

Keppel **KBS US REIT**

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MEDIA RELEASE

Unaudited Results of Keppel-KBS US REIT for the Second Quarter and Half Year ended 30 June 2019

16 July 2019

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 second quarter and half year ended 30 June 2019.

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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's achieved 30.9% year-on-year growth in distributable income for 1H 2019

Results Highlights

- Distributable income (DI) was US\$12.4 million for the second quarter of 2019 (2Q 2019), bringing DI for the first half of 2019 (1H 2019) to US\$24.8 million.
- Distribution per Unit (DPU) for 1H 2019 was 3.00 US cents, translating to an annualised distribution yield of 7.9%.
- Leased 8.8% of portfolio in 1H 2019, bringing portfolio committed occupancy to 94.0% as at 30 June 2019.
- Positive rental reversion of 8.6% for the portfolio in 1H 2019, supported by healthy leasing momentum from the technology (tech) and its related services sectors, which continue to be key drivers of the US economy.

Summary of Results

	Actual 2Q 2019 US\$'000	Forecast 2Q 2019 ⁽¹⁾ US\$'000	+ / (-) %	Actual 1H 2019 US\$'000	Forecast 1H 2019 ⁽¹⁾ US\$'000	+ / (-) %
Gross Revenue	29,280	24,101	21.5	58,724	48,201	21.8
Property Expenses	(11,292)	(10,036)	12.5	(22,548)	(20,075)	12.3
Net Property Income	17,988	14,065	27.9	36,176	28,126	28.6
Income available for distribution⁽²⁾	12,404	10,055	23.4	24,758	20,109	23.1
DPU (US cents) for the period	1.50	1.58	(5.1)	3.00	3.16	(5.1)
Annualised distribution yield (%) ⁽³⁾				7.9%	7.2%	70bps
Adjusted DPU (US cents)⁽⁴⁾	1.50	1.22⁽⁴⁾	23.0	3.00	2.44⁽⁴⁾	23.0

	Actual 2Q 2019 US\$'000	Actual 2Q 2018 US\$'000	+ / (-) %	Actual 1H 2019 US\$'000	Actual 1H 2018 US\$'000	+ / (-) %
Gross Revenue	29,280	22,641	29.3	58,724	46,351	26.7
Property Expenses	(11,292)	(8,847)	27.6	(22,548)	(17,858)	26.3
Net Property Income	17,988	13,794	30.4	36,176	28,493	27.0
Income available for distribution⁽²⁾	12,404	9,453	31.2	24,758	18,907	30.9
DPU (US cents) for the period	1.50	1.50	-	3.00	3.00	-
Annualised distribution yield (%) ⁽³⁾				7.9%	6.9%	100bps
Adjusted DPU (US cents)⁽⁴⁾	1.50	1.15⁽⁴⁾	30.4	3.00	2.29⁽⁴⁾	31.0

(1) Forecast for 2Q 2019 and 1H 2019 were respectively derived from one quarter and one half of the Projection Year 2019 as disclosed in the Prospectus.

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

(3) Actual 1H 2019 annualised distribution yield is based on market closing price of US\$0.765 per Unit as at last trading day of 1H 2019. Forecast 1H 2019 and Actual 1H 2018 annualised distribution yields are based on the listing price and 1H 2018 market closing price of US\$0.880 per Unit.

(4) Adjusted DPU for Forecast 2Q 2019 and 1H 2019 as well as Actual 2Q 2018 and 1H 2018 were calculated based on the actual number of units as at 30 June 2019 of 825,266,935 for comparison purpose.

Financial Performance

Keppel-KBS US REIT (KORE) has achieved DI of US\$12.4 million for 2Q 2019, exceeding its IPO forecast for the same period by 23.4%, and was 31.2% higher than the DI for 2Q 2018. DI of US\$24.8 million for 1H 2019 also exceeded forecast by 23.1%, and was 30.9% above the DI for 1H 2018.

Driving KORE's higher year-on-year (y-o-y) performance for 1H 2019 were contributions from the two acquisitions – the Westpark Portfolio in Seattle, Washington, in November 2018 and Maitland Promenade I in Orlando, Florida, in January 2019; healthy leasing momentum, especially at the business campuses in the tech hubs of Seattle, Austin and Denver; as well as positive rental reversion of 8.6% for the portfolio.

DPU for 2Q 2019 was 1.50 US cents, bringing total DPU for 1H 2019 to 3.00 US cents, which translated to an annualised distribution yield of 7.9% based on the market closing price of US\$0.765 per Unit as at the last trading day of 1H 2019. KORE declares its distributions semi-annually, and Unitholders will receive their distributions on 25 September 2019.

On a like-for-like basis and assuming the same enlarged Unit base for all periods, 1H 2019 DPU of 3.00 US cents would have been 23.0% above the IPO forecast of 2.44 US cents, and 31.0% higher than actual 1H 2018 adjusted DPU of 2.29 US cents.

Portfolio Review

A total of approximately 173,000 sf was leased in 2Q 2019, bringing the total leasing activity year-to-date to about 376,000 sf. This is equivalent to about 8.8% of KORE's portfolio by net lettable area (NLA). The healthy leasing momentum brought KORE's portfolio committed occupancy to 94.0% as at 30 June 2019.

As tech and its related services sectors continue to be key drivers of the US economy, KORE, with its strategic locale in tech-focused markets is experiencing growth in leasing activities and rents. Over two-thirds of leasing activities for 1H 2019 were at KORE's business campuses in the fast-growing tech hubs of Seattle, Austin and Denver. As at the end of 1H 2019, 29.5% of KORE's portfolio was leased to tenants in the tech sector.

More than half of leasing activities for 1H 2019 were renewals. The strong leasing momentum saw KORE record positive rental reversion of 8.6% for its overall portfolio as expiring leases were marked to market. At the same time, driving KORE's continued organic growth was the average annual rental escalations of 3%, which is embedded in all long-term leases.

As at 30 June 2019, the weighted average lease expiry¹ by cash rental income (CRI) for KORE's portfolio and top 10 tenants was 3.8 years and 4.9 years respectively.

Capital Management

The Manager continues to maintain a prudent approach towards capital management. As at the end of 1H 2019, the weighted average term to maturity of KORE's debt was 3.32 years with an all-in average cost of debt of 3.78% per annum.

The REIT has no long-term debt refinancing requirements until November 2021, and 100% of its US dollar-denominated borrowings remain unsecured, providing the REIT funding flexibility. Aggregate leverage and interest coverage ratio was 37.7% and 4.6 times respectively.

At the same time, the Manager will continue to limit interest rate exposure with floating-to-fixed interest rate swaps. As at 30 June 2019, 76.8% of the REIT's non-current term loans have been hedged.

Market Outlook

The US economy continued to register stable growth, increasing at an annual rate of 3.1%² in 1Q 2019 and 2.2%² in 4Q 2018 from the respective preceding quarters, marking its longest economic expansion on record. Unemployment rate in June 2019 was 3.7%, driven primarily by employment in the professional and business services sector.

At its June 2019 meeting, the Federal Open Market Committee had voted to keep the federal funds rate target range steady at 2.25-2.50%, although there has been recent indications of a potential rate cut at the end of July.

¹ Weighted average lease expiry, by NLA, was 3.9 years and 5.2 years for the portfolio and top 10 tenants respectively.

² U.S. Bureau of Economic Analysis, June 2019.

This combination of stable GDP growth, low unemployment rates and expectations of future rate cuts provides for an encouraging backdrop and potential tailwinds for KORE's growth.

According to CoStar's National Index³, the US office market showed stable, modest gains, with asking rents growing between 2-3% on average in the last three years and forecast to grow for a fourth straight year. The technology sector was a major driver of 2Q 2019 office rent growth and deal volume. According to CoStar, tech hotbed Austin topped 6.5% rent growth in June 2019 and ranked first in both 12-month asking rent growth and annualised quarterly rent growth.

In terms of leasing, Seattle, which is one of two major tech markets in the US, ranked top in 12-month net absorption with some of the largest leases signed by tech giants including Amazon⁴ as it relocates its worldwide operations team to Bellevue, and Apple⁵, with its new Seattle hub. Seattle, Austin and Denver, all strong tech markets, make up approximately 60% of KORE's portfolio CRI.

Looking Ahead

Leveraging KORE's strategic exposure to the growing tech markets and the REIT's unique value proposition of its business campus-like properties that are sought after by tenants, the Manager remains focused on its long-term goal of delivering stable distributions to Unitholders.

The Manager will continue its strategy of pursuing value accretive acquisitions in first choice submarkets with positive economic and office fundamentals that outpace the US national average. At the same time, the Manager will adopt a prudent approach towards capital management, while continuing its proactive leasing efforts to capture rental escalations and positive reversions as leases expire.

- End -

³ CoStar Office Report, 28 June 2019.

⁴ "City officials welcome Amazon to Bellevue", Statement by Bellevue Mayor John Chelminiak, 3 April 2019, <https://bellevuewa.gov/archived-news/city-manager-archived-news/amazon-welcome>

⁵ Bloomberg article, "Apple to Expand Its Footprint in Seattle With Office Lease", 25 June 2019, <https://www.bloomberg.com/news/articles/2019-06-24/apple-to-expand-footprint-hiring-in-seattle-with-office-lease>

About Keppel-KBS US REIT (www.kepkbsusreit.com)

Listed on 9 November 2017 on the mainboard of the Singapore Exchange Securities Trading Limited, Keppel-KBS US REIT (KORE) is a distinctive office REIT with properties located in key growth markets of the United States (US). KORE's investment strategy is to principally invest in a diversified portfolio of income-producing commercial and real estate-related assets in key growth markets of the US with favourable economic and office fundamentals that are above the national average, so as to provide sustainable distributions and strong total returns for Unitholders.

KORE's portfolio comprises a balanced mix of 13 quality freehold properties across seven key growth markets across the US. With an aggregate NLA of approximately 4.3 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, Bellevue Technology Center and The Westpark Portfolio, located in Seattle, Washington; as well as Iron Point in Sacramento, California. In the Central region, the assets are Westmoor Center in Denver, Colorado; Great Hills Plaza and Westech 360 in Austin, Texas; as well as 1800 West Loop South and West Loop I & II in Houston, Texas. In the East Coast, KORE owns Powers Ferry and Northridge Center I & II in Atlanta, Georgia; as well as Maitland Promenade I and Maitland Promenade II in Orlando, Florida.

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

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.