



INVESTEC PROPERTY FUND LIMITED
(Incorporated in the Republic of South Africa)
(Registration Number 2008/011366/06)
Share code: IPF ISIN: ZAE000180915
(“Investec Property Fund” or “the Fund”)

ACQUISITION OF A PROPERTY PORTFOLIO FROM ZENPROP FOR R7.06 BILLION

Transaction Highlights

- Acquisition of an iconic R7.06bn property portfolio underpinned by strong real estate fundamentals and contractual cash flows
- Long lease profiles (weighted average lease expiry (“**WALE**”) of 4.3 years)
- High quality tenants with strong lease covenants – 80% ‘A’ grade tenants
- Majority of office and industrial properties are single tenanted with triple net leases
- Dominant regional and niche retail properties
- Opportunities for the Fund to acquire additional assets in the future from Zenprop
- Further enhances the quality, defensive nature and scale of the Fund’s existing portfolio
- Transaction to be funded 50% with equity (underwritten) and 50% with debt
- 65.2% irrevocable commitments / letters of comfort in support of the Transaction

1 INTRODUCTION

The Fund is pleased to advise Investec Property Fund shareholders (“**Shareholders**”) that it has entered into agreements with Zenprop Property Holdings Limited, Friedshelf 113 Proprietary Limited (“**Friedshelf**”), Double Flash Investments 51 Proprietary Limited (“**Double Flash**”), and associated trusts (collectively “**Zenprop**”) for the acquisition of an iconic portfolio consisting of 26 properties (collectively the “**Zenprop Portfolio**”) for an aggregate acquisition value of R7.06 billion (“**Purchase Consideration**”) at a blended yield of 7.5%.

The Zenprop Acquisition will be implemented by means of:

- the purchase of 100% of the shares of, and loan claims in, Friedshelf for the property referred to as Design Quarter;
- the purchase of 100% of the shares of, and loan claims in, Double Flash for the property referred to as Nicol Grove - Seacom; and
- the purchase of letting enterprises for the remainder of the Zenprop Portfolio.

The effective date of the acquisition of the shares of, and loan claims in, Friedshelf and Double Flash will be the first day of the month following the fulfilment of the condition precedent set out in paragraph 6, while the effective date for the acquisition of the remainder of the Zenprop Portfolio is the date of transfer of the properties (“**Effective Date**”).

2 BACKGROUND TO THE ZENPROP PORTFOLIO

The Zenprop Portfolio consists of 26 properties, the majority of which were developed by Zenprop, one of the largest property investment and development companies in South Africa. Founded in 1998, it has a track record of excellence, and has earned the reputation of 'best-of-breed' developer from its industry peers. The Zenprop Portfolio represents a portion of Zenprop’s total portfolio, and comprises an attractive mix of prime investments, which include retail, office and industrial properties.

3 RATIONALE FOR THE ZENPROP ACQUISITION

The Zenprop Acquisition presents an opportunity for the Fund to acquire an iconic property portfolio that is unique in terms of location, quality and scale, underpinned by high quality tenants with strong lease covenants.

The Zenprop Acquisition is consistent with the Fund's growth and investment strategy of building a quality portfolio that optimises capital and income returns over the medium to long-term for Shareholders.

The majority of office and industrial properties are single-tenanted with triple net leases, and have long expiry profiles, which will complement and augment the Fund's existing expiry profile. All of the above will add to the quality, defensiveness and income predictability of the Fund. In addition, Newcastle Mall has available bulk, allowing scope for further development.

The portfolio has contractual above-inflation escalations of 7.6%, a 4.3 year WALE, and minimal vacancies (0.5% after taking into account the rental guarantees referred to in paragraph 5.3 below).

The Zenprop Acquisition almost doubles the size of the Fund's existing portfolio, resulting in an increase in asset base from c. R9.5 billion (post the Griffin acquisition) to R16.4 billion, and introduces a high quality portfolio of income producing properties into the Fund's asset base that further enhances the real estate fundamentals of the Fund's existing portfolio. Although dilutive to the Funds growth in the short term, the inclusion of the Zenprop Portfolio enhances the quality of the Fund's existing portfolio and is expected to result in enhanced returns over the medium to long term.

4 OVERVIEW OF THE ZENPROP PORTFOLIO

The Zenprop Portfolio contains award winning properties, with exceptional and striking architectural designs, along with strong property fundamentals, and consists of 26 properties: 12 office properties, 11 industrial properties and 3 retail properties. A snapshot of the Zenprop Portfolio is summarised below:

Building	Location	Sector	GLA (m ²)	WALE ⁶	Net rental (R/m ²) ⁵	Net property income (Rm) ¹	Value (Rm)
Brandhouse	Elandsfontein, Gauteng	Industrial	36,800	5.0	69.3	30.4	410.2
Aberdare Cables	Elandsfontein, Gauteng	Industrial	50,157	6.8	36.9	22.2	270.8
WACO	Elandsfontein, Gauteng	Industrial	14,375	10.0	55.6	9.7	125.6
Lerwick Road	Wentworth, Durban	Industrial	21,793	6.4	39.4	8.6	97.2
Riverhorse – Midas	Durban, KwaZulu-Natal	Industrial	11,112	3.3	68.7	9.6	131.9
Riverhorse – RTT	Durban, KwaZulu-Natal	Industrial	18,474	4.9	75.4	16.8	233.2
Riverhorse – IHD	Durban, KwaZulu-Natal	Industrial	9,261	2.5	90.5	10.4	143.0
Riverhorse – ABB	Durban, KwaZulu-Natal	Industrial	2,843	1.8	73.9	2.5	34.6
Riverhorse - Adcock Ingram	Durban, KwaZulu-Natal	Industrial	9,987	7.0	90.9	10.8	149.5
Riverhorse - Discovery Health ²	Durban, KwaZulu-Natal	Industrial	6,109	3.9	133.2	9.8	134.6
Riverhorse - Media24 ³	Durban, KwaZulu-Natal	Industrial	3,266	4.5	131.0	5.3	73.1
3 Sandown Valley Crescent	Sandton, Gauteng	Office	13,889	3.1	133.6	28.7	354.7
4 Sandown Valley Crescent	Sandton, Gauteng	Office	11,020	2.7	158.5	27.2	336.4
2929 on Nicol	Bryanston, Gauteng	Office	16,149	2.9	136.0	35.7	496.0
1 & 1A Protea Place	Sandton, Gauteng	Office	20,066	6.2	200.0	63.5	795.0
Nicol Grove - Business Centre	Fourways, Gauteng	Office	9,211	4.5	162.7	20.8	277.0
Nicol Grove – Lexmark	Fourways, Gauteng	Office	1,946	4.3	115.0	3.4	45.5
Nicol Grove - Pod Communications	Fourways, Gauteng	Office	2,559	2.7	119.9	3.9	51.6
Nicol Grove - Saatchi & Saatchi	Fourways, Gauteng	Office	4,243	4.2	145.2	8.1	108.2
Nicol Grove – Seacom	Fourways, Gauteng	Office	2,502	4.5	116.3	4.6	61.5
Nedbank Umhlanga Rocks	Umhlanga Rocks, Durban	Office	7,038	4.9	170.4	17.1	236.8
Union Castle Building	Cape Town, Western Cape	Office	9,066	6.1	105.3	13.5	158.8
Woodmead North Office Park	Woodmead, Gauteng	Office	7,848	4.4	154.1	16.2	193.2
Design Quarter Mall	Fourways, Gauteng	Retail	25,743	2.3	126.7	42.0	560.3
Nicol Grove - Golfer's Club	Fourways, Gauteng	Retail	2,500	5.0	96.0	2.9	38.9
Newcastle Mall	Newcastle, KwaZulu-Natal	Retail	39,360	3.8	112.5	51.6	769.6
Zevenwacht Mall	Kuils River, Western Cape	Retail	39,956	3.2	106.1	54.9	773.0
Total			397,273	4.3		530.2	7,060.4

1. Net property income for the period 1 November 2015 to 31 October 2016
2. Utilised as a call centre
3. Majority office
4. Transaction costs for the Zenprop Acquisition are estimated at 1% of the Purchase Consideration
5. Net base rental. Retail excludes parking and turnover rental
6. WALEs are inclusive of the rental guarantees as described in paragraph 5.3
7. The board of directors of the Fund is satisfied that the aggregate value of the Zenprop Portfolio as shown above is in line with the directors own assessment of the aggregate value of the portfolio

4.1 Office Portfolio

Protea Place

1 and 1A Protea Place (collectively “**Protea Place**”) consist of an award winning office building anchored by DLA Cliffe Dekker Hofmeyr, one of the largest business law firms in South Africa, with 7.2 years remaining on its current lease.

Protea Place is well located in the centre of the Sandton commercial node and is within walking distance of South Africa’s “golden mile”, the Sandton City district. Protea Place’s close proximity to the Sandton Gautrain Station and other amenities within the Sandton CBD make it a very desirable business location.

Protea Place was developed in 2010 and was nominated for the New Commercial Development Award at the SAPOA Innovative Excellence in Property Development awards 2011.

Sandown Valley Crescent

Sandown Valley Crescent consists of 2 quality contemporary office buildings situated adjacent to each other on Sandown Valley Crescent which is located within the Sandton commercial node and is within close proximity to the Sandton Gautrain Station and other amenities within the Sandton CBD. The buildings have long dated lease expiry profiles, with strong tenant covenants represented by the following international and national corporates:

- TBWA (a leading international advertising agency);
- Crowe Horwath (a South African national accounting and auditing firm);
- Standard Chartered (the South African office of the listed global investment bank);
- Alexander Proudfoot (a global consulting firm);
- Marsh (a global leader in insurance broking and risk management); and
- Boston Consulting Group (a leading international management consulting firm).

The Fund has secured rental guarantees for a period of 5 years on the existing vacant space of 2,828m² (11.4% of Sandown Valley Crescent).

Nicol Grove

The Nicol Grove office park, situated adjacent to the Design Quarter retail complex, consists of 5 individual office buildings tenanted by, *inter alia*:

- Business Centre (a network of serviced office buildings with a national footprint);
- Lexmark (the South African office of the NYSE listed company);
- Saatchi and Saatchi (a global communications and advertising agency network with 140 offices in 76 countries); and
- Seacom (a submarine cable operator servicing the East and West coasts of Africa).

Nicol Grove is well located in Fourways, a rapidly growing commercial and residential hub in northern Johannesburg, which has become the home for many major corporates. The property’s location and its close proximity to the N1 and major arterial roads (Witkoppen Road and William Nicol Drive) make it a sought after business address, and an attractive alternative to Sandton.

The Fund has secured rental guarantees for a period of 2 years on the existing vacant space of 1,019m² (5.0% of Nicol Grove).

2929 on Nicol

2929 on Nicol is a new office development located on William Nicol Drive in Bryanston within close proximity to the Nicolway Shopping Centre and opposite the Fund’s existing investment in Nicol Main Office Park. The property is anchored by Samsung, with other tenants including:

- Telkom Limited; and
- J Walter Thompson (an international advertising agency with offices in over 90 countries).

Woodmead North Office Park (“WNOP”)

WNOP is a high-quality office park situated within the Woodmead node on Maxwell Drive with excellent exposure to the M1 and the N1 highways. The three properties being acquired are tenanted by:

- Medtronic (the South African office of the leading provider of medical technology, listed on the NYSE);
- Philips (the South African office of the diversified technology company, listed on the NYSE);
- Bristol Myers Squibb (the South African office of the global pharmaceutical company listed on the NYSE); and
- BT Global (a division of the UK telecommunications operator British Telecom Group, listed on the LSE and NYSE).

Nedbank, Umhlanga

The Nedbank building is situated in Umhlanga Rocks, Kwa-Zulu Natal with Nedbank as the anchor tenant, occupying 94% of the total GLA, with 5.2 years remaining on its current lease.

The Nedbank building is ideally situated on the Umhlanga Ridge, which is a prominent office and retail node and within close proximity to the N2 highway and the Gateway Shopping Centre.

The Nedbank property, developed in 2010, boasts a 4 star green rating by the Green Building Council of South Africa.

Union Castle

Union Castle is a 12 story office building located on St Georges Mall in the hub of the Cape Town City Centre. It is currently anchor tenanted by Capita plc (an international business process outsourcing and professional services company headquartered in London, and listed on the LSE) with a WALE of 6.1 years.

4.2 Industrial Portfolio

Riverhorse

The Riverhorse properties comprise 7 industrial properties which are situated in the Riverhorse Valley Industrial Park in Durban. The properties are located within the growing commercial and industrial hub of Riverhorse Valley in Durban and offer excellent visibility in a prime location between Durban and Umhlanga. The buildings are well positioned with valuable exposure to the N2 freeway and access to other major road linkages in Durban North which makes it a desirable location for distribution centres and warehouses. The buildings offer secure access, 24 hour security and large truck access.

The Riverhorse properties are tenanted by blue chip tenants, including:

- Adcock Ingram;
- Discovery Health;
- Media24 (a subsidiary of JSE listed Naspers);
- Midas (a national retailer of automotive parts);
- RTT (a national company providing logistics and supply chain solutions);
- IHD (one of the largest pharmaceutical distributors in South Africa); and
- ABB (the South African office of the global leader in automation technology, listed on the NYSE).

The RTT lease expires in 2017. The Fund has secured a rental guarantee for a period of 3 years subsequent to expiry.

Elandsfontein properties

The Elandsfontein properties consists of three standalone industrial buildings, with a combined GLA of 101,332m², situated in the well-established and sought-after Elandsfontein industrial node. The properties are located within close proximity to OR Tambo International Airport, and the N12, R24 and R21 highways which make them a very desirable industrial business location. The Elandsfontein properties are tenanted by Brandhouse, Aberdare Cables and WACO.

The Brandhouse lease expires in 2017. The Fund has secured a rental guarantee for a period of 3 years subsequent to expiry.

Lerwick Road

The Lerwick Road property comprises an industrial warehouse situated in the Clairwood industrial node. It is tenanted by Monteagle Logistics (a subsidiary of Marshall Monteagle plc, a JSE listed company) and Austral Marine (a private manufacturer of leisure boats). The property has excellent access to the N2 freeway and to other major road linkages (M4) in the south of Durban and is within close proximity to the proposed new deep water port and the Durban harbour.

4.3 Retail Portfolio

Newcastle Mall

Newcastle Mall is a leading regional shopping centre in Kwa-Zulu Natal, with strong national representation. The mall opened in April 2012, and comprises 39,360m² of retail trading area, with available bulk providing future development opportunities. Newcastle Mall is situated in Kwa-Zulu Natal's 3rd most populous city, and located on the easily accessible N11 / R34 arterial route. The mall is the dominant shopping centre within Newcastle with a primary catchment area of 50km to 100km and a secondary catchment area of 200km in the north-western KwaZulu-Natal region.

Newcastle Mall consists of over 93 shops. 85% of rental income originates from South African national retailers, including, *inter alia*, Checkers, Game, Pick n' Pay and Woolworths that collectively constitute approximately 42% of total GLA. The centre won the Best New Shopping Centre award at the Retail Design and Development Awards in 2013.

Zevenwacht Village Centre

The Zevenwacht Village Centre is a leading regional shopping centre situated between Stellenbosch and Cape Town in the Western Cape, and comprises 39,956m² of prominent retail trading.

Zevenwacht Village Centre consists of over 103 shops. 82% of rental income originates from national South African retailers, including, *inter alia*, Spar Group, Game and Woolworths that collectively constitute approximately 35.8% of total GLA.

The centre is well located within its catchment area, and is frequented by a loyal customer base. There have been major road works in the area, which are expected to be completed in August 2015. Post completion, there will be improved accessibility to the centre, which will add to the convenience of the Zevenwacht Village Centre.

Design Quarter

Design Quarter is a niche design centre made up of mixed use retail and office space located off Leslie Avenue in Fourways, one of the fastest growing commercial and residential hubs in northern Johannesburg. The property's location and its close proximity to the N1 and major arterial roads (Witkoppen and William Nicol Drive) make it a desirable retail and business location.

Design Quarter offers shoppers a niche retail precinct focused on high-end interior design and furnishing of offices and homes. The precinct also serves as a unique dining destination with outdoor courtyard seating and includes upmarket restaurants such as Koi, Mythos and Kitchen Bar. The property comprises 17,400m² of ground floor retail and 5,000m² of first and second floor office, and is occupied by architects, advertising agencies, airlines and other retailers.

Design Quarter consists of over 57 shops. 48% of rental income originates from South African national and regional retailers, including, *inter alia*, Woolworths, Mr Price Home, Boardmans, @Home, Bakos Brothers and Coricraft.

Retail vacancies

Newcastle Mall, Zevenwacht Mall and Design Quarter currently have vacancies of 716m² (1.8%), 854m² (2.1%) and 250m² (1.0%) respectively. No income attributable to the vacancies has been included in the Purchase Consideration. To the extent that Zenprop lets the vacant space within a period of 2 years on terms acceptable to the Fund, an agterskot payment will be made to Zenprop.

5 PURCHASE CONSIDERATION AND KEY TERMS

5.1 Purchase Consideration and funding

The Purchase Consideration of R7.06 billion will be settled as follows:

- R0.80 billion will be settled through the issue of Investec Property Fund shares to Zenprop at a price of R16.51 (ex dividend), being the 30 day volume weighted average price (“**VWAP**”) excluding accrued distributions up to and including 6 August 2015, being the last business day immediately prior to the signature date (“**Share Consideration**”);
- R0.20 billion will be settled through the transfer to Zenprop of Investec Australia Property Fund (“**IAPF**”) shares owned by the Fund at a price of R11.58 (ex dividend) per IAPF share calculated with reference to the 30 day VWAP of IAPF shares as at 6 August 2015; and
- the remaining R6.06 billion together with transaction costs estimated at 1% of the Purchase Consideration will be settled in cash (“**Cash Consideration**”), and will be funded through a combination of debt and equity:

- Debt:

The Fund will raise gearing on the Zenprop Portfolio of approximately 50% of the Purchase Consideration which equates to gearing of R3.57 billion. Following the Zenprop Acquisition, the Fund will have a LTV of c. 35%.

- Equity

The Fund intends to undertake a fully committed rights offer of c. R2.57 billion to part fund the Zenprop Acquisition (“**Rights Offer**”) at an ex-dividend Rights Offer price of R15.00, which represents a 9.1% discount to the 30 day VWAP (excluding accrued distribution) up to and including 6 August 2015.

As detailed in paragraph 12 below:

- Shareholders representing approximately 65.2% of the Fund’s Shareholders have committed to follow their rights in the Rights Offer in terms of irrevocable undertakings or letters of support for the Rights Offer; and
- Shareholders representing approximately 65.2% of the Fund’s Shareholders have committed to vote in favour of the Zenprop Acquisition and the Rights Offer.

As a result, approximately R1.67 billion of the Rights Offer is covered by commitments or indications of support, and accordingly, the remaining equity to be raised in the Rights Offer is approximately R0.90 billion.

If the Rights Offer is not fully subscribed, any shortfall will be underwritten by Zenprop through an increase in the Share Consideration to the extent of the shortfall which will be settled by the issue of Investec Property Fund shares at the ex-dividend Rights Offer price of R15.00 per share.

5.2 Agterskots / purchase price adjustments

The Fund has negotiated purchase price adjustments / agterskot payments for the following income streams to the extent the income is earned over the agterskot period:

- Vacancies in the retail portfolio (the Fund has not paid for the vacant space upfront);
- Turnover rentals;
- Parking income at Design Quarter; and
- Income from solar panels installed at certain of the properties in the Zenprop Portfolio.

It is estimated that the agterskots / purchase price adjustments could amount to an additional payment to Zenprop of approximately R132.4 million based on additional net property income of up to R9.6 million.

5.3 Rental guarantees

Zenprop has provided the Fund with the following rental guarantees:

- a 3 year rental guarantee at market related rentals on the Brandhouse property from the expiry of the current lease resulting in a WALE for the Brandhouse property of 5.0 years;
- a 3 year rental guarantee at market related rentals on the RTT property from the expiry of the current lease resulting in a WALE for the RTT property of 4.9 years;
- a 5 year rental guarantee at market related rentals on the vacancies at 3 Sandown Valley Crescent (2,878m²) and Protea Place (860m²) as from 1 November 2015; and
- a 2 year rental guarantee at market related rentals on the office vacancies at Nicol Grove (1,019m²) and Design Quarter as from 1 November 2015.

6 CONDITIONS PRECEDENT

Zenprop has granted the Fund the period until Friday, 30 October 2015 in order to secure all of the necessary approvals and the funding required to conclude the Zenprop Acquisition other than the approval required in terms of the Competition Act referred to below. The required approvals for the Fund will include, *inter alia*, the necessary approvals from Shareholders in order to conclude the Zenprop Acquisition and implement the Rights Offer as well as the relevant JSE approvals.

After 30 October 2015, the Zenprop Acquisition will only be conditional upon the receipt of Competition Authority approval in terms of the Competition Act 89 of 1998 within a maximum period of 270 days from Signature Date.

7 ZENPROP PORTFOLIO OPTIONS AND RIGHTS OF FIRST REFUSAL

Newcastle Mall, Nicol Grove - Seacom, Golfer's Club and WNOP are subject to options and/or rights of first refusal. If these rights are exercised, these properties will be excluded from the Zenprop Acquisition.

8 WARRANTIES

Zenprop has provided warranties and indemnities to the Fund that are standard for a transaction of this nature, and to address specific risks identified during the due diligence.

9 RIGHT OF FIRST REFUSAL – 140 WEST STREET

As part of the Zenprop Acquisition, Zenprop has granted the Fund a right of first refusal over the 27,000m² P grade office building currently being developed at 140 West Street.

10 MANAGEMENT FEE

Investec Property, the manager of Investec Property Fund has agreed to waive its upfront entitlement to an ongoing management fee of 50 basis points on the value of the Zenprop Acquisition for a period of time. It has been agreed that Investec Property will charge the following management fees in relation to the Zenprop Portfolio:

	Fee
Year 1	0 basis points
Year 2	10 basis points
Year 3	25 basis points
Year 4	35 basis points
Year 5 and thereafter	50 basis points

11 VALUATION

The Zenprop Portfolio has been independently valued by Mike Gibbons from Mills Fitchet, who is a professional valuer in terms of the Property Valuers Profession Act, No 47 of 2000. Details of the valuation will be included in the circular (referred to in paragraph 13 below) that will be sent to Shareholders.

12 IRREVOCABLE COMMITMENTS

The Fund has obtained irrevocable undertakings or letters of support from:

- Shareholders representing approximately 65.2% of the Fund's Shareholders to follow their *pro-rata* share of the Rights Offer; and
- Shareholders representing approximately 65.2% of the Fund's Shareholders have committed to vote in favour of the Zenprop Acquisition and the Rights Offer.

13 CATEGORISATION

The Zenprop Acquisition is classified as a category 1 transaction in terms of the JSE Listings Requirements, and therefore Shareholder approval is required. Circulars convening a general meeting and providing further detail of the Zenprop Acquisition and the Rights Offer will be sent to the Fund's Shareholders in due course.

14 WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT

Shareholders are referred to the cautionary announcement dated 2 July 2015, and are hereby advised that as the details of the Zenprop Acquisition referred to above have been announced to Shareholders, caution is no longer required to be exercised by Shareholders when dealing in their Investec Property Fund shares.

Johannesburg
11 August 2015

Investment Bank and Sponsor
Investec Bank Limited

Legal Advisor
Fluxmans Inc.

Independent Valuer
Mills Fitchet Magnus Penny

**Independent Reporting
Accountant and Auditors**
EY