

Summary of key matters discussed at the Unitholders' Meeting of Tower Real Estate Investment Trust ("Tower REIT") held at the Wau Bulan Ballroom, Level 2, Sofitel Kuala Lumpur Damansara, No. 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur on Tuesday, 30 June 2020 at 10.00 a.m.

1. What is the yield in terms of earnings and cost of funding for the acquisition?

Response:

- The cost of funding for the acquisition is 3.65% presently.
- The yield based on the last financial audited statement was 4.8% on a net basis.

2. Was a sensitivity analysis performed on assumption the occupancy rate would reduce to say 70% and interest rate would increase?

Response:

- Occupancy rate at Menara Guoco is stable. Of the 97.1%, 70.4% is occupied by 3 key tenants all of which are multinational companies. British American Tobacco (Malaysia) Berhad had on 19 June 2020 renewed its tenancy for 3 years with a positive rent reversion. The other two, namely Dentsu Aegis Network Malaysia Sdn Bhd and AECOM Perunding Sdn Bhd, had, at the end of 2019, renewed their tenancies for another term.
- The Manager is of the view that the likelihood of a 30% reduction in the occupancy rate is low considering the location and age of the building and the profile of the tenants.
- A sensitivity analysis had been performed on the occupancy rate and the Independent Directors were satisfied that with the recent renewals by the 3 key tenants, occupancy for approximately 70.4% of the total net lettable area of the property has been secured for another term.
- The Manager was of the view that interest rates would remain low for some time given the current economic environment and would generally increase in tandem with the improvement in the economy.
- With the current trend of companies moving from central Kuala Lumpur to hubs such as Damansara City and with the activities in that area, the Manager believes that there is a good potential in the future for increases in rentals and maintaining good occupancy rate. Further, the strategic location of the building, its grade A building with green features, excellent connectivity, and profile of tenancies were taken into consideration when evaluating the proposed acquisition.
- For the acquisition, borrowing was the preferred means of financing as the REIT had hardly any borrowings, especially in a low interest rate environment. Post acquisition, the REIT would have a gearing (borrowings/total assets) of approximately 30%. As a benchmark, REITs can have a gearing of up to 50%, and the average gearing of major Malaysian REITs ranges from 25% to 48%.

Tower REIT

Re: Summary of key matters discussed at the Unitholders' Meeting

3. Was there any rental rebate/waiver for the MCO period given to tenants of the existing 2 properties ie. Menara HLX and Plaza Zurich?

Response:

- Some tenants of the buildings in Tower REIT's portfolio had requested for rebates and upon review, the Manager had given some rental rebates to those in need after taking into consideration of the impact of MCO on the tenants and the sector they are in (essential or non-essential services).

4. What is the rate being paid as management expenses for the acquisition?

Response:

- According to the Trust Deed, the Manager is entitled to receive an acquisition fee of 1% of the acquisition price of the property purchased by the Trustee for Tower REIT.

5. It was noted that the occupancy rate in Menara HLA and Plaza Zurich was 34% and 64% respectively. Can the Manager explain the reason for acquiring another asset instead of looking into improving the occupancy rate in the existing properties?

Response:

- Although efforts had and are being taken to build up occupancy rate in the existing properties, the Manager was of the view that the return (earnings and distributions) to unitholders could be boosted with this acquisition. The acquisition would expand the Trust's asset base in line with its strategy of organic and non-organic growth and is yield accretive (enhanced by the low interest rate environment).
- Urban fringes such as Bangsar South, Damansara Heights, Bangsar, and Sunway appear to have strong growth in occupancy rates. Post acquisition, the portfolio would comprise 3 properties with 2 in the urban fringes and 1 in the city center.
- It would also result in a younger portfolio where the average age of the buildings would reduce from 24 to 19 years.
- The Manager intends to grow the Trust by broadening its focus to invest in more sectors (such as industrial and logistic assets) apart from commercial offices, in line with the recent amendments to the investment objectives of the Trust Deed (as recently amended and restated by the second restated deed dated 23 October 2019).