

Manulife US Reit prices S'pore IPO at US\$0.83 per unit

It will raise gross proceeds of US\$519.2 million from offering, cornerstone units, and sponsor subscription units

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MANULIFE US Reit, the first initial public offering on Singapore's mainboard this year, has priced its offer at the top end of the indicative range at US\$0.83 per unit.

This translates to a distribution yield of 6.6 per cent for the forecast period of eight months to Dec 31, 2016 and 7.1 per cent for the full year of 2017.

The offering comprises an international placement of 350.78 million units to investors outside the US and a public tranche of 45.79 million units to the Singapore public.

Separately, some 169.54 million units were issued to cornerstone investors, and the sponsor Manulife group agreed to subscribe for 59.4 million units in the Reit.

According to a banker, interest came from a good mix of long-only funds, family offices, private banking clients and hedge funds. The placement tranche and cornerstone units are fully subscribed.

Gross proceeds of US\$519.2 million from the offering, issuance of sponsor units and cornerstone units,

as well as a debt amount drawn from bridge loan facilities, will be used to pay for the acquisition of the portfolio properties, IPO-related costs and the debt financing, as well as for working capital.

Manulife US Reit's CEO Jill Smith told reporters on Thursday that recent stock market stability has offered an "window opportunity" to bring this offering back to the market.

Manulife's first attempt at listing the office Reit in July last year was botched by weak market demand amid the Chinese stock market rout, potential Greece exit from the eurozone, oil price woes, and looming Fed rate hikes.

On why Singapore is chosen as the listing venue for the Reit, Ms Smith explained that Singapore is "the Reit market in Asia that has embraced international Reits", while the Reit markets in Hong Kong, Japan and Australia are largely domestic in nature.

Since the global financial crisis, Manulife has been looking at ways to expand its Asian franchise and leverage its private assets. "These two intercepted and given the fact most people in Asia love property and understand property, it was a marriage made in heaven in many respects,"

she said.

Being the first pure US office Reit listed in Asia, Manulife US Reit is "poised to benefit from the recovery of the world's largest economy", Ms Smith said. The listing, denominated in US dollars, also provides a currency play for investors expecting the greenback to appreciate. The Reit's distributions will be paid out twice yearly in Singapore dollars.

The Reit's portfolio of three freehold Class A office properties in Los Angeles, Orange County and Atlanta is valued at US\$799 million. It has a total of 1.8 million sq ft in net lettable area (NLA) with an overall occupancy of 96.5 per cent.

"The strategy of this particular Reit is to choose cities and locations that have higher growth rates than the national average," Ms Smith said.

The three properties currently house 74 tenants across diversified sectors. They will continue to be managed by John Hancock Real Estate, the US division of Manulife Real Estate.

Manulife US Reit chief investment officer Jeffrey Wolfe pointed out that office leases in the US tend to be longer and not subject to cancellations, whereas office leases in Singapore can be terminated with two to three months' notice. As of Dec 31, about

99.1 per cent of existing leases by NLA have some form of built-in rental increases.

Mr Wolfe noted that fundamentals of the US office market remain strong. "What we are seeing is growing demand and limited supply and those two factors are driving increased occupancies and higher rental rates." Interest from foreign and local investors in the US office market has also led to rising prices and compression of capitalisation rates.

Manulife has some US\$15 billion of assets under management in real estate, of which over 75 per cent are in offices and some S\$8 billion are located in the US. However, the sponsor is unable to extend right of first refusal (ROFR) to the Reit for future acquisitions given that Manulife is a registered investment adviser in the US under the John Hancock brand, Mr Wolfe explained. Under US regulations, investment managers are not allowed to favour one client over another.

Units of Manulife US Reit will start trading on the mainboard on May 20. Investors subscribing for units under the public offer will pay S\$1.138 per unit based on a pre-determined exchange rate. The public offer that opened on Thursday will close on May 18.