

Investment Memo

Shop at Far Horizon Garden

Ver. 1.0



** Info subject to due diligence and change*

Property Info

- The subject property comprises 4 out of 8 sub-units located within Far Horizon Garden Condo
- Direct access to Lentor MRT and Yio Chu Kang Road
- Each sub-unit is ~180 sqft mainly used as music studio and offices for trading business
- Ample parking lots for tenants and customers visiting the space
- En-bloc potential considering new condo development nearby, short land tenure, MRT at doorstep and formation of collective sale committee in year 2018

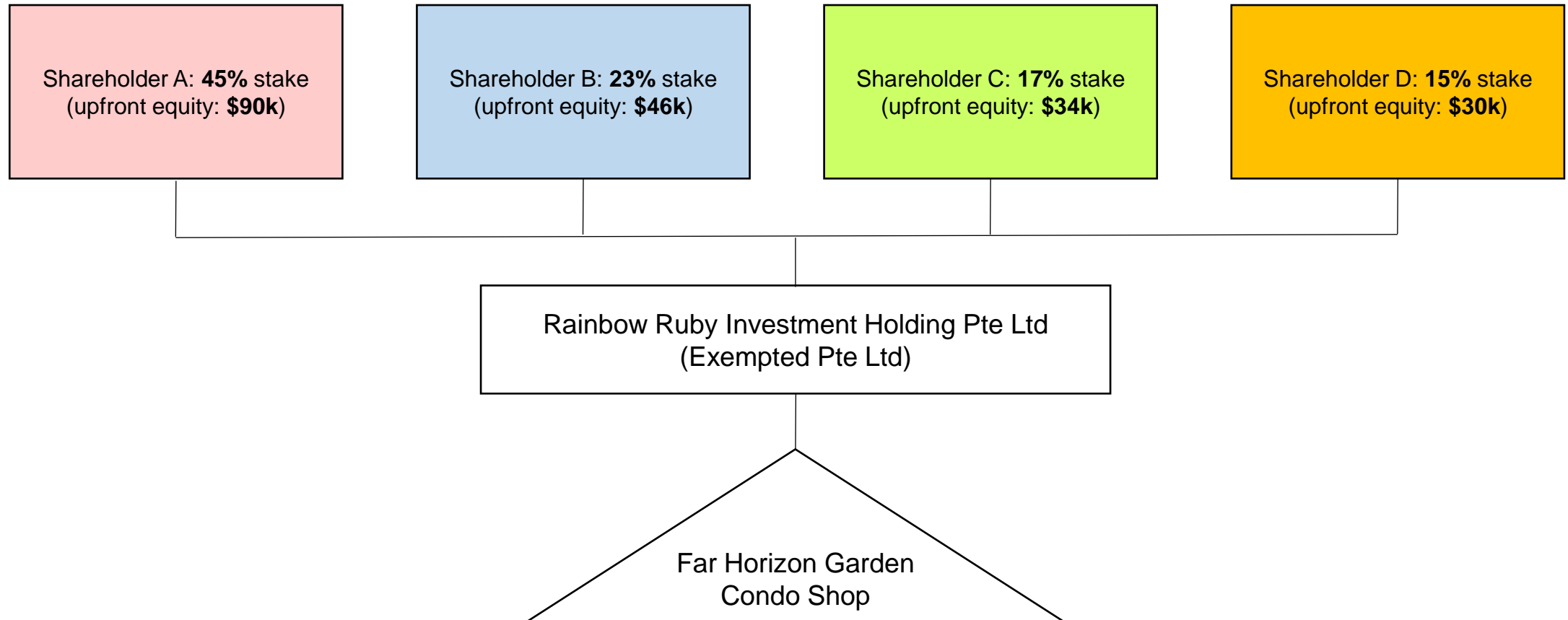
Property Name	Shop at Far Horizon Garden Condo
Address	3 ANG MO KIO AVENUE 9 #01-02 FAR HORIZON GARDEN SINGAPORE 569759
Unit Size	710 sqft
Approved Use	Shop
Building Completion Year	1986
Land Tenure	99 years from 1982
Total Residential Units	270
Secured Leases (all signed/renewed recently except sub-unit C)	Sub-unit A: \$900 per month for 2 years Sub-unit B: \$650 per month for 1 year with 1-year renewal option at \$750 per month Sub-unit C: \$700 per month for 1 year, expire on 19 Nov 23 Sub-unit D: \$650 per month for 1 year
Current Use	Music studio, offices for trading business



Co-Investment Structure

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

- ✓ Effective corporate tax rate (Partial Tax Exemption Scheme is applicable) is less than personal income tax rate
- ✓ 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
- ✓ Stronger affordability by buyer from the stamp duty savings when acquiring company shares (BSD of 0.2% on share value) instead of buying property (BSD of 3% on property price)



Asset Management Plan

Increase current rent level to be in line with market:

- Adjacent units are currently rented at ~\$950 per month. Sub-unit A was recently leased to a new tenant at the rate of \$900 per month
- Sub-unit B,C,D are currently under-rented at \$650 – \$700 per month (Current total monthly rent: \$2900)
- Sub-unit B,C,D are expected to increase rent by \$100 per month in the next leasing cycle (Expected total monthly rent: \$3200 / +10% revenue increase)
- Target to achieve monthly rent of \$900 for each unit in 5-year time (Total marked-to-market monthly rent: \$3600 / +24% revenue increase)
- Target tenants: Music studio, music school, office for small trading business, online business or design workshop

Initiate sale after rents are marked to market and interest rate drops:

- Initiate sale when commercial loan cost drops below 3.6% (approx. 40 – 80bps lower than current commercial loan cost)
- Target potential selling price of \$1mil (Gross yield assuming rent of \$900 for each sub-unit: 4.3%, Net yield: 3.6%): Buyer will be having positive carry
- Target capital gain over 5-year investment horizon: ~20%

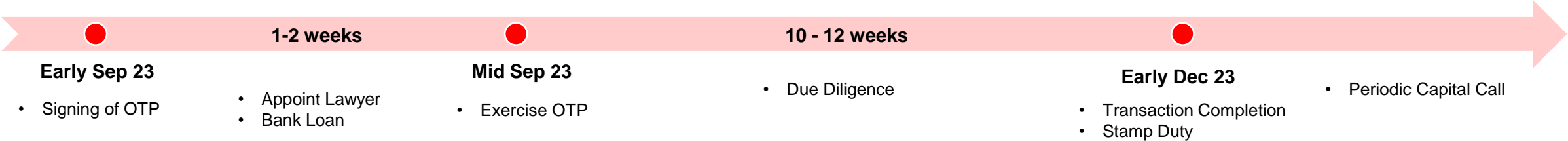
* Note: Above sale price number is higher than underwriting sale price. Investor return will be higher if \$1mil sale price is achieved

Long-term hold for en-bloc opportunity (not recommended)

- En-bloc potential exists considering new condo development nearby, short land tenure, doorstep MRT and formation of collective sale committee in year 2018
- However, en-bloc is likely to happen after supplies from nearby new development are fully absorbed and interest rates are lower (est. >5 years later)
- The subject unit holds 3 MCST shares which translate to residential area of >900 sqft (estimated). Potential en-bloc price of \$1,100 psf would yield ~\$1mil for the subject property

Transaction Timeline and Payment

- Refer to chart and table below for indicative timeline of transaction and payments



Date	Payment Items	Amount	Capital Call Date	Capital Call Amount	Shareholder A (45%)	Shareholder B (23%)	Shareholder C (17%)	Shareholder D (15%)
Early Sep 23	Sign OTP, pay deposit (1% of purchase price)	8,380	~5 days before payment dates	8,380	3,771	1,927	1,425	1,257
Mid Sep 23	Exercise OTP, pay 4% of purchase price	33,520		65,830	29,624	15,141	11,191	9,875
	Legal, financing fee etc	12,570						
	Stamp Duty Preparation	19,740						
Early Dec 23	Completion (pay 95% of purchase price)	125,700		125,700	56,565	28,911	21,369	18,855
Sum		199,910			89,960	45,979	33,985	29,987
Post Transaction	Periodic capital call for following 6-month mortgage payment etc	~16,000 p.a.	1 Jun, 1 Dec	~8,000 per call	~3,600 per call	~1,840 per call	~1,360 per call	~1,200 per call

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 of each sub-unit
 - Higher property selling price than underwriting

Key Assumptions					
Property Purchase Price	\$838,000		Interest Cost	4.00%	p.a.
Stamp Duty	\$19,740	Tiered, 1% - 3% of property price	Loan Tenure	25	Years
Others Acquisition Costs	\$12,570	1.5% of property price	Annual Loan Payment	-\$42,914	p.a.
Sum	\$870,310				
Loan Amount	\$670,400	80% of property price			
Upfront Cash	\$199,910				

Returns Forecast						
	Year 1	Year 2	Year 3	Year 4	Year 5	
Gross Rent Income	\$34,800	\$29,000	\$38,400	\$32,000	\$40,800	
Property Tax	-\$3,480	-\$2,900	-\$3,840	-\$3,200	-\$4,080	
Other Opex (e.g. insurance)	-\$400	-\$400	-\$400	-\$400	-\$400	
Maintenance (MCST fees)	-\$2,700	-\$2,700	-\$2,700	-\$2,700	-\$2,700	
Net Property Income	\$28,220	\$23,000	\$31,460	\$25,700	\$33,620	
Net Sales Proceeds					\$905,700	
Annual Loan Payment	-\$42,914	-\$42,914	-\$42,914	-\$42,914	-\$42,914	
Loan Principal Repayment					-\$583,210	
Equity Cash Flow	-\$199,910	-\$14,694	-\$19,914	-\$11,454	-\$17,214	\$313,196
ROI	25.0%					
Annual Return	5.0%					

Other Potential Leakages/Risks and Mitigations

Leakages/Risks	Description	Mitigations
Other fees or potential leakages not considered in underwriting	<p>Corporate tax:</p> <ul style="list-style-type: none"> - Minimum tax leakage expected given high interest expenses and applicability of Partial Tax Exemption Scheme - Investor would either pay for corporate tax or higher personal income tax if property is directly held under personal name <p>Management Fees: Insignificant amount, refer to slide 9 for details</p> <p>Corporate service fee and accounting fee: the service may be outsourced temporality if needed, estimated amount of \$1k per year</p>	<p>Amount of leakages are not material therefore not considered in the underwriting</p> <p>Estimated buffer of ~\$5k in upfront costs (included in underwriting) can be used for additional expenses incurred during investment period</p>
Leasing Risk	<p>Prolonged downtime in the event of non-renewal</p> <p>Renewal/New rent is less than underwriting</p>	<p>The negotiation of renewal will kick start earlier possible (at least 3 months before lease expiry) in order to minimize downtime risk</p> <p>In addition to normal marketing activities conducted by agent, to leverage on each shareholder's network to find suitable tenants paying good rent</p>
Building Age Risk	<p>Normal wear and tear</p> <p>Ad-hoc capex expenses (e.g. replacement of air-con etc)</p>	<p>Repairment cost of <\$200 will be borne by tenant (TBC)</p> <p>Tenant is responsible for servicing air-con 4 times a year (TBC)</p>

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:**
 - Asset Manager will initiate the sale and solicit quotes for property as and when deemed appropriate. Asset Manager shall inform shareholders when start soliciting quotes
 - Selling price needs to be approved by all shareholders before the property can be sold
- **Sale of individual shareholder's share:**
 - Individual shareholder has right to sell its own share to 3rd 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• Loan Financing	\$150 per person
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• Company Operations: AGM, Board Reso, P&L Reporting• Refinancing	\$100 per annum
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 per person
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*5% p.a.* \$100 = \$15 Actual total return* over 3-year period: \$20 Performance fee: 20%*(\$20 – \$15) = \$1	Scenario 2: Year of divestment: end of year 5 Upfront equity paid: \$100 Target return for performance fee: 5*5% p.a.* \$100 = \$25 Actual total over 5-year period: \$23 Performance fee: 20%*(\$23 – \$25) = \$0 (No performance fee if target return is not achieved)
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* 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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