Interview with the Group CEO

Mr Hiew Yoon Khong

Q: You've announced that Mapletree has reset its five-year targets starting from FY14/15. Can you elaborate on the plan going forward for the Group to advance to the next stage and sustain growth?

We aim to continue delivering a strong performance by maintaining discipline in executing our business model. The strategy is essentially about managing capital competently, by being asset-light and efficient in the deployment of funds. We do this by honing our combined skill sets as a real estate developer, investor and capital manager.

Creating value and high returns has always been our business objective. For us to meaningfully evaluate the sustainability of our results, we track our performance over an extended period, such as in five-year cycles. At the end of FY13/14, we had grown our assets under management (AUM) to S$24.6 billion. Our new target is to expand this to between S$40 billion and S$50 billion within five years. We recognise that the next phase of scaling will be more challenging compared to when we doubled our AUM from a smaller base (of S$11.8 billion) five years back. To achieve this, we will broaden our geographical presence to new markets and real estate sectors. In essence, it is also about diversifying our risks to balance the Group's exposure in our existing markets.

Accordingly, in the past year, we have ventured beyond Asia, into Australia and the United States of America (USA). We also inked a partnership with Oakwood Worldwide, a US-based corporate lodging specialist, to strategically penetrate the global serviced apartment sector.

Our AUM increased by 15.5% to S$28.4 billion as at 31 March 2015. That said, our plan going forward is not just about scaling. We strive to put Mapletree in a stronger position, building a solid earnings base that delivers high yet steady returns to investors. Currently, 72.4% of our AUM is third-party assets. In order for us to drive more stable and recurring fee-based income, it is important that we maintain this level of managed versus owned assets.

Given the importance of sustained earnings and returns as we enlarge our geographical footprint, we utilise six quantitative indicators to measure our performance. They weigh in not just scale alone, but also balance earnings and returns. Therefore, as we acquire or develop new projects, we will seek to establish more capital management platforms to generate recurring income streams and high returns as well.

This is how we have executed our business model since 2004, which has resulted in the Group's accelerated and sterling performance. Going forward, we will maintain this approach and strive for efficiencies in our capital deployment.

FY14/15 marks the start of our new five-year business plan where we reset our key performance targets to steer us towards aiming even higher. We are pleased that this journey has started well. In line with our plan, we closed FY14/15 with a 9.5% increase in our EBIT + SOA[1], and a 18.4% growth in our fee income[2]. Our five-year net asset value compounded annual growth rate (NAV CAGR[3]) for the year was 12.3% and we achieved an average return on invested equity (ROIE[4]) of 13.9% from FY10/11.

GA Tama Building, Japan

Q: Mapletree has differentiated itself by way of its capital management platform. How has this contributed to Mapletree's business growth?

The capital management platform is pivotal to Mapletree's business model. Broadly speaking, the traditional real estate business can be volatile and cyclical. By applying fund management activities in real estate, Mapletree is able to reduce capital outlays and maximise the deployment of funds in a capital-intensive business environment. In short, this strategy allows us to be sensitive to market changes by managing our balance sheet risks.

Since 2005, we have established a broad spectrum of capital management vehicles that enables us to pursue a growth strategy. During this time, Mapletree has tapped the capital market to launch four real estate investment trusts (REITs). The Mapletree REITs have a combined portfolio size of S$17.6 billion as at 31 March 2015 and make up approximately 17%, in terms of market capitalisation of all REITs (including stapled trusts) listed on the Singapore Exchange. Size aside and more importantly, Mapletree REITs have delivered strong total returns to investors (comprising distribution yield and capital appreciation) since their respective public listing. As investors in the REITs ourselves and to maintain alignment with the unitholders, Mapletree typically holds at least a 30% stake in our REITs. Additionally and more central to our business model, as managers of our REITs, we have continually grown our fee income[2] from our REIT platforms to S$167.1 million as at the end of FY14/15.

Our capital management business, however, is not limited to REITs but also includes private real estate funds where Mapletree delivered sustained returns of around 20% for the funds that have completed exit. In FY14/15, despite a competitive fundraising market, Mapletree closed two Japan-focused private

1 *EBIT + SOA denotes earnings before interest and tax plus share of operating profit of associated companies and joint ventures (excluding SOA gain/loss relating to disposal, foreign exchange, derivatives and revaluation).*
2 *Including REIT management fees.*
3 *NAV CAGR is adjusted for dividends distributed to shareholder and calculated excluding non-controlling interests and perpetual securities and with NAV as at 31 March 2010 as starting base.*
4 *ROIE denotes return on invested equity and is computed based on Operational PATMI over the Group's equity from shareholder adjusted for unrealised revaluation gains or losses and such other non-cash flow and non-operating items including mark-to-market fair value adjustments and negative goodwill.*

Artist's impression of logistics development – Mapletree Chongqing Jiangjin Industrial Park

funds, totalling a fund commitment of JPY116 billion. The closing of MJLD in June 2014 and MJOF in January 2015 exceeded their initial fundraising targets and succeeded in attracting strong investor support from a diversified group of investors.

The launch of the funds further supports our growth strategy. The JPY65 billion MJOF allows us to deepen our presence in Japan, an existing market for Mapletree since we first established our Japan office in 2007. Mapletree now has a new platform to invest in Tokyo's office sector, which is one that we have observed to be picking up in the last few years, with the 2020 Olympics Games providing an additional boost. In the past, Mapletree's presence in Japan was predominantly in the logistics sector. On the other hand, the JPY51 billion MJLD allows us to capitalise on growing demand within Japan's logistics sector by undertaking logistics development projects with our private fund investors.

As at 31 March 2015, managing four REITs and six private funds, Mapletree has a combined third-party AUM of S$20.56 billion. In tandem with this, the Group's fee income increased to S$240.5 million, compared to just S$8 million 10 years ago in FY05/06, and none in FY04/05. Since Mapletree overhauled its business model to include capital management activities, it has built a stable and growing earnings base. Our aim is to deliver consistently high returns to our investors even as we scale, and capital management is the means by which we can achieve scalability and sustained earnings and returns.

We are honoured that the market validates our capital management skills. In addition to strong investor confidence in our fund management products, in January 2015, PERE (Private Equity Real Estate) Magazine ranked Mapletree 8th in the '2014/2015 APAC Fund Manager Guide' and 5th among Asian-based fund managers. This was based on capital raised by private real estate investment vehicles dedicated to the Asia-Pacific region between January 2009 and September 2014, during which we had successfully launched funds with total committed capital of over US$1.8 billion.

Notwithstanding our strong capital management performance, we do not see ourselves as a pure fund manager. Instead, we believe that we are able to deliver market-leading returns because of our differentiated business model that closely integrates fund management with our proven ability as a real estate developer and investor. The development business allows Mapletree to tap the high-risk, high-return opportunities by undertaking greenfield projects, while investments allow us to identify and underwrite other opportunistic ventures.

Q: You talk about being not just a fund manager, but about integrating capital management with core real estate skill sets that supports the execution of Mapletree's asset-light and sustainable business model. Can you elaborate on this?

For us to execute our business model, which is centred on capital management, we need quality assets. We can either develop or acquire such assets. However in order to ensure that we build strong portfolios that will appeal to the capital markets, the assets in turn will have to have the right tenancies and rentals.

While we develop quality assets with a view for long-term investment, as a sponsor of four REITs, we have also undertaken the commitment to give all our REITs a right of first refusal (ROFR) to acquire in their respective asset classes. In FY14/15, we continued to build our logistics development platform with 12 new projects, totalling 1.2 million square metres (sqm). With the exception of two projects that are located in key Malaysian distribution hubs, all are located in fast-growing cities in China such as Chongqing, Hangzhou and Ningbo. Furthermore, we signed 12 investment agreements during the year to develop another 1.1 million sqm in gross floor area (GFA) of logistics facilities in China. We believe in the long-term prospects of the logistics real estate industry in China, and are committed to this market. As of 31 March 2015, Mapletree manages 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. In FY14/15, two of our earlier Grade-A and 100% occupied developments were acquired by Mapletree Logistics Trust (MLT) under its ROFR from us, generating net property income yields of 7.5% and 8.0% for MLT.

FY14/15 also saw Mapletree continue to make strides in other significant development projects. The new phase of our flagship development, Mapletree Business City II (MBC II) is on track for completion in 2016. The progressive and differentiated offerings of MBC II have attracted the interest of multinational corporations seeking to take on a longer-term lease in a larger space. MBC II offers a cost competitive solution to meet this growing demand.

Overseas, our first retail mall in Vietnam was completed during the year. Having secured tenancies for more than 80% of its net lettable area, SC VivoCity opened for business in April 2015. Even a mature and developed market like Hong Kong SAR presents an interesting opportunity for us to build our profile and reinforce Mapletree's track record as a developer. The reception from potential tenants for our development projects in Tsing Yi and Kowloon East has been positive, and the projects are on schedule for completion in 2016 and 2017 respectively.

Artist's impression of Mapletree Business City II

Q: Why is Mapletree going into the corporate lodging/ serviced apartment market at this point? How does this allow Mapletree to execute its business model and deliver its targets?

The markets in Singapore and Asia are highly correlated. In principle, scaling or going overseas is not an end in itself for Mapletree, but about balancing our exposure whether it is diversifying our risks out of Singapore or now, out of Asia.

Venturing into the global corporate lodging/ serviced apartment segment allows us to execute our overseas strategy and go beyond the relatively limited Singapore market. In addition, it gives us an option, if we so choose, to offer a new product segment to expand our range of capital management products and to offer investors different investing opportunities within the diverse yet highly illiquid real estate business.

In FY14/15, Mapletree acquired 49% in Oakwood Asia Pacific, the Asia serviced apartment management business of Oakwood Worldwide. During the year, we also acquired three corporate lodging/serviced apartment assets in the US, totalling US$210.3 million. The assets will be operated under the Oakwood Worldwide brand. In addition, we have entered into agreements to complete the acquisition of four more assets by the end of July 2015. Totalling approximately S$202.1 million, the properties are located in Australia, Japan and the US.

The expansion into this sector comes amid a growing appetite for such accommodation worldwide. However, we are mindful of the risks involved going into a new market. Therefore, working with Oakwood allows us to enter the US with an experienced and knowledgeable partner. The US market is in recovery, and its more liquid and transparent real estate sector presents an attractive and stable income proposition.

In Asia, demand for serviced residences is rising, as business travel to the region continues to grow. More travellers opt to stay in serviced apartments, which offer a more personalised home environment, and are typically viewed as cost effective for longer stays. Furthermore, we recognise that many land tender sites in our existing markets such as China and Vietnam are mixed-use sites. With the Oakwood joint venture, we will be able to work with an established corporate lodging/serviced apartment operator to provide accommodation that will complement our current product offerings of office, retail and residential space in such developments, and in turn strengthen the appeal of our mixed-use projects.

Q: Given the increasing diversity of markets in which you operate in, how do you balance risks while pursuing growth targets?

There is a high level of consistency across our investments and across geographies, driven by the level of returns that we seek to achieve.

We base all our investment decisions on our risk-return profile and to a lesser extent on macro considerations. For example in FY14/15, we acquired an office building in South Brisbane for A$93 million. This is our maiden purchase in Australia. While there was a wide range of available opportunities, we were disciplined in pursuing them. Investments had to meet our criteria, which is primarily about getting high yields that were also stable. That entailed seeking out assets in a less competitive market. For example, as more big companies move out of the core areas in favour of more cost-effective space, we turn our focus to quality assets on the fringe of the central business district. We also prefer properties with long leases, and the office asset in Australia is a single-tenanted building with a lease expiry in 2021.

We will continue to tap such opportunities. In Australia and Japan (through the MJOF platform), we will focus on catering to demand stemming from decentralisation. This is similarly experienced in China and Singapore; lending support to our Mapletree Business City developments in both markets. We also prefer corporate lodging/serviced apartments to hotels as an asset class, for their stable and long-term yields.

With a range of markets and real estate sectors to consider, our investments are guided by a clearly defined matrix that corresponds to our capital management platforms. This further helps to clearly demarcate each business segment by geographies and asset classes. In the next five years, therefore, the Group will continue to identify new segments in order to balance risks while aiming to deliver the same high level of returns.