

# Keppel Pacific Oak US REIT

(Constituted in the Republic of Singapore pursuant to a trust deed dated 22 September 2017 (as amended))

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## RECAPITALISATION PLAN AND SUSPENSION OF DISTRIBUTIONS

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### 1. INTRODUCTION

Keppel Pacific Oak US REIT Management Pte. Ltd. (the “Manager”), as manager of Keppel Pacific Oak US REIT (“KORE”), refers to:

- (i) KORE’s announcement in relation to the Notice of Valuation of Real Assets dated 30 January 2024 (“Valuation Announcement”); and
- (ii) KORE’s unaudited financial results for the second half and full year ended 31 December 2023 dated 15 February 2024 (“2H and FY2023 Financial Results”).

### 2. RECAPITALISATION IS NECESSARY FOR KORE

As set out in the Valuation Announcement and the 2H and FY2023 Financial Results, KORE’s aggregate leverage (as defined in Appendix 6 to the Code on Collective Investment Schemes (“Property Funds Appendix”)) has increased to 43.2% as at 31 December 2023. As the aggregate leverage limits under the Property Funds Appendix and bank covenants limit KORE to a 50% aggregate leverage if KORE has an adjusted interest coverage ratio (as defined in the Property Funds Appendix) of a minimum of 2.5 times, lenders are generally unwilling to extend loan facilities to KORE for the US market if KORE’s aggregate leverage exceeds 45%.

As set out in the 2H and FY2023 Financial Results, KORE’s portfolio occupancy and net property income (“NPI”) has remained stable. This is despite the difficult US market conditions since 2020. The NPI for FY2023 was 2.2% higher supported by healthy portfolio committed occupancy of 90.3% as at 31 December 2023. The occupancy and operating performance of the KORE portfolio have largely been a result of the capital investments into the portfolio. Accordingly, the Manager believes that continued investments are necessary to maintain performance, occupancy and valuation.

Given the aggregate leverage limits and adjusted interest coverage ratio set out in the preceding paragraphs, the Manager believes that funding such capital investments via debt is not sustainable for KORE and it is necessary to recapitalise KORE’s balance sheet.

### 3. RECAPITALISATION OPTIONS

The Manager evaluated the various options available for such recapitalisation, including divestments of KORE’s properties, an equity fund raising (“EFR”), or a reduction of distributions to Unitholders.

With respect to: (a) potential divestments, the Manager believes that KORE will be unable to divest any properties at this point at a price that would be beneficial to KORE and its Unitholders because of the difficult US real estate market, (b) a potential EFR, based on indications provided by several bank lenders, the Manager is of the view that this is not a viable option given that an EFR is unlikely to raise enough equity capital in the present market environment to resolve KORE’s leverage concerns on a long-term basis and will result in KORE requiring to seek additional capital from Unitholders in the near future, and (c) a reduction in distributions to Unitholders, the drop in valuation of KORE’s assets as set out in the Valuation Announcement created a loss pursuant to which any distribution would be in excess of the combination of profits and the US\$75 million loans due for refinancing by 4Q 2024<sup>1</sup>.

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<sup>1</sup> This takes into account paragraph 7.3 of the Property Funds Appendix which states that if “the manager declares a distribution that is in excess of profits, the manager should certify, in consultation with the trustee, that it is satisfied on reasonable grounds

#### **4. DECISION TO SUSPEND DISTRIBUTIONS**

Accordingly, the Manager has determined that it is in the best interest of KORE and its Unitholders to suspend distributions ("Suspension") beginning second half of 2023.

KORE expects the period of the Suspension will be through to the second half of 2025 in respect of distributions that would otherwise be paid in first half of 2026. The Manager believes that this option is expected to provide significantly more capital for KORE over the next two years compared to the capital that an EFR can raise in the current market condition.

If market conditions allow, KORE may re-commence the distributions at an earlier date than planned.

##### **(i) Capital Requirements for US Office**

Unlike the Singapore office market, the US office market requires a substantial amount of capital to build out and lease office space because the landlords, rather than the tenants, are responsible for funding the tenant improvements, in addition to funding new or improved tenant amenities, leasing commissions and other costs. Therefore, office REITs that invest in the US require more capital investment than office REITs that invest in Singapore. Without the necessary capital investments, the ability of U.S. landlords to retain tenants and attract new ones would be greatly compromised, which would lead to a decline in occupancies and NPI, resulting in valuations declining even more significantly. The Manager therefore plans to continue to reinvest in the properties to ensure they remain attractive to current and prospective tenants, and the Manager is of the view that this is in the best interest of KORE and its Unitholders in the long run.

##### **(ii) Leverage Considerations**

KORE's aggregate leverage has grown each year since capital expenditures have been funded with debt. In the years where KORE had acquisitions, the increase in aggregate leverage was partly offset by raising additional capital. In FY2022, KORE divested its two buildings in Atlanta and some of the proceeds were used to repay outstanding loan obligations, which accounted for only a slight increase in aggregate leverage to 38.2% from 37.2% in FY2021. In FY2023, KORE's aggregate leverage increased to 43.2%, primarily due to the lower portfolio valuation, as well as, to a lesser extent, its debt-funded capital expenditures.

Given the expected capital expenditures over the next two years, KORE's aggregate leverage and adjusted interest coverage ratio will reach undesirable levels if capital needs continue to be funded with debt. This will likely result in KORE eventually being unable to comply with the regulatory leverage limits or its debt covenants.

##### **(iii) Recapitalisation Plan Goals**

By suspending distributions and investing capital wisely, KORE's goal is to maintain its aggregate leverage within the regulatory limits and bank debt covenants. However there is always the risk that asset valuations could change enough to cause KORE to exceed such limits or breach the bank debt covenants. As such, KORE plans to invest capital strategically to preserve the capital value of its portfolio in order to mitigate the risks of this possibility as much as possible.

KORE does not anticipate that it would have to sell any buildings at significant discounts to their current values in its recapitalisation plan. KORE will continue to invest in the portfolio, with the goal of maximising NPI by the end of FY2025 and restarting distributions for FY2026 at the highest appropriate level, balancing the capital needs of KORE and the desire to distribute income to Unitholders.

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that, immediately after making the distribution, the property fund will be able to fulfil, from the deposited property of the property fund, the liabilities of the property fund as they fall due".

## 5. COMMITMENT TOWARDS A RECOVERY

The Manager wishes to state that this was not an easy decision to make, and recognises the reduced cash flow will adversely impact Unitholders. However, the Manager believes that the impact of not investing in the portfolio would have a significantly worse long-term effect on KORE and Unitholders. Given all of the above, the Manager is committed to achieving its goal of optimising NPI, with a view to restarting distributions as early as possible.

## 6. SUBMISSION OF RELEVANT TAX FORMS AND UNITED STATES INCOME TAX WITHHOLDING RULES

While distributions to Unitholders are slated to be suspended up till 31 December 2025, KORE will have to bear the withholding tax based on the proportion of unitholdings of Unitholders who fail to submit their US withholding forms and certificates. This would reduce the income retained and negatively impact KORE and its Unitholders. Therefore, the Manager would like to **urge all Unitholders to continue to submit the relevant tax forms** to reduce KORE's withholding tax burden.

### (i) United States Income Tax Withholding Rules

Pursuant to the Suspension, the applicable cross-border interest income from the United States subsidiaries of KORE will not be distributed to the Unitholders until the re-commencement of the distributions. In this period, the United States withholding tax rules (including United States information reporting rules) will still apply where, *inter alia*, KORE (and not the individual Unitholders) will bear the cash tax burden of withholding upon receiving the cross-border United States interest (which will not be distributed to Unitholders during the Suspension). In other words, KORE will bear this tax during the Suspension. The tax will be calculated at the statutory rate of 30% on the taxable base (but retained by KORE during the Suspension). The taxable base is calculated as the proportion of Unitholders who fail to supply the United States withholding forms and certificates (each a "non-compliant Unitholder"), multiplied by the interest income received by the Singapore subsidiaries from the United States subsidiaries of KORE. For illustration purpose, based on the 1H 2023 distribution to Unitholders, the tax amount could be as high as 37% of total distributable income. Based on past records, an average 1.4% of the Unitholders based on Unitholdings are non-compliant Unitholders. In a normal distribution cycle where interest is distributed to Unitholders, KORE can reduce the payment to a non-compliant Unitholder by the amount of withholding in order that the non-compliant Unitholder bears the burden of the withholding tax. During the period of the Suspension, interest income from the United States subsidiaries will still be paid to KORE, but not to the Unitholders. Accordingly, KORE will bear this tax burden.

If **all** Unitholders were to submit their valid United States withholding forms and certificates, there would not be any tax implications arising from the Suspension. If Unitholders continue their historic practice of supplying the United States withholding forms and certificates (principally, the U.S Internal Revenue Service ("US IRS") Form W-8 that is requested of all Unitholders in connection with their acquisition of Units) at the same levels of compliance as in the past, the Manager expects that the aggregate economic cash burden on KORE will be minimal. Accordingly, the Manager will continue its practice of gathering United States withholding exemption forms and certificates from Unitholders. All withholding tax would be paid to the US IRS, and remaining interest payments net of withholding tax would be at KORE's disposal during the Suspension.

**To maximise the interest payments that can be utilised by KORE, the Manager urges Unitholders to continue to supply the United States withholding forms and certificates (principally, Form W-8), notwithstanding the Suspension.**

The United States income tax withholding rules described above are complex, and the Manager will work with its United States tax advisors regarding aspects that may be factually or legally uncertain, including making provision for financial statement impact as and when appropriate. That said, the adverse impacts are expected to be modest if and to the extent Unitholders continue their historic levels of compliance with the United States withholding forms and certificates.

The Manager will provide Unitholders with a further update as and when there are material developments.

By Order of the Board  
Keppel Pacific Oak US REIT Management Pte. Ltd.  
(Company Registration Number: 201719652G)  
as manager of Keppel Pacific Oak US REIT

Darren Tan  
Company Secretary  
15 February 2024

### **Important Notice**

This announcement is for information purposes only and does not constitute or form part of an offer, invitation or solicitation of any offer to acquire, purchase or subscribe for Units of Keppel Pacific Oak US REIT in Singapore or any other jurisdiction nor should it or any part of it form the basis of, or be relied upon in connection with, any contract or commitment whatsoever.

The value of Units and the income derived from them may fall as well as rise. Units are not obligations of, deposits in, or guaranteed by, the Manager, the Trustee or any of their respective affiliates.

An investment in Units is subject to investment risks, including the possible loss of the principal amount invested. Investors have no right to request the Manager to redeem their Units while the Units are listed. It is intended that Unitholders may only deal in their Units through trading on the SGX-ST. Listing of the Units on the SGX-ST does not guarantee a liquid market for the Units. The past performance of Keppel Pacific Oak US REIT is not necessarily indicative of the future performance of Keppel Pacific Oak US REIT.