Maybank

Singapore REITs

Year of transition

POSITIVE *[Unchanged]*

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2025 outlook

Moderated but continued rate cuts and economic growth, along with reasonable valuation and flows to safe haven keep us POSITIVE on the sector. Last year's underperformance suggests lighter positioning. Distribution downside should subside from 2H. Sub-sectors have ample pros and cons, implying scope for rotation as the year progresses. Our preference is for commercial, followed by industrial and hospitality. Our stock picks combine quality and value: CDLHT, CICT, CLAR, CLAS, FEHT, LREIT, MINT, MLT and OUEREIT (see Fig 4).

Macro climate - Resilient growth, falling inflation

Our house view is for Singapore GDP growth to slow down from 4% in 2024 to 2.6% in 2025. Inflation is expected to slow down further from 2.6% to 1.7% in 2025. This should lead MAS to ease monetary policy and rate of appreciation of the S$NEER in this month's meeting. Globally, the Fed is expected to cut base rates by 75bps. The follow-through will result in further decline in 3-month SORA to 2.65% from 3.1%. FX outlook suggests appreciating JPY, a stable SGD and mixed regional currencies against the USD. All-in, easing base rates without much slippage in growth augurs well for REITs. However, with global growth expected to undershoot inflation for the fourth consecutive year, real yields are likely to remain positive; and coupled with macro uncertainty, may demand nimble positioning. Upside from higher nominal growth, downside from any demand shocks.

Sub-sector views

Distributions are likely to stabilize sequentially from 2H25 with growth (+3.1%) in 2026 for REITs under our coverage. However, we expect the focus will remain on recycling, stabilizing NAVs and de-gearing/capital return as base rates are unlikely to revert to earlier lows. The industrial sector has structural and cyclical drivers (broadening electronics cycle, AI rollout, tariff-led re-stocking) but ample supply and need for redevelopment capex. Recent hotel stats have been patchy and events from last year creates a high base. That said, visitor arrivals are still mid-teen percent points below pre-pandemic level and better economic growth can accelerate corporate transient travel. Office rental growth has flat-lined but beyond 1H25, demand-supply looks favourable from an historical context. Retail sales have flat-lined with concerns about leakages to overseas, upcoming RTS and rising card charge-offs. However, drivers are intact (lower inflation and interest rates, low unemployment and government support, stable wealth and home prices, etc.).

Stock picks

Our preferred picks combine quality and value across market capitalization and sub-sectors. CICT and CLAR are large-cap defensive names with A-rated credit. CDLHT and FEHT are beneficiaries of rate cuts on the back of sector-low hedge ratios. Along with CLAS, they will benefit from recovery in visitor arrivals. MLT offers relative value and upside from stronger regional FX and any turnaround in China. MINT has reasonable yield and potential upside from data-centre theme. LREIT and OUEREIT are Singapore-centric plays with high yield and discounted price to book.

REITs
Singapore

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1. Key charts and tables

Fig 1: Key macro forecasts

	2022	2023	2024E	2025E	2026E
Singapore					
Real GDP (%)	3.6	1.1	3.6	2.6	2.3
Headline inflation (%, period average)	6.1	4.8	2.6	1.7	1.6
Unemployment Rate (%, period avg.)	2.1	2.0	2.0	2.2	2.1
Exchange Rate (per USD, end-period)	1.340	1.320	1.350	1.345	1.325
10-Yr. G-Sec. Yield (%, end-period)	3.09	2.71	2.75	2.75	2.70
3M SORA (%, p.a., end-period)	3.10	3.71	3.10	2.65	2.35
Global Inflation & Benchmark Interest Rates					
US Real GDP (%)	1.9	2.9	2.8	2.0	
US Headline Inflation, %	4.1	2.6	3.0	2.8	
US Fed Funds Rate, %	5.375	4.625	4.375	3.625	
Global Real GDP, %	3.5	3.3	3.2	2.9	
Global Headline Inflation, %	8.7	6.7	5.2	4.0	

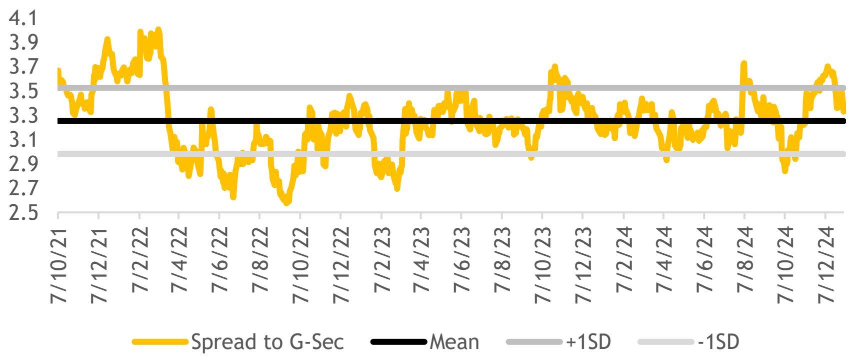
Source: Maybank IBG Research

Fig 2: MIBG's stock coverage

Ticker	Rating	TP, SGD	Current Yield (%)	PB, x	Total return (%)	Leverage, (%, FactSet)	MIBG Y2 DPU yoy (%)	MIBG vs. cons. FY1 DPU, %	Yield + Growth (MIBG)	Yield + Growth (FactSet)
Commercial										
CICT	Buy	2.34	5.5	0.93	23.7	40	1.2	1.1	7.2	7.2
MPACT	Hold	1.29	6.9	0.69	10.6	40	4.6	1.0	5.2	4.4
FCT	Buy	2.50	5.6	0.94	20.9	33	1.6	-0.6	6.3	7.2
SUN	Hold	1.25	5.5	0.53	11.1	43	7.5	11.3	7.8	3.1
KREIT	Buy	1.05	6.4	0.63	26.0	38	2.2	-0.5	7.3	7.2
LREIT	Buy	0.70	6.9	0.74	31.1	52	0.3	-5.8	3.5	7.5
OUEREIT	Buy	0.34	6.9	0.49	21.9	38	4.6	2.3	5.9	6.0
Industrial										
CLAR	Buy	3.10	5.7	1.13	23.5	43	3.5	-2.0	6.0	6.7
MLT	Buy	1.60	6.6	0.88	28.6	38	3.8	-0.8	-0.9	1.2
MINT	Buy	2.60	6.0	1.23	19.3	36	2.6	-0.2	7.0	7.1
EREIT	Buy	0.32	7.1	0.81	30.3	51	2.0	5.1	3.5	0.9
AAREIT	Buy	1.39	7.3	0.99	15.1	53	3.0	3.2	10.1	7.9
Hospitality										
CLAS	Buy	1.15	6.2	0.78	33.4	45	6.0	1.2	6.3	4.3
CDLHT	Buy	1.10	6.4	0.59	30.0	42	12.1	-0.2	9.2	8.2
FEHT	Buy	0.80	5.9	0.67	34.7	28	0.2	-2.6	4.7	6.2
FHT	Buy	0.48	4.1	0.83	(8.3)	37	3.6	8.0	7.0	3.7
Healthcare										
FIRST	Buy	0.28	9.4	0.86	16.9	45	1.6	-0.1	8.0	9.4
PREIT	Buy	4.10	4.0	1.61	13.1	36	2.4	-0.4	5.1	5.3
Ticker	**Rating**	**TP, SGD**	**Yield**	**PB**	**Total return (%)**	**Leverage (FactSet)**	**FY2 EPS cagr (%)**	**MIBG vs. cons. FY1 EPS, %**		
CLI	Buy	3.30	4.5	0.93	30.1	49	57	7.3		

Source: Maybank IBG Research, FactSet Price as of 6th Jan 2024

Fig 3: SREIT Index yield spread, 340bps



Source: Maybank IBG Research, FactSet

Fig 4: Top picks - investment thesis, valuation and risks

Stock	Investment Thesis	Valuation	Risks
CDLHT (BUY, TP - SGD1.15)	- First listed hospitality group with a stapled REIT in Singapore with a portfolio of 20 properties valued at SGD3.0b (with 4,820 hotel rooms, a mall, 352 built-to-rent apartments), and a pipeline hotel in Singapore with 475 keys - Sponsor Millennium & Copthorne Hotels owns/operates over 145 hotels globally while its parent City Developments (CIT SP, Not Rated) is a leading global real estate company listed on SGX - Tailwinds from continued recovery of visitor arrivals, MICE-related/corporate project-related group bookings by regional corporates for Singapore. Better regional growth spured by fiscal stimulus in China may be a catalyst for transient corporate demand. Overseas market growth anchored by the UK with The Casting a key earnings contributor from mid-2025 and expected rate cuts in UK/Europe - Near-term DPU growth likely to be driven by lower interest cost as hedge ratios are one of the lowest and DPU has high sensitivity to rate cuts. Attractive valuation vs. peers and own history.	- Current DPU yield of 6.4% - Historical mean yield 6.1% - Current PB of 0.59x - Historical mean PB of 1.05x	- Higher-for-longer rates may be double whammy as hedge ratios are low, gearing is high and opportunistic M&As in recent times may not deliver the expected accretion - Lack of capital recycling - Slower than expected growth in tourist arrivals
CICT (BUY, TP - SGD2.34)	- 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 - Provides a good mix of organic growth and stability from positive rent reversions and relatively longer lease expiry profile of offices and integrated developments - Healthy balance sheet with A-rated credit, high interest coverage ratio and mostly unencumbered assets - Scale, size of balance sheet and sponsor support offer access to capital partners and deal network which helps in capital recycling	-Current DPU yield of 5.5% - Historical mean yield 5.2% - Current P/B of 0.94x - Historical mean PB 1.18x	- Weaker retail sales and office demand - Valuation and structural vacancy risk for offshore offices - Dilutive M&As
CLAR (BUY, TP - SGD3.1)	- The largest industrial SREIT by market cap and assets - The REIT offers defensive portfolio and exposure to high-value, knowledge industries which can afford continued increase in rent. Growth verticals such as tech, logistics and life sciences account for close to two-thirds of customer base - 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 - A-rated credit, relatively high interest coverage ratio and high level of natural hedging provides cushion against high interest rates and adverse FX movements	- Current DPU yield of 5.7% - Historical mean yield of 6.2% - Current P/B of 1.13x - Historical mean P/B of 1.26x	- Vacancy risk in older business parks in Singapore and overseas offices and business parks - Valuation downside for offshore assets - Slower pace of capital recycling
CLAS (BUY, TP - SGD1.15)	- The largest hospitality trust in Asia Pacific by AUM and market cap. Diversified portfolio of more than 18000 units of serviced residences, hotels, rental housing and student accomodation in 45 global gateway cities, mostly through acquistions and rebranding under house brands. - Backed by sponsor Ascott which has a global footprint of more than 160K units and portfolio of 14 brands with focus on profitability. Currently has 950 properties in 230 cities globally - Offers a good mix of growth and stability with asset mix of 25-30% in longer stay accomodation and 70-75% in serviced residences and hotels. Pure management contracts offers growth while master leases and management contracts with minimum guarateed income offer stability - Very active capital recycling to reconstitute portfolio.	- Current DPU yield of 6.2% - Historical mean yield of 6.5% - Current PB of 0.79x - Historical mean PB of 0.86x	- FX volatility - Slow pace of recovery in China and excess supply in US student accomodation/multi-family apartments - Expiry of master leases leading to potentially higher rent and/or change to management contracts - Dilutive transactions
FEHT (BUY, TP - SGD0.80)	- Pure play Singapore hospitality trust with a mix of 9 hotels (2775 rooms) and 3 serviced residences (240 units), also 30% stake in JV with sponsor which has developed 3 hotels in Sentosa. Far East Organization is the largest private property developer in Singapore. Sponsor, Far East Orchard, is part of the group and it's listed. Established partnerships in the hospitality business with The Straits Trading Company and Toga Group, Australia, extending its portfolio globally with close to 100 properties and over 16,500 rooms across ten countries. - Stable distribution profile from master lease structure and lowly geared balance sheet. Top-ups from divestment gains to offset higher borrowing cost - Inorganic and organic growth potential as mgmt. scouts for opportunities in Japan, Singapore, UK. Sponsor pipeline offers about 1800 units or 60% growth opportunity. Mgmt. talking up capital recycling of non-core assets	- Current DPU yield of 5.9% - Historical mean yield of 5.9% - Current PB of 0.66x - Historical mean PB of 0.77x	- Low fixed hedge ratio of 40.1% may get negatively impacted of expected rate cuts don't happen - Slower than expected growth in tourist arrivals - Limited opportunities for accretive M&As except Japan
LREIT (BUY, TP - SGD0.70)	- LREIT is a high yielding Singapore-centric commercial REIT with predominantly well-located retail 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 - LREIT has a supportive sponsor with a global presence and strong development pipeline - While the REIT has a high gearing and a challenging funding metrics such as sub-2x interest coverage ratio, mgmt. is actively exploring recycling and has secured debt refinancing for FY2025. Also, we believe current valuations discounts the risk	- Current DPU yield of 6.9% - Historical mean yield of 6.4% - Current PB of 0.74x - Historical mean yield of 0.87x	- Weaker retail sales and frictional vacancy in Singapore office - Income vacuum from proposed AEI of Italian asset - Valuation downside for offshore office
MINT (BUY, TP - SGD2.60)	- Dominant industrial landlord in Singapore with an additional mandate to invest in data centres worldwide. Current Aum of SGD9b - AUM roughly split between Singapore industrials (flatted factories, hi-tech spaces, business parks, DCs) and US & Japan DCs. Reputable sponsor Mapletree Investments. ROFR pipeline in US DCs. - Demonstrated track record of growing IPO portfolio from SGD22.2b through 10 acquisitions, 5 build-to-suit projects and 3 asset enhancements. - Near-term headwinds from vacancy in US DCs while broadening electronics cycle in Singapore can offset any NPI impact - Management proactively looking at capital recycling of reasonable scale	- Current DPU yield 6.2% - Historical mean yield of 6.2% - Curent PB of 1.22x - Mean PB of 1.32x	- frictional vacancy in US datacentre - Higher utilities cost - SME non-renewal risk for Singapore flatted factories
MLT (BUY, TP - SGD1.60)	- Dominant logistics landlord with a Pan-Asia footprint. Sponsor having presence in Europe and US. Significant presence in transshipment, e-commerce and mid-stream industrial logistics segment through 3PLs and end-tenants - Structural tailwinds from the shifting supply chains, resilient domestic consumption and growing e-commerce sales - Management trying to mitigate headwinds through portfolio rejuvenation, capital recycling and increasing exposure in better-spec assets in India, Vietnam and Malaysia	- Current DPU yield of 6.6% - Historical mean yield of 6.4% - Current PB 0.87x - Historical Mean PB 1.13x	- Higher interest rates and FX volatility - China slowdown and negative reversions - New supply likely to cause headwinds for MLT's older assets and necessitate capex
OUEREIT (BUY, TP - SGD0.34)	- OUECT is a high-yielding pure play Singapore REIT with a mix of CBD offices and hotels - Good mix of growth and stability with reversions, growth in visitor arrivals, master leases with variable rents and long WALE - Significantly improved credit profile with investment grade credit - Proactive capital recycling of non-core asset	- Current DPU yield of 6.9% - Historical mean yield of 6.9% - Current PB 0.48x - Historical Mean PB 0.65x	- Slower than expected growth in tourist arrivals - Frictional office vacancies - Dilutive corporate actions

Source: Maybank IBG Research

Fig 5: Sub-sector forecasts for Singapore

		2019	2020	2021	2022	2023	2024E	2025E	2026E
Hospitality									
Available rooms		68,697	68,440	69,261	69,472	72,682	74,319	75,635	78,620
YoY	%	2.3	(0.4)	1.2	0.3	4.6	2.3	1.8	3.9
Available room nights	mn.	21.8	13.9	10.6	17.2	21.5	23.6	24.8	25.8
YoY	%	2.7	(36.2)	(24.1)	62.3	25.3	10.0	5.0	4.0
Avg. monthly occupancy	%	86.9	57.3	56.9	75.3	80.8	82.4	84.0	86.0
Tourist arrivals	mn.	19.1	2.7	(0.4)	6.3	13.6	16.0	18.0	20.0
YoY	%	3.3	(85.7)	(88.0)	1,810.0	116.0	17.6	12.5	11.1
Visitor arrival days	mn.	64.1	11.8	7.4	31.8	51.6	57.0	59.4	66.0
YoY	%	4.1	(81.7)	(37.1)	330.0	62.2	10.4	4.3	11.1
Room rate	SGD	220.8	154.6	160.5	250.6	275.0	282.0	276.4	277.7
YoY	%	1.1	(30.0)	3.8	56.2	9.7	2.3	(2.0)	0.5
RevPAR	SGD	192	89	91	189	222	229	226	232
YoY	%	2.1	(54.0)	3.0	106.7	17.7	3.0	-1.0	2.5
Industrial		**2019**	**2020**	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Multi user factory space	mn. sq. ft.	121.7	122.4	124.2	131.1	134.5	134.8	137.9	139.5
YoY	%		0.5	1.5	5.5	2.6	0.2	2.3	1.2
Occupancy	%	87.5	88.5	90.2	89.1	90.5	92.0	91.5	91.0
Spot rent	S$ psf pm	1.57	1.50	1.54	1.56	1.73	1.80	1.81	1.80
YoY	%		-4.5	2.7	1.3	10.7	4.0	1.0	-1.0
Warehouse	mn. sq. ft.	118.2	119.2	121.6	122.8	125.0	127.3	134.2	135.8
YoY	%		0.8	2.0	1.0	1.8	1.8	5.5	1.2
Occupancy	%	88.0	89.9	90.6	91.7	91.6	91.1	91.0	90.5
Spot rent	SGD psf pm	1.58	1.58	1.66	1.71	1.86	1.92	1.95	1.95
YoY	%	0.0	0.0	5.1	3.0	8.5	3.5	1.5	0.0
Business Park	mn. sq. ft.	23.7	23.6	24.5	25.6	26.5	27.5	30.0	30.2
YoY	%		-0.1	3.8	4.3	3.4	3.8	9.0	0.9
Occupancy	%	86.3	85.8	84.5	82.5	78.4	80.0	80.5	81.0
Spot rent	SGD psf pm	4.25	4.00	4.13	4.10	4.24	4.32	4.35	4.35
YoY	%	2.9	-5.9	3.3	-0.7	3.4	2.0	0.5	0.0
CBD Office		**2019**	**2020**	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Core CBD office stock	mn sq. ft.	30.7	31.5	32.0	31.0	30.7	31.2	31.8	32.4
YoY	%		2.6	1.6	-3.1	-1.0	1.6	1.9	1.9
Core-CBD Occupancy	%	93.9	93.8	93.3	94.7	94.8	93.4	93.0	94.0
Spot rent	SGD psf pm	11.55	10.40	10.8	11.70	11.90	11.95	11.89	12.07
YoY	%		-10.0	3.8	8.3	1.7	0.4	-0.5	1.5
Retail		**2019**	**2020**	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Island wide stock	mn sq. ft.	67.0	66.1	66.7	67.1	67.4	68.3	68.5	68.6
YoY	%		-1.4	1.0	0.5	0.4	1.3	0.3	0.1
Occupancy - Orchard Road	%	92.0	88.4	88.7	90.2	87.9	87.8	88.0	88.0
Occupancy- Outside Central Area	%	92.9	92.5	93.9	94.5	94.2	94.0	93.5	93.0
Island wide spot rent	SGD psf pm	22.9	24.7	24.7	25.1	26.3	26.9	27.2	27.3
YoY	%	-8.6	8.0	-0.2	1.6	4.7	2.5	1.0	0.5

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

Fig 6: Sub-sector summary

	% Growth in supply, 3Q24-26e	% growth in spot rent, 3Q24-26e	Stock, 3Q24, mn sq ft	Stock 26e, mn sq ft	Spot rent, 3Q24 SGD psf pm	Spot rent, 26e SGD psf pm
Multi-user factory space	3.6	0.0	134.7	139.5	1.80	1.80
Warehouse	7.4	1.5	126.5	135.8	1.92	1.95
Business Park	13.6	0.5	26.5	30.2	4.32	4.35
Office	3.8	1.0	30.7	32.4	11.95	12.07
Retail	1.0	1.5	67.9	68.6	26.93	27.33
	% Growth in rooms, 3Q24-26e	**% growth in RevPAR, 3Q24-26e**	**Rooms, 3Q24, #**	**Rooms 2026e, #**	**RevPAR, 3Q24 SGD**	**RevPAR, 26e SGD**
Hotel	7.2	1.5	73,337	78,620	232	232

Source: Maybank IBG Research

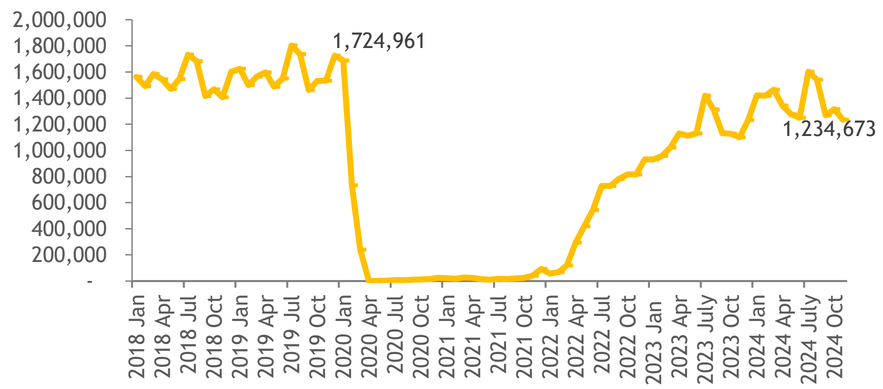
2. Singapore sub-sector views

2.1 Hospitality – high base, room for growth in arrivals

The sector faces a high comparison base due to events from last year and aggressive competition on room rates from new supply. However, growth in available room nights will further slow down to an estimated 5% from 10% in 2024. A better economic outlook leading to more corporate transient travelers and accelerated visitor arrivals from China remain the key wild card for the sector. Group business will continue to anchor demand. We note that Singapore Airlines (SIA SP, HOLD, CP SGD6.41) has increased capacity recently. YTD arrivals (as of Nov'24) are still 13% below 2019 levels while arrivals from China and Hong Kong is 17% lower. YTD RevPAR of SGD230 is +3.0% YoY, led by 1.9% growth in room rates. The luxury/upscale segment has outperformed due to lower supply.

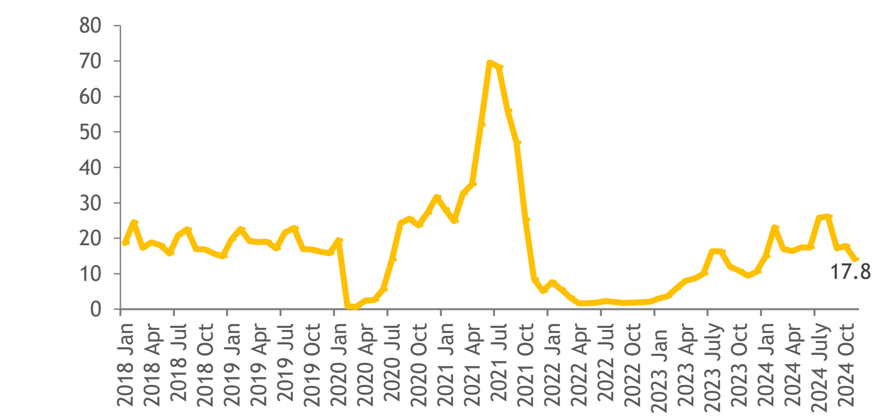
We expect room rates to come off by 2% in 2025 and RevPAR to be down 1%. Ease of hiring can lower costs pressures and a slightly weaker SGD can be a demand-enabler. Serviced residences' RevPAU are currently supported by the shift towards short stays. Things to watch: room supply, especially in the Orchard Road area, cost-conscious leisure demand, leakage to homestays/co-living, rebranding/unbranding of hotels.

Fig 7: Singapore monthly international visitor arrivals



Source: Maybank IBG Research, STAN

Fig 8: % of visitor arrivals from China



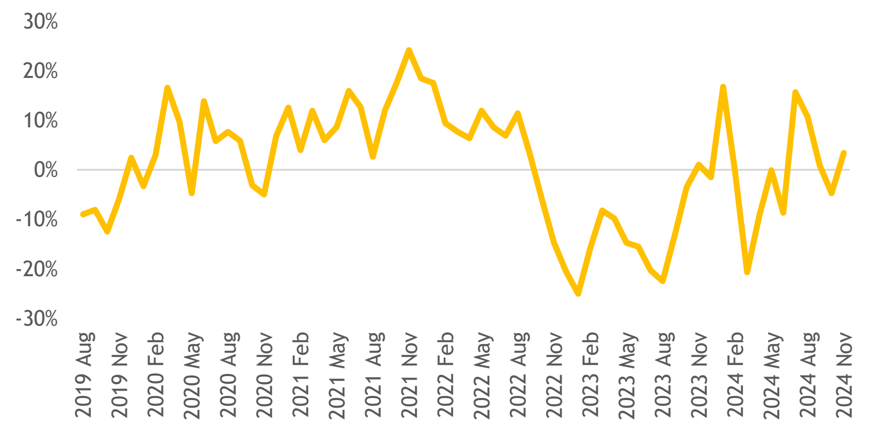
Source: Maybank IBG Research, STAN

2.2 Industrial – Slowing growth

Overall, the industrial sector saw healthy YoY rental growth in 2024 (until Sep) of 4% for flatted factories and warehouses, and 2% for business parks. However, it is a moderation from 2023. The slowdown in rental growth was accompanied by 2% decline in leasing volumes. Flight to lower occupancy cost for flatted factories as well as shift to newer specs especially for business parks and ramp-up logistics supported growth. 2025 may see further slowdown in rental growth due to the combined effect of supply, a slowing economy and any business closures. NODX has been volatile, and upside can come if manufacturing (electronics, life sciences, AI-related semi) strengthens or there is stock piling prior to implementation of higher tariffs by the US. Multi-user factory space and logistics are significantly pre-committed (74% for factory and 85% for warehouse for upcoming supply as of Sep'24). This may cap the pressure on rents from incoming supply. Data centre conversion holds promise for uplift in transaction prices.

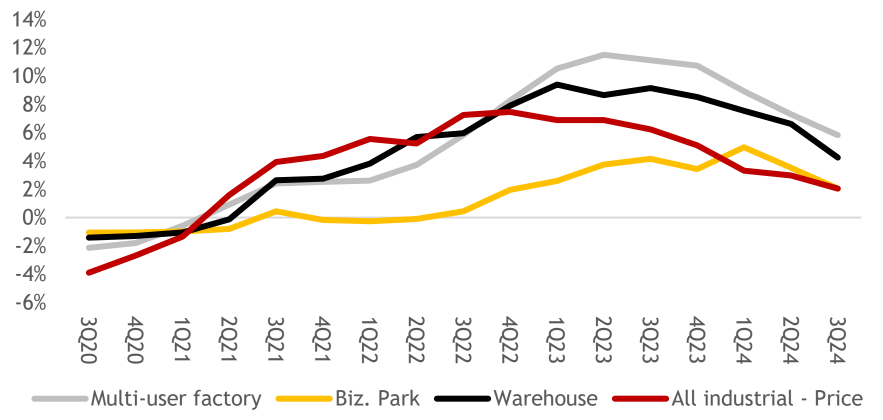
We expect spot rent growth for multi-user factory space to flat line. End-user demand to lower occupancy cost by shifting to cheaper flatted factories/securing rent incentives will support rents on one hand, but business closures may raise vacancy unless manufacturing strengthens. Expansionary demand will depend on how overall export demand stacks up. Warehouse rent growth is likely to slow due to a slower economy and peak supply in 2025. Significant pre-commits will mitigate supply pressure but older-spec assets may see higher vacancy/weaker rents as 3PLs (third-party logistics) secure favourable rents in newer-spec assets. Business park vacancy has started to stabilize at around 78% over the past three quarters. While the sector still has some uncommitted supply to digest (PDD, Science Park), spot rents have started to inch up as better spec assets/smaller spaces are progressively filled up. Shift of demand out of CBD offices by tech companies as well as insourcing by local firms are incremental demand. Upcoming supply is 41% pre committed. Structural tailwinds for data centres (AI, cloud migration, data localization) are likely unabated. However, older data centres will need a complete revamp and huge capex. Structured transactions are likely. Anecdotally, there are talks around higher (re)development limits. Longer term, we monitor the Johor-Singapore Special Economic Zone development for the industrial sector.

Fig 9: Singapore Non-Oil Domestic Exports, YoY



Source: Maybank IBG Research, SingStat

Fig 10: Singapore industrial rent and price, YoY

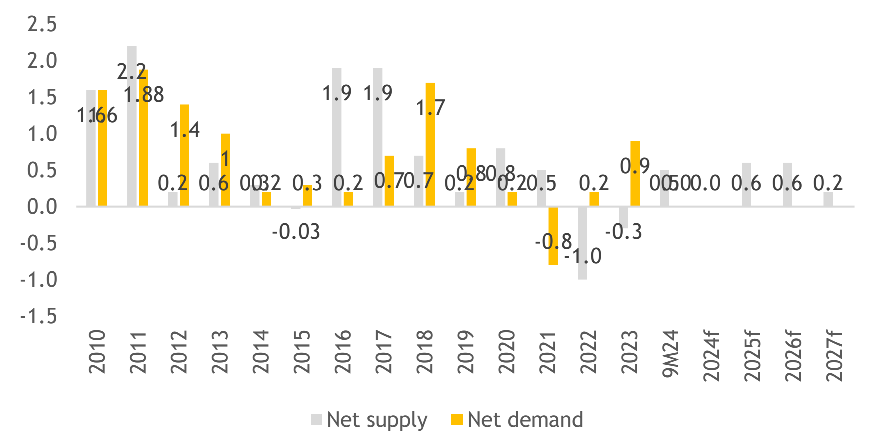


Source: Maybank IBG Research, JTC

2.3 Office – navigating near-term supply

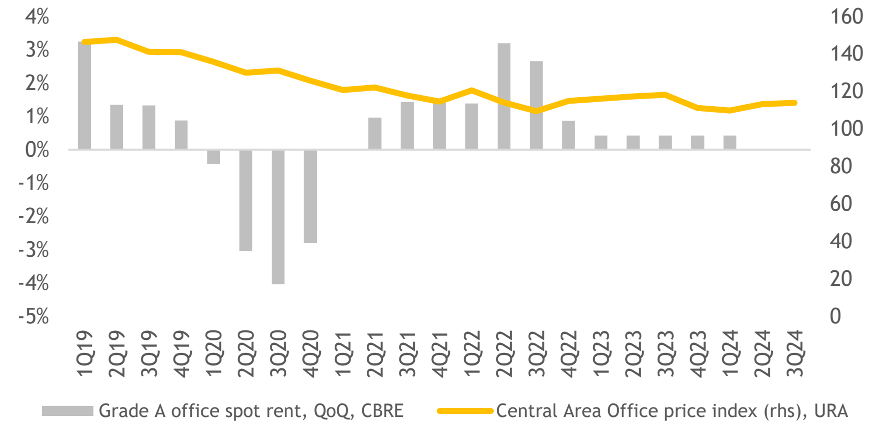
Near-term uncommitted supply remains the key headwind. Medium-term supply is small due to limited planning approvals/elevated construction cost. As the supply is digested and possibly better economic growth/ family office/new tech (like AI) demand surfaces in 2H25, the sector can see its fortune turn. So far, demand appears to be more from flight to quality/consolidation. Viability of co-working tenants, ongoing space rationalization by existing large space-holders and adoption of hybrid working are things to monitor. However, with high fit-out costs, tenants may choose to renew leases than relocate, even if for shorter term, which may support rents. Spot rents have flat lined over the past 2 quarters. We expect spot rents to fall in 2025 before rising in 2026 in a two-tiered market with uncommitted new supply. Office values continue to trade tighter than funding cost but transaction volumes are softening even for strata sales.

Fig 11: CBD office demand and supply (m sq ft)



Source: Maybank IBG Research, CICT, CBRE

Fig 12: Grade A CBD office rent and price

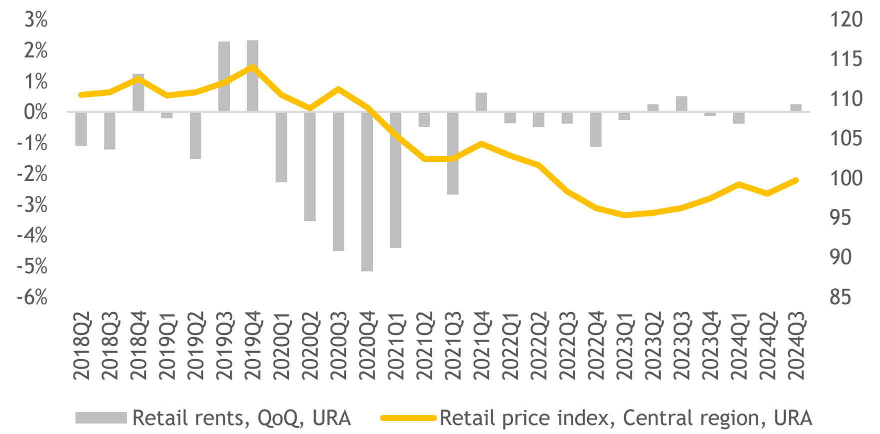


Source: Maybank IBG Research, CICT, CBRE, URA

2.4 Retail – resilient but monitor retail sales

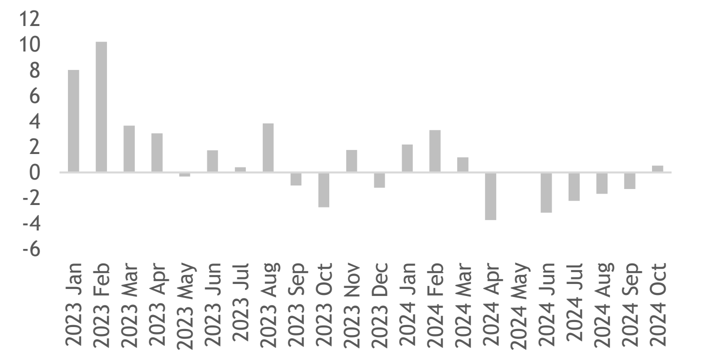
Low unemployment rate, growing population, stable wealth/home prices, falling mortgage rates and inflation, fiscal support to lower cost of living, weaker SGD, and growing tourist arrivals should augur well for sales and rent reversion. That said, so far, data has been mixed with retail sales flat lining amidst cautionary spending and overseas leakage. Consumer finances appear stretched with rising credit card charge-off rates. However, the sector is best placed in terms of upcoming supply. New/expanding retailers may be willing to accept lower turnover to build presence and the business network. Further, margins of established retailers have expanded, which may help to pay higher rents. We factor in 1% growth in island wide-spot rents, anchored by the city centre while suburban stays resilient. Longer term, we keep an eye on impending RTS connectivity to Johor Bahru. The narrative has so far tilted towards leakage, which may happen initially. However, subsequently, unit retail sales and margin may grow with mix of a higher income population, lower costs, and in-bound travel by Malaysians.

Fig 13: Island-wide retail rent and price index



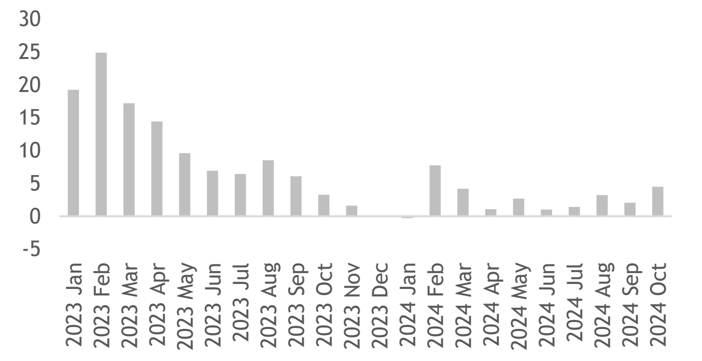
Source: Maybank IBG Research, URA

Fig 14: Monthly retail sales ex-vehicles, seasonally adj., YoY, %



Source: Maybank IBG Research, SingStat

Fig 15: Monthly F&B sales, seasonally adj., YoY, %



Source: Maybank IBG Research, SingStat

Fig 16: Retailers' margins (%)

	Avg. last three years	Avg. 2019-2016
DFI	11.6	6.9
Sheng Siong	14.7	11.3
Hour Glass	21.2	11.6
Japan Food Hldg.	35.9	20.6
Uniqlo Singapore	12.5	10.9

Source: Maybank IBG Research, FactSet, Company Data Note: Uniqlo SG PBT margin, rest EBITDA margin

3. December deals

Last month was a busy period for REIT transactions. The following table summarizes the newsflow and our comments for the stocks we cover.

Fig 17: Coverage REIT transactions in December

Commercial	Transaction/News flow	Comments
SUN	On 5 Dec, Aelios made a mandatory cash offer for Suntec REIT units for SGD1.16/unit. The offeror and the concerted party together owns 31.45% of Suntec units. The offer will remain conditional unless the offeror secures more than 50% of the outstanding units as on or before the close of the offer. The offer price is not final and the offeror reserves the right to revise the terms of the offer. Currently, the offeror intends to maintain the listing status of Suntec REIT following the completion of the offer, and has no intention of exercising its right of compulsory acquisition, should it become available upon acquiring more than 90% of the outstanding shares. However, the offeror may re-evaluate its position depending upon level of acceptances and prevailing market conditions. First closing date of the offer is on 20 Jan 2025 and there is no obligation to extend the offer. OCBC is the financial adviser to the offeror and KPMG is the Independent Financial Advisor to the independent directors of Suntec REIT.	Due to acquisitions prior to the offer, the shareholding of the offeror and concerted parties exceeded 30%. As a result, the offeror has an obligation to make a mandatory general offer for all the units. The offer price is below historical book and existing unitholders should not tender their units, in our view. Subsequent to the offer announcement, Suntec REIT discosed the year-end valuation. Even after taking into account an estimated 1% YoY fall in total valuation, the offer price is well below the estimated book value of SGD2.07. That said, the offer provides a liquidity window if there is a need. For new investors, SUN doesn't offer a compelling value at current prices as yet, even though the distributions have stablized, in our view. The 5.5% yield is slightly lower than CICT/FCT and comes with higher gearing. It is substantially lower than MPACT's yield, which also has lower gearing than Suntec REIT. Our fundamental HOLD rating remains. For event investors, visibility on whether the offer price will be raised after the first close and if the offer period will be extended, is needed.
KREIT	On 10 Dec'24, KREIT announced the lease renewal of DBS Bank, the 2nd largest tenant of KREIT by gross rent. Under the lease renewal, DBS will continue its lease for a 6-year term, which commenced on 22 Dec'24.	DBS accounts for 4.5% of attributable gross rent as of Sep 2024 for Keppel REIT. While details about reversion, etc. is lacking, the lease renewal with long WALE offers income certainty and provides assurance about the need of CBD office space despite adoption of hybrid work.

Source: Maybank IBG Research

Fig 17a: Coverage REIT transactions in December (cont'd)

Commercial	Transaction/News flow	Comments
LREIT	On 6 Dec, LREIT entered into a total of up to SGD560m. of senior unsecured sustainability-linked term and revolving credit facilities. It also entered into an accordion facility of SGD200m. These facilities will be used for refinancing of the existing financial indebtedness of LREIT. Subsequently on 10 Dec, LREIT's SGD1b multicurrency debt issuance programme was updated.	LREIT has SGD360m of SGD term loan due to mature by Sep'25. In addition, SGD200m of perp will have its first call date in Apr'25. As such, the facilities should help to refinance existing loans and redeem the perp. The accordian facility may come handy for redemption of the next tranche of SGD200m of perp due in 2026. We look forward to LREIT's plan to raise coverage ratio and address gearing. Maintain BUY on valuation (7% yield, 0.7x PB). At the sector level, in line with expectation, bank is substituting wholesale/market financing.
OUECT	On 20 Dec, OUEREIT announced the divestment of Lippo Plaza in Shanghai for RMB1917m (SGD357.4m) and an agreed property value of RMB1680m (SGD313.2m). Net divestment proceed will be SGD318.2m. These compare against purchase price of SGD335.5m and last valuation of RMB2.4b. The proceeds will be used to pare down debt/M&A/AEI/redeem CPPUs/unit buy-back. The asset contributed 16.6% of profits and 14.4% of the NAV of OUE REIT.	While the divestment realizes losses (30% discount to the last valuation and the net proceeds from the sale of SGD318.2m is below the purchase price of the asset of SGD335.5m), it removes the overhang of an underperforming non-core asset in an over-supplied market and possibly plugs future losses. The exit NPI yield of 5.7% is above the cost of debt of 4.8%. But according to management, the divestment is 1.4% accretive as net divestment proceeds will be used to repay the most expensive debt. Given net proceeds are below the purchase price, we expect gearing to marginally go up. All in, we look forward to see the usage of proceeds and accretion in distribution given pro forma NAV is down 1.7%. Maintain BUY on OUEREIT on valuation(7% yield and 0.6xPB)
Industrial		
CLAR	On 17 Dec, CLAR announced further expansion of its US logistics footprint with first sale and lease back acquisition from DHL USA for SGD150.3m. The property is located in southeast Indianapolis and has an initial lease term of 11 years with built-in escalation of 3.5% per annum. The property is modern Class A logistics asset completed in 2022. The initial NPI yield is 7.4% post-transaction costs and 0.1% accretive to pro forma DPU. The accretion assumes 40% debt funding and 20% management fee in units. On 23 Dec, Moody's credit opinion report maintained CLAR's A3 long-term rating and stable outllok while highlighting inadequate liquidity because of relaince on revolving credit facilities. That said, Moody's expects refinancing risk to be mitigated by CLAR's track record of raising funds from capital marktes and established banking relationships.	The acquisition follows CLAR's earlier announcement in mid-Nov'24 on the first development project of logistics asset in South Carolina for SGD94.8m. The development project is expected to have stabilized yield of 7.2% and DPU accretion of 0.3% based on full debt funding. The acqusition and development should benefit from current on/reshoring trends in the US and also provides diversification. Further, given DHL's footprint of c.20 distribution centres in the US and its medium-term strategy to be capex efficient and focus on ROIC, the acquisition can provide further pipeline of assets. However, the accretion is thin, and interestingly lower for the acquisition than the development project despite having higher NPI yield. This may be due to USD cost of debt. We also monitor cross-border e-commerce trends in the US and DHL's performance in Europe . While capital recycling has started, we continue to believe CLAR should more actively do so while engaging in acquisitions/development. Maintain BUY on defensive portfolio, strong credit and exposure to new economy/advanced manufacturing.
MLT	Over the past month, MLT divested 2 small assets in Japan for SGD37.5m and 1 asset in Singapore for SGD12.3m. The Japan assets are freehold and 100% occupied but c.17 year old. Divestmet prices are c. 8% above the last valuation, above purchase prices and gross divestment yield range between 4.8-6.8%. Singapore asset is a leasehold asset with falling occupancy and valuation, and negligible yield.	The divestments are in line with management target to achieve SGD200-500m of selective divestments in FY25. YTD, announced/completed divestments total c. SGD170m. Divestment proceeds will be used to enhance financial flexibility for M&A for high-specs logistics assets. Maintain BUY on steady execution, reasonable valuation and regional network.
AAREIT	On 10 Dec, AAREIT announced divestment of an asset in Singapore at 32.5% premium to the last valuation. The property is a leasehold asset and was valued below the purchase price. AAREIT also reaffimed its commitment to ESG targets and further progress on sustainability initiatives. These include rooftop solar panel installation, EV charging station installation, energy efficient lightining and new electricity metering system.	The divestment is in line with AAREIT's portfolio rejuvenation strategy. It was one of the assets acquired following the global financial crisis back in 2010. The sustainability initiative aligns with sustainability-linked loan facility (announced in Sep'24 for SGD400m and AUD150m and used to redeem MTN) and will generate incremental revenue and/or optimise operating costs. Maintain BUY on valuation, low gearing, execution record.

Source: Maybank IBG Research

Fig 17b: Coverage REIT transactions in December (cont'd)

Hospitality	Transaction/News flow	Comments
CDLHT	On 19 Dec, CDLHT announced maiden acquisition of 404 beds PBSA in Liverpool. UK for SGD63.9m. The purchase price is 5.4% below valuation. The building was completed in 2023 and has a vacant freehold land with planning consent for a 144-key hotel. The entry yield is 5.6%. The asset is not yet stabilized, and has upside potential in future academic years. 1H24 pro forma DPU accretion is 1.3% based on 100% Euro debt funding and actual signed leases for AY24/25. Pro gearing will go up from 38.8% to 40.2%.	The acquisition is in line with CDLHT's stated strategy of pursuing bite-sized deals of distressed assets and follows a similar acquisition of Indigo hotel in Exter earlier in Oct'24. Such opportunistic transactions should limit valuation downside. However, the accretion is limited and is based on EUR funding. So, clearly the view is on interest rates going down. We keep an eye on gearing, as estimated gearing including the Exeter transaction should be closer to 41%. Maintain BUY on gradual but continued tourism recovery, diversified portfolio and reasonable valuation.
FEHT	On 19 Dec, FEHT entered into sustainability-linked facility agreement for a total of SGD157.15m with two banks.	The signed facility agreement will help to refinance SGD157m of outstanding debt in FY25. Maintain BUY on continued travel recovery, low gearing and stable distribution profile.
Healthcare		
FIRST	On 27 Dec, First REIT announced renewal of master lease agreement with PT Lippo Karawaci for the lease of Imperial Aryaduta Hotel & Country Club. The lease has been renewed for 1 year starting from 1 Jan 2025. The rent is fixed at IDR22.1b paid quarterly in advance and the security deposit is equivalent to 3 months of rent.	While First REIT has identified the asset as a non-core asset under its 2.0 growth strategy and is looking for a potential buyer, the short-term lease renewal provides revenue stability in the interim while retaining the strategic flexibility to divest should the opportunity arise. The rent is in line with the lease renewal agreement signed last year and represents a 4.5% YoY growth. Interestingly, unlike last year's renewal, the current lease renewal doesn't state a futher term of lease extension. Maintain BUY on valuation and favorable healthcare sector positioning.
Sponsor		
CLI	Last month, CLI divested 4.88% in CLAS for SGD162m for a loss of SGD141m. CLI's stake will fall to 24.04%. Earlier, CLI acquired the property and corporate credit investment mangement business of Wingate Group for SGD173m plus an earn-out to boost private credit capacbilities and Australia presence. FUM will grow by SGD2.2b to SGD115b. FUM in Australia increase grow by 30% and will contribute to 7% of CLI's total FUM. Further, CLI's self storage JV Extra Space Asia entered into a strategic alliance with Japan's largest indoor self-storage manager to create a pipeline of assets for acquisitions.	The CLAS stake sale is in line with the strategy and prior management commentary. CLAS will be deconsolidated from financial accounts and accounted as an associate. The sale helps to raise cash as well. It removes an overhang on CLAS shares. Wingate acquisition and partnership with Japan self storage operator are in line with CLI's plan to diversify globally, grow private funds especially in private credit and focus on living segment such as self-storage. Maintain BUY on asset light strategy, valuation and potential turnaround in China.

Source: Maybank IBG Research

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