TRANSCRIPT
A-REIT FY14/15 RESULTS MEDIA & ANALYST BRIEFING
Venue: Aperia – Edelweiss Room
23 April 2015, 5:45pm

Mr Tan Ser Ping, CEO of the Manager of A-REIT: Good evening, everyone. Thank you for taking the time to join us here at Aperia, a new location for all of you. Hope you enjoy this place, a brand new mixed use development owned by A-REIT.

Can we have the first question please?

Participant A: Ser Ping, 2 questions from me. Previously when discussing about your strategy on China, you talked about focusing on business parks and high-specs. So can we get a bit about your thinking behind going into this Jiashan logistics development? Will you be looking to scale this up even further, in terms of building a network of logistics assets in China? The second question is about your fixed ratio for your balance sheet. What do you see as a criteria or a sort of range for fixed debts?

Mr Tan Ser Ping: Let me answer the second question first. We have all along shared that our interest rate risk management policy is to have 50 to 75% of our interest rate exposure hedged. As at March 2015, we are about 68%, so it is well within the stated policy range or slightly at the higher end. That would continue to be the case.

On China strategy, I believe in our past conversations, we shared that we will be focusing on business parks and that we will also keep a lookout for possible opportunities within the logistics segment. Industrial land for logistics development, particularly in and around Tier 1 cities in China is very, very scarce and limited in supply. Hence, this opportunity is very unique. We bought it directly from the local authorities. Roughly, the all-in projected development cost is in the range of about RMB 3,000 per sqm, lower than market comparables of about RMB4 – 5,000 per sqm. We feel that it is a good location for servicing Shanghai. The investment amount is manageable, both in terms of square metre-age and in terms of dollar of investment. However, it may be premature for us to declare our intention or our ambition to build a network of logistic properties all over China. It's going to be a big, uphill task, in terms of building up a network in a short time. We would focus more on major consumer cities, where opportunities for, particularly, e-commerce fulfilment could be exploited. So this location would be the first test of that intent. This development is relatively short in terms of the development cycle - we expect completion in around the 1st Q next year. So we have about a year or so, to pre-market and get it up and running.

Participant B: Just want to follow-up on this Jiashan project. So can I say it's more opportunistic in a sense that you, because the land price was relatively attractive, and you probably haven't started leasing, or there hasn't been any reverse enquiry?

Mr Tan Ser Ping: We have started pre-marketing, but we have not yet secured any commitment at this moment. In fact, the land only became available last month. In terms of the progress of preparing the land, back filling the ground, levelling, construction probably would start maybe towards the end of this quarter or early next quarter.

Participant B: And the projected 8% is yield-on-cost?

Mr Tan Ser Ping: Yes.

Participant B: The second question is regarding Ascendas, your parent who is probably looking at Australia. Is this a market that you would also look, or you will focus in China and Singapore?

Mr Tan Ser Ping: We won't rule that out if there are interesting and significant ticket items, and the rest of the investment fundamentals are of interest or are attractive to us. We may consider. But nothing at this point.

Participant B: Last question on business parks. Could you share what is your latest sign-up rents? How do you see the market in general?

Mr Tan Ser Ping: There are three sub-markets within the business park segment in Singapore. In the one-north area, you are looking at the mid–five kind of level. In the Changi Business Park area, $4-$4.50 depending on size. In the International Business Park area, it is in the range of $3.50 - $3.80.

Participant B: Your latest signing is within that range?

Mr Tan Ser Ping: Yes.

Participant C: Hi, Ser Ping. Do you think your occupancy rate has bottomed out for your multi-tenanted buildings? Because you mentioned that last year, your single-user conversions were much greater than this coming year, so is that a reasonable expectation?

Mr Tan Ser Ping: Yes. I think one of the major pressures in the last financial year on us, in terms of occupancy, was the conversion of SLBs into MTBs. If you were to trace back our past year's presentation, you will see that we have passed the peak of SLB expiry and therefore SLB to MTB conversion. Kit Peng shared earlier that, in the current financial year, we will have 10 SLBs coming due. I believe this year we will have more renewals, either fully or partial. We will probably redevelop one of those properties. So, by and large, I think the pressure this FY on occupancy due to SLB conversions would be more muted.

Participant C: So, would that translate into potential improvements in MTB occupancy?

Mr Tan Ser Ping: I think there is that possibility, but right now, the other overhanging factor will be more of the macro-economic situation. By and large, if you look at the last 2 quarters or so, MTB and full portfolio performance, in terms of occupancy rate, we are creeping up a little bit, quarter by quarter. We hope we can maintain that trend, but I won't rule out month-to-month fluctuations - by and large, I think the trend is in that direction.

Participant D: Hi, on your SLB assets, can you give us some colour as to whether they are primarily the logistics side, or do you have some in business parks, or what kind of buildings are they? And my second question is on the China asset. You said that you are not yet looking to build a logistic network. But when you initiate the discussion with the end-user, do you think that it is a kind of a hindrance? And finally, on your China exposure, you have mentioned earlier that you want to keep it capped at 20%. Does that still remain or would you kind of revise it? Thank you.

Mr Tan Ser Ping: Out of the ten SLB properties due to expire in this FY, most of them are light industrial properties. There are two logistics and one high-specs buildings. I plan to redevelop the logistics property because of the relatively older specifications of that building. And the rest of it, I think, by and large, we are expecting more renewals than conversion from SLBs to MTBs. Your question with regards to whether we continue to maintain 20% of our asset or portfolio outside of Singapore. Yes, we are now still way below that, about 4%, so I am not too concerned with that as at this point in time. On logistics, while having a network has its benefit, I think ultimately, property still comes tagged with the fundamental of properties and that's location. And if you have a suitable location, in this case a location that is on the fringe of Shanghai, one-hour transport link to the core of about 20 to 30 million inhabitants of the Shanghai municipality, the ability to attract logistics users and operators, is quite significant.

Participant E: I have two questions. The first one is on the logistics development in China. On the map, you are showing that it's quite close to the Hu-Hang expressway, how far is it from that? And the second one is, I think you are engaging in both activities, in some built-to-suit project, also you are converting some of the single-tenanted to the multi-tenanted properties, so how do you comment on this kind of two activities. Seems like it is conflicting.

Mr Tan Ser Ping: Sorry I don't get your second question.

Participant E: How do you comment on the built-that-suit development and the conversion of single tenanted to multi-tenanted, what are the major difference between these two?

Mr Tan Ser Ping: The distance from the proposed Jiashan development is within one to two km from the exit of the highway, so it is very, very near. Just get out of the highway exit and within about 5 minutes, you are at the site. Built-to-suit refers to a development for which we have a pre-committed tenant, and we negotiate and build a customised new development for the pre-committed tenant. And usually, for a period of time, which is relatively longer, could be 5, 10 years or even longer. The conversion of single tenanted buildings could be sale and leaseback transactions, could be built-to-suit, and when the lease expires, if the tenant choose not to lease or continue to lease that property 100%, then it would be converted into a multi-tenant situation. I hope that answers your question.

Participant E: Yes. In the future, will you engage in these two activities at the same time?

Mr Tan Ser Ping: Yes, we have in the past, engaged in such activity and continue to if there are such market opportunities. But at this moment, I would say that built-to-suit opportunities are relatively scarce for 2 reasons. One is, in the market, there are not many of such enquiries in Singapore. Second, on the supply side, land tenure tends to be a lot shorter at 30 years. Therefore, we expect a higher rate of return on such projects. We have given up a couple of opportunities for built-to-suit, in the last 2 years or so because they do not meet our returns expectations.

Participant E: Okay, thank you.

Participant F: I'm Joshua from Maybank. Can I ask what is your occupancy rate for Singapore business parks. What was it like, quarter to quarter? Just your Singapore business parks? And science parks?

Mr Tan Ser Ping: Can I refer you to the documents you have in the folder? There is this document called Supplementary Information. In the first table, table no. 1, you will see those numbers, building by building, both for science parks as well as for business parks. Science Park is approximately 91% and Business Parks is approximately 84%.

Participant G: Hi, just a question on your rent reversions. 4% in the 4th quarter, which I think is a bit lower than the 8% for the 3rd quarter. So just what was driving that? Also moving forward, for the mid-single digit expectation of rent reversions, do you see certain asset or subclasses outperforming others like business park or logistics?

Mr Tan Ser Ping: From quarter to quarter, it really depends on the underlying leases that are up for renewal. It could be different due to locations, or it could be specific leases. It all depends on what the current passing rent is. But by and large, I think you will see that given the passing of time and the relatively stagnant market rates in the last few quarters, the gap between our passing in the portfolio as well as the current spot has narrowed. That is why we are also sharing with you that for the current FY, we would expect a more moderate, more modest reversion as compared to the financial year just passed.

Participant G: Sorry, across the different subclasses?

Mr Tan Ser Ping: Different subclasses, maybe we can take a look at the chart on slide 39. You will see that the gap in the BSP is relatively small right now. As I have shared earlier, in terms of the spot rent available in the three different micro markets, I think in there we still have some opportunities to achieve, maybe the mid, single digit range. For the light industrial and logistics properties, I think the gap is relatively wider, so the opportunities may be slightly higher.

Participant H: Hi, Ser Ping, just want to focus a little bit on 2 properties, Corporation Place, as well as 10 Toh Guan. Observed that these 2 buildings have undergone AEI quite recently, but the leasing seems to be still relatively slow. Can you tell us some of the challenges that you have encountered in terms of these two assets and also is there anything potentially that we can actually look forward to? Thank you.

Mr Tan Ser Ping: Corporation Place is a relatively old building. Although designated as a high specs, we bought the property at a light industrial property price. We know at the point of purchase that this building, given its location, is very much a 'swing building', so to speak. 'Swing' in the sense that, for high specs users, when the market is tight, the occupancy at this building would rise with the market. But when the market is weak, it would be relatively low in occupancy. In the quarter just past, we have actually secured a single user that has contributed about 5% or 2,000 sqm of space. This is one of the very few buildings within the vicinity that would be able to accommodate large floor plate users, in the range of 2 to 4,000 sqm especially if they need it for manufacturing purposes. So, it is quite a niche play in that sense, and that was what we bought the building for. The other building that you referred to, 10 Toh Guan. 10 Toh Guan is a very interesting situation because of its origin. Its origin is a logistics building, but it is a logistics building that sits in the middle of the booming new regional centre of Jurong Lake District. And at this moment, there are still some challenges for us to work through with the authorities and that is to accord it the appropriate usage and not as a logistics building. For example, the ground floor is now a retail furniture mall. We also have DBS in there, using it as a back-office. The recent dip in occupancy was due to a short-term logistic user terminating the use of some of the space. So we have reserved that space to look out for more higher-value users. At the same time, we have to work through the regulations in terms of permissible usage. Hopefully we can find some breakthrough in that area.

Any other questions?

Participant I: You have mentioned that 10 SLBs would be expiring next year. Do you have any colour on how negotiations are going and how many do you expect to be converted to MTBs?

Mr Tan Ser Ping: Out of 10 SLBs, we will most likely redevelop one of the logistics buildings. We may sell one to the end-user who has been asking to buy the building. The remaining SLBs, I think, we would expect more or less renewal. So the question this year is not so much about the SLB expiries, it will be more about our ability to lease out the existing 12.3% of the vacant space.

Participant J: Hi, can you talk about your acquisition plans for the coming year? Are you expected to have the same kind of acquisition drive as you had in FY14/15? Thank you.

Mr Tan Ser Ping: It depends on market opportunities. But what I can share with you is, I think, it's quite well-known already that the sponsor has on its balance sheet, available business and science parks properties, in excess of S$1 billion. That would translate into potential acquisition opportunities for A-REIT. We have just completed one in March this year. In terms of open market, I think, it is not going to be that many. Last year, Hyflux Innovation Centre is unique in a way, in terms of scale, size and opportunity. So the acquisition pipeline is unlikely to be as high as $700-800 million.

Participant K: What kind of gearing level are you comfortable with? Now it is 33.5%?

Mr Tan Ser Ping: Well, the regulation allows up to 60%. We have indicated that at 45% we have some headroom of $1.7 billion. In the past we have never gone that high. We are now at about 34%, so I think we still have a fair bit of room, and it depends very much on the earlier question. It would be more opportunity driven, if we need capital for investment opportunities.

Participant L: What's the difference between the high tech sector and the older business parks? Why can't you divest some of the older business parks? Because the difference between your leasing rents for the high tech centre and some of the older business parks in IBP is not much. What kind of higher yields can you get on those older business park properties?

Mr Tan Ser Ping: Yield is definitely one of the considerations but I think capital value and what is the prospect of those buildings are also valid considerations that we take into account when we consider properties for divestment.

Participant L: Thank you.

Mr Tan Ser Ping: Okay, anyone wants to have the last question? If not, we won't keep you too late. It is already 6.30 pm. Thank you once again for taking the time and trouble to come to Aperia. Let us know what you think about coming here and if we should continue to come here? We just wanted to take this opportunity to show you this property which is new and unique in our portfolio.

Thank you.