

Seow Zhi Qi, CFA

+65 6530 7348

zhiqi@ocbc.com

Retail REITs – Rental Relief

Singapore's retail sales (excluding motor vehicles) recorded weak performance in February 2020 (-10.2% y/y) with proportion of online sales at 7.4%. The decrease is mainly attributed to decline in tourist arrivals and lower domestic consumption due to the outbreak of COVID-19. With the implementation of the 'circuit breaker' from 7 April 2020, support from the retail landlords and the government are crucial for the retail tenants to tide through this difficult phase.

Overview of S-REITs' exposure to retail

REIT	Issuer Profile		% Gross Rental Income from Singapore Retail Properties
CapitaLand Mall Trust	CMT	Positive (2)	100% / 66% ¹
Fraser's Centrepoint Trust	FCT	Neutral (4)	100%
Mapletree Commercial Trust	MCT	Neutral (3)	~57%
Starhill Global REIT	SGREIT	Neutral (4)	53%
Suntec REIT	SUN	Neutral (4)	54%

Source: Company, OCBC (based on latest financial results)

¹ Assuming merger with CapitaLand Commercial Trust has been completed

Property Tax Rebate granted by the government

In the FY2020 Budget announced on 18 Feb 2020, qualifying properties and premises (including retail) will receive 15%-30% property tax rebate in 2020. Subsequently, on 26 Feb 2020, the government enhanced the property tax rebate to 100% under the Supplementary Budget. The government has since put in place a new law that requires owners of properties to unconditionally pass on to their tenants the full rebate by either reducing rentals or through a payment to their tenants in a timely manner. This came after feedback from tenants that some property owners have yet to pass on the property tax rebates to them. With the property tax rebate of 100% for retail properties, the property owners pay no property tax for the year. Therefore, these property owners are no worse-off from passing on the property tax rebates to their tenants. The government had also mentioned that the property tax rebate is intended to benefit the tenants.

Below is the list of qualifying properties and premises for the property tax rebate.

Qualifying properties / premises	Example	Property Tax Rebate
Shop	Retail shop, furniture shop, pet shop, supermarket, take-away food shop, bakery & confectionery, pawnshop, dispensary, beauty salon, spa, ticket agency, travel agency, laundry or dry-cleaning shop, department store, post office, showroom and bank	100%
Restaurant	Restaurant, café, cybercafé, food court, coffee shop, market & hawker stalls, bar and night club	
Amusement centre	Video games arcade, computer gaming centre and billiard saloon	
Cinema or Theatre	-	
Sports and recreational building	Social club, clan and association, skating rink and bowling alley	
School	Tuition centre, language school, computer school, art school, dancing school, speech and drama school, child development centre, play school, foreign system school, training or vocation training institute, and other private education institution	
Health and medical care building	Medical clinic, medical centre	
Carpark of a retail mall, hotel or serviced apartment	-	
Spaces used in connection with the operation of the qualifying	Management office, store, and other tenements such as atrium space, space for base station, vending machine,	

properties listed in this table	signage, advertisement space, ATM, AXS machines within a retail mall
Premises used for Meetings, Incentive Travel, Conventions and Exhibitions ("MICE")	Suntec Singapore Convention and Exhibition Centre
Shophouses that are used for the purposes listed in this table	-

Source: IRAS

Support for retail tenants of REITs

Apart from receiving the full property tax rebate via reduced rental payments or a cash payment from landlord, the retail tenants of the REITs will also be receiving the following support.

REIT	Rental Relief Initiative
CMT	<ul style="list-style-type: none"> Provide rental rebate of 2 months for its shopping mall tenants, including the property tax relief from government and excluding the one-month security deposit mentioned below. Release of one-month security deposit to offset rental payments for March 2020. Suspend rent of tenants (operating bars, leisure and entertainment venues, tuition and enrichment centres) ordered by Ministry of Health to close from 27 March to 30 April 2020.
FCT	<ul style="list-style-type: none"> Rental rebate matching the amount of the property tax rebates given by the government Cash security deposits is released to offset one month's worth of rental payments One-month rental waiver for tenants affected by the Government-imposed closure of entertainment venues, tuition centres and enrichment centres.
MCT	<ul style="list-style-type: none"> SGD11mn to support tenants (including 15% property tax rebates) Additional SGD18mn of rental relief, on top of the balance 85% property tax rebates Deferment of payment for the fixed rent of April 2020 will be offered.
SGREIT	<ul style="list-style-type: none"> Announced a one-time rental rebate of undisclosed amounts (though more than the property tax rebate announced by the Singapore Government under Budget 2020) for qualifying tenants. To provide additional rental relief to eligible impacted retail tenants in Singapore
SUN	<ul style="list-style-type: none"> March 2020 rental rebates of an undisclosed amount. Release of one-month cash security deposit that mall tenants can use to offset rent. Second tranche of rental assistance package of SGD16mn (including property tax rebates) Suspend rent of tenants of leisure and entertainment venues from 26 March to 30 April 2020. Rents will continue to be suspended if the enforced closure of these outlets is extended beyond 30 April 2020. Suntec City to waive the rents of all tenants in the mall from 1 April to 30 April 2020.

Source: Company

REIT	One month rental income received from retail tenants in Singapore (SGD'mn)	100% Property Tax Rebate for retail properties in 2020 (SGD'mn)	Rental relief announced by REITs (excl. Property Tax Rebate) as of 9 April 2020 (SGD'mn)	Months of rental relief (incl. Property Tax Rebate, excl. rent offset from security deposit)
CMT	~60.2	67.5	~52.9	~2.0
FCT	~14.5	16.9	~16.9	~2.3
MCT	~22.0	~18.3	~26.3	~2.0
SGREIT	~8.5	10.8	2.8	~1.6
SUN	~10.7	~12.2	~14.5	~2.5

Source: Company, OCBC

The COVID-19 situation in Singapore continues to evolve. The Government had earlier required all non-essential retail outlets to close from 7 April to 4 May 2020 as a measure to prevent further spread of COVID-19. Broadly, only supermarkets, pharmacies, clinics, banks and selected food establishments (takeaway and delivery services only) will remain open. These measures are unprecedented and we think the REITs and its retail tenants are mitigating the impact on their businesses and adapting to the changes. We continue to think that further retail relief could be extended by the landlords to the

tenants or by the government.

Impact of COVID-19 (Temporary Measures) Act

The Act which came into force on 8 April 2020 offer temporary relief to businesses and individuals who are unable to fulfil their contractual obligations because of COVID-19. According to Allen and Gledhill, REITs cannot terminate the lease agreement and engage in another lease agreement due to non-payment of rent by tenant or pursue legal actions against their tenants such as court and insolvency proceedings for up to six months from the commencement of the Act (though the six month period can be shortened or extended by the Ministry of Law more than once). As such, we expect the non-performing tenants to continue to sit on REIT's books until the lease expiry is up or till the Act no longer applies. Therefore, we think REITs run the risk of non-performing tenants.

REIT	Aggregate Leverage	Halved EBITDA/Interest	% of total assets that is unencumbered	% Deposited property value can fall by before breaching 45% aggregate leverage
CMT	32.9%	2.13x	100%	27%
FCT	33.2%	2.31x	~77%	26%
MCT	33.4%	2.21x	100%	26%
SGREIT	36.3%	1.60x	~72%	19%
SUN	37.7%	0.92x	~50%	16%

Source: Company, OCBC

Assuming the REITs started offering rental rebate to its tenants since 1 Mar 2020, we think the maximum "rent free" period could be up to 8 Oct 2020 when the Act is no longer in effect. This is approximately a seven month period. Since the REITs are on average giving its tenants a two month rental relief (including property tax rebate) and a one month rent offset from their security deposit, we think REITs may have to bear with the lack of rental income for up to four months. Overall, majority of the REITs will continue to see their EBITDA/Interest above one even if its EBITDA is halved. We note that this is a conservative estimate as some of the REITs have a mix of retail and office types and are not pure retail landlords. We also expect the REITs to continue to be able to fulfil their debt obligations given their manageable aggregate leverage levels and significant amount of unencumbered assets, which makes it possible to seek secured funding from banks if needed.

Explanation of Issuer Profile Rating / Issuer Profile Score

Positive (“Pos”) – The issuer’s credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral (“N”) – The issuer’s credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

Negative (“Neg”) – The issuer’s credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7 point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Please note that Bond Recommendations are dependent on a bond’s price, underlying risk free rates and an implied credit spread that reflects the strength of the issuer’s credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

Explanation of Bond Recommendation

Overweight (“OW”) – The bond represents **better relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Neutral (“N”) – The represents **fair relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Underweight (“UW”) – The represents **weaker relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

Withdrawal (“WD”) – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com
Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com
Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com
Terence Wu
FX Strategist
TerenceWu@ocbc.com
Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com
Carie Li
Hong Kong & Macau
carierli@ocbcwh.com
Dick Yu
Hong Kong & Macau
dicksny@ocbcwh.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com
Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com
Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com
Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com

Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons did not hold financial interests in the above-mentioned issuer or company as at the time of the publication of this report.

Disclaimer for research report

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.:193200032W