

Large-cap, well-managed liquid REITs continue to attract investors: CEO Joshi of REITAS



The Edge Singapore

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Joshi: Singapore's flexibility in allowing both internal and external models is a strength; Photo Credit Albert Chua The Edge Singapore

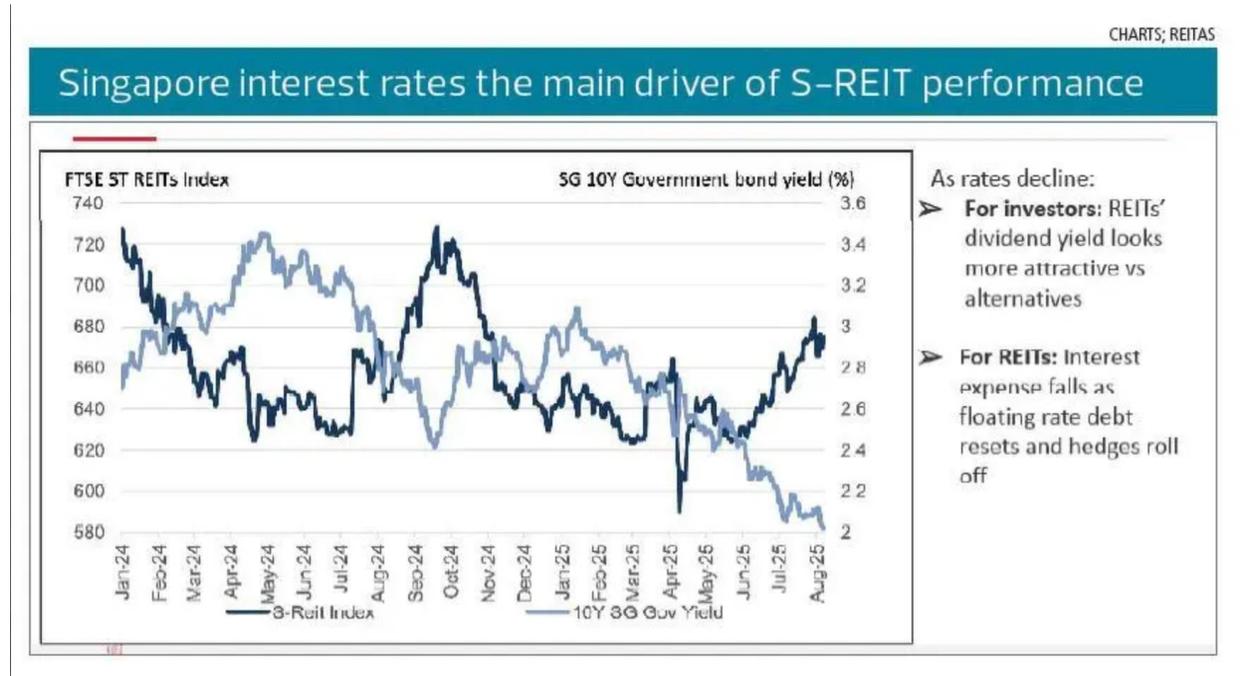
In her Aug 26 presentation, Nupur Joshi, CEO of REITAS, highlighted the interest rate cycle as a key factor in the performance of S-REITs, affecting their unit prices, distributions per unit (DPU) and the capital value of their portfolios.

Joshi points out that the average gearing of the S-REITs is currently at 39.8%, well within the 50% ceiling set by the Monetary Authority of Singapore (MAS), while the average interest coverage ratio is 3.2 times, exceeding the 1.5 times minimum level stipulated by MAS.

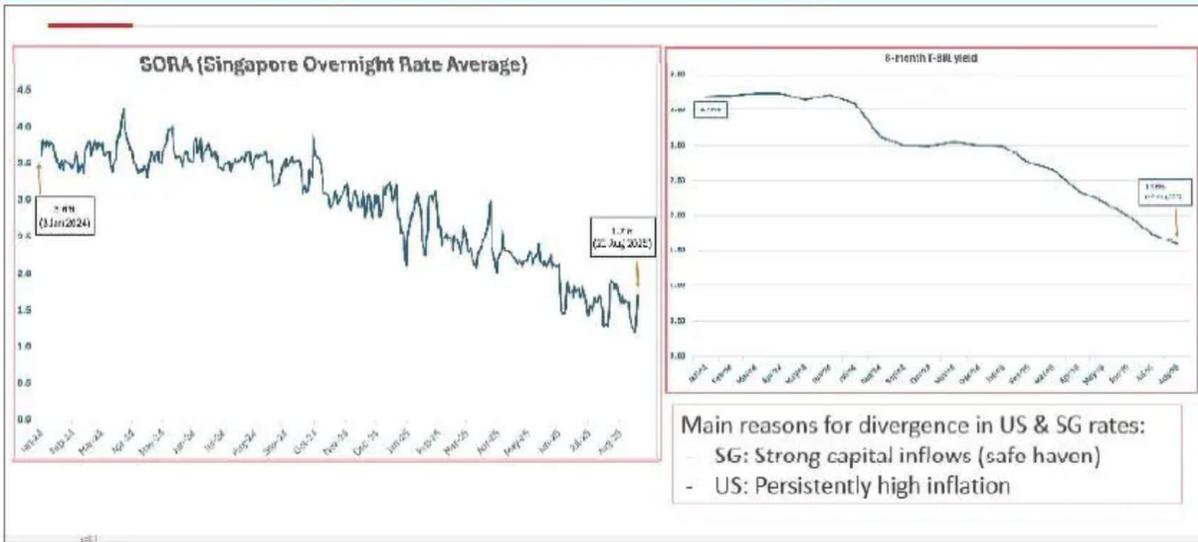
Says Joshi: "That means on average, balance sheets are reasonably strong. Currently, 76% of borrowings by the S-REITs are fixed. REIT managers were hedging to make sure that if the rates go higher, they won't get hit. As investors, we will see the benefits of these hedges falling off over the course of the next three years or so," Joshi explains. S-REITs publish their debt maturity profiles at least twice a year, with most REITs publishing the chart every quarter. "If you want to see which REITs will really benefit the most from lower interest rates, you can look at a chart

called their debt maturity profile, which will show, year by year, how much of their debt is coming due.”

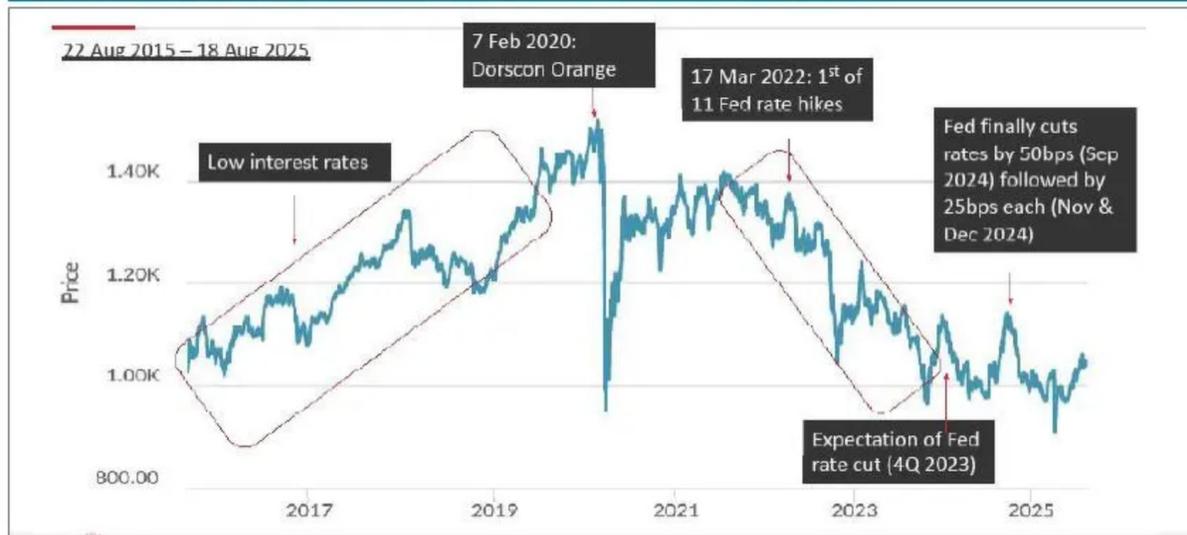
The Edge Singapore put some key questions to Joshi on her view on how REITs can benefit from lower cost of capital, market trends such as a preference for SGD assets, and different REIT models, including internalisation.



Singapore interest rates have declined rapidly



S-REIT 10-year price performance (2015-2025)



The Edge Singapore (TES): It is evident that a two-tier market has developed within the S-REIT sector. Big-cap and liquid REITs with access to banks and the debt market have a lower cost of capital than smaller REITs without a well-known sponsor. How can smaller REITs bridge the gap?

Nupur Joshi (NJ): Yes, big-cap liquid REITs have been the darlings of investors, but it doesn't have to stay that way. The two-tier market was shaped by the difficult past few years: first the pandemic, then the sharpest rate-hike cycle in decades. Smaller REITs were hit hardest because

their modest AUMs made shocks harder to absorb, while risk-averse investors gravitated to local sponsors with Singapore assets, widening the gap further.

Scale is the key differentiator. Larger REITs benefit from deeper liquidity, lower funding costs and greater institutional access. That is why we saw seven REIT mergers between 2018 and 2022 — consolidation was the fastest way for smaller players to gain these advantages.

It is worth remembering that the big REITs of today were the small REITs of 10–15 years ago, and they grew during a favourable environment of low interest rates and steady economic growth. But scale alone is not enough — fundamentals matter too. Smaller REITs must demonstrate a clear value proposition, execute well and put in place a through-the-cycle strategy that shows resilience in both good times and bad. Effective investor outreach and marketing are also essential to build confidence and attract long-term capital.

With rates now easing, conditions are improving for all REITs, large and small. For those that can combine disciplined growth with strong fundamentals, this is an opportunity to turn a vicious cycle into a virtuous one. Ultimately, investors care about returns — and just as much, if not more, money can be made in smaller REITs, especially when they are overlooked or undervalued.

We are also hopeful that MAS's \$5 billion Equity Market Development Fund could help channel more flows into mid- and small-cap REITs at this opportune moment.

TES: As time passes by, new trends emerge. For S-REITs, it is data centres. We had a data centre REIT story as our cover story in July. Morgan Stanley's 'Singapore at 60' blue paper outlines how Singapore is becoming a data and artificial intelligence (AI) hub. Keppel DC REIT has been one of our most successful REITs due to its asset class and Singapore-based assets. Since its IPO, data centre REITs sponsored by the second- and third-largest data centre owners/operators have listed in Singapore. How can we attract more REIT listings like these?

NJ: We're actually off to a good start. Singapore today is the largest data centre REIT hub in Asia, with three pure-play REITs already listed — Keppel DC REIT, Digital Core REIT, and the newly listed NTT DC REIT. Additionally, several of our industrial and diversified REITs have added meaningful exposure. Mapletree Industrial Trust and CapitaLand Ascendas REIT own completed data centres, while CapitaLand India Trust is developing them. Stoneweg Europe Stapled Trust has recently acquired a 10% stake in a data centre fund. So you can see a real cluster forming on SGX.

The regulator has also been supportive and proactive. Following industry feedback via REITAS, the Income Tax Act was amended earlier this year so that co-location income qualifies for tax transparency. That's a very practical change, showing regulators recognised the sector's potential and acted to give data centre REITs the footing they need to grow for the long term.

At this point, the key catalyst will be performance. If this first wave of data centre REITs continues to deliver, it will send a strong signal to global data centre owners and operators that Singapore is not just supportive but also the best place in Asia to tap the REIT market.

That said, while data centres are very much the trend today, we must also take a longer-term view. Attracting REITs with high-quality portfolios across a variety of asset classes will be just as important in sustaining the vibrancy, diversity and resilience of the S-REIT market over time. Different asset classes also bring in different pools of investors, further broadening the market.

TES: How can we attract more investors to Singapore to invest in our REITs?

NJ: First, Singapore must continue to maintain a competitive and stable regulatory environment. MAS has established one of the most supportive REIT regimes globally, characterised by tax transparency, clear gearing limits and well-defined rules. Just as importantly, these rules have evolved with the market — for example, expanding the scope of tax-transparent income to include co-location and co-working income as these became more relevant asset classes. Such responsiveness reassures investors.

Second, success breeds success. If our REITs deliver strong performance in a declining interest rate environment, they will naturally attract more attention — especially in a yield-hungry world.

Third, size and liquidity matter. Large institutional investors often have minimum size and turnover thresholds, so smaller REITs need the opportunity to grow their portfolios and improve liquidity over time. As assets under management (AUM) grow, indices take notice, and institutional and passive flows follow.

Fourth, quality listings in in-demand asset classes help broaden the investor base. NTT Data Centre REIT is a good example of a sponsor from the global top tier. Another is the upcoming Centurion Accommodation REIT, which combines student and worker accommodation — a first for Singapore. Expanding into new asset classes not only diversifies our market but also attracts new pools of investors focused on those sectors.

Fifth, investor education is vital — both in Singapore and across the region. Beyond raising retail participation in neighbouring markets, it is also about equipping younger investors to appreciate the diversification benefits of S-REITs, as studies have shown that their returns are often lowly correlated with those of US stocks and bonds.

Finally, Singapore has a natural advantage in ESG. The Government's Green Plan sets ambitious goals, sustainability reporting is now mandatory for all listed companies, including REITs, and many S-REITs are making good progress with sustainable finance and portfolio greening. With institutional capital increasingly allocated based on ESG commitments and performance,

positioning Singapore as a leader in sustainable REIT practices can attract further flows. Products like the UOB APAC Green REIT ETF also provide investors with additional avenues to channel capital into Environmental, Social and Governance (ESG) leaders within our sector.

TES: What are your views on S-REITs with overseas assets?

NJ: I believe the real issue is scale rather than geography. Out of 39 S-REITs trading today, 17 hold all or almost all their properties outside Singapore, with an average market capitalisation of \$0.6 billion and a combined market cap of about \$10 billion. They therefore account for around 10% of the industry's \$100 billion market cap. By contrast, the 10 largest S-REITs average around \$7.4 billion each and together represent about two-thirds of the industry. The difference in scale is stark, and that's where the challenge lies.

In the REIT world, scale matters. Larger REITs enjoy deeper liquidity, sit on the radar of active and passive funds, benefit from greater portfolio diversification, and secure funding at lower cost. This virtuous cycle reduces their overall cost of capital and fuels further growth. Smaller REITs, especially in recent years, have struggled to break into this cycle due to the pandemic, rate hikes and macroeconomic volatility. For overseas REITs, demonstrating strong fundamentals, a clear value proposition, and a through-the-cycle strategy is just as critical as pursuing scale — these are what build investor trust and distinguish the long-term winners.

While overseas assets may feel less familiar to local investors, I see geography as a secondary issue. Investors are already comfortable buying US and other global stocks without ever seeing the businesses firsthand, so unfamiliarity alone should not be a barrier.

Sponsors, however, do matter. While some have faced difficulties, many overseas sponsors are actively supporting their REITs to grow and succeed. Investors lose out if they dismiss all cross-border REITs with the same broad brush. Each case should be assessed on its own merits.

Currency adds another layer of complexity. The Singapore dollar's strength in recent years has made overseas distributions look weaker when translated back, even where operational performance was solid and despite REIT managers putting currency hedges in place to mitigate this risk. That said, it should be seen as an additional layer of risk rather than a reason to dismiss investing in these REITs. After all, investors are compensated for the extra risk, as most REITs with purely overseas properties are trading at dividend yields of 8% or more, compared to the industry average of around 6%.

In short, scale and fundamentals together will determine success. In a declining interest rate environment, overseas-focused REITs that grow responsibly and execute well have the opportunity to prove themselves. With disciplined management, they can mature into the blue-chip names of the future.

TES: Increasingly, new REIT jurisdictions are likely to provide competition for SGX. A case in point is the C-REIT. CapitaLand Investment, the sponsor of Singapore's two oldest and largest REITs, is planning to list a C-REIT. How can Singapore respond to this competition?

NJ: As interest rates decline, yield products will be back in demand. Liquidity is not in short supply; what's lacking is awareness. The more countries that develop REIT regimes, the more investors will become familiar with the product. That's good for everyone, because the pie grows rather than shrinks.

Singapore is already the largest REIT market in Asia, excluding Japan, and certainly the most diversified in terms of property types and geographies. Therefore, when global investors seek a credible, well-regulated, and transparent market, Singapore stands out.

There are also innovative ways to participate in markets that are otherwise closed. A good example is CapitaLand China Trust's strategy of gaining exposure to China's REIT sector. With creativity, cross-participation can expand opportunities even in competitive environments.

While new jurisdictions may emerge, it isn't a zero-sum game. The bigger the global REIT universe, the more capital will be drawn in — and Singapore is well-positioned to benefit.

TES: Morgan Stanley's SG@60 also approaches the internalised model. Regulations in some jurisdictions stipulate that only externally managed REITs are permitted. Singapore doesn't. What are your thoughts now that the S-REITs are 23 years old?

NJ: Sabana REIT has just announced its new CEO and CFO as Singapore's first internally managed REIT. All eyes will be on it to see how it performs and whether the benefits of internalisation that minority shareholders voted for indeed bear out. It's essentially a live experiment.

That said, the broader point is that the success of S-REITs cannot be reduced to whether they have an internal or external manager. Different models have their pros and cons. What matters more is whether the overall regulatory framework continues to support REITs in delivering long-term value to investors, while maintaining Singapore's attractiveness as a listing destination. The REIT structure must work for all stakeholders — unitholders, sponsors, and regulators alike.

As the market matures, the focus should be on strengthening a regulatory environment that balances investor protection, sponsor incentives and market vibrancy. Singapore's flexibility in allowing both internal and external models is a strength — it gives sponsors and investors options, unlike markets that mandate only one approach. That flexibility, together with a supportive framework, will ensure Singapore remains one of the most attractive REIT markets globally.