INVESTOR UPDATE
FOR THE NINE MONTHS ENDED 31 MARCH 2020 & 4th QUARTER COVID-19 BUSINESS UPDATE

GROWTHPOINT PROPERTIES

Despite the continuing weak macro economy that put pressure on all domestic property key performance indicators (KPIs) for the first nine months of FY20, we were on track to deliver the guidance provided to the market at our FY19 results. COVID-19 then saw South Africa go into hard lockdown on 27 March 2020. Since then we have seen the lockdown restrictions being relaxed to level 4 on 1 May 2020 and Level 3 on 1 June 2020 with further relaxations announced on Wednesday, 17 June 2020. The impact on the overall South African economy as a result of the introduction of the lockdown provisions and restrictions has been devastating and economic forecasts suggest the SA economy could contract by between 7% and 10% in 2020.

The impact of the global pandemic and lockdown restrictions on all of Growthpoint's business operations, its subsidiaries and investments, both locally and internationally, for the last quarter of FY20 has been varied. The SA retail business, the V&A, as well as C&R, which has close to 100% exposure to the retail sector, have been the most negatively impacted.

Despite the lockdown commencing the week following the release of our HY20 results, we continued to progress all our strategic initiatives, notwithstanding our firm internal focus on managing business operations during these unprecedented times.


144 Oxford, Rosebank

CAPITAL MANAGEMENT

We remain dedicated to building a long-term sustainable business. Growthpoint has always had a strong balance sheet with internal risk management structures in place to protect capital for all stakeholders. We have also always benefited from good access to liquidity through our relationships with all the major South African banks and have enjoyed the privilege of being a preferred credit name in the bond market. Growthpoint was the second-largest corporate bond issuer in RSA in 2019.

Since the beginning of the year, we issued a further R1bn of bonds through a private placement and secured R1.6bn of new loans from the banks to re-finance loans and to fund capital expenditure that would have previously been funded from operational cash flows.

Growthpoint is also at advanced stages of concluding a private placement of R750m of unsecured corporate paper in the bond market with R100m for one year and R650m for three years, at spreads of 180 basis points and 210 basis points over Jibar respectively.

While liquidity via the traditional banking market has been available, it has been for shorter terms and at higher margins.

Total nominal debt at the end of March 2020 was R43.3bn, including R2bn of adverse foreign exchange movements on our foreign-denominated debt. Cash and unutilised facilities were R2bn at the end of May 2020.

At the beginning of April, Moody's downgraded South Africa's sovereign credit rating and, in tandem, also downgraded the rating of Growthpoint to Ba1 from Baa3, with a negative outlook. Our national scale rating was confirmed at Aa1.za.

The weighted average term of the liabilities was 3.6 years at 31 March 2020. Growthpoint's weighted average interest rate was 8.9% (9.2% FY19). Including cross-currency interest rate swaps (CCIRS) and foreign-denominated loans, it decreases to 6.1% (7.1% FY19). 81.3% of our interest rate book was hedged for a weighted average term of 3.4 years.

Dividends from our offshore investments are well hedged, considering the quantum of dividends we expect to receive is less than originally anticipated in light of the impact of COVID-19.

SECTOR UPDATE

SOUTH AFRICA

The absence of growth in the domestic economy weighs heavily on the property sector, and all key property metrics are under pressure as a result.

Vacancies:

Overall vacancies continue their upward trend increasing from 7.4% at HY20 to 7.9% at the end of the third quarter of FY20.

- Retail: 4.7% (HY20 4.4%)
- Office: 12.2% (HY20 11.5%)
- Industrial: 6.8% (HY20 6.7%)

Arrears:

The weak macroeconomic environment and the unexpected pressures of the COVID-19 lockdown are affecting many of our tenants. Total arrears deteriorated from HY20's R106.7m (9.9% of collectables) to R114.5m (10.5% of collectables).

- Retail: R39.5m or 9.5% of collectables (HY20 9.9%)
- Office: R41.2m or 9.5% of collectables (HY20 9.5%)
- Industrial: R32.4m or 15.4% of collectables (HY20 12.0%)

We expect to end the year with unusually high arrears levels due to tenants not having paid their rent during the lockdown period and the impact of the process whereby we are offering relief to our tenants through rent reductions and deferments.


Eton Office Park, Bryanston

Letting activity:

We let over 850 000sqm of space in the first three quarters of FY20.

The overall renewal success rate dropped from HY20's 67.6% to 66.0% with the retail and industrial sectors contributing to the downward trend and office showing some improvement.

- Retail: 77.8% (HY20 80.3%)
- Office: 57.7% (HY20 53.2%)
- Industrial: 64.9% (HY20 68.2%)

Attempting to maintain and improve on our occupancy levels came at a price with weighted renewal reversions for the three quarters an overall -6.4% and a further decline from HY20's -5.6%. Renewal reversions declined across the office and industrial sectors and were slightly improved in the retail sector.

- Retail: -5.6% (HY20 -5.9%)
- Office: -8.7% (HY20 -5.9%)
- Industrial: -4.8% (HY20 -4.4%)

On a positive note, the overall average lease period achieved for the nine months on renewals stood at a relatively high 4.1 years in contrast to 3.5 years at HY20. We successfully renewed some larger spaces for longer periods.

4th quarter Covid-19 impact update:

Growthpoint continued to assist its most affected tenants, mainly small, medium and micro enterprises (SMMEs), with total rental relief granted for April, May and June to date of R388 million with average collections of 75% over the three months. Our approach to assisting tenants has been positive for our relationships where we have been able to amicably agree on relief packages without having to endure tedious and costly legal processes.

APRIL 2020	Total	Retail	Office	Industrial	Healthcare
Billings (R)	1,035,644,209	381,844,470	439,107,803	187,744,639	26,947,297
Collections (R)	735,478,230	178,291,296	403,478,283	153,261,916	26,915,709
Collections %	71%	47%	92%	82%	100%
Total relief (R)	99,218,437	38,643,784	31,022,707	29,551,947	-

May 2020	Total	Retail	Office	Industrial	Healthcare
Billings (R)	951,662,856	377,819,562	389,731,718	158,197,668	25,913,908
Collections (R)	689,180,640	214,240,460	331,752,673	129,604,746	13,582,759
Collections %	72%	57%	85%	81%	52%
Total relief (R)	131,993,774	56,811,534	38,833,818	21,775,146	14,573,275

18 JUNE 2020	Total	Retail	Office	Industrial	Healthcare
Billings (R)	957,582,264	356,826,904	394,656,522	191,856,154	14,242,683
Collections (R)	795,473,627	289,772,448	348,886,863	152,626,166	11,878,502
Collections %	83%	81%	88%	80%	83%
Total relief (R)	157,137,615	108,179,059	30,027,997	4,357,284	14,573,275

*All figures are inclusive of VAT

As a result of our weakening KPIs and the COVID-19 pandemic, all non-essential capital expenditure has been curtailed. Developments will only continue where they are already significantly progressed, or tenant driven.

RETAIL

Of all the domestic sectors, retail is the worst affected by the COVID-19 pandemic. Early on, we chose to be collaborative and conciliatory with our tenants and to navigate the unchartered territory that we all find ourselves in together. Legal force majeure claims aren't constructive. However, certain tenants are seemingly looking to take advantage of the situation while others are asking for relief that is simply unaffordable for us.

We are still dealing with rental relief issues applying to April and May but have managed to settle with the majority of the big five national retailers.

The increased vacancy level is mainly due to Edgars vacating in Bloemfontein, Nedbank having vacated at The Avenues in Springs, Tafelberg Furnishers vacating at Amrel Alberton and Mr Price vacating at Fourways Crossing. Temporary development vacancies at Waterfall Mall and Lakeside Mall are also a factor.

Fast food and restaurant tenants were showing the most strain pre-COVID, which will now be exacerbated. Many other trading categories' arrears are expected to close at levels higher than we've ever seen before.

Downsizing of national retailers' footprints continues. This impacts our portfolio, especially where rentals have escalated beyond market levels, which results in tough negations on renewal. Turnover and trading density growth hasn't kept pace with escalations and has also been impacted by retailers cannibalising their own store trading by committing to new stores in new shopping centres in the same area. Retailers are pushing back on the standard 7% - 8% annual escalation, which places pressure on the renewal success and growth rates.

Kolonade Shopping Centre, Pretoria

Foot counts were decimated in April but improved from early May when many of the retailers were able to open, albeit with limitations on the products they could sell. Since then, footfall numbers have bounced around and remained negative across the portfolio. The only increase in footfalls was on the day that child grants were collected, and only a handful of centres experienced this increase. June foot counts to date have also shown some improvement and are currently at 80% of June 2019's.

Our Western Cape shopping centres, which are in established urban areas where people are acutely aware of the spread of the virus, are hardest hit with shoppers decreasing 50% to 60% when compared to the same time last year. Inland, Brooklyn Mall, with its significant restaurant mix and small convenience component, is most impacted. Those centres that are reliant on public transport have also been severely impacted. Foot counts in decentralised inland areas have been less affected, and Waterfall Mall and River Square are faring the best. Overall, our centres with little competition and lots of convenience retail are showing better shopper footfall trends.


Brooklyn Mall, Pretoria

Retailers' turnover performance for May remains problematic. On the fashion side, larger national retailers, particularly value fashion, are faring better as they trade in more basics and essentials. Athletic / leisurewear is performing well, as are electronic retailers. Smaller fashion traders and boutiques are doing 20% to 40% of previous year's turnover with fast food at 25% to 40% of last year. Optometrists are trading at 30% of last year and sports categories at 50% of prior year. Furniture sales, understandably, is very slow given these stores could only trade from 1 June. Supermarkets are trading better than other categories although we don't have up-to-date turnover figures.

We are encouraged by the interest expressed by 15 parties for the purchase of some, or all, of the Edcon businesses. Our Edcon exposure is 88 000sqm and Jet accounts for approximately 20 000sqm of this. The entire industry received an offer from the business rescue practitioner to pay only 6% of turnover rental until the business rescue plan is adopted, as such their arrears have been increasing and stand at R57m as of 19 June 2020.

The final retail categories are expected to reopen imminently, such as restaurants and personal care retailers. The reopening of gyms, however, is expected to be very slow. Growthpoint has six gyms in our retail portfolio. Failures in these categories are unavoidable. There is still much anxiety about the spread of coronavirus from both retailers and shoppers, and it is going to take a long time for historic shopping patterns to resume.

OFFICE

The domestic office sector was the weakest going into the COVID-19 environment, as seen in its deteriorating KPIs to 31 March 2020. It has, however, fared surprisingly well through the various lockdown levels of the past three months, with its high proportion of large, listed blue-chip tenants.

Smaller office tenants are taking more strain and, unfortunately, we expect this to continue into the new financial year. While early requests for relief from these tenants were for rental deferments, we are now receiving appeals for rental discounts and smaller spaces given the distress levels.

On the flip side, there is demand from call centres that need more space and now prefer operating across two buildings in one office park to minimise risk and ensure continuity. Some tenants now want their own building rather than a multi-tenant building in order to control hygiene and sanitising. However, they prize the amenities that an office park would provide. Both these requirements could see demand return for some of our office parks, which haven't fared well recently. That said, it is still too early to predict future trends. On average, 50% of the workforce still seem to be working from home.

As tenants seek flexibility in this environment, we have launched our SmartFLEX campaign which offers leases of three to 18 months across 28 of our buildings, mainly in Gauteng. These buildings are fitted-out, except for furniture, and offer tenants the attractiveness of short-term leases at market rentals. This space is receiving keen tenant interest.


144 Oxford, Rosebank

A deterioration in KPIs across the board has emerged for the nine months as office tenants reduce and downgrade space. Vacancies increased, but mostly due to two new developments that remain unlet. With no economic growth, there is no additional demand for space. Tenants are spoilt for choice in a very competitive market. The deteriorating renewal success also impacts our vacancies.

Arrears increased and they are likely to be exacerbated by the pandemic's impacts. Until March, three specific tenant issues impacting some 12 000m^2, increased our arrears. We are expecting to see many more tenants default on their rental obligations, apply for business rescue and request rent relief or a reduction of space.

In-force contractual escalations of between 7% and 8% per annum, well in excess of inflation of between 4% and 5%, have pushed in-force rentals higher than current market rentals. This has resulted in significant pressure on rentals upon renewal of expiring leases, giving rise to negative rent reversions on renewal of existing leases.

Construction was again permitted under Alert Level 3 from 1 June 2020, and with 144 Oxford Road fully let and committed, this fit-out is on track with rentals for the new major tenant commencing from 1 July 2020. At Woodmead office park rentals for the new replacement tenants for Deloitte's have been pushed out while construction is being completed for Altron and DRA who will occupy this space.

INDUSTRIAL

Most of our industrial tenants were unable to operate through lockdown alert levels 5 and 4. Many tenants only started trading on 1 June 2020 and will take time to ramp up production capacity because they are running on lower staff complements. To date, relief of R59m has been granted to 498 industrial portfolio tenants. This represents 48% of our tenants by number, occupying 58% of our industrial space. The number of requests for rental relief is tapering off, but certain tenants linked to the retail sector continue to ask for relief. Tenants who supply the restaurants and hotels that are still closed are taking particular strain. Businesses in the supply chains for construction and mining are also under extreme pressure as companies scale back dramatically on capital expenditure. More companies are going into business rescue and, unfortunately, we are expecting some casualties.


Saligna, Boksburg

The increase in vacancies is driven mainly by new developments, which have been completed, where construction commenced more than a year ago in a very different economic climate and vacancies are at c. 40% in each development. At the 38 042m² Millroad Industrial park in Cape Town phase 3 is fully let with vacancies of 17 303m² in phases 1 & 2. At Mt Edgecombe in Durban, 8 953m² of the total 20 287m² remain unlet. Four spec units with a combined GLA of 11 903m² out of eight, at Sterling Park in Samrand remain unlet where the total GLA is 27 652m².

There remains interest due to the diversified sizes associated with the product offering in these respective nodes with ongoing regular enquiries and transactions occurring.

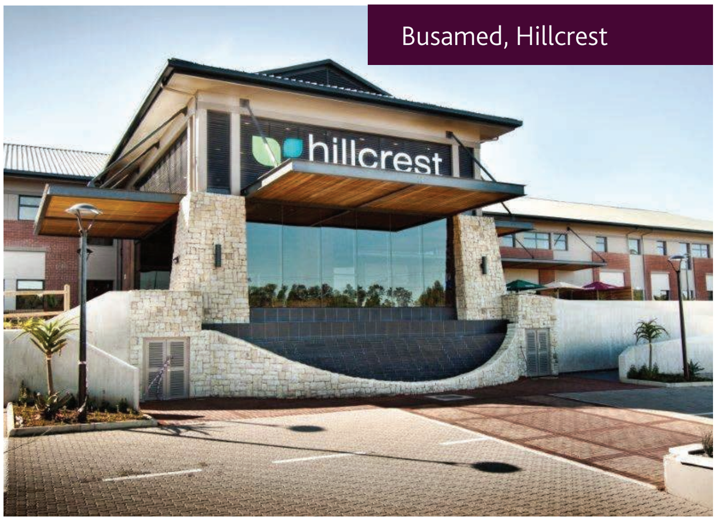
The increase in industrial sector arrears is as a result of legal arrears that reflect the deteriorating economy pre-COVID-19. The deferments granted will no doubt place additional stress on tenants due to the increased repayments.

Tenants' downsizing and space consolidation continue to place pressure on both renewals and reversions. All deals are reverting in this environment as we continue to focus on retaining tenants.

GROWTHPOINT HEALTHCARE PROPERTY HOLDINGS (GHPH)

The private hospital industry also experienced significant operational challenges under lockdown alert level 5. The move to a COVID-19 risk-adjusted strategy has seen a marked decrease in theatre time, and associated admissions. The industry expects surgical cases and occupancies to gradually increase as the lockdown eases over the coming months.

The opening of the Pretoria Head and Neck Hospital operated by Cintocare, has been delayed to January 2021. The acquisition of 51% of the 100-bed Busamed Paardevlei Hospital property has also been delayed.



Busamed, Hillcrest

In January, Kagiso Capital invested a further R287m in the fund, and it now owns 15% of the issued share capital. We are also delighted to confirm that GHPH is also negotiating with International Finance Corporation (IFC) the terms of its proposed investment in the fund. To that end, GHPH has initially signed agreements with IFC for a ZAR1.2 billion (US$80 million) equity and convertible debt package to finance the development and acquisition of properties for GHPH.

The equity raising process continues to be a priority for the GHPH. It is engaging actively with pension funds, asset consultants, family offices, development finance institutions and fund managers in this regard.

V&A WATERFRONT

The V&A Waterfront achieved overall growth in EBIT of 8% for its financial year to 31 March 2020, driven by continued commercial office growth and strong hotel performance. Retail sales were on track for about 6% turnover growth year-on-year but plummeted 36% in March to close 3% up overall for the year.

The V&A's property fundamentals were all in good shape until COVID-19 arrived in South Africa. Unfortunately, the lockdown was imposed in peak tourism season, and visitors decreased from a seasonal norm of 80 000 a day to a low 3 400 a day. Subsequently, visitor numbers recovered to between 15 000 and 20 000 per day.

V&A Waterfront, Cape Town

International tourism was a strength that set the performance of this asset apart in the pre-coronavirus environment, but it has now become a temporary weakness. Around 80% of V&A hotel occupancies are international tourists who also contribute to about 50% of retail spend. The lockdown stopped foreign tourism, which has had dire consequences for retail, restaurants, cinemas, hotels and cruise vessel visits together with the many visitor attractions that have been paralysed through all levels of the lockdown thus far. People are also shopping more in their immediate neighbourhoods, rather than travelling to larger regional shopping centres, and the depressed domestic macroeconomic environment is constraining consumer spending. Tourism will pick up again, but it is too early at this stage to predict when. However, tourists returning will mark the critical point of recovery for this asset.

The commercial office, marine and industrial and the residential to-let sectors of the business remain strong and on track with forecasts, highlighting the defensiveness created by the diversified nature of the V&A. Revenues for its hotel portfolio were 7% up on last year despite the rapid slowdown in March.

INTERNATIONAL

GROWTHPOINT AUSTRALIA LTD (GOZ)

GOZ is well placed to weather the COVID-19 pandemic. Its office and logistics portfolios are resilient with a strong tenant base of large, listed companies and government bodies. It has a long WALE of 6.2 years, and 96% of portfolio income comes from tenants with turnovers above AUD50m. Its balance sheet is in excellent shape with an LTV of 32.7% and undrawn debt lines of AUD235m, cash of AUD41m, and no debt maturities until FY22.

Smaller tenants represent less than 4% of GOZ's income, and only some of these have been impacted and received relief, which in total has been minimal. Collections for the past quarter have exceeded 90%.

The Botanicca 3 office development was completed in the third quarter of FY20 within budget and ahead of schedule. Unfortunately, leasing is challenging in this environment and this large vacancy has impacted portfolio occupancies, which decreased to 94%. Excluding Botanicca 3, portfolio occupancies are an impressive 97%. This building isn't likely to contribute income for FY20. Practical completion at Gepps Cross, where there is a new 15-year lease with Woolworths Australia, is expected before the end of FY20. Other non-essential capital projects have been suspended for now.


100 Skyring Terrace, Newstead

GLOBALWORTH REAL ESTATE INVESTMENTS LTD (GWI)

GWI's real estate portfolio comprises mainly of class "A" offices (82% by value as at FY19) in seven cities in Poland and Romania, with the remainder of the portfolio including three mixed-use (retail and office) properties in Poland, and industrial (and other) properties in Romania.

GWI had over EUR190m of contracted rents as at 31 December 2019, the majority of which are from multinational (+75% of contracted rents) and large national corporates, with office rents accounting for more than 85%.


Warsaw Trade Tower, Warsaw

Rents from retail spaces accounted for c.9%, with less than 50%, of the 9%, generated by operations which were closed or materially affected by the emergency lockdown legislation in both countries. The remainder of the rent is from industrial (c.5%), and other properties (1%).

Collections rates in the portfolio, during the months of April and May have remained at similar to pre-COVID levels, excluding however the retail spaces for which special measures have been applied in Poland and Romania. The high collection rate is the result of the asset classes in which GWI holds the majority of its properties, and the high quality of the properties and its tenants.

In addition, GWI has taken several measures during this period to ensure the safety and wellbeing of its people, partners, communities, and other stakeholders, protect its assets and minimise its exposure to the impact of COVID-19.

GWI has implemented significant cost cutting measures, suspended a significant part of its building capex and development program, and has some EUR600m of cash on its balance sheet. All 3 ratings agencies (S&P, Moody's and Fitch) have recently re-affirmed the company's investment grade rating.

CAPITAL & REGIONAL (C&R)

As a pure retail REIT, C&R is the most severely impacted of our international investments. The retail downturn was faster and more profound, and the recovery is taking longer, than initially expected. Collections were approximately 50% for the March quarterly billing period.

All 7 centres continued trading with essential retailers including grocery and pharmacy. Non-essential stores recommenced trading on Monday 11th June following a twelve-week closure as a result of the nationwide lockdown. Whilst social distancing is restricting capacity in the centres, store footfalls have recovered quickly up 90+% on the previous week and circa 50-60% of the same week last year, with approximately 43% of stores trading and further openings expected over the coming weeks.

We are aware of the acceleration in the expected ongoing valuation decline in the UK. Our initial investment was modelled on the assumption that valuations would stabilise in June 2020, and our pricing allowed for a further decline in property values. It seems inevitable that property values will decline by more than what we had predicted at the time of making our investment due to the direct and indirect impacts of COVID-19 and the lockdown.

This remains a relatively small investment for Growthpoint having invested R3bn in December 2019.

The Mall, Blackburn

GROWTHPOINT INVESTEC AFRICAN PROPERTIES LTD (GIAP)

GIAP has achieved a significant milestone in its growth and positioning as an emerging leader in the African real estate market. The macro-economic headwinds faced by numerous countries across the African continent over the past few years, particularly those involved in oil production, resulted in a realignment of rental levels in many markets and consequentially lower levels of asset pricing. This has created a set of highly attractive acquisition opportunities for GIAP. With this as a backdrop, GIAP managed to successfully negotiate and conclude its first acquisitions over the past financial year, with three significant transactions resulting in the aggregation of a portfolio of eight core income producing properties spread across three countries, namely Ghana, Nigeria and Zambia. This has assisted to attain a meaningful degree of scale and relevance with its property portfolio valued in excess of US$500m.

The diversified nature of GIAP across several jurisdictions and sectors has proved valuable over this period. Each of the counties in which GIAP is invested is at a slightly different stage of apparent COVID-19 infection, and the various official reactions from the relevant governments have had differing effects on the ability of each asset to be productive.

The lockdowns imposed in both Ghana and Nigeria, which only allowed services deemed essential to continue trading, were relaxed towards the end of April and some semblance of normality is beginning to return to those markets. Zambia didn't lockdown. GIAP's malls in Ghana and Nigeria are relatively small in their markets, and a disproportionately large component of their tenant bases provide 'essential services', including large anchor grocers, various telecoms operators and banks, which all continued to trade. Thus, GIAP's assets are potentially better positioned to weather the storm than bigger competing properties.

Furthermore, many of the office assets are tenanted by financial institutions, which again remain mostly operative. Although, as can be expected in many cases, these tenants are currently either rotating office staff or allowing them to work remotely.

Despite social distancing restrictions in all GIAP's investment countries, approximately 93.0% of our retail stores (by GLA) continue to trade. This has improved from c.76% before the lifting of the lockdowns in Ghana and Nigeria. GIAP's office assets, which constitute the majority of the portfolio, have remained less affected by the pandemic

Growthpoint has an investment into GIAP of US$50m (R750m)

CONCLUSION

The deterioration in property fundamentals and KPIs will have a profoundly negative impact on financial results for the final quarter of the financial year ending 30 June 2020. We have, however, seen a steady improvement in collections from April to June 2020. Although we don't expect to start FY21 at pre-COVID-19 levels, early indications reveal that the worst is behind us. However, the situation is still very fluid, and it is difficult to quantify or assess the full impact of the economic conditions on our customer base at this stage. Our international investments, GOZ, C&R and GWI, find themselves in a similar situation and they haven't yet updated their profit guidance.

The excellent quality and diverse nature of our portfolio of properties and overall client base, coupled with prudent cash-flow management as well as the strength of our balance sheet entering the COVID-19 crisis, should stand us in good stead during this unprecedented time. The Board is deliberating all options, including reducing the dividend pay-out ratio, as we remain focussed on liquidity and balance sheet management at this time.

Sterling, Samrand


Woodmead Retail Park, Woodmead


151 on 5th, Sandton

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