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GROWTHPOINT PROPERTIES

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Growthpoint delivers 6.1% half-year distribution growth and makes good progress on strategy

Growthpoint Properties Limited today reported distribution growth of 6.1% for its six-month interim period to 31 December 2016, delivering performance comfortably in line with market guidance.

Growthpoint achieved an increase in total distributable income of 10% from its prior half-year. It improved portfolio vacancies from 5.7% to 5.4%, and boosted the value of its property assets to over R120bn.

It also continued its internationalisation strategy through its investment into London Stock Exchange Alternative Investment Market-listed Globalworth Real Estate Investment Ltd (Globalworth) and expanded its investment into Growthpoint Properties Australia (GOZ), as well as growing its funds management business to launch a Healthcare Real Estate Fund.

Norbert Sasse, CEO of Growthpoint Properties Limited, attributes the positive distribution growth to the continued performance of Growthpoint's South African property portfolio, a strong contribution from its V&A Waterfront investment, and growing distributions from Growthpoint's 64.3% holding in GOZ that were enhanced by a successful currency hedging strategy.

Sasse comments: *"Demonstrating resilience and continuing our 12-year-plus track record of uninterrupted distribution growth for investors, Growthpoint has performed well in a tough market."*

Shareholders can expect this solid performance from Growthpoint to continue, despite a persistently challenging domestic operating environment. "Growthpoint is on track to deliver similar growth in distributions to shareholders for the full year to 30 June 2017," says Sasse.

Growthpoint is the largest South African primary listed REIT and the 26th largest company on the JSE. Over the period, an average of R3,8bn in Growthpoint shares was traded a month. This makes Growthpoint the most liquid and tradable way to own commercial property in South Africa.

Growthpoint is a Top 5 constituent of the FTSE Russell EPRA/NAREIT Emerging Index and has been included in the FTSE/JSE Responsible Investment Index for seven consecutive years.

It owns and manages a diversified portfolio of 533 properties, including 473 properties in South Africa, 59 properties in Australia through its investment in GOZ and a 50% interest in the properties of the V&A Waterfront, Cape Town. It now also owns an initial 26.9% stake in the €1bn property portfolio of Globalworth, the largest owner of office space in Romania.

Growthpoint closed the half-year with a conservative loan-to-value ratio of 36.7% which, while moving higher during the period, remains well within its own mandates. The increase is largely as a result of using bank funding for the acquisition and further investments in its international investments.

During the period Growthpoint diversified its sources of funding even further. It recorded a 48.8% increase in its unsecured debt. It also reported a R2,2bn, or 59.5%, increase in bonds issued, with more banks holding Growthpoint bonds as high-quality liquid assets because it is one of only a handful of SA companies with a Aaa.za national scale credit rating from Moody's. It also continued to use cross currency interest rate swaps to fund further investment into GOZ, and has now introduced Euro debt and Euro cross currency interest rate swaps for its European investment.

Growthpoint's debt was well hedged with 80.5% of interest rate exposure fixed with a weighted average term of 3.5 years. It has lowered its average interest rate to 7.6%, down from 8.5% at FY16, including foreign denominated debt

Growthpoint's South African property portfolio contributed 75.4% to its distributable income. *Sasse says: "We are dealing with a difficult environment domestically. The portfolio's occupancy levels improved but we're attracting and retaining clients at a cost in a fiercely competitive and weak market, and this is placing net property income under pressure."*

In its South African portfolio, it improved its lease renewal success rate to 70.3%. However, both its renewal rental growth rates and future escalations on renewals were down slightly at 0.8% and 7.6% respectively. Arrears and bad debts crept up marginally. Still, keeping expenses well under control, its cost-to-income ratio stayed largely unchanged at 27.1%.

Optimising its South African portfolio, Growthpoint disposed of R259,1m, held for sale R967,5m and acquired R1,2bn of properties during the half-year. It also made commitments of R2,4bn and invested R1,1bn in development and value-enhancing improvement projects during the period. Its largest development project, in partnership with Zenprop, is the landmark new Discovery head office in Sandton Central.

Looking to the future in South Africa, Growthpoint expects property fundamentals to weaken on the back of insufficient economic growth prospects. Dynamics include greater competition between shopping centres, a soft office market and higher costs of attracting new tenants and keeping existing ones. However, Growthpoint's strategic initiatives support its domestic business.

"Our active asset management strategy will play a big role here. At the same time, we're growing the contributions from our internationalisation strategy and funds management, as well as expanding in the trading and development space," Sasse notes.

Distributions from Growthpoint's 50% stake in the V&A Waterfront, Cape Town, made a strong 8.7% contribution to its distributable income. The development of the V&A Waterfront Silo Precinct is almost complete and progress on its Canal District development is continuing. During the period, Growthpoint invested R311,8m in development and capital expenditure at the V&A Waterfront and made commitments to a further R363,9m of investment.

"V&A Waterfront's robust property dynamics are likely to remain intact and support continued growth, albeit at more moderate levels, with more bulk being developed into revenue-generating

investments and also with H&M now in the base, and having traded for more than a full year. We're also exploring ways to acquire more bulk," says Sasse.

It is Growthpoint's goal to grow its distributable income from international investment to around 30% over the next five years. During the half year, it made tangible progress in this regard. In fact, almost all its growth was made internationally during the period.

GOZ, Growthpoint's Australian investment, continued to pursue growth, successfully acquiring the GPT Metro Office Fund (GMF) while also reweighting its portfolio in favour of offices and geographically to New South Wales.

During the period GOZ acquired properties valued at R5,0bn, sold five industrial properties valued at R1,6bn, invested R393,6m in development and capital spend, and committed to portfolio growth of R217,8m. Supporting this, Growthpoint invested a further R1,0bn in GOZ.

"While Australian property fundamentals are varied, the market still offers a positive funding yield spread dynamic, which supports accretive acquisitions for GOZ. We want to leverage our scale in the Australian Market, with GOZ being the 11th largest AREIT," says Sasse.

GOZ contributed a solid 15.9% to Growthpoint's total distributable income. It has forecast to grow its distributions per share in AUD at 4.9% for FY17. However, even with its successful currency hedging strategy, the strengthening ZAR to AUD, could have a negative impact on the unhedged distributions received from GOZ.

Expanding its international investment into new territories, during its half-year Growthpoint launched its Central and Eastern European investment strategy by investing €186,4m (around R2,8bn) in an initial stake of 24,3m shares in Globalworth. This is a conservative market entry point to a high-growth investment platform.

Globalworth's €1bn property portfolio includes mostly modern A-grade offices, industrial properties, a residential complex, as well as developments. Its portfolio is concentrated in Bucharest, Romania, and underpinned by Euro-denominated leases with many blue chip global brands.

"We're excited about this investment and the opportunities it gives us access to. Globalworth represents at 6% initial equity yield, growing substantially over the next three years. The portfolio's current vacancies of 20% are expected to stabilise around 8%, plus it enjoys accretive acquisition and development opportunities," says Sasse. He notes that distributions from Globalworth will be included in Growthpoint's financial results for the second half of the financial year.

With its Globalworth investment, Growthpoint's significant capital injection into the company will provide the key to unlocking exciting new growth strategies and prospects for Globalworth. This includes refinancing its current debt at around 5%, to levels between 3% and 4%. Cap rate compression of 100bps to 150ps is also expected. Growthpoint forecasts EUR0.22 dividend per share from Globalworth for FY17.

Creating a meaningful new revenue stream for Growthpoint through its funds management strategy, Growthpoint has set its sights on building a R15,0bn funds management business over five years. During the period, Growthpoint acquired two hospital properties valued over R1,1bn for the launch of its new Healthcare Fund. Another asset was acquired post half year end and it will transfer two existing assets into the fund.

Capital raising for Growthpoint's third-party institutional pan-African real estate business in several African markets outside South Africa is also in progress.

"In this difficult environment, Growthpoint will remain driven by opportunity and demand as we strive to be a leading international property company providing space to thrive. We will continue to actively create value for all stakeholders with innovative and sustainable property solutions," concludes Sasse.

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