

ARROWHEAD PROPERTIES LIMITED

(formerly Gemgrow Properties Limited)

Incorporated in the Republic of South Africa)

(Registration number 2007/032604/06)

JSE share code: AHA ISIN: ZAE000275491

JSE share code: AHB ISIN: ZAE000275509

(Granted REIT status with the JSE)

(“Arrowhead” or “the Company”)

PRE-CLOSE INVESTOR UPDATE

Shareholders are advised that Arrowhead will be hosting a pre-close update with investors today, 21 September 2020, at 14:00 to provide an update in respect of the 6 months ending 30 September 2020. Shareholders that wish to participate can contact Lizelle du Toit at lizelle@acuminate.net.

The pre-close investor update will cover the topics set out below.

Operational update

Rental relief and collections

As detailed in previous updates, the latest of which was published on 26 August 2020 (“the August update”), Arrowhead has provided rental relief (in the form of either rental discounts and deferrals) to assist tenants whose operations have been impacted by the COVID-19 pandemic and the national lockdown.

As at 31 August 2020, rental relief provided amounted to R73,5 million, comprising rental discounts of approximately R63 million and deferrals of approximately R10,5 million. As previously advised, rental relief has reduced since July 2020, however engagement with tenants is ongoing, and the Company may be required to provide additional rental relief in respect of COVID-19 related arrears, to tenants that are otherwise in good standing.

Collection levels, as a percentage of contractual rental, before rental relief and ignoring appropriation of deposits, have continued to improve since the previous update:

	April 2020	May 2020	June 2020	July 2020	August 2020
August 2020 update:	77,1%	71,8%	85,2%	87,7%	87,0%
Current update:	77,6%	73,4%	86,4%	88,3%	90,1%

This positive trend continues during September 2020.

Vacancies and letting activity

As previously detailed, the headwinds facing the South African rental market earlier this year have worsened significantly as a result of the pandemic, and we expect to see continued pressure on rental levels and vacancies, as well as increased costs of retaining and attracting tenants.

Despite this, overall tenant retention for the period (including new letting of expiring space during period) remains healthy at approximately 85%, and we remain confident that vacancies will remain under 10% of total gross lettable area at year end.

Balance sheet management

The continued strengthening of the balance sheet, through the sale of selected assets and the reduction of debt remains a key focus of the Company.

Update on sales

In the August update, we reported overall sales of just under R1 billion, of which 27 properties worth R480 million had transferred.

Our sales program has continued to exceed expectations, and we are pleased to advise the sale of a further nine properties for an aggregate consideration of approximately R270 million, taking the overall sales over R1,26 billion, at a combined 10,8% forward yield and an overall discount to book value of just over 5%. This excludes the R174 million disposal of Jane Furse Crossing announced on 7 September 2020 as well as additional sales of R284 million which remain subject to due diligence.

If all of the concluded transactions proceed, total sales will increase to in excess of R1,7 billion, significantly strengthening the Company's balance sheet and reducing Arrowhead's loan to value ratio.

We are also pleased to advise that delays at the various Deeds Offices have started to reduce, with an additional further seven properties having transferred, taking the total value of transferred properties to over R560 million, with nine assets worth R252 million lodged and awaiting registration.

Loan facilities

Arrowhead's cash on hand including undrawn facilities has increased to R518 million and as previously advised, Arrowhead has no loan facilities that expire before the 2022 financial year.

The Company's loan to value ratio remains well within current covenants and this will improve further as a result of the sales program. Interest cover ratio (ICR) covenants which are between 2x and 2,5x remain under pressure in the current environment, and we remain in close communication with our funders in order to ensure that this is effectively managed.

Distributable income and dividends

Further to the trading statement contained in the August update, Arrowhead now anticipates that total distributable income for the 2020 will be higher than R340 million. At the time of the August update, the Company's arrears were considerably higher than current arrears and there was an expectation at the time that such arrears, when fully evaluated and negotiated with tenants could possibly have resulted in higher COVID-19 tenant relief. We are pleased to report that significant progress on the arrears has been made since the August update and the expectation is that overall COVID-19 tenant relief will be lower than anticipated. This figure excludes interest on loans to directors and the Arrowhead Charitable Trust and is calculated before any tax on undistributed income, all of which are dependent upon the extent of any dividend declared at year end, and further assumes conservatively that the Company receives no distributions from Indluplace or its other listed investments.

Again, as detailed in the August update, the impact of the reduction in distributable income on dividends per A and B shares for the 2020 financial year will depend upon the extent of any interim and/or final dividend that the Company elects to declare.

Shareholders are reminded that the information on which the trading statement in the August update was based has not been reviewed or reported on by Arrowhead's auditors.

21 September 2020

Sponsor

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