ELITE COMMERCIAL REIT

ELITE COMMERCIAL REIT'S 1H 2022 DISTRIBUTABLE INCOME GREW 9.7% Y-O-Y; POSITIVE LEASE RE-GEARING EXERCISE LEADS TO INCREASE IN PORTFOLIO VALUATION AND PROVIDES EXTENDED INCOME VISIBILITY

- ***Distributable income grew 9.7% year-on-year in 1H 2022 and Distribution per Unit ("DPU") stood at 2.56 pence in 1H 2022***
- ***Upward revaluation of portfolio value to £517.7 million[1] as at 30 June 2022, a 3.5% increase from £500.1 million as at 31 December 2021, following positive lease events in 1H 2022***
- ***Net asset value ("NAV") per unit grew to £0.62 as at 30 June 2022***
- ***Portfolio WALE at 5.2 years, representing enhanced lease stability and extended income visibility***

Summary of Financial Results

	1H 2022 (£'000)	1H 2021 (£'000)	Variance (%)
Revenue	18,708	15,896	17.7
Amount generated during the period for distribution to Unitholders	12,244	11,161	9.7
Distribution per Unit - pence	2.56	2.63[2]	(2.7)

SINGAPORE, 5 August 2022* – Elite Commercial REIT Management Pte. Ltd.*, the manager (the **"Manager"**) of Elite Commercial REIT (the "**REIT**"), today announced the REIT's financial results for the six months ended 30 June 2022 ("**1H 2022**").

Ms. Shaldine Wang, Chief Executive Officer of the Manager, said: "We are pleased to announce a resilient set of financial results in 1H 2022, with distributable income growing 9.7% year-on-year, mainly attributed to the contribution from our maiden acquisition and savings in tax expenses. We remain resilient as all our leases are on full repairing and insuring basis, with operational expenses borne by the tenant, thereby insulating the REIT from the effects of rising costs and energy prices. A majority of our properties also have inflation-linked rental escalation

[1] The valuer's opinion of value has reflected the £7.3 million of sustainability contribution made in 2Q 2022.
[2] Includes the Advanced Distribution of 0.90 pence per Unit declared on 26 February 2021 and paid on 15 April 2021.

clauses built into the leases, presenting potential upside when the rental rates adjust next year. About 63% of our borrowings are also hedged on fixed interest rates, providing some cushioning against volatile market movements.

"Our uniquely counter-cyclical portfolio allows us to generate recurring cashflow and stable returns throughout economic cycles for our unitholders. Backed by our healthy balance sheet and prudent capital management, we aim to continue to grow by seeking value-enhancing acquisitions, including properties from our Sponsors' right of first refusal ("**ROFR**") pipeline and third-party transactions – most of which are also on long-term leases by various ministries of the UK Government."

Resilient Financial Performance

Revenue and net property income for the period grew to £18.7 million and £18.1 million respectively, up 17.7% compared to the previous corresponding period ("**1H 2021**").

Distributable income for 1H 2022 continues to outperform by growing 9.7% year-on-year to £12.2 million, mainly driven by the full half-year rental contribution from the REIT's maiden acquisition and tax savings from a lower headline tax rate attributed to the qualification of the REIT's UK entity as a UK REIT group. This is offset by increased borrowings due to the acquisition, increased interest costs on borrowings and marginally lower occupancy.

DPU stood at 2.56 pence in 1H 2022 on the effect of a larger unitholder base. From FY 2022 onwards, the Manager has opted to receive 100% of its management fees in cash instead of units to strengthen the REIT's financial position in the long term and to preserve unitholder value by minimising unit base dilution.

The record date for the DPU is 16 August 2022, and payment is expected to be made on 22 September 2022.

Prudent Capital Management

NAV per unit improved to £0.62 as at 30 June 2022, up from £0.61 as at 31 March 2022. About 63% of borrowings are hedged on fixed interest rates, providing some cushioning against volatile market movements. Gearing ratio stood at 41.9% as at 30 June 2022 and there are no refinancing requirements for FY 2022.

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Revaluation following the Positive Lease Re-gearing in 1H 2022

Following the positive lease re-gearing exercise in 1H 2022, the portfolio of 155 properties in the REIT were valued at an aggregate of £517.7 million[1] as at 30 June 2022, which represented an overall fair value gain of 3.5% over the previous valuation of £500.1 million as at 31 December 2021.

The revaluation gain was driven by the removal of lease break options for a majority of leases in the portfolio, leading to enhanced lease stability and income visibility, offset by a reduction in the values of vacant and vacating assets.

"We are heartened by the positive valuation outcome for Elite Commercial REIT's portfolio in view of the current ongoing macroeconomic and geopolitical challenges domestically and globally. The valuation gain is testament to the Manager's efforts to strengthen the portfolio's attractiveness and to enhance income visibility through the recent positive lease re-gearing exercise. Moving forward, the Manager is focused on executing active asset management strategies for its vacant and vacating assets to preserve value for the REIT," added Ms. Wang.

Stable Lease Profile and Income Visibility

Elite Commercial REIT's portfolio occupancy remains high at 98.0% as at 30 June 2022, with vacancies at John Street, Sunderland and Sidlaw House, Dundee. The Manager continues to consistently collect 99.9% of rent for the period of three months to 30 September 2022 in advance and within seven days of the due date. Weighted average lease expiry ("**WALE**") remains long at 5.2 years as at 30 June 2022.

Commitment to Sustainability

The Manager has made the first tranche of sustainability contribution amounting to £7.3 million to the Department for Work and Pensions ("**DWP**"), as part of the sustainability collaboration with the DWP to 'green' DWP-occupied assets.

Sustainability enhancement works on various DWP-occupied properties across the REIT's portfolio have been planned so far to optimise energy use. Some examples of works being planned include the replacement of existing variable refrigerant system, gas- or oil-fuelled boilers and air-conditioning systems to more efficient systems, as well as roofing replacement.

In February 2022, the Manager and the DWP embarked on a public-private collaborative effort to embark on asset enhancement initiatives to boost the sustainability and energy efficiency of the DWP-occupied properties in the REIT's portfolio, in line with the UK Government's national climate agenda. A similar collaborative effort has also been expanded to include the asset occupied by the UK Government's Ministry of Defence.

Largely Insulated from Rising Inflation and Energy Prices

As all leases in the REIT's portfolio are based on full repairing and insuring basis[3], the operational expenses of the properties are borne by the tenant, hence the REIT is largely insulated from the effects of rising inflation and energy prices.

Protection from In-built Inflation-linked Rental Escalation

Despite rising inflation and interest rates in the UK, a majority of our properties have inflation-linked rental escalation clauses built into the leases, presenting potential upside from April 2023. Most of them are based on the UK Consumer Price Index ("**CPI**"), 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.

Property Updates

The Manager has received notice to exercise the lease break option for Lindsay House, Dundee, the sole balance DWP-occupied asset that was pending an outcome following the lease re-gearing exercise. The asset will be actively marketed to potential occupiers, with alternative uses being considered. The Manager has also received notice to exercise the lease break option for Ladywell House, Edinburgh, which is currently occupied by the National Records of Scotland. Proactive tenant engagement is ongoing to maximise space use and derive the best outcome from active asset management. The Manager will provide further updates in due course.

Lease Renewal and Restructuring

The Manager has renewed and restructured the leases for two non-government tenants at The Forum, Stevenage, aligning lease expiries closer to the DWP's expiry in 2028. One was renewed with a rental uplift of 4.6% and another had a mutual lease break moved to 2028, allowing for flexibility of dealing with the asset as a whole in 2028.

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[3] *Under a full repairing and insuring lease, commonly known as triple net lease, the responsibility for the repair of the external and internal parts as well as the structure of the property is placed with the tenant.*

Market Outlook

The UK economy grew by 0.5% in May 2022 on a month-on-month basis, with all main sectors such as services, production and construction contributing positively to this growth[4]. Services grew by 0.4% and was the largest contributor of the monthly gross domestic product ("**GDP**") growth, now estimated to be 1.7% above its pre-pandemic levels in February 2020. UK GDP increased by 0.4% in the three months to May 2022, and by 3.5% in the 12 months to May 2022. For the quarter ended 31 March 2022, UK GDP was estimated to have increased by 0.8%[5]. The increase was largely due to an increase in output for information and communication, and transport and storage.

The UK's Office for National Statistics noted that inflation, as measured by the consumer price index, rose by 9.4% in the 12 months to June 2022, up from 9.1% in May. This marks the UK's highest 12-month CPI inflation rate in the National Statistic series since January 1997[6]. The Bank of England ("**BoE**") expects inflation in the UK to rise to around 11% this year, on the back of increased spending on goods during the Covid-19 pandemic, global supply chain disruptions as well as rise in energy and commodity prices, and only start to slow next year. In response to high inflation, the BoE has raised the Bank Rate to 1.25%[7]. Given continued record-high inflation, the BoE is expected to announce another round of interest rate rise.

Based on the minutes published by the BoE, the market implied path for the Bank Rate is expected to reach around 2.9% by end-2022 and potentially peaking at 3.3% in 2023[8]. Sterling Overnight Index Average ("**SONIA**"), the benchmark which the Manager's interest rates on loans are priced upon, trends closely with the Bank Rate movements. The REIT has 63% of its existing interest rate exposure fixed, mitigating the effects against the rising interest rate environment.

The unemployment rate for March to May 2022 decreased by 0.1 percentage points on the quarter to 3.8% and is currently below pre-pandemic levels. Job vacancies in April to June 2022 rose to 1.3 million, while the rate of growth in vacancies continued to slow down[9].

Claimant count for the month of May 2022 was at 1.43 million, a decrease of 4.2% and 20% month-on-month and compared to the last quarter respectively. Compared to a year ago, it is a

[4] *GDP monthly estimate: UK: May 2022, 13 July 2022.*
[5] *GDP quarterly national accounts, UK: January to March 2022, 30 June 2022.*
[6] *Consumer price inflation, UK: June 2022, 20 July 2022.*
[7] *Bank of England: How high will inflation go?, 17 June 2022.*
[8] *Bank of England, Bank Rate increased to 1.25% - June 2022, 16 June 2022.*
[9] *Labour market overview, UK: July 2022, 19 July 2022.*

decrease of 37.1%[10]. Though unemployment claimants have been falling over the past year, it is noted that job vacancies remain significantly high, emphasising the importance of the DWP's services to the UK citizens in providing job matching services.

With deepening economic uncertainty amidst soaring inflation and interest rates, coupled with the current government's leadership disruption, the near-term outlook remains challenging for the UK.

A majority of our leases are signed directly with the Secretary of State for Levelling Up, Housing and Communities (formerly known as the Secretary of State for Housing, Communities and Local Government), which is a Crown Body. Hence, any change in the ruling government will not affect the integrity of these current leases.

Prospects

Notwithstanding the macroeconomic situation, Elite Commercial REIT remains well-positioned to continue providing attractive and resilient returns, with over 99% of gross rental income derived from the AA-rated UK Government, mainly the DWP, the largest public service department responsible for administering the country's state pension, welfare and child maintenance policy. The rest of the portfolio are mostly occupied by other UK sovereign tenants.

The Manager remains on the lookout for growth opportunities, which may be available to the REIT through its Sponsors' right of first refusal ("**ROFR**") pipeline or from the open market. Elite Commercial REIT is expected to continue providing a stable income to its unitholders as it continues to collect almost 100% of its rent a quarter in advance.

- End –

[10] *Alternative claimant count statistics January 2013 to May 2022, 19 July 2022.*

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About Elite Commercial REIT

Elite Commercial REIT (the "**REIT**") is a Singapore real estate investment trust established with the investment strategy of principally investing, directly or indirectly, in commercial assets and real estate-related assets in the United Kingdom ("**UK**"). Listed on Singapore Exchange Securities Trading Limited ("**SGX-ST**") on 6 February 2020, Elite Commercial REIT is the first and only UK-focused listed REIT in Singapore.

The REIT's portfolio ("**Portfolio**") comprises 155 predominantly freehold[11] quality commercial buildings located across the UK with an aggregate value of £517.7 million[12,13]. The Portfolio has a total net internal area of approximately 3.9 million square feet and a total site area of approximately 72 hectares. Of the total portfolio, 58 of the properties were acquired on 9 March 2021 during the REIT's maiden acquisition.

The Portfolio offers a stable cash flow with over 99.0% of the gross rental income derived from the AA-rated UK Government and a long weighted average lease expiry of 5.2 years[12]. All the leases are on full repairing and insuring[14] ("**FRI**") basis and a majority of them include rental escalations that are linked to the UK Consumer Price Index. The Portfolio is primarily occupied by the Department for Work and Pensions ("**DWP**"), the UK's largest public service department that is responsible for welfare, pensions and child maintenance. DWP is a uniquely resilient occupier and the Portfolio is part of the crucial public infrastructure through which DWP provides services to the community.

The REIT's key objectives are to provide Unitholders with regular and stable distributions and to achieve long-term growth in distribution and net asset value per unit, while maintaining an appropriate capital structure through disciplined execution of its key strategies.

For more information, please visit
https://elitecreit.com/

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[11] Of the 155 properties, 150 properties are freehold properties and 5 properties are on long leasehold tenures.
[12] As at 30 June 2022.
[13] Portfolio value is the fair value of investment properties (based on valuation report).
[14] Under a full repairing and insuring lease, commonly known as triple net lease, the responsibility for the repair of the external and internal parts as well as the structure of the property is placed with the tenant.

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IMPORTANT NOTICE

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