For Viewing Only

THE
SAVVY
INVESTOR'S
GUIDE FOR
CRAZY TIMES

MAKING YOUR MILLIONS IN REITs

GABRIEL YAP

Marshall Cavendish
Business

For Viewing Only

© 2021 Marshall Cavendish International (Asia) Private Limited
Text © Gabriel Yap Chong Hin

Published by Marshall Cavendish Business
An imprint of Marshall Cavendish International

All rights reserved

No part of this publication may be reproduced, stored in a retrieval system or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the copyright owner. Requests for permission should be addressed to the Publisher, Marshall Cavendish International (Asia) Private Limited, 1 New Industrial Road, Singapore 536196. Tel: (65) 6213 9300. E-mail: genrefsales@sg.marshallcavendish.com
Website: www.marshallcavendish.com/genref

The publisher makes no representation or warranties with respect to the contents of this book, and specifically disclaims any implied warranties or merchantability or fitness for any particular purpose, and shall in no event be liable for any loss of profit or any other commercial damage, including but not limited to special, incidental, consequential, or other damages.

Other Marshall Cavendish Offices:
Marshall Cavendish Corporation, 800 Westchester Ave, Suite N-641, Rye Brook, NY 10573, USA • Marshall Cavendish International (Thailand) Co Ltd, 253 Asoke, 16th Floor, Sukhumvit 21 Road, Klongtoey Nua, Wattana, Bangkok 10110, Thailand • Marshall Cavendish (Malaysia) Sdn Bhd, Times Subang, Lot 46, Subang Hi-Tech Industrial Park, Batu Tiga, 40000 Shah Alam, Selangor Darul Ehsan, Malaysia

Marshall Cavendish is a registered trademark of Times Publishing Limited

National Library Board Singapore Cataloguing-in-Publication Data

Name(s): Yap, Gabriel.
Title: Making your millions in REITs : the savvy investor's guide for crazy times / Gabriel Yap.
Description: Singapore : Marshall Cavendish Business, [2021]
Identifier(s): OCN 1200833415 | ISBN 978-981-49-2825-0 (paperback)
Subject(s): LCSH: Real estate investment trusts.
Classification: DDC 332.63247--dc23

Printed in Singapore

Teach like there is no better LEAP
Learn like there is no better REAP
Invest like there is no better REIT
Strive like there is no better HIGH
Love like there is no better TOMORROW

For Viewing Only

DISCLAIMER

The author is not an attorney, accountant or financial advisor. All the information presented in this book is done so for educational purposes only. The information provided in this book is not legal or financial advice and it is not intended to be a substitute for legal or financial advice that should be provided by your own attorney, accountant and/or financial advisor. Although care has been taken in preparing the information provided in this book, GCP Global (wholly-owned subsidiary of GCP Management Holdings Pte Ltd), GCP Management Holdings Pte Ltd and the author cannot be held responsible for any errors or omissions, and GCP Global, GCP Management Holdings Pte Ltd and the author accept no responsibility and liability whatsoever for any loss or damage that a reader may incur. Always seek financial and/or legal counsel relating to your specific circumstances as needed for any and all questions and concerns you may have.

Past performance is no guarantee of future results. All REITs investments involve a risk of loss. There is no assurance that a REITs investment will be profitable. Not all REITs investments are suitable for all investors as each investor is different. If there are any doubts, advice should be sought from an independent financial advisor.

While the publisher and the author have used their best efforts and due diligence in preparing this book, including taking all necessary steps to ascertain that all relevant information is correct and accurate to the best of their knowledge, no warranties are made about the completeness, reliability and accuracy of the information presented in this book. Any implied warranties of merchantability or fitness for a particular purpose are specifically disclaimed. No warranty may be created or extended by sales representatives or written sales materials. The thoughts and strategies contained in this book may not be suitable for any individual reader's situation. A professional should always be consulted as appropriate. Neither the publisher nor the author or any related companies shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential or other damages.

CONTENTS

Foreword 8

Preface 11

Chapter 1 WHAT THE PERSPICACIOUS REIT INVESTOR SHOULD LEARN FROM THE COVID-19 CRISIS 13

- How Safe are REIT Dividends?
- The Right Sector Picks & REITs Selection is Key to Wealth Generation
- Mastering the Psychology of Fear
- REITs are Not a Good Diversifier in Times of Crisis
- Night is Darkest Before Dawn
- Conclusion

Chapter 2 HOW YOU CAN MAKE MILLIONS IN REITS 30

- What is a REIT?
- Origin of REITs
- REITs Take Off in Asia
- REITs Take Off in Singapore
- REITs vs Property Investment
- REITs Total Returns Since the Inception of the REIT Sector
- S-REITs Returns in the Previous Decade
- S-REITs 10-Year Annualized Total Returns
- S-REITs Returns in the Past Decade

Chapter 3 WHY YOU SHOULD HAVE REITS IN YOUR INVESTMENT PORTFOLIO 50

- Dividends
- Total Returns
- Liquidity
- Portfolio Diversification
- Inflation Hedge
- A Good Diversifier of Wealth
- Transparent Corporate Structure

Chapter 4 ANALYZING REITS FOR OUTPERFORMANCE 62

- Operating Profit & Loss Metrics
- Operating Balance Sheet Metrics

For Viewing Only

Chapter 5 HOW MUCH TO PAY FOR A REIT? **83**

Yield-based Approach
Price/Book Value (P/BV) or Price/Net Asset Value (P/NAV)
Dividend Discount Model (DDM)
Capitalization Ratio (Cap Rate)
Discounted Cash Flow Analysis (DCF)
Replacement Cost Method
Comparable Sales Method

Chapter 6 THE RISKS OF INVESTING IN REITS **99**

Refinancing Risk
Interest Rate Risk
Excessive Reliance on Capital Markets
Income Risk
Concentration Risk
Liquidity Risk

Chapter 7 HOW REITS GROW AND HOW INVESTORS GROW WITH REITS **119**

Organic Growth
Inorganic Growth

Chapter 8 HOW TO ANALYSE REIT ACQUISITIONS **134**

REIT Acquisitions in 2019
Case Study of Good REIT Acquisitions – Keppel DC REIT
Looking Forward – REIT Acquisitions

Chapter 9 HOW I MADE MY MILLIONS IN REITS **148**

The Market Offers Value, but You Need to Know when to Seize it
A REIT is as Good as the Kind of Property it Owns
Value of a REIT = Value of its Underlying Assets +/- Value of Sponsor
Valuing Management Competence – Qualitative Exercise and Art to be Done Consistently
Good Acquisitions by REITs – Lynchpin in Price Outperformance
When to Sell Your REIT

Chapter 10 POTENTIAL OF REITS IN THE COMING DECADE, AFTER COVID-19 **163**

India
The Philippines
Hong Kong
China
Singapore
REITs in the Coming Decade
Summary

Acknowledgements **173**

About the Author **175**

For Viewing Only

FOREWORD

"REIT Guru" would be an apt middle name for Gabriel. My first encounter with Gabriel occurred after I became the Chief Executive at ESR-REIT. That conversation left an indelible impression on my team and I, as he was one of the few people who asked critical, thought-provoking and pointed questions few people would dare to ask. My conversations with Gabriel since then have been illuminating – I always take away an important insight from his perspective which has been useful in my investor interactions and how my team and I develop our strategic directions for ESR-REIT.

I am always amazed at how he is able to make investing fun and simple for people to learn from him. Breaking down seemingly complex transactions into simple, easy to understand, layman scenarios and, importantly, how to execute and leverage on the opportunity presented. Even though he keeps up a hectic schedule, Gabriel always finds time to connect with people, regularly sending articles he's read that he thinks my team and I will find insightful. He is a dedicated educator at heart.

Over the years, numerous analysts and punters and other experts have produced a myriad of articles, blog posts, books and podcasts on investing in REITs. But only a select few promise to truly move the needle in practice, and even fewer still advocate the importance of sensible long-term investing.

So here are three things you will learn from Gabriel:

THE INVESTOR JOURNEY IS FULL OF TWISTS AND TURNS

The first thing people learn from Gabriel, of course, is why choose REITs. Given many investors are generally eager to generate both value and growth in their portfolio, they direct capital to less-volatile investments such as REITs, which are expected to yield stable income and long-term capital appreciation. But now there's a roadblock in the investor journey: as COVID-19 continues to ravage global markets, how does one evaluate REITs in the middle of a worldwide disruption the likes of which we have never seen? How do you determine a good REIT to invest in?

COVID-19 has rewritten the rules of real estate. Investors have reluctantly accepted the fact that businesses are unlikely to return to "normal" anytime soon. Concerns, whether shopping, work or leisure will still be the same and the ability of tenants to sustain their operations once the pandemic subsides has weighed heavily on everyone's mind. These questions are likely to prompt investors to be more astute in their investments. Some may direct their capital away from riskier assets, while others are likely to morph into bargain hunters.

That's where Gabriel's REITs investing framework comes in handy. It is nimble enough that people can use it anytime, even in shifting market dynamics and changing risk appetites. The framework emphasises being prepared, and that means being diverse when it comes to investing in REITs.

FUNDAMENTALS ARE IMPORTANT

The pandemic spotlights issues such as business continuity by exposing and accentuating structural weaknesses in fundamentals that companies have long overlooked or neglected. Similarly, companies with healthy indicators such as strong operating balance sheet metrics, diversified portfolio, robust capital structure and a good management team are more likely to withstand shocks in the global economy. The same can be applied to REITs.

In this book, Gabriel has included several approaches towards REITs valuation where investors can significantly minimise risk by filtering out risky REITs with poor fundamentals from the outset.

For Viewing Only

LOOK OUT FOR OPPORTUNITIES

The pandemic had accelerated trends that were already visible even before infection rates started creeping up. The most obvious is the rise of e-commerce. Technology has upended real estate globally. The surge in online shopping has been a boon to warehouses and data centres. For example, evolving consumer behaviour has changed the way investors are looking at industrial REITs as they pivot towards a more defensive portfolio. Crisis periods often offer excellent opportunities to profit. And the current REIT market presents the best classroom.

Gabriel is not afraid to bring across sentiments from the investing community and pose the hard questions to us as REIT managers. This is one of his most admirable qualities.

It is from this rare breed of REIT advocates – grounded in experience and success in practice – that this book truly enlightens.

I hope you will enjoy his insights as much as I did.

Adrian Chui
Chief Executive Officer & Executive Director
ESR Funds Management (S) Ltd

PREFACE

Having navigated crises like the 1987 and 1989 stock market crash, the 1997–1998 Asian Financial Crisis, the Dot-com bubble and the 2007–2009 Global Financial Crisis successfully, it became crystal clear to me that how investments and finance are taught in universities and what the smart and sharp investor should be equipped with psychologically, mentally and with the necessary financial skills, can make a huge difference to an investor's wealth – you can either let a crisis get to you or capitalize on it to make your millions.

I have been lucky and thank the Lord for being able to make my millions from past crises and REITs to retire in 2009 in my early 40s. As a form of thanksgiving, I have continued to teach but with a difference – since 2010, I have been donating a portion of the proceeds from teaching to various charities. After 31 years of teaching, I have more than 8,000 student investors from all over Asia who attend our REITs, Technology and Investment classes regularly.

I have written this book to encapsulate what we have taught – betting big in times of crises and multiplying wealth through REITs, Technology and Disruption Innovation stocks. In this book, as in our investment classes, we focus on how to invest in REITs to become potential millionaires and how to protect and grow one's wealth, more so after the COVID-19 pandemic which sent REITs and capital markets reeling. The sell-off has been one of the most ruthless ever, however, every crisis creates a new opportunity for REIT investors to make and mint new wealth – if you know how. This book delves deep into that.

Whether you are new to the world of REITs or already a sophisticated investor, you will gain great insights and gain a firmer

For Viewing Only

understanding of REITs investment strategy and tactical allocation changes that vary with market changes.

The first-time or beginner REIT investor will benefit from a structured approach from the book as it covers issues in depth in understandable terms, including the different levels of REIT investing and provides real-life examples of REITs. It teaches the reader in clear terms how to analyze REITs via several approaches to conserve and grow one's wealth.

To give sophisticated investors an edge, I share passionately on how to navigate the ups and downs of the REITs market as it moves with the vagaries of interest rate changes, expectations and events that shaped the REITs market. I have also incorporated some of my experiences as I built my stakes to become one of the top 20 shareholders in some of the REITs.

As I am excited and see a great future in the development of REITs in jurisdictions like Singapore, India and China in the future, this book has a detailed section on how Singapore's REIT market grew over different time periods – growth pangs, like the growth of a child, are natural. The sagacious investor will know how best to harness the spills and thrills, so as to come out thrilled all the time.

Readers will be guided on what to watch out for in the REIT market moving ahead. Areas like Mergers of REITs and Acquisitions of both local and foreign assets to gain geographical advantage will be covered with live examples of deals and guided by my template on how to analyze and scrutinize a good or bad deal.

The book will also provide details on the sell signals that I look for in selling my strategic stakes in REITs before the REIT price plunges. Not only does it teach investors on what and when to buy, it also touches on the other more important skills of Taking Profits and Cutting Your Losses.

If the past is a prologue to the future, you, the sagacious REIT investor, will be well-guided in this book to stay sharp and smart, and to continue making your millions in REITs.

Gabriel Yap
December 2020

Chapter 1

WHAT THE PERSPICACIOUS REIT INVESTOR SHOULD LEARN FROM THE COVID-19 CRISIS

This time, it is different!

The COVID-19 Pandemic pushed the global economy into a recession of historic proportions and halted the longest-lasting equity bull market. As infections spread globally and exponentially, economic activity collapsed and came to a standstill. Then policy makers responded and markets rebounded strongly. The COVID-19 crisis provides a real-time case study of what happens to the income of Real Estate Investment Trusts (REITs) and their flow-through impact on the REITs' dividends during times of unprecedented stress. This directly challenges the long-held perception among investors that REITs are safe vehicles for investments as they are mandated to pay out at least 90% of their taxable income as dividends to achieve tax transparency. The severe market sell-down, in terms of the speed and magnitude, was indeed fast and furious and unprecedented.

For the first time ever, S-REITs collapsed 367.98 points which was a humongous 37.91% as the FTSE REIT Index crashed from 970.62 on Wed 19 February 2020 to 602.64 on Mon 23 March 2020, over a period of just 22 market days! This fierce sell-off was the worst ever in S-REIT history and exceeded the previous record of October 2008, where in the throes of the Global Financial Crisis (GFC), 34.67% in value was wiped off in a single month.

As a comparison, S-REITs sold off 22.5% over a period of 77 market days (about 4x longer than 22 days) during the 2015 Taper Tantrum

For Viewing Only

sell-off. Of course, the worst-ever sell-off in S-REITs was during the GFC where the FTSE REIT Index collapsed 74.67%, but it was over 13 months or 266 market days.

The ferociousness of the sell-off was very much attributed to the fear of the unknown. In this case, it is the coronavirus that is the known factor, but the unknown effects range from how long will this pandemic last, when will infections peak and how many deaths will subsequently follow. Investors do not like uncertainly and will certainly sell first and ask questions later. The sell-off was akin to "throwing the baby out with the bath water", not dissimilar to previous sell-offs.

How the smart REIT investor positions his or her portfolio in this time of crisis is key in making a fortune. After all, S-REITs' 37.91% fall to 602.64 on Mon 23 March 2020 inked it as the 2nd largest fall in S-REITs' 19-history since the S-REIT market started in 2002. And every crisis creates its own opportunity for the sagacious REIT investor.

In comparison, the US REIT market lost 39.95% or a market value of US$884.1 billion. Globally, equities lost US$26.1 trillion in market capitalization and US stocks alone lost $11.8 billion in market capitalization during the sell-off.

Personally, I have navigated many crises like the 1987 and 1989 stock market crashes, 1998 Asian Financial Crisis and 2008 Global Financial Crisis. Crises are times when fundamentals and technical analysis take a back seat and Experience takes the front seat. Investors and traders have to contend with swings from Fear to Greed and vice versa, sometimes in a matter of seconds.

Financial markets have always seen the struggle between order and chaos. For the last decade, financial markets have been relatively calm and orderly and prices have gone up after each correction. COVID-19 has thrown many of our lives into chaos and businesses that were doing just fine a few months back, all of a sudden are facing an existential crisis.

What I have learned from past crises is that chaos in markets not only brings about destruction. But out of this crisis and chaos will emerge new businesses and sow the seeds of the next Amazon. After all, Amazon nearly went under during the Global Financial Crisis and has emerged as a force to reckoned with. The challenge for investors is to survive the current crisis and chaos and identify and position into the winners that will emerge out of this mess. Therein, is the way to multiplying your wealth, as it has happened in the past, will happen now, and also in the future.

What I have learned from past crises is: Crises are the best learning experiences for the smart investor and the best time to multiply one's wealth. These are some of the invaluable lessons that emerged from the COVID-19 Pandemic and are likely to change the REIT investment landscape going forward:

HOW SAFE ARE REIT DIVIDENDS?

REIT dividend yields may be attractive. Many REITs like to show their dividend yield compared to equities, government 10-year bond yields, the Central Provident Fund rate and Fixed Deposit rates in their various quarterly or half-year results. But dividend yield is meaningless if the dividend behind it is not sustainable or withheld due to COVID-19, as many REIT investors came to experience in this COVID-19 crisis when REITs released their 1Q2020 results.

The contractual nature of rental revenue from leases has enabled REITs to pay steady dividends to investors, even during most economic recessions. Historically, as long as REIT managers do not finance the REIT's growth with excessive levels of leverage, the bond-like cash flows of dividends will continue without much interruption to investors. However, that changed for S-REIT investors with the COVID-19 crisis.

Prior to that, the 2007-2008 Global Financial Crisis (GFC) that precipitated the 2008-2009 economic recession was the preamble that severe economic and market stresses can jeopardize REIT dividends. In the US, over two-thirds of all REITs cut or suspended their DPU in order to conserve cash. According to NAREIT, REIT returns were a dismal negative 37.7% in 2008, before rebounding to a positive 28.0% in 2009. Despite widespread dividend cuts, in 2008, REITs underperformed the S&P500 by only 73 basis points and outperformed equities by 153 basis points in 2009.

For Viewing Only

The rash of dividend cuts by REITs during the 2008-2009 recession was similar to that of the REITs that slashed their dividends in the wake of the savings and loan crisis in 1980s. In both instances, a broad liquidity crisis translated into dividend cuts for the majority of REITs. Not surprisingly, the REITs that did not cut or suspend their dividends were the ones with lower levels of debt, and also those with little debt maturing during the crisis years.

The key aspect of Dividend Safety takes centre stage during the COVID-19 crisis. There are a few key factors that investors should pay special attention to in determining Dividend Safety which we will delve into, in great detail in Chapters 4 and 5.

LESSON LEARNED

REIT dividend yields may be defensive and attractive. However, they are meaningless if the dividends behind them are not sustainable or withheld due to COVID-19, as many REIT investors came to experience during the COVID-19 crisis when REITs released their 1Q2020 results.

THE RIGHT SECTOR PICKS & REITS SELECTION IS KEY TO WEALTH GENERATION

COVID-19's Impact on Hospitality REITs

Both the Hospitality and Retail REITs were literally in the eye of the storm of the COVID-19 crisis. The COVID-19 pandemic has plunged both sectors into uncharted operating territories from mid-March and is expected to play out in full through 2Q2020 and possibly 2H2020.

For instance, at newly-listed ARA US Hospitality Trust, gross revenue and net property income (NPI) fell sharply below the company's forecasts by 24.5% and 68.2% when it delivered its 1Q2020 results at US$31.7 million and US$3.6 million, respectively. Frasers Hospitality Trust which owns assets in places ranging from Kobe, Japan to Sydney, Australia, also reported a sharp 41.5% decline in revenue to $20.2 million and a sharper 52% drop in NPI to $12.1 million. Shareholders suffered a terrible blow as the REIT retained $25.3 million in its 1H2020 dividend distributions in anticipation of continued weak operating performance and to support one of its recently acquired properties, the Novotel Hotel Melbourne on Collins which is not under master lease protection.

WORST-HIT REITS 1Q2020	Share Price 31/12/2019	Share Price 31/03/2020	Price Change	% Change
Eagle Hospitality Trust	$0.545	$0.137	-$0.408	-74.86%
ARA Hospitality Trust	$0.870	$0.345	-$0.525	-60.34%
United Hampshire	$0.800	$0.320	-$0.480	-60.00%
CDL HT	$1.620	$0.800	-$0.820	-50.62%
Lippo Malls	$0.225	$0.117	-$0.108	-48.00%
Far East Hospitality Trust	$0.740	$0.410	-$0.330	-44.59%
Frasers Hospitality Trust	$0.710	$0.395	-$0.315	-44.37%
Landlease REIT	$0.930	$0.520	-$0.410	-44.09%
ESR REIT	$0.530	$0.300	-$0.230	-43.40%
Ascott REIT	$1.330	$0.790	-$0.540	-40.60%

All of the six hospitality REITs were in the 10 worst-hit REITs for 1Q2020

Hospitality REITs bore the brunt of the sell-off. There are six hospitality REITs listed on SGX and all of them were in the worst-10 performing REITs for 1Q2020 list. The losses ranged from 74.86% for Eagle Hospitality Trust (which is still suspended as this book goes to print) to 40.60% for Ascott REIT. While newly-listed ARA US Hospitality REIT lost 60.34% in value, long-listed CDL Hospitality Trust also lost 50.62% in value.

Interestingly, this sell-off also showed that REITs like CDL Hospitality, Ascott REIT and Far East Hospitality which have some of their incomes underwritten by their master lessors or sponsors, were as badly affected as those without. Far East Hospitality has a high 72% fixed rent/stable income component, CDL Hospitality has 36% while Ascott REIT has 30%. As of end-June 2020, Hospitality REITs prices are still down by more than 25%, the sharpest among all REIT sectors, while Industrial REITs like ESR REIT have recovered by 32%.

Hospitality REITs typically have geographically diversified assets relative to other REIT sectors. It was traditionally a strength as market

For Viewing Only

dynamics of one geographical area may outweigh the weakness in others, a strength that Ascott REIT has repeatedly pointed out. However, with the pandemic and possible global recession, this off-setting is clearly negated.

With the closure of country borders and restriction of travel, occupancies fell like ten-pins which together with falling Average Daily Rates, led to severe erosion of the Revenue Per Available Room (RevPAR). The high fixed cost nature of the hospitality sector, comprising operating, administrative and financing costs had come home to roost.

Sector rotation is an investment strategy that consists of moving money from one sector to another to outperform the market. Over time, an economy moves through periods and bouts of expansion and contraction. Economic growth and demand-supply dynamics typically benefit certain sectors, known as cyclical sectors during an expansion while less economically sensitive sectors perform more defensively during economic contractions.

For instance, among the top-10 best performing REITs for 2017, four of the REITs were in the Office sector. They were CapitaCommercial Trust (now known as CapitaLand Commercial Trust), Suntec REIT, Mapletree Greater China (now known as Mapletree North Asia or Mapletree NAC, which owns office properties in China and Japan) and Keppel REIT. The Office sector enjoyed strong momentum in economic growth and favourable demand-supply dynamics which subsequently saw increases in spot rentals and falling occupancies.

For the smart and sharp REIT investor, profits come from both capital gains and dividends. COVID-19 Crisis brought to the forefront that avoiding capital losses in a crisis sell-off is equally important as buying correctly when you position your REITs investment portfolio. It illustrated what we have been teaching for the past 31 years: Rock-bottom prices present themselves, but you need to avoid the sectors and REITs that will drag your portfolio down to be able to take advantage of good and profitable bottom-picking in the other sectors.

LESSON LEARNED

For the smart and sharp REIT investor, profits come from both capital gains and dividends. COVID-19 Crisis brought to the forefront that avoiding capital losses in a crisis sell-off is as important as positioning your REITs investment portfolio. Highly susceptible sectors like Hospitality which can result in huge losses should have been avoided going into the crisis.

COVID-19's Impact on Retail REITs

Retail properties derive their value from footfall and tenant sales in addition to their convenient location factor. A combination of all these factors have driven retail values up in the past few decades. In addition, hanging out in malls is a favourite pastime with locals as you can literally go crazy in land-scarce Singapore, cooped up in small apartments which are mainly Housing and Development Board flats (which house more than 80% of the population) of typical size under 90 square meters.

On April Fools' Day, many REIT investors may have felt like fools when SPH REIT became the first S-REIT to slash its DPU in its latest quarterly results due to the anticipated challenges that COVID-19 would pose. The COVID-19 pandemic subsequently led to temporary closure of shops deemed non-essential and social distancing measures introduced caused most malls to become "ghost" malls for the months of April and May 2020. Even before COVID-19, there were already pockets of weakness in the retail sector which saw the departure of a mix of large fashion chains and local brands.

The malls had been able to reposition by welcoming activity-based tenants such as cooking classes, craft workshops, education and tuition centres, gyms and virtual reality arcades which thrived on group-based activities. The social distancing measures put in place to prevent and lower the spread of COVID-19, is certainly going to affect footfall and tenant sales going forward, even after the re-opening of the economy.

For Viewing Only

RETAIL REITS	Share Price	Share Price	Price	%
	31/12/2019	31/03/2020	Change	Change
CapitaLand Mall Trust	$2.460	$1.790	-$0.670	-27.24%
Frasers Centrepoint Trust	$2.810	$2.240	-$0.570	-20.28%
Mapletree Commercial Trust	$2.390	$1.830	-$0.560	-23.43%
SPH REIT	$1.070	$0.770	-$0.300	-28.04%
Lendlease Global REIT	$0.930	$0.520	-$0.410	-44.09%
Starhill Global REIT	$0.725	$0.435	-$0.290	-40.00%

There is a clear disparity in performance in Retail REITs. A retail REIT is as resilient as the mix of tenants it has in the malls that it owns.

Not surprisingly, the stronger of the Retail REITs, namely Frasers Centrepoint Trust, Mapletree Commercial Trust (MCT) and CapitaLand Mall Trust lost between 20.28% - 27.24% of their value in 1Q2020. The other Retail REITs, Lendlease REIT and Starhill Global REIT lost 44.09% and 40.00% in value, respectively.

The disparity in performance among Retail REITs is clear to the sharp and smart REIT investor. A retail REIT is as resilient as the mix of tenants that it has in the malls that it owns. Some malls like VivoCity owned by MCT did not see any valuation downgrade. In fact, VivoCity was able to maintain its valuation at $3.262 billion or $3,031 per square foot despite a cap rate expansion of 15 basis points to 4.625% in its latest 1Q2020 results. In reality, VivoCity has been able to continuously post positive NPI growth year-on-year since it started operations on 7 October 2006. Yes, even 14 years after the mall opened.

Portfolio Valuation mapletree commercial

Portfolio valuation held steady at S$8.9 bil

	Valuation as at 31 March 2020[1]			Valuation as at 31 August 2019	Valuation as at 31 March 2019
	S$ million	S$ per sq ft NLA	Cap Rate	S$ million	
VivoCity	3,262.0	3,031 psf	4.625%	3,262.0	3,200.0
MBC I	2,198.0	1,287 psf	Office: 3.90% Business Park: 4.95%	2,193.0	2,018.0
PSA Building	791.0	1,505 psf	Office: 4.00% Retail: 4.85%	786.0	763.0
Mapletree Anson	762.0	2,317 psf	3.50%	762.0	728.0
MLHF	347.0	1,608 psf	3.90%	347.0	330.0
Sub-total	7,360.0			7,350.0	7,039.0
MBC II	1,560.0	1,317 psf	Business Park: 4.90% Retail: 4.75%	1,550.0[2]	-
MCT Portfolio	8,920.0[3]			8,900.0	7,039.0

1. The valuation for VivoCity was undertaken by Savills Valuation and Professional Services (S) Pte. Ltd., while the valuations for MBC I and II, PSA Building, Mapletree Anson and MLHF were undertaken by CBRE Pte. Ltd.
2. Refers to the Agreed Property Value
3. Given current market conditions and on a goodwill basis, the Manager will charge the base management fees for FY20/21 based on the prevailing asset value or new valuation, whichever is lower

MCT's latest valuation in 1Q2020 results

Whilst all malls are hit with the same problems of closure of "non-essential services", social distancing measures and high probability of lower rental renewals, not all malls are affected the same way. The best retail REITs will differentiate themselves from the rest and still outperform during a crisis. They will also most likely outperform further in the years ahead. This is a great lesson that REIT investors should take note of, from the COVID-19 Pandemic sell-off.

LESSON LEARNED

Whilst all malls are hit with the same problems of closure of "non-essential services", social distancing measures and high probability of lower rental renewals, not all malls are affected the same way. The smart REIT investor should know that a retail REIT is as resilient as the mix of tenants in the malls that it owns, nothing more, nothing less. The best retail REITs will differentiate themselves from the rest and outperform in the years ahead.

For Viewing Only

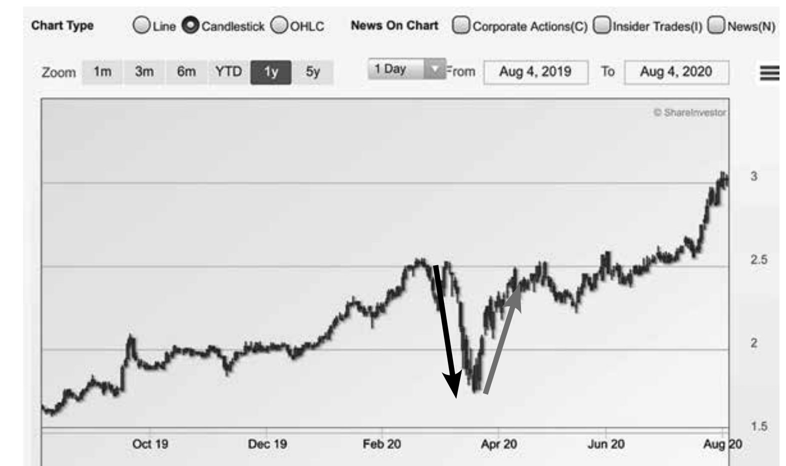
COVID-19's Impact on Industrial REITs

On the other hand, industrial REITs have proven to be more resilient. COVID-19 amplified the critical role that supply change management, logistics and e-commerce play. The share prices of the larger industrial REITs like Ascendas REIT, Mapletree Logistics Trust (MLT), and Mapletree Industrial Trust (MIT), recovered to within 10 – 15% of their pre-crisis prices during the rebound that followed the crash. Keppel DC REIT which own data centres, actually saw its share price challenge its pre-crisis price within four weeks of the low reached on 23 March 2020.

MLT recovered quickly to within 10-15% of its pre-crisis levels during the rebound. Source: ShareInvestor

Most of the industrial REITs subsequently reported that most of their tenants cater to industry sectors that are deemed essential and were allowed to operate. Not surprisingly, when the industrial REITs reported their 1Q2020 results or Business Updates, most did not see the need to withhold DPU as only a small proportion of their tenants actually asked for rental deferrals.

Keppel DC REIT, MLT and Ascendas REIT did not withhold DPU. MIT withheld a small sum of $6.6 million as it has exposure to Small-and-Medium Enterprise, SMEs comprising 50-55% of its tenant base as compared to Ascendas REIT where SMEs make up just 20-25% of its tenant mix.



Keppel DC REIT challenged its pre-crisis high of $2.50 to $2.55 within 4 weeks of the rebound. Source: ShareInvestor

The Most Resilient REITs vs The Worst-Performing REITs during COVID-19

Why are doctors so confident in being able to differentiate between a heart attack and a headache? This is because they extensively study the symptoms of both. Similarly at GCP Global, we have trained our student investors to avoid Value Traps for the past three decades by extensively studying the early symptoms and issuing warnings way in advance on REITs.

Heart attacks and strokes, the seizure can come anytime and send the victims into sharp pain and possible convulsions. Similarly, the COVID-19 Crisis was another episode that highlighted that there are Good REITs and there are Not-so-good REITs. During a crisis, there will be convulsions which can result in sharp pain in an investment portfolio, but the Strong REITs are the ones that rebound the fastest while the Not-so-strong REITs will rebound the least and slowest. We will cover the characteristics of a Good Reit in Chapters 4 and 5 and highlight Value Traps in subsequent chapters.

For Viewing Only

As in Table 1, the worst-five Performing REITs lost between 48.00% to 74.86% of their value during the COVID-19 Pandemic sell-down. Most of the Hospitality REITs including Eagle Hospitality Trust, ARA Hospitality Trust, CDL HT and Lippomalls were some of the REITs that we had told our student investors to AVOID in our various quarterly REIT classes, monthly write-ups and symposiums prior to 2019.

MOST RESILIENT	Share Price	Share Price	Price	%
Jan - Apr 2020	31/12/2019	30/04/2020	Change	Change
Keppel DC REIT	$2.08	$2.35	$0.27	12.98%
Mapletree Logistics Trust	$1.74	$1.80	$0.06	3.45%
Ascendas REIT	$2.97	$2.97	$0.00	0.00%
Parkway Life REIT	$3.32	$3.30	($0.02)	-0.60%
Mapletree Industrial Trust	$2.60	$2.55	($0.05)	-1.92%

Top-five best performing REITs during the COVID-19 crisis

In contrast, the top-five Performing REITs held on to their capital values during the COVID-19 sell-off. In fact, Keppel DC REIT and MLT even exceeded their pre-crisis price levels by end-April 2020. All five REITs were what we had shared extensively in our various quarterly REIT classes, monthly write-ups and symposiums prior to 2019. Many of these REITs have been our favourites for a long time.[1]

Most of the smaller industrial REITs held back dividends as their exposure to SME clients tend to be higher. It became clear that properties leased to high-quality tenants, especially to MNCs and blue-chip tenants in essential services presented the least risk of rental default or postponement. They are also more likely to fulfil long-term leases. Going behind who are the tenants and stress-testing their financial health take centre stage in this crisis as that underlies whether these tenants would be able to withstand this financial grind. It brings forth what we have been teaching in our REITs classes in the past 31 years – the financial veracity of the tenants is key in determining a REIT's safety of rental income. The safety of the rental income will then translate into the safety of the DPU for investors.

1 "Picking S-REIT Winners For 2020", GCP Global, 8/2/2020, https://gcpglobalsg.wixsite.com/gcpglobal/post/picking-s-reit-winners-for-2020. "Singapore REITs – Replete With Splendour," GCP Global, 12/1/2020, https://gcpglobalsg.wixsite.com/gcpglobal/post/singapore-reits-replete-with-splendour.

Summary

Post-COVID-19, the key factors to watch in sectors and REITs are income flows, rental reversions, vacancies, lease maturities, gearing, cost of fund and interest cover. Maintaining cash flow visibility to thrive and still pay unit holders, balanced against the need for capital retention, are the new hallmarks.

It is clear therefore for REIT investors, that the REITs that have been more resilient and will do better in the coming recovery, after perhaps a quarter or two of really bad economic results, will be in the more specialized niche areas of data centres and healthcare. The larger and diversified industrial REITS with defensive industry mix that can bolster their balance sheets quicker, will also be the more resilient REITs.

As the COVID-19 Crisis sell-down has shown, REITs are not homogeneous. In fact, the sector fortunes and individual differences among REITs are very stark. Picking the right sectors and REITs at different market timings are key in making money and growing your wealth. The silver lining that has emerged is near-zero interest rates. Will this become almost a replay of the post-GFC years from 2008 to 2015 when interest rates remained low and near zero? The US Federal Reserve was only able to increase interest rates by a total of 75 basis points over three raises only in 2017 after 25 basis points increases both in December 2015 and December 2016. Needless to say, REITs thrive when interest rates are expected to remain low for an extended period of time.

LESSON LEARNED

As the COVID-19 Crisis sell-down has shown, REITs are not homogeneous. In fact, the sector fortunes and individual differences among REITs are very stark. Picking the right sectors and REITs at different market timings are key in making money and growing your wealth.

For Viewing Only

MASTERING THE PSYCHOLOGY OF FEAR

Understanding the psychology of Fear is as important as knowing your fundamentals or technical analysis well, going into a crisis market. This has been the hallmark of our Quarterly REITs and Masterclasses that we have been teaching for the past 31 years.

This evolved from my experience navigating the 1987 and 1989 stock market crashes, 1988 Asian Financial Crisis and 2008 Global Financial Crisis. This round of crises have re-affirmed that:

1. Investors are normally ill-prepared to understand and grasp the mathematics of uncertainty, statistical probabilities and Monte Carlo statistical modelling in their Risk-Return investment projections.[2] It is strange that top schools and colleges teach the mathematics of certainty like trigonometry, differentiation and geometry, but not the mathematics of uncertainty that help investors crystallize their fears and uncertainty. Thus, it is not surprising that investors and traders will over-react, like they did in the four consecutive weeks of sell-downs before the three-day magnificent rebound on Tue 24 March 2020.
2. In a crisis market, investors fear uncertainty, but a crisis is a situation of maximum uncertainty. This creates a sense of loss, desperation and danger. It is in situations like this that investors want firm answers, but it is precisely in such situations where firm answers don't really exist, only the probability bet of certain situations getting worse or worst and the extent where the market has priced that in, that determines profit and loss.
3. Drivers of a REIT's value are its cash flows, growth and risk whereas the determinants of market price are affected by demand and supply factors, including psychological or behavioural factors like momentum, fear and mood in the interim. Prices need not always converge to an intrinsic value, more so during a crisis when momentum, fears and mood drown out the fundamentals and technical elements. Markets are a pricing mechanism, more so in a crisis like COVID-19, as has been demonstrated in previous crises. They may only gravitate towards a weighing mechanism only after prices stabilize.

2 "Confabulation is a real problem amongst REIT investors", https://gcpglobalsg.wixsite.com/gcpglobal/post/confabulation-is-a-real-problem-amongst-reit-investors

REITS ARE NOT A GOOD DIVERSIFIER IN TIMES OF CRISIS

Many investors had previously assumed that REITs are a diversifier for their portfolios and fell in love with them for their consistent bond-like dividends. What the COVID-19 Crisis showed was that REITs traded more like other listed equities rather than the more stable real estate that they seek to represent or the stability of bonds. While REITs may have delivered bond-like dividends in the past, the underlying price can swing much more than equities. In fact, for a short time period, losses in REITs surpassed losses in listed equities during a crisis. This same behaviour was borne out during the last Global Financial Crisis.

Additionally, REITs have demonstrated a rising correlation to broad equity markets. According to Thomson Reuters Datastream, the correlation of global REITs to global equites have increased from 0.59 from December 1989 – December 2017 to 0.69 for the period December 2009 – December 2017. For S-REITs, this correlation is also heightened with the number of REITs that are in the FTSE Straits Times Index (STI), which is widely followed by investors as the benchmark of the Singapore market.

When MLT entered the index on 5 December 2019 following MCT on 25 September 2019, it became the fifth REIT in the 30-stock STI, alongside CapitaLand Mall Trust, Ascendas REIT and CapitaLand Commercial Trust. Then, MIT entered the index on 22 June 2020 with a weight of 1.6%. This brought the total number of REITs in the STI to six, with an indicative combined weighting of approximately 12.5%.

What is also interesting is that of the five reserve stocks on the current reserve list on the STI Index which now comprise NetLink NBN Trust, Keppel DC REIT, Suntec REIT, Keppel REIT and Frasers Logistics & Commercial Trust, four of them are REITs.

Since REITs are traded more like listed equities, REITs can generate greater risk during severe market stress and volatile market conditions, like what COVID-19 has shown, despite their assumed low-risk profile. Thus, the sharp and smart REIT investor should be cognizant of this fact, be ready to trim his/her portfolio of not-so-

For Viewing Only

good REITs or value traps going into a crisis and be equally adept to catch the strong rebound that REITs have historically being able to stage, based on past crises as well as how this current crisis has shown.

LESSON LEARNED

Since REITs are traded more like listed equities, REITs can generate greater risk during severe market stress and volatile market conditions despite their assumed low-risk profile. Thus, the perspicacious REIT investor should be cognizant of this fact, be ready to trim his/her portfolio of not-so-good REITs or value traps going into a crisis and be equally adept to catch the strong rebound that REITs have historically being able to stage, based on past crises as well as how this current crisis has shown. This is the hallmark of multiplying your wealth in REITs.

NIGHT IS DARKEST BEFORE DAWN

In our weekly Facebook Live sessions beginning Thu 19 March 2020 entitled "Navigating the Crisis Market"[3] which have reached more than 30,000 and surpassed 15,000 Views, we taught that markets are always the darkest before dawn as it will be hit by one piece of bad news after another.

Five days later, the market subsequently rebounded on Tue 24 March 2020 with the Dow Jones closing up 2,112.98 points or a 11.37% jump, a historic feat. It was the Dow Jones's best day since 15 March 1933.

The bottoms of bear markets always look irrational on hindsight. But in real-time markets like now, fear and greed are the mainstay. As we have taught in our various investment classes, the Smart Investor needs to ferret the gap between a REIT's potential, endure the current volatility which is creating the opportunity to be exploited, and ride the wave.

What I do learn from past crises also, is the fact that markets discount ahead. Why we have been accurate in reading this crisis is my long-held philosophy and attitude in investing and market behaviour: Markets may look bad today, it may be horrible tomorrow or next week, but the Smart Investor should recognize that Times Like This Are When Fortunes Are Made.[4]

3 "Navigating the Current Crisis Market - The Key Psychographics Needed", GCP Global, https://www.facebook.com/watch/live/?v=323200522318452&ref=watch_permalink.

4 "Fortune Favours the Bold Investor", *The Sunday Times*, 4 November 2009.

This has been the tagline all through this crisis in all our various media interviews on Money FM89.3, *Lianhe Zaobao*, *The Straits Times*, *The Business Times*, our weekly Facebook Live sessions, monthly research and monthly Online REIT classes throughout this crisis.

CONCLUSION

REITs have evolved into a liquid, institutional investment class. With greater liquidity comes greater volatility, which when harnessed and interpreted appropriately, can lead to great returns. I have been fortunate to be able to do that in my 31 years of direct experience in the financial markets, from being one of Singapore's youngest Head of Research at Nikko Securities (Singapore) Pte Ltd at age 28, to working on Wall Street and then running the Institutional Sales equity desks at several Singapore brokerage firms before retiring in 2009. Thereafter, I have educated and taught REITs to more than 8,000 student investors worldwide in the past 11 years.

As the REIT industry has evolved, unsystematic and company-specific characteristics, rather than broad-brush industry trends and systematic risk, have accounted for outperformance or underperformance of specific REITs. Sector, property-type and many factors cumulatively account for investment returns in different economic environments like the recent COVID-19 crisis.

This is an area of passionate interest that I would like to share in this book as you can build your wealth steadily and consistently with REITs.