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Sector Note

Singapore

Underweight *(no change)*

Highlighted companies

Mapletree Industrial Trust
ADD, TP S$1.68, S$1.67 close

Given the BTS (build-to-suit) for Hewlett-Packard and the asset enhancement initiative (AEI) at Kallang Basin 4, we forecast MINT to deliver a 3-year CAGR of 2.7% through FY16-19F, one of the highest in the sector.

Parkway Life REIT
ADD, TP S$2.58, S$2.46 close

PREIT's long WALE, deflation-protected Singapore revenue stream and lease structure in Japan makes it the most defensive S-REIT. Distributions are also supported by a S$5.3m net disposal gain to be disbursed in FY17F.

Summary valuation metrics

P/E (x)	Dec-17F	Dec-18F	Dec-19F
Mapletree Industrial Trust	15.12	14.47	
Parkway Life REIT	18.70	18.36	18.02
P/BV (x)	**Dec-17F**	**Dec-18F**	**Dec-19F**
Mapletree Industrial Trust	1.23	1.23	
Parkway Life REIT	1.43	1.43	1.42
Dividend Yield	**Dec-17F**	**Dec-18F**	**Dec-19F**
Mapletree Industrial Trust	6.83%	7.13%	
Parkway Life REIT	5.28%	5.14%	5.24%

REIT

Darkest before dawn

- We maintain Underweight on S-REITs, retaining our view of rising yields and steepening curves. Given current valuations, we are wary of capital depreciation.
- Operational performance continues to deteriorate on a sequential quarterly basis.
- Physical market moving towards the tail-end of the supply cycle. But first, there is the 2017 tower of supply to contend with. We project DPU growth to be muted.
- We believe business parks would recover first, followed by Grade A offices. Suburban retail should remain resilient. We would avoid warehouses and hotels.
- We advise investors to trim their holdings and hold cash. Given their defensiveness, we would only add MINT and PREIT.

Maintain Underweight; keeping three rate hike scenario

YTD, REITs have relatively underperformed the developers (+13.2%) and the FSSTI (+7.6%), and we believe the trend would continue in 2017. A rising rate environment could pose higher financing costs, difficulty in raising capital and potential cap rate expansion in the medium term. Plus, the operating environment is challenging. REITs are trading around mean valuations. A sensitivity exercise of our target prices to a more benign rate outlook also suggests limited upside.

4Q16 review: operational performance continues to deteriorate

We observed that performance continues to deteriorate on a sequential quarterly basis. Even though portfolio occupancies were stable, REITs experienced a larger degree of negative rental reversions towards the end of the year. In addition, small-cap industrial and hospitality REITs have made devaluation losses, reflecting the continued headwinds of both sectors. Office and retail capital values have been stickier. All-in financial expenses crept up c.5-10bp qoq.

2017: near supply cycle tail-end, but first the tower of supply

The physical market is moving towards the tail-end of the supply cycle. But first, there is the 2017 tower of supply to contend with. We expect rents to decline a further c.5%, and for vacancies to peak in 2017, before recovery can take place. Also, we expect greater downward pressure on rental reversions in 2017, though pressures could alleviate going into 2H17. We project 12-month forward DPU growth to be muted.

Sub-sector preference and outlook

Given the negligible incoming supply and Singapore's focus on higher-value activities, we believe business parks would be the first to recover. Next, we expect the office market to evolve into a two-speed market, with Grade A CBD bottoming out at end-17. It is difficult to say whether retail, griped by structural challenges, would recover. But we expect suburban malls to remain resilient. Given the strong completions, we would avoid warehouses and hotels.

Outlining rental reversion methodology

Instead of the usual capital management section, we place our attention on the topical issue of REITs' rental reversion methodology. To save you time, we outlined a cheat sheet on how rental reversions are calculated across the REITs.

Capital preservation is key; rebalance towards cash

Our sub-sector preferences do not jive with our bottom-up picks as we believe the respective big-cap proxies, AREIT and CCT, have already priced in the recovery. We would not recommend entering at these levels. We would only add MINT and PREIT, given their defensiveness. MINT's visible DPU growth would enable it to buffer against rate hikes while PREIT's defensive rental structures make it the most defensive S-REIT.

Analyst(s)

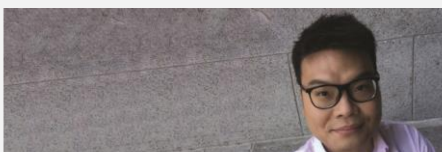

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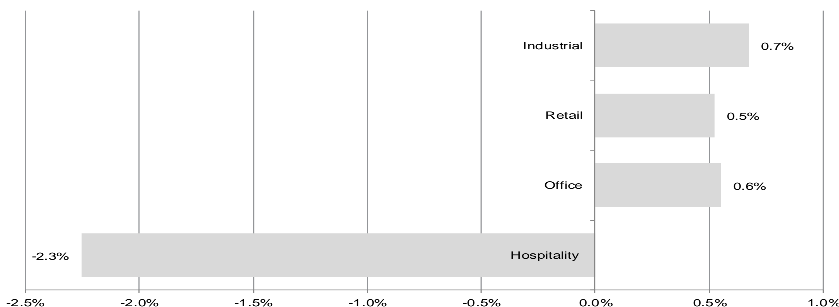
Figure 1: S-REIT sub-sector 12-month forward DPU growth projections: flat DPU growth outlook



SOURCES: CIMB

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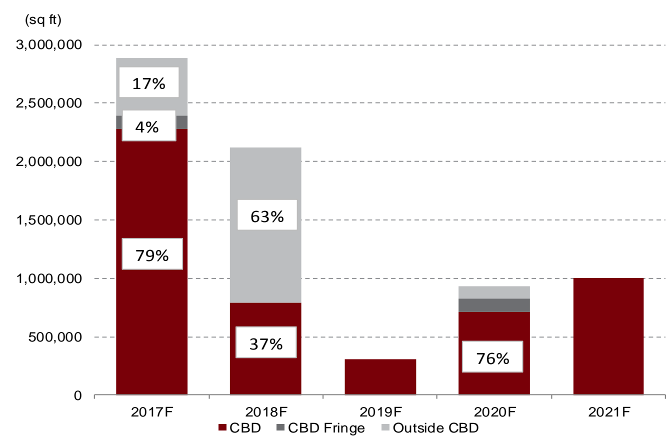
KEY CHARTS

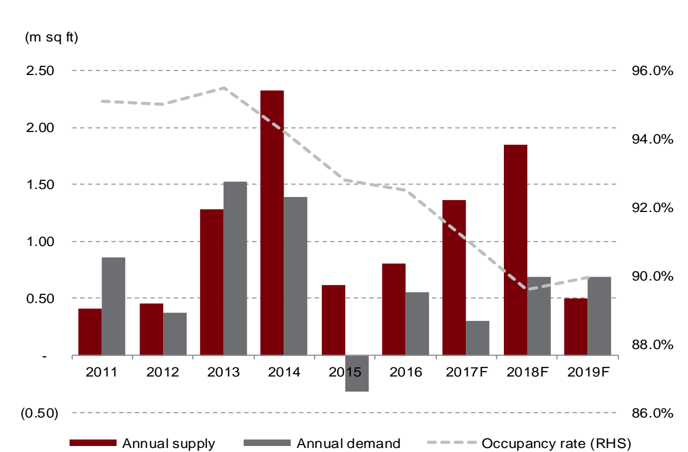
Office: supply crisis passing

Grade A CBD core rents declined 2.2% qoq to S$9.10 psf pm in 4Q16, representing a 12.5% erosion since the beginning of 2016. Vacancy levels rose to 11.1% in 4Q16, near a 5-year high since 1Q12. Office REITs have managed to keep portfolio occupancy steady. However, average portfolio passing rents have started to retrace. For 2017, we project the additional supply of 2.9m sq ft could result in office rents declining another 5%, and that vacancy level could peak to 13.2% by end-17. Indicators point towards a bottoming of the sector. We believe rents could improve as soon as 4Q17, and that higher quality CBD offices are likely to see the greatest gains. We prefer CCT as a proxy for a recovery in Grade A office.



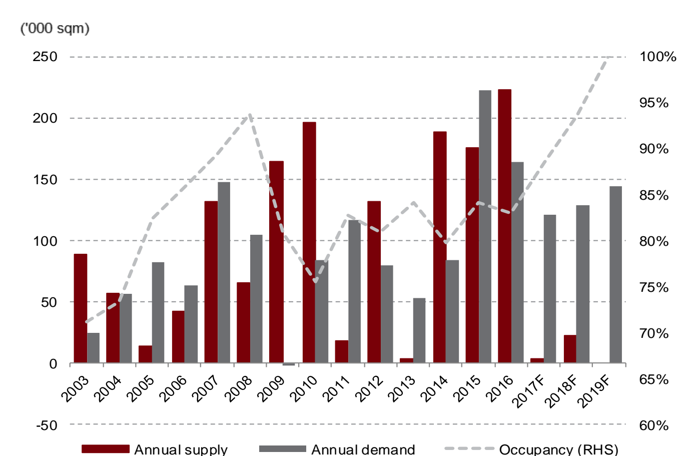
Retail: anaemic growth outlook

Singapore retail sales (excluding motor vehicles) contracted 2.1% yoy in Nov 16. Retail rents in the central area slid 15.7% from the peak at end-14. Retail rents in the fringe area contracted 10.2% from end-14, reflecting their resilience. Active property management, well-positioned malls and niche locations led to retail REITs holding up better in the dour climate. Looking ahead, 1.4m-1.9m sq ft of additional supply will come through in 2017-18 (vs. average annual demand of 0.7m sq ft); this could cap retail rents and capital values. Balanced against valuations, we prefer FCT over MCT and CT. We think investor interest could pick up when the peak of Northpoint's asset enhancement initiative (AEI) passes through in the next three months.



Industrial: most positive on business parks; peak warehouse completions in 2017

Some respite was observed in 4Q16. The manufacturing sector expanded 6.5% yoy. Industrial prices and rents fell at a slower clip, by 2.9% and 0.5% respectively. Given the sizeable and well-diversified portfolios of the big industrial REITs, we continue to observe a divergence in fortunes between them and small-cap industrial REITs. For 2017, we expect 2.4m sqm of space to be added (vs. average annual new supply of 1.8m sqm). We note that 2017 is set see peak supply of warehouses, though there is negligible supply for business parks. While AREIT is the big-cap proxy for business parks, we prefer MINT, especially when balancing against where expectations are.



Hospitality: expect green shoots of recovery only in 2018

Industry RevPAR declined 4.8% yoy to S$200 in 11M16. Due to their tilt towards the corporate segment (plus the resultant poor demand), RevPAR performance of the hospitality REITs under our coverage was comparatively poorer than the industry. For 2017, we expect a 3% yoy decline in RevPAR. Given the increase in its average retail occupancy and the enlarged Crowne Plaza Changi Airport, we continue to favour OUEHT.

	2013	2014	2015	2016F	2017F	2018F
Visitor arrivals (m)	15.57	15.10	15.23	16.30	16.62	16.96
Average length of stay (days)	3.50	3.71	3.61	3.46	3.48	3.48
Visitor days (m)	54.23	56.02	55.03	56.39	57.85	59.01
Total hotel demand (m room nights)	11.32	12.17	12.95	13.27	13.61	13.88
New hotel room supply	3,439	2,032	3,858	2,610	3,657	69
Available hotel room nights (m)	13.12	14.24	15.24	16.52	17.47	17.49
RevPAR (S$)	222.8	220.6	208.8	197.3	191.4	195.0
RevPAR (yoy % chg)	**-1.6%**	**-1.0%**	**-5.3%**	**-5.5%**	**-3.0%**	**1.9%**

SOURCE: CIMB RESEARCH, COMPANY REPORTS

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Figure 2: CIMB REIT overview

Company	Bloomberg Ticker	Recom.	Price (lc)	Target Price (lc)	Mkt Cap (US$ m)	Core P/E (x)			P/BV (x)			Recurring ROE (%)			Asset leverage (%)			Dividend Yield (%)			3-yr DPS CAGR (%)
						FY16F	FY17F	FY18F	FY16F	FY17F	FY18F	FY16F	FY17F	FY18F	FY16F	FY17F	FY18F	FY16F	FY17F	FY18F	
Ascott Residence Trust	ART SP	Hold	$1.15	$1.14	$1,337	15.0	19.4	18.7	0.9	0.9	0.9	5.6%	4.5%	4.8%	39%	39%	40%	7.2%	7.2%	7.4%	1.8%
Ascendas Hospitality Trust	ASCHT SP	NR	$0.76	NA	$598	5.8	24.4	26.0	na	na	na	6.8%	3.5%	na	na	na	na	7.2%	7.3%	7.2%	2.2%
CDL Hospitality Trust	CDREIT SP	Hold	$1.38	$1.42	$960	19.3	15.9	15.0	0.9	0.9	0.9	4.5%	5.6%	5.9%	37%	37%	37%	7.1%	7.0%	7.4%	-0.9%
Far East Hospitality Trust	FEHT SP	Hold	$0.59	$0.56	$748	16.0	16.6	16.2	0.6	0.6	0.6	3.9%	3.8%	4.0%	33%	33%	34%	7.3%	7.1%	7.3%	-2.2%
Frasers Hospitality Trust	FHT SP	NR	0.69	NA	$892	15.7	13.3	14.4	0.9	0.9	1.0	5.6%	6.4%	6.5%	na	na	na	7.8%	7.5%	7.7%	na
OUE Hospitality Trust	OUEHT SP	Add	$0.69	$0.71	$867	16.9	16.5	15.9	0.9	0.9	0.9	5.1%	5.4%	5.7%	38%	38%	38%	6.7%	7.1%	7.4%	-6.0%
Hospitality simple average						**14.8**	**17.7**	**17.7**	**0.8**	**0.8**	**0.9**	**5.2%**	**4.9%**	**5.4%**	**37%**	**37%**	**37%**	**7.2%**	**7.2%**	**7.4%**	**-1.0%**
AIMS AMP	AAREIT SP	NR	$1.38	NA	$620	21.4	13.8	12.5	0.9	0.9	0.9	6.6%	7.5%	8.1%	na	na	na	8.2%	8.0%	8.5%	1.9%
Ascendas REIT	AREIT SP	Hold	$2.47	$2.31	$5,005	16.4	15.2	15.7	1.1	1.2	1.2	7.1%	7.7%	7.6%	37%	36%	36%	6.2%	6.3%	6.4%	2.6%
Cache Logistics Trust	CACHE SP	Reduce	$0.81	$0.71	$513	12.8	13.9	14.3	1.0	1.1	1.1	7.6%	7.6%	7.4%	43%	43%	43%	9.5%	8.5%	8.0%	-8.6%
Cambridge Industrial Trust	CREIT SP	Hold	$0.59	$0.55	$541	14.7	14.8	14.4	0.9	0.9	0.9	6.0%	6.0%	6.2%	37%	38%	38%	7.4%	7.3%	7.5%	-2.5%
Keppel DC REIT	KDCREIT SP	Hold	$1.20	$1.21	$949	23.4	16.9	16.7	1.3	1.3	1.3	5.5%	7.5%	7.6%	30%	30%	30%	5.1%	6.1%	6.1%	4.2%
Mapletree Industrial Trust	MINT SP	Add	$1.67	$1.68	$2,116	15.5	15.2	15.1	1.2	1.2	1.2	8.0%	8.0%	8.1%	28%	30%	31%	6.7%	6.8%	6.8%	3.1%
Mapletree Logistics Trust	MLT SP	Hold	$1.07	$1.02	$1,872	17.7	14.4	14.0	1.0	1.0	1.0	5.9%	7.3%	7.5%	40%	38%	38%	6.9%	7.0%	7.2%	0.8%
Sabana Shariah	SSREIT SP	NR	0.44	NA	$326	na	na	na	0.6	na	na	-10.3%	na	na	na	na	na	9.5%	0.0%	0.0%	na
Soilbuild Business Space REIT	SBREIT SP	NR	0.64	NA	$471	na	12.8	13.3	0.9	0.9	na	-0.1%	6.8%	6.7%	na	na	na	9.5%	9.1%	8.8%	-4.6%
Viva Industrial Trust	VIT SP	NR	0.78	NA	$528	16.0	11.1	9.8	1.0	1.0	1.0	5.9%	8.3%	9.0%	na	na	na	8.9%	9.6%	9.7%	2.8%
Industrial simple average						**17.2**	**14.2**	**14.0**	**1.0**	**1.1**	**1.1**	**4.2%**	**7.4%**	**7.6%**	**36%**	**36%**	**36%**	**7.8%**	**6.9%**	**6.9%**	**0.0%**
CapitaLand Commercial Trust	CCT SP	Hold	$1.57	$1.50	$3,260	19.9	16.6	16.4	0.9	0.9	0.9	4.4%	5.2%	5.3%	33%	30%	30%	5.8%	5.9%	5.9%	2.4%
Frasers Commercial Trust	FCOT SP	Hold	$1.28	$1.26	$719	14.2	14.5	15.0	0.8	0.8	0.8	5.9%	5.7%	5.6%	36%	36%	36%	7.7%	7.4%	7.2%	-1.7%
Keppel REIT	KREIT SP	Hold	$1.02	$1.03	$2,374	24.1	21.5	21.3	0.7	0.7	0.7	2.9%	3.3%	3.4%	33%	33%	33%	6.2%	6.3%	6.4%	-1.4%
OUE Commercial REIT	OUECT SP	Hold	$0.70	$0.65	$636	22.3	21.0	18.8	0.5	0.5	0.5	2.0%	2.2%	2.5%	37%	37%	37%	7.6%	7.6%	7.7%	7.1%
Office simple average						**20.1**	**18.4**	**17.9**	**0.7**	**0.7**	**0.7**	**3.8%**	**4.1%**	**4.2%**	**35%**	**34%**	**34%**	**6.8%**	**6.8%**	**6.8%**	**1.6%**
CapitaLand Mall Trust	CT SP	Hold	$1.98	$1.98	$4,932	17.5	18.5	18.6	1.0	1.0	1.0	6.0%	5.7%	5.6%	32%	33%	34%	5.6%	5.5%	5.4%	-1.6%
Frasers Centrepoint Trust	FCT SP	Add	$2.04	$2.01	$1,319	18.6	18.8	17.5	1.1	1.1	1.1	5.7%	5.6%	6.0%	28%	30%	30%	5.8%	5.7%	5.9%	1.3%
Mapletree Commercial Trust	MCT SP	Hold	$1.53	$1.45	$3,078	20.2	18.5	18.0	1.2	1.0	1.2	5.9%	5.9%	6.0%	35%	37%	37%	5.3%	5.5%	5.6%	2.4%
SPH REIT	SPHREIT SP	Hold	$0.98	$0.95	$1,750	20.7	20.5	19.6	1.0	1.0	1.0	5.0%	5.1%	5.3%	26%	26%	26%	5.6%	5.8%	5.9%	1.9%
Starhill Global REIT	SGREIT SP	Hold	$0.75	$0.72	$1,150	14.2	14.6	14.5	0.8	0.8	0.8	5.8%	5.6%	5.6%	35%	35%	36%	6.9%	6.8%	6.8%	0.6%
Suntec REIT	SUN SP	Reduce	$1.75	$1.55	$3,130	24.8	22.6	22.1	0.8	0.8	0.8	3.3%	3.6%	3.7%	37%	37%	37%	5.7%	5.8%	5.8%	0.5%
Retail simple average						**19.3**	**18.9**	**18.4**	**1.0**	**1.0**	**1.0**	**5.3%**	**5.2%**	**5.4%**	**32%**	**33%**	**33%**	**5.8%**	**5.8%**	**5.9%**	**0.9%**
CapitaLand Retail China Trust	CRCT SP	NR	$1.48	NA	$906	11.9	15.6	15.7	0.9	0.9	0.9	7.3%	6.2%	6.0%	na	na	na	6.8%	7.5%	7.6%	1.9%
Croesus Retail Trust	CRT SP	Add	$0.87	$0.98	$461	28.7	13.0	13.5	0.9	1.0	1.0	3.0%	7.2%	7.3%	45%	46%	46%	8.0%	9.3%	9.3%	-0.2%
Lippo Malls Indonesia Retail Trust	LMRT SP	Hold	$0.39	$0.38	$759	14.0	13.6	13.4	1.1	1.0	1.0	7.4%	7.6%	7.3%	34%	32%	31%	8.3%	8.7%	8.8%	4.5%
Mapletree Greater China Commercial	MAGIC SP	Add	$0.97	$1.13	$1,900	14.7	19.9	19.6	0.8	0.8	0.7	5.4%	3.9%	3.8%	39%	39%	37%	7.5%	7.7%	7.8%	5.0%
Retail Ex-Sin simple average						**17.3**	**15.5**	**15.6**	**0.9**	**0.9**	**0.9**	**5.8%**	**6.2%**	**6.1%**	**40%**	**39%**	**38%**	**7.6%**	**8.3%**	**8.4%**	**2.8%**
First REIT	FIRT SP	Hold	$1.29	$1.26	$701	16.8	16.5	16.1	1.2	1.2	1.2	7.1%	7.1%	7.3%	33%	34%	36%	6.5%	6.5%	6.6%	1.1%
Parkway Life REIT	PREIT SP	Add	$2.46	$2.58	$1,046	20.7	18.7	18.4	1.4	1.4	1.4	7.0%	7.7%	7.8%	36%	36%	36%	4.9%	5.3%	5.1%	-1.6%
RHT Health Trust	RHT SP	Hold	$0.89	$0.89	$502	15.5	15.8	23.7	1.0	1.0	1.0	6.0%	6.1%	4.1%	15%	15%	19%	8.7%	34.4%	7.2%	-4.6%
Healthcare simple average						**17.7**	**17.0**	**19.4**	**1.2**	**1.2**	**1.2**	**6.7%**	**6.9%**	**6.4%**	**28%**	**28%**	**30%**	**6.7%**	**15.4%**	**6.3%**	**-1.7%**

SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

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Darkest before dawn

4Q16 review and 2017 outlook

4Q16 review: operational performance continued to deteriorate

In Figures 3-4, we lay out 4Q16 DPU performance of the Singapore-centric REITs under our coverage. Surprisingly, results for most of the hospitality REITs under our coverage were ahead of our expectations. That said, the outperformance mainly came from one-offs for both ART (4QFY16 DPU included a one-off net FX realised gain) and CDREIT (4QFY16 DPY included a consumption tax of 0.25 Scts/unit). Otherwise, underlying trends remained largely the same, and the set of results were insufficient to convince us to move hospitality up among our sub-sector ranking preference.

Other beats came from i) CCT which benefited from the inclusion of CapitaGreen; ii) AREIT due to higher-than-expected contributions from the acquisition of the Australian portfolio and One@Changi City; and iii) OUEHT as it benefited from the enlarged Crowne Plaza Changi Airport and higher qoq retail contributions. The miss came from KREIT as it was impacted by revenue vacuum from the sale of 77 King St, lower occupancy at Bugis Junction Tower and absence of capital distribution from asset divestment gains.

Operationally, we observed that performance continued to deteriorate on a sequential quarterly basis. Even though portfolio occupancies were somewhat stable, REITs experienced a larger degree of negative rental reversions towards the end of the year (also a function of time-lag). Meanwhile, the hospitality REITs announced sharper decline in RevPARs as visitor arrival momentum decelerated in 2H16.

In addition, we note that the small-cap industrial and hospitality REITs have made fair value losses on their respective investment properties, reflecting the continued headwinds of both sectors. Meanwhile, the office and retail REITs have made slight fair value gains on their investment properties. Valuation cap rates have been supported by transactions in the physical market; and there is a slight divergence between the rental market and capital values.

Lastly, we noticed that all-in financial expense has crept up by c.5-10bp qoq. Other than a slightly higher rate environment, the increase was also driven by higher hedging costs due to volatility at both rates and FX markets. Nonetheless, we believe REITs remain watchful, and would look at suitable windows to refinance or hedge their borrowings.

Figure 3: Results summary

REIT	4QCY16 reported DPU (Scts)	Above/below expectations	% yoy chg	% qoq chg	Comments
Office					
CCT	2.39	Slightly above	10.1%	3.9%	▪ 4QFY16 DPU grew 10.1% yoy due to the inclusion of CapitaGreen.
FCOT	2.51	In line	0.0%	2.1%	▪ Flat DPU performance as higher contributions from 357 Collins St and a strong S$ was offset by lower income from China Square Central and Central Park in Perth. ▪ 1QFY17 DPU did not have any management fees taken in units. It included a capital distribution of 0.28 Scts.
KREIT	1.48	Below	-11.9%	-7.5%	▪ 4QFY16 DPU declined 11.9% yoy as performance was impacted by revenue vacuum from the sale of 77 King St, lower occupancy at Bugis Junction Tower and absence of capital distribution from asset divestment gains.
OUECT	1.18	In line	-13.2%	-10.6%	▪ Although 4QFY16 NPI grew 17.3% yoy, on the back of organic improvement from OUE Bayfront and Lippo Plaza, DPU was 13.2% yoy lower due to one-off adjustments that augmented 4QFY15. ▪ 4QFY16 DPU also included payment of 20% of base management fees and 50% of performance fees in cash, rather than units

SOURCES: CIMB, COMPANY REPORTS

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Figure 4: Results summary (cont')

Trust	4QCY16 reported DPU (Scts)	Above/below expectations	% yoy chg	% qoq chg	Comments
Retail					
CT	2.88	In line	1.1%	3.6%	▪ 4QFY16 DPU was flat yoy, after a release of S$12m of its taxable income (0.34 Scts) retained in 1H16. ▪ 4QFY16 NPI declined 7.6% yoy due to the closure of Funan Mall for redevelopment and sale of Rivervale Mall in Dec 15.
FCT	2.89	In line	0.7%	2.7%	▪ 1QFY17 DPU grew 0.7% yoy as 70% of the manager's fees were paid in units vs. 20% in 1QFY16. ▪ 1QFY17 NPI declined 5.7% yoy due to lower contribution from Northpoint, which is undergoing AEI works.
MCT	2.28	In line	9.6%	11.2%	▪ 3QFY17 DPU grew 9.6% yoy thanks to a full quarter contributions from MBC I and better performance from existing assets.
SPHREIT	1.34	In line	0.8%	-5.0%	▪ 1QFY17 DPU grew 0.8% yoy due largely to cost savings at NPI level.
SGREIT	1.26	Below	-4.5%	-3.1%	▪ 2QFY17 DPU declined 4.5% yoy as lower contributions from the SGP properties, on-going redevelopment at Plaza Arcade, mall repositioning in China, divestment of Roppongi Terzo
SUN	2.59	In line	-5.6%	2.4%	▪ 4QFY16 DPU declined 5.6% yoy due to the divestment of Park Mall, cessation of income support from MBFC properties and slightly lower capital distribution of S$8m (4QFY15: S$8.4m).
Retail ex-SIN					
MAGIC	1.78	In line	-4.1%	0.7%	▪ 3QFY17 DPU declined 4.1% yoy due to the depreciation of the Rmb and implementation of VAT in China, partially offset by higher rental income from Festival Walk.
Industrial					
AREIT	4.00	Above	1.2%	-0.9%	▪ 3QFY17 DPU grew 1.2% yoy, despite an enlarged unit base. The favourable yoy effect was partly due to the provision of S$8.4 performance fees in 3QFY16. ▪ 3QFY17 distribution income grew 19.2% yoy due to contributions from the acquisition of the Australian portfolio and ONE@Changi City, partially offset by the divestment of A-REIT City @Jinqiao, Ascendas Z-Link and Four Acres Singapore.
CACHE	1.85	In line	-10.8%	0.2%	▪ On a like-for-like basis, excluding capital distribution from the divestment of Kim Heng Warehouse, 4QFY16 DPU would have fallen by a lower 3.9% yoy. ▪ 4QFY16 distribution income declined 5.2% yoy as additional revenue from the Australian acquisition, DHL Supply Advanced Regional Centre was offset by lower revenue from 51 Alps Ave and higher financing costs.
CREIT	1.00	In line	-12.6%	0.9%	▪ On a like-for-like basis, excluding one-off capital distribution and management fees paid in units , FY16 DPU would have fallen by a lower 5.7% yoy, instead of 12.9%. ▪ 4QFY16 NPI declined 8.8% yoy due to continuing conversions of industrial properties from single-tenancy to multi-tenancy. NPI performance was particularly hampered by 4/6 Clementi Loop and 511/513 Yishun Industrial Park A.
KDCREIT	1.31	In line	-20.0%	-30.9%	▪ Excluding the impact from the pro-rata preferential offering, the later completion of Keppel DC Singapore 3 acquisition as well as the one-off property tax refund in 3QFY16, the adjusted 4QFY16 DPU would have increased by 1.8% yoy. ▪ 4QFY16 distribution income met IPO forecast, due to the one-off net property tax refund and contributions from Intellicentre 2, offset by lower rental income from Dublin 1.
MINT	2.83	In line	0.4%	0.0%	▪ 3QFY17 DPU grew 0.4% yoy as higher rental rates across all property segments and first contribution from BTS for Hewlett-Packard (HP), partly offset lower portfolio occupancy.
MLT	1.87	In line	0.1%	0.5%	▪ 3QFY17 DPU was flat yoy as contributions from acquisitions and redevelopment/AEI projects, along with stronger performance in HK, was offset by lower earnings in Singapore and the Pyeongtaek property in South Korea.
Hospitality					
ART	2.04	Above	-1.4%	-5.1%	▪ 4QFY16 DPU included a one-off net FX realised gain of 0.11 Scts/unit. Adjusting for this, 4QFY16 DPU would have declined 6.8% yoy. ▪ The yoy decline in DPU was due to the effects of the equity placement in Mar 16. ▪ 4QFY16 distribution income grew 5.6% yoy due to inorganic contribution from Sheraton Tribeca, partially offset by lower contributions from China and UK
CDREIT	3.11	Above	3.3%	27.5%	▪ 4QFY16 DPU grew 3.3% yoy due to higher contribution from NZ and a stronger A$, partially offset by lower contributions from the SGP and Maldives properties as well as a weaker £. ▪ 4QFY16 DPU included income distribution from the Japan hotels and one-off consumption tax of 0.25 Scts/unit. Adjusting for this, 4QFY16 DPU would have declined by 5% yoy.
OUEHT	1.36	Above	-13.9%	10.6%	▪ The yoy decline in 4QFY16 DPU was due to the rights issue in Apr 16. ▪ 4QFY16 distribution income grew 5.3% yoy. The increase came from the enlarged Crowne Plaza Changi Airport, partially offset by lower contribution from the retail segment.
Healthcare					
PREIT	3.06	In line	-9.2%	0.0%	▪ 4QFY16 DPU declined 9.2% yoy due to the absence of divestment gains. ▪ On like-for-like basis, 4QFY16 DPU would have been 2.2% higher yoy due to higher contributions by Singapore and Japan nursing homes, partly offset by lower contributions from Malaysia.

SOURCES: CIMB, COMPANY REPORTS

2017 outlook: near the tail-end of supply cycle; but first, the tower of supply to contend with

In general, rents and prices of the various sub-sectors fell at a faster clip in 2016 than in 2015, while vacancies rates also worsened. We are cognisant that the physical market is moving towards the tail-end of the supply cycle. However, there is still the 2017 tower of supply to contend with. As such, we expect rents to decline by a further c.5%, and for vacancies to peak in 2017, before recovery can take place.

Our expectation of a broad-base decline in rents by 5% also implies a bottoming-out scenario, as rents across the various sub-sectors fell by c.5-10% in 2016. Hence, we are expecting a smaller magnitude of declines. With passing rents near spot rents, we expect greater downward pressure on rental reversions in 2017, though pressures could alleviate going into 2H17.

In terms of 12-month forward DPU growth, we project flat growth. Admittedly, we found it difficult to ascribe a sub-sector preference given that DPU growth among industrial (+0.7% yoy), retail (+0.5% yoy) and office (+0.6% yoy) are all largely muted. However, we would avoid the hospitality sub-sector in 2017, despite anticipating supply to be minimal in 2018. We expect industry RevPAR to further edge downwards by 3% in 2017 as completions were pushed back from 2016 to 2017, resulting in higher supply pressure for the year.

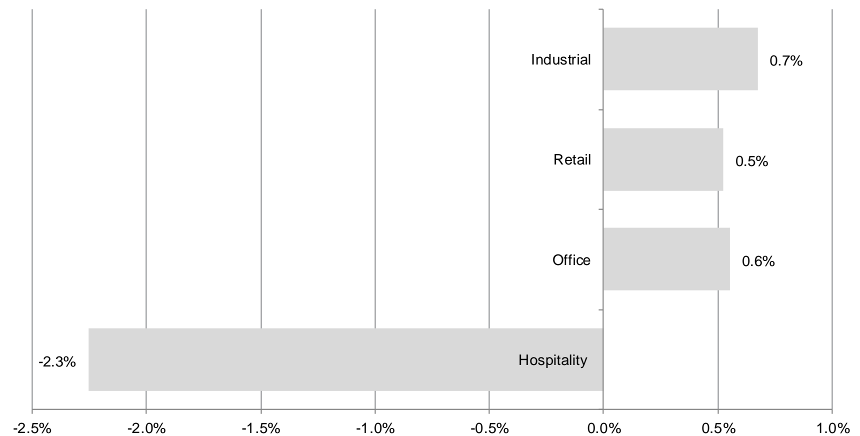
Among the sub-classes, we believe business parks would be the first to recover, followed by Grade A CBD offices. It is difficult to say whether retail, griped by structural challenges, would recover but we expect well-positioned suburban malls to remain resilient. For 2017, we would avoid warehouses and hotels.

With negligible supply post-16 and Singapore's focus on higher-value activities, we are most positive on business parks. Furthermore, we are encouraged by the qoq improvement in occupancy in 4Q16. We project that occupancy could improve to 88.5% by end-17 (end-16: 83%), which would strengthen median rent by 3% yoy.

Bolstered by "flight to quality", increased take-up at new developments and a tapering of Grade A supply post-17, the office market could evolve into a two-speed market in 2017, in our view. We expect Grade A rents to bottom by end-17. However, we believe that rents of older/Grade B offices would continue to languish as these buildings have persistent high vacancy of over 20%, and that their products are not as competitive as the new Grade A offices.

We are cautious on warehouses as 2017 is set to be a peak year of completions, with 0.9m sqm of new supply vs. past 5-year average of 0.5m sqm. Longer term, we believe the secular trend of e-commerce propelling the rise of fulfilment centres and demand from third-party logistics providers should remain intact, and mop up excess supply. Lastly, hotels face another year of strong supply and soft demand. We believe recovery would only take place in 2018, when the supply tap cuts off.

Figure 5: S-REIT sub-sector 12-month forward DPU growth projections: flat DPU growth outlook



SOURCES: CIMB

Outlining rental reversion methodology

In place of the usual capital management section, we put our attention this time on the topical issue of REITs' rental reversion methodology. In our strategy note "Navigating Singapore-Rocky is the new status quo on 5 Dec 16, we detailed that capital management of REITs remained sound; and that the high proportion of fixed-rated debt (c.80%) insulated the REITs from rising rates over the next 12-18 months. We estimated that a 50bp rise in interest rate could shave off 0-2.9% of the REITs' distribution income. That said, interest cover could slightly weaken, due to the challenging operating environment. Gearings are also creeping up, especially for some of the small-cap industrial REITs. These REITs are actively recycling some of their assets to pare down borrowings. In addition, refinancing risk – a key risk indicator given the asset-liability mismatch of REITs – remained well-spread, with c.9% of debt due for refinancing in FY17F.

Instead, the recent disclosures by KREIT on its rental reversions have placed this operating metric under scrutiny. Rental reversions tell us the change in rents upon lease renewal, and are one of the indicators to assess the health of leasing activities.

However, such operating metrics are not a mandatory disclosure requirement, and there is no standardised way to compute rental reversions. For example, some REITs include new leases in the rental reversion computation as that allows them to track the revenue direction of the space. However, some only include renewal/forward renewal leases so as to track the revenue direction from the perspective of the existing tenant.

The actual mathematics behind rental reversions also differs. A straightforward and conservative approach would be taking the first-year rent of the new lease period over the last payable rent of the expiring lease period. However, some REITs compare the average rents of the new lease period over the preceding rents of the expiring leases as they want to factor in the annual rental escalations. Things could also be more complicated for the retail sub-sector with gross turnover (GTO) rents being more prominent in recent years. The shift towards GTO rents could exaggerate the downwards pressures on headline rents.

Furthermore, the principle behind reversions could also differ. Some REITs do not include newly created or reconfigured units when computing rental reversions, since there is no past record for these spaces. However, some include these units as they argue that while the lines are redrawn, the space is still generating revenue. From a psf perspective, revenue trend can still be tracked.

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Lastly, some REITs such as CCT and MINT do not disclose the quantum of rental reversions. Instead, they provide other holistic data such the average expired gross rent and a range of committed gross rents as well as the average rent of expiring leases for investors to put a finger on the pulse of the leasing activities.

To save you time, we outlined a cheat sheet on how rental reversions are calculated across the REITs, though there are still nuances between the REITs that investors should take note.

At the end of the day, we view that rental reversion is one of the several operating metrics that should be considered when assessing the performance of the trust. It is difficult to judge which reversion methodology is "better" or "worse" but we feel that the methodology should remain consistent for investors to use. When looking at reversions, investors should also be mindful of the context of the REIT and its sub-sector, and the principles behind the data point. In other words, what does the REIT desire to communicate to the market with regards to its leasing activities? For the analysts, rental reversions are a confirmation tool that indicates to us the direction of the passing rent of the property, whether our reversion assumptions are reasonable, and also implies the annual yoy change in spot rents for the property.

Figure 6: How rental reversions are computed across REITs

REIT	Is quantum of rental reversion disclosed?	Rental reversion methodology							Comments
		Type of leases included				Type of rents compared			
		Renewal	New	Forward renewal	Review	New first year rent vs. last payable rent	Average rent of new lease period vs. average rent of expiring lease period	Average rent of new lease period vs. last year rent of expiring lease period	
Office									
CCT	×								▪ Discloses the average expired gross rent and a range of committed gross rents at each property ▪ Discloses the average rent of expiring leases ▪ Discloses the average portfolio passing rent
FCOT	✓	✓	✓			✓			▪ Rental reversion includes reconfigured units ▪ Discloses the average passing rent of expiring leases at each major property
KREIT	✓	✓	✓	✓	✓		✓		▪ Rental reversion includes reconfigured units ▪ Discloses the average signing rents for Singapore leases
OUECT	✓	✓		✓	✓		✓		▪ Rental reversion does not include reconfigured units ▪ Discloses a range of committed gross rents at each property ▪ Discloses the average passing rent at each property
Retail									
CT	✓	✓	✓	✓		✓			▪ Rental reversion does not include reconfigured units
FCT	✓	✓	✓	✓			✓		▪ Rental reversion does not include reconfigured units
MCT	✓	✓	✓					✓	▪ Rental reversion includes reconfigured units
SPHREIT	✓	✓	✓		✓		✓		
SGREIT	✓	✓	✓	✓				✓	▪ Rental reversion includes reconfigured units ▪ Rental reversion does not include short term leases (under 1-year)
SUN	×								▪ Discloses the average signing rents for Singapore leases
MAGIC	✓	✓	✓				✓		▪ Rental reversion includes reconfigured units
Industrial									
AREIT		✓		✓		✓	✓		
CACHE	×								
CREIT	✓	✓	✓	✓		✓		✓	▪ Discloses the average portfolio passing rent
KDCREIT	×								
MINT	×								▪ Discloses the average expired gross rent and the average committed gross rents for each segment ▪ Discloses the average rent of new leases for each segment ▪ Discloses the average passing rent for each segment
MLT	✓	✓	✓	✓		✓			

SOURCES: CIMB, COMPANY REPORTS

FOR AREIT'S LONGER LEASES WITH ANNUAL RENTAL ESCALATIONS, AVERAGE RENTS OF THE LEASE PERIODS ARE USED

FOR CREIT'S LONGER LEASES WITH ANNUAL RENTAL ESCALATIONS, AVERAGE RENTS OF THE LEASE PERIODS ARE USED. ALSO, WHEN A PROPERTY IS CONVERTED TO A MULTI-TENANTED BUILDING, THE RENTAL REVERSION IS BASED ON A LIKE-FOR-LIKE BASIS

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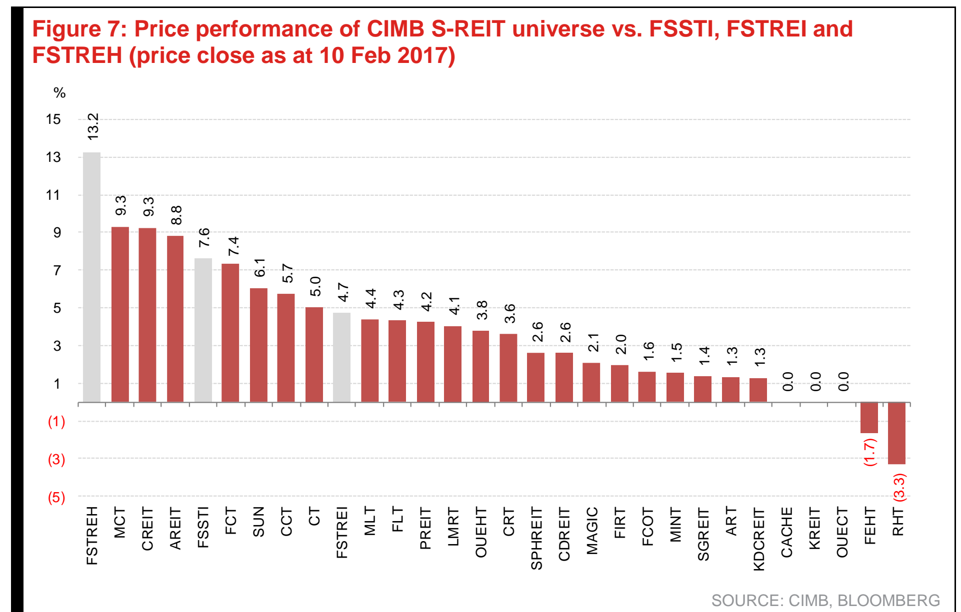
Investment strategy and preferred picks

YTD performance

Although the REIT index is up 4.7% YTD, it has underperformed the developer index (FSTREH), which is up 13.2%, and the FSSTI (+7.6%). S-REITs' rebound since Trump won the US presidential elections has been led largely by the big-caps. The top three outperformers are MCT (+9.3%), CREIT (9.3%) and AREIT (+8.8%). We believe CREIT's performance has been driven by corporate actions. E-Shang Redwood, one of the leading owners and operators of modern logistics assets in North Asia, has acquired an 80% stake in the manager of CREIT. It also acquired 10.65% of CREIT at an exercise price of S$0.70/unit. Meanwhile, the underperformers are RHT and FEHT.

Figure 7: Price performance of CIMB S-REIT universe vs. FSSTI, FSTREI and FSTREH (price close as at 10 Feb 2017)



SOURCE: CIMB, BLOOMBERG

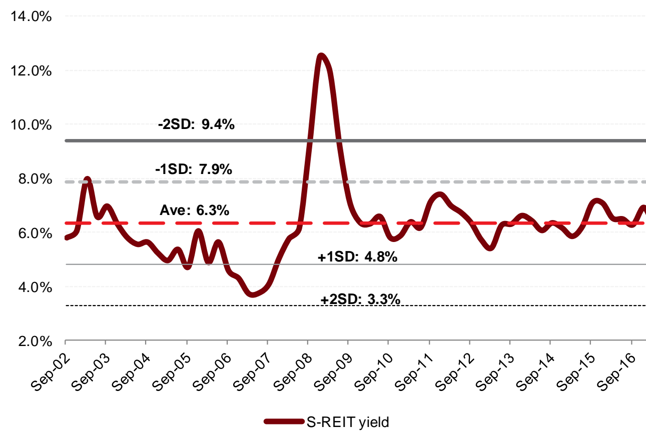
Maintain Underweight; keeping our three rate hike scenario for 2017

We maintain our Underweight rating on S-REITs, and retain our view of rising yields and steepening curves. Our target prices factored in a scenario of three rate hikes in 2017. Higher interest rates could pose: i) higher financing expenses, which will eat into distributions; ii) a more difficult environment to raise financing; and iii) potential cap rate expansion in the medium term. These, plus a challenging operating environment, would be akin to an albatross around the sector's neck. Furthermore, a strengthening US$ could induce capital return back to the US, spelling risk of capital depreciation for S-REITs.

In addition, the sector is trading around mean valuations, at 6.6% dividend yield (vs. its long-term average of 6.3%) and 0.96x P/BV (vs. its long-term average of 1.03x), suggesting limited upside. In terms of yield spreads, S-REITs are trading at 430bp against the long-term average of 380bp, and past 5-year average of 430bp. This suggests that the market could expect interest rates to be dialled back, or only pricing in a benign scenario of 1-2 rate hikes.

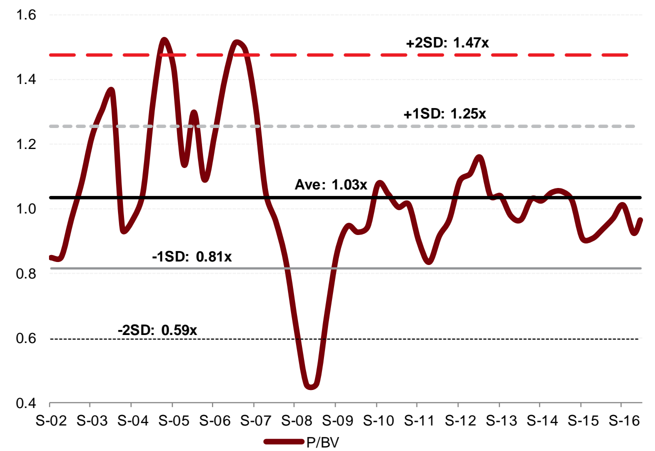
Lastly, even when sensitising our target prices to scenarios of one and two rate hikes, respectively, we found upside to be limited, given YTD unit price performance of the REITs. The exercise underscores our Underweight positioning.

Figure 8: S-REIT sector is trading at 6.6%



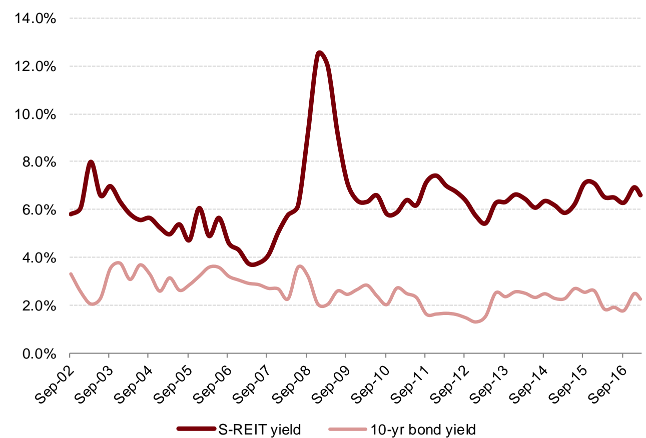
SOURCES: CIMB, BLOOMBERG

Figure 9: The sector is trading at 0.96x P/BV



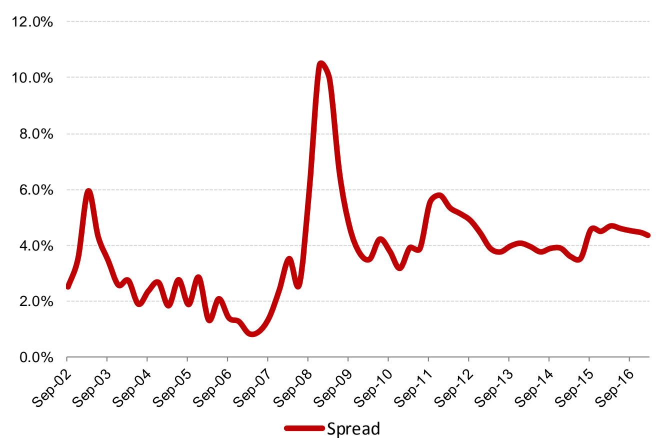
SOURCES: CIMB, BLOOMBERG

Figure 10: S-REIT yield vs. 10yr bond yield



SOURCES: CIMB, BLOOMBERG

Figure 11: S-REITs is trading at 430bp yield spread vs. long-term average of 380bp and past 5-year average of 430bp



SOURCES: CIMB, BLOOMBERG

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Figure 12: Sensitivity analysis: assessing potential upside/downside based on rate outlook

	Potential target price			Potential upside/downside		
REIT	Base case: 3 rate hikes	S_1: 2 rate hikes	S_2: 1 rate hike	Base case: 3 rate hikes	S_1: 2 rate hikes	S_2: 1 rate hike
Office						
CCT	1.50	1.58	1.61	-4.5%	0.6%	2.5%
FCOT	1.26	1.28	1.29	-1.6%	0.0%	0.8%
KREIT	1.03	1.07	1.08	1.0%	4.9%	5.9%
OUECT	0.65	0.67	0.68	-7.1%	-4.3%	-2.9%
Retail						
CT	1.98	2.09	2.13	0.0%	5.6%	7.6%
FCT	2.01	2.13	2.17	-1.5%	4.4%	6.4%
MCT	1.45	1.53	1.56	-5.2%	0.0%	2.0%
SPHREIT	0.95	1.00	1.01	-3.1%	2.0%	3.1%
SGREIT	0.72	0.74	0.74	-4.0%	-1.3%	-1.3%
SUN	1.55	1.62	1.64	-11.4%	-7.4%	-6.3%
Industrial						
AREIT	2.31	2.41	2.44	-6.5%	-2.4%	-1.2%
CACHE	0.71	0.73	0.74	-12.3%	-9.9%	-8.6%
CREIT	0.55	0.57	0.58	-6.8%	-3.4%	-1.7%
KDCREIT	1.21	1.24	1.25	0.8%	3.3%	4.2%
MINT	1.68	1.75	1.78	0.6%	4.8%	6.6%
MLT	1.02	1.04	1.04	-4.7%	-2.8%	-2.8%
Hospitality						
ART	1.14	1.15	1.15	-0.9%	0.0%	0.0%
CDREIT	1.42	1.46	1.47	2.9%	5.8%	6.5%
OUEHT	0.71	0.73	0.75	2.9%	5.8%	8.7%
Healthcare						
PREIT	2.58	2.68	2.72	4.9%	8.9%	10.6%
Simple average	.			**-2.8%**	**0.7%**	**2.0%**

SOURCES: CIMB

Capital preservation is key

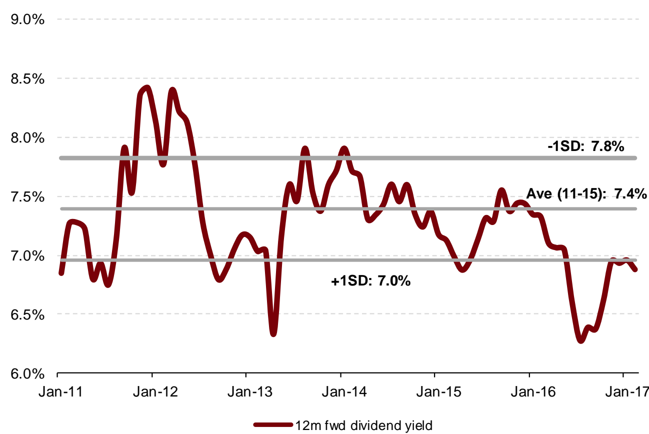
Given the current valuations, we are wary of capital depreciation, and advise investors to trim their holdings and hold cash. While we foresee business parks and Grade A offices to be the first to recover, we believe the respective Big-cap proxies, AREIT and CCT, have already priced in the recovery. We would not recommend entering at these levels.

Instead, we are only able to throw up two names for income-funds. In a rising rate environment, we believe MINT's visible DPU growth would enable the REIT to buffer against rate hikes while PREIT's rental structures make it the most defensive REIT in the sector.

Maintain Add on MINT, with unchanged TP of S$1.68

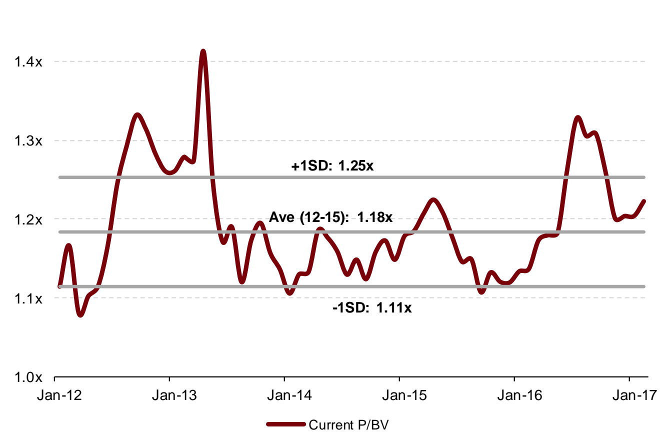
Through BTS (build-to-suit) solutions and AEIs, MINT has focused on growing its hi-tech buildings since FY14. As it is, it is ready to harvest what it has sown. Phase one of the BTS for Hewlett-Packard has completed and started to contribute at end-16. We expect phase two to contribute from Jul 17. Altogether, we forecast MINT to deliver a 3-year CAGR of 2.7% through FY16-19F, one of the highest in the sector. There would be another growth kicker come FY19 when the AEI at Kallang Basin 4 is completed. All in, we forecast hi-tech buildings to account for 30% of the group's NPI by FY19 (from 20% in FY16). We maintain our Add rating. Our DDM-target price implies a total return of 7.5%.

Figure 13: MINT's 12-month forward dividend yield



SOURCES: CIMB, BLOOMBERG

Figure 14: MINT's P/BV

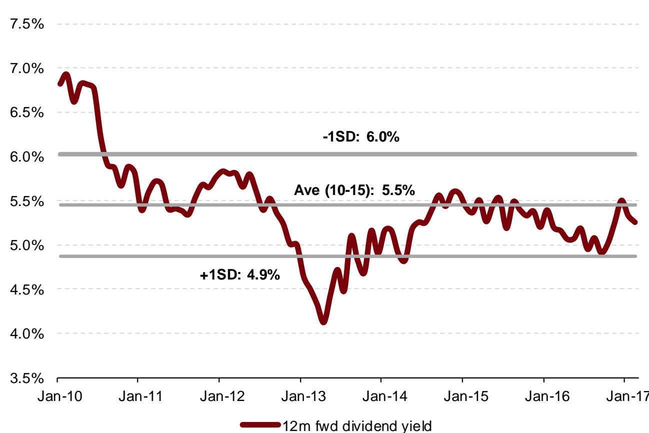


SOURCES: CIMB, BLOOMBERG

Maintain Add on PREIT, with unchanged TP of S$2.58

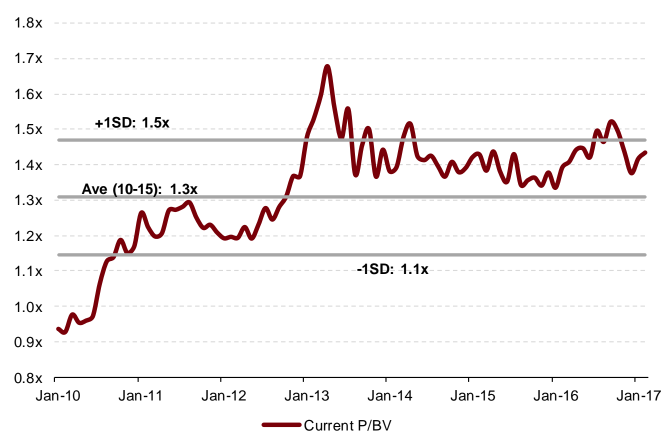
PREIT offers investors earnings stability from its long average lease expiry profile of 8.4 years. In addition, it has one of the most resilient income streams amongst S-REITs, thanks to its deflation-protected Singapore revenue stream and defensive long-term lease structure in Japan. Its balance sheet is strong, with a gearing of 36.3% and low effective cost of debt of 1.4%. As a result of its asset monetisation exercise, it generated S$5.3m of net disposal gain, to be distributed in FY17. We maintain our Add rating given the total return of 10.6%, based on our DDM-target price of S$2.58.

Figure 15: PREIT's 12-month forward dividend yield



SOURCES: CIMB, BLOOMBERG

Figure 16: PREIT's P/BV



SOURCES: CIMB, BLOOMBERG

Office: supply crisis passing

Rental declines slowing; vacancies near 5-year high

The office sector continues to experience rental decline, albeit at a slower pace, with a 2.2% qoq decline for Grade A CBD core rents to S$9.10 psf pm in 4Q16 (according to CBRE). This translates to 12.5% erosion since the beginning of 2016, and 20.2% erosion since the beginning of 2015. Meanwhile, Grade B CBD core fell 2% qoq and 10.4% yoy to S$7.35 psf pm in 4Q16; Grade B island wide fell 2.1% qoq and 9.7% yoy to S$6.95 psf pm in 4Q16.

In terms of capital values, prices have fallen by a milder 5.8% since 3Q15 (according to URA's price index of office space in the central area). Amid current low interest rates, capital prices are stickier as investors swashed with capital are still keen to scoop up commercial assets in the country.

Recent examples include IOI's record land bid for the white site in Central Boulevard for S$2.57bn or S$1,689 psf per plot ratio. At this price, we reckon the cost to completion would be c.S$3,100-3,200 psf of leaseable area. Based on an expected rental yield of 4%, the development would likely have to command a rent of S$12 psf pm or back to the 2009 level. This represents a CAGR of 6% p.a. for the next five years.

In addition, transactions such as these made the headlines in the earlier part of 2016: i) Qatar Investment Authority's acquisition of Asia Square T1 from BlackRock for S$3.45bn (c.S$2,680 psf) at net yield of 3.2 on 83% occupancy (c.3.9% net yield on full occupancy); ii) Indonesian tycoon Dr Tahir's acquisition of Straits Trading Building from Sun Venture for S$560m (a psf record-high of S$3,520 psf or net yield of 2.8%) and iii) CCT's acquisition of the remaining 60% of CapitaGreen, valuing the building at S$1.6bn (S$2,276 psf or an initial yield of c.4-4.2%).

In conjunction with the drop in rents, island-wide office vacancy levels rose to 11.1% in 4Q16 (from 10.4% in 3Q16). Vacancies are near a 5-year high since 1Q12, on the back of large completions such as the DUO Tower in Bugis (c.570k sq ft) and Guoco Tower in Tanjong Pagar (c.900k sq ft).

For 4Q16, net absorption was a marginal 10.8k sq ft, and 334k sq ft for 2016, the lowest expansion since 2009. This was despite a net addition of 1.8m sq ft of new office inventory during the year. New demand was marginal, and mainly driven by relocation or "flight to quality". The bigger and more efficient floor plates at the new developments allow housing more people in open workspace concepts, and in some instances, allow occupiers to consolidate on a floor, instead of straddling over several floors. In turn, "flight to quality" has impacted buildings outside CBD and the older Grade B offices. Companies which are taking new space are from the tech, media and telco (TMT) sectors.

Office REITs kept occupancy steady, but experienced negative reversions towards the end of the year

Sloshed with supply, the office REITs under our coverage still managed to keep portfolio occupancy steady, thanks to their defensive tenant retention strategy. However, average portfolio passing rents have started to retrace, as negative reversions percolate through. In terms of rental reversions, KREIT reported -9% for 2016 (4Q16: -6%). OUECT recorded -10.1% and -3% reversion for OUE Bayfront and One Raffles Place, respectively, in 2016. FCOT's Alexandra Technopark (ATP) was able to drive positive rental reversion of 5.3-9.5% through the year. Meanwhile, CCT's passing rent dipped 0.2% qoq but up 3.4% yoy to S$9.20 psf pm. SUN's Singapore office passing rent dropped 1.5% qoq and 2.4% yoy to S$8.65 psf pm.

Indicators point towards a recovery for Grade A at end-2017

For 2017, we believe sub-par GDP growth plus an additional supply of 2.9m sq ft in the year (vs. average annual net supply of 0.8m sq ft over the past 10 years) would likely continue to pressure rental outlook in the near term. Inputting a 0.8m sq ft of net absorption in 2017 (vs. average annual net demand of 0.9m sq ft over the past 10 years), we expect office rents to decline another 5% in 2017 and vacancy level to peak to 13.2% in end-17 vs. 11.1% in 4Q16. Marina One,

with 1.9m sq ft of NLA, accounts for two-thirds of the supply, and is scheduled to be completed in 1H17.

That said, indicators such as i) healthy take up at the new developments, ii) slowing rental decline, iii) tapering supply post-2017, and iv) a tight investment market point towards a bottoming of the sector. We believe rents could improve as soon as 4Q17, and that higher quality CBD offices are likely to see the greatest gains when the market begins to pick up.

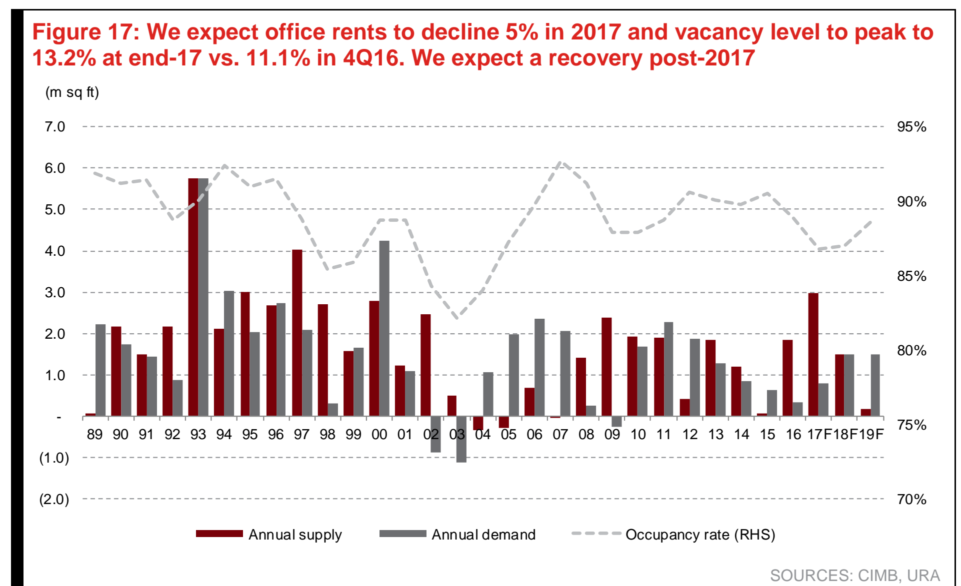
To date, around 85% of Guoco Tower's office component has been leased; while 60% of Marina One and 45% of DUO have been pre-leased. With less urgency from the new developments to secure tenants, the pressure on Grade A rents could also ease. Moreover, we understand that the new developments have started to raise asking rents.

Beyond 2017, supply will begin to taper down to c.1m sq ft p.a. In particular, we note a dearth of new supply in 2019, which would be supportive of rent recovery in late-17/early-18, in our view.

With passing rents at or above spot rents, we believe that office REITs under our coverage are likely to experience greater negative renewals in 2017 vs. a year ago. Within the office sub-sector, our preference would be CCT as a proxy for a recovery in Grade A office. Additionally, as it is bolstered by the full-year contribution of CapitaGreen, we project 2.5% yoy growth in FY17 DPU. This is despite factoring in the potential conversion of the S$175m convertible bonds maturing in Sep 17. Also, the trust only has a small 5% of income to be renewed in FY17F (mainly in 2H17), indicating that incomes should be stable.

Office key charts

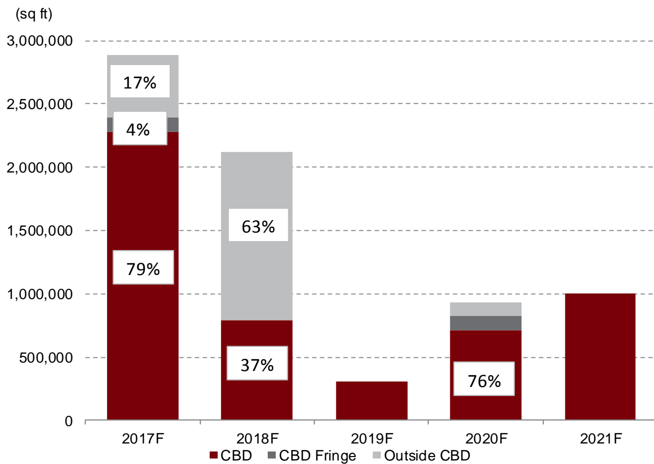
Figure 17: We expect office rents to decline 5% in 2017 and vacancy level to peak to 13.2% at end-17 vs. 11.1% in 4Q16. We expect a recovery post-2017



SOURCES: CIMB, URA

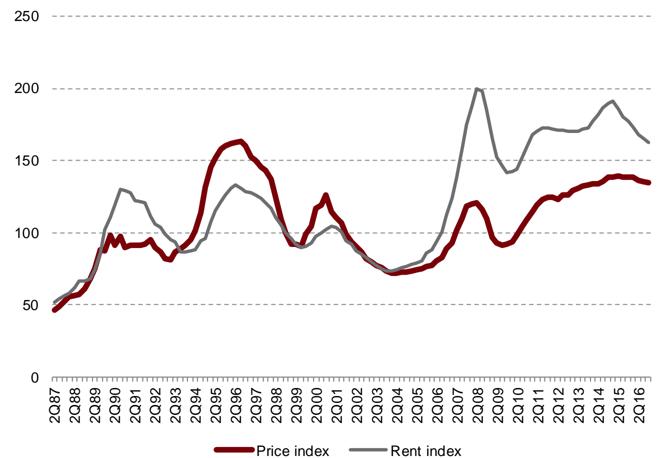
CIMB

Figure 18: Breakdown of office supply by region: a dearth of new supply in 2019 would be supportive of rent recovery in late-17/early-18



SOURCES: CIMB, JLL

Figure 19: URA office price and rental index: capital values have been sticker vs. rents



SOURCES: CIMB, URA

Figure 20: Office REIT - Singapore portfolio occupancy

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16
CCT	99.4%	99.4%	99.4%	96.8%	97.0%	98.0%	96.4%	96.8%	98.1%	97.2%	97.4%	97.1%
FCOT	97.9%	98.4%	94.7%	97.5%	97.3%	95.3%	95.0%	92.7%	92.0%	93.2%	92.5%	92.3%
KREIT	100.0%	99.8%	99.8%	99.5%	99.5%	99.5%	98.8%	99.3%	99.3%	99.7%	99.5%	99.1%
OUECT	100.0%	100.0%	100.0%	100.0%	99.2%	95.1%	97.4%	93.2%	93.5%	94.3%	94.7%	94.3%
SUN	98.9%	99.4%	100.0%	100.0%	99.6%	98.4%	99.5%	99.3%	97.5%	98.1%	98.9%	99.3%
Grade A office[1]	94.8%	94.8%	95.7%	94.2%	94.9%	95.6%	94.8%	94.8%	95.0%	94.8%	95.9%	95.8%

SOURCES: CIMB, COMPANY REPORTS
[1]BASED ON CBRE

Figure 21: Office REIT - Singapore portfolio average passing rent (S$ psf pm)

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16
CCT	8.22	8.23	8.42	8.61	8.78	8.88	8.89	8.90	8.96	8.98	9.22	9.20
KREIT[1]	10.65	12.10	11.60	12.50	12.90	11.40	11.30	10.70	10.30	10.10	9.85	8.15[3]
OUECT	10.61	10.66	10.68	10.58	10.60	11.04	11.38	10.87	10.90	10.94	10.97	10.91
SUN[1]	8.97	8.98	8.24	8.92	9.24	9.14	9.21	8.86	8.67	8.58	8.78	8.65
Grade A office[2]	10.25	10.60	10.95	11.20	11.40	11.30	10.90	1.40	9.90	9.50	9.30	9.10
Grade B office[2]	7.55	7.70	7.90	8.00	8.05	8.00	7.80	7.70	7.50	7.25	7.10	6.95

SOURCES: CIMB, COMPANY REPORTS
[1]REFERS TO AVERAGE SINGING RENTS
[2]BASED ON CBRE
[3]CIMB ESTIMATES

Retail: anaemic growth outlook

Sluggish retail sentiment continues to be a drag on rents

Singapore retail sales (excluding motor vehicles) continued to decline in Nov 16, contracting 2.1% yoy. This represents the 11th month of yoy decline. The drag was felt in the department stores, supermarkets, F&B, apparel and footwear, watches and jewellery, and IT and telco segments. Despite higher tourist shopping spend in 1H16, we think weaker consumer sentiment amid a slower economic outlook and leakage from growing e-commerce sales eroded purchasing behaviour.

In the meantime, some international brands are taking advantage of the lower rents to reinforce their brand presence here. These include TripleFit, which occupies a 23.5k sq ft of space in Millenia Walk, and Victoria's Secret, which opened its 12k sq ft flagship store in Mandarin Gallery in Nov 16. Several new-to-market brands were also introduced during the quarter, including Chinese fashion brands such as Urban Revivo in Raffles City and Hotwind in 313 Somerset. In addition, landlords continued to enhance their F&B mix to strengthen footfalls. Themed F&B outlets such as Gudetama in Suntec City, Greyhound Café in Paragon, Picnic in Wisma, Central Perk Café in Central Mall and Kam's Roast Goose in Pacific Plaza opened during the quarter. Retailers are also refocusing their content of trades which are not easily replicated via the online platform. One prime example would be Uniqlo's first Global Flagship Store in Southeast Asia at Orchard Central, where over 250 digital screens were installed across three levels of c.29k sq ft of retail space.

The weak leasing market perpetuated rental declines for Orchard Road and suburban. According to CBRE, Orchard Road rents declined for an eight straight quarter, and are down 0.6% qoq and 2.7% yoy to S$32.35 psf pm in 4Q16. Rents were dragged down by older malls in the shopping strip, though prime malls in the belt should be able to maintain rents into 2017. Suburban rents fell for a fifth straight quarter and are down 0.2% qoq and 1.8% yoy to S$29.35 psf pm in 4Q16.

Based on URA indices, retail rents in the central area slid 1.2% in 4Q16, and down 15.7% from the peak at end-14. Retail rents in the fringe area declined 1.5% in 4Q16, and have contracted 10.2% from the peak at end-2014, reflecting the resilience of suburban retail. Meanwhile, prices of retail space in the central area dropped 2.9% in 4Q16 and down 11.5% from end-14. Price of retail space in the fringe area marked a surprise rise of 3.2% in 4Q16, and down 6.3% from end-2014.

Island-wide vacancy fell to 7.5% in 4Q16 from 8.4% in 3Q16, as net absorption of 0.7m sq ft surpassed the increase in retail stock of 0.1m sq ft in the quarter. An additional 0.8m sq ft of retail stock was added during the year, including openings such as Waterway Point and Compass One in the northeastern region of Singapore. Park Mall and Funan Mall in the central region were closed in 2H16 for redevelopment.

Retail REITs have held up

Active property management and niche locations such as MCT's VivoCity and FCT's Causeway Point led to retail REITs holding up better in the dour climate. Retail REITs under our coverage continue to report rental reversion. CT registered 1% positive rental reversion for its portfolio in FY16 (FY15: +3.7%). FCT and MCT continued to impress - FCT recorded 6.9% positive rental reversions for its 1QFY17 and MCT a strong 13.5% for 9MFY17. Meanwhile, SGREIT's Wisma Atria registered +2.5% reversion in 2QFY17, while SPHREIT's Paragon mall drove a +4.6% reversion for 1QFY17.

However, shopper traffic and tenant sales have been uninspiring. Given these and occupancy costs inching up, we believe that it would be more difficult for retail REITs to push for positive rental reversions going forward.

Through the year, the retail REITs have also been rejuvenating their portfolios. Mini AEIs have been embarked on or completed at CT's Plaza Singapura, Tampines Mall and Raffles City. Clark Quay is also refreshing its tenant mix. Mini AEIs were also completed at VivoCity and SPHREIT's Clementi Mall.

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Meanwhile, a major AEI has commenced in Northpoint, to enable the mall to benefit from the integration with the upcoming retail component of Northpoint City by FCL (scheduled to complete in 2018).

Elevated supply in 2018-19, though incoming supply is well-spread

Looking ahead, the annual new retail supply of c.1.4m-1.9m sq ft for 2017-18 is higher than the average annual demand of 0.7m sq ft since 2011. The bulk of the new supply is located in the city fringe and suburban areas such as Singpost Mall (2017), Paya Lebar Quarter (2018), Northpoint City (2018) and The Heart (within Marina One) and Downtown Gallery in the CBD area in 2017. The positive flipside is that supply is well spread to locations that are under-served, particularly in the suburban and city fringe areas.

On the demand front, retailers are struggling with structural challenges such as i) sluggish consumer sentiment and declining sales efficiency, ii) operational issues such as manpower shortage as well as rising labour costs from foreign worker levy and minimum wage policies, and iii) leakage of sales to e-commerce and other regional ASEAN countries (owing to a stronger S$, consumers could seek to bargain hunt elsewhere). Hence, we expect retailers to continue with their strategy of consolidating and maintaining only profitable outlets.

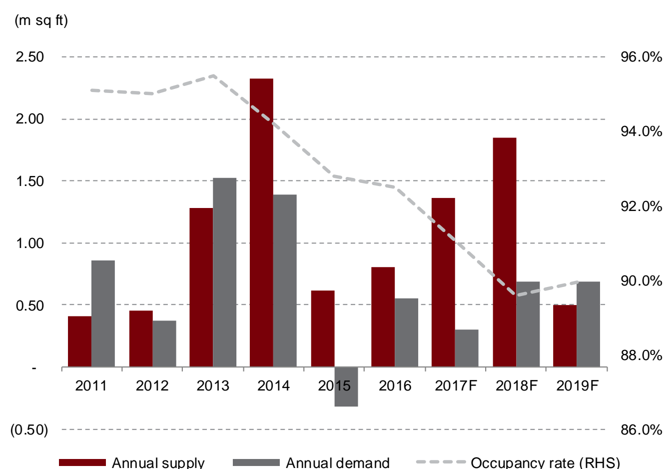
In tandem with slower government GDP growth forecasts of 1-3% for 2017 as well as our expectation that tourist arrivals growth would moderate to 2% yoy in 2017 (2016F: 7% yoy growth), we project retail rents and capital values to remain flat. We expect vacancy level to rise to 8.9% at end-17 vs. 7.5% at end-16.

From the retail REITs perspective, we think that rental improvement upon reversion will moderate to low single-digits. Balanced against valuations, we prefer FCT over MCT and CT. We think investor interest could pick up when the peak of Northpoint's AEI passes through in the next three months, and occupancy and earnings recover.

One bright spot that could emerge for the sub-sector is higher investment sales in 2017. The Shoppes at Marina Bay Sands, a 800,000 sq ft luxury mall, is reportedly asking for US$3bn-3.5bn (49% stake) while bids in excess of S$2bn (more than S$3,000 psf) have been made for the 658,000 sq ft suburban mall Jurong Point. Perennial has also recently divested its 20% interest in TripleOne Somerset, translating to a divestment price of S$2,200 psf.

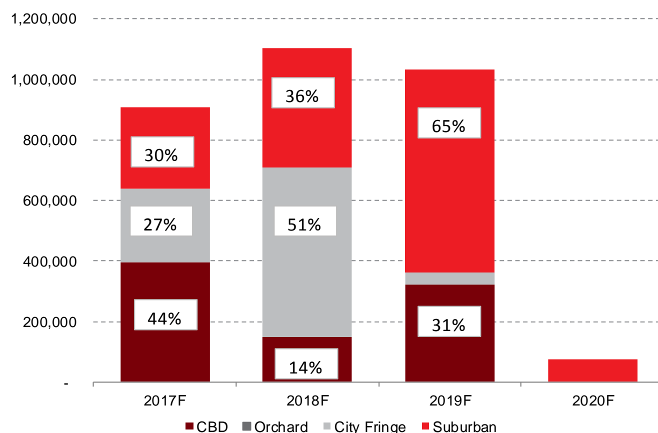
Retail key charts

Figure 22: We foresee elevated new supply of 1.4m-1.9m sq ft in 2017-18, which could cap rents and rise vacancies



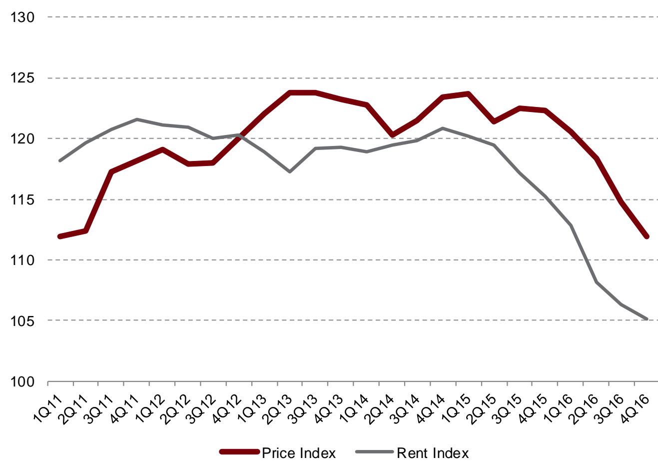
SOURCES: CIMB, URA

Figure 23: Breakdown of retail supply by region: bulk of the new supply located in the city fringe and suburban areas



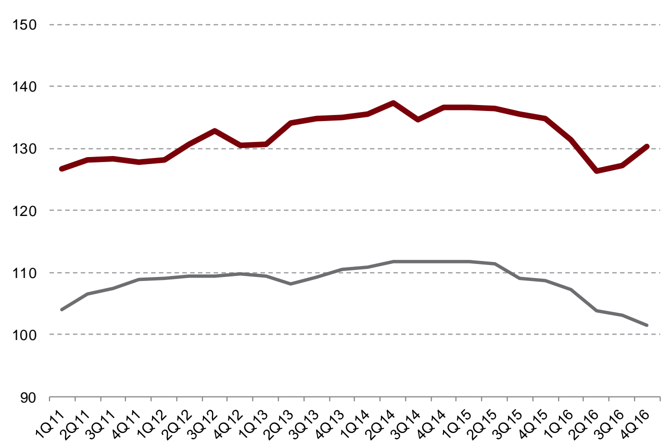
SOURCES: CIMB, JLL

Figure 24: URA price and rental index of retail space in central area



SOURCES: CIMB, URA

Figure 25: URA price and rental index of retail space in fringe area: suburban retail space has been more resilient



SOURCES: CIMB, URA

Figure 26: Average rental reversion

REIT	Yoy chg	Comments
CT	1.0%	For period of FY16
FCT	6.9%	For period of 1QFY17
MCT - VivoCity	13.5%	For period of 9MFY17
SGREIT - Wisma Atria	2.5%	For period of 2QFY17
SPHREIT	4.6%	For period of 1QFY17

SOURCES: CIMB, COMPANY REPORTS

Figure 27: Shopper traffic

REIT	Yoy chg	Comments
CT	2.3%	For period of FY16
FCT	2.7%	For period of 1QFY17
SUN - Suntec City mall	16.1%	For period of FY16
MCT - VivoCity	3.5%	For period of 9MFY17
SGREIT - Wisma Atria	2.1%	For period of 2QFY17

SOURCES: CIMB, COMPANY REPORTS

Figure 28: Tenants' sales

REIT	Yoy chg	Comments
CT	0.9%	For period of FY16
MCT - VivoCity	1.7%	For period of 9MFY17
SGREIT - Wisma Atria	-2.0%	For period of 2QFY17

SOURCES: CIMB, COMPANY REPORTS

Figure 29: Retail REIT - Singapore portfolio occupancy

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16
CT	98.8%	98.6%	98.5%	98.8%	97.2%	96.4%	96.8%	97.6%	97.7%	97.9%	98.60%	98.5%
FCT	96.8%	98.5%	98.9%	96.4%	97.1%	96.5%	96.0%	94.5%	92.0%	90.8%	89.4%	91.3%
MCT - VivoCity	98.7%	98.7%	97.2%	99.7%	97.5%	99.4%	99.0%	99.9%	99.6%	98.9%	99.3%	99.9%
SGREIT -Wisma Atria	98.0%	98.5%	99.4%	100.0%	98.1%	98.1%	100.0%	94.9%	96.8%	97.7%	99.5%	98.9%
SPHREIT	100.0%	100.0%	100.0%	100.0%	100.0%	99.8%	100.0%	100.0%	100.0%	100.0%	100.0%	100%
SUN - Suntec City mall	100.0%	97.6%	86.0%	91.3%	93.6%	94.7%	96.4%	98.0%	98.7%	97.5%	97.3%	97.9%

SOURCES: CIMB, COMPANY REPORTS

Industrial: most positive on business parks

Some stabilisation in 4Q16

Despite still-challenging conditions, some respite was observed in 4Q16. According to advanced GDP estimates, the manufacturing sector expanded 6.5% yoy in 4Q16, an improvement from the 1.7% yoy growth in 3Q16. For 2016, the sector grew 2.3% yoy. Meanwhile, the Singapore Purchasing Managers' Index (PMI) improved in Jan 17 to 51 from 50.6 in the previous month, and industrial production jumped 21.3% yoy in Dec 16. The improvement in the manufacturing sector was attributed to increased output from the electronics and biomedical clusters.

According to JTC, industrial prices and rentals continued their decline for the seventh consecutive quarter in 4Q16, though at a slower clip. Rents dipped by 0.5% in 4Q16, following a steeper decline of 4.1% in 2016. Industrial prices fell 2.9% in 4Q16, and retreated 7% in 2016. Occupancy levels bucked a falling trend to increase 0.4% pts qoq to 89.4% in 4Q16, but are still down 1% pt compared with a year ago. 1.8m sqm of industrial stock was added in 2016, compared with net absorption of 1.1m sqm.

In terms of sub-classes, price index of single-user factories (which form 52% of the total industrial stock) fell 3.5% in 4Q16 and 9% in 2016. Rent index fell 0.9% in 4Q16 and 5% in 2016. According to CBRE, rents of factories (ground-floor) dropped 1.2% qoq and 6.7% yoy to S$1.68 psf pm. Occupancy levels inched up 0.3% pts qoq to 90.9% in 4Q16. 0.8m sqm of stock was added in 2016 vs. net absorption of 0.4m sqm.

Prices of multiple-user factories (23% of the total industrial stock) fell 2.1% in 4Q16 and 4.8% in 2016. Rents fell 0.5% in 4Q16 and 4% in 2016. Occupancy levels increased 0.2% pts qoq to 87.3% in 4Q16. 0.2m sqm of stock was added in 2016, matching net absorption of 0.2m sqm.

Meanwhile, rent index of warehouses (20% of the total industrial stock) fell 0.2% in 4Q16 and 5.4% in 2016. According to CBRE, rents of warehouses (ground-floor) dropped 1.2% qoq and 8.3% yoy to S$1.28 psf pm. Occupancy levels inched up 0.6% pts qoq to 89.7% in 4Q16. 0.6m sqm of stock was added in 2016 vs. net absorption of 0.4m sqm.

Lastly, rents for business parks (5% of the total industrial stock) remained stable. According to CBRE, business park rents in the city fringe were maintained at S$5.50 psf pm in 4Q16, while rents at the rest of the island was at S$3.70 psf pm. Despite peak supply of 223k sqm in 2016 (notable completions include Ascent at the Singapore Science Park and Mapletree Business City II) vs. net absorption of 164k sqm, occupancy improved 1.9% pt qoq to 83% in 4Q16, though down from 84.1% in end-15.

Divergence in fortunes between big and small-cap industrial REITs

We continue to observe a divergence in fortunes between the big and small-cap industrial REITs under our coverage. Led by acquisitive-growth, the big-caps are able to sustain DPUs. They are also aided by the fact that their portfolios are sizeable and well-diversified, and are not particularly adverse to any single tenancy risks. Furthermore, unlike the big caps which are at the tail-end of MTB (multi-tenanted building) conversions, the small-caps still faced such effects through 2016, which resulted in NPI margin pressures and DPU declines.

Portfolio occupancies of the REITs remained largely stable. MINT shared that Johnson & Johnson will be terminating its lease nine months earlier on 30 Sep 2017, with compensation of S$3.1m, covering six months of rent. We are not unduly worried as the trust has nine months of lead time to backfill the space.

In addition, we note that the small-caps, which revalued their investment properties at their financial year-end, recorded fair value losses. With gearings creeping up, the trusts are divesting their older properties to pare down debt.

Most positive on business parks; peak warehouse completions in 2017

JTC estimates that around 2.4m sqm of industrial space would come onstream in 2017. This is higher than the average annual supply and demand of around 1.8m sqm and 1.3m sqm, respectively, in the past three years. Hence, we expect downwards pressures on rents, capital values and occupancies to continue. However, the situation could improve in 2018, when the projected supply of industrial stock is expected to fall to a more manageable 0.8m sqm. In terms of demand, other than ICT (information, communications and technology) sector, we foresee trade sectors such as precision engineering, logistics and food manufacturing to spur incremental demand.

Among the sub-classes, multiple-user factories face the highest supply, with 14.2% of total stock to be completed between 2017-21. However, we understand that the bulk of supply in the pipeline is strata-titled for sale. Majority of these strata-titled multiple-user factories units is less than 5,000 sq ft, and hence, could limit the competition for third-party facility providers. We expect occupancy for multiple-user factories to remain in the range of 87% for 2017-18; and that median rent could moderate by another 5% yoy to S$1.73 psf pm in the next 12 months.

Next, warehouses face 12.1% of total stock to be added from 2017-21. Moreover, 2017 is set to be peak supply for warehouses, with 0.9m sqm of new completions vs. past 5-year average of 0.5m sqm. Notable incoming supply includes CWT's warehouse development at Jalan Buroh (GFA of 2.39m sq ft) and Toll Logistics' warehouse development at Pioneer Road (GFA of 1.09m sq ft). We expect occupancy for warehouses to decrease to 87.5% by end-17 (end-16: 89.7%); and for median rent to decline by 4-6% yoy to S$1.55-1.58 psf pm by end-17. That said, the rental market for modern logistics and distribution warehouses should be more resilient than that of conventional warehouses.

Meanwhile, incoming supply of single-user factories is relatively moderate, with 7.2% of total stock to be completed between 2017-21. Coupled with the ongoing trend of consolidation of operations, we expect take-up of single-user factories to increase to 92.7% by end-17 (end-16: 90.9%). On the flipside, rents and leasing activities could remain weighed down by JTC 's assessment criteria for anchor tenant and the 60:40 rule for industrial properties (60% of the property's GFA should be used for industrial activities and the remaining 40% for ancillary offices, showrooms, neutral area and common facilities). We project median rent for single-user factories to remain flat at S$1.68 psf pm.

We are most positive on business parks given the negligible supply post-16 and Singapore's focus on higher-value activities. Furthermore, incoming supply is 100% pre-committed. We expect occupancy for business parks to recover to 88.5% by end-17 and to 93.5% by end-18 (end-16: 83%). We project that median rent could strengthen by 3% yoy to S$4.38 psf pm by end-17.

For the industrial REITs, we think that rental reversions will range from negative to low single-digits, as have been observed through the course of 2016. We believe that the REITs would continue to look for overseas expansion to fuel growth, and to recycle and rejuvenate their existing portfolios. While AREIT is the big-cap proxy for business parks, we prefer MINT over AREIT, when balancing against where expectations are.

We continue to like MINT for its "clean" story and growth underpinned by its development projects. We forecast the trust to deliver a 3-year DPU CAGR of 2.7% through FY16-19F, one of the highest in the sub-sector. Growth is underpinned by BTS for Hewlett-Packard and AEI at Kallang Basin 4, in our view.

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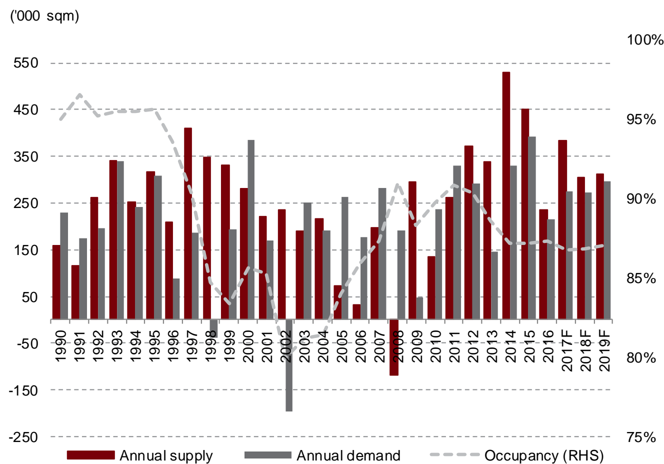
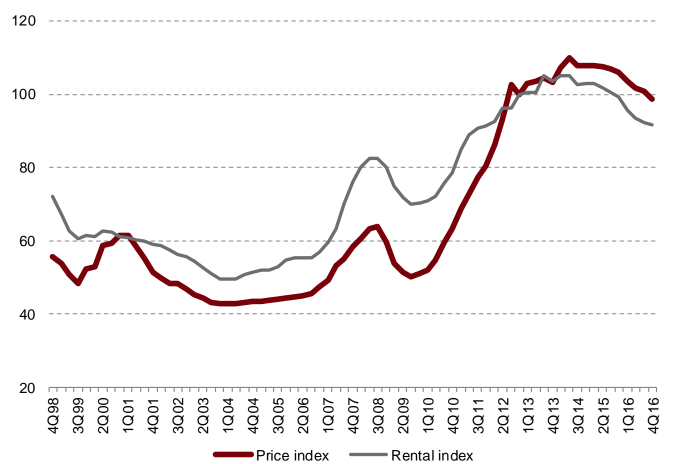
Industrial key charts

Figure 30: Multiple-user factories have the highest supply in the pipeline but the majority of which is strata-titled for sale



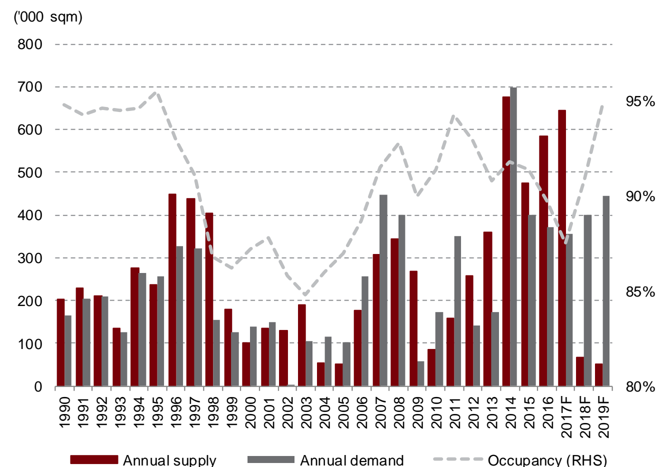
SOURCES: CIMB, JTC

Figure 31: JTC price and rental index of multiple-user factory: prices fell 4.8% and rents 4% in 2016



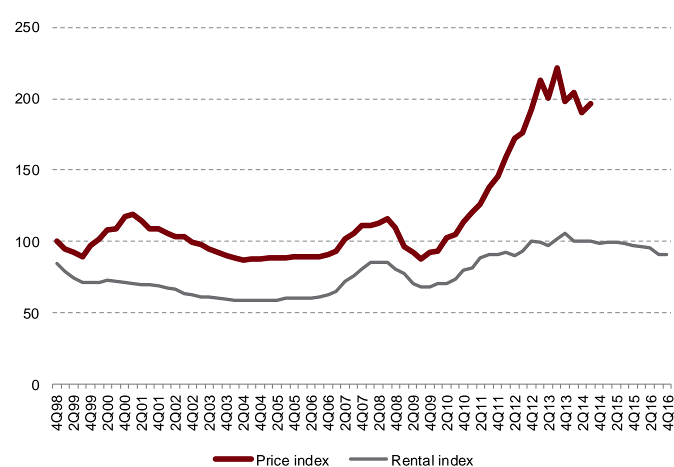
SOURCES: CIMB, JTC

Figure 32: 2017 set to see peak supply for warehouses. We expect occupancy to decrease to 87.5% by end-17



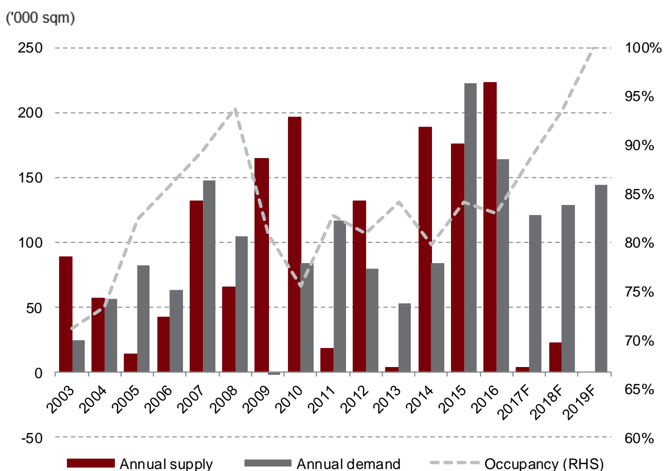
SOURCES: CIMB, JTC

Figure 33: JTC price and rental index warehouse: we expect median rent to decline by 4-6% yoy to S$1.55-1.58 psf pm



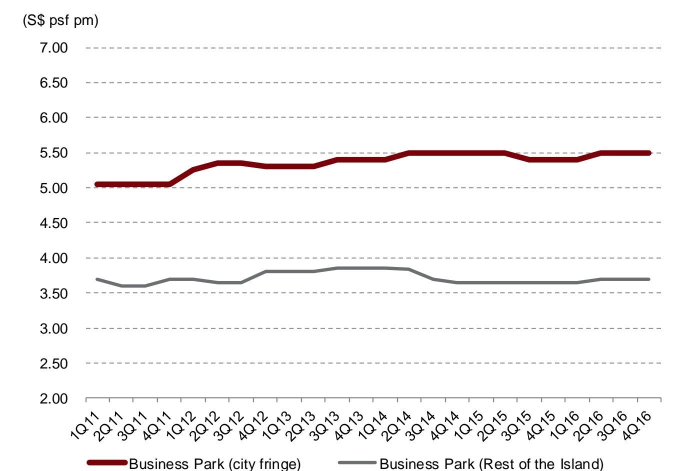
SOURCES: CIMB, JTC

Figure 34: With almost negligible incoming supply post-2016, we are most positive on business parks



SOURCES: CIMB, JTC

Figure 35: Business park (city fringe) rents remained stable at S$5.50 in 4Q16; rest of the island at S$3.70



SOURCES: CIMB, CBRE

CIMB

Figure 36: Industrial REIT - rental reversion

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16
AREIT	14.8%	11.8%	6.3%	7.7%	4.4%	6.6%	9.1%	7.3%	5.1%	4.1%	0.9%	3.0%
CREIT[1]				4.6%	*na*	6.3%	8.5%	9.1%	2.9%	-15.8%	-4.5%	-6.1%
MINT - flatted factories	16.2%	18.2%	5.4%	5.9%	5.7%	3.6%	1.7%	4.3%	2.3%	1.3%	2.7%	2.3%
MLT - overall	17.0%	12.0%	9.0%	9.0%	8.0%	5.0%	*na*	5.0%	4.0%	-6.0%	2.0%	2.0%

SOURCES: CIMB, COMPANY REPORTS

[1]RESPECTIVE QUARTER OF RENTAL REVERSION DISPLAYED REFERS TO YTD REVERSION OF THE RESPECTIVE YEAR

Figure 37: Industrial REIT - portfolio occupancy

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16
AREIT - overall	89.6%	88.1%	85.6%	86.8%	87.7%	88.8%	89.0%	89.2%	87.6%	88.2%	89.1%	90.2%
AREIT - MTB	83.6%	82.3%	81.0%	82.8%	83.0%	84.7%	84.9%	84.5%	83.2%	84.1%	83.5%	84.0%
CACHE	100.0%	99.6%	99.5%	97.9%	99.1%	98.3%	95.2%	94.9%	94.2%	95.8%	96.5%	96.4%
CREIT	97.0%	97.0%	96.0%	96.0%	95.0%	95.5%	95.4%	94.3%	94.1%	93.4%	93.6%	94.7%
KDCREIT					93.6%	94.0%	95.1%	94.8%	92.0%	92.3%	92.7%	94.4%
MINT	91.3%	90.7%	91.5%	90.8%	90.2%	93.5%	93.8%	94.7%	94.6%	93.0%	92.5%	92.1%
MLT	98.3%	97.6%	97.2%	96.9%	96.7%	96.6%	96.9%	96.9%	96.2%	95.4%	96.4%	96.1%

SOURCES: CIMB, COMPANY REPORTS

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Hospitality: expect green shoots of reccovery only in 2018

RevPAR worsened in 2H16 as arrival momentum slows

Against the backdrop of a 2.2% yoy increase in total visitor days to 51.4m days in 11M16 and a corresponding 17.5% yoy increase in available room nights to 14.8m, industry RevPAR (according to Singapore Tourism Board) declined by 4.8% yoy to S$200 in 11M16. Industry profitability contracted, despite a strong showing on the international arrival front.

For 11M16, international visitor arrivals increased 7.9% yoy to 14.9m visitors, and are on track to meet our 2016 forecast of 16.3m arrivals or 7% yoy growth. Growth was largely driven by arrivals from China (+36.1% yoy for 11M16), Indonesia (+5.9% yoy) and Indian (+8.2% yoy). China has overtaken Indonesia as Singapore's largest source market.

On the other hand, average length of stay shortened to 3.46 days in 11M16 vs. 3.61 days in 2015. Additionally, although tourism receipts were up c.12% to S$11.6bn for 1H16, per capita spending actually fell 1.6% yoy.

For 11M16, industry average room rates (ARR) slid c.4% yoy to S$237 while island-wide occupancy was more or less maintained at 85%. RevPAR fell across all four hotel categories, with economy hotels suffering the biggest drop of c.5% yoy to S$79. Meanwhile, upscale and mid-tier hotels saw declines of nearly c.3% each to S$223 and S$147, respectively. Luxury hotels experienced only c.1% dip in RevPAR to S$380.

Luxury hotels were the only category to stave off any decline in ARR, which remained flat at S$446, while economy hotels saw the biggest decline of c.4% to S$101. Mid-tier hotels were the only category with no dip in average occupancy rate, while the average occupancy for economy, upscale and luxury dipped 1-1.4 % pts yoy.

Hotel REITs fared poorer than industry

Due to their tilt towards the corporate segment (plus the resultant poor demand), coupled with disruptions from AEIs, RevPAR performance by the hospitality REITs under our coverage was comparatively poorer than the industry. CDREIT reported a 8.6% yoy decline in 2016 RevPAR to S$160. It registered a 10.6% yoy decline in RevPAR for 4Q16, the sharpest drop among its four quarters. OUEHT's Mandarin Orchard Singapore registered a 5.7% yoy decline in its 2016 RevPAR to S$217 (4Q16: -6.8% yoy). Meanwhile, ART's Singapore serviced residences experienced a 5% yoy drop in RevPAU for 4Q16. FEHT has not released its 4Q16 numbers, though the trust suffered a 4.6% yoy decline in RevPAR for 9M16.

Unabated new supply to continue to weigh on RevPAR

For 2017, we now expect 3,657 rooms to be added to the estimated room inventory of 63,518 as at end-16, representing a 5.8% yoy increase in supply (vs. +4.3% yoy in 2016). Noticeable completions have been pushed from 2016 to 2017. We foresee higher supply pressure on the luxury segment as 46% of the additional room supply in 2017 will be from this segment.

Notable incoming supply include the i) 254-room Novotel Singapore on Stevens, ii) 225-room InterContinental Singapore Robertson Quay (formerly Gallery Hotel), iii) 222-room Sofitel Singapore City Centre (Tanjong Pagar Centre), iv) 342-room Andaz Singapore (DUO project), v) 528-room Ibis Singapore on Stevens, and vi) 610-room YOTEL Orchard Road.

On the demand side, considering the high-base effect, we have factored in 2% yoy growth in visitor arrivals, to 16.6m, in 2017.

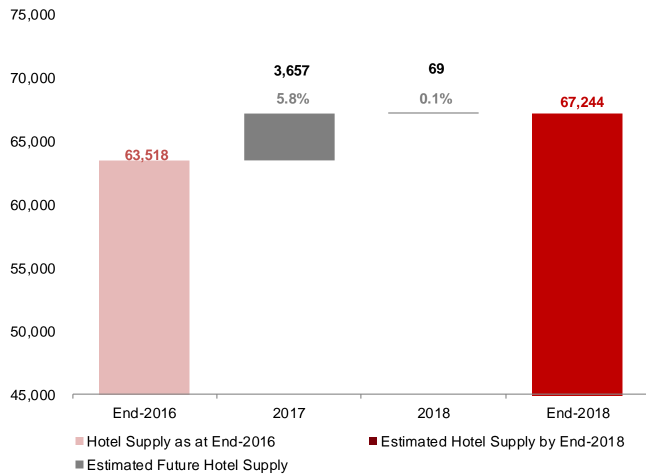
Putting it together, our demand-supply model predicts a 3% yoy dip in RevPAR for 2017. However, with minimal supply expected from 2018 onwards, and with no new supply of hotel land, we believe RevPAR could recover from 2H18.

We expect RevPARs of our hospitality REIT coverage to further edge downwards for 2017, but by a smaller magnitude vs. 2016. Within the hospitality

sub-sector, we continue to favour OUEHT. We project 5.8% yoy DPU growth for FY17, underpinned by an increase in average retail occupancy (due to the full-year effect of Michael Kors and Victoria's Secret) as well as the enlarged Crowne Plaza Changi Airport.

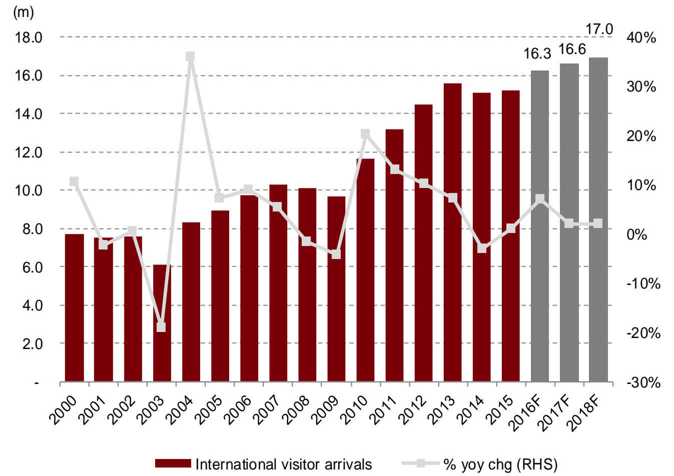
Hospitality key charts

Figure 38: Hotel room supply in Singapore: 5.8% of the total room stock to be added in 2017F



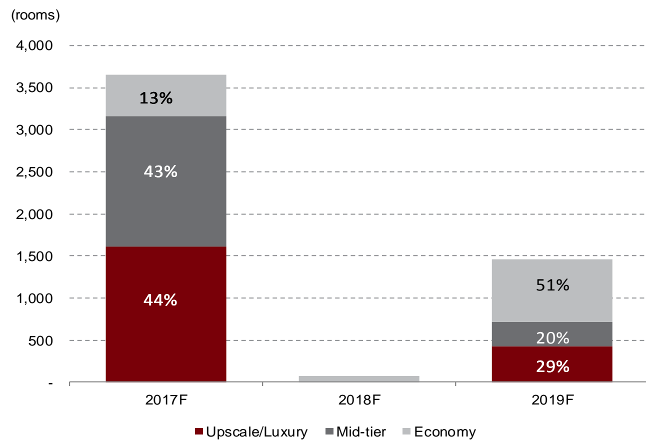
SOURCES: CIMB, COMPANY REPORTS, HORWATH HTL

Figure 39: We factored in 2% yoy growth in visitor arrivals in 2017



SOURCES: CIMB, STB

Figure 40: 46% of the additional room supply in 2017F is from the upscale/luxury segment



SOURCES: CIMB, COMPANY REPORTS, HORWATH HTL

Figure 41: Our demand-supply model predicts industry RevPAR to contract 3% in 2017 and recover c.2% in 2018

	2013	2014	2015	2016F	2017F	2018F
Visitor arrivals (m)	15.57	15.10	15.23	16.30	16.62	16.96
Average length of stay (days)	3.50	3.71	3.61	3.46	3.48	3.48
Visitor days (m)	54.23	56.02	55.03	56.39	57.85	59.01
Total hotel demand (m room nights)	11.32	12.17	12.95	13.27	13.61	13.88
New hotel room supply	3,439	2,032	3,858	2,610	3,657	69
Available hotel room nights (m)	13.12	14.24	15.24	16.52	17.47	17.49
RevPAR (S$)	222.8	220.6	208.8	197.3	191.4	195.0
RevPAR (yoy % chg)	**-1.6%**	**-1.0%**	**-5.3%**	**-5.5%**	**-3.0%**	**1.9%**

SOURCES: CIMB

Figure 42: Industry ARR, average occupancy & RevPAR for 11M16: RevPAR fell across all four categories

	Average room rate (ARR)		Average occupancy		Revenue per Available Room (RevPAR)	
	$	% chg	%	% pts chg	$	% chg
Overall	236.6	-3.9	84.6	-0.8	200.2	-4.8
Luxury	446.2	0.0	85.2	-1.1	380.2	-1.3
Upscale	260.7	-1.5	85.4	-1.0	222.8	-2.6
Mid-tier	170.6	-2.8	85.9	+0.2	146.6	-2.6
Economy	100.5	-3.7	79.0	-1.4	79.4	-5.3

SOURCES: CIMB, STB

Figure 43: RevPAR performance for hospitality REITs under our coverage poorer than industry

	ARR		Average occupancy		RevPAR	
	$	% chg	%	% pts chg	$	% chg
ART (Singapore)[1]	235.0		mid-80s		195-200	
CDREIT (Singapore)[1]	187.0	-6.0	85.4	-2.3	160.0	-8.6
FEHT[2]	160.0	-6.5	87.2	+1.7	140	-4.6
OUEHT - Mandarin Orchard Singapore[1]	255-260		mid-80s		217	-5.7

SOURCES: CIMB, COMPANY REPORTS
[1]REFERS TO REVPAR PERFORMANCE FOR 2016
[2]REFERS TO REVPAR PERFORMANCE FOR 9M16

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Corporate Governance Report:

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBS does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2016 1626 companies under coverage for quarter ended on 31 December 2016		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.4%	5.4%
Hold	29.6%	1.4%
Reduce	11.6%	0.4%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016.

AAV – Very Good, n/a, **ADVANC** – Very Good, Certified, **AEONTS** – Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Very Good, Declared, **AOT** – Excellent, Declared, **AP** – Very Good, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – not available, Declared, **BCP** - Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, Declared, **BEC** - Good, n/a, **BH** - Good, Declared, **BIGC** - Excellent, Declared, **BJC** – Good, n/a, **BLA** – Very Good, Certified, **BPP** – not available, n/a, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – not available, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, Declared, **DEMCO** – Excellent, Certified, **DTAC** – Excellent, Certified, **EA** – Very Good, Declared, **ECL** – Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Good, n/a, **GFPT** - Excellent, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Very Good, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Declared, **ICHI** – Very Good, Declared, **INTUCH** - Excellent, Certified, **ITD** – Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Declared, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Declared, **M** – Very Good, Declared, **MAJOR** - Good, n/a, **MAKRO** – Good, Declared, **MALEE** – Very Good, Declared, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Declared, **MEGA** – Very Good, Declared, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Very Good, Declared, **PSH** – not available, n/a, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Declared, **RATCH** – Excellent, Certified, **ROBINS** – Very Good, Declared, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Good, n/a, SC – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** - Good, n/a, **SPALI** - Excellent, Declared, **SPRC** – Very Good, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, Declared, **TCAP** – Excellent, Certified, **THAI** – Very Good, Declared, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Very Good, Certified, **TICON** – Very Good, Declared, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Good, n/a, **TMB** - Excellent, Certified, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – not available, n/a, **TRUE** – Very Good, Declared, **TTW** – Very Good, Declared, **TU** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of October 28, 2016) are categorized into:

- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

CIMB

CIMB Recommendation Framework

Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.