Keppel Pacific Oak US REIT

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MEDIA RELEASE

Unaudited Results of Keppel Pacific Oak US REIT for Half Year ended 30 June 2023

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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 2023.

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The materials are also available at www.koreusreit.com, www.kepcapital.com and www.kepcorp.com.

Keppel Pacific Oak US REIT maintained healthy portfolio committed occupancy of 90.8%.

Highlights

- Net Property Income (NPI) was US$43.9 million in 1H 2023, 2.0% higher year-on-year (y-o-y).
- 289,057 sf or 6.1% of portfolio net lettable area (NLA) of office space was committed in 1H 2023.
- Aggregate leverage of 38.4% with 77.6% of long-term loans hedged with floating-to-fixed rates.
- Ample headroom to 50% aggregate leverage – Capacity to borrow ~US$350 million before reaching regulatory limits and debt covenants. Alternatively, portfolio valuation would need to fall by ~24% to hit the 50% leverage limit.
- 1H 2023 distribution per unit (DPU) of 2.50 US cents translated to a distribution yield of 16.0% as at end-June 2023.

Summary of Results

(US$,000)	2Q 2023	2Q 2022	% Change	1H 2023	1H 2022	% Change
Gross Revenue	38,858	37,128	4.7	75,911	74,109	2.4
Net Property Income (NPI)	22,717	21,272	6.8	43,870	43,001	2.0
Adjusted NPI (excludes non-cash straight-line rent, lease incentives and amortisation of leasing commissions)	22,627	21,559	5.0	44,151	43,521	1.4
Income Available for Distribution(1)	**13,055**	**14,972**	**(12.8)**	**26,112**	**31,542**	**(17.2)**
DPU (US cents) for the period(2)	**1.25**	**1.43**	**(12.6)**	**2.50**	**3.02**	**(17.2)**
Annualised Distribution Yield (%)(3)	**-**	**-**	**-**	**16.0%**	**8.7%**	**730 bps**
Adjusted Income Available for Distribution(1)(4)	**-**	**-**	**-**	**26,112**	**29,885**	**(12.6)**
Adjusted DPU (US cents)(2)(4)	**-**	**-**	**-**	**2.50**	**2.86**	**(12.6)**
Adjusted Annualised Distribution Yield (%)(3)(4)	**-**	**-**	**-**	**16.0%**	**8.0%**	**800 bps**

(1) The income available for distribution to Unitholders is based on 100% of the taxable income available for distribution to Unitholders.

(2) DPU and adjusted DPU for 1H 2023 and 1H 2022 was calculated based on 1,044,450,254 issued Units as at 30 June 2023 and 30 June 2022 respectively.

(3) The annualised DPU yield for 1H 2023 is on a basis of 181 days (1H 2022: 181 days) and pro-rated to 365 days (1H 2022: 365 days). Distribution yields for 1H 2023 and 1H 2022 are based on market closing prices of US$0.315 and US$0.700 per Unit as at last trading day of the respective periods.

(4) The Manager has elected to receive 100% of its base fee for 1H 2023 amounting to US$2,900,949 in cash. Accordingly, 1H 2022 adjusted income available for distribution to Unitholders, adjusted DPU and adjusted distribution yield have been restated to assume 1Q 2022 base fee of US$1,657,009 were paid in cash instead of Units to provide a like-for-like comparison to 1H 2023 actual results.

Financial Performance

Keppel Pacific Oak US REIT (KORE) achieved NPI of US$43.9 million for 1H 2023, 2.0% higher y-o-y. Despite the disposal of the two Atlanta assets in 2H 2022, NPI was higher due to better performance from the remaining portfolio. Distributable income (DI) was US$26.1 million for 1H 2023, 17.2% lower than 1H 2022. The drop was mainly due to higher financing costs as a result of rising interest rates, the divestments of Northridge Center I & II and Powers Ferry in 2H 2022, as well as the impact of 1Q 2023 management base fees taken in cash instead of Units. This was partially offset by the better performance from the existing portfolio.

The Manager has elected to receive 100% of its base fee for 1Q and 2Q 2023 in cash. On a like-for-like basis, assuming 1Q 2022 base fees were paid in cash rather than Units, the adjusted income available for distribution for 1H 2022 would have been US$29.9 million. Accordingly, 1H 2023 actual income available for distribution to Unitholders would have been 12.6% lower than that of the 1H 2022 adjusted income available for distribution.

DPU for 1H 2023 was 2.50 US cents, 17.2% lower than 1H 2022's DPU of 3.02 US cents. 1H 2022 DPU was based on the Manager's base fee for 1Q 2022 being paid in Units and in cash for 2Q 2022. On a like-for-like basis assuming 1Q 2022 base fees were paid in cash rather than Units, 1H 2023 DPU would have been 12.6% lower y-o-y as adjusted DPU for 1H 2022 would have been 2.86 US cents, mainly from higher financing costs. Unitholders can expect to receive their 1H 2023 distributions on 29 September 2023. Based on the market closing price of US$0.315 per Unit as at the last trading day on 30 June 2023, KORE's distribution yield was 16.0%.

Portfolio Review

In the first half of 2023, approximately 289,057 sf of office space, equivalent to 6.1% of total NLA, was leased. KORE's committed portfolio occupancy remained healthy at 90.8% as at 30 June 2023, with 7.3% of leases by cash rental income (CRI) expiring in the second half of 2023. 1H 2023 rental reversion was -4.6%, skewed by Spectrum's renewal/expansion at Maitland Promenade I & II, one of the few buildings where the asking rents are significantly below in-place rents. Excluding Spectrum's lease, rental reversion was positive ~4.0%. Rental reversion for 2Q 2023 was positive ~2.6%.

At the same time, about 50% of KORE's tenants operate in the growing and defensive sectors of TAMI[1], medical and healthcare. Seattle – Bellevue/Redmond, which constitutes 45.6% of KORE's portfolio NPI, saw continued positive leasing momentum.

The weighted average lease expiry by CRI for KORE's portfolio and top 10 tenants was 3.6 years and 4.8 years respectively. Tenant concentration risk, a key unique value proposition of KORE, remains low with the top 10 tenants accounting for only 23.7% of CRI.

CoStar reported an average office rental growth of 0.9% for the last 12 months, in its June 2023 Office National Report. In comparison, the average office rental growth for KORE's key growth markets remains relatively in line, and higher than the US average at 1.1%, while the gateway cities faced on average, a decline of 0.6%.

Capital Management

As at 30 June 2023, KORE's all-in average cost of debt was 3.99%. Aggregate leverage and interest coverage ratio remained stable at 38.4% and 3.4 times, respectively. The weighted average term to maturity of KORE's debt was 3.1 years. Loans that were due in November 2023 and January 2024 were early refinanced in September 2022. As such, KORE has no long-term debt refinancing requirements until the fourth quarter of 2024.

All of KORE's borrowings are US dollar-denominated and 100% unsecured, providing the REIT with funding flexibility. KORE maintains a strong balance sheet with ample headroom to 50% aggregate leverage. There is capacity for KORE to borrow ~US$350 million before reaching regulatory limits and debt covenants. Alternatively, portfolio valuation would need to fall by ~24% to hit the 50% leverage limit. The Manager implemented proactive measures to alleviate the effects of the prevailing inflationary environment. Long-term loans have been substantially hedged with floating-to-fixed interest rate swaps, providing a reduction in near-term exposure to rising interest rates. As at 30 June 2023, 77.6% of the REIT's non-current loans had been hedged.

[1] TAMI stands for technology, advertising, media and information.

Commitment to Environmental, Social and Governance (ESG) Excellence
The Manager is dedicated to fostering sustainable growth by actively incorporating ESG factors into its business strategy and operations. KORE remains steadfast in its commitment to achieving sustainable outcomes and will provide updates on its progress towards ESG targets as and when appropriate.

Market Outlook
The US economy grew by 2.0% in 1Q 2023[2], with low unemployment rate of 3.6%[3]. The labour force participation rate remained consistent at 62.6% as at July 2023.

Economic headlines are dominated by high, but declining inflation. The annual inflation rate slowed to 3.0% in June 2023, the lowest since March 2021. Even as inflation continued to decrease, the latest consumer price index figures remained higher than the Federal Reserve's 2% annual target rate, signifying the possibility of more interest rate hikes.

The migration of Americans in massive numbers to large Sun Belt metro areas and fast-growing suburban cities, where KORE's portfolio is focused, continues to occur. This highlights the inclination of people to seek out more affordable, growth-friendly places[4]. The performance and demand differentials of the office market between gateway cities and suburban cities are expected to continue to widen. Quality office spaces in Sun Belt metros will stand out as employers seek the optimal work experience to bring employees back into the office.

On the other hand, large gateway cities face a daunting future as outmigration continues. In the last two years, New York led the country in population loss and saw its largest annual numeric and percent decline of more than 400,000 people[5]. This is followed by California and Illinois[6]. The pandemic spurred a burst of mobility that accelerated pre-existing trends. From New York to Chicago to San Francisco, empty downtown streets and transit shops have become way stations for the homeless[7].

Looking Ahead
Looking ahead, the Manager will maintain its focus on optimising KORE's portfolio, leveraging the strengths of its well-located assets in key growth markets across the US. The Manager believes that KORE's strategy of investing in the right locations will continue to drive the resiliency of its performance, enabling it to be well-positioned to capture the right tenant base.

- End -

[2] U.S. Bureau of Economic Analysis, June 2023.
[3] U.S. Bureau of Economic Analysis, July 2023.
[4] George W. Bush Institute, Americans keep moving to high-opportunity cities in the sun belt, new census data confirms, April 2023.
[5] U.S. Census Bureau, December 2022.
[6] U.S. Bureau of Labor Statistics, June 2023.
[7] Wall Street Journal, Wall Street Sours on America's Downtowns, June 2023.

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 leverages its focus on the fast-growing technology, advertising, media and information (TAMI), as well as medical and healthcare sectors across key growth markets in the United States (US), and aims to be the first choice US office S-REIT providing sustainable distributions and strong total returns for Unitholders.

KORE invests in a diversified portfolio of income-producing commercial assets and real estate-related assets in key growth markets characterised by positive economic and office fundamentals that generally outpace the US national average, and the average of the gateway cities. These markets include the Super Sun Belt and 18-Hour Cities, which have and continue to see an accelerated influx of talent as part of The Great American Move.

As at 31 December 2022, KORE's portfolio comprised a balanced mix of 13 freehold office buildings and business campuses across eight key growth markets driven by technology and innovation in the US. With a combined asset value of US$1.42 billion and an aggregate net lettable area of approximately 4.8 million sf, these properties encompass a diversified high-quality tenant base in the growing and defensive sectors of TAMI, as well as medical and healthcare, which make up 49% of KORE's portfolio by cash rental income.

KORE is managed by Keppel Pacific Oak US REIT Management Pte. Ltd., which is jointly owned by two Sponsors, Keppel, a global asset manager and operator with strong expertise in sustainability-related solutions spanning the areas of infrastructure, real estate and connectivity, and KORE Pacific Advisors, an established commercial real estate investment manager in the US.