

MUST's strategic disposition plan on track with three assets on the market; renewal with a Top 5 tenant executed

- Stable portfolio occupancy of 78.4% and WALE lengthened to 4.7 years from 4.3 years in 1Q 2024
- Leasing volume of ~428,000 sq ft (8.5% of portfolio NLA) in 1H 2024 despite challenging conditions
- In addition to actively marketing three assets for sale, the Manager is focused on spending capital prudently to maintain a strong liquidity position to set MUST on a path of stabilisation and recovery

Singapore, 5 August 2024 – Manulife US Real Estate Investment Trust (“MUST”) reported a gross revenue of US\$86.7 million for the half year ended 30 June 2024 (“1H 2024”), which was 8.1% lower year-on-year (“YoY”) than the same period last year on a same-store basis¹. Same-store net property income (“NPI”)¹ declined by 16.7% YoY to US\$42.8 million largely due to lower rental and recoveries income from higher vacancies (+6.7% YoY across the portfolio, largely due to TCW’s expiration on 31 December 2023 (189k sq ft) at Figueroa), as well as higher property operating expenses.

Taking into account the higher finance expenses incurred due to higher interest cost, adjusted income available for distribution (“DI”)² decreased 27.8% YoY to US\$22.9 million. MUST has halted distributions until 31 December 2025 pursuant to the Recapitalisation Plan set out in the circular to Unitholders dated 29 November 2023³.

1H 2024 Financial Highlights

	1H 2024 (US\$'000)	1H 2023 (US\$'000)	Change (US\$'000)	Change (%)
Gross Revenue	86,740	99,568	(12,828)	(12.9)
<i>Same-store Gross Revenue¹</i>	<i>86,740</i>	<i>94,426</i>	<i>(7,686)</i>	<i>(8.1)</i>
Net Property Income	42,799	55,361	(12,562)	(22.7)
<i>Same-store NPI¹</i>	<i>42,799</i>	<i>51,408</i>	<i>(8,609)</i>	<i>(16.7)</i>
Income Available for Distribution ³	22,853	37,948	(15,095)	(39.8)
Adjusted DI ²	22,853	31,647	(8,794)	(27.8)
Adjusted DI per Unit ^{2,3,4} (US cents)	1.29	1.78	(0.49)	(27.5)

¹ 1H 2023 gross revenue and NPI have been adjusted to exclude Tanasbourne and Park Place, which were sold in April 2023 and December 2023 respectively.

² Commencing 1 July 2023, the Manager elected to receive payment of 100% of the Manager’s base fee and property management fee in cash. To provide a like-for-like comparison, 1H 2023 DI has been adjusted to reflect the Manager’s base fee of US\$3.8 million and property management fee of US\$2.5 million being payable in cash instead of Units.

³ Pursuant to the Recapitalisation Plan and the Master Restructuring Agreement, MUST has halted distributions to Unitholders till 31 December 2025, unless the Early Reinstatement Conditions are achieved earlier. Please refer to the announcement “[Entry into Master Restructuring Agreement](#)” dated 18 December 2023 and the [Extraordinary General Meeting Circular](#) dated 29 November 2023.

⁴ Adjusted DI per Unit is computed based on Adjusted DI divided by the total number of Units in issue as at 30 June 2024 and 30 June 2023 respectively.

NPI Breakdown by Property⁵

Property	1H 2024 (US\$ m)	1H 2023 (US\$ m)	Variance (US\$ m)	Variance (%)
Centerpointe	2.9	4.8	(1.9)	(40)
Diablo	3.3	2.9	0.4	14
Figueroa	0.7	4.5	(3.8)	(85)
Penn	4.3	4.4	(0.1)	(3)
Tranche 1 (Subtotal)	11.2	16.7	(5.5)	(33)
Capitol	5.3	6.6	(1.3)	(19)
Exchange	6.5	8.0	(1.5)	(18)
Peachtree	4.1	4.8	(0.6)	(13)
Plaza	3.6	3.4	0.2	5
Tranche 2 (Subtotal)	19.5	22.8	(3.2)	(14)
Michelson	6.9	6.7	0.2	3
Phipps	5.2	5.3	(0.1)	(1)
Tranche 3 (Subtotal)	12.1	11.9	0.1	1
Same store Portfolio Total	42.8	51.4	(8.6)	(17)

Mr John Casasante, Chief Executive Officer and Chief Investment Officer of the Manager of MUST, said, “Our strategic focus for MUST centers firmly on improving returns for Unitholders through a strategic disposition plan, optimising leasing and business operations, and exercising prudence in capital and liquidity management. The execution of our Recapitalisation Plan remains a top priority, and we have commenced the process to sell three carefully selected assets that we believe would attract liquidity amid the challenging environment. We have also commenced high level discussions with potential off-market buyers for other targeted assets in the portfolio. The level of interest from prospective buyers has been encouraging, and we are optimistic that we should be in a position to achieve the milestones of the Master Restructuring Agreement.”

Disciplined and prudent capital management

As at 30 June 2024, MUST’s unencumbered gearing ratio and aggregate leverage ratio held steady at 60.0% and 56.3%⁶ respectively. Interest coverage ratio⁷ has declined to 2.2 times as at 30 June 2024, from 2.3 times as at 31 March 2024, while its weighted average debt maturity shortened slightly to 3.0 years as at 30 June 2024, from 3.2 years as at 31 March 2024. To mitigate cash flow volatility resulting from interest rate movements, MUST targets to maintain an optimal hedge ratio of between 50% and 80%. The percentage of hedged/fixed rate loans remained high at 80.2% as at 30 June 2024.

Portfolio performance: Stable occupancy and longer portfolio WALE

MUST’s occupancy was stable quarter-on-quarter (“QoQ”) at 78.4% compared to the previous quarter (78.7% as at 31 March 2024). Leasing momentum remains positive with ~428,000 sq ft of leases executed in 1H 2024, despite the challenging conditions in some of MUST’s submarkets. Representing 8.5% of portfolio net lettable area (“NLA”), these leases have a long weighted average lease expiry (“WALE”) of 7.3 years, which will contribute to income stability for MUST.

⁵ For details on the asset tranches, please refer to slide 8 of the [Extraordinary General Meeting Presentation](#) dated 14 December 2023.

⁶ According to the Code on Collective Investment Schemes (“CIS Code”) issued by the Monetary Authority of Singapore (“MAS”) Appendix 6 Para 9.4, the aggregate leverage limit is not considered to be breached if exceeding the limit is due to a depreciation in the asset value of MUST’s portfolio beyond the Manager’s control.

⁷ Computed by dividing the trailing 12 months earnings before interest, tax, depreciation and amortisation (“EBITDA”) (excluding effects of any fair value changes of derivatives and investment properties, and foreign exchange translation), by the trailing 12 months interest expense and borrowing-related fees as set out in the CIS Code.

The bulk of leases signed in 1H 2024 comprised renewals (75.8%), while new leases made up 13.8%, and expansions the remaining 10.4%. These tenants include creditworthy companies from diverse sectors including technology, retail, financial and healthcare, contributing further to a resilient tenant base. The largest lease signed was for a Fortune 100 multinational technology company, the anchor tenant at 10 Exchange Place (“Exchange”) in Jersey City, New Jersey, and one of MUST’s top 5 tenants. The tenant occupies ~129,000 sq ft or about 17% of the NLA at the 30-storey Exchange office tower and the 3+ years lease renewal comes with modest tenant concessions and no early termination options.

The average rent reversion of leases signed in 1H 2024 was -10.6% and majority (11 out of 17) of the office leases were signed at above market rents. As at end-June 2024, the portfolio WALE lengthened to 4.7 years, from 4.3 years three months ago.

There is approximately 1.4 million sq ft in MUST’s leasing pipeline across its portfolio. However, the leasing environment remains challenging and the Manager is strategically prioritising leases that create liquidity and maximise value for MUST and its Unitholders over chasing higher occupancy.

MUST’s lease expiry profile remains well-staggered with 14.7% of leases by NLA expiring in the second half of 2024 and 9.6% expiring in 2025. Tranche 1 assets account for 66% of the expiries in the next 1.5 years. There are lease expiries in 2024 for the Tranche 3 assets, Phipps and Michelson, in respect of which we are expecting a renewed and partial backfill respectively.

MUST’s top 10 tenants have a long WALE of 6.8 years by NLA and there are no significant termination options in leases with these tenants within the next five years. Overall, its tenant base is well diversified across more than 20 trade sectors with no single tenant contributing more than 5.1% of gross rental income.

U.S. market outlook

U.S. real GDP continued to trend positively into the end of the first half of 2024. After YoY growth in 3Q 2023, 4Q 2023 and 1Q 2024 of 4.9%, 3.4% and 1.4%, respectively, the YoY growth rate in 2Q 2024 was 2.8%. The U.S. labor market remains healthy as reflected by an unemployment rate of 4.1% in June 2024, with 532,000 jobs gained in 2Q 2024. The Federal Reserve appears to have paused further policy rate increases, and the market is broadly expecting potential policy rate decreases in 2H 2024 due to indications that inflationary pressures may be easing. Inflation grew 3.0% in June 2024, with rising rents contributing to about a third of the increase in the month’s Consumer Price Index.

U.S. office leasing demand maintained its positive momentum through the first half of 2024, but the overall picture remains muted. According to JLL, active leasing requirements increased in the first half by 21.8% half-on-half (“HoH”), reflecting the third consecutive half of requirement increases. 2Q office leasing volume of 50.2 million sq ft was a 14.7% QoQ increase and the highest quarterly volume since 1Q 2020, bringing the total demand in 2Q 2024 and over the past 12 months to 88% and 79% of pre-COVID-19 volume levels, respectively. As a result, while absorption did compress to 8.9 million sq ft of negative net absorption from 13.4 million sq ft at 4Q 2023, it remained negative, which caused an increase in national vacancy rate to 22.1%, up 3.3% HoH.

Looking forward

MUST’s committed occupancy of 78.4% and long WALE of 4.7 years provide some buffer to withstand additional market uncertainty from a slowing economy or weak occupational market in the office sector, but the portfolio remains susceptible to secular reductions in overall demand from office

tenants. With the Recapitalisation Plan in place, the Manager will be able to leverage on the Disposition Mandate adopted during the Extraordinary General Meeting to optimise MUST's portfolio. At the same time, the Manager will continue to focus on asset, lease and capital management in addition to its commitment to sustaining and enhancing environmental, social and governance ("ESG") performance.

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About Manulife US REIT

Manulife US Real Estate Investment Trust ("Manulife US REIT" or "MUST") 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. MUST's portfolio comprises 10 freehold office properties in Arizona, California, Georgia, New Jersey, Virginia and Washington D.C. The current portfolio has an aggregate net lettable area of 5.1 million sq ft and was last independently valued at US\$1.4 billion as at 31 December 2023.

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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.

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