Growthpoint Properties Limited
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"Growthpoint"

INVESTOR UPDATE FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2021

We are pleased to present to you the FY22 first-quarter trading update from 1 July 2021 to 30 September 2021.

We continue to prioritise the strength of our balance sheet, which will enable Growthpoint to continue pursuing our three well-established strategic priorities of internationalisation, streamlining and optimising our South African portfolio, and generating income streams from funds management and third-party trading and development.

Growthpoint continues to be in a strong financial position notwithstanding continued pressure on net operating income resulting from deteriorating property fundamentals and key performance indicators (KPIs) for the South African portfolio and the knock-on effect they have on domestic property valuations.

International portfolio update

Capital & Regional (C&R) undertook a GBP30m equity raise which was fully underwritten by Growthpoint, resulting in an additional investment by Growthpoint of c. GBP24m (R480m). The investment increased our shareholding in C&R to 60.8%. We have now invested a total of R3.5bn in C&R to date. UK retail property has been through a torrid time, but there are promising early signs that the sector has bottomed out. Valuations on five core assets owned by C&R showed a slight increase at the end of September 2021, following a 50% decline in values since we first invested in December 2019. The recapitalisation exercise improved C&R's loan-to-value (LTV) ratio on its core assets from 61.2% to 49.7%. We continue to believe in the value of the platform, its excellent management team, and its focused community and "needs based" retail strategy.

Our international businesses, Growthpoint Properties Australia (GOZ), Globalworth Real Estate Investments (GWI) and C&R, are all listed separately and have published their most recent market updates and as such, we refer you to these publications for more detail.

South African portfolio update

In the current environment Growthpoint is focused on ensuring that capital and development expenditure is funded by the proceeds from asset sales and cash retained from the reduced dividend pay-out ratio. For the period 1 July 2021 to 31 October 2021, proceeds from the sale of 17 properties were R1.1bn, including R515.6m from Cintocare hospital, which was sold to Growthpoint Healthcare Property Holdings.

Total vacancies and the renewal success rate for the first quarter of FY22 improved. However, renewal growth continues to deteriorate as contractual escalations have inflated rentals above market levels, resulting in negative reversions upon renewal.

A focus for the industry remains the extremely challenging macroeconomic environment occasioned by the continuing effect of the pandemic and persistent electricity disruptions, with factors specific to the commercial real estate sector, such as work from home and online retail. We expect property fundamentals to remain under pressure for the rest of FY22.

	Retail	Office	Industrial	Healthcare	Trading & Development	Total	Total as of 30 June 2021
			KPIs as of 30 September 2021				
Vacancy	5.1%	20.9%	7.4%	0.1%	-	11.0%	11.6%
Renewal success rate	91.9%	56.6%	85.1%	-	-	79.6%	65.1%
Weighted average renewal growth rate: 1 July 2021 - 30 September 2021	-17.7%	-18.7%	-9.2%	-	-	-15.8%	-12.9%[1]
Rolling 12-month renewal growth rate to 30 September 2021	-16.6%	-18.8%	-9.3%	-	-	-15.8%	-8.6%[2]
FY21 weighted average renewal growth rate	-15.6%	-16.1%	-10.9%	-	-	-14.9%	-14.9%
Weighted average renewal lease period	3.5 years	2.8 years	3.4 years	-	-	3.3 years	3.6 years
Weighted average future escalations on renewals	6.0%	6.9%	7.1%	-	-	6.5%	6.8%
Total arrears (Rm)	**140.9**	**93.4**	**60.3**		**5.2**	**299.8**	**308.3**
Arrears (Rm)	138.7	89.0	54.5	-	1.8	284.0	290.1
Deferrals not yet recovered (Rm)	2.2	4.4	5.8	-	3.4	15.8	18.2
Collections: 1 July 2021 - 30 September 2021	100.4%	99.6%	99.7%	101.1%	97.0%	99.9%	
Billings: 1 July 2021 – 30 September 2021 (Rm)	1,054.8	1,096.1	566.7	111.2	37.5	2,866.3	
COVID-19 rental discounts granted: 1 July 2021 - 30 September 2021 (R’000)	4,677.8	3,517.7	-372.9	-	-	7,822.6	197,598.5
COVID-19 net rental deferrals: 1 July 2021 - 30 September 2021 (R’000)	**-114.4**	**-382.5**	**36.4**	**-2,297.1**	**-408.0**	**-3,165.6**	**-123,225.9**
COVID-19 rental deferrals granted: 1 July 2021 - 30 September 2021 (R’000)	1,543.5	552.2	47.4	-	-	2,143.1	32,821.6
COVID-19 rental deferrals recovered: 1 July 2021 - 30 September 2021 (R’000)	-1,657.9	-934.7	-11.0	-2,297.1	-408.0	-5,308.7	-156,047.5

1. Weighted average renewal growth rate: 1 July 2020 - 30 September 2020
2. Rolling 12-month renewal growth to 30 September 2020

Office sector

Many of our larger tenants have indicated their intention to return to the office in greater numbers from January 2022. They are contemplating a hybrid working model with flexibility for staff to work from the office three days a week and from home on other days. We foresee office layouts being modified for collaborative working and hot-desking, reducing the space tenants require. This could be countered by social distancing requirements, more meeting rooms and introducing spaces facilitating virtual interaction. We also expect parking requirements to reduce as not all staff will be in the building simultaneously.

The effect of the pandemic and the impact on the economy means that smaller tenants cannot afford their space and need to downsize. Others are reluctant to commit to long-term leases as they are uncertain about their future space requirements or cash flows.

As a result, key metrics for the office sector remain under pressure, particularly in Gauteng and in Sandton specifically. Our office sector vacancies increased from 19.9% at FY21 to 20.9%. Tenants have many options for new premises, including sub-letting fitted-out and furnished space from other downsizing businesses. Our most significant concentration of offices is in Sandton, where 21.4% of our office gross lettable area (GLA) is located and where our Gauteng vacancies are concentrated at 94 000m^2 or 26% of total office vacancies. The Gauteng region is under significantly more pressure than KwaZulu-Natal (KZN) and the Western Cape, where vacancies are concentrated in a few buildings. Non-renewals added 33 592m^2 of vacant space with 27 359m^2 of new letting in the period. As a result of liquidations and evictions, leases were terminated for 9 621m^2 of space.

Arrears of R93.4m have deteriorated slightly from R91.4m at FY21. We have impaired most of the persistent and sizeable arrears.

Offices achieved a renewal success rate of 56.6%, with the average lease renewal term decreasing to 2.8 years from 4.4 years at FY21 as tenants remain reluctant to commit amid uncertainty. The oversupply of space in the market puts pressure on occupancy levels and rental renewal growth. Rental growth on renewals has decreased for the last six years and continues to face downward pressure. It deteriorated further, from -16.1% at FY21 to -18.7% at the end of the quarter.

On a more positive note, requests for relief from tenants have slowed dramatically and we are receiving increased enquiries from larger tenants who are taking the opportunity to improve the quality of their space, at similar or lower rentals. We have concluded leases for over 8 500 m^2 in the Western Cape and 2 000m^2 in KZN, which start later in the financial year as well as deals for large space in the Rosebank, Illovo and Bryanston nodes.

We disposed of six non-core office assets for R188.5m.

Retail sector

Assuming no further lockdown restrictions are imposed, the sector is showing signs of recovery, albeit with foot counts and trading densities still falling short of pre-COVID-19 levels. Essential retailers continue to outperform. Sales in categories such as electronics and homeware have slowed after booming in 2020. Value fashion remains at the forefront of the apparel recovery.

The recovery of our community shopping centres continues to surpass regional malls and retail centres in office nodes are slower to bounce back.

The number and extent of requests received for rental relief have decreased considerably. They are typically limited to hard-hit restaurant, fast-food and entertainment tenants, which account for 6.15% of our retail GLA and 8.9% of monthly rental and administered costs.

We are pleased to report that our focus on tenant retention is apparent in the 91.9% renewal success rate. This is impressive, notwithstanding that the renewals were concluded at a weighted average renewal growth of –17.7% in a highly competitive and challenging market, clouded by uncertainty. The sector has experienced negative renewal growth for the past four years. Retailers are prioritising cost containment and negotiating reduced rentals and escalations to achieve this.

Arrears improved slightly over the quarter, from R148.2m at FY21 to R140.9m, with Ster-Kinekor and CNA, both in business rescue, being the two largest arrears in the portfolio.

Positive letting improved vacancies from 6.2% as of FY21 to 5.1% at the end of the quarter. We relet the space vacated by Game at City View Centre to Value Co and converted the balance to storage which has been fully let. After relocating

Dis-Chem from our neighbouring value centre to Waterfall Mall, we successfully relet its space in the value centre. Leases for 5 409m² of retail space were terminated in this quarter.

The increase in letting activity has come about with recent retailer mergers and acquisitions, store optimisation, right-sizing and introducing new and non-represented brands, as well as store rationalisation, such as that seen by Game and Woolworths.

Two non-core shopping centres, Helderberg Hyper and Amrel Alberton, were sold and transferred for R205.5m. Another four retail assets are in various stages of disposal.

Industrial sector

Under the current level 1 lockdown restrictions, most business operations are returning to some form of normality, and we have had very few requests for rental relief. All the same, generally tenants remain wary of medium- and long-term lease commitments, with limited exceptions.

Hikes to assessment rates and Eskom tariffs are exacerbating cash flow challenges for industrial businesses by increasing occupation costs when this sector is fragile. Load-shedding is impacting heavily on all sectors, especially manufacturers. The logistics and distribution segment continues to perform well with a surge in freight transportation services relating to FMCG and mining and agricultural products.

We remain focused on retaining tenants, thereby protecting income and occupancies. Good letting was supported by improved renewal success, with tenant retention increasing impressively from 62.2% at FY21 to 85.1% in the three months and rental reversions improving to -9.2% from -10.9% over the same period. Vacancies decreased pleasingly from 9.4% at FY21 to 7.4%. Unfortunately, 45 114m² of space was terminated in the period comprising 18 tenants with the majority of the terminated space relating to business rescue actions which commenced in prior periods, being concluded, with the most significant being 25 674m² at Isobar, and the balance relating to financial difficulty and mutual agreement.

Arrears of R60.3m are still at unprecedented but stable levels (R59.0m at FY21) as our tenants' businesses pick up and improve. The number of new business rescues and liquidation cases also show some abatement.

There remains a strong appetite for industrial acquisitions by non-institutional investors seeing an opportunity to create an investment portfolio. We have succeeded in selling eight non-core properties for R197.0m with a further 16 assets of c. R600m in various stages of disposal at 30 September 2021.

V&A Waterfront

The country's move to Adjusted Alert Level 1 and its removal from the UK's travel red list has brought a marked increase in footfall to the V&A Waterfront. 1.6m people visited in October 2021, when footfalls were 28% higher than September 2021 and reached 71% of those in October 2019. For the 10 months ended 31 October 2021, footfalls reached 11.8m, 5% higher than the first 10 months of 2020 but 43% below these months in 2019.

There has been a definite increase in international tourists off a low base. Barring further international travel restrictions and increased lockdown measures, the number of local and foreign visitors to the V&A Waterfront is expected to increase over the festive season but at levels below those experienced before COVID. The slow return of international tourists continues to exert pressure on jewellers, restaurants, tourism and leisure-focused retail attractions.

The office, marine and industrial portfolios continue to perform well with low vacancy levels. A high percentage of blue-chip tenants anchor the office portfolio. The marine and industrial portfolio is anchored by the fishing industry, which continued to trade as usual throughout the different levels of lockdown.

Gross revenue for the quarter was a welcome 63% above the same period in the prior year, which resulted in a 159% increase in profit before interest and tax. Vacancies, excluding premises under development, remain low at 2.7% of GLA. Arrears amount to R203m, of which R115m has been provided for. The arrears figure includes deferred rentals totalling R73m, of which R66m relates to tenants in the hotel sector.

Developments

Development of a new 10 500m² office building in the Canal District is currently underway. The building will be home to Investec's 6 500m² Cape Town office and is scheduled for completion during the second half of the 2023 calendar year. This development includes the demolition and relocation of the Caltex fuel station. The new fuel station is expected to open in November 2022.

Approval has been given to construct a 3.3 megalitre desalination plant in the Pierhead District of the V&A Waterfront. The plant's capacity will be sufficient to meet the V&A Waterfront's daily water requirement. Construction of the plant will start in the first quarter of 2022 and take approximately 24 months to complete.

Retail

- Vacancy levels, excluding premises under development, are 2.4% of GLA.
- Retail sales of R342m for September 2021 were 34% higher than sales in September 2020 but 26% lower than in September 2019 due to reduced tourist trade impacting the jewellery, curio and restaurant categories.
- Arrears amount to R74m, of which R64m has been provided against (R28m provision for doubtful debts and R36m provision for discounts).
- R44m of rental discounts were processed during the three months but were partially offset by a net R13m reduction in discount provisions.
- Recently opened stores included a flagship Adidas concept store, the extended Zara store which is the brand's flagship in the Western Cape, Exclusive Books, Drip footwear, Hydraulics, Luminance, ARC and Chanel.
- Pier & The Waterside, a restaurant operated by the La Colombe group, will open in December 2021.
- Trading densities remain significantly ahead of the MSCI super-regional category benchmark.

Offices

- The robust office portfolio has been resilient, with blue-chip tenants comprising approximately 64% of GLA.
- Vacancies remain low at 2.6% of GLA, with no significant leases expiring in the next 12 months.
- Arrears amount to R18m, of which R12m has been provided against (R7m provision for doubtful debts and R5m provision for discounts)
- Rental discounts of R4m have been processed, mainly to ancillary retail tenants in office buildings.
- Downward pressure is expected on renewal rentals.

Hotels and residential

- The Commodore Hotel reopened on 17 November 2021 and all hotels in the V&A Waterfront are now welcoming guests.
- The V&A's hotels generate 70% to 75% of revenue from international tourists, and they have been materially affected by the absence of foreign travellers.
- The average occupancy rate across all V&A hotels for September 2021 was 29.3%, compared to 59.3% in September 2019. The average occupancy rate for the three months ended September 2021 was 19.9%. The September 2021 average daily rate was 33% lower than the September 2019 rate.
- Rental discounts amounting to R16m have been processed. Arrears amount to R99m, including R66m of rental deferments. Provisions of R34m have been raised against arrears.
- Vacancies in the residential-to-let portfolio are gradually improving despite an oversupply of residential units in the catchment area. Rental collections remain above 95%.

Marine and industrial

- The fishing industry traded throughout the lockdown period.
- Restrictions on cruise ships entering seaports have lifted, and, to date, 28 cruise ships have confirmed their bookings for the coming season, which runs from November 2021 to May 2022.
- Tourist attractions such as the Two Oceans Aquarium, boat and helicopter charter businesses remain under pressure due to reduced local and foreign tourist numbers and capacity restrictions due to COVID-19 protocols.
- Casual shipping, superyachts and yachting sectors have remained strong with the support of the export yacht building businesses.
- Arrears amount to R12m, of which R5m is provided for in doubtful debts (R4m) and discounts (R1m).

Funds management

Growthpoint's capital light funds management strategy allows third-party capital investors to partner with us and leverage our management strength in the unlisted, co-investment environment. We continue to grow our first two funds and the investment returns and fees earned from them. We are well advanced with plans to launch our third fund focusing on purpose-built student accommodation. The capital light nature of the co-investment and co-management model are effective and particularly attractive in this market, and we will continue growing this business.

Growthpoint Healthcare Property Holdings (GHPH)

The healthcare fund continues to build a promising pipeline of development and acquisition projects.

All tenants are paying rent in keeping with their lease arrangements, and all deferrals granted last year have been collected in full.

Transfer of the Cintocare Hospital, developed by Growthpoint's trading and development division, was concluded in August 2021. GHPH acquired the property for R515.6m.

We have implemented a transaction with the International Finance Corporation (IFC) for an US$80m equity and convertible debt package. The U$20m equity investment was concluded on 31 August 2021 and the US$60m loan investment concluded on 20 October 2021. GHPH is focussing on raising capital from other international Development Finance Institutions (DFIs), institutional investors, asset consultants and pension funds.

Lango Real Estate Limited (Lango)

Lango (previously Growthpoint Investec African Property Fund) reported its annual financial results showing ongoing sound performance broadly in line with expectations. It continues to enhance its generation of distributable income, buoyed by improved terms from the restructure of its overall debt position, which was completed earlier in 2021, and which is proving to be accretive to its overall yield. Lango expects to make a decision regarding the possible declaration of a dividend for the period ending 30 September 2021 in the coming weeks. Any declared dividend in this regard is anticipated to be settled in December 2021.

The past quarter has also seen sound progress in several key workstreams to enhance the financial and operational aspects of the business. As Lango establishes itself as the landlord of choice for the expansion of its key tenants throughout the Sub-Saharan region, the team's relationship building effort is delivering good results. Lango partnered with international Turkish fashion retailer LC Waikiki in opening their first stores in Zambia and Ghana. Engagement with prospective and existing tenants is also driving successful leasing activity. Lango's lease renewal rate for the year to end-June 2021 was over 90% and its collections as a percentage of billable income were a commendably high 99%.

The business environment in general continued to improve over the past quarter, regaining some of the ground lost due to the pandemic. Asset level indicators continue to show improvements in both footfall and turnover, with footfall now largely at previous year's levels.

Lango benefits from diversification across several jurisdictions and sectors, which has reduced risk and added value.

Its second fundraising period, which commenced on 1 May 2021, has continued to make good progress. The exercise aims to conclude additional funding to reduce Lango's debt in line with the targeted LTV of 40% and further its ambitions for expansion, which is expected to continue to enhance the generation of distributable income.

Treasury and capital management

Total nominal debt at the end of September 2021 was R38.0bn with unutilised committed facilities of R5.8bn. Our additional investment in C&R of approximately R480m was funded from surplus cash.

The weighted average term of all liabilities has reduced to 2.9 years from 3.1 years as at 30 June 2021. Growthpoint's weighted average interest rate was 7.4% (7.8% FY21). After including cross-currency interest rate swaps and foreign-denominated loans, it decreases to 5.7% (6.0% FY21). A total of 80.0% of our interest rate book was hedged for a weighted average term of 2.7 years.

Anticipated FY22 dividends from our international investments are all well hedged.

We are considering a number of alternatives for refinancing our USD425m Eurobond, which matures in May 2023.

ESG

With integrity, ethics and our values guiding our governance, we provide space to thrive in environmentally sustainable buildings, whilst improving the social and material wellbeing of individuals and communities.

Growthpoint's Carbon Neutral 2050 commitment impacts our domestic portfolio. In the first quarter of FY22 we sponsored a new Green Building Council South Africa (GBCSA) pilot rating tool: Green Star Existing Building Performance (EBP) rating tool for existing industrial buildings. This is a first for the industry and the country, and has the potential to significantly improve sustainability.

We are also actively investigating rooftop solar photovoltaic (PV) opportunities. Solar power is an exciting opportunity for Growthpoint, and rooftop PV installations are well suited for industrial buildings. By 2020, we had already installed 7.5MW of renewable energy across our portfolio. As we accelerate our steps to reduce carbon emissions on our journey to carbon neutrality, Growthpoint is confident it will attain 20MW solar power by the end of FY22.

Our commitment to the principles of social and economic transformation and empowerment on all levels is demonstrated through our achievement of a level 1 B-BBEE rating for our 2021 B-BBEE Certificate.

We held our 33rd AGM on Tuesday 16 November 2021 and at which all resolutions passed with strong votes in favour thereof, including the approval of our remuneration policy and implementation thereof, which received votes in favour of both at 83.10% and 84.19% respectively. This demonstrates our strong commitment to corporate governance at Growthpoint.

Conclusion

Notwithstanding the difficult conditions facing the South African business, with a further deterioration in all key property metrics expected, the continued conservative management of the business and the diversified nature thereof in terms of sectors and geographies in which we operate, continue to stand Growthpoint in good stead.

We will remain focused on balance sheet strength to enable us to execute our strategies effectively. In line with our REIT status, Growthpoint intends to continue to pay dividends twice a year of at least 75% of distributable income.

Growthpoint will release its HY22 results on Wednesday, 16 March 2022.

This information is the responsibility of the Directors and has not been reviewed by our external auditors.

Management call

A Q&A call with management will be hosted by Absa Capital at 16:00 South African time on 25 November 2021, please email priscilla.leroux@absa.africa to register.

Johannesburg

25 November 2021

Sponsor
Investec Bank Limited