MEDIA RELEASE FROM VUKILE PROPERTY FUND

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Vukile reports on-target 7.4% increase in half-year dividend growth and further Spanish expansion

Vukile Property Fund today reported 7.4% growth in dividends per share for its half-year to 30 September 2017. This strong performance is in line with its market guidance and places Vukile firmly on track to deliver its forecast growth in dividends of between 7% and 8% for the year ending March 2018.

With its defensive position in the local market and its growing international expansion, Vukile has announced that early indications are for shareholders to expect an upward trajectory for its dividend growth of at least 8% for the following financial year to end March 2019.

Laurence Rapp, CEO of Vukile Property Fund, attributes this positive performance to the company's recent restructure which shifted Vukile ahead of the markets. "We have established a solid, predictable, high-quality annuity income base both locally and in Spain as well as the UK."

Rapp adds: "Vukile is well positioned for future growth. It has a stable, defensive local retail portfolio with impressive operating metrics that provides the platform for its continued international expansion, so we can further diversify our assets in to counter-cyclical markets with stronger currencies."

This solid set of interim results continues Vukile's sterling track record of unbroken growth in dividends since listing. They reflect the strength of its data-driven asset management, focused operational performance, well hedged and conservative balance sheet, and deal-making dexterity, which boosted its offshore assets to 24% of its base during the half-year.

JSE-listed Vukile is a leading internally managed Retail REIT (Real Estate Investment Trust) with total property assets and related property investments of R20.4 billion. Some R15.5 billion, or 76%, of this is invested in Southern Africa, with 91% of Vukile's direct domestic assets being shopping centres. It also has two strategic international investments being its Spanish REIT subsidiary Castellana Properties Socimi, accounting for 18% or R3.6bn of its assets, and associate business Atlantic Leaf in the UK, which equals 6% or R1.3bn. Both are solid launchpads for Vukile's future offshore growth plans.

Vukile's credit rating is investment-grade and its gearing remains conservative at 29% with 94% of its interest-bearing debt hedged with a three-year fixed rate maturity profile. The REIT has de-geared its local balance sheet to create capacity to pursue its offshore strategies. It has also introduced currency hedging that will see at least 75% of its offshore earnings hedged over a three-year period to provide shareholders with transparent, predictable, and sustainable income streams. Vukile reduced its cost of funding to 5.58% over the reporting period.

"Our retail portfolio has again performed admirably in exceedingly difficult conditions proving the resilience and defensive nature of our malls." notes Rapp.

While South African consumers are under pressure and cutting discretionary spend, Vukile's high-quality, low-risk retail portfolio is focused on shopping centres that mostly cater for non-discretionary spend. Thus, Vukile has sidestepped much of the strain that the sector is generally experiencing.

The portfolio achieved impressive operating metrics with a 6.1% increase in like-for-like net property revenue, improved vacancy levels down from 3.9% to 3.4%, positive retail rent reversions of 5.2% and inflation-beating contractual rental escalations of 7.3%. Its weighted average lease expiry is 3.7 years.

Around 80% of Vukile's shopping centre tenants are national retailers, making its tenant mix exceptionally defensive. The portfolio achieved an impressive 84% tenant retention rate. It attains trading densities above industry average, with its trading density increasing by 3.4% for the six-month period, ahead of the market comparable rate of 2.75%. Vukile's retail portfolio also boasts an industry-leading rent-to-sales ratio of 5.9%, which highlights the quality of the portfolio and shows scope for growth in base rentals.

The customer profile at Vukile's shopping centres is aligned to South African demographics. Over 130m customers visit its top 15 shopping centres each year. Vukile's portfolio is mostly small regional centres and community centres, which are showing 4% and 5.6% growth in trading densities, respectively.

Vukile also managed to bring down its operating costs slightly from 16.8% a year ago, to 16%. "Our environmental initiatives, especially energy and water management and the use of solar power, have made a meaningful contribution to improving these costs. We are committed to achieving even more resource savings as we progress on our sustainability journey," says Rapp.

While there are few opportunities to grow its South African retail portfolio in the current market, Vukile is continuing to invest in the development, upgrade and expansion of its retail assets. During the half-year, the new 50,000sqm Vukile co-owned Thavhani Mall opened in Thohoyandou, Limpopo; the upgrade of its legendary Dobsonville Mall in Soweto launched; and building began on the major redevelopment of its Maluti Crescent Shopping Centre in Phuthaditjhaba, Free State.

However, in this macroeconomic environment, Rapp confirms that Vukile is focusing its investment offshore, primarily through Castellana in Spain and Atlantic Leaf in the UK.

Vukile's investment in Atlantic Leaf is performing well. The UK fund's management team is building a solid platform of assets with long-dated leases and strong covenants. Vukile invested a further R407 million into Atlantic Leaf to facilitate portfolio acquisitions, thereby increasing its shareholding to 35% and triggering a minority offer. Rapp explains: "Given the irrevocables in place from key shareholders, it is likely that our investment will remain at around the 35% to 40% level after the offer closes."

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Vukile also concluded the landmark Spanish acquisition of 11 retail parks for EUR193m via its new Spanish REIT subsidiary Castellana. Having employed a team of highly experienced Spanish retail experts into Castellana, Vukile is planning to combine its best practice governance and management principles with strong on-the-ground knowledge. “We believe that with our dynamic management team our advantage lies in being able to operate as locals in the Spanish market,” comments Rapp.

Rapp notes the macroeconomics in Spain are promising. Its 2017 forecast GDP growth is 3.2%, home consumption growth is 2.6%, and consumer price inflation is 1.9%. It is the third most visited destination worldwide behind USA and France. Spain had 11% growth in tourists in 2016 and is the second most popular shopping destination in Europe.

Castellana has assets of EUR225m. Some 90% of its portfolio by market value comprises retail properties. It has excellent vacancy levels of 0.4%, excluding development vacancy. Some 96% of its income is generated from national tenants, and it has a long weighted average lease expiry profile of 16.9 years.

Castellana is already experiencing good deal flow and is finalising the acquisition of two more assets at a combined value of EUR68m. The first is the 25,500sqm Alameda Park in Granada, which has an occupancy rate of 98.6%, strong anchor tenants and a good shopper base. This retail park and shopping centre are located next to Castellana’s Kinepolis Retail Park, which is currently being upgraded at an accretive yield. The transaction will establish Castellana as the primary retail owner in Northern Granada.

The second acquisition asset is Pinotar Park in Murcia, South-East Spain. It is a fully-let 10,650sqm retail park, anchored by strong retailers on long leases. Castellana also has the option to acquire an adjacent plot of land to extend the centre.

“Our post-deal integration plan is well on track, and we plan to list Castellana on the Madrid Stock Exchange by mid-2018. We look forward to building a long-term sustainable business, which will have grown its asset base by close to EUR300m after its latest acquisitions. This is excellent growth from a standing start just six months ago,” says Rapp.

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Issued by:

Vukile Property Fund

Laurence Rapp, CEO

Tel: 011 288 1032

www.vukile.co.za

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1st Floor, Wierda Court, 107 Johan Avenue, Wierda Valley, Sandton

T +27 (0) 11 783 0700