MARCH
2020

Accelerate Property Fund COVID-19 and Pre-close *update*

INTRODUCTION

2019 saw continued economic pressure batter an already bruised South African property industry. The South African listed property index (SAPY) eked a 1,9% return over 2019. While this is an improvement from 2018 (-25,3%), it fell well short of the JSE All Share Index (12,05%) and the All Bond Index (10,3%). Subdued returns have been driven mostly by the sector being a subset of the economy. Profits have come under mounting pressure over the past 12 months as Real Estate Investment Trusts (REITs) increasingly battle to fill the empty spaces and convince cash-strapped tenants to renew leases at higher rentals. Much of these headwinds were set to continue in 2020 with growth prospects remaining subdued due to weaker business and consumer sentiment driven by (among other things):

- Eskom and its load shedding programme
- State-owned entities' continued drain on the fiscus
- A possible Moody's junk status downgrade

However, the outbreak of the coronavirus (COVID-19) is causing a global economic shutdown and the impact on South Africa and property-owning companies is likely to be severe.

The company, through the COVID-19 action committee, will continuously monitor developments on any additional government requirements and implementation of social distancing measures.

The government lockdown in South Africa is going to place severe pressure on our tenants.

Our OBI tenants in Austria and Slovakia are also temporarily closed in terms of government-imposed lockdowns. Accelerate has a reserve fund with its offshore funder from which it can draw to pay interest.

Once the lockdown is lifted, Accelerate will ensure comprehensive safety and enhanced cleaning procedures that were in place prior to the lockdown are maintained to ensure the safety and security of staff, tenants and shoppers.

Accelerate appreciates the evolving nature and seriousness of the COVID-19 pandemic and remains committed to contributing to efforts that will limit the spread of the virus.

The company will continue to keep stakeholders updated and informed as the situation evolves.

OUTLOOK

The company has already declared and paid an interim dividend for the financial year but as the implications of COVID-19 are rapidly evolving, the full impact on the final distribution for the year ending 31 March 2020 to be paid towards the end of July 2020 cannot be assessed at this time.

In these unprecedented and tough economic times, the capital retention policy of up to 5% for the year ending 31 March 2020 may have to increase depending on circumstances.

Shareholders are advised that the information contained in this update has not been reviewed or reported on by Accelerate's auditors.

POTENTIAL ACCELERATE ASSET MANAGEMENT AND DEAL PIPELINE OPPORTUNITIES

Strategic sales	*Foreshore sale** Description Sale of the properties to a proven developer for R265 million with an option to repurchase after development and profit share	*Ad hoc sales** Description Sale of non-core assets approximately R385 million	*Sales completed* Description Since September 2018 sold approximately R730 million of non-core properties assets approximately R385 million	*Portfolio sale** Description Sale of assets approximately R1,0 billion. Accelerate Property Fund retains the right to sell individual assets should a higher price be achievable.	
Developments	*Buzz Bulk* Description Retail development (funded)	*Cedar Square* Description Retail development (funded)	*BMW Bulk* Description Motor dealership	*Charles Crescent* Description Transformative potential mixed use or residential joint venture	*Cedar Square hospitality offering* Description Development on the bulk at Cedar geared at short-term hospitality
Equalisation	*Fourways equalisation* Accelerate bought an additional 12,1% of Fourways super-regional shopping mall for R907,8 million at a yield of 8,0%.				

Progress on execution ● Initiation ● Advanced ● Well advanced ● Completed

* Proceeds to be used to lower LTV and/or fund developments.


Fourways Mall


Fourways Mall

The factors above have created an industry with softer property fundamentals in the short to medium term.

Accelerate has acquired an additional 12,1% of Fourways Mall, a key deliverable since listing in 2013. The mall was reopened on 22 August 2019.

Fourways Mall's trading over Black Friday/Christmas exceeded many tenant expectations and budgets. As with any new mall, it will take time for the shoppers to familiarise themselves with the layout and offering.

COVID-19 was having a severe impact on customers utilising the mall (prelockdown). The current government-imposed lockdown is going to have a further severe impact.

Notwithstanding the above, the Fourways node continues to be a key driver for future growth for Accelerate as it is uniquely poised to take advantage of the value unlock in one of South Africa's future growth areas. The continued efforts of rebalancing the portfolio to withstand such uncertain times ahead is a key determinant for stability in the short to medium term. With this comes a refocus of strategy to ensure a robust future ahead, the nodal strategy (which will be discussed later).

UPDATE

In increasingly tough economic times, the importance of ensuring a sustainable future is of paramount importance in this industry. It's with this ethos that Accelerate manages its tenants' relationships as efficiently as possible in view of retaining tenants and thereby protecting revenue streams for the future. As at end January 2020 the Fund achieved a tenant retention rate of approximately 93,5% by gross lettable area (GLA). We have had to proactively manage these relationships with rental reductions, rent-free periods, tenant installation (TI) allowances and other measures, resulting in a 13,2% negative rental reversion on renewals at a portfolio level for the year to date. This trend continues to put pressure on income, however, it positions the Fund well for the future.

While income remains under pressure, Accelerate continues to focus on managing costs more efficiently. Property costs (rates, water, sewerage etc) have steadily increased at rates well above inflation, paired with negative rental reversions have resulted in significant pressure on the bottom line. The cost to income ratio had temporarily increased to 22,2% (September 2019) as compared to 15,9% (March 2019) due to additional once-off expenses being incurred with the completion of the Fourways Mall Development. This ratio is now gradually coming down (19,6% at 31 January 2020).

Vacancies have remained stable at 9,9% driven by a concerted effort to fill vacancies. The portfolio's weighted average lease expiry (WALE) remains strong, in excess of five years. Average lease escalations amount to approximately 7,6% (excluding offshore).


Fourways mall

PORTFOLIO OPTIMISATION

Accelerate is progressing on its portfolio optimisation strategy, a strategy that does not provide dividend growth in the short term, however, it allows the Fund to ensure a better long-term future. This strategy was adopted to:

- Underpin a portfolio of quality assets, including:
  - 50% Fourways Mall (super-regional retail)
  - Cedar Square (regional retail)
  - Eden Meander (regional retail)
  - Significant other convenience retail presence in the Fourways node
  - A portfolio consisting of nine big-box single-tenant long-term lease properties in Austria and Slovakia (big-box retail);
  - KPMG's South African Head Office (A-grade office)
  - Citibank's South African Head Office (A-grade office)
  - Portside (P-grade office)
  - Charles Crescent (development opportunity)
- Improve the balance sheet in view of withstanding the tough environment
- Conserve cash generated by operations for defensive capital expenditure
- Reduce gearing levels to a targeted level of less than 35%

Since the commencement of the portfolio optimisation strategy, properties to the value of approximately R730 million have been sold. Additional sales of approximately R650 million are at various stages of negotiation. Proceeds from these sales will be utilised to pay down debt and are expected to decrease gearing levels by +/-3,5%. A further R1,0 billion worth of properties have been identified for future sales within 2020/2021.

STRATEGY UPDATE

Strategy statement

Building cities of the future, by focusing on property fundamentals within specifically identified nodes.

Accelerate continues to focus on a nodal strategy that is underpinned by properties with superior property fundamentals. The nodes are identified based on transportation routes, future growth and densification potential.

The nodes we currently choose to participate in, in South Africa are:

- Fourways – Gauteng properties in node: Fourways Mall, Cedar Square, Valleyview, Mazda Fourways, Ford Fourways, BMW Fourways, The Buzz and Waterford shopping centres and Leaping Frog
  GLA: 175 451 m^2
- Foreshore – Western Cape properties in node: Portside, Oceana House, Thomas Pattullo, and Bytes (Foreshore development option as well as one-third profit share)
  GLA: 52 152 m^2
- Charles Crescent - Gauteng properties in node: 1 Charles Crescent, Prime Movie park, MB Technologies, etc
  GLA: 47 692 m^2
- George – Western Cape Properties in node: Eden Meander, Site A
  GLA: 29 840 m^2

WHY FOURWAYS

The Fourways node is one of the nodes with the best future growth potential in South Africa. Fourways boasts a population categorised by stable middle to upper living standard measures (LSMs) (62% LSM 4 to 10) with a particular strength in the higher LSM brackets (31%).

Capital is being invested in the node as infrastructure and capital investments have been committed for the area's future growth. One example of this is Lanseria International Airport (LIA), situated 17 km north of Fourways Mall. The airport has recently (Q4 2019) completed the construction of a multi-storey parkade adding approximately 1 000 new parking bays, some retail and office space as well as the much anticipated covered parking. The completed structure has allowed LIA to increase capacity for more business as it aims to become Johannesburg's domestic airport. LIA plans to add a further 2 221 parking bays to the airport in the short to medium term (source: http://bit.ly/2m86fGF).

Lanseria has also been earmarked a city for the future by both President Cyril Ramaphosa and Finance Minister Tito Mboweni. According to the president, 300 000 to 500 000 people will call the area home within the next decade. The process is being led by the Investment and Infrastructure Office in the Presidency alongside the provincial governments in Gauteng and the North West (source: http://bit.ly/2Q1v8zT).

In addition to LIA's upgrade, the Gautrain Management Agency is planning to extend the Gautrain rail route by 150 km over the next 20 years, including routes through Randburg, Fourways, Lanseria and Soweto. Locating the Fourways Gautrain station at Fourways Mall remains a key medium-term strategic objective for the Fund as it will allow the Fund to expand on the node's offering to include office and hospitality property types. The node has the potential to become a central business district in the future.

There is also the Steyn City residential development, 5 km from Fourways Mall down William Nicol Drive, with over R6,5 billion infrastructure and over 1 000 residents already calling Steyn City home. A further R5,5 billion of investment is planned adding to Fourways Mall's already dense catchment area.

Accelerate owns approximately (post-Fourways Mall equalisation) 175 451 m^2 of GLA in the Fourways node, and thus is well positioned to create value for its shareholders in the medium to long term. Moreover, the launch of Fourways super-regional mall represents the first step in the Fund's plans to include office, hospitality and retail offerings in the node in the medium to long term.

FOURWAYS MALL UPDATE

Fourways Mall, the largest mall in Africa has been opened for a little over six months. The super-regional mall boasts a GLA in excess of 178 000 m^2 (the equivalent of more than 20 rugby fields) and comprises more than 450 stores. This will grow to 200 000 m^2 with the development and launch of French home improvement mega-retailer Leroy Merlin, with its flagship store to be linked to the main mall across a retail bridge over Fourways Boulevard. Accelerate and its development partner believe that it can increase developable bulk in Fourways up to 1 000 000 m^2. Of this amount 100 000 m^2 can be developed immediately and negotiations in this regard are under way. This and all additional developments in the node will increase footfall to the mall.

The mall traded well with peaks of trading over November 2019, coinciding with a rise in Black Friday sales for retailers in South Africa, and December, coinciding with Christmas trade.

The mall competes with the likes of Sandton City and Mall of Africa, but draws from its immediate catchment area of Fourways in the northern parts of Johannesburg. The mall offers a unique customer experience as it matches the latest in shopping trends and entertainment ('shoppertainment'). The entertainment element has been a key focus of the mall and has been met through tenants such as Bounce (the national flagship store), the Fun Company, a kids Ster Kinekor Movie Theatre and Kidzania (still to open).

It is unclear how severe the impact of COVID-19 will be on the mall in the immediate future, but post the government-imposed lockdown all possible steps to ensure tenant and shopper safety will continue to be implemented.

FOURWAYS VALUE UNLOCK

While Fourways Mall leads the value creation case for the portfolio, Accelerate also adds value to the Fourways node through other avenues for growth. This strategy is backed by a growing annual population of +/-3,0% and a stable, already established, middle class within Fourways and the surrounds. These avenues for growth include:

- Cedar Square Shopping Centre (regional retail) – 44 418 m^2

  Since 2017 (the completion of the Woolworths 3 000 m^2 extension), the Fund has spent considerable capital and effort in repositioning Cedar Square as a lifestyle and family centre. It has done so by changing the tenant mix and utilising capital expenditure to upgrade common areas as well as allow for attractive tenant installations for new tenants. The new tenants at the centre include: Saigon Suzy, Big Bad Wolf, The Kidz Gym, The Refillery, Sofaworx, Oh My Cake, Sorbet (nail salon and drybar), Smoke Daddy's, Postlink, Guilt Eatery, MiniGoods and Queenspark. Upgrades at the centre include: replacements of lifts, aircons and escalators (to be upgraded in 2020), lighting and painting, additional decking area, and bathroom upgrades focused towards creating a family-friendly environment.
  The above efforts have increased trading densities at Cedar, especially for tenants geared towards families and kids, and restaurants. Accordingly vacancies at Cedar have reduced from 4,0% in September 2019 to 2,0% in March 2020.

  The Fund is investigating a hospitality offering at Cedar Square, modelled for short-term stays.
- The Buzz (small regional retail and residential) – 14 118 m^2

  The Buzz has also seen an upgrade to its common area with capital expenditure used to paint, retile and upgrade lighting. This refurb has seen vacancies drop to approximately 4,0%.

  The Fund entered into a joint venture with a leading residential property developer to develop approximately 500 residential units on 38 400 m^2 of bulk behind The Buzz and Waterford shopping centres, in Fourways.

  The transaction will not only see value being unlocked for the Fund but will also be complimentary to The Buzz and Waterford Shopping centres.
- Waterford Shopping Centre (convenience retail) – 6 682 m^2

  Waterford has also seen a refurb been effected, adding value to the node.

FORESHORE SALE UPDATE

With the Fourways equalisation completed, the board of directors is of the view that the most optimal and efficient way to extract value from the Foreshore Development without putting loan to value (LTV) pressure on the Fund, is to sell the properties out of Accelerate while retaining an option to purchase the completed Foreshore Development.

In summary:

- Foreshore Development Properties – Erven 5, 6, 7 and 8 (73 to 101 Hertzog Boulevard). Roggebaai will be sold out of the Fund at current holding value to George Georgiou, Michael Georgiou's brother, a proven developer in the Cape Town area ('the Foreshore Developer');
- Post-completion of Phase 1, the commercial and retail development, Accelerate will have the option to repurchase the assets from the Foreshore Developer for:
  - The original sales price, plus
  - The agreed cost of the development, plus
  - A preagreed 10% project management fee for the Developer
- Subject to prevailing market conditions, Phase 2 of the Foreshore Development (residential/hotel development) will be undertaken by the Foreshore Developer where Accelerate will be entitled to one-third profit share of Phase 2, whether it be proceeds from sales or rental revenue.

MASSMART EXPOSURE

Accelerate's total exposure to Massmart represents 3,1% by GLA and 2% by revenue. Game and Dion Wired exposure is 0,5% by revenue.

COVID-19

Accelerate supports the decisive action taken by government in curbing the impact of COVID-19 on all South Africans.

The company has set up an internal committee (COVID-19 action committee) constituting executive and senior managers to monitor the situation, including the implementation of recommendations issued by the relevant authorities and health organisations.