



(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 2017. 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

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?**

Manager's response to Question 1

- (i) The Manager as part of its regular strategic reviews has been evaluating deals in Australia and advocates diversification to overseas markets mainly due to the following reasons:

1) Availability of freehold assets which helps to balance Soilbuild REIT's leasehold portfolio. In Singapore, with the tenure of new industrial sites released under the government land sales programme capped at 30 years, it has become increasingly difficult for the Manager to source for long tenure properties locally. Although Soilbuild REIT has a relatively long weighted average remaining land lease tenure by valuation of 43 years as at 31 December 2017, the Manager wishes to take a pro-active approach to arrest the gradually declining portfolio age through injection of freehold properties into Soilbuild REIT's portfolio.

2) Geographical diversification may reduce Soilbuild REIT's exposure to a single economy and minimise property cyclical risks.

3) Expansion into overseas markets mitigates tenant concentration risk.

As the Australia property market is large and transparent, the Manager is of the view that opportunities are available. Currently, the Manager is actively sourcing for deals through local marketing agents. We are also in discussion with several Australia based fund managers on potential tie-ups to penetrate the Australia market.

- (ii) The Manager is aided by various external professionals including tax, legal, property due diligence consultant, investment manager, etc. in its Australia venture.

Our tax consultant has advised that Soilbuild REIT is able to establish a structure in Australia that qualifies as a Managed Investment Trust, which allows Soilbuild REIT to enjoy a reduced tax rate of 15% as opposed to the Australian corporate tax rate of 30%.

- (iii) The method of fund raising for future acquisitions is dependent on *inter alia*, the size of the acquisition, aggregate leverage, timing of acquisition and Soilbuild REIT's unit trading performance. The target aggregate leverage for Soilbuild REIT remains at between 35% to 40%. The Manager will consider funding a large acquisition by way of issuance of perpetual securities if an opportunity arises. The Manager is equally open to funding an acquisition by way of a combination of debt and equity. Soilbuild REIT had completed two successful equity fund raisings and two notes issuances to fund acquisitions and for debt re-financing since its listing.

SIAS Question 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?**
- (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?**

Manager’s response to Question 2

- (i) The weighted average lease expiry by gross rental income (“**WALE**”) as at 31 December 2015 was higher than usual, at 4.8 years due to the acquisition of 72 Loyang Way in May 2015. Upon termination of the master lease in December 2016, the weighted average lease expiry had fallen to 3.4 years as at 31 December 2016 and currently stands at 3.0 years.

The Manager is of the view that a shorter WALE is not necessarily an indication of a deteriorating market. We have observed that industrial tenants in Singapore generally tend to sign leases in the range of two to three years.

The industrial average occupancy rate has fallen to 88.9% in 4QFY2017 and the JTC statistics show that the supply of industrial properties will taper off from FY2019. In the short term, the Manager’s priority is to maintain occupancy given the competitive landscape. This may entail adjusting rental rate expectations in order to retain tenants.

The Manager will focus on increasing occupancy through pro-active marketing of its properties, potential asset enhancement initiatives in preparation for a market recovery and improving service quality levels.

- (ii) The Manager had difficulty leasing 72 Loyang Way due to JTC’s 70% anchor tenant ruling under which oil & gas and marine offshore tenants qualify. The Manager is engaging JTC on expansion of permissible usage by anchor tenant. Should JTC relax its anchor tenant requirement, coupled with the gradual recovery of the oil and gas industry, the Manager is optimistic about leasing out the remaining space. We will keep unitholders updated of our leasing progress in the event of a material change.
- (iii) Consequent to an agreement between Soilbuild REIT and NK Ingredients Pte. Ltd. (“**NKI**”), the Singapore High Court granted a temporary moratorium on proceedings against NKI subject to certain conditions, including (i) making payment of the rent for January 2018 by 31 January 2018, (ii) paying Soilbuild REIT any amounts billed between 11 January 2018 to 26 March 2018 no later

than 14 calendar days after the date of Soilbuild REIT's invoice and (iii) topping up the security deposit in three tranches such that Soilbuild REIT will hold half, three-quarter and the full original security deposit by 31 March 2018, 31 December 2018 and 30 June 2019 respectively.

NKI has met conditions (i) and (ii). The Manager will provide an update on item (iii) when the top-up of the security deposit is due. As NKI intends to continue operations and is currently undergoing a restructuring, the Manager will comment on the financial impact, if any when further progress has been made.

SIAS Question 3

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



(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 Offshore 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?**
- (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?**

Manager's response to Question 3

- (i) In determining the master lessees' creditworthiness, the Manager considers several factors, such as the master lessees' access to capital, historical financial performance, management's experience, strength of its balance sheet, current financial performance, financial forecasts, etc.
- (ii) The Board and the Audit & Risk Committee have from the start set the tone on the acquisition strategy whereby emphasis is on the asset quality and tenants' financial strength. Management has now been further encouraged to adopt a more prudent approach towards asset selection, particularly in terms of tenants' credit risk and to pursue only acquisitions that enhance the resilience of our portfolio. The Board recognises that while the property initial yield is important, the sustainability of cash flows cannot be overlooked.
- (iii) The Manager has adopted a prudent approach in evaluating Australia opportunities. In FY2017, the Manager has evaluated several potential acquisitions but did not acquire any property despite having incurred substantial due diligence cost which were borne by the Manager. The Manager has now adopted a more holistic approach in its investment evaluation and will not pursue an acquisition solely because it is immediately yield accretive. We take a longer term view and consider many other factors which includes re-letting, master lessees' financial strength and concentration risks.
- (iv) Soilbuild REIT could have underperformed the FTSE ST REIT index due to various reasons such as liquidity of its units and asset revaluation losses in the past two years. Although Soilbuild REIT's free float of 59.2% is not considered too low, its market capitalisation of below one billion dollars may deter certain institutional investors. The Manager is confident of growing Soilbuild REIT over time through a right of first refusal pipeline from the Sponsor with a maximum gross floor area in excess of 1.9 million sq ft.

The decline in Soilbuild REIT's net asset value per unit in FY2016 and FY2017 was largely attributed to tenant default and lower signing rents in a subdued industrial property market. We will intensify our efforts to explore growth opportunities and also continue improving our operating effectiveness and efficiency to ensure a stable and sustainable growth for unitholders in the longer term.

The Board and management regularly conduct strategic reviews to identify new value creating opportunities and address challenges with the aim of delivering sustainable returns to Unitholders. Risk assessments and monitoring of our performance against key performance indicators are also incorporated in our strategic reviews. Exploring overseas markets and the divestment of a property commonly known as KTL Offshore were among the recommendations arising from our strategic reviews.

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

28 March 2018

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 3.90 million square feet and an occupancy rate of 92.7% as at 31 December 2017.

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