Keppel REIT

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MEDIA RELEASE

Unaudited Results of Keppel REIT for the First Quarter Ended 31 March 2017

19 April 2017

The Directors of Keppel REIT Management Limited, as Manager of Keppel REIT, are pleased to announce the unaudited results of Keppel REIT for the first quarter ended 31 March 2017.

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Keppel REIT achieves distributable income of $48.1 million for 1Q 2017

Minimal leasing risks for 2017, with only 2.8% and 1.7% of leases due for renewal and review respectively

First Quarter 2017 (1Q 2017) Results Highlights

- Distributable income (DI) to Unitholders was $48.1 million.
- Distribution per Unit (DPU) of 1.45 cents and an annualised distribution yield of 5.5%.
- All-in interest rate of 2.57% and interest coverage ratio of 4.6 times.
- Aggregate leverage at 38.4%.
- Portfolio committed occupancy rate of 99.4% and tenant retention rate of 87%.
- Minimal leasing risks for 2017, with only 2.8% and 1.7% of leases due for renewal and review respectively.

Results Summary

	GROUP	
	1Q 2017 $'000	**1Q 2016** $'000
Property income	39,856	41,167
Net property income	31,394	32,910
Share of results of associates	23,145	18,786
Share of results of joint ventures	8,316	6,807
Income available for distribution	48,121	54,438[(1)]
Distribution to Unitholders[(2)]	48,121	54,438
DPU (cents) for the period	1.45[(3)]	1.68[(4)]
Annualised/Actual Distribution yield	5.5%[(5)]	6.2%[(6)]

(1) Income contribution from 77 King Street was from 1 January 2016 up to the date of divestment on 29 January 2016.
(2) Distribution to Unitholders was based on 100% of the taxable income available for distribution.
(3) There is no distribution of other gains for 1Q 2017.
(4) There was a distribution of other gains of 0.09 cents per Unit for 1Q 2016.
(5) Based on the market closing price per Unit of $1.05 as at 31 March 2017.
(6) Based on the total DPU of 6.37 cents for FY 2016 and the market closing price per Unit of $1.02 as at 31 December 2016.

Financial Performance & Capital Management

Keppel REIT Management Limited, the Manager of Keppel REIT, is pleased to announce that the REIT achieved $48.1 million in DI for 1Q 2017. DPU for the quarter was 1.45 cents and translates to an annualised distribution yield of 5.5%, based on the market closing price per Unit of $1.05 as at 31 March 2017.

On a year-on-year (y-o-y) basis, DI for 1Q 2017 was 11.6% lower compared to 1Q 2016 due mainly to absence of income from the divested 77 King Street in Sydney in January 2016, lower income contribution from Bugis Junction Towers, as well as absence of other gains distribution. Property income and net property income for 1Q 2017 also declined correspondingly by 3.2% and 4.6% y-o-y respectively.

For 1Q 2017, share of results of associates grew 23.2% y-o-y to $23.1 million. This was due mainly to one-off income from One Raffles Quay and Marina Bay Financial Centre. Share of results of joint ventures increased 22.2% y-o-y to $8.3 million as a result of higher income contribution from Keppel REIT's share in David Malcolm Justice Centre in Perth.

Keppel REIT's all-in interest rate was 2.57% and interest coverage ratio at 4.6 times for 1Q 2017. The weighted average term to maturity of borrowings was 3.2 years and aggregate leverage at 38.4% as at end of 1Q 2017.

Notwithstanding that the REIT has no refinancing requirements till 2018 and beyond, the Manager is proactively reviewing early refinancing of loans, as well as exploring alternative funding sources. This includes the issuance of a seven-year $75 million Medium Term Notes (MTN) at a fixed-rate of 3.275% on 6 April 2017. The proceeds from the MTN will be applied towards the refinancing of existing borrowings.

Portfolio Performance

In managing the office space glut over the last few years, the Manager has been adopting a tenant-centric approach in its leasing efforts. Continuous tenant engagement efforts saw portfolio tenant retention rate of 87% for 1Q 2017.

Such efforts also helped Keppel REIT maintain a high committed portfolio occupancy of 99.4% as at end-March 2017 despite the oversupply in the office market. Occupancies for the REIT's properties in Singapore and Australia were 99.3% and 99.7% respectively, above Singapore's core CBD of 95.6%[1] and Australia's national CBD office market of 88.1%[1].

In Singapore, the Manager has leased almost all the returned spaces at Bugis Junction Towers, bringing committed occupancy up to 95.9% as at end-March 2017. At the same time, new leases signed at 8 Exhibition Street in Melbourne saw the building's committed occupancy increase to 99.7%.

The REIT has only 2.8% and 1.7% of leases (by net lettable area) due for renewal and review in 2017 respectively, thereby minimising leasing risks for the REIT for the rest of the year. The WALE for Keppel REIT's top 10 tenants and overall portfolio stands at nine years and six years respectively.

Looking Ahead

The Singapore economy grew 2.5% y-o-y in 1Q 2017 based on advance estimates by the Ministry of Trade and Industry. Full-year growth for 2017 is projected at between 1% and 3%.

CBRE opined that concerns around supply overhang from the new office projects are dissipating as soon-to-be completed developments are now reporting stronger pre-commitments. Leasing activities have increased, with demand from tenants in the banking and finance sector, as well as expansion in the technology and media sector. Overall occupancy for Singapore's core CBD office market was 95.6% in 1Q 2017, down slightly from 95.8% in 4Q 2016.

Meanwhile, average Grade A rent eased further to $8.95 psf in 1Q 2017, from $9.10 psf in 4Q 2016. CBRE believes that the office market may see a slight rebound by end-2017, followed by a more sustained market recovery in 2018. This recovery, however, is expected to be mixed, with Grade A offices expected to be the main beneficiary of any potential uplift in rents.

In Australia, the economy recorded a 2.4% growth for 2016, driven mainly by stronger household consumption. The Reserve Bank of Australia expects growth of between 2% and 3% for 2017, and between 2.5% and 3.5% for 2018. Jones Lang LaSalle reported that occupancy for Australia's national CBD office market remained steady at 88.1% as at end-December 2016. Leasing activities remained strong in the CBDs of Sydney and Melbourne, while the CBDs in Brisbane and Perth showed early signs of recovery.

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[1] *Sources: Singapore – CBRE, as at 1Q 2017. Australia – Jones Lang LaSalle, as at end-December 2016.*

Looking ahead, the Manager remains cognisant of the uncertain global economic environment and competitive office leasing landscape in Singapore. The Manager will continue its proactive and disciplined approach to renew leases so as to retain tenants and mitigate leasing risk.

Borrowing costs are likely to increase as a consequence of the anticipated US rate hikes. The Manager will continue its prudent capital management approach to mitigate financing, interest rate and foreign exchange risks.

The Manager remains committed to a portfolio optimisation strategy that ensures the REIT's portfolio remains relevant to tenants' changing business needs, while providing sustainable returns to Unitholders in the long term. The Manager will continue to seek selective acquisitions that offer stable income growth and capital appreciation over time. At the same time, the Manager is open to opportunistic divestments to unlock value for Unitholders.

About Keppel REIT (www.keppelreit.com)

Keppel REIT was listed by way of an introduction on 28 April 2006. Keppel REIT is one of Asia's leading REITs with the youngest and largest portfolio of premium Grade A commercial assets in Singapore's prime business and financial districts.

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 in Singapore and pan-Asia.

As at 31 March 2016, Keppel REIT had assets under management of approximately $8.4 billion comprising interests in eight premium office assets with 11 office towers strategically located in the central business districts of Singapore, as well as key Australian cities of Sydney, Melbourne, Brisbane and Perth.

In Singapore, the assets are Ocean Financial Centre (99.9% interest), Marina Bay Financial Centre (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 Bugis Junction Towers (100% interest).

In Australia, the assets are 8 Chifley Square (50% interest) in Sydney, 8 Exhibition Street in Melbourne (50% interest in the office building and two retail units, as well as a 100% interest in the three adjoining retail units), 275 George Street in Brisbane (50% interest), as well as the David Malcolm Justice Centre in Perth (50% interest).

Keppel REIT is sponsored by Keppel Land Limited, one of Asia's leading property companies. It is managed by Keppel REIT Management Limited (the Manager), a wholly-owned subsidiary of Keppel Capital Holdings Pte. Ltd. (Keppel Capital). Keppel Capital is a premier asset manager in Asia with assets under management of approximately $25 billion in real estate, infrastructure and data centre properties in key global markets. As a member of Keppel Capital, the Manager can leverage and grow Keppel REIT further with the increased scale, larger investor base, wider geographical coverage and greater resources.