REITs

As REIT Symposium turns virtual, REITAS looks past Covid at new trends

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This year, the REIT Symposium 2020 organised by the REIT Association of Singapore (REITAS) and ShareInvestor, will be held on Sept 19, and is completely virtual and free although registration is required. This year has been game changer of sorts for real estate in general and REITs in particular. Because of Covid-19 and the ensuing Circuit Breaker in Singapore, lockdowns in China, and the pandemic and protests in the US, REITs have had to grapple with various issues that have impacted distributions.

At home, the Circuit Breaker led to the enforced closure of many aspects of economic activity including retail, travel and tourism. This resulted in nearly all the retail and hospitality REITs reporting lower y-o-y distributable income and distributions per unit.

During the circuit breaker, the government introduced the Temporary Measures Act, where tenants could have help with rents. REIT managers with retail assets provided two months of rental rebates for April and May, and rent relief packages including rebates for June and July.

With the worst of the circuit breaker over, the percentage of tenants operational in most retail malls owned by REITs has reverted to more than 90%. According to the manager of Frasers Centrepoint Trust, tenant sales are back to pre-Covid levels.

The immediate cash flow fear has been alleviated, and tenants asking for support are manageable for most REITs.

“The real issue moving forward is demand and structural trends, and this could be the one differentiating the REITs,” says Nupur Joshi, CEO of REITAS.

One of the new office trends is core and flex, Joshi highlights, where the interiors of office in 2021 could look very different from those in 2019. “Office landlords have to cater for some flexibility,” Joshi says.

The core and flex model has been brought into focus during Covid when most of the office population worked from home. Work-from-home (WFH) has become a flashpoint for office REITs. Some like CapitaLand Commercial Trust have readied and embraced the new trends with new interiors catering for more flexible space, and hence different lease structures. There are REITs also, that explain away WFH trends as temporary or not meaningful. Most consultancies accept that core and flex trends are likely to increase post-Covid. Colliers, for instance has trademarked Flex and Core.

REITAS has been at the forefront of key changes in the REIT sector. Among them is the increase in gearing limit from 45% to 50%. This was timely, as uncertainties triggered by Covid caused valuations to decline, albeit marginally. At present, the highest reported gearing is no more than 41%, an indication of the discipline of REIT managers.

Another trend in the S-REIT space is M&A - mergers and acquisitions. ”If I’m an investor, I will go for a REIT with a strong balance sheet,” Joshi observes. REITs with strong balance sheets, liquidity, lower cost of capital and usually the best properties are larger REITs, with strong sponsors.

Joshi says that it’s important to have a strong REIT manager. To get a deal done, a REIT’s cost of funds has to be competitive, the REIT has to have consultants and people on the ground looking out for the best properties. So, in the external manager model that S-REITs operate under, a strong sponsor and strong REIT manager are necessary. “If you’re financially strong, you can be competitive,” Joshi points out.

In addition, Singapore remains a small market because of its geographical size. Hence REITs have to look overseas for growth and REIT managers have to financially strong to have teams sourcing global assets, Joshi says.

REITAS role is to represent the REITs and its managers. Investors are not members per se, but an integral part of the REIT ecosystem. “We are here to strengthen the industry, which means strengthening the ecosystem,” Joshi notes. Case-in-point: the REIT Symposium (www.reitsymposium.com) which brings together retail investors and REIT managers, fund managers and analysts.

As Covid gets under control, REITs are likely to resume their role as yield plays at a time when policy rate are close to zero. The latest statement from the US Federal Reserve indicates plans to keep the Fed Funds Rate at rock bottom till 2023.

REIT investors may want to head to the REIT Symposium 2020 to hear how REITs are navigating Covid, and when their managers plan to resume full DPU payout for unitholders.