Investec
Property Fund Limited

TRADING UPDATE

for the year ending 31 March 2021

Sandton
19 March 2021

INVESTEC PROPERTY FUND LIMITED

Approved as a REIT by the JSE
(Incorporated in the Republic of South Africa)
(Registration Number 2008/011366/06)
Share code: IPF
Bond code: INV
ISIN: ZAE000180915
("Investec Property Fund" or "the Fund")

Poznan, Poland

PRE-CLOSE TRADING UPDATE AND INTERIM DIVIDEND DECLARATION

- FY21 distributable earnings expected to be down 30% - 35% year-on-year (**yoy**) in line with first-half performance
- Continued payment of dividends through the pandemic, with declaration of H1 FY21 interim dividend of 44.52cps (Sep-19: 70.93cps), representing a 95% pay-out ratio of distributable earnings per share
- Investment portfolio further consolidated to focus on SA and Europe, following exit from UK business in Mar-21
- Balance sheet in strong position with LTV of c.39% expected at year end
- Operational performance improving and evidenced by strong rental collection experienced in South Africa (94%) and Europe (99%) for the 11 months to Feb-21

RECAP OF KEY STRATEGIC FOCUS

- Build relevance in the core markets of SA and Western Europe
- Deliver sustainable income and capital returns to shareholders through:
  - Continued emphasis on client-centric approach as a key differentiator
  - Tapping into new sources of capital to support European logistics growth
  - De-risking the South African portfolio while creating future value from existing portfolio
  - Rigorous approach to capital allocation and asset recycling
  - Active balance sheet management
  - Creating value through acquisitions and M&A activity

GROUP HIGHLIGHTS

- FY21 distributable earnings impacted by:
  - Adverse impact of COVID-19 on SA business in H1 tempered by a moderate recovery in H2;
  - Withholding of dividends by UK Fund;
  - Increased funding costs associated with delayed EUR refinancing;
  - Higher costs linked to the refinancing and restructuring within the Pan-European Logistics platform ("**PEL**");
  - Offset by consistent performance of PEL, but H2 result will be relatively lower yoy as expected, due to lower accretion from reduced ownership in PEL and Belgium assets
- Balance sheet in healthy position with ability to absorb further shocks
  - Delivered on deleveraging strategy – R5.0bn of cash proceeds generated during the year
  - LTV anticipated to be c.39% at year-end (Sep 20: 43.8%), post sale of interest in UK Fund and payment of H1 FY21 dividend
  - Short-term liquidity obligations well-managed R1.5bn total debt maturing over the next 12 months covered by R2.0bn of unutilized cash and / or facilities
  - Long and short-term debt ratings upgraded to AA-(ZA) and A1+(ZA) respectively, with stable outlook
- Offshore exposure maintained at c.45% based on proportionate ownership of gross asset value, post disposal of UK investment

Hoppegarten, Berlin, Germany

PERFORMANCE HIGHLIGHTS

South African property portfolio (55% of balance sheet[1]):

- Local economy remains fragile and business confidence continues to be constrained, however a modest recovery is evident in H2
- Anticipate like-for-like net property income ("**NPI**") decline of c.19% (Mar-20: positive 0.9%) driven by COVID-related impact on H1 performance, longer void periods and increasing vacancy
  - Office – base NPI decline of c.17% yoy (Mar 20: negative 2.6%) impacted by rental concessions granted, negative rental reversions and increase in vacancy
  - Industrial – base NPI decline of c.19% yoy (Mar 20: 2.1%) due to increased void periods and vacancy
  - Retail – base NPI decline of c.23% yoy (Mar-20: 4.2%) given impact of lockdowns in H1, resulting in rental concessions and increase in bad debts
- Vacancy (by income) deteriorated to approx. 8.9% (Sep-20: 7.7%) due to the constrained letting market particularly in office and industrial; equates to 11.6% on a GLA basis[2]
  - Office vacancy (by income) expected to be c. 8.4% (Sep-20: 6.2%) driven by structural trend in the sector, specifically in Sandton and Rosebank; equates to 10.7% on a GLA basis
  - Industrial vacancy (by income) remains at a temporary high around 18% (Sep-20: 15.8%) driven by four large pockets of space resulting from subdued demand for warehouse space during lockdowns, but expected to return to historical averages as the year progresses; equates to 17% on a GLA basis
  - Retail vacancy (by income) maintained at similar levels to half-year at around 4% (Sep-20: 4.4%) equates to 4.4% on a GLA basis[2]
- Successfully renewed or re-let c.70% (257,800m^2) of space expiring in FY21 and a further 93,100m^2 of early letting at a combined average negative reversion of c.17.0% but with a very low average incentive level of 2%
  - Early letting has de-risked future income profile, particularly in the office sector, and extended portfolio WALE, with 68% of leases now expiring in 2024 and beyond
  - In discussions over a further 42,000m^2 of space (c.4% of total portfolio GLA)
- Total of R106m COVID-related concessions granted in FY21
  - Minimal rent-free concessions granted in H2 – R17.7m, primarily to retail and restaurant tenants still affected by the extended lockdowns
  - All deferral concessions granted to date have now been collected
- Improvement in arrears position and now returned to pre-COVID levels – R42m (Sep-20: R66m; Mar-20: R47m)

The Firs, Rosebank, South Africa

[1]Based on proportionate ownership of gross asset value
[2]Excludes development vacancy

SA sectoral performance

Activity across the three sectors remains constrained:

OFFICE

- Market characterised by general oversupply in large nodes and limited leasing activity
- Office demand continues to be hampered by extended lockdown impact

INDUSTRIAL

- Solid tenant base that has shown resilience through the downturn with limited concessions granted
- Significant number of negotiations are ongoing, but finalisation of deals has proved challenging due to economic uncertainty
- Stricter lockdowns of Dec-20 / Jan-21 have slowed down leasing momentum

RETAIL

- Sector's revenue hardest hit by lockdown restrictions in H1 and has been slow to return to full trading capacity in H2
- Semi-urban centres have shown resilience and solid recovery with monthly trading density rebounding to pre-COVID levels, from negative 53% yoy growth in Apr-20 to the current 6.4% yoy growth in Feb-21
- Monthly footfall recovered from a low of negative 56% yoy growth in Apr-20 to negative 13.4% yoy growth in Feb-21, but is offset by increased spend per head that has increased c.20% yoy

Zevenwacht Mall, Cape Town, South Africa

PEL performance highlights (43% of balance sheet[3]):

- COVID-19 has fast-tracked structural trends in the European logistics markets, amplifying demand with limited new supply – continues to drive up underlying rentals and cap rates expected to further compress;
- PEL platform continues to perform well with base NPI growth of c.3% expected, driven by reduction in vacancy and positive letting reversion
- Anticipate like-for-like distributable earnings per share growth of c.10%
- Cost to income ratio decreased from 9.7% (Sep-20) to 7.6% due to improved service charge recovery
- Very strong letting performance:
  - Improvement in vacancy on a like-for-like basis to 5.8% (Sep-20: 7.6%) with majority of remaining vacancy linked to refurbishment and redevelopment projects in Hanover and Carpiano
  - c.60% of opening vacancy let
  - c.72% of space expiring in FY21 renewed or let at 7.9% positive reversion and 82% of space subject to break options during FY21 re-let
- Average rental collections remain strong at 99% (of contractual billings) for the 11 months to Feb-21
- Arrears position remains low with only €900K bad debt expense for tenants in administration
- €721K of rental deferral concessions granted in FY21 of which 82% recovered to date
- Anticipate significant upward portfolio revaluation resulting from strong leasing activity and market movements

[3]Based on proportionate ownership of gross asset value

INVESTMENT ACTIVITY

- Over the last 24 months, IPF has focused on consolidating its investment portfolio in line with its strategy to build relevance and scale in its core markets of SA and Western Europe
- Recent transaction activity has been undertaken in pursuit of this underlying strategy:
  - Exit of minority positions over the last 18 months: Ingenuity (Nov-19), IAPF (Jun-20) and UK Fund Mar-21)
  - Disposal of tail end SA assets – 6 properties valued at R0.8bn sold and transferred during FY21 at disposal yield of 9.2% and at 0.7% premium to book value; further 7 properties valued at R0.3bn still awaiting transfer
- This has facilitated recycling of capital during the year to lower the Fund's gearing

Combs la Ville, France

BALANCE SHEET HIGHLIGHTS

- Successful completion of de-gearing flightpath and active capital recycling has strengthened the balance sheet and created additional capacity to support the growth of the value accretive European logistics strategy
- Refinanced debt expiring during Dec-20 with R1.2bn funding package split between 4 institutions – introduced new lenders and is reflective of market appetite for IPF debt
- Total debt maturing over the next 12 months is R1.5bn
  - R1.1bn maturing in Nov / Dec-21 – credit approval received for R500m early-refinance and balance to be refinanced in due course
  - Adequate liquidity to cover short-term maturities with R2.0bn of unutilized cash and / or facilities
  - Excludes €70m acquisition bridge facility maturing in Apr-21 – full credit approval received from 3 banks to refinance this on a longer-term basis
- Group and all investment entities remain well within their interest cover and debt yield covenants in all regions
- c.100% of the interest rate risk hedged (Sep-20: 97%)

Bergen op Zoom, Netherlands

DIVIDEND AND GUIDANCE

FY21 H1 DIVIDEND

The board of directors of IPF ("**Board**") have resolved to declare a dividend of 44.52205 cents per share (an aggregate of R358m) for the period 1 April 2020 to 30 September 2020, given the conclusion of the PEL and ZAR debt refinancing that have been achieved and the modest recovery in the operating environment. This represents a 95% payout ratio of FY21 H1 distributable earnings of 46.87cps.

FY21 H1 GUIDANCE AND TRADING STATEMENT

IPF uses distributable earnings per share as its relevant measure of financial performance. In terms of the JSE Listings Requirements, the Fund is required to publish a trading statement as soon as it becomes reasonably certain that the distributable earnings per share for the next period to be reported on will differ by at least 15% from that of the prior corresponding period.

Distributable earnings per share for the year ended 31 March 2021 is expected to be 30% - 35% lower than the same period last year (i.e. between 95.32 – 102.65 cps), primarily due to the impact of COVID-19 and the concessions granted to tenants in H1. While SA performance recovered marginally in H2 as anticipated, this has been offset by the lower accretion from the reduced ownership in PEL and the Belgium assets and no dividend from the UK investment. The Fund continues to target a payout ratio between 90-95%.

The Fund intends releasing its results for the year ended 31 March 2021 on 19 May 2021.

INFORMATION PERTAINING TO THE FY21 H1 DIVIDEND:

- The dividend has been declared from income reserves.
- A dividend withholding tax of 20% will be applicable on the dividend portion to all shareholders who are not exempt. Assuming Dividend Tax of 20% is applicable, the net dividend amount due is 35.61764 cents per share.
- The issued share capital at the declaration date is 804,918,444 ordinary shares of no par value.

In accordance with Investec Property Fund's status as a REIT, shareholders are advised that the dividend meets the requirements of a 'qualifying distribution' for the purposes of section 25BB of the Income Tax Act, No. 58 of 1962 ('Income Tax Act'). The dividends on the shares will be deemed to be dividends for South African tax purposes in terms of section 25BB of the Income Tax Act.

TAX IMPLICATIONS FOR SOUTH AFRICAN RESIDENT SHAREHOLDERS

Dividends received by or accrued to South African tax residents must be included in the gross income of such shareholders and will not be exempt from income tax in terms of the exclusion to the general dividend exemption contained in section 10(1)(k)(i)(aa) of the Income Tax Act because they are dividends distributed by a REIT. These dividends are however exempt from dividend withholding tax ("Dividend Tax") in the hands of South African resident shareholders provided that the South African resident shareholders have provided to the CSDP or broker, as the case may be, in respect of uncertificated Shares, or the Fund, in respect of certificated Shares, a declaration by the beneficial owner (in such form as may be prescribed by the Commissioner) that the dividend is exempt from dividends tax in terms of section 64F and a written undertaking (in such form as may be prescribed by the Commissioner) to forthwith inform the CSDP, broker or the Fund, as the case may be, should the circumstances affecting the exemption change or if the beneficial owner ceases to be the beneficial owner.

If resident shareholders have not submitted the abovementioned documentation to confirm their status as South African residents, they are advised to contact their CSDP, or broker, as the case may be, to arrange for the documents to be submitted prior to the date determined by the regulated intermediary, or if no date is determined, by the date of payment of the dividend.

TAX IMPLICATIONS FOR NON-RESIDENT SHAREHOLDERS

Dividends received by non-resident shareholders from a REIT will not be taxable in South Africa as income and instead will be treated as ordinary dividends which are exempt from income tax in terms of the general dividend exemption in section 10(1)(k)(i) of the Income Tax Act. It should be noted that up to 31 December 2013 dividends received by non-residents from a REIT were not subject to Dividend Tax. With effect from 22 February 2017, any dividend received by a non-resident from a REIT are subject to Dividend Tax at 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation (**DTA**) between South Africa and the country of residence of the non-resident shareholder. Assuming Dividend Tax will be withheld at a rate of 20%, the net dividend amount due to non-resident shareholders is 35.61764 cents per share. A reduced dividend withholding rate in terms of the applicable DTA may only be relied on if the non-resident shareholder has provided the following forms to their CSDP or broker, as the case may be, in respect of uncertificated shares, or the Fund, in respect of certificated shares:

- A declaration by the beneficial owner (in such form as may be prescribed by the Commissioner) that the dividend is subject to a reduced rate as a result of the application of the DTA; and
- A written undertaking (in such form as may be prescribed by the Commissioner) to forthwith inform, the CSDP, broker or the Fund, as the case may be, should the circumstances affecting the reduced rate change or if the beneficial owner ceases to be the beneficial owner.

If applicable, non-resident shareholders are advised to contact the CSDP, broker or the Fund, as the case may be, to arrange for the abovementioned documents to be submitted prior to the date determined by the regulated intermediary, or if no date is determined, by the date of payment of the dividend, if such documents have not already been submitted.

OTHER INFORMATION:

- As at the date of this announcement, the ordinary issued share capital of Investec Property Fund is 804,918,444 ordinary shares of no par value before any election to reinvest the cash dividend
- Income Tax Reference Number of Investec Property Fund: 9332/719/16/1
- Shareholders are encouraged to consult their professional advisors should they be in any doubt as to the appropriate action to take.

SUMMARY OF SALIENT DATES RELATING TO THE FY21 H1 DIVIDEND:

Declaration of dividend	Friday, 19 March 2021
Last day to trade in order to receive the dividends (cum-dividend)	Tuesday, 06 April 2021
Shares trade ex-dividend	Wednesday, 07 April 2021
Record date for shareholders to receive dividend	Friday, 09 April 2021
Dividend payment date	Monday, 12 April 2021

Notes:

1. Shares may not be rematerialised or dematerialised between commencement of trade on Wednesday, 07 April 2021 and close of trade on Monday, 12 April 2021, both days inclusive.
2. The above dates and times are subject to change. Any change will be released on SENS.

The information on which this pre-close trading update is based has not been reviewed or reported on by the Fund's auditors.

Sandton – 19 March 2021
Sponsor: Investec Bank Limited