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GROWTHPOINT PROPERTIES

MEDIA RELEASE FROM GROWTHPOINT PROPERTIES LIMITED

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Growthpoint posts 6.5% half-year distribution growth and delivers strategic milestones

Growthpoint Properties Limited today posted distribution growth of 6.5% per share for its six-month interim period to 31 December 2017, confidently achieving on-target performance.

Growthpoint increased total distributable income by 10.6% from its prior half-year to a substantial R2.9bn. Group property assets increased 4.4% to R127.7bn and group net asset value grew 3.9% to R25.93 per share.

Norbert Sasse, Group Chief Executive Office of Growthpoint Properties, attributes this positive performance to the strong contributions from the V&A Waterfront and Globalworth Real Estate Investments (GWI), solid performance from the South African property portfolio, and stringent cost controls.

Growthpoint continued to streamline and optimise its South African portfolio of properties during the half year, recycling capital out of non-core assets and into strategic accretive investments. It also expanded its international investment.

Sasse reports: *"This solid set of results was achieved in a very challenging South African operating environment. In fact, this half-year may well be the toughest yet for Growthpoint. Despite this, we performed well and continued our 14-year-plus track record of uninterrupted dividend growth."*

Shareholders can expect this positive performance to continue. *"Growthpoint is on track to deliver similar growth in distribution to shareholders for the full year to 30 June 2018,"* says Sasse.

Growthpoint is the largest South African primary listed REIT. It creates value for its stakeholders with innovative and sustainable property solutions that provide space to thrive. It is the most liquid and tradable way to own commercial property in South Africa. Its size and diversity make Growthpoint strongly defensive, and its quality earnings are underpinned by high-quality physical property assets.

Growthpoint owns and manages a diversified portfolio of 559 property assets including 463 properties across South Africa valued at R80.1bn and Growthpoint's 50% interest in the properties at V&A Waterfront, Cape Town, valued at R8.7bn. Growthpoint owns 56 properties in Australia valued at R31.2bn through its investment in ASX-listed Growthpoint Properties Australia (GOZ) and 39 properties in Romania and Poland, 100% valued at EUR1.8bn through its investment in LSE AIM-listed Globalworth Investments (GWI).

Currently the 21st largest company in the FTSE/JSE Top 40 Index, Growthpoint is a Top 10 constituent of the FTSE EPRA/NAREIT Emerging Index. It is also a constituent of the FTSE4Good Emerging Index and has been included in the FTSE/JSE Responsible Investment Index for eight years running.

Growthpoint’s balance sheet remains well capitalised. Continuing its conservative gearing, its loan-to-value ratio reduced from 35.0% to 34.5% during the period. Growthpoint remains one of only three corporates in South Africa with a Moody’s national scale rating of AAA.za. Because it is predominantly invested in South Africa, its global scale rating is capped at the sovereign rating of Baa3.

Growthpoint enjoys good access to funding. Its unsecured debt increased by R1.8bn, of which R409m is corporate bonds. Some 78.4% of Growthpoint’s debt is fixed for 3.7 years on average with an all-in weighted average cost of debt of 7.5%.

Growthpoint’s half-year investment activities focused on growing its international footprint, which now accounts for 24.0% of its assets by book value and 19.6% of its earnings before interest and tax (EBIT). It plans to grow both numbers to 30.0% over the next three years, with a further approximate R10bn of investment required to get there.

Its half-year investments were funded from R1.1bn equity raised through its Distribution Re-Investment Programme, R2.2bn net new borrowings and R500m in property disposals.

“In South Africa, Growthpoint made good progress in our recycling of capital. We have sold assets of around R3.2bn since the beginning of January 2018, which are waiting to transfer, including Investec Sandton, Hatfield Plaza and Turbine Square. In addition, about 5% of our South African property assets by value have been assembled into four portfolios for sale. The deadline for expressions of interest was 13 February, and 23 offers were received from various parties, which we are evaluating,” reveals Sasse.

For the 2018 half-year, Growthpoint’s South African portfolio contributed a solid 73.4% to EBIT compared to 76.0% the prior half-year. In the weak, uncertain South African economy, supply exceeded demand in all three traditional commercial property sectors. This resulted in a fiercely competitive market, with more tenant churn, shorter leases and greater pressure on rentals, where it costs more to attract and retain tenants.

Growthpoint let approximately half-a-million square metres in its South African portfolio during its half-year, bolstered by competitive initiatives like SmartMove and UNdeposit. Even so, vacancies crept up from 4.4% to 5.2%. This is still lower than national industry benchmarks. The Cape Town and Durban property markets outperformed other areas in real demand, lower vacancies and rental growth. The overall expense ratio of Growthpoint’s South African portfolio remained stable at 27.6%.

While it made only two South African property acquisitions, Growthpoint invested R815.3m in developments strategically tailored to optimise its portfolio. It is developing higher-demand, prime-grade green office buildings, which reduce occupation costs for tenants. Growthpoint’s industrial development focuses on modern warehousing, distribution and logistics facilities between 5,000sqm and 20,000sqm, neatly sidestepping the overheated competition in big-box developments.

Growthpoint owns 91 properties in the Western Cape, which is facing a severe water crisis. Its main focus until the end of 2017 was reducing water consumption. Growthpoint decreased water use by 41.0% in its office portfolio and 27.0% in its retail portfolio. Its priority now is to include alternative water sources, with solutions varying from boreholes to chemical toilets where there is no water security.

In South Africa, Growthpoint is also introducing new low-risk revenue streams from funds management as well as third-party development fees and trading profit.

Its funds management business has been welcomed by investors as groundbreaking, innovative and attractive. However, as with any new approach, it is taking a while to gain momentum. The Africa Fund now has USD210.0m approved for investment and its first close is scheduled for 31 March 2018. The Healthcare Fund has R275.0m approved for investment by institutional investors and is targeting some R1.5bn for its first close. The fund has four healthcare assets valued R2.4bn and a further R1.0bn pipeline of properties.

Growthpoint's goal is to generate consistent, recurring income from third-party development fees and trading profit that total no more than 1.0% to 2.0% of its distributable income. It has made good progress with this strategy given the skills, capacity and capital available.

"While sentiment in South Africa may now be more optimistic because of political changes, the operating environment remains difficult and uncertain. South Africa is still at the bottom of its property cycle. It will take a year or two of GDP growth, coupled with private sector and foreign direct investment, before we see a shift to better property fundamentals. Growthpoint will remain focused on rationalising and enhancing our South African portfolio," confirms Sasse.

Distributions from Growthpoint's 50.0% stake in the V&A Waterfront, Cape Town, made a steady 6.9% contribution to its EBIT, compared with 6.8% at the prior half-year. This asset continues to deliver robust performance and is achieving strong demand, with essentially no vacancies or arrears.

International tourism was up, although tourist spend was down as a result of the stronger Rand. The second phase of the V&A Waterfront passenger cruise terminal was completed in time for the holiday season, and roughly 45,000 passengers and crew members were processed. Hotels performed very well. Turnover rental that has traditionally come from retail was substituted with that from hotels.

However, "Day Zero" publicity around Cape Town's water crisis has started to impact hotel occupancies. The V&A Waterfront has prioritised its ability to trade through the water scarcity and has done much work in this regard. The City of Cape Town is proceeding with its temporary 2ML per day desalination plant at the V&A Waterfront. The property is also going ahead with its own 5ML per day desalination plant to meet its current and future normal water needs, which should be ready in 2019.

Development in the Silo precinct is complete with the Zeitz MOCAA opening during the half-year, adding another attraction to the precinct. The 252-bedroom Radisson Red Hotel also welcomed its first guests in September 2017 and is trading ahead of budget and expectations.

Development in the Canal District continues apace. Waterway House is complete and houses blue-chip office tenants BAT and EY, and signature retail tenants Porsche, Ducati and Ferrari. The 1,400-bay Battery Park parking garage will open by mid-year to support the V&A Waterfront's growing office sector. The three-acre urban park above the garage will be family-friendly green space with pockets of destination retail activation. The Dock Road Junction office node has been let to Regus and its adjacent Queens building is awaiting heritage approval for a vibrant retail concept.

"*We expect continued strong growth in the office and hotel sectors at the V&A Waterfront, and steady growth from its retail, marine and residential components. With strong property fundamentals in place, its development pipeline is well matched to demand. We are, however, mindful of the risk the water crisis poses to tourism spend,*" adds Sasse.

GOZ, Growthpoint's Australian investment, contributed a 16.5% to EBIT, against 17.2% for the 2017 half-year. GOZ continued to deliver excellent performance, extending its track record of growth in assets, profit and shareholder returns. However, because dividend withholding tax increased, this financial year will see the rebasing of the GOZ investment. GOZ's 3.8% dividend growth per share for the half-year was offset by the higher tax and the stronger Rand, resulting in its contribution to Growthpoint's distributable income going backwards in absolute numbers. Eighty-two per cent of GOZ's dividends are currently hedged for 2018.

While the strong Rand diluted GOZ's distribution, it provides interesting opportunities for Growthpoint to pursue more offshore investment. Growthpoint will continue to support the future growth of GOZ by providing capital as opportunities arise.

GOZ's portfolio now comprises two-thirds offices and a third industrial property, with 87.0% of assets located on the Eastern seaboard where the Sydney and Melbourne markets are showing rental improvements. The overall expense ratio of the GOZ portfolio edged up slightly during the period, from 17.8% to 19.1%.

On 13 July 2017, GOZ acquired an 18.2% stake in the ASX-listed Industria REIT for AUD68.0m. Optimising market opportunities, it continued its programme of strategic sales of non-core assets, selling 522-255 Wellington Road for AUD90.8m, which is a 38.0% premium to book value.

"GOZ remains a pillar of our internationalisation and is enjoying good domestic economic conditions, the property market remains competitive. As such GOZ is focussing on opportunities for profitable asset sales, listed-market acquisitions and development. GOZ is targeting 3% to 4% distribution growth. We also expect its second-half distributions to be negatively impacted by higher withholding tax and Rand strength," explains Sasse.

Growthpoint's investment in GWI contributed to its half-year performance for the first time. It was responsible for 3.2% of Growthpoint's EBIT. GWI delivered on its guidance, however, as an investment, it has surpassed Growthpoint's due diligence expectations.

Since Growthpoint's initial investment, GWI has shown a 77.8% growth in share price and a 265.2% increase in market capitalisation. In the half-year, GWI more than doubled the number of properties in its portfolio from 15 in Romania to 39 properties - 19 in Romania and 20 in Poland. It improved its occupancies from 91.3% to 93.3%. Its portfolio now has a 5.3-year weighted average lease term.

During the half-year, Growthpoint invested a further EUR113.8 into GWI, which helped it enter Poland with the acquisition of 71.7% of Griffin Premium RE. N.V. (GPRE), a Dutch entity listed on the Warsaw Stock Exchange. GPRE is a pure-play Polish real estate platform that primarily owns high-quality office and mixed-use assets in Warsaw and other key cities. The GPRE portfolio comprises six office and three mixed-use office and retail properties. After Growthpoint's half-year close, GPRE acquired three further office properties for EUR160.0m. It also has a development pipeline with stakes in four projects in various stages of completion.

GWI is operating in strong economies with favourable property markets in both Romania and Poland where GDP estimates for 2018 are 4.1% and 3.8% respectively. This is driven by multinational companies moving into the region to benefit from the young, educated, affordable and ambitious workforce. The ongoing expansion and diversification of GWI's portfolio of property assets in the Romanian and Polish office and industrial real estate sectors is expected to improve its cost of capital even further.

"Since our initial investment, GWI has delivered EUR0.44 dividend per share, and they are targeting EUR0.54 dividend per share for their 2018 financial year, which is an increase of 22.7%," points out Sasse. Forty-seven per cent of GWI's dividends are currently hedged for 2018. Growthpoint will continue to invest capital in GWI, to pursue market opportunities and support its mission of becoming a leading international investor in CEE commercial real estate and its ambition to list on the LSE main board.

Sasse concludes: *"Growthpoint will remain opportunity-driven and seek ways to outperform while conserving our risk profile. We will continue to create value for all stakeholders."*

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