

Manulife US Reit mulls recycling of assets, diversification as US office headwinds persist

THE manager of Manulife US Real Estate Investment Trust : BTOU 0% (Manulife US Reit) has formed a strategic working group to assess "opportunities" - including the recycling of assets and the diversification into other asset classes and geographical markets - amid persistent headwinds in the US office sector.

"We're taking a look at all of our options at this point," Tripp Gantt, chief executive officer of the manager of Manulife US Reit, said at a briefing on Wednesday (Nov 2), following the release of the Reit's operational updates for the third quarter ended September.

"If we continue doing the same things, we're going to get the same results. So we need to take a really strong look at everything that we can do to provide the best opportunities for the Reit and the unitholders going forward," he added.

The strategic working group - comprising members of Manulife US Reit's board of directors and management team as well as representatives of the sponsor - is "a serious step in that direction", Gantt said.

The move comes amid sluggish leasing volume, while renewal of office leases by existing tenants fell to "historic lows".

"We signed 61,000 square feet (sq ft) of leases in the third quarter, which was less than we'd hoped. But one of the bright spots was that we were able to see a 4.3 per cent positive revenue version in the third quarter," Gantt said.

Including leases signed up to Oct 18, Manulife US Reit's portfolio occupancy dipped 1.9 percentage points to 88.1 per cent, from 90 per cent as at end-June. The decline was largely attributed to Quinn Emanuel's downsizing of about 71,000 sq ft at its Figueroa property.

Portfolio physical occupancy, the Reit manager added, was at the low 30 per cent range on a weighted average basis.

On the capital management front, Manulife US Reit's weighted average interest rate rose to 3.34 per cent as at end-September, from 2.97 per cent as at end-June.

The Reit manager noted that every 1 per cent increase in interest rates would impact the Reit's distribution per unit (DPU) by 0.105 US cents. This will represent a decline of about 4 per cent from its DPU of 2.61 US cents for the first half ended June.

Its gearing ratio stood at 42.5 per cent - higher than most Singapore-listed real estate investment trust peers, but below the regulatory limit of 50 per cent - with interest coverage of 3.4 times and a weighted average debt maturity of 3.1 years.

"Given these headwinds and all this continued uncertainty, we need to do something," Gantt said. "Our top priority right now is really to strengthen our balance sheet and manage gearing."

The Reit manager said it started a disposition process in Q2, which is still ongoing.

"Our focus in the beginning of these recycling efforts is to make sure that we've got the financial flexibility and the stability that we need to move forward," Gantt said.

Gantt added that the strategic working group is also looking at diversification into other asset classes.

"The acquisitions that we made at the end of 2021 began to pivot us away from high rise office buildings to a different kind of office product," Gantt said. "So we're asking ourselves the questions: 'Are we a 100 per cent office Reit?'... 'Is that the right way to go?'"

Over the long term, Gantt said the Reit manager is eyeing industries and property types that have secular tailwinds and less capital expenditure needs. Examples of asset classes that have these attributes, he added, could include industrial and multi-family properties.

He noted that the Reit's sponsor has these types of assets in its real estate portfolios, as well as relationships with developers and operators of these property types.

In response to questions from analysts and the media, Gantt said Manulife US Reit will continue to focus on the US - at least in the short term - but does not rule out diversifying into other markets in the longer term.

"We obviously have the ability to do that (expand beyond the US) and it's something that we've considered," Gantt said. "It is an option for us and it is something that we're monitoring and looking at."

Units of Manulife US Reit are trading flat at US\$0.355 as at 2.30 pm on Wednesday, following the announcement.