



UNITED HAMPSHIRE US REAL ESTATE INVESTMENT TRUST
(a real estate investment trust constituted on 18 September 2019
under the laws of the Republic of Singapore)
(Managed by United Hampshire US REIT Management Pte. Ltd.)

**RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS
FROM UNITHOLDERS AND SECURITIES INVESTORS ASSOCIATION (SINGAPORE)
FOR THE ANNUAL GENERAL MEETING ON 21 APRIL 2023**

United Hampshire US REIT Management Pte. Ltd., as manager of United Hampshire US Real Estate Investment Trust (“**UHREIT**”, and the manager of UHREIT, the “**Manager**”) would like to thank all unitholders of UHREIT (“**Unitholders**”) who have submitted their questions in advance of UHREIT’s Annual General Meeting (“**AGM**”) to be held by way of electronic means on 21 April 2023, Friday at 10.00 a.m.

The Manager’s responses to the questions received from the Securities Investors Association (Singapore) (“**SIAS**”) and substantial and relevant questions from Unitholders are set out below. As there was an overlap between questions from Unitholders and SIAS, the Manager has summarized and rephrased these questions for ease of reference and clarity.

BY ORDER OF THE BOARD

Robert T. Schmitt
Chief Executive Officer

United Hampshire US REIT Management Pte. Ltd.

(Company Registration No. 201916768W)

As Manager of United Hampshire US Real Estate Investment Trust

20 April 2023

APPENDIX A

Question 1:

Would the board/manager provide greater clarity on the following operational and financial matters? Specifically:

- (i) **Foot traffic: Is the manager tracking the foot traffic at its properties and using the information to guide its asset management strategy? Does the manager see foot traffic trends normalising as people get used with living with COVID?**

Figure 13

UHREIT PORTFOLIO FOOT TRAFFIC GROWTH BY RETAIL CATEGORY 2022 VS. 2019		
Retailer Category	Foot Traffic Change (UHREIT)	Retail Sales Change (U.S.)
Grocery	-0.5%	22.0%
Mass Merchandisers	0.8%	15.7%
Discount Retailers	0.7%	-
Home Improvement	-4.5%	36.6%
Furniture	24.5%	16.4%
Fitness	23.2%	-
Pet Care	34.1%	-
Sporting Goods	-16.6%	37.9%
Home Goods	-9.4%	-
Electronic/Appliances	-13.9%	-5.2%
Apparel	2.9%	15.8%
Beauty Supplies	19.0%	16.1%

(Source: annual report)

The Manager takes into consideration various information and data points to help guide our leasing and asset management strategy. These include sales trends for tenants that are obligated to report sales under their lease terms, vehicle traffic and demographics of the surrounding neighbourhood.

We also periodically consider the use of new data sources including foot traffic. Foot traffic, whilst helpful in some ways, may not be the most suitable metric for grocery and necessity properties such as those of the REIT as it may not directly correlate to tenant sales. For instance, our properties provide large and convenient car parks and many of our tenants use curbside pick-up as a way of fulfilling their omnichannel sales. However, this may not be included in the foot traffic statistics since the pick-up occurs in the car park.

As illustrated in Figure 13, although it varies by retail category, we have generally observed that physical, in-store shopping has bounced back since Covid while growth in e-commerce has decelerated from its peak in the third quarter of 2020.

- (ii) **Is there any expected correlation between the decline in commercial real estate valuations and the value of our assets?**

- (iii) **While the portfolio value has increased to US\$761.1 million as at 31 December 2022, this was due to net acquisitions of properties. In FY2022, the trust recognised a fair value loss in its investment properties of US\$(2.98) million. The valuations of certain properties have fallen below the purchase price in 2020. These are Walkkill Price Chopper, Wallington ShopRite, Stop & Shop Plaza, Towne Crossing, Arundel Plaza, BJ's Quincy. What are the main reasons for the decrease in valuations?**

Whilst the broader US Commercial Real Estate market may have experienced a decline in valuations due to factors including rising interest rates and industry-specific factors, such as work from home trends impacting the office sector, UHREIT's valuations remained resilient due to the non-discretionary, cycle-agnostic characteristics of our asset portfolio. UHREIT's property valuation as at 31 December 2022 was 1.3% higher than the previous year, excluding the divested Elizabeth and Perth Amboy Self-Storage and the newly acquired Upland Square. Please also refer to our response to Question 4 as to how UHREIT's portfolio is expected to remain resilient despite challenging macroeconomic trends.

Whilst the fair value of UHREIT's properties is relatively stable, UHREIT reported a fair value loss of US\$2.98 million after taking into consideration capital expenditures, tenant improvements and acquisition-related transaction costs.

In determining UHREIT's latest property valuations, the independent valuer considered various market assumptions such as those relating to discount rates, terminal capitalisation rates and comparable rents. Additionally the appraiser considers property specific data such as the remaining lease terms and built-in rental escalations. In certain properties where the valuation has fallen, this is generally due to the valuer using a higher discount rate due to market conditions such as rising interest rates and market outlook.

(iv) Acquisitions: Have the newly acquired properties, namely Colonial Square and Penrose Plaza in 2021, and Upland Square in 2022, performed up to the manager's expectations?

The Manager is pleased with the performance of the newly acquired properties, Colonial Square, Penrose Plaza and Upland Square. In aggregate, occupancy at these properties has increased since the acquisitions and stood at 97.6%, 94.9% and 100.0% respectively, as at 31 December 2022. The net property income from the properties has also met or exceeded our internal estimates when we acquired the properties and was a significant contributor to the higher year-on-year NPI in FY2022.

(v) In the message to unitholders, it was highlighted that the divestment of Elizabeth and Perth Amboy Self-Storage was a strategic opportunity and it was carried out at a premium above initial purchase consideration. However, the REIT recognised a loss on divestment of investment properties amounting to US\$(481,000) in FY2022. Can the manager help unitholders understand if the assets were divested at a consideration below their carrying values?

The total divestment proceeds of US\$45.5 million for Elizabeth and Perth Amboy Self-Storage represented a 17.7% premium above the acquisition price at IPO excluding the top-up, or 2.5% above the corresponding carrying value of US\$44.4 million as at the date of divestment (22 June 2022). The loss on divestment of US\$481,000 includes the transaction costs of approximately US\$1.6 million relating to the divestment which comprises professional and other fees and expenses and the Manager's divestment fee (which was 0.5% of the divestment proceeds).

Question 2:

The FY2022 highlights and key financial indicators are shown on page 3 and page 29 respectively and reproduced below (right):



In fact, it was noted that the weighted average interest rate of 2.77% excludes upfront debt-related transaction costs and it increases to 3.83% when fees are included.

- (i) Does the manager factor in all transaction costs when it is making capital management decisions to optimise the all-in interest costs?
- (ii) How much more would the commitment fee on the undrawn RCF add to the REIT's interest cost?

Yes. The Manager takes into consideration transaction costs when making capital management decisions. As stated in the FY2022 financial statements, the 3.83% weighted average interest rate also includes residual upfront fee of US\$1.9 million relating to the Prior Term Loan Credit Facilities which were refinanced in December 2022 ahead of their maturity.

UHREIT recorded a commitment fee of US\$96,000 in respect of the undrawn RCF and this has been included in finance cost.

In fact, finance costs increased by 68.7%, from US\$7.23 million in 2021 to US\$12.20 million in 2022.

- (iii) What is the manager's view on interest rates and how is it actively managing the REIT's interest rate risks based on its view?
- (iv) Has UHREIT entered into any new interest rate hedging transaction in 2023 to replace the expiring swaps?
- (v) What is UHREIT's hedging strategy going forward? Will it immediately replace maturing swaps to maintain its 80% fixed rate liability ratio?

The increase in finance costs in 2022 was largely due to the additional loans taken to partially finance the acquisitions of Colonial Square, Penrose Plaza and Upland Square as well as the draw down of the revolving credit facility during the year to finance capital expenditures and tenant improvements. It also includes the US\$1.9 million residual upfront fee mentioned above.

To curb high inflation, the US Federal Reserve increased interest rates significantly from the beginning of 2022. However, the size of recent rate hikes has moderated in line with falling inflation. Inflation in the US has dropped to 5.0%¹ in March 2023 from a high of 9.1% in June 2022. Overall, the Manager believes interest rates will likely remain volatile and will be impacted by macroeconomic factors such as inflation and geopolitical events as well as other specific events including the recent issues in the banking sector.

The Manager has been closely monitoring interest rates and recently entered into new interest rates swaps, post the refinancing of our maturing term loans. We will continue to actively monitor interest rates and look for appropriate opportunities to enter into additional interest rate swaps. Our fixed rate debt percentage as at 31 December 2022 is already 81.4%, and we will provide in our upcoming quarterly operational updates and semi-annual results presentations the updated fixed-rate percentage as at the end of that period.

81.4% of the group's loans are on fixed rates or have been hedged using interest rate swaps. The non-current swaps mature in March 2024. The notional principal amount of the swap contracts is US\$158 million.

- (i) **How costly is it to enter into the interest rate swaps? How far out does the manager hedge the REIT's interest rate risks?**
- (ii) **What is the interest rate for the REIT's outstanding debt post-refinancing in December 2022?**

In the current volatile interest rate environment, the level of a new fixed rate interest swap is highly dependent on the timing of the transaction. The interest rate swaps we enter typically have maturity dates that correspond to the maturity of the underlying loan.

UHREIT's FY2022 average interest rate, excluding upfront debt-related transaction costs, is 2.77% (31 December 2021: 2.33%). Our updated weighted average interest rate will be disclosed in our upcoming quarterly business updates and semi-annual results presentations.

Question 3:

On 30 March 2023, the REIT announced several changes in the management team, including the resignation of Mr. Robert Totten Schmitt as chief executive officer ("CEO") of the manager and the appointment of Mr. Gerard Yuen Wei Yi as the incoming CEO with effect from 1 May 2023.

- (i) **Can the nominating and remuneration committee (NRC) help unitholders better understand the search process that it went through?**
- (ii) **Did the NRC establish the profile of the CEO that they are looking for, and if so, what is the profile used in the search?**

¹ U.S. Bureau of Labor Statistics, "Consumer Price Index – March 2023", 12 April 2023.

(iii) With all due respect to Mr. Gerard Yuen, the chief financial officer (“CFO”), can management provide information on the number of candidates that were shortlisted and interviewed for the CEO position? Would the REIT benefit from having a CEO with extensive experience in the US real estate market, particularly one who is based in the US?

The appointment of Mr. Gerard Yuen is consistent with the succession plan developed and approved by the Manager. In considering the profile and requirements for the CEO role, the NRC put emphasis on technical and management competency, relevant experience and skillsets. In addition, there was attention to compliance with Monetary Authority of Singapore (“MAS”) fit and proper guidelines and other requirements for executive appointments of a licensed entity. A most important consideration was leadership qualities and sense of responsibility as well as a demonstrated commitment to UHREIT. Upon establishment of the selection criteria, the search for potential candidates was initiated by considering recommendations from the management and the Board. Having regard to the foregoing requirements, it was noted by the NRC that to meet these criteria, internal promotions were preferable to hiring external candidates who would require additional runway and lead time to meet the requirements of the role.

In approving the appointment of Mr. Yuen, the NRC carefully considered the requirements of the role and Mr. Yuen’s relevant experience and skillsets in meeting these requirements. Mr. Yuen is deeply familiar with UHREIT and its investment portfolio and operations having been appointed as CFO prior to the listing of UHREIT on 12 March 2020 and playing a pivotal role in its successful listing. As CFO of UHREIT, Mr. Yuen has been working closely with the CEO on acquisitions, capital raisings and formulating the strategic plans for UHREIT in addition to his responsibilities for the finance, capital and risk management, investor relations and compliance functions. Mr. Yuen is also an existing authorised representative of the Manager and accordingly meets the requisite fit and proper requirements of the MAS. Prior to joining the Manager, Mr. Yuen acquired extensive experience in investment banking, finance and the public sector including working with numerous SREITs on capital markets, loans, M&A and hedging transactions.

Although Mr. Yuen does not have direct experience in the US real estate market, this is more than compensated by his extensive experience in banking and finance, with the Singapore capital markets and investor base and track-record as a key member of the senior management team of UHREIT prior to IPO. Furthermore Mr. Yuen, being located in Singapore, is able to spend more time directly and personally interacting with UHREIT’s Singapore based investors. Hence the NRC believes that Mr. Yuen’s relevant experience and his in-depth knowledge and familiarity with UHREIT makes him well qualified for the role.

UHREIT and Mr. Yuen will continue to be supported in the U.S. by The Hampshire Companies, LLC (“Hampshire”) as its U.S. Asset Manager. The dedicated and highly experienced Hampshire team is led by Mr. Derek Gardella, Chief Investment Officer at Hampshire. Mr. Gardella has 20 years of US real estate experience and has been with Hampshire since 2011. He was deeply involved in UHREIT’s IPO and has since been working closely with the Manager on corporate strategy and planning initiatives in addition to overseeing the strategic execution of the portfolio management, acquisitions and asset management activities of UHREIT.

Question 4:

How may a possible U.S. recession impact the REIT?

There is a wide range of views in regard to the outlook of the US economy. These range from a “soft-landing” to a potentially more severe recession and even a third possible scenario in which the economy continues to grow with inflation remaining above historical levels. We are unable to accurately predict how a potential recession may impact the REIT. The REIT demonstrated its resilience and flexibility through the Covid Pandemic and continues to demonstrate these qualities despite the challenges of the global macroeconomic environment, the geopolitical fallout from the Ukraine invasion and the resulting global geopolitical tensions, as well as sharply rising interest rates. We believe UHREIT’s performance will continue to display its resilience inherent in the non-discretionary, cycle-agnostic characteristics of our portfolio.

Non-discretionary spending in the grocery and necessity retail sector has remained relatively strong and retailers have been expanding their wide range of omnichannel strategies to cater to changing consumer trends. Overall U.S. consumer spending remains resilient with retail and food services sales in 2022 up 9.2% from 2021, reaffirming the trend that consumers are choosing to spend on household priorities. In the Grocery-Anchored and Necessity sector, the physical store continues to play a critical role for the fulfillment of online orders as well as brick and mortar sales.

The U.S. labour market also remains strong with unemployment down to 3.5%² in March 2023 and job vacancies remaining high at 9.9 million³ in February 2023. Inflation, while moderating, remains high with the Consumer Price Index in March 2023 registering at 5.0%¹, well above the Fed’s long term target rate of 2.0%.

Demand in the Self-Storage segment is expected to remain steady. However, the overall trend of move in rent and occupancy growth is expected to moderate in the coming year with a portion of employees returning to the office. In the face of such macroeconomic uncertainty, the Manager will remain focused on portfolio optimisation and asset enhancement to maintain and strengthen UHREIT’s income streams.

Question 5:

What plans does the Manager have for boosting unit price?

Apart from operational and financial performance, the unit prices of S-REITs are largely impacted by numerous market forces such as the broader macroeconomic conditions, interest rate movements and investor sentiment. In the past year or so, sentiment in the equity markets has been generally affected by the Ukraine invasion and geopolitical tensions whilst S-REITs, particularly those with US properties, have been adversely impacted by sharply rising interest rates caused by a high inflation rate.

Despite the broader macro uncertainties, UHREIT’s operations and financial performance remained resilient, with FY2022 Revenue up 22.2%, Net Property Income up 12.2% and Adjusted DPU (excluding Top-Ups and Stipulated Damages) up 9.3% from the previous year. The Manager will continue to focus on optimising the performance of our portfolio to provide unitholders with stable and attractive distributions. We will also continue to proactively engage existing and potential new investors to highlight the resilient nature of our assets and further increase investor interest in UHREIT.

² U.S Bureau of Labor Statistics, “The Employment Situation – March 2023”, 7 April 2023.

³ U.S. Bureau of Labor Statistics, “Job Openings and Labor Turnover – February 2023”, 4 April 2023.

Question 6:

Does UHREIT have any banking relationship with any of the U.S. regional banks?

In December 2022, UHREIT refinanced all our prior term loan credit facilities maturing in 2023 and 2024. Therefore, we do not have any major refinancing requirements until November 2026 (assuming exercise of loan extension option) and only a US\$21.1 million mortgage loan due for refinancing in 2024. Our weighted average debt maturity almost doubled from 2.1 years as at 30 September 2022 to 4.0 years⁴ as at 31 December 2022.

UHREIT does not have any direct banking relationships with Silicon Valley Bank, Signature Bank or First Republic Bank. The lead arrangers for our new credit facilities are Canadian Imperial Bank of Commerce (“CIBC”) acting through its New York Branch and Manufacturers and Traders Trust Company (“M&T”). CIBC is a leading North American financial institution headquartered in Toronto Canada. They are one of the 5 major Canadian banks. M&T is one of the 15 largest U.S. owned⁵, commercial holding bank companies, and is headquartered in New York State.

Question 7:

- i) How much is the capex for the St. Lucie West expansion and how will it be financed?**
- ii) To what extent will the capex for the new development at St. Lucie West affect the balance sheet?**

The new Academy Sports + Outdoors building will be built on existing excess land within our St. Lucie West property. The estimated construction cost of the new building at St. Lucie West is approximately US\$12.0 million and is to be paid progressively over the construction period. It will be funded through internal resources and our US\$50.0 million revolving credit facilities. Upon completion, in addition to the additional rental revenue for UHREIT, we also expect a significant increase in the foot-traffic at the property.

Question 8:

What are some strategies to grow the NPI from existing properties over the next few years?

The Manager is constantly exploring ways to enhance NPI from our existing properties including, but not limited to:

- (i) development and asset enhancement initiatives similar to our new Academy Sports + Outdoor project at St. Lucie West;
- (ii) potential new and innovative leasing opportunities on excess land within our existing properties; and
- (iii) reconfiguration of existing store spaces to optimise occupancy and rental rates.

For our Self-Storage properties, we work closely with our property manager Extra Space Storage Inc. to optimise rental rates and occupancy.

⁴ Assuming the exercise of loan extension options.

⁵ S&P Global Market Intelligence as of December 31, 2022. Methodology excludes subsidiaries of foreign bank parents, investment banks, credit card companies, insurance company subsidiaries, brokers, and asset managers.

Question 9:

Are there plans to reduce the aggregate leverage and increase the interest coverage ratio of UHREIT?

Under the MAS' guidelines, the aggregate leverage of a property fund should not exceed 45% of the fund's deposited property but may exceed 45% (up to a maximum of 50%) only if the property fund has a minimum adjusted interest coverage ratio of 2.5 times after taking into account the interest payment obligations arising from the new borrowings.

As at 31 December 2022, UHREIT's aggregate leverage ratio and interest coverage ratio stood at 41.8% and 3.27 times respectively and are well within MAS' prescribed limits. Furthermore, the REIT has a high percentage (81.4%) of Fixed Rate Debt and long weighted average debt maturity of 4.0 years with no significant refinancing requirements until November 2026 (assuming exercise of loan extension option) and only a US\$21.1 million mortgage loan due for refinancing in 2024.

UHREIT will remain prudent and disciplined in managing its leverage profile and continue to observe the leverage limit as prescribed by MAS. The Manager also regularly reviews options to further optimise its capital structure.

END



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