Keppel Pacific Oak US REIT

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SIAS – Keppel Pacific Oak US REIT Dialogue Session on the Proposed Trust Deed Amendment in Relation to Distributions held on 4 April 2025, 12.30pm

Transcript of the Question & Answer Session

DS: David Snyder, Chief Executive Officer, Keppel Pacific Oak US REIT Management Pte Ltd (KORE)
AG: Andy Gwee, Chief Financial Officer, Keppel Pacific Oak US REIT Management Pte Ltd (KORE)
DT: David Toh, Assistant Honorary Treasurer, Securities Investors Association (Singapore) (SIAS)

DT: Can the Manager share any insights you have gained from interacting with tenants and observing market trends on the ground? Have there been any notable shifts in tenant sentiment, leasing behaviour, or market expectations since the US election? You mentioned in the US capital expenditure is borne by the landlords and not the tenants.

DS: In terms of on the ground insights, 4Q 2024 was quite strong for leasing across the portfolio in most markets. The first quarter of the year tends to be weaker, but we've signed a number of leases. The sentiment in Bellevue/Redmond is not very strong but remains positive. We continue to be positive on Dallas, Austin and Nashville whilst we expect Denver to be a bit weaker as we expect a number of large spaces to come back to us in 2025.

In the United States (US), overall sentiment is that leasing activity is back. The federal government is back in the office and many tenants have announced back-to-office mandates. Gateway cities such as New York City have seen increased leasing in 1Q 2025. We are not seeing many tenants giving up space due to work from home. Tenants are in fact starting to increase space per employee and are taking up more space to build huddle rooms or increase desk sizes for example. Everything on the ground points to positive, with one exception, which is the tariffs that the US President, Donald Trump just levied on everyone, creating uncertainties with the tariff wars. The tariffs will hurt the US economy and employment, which may then leave some room for interest rate cuts. From our perspective where valuations, which would benefit from lower interest rates, are a critical aspect, this may ironically not be totally negative. But for tenants and individuals, the tariff wars are not a positive.

DT: Thank you for going through the explanation. Is there a direct impact on future distributions?

DS: Hard to say if there will be much impact at this point. There is some increase observed in terms of building costs where there was significant inflation in previous years that has tempered back down to acceptable levels. We do not use a lot of wood in our enhancement works, so we are not hit directly in terms of construction costs. There will be some increase in capital expenditure and tenant improvement costs, but my hope is that it will not be too significant.

DT: Aggregate leverage has increased and there was a US$47 million decline in valuations in FY 2024. Have the anticipated benefits of suspending distributions been offset by further declines in valuations? Can you highlight any areas where tangible progress has been made?

DS: At the beginning of last year, we had said that we expected valuations to remain relatively flat and do not expect to recover the capital expenditure. From our valuation at the end of last year, it was just as expected. However, for this year, I expect us to recover the capital and reap the benefits of the capital spent. What we did get credit for is that we spent the withheld distributions well to support our leasing momentum and get occupancy up to 90% at the end of the year. 2024 was a successful leasing year as we leased a significant amount of space but the full impact of the income has not come in yet due to the rent free period. Another big positive from a unitholder perspective was that withholding distributions made lenders far more comfortable. We were able to refinance the 2024 maturities and push out the 2025 maturities one to two years later.

DT: Given current market conditions and operational trends, what is the probability of an earlier-than-expected resumption of distributions? Could you share your timeline on restarting distribution?

DS: As previously announced, the plan originally was to distribute 1H 2026 distributions that will be paid out in 2H 2026. For now, from what we can see, valuations will likely remain flat this year and if we get the necessary approvals on the proposed trust deed amendment, we could possibly start with a lower distribution payout at an earlier timeline and build our way up towards an 80% to 90% payout. However, we would first need to get our refinancing done, continue to evaluate our leverage level and manage our yield. Our goal over the longer term is to have distributions that do not fluctuate with the market, and be able to pay out a sustainable distribution.

DT: What are KORE's competitive advantages in attracting tenants vis-à-vis the big US office REIT players?

DS: We do not compete with them in the markets they invest in. Big US REITs invest in gateway cities unlike KORE who invests in key growth markets (ie. high growth markets). The gateway cities include New York City, Boston, Washington D.C., Los Angeles, San Francisco. We purposely do not invest in those markets as those markets are not the growth engines. The largest number of Fortune 500 companies are in Texas now, as compared to 5 years ago where they were present in California. Large consulting firms have started moving to Houston and Dallas. We are well diversified in terms of tenant exposure and have many small tenants which allow us to build out speculative suites and fully fitted out spaces up to 8,000 sq ft. We also work very closely with our leasing and asset management teams and have maintained a good relationship with them.

DT: Do you see any plans to adjust management fees?

DS: Management fees are based on distributable income. If income goes down, the management fees decrease as well. The Manager is not in a position to adjust its fees as it is not making a lot of money at this point. Our operating statistics show that our operating performance has been much better than the US average and our US SREIT peers. We are working very hard to do the best for unitholders, spending money on the right things. We want to be able to keep our staff who continue to do the best for unitholders. A significant portion of my remuneration is paid in units and the distribution which will be paid is part of that compensation and therefore interests are aligned. We are trying to do the right thing for KORE. Not everything we do will be perfect but we are doing everything we can to preserve value for unitholders.

DT: How long is the rent free per contract signed?

DS: KORE's free rent policy for majority of its portfolio is one month of free rent per year of a lease. The exception would be half a month at The Plaza Buildings, Bellevue Technology Center, and the Westpark portfolio where the Bellevue/Redmond markets are strong. Occasionally, when it is an important lease, we might adjust the tenant improvement allowance lower to increase the free rent if that is what is important for the tenant. However, this is not common.

DT: Can the REIT Manager quantify the potential cost savings if all unitholders duly complete their tax submissions? What percentage of unitholders have complied?

AG: For the FY2024 tax forms, the team is currently in the midst of getting the relevant tax forms and hence we are unable to provide much colour yet. For 2023, we typically have 1% to 2% of non-compliant unitholders who fail to submit their W8BEN forms. This works out to about US$300k. Any tax form that is invalid, the REIT would still need to pay the withholding tax first. When we recommence distribution, we may look into clawing back withholding tax in future. As such, we appeal to unitholders to fill in and submit the forms in a timely manner. The W8BEN form is valid for three years from the calendar year it is submitted.

DT: Several unitholders have been with KORE since its IPO, and have seen its distribution and valuation fall dramatically. Can the Manager comment on this and also provide your closing remarks?

DS: I completely understand and sympathise with the pain of our original unitholders. It is unfortunate where KORE's valuation is at this point as it was hit by various events. The unit price has been trading low even before the halt in distributions as there was a broad brush painted across the US SREITs. Unfortunately, we have been painted by the same broad brush though our operating performance has been much better. We have maintained the value of our portfolio and have not experienced the same drop in valuation. We have also not been given the recognition for consistently investing in our portfolio which our peers have not done.

Since IPO and through the pandemic, our objective is to do the best for unitholders. We want to continue to preserve value of the portfolio and invest in our assets. We did not have a choice but to halt distributions as we could not justify paying under the Monetary Authority of Singapore guidelines. Given the circumstances, we believe we have made the right choice in halting distributions as our occupancy and performance would have been much worse if we did not have the capital to continue to invest in our properties. We believe we are well positioned for a turnaround in late 2025 and early 2026. If we can manage debt maturities and keep leverage at the right level, we would like to be in a position to restart distribution with this trust deed amendment and get back to 80-90% payout ratio over time.

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