7 February 2022

Property | REITS

REITs

Navigating Through Interest Rate Hikes Ahead

Stocks Covered:	22
Rating (Buy/Neutral/Sell):	16 / 4 / 2
Last 12m Earnings Revision Trend:	-

- **Still OVERWEIGHT on S-REITs, NEUTRAL on M-REITs.** The average yields for S-REITs and M-REITs are now at 5.8% and 4.1%. Despite the impending interest rate hike, we believe S-REITs will still outperform, due to stronger growth prospects as the economy reopens, and better demand/supply dynamics, which underpin healthy rental reversions. M-REITs, on the other hand, will be plagued with an influx of new retail space, which should drag the overall sector's performance. Given the robust demand from the technology and e-commerce sectors, industrial REITs remain our favourite.
- **Negative impact from rate hike is of lesser concern for S-REITs.** Although interest rate hikes are generally unfavourable to REITs, we think the impact is lesser for S-REITs given the expectation of a stronger economic rebound, as well as earnings growth for the sector. During the last US interest rate upcycle in 2016-2019, the FTSE REIT index registered an absolute return of 31% (or 9% return pa). As for M-REITs, we are more conservative, given the more muted recovery pace as rental reversions for both retail and office segments will likely be subdued, in view of the looming supply of commercial space in the market.
- **Still prefer industrial REITs in the region for their resilience and growth.** We like the industrial segment in the region. While the Singapore Government is initiating a longer-term push to transform Singapore into a smart nation, the semiconductor and electronics industries in Malaysia and Singapore are fast expanding due to global demand. The rising e-retailing space in South-East Asia is another driving factor for the warehouse segment.
- **Office S-REITs and retail M-REITs are proxies for recovery play.** As both Singapore and Malaysia have achieved high vaccination rates and are shifting towards a "living with COVID-19" strategy, we view office S-REITs and retail M-REITs as the best proxies for recovery play. Despite the emergence of the Omicron variant, many countries chose to manage via vaccinations and booster shots instead of lockdowns. Singapore's Grade-A office segment continues to see positive rental reversions, while the anchor retail malls in Malaysia are experiencing healthy recovery in footfalls.
- **Acquisition momentum to ease on expectation of higher interest rates.** As interest rates are expected to rise this year, we believe REITs in the region will slow down their acquisition pace. S-REITs were on an acquisition spree in the last two years, as the sector took advantage of low interest rates. Industrial was the most active segment in Singapore and Malaysia, while S-REITs also expanded their presence in overseas markets.
- **Stock picks:** Our Top Picks for the region are Ascendas REIT, Suntec REIT, and ESR REIT in Singapore, and Axis REIT in Malaysia.

Company Name	Rating	Target	% Upside (Downside)	P/E (x) Dec-22F	P/B (x) Dec-22F	ROAE (%) Dec-22F	Yield (%) Dec-22F
AIMS APAC REIT	Buy	SGD1.72	20.0	10.4	1.0	9.8	7.1
ARA LOGOS Logistics Trust	Take Profit	SGD0.95	13.8	14.2	1.3	9.3	6.7
Ascendas REIT	Buy	SGD3.60	29.2	20.9	1.2	5.9	5.9
Axis REIT	Buy	MYR2.28	23.1	19.3	1.2	6.2	5.2
Capitaland Integrated Commercial Trust	Buy	SGD2.20	6.5	16.1	1.0	6.2	5.4
CDL Hospitality Trusts	Neutral	SGD1.25	4.2	17.4	0.9	5.4	4.7
CLMT	Sell	MYR0.50	(13.8)	28.1	0.5	1.9	3.6
EC World REIT	Trading Buy	SGD0.87	19.7	11.4	0.8	6.7	8.7
ESR-REIT	Buy	SGD0.54	22.7	12.6	1.1	8.4	7.3
Frasers Centrepoint Trust	Neutral	SGD2.45	6.7	16.9	1.0	5.9	5.5
IGB REIT	Buy	MYR1.92	24.5	18.8	1.4	7.7	5.1
IREIT Global	Buy	SGD0.74	14.7	12.0	0.9	7.2	7.0
Keppel Pacific Oak US REIT	Buy	USD0.92	25.2	11.4	0.9	7.9	8.8
Keppel REIT	Buy	SGD1.29	16.2	13.2	0.8	6.4	5.4
KLCCP Stapled	Neutral	MYR6.90	7.4	17.8	0.9	6.0	5.5
Manulife US REIT	Buy	USD0.90	40.8	9.4	0.9	9.4	9.1
Pavilion REIT	Buy	MYR1.48	18.4	19.0	1.0	5.2	5.4
Prime US REIT	Buy	USD1.04	28.4	12.4	1.0	7.9	8.8
Sentral REIT	Buy	MYR1.02	7.9	12.2	0.8	6.3	8.1
Starhill Global REIT	Buy	SGD0.68	12.4	13.5	0.7	5.2	6.3
Suntec REIT	Buy	SGD1.77	13.5	14.6	0.7	5.1	5.7
Sunway REIT	Neutral	MYR1.45	3.4	17.3	0.9	5.2	5.8

Source: Company data, RHB

Top Picks	Target Price
Ascendas REIT (AREIT SP) – BUY	SGD3.60
Suntec REIT (SUN SP) – BUY	SGD1.77
ESR REIT (EREIT SP) – BUY	SGD0.54
Axis REIT (AXRB MK) – BUY	MYR2.28

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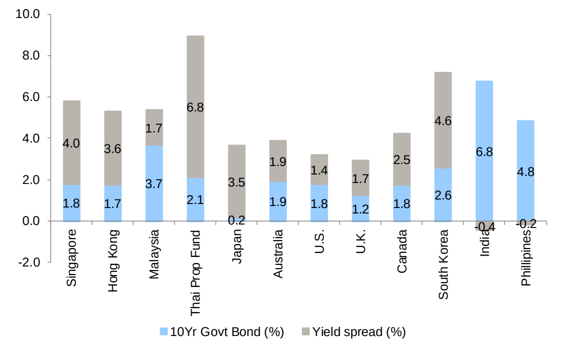
Comparison among major global REITs



Note: As at 28 Jan 2022
Source: RHB, Bloomberg

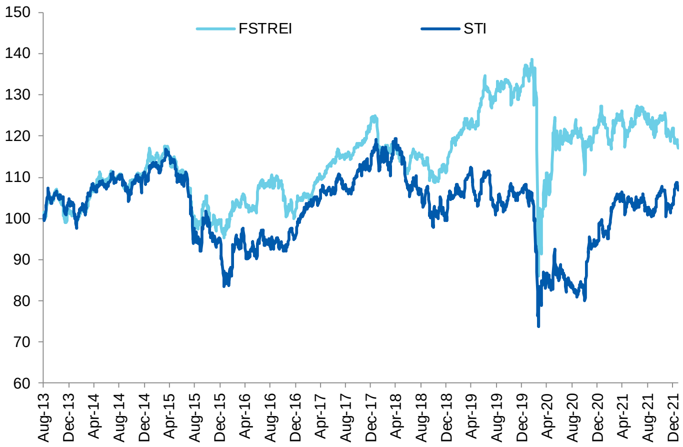
Outlook for 2022

Performance for both S-REITs and M-REITs in 2021

Despite the low interest rate cycle over the last two years, the performance of both M-REITs and S-REITs has not been consistent. In 2021, notwithstanding the peak of the pandemic, S-REITs performance was flat while M-REITs fell 5% YoY.

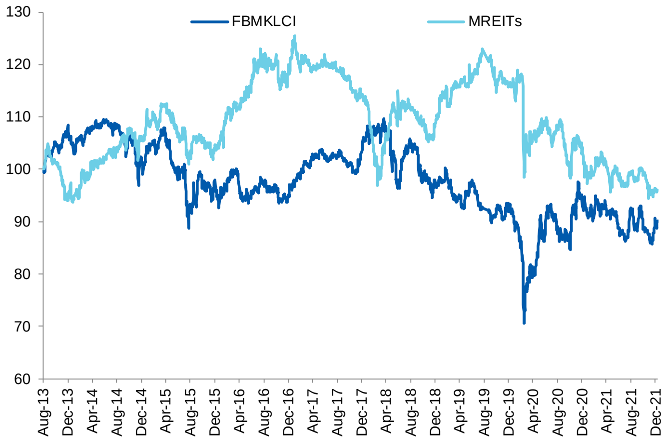
As COVID-19 hit the global economy, S-REITs exhibited stable recovery from the sell down, while the recovery seen among M-REITs has not been sustainable. This was largely due to the fast spread of the pandemic as well as slow public response when the vaccination was first rolled out in Malaysia. Singapore, on the other hand, had the pandemic better contained, and coupled with the acceleration of its vaccination rate, saw the progressive re-opening of the economy faster than its neighbouring countries.

Figure 1: Performance of FSTREI vs STI



Source: Bloomberg

Figure 2: Performance of M-REITs vs FBMKLCI



Source: Bloomberg

Expectation of interest rate hikes as inflationary pressure heightens

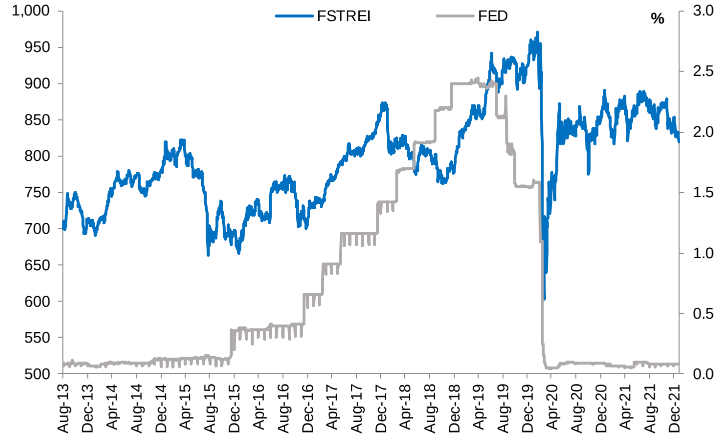
Partly due to the rising inflationary pressure, the US Federal Reserve (US Fed) has clearly signalled that it will begin its tapering measures this year. More central banks in the region will likely follow suit. The 10-year US Treasury yield has already spiked to 1.79% (compared to around 1.1% in Jan 2021) given the expectation of the interest rate direction going forward.

Rising interest rates is generally unfavourable to REITs given the narrowing yield spread. However, we think S-REITs' DPU growth, driven by earnings recovery from the easing of restrictions, should outweigh market concerns on impending rate hikes. Singapore's rising status as an offshore wealth management hub should bode well for the prospects of real estate and real-estate related investments. Based on Bloomberg data, S-REITs still offer one of the highest yields globally.

We also highlight that during the last US interest rate upcycle from 2016-2019, the FTSE REIT Index delivered an absolute return of 31% or 9% pa, supported by consistent economic growth. As long as the economic growth remains intact underpinning positive rental reversion and healthy occupancies – and hence, steady DPU growth – we think S-REITs should continue to perform despite the rate hike expectation.

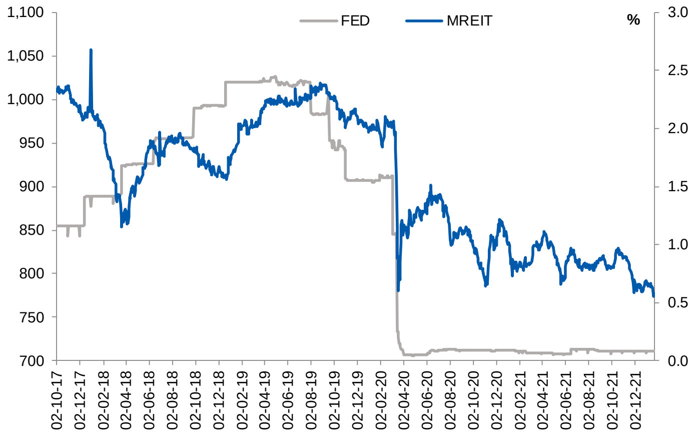
On the other hand, M-REITs, which are largely dominated by the retail segment, may not have a sustainable recovery, in our view. The looming supply of large format retail malls within the Klang Valley should deter rental reversion, while the timing of the next general election may somewhat affect consumer sentiment in 2H22. We, therefore, think that M-REITs may underperform this year, especially given the expectation of interest rate hikes.

Figure 3: Performance of FSTREI and Fed Funds Rate



Source: Bloomberg

Figure 4: Performance of M-REIT and Fed Funds Rate



Source: Bloomberg

REITs are financially stronger today to manage rate hikes ahead

We believe both S-REITs and M-REITs are financially stronger now to cope with the increase in interest rates. Gearing for the sector remains decent, with S-REITs hovering around 37% and M-REITs at 33%, well below the 50% cap for S-REITs and 60% cap for M-REITs (until end of 2022). The larger REITs tend to have better capital management, with a good mix of fixed and floating rate loans. We also expect the upward revision in cost of debt to be more gradual, and hence, impact on REITs' earnings should be more manageable.

Positive on industrial segment over the medium term

We maintain our positive stance on the industrial segment, due to the fast expansion of semiconductor, pharmaceutical, healthcare products and e-commerce industries in the region. Partly due to the pandemic, the global demand for consumer and commercial semiconductor, chips and electronic products and parts have grown tremendously. At the same time, due to the protracted lockdown over the last two years, supply chain bottlenecks have caused a global shortage of semiconductors.

With the Singapore Government spearheading long-term initiatives to transform Singapore into a smart nation, the city state has seen an influx of foreign direct investments (FDIs) over the last two years. Malaysia, too, is receiving some FDIs, but in a smaller scale. Based on the various media reports, few notable investments in the region include:

i. US-based GlobalFoundries will invest US$4bn to expand its wafer plant and ramp up capacity in in Singapore

ii. US-based Micron Technology to invest more than US$150bn globally over the next decade to drive memory manufacturing as well as research and development

iii. Korea-based Simmtech Holdings Inc is setting up its first plant in Malaysia with US$120m investment in Penang

iv. US chip maker Intel Corp will invest US$7bn to expand its manufacturing in advanced semiconductor packaging technology in Penang

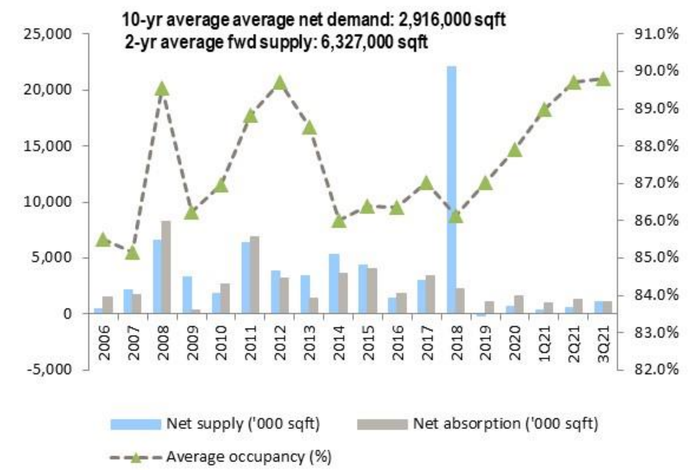
Robust growth in e-commerce, and hence the expansion along the value chain ie storage, fulfilment and logistics, is also driving the demand for warehousing space. Axis REIT has just announced a "greenfield development", whereby the REIT will be constructing a 620,096 sqf distribution centre in Shah Alam, which will be leased to Shopee's logistics arm, Shopee Express Malaysia, for 15 years upon completion. We expect more e-commerce related demand to pick up in the coming years as online shopping continues to gain momentum in South-East Asia.

Figure 5: Notable expansions / new industrial facilities in Penang

Location	Status	Component	Expected Completion	Vendor	Country of Origin	Facility Specialty
Batu Kawan Industrial Park	New facility	18-acre site	1Q2022	Simmtech Holdings Inc.	Korea	Printed Circuit Board (PCB) and packaging substrate
	New facility & expansion	265,000 sq ft factory known as Batu Kawan III (BK III)	1H2022	Greatech Technology Bhd	Malaysia	Machinery and Equipment (M&E)
		265,000 sq ft factory known as Batu Kawan IV (BKIV)	3Q2022			
	New facility & expansion	190,000 sq ft factory known as Hotayi BK2	1H2022	Hotayi Electronic (M) Sdn Bhd	Taiwan	Electronics Manufacturing Services (EMS)
	New facility	2-acre site	2022	QES Group Berhad	Malaysia	High-tech electromechanica contract manufacturing services
	New facility & expansion	500,000 sq ft factory	2023	Pentamaster Corp Bhd	Malaysia	Automation engineering technology solutions provide
	New facility	12-acre site	2022	UWC Bhd	Malaysia	Semiconductor Industry
Seberang Jaya Industrial Park	Expansion	150,000 sq ft new factory & 80,000 sq ft warehouse	2H2021	PIE Industrial Bhd	Malaysia	Electronics Manufacturing Services (EMS)
Bayan Lepas Industrial Park	Expansion	Approx 160,000 sq ft buildings on 6-acre site	2Q2022	NI Malaysia Sdn Bhd	United States	Automated test equipment and virtual instrumentation software
	Expansion	N/A	2024	Intel Electronics (Malaysia) Sdn Bhd	United States	Semiconductor Industry

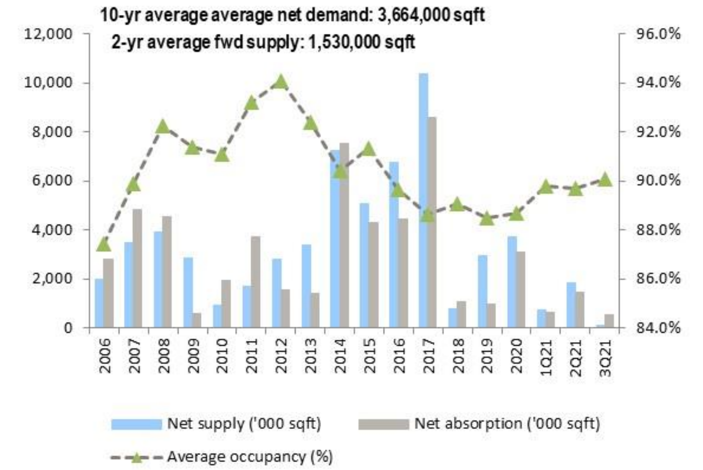
Source: Various media, Bursa Malaysia, Knight Frank Research

Figure 6: Factory net supply and absorption



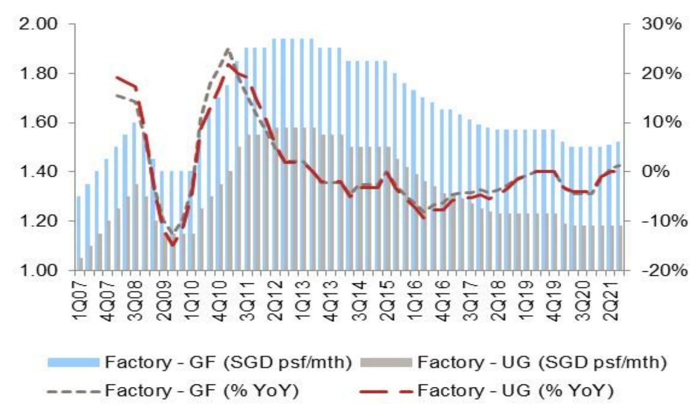
Source: URA,CBRE, RHB

Figure 7: Warehouse net supply and absorption



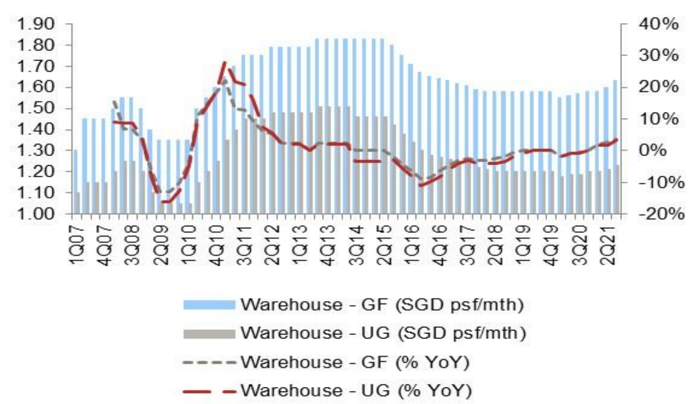
Source: URA, RHB

Figure 8: Factory rental rates



Source: RHB,CBRE

Figure 9: Warehouse rental rates



Source: RHB, CBRE

Office S-REITs and retail M-REITs are good proxies for near-term recovery play

As both Singapore and Malaysia have achieved high vaccination rates and are shifting towards a “living with COVID-19” strategy, we view office S-REITs and retail M-REITs as the best proxy for recovery play. Despite the emergence of the Omicron variant, many countries choose to manage via vaccinations and booster shots instead of lockdowns. The Grade-A office segment in Singapore continued to see positive rental reversion, while anchor retail malls in Malaysia are experiencing healthy recovery in footfall.

Office S-REITs to see net positive impact upon full reopening of economy. The office sector is already seeing downsizing/rightsizing, especially from financial institutions given the increasing preference to work from home (WFH). Major global banks such as Standard Chartered, UBS, Citigroup, Mizuho Bank and HSBC are among the financial institutions that have (partially) adopted this WFH policy. On the other hand, demand for office space by technology firms has increased significantly, largely driven by the fast changing digital trend since the pandemic, as well as the US-China trade tensions over the past few years. Singapore has, therefore, benefited from the expansionary and relocation plans of these Chinese and Western technology firms. Key companies that have announced major hiring and expansion plans in Singapore in the recent years include Google, Facebook, Alibaba, Zoom, Tencent, ByteDance and Tesla.

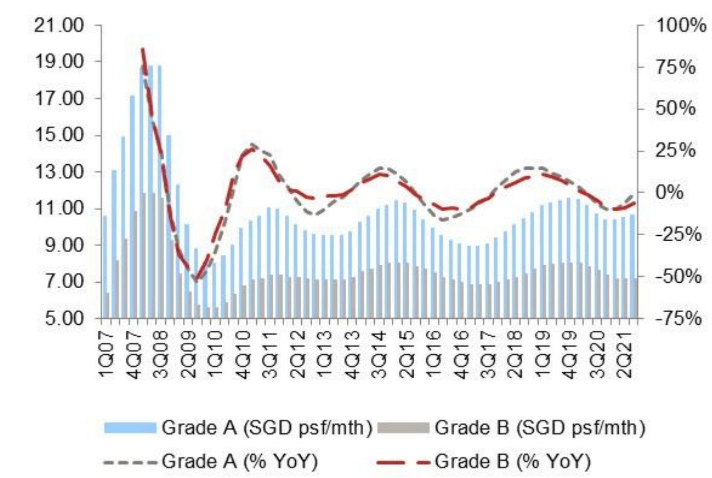
The increasing importance of ESG investing is partly driving the flight to quality trend as well. Singapore, as an international financial hub, has a more matured office market, and hence, the availability of high quality office properties. Demand for Grade-A office space should stay strong. In our view, the Singapore office segment will likely remain a highly sought after investment class for real estate funds/REITs in the region.

Over the near term, the demand-supply dynamics for office space in Singapore is also more favourable. While certain industries are expanding, the supply of office space is expected to be pushed back somewhat, due to construction delays as a result of pandemic-related disruptions. In addition, some supply is being removed due to redevelopment. Given the government incentive schemes, a number of developers are interested to redevelop some older office assets and convert them into integrated development.

Retail M-REITs to see a short-term rebound but growth will likely be muted. Retail sentiment has shown substantial improvement with the relaxation of safety measures and high vaccination rate in Malaysia. Shopper traffic for major shopping malls in the Klang Valley have recovered to around 80% of the pre-pandemic level. However, we do not think this will translate to a significant pick-up in reversion rates. We understand that most of the retail M-REITs have turnover sales that account for less than 10% of their respective topline, which means base rent remains the major component for rental income. We also do not rule out the possibility that rental assistance (perhaps in the form of rebates) continues to be granted this year, but at a lower magnitude.

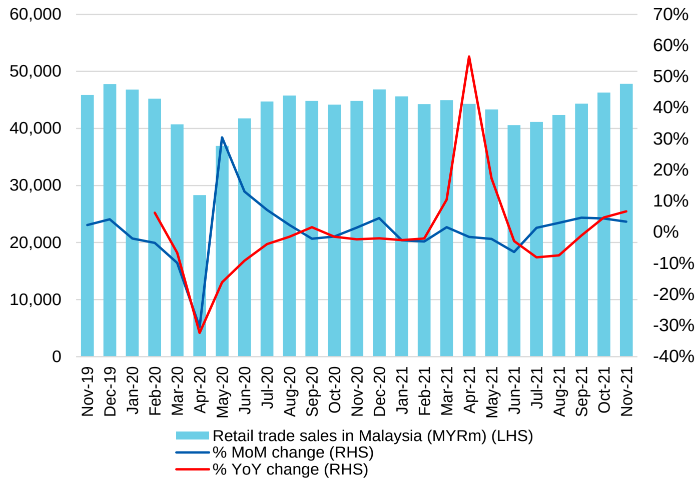
The new supply of retail space this year, specifically within the Klang Valley, may take time to be absorbed as well, especially when we are just seeing a recovery in the retail market. We estimate that the key malls coming to the market will have a total NFA of >4.5m sqf, and these include Mitsui Shopping Park Lalaport, IOI City Mall Phase 2, The Exchange TRX and the KSL Esplanade Mall. Pavilion Bukit Jalil just opened its doors at the end of 2021 (NLA 1.8m sqf). Given the influx of new retail space, we think rental reversion will likely stay flat over the next 1-2 years.

Figure 10: Office rental rates (Grade-A vs Grade-B) in Singapore



Source: RHB, CBRE

Figure 11: Retail trade sales in Malaysia (MYRm)



Source: RHB, DOSM

Acquisition momentum to ease given the expectation of higher interest rates

Inorganic growth may be lacking for the REITs sector this year as we expect the acquisition drive to slow down given higher cost of debt going forward. S-REITs were on a major acquisition spree as players took the opportunity of the lower interest rate cycle over the last two years. The sector registered a record high of 52 transactions worth SGD13.3bn (+33% YoY) last year. As expected, the industrial segment accounted for 61%, followed by office sector's 25%. In the meantime, given the limited pool of good quality assets available in Singapore, and increasing competition that causes less favourable yields and valuations, S-REITs also expanded their presence in overseas, and they are mainly in the developed markets such as the US, Australia, and UK.

Similarly, for M-REITs, we do not expect any major acquisitions ahead, except for the possibility of injecting the new Pavilion Bukit Jalil Mall into Pavilion REIT, which has been announced earlier. Timing is crucial in our view, as the REIT will need to strike a balance between the expected low yield (at the infant stage of the mall) and valuation. At the same time, in view of the impending rate hike, the market may require a higher yield, especially if there is a new issuance of equity to fund the acquisition.

Despite the low interest rates, M-REITs did not have any major acquisitions last year, except for a few new additions of industrial properties for Axis REIT. The industrial segment is expected to gain more traction among M-REIT players, as some mixed commercial M-REITs such as Sunway REIT and CLMT have expressed their intention to include some industrial assets into their respective portfolios over the medium term.

Regional stock picks for REITs

Overall, we prefer S-REITs due to the sector's better growth prospects, driven largely by more sustainable economic recovery. We remain positive on industrial REITs in the region for their earnings resilience, as the technology and semiconductor as well as e-commerce industries continue to grow rapidly. Meanwhile, office S-REITs and retail M-REITs should provide investors with some near-term growth given the rebound in occupancies and shopper traffic, as some workers started returning to office and retail sentiment recovered following the good vaccination progress.

We like Ascendas REIT and ESR REIT in Singapore, as well as Axis REIT in Malaysia. These REITs are the best proxy to ride on the booming industrial sector over the next 1-2 years. For short-term recovery play, we prefer Suntec REIT, which has high exposure to the office sector in Singapore, as well as IGB REIT, which is a retail M-REIT with strong domestic shopper profile. These two REITs should see more encouraging earnings recovery in FY22 as a result of economic reopening.

Figure 12: S-REITs and M-REITs' valuations (under RHB's coverage)

S-REITs	FYE	Price	Target	Mkt Cap	P/E (x)		EPS Growth (%)		P/BV (x)	P/CF(x)	ROE (%)	DY (%)	Rec
		(SGD/s)	(SGD/s)	(SGDm)	FY22F	FY23F	FY22F	FY23F	FY23F	FY22F	FY22F	FY22F	
ARA LOGOS Logistics Trust	Dec	0.84	0.95	1,213	14.2	13.6	(57.5)	4.4	1.3	11.4	9.3	6.7	Take Profit
EC World REIT	Dec	0.73	0.87	591	11.4	11.5	0.3	(0.8)	0.8	7.1	6.7	8.7	Trading Buy
ESR-REIT	Dec	0.44	0.54	1,773	12.6	12.4	(51.7)	1.6	1.1	10.0	8.4	7.3	Buy
Manulife US REIT	Dec	0.64	0.90	1,123	9.4	10.4	33.7	(9.5)	0.9	8.6	9.4	9.1	Buy
Prime US REIT	Dec	0.81	1.04	946	12.4	9.4	23.8	32.4	1.0	8.6	7.9	8.8	Buy
Starhill Global REIT	Jun	0.61	0.68	1,351	13.5	13.1	16.7	3.2	0.7	10.6	5.2	6.3	Buy
Suntec REIT	Dec	1.56	1.77	4,474	14.6	16.4	(37.9)	(11.3)	0.7	17.2	5.1	5.7	Buy
IREIT Global	Dec	0.65	0.74	745	12.0	9.6	24.5	23.9	0.9	10.1	7.2	7.1	Buy
Keppel Pacific Oak US REIT	Dec	0.74	0.92	766	11.4	11.2	(17.7)	1.3	0.9	7.4	7.9	8.8	Buy
Keppel REIT	Dec	1.11	1.29	4,102	13.2	12.1	(16.7)	9.6	0.8	54.6	6.4	5.4	Buy
Ascendas REIT	Dec	2.79	3.60	11,712	20.7	20.2	(2.6)	2.6	1.2	10.0	5.9	5.9	Buy
Capitaland Integrated Commercial Trust	Dec	2.07	2.20	13,680	16.1	15.7	(22.9)	2.3	1.0	16.5	6.2	5.4	Buy
CDL Hospitality Trusts	Dec	1.20	1.25	1,478	16.9	13.5	108.9	24.8	0.9	13.1	5.4	4.7	Neutral
Frasers Centrepoint Trust	Sep	2.30	2.45	3,913	16.9	16.9	17.7	(0.2)	1.0	16.2	5.9	5.5	Neutral
AIMS APAC REIT	Mar	1.43	1.72	1,018	10.4	10.4	22.4	0.1	1.0	9.4	9.8	7.1	Buy
Sector Avg					**16.12**	**15.76**	**(8.24)**	**2.80**					
M-REITs													
IGB REIT	Dec	1.54	1.92	5,506	18.8	16.6	46.3	13.3	1.4	15.4	7.7	5.1	Buy
Pavilion REIT	Dec	1.25	1.48	3,813	18.8	15.5	106.7	21.1	1.0	11.9	5.2	5.4	Buy
Axis REIT	Dec	1.85	2.28	3,024	19.3	18.9	7.6	2.0	1.2	8.1	6.2	5.2	Buy
Sentral REIT	Dec	0.95	1.02	1,013	12.2	12.0	2.8	1.7	0.8	12.6	6.3	8.1	Buy
KLCCP Stapled	Dec	6.42	6.90	11,590	17.8	16.5	1.9	8.2	0.9	21.9	6.0	5.5	Neutral
Sunway REIT	Dec	1.40	1.45	4,795	17.4	16.2	16.8	7.7	0.9	16.8	5.2	5.7	Neutral
CLMT	Dec	0.58	0.50	1,236	27.5	23.4	42.1	17.7	0.5	9.3	1.8	3.7	Sell
Sector Avg					**18.2**	**16.5**	**18.8**	**9.9**					

Note: Data as at 4 Feb 2022

Source: Bloomberg, RHB

S-REITs: A Bumpy Ride Ahead

Overweight

Investment thesis

2022 – a year of opportunities and risks; Keep OVERWEIGHT. S-REITs delivered a modest 6% in total returns in 2021 – impacted by lingering COVID-19-related restrictions. Moving into 2022, S-REITs are well positioned to weather interest rate hikes and should also reap operational benefits from the gradual easing of pandemic-related restrictions. We recommend investors stay selective, and expect large-cap laggard plays and REITs with stock-specific catalysts to outperform.

Key sector catalysts: i) Earnings recovery from the easing of restrictions with sector DPUs are expected to grow by 5-15% in 2022, ii) S-REITs still offer one of the highest yields globally, and the rise in Singapore's status as an offshore wealth management hub is positive for the sector's long-term outlook, and iii) inorganic growth from acquisitions and mergers.

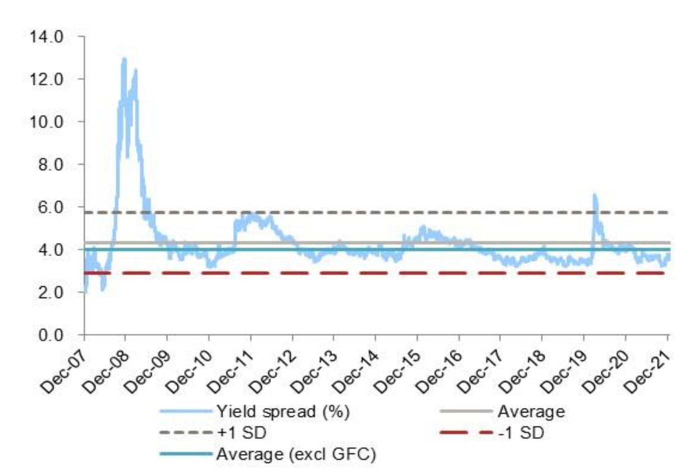
Key risk: Stagflation and interest rate hike. A key market concern has been the impact of impending interest rate hikes. Note: A rising rate environment as such is not necessarily bad for the sector's outlook if it is accompanied by economic growth – this is as earnings growth generally tends to outpace rate hikes. We also note that during the last US interest rate upcycle from Jan 2016 to Aug 2019, the FTSE Real Estate Investment Trust Index delivered an absolute return of 31%, or an annualised 9% return (see chart on right). However, a scenario in which S-REITs are likely to underperform is when central banks are forced to raise interest rates to tame surges in inflation while economic growth stagnates. With regards to COVID-19, we believe we are at the tail-end of its risks, as high vaccination rates, shifts in stances towards treating COVID-19 as endemic, and increased adaptability from landlords/tenants place the sector in a better position.

S-REITs are better prepared to ride an interest rate upcycle. From a balance sheet standpoint, S-REITs are well poised to weather the rate hikes, with sector gearing at 37%, ie well below the regulatory limit of 50%. Nearly 77% of S-REITs debts are hedged, with the sector average interest cover of 5.2x and weighted average debt maturity of 2.8 years.

Industrial and office REITs still our preferred sectors. While office and retail REITs are likely to see short-term outperformances on tactical rotations from the optimism of an economic recovery, we continue to prefer industrial REITs for earnings resilience. While there are some green shoots for hospitality REITs, we still believe we are at least 6-12 months away from a meaningful increase in numbers. Current valuations are also not very cheap. Overall, we recommend investors adopt a barbell strategy with industrial REITs for stable yields, as well as a mix of office and retail REITs to ride on near-term growth.

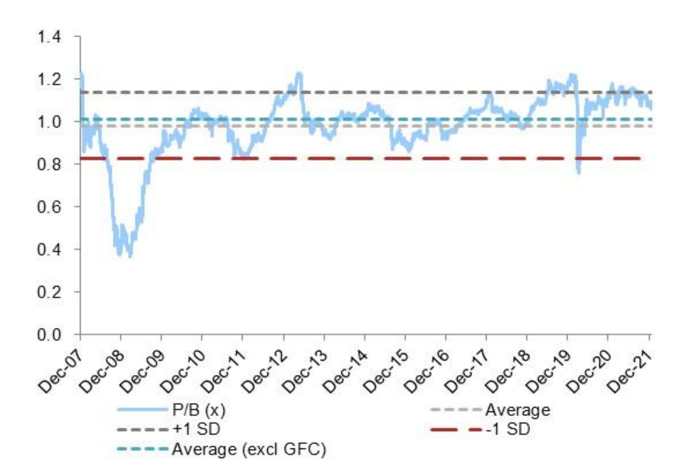
Sector valuations at long-term mean levels. S-REITs' valuation is not stretched, in our view, with the sector trading at an average forward yield of 5.8% – a healthy 400bps premium to Singapore's 10-year treasury despite its recent spike. The sector's average 1x P/BV is also close to its long-term mean. While a spike in government bond yields could narrow yield spreads, we believe there is some buffer and room for dividend upside from a strong economic rebound and relaxation of COVID-19 curbs.

Figure 13: S-REITs' yield spread over government bond yield



Note: Data as at 11 Jan 2022
Source: RHB, Bloomberg

Figure 14: S-REITs' historical P/BV



Note: Data as at 11 Jan 2022
Source: RHB, Bloomberg

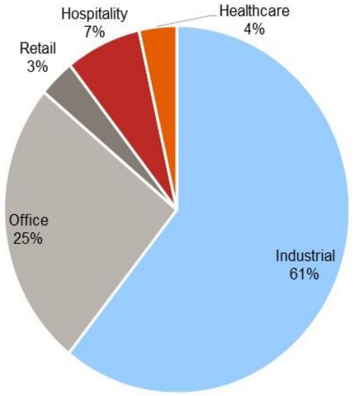
Acquisitions to slow down by 30-40% in 2022 after a banner year. S-REITs announced a record 52 deal purchases in 2021 (Figure 17), with a total acquisition value of SGD13.3bn (+33% YoY) setting a new benchmark. Unsurprisingly, the industrial sector accounted for a bulk 61% followed by the office sector's 25%. In terms of acquisition markets, S-REITs continued to expand their presences overseas, with the Top 3 acquisition markets last year being the US, Australia, and the UK at 27%, 15%, and 13%.

Key factors driving REITs overseas: The limited pool of good quality assets available in Singapore and increasing competition from global funds eg private equity and sovereign wealth funds, family offices, etc – that have pushed asset yields lower. Hence, we see many locally listed REITs drawn to overseas markets that offer better yields and deep liquidity pool, such as Australia, the US, UK, etc.

Additionally, the allure of the freehold nature of overseas assets and longer lease terms seen in many of these international markets also help S-REITs mitigate the lease decay seen for the majority of Singapore assets. They also provide stable income for unitholders.

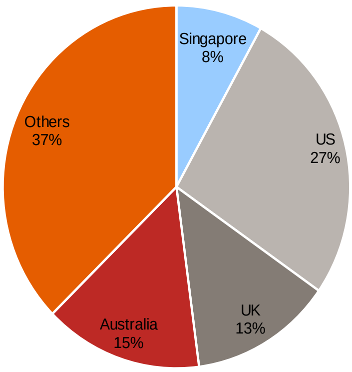
Moving into 2022, we expect the acquisition pace to slow down to SGD8-10bn. Key reasons: An anticipated rise in interest rates and compressed capitalisation rates.

Figure 15: S-REIT acquisition by sector – 2021



Source: RHB

Figure 16: S-REIT acquisition by markets – 2021



Source: RHB

REIT mergers to continue but at a slower pace. REIT mergers continued to thrive in 2021, with two more deals proposed last year:

i. ESR REIT and ARA LOGOS Logistics Trust to combine and form ESR LOGOS Logistics Trust;

ii. Mapletree Commercial Trust and Mapletree North Asia Commercial Trust to merge into a single entity – Mapletree Pan Asia Commercial Trust.

Prior to the above, there have been five successful REIT mergers since 2018. Other potential merger candidates in our view are:

i. Keppel REIT with SPH REIT;

ii. ESR REIT with AIMS APAC REIT in the medium term.

Key reasons driving REIT mergers: The need for size and scale, greater diversification benefits, and low interest rate environment. With greater size and liquidity, REITs stand to get included in many global major real estate indices such as the FTSE/EPRA Nareit Global Real Estate Index that are being closely tracked by an increasing number passive and exchange traded funds or ETFs. This, in turn, helps REITs to fetch better valuations and lower their cost of capital – making it a virtuous cycle. However, with the end nearing for the ultra-low interest rate environment, which has been a key driver of mergers – we expect the pace to slow down.

Figure 17: REITs acquisitions 2022 (excludes mergers, redevelopments, asset enhancements, and divestments)

No.	Announcement date	REIT	Property name	Country	Acquisition costs (SGDm)
1	26-Jan-21	Keppel DC REIT	Amsterdam Data Centre	Netherlands	48.1
2	27-Jan-21	Ascott REIT	Signature West Midtown (student accommodation)	US	126
3	27-Jan-21	AIMS APAC REIT	Sime Darby Business Centre	Singapore	102
4	15-Feb-21	Mapletree Logistics Trust	Five Korean logistic assets	South Korea	335
5	16-Feb-21	Ascendas India Trust	aVance 6, Hyderabad	India	92
6	5-Mar-21	Ascendas India Trust	Mahindra World City, Chennai	India	38
7	17-Mar-21	Ascendas REIT	Eleven Data centres in Europe	UK, Netherland, France, and Switzerland	905
8	17-Mar-21	Mapletree Logistics Trust	Two Logistics asset in Pune	India	84
9	28-Apr-21	IREIT Global	Twenty Seven Retail assets (Decathlon)	France	177
10	29-Apr-21	Alpha Square Kita 15 jo	Rental Housing	Sapporo, Japan	26
11	4-May-21	Ascendas REIT	Galaxis (75% stake)	Singapore	534
12	6-May-21	ESR REIT	46 A Tanjong Penjuru	Singapore	120
13	6-May-21	ESR REIT	10% stake in Australia Logistics Fund	Australia	62
14	20-May-21	Mapletree Industrial Trust	Twenty Nine Data Centres	US	1802
15	24-May-21	Frasers Logistics & Commercial Trust	Five logistic and one business Park in Europe	Germany, Netherlands, and the UK	549
16	28-May-21	Mapletree North Asia Commercial Trust	Hewlett Packard Japan HQ, Tokyo	Japan	475
17	1-Jun-21	Ascott REIT	Three Rental Housing, Sapporo	Japan	85
18	7-Jun-21	Cromwell European REIT	Logistic asset	Czech Republic	16
19	7-Jun-21	Lendlease Commercial REIT	Increase in Jem Stake (26.8%)	Singapore	204
20	16-Jun-21	Ascott REIT	Development of Student accommodation (45% stake)	US	66
21	24-Jun-21	Prime US REIT	Acquisition of San Diego and Florida office asset	US	317
22	30-Jun-21	Suntec REIT	The Minister Building, London	UK	667
23	30-Jun-21	Parkway Life REIT	Nursing home in Fukuoka and Tokyo Prefectures	Japan	49
24	5-Jul-21	Ascendas India Trust	Greenfield data centre investment, Navi Mumbai	India	217
25	9-Jul-21	Mapletree Logistics Trust	Option for 9 Changi South Street 2	Singapore	25
26	26-Jul-21	Keppel DC REIT	Guangdong data centre	China	132
27	28-Jul-21	Keppel Pacific Oak US REIT	Two office asset in Denver and Nashville	US	143
28	4-Aug-21	Cromwell European REIT	Logistics asset	UK	19
29	13-Aug-21	Mapletree Logistics Trust	Logistics assets in Melbourne	Australia	43
30	20-Aug-21	Mapletree Logistics Trust	Ramp-up warehouse in Johor	Malaysia	130
31	31-Aug-21	CDL Hospitality Trust	Forward purchase of build-to-rent property	UK	142
32	6-Sep-21	Keppel DC REIT	Two data centre buildings in De Hurk	Netherlands	60
33	9-Sep-21	Ascott REIT	Student accommodation, Texas	US	94
34	24-Sep-21	IREIT Global	Parc Cugat, Barcelona	Spain	43
35	30-Sep-21	AIMS APAC REIT	Woolworths headquarters, Sydney	Australia	454
36	5-Oct-21	United Hampshire REIT	Two Grocery Anchored assets	US	106
37	12-Oct-21	CapitaLand China Trust	Four prime logistic assets	China	351
38	15-Oct-21	Keppel DC REIT	M1's network assets	Singapore	90
39	20-Oct-21	Mapletree Logistics Trust	Ramp-up Logistic asset	South Korea	154
40	22-Oct-21	Ascendas REIT	11 logistics assets in Kansas	US	208
41	1-Nov-21	Ascott REIT	Student accommodation, Illinois	US	112
42	1-Nov-21	Cromwell European REIT	Logistic asset in Mira, Venice	Italy	31
43	23-Nov-21	Mapletree Logistics Trust	Logistics portfolio	Japan, China, and Vietnam	1416
44	30-Nov-21	Manulife US REIT	Office properties in Phoenix and Portland	US	276
45	30-Nov-21	Keppel REIT	Office development asset in North Sydney	Australia	322
46	1-Dec-21	Frasers Logistics and Commercial Trust	Prime warehouse development	UK	52
47	3-Dec-21	CapitaLand Integrated Commercial Trust	Two office assets in Sydney	Australia	672
48	8-Dec-21	First REIT	12 nursing homes	Japan	291
49	10-Dec-21	Parkway Life REIT	Nursing home in Greater Tokyo	Japan	38
50	23-Dec-21	CapitaLand Integrated Commercial Trust	101-103 Miller Street	Australia	409
51	27-Dec-21	Keppel DC REIT	DC in Bracknell, Greater London	UK	106
52	27-Dec-21	Ascott REIT	Four student accommodation assets	US	291
			Total		**13,305**

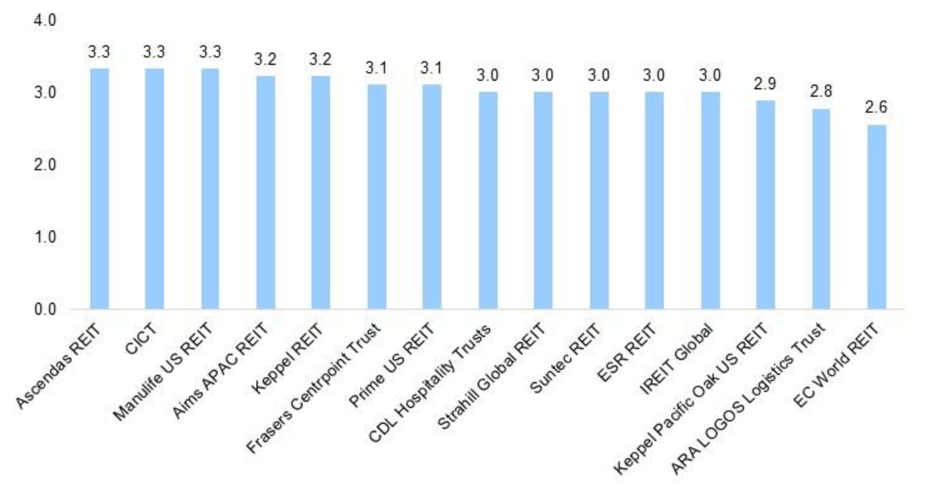
Source: Respective companies, RHB

SGX to continue its dominance as an international REIT hub. After a lull in 9M21, the SGX saw two new overseas REIT listings in 4Q21 – Daiwa House Logistics Trust with an initial portfolio of SGD953m in logistics assets in Japan and Digital Core REIT, which has an initial portfolio of USD1.4bn data centre assets in the US. We understand that there is currently a pipeline of 3-4 more REITs with overseas assets in the logistics, commercial, and student accommodation segment that are anticipating listings in 1H22. The allure of Singapore's strong regulatory regime, stable political environment, and continued rise as a global wealth management hub will continue to draw more overseas-focused REITs to list in here, in our view, making the country one of the major international REIT hub regimes in the next decade.

S-REITs' ESG focus accelerating in pace and is a long-term positive. In our recently published ESG report (ESG: The New Way Forward For Singapore Equities), we have analysed and scored S-REITs under our coverage based on their ESG performances. Our study shows that most of the REITs have been pioneers and are sharpening their focus on ESG metrics over the last few years. All the REITs have put in place environmental targets to reduce greenhouse gas emissions, and energy and water usage, with the larger REITs taking an active lead in the region towards achieving net zero emissions by 2050.

On the social front, S-REITs have been taking active steps to engage with their tenants to tide through COVID-19 challenges by cleaning and sanitising the premises, and putting in place WFH arrangements to protect stakeholder wellness. While there is still room for improvement on the governance aspect, some of the recent corporate governance lapses by REITs have resulted in a further strengthening of the corporate governance criteria for S-REITs. In addition, REITs have been actively tapping into green financing and have raised more than SGD3bn in green finance loans since the start of 2020.

Figure 18: ESG scores for REITs under our coverage



Source: RHB

Sector Outlook

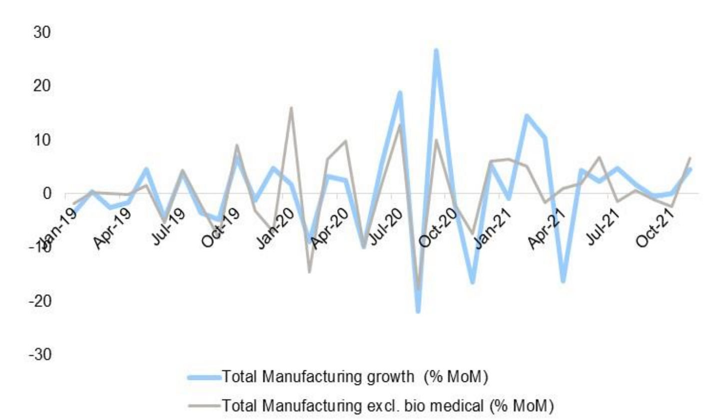
Industrial – growing from strength to strength

All industrial indicators are moving in the right direction. Singapore's manufacturing output rose 14.6% YoY in Nov 2021 and grew 12.4% YoY – excluding the volatile biomedical manufacturing segment. On a 3-month moving average basis, manufacturing output rose 9.1% in Nov 2021 vs the prior year.

All clusters recorded output growth, with the biggest growth coming from transport engineering (+31%), biomedical manufacturing (+20%), and precision engineering (+14%). Similarly, Dec 2021's non-oil domestic exports (NODX) rose 18.4% YoY for the 13th straight month – surpassing market expectations and supported by both the electronics and non-electronics segments.

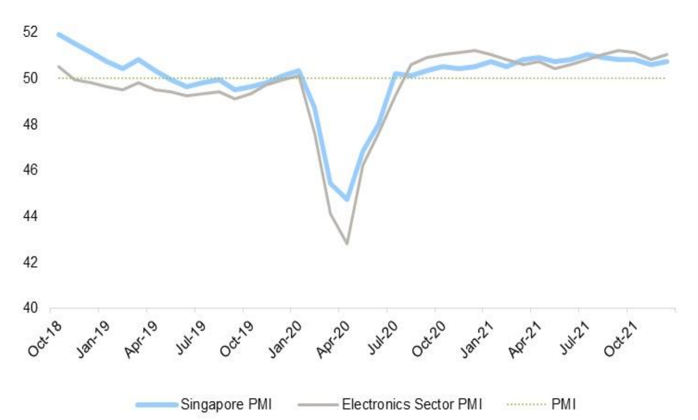
Manufacturing sentiment – as marked by the Purchasing Managers' Index (PMI) for Dec 2021 – stood at 50.7, up slightly from Nov 2021's print of 50.6, and marking the 18th consecutive month of expansion. Electronics PMI rose faster with a Dec 2021 reading of 51.0 from 50.8. Faster expansion rates were observed for new orders, new export orders, production, inventory, and employment PMI. Our economists expect PMI for manufacturing to remain in expansionary territory on average in 1H22, given the ongoing global shortage of semiconductors and strong demand for semiconductor-related output.

Figure 19: Manufacturing sector growth



Source: JTC Corp

Figure 20: Singapore's PMI data



Source: Singapore Institute of Purchasing & Materials Management

Target to grow manufacturing sector by 50% in the coming decade. In early 2021, the Singapore Government announced a 10-year plan to grow the manufacturing sector by 50% and maintain its share of about 20% of GDP. The Government has also been supporting businesses in its efforts to transition Singapore towards advanced manufacturing, the adoption of new technologies, and upskilling the workforce to overcome operational constraints amidst the pandemic. With regards to this, the Government has made a SGD25bn financial commitment towards advanced manufacturing in its Research, Innovation, and Enterprise 2025 plan or RIE2025.

Among the key infrastructure initiatives include developing the Jurong Innovation District – a 1-stop hub where manufacturers can gather to share ideas, innovate, and create by co-locating different parts of the manufacturing process within the same space. Other initiatives manufacturers have rolled out, include cross-training existing workers to help them transition into different roles, doubling down on the digitalisation of operations from warehousing to invoicing, and automating production lines to cope with fluctuations in demand.

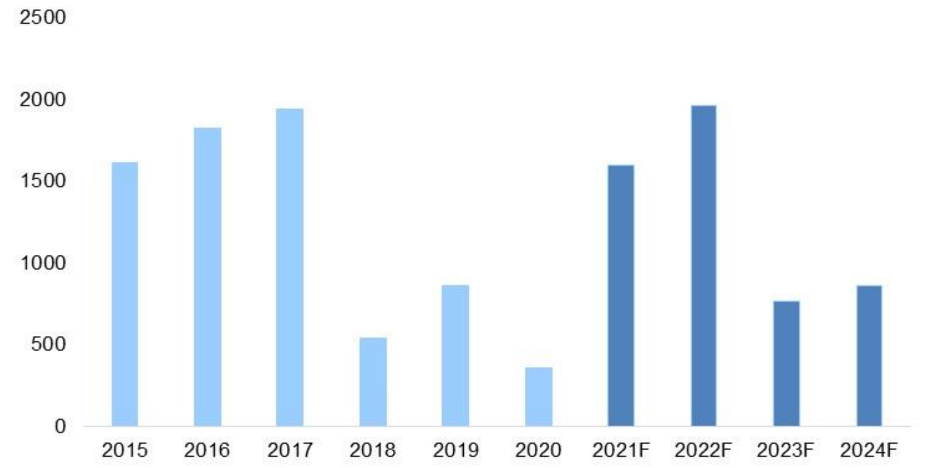
High industrial supply concentrated in factory space; delays likely to persist. As of 3Q21, there is 50.7m sqm of industrial space, based on JTC Corp's (JTC) latest industrial data. For the rest of 2021, an estimated 0.9m sqm of industrial space is expected to be completed.

About 45% of this supply is single-use factory space, typically developed by industrialists for their own use, and hence, is not a direct competition to market. Multiple-user factory supply accounts for another 35%, with warehouse and business park spaces accounting for the remaining 16%.

JTC's report, however, adds that delays in completion continue to persist, with only c.50% of initial expected industrial spaces coming on stream this year. The construction delays are mainly from manpower shortages faced by the sector, coupled with supply chain bottlenecks. We expect such delays in construction to persist until 2023 – at least until the COVID-19 situation normalises and backlogs are cleared.

Hence, although an additional 2m sqm of industrial space (81% of JTC's factory supply) is expected to be completed in 2022, we expect actual completions to fall well short of this figure, as manpower shortages continue to plague the construction sector.

Figure 21: Industrial supply (historical and upcoming) in sqm



Source: JTC

Industrial rent continues to inch up. 3Q21 industrial rent continues to rebound, with the overall index inching up 0.7% QoQ and 1.9% YoY – rent growth was seen across all four segments. Overall occupancy for the industrial sector remained steady QoQ at 90.1%, with the multiple user factory and warehouse segments gaining occupancy while business parks and single-user factory spaces saw slight declines.

For 2022, we expect industrial occupancy rates to remain flattish, while rents are likely to grow by 0-3%, with logistics, selective high-tech, and business parks continuing to outperform.

Figure 22: JTC All Industrial Rental Index

Source: JTC

Figure 23: All industrial occupancy rate

Source: JTC

We prefer REITs with exposure to logistics, high tech, and good quality business parks, as these sectors continue to benefit from changing market dynamics brought about by COVID-19 and the Government's longer-term push to transform Singapore into a smart nation. For stock picks, we like Ascendas REIT (as we see it as a laggard play), ESR REIT and AIMS APAC REIT, which are trading at attractive, over 6% yields, and have exposure to favourable logistics, business park and high-end segments.

Office – the best proxy for economic reopening

Grade-A rents up 4.2% in 2021; net demand turns positive. Based on JLL's latest report, central business district (CBD) Grade-A offices' 4Q rents grew at their fastest pace (+1.8% QoQ) in 11 quarters – with a full-year growth of 4.2% for 2021. According to JLL, this comes on the back of strengthening leasing activity since 1Q21, led by increased office occupiers' confidence due to better economic growth, as well as slowing business cessation and downsizing.

Meanwhile, CBRE pointed out in its latest report that 2021 ended on a positive sentiment for the office sector, with a net office absorption of 0.34m sq ft in 4Q21 – the highest since 4Q19. CBRE said vacancy rates at Grade-A CBD offices improved 1ppt to 4.5% in 4Q21 from 5.5% in 3Q21, as the technology and non-bank financial sectors more than offset the downsizing activity due to hybrid work arrangements.

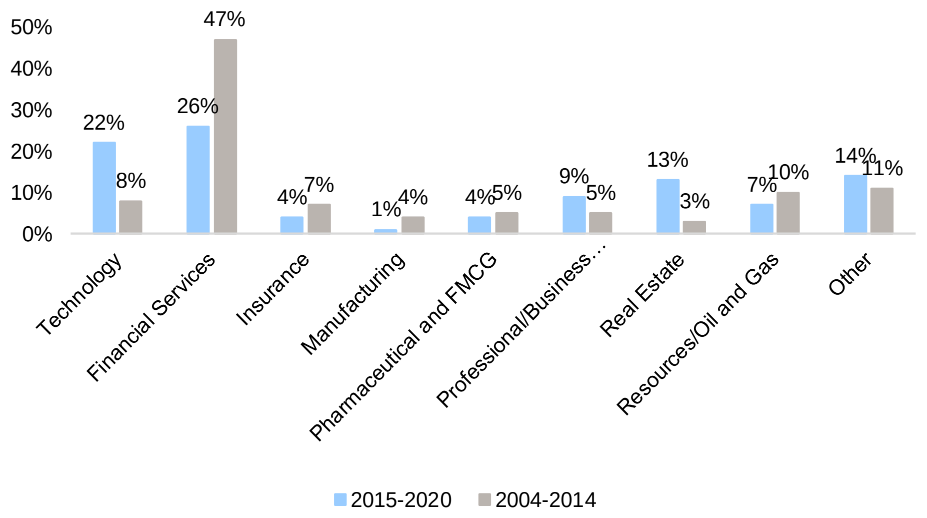
Singapore to see net positive impact upon a full re-opening of the economy. As highlighted in our regional office thematic report (Workspace: Today, In Transition, Tomorrow) the office sector in Singapore is already seeing downsizing/rightsizing – mainly the financial institutions. However, we believe this will be – for the most part – a one-off exercise. We expect the sector to remain solid, given the availability of high-quality office spaces in the city state and the country's strong position as an international financial hub – on top of efforts to attract top technology companies and talent.

As such, the impact of downsizing should be limited, and given the well-controlled supply of office spaces here, the potential drop in occupancy rates will be absorbed by new demand rather quickly, in our view.

Based on our discussions with REIT managers, the reduction in demand from financial institutions is estimated at 10-30%, partly due to increasing preference for WFH, as well as the economic impact brought about by the pandemic. Major global banks such as Standard Chartered, UBS, Citigroup, Mizuho Bank, and HSBC are among the financial institutions that have undertaken rightsizing exercises.

However, the demand for office space by technology firms has risen significantly, partly boosted by the changing digital trends during the pandemic, as well as US-China trade tensions over the past few years. As a result, many Chinese and western technology firms have established and expanded their presence in Singapore. Key technology companies that have announced major hiring and expansion plans here include Google, Facebook, Alibaba, Zoom, Tencent, ByteDance, and Tesla.

Figure 24: Singapore offices' changing tenant profile mix (percentage of office space leased in new buildings by tenant industry)



Source: JLL

Flight to quality to continue in 2022. The need for quality and well-designed work places surrounded by amenities are likely to amplify trends of flight to quality post-COVID-19. Already, signs are visible from the relative resilience of the Grade-A (core CBD) market in 2020, which registered a positive net absorption of 0.5m sq ft, while the Grade-B (island-wide) market witnessed a reduction in occupied office stock of 0.8m sq ft, based on CBRE data.

According to Colliers Research, the rental gap between Grade-A and Grade-B offices in the CBD has been widening in recent years. Grade-B rents were around 19% lower than Grade-A rents in 3Q21, when compared with a gap of around 12% in 2015. We expect this trend to continue into 2022 with a 2-tier demand, as tenants continue to focus on aspects of employee wellness, sustainability, as well office prime location, which will be the key pull factors for employees to return to office.

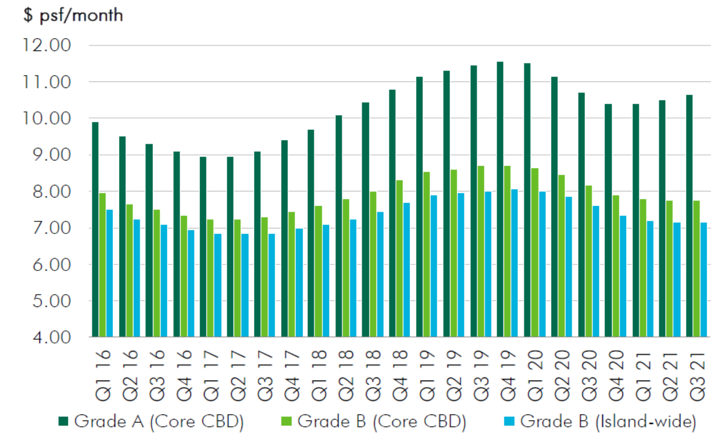
Moderate supply and removal of office space for redevelopment buffers overall impact. According to CBRE, three office projects are expected to be completed in 2022, of which, two are in the CBD fringe (Hub Synergy Point and Guoco Midtown), one is in the decentralised submarket (Rochester Commons) – there are none in the core CBD. The limited supply of Grade-A CBD offices should continue to support occupancy and rents in 2022.

Many developers have also shown interest in redeveloping older office assets – eg Maxwell House, Fuji Xerox Towers, AXA Tower, Shaw Towers – by tapping into government incentive schemes and converting these assets into integrated developments. This is likely to add to displaced demand for office space.

We also expect some of the office supply to be pushed back due to construction delays. Delays in project completion due to pandemic-related disruptions, coupled with stock withdrawals for redevelopment, have kept supply tight.

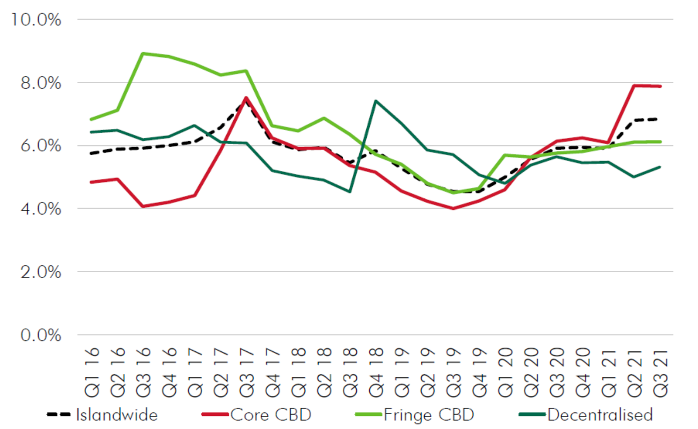
Grade-A office rents to rise 3-8% in 2022, while Grade-B office rents are expected to increase by 1-3%. Grade-A CBD office occupancy is expected to remain high, in the 95-96% range, while Grade-B office occupancy should remain in the 90-92% range.

Figure 25: Office rental rate trend



Source: CBRE

Figure 26: Office vacancy rate trend



Source: CBRE

Office REITs a strong proxy to economic reopening; Top Pick: Suntec REIT. Among all sub-sectors, we see the office segment as the best alpha play on an economic reopening. While COVID-19 has accelerated the WFH/flexible office trends in some sectors (especially for financial services), we believe there are sufficient counterpoints to mitigate this.

The key factors for tenants selecting an office space would be more about the quality of the space itself, with employee wellness and ability to collaborate possibly being the top priorities. Flexibility and attention to sustainability are the other key considerations both landlord and tenants are likely to keep in mind.

Our key Singapore office sector picks – Suntec REIT and Keppel REIT – are well positioned to ride on this trend, given their high-quality Grade-A assets and constant attention to adapting to changes in market trends. Valuations for the REITs are also attractive, with Suntec REIT and Keppel REIT trading at a 30% and 20% discount to book value, and yields of c.6% each.

Retail – pent-up demand to boost sales; long-term outlook still challenging

Retail sales remain lukewarm… Retail sales (Nov 2021) rose 1.9% YoY and 7.5% MoM. On a seasonally adjusted MoM basis, retail sales rose by 2.5% from 0.7% in Oct 2021. Nonetheless, Cushman & Wakefield or C&W noted that total retail sales remained 6.2% below pre-pandemic (2019) levels, with the worst-hit sectors such as the food & alcohol (-39.8%); department stores (-36.0%); and cosmetics, toiletries & medical goods (-26.3%) segments performing below pre-pandemic levels.

On the other hand, the computer & telecommunications equipment (28.3%), supermarkets & hypermarkets (27.4%), furniture & household equipment (13.6%), and recreational goods (7.9%) segments have surpassed pre-pandemic sales levels.

…but 2022 is shaping up to be a better year with the release of some pent-up demand. With Singapore having shifted to an endemic strategy since 4Q21, the Government has been calibrating and gradually easing restrictions – with a promise of tightening or a roll-back only as a last resort. The move is also well supported by the country having one of the highest vaccination rates globally, at c.91% of the eligible population fully vaccinated as of 15 Jan.

The shift in the government strategy so far is evident in the current Omicron outbreak, where the Government has largely maintained current restrictions of allowing five people to dine-in per table, as well as mall capacity limits. In addition, since the start of the year, up to 50% of employees have been allowed to return to offices, from the previous WFH scenario as the default arrangement. This is positive particularly for downtown malls, which have suffered the brunt of COVID-19's impact. This, coupled with the gradual easing of border restrictions, with more visitor arrivals anticipated in 2H22, bodes well for a short-term bounce in the sector.

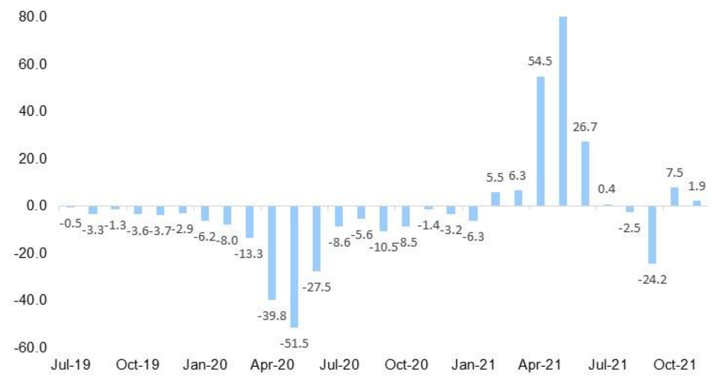
However, tenant sales recovery remains uneven... Based on our discussions with retail REITs, overall tenant sales at malls are still 0-30% below pre-COVID-19 levels, with suburban malls being more resilient. We expect tenant sales to see a gradual recovery in 2022, with overall tenant sales to return to 90-100% of pre-COVID-19 levels. This is because we anticipate some release of pent up demand later this year, and additional support from the tourist influx.

However, the recovery in retail sales has been uneven across trade sectors, with supermarkets, sporting goods stores, and certain F&B and wellness segments faring much better than the rest. This uneven recovery, in our view, is likely to pose challenges for landlords in terms of curating the mall tenant mix – and may result in higher vacancies and lower rental rates.

…with e-commerce turning out to be more than sticky. The proportion of online sales as a percentage of the total has remained in double digits, compared to pre-COVID-19 mid-single-digit levels. Nov 2021 online sales (excluding motor vehicles) rose to 19.3% of total sales – the highest since Jun 2020, when a complete lockdown was in place. The higher figures were also due to the increase of online shopping events such as Singles' Day (11.11) and Black Friday during the month.

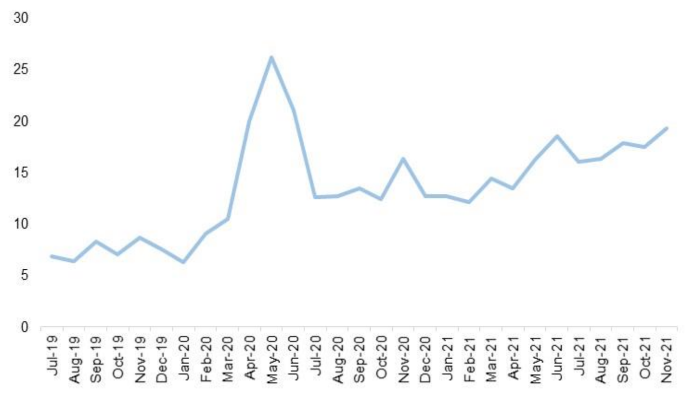
Among the sectors that accounted for significant online sales were computer & telecommunications equipment, furniture & household equipment, and supermarkets & hypermarkets industries, which made up 55.6%, 34.2%, and 16.1% of the total sales of their respective industries. We expect online sales to remain elevated at 10-20% of total sales and continue to pose a threat to physical demand from retailers.

Figure 27: Retail sales value YoY (%)



Source: SingStat

Figure 28: Online sales as a percentage of total sales



Source: SingStat

The impending GST hike could slow down discretionary spending. Singapore is on track to raise its GST from 7% to 9%, with the Government indicating that this is likely to be announced in the upcoming budget (Feb 2022). We believe this could result in a surge in some big ticket spending in 1Q22 before the hike kicks in, followed by a slowdown in discretionary spending in 2Q22-3Q22. The overall impact on retail sales, however, is expected to be cushioned by additional support from the Government during the transition period (likely 1-3 years), and an increase in spending from higher visitor arrivals.

Limited supply offers some respite. Based on CBRE data, c.1.3m sqf or c.0.4m sqf pa of retail supply is expected to hit the market between 2022 and 2024, significantly lower than the 10-year historical average of 0.7m sqf. The bulk of this supply (c.80%) will be in the ex-central region and fringe sub-markets. Key new retail supply this year will be the opening of Sengkang Grand mall (c.109,000sqf) and redeveloped Shaw Plaza Balestier (c.67,500 sqf).

Landlords to focus on occupancy at the expense of rents. Based on the latest CBRE data, island-wide retail rents fell by 2.2% YoY in 4Q, with a 3.9% decline in Orchard rents and 2% rise in suburban rents for 2021. This indicates that the pace of rental decline has been slowing down, and is stabilising. Urban Redevelopment Authority or URA data also shows that island-wide retail occupancy improved QoQ in 2021, and currently stands at 91.1%.

For 2022, we expect landlords to remain focused on maintaining high occupancy in malls and remaining flexible on rents. Overall, we expect the island-wide vacancy to remain stable at 8-9% this year. In terms of retail rents, we expect overall rents to decline by 0-3%, with suburban mall rents holding up 0-3%, and downtown and Orchard malls easing -1% to -10%.

Rent rebates to ease off. Based on our checks with retail REITs, rental rebates continue to be on a downward trend – with only a small portion of tenants receiving targeted rent relief. Instead, we see landlords engaging in more marketing activities and ramping up their digital channels to boost sales.

We expect this trend to continue, with rent relief for 2022 to be insignificant – at less than 1% – with more budget targeted at boosting online app capabilities and marketing activities.

The sector could benefit from near-term rotation; prefer suburban malls on dips. Overall, we maintain our cautious outlook on the retail sector. While the sector plays are likely to see a short-term bounce on the back of economic recovery and easing restrictions, the mid- to long-term outlook continues to be challenging, with suburban malls and malls catering to necessity spending outshining the high-end ones.

Frasers Centrepoint Trust remains our preferred suburban retail mall pick. We also like Starhill Global REIT on valuation grounds, with the stock trading at a deep discount of 0.7x P/BV vis-à-vis peers' >1x P/BV.

Hospitality – expecting a slow recovery; near-term optimism priced in

2022 visitor arrivals to remain 70-80% below pre-COVID-19 levels... Hospitality sector recovery has been slower than anticipated, despite improving vaccination rates globally, as the resurgence of new COVID-19 variants has resulted in a more cautious stance to border openings in Singapore and globally. Visitor arrivals to the island republic (2021) stood at a paltry 0.33m (-88% YoY) and at just 2% of pre-COVID-19 levels, although there has been an uptick from Nov 2021 with the setting up of the Vaccinated Travel Lanes (VTLs).

VTLs are a step in the right direction and offer promise, but limited capacity levels currently in place point to a slow and gradual recovery of the sector. Hence, we expect any meaningful recovery to visitor arrivals to be seen only in 2023.

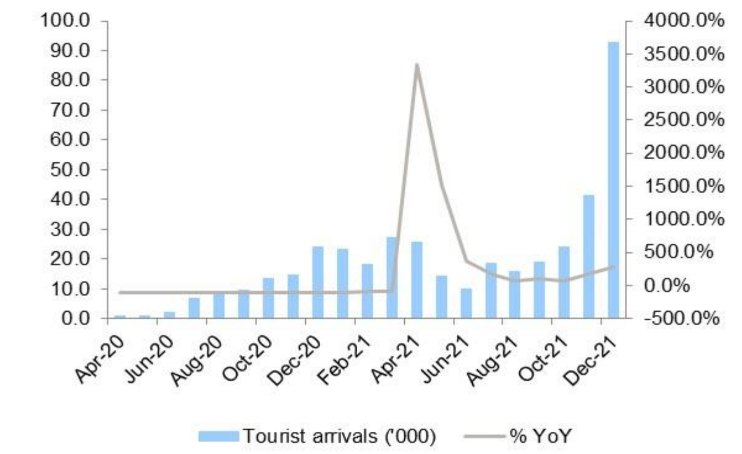
For 2022, we expect a muted 1H, with numbers to slowly pick up in 2H, from the gradual easing of border restrictions. Overall visitor arrivals for 2022 are, therefore, still expected to be 70-80% below pre-COVID-19 levels at 4-6m for the full year (2019: 19m).

…with government support expected to taper off, presenting near-term challenges. The overall impact to Singapore's hospitality sector has been well cushioned by government contracts for the Stay Home Notice (SHN) and quarantine business. This has helped most of the hoteliers to maintain high occupancy levels at the expense of room rates.

Government support has also ensured that hospitality players in Singapore were able to ride out the COVID-19 crisis fairly well, as seen by the lack of any distressed asset sales in the sector.

In addition, government incentives to boost domestic tourism, through the SingapoRediscovers Vouchers or SRV scheme has also helped in boosting hotel occupancy and revenue per available room or RevPAR to reach the highest levels in Nov 2021 at 75.6% and SGD133.00. However, with the easing of government support and expected reduction in SHN contracts, a key near-term challenge for Singapore's hospitality sector in 2022 would be the intermittent transition period before tourist arrivals stage a strong recovery.

Figure 29: Visitor arrivals since the onset of COVID-19



Source: SingStat

Figure 30: Singapore hotels' monthly occupancy and rates

Source: SingStat

Neutral on hospitality sector as valuations are not cheap. Hospitality sector REITs are trading at 0.9x P/BV and closer to the long-term (5-year) average 1x P/BV – which indicates that near-term optimism from the VTL has been priced in. As such, hospitality stocks should be more range-bound in the near term, with a possible second leg of recovery in 2H22, closer to the resumption of a full border reopening – which we expect only in 2023.

Overseas REITS: US office REITs recovery delayed, but not derailed

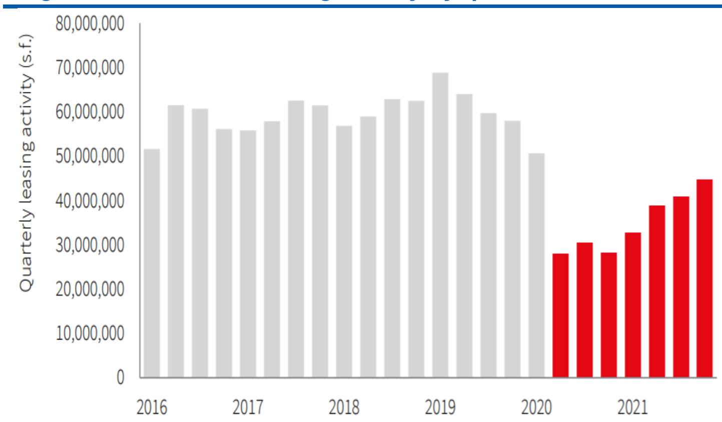
Among overseas S-REITs under our coverage, we see US office S-REITs as the prime beneficiary of the economic reopening – although this has been slightly pushed back due to the surge in Omicron variant cases in the US. However, the slow but steady increase in vaccination rates (including booster doses), along with the steady improvements in labour and economic data, augur well for 2022 GDP outlook and growth. The International Monetary Fund expects US GDP to grow by 5.2% in 2022 after a solid 6% rebound in 2021.

US office sector showing positive signs despite uncertainties… JLL, in its latest office sector outlook report (Jan 2022), noted that the office market has moved into positive territory (4Q21) for the first time since the onset of COVID-19, with positive net absorption of 5.4m sqf of office space. The report also adds that leasing velocity (4Q21) increased by 9.2%, lifting full-year leasing volume to 14.6% above 2020 levels, while the sub-lease space stabilised and vacancy plateaued.

The technology sector remained the dominant leasing driver for 2021, accounting for 21% of 4Q21 leasing activity. Other notable sectors include finance, law firms, and insurance tenants signing above 1m sqf each in 4Q21, while life sciences outperformed once again and became the sixth-largest industry by deal volume.

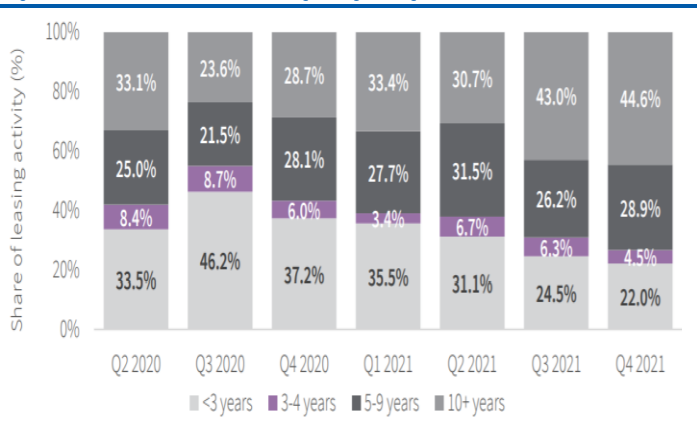
…with Sun Belt markets leading the way. In terms of markets, JLL notes that Sun Belt markets such as Atlanta, Austin, Charlotte, Dallas, Miami, Nashville, Phoenix, and Raleigh led activity, with many of these markets approaching pre-pandemic levels of leasing volumes, while larger gateway cities continued to lag. There has also been a notable increase in flight to quality, with newer and modern office buildings seeing an increase in occupancy. Another key observation was that more tenants were signing leases longer than 10 years (44.6%) – a sign of a return of confidence (Figure 32).

Figure 31: US office leasing activity by quarter



Source: JLL report (Jan 2022)

Figure 32: More tenants signing longer leases

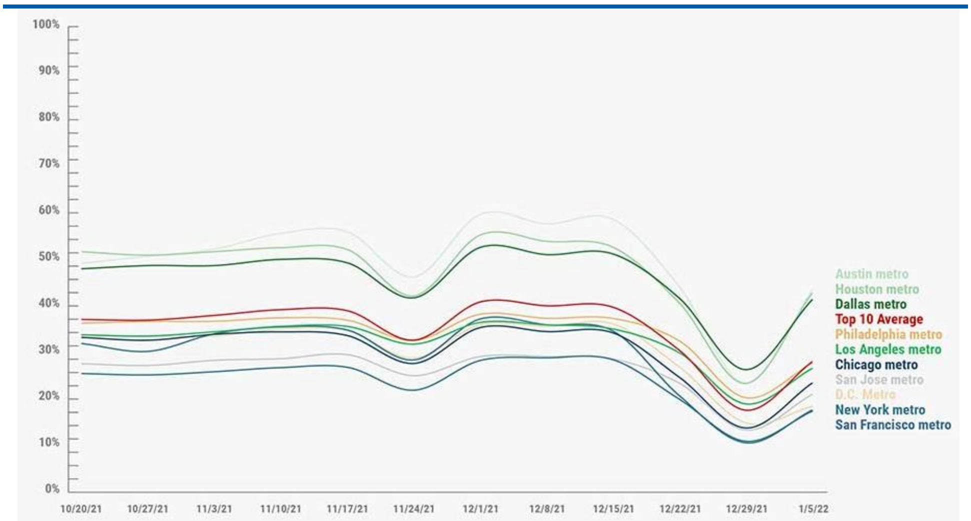


Source: JLL report (Jan 2022)

Physical occupancy slowly rebounding from Dec 2021 lows. Based on the Kastle Back to Work barometer, about 28% of workers have returned to offices in the first week of the year, from c.18% at end Dec 2021. Unsurprisingly, Texas led the pack (Figure 33), and we expect more people to return to offices by 2Q22 as the COVID-19 peak passes through.

While the longer-term office demand impact from WFH trends remains unclear at this juncture, most surveys show that employees and employers expect to return to the office for 2-3 days per week post COVID-19 – indicating a continued use of the hybrid work model.

Figure 33: Kastle's physical office occupancy trends



Source: Kastle

US office REITs trading at attractive yields and valuations. Prime US REIT is our Top BUY, followed by Keppel Pacific Oak US REIT and Manulife US REIT. The three listed US office S-REITs also have a relatively long weighted lease average expiry or WALE of 4-6 years and limited lease expiries (below 15%) in 2022, along with a diversified market presence and tenant base, as well as good quality assets.

In addition, rental for US office REITs assets are mostly in line or below market rates, with minimal tenant concentration risks. All three REITs are also trading at attractive valuations close to their book values, and offering high 8% yields, which we find highly attractive in the current market conditions.

M-REITs: Err On The Side Of Caution **Neutral**

Investment thesis

We are cautiously optimistic on the prospects of a recovery in the retail sub-sector, in view of the pick-up in foot traffic and tenant sales, post relaxation of movement restrictions. However, we remain cognisant of the underlying oversupply situation – a medium-term overhang factor that may lead to soft reversion rates ahead. Due to the expectation of an interest rate hike in 2H22, sentiment on M-REITs as a yield play should be lacklustre. As such, we remain NEUTRAL on the sector.

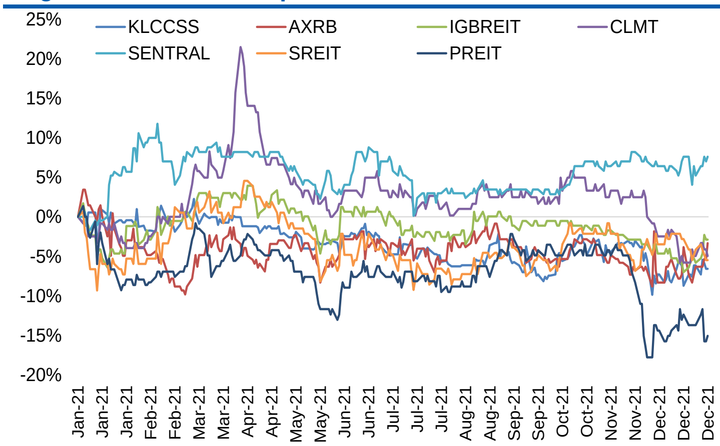
Light at the end of the tunnel… We expect the sector to book stronger earnings QoQ in 4Q21. Our intermittent ground checks since Phase 2 of the National Recovery Plan (NRP) point to an encouraging pick-up in foot traffic. This is especially the case for the prime malls of retail REITs under our coverage – ie Mid Valley Megamall, Suria KLCC, Pavilion Kuala Lumpur – which enjoyed a further boost due to the year-end festive season. REIT managers have shared that 4Q21 tenant sales were robust, while the Department of Statistics Malaysia's (DOSM) recent Wholesale & Retail Trade report showed a 6.7% YoY and 3.4% MoM growth in retail trade for Nov 2021. While we view positively the high vaccination rates and Malaysia's improved preparedness in handling COVID-19 infections (vs the situation in 2020), we remain cautious on the prospects of a sustained recovery for the sub-sector.

…and back to the oversupply scene. Reversion rates of the prime shopping malls are not likely to return to healthy pre-pandemic levels of c.5%, given the still-tough operating environment for retail players, which are mostly prioritising survival over exponential growth at the moment. Rental assistance is likely to stay put this year, albeit at a smaller quantum as the tenant drop-out risk is still high, against the backdrop of a supply glut in the retail space. We expect new shopping malls with a total net floor area of >4.5m sqf to be completed and/or opened this year, with the key malls in the Klang Valley being Mitsui Shopping Park Lalaport, IOI City Mall Phase 2, The Exchange TRX, and KL Esplanade Mall. We believe that rental reversion for malls will remain flattish going into 2022, as malls endeavour to maintain competitive rental rates to retain tenants.

Yield play to remain unappealing. The US and Malaysian 10-year bond yields rose by c.0.6ppts and 0.9ppts in 2021, resulting in a spread between M-REITs and Malaysian bonds of c.40bps (well below -2SD from the historical mean). With the US Fed's recent hawkish pivot towards higher interest rates and our economists' expectation of a 25bps rate hike in 2H22, we believe the yield spread will remain at unattractive levels. That said, investor sentiment should be soft – mitigating the upside in capital appreciation that would move in tandem with an earnings recovery. This is as M-REITS offer a less appealing avenue for yield play. At this time, yields for the REITs under our coverage average at c.4%.

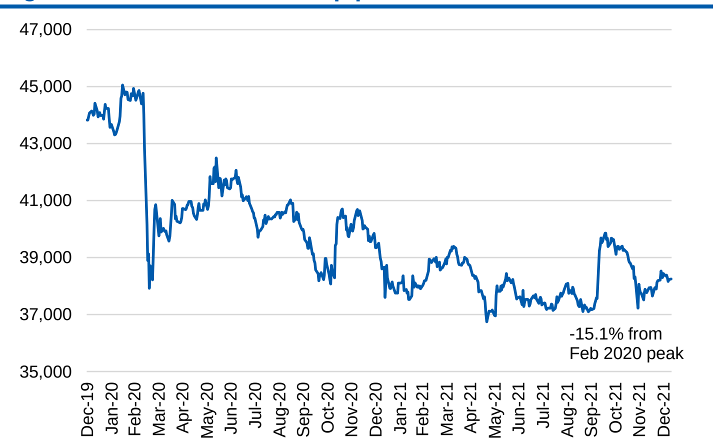
Axis REIT is our preferred pick for its key positioning in a stable segment that is relatively unaffected by risks arising from a sporadic resurgence of COVID-19 infections. Due to the unwavering demand for warehouse space, stemming from the e-commerce boom, it is also poised to benefit from the reopening of the economy, as it picks up the pace of expansion.

Figure 34: M-REIT unit prices return in FY21



Source: RHB, Bloomberg

Figure 35: KLREI's market cap performance



Source: RHB, Bloomberg

Unstable road to recovery in FY22

Maintain NEUTRAL. Although we can expect a gradual recovery for M-REITs in general, especially in terms of earnings and unit prices, M-REITs present an unexciting avenue for yield play. We maintain our sector weighting, as the risks at this point are rather high. We also highlight that shopping malls and office buildings will be among the first to be adversely impacted if COVID-19 infections rise again and lockdown measures are re-imposed.

4Q21 results wrap. M-REITs in our coverage universe reported earnings that were in line with expectations, with a positive bias. Although the full-year earnings were between 96-128% of market's full-year estimates, this was very much expected, considering the resumption in business activities starting from Phase 3 of the NRP in Sep 2021.

As expected, 4Q21 saw a sequential improvement in earnings, in line with the full reopening of shopping malls and relaxation of interstate travel restrictions. This was further complemented by the year-end festivities and revenge spending, as consumers stepped out of the longest lockdown the nation has seen since the start of the pandemic. Considering the element of revenge-spending, the encouraging tenant sales booked in 4Q21 resulted in lower rental assistance granted during the quarter. We also gather that the robust sales were driven by strong luxury sales – an indication of solid purchasing power. While this is a positive in our view, we believe that only the high-quality prime malls with less dependence on tourism would be seeing a sustained recovery.

Approach with caution as we step into FY22, particularly due to the precariousness of the recovery theme. Other than the severity of COVID-19 cases, daily infection rates remain stubbornly high, while the reception of booster shots nationwide has been relatively soft – particularly worrisome in light of the emergence of the Omicron variant. With the Government having retracted plans of treating COVID-19 as an endemic (initially meant to start in Oct 2021), we choose to remain cautious in our outlook for the sector.

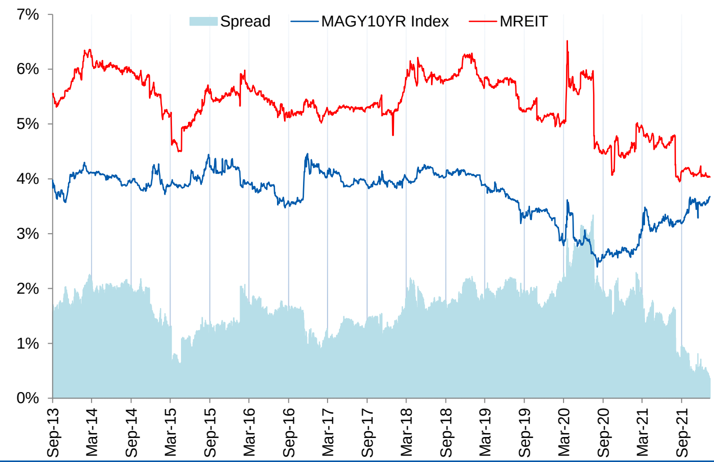
Asset quality is key. We urge investors to be selective on which REIT to collect, to ride on the wave of the recovery theme. We like REITs with solid assets that are strategically located and have a shopper profile that is less dependent on tourism – in view of the still closed international borders – like IGB REIT.

Macroeconomic views

Less appealing yield play in FY22. The US and Malaysian 10-year bond yields rose by around 0.6ppts and 0.9ppts in FY21, resulting in a yield spread between M-REITs and Malaysian bonds of c.40bps (well below -2SD from the historical mean).

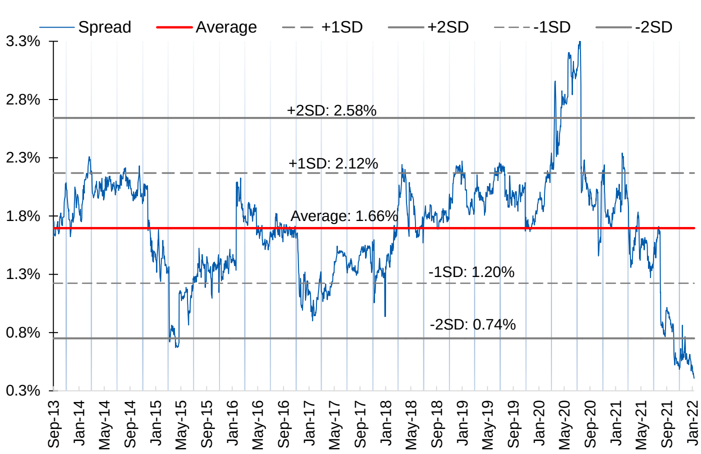
With the US Fed's recent hawkish pivot towards higher interest rates and our economists' expectation of a 25bps rate hike in 2H22, we believe that the yield spread will remain at unattractive levels. That said, we believe sentiment surrounding M-REITs will be soft, moving forward – mitigating the upside in capital appreciation, which would move in tandem with earnings recovery. At the time of writing, yields for the REITs under our coverage average at about 4%.

Figure 36: Yield spreads between M-REITs and government bonds



Source: RHB, Bloomberg

Figure 37: Yield spreads are currently at c.40bps



Source: RHB, Bloomberg

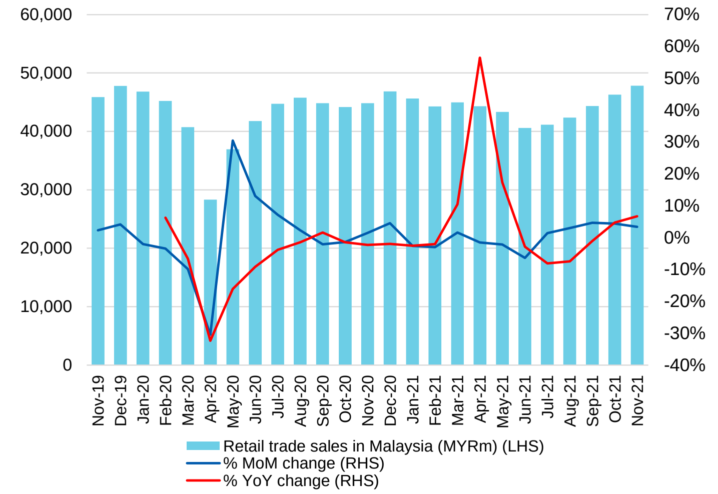
Risks aplenty for hospitality and retail segments

Retail segment to selectively see footfall traction; standard operating procedures (SOP) to limit recovery. Our transport analyst expects the reopening of international borders to take place in 2H22 at best, and therefore, malls that are highly dependent on tourist volumes will continue to see only a mild pick-up in footfall, as the volume shortfall takes time to recover. Dependency on tourism for economic growth remains a stumbling block to a full-blown recovery, as the new variant poses challenges to the prospects of the international borders reopening.

Although the relaxation of movement restrictions in Malaysia would lead to a pick-up in footfall, this will not translate to a significant pick-up in reversion rates. Most of these retail REITs have turnover sales that account for less than 10% of their toplines, which suggest that base rent remains the major component for rental income. Considering the tough operating environment for retail mall tenants, we do not rule out the possibility of soft step-up rates remaining in place. REIT managers and retail players have pointed to the fact that cash reserves for a lot of tenants have depleted, due to the long periods of lockdowns since Mar 2020. Hence, we do not rule out the possibility that rental assistance – in the form of rebates – will continue being granted well into FY22, albeit at a lower magnitude, as many tenants continue to struggle to recover. Additionally, strict SOPs – especially amidst a still-high number of new cases – will limit many of these malls from achieving their maximum recovery potential.

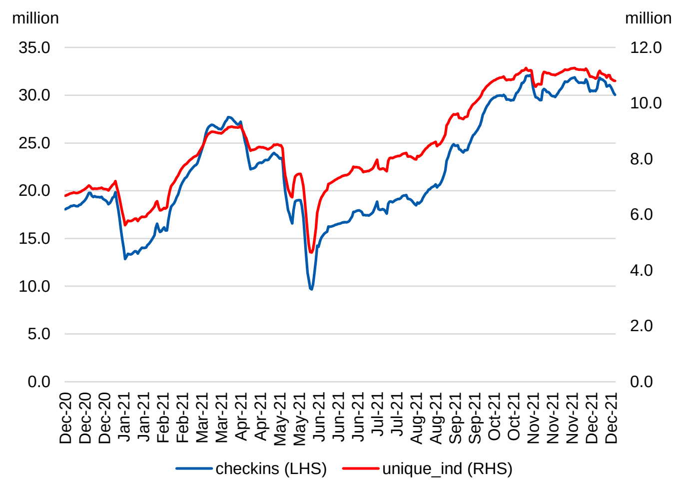
Not to forget the supply glut. We expect new retail malls with a total net floor area of >4.5m sqf to be completed and/or opened this year, with the key malls in the Klang Valley being Mitsui Shopping Park Lalaport, IOI City Mall Phase 2, The Exchange TRX, and KL Esplanade Mall. All things considered, we believe that rental reversions for malls will remain flattish going into 2022, as malls are making an effort for tenant retention purposes.

Figure 38: Retail trade sales in Malaysia (MYRm)



Source: RHB, DOSM

Figure 39: MySejahtera check-ins – reflective of footfall



Note: Unique check-ins means that repeated visits are only counted once
Source: RHB, MySejahtera

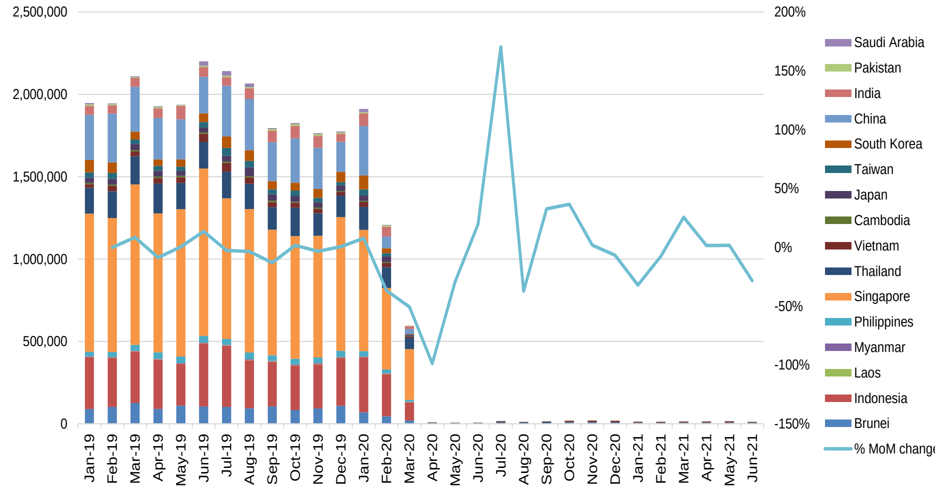
Figure 40: New malls to be opened in 2022 within the Klang Valley

Name	Location	Net Floor Area (sqf)	Opening/completion date
Pavilion Bukit Jalil	Bukit Jalil	1,800,000	3 Dec 2021
Mitsui Shopping Park Lalaport	Bukit Bintang	861,000	20 Jan 2022
Datum Mall	Setiawangsa	319,000	NA
Ecohill Walk Mall	Semenyih	170,005	2 Jan 2022
IOI City Mall Phase 2	Putrajaya	1,000,000	June 2022
The Exchange TRX	Jalan Tun Razak	1,300,000	2022
8 Conlay	KLCC	130,000	2022
KSL Esplanade Mall	Klang	700,000	NA
Senada Shopping Centre	Bukit Kiara	231,000	NA
Total*		**4,711,000**	

**Note: Total excludes Pavilion Bukit Jalil*
Source: Retail Group Malaysia

Hospitality to remain in the red well into 2022. Pressure on average room and occupancy rates will remain for as long as movement restrictions are in place. Relaxed interstate movement restrictions and a pick-up in staycation promotions have not actually translated to meaningful recoveries for the hotels owned by REITs under our coverage within the past 20 months. Corporate bookings for events, which also make up the bulk of a hotel's topline, have also been on a downtrend, as mass gatherings are prohibited. We expect to see only a mild pick-up in corporate bookings, as virtual meetings and events are here to stay. We believe the challenging operating environment for hotels is further exacerbated by the threat of alternative accommodations available.

Figure 41: Tourist arrivals to Malaysia from selected countries



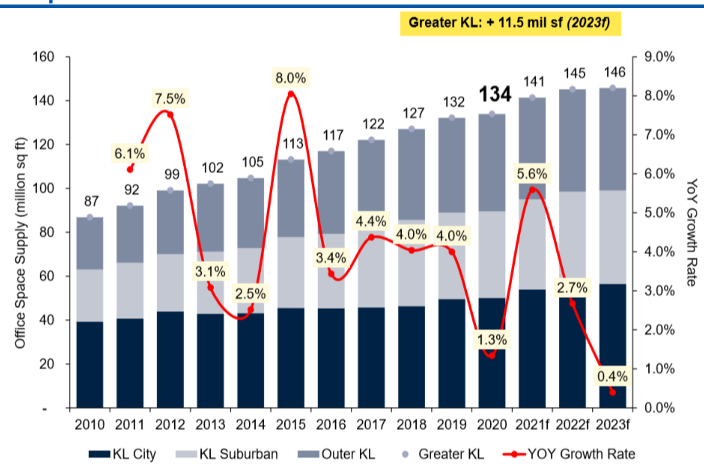
Source: RHB, CEIC

Office and industrial segments demonstrate resilience

Resilience in the office and industrial segments. That said, we are cautious of the prospect of non-renewals for the office segment, as we gather that demand for renewals have been soft due to the WFH trend. While we remain cognisant of the supply glut in the office segment, the demand for office space in general is here to stay. Surveys conducted by Savills Research indicate that workers are eager to return to the office.

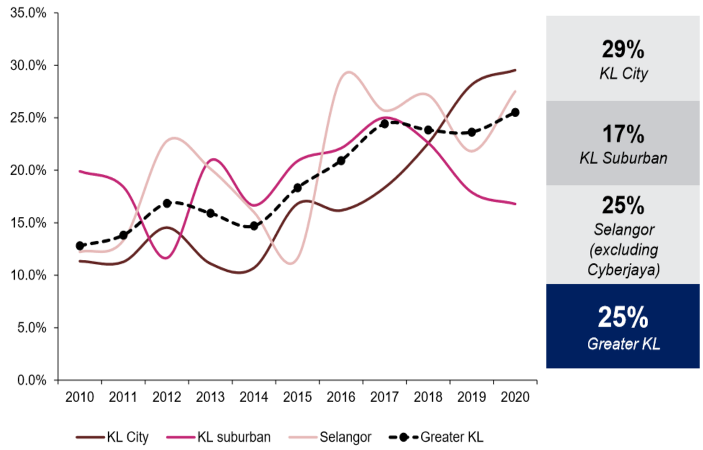
Our regional thematic report (*Office REITS : Workspace: Today, In Transition, Tomorrow*) suggests that tenants are likely to downsize their presence in offices by 20-30%, which will put further pressure on rental rates. For that reason, we like high-quality office buildings that should stand the test of time, such as those owned by KLCCP Stapled.

Figure 42: Cumulative supply of office space in Greater Kuala Lumpur



Source: Savills Research

Figure 43: Average vacancy rates in Greater Kuala Lumpur



Source: Savills Research

Elsewhere, there has been increasing demand for industrial properties, in light of the e-commerce boom since the start of the pandemic. The new normal is seeing consumers resorting to online means for shopping, leading to higher demand for warehousing. REITs that intend to diversify their asset portfolios are looking to acquire industrial assets for stable income growth and gross yields of c.7%.

Axis REIT our only Top Pick

Axis REIT is our preferred pick. The REIT is a key player in the resilient industrial segment and stands to benefit from the rise in e-commerce. We like its prospects of stable earnings ahead, as Axis REIT picks up the acquisition pace from the slowdown seen during the pandemic. We also like its strong management team, whose experience in aggressive acquisitions over the past few years puts the REIT on a steady growth path.

Key risks: Resurgence of COVID-19 infections that may lead to a prolonged lockdown, slower-than-expected economic recovery, and delays in the progress of mass vaccinations.

Figure 44: Market value of selected retail assets – quality malls showing unperturbed value

Value (MYRm)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Suria KLCC	4,400	4,580	4,870	5,288	5,350	5,430	5,444	5,598	5,565	5,510
YoY growth		*4.1%*	*6.3%*	*8.6%*	*1.2%*	*1.5%*	*0.3%*	*2.8%*	*-0.6%*	*-1.0%*
Mid Valley Megamall	3,500	3,560	3,610	3,610	3,610	3,645	3,665	3,665	3,665	3,665
YoY growth		*1.7%*	*1.4%*	*0.0%*	*0.0%*	*1.0%*	*0.5%*	*0.0%*	*0.0%*	*0.0%*
The Gardens Mall	1,200	1,245	1,280	1,280	1,280	1,285	1,295	1,295	1,295	1,295
YoY growth		*3.8%*	*2.8%*	*0.0%*	*0.0%*	*0.4%*	*0.8%*	*0.0%*	*0.0%*	*0.0%*
Sunway Pyramid	2,540	2,700	2,908	3,200	3,300	3,450	3,580	3,774	3,830	3,830
YoY growth		*6.3%*	*7.7%*	*10.0%*	*3.1%*	*4.5%*	*3.8%*	*5.4%*	*1.5%*	*0.0%*
Pavilion KL	3,880	4,000	4,300	4,350	4,450	4,550	4,700	4,800	4,800	4,850
YoY growth		*3.1%*	*7.5%*	*1.2%*	*2.3%*	*2.2%*	*3.3%*	*2.1%*	*0.0%*	*1.0%*
Sungei Wang Plaza	819	837	824	780	625	583	545	538	475	442
YoY growth		*2.2%*	*-1.6%*	*-5.3%*	*-19.9%*	*-6.7%*	*-6.5%*	*-1.3%*	*-11.7%*	*-7.0%*
Da Men Mall					483	416	310	220	180	180
YoY growth						*-13.9%*	*-25.5%*	*-29.0%*	*-18.2%*	*-0.1%*

Source: RHB, Company data

Regional REITS Closest To 52-Week Lows

Figure 45: Regional REITS closest to their 52-week lows

REITs	BBG ticker	Market Cap (USDm)	Country	vs 52W-low	Rank
CapitaLand China Trust	CLCT SP Equity	1395	Singapore	0.0%	1
CapitaLand Integrated Commercial Trust	CICT SP Equity	9453	Singapore	0.0%	1
Ascendas Real Estate Investment Trust	AREIT SP Equity	8667	Singapore	0.0%	1
Mapletree Industrial Trust	MINT SP Equity	4924	Singapore	0.4%	4
Keppel DC REIT	KDCREIT SP Equity	2732	Singapore	0.5%	5
Mapletree Commercial Trust	MCT SP Equity	4434	Singapore	0.6%	6
Mapletree Logistics Trust	MLT SP Equity	5822	Singapore	0.6%	7
Sasseur Real Estate Investment Trust	SASSR SP Equity	709	Singapore	0.6%	8
IGB Real Estate Investment Trust	IGBREIT MK Equity	1313	Malaysia	0.7%	9
EC World Real Estate Investment Trust	ECWREIT SP Equity	424	Singapore	0.7%	10
United Hampshire US REIT	UHU SP Equity	340	Singapore	0.8%	11
Far East Hospitality Trust	FEHT SP Equity	824	Singapore	0.9%	12
KLCCP Stapled Group	KLCCSS MK Equity	2744	Malaysia	1.1%	13
Daiwa House Logistics Trust	DHLT SP Equity	398	Hong Kong	1.3%	14
AmFIRST Real Estate Investment Trust	ARET MK Equity	63	Malaysia	1.3%	15
Prime US REIT	Prime SP Equity	888	Singapore	1.3%	16
Sunway Real Estate Investment Trust	SREIT MK Equity	1136	Malaysia	1.5%	17
Hui Xian Real Estate Investment Trust	87001 HK Equity	1301	Hong Kong	1.5%	18
Manulife US Real Estate Investment Trust	MUST SP Equity	1123	Singapore	1.6%	19
D&D Platform REIT Co Ltd	377190 KS Equity	277	South Korea	1.8%	20
Capitaland Malaysia Trust	CLMT MK Equity	292	Malaysia	1.8%	21
Frasers Centrepoint Trust	FCT SP Equity	2834	Singapore	1.8%	22
Al-'Aqar Healthcare REIT	AQAR MK Equity	197	Malaysia	1.8%	23
Tower Real Estate Investment Trust	TRET MK Equity	36	Malaysia	1.9%	24
Al-Salam Real Estate Investment Trust	SALAM MK Equity	67	Malaysia	2.1%	25
DDMP Reit Inc	DDMPR PM Equity	624	Phillipines	2.3%	26
Axis Real Estate Investment Trust	AXRB MK Equity	718	Malaysia	2.8%	27
Yuexiu Real Estate Investment Trust	405 HK Equity	1964	Hong Kong	2.8%	28
Frasers Logistics & Commercial Trust	FLT SP Equity	3724	Singapore	3.0%	29
Langham Hospitality Investments and Langham Hospitality Investments Ltd	1270 HK Equity	349	Hong Kong	3.7%	30
IREIT Global	IREIT SP Equity	545	Singapore	4.2%	31
ARA US Hospitality Trust	ARAUS SP Equity	275	Singapore	4.3%	32
Frasers Hospitality Trust	FHT SP Equity	632	Singapore	4.7%	33
Elite Commercial REIT	ELITE SP Equity	420	Singapore	5.4%	34
K-Top Reits Co Ltd	145270 KS Equity	49	South Korea	5.7%	35
Link REIT	823 HK Equity	18076	Hong Kong	5.8%	36
Pavilion Real Estate Investment Trust	PREIT MK Equity	917	Malaysia	5.9%	37
AmanahRaya Real Estate Investment Trust	AARET MK Equity	92	Malaysia	6.3%	38
LOTTE Reit Co Ltd	330590 KS Equity	1039	South Korea	6.4%	39
Hektar Real Estate Investment Trust	HEKT MK Equity	54	Malaysia	6.7%	40
Champion REIT	2778 HK Equity	3025	Hong Kong	6.7%	41
Spring Real Estate Investment Trust	1426 HK Equity	514	Hong Kong	7.9%	42
Filinvest REIT Corp	FILRT PM Equity	721	Phillipines	8.3%	43
UOA Real Estate Investment Trust	UOAR MK Equity	187	Malaysia	8.4%	44
Cromwell European Real Estate Investment Trust	CERT SP Equity	1445	Singapore	8.7%	45
Sentral REIT	SENTRAL MK Equity	238	Malaysia	8.8%	46
Keppel Pacific Oak US REIT	KORE SP Equity	764	Singapore	9.7%	47
AIMS APAC REIT	AAREIT SP Equity	730	Singapore	10.3%	48
Ascott Residence Trust	ART SP Equity	2440	Singapore	10.4%	49
NH Prime REIT Co Ltd	338100 KS Equity	71	South Korea	10.5%	50
ESR Kendall Square REIT Co Ltd	365550 KS Equity	1024	South Korea	10.6%	51
CDL Hospitality Trusts	CDREIT SP Equity	1034	Singapore	10.7%	52
Keppel REIT	KREIT SP Equity	3079	Singapore	10.8%	53
Suntec Real Estate Investment Trust	SUN SP Equity	3256	Singapore	10.8%	54
SF Real Estate Investment Trust	2191 HK Equity	369	Hong Kong	10.8%	55
YTL Hospitality REIT	YTLREIT MK Equity	366	Malaysia	12.5%	56
E KOCREF CR-REIT Co Ltd	088260 KS Equity	303	South Korea	12.8%	57
Regal Real Estate Investment Trust	1881 HK Equity	606	Hong Kong	13.3%	58
OUE Commercial Real Estate Investment Trust	OUECT SP Equity	1645	Singapore	13.9%	59
SK REITs Co Ltd	395400 KS Equity	775	South Korea	13.9%	60
Sunlight Real Estate Investment Trust	435 HK Equity	917	Hong Kong	14.5%	61
Lippo Malls Indonesia Retail Trust	LMRT SP Equity	300	Singapore	14.6%	62
Mapletree North Asia Commercial Trust	MAGIC SP Equity	2809	Singapore	14.9%	63
Digital Core REIT Management Pte Ltd	DCREIT SP Equity	1294	Singapore	15.0%	64
Shinhan Alpha REIT Co Ltd	293940 KS Equity	348	South Korea	15.2%	65
Fortune Real Estate Investment Trust	778 HK Equity	2047	Hong Kong	16.4%	66
ESR-REIT	EREIT SP Equity	1278	Singapore	16.6%	67
Atrium Real Estate Investment Trust	ATRM MK Equity	73	Malaysia	18.1%	68
Sabana Industrial Real Estate Investment Trust	SSREIT SP Equity	343	Singapore	19.2%	69
Parkway Life Real Estate Investment Trust	PREIT SP Equity	2119	Singapore	19.3%	70
Starhill Global REIT	SGREIT SP Equity	1004	Singapore	19.6%	71
SPH REIT	SPHREIT SP Equity	1994	Singapore	20.6%	72
ARA LOGOS Logistics Trust	ALLT SP Equity	895	Singapore	21.9%	73
Mindspace Business Parks REIT	MINDSPCE IN Equity	2712	India	24.8%	74
Mindspace Business Parks REIT	MINDSPCE IN Equity	2712	India	24.8%	74
Embassy Office Parks REIT	EMBASSY IN Equity	4574	India	27.0%	76
Embassy Office Parks REIT	EMBASSY IN Equity	4574	India	27.0%	76
Prosperity REIT	808 HK Equity	591	Hong Kong	29.7%	78
Koramco Energy Plus Reit	357120 KS Equity	358	South Korea	32.3%	79
RL Commercial REIT Inc	RCR PM Equity	1662	Phillipines	32.8%	80
Brookfield India Real Estate Trust	BIRET IN Equity	1194	India	37.6%	81
MREIT Inc	MREIT PM Equity	1113	Phillipines	39.8%	82
AREIT Inc	AREIT PM Equity	1514	Phillipines	65.6%	84

Note: As at 28 Jan 2022
Source: RHB, Bloomberg

Highest-Yielding Regional REITS

Figure 46: Highest-yielding regional REITS

REITs	BBG ticker	Market Cap (USDm)	Country	Dividend yield	Rank
United Hampshire US REIT	UHU SP Equity	340	Singapore	10.16	1
Prime US REIT	Prime SP Equity	888	Singapore	9.08	2
Manulife US Real Estate Investment Trust	MUST SP Equity	1123	Singapore	8.91	3
Sasseur Real Estate Investment Trust	SASSR SP Equity	709	Singapore	8.73	4
EC World Real Estate Investment Trust	ECWREIT SP Equity	424	Singapore	8.73	5
Keppel Pacific Oak US REIT	KORE SP Equity	764	Singapore	8.71	6
Yuexiu Real Estate Investment Trust	405 HK Equity	1964	Hong Kong	8.49	7
Elite Commercial REIT	ELITE SP Equity	420	Singapore	8.18	8
UOA Real Estate Investment Trust	UOAR MK Equity	187	Malaysia	7.84	9
Sabana Industrial Real Estate Investment Trust	SSREIT SP Equity	343	Singapore	7.82	10
CapitaLand China Trust	CLCT SP Equity	1395	Singapore	7.72	11
Sentral REIT	SENTRAL MK Equity	238	Malaysia	7.63	12
Cromwell European Real Estate Investment Trust	CERT SP Equity	1445	Singapore	7.58	13
Al-'Aqar Healthcare REIT	AQAR MK Equity	197	Malaysia	7.32	14
ESR-REIT	EREIT SP Equity	1278	Singapore	7.21	15
E KOCREF CR-REIT Co Ltd	088260 KS Equity	303	South Korea	7.16	16
OUE Commercial Real Estate Investment Trust	OUECT SP Equity	1645	Singapore	7.07	17
Brookfield India Real Estate Trust	BIRET IN Equity	1194	India	6.93	18
IREIT Global	IREIT SP Equity	545	Singapore	6.85	19
AIMS APAC REIT	AAREIT SP Equity	730	Singapore	6.76	20
ARA LOGOS Logistics Trust	ALLT SP Equity	895	Singapore	6.59	21
Daiwa House Logistics Trust	DHLT SP Equity	398	Singapore	6.50	22
Starhill Global REIT	SGREIT SP Equity	1004	Singapore	6.39	23
Mapletree North Asia Commercial Trust	MAGIC SP Equity	2809	Singapore	6.30	24
Champion REIT	2778 HK Equity	3025	Hong Kong	6.05	25
CapitaLand Integrated Commercial Trust	CICT SP Equity	9453	Singapore	6.03	26
Fortune Real Estate Investment Trust	778 HK Equity	2047	Hong Kong	6.00	27
Sunlight Real Estate Investment Trust	435 HK Equity	917	Hong Kong	5.99	28
Embassy Office Parks REIT	EMBASSY IN Equity	4574	India	5.95	29
Embassy Office Parks REIT	EMBASSY IN Equity	4574	India	5.95	29
Suntec Real Estate Investment Trust	SUN SP Equity	3256	Singapore	5.91	31
Prosperity REIT	808 HK Equity	591	Hong Kong	5.88	32
DDMP Reit Inc	DDMPR PM Equity	624	Phillipines	5.87	33
Capitaland Malaysia Trust	CLMT MK Equity	292	Malaysia	5.74	34
SPH REIT	SPHREIT SP Equity	1994	Singapore	5.70	35
Frasers Logistics & Commercial Trust	FLT SP Equity	3724	Singapore	5.69	36
Frasers Centrepoint Trust	FCT SP Equity	2834	Singapore	5.66	37
SF Real Estate Investment Trust	2191 HK Equity	369	Hong Kong	5.65	38
Filinvest REIT Corp	FILRT PM Equity	721	Phillipines	5.64	39
Ascendas Real Estate Investment Trust	AREIT SP Equity	8667	Singapore	5.61	40
Regal Real Estate Investment Trust	1881 HK Equity	606	Hong Kong	5.52	41
Mapletree Industrial Trust	MINT SP Equity	4924	Singapore	5.50	42
KLCCP Stapled Group	KLCCSS MK Equity	2744	Malaysia	5.40	43
Mindspace Business Parks REIT	MINDSPCE IN Equity	2712	India	5.32	44
Mindspace Business Parks REIT	MINDSPCE IN Equity	2712	India	5.32	44
Keppel REIT	KREIT SP Equity	3079	Singapore	5.31	46
Axis Real Estate Investment Trust	AXRB MK Equity	718	Malaysia	5.27	47
Sunway Real Estate Investment Trust	SREIT MK Equity	1136	Malaysia	5.25	48
Ascott Residence Trust	ART SP Equity	2440	Singapore	5.25	49
Mapletree Logistics Trust	MLT SP Equity	5822	Singapore	5.21	50
Mapletree Commercial Trust	MCT SP Equity	4434	Singapore	5.14	51
Pavilion Real Estate Investment Trust	PREIT MK Equity	917	Malaysia	5.08	52
IGB Real Estate Investment Trust	IGBREIT MK Equity	1313	Malaysia	5.06	53
Keppel DC REIT	KDCREIT SP Equity	2732	Singapore	4.95	54
Frasers Hospitality Trust	FHT SP Equity	632	Singapore	4.94	55
CDL Hospitality Trusts	CDREIT SP Equity	1034	Singapore	4.91	56
Link REIT	823 HK Equity	18076	Hong Kong	4.73	57
YTL Hospitality REIT	YTLREIT MK Equity	366	Malaysia	4.56	58
Far East Hospitality Trust	FEHT SP Equity	824	Singapore	4.42	59
Al-Salam Real Estate Investment Trust	SALAM MK Equity	67	Malaysia	3.92	60
AREIT Inc	AREIT PM Equity	1514	Phillipines	3.70	61
Digital Core REIT Management Pte Ltd	DCREIT SP Equity	1294	Singapore	3.65	62
Langham Hospitality Investments and Langham Hospitality Investments Ltd	1270 HK Equity	349	Hong Kong	3.57	63
Parkway Life Real Estate Investment Trust	PREIT SP Equity	2119	Singapore	3.05	64
ARA US Hospitality Trust	ARAUS SP Equity	275	Singapore	1.44	65

Note: As at 28 Jan 2022
Source: RHB, Bloomberg

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