3 July 2017

Vukile acquires R2,8bn Spanish retail portfolio, boosting its offshore exposure to 21%

Vukile Property Fund today announced its trailblazing acquisition of a portfolio of nine high-quality, newly-built retail parks across Spain via its new 98.3% Spanish REIT subsidiary Castellana Properties SOCIMI SA.

The R2,8bn (EUR193 million) off-market transaction is driven by Vukile's deal-making dexterity. It increases Vukile's diversification, boosts its international exposure to around 21% of total property assets, and grows its Spanish portfolio to 11 properties.

The transaction has given Vukile immediate scale in Spain. Vukile now offers the most focused exposure to Spanish property available in the South African REIT market.

The acquisition represents a 6.2% pre-geared property yield and reaffirms Vukile's prospects to deliver growth in dividends of between 7% and 8% in its current financial year ending 31 March 2018.

Laurence Rapp, CEO of Vukile, says the deal gives traction to Vukile's stated holistic investment strategy in the developed markets of Western Europe. It sets Vukile apart from other SA REITs, many of which have focused their international expansion into emerging Eastern European markets.

Rapp comments: "With this acquisition, Vukile has secured a significant growth platform in one of the most compelling investment stories in the Eurozone today. We are very happy with the fundamentals of the deal and the investment value it signifies for Vukile. It creates a solid, significant base for accretive acquisitions in the region."

Rapp describes the Spanish property market as being transparent and offering depth. The Spanish economy currently provides one of the most attractive growth rates in the Eurozone region with GDP growth of 3.2% in 2016 and 2.2% forecast for 2017 compared with 1.5% for the Eurozone – an outperformance trend set to continue for the next decade. Declining unemployment is spurring robust economic growth and increasing consumer spend.

Spain's retail market indicators are positive and trending in line with the Spanish economic recovery. Retail rental levels remain at pre-financial crisis levels with the constrained supply of retail product driving up demand.

From its retail focus to its quality income streams, Vukile's new Spanish portfolio shows strong synergies with its South African real estate investment strategies.

The nine properties have a total gross lettable area of 117,670sqm and are geographically diversified across Spain. The portfolio has a low vacancy rate of 2.7% (excluding a development vacancy at Kinepolis

Leisure Centre which is undergoing a refurbishment project offering further income enhancement). In fact, this robust portfolio traded through Europe's double-dip recession with vacancies never exceeding 6%.

The portfolio comprises 73 stores of which 95% of gross revenue is derived from leading Spanish national and international retail tenants including Media Markt, Sprinter, Worten, Aki and Mercadona. The portfolio has a weighted average lease term of 15.6 years to expiry and 4.9 years to the next break option.

Also, Rapp points out that there are growth opportunities in the properties' rental levels and unharnessed potential in the portfolio that Vukile plans to unlock with its core strength in active asset management.

Current managers Redevco will continue to manage the portfolio for a six-month period overlapping with the introduction of a highly-experienced asset management team of Spanish retail property experts that Vukile has built in Spain. This will ensure a smooth handover and transition.

Vukile's Spanish asset management team will be led by CEO Alfonso Brunet, who has deep knowledge of the Spanish property market gained in high-performance positions at the likes of Pradera Spain and CBRE. Brunet has a Bachelor in Business Administration from Boston University, USA.

Brunet comments: "I am excited about this new venture and joining the Vukile team. The new Castellana portfolio comprises quality assets and is well positioned for growth."

Rapp explains that Castellana and its new off-market acquisition were secured through Vukile's relationship with the Morze family, led by Lee Morze, a successful South African property entrepreneur now based in Madrid who has 27 years property industry experience. The Morze family is Vukile's partner in Castellana, with Vukile's deal-making acumen complementing Morze's notable entrepreneurial achievements.

To fund the acquisition, Castellana has procured debt funding of EUR94,8 million from Spanish lenders at an all-in cost of debt of 1.98%. Vukile has funded the remaining EUR103,3 million, via Castellana, using the substantial war chest it built up for its international expansion mainly with proceeds from the sale of its sovereign portfolio.

With its increased exposure to international property markets, Vukile has put in place a foreign exchange hedging policy to minimise adverse foreign exchange fluctuations. It will hedge on average 75% of its earnings from its international investments over a three-year period. After the transaction, Vukile's consolidated group gearing level is expected to be at 31.7%, continuing its conservative approach to financial management and balance sheet structure.

Rapp notes: “We expect to attract significant deal flow in the region going forward with the scale and quality of Castellana’s portfolio and the local market expertise of the new asset management team in Spain.”

Vukile is a high-quality, low-risk Retail REIT with total assets of R18.7 billion. Some R14.8 billion, or 79%, is invested in South African property assets, either through direct property assets or indirectly via Fairvest Property Holdings, which invests in a portfolio of smaller retail centres and Gemgrow Properties, which invests in a portfolio of higher-yielding properties. The remaining 21% (R3.9 billion) is invested internationally in developed markets via an investment in Atlantic Leaf, which is Vukile’s UK investment vehicle; as well as in Castellana, which is Vukile’s Spanish investment vehicle.

/ends

Issued by:
Vukile Property Fund
CEO, Laurence Rapp
Tel: 011 288 1032
www.vukile.co.za