CORPORATE

AIMS AMP REIT to expand footprint in Singapore; eyes properties in China

| BY FRANKIE HO |

Nicholas McGrath, CEO of AIMS AMP Capital Industrial REIT (AA REIT), is expecting a jam-packed schedule this year and next. The 38-year-old, along with the industrial property trust's two Australia-based sponsors — AIMS Financial Group and AMP Capital Investors — plans to add properties in other geographical markets to the REIT and expand its footprint in Singapore. The strategy, while not dissimilar to that of many other SGX-listed property trusts, shows that the Singapore-focused REIT is resolved to move on after a painful saga just a couple of years ago that almost made it bankrupt.

"I do expect us to spend a lot of time in those markets where our sponsors have a presence. We'll be looking to make some acquisitions offshore in the next 12 to 24 months," McGrath tells *The Edge Singapore*. AA REIT, which has 26 properties in Singapore and one in Japan, ultimately intends to have overseas assets account for between 30% and 40% of its portfolio, he says.

Tapping the expertise of its two sponsors will be instrumental in AA REIT's forays abroad. Household names in Australia's corporate scene, AIMS Financial Group and AMP Capital Investors own equal stakes in a joint venture that manages the property trust, formerly known as MacarthurCook Industrial REIT (MI-REIT). MI-REIT averted bankruptcy after securing the approval of disgruntled shareholders for a dilutive equity fund-raising plan hammered out just a month before a December 2009 deadline to refinance a $226 million debt and to fulfil a binding agreement to acquire a property for $90 million. The exercise, initially opposed by then substantial shareholder Cambridge Industrial Trust, involved placing out units to AIMS Financial, AMP Capital and other investors.

One of the markets AA REIT plans to enter is China, where larger rivals **Global Logistic Properties** and **Mapletree Logistics Trust** already operate in. "China is like the industrial engine room of the world. With that comes [the need for] a lot of industrial real estate," says McGrath. "We will be looking at areas where there are logistics or business parks. That would mean first- or second-tier cities." Establishing a foothold there, however, won't be easy, he concedes, as AA REIT will first have to tackle challenges such as remitting money out of China every quarter and identifying properties attractive enough to keep MNCs rooted for the long haul.

Australia could also be a potential market, although it won't be a priority, according to McGrath. "AMP Capital has a lot of industrial real estate within funds that it manages. Over a two- to five-year horizon, I can certainly see the trust expanding into Australia as well. But I think it's probably fair to say that at all times, our key focus is Singapore, and that we're probably looking north rather than south, China rather than Australia."

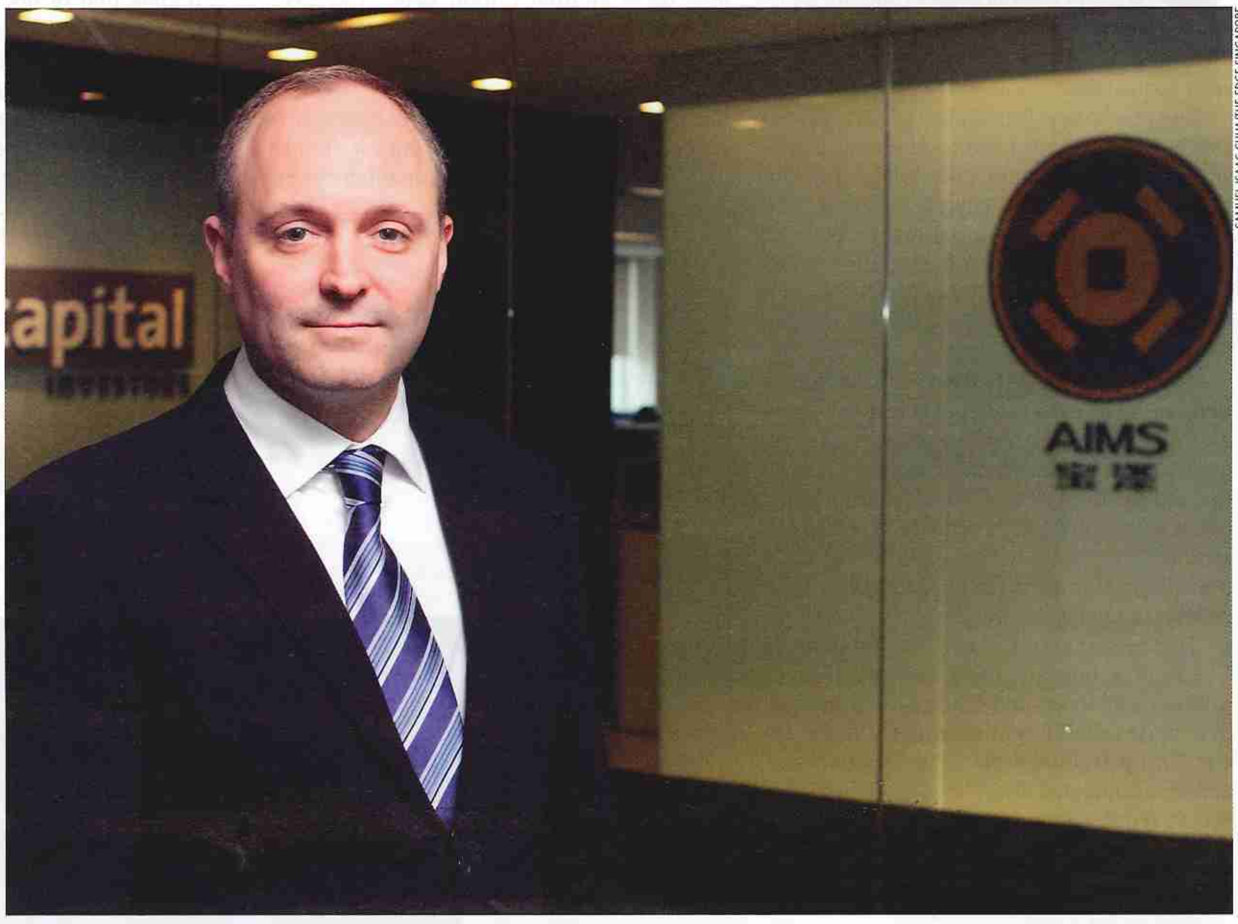
Acknowledging the mistakes of MI-REIT's overseas acquisition strategy, McGrath says the approach this time around will be measured. "At IPO [in 2007], it was going to be a pan-Asian industrial trust. We were going to fly in, fly out, buy stuff, enter into JVs, and hope like hell that all went well. That was where the trust went wrong previously, in its acquisition of that one property in Japan." AA REIT plans to sell its Asahi Ohmiya warehouse in Tokyo by 1H2011, McGrath adds. "It's nonsense to be in Japan and have one property. In order to benefit from economies of scale, you need to have a portfolio." The Tokyo property was acquired for ¥2.23 billion ($34.6 million at current conversion rate) but has been written down in recent years to around ¥1.46 billion, a level McGrath deems as market value. "We're pretty confident we can do a deal around that price."

Asset enhancement

AA REIT will have its work cut out differentiating itself in Singapore's industrial real estate market, where its peers, many of which are larger in terms of asset size, are busy refurbishing their premises and seeking out properties to buy. **Mapletree Industrial Trust**, for instance, is converting the seventh floor of a flatted factory into space targeted at companies and start-up firms in the e-business sector. **Ascendas REIT**, on the other hand, is building a $35.9 million logistics facility next to the Airport Logistics Park of Singapore, and adding floor area to its property at Senoko Avenue to rebrand it as a hub for food processing companies. **Cache Logistics Trust**, meanwhile, has the right of first refusal from its sponsor **CWT** to buy a handful of ramp-up warehouses.

"If this job were easy, there would be thousands of REITs in Singapore," says McGrath. Still, he's hopeful conditions here will be conducive even for smaller players like AA REIT. "Close to half our portfolio has underutilised plot ratios. In a market where we're seeing rising industrial rents and close to full occupancy, there is certainly opportunity for enhancement." Asset enhancements will be carried out on a number of properties this year, while at least one, which he declines to identify, has been earmarked for complete redevelopment. "We've got some tenants that are kind of bursting at the seams. They want more floor space and we are happy to accommodate them." The enhancements, depending on the scope, can generate yields of at least 8%, he says. "If you're looking at major enhancement or redevelopment opportunities, the yield on your project cost can go well north of 8% to 8.5%."

McGrath's optimism is backed by URA data showing industrial rents rose 5% q-o-q in 4Q2010, more than the increase in other property segments. For the whole of 2010, industrial rents went up 13.5%. "We are in a position where I am expecting positive rental reversions on a number of assets. I would expect the market to remain quite strong from a renting perspective. We're in a nice position where we don't have that much space to fill," he says. AA REIT's occupancy level as at end-2010 was 98.5%. The REIT is also not ruling out participating in the government's 2011 industrial land sales programme, where the URA has three sites up for tender in its confirmed list and another six sites in its reserve list. "We would be interested in participating with developers and end-users," McGrath says. "We want to participate in a development built to suit for a high-quality tenant with a long-term lease back to that group. We can draw upon the expertise of our sponsors, who do developments."



SAMUEL ISAAC CHUA/THE EDGE SINGAPORE

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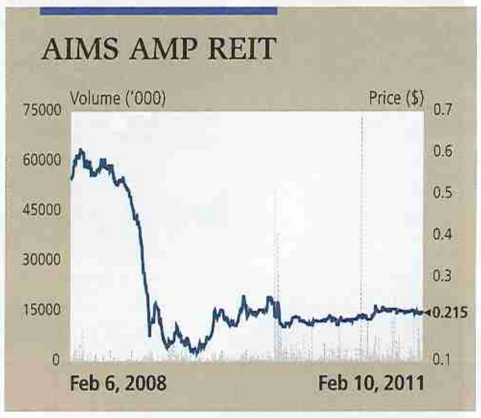

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Growth via acquisitions is also on the agenda this year, although McGrath says the REIT will avoid being excessively leveraged. Its most recent acquisition, also its largest, was a ramp-up warehouse in the Jurong Industrial Estate last August that cost $161.5 million. AA REIT's debt-to-asset gearing stands at 32.7%, a shade below its targeted "mid-30s" level and well under the 45% mark reached in 2008. "We've got some nice headroom to do some deals before we have to go and raise more capital, but what you won't see us doing is go to 40%. What that might mean at the top of the market is that we might pass up on opportunities that others will take if they are prepared to go north of 40%." Its current outstanding debt is a $280 million loan from four banks due from 2014.

Adjusting assets in portfolio

McGrath also intends to tweak the REIT's tenant make-up. Of its 26 Singapore properties, 15 are for warehousing and logistics, nine are for manufacturing, one is a business park and another is a research and technology centre. "I'd like to increase the portfolio weighting towards business parks and high-tech properties and dilute manufacturing. Singapore is generally going up the value chain. That's where we are going to be pushing," he explains.

The plan to scale back exposure to that sector is in line with an expected moderation in Singapore's manufacturing industry growth in 2011 from last year's blistering 30.4% expansion, which was premised on a low-base effect, as the economy was in recession in 2009. That, however, doesn't mean the REIT will sell all its manufacturing facilities, McGrath says. "I'm not going to sell a manufacturing property if the tenant is a very strong multinational and rents are increasing." Still, the door will always be open if the price is right. "We're not emotionally wedded to any of our assets." AA REIT sold its property at 23 Changi South Avenue 2 last November for $16.7 million, $500,000 above book value, with the proceeds used to pare debt.

Proper execution is crucial for the REIT to succeed in its expansion plans and in shoring up investors' confidence. "We have investors that came in in 2009 that are predominantly long, real estate-focused players. They like our yield, but they want to see us grow as well. In terms of executing on growth strategy, I firmly believe we have got the right institutional support," McGrath says. These investors include Dragon Pacific Assets, which owns 11.41% of the REIT, and Dutch pension funds manager APG Algemene Pensioen Groep, which has a 9.42% stake.

Still, Phillip Securities analyst Lee Kok Joo says getting more investors excited about the REIT may not be easy, despite its stable income-generating portfolio, as its reputation among investors "is still not that positive" because of its past debt problems. "It will need some time to regain investors' trust and for them to see the value of the portfolio."

Shares in the REIT ended 2010 flat at 22 cents and have remained at that level since the start of this year. E