INVESTEC PROPERTY FUND LIMITED
Approved as a REIT by the JSE
(Incorporated in the Republic of South Africa)
(Registration Number 2008/011366/06)
Share code: IPF ISIN: ZAE000180915
("**Investec Property Fund**" or "**the Fund**")

OPERATIONAL UPDATE

Shareholders are referred to the Fund's results announcement published on SENS on 20 May 2020 ("**FY20 Results Announcement**"). The coronavirus outbreak occurred in the closing weeks of the FY20 financial year and did not significantly impact IPF's FY20 performance. The full impact of the outbreak has manifested itself in the Fund's Q1 2021 performance and is expected to impact the results going forward. The Fund therefore wishes to provide its shareholders with a further update on the operational aspects of the business and the degearing flightpath.

Key themes

- Degearing progressing well
- Pan European Logistics ("PEL") refinance expected to conclude before interim results
- SA operating environment remains fragile
- Several prominent business failures will impact FY20 results
- Leasing activity across regions slowing as expected
- Cash collection rates continue to improve
- Balance sheet and liquidity remain well positioned
- FY20 final dividend decision deferred to September 2020

Degearing flightpath

1. PEL platform debt refinancing

The refinancing of the PEL platform debt has been split into the refinancing of two separately collateralised portfolios of assets, namely the Hexagon Portfolio (€470m debt against €760m asset value) and the Novem Portfolio (€70m debt against €160m asset value).

- Hexagon Portfolio – represents 83% of the PEL platform and will be funded by a club of two international lenders on a fully underwritten basis. Term sheets are expected to be concluded shortly and the due diligence and legal documentation processes will begin thereafter. The targeted timing for the conclusion of this transaction is 30 September 2020.

- Novem Portfolio – a smaller portfolio of assets comprising 8 properties located in France, Italy and Germany that cannot be cross-collateralised with the Hexagon Portfolio and will therefore be separately financed. The debt will be refinanced with the existing international lender on similar terms to the existing debt package and the refinancing is anticipated to conclude before 30 September 2020.

2. Asset disposals

a) *Sale of Investec Australia Property Fund (IAP)* – shareholders are referred to the SENS announcement released by IPF on 11 June 2020 relating to the sale of the Fund's 9% interest in IAP. Gross proceeds of R743m were raised from the disposal of IPF's remaining interest, which proceeds will be utilised to further progress the Fund's stated degearing strategy. This disposal also enables the Fund to exit a minority position at an attractive return, simplify the group and to focus resources on its Pan-European and UK strategies.

b) *Proceeds from transfer of SA assets* – per the Fund's FY20 year end results, shareholders were advised that IPF had sold five properties worth R886m at 31 March 2020, with transfers delayed by the closing of the Deeds Office during lockdown. Following the reopening of the Deeds Office, two properties have now transferred, generating R282m of proceeds. The Musina property (R517m) has now been lodged and is expected to transfer before the end of July 2020.

3. Sale of 10% stake in PEL

The Fund is in discussions with several potential investors to acquire a 10% interest in the PEL platform from

IPF. Discussions are relatively far progressed with one of the parties who is a manager of third party client funds. The investment is envisaged to be made on a passive basis alongside IPF through its Luxembourg holding company.

The Fund's pro forma gearing, considering the asset sales and a potential sale of the 10% stake in PEL, but before the refinancing of PEL, will be c.44%. This will further reduce to 35% post the PEL refinancing.

Operational update

The impact on the South African economy as a result of the introduction of the COVID-19 related lockdown provisions and restrictions has been devastating and REITS have suffered the double impact of a stagnating economy and COVID-19's impact on trading activity. Economists are forecasting double-digit negative GDP growth for South Africa following a slower than expected economic recovery. The sharp deterioration in business conditions will have negative implications for the property sector and IPF has not been spared in this regard, with conditions likely to worsen in the months ahead until the economy can resume full trading as normal.

Against this South African economic backdrop, it is anticipated that leasing activity will likely be slower than initially anticipated with longer void periods and more pressure on rental levels. Although IPF's tenant base is underpinned by over 80% large and / or listed companies, tenant failures continue to pose a significant risk to IPF's ability to grow revenue through this environment. This year alone has seen the business administration of several companies, including Edcon and ELB Engineering, accounting for c.R38m of annual gross income. Further pressure on the local tenant base is expected over the next 12 months. The Fund notes the recent announcements by Edcon relating to the potential acquisitions of parts of its business by Foschini and Retailability and is in discussions with the proposed investors on the future of the existing stores.

The PEL portfolio has been less impacted by the COVID-19 pandemic given the focus on logistics which has been the most resilient of the real estate sectors globally through this crisis. However, it has not been immune to tenant failures, with a large retail-focused logistics business occupying two properties (aggregating 23,897m^2), going into business rescue during May 2020.

Letting activity

The table below sets out the amount of GLA let this year as a % of total space expiring during the year. This has been compared to the position disclosed at 31 March 2020 to show the progress made over the last three months.

% of space expiring in FY21 now let (including opening vacancy)	As at 30 June 2020	As at 31 March 2020
South Africa	36%	21%
Europe	36%	3%
UK	0%[1]	0%

[1]FY21 expiries only occur in November 2020 and March 2021

<u>*South Africa:*</u>

In SA, demand for space in the office, retail and industrial sectors weakened in the first quarter and leasing activity has slowed as expected with lease negotiations becoming more protracted. This will result in vacancy rates edging higher and will impact rental levels.

There has, however, been some positive leasing momentum within the South African portfolio with c.115,000m^2 of space let during the first quarter. The Fund is also in advanced discussions over a further c. 110,000m^2 of space that expires this year as well as space expiring in the next 24 months.

The Fund is taking the opportunity to preempt medium term expiries at a short-term cost to the Fund to secure long term sustainability. Notable examples include:

- the re-gear of eight Massmart leases (all Game stores and Builders Warehouses) representing 60,000m^2 of GLA, all on new 10-year leases at market related rentals; and
- the renewal with Investec Durban over 6,500m^2 of space for a new 7-year term at market related rentals

These re-gears support both the strength of the retail and office portfolios as well as the underlying values of the properties, given the extended lease tenor.

Furthermore, the Fund has sought to extend the lease expiry profile through rental relief discussions with tenants.

This leasing has served to extend overall portfolio WALE and de-risks IPF's future cashflow profile but will lead to short-term income shortfalls as a result of rent free periods and / or other leasing incentives provided to secure the extended leases.

Europe:

European letting activity has shown strong progress since May 2020 but has also experienced a marginal slow down relative to the prior quarter, as expected, due to the lockdown restrictions and the inability to travel and access assets. However, the team continues to be able to lease space at expected rental values or above. Essential service industries such as food and e-commerce have contributed to a surge in demand for logistics space to satisfy the shift in consumer behaviour during lockdown. This in turn has had a knock-on effect on 3rd Party Logistics Providers associated with these industries, who are increasingly seeking short-term space. The Fund has benefited from this through leasing activity in Belgium where the Fund has available space to accommodate these short-term requirements, with a view to extending these leases over time.

The Fund has concluded several medium to long-term leases with tenants across the European portfolio and bridged some current voids with short-term leases to bolster rental income. c.98,500m^2 of new leases have been signed in Q1 FY21 and the Fund is in advanced discussions to agree a further 48,000m^2 of new lettings and extensions which is expected to close within the next 3-6 months. Given the short-term nature of these lettings, lower incentives are required to be granted at the current strong rental levels in order to secure the income.

Cash collections

Shareholders are referred to the SENS announcement released by IPF on 6 May 2020 in which the Fund first released April's collection and concession rates across its portfolio. A subsequent update on May rental collections was provided in the FY20 Results Announcement. The below figures have been updated from those previously disclosed based on further collections for those months.

Collection evidence to date has been encouraging with increasing collections across all regions, demonstrating the resilient nature of the Fund's income profile.

	% Collections			
	April (as % of April rent receivable)	**May (as % of May rent receivable)**	**June (as % of June rent receivable)**	**Q1 2020 (Apr - Jun)**
South Africa	70%	74%	91%	78%
Europe	96%	96%	95%	95%
UK	91%	86%	85%	89%

Note: rent receivable is defined as contractual rental and is shown before rent relief provided and also includes rental billed to tenants who have gone into business rescue. In South Africa, post rental relief provided, cash collection in June was 99%.

While the collection rates remain high, the pace at which arrears are collected in SA is slowing, leading to higher debtor balances for longer periods of time, creating an inherent increase in the risk of bad debt. There are also categories of tenants that are still unable to resume trading at full capacity due to regulatory restrictions (e.g. restaurants, gyms and fitness studios, entertainment, leisure retailers) and these tenants are expected to require further support from IPF over the coming months as lockdown restrictions evolve.

The level of arrears within the PEL portfolio is expected to be maintained at historical levels which have always been very low. Most arrears relate to deferral concessions agreed with tenants and this is expected to be collected before the end of the calendar year.

Tenant concessions

South Africa: To date, the Fund has agreed R87m of rental relief to qualifying tenants, equating to 5% of annual gross income. The relief has been provided by way of rental discounts (62%) and rental deferrals (38%). Of the R55m of rental discounts provided, R12m relates to relief provided to large national retailers based on guidelines proposed by the South African Property Industry Group. The majority of discounts to nationals, SMME's, line shops and restaurants have now been granted resulting in R44m aggregate income loss within the retail sector alone.

	Retail	**Office**	**Industrial**	**Total**

Rental discounts	R44m[1]	R9m	R2m	R55m
Deferral relief	R3m	R17m	R12m	R32m

[1]Comprises nationals (R11.6m), SMMEs (R9.2m), restaurants (R12.3m) and other retailers (R10.7m)

Europe: To date the Fund has agreed €0.6m[2] of rent deferral relief to qualifying tenants, equating to 1.3% of gross annual income. Further relief has been provided to tenants by way of amendments to payment terms (i.e. from quarterly to monthly). Other concessions offered have been in the form of bringing forward future rent-free periods and adjustments to payment periods. There have been little to no rental discounts provided to date.

Note (2): The Fund previously quoted c.€4m in respect of approved rental deferrals which was an annualised figure based on the total value of rental income attributable to those tenants whose requests had been approved. Revised figure is based on actual value of concessions agreed and reflects the value of income deferred

UK: The majority of concessions granted are in respect of an adjustment to payment periods. Discussions with 3 tenants are ongoing in respect of potential rental discounts, however no discounts have been granted to date. Government protection legislation in the UK has enabled some tenants to withhold rental payments during the suspension period which will result in lower collection rates over Q2 FY21. However, the majority of this is expected to be collected once the government protection ends.

Cash flow from offshore operations

PEL: the company paid out its full distributions to shareholders in May 2020 for the quarters ending 31 December 2019 and 31 March 2020. Based on the strong cash collection profile of PEL, IPF anticipates continued payment of distributions from PEL over the coming quarters.

UK: the company elected to retain the dividend for the six months ended 31 March 2020 due to the uncertainties in the UK real estate market. Based on the current cash reserves of the company and the strong cash collection over the last quarter, IPF expects the UK Fund to return to its normalised distribution cycle before the end of this calendar year.

Balance sheet management

As at 8 July 2020, the Fund's cash and available committed facilities were approximately R1.4bn. After the transfer of the Musina property and the potential sale of the 10% stake in PEL, this will potentially further increase to R2.7bn, some of which will be earmarked to repay a portion of the bridge facilities.

In South Africa, the Fund has R1.1bn of debt maturing over the next 12 months, excluding the bridge loans to be repaid out of proceeds from the PEL refinancing. R0.9bn of this debt matures in December 2020 and IPF is finalizing terms on R0.3bn with an existing bank and is discussing the early refinancing of R0.6bn of bonds with existing bondholders. The remaining R0.2bn matures in April 2021 and IPF has already begun refinancing discussions with the existing lender.

The Fund maintains a significant hedged position with 95% of its interest rate exposure hedged through interest rate swaps. Whilst this mitigates interest rate volatility, it inhibits the Fund's ability to take advantage of declining interest rates in the current environment. The Fund is therefore proactively assessing opportunities around its hedge book to further reduce finance costs.

FY20 final dividend

At the time of releasing the annual financial statements, IPF had not declared a final dividend in respect of the 2020 financial year due to the uncertainty caused by the COVID-19 pandemic. The board of directors of IPF ("the Board") is of the view that preservation of cash is the prudent approach to navigate the short-term disruption caused by COVID-19. However, the Board is also conscious of the implications on its REIT status and will not compromise on this. Under normal regulation, a possible tax obligation may arise on distributable earnings not declared as a dividend, in the event that the Fund does not pay out its full distributable earnings as a dividend within 12 months of the financial year end.

However, as announced by the JSE on 26 June 2020, the Financial Sector Conduct Authority ("FSCA") has approved a 2-month extension to the stipulated dividend payment timelines in order for a REIT to maintain its REIT status. In light of this extension by the FSCA, the Board has resolved to further defer the final dividend decision to early September 2020, providing the Board with time to further assess the economic impact of the ongoing pandemic.

Sandton
17 July 2020

Financial Advisor and Sponsor
Investec Bank Limited