Keppel Pacific Oak US REIT

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MEDIA RELEASE

Unaudited Results of Keppel Pacific Oak US REIT for the Half Year ended 30 June 2020

22 July 2020

The Directors of Keppel Pacific Oak US REIT Management Pte. Ltd., as Manager of Keppel Pacific Oak US REIT, are pleased to announce the unaudited results of Keppel Pacific Oak US REIT for the half year ended 30 June 2020.

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Keppel Pacific Oak US REIT achieves 17.6% year-on-year growth in distributable income for 1H 2020

Highlights

- Distributable income (DI) of US$29.1 million for the first half of 2020 (1H 2020) was 17.6% higher year-on-year (y-o-y), driven by contributions from One Twenty Five and higher rental income from 2H 2019 leasing activities and built-in rental escalation.
- Distribution per Unit (DPU) for 1H 2020 was 3.10 US cents, 3.3% higher y-o-y.
- Approximately 196,000 sf in office space was committed in 1H 2020, which brought KORE's committed occupancy to 94.3% as at 30 June 2020 and reduced lease expiries to only 2.8% for the remainder of 2020.
- Average rental collections for 1H 2020 was approximately 94%.
- Early refinanced all 2021 loans, extending KORE's weighted average term to maturity (WATM) to 3.4 years on a pro forma basis[1].

Summary of Results

	2Q 2020 (US$'000)	2Q 2019 (US$'000)	% Change	1H 2020 (US$'000)	1H 2019 (US$'000)	% Change
Gross Revenue	35,174	29,280	20.1	70,500	58,724	20.1
Property Expenses	(14,253)	(11,292)	26.2	(28,628)	(22,548)	27.0
Net Property Income	20,921	17,988	16.3	41,872	36,176	15.7
Income Available for Distribution(1)	**14,697**	**12,404**	**18.5**	**29,109**	**24,758**	**17.6**
DPU (US cents) for the period	1.56	1.50	4.0	3.10	3.00	3.3
Distribution yield (%)(2)	-	-	-	8.9%	7.9%	100bps

(1) The income available for distribution to Unitholders is based on 100% of the taxable income available for distribution to Unitholders.
(2) The annualised distribution yield for 1H 2020 is on a basis of 182 days and pro-rated to 366 days (1H 2019: 365 days). Distribution yields for 1H 2020 and 1H 2019 are based on market closing prices of US$0.700 and US$0.765 per Unit as at last trading day of the respective periods.

Financial Performance

Keppel Pacific Oak US REIT (KORE) has achieved DI of US$14.7 million for 2Q 2020, bringing DI for 1H 2020 to US$29.1 million, 18.5% and 17.6% above that of 2Q 2019 and 1H 2019 respectively.

The stronger y-o-y performance for 1H 2020 was driven by several factors, including contributions from One Twenty Five in Dallas, Texas, which was acquired in November 2019. At the same time, higher rental income mainly from new leases across the rest of the portfolio and positive rental reversion from lease renewals signed in 2H 2019, as well as the built-in rental escalation in the portfolio also contributed to the robust performance.

DPU for 1H 2020 was 3.10 US cents, 3.3% above 1H 2019 DPU of 3.00 US cents. Distribution yield was 8.9% based on the market closing price of US$0.700 per Unit as at the last trading day on 30 June 2020. KORE declares its distributions semi-annually, and Unitholders can expect to receive their distributions on 24 September 2020.

[1] Actual WATM was 2.5 years as at 30 June 2020. Assuming the refinancing of remaining loans due in 2021 is effective on 30 June 2020, WATM would be extended to 3.4 years.

Portfolio Review
Notwithstanding the slowdown in property tours across the US due to the pandemic, KORE committed approximately 196,000 sf of office space in 1H 2020, equivalent to about 4.2% of its total portfolio by net lettable area. Most of the leasing activity occurred in Seattle, Atlanta and Houston. This brought KORE's portfolio committed occupancy to 94.3% as at 30 June 2020, with only 2.8% of leases by cash rental income (CRI) expiring for the remainder of the year.

KORE continued to achieve strong rental reversion of 14.7% in 1H 2020, driven mainly by the tech hubs of Seattle and Austin. At the same time, average rental collections for 1H 2020 was approximately 94% by CRI.

The majority of KORE's leases range from three to five years in duration. Tenants have neither pre-termination rights, nor are they entitled to rental rebates. Nevertheless, the Manager has been proactively reaching out to tenants to understand their needs during this unprecedented time. To-date, the Manager has received rent relief requests from approximately 15%[2] of KORE's tenancies by CRI across different industries. Of this, only 5.7% have been granted, equivalent to approximately 2.8% in economic impact. Rent relief requests are carefully evaluated based on the tenant's business issues and remaining lease terms, among other factors. Rent deferrals granted to office tenants were generally half of their monthly rent, and to be repaid over the next 12 to 18 months. Retail tenants were granted deferral of a full month's rent, and up to a maximum of four months for certain retail tenants. In some cases, leases were extended for the length of the deferral instead.

As at 30 June 2020, tenants in the retail sector, including those in medical retail, accounted for less than 2% of KORE's CRI. Over 37% of tenants were in the key growth sectors of technology and healthcare – two of the fastest growing industries in the US[3]. In 2019, the estimated direct contribution of the technology sector to the US economy was 10%[4]. National health expenditures are projected to grow 1.1 percentage points, faster than gross domestic product per year on average over 2019-28, translating to a projected increase in the health share of the economy from 17.7% in 2018 to 19.7% by 2028[5].

The weighted average lease expiry by CRI for KORE's portfolio and top 10 tenants was 4.1 years and 5.2 years respectively. Tenant concentration risk remains low with the top 10 tenants accounting for only 19.5% of CRI.

Capital Management
In July 2020, the Manager obtained a loan facility for the early refinancing of KORE's borrowings that were due in November 2021. These were loans obtained during KORE's Initial Public Offering in November 2017. At the same time, interest rate swaps related to these borrowings were also restructured. With this, KORE will have no long-term debt refinancing requirements until November 2022.

On a pro forma basis, had the refinancing of the borrowings and the restructuring of the interest rate swap occurred on 1 January 2020, KORE's all-in average cost of debt for 1H 2020 would have improved from 3.34% to 3.19%. In addition, had the refinancing of the borrowings occurred on 30 June 2020, KORE's average term to maturity as at 30 June 2020 would have increased from 2.5 years to 3.4 years.

KORE continues to maintain a strong and flexible balance sheet with significant liquidity. All of KORE's borrowings are US dollar-denominated and 100% unsecured, providing the REIT funding flexibility as it continues to pursue long-term growth. Aggregate leverage and interest coverage ratios were 37.4% and 4.4 times respectively. The Manager continues to limit interest rate exposure with floating-to-fixed interest rate swaps. As at 30 June 2020, 84.3% of the REIT's non-current loans have been hedged.

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[2] Tenants are required to fill out a questionnaire and meet certain criteria in order to be considered for rent relief.
[3] U.S. Bureau of Labor Statistics, Employment Projections – 2018-2028.
[4] CompTIA Cyberstates Report, 2020.
[5] National Health Expenditure Projections 2019–28, Office of the Actuary Centers for Medicare and Medicaid Services, March 2020.

Market Outlook
In 1Q 2020, the US economy contracted by 5.0% as a result of shutdowns to slow the spread of COVID-19[6]. The unemployment rate declined by 2.2% to 11.1% in June 2020, reflecting a limited resumption of economic activity. Despite the month-on-month decrease, nonfarm unemployment in June was 7.6% above its February level[7], before shelter-in-place orders were enacted.

In view of the continued risks to the economic outlook over the medium term, the Federal Open Market Committee voted to keep the federal funds rate at the range of 0-0.25%[8] during its June 2020 meeting, preserving the flow of credit and liquidity for strained businesses.

In its July 2020 Office National Report, CoStar reported 12-month average rent growth of 1.4% and average vacancy rate of 10.2%, below the historical average of 11.1%. Nonetheless, office dynamics and economic fundamentals in most of KORE's key growth markets remain sound with limited supply expected over the next few years. Seattle, which constitutes almost 39% of KORE's portfolio CRI, has 65% of its under construction inventory pre-leased and ranked first among all states in terms of 12-month absorption[9.]

As the COVID-19 pandemic continues to circulate throughout the world, it is challenging to estimate its full impact at this point, and the economic, social and political ramifications of the virus are expected to continue for some time.

Looking Ahead
The Manager remains cautiously optimistic of leasing performance in its key growth markets and remains focused on its long-term goal of delivering stable distributions and strong total returns for Unitholders. The Manager's continued prudent approach towards capital management and its proactive leasing efforts will also see KORE capture rental escalations and positive rental reversions as leases expire.

As businesses re-evaluate their space needs and some move toward decentralising their workforce[10], KORE's suburban office buildings and business campuses are well positioned to benefit from this potential shift away from downtown, CBD locations. KORE's distinct portfolio of office towers and business campuses also lends itself well to the additional space requirements as businesses de-densify. KORE's strategic exposure to the historically fast-expanding tech hubs provides further income resilience as businesses accelerate their digital transformation strategies driven by COVID-19.

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[6] U.S. Bureau of Economic Analysis, June 2020.
[7] U.S. Bureau of Labor Statistics, June 2020.
[8] Federal Reserve FOMC Statement, June 2020.
[9] CoStar July 2020 Office National Report.
[10] JLL Research, Future of Global Office Demand, June 2020.

About Keppel Pacific Oak US REIT (www.koreusreit.com)

Keppel Pacific Oak US REIT (KORE) is a distinctive office REIT listed on the main board of the Singapore Exchange Securities Trading Limited (SGX-ST) on 9 November 2017. KORE's investment strategy is to principally invest in a diversified portfolio of income-producing commercial assets and real estate-related assets in key growth markets of the United States (US) with positive economic and office fundamentals that generally outpace the US national average, and the average of the gateway cities, so as to provide sustainable distributions and strong total returns for Unitholders. KORE is managed by Keppel Pacific Oak US REIT Management Pte. Ltd., which is jointly owned by two Sponsors, Keppel Capital and KPA.

KORE's portfolio comprises a balanced mix of 13 freehold office buildings and business campuses across eight key growth markets driven by innovation and technology in the US. The assets have a combined value of US$1.27 billion and an aggregate net lettable area of over 4.7 million sf. KORE has an extensive and diversified tenant base, some of which are from the growth and defensive sectors such as technology, as well as medical and healthcare, which will continue to support and drive growth.

KORE is a technology-focused office REIT with over 50% of the portfolio located in the technology hubs of Seattle, Denver and Austin. The remainder of the portfolio is located in the key growth markets of Houston, Dallas, Orlando, Sacramento and Atlanta.