

# DIGITAL CORE REIT

(a real estate investment trust constituted on 10 November 2021 under the laws of the Republic of Singapore)

## **ANNUAL GENERAL MEETING AND EXTRAORDINARY GENERAL MEETING TO BE HELD ON 18 APRIL 2024**

### **RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS**

We refer to the notice dated 3 April 2024 convening the annual general meeting of Digital Core REIT (“**Notice of AGM**”) and extraordinary general meeting of Digital Core REIT (“**Notice of EGM**”). Digital Core REIT Management Pte. Ltd., in its capacity as manager of Digital Core REIT (the “**Manager**”), would like to thank all unitholders of Digital Core REIT (“**Unitholders**”) who have submitted their questions in advance of our Annual General Meeting (“**AGM**”) and Extraordinary General Meeting (“**EGM**”) to be convened and held at Bridge+, 79 Robinson Road, Level 2, Singapore 068897 on Thursday, 18 April 2024 at 9.00a.m. (Singapore Time) and at 10.00 a.m. (or as soon thereafter as the AGM is concluded or adjourned) (Singapore time) respectively.

The Manager’s responses to the key questions received from Unitholders prior to 5.30 p.m. (Singapore Time) on Tuesday, 9 April 2024, can be found in the Appendix to this announcement. Any further key questions received from Unitholders after this date will be addressed by the Manager at the AGM and EGM.

As there was substantial overlap between many of the questions received from Unitholders, we have, for Unitholders’ easy reference and reading, summarised some of the questions and also grouped related and similar questions and our responses together. Accordingly, not all questions received from Unitholders may be individually addressed. Key questions raised prior to and/or during the session organised and hosted by the Securities Investors Association (Singapore) have also been included.

Unless otherwise defined herein, all capitalised terms used and not defined herein have the meanings ascribed to them in the Notice of AGM and Notice of EGM.

By Order of the Board of Digital Core REIT Management Pte. Ltd.  
(as Manager of Digital Core REIT)  
(Company Registration No. 202123160H)

John Stewart  
Chief Executive Officer

Singapore  
12 April 2024

## APPENDIX

### **Responses to Substantial and Relevant Questions**

#### **Acquisitions**

**Q1. Understand that there is a proposed acquisition for a further 24.9% stake from your sponsor in Frankfurt along with a purchase for a 10% stake in a facility in Osaka. Will the acquisition improve overall portfolio and credit quality?**

Yes, we believe both acquisitions will significantly enhance overall portfolio quality as well as customer credit quality. Both assets are located in core global data centre markets, and both were purpose-built as data centres by our Sponsor from the ground up within the past five years and are fully integrated into the Sponsor's global platform. Both assets are predominantly leased to excellent credit quality customers. Based on pro forma annualised rent after taking into account the customer-related transactions and the proposed acquisition of a 24.9% interest in a data centre located in Frankfurt, Germany, as well as the acquisition of an additional 10.0% interest in the Osaka data centre, the total annualised rent contribution from investment grade customers is expected to increase to 87.0% pro forma, up from 78.0% as at 31 December 2023.

For further detail, please reference the 1 November 2023 press release titled, "[Digital Core REIT Reaches Agreements to Resolve Customer Bankruptcy, Expand into Japan and Increase Stake in Frankfurt Facility](#);" the 1 April 2024 announcement titled, "[Acquisition of an Additional 10% Interest in a Data Centre in Osaka, Japan](#);" and the 6 March 2024 announcement titled, "[Proposed Acquisition of a 24.9% Interest in a Data Centre Located in Frankfurt, Germany](#)."

#### **Operations and Portfolio**

**Q2. Post acquisitions, your pro-forma Weighted average lease expiry ("WALE") is getting shorter and occupancy rate is getting lower. Can you please elaborate?**

The Frankfurt Facility is approximately 92% occupied while the Osaka data centre is approximately 95% occupied, slightly below the overall portfolio occupancy of 97% as at 31 December 2023. From the Manager's perspective, both assets provide a stable cash flow stream with occupancy levels above 90%, in keeping with the REIT's investment mandate, but also offer upside due to the embedded growth potential from lease-up of the remaining vacancy.

Both assets are predominantly leased to leading global cloud providers, and the Manager is cautiously optimistic on the prospects for retaining these customers and extending the duration of the remaining lease terms.

#### **Financial Performance & Capital Management**

**Q3. Could you provide us with some understanding relating to the recent acquisitions on DCREIT's financial performance, particularly in terms of revenue growth and DPU? How does the Manager explain the 17% fall in net asset value ("NAV") per unit from U.S. 0.83 cents to U.S. 0.69 cents?**

The portfolio was revalued at year-end, resulting in a nine percent decline in unlevered gross book value, on a 40-basis point increase in valuer cap rates.

The increase in valuer cap rates was largely in line with expectations, given the upward move in benchmark interest rates over the previous 18 months. The property-level valuations also reflect the impact of two customer bankruptcies, including a sizable vacancy in Toronto and a material reduction in lease term in Los Angeles. Finally, the referenced impact was somewhat magnified relative to the nine percent decline in unlevered gross book value, given that net asset value is a levered construct.

Since we have acquired minority interest stakes in the assets, the recent acquisitions are not consolidated in our financial statements and the contribution from these assets is not recognized in the rental revenue line item. However, the acquisitions have generated combined DPU accretion of approximately 5%, partially mitigating the impact of higher interest rates. Both assets are performing well, as evidenced by comparison of the property-level financial information disclosed in the initial acquisition announcements to the follow-on acquisition announcements.

**Q4. How is the balance sheet of the REIT currently now that the Cyxtera issue is behind us? Do you anticipate any equity fund raising exercises in the next 18 to 24 months?**

Digital Core REIT successfully navigated a challenging environment in 2023 and emerged in a stronger position to capitalise on favourable fundamentals and our industry-leading acquisition pipeline to create durable value for unitholders in 2024 and beyond.

As disclosed in the 1 November 2023 press release titled, "[Digital Core REIT Reaches Agreements to Resolve Customer Bankruptcy, Expand into Japan and Increase Stake in Frankfurt Facility](#)" the series of agreements reached to resolve the customer bankruptcy included the sale of two properties in Silicon Valley in a transaction that valued Digital Core REIT's 90% interest in the assets at US\$160 million, in line with book value. As disclosed on page 25 of the Annual Report 2023 and page 2 of the EGM circular, the sale of these assets was completed on 12 January 2024

Separately, in early February, the Manager launched a private placement of new Units. In an 8 February 2024 announcement titled, "[Close of Private Placement](#)," the Manager announced the completion of the Private Placement at an issue price of US\$0.6250 per new unit, raising gross proceeds of US\$120 million.

Finally, in a 1 April 2024 press release titled, "[Digital Core REIT Completes Acquisition-Related Financings](#)," the Manager announced the repayment of US\$140 million of variable rate debt previously outstanding on Digital Core REIT's U.S. dollar-denominated term loan.

Consequently, upon closing of the asset sales, completion of the 1Q2024 private placement and subsequent repayment of the U.S. dollar-denominated term loan, pro forma aggregate leverage is approximately 34.5% as at 31 December 2023 and Digital Core REIT's balance sheet is in even better shape following resolution of the customer bankruptcy.

Consequently, we do not anticipate any equity fund raising exercises over the next 18-24 months to shore up the balance sheet. However, achieving scale and diversification remain key strategic priorities, and we do hope to be in position to raise additional equity to fund accretive investment opportunities over the next 18-24 months, although any future equity fundraising will of course depend upon market conditions and valuation.

### **Prospects**

**Q5. Given the healthy demand for data centres in key markets, DCREIT has been able to make some recent acquisitions to drive earnings. Will the REIT continue to increase its stake in the acquisitions and what are the REIT's plan for any additional stakes?**

Over time, we hope to be able to increase our ownership stakes in these assets if conditions are conducive. However, we intend to preserve the flexibility of our balance sheet, and we will also remain mindful of our cost of capital as well as the accretion generated from incremental investments.

### **Future**

**Q6. As we look ahead to 2024 and beyond, what are the key strategic priorities for Digital Core REIT, and how does the company plan to navigate potential challenges while capitalizing on growth opportunities in the digital infrastructure sector?**

Achieving scale and diversification remain key strategic priorities for Digital Core REIT. We aim to further reduce customer and geographic concentration through accretive growth. We also intend to continue to enhance overall portfolio quality by improving the average age of the assets we own and extending the duration of the cash flow stream by lengthening the weighted average remaining lease term (WALT or WALE) through a combination of proactive leasing and accretive investments.

Given tightening data centre fundamentals and rapidly accelerating demand driven by artificial intelligence workloads and digital transformation initiatives, we expect that executing upon these strategic priorities will enable us to successfully navigate challenges and capitalise on growth opportunities within the digital infrastructure sector.

### **Others**

**Q7: Are the two new Data centre acquisitions in Frankfurt and Osaka able to meet tenants Artificial Intelligence ("AI") specifications requirements?**

Yes, these facilities are able to accommodate AI workloads. Both are state-of-the-art facilities, purpose-built as data centres by our Sponsor from the ground up within the past seven years and fully integrated into the Sponsor's global platform.

**Q8: With the proposed acquisitions and probably more in the future, can you give a sense on the market size of data centre business to 2030 or next five years and how it will play out for Digital Core REIT in terms of the rapid change in technology and competition?**

The Manager believes in Digital Core REIT's growth potential. In January 2024, the [International Energy Agency](#) published its [Electricity 2024 – Analysis and Forecast to 2026](#) report and projected that, “*Electricity consumption from data centres, artificial intelligence (AI) and the cryptocurrency sector could **double** by 2026*” (emphasis added). The Manager expects the collective industry funding requirements to accommodate this demand will be sizable and will represent a significant investment opportunity, although supportive capital markets conditions and the ability to efficiently raise capital will be critical to participation in the sector's expected growth.

### **Important Notice**

This announcement is for information only and does not constitute or form part of an offer, invitation or solicitation of any offer to purchase or subscribe for any securities of Digital Core REIT in Singapore or any other jurisdiction nor should it or any part of it form the basis of, or be relied upon in connection with, any contract or commitment whatsoever. The value of the units in Digital Core REIT (“**Units**”) and the income derived from them may fall as well as rise. The Units are not obligations of, deposits in, or guaranteed by Digital Core REIT Management Pte. Ltd. (as manager of Digital Core REIT (the “**Manager**”)), Perpetual (Asia) Limited (as trustee of Digital Core REIT) or any of their respective affiliates. The past performance of Digital Core REIT is not necessarily indicative of its future results.

This announcement may contain forward-looking statements that involve risks and uncertainties. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements as a result of a number of risks, uncertainties and assumptions. Representative examples of these factors include (without limitation) general industry and economic conditions, interest rate trends, cost of capital and capital availability, competition from other companies and venues for the sale or distribution of goods and services, shifts in customer demands, customers and partners, changes in operating expenses (including employee wages, benefits and training costs), governmental and public policy changes and the continued availability of financing in the amounts and on terms necessary to support future business.

Investors are cautioned not to place undue reliance on these forward-looking statements, which are based on the Manager’s current view of future events.

An investment in the Units is subject to investment risks, including the possible loss of the principal amount invested. Holders of Units (“**Unitholders**”) have no right to request that the Manager redeem or purchase their Units while the Units are listed. It is intended that Unitholders may only deal in their Units through trading on Singapore Exchange Securities Trading Limited (the “**SGX-ST**”). Listing of the Units on the SGX-ST does not guarantee a liquid market for the Units. This announcement has not been reviewed by the Monetary Authority of Singapore.