Growthpoint Properties Limited
Approved as a REIT by the JSE
Incorporated in the Republic of South Africa
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Share code: GRT ISIN ZAE000179420
JSE Bond issuer code: GRTI
"Growthpoint"

INVESTOR UPDATE FOR THE THREE MONTHS ENDED 30 September 2024

We are pleased to present our trading update for the three months from 1 July 2024 to 30 September 2024.

STRATEGY IMPLEMENTATION

We remain focused on our two core strategies:

- Our strategy to optimise our South African portfolio focuses on **improving its quality** through targeted investments and disposals. In line with this strategic intent, we are targeting c. R2.8bn of asset disposals for the year ending 30 June 2025 (FY25) to decrease our exposure to the office sector, disposing of older industrial assets and selling non-core retail assets in deteriorating central business districts (CBDs). In FY25, we will invest c. R2.2bn in our core portfolio, excluding Growthpoint Investment Partners (GIP), to protect and enhance its value through active asset management initiatives, which includes developing new high-quality assets, particularly modern logistics warehouses for the logistics and industrial portfolio and enhancing sustainability initiatives across all three property sectors as we advance on our pathway to carbon neutrality by 2050. We also intend to increase our investments in the logistics and retail sectors, particularly in the Western Cape.
- Our international expansion strategy focuses on **optimising our international investments**. To this end, investors are referred to the announcements published by Capital and Regional plc (C&R) regarding the disposal to NewRiver REIT plc (NewRiver) and the C&R shareholder approvals received on 13 November 2024, where C&R shareholders voted in favour of the acquisition by NewRiver of C&R's entire issued share capital. Subject to the scheme of arrangement receiving court sanction, which is scheduled to take place on 6 December 2024, the scheme of arrangement's effective date will be 10 December 2024. At Globalworth Real Estate Investments Ltd (GWI) we continue to support management at a shareholder level with value unlock initiatives. We remain committed to enhancing our investment in Growthpoint Properties Australia Ltd (GOZ) and supported the implementation of the two recent transactions aimed at optimising their portfolio and improving their gearing.

We will continue to grow assets under management and generate diversified returns through GIP and Trading & Development (T&D). We continue to evaluate long-term sustainable solutions 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

Our property key performance indicators (KPIs) continue to show improvement across all three sectors.

During the past quarter, vacancies improved to 8.2% from 8.7% at FY24, driven by strong leasing activity. A total of 339 204m^2 of space was let, including 209 374m^2 of renewals and 129 830m^2 of new lets. Renewal rental growth rates also showed noteworthy improvement across all sectors, with renewal rates improving from -6.0% at FY24 to -0.4%, approaching positive territory. However, our lease renewal success rate reduced from 76.3% at FY24 to 72.8%.

The average lease term for renewals was consistent at 3.7 years. Rental escalations for renewals increased slightly from 6.9% at FY24 to 7.0%.

	Property portfolio KPIs											
	Retail			Office			Logistics & industrial			Total	FY24	HY24
	Sep-24	Jun-24	Dec-23	Sep-24	Jun-24	Dec-23	Sep-24	Jun-24	Dec-23	Sep-24	Jun-24	Dec-23
Vacancy	5.9%	5.5%	5.7%	14.2%	15.1%	17.8%	4.5%	5.2%	4.1%	8.2%	8.7%	9.2%
Renewal success rate	77.0%	86.4%	91.9%	54.7%	62.1%	58.5%	77.2%	78.3%	82.0%	72.8%	76.3%	79.0%
Weighted average renewal growth rate	-0.5%	-2.1%	-3.2%	-4.0%	-14.8%	-15.8%	1.7%	-3.3%	-6.1%	-0.4%	-6.0%	-7.1%
Weighted average renewal lease period (years)	5.8	4.0	3.7	2.9	3.6	3.6	2.9	3.5	3.8	3.7	3.7	3.3
Weighted average future escalations on renewals	6.5%	6.4%	6.5%	7.5%	7.2%	7.0%	7.5%	7.4%	7.6%	7.0%	6.9%	6.9%
Total arrears (Rm)	31.2	26.0	40.3	32.6	35.1	55.3	18.1	21.8	32.6	81.9	82.9	129.7
Disposals (Rm)	253.9	491.0	465.0	98.8	91.0	58.0	52.1	327.0	112.0	404.8	907.7	635.0
Disposals (Number of properties)	1	3	2	2	3	2	2	11	5	5	17	9

Capital allocation

Our capital management is disciplined. Targeted capital and development expenditures are funded with cash retained from the 82.5% dividend payout ratio and proceeds from our disposals, however delays obtaining Competition Commission approval and rates clearance certificates, as well as delays at the Deeds Office, have resulted in less property transfers over the period. We sold and transferred five non-core properties for R404.8m, at a combined R1.0m below book value and we have signed sale agreements for an additional R2.5bn of properties awaiting transfer with another R0.4bn of properties approved for sale. We invested R528.6m in developments and capital projects for the three months, including R120.9m for GIP.

This quarter we introduced e-co_2, an innovation that provides renewable electricity at fixed escalations directly to tenants' offices at 10 of our Sandton properties. This solution reduces carbon emissions and is a compelling competitive advantage for tenant attraction and retention. Over the past decade, Growthpoint has been a pioneer in transforming green buildings from a novel concept to a mainstream practice, a core element of the "Thriving Environment" part of our ESG strategy. Our commitment to strong ESG practices supports our tenants in adopting similar approaches. Through our Power Purchase Agreement with Etana Energy (Pty) Ltd, we have secured 195GWh of clean electricity annually and e-co_2 offers our tenants an effective way to achieve their ESG objectives, reduce their consumption costs and contribute to a more sustainable future.

Retail sector

Our retail vacancies, including office space at the centres, increased slightly from 5.5% at FY24 to 5.9%, primarily due to the renewal success rate decreasing from 86.4% at FY24 to 77.0%, mainly as a result of non-renewals in our Gauteng portfolio at Alberton City and Northgate Mall. We reduced vacancies at Bayside Mall and Brooklyn Mall, where we expect further reductions as FY25 progresses. Our core retail vacancies remain low at 4.6%.

Retail trading density growth for the twelve months ended 30 September 2024 was 5.3%, supporting rental reversions which improved from -2.1% at FY24 to -0.5%. With the retail trading environment stabilising and emerging from a significant negative cycle, we anticipate positive renewal growth as we approach 30 June 2025.

We sold Mark Park Shopping Centre in Vereeniging for R253.9m, in line with our strategy to exit retail in deteriorating CBDs and increase our portfolio weighting to the Western Cape. We have signed sales agreements for another two CBD properties awaiting transfer for R521.3m, one motor dealership for R128.0m and a small retail asset for R49.3m.

We are improving the quality of our retail assets focussing on the coastal regions. The major upgrade of Bayside Mall in the Western Cape and the development at Watercrest Mall in KwaZulu-Natal will be completed by the end of November 2024. The redevelopment of the previous Edgars premises for Builders Express at Beacon Bay Retail Park in the Eastern Cape and the development for Builders Express at Longbeach Mall in the Western Cape are expected to be completed by June and October 2025, respectively.

Solar installations of 7 396 kWp were completed at four retail properties this quarter, and more are planned for the remainder of FY25.

Office sector

Notwithstanding ongoing macroeconomic constraints, albeit less severe, and an oversupply of office space, particularly in Gauteng in the Sandton node, our office portfolio KPIs are showing continuous improvement and our innovative leasing strategies are producing positive results. We successfully concluded leases of 48 269m² and renewals of 30 039m², reducing vacancies to 14.2% from 15.1% at FY24. This is the first quarter post-COVID-19 where we haven't observed tenants reducing space.

Rent reversions improved significantly, from -14.8% at FY24 to -4.0%. However, this reflects only a three-month period, and we expect rent reversions in the mid- to high single digits at year end.

The lease renewal success rate moved from 62.1% at FY24 to 54.7%, primarily due to two leases of c. 24 000m² that were not renewed, accounting for 45.3% of the leases that expired in the period. One non-renewal was for temporary, short-term space in Cape Town, leased during the renovation of the tenant's premises. The other was in Rosebank where the tenant elected to own its new premises.

Our coastal regions continue to outperform the rest of the portfolio. Property fundamentals in these areas benefit from more balanced supply and demand dynamics. Vacancies in KwaZulu-Natal maintained an exceptionally low rate of less than 1.0% while the Western Cape improved from 5.3% at FY24 to 5.1%. The overall vacancy reduction came primarily from our inland portfolio, where vacancies decreased from 19.3% at FY24 to 18.1%. Demonstrating our ability to retain and expand tenant relationships, we successfully leased 9 400m² in Bedfordview to a tenant already occupying 2 000m².

We continue to enhance the quality of our portfolio and recycle capital. We sold two non-core B-grade properties in Gauteng for R98.8m. In line with our strategy to exit non-core business nodes, our T&D team converted the Pavilion Office Park in Rivonia into sectional title offices, which were sold for R20.8m to owner-occupiers. Similarly, we approved the disposal of two properties in each of the non-core business nodes in Parktown and Bedfordview for a combined R230.0m. An additional seven B and C grade properties in non-core business nodes or nodes where we are overexposed have signed sale agreements with expected proceeds of R623.8m, and are awaiting transfer.

Taking advantage of opportunities arising from an increased demand for residential property in Sandton Central, we sold 151 on 5th in Sandton to a residential developer for R78.0m.

Our T&D team is making good progress on two key projects in the Cape Town office portfolio. The R420.0m Hilton Canopy hotel at the Longkloof mixed-use precinct is nearing completion and is set to welcome guests in mid-December 2024. The green renovation of 36 Hans Strijdom in the Foreshore, supported by a 15-year lease with Ninety One Limited, is expected to be completed by June 2025.

Office properties typically have substantially less roof space than logistics and retail buildings. Notwithstanding this space limit, we have c. 800 kWp of approved solar installations planned for FY25.

Logistics & Industrial sector

Vacancies improved from 5.2% at FY24 to 4.5%, primarily due to the successful leasing of new speculative developments. Trade Park in Durban was fully let from 1 July 2024. Only one unit remains available in the first phase of Arterial Industrial Estate in Cape Town and two speculative units at Centralpoint in Midrand. Coastal regions reported extremely low vacancies, with KZN's vacancies reducing by half to 0.7%, and the Western Cape showed a similar trend in closing the quarter at 1.4%. Vacancies also decreased in Gauteng, where two-thirds of the portfolio is located, from 7.2% at FY24 to 6.5%, including the Centralpoint units.

We have signed sale agreements for two properties totalling 27 000m², with transfer expected post FY25, reducing our vacancy further and allowing us to invest this capital into new logistics developments in line with our strategy.

Although tenant retention decreased slightly from 78.3% at FY24 to 77.2%, rental reversions improved impressively, breaking through into positive territory. Rental reversions increased from -3.3% at FY24 to 1.7%. The Western Cape portfolio is achieving positive rental growth of 8.8% on renewals, driven by high demand and limited supply. In Gauteng and KZN, rent reversions remain negative at -1.8% each.

Interest from non-institutional investors, particularly owner-occupiers, continues. We sold and transferred two non-core, older industrial properties for R52.1m. We have signed sale agreements for 12 additional non-strategic properties, valued at R1.1bn, including those mentioned earlier, which are awaiting transfer, and have five properties totalling R212.1m for sale. All these assets are non-core older industrial type assets in nodes where we are either overexposed or no longer want exposure.

As part of our ongoing commitment to enhancing the portfolio quality and increasing our exposure in the Western Cape, we have commenced Phase 2 of Arterial Industrial Estate in response to the strong demand for these logistics units. This phase will add 20 000m² of prime logistics space to our portfolio, with completion expected by the end of March 2025.

Our solar photovoltaic (PV) investments focus on core multi-park properties. We are busy with a single solar installation project of 0.4MWp for completion in FY25. Additionally, we are working on a financial model for our single-tenanted facilities, where we can benefit from longer leases and share the cost benefits with our tenants.

Continuing Growthpoint's green building leadership in collaboration with our tenants, our Meadowdale asset occupied by Serra Services has become South Africa's first industrial property to earn a prestigious 6-Star Green Star Existing Building Performance (EBP) rating from the Green Building Council South Africa (GBCSA), setting a new benchmark for logistics and industrial properties.

T&D

Our T&D team continues to improve the quality of our portfolio through ongoing developments and refurbishments, as well as developing assets for Growthpoint Student Accommodation Holdings (RF) Limited (GSAH).

We are making good development progress at Thrive @ Crescent Studios (870 beds, formerly The Podium), and Thrive @ Arteria Parktown (480 beds, formerly 33 Princess of Wales). Both projects are on track for completion by the end of November 2024 to welcome students for the 2025 academic year.

T&D is sectionalising 39 mini-industrial units at Palm River and Devro Park in Pinetown, with expected proceeds of c. R119.0m.

The residential conversion of the Riverwoods office building in Bedfordview into the BlackBrick Bedford Urban Resort is expected to generate proceeds of c. R114.0m.

V&A Waterfront (V&A)

Earnings before interest and tax (EBIT) grew by 20% compared to the same quarter in 2023, driven by successfully completing the development of Investec, the Helistop, Timeout Market and converting two previously leased hotels, the Commodore and Portswood Hotels, into V&A-operated hotels with management outsourced to Legacy under a management agreement. The two new V&A-operated hotels increased the share of operational hotel income to total hotel income to approximately 40% as of 30 September 2024.

Strong demand for office space and near-zero vacancies within the precinct contributed to this performance. Demand for office space is currently outpacing available space, driven in part by semigration and demand for office space from tenants in the renewable energy sector.

The growth was also driven by the continued rise in retail sales, which in turn boosted retail turnover rental. For the calendar year to August 2024, international air passengers arriving at Cape Town International Airport increased by 11%, while domestic tourism increased by 7%. Retail sales and visitor numbers grew by 4% and 11%, respectively, over a rolling twelve-month period compared to the same period ending 30 September 2023.

Hotels experienced sustained high demand, with average daily rates rising by 35% compared to the same period last year. Revenue per room rates across the precinct averaged R5 846 per night.

The marine and industrial component saw strong growth in casual moorings and a solid increase in income from charter boats.

New developments:

- Union Castle Building: the phased opening began in mid-November 2024 and will be completed by 31 December 2024.
- Desalination project: the plant is complete, and commissioning is underway,

- Cruise Terminal: two tenants took beneficial occupation of c. 5 000m^2 on 1 October 2024,
- Luxury Mall: the existing mall is being redeveloped and final lease negotiations are currently in progress, and
- 5 Dock Road: 57 of the 99 apartments have been sold to date.

The development pipeline is funded through a combination of shareholder and third-party funding. At the end of the quarter, the V&A has R2.0bn in committed third-party facilities of which R1.75bn are green loans. R150.0m was undrawn at the end of September 2024.

GIP

With R18.0bn of gross assets under management across three funds (Growthpoint Healthcare Property Holdings (RF) Limited (GHPH), GSAH and Lango Real Estate Limited), GIP has its own dedicated fund managers and staff who execute our co-investment philosophy.

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

Post-FY24, Lango concluded a USD200m retail real estate portfolio acquisition from JSE-listed REITs, Hyprop Investments Limited and Attacq Limited. Lango now has c.US$875 million of assets under management across four countries.

INTERNATIONAL PORTFOLIO

In line with our strategy to optimise our international portfolio, Growthpoint has conditionally agreed to dispose of its entire shareholding in C&R, comprising 160 648 081 C&R shares which represent 68.95% of C&R's issued ordinary share capital.

Growthpoint will receive c. GBP101.4m made up of GBP50.7m in cash and 67.4 million new NewRiver shares. Post the transaction, Growthpoint is expected to hold approximately 14% of NewRiver. Growthpoint has undertaken not to sell NewRiver shares for a period of five months post the implementation of the transaction without the prior written consent of NewRiver.

GOZ sold its entire holding in Dexus Industria REIT (ASX: DXI) at a price of AUD2.75 per share for a total consideration of AUD131.7m. The proceeds were used to reduce debt, demonstrating GOZ's commitment to active balance sheet management.

In line with GOZ's strategy of growing its fund management business, GOZ disposed of an 80% interest in six industrial assets for AUD198m, with AUD181m net capital released to GOZ which was also used to repay debt.

Following the above two disposals, GOZ anticipates 1Q25 pro forma gearing will reduce to 37.9% (from 41.7% at 30 September 2024), positively impacting Growthpoint's group LTV at HY25.

All three of our international investments are listed separately and have published their most recent market updates and announcements. We refer you to these publications for more detail.

TREASURY AND CAPITAL MANAGEMENT

We continue to have excellent access to liquidity, securing capital at very attractive spreads and for tenures of more than five years. This is demonstrated by the strong appetite from banks and bond investors.

Total nominal SA debt reduced marginally from R40.4bn at FY24 to R40.3bn. This movement is predominately due to the strengthening of the Rand against the EUR and USD. This was offset by issuing a R750m 10-year listed private placement bond (GRT66) in July 2024 at three-month JIBAR plus 1.83%, reduced by a partial R700m early redemption of unlisted bonds.

We continuously review the total level of facilities required in line with our requirements. We had access to R6.2bn of unutilised committed facilities at 30 September 2024 and we are focussing on the refinance of the R2.8bn of bonds which will mature during FY25.

The weighted average term of our liabilities reduced marginally to 3.9 years. Our weighted average Rand cost of funding decreased to 9.3% due to base rates lowering from 8.4% to 8.1% as well as the execution of new interest rate swaps. Including cross-currency interest rate swaps (CCIRS) and foreign-denominated loans, the total cost of funding increased slightly from 7.2% at FY24 to 7.3% due to AUD CCIRS, which were refinanced at higher rates. We have hedged 81% of the interest on our direct interest-bearing debt and 74.0% of the CCIRS for a weighted average term of 1.9 years.

ZAR interest rate swaps of R1.25bn at a weighted average interest rate of 7.4% matured during the quarter, and we executed new three-year interest rate swaps of R2.5bn at a weighted average interest rate of 7.18%. An additional R4bn will mature during the remainder of FY25 at a weighted average interest rate of 7%.

Euro interest rate swaps of €50m at a weighted average interest of 0.6% matured during the quarter and have not yet been re-hedged.

AUD214m of CCIRS matured at a weighted average interest rate of 1.4%, which was refinanced for a tenure of three years with AUD90m at a weighted average fixed interest rate of 4.1% and the remainder executed on a floating rate basis. An additional R142m liquidity was required for these refinances. An additional AUD100m CCIRS will mature during FY25 with a weighted average fixed interest rate of 0.8%. Additional liquidity of around R23m is expected, based on an AUD:ZAR exchange rate of R12.00.

USD30m CCIRS will mature during FY25 at a weighted average fixed interest rate of 5.7%.

We continuously review our interest rate hedging policy, which provides for a level of flexibility. Given that swap rates remain elevated in some currencies, we anticipate lower levels of interest rate hedging in the short term. Had we not executed any hedging transactions for FY23 and FY24, an additional R787m in finance costs would have been incurred over the two years.

The exchange rates for the anticipated FY25 dividends from our international investments are partially hedged.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

Considering the meaningful impact of our renewable energy wheeling agreement, and advances in understanding, technology, and operating context, we are enhancing our environmental sustainability strategy. This includes setting new targets and revising existing targets. To ensure our targets are practical and impactful, we are revisiting the baselines established in 2020 for electricity, water and waste consumption. These baselines were skewed by the COVID-19 lockdowns, prompting us to consider 2022 as the new baseline year to enable meaningful tracking and comparison from a more stable and representative reference point.

We remain focused on enhancing energy recovery with smart metering, setting targets for net-zero buildings and expanding our renewable energy capacity. These initiatives will significantly reduce Greenhouse Gas (GHG) emissions and enhance the resilience of our buildings against extreme weather events.

We continue to leverage our scale, expertise and innovative spirit to drive positive change across our portfolio and the communities we serve, staying true to our ESG commitments while adapting to the evolving challenges of our time.

The total installed solar PV capacity at our properties at the beginning of FY25 was 40.7MWp and we are targeting the installation of a further c. 10MWp for FY25.

Our commitment to transformation is evident from retaining our level 1 B-BBEE rating for FY25.

CONCLUSION

Sentiment toward the real estate sector has improved dramatically. With more than 230 days with no loadshedding, the new Government of National Unity and a favourable interest rate outlook all contributing to improved business confidence which is evident in our operational performance.

All three of our domestic portfolios reflect improved performance. We have good initiatives, both innovative and tried-and-tested, in place to keep improving the quality of our portfolio and underlying operational metrics. The contribution from GIP is in line with expectations. The V&A continues to perform above expectations with the benefit of increased tourism and proactive, innovative asset management that has consistently successfully unlocked its many opportunities. Our international investments are expected to continue performing in line with guidance.

While the above is encouraging. It is important to recognise that the ongoing impact of high interest rates, both locally and internationally, remains a challenge for Distributable income per share (DIPS) growth in FY25, which is still expected to decline by 2% to 5%. As we assess interest rate expectations across our investment geographies, positive indicators are supporting our outlook for FY26, when we expect positive DIPS growth to resume.

Growthpoint will release its half-year results for the six months from 1 July 2024 to 31 December 2024 on Wednesday, 12 March 2025.

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 Absa CIB at 16:00 South African time on Thursday 28 November 2024. Please use the below link, email Priscilla.LeRoux@absa.africa and dferreira@growthpoint.co.za to register:

https://events.teams.microsoft.com/event/135217d5-3352-41ec-b319-36b9baef9399@5be1f46d-495f-465b-9507-996e8c8cdcb6

28 November 2024

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