ACCELERATE PROPERTY FUND PRE-CLOSE UPDATE SEPTEMBER 2021

ACCELERATE
PROPERTY FUND

Introduction and market overview

The reporting period for the six months to 30 September 2021 saw increased economic activity. Albeit coming off a low base, the easing of the hard and adjusted restrictions allowed for some positive growth for the period, despite a third wave of COVID-19 infections and a period of adjusted level 4 restrictions.

Aligning with global economic recovery, South Africa experienced increased consumer sentiment as the various retail property types saw increased footfall and trading densities over the period. As per the latest MSCI data, the increased trading densities are visible in the apparel, grocery and home décor stores, with restaurants also showing growth, except for the months of adjusted level 4 restrictions where the businesses had limited trading capacity in terms of patrons and liquor sales.

Much of the positive sentiment can be attributed to the implementation of the vaccine rollout programme, as was experienced in November 2020 when the news of the vaccine rollout programme was released. The increased consumer sentiment is positive news for the Fund as shoppers should return to the centres, for an increased retail experience, on a more frequent basis.

During July 2021, various shopping centres, retail stores and industrial properties were damaged and looted across KwaZulu-Natal and Gauteng. Fortunately, none of the Fund's properties were damaged during this period; however, the riots will have an impact on investor and consumer confidence in the retail sector.

South Africa and its real estate sector are set to continue experiencing other headwinds, including failing municipalities and Eskom and its load shedding programme as well as increasing unemployment. The continued drain on the fiscus by state-owned entities has been present for a number of years.

It is expected that property fundamentals will remain subdued into the near future; however, as the property landscape continues to change, the Fund remains well positioned and committed to meeting the changing needs of the market.

Immediate focus

The Fund's approach to COVID-19 has been clear, structured and well executed. We remain focused on the long-term sustainability of the Fund and its tenants.

To this end, the Fund has focused on:

- Ensuring the long-term sustainability of tenants through granting sufficient rental assistance during COVID-19
- Extending current and entering into new longer-term leases when granting COVID-19 assistance
- Rebalancing the tenant mix
- Right sizing tenant boxes
- Exploring alternative uses for space
- Cutting costs
- Stabilising its funding
- Rolling debt expiries
- Improving liquidity

Additional COVID-19 relief post 31 March 2021, as a result of the third wave and additional lockdown restrictions put in place, is estimated to be approximately R30 million for the six months ending 30 September 2021.

Rental recoveries, as a percentage of normalised invoiced income, have increased steadily with a 93,1% recovery for August 2021. The remainder of the non-recovered income is mainly off the back of tenants who had limited trading capabilities under lockdown level 3, such as entertainment offerings (Bounce, Ster Kinekor, gyms etc) as well as smaller tenants who are still recovering from the effects COVID-19 had on their business.

The Fund remains focused on curbing all expenses within our control in order to optimise cash flow available to assist tenants and to reduce debt; however, the ongoing above-inflation increases in assessment rates and municipal charges continue to be of concern.

The total cost to income (excluding once-off COVID-19 costs) has decreased to 23,6% from 24,3% at 31 March 2021.

Update on key indicators

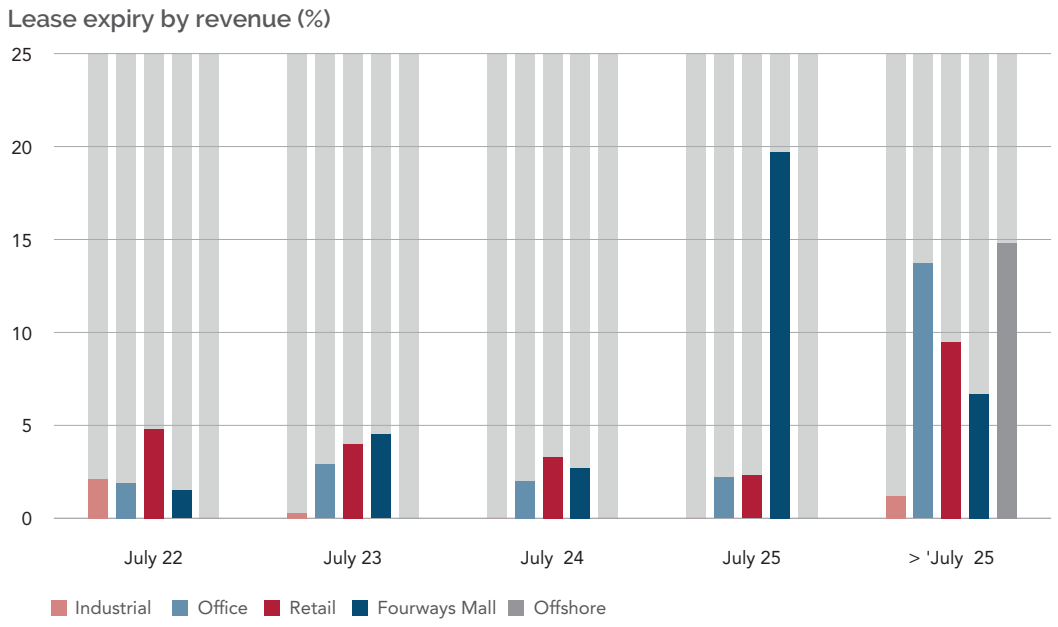
Leasing

The APF weighted average lease expiry (WALE) remains strong at 5,9 years (4,9 years excl the offshore portfolio) off the back of:

- Lease extensions negotiated with COVID-19 relief granted
- Long-term leases secured with the opening of Fourways Mall
- Long-term blue-chip office leases
- The offshore portfolio with a WALE of 11,5 years

The strong lease expiry profile has however come at a cost with COVID-19 rental assistance granted to tenants as well as rental reversions on renewal of leases.

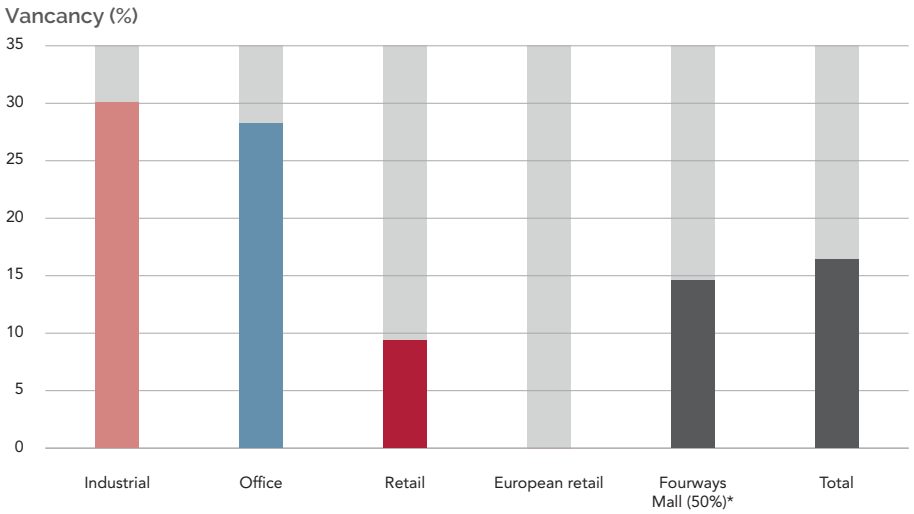
Contractual escalations have come under pressure due to COVID-19, with overall contractual escalation of 6,5% (6,2% including offshore).



Vacancies

Vacancies are still a major concern having risen due to COVID-19 to 16,4% by gross lettable area (GLA) (14,8% when taking into account the headlease at Fourways Mall). The vacancies in the office space have significantly reduced due to letting concluded in the Cape Town Foreshore area. Noteworthy new leases concluded in the retail space, includes new long-term lease with Clicks at Eden Meander and a substantial reduction of vacant space at Bela-Bela. These positive developments were not sufficient enough to reverse the overall trend.

The bulk of the Fund's vacancies comprise B and C-grade office space as well as low rental income per m² of industrial space, resulting in a vacancy by revenue of 9,3%.



* *Excludes the Kidazania space currently under construction.*

Retail portfolio

The rebuilt claim and adjustment account relating to the Fourways Mall equalisation in 2019 has been finalised between the owners without cash outflow from the Fund.

The vacancy including space under headlease is 14,6% with approximately 9% of this vacancy covered by a headlease expiring in November 2024.

A standard super regional mall of approximately 100 000 m² would take approximately two/three years post completion to reach trading maturity and acceptable yields. Fourways Mall being the largest super regional to be developed in South Africa at 175 000 m² could take slightly longer especially in light of the effect of COVID-19 on retail trading.

We remain positive on the long-term outlook for the Mall considering its location in the highly densified Fourways node as well as its unique offering including its shoppertainment strategy.

The Mall has shown an increase in trading and foot traffic, showing a positive trend.

Several marketing and charity initiatives in response to the impact of COVID-19 were implemented at Fourways Mall, including:

- **Sagripol and Angel Network:** Donation drive for preloved toys and plastic items to share joy with children in need
- **Reach for A Dream Partnership:** Partnering with reach for a dream on several initiatives
- **The Greater Fourways Charity Drive:** The Greater Fourways Charity Drive was born in 2021, at the upsurgence of the COVID-19 pandemic, through a serendipitous meeting with like-minded individuals and Fourways Mall
- **Basetsana Kumalo Birthday Celebrations:** Fourways Mall hosted the birthday celebrations for South African icon, business woman and philanthropist, Basetsana Kumalo
- **The Man Cave filming on location at Fourways Mall**
- **La Liga Fan Zone experience**
- **The Rand Show Spring Edition:** The iconic Rand Show is now at Fourways Mall, with its exclusive Spring Edition. This is an exclusive partnership for three years with the Rand Show organisers

The global Kidzania events-based business was adversely impacted by COVID-19. The owners and the franchisor remain committed to bringing this unique offering to Fourways.

The centre is currently anchored by several strong national tenants making up 67% of total GLA.

A new lease has been secured with Clicks. An additional 344 m² is being added to the centre to create a 662 m² box for it. The vacancy percentage will reduce to under 1% post the opening of the Clicks store.

The centre is extremely well located adjacent to the Garden Route Mall and forms a complementary offering to customers.

Trading continues to impress.

The open layout and convenience aspect of Cedar Square has been extremely beneficial to customers and its tenants.

This layout provides tenants and shoppers with an open and outdoor feel and naturally promotes social distancing and COVID-19 safety measures.

Cedar Square is anchored by several blue-chips tenants (in excess of 55% of GLA) with long-term leases in place and a weighted average lease term in excess of five years.

Interest remains strong in the remaining vacancies at Cedar Square with the Jozi Gin Bar having opened in September 2021.

Office portfolio

The office portfolio consists predominantly of A and P-grade space with low vacancies. The bulk of APF's office vacancies are situated in its B and C-grade buildings.

APF has managed to reduce its office vacancy with additional letting done mainly in B-grade buildings in the Cape Town Foreshore.

APF Europe

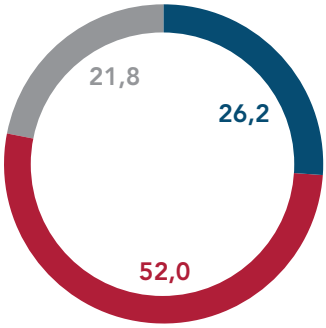
The Accelerate Europe portfolio of nine big box retail OBI stores (six in Austria and three in Slovakia) has proven to be extremely resilient during and post COVID-19 lockdown in these countries.

A 10-year extension of the Vienna lease to 16 years has been signed. This has resulted in a WALE of 11,5 years at September 2021.

The portfolio was externally valued during July 2021 at €89,05 million (€92,6 million at July 2020).

The Fund has taken the decision to dispose of the offshore portfolio in order to improve liquidity. This disposal process is being prioritised and will be concluded as soon as reasonably practicable. APF will keep shareholders informed regarding progress.

Office ratings split by revenue (%)



P-grade A-grade B and C grade

Treasury overview

Debt funding	31 August 2021 (Rm)	%	31 March 2021 (Rm)	%
Relationship funding (including banks and capital market funders)	5 547	92,0%	5 395	89,6%
Other capital market funders	482	8,0%	630	10,4%
Total debt	6 029	100,0%	6 025	100,0%
Weighted average debt term (years)	1,6		1,8	
Short-term portion of debt (12 months)	1 629	27,0%	1 775	29,5%
Debt hedged		79,0%		72,6%
Weighted average swap term (years)	2,0		2,2	
Blended interest rate		7,4%		7,4%
Interest cover ratio (ICR) (x)	2,0		2,0	
Loan to value (LTV)		47,8%		48.5%

APF's main funders have agreed to roll all of their debt expiring up to 30 September 2022 for a minimum of 18 months. These extensions will decrease the short-term portion of debt from R1,6 billion to R386,5 million.

The sale of the offshore portfolio will decrease the LTV to approximately 42%, improve liquidity reserves and add future growth capacity but will have a minimal impact on ICR due to the termination of the cross-currency swap.

Replacing swaps expiring to 31 March 2022 with new swaps at current market rates will result in annual cost savings of approximately R35 million.

Treasury initiatives

(i) Diversification of funding

APF continues with its drive to diversify funding in an effort to create a more balanced pool of suitable funders which will:

- Manage funders' prudential exposure limits
- Encourage competitive debt pricing
- Build up adequate liquidity buffers
- Create enhanced funding flexibility

(ii) Managing overall cost of funding

APF's cost of funding will significantly reduce with the expiry of current expensive swaps. New swaps at favourable current rates will be entered into.

We expect to see a significant improvement of the Fund's credit metrics by the end of the financial year.

APF believes there is an opportunity to engage with funders to reduce the current cost of funding which was brought on as a result of the funding pressures created by the COVID-19 pandemic.

(iii) Improving the debt expiry profile

APF will engage with its funders to meaningfully extend its short debt expiry profile, which was brought on by market uncertainty due to COVID-19. Concentration risk will also be addressed and managed.

Outlook

We believe the impact of COVID-19 going forward will be made much manageable but with the risk of further restrictions.

The Fourways node is strong and resilient and this has been evidenced with the positive trading seen at our smaller centres within the node and we believe that this positive trading will soon include the much bigger Fourways Mall.

It is unlikely that the Fund will pay a distribution for the six months ending 30 September 2021; however, depending on its financial position and liquidity, the Fund will look to commence payment of distributions for the year ending 31 March 2022.

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 2021 on or about 24 November 2021.