NUS National University of Singapore

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Credit-friendly climate could spur debt-funded growth for S-Reits: NUS

Several have already offloaded properties in line with their capital-recycling strategy

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TODAY'S "credit-friendly" environment is setting the scene for Singapore-listed Reits to take on more debt in 2026 to fund acquisitions for growth, a National University of Singapore (NUS) survey done in February showed.

Some 59 per cent of real estate players polled expect Singapore real estate investment trusts (S-Reits) to lean towards debt-funded acquisitions rather than equity fundraising, as refinancing conditions improve and costly borrowings from the previous tightening cycle mature.

"With interest rates likely to bottom out in the near future, we are seeing a strategic window for S-Reits to recaliberate their capital structures after maintaining a defensive posture over the past few years," said Professor Qian Wenlan, director of the Institute of Real Estate and Urban Studies at NUS.

The US Federal Reserve held the benchmark interest rate steady within the 3.5 to 3.75 per cent range in January 2026, after cutting rates by 25 basis points in December last year.

Prof Qian added: "The emergence of positive refinancing spreads allows for more aggressive, yield-accretive growth, provided managers remain disciplined in managing their gearing levels."

A majority of property executives polled in the survey (59 per cent) were sanguine that a more accommodative credit environment would slightly lower the cost of debt funding for S-Reits. Some 35 per cent of them expected rates to remain stable, and only 6 per cent anticipated rates to rise slightly.

About 47 per cent of respondents identified capital recycling – divesting non-core or lower-yielding assets to fund higher-growth purchases – as a "promising growth engine" for 2026.

Several Reits have already offloaded properties in line with their capital-recycling strategy.

The manager of Aims Apac Reit, for instance, on Mar 4 proposed to divest an industrial property in Senoko South Road for S$15 million, with proceeds going towards its growth initiatives, including new acquisitions and asset enhancement initiatives.

In FY2025, CapitaLand Ascendas Reit sold nine properties in Singapore, Australia, the US and the UK for S$506.5 million – a 9 per cent premium to their aggregate market valuation and 14 per cent above their original purchase price. This aligned with the manager's strategy to maintain financial flexibility and liquidity for future acquisitions.

Aims Apac Reit is looking to sell its industrial property in Senoko South Road for S$15 million, in line with its capital-recycling strategy. PHOTO: AIMS APAC REIT

Eye on quality

While the favourable financing climate is also bringing more assets out into the open, one survey respondent cautioned that amid a flight to quality for tightly held Grade A office space, the "quality of assets available on the market might be falling".

Prof Qian noted: "Amid persistent economic headwinds, lower-grade commercial space might struggle to produce yields that exceed the cost of loans.

"The outcome would be a dilutive effect on distribution per unit; so when making purchases, Reit managers should also consider long-term rental yields in addition to the price tag."

Still, the domestic commercial market is likely to remain stable, with about 65 per cent of respondents expecting capitalisation rates for prime commercial assets to remain firm in 2026, given their scarcity.

Meanwhile, only 23.5 per cent of those polled expect cap rates to compress slightly, which would lead to marginal valuation gains.

"Amid a friendly credit landscape, success now depends on a manager's ability to spot and acquire resilient, high-quality assets that can sustain distributions even if the global economic recovery remains uneven and geopolitics remain uncertain," said the professor.

"However, with geopolitical conflicts potentially disrupting trade and energy markets, Singapore's Reits must remain vigilant. While our local market acts as a safe haven, managers with significant overseas exposure must proactively hedge against these external shocks to protect investor returns."