

Interim Results 2020 Presentation

19 August 2020

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- 1 **OVERVIEW OF 1H 2020**
- 2 1H 2020 RESULTS SUMMARY
- 3 CCP PROPERTY OPERATION REVIEW
- 4 UK PORTFOLIO OPERATION REVIEW
- 5 OUTLOOK & STRATEGIC PRIORITIES

OVERVIEW OF 1H 2020

- Spring REIT will pay an interim distribution of HK 9.5 cents, up 6.7% HoH and down 5.0% YoY. The board has resolved to adopt a payout ratio of 100% (FY 2019: 100%) after considering the resilience in the performance of the portfolio and the quality of our balance sheet.
- Revenue decreased by 1.8% HoH and increased 1.4% YoY while net property income decreased by 0.9% HoH but improved by 0.5% YoY. Total distributable income rose 5.2% HoH and 10.5% YoY, mainly due to lower interest expenses during 1H 2020.
- Despite the downturn in the overall market, CCP Property has remained resilient, outperforming the market registering a respectable rental reversion of 2.1% while maintaining an average occupancy of 93.4%.
- As of 30 June 2020, there have been no confirmed COVID-19 cases among our tenants and colleagues in the CCP Property. While the pandemic seems to be well contained in Beijing, we continue to have stringent measures in place in order to provide the safest and most hygienic workplace possible.
- The CCP Property was appraised at RMB8,862.00 million, representing a 3.4% decrease compared to its valuation as at 31 December 2019. The was mainly attributable to a decrease in market rents.
- The UK Portfolio was appraised at GBP 72.90 million as at 30 June 2020, representing a decrease of approximately 3.7% in GBP terms (a decrease of 8.7% in RMB terms) over the valuation as at 31 December 2019. The decrease in valuation was due to a increase in reversionary yield rates.
- Balance sheet remained healthy as the gearing ratio as at 30 June 2020 was 32.1%, compared with 35.5% as at 31 December 2019, thanks to the conversion of the convertible bonds by Sino-Ocean Group in February 2020 . Interest expense is also well contained after fixing the interest cost of approximately 74% of the US\$-denominated loan facilities by way of interest rate swaps.
- In May 2020, unitholders approved our proposal to include unit repurchase as an additional tool for capital management. However, little progress has been made on acquisition due to COVID-19 related travel restrictions, which have made sourcing and due diligence work rather difficult.



- 1 OVERVIEW OF 1H 2020
- 2 1H 2020 RESULTS SUMMARY**
- 3 CCP PROPERTY OPERATION REVIEW
- 4 UK PORTFOLIO OPERATION REVIEW
- 5 OUTLOOK & STRATEGIC PRIORITIES



1H 2020 RESULTS SUMMARY

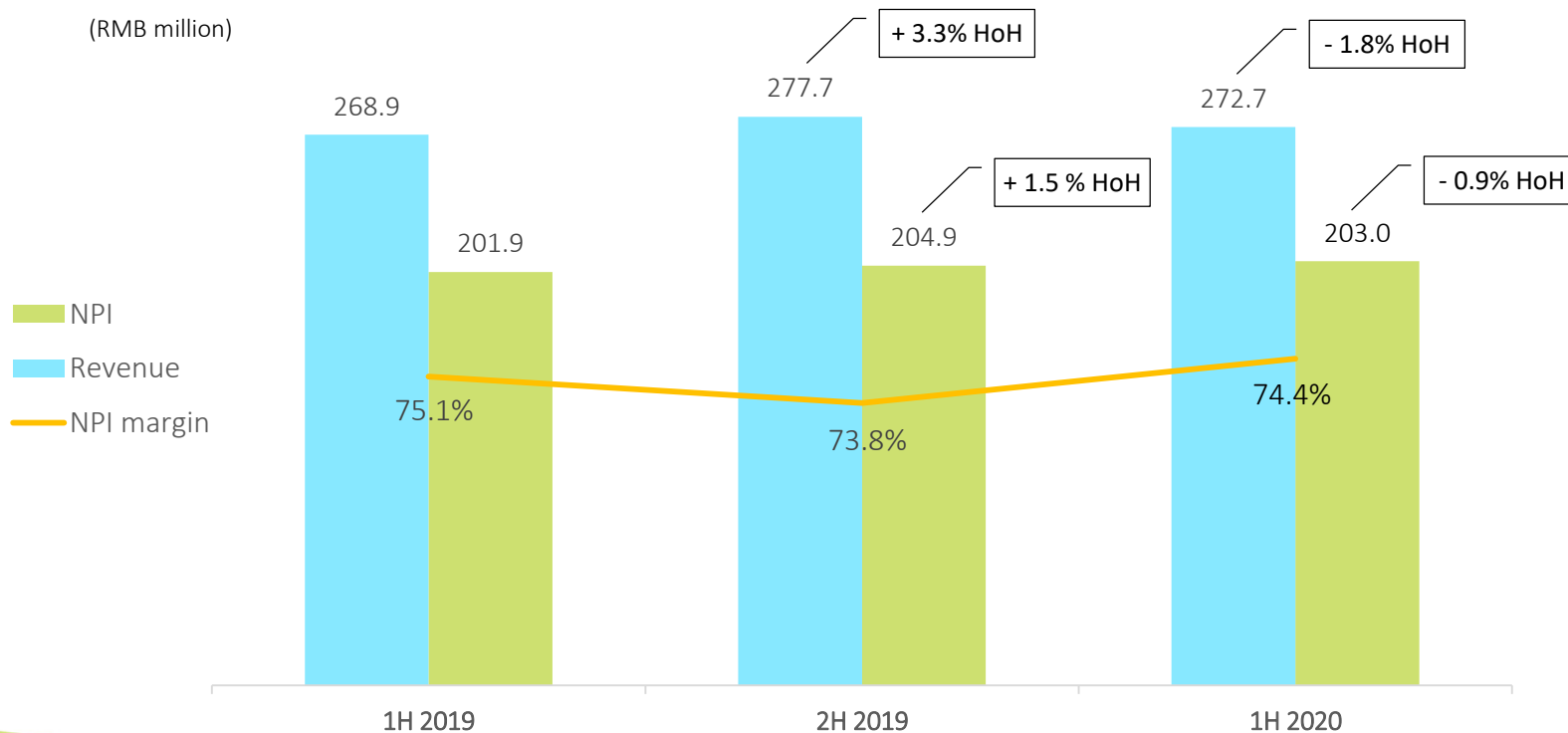
- Outbreak of Covid-19, combining with the incoming new supply, caused a market-wide downturn. The performance of CCP remained resilient, recording a marginal decrease in revenue of 1.8% HoH.
- Total distributable income increased by 5.2% HoH thanks to lower interest expenses, partly due to a lower total borrowings resulting from the conversion of the convertible bonds, and partly due to a lower interest rate environment.
- DPU for the period was HK 9.5 cents, taking into consideration the increase in the number of outstanding units following the conversion of convertible bonds by Sino-Ocean Group led consortium.
- Net asset value and gearing ratio improved as a result of lower total borrowings, despite decline in valuation of our properties.

Operating Results (in RMB' million)	1H 2019	HoH Change	2H 2019	HoH Change	1H 2020
Revenue	268.92	3.3%	277.67	(1.8%)	272.73
Property operating expenses	(67.02)	8.5%	(72.75)	(4.2%)	(69.72)
Net property income	201.90	1.5%	204.92	(0.9%)	203.01
Net property income margin (%)	75.1%	-1.3 pts	73.8%	0.6 pts	74.4%
G&A expenses	(33.68)	(0.0%)	(33.67)	2.2%	(34.40)
Cash interest expense	(75.09)	2.3%	(76.84)	(28.9%)	(54.60)
Total distributable income	113.32	5.0%	118.97	5.2%	125.19
DPU (HK cents)	10.0	(11.0%)	8.9	6.7%	9.5

Financial Positions (in RMB' million)		1H 2019	HoH Change	2H 2019	HoH Change	1H 2020
Portfolio valuation	CCP Property	9,159.00	0.2%	9,174.00	(3.4%)	8,862.00
	UK Portfolio	665.78	5.0%	699.27	(8.7%)	638.72
	Total	9,824.78	0.5%	9,873.27	(3.8%)	9,500.72
Total borrowings		3,646.28	1.6%	3,704.84	(13.1%)	3,218.11
Net asset value		6,461.50	(0.2%)	6,447.78	1.7%	6,555.59
Gearing ratio (%)		35.1%	0.4 pts	35.5%	-3.4 pts	32.1%

FINANCIAL PERFORMANCE

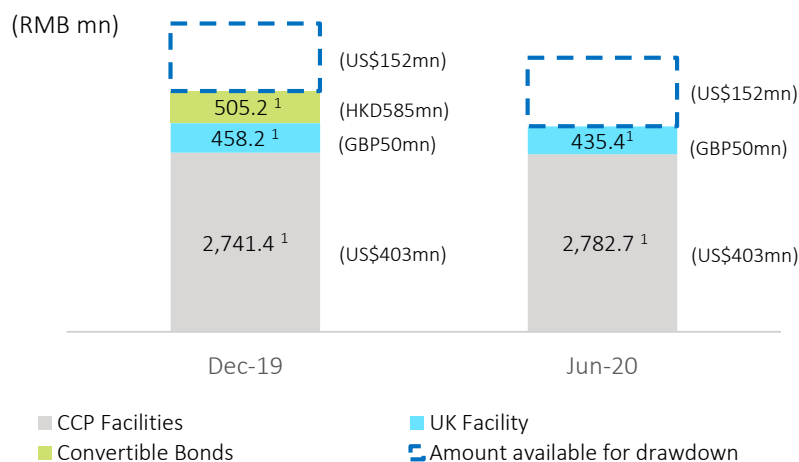
- **Spring REIT:** Overall stable operation despite weaker market condition in Beijing amid COVID-19. Total revenue was down 1.8% HoH. Overall net property income margin improved slightly to 74.4%.
- **CCP Property:** Rental income decreased by 0.5% HoH, as affected by the downturn in the general market. CCP Property's operating expenses were well-controlled, falling by 4.1% HoH. Leasing commissions and property management fees were lower, reflecting the subdued market environment.
- **UK Portfolio:** Revenue is based on long-term lease and remained stable during 1H2020. UK Portfolio contributed around 7% and 10% of Spring REIT's total revenue and NPI respectively, by delivering a 98.4% pass through of revenue.



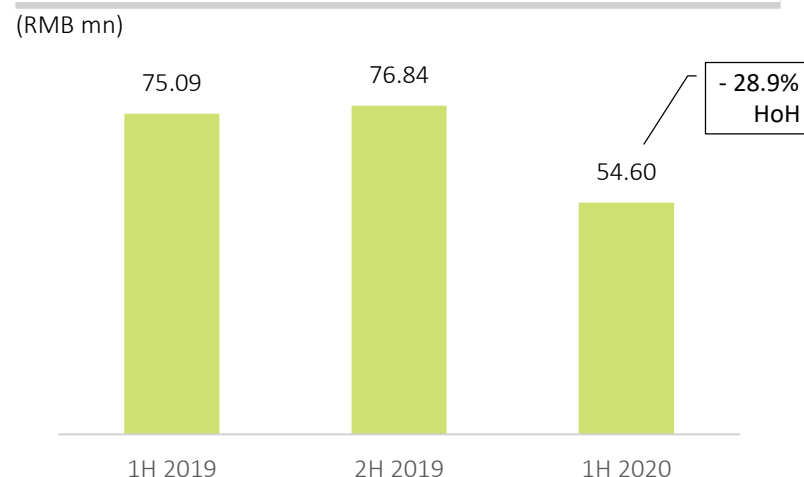
DEBT PROFILE

- Previous US\$ bank loan facilities were refinanced in late 2019, through a combination of syndicated loan (US\$555 mn) and convertible bond ("CB") (HK\$-denominated, equivalent to approx. US\$75 mn).
- Subsequently, in Feb 2020, the CB was fully converted, and the conversion units were issued at an unit price of HK\$3.642 (CB holder owning 11.1% of Spring REIT immediately after CB conversion). As a result, gearing ratio reduced to 32.1% as of end-Jun 2020.
- In 1H 2020, Spring REIT entered into interest rate swap contracts to lock-in low US\$ interest rate, with an average swap rate of 0.52% and an expiry the same as the underlying US\$ loan. With these IRS contracts, 74% of US\$ loan carries a fixed interest rate of 2.07% and the remaining at 3- month US\$ LIBOR plus a margin of 1.55%.

Loan Notional



Cash Interest Expenses



Note 1: The figures represent the carrying amounts of the loans in RMB.

Spring REIT's debt facilities:

- US\$555 mn (5-year term, till Dec 2024, at LIBOR + 1.55%) :
 - (i) Drawdown amount of US\$403 mn
 - (ii) Undrawn amount of US\$152 mn
- GBP50 mn (4-year term, till Jan 2022, at LIBOR + 2.2%)
- Gearing ratio at 32.1% (Dec 2019 : 35.5%)

Interest rate exposure and counter-measures:

- Cash interest expense decreased by 28.9% HoH partly due to a lower total borrowings resulting from the conversion of the convertible bonds in February 2020, and partly due to a lower interest rate environment
- Float-to-fixed IRS entered during 1H 2020, covering USD300 mn of USD loan (approx. 74%) with an average swap rate of 0.52%, maturing in December 2024.

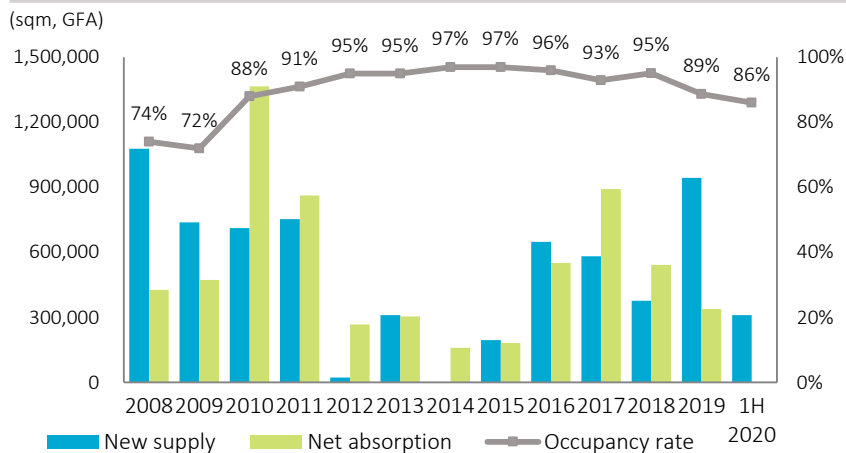
- 1 OVERVIEW OF 1H 2020
- 2 1H 2020 RESULTS SUMMARY
- 3 CCP PROPERTY OPERATION REVIEW**
- 4 UK PORTFOLIO OPERATION REVIEW
- 5 OUTLOOK & STRATEGIC PRIORITIES



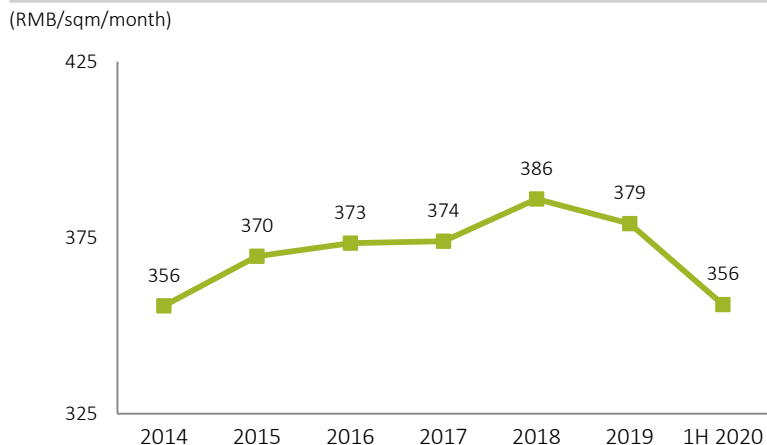
LEASING MARKET CONDITION

Beijing Overall

Beijing Overall – Supply, Absorption, Occupancy

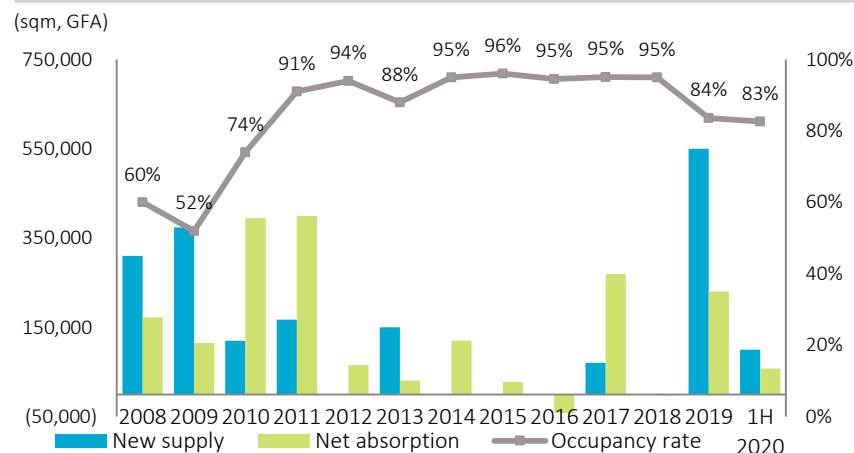


Beijing Overall – Effective Rental Rate

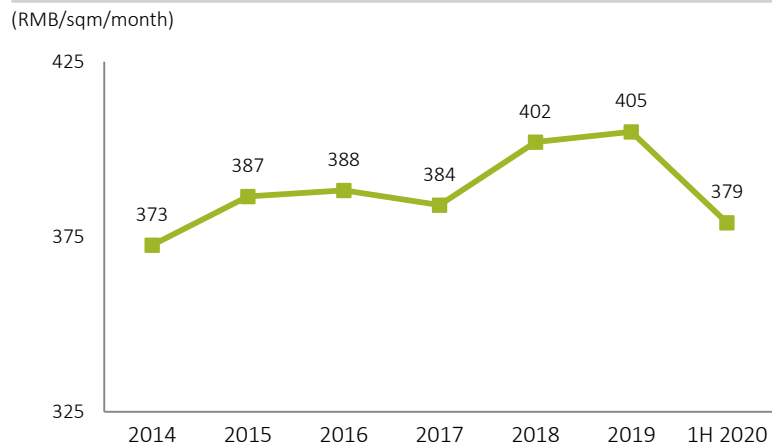


Beijing CBD

Beijing CBD – Supply, Absorption, Occupancy



Beijing CBD – Effective Rental Rate

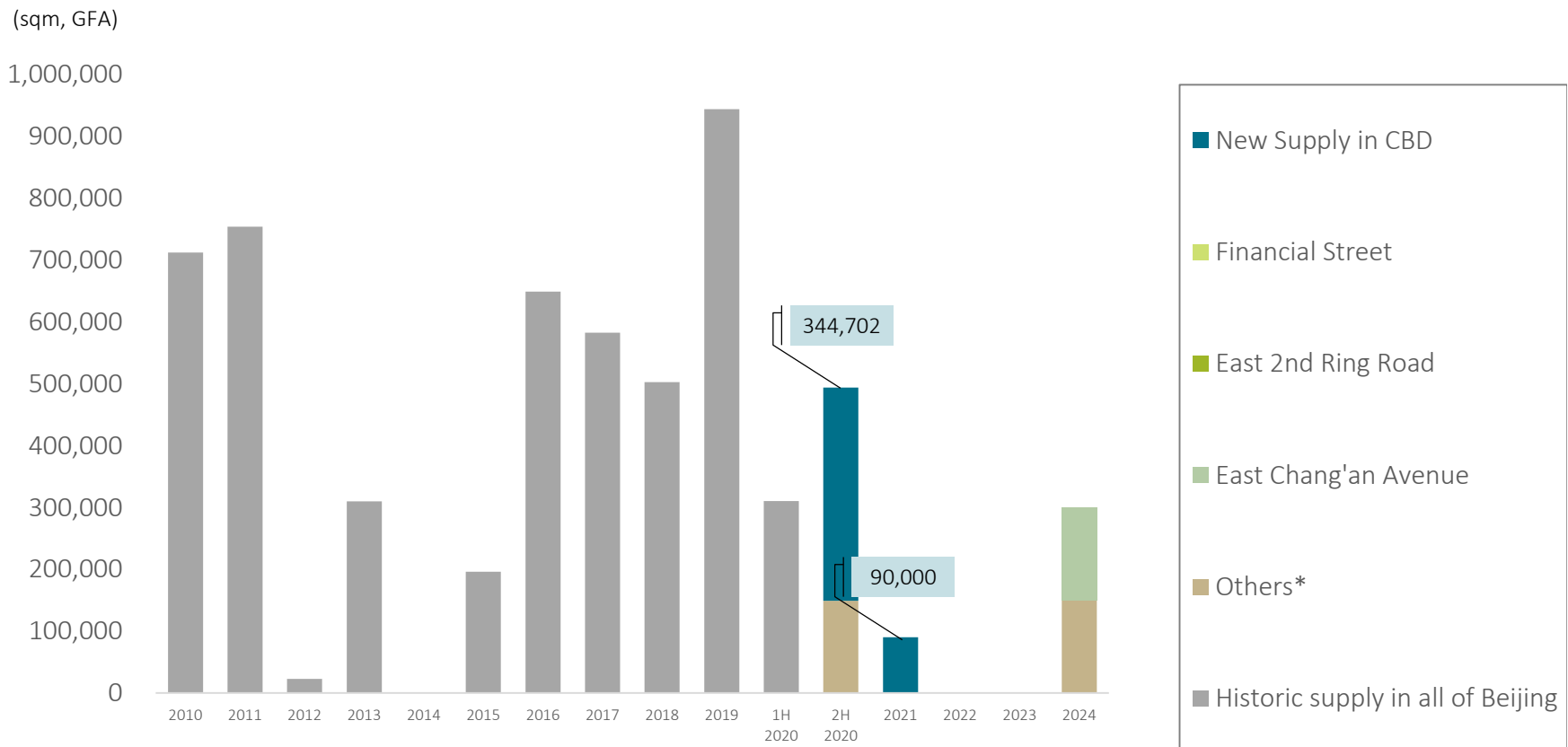


FUTURE GRADE-A OFFICE SUPPLY

Of the 633,102 sqm GFA of new supply in 2H 2020 and 2021:-

- 69% of the GFA will be located in the CBD area
- Of which, 48% of the GFA is held of self-use or pre-committed

Grade-A office supply by year



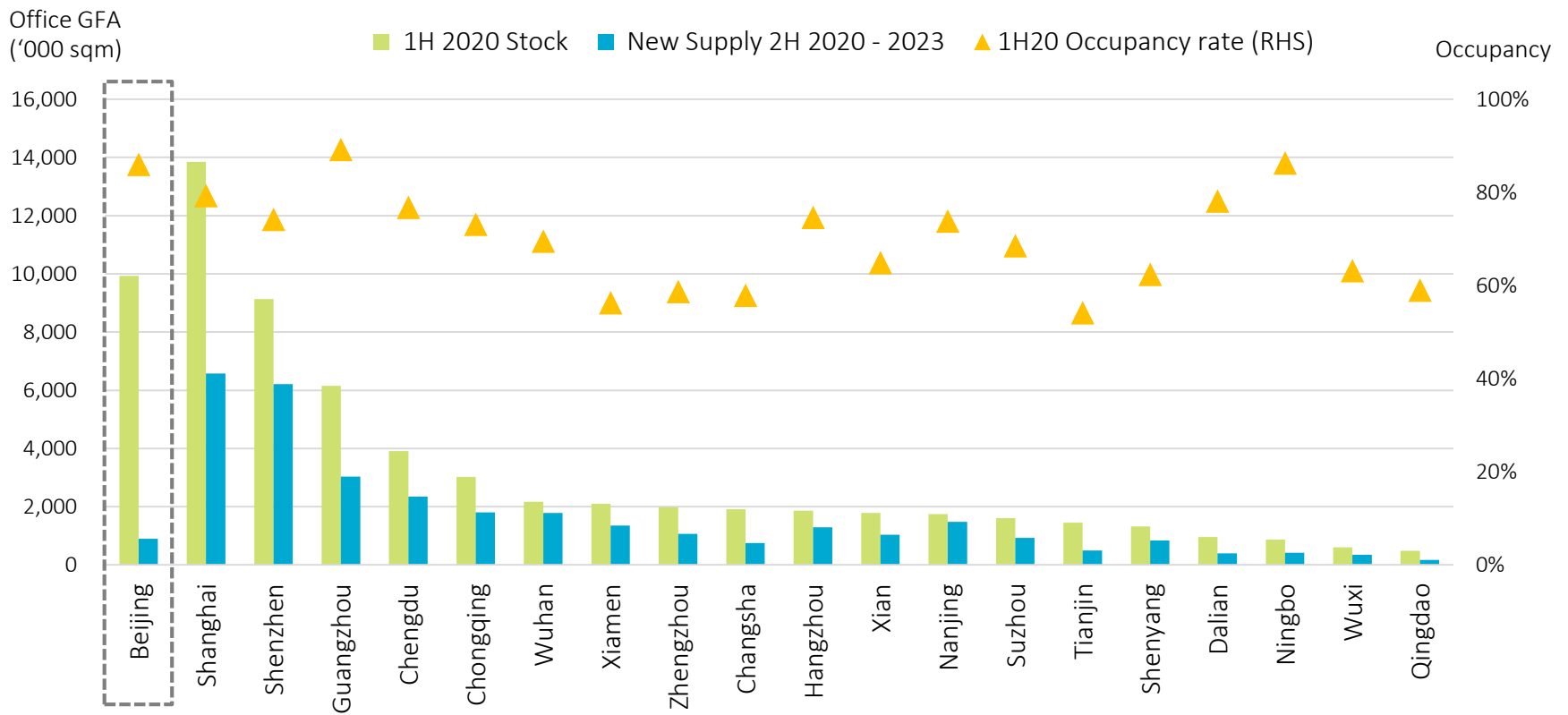
Note:

Others included Wangjing, Lize and Olympic Park

All of the above data are based on JLL Research in June 2020.

COMPARISON OF GRADE-A OFFICE MARKETS ACROSS CHINA

- Beijing and Guangzhou have highest office occupancy of above 86%.
- Low new supply in the next 3.5 years, only 2.6% p.a. of existing stock (vs avg. 16.2% p.a. of other selected cities)



Source: Jones Lang LaSalle Research, June 2020

*Note: Shanghai future supply is as of 4Q19

CCP PROPERTY OPERATIONS SUMMARY

- Rental income at CCP Property declined by 0.5% HoH, amid a downturn in the general market.
- Property operating expenses decreased by 4.1% HoH, due to lower leasing commission and property management fee.
- Cost structure remained stable, with NPI margin at 72.6% (2H 2019: 71.6%)

Operating Results (in RMB' million)	1H 2019	HoH Change	2H 2019	HoH Change	1H 2020
Revenues					
- Rental income	239.27	2.3%	244.83	(0.5%)	243.53
- Car park and signage income	4.07	0.7%	4.10	24.1%	5.09
- Other income (note i)	7.26	(17.4%)	6.00	(26.3%)	4.42
	250.60	1.7%	254.93	(0.7%)	253.04
Property Operating Expenses					
- Property management fee	(5.43)	2.2%	(5.55)	(3.8%)	(5.34)
- Property tax (note ii)	(28.82)	3.3%	(29.76)	2.6%	(30.54)
- Withholding tax (note iii)	(24.86)	2.5%	(25.47)	(0.1%)	(25.44)
- Other taxes (note iv)	(3.21)	(8.1%)	(2.95)	(2.7%)	(2.87)
- Leasing Commission	(0.49)	912.2%	(4.96)	(82.9%)	(0.85)
- Others	(3.94)	(7.1%)	(3.66)	19.4%	(4.37)
Total property expenses	(66.75)	8.4%	(72.35)	(4.1%)	(69.41)
Net Property Income	183.85	(0.7%)	182.58	0.6%	183.63

(i) Other income mainly represents compensation paid by tenants for early termination of lease

(ii) Property taxes represent real estate tax and land use tax in the PRC. Real estate tax applicable to the Group's Beijing properties is calculated: (a) for leased area, at 12% of rental income; and (b) for vacant area, at 1.2% of the residual value of the relevant area.

(iii) Withholding tax is calculated based on 10% of the revenues received from rental operation in the PRC.

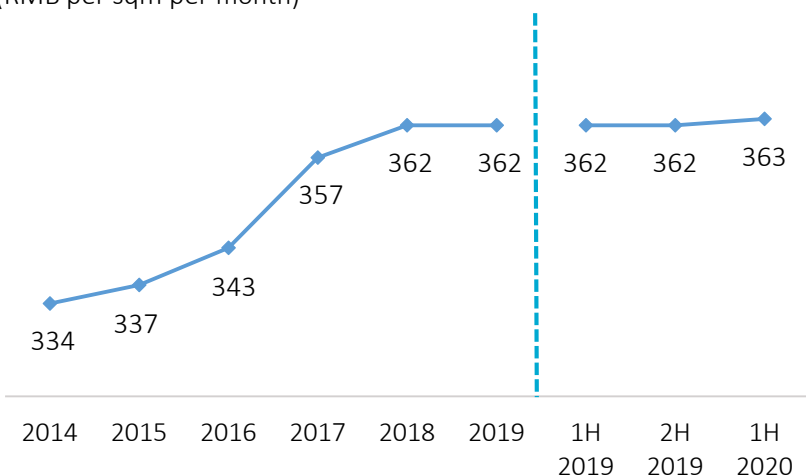
(iv) Other taxes represent urban construction and maintenance tax, education surcharge and stamp duty in the PRC.

LEASING PERFORMANCE

- Stable passing rent and occupancy rates amid outbreak of COVID-19 and CBD area new office supply

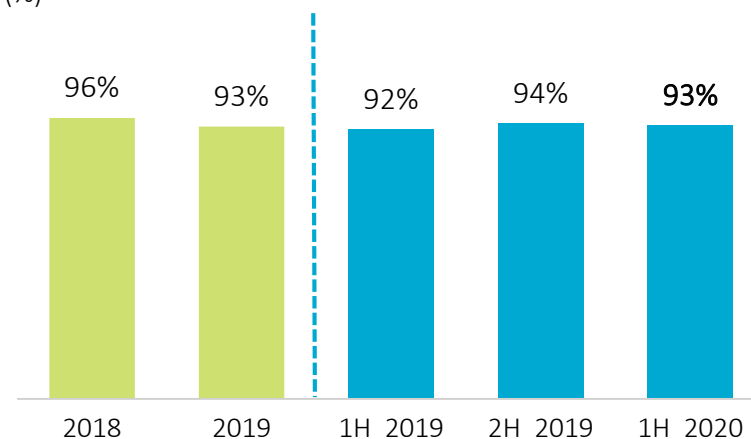
Average Passing Rents

(RMB per sqm per month)



Average Occupancy Rates

(%)



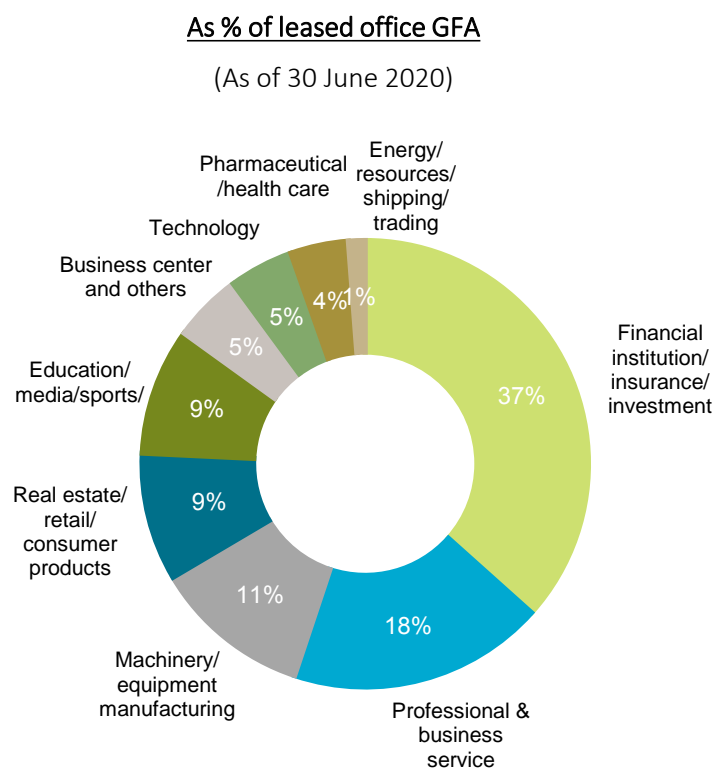
- Net passing rent remains relatively flat
- Positive rental reversion of 2.1% for 1H 2019 (FY19: 2.1%)
- Retention rate at 77% (FY19: 66%)

- Average occupancy consistently above 90% since 2010
- Average occupancy rate receded marginally to 93% for 1H 2020.

TENANT BASE

Diverse and high-quality tenant mix

Tenants by Industry



Top 5 Tenants

Tenants	% of total leased GFA	
Epson	6.0%	23.2%
Zhong De Securities	4.3%	
Deutsche Bank	4.3%	
Xinyuan	4.3%	
Condé Nast	4.3%	

Note: as of 30 June 2020

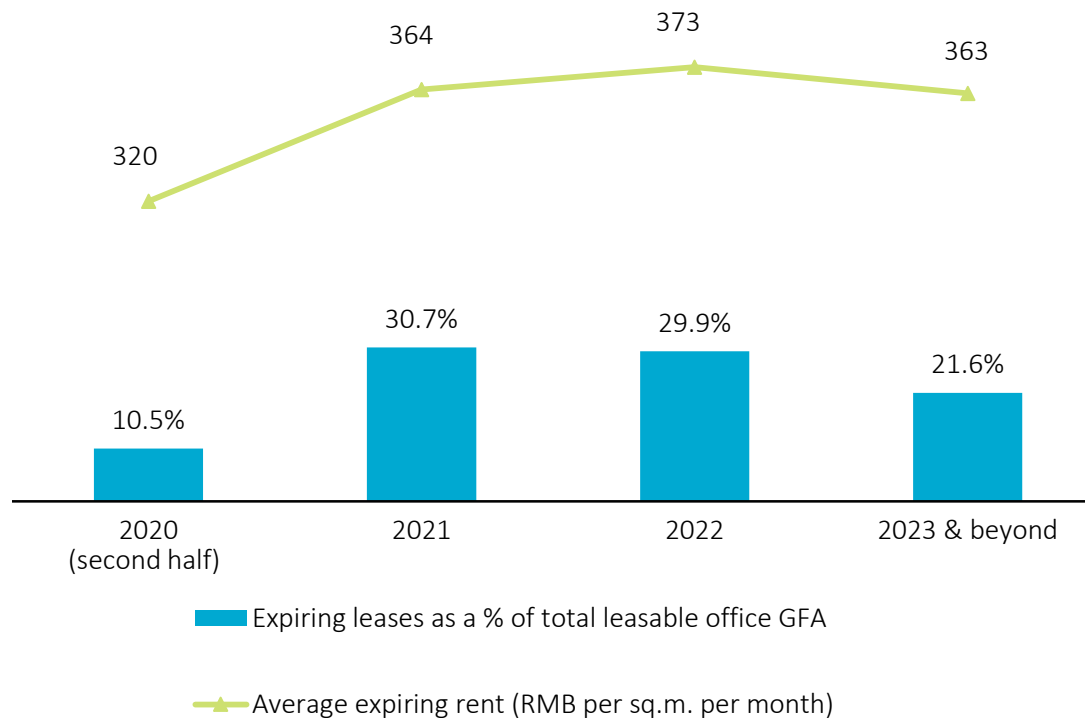
Other industry-leading tenants

- Global Law Office
- White & Case
- Baxter
- Chanel
- AECOM
- Bain & Company
- Marriott
- AIG

Note: as of 30 June 2020

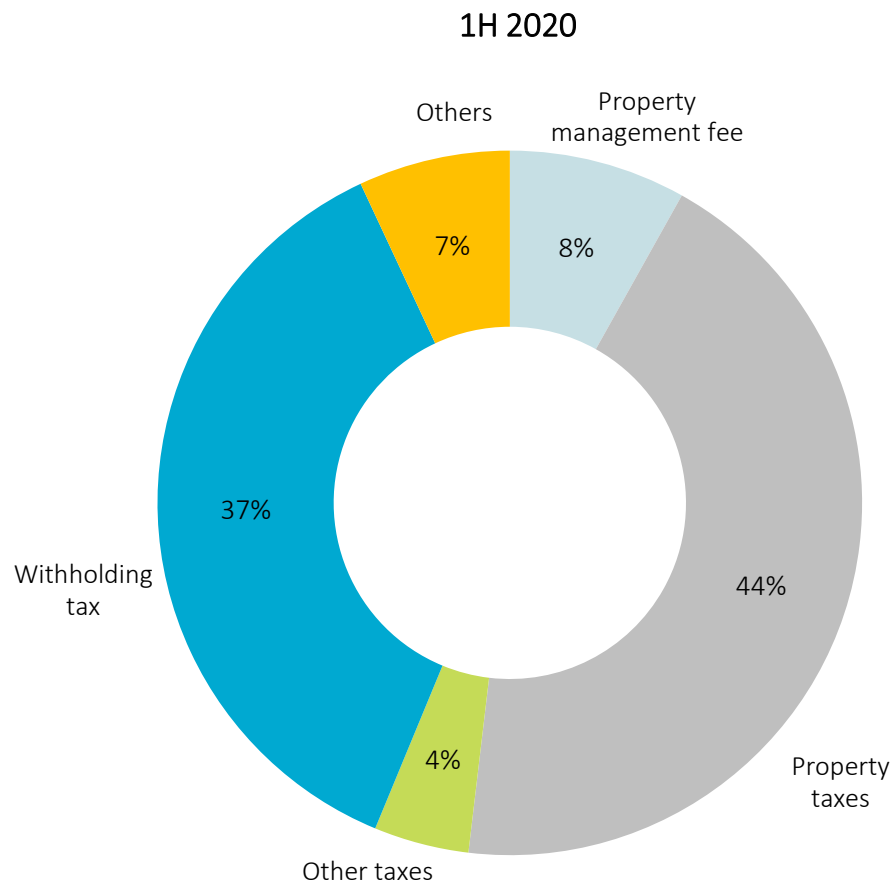
EXPIRING LEASE PROFILE

- Average lease expiry of existing leases (in GFA terms) as of 30 June 2020 was 631 days.
- Lease expiries in 2H 2020 – about 10.5% of the total leasable office GFA, with an average expiring rental rate of RMB320/sqm.



COST STRUCTURE OF CCP PROPERTY

Most property expenses are revenue-linked or fixed



■ Property taxes

- Includes real estate tax and land use tax
- Starting from 2H 2016, real estate tax calculated based on 12% of revenue for leased area, and 1.2% of the residual value of vacant area
- Land use tax based on the site area of the development

■ Withholding tax

- 10% of revenues received from rental operations

■ Other taxes

- Urban construction and maintenance tax and education surcharge
- Stamp duty of 0.1% on total rental income payable over the term of each lease

■ Property management fee

- 2% of the total revenue



- 1 OVERVIEW OF 1H 2020
- 2 1H 2020 RESULTS SUMMARY
- 3 CCP PROPERTY OPERATION REVIEW
- 4 UK PORTFOLIO OPERATION REVIEW**
- 5 OUTLOOK & STRATEGIC PRIORITIES



Location of the properties



KEY:

- LARGE RENT
- MEDIUM RENT
- SMALL RENT

TRADING NAME	TOWN	ADDRESS	POSTCODE
Kwik Fit	Chelmsford	103 New London Road	CM2 0PP
Kwik Fit	South Croydon	453 Brighton Road	CR2 6EW
Kwik Fit	Tottenham	32 Monument Way	N17 9NX
Kwik Fit	Bridlington	32-36 St Johns Street	YO16 7JS
Kwik Fit	Chapel Allerton	Leeds, 232 Harrogate Road	LS7 4QD
Kwik Fit	Edinburgh	107/109 Dundee Street	EH11 1AW
Kwik Fit	Croydon	3 Mitcham Road	CR0 3RU
Kwik Fit	Wigan	Wallgate	WN5 0XG
Kwik Fit	Edinburgh	19 Corstorphine Road	EH12 6DD
Kwik Fit	Llandudno	Conway Road	LL30 1DE
Kwik Fit	Altrincham	1-3 Church Street	WA14 4DB
Kwik Fit	Middlesbrough	3 Lansdowne Road	TS4 2LW
Kwik Fit	Plymouth	125-129 Alexandra Road	PL4 7EG
Kwik Fit	Loughborough	24-29 The Rushes	LE11 5BG
Kwik Fit	Truro	Treaswalls Road	TR1 3PY
Central Tyres	Gloucester	Unit 3 Northbrook Road	GL4 3DP
Kwik Fit	Portsmouth	94 East Surrey Street	PO1 1JY
Kwik Fit	Bridgewater	48-54 St John's Street	TA6 5HY
Kwik Fit	Worcester	1 Carden Street, City Walls	WR1 2AX
Kwik Fit	Yoker	2369-2375 Dumbarton Road	G14 0NT
Tyre City	Northwich	Leicester Street	CW9 5LQ
Kwik Fit	Blyth	Cowpen Road	NE24 5TT
Kwik Fit	Stirling	11 Burghmuir Road	FK8 2DY
Kwik Fit	Sunderland	Monk Street	SR6 0BD
Kwik Fit	Motherwell	99a Airbles Road	ML1 2TJ
Kwik Fit	Kilmarnock	32/36 Low Glencairn Street	KA1 4DD
Kwik Fit	Skegness	50 Roman Bank	PE25 2SP
Kwik Fit	Hornchurch	Ardleigh Green Road	RM11 2ST
Kwik Fit	Glasgow	381 Pollokshaws Road	G41 1QZ
Kwik Fit	Sheffield	Townhead Street	S1 1YG
Kwik Fit	Glenrothes	Fullerton Road	KY7 5QR
Kwik Fit	Alloa	Clackmannan Road	FK10 1RR
Kwik Fit	Great Yarmouth	90 North Quay	NR30 1JT
Kwik Fit	Edinburgh	81/91 Dundee Street	EH11 1AW
Kwik Fit	Carmarthen	Pensarn Road	SA31 2BS
Kwik Fit	Preston	Market Street	PR1 2HP
Kwik Fit	Kirkcaldy	182 The Esplanade	KY1 2AQ
Kwik Fit	Rutherglen	273 Main Street	G73 1EE
Kwik Fit	Ayr	22/26 Maybole Road	KA7 2PZ
Kwik Fit	Liverpool	232 Aigburth Road	L17 0BJ
Kwik Fit	Stonehaven	110 Barclay Street	AB39 2AP
Non-Op	Edinburgh	40a Portobello Road	EH8 7EH

TRADING NAME	TOWN	ADDRESS	POSTCODE
Kwik Fit	Otley	Bondgate	LS21 3AB
Kwik Fit	Thornaby-On-Tees	212 Thornaby Road	TS17 8AA
Kwik Fit	Edinburgh	69b Saughton Road North	EH12 7JB
Kwik Fit	Shipley	58 Briggate	BD17 7BT
Kwik Fit	Oldham	Huddersfield Road	OL1 3HR
Kwik Fit	Ellesmere Port	116 Whitby Road	CH65 0AA
Kwik Fit	Pontypridd	Sardis Road	CF37 1BA
Kwik Fit	Hyde	26-28 Manchester Road	SK14 2BD
Kwik Fit	Lincoln	148-150 Newark Road	LN5 8QJ
Kwik Fit	Coatbridge	320 Main Street	ML5 3RX
Kwik Fit	Goole	Boothferry Road	DN14 6AG
Kwik Fit	Huddersfield	Lockwood Road	HD1 3QU
Kwik Fit	Congleton	46a West Road	CW12 4EU
Kwik Fit	Barrhead	17 Cross Arthurlie Street	G78 1QY
Budget	Ayr	38 Fort Street	KA7 1DE
Central Tyres	Stirling	1 Whitehouse Road	FK7 7SS
Kwik Fit	Keynsham	Ashton Way	BS31 2UF
Kwik Fit	Sheffield	726 City Road	S2 1GJ
Kwik Fit	Leven	The Promenade	KY8 4PJ
Kwik Fit	Oban	Market Street	PA34 4HR
Kwik Fit	Nelson	130 Leeds Road	BB9 9XB
Kwik Fit	Burnley	Caldervale Road	BB11 1BS
Kwik Fit	Helensburgh	3 Charlotte Street	G84 7PH
Winterstoke	Weston-Super-Mare	Winterstoke Road	BS23 3YE
Kwik Fit	Warrington	Priestley Street/Garibaldi Street	WA5 1TE
Kwik Fit	Eltham	727 Sidcup Road	SE9 3AQ
Kwik Fit	Clevedon	119-120 Kenn Road	BS21 6JE
Kwik Fit	Keighley	Worthway	BD21 5ET
Kwik Fit	Thornbury	14 Mead Court	BS35 3UW
Kwik Fit	Southport	8 Ash Street	PR8 6JH
Kwik Fit	Forfar	Queenswell Road	DD8 3JA
Kwik Fit	Castleford	Leeds, 92 Bridge Street	WF10 4LA
Kwik Fit	Raddcliffe	Bury Road	M26 2UG
Kwik Fit	Oldham	Middleton Road/Lansdowne Road	OL9 9EG
Kwik Fit	Birmingham	900/902 Coventry Road	B10 0UA
Kwik Fit	Montrose	24 George Street	DD10 8EW
Kwik Fit	Islington	379 Camden Road	N7 0SH
Kwik Fit	Kidderminster	20 Churchfields	DY10 2JL
Kwik Fit	Doncaster	Wheatley Hall Road	DN2 4LP
Tyre City	Lichfield	8-9 Europa Way	WS14 9TZ
Budget	Dumfries	40 Lauricknowe Road	DG2 7DA
Kwik Fit	Bishop Auckland	Cockton Hill Road	DL14 6JN

UK PORTFOLIO OPERATION SUMMARY

Long-term, quality cash flow backed by guarantee, with upward-only revisions

Portfolio Highlights

1. **The portfolio:** 84 separate commercial properties in the UK, with a total gross internal area of approx. 505,381 sq.ft.
2. **Purchase price:** £73,500,000, funded by debt (acquisition completed in July 2017)
3. **Initial gross rental yield:** 6.1% (unleveraged)
4. **Rental revisions:** Upward-only rental adjustment every five year
5. **Lease terms:** All but one leases expire in 2032; no break clause; the tenant has an option to extend for an additional 15 years
6. **Annual contract rental income:** approximately GBP 4.55 million
7. **NPI margin:** 98.4% pass through of its revenue
8. **Single tenant:** Kwik-Fit (GB) Limited



- 1 OVERVIEW OF 1H 2020
- 2 1H 2020 RESULTS SUMMARY
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- 4 UK PORTFOLIO OPERATION REVIEW
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- In Beijing, new supply, the majority of which is concentrated in the CBD, combined with subdued demand resulting from macro factors like the trade tensions between China and the US and the outbreak of COVID-19, have adversely affected both occupancy rates and average rental rates across all submarkets. However, over the longer term, there are reasons to be optimistic on the long-term fundamentals of Beijing office market as new office supply will subside beyond year 2021, in light of limited land bank and stringent land use restrictions.
- Due to its strategic location and premium quality, the CCP Property has remained resilient, outperforming the market by registering a respectable rental reversion of 2.1% while maintaining an average occupancy of 93.4%. However, tenants have become more cost-conscious in their leasing strategies and we do not expect any quick improvement in the second half. With a view to strike an optimal long-term balance between occupancy and rental rate, we will remain flexible in our leasing policies to retain loyal tenants while trying to pursue high-quality new tenants. We will also be vigilant in monitoring and controlling rental arrears to ensure cash flow remain healthy.
- On the capital management front, Spring REIT entered into interest rate swap contracts with a view to stabilising and containing its long-term cost of funds while interest rates remain low. We will continue to monitor the capital market closely, and do not rule out entering into additional interest rate swap contracts as and when opportunities arise.
- The Manager will remain active in pursuing potential acquisition opportunities but at the same time diligent in its evaluation of such opportunities. Our priority will continue to be property that delivers a solid and stable cash flow, and China will remain the focus of Spring REIT's core investment activities.
- In conclusion, the first half of 2020 has been challenging for Spring REIT and other property owners. However, we firmly believe in the value of owning premium properties, and that we will be able to continue delivering sustainable returns for our Unitholders through proactive leasing strategies complemented by prudent capital management strategies.