



## Performance Report for the First Quarter of 2022

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May 13, 2022

This document was prepared by AREIT Fund Managers, Inc. (“AFMI”) for AREIT, Inc. (“AREIT” or the “Company”) in compliance with the reportorial requirements of the REIT Implementing Rules & Regulations under Republic Act No. 9856.



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## I. FINANCIAL PERFORMANCE

AREIT, Inc. changed its accounting method in valuing investment properties from cost method to fair value method to reflect the market value of its properties and align financial reporting practices with that of global REITs which takes effect retroactively from January 1, 2021.

Driven by the asset for share swap which started contributing to AREIT's income in the fourth quarter of 2021 and contracted rental escalations, AREIT recorded revenues of ₱ 1.18 billion, 66% higher than first quarter of last year. EBITDA grew by 58% to P843m driven by the acquisitions in addition to tight control over operating expenses. Factoring out the fair value adjustment and one time gain on finance lease, net income after tax registered at ₱796 million, 59% higher than first quarter of 2021.

### A. Statement of Comprehensive Income for the Period Ended March 31, 2022 (In Pesos, Millions)

	Total	Breakdown per property											
		Solaris	Ayala North Exchange	MECC	TP Cebu	The 30th	Laguna Tech Land	Vertis	BPI-Philam Makati	BPI-Philam Alaban	Bacolod Capitol	Ayala North point	Evotech
Rental income	874.0	143.9	190.5	27.2	41.8	92.4	19.5	285.2	1.6	1.2	16.8	6.6	47.3
Dues	255.7	58.7	42.8	7.4	10.2	25.7	0.0	75.9	2.2	0.6	5.1	1.5	25.7
Interest income from finance lease receivables	54.8	0.0	36.8	0.0	0.0	7.1	0.0	10.9	0.0	0.0	0.0	0.0	0.0
<b>Revenue</b>	<b>1,184.5</b>	<b>202.6</b>	<b>270.1</b>	<b>34.6</b>	<b>51.9</b>	<b>125.2</b>	<b>19.5</b>	<b>372.1</b>	<b>3.7</b>	<b>1.8</b>	<b>21.9</b>	<b>8.1</b>	<b>73.0</b>
Direct operating expenses	(232.7)	(27.6)	(62.0)	(3.9)	(10.3)	(39.1)	(0.2)	(74.9)	(0.7)	(0.3)	(4.4)	(2.2)	(7.2)
Fund management fees	(46.1)	(9.2)	(11.0)	(1.1)	(2.4)	(4.3)	(0.3)	(13.7)	(0.2)	(0.1)	(0.9)	(0.3)	(2.8)
Property management fees	(46.2)	(7.8)	(11.5)	(1.2)	(2.1)	(4.5)	(0.6)	(14.4)	(0.1)	(0.1)	(0.9)	(0.3)	(2.7)
<b>Cost and expenses</b>	<b>(325.1)</b>	<b>(44.6)</b>	<b>(84.5)</b>	<b>(6.2)</b>	<b>(14.8)</b>	<b>(47.9)</b>	<b>(1.1)</b>	<b>(103.0)</b>	<b>(1.0)</b>	<b>(0.4)</b>	<b>(6.1)</b>	<b>(2.8)</b>	<b>(12.6)</b>
<b>Net operating income</b>	<b>859.5</b>	<b>158.0</b>	<b>185.6</b>	<b>28.4</b>	<b>37.2</b>	<b>77.2</b>	<b>18.4</b>	<b>269.1</b>	<b>2.7</b>	<b>1.4</b>	<b>15.8</b>	<b>5.3</b>	<b>60.4</b>
General and administrative expenses	(16.6)												
<b>Earnings before interest, taxes, depreciation and amortization</b>	<b>842.9</b>												
Depreciation	(0.0)												
Gain under finance lease	0.0												
Interest income	5.5												
Interest expense	(54.4)												
Unrealized gain from fair value adjustment	13.9												
Other income (expenses)	2.4												
<b>Other income (charges) - net</b>	<b>(32.6)</b>												
<b>Income before tax</b>	<b>810.3</b>												
Provision for income tax	(0.0)												
<b>Net Income After Tax (NIAT)</b>	<b>810.3</b>												
Other comprehensive income	0.0												
<b>Total comprehensive income</b>	<b>810.3</b>												
<b>Distributable income</b>	<b>810.3</b>												

**B. Income from Related Parties for the Period Ended March 31, 2022** *(In Pesos, Millions)*

Related Parties	Total		Solaris	Ayala North Exchange	The30th	Laguna Technopark Land	Vertis	BPI-Philam Alabang	Evotech
	%	Amount							
<b>Rental income</b>									
Alveo Land Corporation	0.14%	1.3	1.3	-	-	-	-	-	-
Amaia Land Corp.	0.13%	1.2	-	-	-	-	-	1.2	-
Avida Land Corp.	0.03%	0.3	-	-	-	-	-	-	0.3
Bank of the Philippine Islands	0.03%	36.2	0.6	29.1	-	-	6.4	-	0.2
BPI Capital Corporation	3.90%	3.3	-	3.3	-	-	-	-	-
BPI Securities Corporation	0.35%	2.0	-	2.0	-	-	-	-	-
First Gateway Real Estate Corporation	0.22%	2.8	-	2.8	-	-	-	-	-
Integrated Microelectronics, Inc.	0.30%	19.5	-	-	-	19.5	-	-	-
North Eastern Commercial Corporation	2.10%	3.3	-	-	2.0	-	1.4	-	-
	0.00%								
<b>Interest income from finance lease receivables</b>									
Makati North Hotel Ventures, Inc.	3.96%	36.8	-	36.8	-	-	-	-	-
North Eastern Commercial Corporation	2.30%	18.0	-	-	7.1	-	10.9	-	-
<b>Total rental income and interest income from finance lease receivables</b>	<b>13.42%</b>	<b>124.7</b>	<b>1.9</b>	<b>73.9</b>	<b>9.1</b>	<b>19.5</b>	<b>18.6</b>	<b>1.2</b>	<b>0.5</b>

**C. Statement of Cash Flows for the Period Ended March 31, 2022** *(In Pesos, Millions)*

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Income before income tax	<b>810.27</b>
Adjustments for:	
Net fair value change in investment properties	(13.88)
Depreciation and amortization	0.02
Interest expense	54.42
Interest income from finance lease receivables	(54.82)
Interest income	(5.49)
<b>Operating income before working capital changes</b>	<b>790.53</b>
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Receivables	74.81
Other assets	(378.94)
Increase (decrease) in:	
Accounts and other payables	254.61
Deposits and other liabilities	43.41
Construction bonds	2.33
<b>Cash generated from (used in) operations</b>	<b>786.73</b>
Interest received	60.31
Interest paid	(26.66)
Income tax paid	(0.01)
<b>Net cash flows provided by (used in) operating activities</b>	<b>820.37</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Decrease (increase) in due from related parties	(5.00)
Payments for additions to investment properties	(4.16)
<b>Net cash flows provided by (used in) investing activities</b>	<b>(9.16)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Payments of dividends	(709.19)
Availment (repayment) of loans	(150.00)
<b>Net cash flows provided by (used in) financing activities</b>	<b>(859.19)</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(47.98)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>92.01</b>
<b>CASH AT END OF YEAR</b>	<b>44.03</b>

**D. Adjusted Funds from Operations for the Period Ended March 31, 2022** *(In Pesos, Millions)*

	Total
Net income after tax	810.26
Add back: Depreciation	0.02
Deduct: PAS adjustment	7.38
CAPEX	(15.61)
Gain on change in fair value of investment properties	(13.88)
<b>Adjusted Funds from Operations</b>	<b>788.16</b>

## E. Operating Statistics as of March 31, 2022

Overall						
Property	Location	Total gross leasable area (GLA) in sq. m	Occupied GLA, in sq. m	Occupancy rate	Revenue Contribution in Q1 2022	Cost contribution in Q1 2022
Solaris	Makati	46,768	45,740	98%	17%	14%
Ayala North Exchange	Makati	95,300	94,003	99%	23%	26%
MECC	Makati	10,688	10,593	99%	3%	2%
TP Cebu	Cebu	18,093	18,093	100%	4%	5%
The30th	Pasig	74,704	68,960	92%	11%	15%
Laguna Technopark Land	Laguna	98,179	98,179	100%	2%	0%
Vertis	Quezon City	164,628	157,218	95%	31%	32%
BPI-Philam Makati	Makati	1,072	459	43%	0.3%	0.3%
BPI-Philam Alabang	Muntinlupa	551	551	100%	0.2%	0.1%
Bacolod Capitol	Negros Occidental	11,313	11,313	100%	1.8%	1.9%
Ayala Northpoint	Negros Occidental	4,654	4,654	100%	0.7%	0.9%
Evotech	Laguna	23,727	23,417	99%	6%	4%

Office						
Property	Total GLA, in sq. m	Occupied GLA, in sq. m	Occupancy rate	Average rent per sq. m per month	Average rent income growth (vs YTD Dec 2020) <sup>2</sup>	
Solaris	46,027	44,999	98%	999	4%	
Ayala North Exchange	61,724	61,724	100%	1,003	5%	
MECC	9,633	9,633	100%	942	8%	
TP Cebu	17,682	17,682	100%	662	3%	
The30th	47,871	42,126	88%	764	6%	
Vertis	125,322	117,913	94%	756	N/A	
BPI-Philam Makati	1,072	459	43%	1,136	N/A	
BPI-Philam Alabang	551	551	100%	690	N/A	
Bacolod Capitol	11,313	11,313	100%	500	N/A	
Ayala Northpoint	4,654	4,654	100%	451	N/A	
Evotech	23,058	23,058	100%	639	N/A	

<sup>(1)</sup> Contribution of each property to the overall cost. Cost consists of land lease, taxes and licenses, fund and property management fees, and depreciation.

<sup>(2)</sup> Income from the assets infused via property-for-share swap accrued to AREIT beginning October 1, 2021. The swap covers Vertis North Commercial Development (Vertis), BPI-Philam Makati, BPI-Philam Alabang, Bacolod Capitol Corporate Center (Bacolod Capitol), Ayala Northpoint Technohub (Ayala Northpoint), and One Evotech and Two Evotech (collectively called Evotech) buildings.

## F. Office Industry Benchmarks

All AREIT properties perform better than industry average in terms of occupancy rate. Average office rent per square meter and rental escalations are also at par with industry.

	Makati	Cebu	Pasig/Ortigas CBD	Quezon City	Muntinlupa	Laguna	Bacolod
Occupancy rate	92%	75%	87%	81%	84%	74%	84%
Ave. rent/sq. m <sup>1</sup>	₱ 700-1,100	₱ 500-660	₱ 600-750	₱ 500-700	₱ 550-750	₱ 450-700	₱ 350-600

<sup>(1)</sup> Pre-pandemic, annual rental growth in the market observed at average of 5-7% (YOY 2017-2019). Recently closed transactions at 2-3% escalation and/or delayed escalations to Year 3 or 4.

### Sources:

- Colliers International. Q2 2021 Cebu Property Market Briefing. Aug. 25, 2021.
- Colliers International. Q3 2021 Property Market Briefing. Oct. 29, 2021.
- Vismis Property Market Briefing Office Sector. Mar. 3, 2022.
- Colliers International. Q1 2022 Property Market Briefing. Apr. 28, 2022.

## G. Current Valuation of the AREIT Properties

The valuation of the AREIT properties is aligned with the appraisal reports issued by Asian Appraisal Company, Inc. (“Asian Appraisal”). Asian Appraisal used the Discounted Cashflows (“DCF”) Approach or Income Approach as the primary method to estimate the fair value of the buildings. Under the DCF approach, the future cashflows of the properties were discounted based on a weighted average cost of capital (WACC) using the Capital Asset Pricing Model.

The Market Approach was used for the Laguna Technopark Land where the property’s value was estimated based on actual market transactions and current listings within the area at the time of the appraisal.

Property	Type	Valuation cost <i>(in Pesos, millions)</i>	Valuation Date	Valuation Method
Solaris	Building	12,170	June 2021	Income Approach
Ayala North Exchange <sup>1</sup>	Building	13,656	June 2021	Income Approach
MECC	Building	1,940	June 2021	Income Approach
TP Cebu	Building	2,599	Dec 2021	Income Approach
The30th <sup>1</sup>	Building	4,643	June 2021	Income Approach
Laguna Technopark Land	Land	1,087	June 2021	Market Approach
Vertis <sup>1</sup>	Building	11,978	June 2021	Income Approach
BPI-Philam Makati	Building	236	June 2021	Income Approach
BPI-Philam Alabang	Building	63	June 2021	Income Approach
Bacolod Capitol	Building	893	June 2021	Income Approach
Ayala Northpoint	Building	297	June 2021	Income Approach
Evotech	Building	1,999	June 2021	Income Approach

<sup>(1)</sup> Does not include portion of ANE Seda, The 30<sup>th</sup> Mall and Vertis Mall which are accounted for under finance lease

## H. Asset Value, Price per Share and Total Capitalization as of March 31, 2022

	Total value <i>In thousands</i>	Value per share
Book value	₱ 48,989	₱ 32.47
Net asset value	₱ 51,433	₱ 34.09
Market capitalization	₱ 69,108	₱ 45.80

## I. Performance Indicators as of March 31, 2022

Current ratio <sup>1</sup>	0.76:1
Net debt-to-equity ratio <sup>2</sup>	0:07:1
Profitability Ratios:	
Return on assets <sup>3</sup>	6%
Return on equity <sup>4</sup>	7%
Asset to Equity ratio <sup>5</sup>	1.16:1
Market-to-book ratio <sup>6</sup>	1.41:1

Net debt-to-equity ratio as of March 31, 2021 is 0.07:1. The availment of loan and issuance of bond to partially fund the acquisition of The 30<sup>th</sup> and Laguna Technopark lots with outstanding balance of ₱ 3.70 billion as of March 31, 2022 resulted in interest expense of ₱ 26.66 million for YTD March 31, 2022.

<sup>(1)</sup> Current ratio is derived by dividing current assets by current liabilities at the end of a given period. Current ratio measures our ability to pay short-term obligations.

<sup>(2)</sup> Net debt to equity ratio is derived by dividing our total loans and borrowings less cash by total equity.

<sup>(3)</sup> Return on assets is derived by annualized net income by total assets

<sup>(4)</sup> Return on equity is derived by dividing annualized net income by average shareholders' equity. Return on equity measures how profitable we are at generating profit from each unit of shareholder equity.

<sup>(5)</sup> Asset to equity ratio is derived by dividing total assets by shareholders' equity. Asset to equity ratio measures our financial leverage and long-term solvency.

<sup>(6)</sup> Market-to-book ratio is derived by dividing the market capitalization or the stock's closing price by the book value. Market-to-book ratio measures the market's valuation of our company relative to our book value.

## II. PERFORMANCE METRICS

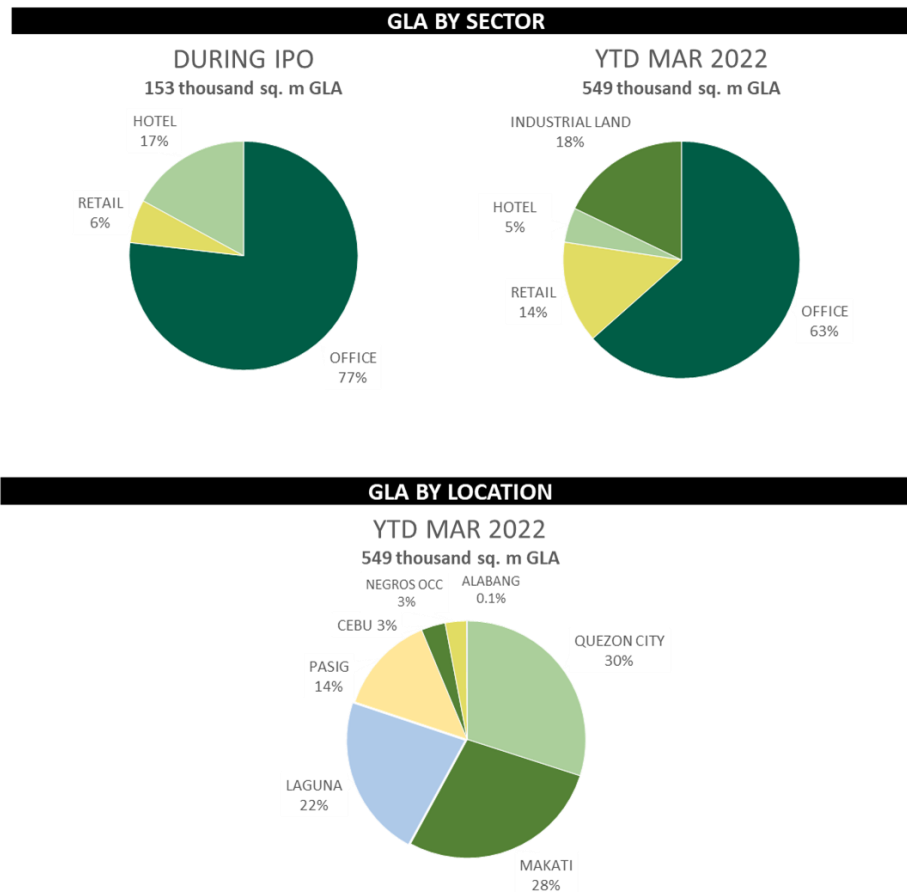
### Performance Highlights

AREIT, since its listing last August 2020, consistently adhered to its four investment fundamentals: prime location and quality of assets, stable occupancy with long term contracts from top BPO and corporate locators, inflation-hedged growth and new asset infusions, and execution by an experienced management team backed by the strength of its sponsor Ayala Land.

Total portfolio size of 549 thousand sq. m is now 3.6 times larger than its initial size of only 153 thousand sq. m during the IPO. The property-for-share swap transaction approved by the SEC on October 7, 2021 added 205 thousand sq.m of GLA to AREIT's portfolio of quality commercial assets. The assets include Vertis North Commercial Development (Vertis), BPI-Philam Makati, BPI-Philam Alabang, Bacolod Capitol Corporate Center (Bacolod Capitol), Ayala Northpoint Technohub (Ayala Northpoint), and One Evotech and Two Evotech (collectively called Evotech) buildings. All properties are in prime locations and have good operating track record, high occupancy and contracted long term leases with high credit grade tenants.

### Diversified Asset Portfolio in Prime Locations

From its initial portfolio of 153 thousand sq. m gross leasable area (GLA) during IPO, AREIT's portfolio diversified and grew to 549 thousand sq. m GLA as of end 2021 with the office sector comprising 63% of its total GLA. AREIT's properties are now located in several central business districts and prime locations across the Philippines.



*AREIT's total GLA during IPO was 153 thousand sq. m. All IPO assets are located in Makati.*

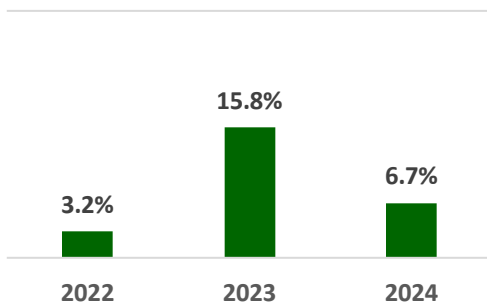
### Stable Occupancy and Tenancy

AREIT’s consistent and solid operations in the first quarter resulted in an average occupancy of 97%. Stable recurring income is ensured with AREIT’s contracted leases and Weighted Average Lease Expiry of AREIT’s portfolio of 9.4 years and 3.6 years for offices. Lease expiries are also minimal in the next three years.

### Weighted Average Lease Expiry (WALE)

Property	WALE (years)
Office	3.6
Retail	30.6
Hotel	36.3
Industrial Land	5.8
<b>Overall</b>	<b>9.4</b>

### Percentage of GLA expiring between 2022-2024



### Strong Tenancy of High Credit Grade Locators

AREIT continues to derive recurring income from its solid base of high credit grade tenants composed of top multinational and local companies. The table below shows the top ten largest tenants of AREIT in terms of gross leasable area.

Rank	Tenant	GLA (sq. m)	%
1	Integrated Microelectronics, Inc. <sup>1</sup>	98,179	18.3%
2	North Eastern Commercial Corporation (Ayala Malls The 30 <sup>th</sup> and Vertis Mall) <sup>2</sup>	66,139	12.3%
3	Google Services Philippines, Inc.	42,352	7.9%
4	TPPH-FHCS, Inc.	38,154	7.1%
5	Concentrix CVG Philippines, Inc.	33,430	6.2%
6	Shell Shared Services (Asia), B.V.	33,109	6.2%
7	Telus International (Philippines), Inc.	31,134	5.8%
8	Makati North Hotel Ventures, Inc. (Seda Residences Makati) <sup>3</sup>	26,034	4.9%
9	Global Payments Process Centre, Inc.	13,683	2.6%
10	ARB Call Facilities, Inc.	11,313	2.1%
<b>Total GLA</b>		<b>393,527</b>	<b>73.5%</b>

<sup>(1)</sup> Subsidiary of Ayala Corporation

<sup>(2)</sup> Subsidiary of Ayala Land, Inc.

<sup>(3)</sup> Subsidiary of Ayala Hotels and Resorts Corporation



### III. ASSET ACQUISITIONS

As disclosed to the public on March 9, AREIT Inc. (“The Company”) and Ayala Land Inc (“ALI”) will execute a property-for-share swap transaction (“Transaction”) whereby the Company will issue 252,136,383 primary common shares to ALI in exchange for the following identified properties valued at ₱ 11,257,889,535.91, at an issue price of ₱ 44.65 per share:

**Table 1 – Properties Subject of Property-For-Share Swap**

Property	Registered Owner	Transaction Value (in ₱)
eBloc 1	ALI	2,120,348,829.91
eBloc 2	ALI	2,659,373,160.10
eBloc 3	ALI	1,384,962,336.23
eBloc 4	ALI	1,748,801,500.40
ACC Tower	ALI	2,185,801,355.37
Tech Tower	ALI	1,158,602,353.92
<b>Total</b>		<b>11,257,889,535.91</b>
(collectively, the “Properties”)		

The Transaction will be implemented as a tax-free exchange, subject to a fairness opinion on the valuation of the Shares and of the Properties prepared and issued by Isla Lipana & Co. (“Isla Lipana”), an independent fairness opinion provider accredited by both the Securities and Exchange Commission (“SEC” or the “Commission”) and the Philippine Stock Exchange (“Exchange”). The Properties have been evaluated by AFMI and have been appraised by the Company’s property appraiser, Asian Appraisal Company, Inc. (“Asian Appraisal”).

The infusion of the Properties into AREIT through the Transaction is in line with the objective of both AREIT, and its Sponsor, ALI, to grow the asset base of AREIT through the infusion of several high-quality assets. From the outset, it is the objective of both AREIT and ALI to grow AREIT’s portfolio to maximize the value accretion of AREIT’s shareholders including its minority retail investors.

The stockholders approved the Transaction during the Company’s annual stockholders meeting on April 21, 2022. 252,136,383 primary common shares will be issued to ALI, in exchange for the Properties valued at ₱ 11,257,889,535.91, under a property-for-share swap with transaction price of ₱ 44.65 per share, which is within the range of the fairness opinion issued by Isla Lipana.

The Company will apply for the additional listing of the shares resulting from the Transaction with the Exchange. The majority vote representing the outstanding shares held by the minority stockholders present and represented in the special stockholders’ meeting on April 21, 2022 was obtained for the issuance of the waiver of the requirement to conduct a rights or public offering of the shares to be subscribed by ALI, as part of the requirements of the Exchange.

The exchange of the Shares for the Properties will qualify as a tax-free exchange under Section 40(C)(2) of the Tax Code, as amended, which provides that:

“(2) Exception. - \* \* \*

No gain or loss shall also be recognized on a corporation or on its stock or securities if such corporation is a party to a reorganization and exchanges property in pursuance to a plan of reorganization solely for stock or securities in another corporation that is a party to the reorganization. A reorganization is defined as: \*\*\*

No gain or loss shall also be recognized if property is transferred to a corporation by a person alone or together with others, not exceeding four (4) persons, in exchange for stock or unit of participation in such a corporation of which as a result of such exchange the transferor or transferors, collectively, gains or maintains control of said corporation: *Provided*, That stocks issued for services shall not be considered as issued in return for property. \*\*\*”

Section 40(C)(2) of the Tax Code, as amended, has been interpreted by the Supreme Court in the case of *Commissioner of Internal Revenue vs. Filinvest Development Corporation* (G.R. No. 167689, 9 July 2011), and *Commissioner of Internal Revenue vs. Lucio L. Co, et al.* (G.R. No. 241424, 26 February 2020), to mean that a tax-free exchange applies when the controlling person gains “further control” or transfers where the exchanger already has control of the corporation at the time of the exchange.

The Company expects to execute the Deed of Exchange and file the application for approval of the original issuance of shares with the SEC within May 2022, and the issuance of the Certificates Authorizing Registration (“CAR”) with the relevant Revenue District Office of the Bureau of Internal Revenue (“BIR”) within the fourth quarter of 2022. The SEC’s approval of the Transaction and the BIR’s CAR issuance are expected to be issued within the year. The Company shall

likewise apply for the additional listing of shares with the Exchange by the first quarter of 2023. The indicative timetable for implementation of the Transaction is as follows:

**Table 2 – Indicative Timetable for Implementation<sup>1</sup>**

Annual and Special Stockholders' Meetings	21 April 2022
Deed of Exchange Execution	May 2022
SEC Approval (Issuance of Shares and Transaction)	Q2 to Q3 2022
Issuance of CAR	Q4 2022
PSE Listing of Additional Shares	Q1 2023

<sup>1</sup>Subject to regulatory approvals

## SELECTION PROCESS & INVESTMENT CRITERIA

Below outlines the selection process performed by AFMI leading to AREIT's decision to acquire the said properties.

### 1. EVALUATION OF PROPERTIES BASED ON AREIT'S SELECTION CRITERIA

AREIT's principal investment strategy is to invest in income-generating real estate properties that meet a select set of criteria designed to provide competitive returns to its investors. Below describes how the six (6) properties identified and endorsed for acquisition satisfy AREIT's investment criteria.

- a) **High quality, Grade A commercial assets in prime locations.** Next to Metro Manila, Cebu ranks second as the most desired location for BPOs in the Philippines. And this is because of several factors namely its large high skilled talent pool, good infrastructure and quality IT facilities, and its cost competitiveness in term of rent and wages. The 6 Cebu office properties are all quality, grade A buildings centrally located within two of Cebu City's most prime business districts – Cebu Business Park and Cebu IT Park. All sites provide convenient access to public transportation, have access to a large high-skilled talent pool and support retail establishments that cater to the office market. In addition, all six buildings are PEZA-accredited, providing attractive fiscal incentives to eligible office locators.
- b) **Stable occupancy with long term leases.** All six (6) properties have an excellent operating track record, 91-99% average occupancy and an overall weighted average lease expiry of 2.7 years as of March 31, 2022. The 6 buildings perform better than Metro Manila and Cebu City Average office occupancy of 86% and 75% respectively. Typical office lease terms are fixed for a period of five to seven years and renewable for another five to seven years.
- c) **Strong, high-credit grade tenant locators.** Stable income and cashflows will be derived from the properties' strong tenant mix of multinational companies and top players in the BPO industry. All buildings have no POGO tenants.
- d) **Attractive growth and dividend accretive through contracted rental escalations and potential acquisitions.** Organic growth can be achieved through annual rental escalations averaging 5% from contracted leases. The properties are projected to contribute further to the Company's operating cashflows, boosting dividends per share. At an exchange price of ₱ 44.65 per share, the properties will generate a projected yield of 6%. At the aforementioned exchange price, AREIT's 2021 yield from its existing assets is approximately 4.0%. Hence, the property -for-share swap would be accretive and will increase the overall yield to approximately 5.0% after the new assets are infused. Coupled with rental escalations and asset growth, total shareholder return is projected at 10%. Estimated yields and total shareholder return are subject to actual operating performance and market conditions.

**Table 3**

Below is a summary table providing more information about the Properties and further demonstrating how the Properties fit AREIT's investment criteria.

	<b>Ebloc 1</b>	<b>Ebloc 2</b>	<b>Ebloc 3</b>	<b>Ebloc 4</b>	<b>ACC Tower</b>	<b>Tech Tower</b>
<b>Location</b>	Cebu IT Park	Cebu IT Park	Cebu IT Park	Cebu IT Park	Ayala Center Cebu	Cebu Business Park
<b>GLA (sq.m)</b>	20,842	27,727	15,233	16,167	27,517	16,813
<b>Occupancy</b>	96%	98%	97%	99%	97%	91%
<b>Tenant Type</b>	BPO	BPO	BPO	BPO	BPO & HQ	BPO & HQ

## **ALTERNATIVE PROPERTIES CONSIDERED**

In addition to the six (6) properties, a property located in Metro Manila was considered but did not meet AREIT's investment standards due to its lower occupancy rate (*i.e.*, less than 90%) and shorter weighted average lease expirations of less than two years.

## **2. STRATEGIC RATIONALE & BENEFITS OF THE PROPOSED TRANSACTION**

As the first Philippine Real Estate Investment Trust ("REIT") successfully listed amidst the COVID-19 pandemic, AREIT aspires to grow its leasing portfolio with prime and stable assets. Since its IPO, AREIT delivered on its growth plan, resulting in a 94% total shareholder return from dividend yield and price appreciation, based on the closing price of ₱ 49.30 on 28 February 2021.

AREIT started with 153 thousand square meters equivalent to ₱ 30 billion of Assets Under Management ("AUM") in 2020. By December 2021, this has grown to 549 thousand square meters, equivalent to ₱ 53 billion in AUM. With this new asset infusion, AREIT will grow further and reach 673 thousand square meters or ₱ 64 billion in AUM in 2022 – a 213% increase since AREIT went public. This growth exceeds its target to double in size within two years from its IPO.

The properties are expected to contribute further to its operating cashflows, boosting dividends per share. Specific to this new infusion, at an issue price of ₱ 44.65 per share, the assets for infusion have a projected yield of 6%. At the price of ₱ 44.65, AREIT's 2021 yield is approximately 4.0% from its existing assets. Hence, the property-for-share swap would be accretive and potentially increase the overall yield to approximately 5% after the new assets are infused. Coupled with rental escalations and asset growth, total shareholder return is projected at 10%. Estimated yields and total shareholder return are subject to actual operating performance and market conditions.

## **3. AGGREGATE VALUE CONSIDERATION**

The Properties were valued by the Company at ₱ 11.26 Billion, and the transaction price was set at ₱ 44.65 per share, which are all within the range of fair values identified by Isla Lipana, and the Appraisal Reports issued by Asian Appraisal Company, Inc.

The Discounted Cashflows ("DCF") Approach was used as the primary method to estimate the fair value of the AREIT shares and Properties. Under the DCF approach, Isla Lipana discounted the cashflows of AREIT and the Properties based on a weighted average cost of capital ("WACC") using the Capital Asset Pricing Model. The Comparable Companies Approach and Precedent Transactions Approach were used as secondary methods to cross-check the value of the AREIT shares. The Direct Capitalization Approach was used to cross-check the value of the Properties.

## **4. DUE DILIGENCE & RISK ASSESSMENT**

The Fund Manager also hereby certifies that it has conducted full due diligence on the properties and no adverse findings were noted. In valuing the properties, it has also considered the inherent risks. Inherent risks include potential vacancies and downward adjustments in rent due to the pandemic and prolonged work-from-home arrangements. With the properties having a high occupancy of 97-100% and high credit-grade tenants with long-term contracted leases, vacancy risk is minimal and AREIT is ensured that stable income from operations is preserved.

**CERTIFICATION**

This PERFORMANCE REPORT was prepared and assembled under our supervision in accordance with existing rules of the Securities and Exchange Commission. The information and data provided herein are complete, true, and correct to the best of our knowledge and/or based on authentic records.

By:

**AREIT FUND MANAGERS, INC.**  
Fund Manager for AREIT, Inc.

*pgsamanejo*  
**PATRICIA GAIL Y. SAMANIEGO**  
*Attorney-in-Fact*

*biancabcatolico*  
**BIANCA CAMILLE B. CATOLICO**  
*Attorney-in-Fact*

MAY 17 2022

SUBSCRIBED AND SWORN to before me this \_\_\_\_ day of May 2022 at Makati City, with the affiant/s exhibiting to me their identification documents as follows:

Name	Competent Evidence of Identity	Date and Place Issued
AREIT FUND MANAGERS, INC. <i>Represented by:</i>	TIN: 007-888-715-000	
Patricia Gail Y. Samaniego	Passport No. P4748326B	8 Feb 2020/DFA NCR South
Bianca Camille B. Catolico	Passport No. P7463723B	25 Aug 2021/DFA NCR East

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Book No. 11;  
Series of 2022.

Notarial DST pursuant to  
Sec. 188 of the Tax Code is  
affixed on Notary Public's copy



*[Signature]*  
**MA. FEORA A. MANGAWANG**  
Notary Public - Makati City  
Appt. No. M-153 until December 31, 2021  
Extended until June 30, 2022  
Roll of Attorneys No. 64804  
Lifetime IBP No. 013749 - Makati City  
PTR No. MKT8862851 - 01/11/2022 - Makati City  
MCLE Compliance No. VI-0019866 - 03/29/2019  
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