Singapore Industry Focus

Singapore REITs

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DBS Group Research . Equity

11 Apr 2024

Dealing with the hybrids

- Perpetual securities – an instrument to diversify capital base and additional debt-funded headroom – have been handy in cases of tight credit market liquidity
- Upcoming perp resets in 2024 an increasingly pressing issue as interest rates remain elevated
- S-REITs could tap into debt or asset divestment to recapitalize their balance sheets
- We remain comfortable that REITs with upcoming resets (CLAS, PGNREIT, CLAR) have the most financial flexibility to address them without overly stretching balance sheets.

Cost of perpetual securities reset in 2024-2025 may erode distributions. Perpetual securities ("perps") have been a popular class of hybrid instruments among S-REITs in the last decade of low interest rates, allowing them to diversify their capital bases. Perps, accounted as equity, offered "additional debt headroom" to pursue growth at a moderately higher cost – ranging 3.0% to 5.25% compared to debt. In today's high interest rate environment, perps as an instrument are less attractive and could hurt distributions when they reset. We estimate this could erode DPUs by up to c.4.0% (in FY26) for selected S-REITs. This is a potential hurdle that most S-REITs and investors will need to keep watch on.

What will S-REIT managers do? Our analysis of the pros and cons of a reset or redemption of perps. While perps were historically redeemed (or refinanced) with new issues on their first reset dates, the tight liquidity environment and high interest rate environment of the past few years has prompted most issuers to opt for reset instead. Looking ahead, this decision is unlikely to be as straightforward and we identified a number of strategies: (i) Allow a reset of the coupon rates; (ii) redemption or call back, funded by new bank loans; or (iii) by asset divestments. We believe most S-REITs will redeem the upcoming perps, though funding strategies will depend their capital structure, financial flexibility, and headroom.

Which trade-off is the most suitable? There is a trade-off between DPU and higher gearing ratio amongst the options. We see good financial flexibility in CLAS and PGNREIT (perps resetting in 2024) to consider multiple strategies for redeeming their perps without overly stretching financial metrics. For S-REITs with perps resetting in 2025, downside risk to DPUs is likely to be mitigated by a more benign interest rate environment. That said, even in a bear case scenario of a "higher for longer" interest rate outlook, S-REITs (CLAR) have sufficient financial flexibility while AAREIT, LREIT and SUN where debt (debt + perp/asset) ratios are most stretched (at c.>45%) and they should look to divest assets to prepare ahead.

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STOCKS

	Price S$	Mkt Cap US$m	12-mth Target Price S$	Performance (%) 3-mth	12-mth	Rating
AIMS APAC REIT	1.30	782	1.60	(2.3)	(4.4)	BUY
Capitaland Ascendas REIT	2.77	8,636	3.25	(6.8)	(4.2)	BUY
Capitaland Ascott Trust	0.94	2,293	1.30	(4.1)	(9.2)	BUY
CapitaLand China Trust	0.76	953	1.05	(17.1)	(33.6)	BUY
Cromwell European REIT	EUR1.49	910	EUR2.00	5.0	(6.4)	BUY
ESR-LOGOS REIT	0.30	1,712	0.34	(7.8)	(10.6)	BUY
LendLease Global Commercial REIT	0.575	1,014	0.90	(8.7)	(17.7)	BUY
Mapletree Industrial Trust	2.36	4,964	2.59	(6.8)	(2.5)	BUY
Mapletree Pan Asia Commercial Trust	1.36	4,387	2.00	(10.7)	(26.0)	BUY
Paragon REIT	0.87	1,817	1.05	(2.3)	(12.6)	BUY
Starhill Global REIT	0.485	815	0.68	(6.8)	(8.6)	BUY
Suntec REIT	1.14	2,461	1.15	(8.1)	(22.1)	HOLD

Source: DBS Bank Ltd, Bloomberg Finance L.P.
Closing price as of 9 Apr 2024

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ed: PJ / sa: AS, PY, CS

Dealing with the hybrids

Rise of the hybrids. Perpetual securities ("perps") are a class of hybrid securities that combine the characteristics of both debt and equity. Perps, while recorded on the balance sheet as equity, pay a fixed coupon to investors and generally rank ahead of equity holds in the capital stock, getting paid their coupons ahead of distributions. As such, equity investors generally view perps as "quasi-debt". For S-REITs, perps are a double-edged sword. Gearing levels are lowered given that they are recorded as equity, providing REITs with more headroom to debt fund acquisitions. However, the regulators have safeguards preventing overuse of this asset class with the REITs having to achieve an adjusted interest coverage ratio ("ICR") including perps coupon payments of 2.5x before being allowed to gear up to 50%.

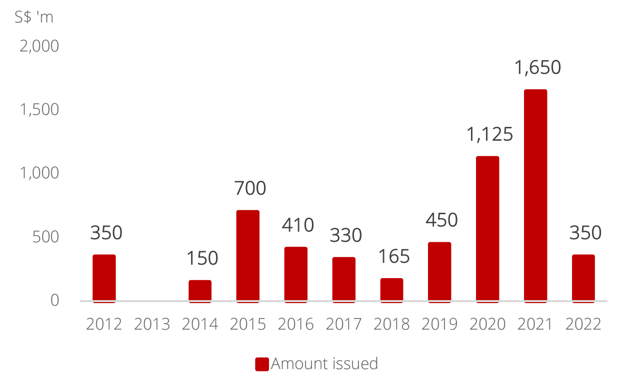
A typical series of perps issued by S-REITs have the following features:

- Priced using the current Singapore benchmark rate (SOR, SORA, etc.), with an added credit spread
- Credit spread is usually a function of the issuer's credit rating (i.e. larger REITs with a strong track record, or those with a strong Sponsor able to command a lower spread) and has a wide range – from as low as 1.8% to a high of 5.2%
- First call date will be in five years (for majority of perps) where the issuer can choose to redeem the series at par, or reset the perps based on the prevailing benchmark rate with the option to call the series at every distribution payment date thereafter (i.e. semi-annually)

S-REITs started the first perps' issuance in 2012. The first perps' issuance by S-REITs was in March 2012 by Mapletree Logistics Trust, raising a total of S$350m at a cost of 5.375%. The maiden perps' issuance received very healthy interest from investors, and the order book was over three times subscribed.

Perps started to gain popularity among S-REITs in 2015 when the Monetary Authority of Singapore lowered the cap on leverage for SREITs to 45% (from 60% previously). As perps are treated as equity, proceeds raised could be used to fund further acquisitions and lower leverage. A total of S$700m in perps were issued by S-REITs in 2015 alone. Perps became popular again in 2020 and 2021 when interest rates remained at "rock-bottom" levels and the economy was recovering from the COVID-19 pandemic, as REIT managers anticipated declines in portfolio valuations. More S-REITs started to issue perps in that period to fund portfolio rejuvenations initiatives and also help shore up their balance sheets.

S-REITs have issued c.S$5.7bn in perps since 2012



Source: Bloomberg Finance L.P.

S-REITs currently have c.S$4.2bn of perps outstanding. S-REITs have historically redeemed/refinanced perps during the first call date by issuing a new series, which gave investors (mainly fixed income investors) the optionality to exit or re-invest into the new issue. However, amid the tightening of credit markets post-COVID-19, S-REIT managers with perps due for their first call/reset 2H21 onwards were mostly reset rather than redeemed.

The three avenues for dealing with perps. Aside from refinancing perps with the issuance of a new series (due to current tight liquidity), there are three avenues available to S-REITs to deal with perps: i) Reset at prevailing benchmark rates, ii) draw on debt to redeem, and iii) tap on the "new currency" to redeem. Each strategic option will be subject to the individual S-REITs' financial flexibility and debt capacity.

Of the c.S$1.1bn in perps which can be called in FY24, only c.42% are perps that have their first call date this year, while the remaining c.58% are perps that were not redeemed earlier and have been reset once, with S-REITs having the option to redeem (if they choose) at every coupon payment date (i.e. every six months) for most perp issues. Over the next two years, S-REITs will have a further c.S$1.3bn (FY25) and c.S$1.7bn (FY26) in perps due for their first calls.

Property developers have also issued perps in recent years, with the bulk of total perps outstanding (c.S$2.8bn) due for their first calls this year. However, perps issued by property developers have a step up of 100bps in margins if the issuers choose not to redeem at the first call date.

Benchmark event adds an additional consideration for perp issuers with no existing fallback language. A benchmark event occurs when a relevant reference rate ceases to exist, which in this scenario refers to the discontinuation of

Singapore Dollar swap offer rate ('SOR') in Jun 2023. Perps that were issued before 2H21 have their reset distribution rate calculated as an initial spread over SOR. Out of the 12 REITs and developers' perps resetting in 2024/2025, six do not have a fallback language, which means issuers would have to conduct a Consent Solicitation Exercise ("CSE") to seek perp holders' consent to replace the benchmark reference rate and any adjustment spread. We note that, as of the time of writing, there has not been any precedence of such a CSE. Given that there are certain costs involved in conducting a CSE, some issuers may choose to simply call back the perp. While it may not be a direct causation, FPL announced on 11 Mar the notice to call its 4.98% perp on first call date i.e. 11 Apr (this perp did not have a fallback language).

For perps with fallback language, issuers do not need to seek consent from perp holders, and an independent advisor would be appointed to determine the successor rate and any adjustment spread.

Reset, drawing down on debt, or tapping on new currency?

Option	Strategy	Pros	Cons
Reset	Allow perps to be reset to current benchmark rates	• Fastest and simplest way • Option to redeem perps every six months once cost of capital improves	• More costly than debt (i.e. if initial spread is wide) • Alters investor's yield expectations (i.e. Duration, Yield-To-Call, etc.)
Redeem	Drawdown on new bank loans to redeem perps	• Potential DPU accretion (i.e. cost of debt lower than perps' coupon)	• Will lead to higher leverage
"New currency"	Divest lower yielding assets to redeem perps	• Potential DPU accretion (i.e. property exit yield lower than perps' coupon)	• Loss of future income from divested property • Will lead to higher leverage

Source: DBS Bank Ltd

List of outstanding perps by S-REITs

REIT	Perp o/s (S$'m)	Issue Date	Next Call Date	Next Reset Date	Current Cost	Initial Spread
EREIT *	150	03-Nov-17	03-May-24	03-Nov-27	6.63%	2.60%
CLAS *	250	30-Jun-20	30-Jun-24	30-Jun-25	3.07%	2.50%
FIRT *	33	08-Jul-16	08-Jul-24	08-Jul-24	4.98%	3.93%
PGNREIT	300	30-Aug-19	30-Aug-24	30-Aug-24	4.10%	2.52%
CLAS	150	04-Sep-19	04-Sep-24	04-Sep-24	3.88%	2.35%
Logistics REIT *	180	28-Sep-17	28-Sep-24	28-Mar-28	3.65%	1.82%
LREIT	200	11-Apr-22	11-Apr-25	11-Apr-25	5.25%	3.04%
AAREIT	125	14-Aug-20	14-Aug-25	14-Aug-25	5.65%	5.21%
Office REIT	300	11-Sep-20	11-Sep-25	11-Sep-25	3.15%	2.58%
CLAR	300	17-Sep-20	17-Sep-25	17-Sep-25	3.00%	2.48%
CLCT	100	27-Oct-20	27-Oct-25	27-Oct-25	3.38%	2.88%
SUN	200	27-Oct-20	27-Oct-25	27-Oct-25	3.80%	3.30%
SGREIT	100	15-Dec-20	15-Dec-25	15-Dec-25	3.85%	3.29%
MINT	300	11-May-21	11-May-26	11-May-26	3.15%	2.08%
LREIT	200	04-Jun-21	04-Jun-26	04-Jun-26	4.20%	3.24%
MPACT	250	08-Jun-21	08-Jun-26	08-Jun-26	3.50%	2.53%
SUN	150	15-Jun-21	15-Jun-26	15-Jun-26	4.25%	3.29%
AAREIT	250	01-Sep-21	01-Sep-26	01-Sep-26	5.38%	4.65%
Logistics REIT	400	02-Nov-21	02-Nov-26	02-Nov-26	3.73%	2.49%
CERT	100	24-Nov-21	24-Nov-26	24-Nov-26	5.00%	3.62%
EREIT	150	09-Jun-22	09-Jun-27	09-Jun-27	5.50%	2.96%
Total:	4,038					

** Perps that are past their first call date and have since been reset. For the purpose of this report, a perps' issuance by Soilbuild REIT has not been included as it was privatised on 14 April 2021.*

Source: Bloomberg Finance L.P., DBS Bank Ltd

List of outstanding perps by Property Developers

Property Developer	Perp o/s (S$'m)	Issue Date	Next Call Date	Reset Date	Current Cost	Initial Spread	Step-up Date	Step-up
FPL	600	11-Apr-19	11-Apr-24	11-Apr-24	4.98%	3.04%	11-Apr-24	1.00%
WINGT	150	24-May-19	24-May-24	24-May-24	4.48%	2.56%	24-May-29	1.00%
FPL	300	17-Jan-18	17-Jul-24	17-Jan-28	4.38%	2.19%	17-Jan-28	1.00%
GUOL	400	23-Jan-18	23-Jul-24	23-Jan-25	4.60%	2.61%	23-Jan-25	1.00%
WINGT	260	24-Aug-17	24-Aug-24	24-Aug-27	4.35%	2.09%	24-Aug-27	1.00%
KEP	400	16-Sep-21	16-Sep-24	16-Sep-26	2.90%	2.10%	16-Sep-26	1.00%
CAPL	500	17-Oct-19	17-Oct-24	17-Oct-24	3.65%	2.20%	17-Oct-29	1.00%
HPL	160	22-Oct-19	22-Oct-24	22-Oct-24	4.40%	2.92%	22-Oct-29	1.00%
Total:	1,320							

Source: Bloomberg Finance L.P., DBS Bank Ltd

What is the impact of the "reset" option?

Option 1: Reset. Since the first issuance of perps by an S-REIT in 2012, six out of 11 perps (excluding Soilbuild REIT) which reached their first call date were redeemed, while the remaining four have been reset and remain outstanding as of writing. All four perps that were reset were done after the outbreak of the COVID-19 pandemic, in an environment where economic sentiments were highly uncertain, and liquidity in the capital markets dried up, making it difficult for issuers to raise new capital to replace these perps. Moreover, these four perps had an average initial spread of only c.2.7% (vs. overall average of more than 3.1%), implying that opportunity costs were not as high.

Although the high interest rate environment will inevitably lead to perps resetting at a significantly higher cost, the key benchmark rate (SGD OIS swap rate) has since retreated by more than 1% (from a high of more than 4.0% in late-2022), meaning that the opportunity cost for resetting perps may not be as high as six months ago. Assuming perps that are due for a reset over the next two years will face today's benchmark rate of 3.0%, S-REITs could potentially see the cost of their perps going up by an average of c.2.1%.

As our sensitivity analysis assumes perps are reset in the next two years at the benchmark rate of 3.0%, the potential impact to DPUs of the affected REITs range from -1% to -4%. Based on our estimates, the likes of AAREIT will have the highest earnings cut – up to -3% to -4% to FY25-26F DPUs due to the impact of higher assumed coupon rates post-reset. Other S-REITs with perps resetting will see DPU cuts in the range of -1% to -2%, which we believe to be manageable.

Although the impact to DPUs for several REITs may seem material, the resetting of perps at their first call date provides another benefit. It offers the issuer some financial flexibility as they have the option to redeem the perps every six-month interval thereafter, when interest rates head even lower, on the back of expected rate cuts by the FED. This provides the issuer with a short-term fix while allowing them the flexibility to redeem the perps whenever a more favourable funding option arises.

Perps that are due for a reset in FY24 and FY25

REIT	Total Perps (S$'m)	Next Reset Date	Initial Spread	Current Rate	Assumed Benchmark Rate	New Cost of Perps	Difference in Cost	Potential DPU impact (current vs. revised)		
								FY24	FY25	FY26
AAREIT	125	14-Aug-25	5.21%	5.65%	3.0%	8.21%	2.56%	-	-3%	-4%
CLAR	300	17-Sep-25	2.48%	3.00%	3.0%	5.48%	2.48%	-	-	-1%
CLAS	250	30-Jun-25	2.50%	3.07%	3.0%	5.50%	2.43%	-	-1%	-2%
CLAS	150	04-Sep-24	2.35%	3.88%	3.0%	5.35%	1.47%	-	-1%	-1%
LREIT	200	11-Apr-25	3.04%	5.25%	3.0%	6.04%	0.79%	-	-	-1%
PGNREIT	300	30-Aug-24	2.52%	4.10%	3.0%	5.52%	1.42%	-1%	-2%	-2%
SGREIT	100	15-Dec-25	3.29%	3.85%	3.0%	6.29%	2.44%	-	-	-1%
SUN	200	27-Oct-25	3.30%	3.80%	3.0%	6.30%	2.50%	-	-	-2%

Source: Bloomberg Finance L.P., DBS Bank Ltd

Improving market liquidity will push managers to redeem

Option 2: Redeem. The second option would be to go back to tapping the markets to issue a new series of perps to repay the existing issue, or drawdown on new bank loans to redeem perps. While the former is subject to market liquidity, which according to our fixed income analysts remains tight for now, S-REIT can utilise their debt headroom for the latter.

This is the most cost-effective option, as loans taken by S-REITs typically come with a margin of only 100-150bps, significantly lower than the average spread of more than 300bps paid for perps. More importantly, refinancing the perps with lower costing debt could limit the dilution to DPUs or even result in DPU accretion for certain S-REITs.

Trading-off DPU dilution with financial flexibility. However, the main setback with this option is the impact to balance sheet metrics. Replacing perps with debt will lead to an increase in leverage and a slight decline in interest coverage ratio (ICR). Of the nine perps due for resetting in FY24 and FY25, five REITs will have a gearing of more than 40% if they were to replace their perps with debt. Among them, LREIT could potentially see its gearing exceeding 45%, which means that a redemption of its perps with debt is likely to be the least preferred strategy by the manager. In ICR terms, there would not be any significant changes other than AAREIT's adjusted ICR potentially falling to below 2.5x, and SUN's ICR declining marginally below its current ratio of 2.0x.

As mentioned previously, assuming S-REITs pay a margin of 100bps above current benchmark rates, the cost of new debt taken is estimated to cost close to 4.0%. Compared to the coupon that S-REITs are currently paying on their perps, refinancing perps with debt could lead to some savings in interest expense, and potential DPU accretion. Currently, AAREIT, LREIT, and PGNREIT have perps which pay an annual coupon between 4.1-5.65%. Assuming debt (at a cost of 4.0%) is used to redeem these perps, the three REITs could potentially see accretion to DPU of between 0.2% and 2.9% on an annual basis.

Impact of redeeming perps with debt

REIT	Total Perps (S$'m)	Next Reset Date	As at 31 December 2023				Assuming perps are redeemed with new debt *			Potential DPU impact (current vs. revised *)		
			Gearing	Cost of Debt	ICR	Adjusted ICR	Revised Gearing	Revised ICR	Revised Adj. ICR	FY24	FY25	FY26
AAREIT	125	14-Aug-25	32.2%	4.0%	3.8	2.3	38.0%	3.3	2.4	-	1.8%	2.9%
CLAR	300	17-Sep-25	37.9%	3.5%	3.9	3.7	39.6%	3.7	3.7	-	-0.1%	-0.4%
CLAS	250	30-Jun-25	37.9%	2.4%	4.0	3.4	41.0%	3.5	3.3	-	-0.5%	-0.9%
CLAS	150	04-Sep-24	37.9%	2.4%	4.0	3.4	39.8%	3.7	3.4	-0.03%	-0.1%	-0.1%
CLAS (combined)	*400*		*37.9%*	*2.4%*	*4.0*	*3.4*	*42.9%*	*3.3*	*3.3*	-	*-0.6%*	*-1.0%*
LREIT	200	11-Apr-25	40.5%	3.4%	3.8	2.5	45.7%	3.1	2.6	-	0.5%	2.3%
PGNREIT	300	30-Aug-24	30.1%	4.3%	3.5	2.9	37.2%	2.9	2.9	0.1%	0.2%	0.2%
SGREIT	100	15-Dec-25	36.8%	3.8%	3.2	2.9	40.3%	2.9	2.9	-	-	-0.1%
SUN	200	27-Oct-25	42.3%	3.8%	2.0	2.0	44.3%	1.9	1.9	-	-0.03%	-0.2%

** Assumes that the all-in cost of new debt is 4.0%.*

Source: Bloomberg Finance L.P., DBS Bank Ltd

Asset divestment to repay deleverage and repay perps

Option 3: "New currency." As highlighted in our recent report ("Assets: The new funding currency"), we see an opportunity for S-REITs to capitalise on the pricing gap between private and public markets of their properties, providing them with improved financial flexibility to recapitalise or pursue their growth ambitions. Moreover, it makes sense for perps that would see a spike in coupon rates if they were to undergo a reset to divest lower yielding or non-core assets and utilise the proceeds to redeem such perps. If savings from perps' coupons are larger than the loss of income from divested assets, it could also potentially drive DPU accretion.

The main drawback of this strategy would once again be the impact to gearing ratios.

Although this strategy of asset recycling to redeem perps will lead to a higher gearing ratio (also referred to MAS leverage), it will also lead to an improvement in debt ratio ("(D+P)/A"). In addition to the other capital management metrics we commonly use, the debt ratio is another key credit metric closely watched by fixed income analysts and investors.

Unlike the MAS gearing limit of 50%, there is currently no limit or threshold for debt ratio. However, if we apply a debt ratio threshold of 45%, comparable to the debt ratio of other S-REITs without perps, AAREIT, LREIT, and SUN will have to divest up to S$415m in assets to maintain that threshold. Among them, AAREIT and LREIT could potentially be able to record some DPU accretion given that their current perps coupon rate of 5.65% and 5.25% are relatively high compared to physical asset divestment yields recorded recently.

Utilising "new currency" to lower debt ratio

REIT	Current Perps Cost	New Cost of Perps *	Gearing	Current Debt Ratio "(D+P)/A"	Total divestments to achieve a Debt Ratio of:	
					45%	40%
AAREIT	5.65%	8.21%	32.2%	49.6%	180	345
CLAR	3.00%	5.48%	37.9%	40.9%	-	-
CLAS	3.07%	5.50%	37.9%	42.5%	-	384
CLAS	3.88%	5.35%	37.9%	42.5%	-	384
CLAS (combined)	3.4%	5.44%	37.9%	42.5%	-	384
LREIT	5.25%	6.04%	40.5%	50.1%	415	699
PGNREIT	4.10%	5.52%	30.1%	36.8%	-	-
SGREIT	3.85%	6.29%	36.8%	40.3%	-	15
SUN	3.80%	6.30%	42.3%	41.4%	140	971

** Assumes perps are reset at the current benchmark rate of 3.0%.*

Source: Bloomberg Finance L.P., DBS Bank Ltd

What will S-REIT managers do when perps come due?

Hybrid perps are an excellent funding source for S-REITs without impacting leverage. Given the nature of hybrid securities, perps have been a very handy funding source for S-REITs wanting to raise new capital without impacting gearing ratio and will likely remain so going forward as interest rate thaws. Perps initially gained popularity in 2015 when leverage limits were lowered and became popular again in 2020/2021 when liquidity in the debt capital markets dried up during the height of the COVID-19 pandemic. The relatively higher cost (vs. traditional term loans) was a small price to pay, offset by the attractiveness of perps as a debt instrument without a set maturity date and as a funding source which doesn't impact leverage.

Feasibility of perps called into question with high interest rate environment. Despite the attractiveness, feasibility was called into question as interest rates spiked and perps inched closer to their reset dates. As interest rates began spiking in the last two years, S-REITs set out to lower their cost of capital, as every single basis-point savings in funding costs counts. Perps are now seen as a drag on earnings, especially if initial spreads are wide, and the impending reset could lead to a spike of more than 200bps in coupon rates.

To reset or to redeem? Over the next two years (FY24 and FY25), nine perps' issuances are due for reset. In addition, two other series of perps by EREIT and Logistics REIT which were reset in the last 18 months have the flexibility of being redeemed every half-year. We explored three different strategies that REITs could adopt in dealing with perps, each containing their own unique pros and cons. Although we believe that in the current environment, the best option would be to issue new debt to redeem perps (as term loans are likely to cost less than resetting perps), we acknowledge that each REIT has their own distinctive considerations on this topic, and there is no "one-size-fits-all" option.

In addition to the nine perps due for reset in the next two years, there are also three other outstanding perps by EREIT, FIRT, and Logistics REIT that have been reset over the past two years, with the option for issuers to redeem them at every six-month interval. Below is a summary of the perps that are due for reset in the near-to-medium-term, as well as those that have already been reset and can be redeemed every six months.

Our views on the available options for each REIT

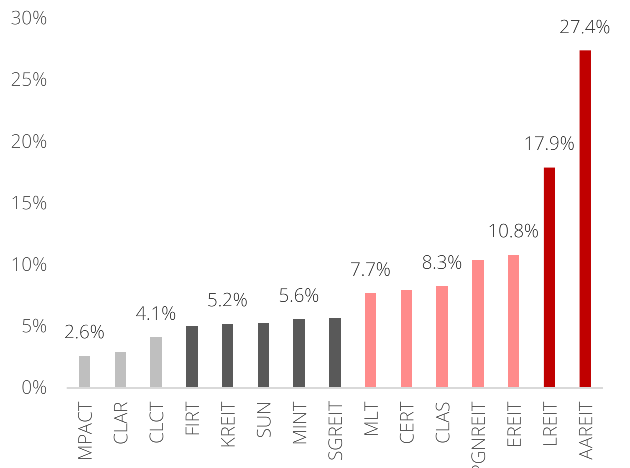
REIT	Total Perps	Next Reset Date	Initial Spread	Current Rate	Gearing	Adjusted ICR	Current (D+P)/A	Best option
AAREIT	125	14-Aug-25	5.21%	5.65%	32.2%	2.3	49.6%	Redeem: sufficient debt headroom to redeem perps, and could see some savings in financing costs given the wide initial spread on the perps
CLAR	300	17-Sep-25	2.48%	3.00%	37.9%	3.7	39.6%	Redeem/"New Currency": sufficient debt headroom to redeem, large portfolio with ample options to divest older and lower yielding assets
CLAS	250	30-Jun-25	2.50%	3.07%	37.9%	3.4	42.9%	"New Currency": large portfolio with ample options to divest older and lower yielding assets
CLAS	150	04-Sep-24	2.35%	3.88%	37.9%	3.4	42.9%	Reset/Redeem: sufficient debt headroom to redeem, relatively low initial spread will help to keep reset rate manageable
LREIT	200	11-Apr-25	3.04%	5.25%	40.5%	2.5	51.0%	"New Currency": have to rely on divesting lower yielding assets as LREIT has a lack of debt headroom and resetting would be too expensive
PGNREIT	300	30-Aug-24	2.52%	4.10%	30.1%	2.9	37.2%	Redeem: sufficient debt headroom to redeem perps, redemption of perps is the most cost-effective option compared to resetting
SGREIT	100	15-Dec-25	3.29%	3.85%	36.8%	2.9	40.3%	Redeem/"New Currency": redeeming perps may take gearing to slightly above 40% but it would be better than resetting given the wide initial spread, can also consider divesting lower yielding assets
SUN	200	27-Oct-25	3.30%	3.80%	42.3%	2.0	45.8%	"New Currency": has to rely on divesting lower yielding assets as SUN has a lack of debt headroom and resetting would be too expensive, large portfolio also provides ample options to divest
EREIT	150	03-May-24	2.60%	6.63%	35.7%	2.5	42.5%	Redeem: currently has sufficient debt headroom to redeem perps, and could see savings in financing costs given the high cost paid on the perp coupons
FIRT	33	08-Jul-24	3.93%	4.98%	38.7%	3.9	41.5%	Maintain: likely have to maintain perps due to lack of available options
Logistics REIT	180	28-Sep-24	1.82%	3.65%	38.8%	3.2	43.0%	Maintain: given the favourable low cost of the perps and no need for a reset until 2028, it makes the most sense to maintain the perps

Source: DBS Bank Ltd

Different strategic options for most. Among S-REITs with perps, the number of perps on their balance sheet as a percentage of total equity varies very widely – 2.6-27.4%. We prefer REITs with a smaller proportion of perps that make up their equity base, as this also means they have more flexibility. For example, the impact to gearing and the proportion of assets required to be divested will be much smaller for REITs with a smaller exposure to perps.

Based on the current high interest rate environment, and the view that financing costs are expected to remain elevated in the medium-term, we focused on S-REITs with perps that are due to be reset over the next two years. We believe these REITs are at risk of seeing a significant spike in the cost of maintaining their perps, especially as benchmark rates are currently more than 200 bps higher compared to five years ago.

Perps as a percentage of total equity



Source: Companies, DBS Bank Ltd

CLAR and CLAS have the most flexibility in managing their perps. Given the size of their asset base, both CLAR and CLAS have the option to redeem their perps by drawing down on new debt while maintaining gearing just below the 40% threshold. Moreover, their large portfolios of properties also provide them with options to divest lower yielding or underperforming assets and utilise proceeds to redeem perps. Even in the worst case – having to reset their perps to current rates – the impact to their capital structures would be minimal given the relatively smaller proportion of perps in their equity bases.

AAREIT and EREIT to potentially benefit from proactive management of capital structure. Both AAREIT and EREIT have been proactively managing their capital structure over the past year. Both REITs carried out equity fundraising last year, and successfully divested several lower yielding assets at very healthy premiums to valuations. This has helped significantly lower their leverages and provide them with ample debt headroom. While AAREIT has a larger exposure to perps as a percentage to equity, the REIT's most recent equity fund raising exercise have allowed them to pare down their gearing level towards <35% level, providing them with capacity to debt fund (if any) any perps repayment. Moreover, with liquidity coming back into the markets and interest rates expected to reduce in the medium term, both REITs could record some savings in financing costs if they are able to drawdown new debt at a lower cost than their existing perps' coupon rates.

We do note that **LREIT** is probably also the one to watch out for given its larger % of perps to equity ratio at c.18%. We believe that the manager could be looking to sell assets assuming at or above book value; and, trading at a P/B of 0.75x, will be NAV accretive if they do divest assets and deleverage, improving its financial flexibility.

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FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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