

**Issuer:** YTL Starhill Global REIT Management Limited

**Security:** Starhill Global Real Estate Investment Trust

**Meeting details:**

Date: 27 October 2017

Time: 11.00 a.m.

Venue: Ballroom 1, Level 3, Hilton Singapore, 581 Orchard Road, Singapore 238883

**Company Description**

Starhill Global Real Estate Investment Trust is a real estate investment trust externally managed by YTL Starhill Global REIT Management Limited. The REIT was formerly known as Macquarie Prime Real Estate Investment Trust. Starhill Global Real Estate Investment Trust was formed on August 08, 2005 and is based in Singapore, Singapore.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=P40U](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=P40U))

**Q1.** Several of the REIT’s assets are undergoing asset enhancement, including:

- Lot 10 Property, Bukit Bintang, Kuala Lumpur: A RM20 million transformation to better engage Generation Y and Millennial consumers
  - Plaza Arcade, Perth: A\$10 million redevelopment to accommodate a new international anchor tenant, to increase the retail floor space by one-third, to enhance the appearance and positioning of Plaza Arcade, and to improve shopper experience
- a) **When the enhancement works are completed (early 2018 for Plaza Arcade and end 2017 for Lot 10), what are the expected/targeted quantifiable benefits of the asset enhancement initiatives (e.g. increased footfall, positive rental reversion)?**
  - b) **Can the REIT manager help shareholders understand the expected returns on investment(ROI) of the asset enhancement initiatives?**
  - c) **Myer Centre Adelaide:** When Myer Centre Adelaide was acquired in 2015, the occupancy of the office component was 93%. The occupancy rate for the office component for Myer Centre Adelaide was 50.3% in 2016 and 50.4% in 2017. It was disclosed in the Operational Review (page 41) that, in Adelaide, “the office market remains challenging with office vacancies in Adelaide being the second highest in the country”. **What are management’s efforts in improving the occupancy rate of the office component in Myer Centre Adelaide? With the benefit of hindsight, were there clues of the supply/demand imbalance in Adelaide when the asset was acquired in 2015?**

**Q2.** Shareholders would like to gain a better understanding of the valuation of the assets in the trust. Specifically:

- **Chengdu property:** As noted in the Property Portfolio Summary (page 30), the valuation of the property declined by \$12.6 million to \$32.1 million as at 30 June 2017, compared to a valuation of \$44.7 million as at 30 June 2016. This was the result of the conversion from a department store model to a single tenancy model.
- a) **Can shareholders understand why the trust repositioned the mall and reduced its valuation as a result? Was the department store model no longer feasible and the valuation of \$44.7 million not realistic?**
- **Myer Centre Adelaide:** Since the acquisition in 2015, the occupancy, the revenue and the net property income of the Myer Centre Adelaide has dropped (as shown in the table below). The market valuation has increased to S\$317.1 when the operational and cash flow figures have not improved.
- b) **Can the company help shareholders understand if the higher valuation of Myer Centre Adelaide is justified and what are the economic fundamentals to support a richer valuation?**

	Revenue (S\$ million)	NPI (S\$ million)	Committed Occupancy	Market Valuation (S\$ million)
2015	-	-	Retail: 96.7% Office: 91.6%	303.1 (purchase price as at 18 May 2015)
2016	33.6	20.3	Retail: 94.2% Office: 50.3%	300.0
2017	32.7	19.0	Retail: 94.6% Office: 50.4%	317.1

(Source: Company annual reports)

**Q3.** As detailed in Note 1 (page 103), under the Trust Deed, the manager is entitled to receive a base fee and a performance fee as follows:

- **Base fee:** The Manager is entitled to receive a base fee of 0.5% per annum of the Value of Trust Property (excluding GST) (“Base Fee”) or such higher percentage as may be fixed by an Extraordinary Resolution of a meeting of unitholders.
- **Performance fee:** The Manager is entitled to a performance fee (“Performance Fee”) where the accumulated return (comprising capital gains and accumulated distributions and assuming all distributions are re-invested in the Trust) of the units (expressed as the “Trust Index”) in any financial year exceeds the accumulated return (comprising capital gains and accumulated distributions and assuming re-investment of all distributions) of a benchmark index.

Based on the disclosure in Note 18 (page 123 – Management fees and performance fees), the “Base Fee paid and payable to the Manager for the year ended 30 June 2017 amounted to approximately \$15,256,000 (2016: \$14,930,000).”

As stated in the Financial Review (page 54), the higher management fees were attributed to “the higher average value of trust property during the current year” but it was also stated that:

*“The change in fair value on investment properties of S\$ (16.3) million for FY 2016/17 represented the net revaluation loss on the Group’s investment properties”.*

- a) Can management help shareholders reconcile how the group suffered a net revaluation loss on the investment properties and yet achieved “higher average value of trust property during the current year”?**

In the same Note (Note 18 – page 123), it was also disclosed that “no performance fee was earned by the Manager for the years ended 30 June 2017 and 30 June 2016. The performance of the Trust Index was approximately 33% and 13% below the Benchmark Index as at 30 June 2017 and 30 June 2016 respectively”.

Based on the disclosure in the annual report for the previous financial year, the manager had not earned any performance fee for the 18 months ended 30 June 2015 and that the performance of the Trust Index was approximately 1% below the Benchmark Index as 30 June 2015.

- b) Given that the performance of the REIT has progressively lagged behind the benchmark by 1%, 13% and 33% over the past three-year period, would the board consider the need for a strategic review?**

A copy of the questions for the Annual Report for the financial year ended 30 June 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Starhill%20Global%20Real%20Estate%20Investment%20Trust>

The company’s response could be found here:

[https://sias.org.sg/media/qareport/company\\_responce/1478154865\\_Starhill\\_Response\\_to\\_Questions\\_raised\\_by\\_SIAS.pdf](https://sias.org.sg/media/qareport/company_responce/1478154865_Starhill_Response_to_Questions_raised_by_SIAS.pdf)