(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 Extraordinary General Meeting on 7 March 2022

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 Extraordinary General Meeting ("**EGM**") to be held by electronic means at 10.00 a.m. on 7 March 2022.

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)

1 March 2022



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**Distribution Per Unit ("DPU"), Net Asset Value ("NAV") and Net Property Income ("NPI")**

1. **NAV per share declined to S$0.80, which is not better for unitholders as it means that the acquisition price is high. The drop is due to the high number of new units to be issued. Can the Board work out a way that there is NAV accretion and DPU accretion?**
2. **What are management's plans to increase the NPI for Jem post-acquisition?**
3. **What is the impact on NAV before and after the acquisition?**

- Any equity fund raisings are evaluated carefully to ensure that it aligns with LREIT's stated purpose to deliver stable and growing distributions, long-term DPU and NAV per unit growth.

- We also consider 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.

- Last year, when LREIT acquired additional stake of up to 31.8% in Jem, it had employed the use of perpetual securities as it had offered an attractive funding option without an immediate need for equity fund raising.

- The agreed property value of Jem was S$2,079.0 million for a 100% wholly owned tax transparent interest. This will allow LREIT's unitholders to enjoy tax transparent income, which is a significant uplift in terms of dividends payable from Jem. Post-acquisition, LREIT will hold direct ownership of Jem and will have full control to manage the asset going forward. Given the size of the asset, a combination of debt, which has been secured through a sustainability-linked loan, and some equity fund raising would be required to fund the acquisition.

- As at 30 June 2021, the NPI yield for Jem was 4.4% (without COVID-19 impact) and 4.0% (with COVID-19 impact).

- Post-acquisition, we believe that the following levers will boost Jem's NPI and the overall portfolio's performance on NAV, NPI and valuation moving forward.

    - Tax transparency with recurring tax savings of S$5.6 million per annum or more
    - Sustainability-linked loan that will bring savings to borrowing costs, resulting in higher distributable income
    - Annual rental escalation
    - Additional leasable space to be converted in the near-term to generate more revenue
    - Tenant sales has rebounded to pre-COVID-19 levels
    - Strong cashflow from its office component fully leased to Singapore's Ministry of National Development for 30 years with rent review at every 5 years
    - Recovery of in-mall consumption as COVID-19 safe management measures are further eased



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   - Growth of foot traffic and tenant sales from surrounding developments at Jurong Gateway

**4. Should unitholders be looking at DPU accretion based on actual 1H FY2022 (0.1%/3.6%) or adjusted 1H FY2022 (6.8%/10.5%)?**

- The pro forma financial effect for adjusted 1H FY2022 was presented to illustrate the complete view of the Jem acquisition on a standalone basis (zero interest vs 100% ownership in Jem, with and without COVID-19 impact). This is relevant as the Manager had always intended to acquire 100% ownership of Jem if the opportunity arose but had to strategically acquire non-tax transparent partial stakes as a pathway to do so.

- The pro forma financial effect for actual 1H FY2022 was based on LREIT's existing 31.8% stake in Jem, acquired based on NAV, and does not take into account the underlying leverage in Jem. DPU accretion would therefore be lower if we compare LREIT's 31.8% stake (funded fully by debt and perpetual securities) with 100% ownership (that assumes a balanced capital structure).

- As Singapore moves towards treating COVID-19 as endemic, we believe that provision for rental rebates will no longer be required. The levers highlighted in questions 1 to 3 will boost LREIT's NAV, NPI and valuation moving forward.

- Jem is now 100% occupied despite the COVID-19 pandemic. Its tenants' sales have recovered to pre-COVID-19 levels.

- Suburban retail malls have proven to be more resilient during the COVID-19 pandemic especially for dominant malls co-located with key transportation nodes. Jem enjoys direct connectivity to both the Jurong East MRT interchange station and bus interchange and is near amenities such as the Ng Teng Fong General Hospital and Jurong Regional Library.

- In addition to the levers that will boost Jem's NPI and LREIT's overall portfolio performance on NAV, NPI and valuation, Jem's office component provides one of the very few options of Grade A office space with direct access to the MRT station in the West Region. Its entire office component has been fully leased to the Ministry of National Development with a remaining lease term of 23 years with embedded rent review marked-to-market every 5 years, providing steady and sustainable stream of income for LREIT's unitholders.

- Jem's attractiveness as a retail destination in the West region of Singapore is clearly demonstrated by the rapid replacement of the former Robinsons department store space by IKEA's first small-store concept in Southeast Asia. Anchor tenants within the retail space include FairPrice Xtra, Cathay Cineplexes and Don Don Donki. Other major retail tenants include H&M, Koufu, Uniqlo and Courts.

- These conditions provide Jem with the potential to rebound faster from the downturn brought about by COVID-19, given its ability to attract shoppers from a vast catchment area, while capturing a high proportion of spending from residents in the Jurong area. Average



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household income in the West region has also been higher than the national average, implying to a relatively affluent population in Jem's catchment area.

- In addition, the completion of the new transportation infrastructure in the area, including the new Jurong East Integrated Transport Hub, the Jurong Region Line (JRL) and the Cross Island Line (CRL) will materially improve connectivity to the precinct and expand Jem's retail and office catchment area to a broader area within the West region and beyond.

5. **What is the frequency of DPU declaration and pay out for this year and going forward?**

- LREIT's distribution policy is to distribute at least 90% of its taxable income for each financial year, with the actual level of distribution to be determined at the Manager's discretion.

- The distribution amount calculated will be as at 30 June and 31 December each year for the six-month period. Distributions will be in Singapore dollars and are generally paid within 60 days after the end of each distribution period.

**Funding structure and fees**

6. **As LREIT is buying direct from its Sponsor, would the Manager not charge such a high fee for the acquisition? There is less effort compared to a search for an unknown good asset and doing due diligence.**
7. **Why does LREIT need to pay $62 million stamp duty for the acquisition? Is there a way to structure the acquisition more cost efficiently?**

- Jem is indirectly held by two single-asset private funds, Lendlease Asian Retail Investment Fund 3 Limited ("ARIF3") and Lendlease Jem Partners Fund Limited ("LLJP"), which are mostly owned by shareholders that are not related to LREIT and its Sponsor.

- Similar to other acquisitions, the due diligence process for the proposed acquisition was conducted on an arm's length basis and includes, amongst others, evaluations from the technical, legal, tax, finance and valuation perspectives as required. In particular, the technical consultants and the valuers would be required to undertake physical inspections as they would assess and review the condition of the assets independently as part of their evaluation works.

- Acquisition fee and stamp duty fee for an Interested Party Transaction are documented in the Trust Deed and disclosed to the Unitholders. The Sponsor is a listed entity on the Australian Stock Exchange and would also have to take into consideration on the financial impact on its shareholders. Nevertheless, we are of the view that the proposed acquisition will bring the following value-add, in addition to having the rare opportunity in Singapore to acquire a 100% owned and 100% occupied asset (for both its retail and office components) on a tax transparent basis.

    - The Sponsor is taking its ARIF3 stake in consideration units, plus also subscribing for up to S$117.8 million of the preferential offering, thus reducing the funding requirements and also reduce underwriting requirements.



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- The Manager is not receiving acquisition fee for acquiring ARIF3 stake. It will only receive acquisition fee less the amounts that had been paid for LREIT's previous acquisitions of indirect interests in Jem.

- Leverage on the Sponsor's relationship banks to deliver a highly competitive cost of funding. The sustainability-linked loan facility also allows LREIT's unitholders to benefit from potential cost savings if sustainability targets are met in which the management is confident of achieving.

- Post-acquisition structure will achieve tax transparency and achieve substantial annual savings of approximately S$5.6 million or more over the remaining land lease term of approximately 88 years. This will result in higher distributable income for unitholders.

- The acquisition fees will be paid in the form of units and will be locked up for at least one year, demonstrating our alignment with all unitholders.

**8. Please explain the actual funding structure of LREIT's remaining 68.2% stake in Jem.**

- The funding requirement for the remaining 68.2% stake is approximately S$1,790 million.

- The S$1,790 million comprises:
  - Sponsor stake in consideration units: S$116 million[1]
  - Sponsor stake in preferential offerings: S$118 million
  - Net equity: S$718 million
  - Net debt: S$821 million
  - Acquisition fees in units: S$17 million

**Gearing ratio and interest coverage**

**9. What will be the gearing ratio and interest coverage post-acquisition?**

- Post-acquisition, LREIT's gearing will be approximately 41%, below the MAS gearing limit of 50% limit. Interest coverage remains healthy at approximately 4 times.

- Despite the increase in gearing, LREIT will enjoy a larger capital base which will enhance its funding capacity and flexibility, with a healthy debt headroom of approximately S$0.6 billion post-acquisition.

- The enlarged size also allows LREIT to enjoy enhanced capacity to undertake asset enhancement initiatives to deliver organic growth for Unitholders.

[1] Estimated based on the net asset value of ARIF3 as at 31 December 2021. The ARIF3 Purchase Consideration will be fixed based on the net asset value of ARIF3 as at the completion date in accordance with the agreed procedures set out in the ARIF3 SPA and there will be no post-completion adjustment.



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- Post-acquisition, we believe that the following levers will improve our overall portfolio valuation, lowering our gearing level to under 40%.

    - Tax transparency with recurring tax savings of S$5.6 million per annum or more
    - Sustainability-linked loan that will bring savings to borrowing costs, resulting in higher distributable income
    - Annual rental escalation
    - Additional gross floor area of approximately 10,200 square feet to be deployed to 313@somerset to expand leasable space
    - Additional leasable space at Jem to be converted in the near-term to generate more revenue
    - Tenant sales at Jem has rebounded to pre-COVID-19 levels
    - Strong cashflow from LREIT's office component (Singapore: 100% leased to Singapore's Ministry of National Development for 30 years with rent review at every 5 years. Milan: 100% leased to Sky Italia till 2032 with annual rental escalation pegged to ISTAT[2]
    - Improvement in asset valuation with the recovery of the economy alongside the ease of COVID-19 safe management measures

**Growth opportunities**

**10. Can the management be clear whether or not Parkway Parade is part of the acquisition pipeline? If the answer is yes, how the management plans to handle the short tenure issue (<60 years remaining tenure as of 2022)?**

- 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 asset 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.

- With a global mandate, we will look for opportunities to source and acquire locally, regionally and globally in gateway cities which the Sponsor has a presence in, and 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

[2] 75% of The Italian National Institute of Statistics consumer price index variation



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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.

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