Soilbuild REIT announces Second Quarter DPU of 0.745 cents

Summary of Financial Results:

	2Q FY2020	2Q FY2019	Variance (%)	1Q FY2020	Variance (%)	1H FY2020	1H FY2019	Variance (%)
Gross revenue (S$'000)	23,009	22,364	2.9	23,498	(2.1)	46,507	45,048	3.2
Net property income (S$'000)	16,170	18,328	(11.8)	17,361	(6.9)	33,531	36,621	(8.4)
Income attributable to perpetual securities holders (S$'000)	973	972	0.1	972	0.1	1,945	1,934	0.6
Income attributable to Unitholders (S$'000)	9,459	12,560	(24.7)	11,165	(15.3)	20,624	25,300	(18.5)
Total DPU (in cents)	**0.745**	**1.179**	**(36.8)**	**0.883**	**(15.6)**	**1.628**	**2.377**	**(31.5)**
From operations	0.745	1.151	(35.3)	0.773	(3.6)	1.518	2.314	(34.4)
From capital	-	0.028	(100.0)	0.110	(100.0)	0.110	0.063	74.6
Units Issued ('000)	1,268,111	1,065,392	19.0	1,263,903	0.3	1,268,111	1,065,392	19.0

Singapore, 16 July 2020 – SB REIT Management Pte. Ltd. ("**Manager**"), the Manager of Soilbuild Business Space REIT ("**Soilbuild REIT**"), today announced a distribution per unit ("**DPU**") of 0.745 cents and 1.628 cents for the second quarter ("**2Q FY2020**") and half year ("**1H FY2020**") ended 30 June 2020 respectively.

Financial performance

In 2Q FY2020, gross revenue rose 2.9% year-on-year ("**y-o-y**") due to higher revenue from the newly acquired 25 Grenfell Street and was partially offset by lower contribution from 2 Pioneer Sector 1 which is under redevelopment.

Net property income ("**NPI**") fell 11.8% y-o-y on the back of an allowance for doubtful receivables of S$1.5 million and higher property expenses for 25 Grenfell Street. The Manager has provided for trade receivables in view of potential credit notes to be issued to tenants relating to rent reliefs as announced in the Fortitude Budget.

The reduction in NPI and withholding of capital distribution of S$1.6 million resulted in a 36.8% decline in DPU y-o-y to 0.745 cents.

Quarter-on-Quarter ("**q-o-q**") gross revenue fell 2.1% due to lower contribution from 2 Pioneer Sector 1 and 72 Loyang Way which was divested in April 2020. DPU fell 15.6% q-o-q mainly due to the abovementioned allowance for trade receivables and absence of capital distribution in 2Q FY2020.

Had the capital distribution not been withheld, 2Q FY2020 DPU would have been 0.875 cents, 0.9% lower q-o-q, largely due to a S$0.9 million higher provision for trade receivables as compared to 1Q FY2020 and partially offset by lower finance expenses. If we further exclude the impact of the one-off provision made in 2Q FY2020 in relation to rental relief, 2Q FY2020 DPU would have been 0.994 cents, 12.6% higher q-o-q.

Operational performance

Portfolio occupancy rate rose 4.8 percentage points q-o-q to 89.5% in 2Q FY2020. Based on a like-for-like comparison with the exclusion of 2 Pioneer Sector 1 for both 1Q FY2020 and 2Q FY2020, 2Q FY2020 occupancy fell 0.5 percentage points from 90.0% in 1Q FY2020. The Manager successfully completed more than 145,000 sqft of renewals and new leases for the quarter. Year-to-date, we have completed more than 383,000 sq ft of renewals and new leases. For the rest of FY 2020, 7.0% of the portfolio or 267,725 sqft of leases will be expiring.

Positive rental reversion of 3.1% and 23.3% was recorded for renewals and new leases in 2Q FY2020 respectively. Weighted average lease expiry by net lettable area and gross rental income stood at 3.0 and 3.4 years respectively.

Update on 2 Pioneer Sector 1

At an extraordinary general meeting held on 25 June 2020, Soilbuild REIT obtained Unitholders' approval to award a design and build contract to an interested person, Soil-Build (Pte.) Ltd. The development cost is estimated to be S$82.1 million and S$91.4 million based on plot ratios of 1.0 and 1.32 respectively. Demolition of the property is underway.

Prudent and Pro-active Capital Management

In 2Q FY2020, Soilbuild REIT's weighted average borrowing cost fell 36 basis points q-o-q to 3.14% p.a. primarily due to the expiry of higher cost interest rate swaps.

Soilbuild REIT entered into an arrangement with its lenders to convert a S$80 million loan to an Australian dollar denominated loan to increase the level of natural hedge.

Weighted average debt maturity was 1.9 years with a fixed interest rate for 80.4% of borrowings. There is no debt expiring in 2020. The Manager is in active discussions with various lenders on refinancing of debt due in the next one year. Soilbuild REIT's unencumbered investment properties were in excess of S$981 million, representing approximately 72% of its portfolio by value. Aggregate leverage stood at 36.9% as at 30 June 2020.

Outlook

Singapore

Based on advance estimates released by the Ministry of Trade and Industry on 14 July 2020, the Singapore economy contracted by 12.6% y-o-y in the second quarter of 2020 ("**2Q 2020**"), due to the circuit breaker measures that were implemented. On a q-o-q seasonally-adjusted annualised basis, the economy shrank by 41.2% in 2Q 2020.

The manufacturing sector grew by 2.5% y-o-y in 2Q 2020, slower than the 8.2% growth in the previous quarter. On a q-o-q seasonally-adjusted annualised basis, the manufacturing sector shrank by 23.1%, a sharp reversal from the 45.5% expansion in the preceding quarter.

The Singapore Purchasing Managers' Index rose to 48.0 in June 2020 from 46.8 in May 2020.

According to the JTC 1Q 2020 market report, the rental index of all industrial space was flat y-o-y in 1Q 2020 and fell 0.1% q-o-q.

In respect of the COVID-19 relief measures, the Government will provide one month of rent relief to owners of industrial/office properties through property tax rebate and cash grants. Landlords will be required to grant eligible SMEs in industrial/office properties one month of waiver of their base rental. Eligible SMEs can therefore receive a total of two months' waiver of base rental for industrial and office properties provided by the Government and landlords.

Australia

In the key economic indicators snapshot released by the Reserve Bank of Australia ("**RBA**") dated 8 July 2020, the country's economy and key indicators were mixed with economic growth at 1.4%, inflation at 2.2%, unemployment rate of 7.1%, employment growth rate of negative 5.4% and wage growth of 2.1%. The target cash rate remains at 0.25%.

Based on the Australia Office Marketview Snapshot 2Q 2020 report by CBRE, Adelaide prime net rent held steady over the quarter while incentives remained relatively static at 31.7%. Canberra's CBD office market outperformed other markets with rental growth in prime stock over 1Q 2020. Incentives remain steady across the prime end of the market but increased marginally in the secondary market.

The Australian Government has established a mandatory code of conduct for application to commercial tenancies where the tenant is an eligible business for the purpose of the Commonwealth Government's JobKeeper programme ("**Code**"). The leasing principals set out in the Code include amongst others, non-termination of leases by landlords due to non-payment of rent during the COVID-19 pandemic period or reasonable subsequent recovery period and landlords to offer tenants proportionate reductions in rent payable in the form of waivers and deferrals.

Mr Roy Teo, CEO of the Manager, said: "While we had tenants in essential services who were able to operate during the circuit breaker, we are pleased to see our tenants' operations pick up in the first two phases of the country's re-opening. We are particularly encouraged by the positive rental reversions achieved in 2Q FY2020. A decision was made to withhold capital distributions relating to unremitted Australia-sourced income and to increase the provision for rental relief to S$2.1 million. We have taken a prudent approach in our financial reporting to enable us to fully support our tenants. We seek the understanding of our Unitholders as we navigate our portfolio through turbulent times together."

- End –

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, a poultry production and processing facility known as Inghams Burton in Adelaide and a Grade A freehold office building at 25 Grenfell Street in Adelaide. Soilbuild REIT's portfolio comprises 10 properties in Singapore and 3 properties in Australia with a total net lettable area of 4.12 million square feet and an occupancy rate of 89.5% as at 30 June 2020. Soilbuild REIT was listed on the Singapore Exchange Securities Trading Limited ("SGX-ST") on 16 August 2013 ("Listing Date").

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