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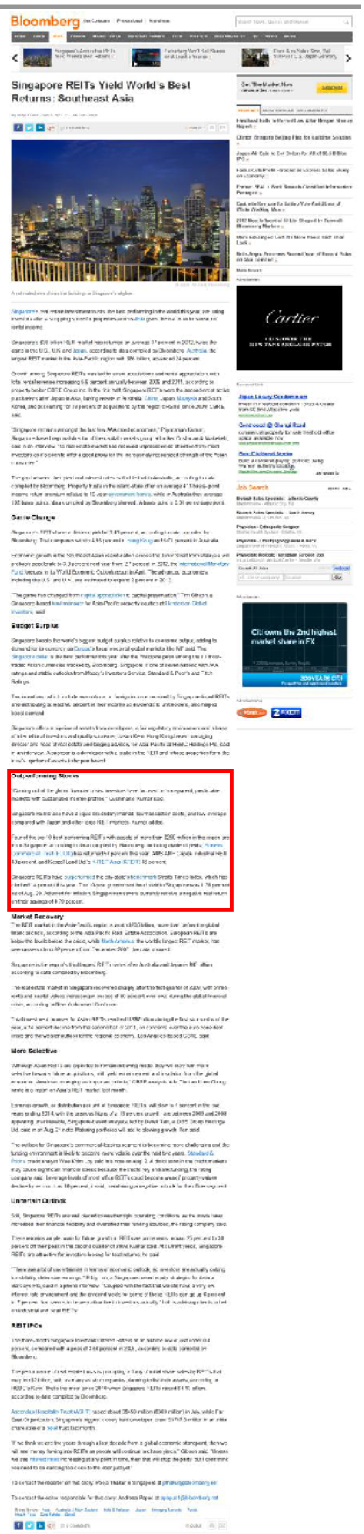
Bloomberg

Singapore REITs Yield World's Best Returns: Southeast Asia

Singapore's real estate investment trusts, the best performing in the world this year, are luring investors after a shopping spree for properties across Asia gives them a broader stream of rental income.

Singapore's $38 billion REIT market has returned an average 37 percent in 2012, twice the gains in the U.S., U.K. and Japan, according to data compiled by Bloomberg. Australia, the largest REIT market in the Asia-Pacific region with $86 billion, advanced 24 percent.

Growth among Singapore REITs was led by asset acquisitions and rental appreciation, with total rental revenue increasing 5.8 percent annually between 2008 and 2011, according to property broker CBRE Group Inc.

In the first half, Singapore REITs were the second-most active purchasers after Japan in Asia, buying assets in Australia, China, Japan, Malaysia and South Korea, and accounting for 33 percent of acquisitions by the region's REITs since 2009, CBRE said.

"Singapore remains amongst the last few AAA rated economies," Priyaranjan Kumar, Singapore-based regional director of the capital markets group at broker Cushman & Wakefield, said in an interview. "Its real estate market has received unprecedented attention from most investors as it's seen to offer a good proxy for the increasingly recognized strength of the Asian consumer."

The gap between their yield and interest rates is double that in Australia, according to data compiled by Bloomberg. Property trusts in the island-state offer an average 413 basis- point income return premium relative to 10-year government bonds, while in Australia they average 192 basis points, data compiled by Bloomberg showed. A basis point is 0.01 percentage point.

Game Change

Singapore's REITs have a dividend yield of 6.46 percent, according to data compiled by Bloomberg. That compares with to 4.93 percent in Hong Kong and 5.01 percent in Australia.

Economic growth in the Southeast Asian island-nation across the Johor Strait from Malaysia will probably accelerate to 3.9 percent next year from 2.7 percent in 2012, the International Monetary Fund forecast in its World Economic Outlook report in April. The advanced economies, including the U.S. and U.K., are estimated to expand 2 percent in 2013.

"The game has changed from capital appreciation to capital preservation," Tim Gibson, a Singapore-based fund manager for Asia-Pacific property equities at Henderson Global Investors, said.

Budget Surplus

Singapore boasts the world's biggest budget surplus relative to economic output, adding to demand for its currency as Europe's fiscal woes roil global markets, the IMF said. The Singapore dollar is the best performer this year after the Philippine peso among the 11 most-traded Asian currencies tracked by Bloomberg. Singapore is one of seven nations with AAA ratings and stable outlooks from Moody's Investors Service, Standard & Poor's and Fitch Ratings.

Tax incentives, which include exemptions on foreign income received by Singapore-listed REITs and distributing at least 90 percent of their income as dividends to unit holders, also helped boost demand.

Singapore offers a pipeline of assets from developers, a fair regulatory environment and a base of international investors and quality sponsors, Jason Kern, Hong Kong-based managing director and head of real estate and lodging advisory for Asia-Pacific at HSBC Holdings Plc, said in an interview. A sponsor is a developer with a stake in the REIT and whose properties form the trust's pipeline of assets to be purchased.

Outperforming Stocks

"Coming out of the global financial crisis, investors have focused on transparent, predictable markets with sustainable income profiles," Cushman's Kumar said. Singapore REITs also have a liquid secondary market, low transaction costs, and low leverage compared with Japan and other large REIT markets, Kumar added.

Four of the top 10 best-performing REITs with assets of more than $250 million in the region are from Singapore, according to data compiled by Bloomberg. Including dividend yields, Frasers Commercial Trust (FCOT) has returned 57 percent this year, AIMS AMP Capital Industrial REIT 48 percent, and Keppel Land Ltd.'s K-REIT Asia (KREIT) 46 percent.

Singapore REITs have outperformed the city-state's benchmark Straits Times Index, which has climbed 14 percent this year. The 10-year government bond yield in Singapore was 1.38 percent as of Aug. 29. Adjusted for inflation, Singaporean savers currently receive a negative real return on their savings of 4.79 percent.

Market Recovery

The REIT market in the Asia-Pacific region is worth $205 billion, more than before the global financial crisis, according to the Asia Pacific Real Estate Association. European REITs are below the levels before the crisis, while North America, the world's largest REIT market, has seen assets climb 82 percent from December 2007, the data showed. Singapore is the region's third-largest REIT market after Australia and Japan's $45 billion, according to data compiled by Bloomberg.

The real estate market in Singapore recovered sharply after the first quarter of 2009, with prime rents and capital values increasing in excess of 60 percent over lows during the global financial crisis, according to New York-based Cushman.

Total investment turnover for Asian REITs reached US$7 billion during the first six months of the year, a 14 percent decline from the second half of 2011, on concerns over the euro zone debt crisis and the weaker outlook for the regional economy, Los Angeles-based CBRE said.

More Selective

"Although Asian REITs are expected to remain in buying mode, they will likely turn more selective towards future acquisitions, with yield enhancement and insulation from the global economic slowdown emerging as important criteria," CBRE analysts Ada Choi and Leo Chung wrote in a report on Asia's REIT market last month.

Earnings growth, or distribution per unit of Singapore REITs, will slow to 4 percent in the two years ending 2014, with the previous highs of a 13 percent growth rate between 2006 and 2008 appearing unachievable, Singapore-based analysts, led by Derek Tan, at DBS Group Holdings Ltd. said in an Aug. 21 note. Maturing portfolios will add to slowing growth, Tan said.

The outlook for Singapore's commercial-leasing segment is becoming more challenging and the funding environment is likely to become more volatile over the next two years, Standard & Poor's credit analyst Wee Khim Loy said in a note on Aug. 2. A dislocation in the credit markets may cause significant financial stress because the trusts rely on bank funding, the rating company said. Leverage levels of most office REITs could become weak if property values decline by as much as 10 percent, it said, maintaining a negative outlook for the office segment.

Uncertain Outlook

Still, Singapore REITs are well placed to weather tight operating conditions as the trusts have increased their financial flexibility and diversified their funding sources, the rating company said.

There remains ample room for future growth in REITs as prime rents remain 25 percent to 30 percent off their peak in the second quarter of 2008, Kumar said. At current yields, Singapore REITs are attractive for investors looking for total returns, he said.

"There are a lot of uncertainties in terms of economic outlook, so investors are actually looking for stability, defensive earnings," Eddy Loh, a Singapore-based equity strategist for Asia at Barclays Plc, said in a phone interview. "Coupled with the fact that we still have a very low interest rate environment and the dividend yields for some of these REITs can go up 6 percent to 7 percent that seems to be very attractive to investors actually." Loh is advising clients to bet on industrial and retail REITs.

REIT IPOs

The three-month Singapore Interbank Offered Rate is at an all-time low of just under 0.4 percent, compared with a peak of 3.56 percent in 2006, according to data compiled by Bloomberg.

The performance of real estate trusts is prompting a flurry of initial share sales by REITs that may top $2 billion, with as many as six companies planning to list their assets, according to HSBC's Kern. That's the most since 2010 when Singapore REITs raised $4.13 billion, according to data compiled by Bloomberg.

Ascendas Hospitality Trust (ASHT) raised about S$459 million ($369 million) in July, while Far East Organization, Singapore's biggest closely held developer, drew S$717.6 million in an initial share sale of a hotel trust last month.

"If we think we are five years through a lost decade from a global economic standpoint, then we will see money flowing into REITs as people will continue to chase yields," Gibson said. "Unless we see interest rates increasing at any point in time, then that will stop the party, but I don't think you need to be dancing too close to the door just yet."