

**QUARZ CAPITAL MANAGEMENT AND BLACK CRANE CAPITAL ISSUE OPEN LETTER
TO THE MANAGEMENT AND BOARD OF SABANA REIT (SGX: M1GU)**

ALL RECIPIENTS ARE ADVISED TO READ
“IMPORTANT DISCLOSURE INFORMATION”
AT THE END OF THE ATTACHED LETTER

18 March 2021

**UNITHOLDERS DEMAND CLEAR ANSWERS AND ACTIONS FROM SABANA REIT
MANAGER AND DO NOT INTEND TO ENDORSE BOTH THE PROPOSED NEW
INDEPENDENT DIRECTORS UNTIL FURTHER DISCUSSIONS**

Dear Mr. Han, Management and Members of the Board of Sabana REIT Manager,

We commend you and your team on the successful TOP of the new retail component at 151 Lorong Chuan (“New Tech Park”). Given that the ~43,000 sqft of retail space mostly comprises of higher rental value F&B, Food court and Supermarket, we estimate that this can add ~S\$3.4million of net rental income and ~S\$0.0029 of DPU to unitholders.

The full year contribution of the new retail component can potentially drive **Sabana REIT’s annualized DPU to ~S\$0.032, implying an attractive dividend yield in excess of ~8.3%¹. This potentially makes Sabana one of the highest yielding SGX-listed industrial REIT** despite having one of the lowest leverage levels.

The lease out of the Serangoon North asset to a prominent semiconductor MNC which resulted in a sharp increase in asset value also highlights the attractiveness of Sabana’s portfolio in benefiting from structural growth trends such as E-Commerce and Technology.

As mentioned in our discussions, **there are several levers which Sabana REIT can execute on to further increase dividend yield to unitholders:**

- 1) Reduction of interest cost from 3.2%/3.1% in 3Q/4Q2020 to lower than 3% in 2021E
- 2) Increase in occupancy rate of the portfolio from ~76% to ~85%
- 3) Redevelopment projects and AEs to further increase rental income. In particular, ~200,000 sqft of GFA at New Tech Park can be developed. At an average rent of ~S\$3.3 psf/mth, this results in a potential incremental net property income of ~S\$6.8million and can **increase DPU by more than 15% to a dividend yield of ~9.6%.**

We expect the prompt execution of these sizeable catalysts to increase unitholder value and close the substantial discount of ~25% which the REIT is currently trading at to its book value of S\$0.51 per unit.

A key outstanding issue is the S\$2.7million cost of the failed merger. As we have communicated to you, **SABANA REIT MANAGER SHOULD PAY FOR ALL THE FEES INCURRED** as it is fully responsible for the failure of the value destructive proposed merger. This can be done through reducing the management fees payable to the REIT Manager in 2021 by the same amount, and then increasing the DPU paid to unitholders by S\$2.7million (\$0.00256 per unit), resulting in an ~8% increase in 2021E DPU

¹ Based on unit price of S\$0.385 on 17 March 2021

We thank MAS for requiring the new independent directors to be endorsed by independent unitholders at the upcoming AGM in April 2021. This key measure safeguards and increases the alignment of interest of independent unitholders and the board of directors.

As we have discussed with you, **WE DO NOT INTEND TO ENDORSE BOTH THE PROPOSED NEW INDEPENDENT DIRECTORS UNTIL FURTHER DISCUSSIONS.** Based on our meeting with them, we are not convinced that the proposed directors are committed to defend independent unitholders' interests. We believe that directors who can explore the full range of options for Sabana REIT to close the substantial valuation gap are required and not just directors who are suited to the continuation of 'business as usual'.

We also caution you from taking the view that even if independent unitholders vote down and do not endorse the new directors in the current AGM, the REIT Manager can 'simply' nominate another 2 new directors and put them up for endorsement in the next AGM.

Such action will be in effect a potential 'circumvention' and 'exploitation of loopholes' of the safeguarding measures and regulation put in place by MAS to protect independent unitholders. It also reflects poorly on the corporate governance standards of the board of directors, Sabana REIT and the sponsor, ESR Cayman.

We also remind you that ESR Cayman should have 'no say' in the nomination of any independent directors to the board of Sabana REIT Manager. Otherwise, this can be interpreted as 'control' over the business affairs and strategic directions of Sabana REIT and will be in direct conflict and contravention to what ESR Cayman has committed to MAS, i.e. that it is not involved and has no say in the strategic direction of Sabana REIT to prevent conflict of interest.

WE INVITE ALL SABANA REIT UNITHOLDERS TO VISIT AND REGISTER AT THE WEBSITE WE HAVE PREPARED FOR INFORMATIONAL PURPOSES AT WWW.SAVESABANAREIT.COM

After the 'fiasco' last year, this is a critical moment for Sabana REIT Manager and its board of directors to demonstrate their alignment of interest with independent unitholders who pay for more than ~75% of their management fees and salaries.

We look forward to our further discussions and working together to increase unitholder value and return at Sabana REIT.

Sincerely yours,

Jan F. Moermann
CIO, Quarz Capital Management

Peter Kennan
CIO, Black Crane Capital

For further information, please contact:
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Or visit:
www.savesabanareit.com

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