MEDIA RELEASE FROM VUKILE PROPERTY FUND

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Vukile delivers 7% full-year distribution growth off the back of a strong operational performance

Vukile Property Fund today reported 7% growth in distributions to 146,35 cents per share for its full year to 31 March 2016. Vukile's results deliver on its market guidance and continue its 12-year unbroken track record of distribution growth and positive performance for investors.

Laurence Rapp, CEO of Vukile Property Fund, says the results reflect an excellent operational performance that keeps on improving despite an environment that keeps on getting tougher. Vukile bettered its results in every single property measure. It also increased its exposure to the defensive retail asset class, amplified the quality of its properties, made its first offshore investment, and maintained its conservative balance sheet management.

Rapp comments: "We're pleased to report a positive set of results that are on target and show an impressive operational performance. We continue to build a high-quality portfolio of assets for lasting success. Vukile is prudently and defensively positioned."

Locally, most of Vukile's activity was inward focused, an approach that delivered tremendous results. It improved vacancies meaningfully across its portfolio from 4.6% to 3.9% of gross lettable area.

In addition, rental reversions are positive across the entire Vukile portfolio by 9.1% and exceptionally strong for retail at 12.3%. Its lease expiry profile improved substantially with around 33% of leases now due to expire in 2020 and beyond, up from 18% at the start of the year. Vukile contained its ratio of net recurring costs to property revenue at 15.8% compared to 15.5% in the prior year, despite the problem of government administered expenses for utilities, rates and taxes increasing faster than inflation.

"This shows the high quality of the Vukile retail portfolio," explains Rapp. Building on the operational excellence of its portfolio, Vukile's energy management and alternative income initiatives were a big success during the year. Both will be grown further in the coming year.

He adds: "We anticipate a very difficult environment going forward. Besides the stagnant economy, political volatility in South Africa is impacting capital markets and the Rand with negative effects for the cost of capital for the property sector. Despite this, Vukile has all the building blocks in place to manage a prolonged difficult trading environment. We still expect similar levels of growth for Vukile in the coming year of around 7%."

JSE-listed Vukile is an internally managed REIT (Real Estate Investment Trust) that is fast becoming a specialist retail focused property fund with strong contractual cash flows for sustainability and capital appreciation. Vukile has direct property assets valued at R15.6 billion and total assets of R16.7 billion. Retail centres now comprise 70% of its portfolio. Vukile became a Level 3 B-BBEE contributor during the year.

Leveraging off its deal-making ability, Vukile launched its international investment aspirations by taking a stake in JSE AltX-listed Atlantic Leaf Properties in August 2015. Vukile invested R760 million for a 26.1% active holding in Atlantic Leaf, which includes the strategic influence of a board seat.

Rapp notes there are compelling opportunities internationally. "We are devoting a lot of energy into exploring opportunities in various European markets and other jurisdictions to take advantage of better property fundamentals. We're targeting investments that are more than currency plays, where we can access a lower cost of funding, healthy net property margins, good growth prospects and long-term stable leases."

These benefits are inherent in the Atlantic Leaf portfolio. Atlantic Leaf holds an approximately £264 million defensive real estate portfolio in the UK. It has a long lease expiry profile of approximately 13 years and is largely focused on industrial and office assets where the underlying properties are single-tenanted triple-net leases with blue-chip businesses that have recognised ratings. "This adds to the defensive nature of the Vukile portfolio," says Rapp.

However, Vukile faces a sluggish market on the local front. Rapp reports there are very few domestic investment prospects that Vukile is evaluating, as pricing does not match the cost of capital.

However, benefiting from its access to rare market opportunities, Vukile boosted its retail portfolio during the year by acquiring four shopping centres for R1.2 billion and significant stakes in two regional mall developments for R600 million.

It acquired the trading shopping centres of Batho Plaza, Bedworth Centre, Nonesi Mall and an 80% stake of Moruleng Mall. Vukile also acquired a 33% holding in Thavhani Mall and 25% of Springs Mall, both currently under development by preeminent retail property developer Flanagan & Gerard Property Development & Investment. Vukile pre-funded both developments resulting in zero equity market risk and both properties will come on stream being earnings accretive.

Vukile invests in its assets and upgrades them for growth. This year, it undertook R654 million in upgrades and redevelopments. Continuing its programme of recycling capital and assets, Vukile disposed of five properties for a combined R270.9 million. It also has a signed offer for the sale of its Sovereign property portfolio, subject to conditions precedent.

Vukile minimises its funding costs and refinance risk. It remains conservatively geared at 29.5% with 86.4% of its debt hedged against a rising interest rate cycle. Vukile continued to benefit from a strong 'A' corporate credit rating and 'A+' secured note rating, both with stable outlook as recently reaffirmed by Global Credit Ratings. The REIT raised R 1.1 billion in equity in May 2015, refinanced R2 billion of debt during the year, and also raised R400 million in new equity post year-end in April 2016.

Looking ahead, Vukile will continue to invest in its core retail sector. "Our goal is to craft our direct South African assets into a specialist retail property fund," says Rapp.

The proposed transaction between Vukile, Arrowhead Properties and Synergy Income Fund has the potential to further this goal significantly. Should the transaction go ahead as envisioned, Vukile's retail assets will increase to 92% of its portfolio. It will also reduce gearing in Vukile's portfolio further and provide it with a high-yield, high-growth opportunity to access office and industrial property with a strategy executed by the Arrowhead team.

"Vukile has a considered, conservative approach to markets and the entrepreneurial drive to seek out new opportunities for accretive deals, which will be focused mainly in international markets. Vukile is well positioned and will continue to create value for all our stakeholders," says Rapp.

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