SoilBuild
BUSINESS SPACE REIT

(a real estate investment trust constituted on 13 December 2012
under the laws of the Republic of Singapore)

SB REIT Management Pte. Ltd., as manager of Soilbuild Business Space REIT ("**Soilbuild REIT**", and the manager of Soilbuild REIT, the "**Manager**"), refers to Soilbuild REIT's Annual Report for the financial year ended 31 December 2016. The Manager would like to respond to the following queries raised by Securities Investors Association (Singapore) ("**SIAS**") (each, a "**SIAS Question**") as follows:

SIAS Question 1

In the Letter to Unitholders (page 11 of the annual report), re-letting of 72 Loyang Way has been identified as a key challenge in 2017, along with improving occupancy rates. In the announcement titled "Proposed Acquisition of 72 Loyang Way, Singapore 508762" dated 12 March 2015, the REIT had described the property as one that is "suitable for a wide range of end users in the marine & offshore, oil & gas industry as well as other heavy industrialists who require heavy floor loading and waterfront jetty for loading/unloading of oversize and overweight cargo".

a) What are the REIT's current options with regard to leasing out 72 Loyang Way?

72 Loyang Way is an integrated facility comprising offices, single-storey production facilities, blasting chamber, dormitory and a jetty with 142 metres of sea frontage. The production facilities are fitted with 20 and 30 tonne cranes which are readily available for prospective tenants' usage. This property is subject to strict JTC sub-letting requirements due to the scarcity of waterfront properties in Singapore. However, JTC has temporarily lifted the subletting requirements on 30% of the subject site's gross floor area ("**GFA**") till end 2020. This provides the REIT an option to sublet 30% of the GFA to non-anchor tenants.

b) **Can the manager update unitholders on the progress made in leasing out 72 Loyang Way?**

Currently, part of the premises is leased to 2 tenants, occupying 9.9% of the GFA. The Manager is actively marketing the facility and is currently in discussion with a few prospective tenants for the leasing of space at 72 Loyang Way.

During the acquisition, the REIT did not make reference to the credit-worthiness of the vendor. With the benefit of hindsight, the security deposit equivalent to 18 months' rent and a corporate guarantee from the vendor is insufficient to offset the revaluation losses of over $30 million for the asset.

c) **Can the manager let unitholders understand how they evaluate any potential vendor when the REIT proposes to acquire third party assets and enters into a sale and leaseback arrangement?**

The Manager adopts a multi-faceted approach in the evaluation of acquisitions. The property fundamentals and tenant's credit worthiness are some of the evaluation criteria which the Manager takes into consideration.

The property fundamentals which we take into consideration include specifications, location, balance land lease tenure, and supply and demand in the market place.

In terms of credit worthiness, it is market practice for lessors to request for security deposit equivalent to 12 months' prevailing rent for sale and leaseback transactions. The Manager had negotiated for the lesser to provide a security deposit amounting to 18 months' rent and a corporate guarantee from Technics Oil & Gas Ltd as part of the sale and leaseback arrangement.

SIAS Question 2

The REIT has three multi-tenanted leases, namely Eightrium @ Changi Business Park, Tuas Connection and West Park BizCentral. In the Operations Review (page 16), it was disclosed that "the occupancy rate for multi-tenanted buildings at 90.1%, was above the industrial average of 89.5%".

Even though the occupancy rate is marginally better than the industry, it means that over 200,000 square feet of the REIT's portfolio is vacant and not generating rental income.

a) Can the manager describe in greater detail the proactive leasing and marketing efforts?

The Manager has a forward leasing approach and initiates negotiation with the tenants as early as 1 year before the lease expires. The Manager exercises flexibility in structuring leases on a case-by-case basis to suit each tenant's operational needs.

The Manager has also been actively marketing the space by leveraging on platforms such as industrial exhibitions and business associations' events. In addition, the Marketing team participates in trade exhibitions to create greater market awareness of our properties and to target a wider range of industries in order to improve tenancy mix.

b) How does the manager differentiate the REIT's assets from other industrial buildings?

The REIT's multi-tenanted assets have a few key differentiating points compared to the properties held by our peers.

i. All our multi-tenanted assets are built on tendered land which are not subject to JTC's anchor tenant and sub-letting regulatory controls. Thus, these assets are neither subject to JTC subletting fees nor JTC's anchor tenant ruling.

ii. The 3 multi tenanted assets are relatively young. Eightrium @ Changi Business Park, Tuas Connection and West Park BizCentral's property age are 9, 7, 5 years respectively.

iii. Location. These 3 assets are located in prime business parks and industrial zones.

iv. Awards. Solaris is an iconic state-of-the-art business park property and has won multiple accolades for its integrated green design. The numerous prestigious awards include the BCA Green Mark Platinum Award, FIABCI World d'Excellence Award, the Royal Institute of British Architects International Award and many more. Another property, West Park BizCentral has clinched the Asia Pacific Property Awards and the Singapore Property Awards under the best Industrial Development category.

The lease expiry at Eightrium @ Changi Business Park in 2017 is 36% (by gross rental income). The lease expiries in 2017 (by gross rental income) are 27.7% and 37.3% for Tuas Connection and West Park BizCentral respectively.

c) **Does the manager expect to be able to renew or re-let the expiring leases? If not, the net property income and distribution (per unit) will likely come under further stress.**

The Manager has secured 260k sqft of leases in 1Q FY017, of which close to 160k sqft were new leases and 100k sqft were renewals and forward renewals. The Manager has been and will continue to be proactive in leasing and marketing, and cautious in its cost management.

As at 31 March 2017, the occupancy of multi-tenanted buildings has improved to 93.4% from 90.1% as at 31 December 2016.

SIAS Question 3

In September 2016, the REIT completed the acquisition of Bukit Batok Connection, the first of the four assets to be injected into Soilbuild REIT's portfolio of assets, as part of the Right of First Refusal granted by the Sponsor at IPO (page 10).

a) **Has the acquisition been yield accretive to unitholders?**

The acquisition of Bukit Batok Connection is yield accretive to unitholders. Excluding the effects of acquisition (comprising net property income and finance expenses), 1Q FY2017 DPU would have been 1.456 cents, 2.2% lower than 1Q FY2017 actual DPU of 1.489 cents.

Kindly refer to circular on "Proposed Acquisition of Bukit Batok Connection and the Entry into of the Master Lease Agreement in relation to Bukit Batok Connection" dated 3 August 2016. The proposed acquisition of Bukit Batok Connection was yield accretive under all 3 financing scenarios presented as well as the actual funding structure adopted.

b) **If not, would the manager help unitholders understand the rationale for acquiring Bukit Batok Connection?**

The acquisition is yield accretive. The acquisition also increases the portfolio size and provides income diversification for unitholders.

c) **If the REIT were to acquire any more of the ROFR properties, would the manager consider doing it only if it were yield accretive?**

During IPO, the Sponsor had granted ROFR to Soilbuild REIT over 4 properties, whereby Bukit Batok Connection has been acquired. The other 3 properties have been earmarked by the Sponsor for redevelopment into quality business space assets.

The Manager would consider acquiring ROFR asset only if it benefits the unitholders. The rationale of acquisitions is not limited to yield accretion, the Manager also considers other aspects of the acquisition such as asset quality, strengthening of portfolio, income diversification and potential future growth to enhance return to unitholders.

In connection with the acquisition, the manager also launched a non-renounceable preferential offering of new units to fund the acquisition.

d) **Would the manager explain why it had decided on a non-renounceable preferential offering?**

The Manager considered several fund raising options including issuance of perpetual securities, private placement, preferential offering and rights issue.

The Manager was in favour of a non-renounceable preferential offering as it enables participation by existing unitholders while keeping issuance costs such as legal fees low.

The shorter exposure period for a preferential offering, coupled with the Sponsor's subscription commitment, has allowed the Manager to undertake a non-underwritten preferential offering which has further reduced its issuance costs.

Although the preferential offering was non-renounceable, the regulatory requirement for the discount to be capped at 10% for a preferential offering ensures that unitholders who do not participate in the preferential offering are not overly diluted.

By Order of the Board
SB REIT Management Pte. Ltd.
(Company Registration No. 201224644N)
As Manager of Soilbuild Business Space REIT

Mr. Roy Teo
Chief Executive Officer

19 April 2017

About Soilbuild Business Space REIT

Soilbuild Business Space REIT ("Soilbuild REIT") is a Singapore-focused real estate investment trust ("REIT") with a portfolio of business parks and industrial properties used by industries engaging in manufacturing, engineering, logistic, warehousing, electronics, marine, oil & gas, research and development and value-added knowledge-based activities. Its portfolio of properties includes Solaris, a landmark development in one-north, Eightrium @ Changi Business Park, Tuas Connection, West Park BizCentral and Bukit Batok Connection. Soilbuild REIT's portfolio has a net lettable area of 3.92 million square feet and an occupancy rate of 91.8% as at 31 March 2017.

For media queries, please contact:

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