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## **MEDIA RELEASE**

### **Unaudited Results of Keppel-KBS US REIT for the Financial Period since Listing on 9 November 2017 to 30 September 2018**

**17 October 2018**

The Directors of Keppel-KBS US REIT Management Pte. Ltd., as Manager of Keppel-KBS US REIT, are pleased to announce the unaudited results of Keppel-KBS US REIT for the financial period since listing on 9 November 2017 to 30 September 2018.

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*The materials are also available at [www.kepkbsusreit.com](http://www.kepkbsusreit.com), [www.kepcapital.com](http://www.kepcapital.com) and [www.kepcorp.com](http://www.kepcorp.com)*

DBS Bank Ltd. is the Sole Financial Adviser and Issue Manager for the initial public offering of Keppel-KBS US REIT (the "**Offering**"). DBS Bank Ltd., Citigroup Global Markets Singapore Pte. Ltd., Credit Suisse (Singapore) Limited and Merrill Lynch (Singapore) Pte. Ltd. are the Joint Bookrunners and Underwriters for the Offering.

## Keppel-KBS US REIT delivers DPU of 1.50 US cents for 3Q 2018, in line with IPO forecast

### Results Highlights

- Stable performance for the third quarter of 2018 (3Q 2018) driven primarily by strong leasing, positive rental reversion and lower property expenses
- Achieved distribution per Unit of 1.50 US cents for 3Q 2018, bringing DPU from Listing Date to 30 September 2018 to 5.32 US cents and an annualised distribution yield of 7.54%
- Stable portfolio committed occupancy rate of 90.1% as at 30 September 2018
- Deepening Seattle footprint with maiden accretive acquisition of the Westpark Portfolio in the supply-constrained Eastside suburban office market of Redmond

### Summary of Results

	3Q 2018 <sup>(1)</sup>			Listing Date to 30 Sept 2018 <sup>(1)</sup>		
	Actual US\$'000	Forecast <sup>(2)</sup> US\$'000	+ /(-) %	Actual US\$'000	Forecast <sup>(2)</sup> US\$'000	+ /(-) %
Gross Revenue	22,672	23,128	(2.0)	81,415	81,774	(0.4)
Property Expenses	(9,078)	(9,537)	(4.8)	(31,699)	(33,369)	(5.0)
Net Property Income	13,594	13,591	-	49,716	48,405	2.7
Income available for distribution to Unitholders <sup>(3)</sup>	9,469	9,447	0.2	33,538	33,501	0.1
DPU (US cents) for the period <sup>(3)</sup>	1.50	1.49	0.7	5.32	5.29	0.6
Annualised distribution yield (%) <sup>(4)</sup>				7.54%	7.50%	+4bps

#### Notes:

(1) No comparative figures presented as Keppel-KBS US REIT was constituted on 22 September 2017 and listed on 9 November 2017 (Listing Date). 3Q 2018 refers to the period from 1 July 2018 to 30 September 2018.

(2) Forecast for 3Q 2018 was derived from one quarter of the 2018 forecast. There was no forecast figure for the period from Listing Date to 31 December 2017. Hence, forecast results for the period from Listing Date to 30 September 2018 comprise actual figures from Listing Date to 31 December 2017 and nine months of the 2018 forecast.

(3) Based on 100% of taxable income available for distribution. DPU of 5.32 US cents for the period from Listing Date to 30 September 2018 comprise (i) DPU of 0.82 US cents from Listing Date to 31 December 2017 and (ii) DPU of 4.50 US cents for the period 1 January 2018 to 30 September 2018.

(4) Based on 3Q 2018 market closing price per Unit of US\$0.79.

### Financial Performance

Keppel-KBS US REIT Management Pte. Ltd., as Manager of Keppel-KBS US REIT, is pleased to deliver stable performance for 3Q 2018, driven primarily by the organic growth of its portfolio.

The stable performance, which is in line with the IPO forecast, was supported by strong leasing momentum, positive rental reversion and lower property expenses in 3Q 2018. Gross revenue for the quarter was 2.0% lower than the forecast period, due mainly to an early lease termination at Westmoor Center in Denver, Colorado, in 1Q 2018, as well as lower recoveries income arising from lower property expenses. Notwithstanding that, income available for distribution to Unitholders was up slightly due mainly to lower property expenses and the one-off compensation income from the early lease termination that was recognised in 1Q 2018. The space at Westmoor Center has since been taken up by an expanding tenant, and cash rental contribution will commence in December 2018.

DPU achieved for 3Q 2018 was 1.50 US cents, bringing DPU for the period from Listing Date<sup>1</sup> to 30 September 2018 to 5.32 US cents, in line with the IPO forecast of 1.49 US cents and 5.29 US cents respectively. This translates to an annualised distribution yield of 7.54%<sup>2</sup>. Keppel-KBS US REIT declares distributions on a half-yearly basis, and no distribution has been declared for the quarter under review.

In October 2018, the Singapore Exchange launched the new FTSE ST Singapore Shariah Index, of which Keppel-KBS US REIT has been included as a constituent. Inclusion in this Index, alongside that of the MSCI Singapore Small Cap Index will raise Keppel-KBS US REIT's visibility among investors, thereby improving trading liquidity.

### **Portfolio Review**

Capitalising on the steady demand for well-located office spaces in first choice submarkets, the quarter saw strong leasing momentum with approximately 134,000 sf (18 leases) committed, bringing portfolio committed occupancy to 90.1% as at 30 September 2018.

The majority of the leases signed during the quarter saw positive rental reversion, and all new leases signed have built-in average annual rental escalations of 3%. With this, 98% of the total portfolio will have built-in annual rental escalations of between 2-3%, providing organic growth visibility for the REIT.

As at 30 September 2018, the weighted average lease expiry<sup>3</sup> for the portfolio and top 10 tenants was 3.8 years and 5.4 years respectively. Given the rising office rents in most of the markets where the assets are located, the well-spread lease expiry profile will provide positive upside for the REIT when expiring leases with lower rents are marked to market.

### **Capital Management**

The Manager continues to adopt a prudent approach towards capital management. As at 30 September 2018, the REIT has zero refinancing requirements until November 2021. The weighted average term to maturity of its debt is 3.61 years, with all-in average cost of debt at 3.47%. As at the end of 3Q 2018, aggregate leverage was 33.3%, and interest coverage ratio at 5.6 times.

To limit interest rate exposure, 75.0% of the REIT's term loans have been hedged with floating-to-fixed interest rate swaps. All the REIT's borrowings are in USD, providing a natural hedge for its income and investments.

### **Deepening Seattle Presence with Maiden Acquisition**

In keeping with its aim to create value for Unitholders, the Manager announced on 24 September 2018 the proposed acquisition of the Westpark Portfolio in Redmond, a first choice office submarket on the Eastside of Seattle. The property will be Keppel-KBS US REIT's third asset in the Seattle-Tacoma-Bellevue Metropolitan Statistical Area (Seattle MSA).

A business campus comprising 21 freehold buildings, the Westpark Portfolio is close to the REIT's two existing properties – The Plaza Buildings and Bellevue Technology Center. The Redmond area, where the Westpark Portfolio is located, enjoys good accessibility and is supported by an excellent retail and amenity base. Limited new quality office inventory in the area and positive leasing demand in recent years has led to low vacancy and significant rent growth in the submarket.

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<sup>1</sup> Keppel-KBS US REIT was listed on 9 November 2017

<sup>2</sup> Based on the 3Q 2018 market closing price per Unit of US\$0.79 cents

<sup>3</sup> By committed occupancy and NLA

At the same time, the presence of Microsoft Corporation and Nintendo of America's headquarters in Redmond has also created a highly educated labour force and reinforced Redmond's position as a key technology hub.

The purchase consideration for the acquisition is US\$169.4 million<sup>4</sup>, and the acquisition was approved by Unitholders at an extraordinary general meeting on 16 October 2018.

### **Outlook**

In the October 2018 World Economic Outlook, the International Monetary Fund (IMF) reported that the momentum in the US economy is expected to remain strong for the rest of 2018 and 2019. The IMF expects growth for 2018 and 2019 at 2.9% and 2.5% respectively. At the same time, ongoing strong domestic demand is projected to push the economy above full employment, as well as raise imports and the current account deficit. Notwithstanding the US economy is above full employment, the market expects interest rate increases to be less steep than those projected by the Federal Reserve.

On the office market, CoStar, in its October 2018 report, noted that the national vacancy rate remained flat at 10.2%. 12-month<sup>5</sup> net absorption was 56.1 million sf, supported by stronger economic and job market growth that have kept demand for office space robust. Deliveries for the same period was 66.4 million sf and is set to peak in the next two years, with large projects coming on-stream mainly from New York and San Francisco. Meanwhile, rents recorded a 1.9% growth over the 12-month period, driven mainly by markets with strong job growth and little development activities, including Sacramento and Orange County.

### **Looking Ahead**

Keppel-KBS US REIT remains focused on delivering stable distributions and creating long term value for Unitholders with its assets that are strategically located in first choice submarkets across the US. These markets are well-placed to benefit from strong macroeconomic economic, population and employment growth that outpace national average.

Looking ahead, the REIT's performance will continue to be supported by organic growth drivers including improved portfolio occupancies, positive rental reversions and built-in rental escalations. At the same time, the Manager will also actively pursue opportunities through accretive acquisitions, while ensuring an optimal and nimble capital structure for growth.

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<sup>4</sup> The independent appraised market valuations by Cushman & Wakefield of Washington, Inc. and JLL Valuation & Advisory Services, LLC were US\$178.0 million and US\$181.4 million respectively.

<sup>5</sup> Refers to the period from October 2017 to September 2018.

## **About Keppel-KBS US REIT ([www.kepkbsusreit.com](http://www.kepkbsusreit.com))**

Listed on 9 November 2017 on the mainboard of the Singapore Exchange Securities Trading Limited, Keppel-KBS US REIT is a distinctive office REIT with properties located in key growth markets of US. The REIT's investment strategy is to principally invest in a diversified portfolio of income-producing commercial and real estate assets in key growth markets of the US to provide sustainable distributions and strong total returns for Unitholders.

Prior to the acquisition of the Westpark Portfolio, KORE's portfolio comprises a balanced mix of 11 office properties located in seven key growth markets across US. With an aggregate NLA of 3.2 million square feet, these quality properties have a diversified tenant base led by tenants in the growth and defensive sectors such as technology, finance and insurance, professional services, as well as medical and healthcare.

The assets in the West Coast are The Plaza Buildings and Bellevue Technology Center, both located in Seattle, Washington, as well as Iron Point in Sacramento, California. In the Central region, the assets are Great Hills Plaza and Westech 360 in Austin, Texas; and 1800 West Loop South and West Loop I & II in Houston, Texas; and Westmoor Center in Denver, Colorado. In the East Coast, the REIT owns Powers Ferry and Northridge Center I & II in Atlanta, Georgia and Maitland Promenade II in Orlando, Florida.

Keppel-KBS US REIT is managed by Keppel-KBS US REIT Management Pte. Ltd., which is jointly owned by two reputable Sponsors, Keppel Capital Holdings Pte. Ltd. (Keppel Capital) and KBS Pacific Advisors Pte. Ltd. (KPA).

### **Important Notice**

*The past performance of Keppel-KBS US REIT is not necessarily indicative of its future performance. Certain statements made in this release may not be based on historical information or facts and may be "forward-looking" statements due to 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 similar developments, shifts in expected levels of property rental income, changes in operating expenses, including employee wages, benefits and training, property expenses and governmental and public policy changes, and the continued availability of financing in the amounts and terms necessary to support future business.*

*Prospective investors and unitholders of Keppel-KBS US REIT (Unitholders) are cautioned not to place undue reliance on these forward-looking statements, which are based on the current view of Keppel-KBS US REIT Management Pte. Ltd., as manager of Keppel-KBS US REIT (the Manager) on future events. No representation or warranty, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of the information, or opinions contained in this release. None of the Manager, the trustee of Keppel-KBS US REIT or any of their respective advisors, representatives or agents shall have any responsibility or liability whatsoever (for negligence or otherwise) for any loss howsoever arising from any use of this release or its contents or otherwise arising in connection with this release. The information set out herein may be subject to updating, completion, revision, verification and amendment and such information may change materially. The value of units in Keppel-KBS US REIT (Units) and the income derived from them may fall as well as rise. Units are not obligations of, deposits in, or guaranteed by, the Manager or any of its affiliates. An investment in Units is subject to investment risks, including possible loss of principal amount invested.*

*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.*