

Redefining success in the REIT scene

Despite higher interest rates, Lendlease Global Commercial REIT sustains strong operational performance

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In Singapore's thriving real estate investment trust (REIT) landscape, Lendlease Global Commercial REIT (LREIT) shines as a trailblazer. Since its listing in October 2019, this young REIT has achieved remarkable success and redefined industry standards.

With a focus on consistent revenue growth, income diversification, and ground-breaking environmental, social and governance (ESG) performance, LREIT has positioned itself as a true market leader and an inspiration for sustainable investment practices and its transparent corporate governance.

LREIT has won several awards and recognitions for its sustainability efforts to validate its success. Some of the recent ones include being the first S-REIT to attain net zero carbon (Scope 1 and 2) — three years ahead of its target year of 2025 in its FY2023 ended June.

"This was achieved by employing energy-efficient equipment at the properties, optimising energy and water usage for the cooling towers as well as with the support from renewable energy certification," says the CEO of the manager, Kelvin Chow.

LREIT was also awarded a GRESB 5-star rating and was named *Regional Sector Leader in Asia Retail (Overall)* and *Asia Retail (Listed)* for the third consecutive year since its listing in 2019. The REIT also boasts that all of its assets in Singapore have received a *BCA Green Mark Platinum Award*. Building 1 and 2 of its Sky Complex office property in Milan gained LEED Gold certification in December 2022. With this, all three Grade A office buildings within the development are now LEED Gold certified.

"We aim to deliver a sustainable future for its stakeholders by striving towards economic, social and environmental progress," says Chow. He notes that collaboration in the pursuit of sustainability shows that various organisations within and beyond the industry are working together to make greater strides towards a sustainable world, adding: "By attaining net zero carbon under our belt, we have our eyes set on our target of zero carbon by 2040 and eliminating greenhouse gas emissions from our business activities."

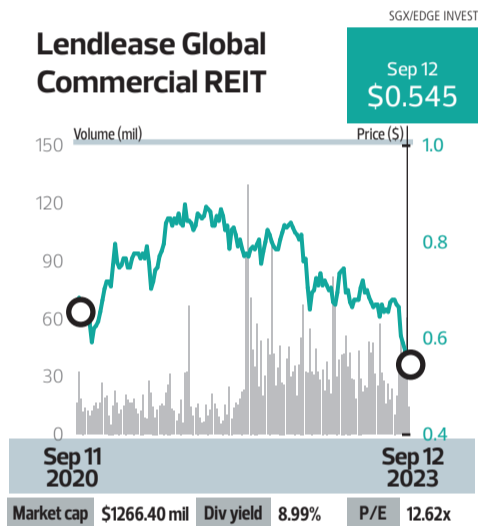
LREIT's sustainable financing has gained some recognition, as it bagged the *SBR National Business Awards 2023* for its successful financing solution, including the \$860 million sustainability-linked loan to acquire Jem shopping mall in Jurong.

The capital fundraising exercise was the largest amongst S-REITs in 2022, with approximately \$1.7 billion raised. It received the *Best Sustainability-linked Loan Award (Singapore)* at the Asset Triple A Sustainable



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Lendlease Global Commercial REIT



Capital Markets Awards 2022. This award represents the industry's most notable awards for the primary market for best issuers, deals, and advisers in equity, debt, loans, M&A and structured finance.

Chow has gained recognition for his leadership qualities and for taking the LREIT team to new heights. He was named Best CEO (Gold) at the *Asia Pacific Best of the Breeds REITs Awards 2023*. LREIT was also named *Best Retail REIT (Platinum)*.

Investment success

Governance has always been an important part of LREIT, as it strives to provide investors and unitholders with transparent information to make more informed decisions. This focus led to a 12th place ranking in the Singapore Governance and Transparency Index (SGTI) 2023. It also won the Asean Asset Class Award for listed companies at the 2021 Asean Corporate Governance Scorecard (ACGS) and was among over 200 listed companies in Asean to be rec-

ognised for exemplary corporate governance.

Consistency is key to investment success, and LREIT has proven this with its revenue growth track record. In the REIT's latest FY2023 results, gross revenue for the period doubled to \$204.9 million, contributed mainly by the accretive acquisition of Jem in April 2022 and better operating performance at 313@somerset on Orchard Road. This has resulted in a higher net property income of \$153.9 million for FY2023.

Jem, the REIT's first suburban mall, demonstrated resilience during the Covid-19 period due to its proximity to the Jurong heartland. The mall's connection to the MRT station ensures consistent foot traffic.

Chow says: "The acquisition of Jem is a natural transition for us as we recognise its benefits and resiliency throughout the pandemic. The suburban retail market continues to perform well, and we believe that the Jurong region and its upcoming development plans will provide a great catchment for Jem."

Aside from its improving revenue, distributable income rose 51.3% y-o-y to \$108.2 million, translating to a DPU of 4.70 cents. As at June 30, gross borrowings were \$1.55 billion, with a gearing ratio of 40.6%. Approximately 70% of LREIT's total committed debt facilities are sustainability-linked financing, which is expected to generate net interest savings for LREIT's unitholders.

The average debt maturity was 2.1 years, with a weighted average cost of debt of 2.69% per annum. LREIT has an interest coverage ratio of 4.2 times and undrawn debt facilities of \$583.3 million to fund its working capital. Its debt is unsecured, with approximately 61% of its borrowings hedged to a fixed rate.

The REIT's disciplined asset management and strategic portfolio composition have contributed to steady and sustainable income generation, making it a reliable partner for those seeking long-term value.

Despite pandemic challenges, LREIT made an impressive rebound. Pent-up demand and robust shopper sentiment led to tenant sales and visitation exceeding pre-Covid-19 levels. Additionally, the long office weighted average lease expiry (WALE) provided a stable income stream for unitholders.

LREIT's portfolio committed occupancy remained high at 99.9%, with a long WALE of 8.2 years by net lettable area (NLA) and 5.5 years by gross rental income (GRI).

"The prospects for our properties remain healthy. We are optimistic that 313@somerset will benefit from China's reopening to generate higher footfall and tenant sales for our downtown mall. LREIT's fully leased office assets will continue to enjoy stable cash flow," says Chow.

LREIT's strategic focus on established locations in the city-state has driven its financial growth. This is evident in the REIT's latest acquisition of a 10% interest in Parkway Parade Partnership Pte Ltd (PPP), which indirectly holds 77.09% of the total share value of the strata lots in Parkway Parade from Lendlease Asia Investments for approximately \$88.9 million.

Chow says: "Parkway Parade is a strategic fit with our existing portfolio as we continue to drive sustainable returns for LREIT's unitholders. With the seamless connection from the upcoming Marine Parade MRT Station and Marine Parade Central, the integrated asset is expected to improve LREIT's earnings and distributions moving forward."

The manager sees clear benefits for unitholders in the acquisition. It brings strategic potential for future pipelines, diverse income sources, and a prime location with direct access to key transportation infrastructure. This aligns with the manager's diversified portfolio strategy with stable income assets.

"The investment provides LREIT with preemptive rights and opportunities to increase indirect interest in Parkway Parade. It had also increased LREIT's exposure to the resilient suburban retail segment to enhance income diversification further," says Chow.

Growth potential

Chow is hopeful about the retail industry's rebound as the economy stabilises post-pandemic. He envisions tourism growth, driven by recovering international travel, benefiting 313@somerset through Chinese tourist spillover.

Despite tourists' return, Chow notes the REIT's retail assets are not highly dependent on them.

At 313@somerset, tourists comprise less than 20% of footfall, while Jem benefits from a natural consumer catchment in the suburban Jurong area. "For 313@somerset, we are looking to unlock the remaining 10,200 sqft of additional gross floor area to optimise the full potential of the mall. Our strategy is to deploy the area during the fit-out period to avoid unnecessary hoarding and disruption to the operations of other tenants in the mall," says Chow, as the REIT aims to unlock more value from the mall. There are no such plans for Jem in the meantime.

"Not to forget the multifunctional event space adjacent to 313@somerset, we aim to clear authority approvals by the second half of 2023 and begin construction after that. The concept focuses on bringing entertainment and fresh experiences to Somerset, and we are excited to see this come to life," adds Chow. He believes the multifunctional event space will strengthen 313@somerset's role as the focal point of the Somerset youth precinct, enhancing the mall's appeal and attracting more visitors.

Regarding Jem, Chow says that the investment is both accretive and resilient. The mall performed well during the pandemic and rebounded faster than the surrounding malls. He adds: "Leveraging over 1,500 sq ft of unutilised space at Jem, we infused the mall with new offerings that embrace our shoppers' needs. In September 2022, we welcomed Jem's new food court operator, Kopitiam. One of LREIT's top 10 tenants by GRI, Kopitiam occupies approximately 18,000 sq ft on level five, making it the largest outlet in their portfolio."

LREIT is attentive to rising interest rates and inflation concerns despite its properties' strong performance. "We are monitoring interest rates movement closely and are adopting a cautious approach amidst the ongoing uncertainties in the global economy." ■



Lendlease Global Commercial REIT's first suburban mall, Jem, proved resilient during the pandemic due to its proximity to residential areas