Out of the Ordinary®

Investec
Property Fund Limited

MEDIA RELEASE

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Investec Property Fund delivers on strategic imperatives in a challenging environment

Highlights

- De-gearing flightpath now complete
- Balance sheet strengthened and liquidity preserved
- Portfolio further simplified post Investec Australia Property exit
- SA portfolio materially affected by local lockdown
- European logistics platform performing in line with expectations, despite COVID-19
- Significant letting activity de-risks future income streams
- H2 FY20 dividend paid and further top-up dividend declared
- Improved performance expected from SA in H2 FY21
- Uncertainty around second wave of European lockdowns

Investec Property Fund Limited (IPF or the Fund) has announced a 33.9% decline in distributable earnings yoy to 46.87cps (H1 FY20: 70.93cps) primarily due to the impact of COVID-19 related concessions and tenant failures that affected investments largely in South Africa. The period under review reflects the full impact of the preventative lockdown measures implemented across the regions in which the Fund operates, due to the COVID-19 pandemic.

Commenting on the Fund's performance, joint CEO Andrew Wooler said: "*Through this period of uncertainty, we have continued to focus on and execute against our strategic objectives of hands-on operation and active balance sheet management. We have significantly enhanced the Fund's financial position during the period, having completed our de-gearing flightpath within our stated timeframe during some of the most tenuous market conditions ever experienced. This included the disposal of five South African assets, our stake in Investec Australia Property Fund and the Belgium assets into the Pan-European logistics platform, together with the conclusion of the debt refinancing of the platform at the end of October. In addition, management has also prioritised prudent cashflow management and liquidity preservation which were of paramount importance to weather the pandemic*."

Aggregate proceeds of R4.5bn were generated by the delivery of the de-gearing flightpath and used to settle debt, thereby normalising LTV from 43.8% (Sep-20) to the current 38.8%. The outcome of the de-gearing flightpath is a more simplified and robust balance sheet going forward, leaving the Fund in a healthy position going into H2 FY21.

The South African portfolio suffered the most severe impact with Level 5 lockdown commencing on 26 March 2020, at the beginning of the interim period and gradually easing to Level 1 on 21 September 2020. As South Africa entered an intensified state of lockdown and ceased trading, many countries across Europe were announcing plans for a gradual lifting of lockdown restrictions and reopening their economies. This disparity is reflected in the Fund's H1 FY21 results where solid returns from the European portfolio, with earnings increasing by 14.8%, has continued to bolster local performance – which suffered an earnings decline of 24.4%

"*We were unfortunate in that our financial year began as the world entered a state of lockdown. The impact on the South African economy was devastating and REITs suffered double the impact of a stagnating economy and COVID-19's impact on trading activity. Overall, however, the composition of our portfolio, strength of our balance sheet and high-quality tenant base saw us relatively well-positioned going into the crisis*," added Wooler.

NAV decreased by 5.1% to R13.9bn (Mar-20: R14.6bn) over the interim period following impairments in South Africa and the UK. However, following the increased investment in the Pan-European logistics (PEL) platform, foreign investments now comprise c.50% of the Fund's balance sheet and 43% of earnings. These characteristics enhance the portfolio's defensiveness, underpinned by strong supply and demand dynamics in Europe where letting activity delivered 14.4% average positive reversions across the logistics platform.

The Fund's medium- and longer-term earnings profile has been further strengthened by the forward leasing of c. 200 000 sqm (10% of total GLA) across South Africa and Europe for an average lease length of 9.9 years.

"The leasing activity achieved across South Africa and Europe during one of the most challenging operating environments ever encountered, further substantiates the strength of the Fund's underlying real estate, and although earnings will be impacted in the short term through negative reversions, substantial longer term value has been maintained and created for shareholders" commented Joint-CEO Darryl Mayers.

Despite the tough trading conditions, the Fund proceeded with the declaration of an H2 FY20 dividend of 39.05cps in respect of the prior year-end period, demonstrating the strength and resilience of its balance sheet. In line with its previously stated intention, the Fund has also declared a further top-up dividend of 29.82cps in respect of the same period, in light of the conclusion of a successful PEL debt refinancing and having secured the refinancing of ZAR-denominated debt maturing in December. This will bring the aggregate H2 FY20 dividend to 68.87cps and the full year FY20 dividend to 139.80cps, representing a payout ratio of 95% of distributable earnings and ensuring optimal tax efficiency for the Fund and its shareholders.

The further lockdowns in the foreign markets in which IPF is invested has created uncertainty in the operating environment, and there is a lack of clarity around the impact of this on the European portfolio. Based on the resilience displayed during the first lockdown, where the European portfolio was able to maintain average collection rates of 98%, the Fund is confident of the performance of the portfolio through this period. While the expectation is for a similar performance through the second wave, the Board deems it prudent to maintain a cautious approach. As a result, the Board has resolved to defer the declaration of the H1 FY21 interim dividend until such time as there is greater stability and more visibility as to the duration and extent of the disruption.

Compliance with REIT regulations requires payment of a dividend within 4 months of the Fund's FY21 year end. Thus, there is no adverse tax impact of delaying the interim distribution at this stage and the Fund intends to resume a regular dividend cycle as soon as the Board deems this prudent.

Outlook

IPF management continues to believe the Fund's highly diversified portfolio and logistics-focused platform will continue to hold the Fund in good stead. This, together with a revitalised balance sheet and strong liquidity position, leaves the Fund relatively well-placed going into H2 FY21. However, given the renewed uncertainty in offshore markets, the Fund continues to withhold guidance in respect of its FY21 full year performance. This is anticipated to be provided when the Fund is able to better assess the full extent of the UK and European lockdowns and their potential impact on the Fund's financial performance.

"*IPF has a solid asset mix that has exhibited resilience to date and has seen the Fund navigate the crisis with relative strength. We have seen some short-term earnings pain, but we have continued to stabilise our earnings base and balance sheet for long-term benefit. It is however, expected to take time for performance to return to pre-COVID levels and a heightened likelihood of further tenant failures exists*," concluded Mayers.

ENDS

Notes to the editor

About the Investec Property Fund

Investec Property Fund Limited is a South African Real Estate Investment Trust, having listed on the JSE Limited ("JSE") in 2011 and obtaining REIT status on 1 April 2013. The investment portfolio currently comprises direct and indirect real estate investments in South Africa, the U.K. and Europe. The direct investments comprise 98 properties in South Africa with a total gross lettable area ('GLA') of 1.2 million m² valued at R16.9bn. The Fund's local investment portfolio also comprises a R0.3bn investment in Izandla Property Fund Proprietary Limited ('Izandla').

The Fund's offshore investments include, an interest in UK Fund ('U.K investment') of R1.1bn, an investment into a Pan-European logistics portfolio of R6.1bn, two direct properties valued at R1.4bn in Belgium and R0.2bn investment into a Pan-European light industrial portfolio providing the Fund with geographic diversification and exposure to quality real estate in developed markets. The objective of the Fund is to optimise capital and income returns over time for shareholders by investing in well priced income producing properties in the office, industrial and retail sectors. Effectively, all rental income, less operating costs and interest on debt, is distributed to shareholders semi-annually. For more about Investec Property Fund please visit: www.investecpropertyfund.com