TRANSCRIPT
A-REIT 2Q FY15/16 MEDIA & ANALYST BRIEFING

Venue: Aperia – Edelweiss Room
22 October 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. Now for Q& A. Can we have the first question please?

Participant A: Can you talk about utilities expense. Why are they going up?

Ms Yeow Kit Peng, Head of Capital Markets and Corporate Development of the Manager of A-REIT: There have been some conversions from the single lease buildings to multi-tenant buildings and that's one of the reasons why utilities expenses have increased.

Participant B: Ser Ping, do you mind commenting on your business park reversions this quarter. It seems quite strong. And could you comment on the outlook for Changi Business Park and International Business Park. How are they performing?

Mr Tan Ser Ping: The business park properties are holding up pretty well, based on the reversions of about 13.2%. It's partly where the respective leases were in terms of the rent level 3 to 4 years ago depending on the case. But I think it is also building–specific. Within a business park, you may have slight variations in terms of building quality, specifications and things like that. So given that we are pretty heavily involved in this sector, I would like to think that our properties are probably quite well suited for the customers that we have in there. While the sector's rental trend has been relatively flat, we continue to perform quite well. With one small exception relating to tenants in the Oil and Gas industry, in IBP and to some extent Science Park. I think there's no secret what were the driving forces in that sector, so we have seen some downsizing and even relocation of such tenants. But I think by and large we expect that to be more or less over for us.

Participant C: Just on the one-time distribution of $6.5m. You mentioned that it is related to the upfront fees in 2009/2010. Do you have any other upfront fees that will be affected?

Mr Tan Ser Ping: Well, a little bit of a background before I answer your question. IRAS has made some decisions with regards to the deductibility of upfront fees on credit facilities. They now say that any such fees incurred on credit facilities before 2012 is not deductible. It has to be paid out to unit holders. Similar kind of fees incurred from 2012 onwards continues to be deductible. This $6.5 million relates to FY09/10, so it's a good 5 to 6 years ago, and we had in that financial year treated it as deductible and therefore it served to reduce the amount of distributable income in that year. Now that the ruling is final, we have to pay it out. You asked if there are any more in the future. I think there is still some, but not so big, probably less than half of this amount.

Participant D: Just want to ask you with regards to the reduction of the anchor tenant specifications to 1,000 sqm. I remember that about 30% of your portfolio does not qualify for the 70% anchor tenant requirements. How has that changed?

Mr Tan Ser Ping: No, I don't think we had ever mentioned that 30% of our portfolio or tenants do not qualify. The rule is that anchor tenants have to account for 70% of the GFA of a JTC regulated building. And what is the definition of an anchor tenant? There are couple of criteria, one of which is the amount of space the tenant occupies, and that is 1,500 sqm. Recently they have reduced that to 1,000 sqm. There are other rules, or criteria with regards to value-add of the company, with regards to the remuneration per employee that the tenant employs, and things like that. So this relaxation, I think by and large is positive and is a relaxation of the rules that JTC impose on such buildings.

Participant E: Can you give us some on-the-ground colour from the leasing team on the outlook for light industrial and logistics properties. The pre-commitment seems quite low. What comments do you have? Thank you.

Mr Tan Ser Ping: I think the supply pipeline has been there for quite a while. You have been looking at about 8% of the total stock coming, adding to the existing stock over the next 3 years or so. That picture remains the same. I think what really would be of significant impact to the outlook of occupancy and of leasing activities would be very much, in my view, is the strength of the macro-economic performance. In the recent quarter we have seen, some weakness, some headwind coming through. Whether that would carry on, I do not know at this moment, but that is a potential headwind that is hanging over us all, collectively.

Participant F: When I look at the business parks and science parks supply, the sponsor has got one asset that is completing this year. Does the sponsor have any asset that is stabilised within their portfolio?

Mr Tan Ser Ping: Yes, there are as high as probably in excess of $1 billion worth of properties on the Ascendas Group private balance sheet. I think over time as you have seen over the past decade or so, every now and then they may take opportunities to recycle some of those properties. These are mainly within the Science Parks and to some lesser extent Business Park assets.

Participant G: Can you share with us the outlook for the demand for science parks. We've talked about business parks but for science parks it seems like they have kind of come off the radar. I see that there is a big project by your sponsor, which is about 500,000 sq ft and completing in 2015. How do you see that competing with your existing projects that are not doing that well like Aries, Alpha and Cintech 1?

Mr Tan Ser Ping: Typically the rejuvenated or redevelopment projects like Ascent, which you are referring to, is positioned a bit differently. For those new properties that come through Ascendas redevelopment project, they would be priced at a level that is more in line with One-North properties and that means in the range of above $5 per sq ft per month. In terms of the target audience, they also tend to target relocation or consolidation, and larger space demand. Whereas for most of our existing multi-tenant buildings, be it within Science Park I or Science Park II, tenants tend to be the conventional or traditional users which are small to medium users, and the price range is in the $4 or below kind of level. So there is some differentiation.

Participant H: Just on divestments, how much of your portfolio do you think is ripe for recycling. And with the proceeds and profit from the divestments, do you intend to distribute any of this to shareholders?

Mr Tan Ser Ping: We don't really set a target as to how much we recycle, it really depends very much on opportunities. So if you look back the last 3 years or so, there were various reasons which drove the divestments. Usually, it is because we find the offer or value of the price attractive. We have been managing our capital on a total global basis and we re-deploy as there are significant opportunities for re-deploying. So far we have not made use of that to manage DPU distribution. As much as possible, we would rather grow DPU organically with operations underpinning the growth. Unless we find that there is limited opportunity for us to re-deploy the capital recycled.

Participant I: What's the difference between high-specs and business parks? And what kind of activities can go into each? Seems like the average rent is quite close.

Mr Tan Ser Ping: The difference between high-specs industrial and business park is in the zoning. In business parks no manufacturing activities are allowed. For high specs industrials, they are zoned industrial, typically B1, so it's meant for cleaner industrial activities. Manufacturing, light manufacturing activities are allowed. Typically they are used by light industrial companies for mixture of usage, it includes, R&D, corporate functions and even some light manufacturing or assembly or other permitted industrial activities.

Participant J: Can you give us an update whether there is any pre-commitment for 2 Senoko South? For the FY16/17 SLBs that are due for renewal, can you give us a breakdown on how the renewals may pan out?

Mr Tan Ser Ping: We are still in the marketing process for 2 Senoko South. We have not yet at this moment committed any tenant, so we have to continue to work hard on that. For FY16/17 expiry, we are expecting 6 properties: 3 in light, 1 in Logistics, 1 high specs and 1 IDAR. The IDAR property is one of the 'big boxes' in Tampines Ave 10. That one is renewed by default because the whole lease commitment was for the full tenure of the land. For the high specs property, we have already exchanged documents, so it would be renewed. Under light industrial and log, we have 1 renewal, 2 likely partial renewals and 1 likely non-renewal. The non-renewal is roughly in the range of 12,000 sqm.

Participant K: Can we expect your margins to stabilise for the rest of this year and the next financial year? What's the outlook for rent reversions?

Mr Tan Ser Ping: Margin is very much driven nowadays by labour costs. Our contracts are going to run through towards the end of 2016. For the next 1 year or so, it should be relatively stable with the exception of some volatility in utilities. The next review of operating costs contracts would be towards the end of 2016. The second question was reversion. As Kit Peng has already mentioned, we will continue to expect mid-single digit possibilities for the balance of the FY. For the next FY probably, the gap (between existing and market rents) is likely to narrow, so reversions may be more muted. I would first qualify that we need to take into consideration what the economic condition or outlook of the economic performance of Singapore will be in the next year.

Mr Tan Ser Ping: Any final questions? Ok then, thank you very much. It's quite late now. We won't keep you here for too long. Please help yourselves to the refreshments before you leave. Thank you.