MEDIA RELEASE FROM VUKILE PROPERTY FUND

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Vukile delivers half-year distribution growth of 7% and reinforces operational strength

Vukile Property Fund today reported 7% growth in distributions per share for its half year to 30 September 2015, delivering results in line with its market guidance. Its solid set of results show strong operational performance and an increased retail property focus.

Vukile boosted its distributable income 27.7% over the prior half year period and grew like-for-like net property revenue by 6.1%. Further enhancing its empowerment credentials Vukile raised its B-BBEE rating to Level 3.

Laurence Rapp, CEO of Vukile Property Fund, notes the company also delivered key strategic achievements, growing its portfolio of high-trading shopping centres, enhancing the quality of its properties and launching its international investment strategy.

Rapp comments: "We are pleased to deliver another positive set of results that are on target and show superb operating metrics, while also achieving inflation-beating distributions for Vukile shareholders. While the macro economic environment remains very challenging, Vukile has robust strategies in place and is on track to deliver full-year results in line with this performance."

JSE-listed Vukile is an internally managed diversified, yet retail property focused REIT (Real Estate Investment Trust). Its total asset base is valued at R15.9 billion, which includes R359 million of listed securities in Fairvest and R350 million in Atlantic Leaf Properties. A R600 million investment in new retail developments has already been pre-funded. Retail property now comprises around 70% of Vukile's overall portfolio value.

Rapp reports that Vukile's retail boosting Synergy Income Fund deal is performing well. Its assets have all been integrated into Vukile and are showing good operating metrics across the board. In commenting further on Vukile's operational performance, Rapp highlights Vukile's strong focus on cost containment where the operating expense ratio decreased from 17.3% in the prior half-year to 16%, well below 2012 levels.

During its half-year Vukile contained its vacancies at 4.7% of gross lettable area with its retail vacancies unchanged at 3.4%. It achieved positive rental reversion across all sectors at an average 9.6%, with retail reversions up a whopping 13.6%. Vukile signed its new retail deals at 12% above budgeted levels.

"This shows the underlying strength of Vukile's retail portfolio, and that our retail assets are not over-rented. While our shopping centres may not all be high profile, their trading strength makes them attractive to retailers. Our high-quality retail portfolio is 83% tenanted by national brands and our centres have trading densities above sector averages," says Rapp.

He adds Vukile is achieving positive rental reversions and retailer demand is strong at its shopping centres, based on the markets they serve.

Growing its retail portfolio, during the period Vukile acquired three retail shopping centres – Moruleng Mall, Batho Plaza and Nonesi Mall -- for a total R846 million at a combined yield of 8.6%. It also concluded a deal for stakes in two regional mall developments, 25% of Springs Mall at Blue Crane Eco Park and 33% of Thavhani Mall, with leading retail property developers Flanagan & Gerard Property Development & Investment, at a cost of R600 million.

"We are excited about the scale and market offering of both these malls, which will open to shoppers in 2017. They will add further quality to the Vukile retail portfolio," notes Rapp.

Vukile has pre-funded both developments resulting in zero equity market risk. It raised R 1.1 billion in equity in May 2015. Vukile also refinanced R1.4 billion of debt and DMTN bonds during the period. Its AA bond rating was reaffirmed by Global Credit Ratings. It remains conservatively geared at 27.8%, with 84% of debt hedged. "Vukile is well hedged against a rising interest rate cycle" says Rapp.

Boosting the quality and lifespan of its properties, Vukile has committed R602 million to the upgrade and redevelopment of its assets. This includes the recently expanded and upgraded Meadowdale Mall, in which Vukile has a 67% stake in partnership with Moolman Group. It is now fully let with extended leases from key tenants and showing strong initial trading with an expected first-year yield of 10%. The expansion of East Rand Mall, which Vukile co-owns equally with Redefine Properties, is continuing. It is attracting strong tenant demand from local and international retailers, reinforcing its dominant position on the East Rand. Vukile is also modernising The Workshop Shopping Centre in the Durban CBD, which is creating new tenant demand.

Entering new markets, Vukile made a R350 million 21% investment in JSE AltX-listed Atlantic Leaf Properties to launch its international investment strategy. Atlantic Leaf holds an approximately £143.4 million (R3.1 billion) real estate portfolio in the UK. Vukile's investment takes advantage of the positive gearing opportunities in its markets, where funding costs are below acquisition yields.

"This was the ideal entry point to international markets for Vukile," says Rapp. "Atlantic Leaf has a great management team and a strong underlying low-risk good-quality portfolio. European markets represent similar inflation-adjusted real returns to our local market but, for South African investors, they also deliver the benefit of a currency hedge."

Vukile's investment in Atlantic Leaf is an active stake, with Rapp taking a board seat. Rapp confirms Vukile intends to expand its offshore exposure with Atlantic Leaf, as well as in other markets.

Vukile has also set its sights on entering the residential market and is making good progress. Rapp expects to launch Vukile's residential property strategy before the end of Vukile's financial year.

Vukile's prudent programme of asset acquisitions, developments and disposals are all aimed at consolidating its position as a retail-focused fund. "We will look to exit our sovereign portfolio, alongside other office and industrial assets, and recycle capital into preferred asset classes or expiring term debt to further reduce Vukile's gearing," says Rapp.

In the immediate future, Vukile will also continue to focus on vacancy and arrears management, as well as growing alternative property revenue, and finding ways to better optimise the Synergy A and B capital structure.

Rapp reports: "Vukile will continue to build a superior low-risk, retail-focused portfolio with a high-quality earnings stream to generate sustainable long-term returns for our shareholders."

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