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 GQEBERHA, SOUTH AFRICA

1. INTRODUCTION

Shareholders and noteholders are advised that Retail Logistics Fund (RF) Proprietary Limited ("**RLF**"), a subsidiary of Equites (50.1%), and Shoprite Holdings Limited (49.9%), through its wholly-owned subsidiary Shoprite Checkers Proprietary Limited ("**Shoprite**"), have concluded the following agreements -

- An agreement of sale in terms of which RLF will acquire from Shoprite a 10,077 square metre distribution warehouse ("**Existing DC**"), as well as 216,100 square metres of undeveloped land ("**Extension Land**"), which will be used for the purposes of the Extension, on Erf 8741 Wells Estate, a portion of Erf 409 Wells Estate, in the Nelson Mandela Bay Metropolitan Municipality, Division Uitenhage, Province of Eastern Cape ("**the Property**"). The acquisition cost is R90,000,000 (exclusive of VAT) for the Existing DC and R75,635,000 (exclusive of VAT) for the Extension Land ("**Agreement of Sale**");
- A lease and development agreement in terms of which RLF will let the Existing DC to Shoprite and extend this property by a further 79,260 square metres ("**the Extension**") on the Property ("**Development Lease**"). The indicative total cost of the development is R1,009,788,931, which includes the acquisition cost of the Extension Land ("**Development Cost**"); and
- A development management agreement in terms of which RLF will appoint Equites as the development manager to implement the Extension ("**Development Management Agreement**"),

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.
- enhancing returns to shareholders through the long-dated, annuity income stream, which contributes to reducing Equites' cost of debt funding over time.

Equites views the Existing DC and the Extension, together forming a new campus ("**Campus**"), as evidence of the following sound investment fundamentals:

- the Campus will be a modern, state-of-the-art logistics campus that meets Shoprite's specifications and operational requirements;
- it increases the exposure to Africa's largest food retailer, Shoprite, which enhances the defensiveness of its tenant base; and
- the Campus will 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 Campus 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	Gross lettable area	Weighted average rental per square metre per month	Purchase consideration / Development cost
Shoprite Wells Estate – Existing DC	Erf 409 Wells Estate, in the Nelson Mandela Bay Metropolitan Municipality, Division Uitenhage, Province of Eastern Cape	Logistics	10,077m^2	R58	R90,000,000
Shoprite Wells Estate - Extension	Erf 409 Wells Estate, in the Nelson Mandela Bay Metropolitan Municipality, Division Uitenhage, Province of Eastern Cape	Logistics	79,260 m^2*	R83*	R1,009,788,931*

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

The acquisition cost for the Property and the Development Cost for the Extension is considered to be in line with fair market value of the Property and value upon completion of the Extension, 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

The Agreement of Sale envisages that RLF will acquire the Property for a purchase consideration of R165,635,000. There are no outstanding suspensive conditions to the Transaction, and the effective date of the Transaction is 6 December 2022. It is expected that the transfer of the Property will be registered in the relevant Deeds Office by the end of January 2023.

The Development Lease 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 in respect of the Existing DC, which will be due and payable as of the date of transfer, will be determined based on the contracted initial yield of 7.8% in respect of the purchase price for the Existing DC, whereas the rental for the Extension will be determined based on the contracted initial yield of 7.8% in accordance with the actual Development Cost. Rentals will escalate at a rate of 5% per annum.

The development of the Extension is expected to commence on 27 January 2023, with the lease in respect of the Extension expected to commence on 1 October 2024.

The Development Management Agreement envisages the appointment of Equites by RLF as the developer manager, with the former being obliged to implement the development of the Extension for a development management fee of R10 million.
The agreements contain 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 year ending 28 February 2023, the year ending 29 February 2024, the year ending 28 February 2025 and the year ending 28 February 2026 ("**the forecast period**").

The forecast has been prepared on the assumption that the Property transfers on 1 February 2023, with the development lease commencing 1 October 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 **ZAR'000**	**Year ending** **28-Feb-23**	**Year ending** **29-Feb-24**	**Year ending** **28-Feb-25**	**Year ending** **28-Feb-26**
Rent - Existing DC	585	7,049	7,402	7,772
Rent - Extension	-	-	32,818	80,404
Total revenue	**585**	**7,049**	**40,220**	**88,176**
Less: finance costs	(203)	(2,430)	(13,790)	(29,694)
Net operating profit	**383**	**4,619**	**19,028**	**50,710**
Less: non-controlling interest	(191)	(2,305)	(9,495)	(25,304)
Distributable earnings	**192**	**2,314**	**9,533**	**25,406**

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 tenant.
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.
8. RLF is a 'controlled company' for the purposes of section 25BB(1) of the Income Tax Act.

6. FUNDING AND IMPACT ON LTV RATIO

The Transaction will increase Equites' LTV by 2.6%, on a pro-forma basis. The Transaction 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.

9 December 2022

Corporate advisor and sponsor to Equites

JAVACAPITAL

Debt sponsor

CIB