

Why REITs Are Back In Focus

Fed raises rates again — and some REIT risks matter more

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Before the latest Fed hike, I had already sold 3 REITs and reduced 2 others. Not because I predicted the Fed — but because I was already becoming less comfortable with certain risks.



Higher financing costs

Borrowing costs can rise as debt is refinanced.



Higher bond yields

REIT yields may look less attractive by comparison.



Not all REITs are equal

The impact depends on leverage, interest coverage, occupancy and portfolio quality.



Why be proactive?

Risk is usually easier to manage before everyone is talking about it.



What this video covers

- 5 REITs I sold or reduced
- Why those risks mattered
- Why I still keep strong REITs for long-term income



Fed funds rate: **+0.25% to 3.75%–4.00%**



The real question is not whether all REITs are in trouble — but which REITs are more vulnerable if this tougher environment persists.

Daiwa House Logistics Trust (DHLU)

Several risks started stacking up

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I sold DHLU because vacancies, currency pressure and a changing Japanese rate environment were starting to matter at the same time.



1H2026 DPU

1.82¢

-18.8% YoY



Occupancy

87.8%



Avg cost of debt

2.05%



Fixed-rate debt

99.3%

What changed



Japan is no longer an ultra-low-rate story



BOJ policy rate raised to 1.25% in Sep 2026



JPY weakness added pressure for SGD investors

Why I became less comfortable



Major vacancy at DPL Sendai Port



Occupancy was still only 87.8%



Vietnam expansion added another market and currency risk



Several risks were arriving together



Portfolio action: SOLD COMPLETELY

My concern was not one single problem — it was the combination of vacancies, FX pressure and a very different Japanese rate backdrop.

ESR-REIT

Higher yield, but higher financial risk

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I sold ESR-REIT not because fundamentals were collapsing, but because the additional yield was no longer enough compensation for the financial risk.



Core DPU
+4.5% YoY



Occupancy
91.9%



Rental reversion
9.8%



Gearing
41.4%



MAS ICR
2.6x



What remained positive

- 1 Operationally, the REIT was improving
- 2 Strong rental reversions
- 3 Active capital recycling
- 4 Portfolio transformation was progressing



Why rates mattered more here

- 1 Leverage was already above 40%
- 2 Interest coverage was relatively thin
- 3 Less financing buffer if rates stay high
- 4 Perpetual securities added another layer of complexity

%

Weighted average all-in cost of debt: **3.52%**



Portfolio action: SOLD COMPLETELY

For me, the higher yield no longer justified the combination of leverage, thinner coverage and portfolio complexity.

Suntec REIT

Recovery improved, but financing sensitivity remained high

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I sold Suntec REIT because the recovery was still heavily dependent on lower financing costs, while gearing was high and interest coverage remained relatively thin.



1H2026 DPU

3.936 cents
+24.8% YoY



Net property income (NPI)

-0.3%
YoY



Aggregate leverage

43.0%



Interest coverage (MAS)

2.2x



Fixed-rate debt (incl. JV borrowings)

~57%



100 bps higher financing cost
~1.77 cents
annualised DPU impact



Why the recovery looked stronger than the properties

DPU rose sharply, but much of the improvement came from lower financing costs, better joint-venture income and the absence of a prior-year tax provision.



Strong Singapore, weaker overseas pockets

Singapore office and retail stayed near full occupancy, while overseas assets such as 55 Currie Street and The Minster Building remained weaker.



Strategic review concluded in Sep 2026

Manager launched formal sale campaigns for 177 Pacific Highway, 21 Harris Street and its 50% stake in Olderfleet (477 Collins Street).



Potential balance-sheet improvement

If the divestments are completed successfully, management expects aggregate leverage to fall below 40% and interest coverage to improve.



Why analysts were not fully impressed

The review was viewed as a positive first step, but narrower than hoped. The assets for sale are among the stronger Australian assets, while weaker assets such as 55 Currie Street and Southgate remain.



Portfolio action: SOLD COMPLETELY

A strong DPU recovery was encouraging, but with 43% gearing, 2.2x interest coverage and high sensitivity to financing costs, I decided to exit my position.

Mapletree Industrial Trust (MIT)

North American data centre issues — but the story may change again

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I reduced MIT because of the North American data-centre issues — but potential asset sales may eventually change the story.



FY2025/26 DPU

12.71¢

-6.3% YoY



Underlying DPU change

-3.2%

ex divestment gain



North America
occupancy

82.5%



Japan occupancy

100%



Why I reduced MIT

- North American lease non-renewals and vacancies
- Some older data-centre assets faced weaker valuations
- The North American portfolio had become the key concern



Why I am now reassessing

- Management has targeted selective North American divestments
- Reports emerged that 22 US data centres were being marketed
- If sold at reasonable valuations, weaker assets could be removed
- That could lower gearing and improve capital recycling capacity
- New information should be allowed to change the thesis



Singapore occupancy remained above 94%, showing that the main issue was the North American segment rather than the whole REIT.



Portfolio action: REDUCED PARTIALLY

I had been trimming MIT, but this is one case where a successful disposal programme could make me pause and reassess.

The Dividend Uncle's Take

Be more selective — not more fearful

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Higher rates do not automatically mean every REIT is in trouble. As a long-term investor, the key is to be more selective about which REIT risks I am willing to carry.



How high is the gearing?



How strong is the interest coverage?



Are the properties still in demand?



Is the distribution supported by recurring cash flow?



If the REIT is strong

I am prepared to stay invested through difficult periods for long-term dividend income.



If the risks are less attractive

I would rather reduce exposure early than wait for the market to become much more concerned.

What I am aiming for



Own REITs I am comfortable carrying through downturns



Preserve long-term income resilience



Stay selective about leverage, coverage and asset quality



Reassess when new information changes the thesis



Keep the stronger REITs for long-term dividend income.

OUE REIT

Taking profits while the portfolio changes

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I sold OUE REIT mainly because it had a good run and I wanted to take some profits while the portfolio itself may be changing significantly.



1H2026 DPU

1.26¢

+28.6% YoY



Gearing

41.5%



ICR

2.8x



Finance costs

-16.6%



Why this was different

- This was not a distress sale
- Results had actually improved
- The unit price had already had a good run



What I was watching

- Proposed sale of Crowne Plaza Changi Airport for S\$500m
- Reports around a possible sale of One Raffles Place
- The 'blind portfolio' question: what eventually replaces major assets?
- Less visibility over what the next version of the REIT may look like



Capital recycling can unlock value — but investors still need clarity on what comes next.



Portfolio action: REDUCED PARTIALLY

This was mainly profit-taking plus uncertainty over what the future portfolio will become.