

Manulife US REIT

As the first pure-play U.S. office REIT to be listed in Asia, Manulife US REIT offers an opportunity for investors to tap into the further recovery of the world's largest economy. We speak to the CEO of the REIT Manager, Ms Jill Smith, to find out what makes Manulife US REIT unique.



JILL SMITH, Chief Executive Officer, Manulife Real Estate Management Pte. Ltd.

Manulife US REIT (SGX Stock Code: BTOU)

Listed on the SGX Mainboard on 20 May 2016, Manulife US REIT is a Singapore 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 U.S., as well as real estate-related assets.

Manulife US REIT's initial portfolio comprises Class A or Trophy quality freehold office properties, which enjoy high occupancy rates and generate stable and visible cash flows. The three properties – Figueroa, Michelson and Peachtree – are strategically located across prime areas of key U.S. cities, which are characterised by limited supply of and strong demand for high quality office space.

Why did Manulife list its U.S. office properties in Singapore?

Ms Smith: The Sponsor for Manulife US REIT is The Manufacturers Life Insurance Company, which is part of the Manulife group with an established business in Asia dating back more than 100 years. Asia accounts for one third

of Manulife's overall global business.

Besides insurance, Manulife has extensive experience in providing wealth and asset management services across a broad range of public and private asset classes. Unknown to many, we have over 70 years of experience in commercial real estate through a vertically integrated platform and manage everything from the plumbing to the high finance.

The listing of Manulife US REIT in Singapore is part of Manulife's long term strategy to further raise its profile in Asia. Since the global financial crisis, Manulife has been looking at ways to expand its Asian franchise and leverage its private assets. The REIT sits at the juxtaposition of Manulife's twin objective for growing both our Asia franchise as well as our global wealth and asset management franchise.

The fact is most people in Asia love and understand property. We felt it was a marriage made in heaven, particularly, in Singapore which has a REIT market that has embraced international REITs.

What is the purpose of the U.S. REIT structure? How does that benefit unitholders?

Ms Smith: Currently, all non-U.S. individuals and institutional investors who buy U.S. stocks and REITs are subject to a 30% withholding tax on their distribution income.

To achieve tax efficiency, Manulife US REIT's three buildings are each held under sub-REITs, as U.S. REITs are generally permitted to deduct distributions paid to their unitholders from their U.S. federal and state taxable income if the properties are held in this structure.

In addition, we have obtained an advance tax ruling from the Singapore tax authority, which confirms that no tax will be levied on institutional unitholders in Singapore.

The beauty of Manulife US REIT is that it delivers distribution income from U.S.-based commercial properties to individual unitholders in Singapore in a tax efficient manner, and that distributions to local and foreign corporate entities (institutional unitholders) will also not be subject to the customary taxes in Singapore.

Can you tell us more about the REIT's value proposition, and what opportunities lie ahead?

Ms Smith: As a pure-play U.S. office REIT, Manulife US REIT is poised to benefit from further U.S. economic recovery. The fundamentals of the U.S. office real estate sector remain strong, and the growing demand and tight office supply is driving increased occupancies and higher rental rates. Interest from foreign and local investors in the U.S. office market has also led to rising capital values and compression of capitalisation rates.

While there are concerns about excess supply of commercial space in Asia and slowing demand, the U.S. has seen only moderate construction of new office space following the subprime crisis. Furthermore, demand has been steadily increasing.

In America, office leases generally include annual rental escalations. For our portfolio, the annual rental escalations average about 3% per annum across our properties, which will underpin distribution per unit (DPU) and yield. We will also be looking at accretive acquisitions that would boost the REIT's DPU.

In terms of growing the portfolio, we will be acquiring through the sponsor's U.S. asset managers or directly. The U.S. office real estate market is the world's largest, with many different markets to invest in. We expect to acquire in cities and locations that have higher growth rates than the national average. **1**