

**MEDIA RELEASE**

**Unaudited Results of Keppel Pacific Oak US REIT for the Second Half and Full Year ended 31 December 2022**

**1 February 2023**

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 second half and full year ended 31 December 2022.

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## Keppel Pacific Oak US REIT maintains healthy aggregate leverage ratio at 38.2%

### Highlights

- Portfolio valuation improved by US\$2.2 million year-on-year (y-o-y). Taking into consideration capital expenditures and tenant improvements for 2022, there was a fair value loss of US\$39.2 million.
- 651,319 sf, or 13.7% of portfolio net lettable area (NLA) of office space, was committed in FY 2022, bringing portfolio committed occupancy to 92.6% as at 31 December 2022.
- Adjusted Distributable Income (DI) of US\$60.6 million for FY 2022 was 5.1% higher y-o-y, due mainly to the two new acquisitions of Bridge Crossing and 105 Edgeview, which were completed in August 2021.
- FY 2022 Distribution per Unit (DPU) of 5.80 US cents translated to a distribution yield of 12.60% as at 31 December 2022.

### Summary of Results

(US\$,000)	2H 2022	2H 2021	% Change	FY 2022	FY 2021	% Change
Gross Revenue	73,867	72,874	1.4	147,976	141,257	4.8
Net Property Income (NPI)	41,274	42,095	(2.0)	84,275	82,682	1.9
Adjusted NPI (excludes non-cash straight-line rent, lease incentives and amortisation of leasing commissions)	41,972	42,684	(1.7)	85,493	83,552	2.3
<b>Income Available for Distribution<sup>(1)</sup></b>	29,036	<b>32,480</b>	<b>(10.6)</b>	<b>60,578</b>	<b>62,417</b>	<b>(2.9)</b>
<b>DPU (US cents) for the period<sup>(2)</sup></b>	2.78	<b>3.18</b>	<b>(12.6)</b>	<b>5.80</b>	<b>6.34</b>	<b>(8.5)</b>
<b>Annualised Distribution Yield (%)<sup>(3)</sup></b>	-	-	-	<b>12.60%</b>	<b>7.90%</b>	<b>470 bps</b>
<b>Adjusted Income Available for Distribution<sup>(1)(4)</sup></b>	29,036	29,223	<b>(0.6)</b>	<b>60,578</b>	<b>57,659</b>	<b>5.1</b>
<b>Adjusted DPU (US cents)<sup>(2)(4)</sup></b>	2.78	2.86	<b>(2.8)</b>	<b>5.80</b>	<b>5.86</b>	<b>(1.0)</b>
<b>Adjusted Annualised Distribution Yield (%)<sup>(3)(4)</sup></b>	-	-	-	<b>12.60%</b>	<b>7.33%</b>	<b>527 bps</b>

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

(2) DPU of 2.78 US cents for 2H 2022 was calculated based on 1,044,450,254 issued Units as at 31 December 2022, while DPU and adjusted DPU of 3.18 US cents and 2.86 US cents for 2H 2021 comprise Advance distribution of 0.64 US cents and 0.58 US cents for the period from 1 July 2021 to 5 August 2021, calculated over a unit base of 947,366,724 issued Units and a distribution of 2.54 US cents and 2.28 US cents for the period from 6 August 2021 to 31 December 2021, calculated over a unit base of 1,040,052,040 and 1,036,042,724 issued Units respectively.

(3) Distribution yields for FY 2022 and FY 2021 are based on market closing prices of US\$0.460 and US\$0.800 per Unit as at last trading day of the respective periods.

(4) The Manager has elected to receive 100% of its base fee for 1Q 2022 amounting to US\$1,657,009 in the form of Units and 100% of its base fee for 2Q to 4Q 2022 amounting to US\$4,902,138 in cash. Accordingly, 2H 2021 and FY 2021 adjusted income available for distribution to Unitholders, adjusted DPU and adjusted distribution yield have been restated to assume 2Q to 4Q 2021 base fee of US\$4,758,043 were paid in cash to provide a like-for-like comparison to 2H 2022 and FY 2022 actual results.

### Financial Performance

Keppel Pacific Oak US REIT (KORE) has achieved DI of US\$29.0 million for 2H 2022, bringing DI for FY 2022 to US\$60.6 million, 10.6% and 2.9% lower than 2H 2021 and FY 2021 respectively.

The Manager has elected to receive 100% of its base fee for 1Q 2022 in the form of Units and 100% of its base fee from 2Q 2022 onwards, in cash. On a like-for-like basis, assuming 2Q to 4Q 2021 base fee were paid in cash rather than Units, the adjusted income available for distribution for FY 2021 would have been US\$57.7 million. Accordingly, FY 2022 actual income available for distribution to Unitholders would have been 5.1% higher than that of the FY 2021 adjusted income available for distribution.

The improved performance was mainly driven by contributions from the acquisitions of Bridge Crossing and 105 Edgeview, which were completed in August 2021, partially offset by the loss of income from the divestments of Northridge Centre I & II and Powers Ferry in FY 2022.

DPU for 2H 2022 was 2.78 US cents, 12.6% lower than 2H 2021's DPU of 3.18 US cents. This brought FY 2022 DPU to 5.80 US cents, 8.5% lower than FY 2021's DPU of 6.34 US cents. On a like-for-like basis assuming 2Q to 4Q 2021 base fees were paid in cash rather than Units, 2H 2022 and FY 2022 DPU would have been 2.8% and 1.0% lower y-o-y as adjusted DPU for 2H 2021 and FY 2021 would have been 2.86 US cents and 5.86 US cents, respectively. Unitholders can expect to receive their distributions on 30 March 2023. Based on the market closing price of US\$0.460 per Unit as at the last trading day on 31 December 2022, KORE's distribution yield was 12.60%.

### **Portfolio Review**

KORE's portfolio performance remains resilient, supported by active asset management on the ground.

The Manager had previously announced the proposed divestments of Northridge Center I & II and Powers Ferry in Atlanta, Georgia. The divestments of Northridge Center I & II and Powers Ferry were completed on 28 July 2022 and 22 December 2022, respectively.

In 4Q 2022, approximately 106,495 sf of office space was committed. This is equivalent to 2.2% of total NLA. KORE's portfolio committed occupancy increased to 92.6% as at 31 December 2022, with 13.5% of leases by cash rental income (CRI) expiring in 2023. Rental reversion remained positive at 3.8% in FY 2022, driven mainly by strong rents in the technology hubs of Seattle – Bellevue/Redmond.

At the same time, about 49% of KORE's tenants operate in the growing and defensive sectors of TAMI<sup>1</sup>, medical and healthcare. Seattle – Bellevue/Redmond, which constitutes 42.7% of KORE's portfolio NPI, experienced continued positive leasing momentum in 2H 2022.

The weighted average lease expiry by CRI for KORE's portfolio and top 10 tenants was 3.5 years and 4.6 years respectively. Tenant concentration risk, a key unique value proposition of KORE, remains low with the top 10 tenants accounting for only 24.3% of CRI.

In its December 2022 Office National Report, CoStar reported average office rental growth of 1.1% for the last 12 months. In comparison, the average rental growth for KORE's key growth markets remains relatively in line with the US average at 1.0%, while growth in the gateway cities was 0.3%.

### **Capital Management**

As at 31 December 2022, KORE's all-in average cost of debt was 3.2%. Aggregate leverage and interest coverage ratio were 38.2% and 4.0 times respectively. The weighted average term to maturity of KORE's debt was 3.6 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 continues to maintain a strong balance sheet to support its growth aspirations.

The Manager has also taken active measures through the year to mitigate the impact of the ongoing inflationary environment. KORE's long-term loans have been substantially hedged with floating-to-fixed interest rate swaps, providing a significant reduction in near-term exposure to rising interest rates. As at 31 December 2022, 77.9% of the REIT's non-current loans have been hedged.

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<sup>1</sup> TAMI stands for technology, advertising, media and information.

### **Commitment to ESG Excellence**

The Manager places emphasis on sustainability and ensures ESG considerations are implemented in KORE's business strategy. In recognition of its strong corporate governance practices, KORE was ranked second in the Governance Index for Trusts, and 10th in the Singapore Governance and Transparency Index under the REIT and Business Trust category in 2022. Furthermore, KORE received an upgraded rating from 'BBB' to 'A' in the MSCI ESG Ratings assessments, on 13 January 2023, reflecting improvements in its governance score.

### **Market Outlook**

The US economy grew by 2.9% in 4Q 2022<sup>2</sup>, whilst the unemployment rate and labour force participation rate remained consistent at 3.5% and 62.3% respectively as at January 2023<sup>2</sup>.

Amidst the ongoing war in Ukraine and rising interest rates environment, tech giants have started reconsidering their staffing needs, with several of them implementing hiring freezes and layoffs. Job security is likely to start taking precedence over job hopping as the current market environment gives workers a newfound appreciation for their jobs and provides employers with more confidence in setting return-to-office arrangements. In addition, overall employment has seen an uptick despite the tech layoffs as other industries that were struggling with labour shortages view the current situation as an opportunity for them to recruit quality talent. Globally, the office sector is evolving, but it is evident that workers have been returning to the office, and the workplace remains essential, though many companies are reducing their office footprints.

The annual inflation rate decreased further to 6.5% in December 2022, falling below 7.0% for the first time in over a year. This downward trajectory is encouraging and CBRE expects that inflation will end 2023 at 4.0%, with the Fed Funds Rate peaking at 4.75% to 5.0%<sup>3</sup>.

### **Looking Ahead**

Despite concerns over the US office market from inflation and recessionary fears, and the softening of the market's office fundamentals, the Manager remains focused on optimising its portfolio performance, leveraging its well-located assets in key growth markets in the US, as well as exposure to the defensive sectors of technology and healthcare.

KORE's portfolio, which is backed by the resiliency of its key growth markets, is well positioned to retain tenants. Moving forward, the Manager will continue to place its focus and emphasis towards strategic enhancements and will work towards improving leasing momentum and developing appealing amenities to attract quality tenants.

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<sup>2</sup> U.S. Bureau of Economic Analysis, January 2023.

<sup>3</sup> CBRE, With Easing Inflation, Fewer Rate Hikes Expected This Year, January 2023.

### **About Keppel Pacific Oak US REIT ([www.koreusreit.com](http://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 Capital and KORE Pacific Advisors.

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*Investors have no right to request the Manager to redeem 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 (SGX-ST). Listing of the Units on SGX-ST does not guarantee a liquid market for the Units.*

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