SIAS Question 1

The group's gross revenue of $111.7 million for FY2017 was 17.4% higher than that of FY2016, primarily due to the additional rental income contribution of $7.4 million from 6 Chin Bee Avenue, which was acquired in January 2017.

As the group received rental support of $14.7 million during the year, it means that 12.6% of the group's gross revenue was not supported by underlying leases.
As declared in Note 22 (page 150 - Earnings and distribution per stapled security/unit), without the additional cash flow received due to rental support/rental arrangement, the DPS/DPU for the year ended 31 December 2017 would be 6.442 cents instead of 7.472 cents. The DPS/DPU for FY2016 would have been 5.766 cents instead of 6.958 cents.

Under the UE BizHub EAST ("UEBH") rental arrangement, the group received $11.16 million in 2016 and $9.47 million in 2017 (page 146 – Note 17 Rental support/rental arrangement). The 5-year rental arrangement will end on 3 November 2018. Based on the arrangement, the rental support threshold is approximate $28.7 million.
(i) As the group received $9.47 million in 2017 under the UEBH rental arrangement, the estimated rental income from UEBH is $17.8 million. With the operation of the Downtown Line, what level of improvement in performance can be expected from UEBH?

(ii) How confident is the manager that UEBH will be able to generate rental of approximately $28.7 million in net rental income following the expiry of the rental arrangement?

(iii) If not, can the board help stapled securityholders understand the impact on the group's cash flow and distribution following the expiry of the rental arrangement for UEBH?

(iv) Following the settlement agreement with the Jackson International Private Limited ("JIPL"), the group no longer enjoys any rental support arrangement for Jackson Square. What is the projected net rental income for Jackson Square based current occupancy and rental rates?

(v) Has the board/manager evaluated its acquisition policy and reviewed the use of rental support arrangements to support the purchase cost?

VIT's Response

Gross revenue in FY2017 was 17.4% higher than that of FY2016 primarily due to higher rental and income contributions of $7.5 million from VBP and $7.4 million from 6 Chin Bee Avenue.

(i, ii, iii)
We do not provide forecast of VIT's future financial performance publicly. Owing to our proactive leasing strategy, we have been receiving more enquiries on UEBH and are currently in advanced talks with several potential tenants.

With Phase 3 of the Downtown Line ("DTL") now in operation, the Expo station has been converted into an interchange for the DTL and East-West Line. This has significantly enhanced UEBH's connectivity as the DTL station just below the property now connects the many bank back offices at Changi Business Park to their front offices in the Central Business District via a direct train ride. The completed DTL subway link at the property also connects UEBH directly to Expo station, and the completion of the outdoor Urban Plaza connects UEBH to Changi City Point.

The bulk of UEBH's leases will expire in 2018 and 2019 and the positive rental reversion catalysts arising from the enhanced connectivity and accessibility of UEBH presents opportunities for us to secure or renew leases at higher rents.

The UEBH rental support has narrowed by a significant 15% in FY2017 as compared to FY2016. The renewal of the Hotel Lease at UEBH in November 2018 will see its annual rental increase by about $1.1 million and the increase in income contribution from VBP will further cushion the impact of the expiry of the UEBH rental support arrangement, if any.

(iv)
We do not provide forecast of VIT's future financial performance publicly. Jackson Square's occupancy was 86% as at 31 December 2017. As part of the JIPL settlement agreement, VIT received $4.9 million of settlement sum. While the entire settlement sum of $4.9 million has been recognized as rental support income in the statement of total return in FY2017, distribution of the said settlement sum to our stapled securityholders is made on the basis as if the Jackson Square rental support arrangement is still in place. As at 31 December 2017, about $1.8 million of the aforesaid settlement sum has not yet been distributed to our stapled securityholders. We intend to distribute this $1.8 million of distributable income to our stapled securityholders over the course of FY2018.

(v)
For VIT, rental support arrangements are employed for two purposes: (i) to derive a fair market value for a newly completed property where rental income has not yet stabilized as in the case of UEBH; and (ii) to provide downside protection for VIT in respect of a matured property where the rental potential has been optimized as in the case of Jackson Square. For a newly completed property, having a rental support arrangement is essential to striking a deal between the buyer and seller whereby fair market value could be agreed based on the projected stabilized fair market rental and the period required for the rental to reach a stabilized level. For a matured property where the rental potential has been optimized, the Manager would use its best endeavour to negotiate for downside protection with a rental guarantee or rental support arrangement based on the existing level of rental income for the benefit of our stapled securityholders.

SIAS Question 2

Can the board/manager provide stapled securityholders with better clarity on the following operational matters?

Specifically:

(i) Viva Business Park (VBP): As at 31 December 2017, the occupancy of VBP was 78.5%. Other than a mention that the "white" space committed occupancy was 97.2% as at 31 December 2017, the manager did not provide any specific detail on how it was going to improve overall occupancy rate of VBP. What is the manager's strategy to lease out the balance of the 21.5% vacant space in VBP?

(ii) UE BizHub EAST (UEBH): The occupancy of UEBH was 90% as at 31 December 2017. What is the average occupancy of the Changi Business Park sub-market and how does UE BizHub East compare with that?

(iii) Asset Enhancement Initiatives (AEI): What are the AEI opportunities for the assets in the portfolio?

VIT's Response

(i)

The objective of embarking AEI at VBP was to transform VBP from a typical high-tech development into a vibrant business park filled with retail, F&B and lifestyle amenities so as to enhance its attractiveness and increase the occupancy of the whole development. With the successful completion of the AEI, we have experienced an increasing number of enquiries and viewings, and also recently secured a new tenant who has committed to lease an entire floor of a block at VBP. VBP is solidifying its positioning as a vibrant place to "work-play-dine-shop" with a campus-like environment favored by many technology and innovative companies.

Our leasing team has also ramped up marketing efforts by holding property agent roadshows and establishing a tie-up with PropertyGuru for lease marketing.

(ii)

The occupancy at UEBH was 90% as at 31 December 2017, which is comparable with the average occupancy rate at Changi Business Park. We have ramped up the marketing activities at UEBH post the completion of Downtown Line Phase 3 and seen increase in leasing enquiries.

(iii)

The property that currently has the most potential for AEI is Jackson Square. The plot ratio at Jackson Square is not maximized and there is an opportunity to further increase the GFA by an estimated 50% to maximize the plot ratio and rejuvenate the property.

SIAS Question 3

The last update announcement made by the stapled group regarding the proposed merger of VIT and ESR-REIT was on 30 March 2018. The receipt of the proposal from ESR Funds Management (S) Limited was first announced on 29 January 2018.

The parties have agreed to extend the period of exclusivity to the earlier of (a) the date of execution of a definitive implementation agreement between the parties in relation to the Scheme, and (b) 30 April 2018.
(i) With discussions entering the third month, what are the main issues that have yet to be sorted out/agreed upon?

As there is no certainty or assurance that the proposed merger will be undertaken at all, it is important that the REIT manager and the trustee-manager keep their focus on the underlying operations of the stapled group.
(ii) How does the board ensure that sufficient attention, energy and time is given by the manager and the trustee-manager to attend to the day-to-day running/leasing operations?

VIT's Response

(i)
Discussions between both parties are still on-going and there is no certainty or assurance that parties will enter into any definitive agreements. Both parties are not in a position to provide any further details at this juncture.

(ii)
Even though the proposed merger discussions are still on-going, the operations of VIT including the day-to-day running and leasing activities are business as usual as only a few key members of the management team are involved in these discussions. The Board has emphasized to the management team that it must not compromise its focus on the operations of VIT during this period. The management remains committed to delivering value and crystalizing returns for our stapled securityholders.