Lendlease Global Commercial REIT's Diversified Tenant Trade Sectors Protect its Portfolio Revenue

Stable revenue from Sky Complex helps to mitigate downside risks during COVID-19

- Net property income was S$40.3 million for FY2020
- Distributable income of S$35.7 million translates to a distribution of 3.05 cents for FY2020
- Gearing ratio of 35.1% with average running cost of debt of 0.86% p.a. fixed for 3.1 years
- Weighted interest coverage ratio of 9.0 times[1]
- Portfolio occupancy stood at 99.5%
- Weighted average lease expiry ("**WALE**") of 9.7 years by net lettable area ("**NLA**") and 4.9 years by gross rental income ("**GRI**")
- Approximately 77% of the leases (by NLA) will expire only beyond FY2025
- Portfolio valuation[2] gained approximately 2% to S$1,442.6 million

Singapore, 11 August 2020 - Lendlease Global Commercial Trust Management Pte. Ltd. (the "**Manager**"), the manager of Lendlease Global Commercial REIT ("**LREIT**"), today announced its unaudited financial results for the period 2 October 2019 to 30 June 2020.

Financial performance

LREIT's distributable income for FY2020 stood at S$35.7 million. Distribution per unit ("**DPU**") of 3.05 cents was 19.7% lower compared to the original IPO forecast ("**Forecast**") mainly due to rent waivers given to LREIT's retail tenants. For 4Q FY2020, LREIT's distributable income was S$5.7 million.

Gross revenue for FY2020 was at S$55.5 million, 13.1% lower than Forecast, on the back of a lower rental income from 313@somerset in the fourth quarter due to the implementation of relief measures under the COVID-19 (Temporary Measures) Act 2020 ("**COVID-19 Act**") and the rent waivers provided to retail tenants. The impact was, nevertheless, cushioned by the stable revenue contributed by Sky Complex. Property expenses of S$15.2 million was 5.8% better compared to Forecast, mainly attributable to lower maintenance, operating and utility costs. As a result of a lower gross revenue contribution from 313@somerset, LREIT's net property income for FY2020 was S$40.3 million, 15.6% lower than Forecast.

[1] The interest coverage ratio of 9.0 times is in accordance with requirements in its debt agreements and 4.6 times in accordance with the Property Funds Appendix of the Code on Collective Schemes.
[2] Portfolio valuation was S$1,405.3 million as per IPO prospectus.

Summary of Financial Results

	3 months ended 30 June 2020			Full year for the period 2 October 2019 to 30 June 2020		
	Actual	Forecast	Variance (%)	Actual	Forecast	Variance (%)
Gross revenue (S$'000)	12,466	21,514	(42.1)	55,536	63,910	(13.1)
Property operating expenses (S$'000)	(4,952)	(5,422)	8.7	(15,247)	(16,188)	5.8
Net property income (S$'000)	7,514	16,092	(53.3)	40,289	47,722	(15.6)
Distributable income to Unitholders (S$'000)	5,693	15,078	(62.2)	35,672	44,671	(20.1)
DPU (cents)	0.48	1.28	(62.7)	3.05[3]	3.80	(19.7)
Annualised distribution yield[4] (%)	2.19	5.86[5]	(3.7pp)	4.64	5.79[5]	(1.2pp)

Capital Management

Gross borrowings stood at S$545.3 million as at 30 June 2020, equating to a gearing ratio of 35.1%. The weighted average running cost of debt was 0.86% per annum. LREIT's weighted average debt maturity was 3.1 years.

LREIT hedged 100.0% of its floating rate debt to fixed rate through interest rate swaps and options. To mitigate foreign currency risks, it has substantially hedged its projected Euro-denominated income for FY2021. LREIT has achieved natural hedge against its Euro capital investment in Sky Complex via a Euro term loan. It has diverse sources of funding from a lending group of well-rated financial institutions. All of LREIT's debt is unsecured debt, ensuring that it has balance sheet flexibility.

As at 30 June 2020, LREIT has a strong liquidity position with S$83.7 million of cash and cash equivalents, and the Group and LREIT have an uncommitted undrawn debt facility of S$20 million to fund its working capital. As at the date of this announcement, LREIT has received further offers of uncommitted bank debt facilities, which increased its uncommitted undrawn debt facilities to approximately S$97 million[6].

[3] Distribution of 1.29 cents per unit was paid on 16 March 2020.
[4] The annualised distribution yield from Listing Date to 30 June 2020 is on a pro-rata basis of 273 days.
[5] The Forecast yield from Listing Date to 30 June 2020 is 5.80% as per the Prospectus and is based on IPO price of S$0.88.
[6] Uncommitted undrawn debt facilities comprise S$50 million and €30 million.

LREIT's interest coverage ratio was 9.0 times in accordance with requirements in its debt agreements, and 4.6 times in accordance with the Property Funds Appendix of the Code on Collective Schemes. The Manager will continue to be vigilant in maintaining a strong balance sheet and prudent cashflow management.

Operations Update

As at 30 June 2020, the portfolio occupancy stood at 99.5% with a long WALE of 9.7 years[7] by NLA and 4.9 years[7] by GRI. Approximately 77% of its leases by NLA will expire only beyond FY2025.

More than 95% of 313@somerset has resumed operations since the announcement by the Singapore government on Phase 2 of safe transition in June. Footfall has recovered approximately 40%[8] of pre-COVID-19 level and have seen encouraging increase in the daily average footfall since Phase 2 reopening. Tenant sales have also seen to move in tandem with the footfall. As at 30 June 2020, 313@somerset had a high tenant retention rate of approximately 87%.

Sky Complex, LREIT's office asset in Milan, is projected to provide stable income stream to the portfolio given the long lease term until 2032[7] to Sky Italia, an international high-quality tenant. The triple net structured lease is secured with an annual built-in rental escalation pegged to 75% of ISTAT consumer price index variance. As at 30 April 2020, ISTAT consumer price index stood at 102.7[9], zero variance compared to the same period a year ago. Rental contribution from Sky Complex, as a result, remains unchanged for FY2021.

In addition, a full valuation of the assets was conducted for FY2020. Despite the headwinds brought about by COVID-19, LREIT's portfolio saw a 2%[2] gain in valuation to S$1,442.6 million. This was largely driven by Sky Complex due to the positive office investment interest in Milan as well as the increase in plot ratio for 313@somerset.

Redevelopment of Grange Road car park

The local authorities will cease the car park operations by the end of 2020 to facilitate the handover of the site to LREIT, with redevelopment works expected to commence shortly after. Expected to be operational in the first half of 2022, the multi-functional event space will offer a first-of-its-kind lifestyle experience along Orchard Road, with multiple dedicated event spaces, an independent cinema, hawker stalls serving local delights and a food and beverage attraction. With the inclusion of the Grange Road event space, LREIT's retail and lifestyle presence in the Somerset area will expand to approximately 330,000 square feet, anchoring the area.

[7] Assumes that Sky Italia does not exercise its break option in 2026.
[8] Footfall comparison period (19-30 June 2020 vs 19-30 June 2019).
[9] Source: ISTAT, The Italian National Institute of Statistics

Mr Kelvin Chow, Chief Executive Officer of the Manager, said, "The safety of our shoppers, tenants and employees remains a top priority at Lendlease. While we are delighted to welcome shoppers back to 313@somerset, we remain committed to enforce safe distancing measures at the mall to provide a safe place for everyone to eat, play and work. We recognise that the measures implemented may inevitably affect footfall and tenant sales at 313@somerset. To ensure long-term viability of the mall, we will continue to engage with tenants in meeting their space requirements and work in partnership with them to create ways to elevate experiences for our shoppers."

Commenting on LREIT's office buildings in Milan, Mr Chow added, "Sky Complex is expected to remain stable and continue to generate steady revenue to LREIT given its long lease term till 2032[7]. Alongside its triple net lease structure, Sky Complex helps to mitigate downside risks during COVID-19."

COVID-19 Update

While more than 75%[10] of the Singapore economy has reopened, safe distancing management measures continue to remain in place. The measures are expected to affect footfall at shopping malls.

To continue supporting affected businesses, the Singapore government has introduced an amendment bill to the COVID-19 Act in June to provide further rental relief for small and medium-sized enterprises ("**SMEs**"). Under the COVID-19 Act, tenants are able to seek temporary relief from paying rent and other obligations under their leases from April to October. This period may be extended for up to a year depending on the COVID-19 situation. Subject to the COVID-19 situation, it remains uncertain whether the tenants will be able to fulfil their rental obligations after the temporary relief period. In addition, the amendment bill introduced by the government to support SMEs may weigh down LREIT's performance in the coming quarters.

To-date, LREIT has provided up to two months of rent waivers to eligible retail tenants. In addition, LREIT has offered eligible tenants in 313@somerset to utilise part of their security deposit to offset rental payments and defer a certain amount of rent under the COVID-19 Act repayment scheme. LREIT remains committed to supporting tenants in a targeted manner and will work together with them to overcome this challenging period. Appropriate assistance will be provided to affected tenants to ensure business continuity.

[10] SG Press Centre, Remarks by Minister Lawrence Wong at Press Conference on COVID-19 on 29 May

Market Outlook

Singapore Retail Industry

Based on advance estimates by the Ministry of Trade and Industry, the Singapore economy contracted by 12.6%[11] year-on-year ("**YoY**") in the second quarter of 2020 due to the Circuit-breaker measures that were implemented to reduce the spread of COVID-19. Retail sales declined 27.8%[12] in June 2020 YoY, an improvement from the 52.0% YoY decrease recorded in May 2020, as Singapore exited the Circuit-breaker.

Singapore entered phase two of its reopening plan in June as the authorities eased restriction measures. A gradual resumption in activity could be seen in the second half of 2020 as most entertainment venues and retail outlets have reopened and dining-in at restaurants are allowed. However, a seamless return to pre-COVID-19 store-operations norms cannot be expected as safe distancing measures remain in place. The measures may continue to weigh on shopper traffic and tenant sales in the short term.

The retail space market fundamentals continue to look encouraging with little supply expected over the next two to three years[13]. This points to a tightening of vacancy environment, which will support modest leasing activities in the medium term.

Milan Office Industry

Office vacancy rates in Milan was 9.9%[14] in Q1 2020, an improvement of 1.2 percentage points YoY. Total office investments in first quarter of 2020 amounted to approximately €343 million[14], representing 70% of the total amount invested in Italy and 20% higher than the average investments in the first quarters for the past ten years. In terms of absorption by sub-markets, the Periphery sub-market, where Sky Complex is located, took the lead and accounted for 64%[14] of the total absorption.

In the near term, the impact from COVID-19 is expected to weigh on the demand for office space with vacancy rate expected to increase. The weak demand may drag on rents with capital values and investment returns to come under pressure.

Notwithstanding that, the long-term tightening of supply and demand conditions, especially in Grade A office space, will likely place upward pressures on rents in both the central and peripheral areas of Milan. The reduction of the available vacant supply across the city will be a challenge for occupiers to secure large floor plates in high-quality Grade A buildings, particularly in coveted locations in established business districts and near metro and rail stations.

[11] Ministry of Trade and Industry Singapore's GDP Contracted by 12.6 Per Cent in the Second Quarter of 2020, 14 July 2020.
[12] Statistics Singapore, Retail Sales Index and Food & Beverage Services Index – June 2020
[13] JLL, Singapore Retail Forecast 3Q 2019.
[14] CBRE, Milan Office MarketView 1Q 2020.

Distribution Policy

LREIT intends to make distributions to Unitholders semi-annually and will distribute at least 90.0% of its adjusted net cashflow from operations for each financial year. The actual level of distribution will be determined at the Manager's discretion.

The second distribution will be for the period from 1 January 2020 to 30 June 2020 and will be paid on or before 30 September 2020. LREIT intends to distribute 100.0% of LREIT's adjusted net cashflow from operations for the period from the Listing Date to the end of 30 June 2021.

ENDS

About Lendlease Global Commercial REIT

Listed on 2 October 2019, Lendlease Global Commercial REIT ("LREIT") is established with the principal investment strategy of investing, directly or indirectly, in a diversified portfolio of stabilised income-producing real estate assets located globally, which are used primarily for retail and/or office purposes.

Its initial portfolio comprises a leasehold interest in, 313@somerset, a retail property located in Singapore and a freehold interest in Sky Complex, which comprises three office buildings located in Milan. The portfolio has a total net lettable area of approximately 1.3 million square feet, with an appraised value of S$1.4 billion as at 30 June 2020.

LREIT is managed by Lendlease Global Commercial Trust Management Pte. Ltd., an indirect wholly-owned subsidiary of Lendlease. Its key objectives are to provide Unitholders with regular and stable distributions, achieve long-term growth in distribution per unit and net asset value per unit, and maintain an appropriate capital structure.

About the Sponsor - Lendlease Corporation Limited

The Sponsor, Lendlease Corporation Limited, is part of the Lendlease Group[15], an international property and infrastructure group with core expertise in shaping cities and creating strong and connected communities, with operations in Australia, Asia, Europe and the Americas.

Headquartered in Sydney and established in 1958, the Lendlease Group's vision is to create the best places by striving for world leading standards for safety, innovation and sustainability.

The Lendlease Group's approach is to maintain a portfolio of operations that deliver diversification of earnings by segment and region, providing a mitigant to property cycles. This approach means that through cycles the composition of earning from each segment or region may vary.

The Lendlease Group has a development pipeline value of approximately A$112 billion[16], core construction backlog of A$14 billion[16] and funds under management of A$37 billion[16]. The Lendlease Group is a trusted investment manager to over 150 key capital partners in property and infrastructure investments.

[15] Lendlease Group comprises the Sponsor, Lendlease Trust and their subsidiaries.
[16] As at 31 December 2019.

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An investment in Units is subject to investment risks, including the possible loss of the principal amount invested. Holders of Units (**"Unitholder"**) have no right to request the Manager to redeem or purchase their Units while the Units are listed. It is intended that Unitholders may only deal in their Units through trading on Singapore Exchange Securities Trading Limited (**"SGX-ST"**). Listing of the Units on SGX-ST does not guarantee a liquid market for the Units.

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The past performance of LREIT is not necessarily indicative of its future performance.