GROWTHPOINT PROPERTIES

Growthpoint Properties Limited
Approved as a REIT by the JSE
Incorporated in the Republic of South Africa
Registration number 1987/004988/06
Bond Issuer code: GRTI
"Growthpoint"

INVESTOR UPDATE FOR THE NINE MONTHS ENDED 31 MARCH 2022

We are pleased to present our trading update for the three quarters of FY22 from 1 July 2021 to 31 March 2022.

Growthpoint continues prioritising the strength of our balance sheet and liquidity position and is proud to have obtained a BB+ Fitch Global Scale rating. This is two notches higher than Fitch's South African sovereign rating of BB- mainly due to our significant foreign currency earnings, which more than cover our projected foreign currency interest payments. Fitch assigned Growthpoint a national scale rating of AAA(zaf).

We remain dedicated to our three well-established strategic priorities of international expansion, streamlining and optimising our South African portfolio, and generating income and equity returns from our funds management business, Growthpoint Investment Partners, which includes co-investment in alternative property classes. Our third-party trading and development business is now a well-established business unit generating ongoing income streams.

Growthpoint continues to benefit from the diversified nature of its portfolio. We are in a strong financial position notwithstanding the continued pressure on the South African portfolio due to the challenging macroeconomic environment.

International portfolio

Our international businesses, Growthpoint Properties Australia (GOZ), Globalworth Real Estate Investments (GWI) and Capital & Regional (C&R), are all listed separately and have published their most recent market updates and, as such, we refer you to these publications for more detail.

South African portfolio

The key metrics for our retail and industrial portfolios are showing signs of improvement, though our office portfolio remains under pressure. The first nine months of FY22 have been characterised by a highly challenging operating environment for our tenants and ourselves, with persistent countrywide electricity disruptions, unrest and floods in KwaZulu-Natal.

The macro-economic environment continues to weigh heavily on our domestic portfolio. Total vacancies increased slightly from 10.5% at HY22 to 10.9% at the end of March 2022 but have improved from 11.6% at FY21.

Historical contractual lease escalations at rates above inflation, combined with a stuttering economy and weak demand, both impacted significantly by the COVID-19 pandemic, have created the perfect storm, resulting in continued pressure on rent reversions. Office reversions have declined further since FY21, while industrial and retail have improved. All three sectors have improved since HY22.

Arrears have improved consistently from R308.3m at FY21. While still high, it reduced to R295.8m at HY22 and to R250.1m as at 31 March 2022. These include a few large arrears such as Ster-Kinekor, which are fully provided for. Deferrals not yet recovered are also included in these numbers and have reduced from R18.2m at FY21 to R15m at HY22 and to R11.3m at 31 March 2022. Collections remain at over 100% with rental discounts granted of R13m versus R11.6m at HY22 and R197.6m at FY21.

In line with our disciplined capital allocation, capital and development expenditure have been funded by the proceeds from asset sales and cash retained from the lower dividend payout ratio. For the nine months, we sold and transferred 26 properties for R1.8bn, including selling Cintocare Private Hospital for R515.6m to Growthpoint Healthcare REIT. We have also concluded the sale of an additional 19 properties, which are awaiting transfer, for R1.5bn.

With three months until our year end, we expect our final key performance indicators (KPIs), set out in the table below, to generally be consistent with the 31 March 2022 numbers, although there is some downside risk.

-	KPIs as of 31 March 2022							
	Retail	Office	Industrial	Healthcare	Trading & Development	Total	HY22	FY21
Vacancy	4.9%	22.4%	6.2%	0.1%	-	10.9%	10.5%	11.6%
Renewal success rate: 1 July 2021 - 31 March 2022	88.0%	53.1%	81.3%			75.7%	77.3%	65.1%
Weighted average renewal growth rate: 1 July 2021 - 31 March 2022	-14.5%	-17.3%	-8.1%	-	-	-13.6%		-14.5%[1]
Rolling 12-month renewal growth rate to 31 March 2022	-15.1%	-18.0%	-8.2%	-	-	-14.2%		-13.4%[2]
HY22 weighted average renewal growth rate	-15.4%	-18.9%	-9.9%	-	-	-15.1%	-15.1%	-14.9%
Weighted average renewal lease period: 1 July 2021 - 31 March 2022	3.5 years	2.8 years	3.5 years	-	-	3.3 years	3.4 years	3.6 years
Weighted average future escalations on renewals: 1 July 2021 - 31 March 2022	6.0%	6.9%	6.6%	-	-	6.4%	6.2%	6.8%
Arrears (Rm)	106.0	83.9	58.2	0.1	1.9	250.1	295.8	308.3

1. Weighted average renewal growth rate: 1 July 2020 – 31 March 2021
2. Rolling 12-month renewal growth to 31 March 2021

Office sector

The office sector remains the most challenging of our three domestic businesses, but we are seeing some sporadic green shoots. Key metrics, however, remain under pressure.

Economic imperatives are driving some companies to reduce their office spaces, and work-from-home routines are creating uncertainty about future space requirements. The good news is that the initial sentiment that offices would no longer be needed is receding with hybrid working patterns set to endure. Bigger businesses are returning their staff to offices with different strategies, some fully with others are still on a rotational system. We have started to see smaller tenants that previously vacated their offices return to the market.

We signed new leases for nearly 90 000m^2 of offices in the period, with good letting in Claremont and Illovo. We are pleased to report that we have filled several long-standing vacancies, including a 5 618m^2 five-year lease with Didata for our entire Draper on Main building in Cape Town and a lease of 4 600m^2 for Fluxmans at Illovo Corner in Johannesburg, both effective from FY23.

Our office sector vacancies increased from 19.9% at FY21 to 21.2% at HY22 and are currently at 22.4%. The sale of non-strategic office assets in other areas has increased our exposure to Sandton slightly, where we have our most significant concentration of offices. Currently, 21.7% of our office gross lettable area (GLA) is located in various buildings in Sandton, where we have 103 000m^2 or 27% of total office vacancies. The office sector is particularly stressed in Gauteng and Sandton specifically, although we expect this well-established business and financial hub to recover in due course. A significant contributor to the increased vacancy was ACSA vacating our 10 588m² Riverwoods business park in Bedfordview, where a residential conversion is being considered.

Renewal success rate improved from 52.5% at FY21 to 55.4% at HY22 and has declined slightly to 53.1% as at 31 March 2022, with the average lease renewal term decreasing to 2.8 years from 4.4 years at FY21 and 3.8 years at HY22, as tenants remain reluctant to commit amid uncertainty. What these numbers do not reflect, however, is how uncertainty is driving positive tenant retention, because businesses are unwilling to relocate until they have more clarity on their future space needs. While we are retaining a high percentage of tenants, some have downsized, skewing the numbers.

Non-renewals added 106 432m² of vacant space. Liquidations and evictions, relocations within our portfolio, and cancellations where tenants paid cancellation fees, resulted in 21 896m² of leases being terminated in the period.

Reversions on renewal at -17.3% improved slightly from -18.9% at the half-year but deteriorated further from -16.1% at FY21. Pressure on rental growth and occupancy level stems from the oversupply of space in the market and weak demand. Tenants have many options for new premises, including sub-letting fitted-out and furnished workspace from other downsizing businesses.

Arrears have steadily improved from R91.4m at FY21 to R86.1m at HY22 to R83.9m at the end of the nine months.

We disposed of seven non-core office assets for R320m which have been transferred. Another four signed sales agreements for R546.8m are awaiting transfer, and a further nine non-strategic office properties for c. R600m have been approved for disposal.

Retail sector

Signs of recovery are evident in this sector, and all our shopping centres are reporting turnover growth. Smaller neighbourhood and convenience centres are outperforming bigger malls. Footfalls are generally nearing previous levels, which aligns with overall industry trends, given that people have changed the way they shop with increased basket sizes. Value fashion remains at the forefront of the apparel segment recovery. The athleisure category keeps trading strongly. The growth of online on-demand shopping is driving business through our malls, positively impacting trading densities.

As trading densities recover, retailers' turnovers are becoming more supportive of rentals and escalations, making for more productive lease negotiations. Reversion rates are improving, although still negative at -14.5% versus -15.4% at HY22 and -15.6% at FY21. Rental income levels are stabilising, and we expect valuations to follow suit.

On the back of better tenant trading, we provided less COVID-19 relief than expected, which added to our performance. Additionally, arrears have steadily improved from R148.2m at FY21 to R129.2m at HY22 to R106.0m at the end of March 2022. The highest arrears amount, R43.4m, relates to Ster-Kinekor. We wrote off CNA's total debt of R10.0m in the period.

We are pleased to report that our focus on tenant retention is apparent in the 88.0% (FY21: 84.6% and HY22 88.2%) renewal success rate. Vacancies have improved since FY21 when they were at 6.2%, but have increased slightly from 4.7% at HY21 to 4.9% at 31 March 2022. Despite an improvement from 6.2% at FY21, they are likely to increase significantly towards year end due to continued pressure at Bayside Mall in the Western Cape. Relocations and legal cases resulted in 14 431m² of retail leases being terminated, and CNA's restructuring saw it downsizing by 2 277m² in our portfolio.

A positive development has been an increase in letting activity following several recent retailer mergers as national retailers introduce new brands to centres where they do not yet have a presence and seek to right-size their portfolios.

Offices make up around 25 000m² of retail GLA, and our shopping centres' high office vacancies are a challenge. The strategic redevelopment of Bayside Mall is a priority in response to fierce competition in its market that has come at the cost of key tenancies, including Game, which has driven its vacancies above 6 000m².

A substantial 95% of the portfolio's value is concentrated in 26 of the 42 assets, and we have identified non-core assets for sale in the next five years to refine and de-risk the portfolio. Three non-strategic shopping centres, Helderberg Centre, Meadowdale Value Centre and Amrel Alberton, were sold for R306.5m and transferred. We have signed sale agreements for another two assets for R527m that are yet to transfer and have approved the disposal of a further five assets in excess of R1bn, that no longer fit our investment criteria.

Industrial sector

The industrial operating environment has become more supportive, and vacancies have improved meaningfully from 9.4% at FY21 to 6.5% at HY22 to 6.2% at the end of the nine months to 31 March 2022. These vacancies are concentrated in

Gauteng, with lower vacancies in KwaZulu-Natal and the Western Cape, where they are averaging around 2%. Arrears also improved, decreasing from R73.9m at HY22 to R58.2m at 31 March 2022, which is slightly less than the R59m reported at FY21, due to fewer business rescue and liquidation cases.

Our tenants have endured many challenges in the nine months, particularly those in KwaZulu-Natal affected by the unrest and recent floods. In this province, five of our properties suffered damage from the riots and 13 of our properties sustained flood damage of roughly R20m. We are fully insured for the damage and have already recovered the repair cost of the riot damage from SASRIA. The ongoing load-shedding is a continual impediment to our tenants' operations.

We remain focused on retaining quality tenants to protect income and occupancies. Our good letting was supported by improved renewal success. Tenant retention increased impressively from 62.2% at FY21 to 83.3% at HY22 to 81.3% at 31 March 2022 and rental reversions have steadily improved, from -10.9% to -9.9% and -8.1% over the same period. Business rescues that concluded during the period were the main reason for leases of 64 147m^2 being terminated, representing 40 tenants,18% of which were expired leases where tenants continued to occupy the premises on a month-to-month basis. The most significant termination was 25 674m^2 at Isobar due to the tenant entering into business rescue. The rest related to financial difficulty and leases terminated by mutual agreement.

The investment market for industrial assets is buoyant. We sold 13 non-core properties for R353m and have signed sales agreements for approximately R400m in respect of another 13 assets awaiting transfer. A further 14 properties have been approved for sale for an approximately R650m.

Trading and Development

Despite scaling back on development activity, particularly that of a speculative nature, this division has had a solid nine months with revenue from trading profits, development fees and rental income in excess of R130m.

Three trading and development properties for R855.4m were sold in the period.

V&A Waterfront

The nine months reflect two distinct periods for the V&A. Up to 31 December 2021, the Waterfront was still significantly impacted by low international tourism numbers due to pandemic-related restrictions and particularly the UK travel bans in December 2021, due to the Omicron variant. From January 2022, it experienced a rapid rebound as international tourist arrivals in Cape Town increased, reaching over 70% of pre-COVID levels by end-March 2022.

Operating profit improved by 55% (R318m) compared to a decrease of 19% (R210m) on pre-COVID levels in the corresponding prior period to March 2021. Strong local support and tourism sustained retail at the V&A over the festive season, and a better-than-expected increase in international tourism boosted turnovers in the new year, particularly clothing, luxury goods, groceries, and most restaurants. Parking income also improved. Aquarium visits increased by 90% from the same period a year earlier. With the improved turnover, overall rental relief has reduced by R18m even though some relief continues to support the most vulnerable tenants. A successful resolution of the rates valuation dispute further enhanced performance with a R17m contribution to operating profit.

The period was characterised by low vacancies of 1.85% and high collections of 94%, including the hard-hit hospitality segment. In the six months from 1 July 2021 to 31 December 2021, the office portfolio anchored performance, underpinned by strong covenants from more than 70% blue-chip tenants and near-zero vacancy. Except for cruises, the marine and industrial portfolio remained resilient. South Africa reopened for cruise ships at the start of 2022, late in the current cruising season. The V&A has already confirmed more than 100 cruise arrivals for the next season, starting in October 2022.

If the first three months' performance of the 2022 calendar year is any indication, the V&A can expect an accelerated tourism-led rebound, driven by the retail and hospitality sectors. The Waterfront should return to normalised performance, or better, within the next financial year.

Growthpoint Investment Partners

Growthpoint began the groundwork for Growthpoint Investment Partners in 2014 when we identified the co-investment and co-management of specialist alternative real estate investment portfolios as one of three key strategic thrusts. Growthpoint's capital-light co-investment strategy allows third-party capital investors to partner with us and leverages our management platform and strength. Growthpoint Investment Partners has established three unlisted alternative co-investments distinct from Growthpoint's portfolio. We have already reached our initial goal of R15bn of assets under management (AUM) by 2023 and are now aiming to double this to R30bn of AUM in the next five years, i.e. by end-FY27.

Growthpoint Healthcare REIT

Growthpoint Healthcare has delivered results in line with expectations for the first nine months of FY22 and has continued to grow distributable income to R190.2m, up 21% from the nine months to March 2021. This growth is predominantly due to its acquisition of the Cintocare Private Hospital in Pretoria and the Busamed Paardevlei Private Hospital in Somerset West. It continues to build a promising pipeline of development and acquisition projects.

The transaction with the International Finance Corporation (IFC) for an US$80m equity and convertible debt package, comprising U$20m of equity and a US$60m loan, was concluded in October 2021 and is fully drawn. Growthpoint Healthcare intends to raise more capital from other international development finance institutions (DFIs), institutional investors, asset consultants and pension funds.

Growthpoint Student Accommodation REIT

Launched in December 2021 with a R2bn portfolio of seven properties and 4 979 beds, the Growthpoint Student Accommodation portfolio is 99% let.

Growthpoint's trading and development team is currently creating two assets, The Groove for students at Wits University and The Peak for students at The University of Cape Town, as part of a solid development and acquisition pipeline. Active discussions are taking place with DFIs, and international and domestic investors in raising equity to fund the growth.

A R550 million social loan from Standard Bank has been concluded, and partially drawn, to refinance the funding of the purpose-built student accommodation seed portfolio, which is occupied by a high proportion of National Student Financial Aid Scheme (NSFAS) students from lower-income communities.

Lango Real Estate Limited (Lango)

Lango's results remain robust and broadly aligned with expectations, reflecting the underlying assets' sound operational performance. Lango benefits from its diversification strategy with assets across several jurisdictions and sectors, which has reduced risk and added value.

Its business environment showed ongoing improvement, regaining ground lost due to the pandemic. Footfalls and turnovers improved at its retail assets, with shopper numbers mostly at pre-COVID levels. The reinstatement of Circle Mall in Lagos is progressing, and Lango is planning to reopen it towards the end of September 2022.

Lango has enhanced financial and operational aspects of the business, including leasing, particularly office leasing activity in Nigeria. It is positioned as the landlord of choice for its key tenants' expansions throughout the sub-Saharan region, and the team's relationship-building effort is delivering good results. Engagement with new and existing tenants is also driving successful leasing activity. Lango's lease renewal rate for the 2021 calendar year was over 90%. Collections as a percentage of billable income exceeded 100% as a result of collecting arrears in addition to billable rent.

Lango's continued focus on enhancing distributable income showed in its interim dividend of $6.5m, paid in December 2021. Its improved debt position, which has been accretive to its overall yield, has buoyed its distribution. Lango will imminently be declaring its dividend, which will be paid on 30 June 2022, in relation to the financial year ended 31 March 2022.

It is making sound progress in its second fundraising period, which is currently underway. Lango aims to conclude additional funding to reduce its debt in line with its targeted loan-to-value ratio (LTV) of 40%. The funding is also intended to further its expansion ambitions, particularly in Kenya, to gain its first exposure to East Africa and increase the diversification benefits that continue to enhance the quantum and quality of its distributable income.

Lango is targeting a listing, possibly on the London Stock Exchange, in the next three years.

Treasury and capital management

Total nominal SA debt at the end of March 2022 was R37.4bn with unutilised committed facilities of R6.4bn.

On 10 June 2022 we issued R800m of corporate bonds and placed R250m for three years at JIBAR plus 128 basis points and R550m for 5 years at JIBAR plus 155 basis points. The auction was 4.9 times oversubscribed with total bids of R3.9bn received.

We continue to review our funding and maturity profile and monitor the debt capital markets to ensure we are well positioned for any refinancing opportunities, including the USD bond maturing in May 2023. The weighted average term of all liabilities has reduced to 2.6 years from 2.7 years at 31 December 2021. Growthpoint's weighted average interest rate was 7.9% (7.6% HY22). After including cross-currency interest rate swaps and foreign-denominated loans, it decreases to 6.0% (5.8% HY22). A total of 84.6% of our interest rate book was hedged for a weighted average term of 2.5 years.

Anticipated FY22 dividends from our international investments are all significantly hedged.

ESG

With integrity, ethics and our values guiding our governance, we provide space to thrive in environmentally sustainable buildings while improving the social and material wellbeing of individuals and communities.

We are actively investigating additional rooftop solar photovoltaic (PV). Solar power is an exciting opportunity for Growthpoint, and rooftop PV installations are well suited for retail and industrial buildings. As we accelerate our steps to reduce carbon emissions on our journey to carbon neutrality by 2050, we are confident to attain 32MW solar power by the end of FY23. By 2021, we had already installed 7.5MW of renewable energy across our portfolio. By 31 March 2022, we had increased this to 12.9MW across 19 sites.

Our level 1 B-BBEE rating for 2022 highlights our commitment to social and economic transformation and empowerment principles on all levels.

We have concluded the process to refresh our Board with the appointment of three independent non-executive directors in the nine months to 31 March 2022 and eight in total since the process began in 2019. After our next AGM on 29 November 2022, all non-executive directors on the Growthpoint Board will be considered independent, demonstrating our firm commitment to effective corporate governance at Growthpoint.

Conclusion

Notwithstanding the difficult conditions facing the South African business, our domestic retail and industrial portfolios are showing signs of recovery, but office portfolio metrics have yet to stabilise in light of market pressures. The V&A is recovering faster than anticipated with the return of international tourism. C&R is on track to resume dividend payments for the second half of our FY22, and GOZ remains a standout performer. Unfortunately, dividends from GWI are still lower than desired due to the surplus cash retained on its balance sheet and we continue to look for ways to unlock value from this investment.

Our geographic and sectoral diversification and conservative management of our business continue to stand Growthpoint in good stead. We will stay focused on balance sheet strength to enable us to execute our strategies effectively. In line with our REIT status, Growthpoint intends to continue to pay dividends twice a year of at least 75% of distributable income.

Growthpoint will release its FY22 results on Wednesday, 14 September 2022.

This information is the responsibility of the Directors and has not been reviewed by our external auditors.

Management call

A Q&A call with management will be hosted by SBG Securities at 12:00 South African time on 15 June 2022. Please email dferreira@growthpoint.co.za to register or dial in using the following numbers:

010 201 6700
Or
011 535 3500

Johannesburg

15 June 2022

Debt Sponsor

Absa Bank Limited (acting through its Corporate and Investment Bank division)