Growthpoint Properties Limited
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"Growthpoint"

INVESTOR UPDATE FOR THE NINE MONTHS ENDED 31 March 2024

We are pleased to present our trading update for the nine months from 1 July 2023 to 31 March 2024.

STRATEGY

To simplify our business, we have prioritised and refined two of our core strategies:

- Our strategy to optimise our South African portfolio is focused on **improving its quality** through investing c. R2.3bn in our core portfolio to protect and enhance its value through active asset management initiatives, developing c. R1.6bn of new high-quality assets, particularly modern logistics warehouses for the industrial portfolio, targeting c. R4bn of asset disposals for FY24 and FY25 combined and enhancing ESG initiatives across all three commercial property sectors.
- Our international expansion strategy has been refocused on **optimising our international investments**. Shareholders are referred to the announcements published by Capital and Regional plc (C&R) regarding possible interest and approaches. At Globalworth Real Estate Investments Ltd (GWI) we continue to support management at a shareholder level with value unlock initiatives.

We will continue to grow assets under management and generate diversified returns through Growthpoint Investment Partners (GIP) and Trading & Development (T&D) while we seek a long-term sustainable solution to the ongoing capital requirements of the V&A Waterfront which is predicted to show significant growth in the next 3 to 5 years.

SOUTH AFRICAN PORTFOLIO

We are pleased to report the continual improvement of our property key performance indicators (KPIs).

Total space let in the period was 878 107m². Significant letting of 330 586m² of new space improved vacancies from 9.7% at FY23 to 9.2% at HY24 and are currently at 8.5%. We renewed leases of 547 521m², renewal rental growth rates improved from -12.9% at FY23 to -7.1% at HY24 and are currently -6.3%. Our lease renewal rate decreased from 79.0% at HY24 to 75.0% at the end of March 2024, compared to 64.9% at 30 June 2023.

Annual lease escalation rates and lease lengths achieved on renewal have improved. The average lease period on renewals was 3.7 years, slightly longer than the 3.5 years achieved during FY23 and 3.3 years for HY24. Rental escalations on renewals increased marginally from 6.8% at FY23 to 6.9% for the half year and the nine-month period. Our total arrears remained well managed and are under control at R129.5m.

	Property portfolio KPIs											
	Retail			Office			Industrial			Total	HY24	FY23
	Mar-24	Dec-23	Jun-23	Mar-24	Dec-23	Jun-23	Mar-24	Dec-23	Jun-23	Mar-24	Dec-23	Jun-23
Vacancy	4.8%	5.7%	6.3%	15.6%	17.8%	19.2%	4.8%	4.1%	3.7%	8.5%	9.2%	9.7%
Renewal success rate	89.0%	91.9%	83.3%	56.6%	58.5%	60.4%	76.5%	82.0%	59.1%	75.0%	79.0%	64.9%
Weighted average renewal growth rate	-2.9%	-3.2%	-9.1%	-14.7%	-15.8%	-20.1%	-4.4%	-6.1%	-10.4%	-6.3%	-7.1%	-12.9%
Weighted average renewal lease period (years)	3.8	3.7	3.8	3.7	3.6	3.6	3.6	3.8	3.3	3.7	3.3	3.5
Weighted average future escalations on renewals	6.5%	6.5%	6.2%	7.2%	7.0%	7.2%	7.5%	7.6%	7.4%	6.9%	6.9%	6.8%
Total arrears (Rm)	38.3	40.3	40.3	55.0	55.3	53.7	34.4	32.6	34.7	129.5	129.7	130.5

Disposals (Rm)	465.0	465.0	351.0	58.0	58.0	267.0	142.4	112.0	539.0	665.4	635.0	1 157.0

Our capital management is disciplined with capital and development expenditure funded from asset sales proceeds and cash retained due to the 82.5% dividend payout ratio. R1.7bn was spent on developments and capital expenditure in the nine months. Excluding the disposal of the Kent residential apartments, we sold and transferred 10 non-core properties for R665.4m, at a R2.6m loss to book value. Delays obtaining Competition Commission approval and rates clearance certificates as well as delays at the Deeds Office have resulted in a lower value of disposals than anticipated. Notwithstanding these obstacles, we have signed sale agreements, with properties awaiting transfer, to the value of R1.3bn, with a number of these expected to transfer before 30 June 2024, and a further R1.9bn of properties approved for sale in FY25.

Utilities management is a key operational focus as we aim to ensure uninterrupted power supply and quality service at our properties. Given the lower levels of loadshedding, diesel costs for the 9 months ended March 2024 were R103.5m which were lower than the corresponding period in FY23 (R140.0m). Diesel cost recoveries as a percentage of recoverable diesel spend, were 78.0%. Office recoveries were 87.0%, industrial 71.0% and retail 52.0%. Diesel recoveries were previously calculated as a percentage of actual cost and as such were understated. The incremental increase in retail recoveries also follows our rollout of lease addendums, which now allow us to recover actual diesel consumption costs at a tenant level versus the previous fixed levy charged. Smart meters are being installed in the retail portfolio to accurately measure tenant consumption remotely when the electrical supply is switched between generators and main line power.

As we roll out solar photovoltaic (PV) systems, a key utilities management priority is to integrate these with diesel generators and/or batteries. This ensures access to solar power during power cuts, reduces diesel consumption and costs, and increases green energy use. We now combine new solar PV systems with diesel generators, batteries, or both. Our financial and technical assessments for these updates consider differences in sectors, operational and client needs, electrical systems, location and specifications.

Retail sector

The quality of our portfolio has improved with the disposals of City View and City Mall, and Checkers and Shoprite taking occupancy at Bayside Mall, contributing to an improvement in vacancies from 6.3% at FY23 to 5.7% at HY24 and 4.8% at the end of March 2024. Our core retail vacancies remain low at 3.8%.

Reflecting the national trend, like for like trading density growth, in terms of shopping centres but inclusive of new tenancies at River Square and Beacon Bay, for the first nine months to the end of March 2024 was 4.2%, mainly driven by value apparel and non-discretionary food spending.

The renewal success rate was strong at 89.0%, slightly down from December's 91.9% (FY23: 83.3%). This slight decrease was expected and will likely continue in FY25 due to Game not renewing at Brooklyn Mall and Alberton City and Edgars reducing store space at Beacon Bay Retail Park. Rental reversions have continued to improve from -9.1% at FY23 to -3.2% at HY24 and are now at -2.9%.

City Mall in Klerksdorp and City View in Durban sold for R202.0m and R263.0m, respectively. The Sedgars property at Woodmead Retail Park was sold for R25.5m, effective from 1 April 2024. The transfer is pending sub-division registration. We signed sale agreements for R51m for the Sportsmans Warehouse property in Bellville and R253.9m for Mark Park Shopping Centre in Vereeniging, which are only likely to transfer after year-end. Another five properties for c. R700m are earmarked for disposal in FY25.

The eagerly anticipated upgrade of Bayside Mall in the Western Cape is on track for completion in November 2024. Value Co relocated within the centre and reopened, and the new Checkers Fresh X and Shoprite opened on 1 April 2024.

We are maintaining a good relationship with Pick n Pay and discussions are positive. Excluding liquor and clothing stores, they currently occupy 9.4% of total retail gross lettable area at 108 364m^2 and are our fourth largest tenant by gross rental. They will be vacating Alberton Mall and Fourways Crossing and we have received offers for the space at both malls. We expect two Hyper stores, Northgate and Woodmead, to downsize gradually. We have no Boxer stores in our portfolio and are discussing expanding both Boxer and Pick n Pay Clothing.

Improvements to River Square are complete, with Builders Express, Edgars and Econo Foods which opened on 1 December 2023. Dis-Chem commenced trading on 1 November 2023 in Beacon Bay Retail Park in the space previously occupied by Standard Bank.

Four solar installation projects in our retail portfolio of 8.3MWp are expected be completed by year end, with further installations planned for FY25.

Office sector

Office sentiment is gradually improving. Most of our office portfolio KPIs are stabilising, and investors are showing more interest in buying office assets. We successfully let 148 220m² of office space and renewed 100 046m², reducing vacancies from 19.2% at FY23 to 15.6% (HY24: 17.8%). Rent reversions also improved from -20.1% to -14.7% (HY24: -15.8%). The renewal success rate decreased from 60.4% to 56.6% as some tenants continued to reduce space at lease renewal.

Vacancies in KwaZulu-Natal are 672m² at 0.7%. In the Western Cape vacancies remained at 7.7%.

Vacancies in the Gauteng portfolio improved from 24.1% to 19.2% with 16 641m² of the 61 553m² attributable to sales. 10 234m² of the significant 9.4% (or 36 128m²) reduction in Sandton vacancies from 28.7% to 19.3%, was due to disposals.

Indicative of an improving office market, we signed 284 deals in the nine months, the biggest being a 9 800m² call centre at Inanda Greens. With low vacancies in our Cape Town portfolio, call centres are showing interest in the Gauteng region. In total, we let 114 751m² in Gauteng including c. 5 000m² to a tenant that previously vacated. We are aware that three tenants will be vacating a combined c.10 000m² before 30 June 2024. Office vacancies are therefore expected to increase marginally to just over 16.0% for FY24.

We continue to improve the quality of the portfolio and recycle capital and sold two non-core properties for R58.0m. The transfer of four disposals at R393.4m are delayed due to slow municipal rates clearances being obtained, or awaiting transfer at the Deeds Office. Another seven disposals have been approved with total proceeds of R575.9m expected.

Our Trading and Development team is progressing on two key projects in Cape Town for the investment portfolio. The R426.0m Hilton Canopy hotel at the Long Kloof mixed-use precinct is on track to welcome guests from December 2024. The green renovation at 36 Hans Strijdom, which is backed by a 15-year lease to Ninety One Ltd is due for completion in June 2025.

Roof space in the office portfolio is limited given the nature of the assets, as such we only have one solar installation project in our office portfolio of 160KWp which is expected to be completed by year end, with another two installations planned for FY25.

Industrial sector

We improved the quality of the portfolio with the development of top-tier logistics properties. We added 61 652m² of speculative development, a 28 539m² modern logistics and warehouse facility for Edward Snell, a 4 457m² extension at Saligna for Nu Leaf and 1 000m² at Mill Road for Laser Logistics. Our speculative industrial developments are enjoying good take-up with 37 125m² let in the period. Vacancies increased from 3.7% at FY23 to 4.1% at HY24 and 4.8% at 31 March 2024 with two large tenants vacating 20 000m² and the delivery of the remaining unlet speculative developments. Trade Park in Durban will be fully let from 1 July 2024 when the last unit is occupied, a single unit now remains available at Arterial Road in Cape Town, and two of the three speculative units developed at Central Point in Midrand were let from May 2024. Coastal regions reflect lower vacancies: 2.2% in KwaZulu-Natal and 1.0% in the Western Cape. Two-thirds of the portfolio is in Gauteng where vacancies were 6.8% after completing the development of two speculative high-quality logistics facilities in Samrand.

Tenant retention decreased from 82.0% at HY24 to 76.5% at the end of March 2024. Rental reversions steadily improved from -10.4% at FY23 to -6.1% at HY24 and to -4.4% at 31 March 2024. We are seeing positive rental growth on renewals in the Western Cape, where supply and demand are better balanced. Gauteng is still facing negative rent reversions.

Non-institutional investors, mainly owner-occupiers, are still expressing strong interest in industrial acquisitions. We sold and transferred six non-core properties for R142.4m in the nine months. Another three properties sold for R121.8m and transferred after 31 March 2024. We have signed sale agreements for a further nine properties of R508.8m awaiting transfer, and six properties are approved for sale for R596.9m.

We are committed to enhancing the quality of our portfolio and increasing the Western Cape exposure. On the back of strong demand for the speculative units at Arterial Road, we have triggered Phase 2 for an additional 20 000m².

Twenty-three solar installation projects in our industrial portfolio of 7.0MWp are expected to be completed by year end, with further installations planned for FY25.

Trading and Development

Our Trading and Development team continue to improve the quality of the portfolio with new developments and refurbishments as well as developing assets for Growthpoint Student Accommodation REIT (GSAH).

Two student accommodation projects, for GSAH, were completed and opened at the beginning of the 2024 academic year. Two more developments are underway for Wits University students for the 2025 academic year.

The residential units at Kent, La Lucia, transferred realising proceeds of R141.0m and a profit of R20.3m. The residential conversion of the Riverwoods office in Bedfordview into BlackBrick Bedford Urban Resort is 85% sold with the first transfers expected in FY25.

V&A Waterfront (V&A)

Earnings before interest and tax increased by 11% on the comparative period supported by a 23% increase in international air passengers into Cape Town International Airport, local tourism, semigration, new developments completed during the period and continued high demand for office space. The growth was driven by the upward trajectory in retail sales and by extension retail turnover rental, whilst the hotels and Two Oceans Aquarium continued to benefit from improved local and foreign tourism.

Retail sales and visitor numbers increased by 17% and 11% respectively, compared to the prior 9-month period. Precinct-wide, the V&A has negligible vacancies at 0.14%.

Hotels enjoyed consistent high demand, resulting in increased occupancies and revenue per room rates across the precinct. The marine and industrial sector enjoyed strong growth in mooring income including additional income due to diversions from the Suez Canal.

New developments completed during the period include:

- Investec Bank moved into their new 10 500 m^2 building, enhancing the blue-chip tenancy at the V&A,
- The first Timeout Market on the African continent successfully opened in November 2023, contributing to the improved performance,
- The refurbished helistop facility which launched in November 2023, boosting leisure trading,
- Alfred square was completed, increasing public access, and
- The “CAPE TOWN” sign was launched in November 2023, as a new instagrammable landmark in Cape Town.

The V&A funds its development pipeline via a combination of shareholder and third-party funding. It has R2bn of committed third party facilities, of which R1bn was raised during the period and R1.75bn is in the form of green loans. R850m was undrawn at 31 March 2024.

Distributions to the two shareholders are based on distributable income net of third-party interest.

The V&A has signed a power purchase agreement (PPA) with Etana Energy for 43 gigawatt hours (GWh) of renewable energy a year, enough to supply 70% of the precinct’s energy needs, starting early 2026. This is a milestone transaction in the rollout of the V&A’s sustainability strategy that has as a target commitment to net-zero carbon emissions by 2035.

GROWTHPOINT INVESTMENT PARTNERS

With R17.9bn of gross assets under management across three funds (Growthpoint Healthcare REIT (GHPH), GSAH and Lango Real Estate Limited (Lango)), GIP has its own dedicated fund managers and staff who execute our co-investment philosophy.

Growthpoint earns dividend income from investing and owning 15% to 20% of the equity in the underlying funds. Additionally, through our ownership in the management entities, we earn asset management fees. These two income streams together contribute c. R200m per annum to our distributable income excluding costs of c. R40m.

We invested an additional R240m in GSAH in the period, increasing our shareholding to 20.9%.

INTERNATIONAL PORTFOLIO

In line with our focus on optimising our international portfolio, on 23 May 2024 we advised on JSE SENS that C&R had received a non-binding indicative offer from Vukile Property Fund Limited and that Growthpoint had received a preliminary expression of interest from NewRiver Reit plc for our 68.1% stake in C&R. Vukile subsequently advised on 28 May 2024 that it did not intend to make an offer.

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

TREASURY AND CAPITAL MANAGEMENT

We continue to 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.

Total nominal SA debt, including GIP, increased from R41.8bn at HY24 to R42.3bn due to a new 10-year listed bond issued in February (GRT62) for R1bn at an interest rate of Jibar plus 1.85%. This facility was used in part to settle a R600.0m listed bond (GRT07) which matured in the same month.

The weighted average term of our liabilities remained constant at 3.4 years as there was no significant refinancing activity. Our weighted average interest rate stayed at 9.6% as base rates were flat with limited ZAR hedging activity being required. Including cross-currency interest rate swaps (CCIRS) and foreign-denominated loans, it increased slightly from 7.1% at HY24 to 7.2% due to AUD CCIRS's which were refinanced. We have hedged 79.5% of the interest on our interest-bearing debt for a weighted average term of 2.1 years.

Interest rate swaps of R3.3bn at a weighted average interest rate of 7.9% matured in the nine-month period, and we entered new interest rate swaps of R1.4bn at a weighted average interest rate of 7.8%. There are no further interest rate swaps maturing for the remainder of FY24.

AUD298m of CCIRS's matured at a weighted average interest rate of 2.0% and were refinanced at a weighted average fixed interest rate of 4.2% with additional Rand liquidity of R631m required. For the remainder of the financial year, there are no further AUD CCIRS's maturing.

USD1.5m of CCIRS's matured at a weighted average interest rate of 3.8% during the period and were not refinanced. USD12.6m of CCIRS's, at a weighted average interest rate of 3.1%, will mature during the remainder of FY24 and will also not be refinanced.

Unutilised committed facilities totalled R6.2bn with total debt maturities of R1.65bn during the last quarter of FY24, of which R1.15bn matured in April 2024.

Two new bonds were issued after the end of March 2024. In April 2024, R435m (GRT63) was placed for three years at 118bps over Jibar and R665m (GRT34 tap) was placed for five years at 130bps over Jibar. The auction was 2.3 times oversubscribed.

The exchange rates for the anticipated FY24 dividends from our international investments are significantly hedged.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

During FY23, we embarked on a process to refine and optimise our 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 our 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.

Our total installed solar PV capacity at our properties at the end of FY23 was 27.3MWp and we are targeting the installation of a further 13.0MWp for FY24.

We entered into a milestone power purchase agreement for 195GWh of renewable energy commencing 1 July 2025, which will accelerate our carbon-neutral pathway, further reduce our energy intensity and address the business risks associated with unreliable power supply.

We have retained a level 1 B-BBEE rating for FY24.

CONCLUSION

All three of our domestic portfolios are showing improved performance, despite the challenging South African economy. We have good initiatives, both innovative and tried-and-tested, in place to keep improving the quality of our portfolio. The contribution from GIP is in line with expectations. The V&A continues to perform above expectations with the benefit of increased tourism.

Our international investments are expected to continue performing in line with guidance, which is separately provided for each. GOZ released its final distribution and preliminary draft external valuations on Thursday 20 June 2024. The 4.5% decline in their valuations will impact our Group LTV while distributions are in line with our expectations.

Given the negative impact of high interest rates locally and internationally, which has been greater in the second half of FY24, we reaffirm our guidance of a 10% to 12% decline in Distributable Income per share (DIPS) for FY24.

Growthpoint will release its full-year results for the twelve months from 1 July 2023 to 30 June 2024 on Wednesday, 11 September 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 SBG Securities at 16:00 South African time on Thursday 27 June 2024. Please use the below link, or email thato.makotwane@sbgsecurities.com to register:

https://forms.office.com/Pages/ResponsePage.aspx?id=7OZpc6b6-kK8Dk8zLaWx2z04TJmXip5DsDzNrYLpzh5UNDhPUFhINDUzS1NKWE9TQlMyTERCRzhQOS4u

27 June 2024

Sponsor
Investec Bank Limited