Singapore Spotlight
REIT Outlook 2021 and Beyond

Post COVID-19 Expect an Uptick in IPO and M&A Activity in Tightening Regulatory Environment

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Produced with valuable support and input from: SGX REITAS CLIFFORD CHANCE

Executive Summary

The severe impact of 2020's COVID-19 pandemic on real estate markets globally makes any short or medium term analysis of S-REITs (Singapore Real Estate Investment Trusts) an uncertain exercise. However, beneath this year's extraordinary black swan events are some powerful macro trends and strong foundations for future consolidation and restarted growth.

REITs worldwide have seen sell-offs earlier in the year, in line with global equity markets. S-REITs remained relatively resilient amidst the equity market rout, and part of the reason is because of the diversified nature of S-REITs.

Country	REIT Indices	Total returns 2020 YTD to 31 August (%) in SGD terms
Singapore	iEdge S-REIT Index	-5.7
US	Dow Jones US Select REIT Index	-17.9
Japan	TSE REIT Index	-12.9
Australia	ASX 200 A-REIT Index	-9.0
Hong Kong	Hang Seng REIT Index	-20.5

At the time of this writing, it's unclear whether we'll experience a U or V-shaped recovery and what the timing will be.

We foresee that foreign REITs will continue to value the Singapore Exchange (SGX) as an IPO platform.

We anticipate that a wider variety of assets will be listed such as more logistics infrastructure, student housing, multi-family homes, and senior living. Perhaps there will be further consolidation, with S-REITs acquiring peers that have seen their valuations drop since 2019.

The relief measures rolled out by the Singapore government (including increased leverage limit) are helping S-REITs through the challenging business environment. And prior to COVID-19, new Mainboard Listing Rules mandating Environmental, Social, and Governance (ESG) reporting and quality information disclosure were enacted, and quarterly reporting requirements were waived (details provided in the regulatory section below).

Whenever pressures ease and global real estate valuations begin to rise, we anticipate that a number of REIT IPOs that were "in the queue" will come onstream, increasing the value of SGX-listed assets under management, and adding more variety in terms of asset class as well as geography. The focus for the foreseeable future will be on execution. Navigating listed REITs through choppy waters, pursuing M&A opportunities and planning future IPOs with full compliance will be key to competitive success.

SGX is an internationally recognised REIT Hub

"Over the past 18 years since the first REIT listing on SGX, S-REITs have established a strong eco-system and entered into a virtuous cycle driven by increasing investor interest, deep liquidity and issuer participation."

CHAN KUM KONG, SENIOR VICE PRESIDENT AND HEAD OF RESEARCH & ANALYSIS, EQUITIES, SGX

• Anchoring in US assets: SGX had 5 S-REIT listings with pure US assets from 2016 – 2019 (3 Office REITs, 2 Hospitality REITs) compared to no US Office REIT IPOs in the US since 2015; no pure play US Hotel REIT IPOs in the US since 2011. In March 2020, United Hampshire became the first retail REIT with US assets to be listed on SGX, and also the first grocery-anchored and self-storage REIT.

• Tapping into European property: IREIT Global and Cromwell European REIT were the first S-REITs with UK-properties included and Elite Commercial REIT is the first and only UK-focused S-REIT. No REIT has listed in the UK since 2018.

• Overseas dominated: 13 of the last 15 Singapore REIT IPOs are comprised wholly of overseas properties -- only two combine Singapore and overseas properties. The last pure-play Singapore REIT IPO was in 2014.

"In 2019, 4 S-REITs IPOs raised over S$3 billion, and all had overseas exposure (3 US; 1 European).

Source: SGX, NAREIT, Bloomberg, data as of 31 Dec 2019

"Starting out with mainly local assets and domestic investor participants, the S-REITs sector has evolved into a global REIT hub today, with active international investor participation and foreign asset listings."

Singapore's position as a global REIT hub was cemented in 2019, with 44% of REIT IPOs worldwide debuting on the SGX – surpassing the largest REIT markets of US, Australia & Japan. The Lion City now has more foreign REITs than anywhere else. Over 80% of the sector hold overseas assets and are very diversified across geographies and sub-sectors:

Asset class diversity

"What makes a good REIT offering in Singapore today? One of the criteria investors look at is the sector in which the REIT operates."

"A multi-faceted view of sectors is required, and sectors can change. Is retail really relevant in this day and age in view of online shopping? For example, Frasers Centrepoint Trust in Singapore is doing well because it is a social destination. However, that does not mean the whole sector is successful."

RAYMOND TONG, CAPITAL MARKETS PARTNER, CLIFFORD CHANCE SINGAPORE

There is growing global interest in investor participation in S-REITs, due in part to the fact that the size and liquidity of the cluster has grown tremendously in recent years.

Global institutional investors such as asset management firms, sovereign wealth funds, insurance firms, private banks, family offices are actively participating in S-REITs. Some global investors with top S-REITs holdings include: BlackRock, Fidelity, Norges Bank Investment Management, Principal Global Investors, Sumitomo Mitsui Trust Asset Management, Warburg Pincus and more. A significant number of established cornerstone investors support S-REITs, minimising execution risks. 2019 examples include Lendlease Global Commercial REIT with 13 cornerstone investors, ARA US Hospitality Trust (6) and Prime US REIT (9).

In addition to more geographic diversity, new asset classes are likely to emerge in the S-REITs space, such as for student housing, multi-family homes, senior living and logistics. For example, logistics S-REITs attracted around a third of all capital raised in 2019, bringing their share of REIT market capitalization to 12 percent (source: JLL research). Warehouses have become increasingly important over the last decade amid the rise of e-commerce, which requires speedy delivery of goods from a wide network of facilities.

Attract global capital

"Today, S-REITs are more than a listing and trading platform, but an ecosystem made up of diverse assets, investor segments and REIT investment products."

CHAN KUM KONG, SGX

"As the sector grows in size and liquidity, more S-REITs are being included into major indices, including the local STI Index and global benchmark FTSE EPRA/NAREIT Global Real Estate Index Series, tracked by an estimated US$340 billion of AUM actively benchmarked or passively tracking the indices." Kong added.

Foreign-denominated IPOs

The recent Elite Commercial REIT listing was the first to be denominated in GBP, with others previously denominated in USD, Euro and AUD. We can expect to see more foreign-denominated REITs, attracting investors from all parts of the world to buy shares in their preferred currency, with their choice of international property portfolios -- all within Singapore's stable and dependable regulatory framework. SGX is a trusted platform to reach an international investor base.

M&A drives scale and competitiveness

The COVID-19 market disruption is expected to accelerate the consolidation trend, with REITs seeking to achieve scale and greater visibility among investors through inclusion or higher weight in major indices. Also smaller REITs with less than US$1 billion of assets under management underperform their larger peers and are more expensive to run, and many have been impaired by the downturn. Other hoped-for benefits that come with size include increased trading liquidity and lower borrowing costs.

Since the first S-REIT merger in 2018 (ESR REIT & Viva Industrial Trust), there has been a wave of M&A activity. Notably, in 2019 three REITs merged (OUE Commercial Trust & OUE Hospitality Trust, Frasers Logistics & Industrial Trust and Frasers Commercial Trust; and Ascott Residence Trust & Ascendas Hospitality Trust). In January 2020, CapitaLand Commercial Trust (CCT) and CapitaLand Mall Trust (CMT) announced a merger to form the largest REIT in Singapore that will be among the top 3 REITs in Asia-Pacific by market capitalization.

The top 3 REITs by market capitalisation listed on SGX (August 2020)

ascendas Reit

mapletree logistics

CapitaMall Trust

M&A also enables REITs to be more diversified in terms of asset class and/or geography, potentially making them more resilient. For example, the OUE Commercial REIT & OUE Hospitality Trust merger brought together commercial and hospitality properties. Consolidation can also be used to increase a REIT's geographic diversity. For example, Frasers Logistics & Industrial Trust with properties in Australia and Germany added Singapore properties when it combined with Frasers Commercial Trust (FCOT) to form Frasers Logistics an d Commercial Trust and joined the FTSE EPRA/NAREIT Global Real Estate Index Series. Other notable 2019/20 entrants to the index included Keppel DC REIT, Manulife US REIT, Sasseur REIT, Frasers Centrepoint Trust and Ascott Residence Trust. Existing smaller "orphan REITs" with no large sponsors could be ripe for consolidation in 2020, to be acquired by major players.

The proposed S$8.27 billion cash-and-stock merger of CapitaLand Commercial Trust (CCT) and CapitaLand Mall Trust (CMT) combines office and retail properties and is expected to become the third largest real estate investment trust in Asia-Pacific and the biggest in Singapore. The combined entity CapitaLand Integrated Commercial Trust (CICT) will have a market cap of about S$14.2 billion, and a combined property value of about S$22.9 billion as of December 31, 2019.

Source: Company filings

"We believe this wave of consolidation will continue into 2021 and beyond and is a natural evolution of our maturing market. The experience of COVID-19 has highlighted the importance of a diversified portfolio, either within or across asset classes."

JONATHAN YAP, PRESIDENT, REIT ASSOCIATION OF SINGAPORE (REITAS)

"Larger REITs are also often better positioned to weather economic downturns. We believe these factors will provide further impetus to the M&A trend which is ultimately beneficial to investors as it increases their investment choices for stronger, more resilient and more liquid REITs."

Equity and debt to fuel continued growth

The SGX platform supports REITs for continued growth with opportunities for additional fund raising activities (equity and debt financing). In 2019, S-REITs secondary fund raisings had a record year of S$6.24 billion, dominated by overseas acquisitions (up 60% YOY). Overseas acquisitions accounted for 65% of total S-REITs secondary fundraisings in 2019, with top destination US accounting for 35% of overall S-REITs secondary fundraisings in 2019.

Source: SGX, data as of Dec 2019

Additional follow-ons are often well received. For example, Keppel DC REIT raised around S$480 million via private placement and preferential offering and was 9.3 times subscribed. MCT raised around S$460m via a preferential offering that was 1.45 times subscribed, and FCT raised around S$370m via a private placement that was 2.3 times subscribed.

Source: Company announcements, 2019

As the S-REITs platform matures, the ecosystem has also built derivative products for retail and institutional investors such as ETFs (e.g. in Singapore and Korea), funds (e.g. Japan) and robo-advisors (e.g. Syfe REIT+) around S-REITs.

> “The average daily traded value for S-REITs more than tripled in the past decade to over S$250m in 2019.”
>
> **CHAN KUM KONG, SGX**

“While the COVID-19 pandemic impacted equities markets worldwide, the S-REITs market was relatively resilient, outperforming its global peers in 1H2020.”

Singapore REIT Sectors

Some highlights: Data Center, Logistics and Healthcare assets have been beneficiaries of the current environment, while Industrial S-REITs stayed resilient.

Office

The office sector was one of the most popular amongst investors in the Asia Pacific region prior to Covid-19. Singapore's office market was one of the last in the region to recover from the global financial crisis, and prime rents are still well below their 2008 peak. Since then, the city has expanded and upgraded its CBD office stock, as well as opening up a number of decentralised office districts. Rents were rising sharply prior to Covid-19. While the pandemic has ignited discussions about the future of work spaces, it is unlikely that the need for office space will go away.

Retail

Despite the growing threat from e-commerce, retail remains a core real estate asset class. There is a growing conviction among investors that if existing facilities are well located and can be adapted in ways that satisfy consumer expectations in terms of 'experiential' services, they will continue to thrive, albeit possibly at lower profit levels than in previous years. While Covid-19 hit retail REITs sharply, Singapore's economy is now gradually opening up and mall traffic has been on an uptrend.

Residential

There are currently no residential REITs in Singapore, although SGX is open to overseas residential REITs listing. Since many Singaporeans own their own units, the rental market is relatively small, making an IPO comprised of domestic residential assets unlikely for the foreseeable future.

Industrial/Logistics

Industrial and data centre S-REITs saw total institutional inflow of S$468 million in 2020 YTD to August 31. Industrial S-REITs were among the top performers in 2020:

Name	Stock code	Property Sub-segment	Total returns 2020 YTD to August 31 (%) in SGD terms
Keppel DC REIT	AJBU	Specialized	43.3
Mapletree Logistics Trust	M44U	Industrial	22.4
Mapletree Industrial Trust	ME8U	Industrial	21.3
ParkwayLife REIT	C2PU	Health Care	16.5
Ascendas REIT	A17U	Industrial	15.3

Source: Bloomberg, August 2020

Although industrial, warehouse, and logistics space would logically be the sector hardest hit by the slowdown in trade due to higher tariffs and slowing economic growth, the asset class remains a favourite play amongst institutional investors, who rate it the top sector for investment prospects. Rising consumer spending and the growth of e-commerce across Asia are driving the need for high-spec, tech-driven warehouse space, an asset class that is hugely undersupplied across the region. E-commerce also intensifies the need for well-located facilities that are far more than "sheds", and able to distribute goods at lightning speeds. The sector performed fairly well during the height of the Covid-19 crisis, as the rise of online shopping and internet usage made REITs with logistics assets and data centres particularly attractive.

Hotels

As they do with office space, investors favour Asia's most developed markets for hospitality plays - hospitality tends to be a specialist sector, of great interest only to those with expertise and a track record in the field in Asia. Singapore scores high in a PwC survey as a market for hotel buys. It is the second busiest city in Asia for international tourists, according to Mastercard, just ahead of Kuala Lumpur. Singapore draws sizeable visitation not only from China but also from India, putting its hotel industry in a particularly sweet spot. Short term yields are affected by Coronavirus concerns.

Regulatory environment and risk reduction

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Progressive regulatory framework and collaborative regulators

Singapore's rise as a global REIT hub can in part be attributed to the progressive regulatory framework and collaborative regulators. Regulators such as MAS and Singapore Exchange Regulation (SGX RegCo) constantly seek feedback from the industry and undertake ongoing reviews to improve the regulatory framework. For example, in 2014 - 2015, MAS conducted a consultation with industry to strengthen the S-REITs regime and subsequently announced that it would tweak proposed changes over the years.

Following industry feedback in 2015, MAS published a consultation paper in 2019, seeking views on how the previous leverage limit of 45% can be recalibrated to enable S-REITs to better compete against private capital and foreign REITs. Singapore REITs had a regulatory limit of 45% aggregate leverage, which is lower than other developed REIT markets, which may affect the competitiveness of S-REITs when trying to acquire assets as they are competing with other bidders who have higher or no gearing limits and thus have a lower weighted average cost of capital. For example, REITs in USA, Japan and Australia have no limit on REIT gearing. Malaysia's gearing rate has been raised to 60%* through the end of 2022 and Hong Kong is 45%. Similarly, other competitors such as private equity funds, pension funds, insurance companies, property developers etc. do not have a gearing limit and generally tend to bid at 60% or higher gearing level.

"With more and more REITs acquiring properties overseas, the regulatory environment in overseas markets becomes even more important," said REITAS's Yap. On April 16, 2020, MAS announced an increase in the aggregate leverage limit for S-REITs to 50%.

Tax Efficiency

Another success factor is the tax efficient structure for S-REITs, including:

• Tax exemption on dividends for both local and foreign individual investors and reduced withholding tax for foreign institutional unit holders.

• S-REITs enjoy tax transparency treatment for taxable specified income distributed to its unitholders.

• From July 2018 to December 2025, S-REITs Exchange Traded Funds (ETFs) are not subject to Singapore withholding tax of 17% and can also enjoy tax transparency treatment.

*On August 12, 2020, the Securities Commission Malaysia (SC) announced that it will temporarily increase the gearing limit for Malaysian real estate investment trusts (M-REITs) from 50% to 60%, effective until December 31, 2022. (Ref: https://www.sc.com.my/resources/media-releases-and-announcements/sc-grants-m-reits-temporary-increase-in-gearing-limit)

Due diligence for overseas assets

"Singapore has seen an increase in the listing of REITs with foreign property. Despite the lack of familiarity with such assets, the Singapore regulators are willing to consider new jurisdictions," says Raymond Tong, Capital Markets Partner, Clifford Chance Singapore.

Singapore regulators have grown comfortable with IPOs originating in markets such as the US, UK, Australia and China. The challenge will be with new jurisdictions that are unfamiliar or are in jurisdictions where the laws are less well-understood. There will be more challenges to come, such as when S-REITs look at assets in places such as Eastern Europe, Africa and South America. For example, some countries may not have adopted IFR standards.

"Especially when multiple jurisdictions are involved, regulators need reassurance of compliance, and investors are always looking for ways to boost their confidence in the due diligence process," said Rathii Ganesh, APAC Director of SaaS, Donnelly Financial Solutions (DFIN). "S-REITs contain a variety of asset classes, with the majority in overseas markets. From an IPO perspective, that creates a lot of information and complexity that needs to be managed with good governance and technology solutions such as secure virtual data rooms accessible globally."

SGX RegCo has a checklist of key compliance items, driven by what the market and investors expect. Individual banks' due diligence requirements go above and beyond what the Singapore securities regulations require and differ from bank to bank because they try to standardize their own diligence and KYC processes across the region. Although banks want similar standards across the board, they understand there are differences.

SGX RegCo tightens rules and provides COVID-19 support

In January 2020, SGX RegCo amended the Mainboard Listing Rules to incorporate The Association of Banks in Singapore (ABS) Listings Due Diligence Guidelines (ABS Guidelines) and Issue Managers (IM) independence requirements. These moves to strengthen the rules governing the listing review process are crucial to earning investor confidence, according to SGX RegCo. The focus on due diligence will mean additional responsibilities for listing applicants, and ensure that the proposed directors and executive officers will form part of the relevant persons held responsible for the accuracy and completeness of information contained in listing applications.

The Singapore government has rolled out relief measures to help SREITs through the current challenging business environment due to COVID-19. Provisions include:

- Timeline extended for S-REITs to distribute at least 90% of their taxable income from 3 months to 12 months (after the end of FY2020) to qualify for tax transparency
- Leverage limit increased from 45% to 50%
- Implementation of a new minimum interest coverage ratio (ICR) requirement deferred to 1 Jan 2022
- The Fortitude Budget includes S$20b in cash grants to help eligible SME tenants with rental costs

Importance of ESG

Sustainability reporting is now mandatory for all SGX listed companies and sustainable financing has been gaining in importance, particularly in 2019. We expect this trend to continue. There is a large global movement to invest in assets that are evaluated by ESG performance, and a growing portfolio of these assets. REITs are embracing ESG — environmental, social and governance policies — as a set of best practices that can reshape the way they do business in the 2020s. Some REIT managers are keen on ESG, especially new environmental policies, but the pressure is on from investors as well to adopt ESG policies.

"Environmental factors in all sectors are important to many investors. SGX is mindful of such issues and these considerations apply equally to REITs." says Raymond Tong, Capital Markets Partner, Clifford Chance Singapore.

As Singapore enters the next phase of COVID-19 with the gradual reopening of borders and the resumption of more economic activities, issuers need to re-evaluate how they can operate safely in the new environment. Of particular interest is the impact of COVID-19 on the people element of business. The outbreak has laid bare the importance of managing material social risks and opportunities among key stakeholder groups, such as employees, customers, suppliers and the community. The company's response in relation to these matters should therefore be included in, and may even form the basis of, the social aspect of sustainability reporting. SGX RegCo would expect issuers to set out their plans and strategies to recover from COVID-19 in the annual reports or sustainability reports for the relevant period, with a special emphasis on the social aspects in their sustainability reports. Stakeholders can then benefit from a holistic understanding of the company's responses.

Source: SGX

"We look forward to collaborating with regulators and various stakeholders to help create standardized reporting frameworks and strive for greater inclusion of ESG reporting by listed companies in the region."

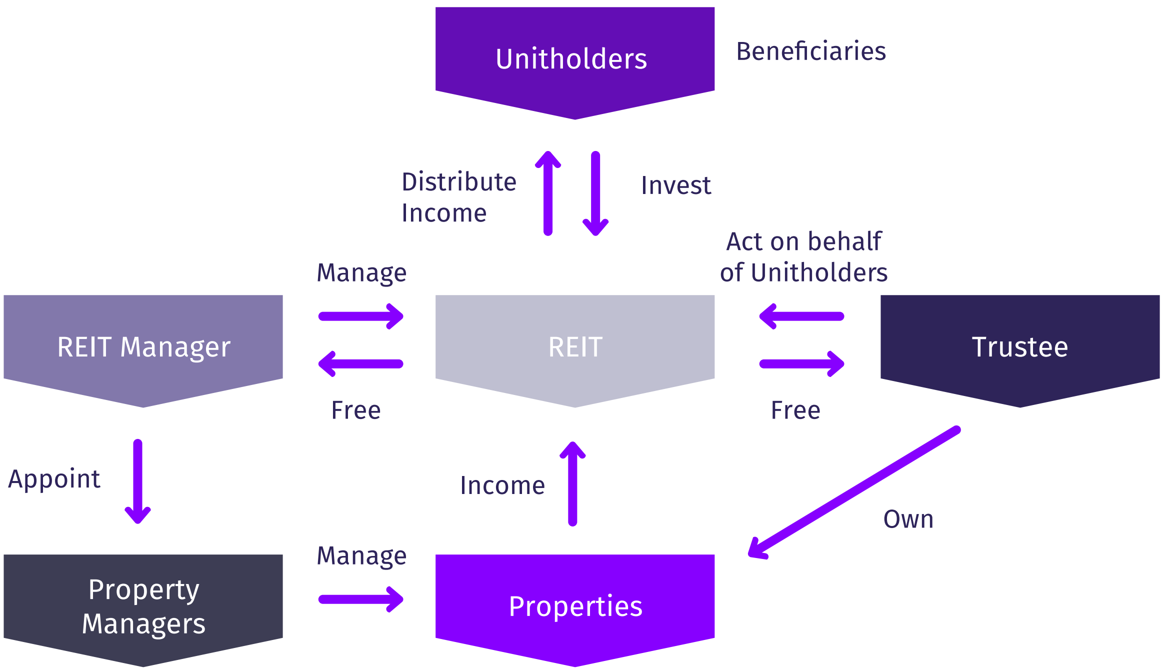
PETER MCMILLAN, MANAGING DIRECTOR APAC, DFIN

Quarterly reporting waived for many REITs

In January 2020 SGX announced that it would adopt a risk-based approach to quarterly reporting. All SGX-listed companies need not announce results on a quarterly basis unless they were assessed to be of higher risk such as those with qualified audit opinions. Listed REITs can now save cost and time, and remain more competitive against their private counterparts that are not subject to disclosure or reporting requirements. Since the investment return timeframe of REITs is usually measured in years not quarters, the reduced disclosure is not expected to negatively affect investors. And the new practice is in line with the UK and the Hong Kong.

Anatomy of a REIT

A Typical REIT Structure



REIT Listing Cycle

Selection of Investment Bank
Underwriting
Engagement Letter
Letter of Intent
Underwriting Agreement
Registration Statement
Red Herring Prospectus
Pricing Decision
Opening of IPO
Allotment of Shares

The IPO Process

Preparation & Filing	Roadshow & Listing	Life as a Public Company
Assess Strengths and Weaknesses	Identify investors	Establish IR/PR infrastructure
Determine peer group	Allocate shares	Prepare for earnings
Develop key messages	Issue press release	Initiate sell-side outreach to expand coverage
Create collateral materials	Participate in stock exchange activities	Meet with investors and analysis
Engage employees	Take control of the media story	

Timeline – speed of execution is a success factor

Typical IPO Timeline

Decide to go Public/Create Black Book	6-8 weeks
File Prospectus/SEC Comments	1 Month
Enter Quiet Period	Prospectus Filing to Analyst Coverage
Road Show	1-2 weeks
Finalise Prospectus/Establish Offering Price	1-2 weeks
Issue IPO	2 days
Finalise IPO	7 days
Receive Analyst Coverage	25 days after issuance
Enforce Lockup Period (No insider Trading)	180 days after issuance

Major parties included in REIT IPO

- Company
- Underwriter(s)
  - Shepherd the Process
  - Assemble Syndicate of Investment Banks
  - Liaise with SEC, State Securities Organizations, Stock Exchanges
  - Facilitate Trading
- Syndicate of Investment Banks
  - Purchase Shares
  - Resell to Clients
- Current and Future Shareholders

What's next in this dynamic global REIT market?

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Although Singapore's REIT market is one of the world's youngest across major REIT markets, it is Asia Pacific's fastest growing REIT platform, starting from the first REIT listing on the SGX in 2002 (CapitaLand Mall Trust's portfolio of 3 local malls with AUM of about S$900 million). By 2010 there were 22 S-REITs (market cap of S$35bn).

Today Singapore is home to over 40 REITs & Property Trusts with a combined market cap of over S$100 billion. Over a nine year period the S-REIT market cap increased by 220% since 2010 compared to just 133% for the developed APAC REIT market over the same period. S-REITs have grown at a CAGR of approximately 15% over the past 10 years.

The SGX has developed into an international REIT hub, with a large proportion of overseas property portfolios listed that attract investors from around the world. Singapore's progressive regulatory framework and collaborative regulators who continuously review and strengthen REITs regime -- with a focus on corporate governance -- offer strong investor protection, confidence and tax efficiency.

About us
Donnelley Financial Solutions (DFIN)

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DFIN is a leading global risk and compliance solutions company. We provide domain expertise, enterprise software and data analytics for every stage of our clients' business and investment lifecycles. Stakeholders in Singapore's evolving REIT market can be confident that DFIN's market-leading technology and expertise will help manage the complexity of the IPO filing and compliance reporting process, delivering the control and confidence they need to succeed in the capital markets journey.

Markets fluctuate, regulations evolve, technology advances, and through it all, DFIN delivers confidence with the right solutions in moments that matter.