

ASIA REIT

MARKET REPORT

2020

SYNOPSIS

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Introduction

As at Dec. 31, 2019, there were 178 REITs active in the Asia-Pacific region, with a combined market value of US\$292.4 billion, up approximately 25% y-o-y. The Japan, Singapore and Hong Kong markets account for the lion's share, with 93% of the total market value.

Distributed return rates were highest in Singapore, at 6.2%, followed by Hong Kong at 5.6% and Japan at 4.0%. Leverage ratios were greatest in Japan at 44%, with Singapore at 35% and Hong Kong at 26%.

In addition, aggregate rates of return in 2019 were strongest in Singapore and Japan, achieving the best performance in a decade at 25.3% and 25.6% respectively, compared with only 5.3% for REITs in Hong Kong.

In terms of P/B ratios, REITs in Hong Kong showed a discount at 0.64, while those in Singapore and Japan both gained from rising capital values in the year, presenting P/B ratios of 1.09 and 1.18 respectively.





Mainland China Activity

Securitization of domestic commercial real estate in mainland China maintained the rapid development momentum of the previous year. Eighty-one new products were issued in 2019, with a total market value of RMB155 billion. The overall number of domestic commercial real estate securitization products grew 42.1% y-o-y, raising total market value by 36.3%.

The newly issued products comprised 46 commercial mortgage-backed security (CMBS) products, 23 quasi-REIT products, and 12 commercial mortgage-backed note (CMBN) products.

Meanwhile, the first batch of domestic commercial real estate asset securitization products issued have now entered the open period for the first time. Partial data shows that, as at the end of 2019, 16 quasi-REIT and CMBS products had been successfully exited via buyback, renewal, or disposal, totaling RMB43.5 billion.

Mainland China domestic securitization products held 423 ground floor properties in 2019. There was growth in the retail sector, with new expansion into brand outlet stores and cultural tourism assets.

REITs from Singapore and Hong Kong were active players in the mainland China market in 2019, acquiring 16 properties and disposing of three. As at the end of the year, 16 REITs from Singapore and Hong Kong held a combined 103 commercial real estate properties in the mainland.

Looking ahead, China's shift to a consumption-led economy, coupled with the continuing rise of e-commerce, should see Singapore and Hong Kong institutions pay growing attention to logistics property assets in the mainland.

JAPAN



The REIT market continued to remain active, attracting consistent interest among investors. A total of five new REIT products were issued in the period from July 2018 to December 2019, comprising Escon Japan (mixed-use), Itochu Advance Logistics (industrial / logistics), Sankei Real Estate (office), Sosila Logistics (industrial/logistic), and Takara Leben Real Estate (mixed use).

The Japanese REIT market numbered 64 listings at the end of 2019, with a total market value of US\$151.3 billion – accounting for more than half of the total Asia REIT market. Overall, Japan boasts the largest REIT market in Asia and the second largest globally.

SINGAPORE



The performance of the Singapore REIT market was also eye-catching, highlighted by repeated consolidation and merger activities. Four new REITs debuted on the Singapore Exchange (SGX) from July 2018 to December 2019, namely Prime REIT (office), ARA US Hospitality Trust (hotel), Eagle Hospitality Trust (hotel) and the Lendlease Global Commercial REIT (retail).

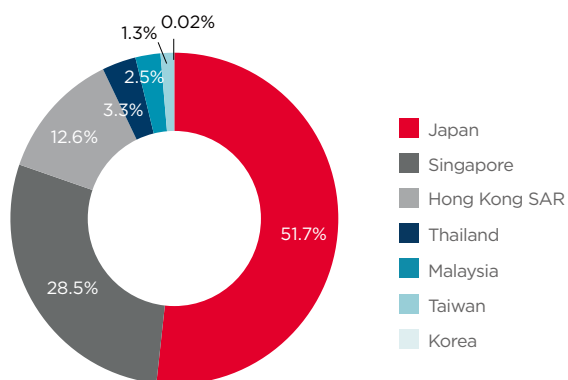
As at the end of the year Singapore had 42 listed REITs and property trusts with a combined market capitalization of US\$83.4 billion, representing circa 12% of Singapore's overall listed stocks. For the full year of 2019, the S-REITs and property trusts contributed 24% of the market's daily turnover.

HONG KONG SAR



Expansion of the REIT sector in Hong Kong has been sluggish in recent times, with a hiatus of six years before a new real estate trust, the CMC REIT (01503.HK), listed on the main board of the Hong Kong Stock Exchange in December 2019. There are now 11 REITs listed in Hong Kong, with an aggregate market value of US\$36.7 billion.

Share of total REIT market by stock exchange in Asia

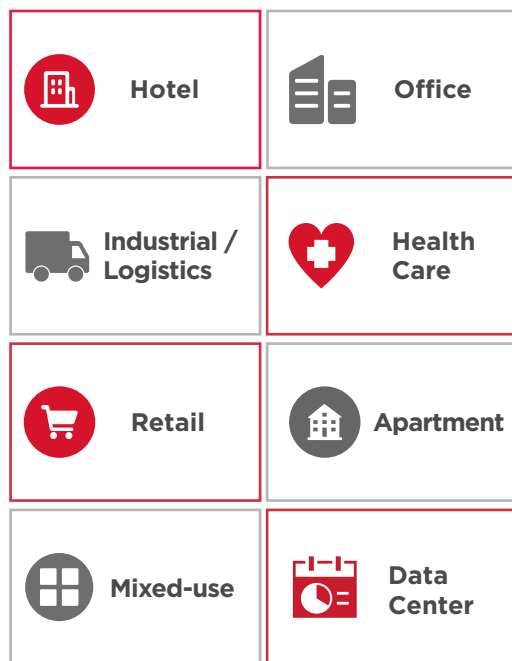


Aggregate market value of REITs by stock exchange in Asia

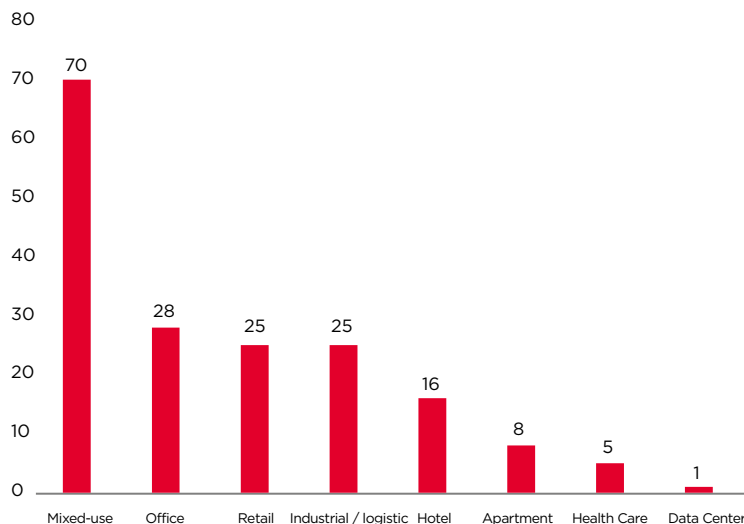
	Number	US\$ billion	Share
Japan	64	151.3	51.7%
Singapore	42	83.4	28.5%
Hong Kong SAR	11	36.7	12.6%
Thailand	35	9.7	3.3%
Malaysia	17	7.2	2.5%
Taiwan	7	3.9	1.3%
Korea	2	0.06	0.02%
Total	178	292.4	100%

Source: Bloomberg, prepared by Valuations & Advisory Services of Cushman & Wakefield

Composition of REITs by real estate sector in Asia



Number of REITs by real estate sector in Asia



Source: Bloomberg, prepared by Valuations & Advisory Services of Cushman & Wakefield

As at Dec. 31, 2019, there were 178 REITs active in Asia. Of the total, 70 were mixed-use REITs involving multiple property types. Twenty-eight REITs were focused on office properties, 25 on retail and 25 on industrial / logistics properties. Of the remainder, 16 REITs were engaged in the hotel sector, eight in apartment properties, five in health care facilities and one in data centers.





Key Takeaways

Repeated consolidation and merger activities in the Singaporean REIT market have helped to establish its regional position and to improve investment returns

The merger of ESR-REIT and Viva Industrial Trust was completed in October 2018.

In July 2019, Ascott Reit and Ascendas REIT revealed a proposal to form a merged entity (formally effective in January 2020). The resulting merged body would rank as the ninth largest REIT listed on the SGX, with a market value of SG\$3.88 billion. The merger was chiefly designed to consolidate the position of the joint investment portfolio as the largest hospitality trust in the Asia-Pacific region, improving project development capabilities, enhancing financial flexibility, and growing distribution per unit (DPU).

Two months later, in September 2019, OUE Commercial Reit and OUE Hospitality Trust merged to create one of the largest diversified REITs listed in Singapore.

In December 2019, Frasers Logistics and Industrial Trust, and Frasers Commercial Trust, proposed a merger by way of a trust scheme, with the objectives of gaining DPU growth, broader investment authorization, greater REIT weighting in the FTSE-EPRA/NAREIT index, strengthened geographical diversification, and additional capital base and debt space.

Most recently, in January 2020, CapitaMall Trust and CapitaLand Commercial Trust announced a merger. The new entity, CapitaLand Integrated Commercial Trust, is one of the largest REITs in Asia Pacific and the largest REIT in Singapore by market capitalization (S\$11.4 billion) as of Nov. 2, 2020. As the merger and acquisition took place, a total of five REITs under CapitaLand Group went public on the SGX, consisting of CapitaLand Integrated Commercial Trust, Ascendas REIT, Ascott Reit, Ascendas India Trust and CapitaLand Retail China Trust.

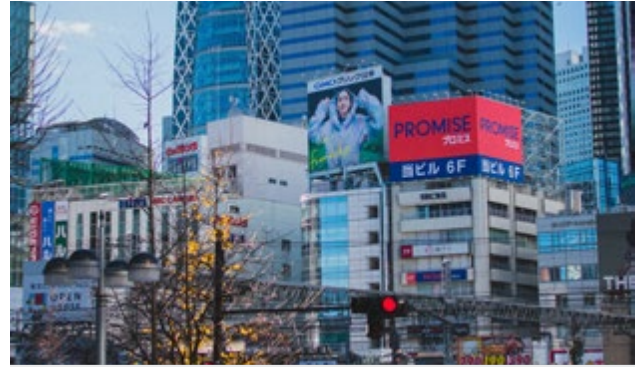
Real estate investment portfolios are strengthening through greater asset diversification

Mixed-use REITs involving multiple property types remain the most numerous. In general, asset management companies seek to hedge against their investment risks by further diversifying their real estate investment portfolios. As an example, Hong Kong's Link REIT has continually developed its property mix since its IPO of 2005, including by expanding its investment region from Hong Kong to first-tier cities in mainland China. And at the end of 2019 Link reached further afield to the international market, planning to acquire a Grade A office building in Sydney's core sub-market.



Commercial real estate asset classes are preferred

Office, retail and industrial / logistics properties are the preferred asset classes for REITS, benefitting from stable cashflow, more active transaction markets and stronger asset liquidity. However, as a hotel asset's operation gains maturity, hotel REITs can also ensure stable cashflow.



Japan leads the region in residential apartment real estate trusts

Japan is host to seven out of eight apartment REITs in Asia-Pacific, including Advance Residence Investment Corporation with a market value of US\$3.5 billion. Japanese apartment REITs contain a variety of property assets including senior housing, student housing and white-collar apartments, leveraging portfolio diversification strategies for consistent returns.



Health care REITS are an emerging category

Currently, health care REITs are emerging in the Singaporean and Japanese markets, each with two REITs, while Malaysia has one. The underlying properties of the Singapore First REIT and Parkway Life REIT are leased and operated by their initiators and their subsidiaries. In contrast, the underlying properties of Japanese health care REITs are generally leased to professional operating agencies, and the lessee (the health care operator) holds little relationship to the REIT company.



Data center REITs are set to be a future development trend

The data center industry has experienced consistent growth with the rise of e-commerce and development of Internet industries and Big Data. Consequently, data center property assets are attracting growing attention from real estate investment markets. Although currently only the Keppel DC REIT in Singapore, together with the investment portfolios of Mapletree Industrial Trust and Ascendas REIT, focus on data centers, the category is expected to become a future investment portfolio diversification trend.

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About This Paper

This synopsis draws upon a comprehensive Chinese language research report, authored by the Valuations & Consulting Services Department of Cushman & Wakefield, in conjunction with the Financial Committee of the China Real Estate Association. The report covers developments and financial performance of the REIT market in select Asia territories for 2019, analyses properties held by REITs in Singapore and Hong Kong SAR, and includes a case study of asset acquisitions and sales in the mainland China market. To access the full Chinese language report please [Click Here](#).

This synopsis report was compiled and edited by Simon Graham, Editor, Business Development Services, Greater China.

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