PRESS RELEASE FROM VUKILE PROPERTY FUND

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Vukile delivers robust half-year distribution growth of 7.5%

Vukile Property Fund today reported 7.5% growth in dividends to 78.1 cents per share for its half-year to 30 September 2018, which is well in line with its full-year guidance.

Vukile's half-year results extend its track record of unbroken growth in dividends for investors into its fifteenth year. The JSE-listed REIT's distributable income was up 23.3% from the prior half year to R713.5m and its net asset value increased to 2027 cents per share.

The impressive set of results reflects the diversification benefits from significant growth in Vukile's Spanish investments and the solid operational performance driving Vukile's core South African retail property portfolio in a relentlessly difficult domestic operating environment with no immediate signs of improvement. Vukile's performance is also underpinned by a robust balance sheet, and clarity and consistency of strategy, structure and execution.

Laurence Rapp, CEO of Vukile Property Fund, notes this has been another significant period for Vukile, which now holds 50% of its total R32.3bn property assets offshore - 46% in Spain through Castellana Properties SOCIMI SA and 4% in the UK through Atlantic Leaf - and 50% in Southern Africa.

Rapp comments, *"We are delighted with our half-year progress and pleased to report another set of positive results that deliver on our promises and our strategic objectives. Strong asset management is driving both our Southern African retail portfolio and Spanish investment strategy. Vukile is comfortably on track to deliver dividend growth for the full 2019 financial year in line with the half-year. We are well positioned for long-term growth and sustainability."*

Vukile's directly held domestic portfolio is valued at R14.5bn, with 91% retail assets. Vukile's Southern African retail portfolio is made up of 45 properties valued at R13.3bn, spanning 810,000sqm and with a national tenant base of c.82%. It achieved 5.1% like-for-like growth in net property income and positive retail rental reversions of 4.3% despite difficult trading conditions. Retail vacancies were stable at 3.4% with impressive tenant retention of 87%, and contractual rental escalations at an inflation-beating 7.1%.

Retail trading densities grew by 1% overall, exceeding the SAPOA September 2018 average of 0.2%, as a result of the portfolio's diversified and defensive nature. Shopping centres in Vukile's rural and township portfolio delivered 3.1% and 2.1% trading density growth respectively compared to its urban centres at negative 0.8%. The rent-to-sales ratio for the portfolio is 6%, outperforming the SAPOA benchmark. Its weighted average lease expiry (WALE) profile has increased to four years, with 49% of portfolio leases expiring in 2022 and beyond.

Distinguished by its innovative approach to retail, fibre will be installed at 35 of Vukile's malls by mid-December 2018, 20 of which will offer its customers free Wifi. Energy and water continue to be a focus for resource and cost savings in the portfolio in line with Vukile's commitment to environmental sustainability.

Vukile is continuing its R200m upgrade of Pinecrest Shopping Centre in Pinetown, KwaZulu-Natal, which will boost gross lettable area (GLA) by more than 10%, from 40,100sqm to 45,200sqm. The centre will be relaunched and rebranded in May 2019.

Vukile is also redeveloping Maluti Crescent in Phuthaditjhaba, adding 57% to GLA to meet strong tenant demand, for a R392m investment at a projected yield of 8.1%. Letting is 90% committed by nationals. When finished in April 2019, it will be a state-of-the-art modern enclosed mall that will fundamentally change the shopping experience in its area.

Post-period in November, Vukile took transfer of the 39,450sqm Kolonnade Retail Park in Pretoria which it acquired for R470m and which will be yield-neutral for Vukile in its first year. It has a current 3.7-year WALE and a national tenant component of 88%, anchored by Pick n Pay Hyper, West Pack Lifestyle, Virgin Active and mrphome and mrpsport.

Relative to South Africa, the Spanish outlook is more upbeat and offers distinct benefits to Vukile's investors. Spain is the fifth largest economy in Europe by GDP and the third largest tourist destination in the world. Spanish GDP growth remains ahead of Western Europe's, its employment rate continues to rise, and its e-commerce remains flat at 5% of total retail sales.

Vukile's investment in Spanish properties increased from EUR308m to around EUR900m during the period, following the acquisition of five dominant shopping centres, four of which were acquired from Unibail-Rodamco-Westfield, significantly strengthening an already strong portfolio, diversifying and de-risking it even further.

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Vukile's Spanish subsidiary Castellana Properties SOCIMI SA listed as a REIT on the junior market of the Spanish Stock Exchange in Madrid on 25 July 2018. Vukile's Spanish business has now grown to a full-scale 21-strong team and Castellana is the ninth largest REIT in Spain.

Besides the significant overall growth in Vukile's Spanish assets, they have also achieved c.9% like-for-like growth in gross asset value on their initial acquisition price. The growth in asset values signals that Vukile bought well in Spain and Castellana has added value with yield-enhancing asset management initiatives which have reduced vacancies and costs, improved tenant mixes and metrics, and increased income streams and property values - demonstrating the success of its business model. The nine retail parks that Vukile acquired in Spain during 2017 are now fully let.

Castellana's portfolio represents 97% retail and comprises 19 properties spanning 319,000sqm, with a low 1.8% vacancy and 93% of retail space let to national and international tenants. The portfolio has a WALE of 14.8 years, and a 99.3% rent collection rate. Its most recent acquisitions have ensured a better balance of tenants across retail categories, specifically reducing its exposure to electronics and increasing its fashion component.

Its growing track record of delivering deals in Spain has resulted in an excellent pipeline of acquisition opportunities, which are currently being evaluated.

As its international investment grows, Vukile aims to hedge 75% of its dividend flow from offshore investments over a three- to five-year period to provide investors with predictable, stable Rand-denominated income streams built off high-quality European assets.

Vukile's performance is built on the bedrock of its sustainable financial management model including a strong balance sheet, conservative gearing, capital markets expertise, and a robust focus on governance and leadership. "*Post the Spanish acquisition from Unibail-Rodamco-Westfield, Vukile anticipated that our loan-to-value ratio would increase to 42%, and we are very pleased to report that we have already reduced our gearing ratio to 38%. We intend to reduce this further in the next 12 to 18 months to bring it in line with our long-term 35% target*," says Rapp.

Vukile's recently-launched initiative to drive transformation, the Vukile Academy, has identified 45 students across various curriculums related to the property sector and provided them with bursaries for the 2018 academic year at an investment of R5m. The 10 top bursary candidates will be awarded a one-year internship at Vukile in 2019.

Rapp concludes, *"Vukile's strategic focus remains firmly on South Africa and Spain. With no respite in sight for the tough economy locally, we are well positioned to weather the storm and are concentrating on internal operational excellence in South Africa. The solid base of our Spanish investment will be a strong driver of Vukile's growth overall with its good deal flow and value-adding asset management opportunities. The latest Spanish acquisitions have only contributed to our income base for two months of the current financial period, and further benefits are expected to flow through in the second half of the year."*

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