

## 'Britain Out' could make 'Asian REITS in'

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*Will "BREXIT" bring good news for Asian REITs? Phillip Capital Management's co-CIO Linus Lim thinks so.*

Traditionally, investors have looked to London as a bastion of safety with its well understood legal system and an economy that encourages foreign direct investments. The unexpected decision of Brexit means many investors are coming to the realisation that London is not synonymous with England and so diversification into other stable markets must not be neglected.

In the short term, the implications of Brexit are not obvious and we have seen many global asset classes recover since the results of the referendum. However in the longer term with both the British government and the EU heading for uncharted territory, suffice to say, investors may be headed for a relatively bumpy ride when it comes to investing in Europe.

### **Where else if not the UK**

Since the referendum, there has been considerable pain felt in the UK. First of course is the currency which has seen the GBP fall to 30-year lows followed by the loss of the UK's prized AAA credit rating after being downgraded by all three credit ratings agencies S&P, Fitch and Moody's. With the potential limits to the freedom of movement of capital and labour looming, global businesses across the UK are making plans for a potential relocation of their offices. If this came to pass, we would expect both the commercial and residential property market to be severely impacted.

With all these in mind, coupled with the lower odds of a Fed fund rate hike in 2016, what alternatives should investors be considering in lieu of the UK and its long standing attractive property market?

In the case that London's loss proves to be Asia's gain, Singapore can come into consideration; one of the few AAA-rated countries in the world and acknowledged as one of the most open economies possessing a fast growing Real Estate Income Trust (REIT) markets.

Post-Brexit, we have seen Singapore's 10-year government bond yields fall 20bps and is expected to remain below 2% making Singapore REIT valuations more attractive at the cur-

rent forward yields of 6.6% and a corresponding yield spread of 4.7%. At this level, the yield spreads for the S-REIT asset class are the highest it has been since 2012 and consequently are also the highest in the region. In 2012, when the environment then was similarly dominated by uncertainty around Europe over concerns about Greece and 'PIIGS', the asset class went on to be among the best performing in the world delivering 46% in SGD terms for the year.

On concerns of contagion, most Singapore REITs have no exposure to Europe and for the handful that do, they have a low exposure of 20% by asset value or less. In the current climate of uncertainty, the committed leases of properties under REITs, where leases for office and retail properties are typically 2-4 years whilst industrial property leases are over 4 years, provide investors with stability and

cash flow certainty. Given the high tenant quality particularly for the larger REITs, we expect little problems with tenant defaults as it was the case too during the 2008-2009 Global Financial Crisis.

All in all, with the post-Brexit process likely to be a long drawn out one driving persistent market volatility, we feel Singapore REITs should outperform other asset classes given their stable dividend distribution forecasts, attractive yields spreads versus other REIT markets and positive SGD outlook.

*(Data Source: Bloomberg and Phillip Capital Management)*



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