

MEDIA RELEASE
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Investec Property Fund delivers robust performance

Distribution growth driven largely by the performance of the offshore portfolio

Highlights

- Interim distribution of 70.93 cents per share, 3.1% increase in normalised DPS y-o-y
- Although SA growth subdued, distribution growth underpinned by performance of offshore investments – benefit of a diversified balance sheet
- Base net property income growth of 1.3% y-o-y in line with expectations – dragged by business failures and Edcon rental rebate
- Vacancy remains comparatively low at 3.9%, well below the industry average
- 89% of space expiring in the period renewed or re-let in challenging environment
- Offshore investments continue to outperform
 - European logistics – 20.1% total return in the period
 - IAP – 27.4% total return during the period on the back of ASX listing
- Significant recycling of capital during the period on a shareholder return enhancing basis
 - c. R850m proceeds from sell down of IAP and local assets redeployed offshore into European logistics and light industrial and UK investment
 - Minority position in Ingenuity exited during the period at 29% profit to cost

Investec Property Fund Limited (IPF or the Fund) today announced an interim dividend of 70.93 cents per share (cps) for the six months ended 30 September 2019 (2018: 68.81 cps). This represents DPS growth of 3.1% year-on-year which is in line with guidance provided in May. Guidance for the full year is maintained between 3% and 5%.

South Africa

The subdued South African economy and its impact on the tenant base continues to constrain the growth of the local portfolio. Increased bad debts, void periods and negative reversions negatively impacted like-for-like net property income (NPI). Despite these drags however, LFL NPI grew in line with expectations at 1.3%. The rental rebate given to Edcon further impacted the NPI, however, the underlying property metrics remain strong as evidenced by a vacancy of 3.9% that compares favourably to the rest of the industry.

Commenting on the Fund's performance, joint CEO, Darryl Mayers said: *"The difficulties facing the broader South African economy have resulted in a marked increase in business failures and liquidations, translating into bad debts that impact the Fund. This is a key focus area for the Fund and, in line with our active asset management, we ensure that we remain close to our clients, engaging them early while continually monitoring the arrears balances. This has not impacted the quality of our portfolio. Our focus on ensuring we have the best of breed assets in each sector is reflected in our strong leasing activity for the period; during which we were able to re-let or renew 89% of the space that became available."*

The Fund focuses on long-term value creation through investment in quality property, underpinned by strong real estate fundamentals that will ultimately withstand the cycles and deliver sustainable long-term shareholder returns. This strategy has seen four non-core South African properties sold, the Fund's minority position in Ingenuity exited and its holding in IAP halved, with the capital recycled into the European and UK platforms on an earnings enhancing basis.

The trends of oversupply and subdued demand in South Africa remain a challenge. Demand for office space has not picked up since the Fund reported its 2019 results and the impact of client arrears is increasing. Despite this, the office sector has achieved very strong letting in the current six-month period due to the quality of the portfolio and active asset management with vacancy remaining flat at 7.0% and is expected to improve by March 2020. Similarly, excellent letting was achieved during the period for the industrial sector which is showing resilience despite the challenging market. However, the client base continues to be under pressure which is evident in the increase in bad debts and arrears. The retail sector has delivered similar growth to FY19 and continues to produce strong results despite the trend of subdued consumer spending, with 99% of space expiring in the period let and generating +6.4% LFL NPI growth.

International

A strong performance from the Fund's international portfolio, underpinned by a 12.3% investment return in ZAR (11.9% in EUR), from the Pan-European logistics (PEL) platform, largely drove distribution growth for the period.

"While we remain a South African dominated fund, we continue to offer shareholders optionality through the diversification of our balance sheet and actively recycling capital on a shareholder return enhancing basis. In line with this, the Fund invested a further €32m into the Pan-European logistics and light industrial platforms in the first half of this financial year. This continues to be an out-performing investment, delivering returns ahead of forecast," stated Andrew Wooler, joint CEO of the Fund.

The quality of the PEL portfolio, together with the strength of the on-the-ground asset management team contributed to another strong leasing performance. One hundred percent of the space that expired during the period was re-let, with average positive reversions of 8.2%. This saw vacancies further reduced to 1.2%.

In other international activity, the Fund made an initial investment into the new Pan-European light industrial (PELI) platform during the second quarter, as well as a further £25 million into the UK Fund to take respective holdings in these platforms to 25% and 32.5% respectively and increase the Fund's offshore exposure to 18.6%.

The proceeds of the Fund's sale of 45 million IAP units in May 2019 were recycled into the PEL and PELI platforms. The like-for-like return on the IAP investment decreased by 6.0% due to the change in the IAP distribution policy to a funds from operations (FFO) policy which targets distributions of between 80%-100% of FFO. In ZAR the decrease was 2.0% due to foreign exchange growth of 4.0%.

The uptick in offshore activity saw a marginal increase in gearing to 37.3% however, in addition to a focus on capital allocation, the Fund continues to enhance the strength of the balance sheet. The SA all-in cost of funding remained flat at 9.1% and all other balance sheet metrics were further enhanced with interest rate hedging increased to 94%, (March 2019: 84%), the average debt and swap expiry increased to 3.6 years and 3.7 years respectively (March 2019: 3.5 years and 3.4years).

Outlook

While the growth in the South African portfolio is likely to remain in the low single digits, guidance for the full year remains unchanged between 3% and 5%. The upper end of the guidance range remains dependent on the timely deployment into the European platforms.

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 99 properties in South Africa with a total gross lettable area ('GLA') of 1191374m² valued at R17.3bn. The Fund's local investment portfolio also comprises a R0.3bn investment in Izandla Property Fund Proprietary Limited ('Izandla'). On 17 April 2019 the Fund announced that Ingenuity would repurchase all the Ingenuity shares held by IPF at R1.08 per share, which is a 29% increase on the Fund's purchase price. On 22 October 2019 Ingenuity issued a finalisation notice to announce that shareholders had voted in favour of the scheme and the delisting of Ingenuity. The proceeds from the transaction were received on 4 November 2019 and will be redeployed into the PEL platform.

The disposal is part of IPF's focused strategy to recycle capital into assets where the net proceeds can be used to generate superior total returns.

The Fund's offshore investments include Investec Australia Property Fund ('IAP') of R0.9bn, Investec Argo U.K. Property Fund ('U.K investment') of R0.7bn, an investment into a Pan-European logistics portfolio of R2.4bn providing the Fund with geographic diversification and exposure to quality real estate in developed markets. 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>