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**MEDIA RELEASE**

**Unaudited Results of Keppel REIT for the First Quarter Ended 31 March 2016**

**14 April 2016**

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 2016.

The materials are also available at *www.keppelreit.com, www.keppelland.com and www.kepcorp.com*.

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# Keppel REIT delivers sustainable returns to Unitholders amidst a challenging environment

***Significant reduction of expiring leases to only a minimal 3% for the rest of 2016, with a 99% tenant retention rate, 99.4% occupancy rate and an average positive rent reversion of 7% for all leases executed in 1Q 2016***

**Key Financial Highlights**

- Increased distributable income year-on-year ("y-o-y) and quarter-on-quarter ("q-o-q") despite the absence of income contribution from 77 King Street in Sydney following its divestment on 29 January 2016
- Notwithstanding the divestment of 77 King Street, a higher level of distributable income was achieved due to the consistent performance across all Keppel REIT's properties in Singapore and Australia, in particular improved contributions from its joint ventures
- Better results of joint ventures were due to higher contributions from 8 Chifley Square in Sydney and the newly-completed David Malcolm Justice Centre office tower in Perth (formerly known as the Old Treasury Building site)
- Distribution per Unit ("DPU") of 1.68 cents in 1Q 2016, which translates to an annualised yield of 6.8%
- Moody's reaffirmed its Baa2 corporate rating on Keppel REIT, with a stable outlook

**Key Portfolio Highlights**

- Only a minimal 3% of expiring leases for the rest of 2016, a significant decrease from the approximate 14% one quarter ago
- Majority of the remaining 3% of expiring leases for the rest of 2016 likely to be renewed and tenants retained
- Successfully concluded a total of 28 leases, equivalent to approximately 430,000 sf (attributable space of 353,000 sf) in 1Q 2016, and increased overall portfolio occupancy to 99.4% from 99.3% as at end-2015
- 99% tenant retention rate, with an average positive rent reversion of 7% for all new, renewal, forward renewal and review leases
- Continued to maintain long weighted average lease expiries ("WALE") at approximately 8 years and 6 years for the top 10 tenants and overall portfolio respectively
- To-date, 85% of total leases is not due for renewal till 2018 and beyond, and approximately 80% of total leases is not due for renewal till 2019 and beyond, when limited new office supply is expected
- The Manager is expected to renew most of the 11.5% of expiring leases in 2017, given that majority of these tenants are in their first lease renewal cycle. The Manager is also proactively engaging tenants with leases expiring in 2018
- The Old Treasury Building in Perth, at which the Government of Western Australia (WA) had commenced its long 25-year lease in end-November 2015, was named the David Malcolm Justice Centre on 11 March 2016. The Government is expected to move into the office tower in mid-2016

**Key Capital Management Highlights**

- Continued proactive refinancing efforts saw aggregate leverage reduce to 39% in 1Q 2016
- Completed 100% of refinancing requirements in 2016, bringing its weighted average term to maturity to 3.6 years. No refinancing requirements until the second half of 2017
- Increased fixed-rate loans to over 75% as at 1Q 2016, up from 70% last quarter
- Average cost of debt remained stable at 2.58% and interest coverage ratio at a healthy 4.5 times
- Hedged almost all of the forecasted distribution payout from Australia in 2016

**Celebrating A Decade of Excellence**

- 2016 marks Keppel REIT's 10th anniversary since its listing in April 2006
- Over the last decade, Keppel REIT achieved an approximate 40% compounded annual growth rate for its distributable income, and has undergone a portfolio transformation to remain relevant to changing economic and environmental landscapes
- With an initial 4 assets in Tanjong Pagar and Raffles Place, Keppel REIT has transformed and grown to become one of Asia's leading REITs with a premium portfolio of 11 office towers with long land tenures, strategically located in the prime financial hub of the Marina Bay and Raffles Place precinct, and in key Australian cities of Sydney, Melbourne, Brisbane and Perth
- Assets under management have grown from approximately $600 million in 2006 to over $8 billion to-date, of which 90% of total portfolio is in Singapore and the remaining 10% in key Australian cities, with approximately 300 tenants across diverse business sectors
- With an average portfolio age of 5 years old, Keppel REIT's portfolio is amongst the youngest in the industry. Had there been no portfolio transformation, the 4 initial assets would now have been approximately 25 years old on average
- As part of the portfolio transformation, assets were divested at an average of approximately 50% above their original purchase prices and an approximate 13% premium to last appraised values. Average holding period was approximately 6 years
- To ensure long-term income sustainability, conscious efforts to sign longer leases have seen portfolio WALE improve significantly from approximately 3 years when Keppel REIT was first listed, to approximately 8 years for the top 10 tenants and 6 years for the overall portfolio currently
- Long leases in Singapore are embedded with mark-to-market rent mechanisms at pre-determined anniversaries, ensuring that there are no voids or vacancies throughout these long lease terms. In addition, leases in Australia are on triple-net basis, with tenants responsible for all property expenses including taxes, insurance and common area maintenance, and also with fixed annual rental escalations embedded throughout each respective lease

*Celebrating A Decade of Excellence (continued)*

- The current portfolio has appreciated steadily over its average portfolio holding period of 4.5 years, recording an average fair value gain of approximately 30% or an approximate 7% appreciation per annum to-date

*Keppel REIT's **transformation** in the last decade has seen it grow to become a REIT with a **young portfolio** of **best-in-class assets** on **long land tenures** in **premium locations**. Its portfolio is **well-leased** to a stable of creditable tenants on **long leases** with **mark-to-market rent mechanisms** in Singapore and **triple-net leases** with **fixed annual rental escalations** in Australia, all of which position Keppel REIT to continually deliver **long-term steady returns** and **sustainable capital values**.*

**Delivering Sustained Returns**

Keppel REIT Management Limited, the Manager of Keppel REIT, has continued to deliver sustained returns to Unitholders amidst the challenging economic and operating environments.

Higher distributable income was achieved y-o-y and q-o-q amounting to $54.4 million, despite the absence of income contribution from 77 King Street following its divestment on 29 January 2016 for A$160 million. Consistent performance across all Keppel REIT's properties in Singapore and Australia, in particular improved returns from its joint ventures, contributed to a higher level of income distributed to Unitholders. Better results of joint ventures were due to higher contributions from 8 Chifley Square and the newly-completed David Malcolm Justice Centre office tower.

Excluding the contribution from 77 King Street and other non-recurring income and expenses, property income for the current portfolio improved 2.5% y-o-y, while net property income improved 1.6% y-o-y.

The Manager is declaring a DPU of 1.68 cents for 1Q 2016, which translates to an annualised yield of 6.8%.

***Summary of Results***

| | GROUP | |
|---|---|---|
| | **1Q2016** $'000 | **1Q2015** $'000 |
| Property income | 41,167 | 42,405 |
| Net property income | 32,910 | 34,587 |
| Share of results of associates | 18,786 | 20,367 |
| Share of results of joint ventures | 6,807 | 4,043 |
| Income available for distribution | 54,438 | 54,009 |
| Distribution to Unitholders[1] | 54,438 | 54,009 |
| Distribution per Unit ("DPU") (cents) for the period | 1.68 | 1.70 |
| Distribution yield % | 6.8%[2] | 7.3%[3] |

*(1) Distribution to Unitholders was based on 100% of the taxable income available for distribution.*
*(2) Based on the market closing price per unit of $0.995 as at the last trading day, 31 March 2016.*
*(3) Based on the total DPU of 6.80 cents in FY 2015 and the market closing price per unit of $0.93 as at the last trading day, 31 December 2015.*

In its latest report dated 4 April 2016, Moody's Investors Services reaffirmed its Baa2 corporate rating of Keppel REIT, with a stable outlook. According to Moody's, the rating reflects Keppel REIT's ability to continue generating stable and recurring income from its quality tenant base in strategically-located assets across the prime central business districts (CBDs) of Singapore and Australia. Moody's stable outlook demonstrates the rater's expectation that Keppel REIT will continue to generate stable cashflows from its portfolio, driven by steady occupancy levels and positive rent reversions for its portfolio.

**Robust Leasing Efforts**

Continuing its proactive marketing and rigorous leasing efforts, the Manager has completed the renewal of more than three quarter of the total leases expiring in 2016. With this, the Manager has achieved a 99.4% portfolio occupancy rate, with only a minimal 3% of the portfolio's total net lettable area due for renewal for the rest of 2016.This is a significant decrease from the approximate 14% expiring leases one quarter ago. For the remaining 3% of expiring leases for the rest of 2016, most of these tenants are likely to be retained.

Including the recent renewals, the Manager has successfully concluded a total of 28 leases, equivalent to approximately 430,000 sf (attributable space of approximately 353,000 sf) of prime office space. This saw Keppel REIT's overall portfolio occupancy increase to 99.4% as at end-March 2016, from 99.3% as at end-2015. The Manager continued to maintain healthy occupancy levels of 99.3% and 99.5% for its Singapore and Australia portfolio as at 1Q 2016 respectively.

As at 1Q 2016, the Manager achieved a 99% tenant retention rate, with rental rates for all new, renewal, forward renewal and review leases recording an average positive rent reversion of 7%.

New leasing demand in 1Q 2016 came mainly from the legal and financial sectors. The Manager has been making a conscious effort to sign longer leases that will provide income stability over the longer term. With this, the Manager continues to maintain a long WALE of approximately 8 years for Keppel REIT's top 10 tenants and 6 years for the overall portfolio.

To ensure long-term income sustainability, the long leases in Singapore are embedded with mark-to-market rent mechanisms at pre-determined anniversaries, thereby ensuring that there are no voids or vacancies throughout these long lease terms. In addition, the leases in Australian are on triple-net basis, with tenants cover all outgoings including taxes, insurance and common area maintenance, and also with fixed annual rental escalations embedded throughout the respective leases.

The office tower on the Old Treasury Building site in Perth was named the David Malcolm Justice Centre on 11 March 2016. With an initial yield of 7.15% per annum, the Government of WA had commenced its 25-year lease at the office tower in end-November 2015. The long 25-year lease is on a triple-net basis and includes fixed annual rental escalations throughout its entire lease term with options for another 25 years. The Government has been renovating the office spaces, and move-in is expected in mid-2016.

The Singapore office market is expected to remain challenging these two years given the impending new supply. For Keppel REIT, 85% of total leases is not due for renewal till 2018 and beyond, and approximately 80% of total leases is not due for renewal till 2019 and beyond, when limited new office supply is expected.

Efforts have been ongoing to engage tenants with leases expiring in 2017 and 2018. The Manager expects to renew most of the 11.5% of total portfolio NLA that is expiring in 2017 given that majority of these tenants are in their first lease renewal cycle. Likewise, the Manager is also proactively engaging tenants with leases expiring in 2018.

**Prudent Capital Structure**

Adopting a prudent approach towards capital management remains imperative for the Manager to manage market volatilities.

As at 1Q 2016, continued proactive refinancing efforts saw Keppel REIT's aggregate leverage decrease to 39.0% from 39.3% as at end-2015. The Manager has also completed 100% of refinancing requirements in 2016, bringing its weighted average term to maturity to a healthy 3.6 years. With this, Keppel REIT does not have any refinancing requirements until the second half of 2017.

To provide certainty of interest expenses and safeguard against interest rate volatility, the Manager has increased its fixed-rate loans to over 75% as at 1Q 2016, up from 70% last quarter. Average cost of debt remained stable at 2.58%, with interest coverage ratio at a healthy 4.5 times.

In keeping with its policy of hedging more than 90% of income from its Australian assets, the Manager has hedged almost all of its forecasted distribution payout from Australia in 2016. This minimises Keppel REIT's exposure to currency fluctuations and provides certainty over distributions from the Australian assets in 2016.

**Office Market Overview**

The Singapore economy expanded by 2% in 2015, lower than the 3.3% growth recorded in 2014. Advance estimates by the Ministry of Trade and Industry (MTI) indicate that the economy recorded a 1.8% y-o-y growth for 1Q 2016, driven mainly by expansions in the construction and services sectors. Stronger growth in the construction sector was supported by activities in both public and private sectors, while growth in services was driven primarily by the finance and insurance sectors. MTI expects growth in 2016 to remain muted, with full-year GDP growth at between 1 and 3%.

As at 1Q 2016, occupancy in Singapore's core CBD stood at 95.2% with average Grade A rents at $9.90 psf per month as landlords continued to focus on preserving occupancy and/or attracting new tenants[1]. CBRE opined that the contraction phase for office spaces in the financial sector appears to be nearing an end. However, volatility in the energy sector may result in further right-sizing activities by tenants in the oil and gas sector. Meanwhile, companies in the technology, media and telecommunications (TMT) sector continue to see positive leasing activities, along with occupiers in the insurance and pharmaceutical sectors. Narrowing rental rates has also seen flight-to-quality moves among tenants.

CBRE expects the down cycle in the office sector to persist through the rest of 2016 with vacancy levels picking up from 3Q 2016 as the market awaits the completion of major new CBD developments. However, with very limited confirmed supply from 2018 onwards, CBRE is of the opinion that the market could recover earlier than expected.

The Australian economy grew 2.5% in 2015, supported by healthy demand from non-mining sectors despite a contraction in mining-related investments due to declining commodity prices. In its drive for continued growth, in particular the housing and infrastructure sectors, the Reserve Bank of Australia (RBA) has kept its official cash rate on hold at 2% in 1Q 2016.

Australia expects to record steady growth of between 2.5% and 3.5% for 2016. The RBA however cautioned that the outlook for China's economic growth remains a key focus.

According to Jones Lang LaSalle, the positive net absorption in the Australian office market in 2015 came in higher than the 20-year average for the CBD office markets. Sydney and Melbourne continued to record the strongest

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[1] *Source: CBRE, 1Q 2016*

annual net absorption, with leasing activities driven mainly by the TMT, commercial banking and education sectors.

**Building a Sustainable Future**

Recognising that sustainability makes good business sense, the Manager continues to maintain high standards of environmental protection.

MBFC Tower 3 is the latest to be awarded the highest Green Mark Platinum Award by the Building and Construction Authority of Singapore (BCA), bringing the total number of Platinum-rated office towers in Singapore to three. Ocean Financial Centre, which has been recertified as a Green Mark Platinum building, was also awarded the BCA Green Mark Pearl Award, which acknowledges the Manager's commitment and continued leadership in working with tenants to achieve excellence in environmental sustainability.

In January 2016, Keppel Corporation Limited announced its intention to consolidate its interests in all four of its subsidiaries in business trust management, REIT management and fund management under Keppel Capital Holdings Pte. Ltd. This includes Keppel Land Limited's interest in the Manager.

Leveraging the scale and resources of a larger, integrated asset management platform, the Manager will benefit from improved operational efficiency and performances, as well as sharing of best practices with the centralisation of certain non-regulated support functions. This will also strengthen the recruitment and retention of talents needed to drive the Manager's as well as Keppel REIT's performance into the future. The proposed transaction is expected to be completed by the second half of 2016.

The Manager will continue to intensify efforts on tenant retention to maintain a healthy and long lease expiry profile. The Manager will also continue to achieve capital efficiency as it strives to maintain a well-staggered debt maturity profile.

The Manager believes that such efforts, coupled with Keppel REIT's quality portfolio, will put it in good stead to weather the challenging conditions ahead.

**About Keppel REIT (www.keppelreit.com)**

Keppel REIT was listed by way of an introduction on 28 April 2006. Over the last decade, Keppel REIT has grown from strength-to-strength to become 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 across Asia.

As at 31 March 2016, Keppel REIT had assets under management of over $8.2 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 cities of Sydney, Melbourne, Brisbane and Perth in Australia.

In Singapore, the assets are Bugis Junction Towers (100% 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 Ocean Financial Centre (99.9% 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 another three retail units), 275 George Street in Brisbane (50% interest), as well as the David Malcolm Justice Centre office tower in Perth (50% interest). On 29 January 2016, the Manager divested its 100% interest in 77 King Street in Sydney.

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