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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: OUE Commercial REIT Management Pte. Ltd.

Security: OUE Commercial Real Estate Investment Trust

Meeting details:
Date: 29 April 2019
Time: 2.00 p.m.
Venue: Mandarin Orchard Singapore Mandarin Ballroom I, II and III 6th Floor, Main Tower 333 Orchard Road Singapore 238867

Company Description

OUE Commercial Real Estate Investment Trust (OUE C-REIT) is a Singapore-based real estate investment trust (REIT). The Company focuses on investing in income-producing real estate used primarily for commercial purposes in financial and business hubs in key gateway cities. Its segments include Singapore and China. OUE C-REIT's portfolio comprises over three commercial properties in Singapore and China. The Company's portfolio includes OUE Bayfront, which is a Grade A commercial building located at Collyer Quay between the Marina Bay downtown and Raffles Place financial hub in Singapore's central business district (CBD); One Raffles Place, which is an integrated commercial development consisting of over two Grade A office towers and a retail mall located in the Singapore's CBD at Raffles Place, and Lippo Plaza, which is a Grade A commercial building located in the business district of Huangpu, Shanghai. OUE C-REIT is managed by OUE Commercial REIT Management Pte. Ltd.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=TS0U)

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Q1. On 8 April 2019, the potential merger between OUE Commercial Trust (OUECT) and OUE Hospitality Trust (OUEHT) through a trust arrangement was announced. It has been proposed that OUECT would offer to buy OUEHT via a cash and stock deal.

The combined OUECT and OUEHT would have an estimated market cap of $2.8bn and assets worth $6.7bn, with hospitality assets accounting for 25% of the enlarged portfolio.

The cash payment of the proposed merger will be financed by debt, leading the pro forma debt of the merged OUE C-REIT to rise from 39.3% to 40.3%. As disclosed in the merger announcement, the pro forma net asset value per unit (NAV) will drop from $0.71 per unit to $0.62 per unit.

(i) **Would the manager help unitholders understand if the proposed merger is in line with its strategic growth plans?**

(ii) **What synergies are there between the group's commercial assets and the hospitality/retail operations in OUEHT?**

(iii) **Can the manager explain why it is proposing to issue new units at a significant discount to the net asset value per unit to pay for the target at its full valuation? How would this create long term value for unitholders?** It is noted that the pro forma NAV per unit will drop from $0.71 to $0.62.

(iv) **Can the directors, especially the independent directors, help unitholders understand their roles in this proposed merger?**

Q2. Would the REIT provide unitholders with better clarity on the following operational and financial matters? Specifically:

(i) **OUE Downtown (Occupancy and income support):** Committed occupancy at the newly acquired OUE Downtown slipped to 93.5%. This was due to the manager's strategy to "maximis[e] rents while optimising occupancy" as the rental income is underpinned by income support provided by the sponsor. **Should unitholders be concerned that this could a sign that the market is not as buoyant as projected? Can the REIT manager update unitholders on the latest occupancy rates?**

(ii) **Weighted Average Lease Expiry (WALE):** The REIT has a WALE of 2.3 years by Gross Rental Income, with 18.8% of the portfolio's gross rental income due for renewal in 2019. **Does the REIT have a strategy to increase the portfolio's WALE to provide unitholders with more certainty?**

(iii) **Rental reversion:** The REIT experienced positive rental reversion in all of its Singapore properties as the Grade A CBD core office market continues its recovery. **What would be the manager's leasing strategy going forward?**

(iv) **Lippo Plaza:** The occupancy at the Puxi commercial building has slipped for 3 quarters amidst an oversupply of new office space in Shanghai. **How attractive is the asset compared to the supply of new buildings? What are the manager's pro-active leasing plans?**

(v) **Sustainability:** In the board statement of the Sustainability report (page 76), it was stated that the board "continues to consider sustainability issues as part of the Manager's overall strategy". **Can the REIT manager provide details on how this is done?**

Q3. The group carried out an asset enhancement initiative (AEI) at the shopping mall of One Raffles Place in mid-2018. In the REIT's announcement dated 21 March 2018, it was stated that:

> *The AEIs include improving the circulation areas of the mall, as well as creating more inviting and open retail space with better visibility. These upgrades will help provide a better shopping experience while simultaneously driving the per-square-foot productivity of the mall.*

The six-storey retail podium had previously undergone an extensive refurbishment which was completed in May 2014. In addition, a co-working space operator will be taking up more than 35,000 sq ft in the mall.

(i) **Would the REIT manager elaborate further on the cost of the AEI to the One Raffles Place Shopping Mall?**

(ii) **With the experience gained from operating the shopping mall since the acquisition of One Raffles Place in 2015, what key changes will be made to the mall during this second AEI in 5 years?**

(iii) **Can the REIT manager help unitholders understand the key changes made to the shopping mall that will increase the footfall and improve the shopper circulation to all the tenants in the six-storey retail podium?**

(iv) **What is the REIT manager's projected return on investment on its AEI? Has the REIT been able to realise a better return on investment?**

(v) **Given the current portfolio, what are the opportunities for further AEI to enhance the REIT's assets?**

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Q4. As stated in the IPO Prospectus dated 17 January 2014, the REIT has a right of first refusal ("ROFR") over One Raffles Place, OUE Downtown and U.S. Bank Tower.

The REIT has since acquired One Raffles Place and OUE Downtown from the sponsor. It is noted that U.S. Bank Tower has been put up for sale by the sponsor in January 2019.

(i) Can the board confirm that the REIT has evaluated U.S. Bank Tower and turned down the opportunity to purchase U.S. Bank Tower?

(ii) Would the REIT manager help unitholders understand its experience in sourcing third-party assets for acquisition? Has the REIT manager assessed and evaluated suitable value-accretive investment opportunities (other than the ROFR properties from the sponsor)?

(iii) What guidance has the board given to the REIT manager on the trust's acquisition strategy?

(iv) Given that the trust has a single asset outside of Singapore (in Shanghai), are there plans to further increase the diversification of the REIT? How cost efficient is it for the REIT to hold a single foreign asset? Does the manager have the expertise and the network to source for quality assets overseas?