

MEDIA RELEASE

Unaudited Results of Keppel Pacific Oak US REIT for the Half Year ended 30 June 2022

27 July 2022

The Directors of Keppel Pacific Oak US REIT Management Pte. Ltd., as Manager of Keppel Pacific Oak US REIT, are pleased to announce the unaudited results of Keppel Pacific Oak US REIT for the half year ended 30 June 2022.

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Keppel Pacific Oak US REIT achieves positive leasing momentum for 1H 2022

Highlights

- 368,063 sf, or 7.3% of portfolio net lettable area (NLA) of office space was committed in 1H 2022, bringing portfolio committed occupancy to 92.0% as at 30 June 2022.
- Proposed divestments of Powers Ferry and Northridge Center I & II in Atlanta, Georgia, set to unlock value for Keppel Pacific Oak US REIT (KORE).
- Net Property Income improved 5.9% year-on-year (y-o-y) to US\$43.0 million in 1H 2022, due mainly to the new acquisitions in August 2021.
- 1H 2022 distribution per Unit (DPU) of 3.02 US cents translated to a distribution yield of 8.7% as at 30 June 2022.
- The Manager has elected to receive 100% of its management base fees in cash starting with the second quarter of 2022.

Summary of Results

(US\$,000)	2Q 2022	2Q 2021	% Change	1H 2022	1H 2021	% Change
Gross Revenue	37,128	33,798	9.9	74,109	68,383	8.4
Net Property Income (NPI)	21,272	20,225	5.2	43,001	40,587	5.9
Adjusted NPI (excludes non-cash straight-line rent, lease incentives and amortisation of leasing commissions)	21,559	20,356	5.9	43,521	40,868	6.5
Income Available for Distribution⁽¹⁾	14,972	15,000	(0.2)	31,542	29,937	5.4
DPU (US cents) for the period⁽²⁾⁽⁴⁾	1.43	1.58	(9.5)	3.02	3.16	(4.4)
Annualised Distribution Yield (%)⁽³⁾	-	-	-	8.7%	8.1%	60 bps
Adjusted Income Available for Distribution⁽¹⁾⁽⁴⁾	14,972	13,482	11.1	31,542	28,417	11.0
Adjusted DPU (US cents)⁽²⁾⁽⁴⁾	1.43	1.42	0.7	3.02	3.00	0.7
Adjusted Annualised Distribution Yield (%)⁽³⁾⁽⁴⁾	-	-	-	8.7%	7.7%	100bps

(1) The income available for distribution to Unitholders is based on 100% of the taxable income available for distribution to Unitholders.

(2) DPU for 1H 2022 was calculated based on 1,004,450,254 issued Units as at 30 June 2022, while DPU and adjusted DPU for 1H 2021 was calculated based on 947,366,724 issued Units as at 30 June 2021.

(3) The annualised DPU yield for 1H 2022 is on a basis of 181 days (1H 2021: 181 days) and pro-rated to 365 days (1H 2021: 365 days). Distribution yields for 1H 2022 and 1H 2021 are based on market closing prices of US\$0.700 and US\$0.785 per Unit as at the last trading day of the respective periods.

(4) The Manager has elected to receive 100% of its base fee for 1Q 2022 amounting to US\$1,657,009 in the form of Units and 100% of its base fee for 2Q 2022 amounting to US\$1,664,343 in cash. Accordingly, 2Q 2021 and 1H 2021 adjusted income available for distribution to Unitholders, adjusted DPU and adjusted distribution yield have been restated to assume 2Q 2021 base fee of US\$1,500,161 were paid in cash to provide a like-for-like comparison to 1H 2022 actual results.

Financial Performance

KORE has achieved distributable income (DI) of US\$15.0 million for 2Q 2022, bringing DI for 1H 2022 to US\$31.5 million, 0.2% lower than 2Q 2021 and 5.4% above that of 1H 2021 respectively. The improved performance was mainly driven by contributions from the acquisitions of Bridge Crossing in Nashville, Tennessee, and 105 Edgeview in Denver, Colorado, which were completed in August 2021, partially offset by the impact of 2Q 2022 management base fee taken in cash rather than in Units.

The Manager has elected to receive 100% of its management base fees for 2Q 2022 in cash, as compared to 100% in Units for 2Q 2021. On a like-for-like basis, assuming 2Q 2021 management base fee were received in cash rather than Units, the 1H 2021 adjusted income available for distribution to Unitholders would have been US\$28.4 million. Accordingly, 1H 2022 actual income available for distribution to Unitholders would have been 11.0% higher than that of the 1H 2021 adjusted income available for distribution to Unitholders.

DPU for 1H 2022 was 3.02 US cents, 4.4% lower than 1H 2021's DPU of 3.16 US cents. 2Q 2022 DPU is based on the Manager's base fee being fully paid in cash, instead of being paid in Units. On a like-for-like basis, assuming 2Q 2021 management base fee was paid 100% in cash, 1H 2022 DPU would have been 0.7% higher y-o-y as adjusted DPU for 1H 2021 would have been 3.00 US cents. Unitholders can expect to receive their distributions on 30 September 2022. Based on the market closing price of US\$0.700 per Unit as at the last trading day on 30 June 2022, KORE's distribution yield was 8.7%.

Portfolio Review

In the first half of 2022, approximately 368,063 sf of office space was committed. This is equivalent to 7.3% of total NLA. KORE's portfolio committed occupancy increased to 92.0% as at 30 June 2022, with 6.3% of leases by cash rental income (CRI) expiring in 2H 2022. Excluding investment properties that are held-for-sale¹, the committed occupancy would have been 93.2%.

Rental reversion remained positive at 1.6% in 1H 2022, driven mainly by strong rents in the technology hubs of Seattle – Bellevue/Redmond, Orlando and Sacramento. Average rental collections for 1H 2022 continued to remain high at approximately 99%.

At the same time, about 48% of KORE's tenants operate in the growing and defensive sectors of TAMI², medical and healthcare. Seattle – Bellevue/Redmond, which constitutes 41.8% of KORE's portfolio NPI, experienced continued positive leasing momentum in 1H 2022. The Manager continues to place sustainability at the core of KORE's business strategy and integrates environmental, social and governance considerations in its operations.

The weighted average lease expiry by CRI for KORE's portfolio and top 10 tenants was 3.7 years and 4.5 years respectively. Tenant concentration risk remains low with the top 10 tenants accounting for only 23.3% of CRI.

The Manager has signed the purchase and sale agreements for the proposed divestments of Powers Ferry and Northridge Center I & II in Atlanta, Georgia, to third-party purchasers at prices above their last valuations.

Powers Ferry and Northridge Center I & II have been held since KORE's listing in 2017, and the two assets contributed significantly to KORE's initial distributable cash flow. As KORE's portfolio size increased, the contribution from these assets decreased – constituting a combined 2.7% of the net property income of KORE's portfolio as at 30 June 2022. In addition, given the size of these assets, the Manager had evaluated that divesting these two assets was in the best interest of Unitholders.

Mr David Snyder, CEO and CIO of the Manager, said, "The divestment of the Atlanta assets is in line with our ongoing portfolio optimisation strategy and efforts to maintain a quality portfolio that delivers strong returns and sustainable distributions to Unitholders. KORE will continue to monitor its current portfolio and seek opportunities in key growth markets in the US propelled by technology and innovation, and pursue value accretive acquisitions that will enhance the REIT's income resilience and long-term growth."

¹ Purchase and sale agreements were entered into with external parties for the sales of Powers Ferry and Northridge Center I & II in Atlanta, Georgia. The divestments are expected to be completed in 3Q 2022 subject to satisfaction of certain conditions. Accordingly, these two properties have been reclassified as investment properties held-for-sale.

² TAMI stands for technology, advertising, media and information.

The divestments of Powers Ferry and Northridge Center I & II are expected to be completed in 3Q 2022. These divestments are in line with KORE's portfolio optimisation strategy to improve yield and enhance the income stability of the portfolio. Proceeds from the divestments may be used for short-term working capital requirements and could potentially be redeployed to other investment opportunities.

Upon completion of the divestments, KORE's portfolio will comprise 13 properties across eight key growth markets in the US, with approximately 4.8 million sf of quality office space. Portfolio committed occupancy would be at 93.2%, while portfolio weighted average lease expiry by CRI would be 3.7 years as at 30 June 2022 on a proforma basis.

Capital Management

KORE continues to maintain a strong balance sheet with significant liquidity that supports growth aspirations. All of KORE's borrowings are US dollar-denominated and 100% unsecured, providing the REIT funding flexibility.

As at 30 June 2022, KORE's all-in average cost of debt was 2.88% and approximately 84.2% of the REIT's non-current loans have been hedged. Aggregate leverage and interest coverage ratio were 37.2% and 4.8 times respectively. The weighted average term to maturity of KORE's debt was 2.7 years, with no long-term debt refinancing requirements until November 2023.

On 22 July 2022, the Group entered into a syndicated term loan facility agreement to obtain a 5.5 year loan facility in an aggregate principal amount of US\$180.0 million. Proceeds from the new loan may be used to early refinance existing loans as well as for future acquisitions, working capital, and general corporate purposes.

Market Outlook

The US economy experienced an unexpected bump in 1Q 2022 as real GDP contracted at 1.6%³. Trade deficits, supply chain disruptions, worker shortages as well as high inflation resulted in muted economic activity. The unemployment rate and labour force participation rate remained consistent at 3.6% and 62.2%, respectively in June 2022⁴. In addition, the annual inflation rate accelerated to 9.1% in June 2022, the highest since November 1981.

Inflationary pressures, the Fed's related interest rate hikes as well as future expectations of interest rate hikes have triggered volatility in the stock market which in turn has impacted sales volume of commercial real estate in the US, which may eventually impact pricing. KORE's long-term loans have been substantially hedged with floating-to-fixed interest rate swaps, providing a significant reduction in near-term exposure to rising interest rates.

As investors revise their investment plans for a post-pandemic environment, more capital is likely to be placed in the Sun Belt cities, where KORE is focused. The resilient Sun Belt markets are expected to continue to benefit from the net domestic migration and the technology sector's dynamic growth in 2022⁵.

The suburban office markets, where KORE's key markets are located, are recovering at a faster pace as compared to gateway cities, as evidenced by stronger rental growth and vacancy reduction. As at 1Q 2022, suburban office rents saw a 0.7% increase, as compared to a 0.3% increase in downtown office markets⁶.

³ U.S. Bureau of Economic Analysis, June 2022

⁴ U.S. Bureau of Labor Statistics, June 2022

⁵ CBRE U.S. Real Estate Market Outlook, December 2021

⁶ CBRE Econometric Advisors, Q1 2022

In its June 2022 Office National Report, CoStar reported average office rental growth of 1.1% for the last 12 months. In comparison, the average rental growth for KORE's key growth markets have outperformed at 1.3%, while growth in the gateway cities was 0.4%.

Looking Ahead

Despite concerns over the US office market as economic growth slows, coupled with the softening of the market's office fundamentals, the Manager remains focused on optimising its portfolio performance, leveraging its well-located assets in key growth markets in the US, and exposure to the defensive sectors of technology and healthcare.

The Manager will continue to focus on improving leasing momentum, maximising rental rates and curating spaces and amenities that tenants desire.

Unitholders will continue to benefit from the income resilience of KORE's portfolio, enhanced by its strategy of investing in key growth markets in the US and seeking out accretive acquisitions in Super Sun Belt and 18-Hour Cities.

- End -

Appendix (About Powers Ferry and Northridge Center I and II)

Powers Ferry is a six-storey freehold office building situated in the Cumberland/I-75 submarket of Atlanta. The development has a committed occupancy of 67.6% as at 30 June 2022 and constitutes 2.9% of portfolio NLA. Northridge Center I & II comprises two freehold office buildings located on the south side of Northridge Road in Central Perimeter in Atlanta. The development has a committed occupancy of 81.5% as at 30 June 2022 and constitutes 3.7% of portfolio NLA.

About Keppel Pacific Oak US REIT (www.koreusreit.com)

Keppel Pacific Oak US REIT (KORE) is a distinctive office REIT listed on the main board of the Singapore Exchange Securities Trading Limited (SGX-ST) on 9 November 2017. KORE leverages its focus on the fast-growing technology, advertising, media and information (TAMI), as well as medical and healthcare sectors across key growth markets in the United States (US), and aims to be the first choice US office S-REIT providing sustainable distributions and strong total returns for Unitholders.

KORE invests in a diversified portfolio of income-producing commercial assets and real estate-related assets in key growth markets characterised by positive economic and office fundamentals that generally outpace the US national average, and the average of the gateway cities. These markets include the Super Sun Belt and 18-Hour Cities, which have and continue to see an accelerated influx of talent as part of The Great American Move.

As at 31 December 2021, KORE's portfolio comprised a balanced mix of 15 freehold office buildings and business campuses across nine key growth markets driven by technology and innovation in the US. With a combined asset value of US\$1.46 billion and an aggregate net lettable area of approximately 5.1 million sf, these properties encompass a diversified high-quality tenant base in the growing and defensive sectors of TAMI, as well as medical and healthcare, which make up 45.2% of KORE's portfolio by cash rental income.

KORE is managed by Keppel Pacific Oak US REIT Management Pte. Ltd., which is jointly owned by two Sponsors, Keppel Capital and KORE Pacific Advisors.

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Prospective investors and unitholders of Keppel Pacific Oak US REIT (Unitholders) are cautioned not to place undue reliance on these forward-looking statements, which are based on the current view of Keppel Pacific Oak US REIT Management Pte. Ltd., as manager of Keppel Pacific Oak US REIT (the Manager) on future events. No representation or warranty, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of the information, or opinions contained in this release. None of the Manager, the trustee of Keppel Pacific Oak US REIT or any of their respective advisors, representatives or agents shall have any responsibility or liability whatsoever (for negligence or otherwise) for any loss howsoever arising from any use of this release or its contents or otherwise arising in connection with this release. The information set out herein may be subject to updating, completion, revision, verification and amendment and such information may change materially. The value of units in Keppel Pacific Oak US REIT (Units) and the income derived from them may fall as well as rise. Units are not obligations of, deposits in, or guaranteed by, the Manager or any of its affiliates. An investment in Units is subject to investment risks, including possible loss of principal amount invested.

Investors have no right to request the Manager to redeem their Units while the Units are listed. It is intended that Unitholders may only deal in their Units through trading on Singapore Exchange Securities Trading Limited (SGX-ST). Listing of the Units on SGX-ST does not guarantee a liquid market for the Units.

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