Investing in Reits vs Residential Property

Investors who seek yield without too much risk may find a superior option in Real Estate Investment Trusts

By : LESLIE YEE

REAL estate's appeal as an asset class lies in it being a store of value that can generate rental income. If the rental income can be generated, there is good reason to invest more in real estate.

Interest rates are painfully low though thankfully negative interest rates have not hit us in Singapore as yet. One struggles to get 0.5 per cent per annum in Singapore dollar fixed deposits and the Singapore Savings Bond pays just under 1 per cent per annum for a holding period of 10 years. This leaves investors, who are searching for yield and do not want to be too adventurous, with a headache.

The perennial favourite, namely private residential property, has its allure. Private residential prices are rising and demand is healthy. In the last two months, launches of projects such as Clavon, Normanton Park and The Reef at King's Dock have seen good takeup.

Singapore citizen couples can own two private residential units here by using one name to own one property for owner occupation while leaving the other name free to buy a unit for lease, without incurring Additional Buyer's Stamp Duty. The income from the rental unit can help mitigate economic or job market uncertainties and fund retirement needs.

But finding tenants can be challenging in an economy hurt by the Covid-19 pandemic. The vacancy rate for private residential units is rising and reached 7 per cent at end-2020 according to data by the Urban Redevelopment Authority. Rentals for private residential property fell 0.6 per cent last year.

Investors who seek yield without too much risk may find a superior option in Real Estate Investment Trusts (Reits), which have been popular since the first Reit was listed in 2002.

Reits' appeal

Yields of selected Singapore Reits based on results for period ended Dec 31, 2020

	TOTAL ASSETS ($ B) AS AT DEC 31, 2020	UNIT PRICE AS AT FEB 8, 2021 ($)	DISTRIBUTION YIELD
Ascendas Reit	14.57	3.08	4.8% **
CapitaLand Integrated Commercial Trust	22.42	2.15	4.9% *
Keppel DC Reit	3.35	3.03	3.2% **
Keppel Reit	7.76	1.18	5.0% **
Mapletree Industrial Trust	6.17	2.83	4.6% *
Mapletree Logistics Trust	10.55	1.95	4.2% *
Suntec Reit	11.23	1.50	5.5% **

**Based on latest quarterly results; **Based on latest half yearly results*

Compiled by writer

More attractive yields

Based on recent trading prices, large Reits on the SGX generate an attractive yield of 4 to 5 per cent, compared to the net yield from private residential property of around 2 per cent per annum. These Reits trade at a positive spread well in excess of 300 basis points over the Singapore 10-year government bond yield.

Certainly, private residential property owners can enjoy potential capital appreciation but so can Reit investors. A Reit that consistently grows its distribution per unit will likely see its unit price increase over time.

Moreover, transaction costs associated with buying Reits are minimal and Reits are far more liquid than physical property.

The professional vs the amateur

Perhaps what is crucial in the fight to secure tenants is to see the individual owner of a residential unit as an amateur, and the management teams of Reits - in particular those backed by large property groups such as CapitaLand and Mapletree Investments - as the professionals.

Retail landlords are under siege amid the growing popularity of online shopping, and challenged to come up with experiences to lure shoppers. Office landlords are confronted with shrinking demand as work-from-home entrenches itself.

However, well-managed Reits are probably able to meet the challenges posed by changing needs of space users. Reits with large portfolios have the flexibility to reconstitute portfolios by divesting some assets. They also have the expertise and funding to undertake major enhancements to improve the competitiveness of their assets.

Expect management of Reits to work creatively and tap large networks to lure tenants; provide high quality maintenance and property management to keep tenants happy; and study trends and mine data to position their properties to be future-ready.

Active asset management will determine which properties thrive in an era where property like many sectors is being disrupted by technology. Trust good Reit managers to use data to better customise offerings to tenants and collaborate with tenants to create win-win outcomes.

Choose quality

You could get a decent yield and sleep easy while the professionals manage your Reit investment for you. Reits, however, may make cash calls. A Reit investor needs to study whether it is good to participate in a rights issue or preferential offer and line up the funds to do so.

Investors in Ascendas Reit were asked late last year to take up a preferential offer on the basis of 37 preferential units for every 1,000 units held as part of a S$1.2 billion raising to help fund acquisition of offices in USA and Australia, and data centres in Europe. Investors who took up this offer at S$2.96 per unit, are now in the money. In contrast, the announcement on Dec 28, 2020 by First Reit of a rights issue on the basis of 98 rights units for every 100 units held to raise funds to help avoid a debt default has seen the said Reit's unit price come under duress.

While Reits as an asset class can be attractive, like with all investments, be selective. Study carefully factors such as the track record, the sponsor, and the type of assets.

For those looking at starting their Reit journey, one can build a portfolio by choosing two or three quality names that offer exposure to mega trends in logistics and data centres such as Ascendas Reit, Keppel DC Reit, Mapletree Industrial Trust and Mapletree Logistics Trust.

Complement the above with two or three picks from among CapitaLand Integrated Commercial Trust, Frasers Centrepoint Trust, Keppel Reit and Mapletree Commercial Trust, that offer exposure to quality assets in office and retail, which should benefit as the economy recovers. Case in point - Frasers Centrepoint Trust, with its focus on suburban malls in Singapore, reported that tenant sales are close to pre-pandemic levels for the quarter ended December 2020.

Developers in Singapore have been innovating to deliver residential projects with a wide array of amenities as well as units that maximise efficiency and offer flexibility of use. It can be difficult resisting the emotional appeal of residential property.

Reits, however, may prove a better and more hassle-free investment. But do not rush for the Reit with the highest prevailing yield. Having a high yield may be negative as that makes it very difficult for the Reit to grow via acquisitions. Rejoice in the year of the Ox by investing in quality Reits to overcome the perils of the low interest rate environment.

The writer is a CFA charter holder with over 25 years of experience in finance, investment and real estate in Singapore and regionally