Growthpoint Properties Limited
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"Growthpoint"

INVESTOR UPDATE FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2023

We are pleased to present our trading update for the first quarter of FY24 from 1 July 2023 to 30 September 2023.

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

SOUTH AFRICAN PORTFOLIO

It is pleasing to report that most of our property key performance indicators (KPIs) improved for the quarter. Our lease renewal rate for the quarter was 78.2% versus 64.9% for FY23 and our vacancies improved from 9.4% to 9.1% with all sectors showing a reduction driven by significant letting of new space of 132 956m². Total space let in the period was 349 640m² including renewed space of 216 684m². Escalation rates and lease lengths achieved on renewal also improved. The average lease period on renewals was 4.9 years, notably longer than the 3.5 years achieved during FY23, driven mainly by the renewal of a lease in the healthcare fund for 20 years. Escalations on renewal increased from 6.8% to 7.3%. The renewal growth rates for the quarter improved from -12.9% to -7.5%. Arrears increased from R165.4m to R176.67m mainly attributable to the healthcare fund.

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

	KPIs as of 30 September 2023								
KPI	Retail	Office	Industrial	GHPH	Trading & Development	Total	FY23	HY23	FY22
Vacancy (%)	6.0	18.9	3.3	-	-	9.1	9.4	9.9	10.3
Renewal success rate (%)	91.5	51.8	81.8	100.0	-	78.2	64.9	61.2	75.1
Weighted average renewal growth rate (%)	-2.3	-18.9	-6.1	-7.6	-	-7.5	-12.9	-16.0	-12.8
Weighted average renewal lease period (years)	3.0	3.4	3.8	20.0	-	4.9	3.5	3.5	3.2
Weighted average future escalations on renewals (%)	6.6	7.4	7.7	-[1]	-	7.3	6.8	6.7	6.4
Total arrears (Rm)	37.0	53.9	34.7	50.5	0.6	176.7	165.4	179.5	195.3
Disposals (Rm)	202.0	18.0	88.3	-	-	308.3	1 497.0	757.0	2 142.0

1. GHPH renewals have leases linked to CPI, as such there are no fixed escalations.

Diesel costs reduced to R35.4m as a result of the lower levels of loadshedding, versus R53.5m in the final quarter of FY23. Recoveries have reached 55.2% overall, with office at 74.2%, industrial at 85.2% and retail at 12.1%. Retail recoveries, albeit still low, have increased from 2.4% at FY23 and are expected to increase to c. 30% for FY24. The incremental increase in retail recoveries is due to the roll out of lease addendums, which have now been signed, which allow Growthpoint to recover actual diesel consumption at a tenant level, versus the previous fixed levy. New meters, that accurately measure tenant consumption, are being installed across the retail portfolio to allow for this, but are in short supply given the high demand.

In line with our disciplined capital management, capital and development expenditure continues to be largely funded from asset sales proceeds and cash retained in the business from the 82.5% dividend payout ratio for FY23. We sold and transferred five non-core properties for R308.3m, at a R1.8m loss to the FY23 book value.

Retail sector

Vacancies reduced from 6.3% to 6.0%, and core vacancies were low at 3.6% (FY23: 3.1%). These figures are poised to improve further once key re-developments, which will be fully let, are completed.

In line with the national trend, trading density growth for the quarter slowed, moving to 5.2% from 6.2% at 30 June 2023, due to consumer challenges putting pressure on retail sales growth.

Our focus on tenant retention is apparent in the high renewal success rate of 91.5% (FY23: 83.3%). This exceptional level, however, will not be maintained during the course of the year as we are aware that the Game stores at Brooklyn Mall and Alberton City will not be renewing and several Edgars stores in our portfolio will be reducing space. Rental reversions are moving towards positive territory, improving from -9.1% to -2.3%. Arrears improved from R40.3m to R37.0m.

We sold City Mall in Klerksdorp for R202.0m. City View in Durban was sold for R263.0m and is awaiting transfer. Another three assets and two properties we intend subdividing from existing shopping centres, have been approved for disposal for a total of R721.3m.

The eagerly anticipated upgrade of Bayside Mall in the Western Cape is scheduled for completion in November 2024. Interest and letting have exceeded expectations and it will be fully let on opening with a robust tenant mix. Value Co has relocated in the centre and reopened, and the new Checkers Fresh X and Shoprite will welcome customers from 1 April 2024. Improvements to River Square in Vereeniging are on track, and Builders Express, Edgars and Econo Foods will all open their doors by 1 December 2023. The ex-Standard Bank conversion for Dis-Chem at Beacon Bay was completed with trading commencing on 1 November 2023. At Vaal Mall, we finished installing more solar capacity and opened a link road to the Golden Highway.

Office sector

The sentiment towards offices is slowly improving, with some of our portfolio KPI's stabilising and more investors interested in acquiring office assets.

We successfully let c. 58 000m^2 of office space and renewed c. 33 000m^2, reducing vacancies from 19.2% to 18.9%. Rent reversions also improved from -20.1% to -18.9%, however the renewal success rate of 51.8% decreased from 60.4%. Fewer tenants are reducing space, and persistent negative reversions stemming from market rentals not keeping pace with escalations, are showing signs of easing.

Vacancies in KwaZulu-Natal increased slightly from 1.7% to 2.6%. Western Cape office vacancies, which have reduced from double digit figures, remained in single-digit territory, although a vacated retail/showroom space at Paramount Place increased vacancies from 7.7% to 8.5%.

The Gauteng portfolio saw a reduction in vacancies from 24.1% to 23.3% with Sandton reducing by 1.0% from 28.7% to 27.7%. Letting activity in Sandton has increased, especially in Upper Sandton and Wierda Valley. We anticipate this growth to continue based on the enquiries we are receiving. Appetite from call centres for the centrally located, well-priced and accessible Parktown node, reduced vacancies from 32.9% to 27.2%. Our portfolio in upper Rosebank is fully let and lower Rosebank is now attracting interest, with vacancies reducing from 13.7% to 10.1%.

Arrears are stable at R53.9m.

As part of our strategy to optimise the portfolio and recycling capital, we sold one non-core office asset for R18.0m. Another three signed sales agreements for R359.0m are awaiting transfer. A further five properties have been approved for sale for approximately R545.0m.

Our Trading and Development team is working on two key projects. The R400.0m Hilton Canopy hotel at the Long Kloof mixed use precinct in Cape Town will be completed by October 2024. The green renovation project at 36 Hans Strydom in Cape Town, begins in June 2024 and is backed by a 15-year lease to Ninety One Ltd.

Industrial sector

We continue to successfully let industrial space. Even though we added c. 9 000m^2 of speculative development to the portfolio, vacancies reduced from 3.7% to 3.3%. Coastal regions show lower vacancies of 0.1% for KwaZulu-Natal and 2.5% for the Western Cape. In Gauteng, where two-thirds of the portfolio is located, vacancies were 4.6%, after we completed the development of two speculative high-quality logistics facilities in Samrand in line with our strategy to enhance the portfolio with top-tier logistics properties.

Arrears remained steady at R34.7m with around R11m resulting from liquidations.

Tenant retention improved significantly to 81.8% from 59.1%. Rental reversions also improved from -10.4% to -6.1%. It is particularly pleasing to note that rental renewal growth numbers in Cape Town were positive 7.4%, reflecting strong regional market dynamics. We achieved positive numbers for renewal growth in the region in each month of the quarter.

Non-institutional investors, mainly owner occupiers, continue to show a strong interest in industrial acquisitions. We sold and transferred three non-core properties for R88.3m and signed sale agreements for R155.3m for another five properties awaiting transfer. A further seven properties are approved for sale for approximately R422.8m.

As we complete new speculative developments and enhance our portfolio quality and regional weighting, vacancies may increase slightly in the short term, and we are comfortable with this position. The c. 21 000m^2 development at Trade Park in KwaZulu-Natal achieved practical completion on 16 November 2023 and features four units: two speculative units and two units that are pre-let. Speculative units at the Chain Avenue and Arterial Road developments in Cape Town are due for completion in April/May 2024.

Trading and Development

Our Trading and Development team continues to focus on optimising our domestic portfolio and developing assets for GIP.

We expect a very busy second quarter with the handover of two student accommodation projects for Growthpoint Student Accommodation REIT for the 2024 academic year, and the transfers for the disposal of Woodburn Square in Pietermaritzburg and the residential units at the Kent in La Lucia.

The residential conversion of the Riverwoods office in Bedfordview into BlackBrick Bedford urban resort is 85% sold with the first transfers expected by the end of 2023.

V&A Waterfront (V&A)

Trading at the V&A has continued to be fuelled by a 32% increase in international air passengers into Cape Town, semigration and a high demand for office space. Earnings before interest and tax was up 9% on the comparative quarter. Earnings growth was tempered by economy-wide challenges, such as high interest rates, on-going loadshedding and above-inflationary cost increases, which are placing pressure on consumers and businesses alike.

Precinct-wide, the V&A has negligible vacancies at 0.7%. Retail sales increased 20% compared to the prior year and 43% on 2019. Visitor numbers rose 49% on the same quarter in 2022. Hotels have attracted consistent high demand, resulting in significantly increased occupancy and room rates across the precinct. The marine and industrial sector enjoyed strong growth in mooring income. Demand for the office sector was high, with zero vacancies.

The new Helistop was completed in September 2023 and Investec took occupation of its 10 500m^2 offices in November 2023. The first TimeOut Market in South Africa started trading on the 17th of November 2023.

The V&A now funds its development pipeline via balance sheet debt. It has secured a further R1bn loan, including R750m in the form of a green loan, at competitive pricing. It has R2bn of committed facilities, of which R790m was drawn at 30 September 2023. Distributions to its shareholders, including Growthpoint, are now based on distributable income net of interest, and are not reinvested, whilst the net effect is the same, the structure is different.

The V&A is on track to achieve high single-digit growth in distributable income for the year ahead.

GROWTHPOINT INVESTMENT PARTNERS

GIP currently has R17.9bn of gross assets under management across three funds:

Growthpoint Healthcare REIT (GHPH)

GHPH owns eight assets valued at R3.6bn: six hospitals, a doctor’s chambers and a pharmaceutical warehousing and distribution facility. Two leases with the Netcare group were renewed for 20 years. GHPH is also in discussions with Mediclinic for a long-term lease extension of the Louis Leipoldt Hospital in Bellville, Cape Town.

GHPH is finalising the acquisition of the Johannesburg Eye Hospital in Northcliff. This multidisciplinary specialist hospital has successfully cared for and treated patients for 20 years. The transaction, with a value of R106.4m, has received Competition Commission approval and the property is awaiting transfer.

Total equity raised from shareholders is approximately R2.4bn. Growthpoint retains a shareholder loan of approximately R360m. The loan to value (LTV) is 14.8%.

The first US$20m tranche of the IFC loan instrument is eligible to convert into equity in January 2024 and discussions with the IFC are underway.

Arrears have increased due to ongoing discussions and negotiations with an existing tenant as we attempt to restructure their current lease and agree settlement terms.

Growthpoint Student Accommodation REIT (GSAH)

Launched in December 2021 with a R2bn portfolio of seven properties and 4 979 beds, GSAH currently has 7 157 beds. The portfolio occupancy is a pleasing 92%.

The development of Horizon Heights in Auckland Park and Fountains View in Pretoria are due to be completed on time for the 2024 academic year. Both are being developed by Growthpoint's Trading and Development division in a joint venture with Feenstra Group. Fountains View will be sold to GSAH on completion, whilst Horizon Heights is being developed on GSAH's balance sheet. These two developments will increase the number of beds to 8 800.

GSAH also commenced two more developments, which are ideal for Wits University students, namely The Podium and 33 Princess of Wales for R500m. These two projects are due to be completed for the beginning of the 2025 academic year.

Lango Real Estate Limited (Lango)

Operationally, Lango's portfolio of office and retail assets continue to improve, with leasing progress across the portfolio. Circle Mall in Nigeria, which underwent a complete restoration in 2022, is now 96% let. Junction Mall in Accra is still impacted by major road infrastructure upgrades surrounding it which, although currently impacting access, should enhance the asset over the longer term. Lango continues to make progress in office leasing in Ghana and Nigeria and is prioritising leasing vacant space at The Wings office complex in Lagos.

The financial performance of Lango was impacted by the following specific issues:

Higher interest rates impacting the unhedged debt. Some 83% of the total debt was previously hedged at close to all-time low interest rates in February 2021. 40% of the debt and its related interest rate hedge mature in early 2024 and its refinancing is currently being negotiated. Lango's LTV is currently 41%.

Shareholder distributions have been impacted by an inability to externalise funds from Nigeria. Lango holds excess funds in local currency in Nigeria and has used a currency hedge to reduce currency valuation risks. We expect that, over time, the removal of Nigeria's multiple exchange rate system by the central bank in 2023 should improve Lango's ability to efficiently externalise dividends.

Mauritian regulations prevented Lango from declaring distributions for the financial year ended 31 December 2022. Lango is actively exploring options to redomicile to another jurisdiction to address this issue.

INTERNATIONAL PORTFOLIO

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

In the quarter we supported C&R with the acquisition of The Gyle Shopping Centre in Edinburgh and invested an additional R582.3m increasing our shareholding to 68.1% from FY23's 62.4%.

We continue to focus on optimising our international portfolio while aiming to apply 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 2023 was lower at R39.5bn (FY23: R40.8bn). Around R1.2bn of this reduction was due to repaying revolving credit facilities and a R500.0m listed bond (GRT27) using available surplus cash.

The weighted average term of our liabilities decreased to 3.4 years from 3.5 years as there was no significant refinancing activity. Growthpoint's weighted average interest rate was 9.6% (FY23: 9.1%) as base rates have increased over the last

12 months. After including cross-currency interest rate swaps (CCIRS) and foreign-denominated loans, it decreased to 7.0% (FY23: 6.8%). A total of 80.6% of our interest rate book was hedged for a weighted average term of 2.2 years.

Interest rate swaps of R834.0m at a weighted average interest rate of 7.5% matured in the quarter. Since our hedging policy requirement had already been met, no new interest rate hedges were undertaken. For the rest of the financial year, R2.5bn of interest rate swaps at a weighted average interest rate of 8.0% will mature. We expect the new swaps to be refinanced at market rates between 8.0% and 8.5%, depending on the tenure and prevailing conditions.

CCIRS of AUD131.5m (R1.4bn) matured at an average interest rate of 2.8% and were refinanced at a weighted average interest rate of 4.1% (split between fixed rates and floating rates) with additional Rand liquidity of R231m required. AUD166.4m of CCIRS at a weighted average interest rate of 1.4% will mature during the remainder of FY24. Depending on tenure and market swap rates at the time, we expect to refinance these at an interest rate of between 4.8% and 5.2% and that c. R300m of additional Rand liquidity will be required.

No USD CCIRS matured during the quarter. USD14m of CCIRS, at a weighted average interest rate of 3.2%, will mature during the remainder of FY24. A decision with respect to refinancing these swaps will be made in due course.

The additional investment relating to the rights offer for C&R was funded with GBP CCIRS for GBP21.8m at a rate of 4.9%.

All interest rate swaps and CCIRS quoted above represent base rates and exclude credit margins.

Unutilised committed facilities totalled R6.2bn with total debt maturities of R3.1bn for the remainder of FY24.

A further EUR65m drawn from available revolving credit facilities before the end of FY23 was termed out for a period of five years. The remaining weighted average term of EUR loans was 4.1 years with a weighted average interest rate of 4.3%. EUR50m of facilities were no longer required, and were cancelled.

The exchange rate risk for the anticipated FY24 dividends from our international investments is significantly hedged.

Two new bonds were issued after the quarter end. In October 2023, R384m was placed for five years at 134bps over Jibar and R526m was placed for seven years at 150bps over Jibar. The auction was 2.81-times oversubscribed.

R1bn of green bonds were placed with the IFC on the 13th of November 2023; R350m for seven years at Jibar plus 150bps and R650m for 10 years at Jibar plus 190bps.

We have excellent access to liquidity at very attractive spreads and for tenures of more than five years as seen in the strong appetite from banks and financial institutions.

ESG

Our ESG vision is to create sustainable economic, environmental and social value for all stakeholders.

During FY23, Growthpoint embarked on a process to refine and optimise its environmental, social and governance (ESG) strategy to make a meaningful impact and create shared value for all our stakeholders.

Our ESG strategy has seven focus areas under three pillars – Thriving Business, Thriving People and Communities, and Thriving Environment – that seek to enable the long-term success of the organisation, our country and its people. The strategy focuses on efficient business operations while integrating global ESG best practices. We have further aligned our ESG strategy and objectives to the United Nations Sustainable Development Goals.

In FY24, our priorities remain progressing towards carbon neutrality and continued investment in renewable energy and solar projects that will further reduce our energy intensity and address the business risks associated with unreliable power supply.

Our total installed capacity of solar PV projects at our properties at the end of FY22 was 13.5MW. For FY23, we ambitiously revised our targets to double this capacity to 27.3MW, which we achieved. For FY24 we are targeting a further 13.0MW.

A key priority is integrating solar PV systems with diesel generators or battery installations to ensure that the solar systems can operate during power cuts, reduce diesel consumption and costs and increase the use of green energy. We now combine new solar PV systems with diesel generators, batteries, or both, as standard practice. Our financial and technical assessments for these updates consider sectoral differences in operational and client requirements, electrical system, location and specifications.

We entered into a pilot wheeling agreement with the City of Cape Town at the end of August 2023. In a milestone for renewable energy in Cape Town, solar power from Constantia Village shopping centre was successfully injected into the city's energy grid for use at the 36 Hans Strijdom office building in the foreshore on 10 September 2023. This exchange of energy between two Growthpoint-owned properties is our first step in using wheeling to help achieve our carbon emissions target.

We have retained a level 1 B-BBEE rating.

CONCLUSION

We believe the performance of our retail and industrial portfolios have stabilised and are recovering, notwithstanding the challenging South African macroeconomic environment which is having the most pronounced impact on the office portfolio where oversupply and structural issues are still a factor. The V&A continues to perform above expectations with the benefit of increased tourism.

GIP's funds are expected to produce mixed results. Growthpoint will receive lower dividends from GHPH compared to FY23 as we disposed of shares in both the Manco and the Fund. In addition, due to the impact of the successful 20-year lease renewals with Netcare and the impact of increased arrears and related provisions referred to earlier, it is not expected that GHPH will show any growth in DIPS for FY24. GSAH's financial performance and DIPS for FY24 will be significantly negatively impacted due to the expiry of the rent guarantee provided by the vendors of the original portfolio, and the direct exposure that GSAH now has to the lower rentals paid by NSFAS students. Lango is underperforming due to the challenges described above.

The contributions from our international investments are in line with expectations and guidance is separately provided for each.

At this early stage in the financial year, considering the impact of higher interest rates across both our local and international businesses for the full year, and the expected performance for the remainder of the year of the three SA sectors, the V&A, GIP and our international investments, our DIPS guidance for FY24 remains unchanged.

Growthpoint will release its half-year results for the six months from 1 July 2023 to 31 December 2023 on Wednesday, 13 March 2024.

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 Wednesday 22 November 2023. Please use the below link, or email Louise.Schoeman@investec.co.za to register:

https://web.cvent.com/event/ee05e26b-f8aa-44df-98e5-d93345e5bf64/regProcessStep1?i=ijCoZMMGJEO9RK21xwzbNQ&locale=en-US

Johannesburg

22 November 2023

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