news release

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EQUITES' DISTINCTIVE LOGISTICS PORTFOLIO CONTINUES TO SHINE

Photographs of Equites' property portfolio and management can be accessed here. Alternatively, please contact Investorsense at the details below.

Cape Town, 11 October 2018 – Equites Property Fund Limited today announced growth of 11.7% in its distribution per share for the six months ended 31 August 2018 to 68.12 cents, as well as a 49% growth in the fair value of its property portfolio over the corresponding period in August 2017, from R6.8 billion to R10.1 billion.

Equites remains the only property fund listed on the JSE that offers shareholders pure exposure to modern logistics assets, combined with a proven in-house development expertise. Prime logistics has outperformed retail and commercial property, with strong demand being driven by the growth in e-commerce and retailers increasing efficiencies through sophisticated distribution networks. Equites' focus on high quality logistics assets, let to A-Grade tenants on long-dated leases and in key logistics nodes, has established the group as a market leader in the logistics property space. The group increased its portfolio value from R1.0 billion to R10.1 billion in the four years since listing. Equites' track-record of double-digit distribution growth, as well as strong net asset value growth continues to be acknowledged by investors, again awarding it the position of top performing Real Estate Investment Trust over the past three years, with an annualised total return of 24.8% per year.

Highlights for the six months

- 11.7% increase in distribution per share for the 6 months ended 31 August 2018
- Net asset value per share increased by 9.5% to R16.67 from 31 August 2017 to 31 August 2018
- Significant progress in transformation initiatives have resulted in certified black-ownership of 53% and a level-4 B-BBEE rating
- Strong like-for-like property income growth of 7.8%, reflective of strength of underlying property portfolio
- Weighted average lease expiry increased to 8.3 years
- Vacancies reduced to 0.2%
- Disposal of R265.3 million of non-core assets
- First of four UK developments completed in August 2018 with a further 67 664m² of modern logistics properties currently under development between South Africa ("SA") and the United Kingdom ("UK")

- A R800 million oversubscribed book build in June 2018 funded capital expenditure and reduced the loan-to-value ratio to 22.1%
- Cost of debt reduced significantly since year end, from 7.99% to 7.26%
- Inaugural issuer national scale credit ratings obtained of $A_{(ZA)}$ (long-term) and $A1_{(ZA)}$(short term).

Equites achieved an 11.7% growth in distribution, despite a tough macroeconomic climate. This growth was underpinned predominantly by:

- a solid operational performance, including like-for-like rental growth of 7.8%,
- acquisitions and developments which contributed 2.3%, at net initial yields that exceeded the underlying weighted average cost of capital;
- a successful R800 million capital raise, lower financial leverage and a decrease of the group's cost of debt.

Equites CEO, Andrea Taverna-Turisan, commented that "*the group's resilient performance reflects the quality of assets in its portfolio, which is reinforced by Equites' ability to unlock key logistical nodes through the development of top-grade logistics buildings. Its unrelenting pursuit of strong property fundamentals has resulted in a tenant profile of almost 93% blue chip companies, a long lease profile which further increased to 8.3 years and a strong contractual weighted average lease escalation profile of 7.9%, which supported robust like-for-like income growth. Continuous operational focus reduced vacancies across the portfolio to 0.2% and administrative costs were maintained at well-below sector averages. The group has successfully renewed 91% by GLA of industrial leases expiring in the year to February 2018 and is pleased that this was achieved with a positive average rental reversion of 4.3%. This represents a retention rate of 83% by GLA.*

Equites also continued to take advantage of strong market fundamentals in the United Kingdom to continue to diversify and build a high-quality logistics portfolio in one of the world's most sophisticated markets. The disruptive impact of e-commerce is creating profound structural tailwinds to prolong the cyclical upturn despite Brexit concerns and makes this market increasingly desirable."

The net asset value per share of the group grew to 1 667 cents per share by 31 August 2018. This equates to a growth of 9.5% over the past 12 months and a compounded annual growth of 12.9% since listing on the JSE on 18 June 2014.

Equites remains strongly committed to transformation within the property sector and has, from inception, implemented a variety of initiatives which has culminated in a largely transformed workforce, a fully implemented learnership programme, a successful enterprise and supplier and development programme and significant investments into under resourced areas. Equites has received a certified black ownership of 53%with supportive investors in the form of Brimstone Investment Corporation Limited, who made strategic empowerment investments into Equites in 2015 and 2016, and large shareholders with predominantly black beneficiaries such as the Government Employment Pension Fund and the Eskom Pension Fund. These have all contributed to a level 4 contributor rating under the amended property sector code as at 31 August 2018.

Portfolio movements
During the period under review, the group's portfolio has evolved due to a range of acquisitions, developments and disposals. These include the following:

Acquisitions

- Acquisition of two properties from Investec Group Holdings Limited with a capital value of R648 million – a 37 834m² distribution centre let to Nestlé South Africa in Longmeadow Business Estate, Gauteng and a 26 857m² distribution centre situated in New Germany, Kwazulu-Natal and let to Pick 'n Pay Retailers.

- Acquisition of a 40 426m² distribution centre from Investec Property Fund Limited for R462 million. The distribution centre is situated on a 101 769m² site in Germiston and is let to Simba South Africa on a ten-year lease which commenced in November 2017.

- Acquisition of strategic land holdings for development
  Despite economic challenges, demand is increasing for high quality logistics product due to the changing nature of supply chains. Yet supply has been hampered by the availability of high-quality land and high-tech industrial vacancy in South Africa is at historical lows. Equites has experienced significant interest for new development leases with retailers investigating options for large-scale warehouses as part of their supply chain optimisation strategies. Equites will continue to pursue its distinctive competitive advantages of development expertise, an extensive network and a portfolio of strategic land holdings, to take advantage of these opportunities and increase the scale of its portfolio. Negotiations are ongoing to make further strategic land acquisitions to position Equites to optimally cater for tenant-driven logistics developments.

  Similarly, in the UK the significant demand has limited opportunities to acquire completed properties that meet the group's requirements and consequently the last four transactions concluded in that market have been development funding arrangements. The group's in-house capacity to oversee developments and close working relationships with key UK-based developers have been key in securing these opportunities.

  The group has capital commitments of at least R1.7 billion over the next 12 months:

Developments

- DHL development – The group acquired 7.96 acres of vacant land for £9.7 million and concluded a development funding agreement for the construction of a 9 325m² last-mile fulfilment centre pre-let to DHL International on a ten-year lease. The distribution centre is expected to be completed in December 2018 and will have a capital value of £29 million on completion.

- DSV development – Equites acquired 13.26 acres of vacant land for £4.6 million and simultaneously concluded a forward funding agreement for the development of a 28 124m² distribution warehouse to be let to DSV Solutions Limited on a ten-year lease. The property is situated in Peterborough, a proven logistics area, 80 miles north of London. The building was completed on 23 August 2018 and has a capital value of £30 million.

- Coloplast development – Equites acquired 7.33 acres of vacant land for £2.6 million and a forward funding agreement to develop a 12 609m² warehouse which will be situated in Peterborough, UK. On completion, the property will have a capital value of c.£13 million and will be let to Coloplast Limited on a 10-year lease. Construction has commenced on the site and completion is expected in April 2019.

- DPD development – Equites concluded a development funding and land acquisition agreement to purchase the property and to fund the development of a new 4 024m² warehouse for a maximum commitment of £12 million. The property is situated in Burgess Hill, West Sussex and will be let to DPD Group UK Limited on a 25-year lease on completion. Construction of the asset commenced in August 2018 and completion is expected in March 2019.

- New Premier FMCG development - Premier FMCG Proprietary Limited ("Premier") is an existing tenant of the group and signified a growing requirement for modern logistics space. To satisfy this need, Equites concluded a development lease with Premier, in terms of which Equites developed a 15 216m² modern logistics facility for Premier. Construction commenced in October 2017 and was completed in August 2018, within the agreed-upon time frame. The total capital value of the development on completion is R177 million. This development was constructed on 3.9 hectares of vacant land which Equites owns in Lord's View Industrial Park in Gauteng.

  Equites is targeting a 4-Star Custom Industrial As-Built Rating from the Green Building Council of South Africa ("GBCSA") for this building. This will be only the fourth such achievement in South Africa, according to the GBCSA. Sustainability has been at the core of the design process to ensure a more environmentally conscious building that will operate with a reduced impact on the environment; this includes renewable energy generation through its 2 000 photovoltaic panels, automated energy sub-metering for real time feedback on consumption, water efficient fittings throughout the building and measures to reduce waste which may end up in the council storm water system. The building was designed as a sustainable and long-term beneficial investment for the occupants, the group and the environment. Equites will be looking at rolling out similar projects where feasible. The photovoltaic plant incorporated into this property will provide subsidised clean energy to four of the group's properties in the precinct – a first for an industrial development in South Africa.

- Federal Mogul development - Equites concluded a development agreement with Federal Mogul South Africa Proprietary Limited, a global supplier of quality products to the automotive industry, to develop a 10 147m² warehouse with an estimated capital value R95 million. The development lease includes an option to extend the warehouse by a further 5 000m² at the option of the tenant. The warehouse and office will serve as the South African headquarters of the global business. Construction commenced in August 2018 and estimated completion is May 2019.

– Speculative developments - Equites expects to complete a speculative development at Equites Park, Atlantic Hills by the end of October 2018. The three units will have a combined GLA of 14 956m² and capital value of R152 million on completion. To date, there has been significant interest in the units, and one unit measuring 4 611m² has been let to JF Hillebrand to cater for their growing requirement for modern logistics space. The group has also started a new speculative development in Bellville South, Cape Town, which will house a 6 003m² warehouse on a 10.1-hectare site. The anticipated capital value on completion is R55 million. A speculative development at Lord's View, with a GLA of 11 275m² and a capital value of R94 million, is expected to be completed by the end of the calendar year.

Disposals

– The group continues to actively asset manage its portfolio and recycle capital. The group sold four smaller, non-core assets to Texton Property Fund Limited for R205.3 million and disposed of one of its commercial properties situated at 8 Melville Road, Illovo for R60 million. Following this transaction, the group will only have one remaining office building in the portfolio valued at R50 million.

Funding

Equites targets a conservative loan-to-value (LTV) of between 25% and 35%, which balances financial gearing with a robust balance sheet. The LTV at period end was 22.1% and Equites has available undrawn facilities of R1.2 billion, which positions the group well to execute on the committed development pipeline. Equites obtained an unsecured credit rating from GCR as the first step in this process to launch a DMTN programme. An inaugural issuer national scale credit rating of $A_{(ZA)}$ and $A1_{(ZA)}$ for the long and short term respectively, is testament to the group's sound corporate finance and conservative capital management policies. The board is currently evaluating the appropriate timing for the launch of its DMTN programme.

Equites continues to take a prudent approach to interest rate risk. Currently 100% of SA and UK term loan balances are hedged and a minimum hedging level of at least 80.0% and 70.0% of the existing floating interest-bearing borrowings and total contracted net future floating debt is targeted.

Prospects

Equites has made significant progress in implementing its vision to be a globally relevant REIT, focused exclusively on high quality logistics assets. The group has established itself as a developer of choice in South Africa for logistics facilities that meet the exacting requirements of large users with sophisticated supply chains. It has also successfully established itself as a recognised player in the sector in the UK, having concluded high quality transactions, which will have an estimated value of some £220 million on completion of the current developments.

Taverna-Turisan concluded: "*The South African economy is undoubtedly under severe strain, but the group continues to see demand for modern logistics space. Equites is benefitting from the increased importance of property specifications, security and location and our growing reputation as a trusted supplier of logistics assets designed to exceptionally high standards. Our conservative approach and focus on strong property fundamentals should enable Equites to continue delivering sector beating returns, despite economic constraints.* "

The group had previously forecast full year distribution growth for the year ending 28 February 2019 to be 10% – 12% higher than the previous financial year. Should a stable macro-economic environment prevail, the group now expects the full year results to be in the upper quartile of this range.

Ends

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About Equites Property Fund

Equites continues to be the only listed property group on the JSE to provide shareholders with pure exposure to modern logistics assets combined with proven in-house development expertise. The group is a Real Estate Investment Trust ("REIT") and is internally asset managed.

In its four years since listing, Equites (the 'group') has established itself as a market leader in the logistics property space. The group focuses on high quality logistics assets, let to A-Grade tenants on long-dated leases, in key logistics nodes. Equites owns 48 completed properties with a gross lettable area of 508 569m² and a portfolio value of R10.1 billion. 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.