News release

5 September 2019

FAIRVEST DELIVERS MARKET-BEATING RETURNS IN TOUGH MARKET

Photographs of Fairvest's property portfolio and management can be accessed here. Alternatively, please contact Investorsense at the details below.

Features for the year to 30 June 2019

- Distribution for the period increased by 8.1% to 21.773 cents per share
- Total property portfolio increased by 5.8% to R3.16 billion
- Net asset value per share increased by 0.7% to 229.38 cents
- Like-for-like annualised net property income growth of 8.7%
- Vacancies at 4.0% of total lettable area
- Tenant retention remain high at 79.8%
- Arrears reduced further to 1.3% of revenue
- Distribution growth of 4% to 6% expected for the full year to 30 June 2020

Cape Town, 5 September 2019. Fairvest Property Holdings Limited ("Fairvest") today announced results for the year to 30 June 2019, with annual distributions increasing by 8.1% to 21.773 cents per share. Chief Executive Officer, Darren Wilder said: *"We are pleased to be able to deliver above market distribution growth in what can only be described as an extremely tough economic climate. Fairvest's continued financial outperformance is attributable to its focus on a differentiated sector of the market and its experienced management team who has managed the property portfolios through many different economic cycles. Our persistent drive to excel at property fundamentals continues to be reflected in low vacancies and record-low arrears, high tenant retention and solid growth in net property income.*"

Fairvest has been one of the best performing property stocks in the South African market, delivering inflation-beating dividend growth for more than six years and substantially outperforming the SAPY index over 1, 3 and 5 years.

Fairvest maintains a distinctive focus on retail assets in underserviced, high growth sub sectors. The portfolio is weighted toward nonmetropolitan 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.

Wilder said that the company has performed well in tough economic conditions as it has a well-defined strategic framework with includes not straying from its portfolio focus of high-quality peri-urban and rural community centres with clear value extraction opportunities. The company favours performance over size and has therefore been disciplined in its pursuit of value adding transactions, only at the right price, to benefit the company and its shareholders over the long term. To maximise its participation in attractive new opportunities coming to the market, the company has developed strong strategic relationships with experienced developers and landlords of both brown and greenfield projects where it often assumes a structured funding role for its strategic partners. Its low gearing affords it the ability to take advantage of opportunities and make yield accretive acquisitions. Wilder went on to say "Although this will remain a strategic objective it is not a strong focus until we see improved trading conditions

REVIEW OF RESULTS

Total property revenue increased by 21.1% to R489.7 million, benefitting from income growth in the historic portfolio, as well as acquisitions during the period. Net profit from property operations increased by 19.3% to R315.7 million, while corporate administration expenses increased by 20.5% to R30.2 million. Distributable earnings increased by 17.9% to R220.4 million. Cost containment and efficient recoveries of municipal charges remain a strong focus area. The gross cost to income ratio remained stable, increasing from 36.4% to 36.7%.

The weighted average contractual escalation for the portfolio was unchanged at 7.4%. Gross rentals across the portfolio trended upwards, with an 8.1% increase in the weighted average rental to R121.64/m^2 at 30 June 2019. This was due to contractual escalations and increases in rental achieved on new leases, offset by a 0.5% increase achieved on renewals.

The net asset value increased by 3.5% to R2.34 billion and by 0.7% to 229.38 cents per share.

PROPERTY PORTFOLIO

The Fairvest property portfolio consists of 42 properties, with 243 030 m^2 of lettable area and valued at R3.16 billion.

The property portfolio increased by 5.8% to R3.16 billion, benefitting from the R49.5 million Bokleni Plaza acquisition, R86.5 million of capital expenditure and a 3.8% increase in the historic portfolio. Asset quality continues to improve, with the average value per property increasing by 3.2% to R75.2 million, and the average value per square metre increasing by 3.6%

to R13 002/m^2. Properties are conservatively valued, which is evident from the weighted average discount rate of 14.6% and the weighted average capitalisation rate 10.1% used for the valuations. At least one third of properties are valued by three separate independent valuers on an annual basis.

Two new properties were acquired during the period. The R49.5 million Bokleni Plaza, situated in Libode, Eastern Cape, anchored by Boxer Superstores, was transferred in October 2018 and the Nonkqubela Mall, situated in Khayelitsha, Western Cape, anchored by Shoprite and Pick n Pay, was transferred in August 2019.

"Although we know South Africa's macro-economic environment remains challenging, with continuously increasing pressure on consumer spending which is clearly evident in tenants' trading performance", Wilder said that Fairvest's underlying business fundamentals remain strong – "the nature of the portfolio and its low-risk tenant base is more resilient against economic challenges. The unrelenting focus on maintaining the company's strong operational metrics in terms of high tenant retention, good cost management, stable vacancies and low arrears will continue. In addition, conservative gearing levels provide ample opportunity to make further yield accretive acquisitions, should they present themselves". He said that the company remains confident that it is well positioned for long-term value creation and will continue to show inflation-beating growth.

As part of Fairvest's value extraction and improvement initiatives, the company commenced the installation of photovoltaic rooftop solar systems on 10 of its properties. R22.4 million was spent during the period, with a further R35.5 million committed for these improvements. The estimated annual energy generation is 7 793 661 kWh. In addition, the R43.5 million, Middestad Mall first floor retail redevelopment and activation of ground floor retail premises were completed. The new retail space opened on Black Friday with key first floor tenants, Total Sport and Sports Scene's turnover exceeding expectations.

PORTFOLIO COMPOSITION, LETTING AND VACANCIES

The portfolio remains well diversified across South Africa, with the four largest provinces, KwaZulu-Natal, Western Cape, Free State and Gauteng contributing 80.2% of revenue. The high national tenant component of 74.8% of the portfolio provides shareholders with a low-risk investment profile.

Vacancies increased from 3.5% to 4.0%. During the year, 119 new leases were concluded with a total GLA of 14 475 m^2. Fairvest successfully renewed 32 948 m^2 of leases, with a positive reversion of 0.2% being achieved on these renewals. Tenant retention for the period remained high at 79.8% and the weighted average lease term increased from 32 to 38 months. The period required for leasing vacant space has increased in the current environment and Fairvest has raised a vacancy provision as a prudent measure against this trend.

CAPITAL AND BORROWINGS

Fairvest issued 27.1 million new ordinary shares through its dividend reinvestment alternative with resulted in the retention of R57.3 million of equity. The loan to value (“LTV”) ratio remained conservative at 27.9%. Of the debt, 67.6% was fixed through interest rate swaps as at 30 June 2019, with a weighted average expiry for the fixed debt of 24 months. The company said that it successfully refinanced several large facilities during the period, resulting in increased facilities and reduced rates. The weighted average maturity of debt increased from 17 months to 24 months. Interest cover was high at 3.6 times.

PROSPECTS

Despite difficult economic conditions, the company remains confident that the nature of its portfolio, its low-risk tenant base and the company’s letting expertise will prove to be defensive in the face of economic headwinds, with growth in distributions approximating or exceeding current inflation. Fairvest remains well positioned for long-term value creation, with a clearly focused strategy of servicing non-metropolitan and lower LSM markets and maintaining strong operational metrics including conservative gearing levels, high tenant retention and low arrears
Fairvest has four large long-term leases, with above market rentals, that expire during the 2020 financial year. The expectation is that the rentals on these four leases will be reduced on renewal or re-letting to ensure sustainable rentals over the new lease periods. Wilder said “Our forward guidance for 2020 is lower than what we have historically achieved, however we are operating in a different market now and a 4% to 6% is effectively the new 8% to 10% in the South African only context

-ends-

Contacts:
Darren Wilder
Chief Executive Officer – Fairvest Property Holdings Limited
021 276 0800

For more details or to set up a media interview, please contact*:*
Lydia du Plessis
Investorsense

Cell: 082 491 7583
e-mail lydia@investorsense.co.za