

US Office SREITs

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Shaken, not stirred

- Manulife US REIT (MUST)'s share price fell 14% in today's (27 Mar) trading, while PRIME US REIT (PRIME) and Keppel Pacific Oak US REIT (KORE) also declined, to a lesser degree
- We noted two distinct pieces of news that may have caused some fear/caution about the US office sector, and MUST specifically, though we are unsure if they are directly attributable
- Firstly, discussions on proposed transaction between Mirae and MUST are still ongoing, contrary to rumours that they have fallen through, following a news article dated 18 Mar 23. Secondly, media reported short sellers' bearish bets against US office on potential credit tightening, but we note that US office SREITs' lenders are largely Singapore/APAC banks with debt expiring in FY23 mostly refinanced
- While we believe that headwinds for the US office sector abound, it is largely priced in, with valuations at 0.5x P/BV, way below the COVID low

What's New

Manulife US REIT (MUST)'s share price fell 14% to today's (27 Mar) close of 22 UScts. On the other hand, the share prices of PRIME US REIT (PRIME) and Keppel Pacific Oak US REIT (KORE) declined to a lesser degree, by c.9% and c.4%, respectively.

We note that there are two distinct news items making the rounds recently that may have caused some fear/caution about the US office sector, and MUST specifically. However, we are not sure if the share price decline is directly attributed to this recent news.

Discussions on proposed transaction between Mirae and MUST are still ongoing, contrary to rumours. There have been rumours that the tentative transaction between Mirae Asset Global Investments and MUST, both presumed to currently be in talks (for a possible capital injection), could have fallen through, following an article from Straits Times dated 18 March 2023 titled "Manulife US REIT denies S\$206m figure for sale of its manager".

However, we understand that the discussions are still ongoing and, according to the latest announcement by Manulife US REIT (on 17 Mar 2023), the proposal from Mirae is non-binding, and due diligence is ongoing. The proposal from Mirae is in relation to a subscription of new units in MUST and does not include any offer to acquire any existing units. In the announcement, MUST highlighted that the due diligence includes, the amount of new units in MUST which Mirae and its affiliates can subscribe while taking into account the need for MUST to maintain its US REIT qualification.

While investors are impatient for a potential conclusion of the strategic review of this proposed transaction, we believe the process takes time and any subsequent disclosure of a potentially positive outcome of the review would be viewed as a positive for MUST, should the transaction be able to help it recap its balance sheet. However, the devil is still in the details.

Media also reported about short sellers' bearish bets against US office on potential credit tightening. On 26 Mar 2023, Business Times reported that short sellers have stepped up their bearish bets against US office segment with the expectation of a potential credit tightening following the US regional banking crisis.

Flash Note

Following our channel checks, we gather that US office SREITs' lenders comprise mostly SG banks/APAC banks, except for PRIME. Though PRIME's lenders comprise mainly US financial institutions, these do not fall into the high-risk list. Moreover, the facilities are extendable to 2024-2026, and it has undrawn credit lines of US\$196m.

In addition, US office SREITs have refinanced/locked in refinancing debt that is expiring in FY23. As such, any refinancing risk in the near term is limited. We attach a snapshot of key metrics of US office SREITs below.

In conclusion, the fears arising from these recent rumours are unwarranted, in our view. While we believe that sector headwinds largely abound, these headwinds are largely known at the current valuations, pegged to 0.5x P/BV – significantly below the COVID low and close to -2SD of the historical average. We recently published a report on our latest view on the US office SREITs sector:

[US Office SREITs: Rewards for the brave.](#)

Snapshot of US office SREITs metrics

As at Dec 2022	MUST	PRIME	KORE
AUM (US'm)	1,947	1,542	1,423
No of properties	12	14	13
NLA (sqft)	5,452,476	4,376,625	4,756,914
Committed occupancy	88.0%	89.1%	92.6%
WALE	4.7	4.1	3.4
Lease expiries - 2023	10.8%	15.4%	13.5%
Lease expiries - 2024	10.8%	13.2%	16.5%
Built-in average annual rental escalations	2.6%	n/a	2.4%
Rental reversions (4Q22 except MUST is FY22)	0.7%	20.2%	8.1%
Gearing	48.8%	42.1%	38.2%
All-in average Cost of Debt	3.7%	3.3%	3.2%
Average Term to maturity (years)	2.8	2.7	3.6
Interest coverage ratio	3.1	4.1	4.0
Hedging ratio	77.3%	82.0%	77.9%
% debt expiring in FY23 #	14.1%	-	1.8%
% debt expiring in FY24	13.9%	17.3%	12.9%
% debt expiring in FY25	17.5%	-	26.7%

debt expiry for MUST and KORE in FY23 includes revolvers

Source: Company, DBS Bank

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*Share price appreciation + dividends

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