

July 2024

PSE SPOTLIGHT

FEATURING:



AREIT is the first, largest, and most diversified Philippine REIT today. Since listing in August 2020, it has doubled dividends per share from P0.28 to P0.56, delivered a 70 TSR%, and is set to quadruple AUM from P27 to P117 billion.

AREIT, Inc.

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|------------------------------|-----------------|
| Stock Code | AREIT |
| Listing Board | Main Board |
| Sector – Subsector | Property |
| Listing Date | August 13, 2020 |
| Outstanding Shares | 2,368,606,573 |
| Free Float Level | 45.54% |
| Market Capitalization | P87,993,734,187 |
| P/E Ratio | 16.11x |
| Dividend Yield | 5.53% |

As of 19 July 2024
Source: PSE Data

[Company Profile](#)

1. What makes AREIT an attractive investment for potential investors?

AREIT stands out as a premier investment opportunity due to its diversified portfolio, strategic management, and consistent performance. Its portfolio is composed of prime office spaces, malls, hotels, and industrial land with a total Gross Leasable Area (GLA) of 918,000 square meters. This diversification reduces risk and ensures stable returns across various economic cycles.

Since its IPO, AREIT has consistently increased its dividends, with a notable 96% growth in dividends per share over 16 quarters, demonstrating its ability to generate and distribute sustainable income to investors. Furthermore, its Sponsor, Ayala Land, one of the Philippines' leading real estate developers, provides a significant competitive edge by enabling access to high-quality properties in prime locations. This ensures a steady pipeline of potential asset infusions that are yield accretive.

AREIT aims to deliver a total shareholder return of 10-12% per annum by expanding its asset base by P15 to P20 billion annually, highlighting its strategic growth plans and robust investment potential.

2. What challenges has AREIT encountered, and what strategies were employed to overcome them effectively?

AREIT has faced several challenges, which it has adeptly managed through strategic initiatives:

- 1. Economic and Market Fluctuations:** AREIT has diversified its portfolio across different asset types and locations to mitigate risks associated with market volatility. This diversification helps stabilize income streams and reduces dependency on any single sector or geographic area. Additionally, long-term leases with high-quality tenants ensure a steady income flow regardless of short-term market conditions.
- 2. Operational and Maintenance Challenges:** Maintaining high standards of property management is critical. AREIT leverages its property management arm, AREIT Property Managers, Inc. (APMI), to ensure properties are managed effectively. APMI focuses on maintaining high occupancy levels, enhancing tenant satisfaction, and implementing cost-efficient maintenance practices. This proactive approach helps reduce operational disruptions and maintain property value.
- 3. Environmental and Sustainability Risks:** Climate change and natural disasters pose significant threats to real estate assets. AREIT mitigates these risks by enhancing site resilience through technical due diligence for geohazards, incorporating sustainable construction practices, and focusing on resource efficiency. This ensures that properties can recover quickly from environmental stress.
- 4. Competition and Market Position:** AREIT leverages its close association with Ayala Land, its Sponsor, to gain a competitive edge. This partnership provides access to high-quality properties in prime locations, ensuring a steady pipeline of potential acquisitions. AREIT also focuses on strategic acquisitions that are yield accretive, enhancing its portfolio and market position. The company's proactive asset management and tenant retention strategies further strengthen its competitive advantage.
- 5. Regulatory and Compliance Challenges:** Navigating the regulatory environment and ensuring compliance with all relevant laws and regulations can be complex. AREIT maintains good governance and compliance frameworks to effectively navigate regulatory challenges. The company engages with regulatory bodies, stays abreast of changes in regulations, and implements best practices in corporate governance. This ensures compliance and mitigates regulatory risks.

3. What sustainability initiatives does AREIT have in place? How do they align with your long-term goals?

AREIT has a robust sustainability framework that aligns with its long-term goals, focusing on four main areas:

- 1. Site Resilience:** AREIT prioritizes reducing vulnerability to climate change effects and natural disasters. This includes technical due diligence to screen for geohazards, space for refuge and rainwater absorption, and native tree use to enhance biodiversity and ecosystems.
- 2. Pedestrian Mobility and Transit Connectivity:** AREIT properties are designed to enhance urban mobility, providing alternatives to motor vehicles, promoting pedestrian-friendly environments, and convenient access to transit stops and transportation terminals in these places. This aligns with sustainable urban development practices.
- 3. Resource Efficiency:** AREIT emphasizes the judicious use of natural resources and construction materials, reducing consumption and greenhouse gas emissions. Energy and water conservation programs, along with waste management schemes, are integral parts of this initiative, supporting AREIT's goal of achieving carbon neutrality and Net Zero targets by 2050.
- 4. Local Economic Development:** By providing spaces for office and retail tenants, AREIT contributes to job creation and local economic growth, thereby fostering community development and socio-economic balance.

AREIT's sustainability initiatives are aligned with global goals and standards, including the UN Sustainable Development Goals (SDGs), Global Reporting Initiative (GRI) Indicators, and the Task Force on Climate-Related Financial Disclosures (TCFD) Recommendations. This comprehensive approach not only mitigates sustainability risks but also delivers value to the business, environment, and society.

Last 30 January 2024, AREIT received EDGE Zero Carbon Certification for eight office buildings comprising 354,000 square meters, making Ayala Land and AREIT's offices the largest EDGE Zero Carbon certified portfolio in the Philippines. Excellence in Design for Greater Efficiencies (EDGE) is an international green building certification and an innovation of the International Finance Corporation (IFC), the private sector arm of the World Bank Group. EDGE Zero Carbon is the highest level of EDGE certification granted to properties that have neutralized their carbon emissions through renewable energy use. It requires a minimum of 40% energy savings and 20% savings in water and embodied carbon in materials compared to the base case.

Last September 2023, Ayala Land and AREIT signed an MOU with the International Finance Corporation to solidify their commitment to accelerating the transition to net zero. Under this agreement, ALI and AREIT aim to achieve EDGE Zero Carbon across 1.5 million square meters of office space by 2025, establishing the Philippines' largest EDGE Zero Carbon office portfolio. Ayala Land, Inc. and AREIT, Inc. have shifted 88% of their office portfolio to renewable energy, equivalent to 1.2 million square meters of gross leasing space, enabling their office locators to attain their ESG objectives.

On Waste Management, as of end-2023, efforts of waste diversion have increased, resulting in 1,146 tonnes of waste diverted from the landfill and sent to recyclers, ecohubs, or composted.

4. **How is the company doing in terms of its market position vis-à-vis its competitors in the industry? What are the key initiatives or programs being undertaken by the company to increase market share or gain an advantage over the competition?**

AREIT holds a leading position in the Philippine REIT market, distinguished by its diversified portfolio and strong asset management. Key initiatives to increase market share include:

1. **Asset Growth:** Targeting a significant expansion of its asset base to USD 2 billion by 2024, positioning itself at par with major regional REITs.
2. **Portfolio Diversification:** Continuing to diversify its portfolio with a mix of offices, malls, hotels, and industrial properties to reduce sector-specific risks and attract a broader tenant base.
3. **Strategic Acquisitions:** Acquiring high-quality, income-generating properties in prime locations, further solidifying its market position and enhancing returns for investors.

5. **What are your company's strategic priorities for the next two to three years?**

AREIT's strategic priorities for the next two to three years focus on growth, diversification, and sustainability. The key priorities include:

Expanding Asset Base: Growing the asset base by PHP 15-20 billion annually, targeting a total shareholder return of 10-12% per annum.

Diversifying Portfolio: Reducing sector risks by diversifying the mix of properties, including offices, malls, hotels, and industrial assets.

Enhancing Shareholder Value: Ensuring every acquisition is yield accretive, maintaining a solid balance sheet, and delivering steady dividends.

Sustainability Initiatives: Continuing to focus on sustainability through resource efficiency, green building certifications, and community engagement, aligning with long-term goals.

These strategic priorities are designed to strengthen AREIT's market position, enhance investor returns, and ensure sustainable growth.

PSE Spotlight is a short feature about listed companies that are part of PSE STAR Investor Day. The report, which offers a quick overview of a company, includes a description of its business, stock information, as well as answers to five interview questions provided by the company's management team. The interview questions typically revolve around the company's value proposition, business operations and landscape, challenges and opportunities, and strategic initiatives.

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