

Singapore REITs Sector

Improved outlook from lower interest rates

- **Improved outlook from lower interest rates.** Amid rising expectations of interest rate cuts by the US Federal Reserve, the 10-year Singapore government bond yield declined to 1.77% on 12 September 2025 from 2.92% at the start of the year. Singapore REITs have been active in refinancing debt at lower interest costs, which is expected to support a reduction in their average cost of borrowing. This could in turn provide a lift to distribution per unit (DPU) in 2026.
- **Singapore REITs have bounced from lows.** Singapore REITs have staged a recovery, rebounding 9% since 1 July 2025 as sentiment toward the sector improved. However, the sector continues to lag the broader market on a one-year basis.
- **Performance has diverged significantly across the REIT universe.** REITs with exposure to Singapore's office and retail assets, where demand and rental income have remained relatively resilient, have outperformed by delivering growth in distribution per unit (DPU). In contrast, those with higher debt levels and substantial overseas exposure have underperformed, as pressure on funding costs and weaker regional currencies weighed on distributions. Looking ahead, we expect this divergence to persist, 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.
- **Office vacancy rates improved.** The vacancy rates for high-quality category 1 offices improved significantly to 11.0% in 2Q25 from 11.7% in 1Q25. Vacancy rates for category 2 offices, which refers to the rest of the office stock, remained high at 11.6%, suggesting a flight to quality. Office rents declined by 0.3% in 2Q25, and may stay muted with net supply amounting to 631,500 sq ft in 2026.
- **Retail rents steady.** The URA retail rental index edged up 0.9% QoQ in 2Q25, with CBRE expecting prime retail rents to return to pre-pandemic levels in 2025. Singapore's visitor arrivals increased by 2% to 8.0 million in 1H 2025. Singapore Tourism Board (STB) expects a further improvement in tourist arrivals to 17.0 to 18.5 million in 2025.
- **Industrial rents also improved marginally.** Industrial rents were up marginally in 2Q25, led by Business Park with a 1.2% QoQ growth. A significant 2.3 million sqm of industrial space is set to be completed from 2025-2026, far exceeding the past three years' annual average supply of 0.9 million sqm and demand of 0.6 million sqm. This is expected to put some pressure on rents and vacancies.
- **Preference for REITs with ability to grow distributions.** We see scope for Singapore REITs to benefit from a lower interest rate environment. Within the sector, we favour REITs that can sustain and grow distributions through active portfolio management, such as asset enhancements, selective acquisitions, or rental reversion opportunities.

Research Analyst

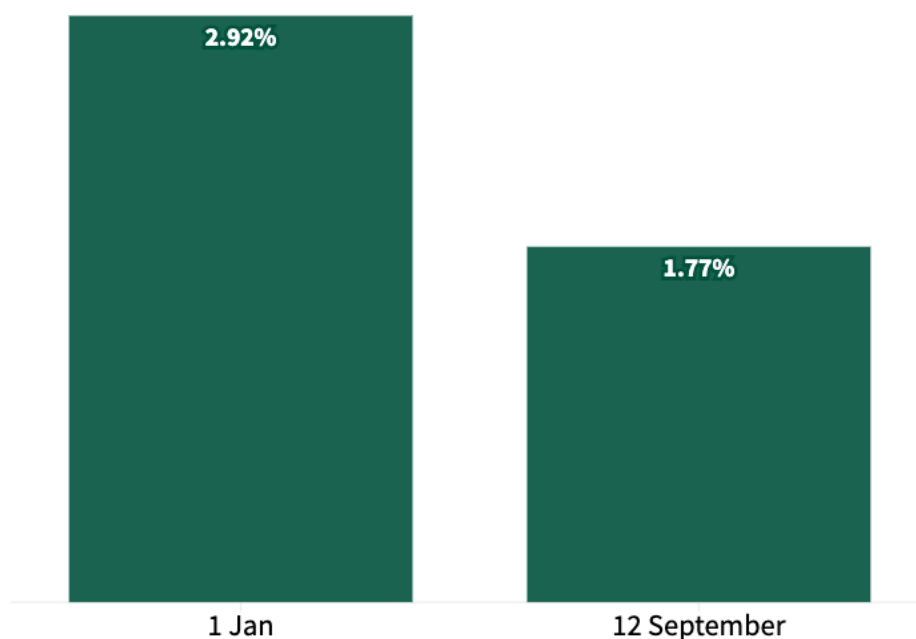
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Improved outlook from lower interest rates

Amid rising expectations of interest rate cuts by the US Federal Reserve, the 10-year Singapore government bond yield declined to 1.77% on 12 September 2025 from 2.92% at the start of the year.

Figure 1: 10 year Singapore government bond yield has fallen

10 year Singapore government bond yield



Source: MAS

Singapore REITs have been opportunistic in refinancing their debt maturity at lower interest rates, bringing down the cost of debt. With SORA lower by more than 100 basis points year-to-date, S-REITs have started to report lower finance costs in the second quarter of 2025. 1H 2025 finance costs for Keppel DC REIT and OUE REIT have declined by 5.3% year-on-year and 17.3% year-on-year. Digital Core REIT reported lower average cost of debt in 2Q 2025 at 3.4%, compared with 3.8% in 1Q 2025. Fraser Centrepoint Trust also reported marginally lower average cost of debt, at 3.7% in 2Q 2025, from 3.8% in 1Q 2025.

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.

Office vacancy rates improved

Figure 2: Snapshot of office market in 2Q25

	2Q24	1Q25	2Q25	QoQ	YoY
Office Rental Index	202.8	200.6	200.0	-0.3%	-1.4%
Office Vacancy - Category 1	10.1%	11.7%	11.0%	-0.7	0.9
Office Vacancy - Category 2	11.1%	11.7%	11.6%	-0.1	0.5

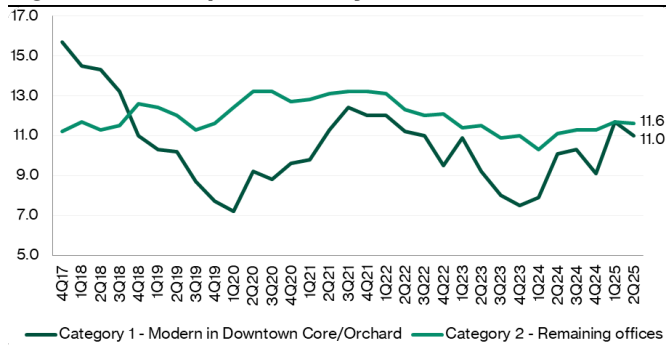
Source: URA

Vacancy rates for Category 1 offices saw a surprise decline to 11% as at 2Q25 from 11.7% as at 1Q25. Category 1 offices are office space in buildings located in core

business areas in Downtown Core and Orchard Planning Area which are relatively modern or recently refurbished, command relatively high rentals and have large floor plate size and gross floor area. Category 2 offices, which refer to the remainder of the office stock, however, saw vacancy rates remaining elevated at 11.6%.

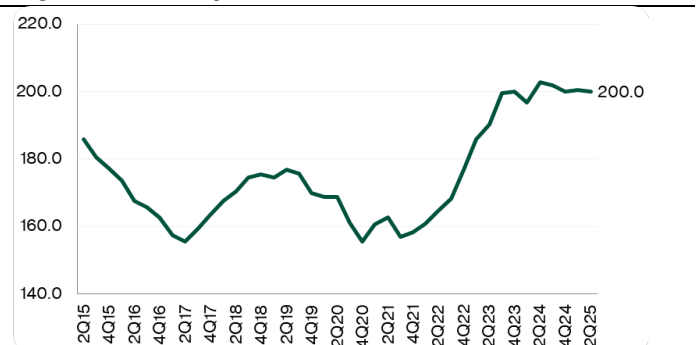
This suggests a continued flight to quality in a tenants' market, amid significant new additions to Grade A CBD office supply, with Keppel South Central and Paya Lebar Green adding a total of 984,000 sq ft of premium Grade-A office space and 23,670 sq ft of retail and F&B space in 1Q 2025.

Figure 3: Office space vacancy rates



Source: URA

Figure 4: Office space rental index



Source: URA

Amid heightened net supply, particularly in the CBD area, office rents continue to be muted, with the URA office rental index down 0.3% QoQ in 2Q25. Rising operating costs against a cautious macroeconomic and hiring outlook are expected to keep overall office rents subdued, especially given elevated market vacancy rates and sizable new supply.

In 2H 2025, the completion of the Shaw Tower redevelopment and Solitaire on Cecil in 2026 are expected to add a further 631,500 sq ft of office space in the CBD.

Retail rents steady

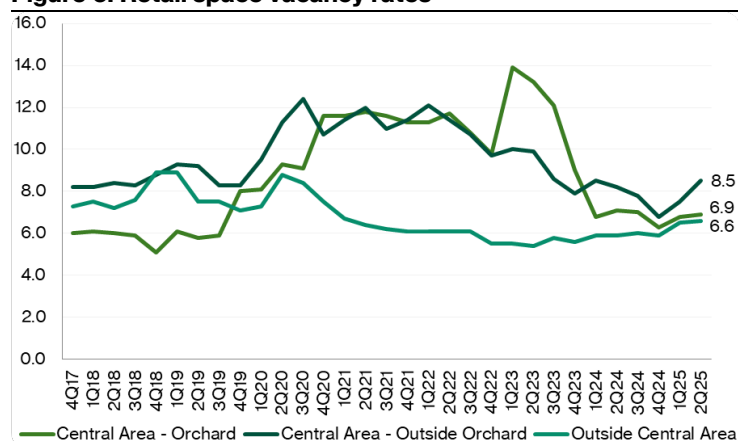
Figure 5: Snapshot of retail market in 2Q25

	2Q24	1Q25	2Q25	QoQ	YoY
Retail Rental Index	78.4	78.7	79.4	0.9%	1.3%
Retail Vacancy - Central Area - Orchard	7.1%	6.8%	6.9%	0.1	-0.2
Retail Vacancy - Central Area - Outside Orchard	8.2%	7.5%	8.5%	1.0	0.3
Retail Vacancy - Outside Central Area	5.9%	6.5%	6.6%	0.1	0.7

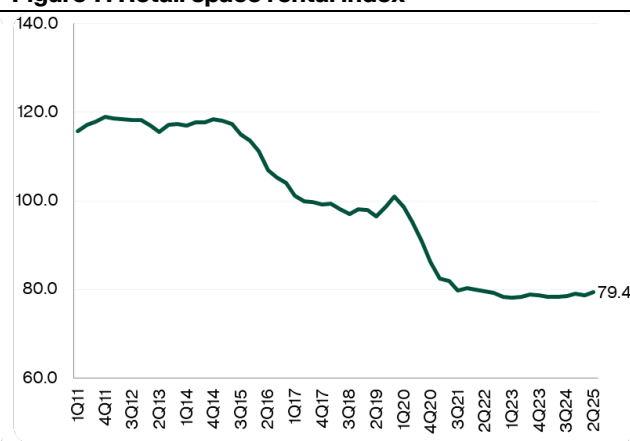
Source: URA

Over the last four quarters, retail vacancy rates have remained largely steady, with outside Central Area and within the Central Area but Outside Orchard vacancy rates at 6.6% and 8.5% respectively. Orchard vacancy rate was stable, at 6.9% as at 2Q25, likely reflecting rising retailers' confidence in a continued recovery in visitor arrivals into Singapore, led by both leisure travellers and MICE (Meetings, Incentives, Conferences, and Exhibitions) events.

Singapore's tourism arrivals increased by 2% to 8.0 million in 1H 2025. STB expects a further improvement in tourist arrivals to 17.0 to 18.5 million in 2025.

Figure 6: Retail space vacancy rates

Source: URA

Figure 7: Retail space rental index

Source: URA

As a result, the URA retail rental index improved, rising 0.9% QoQ in 2Q25. With below-historical-average supply over the next few years, property consultancy CBRE expects overall prime retail rents to recover to pre-pandemic levels in 2025.

Industrial rents up marginally

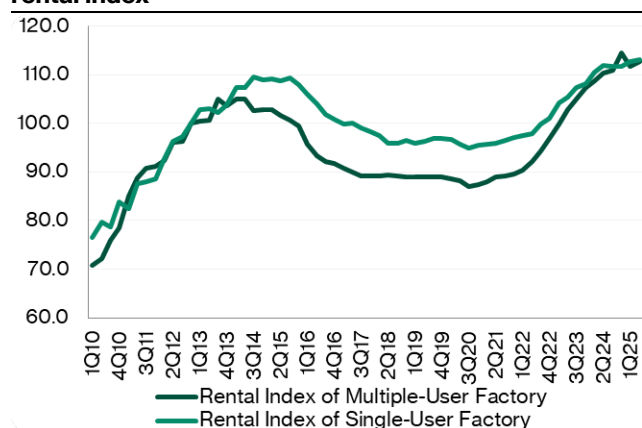
Figure 8: Snapshot of industrial market in 2Q25

	2Q24	1Q25	2Q25	QoQ	YoY
All Industrial Property Rental Index	109.3	110.7	111.5	0.7%	2.0%
Multiple-User Factory Rental Index	110.3	111.7	112.7	0.9%	2.2%
Single-User Factory Rental Index	111.9	112.6	113.1	0.4%	1.1%
Business Park Rental Index	120.4	121.7	123.2	1.2%	2.3%
Warehouse Rental Index	103.2	104.8	105.2	0.4%	1.9%
Multiple-User Factory Vacancy Rate	8.7%	8.7%	9.0%	0.3	0.3
Single-User Factory Vacancy Rate	12.0%	11.4%	11.0%	-0.4	-1.0
Business Park Vacancy Rate	21.7%	24.1%	23.3%	-0.8	1.6
Warehouse Vacancy Rate	8.7%	9.5%	11.2%	1.7	2.5

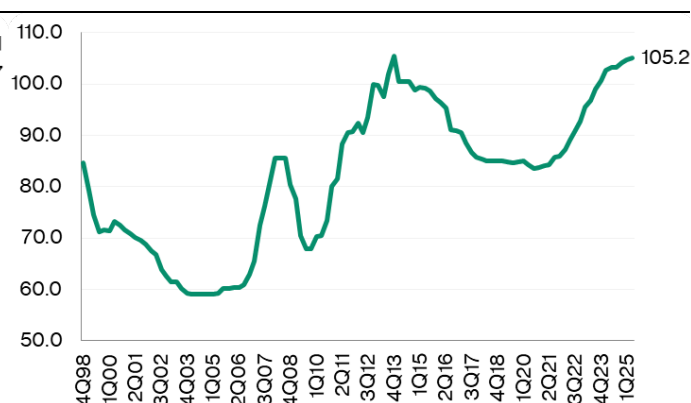
Source: URA

Overall industrial rents were up marginally in 2Q25, led by Business Park with a 1.2% QoQ growth, followed by Multiple-User at 0.9% QoQ, Single-User Factories at 0.4% QoQ and Warehouse at 0.4% QoQ.

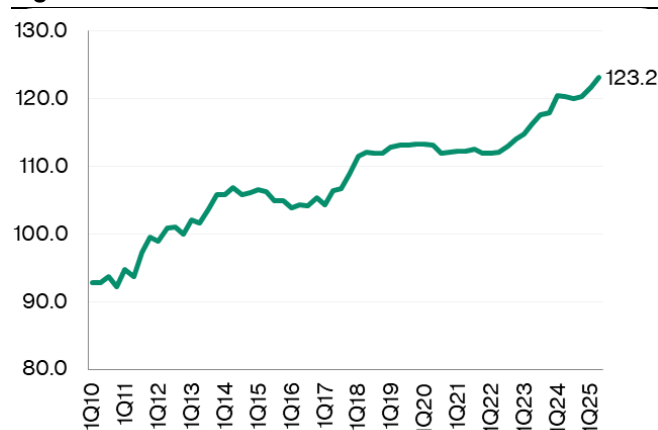
Figure 9: Single-user and multiple-user factory space rental index **Figure 10: Warehouse rental index**



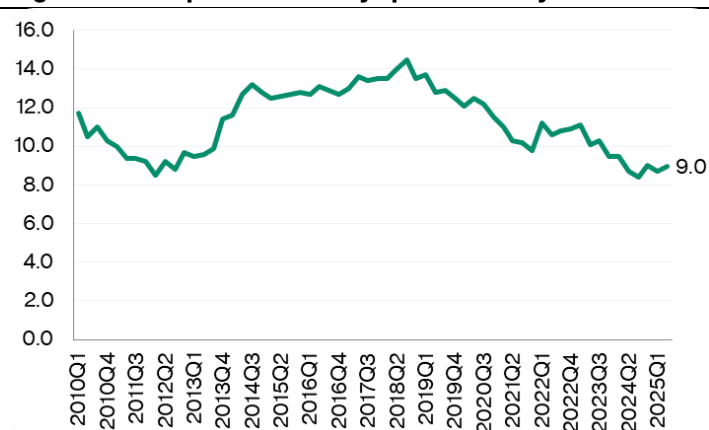
Source: URA



Source: URA

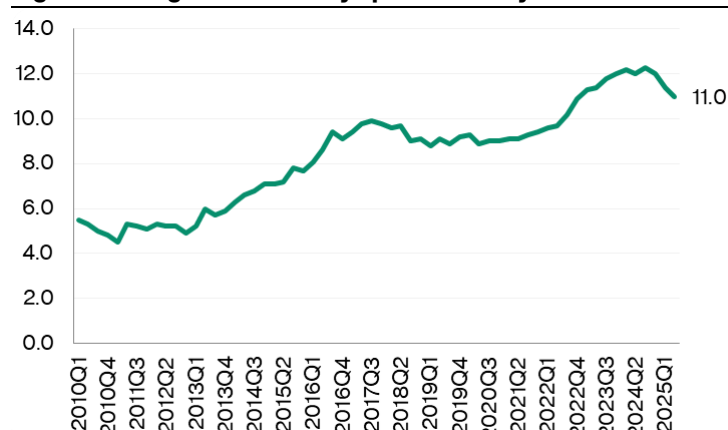
Figure 11: Business Park rental index

Source: URA

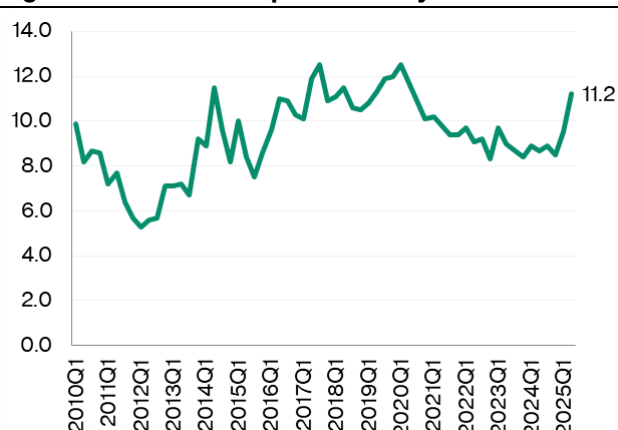
Figure 12: Multiple-user factory space vacancy rate

Source: URA

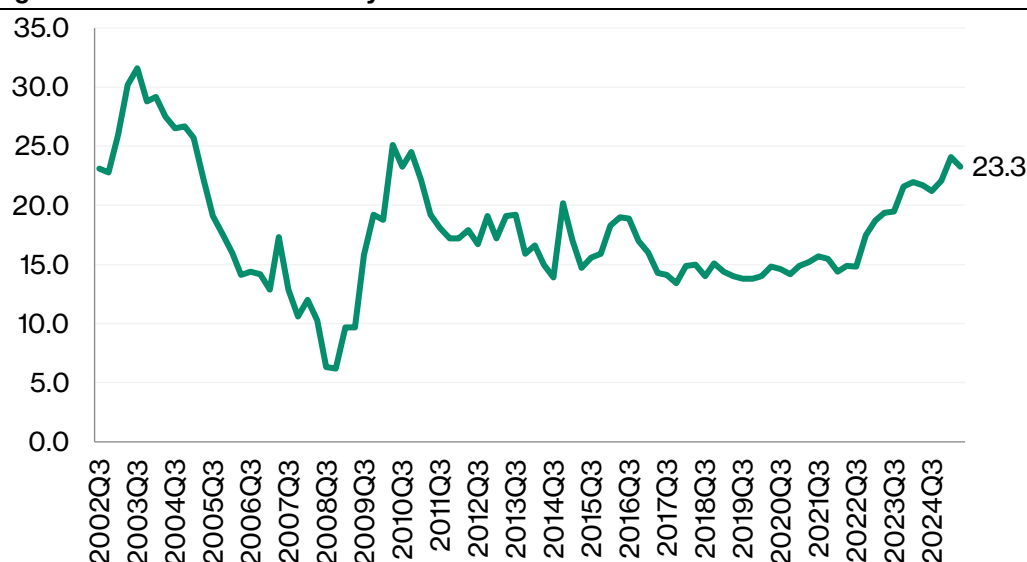
Vacancy rates at Business Parks and Single-user factory space improved to 23.3% and 11.0%, respectively in 2Q25.

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

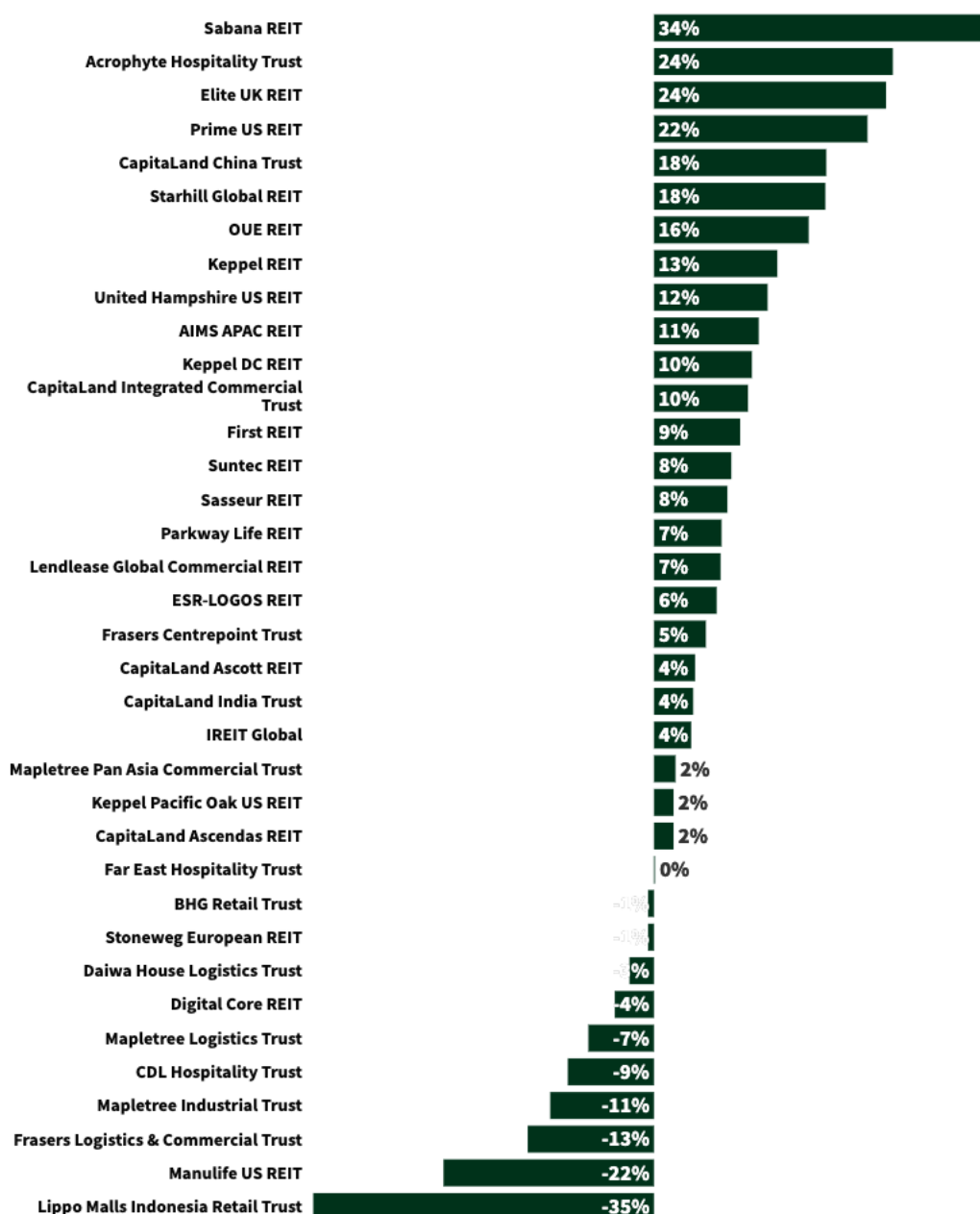
An additional 1.2 mn sqm of industrial space is expected to be completed in 2025, with a further 1.1 mn sqm of space to be completed in 2026, totalling a significant 2.3 mn sqm of industrial space over the next two years. In contrast, average annual supply of industrial space was 0.9 mn sqm in the past three years, with average annual demand of only 0.6 mn sqm.

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.

Singapore REITs have rebounded with lower interest rates

Singapore REITs have staged a recovery, rebounding 9% since 1 July 2025 as sentiment toward the sector improved. However, the sector continues to lag the broader market over the past year. REITs with exposure to Singapore's office and retail assets, where demand and rental income have remained resilient, have outperformed by delivering growth in distribution per unit (DPU). In contrast, those with higher debt levels and substantial overseas exposure have underperformed, as pressure on funding costs and currency weakness weighed on distributions.

Figure 16: 1-Year Total Return of Singapore REITs



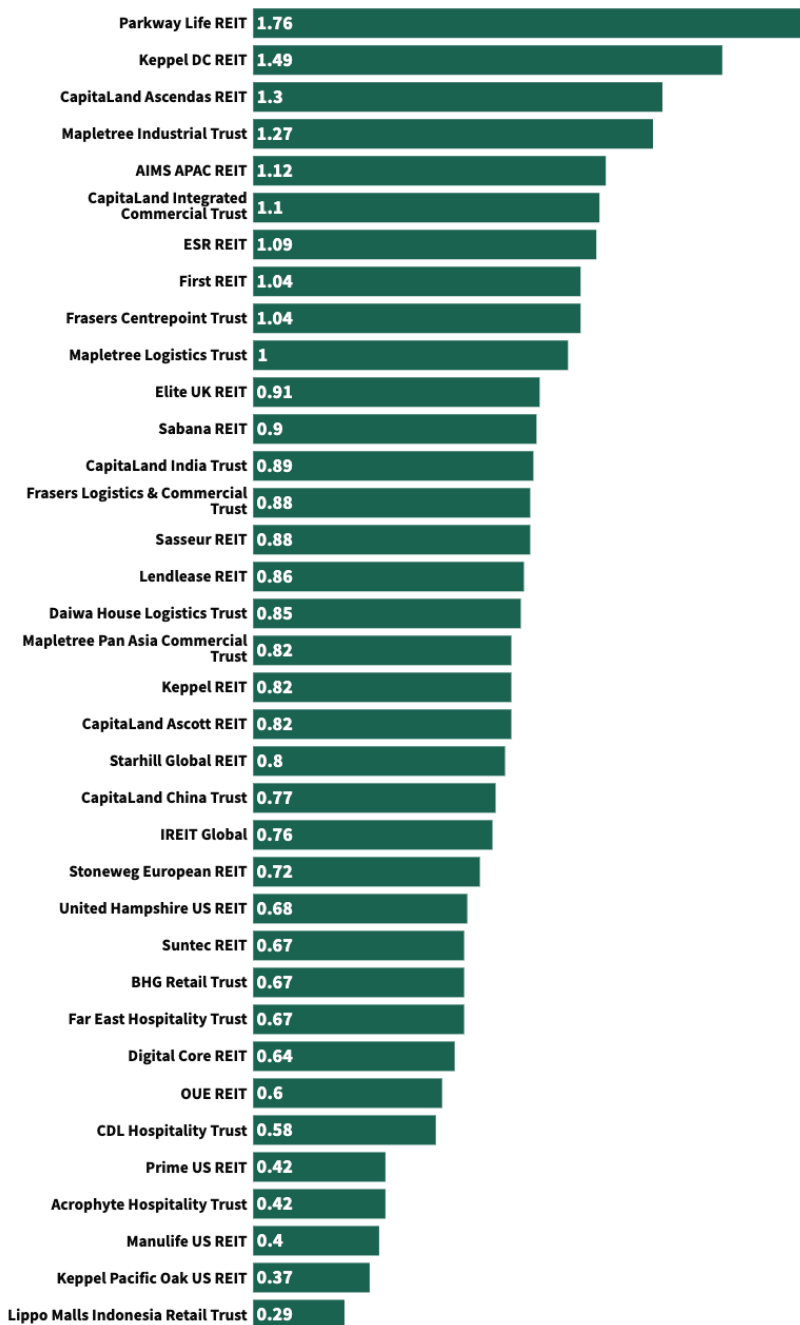
Source: Bloomberg as of 12 September 2025

Preference for REITs with ability to grow distributions

We see scope for Singapore REITs to benefit from a lower interest rate environment. Within the sector, we favour REITs that can sustain and grow distributions through active portfolio management, such as asset enhancements, selective acquisitions, or rental reversion opportunities.

For example, we expect Parkway Life REIT to see DPU growth in 2026, supported by higher revenue from Mount Elizabeth Hospital, following the completion of its asset enhancement initiative (AEI). Likewise, we expect Elite UK REIT's to post higher DPU in 2026 as it repositions its portfolio for long-term growth.

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



Source: Bloomberg as of 12 September 2025

Disclosure Appendix

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