



(a real estate investment trust constituted on 7 June 2018
under the laws of the Republic of Singapore)
(Managed by Elite Commercial REIT Management Pte. Ltd.)

LEASE UPDATES AND SUSTAINABILITY COLLABORATION WITH THE UK GOVERNMENT'S DEPARTMENT FOR WORK AND PENSIONS

1. INTRODUCTION

Elite Commercial REIT Management Pte. Ltd., as manager of Elite Commercial REIT (the “**Manager**”), is pleased to announce that Elite Commercial REIT, through its wholly-owned subsidiaries, has on 25 February 2022 entered into separate agreements with The Secretary of State for Levelling Up, Housing and Communities of the United Kingdom (“**UK**”) (the “**Tenant**”) to re-gear¹ (the “**Lease Re-Gearing**”) certain leases of Elite Commercial REIT’s properties which are occupied by the Department for Work and Pensions (“**DWP**”) in the manner described in paragraph 2 below.

Separately, the Manager has also on 25 February 2022 entered into an agreement with the Tenant to collaborate on certain sustainability-linked investments (“**Sustainability Collaboration**”) for properties which are occupied by DWP in the manner described in paragraph 3 below.

2. LEASE RE-GEARING

A total of 117 of Elite Commercial REIT’s properties occupied by the DWP, which contributed to approximately 57.3% of the total portfolio by GRI², have a lease break option in March 2023. If the break option is not exercised, the lease is confirmed to run continuously until March 2028 with a built-in inflation-linked rental escalation clause, presenting potential upside which will start in April 2023. The rental uplift is based on the UK Consumer Price Index, subject to an annual minimum increase of 1.0% and maximum of 5.0% on an annual compounding basis from 1 April 2018 to 31 March 2023.

With the Lease Re-Gearing, lease break options have been removed from 100 of those properties occupied by the DWP. This reflects an approximately 47.0% of the total portfolio by GRI². Together with the 31.6% of the total portfolio by GRI² currently with straight leases through to 2028 with no lease break options, this means that 78.6% of the leases by total portfolio by GRI² will continue straight to 2028 without any lease break options. It was also agreed that 11 out of the 100 properties, which amount to 5.3% of the total portfolio by GRI², will have rent reductions that will take effect in April 2023³.

¹ Re-gearing a lease is the practice of renegotiating lease terms between the tenant and landlord during the course of the lease.

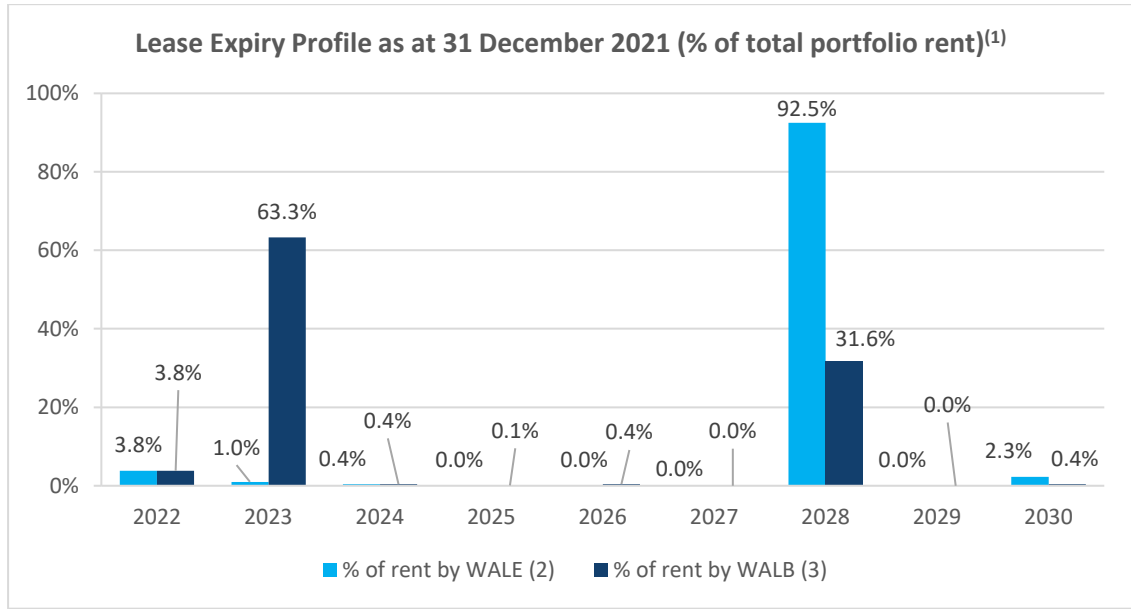
² Based on annualised gross rental income (“**GRI**”) as at 31 December 2021, taking into account the portfolio maiden acquisition completed on 9 March 2021.

³ For the avoidance of doubt, leases with a reduced rent will still be subject to the rent review provisions set out in the leases, providing built-in upside.

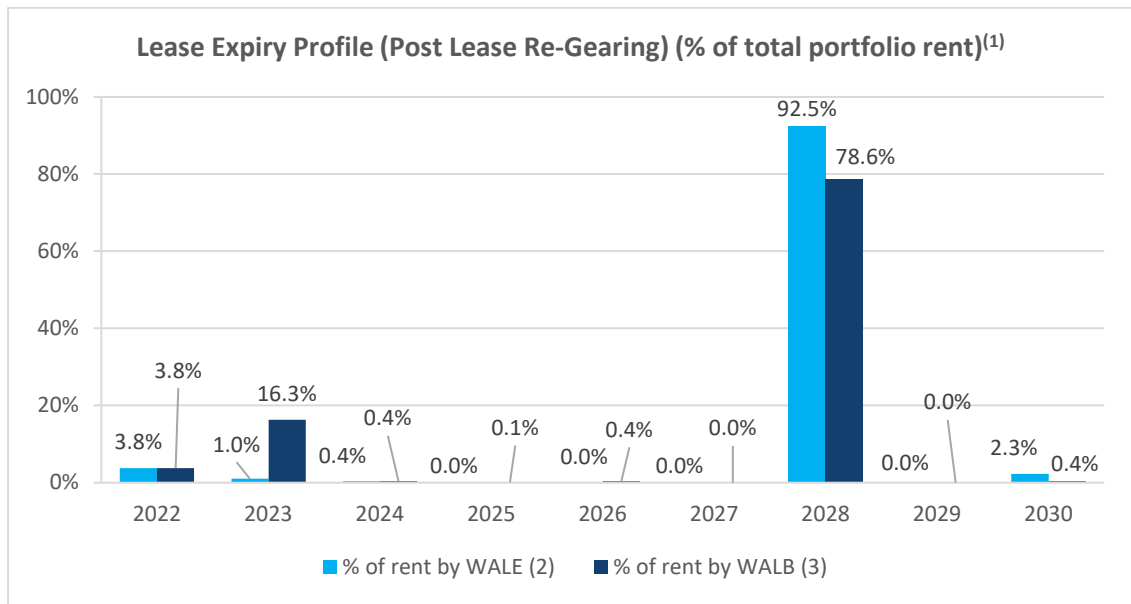
The outcome achieved through the Lease Re-Gearing enhances income visibility for Elite Commercial REIT for the next six years, thus ensuring sustainable distribution to unitholders of Elite Commercial REIT (“Unitholders”) for the longer term.

The WALE of Elite Commercial REIT’s portfolio will remain stable at 6.0 years post Lease Re-Gearing.

2.1 Before the Lease Re-Gearing:



After the Lease Re-Gearing:



Notes:

(1) Discrepancies between the listed figures and totals thereof are due to rounding.

(2) Percentage of rent by WALE (Weighted Average Lease to Expiry) – Based on the final termination date of the lease agreement (assuming the tenant does not terminate the lease on the permissible break dates)

(3) Percentage of rent by WALB (Weighted Average Lease to Break) – Based on the next permissible break date at the tenant’s election or the expiry of the lease, whichever is earlier.

3. KEY TERMS OF THE SUSTAINABILITY COLLABORATION

3.1 Sustainability Collaboration

Our leases are contracted on full repairing and insuring terms (“**FRI**”) where the tenant has the obligation to repair the external, internal and structural aspects of the property.

Notwithstanding the FRI nature of our leases, we have entered into the Sustainability Collaboration with the DWP, where we commit to invest £12.5 million (the “**Sustainability Contribution**”) towards agreed upon asset enhancement works on Elite Commercial REIT’s properties over three years.

Examples of such agreed upon works would include repair, replacement or upgrade of the lighting systems, heating and cooling systems, insulation and solar panels, and other initiatives which are likely to improve the properties’ energy efficiency to a more sustainable standard, resulting in an upgrade of the Energy Performance Certificate (“**EPC**”) ratings⁴ for the properties.

This Sustainability Collaboration is part of the Manager’s proactive strategy to ensure that the properties remain relevant and to enhance the long-term value of Elite Commercial REIT by integrating sustainability considerations into its overall business strategy.

3.2 Establishing Collaborative Relationship with Primary Occupier

This innovative collaboration with Elite Commercial REIT’s primary occupier, DWP, marks a commitment by both the landlord and the occupier to achieve sustainability goals such as the UK Government’s commitment to achieve net zero carbon emissions by 2050⁵.

3.3 Funding Sources

Elite Commercial REIT has sufficient internal funding sources to fund the Sustainability Contribution, such as through existing and new debts as well as cash retained from the Dividend Reinvestment Plan to meet the funding obligations.

3.4 Energy Performance Certificates

For England and Wales:

The current minimum Energy Performance of Buildings for non-domestic private rented property⁶ under the Regulation includes amongst others: -

- Landlords must not continue to let non-domestic property below EPC Band E to existing or new tenants by 1 April 2023, unless exemptions are obtained.

The UK Government is currently going through the parliament phase for the new Minimum Energy Performance of Buildings (No. 2) Bill. The proposed Bill includes amongst others: -

- All rented non-domestic buildings must be EPC Band B by 2030

Guidance includes an interim milestone of EPC Band C by 2027.

Elite Commercial REIT’s properties in England and Wales currently have EPC ratings ranging from Band B to E.

⁴ An EPC measures the energy efficiency of a property on a scale of A to G. It contains information about a property’s energy use and typical energy costs, as well as recommendations about how to reduce energy use and save money.

⁵ Source: Gov.UK, HM Government, Net Zero Strategy: Build Back Greener, October 2021.

⁶ Non-domestic private rented property refers to any privately rented property that is not a dwelling, meaning a building or part of a building occupied or intended to be occupied as a separate dwelling. A property may be a whole building, or may be a unit within a building. (The meaning of non-domestic private rented property is set by Regulation 20(1), as defined by section 42(1)(b) of the Energy Act 2011.)

For Scotland:

The equivalent regulations for non-domestic buildings in Scotland currently do not impose a minimum EPC rating requirement. The Scottish government is proposing to build on the current Non-Domestic Energy Efficiency regulations under the Climate Change (Scotland) Act. Details are yet to be finalised.

Elite Commercial REIT's properties in Scotland currently have EPC ratings ranging from Band C to F.

Further information on EPC Rating guidance and legislation can be found at:

- Department for Business, Energy & Industrial Strategy, "The Non-Domestic Private Rented Property Minimum Standard, Guidance for landlords and enforcement authorities on the minimum level of energy efficiency required to let non-domestic property under the *Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015*", February 2017.
- Scottish Government, gov.scot, Energy efficiency in non-domestic buildings (<https://www.gov.scot/policies/energy-efficiency/energy-efficiency-in-non-domestic-buildings/>)

By Order of the Board
Shaldine Wang
Chief Executive Officer

Elite Commercial REIT Management Pte. Ltd.

(Registration Number: 201925309R)
(as manager of Elite Commercial REIT)

28 February 2022

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