PRESS RELEASE

SABANA BOARD SAYS ESR-REIT MERGER IS THE ONLY OFFER CURRENTLY ON THE TABLE

- Board cautions unitholders as voting has started ahead of 4 Dec EGM
- Board calls on activist fund managers to substantiate their counter claims and proposals based on facts and market reality

SINGAPORE, 20 November 2020 – The Board of the Sabana Manager today cautioned unitholders that the proposed merger between ESR-REIT and Sabana REIT is the only offer that is currently on the table.

With an extraordinary general meeting (EGM) due in two weeks' time, it noted that the merger process has entered a critical stage. Some unitholders have already voted and others are about to do so.

"This is no longer an open season where parties can issue unsubstantiated statements and proposals that are not workable. Words have consequences," the Board warned.

The Board added that activist fund managers are within their rights to oppose the merger and to criticise the Sabana Manager and the Board, but in the interest of unitholders, they should substantiate their claims or provide more details so that the management team and unitholders can carry out a serious analysis of their claims and proposals.

Quarz and Black Crane's latest statement issued on Wednesday called for the removal of the current Sabana Manager and an internalisation of the management function as preferred alternatives to the merger.

The Board said that it has reviewed the statement but was unable to determine the workability and benefits of the internalisation proposal mooted by Quarz and Black Crane or evaluate some of the assertions given the lack of crucial details.

For example, how likely is the proposal to be approved at any EGM given that all unitholders can vote at such an EGM?

The two fund managers have also not explained how the proposal will be financed nor disclosed the identity of the financial backers that they claimed have “expressed serious interest in financing the Sabana portfolio.” The Board pointed out that any move to internalise the REIT manager would require consent from banks so that Sabana REIT does not risk defaulting on its existing obligations.

On the purported $2 million cost savings from internalisation that could potentially raise DPU by 7.5%, the Board wants to know how these numbers were computed, noting that such a move would have to factor in the cost of acquiring the REIT manager and its full operating costs, including the entire staffing cost (directors, management, staff) and the rental of office premises, which are currently borne by the REIT manager out of the management fees paid to it.

Besides expressing doubts on the feasibility of internalisation, the Board also advised unitholders to take note that the two fund managers are proposing a very different and highly uncertain path for Sabana REIT as a standalone REIT without a sponsor vis-a-vis merger to create a larger REIT with a strong sponsor.

The Board also questioned the fund managers’ estimate of Sabana REIT’s 2021 standalone DPU at more than 20% above the 2020 level. The Board wants to know how they arrived at that growth projection and what the bases and assumptions were. In addition, the fund managers have projected annual net rental and distribution income for the retail component of 151 Lorong Chuan of $3.7 million and $3.1 million respectively, but again did not explain their bases and assumptions. The Board finds that some of these claims are unrealistic and not based on facts.

For more questions that have to be asked about Quarz and Black Crane’s latest proposals, please refer to Appendix 1 below.

The Board also pointed out that despite the flurry of public statements from Quarz and Black Crane, the fact of the matter is that the Sabana Manager has not received any alternative offers for Sabana REIT and/or its assets.

Under the Take-over Code, if the merger is not approved by unitholders on 4 December 2020, the ESR-REIT Manager and its concert parties will be restricted from making another offer for Sabana REIT (whether voluntary or mandatory) within 12 months from the date the merger is withdrawn or lapses.

In addition, unitholders need to assess for themselves the benefits of a potential merger vis-à-vis the trading history of Sabana REIT and the challenges that it faces as a smaller standalone REIT.

To allow Sabana REIT unitholders to make an informed decision on the proposals, the Board said Quarz and Black Crane must provide the answers to the above questions urgently given that time is running out with the EGM already scheduled for 4 December.
“While Quarz and Black Crane are not bound by strict rules of engagement set by regulators like parties to the merger are, their statements aim to influence unitholders,” the Board said. “They owe it to unitholders to act responsibly and justify their statements.”

The Board advised unitholders to focus on considering carefully the merits of the merger and the IFA Opinion as set out in the Scheme Document and exercise their votes at the coming EGM and Scheme Meeting wisely.

The merger, according to the Scheme Document, will create the fifth largest developer-backed industrial S-REIT by total assets and the fourth largest by market share. It will allow Sabana REIT unitholders to have exposure to a REIT with a more diversified and resilient portfolio that is better positioned to make acquisitions and grow.

Sabana REIT unitholders and investors are advised to exercise caution when dealing in the units of Sabana REIT and other securities issued by Sabana REIT.

Investor Contacts

Sabana Real Estate Investment Management Pte. Ltd.

Credit Suisse (Singapore) Limited
Tel: +65 6212 2000

Responsibility Statements

The directors of the Sabana Manager (including those who may have delegated detailed supervision of this Announcement) have taken all reasonable care to ensure that the facts stated and opinions expressed in this Announcement (other than those relating to ESR-REIT and/or the ESR-REIT Manager) are fair and accurate and that there are no other material facts not contained in this Announcement, the omission of which would make any statement in this Announcement misleading. The directors of the Sabana Manager jointly and severally accept responsibility accordingly.

Where any information has been extracted or reproduced from published or otherwise publicly available sources or obtained from a named source (including ESR-REIT and the ESR-REIT Manager), the sole responsibility of the directors of the Sabana Manager has been to ensure through reasonable enquiries that such information is accurately extracted from such sources or, as the case may be, reflected or reproduced in this Announcement. The directors of the Sabana Manager do not accept any responsibility for any information relating to ESR-REIT and/or the ESR-REIT Manager or any opinion expressed by ESR-REIT and/or the ESR-REIT Manager.

About Sabana REIT

Sabana REIT was listed on the SGX-ST on 26 November 2010. It was established principally to invest in income-producing real estate used for industrial purposes, as well as real estate-related assets, in line with Shari'ah investment principles. As at 30 June 2020, Sabana REIT held a diversified portfolio of 18 properties in Singapore, in the high-tech industrial, warehouse and logistics, chemical warehouse and logistics, as well as general industrial sectors and had total assets of approximately S$0.9 billion.

Sabana REIT is listed in several indices within the SGX S-REIT Index, Morgan Stanley Capital International, Inc (MSCI) Index and FTSE index. Sabana REIT is one of the constituents of the FTSE ST Singapore Shariah Index.

Sabana REIT is managed by Sabana Real Estate Investment Management Pte. Ltd., (in its capacity as the Manager of Sabana REIT) in accordance with the terms of the trust deed dated 29 October 2010 (as amended). Sabana REIT is a real estate investment trust constituted on 29 October 2010 under the laws of Singapore.

For further information on Sabana REIT, please visit www.sabana-reit.com.

Important Notice

The value of units in Sabana REIT ("**Units**") and the income derived from them may fall as well as rise. Units are not obligations of, deposits in, or guaranteed by, the Manager, HSBC Institutional Trust Services (Singapore) Limited, as trustee of Sabana REIT, or any of their respective affiliates.

An investment in Units is subject to investment risks, including the possible loss of the principal amount invested. Investors have no right to request that the Manager redeem or purchase their Units while the Units are listed. It is intended that unitholders of Sabana REIT may only deal in their Units through trading on the SGX-ST. Listing of the Units on the SGX-ST does not guarantee a liquid market for the Units.

Appendix 1

The proposed internalisation

(a) How likely will the proposed internalisation be approved at the extraordinary general meeting?

Sabana unitholder should note that the proposed internalisation requires the approval of Sabana unitholders where all unitholders will be entitled to vote.

(b) What are the terms for the refinancing of existing debt due to the change of control provisions as highlighted by Quarz?

(c) Have Quarz and Black Crane secured the debt facilities from "the number of financial institutions and investors who have expressed serious interest in financing the Sabana portfolio"?

(d) Are Quarz and Black Crane able to assure the Sabana unitholders that the existing banks will consent to the proposed internalisation and that Sabana REIT will not be in default of its financing obligations?

(e) How will the proposed internalisation be financed and what are the total costs involved? Note that if the plan is to fund it fully by debt, there might not be enough debt headroom.

(f) Who are the financial institutions and investors whom Quarz and Black Crane claimed they are already in discussions with and who are said to have "expressed serious interest in financing the Sabana portfolio"?

(g) What are the terms of the refinancing? Are Quarz and Black Crane able to assure the Sabana unitholders that the existing banks will consent to the proposed internalisation and that Sabana REIT will not be in default of its financing obligations? Where are the committed and signed loan term sheets to refinance the Sabana existing borrowing to facilitate smooth change of control without risking the call for loan repayment by bankers due to the change of control clause in all loan agreements?

(h) Quarz and Black Crane are proposing removing the existing Sabana Manager before undertaking an internalisation. Assuming the existing manager is removed, a replacement manager is required immediately in order for the internalisation to happen.

Have Quarz and Black Crane found and/or constituted the replacement manager? Have they obtained regulatory approvals? Who is funding the setting up of a replacement manager where the capitalisation of a REIT manager is minimum $1.0 million?

(i) What are the regulatory approvals required for the proposed internalisation and how Quarz and Black Crane intend to navigate and obtain such approvals? What are the qualifications of these potential candidates, and whether they have sufficient credentials, experience and track record in the commercial and industrial real estate sectors both in Singapore and in the region?

(j) On the statement "*Sabana REIT's potential standalone 2021 DPU which we estimate to be more than 20% above 2020*", how is the 20% figure derived and what are the bases and assumptions?

<u>The purported five key levers to increase unitholder value</u>

(a) *"Timely completion and rent out of the retail component at 151 Lorong Chuan in 1Q2021 to generate net rental and distribution income of $3.7million and $3.1million per annum. This can potentially increase DPU by 0.29 cents (13% upside in DPU)"*

(i) How are the $3.7 million and $3.1 million figures above derived? What are the bases and assumptions in terms of rental rates, type of tenants and occupancy rates in coming to this conclusion? We noted that in the 7 September open letter, Quarz and Black Crane had arrived at a different distributable income of $3.2 million.

(ii) What assumptions have Quarz and Black Crane made in respect of operating expenses and administration costs in assessing these figures?

(b) *"Removal of Shariah Compliance and lowering of finance cost from 3.8% (Sabana REIT has lowest leverage but pays the highest financing cost when compared to peers) to ~3.2% through the refinance of 2021 loans. This can potentially save $1.7million per annum and increase DPU by 0.16 cents (7% upside in DPU)"*

(i) How will the savings of $1.7million per annum in financing cost be generated? What are the bases and assumptions for such forecast?

(ii) How does the removal of Shari'ah Compliance result in the lowering of financing costs when the assets and cash flows of the underlying portfolio remain the same, i.e. how does remove the Shari'ah Compliance improve the credit standing of Sabana REIT to debt providers?

Sabana Unitholders should note that the 3.8% figure is inaccurate, and based on the interim business update dated 30 October 2020, Sabana REIT's all-in finance cost as at the third quarter of 2020 is already at 3.2%.

(c) *"Increase leverage to 36% on NAV of S$0.55 (post addition of book value from completed retail component and decreasing vacancy rate) to purchase $60million of yield accretive assets or buyback Sabana units. This can potentially increase DPU by 0.154 cents (5% upside in DPU)"*

(i) What is the indicative valuation of the retail component that Quarz and Black Crane relied upon?

(ii) How will leverage be increased to 36% in order to purchase $60 million of yield accretive assets, given that 94% of Sabana REIT's assets are currently secured, leaving only about $52 million of assets available for secured financing? Assuming loan to value of 50%, the only available debt headroom is about $26 million. In addition, one of the two unsecured assets is a vacant property.

(iii) What are the types of assets and NPI yield of the "yield accretive" assets?

(iv) How is the increase in DPU by $0.154 derived and what are the bases and assumptions for such forecast?

(d) *"Cost savings of $2 million per year through the internalization of the REIT Manager (vs $4.5 million of fees paid to ESR Cayman owned Sabana REIT Manager). This can potentially increase DPU by 0.19cents (7.5% upside in DPU)"*

(i) How did Quarz and Black Crane derive cost savings of $2 million per year?

(i) On the 7.5% increase in DPU directly arising from DPU, how is this computed? What are the bases and assumptions for such forecast?

Sabana unitholders should note that in an internalised structure (even assuming it is possible), the REIT will have to acquire the REIT manager, and subsequently bear the full operating costs of the REIT manager including the entire staffing costs (directors, management, staff and the rental of office premise) which is currently borne by the REIT manager out of the management fees paid to it.

(e) *"Optimise vacancy rate from 77% to ~82% to generate $2.3million of additional distributable income and will potentially result in an increase of DPU by 2.2cents (8.5% upside in DPU)"*

(i) How did Quarz and Black Crane derive the $2.3 million of additional distributable income and an increase of DPU by 2.2 cents? What are the bases and assumptions for such forecast?

Sabana unitholders should note that the 77% figure is inaccurate, and based on the IBU, Sabana REIT's occupancy rate as at the third quarter of 2020 is at 80.2%.

(f) *References to 32 and 35 Penjuru Lane, and New Teck Park*

Unitholders should note that 32 Penjuru Lane does not belong to the Reit and the suggestion that "more than 250,000 sq ft of grade A business park" can be built is not realistic as it would exceed the current Master Plan zoning of 2.5. Also, have consultations with relevant authorities been made?

Such misinformation, severe lack of basis, assumptions and robustness in financial analysis show a lack of understanding of how to manage and/or run a REIT. Importantly, to paint such "levers" as alternatives to the proposed merger puts Sabana REIT at risk especially at a time of severe economic dislocation due to the COVID-19 pandemic.