AUGUST 2024

MORNINGSTAR Industry Landscape

Singapore REITs

REITs provide steady income to investors through consistent dividend distribution.

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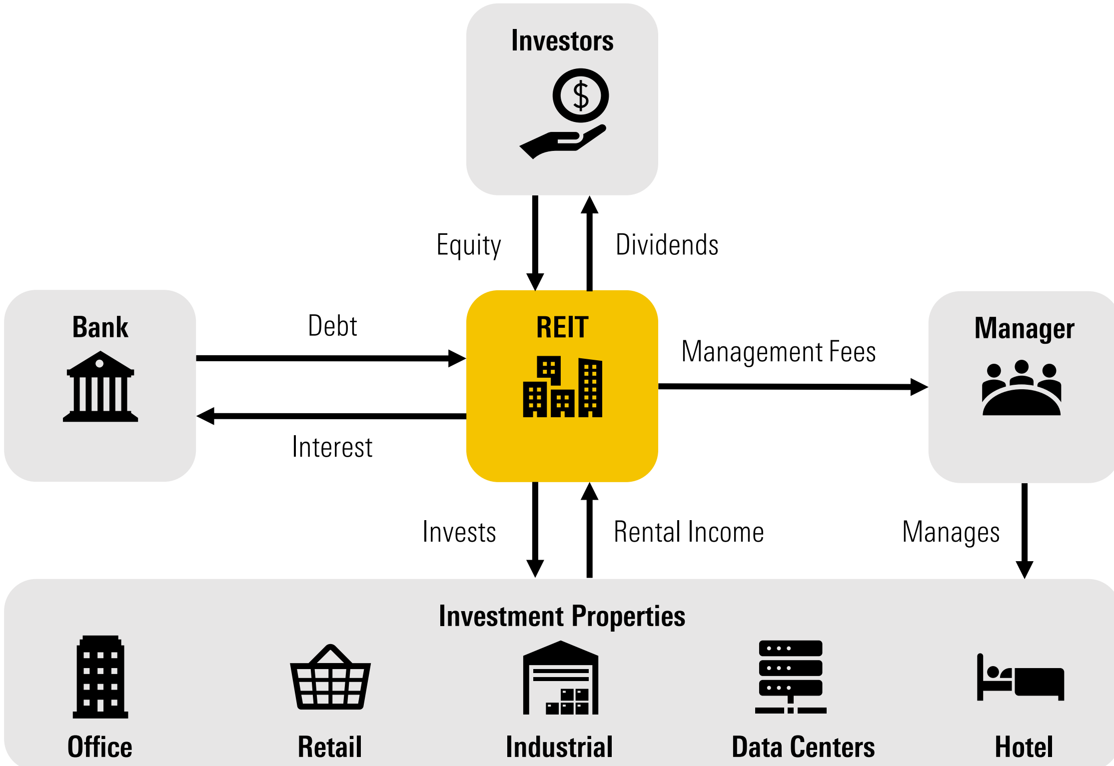
Executive Summary

REITs are tax-advantaged investment vehicles that invest in a portfolio of income-producing assets for recurring income.

Industry Map

Real estate investment trusts are tax-advantaged investment vehicles that invest in a portfolio of income-producing assets such as offices, retail malls, industrial properties, data centers, and hotels. REITs are generally highly leveraged, taking on debt to finance the investment of their real estate assets. In Singapore, REITs are externally managed by a REIT manager who runs the portfolio of investment properties for a fee.

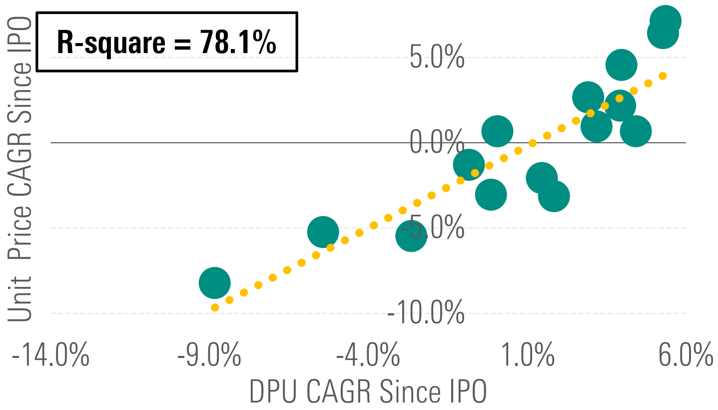
Singapore REIT Industry Map



Source: Morningstar

Key Industry Themes

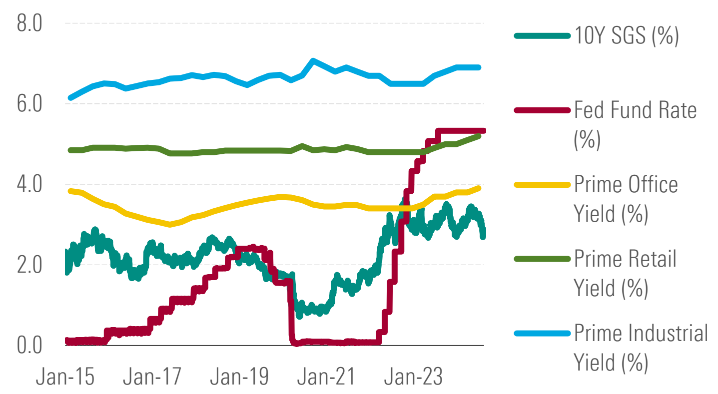
REIT Performance Highly Correlated to DPU Growth



REITs can either grow inorganically via acquisitions or organically via improving asset performance through higher occupancy rates, raising rents, investing in asset enhancement initiatives or redevelopment projects. This combined with prudent capital management, will deliver consistent distribution per unit growth over time.

Based on our observations, REITs that could navigate different economic, real estate, and interest rate cycles to deliver consistent growth in DPU will enjoy better unit price performance.

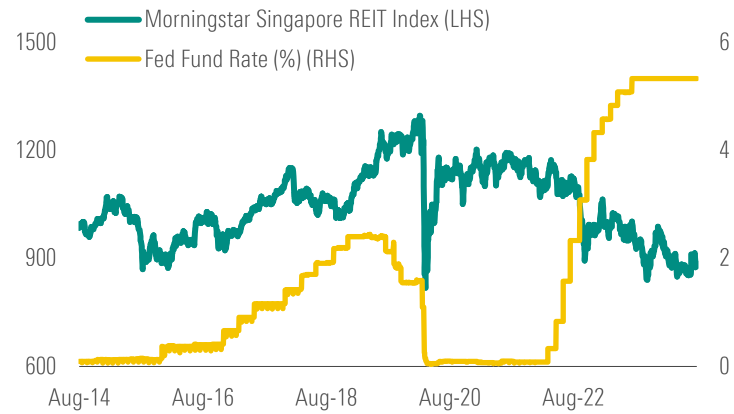
Cap Rate Expansion Inevitable; Sharp Reset Unlikely



Real estate yields do not always move in tandem with interest rates, as other factors are also at play. In Singapore, while prime yields have started to increase, we think a hard reset in cap rates is unlikely, given that performances across all asset classes remain relatively strong, driven by limited supply and stable demand.

On this point, we like REITs that have been conservative in valuing their assets and can deliver rental growth, as they are less at risk of a write-down on their asset valuations.

Interest Rate Pivot Not Fully Priced in



Although changes in the interest rate environment will affect finance costs and have a direct effect on a REIT's earnings and distribution, the impact on its unit price performance is not as clear-cut.

In this current cycle, we observed that the REIT index has traded downward over concerns of a higher for longer interest rate environment. Given that an interest rate pivot is on the horizon, this is a good opportunity for investors to accumulate attractively priced REITs.

Source: Morningstar, CBRE, Company Reports, US Federal Reserve. Data as of Aug. 14, 2024

Industry Value Drivers

Simplified Financial Statement: Mapletree Logistics Trust (Fiscal 2024)

SGD Millions		2024
Rental Income	A	626
Other Property Income	B	107
Total Revenue		**734**
Property Expenses	C	(99)
Net Property Income		**635**
Management Fees	D	(91)
Other Trust Expenses		(9)
Net Movement in the Fair Value of Investment Properties	E	1
EBIT		**536**
Net Interest Expense	F	(143)
Net Profit Before Income Tax		**393**
Income Tax Expense	G	(63)
Noncontrolling Interests		(3)
Perpetual Securities Holders		(24)
Net Profit Attributable to Unitholders		**303**
KPIs		
Net Property Income Margin (%)		*86.5*
Portfolio Occupancy Rate (%)		*96.0*

A — **Rental Income:** Recurring income collected from tenants. Key drivers to watch are occupancy rates and rental rates.

B — **Other Property Income:** Such as carpark income and service charge income.

C — **Property Expenses:** Comprises direct property expenses such as property taxes and utilities.

D — **Management Fees:** Asset management and performance fees paid to the external REIT manager.

E — **Net Movement in the Fair Value of Investment Properties:** Reflects the fair value gain or loss of the REIT's portfolio of investment properties during the fiscal year.

F — **Net Interest Expense:** REITs are highly leveraged businesses. Any changes in the interest rate environment and the trust's financial leverage has a direct impact on its net interest expense.

G — **Income Tax Expense:** Generally, there is no corporate income tax for Singapore REITs investing in Singapore properties. However, Singapore REITs that invest in overseas properties may still pay corporate income tax on foreign property holding company structure used to hold those assets.

Source: Company reports, Morningstar

Industry Value Drivers

Simplified Distribution Statement: Mapletree Logistics Trust (Fiscal 2024)

SGD Millions		2024
Net Profit Attributable to Unitholders		303
Manager's Fees Paid And Payable in Units	A	57
Net Movement in the Value of Investment Properties Net of Deferred Tax Impact	B	14
Other Adjustments	C	74
Amount available for distribution		**447**

A

Manager's Fees Paid And Payable in Units: It is quite common for Singapore REITs to pay its management fees in new units. While this can improve distribution per unit in the near term, it dilutes unitholder base and may be a drag on future distribution per unit growth

B

Net Movement in the Value of Investment Properties Net of Deferred Tax Impact: Noncash adjustment related to the fair value change in the REIT's investment properties

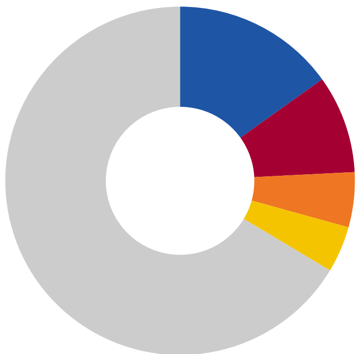
C

Other Adjustments: Other adjustments generally relate to noncash adjustments such as unrealized exchange differences. Some REITs may also top up distribution with divestment gains.

Source: Company reports, Morningstar

Market Share and Concentration by Net Lettable Area

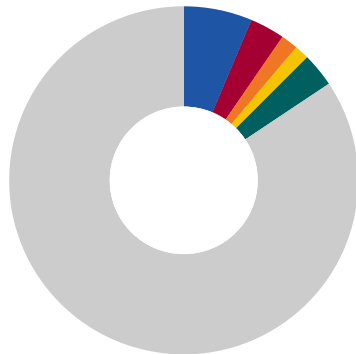
CBD Grade-A Office Market Share of S-REITs by NLA



Office Landlord	%
CICT	15.10
KREIT	9.10
OUE REIT	5.10
Suntec	4.30
Others	66.40

Singapore REITs own and manage about 34% of Singapore's central business district, Grade-A office space. CapitaLand Integrated Commercial Trust is the leading landlord in the CBD with a 15% market share. Aside from REITs, the other major office landlords are M+S, Hongkong Land, Qatar Investment Authority, City Development, and Singapore Land Group.

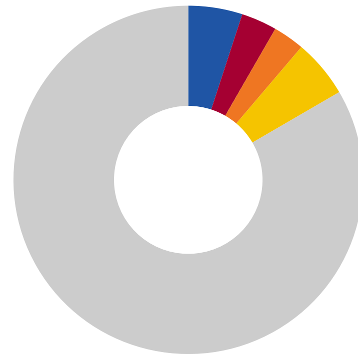
Retail Market Share of S-REITs by NLA



Retail Landlord	%
CICT	6.35
FCT	3.22
MPACT	1.58
Suntec	1.35
Other Retail REITs	3.13
Others	84.37

Singapore's retail real estate market can be divided into Orchard, suburban, and other city areas. CICT is also the leading retail landlord in Singapore, with malls in all three categories. That said, Frasers Centrepoint Trust edges out CICT as the top suburban retail landlord. Mapletree Pan Asia Commercial Trust and Suntec REIT own the largest mall (VivoCity) and the second-largest mall (Suntec City Mall) in Singapore, respectively.

Industrial Market Share of S-REITs by NLA



Industrial Landlord	%
CLAR	5.00
MLT	3.30
MIT	2.90
Other REITS	5.40
Others	83.40

Singapore's industrial real estate market can be divided into logistics, business parks, and other industrial properties. Ownership of Singapore's industrial real estate market is highly fragmented. CapitaLand Ascendas REIT is the leading industrial real estate landlord with a 5% market share. Out of the three categories, CLAR's market share in business parks is the highest at 33%, while Mapletree Logistics Trust's share of logistics warehouses is the highest at 15%.

Source: Morningstar, company reports, Cushman and Wakefield, Jurong Town Corporation, URA. Data as of Aug. 14, 2024

Geographical Overview of Singapore's Key CBD and Retail Market

Singapore's Prime CBD Is Located at Raffles Place and Marina Bay While the Prime Retail Strip Is Along Orchard Road

Source: Morningstar, OneMap

Coverage List and Ratings

Morningstar covers 10 Singapore REITs that mainly invest in four asset classes: office, retail, industrial, and data centers. CapitaLand Integrated Commercial Trust and Frasers Centrepoint Trust are assigned a narrow moat derived from an efficient scale. In contrast, Keppel DC REIT is assigned a narrow moat derived from switching costs. We have also assigned CICT an Exemplary Capital Allocation Rating for their prudent use of capital to create value for unitholders.

Morningstar Singapore REITS Coverage

Name	Ticker	Economic Moat	Capital Allocation	Uncertainty Rating	Morningstar Rating	Asset class	Price	Fair Value Estimate	Price/Fair Value	2025E Dividend Yield	P/BV
CapitaLand Integrated Commercial Trust	C38U	Narrow	Exemplary	Low	★★★★	Office, Retail	2.09	2.32	0.90	5.5%	0.98
Suntec Real Estate	T82U	None	Standard	High	★★★★	Office, Retail	1.21	1.38	0.88	5.6%	0.58
Mapletree Pan Asia Commercial Trust	N2IU	None	Standard	Medium	★★★★	Office, Retail	1.32	1.68	0.79	6.6%	0.75
Keppel REIT	K71U	None	Standard	Low	★★★★★	Office	0.89	1.16	0.76	6.8%	0.68
Frasers Centrepoint Trust	J69U	Narrow	Standard	Low	★★★★	Retail	2.36	2.42	0.98	5.4%	1.04
Frasers Logistics and Commercial Trust	BUOU	None	Standard	Low	★★★★	Industrial/ Logistics, Office	1.06	1.14	0.93	6.8%	0.91
CapitaLand Ascendas REIT	A17U	None	Standard	Medium	★★★	Industrial/ Logistics	2.84	2.90	0.98	5.7%	1.25
Mapletree Logistics Trust	M44U	None	Exemplary	Low	★★★★	Industrial/ Logistics	1.33	1.54	0.86	6.3%	0.97
Mapletree Industrial Trust	ME8U	None	Exemplary	Low	★★★	Industrial/ Logistics, Data centers	2.38	2.30	1.03	5.7%	1.36
Keppel DC REIT	AJBU	Narrow	Standard	Medium	★★	Data centers	2.10	1.80	1.17	4.4%	1.53

Legend

Office **Industrial/ Logistics**
Retail **Data centers**

Source: Morningstar, PitchBook data as of Aug. 24, 2024

Economic Moat

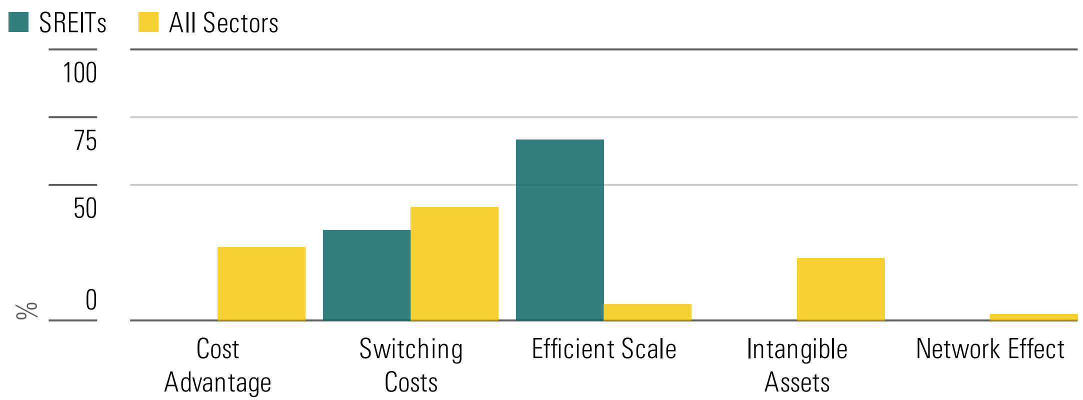
Efficient scale and switching costs are the primary moat sources for Singapore REITs.

Summary of Moat Ratings and Sources

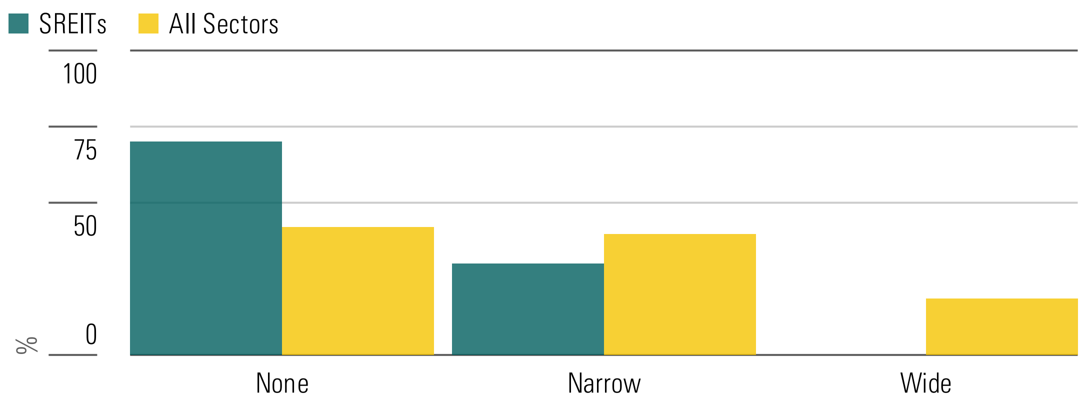
Moats for REITs Generally Stem From Efficient Scale and Switching Cost.
For REITs that possess efficient scale moat, their portfolio assets generally serve their submarkets efficiently and effectively and benefit from significant barriers to entry such as town planning restrictions, lack of suitable sites, and prohibitively expensive development costs that help to prevent the establishment of competing assets nearby. As for REITs that benefit from the switching cost moat, we look for REITs that cater to tenants who fit out the facility with capital-intensive equipment and are involved in mission-critical work processes. Such tenants avoid relocating as the rental cost savings may not be sufficient to justify the inconvenience, cost, and risk associated with moving its large and expensive heavy equipment.

We Believe It Is Only a Narrow Moat for REITs That Have a Moat.
Although a property's competitive advantage can persist over a long period, a REIT's portfolio is rarely static, as REIT managers may acquire and divest properties over time. Such changes to its portfolio may dilute the quality of a REIT's portfolio and erode any positive economic profits. In addition, real estate use evolves over time, and trends that didn't exist previously may appear and affect the REIT's portfolio. An example would be the rise of hybrid and work-from-home trends that did not exist before covid-19, affecting office demand. At the same time, demand and supply imbalances may eventually be eliminated by competitors bringing new supply to market. For these reasons, while we can be reasonably comfortable that a narrow-moat REIT's spread between adjusted ROIC and WACC will remain positive for 10 years, we are generally not confident that the spread will remain positive for 20 years.

Distribution of Moat Sources Compared With Cross-Sector Average



Distribution of Moat Ratings Compared With Cross-Sector Average



Source: Morningstar.

Efficient Scale: Suburban Malls That Effectively and Efficiently Serve Their Own Neighborhood

Retail malls in densely populated suburban residential areas benefit from efficient scale moats as they serve a localized and mature retail demand. Competitors are deterred from adding supply within the same neighborhood as it may depress returns for all landlords. In land-constrained cities like Singapore, suburban retail landlords benefit from significant barriers to entry, such as town planning restrictions, lack of suitable sites, and prohibitively expensive land that helps to prevent the establishment of competing malls nearby.

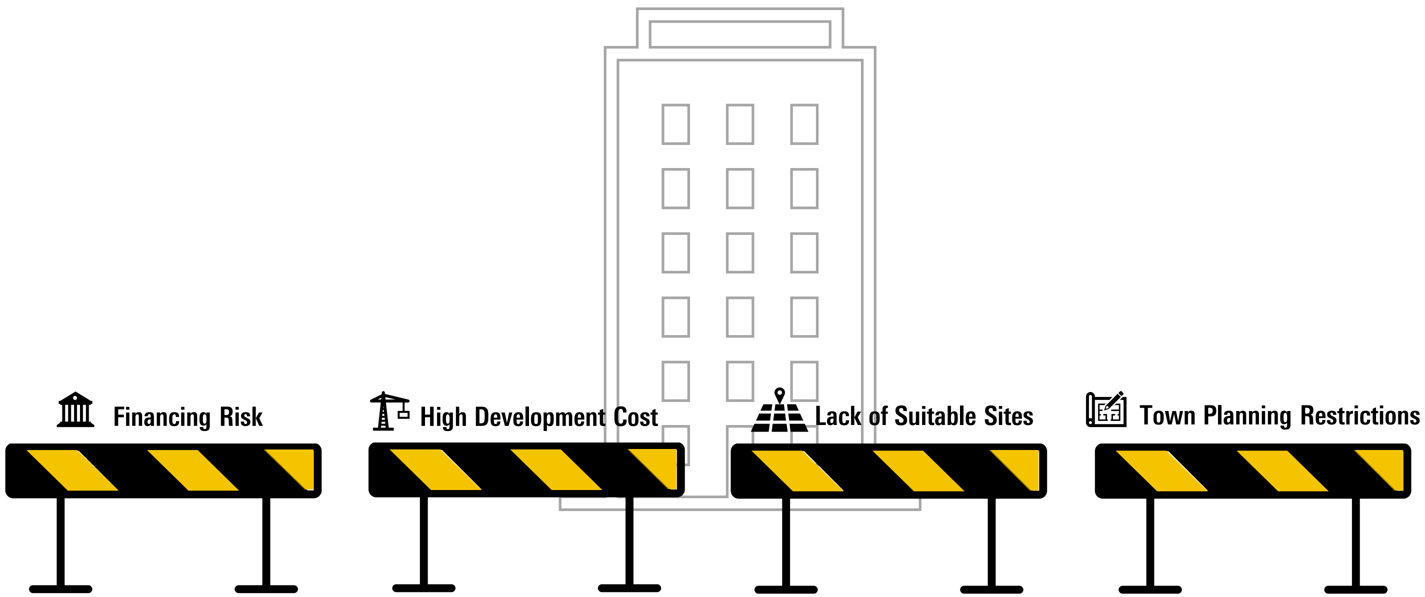
One Retail Mall Is Enough to Serve the Limited Local Resident Demand

Adding Supply Depresses Returns For All Landlords

Source: Morningstar

Efficient Scale: Significant Barriers to Entry Exist to Prevent Oversupply of Offices in the CBD

Significant Barriers to Entry Helps to Prevent the Establishment of Competing Office Buildings



Singapore's CBD is the primary choice for most companies when setting up an office due to its accessibility and proximity to other businesses. As Singapore is a small city-state, the regulators are cautious in developing and drafting Singapore's Concept Plan and Master Plan to maximize land use and avoid an oversupply situation destabilizing the real estate market. Building density within the CBD is exceptionally high, and most of the prime plots adjacent to or above the key subway stations have been developed into major office buildings.

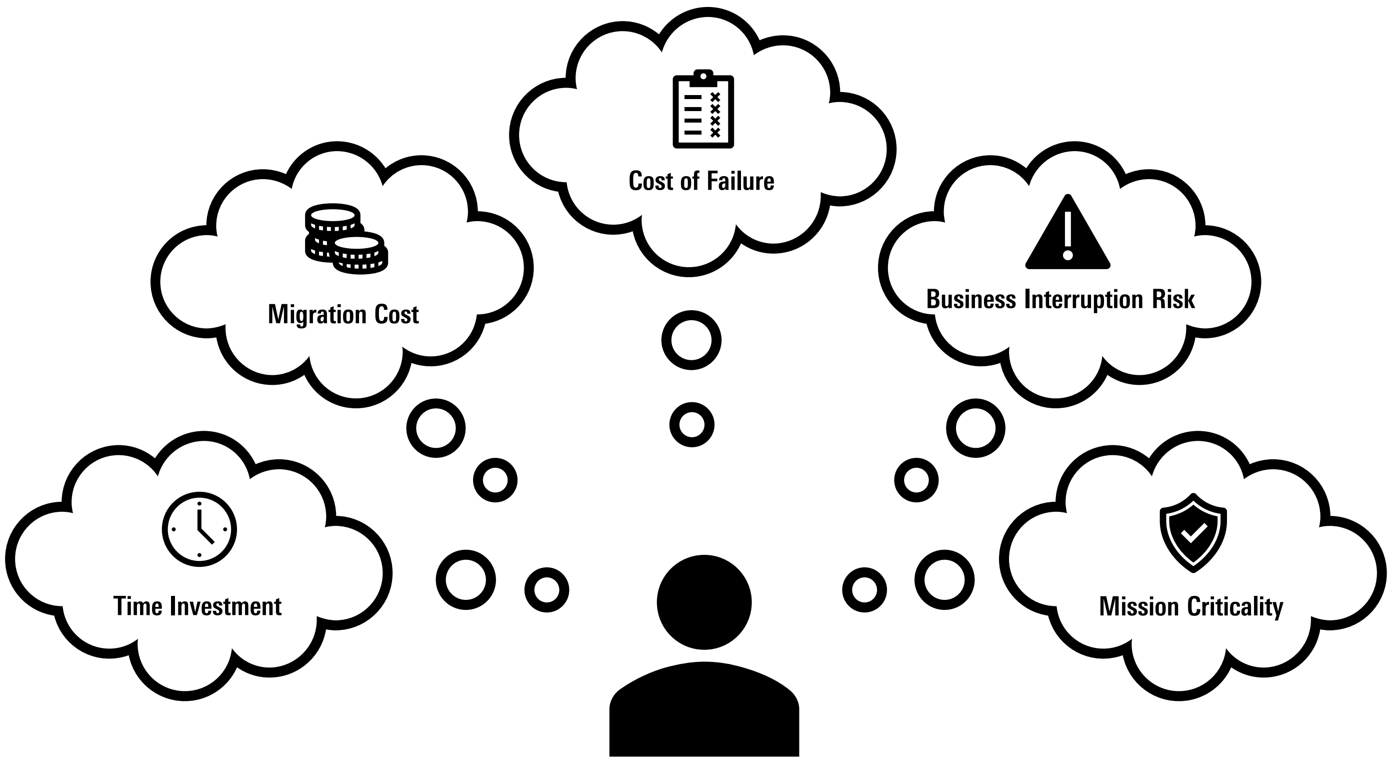
Developing a new, multistory office building is capital-intensive and requires debt financing. If the market is oversupplied, lenders may not be willing to finance new projects or may charge a higher interest rate on loans, making projects uneconomic. As such, competitors face significant risk in developing competitive assets even if they can overcome the regulatory hurdle, secure a suitable site, and afford the prohibitively expensive development costs.

Source: Morningstar

Switching Cost: Tenants Avoid Relocating Due to Significant Business Interruption Risks and High Migration Costs

Data centers are mission-critical infrastructure that supports the daily business operations of their tenants. Any data center downtime may paralyze a business and result in reputational and monetary damages. A significant financial cost is involved in purchasing data center equipment and running similar equipment in parallel during relocation to minimize downtime. As such, data center tenants do not take the decision to move lightly and are unlikely to move once they have chosen a data center provider.

Switching Costs Boost Data Center REITs' Competitive Advantage Due to High Customer Stickiness



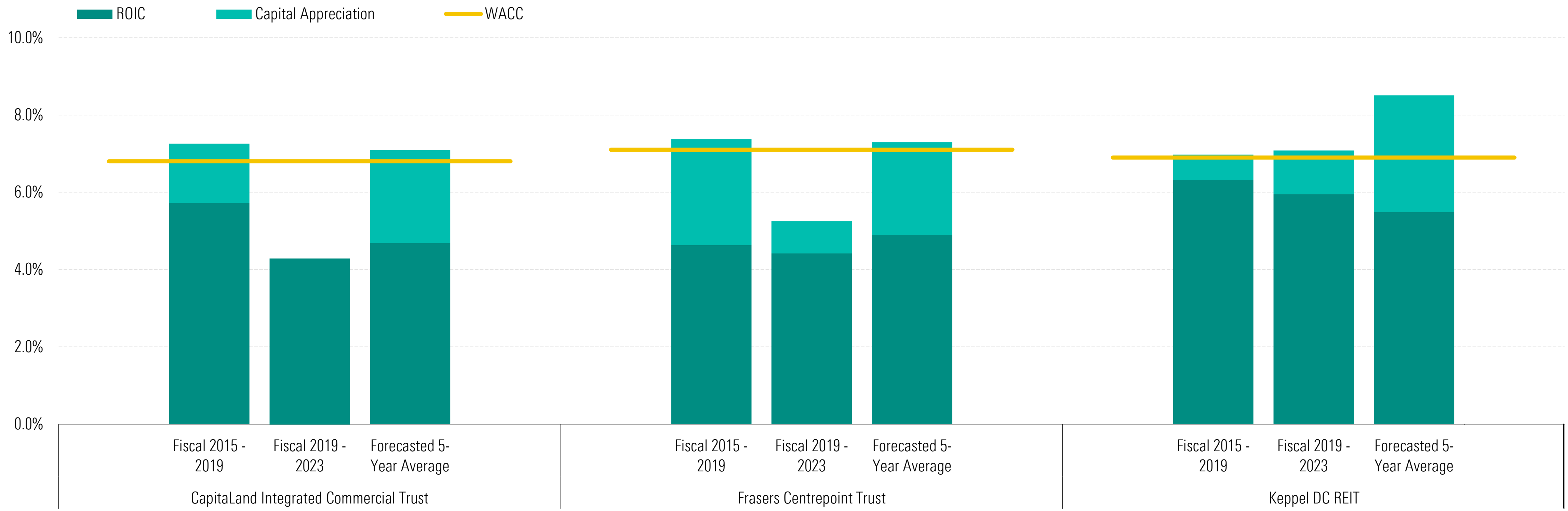
Source: Morningstar

Moaty REITs' Cashflows Are Stable and Recurring Even Though Their ROIC Spread Above WACC Is Thin

As SREITs adopt fair value accounting, the capital appreciation of its investment properties will inflate the invested capital over time. As adjusting the invested capital back to its historical cost is difficult, we think it is appropriate to consider capital appreciation as part of the total return created for unitholders. Although the spread between adjusted ROIC and WACC for REITs are generally narrow, cash flows generated by moaty REITs are underpinned by contracted leases, high retention rates and relatively quick lease-up periods.

Moaty REITs Generally Have Narrow Spreads between Adjusted ROIC and WACC

CICT's and FCT's five-year average ROIC and capital appreciation between fiscal 2019 and 2023 were weighed down by covid-19 disruption.



Industry Basics

Delivering DPU growth through active portfolio and balance sheet management is key to unit price performance.

Guide to REITs' Earnings and Its Key Drivers

Walkthrough of REITs' Key Drivers and Its Relevant Financial Statement Line Item

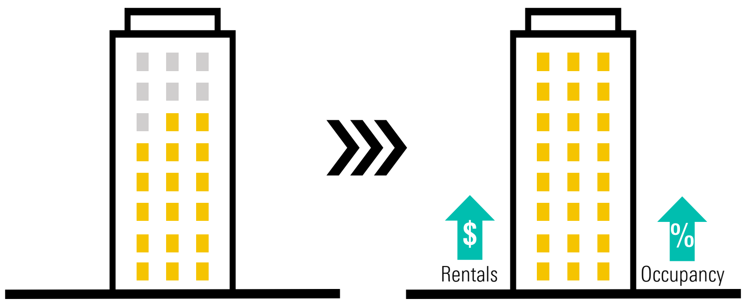
Mapletree Logistics Trust (Fiscal 2024) (Figures in SGD)

	Financial Statement	Net Profit Bridge		Key Drivers and Operating Metrics
	Revenue		734M	Occupancy X Rental Rate X Lettable Area
–	Property Expenses		-99M	Property Management Fees; Utilities; Property Tax
=	Net Property Income	Net property income margin = 87%	635M	Net Property Income Margin
–	Other Operating Expenses		-100M	Asset Management Fees; Trust Expenses
±	Fair Value Gain/Loss On Investment Properties		1M	Discounted Cashflow; Valuation Cap Rate; Replacement Cost
–	Net Interest Expense		-143M	Cost of Debt; Gearing; Interest Coverage Ratio
–	Income Tax		-63M	Corporate Income Tax
=	Net Profit After Tax	Net income margin = 45%	330M	Net Income Margin

Source: Morningstar, Company report

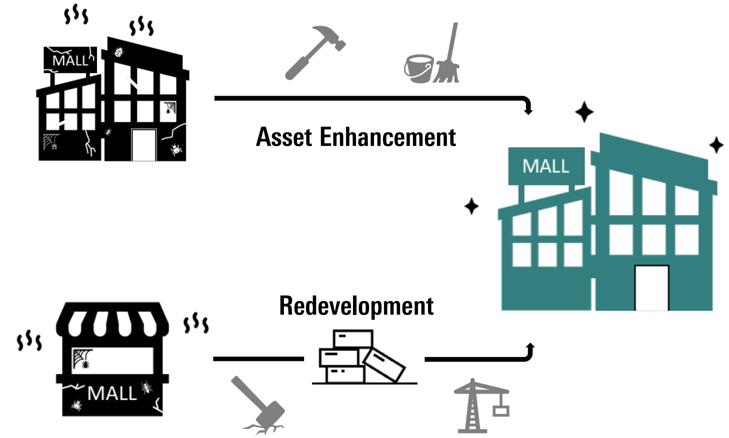
REITs Pursue Growth Through Improving the Performance of Its Existing Assets or Acquiring New Assets

Improving Occupancies and Raising Rents



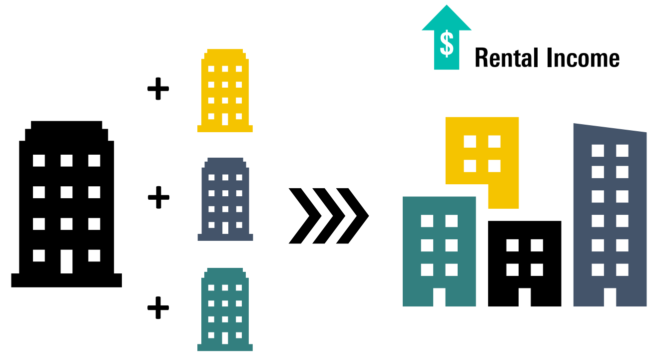
REITs primarily grow by improving the occupancy and rentals of their existing assets. In this regard, market demand and supply dynamics are highly important as they affect leasing downtime and rental reversions. Some REITs may enjoy organic rental growth from leases with built-in rental increases, while others, such as retail REITs, may enjoy some form of profit sharing via a variable rent component that depends on their tenant's turnover.

Asset Enhancement Initiative and/or Redevelopment



REITs can invest in upgrading the existing properties through redevelopment or asset enhancement initiatives. AEIs require lower capital outlay and involve minor renovation work to improve the property's competitiveness, such as reconfiguring a mall and upgrading the lift lobbies and toilets. On the other hand, redevelopment consumes more time and capital as it involves tearing down and rebuilding a new property. While such projects may result in a near-term loss in earnings, they add value to investors through medium-term income growth and capital appreciation.

Growth Through Acquisitions



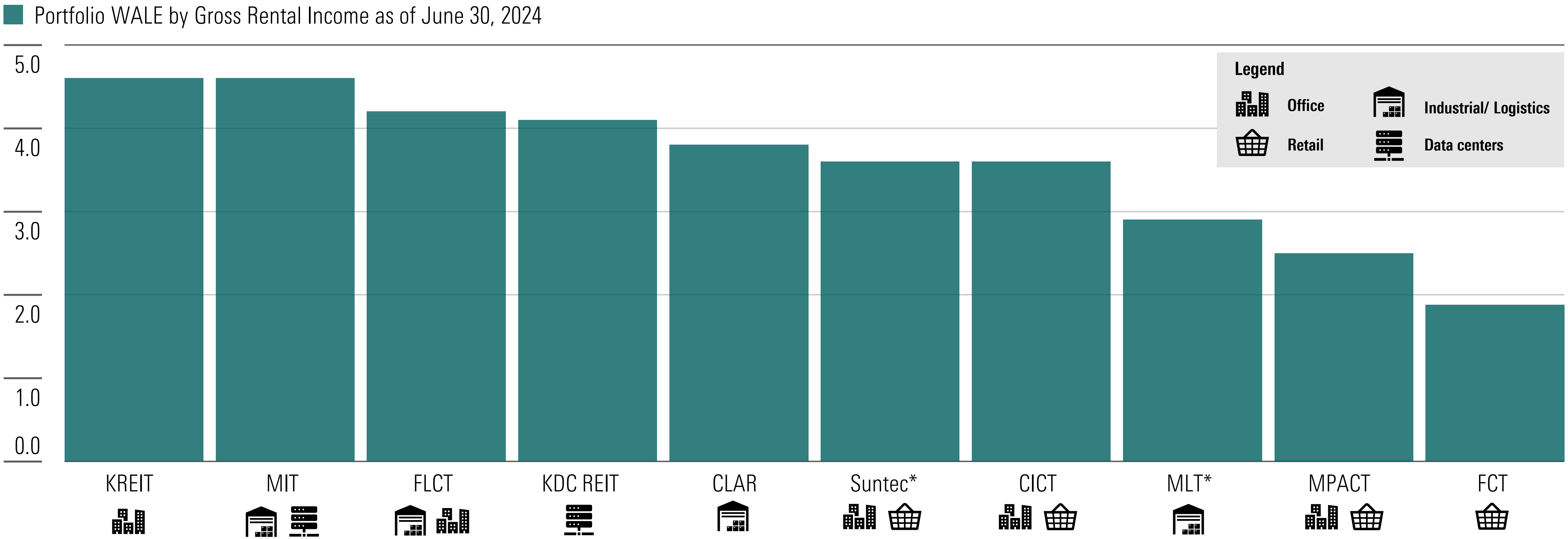
REITs can also grow their portfolio through acquisitions. These can be funded by divesting noncore assets, recycling the proceeds, taking out a loan, or raising equity. On this point, we think a REIT manager's ability to allocate capital efficiently is critical to ensure satisfactory returns. In our view, REIT managers who allocate capital well should deliver long-term distribution per unit growth for unitholders while maintaining an optimal portfolio. In contrast, REIT managers that are weak in capital allocation may end up with an overleveraged balance sheet and weak DPU growth.

Source: Morningstar

Long WALE Underpins Stable Recurring Income While Short WALE May Open Door to Higher Rents

Weighted average lease expiry is a metric that measures the average time taken for the REIT's existing leases to expire. Although a long WALE secures cash flow through different market cycles, a short WALE can be useful in periods of strong demand and low supply, as REITs can take the opportunity to renew leases at higher rents. In general, we note that retail WALEs tend to be shortest as retailers typically sign leases that are three years or fewer, while industrial WALEs tend to be longest as tenants sign leases that are five years or longer.

Morningstar Singapore REITs Coverage WALE Summary

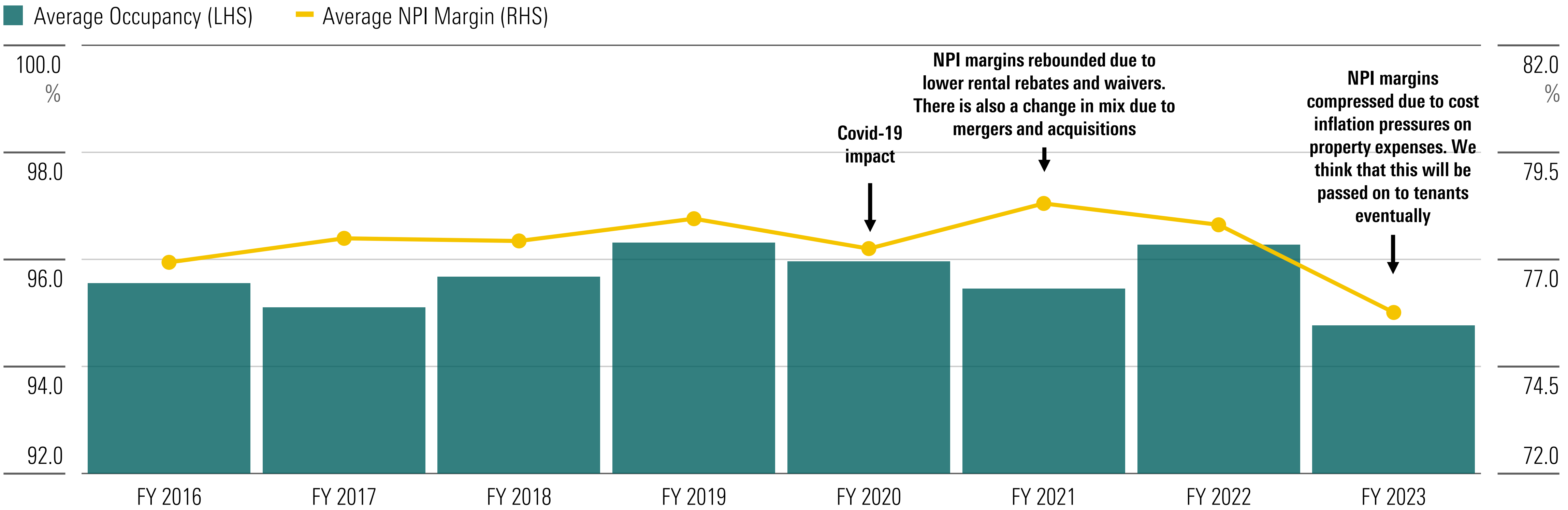


Source: Morningstar, Company reports. Data as of Aug. 14, 2024
*MLT and Suntec REIT WALE based on NLA.

Deterioration of Occupancies Has a Greater Impact on Net Property Income Margins Than Expense Inflation

Investing in properties for rental income is a high-margin business, with property expenses making up 20%-30% of revenue. We also observed that net property income margins remain relatively stable for individual REITs across time, as any increase in property expenses can be passed on to tenants through higher rents or service charges. That said, net property income margins may compress when there is a significant decline in portfolio occupancy, a change in portfolio mix, or when a major business-disrupting event like covid-19 takes place.

Net Property Income Margins Remain Relatively Stable Across Time



Source: Morningstar, company reports. Data as of Aug.14, 2024
Note: Average occupancy and NPI margins are computed using simple averages of all the SREITs within our coverage. For Mapletree REITs that end their fiscal year in March of the following year, we have adjusted it backward for a more appropriate period comparison. We have also adjusted KDC REIT's occupancy in Fiscal 2023 to reflect the uncollected rents from the tenant in Guangdong.

Singapore REITs Appoint External REIT Managers to Manage Their Assets on Behalf of Unitholders

Summary of REIT Management Fees

REIT Manager Fees	Nature	Common Fee Structure
Property Management Fees	Property manager handles the daily operating needs of the underlying properties.	• % of revenue • % of net property income
Asset Management Base Fees	Asset manager manages the assets' overall strategy and value creation.	• % of the value of the deposited property • % of distributable income
Performance Fees	Fees paid to the asset manager for the performance of the assets.	• % of net property income • % of the increase in distribution per unit • % of distributable income
Acquisition Fees	Fees paid to the asset manager for the work put in to acquire assets.	• 0.5% - 1.0% of acquisition price
Divestment Fees	Fees paid to the asset manager for the work put in to dispose assets.	• 0.5% of sale price

Source: Morningstar, company reports

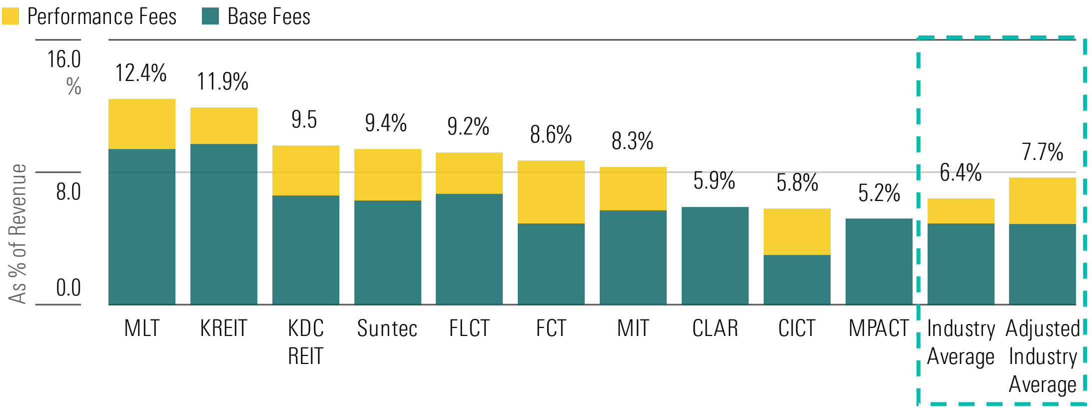
Singapore REITs pay external REIT managers fees to manage their portfolios on behalf of unitholders. These REIT managers are usually owned by the REITs' sponsors, who are generally major unitholders of the REITs.

REIT managers generally charge base fees to manage the existing portfolio of assets and performance fees tied to the overall performance of the REITs. In addition, REIT managers are paid for investment management work, such as the REIT's acquisition and divestment activities. As for property management, some REIT managers outsource it to third-party property managers, while others may manage it on behalf of the REITs for fees.

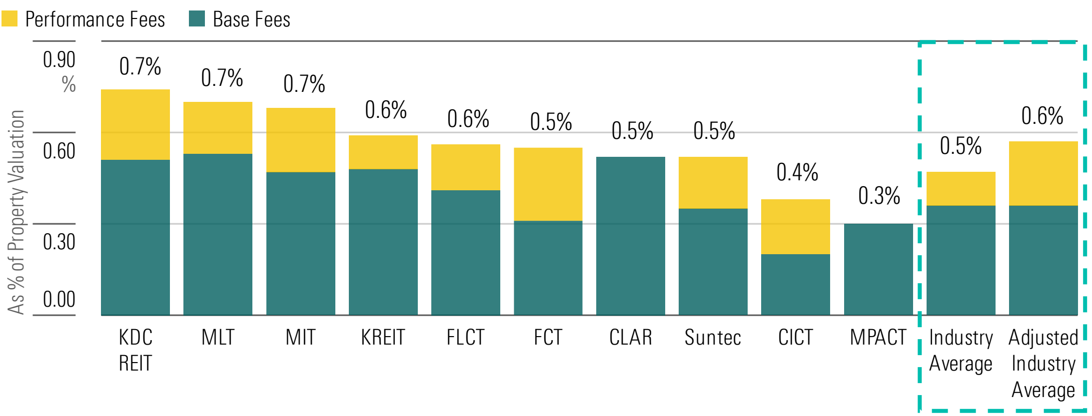
While we understand concerns regarding potential conflicts of interest and misalignment of interest, we note that some REIT managers have exhibited a high standard of corporate governance that is occasionally beyond the best practice set out by the Monetary Authority of Singapore. In this regard, we think it is more important to understand the motivations of the REIT's sponsor for setting up a REIT and whether it is committed to the success of its REIT.

Strong REIT Sponsors Can Offset Cost Disadvantages of External REIT Model

Average SREITs Management Fees as % of Revenue



Average SREITs Management Fees as % of Investment Properties Valuation



Elevated Base Fees Rate Is a Key Driver of High REIT Management Fees

Based on our observations, Singapore REITs that incur the highest management fees tend to be charged the highest base fees as a percentage of their deposited properties. The industry average base fees as a percentage of investment properties valuation and revenue are 0.36% and 4.88%, respectively.

Large Variation of Performance Fee Structure

We note that performance fee structures vary significantly across different REITs, resulting in a wide range of outcomes. About 53% of SREITs did not earn performance fees in the last fiscal year, primarily due to a unitholder-friendly performance fee structure that requires it to grow DPU to earn a performance fee. Within our coverage, CLAR and MPACT stand out for having a hurdle for the REIT managers to cross to earn performance fees.

Benefits from Sponsor Offset Cost Disadvantages of External REIT Manager

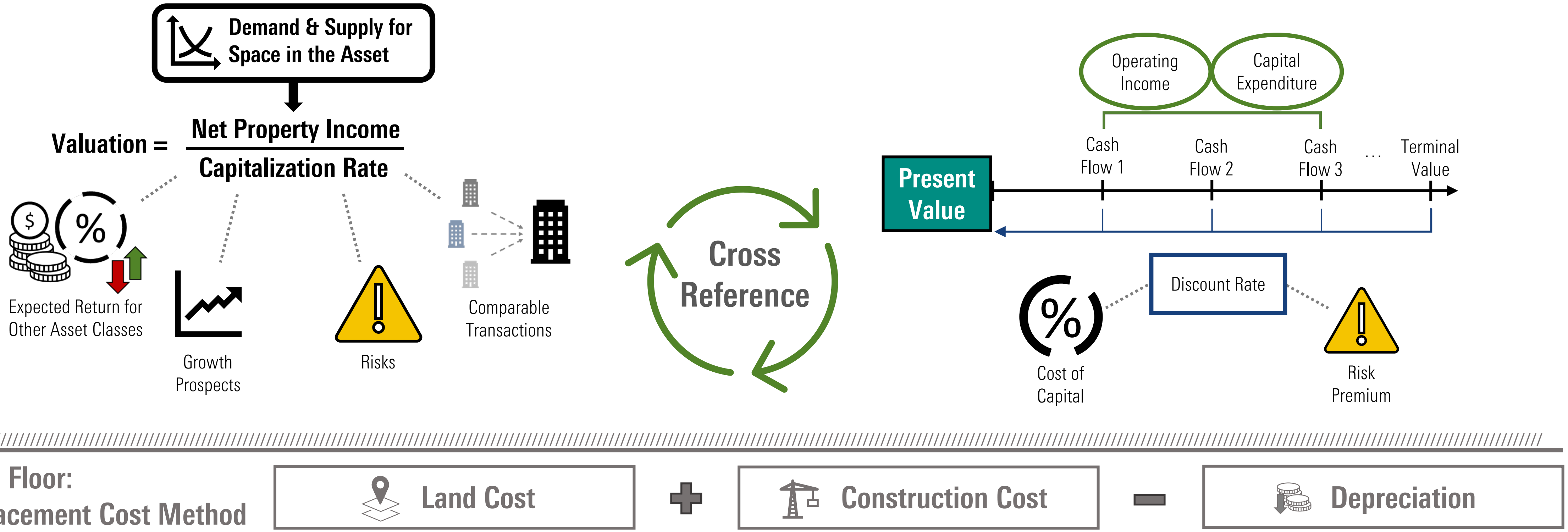
Although an internally managed model has certain cost advantages, including the absence of acquisition and divestment fees, having a strong sponsor may help counter some of the cons of an external REIT management model. Aside from providing the REIT with a pipeline of assets to acquire, a strong sponsor has the financial resources to support the REIT. These could range from entering joint ventures to acquiring high-quality assets that might be too big to digest by the REIT alone or backing the REIT during fundraising exercises.

Source: Morningstar, company reports. Data as of Aug.14, 2024
Note: Industry Average is the simple average of all S-REITs based on their last fiscal year. Adjusted Industry Average excludes S-REITs that did not earn performance fees from the performance fees computation.

Capital Appreciation of a REIT's Portfolio Forms an Important Part of Delivering Long-Term Value for Investors

Capital appreciation improves a REIT's financial position by organically lowering gearing and giving a REIT more debt headroom for acquisitions. The fair value gains can also be crystallized in a sale, with the profits distributed back to unitholders, pay down debt, or acquire more assets. That said, given that REITs have some influence on the valuation as they contribute some of the inputs and assumptions used by valuers, we think that investors should watch out for REITs with a track record of pushing up valuations aggressively.

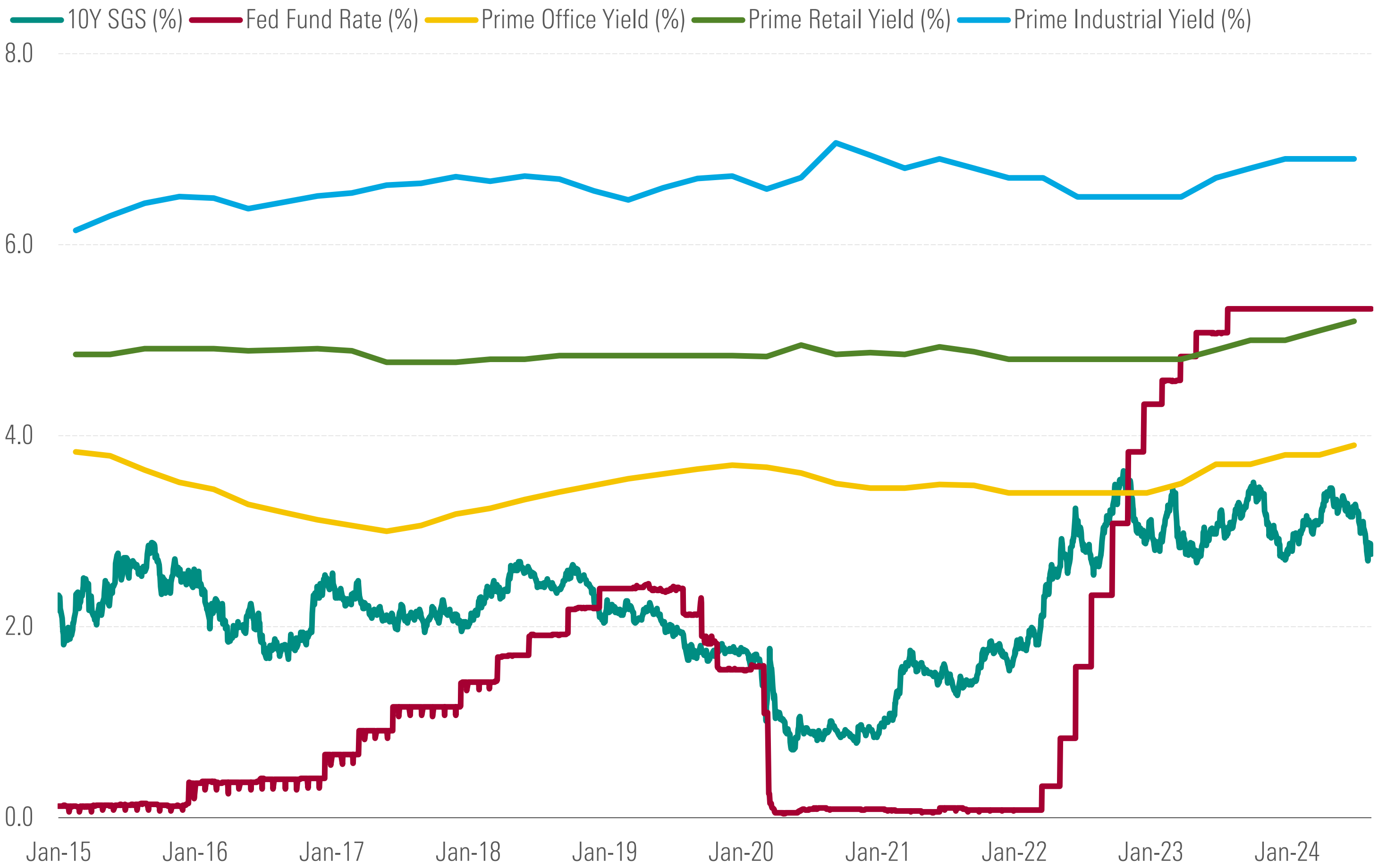
Discounted Cash Flow, Capitalization Rate and Replacement Cost Are Some of the Common Approaches to Real Estate Valuation



Source: Morningstar

Sharp Expansion in Singapore Real Estate Yields Unlikely Despite Higher Interest Rates

10-Year Singapore Government Securities Yields Versus Federal-Fund Rates and Real Estate Prime Yields



Interest Rates and its Impact on Real Estate Returns

The most direct impact of interest rates on real estate is its influence on borrowing costs, which affect investors' returns. That said, real estate yields do not always move in tandem with changes in interest rates, as other factors are also at play. These include demand and supply dynamics for leasing, macroeconomic outlook, and availability of capital. At the asset level, properties that are well located, of good quality, and have a strong tenant register will trade at lower yields as investors perceive a lower risk on such investments.

Lessons From the Last Rate Hike Cycle

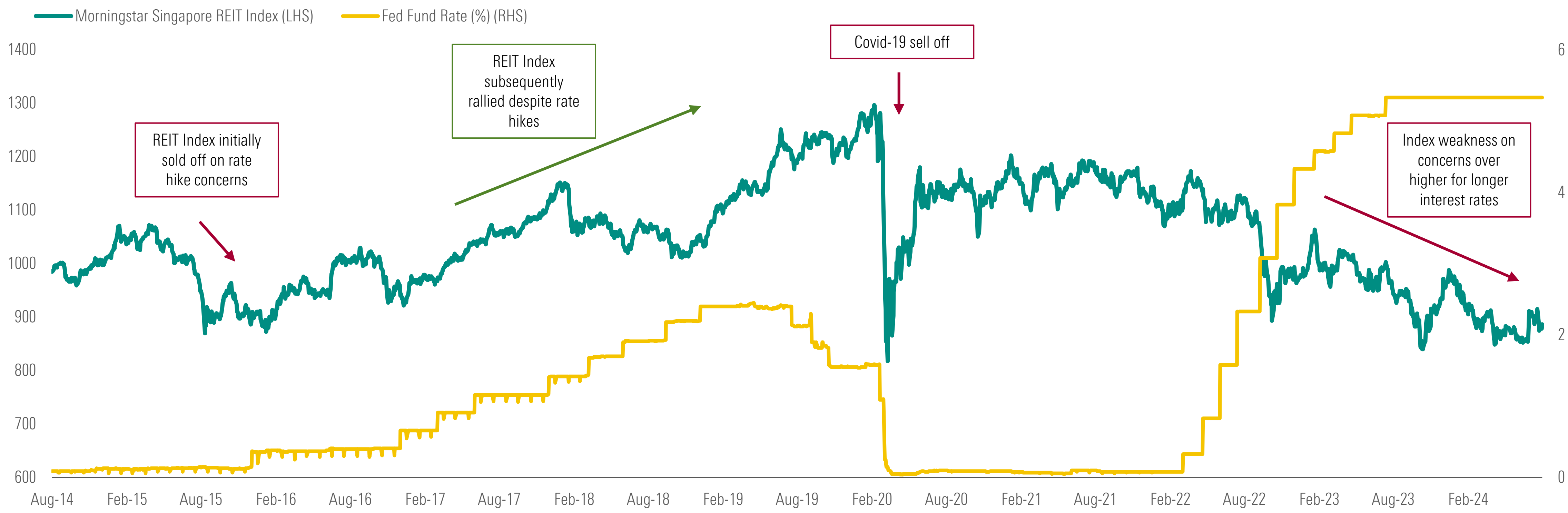
In the last rate hike cycle, we observed that prime yields remain relatively stable, moving up 20, 70, and 90 basis points from their trough for retail, office, and industrial assets, respectively. While prime yields are starting to increase in this current cycle, we think a hard reset is unlikely and do not expect a sudden, sharp devaluation in real estate prices. On this point, we like REITs that have been conservative in valuing their assets and can deliver rental growth as they are less at risk of a write-down on their asset valuations.

Source: Morningstar, CBRE, US Federal Reserve. Data as of Aug. 14, 2024
Note: Prime Yield refers to the yield of a prime asset

Current Valuations Represent Good Entry Points for Investors

Conventional wisdom suggests that REITs' performances negatively correlate with interest rates, but we note that the relationship is not as simple. In the previous interest rate cycle, REITs were sold off prior to rate hikes but subsequently rallied despite the actual hikes. In this current cycle, REITs were range-bound before the rate hikes but sold off following rate hikes. In our view, REITs' current valuations are priced in a higher for longer interest rate environment, and this is a good investment opportunity given that a rate pivot is on the horizon.

Morningstar Singapore REIT Index Versus Federal-Funds Rate



Source: Morningstar, US Federal Reserves. Data as of Aug.14, 2024

Prudent Debt Management Is Key to Maximizing Returns for Investors

In our view, debt is a double-edged sword for REITs. On one hand, it can improve a REIT's performance when used properly to acquire accretive investments. On the other hand, an overleveraged REIT may have trouble servicing its interest payments and debt obligations resulting in potential bankruptcy or rights issues that dilute unitholders' interests. Given that REITs are highly leveraged investment vehicles, we think that investors need to understand and pay close attention to a REIT's balance sheet health and credit quality.

Illustrative Example of REIT's Debt Metrics Using Morningstar SREITs' Coverage Mean

38.9%

Gearing

Gearing, also known as aggregate leverage, is the ratio of the total debt/total assets. While lower gearing may suggest debt headroom for acquisitions, gearing that is too low may also imply an inefficient capital structure.

3.5 times

Adjusted Interest Coverage Ratio

Adjusted interest coverage ratio is calculated by dividing the trailing 12 months' EBITDA by the trailing 12 months' interest expense and borrowing fees. REITs with adjusted ICRs above 2.5 times are allowed to have a gearing limit of 50%, otherwise it can only have a gearing limit of 45%[1].

3.2 years

Weighted Average Debt Expiry

Weighted average debt expiry measures how long it takes for the REIT's debt to mature on a weighted average basis. We generally like a well-staggered debt maturity profile as it lowers the risk of refinancing in a single given year.

73.7%

Proportion of Fixed Rate Debt

REITs with a higher proportion of fixed-rate debt may help mitigate the short-term impact of volatile interest rate movements.

Source: Morningstar, company reports. Data as of Aug. 14, 2024
Note 1: MAS is proposing to simplify these requirements to an ICR of 1.5 times and gearing limit of 50% for all SREITs

Majority of S-REITs' Debt Metrics Look Healthy; All REITs Stand to Benefit From Interest Rate Pivot

Within our coverage, Frasers Logistics and Commercial Trust had the lowest aggregate leverage as of June 30, 2024, while Suntec REIT had the highest as of June 30, 2024. With an interest rate pivot on the horizon, we think that highly leveraged REITs will get some breathing space, while REITs with low leverage might be the first to enter the market and grow through acquisitions.

Morningstar Singapore REITs Coverage Debt Metrics Summary

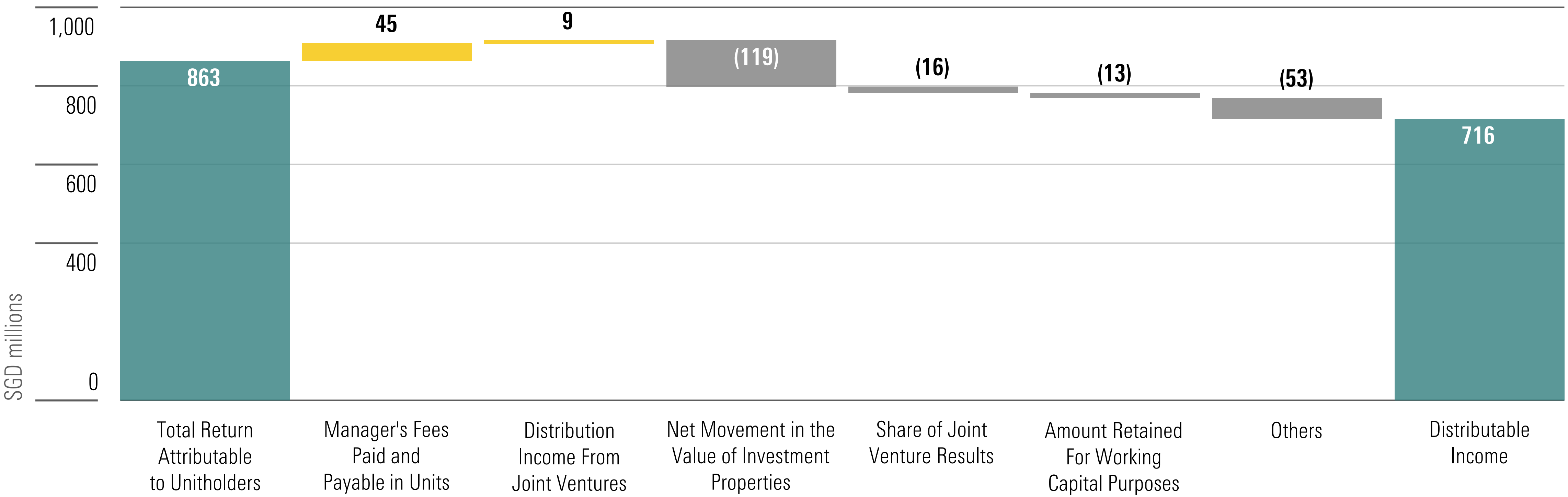
REIT	Ticker	Moat	Capital Allocation	Uncertainty	Star Rating	Aggregate Leverage	% of borrowings on fixed rates	Interest Coverage	WADE	Maximum asset valuation decline to breach 50% gearing limit
Frasers Logistics and Commercial Trust	BUOU	None	Standard	Low	★★★★	33.2%	72.6%	5.7x	2.0 years	-34%
Keppel DC REIT	AJBU	Narrow	Standard	Medium	★★	35.8%	74.0%	5.1x	3.1 years	-28%
CapitaLand Ascendas REIT	A17U	None	Standard	Medium	★★★	37.8%	83.0%	3.5x	3.7 years	-24%
Frasers Centrepoint Trust	J69U	Narrow	Standard	Low	★★★★	39.1%	67.2%	3.3x	2.8 years	-22%
Mapletree Industrial Trust Management	ME8U	None	Exemplary	Low	★★★	39.1%	82.1%	3.6x	3.6 years	-22%
Mapletree Logistics Trust Management	M44U	None	Exemplary	Low	★★★★	39.6%	83.0%	3.6x	3.7 years	-21%
CapitaLand Integrated Commercial Trust	C38U	Narrow	Exemplary	Low	★★★★	39.8%	76.0%	3.0x	3.5 years	-20%
Mapletree Pan Asia Commercial Trust	N2IU	None	Standard	Medium	★★★★	40.5%	78.9%	2.8x	3.1 years	-19%
Keppel REIT	K71U	None	Standard	Low	★★★★★	41.3%	65.0%	2.8x	3.0 years	-17%
Suntec Real Estate	T82U	None	Standard	High	★★★★	42.3%	55.0%	1.9x	3.3 years	-15%
					Mean	**38.9%**	**73.7%**	**3.5x**	**3.2 years**	**-22%**

Source: Morningstar, company reports. Data as of Aug. 24, 2024

Singapore REITs Are Tax-Efficient Investment Vehicles

Singapore REITs must distribute at least 90% of their taxable income to enjoy tax benefits (no tax levied on their income). Common adjustments made to net income to derive distributable income include deducting non-cash items such as fair value changes to investment properties, unrealized exchange gains or losses and results of share of joint ventures and associates, and adding management fees that are paid in units, distribution from joint ventures and associates and distribution top-ups as decided by the REIT manager.

Illustrative Net Income to Distributable Income Walk: CapitaLand Integrated Commercial Trust (Fiscal 2024)



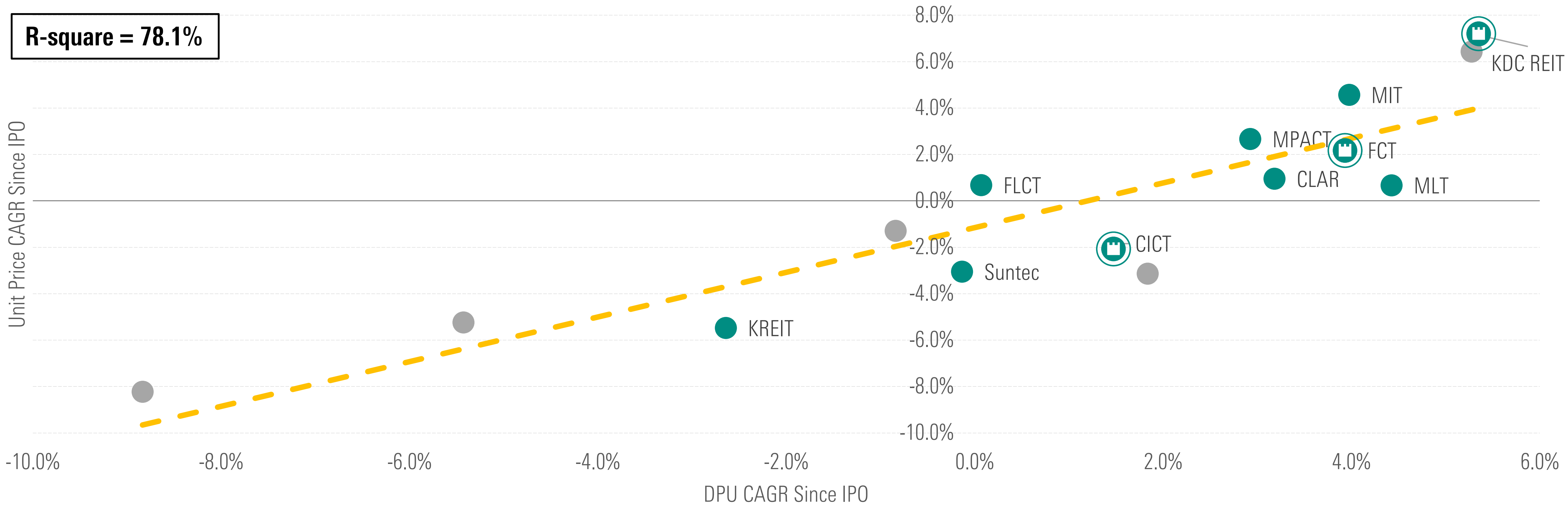
Source: Morningstar

High Positive Correlation Between REIT's Unit Prices and Its Ability to Grow Distribution Per Unit

In our view, investors should seek out REITs that can steadily grow distribution per unit. This is because, while unit prices may be volatile in the short run, they tend to track DPU growth over the long term. Within our coverage, Keppel DC REIT has historically achieved the strongest DPU growth by pursuing inorganic growth through acquisitions, resulting in assets under management growing at a CAGR of 14.4% and DPU growing at a CAGR of 5.4%.

REITs That Are Able to Grow Distribution Per Unit Over Time Tend to Be Rewarded With Better Unit Price Performance

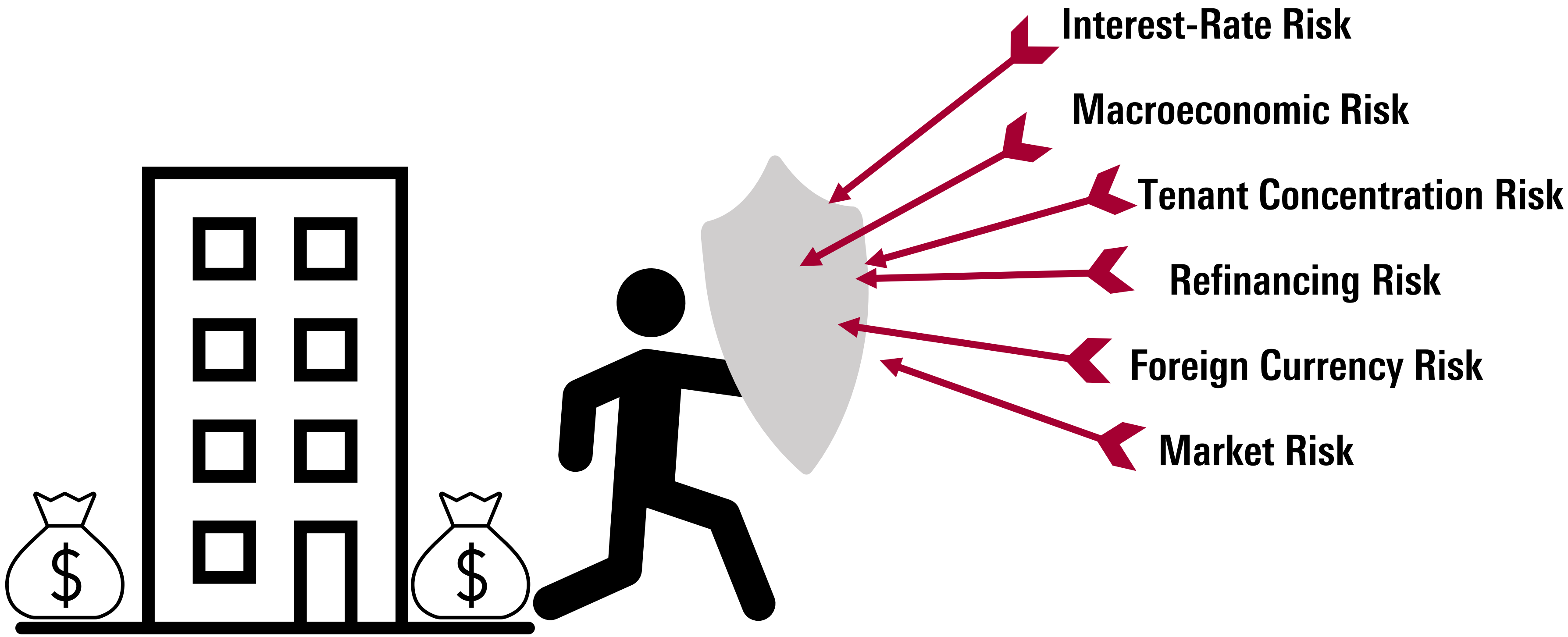
Note: Analysis was done for REITs with a market capitalization above USD 1 billion



REIT Managers Have Various Methods at Their Disposal to Manage Risks

REITs are exposed to the economic conditions of the geographies in which they invest. Any significant decline in economic activities and consumer spending may deter companies from expanding and weighing on commercial and industrial space demand. REITs are also heavily leveraged, exposing them to refinancing risk and interest rate risks. To mitigate these risks, REIT managers look to secure their income through long-tenure leases, fix a proportion of their interest rate, diversify their tenant base, and hedge their foreign currency risk exposure.

Well Staggered Lease and Debt Expiry Profiles, Tenant and Asset Diversification, and Hedging Are Some of the Tools Used by REIT Managers to Protect Their portfolio



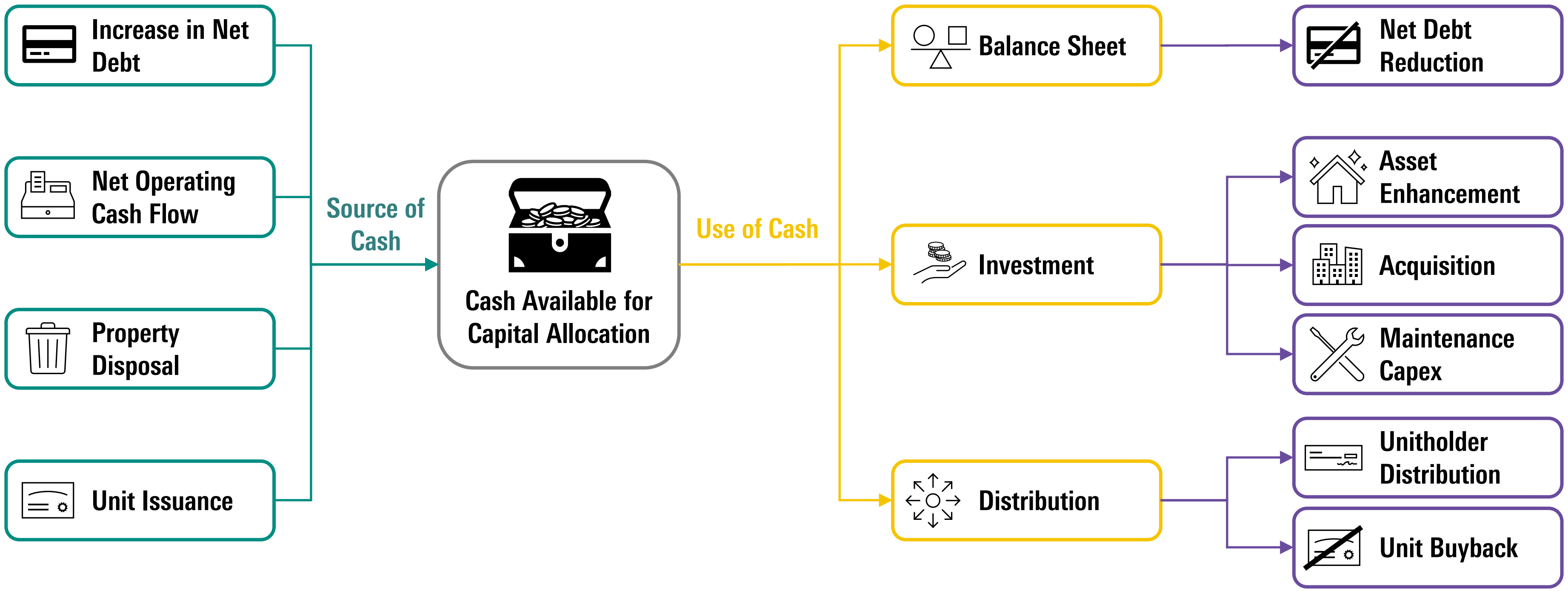
Source: Morningstar

Exemplary REIT Managers Maximize Unitholders' Value Through Prudent Capital Allocation

An Exemplary Capital Allocation Rating is awarded to REIT managers who maximize unitholders' value. We like REITs that are not overly leveraged and risk unitholders' value destruction via dilutive equity raise or asset fire sale at a discount. We also like REITs with a good track record of making accretive acquisitions and investing in asset enhancement with positive returns. SREITs generally distribute more than 90% of their income to enjoy tax exemptions, though some may also buy back units when management thinks they are undervalued.

Simplified Flowchart of Morningstar Capital Allocation Methodology

Within our coverage, we have assigned Exemplary ratings to CICT, MLT, and MIT for their sound balance sheets, exceptional investment records, and appropriate distribution policies.



Exemplary
CapitaLand Integrated Commercial Trust
Mapletree Logistics Trust
Mapletree Industrial Trust

Standard
Suntec Real Estate
Mapletree Pan Asia Commercial Trust
Keppel REIT
Frasers Centrepoint Trust
Frasers Logistics and Commercial Trust
CapitaLand Ascendas REIT
Keppel DC REIT

Source: Morningstar

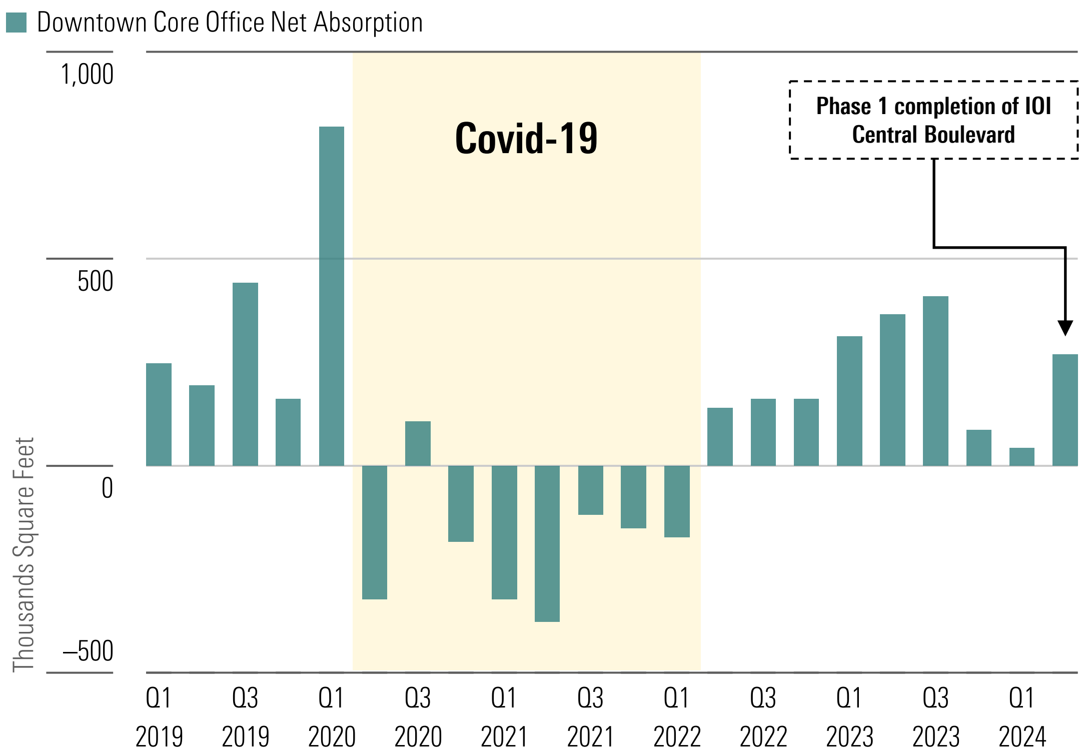
Office Outlook

Weak demand is offset by limited supply. We expect market rents to flatten.

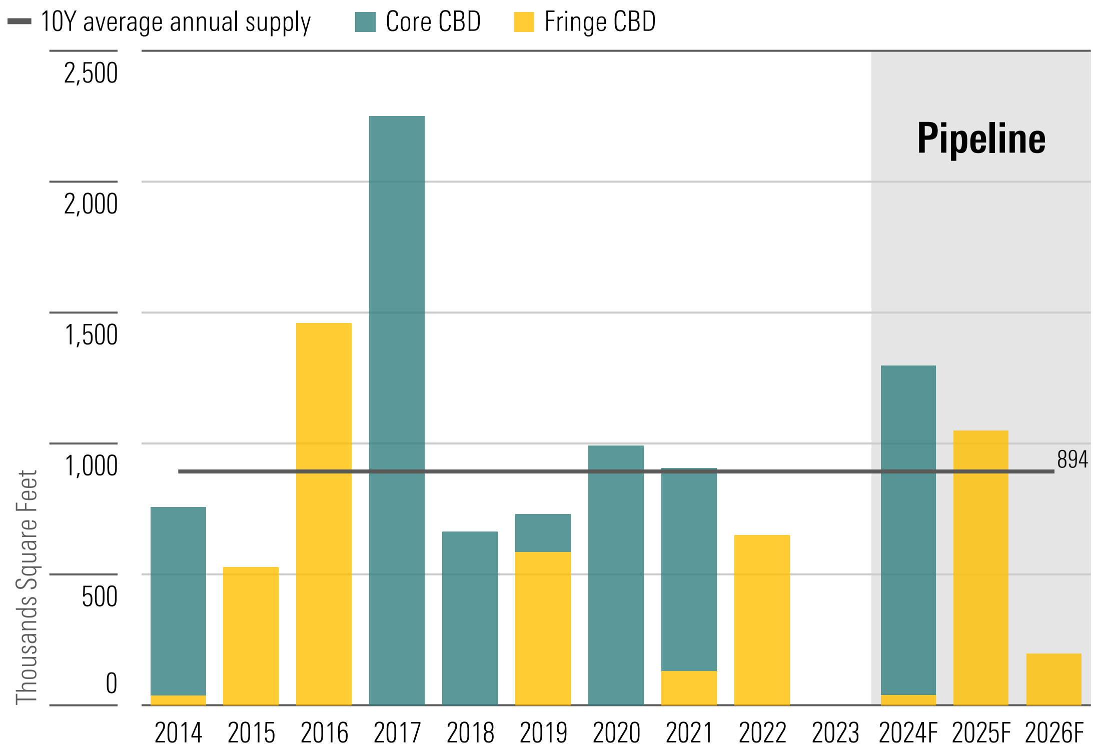
Near-Term Office Demand Weakens While Projected Supply Remains Limited in the Core CBD

Office leasing demand has moderated in recent quarters as companies turn cautious amid a high interest-rate environment and uncertain economic outlook. We expect leasing demand to remain weak as companies focus on cost control. Aside from the completion of IOI Central Boulevard this year, there will be no new office building in the core CBD in the next three years. The tight office supply is likely to persist given the absence of commercial core CBD sites available on the Government Land Sales reserve list and confirmed list.

Office Demand Has Moderated in the Recent Quarters



Core CBD Office Supply Limited With Only One Major Completion in 2024

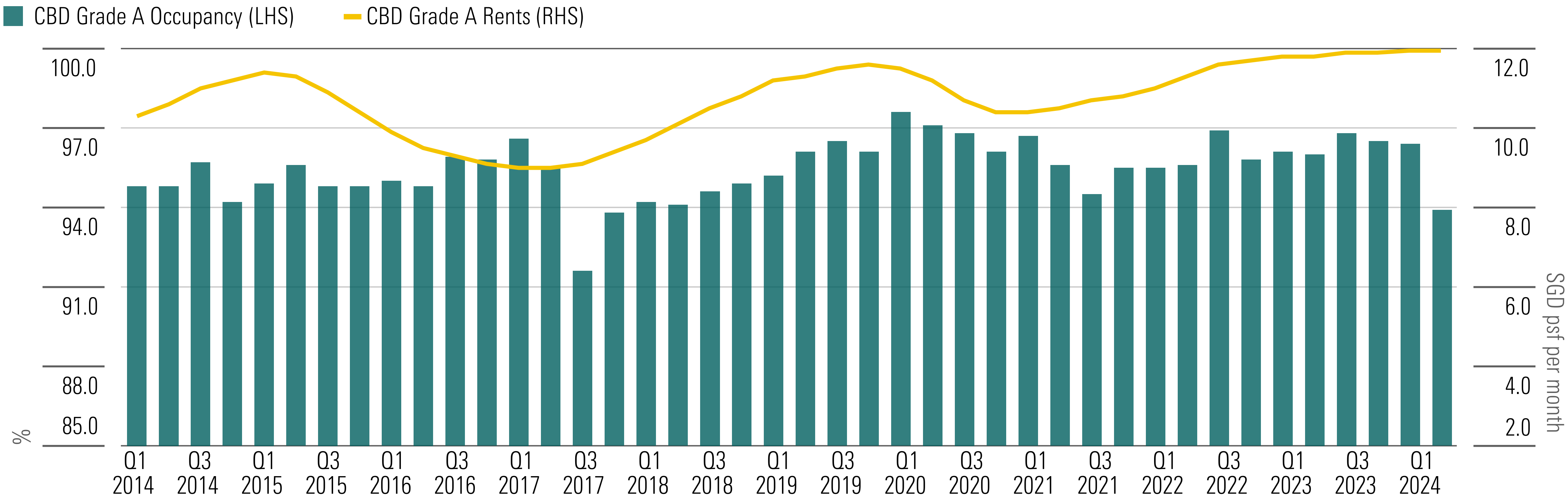


Source: Morningstar, CBRE, URA. Data as of Aug. 14, 2024

Near-term CBD Office Rents Flattening Out, Fed Rate Cuts to Revive Office Demand

In the near term, we expect CBD office rents to stay flat as limited office supply offsets weak office demand. Beyond that, we think that interest rates cut by the Fed will stimulate business expansion activities and drive up office demand. With projected supply staying tight for the next three years, we think that any strong pick-up in office demand will push up office rents, benefitting CBD office landlords.

CBD Office Rents Flattening Out as Weak Demand Is Offset by Limited Supply



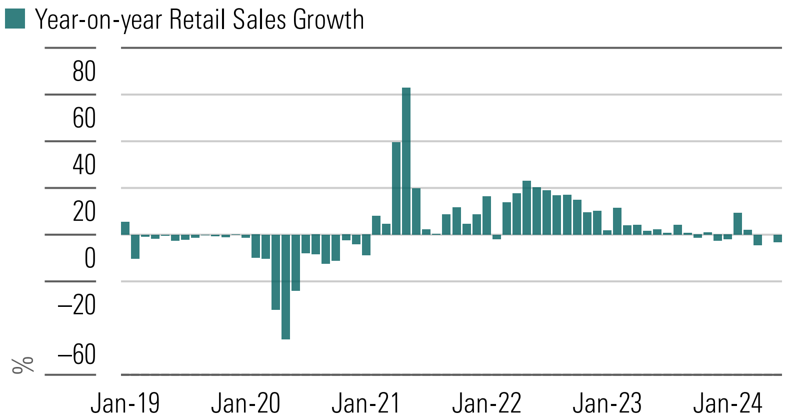
Source: Morningstar, CBRE. Data as of Aug. 14, 2024

Retail Outlook

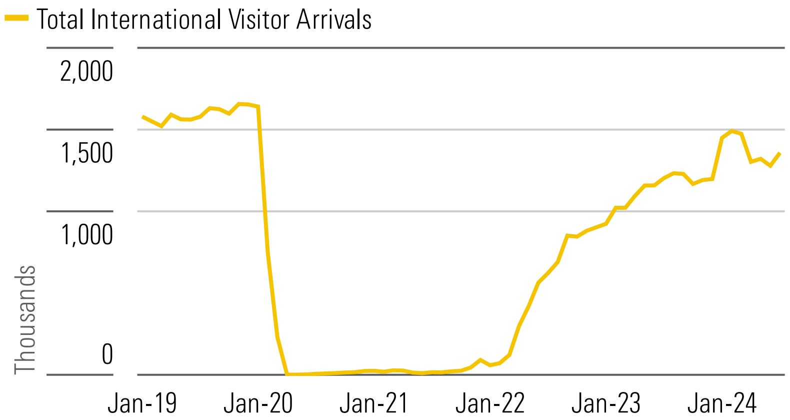
Demand-supply dynamics remain healthy; prime rents to improve as vacancy rates tighten.

Demand-Supply Dynamics For Retail Space Remains Healthy Despite Slowdown in Retail Sales Growth

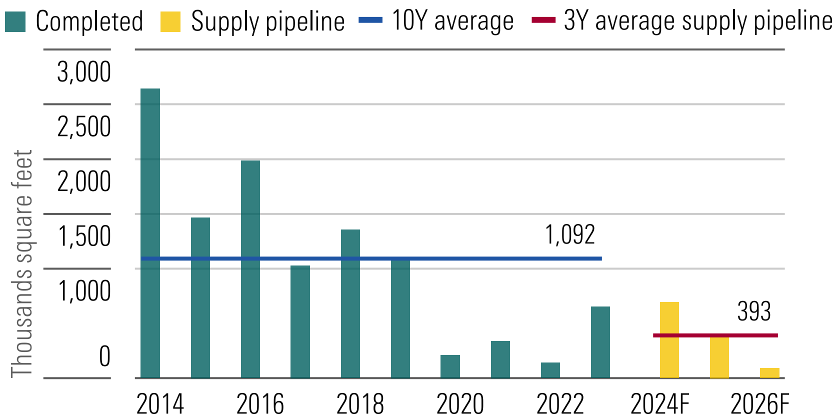
Retail Sales Growth Has Slowed After Re-opening Boost



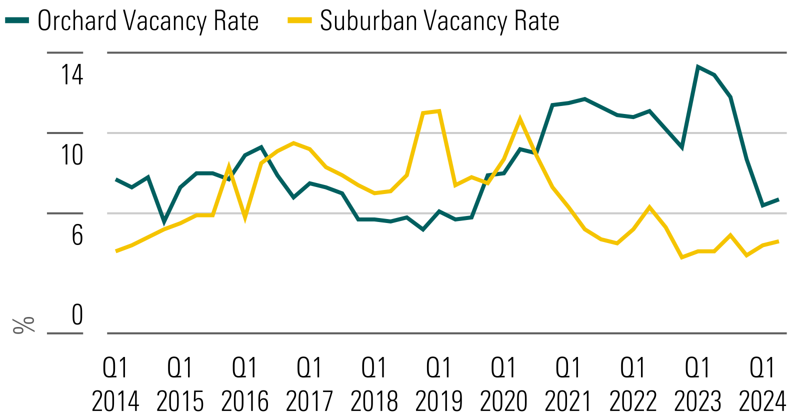
Visitor Arrivals Recovery Still On Track



Upcoming Retail Supply Below 10-Year Average



Orchard Road Vacancy Rate Fell On Healthy Demand



While Singapore retail sales have surpassed pre-covid levels, retail sales growth has slowed as the recovery of outbound departure of Singapore residents tracked ahead of the recovery of international visitor arrivals (96% versus 89% for year-to-date June 2024). Nevertheless, the recovery in tourism is firmly on the way, with visitor arrivals from China retaking the top spot for arrivals by country in May 2024 and June 2024, aided by the implementation of visa exemptions in February 2024.

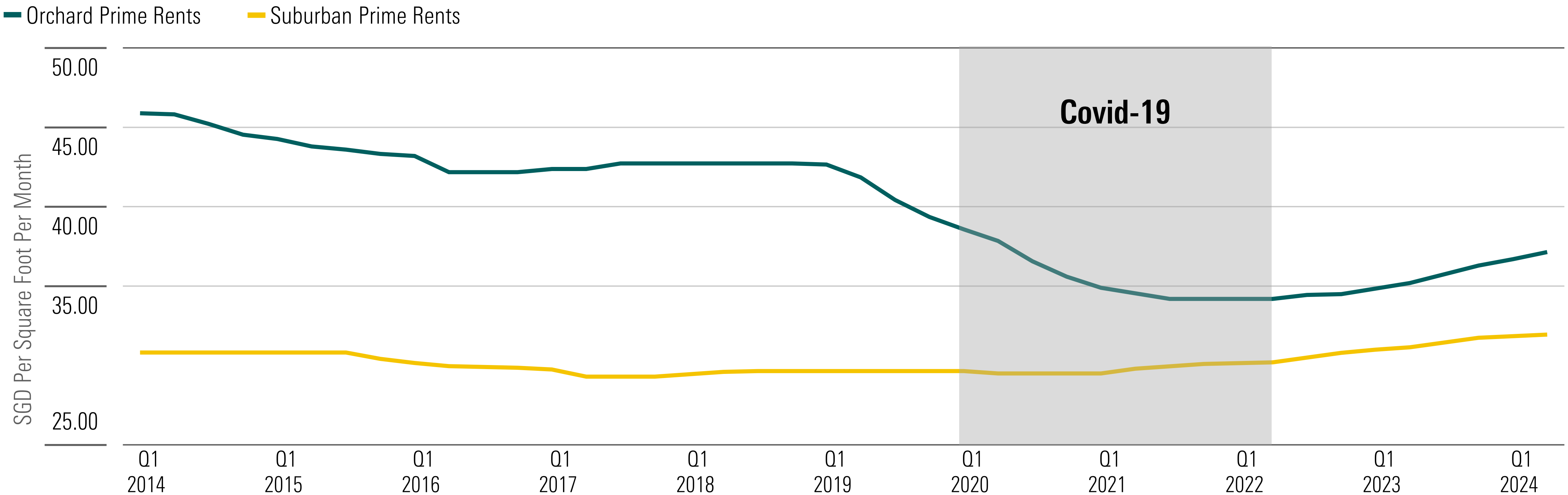
While there have been a few exits and consolidation of retail space among retailers, demand remains healthy with the entry of overseas brands looking to expand outside their home country. The Orchard area saw the strongest take-up in retail space, driving vacancy rates to the lowest since the pandemic.

Source: Morningstar, CBRE, URA, Singstat, Singapore Tourism Board Data as of Aug. 14, 2024

Retail Prime Rents Improving on Tight Retail Vacancy Rates

Prime retail rents for the Orchard area and suburban malls have improved due to tight vacancy rates and healthy demand for retail space. We expect market rents to continue to grow as retailers remain optimistic about the continued recovery of business and leisure travel, which is supported by a healthy pipeline of international events. While we anticipate outbound travel to result in some domestic spending leakage, we think that overall shopper traffic and spending in suburban malls will remain resilient.

Orchard Area and Suburban Prime Rents Recovering as Vacancy Rates Tighten



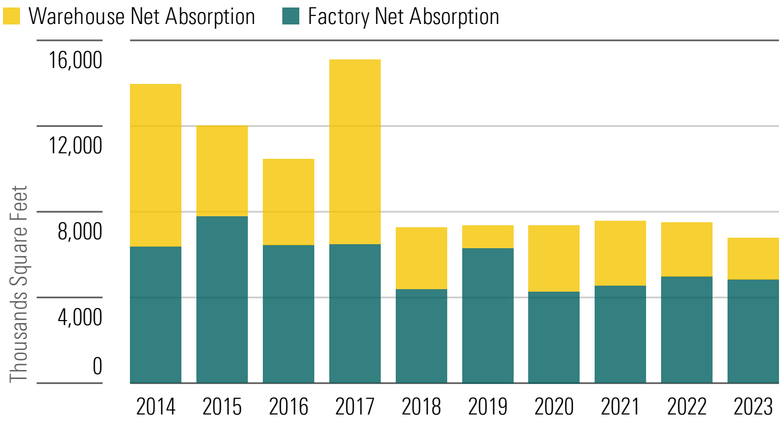
Source: Morningstar, CBRE. Data as of Aug. 14, 2024

Logistics and Industrial Outlook

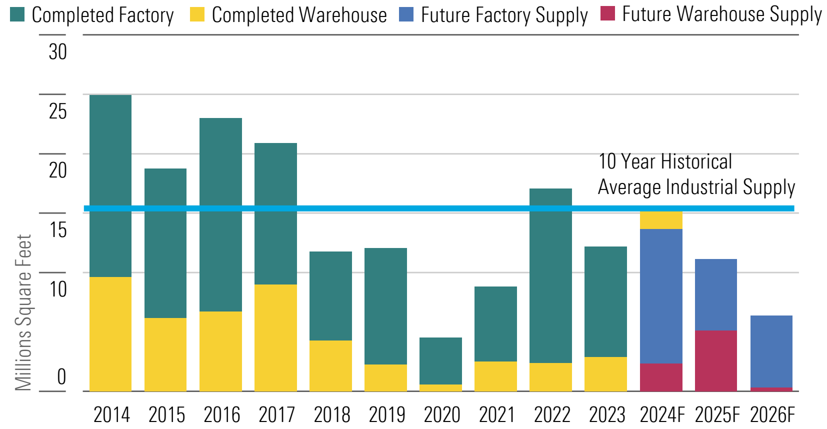
Singapore warehouse to continue outperformance; business parks suffer from oversupply.

Singapore Warehouses to Outperform Other Industrial Assets Due to Resilient Demand and Limited Supply

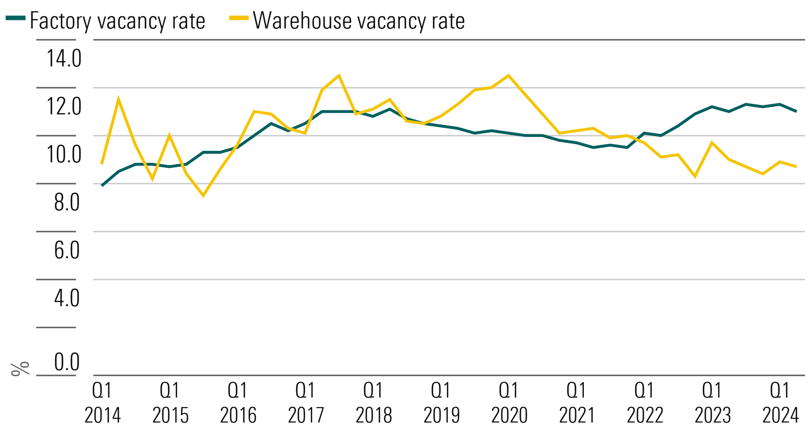
Singapore Industrial Demand



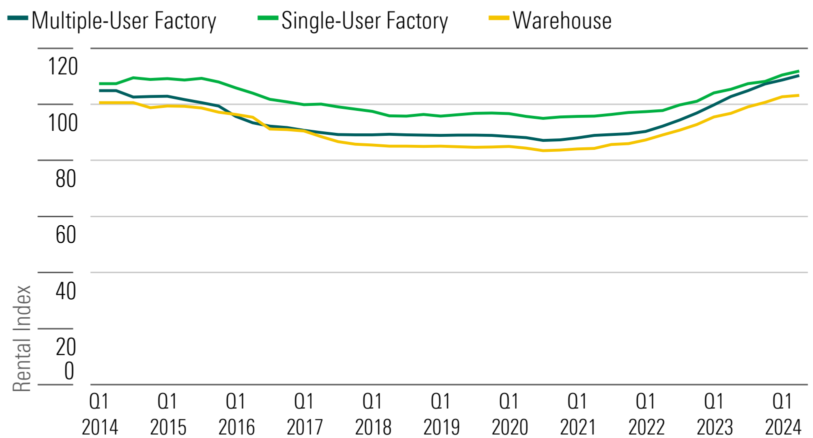
Singapore Industrial Supply



Singapore Industrial Vacancy Rates



Singapore Industrial Rent Index



To attract investment in Singapore, the government has implemented several policies to ensure an ample supply of industrial land that would lower the cost of doing business. As a result, industrial vacancies have stayed elevated while industrial rents have remained relatively flat.

That said, we note that demand for prime logistics space has been robust since covid-19, driven by strong take up from e-commerce and third-party logistics companies. This has helped drive warehouse vacancy rates down to 8.7% in the second quarter of 2024 from 12.5% in the first quarter of 2021.

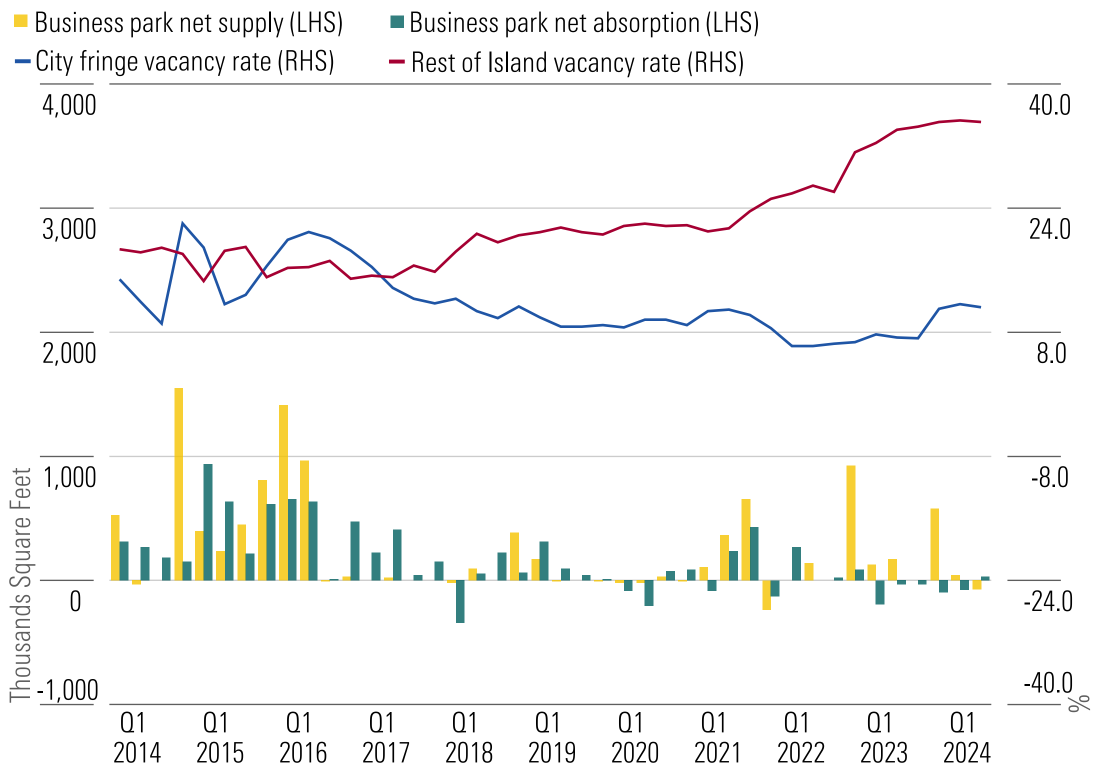
Looking ahead, we expect warehouses to continue to outperform other industrial assets, with better occupancy rates and higher rental growth, given more favorable market demand and supply dynamics.

Source: Morningstar, Jurong Town Corporation. Data as of Aug. 14, 2024

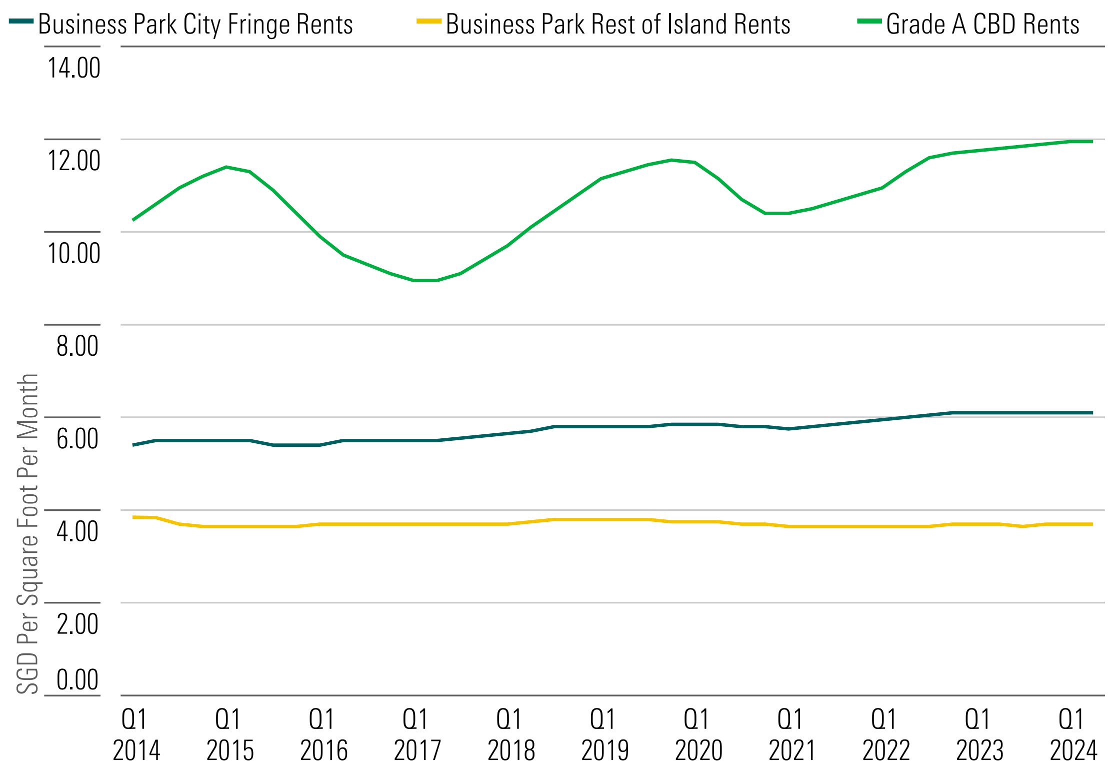
Singapore Business Parks Suffer From Oversupply; Location and Quality of Buildings Are Key Differentiators

Consolidations in the technology, banking, and financial sectors, combined with the completion of new business parks, have driven up business park vacancy rates. Nevertheless, better-located business parks close to the city fringe outperformed business parks further away. We expect this trend to persist, given that the upcoming supply of new business parks is located outside the city fringe.

Business Parks Outside the City Fringe Suffering From Oversupply



Business Park Rents Are More Stable Than CBD Grade-A Office Rents



Source: Morningstar, Jurong Town Corporation, CBRE. Data as of Aug. 14, 2024

ESG Snapshot

SREITs have low or negligible ESG risk ratings.

Summary of Sustainalytics ESG Exposure Ratings

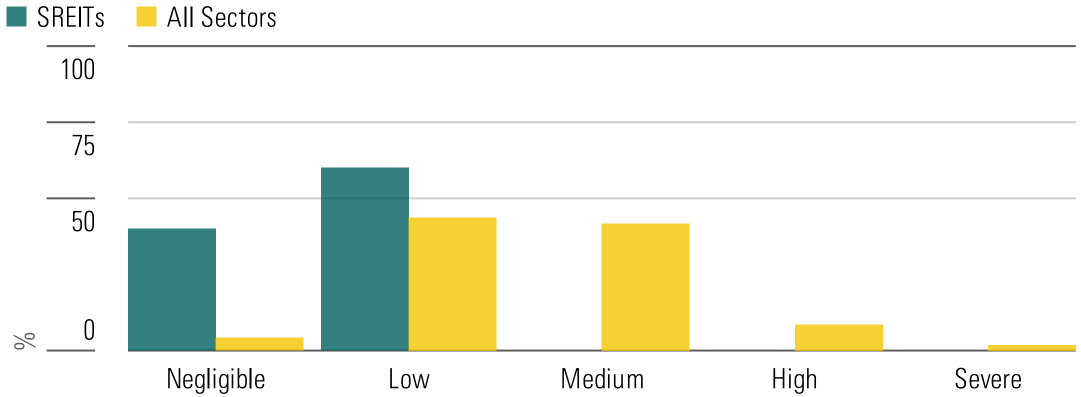
ESG Risk Ratings assigned to Singapore REITs range between Negligible and Low. Within our Singapore REIT coverage, 60% have a Low ESG Risk Rating, while the rest have a Negligible Risk Rating. The key ESG risks for Singapore REITs include ESG integration – financials, business ethics, product governance, and corporate governance:

ESG Integration – Financials: Given that REITs are highly leveraged investment vehicles, failure to ensure their portfolio of properties is green and sustainable may preclude them from accessing green financing.

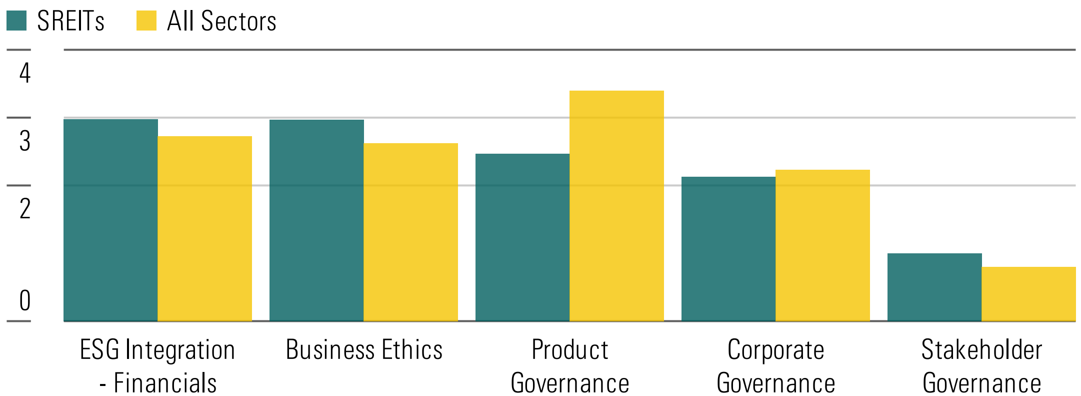
Business Ethics: Issues such as conflicts of interest, fee structures, and tax and accounting practices, can have dramatic downside impacts on a REIT's financial performance. REITs involved in financial engineering and accounting irregularities expose it to reputational risk and regulatory scrutiny.

Product Governance: REITs primarily generate revenue through rental income received from occupiers. Therefore, the quality and safety of the buildings that companies own and manage directly influence their ability to attract and retain tenants. Poor building safety is a danger to tenant well-being, and injuries due to management negligence may expose a company to legal action by tenants. Poor building safety may also hurt a company's reputation in the market, as safety is one of the key factors considered by tenants during decision-making.

Distribution of ESG Risk Ratings for REITs and All Industries



Top ESG Risk Rating Scores by Material ESG Issue[1]



Sources: Morningstar, Sustainalytics.
Note1: Higher Score Denotes Higher Risk

Glossary

Key Industry Terms

REITs

CICT	CapitaLand Integrated Commercial Trust
CLAR	CapitaLand Ascendas REIT
FCT	Frasers Centrepoint Trust
FLCT	Frasers Logistics and Commercial Trust
KDC REIT	Keppel DC REIT
KREIT	Keppel REIT
MIT	Mapletree Industrial Trust
MLT	Mapletree Logistics Trust
MPACT	Mapletree Pan Asia Commercial Trust
Suntec	Suntec REIT

Industry Abbreviations

AEI	Asset Enhancement Initiatives
CAGR	Compound Annual Growth Rate
Cap rate	Capitalization Rate
CAPEX	Capital Expenditure
CBD	Central Business District

Industry Abbreviations

DPU	Distribution Per Unit
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
ICR	Interest Coverage Ratio
NLA	Net Lettable Area
psf	Per Square Foot
REIT	Real Estate Investment Trust
ROIC	Return On Invested Capital
SGS	Singapore Government Securities
SREITs	Singapore REITs
WACC	Weighted Average Cost of Capital
WADE	Weighted Average Debt Expiry
WALE	Weighted Average Lease Expiry

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