Manulife US REIT's portfolio valuation fall cushioned by earlier move into Sun Belt cities

Manulife US REIT (MUST) has given further colour behind the precipitous decline in its portfolio valuation, which has caused its leverage to spike.

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The REIT first disclosed on 30 December that the valuation of its portfolio has declined by 10.9% or USD237.4 million to USD1,947.0 million.

As a result of this, the REIT's leverage has risen to 49%, just shy of the 50% limit imposed by the Monetary Authority of Singapore (MAS).

In a call with media and analysts on the same day, CEO of the REIT's manager, Tripp Gantt, explained that a large part of the decline can be attributed to valuation loss at a handful of assets.

"As you know, we have 12 properties spread out across 10 different sub markets in the US", said Gantt.

"73% of the overall decline came from just four properties in three sub markets", he added.

These four assets are namely 865 South Figueroa Street in Los Angeles, 500 Plaza Drive in Secaucus, 1750 Pennsylvania Avenue, and 10 Exchange Place in Jersey City.

The remaining decline was spread out across eight properties, and the average valuation loss for these was about 5%.

According to Gantt, the appraisals were lower that was largely due to the “challenging market dynamics” that have emerged with rising interest rates in the US.

“The assumptions used in the appraisals really reflect weakening occupancy and reduced leasing activity, and an expansion of cap rates and discount rates”, he added.

Furthermore, 865 South Figueroa has a significant lease that is expiring at the end of 2023, and that risk has been incorporated into the asset’s valuation by the surveyors.

This may explain the large decline in valuation, despite the leasing team being hard at work to backfill and mitigate against a possible rise in vacancy at the asset.

Silver lining

But it’s not all bad news for its portfolio - the REIT’s earlier-espoused investment thesis of investing in the higher growth sun belt cities appears to have been validated.

Assets in this region, such as Diablo in Tempe, Arizona, have generally declined by just about 2% - 3% in a seeming reflection of higher demand for such assets in these markets.

On top of that, these assets are also exposed to higher-octane industries such as tech and pharmaceutical tenants.

Moving forward, MUST has reiterated its commitment to going through with the strategic review exercise for which it has appointed Citigroup Global Markets to oversee.

The exercise will review a variety of options that might improve the REIT’s operations, including divestments to pare down debt, mergers & acquisitions, and an expansion in its investment mandate.

More details on these are expected to be revealed around February 2023, when the REIT’s financial results are released, said Gantt.

MUST was last done on the Singapore Exchange at a 52-week low of USD0.30, which presently implies a distribution yield of 17.4% according to data on the Singapore REITs table.

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