EQUITES PROPERTY FUND LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 2013/080877/06)
Share code: EQU ISIN: ZAE000188843
JSE alpha code: EQUI
(Approved as a REIT by the JSE)
("**Equites**" or "**the Company**")

DEVELOPMENT OF A LOGISTICS CAMPUS FOR SHOPRITE IN KWAZULU-NATAL, SOUTH AFRICA

1. INTRODUCTION

Shareholders and noteholders are advised that Retail Logistics Fund (RF) Proprietary Limited ("**RLF**"), a subsidiary of Equites, and Shoprite Holdings Limited, through its wholly-owned subsidiary Shoprite Checkers Proprietary Limited ("**Shoprite**"), have concluded the following interconnected agreements:

- An agreement of sale ("**Sale Agreement**") in terms of which RLF will acquire a 65,619 square metre logistics campus from Shoprite ("**Existing Campus**"), on Erf 224, Erf 227, and Erf 45 in Canelands, KwaZulu-Natal ("**KZN**"). The acquisition cost for the Existing Campus is R560,000,000 (exclusive of VAT), with a further R78,252,202 payable to Shoprite for undeveloped land and costs already incurred by Shoprite in respect of the Development Lease Agreement, bringing the total acquisition cost to R638,252,202 ("**Acquisition Cost**");

- A lease and development agreement ("**Development Lease Agreement**") in terms of which RLF will let the Existing Campus to Shoprite and extend the facilities by a further 37,452 square metres on Erf 224, Erf 227 and Erf 215 in Canelands, KZN, with the latter erf already being owned by RLF ("**the Extension**"). The total indicative cost of the Extension is R422,436,251 ("**Development Cost**"), which includes R78,252,202 forming part of the Acquisition Cost; and

- A development management agreement in terms of which RLF will appoint Equites as the development manager to implement the Extension;

together the ("**Transaction**").

2. RATIONALE

Equites has communicated its strategy of pursuing growth in South Africa ("**SA**") through high-quality acquisitions and developments. The Transaction meets Equites' strategic objectives of:

- continuing to cement itself as a developer of choice to the largest logistics, retail and e-commerce participants in the SA market;
- increasing its exposure to the logistics sector in SA, which continues to outperform;
- creating further scale in Equites' high-quality logistics portfolio with stable and predictable rental growth profiles, which enhances capital and income growth in the medium- to long- term;
- supporting Equites' commitment to sustainability, as the Extension will be designed in line with Excellence in Design for Greater Efficiencies ("**EDGE**") Green Building Certification requirements; and
- the long-dated, annuity income stream presents opportunities to reduce Equites' cost of debt funding over time, thereby enhancing returns to shareholders.

Equites views the Transaction as evidencing the following sound investment fundamentals:

- the Existing Campus and the Extension will total 103,071 square metres ("**the Campus**"), which will be a world-class, secure and integrated logistics campus that meets Shoprite's specifications and operational requirements;

- increasing its exposure to Africa's largest food retailer, Shoprite, enhances the defensiveness of its tenant base; and
- the Campus will be let to Shoprite on a 20-year lease, with a right to renew for three additional 10-year periods, which substantially increases the weighted average lease expiry period of the portfolio.

3. DETAILS OF THE PROPERTY

The Campus will be a state-of-the-art distribution facility, supporting various functions of Shoprite's supply chain.

Property name	Geographical location	Sector	Gross lettable area	Weighted average net rental per square metre per month	Purchase consideration / Development cost
Shoprite Canelands **Existing Campus**	Erf 224, 227, and 45 in Canelands, KZN	Logistics	65,619m^2	R55	R560,000,000
Shoprite Canelands **Extension**	Erf 224, 227, and 215 in Canelands, KZN	Logistics	37,452m^2*	R73*	R422,436,251*

**These values are indicative and are subject to change and will be finalised upon practical completion of the Extension.*

The cost attributable to acquiring the Existing Campus and the Development Cost is considered to be in line with fair market value of the Existing Campus and value upon completion of the Extension, as determined by the directors of the Company. The directors of the Company are not independent and are not registered as professional valuers or as professional associate valuers in terms of the Property Valuers Profession Act No.47 of 2000.

4. TERMS OF THE TRANSACTION

The principal terms of the Transaction are as follows:

- The Development Lease Agreement will be a fully repairing and insuring lease, enduring for an initial period of 20 years, with the right to renew for three additional 10-year periods on the same terms and conditions.
- The rental will be determined based on the contracted initial yield of 7.75%, in accordance with the actual Development Cost.
- The rental will escalate at a rate of 5% per annum.
- The effective date of the Transaction is 13 February 2023.
- The Existing Campus is expected to transfer in March 2023.
- The anticipated commencement date of the Development Lease Agreement is 1 November 2023.
- The agreement contains undertakings, warranties and indemnities which are normal for a transaction of this nature.

5. FINANCIAL INFORMATION

Set out below is the forecast financial information in respect of the Transaction ("**the forecast**") for the year ending 29 February 2024 and the year ending 28 February 2025 ("**the forecast period**").

The forecast has been prepared on the assumption that the Existing Campus transfers on 1 March 2023, with the commencement of the Development Lease Agreement expected on 1 November 2023.

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.

	Forecast for the year ending 29-Feb-24 ZAR '000	Forecast for the year ending 28-Feb-25 ZAR '000
Rent – Existing Campus	43 400	45 570
Rent – Extension	10 913	33 284
Total revenue	**54 313**	**78 854**
Less: finance costs	(18 922)	(26 526)
Net operating profit	**35 391**	**52 328**
Less: non-controlling interest	(17 660)	(26 112)
Distributable earnings	**17 731**	**26 216**

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

- The contractual rental agreement is assumed to be valid and enforceable.
- The lease is a triple net lease and normal property operating expenses are therefore assumed to be recoverable from the tenant.
- The property and asset management functions will be performed internally.
- The forecast assumes a loan-to-value ("**LTV**") ratio of 30% throughout the forecast period.
- The marginal cost of debt assumed is 9.0%.
- No fair value adjustment is recognised.
- There will be no unforeseen economic factors that will affect the tenant's ability to meet its commitments in terms of the lease.
- RLF is a 'controlled company' for the purposes of section 25BB(1) of the Income Tax Act.

6. FUNDING AND IMPACT ON LTV RATIO

The Transaction will increase Equites' LTV by 2.3%, on a pro-forma basis. The Transaction will be funded from undrawn debt facilities as well as from proceeds received from the Company's property disposal programme.

Further details regarding the disposal programme will be provided in the pre-close presentation on 28 February 2023.

7. CATEGORISATION

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

16 February 2023

Corporate advisor and sponsor to Equites

JAVACAPITAL

Debt sponsor

CIB