SINGAPORE REITS | **NEUTRAL**

12 Mar 2019
Sector Update

A SHELTER FOR THE DOVES AND UNCERTAINTIES

- **Projecting 1.9% FY19 DPU growth**
- **Firm trading performance may continue**
- **Top picks: KDCREIT, FCT and ART**

Healthy 4QCY18, look forward to further growth

The 24 S-REITs under our coverage largely turned in a healthy performance for the recently concluded 4QCY18 results season, delivering average DPU growth of 2.1% on a YoY basis. 21 of these met our expectations, 2 exceeded while only 1 missed (Starhill Global REIT). Looking ahead, we are projecting FY19F DPU growth to come in at 1.9% (market-cap weighted) for the S-REITs under our coverage. This is expected to continue in FY20F, with projected DPU growth of 2.4%.

Hospitality REITs painted a much more sanguine outlook

Office REITs continued to show optimism on further rental growth in 2019, but this would likely moderate from the solid 14.9% growth in 2018 (based on CBRE core Grade A CBD data). We see downside risks on Office REITs as this optimism has likely been priced in and we believe there is more room for disappointment than an outperformance. On the other hand, most Hospitality REITs painted a more sanguine outlook ahead, while recent hotel transactions lead us to believe that the asset valuation of Hospitality REITs are conservative.

Valuations have tightened, but near-term trading performance may remain robust

The forward yield spread between the FTSE ST REIT Index (5.81%) and the Singapore government 10-year bond yield (2.19%) last stood at 362 bps. This is approximately one standard deviation (s.d.) below the 5-year mean of 404 bps. While valuations leave nothing to be excited about at this level, in our view, we remain constructive on the near-term trading performance of S-REITs. This would be underpinned by continued benign expectations of the rate hike trajectory by the Federal Reserve in 2019. We note that during times in 2018 when the market was risk-on, the yield spread of S-REITs had compressed to 2 s.d. below the historical average. Based on the fed funds futures rate, the market is pricing in no rates hikes by end 2019. In fact, the probability of a rate cut as implied by the fed funds futures rate is actually higher than the probability of a rate hike. Hence, should the Fed choose to raise rates at least once this year (given the still tight labour market), this may cause markets to relook at their assumptions and result in capital outflows from yield sensitive instruments such as REITs. Notwithstanding this risk, a rate hike, if any, would likely only happen in 2H19. Maintain NEUTRAL. Our longer term preferred picks are still **Keppel DC REIT [BUY; FV: S$1.60]** and **Frasers Centrepoint Trust [BUY; FV: S$2.50]**. We add **Ascott Residence Trust [BUY; FV: S$1.25]** as a replacement for FLT in to gain exposure to the hospitality sector and also in light of the latter's strong share price performance.

NEUTRAL (maintain)

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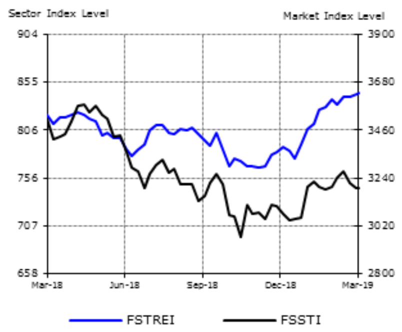
Relative total return	1m	3m	12m
Sector (%)	1	10	10
STI-adjusted (%)	1	6	15

Price performance chart



Sources: Bloomberg, OIR estimates

Stock coverage ratings

BBRG Ticker	Price	Fair Value	Rating
AREIT SP	2.81	2.64	HOLD
ART SP	1.15	1.25	BUY
CACHE SP	0.730	0.760	HOLD
CCT SP	1.94	1.83	HOLD
CT SP	2.37	2.25	HOLD
CRCT SP	1.52	1.42	HOLD
CDREIT SP	1.62	1.56	HOLD
EREIT SP	0.535	0.58	BUY
FEHT SP	0.655	0.680	BUY
FIRT SP	1.00	0.97	SELL
FCT SP	2.23	2.50	BUY
FCOT SP	1.48	1.56	BUY
FLT SP	1.17	1.19	BUY
KDCREIT SP	1.44	1.60	BUY
MCT SP	1.81	1.79	HOLD
MINT SP	2.04	1.98	HOLD
MLT SP	1.41	1.50	BUY
OUECT SP	0.500	0.500	HOLD
OUEHT SP	0.725	0.820	BUY
SBREIT SP	0.605	0.620	HOLD
SPHREIT SP	1.02	0.99	HOLD
SGREIT SP	0.700	0.75	BUY
SUN SP	1.94	1.84	HOLD

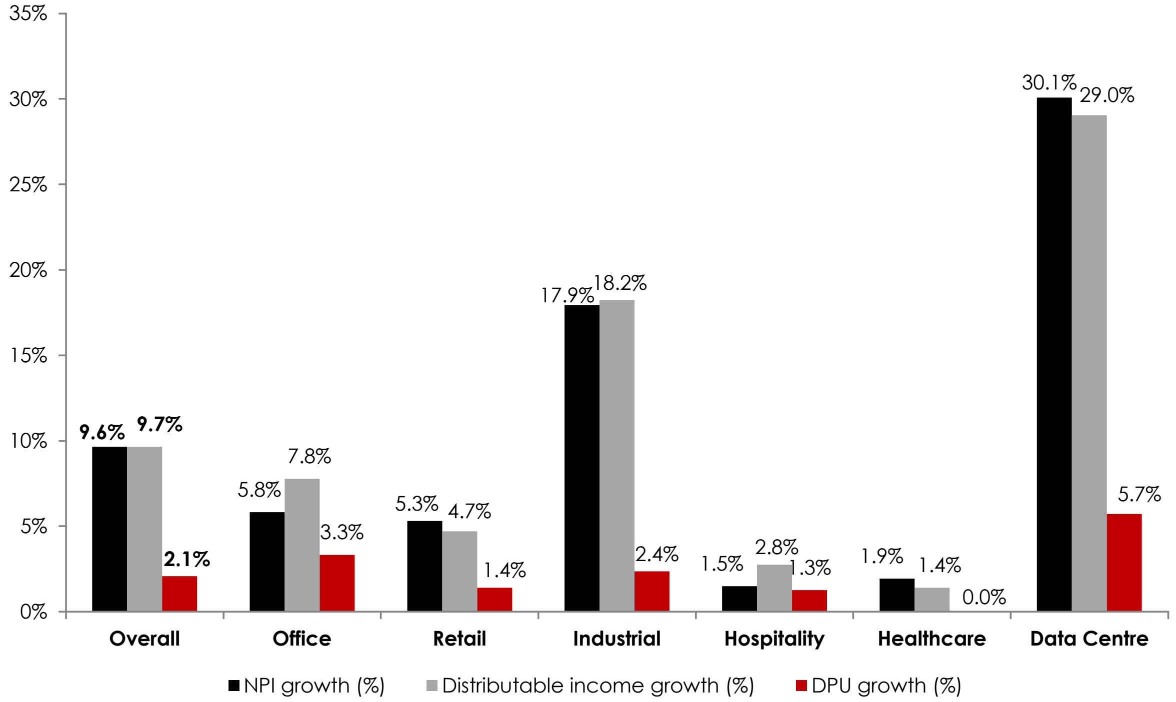
Note: MAGIC SP is currently on our Research Black List

Healthy 4QCY18 results
The 24 S-REITs under our coverage largely turned in a healthy performance for the recently concluded 4QCY18 results season, delivering average DPU growth of 2.1% on a YoY basis. 21 of these met our expectations, 2 exceeded (Ascott Residence Trust and Soilbuild REIT but the latter was due to a one-off item) while only 1 missed (Starhill Global REIT). Another positive stems from the fact that out of these 24 S-REITs, there were only five which recorded negative DPU growth on a YoY basis. In terms of sub-sector breakdown, all segments saw positive DPU growth, with the exception of healthcare (our only covered healthcare REIT is First REIT, which registered flat DPU).

Look forward to further DPU growth
Looking ahead, we are projecting FY19F DPU growth to come in at 1.9% (market-cap weighted) for the S-REITs under our coverage. This is expected to continue in FY20F, with projected DPU growth of 2.4%. For FY19, this would be driven largely by Keppel DC REIT and Office REITs, while for FY20, the main contributors to growth would come from Industrial REITs, Hospitality REITs and Keppel DC REIT once again.

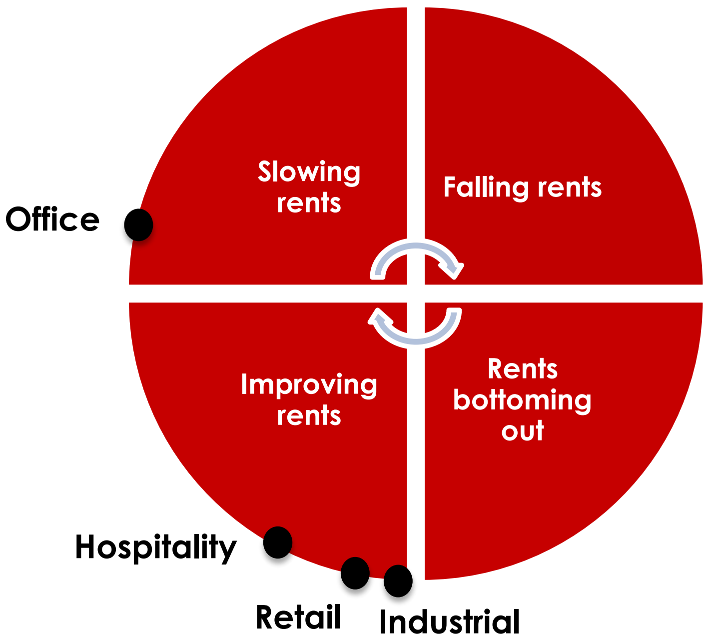
Sector preference: Retail > Hospitality > Industrial > Office
In terms of sub-sector preference, we continue to rank Retail REITs as our most preferred, but move up Hospitality REITs to second place ahead of Industrial REITs. Although Office REITs will continue to benefit from market rental growth momentum, we believe this has been priced in by the market, with forward distribution yields at relatively tight levels. We thus see downside risks on Office REITs and we believe there is more room for disappointment than an outperformance following a higher base effect after core Grade A CBD rents grew 14.9% in 2018. On the other hand, most Hospitality REITs painted a more sanguine outlook ahead, while recent hotel transactions and the Government Land Sales hotel site at Club Street lead us to believe that the asset valuation of hospitality REITs are conservative.

Exhibit 1: Sub-sector performance breakdown of S-REITs under OIR's coverage for 4QCY18



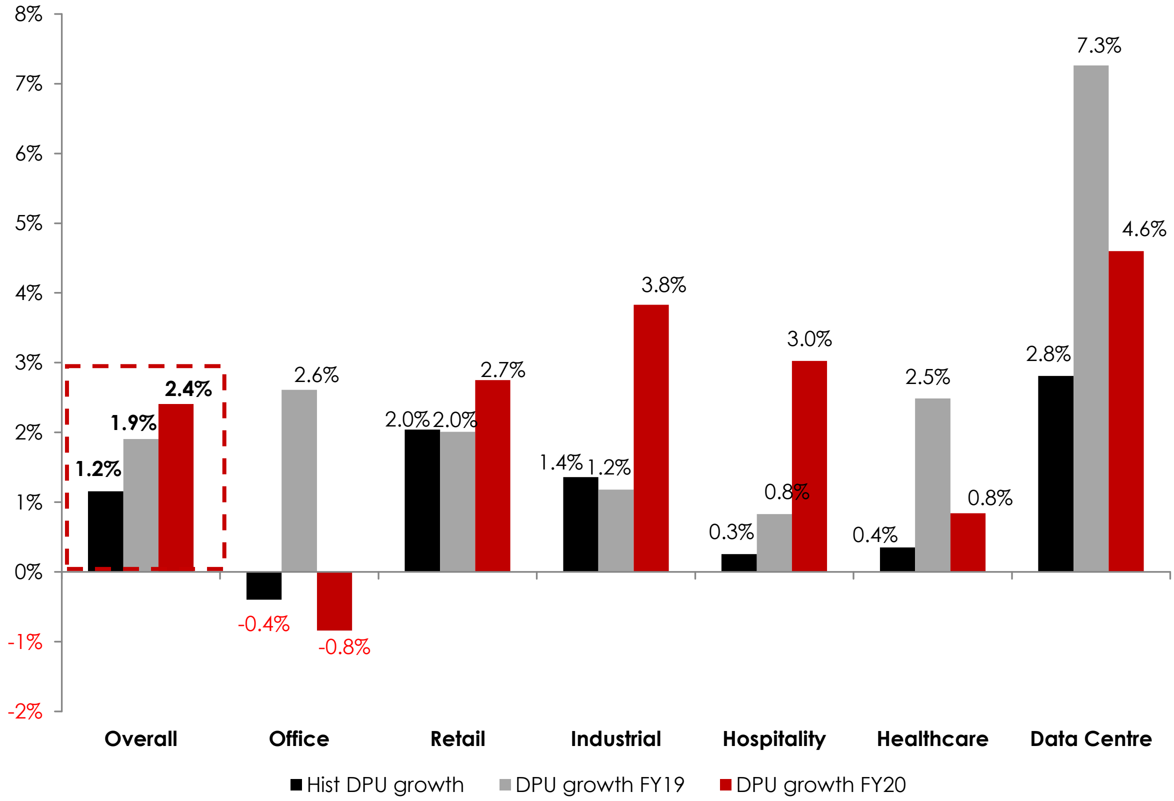
Source: REIT Managers, OIR

Exhibit 2: Rental cycle clock expectations for 2019



Source: OIR

Exhibit 3: DPU growth ahead is expected to be relatively stable, based on OIR's forecasts



Source: REIT Managers, OIR estimates

Exhibit 4: 4QCY18 results performance of OIR's S-REITs coverage

	FYE	Reporting Currency	NPI	YoY Chg	Dist. income	YoY Chg	DPU (cents)	YoY Chg
OFFICE								
CapitaLand Commercial Trust	31 Dec	S$ m	79.3	16.6%	83.1	10.7%	2.22	6.7%
Frasers Commercial Trust	30 Sep	S$ m	21.1	-15.0%	21.6	10.8%	2.40	0.0%
OUE Commercial REIT (1)	31 Dec	S$ m	36.6	5.6%	21.5	21.6%	0.75	21.0%
Suntec REIT	31 Dec	S$ m	60.7	2.3%	69.5	0.3%	2.59	-0.5%
		S$ m	**197.8**	**5.8%**	**195.6**	**7.8%**	**7.96**	**3.3%**
RETAIL								
CapitaLand Mall Trust	31 Dec	S$ m	124.4	4.3%	108.1	5.1%	2.99	3.1%
CapitaLand Retail China Trust	31 Dec	S$ m	35.9	8.8%	23.7	7.7%	2.42	2.1%
Frasers Centrepoint Trust	30 Sep	S$ m	35.4	2.5%	28.0	0.9%	3.02	0.7%
Mapletree Commercial Trust	31 Mar	S$ m	87.9	2.2%	67.0	0.8%	2.33	1.3%
Mapletree NAC Trust	31 Mar	S$ m	84.6	18.5%	61.0	16.3%	1.93	3.2%
SPH REIT (2)	31 Aug	S$ m	41.8	-1.0%	34.6	0.6%	1.34	0.0%
Starhill Global REIT	30 Jun	S$ m	39.5	-2.4%	24.6	-3.4%	1.13	-3.4%
		S$ m	**449.4**	**5.3%**	**347.1**	**4.7%**	**15.16**	**1.4%**
INDUSTRIAL								
Ascendas REIT	31 Mar	S$ m	168.0	6.6%	124.3	7.0%	4.00	0.7%
Cache Logistics Trust	31 Dec	S$ m	23.4	-0.6%	16.2	-5.3%	1.50	-5.9%
ESR-REIT	31 Dec	S$ m	42.3	112.1%	29.3	140.2%	1.01	8.2%
Frasers Logistics & Ind Trust(3)	30 Sep	**A$ m**	50.3	44.5%	36.7	41.9%	1.78	-1.1%
Mapletree Industrial Trust	31 Mar	S$ m	71.9	1.4%	58.3	9.0%	3.07	6.6%
Mapletree Logistics Trust	31 Mar	S$ m	104.5	25.9%	71.9	23.3%	2.00	5.0%
Soilbuild REIT	31 Dec	S$ m	20.5	15.3%	15.4	5.7%	1.45	4.9%
		S$ m	**480.0**	**17.9%**	**351.5**	**18.2%**	**14.81**	**2.4%**
HOSPITALITY								
Ascott Residence Trust	31 Dec	S$ m	63.4	2.6%	46.5	5.9%	2.15	5.4%
CDL Hospitality Trusts	31 Dec	S$ m	38.4	-5.4%	33.4	-1.5%	2.77	-2.1%
Far East Hospitality Trust	31 Dec	S$ m	26.3	13.9%	19.1	4.9%	1.00	3.1%
OUE Hospitality Trust	31 Dec	S$ m	28.9	-1.0%	23.3	1.3%	1.28	0.8%
		S$ m	**157.1**	**1.5%**	**122.3**	**2.8%**	**7.20**	**1.3%**
HEALTHCARE								
First REIT	31 Dec	S$ m	28.5	1.9%	17.0	1.4%	2.15	0.0%
		S$ m	**28.5**	**1.9%**	**17.0**	**1.4%**	**2.15**	**0.0%**
DATA CENTRE								
Keppel DC REIT	31 Dec	S$ m	42.5	30.1%	26.1	29.0%	1.85	5.7%
		S$ m	**42.5**	**30.1%**	**26.1**	**29.0%**	**1.85**	**5.7%**
GRAND TOTAL:		**S$ m**	**1,355.3**	**9.6%**	**1,059.7**	**9.7%**	**49.13**	**2.1%**

Source: REIT Managers, OIR

(1) YoY DPU comparison based on restated DPU of 0.62 S cents for 4Q17 after adjusting for the rights issue
(2) Period from 1 Sep 2018 to 30 Nov 2018 as SPH REIT's financial year end is on 31 Aug
(3) Frasers Logistics & Industrial Trust's NPI and DI are denoted in AUD but DPU is denoted in SGD. In AUD terms, DPU rose 6.5% to 1.81 A cents

Note: We initiated coverage on ESR-REIT and Mapletree Commercial Trust and thus include them in the table above
Viva Industrial Trust has been delisted from SGX-ST with effect from 22 Oct 2018 and thus removed from the table above

Exhibit 5: DPU forecasts for S-REITs under OIR's coverage

	FYE	Market Cap S$'m	Curr. for DPU	DPU Hist S cents	YoY Chg	DPU (FY19F) S cents	YoY Chg	DPU (FY20F) S cents	YoY Chg
OFFICE									
CapitaLand Commercial Trust	31 Dec	7,311	S$	8.7	0.5%	9.1	4.9%	8.7	-4.3%
Frasers Commercial Trust	30 Sep	1,334	S$	9.6	-2.2%	9.6	0.0%	9.7	1.0%
OUE Commercial REIT	31 Dec	1,429	S$	3.5	-3.9%	3.5	1.7%	3.7	3.6%
Suntec REIT	31 Dec	5,200	S$	10.0	-0.2%	10.0	0.4%	10.3	2.3%
Simple Average					**-1.5%**		**1.7%**		**0.6%**
Market Cap Weighted Average					**-0.4%**		**2.6%**		**-0.8%**
RETAIL									
CapitaLand Mall Trust	31 Dec	8,778	S$	11.5	3.0%	11.9	3.5%	12.6	5.5%
CapitaLand Retail China Trust	31 Dec	1,488	S$	10.2	1.2%	10.2	0.2%	10.1	-1.2%
Frasers Centrepoint Trust	30 Sep	2,069	S$	12.0	1.0%	12.2	1.6%	12.5	2.7%
Mapletree Commercial Trust	31 Mar	5,201	S$	9.0	4.9%	9.1	0.2%	9.2	1.8%
Mapletree NAC Trust	31 Mar	4,063	S$	7.5	1.9%	7.7	2.4%	7.7	0.4%
SPH REIT	31 Aug	2,636	S$	5.5	0.2%	5.6	1.7%	5.7	0.5%
Starhill Global REIT	30 Jun	1,516	S$	4.5	-7.5%	4.6	1.3%	4.8	4.4%
Simple Average					**0.7%**		**1.6%**		**2.0%**
Market Cap Weighted Average					**2.0%**		**2.0%**		**2.8%**
INDUSTRIAL									
Ascendas REIT	31 Mar	8,710	S$	16.0	1.6%	16.0	0.0%	16.3	2.1%
Cache Logistics Trust	31 Dec	780	S$	5.9	-10.7%	5.6	-4.9%	5.7	1.5%
ESR-REIT	31 Dec	1,696	S$	3.9	0.1%	3.8	-0.8%	3.9	3.1%
Frasers Logistics & Ind Trust	30 Sep	2,369	S$	7.2	2.6%	7.1	-0.6%	7.2	1.1%
Mapletree Industrial Trust	31 Mar	4,097	S$	11.8	3.2%	12.2	3.7%	13.1	7.3%
Mapletree Logistics Trust	31 Mar	5,035	S$	7.6	2.4%	7.9	4.3%	8.4	6.1%
Soilbuild REIT	31 Dec	642	S$	5.3	-7.5%	5.0	-5.5%	5.1	2.0%
Simple Average					**-1.2%**		**-0.5%**		**3.3%**
Market Cap Weighted Average					**1.4%**		**1.2%**		**3.8%**
HOSPITALITY									
Ascott Residence Trust	31 Dec	2,477	S$	7.2	1.0%	7.1	-1.4%	7.1	0.8%
CDL Hospitality Trusts	31 Dec	1,954	S$	9.2	0.0%	9.3	1.1%	9.4	0.5%
Far East Hospitality Trust	31 Dec	1,219	S$	4.0	2.6%	4.1	1.5%	4.4	8.5%
OUE Hospitality Trust	31 Dec	1,319	S$	5.0	-2.9%	5.2	4.0%	5.5	5.9%
Simple Average					**0.2%**		**1.3%**		**3.9%**
Market Cap Weighted Average					**0.3%**		**0.8%**		**3.0%**
HEALTHCARE									
First REIT	31 Dec	798	S$	8.6	0.4%	8.8	2.5%	8.9	0.8%
Simple Average					**0.4%**		**2.5%**		**0.8%**
Market Cap Weighted Average					**0.4%**		**2.5%**		**0.8%**
DATA CENTRE									
Keppel DC REIT	31 Dec	1,933	S$	7.3	2.8%	7.9	7.3%	8.2	4.6%
Simple Average					**2.8%**		**7.3%**		**4.6%**
Market Cap Weighted Average					**2.8%**		**7.3%**		**4.6%**
OVERALL SIMPLE AVERAGE:					**-0.2%**		**1.2%**		**2.5%**
MARKET-CAP WEIGHTED AVERAGE:					**1.2%**		**1.9%**		**2.4%**

Source: REIT Managers, OIR estimates

Global macroeconomic environment facing headwinds

A number of international agencies such as the OECD and IMF have been on a downgrading spree in the first three months of the year, slashing growth forecasts for 2019 and 2020 across the board. The weakening of both soft and hard data lends credence to their gloomy outlook. OECD cut its global real GDP forecast for 2019 and 2020 by 0.2 ppt and 0.1 ppt to 3.3% and 3.4%, respectively. A more significant downward revision was slapped on the Euro area, with a 0.8 ppt and 0.4 ppt cut to 1.0% and 1.2% for 2019 and 2020, respectively. IMF also lowered its global economic forecast by the same magnitude as OECD, to 3.5% in 2019 and 3.6%% in 2020. Meanwhile, Mario Draghi, the president of the European Central Bank (ECB), highlighted that growth in the Euro area is expected to come in at 1.1% this year, versus a previous forecast of 1.7%.

In recent times, increasingly more S-REITs have ventured into Euro zone and the UK to expand their geographical footprint. While the expected slowdown in economic growth in the Euro zone and uncertainties surround Brexit would likely pose some risks, we note that the underlying leases of the properties acquired by S-REITs are typically long-term in nature, thus providing some visibility.

The fact that interest rates in the Euro zone would remain at current levels "at least through the end of 2019" would also facilitate a more favourable funding environment in EUR terms and thus provide opportunities for further inorganic growth in this region, in our view. We also see S-REITs as a useful tool for investors to ride-out the macroeconomic slowdown given their defensive attributes.

Exhibit 6: Real GDP historical growth and forecast for selected economies (%)

Country	2013	2014	2015	2016	2017	2018	2019F	2020F
World	3.5	3.6	3.5	3.3	3.8	3.7	**3.4**	**3.4**
Asia-Pacific	5.1	4.8	5.0	4.8	5.2	4.9	**4.7**	**4.6**
G20	2.9	3.1	3.1	2.7	3.3	3.3	**3.0**	**2.9**
China	7.8	7.3	6.9	6.7	6.8	6.6	**6.2**	**6.0**
Euro zone	-0.2	1.4	2.1	2.0	2.4	1.8	**1.3**	**1.4**
Japan	2.0	0.4	1.3	0.6	1.9	0.8	**0.8**	**0.5**
Singapore	4.4	3.3	2.0	2.4	3.6	3.3	**2.5**	**2.5**
United States	1.8	2.5	2.9	1.6	2.2	2.9	**2.5**	**1.9**

Source: Bloomberg consensus, OIR

Fed funds futures rates point to a benign interest rate environment

Drawing reference from recent developments in the U.S., we note that the U.S. nonfarm payrolls released last week showed that Feb added only 20k jobs. This is significantly lower than consensus' expectations for a 180k gain, and marked the weakest month of jobs creation since Sep 2017. Federal Reserve Chairman Jerome Powell's recent speeches also painted a dovish tone, highlighting that the Committee has adopted a patient, wait-and-see-approach in light of muted inflation pressures. Looking at the Fed funds futures rate, we note that there is currently a 0% probability of a rate hike in 2019, while the probability of at least one rate cut is 17.0% by the end of the year. This also implies that the base case is for the Fed funds rate to stay unchanged this year.

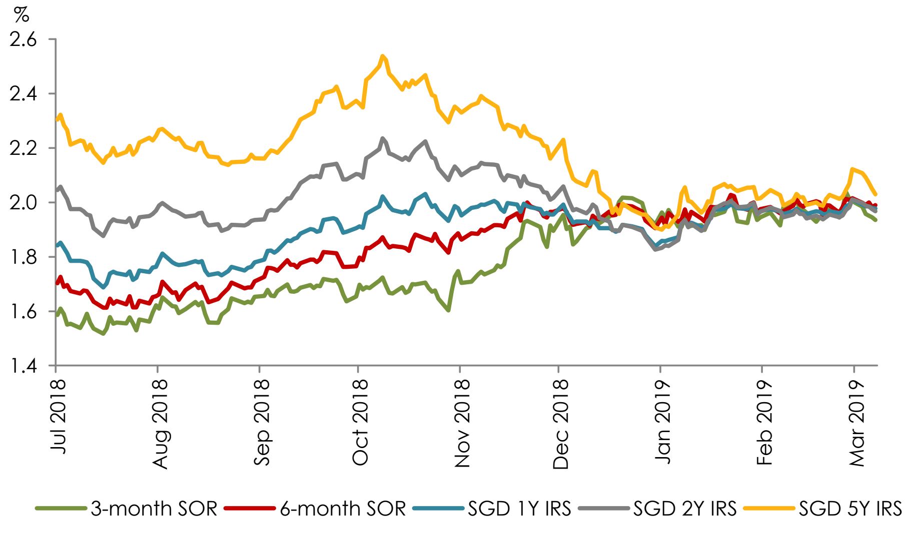
Exhibit 7: Rate hike/cut probability based on fed funds futures rate

Meeting	Prob Of Hike	Prob of Cut	1.25-1.5%	1.5-1.75%	1.75-2%	2-2.25%	2.25-2.5%
20-Mar-19	0.0%	2.3%	0.0%	0.0%	0.0%	2.3%	97.7%
1-May-19	0.0%	2.3%	0.0%	0.0%	0.0%	2.3%	97.7%
19-Jun-19	0.0%	3.8%	0.0%	0.0%	0.0%	3.8%	96.2%
31-Jul-19	0.0%	5.2%	0.0%	0.0%	0.1%	5.1%	94.8%
18-Sep-19	0.0%	7.8%	0.0%	0.0%	0.2%	7.6%	92.2%
30-Oct-19	0.0%	9.9%	0.0%	0.0%	0.4%	9.5%	90.1%
11-Dec-19	0.0%	17.0%	0.0%	0.0%	1.1%	15.9%	83.0%

Source: Bloomberg, OIR
Note: Current Fed funds rate is at 2.25%-2.5%

S-REIT managers have continued to exhibit financial prudence in their capital management
Despite more benign rate hike expectations in 2019, we note that the 3-month and 6-month swap offer rates (SOR) have continued their uptrend since late October last year, by approximately 33 and 17 bps to 1.94% and 1.99%, respectively. Hence, it comes as a welcome relief that REIT managers have continued to be prudent on their capital management. The average gearing ratio of the S-REITs under our coverage stood at 35.5%, as at 31 Dec 2018, with 77.2% of their borrowings hedged/fixed. Meanwhile, the average debt to maturity was 3.2 years, with an average debt cost of 2.9% and interest coverage ratio of 5.1x. Although interest rate swaps (IRS) have risen YTD, they are still down from their recent peak in Oct 2018. Hence, some of the S-REITs may have taken this opportunity to lock in more hedges ahead.

Exhibit 8: Trend of 3 and 6-month SOR and 1, 2, and 5-year IRS



Source: Bloomberg, OIR

Exhibit 9: Debt profile and statistics of OIR's S-REITs coverage (as at 31 Dec 2018)

	Aggregate leverage (%)	Debt duration (years)	Debt cost (%)	Interest coverage (x)	Proportion of debt fixed/hedged (%)
OFFICE					
CapitaLand Commercial Trust	34.9	3.9	2.6	5.4	92.0
Frasers Commercial Trust	28.4	2.6	3.0	4.9	90.0
OUE Commercial REIT (1)	39.3	3.5	3.5	3.0	76.4
Suntec REIT	38.1	3.2	2.8	3.3	75.0
Average:	**35.2**	**3.3**	**3.0**	**4.2**	**83.4**
RETAIL					
CapitaLand Mall Trust	34.2	4.4	3.1	5.2	91.0
CapitaLand Retail China Trust	35.4	3.5	2.7	5.3	80.0
Frasers Centrepoint Trust	28.8	1.8	2.7	5.9	54.0
Mapletree Commercial Trust	34.8	3.9	3.0	4.5	79.7
Mapletree NAC Trust	39.0	3.7	2.5	4.2	85.0
SPH REIT (2)	26.3	2.0	2.8	6.1	69.8
Starhill Global REIT	35.6	3.3	3.3	3.7	91.0
Average:	**33.4**	**3.2**	**2.9**	**5.0**	**78.6**
INDUSTRIAL					
Ascendas REIT	36.7	3.6	3.0	5.3	75.6
Cache Logistics Trust	36.2	3.9	3.7	3.7	75.2
ESR-REIT	41.9	2.7	3.8	3.8	83.4
Frasers Logistics & Ind Trust	35.6	2.6	2.4	7.2	79.0
Mapletree Industrial Trust	34.7	3.1	2.9	6.5	75.3
Mapletree Logistics Trust	38.8	4.1	2.7	5.0	85.0
Soilbuild REIT	39.1	3.2	3.5	4.2	74.0
Average:	**37.6**	**3.3**	**3.1**	**5.1**	**78.2**
HOSPITALITY					
Ascott Residence Trust	36.7	3.9	2.3	4.8	80.0
CDL Hospitality Trusts	34.2	2.8	2.4	7.1	61.6
Far East Hospitality Trust	40.1	3.3	2.7	2.8	63.8
OUE Hospitality Trust	38.8	2.5	2.5	4.7	71.0
Average:	**37.5**	**3.1**	**2.5**	**4.9**	**69.1**
HEALTHCARE					
First REIT	34.5	2.4	3.8	4.6	59.0
Average:	**34.5**	**2.4**	**3.8**	**4.6**	**59.0**
DATA CENTRE					
Keppel DC REIT	30.8	3.0	1.9	11.4	86.0
	30.8	**3.0**	**1.9**	**11.4**	**86.0**
Average:	**35.5**	**3.2**	**2.9**	**5.1**	**77.2**

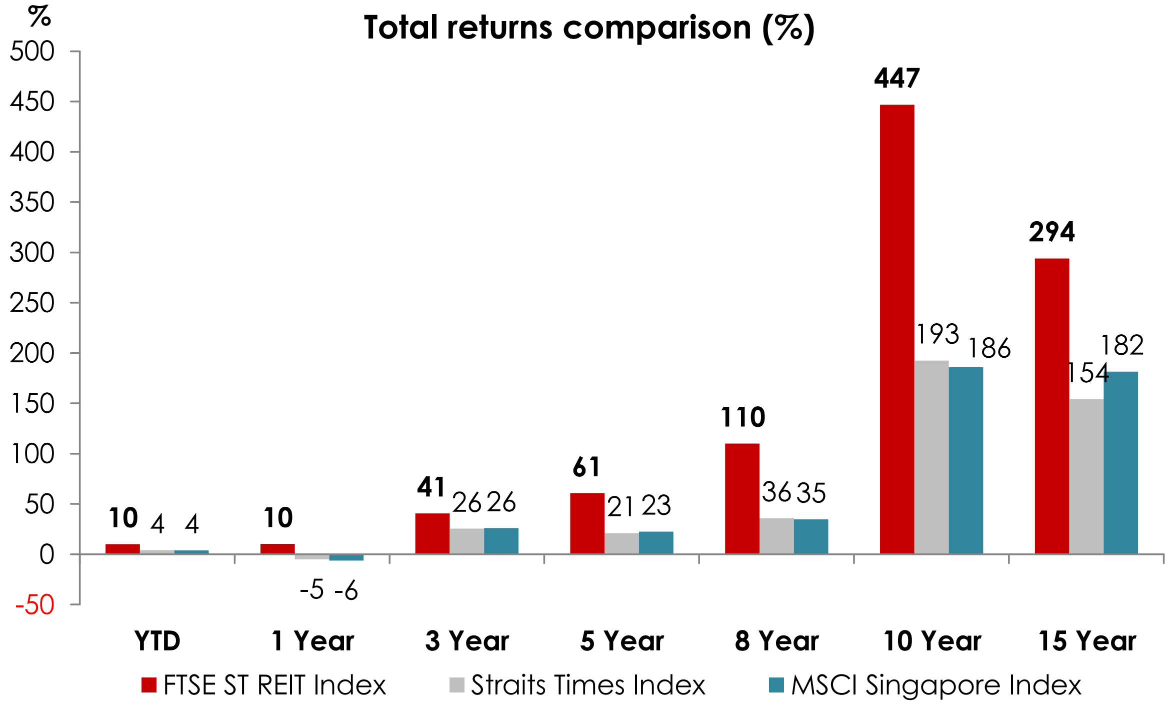
Source: REIT Managers, OIR estimates
(1) Post the rights issue and the completion of the acquisition, pro forma gearing as at 30 Sep 2018 is expected to be 40.4%
(2) Figures as at 31 Aug 2018

Valuations have tightened, but near-term trading performance may continue

The forward yield spread between the FTSE ST REIT Index (5.81%) and the Singapore government 10-year bond yield (2.19%) last stood at 362 bps. This is approximately one standard deviation (s.d.) below the 5-year mean of 404 bps. While valuations leave nothing to be excited about at this level, in our view, we remain constructive on the near-term trading performance of S-REITs. This would be underpinned by continued benign of the rate hike trajectory by the Federal Reserve in 2019. We note that during times in 2018 when the market was risk-on, the yield spread of S-REITs had compressed to 2 s.d. below the historical average. Based on the fed funds futures rate, the market is pricing in no rates hikes by end 2019. In fact, the probability of a rate cut as implied by the fed funds futures rate is actually higher than the probability of a rate hike. Hence, should the Fed choose to raise rates at least once this year (given the still tight labour market), this may cause markets to relook at their assumptions and result in capital outflows from yield sensitive instruments such as REITs. Notwithstanding this risk, a rate hike, in any, would likely only happen in 2H19. Maintain **NEUTRAL**. Our longer term preferred picks are still **Keppel DC REIT [BUY; FV: S$1.60]** and **Frasers Centrepoint Trust [BUY; FV: S$2.50]**. We add **Ascott Residence Trust [BUY; FV: S$1.25]** as a replacement for FLT in to gain exposure to the hospitality sector and also in light of the latter's strong share price performance.

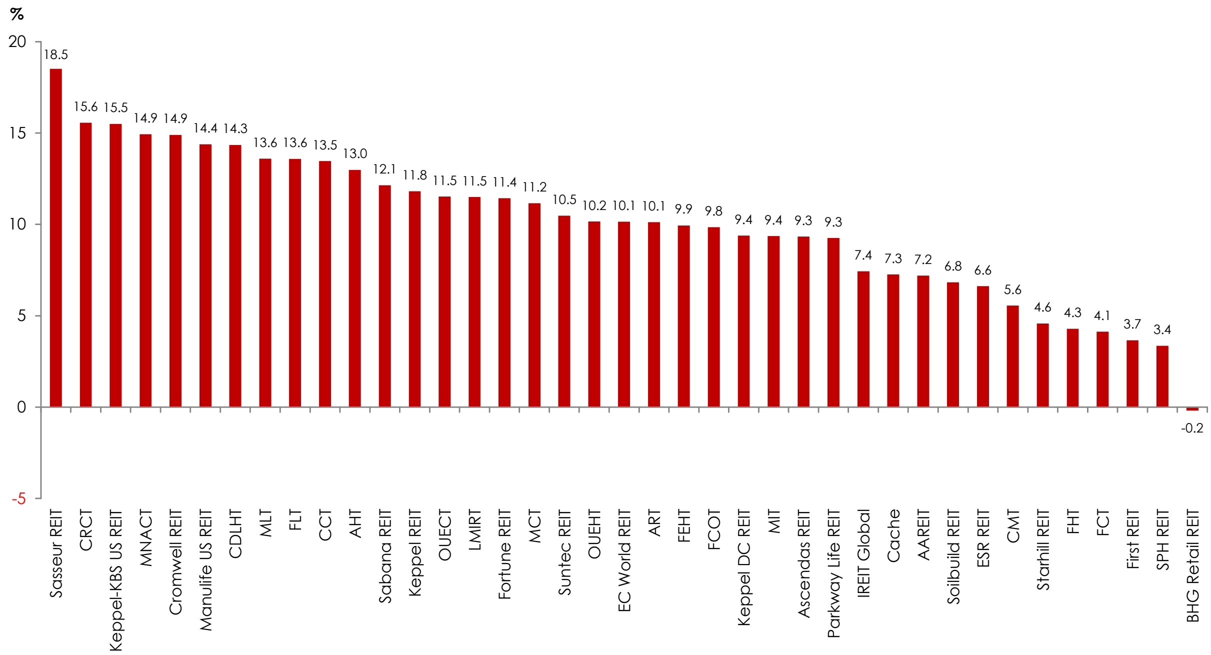
Based on Bloomberg consensus' estimates for the entire S-REITs universe, the average potential capital upside stands at an average 6.8%. Including forecasted consensus' average distribution yield of 6.6%, total projected returns for the sector works out to be 13.4% on average.

Exhibit 10: The S-REITs sector has consistently outperformed the broader Singapore market across various time horizons



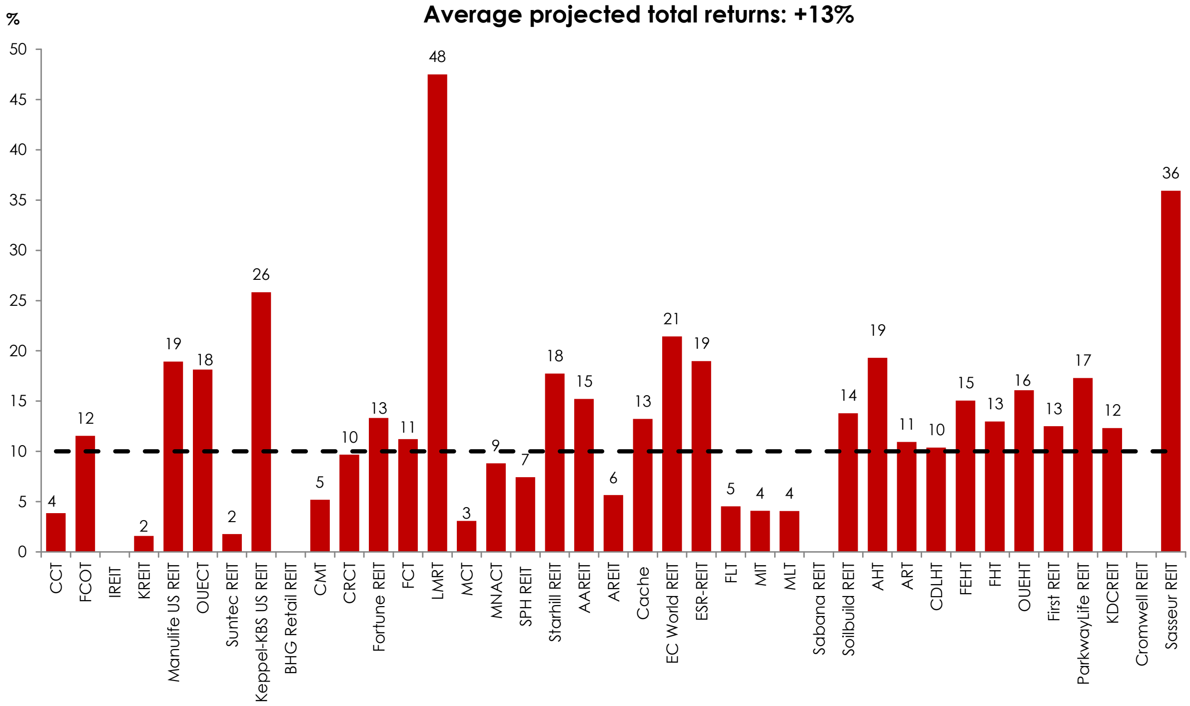
Source: Bloomberg, OIR

Exhibit 11: Breakdown of YTD total returns within the S-REITs sector



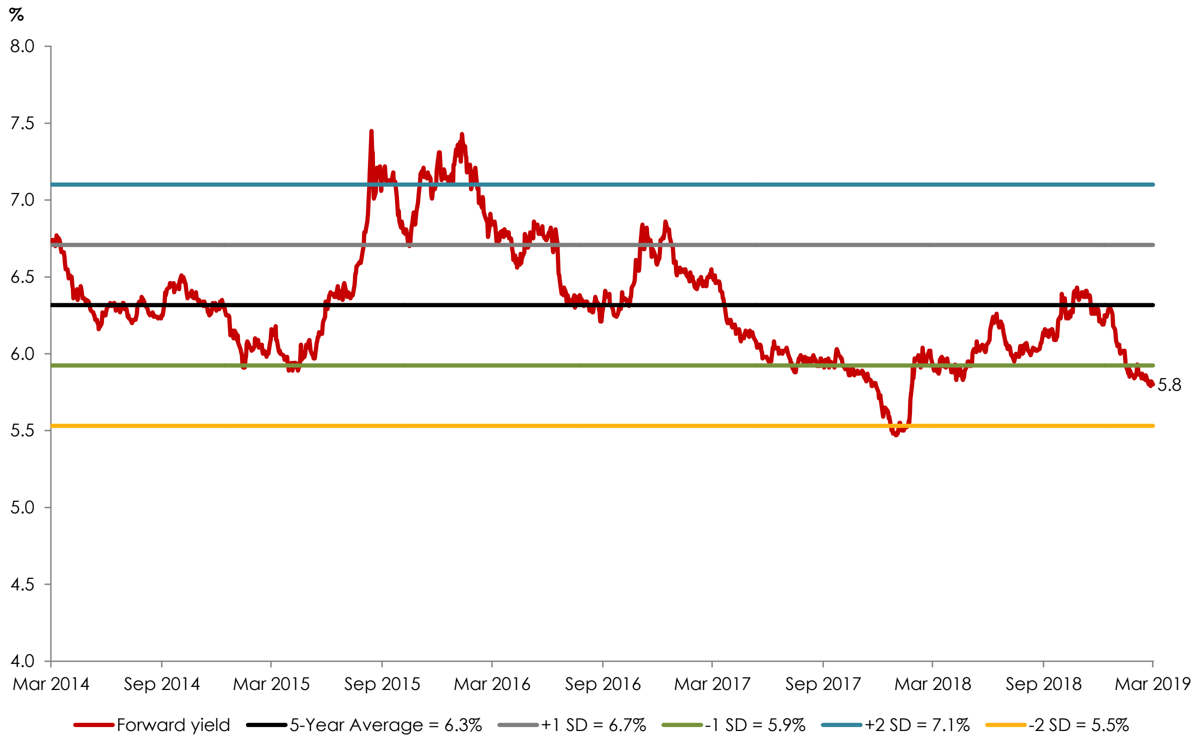
Source: Bloomberg, OIR

Exhibit 12: Bloomberg consensus' projected total returns (share price upside/downside + distribution yield) for the S-REITs universe



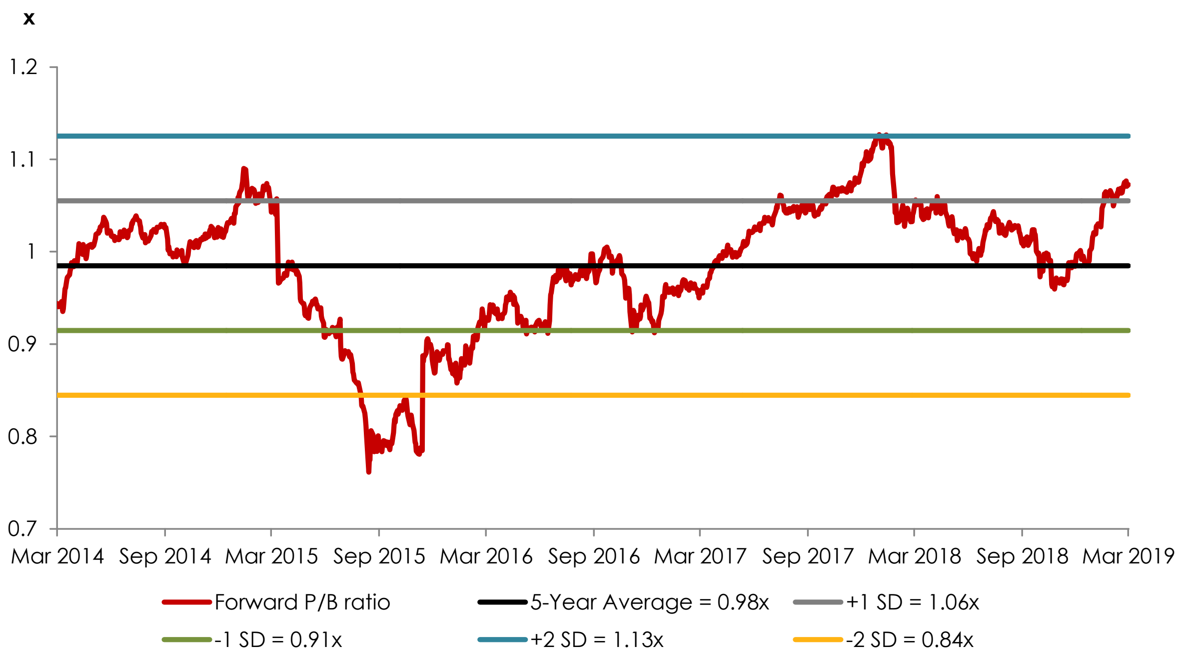
Source: Bloomberg consensus, OIR

Exhibit 13: 5-year forward distribution yield trend of FSTREI



Source: Bloomberg, OIR

Exhibit 14: 5-year forward price-to-book trend of FSTREI



Source: Bloomberg, OIR

Exhibit 15: Yield spread between FSTREI and Singapore government 10Y bond yield

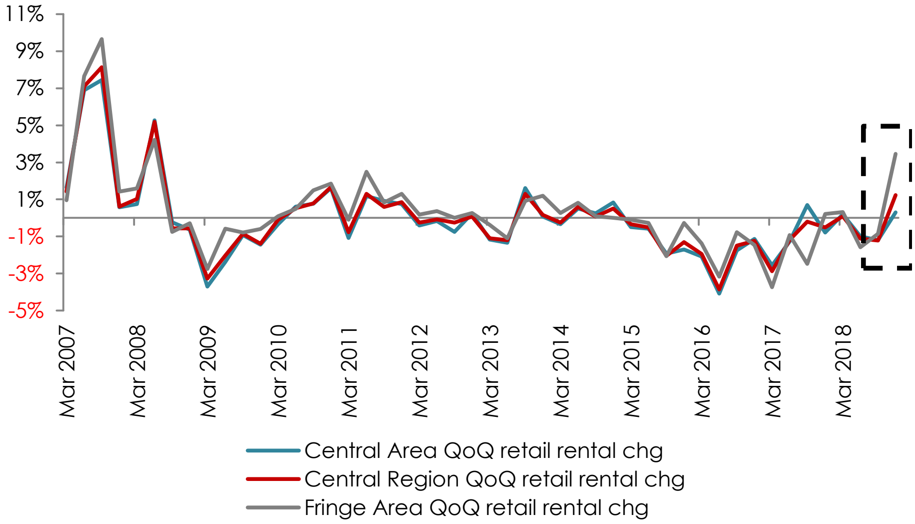
Source: Bloomberg, OIR

Retail sector: Firm pre-commitment levels to mitigate upcoming supply pressures

Turnaround in URA retail rental rates in 4Q18
After registering negative QoQ growth for the past two quarters, Singapore's URA retail rental index turned around in 4Q18. URA statistics indicate that the overall retail rental index enjoyed a firm growth of 1.2% for the Central Region, which was the strongest increase since 3Q13 (+1.3% QoQ). This can be further broken down into a 0.3% increase for the Central Area and +3.5% for the Fringe Area. On the other hand, CBRE data reflected a more steady performance. Retail rents for the City Hall/Marina Centre sub-market rose 0.2% QoQ to S$22.15 psf/month; rents for Other City/City Fringe sub-market declined marginally by 0.3% QoQ to S$17.10 psf/month; while there were no changes to the Orchard Road and Suburban sub-markets.

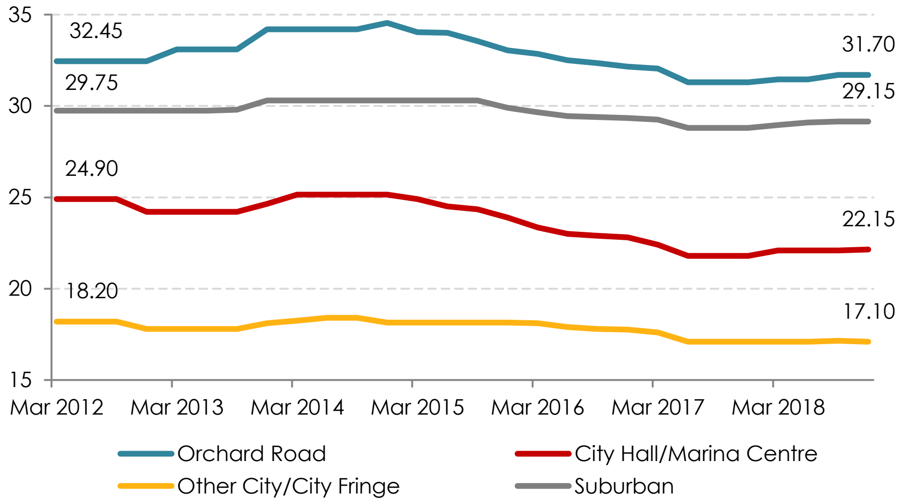
Separately, Colliers highlighted in a recent report that ground-floor rents in Orchard Road and Regional Centres grew 1.4% and 0.4% YoY to S$41.20 psf/month and S$33.60 psf/month, respectively, as at end-2018. Looking ahead, Colliers has projected ground-floor rents in Orchard to continue its recovery, at +0.8% in 2019. From 2018-2023, average annual rental growth is projected to increase at 1.0% to reach S$43.20 psf/month by end-2023.

Exhibit 16: URA retail rental index QoQ change



Source: URA, OIR

Exhibit 17: Retail rents by sub-market (S$psf per month)



Source: CBRE, OIR

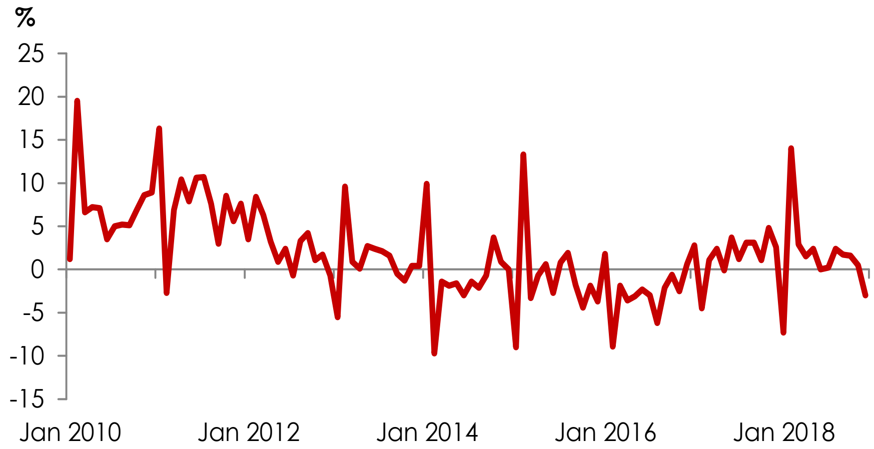
Slight boost from Budget 2019

Earlier last month in his Budget 2019 speech, Finance Minister Mr. Heng Swee Keat revealed a one-off S$1.1b Bicentennial Bonus that grants up to S$300 in GST voucher-cash and will benefit 1.4m residents. This is about twice the amount allocated for SG Bonus last year, and will help to boost consumption and retail spending. Mr. Heng supplemented this with a personal income tax rebate and an additional year of service and conservancy charges rebate for HDB households. The GST rate hike from 7% to 9% was once again put on hold this year as the government announced that it would monitor prevailing economic conditions to increase rates at the right time.

Singapore retail sales excluding motor vehicles reflect weaker consumer sentiment

Singapore's retail sales excluding motor vehicles ended the year on a gloomy note, dropping 3.0% YoY and 4.1% QoQ, respectively, in Dec 2018, based on data from the Department of Statistics Singapore. This reflected weak consumer sentiment with most segments registering negative YoY sales growth. Excluding motor vehicles, Computer & Telecommunications Equipment was the worst performer (-16.8%), followed by Recreational Goods (-5.8%), Watches and Jewellery (-5.7%) and Furniture and Household Equipment (-3.9%). Online retail sales made up an estimated 5.5% of total retail sales in Dec, versus 6.6% the previous month. For the full-year, total retail sales in 2018 fell -0.7% but if we exclude motor vehicle sales, retail turnover was actually up 1.1% as compared to 2017.

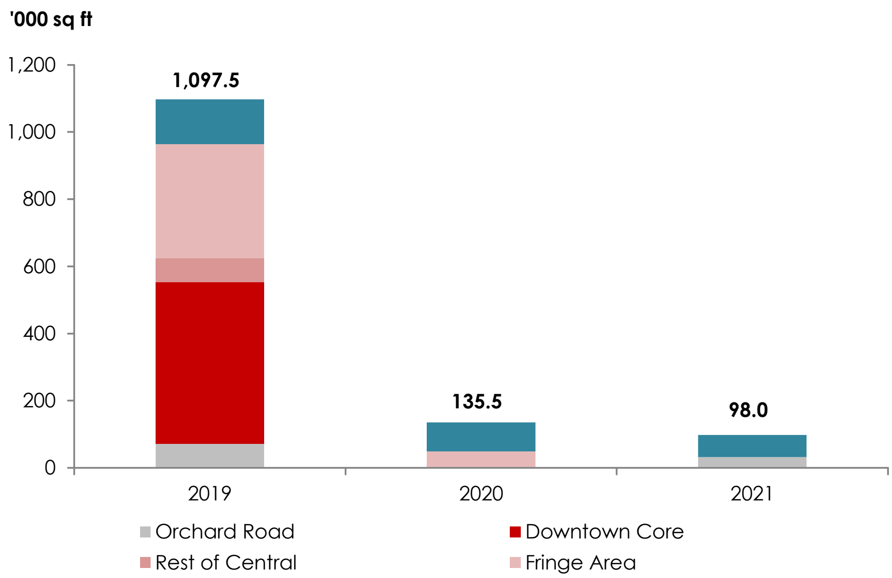
Exhibit 18: YoY change in retail sales excluding motor vehicles in Singapore



Source: Department of Statistics Singapore, OIR

Bumper supply expected in 2019, but pre-commitment levels encouraging; more manageable supply in 2020 and 2021
According to CBRE, 1.10m sq ft of retail space is expected to emerge in 2019, versus an estimated 1.24m sq ft of retail inventory which entered the market in 2018. This strong supply inflow is not expected to be a major concern, in our view, because an encouraging amount of the space has been taken up at high pre-commitment rates. For example, Funan's retail component has already seen a pre-commitment rate of ~80%. During Lendlease Group's recent earnings call for its 2QFY19 results on 24 Feb, management highlighted that 78% of Paya Lebar Quarter retail mall has been pre-committed. Collectively, these two projects form 665k sq ft, or ~61% of 2019's supply. Taken individually, the remaining upcoming projects will each contribute less than 90k sq ft of space. Beyond 2019, the pipeline of new retail space will drop considerably to 135.5k and 98.0k sq ft in 2020 and 2021, respectively. This compares very favourably to the historical five-year annual average of 1.66m sq ft from 2014 to 2018. We expect tightening vacancy in the medium term due to incoming supply scarcity.

Exhibit 19: Singapore's retail supply pipeline (including AEI and A&A works)



Source: CBRE, OIR

Government initiatives to revamp Orchard Road a positive
On 30 Jan this year, STB, URA and NParks jointly announced plans to enhance Orchard Road as a lifestyle destination. Innovative retail concepts, attractions, entertainment and events will be introduced, while elevated link bridges will help to improve accessibility. We expect the government's concrete plans to improve the longer-term viability of Orchard Road to be supportive of asset values in the precinct. Within this aspect, Starhill Global REIT, SPH REIT (SPHREIT) and OUE Hospitality would be clear beneficiaries.

Higher growth for rental reversions drove operating metrics
Looking across the performance of the retail REITs with significant local exposure and based on disclosures available, we note that with the exception of OUE Hospitality Trust's Mandarin Gallery property, all the other retail REITs continued to deliver positive rental reversions for 4QCY18, with SPHREIT, Mapletree Commercial Trust and Frasers Centrepoint Trust recording stronger growth. SPHREIT delivered the firmest rental uplift, with positive rental reversions of 9.7%, a reversal from the -3.5% registered in its previous quarter. This was due to strong performance from all its local assets: Paragon (+10.1%), Clementi Mall (+4.5%) and its newly acquired Rail Mall (+7.9%). Occupancy rates were generally higher QoQ, with most above 96%. Overall, shopper traffic increased although tenant sales were less vibrant.

Exhibit 20: Operating metrics for S-REITs with local retail exposure

	Occupancy (%)			Rental reversion	YoY change in tenant sales	YoY change in shopper traffic
As at:	31 Dec 18	30 Sep 18	30 Jun 18	(%)	(%)	(%)
CapitaLand Mall Trust (1)	99.2	98.5	98.0	0.7	0.5	-0.9
Frasers Centrepoint Trust (2)	96.2	94.7	94.0	6.9	-0.9	3.5
Mapletree Commercial Trust (3)	98.1	95.9	96.4	Retail: 4.0 Office/Business Park: 10.3 Overall: 5.9	-1.2	1.8
OUE Hospitality Trust (4)	99.1	96.8	97.4	-8.9	N.D.	N.D.
SPH REIT (5)	99.2	99.4	99.6	Overall: 9.7 Paragon: 10.1 Clementi Mall: 4.5 Rail Mall: 7.9	N.D.	3.6
Starhill Global REIT (6)	94.3	94.1	94.2	Singapore retail: N.D. Singapore office: N.D.	2.9	N.D.
Suntec REIT (7)	Retail: 99.1 Office: 98.7	Retail: 98.1 Office: 98.9	Retail: 98.2 Office: 99.0	N.D.	5.2	4.8

Source: REIT Managers, OIR

NOTE: N.D. - Not disclosed

(1) Rental reversion, tenant sales and shopper traffic figures refer to FY18 period.

(2) Rental reversion and shopper traffic figures refer to 1QFY19 period; tenant sales refer to the 3-month period ended Nov 2018. Shopper traffic excludes Northpoint City. Including Northpoint City, shopper traffic jumped 64.9% YoY

(3) Occupancy refers to actual occupancy (committed: 98.7%). Rental reversion, tenant sales and shopper traffic figures for 9MFY19; tenant sales and shopper traffic data refer to VivoCity only.

(4) Figures refer to Mandarin Gallery; occupancy refers to committed occupancy and excludes pop-up stores; rental reversion figure refers to FY18.

(5) Rental reversions, tenant sales and shopper traffic refer to Q1FY19 period.

(6) SG retail occupancy was 97.8% (committed: 99.2%). Tenant sales refer to 2QFY19 period and apply only to Wisma Atria retail.

(7) Shopper traffic and tenant sales figures refer to FY18 period.

Our top pick for retail REITs is **Frasers Centrepoint Trust [BUY; FV: S$2.50].** On 28 Feb, FCT announced that it has entered into conditional sale and purchase agreements to acquire a 17.1% interest in PGIM Real Estate AsiaRetail Fund Limited (PGIM REAF). This is the largest non-listed retail mall fund in Singapore, and the fund portfolio includes six retail malls in Singapore, namely Tiong Bahru Plaza, White Sands, Liang Court, Hougang Mall, Century Square and Tampines 1. The total acquisition consideration is estimated to be ~S$342.5m, versus the net asset value of S$341.7m of PGIM REAF, as at 31 Dec 2018. We believe this transaction complements FCT's existing portfolio of suburban malls and is expected to be DPU accretive. On a pro forma basis, FCT highlighted that its FY18 DPU would improve by 0.3%, 1.9% and 3.6%, based on LTV assumptions of 60%, 80% and 100%, respectively.

Office sector: Rentals likely to continue upward trajectory but at moderated pace

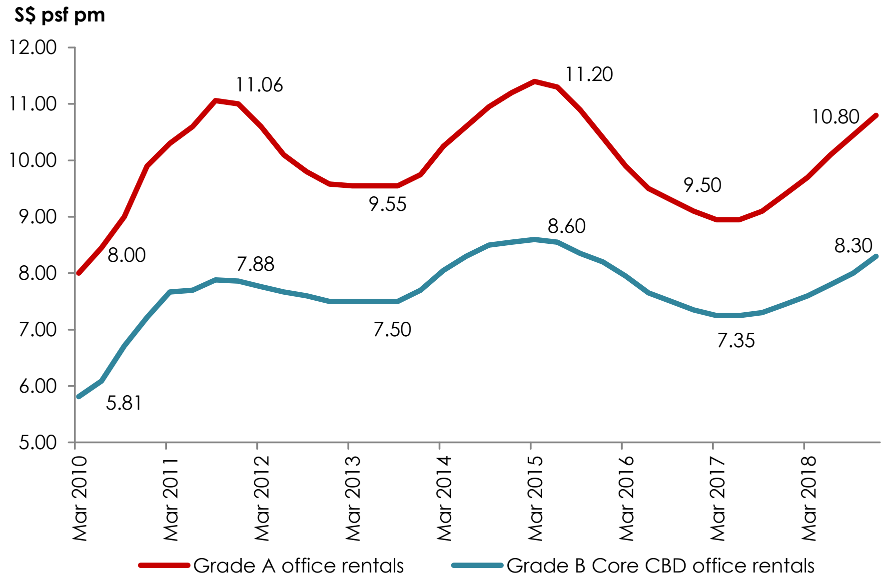
Office rents closed 2018 strongly with sustained leasing momentum

CBRE statistics showed that office rental rates continued its uptrend in 4Q18, with Grade A and Grade B core CBD rents growing 3.3% and 3.8% QoQ to S$10.80 and S$8.30 psf/month, respectively. Office rents have increased sequentially for six consecutive quarters since 3Q17, and are up 20.7% (core Grade A CBD) and 14.5% (core Grade B CBD) from the trough.

If we delve into the various micro-markets by drawing reference from Savills' data, office rents in 4Q18 grew the highest in Marina Bay (+4.8% QoQ), followed by Raffles Place (+3.5%) and Tanjong Pagar (+3.2%). This was boosted by premium rents in new prime grade developments such as Marina One and Frasers Tower.

For the whole of 2018, Grade A core CBD rents are up 14.9% while Grade B core CBD rents are up 11.4%, according to CBRE data.

Exhibit 21: Singapore office rentals on an uptrend



Source: CBRE, OIR

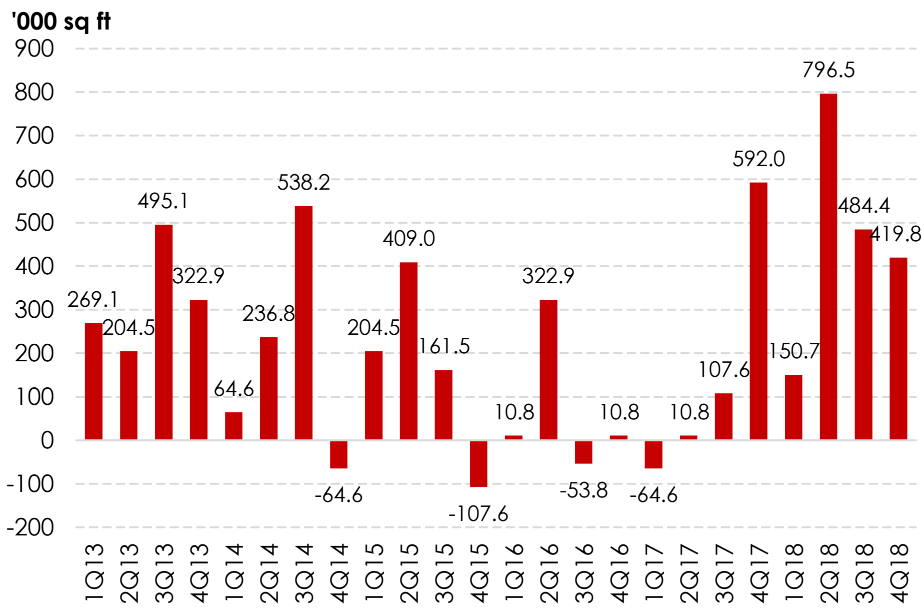
Exhibit 22: Grade A office rentals and vacancy rates by micro-market for 4Q18

Location	Monthly rent (S$ psf/month)	% QoQ	Vacancy rate	% YoY
Marina Bay	12.55	4.8%	14.6%	17.1%
Raffles Place	9.98	3.5%	4.1%	10.3%
Shenton Way	9.04	2.4%	16.1%	10.7%
Tanjong Pagar	8.68	3.2%	4.2%	10.5%
City Hall	10.1	2.5%	3.2%	8.5%
Orchard Road	9.39	0.2%	3.0%	2.4%
Beach Road/Middle Road	8.02	1.8%	7.4%	6.6%

Source: Savills Research & Consultancy, OIR

Positive net absorption trend continued
Singapore's islandwide office net absorption came in at 419.8k sq ft in 4Q18, based on URA statistics. This was a continuation of the positive trend (seven consecutive quarters), although it was a slight moderation from the 484.4k sq ft of completed office space occupied in 3Q18. The vacancy rate as at end-4Q18 stood at 12.1%, versus 12.0% as at the end of the preceding quarter.

Exhibit 23: Singapore office islandwide net absorption trend



Source: URA, OIR

Co-working spaces are working out
Co-working operators and technology companies were the top two drivers of growth for office space take-up in 2018. A study conducted by Monk's Hill Ventures and Slush Singapore found that Singapore was the top recipient for start-up funding in Southeast Asia with a record S$11.5b investments from 2013-2018, and received more than 50% of all transactions in the region for four out of five years. We believe this influx of venture capital funds is expected to drive office space demand from start-ups, which in turn will serve as a catalyst for co-working operators to expand.

In the past year, office space occupied by co-working spaces has doubled to 1.4m sq ft from 0.7m sq ft in 2017, according to CBRE. Competition is intense with VC-backed players like WeWork and JustCo on aggressive capital-intensive expansion strategies while new entrants like Hong Kong's Campfire Collaborative Spaces have also decided to jump into the scene. In addition, the size of co-working spaces has multiplied more than ten-fold from an average of 5k-10k sq ft in 2013 to 60k sq ft in 2018. Upon completion in 3Q19, Campfire's site will span 85k sq ft including all 16 floors at 139 Cecil Street and a rooftop sky pool and bar. Conversely, there could be some fatigue from the co-working operators after their aggressive expansion over the past couple of years, while uncertainties exist over the impact on underlying utilisation rates of the co-working spaces should an economic downturn hit.

Exhibit 24: Top flexible worksace operators in Singapore (by size), as at 30 Jun 2018

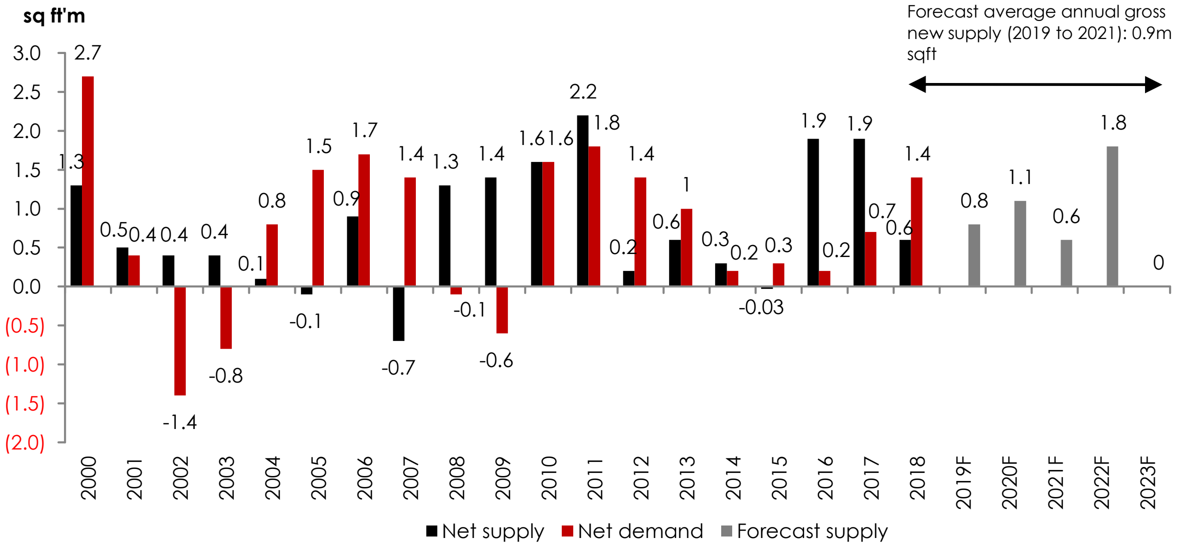
Operator	Estimated portfolio size (sq ft)	Market share
IWG	650,000	23.5%
WeWork	344,000	12.5%
JustGroup	331,000	12.0%
The Executive Centre	153,000	5.6%
Servcorp	102,000	3.7%
Campfire	85,000	3.1%
The Great Room	76,000	2.8%
Top players		**63.1%**

Source: Colliers International Singapore Research

Limited supply pipeline in near-term to remain supportive of office rental growth, but at a moderated pace

600k sq ft of net new office supply was added islandwide in 4Q18, bringing the total new supply added in 2018 to 1.51m sq ft, based on CBRE data. Future new supply between 2019-2022 is projected to be 5.33m sq ft, averaging an annual supply of 1.33m sq ft. This is almost 30% lower than the 10-year average net new office supply of 1.88m sq ft. However, given the double-digit rental growth registered in 2018 resulting in a higher-base effect, coupled with the possibility of more uncertainties in the business environment due to slowing macroeconomic conditions, we expect office rental growth to moderate in 2019. We thus forecast core Grade A CBD office rentals to grow 5%-8% in 2019.

Exhibit 25: Singapore private office space (Central Area) – net demand and supply



Source: CapitaLand Commercial Trust, CBRE, OIR

Exhibit 26: Estimated upcoming office supply in Singapore (Islandwide)

Expected completion	Proposed office projects	Location	City Area	Estimated NLA (sq ft)
2019	18 Robinson	Robinson Road	Core CBD	145,000
2019	Redevelopment of Funan	Beach Road/Cityhall	Fringe CBD	204,000
2019	HD 139 (139 Cecil Street)	139 Cecil Street	Core CBD	71,548
2019	Woods Square	Woodlands	Decentralised	534,400
2019	9 Penang Road (Park Mall redevelopment)	Penang Road	Fringe CBD	352,000
			Subtotal (2019):	***1,306,948***
1Q 2020	Centrium Square	Serangoon Road	Decentralised	107,041
1Q 2020	Chevron House Redevelopment	Raffles Place	Core CBD	312,853
2020	Afro-Asia I-Mark	Anson Road	Core CBD	153,526
2020	St James Power Station	Sentosa Gateway	Decentralised	118,392
1H 2020	ASB Tower	Robinson Road	Core CBD	500,000
2Q 2020	Hub Synergy Point Redevlopment	Anson Road	Fringe CBD	128,456
			Subtotal (2020):	***1,320,268***
1H 2021	CapitaSpring	Market Street	Core CBD	635,000
2021	Mixed-use Executive Centre	Rochester Park	Decentralised	264,781
			Subtotal (2021):	***899,781***
2022	Land parcel at Central Boulevard	Raffles Place/Marina	Core CBD	1,150,000
2022	Guoco Midtown	Beach Road	Fringe CBD	657,000
			Subtotal (2022):	***1,807,000***
TOTAL FORECAST SUPPLY (2019-2022)				**5,333,997**

Source: CBRE, media reports, OIR

Exhibit 27: Operating metrics for office REITs

As at:	Occupancy (%) 31 Dec 2018	30 Sep 2018	30 Jun 2018	Rental reversion (%)	WALE (years)
CapitaLand Commercial Trust (1)	99.4	99.2	97.8	6 Battery Road: Expired rents: S$12.38; Committed rents: S$11.30 - S$13.50 OGS: Expired rents: S$9.28; Committed rents: S$9.35 - S$10.30 CapitaGreen: Expired rents: S$13.62; Committed rents: S$11.31 - 13.00	Portfolio: 5.8 Office: 3.2
Frasers Commercial Trust (2)	SG: 75.0 Australia: 90.7 UK: 98.1	83.4	81.9	N.D.	4.6
IREIT Global	98.6	98.6	98.5	N.D.	4.4
Keppel REIT (3)	98.4	98.0	99.3	12.9	5.9
Manulife US REIT (4)	96.7	96.5	96.0	8.9	5.8
OUE Commercial REIT (5)	94.7	94.9	95.2	OUE Bayfront: Expired rents: S$12.35; Committed rents: S$11.50 - S$14.20 ORP: Expired rents: S$10.43; Committed rents: S$9.60 - S$11.80 OUE Downtown: Expired rents: S$7.44; Committed rents: S$7.80 - S$8.50 Lippo Plaza: Expired rents: RMB9.60 psm/day; Committed rents: RMB9.90 - RMB11.00 psm/day	2.1
Suntec REIT	**Overall: 98.7**; Australia: 99.4 SG: 98.5	**Overall: 98.9**; Australia: 98.6 SG: 99.0	**Overall: 99.0**; Australia: 96.7 SG: 99.8	N.D.	Singapore: 3.1 Australia: 5.85

Source: REIT Managers, OIR estimates

NOTE: N.D. - Not disclosed

(1) Rental figures refer to renewal/new leases committed in 4QFY18

(2) WALE refers to WALE by gross rental income and committed occupancy for 1QFY19

(3) Rental reversion refers to FY18 period

(4) Rental reversion refers to FY18 period. Weighted by NLA. Only 13 out of 16 leases meet rental reversion criteria

(5) Rental figures refer to 4QFY18. All properties in SG and Shanghai achieved positive rental reversions

Our only 'Buy' rated office REIT is **Frasers Commercial Trust (FCOT) [BUY; FV: S$1.56]**. FCOT still has ample dry powder to drive inorganic growth opportunities, as seen from its gearing ratio of 28.4% (as at 31 Dec 2018). This includes potentially venturing deeper into the UK. While some are concerned about the effects of Brexit, we believe FCOT would focus more on business parks with tenants across more defensive trade sectors. One potential re-rating catalyst could come from the finalisation of a lease agreement with Google at FCOT's Alexandra Technopark (ATP). Based on media reports, Google has an interest in leasing ~400k sq ft at ATP. Accounting for this as well as the reduction of ~93k sq ft of space vacated by HP Singapore, ATP's committed occupancy rate of 68.6% (as of 31 Dec 2018) would increase to ~98%. However, the caveat is that there has been no confirmation as of now. Another leasing development within FCOT's portfolio stems from the announcement in Feb that WeWork will open its first Perth office in FCOT's Central Park property in Sep 2019. WeWork will occupy 7.9k sqm in the building, and transform seven of the floors into a series of shared office spaces featuring an in-house barista and multiple large boardrooms. Central Park's committed occupancy will increase from 71.5% (as at 31 Dec 2018) to 83.5%.

Industrial sector: Smart warehouses to revitalise traditional industrial spaces

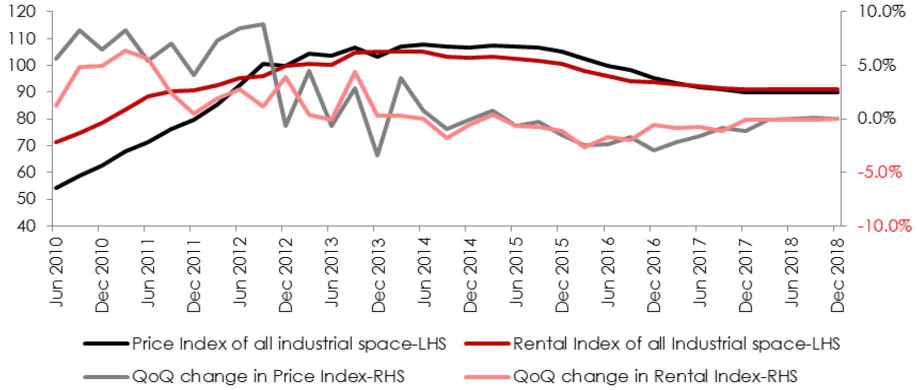
Single-User Factory rents marked growth amidst stagnant industrial rents

The 4Q18 industrial rental index for all segments remained unchanged from the previous quarter, according to JTC. This comes after rents successively declined 0.1% QoQ for four quarters. The Single-User Factory was the sole segment that recorded positive rental growth by a marginal 0.6%, while the Multiple-User Factory, Business Park and Multiple-User Warehouse segments all dipped by 0.1% QoQ.

Looking ahead, CBRE has projected a stable 1.5% YoY growth for prime logistics rents to S$1.36 psf/month for 2019, with rents expected to increase further to $1.38 psf/month in 2020 due to healthy demand by third-party logistics providers (3PLs) and e-commerce players. However, flat growth is expected in 2021 as a result of a global slowdown.

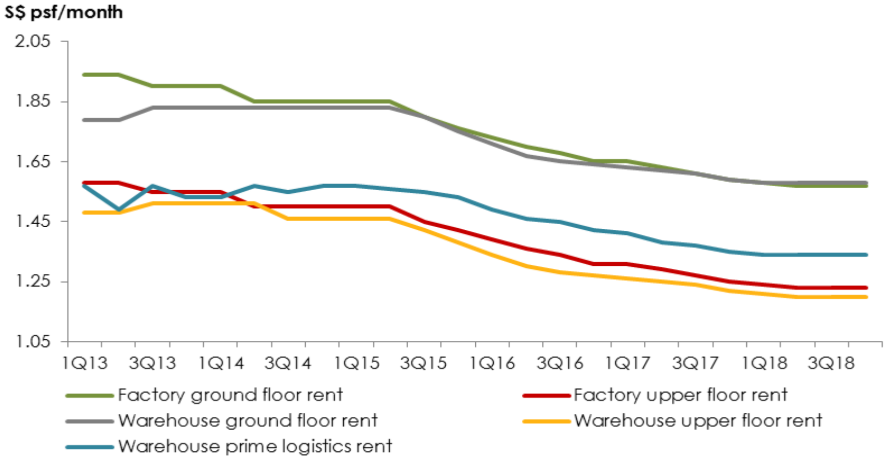
Singapore's manufacturing growth slowed again, with the Manufacturing Purchasing Managers' Index (PMI) for February 2019 contracting 0.3 pts to 50.4, which is at the low end of the expansionary zone. The key Electronics sector PMI that entered the contractionary phase in November declined further to 49.5. This marks the sixth monthly sequential decline for both PMI indicators.

Exhibit 28: Price and Rental Index of industrial space in Singapore



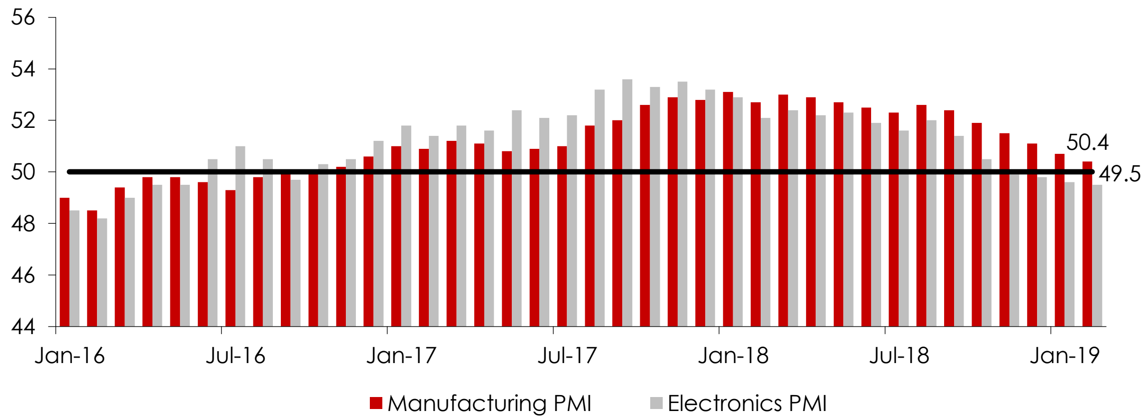
Source: JTC, OIR

Exhibit 29: Rental rates of factory and warehouse segments in Singapore



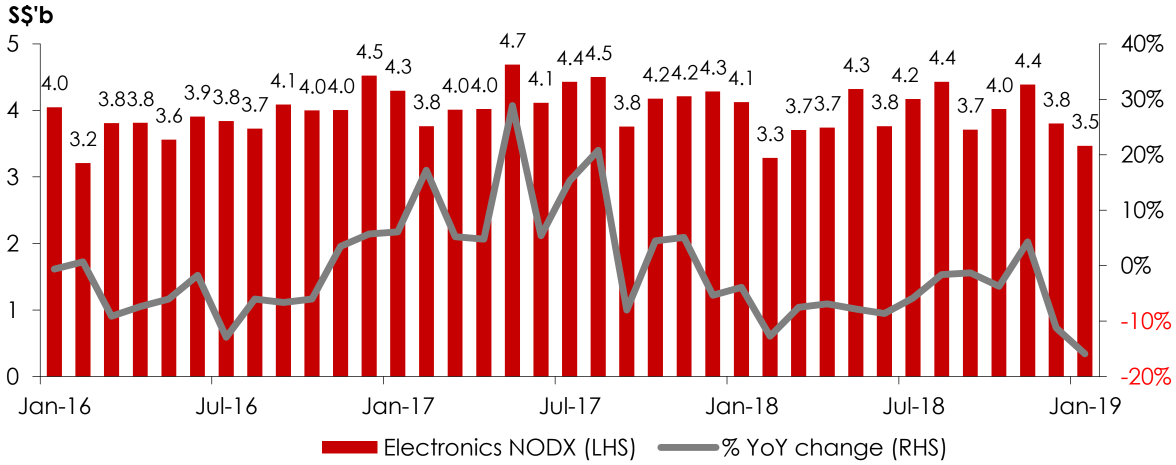
Source: CBRE, OIR

Exhibit 30: Singapore Manufacturing and Electronics PMI



Source: Singapore Institute of Purchasing and Materials Management, Bloomberg, OIR

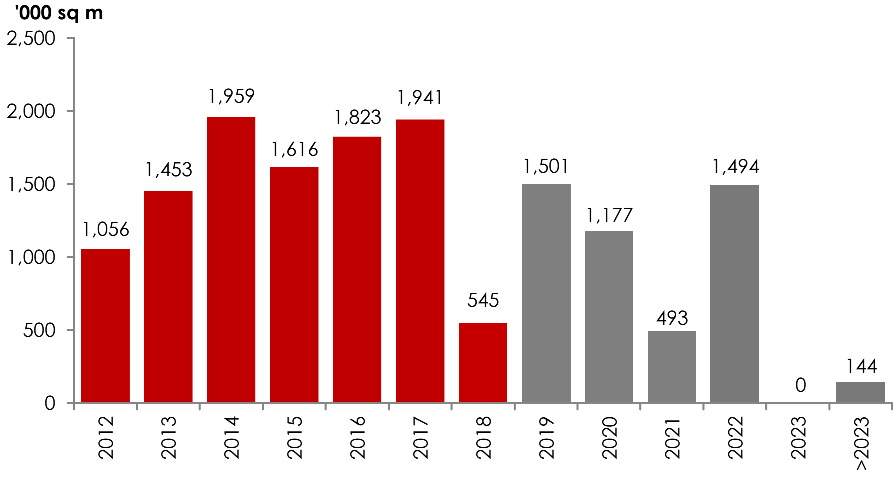
Exhibit 31: Singapore electronics NODX



Source: IE Singapore, Bloomberg, OIR

Ministry of Trade and Industry decides to limit pipeline supply
New industrial space supply in 2018 reached a record low of 545k sqm as compared to the 5-year historical average of 1.6m sqm. Looking ahead, the Ministry of Trade and Industry's has decided to cut the permissible maximum supply under the Industrial Government Land Sales (IGLS) programme in 1H19 by 5.6% to 252.6k sqm as compared to the 2H18 IGLS. In terms of physical supply, JTC highlighted that another 1.5m sqm of industrial space is expected to come on-stream in 2019, which makes up ~3% of the current stock. Of this, the multiple-user factory segment will contribute ~303k sqm. Historically, the average annual demand and supply of industrial space in the past three years was 1.1m and 1.4m sq ft, respectively, according to JTC.

Exhibit 32: New supply of industrial space (historical and upcoming)



Source: JTC, OIR

Smart warehouses: the next generation of warehouses
According to the Economic Development Board, Singapore's Smart Nation plan includes a Smart Logistics initiative to harness supply chain technologies for 3PL providers and cargo owners. It is projected to deliver annual cost savings of US$56m and a productivity gain of 4,000 man-years. This has driven the demand for smart warehouses as more 3PLs are looking to incorporate robotics into their warehouse systems. Supply Chain City in Jurong is a 2m sq ft area equipped with a patented world pioneering Fusionaris® design that costs over S$200m, and supports robotic supply chain activities and 24/7 operations; Coca Cola revealed the first local warehousing facility with automated in-built storage and retrieval systems atop loading and unloading bays; while DHL's Advanced Regional Centre in Tampines has a multi-customer automation system which improved picking efficiency by 20% and takes up 40% less space than conventional warehouses.

Smart industrial spaces require higher building specifications such as higher floor-loading capacity, higher electrical loading and fibre optic infrastructure, JLL Research stated. Industrial REITs will need to upgrade their spaces to cater to this growing demand for Industry 4.0 services, although rent volume is expected to decrease as tenants increasingly adopt space-efficient technologies. In November 2018, Infocomm Media Development Authority announced that it would set aside S$14m to partner with Ascendas-Singbridge Group and JTC to trial innovative urban solutions for future industry spaces and business parks. We believe this will ease the transition for industrial REITs looking to upgrade their facilities.

Lacklustre operating metrics across the sector
Occupancy rates for industrial REITs remained relatively unchanged QoQ in 4Q18, with only Cache Logistics Trust registering a decline of 1.9 ppt to 95.0%. Sabana REIT led occupancy growth rates with a 3.0 ppt increase to 84.4% while Soilbuild REIT's occupancy climbed 2.3 ppt to 89.5%. Meanwhile, it was a different picture for rental reversions, with majority posting negative figures. The biggest declines came from AIMS AMP Capital Industrial REIT (-24.6%), Soilbuild REIT (-12.6%) and Cache Logistics Trust (-4.4%) while the two REITs that delivered positive rental uplifts were Mapletree Logistics Trust (+4.5%) and Ascendas REIT (+3.2%). Within this space, we continue to like **Frasers Logistics & Industrial Trust (FLT) [BUY; FV: S$1.19]** and **Mapletree Logistics Trust [BUY; FV: S$1.50]**. We note that FLT recently announced that it

would be included in the FTSE EPRA/NAREIT Global Real Estate Index Series from 19 Mar 2019. This is a leading benchmark index for institutional real estate investors. We expect this development to help improve FLT's liquidity. Since the announcement, we note that Prudential Plc has acquired 8.8m FLT shares, bringing its stake from 4.8% to 5.2% and thus becoming a substantial unitholder.

Exhibit 33: Operating metrics of industrial REITs

	Occupancy (%)			Rental reversion	WALE
	31 Dec 2018	30 Sep 2018	30 Jun 2018	(%)	(years)
AIMS AMP Capital Ind REIT (1)	93.9	93.6	91.5	-24.6	2.7
Ascendas REIT (2)	SG: 87.3; Australia: 98.1; UK: 100; **Overall: 91.3**	SG: 87.1; Australia: 98.5; UK: 100; **Overall: 90.6**	SG: 88.1; Australia: 98.6; **Overall: 90.5**	SG: 3.2; Australia: N.A.; UK: N.A.; **Overall: 3.2**	SG: 3.9; Australia: 4.5; UK: 11.3; **Overall: 4.4**
Cache Logistics Trust	95.0	96.9	96.8	-4.4	3.2
ESR-REIT (3)	93	92.9	91.4	-2.9	3.8
EC World REIT (4)	99.2	99.2	99.2	N.D.	2.0
Frasers Logistics & Ind Trust (5)	Australia: 99.4; Europe: 100; **Overall: 99.6**	Australia: 99.4; Europe: 100; **Overall: 99.6**	Australia: 99.0; Europe: 100; **Overall: 99.3**	-7.2	Australia: 6.5; Europe: 7.3; **Overall: 6.7**
Mapletree Industrial Trust (6)	88.2	86.7	88.3	Flatted Factories: -1.5; Business Park: -6.4; Hi-Tech Buildings: -3.0; Stack-Up/Ramp-Up Buildings: -3.6	SG: 3.6; US: 5.3; **Overall: 3.7**
Mapletree Logistics Trust (7)	97.7	96.7	95.7	4.5	3.8
Sabana REIT	84.4	81.4	84.5	N.D.	2.6
Soilbuild REIT (8)	89.5	87.2	87.6	-12.6	3.7

Source: REIT Managers, OIR

NOTE: N.D. - Not disclosed

(1) Rental reversion figures refer to 3QFY19 and take into account only renewal leases

(2) Rental reversion figures refer to 3QFY19

(3) Rental reversion figures refer to FY18

(4) Occupancy refers to portfolio committed occupancy.

(5) Rental reversion figures refer to 1QFY19

(6) Rental reversion figures refer to renewal leases only for 3QFY19

(7) Rental reversion figures refer to 3QFY19

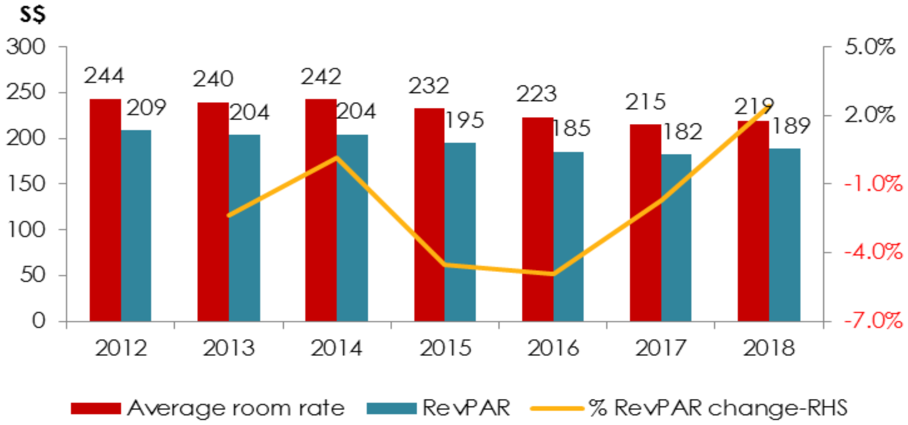
(8) Rental reversion figures refer to new and renewal leases for 4QFY18. -8.6% for FY18

Hospitality sector: More sanguine outlook ahead

Crazy rich record year for Singapore tourism in 2018…
As the destination for various international headline events like the premiere of the Crazy Rich Asians movie and the Trump-Kim Summit, Singapore's tourism sector had a stellar year in 2018. International visitor arrivals rose 6.2% to an all-time high of 18.5m while visitor days grew 4.8% YoY, concluding the year with consecutive YoY growth in the past 12 months for both indicators. This was mirrored by industry-wide RevPAR which grew 2.4% YoY to S$188.6, led by both higher occupancy (+1.4 ppt to 86.0%) and average room rate (+1.7% to S$219.1). This is the first time annual RevPAR has recorded positive growth after declining successively for 3 years since 2015.

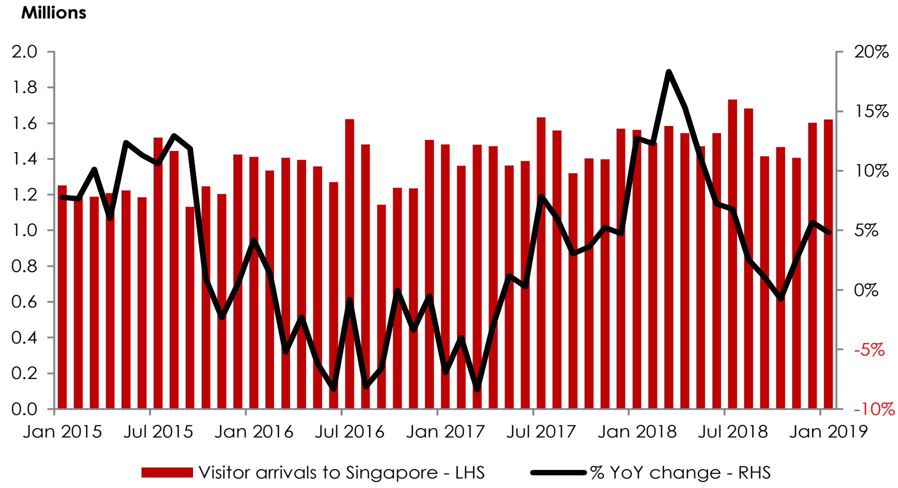
Similarly, tourism receipts (TR) grew 1.0% YoY to hit a record high of S$27.1b. This growth is attributable largely to increased tourist volumes as spending decreased for Shopping (-14%), Food & Beverage (-4%) and Accommodation (-5%). Tourists spent more on Sightseeing, Entertainment & Gaming (+6%) and Other TR Components (+21%). 14 out of the country's top 15 visitor arrivals markets recorded growth, with India (+13%), China (+6%) and Indonesia (+2%) the top three countries.

Exhibit 34: Singapore Hotels' average RevPAR and % change



Source: Singapore Tourism Board, OIR

Exhibit 35: International visitor arrivals to Singapore



Source: Singapore Tourism Board, OIR

…although some hospitality REITs only started seeing pick up from 4Q18

However, hospitality REITs had a mixed operational performance, with some only posting an uptick in 4Q18. For Hospitality REITs with a strong Singapore presence, CDL Hospitality Trusts (CDLHT) recorded a 2.6% YoY growth in RevPAR for its Singapore portfolio in 4Q18, following two consecutive quarters of weakness (3Q18: -0.3% YoY; 2Q18: -0.9% YoY). For the full-year, RevPAR was up 0.6% to S$160. Furthermore, CDLHT highlighted during its 4Q18 results announcement that the RevPAR for its Singapore Hotels rose 5.1% YoY for the first 27 days of Jan 2019. OUE Hospitality Trust's Mandarin Orchard Singapore's RevPAR improved 1.6% YoY to S$229 in 4Q18, and this also followed two preceding quarters of YoY declines. Meanwhile, Far East Hospitality Trust enjoyed a 7.5% YoY increase in both RevPAR and RevPAU for its Hotel and Serviced Residences portfolios, respectively. RevPAU for Ascott Residence Trust's overall portfolio grew 5% YoY in 4Q18. However, Frasers Hospitality Trust saw a 2.1% YoY dip in its Singapore portfolio RevPAR, and there were also declines seen from its Malaysia and Japan portfolios. Its Australia and UK portfolios fared better, improving 2.6% and 8.2% YoY, respectively.

Exhibit 36: RevPAR/RevPAU trend for hospitality REITs

	Currency	4Q CY18	4Q CY17	% YoY	3Q CY18	% QoQ	CY18	CY17	% YoY
Ascendas Hospitality Trust [1]									
- Australia portfolio	AUD	N.D.	N.D.	-3.8%	N.D.	N.A.	-	-	-
- Singapore portfolio	SGD	N.D.	N.D.	0.0%	N.D.	N.A.	-	-	-
- Japan portfolio	JPY	N.D.	N.D.	2.8%	N.D.	N.A.	-	-	-
- South Korea portfolio	KRW	N.D.	N.D.	16.6%	N.D.	N.A.	-	-	-
Ascott Residence Trust	SGD	163	155	5.0%	158	3.2%	151	144	5.0%
CDL Hospitality Trusts									
- Singapore portfolio	SGD	160	155	2.6%	165	-3.0%	160	159	0.6%
Far East Hospitality Trust									
- Hotel portfolio	SGD	142	132	7.5%	152	-6.6%	144	136	6.2%
- Serviced Residence portfolio	SGD	179	166	7.5%	186	-3.8%	177	175	0.9%
Frasers Hospitality Trust									
- Singapore portfolio	SGD	237	242	-2.1%	260	-8.8%	-	-	-
- Malaysia portfolio	MYR	340	384	-11.5%	390	-12.8%	-	-	-
- Japan portfolio	JPY	12,148	12,218	-0.6%	10,570	14.9%	-	-	-
- Australia portfolio	AUD	234	228	2.6%	197	18.8%	-	-	-
- UK portfolio	GBP	105	97	8.2%	118	-11.0%	-	-	-
OUE Hospitality Trust				1.9%					
- Mandarin Orchard Singapore	SGD	229	225	1.6%	233	-1.7%	226	223	1.0%
- Crowne Plaza Changi Airport	SGD	180	176	2.1%	187	-3.7%	180	167	7.7%

Source: REIT Managers, OIR

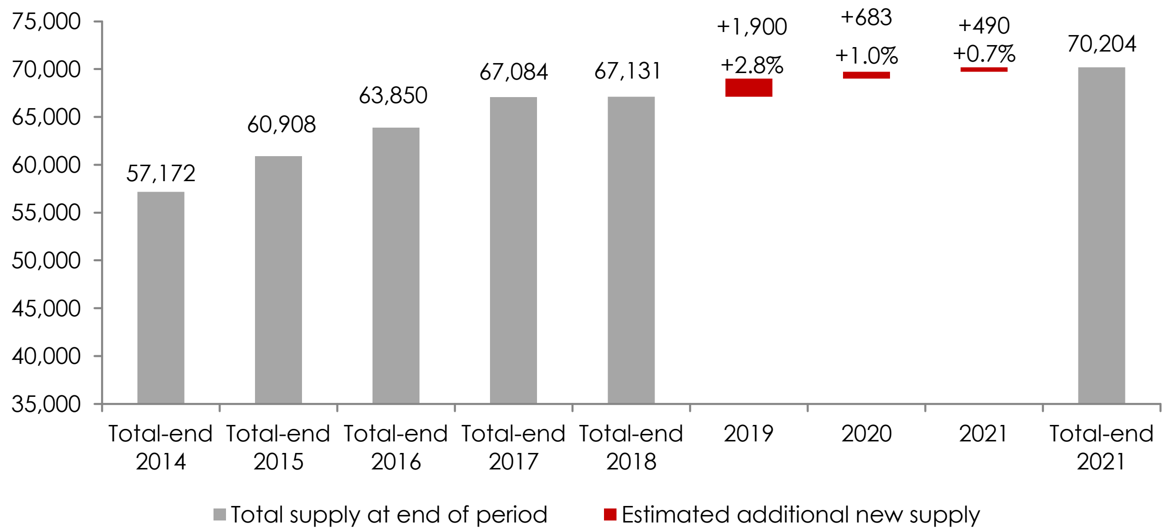
Note: N.D.: not disclosed.
(1) Ascendas Hospitality Trust has stopped disclosing its actual AOR, ADR and RevPAR figures. Only the YoY percentage changes were disclosed

Improving absorption of supply injection
2017 saw a significant expansion of hotel room supply due to the opening of 7 new hotels such as Andaz Singapore in Bugis and Courtyard by Marriott at Novena. However as mentioned above, average room rates have increased slightly in 2018, which is encouraging news for the industry. This indicates that the market has been slowly absorbing the new supply within the past year. New pipeline supply is forecasted to increase by 3,073 rooms in total for the next 3 years, representing an increase of 4.5% from end-2018 levels.

Tight transaction cap rates for hotel sales
Over the past six months, there has been increasing activity on the local hospitality transactions front. While office deals were grabbing much of the headlines in 2017 and 2018, we believe the tide has turned and more capital flows are now seeking good quality hospitality assets. Some of the notable transactions include Ascott Residence Trust's proposed divestment of its Ascott Raffles Place Singapore property at an exit yield of ~2%, or 64% above its book value. Oxley Holdings accepted a Letter of Intent in Jan this year for the sale of its Mercure and Novotel Hotels at Stevens Road for S$950m, or ~S$1.2m per key. Meanwhile, a hotel site along Club Street under the Government Land Sales (GLS) programme was awarded to Midtown Development Pte Ltd, whose winning tender of S$562.2m, or S$2,148.50 psf ppr, set a new record for a 99-year land at a GLS tender.

Ascott Residence Trust (ART) [BUY; FV: S$1.25] is our top pick within the hospitality sector. ART recently delivered strong 4Q18 results, with portfolio RevPAU growing 5% YoY and 8 out of 12 management contract geographies clocking positive RevPAU growth in SGD terms. The REIT boasts a highly geographically diversified portfolio of high quality assets and given the ongoing macroeconomic uncertainties we look upon this defensive positioning favourably. Post the divestment of Ascott Raffles Place at an attractive exit yield of ~2%, ART's gearing is expected to drop to ~32%. This would translate into a debt headroom of close to S$1b, and offers ART greater flexibility to pursue DPU accretive acquisitions.

Exhibit 37: Upcoming hotel rooms supply still manageable



Source: Singapore Tourism Board, Horwath HTL, URA, CDLHT, OIR

Exhibit 38: OIR coverage and rating

		Price	Fair Value	Rating
Ascendas REIT	SGD	2.81	2.64	**HOLD**
Ascott Residence Trust	SGD	1.15	1.25	**BUY**
Cache Logistics Trust	SGD	0.73	0.76	**HOLD**
CapitaLand Commercial Trust	SGD	1.94	1.83	**HOLD**
CapitaLand Mall Trust	SGD	2.37	2.25	**HOLD**
CapitaLand Retail China Trust	SGD	1.52	1.42	**HOLD**
CDL Hospitality Trusts	SGD	1.62	1.56	**HOLD**
ESR-REIT	SGD	0.535	0.575	**BUY**
Far East Hospitality Trust	SGD	0.655	0.68	**BUY**
First REIT	SGD	1.00	0.97	**SELL**
Frasers Centrepoint Trust	SGD	2.23	2.50	**BUY**
Frasers Commercial Trust	SGD	1.48	1.56	**BUY**
Frasers Logistics & Industrial Trust	SGD	1.17	1.19	**BUY**
Keppel DC REIT	SGD	1.44	1.60	**BUY**
Mapletree Commercial Trust	SGD	1.81	1.79	**HOLD**
Mapletree Industrial Trust	SGD	2.04	1.98	HOLD
Mapletree Logistics Trust	SGD	1.41	1.50	**BUY**
OUE Commercial REIT	SGD	0.50	0.50	**HOLD**
OUE Hospitality Trust	SGD	0.725	0.82	**BUY**
Soilbuild REIT	SGD	0.605	0.62	**HOLD**
SPH REIT	SGD	1.02	0.99	**HOLD**
Starhill Global REIT	SGD	0.70	0.75	**BUY**
Suntec REIT	SGD	1.94	1.84	**HOLD**

Source: Bloomberg, OIR
Note: MAGIC SP is on our Research Black list

Exhibit 39: All listed S-REITs and business trusts table

		Price ($)	Mkt Cap ($ m)	Float (%)	FYE (mth)	DPU (freq)	Curr DPU (cents)	Fwd DPU (cents)	Curr Yield (%)	Fwd Yield (%)	YTD Return (%)	D/A (%)	P/B (x)
OFFICE (8)													
CapitaLand Commercial Trust	SGD	1.940	7,273.4	69.8	Dec	Semi-Anl	9.00	9.00	4.6	4.6	13.5	34.9	1.05
Frasers Commercial Trust	SGD	1.480	1,333.6	74.4	Sep	Quarter	9.80	9.70	6.6	6.6	9.8	28.4	0.93
IREIT Global	SGD	0.750	474.0	30.7	Dec	Semi-Anl	N.A.	N.A.	N.A.	N.A.	7.4	36.6	1.02
Keppel REIT	SGD	1.260	4,323.4	52.2	Dec	Quarter	5.70	5.80	4.5	4.6	11.8	36.3	0.90
Manulife US REIT	**USD**	0.850	1,089.1	92.5	Dec	Semi-Anl	6.10	6.10	7.2	7.2	14.4	37.2	1.02
OUE Commercial REIT	SGD	0.500	1,429.4	23.9	Dec	Semi-Anl	3.40	3.50	6.8	7.0	11.5	39.3	0.70
Suntec REIT	SGD	1.940	5,200.2	61.9	Dec	Quarter	9.90	9.90	5.1	5.1	10.5	36.7	0.92
Keppel-KBS US REIT	**USD**	0.680	557.9	86.9	Dec	Semi-Anl	5.90	5.90	8.7	8.7	15.5	35.1	0.85
	SGD	*Total:*	*22,268.1*					*Average:*	*6.2*	*6.3*	*11.8*	*35.6*	*0.93*
RETAIL (11)													
BHG Retail REIT	SGD	0.690	348.2	67.5	Dec	Semi-Anl	N.A.	N.A.	N.A.	N.A.	-0.2	30.7	0.85
CapitaLand Mall Trust	SGD	2.370	8,741.3	65.5	Dec	Quarter	12.00	12.40	5.1	5.2	5.6	34.2	1.18
CapitaLand Retail China Trust	SGD	1.520	1,497.5	62.1	Dec	Semi-Anl	10.20	10.60	6.7	7.0	15.6	35.4	0.96
Fortune REIT	**HKD**	9.680	18,662.1	72.4	Dec	Semi-Anl	53.50	55.40	5.5	5.7	11.4	20.9	0.58
Frasers Centrepoint Trust	SGD	2.230	2,069.1	57.9	Sep	Quarter	12.40	12.70	5.6	5.7	4.1	28.8	1.06
Lippo Malls Indo Retail Trust	SGD	0.200	572.0	63.3	Dec	Quarter	2.50	2.40	12.5	12.0	11.5	34.6	0.70
Mapletree Commercial Trust	SGD	1.810	5,230.3	65.7	Mar	Quarter	9.10	9.20	5.0	5.1	11.2	34.8	1.22
Mapletree North Asia Com	SGD	1.290	4,094.3	66.5	Mar	Quarter	7.50	7.70	5.8	6.0	14.9	39.0	0.98
SPH REIT	SGD	1.020	2,636.1	25.0	Aug	Quarter	5.70	5.80	5.6	5.7	3.4	26.3	1.08
Starhill Global REIT	SGD	0.700	1,526.8	62.9	Jun	Quarter	4.70	4.80	6.7	6.9	4.6	35.6	0.78
Sasseur REIT	SGD	0.735	873.9	22.2	Dec	Semi-Anl	6.40	6.60	8.7	9.0	18.5	29.0	0.81
	SGD	*Total:*	*30,814.4*					*Average:*	*6.7*	*6.8*	*9.1*	*31.8*	*0.93*
INDUSTRIAL (10)													
AIMS AMP Capital Ind REIT	SGD	1.400	964.2	71.5	Mar	Quarter	10.30	11.00	7.4	7.9	7.2	33.5	1.03
Ascendas REIT	SGD	2.810	8,740.6	81.0	Mar	Semi-Anl	16.10	16.50	5.7	5.9	9.3	36.7	1.34
Cache Logistics Trust	SGD	0.730	785.6	90.3	Dec	Quarter	5.80	6.00	7.9	8.2	7.3	36.2	1.10
EC World REIT	SGD	0.760	605.9	41.4	Dec	Semi-Anl	6.30	6.40	8.3	8.4	10.1	31.5	0.88
ESR-REIT	SGD	0.535	1,696.0	57.7	Dec	Quarter	4.40	4.50	8.2	8.4	6.6	41.9	1.15
Frasers Logistics & Ind Trust	SGD	1.170	2,368.6	73.0	Sep	Semi-Anl	7.00	7.10	6.0	6.1	13.6	35.6	1.23
Mapletree Industrial Trust	SGD	2.040	4,117.7	67.9	Mar	Quarter	12.00	12.80	5.9	6.3	9.4	34.7	1.38
Mapletree Logistics Trust	SGD	1.410	5,107.5	72.8	Mar	Quarter	7.90	8.10	5.6	5.7	13.6	38.8	1.25
Sabana REIT	SGD	0.430	452.8	68.4	Dec	Quarter	N.A.	N.A.	N.A.	N.A.	12.1	36.8	0.75
Soilbuild REIT	SGD	0.605	642.1	65.6	Dec	Quarter	5.10	5.20	8.4	8.6	6.8	39.1	0.96
	SGD	*Total:*	*25,481.0*					*Average:*	*7.0*	*7.3*	*9.6*	*36.5*	*1.11*
HOSPITALITY (6)													
Ascendas Hospitality Trust	SGD	0.870	987.5	64.4	Mar	Semi-Anl	5.80	5.90	6.7	6.8	13.0	33.1	0.89
Ascott Residence Trust	SGD	1.150	2,498.4	55.0	Dec	Semi-Anl	7.10	7.20	6.2	6.3	10.1	36.7	0.94
CDL Hospitality Trusts	SGD	1.620	1,954.4	62.5	Dec	Semi-Anl	9.60	9.80	5.9	6.0	14.3	34.2	1.06
Far East Hospitality Trust	SGD	0.655	1,228.1	40.1	Dec	Quarter	4.20	4.40	6.4	6.7	9.9	40.1	0.75
Frasers Hospitality Trust	SGD	0.730	1,376.5	38.1	Sep	Semi-Anl	4.80	4.90	6.6	6.7	4.3	34.4	0.97
OUE Hospitality Trust	SGD	0.725	1,328.6	51.2	Dec	Quarter	5.10	5.20	7.0	7.2	10.2	38.8	0.96
	SGD	*Total:*	*9,373.6*					*Average:*	*6.5*	*6.6*	*10.3*	*36.2*	*0.93*
HEALTHCARE (2)													
First REIT	SGD	1.000	790.3	60.9	Dec	Quarter	8.80	8.90	8.8	8.9	3.7	35.0	0.98
ParkwayLife REIT	SGD	2.840	1,736.4	64.2	Dec	Quarter	13.00	13.00	4.6	4.6	9.3	36.1	1.51
	SGD	*Total:*	*2,526.7*					*Average:*	*6.7*	*6.7*	*6.5*	*35.6*	*1.24*
DATA CENTRE (1)													
Keppel DC REIT	SGD	1.440	1,946.8	74.5	Dec	Semi-Anl	7.90	8.20	5.5	5.7	9.4	30.8	1.35
	SGD	*Total:*	*1,946.8*					*Average:*	*5.5*	*5.7*	*9.4*	*30.8*	*1.35*
OTHERS (1)													
Cromwell European REIT	**EUR**	0.490	1,086.3	42.6	Dec	Semi-Anl	N.A.	N.A.	N.A.	N.A.	14.9	33.0	0.96
	SGD	*Total:*	*1,658.9*					*Average:*	*N.A.*	*N.A.*	*14.9*	*33.0*	*0.96*
39 S-REITS	**GRAND TOTAL:**		**94,069.6**					**AVERAGE:**	**6.6**	**6.8**	**10.0**	**34.6**	**1.00**

Business Trusts

		Price ($)	Mkt Cap ($ m)	Float (%)	FYE (mth)	DPU (freq)	Curr DPU (cents)	Fwd DPU (cents)	Curr Yield (%)	Fwd Yield (%)	YTD Return (%)	D/A (%)	P/B (x)
REAL ESTATE (3)													
Accordia Golf Trust	SGD	0.610	665.0	71.1	Mar	Semi-Anl	3.96	5.21	6.5	8.5	19.8	24.6	0.67
Ascendas India Trust	SGD	1.170	1,226.1	71.5	Mar	Semi-Anl	7.00	7.40	6.0	6.3	9.3	33.0	1.32
Dasin Retail Trust	SGD	0.895	500.2	23.0	Dec	Semi-Anl	3.70	3.90	4.1	4.4	3.5	32.3	0.64
	SGD	*Total:*	*2,391.3*					*Average:*	*5.5*	*6.4*	*10.8*	*30.0*	*0.88*
INFRASTRUCTURE (3)													
Asian Pay Television Trust	SGD	0.130	186.8	99.9	Dec	Quarter	1.20	1.20	9.2	9.2	2.4	54.1	0.17
Keppel Infrastructure Trust	SGD	0.500	1,890.7	56.0	Dec	Quarter	3.90	3.90	7.8	7.8	2.9	40.6	1.83
NetLink NBN Trust	SGD	0.795	3,098.1	75.0	Mar	Semi-Anl	5.00	5.10	6.3	6.4	3.9	14.9	1.03
	SGD	*Total:*	*5,175.6*					*Average:*	*7.8*	*7.8*	*3.1*	*36.5*	*1.01*
PORT AND SHIPPING (2)													
First Ship Lease Trust	SGD	0.049	31.2	75.1	Dec	Irreg	N.A.	N.A.	N.A.	N.A.	8.9	38.5	0.15
Hutchison Port Holdings	**USD**	0.235	2,047.1	72.3	Dec	Semi-Anl	1.91	1.97	8.1	8.4	0.2	33.1	0.60
	SGD	*Total:*	*2,807.9*					*Average:*	*8.1*	*8.4*	*4.6*	*35.8*	*0.37*
HEALTHCARE (1)													
RHT Health Trust	SGD	0.017	13.8	55.3	Mar	Irreg	N.A.	N.A.	N.A.	N.A.	87.2	30.7	N.M.
	SGD	*Total:*	*13.8*					*Average:*	*N.A.*	*N.A.*	*87.2*	*30.7*	*N.A.*
9 BUSINESS TRUSTS	**GRAND TOTAL:**		**10,388.6**					**AVERAGE:**	**6.9**	**7.3**	**15.3**	**33.5**	**0.80**

Source: Managers, Bloomberg, OIR estimates (12 Mar 2019)
NOTES:
1) SGD/JPY = 0.012176; SGD/USD = 1.3564; SGD/HKD = 0.1728; USD/HKD = 0.12739; SGD/EUR = 1.5271; SGD/AUD = 0.9592; CNY/SGD = 4.9498
2) Curr/Fwd DPU and yield are based on Bloomberg consensus forecasts for the current/next financial year
3) D/A (Debt-to-Asset) and P/B (Price-to-Book) are based on figures reported in latest available financial results
4) YTD return includes dividends distributed
5) Mapletree Greater China Commercial Trust has changed its name to Mapletree North Asia Commercial Trust with effect from 25 May 2018

ANALYST DECLARATION:

For analysts' shareholding disclosure on individual companies, please refer to the latest reports of these companies.

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- As a guide, OIR's BUY rating indicates a total expected return in excess of 10% based on the current price; a HOLD rating indicates total expected returns within +10% and -5%; a SELL rating indicates total expected returns less than -5%.
- For companies with market capitalisation of S$150m and below, OIR's BUY rating indicates a total expected return in excess of 30%; a HOLD rating indicates total expected returns within a +/-30% range; a SELL rating indicates total expected returns less than -30%.

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