



(Constituted in the Republic of Singapore pursuant to a trust deed dated 31 March 2006 (as amended))

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## STATEMENT OF CLARIFICATION ON PROPOSED DIVESTMENTS

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ESR-LOGOS Funds Management (S) Limited, the manager of ESR-LOGOS REIT (“**E-LOG**”, and the manager of E-LOG, the “**Manager**”), is issuing the following statement of clarification in response to the queries the Manager received from investors, media, and stakeholders following the media article published on The Business Times dated 12 July 2023 titled “ESR-Logos Reit’s manager must justify decision to sell assets below valuation” (“**The Business Times Article**”), and the news release dated 23 June 2023 titled “ESR-LOGOS REIT to Divest Seven Non-Core Assets Aggregating S\$337.0 Million; Significant Milestone in Capital Recycling and Asset Rejuvenation Strategy with Clear Plan to Redeploy Capital Back into Leading New Economy Real Estate Assets” (the “**Divestment News Release**”) and the announcement dated 23 June 2023 titled “Proposed Divestment of a Portfolio of 5 Assets with an Aggregate Sale Consideration of S\$313.5 million” (the “**Divestment Announcement**”).

In relation to The Business Times Article, the Manager would like to assure Unitholders of the following:

- 1) E-LOG is in a strong financial position, with aggregate leverage of only 33.6%<sup>1</sup> post divestments, is in compliance with all of our loan covenants and 96% of our assets are currently free of encumbrance (i.e., not mortgaged to banks for purposes of loan financing);
- 2) Divestment of non-core assets is in line with our 4R strategy;
- 3) There are criteria and processes in place for the evaluation of asset divestments; and
- 4) A price discovery process was undertaken for the Proposed Divestments.

The Manager has on a number of occasions stated that the strategy of E-LOG is to rejuvenate the portfolio by divesting non-core assets that the Manager believes will underperform when compared to the rest of the portfolio and pivoting to higher quality New Economy assets. Our 4R strategy and the criteria for identifying non-core assets for divestment have been communicated extensively to all Unitholders through various channels such as financial results briefings, investor days, and at our Annual General Meeting. In addition, there was a price discovery process undertaken for the Proposed Divestments to ensure that the outcome would be in the best interests of the Unitholders.

Further details are provided in this Announcement.

The Manager hopes that this response clarifies the queries posed and fosters a more comprehensive understanding of the transaction.

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<sup>1</sup> Assuming that net proceeds from the Proposed Divestments, the Other Divestment (as defined in the Divestment Announcement), Equity Fund Raising and divestment of 49 Pandan Road are fully used to repay existing debt.

**BY ORDER OF THE BOARD**

**ESR-LOGOS Funds Management (S) Limited**

As Manager of ESR-LOGOS REIT

(Company Registration No. 200512804G, Capital Markets Services Licence No. 100132)

**Adrian Chui**

Chief Executive Officer and Executive Director

14 July 2023

For further enquiries, please contact:

**ESR-LOGOS Funds Management (S) Limited**

**Lyn Ong**

Senior Manager,

Capital Markets and Investor Relations

Tel: +65 6222 3339

Email: [lyn.ong@esr-logosreit.com.sg](mailto:lyn.ong@esr-logosreit.com.sg)

**Sua Xiu Kai**

Assistant Manager,

Corporate Communications

Tel: +65 6222 3339

Email: [xiukai.sua@esr-logosreit.com.sg](mailto:xiukai.sua@esr-logosreit.com.sg)

The Manager appreciates the engagement and interest from investors and the media upon the release of the Divestment News Release and the Divestment Announcement, and the Manager aims to provide further clarifications on the matter in light of the queries received and foster a more comprehensive understanding of the transaction:

### 1. Financial Stability of E-LOG

The Manager remains confident of the financial stability of E-LOG and dismisses any speculation or insinuation of E-LOG being under financial distress.

To reiterate the financial strength of E-LOG, E-LOG reported an aggregate leverage of 41.6% as at 31 March 2023 and as stated in the Divestment Announcement, E-LOG's pro forma aggregate leverage as at 31 December 2022 is expected to reduce to 33.6%<sup>2</sup> upon completion of the Proposed Divestments assuming that the net proceeds will be used to repay outstanding debt. 96% of E-LOG's assets are free of encumbrance as at 31 March 2023 (i.e. not mortgaged to banks for purposes of loan financing). **This reduced aggregate leverage and unencumbered portfolio will provide E-LOG a significant debt headroom and the flexibility to optimise its capital structure and recycle capital towards rejuvenating its portfolio to higher quality New Economy assets.**

E-LOG is in compliance with all its loan covenants.

### 2. 4R Strategy to Pivot to New Economy Assets:

Since 2022, the Manager has been communicating its 4R strategy to investors, which includes (i) portfolio **Rejuvenation**; (ii) capital **Recycling**; (iii) **Recapitalising** balance sheet; and (iv) **Reinforcing** sponsor support. This has been communicated extensively to the market through various channels such as financial results briefings, investor days, and at our Annual General Meeting.

The Manager aims to pivot E-LOG's portfolio towards modern New Economy assets, including logistics assets. As a result of the 4R strategy, modern New Economy assets in E-LOG's portfolio has increased from 42.2% in 1Q2022 (pre-merger with ARA-LOGOS Logistics Trust, prior to the 4R strategy) to 63.0% as at 31 March 2023.

The strategy entails divestment of non-core assets and recycling the proceeds into asset enhancement initiatives ("**AEIs**"), redevelopments and potential asset acquisitions with longer underlying land leases. These Proposed Divestments (including divestments completed since 2021) are in line with our 4R Strategy.

### 3. Key Considerations of Proposed Divestments:

The Proposed Divestments are **non-core assets** for E-LOG. As explained in our various public announcements, the non-core assets have one or more of the following characteristics:

- Short underlying land lease tenure;
- Small in size;
- Limited AEI and/or redevelopment potential; or
- Dated property specifications

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2 Assuming that net proceeds from the Proposed Divestments, the Other Divestment (as defined in the Divestment Announcement), Equity Fund Raising and divestment of 49 Pandan Road are fully used to repay existing debt.

In addition to the above, below are the key considerations of the Proposed Divestments:

**a. Accelerating Rate of Decline in Value of Properties with Shorter Land Lease:**

As the land lease tenure runs down, the rate of decline in value of properties will accelerate exponentially. The Manager has, after evaluating the specifications and performance of the portfolio of properties in relation to its 4R strategy and determined that the Proposed Divestment with a portfolio discount of 5.1% is in the best interest of the Unitholders. The Portfolio of five Singapore assets included in the Proposed Divestments have an average weighted remaining land lease tenure of approximately 25 years.

Had the Manager attempted to divest the assets individually, the time taken to source for and negotiate with individual buyers, having regard to the constraints imposed by JTC Corporation (“JTC”) as discussed in paragraph 4 below, may be protracted. As a result, the eventual aggregate selling price of the individual non-core assets may not be higher than the Portfolio Sale Consideration.

**b. Impact of Rising Interest Rates on Asset Valuation**

The Manager took into consideration the potential impact of continued rising interest rates on the capitalisation and discount rates used for valuation of properties. Since the start of 2023, interest rates have risen by more than 100 basis points, and this is expected to increase capitalisation rates and discount rates which in turn, would negatively impact property valuations.

While there is a possibility of waiting for interest rates to stabilise in order to obtain a potentially higher sale price, it is difficult to predict when interest rates will stabilise or decrease, thus creating a potential double whammy on property valuations while land lease decay continues amidst higher interest rates.

**4. Price Discovery Process Conducted by CBRE**

The Manager appointed CBRE<sup>3</sup> to manage the divestment process, which commenced in December 2022, to obtain the best possible price for the five Singapore non-core assets. CBRE identified more than 35 potential parties, comprising real estate investors and end-users.

Notably, JTC requirements necessitated that the buyers be end-users or third-party facility providers that are (i) an entity that builds and leases a facility to an industrialist, or (ii) REITs, investment funds or trusts with a Trust Business Licence or a Capital Markets Services (CMS) Licence issued by MAS or (iii) developers with established and credible track record in real estate development or (iv) provider supported by the Economic Development Board or Enterprise Singapore, as criteria for owning industrial properties on JTC land. As such, the pool of potential buyers is smaller as compared to other sectors such as office, retail, hotel or residential properties, as there are no such regulatory restrictions.

Subsequently, eight investors participated in the non-binding Expression of Interest (“EOI”) for the portfolio.

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3 As announced in ESR-LOGOS REIT FY2022 Financial Results Presentation.

The evaluation criteria communicated to all bidders in the EOI stage included factors such as: (i) sale price, (ii) funding certainty, (iii) track record of investing in Singapore industrial assets, and (iv) deal certainty, which encompassed the identity of ultimate buyers, considering the JTC criteria for ownership. InterTrust (Singapore) Limited as trustee of the relevant trusts<sup>4</sup> was awarded the transaction based on the above criteria, and the Manager believes the outcome is in the best interests of the Unitholders.

The Proposed Divestments of the five Singapore non-core assets were divested at an average discount of 5.1%, while together with the Other Divestments, the seven non-core assets were divested at an average discount of 4.5%, and all of which are well within the regulatory threshold under the Code of Collective Investment Scheme of a price not less than 90% of the assessed value assessed (valuer to be commissioned by the property fund) and which assessment is not more than six months old. Since 2021, the Manager has been divesting non-core assets at both a premium and discount to valuation, based on the characteristics of the non-core assets sold and criteria as mentioned above, and within regulatory thresholds.

In conclusion, as part of its 4R strategy to pivot towards New Economy assets, E-LOG has been divesting non-core assets and recycling the proceeds towards New Economy assets especially those with longer land leases to address the land lease decay issue associated with Singapore industrial assets (for example, E-LOG's most recent acquisition of ESR Sakura Distribution Centre announced in August 2022 which has a freehold tenure). The Manager will continue to actively manage the assets in E-LOG's portfolio to maximise value for all Unitholders.

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4 As trustee of 3 Pioneer Sub-trust, 4&6 Clementi Sub-trust, 6 Chin Bee Sub-trust, 21 Changi Sub-trust, and 30 Toh Guan Sub-trust.

## About ESR-LOGOS REIT

ESR-LOGOS REIT is a leading New Economy and future-ready Asia Pacific S-REIT. Listed on the Singapore Exchange Securities Trading Limited since 25 July 2006, ESR-LOGOS REIT invests in quality income-producing industrial properties in key gateway markets.

As at 31 December 2022, ESR-LOGOS REIT holds interests in a diversified portfolio of logistics properties, high-specifications industrial properties, business parks and general industrial properties with total assets of approximately S\$5.7 billion. Its portfolio comprises 82 properties (excluding 48 Pandan Road held through a joint venture) located across the developed markets of Singapore (61 assets), Australia (20 assets) and Japan (1 asset), with a total gross floor area of approximately 2.3 million sqm, as well as investments in three property funds in Australia. ESR-LOGOS REIT is also a constituent of the FTSE EPRA Nareit Global Real Estate Index.

ESR-LOGOS REIT is managed by ESR-LOGOS Funds Management (S) Limited (the “**Manager**”) and sponsored by ESR Group Limited (“**ESR**”). The Manager is owned by ESR (99.0%) and Shanghai Summit Pte. Ltd. (1.0%), respectively.

For further information on ESR-LOGOS REIT, please visit [www.esr-logosreit.com.sg](http://www.esr-logosreit.com.sg).

## About the Sponsor, ESR

ESR is APAC’s largest real asset manager powered by the New Economy and the third largest listed real estate investment manager globally. With approximately US\$150 billion in total assets under management (AUM), its fully integrated development and investment management platform extends across key APAC markets, including China, Japan, South Korea, Australia, Singapore, India, New Zealand and Southeast Asia, representing over 95% of GDP in APAC, and also includes an expanding presence in Europe and the U.S.. ESR provides a diverse range of real asset investment solutions and New Economy real estate development opportunities across its private funds business, which allow capital partners and customers to capitalise on the most significant secular trends in APAC. ESR is the largest sponsor and manager of REITs in APAC with a total AUM of US\$46 billion. ESR’s purpose – *Space and Investment Solutions for a Sustainable Future* – drives it to manage its business sustainably and impactfully, and ESR considers the environment and the communities in which it operates as key stakeholders of its business. Listed on the Main Board of The Stock Exchange of Hong Kong, ESR is a constituent of the FTSE Global Equity Index Series (Large Cap), Hang Seng Composite Index and MSCI Hong Kong Index.

For more information on ESR, please visit [www.esr.com](http://www.esr.com)

## Important Notice

The value of units in ESR-LOGOS REIT (“**Units**”) and the income derived from them may fall as well as rise. Units are not investments or deposits in, or liabilities or obligations, of ESR-LOGOS Funds Management (S) Limited (“**Manager**”), Perpetual (Asia) Limited (in its capacity as trustee of ESR-LOGOS REIT) (“**Trustee**”), or any of their respective related corporations and affiliates (individually and collectively “**Affiliates**”). An investment in Units is subject to equity investment risk, including the possible delays in repayment and loss of income or the principal amount invested. Neither ESR-LOGOS REIT, the Manager, the Trustee nor any of the Affiliates guarantees the repayment of any principal amount invested, the performance of ESR-LOGOS REIT, any particular rate of return from investing in ESR-LOGOS REIT, or any taxation consequences of an investment in ESR-LOGOS REIT. Any indication of ESR-LOGOS REIT performance returns is historical and cannot be relied on as an indicator of future performance.

Investors have no right to request that the Manager redeem or purchase their Units while the Units are listed. It is intended that investors may only deal in their Units through trading on Singapore Exchange Securities Trading Limited (the “**SGX-ST**”). Listing of the Units on the SGX-ST does not guarantee a liquid market for the Units. This announcement may contain forward-looking statements that involve assumptions, risks and uncertainties. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements as a result of a number of risks, uncertainties and assumptions. Representative examples of these factors include (without limitation) general industry and economic conditions, interest rate trends, cost of capital and capital availability, competition from similar developments, shifts in expected levels of occupancy or property rental income, changes in operating expenses, governmental and public policy changes and the continued availability of financing in amounts and on terms necessary to support ESR-LOGOS REIT’s future business. You are cautioned not to place undue reliance on these forward-looking statements, which are based on the Manager’s current view of future events.

This announcement is for information purposes only and does not have regard to your specific investment objectives, financial situation or your particular needs. Any information contained in this announcement is not to be construed as investment or financial advice and does not constitute an offer or an invitation to invest in ESR-LOGOS REIT or any investment or product of or to subscribe to any services offered by the Manager, the Trustee or any of the Affiliates.