Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

REIT: Keppel Pacific Oak US REIT
(Manager: Keppel Pacific Oak US REIT Management Pte. Ltd.)

Stock code: CMOU

Meeting details:
Date: 20 April 2022
Time: 10.30 a.m.

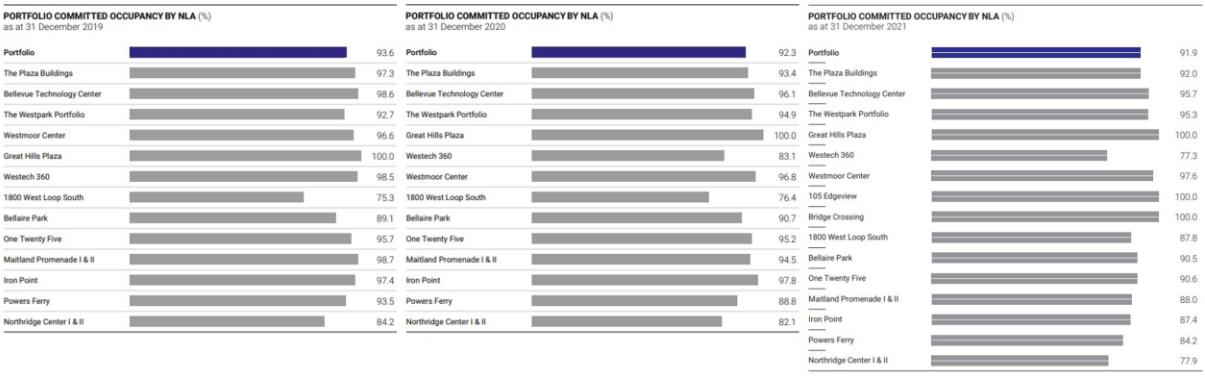
Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Q1. As noted in the chairman's statement, the resilience of the REIT's portfolio was underpinned by accelerated relocations to the Super Sun Belt and 18-Hour Cities, as part of the Great American Move.

(i) **Does the manager expect the domestic migration in the USA to continue? How sustainable is this trend and how has it affected the REIT's strategy, including capital allocation?**

The portfolio committed occupancy by NLA has declined steadily from 93.6% as at 31 December 2019 to 92.3% as at 31 December 2020 to 91.9% as at 31 December 2021.



(Source: annual reports)

Occupancy rates have fallen gradually for The Plaza Buildings (from 97.3% to 93.4% to 92.0% over the three years), Bellevue Technology Center, etc. Certain other assets have seen the occupancy rates drop off dramatically: for instance, Westech 360 from 98.5% to 83.1% to 77.3%, and Iron Point from 97.4% to 97.8% to 87.4% etc.

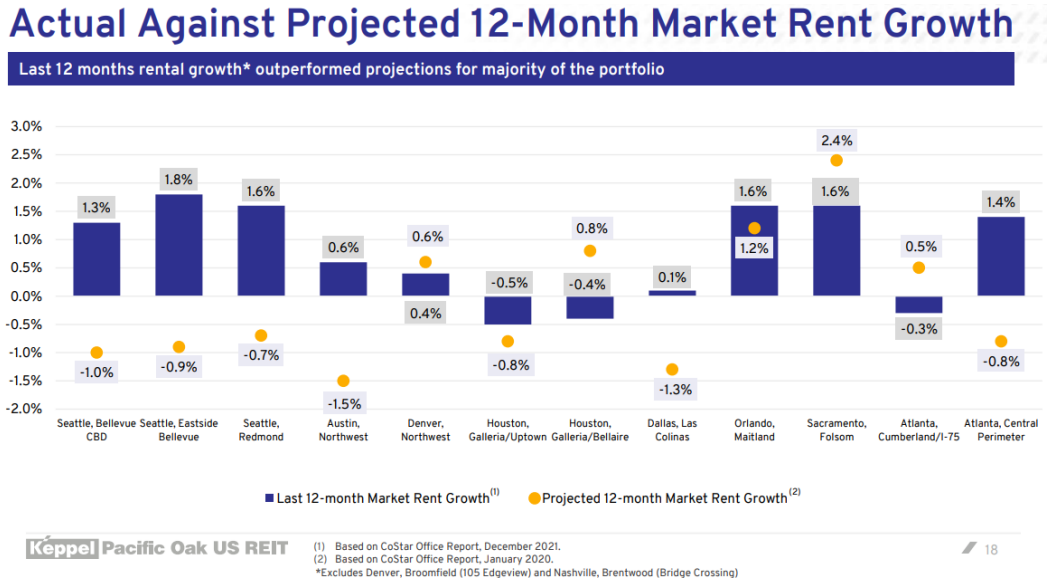
(ii) **What are challenges the manager faced to increase/maintain the occupancy rates? What were the retention rates of tenants with expired leases?**

(iii) **How early in advance does the manager start the lease renewal process?**

(iv) **Despite the promises of these 18-Hour cities, Magnet cities, Best tech cities etc, is there sufficient tenant demand once a major tenant moves out of its leased space?**

(v) It would appear that the projections are often nowhere close to actual market rent growth rates (see diagram below). **How much reliance does the manager put on the projected market rent growth in its leasing and investment decisions?**

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y



(vi) **Can the REIT manager help unitholders to better understand the strategies to improve the occupancy rates at:**

a. Westech 360 (77.3%);
b. 1800 West Loop South (87.8%);
c. Maitland Promenade I & II (88.0%);
d. Iron Point (87.4%);
e. Powers Ferry (84.2%); and
f. Northridge Center I & II (77.9%)?

Q2. As at 31 December 2021, the trust's gross borrowings increased to US$563.4 million from US$505.7 million a year ago to partially finance the acquisitions of 105 Edgeview and Bridge Crossing, as well as to fund the capital expenditures and tenant improvements during the year.

It is noted that approximately 83.4% of the trust's borrowings has been hedged from floating-to-fixed rates, significantly safeguarding distributions against interest rate volatility.

(i) **What is management's view of interest rate trends?**

(ii) **What is the impact on borrowing costs in light of foreseeable rising interest rates?**

(iii) **What is management's strategy to optimise its capital management, especially minimising borrowing costs?**

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

During the financial year, US$13.5 million was drawn down from the revolving credit facilities to fund capital expenditures, tenant improvements and general working capital requirements.

On 7 February 2022, the group early refinanced the US$84.7 million loan due in November 2022 with the new loan facilities of US$80.0 million and the remaining with an existing revolving credit facility.

(iv) The USD term loan with November 2022 maturity has interest costs of LIBOR + 1.19%. **What are the rates for the new facilities amounting to US$80 million?**

(v) **In addition, can the manager help unitholders better understand the rationale of using its revolving credit facilities (RCFs) to refinance its term loans? What are the rates for the RCFs?**

Q3. On 28 July 2021, the manager announced the launch of a private placement to raise gross proceeds of approximately US$65 million to fund the acquisitions of Bridge Crossing and 105 Edgeview.

At the close of the private placement, the issue price was fixed at US$0.733 per new unit. The issue price was a discount of 7.9% to the volume weighted average price of the REIT on the preceding market day.

The last reported net asset value per unit as at 30 June 2021, just prior to the private placement, was US$0.82 (adjusted NAV per unit of US$0.79).

The discount of the private placement to the REIT's NAV per unit was 10.6% respectively.

(i) **What deliberations have the independent directors made to quantify the (negative) NAV-impact of carrying out a private placement at a price below the NAV per unit for the then-existing unitholders?**

(ii) **Before placing out new units at a discount to fund the acquisition, how did the manager evaluate the cost of capital (including the impact of dilution) to the then-existing unitholders?**

The pro-forma DPU accretion was just 0.8% while the pro forma financial aggregate leverage increased from 37.1% to 37.4%.

(iii) With the high cost of capital due to dilution, the potential benefits of the acquisition would have been made less attractive. **What are the deliberations of the manager/independent directors on the risk/reward ratio?**

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

(iv) **Would the independent directors be reviewing the manager's fund-raising framework and practices and consider if the board would only approve private placements at or above the REIT's NAV per unit? Why was a rights issue not considered?**

^On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings ("Meetings Order") would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

Join our mailing list here to receive latest news and upcoming events.

CONNECT WITH US

^ Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation (https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation)