news release

13 October 2020

EQUITES' HIGH QUALITY LOGISTICS PORTFOLIO PROVES ITS RESILIENCE

Highlights

- Distribution per share stable at 74.44 cps
- 100% of distributable earnings paid in cash to shareholders
- NAV per share growth of 0.4% to R17.44
- Loan-to-value of 29.5%
- Like-for-like ("LFL") net rentals in South Africa increased by 6.2%
- Average collection rate above 99.0% over the last six months across South Africa and the United Kingdom
- Cash and available facilities available in excess of R1.0bn
- R600 million raised in senior unsecured floating rate notes
- Weighted average lease expiry robust at 10.0 years, up from 9.3 years in prior year
- All-in cost of debt decreased by 50bps since year-end to 5.44%
- Vacancies well contained at 3.8%
- Level 4 B-BBEE rating, verified black ownership of 51%

Cape Town, 13 October 2020 – Equites Property Fund Limited (Equites) today announced distributable earnings for the six months to 31 August 2020 of 74.44 cents per share, consistent with the distribution of 74.43 cents per share in the prior year. Net asset value per share increased by 0.4% to R17.44. The fair value of the property portfolio increased by 19.7% to R16.2 billion at 31 August 2020, with most of the growth in the property portfolio attributable to pre-let developments in South Africa and the United Kingdom which were completed over the last twelve months, together with the impact of foreign currency fluctuations over the period.

CEO, Andrea Taverna-Turisan, said: "*The last six months, falling squarely within periods of lockdown both in South Africa and the United Kingdom, have been the most challenging in our trading history. While the logistics asset class remained resilient relative to other asset classes, the impacts of the lockdowns in both jurisdictions could not be escaped in totality. Against this adversity, our portfolio strategy of targeting quality assets on long-dated leases (Equites' WALE is 10 years) with a strong predominance of A-grade tenants (94.6%),* as well as our low vacancies (3.8%)*, continued to support a high level of income predictability and low risk of default on our rental streams. In addition, strong in-force escalations provide us with stable and predictable growth for the duration of the leases.*"

Equites is the only specialist logistics REIT on the JSE with a market capitalisation of R11 billion and 63 properties under management. The portfolio has been carefully curated to bring together prime logistics assets in the most desirable locations, let to blue-chip covenants on long dated leases. Equites is currently included as the 8th largest company in the FTSE/JSE SAPY index (by market capitalisation) and has cemented its ranking as a fixture in this and other indices. The logistics asset class has been proven to outperform in key markets over time, and through careful acquisition and development activity, Equites has managed to unlock significant value. These factors have contributed to strong appetite and support from equity capital markets and has allowed Equites to generate market-beating returns for investors since listing.

In the past six months, the slowing growth in the United Kingdom economy has been exacerbated by the pandemic. The economic risk presented by a depressed economy as well as the uncertainty relating to Brexit is, however, largely offset by the large-scale adoption of e-commerce and the demand drivers which has been propelling the investment case for logistics properties. The pandemic has further accelerated e-commerce penetration, with United Kingdom internet sales as a percentage of total retail sales surging from 19% in 2019 to 26% in the first half of 2020. As a result, intensifying occupier demand for new A-grade logistics facilities is evident, with a 48% increase in the space take-up in the United Kingdom in 2020. Equites expects online retailers to continue to drive the demand for logistics facilities, especially in respect of last-mile facilities.

While e-commerce penetration in South Africa remains relatively low (1.4% in 2019), research suggests that online sales could comprise more than 5% of total retail sales this year, accelerated by lockdowns during the pandemic. The strongest driver of occupier demand in the South African logistics market, however, continues to stem from supply chain optimisation, with a notable trend in the retail space on investing in digital transformation and online platforms, these typically being supported by additional warehouse space.

Equites' diversified blue-chip tenant mix further strengthened the naturally defensive nature of its portfolio. Rental collection rates remained between 98.1% and 100.0% over the lockdown period, both in South Africa and the United Kingdom. R30 million of rental deferrals were granted in South Africa and £326 000 in the United Kingdom, most of which is expected to be recovered within the current financial year. Equites also conducted a thorough COVID-19 credit risk assessment, which resulted in an expected credit loss of R3.7 million across the portfolio has been recognised as an impairment loss in profit or loss.

Total direct COVID-related costs for the six months to August 2020 amounted to approximately R29 million. The costs include, *inter alia*, the funding of tenant deferrals, the cost of holding cash on money market and in reserves to prevent any liquidity issues, providing contractors with once-off grants to continue to pay the lowest income earners on site and ensuring the protection of their employees. The more lasting COVID-19 impact on its operating performance will however be in indirect costs in respect of delays in construction, delays of rental inflows from new developments, postponement of expansion plans and the loss of development leases due to delayed investment decisions for a post-pandemic environment.

Developments

During the period, Equites completed three developments in South Africa, with a capital value of R107 million and two developments in the United Kingdom, valued at £25 million. Equites also has ongoing developments of close to R1 billion in Gauteng and Western Cape and £12 million in Leeds, United Kingdom, which should be completed in the current financial year.

Their development team in South Africa continues to innovate and create a product offering which is unmatched in the South Africa context. With baseline specification aligned to global best practice and the highest quality materials to ensure low maintenance and enhanced longevity of every item, their logistics properties remain highly sought-after. Their ability to create value further stems from the acquisition of well-positioned land suitable for development, the procurement of tenants through development leases and managing the construction process through the entire lifecycle.

Equites' strategic partnership with Newlands , a local logistics developer, provides them with the opportunity to unlock value on land holdings in the United Kingdom in the coming years, and to grow the portfolio by developing assets at a discount to market value.

Equites and Shoprite concluded a joint venture to own and manage a portfolio of distribution centres and associated undeveloped bulk land in Brackenfell in the Western Cape and Centurion in Gauteng, which was announced in February 2020. Post period end, all conditions precedent were met and transfer of the distribution centres are imminent.

Conservative valuations

Equites continues to make significant progress towards increasing the frequency of external valuations and have externally valued over 75% of its income producing portfolio between February and August 2020.

The COVID pandemic and prevailing macroeconomic climate has caused uncertainty regarding valuations, however, both in South Africa and the United Kingdom, high quality logistics real estate has proven to be resilient. Both discount rates and exit capitalisation rates have remained relatively flat for prime logistics assets, with a slight moderation in discount rates for more specialised assets and certain low coverage sites.

Prudent balance sheet management

Equites believes that a robust treasury policy is a cornerstone from which to maximise stakeholder value. The optimal mix of debt and equity is continuously evaluated to minimise their cost of capital wherever possible. Equites' loan-to-value at 29.5% remains well within its target of 25%-35% over time. At 31 August 2020, 95.6% and 86.9% of the existing term loan balances and total committed future cash outflows were hedged, respectively. The group has reduced the all-in cost of debt in South Africa and the United Kingdom by 93 bps and 4 bps, respectively, over the past six months. On a fully hedged basis, its all-in cost of debt is 6.05%, with a weighted average debt maturity profile of 3.5 years. Given its exposure in the United Kingdom, it continues to manage foreign exchange rate risk to provide short-term stability in the growth in distributable earnings but to gain from the hard currency appreciation over the medium and long term.

Equites has established several diversified sources of debt funding both in the United Kingdom and in South Africa and now have debt facilities of R6.0 billion across term facility agreements, unsecured listed and unlisted notes and working capital facilities. They issued a significantly oversubscribed R600 million, 3-year, unsecured floating rate note at an interest rate of 3-month JIBAR + 205bps during September 2020. Post period end, it also concluded a first-of-its-kind in the South African REIT sector, R1.6 billion facility agreement, linking the all-in cost of debt to its ESG risk rating score.

Equites has more than R1.0 billion of undrawn available facilities and cash and short-term deposits, enabling them to execute its development pipeline while providing the necessary flexibility to execute on any further opportunities should these arise. Their robust credit metrics have culminated in GCR affirming Equites' national scale long term rating as A+(ZA) and the short-term rating at A1+(ZA), with a change in outlook from Stable to Positive. Their conservative financial profile has enhanced the robustness of its balance sheet in a turbulent economic environment.

Sustainability and transformation

Equites' continued efforts towards sustainable value creation have reduced its environmental footprint through green building techniques, provided significant community upliftment through their social programmes, reduced energy costs for its tenants and lowered its funding costs. Its transformation initiatives have also earned Equites a level 4 B-BBEE rating for the third consecutive year, with a verified black ownership of 51%.

Prospects

Taverna-Turisan said: "*While the effects of COVID are still unfolding, we are confident that we have effectively managed the first-round impacts of the pandemic and have amassed a portfolio which will continue to be resilient in the face of adversity. For this reason, the board expects that the company will achieve full year dividend growth of 2% – 4%.*

Equites has established itself as a leading owner and developer of high-quality logistics assets in South Africa and the United Kingdom, an asset class that is expected to continue to outperform over time. The disruptive impact of e-commerce is creating profound structural tailwinds which makes this market increasingly desirable and Equites is strongly positioned to benefit from this trend."

Ends

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About Equites Property Fund

Equites Property Fund Limited listed on the Johannesburg Securities Exchange ("JSE") in June 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 R16.2 billion at 31 August 2020.

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. The United Kingdom portfolio currently contributes 25% in GLA and 31% in revenue to the total portfolio. While its exposure to the United Kingdom has been increasing, Equites remain a South Africa-focused fund and continues to focus on growing the South African portfolio through acquisitions and developments.