Manulife Investment Management

Asia-Pacific REIT Essential 1.0

Investors are very keen on real estate investment. However, with booming house prices and certain threshold for commercial properties, are there other alternatives for property investments?

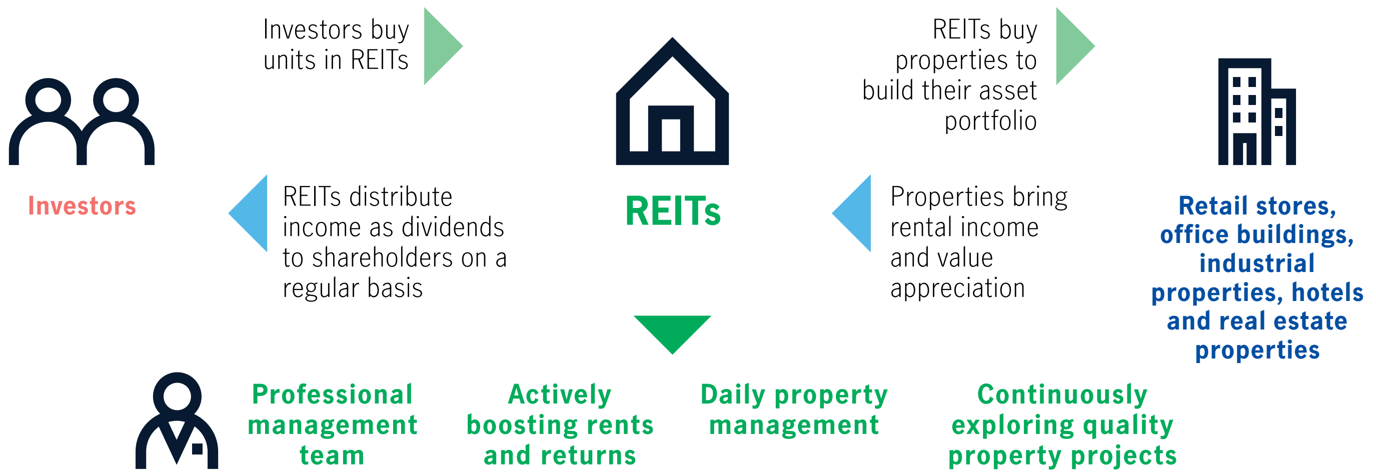
Investors are keen on high yielding investments. However, with interest rates remaining at historical low levels and stock markets seeing heightened volatility, are there any other investments with high yields?

Real Estate Investment Trusts may provide the answer to both questions, providing an option for investors to indirectly invest in the commercial property market for a high yield potential.

What are REITs?

REIT, i.e. Real Estate Investment Trust, is a collective investment scheme that aims to deliver a source of recurrent income to investors through focused investment in a portfolio of income-generating properties such as shopping malls, offices, hotels and service apartments. REITs are listed as corporate stocks, holding properties for rent and distributing most of their income as dividends to investors on a regular basis. REITs investors own the property indirectly through share units which they hold and regularly gain income from the property's portfolio.

REITs have a simple business model: Generating income by leasing out properties. The property is managed by a professional team which actively seeks to lift the value of the property and the rent to increase potential income.



Q: What's the difference between REITs and property stocks?

In general, there are two types of real estate stocks: developers and REITs.

Property developers generate revenue by developing new projects and selling properties, and have high sensitivity to economic cycles, with no guarantee for dividend payout. Therefore, investors tend to focus on capital appreciation potential.

Most regulations demand that REITs must regularly distribute a majority of their income as dividends. Therefore, REITs are regarded as real estate stocks with the most transparent dividend yields.

Q: What is the capital appreciation potential for REITs? Where does future rental income come from?

Income growth of REITs comes from in the increase in rental. On one hand, property rentals are closely related with economic cycles. With a sound economy and mild inflation, rentals will continue to increase over time.

On the other hand, the management team of REITs can lift asset values through renovations, enhancing space utilisation and other measures, reorganising tenant portfolios, and purchasing new property assets to increase the competitiveness of their property portfolios, bringing value-added opportunities and securing rental income in future.

Q: What are the advantages of REITs compared to direct real estate investing?

REITs offer investors higher liquidity and lower barrier of entry compared to physical real estate. Investing in REITs also allows one to diversify across regions and sectors, which could be difficult to achieve through direct real estate.

As REIT managers will take of rent collection, property maintenance and acquisition, investors would have a chance to earn dividend income, which are exempted from tax in Singapore and Hong Kong, without much post-purchase issues. Rental income is subject to tax in Singapore and Hong Kong.

The operations of various REITs are changing with the economic restructuring, **offering more investment opportunities.**

Asia-Pacific REITs in transition

REITs are largely classified by the underlying property. Most REITs own one type of real estate property, such as retail, offices, industry, and hotels. However, some REITs own many types of properties.

Retail REITs

Retail REITs own and manage retail stores and shopping malls. The management teams renovate properties and reorganise tenant contracts to generate continuous rental income.

- Though online shopping has gained popularity, successful retail stores continue to see more traffic. What's the reason? Modern retail centres offer more than a place for shopping. By introducing various types of stores, restaurants, and public entertainment as well as having regular exhibitions or other commercial activities, they create an experience of "community centre" or "community landmark" for their consumers which online shopping cannot provide.

- Some retail REITs add other assets to their property portfolios such as hotels or offices with the retail stores, further catalysing the concept of "life, work and amusement".

Office REITs

Office REITs own and operate Grade A office properties in prime commercial areas, offices in industrial areas, or new office parks outside of commercial centres.

- Many start-ups share working spaces. Operators need to renovate the facilities and equipment, to introduce advanced technology services and to build an integrated community with diversified tenants.

- Office properties are closely related with economic and business cycles, with rentals influenced by supply and demand. Furthermore, tenants also differ across various offices. For example, tenants in prime commercial areas are largely financial institutions while those in office parks are mainly high-tech firms.

Industrial REITs

Industrial REITs own and operate industrial buildings, warehouses or logistics centers for different customers.

- Industrial properties used to be traditional warehouses or properties for light industry. In the past few years, e-commerce has developed quickly, leading to huge demand for logistics centres and data centres. Some Industrial REITs even focus on high-tech properties.
- Industrial REITs have played an important role in driving the e-commerce trend and are also the beneficiaries.

Hotel and Resort REITs

Hotel and Resort REITs own and operate hotels and resorts to generate cash flow and profits.

- With a change in the way people travel and intense price competition with technological advancement, hotels are no longer providing basic accommodations. Operators are adding business services and amusement activities to pursue enhanced experiences. They are also bundling hotels with tourism landmarks through unique architectural designs.
- As hotel rooms are rented on a short-term basis and part of room revenue is based on spot prices, they are sensitive to the economy, tourism and business activities.

Healthcare REITs

Healthcare REITs own and operate properties related to healthcare, such as hospitals and seniors facilities.

- Demand for healthcare services is increasing with improvements in quality of life. Besides traditional hospital and seniors facilities, healthcare REITs may also include nursing home, cosmetic surgery centres and alcohol detox centres.
- The demand for healthcare service is generally price inelastic. Demand remains stable even with increasing prices. Therefore, healthcare REITs enjoy stable cash flow from the regular rental paid by hospitals.

Diversified REITs

Diversified REITs own and operate two or more types of properties, such as offices, retail stores, hotels and other properties in their portfolios.

- Due to the diversification of the properties in their portfolios, the operators have multiple income sources. On the other hand, requirement on the management team is also high due to variety of underlying property.

Asia-Pacific REITs

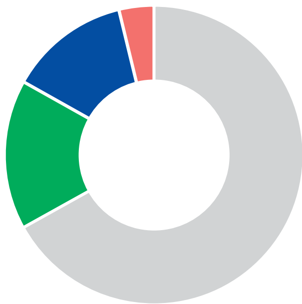
The first REIT was established in the US in 1960. In the Asia-Pacific region, REITs made their debut in the Australian market in the 1970s with listings spreading to Singapore, Hong Kong and other markets in the 2000s, bringing more investment choices.

The Asia-Pacific REIT market has become more mature in the past decade, with the asset size of the REIT markets in Australia, Singapore and Hong Kong doubling.

Singapore REITs

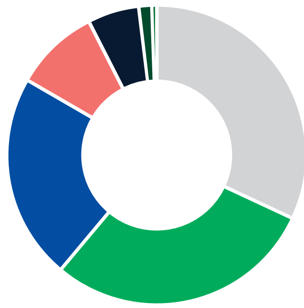
Industrial	34.33%
Retail	27.61%
Office	17.36%
Diversified	6.88%
Specialised	4.34%
Hotel & Resort	3.89%
Residential	3.18%
Healthcare	2.40%

Hong Kong REITs



Retail	66.93%
Diversified	16.20%
Office	13.08%
Hotel & Resort	3.79%

Australia REITs



Diversified	32.27%
Industrial	29.38%
Retail	22.26%
Office	9.05%
Specialised	5.79%
Healthcare	1.18%
Residential	0.07%

Source: Bloomberg, as of 31 December 2020.

Singapore

– a leading market

Singapore REITs lead the Asia-Pacific market. This market attracts REIT listings from other regions, becoming an active international REIT market to raise funds.

Investors prefer Singapore REITs for their diversified property portfolios. Most Singapore REITs own overseas properties across Asia-Pacific, Europe and the US.

Hong Kong

– rapid development

Hong Kong REITs have developed rapidly, especially in the retail and office space, reflecting local economic momentum and strong support in rental income growth.

Another feature of Hong Kong REIT is about their exposure to Mainland China. Many of them own properties in Mainland China, or even engage in M&As in Mainland China contributing to further growth.

Australia

– a developed market

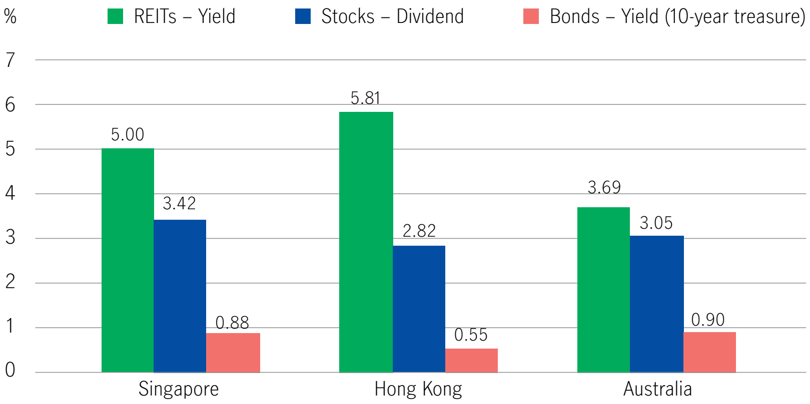
The Australian REIT market is well developed. In recent years, the market propulsion has been mainly driven by M&As.

Though Australia REITs enjoy a certain market size, most of the properties they own are local assets.

Learn more about the attractive yield of Asia-Pacific REITs

The dividend yield of Asia-Pacific REITs is close to 5%*, higher than that of local stock or government bond. The yields of Hong Kong and Singapore REITs are relatively attractive within the region.

REITs offering relatively higher yield



Source: Bloomberg, as of 31 December 2020.
REIT yields are measured by the FTSE Straits Times REIT index in Singapore, by the Hang Seng REIT index in Hong Kong, and the S&P/ASX 200 A-REIT Index in Australia.
Stock dividends are measured by the Straits Times Index in Singapore, the Hang Seng Index in Hong Kong, and the S&P/ASX 200 Index in Australia.
* Source: Bloomberg, as of 31 December 2020. Measured by FTSE EPRA NAreit Asia ex-Japan REITs 10% Capped USD index. The yield is the 12-month projected yield.

Compared to other high yielding assets, what is so special about Asia-Pacific REITs dividend in terms of income sources?

Stable income source

In accordance with regulations, most REITs must distribute at least 90% of their earnings to investors as dividends. The income for REITs comes from rentals, which can be locked up for the next few years providing stable and predictable dividend distributions.

Combating with inflation

The real estate market is closely related with business cycles. Amidst a growing economy and mild inflation expectation, rental and occupancy rate are also expected to rise, which is positive for REITs. When volatility in stock and bond markets increases, REITs tend to be more defensive than growth stocks apart from providing stable income.

Asset appreciation

Besides income, Asia-Pacific REITs also offer the potential for capital appreciation. The professional management team can boost the value of the asset portfolio through renovations or by purchasing a new property via M&A to increase the value of the portfolio.

The yield of
Asia-Pacific REITs
is at about
4.7%*

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USD **660 billion**^
Assets under management and administration (AUMA) globally

190+ Professionals based in Asia

90+ years of experience in property investments, and asset and property management

^ Source: MFC Statistics Information Package, Q2 2020, Manulife.

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