

EQUITES PROPERTY FUND LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 2013/080877/06)

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(Approved as a REIT by the JSE)

(“Equites” or “the company”)



DEVELOPMENT OF A DISTRIBUTION CENTRE FOR HERMES PARCELNET IN HOYLAND, ENGLAND

1. INTRODUCTION

Shareholders are advised that Equites, through its Isle of Man based wholly-owned subsidiary, Equites International Limited (“**Equites International**”), has concluded a development agreement (“**development agreement**”) with Hermes Parcelnet Limited (“**tenant**” or “**Hermes**”) in terms of which Equites International will be funding the development of a 31 570 square metre distribution centre (“**distribution centre**”), to be let to Hermes, situated on a property at Hoyland Common, Barnsley, England (“**property**”), (“**the transaction**”). This development will serve as the latest “super-hub” for Hermes and will handle 1.3 million parcels a day, making it the largest of its kind in Europe.

The total estimated cost of the development is £72 326 428 (ZAR 1 518 854 988) (“**total development cost**”), with £8 500 000 (ZAR 178 500 000) attributable to the acquisition of the land. The agreement provides that Equites Newlands Group Limited (“**ENGL**”), a company in which Equites International owns 60% of the shares with Newlands Property Development LLP (“**Newlands**”) owning the remaining 40%, will act as the developer of the property.

Based on the initial annual rent of £ 3 853 570 (ZAR 80 924 790) the total estimated development cost reflects an initial yield of 5.33%.

2. RATIONALE

This is the first signed development deal to arise from the company’s strategic partnership with Newlands and is consistent with Equites’ growth and investment strategy of:

- diversification into the United Kingdom (“**UK**”) to mitigate the risks of its emerging market focus and access the advanced know-how and technology in respect of logistics facilities in the UK;
- demand in the UK for prime logistics assets has compressed open market yields to unprecedented levels; the partnership with Newlands has allowed Equites to unlock brand new prime facilities at higher yields than would otherwise be achievable on the open market;
- focusing on premium “big-box” or “last-mile” distribution centres, let to investment grade tenants on long-dated “triple net leases”, in proven logistics nodes and built to institutional specifications. In the UK, the locations of preference are the central Midlands and “last-mile” fulfilment centres near major metropolitan areas; and
- building a high-quality logistics portfolio, consisting of properties with predictable rental growth profiles, that promotes capital growth and increasing income returns in the medium to long term.

Equites views the property and development as evidencing the following sound investment fundamentals:

- The property is located in the well-established Hoyland Common, which affords excellent road links, and is strategically located immediately adjacent to the J36, M1 road networks providing excellent access to the national motorway network. The area also provides the tenant with access to a large labour pool.
- The distribution centre is 31 570 square metres and will be situated on an overall area of 18.54 hectares which translates into a low site coverage of 16.3%. The facility will provide the tenant with a newly constructed, high specification, steel portal frame distribution warehouse with 163 dock-level loading doors and four level-access loading doors. Moreover, the warehouse will have a floor load capacity of 37.50 kn/m² and a clear working height of 12.5m to underside of the eaves.
- Hermes has signed a 20-year triple net, fully repairing and insuring lease which will commence on the completion date of the development in February 2022 (“**the lease**”). Hermes, an associate of Hermes Europe GmbH which is based in Germany, specialises in parcel delivery and courier services. In the UK it delivers more than 240 million parcels a year on behalf of 40% of the UK’s top 100 retailers, including Next Directory, ASOS, Tesco, John Lewis, Debenhams and Arcadia Group. myHermes, the consumer business of Hermes, continues to develop its industry-leading range of convenient delivery solutions, whilst adding to its network of 4,500 ParcelShops.

3. DETAILS OF THE PROPERTY

3.1. Equites International has agreed to fund the development of a delivery distribution warehouse and ancillary accommodation on the property. The development, when complete, has been independently valued at £85 424 000 (ZAR 1 793 904 000) on the assumptions that the development works have been completed with a weighted average rental per square foot of £11.33 (ZAR 237.93), calculated from a rental of £5.25 (ZAR 110.25) per sq ft multiplied by 2.16 to take the low site coverage into account. The property is being purpose-built by ENGL for Hermes’ requirements.

3.2. The lease provides that the first year’s annual rental income will be £3 853 570 (ZAR 80 924 790).

Property name	Geographical location	Sector	GLA (sq. ft. /sq. m)	Weighted average rental per square foot per annum	Weighted average rental per square meter per annum	Annual rental income
Hermes Parcelnet	Hoyland Common, Barnsley, England	Logistics	339 821 sq ft / 31 570 sq m	£11.33 (ZAR 237.93)	£122.06 (ZAR 2 563.26)	£3 853 570 (ZAR 80 924 970)

4. TERMS OF THE TRANSACTION

4.1. Hermes has signed a 20-year triple net, fully repairing and insuring lease which will commence on the completion date of the development in February 2022.

4.2. The Hermes lease is subject to an upward only rental review to the higher of the initial rent (£5.25 per sq ft modified to compensate for the low site coverage by a factor of 2.16) multiplied by the Retail Price Index (“**RPI**”) compounded annually and reviewed every 5 years (subject to a collar of 2% and a cap of 4% in respect of the RPI movement) or the open market rent of the hypothetical building (as defined in the lease).

4.3. The transaction is subject to the fulfilment or waiver (as the case may be) of the following conditions precedent:

- receipt of an acceptable planning permission for the development;
- practical completion of the development and delivery to Hermes of the Certificate of Practical Completion and snagging list (if any); and
- receipt of warranties in favour of Hermes from the building contractor and each professional team member.

- 4.4. ENGL, through Newlands who will act as the development manager, is obliged to deliver the development in line with the agreed plans and specifications.

5. VALUATION

The independent valuation of the property was undertaken by Savills, an independent external valuer, in accordance with the “RICS Valuation – Professional Standards, the 2012 Edition (the “Red Book”). This is an internationally accepted basis of valuation.

The independent valuation provides that the market value of the property when the development is completed will reflect a net initial yield of 4.5% on the first-year rental income of £ 3 853 570 (ZAR 80 924 790).

6. FUNDING AND FINANCIAL EFFECTS

Set out below is the forecast for the transaction (“**the forecast**”) for the 12 months ending 28 February 2023 and the 12 months ending 29 February 2024 (“**the forecast period**”).

The forecast has been prepared on the assumption that the development will be completed, and rental income in terms of the lease received, from 1 March 2022.

The forecast, including the assumptions on which it is based and the financial information from which it has been prepared, is the responsibility of the directors of the company. The forecast has not been reviewed or reported on by independent reporting accountants.

The forecast presented in the table below has been prepared in accordance with the company’s accounting policies, which are in compliance with International Financial Reporting Standards.

ZAR’000	Forecast for the year ending 28 February 2023	Forecast for the year ending 29 February 2024
Rental revenue	81 968	84 358
Finance costs	(16 945)	(17 439)
Net profit before tax	65 023	66 919
Taxation expense/(income)	-	-
Net profit for the period	65 023	66 919

The forecast incorporates the following material assumptions in respect of revenue and expenses:

1. The forecast has been prepared in £ and translated at exchange rates of ZAR22.30/£ and ZAR22.95/£ in respect of the financial periods ending 28 February 2023 and 29 February 2024, respectively. These rates are reflective of the forward rates for the forecast periods.
2. Rental income is derived from the agreement for lease which is agreed with Hermes.
3. The lease is a fully repairing and insuring lease and normal property operating expenses are assumed to be recoverable from the tenant.
4. Initially, the transaction will be financed from available cash resources both in South Africa and the UK. The intention is, upon completion, to subsequently refinance up to 50% with UK debt. The all-in fixed cost of debt funding has been estimated at 2.2%.
5. There is no current taxation assumed in the forecast as the group will have sufficient capital allowances which may be applied against the taxable income for the forecasted period.
6. No fair value adjustment is recognised.
7. There will be no unforeseen economic factors that will affect the tenant's ability to meet its commitment in terms of the lease.

7. CATEGORISATION

The transaction is a category 2 transaction in terms of the JSE Listings Requirements and accordingly does not require approval by shareholders.

10 November 2020

Corporate advisor and sponsor to Equites



Debt sponsor

