19 June 2023

Property | REITS

Keppel Pacific Oak US REIT (KORE SP)

US Office: It's All About Location And Purpose; BUY

Buy (Maintained)

Target Price (Return):	USD0.64 (106%)
Price (Market Cap):	USD0.31 (USD324m)
ESG score:	3.1 (out of 4)
Avg Daily Turnover (USD/USD)	0.46m/0.46m

- **Stay BUY and USD0.64 TP, 106% upside and 16% yield.** We visited many of Keppel Pacific Oak US REIT's US office assets recently. Our key takeaway: The office market outlook is challenging but with a highly uneven impact – dependant on city, location, amenities, and building use. This is where we see KORE's differentiation, as its US assets are mainly in better sub-markets and used primarily for R&D with limited tenant concentration risks. Key challenges: A further tightening of the US' commercial real estate debt market and the economy tipping into a severe recession.
- **Leasing demand mostly seen for smaller spaces…** New office demand and inquiries in most of the sub-markets were mainly seen for smaller office footprints (5-20k sq ft) – tenants still remain uncertain with regards to exact future office space needs amid changing work trends and a slowing economy. Expansion is seen in sectors such as healthcare and life sciences, and the technology, advertising, and media & information (TAMI) sectors – focusing on R&D. Other than this, larger leasing is mostly for purpose-built, relocations, and/or consolidations. Conversely, downsizing was seen across software technology, call centres, and services.
- **…amid a stiff on-going tug-of-war on return-to-office.** While we noted that more and more employers – eg Amazon.com (Amazon), Meta Platforms (Meta), and Alphabet – are mandating for a hybrid (~3 days) return to office. This has been met with stiff resistance from employees, especially in the larger tech sector. Such workers are citing longer commute times, higher cost of living, and safety reasons as key concerns. But employers are slowly seen as gaining the upper hand with Kastle Systems' back-to-work barometer and JLL Research indicating it has crossed the 50% threshold in June's first week with cities like Houston, Austin, and Dallas leading the way. KORE's portfolio has also seen return-to-office improving to c.64% in 1Q.
- **Amenities becoming a necessity rather than a perk.** As US office spaces turn into more and more of a collaborative space, with in-house cafés, gyms, and conference facilities (generally considered a premium pre-COVID-19) becoming necessities in attracting tenants, we can see KORE upgrading or adding such amenities across all its buildings we visited, which – our view – has helped it outperform its peers.
- **Tighter debt has thawed investment activity and new supply.** Overall investment sales activities in the US office market has slowed down considerably since 2022, with both buyers and sellers withdrawing from the market amid uncertainty and credit tightening. This has also largely slowed down ongoing office construction activities and future office supply, which gives a glimmer of hope for demand-supply stabilisation in 3-5 years.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (USDm)	141	148	145	149	152
Net property income (USDm)	82.7	84.3	87.0	89.4	91.4
Reported net profit (USDm)	77.4	48.5	14.3	57.7	59.3
Total distributable income (USDm)	62.4	60.6	52.3	51.8	53.0
DPS (USD)	0.06	0.06	0.05	0.05	0.05
DPS growth (%)	2.1	(8.6)	(13.7)	(0.9)	2.3
P/B (x)	0.36	0.38	0.40	0.40	0.39
Dividend Yield (%)	20.5	18.7	16.2	16.0	16.4
Return on average equity (%)	9.5	5.7	1.7	7.1	7.3
Return on average assets (%)	5.4	3.2	0.9	3.9	3.9

Source: Company data, RHB

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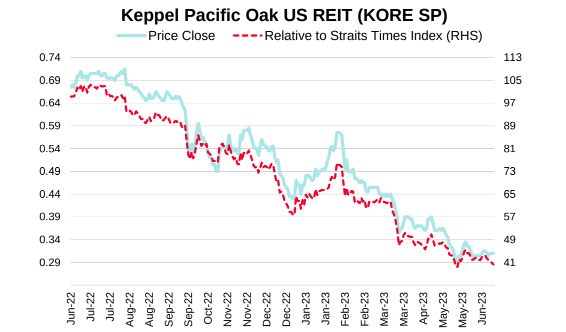
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(32.6)	5.1	(28.7)	(35.4)	(54.4)
Relative	(32.9)	3.7	(32.0)	(36.0)	(59.6)
52-wk Price low/high (USD)					0.29 – 0.72



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: GOOD
FY22 Scopes 1 and 2 greenhouse gas emissions (GHG) were 15.2% lower than 2019's numbers while there was an 8.5% YoY decrease in waste. KORE is on track to achieve its target to reduce GHG emissions by 30% by 2030 from 2019's levels.

S: GOOD
High employee engagement score of >70%. Each employee received an average of 21.2 training hours in FY22 – exceeding KORE's own internal targets. In 2020, the REIT manager, together with staff of Keppel Capital, committed c.1,000 volunteer hours to community initiatives.

G: EXCELLENT
Increasing levels of earnings disclosures and timely market updates. The majority of KORE's board comprises independent directors and diverse board members. It also has well-established corporate governance frameworks related to board matters.

Note:
Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Exhibits

Asia
Singapore
Property
Keppel Pacific Oak US REIT
KORE SP
Buy

Valuation basis

DDM

Key drivers

i. Portfolio focussed on growth markets with tech and healthcare tenants;
ii. Migration of tenants to suburban and low-cost states will benefit the REIT;
iii. Limited concentration risks.

Key risks

i. US economy slowing down accompanied by increase in interest rates;
ii. Structural changes impacting office demand;
iii. Collapse in office values from lack of financing.

Company Profile

Keppel Pacific Oak US REITs investment strategy is to principally invest in a diversified portfolio of income-producing commercial assets and real estate-related assets. Such assets are in key growth markets of the US, with favourable economic and office fundamentals that are above the national average – so as to provide sustainable distributions and strong total returns for unit holders.

Financial summary	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Recurring EPS (USD)	0.08	0.05	0.01	0.06	0.06
EPS (USD)	0.08	0.05	0.01	0.06	0.06
DPS (USD)	0.06	0.06	0.05	0.05	0.05
BVPS (USD)	0.87	0.81	0.77	0.78	0.79
Return on average equity (%)	9.5	5.7	1.7	7.1	7.3
Weighted avg adjusted shares (m)	983.53	1,044.45	1,044.45	1,044.45	1,044.45

Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Recurring P/E (x)	3.94	6.68	22.70	5.62	5.46
P/E (x)	3.94	6.68	22.70	5.62	5.46
P/B (x)	0.4	0.4	0.4	0.4	0.4
FCF Yield (%)	18.2	11.0	27.5	25.2	25.8
Dividend Yield (%)	20.5	18.7	16.2	16.0	16.4
EV/EBITDA (x)	- 8.41	- 7.55	- 6.97	- 6.86	- 6.78
EV/EBIT (x)	- 8.41	- 7.55	- 6.97	- 6.86	- 6.78

Income statement (USDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover	141	148	145	149	152
EBITDA	76	78	80	83	85
Operating profit	76	78	80	83	85
Net interest	(15)	(19)	(20)	(22)	(22)
Pre-tax profit	90	48	14	58	59
Taxation	(13)	0	0	0	0
Recurring net profit	77	48	14	58	59

Cash flow (USDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Change in working capital	2	2	10	0	0
Cash flow from operations	83	79	94	86	88
Capex	(27)	(44)	(5)	(5)	(5)
Cash flow from investing activities	(131)	(8)	(5)	(5)	(5)
Dividends paid	(66)	(58)	(52)	(52)	(53)
Cash flow from financing activities	42	(59)	(84)	(77)	(73)
Cash at beginning of period	57	51	63	69	74
Net change in cash	(6)	12	5	5	10
Ending balance cash	51	63	69	74	84

Balance sheet (USDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total cash and equivalents	51	63	69	74	85
Total investments	1,456	1,423	1,386	1,391	1,396
Total other assets	3	27	27	27	27
Total assets	1,514	1,520	1,488	1,499	1,514
Short-term debt	123	10	5	0	0
Total long-term debt	438	567	566	574	582
Total liabilities	660	673	680	685	694
Shareholders' equity	854	846	808	814	820
Total equity	854	846	808	814	820
Net debt	511	514	502	500	497
Total liabilities & equity	1,514	1,520	1,488	1,499	1,514

Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Revenue growth (%)	1.2	4.8	(1.9)	2.7	2.3
Recurrent EPS growth (%)	31.0	(41.0)	(70.6)	304.2	2.9
Operating EBITDA margin (%)	53.9	52.4	55.4	55.5	55.6
Net profit margin (%)	54.8	32.8	9.8	38.7	38.9
Dividend payout ratio (%)	80.7	124.9	366.6	89.9	89.4
Capex/sales (%)	19.5	29.5	3.4	3.4	3.3
Interest cover (x)	5.19	4.16	3.81	3.70	3.73

Source: Company data, RHB

Active lease management and a hands-on approach… Reimagining and repurposing office spaces are keys to success for both landlords and tenants in current challenging and uncertain market. Each market and KORE asset we visited seemed to have undergone such transformations, with new cafés, gyms, lounge spaces, conference facilities, and lift lobbies – revamping building brands and themes with new interiors, additions, and marketing "speculative suites" or spec suites. These efforts have paid dividends in KORE's operational data, with the REIT being mostly able to maintain occupancy rates at more than 90% levels – higher than its local competitive rivals and listed S-REIT peers. In addition, since listing/acquisition, its portfolio value – on a like-to-like basis – has increased 20% despite COVID-19 and rising work-from-home (WFH) trends, with all but two of its 13 assets seeing valuation increase.

…and lack of tenant concentration has aided in strong operational performances. Unlike its US office S-REIT peers, KORE's top tenants account for only 24% of total income vs 33-40%. Also, no single tenant accounts for more than 3.5% of income. The lack of anchor tenants and concentration risks have greatly aided in a post-pandemic leasing environment, where most anchor tenants are seen to be downsizing and typically moving to newer buildings in the market to suit their revamped office space needs.

Figure 1: Annual leasing volumes and occupancy trends

Source: RHB, Company data

Figure 2: Top 10 Tenants

As at 31 March 2023

Top 10 Tenants	Sector	Asset	Location	% of CRI
Comdata Inc	TAMI	Bridge Crossing	Nashville	3.5
Ball Aerospace	TAMI	Westmoor Center	Denver	3.0
Lear Cooperation	TAMI	The Plaza Buildings	Seattle - Bellevue/Redmond	2.8
Gogo Business Aviation	TAMI	105 Edgeview	Denver	2.8
Meta	TAMI	The Westpark Portfolio	Seattle - Bellevue/Redmond	2.6
Zimvie[1]	TAMI	Westmoor Center	Denver	2.0
Spectrum	TAMI	Maitland Promenade I & II	Orlando	1.9
Goldman Sachs Personal Financial Management	Finance & Insurance	One Twenty Five	Dallas	1.8
Auth0	TAMI	The Plaza Buildings	Seattle - Bellevue/Redmond	1.7
Bio-Medical Applications	Medical & Healthcare	One Twenty Five	Dallas	1.7
Total				23.8
WALE by NLA				4.4 years
WALE by CRI				4.4 years

Source: Company data

Debt financing is less of an issue with modest gearing and strong sponsor backing. While tighter debt conditions have impacted office assets in the US, KORE's debts are fully unsecured and majority funded by local Singaporean banks at trust level – giving it more leeway in terms of refinancing. The REIT's gearing also remains moderate at 38.7%, ie well below the threshold and bank covenants of 50%. Hence, they do not pose a major threat. KORE has also fixed the bulk of its debts (78%) with zero refinancing requirements until Nov 2024.

Room for further cap rate expansions of up to 50-75bps during the final year-end valuation, but this will largely hinge on the interest rate path and outlook by the end of 2023. In addition, this also varies greatly depending on assets and sub-markets. Based on the abovementioned strengths of KORE's market, we expect its valuations to hold relatively better than its peers. Overall, we expect a potential valuation decline of 3-5% by the end of the year – mainly on sharp interest rate increases – which should still keep the overall gearing within a comfortable range of 40-43%. Assets with valuation downside potential in our view include the Plaza building and 1800 West Loop – mainly on the higher supply in this area. While assets with upside potential from rent growth and market outlook in our view are Westmoor Center, the Westpark Portfolio, and One Twenty Five.

Risks largely priced in. While persistent inflation, the US Federal Reserve's signalling of further rate increases, and possibility of hard landing remains key risks on its portfolio, from a valuation standpoint we believe these are largely priced-in, with stock trading at a more than 60% discount to book value. Negative headline news though is likely to persist for the next few quarters, in our view, resulting in short-term share price volatility.

ESG score of 3.1 out of 4.0. As this score is a notch higher than the country median score, we apply a 2% ESG premium to reach our USD0.64 TP

10 Key Takeaways From The Visit

Below are some of our key takeaways. There are based on our observations and discussions with management:

i. **Economic activity based on our ground observation remains robust** with no signs of consumer tightening or recessions signals in general. During our trip we observed that all commercial spaces, as well as airports and flights, were packed. Business activities were seen at all time of the day, with consumers generally seen more willing to spend;

ii. **Mixed-use integrated developments** – eg office and retail cum hotel, etc – remain at a nascent stage in most of the cities when compared to key Asian cities. But the few integrated developments that have been built recently in cities such as Nashville are becoming huge crowd pullers and generally seem to be commanding high valuations and seeing strong investor demand. Hence, this could potentially emerge as a rising trend across the US, given changing needs and convenience of the Work-Shop-Eat-Stay concept;

iii. **As widely highlighted, key gateway cities** – such as San Francisco, Los Angeles, New York, Washington, and more – are generally the ones facing greater challenges from the WFH trend. This is as employees cite longer commute times, rising fuel, cost-of-living expenses, and safety as the key reasons to WFH;

iv. **Downsizing/sub-leasing** is largely prevalent across sectors, especially from anchor tenants who have been staying in same building for long period of time (10-20 years). Such tenants are now seeking more modern office buildings – often in similar localities. Most of the large leases in the US office market are mostly on relocation/consolidation, with mostly R&D tenants seen as expanding their office spaces;

v. **Headline rents are generally on an uptrend,** as tenants are generally seen as willing to accept higher rental fees amidst an inflationary environment. Tenant incentive packages, though, have similarly seen an increase – especially so in gateway cities where there is muted demand and higher supply;

vi. **Other than location,** key amenities such as parking, in-house cafés, conference rooms, and lounge facilities are becoming crucial in a post COVID-19 world to attract tenants and employees;

vii. **While the environmental aspect** – eg green certifications – remains important in terms of mitigating future costs, eg higher environmental tax efficiency and capex, etc, this did not come up as a crucial factor (for the most part) in our discussions from a leasing standpoint. This was especially so in the case of small- to mid-sized tenants;

viii. **Greater emphasis is now being placed on collaborative spaces within offices,** with a number of tenants redesigning their offices to include more meeting rooms, play & relax areas, in-house pantries, and exclusive spaces to have cocktails on Fridays;

ix. **Return to office varies greatly across the week** – with three days per week (Tuesday to Thursday) currently seen as the most favoured;

x. **Leasing activities remain uncertain and *ad hoc*** amidst a lack of visibility on exact needs in terms of future office space sizes. As a result, spec suites are becoming a popular choice for smaller- and mid-sized tenants – most of whom are looking for immediate move-in requirements in order to bring back employees to their respective offices.

Asset Overview

KORE has a portfolio of 13 US office assets across eight cities and 12 sub-market with c.400 distinct tenants. Of these, we visited five cities – Seattle, Denver, Houston, Texas, and Nashville – which account for c. 80% of the REIT's total portfolio value of USD1.4bn and its total net property income.

Figure 3: Portfolio assets and occupancy levels

Source: Company data

Figure 4: Sub-market vacancy and supply outlook

Submarket / Property	Property Vacancy Rate (%)	Submarket Vacancy Rate (%)	Last 12M Deliveries (sf'000)	Last 12M Absorption (sf'000)	Under Construction (sf'000)	Last 12M Rental Growth (%)	Projected Rental Growth (%)
Seattle, Bellevue CBD *The Plaza Buildings*	9.7	7.9	-	(243)	4,747(1)*	1.1	0.9
Seattle, Eastside Bellevue *Bellevue Technology Center*	4.9	3.0	-	5	-	1.9	0.8
Seattle, Redmond *The Westpark Portfolio*	2.8	1.5	350	370	2,500(1)#	2.0	0.8
Austin, Northwest *Great Hills Plaza & Westech 360*	0.0(2) & 16.9(3)	20.8	-	(430)	-	0.9	(1.0)
Denver, Northwest *Westmoor Center*	2.7	10.2	3	(139)	33	1.7	1.3
Denver, Broomfield *105 Edgeview*	5.4	17.0	-	(204)	-	0.8	1.0
Nashville, Brentwood *Bridge Crossing*	-	13.3	-	120	-	2.0	1.4
Houston, Galleria/Uptown *1800 West Loop South*	14.9	31.5	-	(965)	-	(1.2)	0.8
Houston, Galleria/Bellaire *Bellaire Park*	15.6	18.2	-	43	-	1.2	2.7
Dallas, Las Colinas *One Twenty Five*	8.2	25.2	-	(222)	593(1)	0.0	0.7
Orlando, Maitland *Maitland Promenade I & II*	13.2	14.5	-	(121)	-	1.8	1.0
Sacramento, Folsom *Iron Point*	17.8	8.5	-	(246)	53	1.6	1.1

Source: CoStar Office Report (Mar 2023)

Notes From Individual Markets

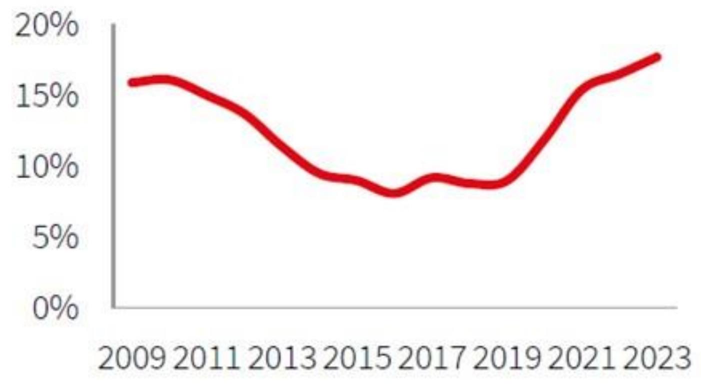
Seattle

Eastside Seattle is KORE's biggest market exposure. Three of its largest assets by value are located in the area, which also account for c.51% of the REIT's total portfolio value. According to Cushman & Wakefield data, the Seattle metropolitan area continues to improve in terms of jobs, with employment in Greater Seattle increasing by 83,800 in 2022 to a total of 2.1m. Consequently, the overall unemployment rate dropped 60bps YoY to 3.4%, a tad below the national unemployment rate of 3.7%.

Based on CoStar's Mar 2023 Office Report, while there is c.5m sq ft of office supply under construction in the Bellevue central business district or CBD where Plaza is located, – most of this is part of Amazon's build-to-suit development. Hence, it does not directly compete in the market. Similarly, in the Seattle Redmond area – where the Westpark portfolio is located – there is 2.5m sq ft of office supply under construction, but the bulk of this has been pre-leased by Microsoft Corp. Overall vacancy rates in KORE's three sub-markets range between 2% and 8%, with a projected 12-month rent growth of 1%.

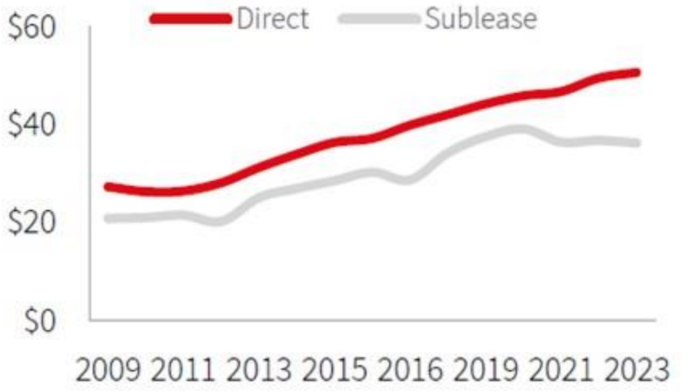
Nonetheless, supply and lack of demand remains a concern amid a slowing economy. Based on JLL's Seattle/Puget Sound 1Q market report, negative absorption has been seen for a fourth consecutive quarter on higher supply from new developments and space givebacks by tenants. The JLL report adds that, despite the gradual improvements in office re-entries over the past six months, numbers remain well below pre-2020 levels and have yet to reach the threshold that triggers net new leasing activities. Hence, this will be one of the key markets we will look out for in terms of demand/supply and occupancy trends.

Figure 5: Total vacancy (%) in Seattle/Puget Sound



Source: JLL Office Insight (1Q23)

Figure 6: Average asking rent (USD per sq ft pa)



Source: JLL Office Insight (1Q23)

The Plaza building is the largest asset in KORE's portfolio, representing 23% of total portfolio value. It comprises two Class-A office building – Plaza Center and US Bank Plaza – and is located at the Bellevue CBD in Seattle. The building is located in close proximity to Amazon's Bellevue base and is within walking distance of Bellevue Transit Center – downtown Seattle's primary transit hub and future light rail service station. This provides provide easy access to Seattle's downtown area. Nearby amenities include The Bravern luxury shopping destination, dining outlets, and residential developments.

Both buildings were extensively refurbished recently with a new amenities centre comprising a local craft chocolates and coffee operator, library with meeting spaces, a fitness studio, and a conference floor. The buildings achieved a Leadership in Energy & Environmental Design or LEED Gold Certification from the US Green Building Council and are recipients of the US Environmental Protection Agency's prestigious Energy Star label.

Figure 7: The Plaza buildings

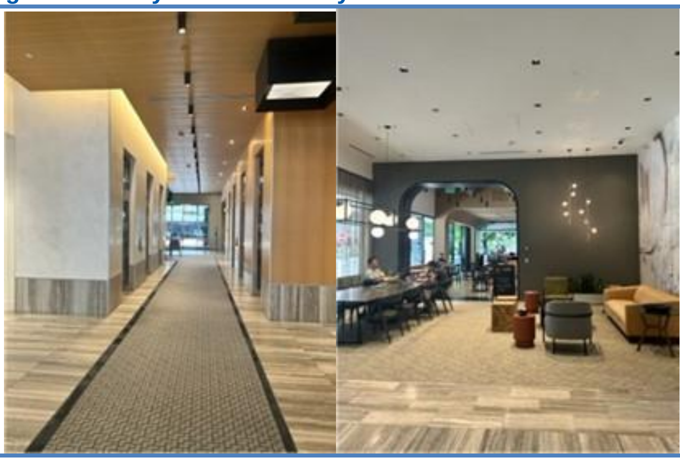
Source: Company data

Figure 8: Asset details

Location	10800 and 10900 NE 8th Street, Bellevue, King County, Washington
Sub market	Bellevue CBD
NLA	330,508
Year built	1978-1983 (refurbished 2014-2015)
Committed occupancy	90.3%
Valuation (USDm)	340.0
Purchase price (USDm)	240.0
Number of tenants	45
Acquisition date	Nov-17
Key tenants	Lear Corp, Auth0, US Bank National Association

Source: Company data

Figure 9: Lobby and modern style cafe



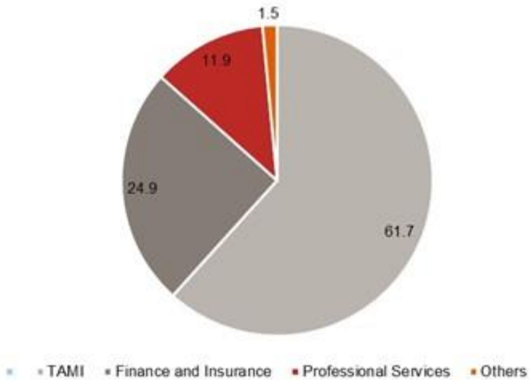
Source: RHB

Figure 10: Spec suite and upgraded conference rooms

Source: RHB

A key tenant of the Plaza is Xevo (17%) – owned by Lear Corp – which is a Seattle-based global leader in connected-car software and development partner to some of the world's largest automakers. Other key tenants are Auth0 (10%) – an authentication and authorisation management company – and US Bank National Association (10%). Based on our discussions, we understand that US Bank leases are due for renewals in the latter part of this year. KORE is currently in close negotiations for renewing these leases, but it is likely that the tenant could possibly give back some 30-40% of its c.40k-plus sq ft space. Overall utilisation rate of the building is among the lower side – at an estimated 45% – but the leasing team noted that this has been steadily increasing since last year and is expected to further increase with more tenants requiring employees to be return to office.

Figure 11: Trade sector breakdown by NLA



Source: Company data

Figure 12: Lease expiry profile

Source: Company data

Risks from high supply but rent differentiation the mitigating factor. Among all of KORE's sub-markets, we noticed a high level of supply within this one – most of which comes from Amazon's build-to-suit spaces. The firm is slowly moving into these developments. However, we believe there is a likely risk of sub-leases increasing in this market over a period of time. Additionally, we also noticed an upcoming big spec-built project by Skanska that is currently nearing completion but has yet to secure leases.

When we highlighted this risk, leasing agent CBRE noted that there was a 30-40% rent differential when compared to the Plaza's low USD40 per sq ft rent rate. Hence, the targeted tenant sectors are different in nature. Nonetheless, considering the high supply and muted demand, this will be an asset we will be closely watching in terms of occupancy trends.

A tech-focused spec suite programme to draw tenants. Taking into account the supply and slowing demand in the market, KORE has embarked on a targeted spec suite programme on some of its vacant spaces in the building. This is in order to attract scaling companies seeking move-in ready spaces in Bellevue that provide tenants with optimal flexibility and immediate move-in spaces – we understand there is a demand for this in the market. Most of the spec suite programmes are being carried out at below 10k sq ft spaces in the building and are built in a ready to move in condition. While the cost of a spec suite programme in this market is typically around USD100-110 per sq ft, tenants taking up these spaces are given limited additional incentives.

Mid-term redevelopment plans for multi-family spaces on top of a car park. One key potential for the asset is the ability to convert its existing car park into a multi-family asset, for which approvals from the local authorities have been obtained. While there is strong demand for such assets in the market – considering the high rental demand – management has currently put its multi-family conversion initiative on hold in light of the high construction costs and significant upfront capex needed, which will likely weigh on gearing and distributable income. In the medium term, KORE plans to work with other capital partners or may sell the rights to develop multi-family asset to others at an opportune time – hence unlocking value.

The Westpark portfolio (WP) is the second-largest asset in KORE's portfolio, accounting for 15% of the REIT's total portfolio value. WP is a business campus that contains 21 buildings (named A to U). 19 are freehold office buildings while two are freehold industrial buildings. WP sits on a large 41-acre park-like landscape along the Sammamish River. It is mere minutes to Redmond's downtown area and is in close proximity to Microsoft's global headquarters. The planned opening of a light rail facility near the area is also expected to significantly boost the buildings transport connectivity.

The property has an amenities centre, which includes a modern tenant lounge, conference facilities, and a fitness centre. Recent improvements include lobby and restroom refurbishments for two of the buildings and the addition of EV charging stations.

Figure 13: The WP

Source: Kore

Figure 14: Asset details

Location	8200-8644 154th Avenue NE, Redmond, Washington
Sub market	Redmond
NLA	782,185
Year built	Refurbished in 2016/2017
Committed occupancy	97.2%
Valuation (USDm)	230.0
Purchase price (USDm)	169.4
Number of tenants	81
Acquisition date	Nov-18
Key tenants	Meta, Helion Energy, Microsurgical Technology

Source: Company data

The asset was acquired in Nov 2018 for USD169.4m and has since seen its valuation increase by 36%. Occupancy at the WP has been maintained at a consistently high 90% despite the building having a large number of tenants (81). This is indicative of active lease management efforts. We understand that prior to acquisition by KORE, occupancy used to be in the 85-90% range. Key reasons driving this high occupancy include improved amenities – eg cafés and small co-working spaces – and the flexibility offered by the asset to be used as a warehouse-cum-office space. Rents for the asset has also moved up by 30-40% since 2018, although asking rents have now come slightly off their peak by 10%.

Figure 15: The WP campus and car parks

Source: RHB

Figure 16: Renovated café and gym

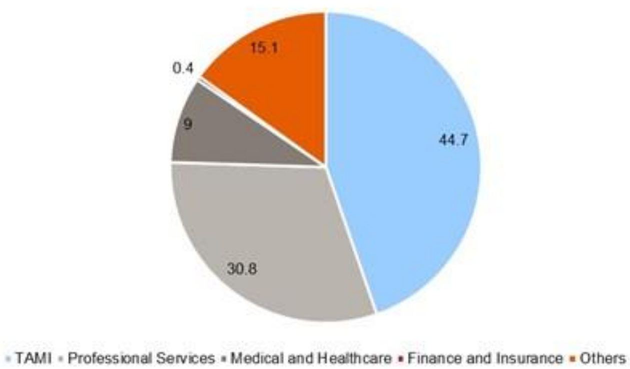
Source: RHB

We visited Walmart's incubation arm – Store No. 8 – which recently took up an entire building. Store No. 8 does research on augmented realty in physical stores in order to enhance the customer shopping experience. The tenant has office space on the first floor of the building with a good number of meeting rooms for collaborations while the ground floor facility is used as a lab to testbed new products. We understand that most of the tenants in the building use the facility in a similar way.

We also visited key tenant Meta's facility on the premises. The firm primarily uses the facility for its Oculus VR division's R&D centre. VR headsets have started to gain traction again following the recent launch of similar devices from Apple. The campus facility we visited has a greater emphasis on a collaborative environment with a lot of meeting facilities, large in-house café (with a wide-ranging menu), and other creative working areas that underscore and highlights the evolving office space.

We gather that the return-to-office numbers in this facility have vastly improved. It was also in operation during the COVID-19 period with special permission granted by the relevant authorities given the R&D nature of this building. Meta has also been gradually expanding its premises space to c.130k sq ft currently from 100k sq ft previously. Its 8-year lease on the premises currently runs until 2026 – we believe there is a greater likelihood of the company continuing to stay there and expanding its presence.

Figure 17: Trade sector breakdown by NLA



Source: Company data

Figure 18: Lease expiry profile

Source: Company data

Bellevue Technology Center (BTC) is a 9-building office campus located adjacent to Microsoft's headquarters – this positions BTC as an attractive business address for companies operating in related sectors to the tech sector giant. The building sits on a large 46 acres of land accompanied by beautiful views. The land size also offers future redevelopment potential. BTC is well connected to Interstate Route 520, providing tenants with easy access to the Greater Seattle region.

Amenities in the building include a fitness centre, café, basketball and volleyball courts, and extensive walking paths in a park setting. The on-site amenities centre is currently being renovated, which will include the conversion of the outdoor patio into an all-season space. On-site, sports courts, and connecting outdoor paths will lead to the redesigned amenities building, which is slated to debut in mid-2023.

Figure 19: BTC campus

Source: Company data

Figure 20: Asset details

Location	15805 NE 24th Street, Bellevue, King County, Washington
Sub market	Eastside Bellevue
NLA	330,508
Year built	1973,1980, 2000
Committed occupancy	95.1%
Valuation (USDm)	155.0
Purchase price (USDm)	131.2
Number of tenants	14
Acquisition date	Nov-17
Key tenants	Regus, Trane US, Wipro

Source: Company data

Figure 21: BTC campus and café upgradation in progress

Source: RHB

Figure 22: Renovated café design schematic

Source: RHB

Some downsizing is anticipated, but backfilling demand remains steady. Top tenants of the building are:

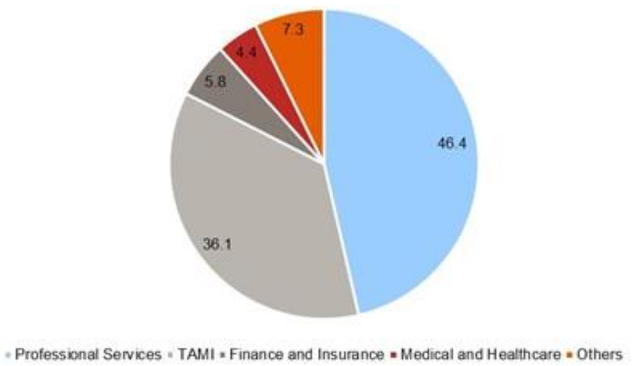
i. Regus (21%) – it provides serviced offices;

ii. Trane US (16%) – a manufacturer of heating, ventilation, and air conditioning systems, along with building management systems and controls;

iii. Wipro (9%) – a leading Indian multinational corporation that provides information technology, consultancy, and business process services.

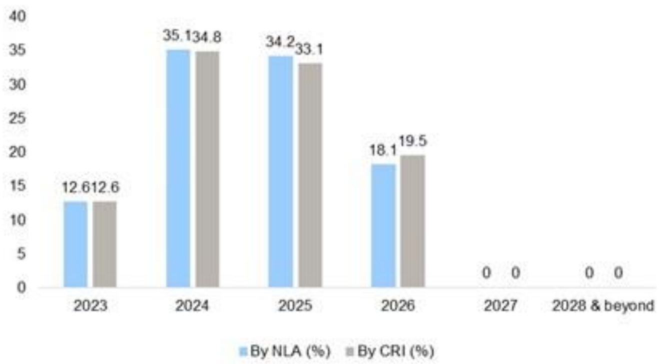
Based on our discussions with the building's management team, c.17k sq ft or 5% of the office space is anticipated to be returned back later in the year. This is on the back of a downsizing by one of its tenants. However, KORE said there were 3-4 ongoing enquiries for this space on the back of the improvements to the amenities centre and campus style environment.

Figure 23: Trade sector breakdown by NLA



Source: Company data

Figure 24: Lease expiry profile



Source: Company data

Nashville – Bridge Crossing

Nashville, the capital of Tennessee, was ranked the no. 1 US real estate market to watch out for in 2023 for the second year in a row in the PwC and Urban Land Institute's (ULI) Emerging Trends in Real Estate report. Known as the birthplace of country music, Nashville's "Music City" nickname dates back to the 1950s and 1960's. The city boasts a young population with a median age of 34 years and has also seen the highest population influx in recent years. Music City is also the second-fastest growing metropolitan economy in the US, attracting Fortune 500 companies across the healthcare, finance, music, technology, and tourism sectors. Key aspects that have been driving this growth: Low cost of living with a high quality of life and the low tax environment.

A serene office campus located in the affluent Brentwood sub-market. Bridge Crossing is a 3-storey office building situated among Nashville's most affluent neighbourhoods in Maryland Farm. Nearby retail, dining, and entertainment destinations include Hill Center Brentwood and Brentwood Place Shopping Center. The asset has convenient access to a major interstate highway – I-65 – and the area's main traffic arteries are Franklin Road, Hillsboro Pike, and Old Hickory Boulevard. This means Bridge Crossing allows for ease of mobility between Brentwood and other sub-markets.

The asset was acquired in Aug 2021 for USD46m and its value has declined slightly by 6% since then. We believe this is mainly due to the cap rate expansions and unchanged rent in the building due to longer lease profiles. Bridge Crossing accounts for 3% of KORE's total asset under management or AUM. The asset has seen significant enhancement works in recent times, which includes the expansion of the parking lots, and upgrading of the common areas and restrooms.

Figure 25: Bridge Crossing

Source: RHB

Figure 26: Asset details

Location	5301 Maryland Way, Brentwood, Tennessee
Sub-market	Brentwood
NLA	199,194
Year built	1989 (refurbished in 2017)
Committed occupancy	100%
Latest valuation (USDm)	43.3
Purchase price (USDm)	46.0
Number of tenants	2
Acquisition date	Aug-21
Key tenants	Comdata, Cognizant

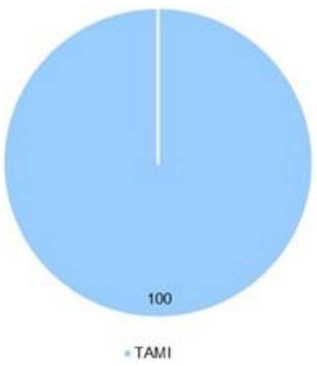
Source: Company data

Key notes. Bridge Crossing's anchor tenant Comdata occupies more than 90% of the building. It is also KORE's top tenant in its portfolio, accounting for 3.5% of rental income in 1Q23. Comdata's current lease in Bridge Crossing runs until Mar 2027. All the leases in the asset have an in-built escalations of 2.7%.

Comdata – owned by NYSE-listed FLEETCOR Technologies (market cap: USD18bn) – is a payment processor and issuer of fleet fuel, corporate spend, and paperless payroll (also known as paycards) cards, as well as being involved with virtual payments and trucking permits. The Bridge Crossing campus is its corporate headquarters. As a payment processing company handling customer data, we believe data handling and security by employees is of primary importance. Hence, this requires employees to be present in a secure office space. This means Comdata is less likely to be impacted by WFH trends. We understand from KORE that asset utilisation in terms of return-to-office for Bridge Crossing currently stands at 60-70% levels, ie slightly lower than pre-COVID-19 numbers.

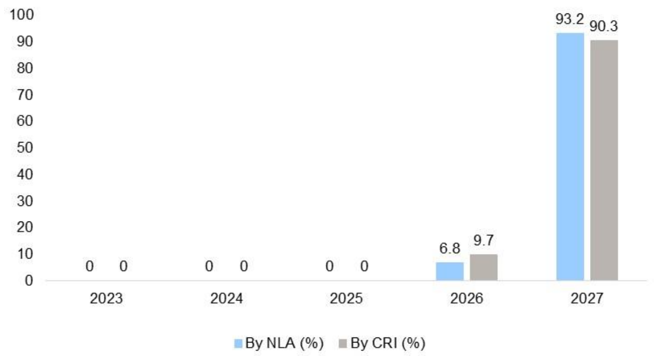
The remaining space is occupied by Cognizant, a global technology consulting company. We understand that it has an early option to give back some of the space in early 2025. However, instead of exercising such an option and paying a penalty, Cognizant has instead sub-leased the space to another tenant, indicating the good leasing prospects of Bridge Crossing if the tenant vacates the premises at the end of its lease term.

Figure 27: Trade sector breakdown by NLA (%)



Source: Company data

Figure 28: Bridge Crossing's lease expiry profile



Source: Company data

Looking at upgrading the energy efficiency and ESG ratings of the building. KORE said it was currently working on improving the energy efficiency of the building by upgrading the lighting to LED and improving the air-conditioning units. There are also incentives from local authorities in the form of 20% rebates of costs incurred for improving the ESG aspects of a building.

A target market for future acquisitions when office dynamics settle down. With the strong positive dynamics supporting the future potential of the market, management noted that this area was one of the markets on its radar in terms of future office acquisitions once commercial market in US settles down. In light of this, we also visited another asset – Bowers Park – which currently sits in a sponsor's private fund in a neighbouring sub-market. This asset currently has an occupancy rate of c.90%

Dallas – One Twenty Five

Dallas, Texas, is the largest metropolitan area in the US without a sea linkage. Situated at the convergence of four major interstate highways and a fifth interstate loop, the city remains a centrally located transit hub and major inland port for shipping and logistics companies. PwC and ULI's Emerging Trends report ranked Dallas as the no. 2 US real estate market to watch out for in 2023. Texas has also been ranked the no.1 state for business for 18 consecutive years by the magazine Chief Executive. Dallas is also ranked fourth among US metropolitan cities for the most Fortune 500 companies (c.23) from the defence, financial services, IT, and transportation industries.

One Twenty Five is an office complex consisting of two Class-A buildings situated in the heart of the Las Colinas urban core – a master-planned mixed-use business and residential community surrounding Lake Carolyn. The building is within walking distance to Water Street's chef-driven restaurants, high-end hotels, and Toyota Music Factory's experiential retail and restaurant landscape. The asset was acquired in Nov 2019 for USD101.5m and is currently valued at USD105.6m, accounting for 7% of total AUM.

Figure 29: One Twenty Five

Source: Company data

Figure 30: Asset details

Location	125 East John Carpenter Freeway, Irving, Dallas County, Texas
Sub-market	Las Colinas
NLA	445,317
Year built	Refurbished 2015-2019
Committed occupancy	91.8%
Valuation (USDm)	105.6
Purchase price (USDm)	101.5
Number of tenants	21
Acquisition date	Nov-19
Key tenants	Goldman Sachs Personal Financial Management, Bio-Medical Applications of Texas, US Homeland Security

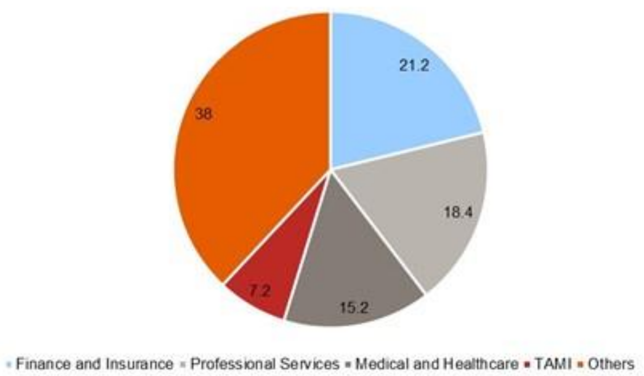
Source: Company data

The office complex is easily accessible from Highway 114 and Dallas Area Rapid Transit or DART Orange Line, which runs from the Dallas CBD to the DFW International Airport. It is also equipped with an array of on-site amenities, which includes a newly refreshed fitness centre and a tenant lounge.

Upgrading the asset to cater to growing tenant needs. One Twenty Five is currently undergoing several upgradation works, which includes upgraded exterior and interior signages, a renovated amenities lounge, cardio-focused large fitness facility, and refreshed conference centre and lobby. Similar to Bridge Crossing, KORE is also working on this asset to increase energy efficiency and reduce long-term operational costs.

Goldman Sachs Personal Finance Management is the key tenant of the building, accounting for c.17% of total income. The second- and third-largest tenants are Bio-Medical Application of Texas (16%) and US Homeland security (13%). We understand the latter also stores presidential vehicles in the building and chose the premises mainly due its close proximity to DFW International Airport. The asset has no major lease expiries until 2025.

Figure 31: Trade sector breakdown by NLA (%)



Source: Company data

Figure 32: Lease expiry profile

Source: Company data

Key factors that drove tenants leasing the building based on tenant feedback include its excellent connectivity (airport and motorways), on-site building amenities and conference facilities. The building's covered and excellent parking facilities is also another attraction for the tenants as well provides an additional source of income for KORE. The building also offers excellent views to the nearby lake and is surrounded by restaurant, hotels and housing apartments. We also note that KORE is currently building spec suites – which are fully furnished and fitted office spaces – as it gives the REIT a competitive edge and meets immediate move-in requirements from tenants. They also allow KORE to charge premium rents.

Figure 33: View of Lake Carolyn and amenities

Source: RHB

Figure 34: Spec suite facility and lobby

Source: RHB

Houston

Houston, Texas, is a major economic centre and national hub for energy, aerospace, and healthcare companies. A Transwestern report ranked it as the largest southern city and fourth-largest urban centre in the US. Forbes Magazine named it among the “Top 10 best cities for entrepreneurs” due to its low taxes, affordable land, and expanding labour force. Houston houses 24 Fortune 500 companies and has a relatively young population with a median age of 35 years, according to a World Population Review report. The city is home to the world’s largest medical centre – Texan Medical Center (TMC) – and its planned 37-acre translational research campus expansion named TMC3.

Bellaire Park (BP) is one of KORE’s two assets in Houston and features two Class-A office buildings in Bellaire, an affluent residential suburb. The property is located near major thoroughfares and public transportation nodes, and enjoys good accessibility to the Houston central business district. As the asset sits right beside TMC, it benefits from the spillover effect and has a high concentration of healthcare tenants in the building. BP was acquired for USD46.3m as part of the IPO portfolio in Nov 2017. It is currently valued at USD51.3m and accounts for c.3% of total AUM.

Figure 35: BP

Source: RHB

Figure 36: Asset Details

Location	6565 and 6575 West Loop South, Bellaire, Harris County, Texas
Sub market	Bellaire
NLA	313,873
Committed occupancy	84.4%
Valuation (USD m)	51.3
Purchase price (USD m)	46.3
Number of tenants	58
Acquisition date	Nov-17
Key tenants	The Rand Group, Synergy Healthcare, Bellaire Dermatology

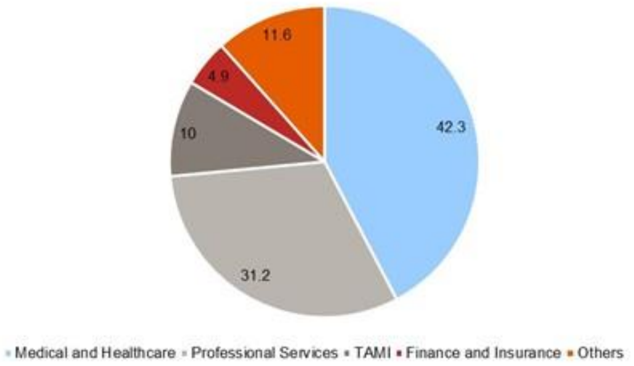
Source: Company data

Healthcare tenants account nearly half of BP, with the proportion expected to increase from rising demand for high quality and affordable healthcare. The rents paid by healthcare tenants (USD31-32 per sq ft annually) in the building are 10-15% premium compared to office tenants but is c.10-15% lower than TMC, which makes the asset attractive for individual practitioners. Some of the healthcare-related tenants in the asset we visited include dermatologists, Lasik surgery centres, and cardiology facilities.

BP's leasing team noted that healthcare tenants in general are very sticky in nature and tend to sign longer-lease terms of 7-10 years. This is because such clients find it difficult to move regularly due to the capex incurred for healthcare equipment and stickiness of the client base within the locality. Another advantage of healthcare tenants is that they are not impacted by WFH trends and, hence, are less susceptible to downsizing and rightsizing effects. In addition, valuators tend to place a premium on healthcare tenants (with cap rates for health care assets c.100bps lower when compared to offices), hence helping in improving and maintaining the long-term value of the asset.

The top three tenants in the building are Rand Group (10.7%) – a professional services firm that helps clients by offering technological services (ie ERP, CRM, and analytics solutions and support), Synergy Healthcare (9.8%), and Bellaire Dermatology (6.4%).

Figure 37: Trade sector breakdown by NLA (%) as at end Dec 2022



Source: Company data

Figure 38: Lease expiry profile

Source: Company data

1800 West Loop South (1800WL), Houston, is a 21-storey Class-A office tower located in the centre of Houston's amenities-rich Galleria sub-market. This building has undergone significant upgrading in recent years to stand out in a competitive sub-market that has seen a fair amount of supply outpacing demand. In our view, the building boasts the nicest interiors and facilities among all the KORE assets we visited – justifying the well-above market occupancy rate. The property has obtained the LEED Gold Certification from the US Green Building Council and is a recipient of the US Environmental Protection Agency's prestigious Energy Star label. The Top 3 tenants in 1800WL are Health Care Service Corp (14.8%), Quanex Building Products (9.7%), and Third Coast Bank SSB (5.9%).

Figure 39: 1800 West Loop South

Source: RHB, Company data

Figure 40: Asset details

Location	1800 West Loop South, Houston, Harris County, Texas
Sub market	Galleria
NLA	400,001
Year built	1982 (refurbished 2013/2014)
Committed occupancy	85.1%
Valuation (USD m)	76.9
Purchase price (USD m)	78.6
Number of tenants	58
Acquisition date	Nov-17
Key tenants	Health Care Service Corp, Quanex Building Products, Third Coast Bank SSB

Source: Company data

Recent renovations in the property include upgrades to cardio-focused fitness studio, a multi-function hub with food service, conference area, lounge space for reservations, and the common area. In addition, there has been significant transformation on levels 20 and 21 – which in the past were difficult to lease because of the need to get on separate lifts from level 19. The entire two floors have been remodelled into seven distinctive suites with amenities such as a high-end tenant lounge, a 21-foot host bar, a Grab-and-Go area, and exclusive meeting spaces. On the back of the excellent fit-outs and above market facilities, level 21 – now named Vertuno 1800 – has been fully leased out at above market rents.

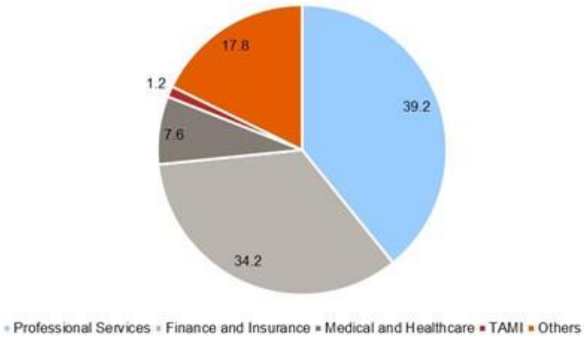
Figure 41: Vertuno 1800

Source: RHB

Figure 42: Deli and views from 1800WL

Source: RHB

Figure 43: Trade sector breakdown by NLA



Source: Company data

Figure 44: Lease expiry profile

Source: Company data

Denver

Denver, Colorado, also known as the Mile High City, is located 5,000ft above sea level. It was named the best place to live in the US in the CBRE Gateway to the Rockies Report, and gets an average of 300 days of sun per year. Forbes ranks Colorado as no.1 for US labour supply and Denver is also the top city in Science, Technology, Engineering, and Mathematics Growth Index or STEMDEX, according to CBRE. The city has one of the fastest-growing populations in the US, with a gain of 32.6% since the last census. As corporate expansions continue, investors are giving more and more attention to the thriving corridor sub-markets.

The CBRE team highlighted during our visit that Denver is growing in stature as a life sciences hub, with companies like Pfizer and Google expanding their presence. The key reasons for growing corporate expansion in Denver is the availability of quality talent pool – with major universities – ie University of Colorado and Colorado State University – nearby. KORE has two assets in Denver with a portfolio weight of 13.4% of AUM.

Westmoor Center (WC) is the larger among KORE's two assets in Denver. WC is a 6-building business campus located adjacent to the Ball Aerospace & Tech headquarters and between the talent hubs of Denver and Boulder. The building is outfitted for diverse technology and biotech companies – eg Ball Aerospace & Tech and ZimVie. The asset was acquired as a part of the IPO portfolio in 2017 and has seen a 10% increase in value since then.

The strength of the campus, in our view, is that it is mainly used for R&D purposes. Its ground floor facilities are mainly for fabrication, testing, and technology demonstrations and are minimally impacted from changing WFH trends. Therefore, it is no surprise that among all the assets we visited, this campus seemed to have the best office attendance, with its large car park nearly full. During our visit, we saw key tenant ZimVie's facility in the campus, which is mainly used for R&D of spine solutions, as well as manufacturing and testing of spine equipment.

Figure 45: Westmoor Center

Source: Kore

Figure 46: Asset details

Location	10055-10385 Westmoor Drive, Westminster, Colorado
Sub market	Westminster
NLA	612,890
Year built	1999-2000 (refurbished 2014-2016)
Committed occupancy	97.3%
Valuation (USD m)	130.2
Purchase price (USD m)	117.1
Number of tenants	19
Acquisition date	Nov-17
Key tenants	Ball Aerospace & Tech, ZimVie, Reed Group

Source: Company data

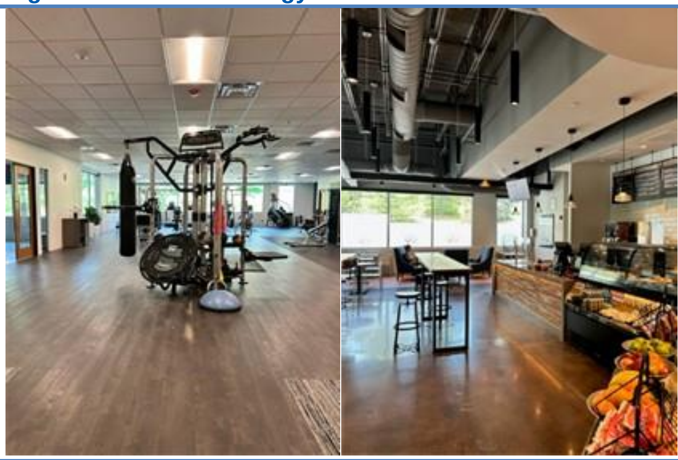
Asset enhancements were done recently, including upgrading the fitness centre and bike storage facility. There is also a full-service café and expansive patio that offer indoor/outdoor seating for tenants. In addition, we observed that the leasing team is curating a theme-styled upgrade of the building to provide it a unique identity. The ongoing changes include refreshing the lobby area walls and conference areas, putting up better signage, and adding a lounge facility. These changes gained good traction from tenants, and management expects this to translate into better leasing outcome for the building. In 2022, the property also obtained LEED gold certifications from the US Green Building Council for the entire business campus.

The Top 3 tenants who provide 75% of income are Ball Aerospace & Tech (33% of income) – an American manufacturer of spacecraft components and instruments for national defence, civil space, and commercial space applications, ZimVie (22.7%), and Reed Group (15.3%). Ball is also the second largest tenant of KORE – accounting for 3% of total income. The company has been expanding its space in the building for the past 10 years, and this will likely continue amidst the limited supply and proximity to Ball's headquarters.

Figure 47: WC campus and outdoor car park facilities

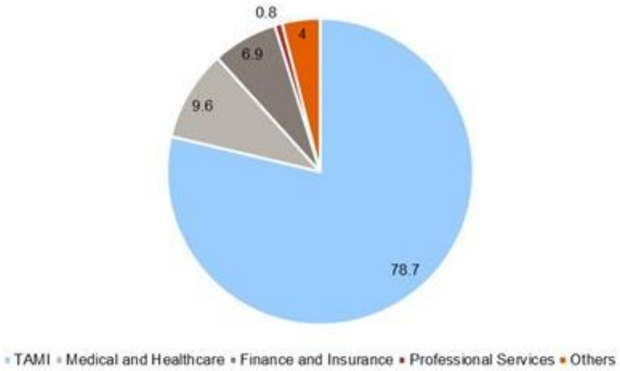
Source: RHB

Figure 48: Refurbished gym and cafe



Source: RHB

Figure 49: Trade sector breakdown by NLA



Source: Company data

Figure 50: Lease expiry profile

Source: Company data

105 Edgeview is a 4-storey Class-A office building in the Broomfield office sub-market in Denver. The asset is located within the Interlocken Advanced Technology Environment, a premier business park housing several large technology firms, ie Oracle and Ball Aerospace & Tech. The property is also close to US Highway 36 – providing excellent access to downtown Denver and Boulder. On-site amenities include a fitness centre, conference facilities, and EV charging stations. The property was purchased in Aug 2021 and has seen its valuation increase c.2% since acquisition.

Figure 51: 105 Edgeview

Source: Kore

Figure 52: Asset details

Location	105 Edgeview Drive, Broomfield, Colorado
Sub market	Broomfield
NLA	612,890
Year built	2012
Committed occupancy	100%
Valuation (USD m)	60
Purchase price (USD m)	59.1
Number of tenants	7
Acquisition date	Aug-21
Key tenants	Gogo Business Aviation, Accenture, CesiumAstro

Source: Company data

105 Edgeview is one of the newest and highest quality office assets in Northwest Denver and built with unique sustainable design elements that set it apart from its peers. Powered by clean and sustainable energy, wind energy provides 35% of the power for the core and shell portion of the building, while rooftop solar panels power 7-8% of the building. It also has 18 EV charging stations. As the building sits on a huge land area, we understand there is also potential for redevelopment in future.

The building is built from sustainable materials – 35% of the materials have recycled content and over 24% are locally sourced from within 500 miles. In addition, over 29% of the installed wood are certified as sustainably harvested. Due to this high sustainability, the property has been awarded the highest LEED platinum certification from the US Green Building Council.

Gogo Business Aviation is the anchor tenant, occupying more than two-thirds of the building. The company is also the fourth largest KORE tenant – representing 2.8% of FY22 total income. Gogo, which utilises 105 Edgeview as its headquarters, is an NYSE-listed provider of in-flight broadband internet and other connectivity services for business aircraft. We visited Gogo's facility and observed that it serves mainly R&D purposes of improving in-flight offerings and live monitoring of its equipment on aircrafts. Other tenants include Accenture and CesiumAstro.

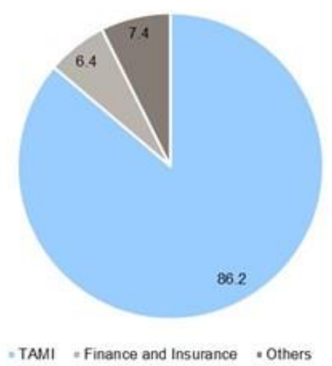
Figure 53: Building entrance and upgraded lobby

Source: RHB

Figure 54: Car park and surrounding residential areas

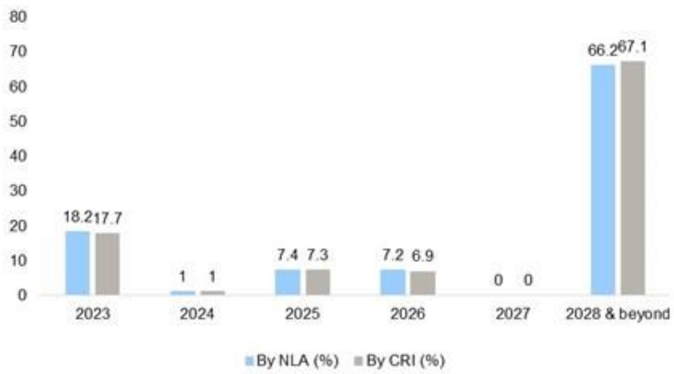
Source: RHB

Figure 55: Trade sector breakdown by NLA



Source: Company data

Figure 56: Lease expiry profile



Source: Company data

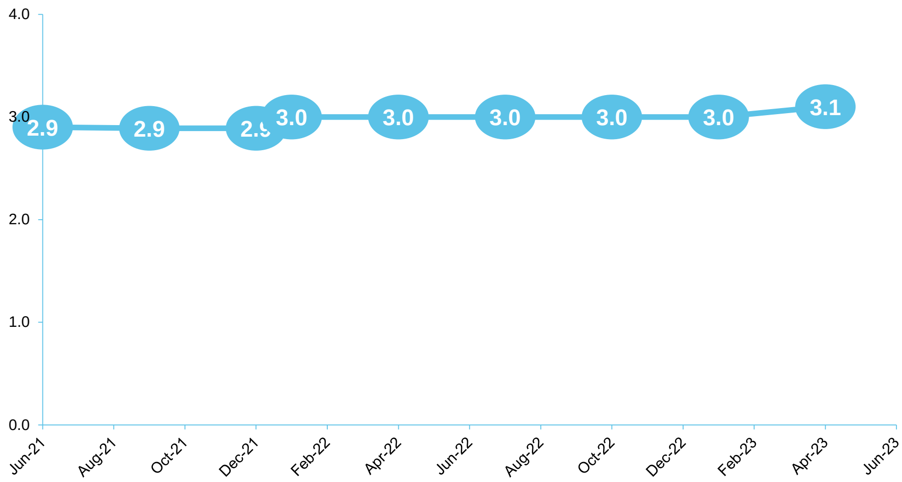
Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-04-19	Buy	0.64	0.36
2023-02-02	Buy	0.69	0.58
2022-10-27	Buy	0.74	0.55
2022-07-27	Buy	0.87	0.69
2022-01-27	Buy	0.92	0.76
2021-09-22	Buy	0.90	0.78
2021-07-27	Buy	0.90	0.80
2021-01-28	Buy	0.84	0.73
2020-10-22	Buy	0.80	0.71
2020-06-07	Buy	0.80	0.73
2020-04-13	Buy	0.76	0.54
2020-01-22	Buy	0.88	0.79
2019-10-16	Buy	na	0.76
2019-09-09	Buy	na	0.75
2019-09-06	Buy	na	0.75

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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