

## MEDIA RELEASE

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### Robust South African portfolio boosted by strategic geographic diversification of asset base

#### Highlights

- Full year distribution of 142.3 cents per share, 5.1% normalised growth year-on-year
- Guidance of 3-5% dps growth
- 3.9% increase in net asset value
- Vacancy rate reduced to 2.4% from 4.0% in March 2018 in challenging environment
- 94.2% of space expired in the period renewed or re-let at an average reversion of negative 6.9%
- Weighted average debt expiry increased to 3.5 years from 2.7 years in March 2018 resulting from R3.7bn debt refinancing
- 26% total returns (in Euro) from Pan-European Logistics portfolio
- Well positioned to weather the current economic volatility

Investec Property Fund Limited (**IPF** or the **Fund**) is pleased to announce a final dividend of 73.51 cents per share (cps) for the six months ended 31 March 2019. This takes the full year dividend to 142.3 cps (FY2018: 135.4 cps). While the prior year interim dividend included a once-off antecedent dividend received from Investec Australia Property Fund (**IAPF**), the normalised full year dividend represents year-on-year growth of 5.1%.

#### South Africa

The Fund is satisfied with the performance of the South African portfolio, albeit it at 0.8% net property income growth, and remains optimistic about the long-term growth prospects in the South African market. As a result, the majority of the balance sheet remains on local soil and the core focus of the dedicated South African based team. *“Locally, our focus remained on better extracting value from the existing portfolio. The challenging environment meant that we were negatively impacted by void periods and lower rental reversions. Despite this however, our combination of best of breed assets and a quality on the ground management team that ensures the best possible client experience, saw vacancies decrease to 2.4% and 94% of space that expired in the period renewed or re-let,”* commented Darryl Mayers, joint CEO of the Fund.

The Fund's current South African property portfolio consists of a diverse base of 102 quality and well-located properties with an average value per property of R169 million (March 2018: R167 million).

As part of the Fund's continued focus on capital recycling and allocation to ensure long-term shareholder returns, the period saw the strategic disposal of four South African properties (yielding 7.1%). These proceeds, together with a further c. R600 million of South African properties that have been earmarked for sale within the next 12 months will further enable the Fund's capital recycling strategy.

As part of this strategy, and due in part to the prevailing challenging macro-economic environment in South Africa, the period saw limited local acquisition activity with the focus on deploying capital into the Pan European Logistics (**PEL**) platform. The performance of the PEL portfolio, together with the Fund's other offshore investments has primarily driven the 3.9% increase in portfolio net asset value with the PEL platform returning 26% total return (in EUR) since the initial investment of €65.8 million in May 2018. Further investments of €10.1 million were made during the year and €7.8 million was invested subsequent to year end, bringing the total investment made to date to €83.7 million.

Complementary to this investment, the Fund announced that it had concluded agreements to invest up to €64.5 million into a Pan European Light Industrial, (**PELI**) platform over the next two years, once again alongside funds managed by Ares Management Corporation or its affiliates (**Ares**). The Fund will have an initial 25% share in the platform and the initial investment will be €10.2 million. At full deployment, total equity contributed by IPF and Ares will amount to €150 million, with IPF's equity participation representing 42.9%.

The portfolio is expected to comprise 21 primarily light industrial properties, of which four assets located in the Netherlands have already been acquired. A further 17 properties located across France and Germany have been identified. At 90% let, with an initial asset yield of 7.2% that is expected to grow to a fully let ERV yield of 8.2% the investment will deliver an investment yield of 9.6% in Euros. The proposed portfolio is consistent with the Fund's investment strategy of identifying assets with strong property fundamentals and attractive risk-adjusted return profiles in different geographies.

Commenting on the investment and the Fund's asset composition, IPF joint CEO Andrew Wooler said: *"The transaction is in line with our strategy to invest up to 20% of the balance sheet into quality offshore assets, underpinned by strong property fundamentals and managed by an experienced on the ground team. In addition, it is earnings accretive, as well as presenting the Fund with a viable pipeline of offshore opportunities. The current diversification of our asset base positions the Fund to benefit from growth in the offshore portfolio, especially in the short to medium term, as well as the optionality to benefit from any improvement in our local South African market."*

## **Australia**

The Fund's investment into IAPF generated a significant contribution to NAV growth in the current year as a result of a 21% increase in the IAPF unit price. On a post withholding tax ('WHT') basis, IAPF delivered distribution growth of 1.2% in AUD which translated to 4.0% in ZAR due to forward exchange contracts (FEC's) that were in place.

As announced on 3 May 2019, IAPF intends to list on the ASX. To enhance liquidity The Fund has agreed to make available for sale up to 45 million IAPF units that are currently held by the Fund, at the final subscription price determined under the institutional bookbuild.

## **Outlook**

The immediate outlook in South Africa remains challenging and is expected to impact the performance of the Fund's South African portfolio in the short-term. The impact of the Edcon restructure will further adversely affect the earnings base in the next 12 months with the Fund anticipating approximately 1% impact on distribution as a result of the restructuring. Taking this all into account, the Fund expects the South African portfolio to deliver similar like for like NPI growth to FY19. Earnings will be bolstered by the investments into the earnings accretive Pan-European platforms, with further potential earnings upside from the successful implementation of those strategies.

Taking the above into account, the Fund expects to deliver dividend per share growth for the financial year ending 31 March 2019 of between 3% and 5%, with the upper end of the range dependent on the level of capital deployed into European pipeline opportunities during the year.

## **ENDS**

### **Notes to the editor**

#### **About the Investec Property Fund**

Investec Property Fund Limited is a South African Real Estate Investment Trust, having listed on the JSE Limited ("JSE") in 2011 and obtaining REIT status on 1 April 2013. The investment portfolio currently comprises direct and indirect real estate investments in South Africa, Australia, the U.K. and Europe. The direct investments comprise 102 properties in South Africa with a total gross lettable area ('GLA') of 1 197 921m<sup>2</sup> valued at R17.3bn. The Fund's local investment portfolio also comprises a R0.1bn investment in Ingenuity Property Fund Limited ('Ingenuity') which the Fund recently announced the sale of, and a R0.3bn investment in Izandla Property Fund Proprietary Limited ('Izandla'). The Fund's offshore investments include Investec Australia Property Fund ('IAPF') of R1.3bn, Investec Argo U.K. Property Fund ('U.K investment') of R0.2bn an investment into a Pan-European logistics portfolio of R1.7bn providing the Fund with geographic diversification and exposure to quality real estate in developed markets. The Fund has also recently announced its commitment to invest in a new Pan-European light industrial platform, the gross asset value of which will be €116m and the Fund's initial equity contribution will be €10.2m. The objective of the Fund is to optimise capital and income returns over time for shareholders by investing in well priced income producing properties in the office, industrial and retail sectors. Effectively, all rental income, less operating costs and interest on debt, is distributed to shareholders semi-annually. For more about Investec Property Fund please visit: <https://www.investec.co.za/products-and-services/investing/property-fund.html>

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