

Real Estate Analysis Report

S-REIT (Singapore REIT) from the Viewpoint of Overseas Investors

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Summary

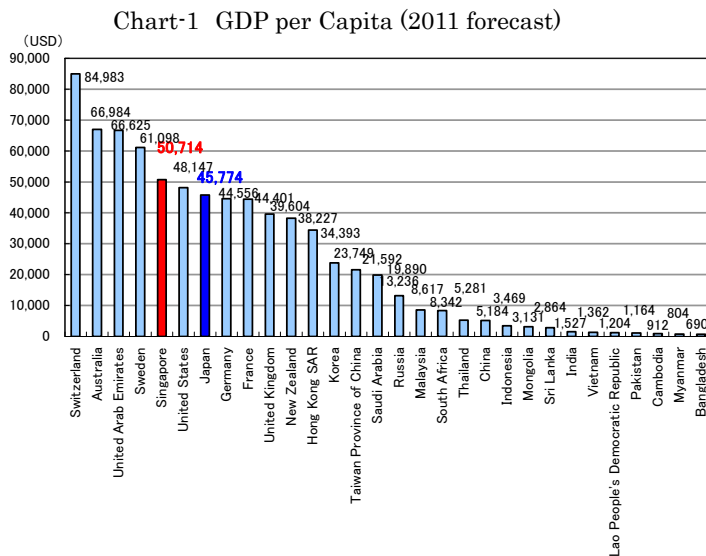
- As a city-state, Singapore has limited land area, but its property market and the property securitization market are quite developed.
- S-REIT, Singapore REIT, already has a good market size, and different from J-REIT, which is dominated by the office sector, other sectors of S-REIT are well established.
- Within S-REIT portfolios, quite a few landmark office buildings are recognized. As building owners, S-REITs claim a significant presence in the Singapore prime office market.
- The Singapore property market is quite open for investors and not only S-REITs but also global investors are active in the market.
- Japanese companies have recently become proactive about investing in Asian residential developments, but cases of long term investment by Japanese institutional investors are still rarely observed in Asia. Generally, Japanese and overseas investors have concerns about the quality of construction and conduct of property management in Asia. S-REITs should be one of the best suited investment products for investors looking to start long term investment in Asia.

1. Introduction

Emerging Asian nations have maintained strong economic growth since 2009 following the global financial crisis. Though some slowdown is anticipated, it seems they can still sustain higher economic growth in 2012 compared to other regions. On the back of the economic recovery, Asian property markets have been robust since 2010. While some of them are concerned about overheating, the Singapore property market has been relatively calm. The market is well organized with good investment infrastructure. Especially S-REITs, which provide easy access to overseas investors, should be worth looking into.

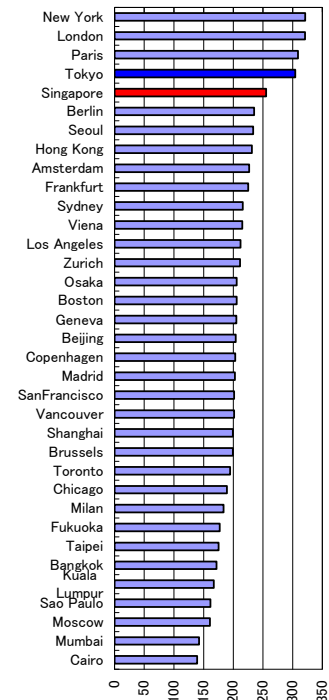
2. Singapore Property Market Overview

As a city-state, Singapore has very limited land area, but the country is one of world's most developed countries with very high GDP per capita (Chart-1). The charm of the city has been appreciated in many aspects and is competing with other major Asian cities like Tokyo, Hong Kong and Shanghai (Chart-2).



Source: IMF World Economic Outlook Database, September 2011

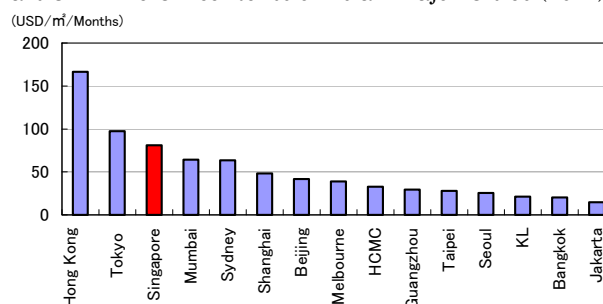
Chart-2 Global Power City Index (2011)



Source: Institute for Urban Strategies of the Mori Memorial Foundation

The Singapore property market is one of the most mature Asian markets, comparable to Hong Kong where office rents are globally the highest and Tokyo which accommodates the largest number of global company headquarters (Chart-3).

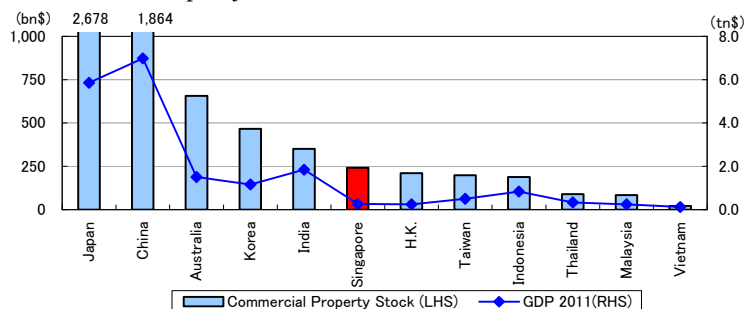
Chart-3 Prime Office Rents of Asian Major Cities (2011)



Source: DTZ Property Times, Asia Pacific

Although Singapore's national land area is as small as that of the Tokyo 23 wards, its property market is pretty sizable (Chart-4). Considering its small scale of economic value, the property market has developed successfully enough to call Singapore a property oriented nation.

Chart-4 Property Stock and GDP Size of Asian Countries (2011)



Source: Prudential Real Estate Investors Research, IMF

As one of the global financial centers, the Singapore property securitization market is also quite well developed. The market capitalization of S-REIT is two-thirds as large as that of J-REIT (Chart-5). Considering the Japanese property stock is ten times larger, the presence of S-REITs in the Singapore property market is quite significant.

Chart-5 Property Stock and REIT Market Size (2011 4Q)

	Commercial Property Stock (bn \$)	REIT Market Value (bn JPY)	No. of REIT
Australia	656	5,855	54
Japan	2,678	3,155	34
Singapore	241	2,250	26
Hong Kong	211	1,115	8
Malaysia	84	285	14
Thailand	89	223	34
Taiwan	198	173	8
Korea	467	18	7

Source: Prudential Real Estate Investors Research, ARES R.E. Securitization Journal 2012

3. S-REIT Overview

J-REIT is dominated by the office sector, out of a total of 34 J-REIT firms, nine are office-only-type and 13 are mix-office-type. Beyond the office sector, the residential sector has six firms, but the rest, retail, industrial/logistics and hotel sectors only have two firms each.

Moreover, the sector structure of S-REIT is quite different from J-REIT (Chart-6). The industrial/logistics sector boasts many firms. This is because Singapore is a premier global port city. Healthcare is also already established as a REIT sector, which could be a good reference for J-REIT in the future.

In addition, what is remarkable is that many S-REITs have overseas assets in part, and some invest exclusively in overseas properties. To this point, a J-REIT has never invested overseas although it is not prohibited. It is possible that overseas investment could become another J-REIT growth driver in the future.

Chart-6 List of S-REITs

Name	Main Sector	Overseas
Ascendas REIT	Industrial-logistics	
Ascendas India Trust	Industrial-logistics	Only O.S.
Cambridge Industrial Trust	Industrial-logistics	
Mapletree Industrial	Industrial-logistics	Incl. O.C.
Sabana REIT	Industrial-logistics	
AIMS AMP Capital Industrial Reit	Industrial-logistics	Incl. O.C.
CACHE Logistics Trust	Industrial-logistics	Incl. O.C.
Mapletree Logistics Trust	Industrial-logistics	Incl. O.C.
Global Logistics Properties	Industrial-logistics	Incl. O.C.
CapitaCommercial Trust	Office	Incl. O.C.
Suntec Reit	Office	
K-REIT	Office	Incl. O.C.
Fraser's Commercial Trust	Office	Incl. O.C.
Capitamall Trust	Retail	Incl. O.C.
Lippo-Mapletree Indonesia Retail Trus	Retail	Only O.S.
CapitaRetail China Trust	Retail	Only O.S.
Perennial China Retail Trust	Retail	Only O.S.
Starhill Global Reit	Retail	Incl. O.C.
Fraser's Centre Point Trust	Retail	
Fortune Reit HK\$	Retail	Only O.S.
Mapletree Commercial	Retail	
Ascott Residence Trust	Residential	Incl. O.C.
IndiaBulls Property Investmet Trust	Residential	Only O.S.
Saizen Reit	Residential	Only O.S.
CDL Hospitality Trusts	Hotel	Incl. O.C.
First REIT	Healthcare	Incl. O.C.
ParkwayLife REIT	Healthcare	Incl. O.C.

Source: NLI Research Institute

4. S-REIT Portfolio Features

Looking at S-REITs, many recognizable landmark properties can be found in their portfolios. For example, Ocean Financial Centre and Marina Bay Financial Centre invested by K-REIT and Suntec REIT are some of the best and newest office towers in Singapore, and are closely equivalent to Marunouchi Eiraku Building and JP tower among the newest office towers in Tokyo's central business district.

Chart-7 Singapore CBD Prime Office Map



Source: NLI Research Institute

Moreover, landmark retail properties like Ngee An City and Wisma Atria on Orchard Road and Raffles City at City Hall are also invested by S-REITs, which are closely equivalent to major department stores in Ginza and popular shopping centers in Shibuya in Tokyo.

To understand better about the presence of S-REITs in the prime office market, the following chart shows the makeup of major owners of landmark office buildings in Singapore and Tokyo (Chart-8).

Chart-8 Main Owners of Landmark Offices

	Singapore		Tokyo	
	No. of Projects	Ratio	No. of Projects	Ratio
REIT	19	38.8%	27	13.8%
Global Investors	9	18.4%	2	1.0%
Domestic Investors	0	0.0%	9	4.6%
Domestic Developers	16	32.7%	109	55.6%
Own-Use-CRE	5	10.2%	49	25.0%
Total	49	100%	196	100%

Landmark Ratio in REIT Office Portfolio
76.0% of the 25 City Offices in S-REIT Portfolios
4.8% of the 566 Tokyo Offices in J-REIT Portfolios
 * Ratio is based on the no. of projects not value

*Tried to cover all very large offices in prime office locations built in 1980's or later
 *Guessed a main owner of each project (no duplication, REIT is counted as a main owner even with small stakes)
 Source: NLI Research Institute

S-REITs are the largest owner group in the Singapore prime office market. Not only new ones, but also old landmark offices are invested by S-REITs, such as Suntec City by Suntec REIT and Capital Tower and Six Battery Road by CapitaCommercial Trust. On the other hand, small to medium sized offices are seldom invested by S-REITs. Currently, only 25 city offices are invested by S-REITs¹ and 19 projects of the 25 are landmark offices.

Furthermore, especially among new landmark offices, the presence of S-REITs stands out (Chart-9).

Chart-9 Main Owners of New Landmark Offices and Projects owned by REITs

	Singapore	
	No. of Projects	Ratio
S-REIT	7	46.7%
Global Investors	4	26.7%
Domestic Investors	0	0.0%
Domestic Developers	3	20.0%
Own-Use-CRE	1	6.7%
Total	15	100%

Project Name	Year	Height (M)	Floors	Owner S-REIT
Market Street Office Tower	2014	245	40	CapitaCommercial Trust
Ocean Financial Centre	2011	245	43	K-Reit Asia
Marina Bay Financial Centre Tower 2	2010	222	50	K-Reit Asia and Suntec Reit
Marina Bay Financial Centre Tower 1	2010	192	33	K-Reit Asia and Suntec Reit
One Raffles Quay North Tower	2006	245	50	K-Reit Asia and Suntec Reit
One Raffles Quay South Tower	2006	140	29	K-Reit Asia and Suntec Reit
One George Street	2004	153	23	CapitaCommercial Trust

	Tokyo	
	No. of Projects	Ratio
J-REIT	2	4.8%
Global Investors	0	0.0%
Domestic Investors	0	0.0%
Domestic Developers	28	66.7%
Own-Use-CRE	12	28.6%
Total	42	100%

Project Name	Year	Height (M)	Floors	Owner J-REIT
(tentative) Otemachi 1-6 Plan (Land Only)	2014	200	38	Japan Prime Realty Investment Corp.
Hirakawamachi Mori Tower	2009	102	24	Global One Real Estate Investment Corp.

*Tried to cover all new landmark offices in prime office locations built in 2004 or later in Singapore, 2009 or later in Tokyo.
 *Guessed main owners of the projects (no duplication, REIT is counted as a main owner even with small stakes)
 Source: NLI Research Institute

¹ Excluding suburban offices and business parks

In addition to the current strong position, S-REITs appear to keep investing in landmark offices with an eye toward the future. For example, Market Street Office Tower is a new project under development and its owner is an SPC invested by CapitaCommercial Trust.

This is because major developers like Capitaland and Keppel Land have a strategy to increasingly invest in development projects. They sell completed projects in Singapore and even in China to S-REITs in order to invest the proceeds into other new development projects in emerging Asian markets.

Other than S-REITs, global investors show a strong presence in the Singapore prime office market as well, as one of newest landmark office towers, Asia Square, is invested by a global investment fund, MGPA. The Singapore prime office market openly provides global investors with good opportunities to invest in landmark offices, which are otherwise not easily found worldwide.

The Singapore market is open for development investment as well. The government discloses a map on their site showing land supply plans. Even overseas investors can check the land supply schedule for any land parcels in Singapore.

5. S-REIT to Overseas Investors

As Asian economic growth has been outstanding for years, Japanese companies have proactively invested in Asia in the form of direct investment and equity stock investment. This trend looks to continue considering that developing countries are financially struggling, but the Japanese property industry has been active in investment in Asia for only a few years.

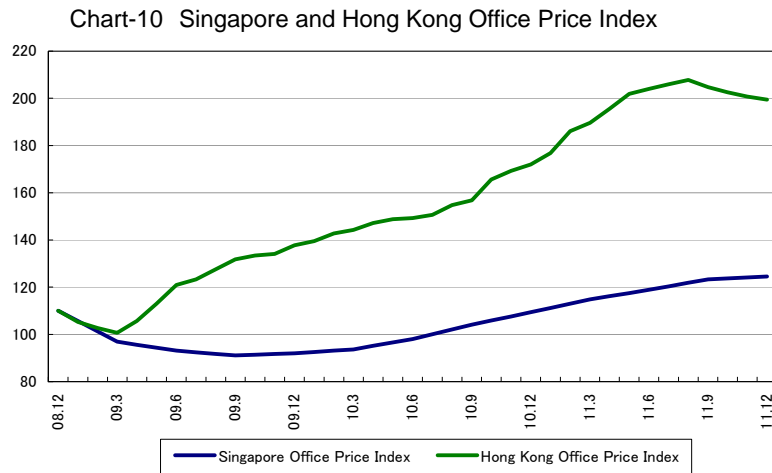
Japanese property developers and home builders are now proactively investing in Asian residential developments. Nevertheless, very few institutional investors have been observed in Asia as long term investors. That is mainly because they are concerned about the quality of construction and how to conduct property management in Asia.

In Singapore, however, Japanese engineering companies have enjoyed major market share for many years, and S-REITs invest mainly in landmark offices, which are generally of very good quality and possess few building defects. In addition, as an indirect investment vehicle, S-REITs do not require investors to conduct property management. Moreover, of course as another advantageous factor, S-REITs have liquidity for exiting from investments. Considering these, S-REITs should be one of the most suitable investment products for overseas investors starting Asian property investment.

6. S-REIT Investment

As property markets have long term cycles, the timing of investment is very important. China and other Asian countries made successful economic recoveries through sizable government spending after the 2008 global financial crisis. Asian property markets recovered strongly also,

and now some markets like the China residential market face concerns of overheating. The Singapore property market, especially the office sector, did not soar as much and does not appear to be overheating (Chart-10).



Source: Singapore Urban Redevelopment Authority, The Government of Hong Kong SAR

Singapore is very sensitive to global financial conditions as an international financial city. Many market participants forecast that Singapore office rents will fall in 2012 on the back of the financial difficulty in Europe. Although S-REIT share prices are on the uptick with the recent souring equity markets, there is the possibility that S-REIT share prices could decline with shrinking rents, which would present a good investment opportunity.

For medium to long term investments, the following risks should be considered. First, regarding market growth, Singapore should have lower long term growth as a developed country, compared with other emerging neighbors. Furthermore, office demand is dependent on the future success of the government strategy to induce foreigners. Supply side is also influenced by the government, while Singapore has a massive piece of reclaimed land in Marina Bay reserved for office developments, which is big enough to raise concern about the future demand-supply balance. Although the government has been careful in dealing with the property market and is expected to continue doing so, compared with Hong Kong where new supply is quite limited, the Singapore property market is structured to be easily over-supplied.

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