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Manulife US REIT Acquires US\$198.8 million Class A Asset, Bringing FTSE EPRA Nareit Index Inclusion within Reach

- **Entry into California’s Capital – Flourishing Economy and Thriving Office Market**
- **Prime Location, Top Class A Tower, 5-Star Amenities Attracting Multiple High-Quality Tenants**
- **Improves Tenant and Net Property Income Diversification**
- **Accretive Acquisition Enhances Unitholders’ Returns**
- **Possible Entry into FTSE EPRA Nareit Index at Next Review**

Singapore, 19 September 2019 – Manulife US Real Estate Investment Trust (“Manulife US REIT” or “MUST”), the first pure-play U.S. office REIT listed in Asia, today announced that MUST, through its indirect wholly owned subsidiary, has entered into a purchase agreement with 400 Capitol Mall Owner, L.P. (the “Vendor”) to acquire a freehold 29-storey Class A office building located at 400 Capitol Mall, Sacramento, California (“the “Property” or “400 Capitol”) for an estimated aggregate purchase consideration of US\$198.8 million (the “Acquisition”).

The total cost of the Acquisition (the “Total Acquisition Cost”) is currently estimated to be approximately US\$206.1 million, comprising the purchase consideration of US\$198.8 million, an acquisition fee of approximately US\$2.0 million, and the estimated professional and other transaction fees and expenses of approximately US\$5.3 million.

The Manager will finance the Total Acquisition Cost through a combination of loans and an equity fund raising. Please refer to the announcement titled “Launch of Fully Underwritten Equity Fund Raising to Raise Gross Proceeds of Approximately US\$142.1 million” dated 19 September 2019 for further details of a proposed equity fund raising to raise gross proceeds of approximately US\$142.1 million comprising a private placement of new units in Manulife US REIT and a preferential offering of New Units.



MUST acquires 29-storey Top Class A office building located at 400 Capitol Mall, Sacramento, California

Description	29-storey top Class A office building, located in Sacramento's CBD
Location	400 Capitol Mall, Sacramento, California
Land Tenure	Freehold
NLA	500,662 sq ft
Parking Lots	1,094 parking spaces (6-storey garage)
Year of Completion	1992 (> US\$12 million capital expenditures and tenant improvements since 2016)
Purchase Price¹	US\$198.8 million
Valuation²	US\$200.5 million
Implied Cap Rate³	7.2%
Occupancy Rate⁴	94.9%
WALE (by NLA)	5.9 years
Tenants	44

Data as at 11 September 2019

(1) Subject to closing and post-closing adjustments in the ordinary course of business.

(2) Based on valuation as of 27 August 2019 by Cushman & Wakefield.

(3) Implied cap rate is calculated based on first year net operating income over appraised fair value in the valuation report.

(4) Committed occupancy has taken into account the renewal of certain tenant's lease effective 1 October 2019 and excludes a tenant who has vacated the Property.

Commenting on the Acquisition, Ms Jill Smith, Chief Executive Officer of Manulife US Real Estate Management Pte. Ltd. (the “Manager”) said, **“We are delighted to acquire the top Class A asset, 400 Capitol, Sacramento, California for MUST’s blue chip office portfolio. As the capital city of California, just a drive away from San Francisco and the major tourist destinations of the Napa Valley and Lake Tahoe, Sacramento is a premier business hub with low business and living costs and a flourishing economy driven by healthcare, government and tech. Towering above the CBD, and benefiting from the US\$2.0 billion rejuvenation of sports, entertainment and hospitality developments plus a residential boom, 400 Capitol is an address of choice to many leading international and professional service companies.**

400 Capitol enjoys a strong occupancy of 94.9% and a long WALE of 5.9 years. It complements our existing high quality portfolio by improving tenant and income diversification. Not only is this acquisition 2.3% accretive, based on our 1H 2019 pro forma DPU, but it may also trigger a re-rating story for MUST as we inch closer to the FTSE EPRA Nareit Index during its next review.”

Entry into California’s Capital, Sacramento

Sacramento: Located in the Heart of California

Sacramento is the capital of California, which is the 5th largest economy in the world. Sacramento has one of the strongest economies in California, with the region’s Gross Metropolitan Product annual growth rate averaging 3.2% (between 2013 and 2018), exceeding the 2.3% growth rate for the U.S. over the same period.

Sacramento is widely recognised as the premier location for large corporations with government, law and lobby interests. The city is one of the most attractive business hubs in Western United States due to its relatively low cost of doing business, favourable labour environment, and extensive transport infrastructure. It also provides a cheaper alternative to San Francisco in terms of business and living costs. The key economic drivers include healthcare, government agencies and technology.

Sacramento offers a desirable live, work, play environment with affordable residential areas and an upsurge in hospitality, retail and entertainment developments. Sacramento is also located near to lifestyle/tourist destinations of Napa Valley vineyards, Lake Tahoe and the Sierra Nevada.

Sacramento is supported by a highly connected transportation system. It is one of the few inland metropolitan areas with an international airport, deep-water port, transcontinental train network, and easy access to major highways. The city also features other public transportation options, such as its downtown light rail system.

US\$2.0 billion Investment Rejuvenating Sacramento

There are multiple projects and developments planned within Sacramento that will provide long term economic growth.

- 1) **Downtown Development:** Positive effect from Golden 1 Center, a sports and entertainment venue delivered in 2016. The area enjoys a growing influx of residential, retail, and hospitality developments.
- 2) **Railyards Master Project:** One of the nation's largest infill redevelopment projects. This includes approximately 12,000 residential units, 5 million sq ft of office, retail, hotel, entertainment and healthcare space plus the development of a major medical campus (Kaiser Permanente).
- 3) **Revamping Old Sacramento:** In 2019, Sacramento's City Council committed US\$47 million towards upgrading the heritage site and improving access to the waterfront area, creating a series of new event venues and increasing tourism.
- 4) **Developing the Bridge District:** 3 residential developments and 1 mixed-use development planned or under construction as of 2019, including a prospective 7-storey hotel and residential project next to the Tower Bridge.

Thriving Office Market – High Barriers to Entry

Sacramento Downtown/Midtown Office submarket currently contains approximately 10.8 million sq ft of leasable area. Replacement costs of office buildings in the submarket are high at approximately US\$700 per sq ft, which is approximately twice the market value per sq ft of Class A properties across Sacramento. This is partially attributable to increasing land costs in the CBD due to land scarcity caused by more hotel, retail, and multi-family housing developments springing up in surrounding areas. Coupled with high construction costs, speculative construction of office space in this submarket has been limited in the near term.

Strong demand for Class A office space in Sacramento has also translated into robust rental growth. The asking rent for Class A office space in competitive micro market has been growing at an annual rate of 4.1% from 2014 to 2018. Overall vacancy rates for Sacramento Downtown/Midtown submarket Class A properties are at a multi-year low at 11.3% while the competitive micro market vacancy rates is only at 6.3%.

Prime Location, Top Class A Tower with 5-Star Amenities Attracting Multiple High-Quality Tenants

400 Capitol is uniquely positioned in the CBD. It is within walking distance to Golden 1 Center and the Downtown Core and benefits from the exposure to the 'Live-Work-Play' environment of

Sacramento's Downtown Core and its growing influx of high-end residential, hotel and retail developments.

400 Capitol is the tallest building in Sacramento, standing at a towering 423 feet high and forming an integral part of the city's skyline. The Property is widely considered as the premier building in the market and is downtown Sacramento's address of choice for premier law, financial service, accounting, and professional service firms. The Property has best-in-class features, including distinctive design, an expansive lobby, column free floor plates, 5-star onsite amenity base and highly efficient building systems.

The Property's current occupancy stands at 94.9% with a WALE by NLA of 5.9 years, based on committed leases as of 11 September 2019. Over the past 3 years, the Property has maintained a high average occupancy rate of 92%. Additionally, within the last 3 years, more than 80% of expiring leases have been renewed, demonstrating a strong retention rate. This is further supported by tenants occupying 11.9% of the Property's NLA who have forward renewed their leases to 2024 and beyond. This demonstrates the attractiveness of the Property to tenants.

The Property also has an average of 2.3% rental escalations per annum, providing healthy organic growth to the underlying rental income of the Property.

Furthermore, the current average in-place rent of the Property is up to 11.5% below the potential asking rental rate of the Property. This provides another source of organic rental income growth as expiring leases will be potentially renewed at higher asking rents.

Top 10 tenants have a long WALE of 6.4 years and includes internationally recognised firms such as Wells Fargo, Morgan Stanley and leading law firms.

Improved Tenant and Net Property Income ("NPI") Diversification

The current portfolio will be further fortified by the addition of 44 tenants from a range of trade sectors including legal, finance and insurance, public administration, real estate, consulting and accounting firms.

The Acquisition will allow Manulife US REIT to diversify and reduce its exposure to the portfolio's largest asset (based on NPI) from 18.9% to 17.1%.

Accretive Acquisition Enhances Unitholders' Returns

The Property will be acquired at a discount to appraised fair value and is expected to provide distribution per Unit ("DPU") and net asset value ("NAV") per Unit accretion.

The purchase price of the Property of US\$198.8 million represents a discount of 0.9% to the appraised fair value of US\$200.5 million. The Acquisition at a discount from the appraised fair value presents good value for Unitholders.

The Acquisition is expected to be DPU accretive to the Unitholders. The 1H FY2019 pro forma DPU is expected to increase by 2.3% from 3.04 US cents to 3.11 US cents after the Acquisition.

The Acquisition is also NAV per Unit accretive and lowers the overall gearing of Manulife US REIT. Post-Acquisition, the pro forma NAV per Unit as at 30 June 2019 is expected to increase from US\$0.79 to US\$0.80.

The pro forma aggregate gearing as at 30 June 2019 is expected to improve from 37.1% to 36.6%. This will provide debt headroom of approximately US\$123.3 million and US\$330.2 million based on Manulife US REIT's internal target gearing limit of 40% and regulatory gearing limit of 45%, respectively.

Possible Entry into FTSE EPRA Nareit Index at Next Review

The equity fund raising exercise in connection with the Acquisition will increase Manulife US REIT's free float by approximately 12.1% from US\$1.16 billion to US\$1.30 billion. This may bring Manulife US REIT closer to the FTSE EPRA Nareit Developed Asia Index inclusion, which could result in positive re-rating of Manulife US REIT.

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NOTE: This Press Release is to be read in conjunction with the SGXNET Announcement released by Manulife US REIT on the same date. All capitalised terms not otherwise defined herein shall have the meaning ascribed to the same in the SGXNET Announcement.



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About Manulife US REIT

Manulife US Real Estate Investment Trust ("Manulife US REIT") is the first pure-play U.S. office REIT listed in Asia. It is a Singapore listed 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 United States ("U.S."), as well as real estate-related assets.

Manulife US REIT's portfolio comprises eight prime, freehold and Trophy or Class A quality office properties strategically located in California, Atlanta, New Jersey and Washington D.C. Metro Area. The current portfolio valued at US\$1.9 billion, has an aggregate Net Lettable Area of 4.2 million sq ft and an occupancy rate of 97.2% as at 30 June 2019.

About the Sponsor – The Manufacturers Life Insurance Company ("Manulife")

Manulife is part of a leading Canada-based financial services group with principal operations in Asia, Canada and the United States. The Sponsor operates as John Hancock in the U.S. and as Manulife in other parts of the world, providing a wide range of financial protection and wealth management products, such as life and health insurance, group retirement products, mutual funds and banking products. The Sponsor also provides asset management services to institutional customers. Manulife Financial Corporation is listed on the Toronto Stock Exchange, the New York Stock Exchange, the Hong Kong Stock Exchange and the Philippine Stock Exchange.

About the Manager – Manulife US Real Estate Management Pte. Ltd.

The Manager is Manulife US Real Estate Management Pte. Ltd., an indirect wholly-owned subsidiary of the Sponsor. The Manager's key objectives are to provide Unitholders with regular and stable distributions and to achieve long-term growth in DPU and NAV per Unit, while maintaining an appropriate capital structure.

IMPORTANT NOTICE

This announcement is for information purposes only and does not constitute or form part of an offer, invitation or solicitation of any offer to purchase or subscribe for any securities of Manulife US REIT in Singapore or any other jurisdiction nor should it or any part of it form the basis of, or be relied upon in connection with, any contract or commitment whatsoever.

The value of units in Manulife US REIT ("Units") and the income derived from them may fall as well as rise. The Units are not obligations of, deposits in, or guaranteed by the Manager, DBS Trustee Limited (as trustee of Manulife US REIT) or any of their respective affiliates.

An investment in the Units is subject to investment risks, including the possible loss of the principal amount invested. Holders of Units ("Unitholders") have no right to request that the Manager redeem or purchase 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 (the "SGX-ST"). Listing of the Units on the SGX-ST does not guarantee a liquid market for the Units. The past performance of Manulife US REIT is not necessarily indicative of the future performance of Manulife US REIT.