

# SGX ANNOUNCEMENT

25 October 2023



(a real estate investment trust constituted on 28 January 2019  
under the laws of the Republic of Singapore)

(Managed by Lendlease Global Commercial Trust Management Pte. Ltd.)

## **Responses to Questions from Unitholders for Lendlease Global Commercial REIT's Annual General Meeting on 31 October 2023**

Lendlease Global Commercial Trust Management Pte. Ltd., in its capacity as manager of Lendlease Global Commercial REIT (“**LREIT**”, and the manager of LREIT, the “**Manager**”), would like to thank Unitholders for submitting their questions in advance of LREIT’s Annual General Meeting (“**AGM**”) to be held on 31 October 2023 at 2.00 pm.

The Manager has grouped related and similar questions into key topics and provided its corresponding responses to them. Please refer to the Manager’s responses to these questions in the following pages.

By Order of the Board  
Kelvin Chow  
Chief Executive Officer

**Lendlease Global Commercial Trust Management Pte. Ltd.**  
(Registration Number: 201902535N)  
(as Manager of Lendlease Global Commercial REIT)

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## Performance of LREIT's Unit Price

1. **The unit price has fallen more than 20% since July 2023. What are the possible and significant factors resulting to the decline? In your opinion, what can be done to avoid the decline since the fundamental seems stable except for the high gearing.**
2. **What action plan does the management have given the sluggish and disappointing performance (in terms of share price and dividend) over the past year?**
3. **With the negative share price and falling DPU, could the management share how you plan to win back the confidence of shareholders?**
  - Current macroeconomic uncertainties and the higher interest rate environment have impacted investors' sentiments on SREITs including LREIT. Some key concerns from our unitholders include gearing ratio of 40.6%, potential fund-raising exercise to increase LREIT's stake in Parkway Parade and the management's plan to improve gearing ratio.
  - Whilst the fundamentals and underlying asset performance remain strong, we understand that certain investors may adopt a shorter-term view given the above concerns.
  - Any acquisition is subject to available opportunity and would be stringently evaluated to ensure it aligns with LREIT's stated purpose to deliver stable and growing distributions, long-term DPU and NAV per unit growth for unitholders.
  - In regard to improve LREIT's gearing ratio, we will assess potential avenues carefully, including through asset recycling. Other potential options such as equity offering, will be evaluated prudently in view of current market conditions and alignment with unitholders' interests.
  - We will remain focused on building a strong portfolio, continue to undertake proactive asset management and drive organic growth to deliver improved operating income. Coupled with close monitoring of the interest rate environment and interest hedging as appropriate, we will seek to mitigate the impact from higher borrowing costs.
  - LREIT had a strong portfolio occupancy of 99.9% as at 30 June 2023. Rental reversion rate was 4.8% and tenant retention rate remained healthy at 82.4%. In May 2023, LREIT's office portfolio achieved 5.9% positive rental escalation from Sky Complex.
  - Its office portfolio in Singapore and Milan is wholly leased to the Singapore's Ministry of National Development until 2044 and Sky Italia until 2032<sup>1</sup>, respectively, with a weighted average lease expiry for LREIT's office portfolio of 12.1 years<sup>1</sup> by NLA and 14.6 years<sup>1</sup> by GRI. These leases will continue to provide long-term cash flow stability for Unitholders.

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<sup>1</sup> Assumes that Sky Italia does not exercise its break option in 2026.

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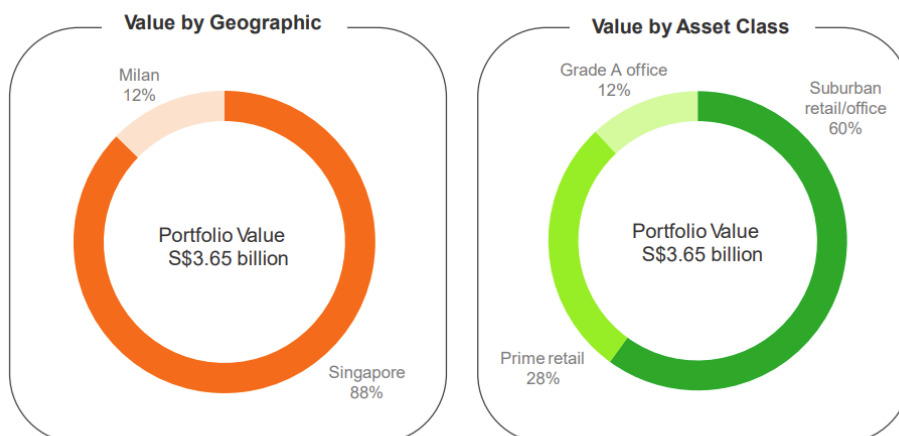
## Capital Management Strategy

1. **The company listed at S\$0.88 with reasonably low gearing around 30% with no refinancing risks for 1-2 years initially, and the units commanded a premium. What are the plans for LREIT to lower gearing and perpetual securities issuances?**
2. **Current gearing ratio is 40.6% and LREIT has S\$400 million in perpetual securities. How does LREIT intend to reduce debt?**
3. **Including perpetual securities, the gearing ratio of LREIT will reach 50%, and ICR 2 times. I believe this has caused the stock price to plummet quite heavily in 2023, relative to other REITs with lower gearings. May I understand what are the plans from the Management to alleviate this concern, particularly if interest rate remains higher for longer?**
4. **Will LREIT do fund raising or divestment to lower the gearing ratio?**
5. **What are the terms for the first and second tranche of the perpetual securities? Is it step up rate or market prime rate?**
  - As with other S-REITs, LREIT's unit price performance has been impacted by macroeconomic events and more recently, rising interest rates. Amidst the challenging conditions, we capitalised on the opportunity to acquire 100% of Jem during the financial year ended 30 June 2022 to increase LREIT's total deposited property by 2.1 times. Taking into consideration the prevailing market conditions at that time, the acquisition was funded by a combination of debt and equity raising as approved by LREIT's unitholders.
  - Perpetual securities are accounted as equity instead of debt. LREIT's perpetual securities will only be due for redemption in April 2025 and June 2026 and asset recycling could be one of the options to repay it. If the Manager decides not to redeem the perpetual securities, the reset rate is subject to the interest rate environment at that point of time.
  - One of the key options to reduce gearing is through asset recycling. Other potential options such as equity offering will be evaluated carefully to ensure it aligns with LREIT's stated purpose to deliver stable and growing distributions, long-term DPU and NAV per unit growth for unitholders.
  - As at 30 June 2023, approximately 61% of LREIT's total committed debt is hedged to fixed rates. We are monitoring the interest rate environment closely and remain focused on prudent capital management and employment of hedging strategies where appropriate.
  - In addition, approximately 89% of LREIT's total committed debt facilities are sustainability-linked financing currently. We are pleased to share that LREIT has met the target set for its sustainability-linked loans, generating interest savings in FY2023 with continued savings for the financial year ending 30 June 2024.
6. **The share price of LREIT has been dropping because of the high gearing ratio and possibility of share dilution to do fund raising for its operations. Could the management share LREIT's plan on gearing ratio if valuation declines, or interest further increases?**
  - Key drivers of asset valuations include the capitalisation rate adopted and underlying performance of the asset.

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- As at 30 June 2023, LREIT's portfolio valuation had increased by 1.4% year-on-year to S\$3.65 billion attributed to the uplift in market rents and improved market sentiments in Singapore's retail sector.
- By geographic location, Singapore accounts for 88% of LREIT's total portfolio value and the strong asset performance in FY2023 is expected to continue on the back of improved retail sentiments. Together with good investment demand for quality assets in Singapore, these would lend support towards stabilising capitalisation rate and valuation.
- For LREIT's Milan assets, recent valuation as at 30 June 2023 had factored in lower value primarily due to higher capitalisation rate adopted in view of the macroeconomic climate. Any future downside risks would be limited to its share of the overall LREIT portfolio value of 12%.
- As mentioned in our earlier responses, we remain focused on building a strong portfolio, continue to undertake proactive asset management and drive organic growth to deliver improved operating income to anchor asset valuations.



## 7. What are your views on Distribution Reinvestment Plan at around \$0.69 and \$0.59. Is this form of fund raising getting more and more costly?

- Distribution Reinvestment Plan is an opportunity for unitholders to acquire more units in LREIT without having to incur additional transaction costs. For LREIT, the cash retained will be used to fund the continuing growth and expansion of the REIT. The retention of cash and the issue of units will also enlarge LREIT's capital base, strengthen its working capital reserves and improve the liquidity of Units.
- The issue prices for the Distribution Reinvestment Plan were at approximately 2% discount to the 10-day volume-weighted average traded price. Comparing on a like-for-like basis on equity issuance, this is less expensive, and the discount is lower than the typical range of discount to volume weighted average price for preferential offerings.
- The implementation of the Distribution Reinvestment Plan is assessed carefully before proposing it to the Board for approval.

## Growth Strategy

### **1. Can the management explain why LREIT decided to acquire a stake in Parkway Parade instead of Paya Lebar Quarter?**

- The acquisition of a stake in Parkway Parade is meant to build future pipeline and provide flexibility for LREIT to increase its stake in Parkway Parade over time through pre-emptive rights, if other investors choose to divest their interests in the property.
- Parkway Parade is a dominant retail mall in the Eastern region of Singapore. The acquisition provides us with greater income diversification and increased exposure in the resilient suburban retail segment. It has also strengthened LREIT's presence in well-established and prime strategic locations with direct access to major transportation infrastructure.
- With the upcoming Marine Parade MRT station directly connected to Parkway Parade, accessibility to the mall will be greatly improved. This would further strengthen its position as a dominant suburban retail mall in the eastern part of Singapore.
- To capitalise on this potential, asset enhancement initiatives ("AEI") have been planned to coincide with the completion of the new MRT station. The proposed MRT linkway through the basement will help to channel the crowd to the mall given direct connectivity. Upon completion of the planned AEI, Parkway Parade will be reinvigorated with new retail and F&B tenants. The mall will continue to enjoy seamless connectivity from Marine Parade Central and prominent street frontage along Marine Parade Road.
- Parkway Parade will also continue to receive healthy daily shopper traffic, and offer a vibrant mix of retail and F&B offerings from popular tenants such as Food Republic, FairPrice Xtra, Harvey Norman, Marks & Spencer and Uniqlo, alongside lifestyle amenities and services.
- While financials may not be disclosed due to confidentiality obligations, we believe there will be potential income upside with the completion of the MRT station in 2024 as well as the AEI in Parkway Parade.

### **2. When will LREIT acquire Paya Lebar Quarter?**

- Our principal investment strategy to invest in stabilised income-producing real estate assets located locally, regionally and globally has not changed. The potential asset that LREIT may look to acquire has to meet the following criteria and each acquisition has to be assessed stringently to ensure that it brings value to LREIT's unitholders:
  - a. Achieved a minimum occupancy of at least 80%;
  - b. Achieved an average rental rate comparable to the market rental rate for similar assets as determined by the valuer commissioned for the latest valuation of the relevant asset;
  - c. (If the asset is being acquired from the Lendlease) LREIT being satisfied that there are no material asset enhancement initiatives required within two years of the acquisition of such asset; and
  - d. Is suitable for acquisition by LREIT taking into account market conditions at the time of the proposed offer.

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- With the above guiding principles, we will take a prudent approach in deciding whether LREIT should explore these opportunities bearing in mind the quality of the asset, stability of its cashflow, credibility of tenants, location, surrounding population catchment and transportation modes, strength of the economy, the prevailing capital markets, cost of credit and LREIT's unit price, all of which must deliver value to unitholders.

### **3. Does the management have any plan on divestment?**

- Divestment may be explored as part of portfolio optimisation strategy to enhance income resilience, improve total return for our unitholders and/or deliver capital management strategy. We will monitor and undertake assessment as appropriate.

#### Update on Development Project

- 1. Why only minimal progress on the construction of the Grange Road multifunctional event space since its announcement nearly 4.5 years ago?**
- 2. The 313 expansion at the former carpark does not seem to have any construction activities, could the board explain why?**
- 3. What is the targeted completion date of the development of a multifunctional event space adjacent to 313@somerset?**

- We remain optimistic to commence construction before the end of 2023 as long as we obtain the necessary approvals. Once construction commences, it will take between 12 and 18 months to complete. The delay was mainly due to site-specific and COVID-19-related factors such as manpower availability and construction cost increases, which are beyond our control. Timelines for many development projects in Singapore have also been delayed due to disruptions brought about by the COVID-19 restrictions.
- The development focuses on bringing entertainment and fresh experiences to Somerset and we are excited to see this come to life. We have been collaborating with the relevant government authorities, partners and community stakeholders.
- The multifunctional event space will solidify 313@somerset's position as the focal point of the Somerset youth precinct. It will benefit 313@somerset to stay ahead of its competitors and become a unique draw for visitors – a key differentiating factor.
- We are closely monitoring the development progress to ensure it meets its intended purpose to rejuvenate the Somerset precinct and achieve synergies with 313@somerset.

#### Others

### **1. Are there any existing tenants who have defaulted on payment?**

- LREIT's office portfolio in Singapore and Milan is 100% leased to high-quality tenant with no arrears to date.
- There are no significant arrears in its retail portfolio. We are monitoring rental collection closely and will implement appropriate strategies such as utilising security deposits to offset rental payments and instalment payments to manage the situation where appropriate.

## **2. What would be the actions taken to maintain a high tenant retention rate going into FY2024?**

- 313@somerset occupies a prime spot along the renowned Orchard Road shopping belt. To ensure that its continued vibrancy and relevance are in line with evolving consumer trends, we reviewed and refreshed its tenant mix, while maintaining a healthy tenant retention ratio.
- Jem is a dominant suburban mall located in the heart of Jurong Gateway, Singapore's expanding western district or the second central business district. It serves the residents in the Jurong East area as well as the neighbouring towns within the Jurong Lake District.
- As we continue to keep our malls vibrant and refreshed, we have to strike a balance between retaining tenants and having the right offerings for our shoppers. We have to continually assess tenants' business models to ensure that their offerings are sustainable and could help bring footfall and generate income to the mall.

## **3. Why is there no virtual AGM? Doesn't LREIT want to save cost and make it convenient for shareholders to attend virtual?**

- With the expiry of the COVID-19 (Temporary Measures) (Alternative Arrangements for Meetings) Orders, the Singapore Exchange Regulation (SGX RegCo) had issued practice notes requiring listed companies to hold general meetings either (a) physically in Singapore, or (b) physically in Singapore and using virtual meeting technology to allow unitholders to participate remotely.
- Since the listing of LREIT in October 2019, the Board has not had the opportunity to meet and interact with its unitholders in person. Due to the pandemic, we had to hold general meetings virtually to protect all our safety and wellbeing. It is with regret that we were unable to interact and have subsequent informal discussions between directors and unitholders.
- Face-to-face meetings will help alleviate unitholders' concerns on transparency and facilitate effective and robust two-way communications between directors and unitholders on LREIT's performance over the year.
- The cost of holding hybrid general meetings may not necessarily be more cost-effective. We will monitor the cost and take in feedback from unitholders in deciding whether or not to hold hybrid general meetings in future.

END



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