

**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

August 7, 2020

**QUARZ CAPITAL AND BLACK CRANE CAPITAL INTEND TO REJECT PROPOSED
MERGER OF SABANA AND ESR REITS AT CURRENT TERMS (0.94 ESR REIT UNIT FOR
1 SABANA REIT UNIT)**

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

Quarz Capital and Black Crane Capital advise entities that hold long-term investments on behalf of institutions, foundations, and families. These entities collectively own more than 10% of the units of Sabana REIT (the “Trust”, “Sabana”, or “SSREIT SP”).

The previous letter from Quarz Capital addressed to Sabana in Nov 2019 detailed the multiple levers that Sabana had which could potentially increase its normalized DPU¹ by more than ~50% in the mid-term (Dividend Yield of ~9.7%²), namely:

- 1) Completion of ~43,000 sqft retail space (F&B, supermarket, childcare centre etc.) at 151 Lorong Chuan (“New Tech Park”) by end-2020 can potentially yield incremental annual net property income (“NPI”) of ~S\$4.4million³ p.a.
- 2) Debt headroom of ~S\$130million (factoring leverage ratio of ~41-43% vs ~31-33% currently⁴) to purchase yield accretive assets which can potentially provide another ~S\$8.5million in net property income (~S\$3.5million post financing cost).
- 3) Optimization of occupancy rate to national level of ~89% potentially generates an additional NPI of ~S\$3.5million.
- 4) Partial payment of management fees⁵ in units can potentially increase distributable income by ~S\$2.1m p.a. additionally.

The redevelopment of 240,000 sqft of prime business park space at 151 Lorong Chuan and 1.3million sqft of industrial space at key assets such as Nr. 33&35 Penjuru, Nr. 51 Penjuru, 3A Joo Koon Circle and 26 Loyang Drive can yield further growth in rental income. All these drivers provide a long runway to potentially increase value for unitholders and close the substantial discount at which the REIT is trading to its NAV. Additionally, the commencement of the retail space will provide a NAV and income uplift from early 2021.

The letter also highlighted the corporate governance concerns and potential conflicts of interests due to ESR’s controlling ownership of the managers of Sabana and ESR REITs and the overlapping investment mandate of the two REITs. As such, we proposed a merger by

¹ Assume the exclusion of rental rebate due to COVID-19

² Assume unit price of S\$0.38

³ Net Rent of ~S\$9psf per month at ~95% occupancy

⁴ Assuming NAV of S\$0.51-0.56 per unit

⁵ Assume ~50% payment of management fees in units

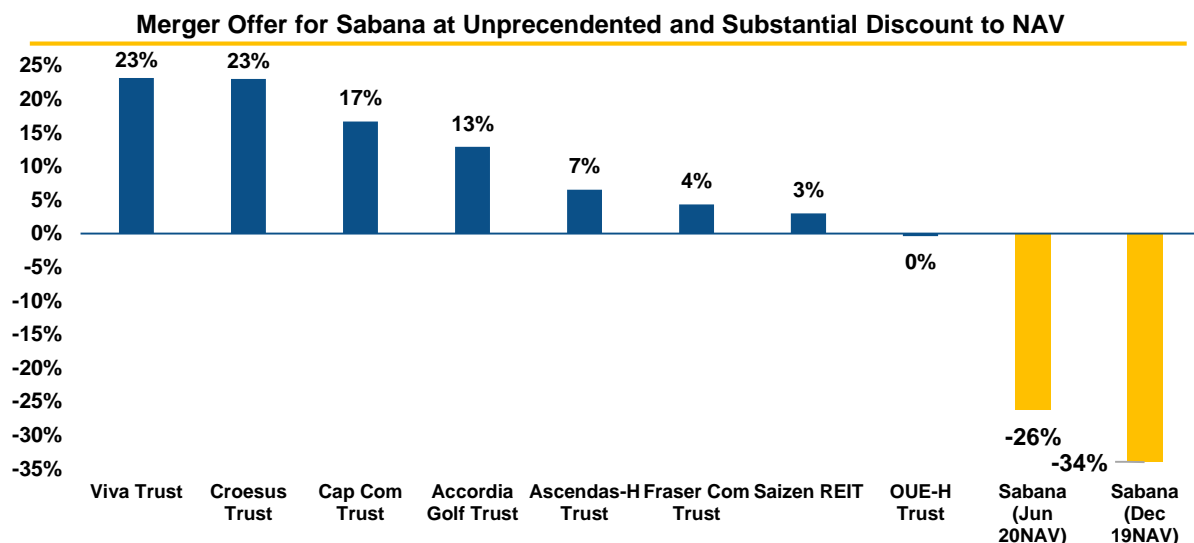
way of a Trust Scheme between ESR and Sabana REITs around Book Value to resolve these potential key issues.

Black Crane Capital has also raised similar concerns with Sabana REIT before, including via a private letter to the Board of Sabana REIT in June 2019 that expressed concerns about a) the large valuation gap between Sabana's unit price at the time and NAV/fundamental value, b) the prospect of an ESR REIT approach to acquire Sabana, c) the potential conflict of interest faced by Sabana REIT's manager especially in that context but also more generally, d) the need for Sabana to appoint a financial advisor to explore all options to optimize value including a breakup, in order to act in the best interests of all unitholders.

It is therefore truly appalling that the management and board of Sabana REIT have, on 16th July 2020, proposed to merge Sabana REIT with ESR REIT at 1 Sabana REIT unit for 0.94 ESR REIT unit, implying a value of S\$0.377 per Sabana REIT unit.

We intend to vote against the proposed merger for the following reasons:

Firstly, the merger is at a substantial discount of ~26% and ~34% to Sabana's NAV at 30th June 2020 and 31st Dec 2019 respectively. **In the 18-year history of the Singapore REIT market with multiple takeovers/mergers, there has never been a single takeover/merger of a REIT target at such a substantial discount to book value.**



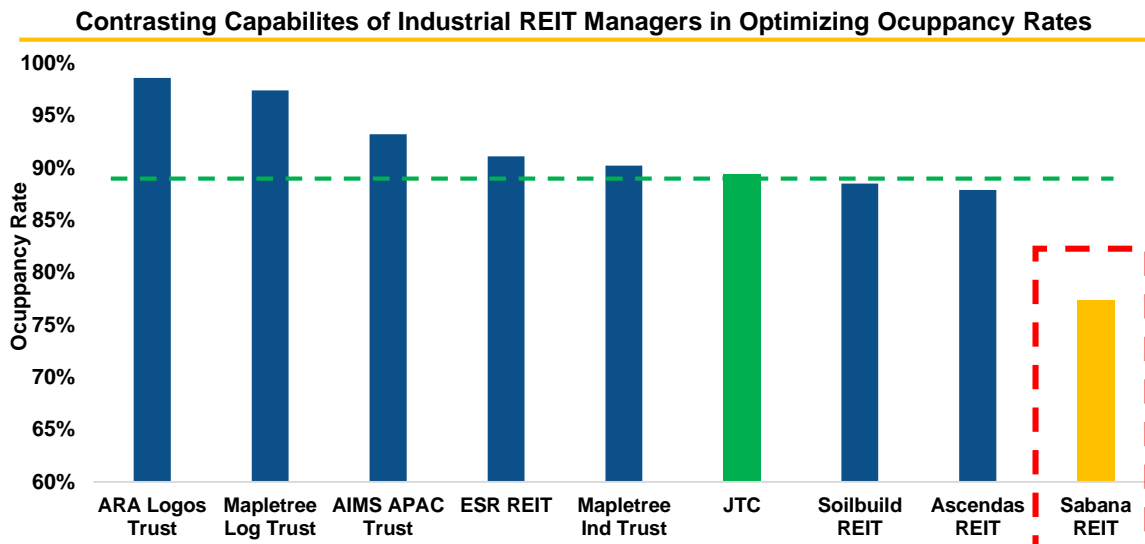
Secondly, based on FY19 distributions after adjusting for Sabana's lower gearing, the proposed merger is potentially DPU dilutive for Sabana unitholders. However, Sabana and ESR claim that the proposed merger is DPU accretive, based on the comparison of 1H20 distributions which have been significantly adjusted to account for COVID-19, although the basis of such adjustments have not been disclosed and may not necessarily be consistent.

Thirdly, Sabana properties have significantly higher potential upside in terms of increased occupancy and undeveloped GFA versus ESR. The proposed merger terms do not reflect this.

Fourthly, there are two simple initiatives that the Sabana Manager should have undertaken and could still undertake to enhance DPU namely, removing Shariah compliance to reduce interest costs and increasing leverage to fund unit buybacks or make further investments.

Finally, the approach from ESR REIT is opportunistically timed during the COVID-19 crisis. Given Sabana’s strong balance sheet there is no imperative for Sabana to undertake a merger at this time. The merger should not proceed unless it is on terms that reflect the value of Sabana’s underlying properties and are fair to Sabana REIT unitholders.

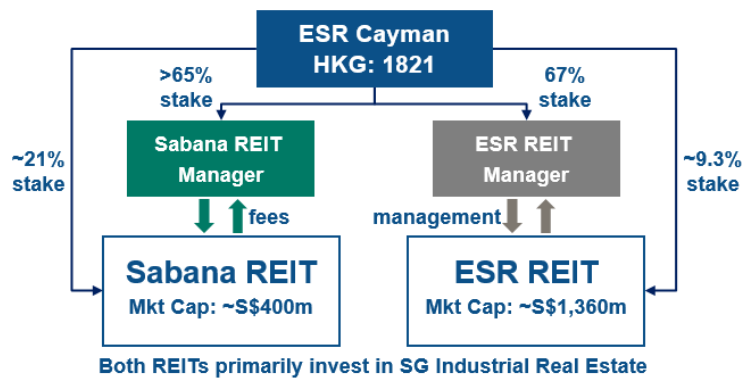
Coincidentally, the merger offer was made exactly one year after ESR had bought a substantial stake in Sabana REIT at S\$0.48 per unit in cash as well as the controlling stake in Sabana REIT’s manager at an estimated rich premium of P/E 2017 and 2018 of ~33.6x and ~26.1x respectively from the same vendor.



The proposed merger offer appears to be a bold attempt by ESR to potentially solve the conflict of interest issue at the expense of Sabana unitholders. We are deeply concerned that Sabana’s manager has also agreed to propose the merger. **The actions of Sabana’s manager have potentially highlighted the conflict of interest complication we raised previously - ESR being, 1) the controlling shareholder of both Sabana and ESR REITs managers, and 2) together with concert parties being the top unitholders of both REITs with overlapping investment mandates.** A number of other actions do not put Sabana’s manager in a favorable light in the context of a merger. These include a) the decision of Sabana management not to abandon Shariah compliance despite calls to do so over many years (but for ESR REIT to do so immediately following the proposed merger), b) Sabana’s very high level of dividend retention in its 1H20 results, and c) Sabana not disclosing the level of provisions and allowances for impairments that was deducted from the gross revenue line in its 1H20 results.

Given the substantial undervaluation of the offer price to the NAV, it raises concerns on whether the fiduciary duty of Sabana’s board and management to act and protect all unitholders’ interest has been potentially compromised. If Sabana’s board and management had intended to sell the Sabana REIT and intended to act in the best interest of all unitholders, shouldn’t there have been a rigorous, fair and transparent public sale process in an appropriate market environment where third parties such as other REITs, investment funds, corporate entities and individuals are able to undertake proper due diligence, prepare and bid to purchase all or part of the portfolio at a price which is equal or higher than its book value? Would this process have potentially elicited a far superior offer as compared to the suboptimal offer from ESR REIT which Sabana REIT manager is now proposing to unitholders? We believe these are key questions that must be answered!

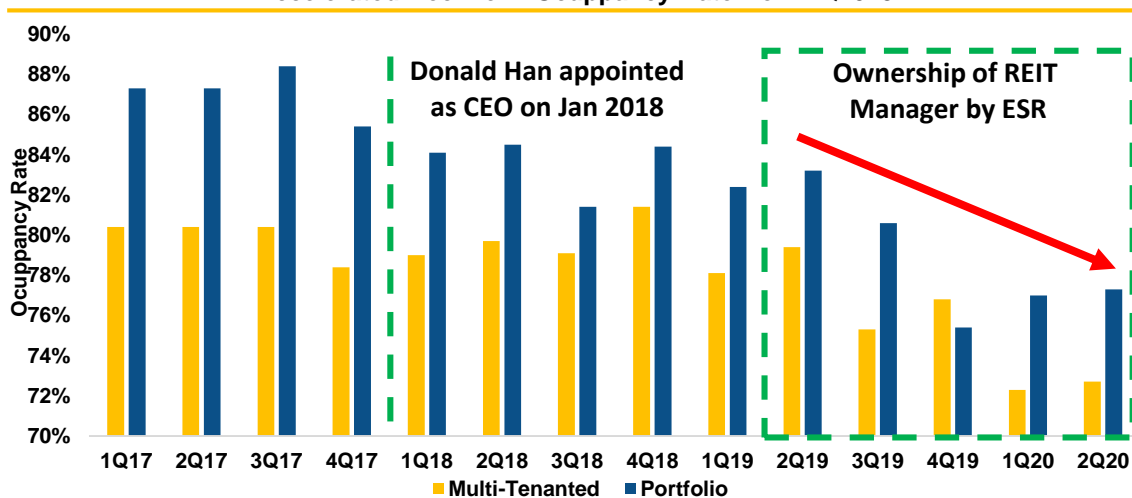
ESR Cayman is the Controlling Shareholder in both REIT Managers + Top Unitholders⁶ in both REITs



Sabana has one of the lowest gearing levels among S-REITs and has ample financial liquidity. Its rental income in 1H20 has also demonstrated resilience during this COVID-19 period by declining only 7% on a YoY basis despite providing rental rebate to its tenants. Sabana's rental income and NAV will further increase due to the completion of the retail component. It is thus hard to comprehend why Sabana's board and management would propose to 'panic-sell' at a substantial discount to book value which has been very conveniently and temporarily reduced from S\$0.57 to S\$0.51 per unit by the weaker market sentiments due to COVID-19.

We believe that the argument that Sabana has historically traded at a substantial discount to NAV for a prolonged period and thus should agree to a lower takeover price is not justifiable. The historical discount to NAV can potentially be attributed to poor management decisions both under the sponsorship of the Vibrant Group and now under the conflicted sponsorship of ESR. The Sabana manager has failed to timely execute on various strategies to improve the valuation of Sabana REIT. Besides the development of the retail component, Sabana has not executed on any strategic transactions since early 2019 despite substantial debt headroom. Additionally, occupancy rates have remained below market level for a prolonged period and have sharply worsened since ESR came on board. Other issues include Sabana running an inefficiently under-gearred capital structure and its continuance of Shariah compliance which increases interest costs.

Accelerated Decline in Occupancy Rate from 2Q2019



⁶ With concert party Tong Jinquan who is also a part owner of ESR REIT Manager and has unitholdings in both Sabana and ESR REITs

QUARZ CAPITAL AND BLACK CRANE CAPITAL INTEND TO VOTE AGAINST THE PROPOSED MERGER OF SABANA AND ESR REITS AT THE CURRENT TERMS (0.94 ESR REIT UNIT FOR 1 SABANA REIT UNIT WITH AN IMPLIED VALUE OF S\$0.377 PER SABANA REIT UNIT).

AS THE BIGGEST INDEPENDENT UNITHOLDERS WHO ARE NOT CONFLICTED IN THE TRANSACTION, WE ARE OPEN FOR CONSTRUCTIVE NEGOTIATION WITH THE BIDDER FOR A PROPOSED TAKEOVER PRICE IN LINE WITH SABANA'S NAV. WE REMIND THE BOARD AND MANAGEMENT OF SABANA REIT OF THEIR FIDUCIARY DUTY TO ACT AND NEGOTIATE IN THE BEST INTEREST OF ALL UNITHOLDERS.

WE ARE ACTIVELY ENGAGING WITH OTHER UNITHOLDERS WHO ALSO SHARE SIMILAR VIEWS THAT THE CURRENT PROPOSED PRICE SIGNIFICANTLY UNDERVALUES SABANA REIT. WE WILL SHARE OUR VIEWS AND ENGAGE WITH ALL UNITHOLDERS TO ENSURE THAT ALL PARTIES ARE PROVIDED WITH THE NECESSARY INFORMATION TO MAKE AN INFORMED DECISION.

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

WE ARE CURRENTLY WORKING ON ALTERNATIVE OPTIONS TO THE MERGER AND INTEND TO PRESENT THEM TO FELLOW UNITHOLDERS SHORTLY IN ORDER TO POTENTIALLY UNLOCK SUBSTANTIAL UNITHOLDER VALUE.

The potential rejection of the takeover offer at the October EGM will be unprecedented, being the first time in the history of REITs in Singapore. More importantly, it will highlight a massive lack of confidence in Sabana's REIT manager and its proposals. It will also raise concerns about the corporate governance standards and fiduciary duty of the REIT manager to its unitholders. It is also a total rejection of the potential conflict of interest which now exists due to the ownership of the manager by ESR Cayman.

We and other unitholders intend to ensure swift action is taken to resolve the potential conflict of interest to avoid any further value destruction in Sabana REIT.

Sincerely yours,

Jan F. Moermann
CIO, Quarz Capital Management

Peter Kennan
CIO, Black Crane Capital

For further information, please contact:

info@savesabanareit.com

Or visit:

www.savesabanareit.com

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