

## EQUITES PROPERTY FUND LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 2013/080877/06)

Share code: EQU ISIN: ZAE000188843

JSE alpha code: EQUI

(Approved as a REIT by the JSE)

(“Equites” or the “Company”)



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## DEVELOPMENT OF A DISTRIBUTION CENTRE FOR AMAZON IN PETERBOROUGH, ENGLAND

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### 1. INTRODUCTION

Shareholders are advised that Equites, through its Isle of Man based wholly-owned subsidiary, Equites International Limited (“**Equites International**”), has concluded a development agreement (“**development agreement**”) with Amazon UK Services Limited (“**tenant**” or “**Amazon**”) in terms of which Equites International will be funding the development of a 13 629 square metre distribution centre (“**distribution centre**”), to be let to Amazon, situated on a property at Peterborough Gateway, Peterborough, England (“**property**”), (“**the transaction**”).

The total estimated cost of the development is £41 283 310 (ZAR 846 307 851) (“**total development cost**”), with £7 317 200 (ZAR 150 002 600) attributable to the acquisition of the land. Upon completion, this modern distribution facility will be wholly-owned by Equites. Based on the initial annual rent of £2 345 813 (ZAR 48 089 167) the total development cost reflects an initial yield for Equites of 5.68%, after payment of all costs, fees, and profit shares.

The development agreement provides that Equites Newlands Group Limited (“**the developer**”) will act as the developer of the property. Equites International owns 60% and Newlands Property Development LLP (“**Newlands**”) owns 40% of the issued shares in the developer.

### 2. RATIONALE

This is the second signed development deal to arise from the Company’s strategic partnership with Newlands and is consistent with the Equites’ growth and investment strategy of:

- diversification into the United Kingdom (“**UK**”) to mitigate the risks of its emerging market focus and access the advanced know-how and technology in respect of logistics facilities in the UK;
- unlocking brand new prime logistics facilities at yields significantly more attractive than would otherwise be achievable on the open market through its partnership with Newlands;
- focusing on premium “big-box” or “last-mile” distribution centres, let to investment grade tenants on long-dated “triple net leases”, in proven logistics nodes and built to institutional specifications.
- investing in key logistics nodes, including the Midlands and “last-mile” fulfilment centres near major metropolitan areas; and
- building a high-quality logistics portfolio, consisting of properties with predictable rental growth profiles, that promotes capital growth and increasing income returns in the medium to long term.

Equites views the property and the development as evidencing the following sound investment fundamentals:

- The property is located in the well-established Peterborough Gateway logistics park, which affords excellent road links, and is strategically located immediately adjacent to Junction 17 of the A1(M) providing excellent access to the national motorway network. The area also provides the tenant with access to a large labour pool.
- The distribution centre is 13 629 square metres and will be situated on an overall area of 16.77 hectares which translates into a low site coverage of 16%. The yard will accommodate a bespoke three-storey van deck (847 spaces) for the electrical vehicle fleet. The warehouse will have 72 launch bays, 72 waiting bays, 11 loading dock doors, 1 loading door to waste platform and 7 level access doors. Moreover, there will be an extensive 40 metre yard and clear height to eaves of 10 metres.
- Amazon has signed a 15-year triple net, fully repairing and insuring lease which will commence on the estimated development completion date in October 2021 (“the lease”). Amazon forms part of the American multinational technology company based in Seattle, Washington. Amazon is the world's largest online marketplace, AI assistant provider, live-streaming platform and cloud computing platform as measured by revenue and market capitalization, being the largest Internet company by revenue in the world. Amazon recently reported that they have invested over £18 billion in the UK economy since 2010 and intend to continue investing in the region.

In addition to the property fundamentals, this investment decision is aligned with Equites’ focus on sustainability initiatives:

- Amazon is investing significantly in its research and operations to be net-zero carbon by 2040, in support of its commitment to The Climate Pledge. Onboarding Amazon as a tenant therefore aligns with our strategic Environmental, Social, and Corporate Governance (ESG) objectives;
- Amazon is the first mover in the logistics space to embrace electrical fleets in line with the UK government’s ban on the sale of combustion engines by 2030;
- Amazon already ordered 100,000 fully electric delivery vehicles, which marks the largest order globally for electric delivery vehicles;
- the shift to electric delivery vehicles has created demand for a new type of logistics facility, which is incomparable to conventional warehousing due to having a stand-alone car deck that is fully equipped with electrical charging stations; and
- this property will form part of Amazon’s new sustainability strategy, and therefore concurs with Equites’ focus on ESG initiatives, as it supports the structural shift to electromobility within logistics supply chains.

### 3. DETAILS OF THE PROPERTY

- 3.1. Equites International has agreed to fund the development of a distribution warehouse and ancillary accommodation on the property.
- 3.2. The property is being purpose-built for Amazons’ requirements.
- 3.3. The lease provides that the first year’s annual rental income will be £2 345 813 (ZAR 48 089 167), which rental was calculated at 4.95% of the total development cost to reflect the additional costs associated with the bespoke facility, including the three-storey van deck.

Property name	Geographical location	Sector	GLA (sq. ft. /sq. m)	Weighted average rental per square foot per annum	Weighted average rental per square metre per annum	Annual rental income
Amazon	Peterborough Gateway,	Logistics	146 705 sq ft / 13 629 sq m	£15.99 (ZAR 327.80)	£172.12 (ZAR 3 528.46)	£2 345 813 (ZAR 48 089 167)

	Peterborough, England					
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#### 4. TERMS OF THE TRANSACTION

- 4.1. Amazon has signed a 15-year triple net, fully repairing and insuring lease which will commence on the expected completion date of the development in October 2021.
- 4.2. The Amazon lease is subject to the rent being reviewed five yearly (upward only) to CPI, subject to a collar and cap of 1.00% and 3.00%, compounded annually.
- 4.3. The transaction is subject to the fulfilment or waiver (as the case may be) of the following conditions precedent:
- receipt of acceptable planning permission for the development;
  - practical completion of the development and delivery to Amazon of the Certificate of Practical Completion and snagging list (if any); and
  - receipt of warranties in favour of Amazon from the building contractor and each professional team member.
- 4.4. The developer is obliged to deliver the development in line with the agreed plans and specifications.

#### 5. VALUATION

The directors expect that the market value of the property when the development is completed will reflect a net initial yield of 4.5% on the first-year rental income of £2 345 813 (ZAR 48 089 167). This valuation was based on the input of several registered independent external valuers. The property will be independently valued upon completion in October 2021. The directors are not an independent valuer and are not registered as professional valuers in terms of the Property Valuers Professional Act 47 of 2000.

#### 6. FUNDING AND FINANCIAL EFFECTS

Set out below is the forecast for the transaction (“**the forecast**”) for the 4 months ending 28 February 2022 and the 12 months ending 28 February 2023 (“**the forecast period**”).

The forecast has been prepared on the assumption that the development will be completed, and rental income in terms of the lease received, from 1 November 2021.

The forecast, including the assumptions on which it is based and the financial information from which it has been prepared, is the responsibility of the directors of the Company. The forecast has not been reviewed or reported on by independent reporting accountants.

The forecast presented in the table below has been prepared in accordance with the Company’s accounting policies, which is in compliance with International Financial Reporting Standards.

<b>ZAR’000</b>	<b>Forecast for the 4-month period ending 28 February 2022</b>	<b>Forecast for the year ending 28 February 2023</b>
<b>Rental revenue</b>	<b>16 929</b>	<b>52 546</b>
<b>Finance costs</b>	<b>(3 137)</b>	<b>(9 736)</b>
<b>Net profit before tax</b>	<b>13 792</b>	<b>42 810</b>

<b>Taxation expense/(income)</b>	-	-
<b>Net profit for the period</b>	<b>13 792</b>	<b>42 810</b>

The forecast incorporates the following material assumptions in respect of revenue and expenses:

1. The forecast has been prepared in £ and translated at exchange rates of ZAR21.65/£ and ZAR22.40/£ in respect of the financial periods ending 28 February 2022 and 28 February 2023, respectively. These rates are reflective of the forward rates for the forecast periods.
2. Rental income is derived from the lease and comprises contractual rental income only.
3. The lease is a fully repairing and insuring lease and normal property operating expenses are assumed to be recoverable from the tenant.
4. Initially, the transaction will be financed from available cash resources both in South Africa and the UK. The intention is, upon completion, to subsequently refinance up to 50% with UK debt. The all-in fixed cost of debt funding has been estimated at 2.2%.
5. There is no current taxation assumed in the forecast as the Equites group of companies will have sufficient capital allowances which may be applied against the taxable income for the forecasted period.
6. No fair value adjustment is recognised.
7. There will be no unforeseen economic factors that will affect the tenant's ability to meet its commitment in terms of the lease.

## 7. CATEGORISATION

The transaction is a category 2 transaction in terms of the JSE Listings Requirements and accordingly does not require approval by shareholders.

1 December 2020

Corporate advisor and sponsor to Equites

JAVACAPITAL

Debt sponsor

