

SINGAPORE REITS SECTOR

Return ON Capital or Return OF
Capital?

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**CORPORATE
MONITOR LIMITED**



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EXECUTIVE SUMMARY

Investors view REITs as high-yield instruments. However, they may be just receiving (only partially, in some cases) the very capital they put in, based on Corporate Monitor Limited's (CML) research. Of the 38 S-REITs covered, 15 S-REITs distributed less than what they raised. Even if their net asset value (NAV) increases¹ were counted as cash distributions, unitholders still ended up getting less than what they contributed (Return OF Capital or "R-OF-C"). The regular distributions received may mask the fact that the REIT managers are destroying value. On the other hand, 10 provided a return ON capital ("R-ON-C"), meaning they have distributed more cash than what they took from investors and also recorded an increase in their NAV. The other 13 sit somewhere in between.

Our research methodology uses the term "Total Value to Paid in Capital (TVPI)"². TVPI is a ratio calculated by dividing distributions to unitholders by the total equity raised since IPO. A ratio of more than 1 means the REIT has distributed more than it has raised, and is a case of R-ON-C. A ratio of less than 1 means the REIT has distributed less than what it raised, so it is likely (but not always) a R-OF-C. Distributions are normally in cash but an increase in NAV can be thought of as potential distribution. Based on this logic, 2 TVPI ratios are computed.

TVPI before NAV changes = Total distributions / total equity raised

TVPI after NAV changes = (Total distributions +/- NAV changes) / total equity raised

To be clear, we are evaluating the REIT managers' performance here, not investors' total shareholder return, which depends on unit price movements.

15 of the 38 REITs demonstrate clear cases of value destruction, as their TVPIs are less than 1 even after adding the change in NAV. They take more equity from unitholders than what they distribute, even assuming they can liquidate and sell their properties³ at NAV. The distributions paid out come from the very capital these REITs raised from the market. And even then, only partially.

On the other hand, only 10 (slightly more than a quarter) have a TVPI of more than 1 before NAV change. This means that unitholders of these 10 S REITs have collected more than they invested. Their TVPIs after NAV change are also more than 1, which means more distributions can be expected even before the REITs add more assets. That said, some of these REITs have low TVPI after NAV change, so the managers' value-add is lacklustre.

¹ 8 of the 15 in fact saw NAV declines.

² TVPI is a simpler ratio for this research to illustrate the point that investors may not even get back what they put in. A better measure of good investment performance is internal rate of return, which CML is unable to compute for every REIT as information is not publicly available.

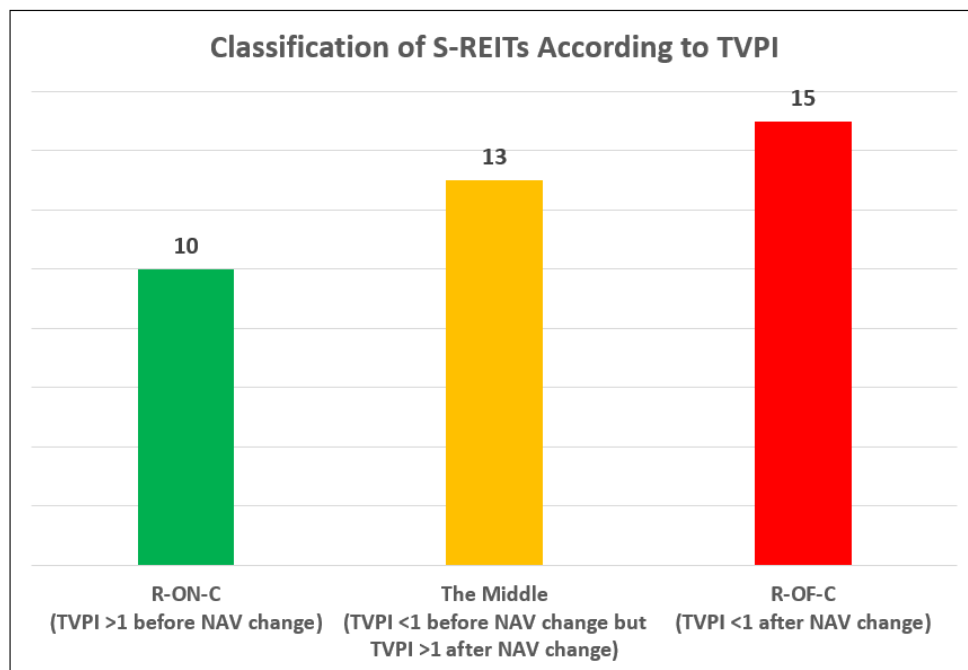
³ The REITs' investment properties are stated at market value (i.e. fair value changes have been incorporated).

The middle 13 REITs have TVPI before NAV of less than 1 but, after adding NAV changes, their TVPIs are more than 1. They require a more nuanced analysis.

9 of them have been listed for 15 years or more⁴. So, it is fair to expect that these REITs have had a long enough time to prove their value creation by distributing more cash than they receive from unitholders. In other words, they should have TVPI of more than 1 even before NAV changes. Their TVPI after NAV change ranged from only 1.15 to 2.5, which translates into compound annual growth rates (CAGR) of 1.3% to 8.6%. However, the CAGRs are not evenly-distributed, with 10 REITs having CAGR of less than 5%. CML considers 5% as a very low bar for the REIT managers, as the cost of debt for most REITs is more than 3%.

The 9 REITs with longer listing histories and 10 with CAGR under 5% overlap almost perfectly. So taken together, only 3 of the 13 can be considered acceptable performers.

The chart below summarises CML's findings.



It is a significant finding that of the 38 REITs, 25 (15 + 10) have either failed outright to distribute more than what they raise, or have put up an unacceptable performance. The unitholders in the bottom 15 REITs are receiving, partially, the very capital they put in, and have even lost part of their capital.

⁴ In fact, 7 of these 9 have been listed for 18 years or more.

What drove this state of affairs? CML's view is that exogenous factors like specific sector dynamics, interest cost, macroeconomic cycles etc may explain the differing performances across REITs. For example, 8 REITs with foreign assets have done poorly and are part of the R-OF-C 15 REITs, due to exchange rate or specific country conditions. The external management model, with the inherent conflicts of interest, is a key factor for the generally disappointing outcome. To the external managers, wholly-owned by the sponsors, fee income is the priority. This explains the high management, performance, and other fees that CML wrote about in the [first](#) and [second](#) reports of this series. These fees are not dependent on good REIT performance, instead they provide the incentive to build up the REIT's asset base on which more fees can then be charged.

Such misalignment of interests can get in the way of a REIT manager pursuing the best outcomes for unitholders. A manager has the choice of not investing until it finds a property that has attractive valuation and yield, but the REIT will not expand in size. On the other hand, accepting a less attractive asset may compromise future distributions, but will increase the REIT's asset base and earn more fees for the sponsor. Unitholders will do well to keep this in mind.

1. INTRODUCTION

In this fourth report on the Singapore REIT (S-REIT) sector, CML looks at whether S-REITs truly provide a return on capital (“R-ON-C”), or are they merely returning a portion of the capital that has been raised (“R-OFF-C”) ? With frequent fundraising exercises in the capital markets, CML wanted to find out if REITs distributed more than they raised.

2. S-REIT FUNDRAISING

S-REITs frequently tap into the capital markets to raise funds for acquisitions, redevelopments, or asset enhancement initiatives. It can be argued that since S-REITs pay out at least 90% of their net profit as distributions to enjoy tax transparency, they do not retain much cash and have to raise funds for significant capital expenditure.

S-REITs raise both debt and equity but the use of debt is restricted as the Monetary Authority of Singapore (MAS) mandates a maximum gearing⁵ limit of 50% to ensure S-REITs borrow prudently. The interest coverage ratio⁶ (ICR), which measures the ability of an S-REIT to service its debt, also needs to be 1.5x or higher. Most S-REITs stay below the 40% gearing level to provide adequate cushion to borrow. Types of debt include short and long-term loans, revolving credit facilities, bridging loans, senior notes, and convertible debt. Equity-raising can be via private placements, preferential offers, or a mixture of both. Please refer to **Appendix 1** for a list of equity fundraising techniques that S-REITs often employ.

2.1 S-REITs frequently tapped the equity market for funds

Slightly more than half of the 38 S-REITs raised equity at least once every 4 years. In fact, 5 S-REITs raised equity every other year since their IPOs. **Exhibit 1** below shows just how frequently this fundraising occurs, which is measured by dividing the number of years in which a REIT tapped the equity markets versus the total number of years it has been listed. Out of the 38 S-REITs, just 5, or 13.2%, have never conducted any equity fundraising.

As an example, between 2004 and 2024 (both years inclusive), CapitaLand Ascendas REIT raised funds through either private placements or preferential offers (or a combination of both) in 14 of those 21 years. The fundraising frequency is then computed by taking 14 and dividing it by 21 to get 66.7%.

⁵ Gearing is defined as the total borrowings taken up by a REIT divided by the value of its deposited property (i.e. market value of its portfolio).

⁶ The interest coverage ratio is defined as the ratio of the REIT’s operating profit to its interest expense.

Exhibit 1: Frequency of Fundraising⁷

S-REITs - Frequency of Fundraising		S-REITs - Frequency of Fundraising	
CapitaLand Ascendas REIT	66.7%	OUE REIT	27.3%
Mapletree Logistics Trust	52.4%	Suntec REIT	25.0%
CapitaLand Integrated Commercial Trust	52.2%	Landmark REIT	23.5%
Keppel DC REIT	50.0%	CapitaLand India Trust	23.5%
CapitaLand China Trust	50.0%	United Hampshire US REIT	20.0%
CapitaLand Ascott Trust	47.4%	Elite UK REIT	20.0%
ESR-REIT	47.4%	Fraser's Hospitality Trust	20.0%
Mapletree Industrial Trust	46.7%	Lendlease Global Commercial REIT	16.7%
Manulife US REIT	44.4%	CDL Hospitality Trusts	16.7%
Prime US REIT	40.0%	First REIT	16.7%
iREIT Global	40.0%	Alpha Integrated REIT	14.3%
AIMS APAC REIT	33.3%	Far East Hospitality Trust	7.7%
Digital Core REIT	33.3%	Parkway Life REIT	5.9%
Fraser's Centrepoint Trust	33.3%	Starhill Global REIT	5.0%
Fraser's Logistics & Commercial Trust	33.3%	Sasseur REIT	0.0%
Keppel REIT	31.6%	Acrophyte Hospitality Trust	0.0%
KORE US REIT	28.6%	BHG Retail REIT	0.0%
Mapletree Pan Asia Commercial Trust	28.6%	Daiwa House Logistics Trust	0.0%
Stoneweg Europe Stapled Trust	28.6%	EC World REIT	0.0%

The CapitaLand suite of S-REITs raised funds most frequently, ranging from 23.5% to 66.7% of the number of years that each REIT has been listed (see **Exhibit 2**).

⁷ Frequency of fundraising is defined as the number of years where the REIT conducted a fundraising exercise, divided by the total number of years the REIT has traded post-listing. The study is up till 2024 (or fiscal 2025).

Exhibit 2: CapitaLand REITs' Fundraising History

	CapitaLand	CapitaLand	CapitaLand	CapitaLand	CapitaLand
Year	Ascendas	Integrated	China	Ascott	India
	REIT	Commercial Trust	Trust	Trust	Trust
2002					
2003		✓			
2004	✓	✓			
2005	✓	✓			
2006	✓	✓		✓	
2007	✓	✓	✓	✓	
2008			✓		
2009	✓	✓			
2010	✓			✓	
2011		✓	✓		
2012	✓	✓	✓		
2013	✓		✓	✓	✓
2014					
2015					
2016	✓			✓	
2017	✓	✓	✓	✓	
2018		✓			✓
2019	✓		✓		✓
2020	✓		✓		
2021	✓	✓	✓	✓	
2022				✓	
2023	✓			✓	✓
2024		✓			
Fundraising Years	14	12	9	9	4
Years Listed	21	23	18	19	17
% Fundraising	66.7%	52.2%	50.0%	47.4%	23.5%

There could be legitimate reasons for REITs to raise or not to raise equity. Infrequent equity raise could mean the REITs are able to grow distributions without much new equity, or they are doing poorly and have no access to equity. The key is whether REITs can distribute more than what they raise, which is an indication of REIT managers' value-add. The purpose of CML's research is to uncover this.

3. RESEARCH METHODOLOGY AND FINDINGS

3.1 Introducing TVPI

To determine if a REIT belongs to the R-ON-C or R-OFF-C group, CML uses a methodology called “Total Value to Paid-in Capital”, or TVPI⁸. TVPI is usually used in the performance measurement for a private equity fund but we found it useful for assessing S-REITs.

To be clear, CML is NOT evaluating the investment return that REITs deliver to unitholders. Such a return is subject to market volatility. What CML is measuring is REIT managers’ ability to turn equity raised from the market into cash distributions, and increase the value of the REIT’s assets. When the amount of equity raised is compared to the distributions received, we are referring to the unitholders COLLECTIVELY. We also cover the REITs from IPO to 2024 (or fiscal 2025⁹). So, any shorter period in between may see different outcomes. Some REITs may have acceptable TVPIs but recent performances are poor, for example.

CML totalled all the money raised by S-REITs, inclusive of the proceeds from their IPOs and subsequent fundraising exercises (i.e. private placements and preferential offers). This total represents the sum of all the equity raised by the S-REIT. Next, CML added up the cumulative distributions paid to unitholders over the same period. At the same time, we also noted the change in net asset value (NAV) for the REIT’s portfolio from its IPO to date. The NAV change can be thought of as manager’s value-add, which will hopefully be crystallised in the future. Based on these numbers, 2 TVPI ratios were computed.

TVPI before NAV change = Total distributions / total equity raised.

This is the tougher test. If a REIT has already distributed more cash than the equity it has raised, the surplus and NAV increase represent the upside.

TVPI after NAV change = (Total distributions +/- NAV changes) / total capital raised.

This may provide a more complete picture, when a REIT may not have been listed long enough for cash distributions to accumulate, or still expanding, and as a result, the assets added have yet to contribute to distributions. That said, including each S-REIT’s NAV change comes with 2 caveats. Firstly, any increase in NAV may simply be unrealised fair value gains predicated on optimistic assumptions. Many of these S-REITs trade at a discount to NAV, implying that investors believe that the real value of the assets is below that of their stated NAV. Secondly, these assets may not

⁸ TVPI, also known as the “investment multiple”, measures the total value of the S-REIT relative to the amount of capital raised by it to date. See <https://www.moonfare.com/glossary/total-value-to-paid-in-capital-tvpi> for more details.

⁹ Fiscal 2025 refers to REITs whose fiscal year end is not 31 December. E.g. if a REIT has a 31 March year-end, then fiscal 2025 refers to the financial year ending 31 March 2025.

necessarily produce good yield and high enough distributions relative to their value, so the S-REIT ends up still not creating value for unitholders.

3.2 15 REITs have destroyed value, only partial Return-Of-Capital

15 S-REITs demonstrate a clear case of value destruction, as their TVPIs after accounting for NAV changes were still less than 1 (see **Exhibit 3**).

Exhibit 3: S-REITs with TVPI <1 After NAV Change

S-REIT	TVPI before NAV Change	TVPI after NAV Change
Lendlease Global Commercial REIT	0.22	0.72
Elite UK REIT	0.56	0.71
Alpha Integrated REIT	0.67	0.52
United Hampshire US REIT	0.33	0.52
Stoneweg Europe Stapled Trust	0.46	0.48
Fraser's Hospitality Trust	0.41	0.47
KORE US REIT	0.38	0.46
Landmark REIT	0.56	0.35
Manulife US REIT	0.36	0.27
Prime US REIT	0.35	0.21
Digital Core REIT	0.10	0.20
BHG Retail REIT	0.26	0.14
Daiwa House Logistics Trust	0.17	0.04
Acrophyte Hospitality Trust	0.14	0.00
EC World REIT	N/A	N/A

Note: EC World REIT is in a severe financial crisis and is embroiled in a lawsuit because of halted rent payments by its sponsor along with unauthorised mortgages placed on its Chinese properties. The REIT's units have been suspended since 31 August 2023.

In a nutshell, these 15 S-REITs raised more equity from unitholders than they distributed. The distributions received are, in fact, a fraction of the very capital unitholders paid in.

8 of these 15 S-REITs are dragged down by negative NAV changes, i.e. that the value of their properties declined since their IPO. These REITs experienced NAV declines mostly because of underlying asset quality, coupled with foreign exchange translation losses.

Exhibit 4 shows the list of 8 S-REITs with declining NAV. Their TVPIs after NAV change are lower than TVPIs before NAV change.

Exhibit 4: List of S-REITs with Declining NAV

S-REIT	Currency	Decrease in NAV (Millions)
BHG Retail REIT	SGD	-47.2
Acrophyte Hospitality Trust	USD	-69.3
Daiwa House Logistics Trust	SGD	-70.9
Prime US REIT	USD	-108.9
Manulife US REIT	USD	-116.4
Alpha Integrated REIT	SGD	-116.9
Landmark REIT	SGD	-325.0
EC World REIT	SGD	-750.6

The 8 S-REITs in the above list have mostly overseas properties. While the sample size is too small to conclude that REITs with overseas properties perform poorly, this is an important consideration for investors.

3.3 10 S-REITs demonstrated Return on Capital

10 S-REITs displayed TVPIs before NAV change higher than 1 (see **Exhibit 5**). Their TVPIs after NAV are also higher than 1.

Exhibit 5: List of S-REITs with TVPI >1 Before NAV Change

S-REIT	TVPI before NAV Change	TVPI after NAV Change
Suntec REIT	2.02	4.20
Parkway Life REIT	1.85	2.98
First REIT	1.47	2.12
Starhill Global REIT	1.28	1.84
Sasseur REIT	1.26	1.17
CapitaLand Integrated Commercial Trust	1.22	3.53
CDL Hospitality Trusts	1.19	1.57
Far East Hospitality Trust	1.14	1.55
CapitaLand India Trust	1.03	2.01
Keppel REIT	1.01	2.56

These 10 S-REITs managed to distribute more than they raised since their IPOs. They have passed the tougher test. Their TVPI after NAV changes (which are positive) indicates even more future upside (see our caveats above). However, we note that managers of S-REITs with TVPIs after NAV change of less than 2, such as Sasseur REIT, CDL Hospitality Trusts, Far East Hospitality Trust and Starhill Global REIT, may not have produced much value-add (see **section 3.4.2** on the concept of CAGR). Nevertheless, the unitholders have pocketed the capital they invested, so further downside is more limited. These S-REITs fall in the “R-ON-C” category.

3.4 The remaining 13 S-REITs: more nuanced but mostly uninspiring

CML takes a more nuanced view of the 13 (38 – 10 – 15) S-REITs with TVPI less than 1 before NAV, but more than 1 after NAV changes. Please see **Exhibit 6** for this list of 13 S-REITs.

Exhibit 6: List of S-REITs with TVPI <1 before NAV Change and TVPI >1 After NAV Change

	TVPI before	TVPI after
S-REIT	NAV Change	NAV Change
CapitaLand Ascott Trust	0.92	2.50
OUE REIT	0.76	2.47
ESR-REIT	0.92	2.24
Mapletree Industrial Trust	0.85	2.24
CapitaLand Ascendas REIT	0.98	2.20
Mapletree Logistics Trust	0.82	2.11
Frasers Logistics & Commercial Trust	0.83	2.09
AIMS APAC REIT	0.94	2.08
Mapletree Pan Asia Commercial Trust	0.61	2.05
Frasers Centrepont Trust	0.73	2.03
CapitaLand China Trust	0.69	1.52
Keppel DC REIT	0.37	1.20
iREIT Global	0.49	1.15

3.4.1 Long listing history

Many of these 13 S-REITs have been listed a long time. 9 (69%) of the 13 have been listed for 15 years or more and 2 have been listed for more than 20 years (see **Exhibit 7** below). Yet, they have not distributed more than they have raised.

These 9 S-REITs have had a long enough time to prove they could produce R-ON-C. It is hard to argue that they need more time to do so. In fact, if they have not produced TVPI before NAV

change of more than 1 despite having a long listing history, why are they raising equity so frequently? Whose interests do they serve?

Exhibit 7: List of S-REITs with Long Listings and TVPI After NAV Change >1

	TVPI before	TVPI after	Years
S-REIT	NAV Change	NAV Change	Listed
CapitaLand Ascendas REIT	0.98	2.20	21
Mapletree Logistics Trust	0.82	2.11	21
CapitaLand Ascott Trust	0.92	2.50	19
ESR-REIT	0.92	2.24	19
AIMS APAC REIT	0.94	2.08	18
Fraser's Centrepoint Trust	0.73	2.03	18
CapitaLand China Trust	0.69	1.52	18
Mapletree Industrial Trust	0.85	2.24	16
Mapletree Pan Asia Commercial Trust	0.61	2.05	15

3.4.2 Low growth rates

Although more than 1, TVPIs after NAV change for some of these 13 S-REITs are low, especially given such a long listing history. To analyse further, CML computed compound annual growth rate (CAGR)¹⁰ based on their TVPI after NAV change. CAGR shows how quickly the intrinsic value of the REITs has grown. For example, CapitaLand Ascott Trust and Mapletree Pan Asia Commercial Trust have TVPI of 2.5x and 2.05x, respectively. However, CapitaLand Ascott Trust has taken 19 years but Mapletree Pan Asia Commercial Trust took 15 years. Their CAGR are, in fact, the same at 4.9%.

Exhibit 8 shows the CAGRs, which range from 1.3% (for iREIT Global) to 8.6% (for OUE REIT and Fraser's Logistics & Commercial Trust). Except for Fraser's Logistics & Commercial Trust, Mapletree Industrial Trust and OUE REIT, the other 10 S-REITs have CAGRs of less than 5%. We think this is a low threshold for the REIT managers because the cost of debt for many REITs is more than 3%.

The 9 S-REITs with long listing histories and 10 S-REITs with CAGR lower than 5% overlap almost completely. Based on this, we think only 3 S-REITs out of 13 have done acceptably. They are OUE REIT, Fraser's Logistics & Commercial Trust, and Mapletree Industrial Trust.

¹⁰ CAGR is used to compare annual returns among REITs. It is theoretically less sound than the internal rate of return, or IRR, which, however, requires precise cash flow timings that are not publicly available. The CAGR is calculated as follows: $TVPI \text{ after NAV change} = 1 / (1 + CAGR^N)$, where N is the number of years.

Exhibit 8: List of S-REITs' CAGR¹¹

S-REIT	CAGR	Listed for >15 Years?
OUE REIT	8.6%	No
Frasers Logistics & Commercial Trust	8.6%	No
Mapletree Industrial Trust	5.2%	Yes
CapitaLand Ascott Trust	4.9%	Yes
Mapletree Pan Asia Commercial Trust	4.9%	Yes
ESR-REIT	4.3%	Yes
AIMS APAC REIT	4.2%	Yes
Frasers Centrepont Trust	4.0%	Yes
CapitaLand Ascendas REIT	3.8%	Yes
Mapletree Logistics Trust	3.6%	Yes
CapitaLand China Trust	2.4%	Yes
Keppel DC REIT	1.8%	No
iREIT Global	1.3%	No

3.4.3 S-REITs with blue-chip sponsors raise funds frequently

In conclusion, these 13 S-REITs have distributed more than they raised only when NAV increases are counted as distributions. Only 3 of the 13 have an acceptable CAGR. They are not value destroyers, but the managers' performances are lacklustre.

Yet, many of these 13 S-REITs are among the most prolific equity issuers, raising equity at least once every 3 years (except OUE REIT and Mapletree Pan Asia Commercial Trust whose equity raises still average once every 4 years). They include the REITs sponsored by Keppel, CapitaLand, Mapletree, and ESR. Not surprisingly, they all aspire to be asset managers, and our report on management fee underscores how such fees are driven by asset base (i.e. deposited property).

¹¹ NAV was taken at the end of 2024 or Fiscal 2025.

4. CONCLUSION: A DISMAL STATE OF AFFAIRS

Of the 38 S-REITs in CML's study, just 10 have distributed more money than they have raised. These are S-REITs that can at least claim to be delivering a R-ON-C. On the flip side, unitholders of 15 S-REITs, whose TVPI of less than 1 after NAV changes, have received only partially the very capital they contributed (R-OF-C).

Another 13 S-REITs only saw their TVPI exceed 1 when NAV increases are included. Despite being listed for more than a decade (some more than 2), these S-REITs have distributed less cash than the amount they raised. Unlike the group of 15, they have not destroyed value, but their performances are not inspiring, given the meagre CAGRs we computed.

This finding calls into question the very reason for owning a REIT. Unitholders may be under the illusion that they receive a distribution yield that is much higher than bank deposit rates, Singapore Savings Bonds rates, or T-Bill rates. However, the reality is that they could be merely getting back some of the original capital that they put in.

CML believes that REITs are legitimate investments which allow investors to gain access to real estate sub-types that they will not be able to as individuals. Owning REITs also allows for healthy diversification across property sub-types and regions. That said, investors need to be vigilant and ensure that they park their money in REITs that provide R-ON-C.

In **Appendix 2**, CML looks at 4 factors that determine an S-REIT's TVPI. Mathematically, raising a lot of equity and not paying out sufficient distributions will lead to TVPI of less than 1. However, the follow-up question is: why is the overall picture so disappointing even though some REITs have done better than others?

In CML's view, exogenous factors such as cycles in the specific real estate sub-sectors, interest cost, and macroeconomic conditions probably explain the different performances among the REITs. The external management model, with its inherent conflict of interest, is, in our view, an important cause for the overall poor results. As more sponsors such as CapitaLand Investment and Keppel pivot towards an asset management business model, fees earned from their wholly-owned REIT managers become increasingly important. These fees, unfortunately, could very well act as incentives for REIT managers to engage in "empire-building" to boost their REITs' asset base, to the detriment of unitholders who have to cough up additional capital.

To illustrate a potential conflict, a REIT manager can hold off equity raising until it identifies an asset with attractive valuation and yield, but it will limit the "growth" of the REIT and, by extension, the fee income for its 100% owner (the REIT's sponsor). Or the manager could settle on less attractive assets and raise equity, pleasing the sponsor but compromising the REIT's future distributions. Unitholders should appreciate such misalignment of interests.

APPENDIX

Appendix 1 S-REIT Equity Fundraising Techniques

REIT equity fundraising comes from two main sources – private placements, and preferential offers (also known as “rights issues”). There is a third method known as perpetual securities, which is a hybrid of the two. Perpetual securities come with a fixed, regular payout that is similar to debt, but these securities are classified as “equity” on the REIT’s balance sheet. Unlike debt, there is no maturity date for perpetual securities and it is at the discretion of the REIT manager as to whether to redeem these securities at their face value. As perpetual securities are classified as “equity” and not “debt”, they have no effect on a REIT’s gearing ratio.

Private placements and preferential offers involve the issuance of new units of the REIT to raise money, in what is known as a “secondary offering”. Such secondary offerings increase the issued unit base of the S-REIT and expand its pool of investors, thereby increasing liquidity and widening its range of investors. However, CML considers such methods as a form of fundraising where the REIT takes cash back from investors, whether they are existing unitholders (for preferential offers), or new institutional and/or high-net-worth investors (for private placements).

Preferential offers are different from private placements, although both types of exercises increase the total number of issued units. The difference is explained below.

Difference between private placements and preferential offers

Preferential offers differ from private placements (also called “secondary offerings”) in that existing unitholders get the opportunity to participate in preferential offerings (but not in private placements). Private placements involve the sale of new REIT units to high-net-worth individuals or institutional investors to raise money, without existing unitholders having the chance to purchase these new units.

Private placements can be conducted in conjunction with preferential offers to ensure the REIT raises sufficient funds for its purposes (whether for acquisitions, AEs, or debt reduction). Shares sold in private placements are usually priced at a discount to the prevailing market price to entice institutional investors to take up the offer, while preferential offer units are offered at a larger discount compared with private placement investors, as these preferential units are targeted at retail unitholders.

Appendix 2: Factors Affecting TVPI

The TVPI is calculated based on the quantum of funds raised by a REIT, along with the cumulative distributions it pays out.

CML believes that there are 4 key factors at play that determine why some S-REITs end up providing a R-ON-C, while others are simply providing a R-OFF-C. Understanding these factors allows investors to better assess the S-REIT space and make wiser investment choices.

Factor 1: DPU growth

The first and most obvious factor is the REIT's DPU. The DPU hinges on whether the REIT's assets are performing well and are seeing their rental income keep pace with inflation since its listing. Properties with weak occupancy or negative rental reversions result in lower net property income and, by extension, lower distributable income. Naturally, this means that the S-REIT will end up paying lower distributions, thus negatively impacting its cumulative distributions. Lower distributions not only impact the S-REIT's ability to deliver a consistent return, but unitholders also suffer from reduced DPU over the years.

To reverse the trend of falling DPU, S-REITs can engage in acquisitions and AEIs. Acquisitions need to be well-executed and yield-accretive. AEIs must be properly-planned and be able to deliver an attractive return on investment (ROI) to justify carrying them out. If well-executed, such AEIs can deliver value to unitholders through organic rental growth (i.e. positive rental reversions) and by increasing the attractiveness of the properties to potential tenants, thus maximising occupancy. The ROI will measure the success of an AEI in bringing in incremental rental income to justify the capex spend. A good REIT manager should astutely balance the use of both debt and equity, ideally utilising an optimal mix of both, to raise funds for such growth initiatives.

Factor 2: Frequency of fundraising

The second factor centres on how often an S-REIT raises money. Although CapitaLand Ascendas REIT and Mapletree Logistics Trust have been listed for more than 2 decades, they also rank very high on the list when it comes to fundraising frequency, at 66.7% and 52.4%, respectively. Hence, a long listing history may not result in a net outflow if an S-REIT constantly taps into the capital markets to raise funds.

The same example (of frequent fundraising) can be found with Keppel DC REIT and CapitaLand China Trust (CLCT). Although Keppel DC REIT was listed for a decade while CLCT has 18 years of listing history, each S-REIT raised funds in half of the years they were listed (i.e. 5 years and 9 years respectively). The result is that both REITs reported a significant net inflow. Note too that CLCT's China assets were adversely impacted by the slowdown in China since 2023, and the China-based REIT's DPU has suffered over 4 consecutive years (year-on-year declines from 2022 to 2025).

Factor 3: Quantum of fundraising

The third aspect involves the amount raised during each fundraising exercise. For instance, an S-REIT that pays out 3 years of distributions only to raise money that exceeds the cumulative 3-year distribution amount is clearly raising more cash than it pays out. Several examples illustrate this phenomenon.

OUE REIT raised S\$218.3 million in 2015 but paid out a total of S\$182.4 million in distributions from 2015 to 2017. However, the REIT once again raised funds in both 2017 and 2018 to the tune of S\$737.5 million. The cumulative distribution from 2019 to 2024 amounted to just S\$714.9 million, showcasing how tough it is for the REIT to report a net outflow when it raised a significant sum in earlier years.

On the flip side, Suntec REIT provides a good example of an S-REIT that raised smaller amounts which its distributions easily topped. In 2009 and 2010, the office and retail REIT raised a total of S\$568.6 million through private placements. Within 3 years (2011 to 2013), the total distributions amounted to S\$631.7 million, more than sufficient to offset the amount raised. Although another S\$350 million was raised in 2014, Suntec REIT only needed 2 years (2015 and 2016) to distribute S\$504.2 million, exceeding the amount raised in 2014. By the time 2019 rolled along and Suntec REIT raised S\$200 million, this amount was easily overshadowed by the S\$211 million distributed in the following year (2020).

These two examples clearly illustrate that fundraising frequency is just one factor, but the quantum of each fundraising also matters. Suntec REIT raised amounts that were considered small in relation to the distributions being paid. The converse was true for OUE REIT – the commercial and hospitality REIT raised significantly higher sums than it paid out, even after many subsequent years of distributions.

Factor 4: The quality of a REIT's portfolio

The fourth factor concerns the REIT's portfolio quality, which in turn affects the REIT's NAV. "Quality" in this case refers to the type and location of a REIT's properties, as well as the region/country in which they are located. Resilience is an important attribute for a REIT's portfolio, and is defined as the ability to withstand economic downcycles and yet remain attractive to potential tenants. Industrial and commercial properties generally hold their value better as there is consistent demand for these types of buildings, while retail and hospitality assets may see their values fluctuate more, depending on their occupancy, tenant mix, and locations.

For an S-REIT to enjoy consistent NAV increases, its portfolio should contain high-quality properties with modern specifications that can command rising rents and attract reputable tenants. AEs can also help to improve the property's characteristics and ensure that they can

command increasing rental, hence, it's a good bet that an S-REIT that undertakes periodic AEs should see its NAV head higher.

The final factor to consider (and which was alluded to earlier in this report) is the country or region in which the REIT's properties are located. Different countries have different demand and supply dynamics which may impact their properties' values positively, or negatively. For instance, the real estate bust in China over the last few years has depressed the value of the properties there, causing REITs such as BHG Retail REIT and EC World REIT to experience NAV declines. Over in the US, COVID-19 spurred the work-from-home culture, causing office workers to be reluctant to go back to the office, resulting in low physical occupancy for Manulife US REIT's commercial properties. Because of this, rental income for the US office REIT suffered, resulting in a plunge in the REIT's NAV.