



November 9, 2022

Mr. Hubert Chak  
Group Executive Director and Chief Executive Officer  
Room 2002, 20/F Lee Garden Six  
111 Leighton Road, Causeway Bay  
Hong Kong

Dear Mr. Chak,

Greetings from Chartwell Capital! We hope that you and your team are well. Since our last letter, we have been very happy to see the establishment of the SF REIT corporate website and your active involvement in introducing the Trust on various media platforms. We also appreciate the team effort to reduce the proportion of floating debt from nearly 90 percent to less than 60 percent, lowering risk during this period of rising interest rates.

We are reassured by SF REIT's strong pipelines from the sponsor. With over 5 million square feet of completed warehouses across China and Southeast Asia, we believe that SF REIT has one of the most abundant M&A pipelines in the industry. If SF REIT can attain a favorable unit price, we believe your company can deliver an extensive virtuous circle of DPU (Distribution Per Unit) accretive acquisitions.

However, rising global interest rates and shrinking liquidity have pushed up the cost of capital for REITs globally. We acknowledge that this environment creates headwind for the industry to pursue and structure accretive acquisitions. Therefore, we highly encourage SF REIT to consider reformulating its acquisition strategy to focus on the Greater Bay Area (GBA) in the medium term before tapping into the sponsor's pipelines in other cities in China. We believe that the GBA is a structurally compelling region for the logistics and warehousing industry, driven by solid demographics, growing wealth, a strategic location, and rapidly growing infrastructure connectivity.

### **1. Favorable demographics drive consumption**

The population of the GBA is expected to grow from 86 million to 140 million by 2050, and annualized GDP growth is expected to increase by nearly 10.0% by 2030. A survey by KPMG, HSBC, and HKCG shows that 80% of executives expect that the region will outperform the rest of the country, and 52% indicate an intention to expand in the region. The growing

demographics and rising income levels will form a strong base for consumption and demand for the logistics industry.

## **2. Greater connectivity from new infrastructure**

Guangdong announced a series of initiatives in its 14<sup>th</sup> Five-Year Plan to facilitate the integration of the GBA and the development of logistics infrastructure. These initiatives include “building a vertical–horizontal alliance for transportation,” implementing “three ‘123 fast delivery’ initiatives,” investing in “3+4+8” aviation transportation, and expanding “railway and highway construction connecting the mainland, Hong Kong, and Macau and connecting the east and west banks of the Pearl River.” Through these massive policy initiatives, infrastructure development, and service improvements, the GBA will become one of the most developed transportation hubs in China.

## **3. Healthy warehousing market**

The Grade-A warehouse stock in the GBA has grown by 40% to 10.8 million square meters over the past 2 years. At the same time, vacancy rates have remained healthy at less than 5.0%, lower than other key regions in China. This demonstrates the region’s healthy demand for logistics space.

Over the next 2 years, the warehouse stock in the GBA is expected to grow by 4.1 million square meters. We recognize that a majority of this new stock will be in Guangzhou and Dongguan, while the new stock available in Shenzhen and Foshan will moderate. We believe that there are various warehouses in the GBA from the sponsors that the REIT can acquire. Despite the rising supply, we are confident that the REIT can leverage long-term leases with SF Holdings Group to ensure greater income stability.

By reformulating its acquisition strategy in the GBA, SF REIT can offer unitholders greater exposure to the GBA’s growing logistics market while maintaining stability through long-term leases with the sponsor. Greater appreciation of REIT exposure to GBA structural growth can lower your cost of equity and facilitate the undertaking of more active acquisitions from the sponsor in other cities and countries.

Our portfolio companies have extensive experience in the media, infrastructure, and property sectors in the GBA. We would be happy to connect you regarding any future ventures in this region.

We hope the Company will consider our suggestions. Please feel free to contact us if you have any questions.

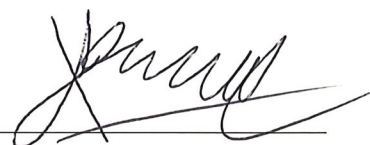
Sincerely,



Ronald W. Chan

Chief Investment Officer

Chartwell Capital Limited



Aditya Salim

Senior Investment Analyst

Chartwell Capital Limited