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 UNITHOLDERS

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**"), would like to thank Unitholders of Sabana REIT ("**Unitholders**") for submitting their questions in advance of the Annual General Meeting ("**AGM**") for the financial year ended 31 December 2020, which will be held via electronic means on Tuesday 27 April 2021 at 10.00 a.m. The Manager wishes to address this second set of the questions received as at 19 April 2021 from Sabana Unitholders in Appendix A to this announcement. This follows the announcement dated 20 April 2021 in relation to our responses to the first set of questions received from Sabana Unitholders.

For Unitholders' easy reference, as several questions are overlapping in nature, we have grouped and summarised similar questions under relevant topic headers.

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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Appendix A

Strategy

1. **Since the appointment of current CEO in 2018, DPU and occupancy has continued to decline vs market, acquisitions appear increasingly out-of-reach, AEI's have been slow, "refreshed strategy" has been the same since appointment and shareholder complaints prior to 2018 still persist. Please comment on the KPIs needed to further deteriorate before the Board recommends a "refreshed" team.**

   We have continued to deliver on its Refreshed Strategy since introducing it in 2018, to deliver long-term value to 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. For example, we have been negotiating lease expiries well ahead of time. Of the 2021 lease expiries, 57.0% have either been renewed or signed new leases. There are no master lease expiries for the remaining of 2021 and 2022.

   As a recap, we had 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, which we completed and secured very strong take-up for even amid the pandemic, 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 contribute 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 are engaging with authorities to increase this to the maximum allowable 2.50 from 2.02 currently.

   In totality, since the new Board and Management came on board in 2018, we have steadily executed on Phase 1 of our strategy of divesting non-core and underperforming assets, from the previous 20 to the current 18 properties that we have at hand. While our net property income at that time was impacted on the back of those divestments, the sale proceeds enabled us to prepare for the future and secure our growth plans. As Unitholders may have noted, our unit price outperformed the broader market in 2018 and 2019.

   We understand that Unitholders have concerns, but we have and will continue to drive performance, as evidenced in our improved performance during Q1 2021.

Management Fee

2. **In 2018, the Board was very supportive of fee cut to the Manager and implementation of Strategic Review Committee. Pls comment on reversal in Board rationale and behaviour then vs now, especially given recent developments.**

   The interests of the Board and Manager have always been aligned with that of 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. 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. All fees and costs related to the merger do not have any impact on DPU and they were directly related to the REIT's business and affairs.

   The circumstances surrounding the cut in Manager's fees in 2018 are not the same as our current situation.

   The Manager has made strong progress since 2018 to deliver on its Refreshed Strategy through divestments to support Sabana REIT's longer-term growth considerations. We have divested non-core or underperforming assets including 6 Woodlands Loop for $13.8 million and 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 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.

   Furthermore, we are implementing Phase 2, to conduct AEI and select rejuvenation of our portfolio. In addition to the new NTP+ mall at New Tech Park, which we completed and secured very strong takeup for even amid the pandemic, 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 contribute positively to the performance and prospects of the properties.

   The Manager in constantly exploring various ways to improve the financial position and performance of the REIT amidst an increasingly challenging and difficult market environment.

Financials

3. **Can the Board comment on optimum leverage it is willing to undertake given the current outlook and need for further AEI?**

   We have not constrained ourselves to any particular fixed level to ensure we remain adaptive to market conditions and the needs of the REIT. We will be prudent in our capital deployment and keep our gearing in line with the S-REIT market and regulatory requirements.

4. **Sabana's Shari'ah compliance limits non-Islamic bank funding to 33% of NAV vs MAS regulation of 50% of Total Assets. Optimisation allows additional approx. $180mm of financing without breaching Shari'ah or MAS compliance. Which metric is the Board governing towards?**

These are two different sets of guidelines that are unconnected.

The 33% or 1/3 rule applies in governing the non-Islamic bank funding sources for our REIT. As at 31 December 2020, the REIT's total non-Islamic facilities (drawn and undrawn) is within this 1/3 requirement.

Separately, MAS' regulation of a 50% leverage ratio applies in governing the overall total borrowing for REITs. As at 31 December 2020, aggregated leverage ratio for our REIT was 33.5%, within the MAS limit of 50%.

The REIT observes both sets of requirements at all times.

5. **Pls comment how the 33% limitation on non-Islamic bank financing adds diversity of funding as opposed to restricting financing sources as indicated by the Board in previous publication. It appears the number of bank sources for the REIT has declined over the years.**

   Please refer to response to Q6 below**.**

6. **Pls confirm if there is immaterial reliance on Shariah investor-base. Has this reliance materially affected financing sources? Do the financing restrictions outweigh the potential benefits? If no, pls provide rationale for not letting Shariah compliance lapse.**

   The Manager wishes to highlight that being Shariah compliant has not materially affected the REIT's financing sources. The REIT's existing lenders (both Islamic and non-Islamic banks) have been supportive and have increased their lending exposure to Sabana REIT. This is evident by the successful completion of the recent refinancing by the REIT where the REIT managed to secure a new and upsized $148.9 million Islamic facilities, as well as a $30.0 million non-Islamic loan facility in April 2020, despite the COVID-19 situation.

   As a Shari'ah-compliant REIT, we have the option of tapping on Islamic financing sources and the flexibility of drawing from non-Islamic bank funding options. The ability of the REIT in raising funds via borrowing is largely dependent on the size and quality of the deposited assets, rather than the limit on non-islamic bank financing for Shari'ah compliance purposes.

   As to whether Sabana REIT will continue to maintain its Shari'ah compliance status, this will need to be assessed holistically. The manager will continue to evaluate and review this to see if it remains beneficial for the REIT. We will provide further updates as and when there is any material development on this.

7. **Has the Board quantified the value of the leverage headroom to Unitholders vs value to a potential acquirer/merger candidate? Pls comment if this has constrained the growth strategy i.e. preserving headroom for an acquirer vs utilising it for AEI.**

   As Sabana REIT's debt financing is mostly on a secured basis, the actual debt headroom is limited to the number of properties left to be secured for financing and the loan-to-value on the valuation of the secured properties.

   The Board and management team are constantly exploring all options and actively engaging banks and lenders to maintain a resilient balance sheet that can position it to grow sustainably.

Operations

8. **Pls provide reasons for failure of "new competitive commission scheme and agent loyalty program" implemented by CEO referenced in 1 March 2018 investor presentation given occupancy declined from 84.5% to 76.5% in the same time period. Has this program been revamped and what is current leasing model?**

   We have used this scheme to successfully fill two vacant properties since introducing it in 2018. We continue to implement the scheme, albeit taking a more targeted approach to focus on properties converted from master-lease properties to multi-tenanted properties, and properties with lower occupancies.

   The dip in occupancy was mainly due to a termination event at 10 Changi South Street 2 ("10CSS2") as a result of default by the then master-tenant, as well as a non-renewal by the tenant at 3A Joo Koon Circle ("3AJKC") due to its expansion plan that the property could not accommodate. The master lease properties were converted to multi-tenanted properties after.

   We have since carried out refurbishment works at 10 Changi South Street 2 and have successfully repositioned 3A Joo Koon Circle as a healthcare cluster to attract tenants in expansionary tenants.

9. **Current management team has avoided building or investing in ramp-up warehouses despite ESR, Soilbuild, ARA and AIMS actively doing so. Previous presentations have highlighted this as a demand from tenants. Can CEO comment on disconnect in execution or outlook?**

   Having a considerably smaller portfolio than some of our peers limits how much development we can undertake concurrently if we want to balance current and future returns for Unitholders. Having taken into account Unitholders' interest, we are unable to take on multiple redevelopments at the same time – with AEI at New Tech Park ongoing - as every project will incur significant capital expenditure and impact our DPU and occupancy in the near term, since we will need to move tenants out.

   Further, ramp-up warehouses require a certain amount of land space, and most of our properties are smaller in size which poses the technical limitations.

10. **Could management provide comment on how it is actively pursuing tenants in key sectors and AEI/repositioning needed to successfully secure higher value tenants?**

    We are focusing on securing more tenants from key expansionary sectors in high-growth and high-value industries. Over the past year, we have secured many such tenants, such as a biomedical tenant at 3A Joo Koon Circle – which we have successfully repositioned as a healthcare cluster, a high-value electronics company at 23 Serangoon North Ave 5 and a data centre company at 151 Lorong Chuan.

    We will continue with this strategy moving forward.

11. **Please provide an assessment of 39 Ubi Road 1 condition and possible reasons for neighbouring properties securing rental psf of approx. 30-60% higher? This property has been neglected since 2011 with no indication of AEIs despite debt headroom.**

As we have outlined in our response to Question 9, as a smaller REIT, we need to carefully consider any AEI or redevelopment plans as any such plans may have an impact on the near term DPU. Still, the Manager is committed to rejuvenate our portfolio selectively and opportunistically in a prudent manner to future-proof our portfolio to attract better tenants in expansionary sectors and ramp up occupancy. We will assess the best course of action for 39 Ubi Road 1 and will provide the necessary updates to the market.

12. **Pls comment on rationale for prolonged lack of AEI or progress on 1 Tuas Avenue 4 since vacancy in 2017 and deal withdrawal in 2019. Competitor AIMS APAC has optimised plot ratio and capital structure to build a ramp-up facility opposite. Where does Sabana mgmt. differ in outlook?**

    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 choosing to explore build-to-suit ("BTS") and divestment opportunities for 1 Tuas Avenue 4 or other suitable opportunities that may arise. For instance, we were close to finalising a proposed BTS opportunity last year but unfortunately the prospective tenant changed their business plan due to 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.

Cessation of merger in 2020

13. **Today, Sabana's price is $0.42 whilst ESR is $0.40**

    Barely, 5 months ago, the Manager proposed and sold very hard to us that the deal put forward by ESR is fair and reasonable despite the very strong objections from us. A lot of our money is spent on this deal that was so short changing to us and it is now proven not by hindsight.

    You all are professionals hired to look after our interest. How are you going to be accountable for this big amount of our money being expensed to promote a deal so short changing to us?

    We are unable to comment on the Unit price as it is a function of the market, over which we have no control over.

    The Manager wishes to highlight that against the backdrop of continued macro uncertainty and weighing the strategic rationale in being to be part of a larger combined entity, the Board and management believed that it had the responsibility to put the merger offer to all Unitholders. The Board had acted with Unitholders' interest in mind 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.

While putting forth the merger for Unitholders' approval involved some costs, these costs do not have any impact on DPU. Nonetheless, the Manager had proactively negotiated a reduction in the total fees relating to the merger to below the previously announced S$2.7 million, as will be announced during AGM.

As a standalone REIT, we remain focused on driving our Refreshed Strategy to drive value for Unitholders, such as undertaking AEIs and selectively rejuvenating its portfolio, amid a still challenging operating environment. For one, 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.

Share price

14. Why our share dropped so much, and compare to other Reit?

We are unable to comment on the Unit price as it is a function of the market which we have no control over. However, we continue to focus on delivering our Refreshed Strategy to drive value for Unitholders, and are encouraged that Sabana REIT's year-to-date unit price has performed well.

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