

## Response to questions raised by SIAS on Frasers Commercial Trust's ("FCOT") 2016 Annual Report

Q1. In the Operational Review (page 39 of the annual report), it was disclosed that the portfolio weighted average lease expiry (WALE) by gross rental income was 3.8 years (as at 30 September 2016). Looking at the next two years, 21% and 27% of the leases by gross rental income will expire in FY2017 and FY2018 respectively.

**(a) Given that half the leases by gross rental income will expire in the next two years when the market conditions are challenging, what are the targeted rental reversion rates? Is occupancy expected to dip?**

Rental reversions and occupancies are largely driven by market conditions. As disclosed in FCOT's FY2016 Annual Report, the portfolio weighted average rental reversions for FY2016 was 6.6%.

The Manager will continue to proactively monitor market conditions and manage lease expiries and occupancy rates of the properties in the portfolio. Where possible, forward renewals are undertaken to spread-out and moderate the portfolio's future lease expiry profile. As a case in point, in FY2016, Microsoft Operations Pte Ltd (one of the top-ten tenants of FCOT) pre-committed to an extension of its lease at Alexandra Technopark for a further five years from FY2017 to FY2022, in advance of the expiry of the existing lease in FY2016.

Q1. Included in the FY2017 lease expiries are Hewlett-Packard Singapore Pte Ltd and Hewlett-Packard Enterprise Singapore Pte Ltd which account for 10.5% and 7% of portfolio gross rental income respectively in FY2016. A new built-to-suit facility for the Hewlett-Packard is expected to be ready in second quarter of 2017. The two tenants take up a total of 496,767 square feet (or 47.6%) of the net lettable area in Alexandra Technopark.

**(b) What would be the impact on FCOT if the tenants decide not to renew their leases?**

**(c) What the proactive asset management actions that the trust can take to mitigate the risk of having to fill up about half the space in Alexandra Technopark with new tenant/leases?**

**(d) Given the age and the layout of Alexandra Technopark, are there opportunities for asset enhancement to reposition it to stay competitive in the Alexandra micro-market?**

The Manager proactively manages expiring leases in the portfolio, including discussing with tenants on lease renewals/extensions or marketing of to-be-vacated spaces, in advance of the expiry dates of the existing leases. Alexandra Technopark is a popular and attractive business location for tenants from a wide spectrum of industries, as evident by its consistently high occupancy rates. Alexandra Technopark offers good value for tenants with its good building quality and specifications, strategic location, good connectivity and competitive rents, among other things.

The Manager constantly reviews opportunities for asset enhancement initiatives to improve the competitive position, performance and sustainability of the properties in the portfolio. The Manager will

make appropriate announcements/releases when there are firm plans to carry out major asset enhancement initiatives for any particular property in the portfolio.

Q2. Occupancy at Central Park, Perth has dipped from 88.6% as at 30 September 2015 to 80.2% as at 30 September 2016. Despite the manager's proactive leasing initiatives and the revamping of the retail arcade at Central Park, the asset continues to be a laggard in the portfolio as a result of the weaker office market in Perth.

**(a) Does the manager expect the performance of Central Park to stabilise at the current level or could it possibly dip further until the broader market in Perth recovers?**

**(b) When would the exact space requirement of the new lease to be taken up by Hamersley/Rio Tinto be known?**

Central Park is a premium grade office building in the Perth CBD. Its current occupancy level is in line with that of the market for similar-grade buildings in Perth. As set out in the CBRE's independent market research report for Perth in FCOT's FY2016 Annual Report, the Perth office market is currently experiencing some correction after years of strong mining sector growth. However, CBRE expects vacancy in Perth CBD to trend downwards post-2016, in expectation of the projected demand-supply metrics.

An entity of Rio Tinto Limited has signed a Heads of Agreement for a new 12-year lease from FY2018 to FY2030 at Central Park. Under the Heads of Agreement, the tenant has the option to take up additional space at Central Park. Updates on the space taken up will be provided at appropriate junctures as part of our regular releases to the market.

Q3. The trust has made a maiden issuance of senior unsecured fix rate notes under the S\$1.0 billion Multicurrency Medium Term Note Programme. Previously it had undertaken a private placement in FY2015 and had issued convertible perpetual preferred units back in FY2009. Effective 1 January 2016, under the Property Fund Guidelines of the CIS Code, the aggregate leverage should not exceed 45.0% of the deposited property.

**(a) Has the change in the guideline lead to any changes to FCOT's approach to capital management?**

**(b) The current gearing ratio is 36.0% as at 30 September 2016, down marginally from 36.2% last year. Has the board set any internal gearing limit for FCOT?**

**(c) Going forward, if there were to be any acquisitions, how much headroom would there be from all the appropriate sources of funding available before the trust approaches unitholders in a Rights issue?**

There are no specific targets set for gearing ratio. However, the Manager adopts a prudent capital management approach for FCOT, and key considerations include maintaining healthy gearing ratio and

financial flexibility to pursue value-adding opportunities for FCOT. The Manager also endeavours to have in place diversified sources of financing in addition to traditional bank loans, which was part of the rationale for the setting up of the S\$1.0 billion Multicurrency Medium Term Note Programme.