SABANA SHARI’AH COMPLIANT INDUSTRIAL REAL ESTATE INVESTMENT TRUST
(a real estate investment trust constituted on 29 October 2010 under the laws of the Republic of Singapore)

ANNOUNCEMENT

RESPONSES TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) (“SIAS”) ON FY 2020 ANNUAL REPORT

Sabana Real Estate Investment Management Pte. Ltd., as manager of Sabana Shari’ah Compliant Industrial Real Estate Investment Trust (“**Sabana REIT**”, and the manager of Sabana REIT, the “**Manager**”), wishes to respond to the questions raised by SIAS in relation to the annual report issued by Sabana REIT in respect of the financial year ended 31 December 2020 (the “**Annual Report 2020**”).

By Order of the Board
Sabana Real Estate Investment Management Pte. Ltd.
(Company registration no: 201005493K, Capital markets services licence no: CMS100169)
As Manager of Sabana Shari’ah Compliant Industrial Real Estate Investment Trust

Han Yong Lee (Donald)
Chief Executive Officer
23 April 2021

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<u>SIAS Question 1</u>

The theme of the annual report for the REIT is "Focused on our commitments". On page 1, the manager further described that the REIT is staying laser-focused on its commitment to create value for unitholders. Other than seeking growth opportunities, the manager strives to improve on the REIT's performance through:

- **proactive asset and lease management;**
- **prudent capital management; and**
- **strategic asset enhancement initiatives**

One bright spark for the REIT in an otherwise challenging year has been the receipt of the Temporary Occupation Permit (TOP) for the REIT's new NTP+ lifestyle mall. The committed occupancy was 96.7% as at 25 March 2021.

(i) Has the REIT been able to fix the opening date? With the TOP obtained in early March 2021, how much time is needed to get the mall ready for opening? Have the rental rates met management's expectations?

We are heartened by the strong take-up at our new NTP+ lifestyle mall at New Tech Park. We look forward to its opening in 2Q 2021 – the first few tenants have commenced business in April, and the majority expected to start operating from May. NTP+ will be a catalyst for us this year as it is expected to contribute to the performance of the REIT, but we cannot provide any forward guidance. We will disclose further material information in our business and results updates.

(ii) Has the manager completed phase 2 of the "Refreshed strategy"? What are the other major asset enhancements or asset rejuvenation in its pipeline?

We have continued to drive our Refreshed Strategy to deliver long-term value for our Unitholders.

To re-cap, the focus for us in Phase 1 was on the proactive lease management of our portfolio and to divest non-core or underperforming assets – we had made good progress on that and continue to explore the best options for some of our assets. We divested 6 Woodlands Loop for $13.8 million in early 2018 and in 2019 we divested 9 Tai Seng Drive for $99.6 million, $60 million more or 2.5x higher than its book value. Net proceeds went towards repaying outstanding loans, a one-off distribution to Unitholders and funding capital expenditures including for the Asset Enhancement Initiatives ("AEI") at New Tech Park.

We are currently exploring divestment options for 1 Tuas Avenue 4 as well as divestment, lease or build-to-suit opportunities for 30 and 32 Tuas Avenue 8. For 30 and 32 Tuas Avenue 8, we are currently in discussions with prospective tenants to explore leasing opportunities.

Our focus for Phase 2, which is ongoing, has been to conduct AEI and select rejuvenation of our portfolio.

In addition to the new NTP+ mall at New Tech Park, we have completed refurbishment and rejuvenation works over the past 18 months across 23 Serangoon North Avenue 5, 10 Changi South Street 2 and 8 Commonwealth Lane, such as upgrading building amenities, toilets and lobby areas. These have contributed positively to the performance and prospects of the properties.

Moving ahead, we have progressively kickstarted upgrading works for the rest of the New Tech Park space, including electrical infrastructure, passenger lifts and common areas. This will help to future-proof our asset to attract better tenants in expansionary sectors and ramp up occupancy.

We are also exploring options to maximise New Tech Park's plot ratio and engage with authorities to potentially increase this to the maximum allowable 2.50 from 2.02 currently.

(iii) Can the manager provide shareholders with greater clarity on the REIT's Shari'ah compliant status?

We continue to monitor and review this option to see if it is beneficial for the REIT. The Board and management are fully focused on executing its Refreshed Strategy to deliver long-term value for Unitholders and navigate near-term volatility. We will provide further updates in due course.

The REIT's occupancy of 76.5% is probably one of the lowest, if not the lowest, for REITs listed on SGX. The manager has stated that the occupancy rate of 76.5% is higher than the 75.4% at the previous corresponding year-end due to "proactive lease management". However, with a vacancy rate of nearly 25%, it means that one out of every four floors of space is vacant. Occupancy rate in 4th quarter FY2020 was in fact lower than the occupancy rate of 80.2% in the 3rd quarter of FY2020.

We have consistently worked to improve our occupancy rate, which currently stands at 79% as at the end of 1Q 2021. Excluding 1 Tuas Avenue 4 which is held for divestment, occupancy would have been 81.9%.

For the quarter ended 31 March 2021, we signed 400,862 sq ft of new leases which is equivalent to ~74.0% of last year's total new leases signed, and renewed 66,233 sq ft of leases, with a positive rental reversion of 3.1%.

In the past, our occupancy was impacted by the non-renewal of certain master leases. However, of the 2021 lease expiries, 57.0% have either been renewed or signed a new lease. There are no master lease expiries for 2021 and 2022.

(iv) Can the manager provide a detailed plan for 1 Tuas Avenue 4? The carrying value has been further reduced to $9.0 million as at 31 December 2020. The purchase price as $28.0 million. The property has been left vacant for 3.5 years, since the second half of FY2017. No revenue was generated in 2HFY2017, FY2018, FY2019 and FY2020. What are the characteristics of the property that makes it hard to sell/rent?

To provide some background, 1 Tuas Avenue 4 was previously being developed as a data centre by a former master tenant but remained uncompleted after they surrendered their lease.

A buyer was secured in late 2018 for the property but the divestment was called off in 2019 as the buyer was not able to obtain approval from JTC.

Our subsequent marketing efforts to data centre users are currently deferred due to the Singapore Government's imposition of a current moratorium on all new data centre projects.

The property consists of a former automated storage and retrieval system (ASRS) block adjoining a conventional 3-storey warehouse block. With the current proliferation of ramp-up warehouse properties, warehouses with conventional design are proving to be a harder sell.

While it is possible to redevelop the asset, this will incur significant capital expenditure. Instead of redeveloping speculatively, we are exploring divestment opportunities for 1 Tuas Avenue 4 or other suitable opportunities that may arise. For instance, we were close to finalising a proposed build to suit ("BTS") opportunity last year but unfortunately the prospective tenant changed their business plan due to the effects of the pandemic and called off the project.

Another consideration is that as a small, independent REIT, Sabana REIT does not have the scale to engage in multiple redevelopment projects – with the NTP+ AEI already ongoing – without adversely impacting its financial performance over the shorter term.

(v) Similarly, 30 & 32 Tuas Avenue 8 is vacant. Is the manager close to securing a tenant for 30 & 32 Tuas Avenue 8?

We are exploring viable options for 30 & 32 Tuas Avenue 8 including divestment, lease or build-to-suit opportunities. We are currently in discussions with prospective tenants.

The following table shows the valuations as at 31 December 2020 and as at 31 December 2019, and a comparison with the purchase prices of the assets in the current portfolio.

ANNUAL VALUATION

	As at 31 December 2020 ($'000)	As at 31 December 2019 ($'000)
High-tech Industrial		
151 Lorong Chuan	333,400	323,000
8 Commonwealth Lane	53,500	57,000
15 Jalan Kilang Barat	21,300	22,800
1 Tuas Avenue 4	9,000	10,000
23 Serangoon North Avenue 5	36,400	34,600
508 Chai Chee Lane	63,800	64,200
Chemical Warehouse & Logistics		
33 & 35 Penjuru Lane	42,700	51,000
18 Gul Drive	19,200	20,000
Warehouse & Logistics		
34 Penjuru Lane	33,000	37,700
51 Penjuru Road	32,800	40,700
26 Loyang Drive	24,700	24,700
3A Joo Koon Circle	33,800	38,000
2 Toh Tuck Link	29,800	31,400
10 Changi South Street 2	33,700	49,300
General Industrial		
123 Genting Lane	16,400	17,600
30 & 32 Tuas Avenue 8	24,200	27,000
39 Ubi Road 1	17,400	20,700
21 Joo Koon Crescent	15,000	14,700
TOTAL	**840,100**	**884,400**

(source: adapted from annual report)

Of all the assets in the portfolio, 151 Lorong Chuan has a valuation that is higher than the purchase price (including a $20 million AEI) while 30 & 32 Tuas Avenue 8, despite being vacant, is $200,000 higher. All the other assets are lower, even if compared to the FY2019 valuation (pre COVID). The aggregate purchase price is more than $200 million higher than the current valuation ($185 million compared to FY2019 valuation).

(vi) Has the board carried out a review of the REIT's acquisition track record (all of which would have been under the previous management)?

(vii) Did the board also review the past approval papers? Were past acquisitions based on reasonable and sound judgement?

(viii) What lessons can be learnt from the REIT's past acquisitions?

It is not appropriate for us to comment on the previous Board and management's investment decisions. Since the current CEO and refreshed Board were onboarded in 2018, we have introduced and implemented a Refreshed Strategy which includes the proactive management of our portfolio, divestment of non-core or underperforming assets, AEI at New Tech Park and rejuvenation of select assets across the portfolio. This has improved the prospects of the REIT on the whole.

(ix) What changes have the current board/manager made to the REIT's investment/approval process? Please (re)state the REIT's investment criteria so that unitholders can better understand the manager's investment framework.

Our near-term focus is on executing on Phases 1 and 2 of our Refreshed Strategy. At the same time, our Board and Manager continually review the investment process to keep up with market changes and refine and/or update the criteria at the appropriate time. A key criteria that must be fulfilled is that the proposed investment must be yield-accretive.

<u>SIAS Question 2</u>

The overview of the borrowing profile of the REIT is shown on page 17 of the annual report and reproduced below:

(source: adapted from annual report)

(i) Can the manager help unitholders understand if the REIT has been sourcing for assets under Phase 3 of its Refreshed strategy?

BORROWING PROFILE

	As at 31 December 2020	As at 31 December 2019	As at 31 December 2018
Aggregate leverage[2] (%)	33.5	31.1	36.8
Total borrowings ($ million)	284.8	276.5	363.0
Proportion of total borrowings on fixed rates (%)	50.0	36.2	71.6
Average all-in financing costs (%)	3.1	3.9	4.2
Weighted average tenor of borrowings (years)	1.2	2.3	1.3
Profit coverage ratio[3] (times)	3.5	3.7	3.1
Unencumbered assets[4] ($ million)	51.7	133.7	240.8
Undrawn committed facilities available ($ million)	59.2	37.5	5.0

We are currently focused on Phases 1 and 2 of our Refreshed Strategy, and will only explore Phase 3, which is to make yield-accretive acquisitions, at a later stage when it is suitable for us to do so.

(ii) Has the board set an internal limit on gearing?

No. However, we will be prudent in our capital deployment and keeping our gearing ratio in line with the S-REIT market and regulatory requirements.

(iii) What is the manager doing to further optimise/reduce its all-in financing costs? The REIT's cost has decreased to 3.1% from 3.9% in FY2019.

The REIT is in a healthy financial position. Interest rates are a function of the market, which we have no control over, but we are always being proactive in managing our financial position prudently.

The REIT has no further debt due until November 2021, after recently refinancing through a new, upsized $148.9 million loan. Still, we are exploring all options and are currently negotiating with current lenders on various options to maintain our resilient balance sheet.

(iv) Given that the REIT has 50% of its borrowings on floating rates, is the REIT manager taking a particular view on interest-rate? Has the manager evaluated locking in a higher percentage of its borrowings given the current low interest rate environment?

Against the backdrop of continued macro uncertainties, the Manager continues to evaluate all options and remain cautious with its hedging strategy to ensure optimisation of cost of capital for the REIT. The Manager is not taking any particular view as interest rates are a function of the market, which we have no control over.

(v) Similarly, with a weighted average tenor of 1.2 years, is the REIT exposing itself to unnecessarily high refinancing risks?

Based on the latest reported 1Q 2021 Interim Business Update (IBU), the weighted average tenor has increased to 2.2 years, post the completion of refinancing through the new $148.9 million loan. The Manager is currently actively exploring all options with various lenders to further strengthen the REIT's balance sheet and lower its refinancing risks.

SIAS Question 3

The manager also added that it will continue to strengthen confidence in Sabana REIT and explore and consider all strategic opportunities to drive performance and enhance resilience.

This follows the offer of merger from ESR-REIT which the board and management "felt then that it had the duty" to proceed with the proposed merger as it evaluated all options to strengthen the REIT and secure its future.

Following weeks of exchanges with minority unitholders, the merger was voted down by unitholders. The manager said that it is "heartened by [unitholders]' confidence in Sabana as a standalone REIT". Ms Ng Shin En, who was re-designated as an independent director, resigned days after the EGM.

(i) Has the board considered that the vote against the merger should not be interpreted as a vote of confidence in the REIT but more as a vote against a poor offer?

Against the backdrop of continued macro uncertainty and weighing the strategic rationale in being part of a larger combined entity, the Board and management believed that it had the responsibility to put the offer to all Unitholders.

As explained before, the Board would like to assure Unitholders that it had acted in their best interests and the merger terms were arrived at only after extensive negotiations between the Manager and the ESR-REIT manager to secure the best possible terms for Sabana Unitholders.

As part of the merger process, various professional advisors were engaged to advise the Board and management. The independent financial adviser opined that the financial terms of the proposed merger were fair and reasonable. In addition, Glass Lewis and ISS, which are independent third party proxy advisers that advise institutional investors in relation to voting at meetings, also issued voting recommendations in favour of the proposed merger.

We respect our Unitholders' decision on the merger; we remain committed to maximising long-term value for our Unitholders.

(ii) In addition, would the board clarify if it has confidence in the REIT as a standalone REIT?

The Board is of the view that as a standalone REIT, Sabana REIT may face difficulties and constraints due to its small asset base as a small REIT. Furthermore, the macro environment is still uncertain.

The Board and Manager are nevertheless focused on driving value for Unitholders, such as undertaking AEIs and selectively rejuvenating its portfolio, and remain committed to maximising long-term value for our Unitholders.

(iii) What is the total amount of professional fees incurred for the merger? As a sign of goodwill, and to (re)earn the trust of unitholders, would the manager consider absorbing half to all of the fees incurred in the past year to take a positive first step in restoring unitholders' trust?

All fees and costs related to the merger are payable by the REIT because they are directly related to the REIT's business and affairs. These fees do not have any impact on DPU.

Nonetheless, the Manager had proactively negotiated a reduction of the earlier mentioned $2.7 million in total fees relating to the merger. The finalised amount will be disclosed during the REIT's AGM on 27 April 2021.

(iv) The manager has also added that it will "continue to strengthen confidence" in the REIT. Would the manager help unitholders understand how it would be doing that? Would the manager consider putting up the directors and the CEO for endorsement by minority unitholders?

In appointing the CEO or any new director of the Manager, the Manager will comply with the requirements under the SGX Listing Manual and the Securities and Futures (Licensing and Conduct of Business) Regulations (SFLCBR). To the extent that we can and that is appropriate for an effective and well-functioning board, we will also incorporate the views of minority Unitholders in the appointment of independent directors.

(v) **On 24 March 2021, the REIT announced the resignation of two directors and their last day of service would be on 26 April 2021. Would the nominating and remuneration committee (NRC) carry out an open and transparent process, free of influence from ESR and from substantial unitholders, to search for new directors using a professional search firm? Would the NRC stop the practice of tapping its networking contacts for director candidates so as to further improve the diversity of its director candidates?**

The Board of Sabana is looking to appoint replacement Independent Directors as soon as practicable. It reiterates that this has always been and will always be done without the involvement of ESR Cayman.

The Board has been actively considering various candidates, including those proposed by some minority Unitholders, and not only from its network or professional search firms. Its priority continues to be in ensuring a robust and diverse Board whose members share the goal of maximising long-term value for Unitholders as a whole.

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