

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.



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.

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

^Securities referenced are not intended as recommendations to buy or sell securities. Opinions and estimates constitute our judgment and along with other portfolio data, are subject to change without notice.

DISCLAIMER

This advertisement or publication has not been reviewed by the Monetary Authority of Singapore. It is for information only, and is not a recommendation, offer or solicitation for the purchase or sale of any capital markets products or investments and does not have regard to your specific investment objectives, financial situation, tax position or needs. Investments in the products mentioned herein are not obligations of, deposits in, guaranteed or insured by LGI or any of its affiliates and are subject to investment risks including the possible loss of the principal amount invested. You may wish to seek advice from a financial adviser before making a commitment to undertake any investment. In the event that you choose not to seek advice from a financial adviser, you should consider carefully whether the investment is suitable for you.

The information presented herein is for illustrative purposes only and should not be considered reflective of any particular security, strategy, or investment product. It represents a general assessment of the markets at a specific time and is not a guarantee of future performance results or market movement. Any opinions, projections or forward-looking statements expressed herein or information presented (which includes estimates, graphs, charts, formulae or devices) is subject to change or correction at any time without notice and is not to be relied on as advice. You are advised to conduct your own independent assessment and investigation of the relevance, accuracy, adequacy and reliability of any information contained herein and seek professional advice on them. No warranty is given and no liability is accepted for any loss arising directly or indirectly as a result of you acting on such information.

References to specific corporations/companies and/or their trademarks are not intended as recommendations to purchase or sell investments in such corporations/companies nor do they directly or indirectly express or imply any sponsorship, affiliation, certification, association, approval, connection or endorsement between any of these corporations/companies and LGI or the products and services of LGI. It should not be assumed that investment in the securities mentioned was or will be profitable.

This publication is not intended for use by any person other than the intended recipient and may not be reproduced, distributed or published without prior written consent of LGI. This publication may not be distributed in any jurisdiction or to any person where such distribution is prohibited (including Canada, Japan, the United States of America) or to US persons (as such term is defined in Regulation S under the US Securities Act of 1933).

©Lion Global Investors® Limited (UEN/ Registration No. 198601745D) is a Singapore incorporated company, and is not related to any asset or fund management entity that is domiciled in Europe or the United States.