Investec
Property Fund

OUT OF THE ORDINARY

Voluntary pre-close trading update

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Investec Property Fund Limited

Approved as a REIT by the JSE
(Incorporated in the Republic of South Africa)
(Registration Number 2008/011366/06)
Share code: IPF
Bond code: INV
ISIN: ZAE000180915
("Investec Property Fund" or "the Fund")

Group highlights

- Objectives set at the beginning of the year have been achieved and on track to meet DIPS guidance given at interim results
- Expected distributable income per share (“DIPS”) between 106.75 to 108.75 cps, representing year-on-year (“y-o-y”) growth of 10%-12%, driven by:
  - Stabilisation of SA business following decline in vacancies, a reduction in the COVID-relief programme and
  - Consistent performance from the PEL platform.
- Positive momentum sustained in second half, supported by gradual recovery in the domestic market with noticeable improvement in leasing activity.
- Favourable market dynamics in Europe supporting underlying PEL performance.
- Targeting dividend payout ratio of 95% underpinned by DIPS growth.
- Loan to value (“LTV”) remains stable around 38%.
- Continued ESG progress including improved Climate Disclosure Project (CDP) score.

Our operating environment

The 2022 year began with uncertainty in the global economy as the Omicron COVID-19 variant spread rapidly across the world, and travel and lockdown restrictions were re-imposed. More recently, the Russian invasion of Ukraine has exacerbated supply disruptions, resulting in rising energy prices and higher inflation.

In South Africa, the property sector is experiencing a gradual recovery. In particular, our retail assets delivered strong and sustainable growth underpinned by low vacancies and a quality tenant base of mainly national retailers. Industrial rental growth was impacted by expiring single-tenant leases with positive leasing activity achieved over the last quarter. While structural oversupply in the office sector has created pressure on rentals, the office sector is showing signs of green shoots as many corporates have now introduced return to work policies.

Strategic priorities

The Investec Property Fund’s strategic priority of bi-regional diversification and investment to provide stability of earnings and capital value for shareholders remains relevant

- Sustainable earnings generated through the defensive nature of investments that is underpinned by quality assets and hands on asset management
- De-risk portfolio by addressing underperforming assets while creating future value from existing portfolio
- Rationalise and simplify assets through capital recycling on an efficient and effective basis
- Active liability balance sheet management
- Create growth through acquisition
- Tap into new sources of capital to support growth

We continue to deliver on key strategic priorities through on-the-ground expertise and focus on real estate fundamentals.

South Africa:

Measured and hands-on-active asset management:

- Reduced vacancies across the portfolio with significant improvement in the industrial sector
- Continued emphasis on positive client experience through enhanced relationship management and an improved understanding of client needs to ensure retention
- Execution on redevelopment of assets

Europe

Capitalised on demand for logistics sector by:

- Maintaining a stable portfolio and taking advantage of market rental growth
- Growth driven by in-depth understanding of market dynamics and on-the-ground management experience
- Actively explore opportunities to maximise value for shareholders

Active balance sheet management

- An LTV of 38% with a medium term target gearing ratio of 30-35%
- Active management of currency and interest rate risk
- Asset recycling to support growth and reduce gearing ratio, with disposal pipeline of R1bn identified in SA

South African portfolio performance highlights

- SA business stabilised with indications of continuing recovery across retail and industrial sectors.
- Base net property income ("NPI") up 8%-10% driven by:
  - Lower COVID related rent-free concessions granted to tenants, and
  - Significant progress in letting activity resulted in a decline in vacancy from 11.4% at the start of the year to below 6% (Sep-21: 9.2%).
- c.92% of FY22 expiring space re-let amidst the constrained letting market.
- 11% average negative reversion expected, driven primarily by the challenging office leasing market.
- WALE maintained at 3.1 years.
- Good progress on R1bn SA disposal pipeline– c.R440m (in line with book value) sold and/or awaiting transfer.
- **Retail sector** (40% of SA portfolio) delivered strongest growth driven by reduced concessions and limited reversions on new leases:
  - Base NPI expected to deliver between 16%-18% growth y-o-y.
  - Vacancy maintained at similar levels to half-year (Sep-21: 4.4%).
  - Average 12-month turnover growth of c.10% achieved to December.
  - Average footfall to Dec-21 up 4.8% compared to prior year period.
- **Industrial sector** (22% of SA portfolio):
  - Likely to achieve 9%-11% base NPI growth driven by positive letting and reduction in vacancy.
  - Significant reduction in vacancy to c.2% by year end (Sep-21: 10.5%).
- **Office sector** (38% of SA portfolio)
  - Expect low positive base NPI growth between 2%-3%.
  - Vacancy maintained at c.14% since half-year (Sep-21: 13.9%), and largely attributable to single vacancy.

PEL portfolio performance highlights

- Continued buoyancy in European logistics sector, evidenced by:
  - 3%-5% base NPI growth achieved, driven by positive letting activity and lower bad debt provision.
  - Strong portfolio metrics maintained with vacancy further reduced to c.2%.
  - Approximately 95% of expiring space re-let and rental growth continues to be captured with c.3.7% positive reversions achieved.
- DIPS expected to increase by 5%-6%, tempered by higher corporate and tax costs.
  - After adjusting for the reduced level of rental guarantee in the current year, DIPS is lower by 5%-6% in EUR, and lower by 2%-3% in ZAR. The rental guarantee was provided when IPF increased its shareholding in 2020 to cover against vacancies over the first two years of acquisition.
- Expecting significant uplift in market value driven by strong market dynamics.
- Delivering on development pipeline with cautious approach to project in Poland.
- Strategic review underway to evaluate introduction of 3rd party and capital recycling opportunities.
- Market pricing acts as natural inhibitor to capital deployment into core product, with gap between core and core plus having closed materially.


Dortmund - Germany

Balance sheet highlights

- LTV maintained at c.38% with improved encumbrance ratio and sufficient capacity to support growth given the progress on the R1bn disposal pipeline.
- Interest rate risk well managed with debt c.80% hedged.
- Balance sheet strength reaffirmed by Global Credit Ratings in Nov-21
    - AA-/A1+ ratings maintained with outlook remaining stable.
- Adequate liquidity with R1bn committed unutilized facilities.
- R1.3bn total debt maturing over the next 12 months, including €40m foreign term debt, refinancing underway.

Guidance: We remain on track to meet DIPS guidance provided at interim results. All major renewals have been concluded and limited leasing risks are anticipated across both portfolios over the remainder of FY22. Assuming the current trading conditions continue to persist, the Fund is expected to deliver distributable income per share for FY22 of 106.75cps – 108.75cps representing DIPS growth of between 10%-12%, with a continued payout ratio of c.95% anticipated.

This voluntary pre-close trading update assumes that current normalised trading conditions will persist and does not consider the impact of any unforeseen circumstances, further COVID-19 lockdowns and restrictions, potential business failures or the occurrence of any other factors that are beyond the Fund's control. This trading update has not been reviewed or reported on by the Fund's auditors.

Investec Property Fund will be releasing its annual results for the 12 months ended 31 March 2022 on 18 May 2022.

Sandton - 23 March 2022
Sponsor: Investec Bank Limited