NEWS RELEASE FROM VUKILE PROPERTY FUND

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***Vukile reports robust full-year performance and an encouraging return to mall shopping***

Vukile Property Fund today reported its annual results with 3.2% growth in distributable earnings per share for its financial year to 31 March 2020.

Laurence Rapp, CEO of Vukile Property Fund, notes Vukile achieved strong performance in both its South African and Spanish portfolios. Its defensive portfolio of nodally dominant shopping centres continues to fare well, and Vukile’s strongly cash-generative assets position it favourably for the future.

Rapp comments, “Vukile had a very strong year and has delivered a stand-out set of results. Operationally, our portfolios in both Spain and SA are in excellent shape and achieved all key targets and metrics.”

JSE-listed SA retail REIT Vukile has 52% of its assets in Spain through its 82.5% held subsidiary Castellana Properties SOCIMI SA. Castellana reported an impressive retail performance with vacancies contained at a low 1.8%, a 10.8% growth in rentals on renewals and new lets, and a 99% rental collection rate. Castellana has a blue-chip tenant mix with 93% of its rentals coming from international and national tenants.

The SA portfolio delivered another solid performance, with Vukile’s asset management core competency adding value against the backdrop of a worsening economy. Like-for-like trading density growth of 3.4% was boosted to 5.1% with asset management interventions, specifically the successful redevelopment and launch of the Pine Crest and Maluti Crescent centres. Vukile’s SA retail vacancies were a low 2.9%. It achieved an impressive 84% retail tenant retention with positive reversions of 1.1%, and 6% like-for-like net income growth from its retail centres.

With the advent of COVID-19, Vukile took a disciplined approach with its primary focus being the health, wellbeing and safety of customers, tenants and staff. Leading virologist Professor Barry Schoub was appointed as a special advisor to Vukile to develop hygiene protocols for its retail centres in SA and Spain resulting in immediate, high-impact interventions that make its shopping centres safe and welcoming.

In line with new COVID-19 curbing protocols, both Vukile and Castellana increased spending on cleaning, sanitising, PPE, staff training, signage, social distancing markers and awareness campaigns to ensure the operational excellence necessary to create sanitised, comfortable and conducive environments for tenants and customers alike.

Vukile adopted a cooperative approach in working with tenants to manage the impact of the lockdown. Rapp comments, “Now is the time for responsible corporate leadership and working together in a cooperative way to stabilise the industry and economy.” In SA, Vukile played a leadership role in the Property Industry Group and adopted its relief guidelines. It offered R108m in relief to tenants for the three months from April to June, of which a considerable R49m is helping to sustain small, medium and micro-enterprises, which make up only 20% of the portfolio. Vukile has already concluded deals with all but one of its top 20 tenants, representing some 56% of its rental income, which will all be paying full rentals from June.

In April, during the hard lockdown in SA, Vukile’s shopping centre footfalls were around 32% of the prior year’s number and increased to 70% in June. Township, commuter, rural and value centres, which comprise 81% of Vukile’s SA portfolio, have outperformed their urban counterparts and are leading the country’s retail recovery. By the end of May, trading densities were ahead of May 2019. Castellana successfully re-opened its shopping centres in Spain in the final week of May and the centres indicate trading at about 65% of their pre-COVID-19 footfalls, but customer conversion rates and spend per head seem to be increasing, pointing to a relatively lighter impact on sales.

The COVID-19 lockdowns have accelerated inevitable changes in the retail landscape and fast-tracked the rate of change in the physical shopping experience. Vukile is embracing the many opportunities offered by this evolution. “As a value-add partner for retailers, besides providing leading dominant shopping centres with extremely strong trading environments, we have also increased our customer analytics capacity to add further value to our tenants,” notes Rapp.

Vukile has run various detailed scenarios focused on solvency and liquidity, and all confirm the underlying health of its balance sheet and business. It can comfortably meet all its debt requirements in SA and Spain, with an interest cover ratio of 5.8 times. Vukile benefits from diversified funding sources and has engaged actively and transparently with funders during the COVID-19 crisis and has already refinanced 77% of debt maturing in FY21.

Rapp points out that the current crisis and extreme volatility in REIT share prices has highlighted the disconnect between the long-term and more stable nature of fixed property as an asset class and the performance of REITs as financial instruments. This has led to unhealthy short-termism in the sector. “We are resolved that Vukile’s future will be distinguished by excellent bricks-and-mortar fundamentals, our passion for retail, a strong balance sheet, lower and more prudent dividend pay-out ratios and continued emphasis on long-term sustainability.”

The remainder of 2020 is likely to be very challenging for business in general. However, 2021 is forecast to bring a strong retail rebound in Spain. The return of shoppers and sales with the lifting of the hard lockdown in both SA and Spain is outperforming initial expectations, which is encouraging.

Vukile has deferred the declaration of a final dividend for FY20, pending the outcome of industry-wide consultation with the JSE and National Treasury. “Further, given the material uncertainty in the market, it is too early for Vukile to provide dividend guidance for FY21 or commit to paying an interim dividend for FY21,” reports Rapp. “Vukile is in good shape operationally, financially and as a sustainable long-term going concern. Our diversified portfolios in SA and Spain with strong, dominant shopping centre assets and compelling trading metrics are the cornerstone of our strength and favourable market position”.

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