NEWS RELEASE FROM VUKILE PROPERTY FUND

***Vukile’s Spanish subsidiary Castellana Properties acquires a 22% stake in Lar España***

**Johannesburg, South Africa, 27 January 2022 -** Vukile Property Fund’s (JSE: VKE) 88% held Madrid-listed subsidiary, Castellana Properties Socimi, has acquired a 21.7% shareholding in its market peer Lar España Real Estate Socimi.

The c. €100m transaction represents an investment with outstanding synergies. Both Socimis (Spanish REITs) are specialist retail property investors with high-quality, low-risk geographically complementary portfolios of shopping centres and retail parks, which will give Castellana exposure to the entire Spanish peninsula.

Laurence Rapp, CEO of Vukile Property Fund, explains, *“Castellana’s strong cash flow position combined with the right opportunity to invest in Lar España shares, presented us with an exciting prospect to recycle capital into a compelling investment, with more attractive yields than other opportunities in the direct property market.”*

Lar España has exhibited similar performance to that of Castellana. In October and November 2021, Castellana’s footfalls were 99 and 98% of pre-pandemic 2019 levels, its portfolio occupancy has been consistent at around 97%, and its collections over 95%.

Like Castellana, Lar España’s portfolio of 14 assets spanning over 550,000sqm of gross lettable retail area (GLA), has bounced back strongly to pre-pandemic trading levels. Similarly, Lar España has a high occupancy rate of 95%, with most of its tenants being large international and national tenants, including the most recognisable retail brands in Spain.

Lar España has demonstrated strong earnings generation and a robust balance sheet with healthy cash flows. After its recent debt restructure using corporate bonds, all of its assets are unencumbered. It has an LTV of around 41%. The current discount to tangible net asset value (NAV) of around 48% does not reflect the retail recovery experienced on the ground, as evidenced from actual trading by both Lar España and Castellana.

Laurence Rapp, CEO of Vukile Property Fund, says, *“We strongly believe Lar España is an undervalued stock that is due to re-rate. This makes it a very attractive investment opportunity indeed, and one that we understand well, given the many similarities between Castellana and Lar España. The investment recognises the impressive performance of Lar España’s management and portfolio. As retail property specialists with a proven track record in the Spanish market, the Castellana team respect what Lar España has achieved. We appreciate the management experience it takes to perform at the level reflected in the latest reported Lar España results. We also have every confidence in Lar España’s direction, which makes us comfortable to take a minority stake in the business.”*

Castellana will fund the purchase of 18,157,459 Lar España shares (at a purchase price of €5.35 per share) with a combination of €15m of available cash and a shareholder loan from Vukile of €75m, which will be converted to equity, thereby improving Castellana’s balance sheet metrics. Vukile, in turn, will fund its investment through the recycling of capital, including proceeds from its placement of R400 million of Fairvest shares on 26 January 2022 and R840 million from the sale of its Namibian assets and other non-core properties in its South African portfolio, which will be transferred before the end of March 2022.

Castellana’s market intelligence estimates Lar España’s funds from operations (FFO) forward yield at between 9% and 11%, making this a very accretive transaction. The shares in Lar España are being acquired by Castellana cum dividend and any other rights that may arise prior to the closing date of the transaction.

The transaction will have an immediate positive impact on Vukile’s FFO per share for its 2022 financial year, with a neutral effect on its loan-to-value ratio and a material positive total return impact in the medium to long term.

*“We are pleased to support our Spanish subsidiary in accessing this opportune investment with an excellent return profile, which will create value for our stakeholders. With this transaction, Vukile is reinforcing our deep commitment to Castellana, Spain and specialist retail real estate investment,”* concludes Rapp.

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