
Fourways Mall

SEPTEMBER

2022

ACCELERATE PROPERTY FUND PRE-CLOSE UPDATE

ACCELERATE
PROPERTY FUND

Eden Meander

Introduction and market overview

The reporting period for the six months to 30 September 2022 saw increased economic activity. However, the property sector, like many others, is being negatively affected by increased concerns about local and global economic growth amid even higher inflation and interest rates. On 6 July 2022 the head of the IMF said the outlook for the global economy had "darkened significantly" since April and she could not rule out a possible global recession in 2023 given the elevated risks.

The local retail sector is recovering, with mall vacancy rates improving and real retail sales rising to above pre-COVID levels in the first five months of 2022. The recovery is illustrated by the strong sales growth reported by retailers, such as Shoprite and Truworths, in the last week of July. Sales have been boosted by less restrictive trading conditions with COVID-19 is now less of a threat. However, short-term prospects are subdued as consumers are under financial pressure due to decreasing income levels, rising interest rates and increasing expenses (fuel, electricity and food).

The medium and long-term are the ongoing Eskom saga, service delivery failure as well as ever increasing cost of occupancy for tenants. That said, the action plan to tackle the power crisis announced by President Cyril Ramaphosa on 25 July gives a glimmer of hope for the medium-term outlook.

The retail market is still generally oversupplied. A slight positive for the sector's prospects is that new supply is expected to remain low.

The office sector remains under pressure. The Economic growth of 1,9% achieved during the first half of 2022 was insufficient to present any significant upside and it is likely that the office sector's downturn will continue. Progress has been made in combatting the COVID-19 pandemic but the anticipated return of employees to the office has not yet spurred a revival of the sector.

Progress on key focus areas

Fourways Mall

As the newly developed Fourways Mall opened 3-months prior to the commencement of the 1st COVID-19 lockdown and bearing in mind a large mall takes up to three normalised years to establish itself, there is very little normalised comparative data. However, we have seen 11% year to date growth in trading densities and 14,4% growth in turnover figures compared to prior year.

Vacancy levels have also consistently come down with 10 135m² of new tenants signed up since 1 April 2022. Approximately 3 000m² of these tenants are already trading with the remainder at various stages of fit-out.

The vacancy, excluding space covered under the headlease, has reduced from 10,4% at 31 March 2022 to 7,9%.

The team has been focused on attracting tenants to cater for a wider LSM and to increase foot traffic.

Current initiatives underway include:

- Focused marketing;
- Updated signage and way finding in and around Fourways Mall;
- Finalising the offering of the Kidzania space;
- Further improvement to the tenant mix including targeting specific retail tenants, restaurants, and coffee shops;
- Right-sizing certain current tenants; and
- Investment in technology to (1) minimize the carbon footprint of the Mall and (2) more effectively tracking tenant behaviour and preferences.

Fourways Mall

Capital management and financial position

Diversification of funding and liquidity

The Fund has made meaningful progress in diversifying its funding by raising R450 million of 3-year funding during August 2022. This funding was utilised to settle R121 million of funding expiring in August and September 2022, re-balance shorter-dated exposures and maintaining liquidity facilities.

Current undrawn facilities remain at approximately R200 million.

Sale of non-core properties

The disposal of non-core properties has been progressing well with signed sales of R222 million at various stages of completion. The proceeds of these sales will be utilised to further reduce debt and to fund capex. These sales will result in the reduction of the overall LTV by approximately 1,2%, improve ICR by 0,1x as well as reduce the overall Fund vacancy level by 2,7%.

A further R571 million of non-core properties are being marketed.

Improving revenue streams

The disposal of non-core properties (with significant vacancies) as well as the filling of vacancies at core properties are both playing a significant role in strengthening revenue streams.

Key treasury indicators

The Fund's loan to value remains stable at 43,0% (31 March 2022: 42,8%) with the target level remaining at 40,0%. The ratio is expected to come down by approximately 1,2% off the back of signed property sale agreements.

Due to the current economic climate, rising interest rate environment, increased funding margins during and post COVID-19 and the negative impact of the sale of APF Europe on the interest cover ratio "ICR", the Fund has deemed it prudent to apply to funders for temporary covenant relaxation.

This will specifically cater for:

i. Further increases in interest rates and expenses not under the Funds control;

ii. Rental reversion pressures;

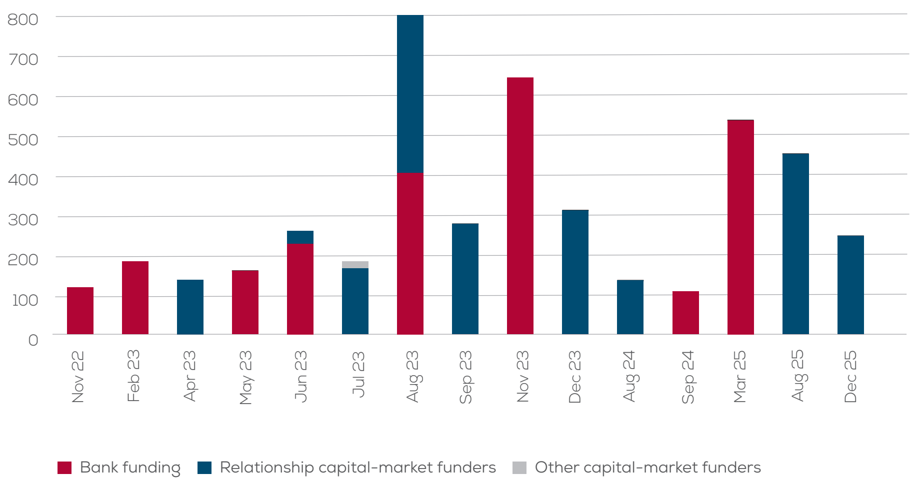
iii. Pressure created by increased and re-priced funding margins during and post COVID-19; and

iv. Critical defensive capital spend required on existing assets.

The weighted average debt term has marginally improved to 1,7 years (31 March 2022: 1,6 years) as a result of the new funding raised and 3-year re-financing of debt that expired with our primary funders during the period.

Approximately 99% of debt expiring in the next twelve months is held with Accelerate's primary funders (bank funders and relationship capital-market funders).

Debt expiry (R'm)

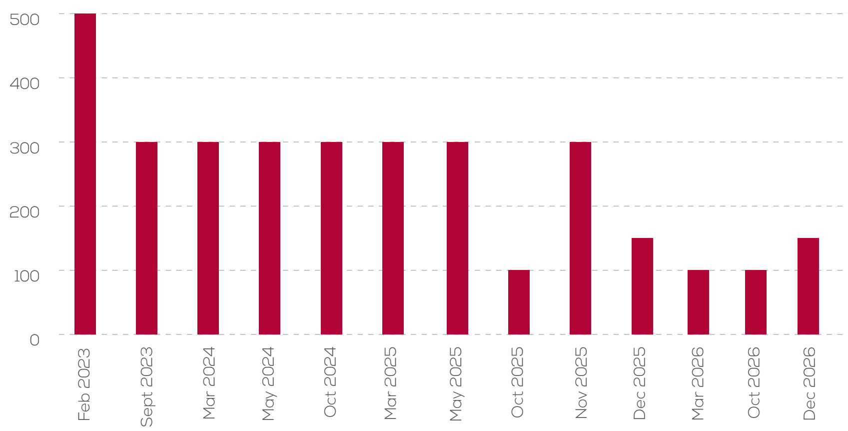


Portside

Hedging

The Fund remains 70% hedged with a weighted average expiry term of 2,3 years. The Fund managed the swap expiry profile by extending current swaps in the most cost-effective way possible.

SWAP expiry profile (R'm)

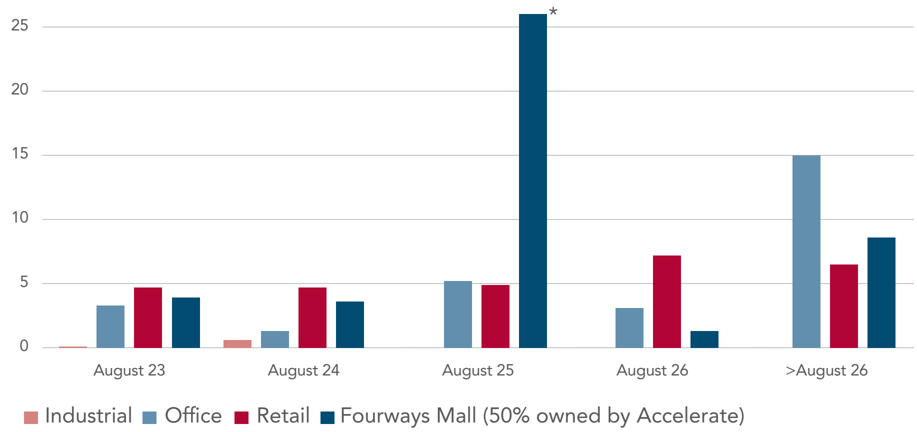


Update on key indicators

Leasing

Weighted average lease expiry remains strong at 3,9 years (31 March 2022: 3,9 years)

Lease expiry by revenue (%)



** 5-year expiries after the opening of Fourways Mall.*

We have seen a recovery in contractual escalation levels to 7,2%. Overall revenue growth is still hampered by negative rental reversions. The Fund is counteracting this by inserting higher turnover clauses in leases to capture future growth.

Vacancies

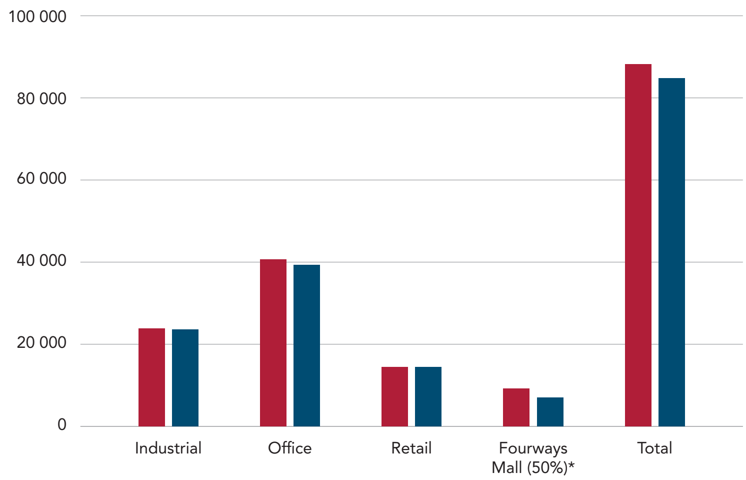
Overall vacancies have reduced to 20,63% (31 March 2022: 21,2%) by GLA and to under 9% by revenue predominantly due to a reduction of vacancies at Fourways Mall to 7,9% (excluding space covered under headlease). We have also seen the vacant space covered by the Fourways Mall headlease being reduced by approximately 1 200m^2 (APF 50%).

The conclusion of signed property disposals within the next two months will see the vacancy by GLA further reduce by approximately 20 000m^2 or 2,7%. This is due to the high vacancy levels of some of the properties being disposed of. Current signed sales have been concluded at an average of 6% discount to book value.

Vacancies in the office space reduced marginally, predominantly due to letting done at Portside in the Cape Town Foreshore. In the retail space we have seen a meaningful reduction of vacancies at Cedar Square as well as at the Bela Bela shopping centre with the addition of Clicks as a tenant. The period also saw a significant reduction in vacancies at The Buzz and Waterford community shopping centres in Fourways.

The bulk of the Fund's vacancies still remain in the B- and C-grade office space (Charles Crescent) as well as low income per m^2 industrial space resulting in a vacancy by revenue of under 9%.

Vancancy by GLA (m^2)



■ Vacancy March 2022 ■ Vacancy July 2022

* *Excludes vacancies covered under the head lease at Fourways Mall of 6 840m^2 (31 March 2022: 8 119m^2).*

Outlook

Due to the current low-growth economic environment and uncertainties over the longer-term impact of rising interest rates and rolling power blackouts on business growth and consumer spending, the Fund is actively assessing payment of an interim distribution against the need to preserve and further strengthen its financial position.

Disclaimer

The information contained in this document has not been reviewed or reported on by the Company's external auditors. The Company intends to release its results for the period ending 30 September 2022 on or about 24 November 2022.

Accelerate Property Fund Limited
(Incorporated in the Republic of South Africa)
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Share company code: APF ISIN: ZAE000185815
Bond company code: APFE
("Accelerate" or the "Company")
(Approved as a REIT by the JSE)

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