Growthpoint Properties Limited
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"Growthpoint"

INVESTOR UPDATE FOR THE NINE MONTHS ENDED 31 MARCH 2023

We are pleased to present our trading update for the nine months from 1 July 2022 to 31 March 2023.

Growthpoint remains committed to its three core strategies: optimising its South African portfolio, producing income and equity returns through Growthpoint Investment Partners, and international expansion. In relation to the latter, we are currently focusing on the optimisation of our existing international investments, due to the present unfavourable global economic environment and the priority of preserving the strength of our balance sheet.

Notwithstanding the unfavourable state of international debt markets, we successfully refinanced our USD425m Eurobond which matured in May 2023. Rising interest rates are, however, negatively impacting our results and the international and domestic real estate sector in general.

South African portfolio

In South Africa, unfavourable economic conditions are exacerbated by frequent power outages and political uncertainty, leading to mixed results during the nine-month period.

We are encouraged by positive leasing activity, albeit that vacancy rates rose slightly during the quarter. The portfolio renewal success rate improved to 63.9% from HY23. In total, we leased over 940 000sqm of space, which included approximately 560 000sqm in renewals and over 380 000sqm in new leases. Negative rental reversions on renewal are gradually improving, reducing from -16.0% at HY23 to -14.3%. Arrears continue to improve and lease lengths on renewal stayed steady at 3.5 years.

Loadshedding is significantly affecting our costs and our tenants' costs. Growthpoint's diesel expenses reached R87m in the nine months. Diesel recovery remains low for the retail sector and at c. 60% for the office sector. Only 3 industrial parks have generators provided by Growthpoint with a c. 74% recovery rate. Tenants' occupancy costs increased across all sectors.

	KPIs at 31 March 2023								
	Retail	Office	Industrial	GHPH	GSAH	Trading & Development	Total	HY23	FY22
Vacancy	6.1%	20.1%	5.0%	0.1%	6.0%(3)	-	10.2%	9.9%	10.3%
Renewal success rate	79.1%	63.1%	59.2%	-	-	-	63.9%	61.2%	75.1%
Weighted average renewal growth rate	-11.3%	-19.8%	-11.2%	-	-	-	-14.3%	-16.0%	-15.8%(1)
Rolling 12-month renewal growth rate to 31 March 2023	-11.1%	-19.1%	-8.8%	-	-	-	-13.3%	-	-14.2%(2)
Weighted average renewal lease period (years)	3.9	3.6	3.3	-	-	-	3.5	3.5	3.2
Weighted average future escalations on renewals	6.1%	7.2%	7.4%	-	-	-	6.8%	6.7%	6.4%
Total arrears (Rm)	47.0	59.6	37.9	8.3	13.1	0.5	166.5	179.5	195.3

1. Weighted average renewal growth rate: FY22 -15.8% and 1 July 2021 – 31 March 2022 - 13.6%.
2. Rolling 12-month renewal growth to 31 March 2022.
3. GSAH KPIs will be included from June 2023, as such the 6% vacancy is not included in the 10.2% total vacancy.

In line with our disciplined capital allocation, our capital and development expenditure was funded by the proceeds from asset sales. To date, we have sold and transferred 28 non-core properties for R1.1bn with a R3.3m profit to book value. These disposals include R143.8m for the remaining 50% of Adcock Ingram, which was sold to the

Growthpoint Healthcare REIT. We have also sold an additional ten properties for R1.6bn, awaiting transfer. Another 12 properties of approximately R500m are approved for disposal.

Retail sector

Trading densities grew by 9.8% in the nine months, showing ongoing recovery. This recovery was supported by stable vacancies and we anticipate improved occupancy levels going forward. We are addressing significant vacancies through letting strategies, property disposals and redevelopments, such as at Bayside Mall in Cape Town and River Square Shopping Centre in Vereeniging.

Bayside Mall's redevelopment is underway with strong national retailer interest. We are allocating space to optimise the tenant mix. River Square's former Game space is being redeveloped for Edgars and Builders Express.

East Rand Value Mall sold for R206.3m, with its transfer completed in mid-March. The Avenues and Palm Springs sold for R68.4m and R76.0m respectively and transferred at the end of March. Additionally, four non-core retail centres worth R1.1bn are awaiting transfer with another one valued at R50m approved for disposal.

Rental reversions improved from -13.1% at HY23 to -11.3%, and this trend is expected to continue to year end. Arrears decreased from R52.2m to R47.0m.

Our renewal success rate of 79.1% was negatively impacted by the non-renewal of Ster Kinekor at Festival Mall as well as Cinema Nouveau at Brooklyn Mall. Some office tenants at Golden Acre also chose not to renew or have downsized.

Over the last quarter, retailers faced added challenges from increased loadshedding, resulting in higher costs and slower trading density growth caused by reduced trading hours. Higher inflation and interest rates remain concerning as it impacts consumer spending. With decreased disposable income, consumers continue to prioritise value and non-discretionary purchases.

We collaborate with banks to downsize where it is commercially wise, which often provides an opportunity to enhance tenant variety. We also continue to right-size and optimise retail spaces with national retailers who have had an increased demand for space.

Office sector

Vacancies are stable at 20.1% and remain below their peak of 22.4% at 31 March 2022. We have observed growing demand in specific regions, especially the Western Cape, KwaZulu-Natal and Rosebank in Gauteng. Some areas show increased leasing activity, such as our Illovo portfolio, where vacancies have nearly halved, decreasing from 45% to 24%.

Demand is returning in select office parks. Vacancies at Constantia Office Park dropped from 10.0% to 7.4%, while those at The Woodlands improved from 18.6% to 14.9%. Western Cape vacancies are at 11.4%, down from a high of 16.8% in December 2021 and KwaZulu-Natal vacancies are at 4.2%, down from 7.8% in December 2021. In March, Riverwoods in Bedfordview was transferred to the Growthpoint Trading and Development division for residential conversion, positively affecting the vacancy numbers.

Certain tenants have negotiated a smaller footprint at lease renewal - the 63.1% renewal success is based on GLA and not on the actual number of retained tenants. Large users downsizing kept Sandton vacancies at 27.3% despite better leasing.

Rental reversions improved slightly to -19.8% from the low of -20.7% at HY23, which was skewed by a large negative reversion on 22 000sqm. Excluding this renewal, reversions for the 9-month period would have been -10.8%

New lets of 122 0000sqm improved over the 90 000sqm in the first nine months of FY22. This indicates that both small and large clients are returning to the office or upgrading to higher-quality space.

Our arrears have stabilised with a single tenant comprising around 20% of the total arrears. There are very few business rescue cases at present.

In HY23, we sold five non-core office assets for R129.7m, which have transferred. We also sold 50% of Building 33 at The Woodlands for R132m, with transfer expected in June 2023 and we have a signed sale agreement of R220m for

11 Adderley Street in Cape Town, awaiting transfer. Additionally, we identified three more properties valued at roughly R150m for disposal.

Industrial sector

Development supply is decreasing due to high construction inflation, balancing supply and demand for current inventory. Vacancies have increased marginally from 4.3% at HY23 to 5.0% with low vacancies in the coastal areas at 0.8% for Cape Town and 2.3% for KwaZulu-Natal. Higher Gauteng vacancies are at 7.3%, mainly due to some large boxes: 32 000sqm at Galrode in Alrode, 12 000sqm at Growthpoint Business Park in Midrand and 8 300sqm at Global in Isando, where the disposal fell through. 6 500sqm at Fountains in Pretoria is set for redevelopment for Growthpoint Student Accommodation REIT. Vacancy rates will remain under pressure as two more properties were affected by business rescue applications post-March 2023: 7 200sqm at erf 706 Alrode and 5 200sqm at Impala Road in Eastgate Sandton.

Market rental growth is still not keeping pace with contractual escalations and as such we continue to see reversions on renewals to retain tenants. Currently, tenants prefer lease periods under three years due to the uncertain conditions. Loadshedding severely affects manufacturing and production tenants, raising their costs, straining occupancy affordability and contributing to more tenant failures.

Arrears are stable but upward pressure is expected due to current macroeconomic conditions.

Although renewal rates are low, new letting increased to 69.6%, resulting in total letting success of 83.9%.

We are strategically improving our portfolio by selling non-core assets and focusing on core investments, especially in coastal areas with low vacancies and high demand. A number of partially let and speculative developments have been initiated, including 22 000sqm under construction at Centralpoint in Samrand, 20 000sqm at Trade Park in Durban and 20 000sqm at Arterial Industrial in Cape Town.

Non-institutional investors are expressing strong appetite for industrial acquisitions. We successfully sold and transferred 20 non-core properties for R589.3m and signed agreements for R111.7m for three more assets, pending transfer. We have also approved the sale of eight properties of around R320m.

Trading and development

Growthpoint's trading and development team adds value to our domestic portfolio through redevelopments, extensions, and refurbishments. It completed two student accommodation properties for GSAH and is constructing two more. The team is also working on the extension of Hillcrest Hospital and the healthcare campus at Cornubia for Growthpoint Healthcare REIT.

The residential development at Kent, La Lucia, is complete, with transfers of the units now expected in early FY24. The Riverwoods/Black Brick, Bedfordview, development achieved the necessary presales for this residential conversion and a 25% sale to our JV partner for R18m awaits transfer.

The team is also developing the three above-mentioned industrial projects and will imminently start the Hilton Canopy Hotel at Longkloof, Cape Town.

Third party trading and development fees, profits and net property income amounted to c. R100m for the nine months.

V&A Waterfront

V&A continued its rapid recovery from the pandemic-induced downturn, significantly driven by the 133% increase in international tourist arrivals compared to pre-pandemic levels. However, this is tempered somewhat by economy-wide challenges, such as ongoing loadshedding and above-inflation cost increases.

Operating profit increased by 23% and surpassed pre-pandemic figures by 5%. Rental relief given to hospitality tenants was 82% down from the same nine months of FY22.

Retail sales, visitor numbers, and hospitality were all boosted by increased international tourism, new direct flights to Cape Town, and the resumption of conferences, sports, and other events.

Retail sales surpassed the last normal levels by 30%, reaching a record high of over R1bn in December 2022. This occurred even though foot traffic only recovered to 86%.

In the hotel sector, increased demand led to improved revenue per available room (RevPAR), at 26.3% higher than pre-pandemic levels. Occupancy levels improved by 3% for the quarter ended 31 March 2023.

The marine and industrial sector remained resilient, with significant upside from the casual berthing of yachts. V&A welcomed 185 237 passengers and crew on 75 vessels for the cruise season of October 2022 to May 2023.

Precinct-wide, the V&A had a negligible 0.4% vacancy rate and is enjoying extraordinarily high demand for office space. By successfully reletting all the stores and restaurants that closed during the pandemic, the V&A has improved its retail tenant mix.

Going forward, V&A will finance its development costs using external debt. It has secured a R1bn green loan from a consortium of banks, which supports its ESG strategy and improves its capital structure, of which R625m was drawn by 31 March 2023.

Growthpoint Investment Partners

Growthpoint Investment Partners (GIP) remains focused on achieving its target of R30bn of assets under management (AUM) by end-FY27. This increase will come from growing existing funds and launching a new fund by FY25.

Growthpoint Healthcare REIT

Growthpoint Healthcare REIT invested in its first healthcare warehousing and distribution centre in September 2022, acquiring a 50% undivided share in the 22 455sqm temperature-controlled Adcock Ingram pharmaceutical facility in Midrand. Bidvest Properties acquired the other 50% undivided share.

After the R143.8m Adcock Ingram property investment, Growthpoint Healthcare REIT has R340m of debt funding available from its International Finance Corporation (IFC) loan to fund future acquisition and development transactions including:

- the c. R110m acquisition of the Johannesburg Eye Hospital property in Northcliff,
- the 50-bed, two theatres and consulting rooms expansion at Hillcrest Private Hospital due to commence in July 2023,
- the healthcare campus in Cornubia, which will include a 25-bed day hospital and 35-bed sub-acute hospital, as well as allied medical services, and is due to commence construction in November 2023.

Raising additional equity continues to be a priority. In October 2022, Growthpoint Healthcare REIT successfully raised R500m from the Government Institutions Pension Fund of Namibia reducing GIP's effective shareholding to 39.1%. The proceeds were used to partly settle Growthpoint's shareholder loan. The intention is to gradually settle this loan as capital is raised from third parties.

Growthpoint sold 15% of its share in the Growthpoint Healthcare REIT management company to Kagiso Capital for R41.6m in February 2023.

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 currently has 7 157 beds. Occupancies in the portfolio are a pleasing 94%.

The period under review marked the successful development of Apex Studios, a 901-bed property in Braamfontein, Johannesburg, and Peak Studios, a 563-bed property in Observatory, Cape Town. These properties were completed in time for the 2023 academic year. Apex Studios is 100% let and Peak Studios is 98% let. The Student Accommodation REIT also obtained Competition Tribunal approval for the acquisition of Brooklyn Studios, a 714-bed property in Brooklyn, Pretoria. Brooklyn Studios is 97% let. The letting of these three new developments exceeded expectations.

Growthpoint's Trading and Development division, in a joint venture with Feenstra Group, is currently developing Fountains View (formerly Capitol Gate), an 810-bed facility in the Pretoria CBD ideal for Tshwane University of Technology students. Additionally, in November 2022, it acquired a property in Auckland Park, Johannesburg which is being developed into an 800-bed property for students at the University of Johannesburg to be known as Horizon Heights. These projects are on track to be completed in time for the 2024 academic year.

The student accommodation sector has faced headwinds with the National Student Financial Aid Scheme (NSFAS) capping the annual student accommodation allowance to R45 000. Both private sector student accommodation providers and Universities in Cape Town, Pretoria and Stellenbosch have been impacted negatively by this maximum as rentals in these areas and on campus exceed R45 000 per annum. The Student Accommodation REIT's University of Pretoria portfolio, excluding Brooklyn Studios, was affected by this cap resulting in the need to offer rental concessions to NSFAS-funded students in some of the properties. However, when the initial portfolio was acquired, GIP negotiated a rental guarantee from the vendors of that portfolio and we will rely on this for FY23. Going forward, we are implementing several initiatives to reduce the impact of the NSFAS cap.

Growthpoint Student Accommodation REIT continues to attract capital and a large pension fund has received approval to invest R300m, for which agreements are being concluded.

Lango Real Estate Limited

Lango's portfolio continues to be buoyed by its high-quality properties, which have continued to be operationally robust despite difficult market conditions. Circle Mall's restoration was completed in November 2022, effectively resulting in a new and vibrant shopping centre with strong leasing demand, with c.93% of the shopping mall GLA leased. Junction Mall in Accra has been negatively impacted by major road infrastructure upgrades surrounding the asset, which have resulted in access issues - we expect that the upgrades will positively impact the property in the longer term. Lango has made notable progress in office leasing, especially in the Ghanaian portfolio, securing leasing deals with major national and multi-national tenants. A key priority remains focussed on leasing vacant space at The Wings office complex in Lagos, which has to date experienced subdued leasing – appetite does however appear to be improving post the Nigerian election process and leasing success in this regard would have a meaningful impact on the level of the Lango Group's income generated.

Lango's financial performance, however, continues to be impacted by a few specific issues. These firstly include a higher cost of interest on the portion of its debt which remains unhedged (c.17% unhedged). The remaining portion of the debt (c.83%) was previously hedged at close to all-time low interest rates in February 2021. Secondly, shareholder distributions have to date continued to be impacted by an inability to externalise funds from Nigeria. Lango continues to hold excess funds in local currency in Nigeria, with measures taken to mitigate currency valuation risk as far as possible via a currency hedge. It is worth noting that a recent significant announcement was made by the Nigerian central bank to abolish the county's multiple exchange rate system and effectively float the currency. Whilst this announcement may likely introduce an increased level of volatility into the market in the short to medium term, the long-term impact is widely expected to be positive and seen as a way to encourage investment into Nigeria, hopefully enabling Lango to externalise its income generated over time in an efficient and timely manner. Lastly, Mauritian regulations, and more specifically those related to the calculation of retained earnings, have prevented Lango from declaring distributions for the financial year ended 31 December 2022, despite having a strong financial position and generating surplus cash flow. Lango is considering a redomicile to an alternate jurisdiction to resolve this issue.

Lango successfully secured additional capital commitments in December 2022, amounting to USD125 million of committed capital. The committed funds are expected to be received over time, pending applicable administrative processes and regulatory permissions related to certain investors, with proceeds ultimately intended to be used in part to decrease debt. Lango's loan-to-value ratio (LTV) is currently within the targeted level of 40%. Further equity received from commitments will likely be used to grow its asset base over time, especially in Kenya, with the aim of increasing the diversification of the portfolio across geographies and sectors. In this regard, Lango is currently finalising the purchase of a prime industrial and logistics asset in Nairobi, pending approval from the relevant competition authority.

International portfolio

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

We are focusing on optimising our current portfolio and are supporting capital-light funds management strategies to grow these businesses.

Treasury and capital management

Total nominal SA debt at the end of March 2023 was R40.8bn (HY22: R39.6bn). Around R340m of this increase was due to foreign currency movements on the Eurobond and the IFC loan to GHPH. We privately placed R1.2bn of new bonds with domestic institutional investors in February 2023, comprising R400m for 9.2 years and R800m for 10 years at Jibar plus 2.0% and 2.1% respectively, and repaid R300m of bonds.

The weighted average term of our liabilities decreased to 2.6 years from 2.7 years in the quarter to 31 March 2023, mainly due to the USD425m Eurobond maturing in May 2023. Growthpoint's weighted average interest rate for the nine-month period was 9.1% (8.9% HY23). After including cross-currency interest rate swaps and foreign-denominated loans, it decreases to 6.6% (6.4% HY23). A total of 80.7% of our interest rate book was hedged for a weighted average term of 2 years.

Unutilised committed facilities at 31 March 2023 were increased to R10.6bn in anticipation of the USD425m Eurobond maturing in May 2023. USD395m of the Eurobond was swapped to EUR326m and repaid on 2 May 2023 – EUR110m was drawn down from short-term standby facilities and EUR216m was termed out for an average loan period of 4.79 years. Once the standby facilities are termed out, taking into account hedges already in place, we expect a fixed all-in rate of 4.18%, which is expected to increase over time as the hedges mature. The weighted average term of the refinanced Euro loans is expected to increase to 4.86 years once all facilities have been termed out with a weighted average term of hedges at 3.79 years. In comparison, the original Eurobond had a 3.62% average rate over the 5-year period. The remaining USD30m, which was utilized for our investment in Lango, was refinanced via cross-currency interest rate swaps at an average fixed interest rate of 5.23% for an average term of 3.5 years.

The exchange rate risk in relation to the anticipated FY23 dividends from our international investments is significantly hedged.

Environmental, social and governance (ESG)

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

We started FY23 with 13.5MWp rooftop solar power capacity and have since added 4.4MWp. A further 14.48MWp is under construction, placing us on track to reach our goal of 27.1MWp by the end of FY23.

In FY24, we plan to connect existing solar PV systems with diesel generators. These systems, aged 2 to 10 years, were initially set up as grid-tied, which was standard practice. However, they rely on an active grid and must shut down during all power outages to prevent back-feed. By integrating solar systems with diesel generators or battery installations, it can operate during power cuts, reducing diesel consumption and costs, while increasing the use of green energy.

We are exploring wheeling options to boost renewable energy use at eligible properties and to lower the cost of purchased electricity.

Transformation, as well as diversity and inclusion, are focus areas. On 21 June 2023, we released a circular seeking shareholder approval to enable the implementation of a R250m Broad-Based BEE Ownership Scheme via a special purpose trust. The trust will utilise dividends from its Growthpoint shares to fund future CSI initiatives, including Property Point (supporting small black businesses) and Growsmart (education program helping learners in Western and Eastern Cape).

In May 2023, Growthpoint was accepted as a participant in the UN Global Compact, which will assist in further aligning our ESG strategies and operations with universal principles on human rights, labour, the environment and anti-corruption.

Conclusion

Our domestic retail and industrial portfolios are steadily recovering, and the performance of the office sector appears stable, notwithstanding South Africa's economic challenges. The underlying funds within GIP are expected to produce mixed results with the contribution from GSAH and GHPH in line with expectations and with Lango underperforming due to the specific challenges described above. The V&A has recovered faster than expected due to the return of international tourism and is expected to deliver a solid result. The contributions from our international investments are in line with expectations. As such we continue to anticipate muted Distributable Income per share (DIPS) growth for FY23, notwithstanding the impact of significantly higher local and international interest rates. FY24 DIPS is likely to be lower due to the full 12-month impact of the aforesaid higher interest rates.

Growthpoint will release its FY23 results on Wednesday, 13 September 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 Nedbank CIB at 16:00 South African time on 22 June 2023. Please email dferreira@growthpoint.co.za to receive the invitation or use this link to register: https://www.diamondpass.net/3553050

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