TakingStockOfStocks

Manulife US Reit's Asian advantage

The Sunday Times and the Singapore Exchange's research team interview company bosses in this series to help investors get a view of a firm's operations and strategic direction – aspects that go beyond the financials. We speak to Manulife US Reit chief executive Jill Smith, who shares her insights on the real estate investment trust and outlook on Asia.

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Invest Editor

With many Asian investors understanding real estate and keen on investing in property stocks, including Reits, Manulife believed that listing a US Reit in Asia would be a marriage made in heaven, says Manulife US Reit chief executive Jill Smith. It found Singapore to be the perfect listing venue, with its supportive regulatory regime and rapidly evolving Reit market. PHOTOS: MANULIFE US REIT

Listed on the Singapore Exchange in May 2016, Manulife US Reit (Must) was set up with the strategy to invest, directly or indirectly, in a portfolio of income-producing office real estate in key markets in the United States, as well as real estate-related assets.

It was the first pure-play US office Reit to be listed in Asia. Must's portfolio comprises eight prime, freehold, trophy/Class A office properties strategically located in California, Atlanta, New Jersey and Washington metropolitan area.

Q *Why did Manulife US Reit decide to list in Singapore?*

A Must's sponsor – The Manufacturers Life Insurance Company – established its business in Asia more than 100 years ago. It provides wealth and asset management services across a broad range of public and private asset classes.

Following the global financial crisis, Asia's economic recovery was much faster than that of the US and Europe. Taking full advantage of these circumstances, Manulife looked at ways to expand its Asian franchise.

Over these past 10 years, its earnings from Asia have grown from one quarter, before the financial crisis, to one third of core earnings today.

With its deep roots in Asia, the recovery provided an opportunity for Manulife to leverage its business by bringing its US private markets' real estate capabilities to the region.

Unknown to many outside the US and Canada, Manulife also has more than 80 years of experience in commercial real estate and manages everything from the plumbing to the high finance.

With many Asian investors understanding real estate and keen on investing in property stocks, including Reits, Manulife believed that listing a US Reit in Asia would be a marriage made in heaven.

Furthermore, Singapore was the perfect listing venue for Must with its supportive regulatory regime and rapidly evolving Reit market. To top it all, as the world's largest real estate market, the US would be the new frontier for yield-hungry investors in Asia.

Q *How did Must manage to almost triple its portfolio from three IPO properties to eight Class A properties in less than three years?*

A In recent years, with ample investment opportunities in the world's deepest real estate market, global investors, including many Singapore corporations, have diversified, and then expanded into the US real asset sector.

Must has followed suit, growing quickly by drawing the expertise of Manulife's strong real estate team of more than 570 professionals to tap US growth opportunities.

Our investment strategy is to acquire trophy/Class A office properties in key locations with strong fundamentals, a long Wale (weighted average lease expiry,) high occupancy, a Live-Work-Play dynamic and a diversified high-quality tenant base (Wale is used to measure the overall vacancy risk of a property with multiple tenants).

Since listing, Must has acquired three top-quality office properties through the sponsor's pipeline in Washington DC and the states of Atlanta and New Jersey.

The remaining two assets in New Jersey and Virginia were acquired from third-party vendors. Must's assets under management have increased from US$777 million (S$1.08 billion) at IPO to US$1.9 billion in June this year following the latest acquisition in Virginia.

During Must's first three years since listing, we have strengthened and transformed our investor base from high-net-worth investors to institutional investors. This has contributed greatly to the success of our secondary fund raising in terms of the discount and speed to market.

Q *As the first pure-play US Reit to be listed in Asia, what were your challenges and how did you overcome them?*

A Since Must's listing in 2016, we have met many investors who, while keen to invest in US Reits, have expressed unfamiliarity with the United States commercial real estate market.

As our properties are not in gateway cities such as New York or Boston, we have had to work harder to bring an understanding of American property and its environs to investors. Being the first in Singapore meant that we had to do much more than just deliver our quarterly results.

Apart from the investor meetings and roadshows, we have actively reached out to our retail, institutional and high-net-worth investors, as well as analysts and media through a series of thought leadership programmes targeting highly topical themes.

The Phipps Tower, a 480,000 sq ft trophy office building in the heart of Buckhead, Atlanta, is one of three top-quality office properties that Manulife US Reit has acquired since listing. The other two are in Washington and New Jersey.

For example, in March this year, we expanded Must's fourth retail investor day to include three panel discussions, where fund managers, a property analyst, a regulator and a banker shared their insights on the outlook of equity markets, foreign investments and US tax regulations. To get a better understanding of our assets, investors are invited to view videos of our properties on Must's website and also presentation materials that contain detailed information on the US real estate market and leasing structure.

We conduct frequent site visits for analysts and media to visit Must's properties in the US. Such visits also provide a platform for valuers, brokers and other property experts to share their insights into the US office real estate sector.

While we can't sit on our laurels, and the work goes on to highlight the benefits of diversification into a US Reit such as Must, perhaps the fact that there are now five US Reits listed on the SGX investing in differing parts of the US property arena means that our message has gained traction.

Q *Why are yields on Singapore-listed US Reits significantly higher than that of US-listed Reits with similar portfolios? Is that one of the reasons investors like Must?*

A Since its listing in May 2016, Must has achieved yields above 6 per cent, significantly higher than the National Association of Real Estate Investment Trusts' (Nareit) average dividend yield of 3.45 per cent for 21 US-listed Reits this year.

For US-listed Reits, typically 50 per cent of their cash is retained for capital expenditures at the funds from operations level, after which they will continue to distribute close to 100 per cent of their net income. In addition, there are higher limits for development activities for US-listed Reits, which can also suppress their yields.

Currently, investors who purchase any US stock will be subject to a 30 per cent withholding tax by the US tax authorities. However, Must provides investors exposure into the US without subjecting them to the 30 per cent withholding tax, as long as they have their W8/W9 tax forms validated. This is an extremely attractive feature for all retail, high-net-worth and institutional investors.

Q *Is there an acquisition target and growth plan for Must?*

A When I last checked, Must is one of the fastest-growing Reits in Singapore. In less than three years, we have more than doubled our market cap to US$1.2 billion. With a free float of close to 91 per cent, we are now close to entering the FTSE Epra Nareit index.

A cornucopia of opportunity, the US is the deepest and largest real estate market in the world and we are constantly on the lookout for high-quality income-producing office properties that are yield-accretive. With each acquisition, we must be able to strengthen and diversify our tenant base and improve the performance of Must.

Now that we have successfully completed our first three years in business and gained credibility for delivering on our promises to investors, it is time to graduate into a new phase of maturity. Ultimately, our growth plan for Must is to stand out as the blue-chip SGX-listed US Reit investment.

By maintaining a high-quality premier product, we will maintain value for investors and withstand economic cycles and the volatility of geopolitical shifts.

Prudence in our capital management plus expertise from our property manager in order to generate yield and returns will be matched by ambition to find growth through acquisition opportunities that will benefit Must and its unit holders, not only in the short term but also creating a virtuous circle of growth well into the future.

That said, we will acquire only at the right place and at the right time.

As some may recall, the fourth quarter of last year was tricky for the financial markets. There was a slew of bad news on the trajectory of rate hikes, tax uncertainty and prospects of a weak macro-environment.

At that point, Must was trading at a discount to book and a high yield. Although there were property deals to be had in the market, we were certain that we should not engage in a dilutive fund raising and dilutive acquisition, and, in the process, destroy unit holders' value and break their hard-earned trust in us.

As a result, as we take stock of where we want to be, we look forward to Must standing strong among the creme de la creme of the Singapore Reits.

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FinancialQuotient

What is a 'safe withdrawal rate'?

Wong Seak Eng

WHAT DOES IT MEAN?

In simple terms, a safe withdrawal rate is the amount of money that a saver can withdraw from his retirement funds each year, while still ensuring that there would be enough money to last for the rest of his life.

The safe withdrawal rate should take the rate of inflation into consideration, as future withdrawals might be higher as the cost of living increases. Ideally, savers who adhere to the safe withdrawal rate should have enough money to last their entire lifetime, with plenty of leftover capital for future generations to inherit.

WHY IS IT IMPORTANT?

In truth, the vast majority of Singaporeans are not saving enough for retirement. According to a recent study by the National University of Singapore, seniors aged 65 and above need about $1,379 a month to meet the basic standard of living. This figure will likely increase as the cost of living is constantly on the rise in Singapore.

However, for the fortunate minority who do have sufficient funds, what can they do to ensure that their hard-earned savings do not run dry?

For starters, ensure that the cash flow of your savings account is always positive. This means that the total amount of money going into the account should be more than the total amount of money flowing out.

As such, understanding your safe withdrawal rate is a critical step towards creating a successful long-term retirement plan.

There is no one-size-fits-all solution for defining the safe withdrawal rate, as it varies across individuals and investment styles. At Aggregate Asset Management, for example, the approach to value investing with a basket of stocks makes an annual safe withdrawal rate of 5 per cent possible, by virtue of its long-term rate of return which potentially exceeds the dedicated withdrawal amount.

IF YOU WANT TO USE THE TERM, JUST SAY:

"After calculating the safe withdrawal rate of my savings account, I no longer have to worry about running out of savings for my retirement."

• The writer is the fund manager and co-founder of Aggregate Asset Management.