

SINGAPORE REITS & BUSINESS TRUST SECTOR

An Analysis of the Issuance of
Units to Pay for Managers' Fees

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CORPORATE
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EXECUTIVE SUMMARY

This is Corporate Monitor Limited's (CML) third report on the Singapore REITs ("S-REITs") and Business Trust ("BT") sector. Our **first report** discussed the sector's management fee structures. Our **second report** delved into S-REIT and BT performance and other fees. From this fee study, CML concluded that the fees are excessive and unreasonable. At its core, it is the manifestation of the conflicts of interest in S-REIT's external management model.

In this third report, we looked at the REIT/BT practice of issuing units in lieu of cash to pay for managers' fees. In Singapore, REIT/BT managers can elect to receive a combination of units and cash to pay for the fees that they charge. This practice is often justified as a way to align manager and unitholder interests. It also "conserves" cash which can be distributed to unitholders.

Our study found this practice to be prevalent. 94% of the surveyed S-REITs and 40% of the 5 BTs issued new units to pay their managers at least once in the last 5 years. During this period, just two S-REITs (Alpha Integrated REIT and Parkway Life REIT), paid their managers' fees 100% in cash, thereby avoiding dilution for unitholders.

We find this practice of units for fees to be indefensible. Firstly, the "interest alignment" argument is superfluous. The external management model is fundamentally a misaligned construct. So long as the sponsor owns 100% of the manager but only a minority stake in the REIT, any marginal increase in its stake in the REIT does nothing to resolve this conflict.

Secondly, proponents of unit issuance claim that it saves the REIT some cash. However, the new units issued to the manager are also entitled to distributions. The REIT will have to generate even more growth just to keep future distribution per unit ("DPU") constant. DPU will thus decline if there is no growth in distributable income. There is simply no free lunch.

It is precisely the dilution from the new units issued to managers that hurts unitholders. In addition, the issuance of new units is in most cases below the REIT's Net Asset Value ("NAV"), so the REIT ends up issuing more units than if these units were issued at NAV or higher. The average dilution, just counting the higher outstanding units, for these S-REITs was 3.8% over 5 years, and would definitely be much higher over a longer period.

With this dilution, the total distribution attributable to unitholders also declines over the years, as the manager's stake now makes up a greater proportion of the total number of issued units. In situations where DPU is already declining due to market conditions, the dilution will compound the decline.

Furthermore, by opting to receive units instead of cash, REIT managers can mask operational weakness or smooth any DPU declines when the REIT conducts acquisitions, divestments, or asset enhancement initiatives ("AEIs").

CML therefore recommends that REIT managers abolish the “units-for-fees” practice that has gone on for so long. All fees should henceforth be paid 100% in cash, thereby eliminating long-term dilution and removing any DPU distortions. These actions will go a long way in enhancing transparency.

If units are to be issued, CML strongly recommends that these units be issued at least at NAV to prevent NAV erosion. Some REIT managers may choose to dispose of their units soon after acquiring them. Hence, these newly-issued units should also have a moratorium of 5 years to prevent REIT managers from disposing of them soon after they acquire the units.

These measures can mitigate, but they do not address, the fundamental problem of conflicts of interest created by the external management model. If the fees charged are not high to begin with, issuance of units in lieu of cash will not result in much dilution and other problems. However, management fees alone can easily account for more than 10% of a REIT’s net property income.

The odds are stacked against unitholders, because many sponsors of REITs and BTs have ambitions to become global asset managers, and fees are a lifeline to this new asset-light business model. With the inherent conflicts of interest in the external management model, even reputable sponsors will need to respond to market pressure for more fees.

Incentives determine behaviour.

1. INTRODUCTION

This is the third report in our series on Singapore’s Real Estate Investment Trust (“S-REIT”) and Business Trust (“BT”) sector. Our first report provides a basic introduction to the sector and delved deep into the management fee structure for both S-REITs and BTs. The second report then deep-dives into the performance and other fees paid to the REIT manager and BT trustee-manager. In summary, CML found the fees to be excessive, unreasonable, and represent a conflict of interest between the managers and the unitholders.

In this report, we look at the practice of S-REITs issuing units in lieu of cash for their fees. We found this to be a prevalent practice, and comes at a heavy cost to unitholders, mainly due to the dilution from the additional units issued. CML analysed a total of 34 S-REITs and the 5 business trusts for this report. Over just a 5-year period, the dilution impact arising from the greater number of units averaged 3.8% for S-REITs. The dilution could be far greater over a longer period. We found little merit in the arguments for the practice. In addition, the practice exacerbates the conflicts of interest that already exist between external managers and unitholders.

2. MANAGERS FEES IN CASH OR UNITS: WHAT ARE THE ISSUES ?

S-REIT managers can elect to have their fees paid either in cash or newly-issued units, or a combination of both. In the last 5 years, 87.2% of the S-REITs and business trusts that CML studied issued units in lieu of cash.

2.1 Arguments for paying fees with units instead of cash

2.1.1 Alignment of Interests

The first argument for the issuance of units is that receiving fees in units will help to “align the REIT manager’s interests with unitholders”. The logic is that owning an increased stake in an S-REIT will ensure that the manager’s interests are better aligned with unitholders.

We are not convinced by this argument, except in the specific situation of acquisition and disposal fees in an interested party transaction. In a consultation paper¹ issued in June 2005, MAS refers to the scenario where a REIT buys assets from its sponsor - “Requiring a REIT to pay transaction fees in units helps to ensure that the incentives of the REIT managers and unitholders are better aligned since the manager shares in the benefits or otherwise of the transaction as a unitholder.”

¹ Please refer to

https://www.mas.gov.sg/-/media/mas/resource/publications/consult_papers/2005/responses_to_comments_20oct05_fi nal.pdf?sc_lang=en

Our read is that such a position by MAS is taken mainly to resolve the substantial conflict of interest given “the subjective nature of the valuation of properties and the remuneration structure of REIT managers”. In plain language, MAS thinks that in such a situation, having the acquisition fee paid in units will help to mitigate the risk of inflating the valuation of the asset.

MAS’ position does not extend to the issuance of units for payment of management and performance fees to REIT managers. In fact, in agreeing that acquisition and disposal fees be paid in units, MAS “recognises that the issuance of units as consideration for transaction fees may not always be in the best interests of unitholders because it may ... dilute the interests of existing unitholders”.

So, on balance, MAS “will require transaction fees to be paid in units only for interested party transactions. There will also be a one-year moratorium on the sale of those units”.

2.1.2 “Conserving Cash”

The “logic” is that cash that has to be used to pay fees to managers could instead be used for distribution, thereby increasing DPU. Here is an example to illustrate how a REIT “saves” cash by issuing units to pay fees. For its fiscal 2024 (FY2024) ending 30 June 2024, Lendlease Global Commercial REIT (LREIT) issued 32.6 million units to pay management and performance fees (**Exhibit 1** below).

Exhibit 1: Unit issuance for Lendlease Global Commercial Trust for FY2024

Lendlease Global Commercial Trust - Issuance of Units for FY2024					
Fiscal Period	Dates	Fee Type	Units Issued	Issue Price (S\$)	Total Value (S\$)
1Q FY2024	1 July 2023 to 30 September 2023	Management	4,681,576	0.5528	2,587,975
2Q FY2024	1 October 2023 to 31 December 2023	Management	4,062,788	0.6405	2,602,216
3Q FY2024	1 January 2024 to 31 March 2024	Management	4,476,451	0.5691	2,547,548
4Q FY2024	1 April 2024 to 30 June 2024	Management	4,500,085	0.5636	2,536,248
FY2024	1 July 2023 to 30 June 2024	Performance	14,896,822	0.5636	8,395,849
	Total		32,617,722		18,669,836

***Note:** The units for the performance fee were only issued in FY2025 but for the sake of this analysis, we are aligning this fee together with the base fee as they represent the same fiscal period.

LREIT paid out a total cash distribution of S\$93.5 million for FY2024. Assuming the above management and performance fees had to be paid in cash instead of newly-issued units, LREIT would only be able to pay out S\$74.8 million (i.e. S\$93.5 million - S\$18.7 million) to unitholders. **So LREIT “conserved” around 20% in its distributable income (S\$18.7 million / S\$93.5 million).**

However, conserving cash is never part of an S-REIT's business model. If there was any acquisition to be conducted, S-REITs will usually raise the required capital by drawing down on borrowings, or launch an equity fundraising exercise.

There is also no free lunch even though cash has been conserved in the short term. LREIT's manager now owns 32.6 million units which are entitled to future distributions. Assuming FY2024's DPU of S\$0.0387 continues in perpetuity, LREIT will have to pay an additional S\$1.26 million per year to the manager. The present value² of the perpetual stream of these distributions amounts to S\$31.5 million, significantly more than the S\$18.7 million that the REIT "saved". We will elaborate on such dilutive impacts in later sections.

2.2 Counter-arguments against the issuance of units in lieu of cash

Our immediate rebuttals to superfluous arguments for the issuance of new units are as follows, and we will in later sections elaborate on the financial implications:

- **Alignment of Interests:** REIT managers' interests are supposed to be aligned with the unitholders. As we have argued before, the external manager model is fundamentally a misaligned construct. So long as the sponsor owns 100% of the manager but only owns a minority stake in the REIT, any marginal increase of its stake in the REIT does nothing to resolve this conflict. In fact, as we shall see, the issuance of units in lieu of cash creates other issues such as the artificial inflation of DPU, while the issue price of the new units below the REIT's NAV also creates a negative impact on NAV.
- **Conserving Cash:** Since the new units are also entitled to DPU, REITs will have to generate even more growth just to keep DPU constant. In other words, the increase in DPU in the current period due to issuance of units is just borrowing from the future. Just like incurring debt, unitholders will have to pay for it in the form of DPU going to the managers, which is akin to the interest paid on borrowings. DPU will thus decline if there is no growth in distributable income. There is simply no free lunch.

There are other fundamental reasons (when we draw the analogy with regular companies) why CML feels that issuing new units to pay manager's fee is indefensible.

- Units are equivalent to shares in regular companies, so it is indefensible that an external manager, which is a third party, gets to decide on the issuance of units, whereas a regular company will require the board's and shareholders' approval for the issuance of shares.

² The present value (PV) of a perpetuity is calculated as the cash flow per annum divided by the discount rate, which in the case of a REIT is its borrowing costs which we assume to be ~4% per annum. Therefore, the perpetuity formula used for LREIT is S\$1.26 million / 0.04 = S\$31.5 million.

- Secondly, companies do not regularly issue equity to pay for fees to vendors who provide goods and services, yet this practice is commonplace for S-REITs. The dot-com era in the late 1990's was perhaps the last time companies issued shares to pay employees and vendors because they were cash-strapped internet startups. There are no good reasons why S-REITs, which have mature assets generating steady cash flows, should be paying managers' fees with newly-issued units.

3. FINANCIAL IMPLICATIONS OF “UNITS FOR FEES” PRACTICE

3.1 The issuance of units is dilutive for all unitholders

A unitholder of a REIT/BT always suffers dilution when the manager elects to be paid with new units. The dilution to unitholders accumulates over time as more units are issued. To illustrate how this dilution works, please refer to the simple example in Exhibit 2 below.

Exhibit 2: Dilution Illustration

Year	Beginning Units (Millions)	Units Issued (Million)	Ending Units (Millions)	
2014			100	A
2015	100	1	101	
2016	101	1	102	
2017	102	1	103	
2018	103	1	104	
2019	104	1	105	
2020	105	1	106	
2021	106	1	107	
2022	107	1	108	
2023	108	1	109	
2024	109	1	110	
	Total Issued Units	10		B
	Dilution (B / A)	10%		

Assume that REIT A had 100 million units in issue at the end of 2014. Over the next decade, the REIT issues 1 million new units per year (to its manager) to pay for its management and performance fees. By the end of 2024, REIT A would have issued a total of 10 million units, thus diluting its total issued share capital base by 10%.

This pattern of dilution is pervasive. Based on CML's research over the past 5 years, there was an average dilution of 3.8% across the 32³ S-REITs where the REIT manager accepted units in lieu of cash. **If we extended this study, the dilution would be significantly higher.**

LREIT tops the charts with a 12.7% dilution over 5 years, while Manulife US REIT and First REIT came in second and third place, respectively, with a 10.9% and 9.3% dilution.

3.2 Two levels of dilution

There are actually two levels of dilution for the unitholder when a REIT issues units to pay for its manager's fees. The first is that with a larger pool of units in circulation, the REIT will need to generate a higher distributable income just to pay out the same DPU, since there are now more issued units. The issuance of units over the years has a cumulative effect on the REIT's DPU. This scenario is akin to a treadmill, where the REIT needs to keep running just to stay still.

The second layer of dilution comes from an S-REIT issuing units at a price lower than its net asset value (NAV). The issuance of units at a lower price means that more units need to be issued to pay for a specific dollar value of fees. We will examine this in more detail in **Section 4** of this report.

We use the example of Keppel REIT to illustrate these two effects.

- Keppel REIT declared a DPU of S\$0.0272 for the first half of 2025 (1H 2025) amounting to S\$105.5 million in distribution payments based on the 3.88 billion issued units as of 30 June 2025.
- Over the past 5 fiscal years, the REIT manager was issued around 259.7 million of units to pay for management and performance fees.
- These units also qualify for the DPU of S\$0.0272.
- To pay the DPU on these newly-issued units, Keppel REIT had to generate an additional S\$7.1 million (259.7 million x S\$0.0272) of distributable income.
- Assuming units were NOT issued to the REIT manager in lieu of cash, Keppel REIT could have paid out a DPU of S\$0.0291⁴ using the same amount of cash (S\$105.5 million). Unitholders could have received 7.1% higher DPU had the manager not accepted units for cash over the last 5 years.

There was also a second layer of dilution for Keppel REIT as the office REIT consistently issued units below its NAV over the 5 years that CML studied. The average issue price of the units ranged from between S\$0.88 to S\$1.13, well below the NAV of between S\$1.27 to S\$1.37 over the same period.

³ CML's study included 34 S-REITs but 2 of these (Alpha Integrated REIT and Parkway Life REIT) accept 100% cash.

⁴ Calculated as S\$105.5 million divided by 3.62 billion shares (i.e. 3.88 billion minus the 259.7 million units issued to the REIT manager over 5 years).

Assuming all these units were issued at least at the latest NAV of the REIT, the total number of issued shares would be 23.5% lower, or 198.7 million, instead of the 259.7 million units issued⁵. Keppel REIT has to “only” generate an additional distributed income of S\$5.4 million to pay the distributions on these additional units, which is lower than the S\$7.1 million computed when the units were issued below NAV. Hence, it can be clearly seen that issuing units at a unit price that is at least equivalent to the REIT’s NAV will help to reduce dilution for both the total issued capital and DPU.

The example above illustrates how the issuance of units leads to a higher cost and cash outflow for the REIT over the years. REIT managers need to generate even more distributable income for the DPU to keep pace with the increase in the number of units. The issuance of units below NAV also means that more units end up being issued, further diluting unitholders.

3.3 Artificial Inflation of DPU

Apart from dilution, REIT managers which elect to receive units instead of cash also cause the REIT’s DPU to be artificially inflated. Unitholders could be misled into thinking that DPU did not decline when there is a major AEI that temporarily depresses net property income (“NPI”). Manager simply “conserves” cash for that year by choosing to issue more units for fees. This is akin to a company reducing its depreciation expenses to boost net profit.

As an example, Frasers Centrepoint Trust (FCT) undertook an AEI of its Tampines 1 Mall during fiscal 2024 (FY2024) ending 30 September 2024.

- Because of this AEI, Tampines 1 Mall’s gross revenue for FY2024 fell by 11.9% year on year while its NPI declined by almost 21% year on year.
- FCT’s manager received 11.47 million units for FY2024, significantly higher than the number of units issued to the manager for FY2023 (6.4 million) and FY2022 (2.8 million).
- For FY2024, FCT “saved” S\$25 million by issuing 11.47 million units at an average unit price of S\$2.1793.
- If the manager did not issue new units, DPU will have fallen by 12% (as the REIT would have less distributable income to pay unitholders after paying its manager in cash). With the issuance of units in lieu of cash, DPU for FY2024 “only” fell by 0.9% year on year.

3.4 Lack of Proper Disclosure

If the REIT manager accepts part or all of its fees in units, it should disclose properly. The key is to be transparent and to quantify the effects of the full 100% cash payment on the DPU, versus its choice to elect to receive part or all of its fees in units. The REIT manager should do a scenario-

⁵ The formula for computing the number of units issued is to take the total fees and divide them by the average issued unit price.

based analysis to demonstrate the financial effects of accepting 100% cash, versus 100% units, and any (other) combination that the REIT manager has selected. For instance, if a REIT chooses to pay 50% of its management base fee and performance fees in units, with the remainder in cash, it should quantify the dilution resulting from this choice. It should also quantify other scenarios of different cash/unit combinations.

Out of 40⁶ S-REITs that CML reviewed (**note**: Dasin Retail Trust was left out as its most recent annual report was for 2021), more than half, or 23, did not specifically state the proportion of units versus cash that the manager accepted. The language was kept vague, and unitholders are unable to quantify the dilutive impact.

There does not seem to be any systemic pattern as to why a REIT manager would choose a certain units-to-cash ratio. Of the 17 S-REITs that did specify how the manager accepted its payment of base (management) fees, here is the breakdown of their choices.

- 8 chose 100% cash
- 1 chose 20% units: 80% cash
- 1 chose 40% units: 60% cash
- 4 chose 50% units: 50% cash
- 2 chose 80% units: 20% cash
- 1 chose 100% units (NTT DC REIT)

The current practice, where S-REITs offer limited information about the impact of accepting units as payment for fees, may mislead investors and unitholders into believing that the REIT can continue to sustain its DPU, resulting in misplaced optimism.

4. UNITS ISSUANCE AT DISCOUNT TO NAV LEADS TO MORE DILUTION

Investors should note that the issue price for new units is usually based on the volume-weighted average price (“VWAP”) for each REIT over the past 10 business days. Therefore, S-REITs that are persistently trading below their NAV will tend to issue units at a discount to their NAV.

While there is nothing wrong with the concept of linking the issue price to VWAP, this practice has led to a vicious cycle for S-REITs. Poor performance and governance could lead to the REIT trading below NAV. Then the manager issues units to pay for its fees, at below NAV. The dilution causes future DPU to decline or stagnate, which then leads to the unit price trading further below NAV.

The issue is an important one. In a 2005 Consultation Paper, MAS sought views on whether units issued for the payment of acquisitions and disposal fees to the REIT manager should be priced at

⁶ CML’s mini-report on S-REIT fee structures included 41 S-REITs as part of its survey.

the higher of market value or NAV. While there was no definitive conclusion on this matter, MAS's consideration underscores the importance of this issue.

5. A COMPREHENSIVE STUDY ON THE ISSUANCE OF UNITS

Given the important implications, CML sought to find out if the practice of issuing units in lieu of cash is widespread among the S-REITs. We quantified the level of dilution across each REIT. We also demonstrate how the dilution exacerbates the declining DPU trend among many REITs. Finally, we also assess if these new units are issued above, or below, the S-REIT's NAV.

As this study is comprehensive in its scope as it plans to covers the S-REIT universe, we are limiting the study to the most recent 5-year period to get an idea of the dilution impact. Please refer to **Appendix 1 and 2** for CML's research methodology and to also see which S-REITs were excluded from this study.

After filtering out S-REITs with less than 5 years of listing track record, we were left with a total of 34 S-REITs that CML reviewed and analysed. We also included the 5 business trusts that were studied in our first 2 reports of this series.

5.1 The issuance of units is a widespread practice

The practice of issuing units to REIT managers to pay for fees is widespread. Of the 34 S-REITs surveyed, just 2 (Alpha Integrated REIT and Parkway Life REIT) accepted 100% cash in all 5 fiscal years. Hence, these 2 REITs did not suffer any dilution at all. The situation was much better with business trusts, as we detail in the sections below.

It seems that REIT managers would only stop the practice of issuing unit for fees when their DPUs decline over the years or even go to zero. One example is KORE US REIT, which stopped the payment of distributions in 2024. Landmark REIT also stopped the issuance of units in 2023 and 2024, when the REIT terminated its distributions. However, Manulife US REIT continued to issue units to its REIT manager despite halting distributions in both 2023 and 2024.

Frasers Hospitality Trust chose to receive 100% of its fees in cash for fiscal 2022 (ending 30 September 2022) after accepting units for both fiscal 2020 and 2021. This is a welcome change and we hope to see more S-REITs switching away from the issuance of units to cash payments instead.

5.1.1 Unit issuance for S-REITs

The issuance of units to pay for fee results in dilution as much as 12.7% in the case of LREIT, which issued units for property management fees in addition to base fees, performance fees, and acquisition fees. Such high level of dilution happened over just the past 5 years.

For the remaining S-REITs, the average dilution is 3.8% when both Alpha Integrated REIT and Parkway Life REIT are excluded.

Although a 3.8% average dilution may not seem significant, this is just over a 5-year period with 2020 as a base year. For S-REITs that have been issuing units in lieu of cash payments to their managers over many more years, the dilution should be significant. The denominator will also be significantly smaller. Note that many S-REITs have, over the years, issued new units via private placements and/or preferential offerings, hence, the base year of 2020 used in CML's study would already have included these additions, this understating the dilution.

The full list is shown in **Exhibit 3** below.

Exhibit 3: Unit Issuance - Dilution on Total Issued Units

	Dilution
Lendlease Global Commercial REIT	12.7%
Manulife US REIT	10.9%
First REIT	9.3%
Keppel REIT	7.7%
ESR-REIT	6.9%
Frasers Logistics & Commercial Trust	6.2%
CapitaLand China Trust	4.9%
Sasseur REIT	4.5%
Suntec REIT	4.3%
Landmark REIT	4.1%
Mapletree Logistics Trust	3.8%
CapitaLand Ascott Trust	3.8%
Far East Hospitality Trust	3.7%
CDL Hospitality Trusts	3.7%
AIMS APAC REIT	3.4%
CapitaLand India Trust	3.1%
Frasers Centrepoint Trust	3.1%
Prime US REIT	3.0%
iREIT Global	2.8%
CapitaLand Integrated Commercial Trust	2.5%
Acrophyte Hospitality Trust	2.3%
KORE US REIT	2.3%
Starhill Global REIT	2.1%
OUE REIT	2.0%
Mapletree Pan Asia Commercial Trust	1.7%
Frasers Hospitality Trust	1.7%
EC World REIT	1.1%
CapitaLand Ascendas REIT	1.0%
BHG Retail REIT	0.9%
Keppel DC REIT	0.8%
Mapletree Industrial Trust	0.6%
Stoneweg Europe Stapled Trust	0.3%
Alpha Integrated REIT	0.0%
Parkway Life REIT	0.0%

Such dilution due to issuance of new units mathematically leads to lower DPU, all else being equal. The hard truth is that across most S-REITs, distributions have been declining due to higher interest rates and macro headwinds. Some S-REITs have also issued new units to fund acquisitions or reduce debt. More units issued to the managers just exacerbates this.

To examine the impact of dilution in a declining DPU scenario, we focused on S-REITs that had no fundraising (private placements or preferential offers), dividend reinvestment plans (“DRIPs”) or share buybacks, for simplicity. **Exhibit 4** (below) provides this example with Sasseur REIT.

Exhibit 4: Sasseur REIT's Dilution Computation

Sasseur REIT							2020 Vs 2024
		2020	2021	2022	2023	2024	Change
Distribution Amount (\$ Millions)		86.42	74.88	87.42	75.81	56.86	-34.2%
Beginning Units	(A)	1,196,495,000	1,206,539,000	1,217,119,000	1,231,092,000	1,242,648,000	
Units Issued to Manager		10,044,000	10,580,000	13,973,000	11,556,000	8,123,000	
Ending Units		1,206,539,000	1,217,119,000	1,231,092,000	1,242,648,000	1,250,771,000	
Cumulative Units Issued to Manager		10,044,000	20,624,000	34,597,000	46,153,000	54,276,000	(B)
Manager's Proportion of Total Units		0.8%	1.7%	2.8%	3.7%	4.3%	
Unitholder's Proportion of Total Units		99.2%	98.3%	97.2%	96.3%	95.7%	
							2020 Vs 2024
(In \$ Millions)							Change
Manager's Proportion of Distribution		0.72	1.27	2.46	2.82	2.47	
Unitholders Proportion of Distribution		85.70	73.61	84.96	72.99	54.39	-36.5%
Total Distribution		86.42	74.88	87.42	75.81	56.86	
Dilution = Cumulative Units Issued to Manager in 2024 (B) / Beginning Units in 2020 (A) = 54,276,000 / 1,196,495,000 =							4.5%

From 2020 to 2024, a total of 54.3 million units were issued to Sasseur REIT's manager, resulting in a 4.5% dilution. The total distribution amount fell by 34.2% between 2020 and 2024, but the distribution attributable to unitholders declined by a larger 36.5% because of the additional units issued to the REIT manager.

Similarly, Suntec REIT's total distribution amount fell by 10.4% over the same period, but the distribution attributable to unitholders tumbled by 13.3% as there was a 4.3% dilution because of share issuance to the REIT manager. The same holds for CDL Hospitality Trusts (CDLHT), where a 3.7% (unit) dilution resulted in distribution attributable to unitholders falling by 10.5%, greater than the 4-year fall in the distribution amount of 7.9%.

5.1.2 Unit issuance for business trusts

The situation is much better for the business trust sector, with just one business trust (Keppel Infrastructure Trust or KIT) issuing units for all 5 years. Asian Pay Television Trust (APTT) issued units in lieu of cash only in 2020 but stopped this practice and accepted 100% cash in subsequent years. The other 3 business trusts (First Ship Lease Trust, Hutchison Port Holdings Trust and NetLink NBN Trust) had no unit issuance during the period under study. Please refer to **Exhibit 5** (below) for details.

Exhibit 5: Business Trust Unit Issuance Dilution

Business Trust	Dilution
Asian Pay Television Trust (APTT)	0.2%
First Ship Lease Trust	0.0%
Hutchison Port Holdings Trust	0.0%
Keppel Infrastructure Trust	0.1%
NetLink NBN Trust	0.0%

Even for KIT and APTT which issued units to the trustee-managers, the dilution level was negligible. Hence, it appears that the practice of issuing units is mainly confined to the S-REIT space.

5.1.3 CML's recommendation for issuance of units in lieu of cash

CML calls on S-REIT managers to abolish the practice of accepting units as payment for fees. **Instead, all managers should accept cash payments as the default.**

By doing so, REITs will avoid the persistent dilution that we are witnessing. Furthermore, the REIT's DPU will also NOT be artificially inflated, and unitholders can then better appreciate the true financial health of the REIT.

As mentioned, there are just two S-REITs (Alpha Integrated REIT and Parkway Life REIT) whose managers have not accepted units in lieu of cash in the 5 years we studied. Parkway Life REIT has continued to post an uninterrupted rise in DPU. This consistent DPU improvement proves that cash payments (as fees to the REIT manager) do not end up hobbling the REIT and prevent it from attaining higher DPU. Alpha Integrated REIT also posted a higher year-on-year DPU for 2024 (after it was converted to an internal manager model) as the industrial REIT reported 4 consecutive years of positive rental reversion along with a comprehensive portfolio rejuvenation plan.

S-REITs should also disclose the DPU effects of accepting 100% cash versus 100% units, as well as any other combination in between. This transparency will help unitholders understand the DPU implications of each choice and allow them to make more informed investment decisions.

5.2 Further dilution from unit issuance below NAV

CML's S-REIT survey notes a total of 84 instances where units were issued at a discount to NAV, compared with 59 where units were issued at a premium. Around half (20) of the 39 S-REITs issued units at a discount rather than a premium. As mentioned in **Section 4**, the issuance of units below NAV results in NAV dilution over time.

Interestingly, we noticed a pattern based on the S-REIT sub-type. Industrial REITs seemed to mostly issue units at a premium to the REITs' NAVs, as compared to all other S-REIT sub-types.

Please refer to the following **Exhibits 6 and 7** below for the findings for each S-REIT and whether it issued units at a premium ("higher") or discount ("lower") to its NAV. Note that "N/A" stands for years where no units were issued (i.e. the REIT manager accepted 100% cash for the payment of fees).

Exhibit 6: Office, industrial and retail REITs – issuance of units at premium or discount to NAV

	FY2025	FY2024	FY2023	FY2022	FY2021	FY2020
Office REIT						
Keppel REIT		Lower	Lower	Lower	Lower	Lower
Prime US REIT		N/A	Lower	Higher	Higher	Higher
KORE US REIT		N/A	N/A	Lower	Lower	Lower
Manulife US REIT		Lower	Lower	Higher	Higher	Higher
Industrial REIT						
CapitaLand Ascendas REIT		Higher	Higher	Higher	Higher	Higher
Mapletree Logistics Trust	Higher	Higher	Higher	Higher	Higher	
Mapletree Industrial Trust	Higher	Higher	Higher	Higher	Higher	
Keppel DC REIT		Higher	Higher	Higher	Higher	Higher
ESR-REIT		Higher	Higher	Higher	Higher	Higher
AIMS APAC REIT	Higher	Lower	Higher	Higher	N/A	
Alpha Integrated REIT		N/A	N/A	N/A	N/A	N/A
EC World REIT		N/A	N/A	Higher	Lower	Lower
Retail REIT						
Fraser's Centrepoint Trust		Lower	Lower	Higher	Lower	Lower
Starhill Global REIT	Lower	Lower	Lower	Lower	Lower	
Sasseur REIT		Lower	Lower	Lower	Lower	Lower
Landmark REIT		N/A	N/A	Lower	Lower	Higher
BHG Retail REIT		N/A	N/A	Lower	Lower	Lower

Exhibit 7: Healthcare, Hospitality, Diversified REITs & Business Trusts - Issuance of Units at Premium or Discount to NAV

Healthcare REIT	FY2025	FY2024	FY2023	FY2022	FY2021	FY2020
Parkway Life REIT		N/A	N/A	N/A	N/A	N/A
First REIT		Lower	Lower	Lower	Higher	Higher
Hospitality REIT						
CDL Hospitality Trusts		Lower	Lower	Lower	Lower	Lower
CapitaLand Ascott Trust		Lower	Lower	Lower	Lower	Lower
Far East Hospitality Trust		Lower	Lower	Lower	Lower	Lower
Frasers Hospitality Trust		N/A	N/A	N/A	Lower	Lower
Acrophyte Hospitality Trust		N/A	Lower	Lower	N/A	Higher
Diversified REIT						
CapitaLand Integrated Commercial Trust		Lower	Lower	Higher	Higher	Higher
Mapletree Pan Asia Commercial Trust	Lower	Lower	Higher	Higher	Higher	
Suntec REIT		Lower	Lower	Lower	Lower	Lower
Frasers Logistics & Commercial Trust		Lower	Higher	Higher	Higher	Lower
OUE REIT		Lower	Lower	Lower	Lower	Lower
CapitaLand China Trust		Lower	Lower	Lower	Lower	Higher
Lendlease Global Commercial REIT	Lower	Lower	Lower	Higher	Lower	
CapitaLand India Trust		N/A	N/A	Higher	Higher	Higher
Stoneweg Europe Stapled Trust		N/A	N/A	N/A	Lower	Higher
iREIT Global		N/A	Lower	Higher	Lower	Lower
Asian Pay Television Trust (APTT)		N/A	N/A	N/A	N/A	Lower
First Ship Lease Trust		N/A	N/A	N/A	N/A	N/A
Hutchison Port Holdings Trust		N/A	N/A	N/A	N/A	N/A
Keppel Infrastructure Trust		N/A	N/A	Higher	Higher	Higher
NetLink NBN Trust	N/A	N/A	N/A	N/A	N/A	

REIT managers do not deliberately issue units at below NAV, since the issue price is based on the volume-weighted average price (VWAP) of the units in the 10 days before the units are issued. However, many REITs are trading below NAV, which could be due to either poor performance or governance, or both. This is an issue REIT managers should reflect on. They can start by improving their DPU.

5.2.1 CML's recommendation for unit issuance price

The 2005 MAS Consultation Paper had no conclusion as to whether units should be issued at a premium or discount to a REIT's NAV. However, the very fact that this was discussed highlights the seriousness of the issue.

CML reiterates its stand that units should at least be issued at NAV to prevent NAV erosion.

Also, MAS proposed a 1-year moratorium on the disposal of units that are issued to REIT managers. CML recommends extending this moratorium to 5 years to prevent REIT managers from immediately disposing the units they obtain.

6. CONCLUSION

It is time to stop the practice where S-REITs continually issue units instead of cash as payment for management, performance, acquisition, and divestment fees. This practice has led to steady dilution over the years and the REIT needs to generate higher distributable income just for its DPU to keep pace, because of the rise in its overall issued unit base. Worse, as many S-REITs have seen declining net property income or other earnings metrics, the units issued to their managers in prior years consume a greater share of the total distribution.

In addition, the majority of S-REITs issue new units below the REIT's NAV. Such a practice creates a second level of dilution to unitholders and will also result in a lower NAV. This creates a vicious cycle of lower NAV, lower DPU and lower unit prices.

Because of the above issues, CML recommends that REIT managers be paid fully in cash and not have the option of issuing new units as payment for their fees. If this cannot be stopped immediately, the issuance of units should be at least at NAV. REIT managers should also not be allowed to sell any of the units they have received from the issuance of units in place of cash within a period of 5 years.

Stayed tuned for the fourth report where CML explores whether S-REITs truly offer a return ON investors' capital, or is simply providing a return OF their capital.

APPENDIX

Appendix 1 Selection of S-REITs for this study

The aim of this mini-report is to study and quantify the effects of unit issuance over a 5-year period. With this in mind, S-REITs that just went public in 2025 (i.e. NTT DC REIT and Centurion Accommodation REIT) were excluded from this analysis. Also, S-REITs that went public less than 5 years ago, such as Daiwa House Logistics Trust, Digital Core REIT, Elite UK REIT and United Hampshire US REIT, were also excluded. Dasin Retail Trust, which only published financials up to 2021 (and is now suspended from trading), was also excluded for obvious reasons.

Appendix 2 Research Methodology

CML tracked the number of units issued each year by every S-REIT over the last 5 fiscal years (FY2020 to FY2024 for REITs with a September and December year-end, and FY2021 to FY2025 for those with a 31 March or 30 June year-end). We then compiled the total number of units issued over these 5 years and compared this total with the initial number of units in either FY2020 or FY2021 to compute the dilution from the issuance of these units.

Next, we assessed if the units issued were above, or below, the NAV of the S-REIT. S-REITs that consistently issue units at a discount to their NAV end up issuing more units than if these units were issued at a premium to their NAV.