MEDIA RELEASE FROM GROWTHPOINT PROPERTIES

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***Growthpoint grants R436m rental relief to struggling tenants,***

***impacting its full-year distributable income which was down 14.8%***

Growthpoint Properties Limited (JSE: GRT) delivered 5.4% growth in revenue and R5.5bn in distributable income for its full-year to 30 June 2020.

Taking additional new shares issued during the period into account, this translates to distributable income per share of 183.1 cents per share, which is 16.0% lower than the prior financial year. Growthpoint declared a 106 cents per share dividend for its half-year and has yet to announce its second-half dividend.

Norbert Sasse, Growthpoint Properties Group CEO, comments, *“We at all times seek to strike a balance between a conservatively managed and sustainable business and the interest of our investors in optimising distributions. While no final dividend has been declared for FY20, subject to there being no material regulatory changes or market disruptions which may have a substantially negative impact on our overall financial position between the date of publication of our results, and the date of declaration of the final dividend for FY20, the Growthpoint Board is considering declaring a final dividend based on a pay-out ratio of not less than 75% of distributable income for FY20 which will ensure compliance with current REIT legislation.”*

This is the first time in 16 years that Growthpoint has been unable to deliver a growing dividend to its shareholders, in a period where results were negatively impacted by the COVID-19 lockdown restrictions under the national state of emergency in response to the global pandemic. The lockdown severely impacted the SA economy, which was already in recession due to low growth.

Sasse adds, *“Never before has Growthpoint experienced such a challenging operating environment. Following a detailed strategic review of short and long-term strategies, the Growthpoint Board of Directors is prioritising liquidity and balance sheet strength in the short term, considering the weak property fundamentals in SA in particular, and the current cycle of falling asset values and rising gearing levels. This will enable us to continue to pursue our strategic initiatives of internationalisation, optimising and streamlining our SA portfolio and introducing new revenue streams through third-party trading and development as well as funds management, which all remain relevant for our business.”*

Growthpoint creates value through innovative and sustainable property solutions that provide space to thrive. It is the most liquid and tradable way to own commercial property in SA. Growthpoint is a FTSE/JSE Top 40 Index company and a constituent of the FTSE EPRA/NAREIT Emerging Index. It has also been included in the FTSE4Good Emerging Index for the third successive year and in the FTSE/JSE Responsible Investment Index for its tenth year.

Growthpoint owns and manages a diversified portfolio of 440 property assets across SA valued at R73.4bn and a 50% interest in the V&A Waterfront, Cape Town, valued at R9.4bn. Growthpoint owns 58 properties in Australia valued at R51.8bn through a 62.2% holding in ASX-listed Growthpoint Properties Australia (GOZ). This year Growthpoint acquired a 52.1% investment in LSE-listed UK REIT Capital & Regional, which has a secondary listing on the JSE and owns a portfolio of seven community shopping centres valued at R14.8bn. Through its 29.4% investment in LSE AIM-listed, Globalworth Real Estate Investments (GWI) it owns an interest in 62 properties in Romania and Poland, of which Growthpoint’s share is valued at R17.2bn.

Growthpoint’s consolidated SA REIT loan-to-value (LTV) increased during the year to 43.9%. The higher figure is partly due to Growthpoint’s early adoption of the second edition of the SA REIT Best Practice Reporting guidelines, which includes a new standard calculation for SA REIT LTV that increases this number for Growthpoint by 1.7%. Using the previous calculation basis, Growthpoint’s LTV is 42.2%. Debt owing in SA increased by R8.1bn, including R1.8bn relating to the translation of Rand balances of EUR, GBP and USD loans, given the weaker domestic currency. The balance was due to Growthpoint’s further investment of R600m in Growthpoint Investec African Properties (GIAP), R1.3bn in Globalworth, its new R2.9bn investment in Capital & Regional, and development and maintenance capital expenditure of R2.0bn in its SA portfolio, all of which were mainly funded by debt.

LTV was also impacted by the 8.8% (R7.1bn) devaluation of Growthpoint’s SA portfolio. Its retail portfolio value decreased by 11.3%, offices 8.9% and industrial 5.8%. Growthpoint’s SA business’ SA REIT LTV increased to 39.8% from 31.8%.

Growthpoint’s net property income (NPI) from its SA business dropped by 8.7% (R559m) of which 93.0% was directly due to the impact of COVID-19 in the final quarter of its financial year, including R277m of discounts granted to those tenants most severely impacted by the lockdown between April and June. Arrears increased in all sectors to an unprecedented high of R511m. Expenses surged with a R236m provision for bad debts, including a 25% provision on the R141m of rental deferments Growthpoint offered to tenants and R7.0m of extra COVID-19-specific costs.

In SA, Growthpoint let more than one million square meters of space during the year. All SA portfolio fundamentals weakened, with vacancies rising from 6.8% to 9.5%, renewal success rates decreasing to 66.4% from 70.1%, and average rental reversions moving deeper into negative territory from -5.3% to -6.7%.

Growthpoint completed developments and capital expenditure projects worth R2.0bn. While it has scaled back on all non-essential capital projects, Growthpoint remains committed to a further R634.4m. It earned third-party development fees of R11m and R30m of development rental income in the year. Growthpoint successfully disposed of R581.8m of non-core assets and made R274.6m of strategic acquisitions to optimise and streamline its SA portfolio.

Sasse notes, *“Growthpoint’s trading and development expertise continued to give us a competitive advantage, but in line with market conditions it is likely that the scale of activity will decrease and we have suspended speculative development for now.”*

SA retail property portfolio vacancies edged up slightly but remained a low 3.7% excluding offices and space under development. Growthpoint concluded a transaction with the various acquirers of the Edcon brands which will see 90% of the related 88,680sqm of space in Growthpoint’s portfolio remain let at new market rentals. A further leasing triumph saw the previously mothballed vacancy at Lakeside Mall, Benoni, leased to two new anchor tenants, Pick n Pay and Dis-Chem as part of a spectacular upgrade to the mall.

Growthpoint’s SA office portfolio enjoyed numerous successes during the year, including fully letting its new development at 144 Oxford Road in Rosebank, Johannesburg, to blue-chip clients including anchor tenant Anglo American. However, with business failures increasing, letting slowed. Office portfolio vacancies rose 5% to 15.4% during the financial year, which has improved with a further 20,000sqm of letting since year-end. The ex-Deloitte space of 39,800sqm at Woodmead Office Park in Sandton was successfully re-let on long-lease terms to Altron and DRA Global well in advance of becoming available, but the lockdown delayed occupation which is now expected before 2021.

Growthpoint’s industrial portfolio held up relatively well. New and in-force escalations in the industrial portfolio are around the 8% mark. Growthpoint targeted and successfully increased its portfolio presence in the Cape Town and Durban metros. The final phase of the 38,000sqm Mill Road Industrial Park, Cape Town, was completed as was the 20,000sqm Trade Park industrial park development in Mount Edgecombe, KwaZulu-Natal. The weak economy and COVID-19, however, slowed leasing take-up at these developments.

*“SA has a difficult recovery ahead with a more than 10% contraction in GDP expected this year amid a global recession. A sharp deterioration in already stressed property fundamentals will exert profound pressure on the sector. An increase in business failures will be a major factor. It is too early to understand the full extent of the structural changes taking place in the office and retail sectors. Still, we know that this environment definitely won’t be easy,”* remarks Sasse.

The V&A Waterfront, which was severely impacted by the COVID-19 national lockdown due to its heavy reliance on local and international tourism and its higher exposure to hospitality, leisure and high-end fashion retail delivered R606m, which amounts to 10.6% less in investment income to Growthpoint than last year. Visitor numbers are increasing substantially, but remain at about 40% of levels this time last year. Its new office development for Deloitte remains on track and is due to welcome the tenant in November.

*“We are cautiously optimistic about the V&A Waterfront in 2021. It is a strong asset with solid property fundamentals, but much will rely on the return of international and local tourism,”* explains Sasse.

Growthpoint’s funds management strategy allows it to access alternative investment opportunities and leverage its management strength in the unlisted and co-invested environment. Growthpoint now has around R10bn of assets under management and is focused on building its first two funds. Income from the funds management business grew by 6.3% (R2m) to R34m.

Sasse explains, *“The co-investment and co-management model is proving effective and is particularly attractive in the current environment. Growthpoint will continue to pursue innovative partnerships and ways of investing.”*

The healthcare fund, Growthpoint Healthcare Property Holdings (GHPH), grew its distribution per share by 5.8% to 77.45 per share. The fund has a R2.6bn portfolio of four hospitals and a medical chamber, and it completed the 52-bed extension of its Busamed Hillcrest hospital asset during the year. The opening of the Cintocare Head and Neck Private Hospital developed by Growthpoint in Pretoria is now scheduled for January 2021. The acquisition of 51% of the 100-bed Busamed Paardevlei Hospital in Somerset West was also delayed by COVID-19. The R288m disposal of 11% of GHPH to Kagiso was finalised during the year. With R973m of capital raised from third parties, Growthpoint’s shareholding in the healthcare fund was diluted to 61.8%. An USD80m equity and convertible debt package from the International Finance Corporation is also in the final stages of negotiation.

The Africa fund, GIAP, is emerging as a leader in the African real estate market. It has built a quality portfolio of income-producing assets to attain meaningful scale and relevance. The fund has grown its net asset value to USD301m and now manages USD638m of income-producing commercial property assets in Ghana, Nigeria and Zambia. It has attracted more than 20 local and international investors and is in advanced discussions to raise more capital.

Growthpoint invested a further R4.2bn offshore during the year, and its international investments are now 40.8% of property assets by book value and 28.2% of earnings before interest and tax. It intends to refine its approach to international investments in the year ahead.

GOZ, with its defensive portfolio of quality office and industrial assets with strong tenancies, outperformed its pre-COVID-19 guidance. With 97% of its tenant base being big corporates and government, and having no retail assets, COVID-19 had little impact on GOZ’s performance and its earnings were not materially impacted. During the year, its asset values increased, while its cost of debt reduced and gearing levels decreased to a low 32.2% with good liquidity. Its portfolio occupancy was 97%, excluding its new Botanicca 3 development which was completed in late 2019 and is in the process of being let.

GOZ continued to make a positive contribution to Growthpoint with NPI increasing by 8.6% to R2.5bn while its operating expenses increased by 8.5% to R153m. GOZ adopted a conservative approach to its dividends to preserve cash in the business amid ongoing uncertainty. Growthpoint’s dividend income from GOZ in FY20 was R1.010bn compared to R1.071bn in FY19, due to an overall dividend decrease of 5.2% from AUD23.0 cents per share to AUD21.8 cents per share, and increased Australian withholding tax, partially offset by an exchange rate that favoured Growthpoint shareholders.

*“GOZ is a core investment for Growthpoint. It enjoys strong property fundamentals, a great liquidity position and has the means to pursue growth,”* reports Sasse. GOZ has guided a distribution of AUD20.0 cents per share for its 2021 financial year.

Growthpoint’s new investment in the UK, Capital & Regional, was included in its results for the first time. Capital & Regional found itself in a challenging space with its pure retail portfolio exposed to the existing negative impacts of Brexit and the country’s shift to online retail, which were exacerbated by COVID-19. Three months of disruption to shopping centres led to a deterioration in rent payments as many shops couldn’t trade, and a decline in property values across the industry was accelerated. Now 96% of Capital & Regional’s tenants are open and trading, it has a robust 95% occupancy rate and its cash reserves of some GBP80.0m stand it in good stead to protect its liquidity position. Capital & Regional’s community centre strategy, with a high proportion of non-discretionary retail, positions it to emerge ahead of the curve in its market.

Capital & Regional contributed R380m to NPI. The maiden dividend from C&R totalled GBP11.0 pence per share which converted into R107m and, to preserve cash in the business, was paid to Growthpoint in shares via a scrip dividend.

*“It is too early to quantify the full impacts of COVID-19 and the accelerating structural shifts in the retail industry on Capital & Regional’s operations, but there is no doubt that it is going to be a long road to recovery,”* says Sasse.

Growthpoint’s Central and Eastern European investment platform Globalworth mainly comprises office and industrial assets, with limited exposure to retail property, which stood it in good stead to withstand the impacts of the strict COVID-19 measures imposed in Poland and Romania. The Globalworth portfolio held and increased its value with six acquisitions and one major new development completed, while its gearing remained conservative. Its portfolio occupancy was a solid 94.2% including options at year-end.

Globalworth delivered dividends of EUR49.0 cents per share which was 14% lower than the EUR57.0 cents per share in the previous year, partly as a result of its pay-out ratio being adjusted to match its funds from operations and EPRA earnings. However, Globalworth’s contribution to Growthpoint’s total distributable income for the year increased by 11.3% to R570m from R512m last year, as a result of Growthpoint’s additional investment in October 2019 when following its rights in Globalworth’s EUR264m equity raise, as well as exchange rate gains.

*“The relatively strong macroeconomic environment and robust property market fundamentals in Romania and Poland continues to attract multinational tenants to the region, and with its strong balance sheet Globalworth is excellently positioned to continue to benefit,”* Sasse points out.

Against a testing backdrop, Growthpoint’s commitment to the environment, society and good governance added to its resilience and strength. Growthpoint remained a Level 2 B-BBEE contributor and was also named the Overall Winner of the Investment Analysts Society of South Africa (IAS) Excellence in Financial Reporting and Communications Awards 2019 and voted as the leader in communication and financial reporting in the property sector category. It has been acknowledged for its excellent disclosure by the IAS every year since 2011. The Growthpoint-developed Exxaro headquarters in Pretoria, a 21,000sqm office asset, became the first building in Africa to be awarded WELL certification.

*“Growthpoint’s business is run by an excellent team of people who are very engaged and committed to offering our clients superior service that will deliver sustainable returns for all stakeholders in the long term. This year, in profoundly challenging circumstances, their efforts were extraordinary,”* acknowledges Sasse.

In response to the COVID-19 pandemic, Growthpoint prioritised the health and financial security of its people, by retaining all employees and maintaining salary levels. It imposed strict measures to protect employees and all who use its buildings, including shopping centres across the country that were supporting essential retail, to safeguard the wellbeing of millions of South Africans. Growthpoint continued to support its corporate social responsibility partners, most focused on education in previously disadvantaged communities countrywide. It contributed positively to the national and industry response to protect lives and livelihoods.

*“Growthpoint is focused on protecting its strengths and advantages in an extremely difficult environment. Our ongoing commitment to best-practice corporate governance will endure while we prioritise our good liquidity and balance sheet strength to underpin our sustainability and ultimately continue to drive our strategic thrusts,”* concludes Sasse.

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