

28 July 2023

**Sabana Real Estate Investment Management Pte. Ltd.**

151 Lorong Chuan  
#02-03 New Tech Park  
Singapore 556741

Attention: Mr Tan Cheong Hin, Chairman  
Mr Donald Han, Chief Executive Officer

Dear Sirs,

**OPEN LETTER FROM ESR GROUP – SAVE SABANA REIT FROM FALSEHOODS AND DESTRUCTION**

1. We have prepared a short open letter to unitholders to ensure that unitholders continue to be made aware of all material facts, so that they may make an informed and considered decision at the Extraordinary General Meeting on 7 August 2023.
2. We would be grateful if you could publish a copy of the enclosed letter as an announcement via SGXNET.

Yours faithfully



**ESR GROUP LIMITED**

**ESR Group Limited**

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Dear Unitholders

ESR Group believes it is imperative that all unitholders receive accurate and material facts, in order to make an informed and considered decision at the EGM on 7 August 2023.

As the largest unitholder in Sabana REIT, our interests have been and continue to be aligned with all unitholders. As such, we would like to present the following:

- **An internalisation of Sabana REIT Manager will not result in cost savings – once higher debt costs are factored in, unitholders will be worse off.**
- **If the Manager is removed, Sabana REIT’s borrowing costs are expected to increase, without the backing of a strong sponsor for its unsecured facilities. Each increase of one percentage point (100 basis points) will cost unitholders an additional S\$3.0 million in interest each year which will reduce DPU by 0.27 Singapore cents<sup>1</sup>.**

No Hedge Unwinding	All-in Interest Rate (%)	Additional Interest Cost (S\$mm)	DPU Impact <sup>1</sup> (Singapore cents)	DPU Decline <sup>2</sup> (%)
↑ 0.50%	↑ 4.39%	↑ 1.48	↓ 0.13	↓ 4.2%
↑ 1.00%	↑ 4.89%	↑ 2.95	↓ 0.27	↓ 8.3%
↑ 1.50%	↑ 5.39%	↑ 4.43	↓ 0.40	↓ 12.5%
↑ 2.00%	↑ 5.89%	↑ 5.90	↓ 0.54	↓ 16.6%

- **Further, the removal of the Manager may also trigger an unwinding of the existing interest rate hedges which have been put in place. If this is the case, the actual impact of one percentage point (100 basis points) will be even higher at S\$8.3 million in interest each year which will reduce DPU by 0.75 Singapore cents<sup>3</sup>.**

Hedge Unwound	All-in Interest Rate (%)	Additional Interest Cost (S\$mm)	DPU Impact <sup>1</sup> (Singapore cents)	DPU Decline <sup>4</sup> (%)
↑ 0.50%	↑ 6.19%	↑ 6.79	↓ 0.62	↓ 19.1%
↑ 1.00%	↑ 6.69%	↑ 8.26	↓ 0.75	↓ 23.3%
↑ 1.50%	↑ 7.19%	↑ 9.74	↓ 0.88	↓ 27.4%
↑ 2.00%	↑ 7.69%	↑ 11.21	↓ 1.02	↓ 31.6%

- **The net savings from internalisation presented by Quarz is grossly overstated. Sabana REIT Manager only generated S\$1.26 million of profit in 2021 out of the S\$5.14 million of management fees it received from Sabana REIT as it had to bear ongoing recurring operating cost of running the REIT.**
- **Any potential cost savings out of the S\$1.26million of profit generated by the Sabana REIT Manager will be wiped out by the potential increase in borrowing cost and unitholders will be worse-off on an ongoing basis.**

<sup>1</sup> Based on 1,102,156,128 units outstanding

<sup>2</sup> Based on annualised 1H23 DPU of 1.61 cents

<sup>3</sup> Based on 1,102,156,128 units outstanding

<sup>4</sup> Based on annualised 1H23 DPU of 1.61 cents

**ESR Group Limited**

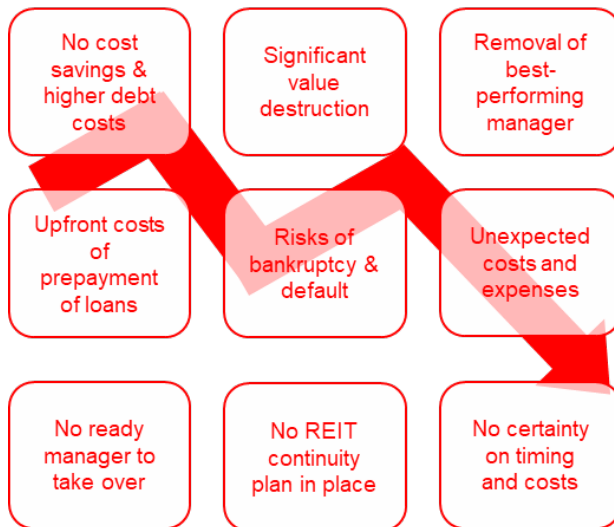
- This further ignores the one-time costs associated with implementing the change which Quarz itself agrees is between S\$3 – 5 million. This could be higher as according to the Trustee, it will need to appoint professional advisers (including investment, legal, financial, tax, property and other advisers).
- Quarz’s claims and assumptions of financial upside are either overestimated and ignore the realities of running a business in today’s volatile and uncertain market or already ongoing (e.g. ongoing asset enhancement of 1 Tuas Ave 4).
- Further, the current resolutions are insufficient to complete the internalisation or replace the Sabana REIT Manager as there is no proper plan from Quarz to effect either.
- Removing the Sabana REIT Manager will not result in cost savings as Sabana REIT will still need to pay ongoing management fee to the interim manager.
- Further, Unitholders will be forced to bear all costs and uncertainty related to the proposed internalisation without any guarantees that the management of Sabana REIT can be successfully internalised as that will require further EGMs where necessary and specific amendments to the Trust Deed require approvals via a special resolution (75% approval threshold).
- If the resolutions are approved, Sabana REIT unitholders will enjoy zero savings, face potential higher financing cost, incur additional cost associated with implementing a proposed internalisation which may be voted down at subsequent EGMs where necessary and specific amendments to the Trust Deed require approvals via a special resolution (75% approval threshold).
- The current Manager has delivered strong performance over the past five years with total unitholder returns of 55.9%<sup>5</sup> since 2018, outperforming the STI Index, iEdgeS-REIT Index and FTSE ST All-Share REIT Index. Sabana REIT was the best-performing industrial REIT in 2022.
- We urge unitholders to consider the facts and the consequences of supporting Quarz and to vote against the two resolutions proposed.

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<sup>5</sup> As of 28 July 2023, Bloomberg  
**ESR Group Limited**

# SAVE SABANA REIT FROM FALSEHOODS AND DESTRUCTION

If unitholders vote FOR,  
**NEGATIVE CONSEQUENCES**



**VOTE CAREFULLY, VOTE AGAINST**



**MAINTAIN  
CERTAINTY AND  
STABILITY OF  
RETURNS FOR  
UNITHOLDERS**

**Amid market uncertainty,  
let's unite to preserve our  
returns**