FAIRVEST
PROPERTY HOLDINGS

# SUMMARISED AUDITED CONSOLIDATED RESULTS AND CASH DIVIDEND DECLARATION

FOR THE YEAR ENDED 30 JUNE 2020


**EXPERIENCE**
THE DIFFERENCE


# HIGHLIGHTS

Distribution for the six-month period of **9.883 cents per share**

Like-for-like property portfolio increased by **1.0%** valued at **R3.49 billion**

Like-for-like net property income growth of **0.8%**

Vacancies contained at **4.5%** of total lettable area

Tenant retention remained high at **73.2%**

Arrears low at **4.4%** of revenue

Interest cover high at **2.9** times

# SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | **Audited 30 June 2020 R'000** | Audited 30 June 2019 R'000 |
|---|---|---|
| **Assets** | | |
| **Non-current assets** | **3 621 615** | 3 452 025 |
| Investment property | **3 233 390** | 3 092 382 |
| Right-of-use asset | **137** | – |
| Loans receivable | **315 023** | 297 933 |
| Investments | **4 766** | 4 816 |
| Office equipment | **155** | 258 |
| Operating lease and other receivables | **5 379** | – |
| Operating lease asset | **62 405** | 56 636 |
| **Current assets** | **90 458** | 98 042 |
| Loans receivables | **–** | 10 699 |
| Amounts owing by non-controlling interests | **12 370** | 10 594 |
| Operating lease and other receivables | **64 331** | 61 393 |
| Cash and cash equivalents | **13 757** | 15 356 |
| **Non-current asset held for sale** | **179 600** | – |
| **Total assets** | **3 891 373** | 3 550 067 |
| **Equity and liabilities** | | |
| **Shareholders' interest** | **2 168 158** | 2 335 351 |
| Stated capital | **734 046** | 804 177 |
| Retained earnings | **1 434 112** | 1 531 174 |
| Non-controlling interest | **135 916** | 127 816 |
| **Total equity** | **2 304 074** | 2 463 167 |
| **Non-current liabilities** | **1 432 407** | 937 910 |
| Interest-bearing borrowings | **1 190 494** | 810 829 |
| Amounts owing to non-controlling interests | **146 052** | 106 001 |
| Lease liability | **15 522** | – |
| Derivative financial instrument | **67 578** | 7 963 |
| Deposits received | **11 043** | 11 712 |
| Deferred tax liability | **1 718** | 1 405 |
| **Current liabilities** | **154 893** | 148 990 |
| Interest-bearing borrowings | **80 154** | 74 549 |
| Lease liability | **1 002** | – |
| Amounts owing to non-controlling interests | **–** | 8 206 |
| Trade and other payables | **73 736** | 66 235 |
| **Total equity and liabilities** | **3 891 373** | 3 550 067 |

# SUMMARISED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | **Audited 12 months to 30 June 2020 R'000** | Audited 12 months to 30 June 2019 R'000 |
|---|---|---|
| Gross revenue | **532 106** | 489 653 |
| Rental income – contractual | **518 061** | 480 521 |
| – straight-line adjustment | **14 045** | 9 132 |
| Other income | **5 696** | 1 946 |
| Property expenses | **(207 675)** | (175 872) |
| Net property income | **330 127** | 315 727 |
| Corporate administrative expenses | **(29 974)** | (30 174) |
| Operating profit | **300 153** | 285 553 |
| Fair value adjustment to investment properties | **17 068** | 27 839 |
| Fair value adjustment to derivatives | **(59 615)** | (5 890) |
| Fair value adjustment to investments | **(25)** | 44 |
| Finance costs | **(108 559)** | (89 486) |
| Finance and other investment income | **40 810** | 40 823 |
| Impairment of loan receivable | **(44 004)** | – |
| Profit before capital expenses | **145 828** | 258 883 |
| Capital expenses | **(2 158)** | (1 205) |
| Profit before tax | **143 670** | 257 678 |
| Income tax | **(313)** | (735) |
| Total comprehensive income for the year | **143 357** | 256 943 |
| Profit and total comprehensive income attributable to: | | |
| – Owners of the parent | **124 224** | 230 440 |
| – Non-controlling interest | **19 133** | 26 503 |
| | **143 357** | 256 943 |
| **Reconciliation between profit attributable to shareholders, distributable earnings and headline earnings per share** | | |
| Comprehensive income attributable to owners of the parent | **122 224** | 230 440 |
| Fair value adjustment to investment properties (attributable to owners of the parent) | **(15 137)** | (15 555) |
| Headline and diluted headline profit attributable to shareholders | **109 087** | 214 885 |

| | Audited 12 months to 30 June 2020 R'000 | Audited 12 months to 30 June 2019 R'000 |
|---|---|---|
| **Distributable earnings calculation*** | | |
| Net property income | **330 127** | 315 727 |
| Straight-line rental income adjustment | **(14 045)** | (9 132) |
| Corporate administrative expenses | **(29 974)** | (30 174) |
| Finance costs | **(107 994)** | (87 543) |
| Finance and other investment income | **40 810** | 40 823 |
| IFRS 16 adoption | **(73)** | – |
| Depreciation | **272** | – |
| Finance costs | **1 310** | – |
| Lease payments | **(1 658)** | – |
| Share issued *cum* distribution | **–** | 1 709 |
| Non-controlling interest share of distribution | **(10 841)** | (11 033) |
| **Distributable earnings** | **208 010** | 220 377 |
| Distribution | **208 010** | 220 377 |
| **Dividend** | | |
| Interim dividend per share (cents) | **11.155** | 10.616 |
| Final dividend declaration per share (cents) | **9.883** | 11.157 |
| **Total distribution per share (cents)** | **21.038** | 21.773 |
| **Earnings per share** | | |
| Basic and diluted earnings per share (cents) | **12.46** | 22.94 |
| Headline and diluted headline earnings per share (cents) | **10.94** | 21.39 |
| Net asset value per share (cents) | **221.18** | 229.38 |
| **Share statistics** | | |
| Shares in issue | **1 018 125 441** | 1 018 125 441 |
| Treasury shares | **(37 864 324)** | – |
| Effective shares in issue | **980 261 117** | 1 018 125 441 |
| Weighted average number of shares | **996 871 197** | 1 004 697 875 |

* *This is a voluntary non-IFRS disclosure and has been included to align the disclosure of the group with the REIT sector.*

# SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOWS

| | **Audited 12 months to 30 June 2020 R'000** | Audited 12 months to 30 June 2019 R'000 |
|---|---|---|
| Cash generated from operations | **290 270** | 270 903 |
| Finance costs | **(97 581)** | (79 983) |
| Finance and other investment income | **2 201** | 2 570 |
| Dividends paid | **(231 672)** | (213 838) |
| **Cash outflow from operating activities** | **(36 782)** | (20 348) |
| Acquisitions of and improvements to investment properties | **(233 327)** | (138 772) |
| Development of investment property | **(50 897)** | (13 360) |
| Acquisition of office equipment | **–** | (102) |
| Disposal of investment | **25** | – |
| **Cash outflow to investing activities** | **(284 199)** | (152 234) |
| Net interest-bearing borrowings advanced | **383 895** | 131 186 |
| Net amounts owing to non-controlling interests raised/(repaid) | **19 369** | (13 282) |
| Net (advances)/repayments to loans receivable | **(12 095)** | 3 263 |
| Proceeds from issue of share capital | **–** | 56 828 |
| Repayments to lease liability | **(1 656)** | – |
| Repurchase of treasury shares | **(70 131)** | – |
| **Cash inflow from financing activities** | **319 382** | 177 995 |
| Net (decrease)/increase in cash and cash equivalents | **(1 599)** | 5 413 |
| Cash and cash equivalents at beginning of year | **15 356** | 9 943 |
| **Cash and cash equivalents at end of year** | **13 757** | 15 356 |

# SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Stated capital R'000 | Retained earnings R'000 | Equity attributable to owners of the company R'000 | Non-controlling interest R'000 | Total equity R'000 |
|---|---|---|---|---|---|
| **Balance at 1 July 2018** | 747 349 | 1 510 036 | 2 257 385 | 106 469 | 2 363 854 |
| Shares issued | 57 333 | – | 57 333 | – | 57 333 |
| Capital issue expenses | (505) | – | (505) | – | (505) |
| Dividends paid and declared | – | (209 302) | (209 302) | (5 156) | (214 458) |
| Total comprehensive income for the year | – | 230 440 | 230 440 | 26 503 | 256 943 |
| **Balance at 30 June 2019** | **804 177** | **1 531 174** | **2 335 351** | **127 816** | **2 463 167** |
| Acquisition of treasury shares | **(70 131)** | **–** | **(70 131)** | **–** | **(70 131)** |
| Dividends paid and declared | **–** | **(221 286)** | **(221 286)** | **(11 033)** | **(232 319)** |
| Total comprehensive income for the year | **–** | **124 224** | **124 224** | **19 133** | **143 357** |
| **Balance at 30 June 2020** | **734 046** | **1 434 112** | **2 168 158** | **135 916** | **2 304 074** |

# OTHER SEGMENTAL INFORMATION

| | **Audited 30 June 2020** | Audited 30 June 2019 |
|---|---|---|
| **Regional profile based on leasable area** | | |
| Gauteng | **23.6%** | 25.0% |
| KwaZulu-Natal | **21.6%** | 23.4% |
| Western Cape | **20.4%** | 17.5% |
| Free State | **11.4%** | 11.8% |
| Eastern Cape | **10.1%** | 8.5% |
| Northern Cape | **6.6%** | 7.2% |
| Limpopo | **4.4%** | 4.7% |
| Mpumalanga | **1.8%** | 1.9% |
| **Vacancy profile based on gross lease area** | | |
| Gross lease area in metres squared as at end of year | **262 702** | 243 030 |
| Properties held | **44** | 42 |
| Vacancy area in metres squared | **11 836** | 9 670 |
| Vacancy area as % of gross lease area | **4.5%** | 4.0% |
| **Regional vacancy profile ($m^2$) (regions where vacancies are located)** | | |
| Gauteng | **3 538** | 2 581 |
| KwaZulu-Natal | **2 981** | 3 249 |
| Western Cape | **2 111** | 1 820 |
| Free State | **1 105** | 1 081 |
| Limpopo | **754** | 305 |
| Eastern Cape | **680** | 124 |
| Northern Cape | **617** | 510 |
| Mpumalanga | **50** | – |

# CONDENSED CONSOLIDATED SEGMENT REPORT

| | KwaZulu-Natal | Western Cape | Gauteng | Free State | Northern Cape | Limpopo | Eastern Cape | Mpumalanga | Reconciling items/ (eliminations) | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **For the year ended 30 June 2020** | | | | | | | | | | |
| Revenue – external customers | 112 425 | 106 779 | 118 745 | 59 265 | 44 376 | 24 390 | 39 429 | 12 652 | – | 518 061 |
| Operating profit | 76 964 | 67 544 | 74 792 | 36 073 | 22 511 | 17 252 | 28 145 | 6 846 | (29 974) | 300 153 |
| Total assets | 780 178 | 780 379 | 802 810 | 404 121 | 236 744 | 159 496 | 299 306 | 74 100 | 354 239 | 3 891 373 |
| **For the year ended 30 June 2019** | | | | | | | | | | |
| Revenue – external customers | 113 606 | 89 990 | 114 445 | 55 101 | 43 048 | 23 359 | 30 557 | 10 268 | 147 | 480 521 |
| Operating profit | 79 868 | 52 702 | 75 419 | 36 369 | 25 174 | 16 025 | 22 769 | 6 860 | (29 633) | 285 553 |
| Total assets | 787 171 | 576 414 | 789 327 | 381 378 | 228 781 | 145 050 | 223 999 | 67 736 | 350 211 | 3 550 067 |

# NOTES TO SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

## BASIS OF PREPARATION AND ACCOUNTING POLICIES

The preparation of these summarised audited consolidated financial statements was supervised by the Chief Financial Officer, BJ Kriel CA(SA).

The accounting policies applied in the preparation of these summarised audited consolidated results for the year ended 30 June 2020, which are based on reasonable judgements and estimates, are in accordance with International Financial Reporting Standards ("**IFRS**") and are consistent with those applied in the annual financial statements for the year ended 30 June 2019, except for the adoption of IFRS 16. The application of IFRS 16 was done through the modified retrospective approach and the group has elected not to restate comparative figures. Any new and amendments to IFRS and IFRIC interpretations did not impact the financial position or performance of the group but has resulted in additional disclosures. These summarised audited consolidated results, as set out in this report, have been prepared in accordance with the framework concepts and the measurement and recognition requirements of IFRS and containing the information required by IAS 34: *Interim Financial Reporting*, the SAICA Financial Reporting Guidelines as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Council, the Companies Act of South Africa, No. 71 of 2008, as amended ("**Companies Act**") and the Listings Requirements of JSE Limited.

In terms of IFRS 9 and IFRS 7, the group's interest rate derivatives are measured at fair value through profit or loss and are categorised as level 2 investments. Interest rate derivatives are valued using discounted cash flow techniques and observable market interest rates off the interest rate yield curve. There were no transfers between levels 1, 2 and 3 during the year. Interest rate derivatives relate to interest rate swaps and the derivative liability increased by R59.6 million during the year due to the significant decrease in interest rates.

The revaluation of investment property requires judgement in the determination of future cash flows from leases. An appropriate capitalisation rate which varies between 9.50% and 11.00%, with a discount rate of between 13.75% and 16.00% was used.

Changes in the capitalisation and discount rates are attributable to changes in market conditions and can have a significant impact on the property valuations. A 25 basis points decrease in the capitalisation rate will increase the value of investment property by R49.4 million. A 25 basis points increase in the discount rate will decrease the value of investment property by R29.9 million.

This announcement does not include the information required pursuant to paragraph 16A(j) of IAS 34 as permitted by the JSE Listings Requirements. The information is available in the annual financial statements in Note 2.2, Note 6, and Note 38, which is available at the company's registered office upon request and on the companies' website.

These summarised audited consolidated results for the year ended 30 June 2020 have been prepared in accordance with the historic cost basis, except for the measurement of investment properties and certain financial assets and financial liabilities which are stated at fair value.

The financial results are presented in rand, which is Fairvest's functional and presentation currency and have been prepared on a going concern basis.

## AUDIT REPORT

The summarised audited consolidated results for the year ended 30 June 2020 set out herein, have been extracted from the group's consolidated annual financial statements which have been audited by BDO South Africa Inc, but are not themselves audited. A copy of their unmodified audit opinion is available for inspection at the company's registered office, and the full annual financial statements including the audit opinion on the company's website. Any reference to future financial performance included in these summarised audited consolidated results has not been reviewed or reported on by the company's auditors.

The directors take full responsibility for the preparation of the summarised audited consolidated results presented and that the financial information has been correctly extracted from the underlying financial statements.

## ESTIMATES AND CRITICAL JUDGEMENTS

Except for the measurement of investment properties, the expected credit loss allowance on operating lease and other receivables and certain financial liabilities, the financial statements do not include any material estimates. A conservative approach was maintained on estimates as in previous years, as estimates are subject to a degree of uncertainty enhanced through the current economic uncertainty due to the COVID-19 pandemic.

## CHANGE IN ACCOUNTING POLICY

The group adopted IFRS 16 from 1 July 2019 by applying the modified retrospective approach and has elected not to restate comparative figures. Adjustments resulting from the adoption of the new standard has therefore been recognised in the opening balances at 1 July 2019.

Certain properties of the group are held on long-term land leases and the group previously classified these as Investment Property using the fair value model under IAS 40. In the process of implementing IFRS 16 the group identified an immaterial error in the application of IAS 17 to operating leases of properties held on long-term land leases, which are classified as investment property. The group omitted to recognise the finance lease liability, as required by IAS 17, for these leases, and instead only recognised the property at fair value in terms of IAS 40. This immaterial error has been corrected in the current year by debiting the fair value adjustment of investment property in an amount of R10.5 million.

On adoption of IFRS 16, the group recognised a right-of-use asset and lease liabilities. The liability was measured at the present value of the remaining lease payments, discounted using the average incremental borrowing rate as at 1 July 2019 of 9.1%

The group also recognised a right-of-use asset and lease liability for its operating lease of the corporate head office property. The nature of expenses related to this lease will now change from an operating lease charge to a depreciation charge for the right-of-use asset and interest expense for the lease liability.

The following table presents the impact of adopting IFRS 16 on the statement of financial position as at 1 July 2019:

| | Balance as at 30 June 2019 R'000 | IFRS 16 adjustments R'000 | 1 July 2019 R'000 |
|---|---|---|---|
| Investment property | 3 092 382 | 10 585 | 3 102 967 |
| Right-of-use-asset | – | 409 | 409 |
| Lease liabilities | – | 10 994 | 10 994 |

# COMMENTARY

## INTRODUCTION

Fairvest is a Real Estate Investment Trust ("**REIT**"), with a unique focus on retail assets weighted toward non-metropolitan and rural shopping centres, as well as convenience and community shopping centres servicing the lower LSM market, in high-growth nodes, close to commuter networks. The Fairvest property portfolio consists of 44 properties, with 262 702 m$^2$ of lettable area and valued at R3.49 billion.

## COVID-19 IMPACT ASSESSMENT

During the nationwide lockdown due to the COVID-19 pandemic, Fairvest's strategy was to focus on its cash flow planning and liquidity management. Fairvest actively engaged with all tenants on the impact of COVID-19 on their businesses in order to find sustainable solutions. Concessions in the form of gross rental deferrals and rental credits were provided to tenants, dependant on their specific circumstances. Gross rental deferrals of April 2020, May 2020 and June 2020 billings were provided to certain Small, Medium and Micro Enterprises ("**SMME**") tenants, with repayment terms ranging from 3 to 36 months, commencing from 1 July 2020.

Fairvest remained cash flow positive throughout the lockdown period and continues to generate positive cash flows. Fairvest was able to fund all operational expenditure and interest payments from cash flows without having to utilise undrawn debt facilities.

Of the gross billings in April 2020, May 2020 and June 2020, credits of 10.5%, or R15.7 million were conceded to for 364 tenants, with specific terms and conditions, and deferrals were provided on 10.8% or R16.7 million of total gross billings for 216 tenants. After taking into account the concessions provided, approximately 95.8% of collectable billings were collected for the period April to June 2020.

As at 30 June 2020 the net arrears increased to R22.8 million, which includes R9.2 million of deferments, or 4.4% of total revenue from R6.4 million at 30 June 2019. Arrears decreased in June 2020 compared to May 2020 and continued to decrease further in July 2020 and August 2020.

| | **April 2020** | **May 2020** | **June 2020** | **Total** |
|---|---|---|---|---|
| Collections before relief (% of gross billings) | **64.0%** | **65.6%** | **98.3%** | **75.3%** |
| Remissions (% of gross billings) | **21.3%** | **7.6%** | **1.7%** | **10.5%** |
| Deferments (% of gross billings) | **9.9%** | **11.8%** | **10.8%** | **10.8%** |
| Increase/(decrease) in arrears (% of gross billings) | **4.7%** | **15.1%** | **(10.8%)** | **3.3%** |
| | **100%** | **100%** | **100%** | **100%** |
| Collections of collectable billings | **93.1%** | **81.3%** | **112.3%** | **95.8%** |

Total credits provided resulted in a 6.0% reduction in distributable earnings and the increase in the provision for expected credit losses resulted in a further 3.2% reduction in distributable earnings.

Fairvest was well positioned with strong cash flows, prudent balance sheet management, an LTV of below 35%, a well diversified funding profile over five South African commercial banks and with no exposure to the bond market. As a result of our positive cash flows and conservative balance sheet, one new debt facility was concluded and two debt facility were refinanced during the lockdown period. After year-end, another debt facility was refinanced earl. The group now has no expiring debt facilities over the next 12 months.

The defensive nature of Fairvest's assets, together with the strategic focus on investing in grocery anchored shopping centres and the conservative historic assumptions used for the valuation of the property portfolio, resulted in asset values remaining stable compared to the prior year. On a like-for-like basis the property portfolio increased by 1.0%, despite an increase in both the weighted average exit capitalisation rate and discount rate increased compared to the previous year.

The board continues to monitor the long-term impact of the pandemic on the economy and the operations of the group and expect an increase in vacancies in the short-term. Certain tenant groupings remain under pressure as restrictions on trading remain in place which limits their ability to trade at full capacity.

## REVIEW OF RESULTS

Fairvest's board of directors is pleased to announce a final dividend distribution of 9.883 cents per share for the six months ended 30 June 2020, which brings the total combined dividend for the year to 21.038 cents per share, a 3.4% decrease from the previous year.

| | Interim | Final | Total |
|---|---|---|---|
| June 2016 | 8.171 | 8.489 | 16.660 |
| June 2017 | 8.953 | 9.380 | 18.333 |
| June 2018 | 9.806 | 10.344 | 20.150 |
| June 2019 | 10.616 | 11.157 | 21.773 |
| **June 2020** | **11.155** | **9.883** | **21.038** |

Total property revenue increased by 8.7% to R532.1 million, as a result of income growth in the historic portfolio, as well as acquisitions during the year. Net profit from property operations increased by 4.6% to R330.1 million, while efforts to contain corporate administration expenses culminated in a decrease of 0.7% to R30.0 million. Distributable earnings decreased by 5.6% to R208.0 million. Cost containment and efficient recoveries of municipal charges remain strong focus areas. The gross cost to income ratio increased from 36.7% to 38.9%, due to rental concessions provided to tenants, as well as a significant increase in the provision for expected credit losses on rental billed during the COVID-19 lockdown period.

The weighted average contractual escalation for the portfolio decreased from 7.4% to 7.1%. Gross rentals across the portfolio trended upwards, with an 5.7% increase in the weighted average rental to R128.61/m$^2$ at 30 June 2020 compared to R121.64/m$^2$ at 30 June 2019. This was as a result of contractual escalations, increases in rental achieved on new leases, and a 3.0% weighted average rental increase achieved on renewals. The weighted average retail rental increased to R126.91/m$^2$.

The net asset value decreased by 7.2% to R2.17 billion compared to R2.34 billion at 30 June 2019, mainly due to the treasury shares acquired during the year. The net asset value per share decreased by 3.6% to 221.18 cents per share, with the increase in the derivative liability being the largest contributor to this decrease, offset by treasury shares acquired below the net asset value per share.

## NET ASSET VALUE AND MARKET CAPITALISATION

| | Market capitalisation R'million | Net asset value R'million | Net asset value per share (cents) |
|---|---|---|---|
| June 2016 | 1 020.3 | 1 327.1 | 201.60 |
| June 2017 | 1 540.2 | 1 723.2 | 218.18 |
| June 2018 | 2 081.1 | 2 257.4 | 227.78 |
| June 2019 | 2 015.9 | 2 335.4 | 229.38 |
| **June 2020** | **1 470.4** | **2 168.2** | **221.18** |

## PROPERTY PORTFOLIO

On a like-for-like basis the historic portfolio increased by 1.0% compared to the previous year. During the year we acquired Nonkqubela Mall and Qumbu Plaza to the value of R162.8 million and R54.0 million, respectively. Capital expenditure was incurred of R17.7 million and R45.3 million was spent on solar installations. This resulted in a 10.5% increase in the value of the property portfolio from R3.16 billion at 30 June 2019 to R3.49 billion. Asset quality continues to improve, with the average value per property increasing by 5.4% to R79.3 million, and the average value per square metre increased by 2.2% to R13 288/m$^2$.

## PORTFOLIO VALUATION HISTORY

| | Valuation R'million | Number of properties | Average value per property R'million | Value per m$^2$ R |
|---|---|---|---|---|
| June 2016 | 1 925.1 | 36 | 53.5 | 10 355 |
| June 2017 | 2 204.4 | 38 | 58.0 | 11 345 |
| June 2018 | 2 987.0 | 41 | 72.9 | 12 552 |
| June 2019 | 3 160.0 | 42 | 75.2 | 13 002 |
| **June 2020** | **3 490.8** | **44** | **79.3** | **13 288** |

In line with the group accounting policy, at least a third of the portfolio was valued by independent external valuers. Of the 44 properties in the portfolio, 15 properties equating to 37.8% by value, were valued by independent valuers, DDP Valuers, De Leeuw Valuers and Broll Valuers, with the remainder valued by the directors. All properties are valued by independent external valuers at least once every three years. The properties are valued using a five-year discounted cash flow. Assumptions are made on the discount rates used to determine the present value of the cash flows and on the capitalisation rate on an assumed sale. Given the uncertainty in the current market, an even more conservative approach was taken with the valuation of investment property. The weighted average exit capitalisation rate used increased from 10.1% in the prior year to 10.3%, while the weighted average discount rate also increased from 14.6% in the prior year to 14.8%. These conservative metrics continue to show prudent but fair valuations.

## ADDITIONS AND DISPOSALS

Shareholders are referred to Fairvest's various SENS announcements, regarding certain additions and disposals. Two new properties were acquired during the year.

| Property | Location | GLA ($m^2$) | Value R'000 | Anchor tenant | Date of transfer/ completion date |
|---|---|---|---|---|---|
| **Property transferred during the year** | | | | | |
| Nonkqubela Mall* | Western Cape | 10 811 | 162 876 | Shoprite and Pick n Pay | 23 August 2019 |
| Qumbu Plaza** | Eastern Cape | 5 470 | 53 981 | Boxer | 01 November 2020 |

* *The property was acquired in Fairvest Property Holdings Limited.*
** *The property was developed in a newly incorporated subsidiary, Qumbu Plaza Proprietary Limited, of which Fairvest owns 51% of the shares.*

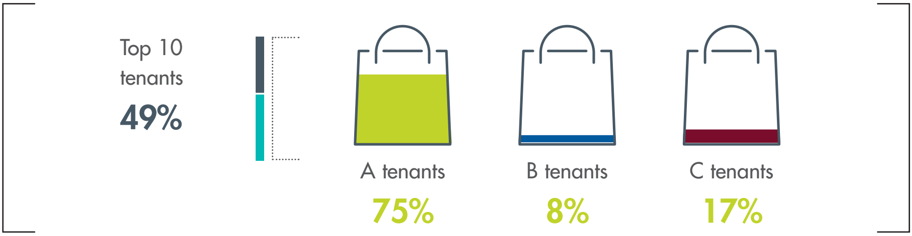
During the year the disposal of Tokai Junction was concluded. The property was disposed of for R180 million. The disposal price represents a 10.5% premium to the 30 June 2019 valuation of the property, underscoring Fairvest's conservative valuation of its portfolio. Registration of the transfer of the property to the purchaser's name is expected to occur on or about 15 October 2020.

## SOLAR INITIATIVES

As part of our sustainability initiatives we commenced the installation of photovoltaic rooftop solar systems on 17 of our properties. Ten sites are complete and are generating within expectation, with the installations at all other sites expected to be completed by the second quarter of the 2021 financial year. R45.3 million was spent during the year, with a further R12.8 million committed. The estimated annual energy generation is 10 964 117 kWh.

## PORTFOLIO COMPOSITION, LETTING AND VACANCIES

### Tenant composition as a percentage of GLA




**A** Anchor and national tenants (49.0% are occupied by the top 10 largest tenant groups)

**B** Franchise, professional and large tenants

**C** Other

The portfolio remains well diversified across South Africa, with the four largest provinces, KwaZulu-Natal, Western Cape, Free State and Gauteng contributing 76.6% of revenue. The high national tenant component of 74.9% of the portfolio provides shareholders with a low-risk investment profile with national food retailers occupying 34.4% of the portfolio in terms of GLA.

Vacancies increased from 4.0% to 4.5% or 11 836 m² during the year, mainly as a result of new vacancies at our Vereeniging and Qualbert properties. Positive letting of vacancies after year-end resulted in the vacancy percentage decreasing to 3.2%.

### Lease expiry profile

| | Based on rentable area % | Based on gross rental % |
|---|---|---|
| Vacant | 4.5 | – |
| Monthly | 7.7 | 6.8 |
| June 2021 | 19.5 | 20.5 |
| June 2022 | 19.2 | 20.9 |
| June 2023 | 17.3 | 19.7 |
| June 2024 | 6.5 | 7.4 |
| After June 2025 | 25.3 | 24.7 |

During the year under review, 124 new leases were concluded with a total GLA of 15 754 m². Fairvest successfully renewed 38 573 m² of leases, with a positive reversion of 3.0% being achieved on these renewals. Tenant retention for the year remained high at 73.2%. The weighted average lease term increased from 35 to 39 months.

## BORROWINGS

The loan to value ("**LTV**") ratio increased to 36.3% (2019: 27.9%) due to the acquisitions during the year and the treasury shares acquired. After the disposal of Tokai Junction, the LTV is expected to decrease to 31.0%. LTV is calculated as total interest-bearing debt divided by total property assets. Of the debt, 63.1% was fixed through interest rate swaps as at 30 June 2020, with a weighted average expiry for the fixed debt of 40 months.

The weighted average all-in cost of funding decreased to 7.57% (2019: 9.29%) due to the cumulative 3.00% interest rate decreases in the 2020 financial year. During the year a number of large facilities were refinanced resulting in increased facilities and reduced rates. The weighted average maturity of debt decreased marginally from 24 months to 23 months.

After year-end, the only facility that will have expired in the 2021 financial year, was refinanced for a further three years.

## PROSPECTS

The COVID-19 pandemic had devastating effects on local economy and the economic recovery is expected to be protracted. Fairvest is well positioned, with a clearly focused strategy of mainly investing in grocery anchored assets, servicing non-metropolitan and lower-LSM markets. These assets proved more resilient during the COVID-19 pandemic, without significant increases in vacancies. The focus areas for the next 12 months will be on maintaining viable tenancies and letting of vacancies, with a strong focus on the collection of arrears which accumulated over the last three months of the financial year. The balance sheet remains conservative, with R132.8 million of undrawn debt facilities to consider opportunistic yield accretive acquisitions.

The lasting impact of the COVID-19 pandemic and subsequent lockdown of the economy remains uncertain. In light of the above and given the uncertainty, the board expects the distribution per share for the 2021 financial year to be at least in line with the current year's distribution per share.

This forecast assumes no material deterioration in the macroeconomic environment relative to current levels, that no major corporate and tenant failures will occur, that tenants will be able to absorb increases in municipal and utility costs, that no further trading restrictions are implemented by government and no further pandemic outbreaks similar to the COVID-19. Forecast rental income is based on contractual lease terms and anticipated market related renewals. This forecast is the responsibility of the board of directors of Fairvest and has not been reviewed or reported on by the auditors.

The board has resolved to maintain the current dividend pay-out ratio of 100% of distributable earnings as a dividend. The policy is reviewed on a bi-annual basis and any changes will be communicated to shareholders at least 12 months before any changes are implemented.

## DIVIDEND DISTRIBUTION DECLARATION

The board has approved and declared a final gross dividend of 9.883 cents per share, from income for the six months ended 30 June 2020, payable to shareholders registered as such at the close of business on Friday, 23 October 2020.

| | **2020** |
|---|---:|
| Declaration date | **Wednesday, 23 September** |
| Last day to trade *cum* dividend | **Tuesday, 20 October** |
| Shares commence trading *ex* dividend | **Wednesday, 21 October** |
| Record date | **Friday, 23 October** |
| Payment date | **Monday, 26 October** |

Share certificates may not be dematerialised or rematerialised between Wednesday, 21 October 2020 and Friday, 23 October 2020, both days inclusive.

### Tax implications

In accordance with Fairvest's status as a REIT, shareholders are advised that the dividend meets the requirements of a "qualifying distribution" for the purposes of section 25BB of the Income Tax Act, No. 58 of 1962 ("**Income Tax Act**").

Qualifying distributions received by shareholders who are South African tax residents must be included in the gross income of such shareholders (as a non-exempt dividend in terms of section 10(1)(k)(aa) of the Income Tax Act), with the effect that the qualifying distribution is taxable as income in the hands of the shareholder. These qualifying distributions are, however, exempt from dividend withholding tax in the hands of South African tax resident shareholders, provided that the South African resident shareholders have provided the following forms to their Central Securities Depository Participant ("**CSDP**") or broker, as the case may be, in respect of uncertificated shares, or Fairvest's transfer secretaries, Computershare Investor Services Proprietary Limited, ("**transfer secretaries**"), in respect of certificated shares:

(a) a declaration that the distribution is exempt from dividends tax; and

(b) a written undertaking to inform the CSDP, broker or the transfer secretaries, as the case may be, should the distribution cease to be exempt from dividend withholding tax,

both in the form prescribed by the Commissioner for the South African Revenue Service ("**SARS**") and shareholders are advised to contact their CSDP, broker or the transfer secretaries, as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the distribution, if such documents have not already been submitted.

Qualifying distributions received by non-resident shareholders will not be taxable as income and instead will be treated as ordinary dividends but which are exempt in terms of the usual dividend exemptions per section 10(1)(k) of the Income Tax Act. Any qualifying distribution received by a non-resident from a REIT will be subject to dividend withholding tax at 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation ("**DTA**") between South Africa and the country of residence of the shareholder. Assuming dividend withholding tax will be withheld at a rate of 20%, the net amount due to non-resident shareholders will be 7.9064 cents per share. A reduced dividend withholding tax rate in terms of the applicable DTA, may only be relied on if the non-resident shareholder has provided the following forms to their CSDP or broker, as the case may be, in respect of the uncertificated shares, or the transfer secretaries, in respect of certificated shares:

(a) a declaration that the dividend is subject to a reduced rate as a result of the application of a DTA; and
(b) a written undertaking to inform their CSDP, broker or the transfer secretaries, as the case may be, should the circumstances affecting the reduced rate change or the beneficial owner cease to be the beneficial owner,

both in the form prescribed by SARS. Non-resident shareholders are advised to contact their CSDP, broker or the transfer secretaries, as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the distribution if such documents have not already been submitted, if applicable.

Local tax resident shareholders as well as non-resident shareholders are encouraged to consult their professional advisors should they be in any doubt as to the appropriate action to take.

Shares in issue at the date of declaration of the final distribution: 1 018 125 441

Fairvest income tax reference number: 9205/066/06/1

The annual general meeting ("**AGM**") of Fairvest shareholders been scheduled to take place on Wednesday, 17 November 2020 at 10:00 in Cape Town. The notice for the AGM will be published on SENS and dispatched to shareholders in due course, accompanied by a summary of the company's consolidated financial statements for the year ended 30 June 2020.

## APPRECIATION

We extend our appreciation to our directors, management and staff for their valued efforts as well as our advisers and shareholders for their continuing belief in and support of Fairvest.

For and on behalf of the board

**Fairvest Property Holdings Limited**
Cape Town

22 September 2020

# NOTES

**Fairvest Property Holdings Limited**
(Incorporated in South Africa)
(Registration number 1998/005011/06)
("Fairvest" or "the company" or "the group")
Share code: FVT
ISIN: ZAE000203808
Granted REIT status by the JSE

**Executive directors**
DM Wilder (Chief executive officer)
BJ Kriel (Chief financial officer)
AJ Marcus (Chief operating officer)*
* *Alternate to DM Wilder*

**Non-executive directors**
JF du Toit (Chairman)
LW Andrag (Lead independent director)#
N Mkhize#
JD Wiese#
TJ Cohen#
KR Nkuna#
# *Independent*

**Company Secretary**
Fluidrock Co Sec Proprietary Limited

**Registered office**
8th Floor
The Terraces
34 Bree Street
Cape Town
8001

Postnet Suite 30
Private Bag X3
Roggebaai
8012

**Transfer secretaries**
Computershare Investor Services Proprietary Limited
Rosebank Towers
15 Biermann Avenue
Rosebank
Johannesburg
2196

Private Bag X9000
Saxonwold
2312

**Auditor**
BDO South Africa Incorporated
Registered Auditors

**Sponsor**
PSG Capital Proprietary Limited

**Announcement date**
23 September 2020

www.fairvest.co.za