

# Investec Property Fund acquires iconic Zenprop portfolio for R7.1bn

## Media release

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### Transaction Highlights

- R7.1bn iconic property portfolio underpinned by real estate fundamentals and strong contractual cash flows
- Long lease profiles (WALE of 4.3 years)
- High quality tenants with strong lease covenants – 80% A grade tenants
- Majority of office and industrial properties are single tenanted with triple net leases
- Dominant regional and niche retail properties
- Opportunities for the Fund to acquire additional assets in the future from Zenprop
- Further enhances the quality, defensive nature and scale of the Fund's existing portfolio
- Transaction to be funded 50% equity (underwritten) and 50% debt
- 65% irrevocable commitments / letters of comfort in support of the transaction

Investec Property Fund (IPF) has agreed the acquisition of a portfolio of 26 properties for an aggregate acquisition value of R7.1 billion from best-of-breed developer Zenprop. The portfolio contains award winning properties with strong underlying property fundamentals consisting of 12 office properties, 11 industrial properties and three retail properties at a blended yield of 7.5%. The acquisition almost doubles the size of the Fund's existing portfolio, resulting in an increase in the asset base from c.R9.7 billion (post the Griffin acquisition which is expected to complete later this month) to R16.4 billion and introduces a high quality portfolio of income producing properties into the Fund's asset base that further enhances the real estate fundamentals of the Fund's existing portfolio. With a GLA of 397,273m<sup>2</sup>, the portfolio acquisition increases the Fund's total lettable area by 42%.

Investec Property Fund CEO Nick Riley said: "The Zenprop transaction presented a rare opportunity for the Fund to acquire an iconic property portfolio that is unique in terms of location, quality and scale, underpinned by high quality tenants with very strong lease covenants and long term leases.

"A portfolio like Zenprop is consistent with our focus on real estate fundamentals and strategy of building a quality portfolio that optimises capital and income returns over the medium to long-term for shareholders. This strategy is confirmed through the 65% irrevocable commitments and/or letters of comfort to support the transaction received from our major shareholders."

In line with the Fund's focus on real estate fundamentals, the Zenprop properties are tenanted by a large majority of high quality national or listed tenants, with strong lease covenants, above-inflation escalations of 7.6%, a 4.3 year weighted average lease expiry (WALE) and a low vacancy rate of 0.5% across the portfolio.

The majority of the office and industrial properties are single tenanted with triple net leases which will complement and augment the Fund's existing expiry profile, while the retail properties are either dominant or niche centres, have a strong track record of performance with Newcastle having available bulk, allowing for further development. These attributes add to the quality, defensiveness and income predictability of the Fund.

The portfolio includes several iconic office buildings, including 1 Protea Place, Sandton which is majority tenanted by DLA Cliffe Dekker Hofmeyr and 3 and 4 Sandown Valley Crescent, tenanted by the likes of TBWA, Standard Chartered and Boston Consulting Group. These three properties are located in the heart of Sandton's commercial node within close proximity of the Gautrain station. The Sandton offices enjoy an average WALE of 4.7 years and are therefore well positioned to absorb the new supply coming through in the short term.

The acquisition also brings in an industrial portfolio that includes several properties located within the highly sought after Riverhorse area and tenanted by Discovery, Adcock Ingram and RTT, amongst others. The Zenprop portfolio also includes 101,332m<sup>2</sup> of high quality industrial properties in Elandsfontein, with close proximity to OR Tambo international airport as well as other major national arterials.

The three retail centres acquired as part of the portfolio include the Newcastle mall, a regional shopping centre in Kwazulu Natal's third most populous city and Zevenwacht Village centre, situated between Stellenbosch and Cape Town comprising 39,956m<sup>2</sup> of prominent retail trading space. Both centres derive north of 80% of income from national retailers and have less than 2.5% vacancy. Vacancies have not been paid for upfront, but rather by way of a deferred payment in the event the vacancies are filled on terms acceptable to The Fund.

The third retail property acquired is Design Quarter, a niche design and dining destination centre located off Leslie Avenue in Fourways, one of the fastest growing commercial and residential hubs in northern Johannesburg.

The Purchase Consideration of R7.1 billion will be settled as follows:

- R0.8 billion will be settled through the issue of Investec Property Fund shares to Zenprop at a price of R16.51 (ex-dividend), being the clean 30 day volume weighted average price ("VWAP") up to and including 6 August 2015, being the last business day immediately prior to the signature date ("Share Consideration");
- R0.2 billion will be settled through the transfer to Zenprop of Investec Australia Property Fund ("IAPF") shares owned by the Fund at a price of R11.58 (ex-dividend) per IAPF share calculated with reference to the 30 day VWAP of IAPF shares as at 6 August 2015; and
- the remaining R6.1 billion will be settled in cash and will be funded through a combination of debt and equity:

With regard to the debt, the Fund has capacity to and will raise gearing on the Zenprop portfolio of approximately 50% of the purchase consideration which equates to gearing of R3.6 billion. Following the Zenprop acquisition, the Fund will have a LTV of c.35%.

The Fund intends to undertake a fully committed rights offer of c.R2.6 billion to part fund the Zenprop acquisition at a clean rights offer price of R15.00, which represents a 9.1% discount to the 30 day VWAP up to and including 6 August 2015.

Zenprop has agreed that if the rights offer is not fully subscribed, then any shortfall will be underwritten by Zenprop through the increase in the share consideration of the purchase price by the issue of Investec Property Fund shares at the Rights Offer price of R15.00.

"We are confident of a successful rights offer as the Fund has obtained irrevocable letters of undertaking / letters of comfort from key shareholders (65%) to vote in favour of the Zenprop acquisition and to follow their pro-rata share of the rights offer, with any shortfall in the rights being underwritten by Zenprop" said Riley.

The transaction is subject to shareholder and Competition Commission approvals.

To view full article:

<https://www.investec.co.za/about-investec/investec-news/investec-property-fund-acquires-iconic-zenprop-portfolio-for-r7-.html>