

6 April, 2020

### MEDIA RELEASE

REITAS recognizes the importance of the latest set of measures proposed by the Ministry of Law<sup>1</sup> to assist commercial tenants in Singapore with their cash-flow requirements through the unprecedented disruption to our business environment due to COVID-19.

REITAS firmly believes that tenants and landlords are in a long-term symbiotic business partnership. Over the past few weeks many REITs have announced relief packages which are over and above the property tax rebate announced by the government in its Unity, Resilience and Solidarity budgets and had already committed to pass through the property tax rebate in full even before the government proposed to make it mandatory for landlords to do so. Our members recognize that it is vitally important that our tenants remain viable and active during this most challenging of circumstances.

Notwithstanding this, we would like to register a number of significant concerns on behalf of our members.

#### Transfer of cash flow mismatch

Deferring the contractual rental obligations of our commercial tenants effectively transfers the cash flow constraints from tenant to landlord. A 6-month deferral of rent would essentially deprive the REIT of its predominant source of distributable income for up to 6 months. Even with the best of intentions, it is also not realistic to expect our tenants to accumulate 6 months of rent and promptly pay the landlord thereafter. As a result, significant strain is placed on the S-REIT's ability to service its own financial and operational obligations. Lower rental cashflow will also impact REITs' quarterly GST payments. This financial stress is made more acute by S-REITS having to pay out 90% of their annual distributable income in order to qualify for tax exemption, resulting in minimal financial flexibility to absorb a cash-flow disruption of this magnitude.

#### Unintended breach of regulatory and financial requirements

S-REITs are subject to a number of regulatory and financial metrics that have served the industry well in fostering an ecosystem that is internationally recognised for its investability, stable regulatory framework, and good governance. The enforced interruption of revenue has the potential to degrade key metrics including but not limited to leverage, interest service, valuation, capital adequacy, ratings and tax transparency. This would in-turn negatively impact S-REITs' financial stability, ranging from increased borrowing costs, to difficulty in obtaining both debt and equity capital, at precisely the time when it may be critically needed. Left unmitigated, the widespread deterioration in SREIT credit and financial standings would in-turn destabilise the banking industry and Singapore's financial ecosystem.

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<sup>1</sup> <https://www.mlaw.gov.sg/news/press-releases/temporary-relief-for-inability-to-perform-contractual-obligations-due-to-coronavirus-disease-2019-covid-19-situation>

### Inadvertent market distortion and potential for moral hazard

By preventing landlords from re-possessing premises when tenants default on rent payment, we deprive new tenants who may wish to lock in attractive market rents from taking up space. Landlords will no longer be able to rely on a commercial basis to renew their tenant registers to improve the overall quality and resilience of the property. It is therefore critical that the assessment of rental deferrals be undertaken with objectivity and commercial fairness to both landlord as well as tenant before such deferrals are granted. In this regard, we urge our tenants to acknowledge the potential impact this may have on S-REITs if these relief measures are utilised irresponsibly, or without regard for the spirit of collective co-operation on which this legislation was intended to draw on.

### S-REITs as a source of stable and predictable income

Over the last 18 years, through sensible regulation and a careful long-term approach to building credibility, S-REITs have become a cornerstone of the Singapore investment landscape. The collective S-REIT market capitalisation as at December 31, 2019 stood at S\$112 billion, representing 12% of the total market capitalisation on the SGX. Equally important is the fact that many domestic retail investors have come to rely on the regular, stable and predictable distributions that S-REITs provide. The inability of S-REITs to receive up to 100% of their rental income for up to 6 months will result in lower cash flow to REITs, who will consequently be compelled to lower distributions to unitholders. This may have long-term implications for REITs and the SREIT ecosystem, if unitholders can no longer rely on S-REITs to provide a dependable stream of income.

It is therefore paramount that while trying to help our tenants weather through this crisis, we do not jeopardize the long-term health of the S-REIT industry and Singapore's attractiveness as a REIT listing venue.

We respectfully request our regulatory stakeholders, including the MAS, IRAS, the Ministry of Finance and the Ministry of Law to ensure that the spirit of the legislation is faithfully and equitably discharged, and to urgently review and implement measures to address the issues set out above. Such forms of intervention could include similar circuit breaker mechanisms for key regulatory and credit metrics directly impacted by rental deferrals, and a level of underwritten financial support from the government that is proportional to the deferment of rental income, which in turn is passed on to unitholders.

REITAS stands ready to work closely with our principal S-REIT stakeholders – including our tenants, regulators, sponsors, business partners and the government - to ensure that we protect the credibility of the sector such that it continues to be a preferred and dependable investment product both locally and globally.

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## ABOUT REITAS

REITAS is the representative voice of the Singapore REIT (S-REIT) industry. 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, retail education events etc to promote understanding and investment in Singapore REITs.