

*Managed by*

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## **MEDIA RELEASE**

### **Unaudited Results of Keppel REIT for the Second Quarter and Half Year ended 30 June 2014**

**21 July 2014**

The Directors of Keppel REIT Management Limited, as manager of Keppel REIT, are pleased to announce the unaudited results of Keppel REIT for the second quarter and half year ended 30 June 2014.

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 1H 2014 grew 3.0% year-on-year

### *Achieved distribution yield of 6.1%*

- Property income rose 14.0% year-on-year (“y-o-y”) to \$94.1 million for 1H 2014 due to improved performance from Ocean Financial Centre and Prudential Tower, as well as additional income from 8 Exhibition Street in Melbourne, which was acquired in August 2013.
- Net property income increased 18.0% y-o-y to \$78.7 million.
- Distributable income rose to \$108.3 million, an increase of 3.0% y-o-y.
- Distribution per unit (“DPU”) of 1.90 cents for 2Q 2014, making it 3.87 cents for 1H 2014.
- Divestment of 92.8% interest in Prudential Tower for \$512 million announced, which is 4.5% above the property’s valuation of \$490 million and a 46.7% premium over the original purchase price.
- Completed successfully the early renewal of some key leases to ensure income certainty over a longer term.
- Achieved overall tenant retention rate of 87% for 1H 2014.

### Summary of Results

	GROUP			
	2Q 2014 \$'000	1H 2014 \$'000	1H 2013 \$'000	+ / (-) %
Property Income	47,346	94,128	82,599	14.0
Net Property Income	39,191	78,659	66,667	18.0
Share of Results of Associates	14,244	30,229	30,371	(0.5)
Total Return before Tax	40,027	82,900	75,265	10.1
Income Available for Distribution	53,220	108,267	105,070	3.0
Distribution to Unitholders <sup>1</sup>	53,220	108,267	105,070	3.0
<b>Distribution per Unit (“DPU”) (cents)</b>				
<b>For the Period</b>	<b>1.90</b>	<b>3.87</b>	<b>3.94</b>	(1.8)
<b>Annualised</b>	<b>7.62</b>	<b>7.80</b>	<b>7.95</b>	(1.9)
Distribution Yield %	6.0% <sup>2</sup>	6.1% <sup>2</sup>	6.1% <sup>3</sup>	

#### Notes:

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

(2) The yield is based on the market closing price per unit of \$1.280 as at the last trading day, 30 June 2014.

(3) The yield is based on the market closing price per unit of \$1.295 as at the last trading day, 28 June 2013.

## **Sustained Growth Momentum**

Keppel REIT Management Limited is pleased to announce a higher distributable income of \$108.3 million for 1H 2014, a 3.0% increase y-o-y. This represents a DPU yield of 6.1%, which translates to a DPU of 1.90 cents and 3.87 cents for 2Q 2014 and 1H 2014 respectively.

Property income for 1H 2014 improved \$11.5 million or 14.0% y-o-y to \$94.1 million due mainly to better performance from Ocean Financial Centre and Prudential Tower, as well as income from 8 Exhibition Street in Melbourne, which was acquired in August 2013. Net property income for 1H 2014 rose correspondingly to \$78.7 million, an 18.0% y-o-y improvement from the same period in 2013.

Total return before tax for 1H 2014 stood at \$82.9 million, a 10.1% increase y-o-y as a result of higher net property income and interest income, as well as lower amortisation and trust expenses. These were partly offset by lower rental support, as well as higher borrowing costs and management fees due to the enlarged portfolio as compared to 1H 2013.

## **Divestment of Prudential Tower Above Valuation**

In May 2014, Keppel REIT announced the divestment of its 92.8% interest in Prudential Tower for \$512.0 million. The sale price is 4.5% above the property's latest valuation of \$490.0 million<sup>1</sup>, and a 46.7% premium over Keppel REIT's original purchase price of the property of \$349.1 million.

The Manager intends to utilise a substantial amount of the sale proceeds to repay existing debt so as to provide Keppel REIT with greater financial flexibility. The remaining amount will be used for general corporate and working capital purposes and/or for pursuing acquisition opportunities.

## **Prudent Capital Management**

On the capital management front, all loans due in 2014 have been refinanced. Altogether, \$275 million and \$75 million of borrowings due in 2015 and 2016 respectively have also been refinanced early. The aggregate leverage is 42.8% with approximately 67% of borrowings on fixed-rate. The weighted average term to expiry of borrowings is 3.6 years.

## **Proactive Lease Management**

During the quarter, approximately 93,000 sf of attributable net lettable area ("NLA") were renewed and leased to tenants from the banking, insurance and financial, telecommunications and multimedia, fund management as well as legal sectors.

In addition, the Manager took a proactive stance and successfully renewed ahead of time approximately 164,000 sf of attributable NLA that were due to expire over the next three years. The early lease renewals will ensure income certainty over a longer term.

These efforts saw Keppel REIT continue to maintain a strong committed occupancy level of 99.4% for its entire portfolio as at 30 June 2014. Only 0.7% of Keppel REIT's portfolio (by NLA) remains to be renewed, while 6.1% will have their rents reviewed for the remaining of 2014.

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<sup>1</sup> Valuation by Knight Frank as at 28 April 2014 based on Keppel REIT's 92.8% interest in Prudential Tower.

In Perth, the construction of the office tower to be built on the Old Treasury Building site is progressing well and is currently on track for completion in the second half of 2015.

As at end-June 2014, Keppel REIT has a total of 262 tenants from a diverse range of business sectors in the portfolio's tenant base. The Manager continues to maintain healthy weighted average lease expiry (WALE) levels of 8.5 years and 6.2 years for its top ten tenants (by NLA) and the entire portfolio respectively.

### **Singapore Office Market Outlook**

According to advanced estimates by the Ministry of Trade and Industry, the Singapore economy grew by 2.1% y-o-y in 2Q 2014. The main contributors to the growth came from the construction and services industries, which grew by 5.0% and 2.8% y-o-y respectively.

The limited pipeline of new Premium Grade and Grade A office supply coupled with the relatively high island-wide occupancy should underpin the office leasing market especially in the central business district. According to CBRE, average Grade A office rents increased by approximately 3.4% quarter-on-quarter to \$10.60 psf per month in 2Q 2014, due largely to stable demand amid tightening vacancies. Industry experts are of the opinion that the pick up in office rents is likely to continue for the rest of this year and 2015.

### **Stable Outlook for Australian Economy**

Australia recorded a 3.5% GDP growth in 1Q 2014. According to the Reserve Bank of Australia, its cash rate remains on hold at 2.5% and interest rates are likely to be maintained at current levels.

In 2Q 2014, Moody's affirmed Australia's Aaa credit rating with a stable outlook based on its position as a low-debt country, following the government's commitment towards a budget surplus. Australia's longer term prospects continue to be supported by population growth and a low unemployment rate.

### **Looking Ahead**

The Manager will continue to maintain prudent interest rate and foreign exchange hedging policies so as to manage financial risks. The Manager will selectively pursue opportunities for strategic acquisitions and also review any asset divestment opportunities. This ensures the Manager optimises Keppel REIT's portfolio and delivers sustainable returns to Unitholders.

## **About Keppel REIT (<http://www.keppelreit.com>)**

Listed by way of an introduction on 28 April 2006, K-REIT Asia was renamed Keppel REIT on 15 October 2012. Keppel REIT is currently one of the largest real estate investment trusts listed on the Singapore Exchange Securities Trading Limited.

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 June 2014, Keppel REIT has an asset size of more than \$7.2 billion comprising 10 premium commercial assets strategically located in the central business districts of Singapore, and key cities of Sydney, Melbourne, Brisbane and Perth in Australia.

In Singapore, Keppel REIT owns a 99.9% interest in Ocean Financial Centre, a one-third interest in Marina Bay Financial Centre Phase One (comprising Towers 1 and 2 and Marina Bay Link Mall), a one-third interest in One Raffles Quay, a 92.8% interest in Prudential Tower, and 100% of Bugis Junction Towers.

On 15 May 2014, Keppel REIT announced the divestment of its 92.8% interest in Prudential Tower. The divestment is expected to be completed on 26 September 2014.

In Australia, Keppel REIT owns five premium commercial assets, which comprises a 50% interest in 8 Chifley Square and the 77 King Street Office Tower in Sydney, a 50% interest in the office building at 8 Exhibition Street in Melbourne, a 50% interest in 275 George Street in Brisbane, as well as a 50% interest in the new office tower to be built on the Old Treasury Building site in Perth.

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

### **Important Notice**

The value of units in Keppel REIT ("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 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 its future performance. This release may contain forward-looking statements that involve risks and uncertainties. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements as a result of a number of risks, uncertainties and assumptions. Representative examples of these factors include (without limitation) general industry and economic conditions, interest rate trends, cost of capital and capital availability, competition from similar developments, shifts in expected levels of property rental income, changes in operating expenses, including employee wages, benefits and training, property expenses and governmental and public policy changes, and the continued availability of financing in the amounts and terms necessary to support future business. Investors are cautioned not to place undue reliance on these forward-looking statements, which are based on the Manager's current view on future events.