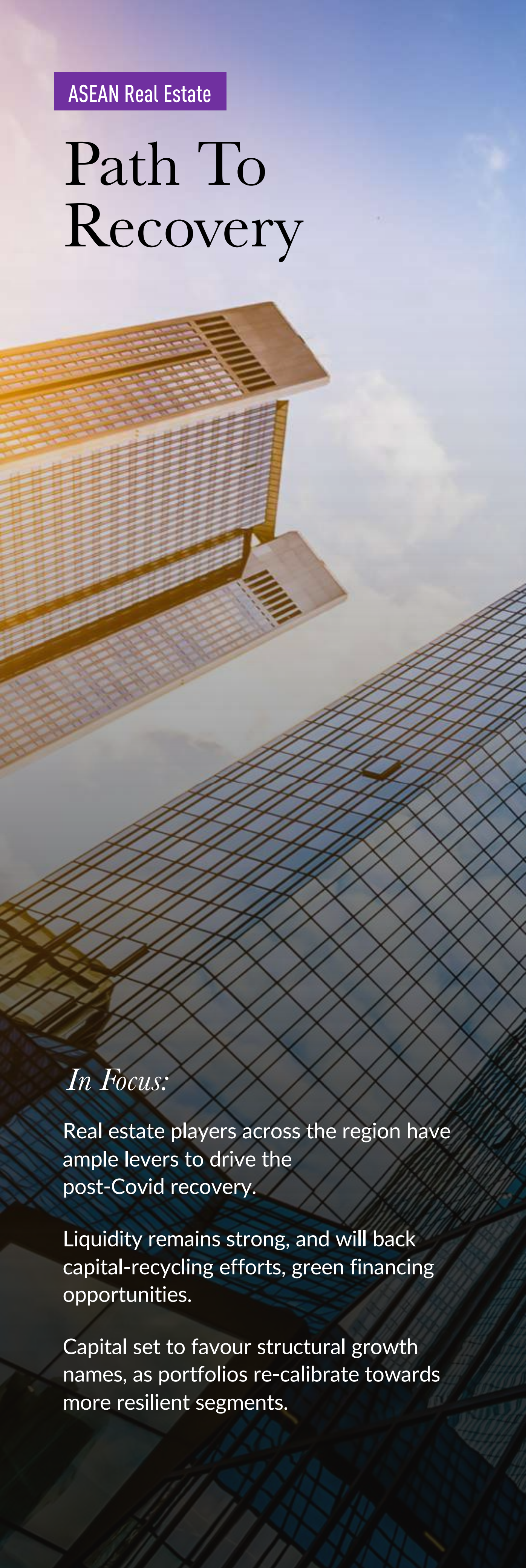

ASEAN Real Estate

Path To Recovery

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ASEAN real estate is returning to growth, with the surge in investment activity gaining traction, on the back of the macro upturn. The trajectory remains uneven, as the effectiveness of domestic policies and pandemic containment measures will determine the course across geographies.

The resurgence of Covid and disparate rollout of vaccines have tempered positive buying sentiment, while occupier activity is likely to stay subdued in 1H21 until there is clearer evidence on the path of the recovery. Supply-side risks are low, with near term pressures further eased by construction delays or project cancellations.

Developers and REITs across the region yet have ample levers to drive the post-Covid recovery, with organic growth supported by resilient occupancies, and a rebound from the peak of the 2020 rent-relief cycle.

Capital has rotated away, from some mainstay assets experiencing cyclical or secular headwinds (such as offices, malls, and hotels) towards previously niche segments (including data centres, tech-oriented business parks, and multi-family residential). We expect that investors are likely to continue to compete for, and calibrate their portfolios towards these more resilient segments, to support the ongoing cap rate compression, and as a consequence, equity valuations.

Liquidity remains strong and will aid in capital recycling efforts. The three largest Singapore industrial REITs successfully raised SGD3.5b in total over the past 12 months to fund acquisitions in ASEAN and the US. The Philippines REIT scene is nascent, but the IPO pipeline is strong and set to expand, to drive growth in recurring income streams.

In Focus:

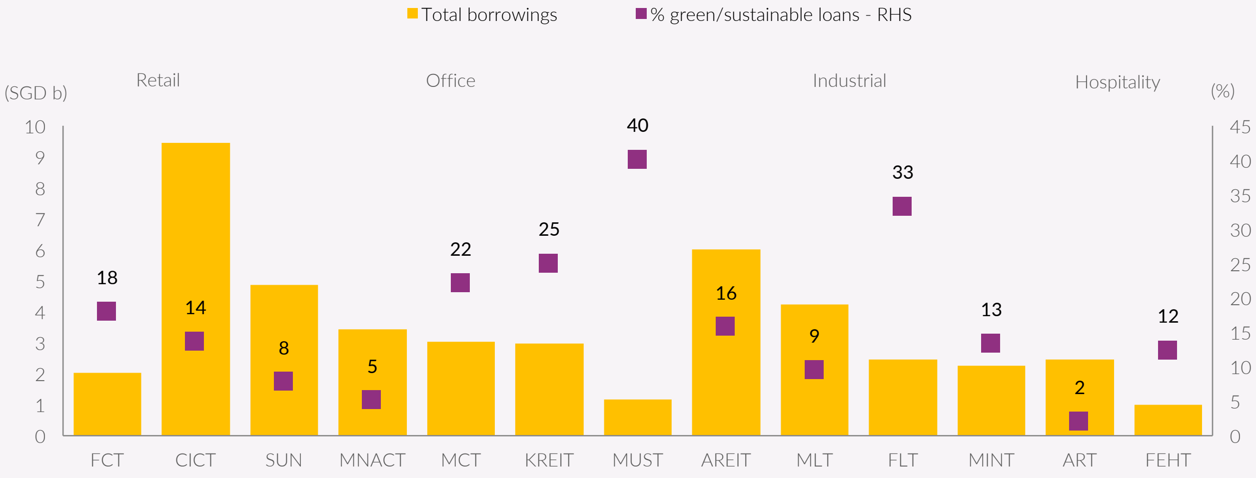
Real estate players across the region have ample levers to drive the post-Covid recovery.

Liquidity remains strong, and will back capital-recycling efforts, green financing opportunities.

Capital set to favour structural growth names, as portfolios re-calibrate towards more resilient segments.

> "The three largest Singapore industrial REITs successfully raised SGD3.5b in total over the last 12 months to fund acquisitions in ASEAN and the US."

Debt and % of green or sustainability linked financing for S-REITs



Source: Company data, Maybank Kim Eng; excludes one green loan from MCT (in Jun 2020) and two from MNACT (Aug 2020, Mar 2021) as valuations were not disclosed.

Pool of investible green buildings to expand, with sustainable finance on a rise

With buildings accounting for c.40% of greenhouse gas emissions (according to the United Nations Environment Programme), de-carbonising the sector is a critical measure to lessen systemic risk to financial markets due to climate change.

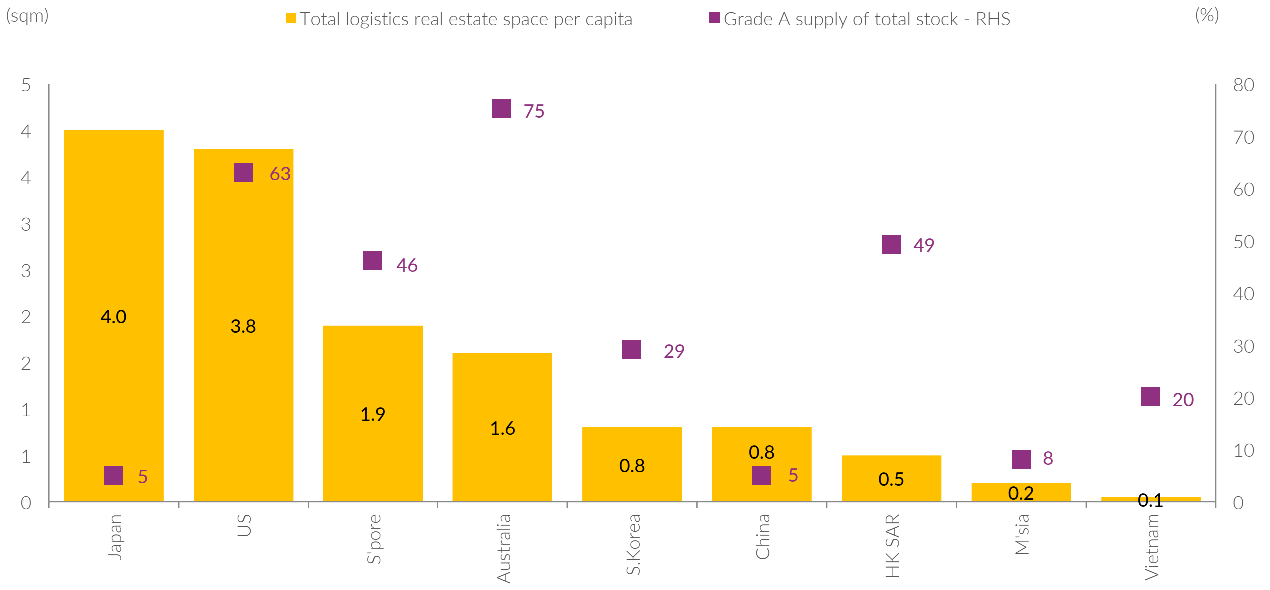
The rising availability of green financing will continue to push developers and REITs to adopt green features in their portfolios in order to expand funding and deliver interest rate savings from their sustainability-linked loans.

Structural growth themes to support industrial cap rate compressions

Of all asset classes, we believe logistics is likely to be the one to emerge from the pandemic stronger than when it went in. Demand, already robust pre-Covid from rising e-commerce transactions, would have accelerated in the past 12-18 months. Meanwhile, supply chain rejuvenation is fueling a global demand for modern logistics facilities, with strong absorption across ASEAN markets given the long-term undersupply. Likewise, the surge in internet traffic and data creation was unprecedented, driving growth in demand for data centres. We expect transparency and liquidity to improve alongside the segment's growth, as global leasing revenues rise at 9.2% CAGR from 2019-25E (according to 451 Research).

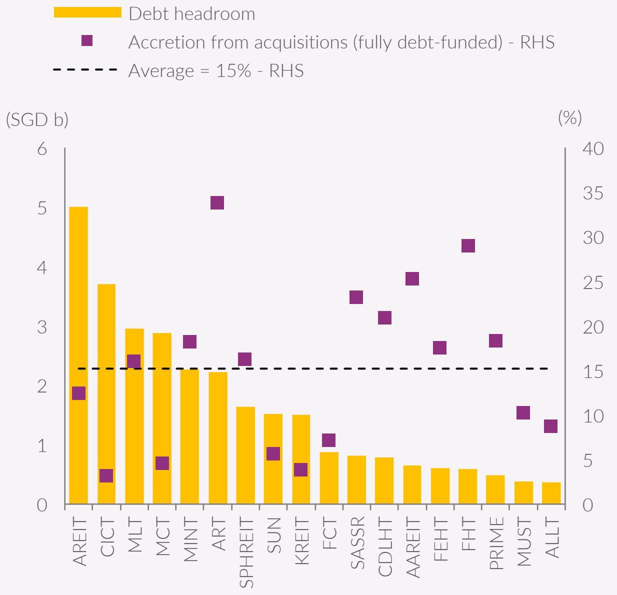
> “Supply chain rejuvenation is fueling a global demand for modern logistics facilities, with strong absorption across ASEAN markets given the long-term undersupply.”

Total logistics real estate space per capita and as % of modern stock



Source: JLL

Singapore: Accretive acquisitions funded by debt to lift Distribution-Per-Units (DPUs) for S-REITs by up to 15% on average



Source: Company data, Maybank Kim Eng

We see stronger growth in AUMs for Singapore REITs, especially those with strong sponsors, as many push ahead on overseas diversification.

DPU visibility should continue to improve with the p.a. growth from lease structures and longer WALEs. Leverage across the sector remains low at 37.4% on average (as of end-Mar 2021), which will aid in DPU accretion, amid the prolonged low interest rate investment environment over the next 12 to 18 months.

We estimate fully debt-funded acquisitions could lift DPUs by up to 15% for those under our coverage.

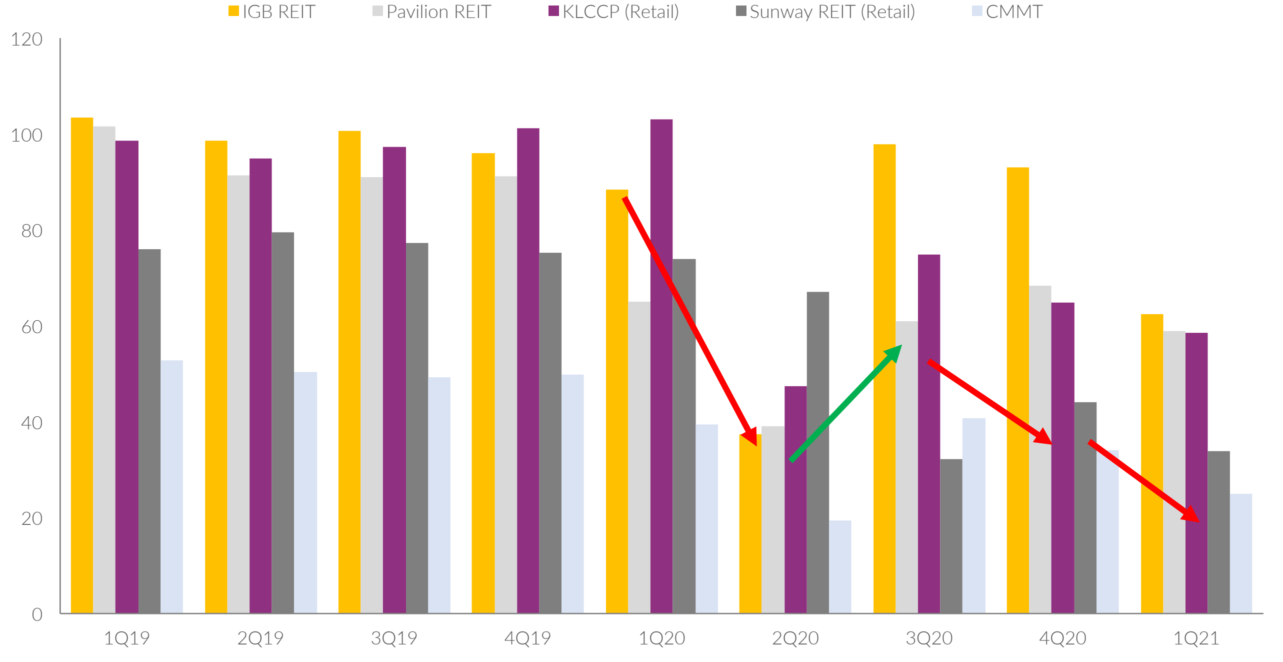
Retail recovery in search of a firmer footing

The retail sector has faced a setback in its recovering trajectory from fresh waves of infections and heightened movement restrictions.

The impact is irregular but less severe, given a return to growth in private consumption. In particular, efforts by F&B tenants (now at 15-40% of gross rental income for Singapore's mall landlords) to pivot online have gained traction.

Suburban malls remain a resilient asset class and our preferred exposure. This is given their higher essential services (F&B, services, supermarket & hypermarket) trade mix at c.40% of overall NLA and c.55% of gross rental income, relative to downtown malls (according to Cistri).

Malaysia: Quarterly net property income of M-REITs with major retail exposure



Source: Company Data

Malaysia REITs with retail assets, are set for DPU recovery in the form of lower or absence of rental support to their respective mall tenants and potentially resuming single-digit positive rental reversion rates.

Occupancies have remained resilient at >90% at prime or megamalls, while valuations as at end 2020 softened marginally for selected malls (<5% YoY). Key leading indicators of shopper, vehicular traffic, and tenant sales growth are set for a bumpy rise.

Structural negatives from working in a new office normal

Firms are looking to curb costs, with some downsizing through renewals or relocations, and at the same time, assessing office space needs as they ease out from the pandemic.

Financial institutions and professional services firms, most willing to implement WFH arrangements, are trimming their footprints as a larger proportion of their staff work remotely. CBD office occupiers in Singapore could aim to reduce their footprint by 10-20% over three years, with demand set to fall by 0.5-1.0m sf pa from 2020-22E, to offset the effects of de-densified office layouts.

Capital values are likely to find support from buoyant investment activity, especially for gateway cities like Singapore, which international firms have chosen as their regional headquarters. Returns upside from the CBD Incentive Scheme, could also spur investor interest in centrally located offices.

Residential has been resilient, backed by domestic demand

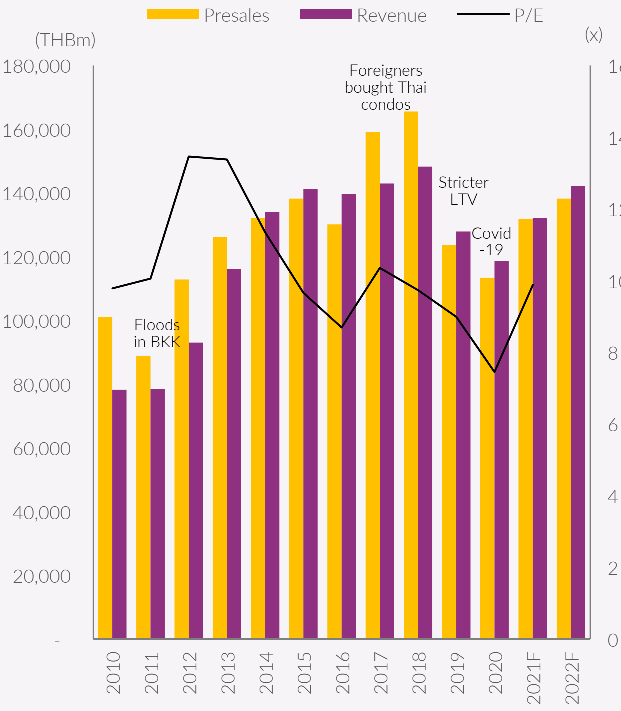
Housing assets have remained surprisingly resilient, especially given the extent to which the Covid downturn has affected incomes and sentiment.

Singapore's developers have gained from rising ASPs, underpinned by strong domestic appetite. Prices have risen 25.6% over 15 quarters from 2Q17, while rents for HDB and condominiums have strengthened since Jun 2020, rising by 3.5% YoY and 2.4% YoY in Mar 2021, despite the exodus of expats and foreign workers. This was partly attributed to the return of a larger number of overseas Singaporeans, who are also more likely to purchase a home, as the pandemic may have disrupted future plans for work abroad. The strong price appreciation has however fueled expectations of further government cooling measures in the near term.

Thailand developers also saw healthy 1Q21 presales growth of 24% YoY and QoQ to THB56b, mainly from landed properties, with 2021 combined presales from the top 10 developers likely to exceed 2019 levels. For 1H21, we see healthy demand from a low 2020 base, and margin improvement from less aggressive marketing and promotional costs, as key earnings drivers.

We believe the spotlight will return to condominium developers as the recovery gains traction in 2H21 as 85-90% of total new launches of THB224b, up 32% YoY, are awaiting kick-off. While revenues and earnings may take 2-3 years to normalize, we expect the combined sales and earnings of the top 5 developers under our coverage to grow at a double-digit rate for 2021F-23F.

Thailand: Combined presales and revenue trend vs. PE of 5 developers under our coverage



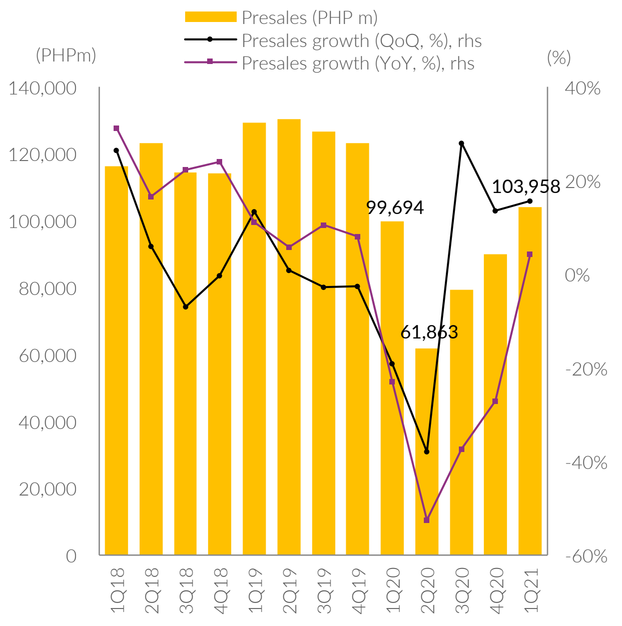
Source: Maybank Kim Eng

> "Capital values are likely to find support from buoyant investment activity, especially for gateway cities like Singapore, which international firms have chosen as their regional headquarters."

Malaysia's developers are in our view, also poised for recovery in 2021, driven by a better macro outlook, historically low interest rates, pent up demand, and the corporates' cleaner operations post-kitchen sinking in 2020.

1H21 sales should rise HoH, with a spike towards end-May when its Home Ownership Campaign (HOC) 2020 ends, and stable political backdrop during the State of Emergency till 1 Aug. These positives however, appear to have been largely priced into valuations.

Philippines: Quarterly sector pre-sales



Source: Company Data

Meanwhile, we expect sector earnings in the Philippines, to recover by 59% YoY in FY21E, largely driven by growth in the residential segment, supported by resilient residential demand and construction activities.

These are underpinned by the positive trajectory of presales growth, averaging 19% QoQ since 3Q20 till 1Q21, when it reached PHP104b, or 104%/84% of pre-lockdown levels in 1Q20/4Q20.

Local buyers similarly bolstered demand, contributing 60-70% of pre-sales, with 10-20% from overseas Filipinos, which have led a shift towards horizontal projects on the outskirts and outside Metro Manila.

Steadily positive

Real estate players across the region have ample levers to drive the post-Covid recovery, as pre-sales volumes for developers are bolstered by domestic demand, and organic growth is supported by resilient occupancies, and a rebound from the peak of the 2020 rent-relief cycle.

Liquidity remains strong and will back capital recycling efforts as well as AUM growth for REITs, especially those with strong sponsors, as they push ahead on overseas diversification.

Capital has favoured structural growth names, and we expect further calibration of investment portfolios towards these more resilient segments, to support the ongoing cap rate compression, and consequently, equity valuations.