

REAL ESTATE INVESTMENT TRUSTS

CHALLENGES AHEAD AS SINGAPORE'S REIT MARKET

EXPANDS

The Singapore real estate investment trust (REIT) market has grown strongly since its inception in June 2002. The market has witnessed the listings of five REITs on the Singapore Stock Exchange, namely CapitaMall Trust (CMT), Ascendas REIT (A-REIT), Fortune REIT, CapitaCommercial Trust (CCT) and Suntec REIT. The diverse pool of products provides investors with a range of options encompassing retail, office, industrial, mixed developments and foreign property. The market capitalization of these five REITs stood at \$5.78 billion at end-2004.

REITs have proven to be well accepted and highly sought-after by investors judging by the overwhelming responses during IPO subscriptions and the trading volumes in the last two years. This is due mainly to its relatively low risk level and high dividend payout. Especially with the 10-year Singapore government bond yield tumbling some 157 basis points (bps) from 1 Jan 2004 to 2.58% on 31 Dec 2004, the dividend yields of the listed-REITs remain high in relation to the current bond yield. Based on the forecast dividends per unit, the gap between the 10-year bond yield and dividend yields is in the range of 265-323 bps. Therefore, in view of the higher returns of REITs, investors have shown keen interest in taking up this relatively safe investment instrument as an alternative to other low-risk products such as government bonds or fixed deposits.

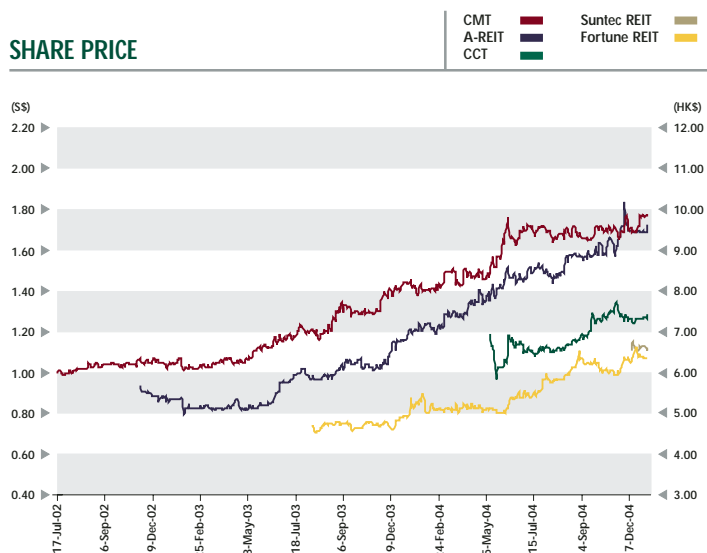
Reflecting investors' optimism and confidence towards this investment class, unit prices of all the REITs have surged, with A-REIT, Fortune REIT and CMT leading the way. The share

prices climbed by 49% for A-REIT, 29% for Fortune REIT while CMT registered a 23% hike over the past 12 months.

The price appreciations have in turn compressed the dividend yields to below 6% for all the REITs. Subsequently, the latest Suntec REIT was listed in December with a forecast dividend yield of 5.82%, compared with 7.06% and 6.50% at the launch of CMT and Fortune REIT respectively some two years ago. Judging by the subscription rate of Suntec REIT (10.6 times oversubscribed for the retail portion), investors are accepting the lower yield as the REIT market matures and becomes more familiar to them.

Although there is a general acceptance of a lower dividend yield, the rise in unit prices has imposed greater pressure on trust managers to strategize their growth plans in order to maintain the dividend yields at attractive levels. Managers need to continually boost rental income from their property portfolios via different growth strategies. A-REIT and CMT have continuously shown their commitment in expanding their income bases through both organic growth and acquisition growth strategies.

A-REIT demonstrated the effectiveness of an acquisition growth strategy in the last 18 months since its launch in July 2003, spending \$337.00 million in 2003 and another \$771.65 million in 2004 to expand its portfolio size through acquisitions of yield-accretive properties. As such, A-REIT has tripled its asset size from \$569.20 million at the listing in November 2002 to \$1.68 billion within two years. On the back of this fast-paced expansion, the share price of A-REIT reached an all-time high of \$1.82 on 30 November 2004, representing 107% increase from the initial listed price of 88 cents.

SHARE PRICE


Note: All in \$\$ except Fortune REIT in HK\$

CMT has also adopted a similar growth strategy by adding two shopping malls, IMM Building and Plaza Singapura, to the portfolio for an aggregate of \$957.40 million. Unlike A-REIT, just relying on acquisitions may not be sufficient for CMT to expand its rental base in the long term due to the limited number of quality shopping centres for sale in Singapore. Nonetheless, CMT has established a successful case of organic growth through asset enhancements. The asset manager of CMT has given most of its shopping centres a makeover in the last two years, which promptly

improved occupancies, rental rates and creatively added on more lettable space to expand its income base.

After witnessing how the Singapore REIT market has performed in the past two years, there is no doubt that it is expected to grow further. There are speculations of more listings from parties such as Mapletree Investments (logistics REIT and Harbourfront REIT), F&N (retail), Parkway Holdings (hospital), Keppel Land and Singapore Land (office). Furthermore, the maturity of the REIT market may attract more offshore REITs to be listed here.

On the flip side, the REIT phenomenon may soon face challenges to its growth, especially for local REITs. Given the highly competitive environment and limited number of yield-accretive properties available for sale in Singapore, finding suitable assets will become a problem in the long term. But in the next couple of years, we expect more aggressive acquisitions from the REITs and this will continue to lend support to the investment sales market in Singapore. When the REIT market matures, greater emphasis will be placed on the ability of the asset managers in managing their portfolios for future growth.

SINGAPORE REITS AT A GLANCE

Name of REIT	Date Listed	Listed Price (\$\$)	Price as at 31 Dec 04 (\$\$)	Year High (\$\$)	Year Low (\$\$)	Price Change Since Listing	Forecast Dividend Yield**	Acquisitions Since Listing	Portfolio Size	Total Acquisition Value at end-2004 (\$\$)
CapitaMall Trust (CMT)	28 Jun 02	0.96	1.76	1.76	1.36	82%	5.23%	2 property worth \$957.4 mil	5 properties	\$1.852 billion
Ascendas Real Estate Investment Trust (A-REIT)	5 Nov 02	0.88	1.71	1.82	1.16	94%	5.81%	26 properties worth \$1.11 bil	34 properties***	\$1.677 billion
Fortune Real Estate Investment Trust (Fortune REIT)	28 Jul 03	HK\$4.75	HK\$6.30	HK\$6.55	HK\$4.88	33%	5.23%	–	5 properties	HK\$3.0 billion
CapitaCommercial Trust (CCT)	11 May 04	1.00*	1.27	1.33	0.96	27%	4.96%	–	7 properties	\$2.012 billion
Suntec Real Estate Investment Trust (Suntec REIT)	9 Dec 04	1.00	1.11	1.14	1.10	11%	5.24%	–	2 properties (mall and office towers)	\$2.107 billion

* first day opening price

** based on share price as at 31 Dec 2004

*** includes property at Depot Road

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