Covid–19 Updates

16 April 2020

Introduction

The COVID-19 pandemic has impacted global businesses, market sentiments and economic growth. With no vaccine currently available, the fast-spreading disease has forced governments all around the world to implement national level policy measures such as travel lockdowns and social distancing measures to starve the virus of its means of transmission. There is currently little visibility on how long the COVID-19 crisis will last and the full extent of the economic impact, although substantial efforts are being made to deal with the pandemic. We may not be as badly impacted compared to REITs in other sectors such as the retail and hospitality sector but we foresee more trying times ahead as our tenant's operations are impacted by the COVID-19 pandemic. Management is cognizant of the challenges that lie ahead and we remain committed to protecting our portfolio value and income stream.

As the outbreak has now spread globally and has impacted the global financial markets negatively, we expect some financial impact on Soilbuild REIT due to the unexpected disruption and stress on the global economy and financial markets which the export-oriented Singapore economy is dependent on. This has prompted the Manager to adopt a more conservative approach in its financial reporting, including recognising an allowance for expected credit loss based on forward-looking information.

Governments across the world have taken unprecedented measures in order to contain the spread of the virus and these measures have inevitably impact our operations. With our business continuity plan ("**BCP**") in place, we continue to operate at close-to-full potential. During the circuit breaker period, some of our tenants continue to operate under the ambit of providing essential services. Property management services such as security, cleaning, ACMV continue to operate on site to ensure our tenants' wellbeing are taken care of. Our property and asset managers continue to serve our tenants efficiently without major disruptions to our daily operations. In light of the COVID-19 situation, we have also taken precautions at our properties in accordance with guidelines from the Ministry of Health ("**MOH**"). These include temperature screening and frequent cleaning and disinfecting of common areas. At our properties, the flu pandemic BCP was activated at Solaris and Eightrium with temperature screening carried out at the entrance of the two properties. At the Singapore industrial properties, we increased the frequency of cleaning at the premises and sent out circulars to the tenants on the additional precautionary measures undertaken by the landlord. We have also advised all tenants, partners and employees to exercise good personal hygiene and monitor their health closely. The Management is closely monitoring the latest government measures and guidelines especially in Singapore and Australia as we adapt our operations accordingly.

Impact of COVID-19

Singapore

On 26 March 2020, the Singapore Government announced a Resilience Budget which included a 30% rebate on property tax payable for offices and industrial properties and 100% rebate for food and beverage operators. To assist tenants, Management will pass on the rebates to the tenants for their respective units.

With effect from 7 April, most workplace and retail premises, save for those providing essential services, have been ordered to close until 4 May 2020. On 7 April 2020, the Singapore Government passed an Act to provide relief to tenants for their inability to perform contractual obligations where the inability is to a material extent caused by COVID-19. If the relevant criteria under the Act are satisfied, landlords will not be able to take the following legal actions against the tenants: (i) Court and insolvency proceedings in respect of the tenant's non-performance of obligations and (ii) termination of the lease for non-payment of rent.

F&B operators within our Singapore business park and industrial portfolio are the first to be negatively impacted by COVID-19. As more companies implemented telecommuting, government measures on social distancing and current "Circuit Breaker" till 4 May 2020, footfalls to our Singapore F&B operators have drastically declined. Total F&B tenants in our Singapore portfolio contribute about $165K per quarter or 0.7% to total revenue. Ancillary income comprising carpark and after office hour aircon charges are expected to decline substantially as well. Ancillary income from Singapore portfolio contributes about $407K per quarter or 1.73% to total revenue.

Operationally, facilities management has stepped up checks on contractors, cleaning frequency, implemented temperature screening, placement of sanitizers at entrances of buildings for all our business park assets. For the industrial assets, respective tenants are self-contained within their respective units and each organization will implement their respective precautionary measures. Meanwhile, our asset management team is having on-going dialogues with tenants affected by COVID-19 with a view to strike a "win-win" resolution.

Australia

In Australia, the National Cabinet approved a Mandatory Code of Conduct for commercial tenancies ("**the Code**") on 7 April 2020. The Code applies to those tenancies where the tenant is eligible for the Commonwealth Government's JobKeeper programme – that is, where the tenant suffers financial stress or hardship as a result of the COVID-19 pandemic and that has an annual turnover of up to A$50 million.

Principles of the Code include:

- **Termination by landlord:** Landlords must not terminate leases due to non-payment of rent during the COVID-19 pandemic period (or reasonable subsequent recovery period).
- **Proportionate rent reductions:** Landlords must offer tenants proportionate rent reductions in the form of waivers and deferrals of up to 100% of the amount ordinarily payable, based on the reduction in the tenant's trade during the COVID-19 pandemic period (and any subsequent reasonable recovery period).
- **Rental waivers:** Rental waivers must constitute no less than 50% of the total reduction in rent (subject to a tenant's right to waive this minimum requirement). This amount should be greater where failure to do so would compromise the tenant's capacity to fulfil their ongoing obligations under the lease.
- **Rental deferrals:** Payment of rental deferrals by the tenant must be amortised over the balance of the lease term and for a period of no less than 24 months, whichever is the greater (unless otherwise agreed by the parties).
- **Utilities and services:** Landlords should seek to waive the recovery of expenses or outgoings payable by a tenant during the period a tenant is unable to trade. A landlord may reduce services as required in the circumstances.
- **No rent increases:** Landlords must freeze rent increases (except for retail leases based on turnover rent) for the duration of the COVID-19 pandemic and a reasonable subsequent recovery period, notwithstanding any other arrangements between the landlord and the tenant.

In Australia, Management has received requests from tenants in 25 Grenfell Street for rental assistance. Some tenants located at 25 Grenfell Street have closed their offices and asked their staff to work from home. By revenue, 29% of the tenants at 25 Grenfell Street are from government related entities, 5.2% are from SMEs and balance 65% are made up of large corporations.

JLL Property Management has recommended and implemented that End-of-Trip ("**EOT**") facilities at 25 Grenfell Street be temporarily closed due to the possibility of human to human droplet transfer when people are using the facilities.

At present, deferrals of land tax in various forms have been announced by the Victorian, West Australian, South Australian and New South Wales state governments, with an announcement by the Queensland state government expected shortly. The Management will pass on any benefit of any such reduction in an appropriate proportion to tenants.

<u>Soilbuild REIT Portfolio</u>

Soilbuild REIT's portfolio is underpinned by a strong and diversified tenant base. Our portfolio consists of good credit and well-established tenants such as the Commonwealth Government of Australia, Nestle Singapore, Enterprise Singapore and Inghams Group amongst others. Our gross revenue is distributed across our diversified tenant base comprising of MNCs, SGX Listed Corporations, SMEs and government agencies. Soilbuild REIT's portfolio has 135 tenants across 13 properties in Singapore and Australia. Government tenants account for approximately 12% of our monthly gross revenue while 54% and 30% of the gross revenue is contributed from our MNC and SME tenants respectively. We have recognised the importance of diversifying the portfolio and building the portfolio strength. With our third acquisition in Australia in late 2019, we have recognised a full quarter revenue from 25 Grenfell Street in Adelaide for 1Q FY2020. Our three Australia properties now contribute a total of 19% to our quarterly gross revenue. Out of these three Australia properties, two are master leases with Commonwealth Government of Australia and Inghams Group respectively which contribute 9.2% of our total monthly gross rental income or 47% of total Australia asset value.

Our portfolio is balanced with both multi-tenanted and master leased properties contributing to our portfolio gross revenue. Our portfolio strategy is based on optimizing the overall portfolio revenue and occupancy as well as striking a balance between master leases and multi-tenanted buildings. While master leases generally comprise longer leases with built-in rental escalations that provide income stability, multi-tenanted buildings typically comprise a variety of unit sizes to suit tenant's requirements and shorter leases which have upside potential. Our 7 multi-tenanted properties contribute 79% of our gross revenue and the remaining 21% comes from our 6 master-leased properties.

Soilbuild REIT's portfolio consists of tenants from various trade sectors contributing to the portfolio gross rental income. With the acquisition of 25 Grenfell Street, we have brought in tenants in new trade sectors such as financial services, legal services and co-working space. Tenant diversification across various trade sectors helps to mitigate any concentration risk and ensures the portfolio revenue is not overly reliant on any particular trade sector.

In 1Q FY2020, our portfolio occupancy rate rose marginally quarter-on-quarter ("**q-o-q**") from 84.0% in 4Q FY2019 to 84.7%. This was attributed to a slight increase in occupancy at West Park BizCentral and 25 Grenfell Street. Excluding 2 Pioneer Sector 1 which is pending redevelopment, the portfolio occupancy would be higher at 90.0%. Weighted average lease expiry ("**WALE**") by gross rental income (GRI) stood at 3.4 years as at 31 March 2020. A WALE of 3.4 years gives us a good balance between income protection in the short run and reversion opportunities in the long run. For our lease expiries, we have 11.3% of portfolio NLA or approximately 465,600 sqft of space due to expire this year. We have renewed the master lease at Beng Kuang Marine whose lease was expiring in May 2020. Beng Kuang Marine has renewed their lease for three years and their lease will now expire in May 2023.

In view of the COVID-19 pandemic, we expect leasing and investment activity to continue albeit at a slower pace. We also expect to see existing and prospective tenants becoming more risk-adverse and cautious amidst the current economic climate.

Investment and Asset Enhancement Initiatives ("AEIs")

We continually review our portfolio properties for any potential AEIs. CAPEX and budget numbers are also regularly reviewed to identify what is essential and if any cost-saving can be achieved.

We have announced the redevelopment of 2 Pioneer Sector 1 which will transform the existing facility with a plot ratio of 0.55 into a ramp-up facility with open yard space. The redevelopment of 2 Pioneer Sector 1 will unlock value within the asset and help to reposition Soilbuild REIT's portfolio for longer-term growth. With the divestment of 72 Loyang Way completed on 14 April 2020, we would have gross proceeds of S$33.08 million which can be utilised to pare down debt.

At West Park BizCentral, we had completed asset enhancement works in the last financial year. Over at Solaris, 75% of the asset enhancement works were completed which included a new green feature wall at the lobby, EOT facility and refurbishments of all toilets and lift lobbies. These asset enhancement initiatives help our portfolio remain competitive.

Capital Management

We continue to constantly monitor the financial sector and overall capital market environment closely. As at 1Q FY2020, our weighted average borrowing cost was 3.50% p.a., with a weighted average debt maturity of 2.2 years. Our interest coverage ratio is healthy at 3.4 times. We currently have 89.1% of our borrowings on fixed interest rates and have no debt expiring in 2020. Our aggregate leverage is at 38.5% as at 31 March 2020, within our target aggregate leverage level of 35.0% to 40.0%. Based on our target aggregate leverage of 40%, we have a debt headroom of S$32.9 million.

The covenants on our debt facilities are in line with local market standards. To-date, Soilbuild REIT's financial performance is relatively stable despite the COVID-19 outbreak. As such, we expect to be able to comply with the financial covenants for our MTN and bank loans.

In view of the COVID-19 situation, the Manager has prudently excluded the following capital distributions for 1Q FY2020 to conserve Soilbuild REIT's capital: (i) S$0.5 million relating to reimbursement received from vendors in relation to outstanding incentives that were subsisting at the point of completion of acquisition of properties; and (ii) S$0.3 million relating to rental guarantee provided by the vendor of 25 Grenfell Street. Had the above capital distributions been included, 1Q FY2020 DPU would have increased by 2.7% q-o-q to 0.950 cents.

Investor Relations

With the increased investor uncertainty emanating mainly from the COVID-19 pandemic, we have seen higher volatility in the global stock markets. Soilbuild REIT's share price reached an all-time low of 0.199 cents in March 2020. For 1Q FY2020, the 3-month average daily traded volume of Soilbuild REIT shares was 2.53

million units. The trading volume in 1Q FY2020 was 70.9% higher compared to the 3-month average daily traded volume for 4Q FY2020 at 1.48 million units. Apart from the stock market, we saw a reduction in investor relations activities with the cancellation of SGX-REITAS-Maybank conference that was supposed to have taken place in Malaysia in February 2020. The Singapore REIT Symposium has also been postponed from May to August 2020. Whilst we have limited control over the volatility of our unit price, the Management will continue to manage our property portfolio and maintain our stakeholder relationships by engaging in active communications.

Seventh Annual General Meeting ("AGM")

We have uploaded our FY2019 annual report on SGXNet and our corporate website. We expect to hold our seventh AGM together with the extraordinary general meeting ("**EGM**") in June 2020 by way of a webcast. Unitholders will need to pre-register on our website to receive the webinar link and login details. Unitholders are encouraged to vote on the resolutions via their proxy forms. The Management will make an announcement regarding its seventh AGM and EGM closer to the date.

Conclusion

We are mindful of and will continue to closely monitor the evolving COVID-19 situation. Additional measures have been taken in accordance with the government's guidelines as the safety and well-being of our stakeholders are of the utmost importance. With factors such as the COVID-19 virus outbreak and slow global economic growth weighing in, a muted global outlook is expected ahead. Soilbuild REIT's portfolio is diversified across asset classes, tenant trade sectors and geography. We are in active dialogue with our tenants to assist them during these challenging times. As we continue to monitor the constantly evolving situation, we remain nimble and steadfast in enhancing our portfolio fundamentals and ensuring that our portfolio remains resilient.