Beansprout

Singapore REITs Sector

Income tailwind as interest rates ease

- **More interest savings as interest rates ease.** A softer rate backdrop is improving distribution visibility for Singapore REITs as borrowing costs gradually reset lower. With the 3-month compounded SORA easing further to 1.15% on 29 Jan 2026 from 3.07% at end-2024, and market expectations still tilted toward additional easing in 2026, S-REITs that have been proactive in refinancing are increasingly seeing finance-cost relief flow through results. The benefits, however, remain uneven, depending on each REIT's balance sheet, refinancing schedule, and the extent of debt still fixed at higher legacy rates.
- **Central Region office indicators improved sequentially in 4Q2025.** Office conditions firmed at the margin. Category 1 vacancy improved to 9.3% (from 9.9%), while Category 2 vacancy stayed high at 11.9%, reinforcing a prime/non-prime split. The URA Central Region Office Rental Index rose 0.4% quarter-on-quarter, with no new completions and net supply contracting in the quarter.
- **Retail rents increased quarter-on-quarter.** Retail was steady into year-end. Central Region retail rents rose 0.6% quarter-on-quarter (QoQ), taking FY25 growth to 1.9%. Leasing remained positive, with 4Q25 net absorption and island-wide private retail vacancy easing to 6.4%, although performance continued to vary by submarket.
- **Industrial rents up marginally.** Industrial rents stayed positive but supply effects are emerging. The JTC All Industrial Rental Index rose 0.5% QoQ (21st straight quarterly increase), while overall occupancy slipped 0.4ppt QoQ to 88.7% as completions lifted stock. The 2026–28 pipeline implies a higher supply run-rate than recent demand, raising the risk of wider dispersion.
- **Bifurcated performance of Singapore REITs.** S-REIT unit price performance remains selective. The S-REIT index is down about 0.5% YTD (as at 12 Feb 2026) and continues to lag the STI (+8.0%), while individual REIT returns show a wide spread—from strong double-digit gainers to meaningful underperformers. In general, REITs with more resilient Singapore-facing cashflows and clearer earnings support have held up better, while those with higher leverage and larger offshore exposures have faced greater headwinds from refinancing sensitivity and FX translation effects.
- **Preference for REITs with the ability to grow distributions.** In a more benign rate environment, we expect returns to be increasingly driven by DPU durability and growth execution rather than broad sector beta. Our preference is for REITs that can compound distributions through active portfolio management—well-timed asset enhancement initiatives (AEIs), disciplined capital recycling, selective acquisitions, and the ability to capture rental reversion where fundamentals allow. Within this framework, we highlight CapitaLand India Trust, Digital Core REIT, and OUE REIT as preferred exposures.

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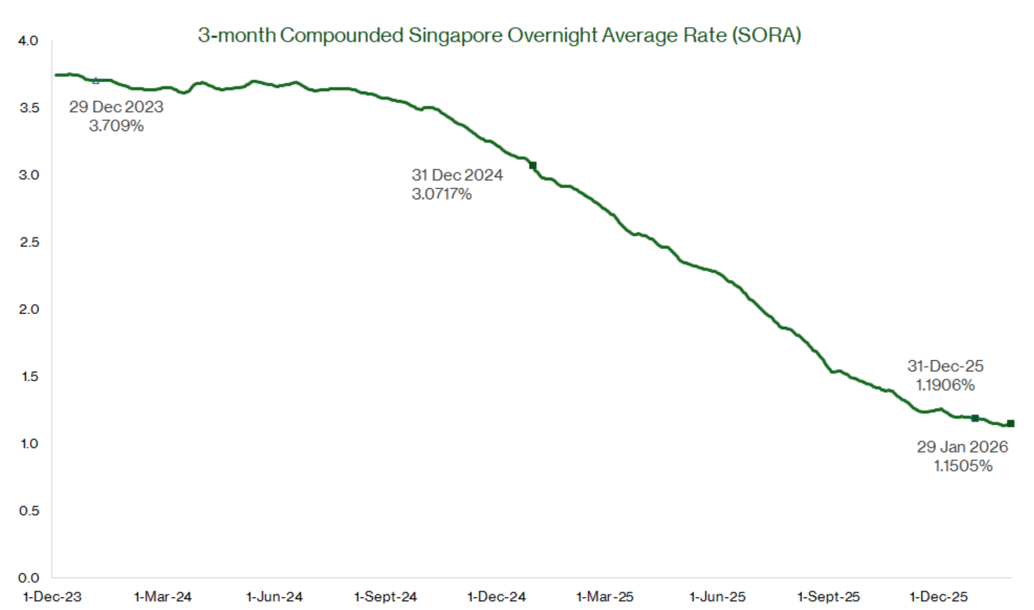
More interest savings as interest rates ease

Fed funds futures imply roughly two rate cuts in 2026, while the 3-month compounded SORA has continued to drift lower, falling to 1.15% on 29 Jan 2026 from 3.07% on 31 December 2024.

Singapore REITs have been proactively refinancing their debt maturity at lower interest rates, bringing down the cost of debt.

Looking ahead, we expect the performance of Singapore REITs to continue to diverge, with returns continuing to depend on factors such as sub-sector exposure, geographical mix, and the extent of debt that has been hedged at fixed rates.

Figure 1: 3-month Compounded Singapore Overnight Average Rate (SORA)



Source: Monetary Authority of Singapore

Central Region office indicators improved sequentially in 4Q2025

Figure 2: Snapshot of office market in 4Q25

	4Q24	3Q25	4Q25	QoQ	YoY
Office Rental Index	200.0	199.8	200.6	0.4%	0.3%
Office Vacancy - Category 1	9.1%	9.9%	9.3%	-0.6	0.2
Office Vacancy - Category 2	11.3%	11.7%	11.9%	0.2	0.6

Source: URA

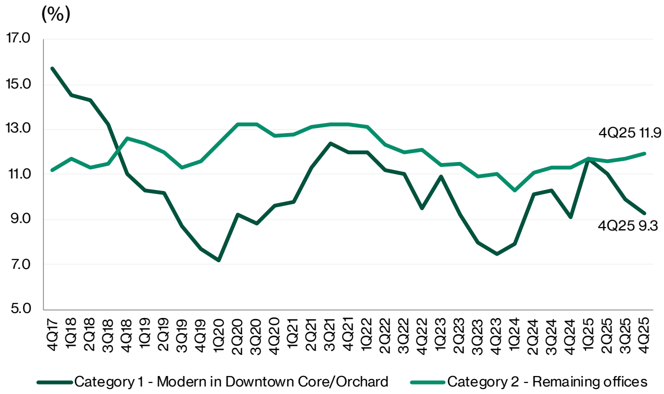
Category 1 office vacancy improved to 9.3% in 4Q25, down from 9.9% in 3Q25, reflecting firmer take-up in prime, core-area buildings. Category 1 refers to modern or recently refurbished offices in the Downtown Core and Orchard Planning Area, typically offering larger floor plates and commanding higher rents. In contrast, Category 2 offices (the rest of the stock) continued to see vacancy remain elevated at 11.9%, highlighting the growing bifurcation between prime and non-prime space.

Central Region office rents also showed a modest rebound in 4Q25, ending two straight quarters of slight decline. The URA Office Rental Index rose 0.4% quarter-on-quarter in 4Q25, reversing the 0.1% quarter-on-quarter drop in 3Q25 and the 0.3% quarter-on-quarter decline in 2Q25. For full-year 2025, rents edged up 0.3%, following a flat outcome in 2024.

Demand continued to be anchored by an ongoing flight-to-quality trend, as occupiers prioritised premium, well-located and ESG-compliant buildings when relocating, with some also taking additional space to meet future growth needs. Singapore's stable and business-friendly environment further supported occupier interest despite broader global uncertainty.

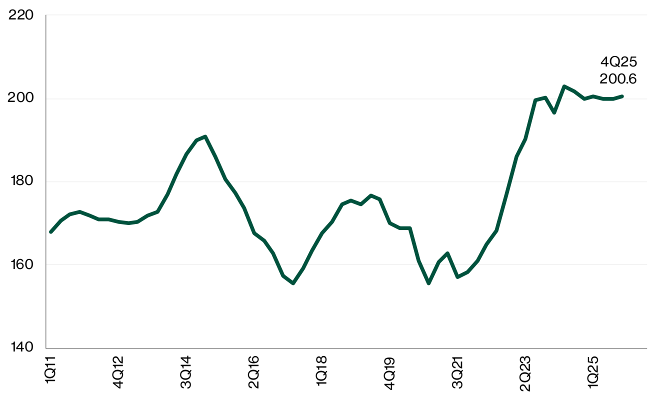
The supply-demand balance tightened further in 4Q25. URA data shows no new office completions during the quarter, while net supply contracted by about 0.08 million sq ft, resulting in flat net absorption. With new supply constrained, vacancy improvements were driven mainly by steady demand and limited additions to stock.

Figure 3: Office space vacancy rates



Source: URA

Figure 4: Office space rental index



Source: URA

Separately, the office market could tilt further in landlords' favour in 2026, underpinned by steady occupier demand and a thin pipeline of new supply. Key demand sources are expected to include financial services, technology, asset management and emerging AI-focused firms. Large contiguous floor plates should remain scarce, with Shaw Towers the only major completion in 2026. Against a sustained flight-to-quality trend and tight CBD Grade A availability, CBRE projects rental growth of around 5% year-on-year in 2026.

Looking ahead, a lower domestic interest-rate environment could provide additional support to investment demand, as prime office assets are increasingly offering positive carry alongside a more constructive rental outlook.

Retail rents increased quarter-on-quarter

Figure 5: Snapshot of retail market in 4Q25

	4Q24	3Q25	4Q25	QoQ	YoY
Retail Rental Index – Central Region	79.1	80.1	80.6	0.6%	1.9%
Retail Vacancy - Central Area - Orchard	6.3%	6.5%	6.8%	0.3	0.5
Retail Vacancy - Central Area - Outside Orchard	6.8%	8.2%	7.3%	-0.9	0.5
Retail Vacancy - Outside Central Area	5.9%	6.4%	5.8%	-0.6	-0.1

Source: URA

URA's 4Q2025 figures show that Central Region retail rents rose 0.6% quarter-on-quarter, and 1.9% year-on-year.

Retail activity improved through October and November, with the retail sales index registering +0.7% year-on-year and +3.6% year-on-year, respectively, following a +2.2% year-on-year increase in 3Q2025. Tourism recovery remained intact, with visitor arrivals up 4.9% year-on-year in October and 4.8% year-on-year in November 2025, helped by event-related demand, including the F1 period coinciding with China's Golden Week.

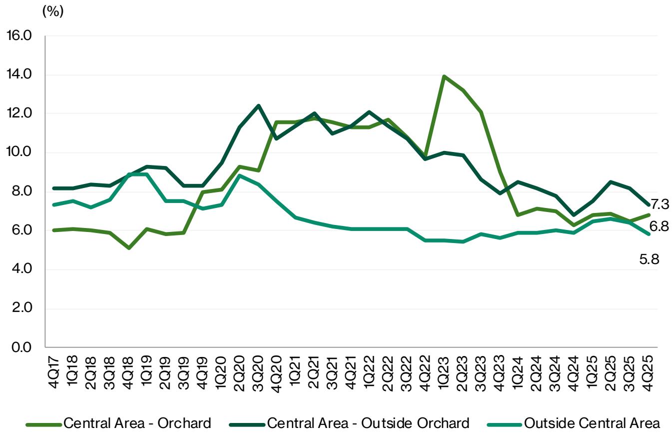
Even with frequent headlines around store closures, leasing momentum held up in 4Q2025. URA data shows the island-wide private retail market recorded net absorption of 34,000 sq m (about 366,000 sq ft) for the quarter, extending the positive absorption seen in 3Q2025. This tightening in occupied space was reflected in vacancy, with island-wide private retail vacancy easing from 7.2% in 3Q2025 to 6.4% in 4Q2025.

On a full-year basis, net absorption totalled 9,000 sq m (around 97,000 sq ft) versus new supply of 30,000 sq m (around 323,000 sq ft). As a result, vacancy normalised from a decade-low 6.0% in 4Q2024 to 6.4% in 4Q2025—higher year-on-year, but still indicative of a relatively tight market overall.

Performance varied by submarket. Most areas posted positive net absorption in 4Q2025, with Orchard the notable exception. The Outside Central Region (OCR) contributed the largest share of leasing gains, with 19,000 sq m (about 205,000 sq ft) of net absorption, supported by progressive tenant take-up at Lentor Modern Mall following its completion in August 2025. OCR vacancy tightened meaningfully, from 5.9% in 3Q2025 to 4.4% in 4Q2025. Meanwhile, Orchard recorded negative net absorption of 5,000 sq m (about 54,000 sq ft), likely linked to move-outs from Taste Orchard ahead of the 31 December 2025 deadline, which pushed vacancy slightly higher from 6.3% to 6.6% over the quarter.

Looking into 2026, demand for prime retail space should continue to be underpinned by the ongoing tourism recovery and stable household spending, with sector outcomes likely to remain location- and asset-quality driven.

Figure 6: Retail space vacancy rates



Source: URA

Figure 7: Retail space rental index

Source: URA

Industrial rents up marginally

Figure 8: Snapshot of industrial market in 4Q25

	4Q24	3Q25	4Q25	QoQ	YoY
All Industrial Property Rental Index	110.1	112.1	112.7	0.5%	2.4%

Multiple-User Factory Rental Index	114.4	113.2	113.4	0.2%	-0.9%
Single-User Factory Rental Index	111.7	113.9	114.7	0.7%	2.7%
Business Park Rental Index	120.3	122.9	123.4	0.4%	2.6%
Warehouse Rental Index	104.2	106.1	107.3	1.1%	3.0%
Multiple-User Factory Vacancy Rate (%)	9.0	9.0	10.1	1.1	1.1
Single-User Factory Vacancy Rate (%)	12.0	10.9	11.2	0.3	-0.8
Business Park Vacancy Rate (%)	22.1	23.0	22.9	-0.1	0.8
Warehouse Vacancy Rate (%)	8.5	10.4	10.2	-0.2	1.7

Source: JTC

The JTC All Industrial Rental Index rose 0.5% q/q, matching the pace in 3Q2025 and extending the upcycle to a 21st consecutive quarter of increases.

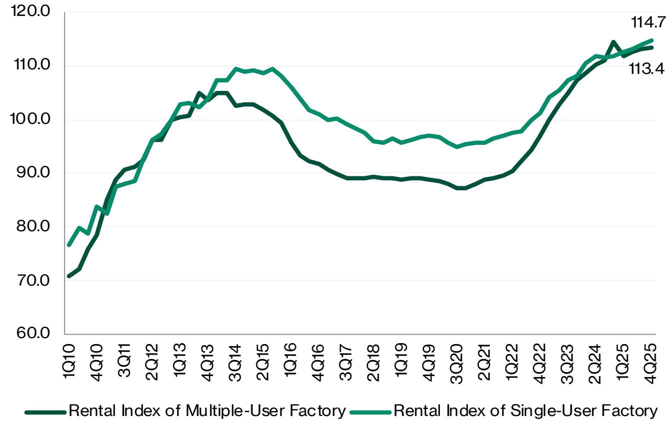
By segment, warehouse rents led the quarter, rising 1.1% q/q, an acceleration from +0.9% q/q in 3Q2025. The segment's resilience reflects continued demand for modern logistics facilities, which has supported higher average rents. In 4Q2025, two significant warehouse projects were completed—Sankyu's Tuas Distribution Hub (a fully air-conditioned prime logistics facility of over 400,000 sq ft) and Nippon Express' expanded warehouse at 29 Tuas Avenue 13 (an additional 100,000 sq ft)—and the warehouse segment also recorded the largest improvement in occupancy, with occupancy edging up 0.2ppt to 89.8%.

Single-user factory rents also stayed firm, increasing 0.7% q/q in 4Q2025, in line with the prior quarter. For the year, rents rose 2.7%, easing slightly from 3.2% in 2024. Notable completions during the quarter included facilities for Paxocean Engineering at 5 Jalan Samulun (partial TOP), Advanced Substrate Technologies at 9 Pesawat Drive (partial TOP), and Wuxi Biologics Biopharmaceuticals at 2 Tuas View Drive. Following these additions to stock, single-user factory occupancy dipped 0.3ppt to 88.8%.

In the business park segment, rents increased 0.4% q/q in 4Q2025, reversing the 0.2% q/q decline in 3Q2025. For full-year 2025, business park rents rose 2.6%, accelerating from 1.9% in 2024. Importantly, this was the only segment to show a faster pace of annual rental growth in 2025 versus 2024, pointing to comparatively resilient demand dynamics.

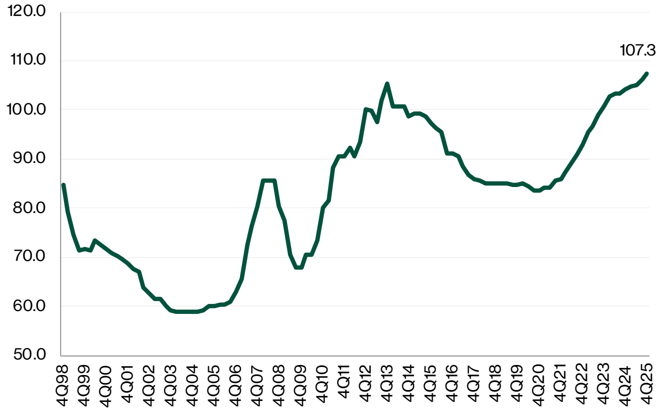
Meanwhile, multi-user factory rents rose 0.2% q/q in 4Q2025, slowing from 0.4% q/q in the previous quarter. Full-year growth moderated to +1.8% in 2025, down from +3.8% in 2024. Supply additions were more visible here: key completions included Bulim Square (remaining TOP) and Stellar@Tampines (partial TOP), alongside two food-factory developments—Food Ascent and Food Vision @ Mandai. Reflecting these completions, multi-user factory occupancy fell 1.1ppt to 89.9% in 4Q2025.

Figure 9: Single-user and multiple-user factory space rental index



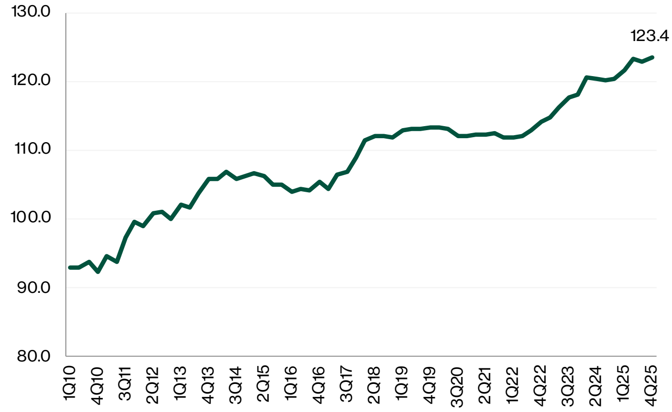
Source: URA

Figure 10: Warehouse rental index



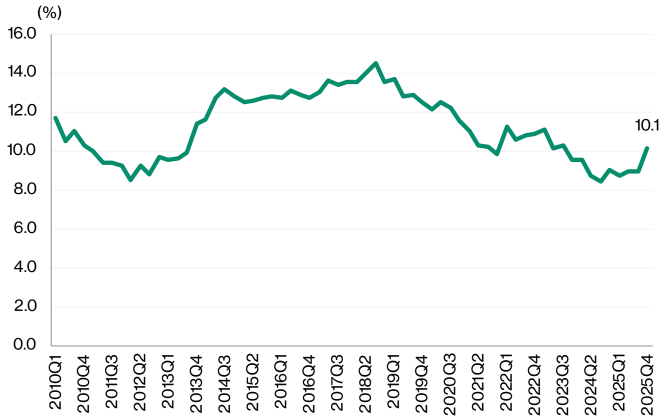
Source: URA

Figure 11: Business Park rental index



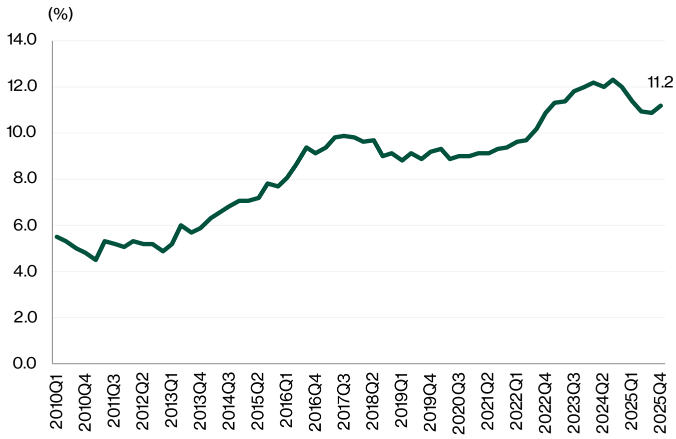
Source: URA

Figure 12: Multiple-user factory space vacancy rate



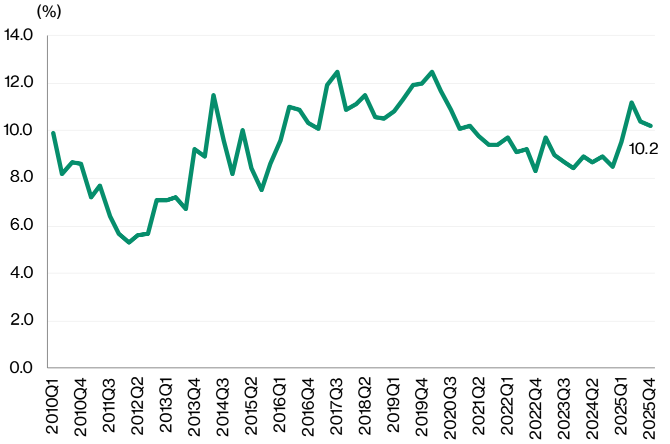
Source: URA

Figure 13: Single-user factory space vacancy rate



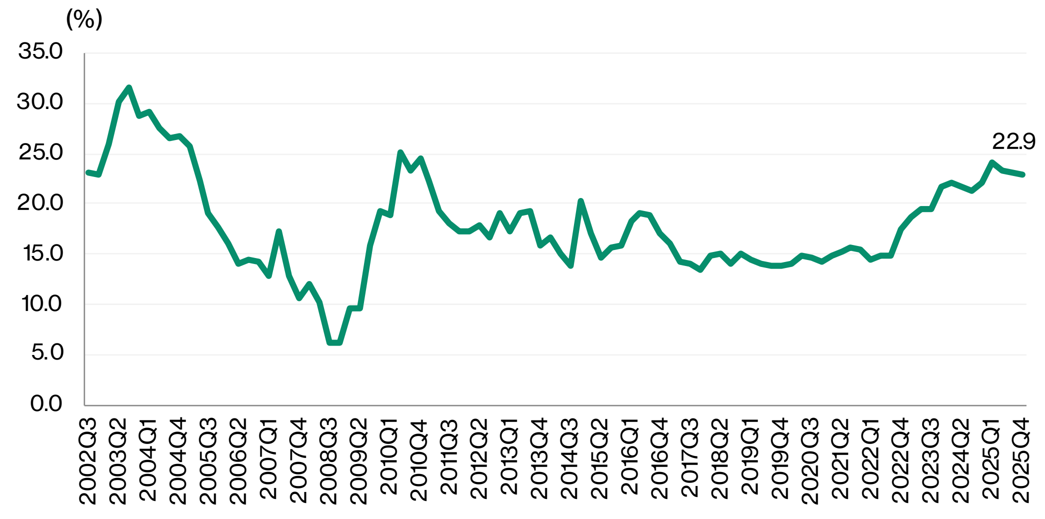
Source: URA

Figure 14: Warehouse space vacancy rate



Source: URA

Figure 15: Business Park vacancy rate



Source: URA

Based on planning approvals as at end-December 2025, around 1.0 million sqm of new industrial space is expected to be completed in 2026.

The pipeline is heavily skewed towards single-user factories, which account for roughly 53% of expected supply and are typically built for owner-occupation.

Warehouses make up a further 29%, while multi-user factories and business park space contribute about 16% and 2%, respectively.

Looking further out, an additional 2.5 million sqm of industrial space is projected to be delivered across 2027–2028, implying average annual completions of around 1.1 million sqm over 2026–2028.

This forward supply run-rate is meaningfully higher than the recent historical trend.

Over the past three years, average annual supply and demand were approximately 0.8 million sqm and 0.6 million sqm, respectively, suggesting that completions could outpace absorption unless demand accelerates or deliveries are deferred.

Within business parks, the upcoming pipeline remains particularly thin. Across the next three years, 27 IBP (approximately 0.21 million sq ft) is the only business park project scheduled for completion in 2026. With more landlords assessing and executing asset enhancement initiatives to refresh ageing facilities, effective supply in parts of the business park segment could tighten further, potentially supporting better leasing outcomes for upgraded, higher-spec assets.

Going forward, vacancy rates are expected to remain stable with some moderation in rental rates. As at end-September 2025, the average annual supply is estimated at 1.2 million sqm for the next three years. Based on the average annual industrial space demand of about 0.6 million square metres, the market could face new supply outpaces absorption for certain segments.

While the total expected completion over the next two years includes 0.9 mn sqm of single-user factory space, which is typically developed by the industrialists for their own use, the significant supply pipeline of industrial space across warehouses, multiple-user factories and business parks are expected to add pressure to rents and vacancies in the near term.

Business parks in particular are expected to see the greatest pressure, given muted new demand and the consolidation of space requirements.

Bifurcated performance of Singapore REITs

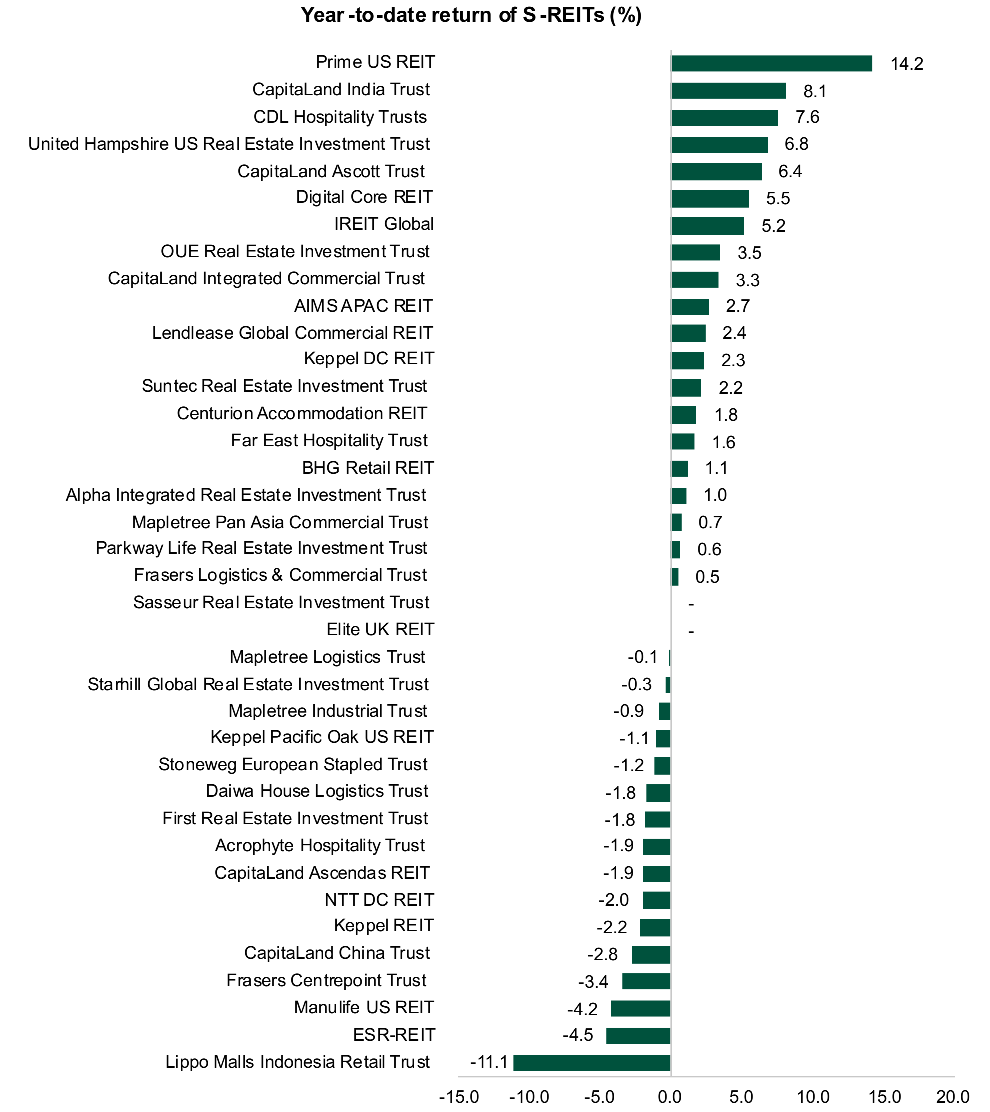
Singapore REITs have continued to recover, but performance has become increasingly selective. The S-REIT index is down 0.5% year-to-date (as of 12 Feb 26), it still trailed the Straits Times Index, which gained 8.0% over the same period.

More recently, the dispersion across individual S-REITs has been wide, with year-to-date returns ranging from strong double-digit gains, led by Prime US REIT (+14.2%) and Capitaland India Trust (+8.1%), to meaningful underperformance in weaker names, such as Lippo Malls Indonesia Retail Trust (-11.1%).

In our view, REITs with exposure to Singapore office and industrial assets, where demand and rental income have remained comparatively resilient, have generally held up better and, in some cases, delivered steadier DPU outcomes.

In contrast, higher-leverage platforms and those with larger overseas exposures have tended to lag, as refinancing sensitivity and FX translation effects continue to weigh on distributions.

Figure 16: Year-to-date Total Return of Singapore REITs

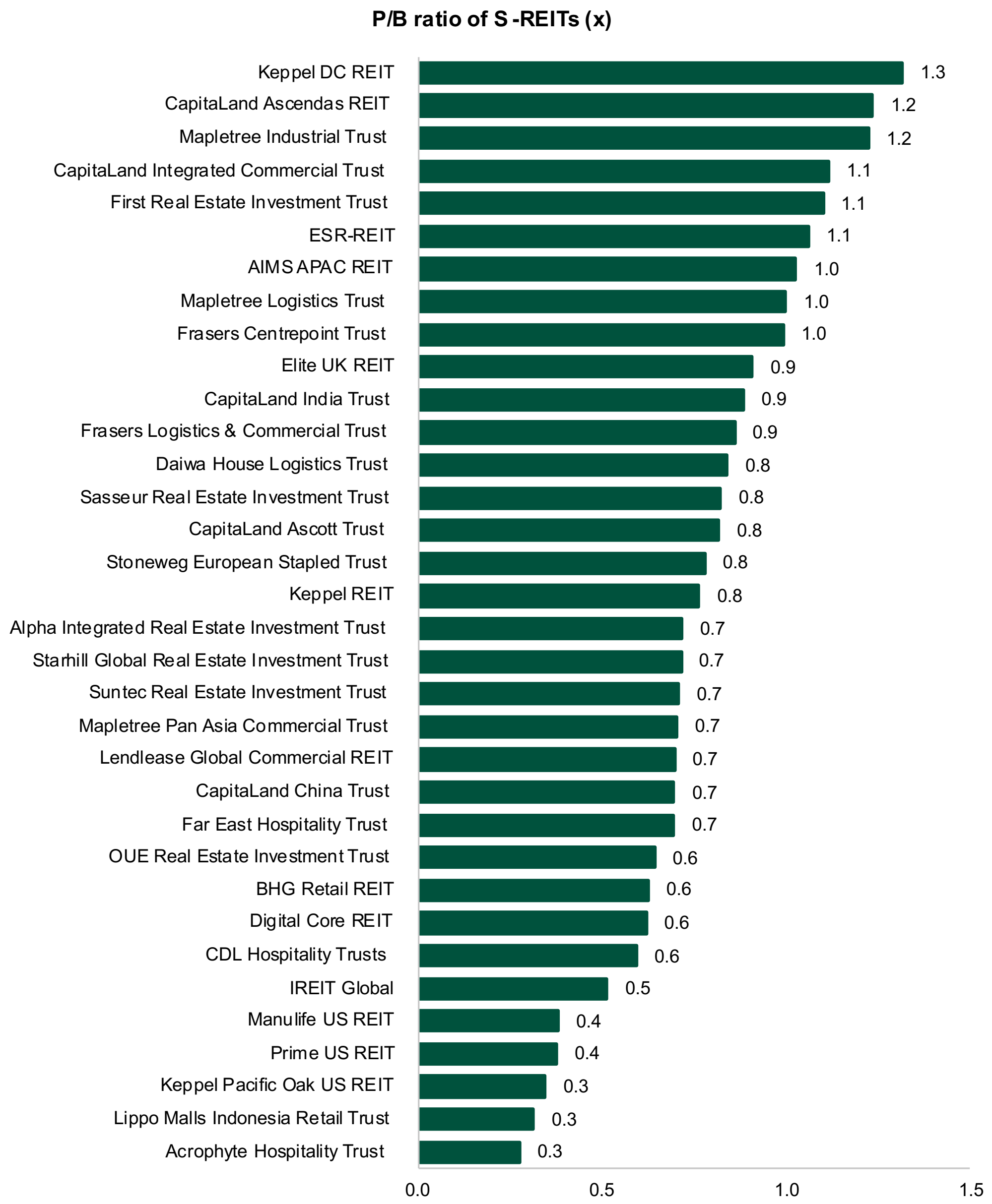


Source: Factset, 12 February 2026

Preference for REITs with ability to grow distributions

We continue to see Singapore REITs as key beneficiaries of a more benign interest-rate backdrop, as easing funding pressure improves distribution visibility and reopens the window for accretive capital management. Within the sector, we prefer REITs that can defend and compound DPU through active portfolio actions—such as well-timed AEIs, disciplined capital recycling, selective acquisitions, and the ability to capture rental reversion where fundamentals allow. In this context, we highlight CapitaLand India Trust, Digital Core REIT and OUE Real Estate Investment Trust as preferred exposures.

Figure 17: Price-to-book valuation of Singapore REITs



Source: Factset, 12 February 2026

Disclosure Appendix

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