INTERVIEW WITH THE GROUP CEO

“ Given the ongoing market uncertainty, Mapletree will continue to do what we do best as a leading real estate organisation to sustain future growth: investing prudently and taking on a more active syndication and monetisation strategy by increasing our investment and capital management activities. ”

MR HIEW YOON KHONG
GROUP CEO

FINANCIAL YEAR 2023/2024 (FY23/24)

AVERAGE ROIE[1,2]

11.4%

AVERAGE ROE[2,3]

6.9%

AVERAGE RECURRING PATMI[2,4]

S$738.2M

RECYCLED PROCEEDS[5,6]

S$19.2B

AUM RATIO

3.5X

AUM

S$77.5B

1. CONSIDERING THE WEAKER ECONOMIC OUTLOOK AND SUSTAINED GEOPOLITICAL TENSIONS, HOW DID MAPLETREE FARE IN FY23/24?

Despite rising interest rates, high inflation and regional conflicts that dampened the overall economic outlook, Mapletree continued to execute its business plan with discipline and prudence, leveraging its development and operational expertise to emerge resilient amid the prolonged market volatility.

I am pleased to share that our Recurring PATMI[4] held steady at about S$715.6 million, down slightly from the previous year's S$779.7 million. We maintained stable assets under management (AUM) of about S$77.5 billion and a healthy AUM ratio of 3.5x. Our diversified, resilient business model and unwavering focus on defensive asset classes enabled us to generate a sustained revenue of S$2.8 billion.

The heightened interest rate environment had the largest impact on the Group's performance, resulting in revaluation losses mainly from the commercial properties in the Western markets. However, improvements in our operational performance pushed earnings growth, particularly due to our better performing assets in Asia and logistics portfolio worldwide. Excluding the impact of fund syndications and divestments, the Group's EBIT + SOA[7] remained stable at S$2.1 billion due to ongoing recovery in the Southeast Asia markets.

2. FY23/24 WAS ALSO THE CONCLUSION OF MAPLETREE'S THIRD FIVE-YEAR PLAN (FYP). WHAT WERE THE KEY ACHIEVEMENTS?

When the Group set its targets for the third FYP at the end of Financial Year 2018/2019 (FY18/19), we knew that these were ambitious ones. However, building on our track record in delivering consistently attractive returns as a leading real estate organisation, we focused on investing in markets with good growth potential and were on track in achieving our key performance indicators (KPIs). Unfortunately, the repeated interest rate hikes over the last few years have resulted in expansion in real estate capitalisation rates and in turn, revaluation losses for the year. The Covid-19 pandemic, which saw spillover effects onto the macroeconomic environment, coupled with rising geopolitical tensions, also weighed in during the five-year period.

Despite these headwinds, I am proud that we maintained our operational, financial and investment discipline, delivered most of what we set out to do and capped off our third FYP with positive results. This FYP saw the Group strengthening its capital management capabilities to drive earnings and elevate return on equity (ROE). We also deepened our focus into core asset classes and markets with an emphasis on operational improvements.

Logistics

The surge in e-commerce and the need for companies to secure supply chains enabled the logistics sector to enjoy consistently high demand from investors and tenants.

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Capitalising on this, the Group grew its logistics AUM from 31% (S$17.3 billion) in FY18/19 to 41% (S$31.9 billion) in FY23/24, with acquisitions in Asia, Europe and the United States (US), as well as the deepening of our development presence in the Asia markets.

Our US logistics portfolio has expanded significantly – it now comprises 354 warehouses covering nearly 6.5 million square metres of net lettable area (NLA), held under our private funds Mapletree US & EU Logistics Private Trust and Mapletree US Logistics Private Trust, with a total AUM of US$8.1 billion (~S$10.8 billion).

Overall, Mapletree's growth in the logistics space has established it as one of the top global logistics players in terms of space under management.

Student Housing

The Group continued to make significant inroads into this resilient sector. Kicking off FY24/25, the Group signed and completed an agreement to acquire 31 student housing assets across the United Kingdom (UK) and Germany, and an operating platform. The acquisition gave the Group direct control as the manager and operator of the acquired portfolio and made it one of the largest owners of student housing in the UK with over 17,000 beds. Our student housing portfolio currently comprises S$5.9 billion in AUM.

Data Centres

With its strong fundamentals, the data centre market has become a core focus area for the Group, where we continue to invest in and develop assets in established data centre markets globally. The Group's AUM of data centres grew from just 2% (S$1.1 billion) in FY18/19 to 8% (S$6.1 billion) in FY23/24 with acquisitions in the US and Japan, as well as our first data centre development in Hong Kong SAR.

The US data centres form the majority of this portfolio, making up about 47% of Mapletree Industrial Trust's total AUM as at 31 March 2024.

Office

Although the office sector was affected by the prevalence of work-from-home (WFH) dynamics in some of the developed markets, we stayed invested with selectively calibrated, high-quality assets in prime locations, increasing our office AUM slightly from S$17.3 billion in FY18/19 to S$20.8 billion in FY23/24.

We recognised an opportunity to expand our footprint in India with Ivanhoé Cambridge and launched the India Real Estate Investment Platform in February 2023 to develop, own and operate technology-focused workplaces.

Notably, the Group attained a cumulative fee income of S$2.3 billion over these five years and grew our total AUM by 28% from S$60.5 billion in FY19/20 to S$77.5 billion as at 31 March 2024. Furthermore, with the recent acquisition of student housing assets in the UK and Germany, our AUM now stands at S$79.1 billion.

Another achievement in the third FYP is the Group's successful fund syndications. Seven new private real estate funds were incepted, which contributed to a record of S$4.56 billion[8] in funds raised. The Group's total private fund AUM doubled in this FYP to about S$22 billion.

Beyond capital recycling to funds, we also recycled close

Mapletree Fengxian Integrated Industrial Park, one of Mapletree's newest logistics parks in China, obtained LEED Platinum certification in FY23/24.

The Chestnut at University City, a 405-unit student housing asset close to the University of Pennsylvania, in the US.

to S$4.1 billion of properties to our real estate investment trusts (REITs), as a supportive sponsor. Our cumulative recycled proceeds were S$19.2 billion in FY23/24.

3. WHAT ARE SOME KEY TAKEAWAYS FROM THIS FIVE-YEAR JOURNEY?

The first takeaway would be the importance of increasing syndication activity to support the funding of investment and development activities that can help expand and diversify the Group's portfolio.

The second takeaway is to leverage the Group's expertise to boost the operational performance of our assets and ensure their stability. This has also been reflected through the stellar performance of our past FYPs.

The final takeaway is that strategic divestments are a crucial way to de-risk and lock in profitability.

Diversification and scale have their benefits. We identified our core sectors of data centre, logistics, office and student housing early so that we could scale up our investments, developments and operations in these sectors globally. Representing a collective 81% of our AUM in FY23/24, our continued focus on these asset classes have been integral in allowing us to deliver consistent revenues of S$15.2 billion over this FYP.

Retail, one of the smaller components of our AUM, was impacted during the Covid-19 pandemic. However, the Group's two key malls – VivoCity in Singapore and Festival Walk in Hong Kong SAR – recovered well, due to the Group's experienced onshore teams.

In the office space, our portfolio in Asia was less impacted by WFH dynamics than in the US, Europe and Australia.

This five-year journey has been pebbled with many external shocks, but our global market and sectoral diversification have yielded much robustness.

In a more volatile market environment, we focused on what we did best – to stay disciplined in our investment and development approaches to focus on our strong operational leasing competencies. In a lower interest rate environment, there was an immediate ROE from buying yielding portfolios. To achieve higher returns in an elevated interest rate environment, we will also draw on our development track record to undertake more greenfield, brownfield and value-added projects across the various asset classes.

4. WHAT WAS YOUR KEY FOCUS FOR THE THIRD FYP?

While our overall goal was to drive business growth, one of our most important sets of KPIs was focused on returns, namely return on investment capital and ROE. Our Average ROIE and Average ROE stand at 11.4% and 6.9% respectively.

In this FYP, we capitalised on our development capabilities, transforming greenfield lands and underperforming assets into high-value real estate across sectors and geographies to generate returns for the Group, while leveraging our operational expertise to deliver quality assets. While growing the Group's AUM is one of our KPIs, it is not our sole focus. Our framework for the FYP AUM target reflects our ideal portfolio allocation as a developer and investor, which guides us as we identify core sectors in markets that can deliver scale for exit liquidity and operational cost synergies.

Consequently, our manager model of sourcing like-minded investors in our portfolios follows our investment strategy

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2601 West Broadway Road, Tempe located in Arizona, the US, is part of the Group's growing portfolio of data centres.

and is part of our capital recycling focus to deliver a healthy balance sheet for the Group. Beyond the listed REIT contribution to third-party managed AUM, our private fund AUMs represent real assets that are backed by invested and committed equity from investors and managed in a fully discretionary fund format.

Mapletree has a strong alignment of interest, maintaining a minimum stake of 20% across all capital management platforms and an average of about one-third sponsorship stake in our private real estate funds and REITs.

Moreover, the fee income derived from our active capital management business improved operational performance, alongside strong asset management capabilities contributing to the Group's overall returns profile. Our cumulative fee income for this FYP reached S$2.3 billion.

The combination of rental revenue, fee income and development gains, contributed to the Group's returns.

5. WHAT HAS MAPLETREE PLANNED FOR ITS FOURTH FYP?

Given the ongoing market uncertainty, Mapletree will continue to do what we do best as a leading real estate organisation to sustain future growth: investing prudently and taking on a more active syndication and monetisation strategy by increasing our investment and capital management activities.

Our investment decisions continue to be guided by prudence and discipline, focused on asset classes and markets with good growth potential over the next five years. We will sharpen our focus on the four core sectors – data centre, logistics, office and student housing – through strategic investments and increased development activity.

As a front-runner in the global logistics sector, the Group will undertake and structure more development projects and funds especially in the US and Europe, in addition to our current development activity in Asia, for higher returns and better-quality products. Our depth of operational expertise and track record in this sector affirms the Group's ability to extract higher returns from development activity.

The resilience of the student housing sector amid prolonged market volatility affirms the Group's decision to continue expanding in this defensive asset class, especially in markets that remain underserved by quality student housing assets, such as Australasia and Europe.

Data centres, another sector in which we remain invested, see growing demand from the increased adoption of cloud computing and Artificial Intelligence-powered operations. This sector continues to be a key part of our strategy due to its resilience and ability to provide steady income streams. Our entry into the Japan data centre market in FY23/24, coupled with the development project in Hong Kong SAR, are aligned with Mapletree's aim to diversify its portfolio in established data centre markets globally.

While there have been headwinds in the global office sector, Mapletree takes a long-term approach in our business decisions and still sees value in this asset class. Currently, many Asian markets face high interest rates which have resulted in lower property yields, while Western markets are seeing persistent WFH trends.

However, demand for high-quality offices in prime locations is projected to increase in the long run as more workers return to the workplace. This gradual recovery is expected in certain regional markets over the next five years. We have our sights set on India and Vietnam, as these markets are less impacted by WFH trends, provide favourable rental prospects, and are seeing a rising demand for business parks and quality office spaces. We hope to seize strategic opportunities that arise through acquiring prime offices and leveraging our development capabilities.

I am also positive that our REITs will continue to perform as the interest rate cycle normalises.

The prospects look favourable, bolstered by the support of our fully established onshore teams that have the competencies, knowledge and experience to deliver on Mapletree's real estate value chain within each market. These teams are integral in enabling the Group to execute both investment and development activities that will translate into more capital management offerings for its investors.

6. AS INVESTORS PAY GREATER ATTENTION TO SUSTAINABILITY, HOW IS MAPLETREE FURTHER INTEGRATING GREEN PRINCIPLES INTO ITS BUSINESS DECISIONS?

Environmental, social and governance (ESG) has always been at the heart of what we do as a responsible real estate developer, investor and capital and property manager. We have conscientiously embedded sustainability principles across our daily operations, business decisions and investments.

Over this FYP, the Group has made great progress in this aspect. We have established several long-term targets to achieve net zero by 2050, plant 100,000 trees and install 200 Megawatt peak of onsite renewable energy capacity by 2030. To incorporate ESG across our real estate life cycle, we also launched sustainability-related policies focusing on investment, development, operations and renewable energy.

As an organisation, we believe in accountability and tangible deliverables. During this five-year period, Mapletree secured more than 30 green and sustainable financing facilities totalling S$5.8 billion, and over 300 green building certifications across our assets globally. In 2022, we became a signatory to the United Nations Principles for Responsible Investment.

We have aligned our sustainability and climate reporting to Global Reporting Initiative and Task Force on Climate-Related Financial Disclosures standards, as well as improved our GRESB ratings. Furthermore, we are in the process of implementing a new environmental data management system to enhance the tracking of the Group's carbon footprint. Mapletree is also in the midst of establishing our decarbonisation pathway which includes developing an Embodied Carbon Framework and setting operational carbon baseline.

In addition to reducing our environmental impact, the Group continues to create long-term value in the communities it operates in through corporate social responsibility (CSR) initiatives. In FY23/24, the Group disbursed a total of S$16.8 million to CSR programmes that span the arts, healthcare, environment and education.

Going forward, the Group is fully committed to incorporating ESG considerations into our strategy and operations, to ensure that we minimise our impact on the environment while giving back to the community.

1 ROIE is computed based on adjusted* PATMI over the Group's equity held at original invested cost (OIC).
* Adjusted to exclude non-cash and non-operating items such as unrealised revaluation gains or losses, mark-to-market fair value adjustments, gains and losses on foreign exchange, negative goodwill and dilution gains and losses and include OIC gains from any gains or losses on disposal and corporate restructuring surplus or deficit.
2 From FY19/20 to FY23/24.
3 ROE denotes return on equity and is computed based on PATMI attributable to Equity Holder of the Company over shareholder's funds.
4 PATMI denotes net profit after tax and non-controlling interests attributable to Perpetual Securities Holders and Equity Holder of the Company.
5 KPIs measured on a five-year cumulative basis
6 Measured on Mapletree Investments' balance sheet perspective (excluding REITs and private funds).
7 Earnings before interest and tax (EBIT) plus share of operating profit or loss of associated companies and joint ventures (SOA), excluding residential profits, incentive fee from private funds' divestment, revaluation gains or losses, divestment gains or losses, foreign exchange and derivatives gains or losses.
8 S$ exchange rate as at date of fund inception.