



## ELITE COMMERCIAL REIT

(a real estate investment trust constituted on 7 June 2018  
under the laws of the Republic of Singapore)  
(Managed by Elite Commercial REIT Management Pte. Ltd.)

Oversea-Chinese Banking Corporation Limited and UBS AG, Singapore Branch are the joint issue managers for the initial public offering of units in Elite Commercial REIT (collectively, the “Joint Issue Managers”). Oversea-Chinese Banking Corporation Limited, UBS AG, Singapore Branch, CGS-CIMB Securities (Singapore) Pte. Ltd. and China International Capital Corporation (Singapore) Pte. Limited are the joint bookrunners and underwriters for the initial public offering of units in Elite Commercial REIT (collectively, the “Joint Bookrunners and Underwriters”).

### RESPONSE TO QUERIES BY SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

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The board of directors of Elite Commercial REIT Management Pte. Ltd. (as Manager of Elite Commercial REIT) wishes to announce the following response to the queries raised by Securities Investors Association (Singapore):

#### **Question 1**

The REIT was listed on the Singapore Exchange Securities Trading Limited on 6 February 2020 as the first and only UK-focused listed REIT in Singapore. The initial IPO portfolio of 97 predominantly freehold quality commercial buildings located across the UK was expanded when the REIT made an acquisition of 58 commercial buildings in March 2021.

With the acquisition, the group maintains its 99% exposure to the UK Government and now count other government tenants such as UK Ministry of Defence, National Records of Scotland, HM Courts and Tribunals Service, Natural Resources Wales and the Environmental Agency as its tenants. The enlarged portfolio is valued at approximately £515.3 million, with 14% with exposure to London.

- (i) Considering the risks, uncertainties and opportunities in the market due to the pandemic, how has the manager finetuned the REIT’s pace of growth going forward, especially after the acquisition in March 2021?**

**Manager’s Response:** The REIT’s investment strategy is to acquire and manage buildings that are primarily leased to the UK Government. This high conviction strategy has helped the REIT perform well, particularly in terms of rent collection where the REIT has typically collected more than 99% of advance rent within 7 days of the rent due date.

Until the longer-term effects of the pandemic are clear, the REIT’s investment strategy will remain focused on acquiring and managing assets leased to the UK Government. The Manager will continue to pursue its growth plans given the inherent stability that flows from the REIT’s investment strategy to invest in commercial assets and real estate-related assets in the UK.

The IPO portfolio appears to be mostly from “The Hayhill Portfolio<sup>1</sup>”, which are the regional offices let to the Department for Work and Pensions (DWP) on new 10-year, Full Repairing and Insuring (“FRI”) leases that commenced on 1st April 2018.

**(ii) Can the manager provide unitholders with greater clarity on the opportunities to carry out asset enhancement on these buildings/assets?**

**Manager’s Response:** The Manager continues to explore asset enhancement initiatives across various assets in the REIT’s portfolio. The Manager is in discussions with the primary tenant, the UK Government’s Department for Work & Pensions to explore enhancements to several assets. The REIT’s strategy is focused on working with the tenant to help improve the environmental credentials of buildings in the portfolio as this is also a key long term strategic target of the tenant.

**(iii) Can the manager provide greater visibility on the reversionary yield of its portfolio?**

**Manager’s Response:** 94% of the leases to the UK Government have rent reviews in the fifth year (2023) based on the UK Consumer Price Index (“CPI”). The leases to the UK Government have embedded rental growth from inflation-linked rental escalations, as the CPI Index growth rate is compounded annually, subject to an annual minimum increase of 1.0% and maximum of 5.0%. CPI compound growth has been 4.5% since April 2018 and with the CPI forecasted to be 1.5% in 2021 before rising to 1.8% in 2022<sup>1</sup>, the portfolio rental growth is expected to be between 7% - 8%.

**(iv) How many of the assets have tenant break options?**

**Manager’s Response:** For the 97 properties in the initial IPO portfolio, 82 properties were on 10-year leases with break options at the five-year mark (31 March 2023) subject to no less than 12 months’ prior written notice; 13 properties on 10-year leases with no break option, and two properties were on a 10-year lease with break options at the three-year mark (31 March 2021).

The Manager employs an active asset management strategy to engage our tenants. For the two properties with break options at the three-year mark (31 March 2021), we have agreed with DWP to push out the break option for John Street, Sunderland by 12 months to 31 March 2022, whereas the break option was not exercised for Lodge House, Bristol hence the lease for Lodge House, Bristol will expire on 31 March 2028.

As a result, in the updated IPO portfolio of 97 properties, 82 properties are on 10-year leases with break options at the five-year mark (31 March 2023) subject to no less than 12 months’ prior written notice; 14 of them on 10-year leases with no break option, and one is on a 10-year lease with break option at four-year mark (31 March 2022).

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<sup>1</sup> “Forecasted inflation rate of the Consumer Price Index in the United Kingdom from 2021 to 2025” – Statista, 2021

## **Question 2**

The manager has stated that it seeks to achieve the value creation by acquisition growth which includes:

- Adopting a rigorous research driven selection process across the UK
- Focus on value-accretive commercial properties to provide attractive cash flows and yields
- Leveraging the Right-Of-First-Refusal (“ROFR”) pipeline from the sponsor
- Extensive expertise in the UK with strong sourcing capabilities
- Having a long-term investment approach to improve future income and capital growth

The REIT acquired 58 of the 66 ROFR properties and 8 others remain in the ROFR pipeline (page 24).

**(i) Can the manager help unitholders understand the extent of its sourcing capabilities? Has the manager sourced for, shortlisted and evaluated third-party assets since its listing?**

**Manager’s Response:** The Sponsors – Elite Partners Holdings Pte. Ltd. (“EPH”), Ho Lee Group Pte. Ltd. and Sunway RE Capital Pte. Ltd. - have each provided Elite Commercial REIT with a right of first refusal (“ROFR”) over all future UK commercial acquisitions.

Since listing, the Manager has been focused on completing its maiden acquisition of 58 assets out of the 62 UK commercial properties primarily long-term leased to the UK Government, based on the ROFR pipeline granted by Elite UK Commercial Fund II, a private trust managed by Elite Partners Capital Pte. Ltd. (a wholly-owned subsidiary of Elite Partners Holdings Pte. Ltd.).

Given the REIT’s mandate to invest in UK focused assets, the Manager is currently evaluating acquisition opportunities in the UK market for third-party acquisitions, which has deep acquisition potential given that it is consistently ranked the second most-traded real estate market in the world. This is in addition to reviewing the properties under the ROFR pipeline granted by its Sponsors, most of which are on long-term leases by various ministries of the UK Government, and assets owned by third-parties investors.

**(ii) What UK real estate experience and track record does the management team possess?**

**Manager’s Response:** The Chief Investment Officer (“CIO”) of the REIT Manager, Mr. Jonathan Edmunds, has 20 years of relevant real estate experience in the UK market focusing on real estate investment and management across various sectors globally, and capital raising. The track record of the CIO includes acquisitions, disposals, financings and asset management across multiple real estate sectors.

The Manager has on-the-ground presence in the UK with asset management veteran, Mr. James Tootell, on board under its Sponsor, Elite Partners Holdings Pte. Ltd. (“EPH”) as Head of Asset Management (UK) with effect from 1 April 2020. Mr Tootell has over 15 years of transactional asset management experience across the UK, extensive knowledge of the REIT’s Portfolio and well-established relationship with the primary occupier, the DWP. His services are provided to the Manager by way of an outsourcing arrangement with EPH and reports directly to the Manager on all asset management matters of the REIT.

In addition, the Manager also has Mr Nicholas David Ashmore, Independent Non-Executive Director of

the Manager, on its Board of Directors. Mr Ashmore has an extensive track record and close relationship with the UK government. From 2017 to 2018, he was an Operations Director with Carillion Plc, where he was responsible for facilities management contracts with the UK Government. Prior to that he has been with the British Army for more than 30 years. During his days with the Ministry of Defence, he also specialises in areas covering property and infrastructure for the ministry.

**(iii) Given that the sponsors do not appear to be carrying out developments in the UK and hence do not have a pipeline of organic development projects, how sustainable is their sponsorship?**

**Manager's Response:** One of the REIT's sponsors, EPH, has continued to acquire office properties in the UK while the REIT has been focused on completing its maiden acquisition. EPH has extensive network and sourcing capabilities in the UK, having examined over £3.0 billion worth of potential acquisitions in the UK over the past two years prior to the REIT's IPO, primarily on assets with high credit-quality tenancy profiles. EPH will continue to provide a ROFR to the REIT for any commercial assets it owns in the UK. The other two of the REIT's sponsors have also partnered EPH in these efforts.

**(iv) Can the manager clarify the role of the sponsor?**

**Manager's Response:** The role of the sponsor is to support the continued growth of the REIT. The REIT can leverage on the sponsors' sourcing capabilities for acquisition opportunities, to take advantage of the most liquid real estate market in Europe. In addition, the sponsors in their own respective investments, do invest in the UK market. Hence, the sponsors are familiar with the market. Coupled with their extensive construction and development track record, the sponsors will be able to source and advise in AEI matters.

The sponsor appears to have bought the IPO portfolio of 97 commercial properties from a British developer (Telereal Trillium) for £282 million in November 2018. At the IPO, the entire portfolio was valued at £319 million (valuation dated 31 August 2019), just nine months after its acquisition.

**(v) Can the manager help unitholders understand the asset improvements and enhancement, if any, that was carried out between November 2018 and August 2019?**

**Manager's Response:** Between November 2018 and August 2019, no asset improvements were undertaken by the landlord as the portfolio was 100% occupied by the tenant on FRI (triple net) leases. Under an FRI (triple net) lease, the responsibility for the repair of the external, internal and structural format of the property is placed with the tenant. Elite Commercial REIT, as the landlord, has no repairing or insuring liability and will not be required to bear the costs of material repairs to the Properties, if any.

Nevertheless, the acquisition of this portfolio demonstrates the sourcing capabilities of the sponsors to find attractive yielding assets that provide attractive cash flows for the benefit of unitholders.

**(vi) Will the manager be developing its in-house capability to source for third-party assets?**  
This would allow the REIT to source for commercial properties according to its own growth objectives and to improve accountability and alignment with unitholders.

**Manager's Response:** The Manager has significant in-house capability to source for third-party assets.

The REIT management team, led by CEO Ms. Shaldine Wang, was instrumental in acquiring the IPO Portfolio of 97 assets across the UK and are intimately involved with the asset management and discussions with the DWP since acquisition. The management team has an average of 15 years of relevant experience across UK real estate investment and management, corporate finance, financial management and REITs. Specifically, the Chief Investment Officer (“CIO”) of the REIT Manager, Mr. Jonathan Edmunds, has 20 years of relevant real estate experience in the UK market including acquisitions, disposals, and asset management.

In addition, the REIT has on-the-ground presence in UK via the Head of Asset Management (UK) of EPH, Mr James Tootell, whose services are provided to Elite Commercial REIT through an outsourcing arrangement and reports directly to the manager.

### **Question 3**

The REIT has an aggregate leverage of 31.0% as at 31 December 2020. With the acquisition, the leverage would have increased. According to the REIT’s circular, the pro forma financial aggregate leverage would be 37.7% (pro forma as at 30 June 2020).

- (i) **What is the aggregate leverage following the acquisition?** The REIT has announced that it has taken up £115.8 million in term loans and £9.0 million in bridge loans and paid for the acquisition with consideration units issued at £0.68 per unit. The March 2021 Investor Presentation Slides (published on 29 March 2021) did not contain updated information based on the enlarged portfolio.

**Manager’s Response:** Referring to the announcement made on 19th October 2020, assuming the acquisitions were funded by a) issuance of consideration units to the seller, b) borrowings and c) internal resources, the proforma (as at 30 June 2020) aggregate leverage would have been 43.3%.

The Manager will provide an updated position on the aggregate leverage ratio in its upcoming 1Q business updates to investors.

- (ii) **What is the available debt headroom?**

**Manager’s Response:** The Manager will provide an updated position on the available debt headroom in its upcoming 1Q business updates to investors.

The REIT has also stated that it is “largely insulated from currency movements between the Pound and Singapore Dollars” (page 29). The REIT has put in place a natural hedge as its assets and borrowings are predominantly denominated in pounds.

- (iii) **For an unitholder in Singapore, can the manager confirm that he/she would be fully exposed to the fluctuations in GBP:SGD exchange rates as the REIT does not carry out any (SGD) hedging at all and it declares its distribution in GBP?**

**Manager’s Response:** The REIT has a natural hedge in place by having its assets and expenses in the same currency, the GBP. The distributions are reported and declared in GBP. Investors are also given a choice to receive their dividends in GBP or SGD. Investors who choose to receive their dividends in SGD will be exposed to the currency fluctuations.

BY ORDER OF THE BOARD  
Shaldine Wang  
Chief Executive Officer

**Elite Commercial REIT Management Pte. Ltd.**  
(Company registration no. 201925309R)  
as manager of Elite Commercial REIT

22 April 2021

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