

Issuer: SPH REIT Management Pte. Ltd.

Security: SPH REIT

Meeting details:

Date: 30 November 2017

Time: 2.30 p.m.

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 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. Its portfolio of properties comprises a 99-year leasehold interest in Paragon commencing on 24 July 2013 and a 99-year leasehold interest in The Clementi Mall commencing on 31 August 2010. Valued at S\$3.278 billion with an aggregate net lettable area of approximately 910,000 sq ft, the properties have a committed occupancy of 100% and have a diverse and high quality tenant base of about 460 local and international retailers and medical specialists. Visit SPH REIT's website at www.sphreit.com.sg for more details.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=SK6U)

Q1. Since the listing of the REIT in July 2013, SPH REIT has held two assets in its portfolio with over 80% concentration of its portfolio in one asset, that being Paragon (\$2.7 billion valuation out of the portfolio value of \$3.3 billion).

- a) **Can the REIT manager help unitholders understand its plans to grow the portfolio of quality income-producing retail properties?**
- b) **Specifically, has the REIT manager pro-actively evaluated quality assets to increase the scale of the REIT and to improve the level of diversification in the portfolio?**
- c) **In addition, can the manager update unitholders on the “right of first refusal” properties?**

Q2. The valuation of the REIT’s properties as at 31 August 2017 was \$3.278 billion, an increase of \$48 million from 31 August 2016. The valuation of investment properties is a key audit matter in the Independent Auditor’s Report. Key audit matters are those matters that, in the professional judgement of the Independent Auditors, were of most significance in the audit of the financial statements of the current period.

The valuation of the properties can be found on page 35 of the annual report and is reproduced below:

Property	At Valuation (\$m) As at 31 August			Capitalisation Rate (%) As at 31 August	
	2017	2016	Change	2017	2016
Paragon	2,695.0	2,656.0	39.0	Retail: 4.50%	Retail: 4.85%
				Medical suite/office: 3.75%	Medical suite/office: 4.00%
The Clementi Mall ⁽¹⁾	583.0	574.0	9.0	4.80%	5.00%
SPH REIT Portfolio	3,278.0	3,230.0	48.0	-	-
Representing:					
Additions			13.1		
Fair value change			34.9		

Note:
(1) The Clementi Mall’s valuation was without income support.

(Source: Company annual report)

- a) **Can the Audit and Risk Committee (ARC) help unitholders understand why the capitalisation rates used in the valuation of the properties have decreased across the board?**
- b) For instance, the capitalisation rate used for the retail component of Paragon has decreased from 4.85% to 4.5%, and the capitalisation rate for the medical suite/office component has decreased from 4% to 3.75%. **Can unitholders understand if the assets are valued more aggressively as the capitalisation rate has decreased?**

Q3. As noted in the Operations Review section (page 26 of the annual report), The Clementi Mall maintained 100% committed occupancy and recorded a steady visitorship of 29.9 million. However, tenants’ sales were down by 5.8% to S\$225 million compared to the preceding year and occupancy cost increased from 14.8% to 15.8%.

In the FY, the manager has renewed/signed new leases for nearly 80% of the mall’s net lettable area in the year and achieved a rental reversion of 3.7%.

- a) **With the occupancy cost increasing to 15.8%, can the REIT manager elaborate further on the pro-active measures to help the tenants to increase sales and/or to reduce the occupancy costs?**

The REIT has also written down intangible asset of \$4.3 million in the year in view of the better than expected net property income achieved by the mall. The intangible asset relates to the unamortised income support receivable from the vendors. The amount of income support for FY2017 translated to DPU of 0.05 cents.

- b) **With the new leases in place, can the REIT manager provide better visibility on the projected net property income for the mall?**

A copy of the questions for the Annual Report for the financial year ended 31 August 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=T%20T%20J%20Holdings%20Ltd>

The company's response could be found here: -----