Manulife US REIT

PRESS RELEASE

MUST prioritises dispositions in 2024, targets asset sales of ~US$100m by 2Q/3Q 2024

- **MUST aims to maximise returns for Tranche 2 and 3 assets via leasing and portfolio optimisation**
- **Gross revenue, net property income +2.7% and +1.3% for FY 2023**
- **Leases signed at +8.2% rent reversion in 2023, portfolio WALE at 5.0 years**
- **2023 leasing volume doubled YoY to ~740,000 sq ft, or 14.7% of portfolio NLA**
- **US$235 million of loans repaid/refinanced, no refinancing needed in 2024; 91.3% of loans on fixed rates**

Singapore, 8 February 2024 – Manulife US Real Estate Investment Trust (“MUST”) reported a gross revenue of US$208.0 million for the full year ended 31 December 2023 (“FY 2023”), which was 2.7% higher year-on-year (YoY) from FY 2022. Net property income (NPI) rose 1.3% in tandem to US$114.6 million, but distributable income (DI) declined 15.5% to US$74.3 million. This was mainly attributable to lower rental and recoveries income due to higher vacancies and higher property expenses, higher finance costs as a result of rising interest rates, and the divestment of Tanasbourne in April 2023 and Park Place in December 2023, partially offset by higher lease termination fees and carpark income.

For the second half of FY 2023, gross revenue rose 6.2% to US$108.5 million, while NPI improved by 6.7% YoY to US$59.2 million. However, DI declined 13.3% YoY to US$36.3 million. Pursuant to the Recapitalisation Plan set out in the circular to Unitholders dated 29 November 2023, MUST will be halting distributions to Unitholders until 31 December 2025, unless the Early Reinstatement Conditions as defined in the circular are achieved earlier.

	2H 2023 (US$’000)	2H 2022 (US$’000)	Change (%)	FY 2023 (US$’000)	FY 2022 (US$’000)	Change (%)
Gross Revenue	108,457	102,141	6.2	208,025	202,559	2.7
Net Property Income	59,245	55,541	6.7	114,606	113,163	1.3
Distributable Income	36,344	41,904	(13.3)	74,292	87,870	(15.5)
Distribution Amount	-	38,083	(N.M.)	-	84,049	(N.M.)
DPU (US cents)	-	2.14	(N.M.)	-	4.75	(N.M.)

Mr Tripp Gantt, Chief Executive Officer of MUST, said, “Now that the Recapitalisation Plan has been approved by our lenders and Unitholders, our priorities in 2024 will be on asset dispositions and maximising proceeds to further reduce indebtedness and fund capital expenditure (capex). We are targeting asset disposals of ~US$100 million by 2Q/3Q 2024. To improve the operational performance of the portfolio, we will aim to maximise the returns of our Tranche 2 and 3 assets through our leasing and portfolio optimisation efforts, including the ~US$18 million modernisation of Peachtree. On the capital management front, we will also continue to maintain efficient spending on our essential capex, while managing liquidity to address our 2025 debt maturities.”

Capital management: US$235m of loans repaid/refinanced, no refinancing needed in 2024
Following Unitholders' approval of the Recapitalisation Plan, the Master Restructuring Agreement has been executed, under which MUST’s earlier breach of financial covenant has been waived, thus paving the way for stabilisation and recovery. Under the Recapitalisation Plan, the divestment of Park

Place to the Sponsor has also been completed in December 2023. US$98.0 million from divestment proceeds and US$137.0 million from the Sponsor-Lender loan were used to repay existing debt on 22 December 2023. MUST will also be using its cash holdings to pay down an additional US$50.0 million of debt by 31 March 2024. Meanwhile, the adoption of the Disposition Mandate will provide the Manager with the flexibility and speed necessary to successfully execute further dispositions in order to repay debt, fund capex to rejuvenate the remaining assets, and strengthen its portfolio.

As at 31 December 2023, MUST's aggregate leverage ratio is 58.3%. According to the Monetary Authority of Singapore's (MAS) Property Funds Appendix, the aggregate leverage limit is not considered to be breached if exceeding the limit is due to a decline in portfolio valuation, which is beyond the Manager's control. However, the Manager will not be able to incur additional indebtedness and will have to fund capex, tenant improvement allowance and leasing costs with available cash, cash from operations and any disposition proceeds.

With the loan maturities extended by one year under the Master Restructuring Agreement, MUST does not have any refinancing requirements in 2024. MUST's debt maturity profile remains well-staggered over five years, with a weighted average debt maturity of 3.3 years as at 31 December 2023. MUST's bank and MAS interest coverage ratio (ICR) stand at 2.7x[1] and 2.4x[2] respectively, while its weighted average interest cost has eased to 4.15%[3] as at 31 December 2023, from 4.38% as at 30 September 2023. The percentage of its fixed rate loans has increased to 91.3% as at 31 December 2023 from 69.2% as at 30 September 2023. Net asset value per unit has declined to US$0.33 as at 31 December 2023 from US$0.40 as at 30 June 2023, mainly due to its fair value loss on investment properties.

Portfolio performance: 2023 rent reversion at +8.2%; leasing volume doubled
MUST's same-store occupancy remained relatively stable at 84.4% as at 31 December 2023 from 83.9% three months ago. The portfolio also saw positive rent reversions of +8.2% in 2023. ~104,000 sq ft of leases were signed in the fourth quarter, including an insurance firm at Capitol for 14,000 sq ft and more than nine years and a public administration tenant at Figueroa for 42,000 sq ft and 11 years. This brings the full-year tally to ~740,000 sq ft of leases signed, representing ~14.7% of the portfolio net lettable area (NLA) and nearly double FY2022's leasing volume. Renewals made up about three-quarters (76.8%) of leasing in 2023, with new leases making up ~20.1%, and expansions the remaining 3.1%. MUST's lease expiry remains well-spread, with 18.5% of leases by NLA expiring in 2024, and another 11.6% coming due in 2025. Long leases with weighted average lease expiry (WALE) averaging 8.9 years were signed in 4Q 2023. As at end-December 2023, the portfolio WALE by NLA stood at 5.0 years, compared to 4.7 years in end-2022.

As announced on 5 January 2024, the real estate valuation of MUST's portfolio has declined by 8.0% to US$1,411.8 million as at end-December 2023, following a 14.6% decline over the first six months of 2023. The 2H 2023 decline was due to higher average discount rates (+51 bps) and terminal capitalisation rates (+17 bps) compared to June 2023, reflecting market and property level risks such as lack of debt availability, net selling of U.S. offices, and weak submarket fundamentals, as well as higher vacancy levels and leasing cost assumptions driven by weak leasing activity across the U.S. office market. Notably, Tranche 1 assets, which the Manager has prioritised for sale, contributed to about half of MUST's valuation decline. In comparison, the National Council of Real Estate

[1] As defined in the facility agreements, the bank ICR is the ratio of consolidated EBITDA (excluding effects of any fair value changes of derivatives and investment properties, base and property management fees paid in Units), to consolidated interest expense (excluding non-cash amortisation of upfront transaction costs and the Sponsor-Lender loan exit premium).
[2] Computed by dividing the trailing 12 months earnings before interest, tax, depreciation and amortisation (EBITDA) (excluding effects of any fair value changes of derivatives and investment properties, and foreign exchange translation), by the trailing 12 months interest expense and borrowing-related fees as set out in the CIS Code.
[3] Excludes Sponsor-Lender loan exit premium; including it, the weighted average interest rate would be 4.55%.

Investment Fiduciaries (NCREIF) Office Subindex recorded an 11.7% decline in market values over the last two quarters[4].

Among MUST's top 10 tenants as at 31 December 2023, four – namely The William Carter Co., The Children's Place, Hyundai Capital and Kilpatrick Townsend – have either renewed their leases or signed expansions, while two more – US Treasury and Amazon – are currently in active engagements on lease renewal. Hyundai Capital at Michelson, for instance, has expanded its floor plate twice since 2023 by 35,000 sq ft in all. The Children's Place at Plaza has signed another lease for ~120,000 sq ft for 13 years after exercising its early termination rights for its lease last year and agreeing to vacate its 197,949 sq ft of space on 31 May 2024.

Building ESG resilience

MUST continues to make headway towards its goal of achieving a 100% green-certified portfolio by 2030. It retained its GRESB '5 Star' rating for the Real Estate Assessment for the sixth consecutive year, as well as its 'A' grade for Public Disclosure, ranking it second out of 10 U.S. office peers. MUST has achieved an average of 34 training hours per employee, an improvement from 32 training hours in 2022. As more workers returned to the office in the U.S., the property managers have stepped up on proactive tenant engagement, with many networking and wellness events conducted at MUST's buildings. Some examples include yoga classes on the rooftop of Michelson and a Christmas breakfast at Capitol. The Manager has also kept steady the percentage of its green/sustainability-linked loans at US$588.1 million, which accounted for ~63.5% of its total borrowings as at 31 December 2023. The Manager will continue to integrate sustainability considerations into its financing mechanisms and strengthen its sources of green financing where feasible.

U.S. market outlook

U.S. real GDP continued to trend positively into the end of 2023. After YoY growth in 1Q, 2Q and 3Q 2023 of 2.2%, 2.1% and 4.9%, respectively, the YoY growth rate in 4Q 2023 was 3.3%[5]. The U.S. labour market remains healthy as reflected by an unemployment rate of 3.7% in January 2024, with 680,000 jobs gained in 4Q 2023[6]. The Federal Reserve appears to have paused further policy rate increases, and the market is broadly expecting potential policy rate decreases in 2024 due to evidence that inflationary pressures may be easing. Inflation grew 3.4% in December 2023, with rising rents contributing to more than half of the increase in the month's Consumer Price Index.

U.S. office leasing demand showed positive momentum to finish 2023, but the overall picture remains mixed. According to JLL, active leasing requirements increased in 4Q by 6.6% quarter-on-quarter (QoQ), reflecting the third consecutive quarter of requirement increases and a YoY growth of 20.4%. 4Q office leasing volume of 46.4 million sq ft was a 14.1% QoQ increase and the highest quarterly volume since 2Q 2022. However, 4Q 2023 and FY 2023 demand remained at 72% and 81% of pre-COVID-19 volume levels for the quarter and year, respectively. Furthermore, the U.S. office market experienced a further 13.4 million square feet of negative net absorption in 4Q which pushed up the national vacancy rate to 21.4%, up 1.8% YoY.

Looking forward

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

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[4] Source: NCREIF Property Index. Based on more than 1,740 office properties worth over US$189 billion. Each property's market value is determined by real estate appraisal methodology, consistently applied.
[5] U.S. Department of Commerce, Bureau of Economic Analysis as at 25 Jan 2024, annualised rate for 4Q 2023.
[6] U.S. Department of Labor, Bureau of Labor Statistics as at 2 Feb 2024; non-farm jobs for Jan 2024, seasonally-adjusted.

MUST's committed occupancy of 84.4% and a long WALE of 5.0 years provide some buffer to withstand additional market uncertainty from a slowing economy or weak occupational market in the office sector, but the portfolio remains susceptible to secular reductions in overall demand from office tenants. With the Recapitalisation Plan in place, the Manager will be able to leverage on the Disposition Mandate to optimise MUST's portfolio. At the same time, the Manager will continue to focus on asset, lease and capital management in addition to its commitment to sustaining and enhancing its environmental, social and governance (ESG) performance.

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About Manulife US REIT

Manulife US Real Estate Investment Trust ("Manulife US REIT" or "MUST") 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 10 freehold office properties in Arizona, California, Georgia, New Jersey, Virginia and Washington D.C. The current portfolio has an aggregate net lettable area of 5.0 million sq ft and is valued at US$1.4 billion as at 31 December 2023.

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.