Operations Review
Singapore Commercial

VivoCity

Mapletree's Singapore Commercial business unit (Singapore Commercial) manages a portfolio of real estate assets in Singapore, held under Mapletree and Mapletree Commercial Trust (MCT), a Singapore-listed real estate investment trust (REIT).

As at 31 March 2015, the business unit owned and managed about S$8.5 billion in assets. It contributed S$435.4 million and S$38.7 million to Mapletree's EBIT + SOA[1] and fee income[2] respectively.

The non-REIT assets held directly by Mapletree include:

- Mapletree Business City (MBC);
- HarbourFront Centre (HFC);
- HarbourFront Towers One and Two;
- St James Power Station; and
- PSA Vista.

The properties in the MCT portfolio are:

- VivoCity;
- PSA Building;
- Mapletree Anson; and
- Bank of America Merrill Lynch HarbourFront

SINGAPORE COMMERCIAL (HELD DIRECTLY BY MAPLETREE)

Since its completion in 2010, MBC, as an integrated Grade-A office and business park development, has attracted premium tenants including globally renowed multinational corporations and financial institutions. Building on the success of the existing MBC, Mapletree embarked on the next phase of revitalising Alexandra Precinct with the development of the new phase of MBC, MBC II.

Like MBC, MBC II will offer Grade-A office specifications, with large, column-free floor plates. Its adaptive space design and environmentally-friendly features will cater to companies looking for quality, fringe central business district (CBD) business space. The development, with a total net lettable area of 108,000 square metres (sqm), will comprise a 30-storey tower that will terrace down to five-, six- and eight-storey blocks. At 30 storeys, MBC II will be the tallest business park in Singapore, offering commanding views of the sea and the surrounding greenery of the Southern Ridges. The development will also house sports facilities such as basketball courts, futsal courts and jogging tracks, set amid a lush green landscape, to provide a tranquil and healthy workplace environment.

With construction underway and completion expected in 2016, MBC II has already garnered awards for its design excellence and environmentally sustainable infrastructure. They include the Building and Construction Authority's (BCA) Green Mark Platinum Award, precertification for the Leadership in Energy and Environmental Design (LEED) for Core and Shell Development Gold level, the Universal Design (UD) Mark Gold Award and the SG Mark.

As a real estate developer, Mapletree strives to manage energy consumption and efficiency at its facilities. During the year, the inaugural BCA Building Energy Benchmarking Report 2014 ranked MBC among the top 10 for most efficient mixed developments in Singapore. At the HarbourFront Precinct, HFC too was similarly ranked in the top 10 for commercial buildings in Singapore for the Offices (Private) category.

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.

The completion of MBC II is expected in 2016

MAPLETREE COMMERCIAL TRUST

In FY14/15, MCT continued to deliver robust returns to unitholders. Distribution per unit (DPU) increased 8.5% year-on-year (y-o-y) to 8.00 cents. Gross revenue of S$282.5 million and net property income of S$211.7 million were 5.7% and 8.4% higher respectively than the previous year. MCT's portfolio size as at 31 March 2015 was about S$4.2 billion, up from about S$4.0 billion a year ago. MCT's market capitalisation doubled from S$1.6 billion at listing in 2011 to about S$3.4 billion as at 31 March 2015. Including the cumulative distributions paid out, total returns to unitholders since listing was about 113%.

During the year, MCT's largest portfolio property, VivoCity, maintained resilient shopper traffic and tenant sales despite a general slowdown in Singapore's retail sector. The REIT manager continued to introduce new brands and retail concepts to refresh the mall, as well as new advertising and promotional programmes to keep VivoCity as the choice destination for both shoppers and tenants alike. These initiatives contributed to VivoCity garnering the accolade of 'Best Family-Friendly Mall' and 'Top 3 Best Shopping Centre (City)' at the AsiaOne People's Choice Awards 2014.

In 3Q FY14/15, Mapletree commenced an asset enhancement initiative at VivoCity, which added about 1,400 sqm of retail space at Basement 1 of the mall. The new space benefits from a constant stream of shopper traffic due to its location at the main thoroughfare that connects HarbourFront MRT Station (at Basement 2) to the main shopping areas in the mall and the Sentosa Express Station (at Level 3). As at 31 March 2015, the newly created space was fully committed. Tenants progressively opened for business from mid-April. The new space features a trendy cluster of fashion, beauty and lifestyle stores, two of which are first-to-market retailers in Singapore – American Eagle Outfitters, a US apparel brand, and Weekends, a multi-brand lifestyle retailer. The stabilised return on investment is expected to be about 25%, and the increase in capital value is expected to be around S$22 million.

During the year, Moody's Investors Service upgraded MCT's issuer rating to Baa1 from Baa2 (Positive). This attests to MCT's improved and proactive capital management across its portfolio. MCT was also recognised at the Securities Investors Association Singapore (SIAS) Investors' Choice Awards 2014, achieving runner-up for the Most Transparent Company Award in the REITs and Business Trusts category.

MARKET REVIEW AND OUTLOOK

Singapore's economy grew by 2.1% y-o-y in the quarter ended 31 March 2015, the same rate of growth as the preceding quarter. Growth is expected to be between 2.0% and 4.0% in 2015.

In the same quarter, demand for retail space weakened as more retailers took significant measures to better manage costs and manpower. Consequently, average prime rents in Orchard Road declined 1.4% over the previous quarter while suburban rents remained flat. In a climate of growing vacancies and challenging retail sales, tenant retention will increasingly become a focus for landlords, as retail rents come under pressure in most sub-markets.

In 1Q 2015, office rents registered a slower growth of 0.6% to 1.8% as demand moderated while capital values remained unchanged. Overall occupancy rates declined while newer developments in the CBD maintained a higher occupancy rate.

References:
i. Ministry of Trade and Industry, Singapore
ii. CBRE Singapore Market View Q1 2015

SINGAPORE COMMERCIAL

EBIT + SOA:
S$435.4 million

Fee Income:
S$38.7 million

AUM:
S$8.5 billion

MCT

Portfolio:
4 properties

Property value:
S$4.2 billion

GFA:
> 279,000 sqm

Gross revenue:
S$282.5 million

NPI:
S$211.7 million

DPU:
8.00 cents

Price per unit:
S$1.60
(closing price on 31 March 2015)

Operations Review
Singapore Industrial

Artist's impression of the build-to-suit project for Hewlett-Packard at Telok Blangah

Mapletree's Singapore Industrial business unit manages a portfolio of industrial properties held by the Singapore-listed real estate investment trust (REIT), Mapletree Industrial Trust (MIT), and provides inputs on the management of a development project under the Mapletree Group. As at 31 March 2015, the business unit's assets under management stood at S$3.6 billion. In FY14/15, it contributed S$230.4 million to the Group's EBIT + SOA[1] and S$42.9 million to the Group's fee income[2].

DELIVERING RETURNS

MIT invests in a large and diversified portfolio of industrial properties strategically located across Singapore. Valued at S$3.4 billion as at 31 March 2015, the portfolio comprises 84 industrial properties encompassing Flatted Factories, Hi-Tech Buildings, Business Park Buildings, Stack-up/Ramp-up Buildings and Light Industrial Buildings.

MIT's distributable income of S$180.8 million for FY14/15 was 8.9% higher than the S$166.1 million achieved in FY13/14. Distribution per unit (DPU) for FY14/15 rose 5.1% from 9.92 cents to 10.43 cents. Gross revenue and net property income for FY14/15 were S$313.9 million and S$228.6 million, 4.9% and 6.5% respectively higher than the preceding year. The better performance was due mainly to higher rental rates secured for new leases and renewal leases, as well as revenue contribution from the acquisition of 2A Changi North Street 2 and the completion of the build-to-suit (BTS) project for Equinix.

MIT's portfolio occupancy remained stable at 90.9% in FY14/15. Average portfolio passing rent increased by 5.2% to S$1.81 per square foot per month (psf/mth) with positive rental revisions achieved for all property segments. Through proactive lease management and marketing efforts, MIT achieved a healthy tenant retention rate of 74.9% for its large base of over 2,000 tenants operating across a variety of trade sectors.

PROVIDING CUSTOMISED SOLUTIONS

MIT's S$108 million BTS development at one-north obtained its Temporary Occupation Permit in January 2015. The purpose-built 35,700 square metres (sqm) data centre is leased to Nasdaq-listed Equinix for a minimum tenure of 20 years. This has helped to increase MIT's portfolio weighted average lease to expiry from 2.5 years as at 31 March 2014 to 3.1 years as at 31 March 2015. The addition of a high-quality tenant in a growing trade sector has also improved MIT's income stability and portfolio diversification.

Underscoring Mapletree's development expertise, this energy efficient BTS development was awarded the BCA-IDA Green Mark Platinum Award for data centre developments by the Building and Construction Authority and Infocomm Development Authority of Singapore.

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.

MIT commenced the redevelopment of the Telok Blangah Cluster in September 2014. About 69% of the tenants at the cluster had relocated to alternative MIT clusters, underscoring the strong tenant retention within MIT's portfolio. As at 31 March 2015, the MIT Telok Blangah Cluster has been reclassified as Hi-Tech with the cluster's original gross floor area (GFA) slated to almost double to 76,500 sqm upon completion in the first half of 2017.

The S$226 million[3] BTS project is fully committed by Hewlett-Packard for an initial lease term of 10.5 years with annual rental escalations. This will be MIT's largest BTS project to date. It will include facilities for manufacturing, product and software development as well as an ancillary office.

EXPANDING PORTFOLIO

MIT completed the acquisition of a four-storey Light Industrial Building for S$14 million in May 2014. The building was leased back to Aureumaex Industries (S) Pte Ltd[4] for a minimum rental period of five years, with annual rental escalations. With a GFA of 6,303 sqm, the property is used mainly for manufacturing and warehousing. Accessible via major expressways, the property is located near the Pasir Ris and Tampines regional centres as well as Changi Airport.

ACCOLADE

MIT was the runner-up of the 'Singapore Corporate Governance Award' under the REITs and Business Trusts category at the Securities Investors Association Singapore (SIAS) Investors' Choice Awards in October 2014. The annual event recognises and honours listed companies with good corporate governance practices and shareholder interests.

UPCOMING DEVELOPMENT

The Singapore Industrial business unit also provides inputs for an industrial development project at Tai Seng, which was secured by the Mapletree Group through a government land tender in December 2013.

Located within the Paya Lebar iPark, the S$250 million development is strategically sited next to Tai Seng MRT station. With a permissible GFA of 41,230 sqm, the development will comprise a modern high-specification industrial facility with office and retail space. It is designed to cater to businesses in the high-value light industries as well as capture the growing research and development sectors. Construction is underway and active marketing has commenced to secure pre-commitments for the project. The development is expected to be completed in the second half of 2016.

MARKET REVIEW AND OUTLOOK

The Singapore economy grew by 2.1% year-on-year (y-o-y) in the first quarter of 2015 (1Q 2015), the same rate of growth as the preceding quarter. However, the manufacturing sector contracted by 3.4% y-o-y, following a 1.3% contraction in the previous quarter. The contraction in the manufacturing sector was largely due to declines in the transport engineering, electronics and precision engineering clusters.

The median rent for island-wide multi-user factory space in 1Q 2015 decreased to S$1.95 psf/mth from S$1.98 psf/mth the preceding quarter. For island-wide business park space, the median rent decreased to S$4.00 psf/mth from S$4.09 psf/mth in the preceding quarter.

The outlook of the industrial property market is expected to remain mixed for the rest of 2015. Overall rents for multi-user industrial developments are expected to ease further due to supply pressures, while rents for business parks and higher specification buildings are expected to strengthen on the back of a tightening supply.

Artist's impression of the development project at Tai Seng

References:
i. Ministry of Trade and Industry, Singapore
ii. JTC Corporation
iii. Colliers International Research, Singapore industrial property market 1Q 2015

SINGAPORE INDUSTRIAL

EBIT + SOA:
S$230.4 million

Fee Income:
S$42.9 million

AUM:
S$3.6 billion

MIT

Portfolio:
84 properties

Property value:
S$3.4 billion

GFA:
1.83 million sqm

Gross revenue:
S$313.9 million

NPI:
S$228.6 million

DPU:
10.43 cents

Price per unit:
S$1.580
(closing price on 31 March 2015)

3 Includes book value of S$56 million (as at 31 March 2014 prior to commencement of the project) for the existing Telok Blangah Cluster.
4 The company was formerly known as Stamping Industries Pte Ltd, and had changed its name to Aureumaex Industries (S) Pte Ltd in February 2015.

Operations Review
Logistics

Artist's impression of Mapletree Chongqing Liangjiang Logistics Park

The Mapletree Logistics business unit comprises logistics assets held by the Singapore-listed real estate investment trust (REIT) Mapletree Logistics Trust (MLT), as well as development projects in Malaysia, Vietnam, Hong Kong SAR, Japan and China under the Mapletree Group. As at 31 March 2015, Mapletree's logistics properties have a combined value of S$6.0 billion. Mapletree Logistics' EBIT + SOA[1] for FY14/15 was S$291.3 million, while fee income[2] was S$46.2 million.

MLT is managed by Mapletree Logistics Trust Management Ltd (MLTM). Both MLT and MLTM received accolades for driving business excellence in 2014. MLTM was named Frost & Sullivan's Logistics Infrastructure Developer of the Year for the third time, for its track record in managing logistics infrastructure and growing market presence. For the third year running, MLTM was named one of Singapore's Top 50 Brands by Brand Finance. In addition, MLT garnered the Silver award for Best Investor Relations in the REITs and Business Trusts category at the Singapore Corporate Awards 2014.

MAPLETREE LOGISTICS TRUST - STABILITY CONTINUES

MLT continued to deliver steady returns to unitholders in FY14/15. Distribution per unit (DPU) increased 2.0% year-on-year (y-o-y) to 7.50 cents, on the back of an enlarged portfolio, full-year contribution from Mapletree Benoi Logistics Hub, and higher revenue from existing assets. Gross revenue and net property income (NPI) were S$330.1 million and S$277.4 million respectively, representing a y-o-y growth of 6.2% and 3.7%. Through proactive marketing and leasing efforts, 444,600 square metres (sqm) of leases were renewed or replaced at an average positive rental reversion of 8%. As at 31 March 2015, MLT's portfolio had a weighted average lease to expiry of about 4.3 years and occupancy of 96.7%. Active lease and asset management remains a key priority for management, especially in view of the conversions of some single-user assets to multi-tenanted buildings in Singapore.

MLT maintained a healthy balance sheet with an average debt duration of approximately 3.6 years and aggregate leverage of 34.3% as at 31 March 2015. The weighted average borrowing cost was around 2.1%. Following the successful early refinancing of loans, total debt due in FY15/16 reduced to about S$57 million or about 3% of total debt. To mitigate the impact of currency and interest rate fluctuations on MLT's distributable income, about 80% of the income stream in FY15/16 has been hedged into or is derived in Singapore dollars, while about 80% of total debt has been hedged against fixed rates.

MLT continued to pursue its strategies of rebalancing its portfolio towards the higher growth markets and rejuvenating existing assets.

In FY14/15, MLT enlarged its presence in Asia with six acquisitions for a total consideration of approximately S$209 million. With projected NPI yields ranging from 6.5% to 8.4%, the acquisitions are expected to be yield-accretive.

During the year, MLT commenced its second redevelopment project in Singapore at 5B Toh Guan Road East of a six-storey modern ramp-up facility. Scheduled for completion in 2016, the S$107 million project will generate a 2.7 times increase in gross floor area (GFA) to 63,500 sqm. In FY15/16, MLT will embark on its third redevelopment project – at 76 Pioneer Road, to generate a 1.8 times increase in GFA to 72,000 sqm. In Japan, MLT will add a new four-storey warehouse at Moriya Centre to support the business growth requirements of the existing tenant. Scheduled to commence in 1Q FY15/16, the expansion will increase the property's GFA by 26% to 43,700 sqm.

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.

LOGISTICS DEVELOPMENTS - INCREASING GROWTH

In FY14/15, Mapletree added 10 development projects in China and two in Malaysia. With a combined GFA of approximately 1.2 million sqm, they will double Mapletree's logistics real estate presence in Asia. The 10 projects in China are located in the fast-growing cities of Changsha, Chongqing, Hangzhou, Jinan, Nantong, Ningbo and Tianjin. The projects in Malaysia are located in the prime Shah Alam area – a key distribution hub for Kuala Lumpur, and the Port of Tanjung Pelepas in Johor – an emerging container port in Asia. In Hong Kong SAR, the construction of Mapletree Logistics Hub Tsing Yi is progressing on track and is scheduled to be completed by 4Q FY15/16.

In FY14/15, Mapletree divested two logistics developments to MLT – Mapletree Zhengzhou Logistics Park and Mapletree Yangshan Bonded Logistics Park – for RMB402.8 million. With 100% occupancies and NPI yields of 8.0% and 7.5% respectively, the two Grade-A facilities represent yield-accretive acquisitions to MLT.

As at 31 March 2015, Mapletree manages a total of 25 logistics developments across China, Hong Kong SAR, Japan, Malaysia and Vietnam. The 25 projects have an estimated total development cost (TDC) of S$2.4 billion and a combined GFA of about 2.2 million sqm. 16 projects are currently under construction with an expected TDC of S$1.8 billion and approximately 1.5 million sqm of GFA. In addition, investment agreements for another 12 logistics projects in China have been signed. Upon award of these land tenders in FY15/16, they will further strengthen Mapletree's presence with a total GFA of 1.1 million sqm.

Mapletree Logistics Hub Tsing Yi is expected to be completed in 4Q FY15/16

MARKET REVIEW AND OUTLOOK

Asian economies registered a slower growth of 5.6% in 2014 compared to 5.9% in 2013. Demand for logistics facilities in Asia remained steady, while new supply was well absorbed by the market. Competition for acquisition of logistics assets continued to intensify as investors were attracted by the relatively higher yields compared to other asset classes.

Looking ahead, the global economic recovery remains uneven and Asia continues to grow at a slower pace. Demand for logistics space in the markets where Mapletree operates is expected to remain stable, although rental growth may be subdued. Mapletree will maintain focus on active lease and asset management while pursuing opportunities for greenfield developments. At the same time, Mapletree will continue its strategy of yield-accretive acquisitions and selective divestments of lower-yielding assets to recycle capital released. With a strong balance sheet and diversified funding sources, Mapletree is well-positioned to capitalise on opportunities when they arise.

References:

i. International Monetary Fund, World Economic Outlook, April 2015

LOGISTICS

EBIT + SOA:
S$291.3 million

Fee Income:
S$46.2 million

AUM:
S$6.0 billion

MLT

Portfolio:
117 properties

Property value:
S$4.6 billion

GFA:
3.1 million sqm

Gross revenue:
S$330.1 million

NPI:
S$277.4 million

DPU:
7.50 cents

Price per unit:
S$1.245
(closing price on 31 March 2015)

Operations Review
China and India

VivoCity Shanghai, China

Mapletree's China and India business unit seeks to capitalise on real estate opportunities arising from these two large emerging economies. The business unit develops and manages a range of real estate assets in China and India, as well as two private real estate funds, Mapletree India China Fund (MIC Fund) and Mapletree China Opportunity Fund II (MCOF II).

As at 31 March 2015, the business unit accounted for S$2.5 billion of the Group's total assets under management (AUM). The EBIT + SOA[1] and fee income contributions were S$29.0 million and S$57.9 million respectively in FY14/15.

CHINA

Mapletree is committed to growing its presence in China. Its strategy is to develop integrated mixed-use or single-use projects, and to invest in promising assets with value enhancement potential in China's Tier I and Tier II cities.

During the year, Mapletree continued to actively source new investment opportunities for MCOF II. In June 2014, the US$1.4 billion China-focused private fund successfully secured a mixed-use development project in Ningbo. Spanning over 8.5 hectares of land, the development has a gross floor area (GFA) of over 200,000 square metres (sqm) comprising a retail mall, 13 residential blocks, street shops and a medical centre. The project is located in Ningbo City's Jiangbei district, a key port city located 200 kilometres south of Shanghai. Construction of the integrated development will commence in June 2015, with completion expected in 2017.

In September 2014, Mapletree also acquired Arca Building in the Haidian district of Beijing. The three-storey research and development office building is located in Zhongguancun Software Park, also known as the Silicon Valley of China. It is currently leased to an established multinational corporation (MNC).

In FY14/15, Mapletree continued to gain recognition for its large-scale development projects in China. In the Minhang district of Shanghai, Mapletree Business City Shanghai (MBC Shanghai) which comprises seven blocks of Grade-A office buildings, and VivoCity Shanghai, a one-stop shopping mall, received recognition for their building excellence. They were jointly accorded the Bronze prize for 'Best Chinese Futura Mega Project' at MIPIM Asia 2014 Awards, which recognises outstanding real estate developments. Prior to this, MBC Shanghai and VivoCity Shanghai were awarded the Leadership in Energy and Environmental Design (LEED) Gold and Silver level precertification respectively for their eco-friendly design.

During the year, VivoCity Nanhai, completed in May 2014, was named 'Top 10 Commercial Real Estate' by Winshang.com, a popular commercial real estate portal in China. The Pearl River Times also recognised VivoCity Nanhai and Mayfair, the residential component of Nanhai Business City Phase 1, as a 'Top 10 Commercial Landmark' and 'Top 10 Residential Landmark in Foshan' respectively.

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).*

INDIA

Global Technology Park (GTP) is Mapletree's first acquisition in India, through the MIC Fund platform. Located in Bangalore, GTP is an information technology (IT) park comprising an existing and fully leased building with 25,700 sqm of net lettable area (NLA), as well as approximately 154,600 sqm NLA of ready-built and build-to-suit IT space that is currently being developed over two phases. The first phase will offer over 79,100 sqm in NLA of business space, which was completed in 2Q 2015. Even ahead of obtaining its occupancy certificate, Mapletree had secured tenancies for about half of its NLA for this phase, to be taken up by four Nasdaq-listed MNCs.

Global Technology Park, India

MARKET REVIEW AND OUTLOOK

INDIA

India is expected to record a 5.6% growth in FY14/15, and gross domestic product (GDP) is projected to increase to 6.4% in FY15/16.

The office market in Bangalore remained healthy in 2014, on the back of strong demand from MNCs. Supported by the expansion of major sectors such as IT, financial services and manufacturing, sales volumes and capital values are expected to increase in 2015 across the city's submarkets.

CHINA

China's GDP grew by 7.4% in 2014, its mildest expansion since 1990. Growth is expected to decelerate further in the short-term, with a projected growth rate of 7.0% for 2015.

2014 witnessed the new retail real estate supply hit, a high of 3.4 million sqm. With supply projected to increase further in 2015, it is expected that more mall operators will differentiate themselves from the competition by revitalising their tenant mix, in particular bringing in multi-brand stores that cater to the diverse preferences of customers.

Overall office rentals increased slightly by 1.0% year-on-year (y-o-y) in 2014 despite the increase in supply. This is largely driven by strong leasing demand in Tier I cities. However, rentals are expected to face downward pressure in 2015 due to weaker demand from mild economic growth and with more supply becoming available.

Transactions in the residential market in major Chinese cities decreased by 6.3% y-o-y in 2014, following the relaxation of mortgage lending and lower interest rates. More government policies benefitting the housing market are expected in 2015, and residential developments in major cities are expected to perform better than lower tier cities.

The China real estate sector in 2015 is likely to continue to be challenging. Nonetheless, Mapletree will continue its prudent investment approach and closely monitor prevailing market conditions. By focusing on improving the efficiency and performance of its China assets, Mapletree seeks to differentiate itself from other real estate players, and achieve a strong financial performance in the long run.

References:
i. CBRE, China MarketView Q4 2014
ii. Jones Lang Lasalle Research, Asia Pacific Property Digest Fourth Quarter 2014
iii. National Bureau of Statistics of China, National Real Estate Development and Sales in 2014

CHINA AND INDIA

EBIT + SOA:
S$29.0 million

Fee Income:
S$57.9 million

AUM:
S$2.5 billion

Operations Review
North Asia & New Markets

Festival Walk, Hong Kong SAR

SII Makuhari Building, Japan

The North Asia & New Markets business unit focuses on North Asia including Hong Kong SAR and Japan, as well as new markets such as Australia, the United States of America (USA) and Europe. It also explores investment opportunities in new asset classes, such as student housing, within developed markets. Singapore-listed real estate investment trust (REIT), Mapletree Greater China Commercial Trust (MGCCT), and private real estate funds MJOF and MJLD, are classified under this business unit.

The business unit owned and managed S$7.0 billion in assets as at 31 March 2015. The portfolio contributed S$246.2 million to the Group's EBIT + SOA[1] and S$54.0 million to fee income[2].

NORTH ASIA

MGCCT

MGCCT reported a distribution per unit (DPU) of 6.543 cents for FY14/15, 15.4% higher than the forecast in its initial public offering (IPO) prospectus and a 10.4% increase from FY13/14. As compared to FY13/14, gross revenue rose 11.3% to S$281.1 million, while net property income climbed 12.2% to S$229.3 million mainly due to the robust performance of MGCCT's assets: Festival Walk, a retail mall with an office component in Hong Kong SAR, and Gateway Plaza, a Grade-A office building with a retail/office podium in Beijing.

In FY14/15, Festival Walk maintained full occupancy, with expiring retail leases renewed or re-let at an aggregate rental uplift of 22.0%. Retail sales at the mall rose 5.8% from the previous year. New brands at the mall include AVEDA, Aquascutum, GapKids & babyGap, Garrett Popcorn, Gieves & Hawkes, Ralph Lauren Children and Sonia by Sonia Rykiel. At Gateway Plaza, occupancy remained high at 98.0% as at 31 March 2015. Leases that expired in FY14/15 were renewed or re-let at an aggregate rental uplift of 30.0%. New tenants were from diverse sectors such as manufacturing, financial services, information & technology (IT), resources and professional services.

HONG KONG SAR

Following the acquisition of a prime commercial site in Kowloon East, the city's new central business district (CBD2), Mapletree obtained initial approvals for its planned Grade-A office development in January 2015. The commercial building will be Mapletree's first office development in Hong Kong SAR, and the reception from potential tenants has been positive.

JAPAN

Mapletree closed two Japan-focused funds in FY14/15. The office fund MJOF and the logistics development fund MJLD secured capital commitments of JPY65 billion and JPY51 billion respectively.

MJOF has since acquired two properties in Greater Tokyo on top of the four assets that were seeded at the point of the fund's incorporation. SII Makuhari Building is an office tower with 72,248 square metres (sqm) in gross floor area (GFA) and the headquarters of Seiko Instruments Inc. GA Tama Building is a multi-tenanted office building with a GFA of 10,398 sqm. The acquisitions are in line with MJOF's strategy to invest in quality office buildings in Greater Tokyo, and Japan's major cities.

Meanwhile, MJLD invested in the development of two multi-tenanted logistics facilities with ITOCHU Corporation, namely, Noda Logistics Centre (GFA of 62,535 sqm) and Sakai Logistics Centre (GFA of 107,950 sqm). The former broke ground in January 2015.

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.*

NEW MARKETS

Mapletree entered two new markets during the year, namely the USA and Australia.

USA

In April 2014, Mapletree inked an alliance with USA-based corporate lodging and serviced apartment firm Oakwood Worldwide, under which the Group will acquire and develop corporate lodging/serviced apartments in Asia, the USA and Europe. Under this venture, Mapletree also acquired a 49% stake in Oakwood Asia Pacific, the Asia arm of Oakwood Worldwide.

Through this collaboration, Mapletree acquired three assets in the USA totalling US$210.3 million. Two properties are located in Silicon Valley – the 184-unit Oakwood Silicon Valley and the 141-unit Oakwood Redwood City. The 232-unit Oakwood Dallas Uptown is located in Dallas, Texas, three kilometres north of the CBD. Apart from continuing to build up its corporate lodging/serviced apartment assets in the USA, Mapletree is also expanding into this asset class in markets such as Japan, Australia and Vietnam.

AUSTRALIA

In November 2014, Mapletree entered Australia with the acquisition of a freehold Grade-A office building in South Brisbane. The A$93 million property at 144 Montague Road has a net lettable area of 14,742 sqm, and is leased to ASX-listed Ausenco Ltd until 2021. Its features include a large floor plate of about 2,800 sqm and a high energy efficiency rating.

MARKET REVIEW AND OUTLOOK

HONG KONG SAR

Hong Kong SAR's economy grew by 2.3% in 2014 despite disruptions by the 'Occupy Central' movement. Growth in retail rents is moderating but is expected to continue being supported by resilient domestic consumption. Overall office vacancy remained low, averaging less than 4.0% as at December 2014. Grade-A office rents are expected to hold steady, with the majority of new supply located outside Central, the traditional CBD. Economic growth in 2015 is forecasted at 1.0 – 3.0%.

CHINA

China's gross domestic product (GDP) grew 7.4% in 2014, compared to 7.7% in 2013. China's economy is forecasted to grow at 7.0% in 2015. In Beijing, the office property market continues to enjoy the lowest vacancy rate among Chinese cities. Healthy fundamentals will continue to underpin Beijing's Grade-A office property market, with steady growth in demand for office space expected from financial, insurance, IT and high-tech services companies. However, certain industries could be affected by the slowdown in China's infrastructure investment.

JAPAN

Japan's economy is expected to contract by 0.6% for FY14/15 because of a technical recession following a hike in consumption tax in 2014. Demand for Grade-A office space in Tokyo continues to recover, with vacancy rates edging down. Meanwhile, the market for multi-tenanted logistics facilities remains tight, with Greater Tokyo and Greater Osaka each showing rental growth of 3.0% from the previous year. The economy is expected to expand 2.4% in FY15/16.

USA

The USA is expected to register in 2015 its strongest recovery since the global financial crisis, with real GDP predicted to increase by 3.3%. This is expected to have a strong positive impact on the real estate sector, with higher demand anticipated in major property asset classes such as office, industrial, retail, multi-family housing and hospitality.

AUSTRALIA

Australia's economy delineated a growth of 2.7% in 2014. The economy is expected to grow 2.8% in 2015, supported by strong export activities. Fundamentals are improving within the property market. The property investment volume is expected to rise and tenant demand will continue to improve. The commercial property sector, in particular, is expected to attract strong interest from foreign investors in 2015.

References:
i. Hong Kong Trade Development Council
ii. Census and Statistics Department, Hong Kong SAR
iii. National Bureau of Statistics, China
iv. Savills Beijing Office Sector Research Report – November 2014
v. Reserve Bank of Australia – February 2015
vi. CBRE – Market Outlook Australia 2015
vii. Mizuho Research Institute – FY2014/2015 Economic Outlook
viii. Cushman & Wakefield – 2015: Finally A Strong Year

NORTH ASIA & NEW MARKETS

EBIT + SOA:
S$246.2 million
Fee Income:
S$54.0 million
AUM:
S$7.0 billion

MGCCT

Portfolio:
2 properties
Property value:
S$5.3 billion
GFA:
220,000 sqm
Gross revenue:
S$281.1 million
NPI:
S$229.3 million
DPU:
6.543 cents
Price per unit:
S$1.04
(closing price on 31 March 2015)

Operations Review
South East Asia

SC VivoCity, Mapletree's first retail development in Vietnam, soft opened in April 2015

The South East Asia business unit (SEA) focuses on acquiring income-yielding investment properties and well-located development opportunities in the region excluding Singapore, with the aim of building scalable capital management platforms that generate sustainable returns. SEA manages two private real estate funds: Mapletree Industrial Fund (MIF) and CIMB-Mapletree Real Estate Fund 1 (CMREF1). SEA also generates income from activities apart from the private funds business, such as through the provision of mezzanine financing. SEA contributed S$14.4 million to Mapletree's EBIT + SOA[1] in FY14/15, and owned and managed S$687.9 million in assets as at 31 March 2015.

Currently, SEA has investments in the retail, office, serviced apartments, industrial and mixed-use sectors in Vietnam and Malaysia. It is on the lookout for opportunities in new markets such as the Philippines and Indonesia.

VIETNAM

Mapletree continued to strengthen its performance in Vietnam in FY14/15. The Group's CentrePoint office building in Ho Chi Minh City (HCMC) continued to enjoy strong occupancy of over 95%. New rental signings were consistently above those of comparable buildings, while leases were renewed with an average 9.5% positive rental reversion. Located at the fringe of the central business district (CBD), CentrePoint has successfully built a strong tenant base of multinational corporations.

In the retail space, SC VivoCity soft opened in April 2015. The shopping mall, with a gross floor area (GFA) of 62,644 square metres (sqm), is among HCMC's largest. It saw high pre-leasing commitment, with strong interest from both international and local retailers. SC VivoCity represents Phase 1 of Mapletree's Saigon South Place project, a mixed-use development located in the affluent District 7. Phase 2, which comprises a Grade-A office building and two blocks of premium serviced apartments, is scheduled to break ground later in 2015 (office) and in 2016 (serviced apartments).

Mapletree is also strengthening its portfolio in the residential market with a new prime riverfront development in HCMC's vibrant residential hotspot of District 2.

Over at the industrial and business park development of Mapletree Business City @ Binh Duong (MBC@BD), Phase 1A which comprises ready-built factories (RBFs) continued to enjoy full occupancy, while Phase 1C has been rapidly filling up since opening in May 2014. Given the 75-hectare integrated development's location in Binh Duong province, Vietnam's largest foreign direct investment (FDI) destination, as well as the positive industrial outlook, a new phase of RBFs with a total GFA of 20,000 sqm was added in FY14/15.

Mapletree continues to look for opportunities to expand its presence in Hanoi following its 2010 acquisition of Pacific Place, a Grade-A mixed-use property comprising offices, serviced apartments and retail space in the heart of the CBD.

MALAYSIA

In FY14/15, CMREF1, a Malaysia-focused closed-ended private fund, successfully divested two of its investments. It is seeking to divest its two remaining assets:
- Patimas Technology Centre, a data centre in Technology Park Malaysia; and
- Jaya Shopping Centre, a seven-storey mall in Petaling Jaya.

Mapletree is also investing in residential projects in Malaysia. These will serve to diversify the Group's earnings and allow it to further expand in the country.

MARKET REVIEW AND OUTLOOK

VIETNAM

Vietnam recorded gross domestic product (GDP) growth of 6.0% in 2014, the highest growth rate since 2011 and surpassing the government target of 5.8%. Meanwhile, the inflation rate slowed to 4.1%, the lowest in a decade.

Fuelled by the stronger economy and improved consumer confidence, the residential market witnessed a strong revival in terms of transactions activity. In HCMC alone, 17,000 units were sold in 2014, exceeding the total apartment sales in both HCMC and Hanoi combined in 2013.

In the office sector, HCMC saw both occupancies and rentals improve on the back of limited supply in 2014, while Hanoi continued to work through the significant over-supply of office space, with rents remaining weak.

Brighter economic prospects, coupled with more palatable single-digit mortgage interest rates, should present further opportunities in the residential market. Meanwhile, office rentals and occupancies in HCMC are expected to remain fairly firm even as anticipated new supply comes on stream in 2015.

MALAYSIA

Malaysia's economy grew by 6.0% in 2014, higher than the 4.7% recorded in 2013. However, official forecasts for 2015 are for slower growth of 4.5% to 5.5%, given the negative outlook for oil prices.

Rental and capital values of Grade-A office space in Kuala Lumpur remain firm, increasing by 2.1% and 3.5% respectively in 2014 compared to 2013, while occupancies are hovering at around 86%. As new supply materialises, rents and capital values are expected to moderate in the coming years. The retail market remained buoyant in 2014 as demand from new entrants and existing brands held steady. However, rental growth is likely to be muted in the short-term as consumption weakens following the implementation of the new Goods and Services Tax in April 2015.

On the residential front, sales of prime and luxury residential units faced headwinds during the year after a series of cooling measures were rolled out in 2014. Nevertheless, net demand continues to match supply for well-located and high-quality properties.

References:
i. General Statistics Office of Vietnam
ii. CBRE Quarterly Market Report 4Q 2014
iii. Department of Statistics, Malaysia

CentrePoint, Ho Chi Minh City

SOUTH EAST ASIA

EBIT + SOA:
S$14.4 million

Fee Income:
S$0.8 million

AUM:
S$687.9 million

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).*