4 March 2024

2024 S-REITs Market Outlook

Interview with Calvin Goh

Calvin Goh is a Portfolio Manager with the Asian Equities team at Lion Global Investors. He is responsible for covering the real estate sector and has nine years of financial industry experience.

Calvin Goh: **First, S-REITs are nearing an inflection point. Compared to a year ago, there is a material shift in the conversations around the US interest rate environment.** In 2023, investors were debating over when interest rates would peak. Today investors are debating over when is the first interest rate cut and its magnitude after the Fed hiked interest rates by 525 bps since Mar 2022.

Historically, the pausing and cutting of interest rates are catalysts for strong S-REITs outperformance.

Second, S-REITs are stable and defensive investments to safeguard against sharp earning declines as the global economy slows. In the US, there is already broad consensus that US economic growth will continue to slow even as investors debate over whether it will be a soft or hard landing. In Europe, corporate earnings continue to disappoint, while post pandemic recovery in China continues to be sluggish.

Against this challenging backdrop, S-REITs stand out for its stable, visible, and durable cash flows from long term leases staggered over many years. In recently concluded appraisal exercises, many S-REITs reported stable valuation of their Singapore assets in FY2023. In contrast, overseas assets in many other countries had valuation declines due to cap rate expansion.

Calvin Goh: **Third, in terms of subsectors, we like S-REITs with structural demand able to withstand recessionary pressures.** We like data centre REITs given the structural growth in digitalization and generative AI demand. As an example, most of us are using Microsoft^ office for work today, but I suspect fewer of us are using Copilot. Copilot has the potential to rapidly summarise long documents, generate entire powerpoint decks with a prompt, and to crunch calculations instantly without the use of complex formulas. The use of Copilot and similar products will only lead to demand for more data centres, and data centres at key metros with limited power supply will be in particular high demand.

In addition, we continue to like industrial S-REITs given the structural tailwinds of growing e-commerce penetration and growing need for supply chain resilience.

In conclusion, we encourage investors to look past the day-to-day volatility in S-REITs driven by changing market expectation in interest rates. We are starting to see value in many quality S-REITs trading at close to 6% yield today, and investors who position themselves early stand to benefit from lower rates at the start of the next policy easing cycle.

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*All data are sourced from Lion Global Investors and Bloomberg as at 1 March 2024 unless otherwise stated.
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