



New Master Tenancy Agreements for Malaysia Properties & Asset Enhancement Works for Starhill Gallery

18 March 2019

- Singapore • Australia • Malaysia • China • Japan



- Overview
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- Asset Enhancement Works
- Funding and Pro Forma Financial Effects
- Rationale for the Proposed Transaction



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Overview

→ New Conditional Master Tenancy Agreements (“MTA”) for Malaysia Properties

- Starhill Gallery and Lot 10 Property (“Malaysia Properties”) are key assets, with existing MTA expiring in June 2019
- New MTA entered into with current master tenant is conditional upon Unitholders’ approval
- Long tenures of approximately 19.5 years and 9 years¹ for Starhill Gallery and Lot 10 Property respectively
- From the fourth year onwards, built-in rent step-ups of 4.75%² and 6.0% every 3 years for Starhill Gallery and Lot 10 Property respectively
- New MTA for Starhill Gallery includes a condition for Asset Enhancement Works (“AEW”) to be performed on Starhill Gallery
- Initial annual rents after the AEW under New MTA represent an increase of 1.5% or RM1.3 million over the expiring rents for the Malaysia Properties

Notes:

1. Assuming that the option to renew for the third three-year term for Lot 10 Property is exercised.
2. Assuming that all approvals for the asset enhancement works on Starhill Gallery are obtained by 30 June 2019 and the asset enhancement works are completed prior to the commencement of Year 3 of the New MTA for Starhill Gallery.

→ Asset Enhancement Works for Starhill Gallery

- Integrated development with hotel and retail concepts, in line with global trend
- AEW will take approximately 2 years, with cost of RM175 million (approximately S\$58.1 million) to be borne by Starhill Global REIT (“SGREIT”)
- Proposed Transaction includes entry into the New MTA and AEW

→ Funding and pro forma financial effects

- AEW and related costs to be funded via a combination of external borrowings including SGD revolving credit facilities and/or internal working capital
- Post-AEW gearing on a pro forma basis to remain healthy at approximately 36.7%, up slightly from 35.5% as at 30 June 2018
- AEW disruption and cost to be mitigated by the partial payment of management fees in Units
- For illustrative purposes, the pro forma effects on the DPU is expected to be **neutral**¹

Note:

1. Based on certain assumptions, further details of which can be found in the SGX-ST announcement issued concurrently.



LOT 10

ISETAN
The Japan Store

ZARA

H&M

2

Master Tenancy Agreements

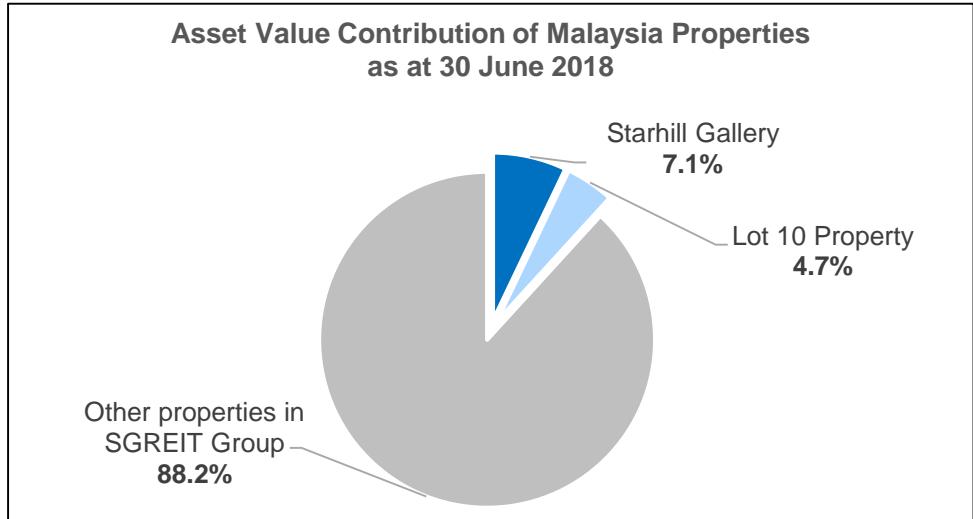
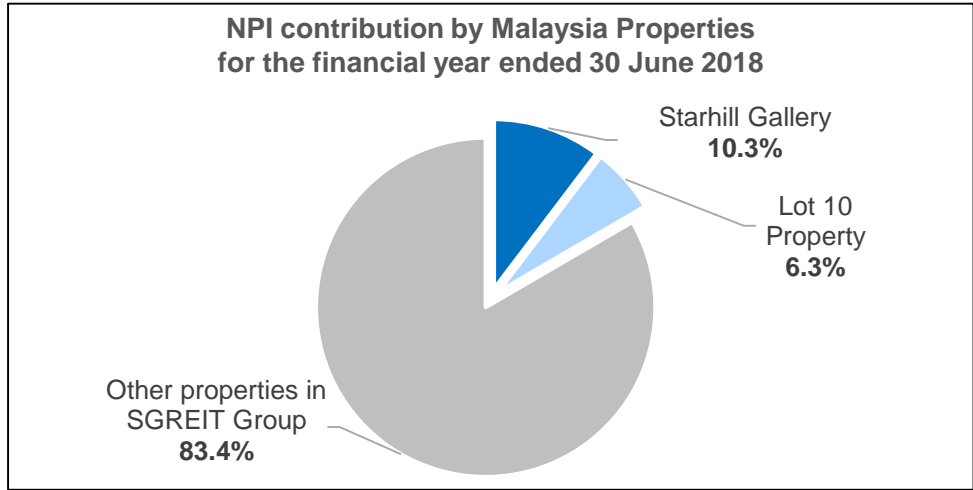
Lot 10

Kuala Lumpur, Malaysia

Existing Master Tenancy Agreements expiring in June 2019



- Starhill Gallery and Lot 10 Property were acquired by SGREIT on 28 June 2010
- Since acquisition, the Malaysia Properties are leased for 9 years to master tenant, Katagreen Development Sdn Bhd, an indirect wholly-owned subsidiary of YTL Corporation Berhad, which is the sponsor of SGREIT and currently holds approximately 37.09% in SGREIT
- The Proposed Transaction is conditional upon Unitholders' approval¹



Note:

1. As the total rent payable under the New MTA and asset enhancement cost, 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.

New Master Tenancy Agreements



Key Information of the New MTA



Annual rent	<ul style="list-style-type: none"> The initial annual rents after the AEW under the New MTA represent an increase of 1.5% or RM1.3 million compared to the expiring rents for the Malaysia Properties¹ The initial annual rents payable under the New MTA are comparable to the appraised rental values provided by the independent valuers² 	
Long tenures	19.5 years (to 31 December 2038)	9 years ³ (to 30 June 2028)
Rent step-ups every 3 years from 4 th year till lease expiry ¹	4.75%	6.0%
Asset enhancement works	<ul style="list-style-type: none"> Includes a condition for AEW to be performed on Starhill Gallery Upon lease expiry, master tenant to reinstate hotel component to retail at their cost, at SGREIT's option 	

➔ Please refer to the SGX-ST announcement issued concurrently for more details on the New MTA

Notes:

- Assuming that all approvals for the AEW are obtained by 30 June 2019 and AEW are completed prior to the commencement of Year 3 of the New MTA for Starhill Gallery.
- Valuers' summary reports can be found in the Circular to be issued to Unitholders in due course.
- 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.



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Asset Enhancement Works

Artist impression of Starhill Gallery
Kuala Lumpur, Malaysia

Asset Enhancement Works for Starhill Gallery – Envisioned to be a luxury retail and lifestyle destination



- Revamp mall entrance to **improve visibility** for tenants
- Open public square for **events**
- Refresh interior retail space with a **modern and contemporary design**
- **Activate underutilised spaces**
- **Improve accessibility** and **shopper experience** with connecting bridges



Artist impression of Starhill Gallery interior

- **Conversion of upper three floors into hotel rooms** as an extension of the adjoining JW Marriott Hotel Kuala Lumpur
- **Integrated development** with hotel and retail concepts, in line with global trend



Artist impression of Starhill Gallery façade facing Jalan Bukit Bintang.

Asset Enhancement Works for Starhill Gallery

- ➔ AEW to be undertaken by master tenant at a cost of RM175 million. SGREIT to bear the AEW cost and costs for securing the approvals
- ➔ AEW will take approximately 2 years, expected to complete prior to the start of the third year of the New MTA for Starhill Gallery
- ➔ Initial rent of RM52 million (less rent rebate) to start upon all AEW approvals¹ being obtained²
- ➔ Rent rebate of 6 months³ per year during the AEW period is given to the master tenant to mitigate income disruption from the AEW



Artist impression of Starhill Gallery façade facing Jalan Gading.

Notes:

1. Interim rent of RM21 million per annum until all approvals for the AEW are obtained. The AEW are subjected to development, building and regulatory approvals. An application for the development order has been submitted to the Dewan Bandaraya Kuala Lumpur.
2. If AEW approvals are not obtained by 31 December 2019, the New MTA for Starhill Gallery shall be renegotiated or lapse with written notice. If approvals come with costs that exceed the AEW cost of RM175 million, the parties shall negotiate in good faith with a view to agreeing on appropriate measures.
3. Equivalent to RM26 million per annum. Rent rebate will continue if there is a delay to AEW completion due to force majeure.



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Funding and Pro Forma Financial Effects

Funding and pro forma financial effects of the Proposed Transaction (New MTA and AEW)

➔ For illustrative purposes, the pro forma effects on the distribution per Unit (“DPU”) is expected to be neutral, on the assumption that, among others, the Manager’s management fees are partially paid in Units³ during the AEW and after the completion of the AEW, as a demonstration of its alignment of interest to the minority Unitholders⁴

Pro forma DPU of the Proposed Transaction for illustrative purposes

	Actual FY2017/18 (Before the Proposed Transaction) ⁽¹⁾	After the Proposed Transaction and during the AEW	After the Proposed Transaction and after the completion of the AEW
Income to be distributed to Unitholders (S\$'000)	99,244	100,034 ⁽²⁾⁽³⁾	100,485 ⁽²⁾⁽³⁾
Units in issue ('000)	2,181,204	2,197,392 ⁽³⁾	2,207,092 ⁽³⁾
DPU (cents)	4.55	4.55	4.55

Notes:

1. Based on the FY2017/18 Audited Consolidated Financial Statements.
2. Pro forma financial effects include the following assumptions: (i) the approvals are obtained; (ii) the AEW are completed prior to the commencement of the third year of the New MTA for Starhill Gallery; (iii) rent rebate of RM26 million per annum for the first two years of the New MTA for Starhill Gallery; and (iv) SGD borrowings (approximately RM193 million) at an interest rate of 3.5% per annum were fully drawn down for the financing of the AEW and related costs, and the corresponding borrowing costs capitalised during the AEW period. Please also refer to the SGREIT’s SGX-ST announcement issued concurrently for the full details and assumptions.
3. Assumed approximately 57% and 23% of the Manager’s management fees from SGREIT were paid in Units (i) during the period of AEW; and (ii) after the completion of the AEW respectively, at an illustrative issue 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 FY2017/18.
4. Based on certain assumptions, further details of which can be found in the SGX-ST announcement issued concurrently.

Funding and pro forma financial effects of the Proposed Transaction (New MTA and AEW)

- ➔ AEW and related costs to be funded by a combination of external borrowings including SGD revolving credit facilities, and/or internal working capital
- ➔ Post-AEW gearing on a pro forma basis is expected to remain healthy at approximately 36.7%, up slightly from 35.5% as at 30 June 2018

Pro forma NAV per Unit and Gearing of the Proposed Transaction for illustrative purposes

	Actual as at 30 June 2018 (Before the Proposed Transaction) ⁽¹⁾	After the Proposed Transaction and upon the completion of the AEW
NAV (S\$'000)	1,990,296	1,996,748 ⁽²⁾
Units in issue ('000)	2,181,204	2,205,170 ⁽³⁾
NAV per Unit (S\$)	0.91	0.90
Gearing (%)	35.5	36.7 ⁽²⁾

Notes:

1. Based on the FY2017/18 Audited Consolidated Financial Statements.
2. Assumed (i) increase in property valuations which was based on the average market value post-entry into the new MTA and upon the completion of the AEW as determined by the independent valuers; and (ii) the external borrowings were fully drawn down to finance the AEW and related costs, including the corresponding borrowing costs capitalised during the AEW period. The property valuation certificates issued by the independent valuers will be included in the Circular to be issued to Unitholders in due course.
3. Assumed approximately 57% of the Manager's management fees from SGREIT were paid in Units upon the completion of the AEW at an illustrative issue price of S\$0.6936 per Unit.



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Rationale for the Proposed Transaction

Artist impression of Starhill Gallery façade facing Jalan Gading
Kuala Lumpur, Malaysia

- 1 New MTA provide SGREIT with income stability, rent growth and sustainable occupancy for Malaysia Properties
- 2 Opportunity to revamp Starhill Gallery into an integrated development to stay at the forefront of a changing retail landscape
- 3 Bukit Bintang presents long-term prospects in view of multiple public and private sector initiatives

1

New MTA provide SGREIT with income stability, rent growth and sustainable occupancy for Malaysia Properties

STARHILL
GLOBAL REIT

➔ **Income Stability**

- The 19.5 years and 9 years¹ tenure of the New MTA provide visible income stability
- Payment obligations under the New MTA are guaranteed by YTL Corporation Berhad, which has a credit rating of AA1/Stable by RAM Rating Services Berhad, thereby reducing tenant credit risk

➔ **Rental Growth**

- Built-in rent step-up of 4.75%² and 6.0% every 3 years from the fourth year onwards for Starhill Gallery and Lot 10 Property respectively



**YTL Corporation
Berhad**

AA1/Stable



Note:

1. Assuming that the option to renew for the third three-year term for Lot 10 Property is exercised.
2. Assuming that all approvals for the AEW are obtained by 30 June 2019 and the AEW are completed prior to the commencement of Year 3 of the New MTA for Starhill Gallery.

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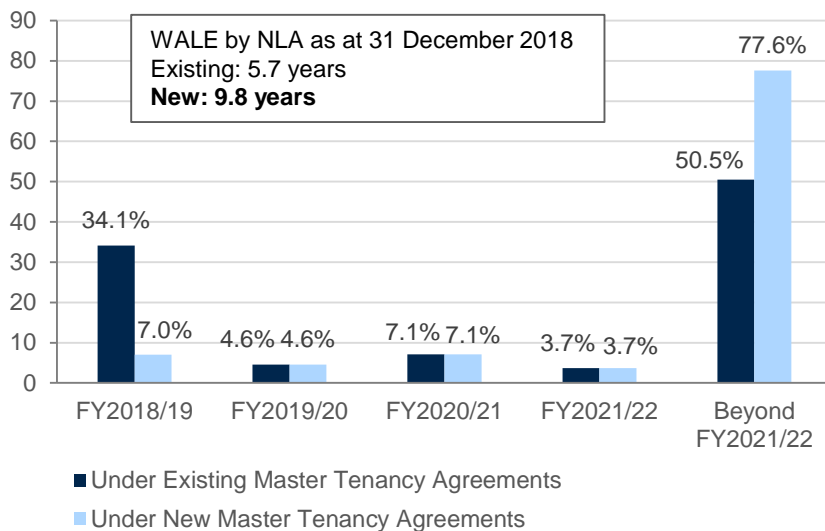
New MTA provide SGREIT with income stability, rent growth and sustainable occupancy for Malaysia Properties

STARHILL
GLOBAL REIT

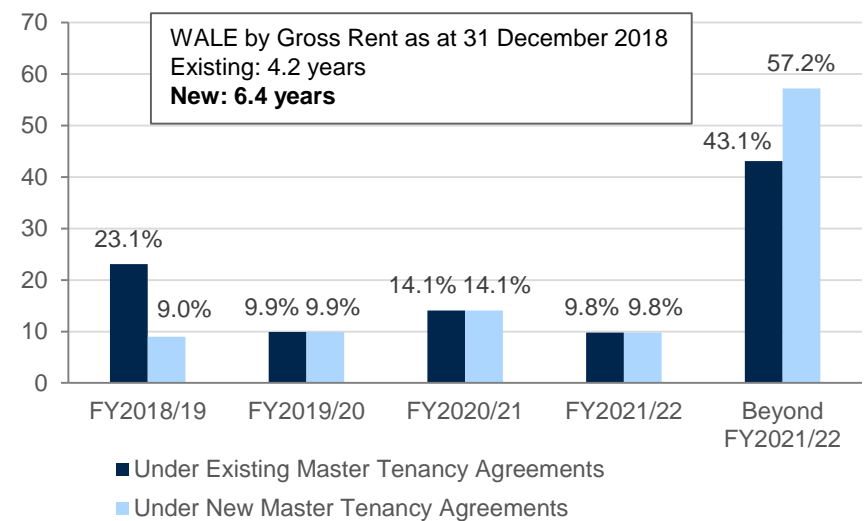
→ Sustainable Occupancy

- Long tenure of the New MTA will provide full occupancy for the Malaysia Properties over a long period of time, ensuring income stability for SGREIT
- SGREIT’s weighted average lease expiry (“WALE”) by net lettable area (“NLA”) and gross rent are expected to improve from 5.7 years and 4.2 years as at 31 December 2018, to 9.8 years and 6.4 years respectively

Portfolio Lease Expiry by NLA



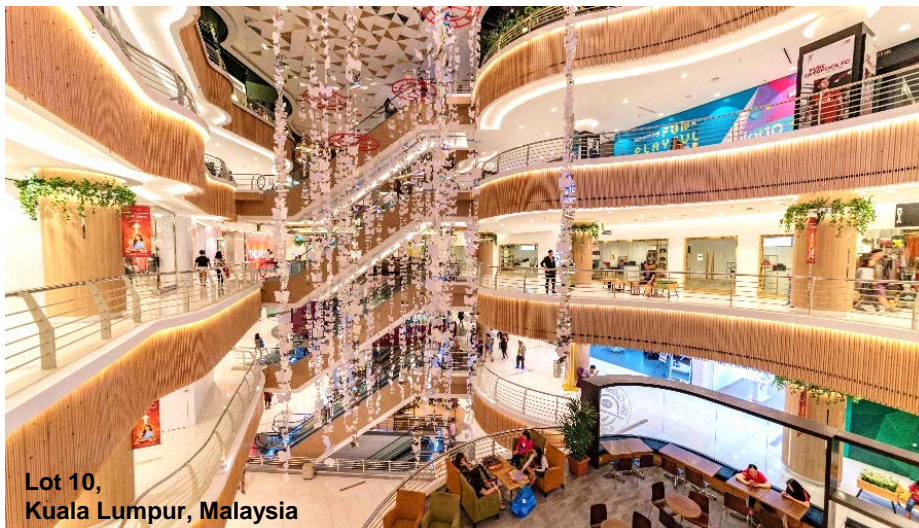
Portfolio Lease Expiry by Gross Rent



2 Opportunity to revamp Starhill Gallery into an integrated development to stay at the forefront of a changing retail landscape



- ➔ Starhill Gallery last underwent extensive renovations in 2005, with a facelift in 2011
- ➔ AEW will allow Starhill Gallery to capitalise on the renewed vibrancy along Bukit Bintang, the prime shopping stretch of Kuala Lumpur
- ➔ Integrated concept of hotel with retail elements in line with recent global trend
 - Leverage on the hotel's guests to increase footfall to the retail component;
 - Deployment of incremental capital into an existing high quality but aging asset, with certainty of return provided by the New MTA



Lot 10,
Kuala Lumpur, Malaysia

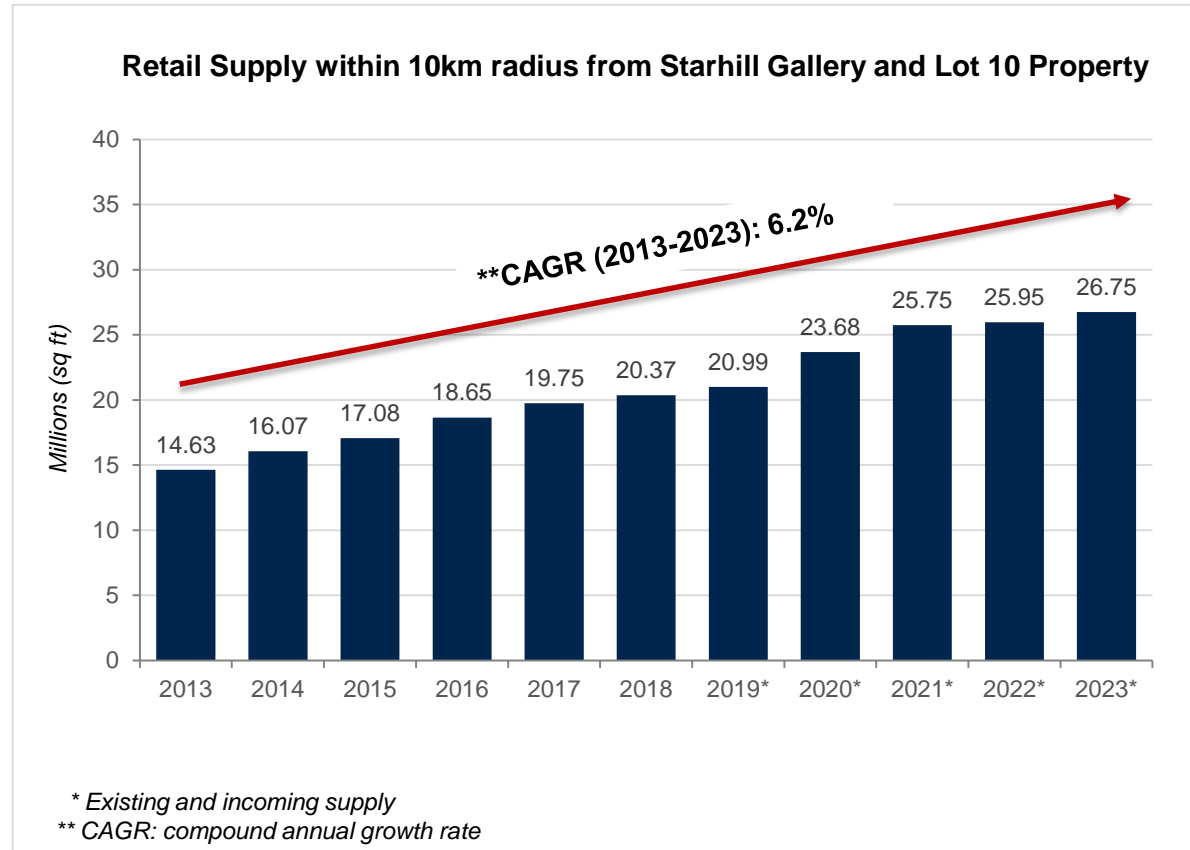
Lot 10 Property rejuvenation

- ➔ In 2017, Lot 10 Property underwent a similar redevelopment work but on a smaller scale, which has resulted in a refreshed positioning and higher shopper traffic

Opportunity to revamp Starhill Gallery into an integrated development to stay at the forefront of a changing retail landscape



- ➔ 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, ensuring SGREIT's resilience
- ➔ Retail supply within a 10km radius from the Malaysia Properties is expected to increase by about 31% from 2018 to 2023, upon completion of large-scale projects such as the TRX Mall, Merdeka PNB 118, Bukit Bintang City Centre and Latitud 8¹, which will exert pressure on the rental and occupancy rate



Source: Nawawi Tie Leung Property Consultants Sdn. Bhd.

Note:

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

3 Bukit Bintang presents long-term prospects in view of multiple public and private sector initiatives

→ Bukit Bintang is the retail and tourism epicenter of Kuala Lumpur

- Home to top international designer and luxury watch brands
- Well-served by hotel brands such as JW Marriott, The Ritz Carlton and The Westin



→ Continues to experience ongoing transformation

- Large-scale projects with integrated retail concepts would further entrench Bukit Bintang as the prime retail shopping precinct in Kuala Lumpur, despite near-term supply concerns
- Government initiatives to boost tourism in Malaysia. Tourism Malaysia aims to achieve a revised target of 30 million tourist arrivals and RM100 billion in tourist receipts by 2020¹

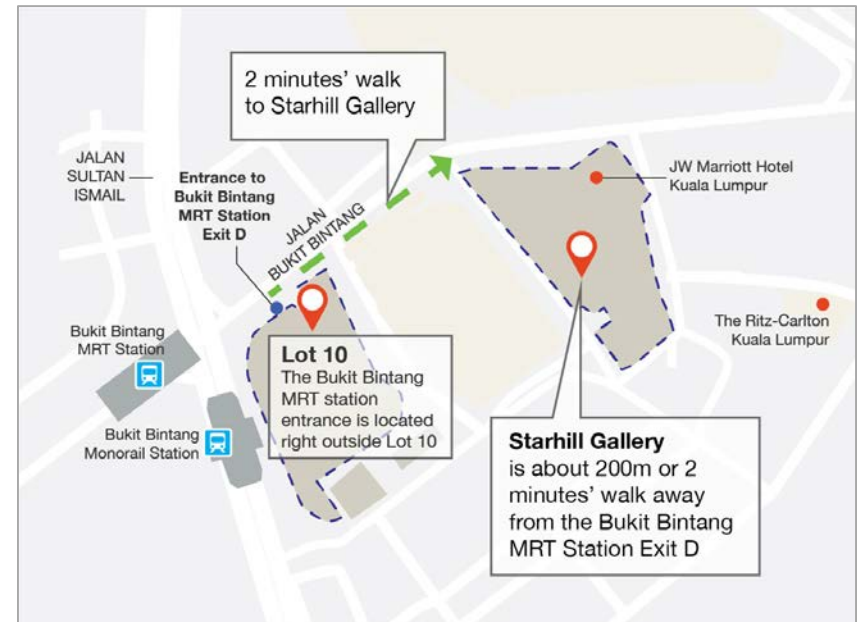
Note:

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

Bukit Bintang presents long-term prospects in view of multiple public and private sector initiatives

➔ Improved accessibility with enhanced rail network and connectivity

- Bukit Bintang MRT Station, which opened in July 2017, is located along the Sungai Buloh-Kajang Line (SBK) and has brought a new wave of vibrancy to the area
- The upcoming Sungai Buloh-Serdang-Putrajaya (SSP) Line, which is expected to be completed in 2022 with projected daily ridership of 529,000¹, will have two stations in the vicinity



Note:

1. Mass Rapid Transit Corporation Sdn. Bhd. website (<https://www.mymrt.com.my/public/sg-buloh-serdang-putrajaya-ssp-line/>)



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