

## Strengthening portfolio quality through capital recycling

### What's New

- Acquisition of five logistics assets in Melbourne that will be c.4.3% accretive to DPU
- Strong organic growth potential with built-in rental escalations, and room for rents to be marked to market
- Gearing to increase to c.42%, but could potentially be brought back down to c.39% with perps issuance
- Maintain BUY with unchanged TP of SGD3.20

### What has happened?

ESR-REIT is acquiring five freehold logistics assets in Melbourne for A\$276.8mn, or **1.9% below independent valuation**. Total acquisition outlay is **A\$303.0mn / S\$271.3mn**. The assets have a first year **NPI yield of c.5.5%**, an average age of c.11 years, 90% physical occupancy (A\$2.5mn rental guarantee for the remaining 54% vacancy at 39 Naxos Way, Keysborough), and **3.2-year WALE**. The transaction is expected to be **c.4.3% DPU accretive**. Funding will come from proceeds of prior divestments and debt, and gearing will rise from 38.5% to **c.41.9%**. If ESR-REIT issues up to S \$175mn of perpetual securities, gearing is expected to stay at c.38.5%, but DPU accretion moderates to c.1.3%. Strategically, the deal accelerates ESR-REIT's capital recycling strategy by redeploying proceeds from older Singapore leasehold assets into modern freehold Australian logistics assets. Portfolio freehold exposure increases from 19.3% to 23.5%, while weighted average land lease tenure improves from 44.9 years to 47.7 years. A key attraction is rental upside, current rents are **12–17% below market**, with built-in annual escalations of **3.0–3.5%**. Near-term expiries provide scope to capture reversions, particularly as 34% of leases expire in 2027. Overall, the deal improves portfolio quality, extends land tenure, lifts DPU, and deepens exposure to Australia's logistics market, though higher gearing is the main investor pushback.

### Our views

Overall, we remain positive on the proposed acquisitions given the healthy pro forma **DPU accretion of more than 4%**, which is achieved without an equity fund raising. The transaction is consistent with EREIT's strategy of **recycling capital** into high-quality, modern logistics assets that offer resilient income and long-term growth potential. In addition to the immediate earnings uplift, the acquired assets provide attractive organic growth prospects. The portfolio benefits from **built-in rental escalation clauses**, supporting steady organic rental growth over the lease term. Furthermore, the assets' passing rents are currently significantly below prevailing market rents, presenting further upside to earnings as leases are progressively renewed and marked to market. That said, we note that the acquisition will be funded in SGD (borrowing cost of c.2.5%) rather than AUD, reducing the natural hedge of the REIT's Australian portfolio to c.32% (from c.55% currently). While this funding structure enhances the initial DPU accretion, it also increases the REIT's exposure to FX fluctuations. Separately, while a potential perpetual securities issuance would reduce the pro forma DPU accretion to c.1.3%, it lowers gearing back to c.38.5%.

Overall, we believe the strategic and financial merits of the acquisition outweigh the associated funding risks. Our current estimates have not taken into account this transaction, pending updates on the potential perps issuance. Accordingly, we maintain our **BUY** recommendation on EREIT's attractive valuations (forward yields of c.9%), with an unchanged TP of **S\$3.20**.

### Analyst

Dale Lai | dalelai@dbs.com

### Key Financial Data (FY Dec)

Bloomberg Ticker	EREIT SP
Sector	Equity Real Estate Investment
Share Price(SGD)	2.34
DBS Rating	BUY
12-mth Target Price (SGD)	3.20
Market Cap (USDbn)	1.5
3m Avg. Daily Val (USDmn)	1.5
Dividend yield (%)	9.4
Fwd. P/E (x)	12.1
P/Book (x)	0.9
ROE (%)	6.1

Closing Price as of 07/07/2026

Source: Twelve Data, DBS, Visible Alpha

### ESR REIT Share Price



Source: Twelve Data

## Target Price &amp; Ratings History - ESR REIT (EREIT\_SP\_Equity)



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1	29 Jul'25	2.64	3.20	BUY

Source: DBS  
Analyst: Dale Lai

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