GROWTHPOINT PROPERTIES LIMITED

(Incorporated with limited liability in the Republic of South Africa under registration number 1987/004988/06)

(Bond issuer code: GRTI)

(“Growthpoint” or the “company”)

INVESTOR UPDATE FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2020

We are pleased to present you with the FY21 first-quarter trading update for 1 July to 30 September 2020.

Our three stated strategic thrusts – internationalisation, new income streams from funds management and third-party trading and development, and streamlining and optimising our RSA portfolio - remain relevant. Our funds management strategy is particularly well positioned for growth in this market, with its capital efficient structure.

Our priority in this environment is strengthening our balance sheet in the short term, which will enable Growthpoint to continue pursuing these strategies in future. Thus, this update concentrates on the developments within our South African business that have material impacts on our balance sheet. Our international businesses, Growthpoint Properties Australia (GOZ), Globalworth Real Estate Investments (GWI) and Capital & Regional (C&R) have all published their most recent market updates, and we ask that you also read these documents.

As in almost every economic sector globally, the effects of the COVID-19 pandemic on our business and our tenants are significant. It will take some time before anyone can accurately measure the full impact of the pandemic and the restrictive and protective measures imposed to curb it.

Growthpoint has given a further R50.4m in discounts to tenants as well as an additional R19.3m in deferrals while R66.2m of deferrals were recovered during the quarter. Highlighting the pressure that our tenants are under, tenant arrears increased to R594.4m at end-September from R511.0m at end-June.

To provide the most transparent picture of our business during the COVID-19 crisis, we began publishing monthly collections. Since year-end, we have revised our methodology of calculation to improve the accuracy of our reporting going forward and as such the collections percentages for prior months have been restated based on the new methodology.

RSA portfolio update

The South African macroeconomic environment was already under pressure before the COVID-19 pandemic. While some local business confidence has returned during the quarter from all-time low levels, market uncertainty and the absence of a clear positive catalyst for economic improvement has placed pressure on all property fundamentals and the key performance indicators (KPIs) in our South African business.

KPIs as of 30 September 2020

	Retail	Office	Industrial	Healthcare	Trade & Development	Total	Total as of 30 June 2020
Vacancy	5.80%	17.84%	8.62%	-	-	10.63%	9.50%
Renewal success rate	83.52%	68.58%	58.10%	-	-	65.00%	66.40%
Weighted average renewal growth rate: 1 July 2020 - 30 September 2020	-11.55%	-13.19%	-13.32%	-	-	-12.90%	-6.70%
Rolling 12-month renewal growth to 30 September 2020	-6.87%	-10.62%	-7.88%	-	-	-8.60%	
Quarterly build-up of FY20 weighted average renewal growth	**-6.20%**	**-8.90%**	**-4.70%**	**5.30%**	-	**-6.70%**	
Weighted average renewal growth rate: 1 July 2019 - 30 September 2019	-8.20%	-11.00%	-5.90%	3.30%	-	-8.00%	
Weighted average renewal growth rate: 1 October 2019 - 31 December 2020	-4.50%	-1.80%	-0.20%	0.00%	-	-3.30%	
Weighted average renewal growth rate: 1 January 2020 - 31 March 2020	-4.30%	-12.50%	-5.90%	7.20%	-	-8.70%	
Weighted average renewal growth rate: 1 April 2020 - 30 June 2020	-8.10%	-9.90%	-4.40%	0.00%	-	-7.50%	
Weighted average renewal lease period	3.95 years	6.39 years	3.29 years	-	-	4.5 years	3.7 years
Weighted average future escalations on renewals	8.25%	7.18%	7.52%	-	-	7.50%	7.00%
Total arrears	**274,769,285**	**171,673,591**	**117,908,954**	**28,979,646**	**1,049,215**	**594,380,691**	**510,967,503**
Arrears	270,779,528	129,642,411	98,335,911	123,446	1,014,257	499,895,553	369,565,181
Deferrals not yet recovered	3,989,756	42,031,180	19,573,043	28,856,200	34,958	94,485,137	141,402,322
Collections for the month of September 2020	96.4%	99.8%	98.3%	99.7%	99.7%	98.2%	111.9%*
Collections: January 2020 - March 2020	100.0%	99.9%	98.6%	100.0%	97.4%	99.7%	
Billings: January 2020 - March 2020	1,186,465,549	1,199,060,327	558,135,941	85,245,082	29,930,695	3,058,837,594	
Collections: April 2020 - June 2020	81.4%	94.7%	91.9%	99.9%	104.7%	89.5%	
Billings: April 2020 - June 2020	885,133,344	1,021,067,873	466,909,941	48,124,551	15,164,693	2,436,400,402	
Collections: July 2020 - September 2020	93.6%	96.7%	95.0%	99.9%	98.8%	95.3%	
Billings: July 2020 - September 2020	1,055,214,609	1,060,894,549	559,642,522	67,219,890	16,424,821	2,759,396,391	
COVID-19 rental discounts granted: 1 July 2020 - 30 September 2020	37,501,567	8,899,551	4,009,087	-	-	50,410,205	277,994,083
COVID-19 net rental deferrals: 1 July 2020 - 30 September 2020	**(119,801)**	**(24,493,510)**	**(26,437,991)**	**4,099,160**	**34,958**	**(46,917,185)**	**141,402,322**
COVID-19 rental deferrals granted: 1 July 2020 - 30 September 2020	1,347,464	5,260,764	8,487,425	4,112,063	40,883	19,248,599	158,793,447
COVID-19 rental deferrals recovered: 1 July 2020 - 30 September 2020	(1,467,265)	(29,754,274)	(34,925,417)	(22,903)	(5,925)	(66,175,784)	(17,391,125)

**84% per FY20 results presentation*

Office

Many tenants are waiting to assess the effects of the pandemic before committing to office space, resulting in low new letting levels of 11 731m² in the first three months of FY21.

We achieved a renewal success rate of 68.58% with 74 996m² of the 109 352m² of leases expiring in the period being renewed. Making a meaningful contribution to this accomplishment, we signed a 10-year lease with Absa for nearly 35 000m² across three buildings. Supporting sustainable income streams, we have extended lease periods. The weighted average renewal lease term increased from 3.8 years at the start of the quarter to 6.39 years at its close, based only on the renewals in the first quarter. Absa's lease was the main driver of the significantly longer weighted average lease period for the portfolio this quarter, and this number is higher than it is likely to be for the balance of the financial year. Even so, lease lengths are clearly trending longer in the portfolio.

Longer lease periods, however, are being attained at the expense of renewal rental growth. When measured in the first quarter this KPI is always distorted by a small sample of leases, it tends to level out over the financial year as more leases are renewed, as seen in the quarterly build-up of the FY20 weighted average renewal growth in the table above. At end-September it was -13.19%. We have also provided a 12-month rolling renewal growth figure for this quarter. With an oversupply of space in the market and pressure on occupancy levels, rental renewal growth will inevitably face continued pressure across the entire sector. Tenant retention remains our focus.

Non-renewals added 34 000m² of vacancy of which 7 000m² relates to renewals with reduced space requirements. Leases terminated over some 16 500m² of space, added to the vacancy.

We are being approached for early renewals with longer leases in exchange for reduced rentals or space and are assessing each case on its merits. Some large tenants who wish to give up space are offering cancellation fees. These discussions will invariably increase vacancies.

Retail

All of our retailers were open and trading by the end of the quarter, with restaurants, cinemas and gyms still subject to certain operational restrictions. Value fashion, electronics and the home and décor retail categories are outperforming all others in our portfolio, showing that shoppers prioritise value during difficult times and reflecting the unprecedented amount of time spent at home during the pandemic. Ladies fashion, workwear and occasional wear continue to lag last year's sale levels. Cinemas, coffee shops and restaurants will take longer to recover.

The 83.52% renewal success rate was achieved by renewing 39 658m² of the 47 481m² that expired in the period.

Weighted average future escalations on renewals increased from 6.3% to 8.25% during the quarter. Again, this reflects a trade-off of longer lease terms and higher rental escalations for lower renewal rental growth.

Renewals were concluded at a weighted average renewal growth of -11.55% in an extremely competitive and challenging context, clouded by uncertainty and poor retail performance. Retailers are focusing on cost containment and reduction and using rentals and escalations as tools to achieve this, resulting in downward pressure on rental levels at lease expiry and, in a few extreme cases, mid-lease. Consequently, the weighted average rental renewal growth on expiry continued to move backward.

Edcon arrears accounted for R73.46m at end-September compared with R45m at 1 July 2020. We have successfully let 80 000m² of our total 89 000m² exposure to the new purchasers of the Edcon brands.

Industrial

Most of our industrial tenants operate in the manufacturing, construction, mining, trade and transport sectors, which were subject to negative GDP growth ranging from 76.6% to 67.6% this quarter. These businesses are, understandably, re-evaluating their strategies and cutting costs to remain sustainable. Unfortunately, some have already succumbed to the combined effects of the pandemic lockdown and an ailing economy, and liquidated or gone into business rescue. The consequences impacted the entire sector and can be seen, to some extent, in our KPIs.

Leases over 185 600m² of industrial space expired during the quarter, of which 107 826m², or 58.10%, was renewed with a weighted average renewal growth rate of -13.32%. Economic pressures resulted in industrial vacancies across South Africa spiking, leading to a drop in average market rentals. Industrial businesses are striving to capitalise on tenant-friendly market conditions and are seeking more favourable lease terms, and landlords are acquiescing in order to minimise their property holding costs.

Overall industrial vacancies moved from 7.1% to 8.6% during the quarter. The lowest vacancy levels are in Durban (6.5%) followed by Cape Town (8.1%) and the Johannesburg region (9.7%).

<u>V&A Waterfront</u>

We are pleased to report that visitors to the V&A Waterfront increased significantly during the quarter, with the footfall over weekends reaching around 65% of normal levels and some 60% during the week. There is a direct correlation between footfall and retail sales. Opening South Africa's borders to international travel was a welcome development, but the V&A's major markets remain on the red list with restricted entry to the country. The lack of international tourism continues to have a material impact on the hospitality and tourism sector in South Africa, which is impacting the V&A's hotels, high-end retail stores, restaurants, tourism-focused retailers, leisure and attractions. The robust office sector at the Waterfront advantageously includes a high percentage of blue-chip tenants, however, their slow return to the office means lower footfalls during the week.

Only nine of the roughly 450 retail stores have not yet re-opened, including five restaurants, three high-end jewellers, and one tourist-focused store. The Watershed, which has around 150 tenants who sell unique items and arts and crafts, is now open four days a week, from Thursday to Sunday.

The V&A has 13 hotels, of which 10 are partially open, with plans for one more to welcome guests before the end of the year. The remaining two hotels should open when international travel restrictions ease further.

Gross revenue for the quarter was 41% below the same period in 2019, driven by a 53% drop in retail and hospitality. The V&A's low combined vacancy level edged up slightly to 2%, mostly due to some increased retail vacancy, not counting the ex-Edgars premises redevelopment. Gross arrears increased to R235m at the end of September 2020 compared to R222m as of 30 June 2020. Both amounts exclude the provision made for discounts. As of 30 June 2020 the provision for discounts was R101m, R28m was subsequently released and a further provision of R48m was made in the quarter, bringing total provisions for discounts to R121m.

During the three months, total discounts to the value of R113m were processed while rental deferments of R11.3m were granted during this period.

Retail

- Retail sales for September amounted to R278m, or 62% of sales in September 2019, largely due to decreased jewellery, curio and restaurant trade.
- Of the total R113m of discounts processed and total R48m of additional discounts provided for during the quarter, R84m and R25m respectively related to the retail sector.
- Footfall for July to September was down 52% from the same quarter in 2019.
- Footfall is currently averaging about 25 000 people per day during the week, rising to around 50 000 visitors per day over weekends.

Offices

- Vacancies remain relatively low at 2.5% of gross lettable area.
- Of the total R113m of discounts processed and R48m of additional discounts provided for during the quarter, R3m and R9m respectively related to the office sector.
- The portfolio has stabilised, with minimal further rental relief being granted.

- Enquiries for office space have slowly started to increase, but asking-rentals remain under pressure. The focus is on tenant retention.
- Major office tenants are slowly returning to their workplaces.

Hotels and residential

- Residential vacancies increased but have stabilised at levels slightly above normal.
- Of the total R113m of discounts processed and total R48m of additional discounts provided for during the quarter, R21m and R6m respectively related to hotel tenants.
- Hotels that are open are operating at very low occupancies and will continue to do so until international travel restrictions are lifted.

Marine and industrial

- Industrial tenants performed well in the circumstances, but the demand for charter boat cruises and helicopter trips remains low.
- Of the total R113m of discounts processed and total R48m of additional discounts provided for during the quarter, R5m and R8m respectively related to the marine and industrial sector
- The cruise industry is still closed with no indication as to when international cruises will resume, but this is unlikely to occur in 2020. MSC has confirmed some domestic cruises planned for January 2021.

Funds management

Growthpoint Healthcare Property Holdings (GHPH)

GHPH continues to build a good pipeline of both development and non-development projects. The Cintocare Head & Neck Hospital is now operational with some of the doctors moving their practices to the hospital and its first patients already having been admitted. The transfer of the hospital to the fund is expected in February 2021.

All tenants are currently paying rent as per lease arrangements and where deferrals were provided, the fund has started to collect those too.

The transaction with the IFC for a US$80m equity and convertible debt package is in the final stages of negotiations.

Growthpoint Investec Africa properties (GIAP)

GIAP completed the further acquisition of a minority shareholding in the Wings Office Complex in Lagos, Nigeria, in August 2020 bringing its total assets under management to c.US$659m.

Having deployed all its equity to achieve significant growth, GIAP is now in discussions with potential new investors and is likely to launch a second fundraising, for new and existing investors, in early 2021.

GIAP's loan-to-value ratio remains stable, and the business is currently restructuring its entire debt finance portfolio more efficiently. The management company also aims to introduce a B-BBEE partner in 2021.

GIAP's NAV per share has increased 6% for its half-year at end-September 2020, and this period should mark its maiden distribution, payable to shareholders by 31 December 2020. With the current liquidity and currency convertibility issues in Nigeria, GIAP is considering either making its distribution in shares or adjusting the distribution amount accordingly.

Recent unrest in Nigeria led to the widespread destruction of property, particularly in Lagos. Circle Mall, which represents some 3% of GIAP's asset value and NAV, was among the many assets damaged and looted. It is comprehensively insured and we are assessing the damage, but the mall will be unable to operate until reinstated.

To date, GIAP has provided total rental concessions and deferrals of US$2.8m to support businesses through the COVID-19 crisis, mostly to smaller retail tenants. These provisions are tapering off significantly as footfall and turnover metrics begin to rebound.

Treasury and capital management

After our refinancing and new funding initiatives pre-June 2020, there have been no major changes in the funding book. Total nominal debt at the end of September was R42.6bn. The South African debt capital market seems to be settling and there have been a few public auctions, however the majority of activity is on a privately placed basis. Fund managers remain selective in their approach, showing an appetite for better-quality credit.

At the end of September and October respectively, cash and unutilised facilities totalled R4.7bn and R5.4bn.

Growthpoint's credit rating from Moody's remains at Ba1, with a negative outlook. The national scale rating is Aa1.za. Moody's is scheduled to provide an update on South Africa's sovereign rating on 20 November 2020.

The weighted average term of the liabilities was 3.4 years at the close of the quarter. Growthpoint's weighted average interest rate was 8.0% (8.2% FY20). Including cross-currency interest rate swaps (CCIRS) and foreign-denominated loans, it decreases to 5.7% (5.9% FY20). A total of 82.3% of our interest rate book was hedged for a weighted average term of 3.1 years.

Dividends from our offshore investments are well hedged considering the quantum of dividends we expect to receive is less than originally anticipated due to the impact of COVID-19.

Conclusion

While the South African context remains extremely tough, the diversified nature of our business and the geographies in which we operate have been buffers for us. Our Australian and Eastern European investments in particular are performing better given GOZ has no exposure to retail assets, GWI's retail exposure is negligible, and both benefit from very strong tenancies. However C&R, our pure retail investment in the United Kingdom, is dealing with the country's second hard lockdown, expected to last for four weeks until 2 December, during which only retailers selling essential goods may open and we expect the UK retail environment to remain extremely challenging in the short term.

We remain focused on balance sheet strength in this environment and, as previously signalled to the market, we are considering all the alternatives available to us.

Growthpoint will release its HY21 results on Wednesday, 10 March 2021, and, given the fluidity of the operating environment, we have elected not to provide market guidance for distributable income or dividends.

Johannesburg
11 November 2020

Debt Sponsor

Absa Bank Limited (acting through its Corporate and Investment Bank division)