Positioned for new heights:

S-REITs are ready to capture the next wave of opportunities

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Contents

Foreword

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Dear readers,

Since the last publication in September 2021, rising inflation in the United States ("U.S.") which was similarly witnessed globally, the U.S. Federal Reserve ("Fed") implemented a series of interest rate hikes, raising rates 11 times for a cumulative increase of 525 basis points to curb runaway prices. The higher rates have driven up the cost of capital and pressure on profit margin, especially for the Global Real Estate Investment Trusts ("REITs") market. Overall under challenging market conditions, the FTSE EPRA Nareit Global Index decreased by 11.5% in total return from the last publication to 30 June 2024[1].

However, the Fed's 50 basis point cut on 18 September 2024 and a subsequent 25 basis points reduction on 7 November 2024; signalled a shift towards a lower interest rate environment, which led to a positive reaction in the REITs market. Following its fall in the first half of 2024, year-todate (as of 30 September 2024) the FTSE EPRA Nareit Global Index recovered 16.3%. (footnote 1) This gain brings the Index's total return values back to levels seen prior to the highest interest rate environment in forty years. Closer to home in Singapore, the Singapore Exchange ("SGX") reported that the iEdge S-REIT Index generated total returns of 17.5% in the third quarter of 2024, driven by a rally in anticipation of the rate cut in September 2024[2].

Singapore is frequently regarded as Asia's largest global REIT platform, but the Singapore REITs and property trusts ("S-REITs") sector has experienced a significant three-year lull in initial public offerings ("IPO") activity since December 2021. Since 11 other REIT markets within Asia, such as Hong Kong, India and China - how does Singapore compare in terms of performance? Will Singapore still maintain its competitiveness? What steps can be taken to rejuvenate the S-REIT IPO landscape and foster long-term growth? We share our thoughts within these pages.

We would like to acknowledge and express our gratitude to SGX for their valuable contribution and insights, and to Citigroup Global Markets Singapore for their help and guidance during the preparation of the report. We hope the perspectives shared here are informative and helpful for sponsors considering listing a REIT in Singapore.

U.S. President-elect Donald Trump is set to take office in January 2025 which creates new uncertainties depending on the effects of new policies on the economy. As we navigate the REIT market in a more complex geopolitical climate, we remain cautiously optimistic about the potential tailwinds and opportunities ahead. Let us stay prepared to seize opportunities as they emerge and move forward with confidence.

How Have Global REITs Performed Over the Last Three Years?

The global REIT sector has experienced a decline in performance over the past three years, driven by uncertainty in the macroeconomic environment.

As of September 2024, the global market capitalisation of listed REITs stood at approximately US$2 trillion, a decline of 10.4% from the US$2.2 trillion recorded in September 2021. This decline was not unexpected, given rising interest rates, geopolitical tensions, and weaker economic fundamentals.

Meanwhile, the number of listed REITs increased by 4.4%, from 974 in September 2021 to 1,017 in September 2024. This rise indicates that more companies and regions have entered the REITs market despite the broader market contraction in capitalisation. However, the number of countries with listed REITs has slightly decreased, from 39 in 2021 to 37 in 2024.

Despite the increased number of listed REITs, the reduction in market capitalisation points to a more challenging investment climate, influenced by various factors, most notably a rising interest rate environment.

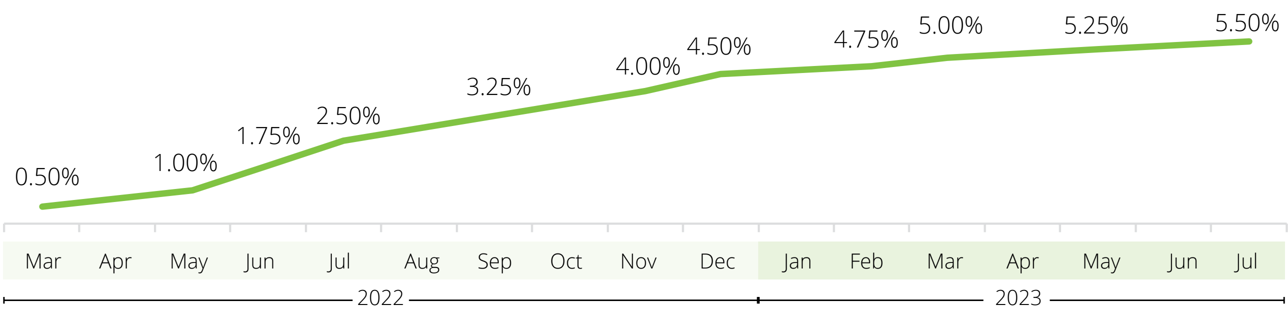
Figure 1: Global market capitalisation of REITs as of September 2024

	Sep'24	Sep'21	Increase (Decrease)
Global market capitalisation of listed REITs	US$2 trillion	US$2.2 trillion	(10.4%)
No. of listed REITs	1,017	974	4.4%
No. of countries	37	39	

Source: EPRA[3]

Key Factors Driving Market Performance

Figure 2: Federal Reserve Funds Rate from 1 March 2022 to 1 July 2023



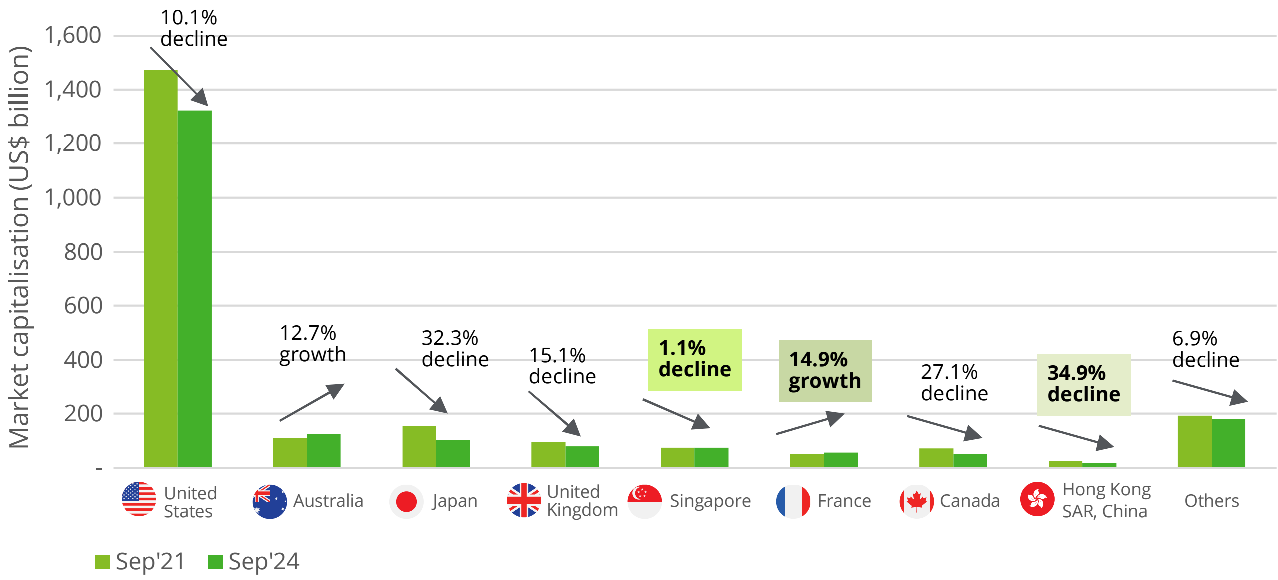
Source: U.S. Federal Reserve

Between 1 March 2022 and 1 July 2023, the Fed implemented a series of interest rate hikes, raising rates 11 times, resulting in a cumulative increase of 525 basis points[4]. These hikes have led to higher borrowing costs for REITs, which typically rely on debt for property acquisitions and operations. Higher interest rates increase the cost of capital, putting pressure on profit margins and reducing the appeal of REITs as an investment vehicle.

Rising interest rates have a twofold impact on REITs, which often carry substantial debt loads. They increase the cost of borrowing and impact the valuation of their real estate assets, as higher rates can make it more expensive to finance acquisitions. This environment has led to a general pullback in REIT market performance, especially in regions with higher borrowing costs or where interest rates have risen more aggressively.

A closer examination of the performance in some of the largest global markets reveals a divergence in how different regions and sectors of the REIT market have fared.

Figure 3: Comparison of global market capitalisation of REITs: September 2024 versus September 2021



Source: EPRA

Hong Kong, **Japan**, **Canada**, and the **United Kingdom ("UK")** have seen the most significant declines in their REIT markets. These markets are not only susceptible to changes in interest rates, but a combination of tighter monetary policies and economic uncertainties have led to a marked reduction in market capitalisation. Hong Kong, in particular, faced both regional and global headwinds, including geopolitical tensions between China and the U.S. and a sluggish post-pandemic recovery.

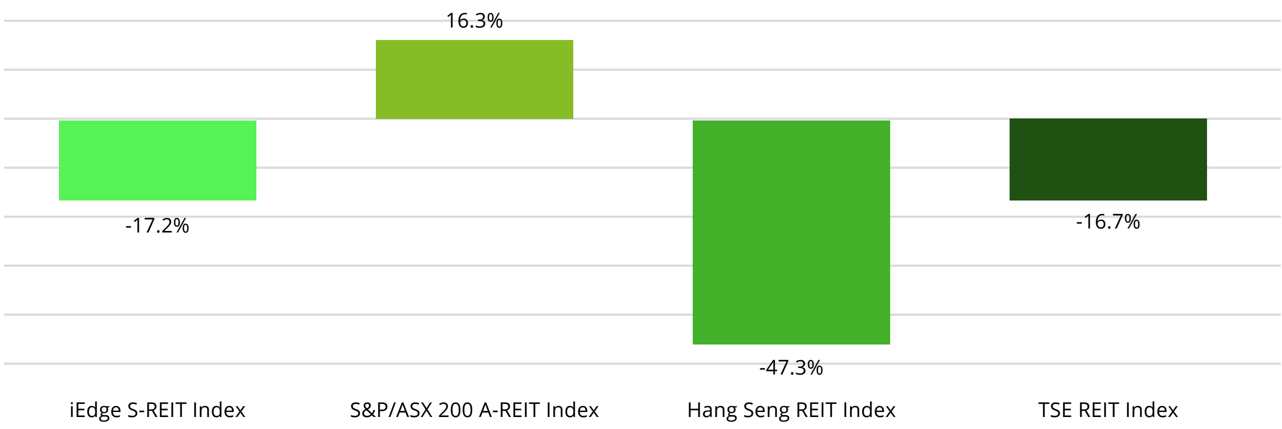
In contrast, markets like **Singapore** and the **U.S.** experienced moderate declines. The U.S. market, while impacted by rising interest rates, remained robust due to its deep liquidity and diverse real estate assets. Similarly, Singapore's market, a wealth management centre, has seen strong fundamentals driven by demand for commercial and industrial spaces and was less affected by interest rate hikes, though still not immune.

France and **Australia**, on the other hand, have remained relatively stable compared to other regions. These markets have benefitted from more conservative monetary policies and more favourable economic conditions. In France, the commercial real estate market remained solid, and in Australia, the REITs sector was buoyed by strong demand in the logistics and data centre sectors due to e-commerce and demand for digital infrastructure. These sectors have been somewhat insulated from the broader challenges facing more traditional property sectors like office and retail, which have been hit harder by remote work trends and changing consumer behaviours.

Diverse Global REIT Indices Performance

The general weakness in the market values of REITs in the various jurisdictions was reflected in the performance of the corresponding REIT index.

Figure 4: Comparison of country's REITs index: September 2024 versus September 2021



Source: Bloomberg

How Did Singapore's REIT Market Perform Over the Last Three Years?

Singapore has long held a prominent position in the REIT market in Asia, establishing itself as a stable and attractive investment hub for global capital. The S-REIT market, which saw its inception in 2002, has evolved significantly over the past two decades, reaching its peak of growth during periods of economic expansion and real estate demand. However, as the data in the above section showed, market conditions in recent years have presented new challenges, largely due to fluctuating global financial conditions, inflationary pressures, and evolving real estate trends. Still, S-REITs have withstood those challenges.

In this reflection, we delve into the status of S-REIT market, compare it to 2021, examine sectoral performances, and discuss the broader implications of these trends by comparing the Singapore REIT market with those in Hong Kong, China, and India.

Figure 5: Comparison of Singapore REITs Market: September 2024 versus September 2021

	Sep'24	Sep'21	Increase (Decrease)
No. of REIT and Property Trust IPOs since the maiden one in 2002	56	54	2 (Daiwa and Digital Core in Nov and Dec 2021)
No. of listed REITs and Property Trusts	41 (includes 7 Property Trusts + 1 suspended vs EPRA data)	42 (includes 7 Property Trusts + 2 suspended vs EPRA data)	(1) (2 delistings, 1 merger, 2 listings)
Market capitalisation	S$99.8 billion (US$76.7 billion)	S$110.3 billion (US$81.1 billion)	(9.6%)

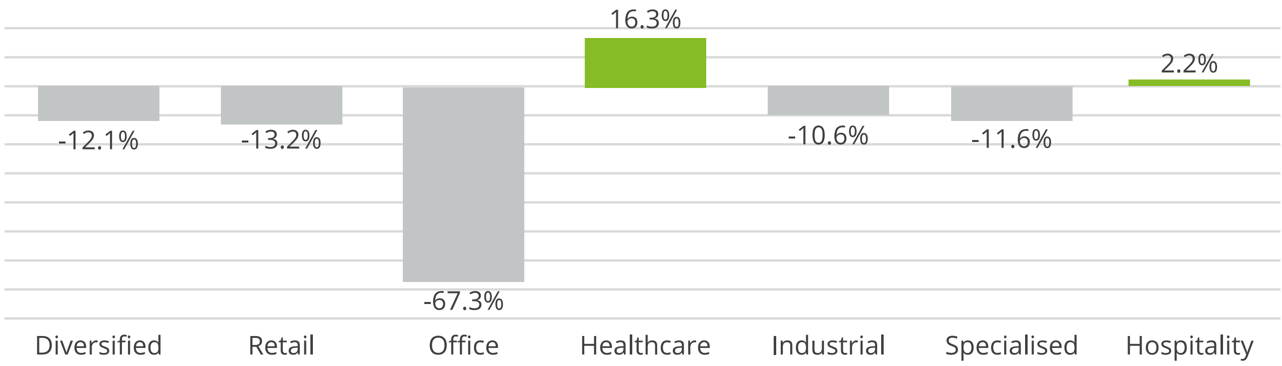
Source: SGX

Over the past three years, Singapore has seen a marginal decrease in the number of listed REITs and property trusts but a significant decline in overall market capitalisation. As with global REIT markets, this decrease in market capitalisation is mainly due to the high interest rate environment, which has impacted the cost of debt refinancing and increased competition for capital with yield-based products like fixed deposits and government bonds[5].

The iEdge S-REIT Index, tracking Singapore's REIT market, has declined by 17.2% since September 2021, contrasting sharply with the 16.5% increase in the Straits Times Index ("STI"). This is despite a 6.6% increase in the iEdge S-REIT Index in 2023[6]. This underperformance highlights the adverse effects of high interest rates and inflation, which have weighed heavily on sectors that rely on debt financing and dividend yields.

Office is Worst Performing While Healthcare Shows Strength

Figure 6: Comparison of median increase (decrease) in market capitalisation: September 2024 versus September 2021



Source: SGX

While the overall market performance was weak, the impact on different S-REIT sectors has varied, with some sectors being more resilient than others.

- **Office REITs:** Singapore's office sector has faced substantial pressure due to global trends favouring remote and hybrid work models. While companies gradually increase on-site work requirements, the hybrid work model is a lasting change, reducing office space demand and rising vacancies. The performance of office REITs has been among the worst in the market, reflecting the challenging conditions in this sector.

- **Retail REITs:** The retail sector has faced a slower recovery from the pandemic, with inbound tourism only gaining momentum in early 2024. In February 2024, Singapore and China implemented a mutual visa exemption policy, facilitating more accessible travel between the two countries. This has led to an uptick in tourism from China, benefitting retail spaces and improving occupancy and foot traffic. However, retail REITs have yet to return to their pre-pandemic strength fully.

- **Healthcare REITs:** In the aftermath of the COVID-19 pandemic, the resumption of healthcare services and the stabilisation of senior housing facilities have resulted in increased rental income and restored investor confidence in the healthcare sector. The ageing population in Singapore and throughout developed Asia has further driven the demand for healthcare facilities, such as hospitals and nursing homes, ensuring stable occupancy and consistent revenue streams. Healthcare REITs also benefit from long-term leases that include inflation-linked protections against revenue declines, which provide reliable income growth and reduce risks during economic fluctuations.

- **Industrial REITs:** This sector comprises logistics and warehousing assets and has struggled with lower occupancy rates due to a slowdown in global economic growth. Additionally, as international companies reconfigure supply chains and diversify operations, demand for industrial real estate has softened. This sector's performance mirrors broader industrial trends across the region.

- **Specialised REITs (Data Centres):** Data centres hold long-term potential due to increasing digital infrastructure needs. However, the near-term fundamentals have weakened as significant technology companies reduce capital expenditures and expansion plans in response to economic uncertainty.

- **Hospitality REITs:** Hospitality REITs have shown resilience, benefiting from Singapore's strategic efforts to boost tourism. Major conferences, events, concerts, and other tourist attractions have been organised to drive visitor numbers, bringing a positive outlook for hospitality assets in Singapore[7]. Hospitality REITs are expected to perform better than other sectors moving forward.

Comparative Market Performance: Singapore versus Hong Kong, China, and India

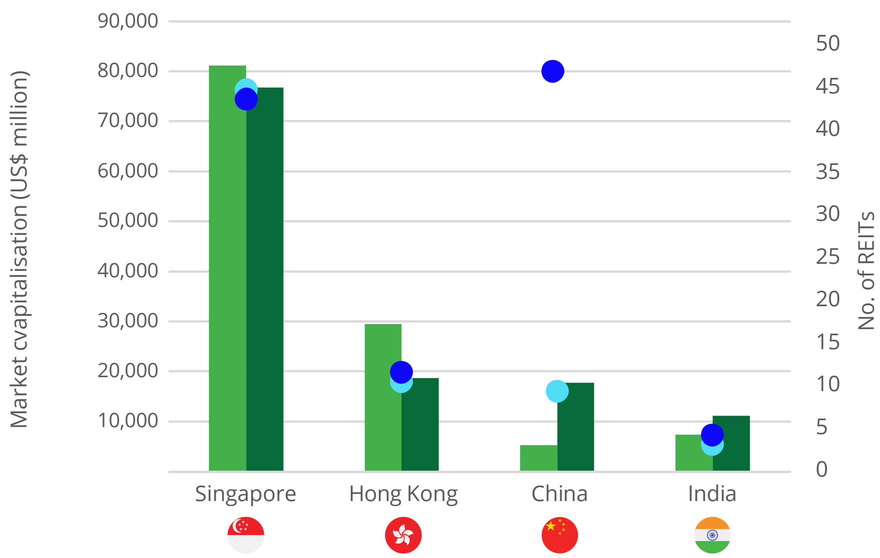
Hong Kong has adjusted its REIT regulations to rejuvenate the sector. At the same time, the REIT markets in China and India are evolving and experiencing fast growth. How does Singapore compare to these markets?

While S-REITs faced headwinds over the last three years, Hong Kong's markets encountered even more severe challenges, with the territory's REIT market capitalisation plummeting by 36.6%. This comparison highlights the resilience of Singapore markets.

Meanwhile, China and India have emerged as significant players in Asia's REIT market, with market capitalisation rising by 238.3% and 51.7%, respectively, over the past three years. These countries are attracting investor interest through regulatory adjustments and strong asset growth.

India's REIT market has expanded with substantial retail and office assets, while China's focus on infrastructure and quality assets has driven a rapid increase in REIT listings.

Figure 7: Comparison of selected Asia REIT markets: September 2024 versus September 2021



	Singapore	Hong Kong	China	India
30 Sep'21 Market cap (US$ mil)	81,135	29,460	5,230	7,368
30 Sep'24 Market cap (US$ mil)	76,756	18,672	17,694	11,177
30 Sep'21 No. of REITs	42	11	9	3
30 Sep'24 No. of REITs	41	11	44	4

Source: Respective stock exchanges website

Hong Kong: Declining REIT Market Amid Political and Economic Uncertainty

Both Hong Kong's equity and REIT markets have experienced significant declines, with REITs underperforming even more sharply than the broader stock market. Hong Kong's REIT market saw a 36.6% decrease in market capitalisation over the past three years, while Hong Kong's REIT Index declined by 47.3%, vastly underperforming the broader Hang Seng Index, which fell by 14.0%. Several factors contribute to this downward trend, primarily influenced by regional economic shifts and regulatory pressures.

- **Property crisis in China:** The ongoing crisis in China's property market has profoundly affected Hong Kong's REIT sector. Former real estate giants like Evergrande and Country Garden[8], once market leaders, have seen drastic declines due to Beijing's policies limiting developers' heavy reliance on debt-fuelled growth[9] [10]. As these property developers face growing financial defaults, a cash crisis deepened China's broader property market challenges[11], affecting investor confidence in the Hong Kong market as well.

- **Global financial firms' exit due to regulatory constraints:** Hong Kong's office market suffered its worst slump in years, driven partly by global financial firms reducing office space and leaving the city amidst tighter Beijing regulations[12]. Declining rental demand in office and retail spaces and lower consumer spending impacted REIT profitability[13]. Additionally, investor sentiment toward China-exposed assets remains weak as regulatory uncertainties and political influences from the Chinese government make these investments less attractive[14]. In response, some capital that might have otherwise gone into Hong Kong REITs is now moving toward the Singapore market, which is seen as a more stable alternative.

Policy Reforms to Boost Hong Kong's REIT Market Competitiveness

To strengthen Hong Kong's REIT market competitiveness, the Hong Kong Financial Secretary recently announced a policy to waive stamp duties on transferring REIT units, residential properties, and certain option market-making activities. While this policy is not yet in effect, it aims to reduce transaction costs for REIT transfers and options trading, enhancing market liquidity and attracting more investors[15].

Effective from the 2024-2025 fiscal year, this policy adjustment is expected to bring several benefits. First, lowering transfer and trading costs will make Hong Kong's REIT market more liquid, appealing, and accessible, likely drawing a broader investor base. Second, this increased liquidity and reduced

cost structure is anticipated to restore investor confidence, especially by making REITs more attractive for local and international investments[16]. Finally, the reform enhances the competitiveness of Hong Kong's REIT market, positioning it as a more attractive option for global investors[17].

China: Rapid Growth in REIT Listings with a Focus on Infrastructure and Consumption

In contrast to China's property market demise, the mainland's REIT market, introduced in 2020, expanded rapidly. The number of listed REITs grew from nine in September 2021 to 44 by September 2024. The first nine listings targeted modern infrastructure assets such as data centres, 5G, and cable TV systems. On the Shanghai Stock Exchange alone, where 31 of the 44 REITs are listed, six, 10, and nine REITs were approved in 2021, 2022, and 2023, respectively. In 2024, 12 REITs have already been approved (as of September 2024), with six starting to trade.

This growth has been fuelled by regulatory changes that have expanded the scope of REITs to include new asset classes, such as renewable energy and retail properties. Key developments include:

- **Expanded REIT Scope:** Initially focused on modern infrastructure assets like data centres and 5G infrastructure, the scope of REITs was expanded in July 2021 to include renewable energy, affordable rental housing, and tourism projects[18]. By August 2022, the first three REITs under this expanded scope were listed[19]. In March 2023, the scope was broadened to encompass retail property trusts, focusing on consumption-related infrastructure projects such as shopping malls and supermarkets[20, 21]. The first batch of four retail REIT registrations was approved by November 2023. Throughout this period, the emphasis has been on quality assets to expand the REIT programme[22]. This expansion has attracted significant interest from domestic investors, enabling REITs to diversify into high-growth areas.

- **Stock Connect Scheme Inclusion:** In April 2024, the China Securities Regulatory Commission (CSRC) announced the inclusion of qualified REITs in the Mainland-Hong Kong Stock Connect scheme, linking the Shanghai, Shenzhen, and Hong Kong exchanges[23]. This move is expected to enlarge the investor base, attract more capital, increase investment alternatives, and diversify stable income options. Additionally, it aims to build scale and liquidity for Hong Kong to compete with Singapore, whose market is about three times the size of Hong Kong's as of mid-2024. However, it is currently unclear what qualification criteria will be used to include REITs in the Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect[24].

India: The Only Market with Increased Average REIT Market Cap

India's REIT market is relatively young but has shown impressive growth, becoming one of the fastest-growing REIT markets in Asia. The first publicly listed retail REIT, Blackstone's Nexus Select Trust, was listed in May 2023. It has a portfolio of 17 retail assets spread across Tier I and Tier II cities, and its stock price has risen nearly 30% in one year since its IPO[25].

Presently, there are three office REITs and one retail REIT. Office spaces and retail have been the primary focus of Indian REITs. The demand for office space is booming, fuelled by global companies establishing capability centres in key Indian cities such as Bengaluru, Delhi, Mumbai, and Hyderabad. Retail spaces, especially malls, are also experiencing a growth surge. With its stable portfolio and strong growth potential, Nexus REIT exemplifies how India's rising consumer spending can be harnessed into a reliable, cash-generating investment for the consumers who frequent these retail hubs.

India's young demographic underscores the importance of physical office space, which has only become more pronounced over the last two years. Offices are vital for young professionals, providing opportunities for culture, career, and collaboration. The average Indian employee in office parks is aged between 25 and 35. Many live with their parents or in shared housing in environments not conducive to working from home.

Additionally, office rents are much cheaper in India than office markets in developed markets. Leading Indian office markets such as Bangalore or Mumbai run at US$1 to US$4 per square foot per month, whereas Singapore, Hong Kong, and New York fetch double-digit rents[26].

While demography and overall economic growth have driven the positive market fundamentals, other factors have also contributed:

- **Regulatory Changes and New REIT Classes:** Effective March 8, 2024, India's regulatory authorities introduced a new category of REIT, the Small & Medium REIT ("SM REIT"), aimed at increasing accessibility to fractional ownership platforms by lowering capital requirements[27]. Unlike traditional REITs, which primarily focus on large-scale commercial properties, SM REITs target smaller, less prominent real estate assets, opening a new avenue for investment. This shift is anticipated to enhance investor interest in REITs and boost market liquidity. The key distinctions between REITs and SM REITs are as follows[28]:

	REITs	SM REITs
Asset size	INR 5b or more	Between INR 500m to INR 5b (~US$6m to US$60m)
Sponsor	Mandatory with a minimum net worth of INR 500m	No sponsor required

India's real estate market has seen a significant rise in fractional ownership[29]. Recent projections by Jones Lang LaSalle (JLL) indicate that the Indian fractional ownership market could exceed US$5 billion in assets under management by 2030. This growth highlights the potential for SM REITs to gain traction, as regulatory oversight introduces added security and transparency to the sector[30].

Property Share, a fractional ownership platform, received the first SM REIT license from the Securities and Exchange Board of India ("SEBI"), and it was the first SM REIT listing[31]. It filed a draft document with SEBI to launch its public issue and raise up to INR 353 crore on 26 September 202432. The trust has said it is preparing for its second scheme and plans to launch 12 more in the next year[32].

- **Tax Reforms:** Proposed in the Union Budget 2024, new tax regulations reduce the holding period for determining long-term capital gains for listed business trusts, including REITs and

Infrastructure Investment Trusts ("InvITs"), from 36 months to 12 months, aligning them with listed equities.

Previously, REITs and InvITs were classified as debt instruments due to their longer holding periods, limiting investment flexibility and liquidity in the real estate sector. Experts predict that reducing the holding period will make these asset classes more attractive, increasing transaction volumes and market liquidity. According to industry experts, this change will appeal to investors seeking quicker returns and attract short-term investors who may have previously been deterred, expecting that this will ultimately lead to a broader, more diversified investor base and stimulate growth in India's commercial real estate market. Shishir Baijal, Chairman of Knight Frank India, highlighted that "the changes are expected to promote a more stable and mature REIT market in India, with a focus on long-term investment and reduced speculative activity."

The Implications of Rising Regional Markets

Despite rapid developments in Mainland China, India and Hong Kong markets, Singapore's REIT industry remains the most advanced of the three, distinguished by a well-developed and diversified REIT market across sectors like retail, industrial, office, healthcare, and hospitality. Singapore's open capital policies and supportive regulatory environment make it highly attractive to domestic and international investors. In comparison, China and India's REIT markets are relatively new. China's C-REITs, launched in 2021, are primarily limited to infrastructure and logistics assets, with limited asset diversity due to a cautious regulatory approach. India's REIT market, introduced in 2019, currently focuses on commercial office spaces, though ongoing regulatory changes are slowly allowing more asset types to enter the market. Meanwhile, though established, Hong Kong's REIT market remains more focused on retail and commercial properties, hindered by high costs and limited land availability.

Singapore's regulatory framework is robust and transparent, with favourable tax policies for REITs and an allowance for cross-border asset listings, broadening its investment appeal. By contrast, China's regulations are more restrictive, focusing on minimising risks, which limits investor flexibility. India has progressively enhanced its regulation to attract investment, though land ownership and valuation complexities persist[33]. Hong Kong's framework offers investor advantages but lacks Singapore's level of cross-border flexibility.

Looking ahead, Singapore's REIT industry is well-positioned for growth, especially if interest rates decrease. China and India, with further regulatory development, have strong potential for REIT growth tied to infrastructure and urban development. However, Hong Kong will need policy adjustments to better compete with Singapore's market advantages. Singapore remains Asia's leading REIT market but may need continued adaptation to stay ahead of growing competition. We look at how Singapore should adapt its REIT industry to stay ahead of the game.

Is Singapore Ready to Ride the Next Volatility Wave?

Singapore REITs remain resilient, and with improving conditions, further progress can be anticipated.

Is Singapore Ready to Ride the Next Volatility Wave?

In 2023, Mordor Intelligence's report, Asia Pacific ("APAC") Market Size & Share Analysis - Growth Trends & Forecasts (2023 - 2028), projected a compound annual growth rate ("CAGR") of 8.24% for the region's REIT industry, with the market size expected to grow from US$309 billion in 2024 to US$424 billion by 2029[34]. According to EPRA data, the APAC REIT market had already reached US$326 billion as of June 2024, underscoring its rapid growth trajectory. With newly emerging markets joining the world of listed REITs, global investors have more choices when deciding where to invest. As more countries in APAC embrace the concept of securitising real estate, how does Singapore compare to its neighbours amid short-term declines in global interest rates? With U.S. president-elect Donald Trump expected to assume office in January 2025, new uncertainties may arise, based on whether new policies would drive inflation and disrupt the previously anticipated easing rate cycle. In the following analysis, we assess Singapore's strengths and explore whether the city's REIT sector will likely outperform other asset classes, and which sectors may be best positioned to navigate the uncertainties ahead.

According to Jerry Koh, Founding Member and Secretary of REITAS and Managing Partner of Allen & Gledhill LLP, "The Singapore REIT market is poised for more acquisitions and the return of capital markets activity in 2025 and 2026, with the Fed finally embarking on a trajectory of lower interest rates. We see keen interest spanning diverse asset classes, including data centres, hospitality, healthcare, logistics, office and student and other accommodation."

Singapore's REITs' Resilience

Data from the last three years have demonstrated that S-REITs displayed resilience compared to their peers in China, Hong Kong and Japan. S-REITs with higher domestic exposure also generally performed better over the three years, while those holding overseas assets, particularly entities focused on U.S. office properties and China real estate, had notable declines in market capitalisation. More than 90% of S-REITs and property trusts hold overseas properties in their portfolio, but the exposure varies.

Between September 2021 and September 2024, six S-REITs experienced over a 50% drop in value, led by pure-play U.S. office REITs – Manulife US REIT, Prime US REIT, Keppel Pacific Oak US REIT. This highlights Singapore's domestic market resilience. However, as global economic conditions improve, signs of recovery have emerged from mid-September 2024, with these REITs seeing some of the highest percentage increases in market capitalisation since June 2024.

S-REITs with significant China exposure continue to face valuation pressures amid the country's real estate slump[35]. For example, pure-play China Dasin Retail Trust experienced the most significant decline in market capitalisation among its peers, though BHG Retail REIT and Sasseur REIT showed less than a 20% decline. Other China-focused S-REITs, such as CapitaLand China Trust (diversified) and EC World REIT (industrial), have seen limited improvement. EC World REIT was also affected by trading suspension and loan default issues.

Secondary Market Activity and Capital Raising

Despite a challenging high interest rate environment, S-REITs raised over S$1.8 billion (US$1.36 billion) in secondary fundraising during 2023, with S$1.3 billion from placements and S$0.5 billion via rights issues. Although this is lower than in previous years, S-REITs continue to manage their balance sheets through divestments, capital recycling, and debt facilities, reflecting proactive financial stewardship[36].

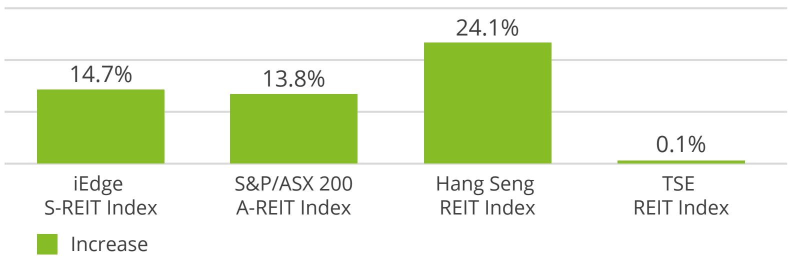
Acquisition Strategies and Asset Composition

From 2022 to September 2024, S-REITs completed 55 acquisitions, primarily in logistics, data centres, retail, office spaces, and healthcare. Key acquisition locations include Japan for healthcare and logistics, Singapore for retail and office, and India for industrial, logistics, and business parks. These acquisitions, often secured at low purchase prices relative to appraised values, especially in hotel and retail assets, position S-REITs favourably for future growth.

Near-term Sectoral Performance and Outlook

The Fed cut interest rates on 18 September 2024 by 50 basis points and again on 7 November 2024 by 25 basis points. Ahead of these cuts, Asia's developed REIT markets saw gains across the board. Between June and September 2024, the S-REIT index outperformed the STI index significantly. Apart from Hong Kong, Singapore also outperformed Australia and Tokyo. Hong Kong's REIT index saw a 24.1% gain in the period, supported by China's stimulus package unveiled on 24 September 2024. S-REITs relatively strong performance suggests that, despite sector-specific challenges, they may be well-positioned for growth in a lower-rate environment.

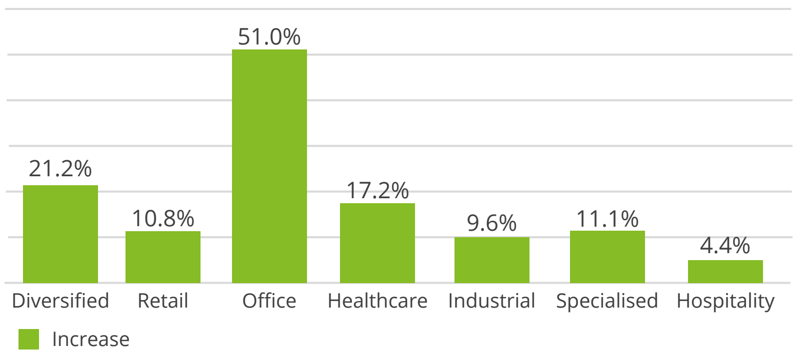
Figure 8: Comparison of S-REIT index against Hong Kong, Japan and Australia REIT indices: September 2024 versus June 2024



Source: Bloomberg

In terms of sector performance, Singapore's office REITs led the gains from June to September 2024, closely followed by REITs with diversified assets. Both of these segments had previously been among the hardest hit in recent years due to high interest rates, pandemic-related disruptions, remote work trends, and slower economic activity. This rebound reflects growing investor confidence in the resilience of these sectors as they navigate a potentially more favourable rate landscape. Still, while market expectations are still for rates to be lower in December, the longer-term outlook remains uncertain.

Figure 9: Comparison of median increase in market capitalisation of S-REITs: September 2024 versus June 2024



Source: SGX

- **Data Centre Outperformance:**
  In 2023, data centre REITs led the S-REIT market, with Digital Core REITs emerging as the top performer. Keppel DC REIT maintained a strong position as the second-best performing S-REIT for most of the year until mid-December, when late-payment demands from a tenant affected its standing. The surging demand for data centres, fuelled by the rapid adoption of generative artificial intelligence ("AI"), has significantly boosted this sector's growth prospects[37].

- **Resilient Healthcare**
  Healthcare REITs show strong potential due to their exposure to markets like Singapore and Japan, both of which are facing ageing populations. These demographic changes ensure a sustained demand for healthcare facilities, which are essential regardless of economic cycles. This defensive nature underlies the consistent performance of healthcare REITs, allowing them to benefit from stable occupancy rates and rental income.

  Recent insights from a JLL report[38] highlight five key trends shaping the healthcare industry in 2024, which are likely to impact healthcare REITs indirectly. These trends include a focus on organisational agility, rising costs amid tight labour markets, industry consolidation with vertical integration, an acceleration of consumer-centric care driven by disruptors, and the increased use of AI applications. These developments indicate evolving tenant needs, which may influence asset requirements and valuations within the portfolios of healthcare REITs.

  Historically, the defensive qualities of this sector have been crucial. During times of economic volatility, healthcare REITs have remained attractive due to the essential nature of their services. Their strategic positioning in developed markets, along with prudent financial management, enhances their appeal. For instance, Parkway Life REIT's strong fundamentals, such as a high interest coverage ratio, demonstrate the sector's resilience.

  Looking ahead, healthcare REITs are well-positioned for growth, supported by demographic trends, technological advancements, and their inherent stability.

- **Promising Retail:**
  According to DBS, retail-focused S-REITs have the most promising outlook due to strong rental reversions and limited new supply. Seven S-REITs with substantial exposure to Singapore's retail assets have reported record sales growth and positive rent reversions. This growth is primarily supported by tourism recovery and asset enhancement initiatives designed to optimise space and enhance mall appeal. Downtown malls have driven the uptick in foot traffic, with suburban malls remaining robust due to sustained demand for food and beverage offerings[39].

- **Hospitality Remains in Vogue**
  Among the best-performing sectors in the last three years, hospitality REITs ("H-REITs") have benefited from renewed cross-border travel and resilient domestic consumption. However, despite these gains, H-REITs are still facing significant headwinds. Labour shortages, rising costs, and a higher supply of hotel rooms are expected to challenge growth.

  Nonetheless, many H-REITs have adapted by targeting premium segments and leveraging revenue from long-stay options and service apartments, which have remained resilient in demand. A strong pipeline of high-profile events will support growth, including meetings, conferences, exhibitions, and major concerts. While the cyclical nature makes it sensitive to global economic fluctuations, Singapore's stable tourism base and strategic location in Asia also offer long-term growth potential for H-REITs, particularly if Chinese tourism continues to recover.

  In other sectors, industrial and office REITs are expected to maintain solid performance as interest rates fall. However, the hospitality sector faces challenges, including a rise in room supply and cautious tourist spending[40].

  Despite these sector-specific challenges, recent stress tests by S&P Global Ratings have underscored the robustness of S-REIT credit ratings, which remain strong even under conditions where 20% of tenants may choose not to renew leases in 2024–2025[41].

Driver of Growth and Reform
Singapore's established global ties, political stability, sound regulatory environment, and role as the region's financial hub provide a strong foundation for attracting foreign capital, particularly as interest rates ease. These qualities indeed make Singapore a competitive destination for REIT investments.

However, as neighbouring countries advance in REIT innovation, Singapore may need to consider further measures to stay ahead. For instance, reforms may be necessary to address the concentration of power held by sponsors and shift greater authority to unitholders to support the impending market recovery. Activist investors and the judiciary have already taken steps toward this goal. Regulations may be required to ensure a balanced and resilient REIT market[42].

Regulatory Developments and Proposed Monetary Authority of Singapore ("MAS") Changes

The MAS has been proactive in enhancing regulatory frameworks to support S-REITs:

- **Leverage and Interest Coverage Ratios ("ICR")**
  On 24 July, 2024, the MAS issued a consultation paper proposing updates to the leverage requirements for S-REITs, with a consultation period that closed on 23 August, 2024[43]. Currently, S-REITs can borrow up to 50% of their asset value, with this limit reducing to 45% if the adjusted ICR falls below 2.5 times. The proposed changes include maintaining a 50% leverage cap across all S-REITs while establishing a minimum ICR of 1.5 times. If an S-REIT's ICR drops below this threshold, it would be restricted from incurring additional debt or engaging in deferred payment arrangements. However, refinancing existing debt would still be permitted. Additionally, MAS requires S-REITs to perform and disclose sensitivity analyses that examine the impact of changes in earnings before interest, taxes, depreciation, and amortisation (EBITDA) and interest rates on their ICR. These analyses, to be included in interim and annual financial reports, aim to provide greater transparency and allow investors to better assess S-REITs' resilience under fluctuating economic conditions. The proposed amendments are intended to enhance S-REITs' financial resilience and ensure robust safeguards against market volatility, particularly in high interest environments.

- **Financial Reporting Standards**
  A second consultation paper, released on 15 August 2024 with a closing date of 14 September 2024, proposed that authorised schemes, including REITs, adhere to Singapore Financial Reporting Standards (SFRS(I)) instead of RAP 7, with specified additional disclosures retained in the Code on Collective Investment Schemes[44]. These propositions are expected to promote better comparability of financial statements of Authorised Schemes with those of other major fund jurisdictions and across different types of capital market issuers in Singapore.

Improving S-REIT IPO Landscape

In light of the market uncertainty ahead, what are the main concerns for investors, and how can the S-REIT IPO landscape be better positioned for upcoming opportunities?

Improving S-REIT IPO Landscape

While the proposed MAS reforms mark a positive development for existing S-REITs, additional measures may be needed to revitalise the S-REIT IPO market and promote long-term growth.

Current IPO Market

The S-REIT sector has seen a notable three-year gap in IPO activity, with the last listing occurring in December 2021. This slowdown is largely attributed to high interest rates and broader economic pressures, which have dampened listing enthusiasm.

As the Fed has commenced rate cuts, conditions for S-REITs could improve. This could potentially restore investor confidence and ease access to capital as borrowing costs decline[6]. However, DBS Group Research warns that meaningful relief on financing costs for S-REITs may not be realised until 2026, as many will still need to refinance existing loans at elevated rates in the interim[40].

In addition to interest rates, structural challenges within the S-REIT IPO landscape warrant attention. Historically, large-scale REIT IPOs have seen limited success in Singapore, with only seven listings exceeding S$800 million since 2002. Moreover, of the 56 IPOs since that time, only nine debuted with portfolio values over S$2 billion, underscoring a general lack of appetite for large-scale REIT investments. Market reception has also varied by asset type, location, and the quality of sponsorship, with specific asset classes and perceived lower-quality sponsors facing tepid interest.

Fostering demand for high-quality assets with robust sponsorship structures may be essential to strengthening the IPO market. Such initiatives could enhance market interest and contribute to the sustainable growth of the S-REIT sector.

Figure 10: S-REIT IPOs with initial portfolio value over S$2 billion

	IPO Month	REIT	Initial Portfolio Value (S$ billion)
1	May 2004	Capitaland Commercial REIT	2.02
2	Dec 2004	Suntec REIT	2.15
3	Jun 2008	Indiabulls Properties Investment Trust	4.37
4	Oct 2010	Mapletree Industrial Trust	2.08
5	Apr 2011	Mapletree Commercial Trust	2.82
6	Jul 2012	Far East Hospitality Trust	2.14
7	Jul 2013	SPH REIT	3.07
8	Mar 2013	Mapletree North Asia Commercial Trust (f.k.a. Mapletree Greater China Commercial Trust)	4.31
9	Nov 2017	Cromwell European REIT	2.06

Source: SGX

Creating Opportunities in Adversity

In the current macroeconomic landscape, investors and banks are primarily concerned about the outlook for "sticky global inflation," as reflected in responses from a recent survey that REITAS (The REIT Association of Singapore) conducted. While many are confident that the Singapore bourse is prepared for mega-sized IPOs, the investors and banks also note a shortage of high-quality IPOs and strong names entering the market. This raises the question: what adjustments can be made to strengthen the ecosystem? For instance, could shortening the filing timeline make a difference? The public exposure period for prospectuses—currently set at 7 to 21 days and extendable up to 28 days by MAS—may be shortened, allowing quicker market entry.

Are there other changes that could be implemented to boost S-REIT growth and appeal for future listings? One suggestion was to expedite the Capital Markets Services (CMS) licensing process for first-time REIT managers, which now takes up to six months. This could make the market more agile and competitive. Another noteworthy proposal is the establishment of a "green lane" for large IPOs, which would accelerate the listing process and position Singapore as a preferred destination for high-profile REITs.

Beyond regulatory improvements, it is essential to consider market factors that will contribute to a conducive IPO environment.

In a climate where yields are elevated, with the 10-year yield remaining high, investors favour growth opportunities to justify their returns. This means that any sizable IPO in Singapore would ideally need to be positioned in a high-growth sector to capture investor interest. While traditional sectors remain stable, SGX would likely benefit from listings in technology, healthcare, or renewable energy—industries with a strong growth trajectory and appeal to global investors, according to one survey respondent. Others said that if anticipated rate cuts materialise, SGX could capitalise on lower rate conditions to attract and sustain sizable IPOs. A projected 100-basis-point cut by the Fed over the next year could create an ideal backdrop. Investors also expressed confidence in Singapore's robust infrastructure and government support for its financial markets, which enhances SGX's standing.

In other areas, market and sponsor strategies also play critical roles in supporting the success of substantial REIT IPOs. Investor confidence in the quality of sponsors and underlying assets remains crucial, as evidenced by solid funding depth in oversubscribed secondary offerings. To reinforce this trust, sponsors could consider prioritising transparency and emphasising asset quality. Beyond basic regulatory requirements, comprehensive disclosures on growth strategies, asset potential, and tenant quality can offer investors valuable insights into each REIT's potential.

Enhancing Singapore's REIT ecosystem to accommodate these improvements could better position the city to seize emerging opportunities and enable large-scale transactions to be processed more swiftly. This agility would allow Singapore to react to shifting market dynamics and maintain a competitive edge over regional exchanges, including those in Hong Kong, China, and India.

"As an effective industry association, REITAS has been pivotal in advancing our S-REIT industry. We act as a bridge between industry and regulators, run a comprehensive suite of courses and seminars for industry professionals ranging from foundational to topical and organize a host of investor engagement activities. In essence, we are the glue that binds the industry together. This collective effort ensures that we stay resilient to challenges and on-track to maintain the S-REIT industry's long-term growth trajectory.

REITAS also actively advocates for sustainability practices, supporting the industry's long-term growth and commitment to environmental responsibility."
- Nupur Joshi, Chief Executive Officer, REITAS

SGX Sees Strong Investor Demand, Fundraising Surge

By Ronald Tan, Senior Vice President, Equity Capital Market, Global Sales & Origination, Singapore Exchange Limited (SGX)

Investor demand and acquisition activity in S-REITs is on an encouraging upward trend, marked by significant capital inflows and an increasingly active fundraising landscape. In 2024 year-to-date ended October 2024, S-REITs have raised S$1.7 billion, with notable investor enthusiasm witnessed in CapitaLand Integrated Commercial Trust's (CICT) September 2024 fundraising exercise, which generated S$2.3 billion (US$1.8 billion) in investor demand, he said.

The Singapore Exchange (SGX) has also seen substantial inflows into S-REITs and REIT Exchange-Traded Funds ("ETFs"), with an impressive S$3.4 billion of retail investor funds channelled into S-REITs from January to August 2024. A milestone was achieved with the combined assets under management (AUM) of REIT ETFs on SGX surpassing S$1 billion for the first time[45].

Looking ahead, investor interest in S-REITs is expected to remain robust, especially as the Fed interest rates begin to ease. DBS forecasts potential inflows of up to S$4-7 billion into S-REITs in 2025, assuming a portion of Treasury bill proceeds are reinvested into the sector[46].

SGX's position as the third-largest global venue for REIT listings over the last five years underscores Singapore's competitive advantage and adaptability as a REIT platform, surpassing many developed markets in fundraising activity. Its strength lies in its diversification across global geographies and sectors, creating a stable, international marketplace that appeals to investors seeking best-in-class investment opportunities. S-REIT IPOs and acquisitions have increasingly been concentrated in speciality and "new economy" sectors like data centres, purpose-built student accommodation (PBSA), healthcare, and logistics, while traditional sectors such as retail and office continue to hold their ground. This diverse mix contributes to a growth trajectory that enhances appeal amid global market volatility.

Challenges and opportunities for S-REITs going forward include expanding the scale and depth of the Singapore capital markets. The global real estate market is projected to grow at a CAGR of 7.6% over the next decade[47], which will necessitate even larger fundraisings to support the growth of real estate sponsors ("RE sponsors"). This expansion will require robust IPO and follow-on offerings to match the anticipated rise in real estate asset valuations. Fortunately, the Singapore REIT market already boasts essential elements to support this growth, including a strong base of investor demand, active fundraising activities, dynamic RE sponsors, supportive regulatory frameworks, and tax efficiencies. By growing the size and activity of S-REIT fundraisings, the SGX can attract more regional and global RE sponsors, reinforcing Singapore's status as Asia's global REIT hub.

Conclusion

The S-REIT ecosystem is strategically positioned to capitalise on both current investor demand and emerging market opportunities. However, maintaining and enhancing its competitive edge in a rapidly evolving macroeconomic landscape will require continued regulatory oversight and market-based enhancements. Investors have highlighted a strong interest in Singapore's REIT sector, with significant capital inflows underscoring SGX's role as a preferred global venue for REIT listings. Yet, to sustain and amplify this momentum, investors have identified potential improvements that could strengthen Singapore's position further. One of the adjustments that could benefit S-REIT growth is streamlining the timeline for IPO processes, especially for large IPOs. This could make Singapore an even more attractive destination for high-profile listings, allowing the market to act with agility and attract a diverse range of listings from fast-growing sectors like technology, healthcare, and renewable energy.

Beyond regulatory changes, investors are also looking for growth opportunities in high-potential sectors, especially as near-term interest rates are projected to ease. The appeal of sectors like data centres and healthcare suggests a strong foundation for continued S-REIT growth. Meanwhile, maintaining traditional sectors like retail and office, as well as exposure to cross-border assets, adds depth to the market. The overall diversification of Singapore's REIT market supports its long-term growth and attractiveness, appealing to a broad base of regional and international investors.

Looking ahead, previous expectations of a lower rate environment may not materialise with U.S. President-elect Donald Trump set to take office in January 2025. Nonetheless a strong foundation in place, including supportive regulations, active REIT sponsors, and tax efficiencies, Singapore is well-equipped to attract more global and regional investors.

REITAS

REITAS is the representative voice of the S-REIT sector. It provides its members a representation and engagement in consultation opportunities with policy makers on issues affecting S-REITs. The association also organises talks, courses, investor conferences, and retail education events etc to promote understanding and investment in S-REITs.

REITAS is a non-profit association and the objectives are:

Promotion

To propel the Singapore real estate investment trust industry to greater market prominence in regional and global capital markets through investor engagement, thought leadership, networking events etc.

Regulatory

To represent the S-REIT industry vis-à-vis regulators such as the MAS and the Singapore Exchange Securities Trading Limited (SGX-ST), as well as accounting authorities such as the Accounting and Corporate Regulatory authority and the Singapore Accountancy Commission, and to improve the operating legal and regulatory environment for S-REITs through engagement with the regulators on existing policies and laws, regulations and guidelines.

Professional Development

To assist member REITs upgrade/enhance the professional skills and knowledge of their staff through courses, seminar, talks and workshop, including regular updates on regulatory and compliance requirements

Mission Statement:

"To promote the growth and development of the S-REIT industry"

Deloitte.

Deloitte has journeyed with multiple S-REITs to achieve successful listings on the SGX. As the only Big Four firm operating an "As One" business model which enables seamless knowledge transformation among Deloitte's global network, Deloitte strives to deliver undisputed quality that are clearly aligned with your long-term goals.

The chart below sets forth some of our capabilities in supporting you on your REIT listing journey.

Pre-IPO

Audit & Assurance services

- Act as independent statutory auditors of underlying assets in the financial year(s) leading up to the proposed IPO

Advisory services

- Assess readiness to IPO, identify gaps, and recommend solutions
- Advise on S-REIT market and investor sentiments
- Introduction to an extensive network of suitable professional parties
- Provide inputs on assessing suitability of asset portfolio identified by sponsor
- Discuss relevant accounting considerations that may arise from restructuring
- Sharing of the approach and process to building robust REIT and asset financial models

Tax Advisory services

- Advise on achieving an optimal and tax efficient structure suited to needs
- Review tax-related items in financial projections/model prepared by sponsor/financial advisers

IPO Kickoff

Audit & Assurance services

- Act as independent reporting accountants for the IPO

Advisory services

- Assist in the preparation of pro forma financial information, for inclusion in Prospectus
- Validate forecast model prepared by financial advisors
- Assist in the preparation of financial sections in the Prospectus, including management discussion & analysis

Tax Advisory services

- Take on the role as independent tax advisors for the IPO
- Assist to apply for relevant tax incentives and rulings for the proposed S-REIT
- Review sections in the Prospectus relating to tax matters

Post-Listing

Audit & Assurance services

- Act as independent statutory auditors of the listed S-REIT
- Act as independent reporting accountants for continuing Merger & Acquisitions ("M&As"), disposals and follow-on equity or debt offerings

Advisory services

- Act as internal auditors
- Advise on implementation of new accounting standards and complex accounting issues
- Provide managed services and sourcing for short and long-term talent needs
- Support on end-to-end finance transformation projects

Tax Advisory services

- Act as tax agents
- Take on the role as independent tax advisors of the S-REIT for continuing M&As, disposals, follow-on equity or debt offerings
- Preparation of tax operating manual

Other services

- Access to an exclusive suite of SEA CFO Program Offerings, including tailored labs, conferences, forums, surveys, newsletters and leadership programs

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