Manulife US Reit's new leaders will have to meet asset disposition targets, win back investor trust

Ben Paul : 7-8 minutes : 3/25/2024

The downturn in the US office property sector may get worse before it gets better, possibly leading to further erosion in MUST's NAV per share.

PHOTO: BT FILE

THE announcement of a major leadership change at the manager of Manulife US Reit (MUST) this past week may have unnerved some investors, coming just as the plan to recapitalise the beleaguered US office property trust is entering the crucial asset disposition phase.

Why are executives at MUST's manager heading for the exit now? Do they not have confidence in the recapitalisation plan they helped put in place? Is there trouble on the horizon that unitholders do not know about?

Marc Feliciano, chairman of MUST's manager, told me last week that the exodus of key executives is not a harbinger of any change in the execution of the recapitalisation plan.

He said the departing executives did not all decide to quit at exactly the same time; but he wanted to address the management turnover at one go.

In a series of early morning announcements on Mar 19, MUST's manager said its chief executive Tripp Gantt, its deputy CEO Caroline Fong, its chief investment officer (CIO) Patrick Arthur Browne, and its chief financial officer (CFO) Robert Wong will all step down on Jun 30.

MUST's manager said Gantt is leaving to attend to "pressing family needs" while the others are exiting to pursue other opportunities.

In their place, MUST's manager announced the appointment of John Casasante as its new CEO and CIO, and Mushtaque Muhammad Ali as its new CFO.

Feliciano said he has in the past worked closely with Casasante, who is joining MUST's manager from asset manager DWS, where he was regional director of real estate asset management alternatives and real estate assets.

Ali previously held various appointments at other units of the Manulife group.

Whatever the reasons for the turnover of senior staff at MUST's manager, the change might not be a bad thing for unitholders.

Unburdened by the trauma of managing MUST through its collapse over the last couple of years, the new leaders might bring a fresh perspective as they take up the mantle of executing the recapitalisation plan.

MUST's already depressed units dipped 1.8 per cent the day the management changes were announced.

The nervousness seemed to give way to optimism later in the week, however, as two board members of MUST's manager accumulated units in the market.

On Mar 21, Feliciano purchased 3.6 million MUST units in the market at an average price of US$0.0645 per unit; and independent director Veronica Julia McCann purchased just over four million units at an average price of U$0.0593 per unit.

Their combined purchases accounted for more than 48 per cent of MUST's trading volume that day.

On Mar 22, McCann bought a further 2.2 million units at an average price of US$0.06774 per unit. This accounted for nearly 27 per cent of MUST's trading volume.

Feliciano held no units in MUST prior to his purchase on Mar 21. McCann's purchases last week increased her total interest in MUST to just over seven million units.

MUST closed on Friday (Mar 22) at US$0.067, up 11.6 per cent for the week.

Asset dispositions

Back in December, unitholders of MUST gave their consent for a recapitalisation plan to remedy a breach of its loan covenants.

MUST's lenders agreed to extend the maturities of all their loans by one year, and temporarily relax their financial covenants until end-2025.

MUST, in return, agreed to immediately repay US$285 million of its debt; and raise at least US$328.7 million from the sale of assets by Jun 30, 2025. MUST also agreed to halt its distributions until end-2025.

MUST’s manager said in December that US$235 million of debt had been repaid – funded by its sponsor providing it with an unsecured loan of US$137 million, and buying one of its properties for US$98 million.

The manager said last month that the trust will be using its cash holdings to pay down the remaining US$50 million by Mar 31.

MUST’s manager is now focused on meeting its commitment to raise at least US$328.7 million from asset sales by June next year. The manager said last month it is aiming to raise about US$100 million by Q2 2024 or Q3 2024.

The size and pace of these asset sales, and the prices that the assets fetch, could be potent drivers of the market price of MUST’s units in the months ahead.

Anything that the incoming leadership at MUST chooses to say about the performance of its properties, or the state of the US office property sector, is likely to be carefully parsed by analysts and investors.

Event-driven counter

So, what does all this mean for unitholders of MUST?

Until MUST is able to reinstate its distributions, it does not seem appropriate to think of it as an income-oriented investment.

Instead, it has arguably become an event-driven counter.

The recapitalisation plan provides MUST with much-needed breathing room until 2025, when a recovery in the US office property market might begin to unfold.

This could result in an upward revaluation of MUST’s properties, and trigger a rerating in the exceedingly depressed market value of its units.

MUST is trading at a nearly 80 per cent discount to its net asset value (NAV) as at end-2023 of US$0.33 per unit.

There are significant risks, though. In particular, the downturn in the US office property sector may get worse before it gets better. This could result in MUST suffering further erosion in its NAV per share as it pursues asset dispositions.

It is also unclear whether MUST will be able to garner a market valuation over the longer term that enables it to once more function effectively as an asset securitisation vehicle.

MUST’s manager and sponsor group may have squandered the confidence of local investors by not acting quickly enough when the trouble started. There has also been criticism that the sponsor group has not been generous enough with its support in the recapitalisation exercise.

Notably, the US$137 million loan provided by MUST’s sponsor will cost 7.25 per cent per annum plus an exit premium of 21.16 per cent. This amounts to an effective interest rate of approximately 10 per cent.

While the new leadership at MUST's manager will initially have their hands full in meeting the asset disposition targets under the recapitalisation plan, they will probably also have to think about how to win back the trust and confidence of local investors if MUST is to have a long-term future in the Singapore market.