



*Managed by*

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## **MEDIA RELEASE**

### **Unaudited Results of Keppel REIT for the Third Quarter and Nine Months Ended 30 September 2015**

**19 October 2015**

The Directors of Keppel REIT Management Limited, as Manager of Keppel REIT, are pleased to announce the unaudited results of Keppel REIT for the third quarter and nine months ended 30 September 2015.

The materials are also available at [www.keppelreit.com](http://www.keppelreit.com), [www.keppelland.com](http://www.keppelland.com) and [www.kepcorp.com](http://www.kepcorp.com).

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## Keppel REIT's distributable income for 3Q 2015 rose 4.6% y-o-y

***A resilient portfolio and the Manager's continued focus on tenant retention see high retention rate of 90% and positive rental reversion of 16% on average***

- Recorded a 4.6% and 1.8% year-on-year ("y-o-y") growth in distributable income for 3Q 2015 and year-to-date 2015 ("YTD 2015") respectively, as well as sustained levels of distributable income on a quarter-on-quarter ("q-o-q") basis
- Higher distributable income was due mainly to better performance from Ocean Financial Centre, Bugis Junction Towers and 8 Chifley Square in Sydney
- Distribution per unit ("DPU") of 1.70 cents for the third quarter 2015 ("3Q 2015")
- Increased fixed-rate loans to over 70%, which will insulate against interest rate fluctuations
- Average cost of debt remained constant at 2.5% and interest coverage ratio at a healthy 4.4 times
- Hedged almost 100% of distribution payment from Australia up till the first quarter of 2016 ("1Q 2016")
- Continued to maintain low refinancing obligations, with close to 100% of total borrowings not due for repayment till 2017
- Concluded a total of 82 leases or approximately 1.1 million sf of office space to-date
- Of the new office leases secured in 3Q 2015, one-third were from tenants setting up presence and operations in Singapore, one-third were from first-time entrants into Keppel REIT's portfolio and the remaining one-third were expansions by existing tenants
- Notwithstanding the supply of office spaces from both upcoming and existing buildings, the Manager completed 100% of all leases due for review and almost all leases due for renewal in 2015. With this, approximately 70% of total leases are not due for renewal till 2018 and beyond
- Despite challenging leasing market conditions, the Manager has achieved a positive rent reversion averaging 16% for office leases signed, renewed and reviewed year-to-date
- Overall portfolio occupancy declined slightly q-o-q from 99.3% to 98.5%
- Gained strategic control of the office and retail components at 8 Exhibition Street in Melbourne with the successful acquisition of the three remaining prime street-fronting retails units
- Achieved Certificate of Practical Completion for the office tower on the Old Treasury Building site in Perth, and the Government of Western Australia (WA) will commence its 25-year long lease in the fourth quarter of 2015 ("4Q 2015")

## Summary of Results

	GROUP			
	3Q2015 \$'000	2Q2015 <sup>2</sup> \$'000	YTD Sep 2015 <sup>2</sup> \$'000	YTD Sep 2014 <sup>2</sup> \$'000
Property income	42,183	42,964	127,552	141,756
Net property income	33,396	34,711	102,694	117,183
Share of results of associates	18,513	19,953	58,833	44,630
Share of results of joint ventures	3,907	4,056	12,006	5,720
Income available for distribution	54,408	54,820	163,237	160,294
Distribution to Unitholders <sup>1</sup>	54,408	54,820	163,237	160,294
DPU (cents) for the period	1.70	1.72	5.12	5.72
Annualised Distribution Yield			7.2% <sup>3</sup>	6.4% <sup>4</sup>

**Notes:**

(1) Distribution to Unitholders is based on 100% of the taxable income available for distribution.

(2) Information for YTD Sep 2014 includes the contribution from Prudential Tower, which was divested on 26 September 2014. In 4Q2014, Keppel REIT acquired a one-third stake in Marina Bay Financial Centre Tower 3. As such, the financial information for 2Q2015 has also been provided to give a more meaningful comparison of Keppel REIT's performance quarter-on-quarter since the portfolio of properties are the same over the two periods.

(3) The yield is based on the market closing price per unit of \$0.955 as at the last trading day, 30 September 2015.

(4) The yield is based on the market closing price per unit of \$1.190 as at the last trading day, 30 September 2014.

## Sustaining Returns

Keppel REIT Management Limited, the Manager of Keppel REIT, is pleased to announce higher distributable income of \$54.4 million for 3Q 2015 and \$163.2 million for YTD 2015, both of which are 4.6% and 1.8% above that of the corresponding periods in 2014 respectively. Q-o-q, the Manager also achieved sustained levels of distributable income.

The improved distribution income was due largely to better performance from Ocean Financial Centre, Bugis Junction Towers and 8 Chifley Square in Sydney.

The Manager is declaring a DPU of 1.70 cents for 3Q 2015, which translates to an annualised distribution yield of 7.2%.

## Achieving Capital Efficiency

On the capital management front, the Manager continues to proactively mitigate financing, interest and foreign exchange risks.

During the quarter, the Manager increased its fixed-rate loans to over 70%, which will insulate against interest rate fluctuations and at the same time allow for operational and financial flexibilities. The Manager's disciplined capital management approach saw Keppel REIT's average cost of debt remain constant at 2.5%, with interest coverage ratio at a healthy 4.4 times.

In keeping with ongoing efforts to reduce volatility and provide greater certainty over future income distributions, the Manager has also hedged almost 100% of distribution payment from Australia up till 1Q 2016.

Keppel REIT's weighted average term to maturity remained stable at 3.6 years. The Manager continued to maintain low refinancing obligations as at end-September 2015, with close to 100% of Keppel REIT's total borrowings not due for repayment till 2017.

### **Continuing Focus on Tenant Retention**

To-date, the Manager has concluded a total of 82 leases or approximately 1.1 million sf of office space, with approximately 43% or 470,000 sf (34 leases) committed in 3Q 2015. This brought overall portfolio occupancy to 98.5% as at 3Q 2015.

Of the new office leases secured in 3Q 2015, one-third were from tenants setting up presence and operations in Singapore, one-third were from first-time entrants into Keppel REIT's portfolio and the remaining one-third were expansions by existing tenants.

Majority of these tenants were Asian companies including banks and financial institutions from the region as well as from the commodities and real estate sectors. Other new tenants in this quarter include those from the insurance, accounting and consultancy services as well as the legal sectors. Meanwhile, tenants who expanded came from the TMT, legal and commodities sectors.

To mitigate the impact of office supply from both upcoming and existing buildings, the Manager continued to intensify its lease management efforts to retain and secure tenants. These efforts saw a high tenant retention rate of 90% for Keppel REIT's Singapore assets in 3Q 2015. The Manager has also completed 100% of all leases due for review and almost all leases due for renewal in 2015. With this, approximately 70% of total leases are not due for renewal till 2018 and beyond.

Despite the challenging leasing market sentiments, the Manager has achieved a positive rent reversion averaging 16% for office leases signed, renewed and reviewed to-date.

The Manager also continues to maintain a healthy weighted average lease expiry of approximately 8.5 years and 6 years for its top 10 tenants and overall portfolio respectively, which will provide Unitholders income stability and resilience over the longer term.

During the quarter, the Manager acquired the three remaining prime street-fronting retail units at 8 Exhibition Street in Melbourne. The DPU accretive acquisition, which was completed on 12 October 2015, provides Keppel REIT with strategic control over the 35-storey freehold office building and all five retail units within the development.

In Australia, the office tower on the Old Treasury Building site in Perth received its Certificate of Practical Completion in end-August 2015. With this, the Government of WA will commence its 25-year lease in this landmark development in Perth's central business district ("CBD") in 4Q 2015 and will yield a return of 7.15%. The 25-year lease includes fixed annual rental escalations throughout its lease term and options for another 25 years.

### **Office Market Outlook**

Advance estimates by the Ministry of Trade and Industry indicate that the Singapore economy expanded 1.4% y-o-y in 3Q 2015, supported by growth in the construction and services sectors. Singapore is expected to record a modest 2.0% to 2.5% growth for the whole of 2015.

According to CBRE<sup>1</sup>, occupancy in Singapore's core CBD stood at 95.8% as at 3Q 2015 on the back of a slowing economy. Office rents recorded a second quarter of correction, with average Grade A rents at \$10.90 psf per month. Nonetheless, 3Q 2015 continued to see firms in the TMT sector, Asian financial institutions and pharmaceutical companies picking up office space as landlords adopt a more proactive approach towards leasing.

The Australia economy grew 2.0% y-o-y in 2Q 2015, with full-year growth expected at 2.5%. The Reserve Bank of Australia maintained the official cash rate at 2.0% to foster growth, particularly in the housing and infrastructure sectors.

Improved office occupancy levels were recorded in Sydney and Melbourne in 2Q 2015. Demand was driven by growth in the TMT sector, finance and insurance industry as well as real estate services. These sectors are expected to drive office demand in the short- to medium-term.

### **Upholding Sustainable Practices**

In recognition of the Manager's ongoing commitment to uphold good sustainability and corporate governance practices, Keppel REIT has once again topped the coveted Global Real Estate Sustainability Benchmark (GRESB) 2015, which will continue to raise its profile among socially responsible funds.

This is the second consecutive year that Keppel REIT has been assessed and ranked against real estate industry players in Asia and globally. It is also the first REIT in Asia to maintain its pole position as the Regional Leader for Office Sector in Asia for two consecutive years.

Keppel REIT's accolades include:

- 1<sup>st</sup> in Asia across all diversified entities and sectors
- 1<sup>st</sup> in Asia for office sector/Regional Sector Leader in Asia for Office Sector (the first REIT to achieve this for the second consecutive year)
- 1<sup>st</sup> in Asia for listed real estate companies
- 1<sup>st</sup> amongst the Asia Pacific Real Estate Composite Indices
- Top 3 globally for office sector
- Top 3 globally across all diversified entities and sectors

More recently, Keppel REIT was awarded Runner-Up for the Most Transparent Company in the REITs and Business Trusts category at the 16<sup>th</sup> SIAS Investors' Choice Awards 2015. The award recognises the Manager's efforts to continually uphold and improve corporate disclosure and transparency standards.

Keppel REIT's properties have also been lauded for good sustainable practices. Ocean Financial Centre and Marina Bay Financial Centre ("MBFC") Phase One and MBFC Tower 3 were all conferred the Gold awards at the PUB Water Efficient Building (WEB) Certification 2015, while Bugis Junction Towers received the Silver award. Part of the Green Mark scheme, the WEB certification recognises landlords who implement water efficient measures and processes at their properties.

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<sup>1</sup> Preliminary numbers by CBRE, 3Q 2015

## Looking Ahead

Looking ahead, market conditions are expected to be challenging due to the upcoming office supply over the next two years and possible rising interest rate environment.

The Manager will continue to intensify its tenant retention and engagement efforts to support occupancy and rental rates, while maintaining a well-staggered lease expiry profile for sustainable and resilient returns. The Manager will maintain its disciplined capital management approach to mitigate financing, interest and foreign exchange risks.

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## About Keppel REIT ([www.keppelreit.com](http://www.keppelreit.com))

Keppel REIT was listed by way of an introduction on 28 April 2006. Today, it is one of the largest real estate investment trusts listed on the Singapore Exchange.

Keppel REIT's objective is to generate stable income and long-term growth for Unitholders by owning and investing in a portfolio of quality income-producing commercial real estate and real estate-related assets pan-Asia.

As at 30 September 2015, Keppel REIT has an asset size of approximately \$8.2 billion comprising interests in nine premium office assets with 12 office towers strategically located in the central business districts of Singapore, as well as key cities of Sydney, Melbourne, Brisbane and Perth in Australia.

The assets in Singapore are Bugis Junction Towers (100% interest), MBFC (comprising office Towers 1, 2 and 3 and the subterranean mall, Marina Bay Link Mall) (one-third interest), One Raffles Quay (one-third interest) and Ocean Financial Centre (99.9% interest).

The assets in Australia are 8 Chifley Square (50% interest) and the office tower at 77 King Street (100% interest), both in Sydney, 8 Exhibition Street in Melbourne (50% interest in the office building and two retail units, as well as a 100% interest in another three retail units), 275 George Street in Brisbane (50% interest), as well as the office tower and its annexe on the Old Treasury Building site in Perth (50% interest).

Keppel REIT is sponsored by Keppel Land Limited ("Keppel Land"), one of Asia's leading property developers, and is managed by Keppel REIT Management Limited, a wholly-owned subsidiary of Keppel Land.

### **Important Notice**

*The value of Units and the income from them may fall as well as rise. Units are not obligations of, deposits in, or guaranteed by the Manager, or any of its 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 of Keppel REIT 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 REIT is not necessarily indicative of the future performance of Keppel REIT.*