Dividend forecasting

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Asia Pacific REITs outlook 2022

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Key implications

- From the perspective of aggregate distributions, the Asia Pacific real estate investment trusts (REITs) sector is expected to grow at around 15% for fiscal year (FY) 2021 to US$10.4 billion and remain stable in 2022.
- **Retail REITs** are expected to lead the momentum, with the steepest growth in the aggregate amount of dividends, attributable to the removal of mobility restrictions in Asia Pacific countries and the return of footfalls to malls.
- Being resilient during the pandemic, **industrial REITs** are expected to continue the growing trend in short term, with data center and logistics REITs benefiting from the new trend brought about by the pandemic.
- REITs from **Australia** and **Singapore** are expected to offer higher yields in 2022 as compared with **Hong Kong SAR** and **Japan**, as the REITs from these two markets dominate the top-10 dividend yield REITs list in 2022.

Global REITs overview

The REITs sector, well-known for its stable income and good yield returned to investors, was not spared from the fallout from the pandemic in the past year, as tenants were hit badly by the restrictions and other preventive measures to combat the heath crisis. However, with the effective rollout of vaccine programs around the globe and the removal of restrictions, we expect good recovery in payouts from this sector in 2022. **Retail REITs** in Asia Pacific, Europe and the Middle East (EMEA), and the US region are expected to see strong growth in payouts in 2022, attributable to the comeback of footfall to the malls; **industrial REITs**, which mainly consists of data centers and logistic REITs, are expected to continue the upward momentum as well, benefiting from the demand for data services, cloud computing, and e-commerce; **office REITs**, however, are expected to present a more complex and mixed picture across the regions, depending on multiple factors including occupancy rate, location, type of tenants and terms of the lease; **residential REITs** are expected to stand strong, attributable to improving rental collections and market's appetite for properties or accommodation amid the ongoing low interest environment.

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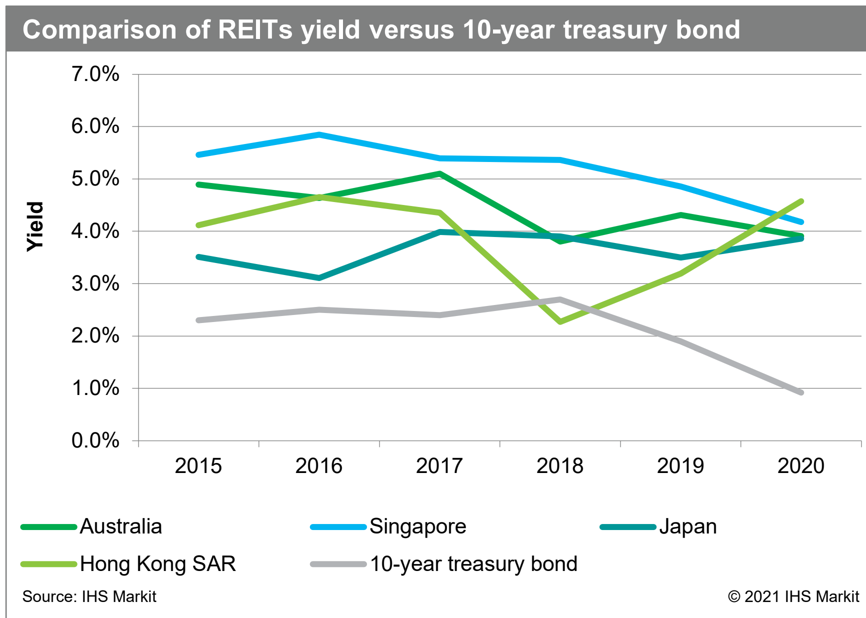

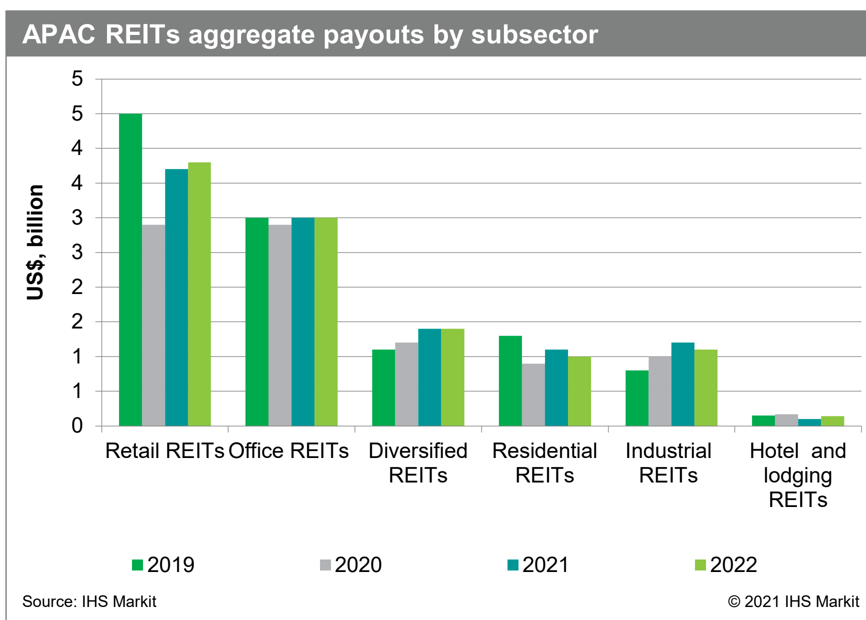

Retail REITs: Strong bounce back

Asia Pacific retail REITs were facing the greatest challenges in 2020, with players in Singapore and Australia feeling the most adverse impacts, owing to the curbs on social interactions and shopper's activities in mall. Correspondently, this subsector saw a dip in aggregate dividends in 2020. However, with the roll-out of vaccine programs in Asia Pacific countries and the gradual removal of mobility restrictions, retail REITs in Asia Pacific are expected to see strong recovery in payouts until 2022.

In Singapore, **CapitaLand Integrated Commercial Trust**, now the second largest REIT in Asia Pacific by market capitalization and whose retail assets are situated domestically, has seen its portfolio gain traction so far this year. This is evident in the trajectory of retail tenants' sales figure and net income contributed by retail assets this year. In the first quarter this year, the retail tenants' sales increased only by 2.9% and net property

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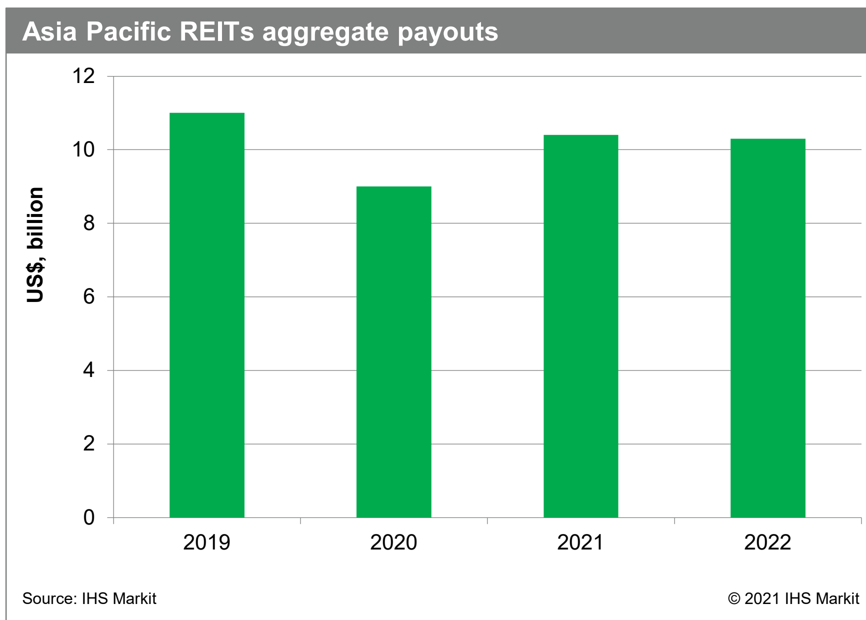

income decreased by 8.0% on a year-on-year (y/y) basis whereas in the half-yearly interim results, tenants' sales was 5.3% higher than one year earlier. It has also achieved a turnaround in net property income, with a growth rate of 2%. All these were achieved under the impacts of Singapore's Phase 2 Heightened Alert (from May to June), which put the majority of social activities on halt. This also demonstrates the resilience of the REIT's more diversified enlarged portfolio after the completion of merger last year.

In Australia, **Scentre Group**, the owner of 42 Westfield Living Centres, across Australia and New Zealand, resumed the interim dividends in August this year, as the group has seen its fund from operations increased by 28.4% y/y and rental cash collection climbed around 37.0% for the first half of the year. However, Scentre is still feeling the pinch from the lockdowns imposed by the government, particularly in Sydney and Melbourne, where the group has most assets. Despite the poor near-term outlook in the next three to six months, the street analysts seem still to be positive on the outlook are projecting an upward trend in earnings and funds from operations going forward, as the group has already proved that performances are expected to rebound rapidly once the restrictions are removed.

Hong Kong's retail REITs have been delivering resilient performance during the waves of COVID-19. The outlook remains challenging, as local consumption has yet to recover to pre-pandemic level and tourists spending is absent owing to the border closure. The distributable income of **Link REIT**, Asia's largest REIT, is expected to grow modestly in the coming years. The portfolio of Link REIT largely comprises non-discretionary focused retail, offering daily necessities and essential services to locals, which is expected to show resilience and generate steady income for the shareholders. We are expecting dividends to grow in tandem with earnings, as the REIT has been maintaining a payout ratio of 100%, in line with its dividend policy.

Distributions from retail REITs in Japan has demonstrated much more resilience despite the high pandemic cases and sharp decline in inbound tourists. Despite the hit on operating income as the global peers has experienced during the pandemic, **Japan Metropolitan Fund Investment** managed to maintain the distribution during the pandemic and is expecting a normalized distribution per unit (DPU) of approximately ¥5,000 per annum over the medium term. The REIT's strategy is to achieve steady growth of assets under management (AUM) and to secure stable profit on medium to long term basis via measures such as debt cost reduction and free cash flow utilization.

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Industrial REITs: Strong momentum to continue

Asia Pacific property transaction volume

	Q2 2021 volume (US$bn)	Year on year	H1 2021 volume (US$bn)	Year on year
Office	13.6	-16.0%	30.1	-12.0%
Industrial	13.4	82.0%	22.3	55.0%
Retail	9.8	104.0%	16.9	57.0%

Source: Real Capital Analytics © 2021 IHS Markit

In contrast to the retail REITs, the demand for data centers and logistics services propelled by the pandemic has driven the strong performances of this subsector. The stellar performances are not only reflected in the REITs' double-digit growth on bottom lines during the pandemic but also investors' appetite for industrial assets including warehouses, data centers, and other industrial assets in the key Asia Pacific markets. Real Capital Analytics, a property information provider, showed that the industrial assets transaction volume soared by 82% and 55% in second quarter 2021 and first half 2021, respectively.

Data center REITs, a subsector under industrial REITs, have been the outperformers during the pandemic and this momentum is expected to continue going forward. Data centers, the physical buildings that house servers, computer equipment, and network facilities, have seen growing importance in this digital era, even before the pandemic, attributable to the impending 5G network and shift toward cloud computing. However, the pandemic has become another accelerator of the trend, as data centers around the world continued to seamlessly provide digital solutions and power commercial activities as well as digital services while people are working from home. **Keppel DC REIT**, the Singapore's data center pureplay with a footprint in Singapore, Europe, and Australia, notched up the DPU by around 20.0% in FY 2020, attributable to the strong demand for the date center space. We expect the momentum to continue in FY 2021 and FY 2022 and are projecting the annual DPU to increase by 12.0% and 9.0%, respectively. Recently, the REIT expanded its footprint to the Greater Bay Area for the first time, hoping to tap on the growth opportunities from one of the most economically vibrant regions in China. Similarly, **Mapletree Industrial Trust,** in a hope to continue to ride on the trend, acquired 29 data centers in United States in July this year. The REIT grew strongly in its DPU by around 15.8% despite the rental relief extended to the tenants last year. Large and diversified tenant base (over 2,000 tenants, with top tenants such as HP and AT&T) underpins the resilience during the uncertain and challenging times.

While the pandemic dented most industries in the region, the crisis has created opportunities for logistics REITs. Logistics services have become an essential part of people's lives. The growth of this subsector is mainly driven by the expansion of the e-commerce market and strong demand for warehouses. The REIT is expected to remain in play in the short term, as the challenges from the pandemic persist. In Japan, **GLP J-REIT** and **Nippon Prologis and Lasalle Logiport REIT** are expected to grow marginally year on year. GLP J-REIT posted its record high distribution per unit growth of 7.6% in FY 2020 at ¥5,820 and Nippon Prologis maintained its stable DPU at ¥4,847, up 1.5% y/y. The REITs are expected to be stable, with loan-to-value (LTV) ratio to stay at average of around 45% for the above logistics investment funds. **Japan Logistics Fund** achieved its 4.8% compound annual growth rate (CAGR) and is targeting dividend per unit to touch ¥5,000. **Mapletree Logistics Trust** from Singapore is expected to maintain a stable occupancy rates for its warehouse space mainly located in Singapore, mainland China and Hong Kong SAR. Accordingly, we are projecting the DPU to increase by around 5% for the current financial year.

Office REITs: A mixed picture for Asia Pacific

As remote working has become a new norm for many, we expect the office REITs in Singapore and Hong Kong SAR to remain under pressure in short term, owing to the low occupancy rate and ongoing rent assistance provided to the tenants. We therefore generally do not expect the office REITs from these two markets

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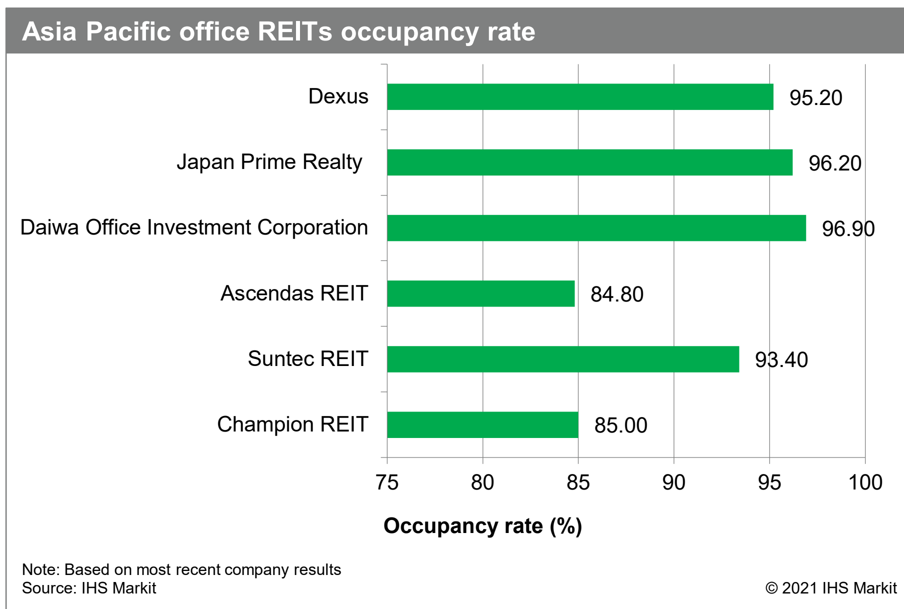

to recover the DPU to the pre-pandemic level in short-term. **Champion REIT** from Hong Kong SAR has experienced a decline in base rent due to the oversupply of office space triggered by the subdued demand from the market. Its FY 2021 interim distribution decreased by 2%. We project the distribution to decrease further for the FY 2021 final distribution, as the REIT highlighted that spot rents are now below passing rents, negative rental reversion is expected to remain for the rest of year. The REIT also highlighted that there are no clear signs that the rents have reached the bottom.

Although Singapore's **Suntec Real Estate Investment Trust** expects the revenue to remain stable and rent reversion to remain in the positive territory, we do not expect the REIT to recover the DPU to pre-pandemic level, as companies are likely to continue with hybrid working arrangements and remain prudent on expenses. These two REITs, however, shared one important common trait—their assets are domestically oriented. Singapore's **Ascendas Real Estate Investment Trust**, whose office assets are more geographically diversified in markets such as Singapore, United States, and Australia, has not been impaired by the pandemic as much as its peers. The trust company's distributable income and distribution increased by 18.2% and 5.4%, respectively, in first half FY 2021. Notably, the REIT's tenants are primarily from new economy sector such as information technology and biomedical sciences. With the strong demand, we forecast the REIT to increase DPU by 9.0% and 6.5%, respectively, for FY 2021 and FY 2022.

Office REITs in Japan also fared well, owing to the low adoption rate of working from home in the country. According to research from Tokyo Shoko Research, only 38.5% employees are currently implementing remote working. **Daiwa Office Investment Corporation** and **Japan Prime Realty** increased their distributions year on year, supported by high occupancy rates and rent renewals at 14.8%. However, COVID-19-related provisions for revenue decrease for the existing properties at the beginning of the fiscal period was allocated for granting free rent, paying leasing expenses ahead of schedule, and repair cost. Generally, analysts remain optimistic for continued moderate earnings growth with expected increase in operating revenue and income in FY 2022. High occupancy of the premium grade office assets has also helped **Dexus** weather the storm during the pandemic. The REIT returned 3% higher distribution amid the impacts from the lockdowns and guided at least 2% growth in DPU next year, banking on the ease of lockdown that brings back employees to offices. Although the impacts from the structural change of demand from the shift to remote working or hybrid working has yet fully emerged. They are still the big tests of the REIT's flexibility and ability to respond to this new norm in the medium to long term.

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Residential REITs: Buoyed by appetite for homes

The Australian government's HomeBuilder stimulus and low interest rate environment incentivized residents to turn to property markets and triggered a housing boom in the Australian market. While these factors are causing house prices to grow at the fastest pace in the past few decades, the surge in sales volumes are expected to continue to benefit the residential developers. **Stockland**, the largest developer in Australia has posted a 54.2% surge in residential sales volume in its FY 2021 final results. The REIT also projected the strong momentum will flow into FY 2022. The REIT was lifted to a net profit of A$1.1 billion from an A$21 million loss a year earlier. Meanwhile, the REIT guided a funds from operations of 34.6–35.6 cents for FY 2022, implying a growth rate of 4.5–7.6% next year. Notably, the REIT maintains a healthy gearing ratio, offering ample headroom for further growth opportunities going forward. Likewise, **Mirvac**, has achieved strong growth in settlement and robust gross margin for residential properties across various locations in FY 2021. With the favorable residential conditions, the REIT guided the operating earnings to increase by at least 7.1% and DPU to increase by 3% for next financial year. Residential REITs in Japan has faced some temporary challenges and are now expected to see strong growth in payouts going forward. The stagnation of tenant recruiting activities owing to spread of the virus trigged a significant decrease in number of contracts concluded. In addition, under the emergency declaration (stay home orders) in the spring of 2020, new leases declined and the number of cancellations increased and stayed high, putting pressure on the occupancy rate. **Daiwa House REIT** saw temporary rent reductions and saw its distribution per unit fall by ¥369 or 6.39%. Whereas **Nippon Accommodation Fund** DPU is expected to decrease by ¥330 to ¥9,750 with net income to fall marginally by ¥26 million. The REITs are expected to sustain its distributions via lease renewals with expected high occupancy rates and gains from sales of assets.

Hotel and Lodging REIT: To remain muted

Hotel and lodging REITs were hit worst during the pandemic and are expected to continue to face challenging conditions until the opening of international borders and better controls of the spread of the virus. Major hotel REITs including **Japan Hotel REIT Corp** and **Invincible Investment Corp** are going through a very tough period, as the number of inbound tourists declined sharply owing to restrictions on admission for inbound visitors in response to the spread of COVID-19. The number of Japanese tourists plummeted as well, owing to the government's declaration of a state of emergency. The "Go To Travel" campaign was launched in July 2020 as a measure to stimulate tourism demand, and there were signs of a recovery in domestic lodging demand in the second half of the same year. However, COVID-19 began to expand again in November and the campaign was temporarily suspended in December 2020. Consequently, domestic travel and lodging demand began to decline again. As a result, both REITS posted huge losses. Japan Hotel REIT posted its ordinary income of just ¥1,398 million and slashed its dividend per unit to ¥410 in FY 2021, down 88.9% from ¥3690 in FY 2020. Occupancy fell drastically from 85.1% in FY 2019 to 30.6% in FY 2021. Similarly, Invincible Investment Corp's operating revenue fell from ¥22,185 million in FY 2019 to ¥2,341 in FY 2021 in the June quarter. Its DPU fell 93% in FY 2020 to just ¥236 from ¥3,381 a year earlier. The REITS dependency on variable rent from tenants have created more problems as many tenants are unable to pay rent on time.

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Appendix

Asia Pacific REITs stocks by yield in 2022

Stock name	ISIN	FY 2022 DPU	Y/y change (%)	Dividend yield	REIT type
Cromwell Property Group	AU000000CMW8	A$0.0650	-7.1%	7.65%	Office
Charter Hall Retail REIT	AU000000CQR9	A$0.2500	6.8%	6.62%	Retail
Suntec REIT	SG1Q52922370	S$0.0948	6.0%	6.46%	Office
Vicinity Limited	AU000000VCX7	A$0.1000	29.9%	6.33%	Retail
Fortune Real Estate Investment Trust	SG1O33912138	HK$0.4992	0.0%	6.14%	Retail
Charter Hall Long WALE	AU000000CLW0	A$0.3040	4.1%	5.84%	Diversified
Stockland	AU000000SGP0	A$0.2600	6.0%	5.83%	Residential
Waypoint REIT Limited	AU0000088064	A$0.1580	0.6%	5.66%	Retail
Shopping Centres Australasia	AU000000SCP9	A$0.1450	16.9%	5.58%	Retail
Frasers Logistics & Commercial Trust	SG1CI9000006	S$0.0825	10.5%	5.57%	Industrial
Ascendas REIT	SG1M77906915	S$0.1706	6.5%	5.48%	Office
CapitaLand Integrated Commercial Trust	SG1M51904654	S$0.1140	8.8%	5.41%	Retail
Scentre Group	AU000000SCG8	A$0.1640	17.1%	5.39%	Retail
GPT Group	AU000000GPT8	A$0.2680	3.9%	5.22%	Retail
Mapletree Industrial Trust	SG2C32962814	S$0.1353	7.8%	5.09%	Industrial

Note: Based on the data on 15 Sep

Source: IHS Markit

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