Beansprout

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Singapore REITs Sector

Retail REITs: Time to go shopping

Research Analyst

Gerald Wong, CFA
gerald@growbeansprout.com

- We expect retail sales to remain resilient in 2023, driven by strength in the labour market and recovery in tourist arrivals. The Singapore Tourism Board (STB) expects tourist arrivals to reach 12 to 14 million in 2023, more than doubling from 6.3 million in 2022.

- The recovery in consumer spending is positive for retail rents in Singapore, which should continue to recover following a 1.6% rise in the fourth quarter of 2022. This is further supported by limited new supply of retail space coming up in 2023-2025.

- The GST hike which became effective in January 2023 may have led to some big-ticket purchases being brought forward, but is unlikely to dampen consumer spending sustainably.

- Retail REITs offer an average dividend yield of 6.8%, above the dividend yield of the Straits Times Index (STI) of 4.1%. Amongst the seven S-REITs with significant exposure to Singapore-based retail assets, Starhill Global REIT and Lendlease REIT offer the highest dividend yield of 7.0% and 6.8% respectively.

What happened?

Singapore REITs (S-REITs) saw strong gains at the start of 2023. In January, S-REITs saw total returns of 7.1%, outperforming the 3.5% total returns for the Straits Times Index (STI).

Amongst the various sub-sectors, retail REITs continued to perform well with the resilience in consumer spending. This was led by Mapletree Pan Asia Commercial Trust (MPACT), which posted total returns of 9.0% in January.

However, with concerns about an economic slowdown, we evaluate whether retail REITs can continue to do well in the year ahead.

Our view

Retail sales likely to remain strong

Consumer spending in Singapore has been recovering strongly over the past year. Retail sales grew 7.4% in December compared to the previous year. The increase in consumer spending was driven by food & alcohol (+37.4% year-on-year), wearing apparel and footwear (+23.0%), and watches and jewellery (+19.9%).

Despite concerns of an economic slowdown, the labour market remains strong in Singapore. The overall unemployment rate in Singapore was at 2.0% as at December 2022, below pre-pandemic levels. Despite the recent rise in retrenchments within the tech sector, the total number of retrenchments in 2022 (6,450) was lower than in 2021 (8,020).

Apart from the strength in domestic consumption, the recovery in tourist arrivals is expected to further spur retail sales. China announced its reopening from 8 January 2023, which will provide a significant boost to tourism spending in Singapore. Overall, the Singapore Tourism Board (STB) expects tourist arrivals to reach 12 to 14 million in 2023, more than doubling from 6.3 million in 2022.

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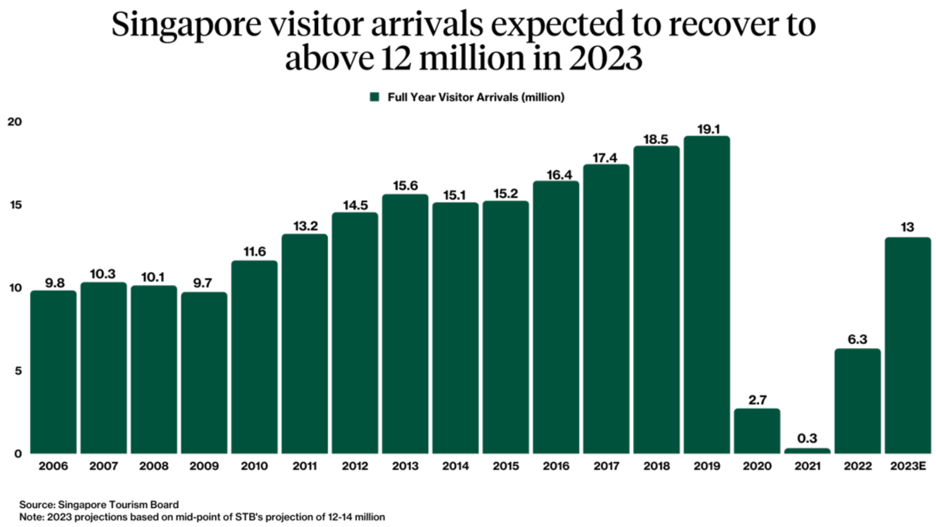
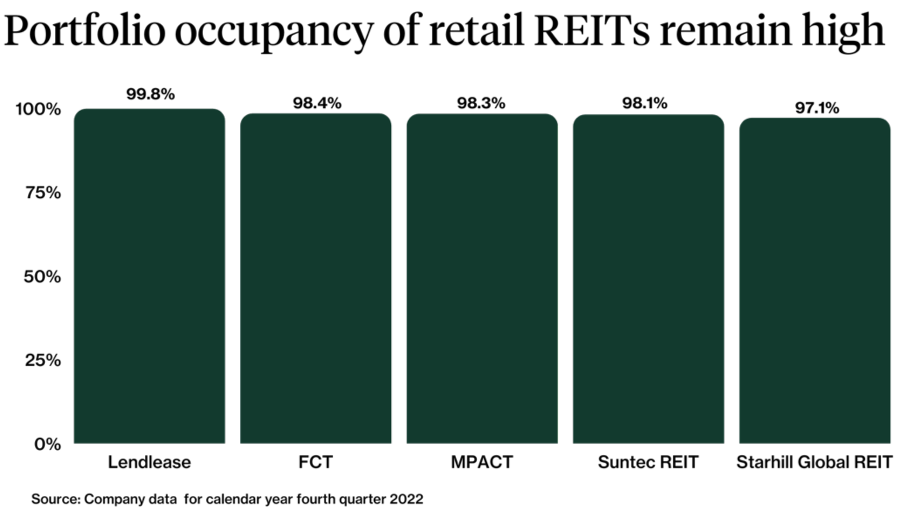


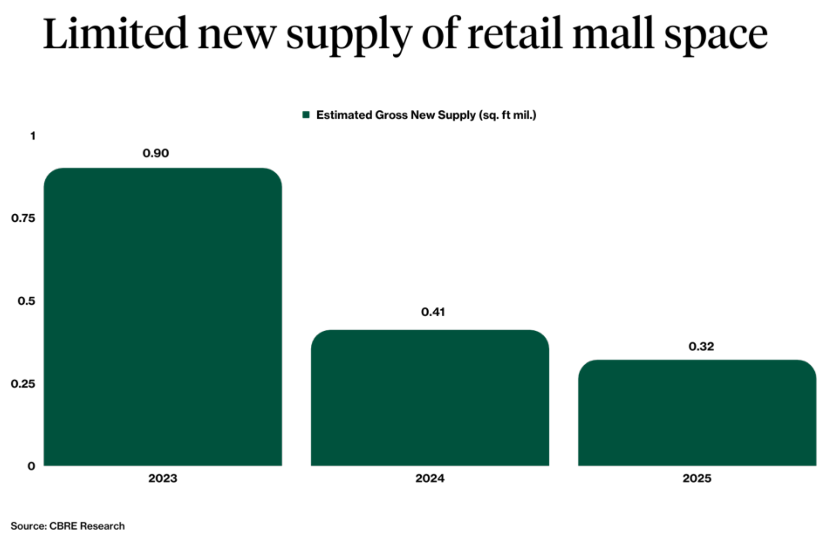
Recovery in retail sales lead to positive outlook for retail rents

The general recovery in consumer spending has already led to an improvement in rents earned by Retail REITs. According to property consultant CBRE, islandwide retail rents rose by 1.6% to S$25.15 psf pm in the fourth quarter of 2022. This was supported by a 1.0% increase in retail rents for Orchard Road, Marina Centre and Fringe areas, as well as a 2.3% increase in suburban rents.

Retail REITs have reported similar improvements in their recent results. For example, Frasers Centrepoint Trust saw tenant sales grow 13.4% in the calendar year fourth quarter of 2022 compared to the previous year. Shopper traffic grew by 38.3% compared to the previous year. Portfolio occupancy improved to 98.4% on healthy leasing demand.



The expected improvement in retail sales is further supported by limited new supply of retail space. The supply of new retail space is relatively low at just 1.63 million sq ft between 2023 and 2025. This works out to an average annual new supply of 0.54 million square feet, below the average annual completion of 0.82 million square feet between 2017 and 2021.



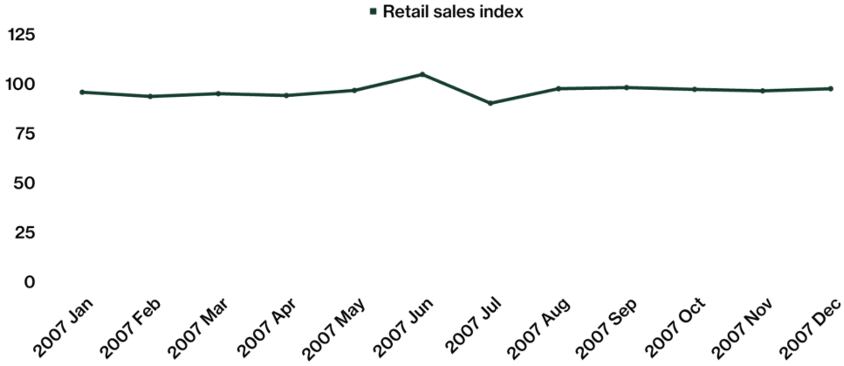
GST hike unlikely to dampen spending sustainably

The GST hike which became effective in January 2023 may have led to some big-ticket purchases being brought forward, but is unlikely to dampen consumer spending sustainably.

This trend of purchasing in advance has been noticeable each time there has been a GST hike in Singapore in the past. In 2007, an increase in the GST to 7 per cent in July saw an 8 per cent spike in the retail sales in June compared to the month before. The spike was particularly evident in big ticket purchases such as motor vehicles and watches, where the impact of the GST is more significant.

However, there may be concerns that sales would decline after the GST increase. Following the GST increase, overall retail sales fell by 14% in July 2007 compared to the month before. However, this is likely to be short-lived, as retail sales recovered to pre-GST hike levels by August 2007.

Retail sales recovered quickly after initial GST-led dip in 2007



Source: Singstat

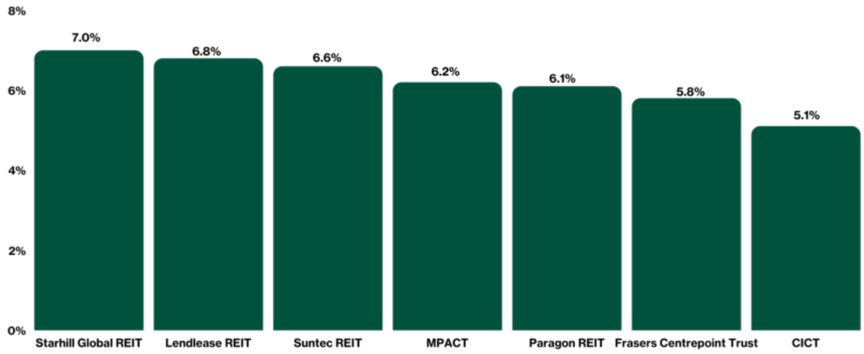
What would Beansprout do?

Retail rents are expected to continue recovering in 2023 with a strong consumer confidence, a recovery in tourist arrivals, as well as limited new retail mall supply. This is likely to offset headwinds from higher operating costs and bringing forward of big-ticket purchases from the GST hike.

There are seven Singapore REITs which have significant exposure to Singapore-based retail assets: CapitaLand Integrated Commercial Trust, Frasers Centrepoint Trust, Lendlease Global Commercial Reit, Mapletree Pan Asia Commercial Trust, SPH Reit, Starhill Global Reit and Suntec Reit.

Retail REITs offer an average dividend yield of 6.8%, above the dividend yield of the Straits Times Index (STI) of 4.1%. Amongst the seven S-REITs with significant exposure to Singapore-based retail assets, Starhill Global REIT and Lendlease REIT offer the highest dividend yield of 7.0% and 6.8% respectively.

Retail REITs offer a dividend yield of above 5%



Source: Bloomberg, SGX. Data as of 31 December 2022

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