Singapore

Number of Properties
53

Book Value
S$1,750.6m

Occupancy Rate
94.4%

Wale By NLA
5.6 years

NLA
1,502,549 sqm

Jurong Logistics Hub

Singapore's economic growth slowed to 2.9% in 2014, from 4.4% in 2013[1]. In the logistics property market, demand for warehouse space was stable, underpinned by Singapore's status as a favoured logistics hub in Asia. However, revisions to regulatory policies on the use of industrial space have added challenges to the leasing environment. Notably, JTC has tightened its subletting policy which requires anchor tenants to occupy a minimum 70% of a property's gross floor area ("GFA"), up from 50% previously.

Against this backdrop, the Manager undertook the following in FY14/15 to rejuvenate and strengthen the Singapore portfolio:

- Commencement of MLT's second redevelopment project at 5B Toh Guan Road East of a six-storey ramp-up logistics facility. Targeted for completion in 1Q FY16/17, the S$107 million project will increase the GFA by 2.7 times from 23,500 square metres ("sqm") to 63,500 sqm.
- Acquisition of 190A Pandan Loop, a purpose-built food distribution centre, for S$34.0 million. With a stabilised net property income ("NPI") yield of 6.5%, the acquisition is expected to be accretive.

During the year, the Manager converted five single-user assets ("SUAs") to multi-tenanted buildings ("MTBs") upon the expiry of the master leases, which resulted in higher property expenses. Transitory property downtime due to the conversions also led to a lower occupancy rate of 94.4% as compared to 98.0% last year. Nonetheless, through intensive marketing and leasing efforts, an average positive rental reversion of 7% was achieved for the 143,400 sqm of leases renewed/replaced during the year.

The Singapore economy is forecast to expand at a moderate pace of 2% to 4% in 2015[1]. Supply of warehouse space is projected to increase by 1.6 million sqm or 19% over the next three years[2], with the majority estimated to be owner-occupied space. While demand for logistics space is likely to remain stable, rental growth is expected to be subdued in view of the modest economic outlook and upcoming supply.

Looking ahead, active asset and lease management remains a key management priority. Of the 289,300 sqm of net lettable area ("NLA") due for expiry, 58% are leases for nine SUAs. The Manager expects that two will remain as SUAs, six will be converted to MTBs and the remaining SUA (76 Pioneer Road) is slated for redevelopment. The SUA to MTB conversions are likely to cause a temporary dip in occupancy during the transition and an increase in property expenses.

The Manager will continue to pursue suitable AEI opportunities to unlock value from the portfolio. In line with this focus, the Manager will be embarking on the redevelopment at 76 Pioneer Road in mid-FY15/16.

1 "MTI Maintains 2015 GDP Growth Forecast at 2.0 to 4.0 Per Cent", Ministry of Trade and Industry, 17 February 2015.
2 JTC Quarterly Market Report Industrial Property, 1Q 2015.

Hong Kong

Number of Properties
8

Book Value
HKD5,770.0m
(~S$1,026.1m)

Occupancy Rate
99.8%

Wale By NLA
2.1 years

NLA
205,516 sqm

Grandtech Centre

Hong Kong's economy expanded at a moderate rate of 2.3% in 2014, slower than the 2.9% registered in 2013[3]. Nevertheless, it was another positive year for Hong Kong's logistics property market. Steady demand, coupled with a tight supply of warehouse space, contributed to sustained low vacancy rates throughout the year. The industry continued to experience positive rental growth in 2014, albeit at a slower rate of 7.5%[4], as compared to 7.9% last year.

Against this backdrop, MLT's Hong Kong portfolio turned in another strong set of operating results in FY14/15. Leases for approximately 64,000 sqm or 31% of NLA were due for expiry during the year. By year end, the Manager had successfully renewed/replaced all leases at an average rental reversion rate of 17%, and maintained a high occupancy rate of 99.8%.

Investor sentiment on the industrial sector remains buoyant even as sellers continue to demand high prices. Buyers are attracted to potential gains from redeveloping or converting industrial buildings to other uses under the government's revitalisation scheme, while some end-users are purchasing properties for owner-occupation in view of the tight supply. Hence, the acquisition of yield-accretive assets from third-parties is expected to remain a challenge for MLT in the near term. The Manager will continue to actively explore other value-enhancing investment opportunities such as asset repositioning and development projects.

Approximately 69,400 sqm of NLA in MLT's portfolio will be expiring in FY15/16. Active negotiations with existing tenants for renewals and potential tenants for new leases are well underway and the Manager is confident of renewing or replacing these leases at attractive rental rates.

3 "Chain volume measures of Gross Domestic Product by economic activity for the fourth quarter and the whole year of 2014", The Government of the Hong Kong SAR Census and Statistics Department, 20 March 2015.
4 CBRE, Hong Kong Industrial MarketView, Q4 2014.

Japan

Number of Properties

22

Book Value

JPY83.1b

(~S$950.1m)

Occupancy Rate

100%

Wale By NLA

6.1 years

NLA

437,492 sqm

Moriya Centre

Despite a lacklustre economic performance with close to zero growth, the Japan logistics property market continued to perform well in 2014. Demand for logistics space was firm, supported by expansionary requirements from third-party logistics service providers ("3PLs"), online retailers and traditional retailers who were expanding into e-commerce. In the Greater Tokyo area, vacancy rate fell to 3.8% in 4Q 2014, and total net absorption for the year was over 190,000 tsubo, the second highest level on record[5].

MLT's Japan portfolio continued to enjoy full occupancy with a weighted average lease expiry of 6.1 years. During the year, two expiring leases with a total NLA of 15,084 sqm were successfully renewed. A small positive rental reversion and an escalation of 1.5% for the initial three years were achieved for one of them.

All 22 properties in MLT's portfolio comply with seismic safety standards and have a Probable Maximum Loss[6] value of less than 15%, indicative of low exposure to earthquake risks. No specific earthquake insurance has been taken up, which is consistent with the general market practice in Japan.

As part of active asset management to capture organic growth opportunities, Phase 2 of the solar panel installation project was completed during the year. To-date, this initiative has installed 7.2 megawatts of solar panels at nine properties, generating an additional revenue stream of JPY296 million (~S$3.3 million) per annum. In FY15/16, the Manager will be commencing an AEI at Moriya Centre for the construction of a four-storey warehouse to support the expansion requirements of the existing tenant, Nippon Express. Upon completion in March 2016, the asset will benefit from a 28% increase in NLA and 31% increase in gross revenue.

Looking ahead, the Manager expects demand for modern logistics facilities in Japan to remain firm, spurred by the growing 3PL sector and continued development of the e-commerce sector. However, a large supply pipeline of over 200,000 tsubo is expected to come on stream in 2015, raising concerns of a potential supply-demand imbalance[7].

In FY15/16, a lease for approximately 8,600 sqm of space is due to expire. Negotiations with potential tenants for a replacement lease have already begun and the Manager is confident of fully leasing the space with no downtime.

5 CBRE Japan Industrial & Logistics MarketView, Q4 2014.

6 Probable Maximum Loss ("PML") is a gauge commonly used to assess a property's seismic resistance. A PML of 15% is deemed to be sufficiently safe from earthquakes.

7 CBRE Asia Pacific Real Estate Market Outlook 2015.

South Korea

Number of Properties
10

Book Value
KRW297.4b
(~S$365.8m)

Occupancy Rate
98.6%

Wale By NLA
2.4 years

NLA
311,215 sqm

Daehwa Logistics Centre[9]

The South Korean economy expanded by 3.3%[8] in 2014, as growth in the export-reliant economy continued to be weighed down by a lacklustre global economy. Nonetheless, the logistics property market saw firm demand for Grade-A logistics properties in prime areas, driven by the expansion of multinational companies, rapid growth of the e-commerce sector and supportive government measures to develop the third party logistics industry. Investment interest in the sector remained strong as investors are attracted to the higher yields offered by logistics assets, relative to other asset classes.

Of the 37,000 sqm of space due for expiry in FY14/15, 100% was successfully renewed or replaced by year end. As part of its active lease management efforts, the Manager had successfully secured new, quality tenants for three of its properties to add diversity and stability to the tenant mix. This has brought the occupancy rate of MLT's portfolio in South Korea to 98.6% as at 31 March 2015, up from 96.7% a year ago.

On the investment front, FY14/15 was an active year for MLT's operations in South Korea. MLT completed the acquisitions of two Grade-A warehouses – Daehwa Logistics Centre[9] and Smart Logistics Centre[10] for a total consideration of KRW46.9 billion. Both assets are located in Gyeonggi-do, South Korea's prime logistics hub, with good accessibility to Seoul and the rest of the country. The acquisitions have boosted MLT's presence in Gyeonggi-do to a total of 10 properties with a combined GFA of 311,215 sqm. The two assets are fully occupied by quality tenants comprising local and international logistics service providers, and established end-users. With initial NPI yields of 8.3% and 7.8% respectively, they are expected to be yield-accretive.

Looking ahead, the Manager expects demand for modern warehouses to remain firm, supported by improving domestic and global economies, although an increase in supply of logistics space may put pressure on rentals of older facilities. The Manager will continue its active leasing efforts to renew or replace leases for approximately 32,900 sqm of space due for expiry in FY15/16. Whilst competition for acquisitions is expected to remain stiff, the Manager will remain disciplined and focused in pursuing acquisitions of well located, modern facilities to strengthen its portfolio.

8 Bank of Korea Real Gross Domestic Product: Q4 and Annual 2014, January 2015.
9 Renamed as Mapletree Logistics Centre – Baekam 2.
10 Renamed as Mapletree Logistics Centre – Majang 1.

China

Number of Properties
9

Book Value
CNY1,507.0m
(~S$337.5m)

Occupancy Rate
97.9%

Wale By NLA
1.7 years

NLA
421,439 sqm

Mapletree Wuxi Logistics Park

China's economic growth slowed to 7.4% in 2014[11], as its government continues to steer the economy towards a "new normal" of slower but more sustainable growth led by domestic consumption. In the logistics property market, demand for warehouse space has benefitted from the growth in domestic consumption, with 3PLs, automotive manufacturers and retailers being the key demand drivers. Coupled with a tight supply of quality logistics facilities, this has kept vacancy rates stable and supported positive rental growth.

MLT's China portfolio continued to perform well in FY14/15. Occupancy rate increased to 97.9% as at 31 March 2015, up from 97.5% a year ago. Out of the 92,505 sqm of NLA due for expiry during the year, 91% was renewed/replaced at an average positive rental reversion of 5%. At Mapletree Xi'an Distribution Centre, the reinstatement of the fire-damaged building has been completed and the property is expected to be operational from June 2015.

During the year, MLT acquired two Grade-A logistics facilities from the Sponsor's development pipeline – Mapletree Zhengzhou Logistics Park and Mapletree Yangshan Bonded Logistics Park. These properties are strategically located in Zhengzhou of Henan province, a regional distribution hub serving Central China, and the Shanghai Pilot Free Trade Zone respectively. At a total consideration of RMB402.8 million, these acquisitions will be accretive with initial NPI yields of 8% and 7.5% respectively.

Looking ahead, demand for modern logistics warehouses in China is expected to remain robust, underpinned by rising domestic consumption and the continued growth of e-commerce. However, the supply of logistics facilities is projected to increase due to strong investment interest from both foreign and domestic investors. As such, rental growth will likely moderate going forward. In FY15/16, leases for approximately 198,600 sqm of NLA will be expiring. The Manager will continue its active lease management efforts to renew or replace them at attractive rates and maintain a low vacancy rate.

11 National Bureau of Statistics of China.

Malaysia

Number of Properties
14

Book Value
MYR503m
(~S$191.8m)

Occupancy Rate
98.3%

Wale By NLA
2.1 years

NLA
266,735 sqm

Celestica Hub

The Malaysian economy expanded by 6.0% in 2014, its fastest pace since 2010. Growth was primarily driven by strong domestic demand, supported by an improvement in external trade[12]. In the logistics property market, tight supply conditions and strong demand for good quality warehouses continued to drive up rental rates, particularly at preferred locations in Shah Alam.

MLT's Malaysia portfolio reported another set of healthy operating results in FY14/15. About 94% of the 98,402 sqm of NLA due for expiry was replaced or renewed at an average positive rental reversion of 6%. Portfolio occupancy was maintained at a high level throughout the year, ending at 98.3% as at 31 March 2015.

During the year, MLT strengthened its presence in Malaysia to 14 properties with the acquisition of Flex Hub from Mapletree Industrial Fund, a closed-end fund managed by the Sponsor.

The industrial warehouse with a GFA of 63,750 sqm was acquired for MYR88.5 million. With an initial NPI yield of approximately 8.4%, the acquisition is expected to be yield-accretive.

In FY15/16, leases for approximately 119,800 sqm of NLA are due to expire. The Manager expects leasing demand to remain healthy, underpinned by resilient domestic demand and improving exports, and is confident of renewing or replacing the leases at attractive rentals. The Manager is also actively looking out for acquisition opportunities in Malaysia, particularly in Klang Valley and Penang, to capitalise on the positive trends.

12 Bank Negara Annual Report 2014, 15 March 2015.

Vietnam

Number of Properties
1

Book Value
USD6.7m
(~S$9.2m)

Occupancy Rate
100%

Wale By NLA
1.1 years

NLA
23,050 sqm

Mapletree Logistics Centre

Vietnam's economy continued to improve with an expansion of 5.98% in 2014, compared to 5.42% in 2013[13]. The economic growth was driven by robust foreign direct investment ("FDI") and rising exports. Pledged FDI was US$20.23 billion in 2014, exceeding the state's annual target by 19%. This reflects sustained investment interest from multinational corporations and foreign investors who are attracted to Vietnam's relatively low labour costs and sizeable domestic market.

Mapletree Logistics Centre ("MLC"), the only asset in MLT's Vietnam portfolio, continued its strong performance in FY14/15. Occupancy was maintained at 100% as all 9,847 sqm of NLA due for expiry during the year was successfully renewed at an average positive rental reversion of 5%. The property is sought after by 3PLs and manufacturing companies due to its close proximity to Ho Chi Minh City and strategic location in the Vietnam Singapore Industrial Park I in Binh Duong.

Vietnam is expected to record another year of growth in 2015. The conclusion of several free trade agreements in 2014 and the establishment of the ASEAN Economic Community in 2015 could potentially attract more FDI to the country. This in turn should help to drive industrial growth and demand for modern warehousing facilities.

Leases for 13,194 sqm of space are due to expire in FY15/16. In view of the healthy demand for quality warehouses, the Manager is confident of renewing the leases and maintaining a high occupancy level at MLC. In addition, the Manager continues to be on the look-out for opportunities to acquire quality and well located logistics facilities.

13 General Statistics Office of Vietnam.