STRATEGY

Proactive Asset Management

Maximise organic growth potential of properties

- Proactive leasing and marketing initiatives
- Deliver quality service and customised solutions
- Improve operational efficiency to mitigate rising operating costs
- Unlock value through AEIs

Value-creating Investment Management

Secure investments to deliver growth and diversification

- Pursue yield-accretive acquisitions and developments
- Secure BTS projects with pre-commitment from quality tenants
- Consider opportunistic divestments

Prudent Capital Management

Optimise capital structure to provide financial flexibility

- Maintain a strong balance sheet
- Diversify sources of funding
- Active interest rate management

▲ Business Park Building, The Signature

The Manager aims to deliver sustainable and growing returns to Unitholders by proactively managing MIT's portfolio of properties, seeking value-creating investments and maintaining a sustainable capital structure. Underlying the three-pronged strategy is the commitment to provide quality industrial real estate solutions to its clients through in-depth understanding of their requirements and delivery of innovative real estate solutions to meet their evolving business needs.

Proactive Asset Management

Through proactive asset management, the Manager is able to capture opportunities for organic growth while maintaining a diversified portfolio that considers the strategic positioning of MIT's properties in the long term.

Proactive Leasing and Marketing Initiatives

The Manager is proactive in the management of lease renewals and prospecting for new tenants to minimise downtime and maximise returns for the portfolio. Negotiations for lease renewals begin as early as six months before the expiry of each lease. When sourcing for new tenants, the Manager considers the desired tenant mix in each property cluster and strives to attract tenants in similar or complementary businesses to increase tenant stickiness; while ensuring no significant concentration of a single tenant or tenant trade sector. To maintain the relevance of the portfolio, the Manager also monitors the developments in the industrial sector and prospects for new tenants in growing trade sectors.

Leasing strategies are tailored to meet the changing requirements of tenants. The Manager offers longer lease packages beyond the standard three-year lease structure to tenants who prefer lower rental volatility and certainty in rental rates. Such packages typically have fixed rental adjustments over the lease term. This also enables the Manager to strengthen tenant relationships while extending the portfolio's WALE. In FY12/13, more than 50% of tenants who have been offered the longer lease package have opted for the scheme.

Diversification of the tenant base remains a key pillar of the portfolio's resilience. In managing the portfolio, the Manager balances between the key characteristics of the portfolio, such as the nature of the tenants' underlying trade sectors, tenants' concentration and a well-distributed lease expiry profile. As at 31 March 2013, the top ten tenants contributed less than 20% of the portfolio's gross rental income. With over 2,000 tenants, no single tenant and trade sector accounted for more than 4.5% and 13.7% of the portfolio's gross rental revenue respectively.

The Manager also monitors tenants arrears closely as the extent of arrears can be a leading indicator of potential defaults by tenants. A Credit Control Committee comprising representatives from Asset Management, Property Management, Finance, Legal, Marketing and Lease Management meets fortnightly to review payment trends of tenants. The regular meetings instill a disciplined approach for the Manager to anticipate and initiate necessary actions to address potential arrears cases.

Deliver Quality Service and Customised Solutions

The Manager is committed to provide high quality asset management services to maintain a high tenant retention rate. This includes improving responsiveness to tenants' requirements and reviewing facility management services regularly to ensure service standards are met. The Manager actively engages existing and prospective tenants for feedback through various channels.

The Manager considers tenants' needs and offers customised solutions for their evolving business requirements. MIT's diverse offering of industrial properties, which are strategically located across Singapore, is able to support tenants' expansion or relocation requirements. This increases tenant stickiness within the portfolio and strengthens long-term relationships with the tenants. As a result, tenants who have been leasing space from MIT for more than four years increased from 44.9% as at 31 March 2012 to 47.6% as at 31 March 2013.

STRATEGY

Improve Operational Efficiency to Mitigate Rising Operating Costs

The Manager actively monitors the trends of key cost components of the portfolio. In the current environment of rising costs due to inflation and tightening government policies on foreign labour, the Manager strives to improve operational efficiency and minimise operating costs by leveraging on the economies of scale of the large portfolio.

The Manager intensified efforts to reduce energy consumption in FY12/13. Amongst the initiatives implemented were the installation of motion-activated light controls and alternate lighting circuits at the common areas in various properties. Fluorescent lights were replaced with more energy efficient ones. A water conservation campaign was also undertaken at selected clusters and water-efficient taps were installed. The results have been encouraging and the Manager plans to roll-out more such initiatives across the portfolio.

Unlock Value through AEIs

The Manager constantly reviews the portfolio to identify opportunities to unlock value from its existing assets. Dedicated Asset Managers are assigned to manage each property cluster and to identify asset enhancement opportunities while considering the strategic positioning of the product offering in the long term. The Manager has undertaken initiatives to reposition property clusters to cater to higher-value industrial uses, to enhance existing business space with improved specifications, as well as to reconfigure unusable or under-utilised space into leasable area.

For example, the Manager embarked on two major AEIs in January 2012, which are on track for completion in FY13/14. The first AEI at Woodlands Central cluster includes the development of a six-storey extension wing as well as a multi-storey carpark with canteen, adding approximately 70,000 sq ft of GFA to the cluster. Common facilities in the existing buildings, including the restrooms, lift lobbies and walkways will also be improved to enhance the attractiveness of the entire cluster. Upon completion, Woodlands Central cluster will be repositioned into a high-tech industrial space for biomedical and medical technology companies.

The second AEI at the Toa Payoh North 1 cluster involves the development of a new high-tech industrial building and an amenity block on the existing open space car park, adding approximately 150,000 sq ft of GFA. The initiative will also include improvement works to the façade of the existing buildings and landscaped areas. Following the completion of the AEI, Toa Payoh North 1 cluster will be well-positioned to cater to the needs of high-tech companies from the clean and light manufacturing sectors.

These AEIs reflect the Manager's continual efforts to improve MIT's product offering to meet the needs of clients. These initiatives will enable MIT to attract tenants in the high-growth market segments.

Value-creating Investment Management

The Manager explores acquisition and development opportunities that add value or provide strategic benefits to the existing portfolio. The Manager leverages on its existing client network, the Sponsor's network of real estate industry players and public agencies in addition to referrals for acquisition and development leads.

Pursue Yield-accretive Acquisitions and Developments

The Manager recognises the importance of financial discipline in its evaluation of acquisition targets and development projects; and considers factors such as impact to distributions, long-term total returns, potential of returns enhancement, impact to portfolio profile, asset quality as well as diversification effects.

Secure BTS Projects with Pre-commitment from Quality Tenants

The Manager continues to explore BTS opportunities from new prospects and existing tenants. BTS solutions allow clients to focus on their core businesses while MIT manages the capital expenditure and development process. BTS projects usually come with long-term committed leases that provide income stability and increase the portfolio's WALE. They also allow the Manager to focus on securing established tenants from growing industries. For more complex and larger scale development projects, the Manager leverages on the capabilities and expertise of the Sponsor's in-house development team.

In FY12/13, the Manager secured two BTS projects; one for K&S and one for Equinix. The BTS facility for K&S in Serangoon North will serve as its new global headquarters and is expected to be completed in the second half of 2013. K&S has committed to a minimum 10-year lease. The second BTS project is the development of a new data centre for Equinix in one-north for a minimum lease of 20 years. It is slated for completion in the second half of 2014. With these two BTS projects anchored by established tenants in growing sectors of precision engineering and info-communications, MIT will benefit from new quality income streams to the portfolio upon completion of these developments.

▲ Flatted Factory, Chai Chee Lane

▲ Light Industrial Building, Tata Communications Exchange

Consider Opportunistic Divestments

The Manager also reviews the competitiveness and potential of each property within the portfolio on a regular basis. Properties with lower long term relevance to the portfolio may be considered for divestment, allowing capital to be redeployed to better investment opportunities.

Prudent Capital Management

The Manager adopts a prudent capital management strategy in order to deliver stable distributions to Unitholders. The Manager strives to optimise its capital structure to maximise returns, while maintaining financial flexibility to support organic and inorganic growth initiatives.

Maintain a Strong Balance Sheet

Key objectives of the capital management strategy include maintaining a strong balance sheet with an appropriate mix of debt and equity, expanding and diversifying the funding sources from banks and capital markets, as well as minimising the cost of funding. Appropriate interest rate hedging strategies are adopted to minimise exposure to market volatility.

The Manager secures both committed and uncommitted facilities, striking a balance between the availability of the funds and the maintenance cost of committed facilities. The Manager consciously expands its network of banks to reduce concentration risk.

Diversify Sources of Funding

To further augment its funding sources, a DRP was applied to MIT's 3QFY12/13 and 4QFY12/13 distributions. The proceeds from the DRP helped to strengthen MIT's balance sheet and financed the progressive funding needs of the AEIs and development projects.

As part of its efforts to maintain a resilient balance sheet, the Manager ensures sufficient liquidity with debt maturities that are well-distributed over the years. The debt that was due in September 2012 was refinanced with a combination of cash and bank borrowings. Leveraging on the strong demand for its maiden issue of S$125 million 7-year fixed rate notes in March 2012 under the S$1 billion Multi-Currency medium term note (MTN) Program, MIT issued S$45 million 10-year fixed rate notes in September 2012 to refinance in advance part of the borrowings due in September 2013. The Manager will continue to spread out the debt maturity profile while minimising the cost of debt financing.

Active Interest Rate Management

To ensure stability of distributions to Unitholders, the Manager adopts interest rate hedging strategies to minimise exposure to market volatility. As at 31 March 2013, about 88% of the borrowings are hedged through interest rate swaps or drawn on fixed rate basis. The Manager closely monitors the money market to extend these hedges, capitalising on opportunities that may arise.