WWW.GROWTHPOINT.CO.ZA

THE PLACE, 1 SANDTON DRIVE, SANDTON, GAUTENG, 2196,
SOUTH AFRICA TEL: +27 (0)11 944 6000 **FAX:** +27 (0)11 944 6005
PO BOX 78949, SANDTON, 2146, SOUTH AFRICA
DOCEX: 48 SANDTON SQUARE **EMAIL:** info@growthpoint.co.za

GROWTHPOINT PROPERTIES

MEDIA RELEASE FROM GROWTHPOINT PROPERTIES

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Growthpoint posts 5.3% growth in full-year distributable income

Growthpoint Properties has posted results for the year to 30 June 2019 with distributable income growth of 5.3% and dividends per share up 4.6%, outperforming its market guidance marginally. The solid set of results extends Growthpoint's track record of uninterrupted dividend growth for investors to 16 years.

South Africa's largest SA primary listed REIT recorded a 4.9% increase in group property assets to R139.4bn, with most of the increase coming from Growthpoint's international investments.

Norbert Sasse, Group CEO of Growthpoint Properties, attributes this positive performance to two of the company's key strategies, internationalisation and generating new income streams from third-party trading and development and funds management.

Sasse comments, *"We are pleased to report that Growthpoint has achieved the growth that we set out to deliver for the year. The road has not been an easy one, but we have delivered a robust set of results with significant strategic gains achieved in an incredibly harsh operating environment. Fortunately, Growthpoint's size and diversity on three continents and across property sectors continues to ensure that it is defensive. While property fundamentals in SA have been weak, our international investments have performed well and are in strong and supportive property markets."*

Growthpoint creates value through innovative and sustainable property solutions that provide space to thrive. It is the most liquid and tradable way to own commercial property in SA. Growthpoint's quality earnings are underpinned by high-quality property assets. Growthpoint owns and manages a diversified portfolio of 508 property assets including 450 properties across SA valued at R78.3bn and a 50% interest in the properties at V&A Waterfront, Cape Town, valued at R9.6bn. Growthpoint owns 57 properties in Australia valued at R38.7bn through a 66.0% holding in ASX-listed Growthpoint Properties Australia (GOZ). It also owns 60 properties in Romania and Poland, 100% valued at EUR2.8bn through its 29.8% share in LSE AIM-listed Globalworth Investment Holdings (GWI).

Currently the 25th largest company in the FTSE/JSE Top 40 Index, Growthpoint is a constituent of the FTSE EPRA/NAREIT Emerging Index. It has also been included in the FTSE4Good Emerging Index for the third successive year and in the FTSE/JSE Responsible Investment Index for a decade.

Growthpoint upheld it Moody's national scale rating of AAA.za with a stable outlook. As a principally SA operation, its global scale rating is capped at the sovereign credit rating of Baa3. The company's balance sheet is well capitalised and its gearing is conservative. Its consolidated loan-to-value ratio stayed well within covenants, and while increasing slightly during the year from 35.2% to 36.4%, it has since decreased to 35.1% following GOZ's capital raise.

During the year, Growthpoint's public bond issues totalled R2.6bn for three to 10 years at spreads of Jibar plus 109 to 190 basis points. Growthpoint issued its debut CPI-linked bond in June 2019, raising R600m of 10-year bonds and at an effective rate of 180 basis points above Jibar. R3.7bn of debt matured during the year and R3.3bn of FY20 debt maturities were repaid or refinanced in advance. At year-end, 57.1% of debt was unsecured, 86.5% of interest rate exposure was fixed, and the average term of debt extended to four years.

Making the most significant contribution of 2.0% to Growthpoint's distributable income growth for FY19 was its investment in GOZ. Growthpoint invested a further R1.3bn into GOZ during the year as part of its internationalisation strategy. GOZ had a busy year overall as it continued recycling assets, GOZ now has 57 property assets in Australia's favoured office and industrial sectors, concentrated in robust markets along the country's Eastern Seaboard. Its portfolio showed 10% like-for-like asset value growth and now has a five-year weighted average lease expiry. GOZ successfully undertook two equity raises which were oversubscribed, and after the close of its most recent capital raise its free float increased to around AUD1.3bn.

"*GOZ is guiding 3.5% growth in distributions to 23.8 AUD cents per share for FY20. Its balance sheet is in excellent shape. It has lowered its debt costs and is well positioned for acquisitive growth in addition to its AUD353m development pipeline," points out Sasse.*

The investment in Central and Eastern Europe, through GWI contributed 1.6% of Growthpoint's distributable income growth. Growthpoint furthered its offshore drive by investing another R241.6m into GWI during the year. Growthpoint now owns 29.8% of GWI, which simplified its structure during the year. GWI had an active year, completing six acquisitions in Poland of EUR574m and making excellent progress in delivering its strong development pipeline in Romania. It has 60 office and industrial assets, 37 properties in Poland and 23 in Romania, and its portfolio value increased 33.3% during the year. All three major credit rating agencies have given GWI investment-grade ratings, it completed a significant EUR500.5m capital raise, and continues to be well placed for acquisitive growth.

"GWI is enjoying a strong macroeconomic environment and robust property fundamentals with excellent multinational tenant demand in both Romania and Poland. It has access to accretive development opportunities in Romania and enhancing acquisition opportunities in Poland," Sasse notes.

With its amplified investment in both GOZ and GWI this year, 30.3% of Growthpoint's assets are now offshore and contribute 23.3% to its earnings before interest and tax (EBIT). The international contribution to Growthpoint's dividend growth was supported by favourable exchange rates.

In SA, Growthpoint's 50% stake in Cape Town's V&A Waterfront made a positive 1.5% contribution to its distributable income growth. Its strong property fundamentals, contrary to the rest of SA, delivered rental renewal growth of 4.0% and positive retail sales and trading density growth. The 4,000sqm extension of its flagship Woolworths store will be complete for the 2019 festive season and the new Battery Park and Parkade opened, supporting further uses and growth in the precinct. Demand for P-grade office space at the V&A remained strong, with very low vacancies and several strategic leasing coups. The lease for Deloitte's new 8,500sqm head office development will commence on 1 October 2020 and the precinct is the preferred bidder for the new 9,000sqm Investec Bank building. Hotel occupancies at the V&A have returned to pre-water-crisis levels, and its Cruise Liner Terminal welcomed 66,000 passengers, a 16% increase on last year.

"*Development at the V&A Waterfront is focused on the Canal District and the Pierhead District, while it is also advancing the masterplan for future development at Granger Bay. The V&A will continue to seek opportunities to enhance earnings, increase bulk and densify the precinct," says Sasse.*

Growthpoint's funds management business contributed 0.4% of the company's distributable income growth, with Growthpoint Healthcare Property Holdings (GHPH) investors receiving a 13.0% total return. The business has two active funds so far, GHPH and Growthpoint Investec African Fund (GIAP), and a pipeline of transactions that will soon see its combined assets under management surpass R10bn.

GHPH has a R2.6bn portfolio of five assets and has attracted some R700.0m in third-party investments. It is investing R100.0m in expanding two of its hospitals and has a significant pipeline of acquisitions and developments, including the Pretoria Head and Neck Hospital. GIAP drew down the first USD32.5m of its USD212m committed capital during the year to acquire 97.5% of Achimota Retail Centre in Accra, Ghana. Then, post year-end, it successfully acquired 100% of Manda Hill Shopping Centre in Lusaka, Zambia. All of its committed capital is expected to be invested by the end of 2019.

Third-party trading and development fees of R75.0m contributed 1.1% of Growthpoint's distributable income growth. During the year, R2.7bn of new developments were in various stages of completion for Growthpoint's balance sheet and another R900m for third parties.

"We continue to build a sustainable pipeline of opportunities that will ultimately enhance the distribution contribution of the South African business. This was an active year for refurbishing and refreshing our retail portfolio, undertaking new quality green-certified developments for our top-end clients and building iconic modern logistics warehouses in the industrial sector," explains Sasse.

With the strained SA economy, Growthpoint's domestic portfolio, which carries the Group overhead, diluted distributable income growth slightly by 0.2%. Continuing its portfolio optimisation drive, Growthpoint sold 14 assets for more than R2.9bn and has another seven assets of R325.4m held for sale. Property values remained flat at R78.3bn.

Growthpoint successfully let more than 1.25 million square metres of space in SA in FY19 and increased tenant retention, with an improved renewal success rate of 70.1%. Importantly, portfolio arrears were kept firmly in check. Rentals contracted 5.3% on renewal and vacancies deteriorated in all three property sectors – retail, office and industrial - increasing from a combined 5.4% to 6.8%. In a difficult environment, tenant installation allowances and other incentives are costing more.

Despite constrained consumer spending, Growthpoint's retail trading densities grew 1.9% during the year compared to 1.3% in the previous year. It achieved key letting successes including securing Dis-Chem and Pick n Pay for the long-vacant 3,600sqm ex-cinema space at Lakeside Mall, Benoni, and introducing H&M to Walmer Park Shopping Centre, Port Elizabeth. Growthpoint also invested R110.0m in the Edcon recapitalisation and reduced its exposure to Edcon by 11% during FY19 alone. Office occupancies and rentals remained under pressure, but Growthpoint upheld escalations of 8.1% in force over 73% of its office revenue. Even facing increased business failures and closures, Growthpoint's industrial portfolio achieved renewal rental growth – the only subsector to do so – improving from negative 3.3% to positive 0.3%. Workshop17, 50% co-owned by Growthpoint, opened two new spaces at The Harrington and 32 of Kloof, both in Cape Town, growing to seven iconic co-working spaces with over 2,000 members and 500 companies.

"The very tough and deteriorating domestic economy is placing pressure on all SA property fundaments, which are expected to deteriorate further. As such, earnings from SA are expected to be dilutive to the Group in the year ahead. However, Growthpoint is advantageously positioned with its strong balance sheet, diversification across geographies and sectors, sustainable quality of

earnings and ongoing commitment to best-practice corporate governance. With this in mind, Growthpoint expects dividend growth for the year ahead, if any, to be nominal," concludes Sasse.

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RELEASED BY:
Growthpoint Properties Limited
Norbert Sasse, Group Chief Executive Officer
Tel: +27 (0) 11 944 6249
www.growthpoint.co.za

For more information, or to book an interview, please contact Mahlatse Bojanyane on 083 453 6668 or email Mahlatse@marketingconcepts.co.za.