ARA Trust Management (Suntec) Limited

Suntec Real Estate Investment Trust
("Suntec REIT")

Manager of
SUNTEC Real Estate Investment Trust

ANNUAL GENERAL MEETING ON 16 JUNE 2020

RESPONSES TO THE SUBSTANTIAL AND RELEVANT QUESTIONS

ARA Trust Management (Suntec) Limited (the "Manager"), as manager of Suntec Real Estate Investment Trust ("Suntec REIT") would like to thank unitholders for submitting their questions in advance of Suntec REIT's Annual General Meeting ("AGM") to be held by electronic means at 10.00 a.m. on 16 June 2020.

We received several questions relating to the impact of COVID-19 on Suntec REIT and the REIT's growth strategy, capital management and outlook. In addition, we have also received a list of questions from Securities Investors Association (Singapore) ("SIAS"). As there are areas of overlap in the scope of the questions asked, we are not providing response to every question received. Instead, where the questions overlap, we have grouped related and similar questions together and provided our corresponding responses to them.

Please refer to **Annex A** for the list of substantial and relevant questions, and the Manager's responses to these questions.

For full details on Suntec REIT's latest business performance update for the quarter ended 31 March 2020, please refer to the Announcements section on Suntec REIT's website at https://suntecreit.listedcompany.com/newsroom.html.

By Order of the Board
ARA Trust Management (Suntec) Limited
(as manager of Suntec Real Estate Investment Trust)
(Company registration no. 200410976R)

Chong Kee Hiong
Director
16 June 2020

Annex A

Please refer to our responses to the questions as set out in the table below:

<u>COVID-19</u>

Questions	Responses
1. Impact of COVID-19 to the business? 2. Due to COVID-19, what is the degree of drop in occupancy so far for the REIT's office and retail segments in both Singapore and Australia? 3. Office lease expiry in Singapore for 2021 and retail lease expiry in Singapore for 2020 are significantly high compared to other forthcoming years, how does management intend to deal with the possibilities of more tenants facing difficulties should the COVID-19 situation prolongs as well as real possibility of significantly lower rental reversion as a result. 4. What are the mitigating steps undertaken by management to reduce the impact of COVID-19? 5. Considering the COVID-19 situation, the business from the convention and retail segments are greatly impacted. i. Pertaining to the convention segment, what are the mitigating measures adopted to cushion the impact from the total loss of revenue. ii. Pertaining to the retail segment, what are the foreseen impact on revenue and NPI from the circuit breaker measures as well as the initial phases of post-	<u>Singapore Office Portfolio</u> The Singapore office portfolio remains resilient, underpinned by the properties' diverse tenant bases. However, office demand will be impacted due to deferment of relocation and expansion plans by corporates. Some companies may also continue to adopt split-team operations while shifts in occupier demand towards remote working and space utilisation are anticipated. In terms of tenants' assistance, the property tax rebates granted by the government will be fully passed on to tenants, cash rebates granted by the government will be also fully passed on to qualifying SME tenants[1]. Separately, qualifying SME tenants[1] will receive an additional rent relief of 1-month base rent from the landlord and are eligible to defer rent for the period between 1 Feb to 19 Oct 2020. Early terminations by tenants in vulnerable sectors are anticipated, with the potential exposure constituting less than 1% of the Singapore office portfolio's net lettable area (NLA). Rental revenue is expected to remain robust due mainly to the completion of 52% of FY 2020 renewals for the Singapore office portfolio and strong rent reversions achieved from previous quarters. Rent reversions will remain strong for FY 2020, underpinned by limited office supply while portfolio occupancy is expected to remain healthy, within the market range of 95%[2]. With regards to the space to be vacated by UBS in One Raffles Quay and Suntec City Office, while 43% of the space has been pre-committed, the remaining vacant space is likely to take a longer time to backfill. To navigate through the downturn, the Manager will continue to proactively manage the expiring leases amidst the current market slowdown with tenant retention a key focus. Plans are also underway to leverage on technology to better facilitate office community needs and placemaking activities.

circuit breaker? 6. Given that mass exhibition/shows will be halted, restrictions on retail will reduce footfall and office tenants will extend telecommute arrangement, how does Suntec plan to tide over this crisis? 7. What marketing and digital/technological measures are being taken to ensure that Suntec City Mall and the retail segment in general are able to improve performance (i.e. tenant sales online and offline) post-phase 1 and eventually post COVID-19? 8. How is the outlook on office rents? 9. How has Suntec REIT assisted tenants who are impacted by COVID-19? 10. Has there been any early termination of tenancy agreements among the tenants? If so, how many and what percentage of the portfolio is affected? 11. Amid the COVID-19 pandemic; i. Has management stabilised the ship and what are the factors used to deliver this assessment? ii. What are the targets and near-term plans set by management to regain profitability and grow Distribution Per Unit ("DPU")? iii. What are the major challenges and how will management overcome them?	<u>Suntec City Mall</u> Suntec City Mall is expected to face strong headwinds for the rest of the year. Shopper traffic has dropped significantly with gradual recovery from 3Q 2020 as the COVID-19 situation improves and safe distancing measures are eased. Notwithstanding the weak tourist arrivals impacting retail sales, Suntec City Mall is partially shielded by its primary catchment comprising predominantly office workers and local residents. In terms of tenants' assistance, 2 months' rent waiver were granted to all Suntec City Mall tenants in April and May 2020. In total, including the property tax rebates and cash rebates granted by the government[1], tenants will receive up to 4 months of rent assistance. Tenants who faced extended period of closure (e.g. entertainment segment) will also be granted additional rent assistance. To further assist tenants in their cash flows, tenants also have the option to draw down one month of cash security deposit and access to the 'SME Help Fund' by ARA, Straits Trading and JL Family Office. Qualifying SME tenants[1] will also be granted rent deferments. Rental revenue will be impacted due to the rental assistance given to tenants. Although double-digit positive rent reversion was achieved in 1Q 2020 resulting from the renewal of approximately one-third of the expiring leases, rent reversion for remaining quarters are likely to be in the negative range due to weaker market demand. The overall mall occupancy may trend closer to nation-wide average of low 90%[3] due to non-renewals. Management is of view that Suntec City Mall with its strategic location, superior transport connectivity coupled with the aggressive marketing plans in place, will drive shopper traffic back to pre COVID-19 levels of more than 4 million a month. Technology will also be further harnessed to address changes in shopper behavior and spending habits. For example, Suntec City will be presenting Singapore's first-ever mall live streaming shopping festival, The Suntec Shopfest. This interactive live stream offers shoppers the convenience of online shopping while integrating physical retail elements. Shoppers can watch, comment and "like" via the Shop Live platform on the Suntec+ app and make their purchase via the

	app during the live stream. The items can be picked up directly from the retail stores in Suntec City or via courier service. Suntec City will also be engaging customers digitally through additional initiatives such as Suntec+ Eats, which enables customers to receive free delivery within Suntec City from selected food and beverage outlets. <u>Suntec Convention</u> The challenges faced by the Meetings, Incentives, Conventions and Exhibitions Industry in Singapore are unprecedented. International and large-scale trade fairs are impacted by travel restrictions while smaller-scale meetings and events are also affected by safe distancing measures. The recovery will be slow in FY 2020, led by smaller-scale events, meetings and consumer shows when current measures on safe distancing are eased. International conventions and events will remain weak due to slower recovery in international travel. Hence, the income contribution to Suntec REIT will be significantly affected for FY 2020. To navigate through the downturn, Suntec Convention is closed till 2 Aug 2020 to reduce operating costs. The temporary closure maybe extended if mandated measures are prolonged. In the meanwhile, the sales team continues to secure business opportunities for a healthy pipeline in 2021. All staff are also required to undergo online training to position the business for strong recovery. The current situation has also presented opportunities to review existing products and develop new online services to cater to the changing business environment. <u>Australia Portfolio</u> Occupancy in Sydney and Melbourne office markets are currently above 10-year averages. However, new supply coming on stream in 2020 and weaker economic activity will weigh on occupancy. The Adelaide CBD office market is expected to remain stable, underpinned by limited new supply in 2020. Across all office markets, leasing demand and rental growth will stay subdued as businesses exercise caution. The retail sector continues to face challenges due to the weak consumer spending and COVID-19 restrictions. As mandated by law, landlords are to grant rent reliefs to qualifying SME tenants[4].

	In terms of tenants' assistance, 87% of the Australia portfolio is leased to large corporations, government tenants and businesses in TMT, financial services and consultancy sectors that are not expected to be negatively impacted. However, partial rent rebate and deferment will be granted to qualifying office and retail SME tenants[4]. The income from Australia is supported by the healthy occupancy of the portfolio and the completion of the development assets. The office portfolio will remain resilient, underpinned by strong occupancy, long weighted average lease expires, with minimal lease expiry in 2020. Despite the expected dip in income on a same-store basis in 2020 due to the rent assistance for qualifying SME tenants[4], overall income is expected to improve year-on-year, with contributions from the newly completed assets, 21 Harris Street and 477 Collins Street. To navigate through the downturn and address the continued trend towards remote and flexible workspaces, a variety of collaborative workspaces and technology infrastructure will be provided. In addition, to strengthen the value proposition of the properties, amenities for office tenants will also be enhanced (e.g. wellness amenities, fitness programme). In the longer term, to unlock greater value at Southgate Complex, the potential redevelopment of the retail podium and construction of a new office tower is being reviewed.
12. Does COVID-19 affect any plan for new property development, acquisition or upgrading work?	Suntec REIT's projects under development (9 Penang Road and 477 Collins Street) have been completed on schedule. Upgrading works at Suntec City Office was put on hold because of the circuit breaker. However, as the works are undertaken in phases, only a few floors are affected.

Business Outlook

Questions	Responses
1. Future prospect of Suntec REIT? 2. How will COVID-19 impact dividend payout for FY 2020 and FY 2021? 3. Will there be any dividend deferments for FY 2020? 4. Any plan to maintain Suntec REIT's dividends? 5. Is the DPU level sustainable going forward? 6. Is retaining 10% of the distributable income from operations and holding back its capital distribution in 1Q 2020 sufficiently prudent in providing a safe buffer considering that the outlook of COVID-19 is still uncertain at this point of time.	Suntec REIT is committed to deliver a sustainable level of DPU to unitholders. While the business began well in January 2020, operational performance declined when mandatory measures were put in place to arrest the spread of COVID-19. As the crisis deepened in the second quarter with continued weakness in the convention and retail business, the Manager retained 10% of the distributable income from operations and held back its capital distribution in 1Q 2020. This is necessary to achieve a balance between providing a reasonable return to unitholders, building cash reserve as well as assisting our tenants to weather this period. With the economy re-opening in phases and additional contribution from completed developments, the Manager expects the performance in 2H 2020 to improve.

Acquisitions

Questions	Responses
1. As shown in the section titled "Year in review 2019", in July 2019, the REIT announced the acquisitions of 55 Currie Street, Adelaide, Australia and 21 Harris Street, Pyrmont, Sydney, Australia. Both buildings are freehold Grade A office buildings. The chairman has stated in her statement that the Australian assets constituted approximately 13% of the REIT's assets under management ("AUM") as at the end of FY2019. The exposure to the Australian market would have	The Manager continues to be on a lookout for acquisitions that fits Suntec REIT's investment strategy and are DPU accretive. While Suntec REIT remains Singapore-centric, the capital values of assets are high and there are limited accretive acquisition opportunities. Currently, the Australia properties constitute approximately 15% of Suntec REIT's AUM. The Manager will continue to review opportunities to deepen Suntec REIT's presence in Australia. To further increase income and geographical diversification, the Manager continues to explore strategic investment in other key cities that have strong fundamentals, stable growth and similar risk return

increased when the A$295 million 21 Harris Street acquisition was completed on 6 April 2020. The REIT's Australian assets now include: - 177 Pacific Highway - Southgate Complex (50%) - Olderfleet 477 Collins Street (50%) - 55 Currie Street - 21 Harris Street i. Can the REIT Manager provide unitholders with better clarity on the REIT's strategic growth plan? Specifically, is the Manager building up the REIT's exposure to the Australian market to a certain level of the portfolio? ii. Has the Manager evaluated other developed markets and cities? 2. Any plans for acquisitions or assets in the pipeline? What will be the future expansion plans of Suntec REIT? Will it be a global diversification of locations or in Singapore?	profile as Singapore and Australia, such as Seoul, Tokyo, London, Paris, Frankfurt, Berlin etc. In the longer term, the Manager is looking at an overseas geographical allocation target of between 30% to 40% of AUM in 3 to 5 years' time.

Capital Management

Questions	Responses
1. While it was noted that the expansion to Australia has given the REIT geographical diversification and enhanced the stability of the REIT's income, exposure to foreign assets also means that the REIT is exposed to foreign currency fluctuations. In 2018 and 2019, the REIT recognised translation differences from financial statements of foreign operations of $(80.2) million and $(17.4) million respectively. i. As the REIT increases its exposure to foreign assets, would the board consider if there is a need for a more robust hedging strategy? Has the manager evaluated other developed markets and cities? ii. Can the manager elaborate further on the currency hedging guidelines?	Suntec REIT's past Australian assets were not hedged. However, in 2020, the group raised A$450 million borrowings to hedge against its acquisition of 55 Currie Street and 21 Harris Street. This formed approximately 25% of natural hedge against its Australia Portfolio. Over time, the Manager intends to increase its borrowings in Australia Dollars so as to raise the hedging level to approximately 40% of its Australia Portfolio. In addition, for future acquisitions, Suntec REIT will look to fund approximately 40% in local currency to provide some natural currency hedge. On the income front, Suntec REIT intends to hedge at least 50% of its Australian dollar sourced income for a forward period of 12 months.
2. The Monetary Authority of Singapore increased the aggregate limit from 45% to 50% in April 2020. It also deferred the implementation of a minimum interest coverage ratio (ICR) requirement for REITs. The REIT has an aggregate leverage ratio of 37.7% as at 31 December 2019. As shown in the REIT's 1Q 2020 update (dated 20 May 2020), the aggregate leverage ratio increased to 39.9% as at 31 March 2020. The REIT's ICR slipped from 2.9x to 2.7x as at 31 March 2020.	The Manager continues to review acquisition opportunities and evaluate the feasibility of asset enhancement initiatives to create greater value for unitholders. This is in addition to strengthening the resiliency of the properties, reducing costs and discretionary capital expenditure and prudent capital management. The ICR will improve with the contribution of the newly completed developments (9 Penang Road, 21 Harris Street and Olderfleet, 477 Collins Street). However, this will be offset by the reduced income due to the impact of COVID-19. The ICR is expected to further improve in 2021 when the overall business environment recovers.

i. How is the REIT finetuning its pace of acquisition and/or asset enhancement initiatives in view of the increase in the aggregate leverage ratio while also considering the risks and uncertainties in the market due to the pandemic? ii. The REIT's ICR is at 2.7x as at 31 March 2020. The ICR is a measure of the REIT's debt-servicing ability. What guidance has the board given to the manager on the REIT's ICR? How much improvement would the REIT's ICR show once the newly completed assets start contributing?	
3. In April 2019, the manager carried out a placement of 111.1 million new units to raise approximately \$200 million that will be primarily used to fund the acquisition of 55 Currie Street, Adelaide and the deposit for 21 Harris Street, Pyrmont, Sydney. The issue price of \$1.80 per unit was a discount of 4.2% to the volume weighted average price of \$1.879 per unit. Just prior to the placement, the REIT reported that the net asset value ("NAV") per unit was \$2.092. At the placement price of \$1.80 per unit, the discount to the NAV was 14%. i. How does the Manager determine the optimal way to raise fund for its acquisitions? ii. By placing out new units at \$1.80 per unit (vs a NAV of \$2.092 per unit) to fund the	The Manager takes a disciplined investment approach in evaluating acquisitions. As a guiding principle, funding is based on the combination of 60% equity and 40% local currency borrowings. The actual funding structure of an acquisition will depend on other factors such as prevailing market conditions. A holistic approach is taken when evaluating the merits of an acquisition. Other than the quality of the asset, DPU and NAV accretions are key priorities of the Manager. However, in order not to pass on an excellent acquisition opportunity that creates long term value for unitholders, emphasis will be placed to ensure that the acquisition is DPU accretive to unitholders. Quality assets will eventually uplift the NAV of the REIT. For example, 55 Currie is a high-quality freehold Grade A office building located at the heart of Adelaide's Central Business District. Despite being 100% funded by equity with a cost of capital of approximately 4.7%, the initial of 8.0% yield is DPU accretive and further strengthened Suntec REIT's income stability.

acquisitions, did the manager evaluate the cost (including dilution) to the existing unitholders? What was the REIT's cost of capital (if the dilutive effects are considered)?	
4. With the recent refinancing and issuance of bonds, how is Suntec going to use the funds to future-proof its assets?	In the first quarter of 2020, Suntec REIT issued a S$200 million 7-year medium term notes and secured A$450 million green loan facilities. The proceeds were mainly used for acquisition and refinancing purposes. As at 31 Mar 2020, Suntec REIT has completed its refinancing requirements for FY 2020.
5. Will cap rate change for property valuation as at 30 June 2020 and correspondingly affecting debt covenant/gearing.	Property valuations are conducted annually and reported at the end of the financial year. At the moment, there are no clear indications of cap rate changes. However, valuations are supported by cash flows and with the impact of COVID-19 resulting in a decline in income, valuations for FY 2020 are likely to decline as compared to FY 2019. Based on the MAS ALR limit of 50%, Suntec REIT has an adequate debt headroom of approximately S$2 billion.
6. As part of prudent capital management, would the REIT introduce scrip units for distribution during this challenging period brought about by COVID-19 so as to conserve more capital at hand? 7. How likely is it for the REIT to undertake rights issuance within 2020 and also 2021?	Suntec REIT currently does not have a Dividend Reinvestment Plan. In addition, Suntec REIT has no refinancing requirement in 2020. The REIT has access to diversified sources of funding such as bank borrowings and debt capital market as demonstrated in the recent issuance of the S$200 million medium term notes in May 2020. In 1Q 2020, Suntec REIT also issued S$200 million medium term notes and secured a A$450 million loan facility. Currently, there are sufficient resources to cater to Suntec REIT's business needs.

Others

Question	Response
1. Can the Manager's Performance Fee link up with the increase in DPU? This is more aligned with unitholders' interest.	The Manager is committed to delivering value to the stakeholders of Suntec REIT and maintaining the long-term interests of all unitholders. The management fees comprise a base fee of 0.3% per annum of the value of the properties of Suntec REIT, this commensurate with the complexity and efforts required of the Manager in managing Suntec REIT. In addition, there is also a performance fee equal to 4.5% per annum of the Net Property Income of Suntec REIT. The performance fee methodology is reflective of the alignment of interests between the Manager and the unitholders in incentivising the Manager to drive higher income yields for Suntec REIT. In addition, to ensure that the Manager's interests are aligned with unitholders, the Manager has continued to elect to receive 80% of the management fees in units while the remaining 20% are in cash for the Manager's working capital requirements.
2. How does the lack of a sponsor handicap the REIT in terms of maintaining its competitiveness and access to good quality and yield accretive assets compared to peers with strong sponsors? Will there be a sponsor for the REIT in the future?	As one of the pioneer real estate investment trusts in Singapore, Suntec REIT is the first composite REIT listed on the Singapore Stock Exchange. Since its initial public offering, Suntec REIT's AUM has grown significantly from the initial S$2.2 billion to S$10.5 billion today. Suntec REIT is currently the fourth largest REIT by AUM on the Singapore Stock Exchange. Suntec REIT currently manages assets in Singapore and across three cities in Australia. This requires strong management expertise and a deep understanding of the local market. This is an advantage the Manager possess as part of the ARA Group, as the Manager is able to leverage on the strong local teams' market intelligence and resources to manage Suntec REIT's assets. In addition, as a leading APAC real assets fund manager with a global reach, ARA is present in 28 countries today. The Manager is also able to leverage on ARA Group's strong real estate expertise, global network and local resources in key major cities to review yield accretive acquisitions for Suntec REIT.

3. Why is there a capital component to the distributable income and does it signify that the REIT is trying to provide support to distribution rather than focusing more on organic growth in distributable income from operations? Typically, where does the money from capital distribution come from and is it a sustainable source?	The capital distribution relates to the gain that rose from the divestment of Park Mall in 2015. There is a balance of approximately S$46 million.

Notes:
1. New Rental Relief Framework for SMEs as announced by the Ministry of Law, Singapore on 3 June 2020.
2. JLL as at 31 March 2020.
3. URA Q4 19 data.
4. Mandatory Code of Conduct on SME Commercial Leasing Principles during COVID-19 by Australia National Cabinet with effect from 3 April 2020.

ABOUT SUNTEC REIT

Listed on 9 December 2004, Suntec REIT holds properties in Suntec City, Singapore's largest integrated commercial development (including one of Singapore's largest shopping mall), a 60.8% interest in Suntec Singapore Convention & Exhibition Centre, a one-third interest in One Raffles Quay, a one-third interest in Marina Bay Financial Centre Towers 1 and 2 and the Marina Bay Link Mall and a 30.0% interest in 9 Penang Road. Suntec REIT holds a 100% interest in a commercial building located at 177 Pacific Highway, Sydney, a 100% interest in a commercial building located at 21 Harris Street, Pyrmont, Sydney, a 50.0% interest in Southgate Complex, Melbourne, a 50.0% interest in a commercial building located at Olderfleet 477 Collins Street, Melbourne and a 100% interest in a commercial building located at 55 Currie Street, Adelaide, Australia. Its aim is to invest in income producing real estate which is primarily used for office and/or retail purposes. Suntec REIT is managed by an external manager, ARA Trust Management (Suntec) Limited. For more details, please visit www.suntecreit.com.

ABOUT ARA TRUST MANAGEMENT (SUNTEC) LIMITED

Suntec REIT is managed by ARA Trust Management (Suntec) Limited, a wholly-owned subsidiary of ARA Asset Management Limited ("**ARA**" or the "**Group**").

ARA is a leading APAC real assets fund manager with a global reach. With S$88 billion[1] in gross assets under management as at 31 December 2019, ARA manages listed and unlisted real estate investment trusts (REITs) and private real estate and infrastructure funds in 28 countries. As part of its investor-operator philosophy, ARA also operates a real estate management services division with local teams to manage its assets worldwide.

ARA's multi-platform, multi-product global fund management strategy, combined with its dedicated teams with in-depth local knowledge and expertise, enables the Group to offer enduring value to investors. Built on a foundation of strong corporate governance and business integrity, ARA counts some of the world's largest pension funds, sovereign wealth funds, financial institutions, endowments and family offices as its investors.

For more information, please visit www.ara-group.com.

1 Includes assets under management by ARA Asset Management Limited and the Group of companies and its Associates as at 31 December 2019.