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MEDIA RELEASE

Recapitalisation Plan and Unaudited Results of Keppel Pacific Oak US REIT for Second Half and Full Year ended 31 December 2023

15 February 2024

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 2023.

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Keppel Pacific Oak US REIT (KORE) achieved higher Net Property Income (NPI) of 2.2% for FY 2023 and announces Recapitalisation Plan and Suspension of Distributions

Why Recapitalisation Is Necessary

KORE's leverage has risen to 43.2% post the FY 2023 valuation. Lenders remain concerned about the United States (U.S.) office market. Additionally, the Monetary Authority of Singapore (MAS) and bank covenants limit KORE to 50% leverage (MAS has an adjusted interest coverage ratio requirement of 2.5x if leverage exceeds 45%). Banks are reluctant to lend above 45% leverage for the U.S. market. The Manager is taking proactive measures with the goal of keeping leverage and interest coverage ratio well within the MAS requirements and banks' expectations.

KORE's portfolio occupancy and NPI have remained stable despite the difficult U.S. market that began in 2020. FY 2023 NPI was 2.2% higher supported by healthy portfolio committed occupancy of 90.3% as at end-December 2023. The occupancy and operating performance have largely been a result of the capital investment into the portfolio. Hence, continued investments are necessary to maintain performance, occupancy and valuation. It is not sustainable for KORE to continue funding capital via debt given its leverage level and the constraints outlined above.

Recapitalisation Options

Several options were evaluated to recapitalise KORE's balance sheet including divestments, equity fund raising (EFR) and reduction of distributions. KORE is unable to divest any properties at this point at a price that would be beneficial to KORE and its Unitholders because of the difficult U.S. real estate market. Based on discussions with various banks, an EFR is unlikely to raise enough equity capital in the present market environment to solve leverage concerns on a long-term basis and would likely require KORE to seek additional capital from Unitholders again in the near future. In relation to the suspension of distributions, the drop in valuation of KORE's assets announced on 30 January 2024 creates a loss situation in which any distribution would be in excess of the combination of profits and the US$75 million loans due for refinancing by 4Q 2024[1]. However, suspending distributions would impact Unitholders who rely on them.

Decision To Suspend Distributions

The Manager determined the best option for KORE and its Unitholders is to suspend distributions beginning 2H 2023. KORE expects distributions will be suspended through the 2H 2025 distribution that would otherwise be paid in 1H 2026. This option is expected to provide significantly more capital over two years compared to what an EFR could raise today. If market conditions allow, distributions may re-commence at an earlier date than planned.

Capital Requirements For U.S. Office

U.S. office requires a substantial amount of capital to build out and lease office space because the landlords, rather than the tenants, are responsible for funding the tenant improvements in addition to funding new or improved tenant amenities, leasing commissions and other costs. This is very different from the Singapore office market and therefore office REITs that invest in the U.S. require more capital investment than office REITs that invest in Singapore. Without the necessary capital investments, U.S. landlords' ability to retain tenants and attract new ones would be greatly compromised, thus leading to a decline in occupancies and NPI, resulting in valuations declining even more significantly. The Manager therefore plans to continue to strategically reinvest in the properties to ensure they remain attractive to current and prospective tenants, and the Manager is of the view that this is in the best interest of KORE and its Unitholders in the long run.

[1] This takes into account paragraph 7.3 of Appendix 6 to the Code on Collective Investment Schemes ("Property Funds Appendix") which states that if "the manager declares a distribution that is in excess of profits, the manager should certify, in consultation with the trustee, that it is satisfied on reasonable grounds that, immediately after making the distribution, the property fund will be able to fulfil, from the deposited property of the property fund, the liabilities of the property fund as they fall due".

Leverage Considerations

Leverage has grown each year since capital expenditures have been funded with debt. In the years KORE had acquisitions, the increase in leverage was somewhat offset by raising additional capital. In 2022, KORE divested its two buildings in Atlanta and some of the proceeds were used to repay outstanding loan obligations which was why leverage only grew to 38.2% from 37.2% in that year. In 2023, KORE's leverage increased to 43.2%, primarily due to the lower portfolio valuation, as well as, to a lesser extent, its debt funded capital spend.

Given the expected capital investments over the next two years, KORE's leverage ratio and interest coverage ratio will reach undesirable levels if capital needs continue to be funded with debt. This would likely result in KORE eventually being unable to comply with the regulatory leverage limits or its debt covenants.

Recapitalisation Plan Goals

By suspending distributions and investing capital wisely, KORE's goal is to maintain its leverage within the MAS limits and bank debt covenants. However, there is always the risk that asset valuations could change enough to cause KORE to exceed MAS limits or breach the bank debt covenants. As such, KORE plans to invest capital strategically in order to mitigate the risks of this possibility as best it can.

KORE does not anticipate selling any buildings at significant discounts to their current valuation in its recapitalisation plan. KORE will also attempt to refinance the loans that are due in 2024 and 2025 prior to maturity. KORE will continue to invest in the portfolio, with the goal of maximising NPI by the end of 2025 and restarting distributions for FY 2026 at the highest appropriate level, balancing the capital needs of the REIT and the desire to distribute income to Unitholders.

Commitment Towards Recovery

This was not an easy decision to make, and the Manager understands that many Unitholders rely on the income from KORE's distributions. Additionally, the Manager recognises the reduced cash flow will adversely impact Unitholders. However, the Manager believes that the impact of not investing in the portfolio would have a significantly worse long-term effect on KORE and its Unitholders. Given all of the above, the Manager is committed to work tirelessly to try to achieve its goal of optimising NPI, with a view to restarting distributions as early as possible.

Submission Of Relevant Tax Forms

While distributions to Unitholders are slated to be suspended up till 31 December 2025, KORE would have to bear the withholding tax based on the proportion of non-compliant Unitholders who fail to submit their U.S. withholding forms and certificates. This would reduce the income retained and negatively impact KORE and its Unitholders. Therefore, the Manager would like to urge all Unitholders to continue to submit the relevant tax forms to reduce KORE's withholding tax burden.

2023 Performance Highlights

- FY 2023 NPI was 2.2% higher supported by healthy portfolio committed occupancy.
- Leased 704,191 sf or 14.7% of portfolio net lettable area (NLA) of office space during the year. Portfolio committed occupancy was 90.3% as at end-December 2023.
- Portfolio valuation declined by 6.8% or US$97.1 million year-on-year (y-o-y). Taking into consideration capital expenditures and tenant improvements for 2023, there was a fair value loss of US$142.3 million.
- Aggregate leverage at 43.2%.

Summary of Results

(US$,000)	**2H 2023**	**2H 2022**	**% Change**	**FY 2023**	**FY 2022**	**% Change**
Gross Revenue	74,846	73,867	1.3	150,757	147,976	1.9
Net Property Income (NPI)	42,230	41,274	2.3	86,100	84,275	2.2
Adjusted NPI (excludes non-cash straight-line rent, lease incentives and amortisation of leasing commissions)	43,440	41,972	3.5	87,591	85,493	2.5
Income Available for Distribution	**26,111**	**29,036**	**(10.1)**	**52,223**	**60,578**	**(13.8)**
Amount distributed to Unitholders(1)	**-**	**29,036**	**(100.0)**	**26,112**	**60,578**	**(56.9)**
DPU (US cents) for the period(2)	**-**	**2.78**	**(100.0)**	**2.50**	**5.80**	**(56.9)**
Adjusted Income Available for Distribution(3)	**-**	**-**	**-**	**52,223**	**58,921**	**(11.4)**

(1) No distribution declared for 2H 2023.
(2) No distribution declared for 2H 2023. DPU for 2H 2022 was calculated based on 1,044,450,254 issued Units as at 31 December 2022.
(3) The Manager has elected to receive 100% of its base fee for FY 2023 amounting to US$5,802,619 in cash. Accordingly, FY 2022 adjusted income available for distribution to Unitholders 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 FY 2023 actual results.

Financial Performance

Net property income of US$86.1 million for FY 2023 was higher than FY 2022 by 2.2%. Excluding the non-cash adjustments such as straight-line rent, lease incentives and amortisation of leasing commissions which has no impact on the income available for distribution, adjusted net property income was 2.5% higher y-o-y. This was due to better performance of the remaining assets in the portfolio despite the disposal of the two Atlanta assets in 2H 2022.

KORE achieved income available for distribution of US$26.1 million for 2H 2023, bringing income available for distribution for FY 2023 to US$52.2 million, 10.1% and 13.8% lower than 2H 2022 and FY 2022 income available for distribution, respectively.

For FY 2022, the Manager has elected to receive 100% of its base fee in the form of Units for 1Q 2022 and 100% of its base fee in the form of cash for 2Q 2022 to 4Q 2022. On a like-for-like comparison, assuming 1Q 2022 base fee of US$1.7 million were paid in cash rather than in Units, the FY 2022 adjusted income available for distribution to Unitholders would have been US$58.9 million. Accordingly, the FY 2023 actual income available for distribution to Unitholders would have been 11.4% lower than that of the FY 2022 adjusted income available for distribution.

The drop was mainly due to higher financing costs as a result of rising interest rates, as well as the divestments of Northridge Center I & II and Powers Ferry in Atlanta, Georgia, in 2H 2022. This was partially offset by the better performance of the remaining assets in the portfolio, which enabled KORE to achieve higher net property income despite the divestments. No distribution declared for 2H 2023 arising from the recapitalisation plan.

Portfolio Review
In 4Q 2023, approximately 165,012 sf of office space, equivalent to 3.4% of total NLA was committed. This translated into 704,191 sf of leases executed during the year. Expansions and renewals contributed 13.7% and 57.0% respectively of all leases signed for the year. KORE's portfolio committed occupancy remained healthy at 90.3% as at 31 December 2023, with 9.7% of leases by cash rental income (CRI) expiring in 2024. Rental reversion for FY 2023 was negative 1.8% skewed mainly by Spectrum's renewal/expansion at Maitland Promenade I & II, where asking rents are below in-place rents generally due to built-in rental escalators. The adjusted rental reversion excluding Spectrum's renewal/expansion was a positive 0.9%.

Close to 51% of KORE's tenants operate in the growing and defensive sectors of TAMI[2], medical and healthcare. Seattle – Bellevue/Redmond and Orlando, which constitutes 52.1% of KORE's portfolio NPI, contributed the majority of the leasing carried out in 2023.

The weighted average lease expiry by CRI for KORE's portfolio and its top 10 tenants was 3.7 years and 4.7 years, respectively. Low tenant concentration risk continues to be a key unique value proposition of KORE, with the top 10 tenants accounting for only 26.3% of CRI.

In its December 2023 Office National Report, CoStar reported an average office rental growth of 0.7% for the last 12 months. For KORE, the average office rental growth for its key growth markets was 0.5%, which remained relatively in line with the US average. In comparison, the gateway cities recorded a decline of 0.2% on average.

Capital Management
KORE's all-in average cost of debt was 4.12%. Aggregate leverage and interest coverage ratio was 43.2% and 3.2 times, respectively. The weighted average term to maturity of KORE's debt was 2.7 years.

All of KORE's borrowings are US dollar-denominated and 100% unsecured. 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 31 December 2023, 73.8%[3] of the REIT's loans had been hedged.

Commitment to Environmental, Social and Governance (ESG) Excellence
KORE is committed to carry out its business and operations responsibly, recognising that upholding robust corporate governance practices and effective risk management is pivotal in protecting the interests of stakeholders and realising lasting, sustainable value for Unitholders. KORE's assets have achieved various sustainability certifications and awards, with the latest recognition from Energy Star attained by three of the buildings at Iron Point in 2023. Testament to its commitment towards upholding strong corporate governance, KORE was ranked 8th position in the Singapore Governance and Transparency Index under the REIT and Business Trust category in 2023, an improvement from its 9th place in 2022.

Market Outlook
Labour market remained resilient through the year with unemployment ending the year matching pre-pandemic lows of 3.7%[4]. In comparison, despite the Federal Reserve raising interest rates 11 times since

[2] TAMI stands for technology, advertising, media and information.
[3] Excludes uncommitted revolving credit facilities.
[4] U.S. Bureau of Economic Analysis, December 2023.

2022 in attempts to combat inflation, the US economy continues to grow, at an annual rate of 3.3% in 4Q 2023[5]. Annual inflation rate in the US was 3.2% in December 2023[6], slightly up from a five-month low of 3.1% in November. At a six-month annualised rate, core inflation was 1.9% in December, down from 4% in June[7]. Inflation has been on a downward trend after peaking at 9.1% in June 2022, which was the highest level since the early 1980s.

There continues to be disparity in the macroeconomic fundamentals of the US office market between gateway cities and the key growth cities where KORE operates, as demonstrated by diverging performance and demand, as well as in-migration trends. Furthermore, US companies across many industries are prioritising headquarter relocations as part of their corporate strategies. The past five years have been an active period for headquarter relocations, with 465 such moves identified since 2018[8]. With employers trying to attract talent back into the office amid a tight labour market, quality office spaces in the Sun Belt metros stand out as they generally provide more optimal work experiences and better work-life balance. A study from Moody's and Wall Street Journal looked at regions with at least one million in population and found that the best job markets were found in the South, where Sun Belt cities are located[9]. The location, quality, flexibility and amenities of offices will be more important than ever to attract tenants[10].

Looking Ahead

The Manager will maintain its focus on optimising KORE's portfolio, continue investing in its properties through asset enhancement initiatives, leverage its strategically located assets in key growth markets across the US, as well as exposure to the defensive sectors of TAMI, medical and healthcare.

- End -

[5] U.S. Bureau of Economic Analysis, January 2024.
[6] https://tradingeconomics.com/united-states/inflation-cpi.
[7] Wall Street Journal Powell Says Fed Has New Focus: When to Cut Rates, February 2024.
[8] The Shifting Landscape of Headquarter Relocations: Trends and Outlook, CBRE, December 2023.
[9] https://www.bluelake-capital.com/post/sunbelt-cities-lead-the-best-job-markets-in-the-us.
[10] U.S. Real Estate Market Outlook 2024, CBRE, December 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 2023, 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$1.33 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 50.9% 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.