Issuer: SB REIT Management Pte. Ltd.

Security: Soilbuild Business Space REIT

Meeting details:
Date: 29 March 2018
Time: 2.30 p.m.
Venue: Raffles City Convention Centre (Atrium Ballroom), 80 Bras Basah Road, Singapore 189560

Company Description

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 3.90 million square feet and an occupancy rate of 92.7% as at 31 December 2017.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=SV3U)

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1. On 27 November 2017, the REIT manager announced that is "actively exploring investment opportunities in Australia for Soilbuild REIT" as a result of the REIT manager's expansion of its investment scope to cover Australia.

Reasons given included:

- Increasing Soilbuild REIT's pool of investment targets
- Providing access to assets with longer land tenures
- Allowing diversification of tenant base

In the Letter to Unitholders, the REIT further disclosed that the manager "is still actively seeking suitable acquisitions in Australia to further improve the quality of Soilbuild REIT's portfolio" (page 10 of the annual report).

Based on the profile of the sponsor (page 2), the sponsor was established in 1976 and is "a leading integrated property group based in Singapore with operations covering the full spectrum of the real estate value chain, ranging from end-to-end construction, design and development, to fund management". In addition, the sponsor has an "intimate knowledge of the Singapore industrial market".

In the past two years, the REIT has had mixed results with some of its tenants, including NK Ingredients (tenant default), Technics Offshore Engineering Pte Ltd. (termination of lease) and KTL Offshore (61 & 71 Tuas Bay Drive divested to the REIT's sponsor to minimise the credit risk). In FY2017, the REIT recognised revaluation losses amounted to S$80.5 million (page 10).

(i) Given that even with the "home-ground" advantage, the REIT has had mixed results with some of its investments. **Can the REIT manager help unitholders understand, and provide assurance to unitholders, that diversifying to Australia is the right strategy since it will be an entirely new market to the REIT? Also, how does the REIT manager intends to compete in the Australia market where it does not have any apparent advantage over the competitors?**

(ii) In addition, the Australia market is more mature and its industrial sector has characteristics that are different from that of the Singapore market. **What experience or track record does the REIT manager have to enable the REIT to succeed in Australia?**

(iii) The REIT's aggregate leverage is at 40.6% as at 31 December 2017. It would have fallen to about 37.7% following the divestment of the Tuas Bay Drive assets according to the Circular to Unitholders dated 2 February 2018. **How does the REIT intend to fund any further acquisition(s), whether the proposed assets are in Singapore or Australia?**

2. With regard to the REIT's operations, please provide better clarity on the following issues:

(i) **Weighted Average Lease Expiry (by Gross Rental Income)**: The REIT's portfolio WALE stands at 3.0 years by gross rental income as at 31 December 2017. The WALE by GRI stood between 3.4 years to 4.8 years in the prior three years. In addition, 19.4% of leases by GRI (based on underlying leases) will expire in FY2018, with most of the expiring leases concentrated in the first half of FY2018 and pertaining to leases at West Park BizCentral. **Can the REIT manager explain if the lower WALE is an early sign of a deteriorating market? Given the need to balance rental rates and occupancy/lease tenures, what is the manager's strategy to maximise the return of the current portfolio?**

(ii) **72 Loyang Way:** The REIT has achieved an occupancy rate of 27% for 72 Loyang Way, probably to non-marine offshore and oil & gas tenants. **Can the REIT think out-of-the-box to secure a tenant for this waterfront property? If not, given the excess capacity in the marine offshore and oil & gas sector, what are the prospects of the REIT securing a tenant for 72 Loyang Way in the near term?** The valuation of 72 Loyang Way has been written down by $27 million to take into consideration the "high vacancy of the property before stabilisation in the medium to long run". **Should unitholders expect a normalisation of occupancy level only in the medium term?**

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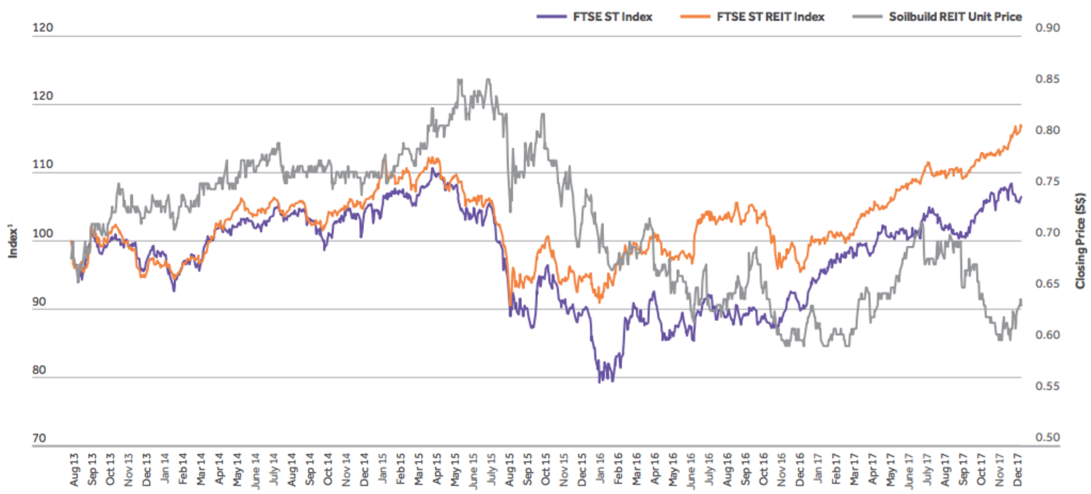
(iii) **NK Ingredients (2 Pioneer Sector 1)**: On page 36, the REIT shows that the property leased to NK Ingredients has an occupancy rate of 100%. The FY2017 gross revenue amounted to $5.3 million and the property, leased out under a master lease, was valued at $54.0 million. As at 31 December 2016, the NK Ingredients property was valued at $62.0 million and the lower valuation is a result of a valuation on a vacant possession basis due to tenant default. For FY2017, NK Ingredients still contributed 6.5% of GRI and is the largest tenant not including the sponsor. **Since the Singapore High Court has granted a temporary moratorium on proceedings (as announced by the REIT on 12 January 2018), can the REIT manager provide unitholders with better visibility of the impact to the REIT's cash flows, earnings and balance sheet as a result of the default by NK Ingredients?**

3. As shown on page 8 of the annual report, the REIT has lagged the FTSE ST REIT Index.



Note:
1 Soilbuild REIT Unit Price rebased to 100% using IPO issue price of S$0.78.

(Source: Company annual report)

In FY2017, the net loss in fair value of investment properties amounted to S$(80.5) million relating largely to the revaluation losses for 72 Loyang Way, West Park BizCentral, Eightrium, NK Ingredients, Tuas Connection, KTL Ofshore and Bukit Batok Connection (S$27.0 million, S$20.0 million, S$13.2 million, S$8.0 million, S$4.3 million, S$3.0 million and S$2.6 million respectively) (page 45).

In FY2016, the net loss in fair value of investment properties amounted to S$(50.9) million relating mainly to the revaluation losses for 72 Loyang Way, West Park BizCentral, Tuas Connection and Eightrium @ Changi Business Park (S$32.0 million, S$13.0 million, S$4.0 million and S$1.8 million respectively).

More importantly, of the seven third party master leases that the REIT has entered into, one was terminated (Technics Offshore at 72 Loyang Way), one has gone into default (NK Ingredients at 2 Pioneer Sector 1) and one property was divested to the sponsor to reduce credit risk.

(i) **Can the REIT manager explain in greater detail how it assesses the quality of the master lessee to evaluate the REIT's counterparty/credit risk?**

(ii) **What guidance has the board, especially the Audit & Risk Committee, given to the REIT manager to improve the REIT's risk management, especially in the areas of credit risk and investment risk?**

(iii) **Would the REIT be strengthening its risk management and oversight before it ventures to a new market, such as Australia?**

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(iv) The REIT has underperformed the broader FTSE ST REIT Index substantially in the past three years. **How is the REIT manager addressing this underperformance? Has the board considered the need to carry out a strategic review of the REIT and of its manager?**

A copy of the questions for the Annual Report for the financial year ended 31 December 2017 could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=Soilbuild%20Business%20Space%20REIT

The company's response could be found here:

https://sias.org.sg/media/qareport/company_responce/1492672339_Soilbuild---Response-To-SIAS-2017.pdf

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