

Shopping for retail property REITs

Real estate investment trusts (REITs) that own shopping malls could be good defensive plays amid the turmoil in the market sparked by Japan's earthquake and the growing unrest in the Middle East and North Africa. Moreover, shopping malls are less likely to be targeted by the government in its fight to curb inflation and speculation in the property sector. And, they are beneficiaries of the current boom in tourism. Against that backdrop, JP Morgan says in a March 21 report that retail REITs are likely to yield "the best return on a risk-adjusted basis".

Among the retail REITs, most analysts favour **CapitaMall Trust** (CMT) and **Frasers Centrepoint Trust** (FCT). The former is the largest REIT in Singapore, and its 16 properties (including Illuma) are located in the city-state's prime districts as well as suburban neighbourhoods. On the other hand, FCT owns four properties, all of which are in local suburban areas. That's in sharp contrast with **Starhill Global REIT**, which owns retail properties in prime areas around the region.

Credit Suisse says local suburban malls are likely to remain resilient, despite expectations of rising supply. "We believe suburban malls [particularly the well-located ones with a substantial catchment population] will continue to benefit from the population's rising affluence," its March 14 report states. It adds that the upcoming new supply will be fairly easily absorbed, as the new malls are mostly in the 250,000 to 400,000 sq ft net lettable area range, which will be easier

CapitaMall Trust



Frasers Centrepoint Trust



to market compared with bigger premises, besides being scattered across different parts of Singapore.

Outside of suburbia, Credit Suisse is positive on Orchard Road in view of improving occupancy. "Within this space, we prefer the best malls," it says. "We are less positive and more selective on the central malls [ex-Orchard], as rents could face downward pressure due to significant new supply in 2011."

Credit Suisse and JP Morgan recently upgraded their recommendation on CMT to "buy" from "neutral". DBS also has a "buy" call on the REIT. Shares in CMT have fallen in the wake of the Japanese earthquake, and are now trading at a forward yield of 5.7%. That is a relatively low yield, compared with other REITs in the market. But, analysts say its premium valuation is justified, because the REIT has a good track record with

acquisitions as well as asset-enhancement initiatives.

Moreover, CMT has a stable funding structure and the lowest cost of capital, which gives it an edge when it comes to hunting for yield-accretive acquisitions. "CMT is likely to outperform, in our view, especially in the current market environment," JP Morgan says in its report, citing a price target of \$2.15.

The research house also has a "buy" call on FCT. Like CMT, the REIT is carrying out extensive asset-enhancement initiatives, which will help generate double-digit distribution-per-unit growth next year, JP Morgan says. However, it recently cut its price target for FCT from \$1.80 to \$1.65. "Our discount rates for REITs with smaller market capitalisation and free float have been increased to reflect their relative illiquidity," it says.

Finding the right REIT

Analysts say retail property REITs such as CapitaMall Trust and Frasers Centrepoint Trust offer the best risk-adjusted returns now

NAME OF TRUST	MARKET CAP AS AT MARCH 24 (\$ MIL)	PRICE AS AT MARCH 24 (\$)	LAST BOOK VALUE (\$)	PRICE-TO-BOOK (TIMES)	LATEST DPU AS AT DEC 31 (CENTS)	FORECAST DPU FY2011E (CENTS)	DIVIDEND YIELD (%)	FORECAST YIELD (%)
AIMS AMP Capital Industrial REIT	452.4	0.205	0.30	0.68	2.16	2.08	10.54	10.15
Ascendas REIT	3,748.6	2.00	1.57	1.27	13.25	14.2	6.63	7.10
Ascendas India Trust	719.7	0.94	0.83	1.13	6.8	7.4	7.23	7.87
Ascott Residence Trust	1,298.7	1.17	1.28	0.91	7.54	7.74	6.44	6.62
Cache Logistics Trust	590.3	0.94	0.91	1.03	7.7	8.5	8.19	9.04
Cambridge Industrial Trust	576.7	0.485	0.607	0.80	4.9	4.9	10.10	10.10
CapitaCommercial Trust	3,983.7	1.41	1.47	0.96	7.83	8.3	5.55	5.89
CapitaMall Trust	5,987.7	1.88	1.53	1.23	9.24	10.3	4.91	5.48
CapitaRetail China Trust	781.7	1.25	1.13	1.11	8.36	8.5	6.69	6.80
CDL Hospitality Trust	1,917.5	2.00	1.52	1.32	10.2	10.9	5.10	5.45
First REIT	454.9	0.73	0.77	0.95	7.68	NA	10.52	NA
Frasers Centrepoint Trust	1,122.7	1.46	1.28	1.23	7.8	8.7	5.34	5.96
Frasers Commercial Trust	586.4	0.78	1.35	0.58	5	5.5	6.41	7.05
Fortune REIT (HKS)	6,352.1	3.80	6.18	0.61	24.35	26.2	6.41	6.89
India Bulls Property Investment Trust	870.3	0.24	0.511	0.47	NA	NA	NA	NA
K-REIT Asia	1,791.7	1.32	1.48	0.89	6.37	7.7	4.83	5.83
Lippo-Mapletree Indonesia Retail Trust	579.5	0.535	0.834	0.64	4.44	4.9	8.30	9.16
Mapletree Industrial Trust	1,521.2	1.04	0.87	1.20	6.8	7.9	6.54	7.60
Mapletree Logistics Trust	2,147.3	0.885	0.84	1.05	6.09	6.4	6.88	7.23
Parkway Life REIT	1,048.5	1.72	1.39	1.24	8.79	9.5	5.11	5.52
Sabana REIT	594.8	0.94	0.99	0.95	8.63	8.67	9.18	9.22
Saizen REIT	164.5	0.14	0.36	0.39	0.52	1.04	3.71	7.43
Starhill Global REIT	1,204.7	0.62	0.93	0.67	3.9	4.2	6.29	6.77
Suntec REIT	3,358.2	1.52	1.80	0.84	9.86	8.9	6.49	5.86
Treasury China Trust	445.9	1.74	3.74	0.47	4.8	5	2.76	2.87