ACCELERATE PROPERTY FUND PRE-CLOSE **UPDATE**

MARCH
2021

ACCELERATE
PROPERTY FUND

INTRODUCTION AND MARKET OVERVIEW

The year 2020 saw companies from every sector experience significant pressure as a result of the weakening economy, further exacerbated by the impact of COVID-19.

As expected, the hard lockdown and subsequent adjusted levels of lockdown, imposed by government, meant that many businesses were unable to trade, or unable to trade at full potential, while these measures were in place. In December 2020, South Africa experienced its 85th month of a weakening economic cycle.

Real estate, as a sector, came under increased pressure as landlords were required to give tenant relief in the form of discounts and deferrals, thereby reducing their expected income. As incomes came under pressure, many of the Real Estate Investment Trusts (REITs) reduced or withheld their distributions, in an effort to improve their balance sheets. This, in addition to the weakening fundamentals that the sector has experienced over the last three years, saw listed property overall return down 34,5% for the year, a reflection of the difficulty experienced by the sector in South Africa.

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

As the restrictions eased with the adjusted levels of lockdown, and with increased focus on hygiene requirements and tenant safety, our regional and neighbourhood retail centres began to see their trading grow to levels comparable to the previous year, with spend per head at increased levels year-on-year. The big super-regionals in the sector are still not back to the pre-COVID-19 levels. Looking ahead, the implementation of the vaccine roll-out is set to improve consumer and business confidence, as was experienced in November 2020 when the news of a vaccine programme was released. We are expecting this sentiment to filter into the property industry.

The shoppertainment strategy at Fourways Mall will benefit from this sentiment as shoppers should return to these centres, for the experience, on a more frequent basis.

As the property landscape continues to change, Accelerate Property Fund ("Accelerate or the Fund") remains well positioned to adapt to meet the changing needs of the market, as it did when it introduced the shoppertainment concept. By utilising the Fund's available bulk and repurposing available space, Accelerate looks to diversify its income by incorporating new offerings, including self-storage and residential, thereby expanding the Fund's presence in Fourways and dominating the node.

UPDATE ON KEY INDICATORS

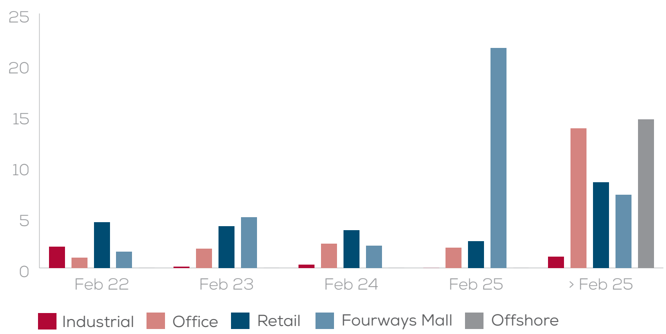
The Fund's approach to COVID-19 has been clear, concise and well executed. It utilised the PI Group recommendations on COVID-19 tenant relief as the basis of its negotiation. It is focused on the long-term stability of the Fund and its tenants.

To this end the Fund focused on:

- Ensuring the long-term sustainability of tenants through granting sufficient rental assistance during COVID-19
- Entering into new longer-term leases when granting COVID-19 assistance
- Rebalancing tenant mix
- Exploring alternative uses for space
- Cutting costs

The weighted average lease expiry (WALE) has increased to 6,1 years (5,6 years at 31 March 2020) following a 10-year extension of the OBI Vienna lease as well as lease extensions negotiated in exchange for COVID-19 assistance granted. The WALE of the European portfolio has increased to just over 12 years.

Lease expiry profile by revenue (%)

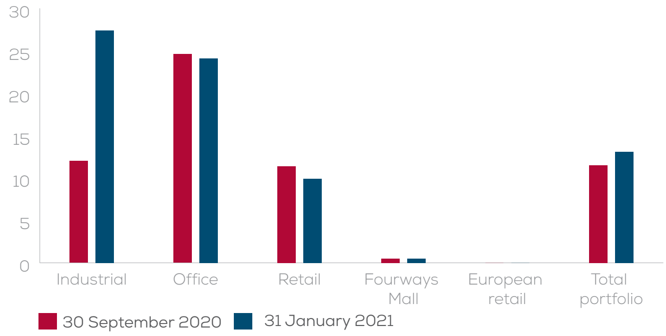


Contractual escalations remain strong but have come under some pressure due to COVID-19 with overall contractual escalation in place of 6,6% (6,2% including offshore).

As a result of COVID-19 the Fund has undertaken an extensive cost cutting exercise in order to optimise the funds available to assist tenants and to reduce debt. The cost to income (excluding once-off COVID-19 items) has decreased to 23,2% from 26,2% at 31 March 2020.

Vacancies in the retail space have remained consistent, with vacancies in the office space reducing slightly. The vacancy in the Fund's small industrial portfolio has increased due to one industrial tenant going into liquidation. This additional industrial vacancy has resulted in an increase in the overall Fund vacancy by gross lettable area (GLA) of approximately 1,0%.

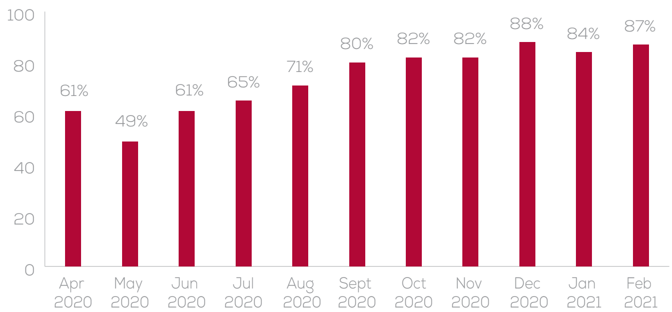
Vacancy by GLA (%)



Due to the vacancies consisting mainly of B and C-grade office space and large industrial space with lower rentals per m² the Fund's **vacancy by revenue is only 6,6%.**

COVID-19

The Fund has seen a steady rise in rental recoveries (as a % of normalised pre-COVID-19 rental levels) as follows:



The slight decrease in January 2021 was due to the alcohol ban affecting restaurants and alcohol traders.

Total COVID-19 relief for the year ending 31 March 2021 is expected to be in excess of R150 million.

A weak pre-COVID-19 economy made worse by this unprecedented pandemic has resulted in:

- Weak trading conditions at all super-regionals
- An increase in business rescue proceedings
- Reduced business confidence resulting in some tenants not reopening
- Increased pressure on rental levels and vacancies especially B and C-grade office

RETAIL TRADING

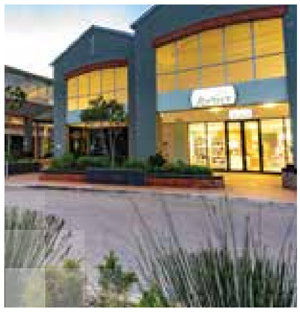
Fourways Mall

- The head lease reduced from 22 022m² at equalisation to under 15 000m² due to vacancies being filled
- This head lease expires on 29 November 2024
- COVID-19 has delayed the opening of many approved new tenants; however, the following exciting new attractions/tenants have opened at the mall:
  - o Wickleys Steakhouse
  - o The filming of the new season of *The Man Cave*
  - o The opening of a new La Liga flagship store
- The South African operator of Kidzania is experiencing difficulty in finalising his funding. The joint owners of Fourways Mall are investigating alternatives to ensure the opening of this attraction
- Taking into account that the mall only opened in September 2019, we have seen a gradual uptick in trading with December 2020 up 5% on December 2019
- The Fourways Mall precinct was further enhanced by the opening of the Flagship Leroy Merlin retail store and head office of approximately 19 000m² (developed and owned by our Fourways Mall partner)



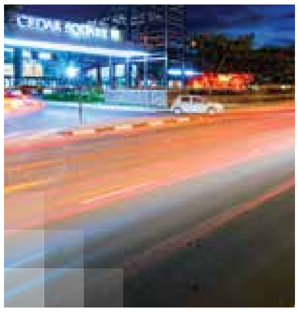

Eden Meander

- Vacancy rate reduced to below 2% with additional letting done towards the end of 2020
- Trading density for the calendar year ended 31 December 2020 was 12,7% higher than 2019
- A blue chip national tenant is negotiating to take up the remainder of the vacancy
- The node is being stimulated by the announcement of the proposed R1 billion Medi-Clinic hospital adjacent to the shopping centre
- APF has considerable bulk in the node to capitalise on future growth



Cedar Square

- The open layout and convenience aspect of Cedar Square has been extremely beneficial to the centre and its tenants in recovering post the COVID-19 lockdown
- This layout provides tenants and shoppers with an open and outdoors feel and naturally promotes social distancing and COVID-19 safety measures
- Trading density for the calendar year ended 31 December 2020 was 12,0% higher than 2019
- Trading figures took a dip in January with the alcohol ban affecting the various restaurants
- Indications from tenants are that trading has substantially recovered since
- Builders Warehouse big box was revamped towards the end of 2020 with a new five-year lease
- Interest remains strong in the remaining vacancies at Cedar Square



STER-KINEKOR

The Fund's exposure to Ster Kinekor is 1,3% of GLA and 0,6% by rental income. A business rescue plan is expected to be issued before 30 April 2021.

According to Ster Kinekor all outlets were profitable pre-COVID-19. Profitability of the business is heavily dependent on receiving new releases.

ACCELERATE 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 (lease term is now 16 years) of the Vienna lease has been signed and is in effect from 1 January 2021.

The portfolio was externally valued during July 2020 at €92,5 million (€92,6 million at 31 March 2020). Accelerate does not expect significant impact on valuations in the short and medium term due to:

- Extension of the Vienna lease as well as above 10-year lease tenures on the remaining assets, securing stable income streams
- Exceptional trading on all OBI stores
- Limited impact on capitalisation rates expected

BALANCE SHEET STRENGTHENING INITIATIVE

Accelerate communicated a clear balance sheet strengthening initiative to the market at the 31 March 2020 results. This initiative was undertaken to:

- Increase liquidity
- Reduce overall debt levels
- Decrease the Fund loan to value (LTV) ratios to 40%
- Ensure interest coverage ratios (ICRs) are comfortably over 2,0 times

The levers being implemented by the Fund in order to achieve these goals are:

- Sale of non-core assets and repayment of debt
- Retention of September 2020 and March 2021 distributions
- Unlocking further value on existing assets and bulk

Progress made to date on implementing these initiatives is:

(i) Sale of assets

Of the R595 million of assets held for sale at 31 March 2020, R188 million of sales have been completed with another R125 million of sales at different stages of completion. The COVID-19 lockdown and closure of the deeds office as well as the current economic climate has been the main reason behind the delays experienced in the transfer of properties.

(ii) Retention of distributions

As communicated to the market (SENS, 7 September 2020) Accelerate will not be paying a distribution for the periods ending 30 September 2020 and 31 March 2021.

(iii) Unlocking additional value on existing assets

The Fund is exploring several options to unlock additional value on existing properties. The Fund is well progressed in establishing a storage platform utilising and repurposing its vacancies and excess parking.

EXECUTIVE BUY-IN SCHEME

As at 30 September 2020 Accelerate had a provision of R209 million in place in terms of guarantee obligations for the executive buy-in scheme. Post 30 September 2020 the Fund settled R68 million of this obligation.

TREASURY

(i) Debt and hedging

The Fund remains focused on:

- Diversification of funding
- Asset sales and retention of distributions to reduce LTV ratio and improve ICR
- Proactive refinancing of debt
- Managing overall cost of funding including hedging

(ii) Highlights

- Blended interest rate down to 7,2% (7,8% at 31 March 2020) due to interest rate cuts post year-end and out of the money swaps rolling off
- ICR improved to 2,3x (2,1x at 31 March 2020) due to interest rate cuts post year-end as well as out of the money swaps rolling off
- Weighted average swap term improved to over two years with new at market swaps taken out as old swaps expire
- Accelerate debt reduced to under R6 billion
- Accelerate is in discussion with several new term and DCM funders in a drive to diversify our funding base

REIT STATUS

Accelerate believes that its REIT status will not be affected by the non-payment of distributions in the current financial year due to the lack of distributable earnings as a result of:

(i) The quantum of once-off COVID-19 relief granted to tenants

(ii) Offshore profits not yet distributed to the Fund

(iii) Additional once-off bad debt write offs due to the economy/ COVID-19

(iv) Other tax deductible items

VALUATION OF INVESTMENT PROPERTY

Valuations of the properties for the 31 March 2021 year-end are well under way. The Fund has taken the approach of having the majority of its investment properties (by value) externally valued due to the increased focus on valuations by the market.

OUTLOOK

The Fund formally communicated to the market via SENS on 7 September 2020 that the board of directors had resolved that it would be in the best interest of the company to retain cash and accordingly, not to pay distributions for the 30 September 2020 and 31 March 2021 reporting periods. The cash retained thus far has been repaid into long-term debt.

As per previously communicated to the market the Fund has also taken a decision to retain up to 25% of distributable income in the future once the Fund returns to paying distributions.

The Fund is focusing, together with the relevant parties, on resolving all outstanding related party matters including those that arose as a result of the development of Fourways Mall.

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 year ending 31 March 2021 on or about 14 June 2021.