



(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 2018. 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

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?**

Manager’s response: The conversion of Solaris into a multi-tenanted building in August 2018 has a positive effect on net property income and distributable income even after accounting for higher borrowing cost. When the property was under master lease, the Sponsor extended a S\$55 million interest-free loan to the REIT for the payment of upfront land premium to JTC.

- (ii) **Revaluation gain:** There was a revaluation gain of \$22.0 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?**

Manager’s response: The revaluation gain for Solaris was attributed to the following:

- (a) higher net property income including rental and car park income following the conversion of the master lease to a multi-tenanted basis; and
- (b) a compression of 50-60 bps in capitalisation rate, terminal capitalisation rate and discount rate as compared to the previous valuation.

The valuation methods include:

- Income Capitalisation Method and
- Discounted Cash Flow Analysis.

The key variables used are:

- Capitalisation Rate – 5.25%
- Terminal Capitalisation rate – 5.40%

- Discount Rate – 7.25%

(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.

Manager’s response: The following information has been disclosed in our FY2018 Annual Report:

- (a) Statement of Portfolio in page 119-120 which shows the FY2018 and FY2017 valuation; and
- (b) Financial Statements Note 26 in pages 160-161 which shows the FY2018 and FY2017 valuation models used, range of capitalisation rates, termination yield/capitalisation rates and discount rates.

(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?**

Manager’s response: The REIT’s portfolio comprises largely properties acquired from its Sponsor, Soilbuild Group Holdings Ltd. These are mainly modern multi-tenanted properties with high specifications and long weighted average land leases. The newly acquired Australia properties with long weighted average lease expiries (“WALE”) and land leases have further improved the quality of our portfolio.

The decline in our portfolio occupancy was partly due to divestment of a property known as KTL Offshore and the conversion of master lease properties to multi-tenanted properties such as 72 Loyang Way and 39 Senoko Way. Our exposure to third party master lease tenants in Singapore has since reduced significantly.

The Manager ensures the quality of our portfolio is maintained through asset enhancement initiatives. Please refer to page 16 of our FY2018 Annual Report for details of the refurbishment carried out at Eightrium @ Changi Business Park.

In challenging times, our Sponsor had extended strong support. Established in 1976, our Sponsor is a leading property integrated group with operations covering the full spectrum of the real estate value chain, ranging from end-to-end construction, design and development to fund management.

Our Sponsor had demonstrated support for Soilbuild REIT when it acquired KTL Offshore in February 2018 for S\$55 million, which enabled us to achieve divestment gain of S\$1.74 million.

In September 2018, the Sponsor supported our Australia acquisitions by taking up S\$30 million of the S\$65 million perpetual securities issued.

- (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.

Manager's response: In making its decision to issue perpetual securities to fund the Australia acquisitions, the Manager had carefully considered cash flow implications and the rising interest rate environment.

Despite the many benefits of investing in Australia, DPU accretion was a key objective for our maiden foray abroad. Issuance of S\$65 million perpetual securities enabled us to achieve our objective without over-stressing our capital structure.

As disclosed in our announcement dated 7 September 2018, the post-transaction costs yield for our Australia portfolio was 6.17% which compared favourably to our weighted average perpetuals securities and Australia dollar debt financing cost of approximately 5.1% p.a.

- (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?**

Manager's response: The Manager conducts "exit interviews" with tenants to understand the reasons for non-renewals. For instance, we found out that some tenants in West Park BizCentral did not renew their leases in FY2018 as they bought their own strata-titled units 2-3 years ago while others decided to discontinue their business operations.

The Manager places a strong emphasis on tenant retention. Targeted retention rate is agreed during the annual Board budget meeting. Performance against the Budget is closely monitored and reported to the Board quarterly. Property retention rate is a component of management's key performance indicators.

- (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?**

Manager's response: Our Board comprises directors with vast real estate experience. They have provided invaluable guidance to Management on real estate selection criteria.

We have refined our acquisition criteria to place greater emphasis on the following attributes:

- (a) Tenant – Trade sector and financial strength;
- (b) Property – Building specifications, land lease term and location;
- (c) Regulatory – Ease of leasing and/ or government intervention; and
- (d) General economy – Country and city growth outlook.

SIAS Question 2

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?**

Manager's response: The Group acquired two properties in Australia for A\$112.25 million (net of adjustment for rental incentives and excluding acquisition cost). The acquisitions were funded by way of Singapore dollar denominated perpetual securities and A\$50 million, 5-year bank loans¹. The Australian dollar denominated loans provided 44.5% natural hedging for the Group's investment in Australia.

As both assets have long WALEs of 6.2 to 15.8 years as at 31 December 2018 and long land leases (99-year and freehold), the Manager did not find it necessary to incur additional cost to hedge currency translation exposure.

Furthermore, as at 31 December 2018, Australia properties only constitute 8.8% of Soilbuild REIT's portfolio by valuation.

- (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?**

Manager's response: Management and the Audit & Risk Committee will review its hedging policies as its exposure to the Australia market grows.

- (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?**

Manager's response: As mentioned in page 57 of the FY2018 Annual Report, the Manager hedges anticipated distributions from its Australia subsidiaries at least 6

¹ A\$45 million was drawn down in October 2018 to fund the acquisitions. A\$5 million was subsequently drawn down in FY 2019 to replace working capital temporarily utilised to fund the acquisition.

months in advance. The Manager monitors the AUD-SGD exchange rate regularly and enters into currency forward contracts with banks in accordance with its hedging policy.

- (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?**

Manager's response: We had disclosed the acquisition cost of 14 Mort Street as A\$55.0 million although the purchase price payable was A\$51.0 million. The differential was due to rental incentives given to the tenant for the remaining term of the lease.

The Manager has the flexibility to distribute the purchase price savings of A\$4.0 million to unitholders as capital distribution over the next 6.2 years.

As at 31 December 2018, the valuation was reflective of the purchase price of A\$51.0 million paid.

The remaining decline in value was due to currency translation loss as the Australia dollar weakened against the Singapore Dollar towards year end.

SIAS Question 3

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 shareholders 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?**

Manager's response: The Manager had in an announcement dated 15 November 2018 disclosed details on Mr Ng in relation to his past directorships in Asia Power Corporation Limited and My E.G. Services Berhad. On 17 March 2019, the Manager further disclosed that Mr Ng had, from 12 November 2018 to 20 November 2018, served as a director of DConstruct Systems Pte Ltd, which is a related corporation of Soilbuild REIT.

The NRC met on three occasions in the absence of Mr Ng to discuss these issues. The Board, having considered the recommendations of the NRC are satisfied that Mr Ng is able to act in the best interests of all the unitholders as a whole and remains an independent director.

For the avoidance of doubt, Mr Ng attended all regular ARC, NRC and board meetings in the year whereby he was not the main subject of discussion.

Board meetings for the year are typically scheduled at the end of the previous financial year. Management will try to reschedule board meetings or arrange for a telephone conference if required to ensure full attendance.

- (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?**

Manager's response: Participating in board meetings via telephone or video conference is an option for directors 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?**

Manager's response: Please refer to our response above.

By Order of the Board

SB REIT Management Pte. Ltd.

(UEN/Company Registration No. 201224644N)

As Manager of Soilbuild Business Space REIT

Roy Teo

Chief Executive Officer

22 March 2019

About Soilbuild Business Space REIT

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 and John Wiley & Sons. 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**”).

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