Growthpoint Properties Limited
Approved as a REIT by the JSE
Incorporated in the Republic of South Africa
Registration number 1987/004988/06
Share code: GRT ISIN ZAE000179420
"Growthpoint"

INVESTOR UPDATE FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2022

We are pleased to present our trading update for the first quarter of FY23 from 1 July 2022 to 30 September 2022.

Growthpoint continues to benefit from the sectoral and geographic diversification of its business. We remain dedicated to our three well-established strategic priorities of optimising our South African portfolio, generating income and equity returns from Growthpoint Investment Partners and international expansion, which currently remains constrained.

We prioritise the strength of our balance sheet and liquidity position and continuously monitor the debt capital markets for refinancing opportunities for our USD425m Eurobond maturing in May 2023. Growthpoint has R10.3bn of unutilised committed facilities available to repay the Eurobond should the unfavourable conditions in international bond markets persist.

South African portfolio

It is pleasing to see that some property key performance indicators (KPIs) have improved to deliver a mixed result for the quarter. Our renewal rate is only 66.8%, but vacancies reduced from 10.3% to 10.2% as a result of a significant letting of new space of over 150 000m^2. We renewed space of approximately 240 000m^2, bringing the total amount of space let in the period to c. 390 000m^2 Both the retail and industrial sector have returned their vacancies to pre-Covid-19 levels. Escalation rates and lease lengths achieved on renewals are now improving, reversing the sustained downward trend. The average lease period achieved for the first three months on renewals stood at 4.0 years, notably longer than the 3.2 years achieved during FY22. Escalations on renewal increased from 6.4% to 6.8%. However, the renewal success and growth rates for the quarter decreased from 75.1% to 66.8% and -12.8% to -14.9%, respectively. Arrears remained stable.

As we point out in the first quarter of each financial year, the three-monthly KPIs tend to be lumpy. However, we expect to see continued improvement in the industrial and retail sectors and a slow recovery in the office sector.

	KPIs as of 30 September 2022							
	Retail	Office	Industrial	Healthcare	Trading & development	Total	HY22	FY22
Vacancy	5.8%	21.4%	4.3%	0.1%	-	10.2%	10.5%	10.3%
Renewal success rate	82.7%	61.2%	63.9%	-	-	66.8%	77.3%	75.1%
Weighted average renewal growth rate: 1 July 2022 - 30 September 2022	-15.0%	-12.7%	-16.5%	-	-	-14.9%	-15.1%	-12.8%[1]
Rolling 12-month renewal growth rate to 30 September 2022	-12.7%	-15.0%	-9.4%	-	-	-12.4%	-	-15.8%[2]
Weighted average renewal lease period (years)	3.6	3.2	4.5	-	-	4.0	3.4	3.2

Weighted average future escalations on renewals	6.0%	6.8%	7.4%	-	-	6.8%	6.2%	6.4%
Total arrears (Rm)	61.7	61.0	64.2	7.0	0.2	194.1	295.8	195.3

1. Weighted average renewal growth rate: FY22: -12.8% and 1 July 2021 to 30 September 2021 -15.8%
2. Rolling 12-month renewal growth to 30 September 2021

In line with our disciplined capital allocation, capital and development expenditure have been funded by the proceeds from asset sales and cash retained from the 82.5% dividend payout ratio for FY22. We sold and transferred 14 non-core properties for R748.2m, at a R92.6m profit to book value, including R143.8m for the remaining 50% of Adcock Ingram, which was sold to the Growthpoint Healthcare REIT. We have also concluded the sale of an additional 13 properties awaiting transfer for R668.0m at a R40.4m profit to book value.

Retail sector

Recovery continues, with turnovers at pre-Covid-19 levels at most of our shopping centres while footfalls are well on their way to full recovery. The sales rebound and rebased rentals have resulted in an improved cost of occupation for retailers. With trading density growth for the quarter of 9.4% versus the same period last year, which drives positive letting dynamics, we expect a continued improvement in key metrics for the retail sector.

Our community shopping centres remain robust, and it is pleasing to see that our regional centres continue to recover. While the recovery in apparel was led by value fashion, we are now seeing a recovery across all fashion categories whilst the performance of retailers selling essentials remains strong and consistent. We also continue to benefit from on-demand shopping and delivery as evidenced by the growth of Checkers Sixty 60, Woolworths Dash, Pick n Pay Asap! and the performance of Uber Eats and Mr D.

Letting activity has increased, driven by recent retailer merger and acquisition activity, store optimisation, right-sizing, introduction of new brands and store upgrades. However, we are still seeing some rent reversions as leases expire, and these are mainly as a result of the conclusion of Ster Kinekor's business rescue process. Reversions weakened to -15.0% from -13.6% but would have been -8.1%, excluding Ster Kinekor and two other significant renewals of 6 500m². Arrears decreased from R68.3m to R61.7m.

Our focus on tenant retention is apparent in the 82.7% renewal success rate, which is nearly as high as the 85.0% achieved during FY22. We continue with our plans to redevelop Bayside Mall in the Western Cape, which has contributed to the portfolio vacancy levels of 5.8%, slightly up from 5.5%. Post-period, we relet some 9 500m² of newly vacated office and retail space at Golden Acre.

We have signed sale agreements for two non-strategic shopping centre assets for R349.2m, which are yet to transfer, and have approved the disposal of a further five assets that no longer fit our investment criteria for R1.2bn.

Office sector

We are seeing a renewed interest in occupying offices, even though the office sector remains the most challenging. We successfully let around 46 000m² of new space, signalling that smaller businesses are returning to offices with hybrid solutions. Staff occupancies at many offices are now up to 70%. Space consolidation continues to be a trend for large tenants, impacting vacancies which remain below the 22.4% peak of the March 2022 quarter, although it increased from 20.7% to 21.4% during the three months. Some of this space has since been let for occupancy later in the year.

Offices in coastal regions continue to outperform. Rosebank, Woodmead and Illovo have seen good letting with a reduction in vacancies, even though offices in Gauteng are particularly stressed. The pressure is most evident in Sandton, where we have 21.5% of our office gross lettable area (GLA). Sandton vacancies seem to have peaked and remained steady at 27%.

We are retaining a high percentage of tenants, but some have downsized, impacting the numbers. The renewal success rate improved to 61.2% from 58.0%. What these numbers do not reflect, however, is how uncertainty is driving positive tenant retention because businesses are only willing to relocate once they have more clarity on their future space needs. The average lease renewal term improved from 3.1 to 3.2 years, with some tenants still hesitant to commit for long periods amid uncertainty.

We launched WorkAgility, which offers high-demand, fitted-out, plug-and-play office space with flexible lease lengths. This product generated a significant number of enquiries. Growthpoint now provides products across the office space continuum, from turnkey developments to white boxes and fully fitted-out spaces. We are also focused on introducing more amenities to our buildings to support our tenants to offer great places for their staff to work.

Rent reversions on renewal improved significantly from -17.0% to -12.7% due to better sentiment, tenants returning to the office and the stabilisation of market rentals. Arrears are at R61.0m, broadly in line with the R59.7m at FY22. However, the key to market growth is macroeconomic recovery, which we are yet to see.

We disposed of and transferred three non-core office assets for R76.9m. Another five signed sales agreements for R138.8m are awaiting transfer.

Industrial sector

The industrial operating environment has improved. Vacancies continue to decrease and are currently at a much improved 4.3%, down from 5.7%, concentrated in Gauteng. Vacancies in KwaZulu-Natal and the Western Cape average a low 2%. The uptick in inflation and the impact on construction costs have been positive for the sector, slowing supply and increasing demand for existing stock. The sector still needs macroeconomic growth for significant improvement.

Three tenants in business rescue contributed R18m (31%) to total arrears. As a result, arrears increased from R45.1m to R64.2m. We have re-let the 49 182m^2 space occupied by TMH (Pty) Ltd, one of the tenants in business rescue, at DCD Dorbyl Boksburg. Tenant retention temporarily declined from 79.1% to 63.9% before this re-letting was concluded.

Without five significant negative reversions of around 40 000m^2, rental reversions would have improved to -3.8% from -6.3%, but their effect was a significant deterioration in reversions to -16.5%. On the positive side, leases have been renewed for longer periods, and the weighted average lease period on renewal has increased meaningfully to 4.5 years from 3.2 years.

There is a strong appetite for industrial acquisitions by non-institutional investors. We sold and transferred 10 non-core properties for R331.3m and have signed sales agreements for R180m in respect of another six assets awaiting transfer. A further seven properties have been approved for sale for approximately R300m.

Trading and development

Our trading and development team continues to focus on optimising our domestic portfolio and developing assets for Growthpoint Investment Partners. This division produced a healthy income of R119.5m for the quarter, made up of rental income, development fees and trading profits.

The development of two Student Accommodation properties for Growthpoint Student Accommodation REIT is progressing well. The residential units for sale at Kent La Lucia are almost complete, with practical completion expected at the end of March 2023. The presales threshold at Riverwoods has been met, triggering the residential conversion and the 50% sale to our JV partner. The team is also busy with various redevelopments, extensions and refurbishments. The most significant is at our head office in Sandton, The Place, which will be completed next month.

V&A Waterfront

Recovery from the pandemic-induced downturn continued, and international tourist arrivals recovered to about 84% of pre-pandemic levels.

Operating profit for the period was up 45% and 7% ahead of the last normal, and rental relief given to distressed tenants was reduced by 85% compared to quarter one of FY22.

Retail sales, footfall and the hospitality sector benefitted from the rebound in international tourism and the return of conferences, sporting and other events. Retail sales exceeded the last normal levels by 19%, despite footfall only recovering to 79%. A significant improvement in room rates meant that the corresponding revenue per available room (RevPAR) recovered to 97% of pre-pandemic levels, even though occupancy levels for the V&A hotels were 53% for the quarter.

The marine and industrial sector continued to be resilient, with significant upside from the casual berthing of yachts of all types. On the eve of the cruise season, we look forward to welcoming a healthy recovery of some 75 visits from vessels.

Across the precinct, the portfolio had negligible vacancies of 0.6% and is experiencing unusually high additional demand for space in the office sector. By reletting all the stores and restaurants that closed during the pandemic, the V&A has improved its retail tenant mix.

Optimism prevails that the upcoming summer season will be the boost required to see the V&A Waterfront make a full recovery.

Furthermore, the V&A will in the future be funding its development pipeline and operational capex using third party debt. It has secured a R1bn green loan from a consortium of banks, which supports the ESG strategy and improves the capital structure.

Growthpoint Investment Partners

Growthpoint Investment Partners exceeded its initial goal of R15bn of assets under management (AUM) by 2023 and has set a new target to double this to R30bn of AUM in the next five years (by end-FY27). The increase in assets will come from growing existing platforms and potentially launching new ones. Growthpoint Investment Partners has brought in additional resources to support the new objective.

Growthpoint Healthcare REIT

Growthpoint Healthcare REIT secured its first healthcare warehousing and distribution asset, acquiring a 50% undivided share in the 22 455m^2 temperature-controlled Adcock Ingram pharmaceutical facility in Midrand. Bidvest Properties acquired the other 50% undivided share. The property was transferred on 29 September 2022.

After the R143.8m Adcock Ingram property investment, Growthpoint Healthcare REIT has R350m of debt funding available from its International Finance Corporation (IFC) loan to fund future acquisition and development transactions. It continues to grow its pipeline. It is in early discussions to expand one of its existing assets and is considering investing in a greenfield development.

Raising equity continues to be a priority. Growthpoint Healthcare REIT recently raised R500m from the Government Institutions Pension Fund of Namibia. The proceeds were used to partly settle Growthpoint's shareholder loan, reducing its holding to 39.1%.

Growthpoint Healthcare REIT is also in advanced discussions to finalise the sale of 15% of its management company to Kagiso. Once final, the sale will become effective retrospectively from 1 July 2022.

Growthpoint Student Accommodation REIT

Launched in December 2021 with a R2bn portfolio of seven properties and 4 979 beds, the Growthpoint Student Accommodation REIT portfolio is 99% let.

Growthpoint's trading and development team are currently developing two assets, 900-bed Apex Studios for students at Wits University and 535-bed Peak Studios for students at The University of Cape Town, as part of a solid development and acquisition pipeline. These properties are on course for completion in time for the 2023 academic year. Growthpoint Student Accommodation REIT has also secured the acquisition of the 715-bed Brooklyn Studios at the University of Pretoria and a 810-bed new development, Capitol Gate in a joint venture with Feenstra Group, adjacent to the Tshwane University of Technology Pretoria Campus.

As the portfolio continues to grow, it has adopted a brand that is instantly recognisable to students wherever it is found in South Africa, Thrive Student Living. Each building has a unique name containing the portfolio's signature "studio" alongside it.

The Government Institutions Pension Fund of Namibia has committed to invest R250m, which will partly fund the Brooklyn Studios acquisition. Active equity raising discussions are continuously taking place with development finance institutions (DFIs), international and domestic investors.

Lango Real Estate Limited (Lango)

Lango's results remain broadly in line with expectations, buoyed by the quality of the assets despite difficult markets and trading conditions.

Footfalls and turnovers have generally improved at the various retail assets, with shopper numbers mostly at or around pre-Covid levels. The reinstatement of Circle Mall in Lagos is largely complete.

Lango's lease renewal rate for the six months ended 30 September 2022 was 89% with collections as a percentage of billable income at 99%.

Considering the increases in global interest rates, more than 80% of Lango's debt was fixed at all-time low interest rates. Lango will consider the possible declaration of an interim dividend in December 2022, which will be payable before 31 December 2022.

Lango continues to make good progress with its second fundraising period, which is nearing completion. It aims to deploy additional capital to reduce its debt in line with its targeted loan-to-value ratio of 40%. The funding is also intended to further its expansion, particularly to gain its first exposure to Kenya and East Africa. A series of potential and accretive transactions are well-advanced.

International portfolio

Our international businesses, Growthpoint Properties Australia (GOZ) which invests in metropolitan offices and industrial assets across Australia, Globalworth Real Estate Investments (GWI) invested in office, industrial and mixed-use properties in Poland and Romania, and Capital & Regional (C&R) focused on UK needs-based community shopping centres, are all listed separately and have published their most recent market updates and, as such, we refer you to these publications for more detail.

Our current focus is to optimise the existing portfolio, while aiming to implement capital-light funds management strategies in those jurisdictions where we have control.

Treasury and capital management

Total nominal SA debt at the end of September 2022 was R40.2bn (FY22: R39.2b). Approximately R840m of the increase resulted from foreign currency movements on the Eurobond and the IFC loan, as well as a R210m drawdown of debt to fund development activity for Growthpoint Student Accommodation REIT.

We continue to review our funding and maturity profile and monitor the debt capital markets to ensure we are well-positioned for any refinancing opportunities, including the Eurobond maturing in May 2023. The weighted average term of all liabilities reduced to 2.7 years from 2.9 years mainly due to the Eurobond maturity. Growthpoint's weighted average interest rate was 8.3% (8.1% FY22). After including cross-currency interest rate swaps and foreign-denominated loans, it decreases to 6.2% (6.1% FY22). A total of 82.6% of our interest rate book was hedged for a weighted average term of 2.4 years.

Growthpoint entered into interest rate caps for R700m, with an August 2025 expiry, as an alternative instrument to interest rate swaps to hedge our interest rate exposure and manage volatility in distributable income. Effectively, Growthpoint is protected against interest rate increases beyond the strike rate of 8%. The premium paid is amortised over the term of the cap.

Anticipated FY23 dividends from our international investments are all significantly hedged.

ESG & Succession

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

We continue to increase our rooftop solar photovoltaic (PV) generation capacity. Solar power is an exciting opportunity for Growthpoint, and rooftop PV installations are well-suited for retail and industrial buildings. As we accelerate our steps to reduce carbon emissions on our journey to carbon neutrality by 2050, we now generate a total of 14.3MWp installed at 19 properties. Our ability to reach our target of 27.1MWp for FY23 is being impacted by the congestion and subsequent delays at Durban Harbour.

B-BBEE remains a critical focal point for the business, and we have maintained our level 1 B-BBEE rating for 2022, highlighting our commitment to social and economic transformation and empowerment principles on all levels.

Key governance milestones include implementing a Board approved Ethics Strategy, appointing a dedicated compliance resource and completing our Board rejuvenation. After our upcoming AGM on 29 November 2022, all non-executive directors on the Growthpoint Board will be independent, demonstrating our firm commitment to effective corporate governance.

Norbert Sasse, Group Chief Executive Officer, has informed the Board of his intention to retire at the end of 2024. The Board intends to appoint his successor during the first half of 2024 to ensure an orderly handover.

Conclusion

Our domestic retail and industrial portfolios continue on their path to recovery, and the office sector has now stabilised, notwithstanding the challenging South African macroeconomic environment. The V&A is recovering faster than anticipated with the return of international tourism. However, given the domestic and global uncertainty coupled with the high interest rate and inflation environment, we still expect muted distributable income per share (DIPS) growth for FY23.

Growthpoint will release its half-year results for the six months from 1 July 2022 to 31 December 2022 on Tuesday, 14 March 2023.

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 Investec Securities at 16:00 South African time on 24 November 2022. Please email Louise.Schoeman@investec.co.za to register.

Johannesburg

24 November 2022

Sponsor
Investec Bank Limited