ACCELERATE PROPERTY FUND PRE-CLOSE **UPDATE**

SEPTEMBER

2020

ACCELERATE

PROPERTY FUND

INTRODUCTION AND MARKET OVERVIEW

The reporting period for the six months to 30 September 2020 saw many of the world's economies impacted by the COVID-19 pandemic. South Africa's economy faced significant headwinds and a contracting gross domestic product (GDP) pre COVID-19. The hard lockdown put additional pressure on the economy due to the various restrictions imposed.

South Africa's GDP shrunk by a record 51% in the second quarter this year, much of which was attributable to the lockdown. The decrease was larger than what was anticipated by National Treasury and the South African Reserve Bank (SARB).

As a result of the pandemic, SARB reduced interest rates in an attempt to stimulate economic growth. The prime lending rate is currently at 7%, however, consumer confidence still remains low.

Retailers, in particular, bore the brunt of the lockdown as many were unable to trade (except for those classified as essential services) as a result of the restrictions imposed. Many retailers had difficulty in meeting their rental obligations which resulted in landlords having to engage with tenants through rental relief and deferrals. Accelerate Property Fund Limited (Accelerate or the Fund) is and has been in ongoing negotiations in order to not only assist our tenants during this difficult time, but also to ensure the long-term sustainability of the Fund. These negotiations have been concluded largely in line with the Property Industry Group's voluntary guidelines and on an individual basis with the tenants.

In the period post-lockdown, retailers have shown improved turnovers and shopping centre foot counts have increased. Many risks, however, still remain for the property industry.

UPDATE

In a focused attempt to mitigate the effects of COVID-19 the Fund has as far as possible tied in tenant assistance and COVID-19 relief with the extension of leases and optimising the tenant mix for our properties. To this end vacancies have only slightly increased from 10,8% at 31 March 2020 to 11,4% currently. The Fund has further managed a tenant retention ratio during this period of 84%.

The portfolio's weighted average lease expiry remains strong at 5,4 years with an overall contractual escalation in place of 7,4% (6,1% including offshore).

Due to limited trading during Level 5 to 2 lockdown the fund has cut costs as much as possible. This combined with lower levels of consumption on utilities has resulted in a decreased cost to income ratio of 14,5% compared to 26,2% at 31 March 2020. As COVID-19 tenant assistance is finalised and processed this ratio will significantly increase in the short term.

RETAIL TRADING

Fourways Mall

87% of tenants at Fourways mall are now open and trading with the likes of Bounce and Ster Kinekor set to commence trading in October 2020.

The remainder of the tenants will open gradually with the expectation that the majority of tenants will be open and trading by the end of October 2020.

Notwithstanding the COVID-19 pandemic, approximately 6 255 m^2 of vacant space in the mall has been successfully let out since the commencement of the COVID-19 lockdown.

The co-owners of Fourways Mall are also further considering several alternatives for:

- Repurposing of existing retail space;
- Adding unique tenant offerings to the already diverse tenant base; and
- Maximising all sources of income.

Vacancies (excluding the head-lease in place) remain low at under 1%. With vacancies covered by the head-lease in place reducing from 22 022m^2 at equalisation to 17 093 m^2 (9,5% of GLA). The head lease expires on 29 November 2024.

Eden Meander

Since acquisition by Accelerate during 2016 Eden Meander has come into its own with year on year double digit growth in both turnovers and trading densities. Trading density for the year to date 2020 is up 9,2% on the prior year's average.

All tenants at Eden Meander are now open and trading post lockdown. Management focused on tenant retention and long-term sustainability during COVID-19 negotiation which resulted in the vacancy rate at the centre remaining stable at 4,4% and the bulk of remaining vacancies currently under negotiation to be let.

Cedar Square

The open layout of Cedar Square has been extremely beneficial to both the centre and tenants in recovering post the COVID-19 lockdown. This layout provides tenants and shoppers with an open and outdoors feel and naturally supports social distancing and COVID-19 safety measures.

The majority of tenants at Cedar Square are now trading with Ster Kinekor opening during September. The restaurants at Cedar Square affected by the COVID-19 lockdown reported an encouraging growth in turnover figures during August and September 2020.

Vacancies at Cedar Square remained stable at 4,8%.

Other retail

The Fund has experienced a significant recovery in the trading at smaller retail and convenience centres with the relaxation of lock down measures with multiple new tenant enquiries at centres such as The Buzz and Leaping Frog.

Shoppers seem to be more comfortable shopping at the smaller centres with a more open, convenient and accessible lay-out.

EDCON

Accelerate has limited exposure to Edcon being 1,2% of revenue (6,3% by GLA) for Fourways Mall and 1,6% by revenue (2,0% by GLA) for the Fund. The Edgars store in Fourways Mall is regarded as the flagship store for Southern Africa.

New leases with Retailability on the Edgars stores in Fourways Mall and Polokwane have been signed as follows:

- Edgars Fourways Mall
  - o New lease to August 2029 plus 2x5 year options
  - o Lease escalating at 6% per annum
  - o Possibility of upside for Accelerate on turnover rentals
- Edgars Polokwane
  - o New 5-year lease to be signed
  - o Escalating at 6% per annum

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 lock-down in these countries. Discussions with OBI executives suggest that trading figures for 2020 are still expected to increase from prior year figures regardless of the COVID-19 lockdown.

All nine stores in Austria and Slovakia are open, trading and paying full rental post lockdown. The six stores in Austria opened mid-April 2020 and the Slovakian stores mid-May 2020.

Negotiations with OBI on a 10-year (will be 16 years in total post finalisation) extension of the Vienna lease has been agreed in principle and is expected to be completed and signed before the end of October 2020.

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 by all OBI stores; and
- Limited impact on capitalisation rates expected.

COVID-19

We have seen a steady increase in rental collection percentages with the gradual relaxation of lockdown measures in place. Rental collections have increased to:

- July 2020: 65%
- August 2020: 71%
- September 2020: 80%

Rental assistance being granted and still to be granted to tenants are at various stages of finalisation. The Fund has taken a consistent and measured approach to these negotiations prioritizing long term sustainability of both tenants and the Fund locking in new longer-term leases as well as rebalancing the tenant mix.

BALANCE SHEET STRENGTHENING INITIATIVE

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

- Increase liquidity;
- Reduction of overall debt levels;
- Decrease Fund LTV's to range of 35% to 40%; and
- Ensure ICR's are comfortably above 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; and
- Unlocking further value of current assets.

Progress made to date on implementing these initiatives are:

(i) Sale of assets

Of the R595 million of assets held for sale at 31 March 2020, R188 million are unconditional sales, the bulk of which is currently at the deeds office awaiting registration. The COVID-19 lockdown and sporadic closure of the deeds office has delayed the transfer of properties.

(ii) Retention of distributions

As communicated to the market via SENS on 7 September 2020, Accelerate will not be paying a distribution for the periods ending 30 September 2020 and 31 March 2021 respectively. This retention of distribution will be utilised to reduce debt and is expected to result in a Fund LTV reduction of approximately 2 to 2,5%.

(iii) Unlocking additional value on existing assets

The Fund is exploring several options to unlock additional value on existing properties. These options include strategic value accretive spend as well as converting some of the existing vendor receivables due to the Fund into additional assets. This conversion if successfully concluded, will be deemed a related party transaction and would require shareholder approval to the extent required in terms of the JSE Listing Requirements.

TREASURY

(i) Debt and hedging

The Fund remains focused on:

- Diversification of funding;
- Asset sales to reduce LTV and improve ICR;
- Pro-active refinancing of debt; and
- Extending the debt and swap expiry profile.

(ii) Highlights

- R529 million of capital markets debt raised during August and September 2020;
- Weighted average debt term improved to 2,5 years (from 2,2 at 31 March 2020);
- Blended interest rate down to 7,3% (7,8% at 31 March 2020) due to interest rate cuts post financial year end and out of the money swaps rolling off;
- Short term portion of debt (expiring within 12 months) reduced to R697 million at 30 September 2020 from R1.1 bn at 31 March 2020;
- Majority of debt expiring to 31 December 2020 refinanced;
- ICR improved to 2,2x (2,1x at 31 March 2020) due to interest rate cuts post year end;
- Asset disposals to be completed by December 2020 along with the retention of distributions are expected to reduce LTV by approximately 4%; and
- Accelerate is in discussion with several new term and DCM funders in a drive to diversify its funding base.

(iii) Covenant changes approval process

Accelerate approached existing bank and capital market funders during August 2020 and requested temporary covenant changes as follows:

Measurement period ending	Existing covenant	30 Sep 2020	31 Mar 2021	30 Sep 2021	Thereafter
Loan to Value Ratio					
Fund level	**50,0%**	55,0%	55,0%	55,0%	50,0%
SPV 1	**45,0%**	55,0%	55,0%	50,0%	45,0%
Interest Cover Ratio					
Fund level	**2,0x**	1,8x	1,8x	1,8x	2,0x
SPV 1	**2,0x**	1,8x	1,8x	1,8x	2,0x

Formal approval from bank lenders on these covenant changes was received on 28 August 2020.

Accelerate further engaged with all current debt capital market investors. Feedback on the proposed covenant changes has been positive due to:

- Accelerate being proactive in reacting to COVID-19; and
- Accelerate's clear undertaking that the proposed covenant changes are to create a margin of safety for the Fund and it's investors and not for the Fund to embark on more property acquisitions until the LTV and ICR's are in line with the Fund's long-term goals.

The formal noteholder approval process for Debt Capital Markets was undertaken post obtaining bank lender approval and was concluded on 28 September 2020. The proposed covenant changes have been formally approved and implemented.

VALUATION OF INVESTMENT PROPERTY

The full impact of COVID-19 on valuations cannot yet be determined with a reasonable measure of certainty or accuracy. The Fund was conservative during the 31 March 2020 year end valuation process to allow for additional COVID-19 related valuation risk resulting in a R1 billion write down in the portfolio value.

It is the view of the Fund that in the short to medium term valuations will be impacted by vacancy rates, rental levels and increasing municipal services costs, rather than significant movements in capitalisation and discount rates.

OUTLOOK

Upon release of the Company's financial results for the year ended 31 March 2020 Accelerate communicated to the market that it could possibly retain distributions for the 30 September 2020 and 31 March 2021 reporting periods due to:

- Tenant assistance to be granted in response to COVID-19 expected to exceed R100 million;
- Current market conditions and the impact of COVID-19 necessitating the company focus on strengthening liquidity; and
- The need to reduce debt and improve the financial position of the company.

In order to give clarity and certainty to both debt and equity investors the Company formally communicated to the market via SENS on 7 September 2020 that the board 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 respectively.

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 interim results for the six months ending 30 September 2020 on or about 24 November 2020.