

VOTE AGAINST THE ESR-Sabana MERGER

INTERNALIZATION OF SABANA REIT MANAGER to be put forward at the next requisitioned EGM

Quarz and Black Crane intend to propose a removal of the existing manager and an internalization of the Sabana manager shortly after the ESR merger has been VOTED AGAINST by unit holders.

An internal manager IMMEDIATELY INCREASES THE DIVIDEND (DPU) BY ~7.5% through elimination of the management fees we pay to ESR Cayman, aligns the interests of all unitholders by removing the ESR conflicts and thereby enabling Sabana to realize its full value.

SABANA HAS THE POTENTIAL TO INCREASE DPU BY MORE THAN [30%] WITH A DIVIDEND YIELD OF +9% AND UPSIDE IN THE UNIT PRICE in the coming 12-18 months with a focused, aligned, competent and committed management. This will help to close the discount between the unit price and the NAV from which Sabana has suffered due to poor, conflicted management since its inception.

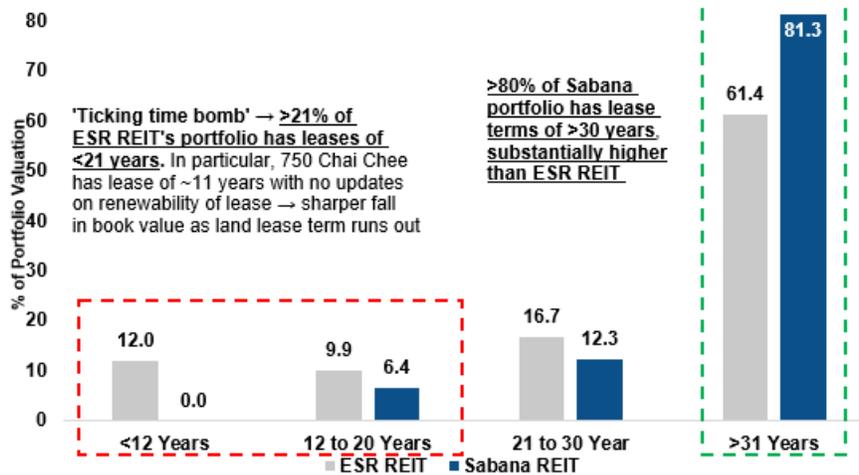
Quarz Capital and Black Crane intend to **vote against the proposed merger of Sabana and ESR REITs.**

We believe the proposed merger is value destructive to Sabana unitholders for the following reasons:

- 1) Unprecedented **discount of more than 30% to Sabana REIT book value** of S\$0.51 (\$0.56 in Dec 2019)
- 2) Merger is DPU decreative when compared to **Sabana REIT's potential standalone 2021 DPU which we estimate to be more than 20% above 2020**. Key components of the anticipated increase are:
 - A. Completion of retail component at 151 Lorong Chuan + DPU of 0.307 cents (+13%)
 - B. Add back one-time bad debt impairments and provisions of S\$1.8m + DPU of 0.094 cents (+4%)
 - C. Increase gearing ratio, occupancy rate and decrease financing cost which can easily add >0.25 cents to DPU (>+10%)
- 3) **ESR REIT portfolio:**
 - A. **Substantially higher leverage level of ~42% (~47% when including perpetual)** which is the highest among SGX-listed industrial REITs compared to Sabana's leverage level of ~31-33%
 - B. **More than 20% of portfolio with land lease terms of 20 years and less** and require additional capex to be put in to extend lease (potential capital raising given higher leverage ratio) compared to ~6.4% for Sabana REIT's portfolio

C. Increasing vacancy rate at UE Bizhub East (15% of portfolio) from ~10% (2017) to ~36% (2019)

>20% of ESR Portfolio are on land leases of <21 years → Exponential decay in book value soon



Source: Bloomberg, Financial Reports of ESR REIT and Sabana REIT

An Internal REIT Manager Owned By and For All Unitholders

Quarz Capital and Black Crane intend to requisition an EGM to approve the internalization of the Sabana manager.

The Internal REIT Manager will be owned by Sabana REIT on behalf of all Sabana unitholders.

The primary goal of the internal REIT Manager will be to close the substantial NAV discount of Sabana units by improving the Sabana REIT's performance via the levers outlined below and/or via sale of all or part of the Sabana portfolio and returning surplus capital to unitholders.

We have identified five key levers to increase unitholder value:

- 1) Timely completion and rent out of the retail component at 151 Lorong Chuan in 1Q2021 to generate net rental and distribution income of S\$3.7million and S\$3.1million per annum. This can potentially increase DPU by 0.29 cents (13% upside in DPU)
- 2) 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 S\$1.7million per annum and increase DPU by 0.16 cents (7% upside in DPU)
- 3) Increase leverage to 36% on NAV of 0.55 (post addition of book value from completed retail component and decreasing vacancy rate) to purchase S\$60million of yield accretive assets or buyback Sabana units. This can potentially increase DPU by 0.154 cents (5% upside in DPU)

- 4) Cost savings of S\$2million per year through the internalization of the REIT Manager (vs S\$4.5million of fees paid to ESR Cayman owned Sabana REIT Manager). This can potentially increase DPU by 0.19cents (7.5% upside in DPU)
- 5) Optimize vacancy rate from 77% to ~82% to generate S\$2.3million of additional distributable income and will potentially result in an increase of DPU by 2.2cents (8.5% upside in DPU)

The internal REIT Manager would also expedite the redevelopment of the untapped GFA at 151 Lorong Chuan (“New Tech Park”) and 32&35 Penjuru Lane to increase rental income.

More than 250,000 sqft of Grade A business park space can be built at New Tech Park which is 15 minutes away from the CBD, has a new and exciting retail component and is right opposite Lorong Chuan MRT. The space can be built to suit master tenants, particularly from the tech space who may be looking to house their entire operation in a single new high specification facility.

32&35 Penjuru Lane has a sizeable potential GFA of 700,000 sqft. It is right next to Aims APAC REIT’s 27 Penjuru Lane which is a fairly new multi-storey ramp up warehouse and logistic facility (ramp right behind Sabana’s asset). It is also right next to Mapletree Logistic Trust’s 31 Penjuru Lane which has a remaining lease of 7 years.

Internal REIT Manager can partner with third parties to efficiently develop 32&35 Penjuru Lane into an advanced logistic facility to increase value for Sabana unitholders.

The Internal REIT Manager would also be free of conflicts to explore other potential transactions to close the NAV discount such as mergers with other REITs, sale of the REIT or all of the underlying assets for cash or combinations of the above, that may create greater value for unitholders than the standalone strategy set out above.

Quarz and Black Crane’s interests are aligned with all independent unitholders.

Peter Kennan comments, *“Sabana’s portfolio provides institutional investors such as private equity funds, real estate managers and family offices an expedited way to have a sizeable footprint in the attractive Singapore industrial property sector. Given the high structural growth in E-Commerce, industrial and logistic assets such as Sabana’s are in high demand.*

Quarz and Black Crane has already initiated discussions with several candidates with strong expertise and track record in the commercial and industrial real estate sectors both in Singapore and regionally.

Jan Moermann comments, *“The current ESR Cayman owned Sabana REIT Manager has failed to execute on sensible steps to close the NAV discount and now recommends a value destructive merger with a REIT controlled by its owner. Clearly, a new, independent manager is required to restore value for Sabana unitholders!”*

Hundreds of Sabana unitholders owning significant stake in the REIT has signed up at WWW.SAVESABANAREIT.COM to voice their concerns over the management of Sabana REIT and their opposition to the current merger proposal.

A number of unitholders have indicated strong support for a change in the Manager of Sabana REIT to one that is aligned with their interests and motivated to unlock unitholder value.

ESR and Sabana REITs whose managers are majority owned by ESR Cayman are the worst performing REITs YTD among their SGX-listed industrial peers. The consistent and substantial underperformance provides a clear indication of the execution capability of the current management teams and its sponsor.

While both ESR and Sabana REIT managers feebly defend size benefits, the sharp underperformance of ESR REIT YTD against its smaller industrial peers provides strong evidence that the caliber and quality of management team can play a more important role in the performance of the REIT vs size.

While the incumbent manager will claim that the removal of the manager will trigger loan default clauses, Quarz and Black Crane are already in discussions with a number of financial institutions and investors who have expressed serious interest in financing the Sabana portfolio.

Jan Moermann comments, *“Given the low interest rate environment, this will present an attractive opportunity for Sabana REIT to refinance at a lower interest rate and form new banking relationships.*

Quarz and Black Crane intends to propose the replacement of Sabana REIT manager in the near term.
We call on all unitholders to support the vote in of the new internal manager which is aligned with their interest and which will potentially be yield accretive to DPU.

Quarz and Black Crane will hold a webinar for all Sabana unitholders at 815pm on 25th of November 2020 to share our views why the proposed merger offer substantially undervalues Sabana REIT and is value destructive to Sabana unitholders. Please register yourself at WWW.SAVESABANAREIT.COM and we will send you the link.

We look forward to a conflict free, re-energized Sabana REIT with strong prospects to create unitholder value!