



**Keppel REIT**

# Acquisition of a 99.38% Stake in T Tower in Seoul's CBD

23 April 2019

# Outline

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# Transaction Overview



- Acquiring 99.38%<sup>(1)</sup> of T Tower, a freehold Grade A office building in Seoul's central business district (CBD)
- Entry into Seoul which has a deep office market with favourable fundamentals
- Ability to leverage Keppel Capital's on-the-ground presence and experience to seek opportunities for growth

T Tower in Seoul's CBD	
<b>Land Tenure</b>	Freehold
<b>Building Completion</b>	2010
<b>Attributable NLA</b>	226,945 sf
<b>Occupancy</b>	100% committed
<b>WALE</b>	2.8 years
<b>No. of Tenants</b>	11

 [Click](#) to view property video

(1) The remaining 0.62% stake will be acquired by Keppel Capital Investment Holdings Pte. Ltd., a wholly-owned subsidiary of Keppel Capital Holdings Pte. Ltd. (Keppel Capital)

# Transaction Overview (Cont'd)

- DPU-accretive acquisition with NPI yield of 4.7% is part of ongoing portfolio optimisation efforts to improve portfolio yield
- Agreed property value of KRW 252.6 billion<sup>(1,3)</sup> (approximately S\$301.4 million) is 2.5% lower than independent valuation by Cushman & Wakefield
- Acquisition is expected to complete in 2Q 2019 and will be funded by debt, including proceeds from issuance of 1.90% convertible bonds<sup>(2)</sup>

99.38% of T Tower	KRW	S\$
<b>Independent Valuation by Cushman &amp; Wakefield<sup>(1)</sup></b>	259.0b	309.0m
<b>Agreed Property Value<sup>(1,3)</sup></b>	252.6b	301.4m
<b>Transaction Costs<sup>(1)</sup></b>	11.5b	13.7m
<b>Total Acquisition Consideration<sup>(1)</sup></b>	141.1b <sup>(4)</sup>	168.3m

(1) Based on an approximate 99.38% interest in T Tower and an exchange rate of KRW 1,000 to S\$1.193 as at 18 April 2019.

(2) As announced by the Manager on 10 April 2019.

(3) Equivalent to KRW 20.2 million/pyeong (py), based on attributable gross floor area of 444,979 sf and conversion of 1 py to 35.6 sf.

(4) After taking into account the attributable share of the adjusted net tangible liabilities of KRW 123.0 billion (S\$146.8 million) to be assumed from the asset.

# Investment Rationale

- 1 Entry into Seoul which has a deep office market with favourable fundamentals
- 2 Freehold Grade A commercial building in the CBD
- 3 DPU-accretive acquisition
- 4 Geographical and income diversification
- 5 Leverage Keppel Capital's on-the-ground presence and experience in South Korea



T Tower is located in Seoul CBD and near the city's major railway station, Seoul Station

# Seoul Office Market

**T Tower:**  
Located in CBD



# Seoul: Deep Office Market

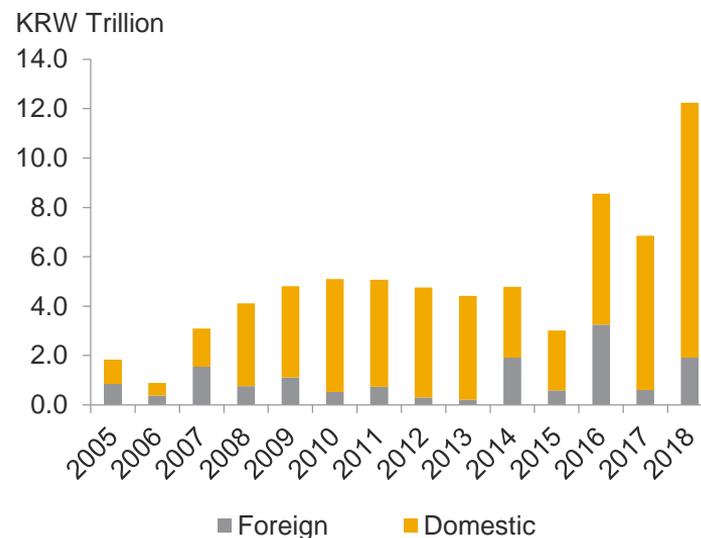
## Economy

- South Korea is Asia's fourth largest economy<sup>(1)</sup>
- The Korean economy is projected to expand by 2.5% in 2019 and 2.6% in 2020<sup>(2)</sup>
- Korean won (KRW) to Singapore dollar (S\$) has been trading in a tight band from S\$11.25 to S\$12.53 per KRW 10,000 over the past 10 years<sup>(3)</sup>

## Office Transactions

- Seoul had the fourth highest volume of commercial real estate investment globally in 2018<sup>(4)</sup>
- Office investment hit historical high on the back of ample liquidity and quality investment stock, as well as favourable investment sentiment<sup>(4)</sup>

South Korea Office Transactions<sup>(4)</sup>  
(by Buyer Type)



Sources:

- (1) IMF, April 2019
- (2) Bank of Korea, 18 April 2019
- (3) Cushman & Wakefield, 25 March 2019
- (4) JLL, 4Q 2018

## 3 Key Business Districts in Seoul<sup>(1)</sup>

### Central Business District (CBD):

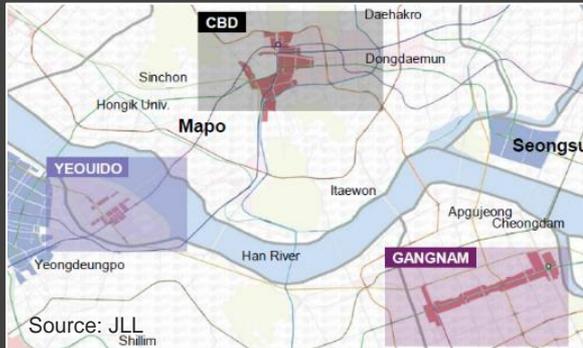
The traditional CBD, a well-established market

### Gangnam Business District (GBD):

Fastest growing of late, newest major market

### Yeouido Business District (YBD):

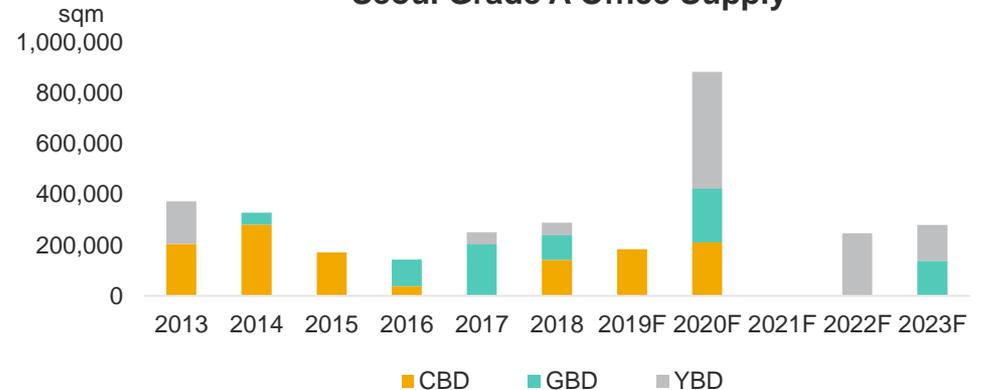
Government-driven finance hub on an island



# Seoul Office Market: Favourable Fundamentals

- Grade A office buildings will continue to be in high demand across the three business districts<sup>(2)</sup>
- CBD new supply is expected to increase within these 2 years while having limited supply for the subsequent years<sup>(2)</sup>

Seoul Grade A Office Supply<sup>(2)</sup>



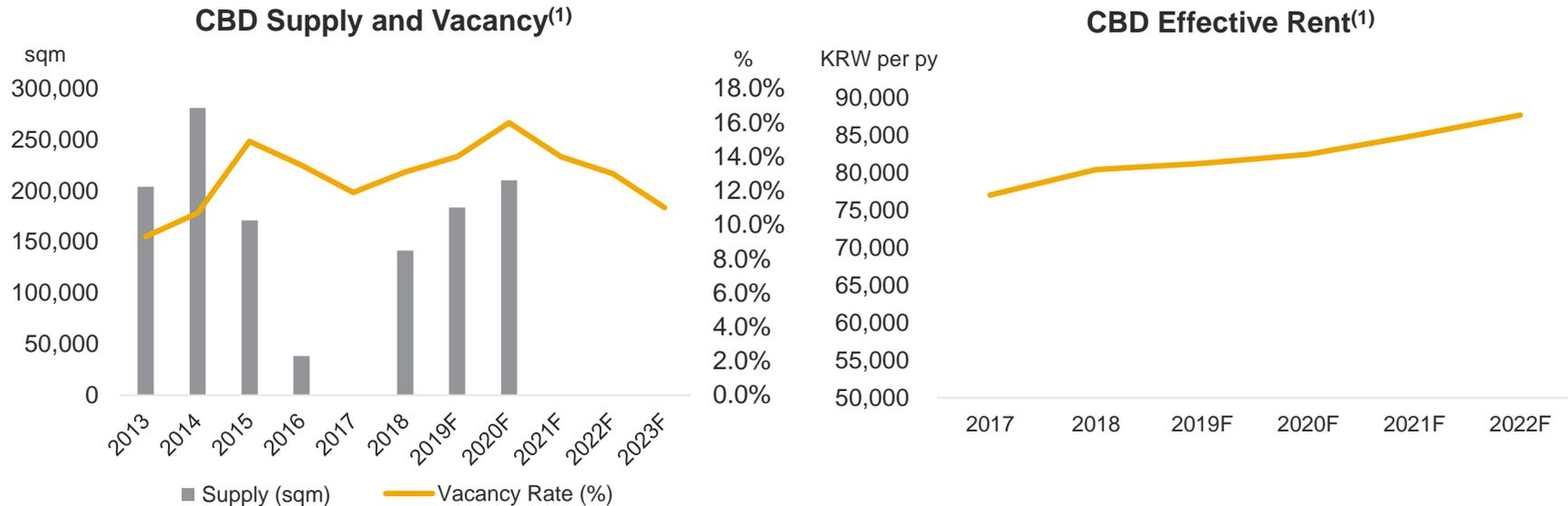
Sources:

(1) JLL, 4Q 2018

(2) Cushman & Wakefield, 25 March 2019

# Seoul CBD: Limited Upcoming Supply

- Vacancy rate will peak in 2020 at 16% before lowering to 13% in 2022 with the limited supply for the subsequent years<sup>(1)</sup>



Source:

(1) Cushman & Wakefield, 25 March 2019

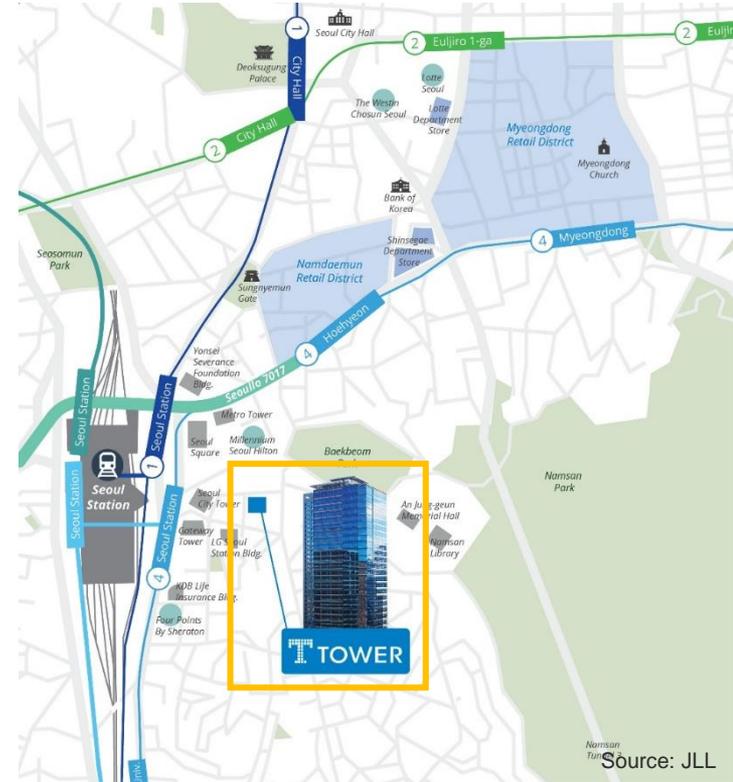
# Property Highlights

T Tower:  
High Accessibility



# Freehold Grade A Property

- Located in the CBD, Seoul's well-established business district
- Close to Seoul Station and well-served by various rail, subway and bus networks, including direct connections across the Seoul metropolitan area and regionally via high speed KTX train
- Strong connectivity attracts multinational and national companies with regional presence
- Sited amidst diverse range of amenities and major hotels, and is close to key retail districts such as Myeong-dong and Namdaemun



# Tenant-Centric Building

- Freehold 28-storey office building offering efficient, column-free office space
- Close proximity to a wide range of food & beverage outlets and auxiliary retail



Modern lobby



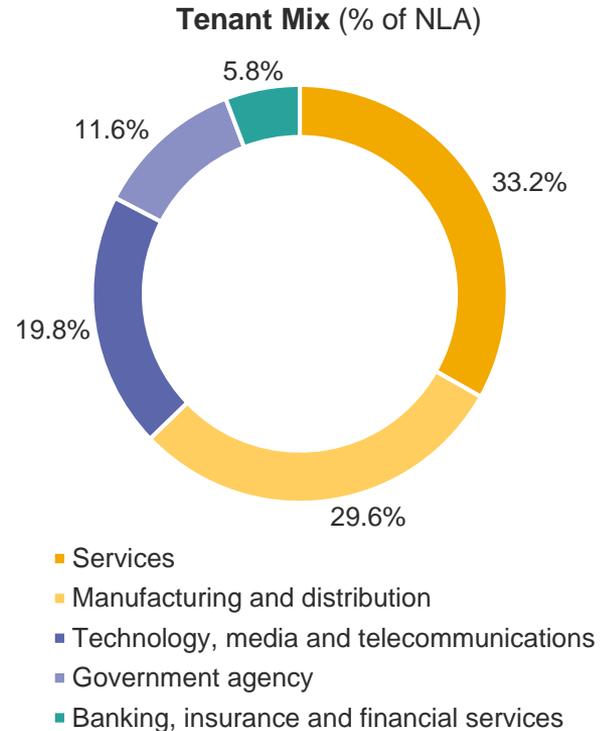
Proximity to amenities



Pleasant work environment

# Fully Leased to Established Tenant Base

- 100% leased to established national and international tenants mainly from the technology, media and telecommunications (TMT), manufacturing and distribution, and services sectors
- Notable tenants include:
  - Philips Korea (country HQ)
  - LG Electronics
  - SK Communications
- Majority of the leases have fixed annual rental escalations of 3%



# Impact to Portfolio

T Tower:  
Complements  
Existing Portfolio



# DPU-Accretive Acquisition

- Acquisition of T Tower brings 2.5%<sup>(1)</sup> DPU accretion on a pro forma basis for FY 2018

FOR ILLUSTRATIVE PURPOSES ONLY: Pro forma financial effects of the acquisition on DPU

Pro Forma Impact of the Acquisition	Before (FY 2018)	After (Assuming acquisition was completed on 1 January 2018)	
DPU	5.56 cents	5.70 cents	
DPU Accretion		+2.5%	

Pro Forma Impact of the Acquisition	Before (FY 2018)	Before (Assuming the divestment of a 20% stake in Ocean Financial Centre was completed on 1 January 2018)	After (Assuming the acquisition of T Tower and the divestment of a 20% stake in Ocean Financial Centre were completed on 1 January 2018)
DPU	5.56 cents	5.44 cents	5.57 cents

(1) Pro forma effect on FY 2018 DPU, assuming acquisition was completed on 1 January 2018.

# DPU-Accretive Acquisition (Cont'd)

- Acquisition will be funded by debt, including proceeds from issuance of 1.90% convertible bonds
- Aggregate leverage will increase from 35.7% to approximately 38.1%
- Investment will be approximately 50% natural hedged with a KRW denominated loan

**FOR ILLUSTRATIVE PURPOSES ONLY:** Pro forma financial effects of the acquisition on NAV per Unit

<b>Pro Forma Impact of the Acquisition</b>	<b>Before</b>	<b>After</b>
<b>NAV per Unit<sup>(1)</sup></b>	S\$1.39	S\$1.39

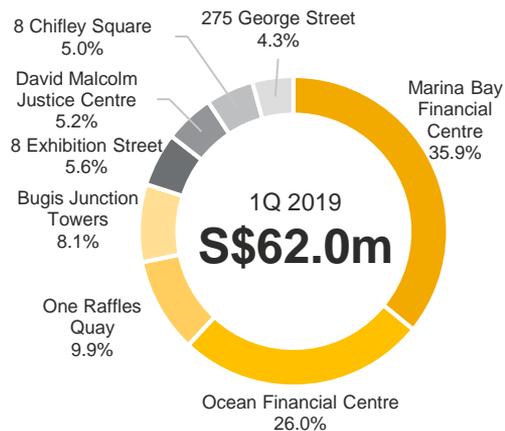
(1) The pro forma NAV per Unit as at 31 December 2018, as if the acquisition was completed on 31 December 2018 and after adjusting for 4Q 2018 distribution.

# Income Diversification

Owning assets across Singapore, Australia and South Korea enhances income stability of the REIT

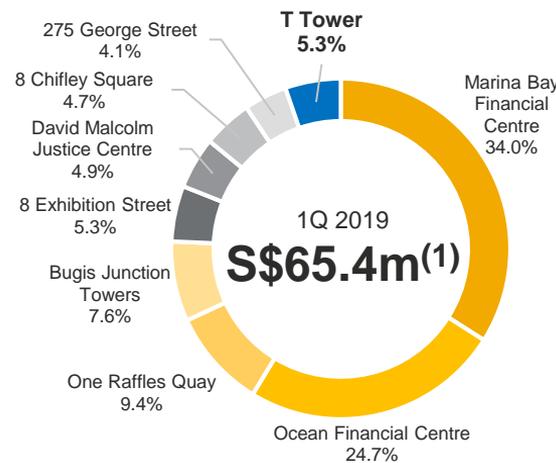
## Portfolio Income

### Before Acquisition



Country	% of Income
<b>Singapore</b>	79.9
<b>Australia</b>	20.1

### After Acquisition



Country	% of Income
<b>Singapore</b>	75.7
<b>Australia</b>	19.0
<b>South Korea<sup>(1)</sup></b>	5.3

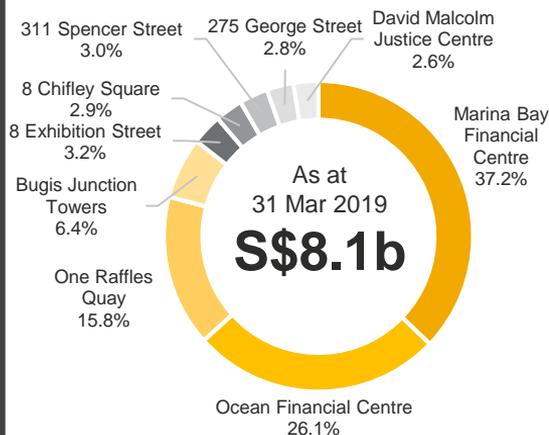
(1) For illustrative purposes, assuming the acquisition was completed on 1 January 2019.

# Geographical Diversification

Entry into a third market for potential DPU-accretive acquisitions, in addition to Singapore and Australia

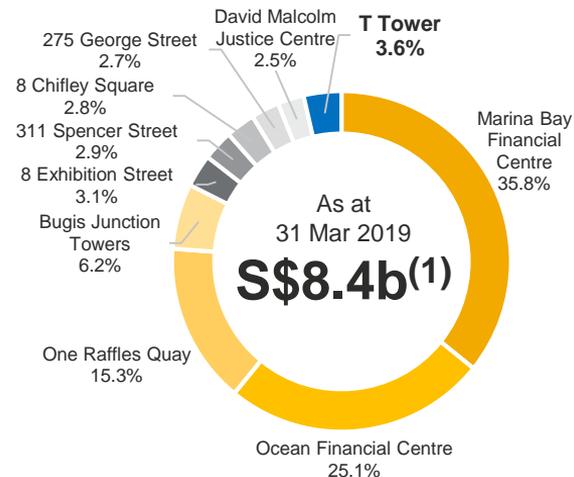
## Assets Under Management

### Before Acquisition



Country	% of AUM
<b>Singapore</b>	85.5
<b>Australia</b>	14.5

### After Acquisition



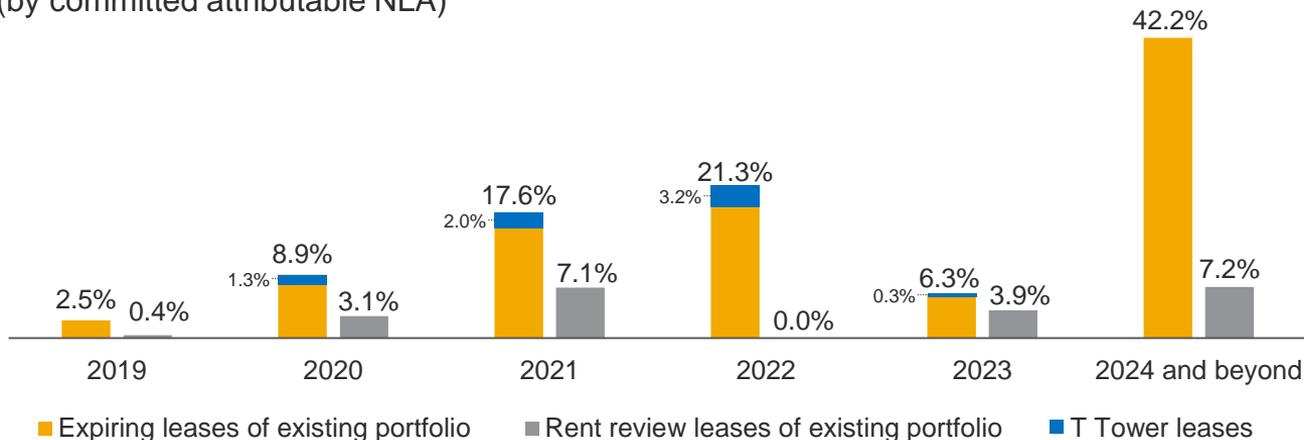
Country	% of AUM
<b>Singapore</b>	82.4
<b>Australia</b>	14.0
<b>South Korea<sup>(1)</sup></b>	3.6

(1) Assuming the acquisition was completed in 1Q 2019. Based on valuation of T Tower by Cushman & Wakefield as at 25 March 2019 and an exchange rate of KRW 1,000 to S\$1.193 as at 18 April 2019.

# Complements Existing Portfolio

- Freehold portion of portfolio increases from 14.9% to 20.6%
- Portfolio committed occupancy level rises from 98.7% to 98.8%
- Portfolio WALE remains long at approximately 5.5 years while lease expiry remains well spread

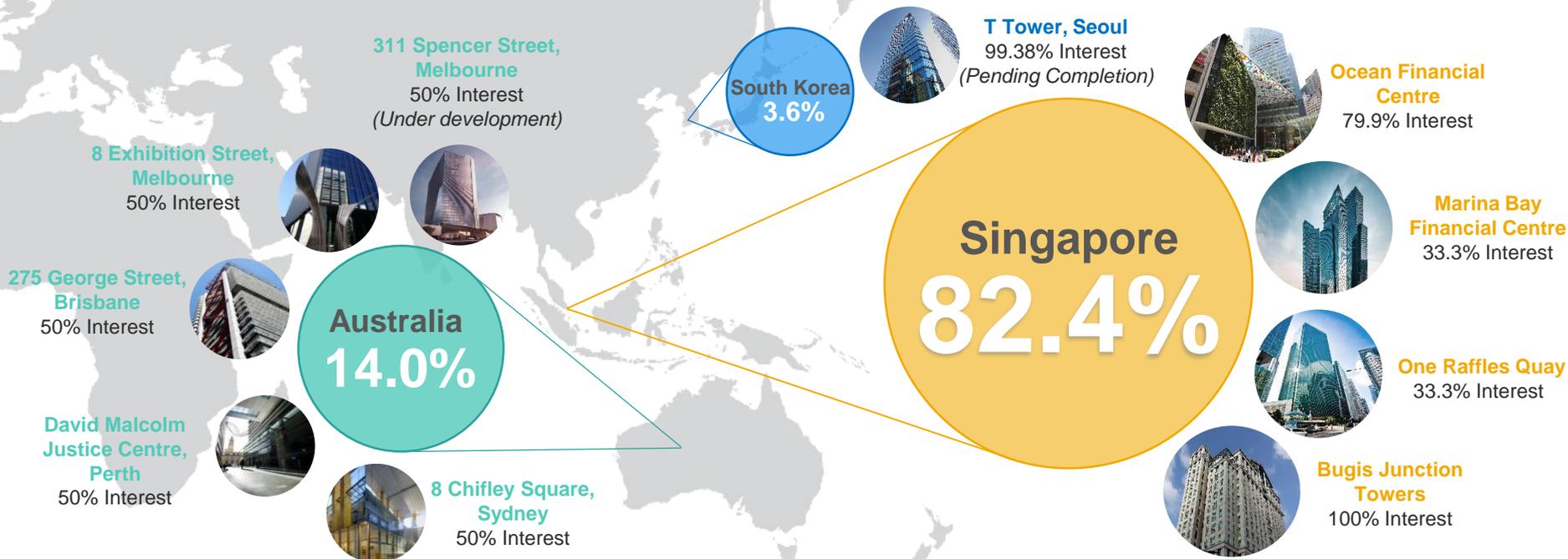
**Portfolio Lease Expiry Profile**  
(by committed attributable NLA)



Note: Pro forma data as at 31 March 2019.

# Pan-Asia REIT with Premium Office Portfolio

S\$8.4b portfolio of 10 prime commercial assets  
in key business districts of Singapore, Australia and South Korea



Note: Based on total assets under management of approximately S\$8.4 billion as at 31 March 2019, assuming acquisition of T Tower was completed in 1Q 2019.

# Leverage Keppel Capital's Expertise in South Korea

**15 years**  
of operations

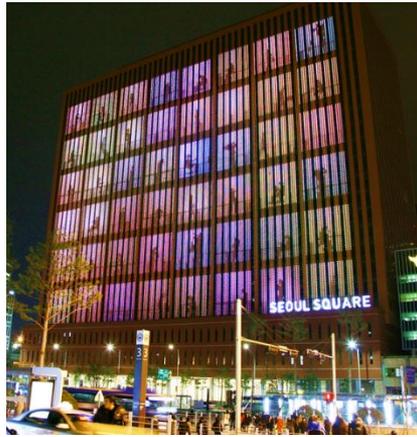
**\$3 billion**  
of AUM managed

**5.2 million sf**  
of total GFA managed

- Keppel Capital has been operating in South Korea since 2004 and has managed various commercial assets in Seoul



Jongno Tower



Seoul Square



Center Place

- Keppel Investment Management, the asset management arm of Keppel Capital in South Korea, will be appointed the local asset manager for the property
- Keppel REIT will be able to leverage Keppel Capital's experienced team on the ground to seek opportunities for growth in the Seoul office market

# Merits of Acquisition

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- 1 Entry into Seoul which has a deep office market with favourable fundamentals
- 2 Freehold Grade A commercial building in the CBD
- 3 DPU-accretive acquisition
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**Thank You**