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Manulife US REIT highlights major complexity on road to resume distributions



By [Ridzwan Rahmat](#)

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[Manulife US REIT](#)



Manulife US REIT is endeavouring to bring down its gearing back within limits stipulated by the Monetary Authority of Singapore (MAS) and hence, being able to resume distributions.

But a major complexity, which may not be immediately apparent to observers, is underscoring this endeavour.

In a recent call with the media and analysts, the REIT's CEO described the complexity as akin to having "a lot of chefs in the kitchen at the moment".

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Manulife US REIT is a US-focused office REIT and it recently recorded a 14.6% fall in the valuation of its assets amid market challenges.

This valuation fall has resulted in the REIT's gearing crossing the 50% regulatory threshold set by the authorities in Singapore.

With that, it is no longer able to make distributions and take on new loans given breaches in loan covenants.

To rectify this position, the REIT is now pursuing a disposition mandate to sell selected assets to reduce indebtedness and fund its capital expenditures.

At the same time, it is still engaging with potential partners as part of a wider strategic review of its business, which has been floundering in recent years after the COVID-19 pandemic.

And hence, here lies the complexity, said Tripp Gantt, CEO of Manulife US REIT's manager.

On one end, the REIT's creditors are keen for the disposition mandate to proceed as unimpeded as possible so that it is able to fulfil its loan obligations.

But on the other hand, the potential partners are wary of the REIT disposing of its quality assets, which would dim the appeal of a potential partnership in the first place.

One of the potential partners, an entity linked to South Korea's Mirae Asset Financial Group, has since pulled out of a potential deal with Manulife US REIT though it is unclear why it did so.

Compounding this complexity is the market for office assets in the US at the moment, said Gantt.

"The market for asset sales in the US is really, really challenged right now and difficult", he added.

Gantt posits that perhaps only really high quality assets would garner interest in the market at the moment, and this might complicate the disposition mandate.

"We are going to need that disposition mandate to give us the flexibility, but we also have other constituents that we're having discussions with now, that may have an interest in keeping high quality assets in the portfolio", said Gantt.

"But we also have to work with the banks to determine which assets we want to keep and which assets we want to sell".

"And so there are a lot of chefs in the kitchen at the moment. We're having to take into account a lot of different potential interests and potential different outcomes and so it is a complex analysis right now", said Gantt.

Aligned interests

However, Gantt posits that there is at least one area where all parties are aligned, and that is "in trying to protect as much of the capital value in the portfolio as we can and maximise the value of the portfolio".

"And what that means is that we are really taking a look at the assets at where we can make investments and see a return on those investments".

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“And then also, on the other end of the spectrum, taking a look at the assets that we think are going to have challenges for a longer period of time, and perhaps not focusing on investment in those assets and maybe putting those up as candidates for disposition”.

“Obviously in a market like this, your highest quality assets are the easiest to sell”.

“And so I think that we're going to have to balance all these things together with the reality of the market conditions on the ground, focus with our long term objectives, and align those longer term objectives with the different constituents”.

Gantt did not specifically name the assets that are being targeted for disposal.

But in response to questions being raised about the REIT's only Grade B office asset, Diablo, Gantt admits that the property “may not have a clear path to having increased values from an investment that you put into the asset”.

The asset has also been seeing falling occupancies lately.

Gantt concluded by saying that the analysis for the disposition mandate is still ongoing, and more clarity on this will be available at a later date.

Diablo is one of the REIT's more recently inducted assets and it was acquired in 2021.

It was last valued at about USD63 million and represents about 6% of the REIT's assets by portfolio value.

Manulife US REIT was last done on the Singapore Exchange at USD0.088, and its present implied yield is currently nil given the halt on distributions.



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By **Ridzwan Rahmat**

Ridzwan has been analysing REITs and business trusts since 2008, and personally manages a portfolio comprising mainly of SGX-listed REITs.

He founded REITsWeek in 2013.

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