

KEPPEL SOUTH CENTRAL

WHY KEPPEL REIT UNITHOLDERS SHOULD LOOK HARD BEFORE VOTING

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CORPORATE MONITOR LIMITED

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INTRODUCTION

Keppel REIT proposes to acquire 51% of Keppel South Central ("KSC"), a partly-leased office tower in Tanjong Pagar, from its sponsor Keppel, for S$610.9 million. The headline 4.3% yield and projected DPU accretion of 2.01% on an adjusted basis rely materially on a five-year income-support arrangement from a Keppel subsidiary, rather than solely on rent currently being paid by tenants. Please refer to **Appendix 1** for a brief description of the deal.

This note sets out several issues Keppel REIT unitholders should be concerned about. The central issues are:

1. The slow leasing progress
2. Competing office supply in 2028
3. The terms of the income support
4. Potential conflict of interests with the sponsor, and
5. Whether a small DPU accretion on proforma basis compensates unitholders for funding costs, dilution and commercial risk.

1. WHY BUY A PROPERTY RELYING ON RENTAL SUPPORT?

1.1 Not a Stabilised Asset

For a REIT, KSC is not a typical asset to buy because it is hardly stabilised, with only 50% of the building leased. (More on this in **Section 2**)

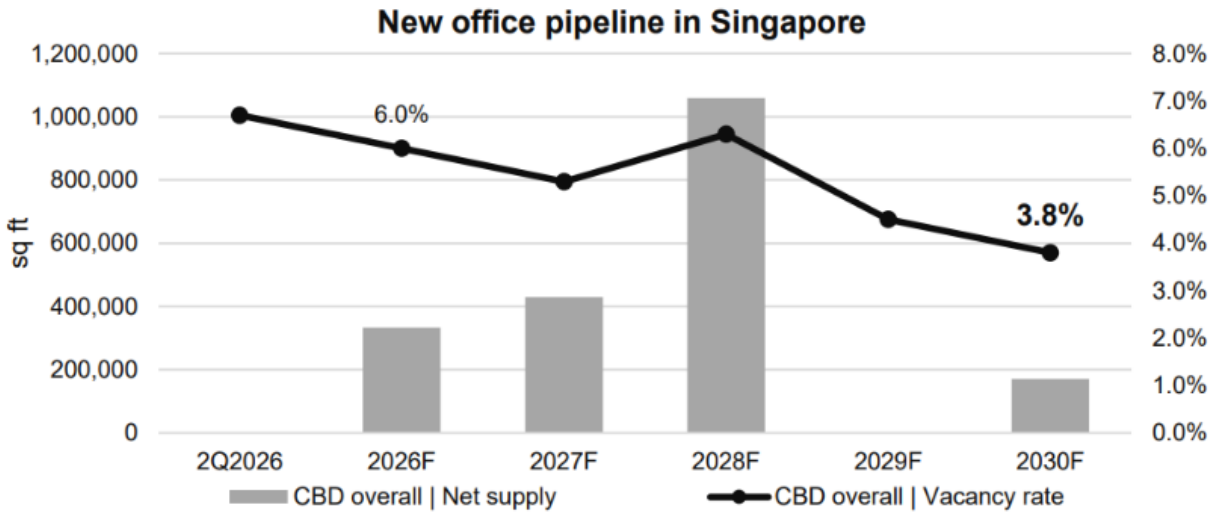
Worse, KSC has seen virtually no progress at leasing from day one. When the building was completed in February 2025, Keppel said it was nearly 50% committed or in active negotiation. It gave a similar figure in its 1Q 2025 business update. On the July 2025 results call, its Real Estate CEO again described occupancy at about 50%, counting leases signed and in active discussion. Keppel repeated 'nearly 50%' in October 2025. Around 20 months after completion, committed occupancy was 48.8%. The increase to about 60% by 15 October 2026 includes leases still in documentation. This 60% disclosure seems intended to show that leasing is progressing well (after many months of low leasing activity) just as this deal is being announced.

1.2 A Supply Wave in 2028 Will Compete Directly

After seeing little progress through 2025 and 2026, when new supply was relatively light, it will get much harder for KSC in 2027. According to JLL's forecast (see **Exhibit 1**), a spike of more than 1 million square feet of new office supply will hit the market in 2028, more than 3 times the new supply in 2026. As a result, CBD office vacancy will rise to about 6.3% in 2028 (from 6.0% forecast for 2026).

Newer buildings could offer tenants attractive incentives in 2027, ahead of actual supply. This could make it harder for KSC which still has a substantial amount of space to lease.

Exhibit 1: New Office Pipeline in Singapore (2Q 2026 to 2030F)



Source: JLL Research, 2Q2026.

Source: Keppel REIT's Presentation Slides

1.3 The Guarantee May Not Be Good Enough

1.3.1 Conditions for Termination of Income Support

The income support can terminate after a single month in which occupancy is at least 95%, all relevant leases have commenced and are paying rent, and Keppel REIT's share of net property income reaches S$2.23 million. The announcement does not appear to require this performance to be sustained over a longer period, nor does it provide for support to restart if performance subsequently deteriorates.

One month at 95% occupancy does not establish that the building is sustainably stabilised. One 'agreed lease' is excluded from the paying-rent test but is not identified – some disclosure on the nature (and materiality) of this lease and why it is excluded should be made.

1.3.2 Why is the Guarantee Only 79% of Rent?

The guarantee is built as follows: 522,500 square feet × 95% occupancy × S$11.15 psf ≈ S$5.535 million of monthly rent. The REIT's 51% share is about S$2.823 million. The guarantee is 79% of that, or S$2.23 million.

The announcement calls the 79% the "expected operating margin", but does not say what costs it covers or how it was set. The shortfall is measured against "adjusted net property income", which is also not defined. If the 79% understates the building's true margin, the guarantee is set too low. If it overstates it, the building will struggle to earn the guarantee on its own after year five.

1.4 Buying as Rates Turn Higher: The Blue & William Lesson

Higher interest rates almost always result in a fall in real estate value. In December 2021, Keppel REIT agreed to buy Blue & William, a new office building in North Sydney, for A$327.7 million. US interest rates were at zero and Australia's cash rate was 0.1%. The value did not hold. The first write-down came almost two years after rates began to rise, and values kept falling even after rates came down. The manager itself blamed cap rates widening, driven by higher interest rates and a slow leasing market.

Date	Price or valuation
Dec 2021 (agreed purchase)	A$327.7m
Apr 2023 (completion)	–
Dec 2023	A$287.0m (−12%)
Dec 2025	A$254.0m (−22%)

Keppel South Central is being bought at a similar turning point, and may suffer the same fate if interest rate rises. It was valued as at 30 September 2026, two weeks after the US Federal Reserve raised rates for the first time since 2023, to 3.75–4.00%. Many expect more interest rate hikes. Singapore's 10-year government bond yield has risen from about 1.7% in October 2025 to between 2.3% and 2.5% in recent months.

Higher interest rate may not affect rental income, but unitholders already suffer dilution for a high price.

2. POTENTIAL CONFLICT WITH KEPPEL

Keppel REIT unitholders should evaluate KSC’s own merit, but they should bear in mind that Keppel stands to benefit materially from this deal. Keppel has held out the prospect of more dividends via asset sale. According to an article in The Edge Singapore dated 23 October 2026, JP Morgan reiterated its “overweight” call on Keppel on account of the potential special dividend from this transaction.

As Keppel’s M1 sale did not materialise this year, it would not be unreasonable for a unitholder to surmise that the timing of this deal could be primarily driven by Keppel’s monetisation and asset-lightening strategy, with Keppel REIT as a platform to house 51% of KSC.

According to the same article in The Edge Singapore, analysts such as Vijay Natarajan of RHB Bank were surprised by the timing of the sale of KSC because the asset is not stabilised yet. In fact, during the July 2025 earnings call, Keppel CEO said that a transfer of KSC to a listed platform was possible, but 'we need to stabilise the leasing first'.

It appears that Keppel REIT was not prepared for this deal either. According to The Edge Singapore, in the July 2026 earnings call, Keppel REIT said its priority was to divest assets and pare down debt rather than re-deploy in new assets.

2.1 About S$16 Million in Fees to the Same Keppel-Owned Property Manager

Despite the slow progress in leasing to date, KSC will still retain Keppel Real Estate Services, a wholly-owned Keppel subsidiary, as property manager. Under the property-management contract, it earns 3% of net property income, plus 0.5 to 2 months' rent for each new lease, as well as renewal and project fees. This is estimated to be S$15.9 million for Keppel.

A substantial portion of leasing fees arises because the building is still half vacant. Keppel REIT is bearing this higher cost that it would not have to if KSC was 95% leased.

2.2 Additional Management Fee for Keppel

With the injection of KSC, the manager of Keppel REIT will collect S$3.1 million in additional management fee per annum, or S$15.5 million in 5 years. This is not counting the one-off acquisition fee and other fees in future.

3. The PRO-FORMA DPU GAIN IS SMALL, AT A HIGH COST

The 1.81% is a more straightforward way to analyse DPU accretion (actual FY2025 vs adjusted FY2025 for only this deal). The stated DPU accretion with income support is 2.01% on an adjusted base (4.65 to 4.75 cents), which excludes anniversary distributions, annualises the contributions from Top Ryde and MBFC Tower 3, and assumes the sales of T Tower and KR Ginza II. In any case, both 1.81% or 2.01% are small.

The 4.3% initial yield (with income support) is primarily achieved from a deal “sculpted” with a lower purchase price (70-year leasehold and not freehold) and “right-sized” for Keppel REIT.

Against this modest projected benefit, the acquisition requires additional debt, equity, perpetual securities and cash. Based on Keppel REIT announcement's illustrative funding plan, CML calculated that it will require S$318.2 million of debt, S$139.6 million of perpetual securities, S$110 million of equity and S$56.2 million of cash. Even assuming Keppel REIT could issue equity

at current unit price of S$0.84 without discount, it is substantially below end-June 2026 NAV per unit of S$1.24. This will lead to material dilution. Gearing will also rise from 40.0% to 41.1% (using end-June 2026 numbers).

Funding conditions for this deal are more challenging compared to the timing of the 1/3 interest in MBFC Tower 3 deal. First, interest rates have increased in recent months, which will affect the cost of bank debt and perpetual securities. Second, new units could be issued at a much lower price compared to the October 2025 private placement of 115 million new units at S$0.983/unit and January 2026's preferential offering of 923 million new units at S$0.96/unit. If the new units issued to part-finance this deal are issued via private placement, the exercise will be dilutive to unitholders (not to mention the additional new units to be issued to pay the discounted acquisition fee of S$3.1 million and yearly management fee arising from this deal).

4. IN THE LAST FEW YEARS, MORE UNITS, LOWER DPU

Keppel REIT has repeatedly issued new units through placements, preferential offerings and management fees paid in units. The unit count rose from 3,695 million at the start of 2022 to 4,967 million at present (about 34%), while DPU fell from 5.92 cents in FY2022 to 5.23 cents in FY2025 (1H2026 was 2.61 cents) and NAV per unit declined from S$1.37 in end 2022 to S$1.28 in end 2025.

The unit price also fell from S$1.02 in December 2025 to about S$0.86 at the time of writing.

Each acquisition may be presented as DPU-accretive on a pro forma basis, but unitholders should assess whether previous transactions have translated into sustainable growth in DPU and NAV per unit. This acquisition adds units, including units assumed to be issued well below NAV, for an asset that has yet to demonstrate stabilised rental income.

5. CONCLUSION

Keppel REIT unitholders should look hard before voting. KSC is being transferred to Keppel REIT before its leasing has been stabilised, despite Keppel executives previously identifying stabilisation as a prerequisite to monetisation. The headline yield and DPU accretion depend materially on sponsor support. Leasing remains incomplete and a material supply wave is expected in 2028. Keppel retains the property-management mandate and associated leasing fees, while the REIT with 51% interest assumes the ownership and funding risks. The projected DPU improvement is modest relative to the permanent increase in units and funding obligations.

APPENDIX

Appendix 1: Keppel REIT Acquires KSC - The Deal in Brief

- **Interest**: Keppel REIT to acquire 51% of K-Commercial Pte Ltd, which directly owns KSC. Keppel retains 49% and continues to manage the building.
- **Price**: Agreed property value of S$626.2 million (about S$2,350 psf[1]), based on valuations as at 30 September 2026. Purchase consideration is S$610.9 million; total acquisition cost is S$627.1 million.
- **Occupancy**: 48.8% committed as at 30 September 2026; 52.7% including leases in documentation; about 60% on that wider basis by 15 October.
- **Income support**: Keppel subsidiary guarantees S$2.23 million a month for up to five years, subject to the terms and termination conditions.
- **Funding**: Keppel REIT has described an assumed mix of S$319.8 million bank debt, S$150.5 million perpetual securities, S$100 million equity and S$56.4 million cash.
- **Timing:** EGM expected in 4Q 2026 with completion in 2Q 2027. Keppel, being an interested person with a 33.7% stake, is not entitled to vote on the transaction.

[1] psf = Per Square Foot