**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**")

# DEVELOPMENT OF A LOGISTICS CAMPUS FOR SHOPRITE IN GAUTENG, SOUTH AFRICA

## 1. INTRODUCTION

Shareholders and noteholders are advised that Equites and Shoprite Holdings Limited, through its wholly-owned subsidiary Shoprite Checkers Proprietary Limited ("**Shoprite**"), have concluded a development and "triple net" lease agreement ("**Development Lease Agreement**"), in terms of which, *inter alia* -

- Equites has been appointed by Shoprite to develop a 92 791 square metre logistics warehouse facility ("**Development**") on Erf 1954 (to be registered), in extent 18.9105 hectares, being a portion of portion 157 of the Farm Witfontein nr 15, Registration Division -IR, Gauteng, City of Ekurhuleni Metropolitan Municipality, Province of Gauteng ("**Property**") at an indicative total cost of development of R1 245 300 000 (exclusive of VAT) ("**Development Cost**"); and
- Equites will lease the Property to Shoprite on the terms and conditions contained in Development Lease Agreement, further detailed below,

together the ("**Transaction**").

## 2. RATIONALE

Equites has communicated its strategy of pursuing growth in South Africa through high-quality acquisitions and developments. The Transaction meets Equites' strategic objectives of:

- continuing to cement itself as a developer of choice to the largest logistics, retail and e-commerce participants in the South African market;
- increasing its exposure to the logistics sector in South Africa, which is one of the best-performing property sectors;
- creating further scale in Equites' high-quality logistics portfolio with stable and predictable rental growth profiles, which enhances capital and income growth in the medium to long- term;
- supporting Equites' commitment to sustainability, as the Development will be designed in line with Excellence in Design for Greater Efficiencies ("**EDGE**") Green Building Certification requirements.
- the long-dated, annuity income stream presents opportunities to reduce Equites' cost of debt funding over time, thereby enhancing returns to shareholders.

Equites views the Property and the Development as evidencing the following sound investment fundamentals:

- the Development will be a modern, state-of-the-art logistics facility that meets Shoprite's specifications and operational requirements;
- increasing its exposure to Africa's largest food retailer, Shoprite, enhances the defensiveness of its tenant base;
- the Development is being executed on land which Equites controls and will unlock the value embedded in this land parcel; and
- the Property is to be let to Shoprite on a 20-year lease, with a right to renew for three additional 10-year periods, which substantially increases the weighted average lease expiry period of the portfolio.

## 3. DETAILS OF THE PROPERTY

The developed Property will exhibit the characteristics which are expected of a state-of-the-art distribution facility suitable for a multinational or national occupier, which includes strong sustainability elements.

| Property name | Geographical location | Sector | Expected gross lettable area | Weighted average rental per square metre per month* | Development Cost* |
|---|---|---|---|---|---|
| Shoprite Riverfields | Erf 1954, being a portion of portion 157 of the Farm Witfontein nr 15, Riverfields, Gauteng | Logistics | 92 791m$^2$ | R87 | R1 245 300 000 |

**These values are indicative and are subject to change and will be finalised upon practical completion of the Development.*

The Development Cost is considered to be in line with fair market value upon completion of the Development, as determined by the directors of the Company. The directors of the Company are not independent and are not registered as professional valuers or as professional associate valuers in terms of the Property Valuers Profession Act No.47 of 2000.

## 4. TERMS OF THE TRANSACTION

Equites has agreed to undertake the Development and has concluded a comprehensive Development Lease Agreement between Equites as landlord and Shoprite as tenant in respect of the warehouse facility. There are no outstanding conditions precedent to the Transaction.

The Development will be wholly-owned by Equites upon completion.

The Development Lease Agreement will be a fully repairing and insuring lease, enduring for an initial period of 20 years, with the right to renew for a further three 10-year periods on the same terms and conditions. The rental will be determined based on the contracted initial yield of 7.75%, in accordance with the actual Development Cost and will escalate at a rate of 5% ~~percent~~ per annum.

The effective date of the Transaction is 11 November 2022 and the lease is expected to commence on 1 July 2024.

The agreement contains undertakings, warranties and indemnities which are normal for a transaction of this nature.

## 5. FINANCIAL INFORMATION

Set out below is the forecast financial information in respect of the Transaction (“**the forecast**”) for the 8 months ending 28 February 2025 and year ending 28 February 2026 (“**the forecast period**”).

The forecast has been prepared on the assumption that the lease commencement date is 1 July 2024.

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.

| | Forecast for the period ending 28 February 2025 (R '000) | Forecast for the year ending 28 February 2026 (R '000) |
|---|---|---|
| **Rental revenue** | **64 341** | **99 728** |
| Less: finance costs | -22 415 | -33 623 |
| **Net property income post finance charges** | **41 925** | **66 105** |
| **Distributable earnings** | **41 925** | **66 105** |

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

1. The contractual rental agreement is assumed to be valid and enforceable.
2. The lease is a triple net lease and normal property operating expenses are therefore assumed to be recoverable from the tenants.
3. The property and asset management functions will be performed internally.
4. The forecast assumes a loan-to-value ratio ("**LTV**") of 30% throughout the forecast period.
5. The marginal cost of debt assumed is 9.0%.
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 commitments in terms of the lease.

**6. FUNDING AND IMPACT ON LTV RATIO**

The construction cost of the Development is R979 million, which will increase Equites' LTV by 2.3%, on a pro-forma basis. As Equites already owns the underlying parcel of land, no further capital is required to control the land.

The construction cost and the remaining development disbursements will be funded from undrawn debt facilities as well as from proceeds received from property disposals in South Africa.

**7. CATEGORISATION**

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

15 November 2022

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Corporate advisor and sponsor to Equites

JAVACAPITAL

Debt sponsor

CIB