2020 - 2021 ASIA REIT MARKET REPORT

July 2021

CUSHMAN & WAKEFIELD
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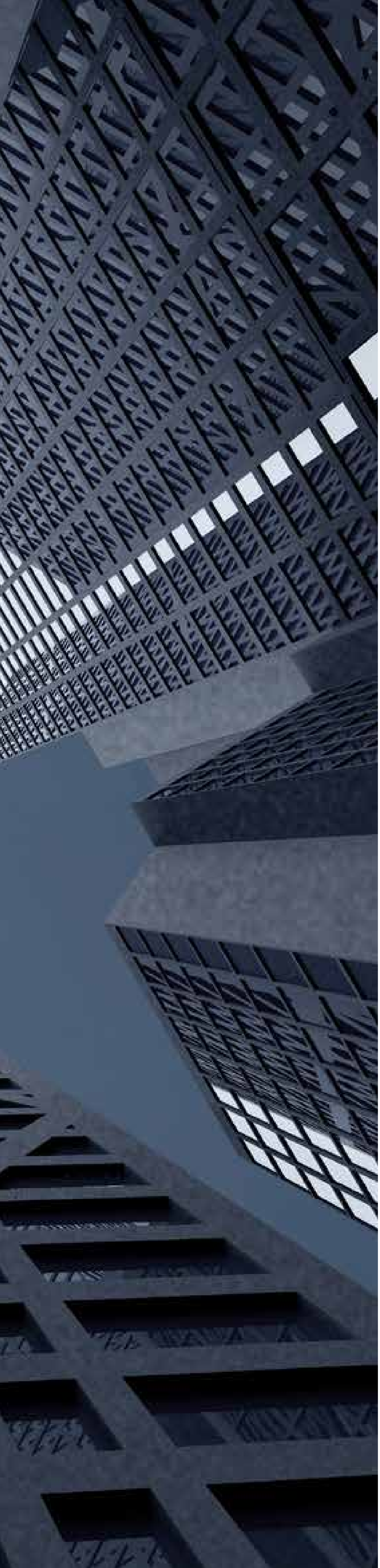


1.

INTRODUCTION

As at the end of 2020 there were 185 REITs in the Asia market, of which 78 were integrated REITs containing multiple property types. Twenty-eight REITs were focused on the office market, 24 were in industrial/logistics properties, 23 were in retail, 18 in the hotel sector, nine in residential apartments, and four in healthcare. A single REIT focused on the data center market.

This report uses annual financial reports published by REITs listed in Singapore, Japan and Hong Kong SAR. We have also studied Bloomberg data and have analyzed four financial indicators: dividend yield, total return, price-to-book (P/B) ratio, and gearing ratio. Together, we hope these insights will help investors better understand the financial performance of REITs in different markets and in different property types.

In terms of average dividend yield, REITs in Singapore enjoyed the highest returns at 6.4%, followed by Hong Kong SAR with 6.3%. REITs in Japan delivered the lowest yield of the three major markets at 4.8%, consistent with historical performance.

When looking at total returns over the past ten years, Hong Kong SAR REITs have delivered the highest total annualized return rate, above the Singapore and Japan markets. Nonetheless, total returns in most REIT markets were in negative territory in 2020, although, of our three key markets, Singapore showed greater resilience at -2.7%, compared to Hong Kong SAR at -13.0% and Japan at -13.1%.

In addition, REITs in Singapore and Hong Kong SAR presented at an overall discount status, with an average P/B ratio of 0.96 and 0.60 , respectively. Overall, REITs in Japan showed a slight premium, with an average P/B ratio of 1.09.

Finally, REITs in the Singapore and Hong Kong SAR markets demonstrate overall gearing prudence, with liabilities not exceeding 45% of the total asset value, while their counterparts in Japan shoulder a relatively higher gearing ratio, although still remaining at less than 55% of the total asset value.

2.
KEY TAKEAWAYS

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

In January 2020, Ascott Residence Trust completed its merger with Ascendas Hospitality Trust, increasing the asset value of the listed entity by 30% and making it the largest hotel trust in Asia, as well as one of the top 10 globally, with a market value of US$2.634 billion. Following the merger, Ascott Residence Trust was successfully included in the FTSE EPRA Nareit Global Developed Index in June 2020.

In April 2020, Frasers Logistics and Industrial Trust and Frasers Commercial Trust completed their merger, becoming the sixth largest REIT on the Singapore Exchange, with a total market value for the new listed entity of US$3.654 billion.

Most recently, in October 2020, Capitaland Mall Trust and CapitaLand Commercial Trust formally merged to form CapitaLand Integrated Commercial Trust, with a total market value of approximately US$10.6 billion as at the end of 2020. The valuation makes the integrated trust the largest REIT in Singapore and the second largest in Asia, behind just the Link Real Estate Investment Trust (Link REIT) in Hong Kong SAR. The total value of properties managed by the merged entity rose to approximately S$22.4 billion. The strong combination will help attract institutional investors to increase the valuation, reduce the risk of over-concentration, and increase debt space for greater M&A capability.

As the market matures, mergers between REITs are likely to become a clear trend. Large trusts tend to outperform smaller trusts in terms of operations and management, financing, and M&A activities. REITs with smaller market values are seeking mergers to attract more institutional investors. We believe it is clear that this wave of M&A in trusts will continue. In addition, trusts that currently have higher borrowing costs, and which share sponsors and trust managers, are also likely to merge.

Real estate investment portfolios are strengthening through greater asset and geographical diversification.

Mixed-use REITs involving multiple property types remain the most numerous in the Asia market. In general, asset management companies seek to hedge against their investment risks by further diversifying their real estate investment portfolios. In 2020, Link REIT, CapitaLand China Trust, and Mapletree North Asia Commercial Trust, all announced intentions to expand their investment scope by diversifying their allocation by geography and by asset category.

Hong Kong SAR's Link REIT has continually developed its property mix since its IPO of 2005, including by expanding its investment region from Hong Kong SAR to first-tier cities in mainland China, and even further afield to the international market, by acquiring Grade A offices in Sydney and London in early and mid-2020. It has also announced an expansion of its investment scope to allow investment in residential, hotel, and serviced apartment properties to enhance flexibility in its future investment choices.

When going public in 2013, Mapletree North Asia Commercial Trust (MNACT) held an investment strategy focused on commercial real estate in mainland China and in Hong Kong SAR. It entered the Japanese market in 2018 to invest in office assets in Tokyo, and then expanded its investment scope further to South Korea in 2020 in order to acquire office assets in Seoul.

In November 2020, CapitaLand China Trust announced its first foray into industrial park projects by acquiring five industrial parks located in China. It also plans to expand its investment asset category to cover diversified assets, primarily for retail, office, and industrial uses, including industrial parks, logistics facilities, data centers, and mixed-use developments.

Overall, MNACT is the smallest REIT in terms of market value among the four REITs under Mapletree Investments listed on the Singapore Exchange, while the CapitaLand China Trust is under the CapitaLand umbrella, also with a relatively smaller market value. Both REITs have shifted from their initial investment strategy at the time of listing of focusing on a single trade format, to a more diversified strategy. Both Mapletree's and CapitaLand's expansions have also leveraged the networks and project resources established by their sponsors early in the local market.

REITs in industrial/logistics, office, and data center sectors were more resilient during COVID-19.

The combined impact of COVID-19 containment measures and travel restrictions was the biggest factor affecting earnings from REITs in 2020. However, earnings from REITS in the industrial/logistics space demonstrated greater resilience. With relatively rapid economic recovery in Asia and the ongoing expansion of e-commerce demand, warehouse and logistics facilities quickly resumed operations and maintained high occupancy rates and moderate rental growth during the year. Within the region, industrial logistics markets in mainland China and in Hong Kong SAR, Malaysia, and Vietnam showed the highest risk tolerance.

In addition, Asia REIT acquisition deals in 2020 were mainly focused on logistics, data center, and industrial park properties. Retail acquisitions accounted for a smaller share in the investment market. Logistics REITs demonstrated strong performance in terms of integrated earnings. As an example, Mapletree Logistics Trust (MLT) recorded a total annualized return of 20.5% in 2020, compared to the average of -2.7% for Singaporean REITs.

REITS are expanding into data centers as an investment hot spot.

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 global real estate investment markets. In 2020, worldwide data center REITs continued to show relatively strong earnings performance.

In the Asia market, the Keppel DC REIT, currently still the sole DC-focused trust, achieved an annualized total return of 38%, making it the highest earning REIT on the Singapore stock exchange market. In addition, data center properties are becoming increasingly favored by investors, as demonstrated by the fact that Mapletree Industrial Trust, Keppel DC REIT, Mitsui Fudosan Logistics Park, and Cromwell European REIT all acquired data center assets in 2019-2020. It's now evident that an increasing number of REITs that were originally focused on industrial logistics are now entering the data center sector to achieve expansion in both market scale and profitability.

Regulatory policy reforms are raising maximum gearing ratios in the wake of the pandemic.

As REITs markets in Singapore and Hong Kong SAR further mature, regulators have made corresponding adjustments to their regulatory policies in response to market development needs. In April 2020, the global COVID-19 pandemic prompted Singapore's REITs regulator to actively adjust its policy response to enhance the risk-resilience of S-REITs. The policies included extending the timeline for REITs to distribute at least 90% of their earnings, increasing the equity issuance limit, and raising the maximum gearing ratio from 45% to 50%.

In Hong Kong SAR, amendments by the Hong Kong SAR Securities and Futures Commission to the REIT Code came into effect in December 2020. These adjustments included permitting REITs to invest in minority-owned properties, raising the cap on investments in property development projects to Gross Asset Value (GAV) from 10% to 25% where certain conditions are met, and increasing the maximum allowable gearing ratio from 45% to 50%.

Overall, the Singapore REITs market has undergone eight framework adjustments from 1999 to 2020, while the corresponding Hong Kong SAR market has undergone five regulatory reforms from 2005 to 2020. The direction of the reforms in both cases is to provide greater regulatory flexibility for REITs as their markets progressively mature, seeking to enhance active management from the asset side and to continuously enhance the legal framework and to protect the legitimate rights and interests of investors.

3.

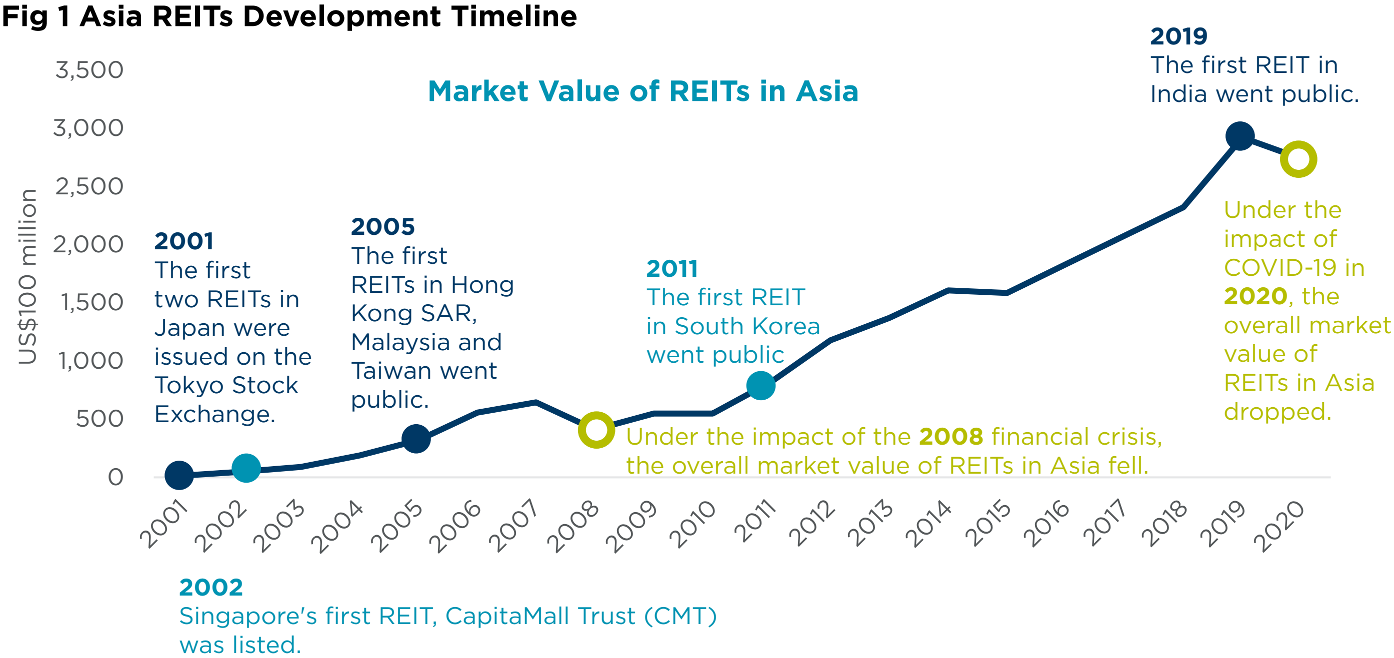
ANALYSIS OF ASIA REITS PERFORMANCE

3.1 Development of Asia REIT Markets

Across Asia, REIT markets got off the ground later than in the U.S. It was not until 2001 that the first Asia REIT was formally offered and listed in Japan. However, the market has developed rapidly since then. Over the past ten years, the number of Asia REITs has risen from 70 to 185, with market value growing from US$41.2 billion to US$281.4 billion. With the exception of 2020, annual market value growth has been recorded at 20%. REITs are now available in nearly 10 countries or territories across Asia, although Singapore, Hong Kong SAR and Japan are the key players, together accounting for 89% of the total market value across Asia.

The total Asia REIT market value took a hit in 2020 due to the impact of COVID-19, falling approximately 5% y-o-y to record US$281.4 billion. This was the first decline since 2015, although the drop was less severe than that seen during the global financial crisis of 2008.

Fig 1 Asia REITs Development Timeline



Source: Bloomberg Database, compiled by C&W Valuation and Advisory Services

Fig 2
Share of REITs Value on Major Asia Stock Exchange Markets

Source: Bloomberg's database, compiled by C&W Valuation & Advisory Services

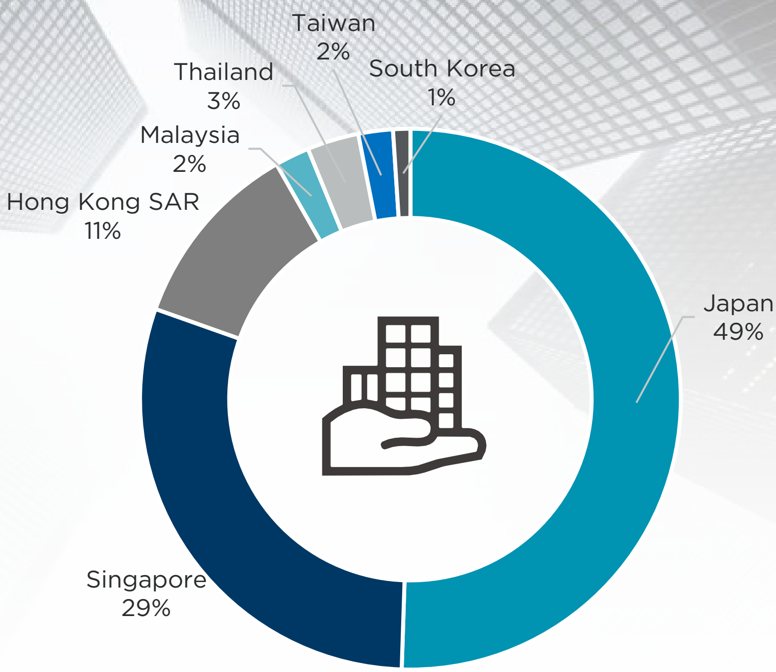


Table 1 Aggregate Market Value of REITs in Asia

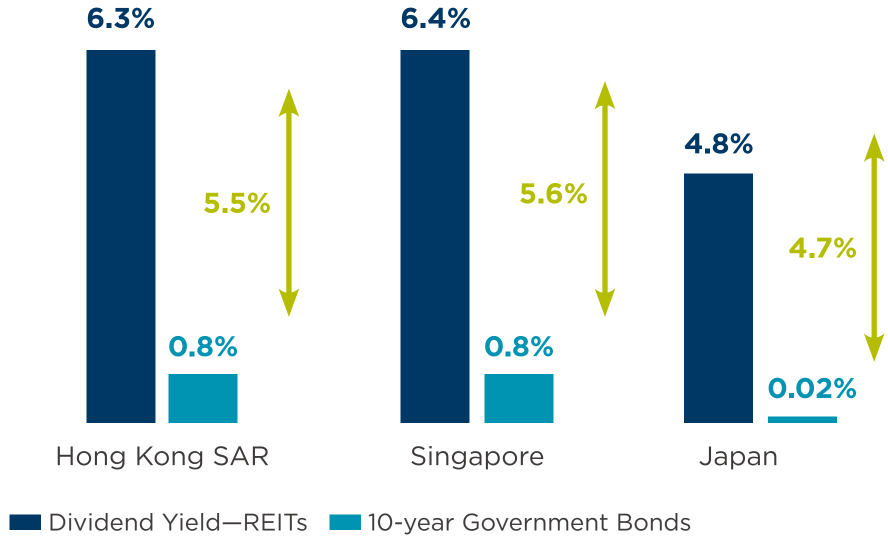
	Number*	USD100 million	Percentage
Japan	62	1,393.7	49.5%
Singapore	42	814.0	28.9%
Hong Kong SAR	11	304.2	10.8%
Thailand	31	82.9	2.9%
India	2	70.6	2.5%
Malaysia	17	66.1	2.3%
Taiwan, China	7	44.8	1.6%
South Korea	13	37.2	1.3%
Total	**185**	**2,813.5**	**100.0%**

*refers to the number of REITs listed on the exchange for each of the eight markets listed.
Source: Bloomberg's database, compiled by C&W Valuation & Advisory Services

3.2 Asia REITs Dividend Yield Analysis

In this report we define dividend yield as the ratio of dividends for the past 12 months (total dividends for the past year) to the stock market price of REITs (price as of Dec. 31, 2020). Relative to stock price, Singapore REITs have the highest dividend distribution rate, followed by Hong Kong SAR and Japan. The dividend yield of REITs in Singapore is 6.4%, six basis points higher than in Hong Kong SAR and 1.6 percentage points higher than in Japan.

Fig 3
Comparison of Dividend Yield—REITs vs. 10-year Government Bonds



Source: Bloomberg Database, Hong Kong SAR Exchanges website, SGX website and Tokyo Stock Exchange website, compiled by C&W Valuation and Advisory Services

The dividend yield of REITs is sensitive to government bond interest rate changes. Compared with the same period last year, the interest rates of ten-year government bonds in Hong Kong SAR and Singapore fell in line with looser global financial policies, while Japan has long retained zero or even negative interest rates, indicating that financial institutions maintain a long-term cautious attitude towards the future market. The interest rate spread of the dividend yield of REITs relative to government bonds is higher than that of the same period last year, while the average spread for the three regions is around 5%, up around 1% on the same period last year.

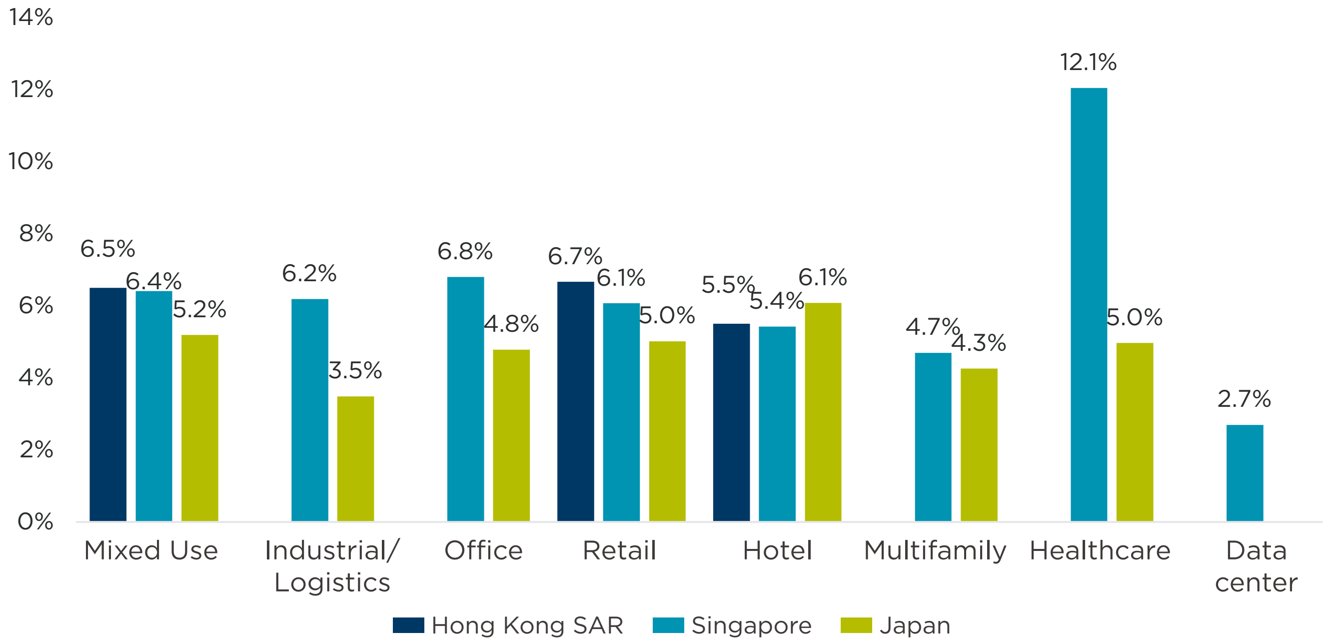
Dividend yield is an important return metric for REIT holders, but high or low dividend yield alone does not represent total net earnings for an individual REIT. For example, in Hong Kong SAR, the Regal REIT (Hotel) enjoys one of the highest dividend yields, up to 8.8%, but its market price per fund unit has dropped by more than 49% since it was listed in 2011. In contrast, Link Real Estate Investment Trust (Integrated) has a relatively low dividend yield at 4.1%, yet its market price per fund unit has risen six-fold since its listing in 2005. In Singapore, First REIT (Healthcare) offers the highest dividend yield, at up to 20%, but its market price per fund unit plummeted more than 80% in 2020. At the other end of the scale, Keppel DC REIT (Data Center) has the lowest dividend yield at just 2.7%, yet its market price per fund unit soared by 35% in 2020 alone.

Dividend Yield by Property Type

In Hong Kong SAR, retail REITs offer the highest distributions among all property types, with an average dividend yield of 6.7%. In Singapore, with the exception of First REIT, office properties deliver the highest dividend yields, with an average dividend yield of 6.8%. However, In Japan, hotel assets deliver the highest dividend yield at 6.1%, while dividend yields from other property types lag those of Hong Kong SAR and Singapore.

Retail and hotel REITs have enjoyed relatively high dividend yields chiefly due to their steep falls in stock prices. The impact of COVID-19 has made clear that REITs, as listed financial assets, can suffer far greater exposure to instant trading activities when compared with physical real estate. Market panic stoked by the pandemic caused stock prices to fall more sharply than NAV, while REITs needing to issue negative guidance endured even more rapid and dramatic price movements. For example, the dividend yield of First REIT rose to as high as 20% as result of a stock price fall of nearly 80% during the year.

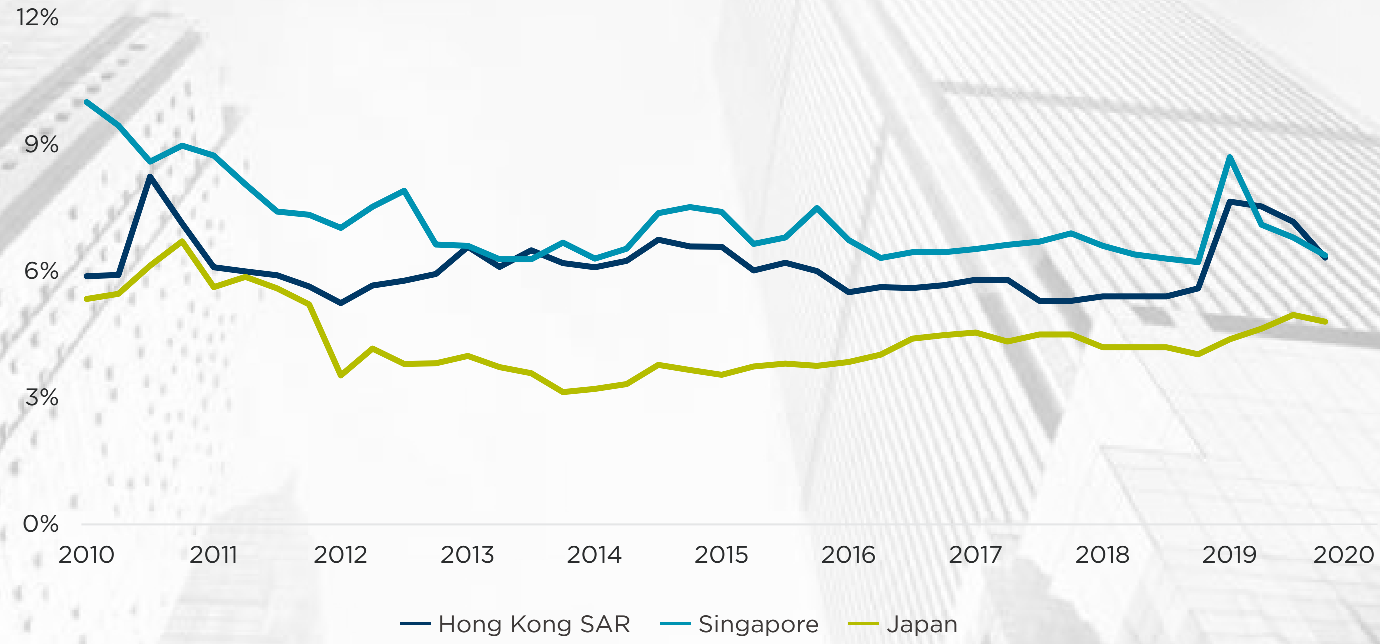
Fig 4
Dividend Yield Return by Property Types



Note: The higher dividend yield of REITs (Medical health) is due to the larger decline in the stock price of First REIT. Another REIT (Medical health) listed on the SGX, Parkway Life REIT, has a dividend yield of 3.5%.

Source: Bloomberg Database, Hong Kong SAR Exchanges website, SGX website and Tokyo Stock Exchange website, compiled by C&W Valuation and Advisory Services

Fig 5
Historical Average Dividend Yield



Source: Bloomberg Database, compiled by C&W Valuation and Advisory Services

3.3 Asia REITs Total Return Analysis

Aside from the distribution yields examined above, the total return of a REIT is a key income indicator for investors. The integrated earnings of REITs consist of two components: the change in the stock price per fund unit, and the dividend. Looking at performance over the past five to ten years, the annual total returns of REITs listed in Hong Kong SAR have generally been higher than those in Singapore and Japan. For example, the Link Real Estate Investment Trust (Integrated) has achieved an annual return rate of 14% since it was listed in 2005, by relying on its stock price performance alone.

However, in 2020, REITs listed in Singapore proved more resilient to the impact of COVID-19 than their counterparts in Hong Kong SAR and Japan. The overall average rate of return for REITs listed in Singapore was at -2.7%. The five strongest performers were Keppel DC REIT, Frasers Logistics Industrial Trust, Mapletree Industrial Trust, Mapletree Logistics Trust, and Parkway Life REIT. In contrast, in the same year, the average total return for REITs listed in Hong Kong SAR and Japan was recorded at approximately -13% for both markets.

Table 2 Annual Total Return of REITs Market by Region

	Hong Kong SAR	Japan	Singapore
1 year (2020)	-13.0%	-13.1%	-2.7%
3 years	-2.5%	6.7%	6.1%
5 years	7.1%	4.6%	10.7%
10 years	10.8%	8.9%	8.8%

Source: APREA

Table 3 The Annual Total return for REITs of Each Property type in Asia-Pacific Market

	Mixed Use	Retail	Office	Hotel	Industrial/ Logistics	Apartment	Medical health
1 year (2020)	-14.9%	-15.5%	-16.8%	-23.9%	21.7%	-5.5%	-14.0%
3 years	5.7%	-0.3%	5.2%	-4.8%	17.2%	9.7%	1.1%
5 years	6.9%	3.7%	6.1%	0.1%	14.3%	8.6%	6.1%
10 years	10.4%	8.9%	8.7%	-	13.8%	11.6%	13.1%

Source: APREA

The impact of COVID-19 resulted in negative total returns for all property type REITs in 2020 save the industrial/logistics sector, which received growing favorable investor attention and outperformed the results of prior years.

In the long run, REITs will continue to bring investors considerable returns. The ten-year total returns of industrial/logistics and healthcare REITs have exceeded 13%, while total returns from other property types are in the range of 8%-10%. The uncertain global economic recovery has meant that development in the hotel, office and commercial property sectors remains challenging, while industrial and logistics property has demonstrated strong capability for resilience.

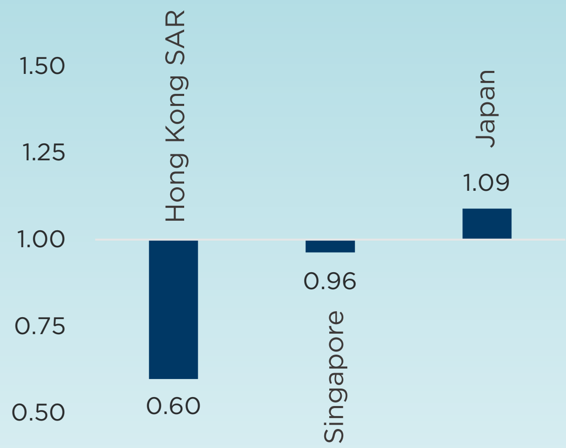
Data centers remained the strongest REITs sector in 2020. The Keppel DC REIT recorded a total return of 38.4% for the year, marking it out as the highest performing REIT for annual total returns in Singapore. The Mapletree Industrial Trust expanded the data center allocation in its asset portfolio from 18% to 39%, in turn recording a total return of 16% for the full year, and clearly demonstrating the high degree of interest that investors now hold in data center assets.

3.4 Asia REITs Price-to-Book Ratio Analysis

We define P/B ratio as the ratio of the market price per fund unit (the market price on Dec. 31, 2020) to the net asset value per fund unit (the net asset value per fund unit on Dec. 31, 2020). If the ratio is greater than one, it is at a premium, and if it is less than one, it is at a discount.

Overall, REITs in Hong Kong SAR present at a discount status. Data showed that the average P/B ratio of REITs in Hong Kong SAR was 0.91 as at IPO date, dropping to 0.60 as at Dec. 31, 2020. In Singapore, average P/B ratios have slipped from 1.01 at IPO to 0.96, while REITS in Japan are in premium status territory with an average P/B ratio of 1.09.

Fig 6
P/B Ratio by Region



Source: Bloomberg Database, Hong Kong SAR Exchanges website, SGX website and Tokyo Stock Exchange website, compiled by C&W Valuation and Advisory Services

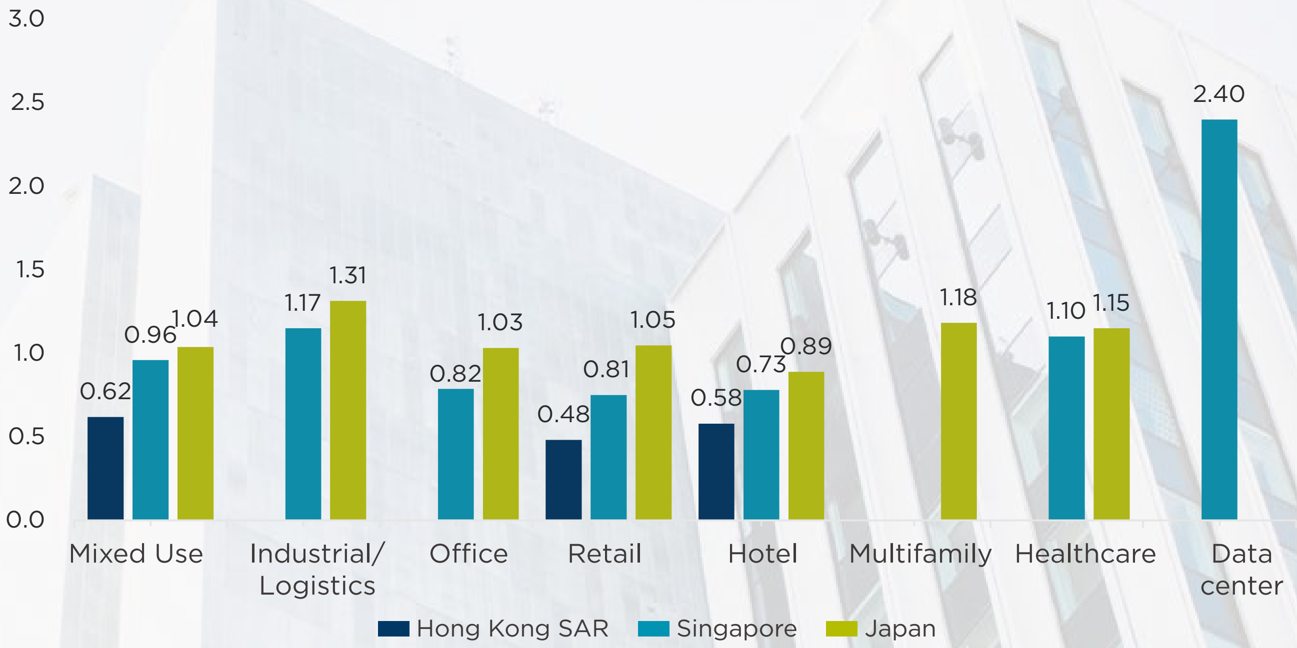
As at Dec. 31, 2020, REITs in Hong Kong SAR were generally trading at a discount. Regal REIT (Hotel) had the lowest P/B ratio at 0.36. In Singapore the REIT with the highest premium was Keppel DC REIT (Data Center), with a P/B ratio of 2.40, while First REIT (Healthcare) offered the lowest P/B ratio of just 0.20.

In the Japan market, average P/B ratios are in a relatively narrower band among sectors, ranging from the Industrial and Infrastructure REIT (Industrial) at 1.57 to Ichigo Hotel REIT (Hotel) at 0.66.

P/B Ratio by Property Type

P/B ratios for REITs can vary greatly by property type. The impact of COVID-19 saw P/B ratios of retail and hotel REITs drop sharply. In Singapore, data center REITs lead the average P/B ratio table at 2.40, while hotel REITS bring up the rear at 0.73. The Japan REIT market operates in a narrower average P/B ratio band, with industrial/ logistics REITs being the highest at 1.31 and hotel REITs the lowest at 0.89. In Hong Kong SAR, hotel, retail and mixed-asset REITs all trade at a discount status, with retail REITs having the lowest average P/B ratio at 0.48.

Fig 7
P/B Ratio by Property Type

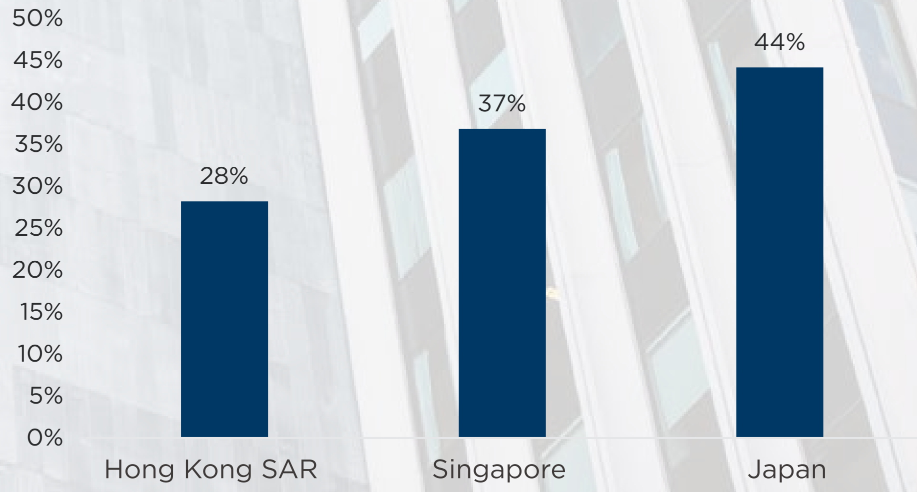


3.5 Asia REITs Gearing Ratio Analysis

In this report, we define the gearing ratio as the ratio of total liabilities to total assets. In Hong Kong SAR, the gearing ratio of REITs, directly or via special purpose vehicle (SPV), cannot exceed 50%. The Link Real Estate Investment Trust (integrated) had a gearing ratio of just 18% as at Dec. 31, 2020, the lowest of all Hong Kong SAR REITs, while Regal REIT (Hotel) had the highest, at up to 43%.

Currently, the gearing ratio of REITs in Singapore is also capped at 50% of the total asset value. In April 2020, the Monetary Authority of Singapore (MAS) raised the gearing ratio from 45% to 50%, without a prerequisite for an

Fig 8
Average REITs Gearing Ratio by Region



Source: Bloomberg Database, Hong Kong SAR Exchanges website, SGX website and Tokyo Stock Exchange website, compiled by C&W Valuation and Advisory Services interest coverage ratio of 2.5 (implementation delayed until Jan. 1, 2022). As of Dec. 31, 2020, the Singapore REIT with the highest gearing ratio was ARA US Hospitality Trust (Hotel), reaching as high as 43%, while Sasseur REIT (Retail) boasted the lowest at 28%. But across Hong Kong SAR and Singapore no REIT has a gearing ratio exceeding 45%.

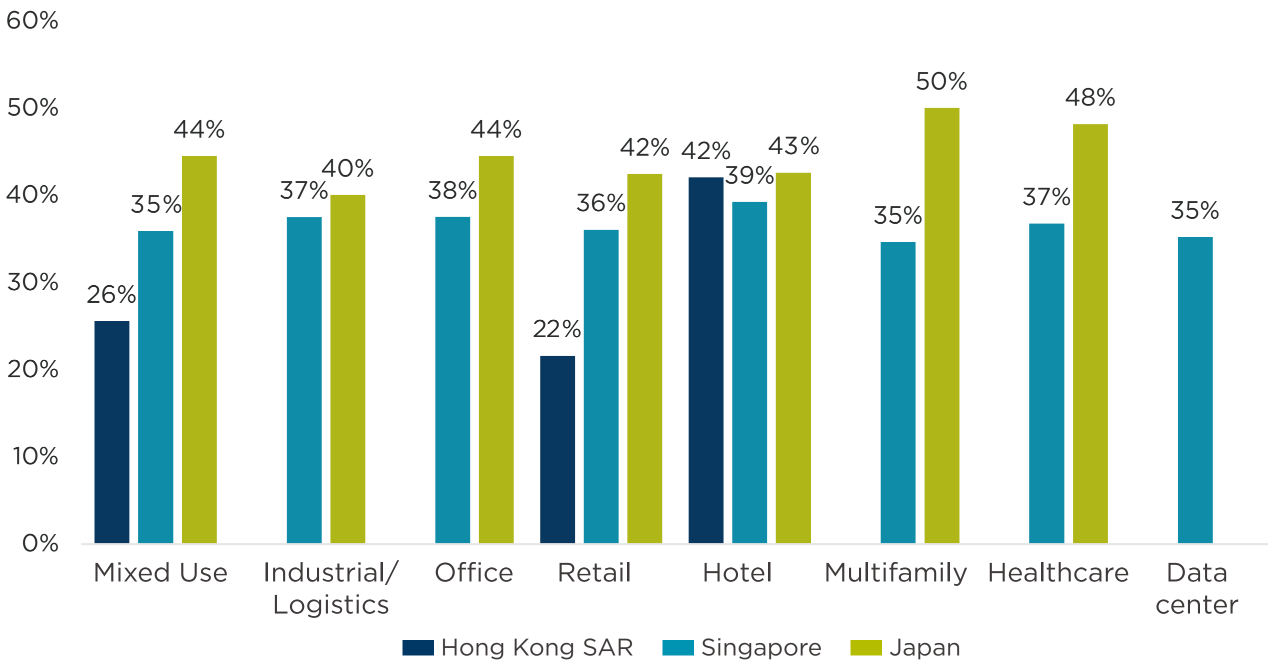
Unlike Hong Kong SAR and Singapore, Japan's authorities place no restrictions on REIT gearing ratios, but do stipulate that REITs may only borrow from qualified institutional investors. As of Dec. 31, 2020, Nippon Accommodation REIT (Apartment) had the highest gearing ratio, reaching up to 52%, while Mitsubishi Estate Logistics (Industrial/logistics) had the lowest at 29%.

Overall, the average gearing ratio of REITs in Hong Kong SAR was at 28% as of Dec. 31, 2020, compared to 37% in Singapore. The Singapore figure was up slightly y-o-y due to factors including a drop in market interest rates, lower property valuations, and higher gearing ratio limits. The gearing ratio of REITs in Japan over the same period was at 44%, unchanged on 2019. The total liability/total asset ratios of REITs in Hong Kong SAR, Singapore and Japan are shown as follows.

Gearing Ratio by Property Type

In terms of property type, in Japan, residential apartment REITs have the highest average gearing ratio at 50%, while industrial/logistics REITs have the lowest at 40%. In Hong Kong SAR, hotel REITs are the most highly geared at 42%, as opposed to retail REITs at only 22%. In Singapore, REIT gearing ratios are quite evenly balanced. Integrated and retail REITs are at 35% and 36% respectively, while data center REITs have increased their average gearing ratio from 29% in 2019 to 35% in 2020, due to continued expansion.

Fig 9
Average REITs Gearing Ratio by Property Type



Source: Bloomberg Database and SGX website, compiled by C&W Valuation and Advisory Services

4.

IMPACT OF COVID-19 ON THE ASIA REIT MARKET

As the COVID-19 outbreak turned into a worldwide pandemic in March 2020, many countries and regions in APAC, Europe and the Americas adopted strict containment measures, including social distancing and shutdown orders. The economic impacts caused by such measures have in turn brought a series of challenges to Asia REITs, in terms of operational, financial, and regional risks. We have explored Asia REITs' risk mitigation measures and resilience capacities by studying the responses deployed by REIT managers and governance authorities in the wake of COVID-19.

Following the cautious relaxation of pandemic control measures, lease demand for residential properties rebounded more quickly than for office or retail properties. As a result, REIT managers looked to launch asset enhancement initiatives (AEI) to strengthen their property portfolios values and to minimize potential loss. They also took measures to cope with lease surrender risks, such as offering rental subsidies and converting vacant office floors in core areas into co-working office spaces.

REITs focused on manufacturing, logistics and data centers still experienced relatively high occupancy rates and moderate rental growth in their underlying assets, demonstrating strong resilience capability. These trust managers continued to expand the scale of their portfolios by acquiring further assets. Despite a significant overall reduction in asset acquisition in the first half of 2020, deal activity rebounded very quickly in the second half of the year. Targeted portfolio asset acquisition picked up through the period, including in logistics parks, industrial parks, and data centers. REIT managers also looked for geographical diversification in preferred assets.

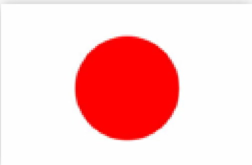
In contrast, hotel REITs were much more greatly impacted by pandemic travel restrictions and consequent collapses in inbound tourism numbers. As a result, fund managers switched their focus to assets offering relatively more stable cash flow, such as student housing.

Additionally, larger trusts tend to benefit from stronger operational management than their smaller counterparts, especially so in the context of the impact from the pandemic. The more powerful and resource-rich operators can boost their REITs with investment projects to maintain capital circulation, as well as financial support measures. In contrast, smaller REIT operators have much weaker risk mitigation capacities, exposing them to more severe survival pressures and development challenges during economic downturns, and in holding weaker negotiating hands when acquired by larger competitors.

In response to financial support measures, both Hong Kong SAR and Singapore raised their upper limits on REIT leverage ratios in 2020. Singapore also implemented policies to delay dividend payouts and raising limits on stock issuance. In general, Singapore went further than Hong Kong SAR in carrying out adjustment measures to their REIT market, and provided more and multi-layered support to help their market weather the COVID-19 storm.

By relaxing cashflow requirements, measures such as these afforded REITs greater flexibility in managing their cash flow, and assisted them to adjust capitals structure and reduce financing costs to better meet the new challenges arising from the pandemic. Additionally, in the prevailing low interest rate environment, more relaxed financing restrictions have also created more advantageous conditions for REITs to speed up their pace of acquisition.

5.
ASIA REIT MARKET HIGHLIGHTS



Japan

Japan boasts the largest REIT market in Asia and the second largest globally. During 2020, the Japanese REIT market numbered 62 listings with a total market value of approximately US$139.4 billion – accounting for more than half of the total Asia REIT market. However, the market was down from its prior 64 listings in 2019, with total market value dropping 8% y-o-y.

The Japanese REIT market was impacted by the double whammy of COVID-19 and the postponement of the Tokyo Olympics. The total REIT market stock price fell by 9% in 2020 to drop below the Tokyo Stock Price Index (TOPIX), suggesting a slower recovery than in the traditional stock market. In the second half of the year, as a few J-REITs were included in the FTSE Global Stock Index, overseas investors became the primary net buyers of J-REITs.

Singapore

The Singapore REITs market was active in 2020, supported by favorable regulatory policies. Integration and merger activity was prominent, transaction liquidity improved, and the share of overseas asset allocation rose. The two REITs listed on the SGX in the year both focused on overseas markets, namely Elite Commercial Trust (Office) and Hampshire United Real Estate Investment Trust (Retail).

As of Dec. 31, 2020, the Singapore REIT market numbered 42 listed REITs and property trusts, with a total market value of approximately US$81.4 billion, representing approximately 12% of the total market value of the Singapore stock market. In December 2020, the S-REITs and property trusts contributed 29% of the market's daily turnover.

Hong Kong SAR

The Hong Kong SAR REITs market faced challenges and also embraced reforms in 2020. Overall REIT stock prices dropped by an average of 11%, pressured both by the impact of COVID-19 and an environment of lingering social unrest. The decline was steeper than the 5% fall in the overall stock market and was accompanied by reduced trading liquidity.

At the end of 2020 there were 11 REITs listed in Hong Kong SAR, with an aggregate market value of approximately US$30.4 billion. Kaiyuan Industrial Trust (Hotel), which was listed in 2013, announced its privatization and delisting in January 2021. Jinmao Hotel Trust (Hotel) had also previously privatized and delisted in October 2020. However, in May 2021, SF Real Estate Investment Trust (Logistics) went public, becoming the first logistics REIT to list on the Hong Kong SAR Stock Exchange.

India

The India REITs market saw an excellent year for investment returns in 2020. The two listed REITs as at Dec. 31, 2020 – Mindspace Office Park Real Estate Investment Trust (Office) and Embassy Office Park Real Estate Investment Trust (Office) – had an combined market value of approximately US$7.1 billion.

At the beginning of 2021, Brookfield India Real Estate Investment Trust (Office) announced its listing, to become the third REIT in the market. In addition, two remove Infrastructure Investment Trusts (InvITs) were issued and listed, namely, IRB and IndiGrid, engaging in roads and power networks, respectively.

6.

OVERVIEW OF MAINLAND CHINA QUASI-REIT MARKET

By the close of 2020 a total of 284 real estate asset securitization products had been successfully issued in mainland China, totaling RMB598.55 billion. The collection comprised 93 quasi-REITs, 163 commercial mortgage-backed security (CMBS) products, and 28 commercial mortgage-backed note (CMBN) products. Of the 93 quasi-REITs, 18 have successfully exited, with the remaining 75, with a total value of RMB137.78 billion, being traded on the Shenzhen and Shanghai Stock Exchange markets and Inter-bank Bond Market.

Twenty-three new quasi-REIT products were listed on the market in 2020, totaling RMB39.15 billion, a drop-off in both number and value compared with 2019. In the past three years, the quasi-REIT market has grown at a slower rate lower than the CMBS market, with issuers prefer to raise funds via CMBS products due to the heavier asset restructuring taxes and longer restructuring processes involved with the construction of quasi-REITs.

In March 2020, the first expandable quasi-REIT, Cainiao-Zhonglian-CiticS-China Smart Logistic Network Storage quasi-REIT (aka. Cainiao quasi-REIT), was successfully issued for expansion at RMB885 million. This marked a significant stride forward in introducing expansion mechanisms for quasi-REITs. Following the first issuance of the quasi-REIT in 2019, and based on the underlying assets of Cainiao storage projects in Chongqing's Liangjiang New Area, the Phase II expansion now includes logistics project in Chengdu's Shuangliu district.

Asset value gains following the expansion of Cainiao quasi-REIT will be recorded under the same private fund. Together with the original asset portfolio, they will make up a new portfolio of underlying assets, creating cash flow that serves as a source of reimbursement for quasi-REITs. There is no difference in terms of the mandate for ABS to provide reimbursement support or gaining income or distribution from the asset pool. This success in sustained injections of new assets into Cainiao quasi-REIT yields a tangible product roadmap capable of driving the development of public-traded REITs.

Furthermore, the shelf offering approach has continued to provide highly efficient financing channels for the quasi-REIT market. In 2020, six REITs were issued via shelf offerings, totaling RMB6.67 billion. The underlying assets encompassed retail properties, logistics and storage facilities, long-term leasing apartments, and industrial plants. The IMIX Park shopping mall, Shunfeng logistics and storage, and Huafa rental apartment REIT projects all issued phase III products in 2020 and successfully completed their shelf offering series.

Two quasi-REIT projects were issued in 2020 with underlying assets comprising domestic market infrastructure. They were GSUM QingXi Bridge quasi-REIT, valued at RMB4.705 billion, and the ICBC Ruixin Investment China Energy Engineering Investment Wind and Electric Power Green Energy quasi-REIT, valued at RMB725 million.

Following the issuance of two highway quasi-REIT products in 2019, asset sectors in the domestic infrastructure REIT market were again expanded by introducing road and bridge and wind power generation facilities. The two new products have provided a lesson in innovation for the industry on how to revitalize stock assets, widen socialized financing channels, and promote the formation of closed-loop capital management, comprising investment, financing, management and exit. They also paved the way for further connections with China's public-traded infrastructure REITs market into the future.

In September 2020, the Huaneng Trust Shimao Hotel Property quasi-REIT was successfully issued, valued at RMB650 million. The manager is Huaneng Guicheng Trust Co. The underlying assets are five-star hotels held by Shimao Group in cities including Shaoxing and Wuhu. This is the first quasi-REIT product to appoint a trust company as the manager. Since the ABS and the trust plan are under the same management, asset operation efficiencies are improved while the issuer's financing costs are reduced. To date, only two trust companies have been approved by the China Securities Regulatory Commission to carry out corporate asset securitization as the ABS manager. The successful issuance of the Huaneng Trust Shimao Hotel REIT creates a benchmark for other pilot projects where a trust company may also play a role in a REIT.

Five quasi-REIT products successfully exited in 2020. When compared with CMBS products, quasi-REITs complete their asset restructuring via asset transfer or the establishment of a new project company in the issuance process. As a result, quasi-REITs may exit through direct sale of the equity in the project company, and then may be liquidated in the most efficient manner. In December 2020, the Hengtai HongZe Huayuan Yingdu Commercial quasi-REIT sold the Yingdu Mansion Block D property in Beijing's core Zhongguancun district to GLP Capital. It was first issued in January 2017, at RMB736 million, and was the first quasi-REIT issued by China Securities Internet System Co Ltd (InterOTC).

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SUMMARY AND OUTLOOK

1. As of Dec. 31, 2020, 185 active REITs were available in the Asia market, at a total market value of US$281.4 billion, down approximately 5% y-on-y.

2. From highest to lowest for the three major markets, REIT distribution yield rankings are Singapore first at 6.4%, followed by Hong Kong SAR at 6.3% and Japan at 4.8%.

3. The interest rate spread of the distribution yield of REITs relative to government bonds is up y-o-y, and the spread of the three regions averages at about 5%.

4. The ranking by leverage ratio, from highest to lowest, is Japan at 44%, Singapore at 37% and Hong Kong SAR at 28%.

5. Total REIT return rankings in 2020, from highest to lowest, were Singapore at -2.7%, Hong Kong SAR at -13.0% and Japan at -13.1%.

6. Under the impact of COVID-19, industrial/logistic REITs in the Asia-Pacific market showed the strongest resilience, recording a total return of 21.7% in 2020.

7. In the China quasi-REIT market, Cainiao quasi-REIT was successfully issued for expansion, with a net worth of RMB885 million, achieving a major leap forward in the introduction of the expansion mechanism for quasi-REITs.

8. Huaneng Guicheng Trust Co. became the first domestic trust company to act as a manager of quasi-REITs with its Huaneng Trust-Shimao Hotel quasi-REIT product.

9. By the end of 2020, a total of 36 infrastructure products, encompassing industrial logistics, industrial parks, power generation, and highways had been issued in China's real estate securitization market.

10. In April 2020, the China Securities Regulatory Commission and the National Development and Reform Commission jointly issued the Notice on Promoting Real Estate Investment Trusts (REITs) in the Infrastructure Sector on a Pilot Basis, providing a stable equity financing channel for investment in infrastructure real estate.

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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 2020, analyzes 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 report please click Here.

This synopsis report was edited by Catherine Chen, Head of Capital Markets Research, Greater China, and Simon Graham, Editor, Business Development Services, Greater China.

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