Manulife US REIT

PRESS RELEASE

MUST's FY 2022 distributable income +2.7% to US$87.9m; continues to explore funding & strategic options

- **FY 2022 DPU of 4.75 US cents, following ~91% payout ratio for 2H 2022**
- **Stable portfolio occupancy of 88.0% and WALE by NLA of 4.7 years**
- **Executed 378,000 sq ft of leases in FY 2022 at positive rental reversion**
- **Gearing at 48.8% due to 10.9% decline in valuations**
- **Strategic review on track, more updates expected in 2Q 2023**

Singapore, 9 February 2023 – Manulife US Real Estate Investment Trust ("MUST") reported a gross revenue of US$202.6 million for the full year ended 31 December 2022 ("FY 2022"), an increase of 9.4% year-on-year (YoY) from FY 2021. Net property income (NPI) rose 3.3% YoY to US$113.2 million, while distributable income (DI) increased 2.7% YoY to US$87.9 million. The improvement was largely due to contributions from Tanasbourne, Park Place and Diablo acquired in December 2021, higher carpark income and lower rent abatements provided to tenants affected by COVID-19. This was partially offset by lower rental income from existing properties as a result of higher vacancies, higher property expenses, absence of net reversal of provision for expected credit loss, and higher finance costs as a result of rising interest rates. Distribution per unit (DPU) for FY 2022 fell 6.8% YoY to 4.97 US cents over an enlarged unit base from the December 2021 private placement. After factoring in US$3.8 million, or ~9% of 2H 2022 distributable income, to be retained for general corporate and working capital purposes, the FY 2022 DPU is 4.75 US cents.

For the second half of FY2022, gross revenue rose 8.3% YoY to US$102.1 million, while NPI increased 3.9% to US$55.5 million. Distributable income dipped 1.7% to US$41.9 million, resulting in a 10.3% drop in DPU to 2.36 US cents. After factoring in the 91% payout[1] ratio, the DPU to be paid on 30 March 2023 for the second-half period is 2.14 US cents, 18.6% lower YoY.

	2H 2022 (US$'000)	2H 2021 (US$'000)	Change (%)	FY 2022 (US$'000)	FY 2021 (US$'000)	Change (%)
Gross Revenue	102,141	94,300	8.3	202,559	185,099	9.4
Net Property Income	55,541	53,478	3.9	113,163	109,547	3.3
Distributable Income	41,904	42,609	(1.7)	87,870	85,599	2.7
Distribution per Unit ("DPU") (US cents)	2.36	2.63	(10.3)	4.97	5.33	(6.8)
91%[1] payout ratio for 2H 2022						
Distribution Amount	38,083	42,609	(10.6)	84,049	85,599	(1.8)
DPU to be paid[1]	2.14	2.63	(18.6)	4.75	5.33	(10.9)

[1] US$3.8m (representing ~9% of DI) was retained for general corporate and working capital purposes for 2H 2022.

Mr Tripp Gantt, Chief Executive Officer of MUST, said, “We have reported an improvement in distributable income in FY 2022, coupled with a steady portfolio occupancy of 88.0% and WALE by net lettable area (NLA) of 4.7 years, in spite of the challenges in our submarkets. Cognisant of our gearing level, we will continue exploring funding and strategic options for the REIT. Since our financial advisor Citi[2] began discussions with potential partners from mid-January 2023 in relation to our strategic review, we have seen healthy interest from a broad range of counterparties including local and international real estate developers, REITs and private equity players. We look forward to providing more updates in due time.”

Proactive Capital Management

MUST’s gearing ratio of 48.8% remains below the regulatory gearing limit of 50.0%, with the interest coverage ratio and weighted average interest rate at 3.1 times and 3.74% respectively as at 31 December 2022. To provide cash flow stability while allowing for financial flexibility, 77.3% of gross borrowings is secured on a fixed rate basis. On 20 December 2022, MUST obtained a new unsecured sustainability-linked loan facility which will be drawn down to refinance the mortgage loan facility for Phipps due in June 2023. As at 31 December 2022, weighted average debt maturity was 2.8 years, compared to 2.4 years as at end-2021. The proportion of green/sustainability-linked loans has also increased to 64.4%, from 45.1% a year ago. MUST’s net asset value per unit is US$0.57 as at the end of FY 2022.

Moderate Portfolio Performance

MUST has maintained a steady occupancy at 88.0%, above the U.S. Class A average of 83.3%[3] as at end-December 2022. The portfolio’s weighted average lease expiry (WALE) remains steady at 4.7 years, with only 10.8% of leases by NLA expiring in 2023. In 4Q 2022, the Manager executed ~123,000 sq ft of leases with a WALE of 8.2 years, mainly from the legal, architecture and engineering, as well as finance and insurance sectors. Of the leases signed, two-thirds were new leases, while 32.3% were renewals. Majority of the leases were signed at Capitol, Diablo and Peachtree in the quarter. Within the portfolio, 68% of all leases come with annual escalation of 2.6% per annum.

The National Council of Real Estate Investment Fiduciaries (NCREIF) Office Subindex, a U.S. office benchmark, recorded a 7.4% decline in appreciation return YoY in 4Q 2022, driven by weaker market sentiment. This is in line with the valuation change at MUST's portfolio excluding Figueroa of -7.1%. Figueroa made up 44% of the portfolio valuation decline, in large part due to Quinn Emmanuel’s downsizing in August 2022 and TCW’s vacate by end-2023. While the valuation of MUST’s portfolio has declined 10.9% in 2022, close to 80% of its valuation decline was concentrated in three submarkets, namely Los Angeles, New Jersey and Washington, D.C. The main reasons that drove the valuation drop in these three submarkets were higher discount and terminal cap rates (up to 150 and 125 basis points, respectively), higher expected tenant incentives, as well as valuers drawing reference from selected transactions executed at depressed prices over the last 12 months.

MUST’s portfolio boasts a high-quality and well-diversified tenant base comprising numerous multinational corporations across more than 16 different trade sectors. All its top 10 tenants are either

[2] Citigroup Global Markets Singapore Pte. Ltd.
[3] JLL Q4 2022 U.S. Office Outlook.

public-listed companies, government agencies or corporate headquarters. As at 31 December 2022, no single tenant contributed more than 5.7% of gross rental income.

Building ESG Resilience

MUST has made headway towards its goal of achieving a 100% green-certified portfolio by 2030, having obtained green certifications for 92% of its portfolio by NLA as at 31 December 2022[4]. Over the course of the year, it achieved 12 new Fitwel/Fitwel Viral certifications for seven of its buildings. For the Global ESG Benchmark for Real Assets (GRESB), MUST retained its '5 Star' rating for the Real Estate Assessment with a score of 92, ranking it fifth out of 14 U.S. listed REITs. It also obtained the highest 'Negligible' risk rating for Sustainalytics, placing it among the top 1% among more than 15,600 companies.

Amidst the uncertainty in the equity market in 2022, coupled with a change in leadership and headwinds in the U.S. office sector, MUST also proactively ramped up its engagement with investors. In all, the Manager engaged more than 8,700 investors and conducted its first physical Investor Day since the pandemic started. The event, which focused on the future of office, was attended by ~180 retail investors. They participated in a lively quiz and Q&A session with management who shared with them about U.S. office market insights and the REIT's forward strategy.

U.S. Market Outlook

After declining for two consecutive quarters in the first half of 2022, U.S. real GDP finished the second half of the year with annual growth rates of 3.2% and 2.9% in Q3 and Q4 2022, respectively. Despite GDP declines in the first half, the labour market has been resilient, with unemployment ending the year matching pre-pandemic lows of 3.5%. The Federal Reserve, in its effort to combat inflationary pressures, pursued an aggressive monetary stance by raising policy rates 425 basis points over the course of 2022, before tapering to 25 basis points in January 2023. As a result, inflation is showing signs of alleviation. After peaking at a 9.1% annual rate in June 2022, inflation declined to 6.5% annual growth in December 2022. Besides the Fed's monetary policy, other factors that have contributed to inflation also began to show signs of easing, including supply chain constraints, pandemic restrictions, energy prices and consumer spending.

According to JLL, the U.S. office market experienced a 10.3% decline in leasing activity between 3Q and 4Q 2022. Despite the drop towards the end of the year, leasing volume for 2022 showed a 15.1% YoY gain compared to 2021. The slowdown in activity was most notably felt among large-scale leases; just 42 lease transactions over 100,000 sq ft were signed in the quarter, the lowest since Q4 2021 and more than 50% below the pre-pandemic quarterly average. The U.S. office market continued to experience negative net absorption with -37.4 million sq ft of net absorption in 2022 due to pressures from subleasing and downsizing trends, albeit an improvement compared to -59.0 million sq ft of net absorption in 2021.

The Way Ahead

Despite hybrid work and evolving space requirements leading to more tenants rightsizing, the Manager continues to see strong demand for new and repositioned offices in attractive locations. It

[4] Green certifications include Leadership in Energy and Environmental Design (LEEDTM), ENERGY STAR®, WiredScore, Fitwel® and BOMA 360.

also expects the operating environment to improve for REITs, as the Fed's tapering of interest rate hikes provides the market with more certainty in 2023.

MUST has kickstarted efforts to improve its financial flexibility with its implementation of a ~91% payout for its 2H 2022 distributable income. The Manager continues to explore fundraising options, including asset dispositions, a distribution reinvestment plan and equity injection. It is currently in negotiations with the Sponsor on a potential disposition. As for its ongoing strategic review, Citi is expected to present proposals to MUST's Strategic Working Group[5] (SWG) by end-March 2023, following which the SWG will evaluate the proposals with Citi in 2Q 2023 and provide further updates thereafter.

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About Manulife US REIT

Manulife US Real Estate Investment Trust ("Manulife US REIT") is the first pure-play U.S. office REIT listed in Asia. It is a Singapore listed REIT established with the investment strategy principally to invest, directly or indirectly, in a portfolio of income-producing office real estate in key markets in the United States ("U.S."), as well as real estate-related assets. MUST's portfolio comprises 12 freehold office properties in Arizona, California, Georgia, New Jersey, Oregon, Virginia and Washington D.C. The current portfolio has an aggregate net lettable area of 5.5 million sq ft and is valued at US$1.9 billion as at 31 December 2022.

About the Sponsor – The Manufacturers Life Insurance Company ("Manulife")

Manulife is part of a leading Canada-based financial services group with principal operations in Asia, Canada and the United States. The Sponsor operates as John Hancock in the U.S. and as Manulife in other parts of the world, providing a wide range of financial protection and wealth management products, such as life and health insurance, group retirement products, mutual funds and banking products. The Sponsor also provides asset management services to institutional customers. Manulife Financial Corporation is listed on the Toronto Stock Exchange, the New York Stock Exchange, the Hong Kong Stock Exchange and the Philippine Stock Exchange.

About the Manager – Manulife US Real Estate Management Pte. Ltd.

The Manager is Manulife US Real Estate Management Pte. Ltd., an indirect wholly-owned subsidiary of the Sponsor. The Manager's key objectives are to provide Unitholders with regular and stable distributions and to achieve long-term growth in DPU and NAV per Unit, while maintaining an appropriate capital structure.

[5] Comprising the senior members of the Manager and the Board of the Manager.

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