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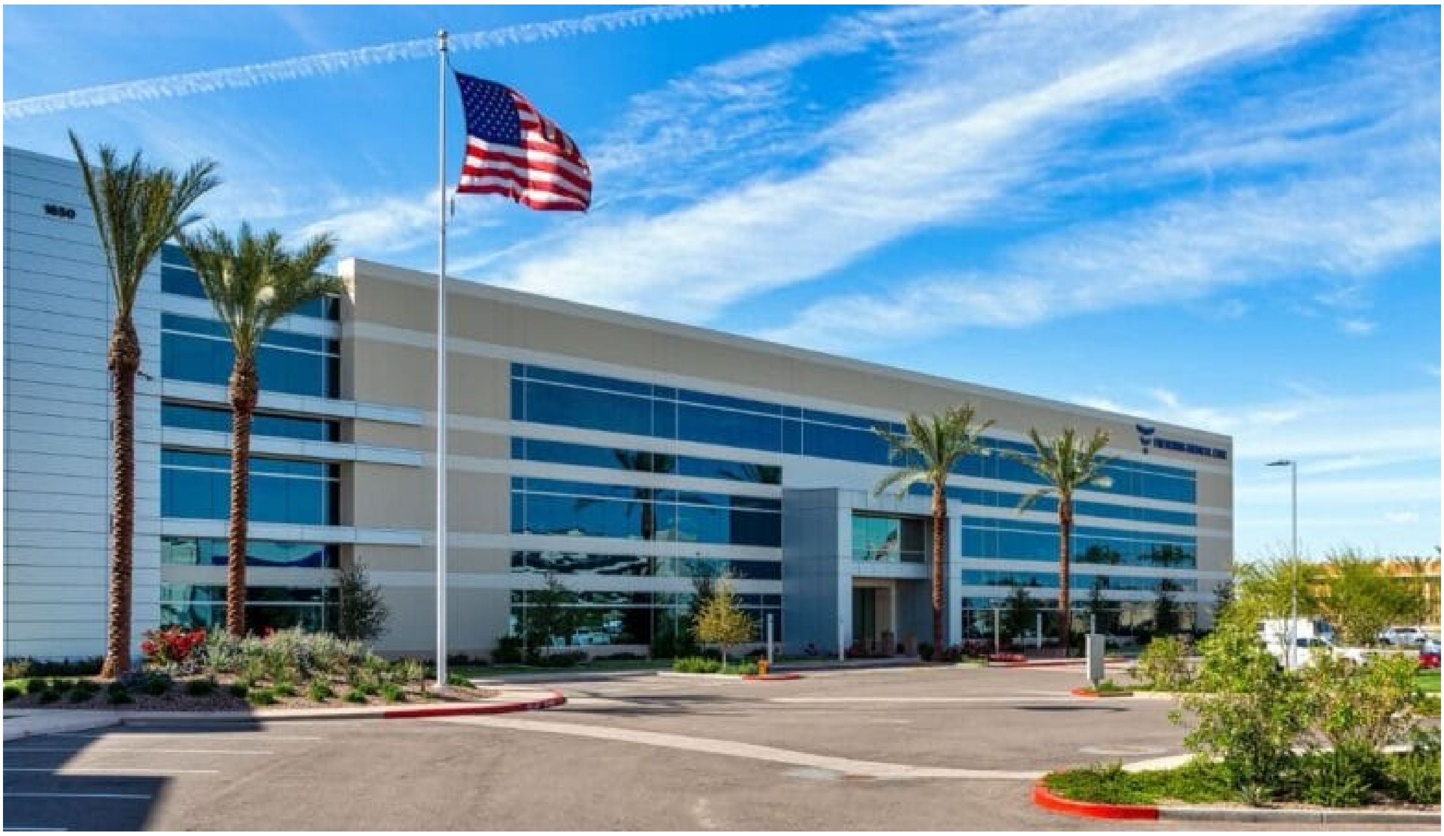
Manulife US REIT Inks Restructuring Deal - Mingtiandi

Beatrice Laforga ∶ 5-6 minutes ∶ 12/19/2023



MUST paid $106 mil to purchase Park Place in Chandler, Arizona in 2021 (Source: MUST)

Manulife US REIT (MUST) signed a master restructuring agreement with its sponsor and creditors on Monday to avoid defaulting on $1.18 billion in debt.

MUST said in a regulatory filing that all 12 of its lenders approved the restructuring which provides the financially troubled REIT with a $235.7 million lifeline arranged by its sponsor, Canadian insurance giant Manulife, in return for a promise of control of the REIT manager and a substantial interest payment.

As part of the financing deal with Manulife, the trust on Monday completed its $98.7 million sale of the Park Place office campus in Chandler, Arizona to a US subsidiary of its sponsor. The proceeds from the sale of that property near Phoenix, along with a $137-million loan from Manulife, will be used to reduce MUST's gearing. The trust also won a one-year extension from its creditors on outstanding obligations with the manager receiving expanded rights to fast-track divestments.

"These strategic measures, including the extended debt maturity and the ability to expedite asset disposals, are expected to play a vital role in facilitating MUST's turnaround," said Tan Qiuyi Charmaine, a research analyst at investment platform iFAST Financial. "Investors will likely closely monitor the execution of these plans, and the success of MUST in meeting these milestones will contribute to shaping investor sentiment positively."

Overwhelming Support

The agreement with the lenders came after the trust's manager obtained approval for the restructuring from unitholders controlling 97 percent of the trust's equity during an extraordinary general meeting on 14 December.

Tripp Gantt Chief Executive Officer at Manulife US REIT

The restructuring includes Manulife extending a sponsor-lender loan payable over six years at a 7.25 percent interest rate and an exit premium of 21.16 percent, giving the sponsor an aggregate interest reward of $89.4 million for its support of the REIT.

The deal also extends by 12 months the maturity of all loans to the trust which will stretch its weighted average loan maturity to 3.7 years from 2.3 years currently. Following the deal, MUST has no refinancing deadlines in 2024 with the next loan tranche maturing in May 2025.

To boost liquidity, the trust is divesting the 274,700 square foot (25,520 square metre) Park Place in Arizona to Manulife's John Hancock Life Insurance unit, which will provide MUST with $98 million in net proceeds.

The sale prices the asset at five percent above the asset's $94-million value as of 11 October, although that amount is still 6.9 percent less than the $106 million that MUST paid to acquire the property two years ago.

With the REIT having $50 million in cash on hand prior to the deal, following the transaction MUST will have $285 million available, which will allow it to trim its debt pile by 14.5 percent to $875.7 million, according to the manager.

Under the terms of the agreements, should the REIT's manager cease to be an entity owned by its sponsor, Canadian insurance giant Manulife, an event of default would be triggered.

Spotlight Turns to Asset Sales

The restructuring also grants the manager a disposition mandate which could accelerate disposal of any of MUST's 10 remaining US office assets which the manager estimates could generate net sale proceeds of over $328.7 million.

MUST's gearing level could be reduced to 49.4 percent from 56.7 percent as of 30 June if the restructuring is fully executed, bringing its rate of leverage just below the 50 percent maximum gearing set by Singapore's central bank.

To help investors better assess the MUST's liquidity and the overall health of its balance sheet, iFast's Tan recommended that the manager disclose more details about ongoing and planned asset disposals.

"It will be crucial to gain insights into MUST's strategy for identifying underperforming assets to dispose of, and for determining the allocation of funds post-liquidation – to help investors better assess the liquidity position and the overall health of the balance sheet of MUST," Tan said.

Since April of last year MUST failed in three attempts to dispose of assets from its portfolio, including a May proposal to sell the 20-storey Phipps Tower in Atlanta to its sponsor.

MUST's unit price remained unchanged at $0.08 on Monday, although the trust's equity has recovered 60 percent of its value since dipping to $0.05 per share on 30 November, when the restructuring deal was first unveiled.