

MUST's 1H 2022 NPI +2.8% YoY; Fortifying portfolio from uncertainty while positioning for the future

- 1H 2022 DPU at 2.61 US cents
- High portfolio occupancy of 90.0% and long WALE of 5.0 years
- July refinancing extends debt maturity to 3.3 years; no refinancing required for FY 2022
- Partnering flex operators and shortlisting assets for hotelisation amid secular shift to hybrid work
- Riding out cyclical office downturn through nimble leasing and protecting occupancy and WALE

Singapore, 4 August 2022 – Manulife US Real Estate Investment Trust (“MUST”) today reported a gross revenue of US\$100.4 million for the first half year ended 30 June 2022 (“1H 2022”), an increase of 10.6% year-on-year (YoY) from 1H 2021. The increase was mainly due to contributions from the three properties, Tanasbourne, Park Place and Diablo, acquired in December 2021, higher carpark income and lower rent abatements provided to tenants affected by COVID-19, partly offset by lower rental income from existing properties as a result of higher vacancies. Net property income rose 2.8% YoY to US\$57.6 million, while distributable income increased 6.9% YoY to US\$46.0 million. DPU for 1H 2022 fell 3.3% YoY to 2.61 US cents due to lower income from existing properties, after factoring in the enlarged unit base from the private placement last year. The distribution will be paid on 27 September 2022, with the book closure date on 15 August 2022.

Summary of Manulife US REIT's Results

	1H 2022 (US\$'000)	1H 2021 (US\$'000)	Change (%)
Gross Revenue	100,418	90,799	10.6
Net Property Income	57,622	56,069	2.8
Distributable Income	45,966	42,990	6.9
Distribution per Unit ("DPU") (US cents)	2.61	2.70	(3.3)

Mr Tripp Gantt, Chief Executive Officer of Manulife US REIT, said, “We are seeing a once-in-a-generation upheaval in how workers in the U.S. use the office. Americans’ preference for a hybrid mode of work is becoming clear and we believe is likely to be the new normal. This secular shift has resulted in a general leasing slowdown, as well as a desire for flexibility from tenants, as employers assess their space needs for the future. That said, some clear trends have emerged in the office sector. The first is the hotelisation of office, where we see offices with premium amenities in great locations as those most likely to attract top tenants. We believe this will be a winning formula for many office owners and we are reviewing our assets to determine which are most suitable for these improvements. Secondly, in response to tenants’ preference for flexibility, we will be partnering best-

in-class operators to offer more flexible workspace in our buildings, which will allow existing and prospective tenants to expand and contract as needed. Formulating the optimal mix of traditional, flex and turnkey space will enable us to stay ahead of the curve amidst the uncertain leasing environment.”

Proactive Capital Management

MUST's gearing ratio of 42.4% remains well below the regulatory gearing limit of 50.0%, with the interest coverage ratio and weighted average interest rate at 3.5 times and 2.97% respectively as at 30 June 2022. To provide cash flow stability while allowing for financial flexibility, 85.7% of gross borrowings is secured on a fixed rate basis. On 5 July 2022, MUST obtained a new US\$225.0 million unsecured sustainability-linked loan, mainly to refinance the mortgage loan facilities for Plaza and Exchange and the revolving credit facilities. Post-refinancing, no refinancing is required for FY 2022, while weighted average debt maturity will improve to 3.3 years, and the proportion of green/sustainability-linked loans will increase to 67.0%, from 44.8% as at end-June 2022. MUST's net asset value per unit is US\$0.70 as at 30 June 2022.

Moderate Portfolio Recovery

As at the end of June 2022, MUST recorded a slight dip in occupancy to 90.0%, from 91.7% at end-March 2022. The portfolio's weighted average lease expiry (WALE) remains steady at 5.0 years, with only 4.8% and 10.2% of leases by NLA expiring in 2022 and 2023 respectively, while 59.6% of leases will expire in 2026 and beyond. In 1H 2022, the Manager executed ~192,000 sq ft of leases at an average rental reversion of +1.0%, mainly from the legal, finance and insurance and real estate sectors. Of the leases signed, two-thirds were renewals, while 28.7% were new leases and 4.6% accounted for lease expansions. In-place rental escalations at its portfolio averaged 2.2% per annum. As at 30 June 2022, the Manager has collected 99.0% of its rents. To date, tenants have been slow to return to office at MUST's portfolio, with the latest physical occupancy at ~28% in July 2022.

Among significant tenant movements, TCW Group, a finance and insurance tenant who has been in Figueroa for 31 years, has decided to vacate its space when it expires in December 2023. It decided to relocate to avoid major renovation which would be disruptive to its business. TCW's expiring rents are ~9% below current market rents. Law firm Quinn Emanuel Trial Lawyers, which has been at Figueroa for 28 years, has also decided to downsize by ~71,000 sq ft effective 31 August 2022, but it renewed its remaining ~64,000 sq ft for another 5.4 years at +2.5% rent reversion starting from 1 September 2023. The Manager is in negotiation with prospective tenants. Some of the opportunities at Figueroa include the availability of signage rights and potential modern move-in ready space which could attract large tenants.

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 public-listed companies, government agencies or corporate headquarters. As at 30 June 2022, no single tenant contributed more than 5.5% of gross rental income. The Manager has also revised the frequency of its valuation exercise from twice-a-year to annually to keep in line with the business practice of other Singapore-listed REITs.

Building ESG Resilience

MUST has made headways in its alignment with the Sponsor's commitment to Net Zero by 2050, having achieved a 26.4%¹ and 20.8%² reduction in greenhouse gas (GHG) and energy intensity, respectively in 2021—on target to reaching its goal of reducing GHG and energy intensity by 80.0% and 49.0% by 2050, respectively. MUST is also focusing on its water and waste reduction efforts and has achieved a 2.0% decline in water intensity² and 34.0% in waste diversion in 2021. In addition, 70% of its properties are already green-certified, versus the MSCI average of ~38%.

MUST has entrenched its position as a thought leader since launching its MUST Go Green conference in 4Q 2021. Since then, it has engaged ~1,600 local and overseas stakeholders through panels and conferences as an ESG steward. Another of MUST's initiatives this year is its outreach to the digital generation. In 2Q 2022, it has created thought leadership ambassador Prof. Green Dot to convey key messages of the U.S. economy and the office sector to young investors.

U.S. Market Outlook

The U.S. economy slowed over the first half of 2022, with U.S. real GDP declining for two consecutive quarters at an annual rate of -1.6% and -0.9% in Q1 and Q2 2022, respectively. The labour market remains relatively healthy despite the GDP figures, with unemployment remaining flat quarter-on-quarter at 3.6%, and 1.1 million jobs added in Q2.

On the back of factors including rising commodity prices, labour shortages and supply chain disruption, the consumer price index rose 9.1% YoY in June, the fastest acceleration in over 40 years. Inflation, combined with the lowest consumer sentiment levels ever recorded in the U.S. and Federal Reserve policy rates increasing 75 basis points, are largely responsible for the first half's economic slowdown in the U.S.

According to JLL, the U.S. office market experienced 47.2 million sq ft of gross leasing activity in the second quarter, reflecting a 0.1% increase over the first quarter. This level of volume equates to just 75% of pre-COVID-19 levels. After showing positive net absorption in the fourth quarter of 2021, the U.S. office market experienced two consecutive quarters of negative net absorption, with Q1 and Q2 2022 registering -5.4 and -7.8 million sq ft, respectively.

The Way Ahead

Moving forward, in anticipation of the economic volatility ahead, as the surge in inflation fuels fears of recession, the Manager will adopt a two-pronged approach in its capital and portfolio management. Firstly, in its defensive strategy to ride out the cyclical office downturn, it will protect its occupancy and maintain a long WALE, while being nimble in leveraging on the location and quality of its assets to attract credit tenants. Secondly, to embrace the secular shift towards hybrid work, it will build partnerships with flex operators to provide a greater variety of workspace options for existing and potential tenants while shortlisting assets for hotelisation to attract tenants and command higher rents. With the Sponsor's support, it will also continue its strategic pivot to growth markets and asset types while seeking out potential joint ventures, M&A and capital partners, in order to deliver sustainable returns to Unitholders.

¹ Based on 2021 GHG and Energy performance, compared to base year 2018 figures.

² 2021 water intensity has been restated following an adjustment in water consumption data at Phipps.

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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 5.4 million sq ft and is valued at US\$2.2 billion as at 31 December 2021.

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.

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