

Singapore REITs Sector

Master lease exposures

SINGAPORE | REAL ESTATE (REITS) | UPDATE

27 April 2020

- Sponsor of Eagle Hospitality Trust failed to make timely rental payments of its master lease
- Healthcare and Hospitality REITs are most reliant on master leases

Background

After defaulting on a US\$314mn loan, trading of Eagle Hospitality Trust (Eagle) was voluntarily suspended on 24 March 2020. It followed the failure of its sponsor and master lessee, Urban Commons LLC to place the full sum of the security deposit under the master lease agreements and make timely rental payments since December 2019. Eventually, dividends due for distribution on 30 March 2020 were not paid out to unitholders. The master lease agreements have an initial term of 20 years from the Listing Date and the stipulated security deposit is equivalent to nine months of the monthly fixed rent. The fixed rent was 66% of the total rent projected for the year 2020.

Comments

In Figure 1, we compiled a list of REITs with master leases. Our findings are as follows:

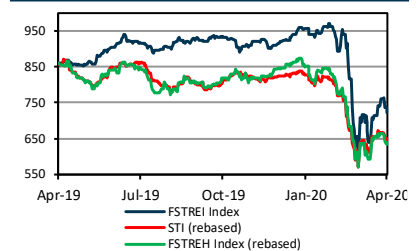
- For healthcare and hospitality REITs, it is common for the master lessee to be part of the sponsor's subsidiary or group of companies.
- Healthcare and hospitality REITs have the highest proportion of rents dependent on the master leases. On the flip side, industrial and retail REITs have less concentration of master leases and are usually diversified. There are minimal master leases for Commercial REITs as they usually own multi-tenanted buildings, except for IREIT which has a 40.1% single-tenant concentration by GRI.
- Based on standard industry practice, one month's worth of gross rental is usually held as security deposit for each year's lease. For example, a 5-year lease would require 5 months of committed security deposit. However, a larger sum of security deposit may be held for long-term leases in single-tenanted properties.

OVERWEIGHT (Maintained)

INDEX RETURN (%)

	1MTH	3MTH	YTD	1YR
FSTREI RETURN	22.2	(22.0)	(19.2)	(8.7)
FSTREH RETURN	12.3	(23.7)	(23.7)	(23.3)
STIRETURN	13.8	(21.0)	(20.7)	(21.0)

FSTREI VS. STI



10-year SGS (%) & 3-month SOR (%)



Source: Bloomberg, PSR

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Figure 1: REITs with master leases

Healthcare	Sponsor	ML contribution	Master Lessee(s)	Security Deposits
PLife REIT	Parkway Holdings Limited	95.0%	Singapore: subsidiary of IHH Healthcare Berhad Japan: various registered care home operators	Japan: 3-6 months' of security deposits. Additional security deposit is required should occupancy rate drops below certain percentage.
First REIT	PT Lippo Karawaci Tbk	100.0%	Lippo Karawaci and its subsidiaries	Bank guarantees of S\$50.2mn (~6months) in lieu of security deposits.
Hospitality				
Ascott Residence Trust	Ascott Limited	14.0%	Ascott-related companies and various hotel or serviced residence operators	Rental deposits on master leases. (\$46.3mn, 7-8months)
CDL Hospitality Trust	Millennium & Copthorne Hotels	27.6%	Subsidiaries of Sponsor, Accor, Banyan Tree Holdings and EVENT Hotels	Rental deposits on master leases. (\$\$10.2mn, 2-3months)
Frasers Hospitality Trust	Frasers Property Limited	79.9%	Frasers-related companies and various hotel or serviced residence operators	Security deposits equivalent to 8 months of the fixed rent
Far East Hospitality Trust	Far East Organization	81.0%	Sponsor's group of companies.	Rental deposits for all customers. (\$8.7mn, 1-2months)
Eagle Hospitality Trust	Urban Commons	100.0%	Sponsor's indirect wholly owned subsidiary.	Security deposits equivalent to 9 months of fixed Rent.
ARA US Hospitality Trust	ARA Real Estate Investors 23 Pte. Ltd	100%	ARA USH Chicago Tenant, LLC, a wholly-owned subsidiary of ARA H-BT	-

Retail				
Starhill Global	YTL Corporation	45.8%*	Sponsor's indirect wholly owned subsidiary and Toshin Development Singapore	Security deposits of approximately S\$30.7mn (1-2months)
CapitaRetail China Trust	Capitaland	4.0%**	Various vendors	Security deposits of approximately S\$66.3mn (3-4months)
Lippo Malls Indonesia Retail Trust	PT Lippo Karawaci Tbk	10.9%	Various vendors	Security deposits of approximately S\$47.7mn (3-4 months)
Dasin Retail Trust	Zhongshan Dasin Real Estate	7.6%	Dasin Merchant Investment	Security deposits of approximately S\$15.8mn (3-4 months)
BHG Retail	Beijing Hualian Department Store Co.	7.0%	BHG Hypermarket Co., Ltd.	Security deposits of approximately S\$20.9mn (2-3 months)
Industrial				
Ascendas REIT	CapitaLand	29.0%	Various tenants	Security deposit are approximately 4.7 months of rental income.
Mapletree Logistics Trust	Mapletree Investments	40.0%	Various tenants	Security deposits are approximately 4 months of rental income for SG HK and Korea.
Mapletree Industrial Trust	Mapletree Investments	16.1%	Various tenants	-
Frasers Logistics Trust	Frasers Property Limited	74.5%	Various tenants	-
Keppel DC REIT	Telecommunications & Transportation	28.5%***	Various tenants	Security deposits of approximately US\$6.4mn (~1month)
ESR REIT	ESR	30.0%	Various tenants	Security deposits of approximately S\$29.3mn (1-2months)
AIMS AMP Capital	AIMS Financial Group	35.7%	Various tenants	Security deposits of approximately S\$15.5mn (1-2months)
Cache Logistics Trust	CWT Limited	27.9%	Various tenants	Security deposits are approximately 3.4 months of rental income.
EC World REIT	Forchn Holdings Group Co.	13.5%	Various tenants	Security deposits of approximately S\$66.6mn (8-9 months)
Sabana Shari'ah	ESR	23.7%	Various tenants	Security deposits of approximately S\$8.6mn (1-2months)

Commercial				
Prime US REIT	KBS Asia Partners	7.7%	Charter Communications	Security deposits of approximately US\$2.6mn (~1 month)
IREIT Global	Tikehau Capital and CDL	40.1%	GMG, a whollyowned subsidiary of Deutsche Telekom	No security deposit

Diversified				
Mapletree North Asia Commercial Trust	Mapletree Investments	9.6%	Various tenants	-
Cromwell E-REIT	Cromwell Property Group	19.8%	Various tenants	Security deposits of approximately €\$13.0mn (~1month)
Soilbuild Business Space REIT	Soilbuild Group	22.0%	Various tenants	Average of 3-5 months of rental income as security deposit in MTBs, and 6-18 months of rental income for single/master leases.
Lendlease Global Commercial REIT	Lendlease Corporation	29.0%	Various tenants	-
Ascendas India Trust	Capitaland	5.2%	Arshiya Lifestyle Limited	Security deposits of approximately S\$102.8mn (8-9months)

Various vendors/tenants = 3rd party vendors and tenants

*Includes proportion of anchor tenants

**Excludes CapitaMall Erqi to be divested on 7 Feb 2020

*** ML contribution by asset

- Unable to find supporting data

Source: PSR, Companies

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