

SINGAPORE REITS & BUSINESS TRUST SECTOR

Pseudo-Performance and Other Fees

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**CORPORATE
MONITOR LIMITED**



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EXECUTIVE SUMMARY

The performance fee is an incentive for managers to grow the income and distributions of REITs, but half of the 41 REIT managers charge performance fees that are paid even if there is a decline in distributable income and/or distributions. This is because the performance fee is pegged to a percentage of the REIT's net property income (definition varies) and is paid whether this income, or a similar metric, increased or decreased. The 5 business trusts (BTs), on the other hand, have performance fees that are pegged to an increase in distribution per unit (DPU), or beating certain DPU benchmarks. Such fees are better aligned with unitholders' interests.

We have a term for it - "pseudo-performance fee", as it is not conditional on the year-on-year increase in the REIT's DPU. When added to the management fee, both fees can make up as much as 22.4% of revenue and 18.5% of net property income (e.g., Keppel REIT) at the top end. Even at the lowest end, both fees add up to 4.2% and 9.3% of revenue and net property income respectively, for CapitaLand Ascott Trust.

However, even with DPU-based performance fees, almost none of the REITs/BTs incorporate concepts of hurdle rates and high-water marks. Absence of high-water marks could benefit REIT/BT managers when the DPU is volatile. In CML's [report on Keppel Infrastructure Trust \(KIT\)](#), we note that KIT leveraged up its underlying business to declare a special DPU in 2023, resulting in a 62% year-on-year DPU increase. The DPU predictably declined in 2024. However, if KIT managed to post a year-on-year DPU increase in 2025, even if was still below that of 2023, the manager would once again be entitled to a performance fee.

One will expect the blue-chip sponsors will adopt a fee structure that is fairer to unitholders. But of the 20 REITs that have pseudo-performance fee, 11 have well-known sponsors such as Keppel, CapitaLand Investment and Mapletree Investments, each with multiple REITs under their umbrellas. All three are transforming themselves into global asset managers. The fees from the REITs/BTs that they sponsor underpin the recurring and growing income of their new business models. Many real estate companies see the path towards becoming asset managers as highly desirable: asset-light, with recurring revenues/income and suitable platforms to monetise their property portfolio and recycle capital. With more sponsors aiming to maximise fee income, the conflicts of interest of the external manager model are getting worse.

By contrast, US and Australia have moved to the internal management model where the management team is embedded in the REITs/BTs and therefore fully aligned with unitholders.

NetLink BT, which is the only one with an internal manager¹ in the S-REIT/BT universe, charges a management fee of only S\$900,000, NO performance fee and NO acquisition fee.

¹ Alpha Integrated REIT, previously known as "Sabana REIT", switched to an internal management model only on 4 November 2025, so has yet to disclose its new fee structure.

1. INTRODUCTION

Our first report on the Singapore REITs (S-REITs) sector notes that the external management model is prevalent, leading to real conflicts of interest. We also highlight that the management (base) fees paid to REIT managers can be substantial, accounting for at least 5% of REIT revenues, to as much as 18%. These excessive management fees therefore take away a chunk of the REIT's distributable income that could otherwise be paid out as distributions to unitholders.

In this second report, Corporate Monitor Limited (CML) looks at the list of other fees that are paid to REIT managers, namely performance fees, acquisition fees, divestment fees, and property development fees.

2. S-REIT Performance Fees

The next largest component of total fees is the performance fee. These fees can vary widely and mostly revolve around two key metrics – net property income (NPI) and the year-on-year increase in distribution per unit (DPU).

We found that, of the 41 S-REITs, 20 will only pay a performance fee if there is a year-on-year increase in DPU, and the performance fee basis is calculated based on either i) 25% of the year-on-year DPU increase, ii) a percentage of deposited property² (DP), iii) a percentage of NPI, or iv) a function of the REIT's accumulated return. This is more aligned with most peoples' notion of "performance".

Meanwhile, the remaining 21 charge performance fees based on a percentage of either NPI, gross profit, or annual distributable income. CML terms this a "pseudo-performance fee" as an improvement in performance is not required for the REIT manager to earn this fee. While it can be argued that managers receive higher fees for higher NPI, the difference is not material enough to motivate managers. Even when NPI declines, a performance fee is still payable. This is grossly unfair.

Instead, a return on capital type metric is fair and preferred as compared to a DPU-based performance fee. This is so because it will account for the return generated per dollar of capital employed, which measures the effectiveness of the REIT manager.

Table 1 lists the 20 S-REITs with pseudo-performance fees.

² Deposited Property refers to the collective value of all the REIT's income-generating assets, and represents the total asset base of the REIT.

Table 1: List of S-REITs with Pseudo-Performance Fees Pegged to NPI, Gross Profit or Distributable Income

REIT	%	Performance Fee Metric
Frasers Hospitality Trust	5.5%	Annual Distributable Income
Frasers Logistics & Commercial Trust	5.0%	
CapitaLand Ascott Trust	4.0%	Group's Share of Gross Profit
Far East Hospitality Trust	4.0%	Lower of NPI or Annual Distributable Income
Keppel REIT	3.0%	Net Property Income
Keppel DC REIT	3.5%	
NTT DC REIT		
Digital Core REIT		
Mapletree Logistics Trust	3.6%	
Mapletree Industrial Trust		
Landmark REIT	4.0%	
CapitaLand China Trust		
CapitaLand India Trust		
CapitaLand Integrated Commercial Trust	4.3%	
Parkway Life REIT	4.5%	
Suntec REIT		
Frasers Centrepont Trust	5.0%	
First REIT		
CDL Hospitality Trusts		
Lendlease Global Commercial REIT		

2.1 Blue-Chip Sponsor Does Not Mean Fairer Performance Fee

Most S-REITs with blue-chip sponsors often have pseudo-performance fees pegged to NPI, gross profit, or distributable income. One would expect a reputable sponsor to choose a fairer system of rewarding performance, but this was not so from our study.

Out of the 20 S-REITs with this type of performance fees, 11 are backed by reputable sponsors:

- 4 were under CapitaLand Investment Limited's stable of REITs (CapitaLand Ascott Trust [CLAS], CapitaLand India Trust, CapitaLand China Trust [CLCT] and CapitaLand Integrated Commercial Trust),
- 3 were part of Frasers Property Limited's REITs (Frasers Hospitality Trust [FHT], Frasers Logistics & Commercial Trust [FLCT] and Frasers Centrepont Trust),
- 2 were under Keppel Ltd's umbrella (Keppel REIT and Keppel DC REIT [KDCR]), and
- 2 were REITs belonging to Mapletree Investments Pte Ltd (Mapletree Logistics Trust [MLT] and Mapletree Industrial Trust [MINT]).

To make things worse, CLAS even has an additional "outperformance fee" of 1% of the difference in gross profit for the current year and 106% of the prior year's gross profit (note: CLAS uses gross

profit as a financial metric in place of NPI). Conceptually, this is more in line with “fee for performance”, but this is on top of a pseudo-performance fee. In addition, gross profit does not equate with higher distribution per stapled security (DPSS).

The inclusion of pseudo-performance fees has materially increased the total fee expense of these 20 S-REITs. We compiled a list of S-REITs with such performance fees and looked at both their performance fee and combined performance and management fees as a proportion of gross revenue and NPI (see **Table 2**), using the same calculation methodology used in CML’s first report on management fees.

Table 2: S-REITs with Pseudo-Performance Fees: Performance and Management Fee³ as a Proportion of Gross Revenue and NPI

REIT	Performance Fee		Management + Performance Fees	
	% of Gross Revenue	% of NPI	% of Gross Revenue	% of NPI
Keppel REIT	4.1%	3.4%	22.4%	18.5%
Suntec REIT	4.4%	5.5%	13.3%	16.6%
Mapletree Logistics Trust	3.0%	3.5%	12.4%	14.4%
Frasers Centrepoint Trust	4.4%	4.9%	10.0%	11.2%
Far East Hospitality Trust	3.1%	3.3%	9.8%	10.6%
Keppel DC REIT	2.9%	3.5%	9.2%	11.0%
Parkway Life REIT	4.2%	4.5%	9.0%	9.6%
Frasers Logistics & Commercial Trust	2.4%	3.2%	8.8%	12.0%
Lendlease Global Commercial REIT	3.8%	5.0%	8.6%	11.5%
Mapletree Industrial Trust	2.7%	3.6%	8.6%	11.3%
First REIT	4.9%	5.0%	8.4%	8.7%
CapitaLand India Trust	2.9%	3.8%	8.3%	11.0%
Digital Core REIT	1.9%	3.4%	7.7%	14.1%
Frasers Hospitality Trust	2.2%	3.0%	7.0%	9.8%
CapitaLand China Trust	2.7%	3.6%	6.2%	8.5%
CapitaLand Integrated Commercial Trust	2.9%	4.0%	5.9%	8.1%
NTT DC REIT	1.6%	3.5%	5.6%	12.0%
CDL Hospitality Trusts	2.3%	4.3%	5.3%	10.0%
Landmark REIT	2.4%	4.0%	4.6%	7.6%
CapitaLand Ascott Trust	1.7%	3.7%	4.2%	9.3%

When the management and performance fees were added, the majority of the S-REITs had total management fee and performance fees amounting to more than 10% of NPI, to almost 20% in the case of Keppel REIT. Even the lowest, at 7.6%, is arguably too high.

³ Several REITs such as Keppel REIT, Suntec REIT, and OUE REIT own partial stakes in properties that are part of their portfolios. These are accounted for as investments in associates and/or joint ventures. Accordingly, CML added up the share of profits in associates and/or joint ventures for such REITs to NPI to provide a more accurate picture of the management fee expense as a proportion of NPI. However, investors should note that share of profits is not directly comparable to NPI as it is an after-tax net profit, but CML believes that doing so provides a clearer picture than leaving these out.

2.2 REIT Managers with Pseudo-Performance Fee Continue to Get Paid Despite Poor DPU Performance

The fees could be justified if the S-REITs demonstrate sustainable performance, but the reverse is true. We studied 17 S-REITs with pseudo-performance fees (as we had to exclude 3⁴ out of 20 S-REITs). These 17 reported an average negative 5-year DPU compound annual growth rate (CAGR) of 4.4%. In other words, these 17 S-REITs had, on the whole, seen DPU fall over the past 5 years. The worst was First REIT with a -22.8% CAGR, while CDL Hospitality Trusts, FHT and CLCT all had negative double-digit 5-year DPU CAGR. In fact, only 4 S-REITs (MINT, KDCR, Parkway Life REIT and Far East Hospitality Trust) out of the 17 reported positive 5-year DPU CAGR.

To provide specific examples, both MLT and FLCT reported two consecutive fiscal years of lower year-on-year DPU⁵, yet both managers were paid performance fees and their combined management and performance fees represent 14.4% and 12.0% of their respective NPI.

It is unjustifiable that managers continue to receive their performance fees when unitholders suffered as DPU declined, over multiple years.

2.3 S-REITs with DPU-Based Performance Fees are Fairer to Unitholders

Contrast this with the 21 S-REITs that included DPU-based performance fees. Their management fees ranged from just 0.9% to 10.1% of NPI (see **Table 3**). This group of 21 S-REITs did not pay out any performance fees for both 2023 and 2024 as DPU performance was lacklustre.

⁴ 2 S-REITs are newly-listed this year (NTT DC REIT, Centurion Accommodation REIT) while Digital Core REIT has just 3 years of DPU track record.

⁵ MLT's Fiscal 2024 (the REIT has a 31 March fiscal year-end) saw DPU decline by 0.1% year on year and fiscal 2025's DPU fell further by 10.6% year on year. FLCT's fiscal 2023 (the REIT has a 30 September fiscal year-end) DPU slid 7.6% year on year and further declined by 3.4% year on year for fiscal 2024.

Table 3: S-REITs with DPU-Based Performance Fees: Management and Performance Fees as a % of Gross Revenue and NPI

REIT	% of Gross Revenue	% of NPI
AIMS APAC REIT	6.1%	10.1%
Starhill Global REIT	7.5%	9.5%
CapitaLand Ascendas REIT	5.8%	8.4%
Alpha Integrated REIT	4.1%	8.3%
Daiwa House Logistics Trust	6.2%	8.1%
Dasin Retail Trust	6.4%	8.1%
ESR-REIT	5.6%	7.9%
Centurion Accommodation REIT	5.4%	7.9%
KORE US REIT	3.7%	6.7%
Sasseur REIT	6.7%	6.7%
Mapletree Pan Asia Commercial Trust	5.1%	6.6%
Prime US REIT	3.5%	6.2%
OUE REIT	5.5%	6.2%
Manulife US REIT	3.2%	6.1%
United Hampshire US REIT	4.1%	6.0%
iREIT Global	4.0%	5.5%
Elite UK REIT	4.9%	4.7%
Stoneweg Europe Stapled Trust	2.6%	4.3%
Acrophyte Hospitality Trust	0.9%	3.5%
EC World REIT	2.8%	3.0%
BHG Retail REIT	0.5%	0.9%

These 21 S-REITs will only pay their managers a performance fee when the current year's DPU exceeds the prior year's DPU, or using a similar comparison mechanism (see **Table 4**). Such an arrangement motivates the REIT manager to grow the REIT's DPU, but we feel that 3 further conditions are missing – a tiered performance fee structure, a hurdle rate and the inclusion of a high-water mark.

Table 4: List of S-REITs with DPU-Based Conditions for Performance Fees

S-REIT	%	Performance Fee Basis	Condition for Performance Fee	Hurdle Rate	High-Water Mark
Acrophyte Hospitality Trust	25.0%	Increase in DPSS	DPSS for current year > DPSS for the previous year	No	No
AIMS APAC REIT	0.1% or 0.2%	Deposited Property	DPU increase exceeds 2.5% and 5%	Yes	No
BHG Retail REIT	25.0%	Increase in DPU	DPU for current year > DPU for the previous year	No	No
CapitaLand Ascendas REIT	0.1% or 0.2%	Adjusted Deposited Property	DPU increase exceeds 2.5% and 5%	Yes	No
Centurion Accommodation REIT	25.0%	Increase in DPU	DPU for current year > DPU for the previous year	No	No
Daiwa House Logistics Trust	25.0%	Increase in DPU	DPU for current year > DPU for the previous year	No	No
Dasin Retail Trust	25.0%	Increase in DPU	DPU for current year > DPU for the previous year	No	No
EC World REIT	25.0%	Increase in DPU	DPU for current year > DPU for the previous year	No	No
Elite UK REIT	25.0%	Increase in DPU	DPU for current year > DPU for the previous year	No	No
ESR-REIT	25.0%	Increase in DPU	DPU for current year > DPU for the previous year	No	Yes
iREIT Global	25.0%	Increase in DPU	DPU for current year > DPU for the previous year	No	No
KORE US REIT	25.0%	Increase in DPU	DPU for current year > DPU for the previous year	No	No
Manulife US REIT	25.0%	Increase in DPU	DPU for current year > DPU for the previous year	No	No
Mapletree Pan Asia Commercial Trust	25.0%	Increase in DPU	DPU for current year > DPU for the previous year	No	No
OUE REIT	25.0%	Increase in DPU	DPU for current year > DPU for the previous year	No	No
Prime US REIT	25.0%	Increase in DPU	DPU for current year > DPU for the previous year	No	No
Sasseur REIT	25.0%	Increase in DPU	DPU for current year > DPU for the previous year	No	No
Starhill Global REIT	5% & 15%	Accumulated Return	See explanation	Yes	No
Stoneweg Europe Stapled Trust	25.0%	Increase in DPU	DPU for current year > DPU for the previous year	No	No
United Hampshire US REIT	25.0%	Increase in DPU	DPU for current year > DPU for the previous year	No	No
Alpha Integrated REIT	0.5%	Net Property Income	DPU increase exceeds 10%	Yes	No

Out of the 21 S-REITs with DPU-based performance fee conditions, only 4 have a hurdle rate, 3 have a tiered performance fee structure, and just 1 included a high-water mark (ESR-REIT as mentioned below).



What is a Hurdle Rate?

A hurdle rate is a minimum year-on-year increase in DPU needed to enable the REIT manager to earn a performance fee. For example, for CapitaLand Ascendas REIT [CLAR], Singapore's oldest industrial REIT needs to increase its DPU by 2.5% over the prior year's DPU for the REIT manager to enjoy a performance fee that is pegged at 0.1% of the REIT's DP. If the year-on-year increase is 5% or more, the performance fee increases to 0.2% of the REIT's DP.

A hurdle rate provides an additional condition for the REIT manager to earn its performance fee. A year-on-year DPU increase alone is not sufficient; the increase needs to exceed the hurdle rate.

When hurdle rates are combined with a tiered structure, where the performance fee % increases in tandem with a greater year-on-year percentage increase in DPU, it can create a win-win situation. Unitholders benefit from having a hurdle rate as it will motivate the manager to grow the DPU past the hurdle rate. The REIT manager will benefit from a higher performance fee % for beating the higher hurdle.

Because of the inclusion of this hurdle rate, CLAR's manager received no performance fee for fiscal years 2022, 2023 and 2024 because the year-on-year DPU growth either did not exceed 2.5%, or was negative (i.e. DPU declined year on year).

What is a High-Water Mark?



The high-water mark provision is defined as follows by Investopedia.

A high-water mark is the highest value an investment fund or account has reached. This term is often used in the context of fund manager compensation, which is performance-based. The high-water mark ensures the manager does not get paid large sums for poor performance.

Hence, in the context of an S-REIT and its DPU, the high-water mark represents the highest DPU that the S-REIT has achieved since its IPO.

The following is extracted from ESR-REIT, which is the only S-REIT that has a high watermark provision for its performance fee:

“The DPU growth is measured by the excess of DPU for such financial year to the highest DPU achieved by ESR-REIT in the previous years for which a performance fee was payable (the “Highest DPU Threshold”). Whenever a performance fee is earned, the Highest DPU Threshold will be adjusted to the highest DPU achieved. In order to be eligible for a performance fee in future, the Manager would have to outperform the adjusted Highest DPU Threshold.”

While a hurdle rate is a useful condition, it does not motivate sustainable long-term DPU growth. Without a high-water mark, any year-on-year rebound in DPU past the hurdle rate will entitle the REIT manager to a performance fee, even if the current year’s DPU is still below the highs achieved in prior years.

Let’s use CLAR as an example once again. Its highest-ever DPU was achieved in 2018 when DPU hit S\$0.16035. Its latest 2024 full-year DPU, at S\$0.15205, is still below the highest-ever DPU 6 years ago. Because CLAR does NOT have any high-water mark provision for its performance fee, as long as the current year’s DPU exceeds the prior year’s DPU by 2.5% or more (i.e. the hurdle rate), a performance fee still gets paid. If a high-water mark provision is present, CLAR will have to exceed its previous all-time high DPU of S\$0.16035 AND achieve the hurdle rate of 2.5% year-on-year growth in DPU for the REIT manager to qualify for the performance fee.

The absence of a high-water mark may even allow managers to benefit from volatile DPU, whether intentional or not. In CML's [report on Keppel Infrastructure Trust \(KIT\)](#), we note that KIT leveraged up its underlying business to declare a special DPU of S\$0.0233 in 2023, resulting in a 62% year-on-year DPU increase for the full year. The annual DPU predictably declined in 2024. However, if KIT managed to post a year-on-year DPU increase for 2025, the trustee-manager would be entitled to collect a performance fee again. Unitholders in KIT lose in more ways than the fees paid. The underlying business's financial risks increased as a result of the additional leverage, which also results in lower distributable income in the future. In effect, the special DPU is borrowed from the future, only to benefit the manager through performance fees, because of the lack of a high-water mark provision.

We acknowledge that a high-water mark may incentivise REIT managers working to "manage" the REIT's income (and DPU). Accounting rules allow some leeway and managers may engage in income smoothing to persistently exceed high-water marks so that they continue to earn a performance fee. Income smoothing is not necessarily bad for unitholders as long as the REIT manager does not engage in creative accounting or fraudulent practices. If unitholders can enjoy steadily-increasing DPU rather than volatile DPU, this could be what most income-seeking investors are looking for.

High-water marks could also be periodically reset to provide motivation to the REIT manager, who may conclude that the existing high-water mark cannot be surpassed due to market forces. Resetting the high-water mark restores the prospects of the REIT manager earning a performance fee, thereby benefiting unitholders – a classic "win-win" situation.

Special mention needs to be given to Starhill Global REIT (SGREIT). This S-REIT is the only one which included special conditions for its REIT manager to earn a performance fee. Please refer to **Appendix 1** for the complete description for SGREIT's performance fee criteria.

There are two notable positives to the way SGREIT's performance fee computation was worded. First, SGREIT tallies up the accumulated return of the REIT after including all capital gains and accumulated DPU, and measures this performance against a benchmark index (which comprises **all of the S-REITs contained in the FTSE All Cap Singapore universe**). This financial metric, which is similar to total shareholder return, accounts for BOTH share price appreciation as well as increases in DPU, and provides a two-fold motivation for the REIT manager to not just increase the REIT's DPU, but also the REIT's share price, over time. Second, there is also the inclusion of a tiered performance fee to motivate the REIT manager to strive to beat the benchmark index by 2% per annum, so that the manager's performance fee entitlement rises from 5% to 15%.

Although this method does not include a high-water mark, we feel that it is the gold standard for S-REIT performance fees as it encompasses both cumulative DPU and share price returns, and also compares this to an appropriate benchmark to determine if the REIT manager is performing better than, or lagging behind, its peers.

3. Singapore Business Trust Performance Fees

The 5 business trusts (BTs) all pegged their performance fees (sometimes called “incentive fees”) to the growth in DPU.

Interestingly, Asian Pay Television Trust (APTT), First Ship Lease Trust (FSLT) and Hutchison Port Holdings Trust (HPHT) feature tiered performance fee structures that require the actual DPU to exceed a fixed DPU benchmark. This benchmark involves a historical base DPU which was forecast in the trust’s prospectus, adjusted by the annual inflation for the country in which the trust is operating in. With the tiered structure, the larger the outperformance, the higher the performance fee %. Moreover, both APTT and HPHT will also offset any year-on-year declines in DPU against future year-on-year increases, making this requirement something akin to a high-water mark.

KIT pegs its performance fee to 25% of the year-on-year rise in DPU, similar to how some of the S-REITs have structured their performance fee. However, there is neither a hurdle rate nor high-water mark for KIT. As we saw from the previous section, KIT’s trustee-manager benefitted from the special DPU, made possible by leveraging up its underlying business, leaving the unitholders to bear the higher financial risk, as well as lower DPU in the future.

NetLink sets the gold standard among the business trusts by having zero performance fees. Instead, its manager’s “fees” are all captured under “staff costs”. Its latest fiscal 2025 Annual Report states this:

“The Trustee-Manager is not paid any performance fees; such fees are not necessary as an incentive given that Trustee-Manager’s interests are fully aligned with that of Unitholders. This results in lower management fees compared with traditional structures, where fees may include performance, acquisition or divestment charges. These cost savings benefit unitholders directly.”

This is not surprising as NetLink has an internal trustee-manager that is beneficially-owned by the unitholders, allowing for better alignment of interests between the trustee-manager and unitholders.

4. S-REIT and BT Acquisition Fees

When it comes to acquisition fees, S-REITs share similar policies and peg acquisition fees to 1% of the total purchase price of the asset. Investors should note that the “purchase price” refers to the property’s agreed value at the time of the acquisition, and does not relate to the cash outlay made by the REIT. Thus, if a REIT acquired an asset with an agreed property value of S\$100 million but only paid S\$50 million for it, the acquisition fee is still computed based on S\$100 million (i.e. the fee will be S\$1 million).

For the percentage, there are several notable exceptions relating mainly to acquisitions from the REIT’s sponsor or within the group (i.e. related party transactions or RPTs). The fee percentage was lower for all RPTs, ranging from 0.5% to 0.75%. Frasers Property Limited deserves special mention for specifying an acquisition fee of just 0.5% for RPTs for both FHT and FLCT. 0.5% is one of the lowest rates in the S-REIT universe, as even SGREIT’s RPT acquisitions come with a fee of 0.6% of the acquisition price for the REIT manager.

One S-REIT (CLCT) specifies a higher acquisition fee % for smaller transactions. If the REIT acquires an asset that was S\$200 million or more, the REIT manager will receive 1% of the acquisition price. This % rise to 1.5% should the acquisition value be less than S\$200 million.

Just one S-REIT (CLAS) charges 1% acquisition fee based on the asset’s enterprise value (“EV”) and not its purchase price. The EV is defined as the asset’s equity value plus any net debt attached to it. This calculation results in a larger number unless the asset being acquired has zero debt, which is rare for real estate assets. CLAS is the odd one out among the S-REITs as it is the only S-REIT that uses EV rather than purchase price. This is unfair. The practice of this type of calculation, where EV is used rather than purchase price, is seen more commonly among the business trusts. Out of the 5 business trusts, 3 of them used EV while just one (FSLT) stuck with the asset’s acquisition cost. NetLink stood out as a positive exception once again with no acquisition fees charged.

Using enterprise value or property value as the basis for acquisition fee is grossly unfair, as these can be substantially higher than the investment amount for the REIT/BT. If a BT buys 60% of a business, then it is entitled to only 60% of the profit and cashflow. Paying a manager acquisition fee on 100% of value of the business therefore makes no sense as it will inflate the fees paid, also similar to what happened with KIT. Please see our report on KIT for more details. This is yet another example of how the manager’s interests are misaligned with those of the unitholders.

Divestment and property development fees generally take up only a minor share of a REIT manager’s total fees. Please refer to **Appendix 2** for details.

5. CONCLUSION

If unitholders are counting on performance fee to motivate managers to grow DPU, they will be disappointed. Half the S-REITs have performance fees that are paid whether the DPU increases or decreases. When we add up such pseudo-performance and management fees, they could represent almost 19% of NPI in the case of Keppel REIT. Unitholders should seriously challenge a REIT manager for charging such high recurring fees.

Even if the performance fee is based on the increase in DPU, hurdle rate or high-water mark are rare. In fact, the lack of high-water mark may even allow the managers to thrive on DPU volatility, instead of generating long term growth in DPU.

Disappointingly, the blue-chip sponsors are no more investor-friendly when it comes to the fees charged to their REIT/BTs. In fact, as Keppel and CapitaLand seek to grow as asset managers, they are even more incentivised to increase fee income. Unitholders should be more cautious of their divergent interests than to count on their reputation to safeguard the REIT/BTs that they sponsor.

While this report has highlighted the poor versus not-so-poor practices among the S-REITs/BTs listed on SGX, it is difficult to prescribe remedies given the inherent conflicts of the external management model.

It is no wonder that NetLink, which has an internal management model, charges only S\$900,000 for management fee (principally to defray the trust's administrative, statutory, and regulatory expenses), NO performance fee and NO acquisition fee.

There are other practices in REITs/BTs that put unitholders' interests in conflicts with that of the managers. Look out for our next report where we look at another prevalent practice in the S-REIT space – the issuance of units to pay for managers' fees in lieu of cash payments.

APPENDIX

Appendix 1 Starhill Global REIT's Performance Fee Computation Description

The Manager is entitled to a performance fee ("Performance Fee") where the accumulated return (comprising capital gains and accumulated distributions and assuming all distributions are re-invested in the Trust) of the units (expressed as the "Trust Index") in any financial year exceeds the accumulated return (comprising capital gains and accumulated distributions and assuming re-investment of all distributions) of a benchmark index.

The Performance Fee is calculated in two tiers as follows:

- a Tier 1 Performance Fee equal to 5.0% of the amount by which the accumulated return of the Trust Index exceeds the accumulated return of the benchmark index, multiplied by the equity market capitalisation of the Trust; and*
- a Tier 2 Performance Fee which is applicable only where the accumulated return of the Trust Index is in excess of 2.0% per annum above the accumulated return of the benchmark index. This tier of the fee is calculated at 15.0% of the amount by which the accumulated return of the Trust Index is in excess of 2.0% per annum above the accumulated return of the benchmark index, multiplied by the equity market capitalisation of the Trust.*

For the purposes of the Tier 1 Performance Fee and the Tier 2 Performance Fee, the amount by which the accumulated return of the Trust Index exceeds the accumulated return of the benchmark index shall be referred to as outperformance.

Appendix 2 S-REIT and Business Trust Divestment and Development Management Fees

All S-REITs pay 0.5% of the sales proceeds from divestments as a divestment fee to the REIT manager. This is consistent across all REIT types.

As for business trusts, the usual 3 (APTT, HPHT and KIT) once again use the EV of the asset to compute the divestment fee to the trustee-manager. Only FSLT uses 0.5% of vessel disposal proceeds while NetLink once again does not stipulate any fees for the divestment of assets.

For development management fees, the standard used for S-REITs is to cap such fees at 3% of the total project costs. Such costs included all expenses capitalised for the project including construction, planning, and other related tasks. Several S-REITs such as Prime US REIT, Keppel Pacific Oak US REIT and SGREIT specify a threshold (either US\$100 million or S\$200 million) whereby the independent directors will step in to review the quantum of the development management fee.

A total of 2 S-REITs (Manulife US REIT and AIMS APAC REIT) and one business trust (HPHT) had tiered development management fees based on the total construction costs for the project. Generally, the percentage levied on the total cost of the project declines as the quantum of the construction cost increases. AIMS APAC REIT, in particular, specified different tiers for total construction costs. Development management fees would then be levied based on the higher of a fixed fee or a percentage of total construction costs for each tier, a practice similar to HPHT. For instance, if construction costs are between S\$2 million and S\$20 million, the fee will be 2% of the construction cost or S\$60,000, whichever is higher. But, if the construction costs balloon to between S\$20 million and S\$50 million (i.e. a higher tier), then the fee becomes 1.5% of the construction costs or S\$400,000, whichever is higher.

CML feels that this is justified if the project is of a certain size, as either the REIT manager or trustee-manager needs to devote more time and resources to manage the project.

Unfortunately, CML also uncovered another bad practice – S-REITs that do not disclose whether they pay or do not pay development management fees. Should we then assume that these S-REITs do not charge any development management fees? Such developments may include asset enhancement initiatives (AEIs), asset repositioning, or asset refurbishments and redevelopments. Developments could also involve forward-funded acquisitions where the S-REIT stumps up cash upfront to construct a property, which it then leases out to a tenant on a long-term basis. Out of a total of 41 S-REITs, 18 had no disclosures on development management fees, representing around 44% of the S-REIT sector.

For instance, Frasers Centrepoint Trust [FCT] completed its AEI of Tampines 1 Mall in August 2024, featuring 68 new retail offerings and enhancing the mall's appeal to residents living in Tampines.

The total cost of the AEI was S\$38 million, but there was no mention of any development management fee relating to this AEI in FCT's fiscal 2024's (FY2024) annual report.

Similarly, FLCT also did not specify if the REIT manager receives any development management fee. For FY2024, FLCT completed two developments – one in the Netherlands and the other in Perth, Australia. However, its FY2024 annual report did not specify any form of development management fee within the notes to the accounts.

Both FCT and FLCT seem to have not charged any development management fees on either AEs or forward-funded developments. This is good for unitholders as it means an overall lower fee structure, notwithstanding that the REIT manager may earn performance fees to negate the lack of any development management fees.

Regarding this fee type, the best example is demonstrated in Alpha Integrated REIT (formerly known as "Sabana REIT"). The industrial REIT, which is the only S-REIT with an internal manager, specifically mentions that there are no fees charged by the manager for all development projects including AEs that are undertaken by the manager on behalf of the REIT.