is ample cash on the sidelines with Singapore system deposits at SGD1.8T, albeit growing at a slower pace of 4% YoY as of November. As a rule of thumb, every 50bps fall in SGD 10-year government yields raises REITs' fair value by 10%. Since late Oct of last year, yield has fallen c.70bps (from 3.4% to 2.7%) and the sector index has rallied 18%.

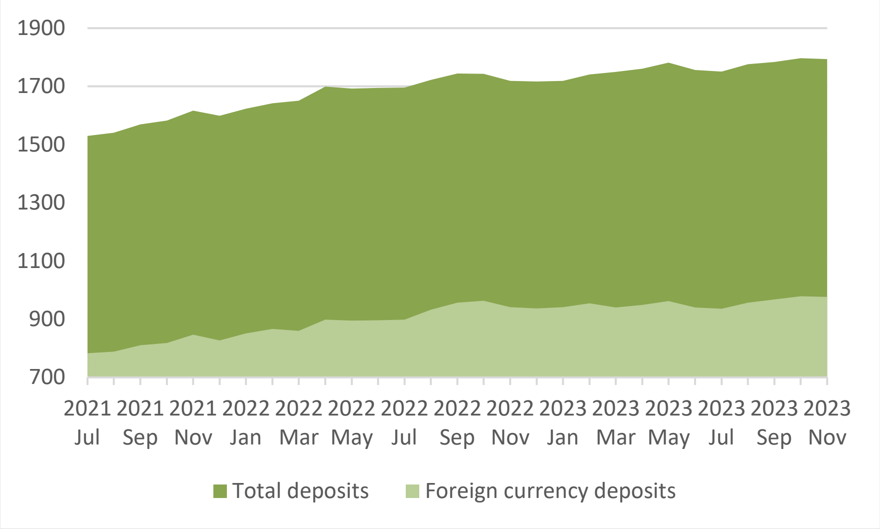
As such, we think the counters are over-bought in the near term. Subsequent moves will depend upon macro data points, especially on employment and inflation, and upcoming financial results. The key will be asset values and management guidance on funding and operating costs. Signs to look out for will be repricing of debt using the recent declines in funding costs and/or increase hedge ratios. It will be interesting to note if managers talk up any high-priced debt/hedges, which can benefit from rate cuts. Also, worth noting will be the impact of carbon taxes, higher GST and sticky utility costs.

Fig 9: SGD swap rates, % - falling cost of capital



Source: Maybank IBG Research, Bloomberg

Fig 10: Singapore system deposits, SGD b. - ample cash to deploy



Source: Maybank IBG Research, MAS

Notwithstanding the progressively benign macro back-drop, micro factors pose headwinds. We expect rate cuts to be delayed up to until 4Q24 and the quantum is uncertain. As borrowing cost spreads are well below what they were before markets started to price in rate hikes, we expect funding cost to continue to go up unless there are deeper rate cuts. Average spread in June 2021 for our coverage was 182bps while currently it is 45bps. All else equal, every 50bps increase in borrowing cost lowers distribution by c.5.5%.

Fig 11: Change in 3-year swap rates for key funding currencies (%)

	Current	Jun-21	Change, bps
SGD	2.73	0.45	228
EUR	2.35	-0.50	285
JPY	0.29	-0.06	35
AUD	3.78	0.39	340
GBP	3.74	0.30	344
USD	3.83	0.39	343

Source: Maybank IBG Research, Bloomberg

Fig 12: Estimated borrowing spreads, bps - current vs. June 2021

	Borrowing Cost, %			Estimated Base Rates, %			Borrowing spreads, bps	
	Sep-23	Jun-21	Change, bps	Current	Jun-21	Change, bps	Current	Jun-21
CICT	3.30	2.40	90	2.76	0.42	234	54	198
MPACT	3.34	2.44	90	2.74	0.63	211	60	181
FCT	3.80	2.20	160	2.73	0.45	228	107	175
SUN	3.78	2.41	137	3.01	0.42	259	77	199
KREIT	2.85	1.97	88	2.89	0.44	245	-4	153
LREIT	2.94	0.88	206	2.68	0.34	235	26	54
CLAR	3.30	2.40	90	3.09	0.39	269	21	201
MLT	2.50	2.20	30	2.68	0.83	185	-18	137
MINT	3.20	2.70	50	3.16	0.40	276	4	230
EREIT	3.93	3.24	69	2.86	0.42	244	107	282
AAREIT	4.00	3.30	70	3.02	0.43	259	98	287
CLAS	2.40	1.60	80	2.68	0.20	247	-28	140
CDLHT	4.20	1.90	230	3.00	0.36	264	120	154
FEHT	3.20	2.10	110	2.73	0.45	228	47	165
FHT	3.10	2.00	110	3.04	0.31	274	6	169

Source: Maybank IBG Research, Bloomberg, Company Data Base rates are estimated based on asset mix at cost price in individual currencies. This assumes natural hedging and ignores the effects of funding arbitrage and cross-currency hedges.

Fig 13: Debt maturity and rate sensitivity of DPU

	% of debt maturing within 1 year	DPU sensitivity to +50bps base rate, %
CICT	15	-1.6
MPACT	23	-2.8
FCT	0	-1.3
SUN	21	-13.3
KREIT	22	-2.0
LREIT	0	-2.4
CLAR	19	-1.0
MLT	14	-2.2
MINT	22	-0.6
EREIT	21	-2.9
AAREIT	17	-1.0
CLAS	22	-1.3
CDLHT	33	-8.7
FEHT	0	-3.7
FHT	21	-2.0

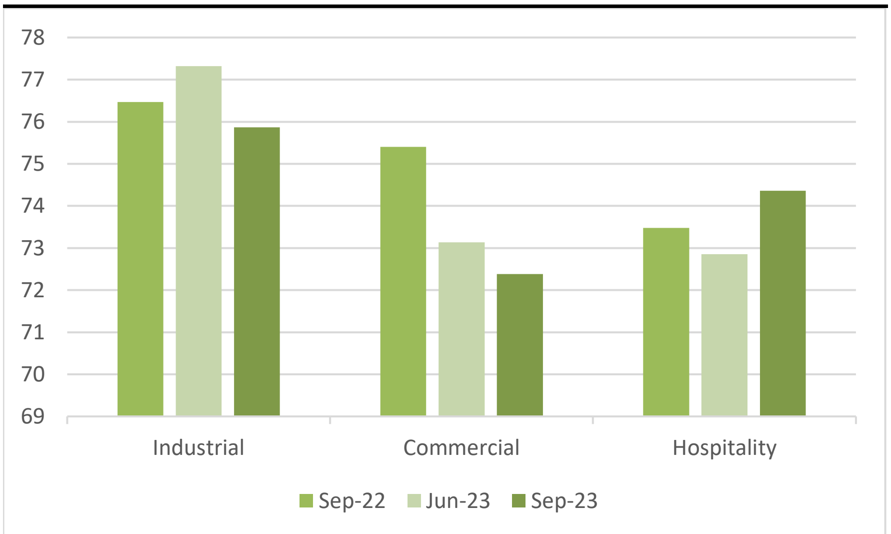
Source: Maybank IBG Research, Company Data

The next risk to distribution is from operating costs. With introduction of carbon tax, higher GST and sticky utility costs, we expect NPI margins to continue to trend lower. Marketing incentives are likely to stay elevated if growth does not pick up and it remains a tenant market in most sub-sectors.

As of Sep 2023, commercial REITs have been the worst impacted with average margins falling by close to 300bps YoY. This is despite introduction of service charges. Master lease structures and strong top-line growth have cushioned margins for the hospitality sector with margins growing by close to 100bps YOY. But ongoing master lease renewals will take into account increased capex unless inflation rates cool off to pre-pandemic level. Industrial REITs saw margins ease off by 50bps YoY. We expect margins to further ease as utility contracts are repriced and master leases expire.

Higher funding and operating cost will continue to weigh on distributions. Indeed, consensus expects DPU to trend lower over the next two years excluding the hospitality sector.

Fig 14: Average NPI margins for coverage REITs (%)



Source: Maybank IBG Research, Company Data

Fig 15: Consensus DPU forecasts - average decline of 3.2% over next two years

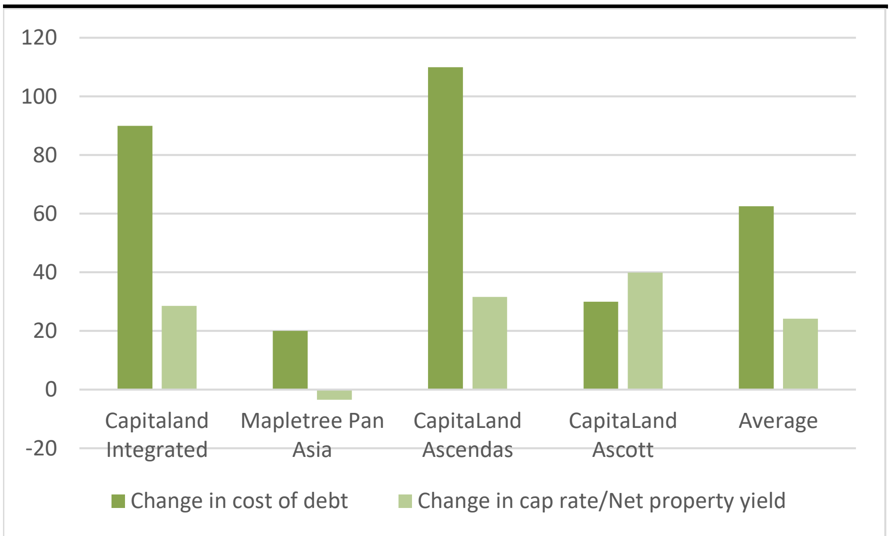
	DPU, FY0, SGD cents	DPU FY1e, SGD cents	DPU FY2e, SGD cents	Avg. DPU growth/fall, %
CICT	10.58	10.91	10.97	1.8
MPACT	9.61	8.75	8.82	-4.1
FCT	12.15	11.82	12.16	0.1
SUN	8.88	7.00	6.72	-12.6
KREIT	5.65	5.85	5.85	1.7
LREIT	4.70	4.35	4.45	-2.6
CLAR	15.80	15.56	15.76	-0.1
MLT	9.25	8.82	8.61	-3.5
MINT	13.57	13.31	13.35	-0.8
EREIT	3.34	2.63	2.41	-14.8
AAREIT	9.93	9.65	9.78	-0.7
CLAS	5.51	5.79	6.16	5.7
FEHT	2.96	3.95	4.27	20.8
CDLHT	5.63	6.15	6.83	10.1
FHT	2.44	2.72	2.83	7.7
Average ex-hospitality				-3.2

Source: Maybank IBG Research, FactSet

Finally, valuations, along with cascading impact on gearing ratio, are the key things to monitor in the upcoming results. Sponsors like CapitaLand Investments and City Developments have issued negative profit alerts while earlier, Fraser Property reported fair-value losses of SGD515.5m for FY23 versus SGD1.25b fair-value gains the year before.

Property yields have not yet adjusted for higher cost of debt. For large-cap names, cost of debt has increased on average by 60bps but net property yields or disclosed cap rates are up by only 25bps. With 40% gearing, every 50bps increase in cap rate will lower valuation by about 10% and increase gearing by 4.5 percentage points.

Fig 16: Change in cost of debt and property yields from Dec-21 to June-23, bps



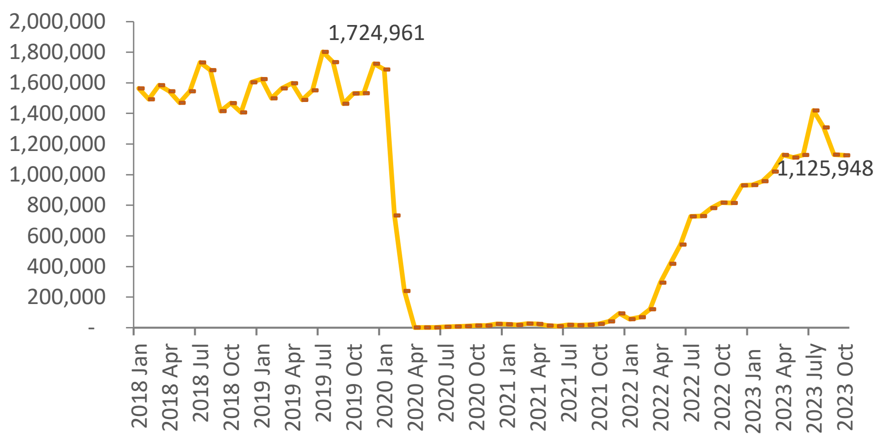
Source: Maybank IBG Research, Company Data NPI yield for CICT, MPACT and CLAS. Cap rates for CLAR

3. Singapore sub-sector views

3.1 Hospitality – visitor arrivals taking a breather

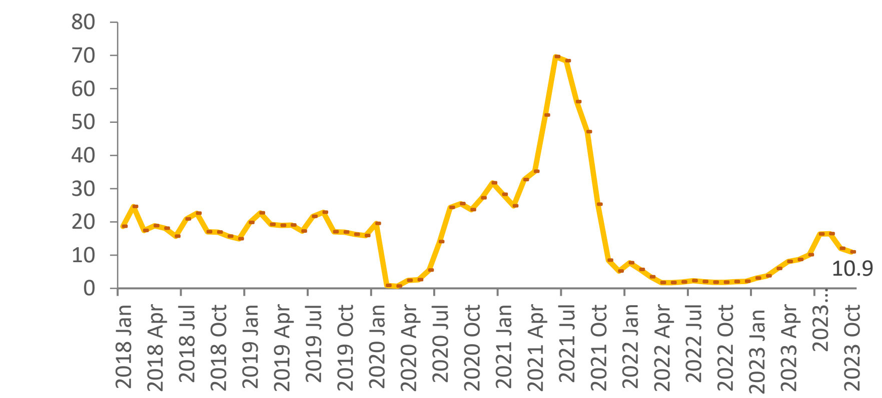
Visitor arrivals is exhibiting saw-tooth pattern. After jumping to 1.4m in July, it has retraced and pivoted to the 1.1m level. Full benefit from reopening of borders is still to accrue with arrivals from China slower than expected. Group tours from China are missing and, in our view, those arrivals will depend upon the state of the Chinese economy. The other missing leg is the corporate transient demand, which should gradually recover assuming economic expansion stays intact. All in, we expect RevPAR to be dependent on occupancy as room rates come off with patchy arrival stats and rising supply, especially on the Orchard Road precincts.

Fig 17: Singapore monthly international visitor arrivals



Source: Maybank IBG Research, STAN

Fig 18: % of arrivals from China in total international visitor arrivals



Source: Maybank IBG Research, STAN

Fig 19: Room inventory across hotel tiers

	Room Stock, Oct 2019	Room Stock, Oct 2023	% change
Luxury	23.49	23.17	-1
Upscale	15.48	16.85	9
Midscale	14.14	14.18	0
Economy	9.98	11.14	12

Source: Maybank IBG Research, STAN

Fig 20: Tourism recovery snapshot from the pandemic

	Oct-23	Oct-19	% Chng	YTD Oct 2023	YTD Oct 2019	% Chng
Average Length of Stay (Days)	3.55	3.27	9	3.85	3.40	13
Visitor Arrivals (m.)	1.12	1.53	-27	11.27	15.86	-29
Visitor Arrivals - China (K)	122.8	258.6	-53	1128.4	3105.7	-64
Room Stock (Licensed acco.)	72231	69086	5			
Available room rights (m.)	1.90	1.91	-1			
RevPAR	217	194	12	228	191	19
RevPAR by hotel Tier						
Luxury	457.7	401.4	14			
Upscale	252.5	230.1	10			
Midscale	169.3	152.6	11			
Economy	108.7	92.8	17			
Tourism Spend, SGDb.	Jan-June 2023	Jan-Jun 2019				
Overall	12.0	13.2	-9			
Overall ex-acco	10.0	10.6	-6			
Overall China	1.1	2.0	-44			
Overall-China ex-acco	0.8	1.7	-50			

Source: Maybank IBG Research, STAN

Fig 21: Occupancy trend, % - listed names

	9M23	9M22	9M19
CDLHT SG Hotels	75.2	72.9	87.6
FEHT Hotels	81.2	70.8	89.9

Source: Maybank IBG Research, Company Data

3.2 Industrial – Will spot rents continue to grow?

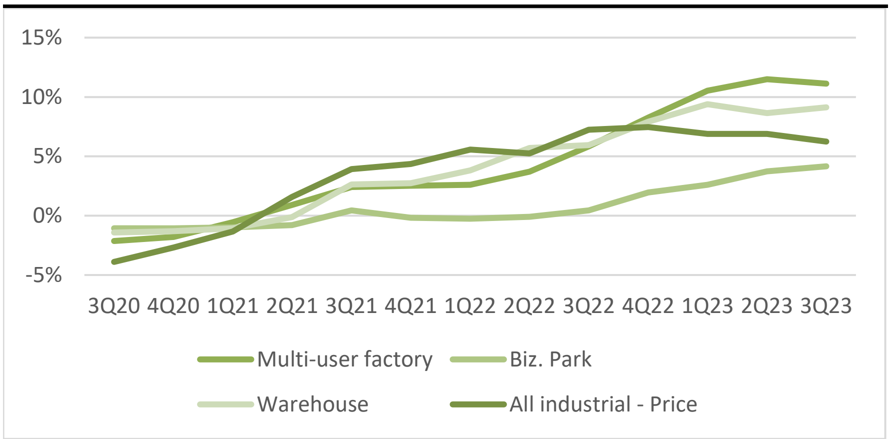
The industrial sector has done well with growth in spot rents and asset values in 2023 across the key sub-sectors. Our concerns about business parks was partially validated by falling occupancy but spot rents grew 4% as we think lease transactions occurred for better spec assets commanding high rents. This trend is something similar to office, which is not too surprising.

Going into 2024, we notice supply of warehouses have started to rise and anecdotally, rents are hitting a ceiling of SGD1.8 psf. pm based on our discussion with 3PL (third-party logistics) providers. On the other hand, we also hear from supply chain personnel of FMCG and mid-market industrial players that order lead times have not yet gone back to pre-pandemic level. As such, we think rent growth will slow, barring another round of disruption.

DC supply is exploding and demand seems to be evergreen. Key thing to worry, in our view, for older DCs are retrofitting costs to scale up from sub-10MW capacity to what is currently the norm of 20MW-plus capacity. In addition, enabling AI and conforming to ever-evolving green standards will need additional capex for bringing state-of-art cooling and energy mix. Anecdotally, we hear that built cost for 1MW of capacity has risen from USD7m to USD11-14m for DCs to handle standard GPU chips/sub-systems.

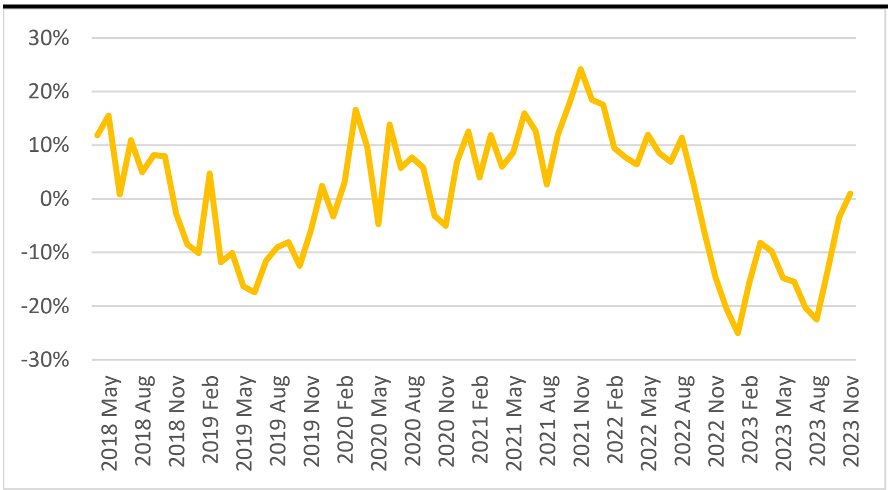
Singapore manufacturing is showing green shoots with NODX reversing its declining trend and growing by 1% YoY in November. China Caixin PMI stayed in expansionary trend at 50.8 level in December. If manufacturing gathers steam, industrial REITs could be back in vogue. Especially interesting is the flatted factories as occupiers look to manage costs and the supply situation remains unchanged. While supply is becoming better for business parks at the margin, we expect better spec assets to attract demand while occupancy falls for older assets.

Fig 22: Singapore industrial rent and price (YoY)



Source: Maybank IBG Research, JTC

Fig 23: Singapore Non-Oil Domestic Exports, YoY



Source: Maybank IBG Research, SingStat

Fig 24: Supply as % of stock - industrial sub-sectors

	Stock, mn sq ft	Supply, mn sq ft	Stock, mn sq ft	Supply, mn sq ft	Supply % Stock	Supply % Stock
	Dec 22	Dec 22	Sep-23	Sep-23	Dec 22	Sep-23
Multi-user factory	131.1	5.8	134.6	5.6	4.4	4.2
Warehouse	122.8	7.8	125.9	8.8	6.4	7.0
Business Park	25.6	5	26.3	4	19.5	15.2

Source: Maybank IBG Research, JTC

Fig 25: Data centre supply pipeline

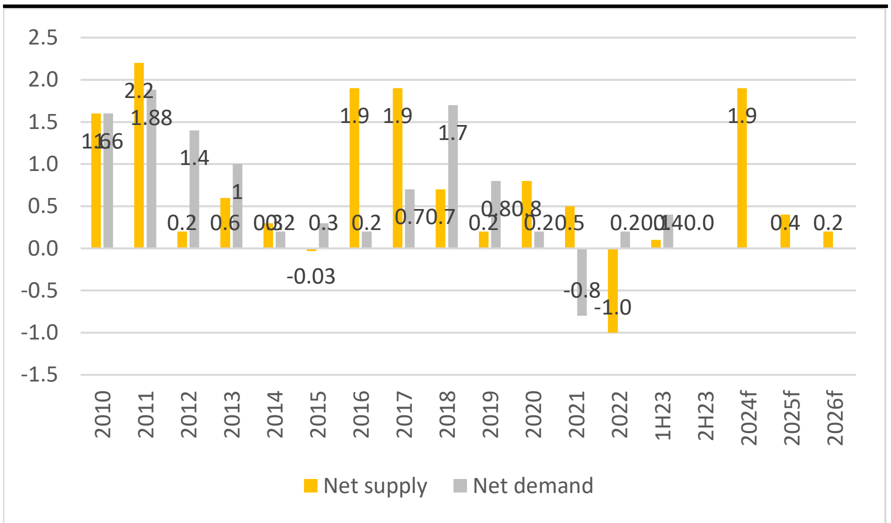
Location	# of operators	# of DCs	Operational Capacity, MW	Under construction/Planned Capacity, MW	Vacancy rate	Average Capacity per DC, MW	Supply % Stock
Singapore	24	49	917	209	<2%	19	23
Johor	5	6	34	491	11	6	1444
Greater Jakarta	19	39	171	559	35	4	327
Manila	11	19	51	128	57	3	251
Bangkok	21	45	42	219	21	1	521
Ho Chi Minh City	9	13	24	25	54	2	104
ASEAN			**1239**	**1631**			**132**
HK	20	48	558	400	19	12	72
Mumbai	13	34	462	1031	19	14	223
Sydney	20	48	724	1021	12	15	141
Auckland	16	23	40	67	14	2	168
Greater Seoul	15	34	353	635	4%	10	180
TOTAL			**3376**	**4785**			**142**

Source: Maybank IBG Research, Cushman & Wakefield

3.3 Office – A supply side story

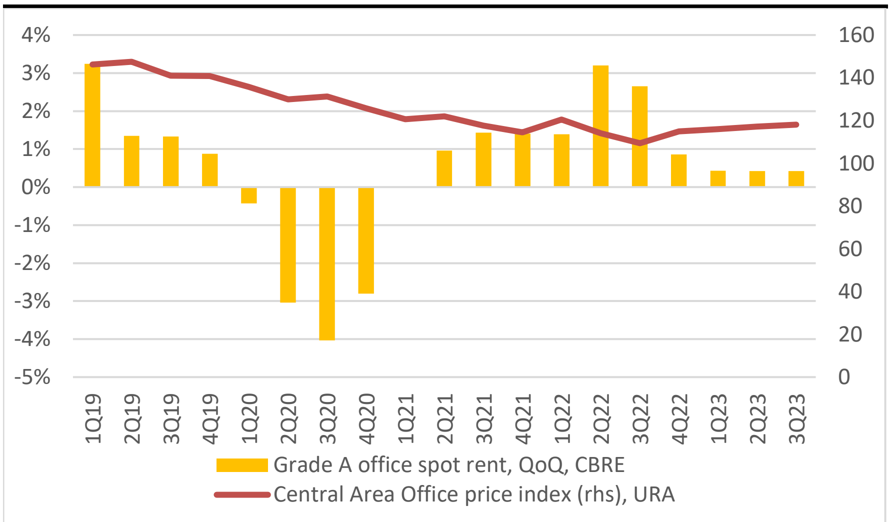
Office is likely to remain a supply side story with limited supply over the next 2 years. IOI Central Boulevard is coming online this year, which we understand, is 50% pre-committed. With set up of family offices on a slower track, demand for smaller spaces may be more muted, resulting in spot rent growth stalling. Any large lease renewal can create frictional vacancy pressure. Demand may pick up as economic growth picks up, though it is interesting to note CBRE's forecast of net annual absorption of 0.6m sq ft. till 2025 vs last decade's average of 1m sqft. Hybrid work arrangement going mainstream and cap rates trending below funding costs, in our view, provide good grounds to see more large-ticket transactions.

Fig 26: CBD office demand and supply (m sqft)



Source: Maybank IBG Research, CICT, CBRE

Fig 27:Grade A CBD office rent



Source: Maybank IBG Research, CICT, CBRE, URA

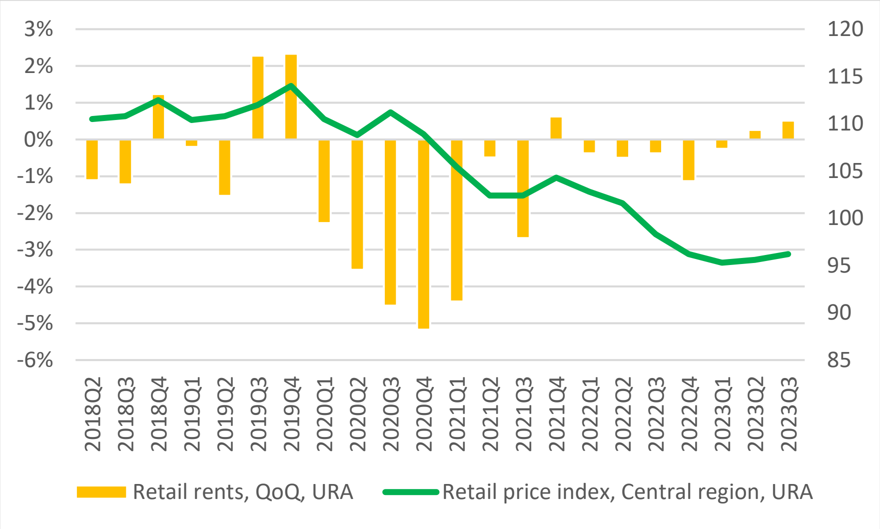
3.4 Retail – Resilient but retail sales need to be watched

Retail stacks up best in terms of net supply with existing malls being repositioned. Island-wide stock will grow by less than 1% over the next two years. Meanwhile, the population increased by 5% YoY to 5.92m as of June 2023. This compares to 5.7m in 2019, equating to 3.8% growth over the 5-

year period. Retail rents and prices are showing signs of stabilization. Meanwhile, fiscal support continues to defray living costs.

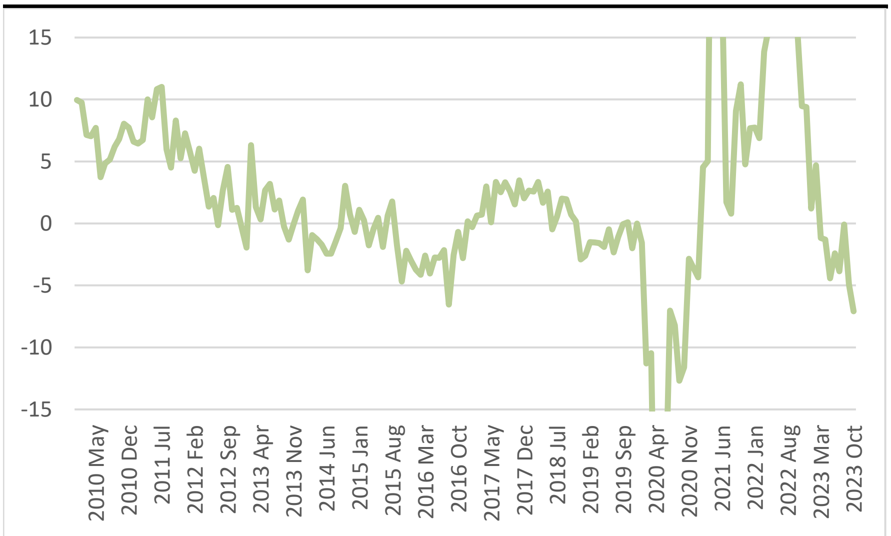
The key concern is consumer sentiment amidst sticky and elevated prices, uncertainty of economic growth and rising taxes (GST, property). In addition, growth of tourist arrivals has stalled and tourism spending excluding accommodation is down 6% YTD versus 2019 despite nominal price growth. It seems to suggest that the purchase basket of tourists has changed.

Fig 28: Island-wide retail rent and retail price index



Source: Maybank IBG Research, URA

Fig 29: Monthly Retail Sales Index ex- vehicles, seasonally adjusted, YoY, %



Source: Maybank IBG Research, SingStat

Fig 30: Preferred picks – investment thesis, valuation and risks

	Investment Thesis	Valuation	Risks
AAREIT	- Diversified industrial property portfolio offers exposure to logistics & warehouses (45% of 1HFY24 GRI), hi-tech industrial buildings (c.7%), general industrial buildings (21%) and business parks (27%) in Singapore and Australia. - Robust operating performance underpinned by sustained double digit positive rental reversions and high occupancy (above 98%). - For 1HFY24, strong rental growth cushioned higher borrowing costs (4% as of 2Q23), a weaker AUD and dilution impacts from a larger unitholder base (c.13% YoY). - We expect continued rental growth as AAREIT goes through its current mark-to-market cycle. Notable lease expiries include KWE (6% GRI, in FY24), DHL (2.1% GRI, in FY25) and Schenker (3.2% GRI, in FY25). - We expect rental growth from AAREIT's Singapore assets to bolster valuation and to offset potential valuation dip of its Australian assets, led by mild cap rate expansions. - Current debt headroom of SGD300m allows for acquisitions.	-FY24E DPU yield of 7.4%. - Current P/B of 0.98x - historical mean of 0.99x P/B	- Delay in planned AEIs - elevated COD - Slower leasing market - Unforseen events such as fire on site causes downtime
CICT	CICT is the largest SREIT by market cap and assets, and is a proxy to Singapore commercial real estate with more than 90% of revenue from local assets. It provides a good mix of organic growth and stability from positive rent reversions and relatively longer lease expiry profile of offices and integrated developments. There are existing buffers to navigate the high interest rate environment with A-rated credit, high interest coverage ratio and mostly unencumbered assets. Scale, size of balance sheet and sponsor support offers access to capital partners and deal network, which helps in capital recycling.	-FY24E DPU yield of 5.4% - Current P/B of 0.94x - Yield is at mean while PB is at -1SD below historical mean (since 2010)	- Weaker retail sales and office demand - Higher cost of debt - Valuation and structural vacancy risk for offshore offices. Income vacuum for German asset while in AEI
CLAR	CLAR is the largest industrial SREIT by market cap and assets. The REIT offers a defensive portfolio and exposure to hi-value, knowledge industries that are likely to afford a premium rent and growth. CLAR has the most diversified asset and tenant base. The largest asset accounts for less than 5% and top 10 tenants contribute less than 20% of rental income. Growth verticals such as tech, logistics and life sciences account for close to two-thirds of customer base. A-rated credit, relatively high interest coverage ratio and high level of natural hedging provides cushion against high interest rates and adverse FX movements.	-FY24E DPU yield of 5.3% - Current P/B of 1.26x - Yield is at slightly below mean while PB is marginally above historical mean (since 2010)	- Vacancy risk in older business parks in Singapore and overseas offices and business parks - Valuation downside for offshore assets - Higher cost of debt
EREIT	- Diversified industrial property portfolio offers exposure to logistics & warehouses (49% GRI), hi-tech industrial buildings (14%), general industrial buildings (18%) and business parks (19%). - Diversified exposure to Singapore, Australia and Japan logistics markets. - Robust rental reversions and stable occupancy (above 90%). - Active capital recycling since merger with ARA LOGOS REIT in FY22. Executed/annouced SGD433.5m of divestments. - Strong sponsor pipeline for inorganic growth. Pro-forma gearing would be lowered to 35.3% if proceeds were to repay debt. COD is largely stable at 3.93% in 3Q23 (vs. 3.96% in 1H23).	- Attractive FY23E yield of 9.3%. - Current P/B of 0.96x. - - historical mean of 1.06x P/B	- Asset devaluation from shortening land lease - Slower-than-expected leasing market - Prolonged income vacuum from divestments
FCT	FCT is pure play on Singapore domestic retail consumption with a portfolio of well-located malls. Barring the pandemic, FCT has a track record of growing DPU and NAV annually since IPO. Catering mostly to daily necessities, the REIT has a defensive profile and is poised to benefit with rising population and strategic portfolio reconstitution tilting the asset mix towards prime suburban malls, while divesting sub-scale undperperforming malls. Gearing is elevated on a historical context but the REIT has buffers to manage the impact with no debt due to mature till Sep 2024 and gearing to be lowered on completion of divestments.	-FY24E DPU yield of 5.35% - Current PB of 0.96x - Yield is below 5.55% mean level while PB is at -1SD below historical mean (since 2010)	- Weaker retail sales - Frictional vacancies in assets undergoing AEIs - Dilutive deals - Higher cost of debt
LREIT	LREIT is a high yielding Singapore-centric commercial REIT with predominantly well-located malls. Rent reversions provide near-term growth opportunities while rejuvenation of the micro markets are likely to provide rental and valuation uplift in the longer term. Master leased office assets provide stability. Manager is proactively managing office lease expiries and taking steps for yield enhancement. LREIT has a supportive sponsor with a global presence and strong development pipeline. While the REIT has high gearing and a challenging funding metrics such as sub-2x interest coverage ratio, we believe current valuations discount the risk.	-FY24E DPU yield of 6.6% - Current PB of 0.81x	- Weaker retail sales and frictional vacancy in Singapore office - Income vacuum from proposed AEI of Italian asset - Valuation downside for offshore office

Source: Maybank IBG Research, FactSet

Fig 31: Valuations of SREITs that we cover

Short Name	Price, Lcy	Rating	TP, SGD	Current Div. Yield, %	FY1 Div. yoy, %	FY2 Div. yoy, %	Avg. 2Yr. Div growth, %	P/B,x	Leverage, FactSet	Analyst
Commercial (avg. for coverage names)				**5.7**	**(1.9)**	**0.2**	**(0.8)**	**0.86**	**41**	
CICT	2.03	BUY	1.90	5.2	1.5	0.3	0.9	0.96	41	KG
MPACT	1.54	HOLD	1.25	6.2	-4.6	0.4	-2.1	0.85	43	KG
SUN	1.24	HOLD	1.15	6.1	-11.2	-2.0	-6.6	0.58	43	KG
FCT	2.25	BUY	2.25	5.4	-1.4	1.4	0.0	0.97	36	KG
KREIT	0.94	BUY	1.00	5.7	1.7	0.0	0.9	0.68	35	KG
LREIT	0.64	BUY	0.70	7.3	-5.3	1.1	-2.1	0.81	51	KG
Industrial (avg. for coverage names)				**5.7**	**(2.0)**	**(0.3)**	**(1.2)**	**1.21**	**41**	
CLAR	2.96	BUY	2.65	5.2	-0.8	0.7	-0.1	1.25	42	KG
MLT	1.69	BUY	1.60	5.3	-2.3	-1.2	-1.8	1.17	40	KG
MINT	2.50	HOLD	2.15	5.4	-1.0	0.1	-0.4	1.35	34	KG
EREIT	0.32	BUY	0.31	9.1	-11.3	-4.2	-7.8	0.78	51	JL
AAREIT	1.33	BUY	1.36	7.5	-1.4	0.7	-0.4	0.97	52	JL
Hospitality (avg. for coverage names)				**5.5**	**5.6**	**3.6**	**4.6**	**0.80**	**42**	
CLAS	0.98	BUY	1.00	5.8	2.5	3.1	2.8	0.85	48	KG
CDLHT	1.11	BUY	1.05	5.5	4.5	5.4	4.9	0.77	42	KG
FEHT	0.66	BUY	0.75	4.9	15.6	3.9	9.8	0.73	29	KG
FHT	0.50	BUY	0.53	4.9	5.5	2.0	3.8	0.75	36	JL

Source: Maybank IBG Research, FactSet

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