

CREDIT OPINION

23 March 2016

New Issue

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RATINGS

Soilbuild Business Space REIT

Domicile	Singapore
Long Term Rating	Baa3
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Soilbuild Business Space REIT

New Issuer

Summary Rating Rationale

Soilbuild REIT's Baa3 issuer rating reflects: (1) its portfolio of good quality and well-situated industrial assets in Singapore, with a diversified tenant base; (2) stable and recurring rental income, supported by a good balance of long-term master-leased assets and multi-tenanted properties; and (3) prudent capital management in maintaining a long-dated debt maturity profile with no material near-term maturity until 2018.

At the same time, Soilbuild REIT's rating is constrained by its small operating scale, limited financial flexibility due to asset encumbrance levels, concentration of assets in Singapore and inherent exposure to liquidity risks that all Singapore REITs (S-REITs) face, given their high dividend payout ratios and minimal cash balances.

The rating also reflects Soilbuild REIT's moderate exposure to its sponsor, Soilbuild Group, which contributes around 24.2% of the REIT's rental income. With the expiry of the master lease at Solaris, we expect this concentration risk to reduce substantially by August 2018.

Rating Outlook

The stable outlook reflects our expectation that the trust will continue to generate stable cash flows from its portfolio and maintain financial discipline when pursuing growth, such that it keeps its credit profile within rating parameters.

Factors that Could Lead to an Upgrade

Near-term upward rating pressure is limited, because of the trust's small operating scale, short operating track record and dependence on secured debt funding.

Nonetheless, we will consider upgrading Soilbuild REIT's rating if it: (1) demonstrates a longer track record of operations and access to funding; (2) expands its asset size to SGD2.0- SGD2.5 billion through organic growth or prudently-funded acquisitions; (3) improves its credit profile such that its adjusted debt/ deposited assets falls below 35% and adjusted EBITDA/interest coverage rises above 4x; and (4) improves its financial flexibility by reducing its reliance on secured borrowings and increasing the proportion of unencumbered assets in its portfolio, such that its secured debt-to-deposited assets ratio stays below 15% on a sustained basis.

Factors that Could Lead to a Downgrade

Downward pressure on the rating could emerge if: (1) the operating environment deteriorates, resulting in higher vacancy levels and lower operating cash flows; (2) Soilbuild REIT's financial metrics deteriorate, such that its adjusted debt-to-deposited assets ratio exceeds 40% or adjusted EBITDA/interest coverage falls below 3x on a sustained basis; or

(3) Soilbuild REIT uses secured borrowings to refinance existing indebtedness or increases its secured debt levels, thereby continuing to constrain its financial flexibility.

We will also downgrade the rating if the trust's secured debt-to-deposited asset ratio does not decline as planned over the next 12-18 months.

Key Indicators

Exhibit 1

	12/31/2014	12/31/2015
Total Deposited Assets (SGD Million)	\$1,074	\$1,230
EBITDA (SGD Million)	\$53.4	\$62.8
Debt/ Total Deposited Assets	36.4%	36.8%
EBITDA/ Fixed Charges	6.1x	5.0x
Secured Debt/ Total Deposited Assets	34.4%	23.0%

Note All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics™

Credit Strengths

- » Small portfolio of good quality and well-situated properties
- » Stable and recurring rental income supported by good mix of multi-tenanted assets and long-term master leases

Credit Challenges

- » Moderate exposure to its sponsor, but end-user base is diversified
- » Healthy financial profile, with limited but improving financial flexibility

Corporate Profile

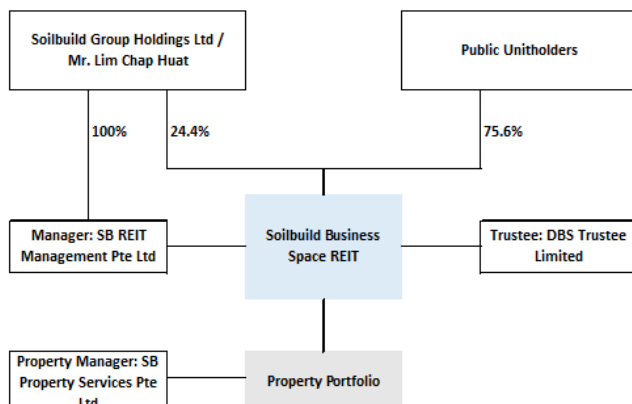
Soilbuild Business Space REIT (Soilbuild REIT) is a Singapore-based industrial real estate investment trust (REIT) listed on the Singapore Stock Exchange since August 2013. Its portfolio consists of 11 properties in Singapore, comprising two business parks and nine industrial assets. At 31 December 2015, its property portfolio of 3.5 million square feet in net lettable area had a total appraised value of SGD1.2 million.

Soilbuild REIT's sponsor, Soilbuild Group Holdings Limited (unrated), is a private integrated property group based in Singapore, and is fully owned by Mr. Lim Chap Huat, who also held a 24.4% stake in Soilbuild REIT at 31 December 2015. The trust is managed by SB REIT Management Pte Ltd, while the property management of its portfolio of properties is provided by SB Property Services Pte Ltd., both of which are wholly owned subsidiaries of Soilbuild Group.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Exhibit 2

Soilbuild Business Space REIT's Corporate Structure as of 31 December 2015



Note: As of 31 December 2015
Source: Company data

Detailed Rating Considerations

Small portfolio of good quality and well-situated properties

At 31 December 2015, the trust had 11 assets located in Singapore, comprising two business parks and nine industrial properties. With a property portfolio valued at SGD1.2 billion, Soilbuild REIT is one of the smallest S-REITs by asset size in our rated portfolio.

The two business park properties -- Solaris and Eighthtrium -- are strategically located at the key business park clusters of one-north and Changi Business Park respectively, with convenient access to the mass rapid transit (MRT) stations and major expressways.

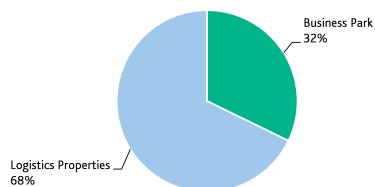
The trust's logistics properties are also well-situated in key industrial hubs across Singapore.

Soilbuild REIT's largest industrial asset is West Park BizCentral, which is a hi-tech ramp-up industrial development. Such properties have large vehicular ramps to enable two-way direct access for large container trucks on each level which provides operational efficiencies and cost advantages for its tenants.

Despite its small operating size, Soilbuild REIT's exposure to the business park segment provides some asset and income diversification. Its two business park properties contributed around 32% of the trust's gross rental revenue (Exhibit 3 and Exhibit 4).

Exhibit 3

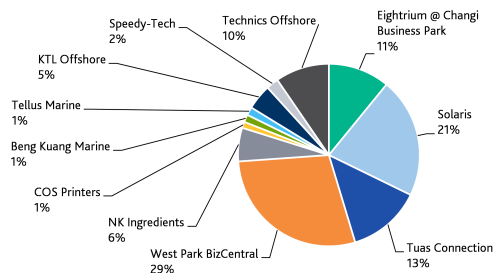
Soilbuild REIT's Portfolio Is Diversified (By Gross rental income)



Note: As of 31 December 2015
Source: Company data

Exhibit 4

Breakdown of Soilbuild REIT's 11 Properties (By Gross rental income)



Note: As of 31 December 2015
Source: Company data

Through acquisitions, Soilbuild REIT's portfolio grew in size to 11 properties at 31 December 2015 from seven at inception in 2013. The trust has made four small bite-size acquisitions of industrial assets in Singapore — totaling around SGD200 million — since its

inception. The REIT is focused on growing its portfolio in Singapore over the next few years to achieve its target size of SGD1.5 billion before expanding overseas. We believe that the trust will remain geographically concentrated in Singapore over the next few years.

Soilbuild REIT's properties are relatively new, with a weighted average portfolio age of 6.3 years (by valuation) at 31 December 2015. Consequently, we expect that the properties will require a low level of maintenance and limited capital expenditure for asset enhancements over the next few years.

Compared to the Singapore asset portfolio of other industrial REITs, Soilbuild REIT also has one of the longest underlying land lease tenures of approximately 46 years at 31 March 2015.

Stable and recurring rental income, supported by good mix of multi-tenanted assets and long-term master leases

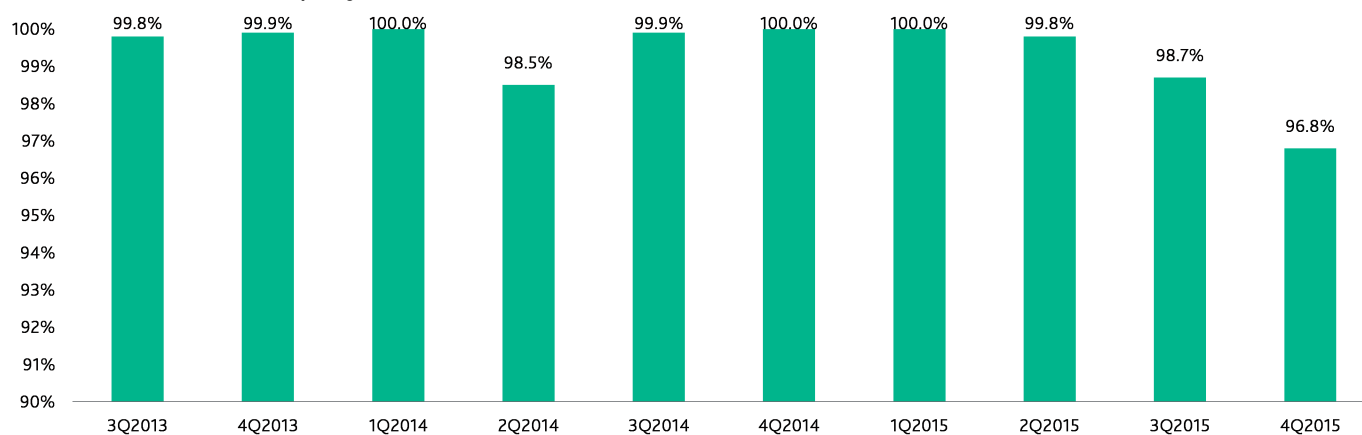
Soilbuild REIT has a balanced portfolio profile, with three multi-tenanted assets -- West Park BizCentral, Tuas Connection and Eightrium -- accounting for 52% of gross rental income and eight master-leased assets accounting for the remaining 48%. The three multi-tenanted buildings, which collectively account for over 50% of rental income, have been leased to multiple tenants since inception.

The eight master leases provide cash flow stability and visibility, because they are long term in nature and will expire during 2018–2030. These lease agreements also include a contracted rental escalation averaging 2%–3% per annum throughout the life of the lease, thereby providing a predictable earnings stream. To mitigate the risk of non-payment or early termination of these leases, the master tenants are required to place a 6–18 month security deposit with Soilbuild REIT in the form of cash or a banker's guarantee.

Soilbuild REIT's portfolio occupancy rates fell in 2015 to 96.8% (Exhibit 5) as tenants downsized, against the backdrop of slower growth in Singapore and oversupply of factory and warehouse spaces in the country.

Exhibit 5

Soilbuild REIT's Portfolio Occupancy Rate Fell in 2015



Source: Company data

The trust expects occupancy rates to come under pressure in 1H 2016 at its two multi-tenanted logistics assets, Tuas Connection and West Park BizCentral. The two assets had an occupancy rate of 93.5% and 94.2% respectively at 31 December 2015.

Nonetheless, at the portfolio level, we expect that overall occupancy rates will stay at over 96% for 2016 and 2017, which is relatively healthy given the average occupancy rate of 87.2% for multi-user factories in Singapore.

At the same time, Soilbuild REIT also benefits from a well-staggered weighted average lease expiry by gross rental income, which was 4.8 years at 31 December 2015.

Moderate exposure to its sponsor, but end-user base is diversified

Soilbuild REIT's sponsor, Soilbuild Group/ Mr. Lim with a 24.4% stake in the REIT at 31 December 2015 is a private integrated property group based in Singapore. Soilbuild REIT has moderate exposure to its sponsor as it derives 21% of its gross revenue from its Solaris business park, which is under a master lease agreement with a wholly owned subsidiary of the sponsor.

Covenants at Soilbuild REIT require the sponsor and its owner to collectively own at least 20% of the REIT.

The five-year master lease agreement with its sponsor at Solaris will expire in August 2018. However, this risk is offset by the diversified profile of its underlying tenants at the asset. Solaris has achieved 100% occupancy since it was injected into Soilbuild REIT's portfolio in 2013.

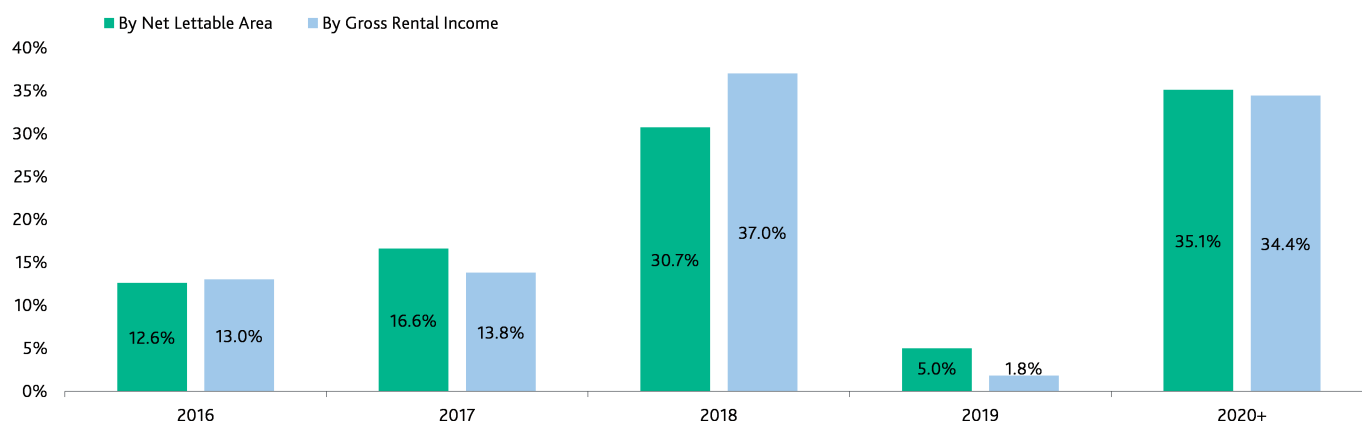
The tenancy profile at Solaris is well-diversified across sectors. Major tenants at Solaris include Spring Singapore, which is an agency under the Government of Singapore (Aaa stable), John, Wiley & Sons (Asia) Pte Ltd (unrated) and Autodesk Asia Pte Ltd (unrated).

As shown in Exhibit 6, while the trust appears to have 37% of its leases by gross rental income expiring in 2018, more than half of that relates to the master lease at Solaris.

The REIT's lease expiry profile post the August 2018 master lease expiry will be well-staggered, largely because management is confident that the bulk of leases at Solaris -- which are expiring in 2017 before the master lease agreement ends -- will be renewed and/or new tenants will take up the vacated space.

Exhibit 6

Soilbuild REIT has a manageable lease expiry profile as of 31 December 2015



Source: Company data

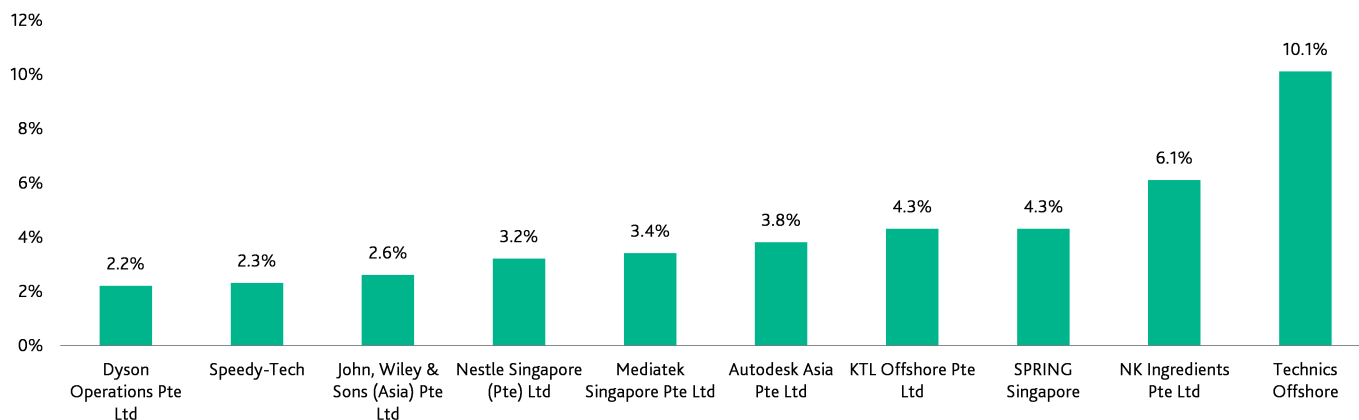
The trust believes it will maintain near full occupancy at Solaris, given the quality of the business park and the stickiness of the good quality tenants in the one-north media hub. In addition, Soilbuild REIT has been working directly with these end-tenants even though the master lease agreement with its sponsor is still in place.

At the portfolio level, Soilbuild REIT has successfully attracted tenants from a wide array of trade sectors. These sectors have different growth drivers, thereby reducing the trust's exposure to the impact from a slowdown in any one sector.

While the REITs top 10 tenants at 31 December 2015 accounted for around 42% of its gross rental income, there is minimal tenant concentration risk, because its largest tenants -- including underlying tenants at Solaris -- individually accounted for 10% or less of total monthly rental income (Exhibit 7).

Exhibit 7

Soilbuild REIT Has Minimal Tenant Concentration Risk (10 Largest Tenants by Gross Rental Income)



Note: As of 31 December 2015

Source: Company data

The sponsor has been supportive of the trust. In 2015, the REIT was in dispute with JTC Corporation on the land rental payment for Solaris. The parties agreed to convert the annual land rental payment scheme for 25 years (until 2038) to an upfront land premium payment scheme, with 50% of the total amount payable by March 2015 and the remaining 50% by March 2016.

The sponsor demonstrated strong support by: 1) paying SGD17.5 million, which is its portion of over the term of master lease agreement until 2018; 2) making an additional SGD1.5 million contribution; and 3) providing a SGD55 million interest-free loan to the REIT, which is scheduled to mature in August 2018.

Healthy financial profile, with limited but improving financial flexibility

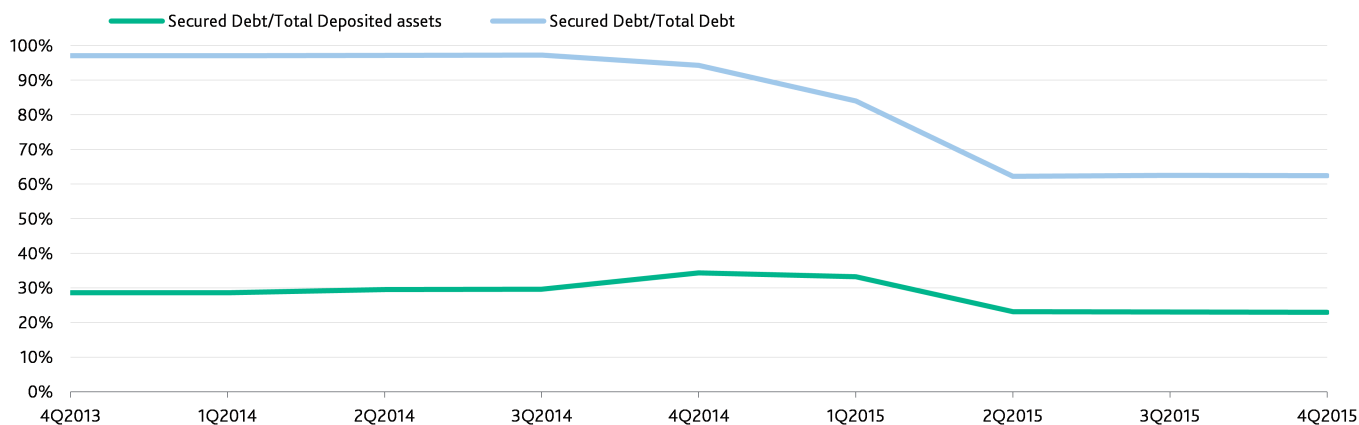
At 31 December 2015, Soilbuild REIT demonstrated a healthy financial profile, with adjusted debt/deposited assets of 36.8% and EBITDA interest coverage of 5.0x. Our calculations incorporate our standard adjustments for operating leases.

Soilbuild REIT has taken active steps to maintain its leverage profile. In May 2015, the trust successfully completed a private equity placement exercise to raise gross proceeds of SGD90 million which was largely used to fund the acquisition of Technics Offshore.

Despite the trust's healthy credit profile, its financial flexibility remains constrained by the moderate level of asset encumbrances in its portfolio (Exhibit 8).

Exhibit 8

Soilbuild REIT's Leverage Profile Improved in 2015



Source: Moody's Investors Service

At 31 December 2015, Soilbuild REIT has two properties -- West Park BizCentral and Solaris -- secured respectively under its SGD100 million and SGD185 million term loan facilities. At 31 December 2015, these two properties accounted for 56% of the trust's total assets by market value. The trust had a secured debt to deposited assets ratio of 23.0% as of the same date.

We note that in May 2015, the trust successfully refinanced SGD95 million of secured debt with the issuance of three-year, SGD100 million unsecured notes under its MTN program.

Soilbuild REIT has a short operating track record given that it was only listed in 2013, and its access to funding during distress situations remains untested.

Liquidity Analysis

Given the high dividend payout characteristics of S-REITs, Soilbuild REIT has to rely on refinancing and external funding for its expansion strategy.

At 31 December 2015, Soilbuild REIT had cash and cash equivalents totaling SGD16.8 million and total gross debt of SGD438 million, including the SGD55 million of an interest-free loan from its sponsor to fund the upfront land rental payment for Solaris (Exhibit 9).

Exhibit 9

Soilbuild REIT's Debt Facilities at 31 December 2015

Debt Name	Maturity Date	Facility Amount	Amount Outstanding (SGD 'Millions)
Secured Term Loan Facility	May-18	100.0	97.5
Secured Term Loan Facility	Mar-20	185.0	185.0
Interest-free loan from sponsor	Aug-18	55.0	23.1
3.45% Senior Unsecured Notes	May-18	500.0	100.0

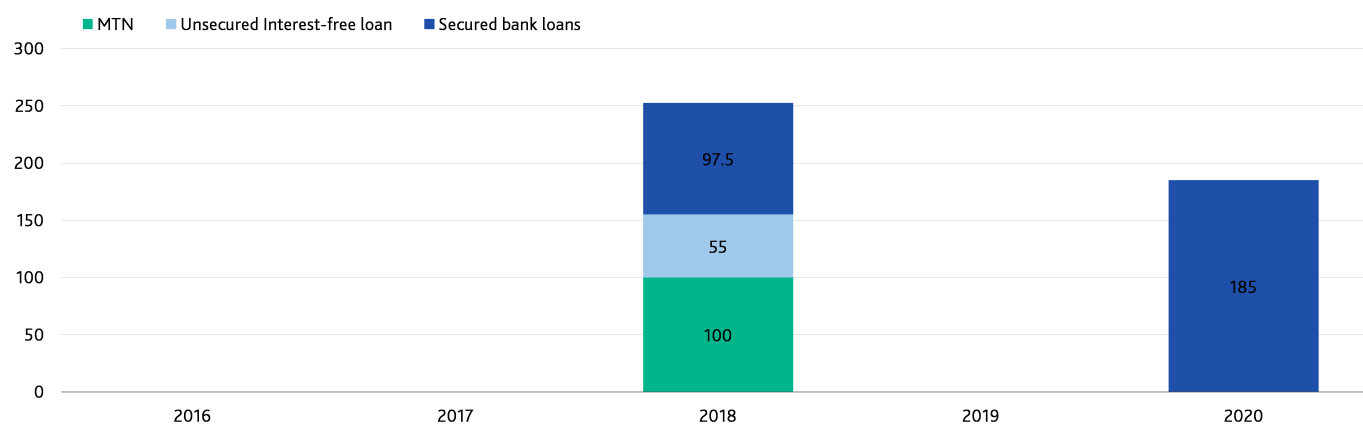
Source: Company data

Soilbuild REIT has no near-term refinancing risk, but it faces a large maturity wall in 2018 with SGD252.5 million coming due (Exhibit 10).

Nevertheless, we understand that refinancing discussions are already in progress to extend the maturity of the SGD97.5 million loan to 2019. We also expect that the trust will maintain its proactive approach towards capital management, such that it refinances its debt maturities ahead of time.

Exhibit 10

Soilbuild REIT Has No Near-Term Maturity at 31 December 2015



Source: Company data

Structural Considerations

Like many other S-REITs, Soilbuild REIT has relied on secured borrowings since its listing in 2013, when a number of assets were used as security for debt financing.

At end-2015, the trust had outstanding secured debt obligations of SGD97.5 million (drawn down from its SGD100 million facility) and SGD185 million, secured against West Park BizCentral and Solaris respectively. Its secured debt-to-deposited assets ratio was 23.0% at 31 December 2015.

These two properties provide sufficient asset/loan coverage based on asset valuation at end-2015.

Exhibit 11

Solaris and West Park BizCentral provide good asset-to-loan coverage as of 31 December 2015

Secured Facility Amount (SGDm)	Security	Asset Valuation (SGDm)	Asset/loan coverage (x)
185	Solaris	360	1.9x
100	West Park BizCentral	319	3.2x

Sources: Company data, Moody's Investors Service analysis

Unsecured creditors are subordinated to the claims of these secured lenders and are therefore exposed to legal subordination risk in respect of these two properties.

However, the subordination risk is largely mitigated because the unsecured creditors' claims on the nine unencumbered assets are not subordinated to the claim of the secured bank creditors. In our view, any recovery for the unsecured creditors from the nine unencumbered assets would sufficiently fulfill the debt obligations.

Based on the latest valuation at 31 December 2015, the value of unencumbered assets exceeded 3x the amount of unsecured borrowings outstanding which provides significant buffer for fluctuations in asset value.

At the same time, we also expect that management will remain committed to improving the trust's financial flexibility, such that Soilbuild REIT does not increase its secured debt levels, refinances outstanding indebtedness with unsecured borrowings, and funds all future acquisitions with an appropriate amount of unsecured debt and equity.

We will re-evaluate Soilbuild REIT's rating to reflect legal subordination if the protection available to unsecured creditors deteriorates either because of declines in the market value of the trust's assets or a fall in the value of unencumbered assets relative to the amount of unsecured debt.

Rating Methodology and Scorecard Factors

According to Moody's "Rating Methodology for REITs and Other Commercial Property Firms," published in July 2010, Soilbuild REIT's credit profile maps broadly to the Baa range, due to its manageable debt maturity profile, low exposure to development projects and healthy margins which offsets its smaller operating scale and weaker portfolio diversity (Exhibit 12).

Exhibit 12

Methodology Grid - REITs and Other Commercial Property Firms[1]

Methodology Grid – REITs and Other Commercial Property Firms [1]	Aaa-Aa	A	Baa	Ba	B	Caa-Ca
Factor 1: Liquidity & Funding (24.5%)						
a) Liquidity Coverage				X		
b) Upcoming Debt Maturities		X				
c) FFO Payout Ratio				X		
d) Unencumbered Assets				X		
Factor 2: Leverage & Capital Structure (30.5%)						
a) Debt + Preferred / Gross Assets			X			
b) Net Debt / EBITDA				X		
c) Secured Debt / Gross Assets				X		
d) Access to Capital				X		
Factor 3: Market Position & Asset Quality (22.0%)						
a) Franchise / Brand Name				X		
b) Gross Assets (USD 'billion)				X		
c) Portfolio Diversity					X	
d) Development % Gross Assets	X					
e) Asset Quality				X		
Factor 4: Cash Flow & Earnings (23.0%)						
a) EBITDA / Revenues	X					
b) EBITDA Margin Volatility	X					
c) Fixed Charge Coverage	X					
d) JV / Fund Business % Revenues	X					
Rating:						
Grid-Indicated Rating			X			
Actual Rating Assigned			Baa3			

[1] As of 31 December 2015
Source: Moody's Financial Metrics

Appendix: Peer Comparison

Exhibit 13

Peer Comparison [1][2]

	Soilbuild Business Space REIT	Cambridge Industrial Trust
Rating	Baa3	Baa3
Outlook	Stable	Stable
Number of Properties	11	51
Sector	Industrial	Industrial
Sponsor	Soilbuild Group Holdings	None
Adjusted investment properties (SGD millions)	1,213	1,492
Occupancy Rate	96.8%	94.3%
Weighted Average Lease to Expiry	4.8 years	3.8 years
Weighted Average Debt Maturity	3.2 years	3.2 years
Key Indicators		
Revenue	79	112
Total Assets	1,215	1,431
Adjusted Total debt	453	599
EBITDA / Interest Expense	5.0x	3.9x
Adj Debt / Annualized EBITDA	7.2x	7.0x
Adj Debt / Deposited Assets	36.8%	40.1%
Secured Debt / Deposited Assets	23.0%	6.6%
Secured Debt / Total Adj Debt	62.4%	16.5%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] Data as of 31 December 2015.

Source: Moody's Financial Metrics, Moody's Investors Service, Company data

Ratings

Exhibit 14

Category	Moody's Rating
SOILBUILD BUSINESS SPACE REIT	
Outlook	Stable
Issuer Rating	Baa3

Source: Moody's Investors Service

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