
equites
PROPERTY FUND

# INTERIM RESULTS

# PRE-CLOSE PRESENTATION

**AUGUST 2022**

# INTRODUCTION

Equites' strategy is focused on becoming a globally relevant REIT, specialising in the logistics sector.

We have a single-minded focus on building our portfolio in line with our strict investment criteria.

*"The logistics real estate sector has been a beneficiary of long-term megatrends which has driven demand from both occupiers and investors.*

*The UK occupational market continues to grow across various industries and sectors, with a significant increase in demand for space from non-e-commerce businesses. Supply of new space struggles to react to the continuous growth in demand, primarily due to the complexities of land assembly and unlocking land for new developments, which we expect will drive rental growth over the medium term, supporting growth in cashflows and distributable earnings.*

*In SA, we are experiencing an uptick in market rental growth of between 10% and 20%, as the national vacancy rate for A-grade warehousing is at an all-time low and companies increase their focus on supply chain optimisation. Our attractive development pipeline in SA will further enhance the quality of our underlying property portfolio and support the predictability of our cashflows"*

- Andrea Taverna-Turisan, CEO of Equites Property Fund

# GROUP STRATEGY

## SOUTH AFRICA

**01**

Develop “best-in-class” logistics parks and properties on key strategic land holdings.

**02**

Acquisition of assets or portfolios, including sale and leaseback transactions (S&LB).

**03**

Focus on securing A-grade tenants on long-term leases.

## UNITED KINGDOM

**04**

Unlock key tracts of land through the relationship with Newlands.

**05**

Build scale through developing new assets on a pre-let basis.

**06**

Unlock capital and profits through turnkey developments and land disposals.

# LAST REPORTED METRICS

## FEB-22

**+5.2%**

DPS

DPS increased to 163 cents, in line with market guidance.

**+7.9%**

NAVPS

NAV per share increased to R18.61.

**31.5%**

LTV

Gearing levels remained unchanged.

**13.7**

YEARS

Long-dated WALE supporting earnings predictability.

**R25.7**

BN

The portfolio value increased by 33% during the period.


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# MARKET UPDATE

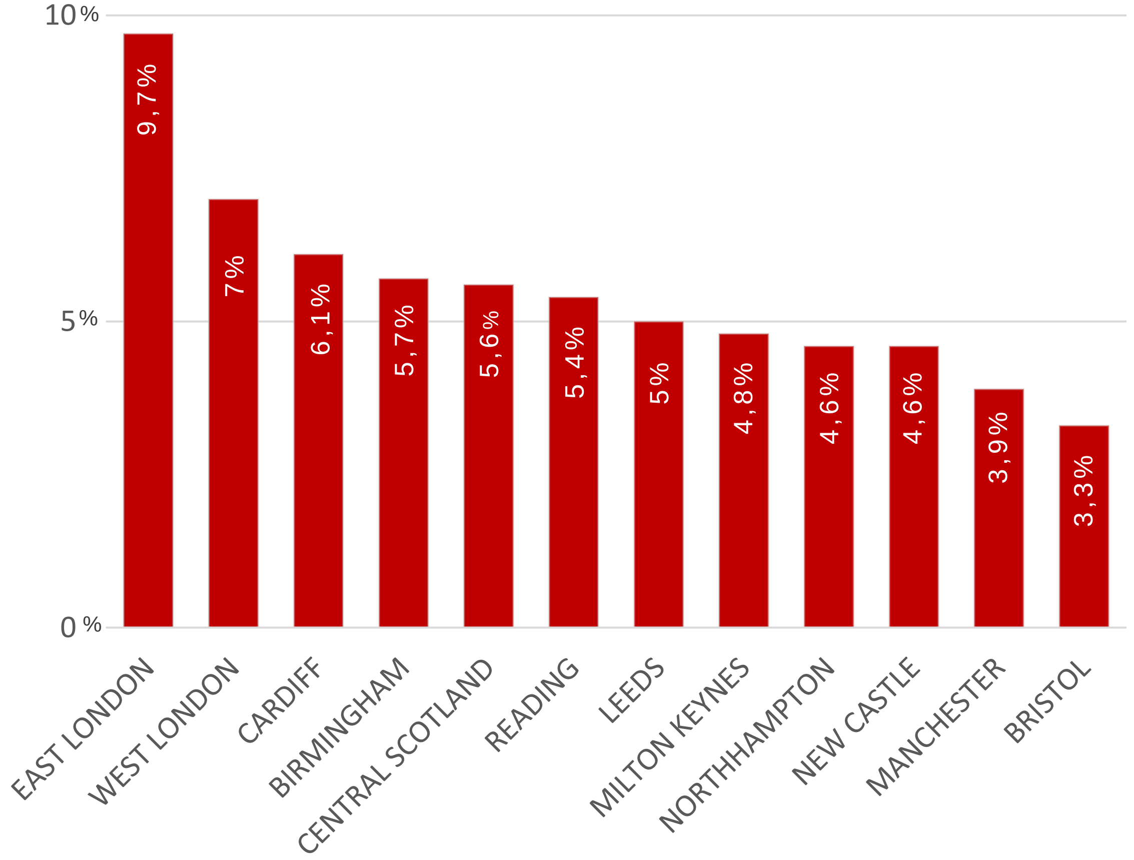
LOGISTICS PROPERTIES

# UK LOGISTICS PROPERTIES

## MARKET OVERVIEW

- Robust occupier demand; take-up reached 28.6m sq ft (1H22), increasing by 17% YoY.
- Online retailer take-up decreased significantly from 35% in 2021 to 18% in 1H22 of total take-up, demonstrating a surge in demand from various types of occupiers.
- Investment volumes were the highest on record for the first half of 2022, but the prime yield has shifted from 3.25% to 3.50% (*Savills*).
- Gerald Eve forecasts 15.8% rental growth for 2022.
- Savills reported that industrial and logistic rental growth ceases when the vacancy rate hits 12% - current vacancy is 3.0%.

PRIME RENTAL GROWTH FORECAST PER ANNUM (2022 – 2026)




Source: Cushman & Wakefield Research

# SA LOGISTICS PROPERTIES

## MARKET OVERVIEW

- The majority of national retailers and third-party logistics companies are expanding their warehousing footprint across SA.
- Supply chain optimisation remains the key driver of demand for warehousing space.
- The growth in e-commerce remains a long-term tailwind.
- We are experiencing market rental growth of between 10% and 20% in the top-end of the market.

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# GROUP UPDATE

LONG-DATED INCOME

# OPERATIONAL UPDATE

| | |
|---|---|
| **RENTAL GROWTH IN SA** | Signed / renewed three leases in SA at record rental levels. |
| **EMPOWERMENT TRANSACTION** | Transferred six properties to Mabel Group via a Statement 102 transaction – R190 million. |
| **COLLECTION RATES** | Rental collection rates remain robust at 100% in the UK and 99% in SA. |
| **PROPERTY FUNDAMENTALS** | WALE continue to be industry-leading at c. 13 years. |

# FINANCIAL & ESG UPDATE

| | |
|---|---|
| **UNLOCKING CAPITAL** | Investigating the disposal of two properties in the UK. |
| **TREASURY** | Upsized and refinanced a UK debt facility of £105 million (R2 billion) with a debt maturity in 2032. |
| **PROPERTY VALUATIONS** | Portfolios will be externally valued as at 31 Aug-22. Expect an uptick on SA valuations and UK valuations to remain broadly flat to marginally down. |
| **SUSTAINABILITY** | Rollout of renewable energy, in line with our sustainability and carbon-reduction strategy. |


# THE EQUITES WAY

PUTTING INDUSTRIAL SPACE TO WORK

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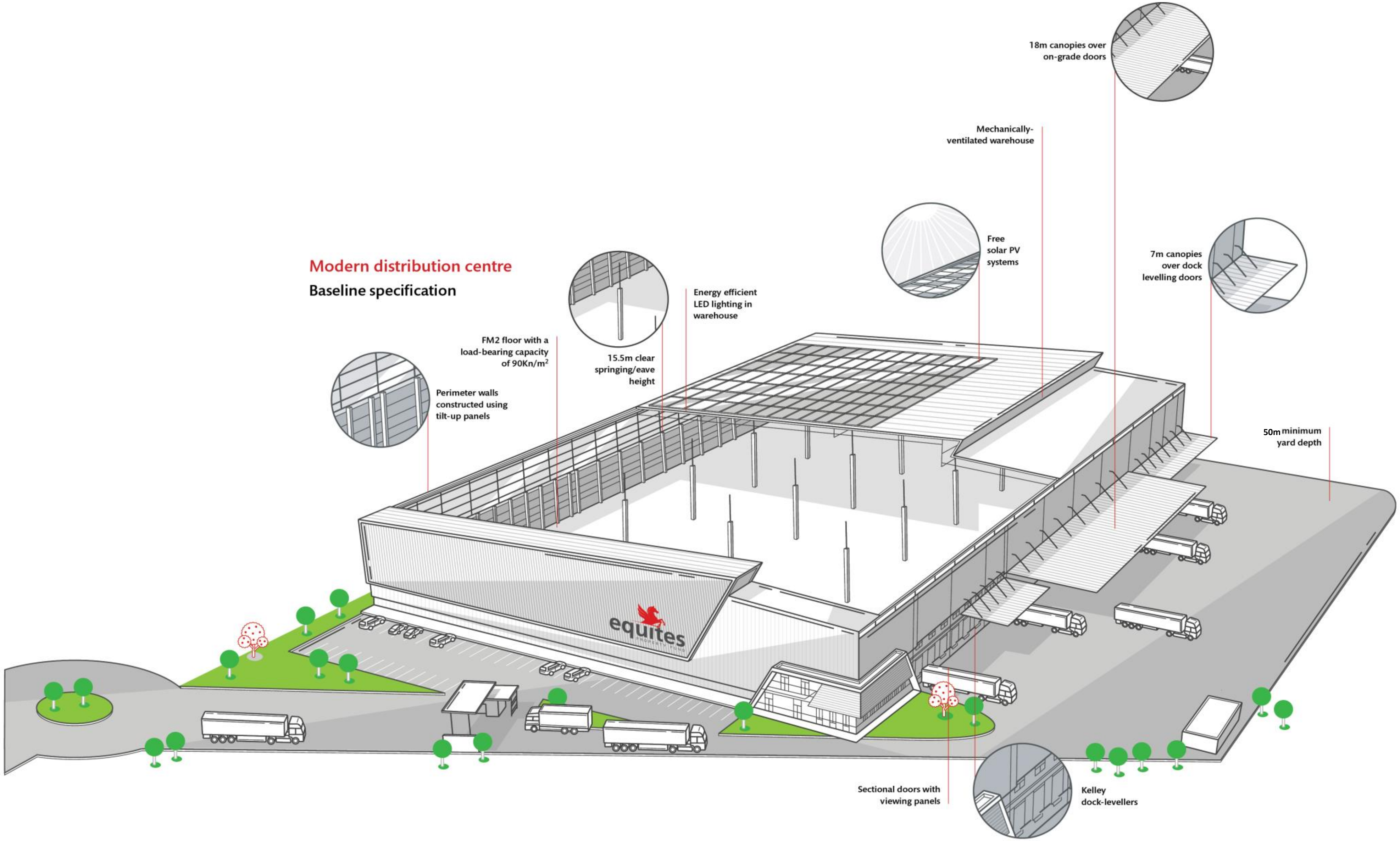
# EQUITES BASELINE SPECIFICATION



# EQUITES BASELINE SPEC VS LOW-COST WAREHOUSE

| ITEM | LOW-COST WAREHOUSE | EQUITES BASELINE SPEC | COMMENTS |
|---|---|---|---|
| **YARD SIZE** | 20 – 30 metres | 50 - 60 metres | Significantly improves efficiencies and allow super links to operate |
| **HEIGHT TO EAVES** | 8 -12 metres | 15.5 metres | Allows occupiers to store much more inventory – higher racking |
| **FLOOR FLATNESS AND STRENGTH** | FM3 or not classified, $50kn/m^2$ | FM2 / DM2 / DM1, $+90kn/m^2$ | Allows for MHE to operate safely and optimally at above specified heights. Ensures point loads don't damage floors. |
| **SOLAR PV AND ELECTRICAL INSTALLATION** | No | Free Solar PV and LED lights throughout | Reduces operational tenant costs |
| **VENTILATION** | Natural | Mechanical | Significantly reduces dust in the facility, protects from foreign bodies entering the facility, ensures acceptable working temperature for staff |
| **CANOPIES** | No canopies | 7m canopies over dock levelling doors, 18m canopies in front of on grade doors | Allows for 24/7 operations. Supports all weather conditions. |
| **DOORS** | Roller shutter doors | Sectional doors with viewing panels | Mitigates maintenance costs, reduce operational downtime |
| **EXTERNAL SURFACES** | Plastered or painted | Cladding and glass | Noticeably reduces maintenance costs |
| **WAREHOUSE PERIMETER WALLS** | Brickwork | Tilt-up panels | Greatly reduces maintenance costs, improves safety & security |

# SUSTAINABILITY

## OUR APPROACH TO SUSTAINABILITY

- Shared value approach to match our client's objectives with cost-efficient systems that ensure sustainable payoff and business continuity.
- Sustainable payoff implies that we evaluate both financial and environmental considerations; shorter payback periods and reduced carbon emissions.
- Equites works with its tenants to identify areas of behavioural change to improve energy efficiency and reduce utility costs.
- Equites continually explores best practice solutions to reduce the impact of its buildings on the natural environment. These include enhanced water reduction and usage optimisation measures like rainwater harvesting and water re-use processes.
- The Group is keenly focused on community empowerment and has partnered with dedicated engagement partners to facilitate economic participation on all our developments.

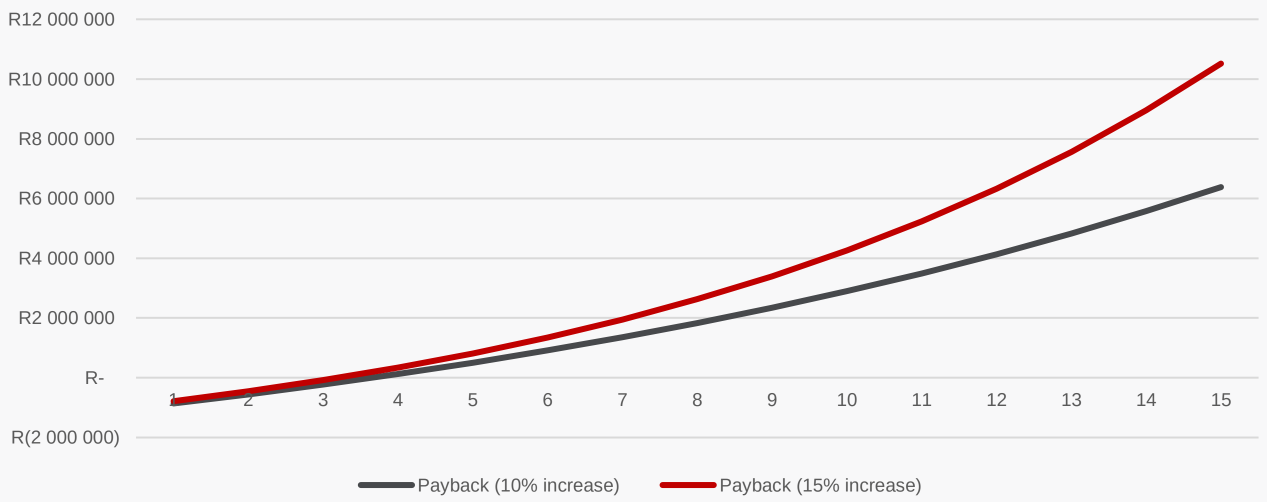
# SUSTAINABILITY

## ILLUSTRATIVE EXAMPLE

- Typically present a variety of options to tenants:
  - **Grid-tied:** This includes the installation of solar-PV with no battery storage solutions.
  - **Peak shaving:** This includes the installation of solar-PV and a limited number of batteries to minimise the use of coal-powered electricity during peak hours.
  - **Micro-grid:** This includes the installation of solar-PV and the maximum allowable batteries for storage.
- We have modeled the costs and savings to an indicative tenant alongside (on the grid-tied/basic system).
- The analysis indicates that the tenant would break even in the third year following the installation.
- Importantly, the installation would reduce the tenant's carbon emissions by 172 $tCO_2e$ per annum.

## SAVINGS TO TENANT UNDER GRID-TIED SYSTEM

| RENEWABLE ENERGY SOLUTIONS | Total Cost |
|---|---|
| 1. Solar PV – Grid Tie in | R 1 500 000 |
| 2. Peak Shaving ( Solar + Battery) | R 5 000 000 |
| 3. Micro Grid ( Solar + Battery) | R 16 000 000 |



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# NEWLANDS DEVELOPMENTS (UK)

EXCEEDING INDUSTRIAL BOUNDARIES

# UK DEVELOPMENT PIPELINE

## KEY UPDATES

- Recently received planning approval for Newport Pagnell.
- Basingstoke – technical review in November 2022.

## KEY INFORMATION

- 13 sites throughout the UK.
- Landbank of approx. 1,000 acres (405 ha) under control (ENGL).
- Potential for c.1.40 million sq. m (15 million sq. ft of floor space).
- Gross development value of £3.0 billion (R60 billion) over the medium to long term.


| | | |
|---|---|---|
| 1 | BARNSLEY | M1 \| J36 |
| 2 | GOLDTHORPE | M1 \| J36 |
| 3 | NOTTINGHAM | M1 \| J24 |
| 4 | A1 WEST | A1 \| J17 |
| 5 | PETERBOROUGH GATEWAY | A1 \| J17 |
| 6 | RUGBY | M6 \| J1 |
| 7 | THRAPSTON | A14 \| J13 |
| 8 | CAMBRIDGE | A14 \| J28 |
| 9 | NORTHAMPTON | M1 \| J16 |
| 10 | RUSHDEN | A45 \| J16 |
| 11 | NEWPORT PAGNELL | M1 \| J14 |
| 12 | EGHAM | M25 \| J12 |
| 13 | BASINGSTOKE | M3 \| J17 |

- ON-SITE AND/OR PLANNING GRANTED
- PLANNING APPLICATION SUBMITTED
- PLANNING TO BE SUBMITTED


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PROSPECTS
EXPANDING INDUSTRIAL POSSIBILITIES

# UK PROPERTY VALUATIONS

## SENSITIVITY ANALYSIS

- Prime yields are currently increasing in the UK.
- A large portion of the yield shift will be countered by rental growth, as demonstrated in Figure 1.
- For example, 17.5% rental growth will cushion a +0.75% upward yield-shift.
- On a net basis, we expect a marginal decrease in LfL property valuations over the next 24 months, in sterling.
- We expect attractive valuation uplifts on the development pipeline in the UK.

## FIGURE 1: UK PORTFOLIO VALUATIONS

| IMPACT ON PROPERTY VALUATIONS | | ERV GROWTH / MARKET RENTAL GROWTH (next 24 months) | | | | |
|---|---|---|---|---|---|---|
| | | **10%** | **12.5%** | **15%** | **17.5%** | **20%** |
| ERV YIELDS/ NORMALISED CAP RATES | **4.25%** | 10% | 13% | 15% | 18% | 20% |
| | **4.50%** | 4% | 6% | 9% | 11% | 13% |
| | **4.75%** | -2% | 1% | 3% | 5% | 7% |
| | **5.00%** | -6% | -4% | -2% | 0% | 2% |
| | **5.25%** | -11% | -9% | -7% | -5% | -3% |

# SA PROPERTY VALUATIONS

## PROPECTS

- We expect an uptick in SA property valuations over the medium term, driven by further evidence of market rental growth on a national level.
- An uptick in construction cost inflation over the last two years and a record-low vacancy rate are the key drivers of market rental growth, with a backdrop of retailers and logistics companies increasing their warehousing footprints to improve supply chain optimisation.
- Unlocking serviced land in SA is becoming more challenging, especially to develop larger boxes in excess of 40,000m$^2$.
- We expect occupier demand to remain robust, as numerous retailers and logistics companies are still improving their supply chains and logistics capabilities.
- The all-in development cost (construction cost and land) has increased from c. R10,000 / m$^2$ to c. R12,000 / m$^2$, for a single-face building.

# EQUITES STRATEGY & GROUP OUTLOOK

- Uptick in market rental growth in SA. Robust occupier market with a strong pipeline of requirements, on a national level.

- The medium-term outlook for the UK logistics market continues to be strong, underpinned by a robust occupier market. There is a correction in pricing (upward shift in yields), which should be partially countered by rental growth in the UK over the medium term.

- In SA, Equites has a significant pipeline of potential opportunities to develop more than 300,000m$^2$ of A-grade warehousing space over the next two to three years, with a combined capital expenditure in excess of R3.0 billion.

- In the UK, Equites will continue to execute on the attractive development pipeline within ENGL. A hybrid strategy will be undertaken; retaining assets for the long term as well as turnkey developments and land disposals to unlock capital and cash-based profits.

- Equites has multiple potential sources of funding, which includes:

    - a partnership with a pension fund in SA (EPPF);
    - access to Equity markets via the JSE;
    - a successful DRIP programme;
    - generating capital through turnkey developments and land disposals;
    - disposal of a minority stake in the UK portfolio;
    - introducing an equity partner in the UK business;
    - excellent appetite for Equites debt, both in SA and in the UK; and
    - the ability to recycle capital via property disposals.

# PROSPECTS

- DPS guidance unchanged: between 4.0% and 6.0% distribution growth per share for this financial year (FY23).
- Continue to unlock value through developments in the UK.
- 100% payout ratio.
- Medium-term target LTV ratio of between 30% and 40%.


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