Invest

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Insurance exec David Broom's broad portfolio mix includes property, stocks, commodities and cash. B11

12 things to consider when investing in Reits

Real estate investment trusts are the "star performers" this year, far surpassing the performance of the benchmark Straits Times Index, says Ms Carmen Lee, head of investment research at OCBC Bank. Based on the FTSE ST Reit Index, the year-to-date gain is 18.9 per cent, much higher than the 2.5 per cent gain for the STI. ST PHOTO: LIM YAOHUI

They are less volatile than wider stock market, suitable for retirees who want regular dividends

Lorna Tan
Invest Editor

Volatility continues to unsettle markets, but real estate investment trusts (Reits) remain a sweet spot with relatively high yields and stable dividends.

Indeed, institutional investors have been turning away from private equity real estate and infrastructure investment in favour of liquid funds that put their money to work faster, notes Mr Geoff Howie, market strategist at the Singapore Exchange (SGX).

Ms Carmen Lee, head of investment research at OCBC Bank, says Reits are the "star performers" this year, far surpassing the performance of the benchmark Straits Times Index (STI).

"Based on the FTSE ST Reit Index, the year-to-date gain is 18.9 per cent. This is outstanding, especially in an environment of heightened volatility due to trade tensions," she says.

"The 18.9 per cent gain is also significantly higher than the 2.5 per cent gain for the STI."

Mr Howie adds that lower interest rates and net institutional inflows have led to the Reits sector outperforming benchmarks at home and abroad.

He noted that the iEdge S-Reit Index generated a 22.6 per cent total return from Jan 1 to Aug 28 this year, with the sector recording net institutional inflows of $287 million. In that same period, six of the 42 trusts listed here generated total returns above 30 per cent – Ascendas Hospitality Trust, Keppel DC Reit, Keppel-KBS US Reit, Mapletree Commercial Trust, Lippo Malls Indonesia Retail Trust and Sasseur Reit.

Reits pool investors' money to invest in a diversified portfolio of income-generating, professionally managed real estate assets such as shopping malls, offices, hotels, serviced apartments, and logistics and industrial parks. The rental revenue from these assets is regularly distributed in the form of dividends.

Reits make sense for investors who are retired and dependent on dividend payouts for day-to-day expenditure. After all, capital preservation is a key objective for retirees as their portfolios have less time to recover from losses compared with younger investors, says Phillip Capital Management senior fund manager Tan Teck Leng.

He adds that they have historically exhibited lower volatility than the broader equity market, preserving portfolio values during market corrections.

The Sunday Times highlights 12 things to look out for when investing in Reits.

1. Quality of the underlying portfolio

Ask if the properties are in a high-growth sector and location.

Properties in prime locations are more likely to have stronger incomes and valuations compared with real estate in poor locations, says Ms Evy Wee, head of financial planning and personal investing at DBS Bank.

Also consider if the Reits own properties across various geographies. This may offer more diversification, but the trusts could face foreign exchange fluctuations as rental income will be in another currency, she adds.

Mr Victor Wong, senior director and head of Asean equities at UOB Asset Management, advises that high-quality properties with diversified, blue-chip tenants will be more resilient during a market downturn.

2. Lease expiry of tenants

One key measure is the weighted average lease expiry (Wale).

This measures the likelihood of a property being vacated and so provides an indication of how secure the Reit's income stream is.

A Reit with a short Wale faces a higher risk of vacancy than one with a longer one, says Ms Wee.

3. Management track record

A manager with a strong track record will go a long way to ensure sustainable growth and devise strategies to increase distributions, notes Mr Wong.

4. Strong sponsor

The sponsor is the controlling company behind the Reit, and typically also controls the management company. CapitaLand, for example, is the sponsor of CapitaLand Mall Trust and CapitaLand Commercial Trust.

"With a strong sponsor, such as a solid property developer, there is visibility on the future pipeline of assets for the Reit, an assurance of corporate governance and financial backing in the event of a crisis," says Mr Tan.

5. Potential growth in distribution per unit

A Reit may raise dividends through asset enhancement initiatives, which are basically ways the manager converts empty space so it generates returns, or by acquiring other properties, says Ms Wee.

So consider the frequency and extent to which a Reit does this.

6. Gearing ratio

This refers to the proportion of total debts to total assets. The leverage limit for Reits is 45 per cent, which means a gearing ratio in excess of that is considered high.

Mr Wong says that a prudently managed balance sheet with low gearing is preferred so that there is sufficient debt headroom for acquisitions or development.

"The debt expiry profile should be spread out to minimise refinancing risk," he adds.

7. Dividend yields

While the current average dividend yield is about 6.3 per cent, this can range from 4.6 per cent for data centres to 6.9 per cent for industrial Reits.

It is more appropriate to compare yields for Reits within the same sectors, advises Ms Lee.

These sectors can be broadly classified into segments that include office, retail, industrial, hospitality, healthcare, data centres and others.

8. Market capitalisation

While the average market capitalisation of Singapore's listed Reits is at around $2.5 billion, it can range from as low as $350 million to as high as $9.7 billion.

Within the sectors, retail, office and industrial Reits tend to be bigger, with average market capitalisation in excess of $2.7 billion, says Ms Lee. Bigger Reits usually have better trading volumes and tend to be favoured by institutional funds.

9. State of the economy

Stronger economic growth is generally a good thing. However, as Reits are typically focused on a particular sector, the growth outlook for that particular industry, including rental forecasts, also matters.

The rise of e-commerce, for example, is generally positive for logistics Reits as distributors need warehousing space to store their merchandise, notes Ms Wee.

10. Interest rates

The general rule of thumb is that rising interest rates make Reits less attractive as most would have taken on debt that they have to repay, notes Ms Wee.

During such periods, investors can consider Reits that have fixed-rate loans, debt that is well staggered and a high proportion of assets that are not pledged as collateral.

11. Overseas Reits

Mr Tan says quality overseas Reits can help diversify a portfolio.

"In particular, we think Asia-Pacific Reits should be considered, as key Reit markets in this region – Australia and Hong Kong – have similar or longer histories than the S-Reit market and similarly solid performances," he says.

"Many will also be more comfortable investing in regions close to Singapore rather than, say, Europe or the US."

Australia's Reit market (A-Reits) is significantly bigger and the longest-running in the Asia-Pacific, having started in the 1970s.

"A-Reits have favourable regulatory environments with deep market liquidity," Mr Tan adds.

"The Australian superannuation funds (retirement funds) are among the biggest domestic investors, while A-Reits are also a core segment for international Reit investors.

"Australian commercial and industrial properties, where most A-Reits are invested in, have been seeing strong price growth in recent years given low interest rates and international buying interest, with industrial and office properties in particular performing strongly."

One way to invest in Asia-Pacific Reits without the hassle or challenge of individual stockpicking is to buy into Phillip SGX Apac Dividend Leaders Reit ETF, which is listed on the SGX.

It buys into the top 30 Asia-Pacific ex-Japan Reits ranked by total dividends paid, which would include the biggest Reits in Singapore, Australia and Hong Kong.

Launched in October 2016, the exchange-traded fund has delivered 9.7 per cent net annualised returns to investors (in Singapore dollars, dividends included), as of the end of last month.

12. Financial know-how

SGX StockFacts (www.sgx.com/stockfacts) has a number of screeners that can assist retail investors in their reviews of the Reit sector.

You can scan by yield, debt/equity, price/book ratio, size or market cap, and the Reit's pricing relative to the last four weeks, three months, six months or 12 months.

Mr Howie suggests that investors study a Reit's prospectus to understand its investment objective and details of the properties to be acquired before making an investment decision.

"Aside from market risks, retail investors should also be considering cost of refinancing, management fees paid to Reit managers, as well as the geographical location and quality of the underlying property investments (for example, concentration of properties and length of lease)," he adds.

Outlook on Reits

Mr Derek Tan, head of property research at DBS Group Research, says Reits will hold up better when volatility hits because they are exposed to the more resilient domestic consumption (such as suburban retail) and logistics sectors, which are seeing a multi-year structural growth in demand.

"The outlook for the Reits sector is still positive, and we estimate that Reits can grow their distribution per unit (DPU) by about 3 per cent on average," he notes

"The Reits in the retail and industrial sectors should continue to see good rental reversion rates and room to grow for their DPUs.

"In the past year, some of the Reits also carried out acquisitions which are yield accretive."

UOB Asset Management expects Reits to continue to trade on higher valuations, given global market uncertainties and low interest rates.

"Nonetheless, they still offer more attractive absolute dividend yields and yield spreads compared with 10-year government bond yields, which are expected to stay low due to central banks in the region adopting an accommodative monetary stance," Mr Wong says.

Other favourable factors for Reits include the trend of higher rental rates at lease renewals, as well as acquisition opportunities which will support an increase in DPU, which will translate into higher returns for investors, he adds.

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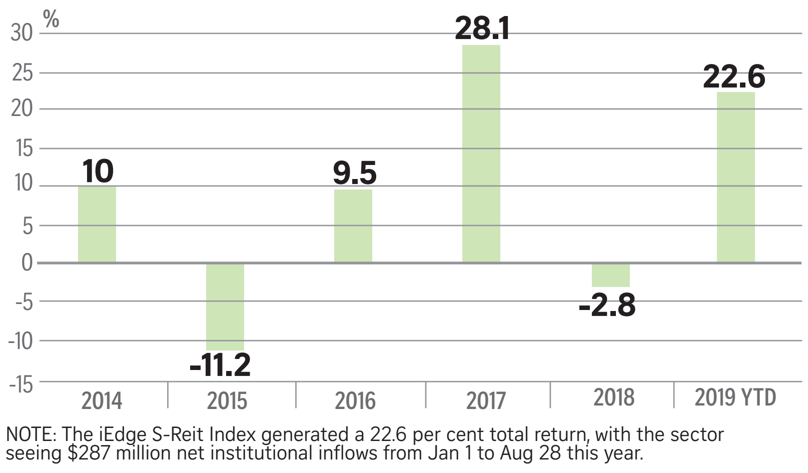
iEdge S-Reit Index total returns



NOTE: The iEdge S-Reit Index generated a 22.6 per cent total return, with the sector seeing $287 million net institutional inflows from Jan 1 to Aug 28 this year.

Source: SGX MY GATEWAY REPORT, AUGUST 2019 SUNDAY TIMES GRAPHICS

Top Reit picks

DBS Bank's picks	Target price ($)
Ascendas Reit	3.40
Frasers Centrepoint Trust	2.95
Frasers Logistics & Industrial Trust	1.40
Mapletree Commercial Trust	2.25
Mapletree Logistics Trust	1.85
OCBC Bank's picks	
Frasers Commercial Trust	1.70
Keppel DC Reit	1.93
Mapletree North Asia Commercial Trust	1.43

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