

**Issuer:** SPH REIT Management Pte. Ltd

**Security:** SPH REIT

**Meeting details:**

Date: 2 December 2016

Time: 14:30H

Venue: The Auditorium, 1000 Toa Payoh North, News Centre, 1st Storey, Annexe Block, Singapore 318994

**Company Description**

SPH REIT is a Singapore-based Real Estate Investment Trust (“REIT”) established principally to invest, directly or indirectly, in a portfolio of income-producing real estate which is used primarily for retail purposes in Asia-Pacific, as well as real estate related assets. SPH REIT was listed on the Singapore Exchange Securities Trading Limited (“SGX-ST”) on 24 July 2013 and is sponsored by Singapore Press Holdings Limited (“SPHL” or the “Sponsor”), Asia’s leading media organisation, with publications across multiple languages and platforms.

As at 31 August 2016, SPH REIT comprises two high quality and well located commercial properties in Singapore totalling 903,837 sq ft Net Lettable Area (“NLA”) with an aggregate appraised value of S\$3.23 billion. The portfolio consists of:

Paragon, a premier upscale retail mall and medical suite/office property located in the heart of Orchard Road, Singapore’s most famous shopping and tourist precinct. Paragon consists of a six-storey retail podium and one basement level with 488,243 sq ft of retail NLA (“Paragon Mall”) with a 14-storey tower and another three-storey tower sitting on top of the retail podium with a total 223,096 sq ft of medical suite/office NLA (“Paragon Medical”); and

The Clementi Mall, a mid-market suburban mall located in the centre of Clementi town, an established residential estate in the west of Singapore. The retail mall, which also houses a public library, is part of an integrated mixed-use development that includes Housing & Development Board (“HDB”) residential blocks and a bus interchange. The property is connected to the Clementi Mass Rapid Transit (“MRT”) station. The Clementi Mall consists of a five-storey retail podium and one basement level with 192,498 sq ft of retail NLA.

**Q1.** Based on the “Statement by Chairman and CEO” (pages 6-9 of the annual report), it is clear that retail climate will continue to be challenging. The headwinds continue to be strong – globally, shoppers’ behaviour and consumption patterns are evolving as online shopping gets more popular. There are already clear signs that traditional retailing will be significantly disrupted by this digital evolution. In Singapore, the labour constraints and the lack of competitiveness are also affecting the retailers as consumers become more cautious in discretionary spending.

- a) **Can the manager elaborate further on the plans to address the threat of online shopping? Are there initiatives to help tenants with their omnichannel/online and offline marketing efforts? How effective can these marketing efforts be?**
- b) In the “Market Overview”, rents for the different segments are generally expected to soften. The occupancy cost for tenants in Paragon is already at 19.6%. These would suggest that large positive rental reversion is unlikely to happen. One positive for the REIT is the asset enhancement initiative at Paragon to convert back-of-house space to revenue-generating area. **Can the manager provide more detail on the schedule of the conversion, together with the associated costs, projected revenue and projected ROI?**
- c) The income support for The Clement Mall has a remaining period of approximately 2 years. The second renewal cycle for the mall is in progress. With 53.9% of net lettable area to be renewed in FY2017, the outcome will largely determine if the loss of the income support in two years’ time will affect the REIT negatively or not. The net property income for the mall is still 9% below the guaranteed net property income (“NPI”) of \$31 million. **What are the efforts by the manager to boost NPI for The Clementi Mall? How confident is the manager in achieving a NPI for The Clementi Mall of at least \$31 million in two years’ time?**

**Q2.** The average all-in interest rate increased to 2.82% in 2016 from 2.55% in 2015. **Can the manager disclose the terms of the two new tranches of S\$125 million each that were refinanced in July 2016? Has the REIT considered other sources of financing, possibly even “retail bonds”?**

**Q3.** The REIT has the Right of First Refusal on the Sponsor’s future incoming-producing properties used primarily for retail purposes in Asia Pacific. Currently in the pipeline is The Seletar Mall which was opened in November 2014. **Can the manager discuss in greater detail its investment criteria and how it evaluates assets for potential acquisition?** Compared to other listed retail REITs, SPH REIT has a below-average leverage, with gearing at just 25.7% and some way from the leverage limit of 45% as stipulated by the Property Funds Appendix of the CIS Code. **In the board’s view, what is the optimal capital structure for SPH REIT? Has the interest rate outlook affected the REIT’s acquisition schedule?**