Manulife
US REIT

Responses for Unitholders' Questions – MUST 2020 AGM

A) Financials and Capital Management

NO	QUESTIONS	ANSWERS
1	What's the potential impact to DPU with Biden administration recently proposed tax hike? What is the implication on Manulife US REIT earnings and dividends in view of the planned increase in US corporate tax rate to 28%?	The proposed tax hike would have no impact to MUST as we have put in place an efficient tax structure where our tax deductibles (mainly shareholder loan interest and building depreciation) are effective in shielding against U.S. tax.
2	Would we be expecting the DPU to increase in the subsequent years as the pandemic is easing?	For FY 2020, we achieved a high rental collection rate of 99.0%, with minimal deferment and abatement at 0.6% and 0.5% of GRI respectively. Currently, the physical occupancies of our properties range from 5.0% to 25.0% as workers are still mainly working from home. As much as the leasing momentum has picked up in 2021, tenants are still taking time to make major leasing decisions especially for larger spaces. As at 31 March 2021, we had executed ~270,000 sq ft of leases with a positive rental reversion of 2.1%. With the COVID-19 vaccination rollout, we remain cautiously optimistic on the improving market conditions with workers gradual return to office.
3	Compared to other SREIT, MUST gearing ratio is relatively higher, and might get higher, if property valuation is on-paper further reduced. What are the measures to further reduce the gearing ratio? The gearing is pretty high. What are the measures to lower the debt? Given relative high gearing, how does MUST plan to grow?	Our gearing level at 41.0% is well within MAS gearing limit of 50.0%. That said, we have been prudent with our capital expenditure since the onset of COVID-19, limiting capital spending to those that are essential only. In the event of acquisition fund raisings, management will take the opportunity to raise higher proportion of equity to lower gearing, while at the same time securing accretive deals.

4	As per Note 10 in the Annual Report (i.e. Loans & Borrowings note), the REIT has about US$216.5 million in secured bank loans expiring in 2021. Can we expect that the above-mentioned soon to be maturing loans can be renewed at a lower interest rates in order to bring down the overall finance costs.	The US$216.5 million is related to Penn and Michelson mortgage loans which have been refinanced in April 2021. The expected cost savings will flow through from mid-April 2021 onwards.

B) Portfolio Updates

5	You have some tenants, such as in retail, that will have been more severely impacted by COVID than others. Can you give us some assessment of their likelihood to continue as tenants in the existing spaces they occupy?	As at 31 December 2020, tenants in the retail trade accounted for 13.8% of our total portfolio by GRI. There are three major retail tenants within the portfolio's top 10 tenant list. They are Amazon, The William Carter ("Carter's") and The Children's Place ("TCP"). Together these three accounts for 12.9% of the total portfolio by GRI. Excluding Amazon, the portfolio's retail trade exposure falls to 9.9% of GRI. Amazon's business performed strongly through the COVID-19 pandemic and has been expanding in a number of locations around the U.S. Both Carter's and TCP are publicly listed companies, have their corporate headquarters located within our portfolio and are in the essential children's clothing business. Recently, Carter's announced it expects net sales growth and EPS growth in 2021 of 5.0% and 10.0%, respectively. TCP reported its 4Q 2020 results which exceeded expectations across all key metrics, including digital sales rising 38.0% and now accounting for 46.0% of total sales. Carter's lease expires in 2030 and TCP's in 2029. 100.0% of 2020's rent for these three tenants has been collected and payments for 2021 are current. Moving forward, rental collections are expected to be close to 100.0%, given the essential nature of their business.

6	Are there any tenants reducing their office space or discussion in progress of such intention? How many tenants are considering reducing their space usage in view of the work from home? How much space is currently sublet? Do we see more transactions in the office space in the US and what is the trend for cap rates?	We are constantly in discussion with tenants who are considering expansions and reductions which is part of the normal course of our business. Subleasing can be a precursor to tenants reducing their office space. Contrary to the broader U.S. market trend of increased sublease space coming to market during 2020, our portfolio registered 3.3% (-30.0% YoY) subleasing as at 31 December 2020. According to Real Capital Analytics (a leading US real estate data provider), sales volume in 1Q 2021 was down 30.0% YoY. However, March 2021 deal volume increased 11.0% YoY with all major sectors, including office, showing increases in volume. We expect growing sales volume for office properties to continue increasing throughout the course of 2021 as the U.S. further emerges from the pandemic. Office cap rates for 2020 have remained flat and we expect 2021 to register a similar trend.
7	How does the Manager intend to pivot the REIT's current portfolio for a prolonged or a future pandemic?	The portfolio will be managed to protect against a prolonged or future pandemic by continued active asset management and investing in the right markets, properties and attracting credit tenants. MUST's strong base of Trophy and Class A properties, built over the past five years, proved resilient during the recent difficult times. We are setting a course for transformational growth capitalising on post COVID-19 themes. From our current position of some 10.0% in high-growth sectors, we are aiming to enhance and protect the portfolio, targeting at least 20.0% in technology, healthcare and knowledge economy. We intend to further increase our existing exposure (over 50.0%) to areas of population migration which exhibit lower density, affordable live, work, play environments, diversifying our geographic locations to include those such as the vast sunbelt of America.

8	Do you foresee that the properties held will be further devalued amid ongoing pandemic?	Valuations in the U.S. are typically performed on a 10-year discounted cash flow basis. The portfolio's lower valuation was due to the higher vacancies, estimated higher leasing costs and the independent U.S. appraiser, CBRE assuming 0% rental growth in the first year of new leases and renewals. So far in 2021 whilst overall U.S. leasing and market conditions are improving, it's not clear when office valuations will start to recover to pre-COVID-19 level. However, our portfolio is witnessing strong leasing momentum in 1Q 2021 which is encouraging.
9	Current occupancy and projected (say 6 months or 1 year forward) occupancy of Manulife's office in the U.S.	As at 31 December 2020, our portfolio's average occupancy stood at 93.4% which was still above the U.S. Class A average of 84.0%. We are encouraged by the strong leasing momentum with ~270,000 sq ft of leases that were executed in 1Q 2021.

C) U.S. Office Outlook

10	What is the outlook on the relevance and resiliency of the commercial sector in the United States post COVID-19? What will be the future impact of the COVID pandemic, in your opinion, on the tenancies of the office properties in the US, especially if the Work-From-Home model will become more of a norm in the working environment?	The office sector has a favourable outlook due to the continued growth of office-using employment that will drive occupational demand. According to Cushman & Wakefield, since the low point in April 2020, the U.S. added back 1.9 million office-using jobs through March 2021 and office employment is expected to reach pre-pandemic levels by mid-2022. Further, the U.S. is forecast to create an additional 2.3 million office-using jobs over the next two years which will put the office-using employment level on track and at record levels. Employee ability to WFH in the U.S. was already a common practice with over 50.0% of the workforce given the option to WFH pre-COVID-19. Office continues to play a vital role for corporations to foster culture and maximise

		productivity. Currently the hybrid model of the return to the office where two or three days are spent at the office seems to be the favoured route and this model requires the same amount of space as pre-COVID-19.
11	There appears to be a new trend brought about by the ongoing COVID pandemic where companies and organizations are requiring lesser office space because they are asking more of their employees to work from home. Furthermore, this seem to have been reflected in the form of the lower fair value valuations of your investment properties, which had decreased by US$128 million last year. As per what was mentioned in page 26 of your Annual Report the lower fair valuation was due to expectations of lower rental growth, higher vacancies and higher leasing costs, which I suspect has been caused by the recent work from home trends. Thus, what strategy or actions does the REIT's management intend to undertake to deal with this new trend especially in light of the fact that you have a total of 23.6% of leases by GRI expiring within the next two years.	While a hybrid model that gives employees more flexibility to WFH is likely to emerge post-COVID-19, according to PWC's Remote Work Survey, 70.0% of tenants are expected to need the same or more amount of square footage in the future. Valuations were impacted in 2020 due to temporary increases to vacancy and leasing costs and a temporary pause on rental growth. Contrary to the broader U.S. market trend of increased sublease space coming to market during 2020, our portfolio registered 3.3% (-30.0% YoY) subleasing as at 31 December 2020. Lastly, there was 270,000 sq ft of leasing executed within the portfolio during 1Q 2021. 2021 and 2022 lease expiration risk has reduced from 5.7% to 4.3% of NLA and 18.1% to 13.0% of NLA respectively.

D) Moving Forward

12	Is there any asset acquisition in 2021?	We are always looking for quality income producing yield accretive acquisitions. Since the start of 2021 we have reviewed some 15 properties, but to-date, none have been suitable due to accretiveness or have met our investment criteria.
13	What is the growth strategy for the REIT?	In the past five years since IPO, MUST has grown from an AUM of US$777.0 million to US$2.0 billion as at 31 December 2020. We achieved this by making accretive acquisitions of Trophy and Class A U.S. office buildings in key locations with strong fundamentals across the U.S. and that offered attractive live, work and play environment. Our growth strategy going forward is to pursue the existing investment criteria but

		to lift the pace of growth through accretive acquisitions that will benefit from post COVID-19 themes. These will include high-growth sectors such as tech, healthcare and knowledge economy and acquiring properties in locations that not only enjoy faster growth from these sector, but are also benefiting from Americas population migration and the relocation of companies to U.S. states that are business friendly. In addition, we are considering transformational growth strategies that include buying property portfolios, JV and M&A. We are flexible to finding avenues of growth that first and foremost will benefit our Unitholders and sustain income in the future.
14	Will MUST stay with Grade A office, or does it intend to expand into other office assets?	Our strategy to fortify our portfolio with Class A office properties that attracts credit tenants has helped to weather the 2020 pandemic. As the largest office real-estate market in the world, U.S. Class A buildings are found in a diverse range of locations from CBDs to thriving suburban areas and cities displaying high growth due to their focus on the burgeoning tech and healthcare sectors. The cap rates for such properties range from 6.5% to 7.5% which allows us to make accretive deals.
15	How does COVID affect the commercial rental market in US in general? In particular, how does Manulife US REIT position to weather the COVID situation? State of the rental market. Conflicting market noise on WFH being here to stay and whether moving forward, office space needs are increasing OR negated/reduced by WFH. Rental – current average running rates and projected or bidding rates.	The U.S. office rental market suffered in a number of ways in 2020. The uncertainty of the future of office caused by the lock down, working from home, the fall in GDP and surge in unemployment caused tenants to pause decision making on new leases, renewals and expansions. Rents softened with the past 12 months' rent growth falling by low single digits across most locations. Whilst the U.S. economy is now on the rebound and the return to the office has begun, uncertainty persists and rentals across the U.S. are still weak and currently projected to fall by an average of 2.5% for the next 12 months. We executed 279,000 sq ft of leasing in 2020 some 5.9% of the portfolio by NLA with a +0.1% rental reversion mainly from

		the legal, real estate, information, finance and insurance sector. As at 31 December 2020, our portfolio average in-place passing rent was US$40.88 per sq ft and below the average rent across MUST's markets of US$41.11 per sq ft. This positions the portfolio well to maintain and grow the in-place rents. With the tailwind of an improving economy, we have engaged in strong proactive leasing chasing occupancy with flexible leasing options. As a result, we have executed 270,000 sq ft or 5.8% of the portfolio by NLA with +2.1% rental reversions in 1Q 2021.
16	Would the Manager explore the option to expand the current investment mandate for commercial properties to other types of properties as well (e.g., logistics, data centres, healthcare, etc.)?	Whilst we believe the current mandate in U.S. office gives us much scope to successfully grow the REIT and provide a sustainable DPU over the long term, we are open to expanding our investment criteria if there is a growth angle.

E) Others

17	What are the initiatives from the management to invite Berkshire Hathaway to invest in our high yielding MUST share? Please comment why the share price is languishing and what you see happening to the share price in the next 12 months	For 2020, like most firms, we were unable to meet with investors physically both locally and overseas. In the face of any crisis or uncertainty, the timeliness and frequency of communication becomes paramount for investors. During the pandemic, we increased the frequency of our engagement with the investment community through virtual non-deal roadshow/conferences, panel discussions, 1-on-1 meetings, calls and engaged more than 1,700 analysts, media and investors (+24.0% YoY). There are different investment requirements by investors and global funds, ranging from regions, sectors, risk profile, market capitalisation and liquidity. By profiling ourselves globally through conferences, briefings, social media, we have attracted overseas investors who make up close to 70.0% of our investor base. We will continue to target and attract new investors both locally and overseas showcasing the merits of our portfolio.

		Our Unit price soared to an all-time high of US$1.08 at the start of 2020 post its entry in the FTSE EPRA Nareit Index in December 2019. Soon after, MUST together with global stock markets plunged with the onset of COVID-19. Our Unit price hit a low of US$0.55 in March 2020 as index funds and institutional investors rebalanced their portfolio. The impact of work from home has affected the office sector due to social distancing measures and the outbreak of COVID-19 cases in U.S. The future of office remains unclear to some investors as physical occupancies remain low at about ~20.0% in U.S. during this period. Unlike some other sectors, office seems to be in a 'no man's land'. As at 31 December 2020, our Unit price closed at US$0.745 with an average daily trading volume of 4.0 million units. The share register continues to hold strong with institutional investors making up more than half of the investor base. With the rapid vaccine roll-out and a gradual return to office in U.S., we will focus to drive leasing and acquisition opportunities.
18	Can the management provide sufficient justifications to support funds raising via new rights issue in the light of the overall reduced demand in office space due to COVID? Won't the new rights have a negative impact on the effective REIT price in the market?	Since our IPO in 2016, we have only untaken one rights issue in 2017 when the size of the property was more than half of our market capitalisation. With a market capitalisation of more than US$1 billion now, a 20.0% private placement mandate is sizeable for future deals. Our preference for all equity fund raising will be private placement, preferential offering and rights issue, in that order. We will only acquire at the right time and at the right price (yield accretive).

19	Would the Manager revert to in-person AGM should the current safe distancing measures are lifted by SGX? It not, how would shareholder engagement be improved for future virtual AGMS?	The Manager would be guided by the relevant authorities when it is deemed safe for the public to attend large scale meetings. In the event virtual meeting remains as the default format, the Manager will explore options to enhance communication with our Unitholders. All questions posted by Unitholders have been answered in this document. In FY 2020, efforts to engage the retail investors resulted in collaborations with journalists/financial bloggers through webinars, video and radio interviews. We will continue to engage Unitholders through various platforms such as conferences, panel discussions, webinars, live chats, social media and videos.