

news release

25 February 2020

EQUITES PARTNERS WITH SHOPRITE IN STRATEGIC JOINT VENTURE ARRANGEMENT

Cape Town, 25 February 2020 – Equites Property Fund Limited (“Equites”) has concluded heads of agreement with Africa’s largest fast-moving consumer goods retail operation, Shoprite Holdings Limited (“Shoprite”), to establish a strategic joint venture which will facilitate the unlocking of significant value for both parties.

The partnership will manage a portfolio of Shoprite’s distribution centres, serve as a platform for the development of undeveloped bulk land situated at Cilmor and Centurion, and pursue future property acquisition and development opportunities.

The transaction

Shoprite will contribute its Brackenfell and Centurion distribution centres valued at R2.0 billion to the joint venture. In exchange for a majority stake, Equites will inject cash of R2.1 billion which will partially be utilised to acquire the Cilmor distribution centre and the undeveloped bulk land in Brackenfell in the Western Cape for R1.2 billion. The joint venture will manage this logistics portfolio and will undertake future property acquisition and development opportunities as they arise, with Equites as the developer.

In addition, Equites and Shoprite will conclude three, 20-year "triple net" (fully repairing and insuring) lease agreements in respect of the Brackenfell, Cilmor and Centurion distribution centres within the joint venture, with a right to renew each of the leases for three further 10-year periods on the same terms and conditions. The initial yield on the leases will be 7.5% and the rental shall escalate at a rate of 5% per year.

Strategic benefits

The establishment of the joint venture will have the following benefits to both Equites and Shoprite:

- Equites, as a leading, specialist logistics REIT, will add to its existing property portfolio a high-quality portfolio of distribution centres underpinned by long term leases with Shoprite;
- The release of capital for Shoprite will allow for it to optimise its return on invested capital through redeployment into higher yielding retail projects and technology while providing both operational and capital flexibility going forward;
- Equites and Shoprite will have forged a strategic partnership for their mutual, long-term benefit; and
- Through their strategic partnership in the JVCo, Shoprite and Equites will share in any value which may be unlocked in the JVCo through future property acquisitive and development activities.

The transaction enhances Equites' existing competitive advantage and, in addition, further distinguishes itself through the formation of this strategic partnership. This partnership provides Equites with the following strategic benefits:

- Enhanced income certainty – this portfolio would constitute approximately 19% of Equites' property portfolio and its inclusion thereby improves the weighted average lease expiry period from 9.5 years to 11.7 years;
- Diversification of tenant base – the inclusion of Shoprite, Africa's largest food retailer, as one of Equites' major tenants further diversifies its exposure to credit risk;
- Superior quality builds – both the logistics campus and the modern distribution centres were all built to Shoprite's exacting requirements and to institutional standards;
- Low expected volatility – through the conclusion of three, 20-year leases with a predictable, escalating cash flow profile, Equites is shielded from certain market risks which it would otherwise be exposed to; and
- Cost-effective funding opportunities created – the long-dated, annuity income stream presents significant opportunities to reduce Equites' cost of debt funding over the medium to long term.

Equites CEO, Andrea Taverna-Turisan, said the company is delighted with the transaction as it has been challenging to acquire properties within the South African context which meet Equites' strict investment criteria and these assets represent the top segment of the market. The transaction also presents the opportunity to partner with Shoprite in this strategic joint venture which we expect to culminate in the acquisition and development of further high-quality property assets into the portfolio.

About the properties

The Cilmor and Brackenfell distribution centres are situated in Brackenfell, one of the oldest and largest industrial hubs in Cape Town. Its major access routes are the N1 and the R300, providing easy access to Cape Town International Airport, Cape Town Harbour and Container Depot and Cape Town CBD while also conveniently located in close proximity to a large labour pool.

The **Cilmor distribution centre** is one of the most technologically advanced distribution centres on the African continent. The warehouse consolidates deliveries from about 500 suppliers and comprises frozen, ambient and chilled sections which house a variety of Shoprite's retail products, reducing the requirement for storage space at retail sites.

The **Brackenfell distribution centre** comprises two ambient distribution warehouses including office and staff facilities, a refrigeration facility including office and staff facilities, a returns centre including office and staff facilities, a flow through facility including a flow through office and a receiving office and an office park.

The Centurion campus is situated in Louwlandia, which is an established logistics hub and is home to many national distribution centres. This location also provides access to a large labour pool.

The **Centurion logistics campus** consists of a dry goods warehouse including a safety store and staff facilities, a refrigeration facility including office and staff facilities, a returns centre including office and staff facilities, a truck workshop and ancillary buildings, as well as an office park housing Shoprite's Gauteng regional head office. This campus not only services the Gauteng, Free State and Northern Cape markets but is also the platform for distribution into several other African countries.

Taverna-Turisan concluded: “*The joint venture will enhance Equites’ existing competitive advantage as a specialist logistics investor and developer and create further scale in our high-quality logistics portfolio. A strategic partnership with Shoprite as the premier supermarket retailer in South Africa and Africa is an important milestone in the company’s aim to be recognised as a developer of choice to the largest logistics, retail and e-commerce participants in the South African market.*”

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About Equites Property Fund

Equites Property Fund Limited listed on the Johannesburg Securities Exchange (“JSE”) in 2014 and has established itself as a market leader in the logistics property space, with a vision of becoming a globally relevant Real Estate Investment Trust (“REIT”). The value of the fund has grown significantly from R1 billion on listing to R13.5 billion at 31 August 2019.

Equites focuses on owning and developing modern, well-located logistics properties let to A-grade tenants on long-dated leases. The fund has established itself as a leading owner and developer of high-quality logistics assets in South Africa and the United Kingdom.

Equites is the only specialist logistics REIT listed on the JSE. All the group’s assets are in proven logistics nodes near large population centres and major transport links that have predictable patterns of strong rental growth. The group focuses on premium “big-box” distribution centres, let to investment-grade tenants on long-dated” triple net” leases, built to institutional specifications. The locations of preference are Cape Town and Gauteng in South Africa and the central Midlands and “last-mile” fulfilment centres near major conurbations in the United Kingdom. While its exposure to the UK has been increasing, Equites remain a South Africa-focused fund and continues to focus on growing the South African portfolio through acquisitions and developments.

About Shoprite

The Shoprite Group operates a total of 2 842 outlets, supported by considerable distribution infrastructure and an integrated enterprise-wide information and technology system across 15 countries – a profile unmatched by any other retailer on the continent.

The Group includes four major corporate-owned and -operated food retail brands: Shoprite, Usave, Checkers and Checkers Hyper, together with operations serving the furniture, pharmacy and food services market. The Group generates the majority of its R150 billion turnover from food retailing.