Manulife US REIT Proposes Fresh Asset Sale as Debt Limit Looms, Mirae Talks Lapse

Phipps Tower was valued at $210 million as of end-2022. (Source: MUST)

Singapore-listed Manulife US REIT said on Wednesday that it has signed a preliminary deal to sell an Atlanta office asset to its sponsor as its debt level threatens to hit the government's 50 percent limit.

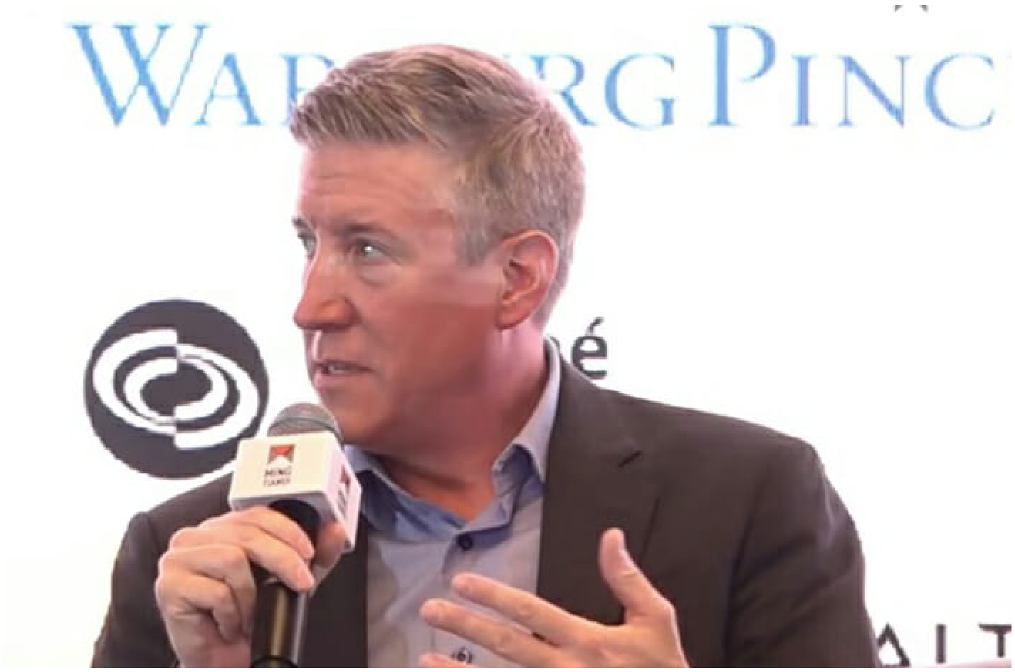
With the trust's gearing now at 49.5 percent, MUST's manager has entered into a letter of intent to sell the 20-storey Phipps Tower for an undisclosed amount, with a goal of sealing a definitive deal to sell the property, which was valued at $210 million at the end of 2022, by 30 June.

"The financial impact will only be known and announced once the appraisals have been completed and a purchase price is determined. The manager will continue to explore various fundraising options, including further asset dispositions to reduce gearing," a representative from the trust manager told Mingtiandi later that day.

In the same announcement, MUST's manager revealed that exclusive talks for a potential capital injection from South Korea's Mirae Asset Global Investments have lapsed, leaving asset sales as the most direct path to cash for the US-dedicated office REIT.

A Disposal A Month

The parties are currently conducting due diligence and are still negotiating terms of the proposed transaction, with MUST's manager waiving its disposal fee for the deal.



Tripp Gantt, CEO of Manulife US REIT

The current value for Phipps Tower, equivalent to $442 per square foot for its 475,778 square feet (44,108 square metres) of net lettable area, is 2.4 percent higher than the $205 million MUST paid to acquire the asset from its sponsor in 2018.

At an occupancy rate of 94.5 percent as of 31 December, the 2010-vintage building booked $12.2 million in net property income last year, which was up 2.5 percent from 2021, according to the REIT's annual report.

Phipps Tower has served as the headquarters of William Carter Company since 2014, with that lease accounting for 4.5 percent of MUST's gross rental income (GRI) as of 31 March and ranking the American children's apparel firm as the trust's largest tenant.

Located at 3438 Peachtree Road, the building has direct access to Phipps Plaza, one of the largest luxury malls in the city, and is within a five-minute drive of the MARTA Buckhead train station.

The proposed divestment was announced a little over a month after MUST sold a three-building office complex in Hillsboro, Oregon to another wholly-owned subsidiary of its sponsor, John Hancock Life Insurance Co. That disposal valued the Tanasbourne office park at $33.5 million and involved a net loss to the trust of $400,000.

Shares Drop 8%

Following Wednesday's announcement, MUST's equity dropped 8 percent to $0.16 per unit at closing.

While revealing that its exclusive discussions with Mirae, which involved a potential subscription to new units equivalent to about 9.8 percent of the trust's post-deal equity had expired, MUST's manager said it remains open to continue its talks with the Korean investment manager, while also considering proposals from other prospective partners.

MUST has engaged Citigroup Global Markets Singapore to conduct a strategic review aimed at strengthening its balance sheet and paring down debt, with that exercise ongoing.

"The manager will continue to explore various fundraising options, including further asset dispositions to reduce gearing. Proceeds from these divestments will be prioritised towards near-term loan maturities and essential capital expenditure," the statement said.

MUST saw its gearing ratio climb to 49.5 percent by the end of March from 48.8 percent at the end of 2022, according to its latest business update, as US office valuations continue to slide.

The central bank of Singapore requires REITs listed on the country's exchanges to keep their gearing levels – the ratio of total debt to total assets – below 50 percent.

In an 18 May note, DBS Research Group said the capital injection from Mirae, which they estimated could reach to up to $150 million, and a possible rights issue for existing shareholders worth about $55 million, could raise a total of $175 million, which would bring MUST's gearing down to 40 percent, while cautioning that accomplishing those feats might not satisfy the market.

"We believe a gearing of above 40 percent is still not a comfortable level for investors in view of the potential valuation decline considering the challenging US office market," DBS analysts said.

The value of MUST's portfolio, which includes properties in Arizona, California, Georgia, New Jersey, Virginia and Washington, DC, fell to $1.9 billion last year from $2.2 billion in 2021 as the US office market continues to grapple with changes in workplace culture and layoffs in the tech sector.

Over the long term, office buildings in the US are projected to shed 28 percent of their total value by 2029 – equivalent to a $500 billion write-down – as remote work arrangements dent office demand, according to a study last year by NYU's Stern School of Business and Columbia University's Graduate School of Business.