A ROOF OVER YOUR INVESTMENT

In a slowing global economy, APAC REITs offer a relatively safe investment option

After a decade of steady expansion, dark clouds are gathering over the world economy.

The International Monetary Fund (IMF) has warned of "synchronised deceleration" in major economies, with global growth expected by IMF to slow to 3.3 per cent this year — the weakest since the last financial crisis ended in 2009.

While the IMF does not expect the world to slip into a recession, its latest forecast poses a quandary for investors. How can they find investments that offer sustainable income in the slow growth environment?

What are the options apart from government and other top-quality bonds whose yields are low to slightly negative?

For investors seeking a steady and predictable income stream, one option would be to allocate part of their savings to real estate investment trusts (REITs). REITs pay out regular dividends from the rent collected from property assets such as shopping malls, office buildings, hotels, industrial buildings and even hospitals.

As these rental payments are contractual, REITs benefit from stable cash flows and can provide investors with a certain level of stability in volatile markets. Unlike bonds, which pay a fixed coupon each year, REITs with good assets and are well-managed can increase dividends over time.

Good track record

REITs listed in the Asia Pacific region, in particular, have a good track record in terms of offering steady returns in excess of government bond yields. Although prices have risen since the start of the year (2019)[1], many of the region's better quality REITs still offer annual dividends of around 5 per cent[1]. In contrast, 10-year Singapore government bonds pay slightly over 2 per cent per annum[2], while the Hong Kong equivalent pays around 1.5 per cent[2].

Besides Singapore, which has around 40 listed REITs and business trusts that derive income from property, Australia and Hong Kong are the region's other large REIT markets outside Japan.

The laws regulating REITs differ slightly depending on the jurisdiction, although most require REITs to pay at least 90 per cent of their income as dividend. There are also caps on the amount that REITs can borrow, reducing risk for investors. For example, both Singapore and Hong Kong set the borrowing limit at 45 per cent of asset value.

As with stocks and bonds, returns will vary depending on the performance of the specific REIT. Investors need to first look at the quality of the assets and tenants as well as the manager's track record before they make a decision on which REIT to invest in. For instance, while many REITs have done well in Singapore, a few have been dogged by controversy and several are trading below their initial public offering prices.

Some investors make the mistake of buying the highest yielding REITs without considering the risk that payouts may not be sustainable over the medium term.

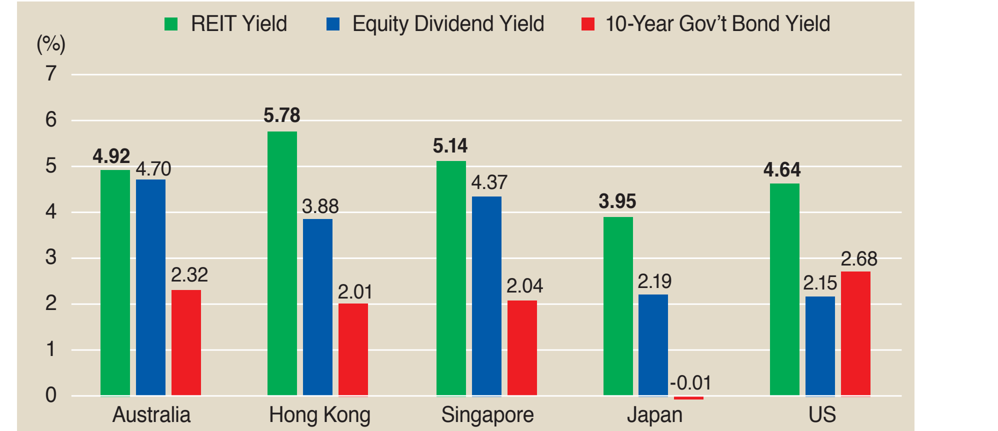
Leave it to the professionals

Besides investing directly in REITs, investors can also entrust their savings to professional fund managers who have the resources to analyse individual REIT performance as well as minimise risk through diversification and continuous monitoring.

The Manulife Global Fund – Asia Pacific REIT Fund, for example, invests in over 40 different REITs and property stocks in Singapore, Hong Kong and Australia, along with smaller markets such as Malaysia and China. At least 70 per cent of the portfolio comprises REITs listed in the Asia Pacific region excluding Japan to generate income. The fund has the flexibility to invest up to 30 per cent in non-REIT real estate-related securities to capture potential capital appreciation.

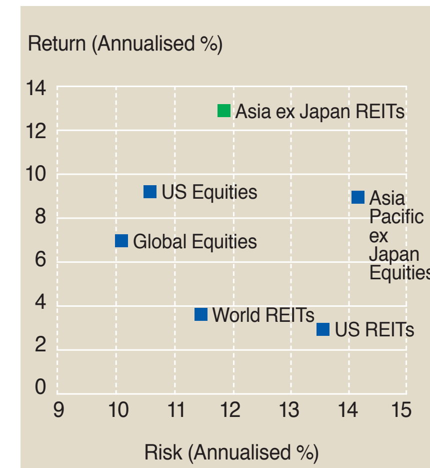
The fund has returned about 10.97%[3] since its inception on Sept 11, 2018.

Yield Comparison (REITs, Equities and Government Bonds)



Source: Bloomberg as of Dec 31, 2018
REIT Yield: Australia REIT - AS51PROP Index, Hong Kong REIT - HSREIT Index, Japan REIT – TSEREIT Index, Singapore REIT – FSTREI Index, US REIT – RMZ Index
Equity Dividend Yield - AS51 Index, HSI Index, STI Index, NKY Index, SPX Index

3-Year Risk/Return Profile (Asian REITs vs Other Asset Classes)



Asset Class	Annualised Return	Annualised Volatility	Risk Adjusted Return
Asia ex Japan REITs	**12.89%**	**11.85%**	**1.09**
US Equities	9.24%	10.66%	0.87
Global Equities	6.92%	10.03%	0.69
Asia Pacific ex Japan Equities	8.74%	14.10%	0.62
World REITs	3.94%	11.44%	0.34
US REITs	2.92%	13.54%	0.22

US Equities = S&P 500 Index
Global Equities = MSCI World Index
Asia ex Japan REITs = FTSE EPRA/NAREIT Asia ex Japan REITs Index
Asia Pacific ex Japan Equities = MSCI Asia Pacific ex Japan Index
World REITs = MSCI World REITs Index
US REITs = MSCI US REITs Index

Source: Bloomberg, Dec 31, 2018
Figures shown are in USD, gross terms. Past performance is not an indication of future results.

Ms Ng Hui Min, Investment Specialist, Asia Pacific REITs, Manulife Asset Management, says slowing global growth coupled with the benign interest rate environment should result in sustained investor demand for REITs issued in the region.

Manulife Asset Management is part of Manulife, Canada's largest insurance company, and manages some US$386 billion (approx. SGD$526 billion) in assets on behalf of institutional investors as of March 31, 2019.

Manulife Asset Management has been operating in Asia for more than 100 years and employs some 190 investment professionals in 10 markets across the region as of March 31, 2019.

For additional information about investing in Asia Pacific REITs, please visit https://asia.manulifeam.com/apreits

[1] Source: SGX StockFacts, as of May 3, 2019
[2] Source: Bloomberg, as of March 31, 2019
[3] Source: Data as of March 31, 2019, Class P (SGD Hedged) MDIST (G), Cumulative, NAV-to-NAV basis. The offer-to-bid return is 5.42% as of March 31, 2019