FAIRVEST
PROPERTY HOLDINGS

# News release

*27 February 2019*

## *FAIRVEST OUTSHINES THE REIT MARKET*

### *CONFIRMS COMMUNICATED GROWTH OF BETWEEN 8% TO 10% FOR THE FULL YEAR*

**Highlights for the six months to 31 December 2018**

- Top performing SA REIT with 25.7% annual total return to shareholders
- Distribution for the period increased by 8.3% to 10.616 cents per share
- Total property portfolio increased by 5.1% to R3.14 billion
- Net asset value increased by 2.3% to 232.98 cents per share
- Vacancies contained at 3.5% of total lettable area
- Like-for-like annualised net property income increased by 6.4%
- Tenant retention remain high at 79.8%
- Distribution growth of 8% to 10% expected for the full year to 30 June 2019

**Cape Town, 27 February 2019**. Fairvest Property Holdings Limited ("Fairvest") today again announced solid results for the six months to December 2018, with interim distributions increasing by 8.3% to 10.616 cents per share. Chief Executive Officer, Darren Wilder said: "*Fairvest's focus on a differentiated sector of the market and its unrelenting drive to excel at property fundamentals, have allowed investors to reap the rewards of consistency. Low vacancies and arrears, high tenant retention and solid growth in net property income continue to deliver distribution growth at the top end of the market.* "

A consistently strong performance has led to increasing returns for the company. Fairvest's latest return to shareholders was 25.7% over one year, relative to its compound annual returns of 21.3%, 20.1% and 18.2% over three, five and ten years, respectively. These returns have secured Fairvest a spot in the top two performing REITs for all measurement periods, over one, three, five and ten-years.

Fairvest maintains a unique focus on retail assets weighted toward non-metropolitan and rural shopping centres, as well as convenience and community shopping centres servicing the lower income market in high growth nodes, close to commuter networks. The Fairvest property portfolio consists of 45 properties, with 241 214m² of lettable area valued at R3.14 billion.

Wilder said that the company favours performance over size and has therefore persisted with its focussed strategic positioning of investing in quality peri-urban and rural community centres, despite multiple opportunities to increase the size of the portfolio through diversification. This has delivered resilient performance in underserviced, high growth sectors. "We also believe that investors prefer to make their own sectoral and geographical investment decisions and consequently prefer portfolios with a singular focus."

**Portfolio growth**

The value of the property portfolio increased by 5.1% to R3.14 billion in the past six months. During the period, Fairvest incurred capital expenditure of R47.7 million to improve existing properties and acquired a 55% share of Libode Shopping Centre for R49.0 million. The historic portfolio increased by 3.2% from 30 June 2018. The Middestad Mall's R31.3 million first floor retail re-development was completed during the period. The new retail space opened on Black Friday with key first floor tenants, Total Sport and Sports Scene's turnover exceeding expectations.

Asset quality continued to improve, with the average value per property increasing by 2.8% to R69.8 million, and the average value per square meter increasing by 3.7% to R13 017/m².

**Distribution growth**

Revenue increased by 28.1% to R239.4 million, as a result of income growth in the historic portfolio, as well as acquisitions during the period. A strong focus on arrears management reduced arrears to 1.8%, the lowest level in the past six years.

Cost containment and efficient recoveries of municipal charges remains a strategic focus, which has led to steadily improving cost ratios over recent years. The net property expense ratio (expenses net of utility recoveries) again improved to 12.8% from 13.0% in the previous financial year. The gross cost to income ratio also reduced from 36.4% to 36.3%.

**Property fundamentals**

The portfolio remains well diversified across South Africa, with the four largest provinces, Gauteng, KwaZulu-Natal, Western Cape and Free State contributing 77.6% of revenue. The high national tenant component of 74.8% of the portfolio provides shareholders with a low risk investment profile, with national food retailers occupying 34.1% of the portfolio.

Vacancies were contained at 3.5% or 8 520m² during the period, with 99 new leases concluded covering 11 064m². Fairvest successfully renewed 19 929m² of leases, with a modest negative reversion of 0.5% being achieved on these renewals, in return for tenant retention of 79.8% and a lengthening of the lease expiry profile. The low reversion percentage was skewed by three large long-term anchor renewals which were concluded in-line with our expectations and budgets. By excluding these three renewals our positive reversion percentage was 5.7%. The weighted average lease term increased from 32 to 38 months.

The weighted average contractual escalation for the portfolio was stable at 7.4%. Gross rentals across the portfolio trended upwards, with a 6.3% increase in the weighted average rental to R119.62/m² at 31 December 2018 compared to R112.50/m² at 30 June 2018. The weighted average retail rental increased to R118.03/m². The company said it continued to offer competitive base rentals which represent healthy rent to sales ratios for anchor tenants at 2.5%. Its shopping centres also achieved trading density growth of 3.4% over the period.

**Borrowings**

Fairvest's loan to value ratio increased to 27.1% (2018: 25.1%) due to the acquisition and capital expenditure during the period, partially offset by R31.9 million of capital retained through the dividend reinvestment alternative. Of the debt, 46.6% was fixed through swaps as at 31 December 2018, with a weighted average expiry for the fixed debt of 25 months. The various floating rate loans advanced to development partners, improves the effective hedged position to 80.6% at 31 December 2018. The weighted average all-in cost of funding increased to 9.38% (2018: 9.16%), mainly due to the rate increase in November 2018. The weighted average maturity of debt remained unchanged at 17 months. A large debt facility is expiring in May 2019. Discussions on the renewal are in progress and we expect the maturity profile of debt to improve and available facilities to increase by the end of the financial year.

**Prospects**

The company said that the retail trading environment in South Africa remains under pressure however, retail assets servicing and trading in the lower LSM sector continue to show more resilience than the balance of the retail sector. Fairvest's exposure to Edcon is low, with its only exposure being to Jet Stores, comprising 0.8% of the total gross lettable area. Fairvest's high national tenant component and conservative gearing levels positions the company well for sustainable growth in distributions and with the ability to take advantage of opportunities, should they arise.
Wilder said: *"The Fairvest portfolio's ability to achieve robust results in tough operating conditions has been particularly evident in recent times. Our determination to keep the business uncomplicated, seek out quality assets with strong property fundamentals and provide hands-on property management, have enabled us to continue to successfully deliver quality performance over several years. We believe that this continues to offer attractive value to investors. We also remain confident that distribution growth of between 8% and 10% for the full year remains achievable."*

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