



Securities Investors Association (Singapore)

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UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: SB REIT Management Pte. Ltd.

Security: Soilbuild Business Space REIT

Meeting details:

Date: 29 March 2019

Time: 2.30 p.m.

Venue: Suntec Singapore Convention & Exhibition Centre, 1 Raffles Boulevard, Suntec City, Singapore 039593, Meeting Rooms 324-325

Company Description

Soilbuild Business Space REIT ("Soilbuild REIT") is a Singapore and Australia-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. Major tenants of the REIT include Dyson Operations, Ubisoft Singapore, Nestle Singapore, John Wiley & Sons and Autodesk Asia. Its Singapore portfolio of properties include Solaris, a landmark development in one-north, Eightrium @ Changi Business Park, Tuas Connection, West Park BizCentral and Bukit Batok Connection. Its Australia portfolio includes an office building at 14 Mort Street in Canberra and a poultry production and processing facility known as Inghams Burton in Adelaide. Soilbuild REIT's portfolio comprises 11 properties in Singapore and 2 properties in Australia with a total net lettable area of 4.03 million square feet and an occupancy rate of 89.5% as at 31 December 2018. Soilbuild REIT was listed on the Singapore Exchange Securities Trading Limited ("SGX-ST") on 16 August 2013 ("Listing Date").

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=SV3U)

1. Would the board/REIT manager provide unitholders with better clarity on the following operational and financial matters? Specifically:

- (i) **Solaris:** In August 2018, the REIT's largest asset, Solaris, was converted from a master lease to a multi-tenanted building and it "provided higher revenue contribution" (page 16 of the annual report). **Would the manager let unitholders know if the conversion from the triple net master lease to a multi-tenant lease would also lead to higher net property income?**
- (ii) **Revaluation gain:** There was a revaluation gain of \$21.6 million for Solaris. This represents an increase of 6.1% over the previous valuation of \$360 million as at 31 December 2017. **Can the audit committee help shareholders understand if this was directly due to the conversion of the master lease or were there other economic reasons for the revaluation? What were the valuation method and the key variables used?**
- (iii) **Valuation of properties:** On 21 January 2019, the REIT made an announcement relating to the revaluation of properties in the REIT. No details about the specific valuation method used and key variables (such as capitalisation rate) were disclosed although the REIT has stated that the reports available for inspection. **For the benefit of all unitholders, would the REIT consider disclosing the key information from the valuation reports in a clear and concise table. This can include the valuation model used, the independent valuer, the individual valuation for each property, the variance in valuation, valuation per square foot, and valuation capitalisation rates used.** While the REIT shows the current valuation of the properties on pages 54 and 55 in the annual report, showing the year-to-year change with other information (mentioned above) would help unitholders understand the performance of its underlying assets.
- (iv) **Occupancy, rental reversion and DPU:** The occupancy rate in Singapore slipped to 88.6% as at 31 December 2018, down from 92.7% a year ago "amidst challenging market conditions" (page 17). In particular, the occupancy rate of the REIT's multi-tenanted buildings was at 84.8%. It was as low as 80% in 1Q FY2018. As the manager responded to the market conditions and adjusted its rental rates to retain tenants, the portfolio registered a negative rental reversion of (8.6)%. **Can the board/manager help unitholders understand if the REIT has the necessary scale, quality of assets and brand awareness (by potential customers) to survive and further improve its financial performance given the level of competition and market trends?**
- (v) **Perpetual securities:** On 27 September 2018, the REIT issued S\$65 million in 6% subordinated perpetual securities pursuant to its multicurrency debt issuance programme. The distribution to the perpetual security holders will be \$3.9 million a year. **Has the board considered how this may affect the cash flow to the unitholders?** Already, the weighted average all-in interest cost in the last quarter was 3.52% p.a. In FY2017, the average all-in interest costs was lower at 3.2% p.a. **Will the issuance of the perpetual securities at 6% put**

more downward pressure on the DPU? Even before the issuance of the perpetual securities, the REIT's DPU has fallen from 6.487 cents per unit in 2015 to 5.284 cents per unit in 2018.

- (vi) **Tenant retention rate:** As stated in the annual report (page 19), tenant retention rate for FY2018 was 71.3%. From FY2015-FY2017, the tenant retention rate was 72.7%, 41.4% and 77.0%. **Does the manager conduct "exit interviews" with tenants who do not renew their leases to find out the reasons? Has the board set a target for management in terms of tenant retention?**
- (vii) **Investment strategy and asset selection:** Excluding the assets that have been sold by the REIT, out of the current portfolio of 13, only four properties are now valued at above the original purchase price. **Would the board/manager elaborate further on the REIT's acquisition strategy and the criteria used in valuing investment opportunities? What guidance has the board given to the manager on the quality of assets and on valuation?**

2. In October 2018, the REIT completed the maiden acquisition of two Australia assets, namely a business park asset at 14 Mort Street in Canberra and a primary poultry processing plant known as Inghams Burton in Adelaide. The purchase consideration was \$116.25 million.

With the investment in Australia, the group is now exposed to fluctuations in the Australian Dollar.

- (i) **What is the level of natural hedging for the group's investments in Australia?**
- (ii) As shown in the financial review (page 54), from the completion of the acquisition in October 2018 to the end of the financial year (31 December 2018), the group has already recognised currency translation losses of \$(3.6) million. **If the REIT continues to grow its Australia portfolio, would the Audit & Risk Committee consider it necessary to review its hedging policies?**
- (iii) **Does the REIT manager have experience in managing its foreign currency risks? How does the REIT hedge the anticipated distributions from the Australia subsidiaries?**
- (iv) Inghams Burton was purchased for S\$60.8 million and has a carrying value of S\$58.9 million or A\$61.25 million as at 31 December 2018 (page 51). 14 Mort Street was purchased for S\$54.6 million and has a carrying value of \$49.0 million or A\$51.0 million. **Would the REIT manager help unitholders understand the reason for the substantial drop in value of 14 Mort Street within months of its acquisition?**

3. On page 91 of the annual report, the company disclosed the attendance of directors at board meetings and board committee meetings in the financial year.

CORPORATE GOVERNANCE

The number of meetings of the Manager's Board, ARC and NRC held during the period from 1 January 2018 to 31 December 2018, as well as the attendance of the Directors, are as follows:

Name of Directors	Board Meetings		ARC Meetings		NRC Meetings	
	No. of meetings	Attendance	No. of meetings	Attendance	No. of meetings	Attendance
Mr Chong Kie Cheong	7	7	4	4	N.A.	N.A.
Mr Ng Fook Ai Victor	7	6	4	4	5	2
Mr Michael Ng Seng Tat	7	7	4	4	5	5
Mr Lim Chap Huat	7	7	N.A.	N.A.	N.A.	N.A.
Mr Ho Toon Bah	7	7	N.A.	N.A.	N.A.	N.A.
Ms Lim Cheng Hwa	7	7	N.A.	N.A.	5	5

The Manager's Constitution permits Board meetings to be held by way of telephone or video conference or any other electronic means of communication by which all persons participating in the meeting are able, contemporaneously, to hear and be heard by all other participants.

(Source: Company annual report)

As seen from the table above, Mr Ng Fook Ai Victor attended 6 board meetings (out of 7) and 2 nominating & remuneration committee meetings, out of the 5 that were held. Prior to FY2018, the attendance of all the directors, including Mr Ng Fook Ai Victor, at board meetings and board committee meetings has been exemplary.

- (i) **Can the REIT help unitholders understand if there were extenuating circumstances that caused Mr Ng to be absent for the board/board committee meetings? How far in advance are board meetings scheduled?**
- (ii) **As the manager's constitution allows directors to participate in a board meeting via telephone or video conference, can the REIT help unitholders understand if this was an option for a director who cannot attend in person?**
- (iii) **How can the REIT and the company secretary work together with the directors to schedule the board and board committee meetings so that all the directors are able to attend the meetings and contribute to the effectiveness of the board?**

A copy of the questions for the Annual Report for the financial year ended 31 December 2017 and 31 December 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Soilbuild%20Business%20Space%20REIT&cid=6253,4507,4257>

The company's response could be found here:



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2017: https://sias.org.sg/media/qareport/1522284131_SIA-S-Qns_SB-REIT-March18.pdf

2016: https://sias.org.sg/media/qareport/1492672339_Soilbuild---Response-To-SIAS-2017.pdf