

STATEMENT BY CHAIRMAN & CEO

PARAGON



From left:
DR. LEONG HORN KEE
MS. SUSAN LENG MEE YIN

“

SUPPORTED BY RESILIENT DOMESTIC DEMAND AND LABOUR MARKET CONDITIONS, COUPLED WITH THE POTENTIAL UPSIDE OF INTERNATIONAL ARRIVALS, WE ARE OPTIMISTIC THAT PARAGON REIT WILL CONTINUE TO PERFORM.

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Dear Unitholders,

On behalf of the Board of Directors of PARAGON REIT Management Pte. Ltd., and the Manager of PARAGON REIT (the “**Manager**”), we are pleased to present PARAGON REIT’s Annual Report for the period 1 January 2023 to 31 December 2023 (“**FY2023**”).

In 2023, we continued to witness the progressive return of economic activities towards pre-pandemic levels. The retail sector saw a steady recovery in our key markets in Singapore and Australia, driven mainly by domestic demand as well as the gradual return of international travel. However, we also faced challenges arising from heightened geopolitical tensions, rising interest rates and persistent inflation.

Notwithstanding the uncertainties brought about by the volatile macroeconomic environment, PARAGON REIT continued to focus on opportunities for growth through proactive asset and capital management strategies so as to deliver a resilient and stable performance.

In addition, PARAGON REIT maintained a robust balance sheet characterised by strong liquidity, modest gearing, and a prudent quantum of fixed-rate debt to mitigate the impact of rising borrowing costs.

PARAGON REIT posted a net property income (“NPI”) of S\$215.1 million for FY2023, representing a 1.7% increase from the earlier 12-month period ended 31 December 2022 (“FY2022”). Tenant sales for our Singapore portfolio recorded a marginal 1.5% decline, while our Australia portfolio recorded a 6.8% increase compared to FY2022.

PARAGON REIT remains committed to paying regular and stable distributions to our unitholders. For FY2023, the Board declared a distribution per unit (“DPU”) of 5.02 Singapore cents, a 9.1% decline compared to FY2022. DPU was impacted by the rising interest rate environment although PARAGON REIT registered a 1.8% improvement in gross revenue over FY2022. The DPU declared represents a yield of 5.67% based on the closing price of S\$0.885 on 29 December 2023.

A PORTFOLIO OF QUALITY ASSETS

The valuation of PARAGON REIT’s Singapore portfolio as at 31 December 2023 increased to S\$3.4 billion, an uplift of S\$62.3 million or 1.9% compared against 31 December 2022. Capitalisation rates of the Singapore assets remained unchanged.

In Australia, retail assets were transacted at higher capitalisation rates. PARAGON REIT’s Australia portfolio saw fair valuation declines which were non-cash in nature and arose due to capitalisation rate expansions. Consequently, while operating results improved over the year, valuation declined by 5.6% to A\$799.5 million compared to 31 December 2022.

PARAGON REIT’s assets are strategically located within their respective catchments. The recovery of tenants’ performance to pre-pandemic levels is evidence of the continued relevance and resilience of the assets.

SINGAPORE

The experiential aspect of shopping in physical stores continues to be a differentiating factor in drawing footfall despite the consumer shift during the pandemic towards the adoption of omnichannel shopping experiences for daily necessities.

Domestic retail consumption in Singapore was supported by high employment rates, as government initiatives aimed at upskilling and reskilling the labour force helped workers remain relevant, meeting fast-evolving industries’ employment demands.

On the international front, the progressive resumption of international travel led to an increase in total arrivals in Singapore reaching 13.6 million in 2023, representing a 115.7% increase over 2022. According to the Singapore Tourism Board, Singapore is expected to see 15 to 16 million international arrivals in 2024, driven by the improved global flight connectivity and capacity.

Paragon being a premier upscale mall strategically located in the prime Orchard Road precinct, benefitted from the resumption of tourist arrivals. Paragon strengthened its shoppers’ experience with the introduction of an 8,000 sq ft luxury shoe store concept with integrated lifestyle elements such as a café, a champagne bar

NET PROPERTY INCOME

S\$215.1 MILLION

FY2023

QUALITY PORTFOLIO

98.1%

COMMITTED OCCUPANCY



and a bespoke chocolate boutique. As a further reflection of the positive trajectory of luxury retail market demand, luxury tenants at Paragon had continued to invest in their shops to create a holistic luxury shopping ambience. Paragon tenant sales declined 3.0% over FY2022.

The Clementi Mall, located in a well-established residential estate and education hub, maintained a steady operational performance as it continued to be supported by its immediate catchment. The Clementi Mall footfall also benefitted from the workforce returning to offices with its direct linkage to Clementi MRT station and the adjoining bus interchange. The Clementi Mall tenant sales rose 1.1% over FY2022.

The Rail Mall, a strip mall with 43 shop units, introduced another three F&B tenants to further strengthen its dominance as a F&B destination in its affluent neighbourhood. Its adjacency to the iconic Rail Corridor nature trail also serves as a dining option for hikers and cyclists. The Rail Mall tenant sales increased 10.8% over FY2022.

AUSTRALIA

Australia's retail sector fundamentals remained moderately strong in 2023, supported by resilient consumer demand as unemployment remained relatively low and wages continued to rise. However, the intensifying impact of policy tightening to manage rising inflation and heightened cost-of-living pressures gradually flowed to household budgets and resulted in overall retail turnover broadly flatlining over the year.

Despite the challenging operating environment, PARAGON REIT's Australia assets' strategic locations and value propositions supported the improved performance from FY2022.

Westfield Marion, the largest shopping mall in South Australia located a 20-minute drive south-west of Adelaide's CBD, continues to play an integral role to the region linking business to the community. Westfield Marion tenant sales increased 6.7% over FY2022.

Figtree Grove, an established sub-regional shopping centre located a 1.5-hour drive south-west of Sydney CBD, New South Wales, serves its immediate residential catchment alongside a hospital community



with more than 900 beds. This catchment supports longer trading hours for Figtree Grove's anchor tenant, a 78,000 sq ft discount department store which operates around the clock. Figtree Grove tenant sales increased 7.2% over FY2022.

FY2023 PORTFOLIO PERFORMANCE

Benefitting from the progressive uptick in international travel contributed by the relaxation of China's border restrictions in early 2023, PARAGON REIT's gross revenue increased 1.8% to S\$288.9 million, while NPI increased 1.7% to S\$215.1 million.

Operationally, rental reversion rate turned positive to 6.3% in FY2023 from -4.1% in 16M FY2022, supported by tenants' positive leasing sentiments. The portfolio also recorded an occupancy rate of 98.1% and a tenant retention ratio of 85.7%, demonstrating tenants' continued confidence in PARAGON REIT's assets.

PARAGON REIT remains a constituent of the FTSE EPRA Nareit Global REITs Index. PARAGON REIT's inclusion in the benchmark index raises its visibility amongst the wider global investment community, providing the potential for growth and diversification of its investor base.

PARAGON REIT continues to adopt a prudent and disciplined approach to capital management. Gearing remains low at 29.6%, while our debt maturity profile with a weighted average term to maturity of 2.1 years is well-staggered, reducing our refinancing risk. To mitigate against the impact of rising interest rates, PARAGON REIT maintained 85% of its debt on fixed rates. As at 31 December 2023, PARAGON REIT's average cost of debt stood at 4.3% with an interest coverage ratio of 3.5 times.



GROWING SUSTAINABLY

Sustainability continues to be a fundamental aspect of our businesses. We remain committed to continually integrate Environmental, Social and Governance (“ESG”) initiatives within our strategy and operations, playing our part as a good corporate citizen and contributing to a more sustainable world. As such, we have implemented initiatives at the various levels and targets which are aligned to the United Nations Sustainable Development Goals.

In July 2023, we successfully secured our first sustainability-linked loan (“SLL”) facility of S\$995 million, a testament to our efforts on ESG. In line with the SLL’s pre-determined sustainability performance targets, we implemented green clauses in FY2023 aimed at helping tenants lower their energy consumption, and as a result, reduce their carbon footprint as well.

In partnership with Singapore Polytechnic and Singapore Environmental Council, we provided tenants with access to sustainability training during the year. The training served to help tenants understand the environmental and social impacts of their businesses.

As part of ongoing efforts to reduce our reliance on fossil fuels, we utilise renewable energy sources including solar panel installments at Westfield Marion, as well as electric vehicle charging points at Figtree Grove. In support of the Singapore Green Plan 2030 and national agenda on sustainable development, we are looking to implement solar panels at Paragon and install new electric vehicle charging points at Paragon and The Clementi Mall in 2024.

PARAGON REIT aims to enhance transparency, accountability and trust with our various stakeholders in-line with the evolving practices, disclosures and standards. Detailed information on our latest sustainability initiatives can be found in our sixth Sustainability Report.

LOOKING AHEAD

Supported by resilient domestic demand and labour market conditions, coupled with the potential upside of international arrivals, we are optimistic that PARAGON REIT will continue to perform. However, we remain mindful of the prevailing macroeconomic backdrop with recessionary pressures, as well as the high interest rate environment impacting the sector, foreshadowing a challenging operating environment.

Anchored by a portfolio of quality assets, we will work closely with our tenants to focus on maintaining high occupancy and sustainable rental income, while managing our operating costs. Amidst the high interest rate environment, we will continue to manage our capital structure prudently and maintain a healthy balance sheet with strong liquidity to mitigate the impact. This will provide the platform for us to pursue suitable growth opportunities as they arise.

Overall, PARAGON REIT remains committed to providing unitholders with regular and stable distributions, as well as sustainable long-term growth in DPU and net asset value.

ACKNOWLEDGEMENTS

2023 marked PARAGON REIT’s 10th year of listing on the Singapore Exchange. We would like to thank our past and present directors for their guidance, especially over challenging and uncertain times such as during the Covid-19 pandemic. We would also like to thank the Manager and Property Managers for their dedicated service and contributions to our success.

Last but not least, we express our sincere gratitude to all our unitholders for your confidence and support in PARAGON REIT. We are convinced that our quality portfolio will continue to deliver sustainable long-term value for all our stakeholders.

DR. LEONG HORN KEE

Chairman, Non-Executive and Non-Independent Director

MS. SUSAN LENG MEE YIN

Chief Executive Officer