SMU-19-0034

GROWING MAPLETREE: SINGAPORE'S REAL ESTATE INVESTMENT COMPANY

"2015 is going to be a pivotal year for the company." With this thought in mind, Mr Hiew Yoon Khong, Group Chief Executive Officer of Mapletree Investments Pte Ltd (Mapletree), a real estate and capital management company headquartered in Singapore, looked around the meeting room at his senior management team. It was now coming to the end of 2014, and the group had collected data for the company's annual strategy meeting. It was time to make a key decision: should Mapletree extend its footprint beyond Singapore and the region?

Hiew reflected briefly on the company's journey since it was founded in 2003, which was also when he came on board as its CEO. Mapletree was formed by spinning off the non-core assets of the Port of Singapore Authority, and had commenced operations with an asset portfolio of about S$2.6 (US$2.04)[1] billion.

Hiew's first few years had been focused on getting the house in order and positioning it for future growth, as well as prototyping its business model through the launch of the first Mapletree real estate investment trust (REIT) IPO in July 2005. From 2009 onwards, he had started to systematically implement his growth strategy. Hiew had orchestrated a change in the company's capital structure, moving it from asset heavy to asset light. He had also diversified the business from real estate development, to real estate investments, as well as capital and property management. And finally, he had taken Mapletree beyond Singapore's shores into the region, starting with China.

Hiew knew that he had to make an important decision on the way forward. It was coming to the end of the first Five-Year Strategy Plan in 2014. Should Mapletree further extend its reach geographically, this time outside Asia? Should it also consider going into any of the new asset classes—student accommodation, corporate housing and data centres–that it was currently evaluating?

About Singapore

Singapore was an island situated at the southern end of the Malaysian peninsula.[2] Its modern history commenced on 29 January 1819, when it was discovered by an Englishman, Sir Thomas Stamford Raffles. Sir Raffles quickly realised Singapore's advantageous location to facilitate commercial entrepot trade for the British in the region, and developed the country with the aim of making that vision come to fruition.

Fast forward to 2013, Singapore was a country with a GDP of S$325 (US$255) billion, with the largest contributions coming from the manufacturing (26%), wholesale and retail trade (16%)

[1] US$ 1 = SGD1.27443 as at 1 October 2014.
[2] Singapore Tourism Board, About Singapore, https://www.visitsingapore.com/travel-guide-tips/about-singapore/, accessed July 2019.

This case was written by Professor Gerry George and Adina Wong at the Singapore Management University. The case was prepared solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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and finance and insurance (12%) industries.[3] Trade (exports and imports) for the year totalled almost S$1 trillion (US$785 billion).[4]

About Mapletree

The Port of Singapore Authority was created in 1964 to manage the high volume of port activities due to import and export of goods passing through Singapore.[5] It took over in a unified way the management of five separate sea gateways (ports and wharves) along the coasts of Singapore.

In 2001, Mapletree Investments Pte Ltd was put together using S$2.6 (US$2) billion of non-core assets, from the Port of Singapore Authority. Mapletree was one of three special purpose entities (besides Ferntree and Hazeltree), that were formed from the spin-off, and the entity that held the non-port real estate assets, such as harbourfront properties. (In 2003, PSA Corporation was officially restructured to streamline its business to its core activities of container terminal operation, as well as global expansion for the investment in, development and operation of overseas ports.[6])

About the CEO

In 2003, Hiew Yoon Khong was appointed the CEO of the newly incorporated Mapletree Investments Pte Ltd. He held a Master of Arts degree in Economics from the University of Warwick, and a Bachelor of Arts degree in Economics from the University of Portsmouth. Prior to joining Mapletree, Hiew was the Managing Director responsible for the Private Equity Funds Investment portfolio at Temasek, a Singapore government-linked investment and holding company. Hiew also held the positions of Chief Financial Officer of CapitaLand, a Singaporean real estate developer, and subsequently Chief Executive Officer of CapitaLand Commercial Limited and CapitaLand Financial Limited from 1996 to 2002.[7]

At CapitaLand, Hiew and his team successfully launched Singapore's first REIT in 2002. Other landmark real estate platforms he had worked on included Singapore's first securitised product involving residential property in 1999, and Singapore's first internationally-rated securitisation transaction in 2001.

Hiew had since led the Mapletree Group from a Singapore-centric real estate company worth S$2.3 (US$1.8) billion in 2003 to a global company with total assets of more than S$24 (US$18.75) billion as of FY13/14.[8]

About the Business

Headquartered in Singapore, Mapletree developed assets and invested in Asian real estate markets with good growth potential. Since its first Five-Year Plan to scale up the business up significantly from FY09/10, Mapletree had been striving to go further and grow stronger as the Group pursued value across a spectrum of assets in the real estate business. In 2010, it owned

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[3] Ministry of Trade and Industry Singapore, "Economic Survey of Singapore 2013", February 2014, https://www.mti.gov.sg/Resources/Economic-Survey-of-Singapore/2013/Economic-Survey-of-Singapore-2013, accessed July 2019.
[4] Ibid.
[5] National Library Board, "Port of Singapore Authority (PSA)", http://eresources.nlb.gov.sg/infopedia/articles/SIP_577_2005-01-27.html, accessed August 2019.
[6] Ibid.
[7] AR 2009 Pg 15, https://www.mapletree.com.sg/en/Media/Annual-Reports/EN-Version.aspx, accessed July 2019.
[8] AR 13/14

and managed assets extending across different real estate asset classes such as office, logistics, industrial, residential, serviced apartments, retail and mixed-use developments.

Mapletree continually focused on leveraging its core competencies in real estate development and applied astute investment and capital management strategies to drive value for investors. In the five years from 2009 to 2014, Mapletree's assets under management (AUM) had doubled to S$28.4 (US$22.3) billion, with 72% being third-party AUM from external investors. The Group's earnings base had also expanded to include a sizable S$1.14 (US$0.89) billion in EBIT + SOA[9], and fee income of S$203.2 (US$158.4) million. Importantly, Mapletree delivered a strong five-year average return on invested equity (ROIE) of 14.1% and 11.4% NAV CAGR[10]. Mapletree also grew the number of REITs it sponsored from one in 2009 to four in 2014.

2003-2008 – The early years

Hiew had two key tasks when he commenced work at Mapletree: the first was to conceptualise a new business model for the company, and the second was to rejuvenate the existing assets in the portfolio so that they could generate revenue more efficiently.

Conceptualising a new business model

Hiew wanted Mapletree to start its business strong, with a good foundation. He viewed it as a start-up with many possibilities to grow beyond being a real estate developer, and explained,

> *Real estate is traditionally a family-owned business. The business thus tends to sit on the balance sheet for a long time. When the 1997 Asian Financial Crisis hit, the impact on the balance sheets of the real estate developers was very significant. The survivors of the crisis were those who had modest (instead of elevated) gearing.*

To create a viable post-Asian Financial Crisis business model for Mapletree, Hiew and his team studied the real estate companies in the US, the UK and Australia for ideas. He decided that Mapletree would not only manage proprietary capital, but also third-party capital on behalf of investors to enhance return on shareholder equity.

Broadly speaking, the traditional real estate business could be volatile and cyclical. By applying fund management activities in real estate, Mapletree was able to reduce capital outlays and maximise the deployment of funds in a capital-intensive business environment. In short, this strategy allowed Mapletree to be sensitive to market changes by managing its balance sheet risks.

Hiew looked at launching REITS[11] from the developments owned by Mapletree, to become the capital management platform that would free up cash flow and be pivotal to Mapletree's new business model.

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[9] Earnings before interest and taxes including share of profits of associated companies and joint ventures, and share of associates gain on disposal

[10] Net asset value compounded annual growth rate. NAV adjusted for dividends distributed to shareholder and calculated excluding non-controlling interests and perpetual securities and with NAV as of 31 March 2009 as starting base

[11] A real estate investment trust (REIT) was a closed-end investment company that owned assets related to real estate such as buildings, land and real estate securities. REITs sold on the major stock market exchanges just like common stock.

Rejuvenating existing assets

For a capital management platform to work, the existing assets in Mapletree's portfolio had to be enhanced and rejuvenated. This would form the seed from which the business model would grow. Mapletree had about S$2.5 (US$2) billion in shareholder capital and about S$300 (US$235) million in external loans, which Hiew considered a modest gearing. However, he observed,

> *The quality of assets was not great. The majority was old, ageing, industrial type properties that were not performing well financially. Another category was bare assets… VivoCity (a popular shopping mall developed by Mapletree, which opened in 2006), was just a piece of land then.*

Hiew quickly appointed a team that would be in charge of developing bare land assets and rejuvenating older properties in the Mapletree portfolio.

Executing the new business model

Socialising

As the new business model was considered a first in Singapore and Asia, it was Hiew's task to 'socialise' it with his management team. He had to communicate and explain the new model, and demonstrate that this hybrid business model—real estate development and capital market expertise—was superior to the pure developer model. Executing the revised model would thus require two very different skillsets.

Hiew foresaw that the first iteration of the new business model would take about 3-5 years to come to fruition, and believed it would be hard to have the support of his senior management for such a long period without seeing results. Since the Mapletree team had some experience managing logistics properties, and Hiew had been involved in launching a REIT prior to joining Mapletree, he decided to execute an idea to demonstrate the viability of his business model in a shorter period of time.

Building the Capital Management Platform

In late 2003 and early 2004, Mapletree started to create a REIT with its existing logistics property assets. The team was given a target of 12 months to build a S$1 (US$0.78) billion portfolio by acquiring new logistics properties that were exhibiting stable and growing yields. When the year was up, the team had accumulated a portfolio of S$450 (US$353) million. Hiew shared,

> *We debated whether to take another year to reach the S$1 (US$0.78) billion mark. But the capital markets were becoming volatile and we were watching the window of opportunity closing. Thus, we decided to proceed with the IPO at a portfolio size of S$450 (US$353) million. Once the REIT was launched, we would then try to scale the platform as much as possible.*

On 25 July 2005, Mapletree's first REIT, the Mapletree Logistics Trust, was listed on the Singapore Exchange. It was the first Asia-focused logistics REIT in Singapore. In 2007, Mapletree launched a private fund, the Mapletree Industrial Fund. It saw the company start to acquire non-logistics assets such as flatted factories and detached factories. In 2008, when Jurong Town Corporation (a government-owned real estate company) was privatised, the team was able to capitalise on the opportunity and add to their asset portfolio. In July 2008, Mapletree acquired a S$1.7 (US$1.3) billion portfolio of high-rise ready-built industrial properties from JTC. The portfolio was held under Mapletree Industrial Private Fund, with Bahrain-based Arcapita Bank as the majority investor.[12]

Logistics

The Mapletree Logistics Trust REIT had been launched with a portfolio of 14 Singapore-based assets. However, from very early on, there was a natural rationale for the business to venture outside of Singapore. Hiew explained why logistics was conceived as a regional platform,

> *The tenants in our Singapore logistics properties were mostly third-party logistics MNCs operating in multi-jurisdictions. So it made sense to broaden the services we provided to cover our tenants' footprint to support their business. Our tenants look at the business on a network basis, not a country by country basis.*

Mapletree's subsequent REIT products and country coverage were driven by its expansion strategy. From the first asset acquired outside Singapore in Hong Kong in 2006, Mapletree then moved on to China, Japan and then Malaysia, to grow its portfolio of logistics properties into a truly regional platform.

China

Mapletree's entry into China started early - however, growth was slow. Hiew observed,

> *We were there for seven to ten years with slow success and limited opportunity. We had a leadership and a business model issue… We had entered the country in 2004/5, as a developer. There were not ready-built assets of the quality we required so we had to acquire land to build them. There were actually a lot of opportunities that came about in the beginning, but many of them required land banking[13], which was not consistent with our KPI for efficient capital deployment. So we turned these down and instead went for land that was smaller in scale.*
>
> *The land value in China gradually increased, and when demand for logistics increased, we didn't have the land available to build on.*

2009-2014 – The First Five-Year Plan

Between 2003 and 2009, the balance sheet grew from S$2.6 (US$2) billion to S$8 (US$6.3) billion, with profit after tax increasing more than fourfold to S$210.3 (US$165) million (refer to **Exhibit 1** for further details on the financial performance 2003-2009). The company had accordingly grown in size. In 2003, Mapletree had about 250-300 employees, including about 40 key executives. By 2008, the staff strength had grown to about 600. Importantly, the foundation had been put in place and new initiatives had to be launched for growth, including extending the company's activities outside Singapore. It was then that Hiew decided that the strategy for the next phase of growth needed to be formalised into a Five-Year Plan.

[12] Mapletree, AR 2009, Pg 49, http://www.mapletree.com.sg/services/view_file.aspx?f={79103203-156F-4986-A4F1-789CFB749027}, accessed July 2019.
[13] Land banking was a real estate investment scheme that involved buying large blocks of undeveloped land with a view to selling the land at a profit when it had been approved for development.

In December 2009, Mapletree held its Five-Year strategy meeting at Xi'an, China. The meeting led to developing the company's first Five-Year Plan, which kicked off in 2009. The objectives of the first Plan was for the business model to deliver sustainable elevated returns.

By then, Hiew had put in place a new business model that could deliver higher returns with less cyclical cash flow. It comprised three key components of Mapletree:

- A developer – for asset value creation, development and enhancement
- An investor – to identify and underwrite opportunistic ventures
- A capital manager – to syndicate, grow and manage third-party assets

Hiew said,

> *It was a massive growth in scale from when we started, but I was looking to formalise how things were done in the first Five-Year Plan. Our way of doing things still wasn't scientific. I didn't really know what was the right AUM target to set for the first Five-Year Plan. So I just doubled it to S$25 (US$19.6) billion."*

The S$25 (US$19.6) billion target was broken down to the business unit level and then evaluated to ascertain if it made sense and was achievable. Hiew admitted it was not easy to get buy-in for a target set in such a top-down manner,

> *When I announced the new target, the business heads were resistant to it. The numbers they submitted were short of the S$25 (US$19.6) billion. Rather than debating if it was achievable and using my authority as CEO to impose it on them, I told them that the S$5-7 (US$3.9-5.5) billion shortfall we were seeing to reach the target was my responsibility to deliver. I was quite candid with them that they would have to rely on me to look out for opportunities and capitalise on them during that five-year period.*

Formalising performance measurement

Hiew decided that it was also time to put in place clear and definite key performance indicators (KPIs) that would apply company-wide,

> *Instead of leading, I needed to build a mechanism to align all activity on a group level, and move from a personality-driven to a business objectives-driven way of doing things.*

Of the six KPIs that were finalised, two were financial returns-oriented (refer **Exhibit 2** on the six KPIs). The remaining four KPIs played a balancing function that kept the business healthy while not being tied to pure returns. These related to the scale and the sustainability of the business. The aim was not to overemphasise any KPI at the expense of others.

Hiew explained,

> *We believe in maintaining a good tension across these six KPIs to control our activities so that we are not overly focused on any one aspect of performance. This keeps us nimble and responsive to changes in the market, so that we have the flexibility to ride through any market volatility.*

Activities under the first Five-Year Plan

Hiew evaluated the results of the efforts to achieve the first Five-Year Plan (refer to **Exhibit 3** on first Five-Year Plan performance results),

> *Eventually, we managed to reach or exceed our target earlier than planned. The JTC portfolio divestment was an opportunity that was not planned by anyone. JTC announced a RFP (request for proposal) in 2007 to appoint a REIT manager following its decision in October 2006 to divest its high-rise ready-built properties through a combination of a REIT and trade sale. Mapletree was appointed to establish and manage the proposed REIT, which would acquire some of JTC's high-rise ready-built properties. Everyone was quite happy that we had met the target.*

By the end of the first Five-Year Plan in 2014, Mapletree had blossomed into a regional company, with about 1800 employees operating in eight cities in Asia (China, Hong Kong SAR, Japan, South Korea, Vietnam, Singapore, Malaysia and India), in Australia and the United States.[14] Combining its key strengths as a real estate developer, investor and capital manager, Mapletree had built a track record of award-winning projects as well as consistently delivered high returns to its investors through a diversified portfolio.

It was a leader in Asia logistics property, with the strong Mapletree Logistics business unit having a combined value of S$5.3 (US$4.2) billion with 126 assets. It was also a leader in business parks and offices. On top of completing Mapletree Business City I (MBC I) in 2010, the 30-storey MBC II due for completion in 2016, would be the tallest for a business park in Singapore. In Vietnam, the 75-hectare integrated business and industrial park, Mapletree Business City @ Binh Duong enjoyed a 100% occupancy rate for its Ready-Built Business Space. The Group also expanded its assets under management (AUM) to S$22.4 (US$17.5) billion (refer to **Exhibit 4** for AUM by country as of FY13/14).[15]

Crafting the Second Five-Year Plan

The second Five-Year Plan, decided during the Shanghai strategy meeting in December 2014, saw the AUM target double again, this time to S$50 (US$28.7) billion. The objective was to scale the business and enhance returns. This time, the Plan was formulated in a bottom-up manner instead of top-down, in the sense that the estimated numbers that the senior management team submitted to Hiew added up to a doubling of the AUM target.

Hiew knew that doubling AUM was not as simple as it seemed. He surmised,

> *If we double our scale without changing any other aspect of the business, returns will suffer. My personal belief is that the purpose of scaling is to enhance returns, if not it is doing the wrong thing.*

While planning his strategy, Hiew received macroeconomic data from his team suggesting that China's economy might experience a slowdown (refer to **Exhibit 5** on China macroeconomic data). There might even be a weakening of the Asia economy on a broader basis. Given the

14 FY13/14 AR Pg 74.

15 FY13/14 AR Pg 7.

significant proportion of the business that was based in China, it was clear to Hiew that the success of the business plan was going to be heavily influenced by what happened in China.

New Markets or New Products?

Hiew had to think hard — he now had to grow Mapletree to meet its S$50 (US$39.2) billion AUM target! He summarised his outlook on the potential global growth geographies in the coming few years,

> *The US, after the Lehman Brothers collapse, was poised to resume growth. In Europe, the UK and Germany looked the strongest. Australia's macroeconomic outlook was also looking robust.*

The business' logistics core business was doing well (refer to **Exhibit 6** on logistics sector outlook as of 2014). An issue to consider was whether new geographic markets held better opportunities (refer to **Exhibit 7** for data on geographic market potential).

However, Hiew was considering other options and promising areas to invest in next. He decided that Mapletree should be leveraging on its existing sectoral skillsets, not only drawing from its experience in logistics, but also in the office space sector, of which it had some experience in Singapore.

Another area of interest was in student housing and corporate accommodation within developed markets such the United States of America (USA) and Europe. Some standalone research that Mapletree had carried out indicated that the new asset classes could be interesting in terms of growth and yield.

A third potential area of investment was the data centre. Informed by Mapletree's investments in Singapore and Hong Kong, Hiew knew that the sector had grown massively. With strong ties to the demand for technology services as well as large and growing markets, this was a very promising sector. These new product markets offered interesting investment choices (refer to **Exhibit 8** on data on student housing, corporate accommodation and data centres) for Mapletree.

Mr. Hiew and the Mapletree team had to decide. There were fundamental choices to be made for the second Five-Year Plan that will take the company to from 2014 to 2019:

(1) Should Mapletree remain in Asian markets or should they expand to Western markets?

(2) Should Mapletree remain in core product markets or should they enter new product markets in student housing, corporate accommodation, and data centres?

EXHIBIT 1: FINANCIAL PERFORMANCE 2003-2009

Balance Sheet (in SGD'b)	FY03/04	FY08/09		Change
Properties	2.3	6.0	▲	3.7
Others	0.3	2.0	▲	1.8
Total Assets	**2.6**	**8.0**	▲	**5.5**
Borrowings	0.2	2.5	▲	2.3
Other Liabilities	0.1	0.4	▲	0.3
Shareholder's funds	2.2	5.0	▲	2.8
Perpetual securities	-	-		
Non-controlling interest	0.1	0.2	▲	0.1
Total Liabilities & Equity	**2.6**	**8.0**	▲	**5.5**
Income Statement (in SGD'm)				
EBIT + SOA	64.9	238.9	▲	174.0
PATMI	**(211.6)[1]**	**210.3**	▲	**421.9**

[1] Mainly due to revaluation loss of SGD229m in FY03/04

Source: Company

EXHIBIT 2: THE 6 KPIS

Key Performance Targets		Definition
RETURNS	AVERAGE RETURN ON INVESTED EQUITY (ROIE)	Cash returns realised on original invested funds (from shareholders)
	NET ASSET VALUE (NAV) GROWTH RATE (CAGR)[1]	Total returns generated (for shareholders)
EARNINGS / CASH-FLOW	RECURRING EARNINGS (EBIT + SOA)[2]	Cash-flows generated on recurring basis
	FEE INCOME	Fees generated from capital management business
SCALE	ASSETS UNDER MANAGEMENT (AUM)	Size of asset / capital management business
	AUM RATIO	Proportion of assets which generate fee income

[1] NAV CAGR is adjusted for dividends distributed to shareholder and calculated excluding non-controlling interests and perpetual securities
[2] Earnings before interest and tax (EBIT) plus share of operating profit or loss of associated companies and joint ventures (SOA), excluding revaluation, SOA gains or losses relating to disposal, foreign exchange and derivatives gains or losses

Source: Company

EXHIBIT 3: FIRST FIVE-YEAR PLAN PERFORMANCE RESULTS

Actual Results for First 5-Year Plan

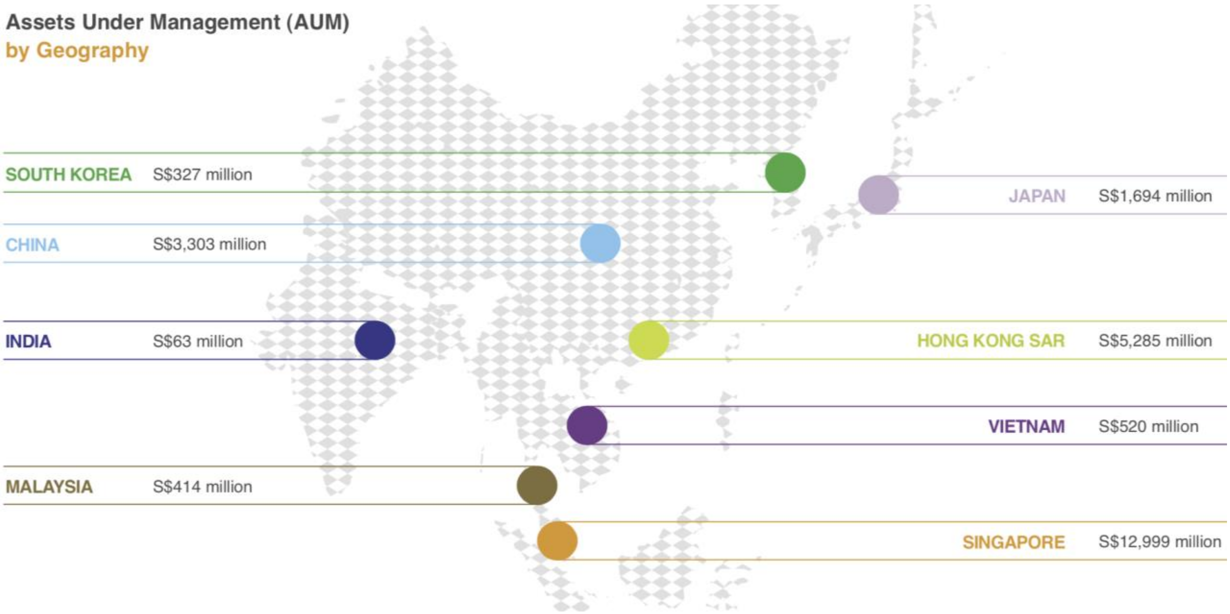
(in SGD)	FY04/05 - FY08/09	KPI Target	FY09/10 - FY13/14	
	Initial 5-Year Actual	First 5-Year Plan	First 5-Year Actual	
Returns				
Average ROIE	3.8%	12% ~ 15%	14.1%	√
NAV CAGR	17.9%	10% ~ 15%	11.4%	√
Earnings/ Cashflow				
EBIT plus SOA[1]	457m	0.6b – 1.0b	1.0b	√
Fee income[2]	73m	200m – 300m	203m	√
Scale				
AUM	11.8b	20b – 25b	24.6b	√
AUM Ratio	0.9x	> 2.0 - 3.0x	2.9x	√

[1] Excludes non-recurring items such as SOA disposal gain/loss, expenses from projects under development, earnings from residential/ strata-title sale projects and incentive fees (both revenue and expense). Prior year EBIT + SOA restated per FRS110 to consolidate REITs.
[2] Includes REIT fee income

Balance Sheet (in SGD'b)	FY08/09	FY13/14		Change
Properties	6.0	22.3	▲	16.2
Others	2.0	1.8	▼	(0.3)
Total Assets	**8.0**	**24.0**	▲	**16.0**
Borrowings	2.5	7.1	▲	4.6
Other Liabilities	0.4	1.2	▲	0.8
Shareholder's funds	5.0	8.3	▲	3.4
Perpetual securities	-	0.9	▲	0.9
Non-controlling interest	0.2	6.5	▲	6.3
Total Liabilities & Equity	**8.0**	**24.0**	▲	**16.0**
Income Statement (in SGD'm)				
EBIT + SOA	238.9	1,042.2	▲	803.3
PATMI	**210.3**	**878.2**	▲	**667.9**

Source: Company

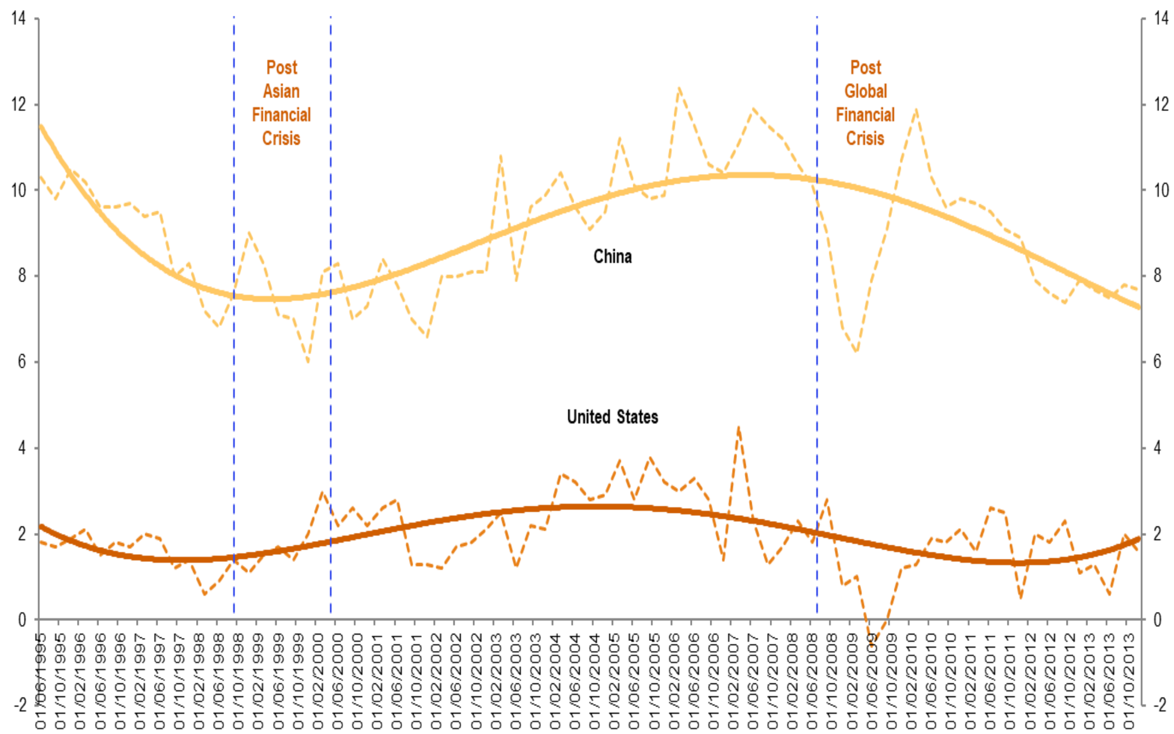
EXHIBIT 4: AUM BY COUNTRY AS OF FY13/14



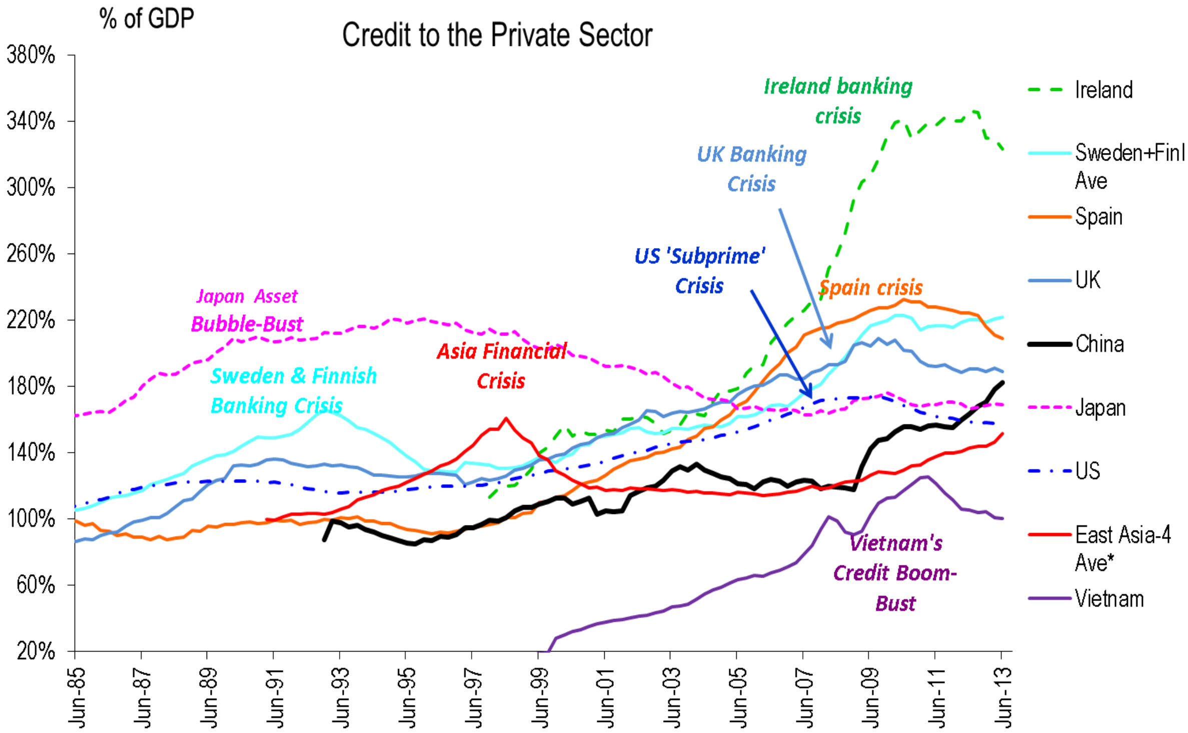
Source: Company

EXHIBIT 5: CHINA MACROECONOMIC DATA

China and US Real GDP – QoQ% Annual and Trendline



China's pace of credit expansion may trigger risk events



Source: BIS, Haver, Citi Research
Note: *East Asia 4 includes ID, KR, MY and TH

Source: Company

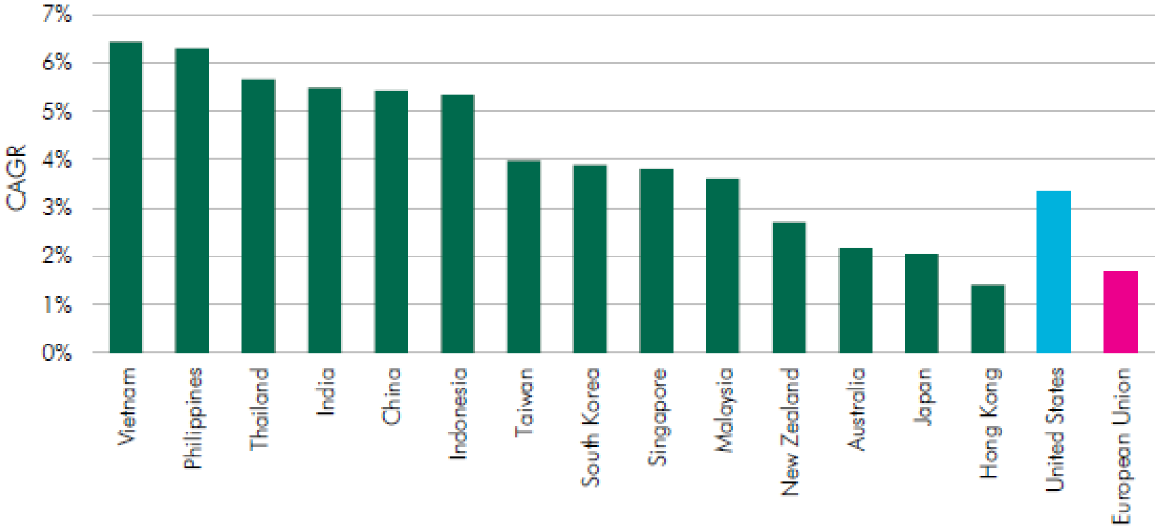
EXHIBIT 6: LOGISTICS SECTOR OUTLOOK AS OF 2014

During 2014, Mapletree continued to build its logistics development platform with 12 new projects, totalling 1.2 million square metres (sqm). With the exception of two projects that located in key Malaysian distribution hubs, all were located in fast-growing cities in China such as Chongqing, Hangzhou and Ningbo. Two of its earlier Grade-A and 100% occupied developments were acquired by Mapletree Logistics Trust (MLT), generating net property income yields of 7.5% and 8.0% for MLT.

By March 2015, Mapletree managed 25 logistics developments with a combined GFA of approximately 2.2 million sqm and an estimated development cost in excess of S$2 billion across Asia. Its total logistics AUM is more than S$6 billion, including logistics assets under MLT. This accounted for 22% of total AUM, and contributes 23% of total EBIT for Mapletree.

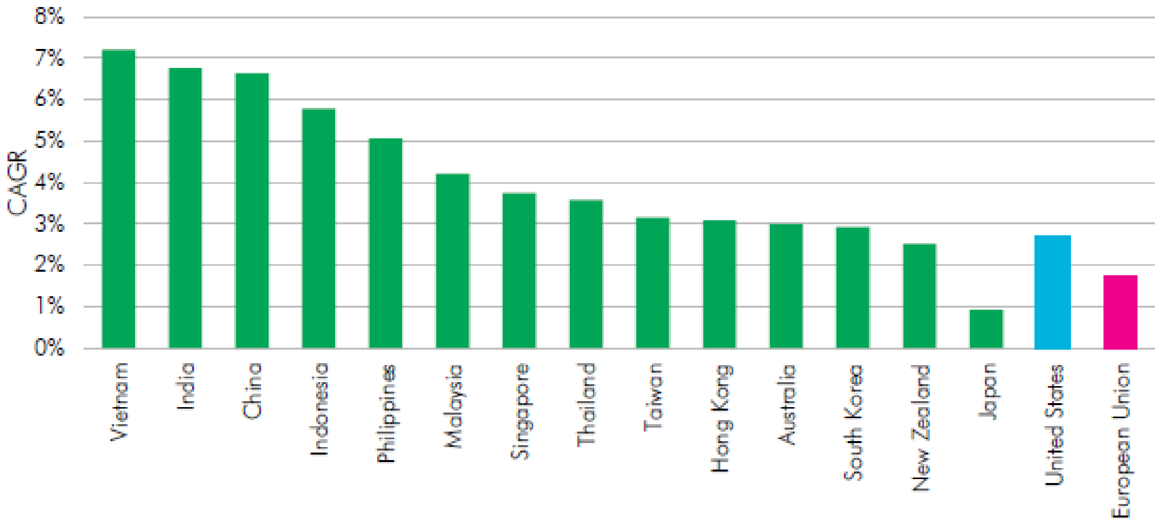
Trend on logistics yield growth estimates in 3 – 5 years starting from 2014

Forecast industrial production growth, 2015 – 2020



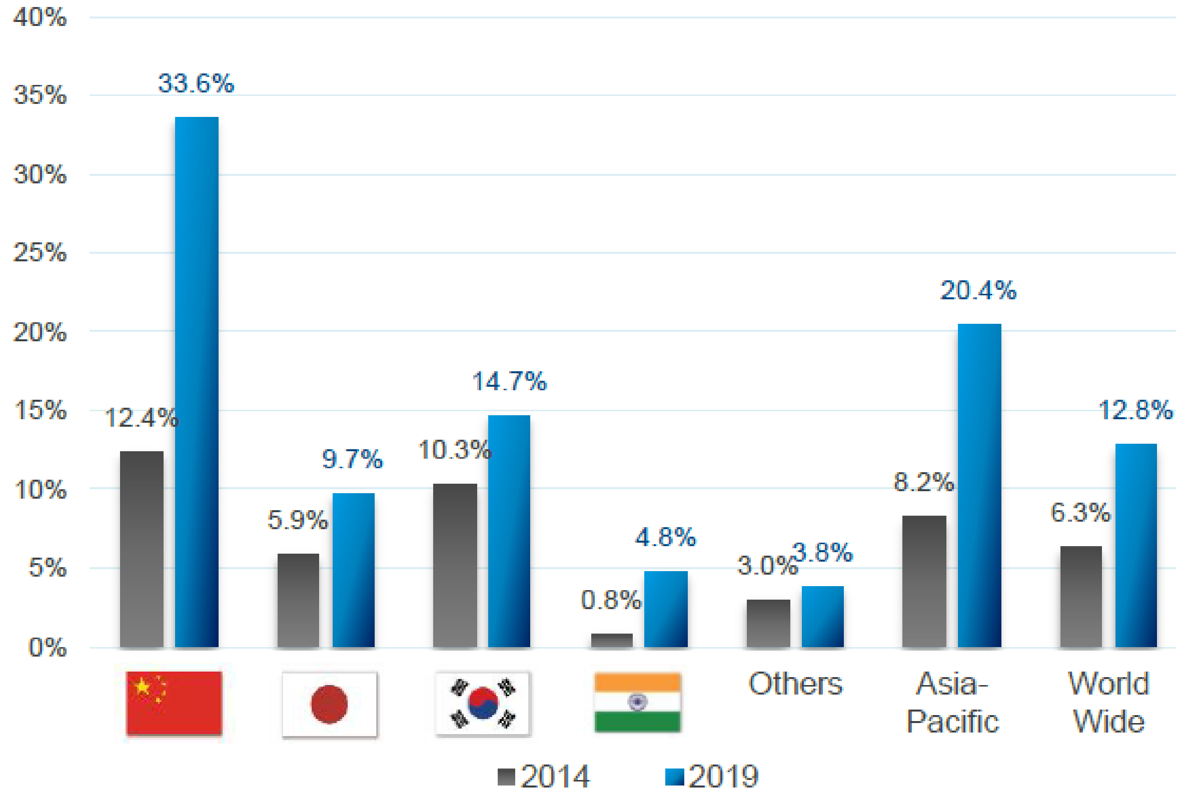
Source: CBRE Research

Forecast private consumption growth, 2015 – 2020



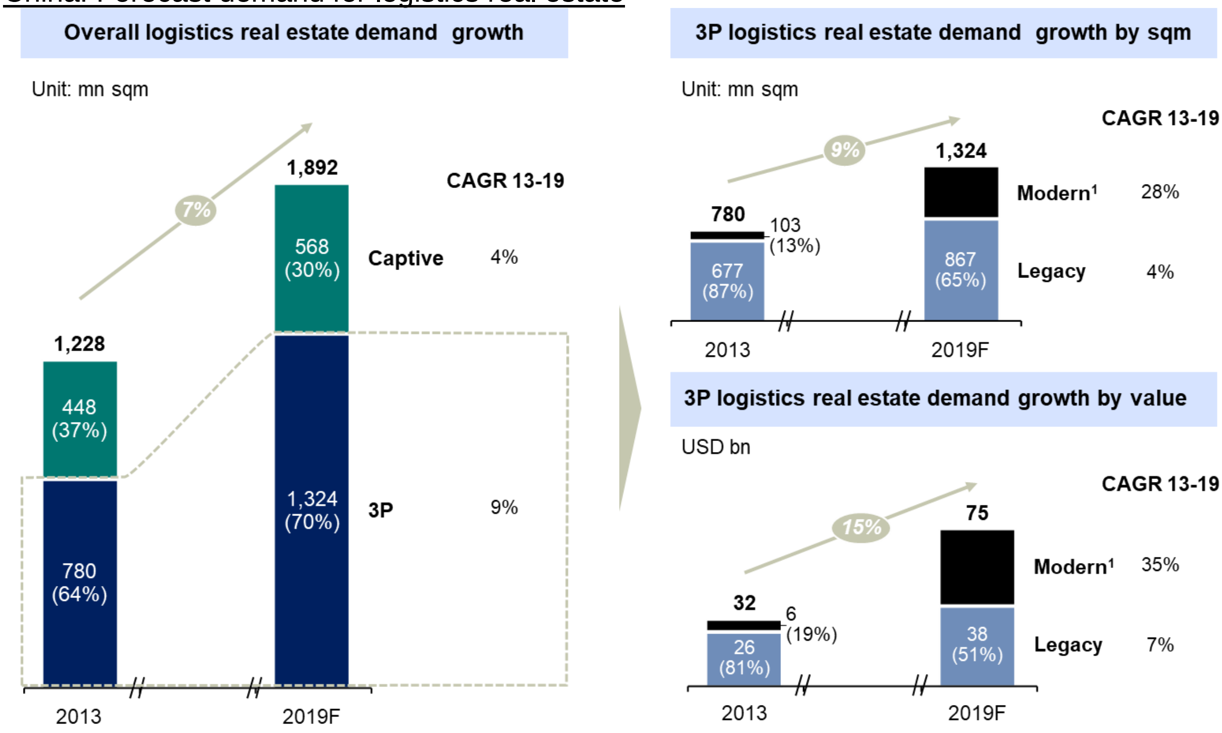
Source: CBRE Research

Retail E-Commerce Sales % of Total Country Retail Sales



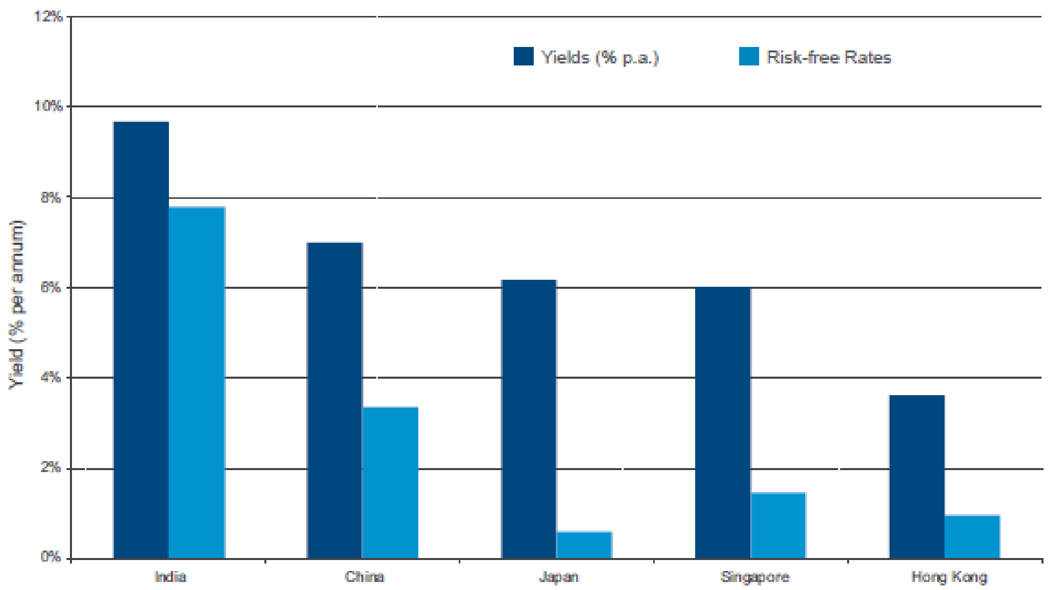
Source: eMarketer

China: Forecast demand for logistics real estate



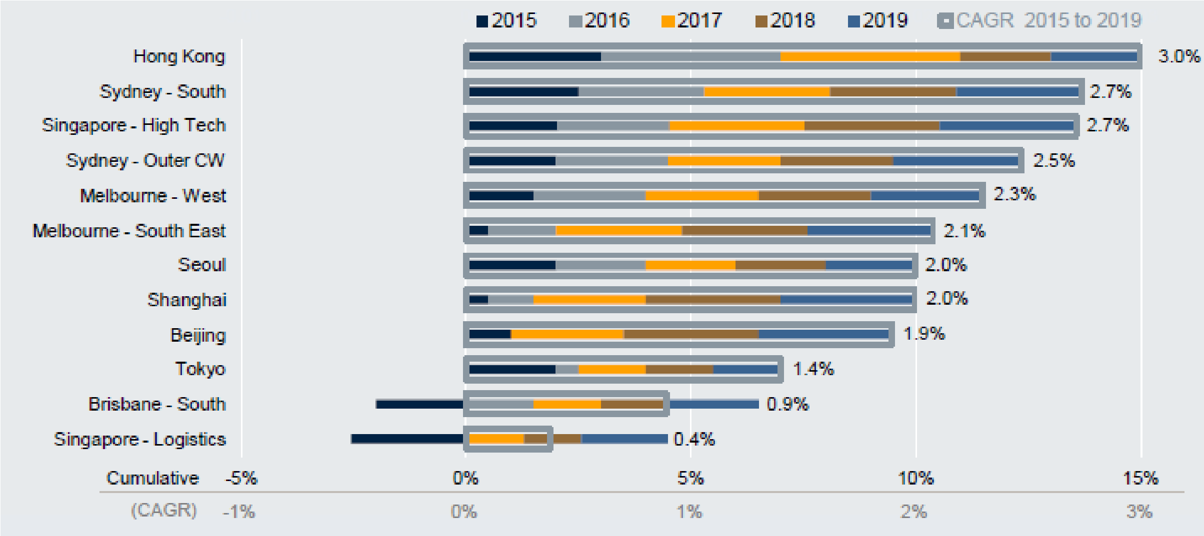
Source: National Bureau of Statistics, China Federation of Logistics and Purchasing, China Association of Warehouses and Storage, JLL report, Industry analyst report

Asia: Logistics/ Industrial Yields by Key Centres (Year 2014)



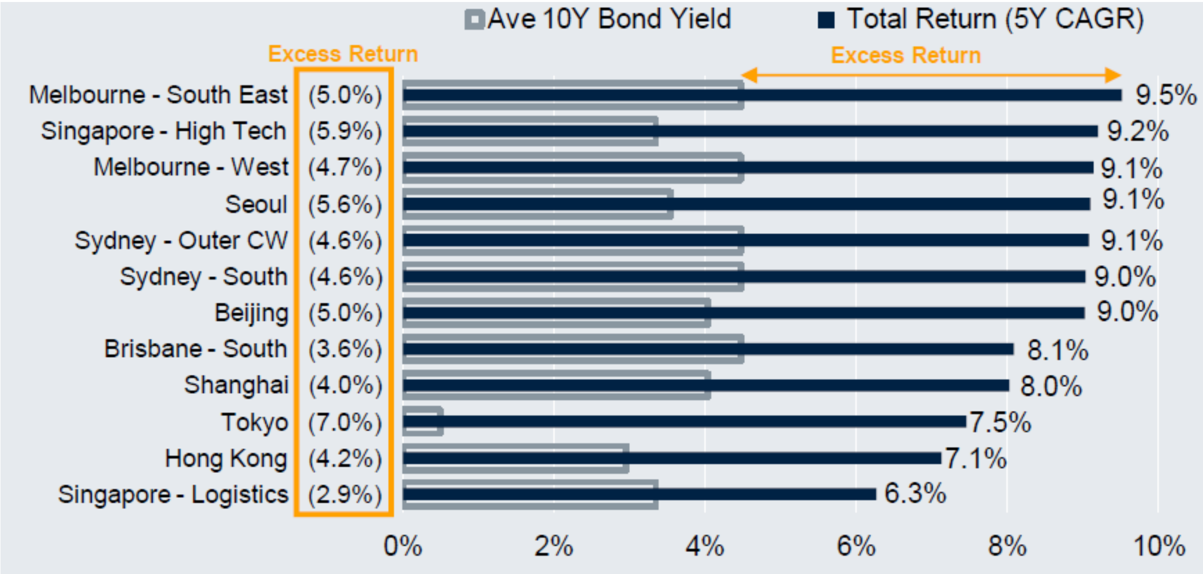
Source: CEIC, Trading Economics
Note: Risk-free rates refer to long-term government bond yields

<u>Industrial/ Logistics Sector: Forecast rental growth from 2015 to 2019</u>



Source: Deutsche Asset & Wealth Management

<u>Industrial/ Logistics Sector: Forecast compounded returns (5 year) from 2014</u>



Source: Deutsche Asset & Wealth Management

Source: Company

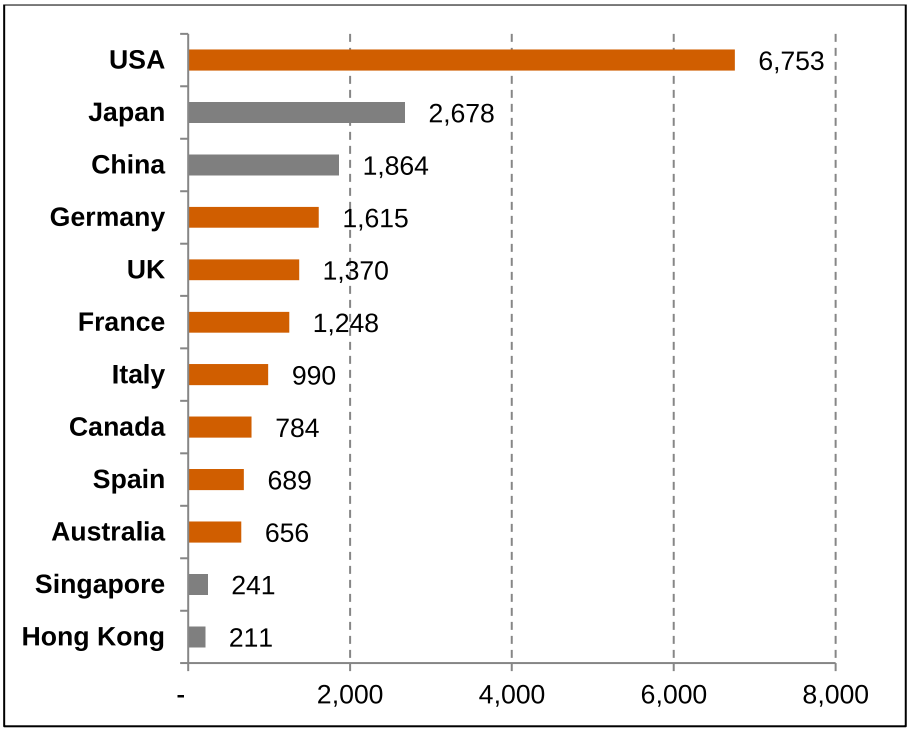
EXHIBIT 7: DATA ON GEOGRAPHIC MARKET POTENTIAL

Economic Forecasts (2013 - 2015)

	GDP Growth			CPI Inflation			Current Balance (Pct of GDP)			Fiscal Balance (Pct of GDP)		
	2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015
Global	2.5	3.1	3.4	2.6	3.0	3.1	0.7	0.8	0.6	-3.7	-3.0	-2.5
United States	1.9	2.6	3.1	1.1	1.5	1.7	-2.2	-2.0	-1.5	-5.7	-3.9	-3.0
Japan	1.6	1.2	1.0	0.4	2.8	1.6	0.6	0.2	0.1	-9.8	-8.0	-6.2
Euro Area	-0.4	1.1	1.3	1.4	0.7	0.7	2.2	2.5	2.6	-2.9	-2.4	-2.1
Germany	0.5	2.0	2.1	1.5	1.5	1.9	7.3	6.3	5.5	0.0	0.0	0.0
France	0.3	0.9	1.1	1.0	1.0	1.2	-1.5	-0.8	-0.1	-4.1	-3.6	-3.1
Italy	-1.9	0.3	0.3	1.3	0.3	-0.3	0.9	1.3	1.6	-3.1	-2.8	-2.4
Spain	-1.2	0.9	1.1	1.5	-0.1	0.0	0.6	0.7	0.7	-6.9	-5.8	-4.6
United Kingdom	1.9	3.3	3.2	2.6	1.6	1.9	-3.7	-3.2	-3.4	-6.8	-5.5	-4.2
Sweden	0.9	2.3	2.7	0.0	0.5	1.8	6.2	5.9	5.6	-1.4	-1.6	-1.0
Switzerland	2.0	2.0	2.0	-0.2	-0.2	0.9	12.2	12.9	12.7	0.2	0.6	0.8
Emerging Markets	4.5	4.7	5.0	4.7	5.0	5.4	2.0	1.8	1.2	-2.1	-2.3	-2.2
Brazil	2.1	1.3	1.8	6.2	6.0	6.0	-3.7	-3.9	-3.8	-3.3	-3.7	-2.8
Russia	1.3	2.6	2.7	6.8	5.7	4.9	1.6	1.2	0.9	-2.0	-4.3	-4.9
China	7.7	7.3	7.0	2.6	2.6	3.2	2.2	2.0	1.5	-1.9	-2.1	-2.0
India	4.9	5.6	6.2	9.6	8.3	7.5	-2.0	-2.3	-2.2	-6.9	-6.7	-6.5

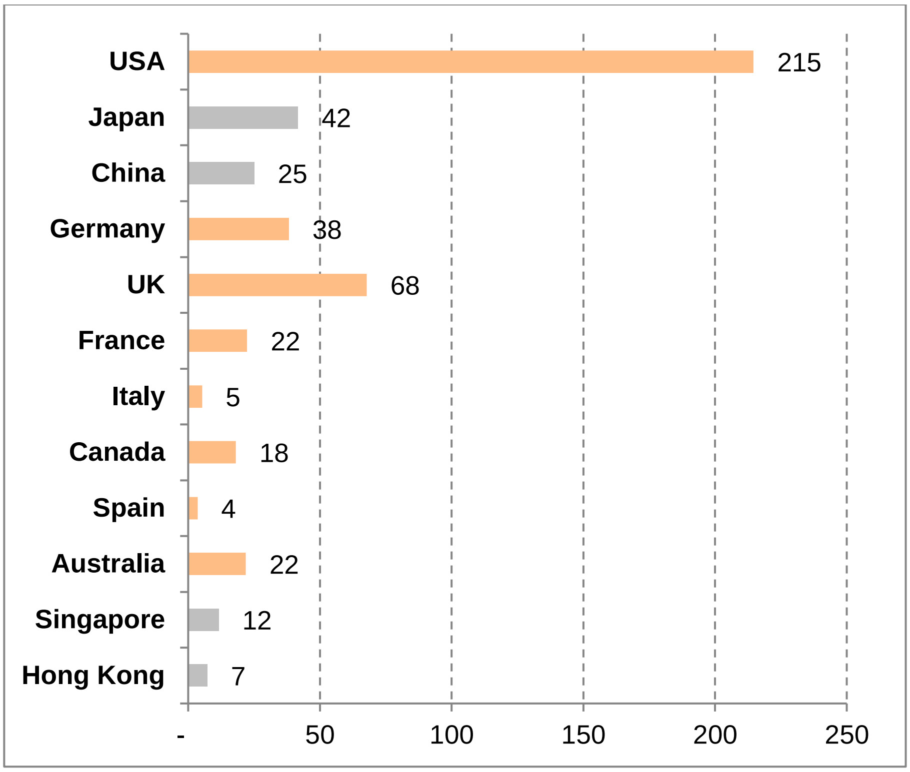
Source: Haver and Citi Research estimates

Largest Real Estate Markets (USD'b)



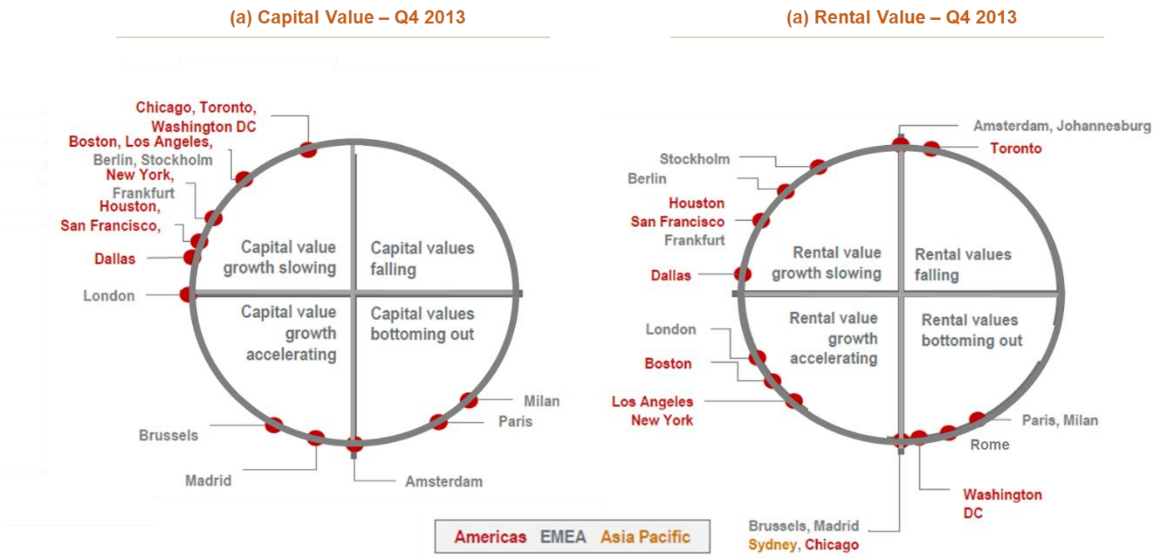
Source: Pramerica, 2012

Real Estate Transactions in 2013 (USD'b)



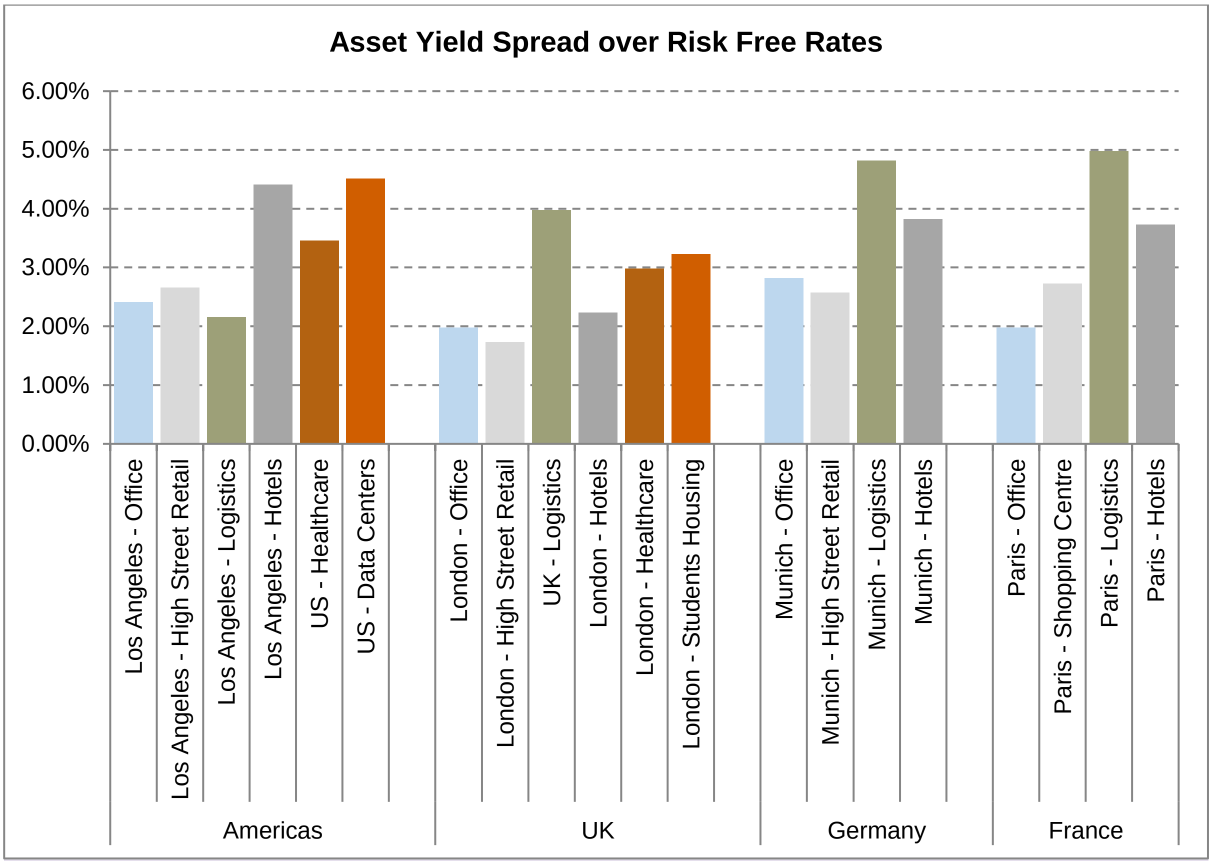
Source: Jones Lang LaSalle

Property Market Attractiveness



Source: Jones Lang LaSalle

Return Profile for New Markets, Sectors



Source: Jones Lang LaSalle, CBRE, KF, Colliers, Bloomberg

Australia

Australia's gross domestic product (GDP) growth in Q1 2014 was 3.5%, higher than the analysts' forecast of about 3.3%. Growth in the first quarter was driven by net exports, a trend that is expected to continue over the remainder of this year, with the economy projected to expand by 2.8% in 2014 as a whole. Over a longer-term perspective, the Australian economy has proven to be exceptionally resilient, with no local recession in over 22 years, even during severe disruptions to global output.

Australia is the 3rd largest real estate market in Asia Pacific, after Japan and China. It is a highly institutionalised market with large buyer/ seller pool (A-REITs, wholesale funds, offshore investors, sovereign wealth funds etc). There is a strong check on supply conditions as banks in Australia are generally reluctant to fund speculative developments. Property yields in Australia have a favourable spread (> 300bps) relative to government bond yields, due to a series of interest rate cuts.

Germany

With 2014 GDP of €3.9tn, the German economy is the largest economy in the Eurozone and the fourth largest economy in the world. It is one of the seven countries in Europe to hold an AAA rating from the three main rating agencies. Germany has always been viewed as a safe haven country due to its mature property market and a transparent business environment, which is also well-equipped with good availability of highly skilled workforce, quality infrastructure and strong research capabilities.

The real estate market saw a transaction volume of €38.1bn in the first 9 months of 2015, registering a year-on-year increase of 50%. Offices remain as the key asset class, and international investors accounted for around 53% of the total volume. Yields in Germany continue to decrease further due to the continuous high investment pressure and the shortage in core products.

UK

The UK economy has shown growth and resilience since the Global Financial Crisis. The GDP growth is almost 2% in 2013, and forecast to be more than 3% over the next few years. Unemployment rate is low, buoyed by job creations in the private service, Telecoms, Media and Technology sectors.

Over the past two years, office investment yields in the UK have been trending downwards due to the strong inflow of global funds and lack of available stock, especially in Central London. Office investment volumes reached a six year high of £23bn in 2013. There is a growing trend to invest outside London into smaller cities such as Manchester, Birmingham as well as fringe areas such as Greater London region, spurred by yield differential between London and these areas, as well as the improving occupational market.

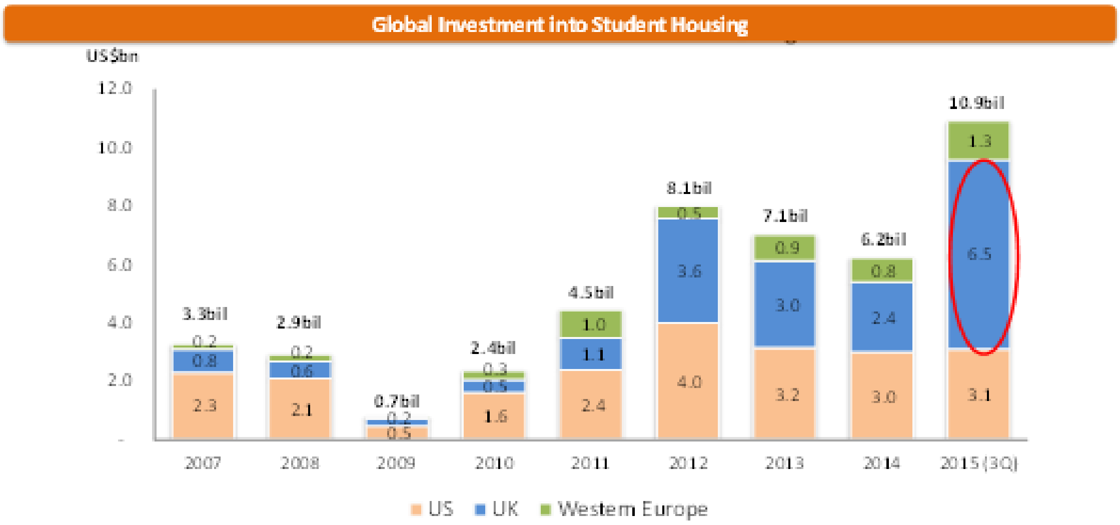
Source: Company

EXHIBIT 8: DATA AND DESCRIPTIONS ON STUDENT HOUSING, CORPORATE ACCOMMODATION AND DATA CENTRES

Student Accommodation

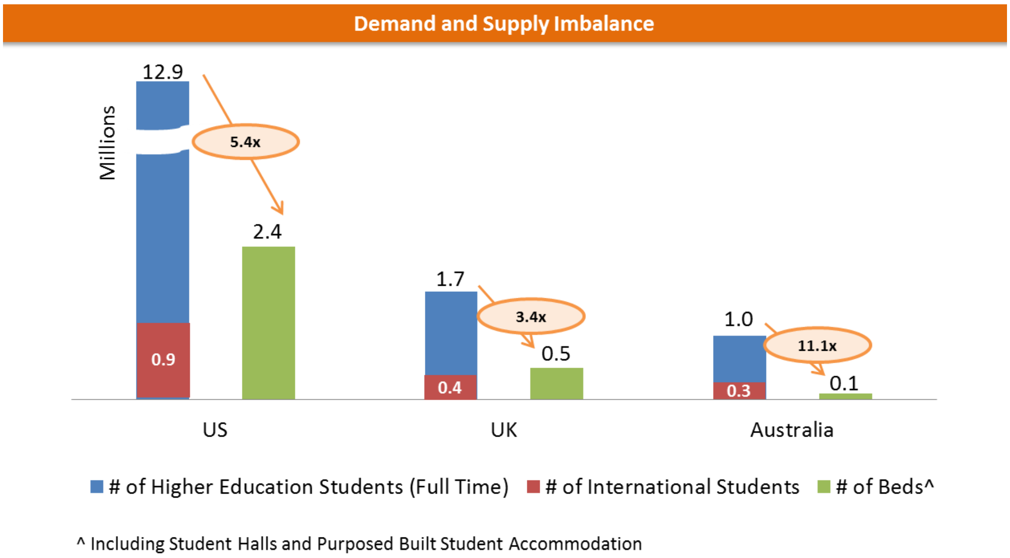
Over the last few years, against the backdrop of globalisation and strong demand for higher education globally, student accommodation is becoming a mainstream investment class attracting institutional capital. Global institutional interest in this sector class has increased significantly, especially in mature markets such as the US and the UK.

Post the Global Financial Crisis, global investments into student housing market have increased over 4.5 times from US$2.4bn in 2010 to US$10.9bn in 2015. This is mainly contributed by the UK with robust levels of investment, and in 2015 the investment value in the UK is expected to exceed that in the US for the first time. The liquidity and transaction volumes in this asset class are expected to increase further when other key student accommodation markets become more mature, such as in Germany, France, Spain and Australia aside from the US and UK markets.



Source: Savills

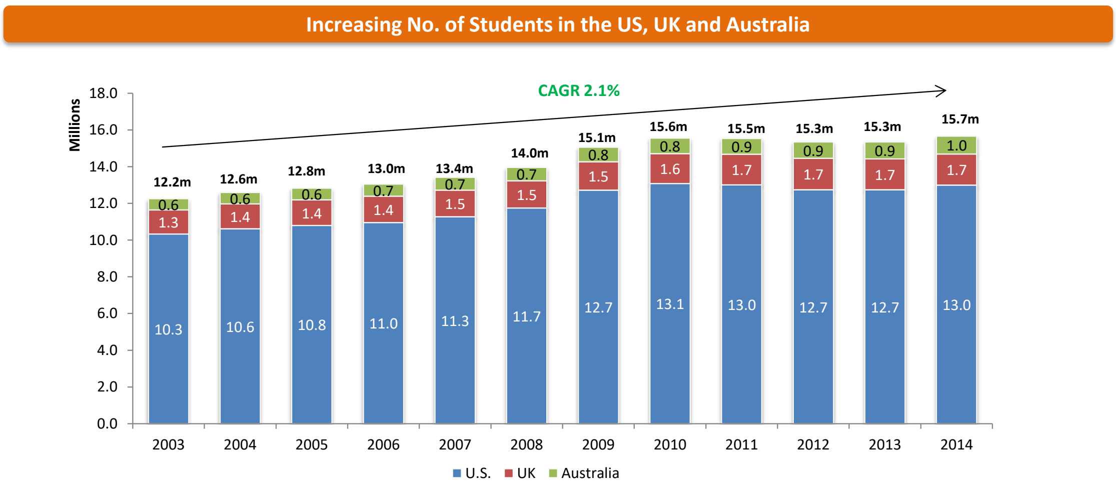
The student accommodation market is an attractive proposition due to low levels of supply compared to demand in many markets. This demand and supply imbalance is illustrated from the shortfall between number of full-time higher education students and the number of beds provided by University Halls and Purpose-built Student Accommodations (“PBSA”). The potential demand in the US, the UK and Australia are 3 – 11 times of their supplies.



Source: National data from various countries

Relative Inelastic Demand For Higher Education

The US, the UK and Australia are the biggest beneficiaries of an increasingly mobile and affluent student population, largely due to the recognised quality of their Higher Education Institutions ("HEIs"), the widespread use of the English language and strong international cultural ties. During the past 10 years, there has been significant growth in the total number of students studying in these countries. Between 2003 and 2014, the total number of student has grown by 29%, reflecting a CAGR of 2.1%. The relative inelastic demand for higher education in these countries is expected to continue to drive student enrolment which underpins student accommodation demand.

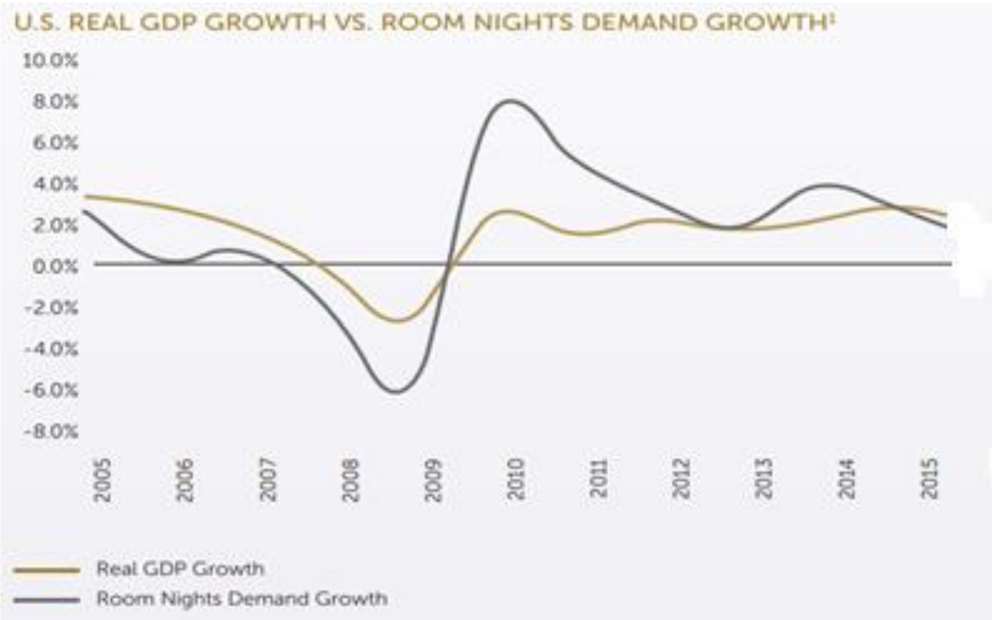


Source: National data from various countries

Corporate Housing

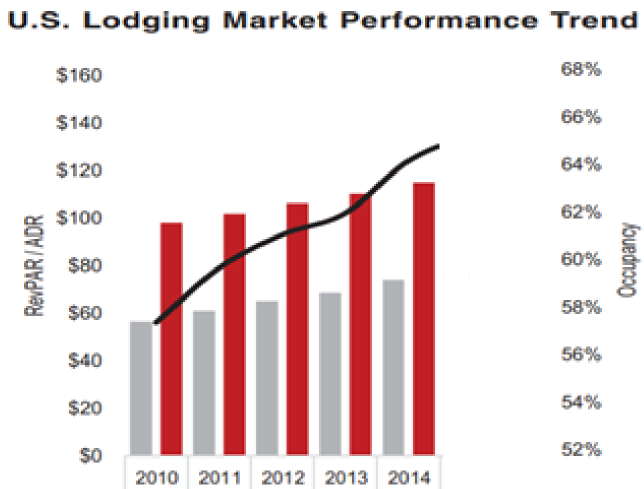
According to Global Serviced Apartments Industry Report 2013/14, total spending on business travel to the U.S. was highest at US$262 bn, followed by China at US$196 bn. In a recent study carried out by Worldwide ERC and Towers Watson, the study showed that 45% of companies worldwide projected an increase in cross border expatriate assignment till 2014. Given the growth in business travels, hospitality is an asset class expected to do well. Compared to hotel, operating serviced apartments is much easier with less volatile earnings.

GDP growth in the U.S. have been strong, fueled by robust growth in consumer spending. U.S. lodging demand growth is historically highly correlated with U.S. real GDP growth, and this sector is likely benefit from the country's continued economic growth. Business activity and corporate profits is likely to increase and thus driving corporate and group travels. Furthermore, consistent demand growth since 2010 has resulted in 5 consecutive years of positive RevPAR[16] growth as of 2014.



Source: US Bureau of Economic Analysis, STR, Oxford Economics, CBRE

16 Revenue Per Available Room ("RevPAR") is computed by dividing total revenue by room count and number of days in the period being measured

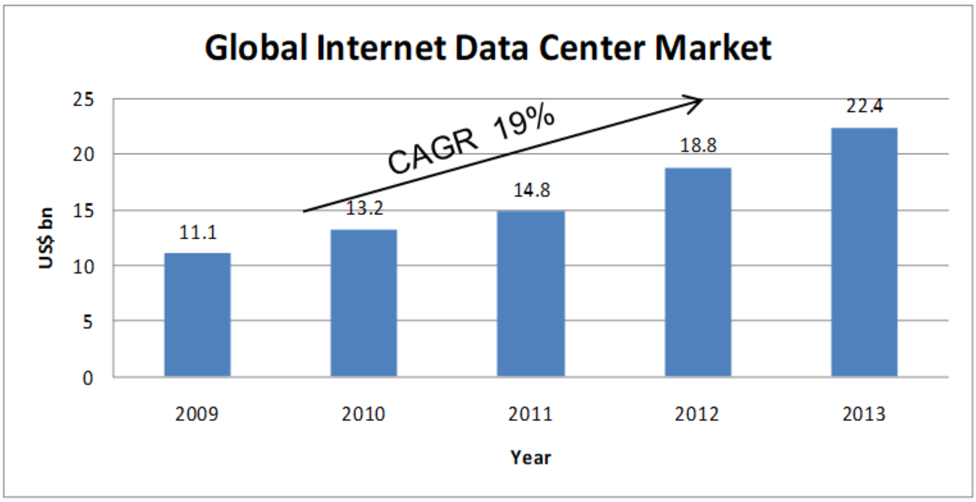


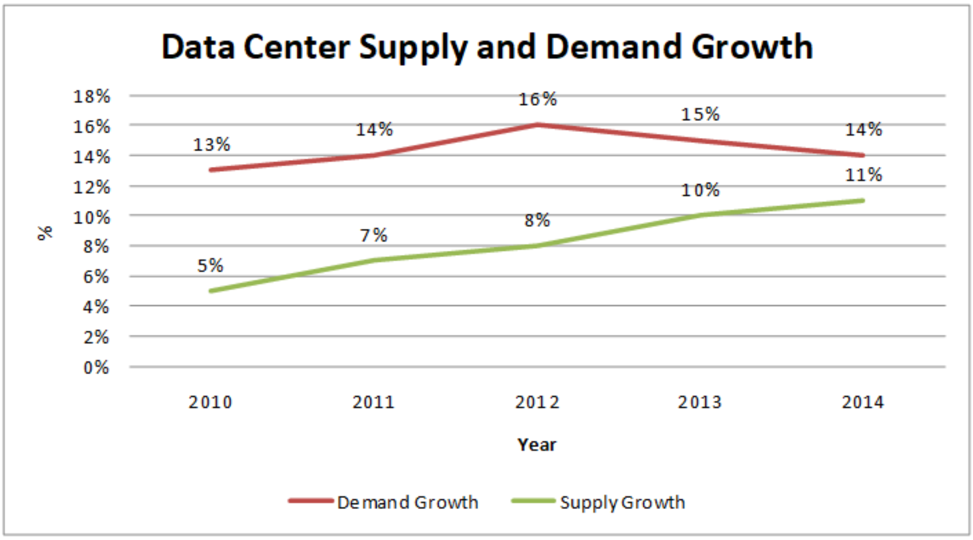
	2010	2011	2012	2013	2014
RevPAR	$56	$61	$65	$69	$74
RevPAR % Chg	5.1%	8.1%	6.8%	5.3%	8.0%
ADR	$98	$102	$106	$110	$115
Occupancy	57.6%	59.9%	61.3%	62.2%	64.4%

Source: STR, CBRE

<u>Data Centers ("DC")</u>
DCs are manifestations of the internet and technology in the real estate space, serving storage, transmission and processing functions. DCs are a high growth potential (revenue per unit space) with high growth rate as well (demand for unit space) both on a global and Asia-Pacific scale.

Big data, Cloud computing, Internet, Mobile and Algorithmic trading are global drivers of DC revenue and space growth. The global DC market recorded revenue CAGR of 19% from 2009 to 2013, and demand growth has constantly outstripped supply growth.





Source: Tier 1 Research, Wall Street Research and Gartner DC Customer Poll

Source: Company