

Media release by: YTL Starhill Global REIT Management Limited (YTL Starhill Global)

Manager of: Starhill Global Real Estate Investment Trust (SGREIT)

New master tenancy agreements for SGREIT's Malaysia Properties and asset enhancement works for Starhill Gallery

HIGHLIGHTS

- **New master tenancy agreements provide income stability, rent growth and sustainable occupancy**
- **Asset enhancement works for Starhill Gallery will include converting the top three floors into hotel rooms and revamping the retail floors**
- **An extraordinary general meeting will be convened in due course to seek Unitholders' approval**

SINGAPORE, 18 March 2019 – YTL Starhill Global REIT Management Limited, the Manager of Starhill Global Real Estate Investment Trust (SGREIT), is pleased to announce that its special purpose vehicle has entered into new conditional master tenancy agreements for Starhill Gallery and Lot 10 Property ("Malaysia Properties") with the current master tenant, Katagreen Development Sdn Bhd ("Master Tenant"). The existing master tenancy agreements for its Malaysia Properties, which contributed approximately 16.6% to SGREIT's net property income for the financial year ended 30 June 2018, will expire in June 2019. The Malaysia Properties account for approximately 11.8% of SGREIT's total asset value as at 30 June 2018.

The Master Tenant is an indirect wholly-owned subsidiary of YTL Corporation Berhad, which is the sponsor of SGREIT. As YTL Corporation Berhad has interests of approximately 37.09% in SGREIT and 100% in the Manager of SGREIT, the new master tenancy agreements for the Malaysia Properties and asset enhancement works for Starhill Gallery ("Proposed Transaction") will constitute an interested person transaction under Chapter 9 of the Listing Manual. As the value of the Proposed Transaction, being the total rent payable under the new master tenancy agreements for the Malaysia Properties and the cost of the asset enhancement works for Starhill Gallery, of S\$532.1 million, is approximately 26.7% of the net tangible assets of SGREIT as at 30 June 2018, Unitholders' approval is required. An

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extraordinary general meeting will be convened in due course to seek Unitholders' approval for the Proposed Transaction.

Structure of the new master tenancy agreements

The new master tenancy agreements will be for long tenures of approximately 19.5 years and 9 years¹ for Starhill Gallery and Lot 10 Property respectively. The new master tenancy agreements will also incorporate built-in rent step-ups of 4.75%² and 6.0% from the fourth year and every three years thereafter until the expiry of the leases for Starhill Gallery and Lot 10 Property respectively. Following the completion of the asset enhancement works for Starhill Gallery, the initial annual rents under the new master tenancy agreements represent an increase of 1.5% or RM1.3 million compared to the expiring rents under the existing master tenancy agreements for the Malaysia Properties. The initial annual rents payable under the new master tenancy agreements are comparable to the appraised rental values provided by the independent valuers³. Please refer to the SGX-ST announcement which is being issued concurrently for more details on the terms of the new master tenancy agreements.

For the entry into the new master tenancy agreement for Starhill Gallery, the Master Tenant has specified a condition for asset enhancement works to be done on the mall. The Master Tenant will undertake the asset enhancement works, which are expected to be completed before the third year of the new master tenancy agreements for Starhill Gallery, assuming that all approvals required for the asset enhancement works are obtained by 30 June 2019. A rental rebate of RM 26 million per annum will be given to the master tenant during the asset enhancement works period⁴.

The asset enhancement works aim to provide a revamped mall entrance, refreshed interiors with a modern and contemporary look, improved accessibility as well as to activate underutilised spaces. Besides revamping the retail floors, the top three floors of Starhill Gallery will be converted into hotel rooms as an extension of the adjoining JW Marriott Hotel Kuala Lumpur.

¹ Assuming that the option to renew by either landlord or master tenant for the third three-year term for Lot 10 Property is exercised at the specified rent.

² Assuming that all approvals are obtained by 30 June 2019 and asset enhancement works are completed prior to the commencement of Year 3 of the new master tenancy agreement for Starhill Gallery.

³ Valuers' summary reports can be found in the circular to be issued to Unitholders in due course.

⁴ Rent rebate will continue if there is a delay to asset enhancement works completion due to force majeure.

The asset enhancement works will cost RM175 million (approximately S\$58.1 million), which shall be borne by SGREIT. All fees, charges and costs for securing the approvals for the works shall be borne by SGREIT. The Manager intends to finance the cost of the asset enhancement works via a combination of external borrowings including SGD revolving credit facilities and/or internal working capital. On a pro forma basis, after the Proposed Transaction and upon the completion of the asset enhancement works, SGREIT's gearing is expected to increase from 35.5% as at 30 June 2018 to approximately 36.7%.

For illustrative purposes, the pro forma financial effects on SGREIT's distribution per unit ("DPU") is expected to be neutral, on the assumption that, among others, the Manager's management fees are partially paid in units⁵ during the asset enhancement works and after the completion of the asset enhancement works, as a demonstration of its alignment of interest and support to the minority Unitholders. Details of the pro forma financial effects of the Proposed Transaction on SGREIT's DPU, net asset value per unit and gearing can be found in the SGX-ST announcement issued concurrently.

Rationale for the Proposed Transaction

The new master tenancy agreements provide SGREIT with income stability, rent growth and sustainable occupancy for the Malaysia Properties. The payment obligations under the new master tenancy agreements are guaranteed by the sponsor which has a credit rating of AA1/Stable by RAM Rating Services Berhad, thereby reducing tenant credit risk.

The long tenure of the new master tenancy agreements will provide full occupancy for the Malaysia Properties over a long period of time, thus ensuring income stability for SGREIT. Upon the commencement of the new master tenancy agreements², the weighted average lease expiries of SGREIT's portfolio by net lettable area and gross rent are expected to increase from 5.7 years and 4.2 years as at 31 December 2018 to 9.8 years and 6.4 years respectively.

The Proposed Transaction is timely as it comes at a time when competition in mid- to high-end retail in Kuala Lumpur is likely to intensify, thus ensuring SGREIT's resilience. The retail supply within a 10km radius from the Malaysia Properties is expected to increase by approximately 31% over a five-year period to approximately 27 million square feet by 2023, which will exert pressure on the rental and

⁵ Assumed approximately 57% and 23% of the Manager's management fees from SGREIT were paid in units (i) during the period of asset enhancement works and (ii) after the completion of the asset enhancement works respectively, at an illustrative price of S\$0.6936 per unit and calculated on a time-weighted basis. The Manager received 100% of its management fees in cash for the financial year ended 30 June 2018.



occupancy rate⁶. Incoming large-scale projects in the vicinity include the TRX Mall, Merdeka PNB 118, Bukit Bintang City Centre (BBCC) and Latitud 8⁶.

Furthermore, periodic built-in rent step-ups provide rental growth for SGREIT. The proposed asset enhancement works also present an opportunity to revamp Starhill Gallery into an integrated development with hotel and retail elements, as the mall evolves to stay at the forefront of a changing retail landscape. Starhill Gallery last underwent extensive renovations in 2005, with a facelift in 2011.

Tan Sri Dato' (Dr) Francis Yeoh, Chairman of YTL Starhill Global, said: "Bukit Bintang presents long-term prospects. Incoming large-scale integrated developments, improved rail connectivity and Government initiatives to boost tourism in Malaysia are set to further enhance the area as the prime retail and hospitality precinct in Kuala Lumpur. The asset enhancement will allow Starhill Gallery to capitalise on the renewed vibrancy of Bukit Bintang, ensuring that the mall stays at the forefront of the changing retail landscape at the prime shopping stretch of Kuala Lumpur. The integrated concept of hotel with retail element is also in line with the recent global trend of integrated developments."

Mr Ho Sing, Chief Executive Officer of YTL Starhill Global, said: "The long-term structure of the new master tenancy agreements allows SGREIT to ride short-term risks and tap on the long-term prospects of Bukit Bintang. With built-in rent step-ups, the new master tenancy agreements ensure stable income with rent growth and quality cashflows for SGREIT, as well as provide sustainable occupancy for the Malaysia Properties."

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⁶ Market Study Report issued by Nawawi Tie Leung Property Consultants Sdn. Bhd.



About Bukit Bintang

Starhill Gallery and Lot 10 Property are located in Bukit Bintang, the prime retail precinct of Kuala Lumpur. The area is home to many top international designer brands such as Louis Vuitton, Chanel and Dior, as well as global hotel chains like JW Marriott, The Ritz Carlton and The Westin. While large-scale integrated developments are expected to boost the supply of retail space and possibly intensify competition for tenants, the long-term outlook for Bukit Bintang will be enhanced by urban rejuvenation efforts and improved rail connectivity.

About Starhill Global REIT

Starhill Global REIT is a Singapore-based real estate investment trust investing primarily in real estate used for retail and office purposes, both in Singapore and overseas. Since its listing on the Mainboard of the Singapore Exchange Securities Trading Limited (the "SGX-ST") on 20 September 2005, Starhill Global REIT has grown its initial portfolio from interests in two landmark properties on Orchard Road in Singapore to 10 properties in Singapore, Australia, Malaysia, China, and Japan, valued at about S\$3.1 billion.

These comprise interests in Wisma Atria and Ngee Ann City on Orchard Road in Singapore, Myer Centre Adelaide, David Jones Building and Plaza Arcade in Adelaide and Perth, Australia, Starhill Gallery and Lot 10 in Kuala Lumpur, Malaysia, a retail property in Chengdu, China, and two properties in Tokyo, Japan. Starhill Global REIT remains focused on sourcing attractive property assets in Singapore and overseas, while driving organic growth from its existing portfolio, through proactive leasing efforts and creative asset enhancements.

Starhill Global REIT is managed by an external manager, YTL Starhill Global REIT Management Limited. The Manager is a wholly-owned subsidiary of YTL Starhill Global REIT Management Holdings Pte. Ltd. which is in turn an indirect wholly-owned subsidiary of YTL Corporation Berhad.

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