

SIAS FAQ

1. The REIT's mission (page 1 of the annual report) is "to create and deliver superior returns to our investors through growth and value creation..." One of the key factors of a REIT's success would be its capital allocation strategy.

The REIT currently the REIT has 95% of its income generated from its portfolio of assets - Singapore (61.1%), Australia (22.7%) and Malaysia (11.7%) (page 28 – Property portfolio summary).

The Australian portfolio has now grown to be the second largest contributor to the group. In the "Letter to Unitholders" (page 15), Australia was described as "another growth market". The REIT was one of the first REITs to establish a presence in Australia with the acquisition of David Jones Building in Perth in 2010.

(i) Can the manager help unitholders understand the attractiveness of the Australian market?

(ii) Compared to the other markets like Singapore and Kuala Lumpur, does the board/manager see more attractive opportunities in Australia? Would further acquisitions mostly be focused on Australian assets?

(iii) Has the board deliberated on an overall geographical allocation strategy for the REIT?

SGREIT's three biggest markets are Singapore, Australia and Malaysia, which accounted for 96.5% of our total assets as at June 2016. Singapore is our largest market which makes up 68.3% of total asset value followed by Australia at 16.1%. SGREIT has about doubled our investment in Australia since we acquired Myer Centre Adelaide in May 2015. We have expanded our presence in Australia more aggressively than in other markets as there were more opportunities to acquire quality assets at attractive returns. In addition, Australia is relatively new to international brands, which have just started to make their presence there in the last few years. As these international brands grow their footprint in Australia, well-located city center malls should continue to be in high demand.

SGREIT will continue to be Singapore centric. The allocation of capital between other overseas markets will however depend on opportunities that arise. Carving out a rigid capital allocation is too restrictive and might cause us to miss out on opportunities. Nevertheless, we have narrowed our focus on the four markets (Singapore, Australia, Malaysia and Japan) we currently operate.

2. The threat of online shopping is real and serious and retailers are facing headwinds in the traditional retailing. From the portfolio summary (page 28), “the retail and office components contributed 86.3% and 13.7% to the Portfolio’s FY 2015/16 revenue respectively”.

(i) Would the manager be able to provide the split in terms of the REIT’s valuation of the retail components and the office components?

Even without the exact figures, it is clear that the bulk of the REIT’s assets are in retail. It is clear that shoppers’ behavior and patterns will change significantly as online shopping evolves further. There are already clear signs that traditional retailing will be significantly disrupted in the not-so-distant future.

(ii) Has the board/manager considered the long term prospects of the retail sector?

(iii) Can unitholders know what kind of projections/scenario planning has the board/manager carried out? Would the board think it is appropriate for the REIT to have a more balanced allocation between retail and office in order to mitigate some of the uncertainties in the retail sector?

The office component makes up about 15% of the total asset value, comprising mainly of the two office tower blocks in Singapore and one office in Adelaide, Australia. All the offices were part of the retail complex.

Our trust mandate offers SGREIT the flexibility for both office and retail. Currently our focus will still be on retail with office as an ancillary of the retail business.

Our team has a proven track record in creating value from our retail assets. For instance, the previous redevelopment and repositioning of Wisma Atria generated a return on investment of 12.88% and achieved a rent reversion of 30+%.

The retail sector has been undergoing transformation as a result of disruptive forces in the market place (primarily online shopping). Concurrently we have also been evolving to address some of the issues such as introducing more experiential retail elements into the mall which cannot be replicated online.

Wisma Atria for instance, has been regularly introducing new local and international F&B concepts that are unique and exciting. Some of the well-known international brands that have chosen Wisma Atria as their first destination include Paris Baguette café and Ben’s Cookies. In November a new communal dining concept, Picnic, will be opened.

Being in a prime location such as Orchard Road is important. Being a pure online retailer has become increasingly challenging as competition intensifies due to domain overcrowding. Some Online retailers have also opened brick-and-mortar stores to complement their virtual store and this has been coined “Omni-channel” retailing. Rising logistics and last mile delivery cost are also forcing online retailers to create convenient physical pick-up locations. Some of our tenants have already adopted such strategy.

In addition, Singapore retail scene has still growth headroom before we match the retail standards in Japan and Hong Kong. In Australia, the emergence of international brands is likely to rejuvenate the retail scene there.

These efforts coupled with our choice of prime retail malls has resulted in an occupancy rate in excess of 99% for our Singapore retail assets as at 30 June 2016.

Coming back to disruptive forces, it does not just impact the retail sector. The banking and finance sector has been consolidating with the emergence of algorithm trading technology and other Fin-tech initiatives. Transport sector has been disrupted by the emergence of private car hires such as Uber and Grab. In the Education business, emergence of online contents and instructions has made universities borderless. Hospitality trade has been facing rising competition from AirBnB.

At SGREIT, we prefer to adopt an attitude of embracing transformation and recognising constant evolution. It will not be modus operandi and our focus will be on being relevant to shoppers in the new market place.

3. The Japanese and Chinese assets account for 1.8% and 2.7% of gross revenue respectively. They contribute just 1.8% and 1.5% of the REIT's net property income respectively. Since the acquisitions by the former management team in 2007, the capital values have also fallen even though over the period of ownership, the Chinese RMB has appreciated 1% while the Japanese JPY has appreciated 5% (based on the notes on page 27). The market valuations of Renhe Spring Zongbei Property and the four remaining Japanese properties have fallen by about 37% versus the purchase price. **Can the manager provide more clarity on the plans for these assets?** With the REIT's portfolio valued at S\$3.1 billion, these assets are immaterial. **Would management's time be better utilised by focusing on the core assets and core markets? At the strategic level, are these two markets still in the REIT's long term growth plans?**

The Japanese and Chinese assets were acquired almost 10 years ago just after the IPO of the REIT. These assets accounted for barely 3.5% of the Group's asset value. The original intention of these acquisitions was to eventually scale up in those markets. However, since the operating environment in China has since become more challenging and competitive, we prefer to instead focus on other core markets. For Japan, the plan is to switch out of these smaller assets to larger properties which are more inline with our portfolio profile.

Over the past three years, we have divested 3 small properties in Tokyo at attractive prices, equivalent to a cap rate of ~4%.