

Investment Memo

Shop at Kingsford Waterbay

Ver. 1.0

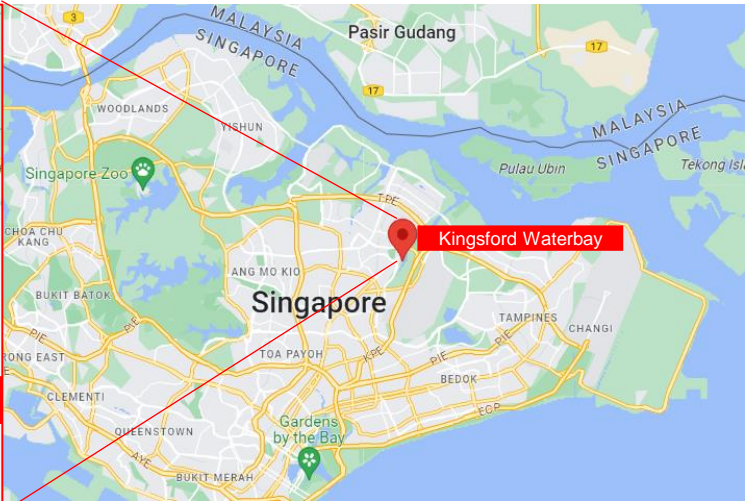
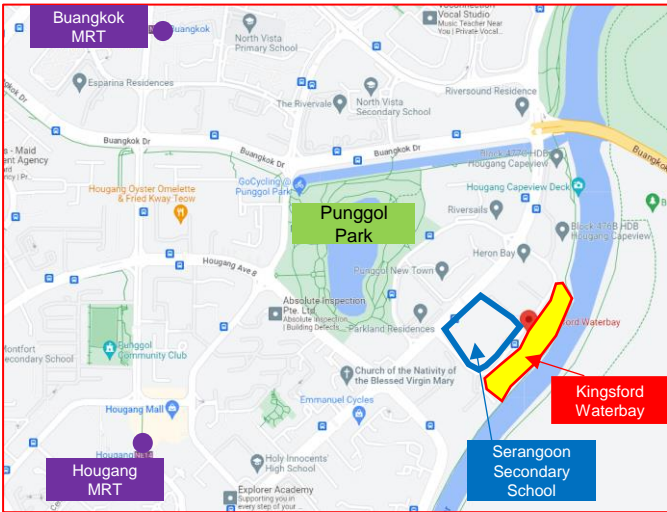


** Info subject to due diligence and change*

Property Info

- Newly completed condo development (year 2018) in Hougang/Serangoon area with large size of residences: 1160 units
- Total of 6 shop units (each with own toilet) located along condo development facing Upper Serangoon View Road, with direct access to bus stop
- Shops are accessible by the public and the captive market include residences from Kingsford Waterbay, nearby condos and students from Serangoon Secondary School
- The target shop unit is leased to an arts studio, which is the only arts school in the vicinity. The lease provides stable rental income with decent rental upside
- Tenants in other shop units include hair salon, clinic, pre-school, etc

Property Name	Shop at Kingsford Waterbay Condo
Address	50 Upper Serangoon View, Kingsford Waterbay Singapore 533893
Unit Size	431 sqft
Approved Use	Shop
Building Completion Year	2018
Land Tenure	99 years from 2014
Total Residential Units	1160
Secured Leases	<div>Shine Arts Creative Studio https://shinearts.sg/</div> <div>Lease Term: 3 years (Mar 23 – Mar 26)</div> <div>Rent: S\$3,000 per month</div>



Co-Investment Structure

- The subject property will be held under an investment holding company, considering benefits below:

1. Lower tax rate:

- Effective corporate tax rate (under Partial Tax Exemption Scheme) is much lower than personal income tax rate

2. Ease of divestment:

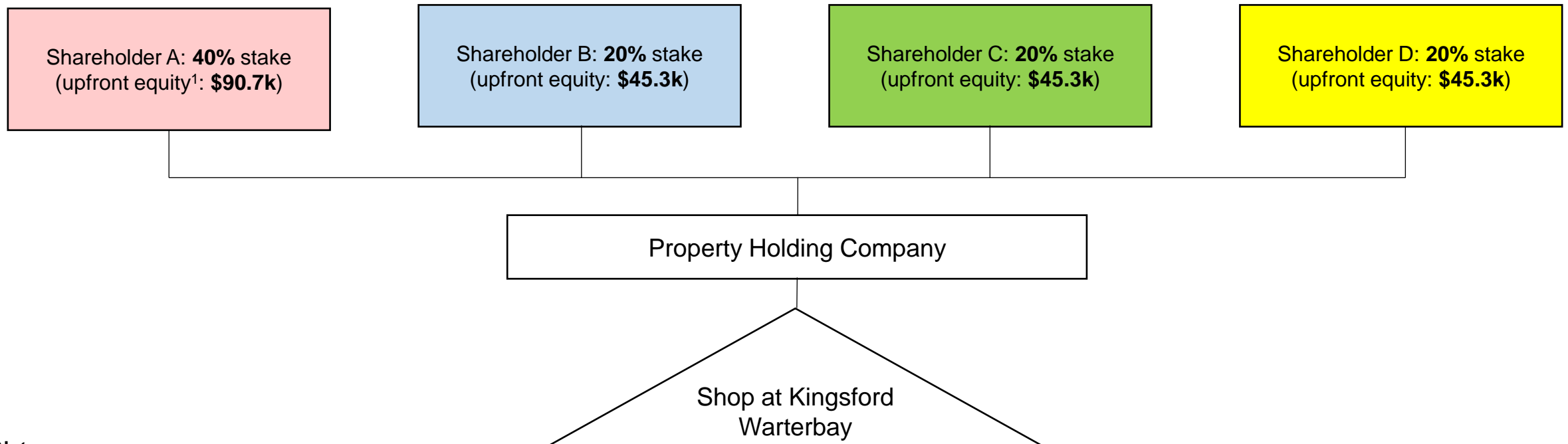
- Easy for individual shareholder to exit by transferring shares to replacing shareholder without touching underlying property
- No GST on sale of shares
- No disruption of loan if company shares instead of property is transferred

3. Independency of loan:

- As the loan will be taken under company's name, it will not affect investor's capability to take mortgages from bank for purchasing personal residential properties

4. Potential higher selling price:

- Buyer could pay higher price due to significant stamp duty savings reaped from acquiring company shares (Buyer Stamp Duty ("**BSD**") of 0.2% on share value) instead of directly buying property (BSD of ~3% on property price)



Note:

1. Equity amount excludes GST

Asset Management Plan

Increase current rent level to be in line with market:

- The lease under subject unit was entered 2 years ago, when the market rent was at lower level
- Currently, the nearby units are rented / intended to be rented at ~\$4,000 per month
- Target to achieve monthly rent of \$4,000 for the subject unit in 5-year time (+33% rental increase vs current monthly rent of \$3,000)
- Target tenants: Pre-school, music school, mini-mart, clinic, online business or design workshop etc

Recommended for long-term hold after rent is stabilized, considering:

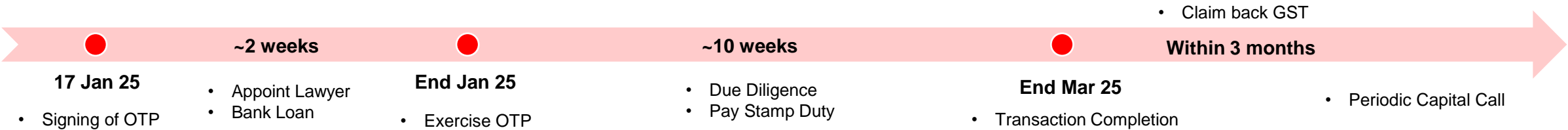
- **Long land tenure:** Remaining land tenure of ~90 years, which helps hold value for property
- **Low risk** given strong property fundamentals:
 - 1) **Large catchment:** Accessible by the public with large captive market include several condo residences and students from school across the road
 - 2) **Ample alternative uses:** As the surrounding lacks amenities, it supports the operation of other uses/business (e.g. mini-mart, pre-school, light cooking F&B, enrichment center etc) in the event that current tenant left

Nevertheless, divestment can be considered if:

- A divestment price which is significantly higher than the underwriting is received
- No more rental increment
- Interest rate starts to increase
- Change of property fundamentals/market environment, including opening of new shops outside condo and other unforeseeable events

Transaction Timeline and Payment

- Refer to chart and table below for indicative timeline of transaction and payments
- The GST is expected to be claimed back from IRAS within 3 months after purchase completion



Date	Payment Items	Amount	Capital Call Date	Capital Call Amount	Shareholder A (40% Stake)	Shareholder B, C, D (20% Stake)
17 Jan 25	Sign OTP, pay deposit (1% of purchase price) + GST	10,628	~5 days before payment dates	10,628	4,251	2,126
End Jan 25	Exercise OTP, pay 4% of purchase price + GST	42,510		74,160	29,664	14,832
	Legal, financing fee etc	7,800				
	Stamp Duty	23,850				
End Mar 25	Completion (pay 95% of purchase price) + GST	229,613		229,613	91,845	45,923
Apr – Jun 25	GST Refund	-87,750		-87,750	-35,100	-17,550
Sum		226,650		226,650	90,660	45,330
Post Transaction	Periodic capital call for mortgage payment (6-month sum) and other ad-hoc needs	~18,000 p.a.	1 Jan, 1 Jul	~9,000 per call	3,600	1,800

Investment Underwriting

- Base case return: **5.0% p.a.** over 5-year investment period
- Upside (not considered in base case underwriting below):
 - Refinancing at lower interest rate after current 2-year fixed loan term
 - Higher rent achieved than underwriting upon lease renewal
 - Higher property selling price than underwriting

Key Assumptions					
Property Purchase Price	\$975,000		Interest Cost	3.08%	p.a.
Stamp Duty	\$23,850	Tiered, 1% - 3% of property price	Loan Tenure	25	Years
Others Acquisition Costs	\$7,800	0.8% of property price	Annual Loan Payment	-\$45,194	p.a.
Sum	\$1,006,650				
Loan Amount	\$780,000	80% of property price			
Upfront Cash	\$226,650				

Returns Forecast						
	Year 1	Year 2	Year 3	Year 4	Year 5	
Gross Rent Income	\$36,000	\$30,000	\$39,600	\$33,000	\$43,200	
Property Tax	-\$3,600	-\$3,600	-\$3,960	-\$3,960	-\$4,320	
Other Opex (e.g. insurance)	-\$500	-\$500	-\$500	-\$500	-\$500	
Maintenance (MCST fees)	-\$3,000	-\$3,000	-\$3,000	-\$3,000	-\$3,000	
Net Property Income	\$28,900	\$22,900	\$32,140	\$25,540	\$35,380	
Property Sales Price						\$1,056,218
Divestment Expenses						-\$24,293
Annual Loan Payment	-\$45,194	-\$45,194	-\$45,194	-\$45,194	-\$45,194	
Loan Principal Repayment						-\$667,426
Equity Cash Flow	-\$226,650	-\$16,294	-\$22,294	-\$13,054	-\$19,654	\$354,685
ROE	25.0%					
Annual Return	5.0%					

Key Terms for Co-Investment

Asset Management

- **Responsibilities of Asset Manager:** Asset Manager is responsible for producing company's P&L report on semi-annual basis, inform and answer queries from shareholders on key commercial decisions include leasing, financing, capital call etc
- **Rights of Asset Manager:** Asset Manager has right to make decisions on key commercial matters include property leasing, financing, capital call, etc
- Asset Management Fee (refer to next slide) shall be paid in advance for the services to be provided in next year

Capital Call

- **Frequency of Capital Call:** After completion of property purchase, capital will be called on semi-annual basis, or as and when required by Asset Manager for special situations (e.g. capex work, prolonged vacant period etc)
- **Capital Call Amount:** Asset Manager shall inform shareholders of capital call amount at least 5 days before the call, and shareholders should provide the amount of capital based on its pro-rata shares in company

Exit

- **Sale of Property:**
 - Lock-up period: No sale of property within 5 years unless market fundamental changes and all shareholders approve the sale
 - Asset Manager has right to solicit quotes for property. However, Selling price needs to be approved by all shareholders before the property can be sold
- **Sale of individual shareholder's share:**
 - Each individual shareholder has right to sell its own share to another party at any time, provided that:
 - 1) Existing shareholders have first right on the shares to be sold
 - 2) The replacing shareholder should accept the same Co-Investment Terms and Asset Management Fees as agreed in this Investment Memo

Management Services and Fees

Items	Services Scope	Management Fee Rate
Investment Management Fee	<ul style="list-style-type: none"> Investment Underwriting Negotiation of Price and Transaction Terms Due Diligence Company Setup, GST registration & Claim back Loan Financing 	\$150 (one-off)
Asset Management Fee	<ul style="list-style-type: none"> Lease Management MCST Matters Tax Matters: Property Tax, Corporate Tax, Tax Filing Accounting: Book-keeping, Financial Statement Filing, GST Company Operations: AGM, Board Reso, P&L Reporting Refinancing 	\$150 p.a.
Divestment Management Fee	<ul style="list-style-type: none"> Divestment Strategy Appointment of Sales Agent, Lawyer Negotiation of Price and Transaction Terms Work with Buyer on Due Diligence Dissolution of Company 	\$150 (one-off)
Performance Fee	<ul style="list-style-type: none"> Maximize overall Return for Investors 	20% over 5% annual return (exclude management fees and corporate tax)

Example of Performance Fee Calculation:

Scenario 1:

Year of divestment: end of year 3

Upfront equity paid: \$100

Target return for performance fee: $3 \times 5\% \text{ p.a.} \times \$100 = \$15$

Actual total return* over 3-year period: \$20

Performance fee: $20\% \times (\$20 - \$15) = \$1$

Scenario 2:

Year of divestment: end of year 5

Upfront equity paid: \$100

Target return for performance fee: $5 \times 5\% \text{ p.a.} \times \$100 = \$25$

Actual total over 5-year period: \$23

Performance fee: $20\% \times (\$23 - \$25) = \$0$ (No performance fee if target return is not achieved)

* Note: Actual total return will be calculated based on the same way of deriving "Equity Cash Flow" line under Investment Underwriting slide

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Thank You