Equites offshore strategy update - UK

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CEO of Equites Property Fund

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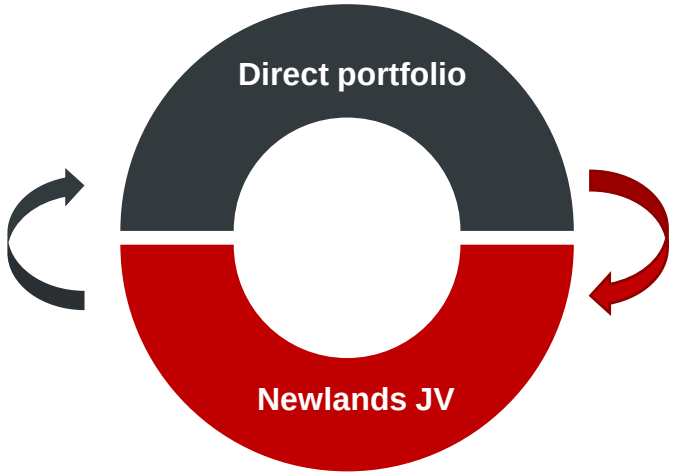
UK STRATEGY

UK strategy

Our UK platform consists of two different, yet complementary businesses

Direct property portfolio

- Portfolio of completed assets in the UK, curated through acquisitions between 2016 and 2020
- Combination of “Last-mile” and big-box logistics facilities
- Highly liquid portfolio



Newlands strategic partnership

- Joint venture established between Equites and Newlands with Equites holding 60% and Newlands holding 40%
- Newland’s strength lies in their ability to unlock strategic land for development
- Focus on developments of big-box logistics and last-mile facilities in the UK

UK STRATEGY

Current UK direct portfolio (100% ownership)

UK portfolio key stats:

- Entered the UK market in 2016
- Portfolio value of income producing assets (excluding land and developments) of R6.0 billion
- Portfolio WALE of 14 years
- Initial portfolio yield of 5%
- Leases: five-year upward-only rent reviews
- Upcoming rent reviews are Amazon in Stoke-on-Trent (2021) and DSV in Stoke-on-Trent (2022)

UK portfolio schedule of income producing properties:

#	Tenant	Property	GBP'mn	ZAR'mn
1	Amazon	Big Stan	20.5	432
2	Coloplast	Peterborough Gateway 2	15.4	324
3	DHL	Island Road West	31.5	661
4	DHL	Total Park	12.0	252
5	DPD	Parc Felindre, Swansea	12.5	262
6	DPD	The Hub - Unit 1	13.5	283
7	DSV	DC3 Sideway	20.5	431
8	DSV	Peterborough Gateway 1	32.3	679
9	Kuehne + Nagel	Scimitar Way	43.6	916
10	Puma	Super G - SPV 11	33.2	697
11	Roche	The Hub - Unit 3	13.6	285
12	Tesco	Dodwells Road	38.8	815
Total			287	6 036

Feb-20 property valuations converted at ZAR/GBP = 21

UK STRATEGY

Current UK direct portfolio (100% ownership)

DHL in Reading

DSV in Stoke-on-Trent

Kuehne + Nagel in Coventry

NEWLANDS VENTURE

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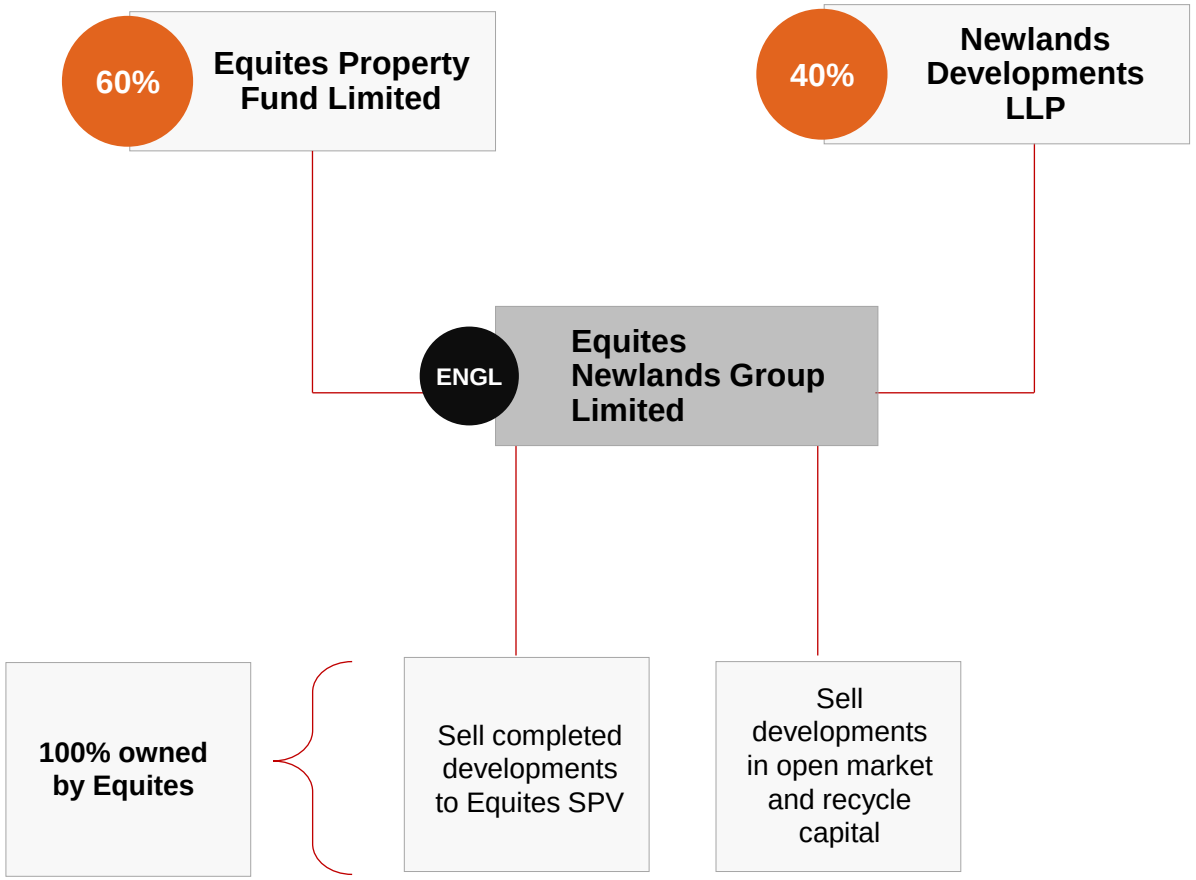
NEWLANDS VENTURE

Newlands: Structure of relationship

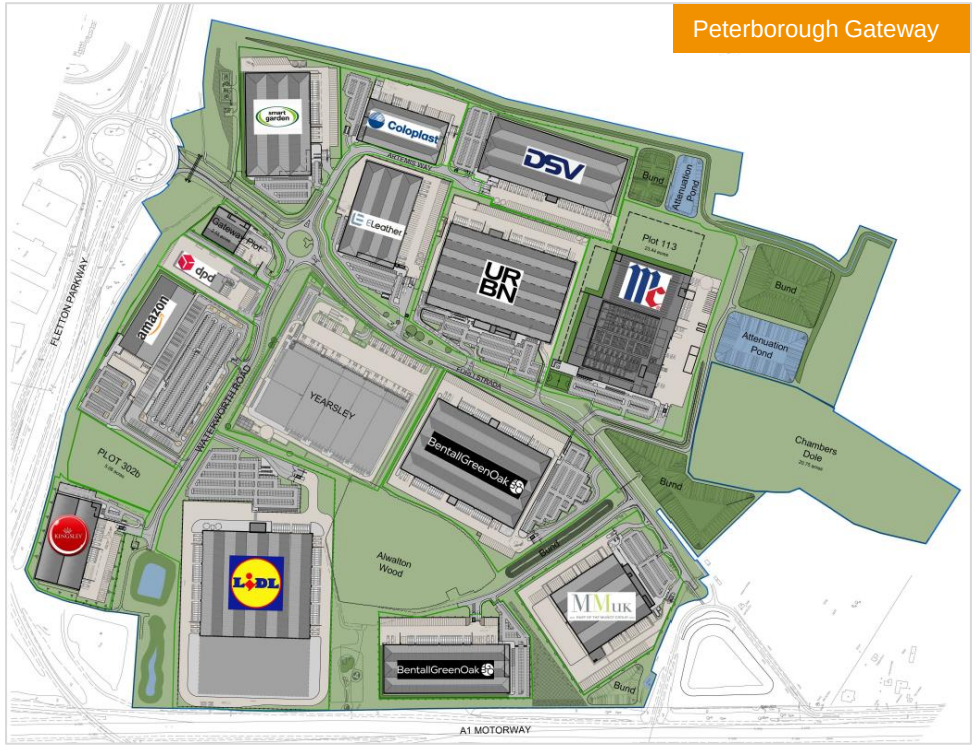
- The venture represents a strategic relationship between Equites and Newlands Developments
- Equites will provide funding for land acquisitions (or options) and developments in the initial stages
- Newlands will reinvest 50% of any development profits into the joint venture to ensure alignment of interests
- ENGL will sell completed developments into an Equites SPV where Equites' share of the development profit will be retained thereby ensuring a discount to open market value
- ENGL will also undertake developments which may not be retained (should it not meet Equites' investment criteria), thereby enabling Equites to recycle capital efficiently



NEWLANDS VENTURE

Newlands track record and Team

Example of a park the Newlands team unlocked at Roxhill



Peterborough Gateway is a 73-hectare distribution and manufacturing park strategically located immediately adjacent to Junction 17 of the A1(M). The site achieved planning consent for 375,000 square meters of industrial and distribution buildings. The Newlands team have developed over 175,000 square meters on the park in the last 2 years attracting premier tenants including Urban Outfitters, Coloplast, DSV, Smart Garden, eLeather, DPD, and Lidl to name a few. The Newlands team developed out the scheme delivering both onsite and off-site infrastructure to open up the site and negotiated both freehold and leasehold deals with tenants and funds.

Equites already owns two of the units in the scheme and has recently acquired adjacent land which it hopes to bring through in the planning to capitalise on the success of Peterborough Gateway, which has established itself as a logistics hotspot.

David Keir, *Chairman*

David was co-founder and chairman of Roxhill Developments having previously been a founder of the HBOS JV Rosemound Developments which was acquired by Goodman International in 2007. David recently joined Newlands as executive chairman.

Graham Pardoe, *MD of Newlands*

Graham has worked in the property industry for over 25 years having started his career at AXA working in Funds Management. He has been involved in the industrial & logistics market for nearly 20 years, holding senior positions in both Prologis and Goodman. Graham joined Roxhill in 2010 and left in 2018 to set up Newlands.

Simon Williams, *Senior Development Director*

Simon has worked in the property industry for 18 years, specialising in the industrial and distribution sector. He qualified as a chartered surveyor with Cushman & Wakefield before moving to Holley Blake and then CB Richard Ellis. He subsequently joined Goodman in 2006 and Roxhill in 2012, before leaving to join Newlands in 2018.

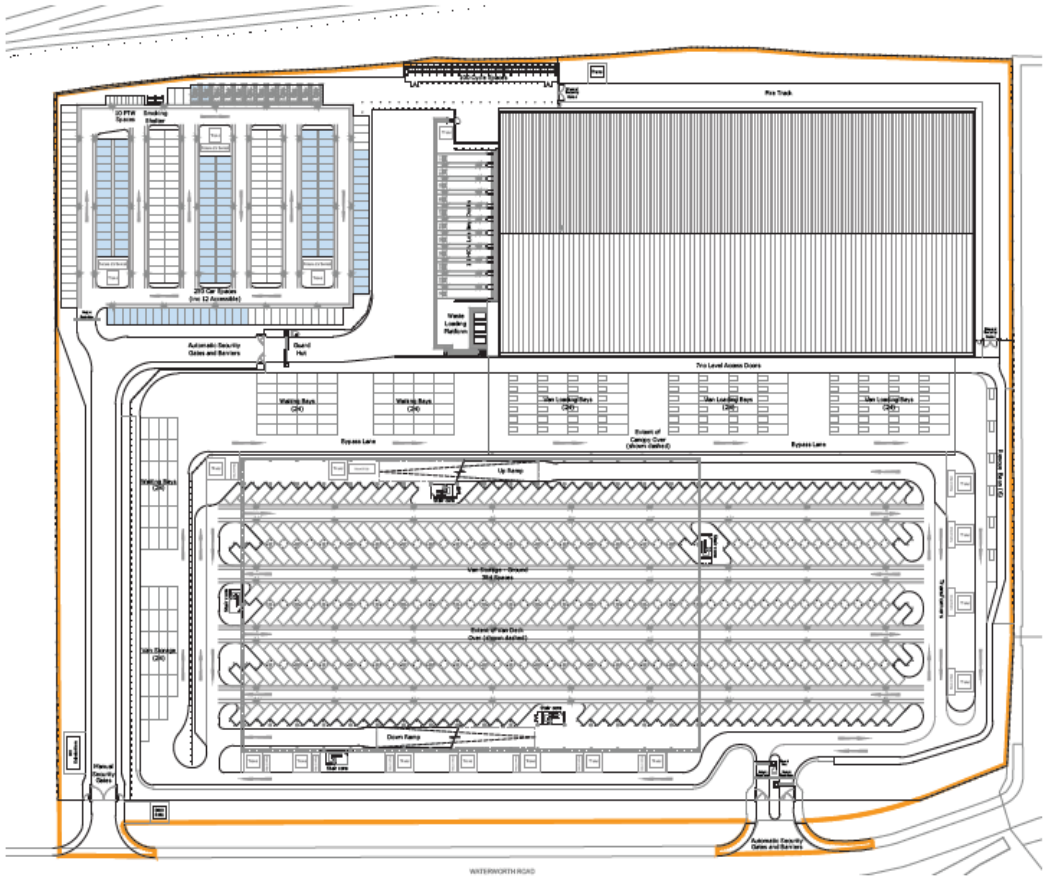
Ashley Hollinshead, *Finance director*

Ashley joined Deloitte in 1998 and trained as an accountant before being promoted to partner in 2010. During the latter part of his career he worked predominantly with clients in the property market; ranging from developers, investors, privately owned and FTSE plc's. Ashley subsequently worked for Roxhill and joined Newlands in 2018 as the Finance Director.

NEWLANDS VENTURE

Amazon - Peterborough Gateway

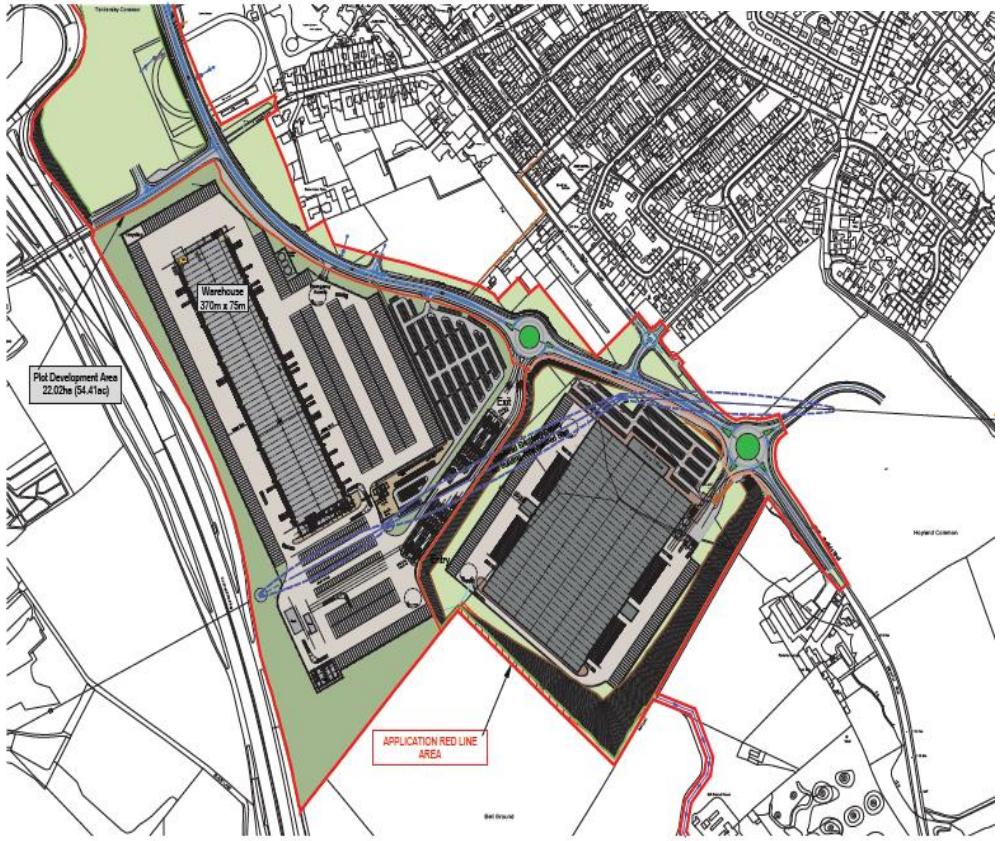
- Development agreed has been signed
- Last mile fulfilment centre with a GLA of 13,629m²
- Includes 847 multi-storey van parking - with a focus on sustainability to future proof the facility as the UK is banning the sale of combustion engines by 2030
- Amazon is in the process of rolling out a programme of these facilities across the UK
- Development cost of c. £41 million
- Estimated completion date is October 2021
- Yield on cost (post Newlands profit share) of 5.7%
- Equites directors' valuation at a 4.5% yield



NEWLANDS VENTURE

Hermes in Hoyland, South Yorkshire

- Development agreed has been signed with Hermes, one of Europe's most successful parcel delivery businesses
- The facility will be a Super-hub with a second plot for a pre-let development opportunity
- Total GLA of the facility at 31,570m² (339 821 sq. ft.)
- 20-year lease
- Development cost of c. £ 72 million
- Yield on cost (post Newlands profit share) of 5.3%
- Equites directors' valuation at a 4.5% yield



NEWLANDS VENTURE

Basingstoke Gateway

- Basingstoke is ideally located to house “last-mile” fulfilment centers
- In negotiations with an e-commerce retailer to develop a £200 million freehold facility (largest plot on the plan)
- Equites will not be funding the development, but we expect an attractive profit share on the land holding
- Initial discussion regarding logistics last-mile delivery facility taking 50% of the remaining land

IRR expectations from Equites' perspective

- We expect building cost inflation in the UK to remain benign, which bodes well in an environment where there is cap rate compression (higher development profits)
- We expect between 15% and 25% IRRs on new development opportunities, in the medium term (in **Pound** terms)
- Key risks to our expectations are higher finance costs or a change in the UK property cycle in the medium-term, which could result in cap rate decompression from current levels
- Our expectations are, however, for cap rates to remain firm / compress even further in the UK

Simplified IRR model						
IRR inputs						
Total development cost	100 000					
Equity	38 889					
Debt	61 111					
LTV ratio on cost	61%					
Development yield on cost	5.5%					
Fair value cap rate	4.50%					
Fair value upon completion	122 222					
Target LTV ratio vs fair value upon completion	50%					
Cost of debt assumption (GBP debt)	2.5%					
Assumed CPI rate p.a. (five-year rent review)	1.5%					
Geared IRR	Yr-0	Yr-1	Yr-2	Yr-3	Yr-4	Yr-5
Acquisition costs - equity outlay	- 38 889					
Rental income		5 500	5 500	5 500	5 500	5 500
Finance costs		- 1 528	- 1 528	- 1 528	- 1 528	- 1 528
Exit FV realisation						70 557
CFs	**- 38 889**	**3 972**	**3 972**	**3 972**	**3 972**	**74 529**
Rolling equity yield		*10%*	*10%*	*10%*	*10%*	*10%*
IRR (in £)						**21%**

Funding the UK pipeline

Equites funding options

- Debt sourced from funders in the UK or SA
- Equity capital from offshore and local equity investors
- Recycling of UK and SA assets
- Entering JVs with SA pension funds to free-up capital

We are currently exploring the disposal of properties within our UK and SA portfolios – further details to be communicated in due course

NEWLANDS Q&A

Questions?

Appendix – Newlands Q&A

Why did Equites establish this strategic venture with Newlands?
The Group concluded that the best strategy to access land holdings and to build scale in the UK logistics market is to join forces with an experienced local partner. Post the due diligence process on various potential partners / co-investors, it was clear that Newlands would be the best partner, as the team has an impeccable track record of executing high quality logistics developments.

Will the completed assets be sold to recycle capital, or will Equites take control of all the completed developments?
Newlands only acts as the development manager. Therefore, during the due diligence process, ENGL will decide on the optimal strategy for the specific property; Equites will either retain 100% ownership and control over the relevant property upon completion **or** ENGL will sell it in the open market via a competitive bidding process.

What are the benefits to Equites?
The connectivity and local expertise of Newlands in unlocking prime UK land should enable Equites to add quality logistics facilities to its portfolio at initial yields that are around 75 - 100 basis points higher than what Equites can currently acquire in the open market.

What are the benefits to Newlands?
The structure offers Newlands a strong source of funding in order to execute on its large pipeline of logistics developments, and a 40% share in the development profits.

Appendix – Newlands Q&A

What are the risks of this venture and how will it be managed?
The key risk Equites will be managing is its land exposure in the UK, i.e. to have limited exposure to land holdings as well as capping developments as a percentage of Equites' total assets. A key strategy in managing this risk is to enter into land options where possible, until a lease is signed with a tenant. Furthermore, no speculative developments will be undertaken.

What are the total funding commitments to this venture?
Equites is not contractually obliged to fund any potential developments but has a right-of-first-refusal (ROFR) on all the potential development projects that Newlands are unlocking, for a period of seven years (2020-2027).

Does Newlands have a "free-carry" within the structure?
Newlands only share in the development profit and will not retain an interest in the completed developments. Newlands will not receive any rental income on the completed buildings and will only share 40% in the development profit margin / valuation uplift.

Are there any lock-ins or restrictive covenants?
Whilst there are routine restrictive covenants, one of the key components we agreed was that Newlands reinvest 50% of its profits back into ENGL, which will be used to repay Equites funding. Accordingly, Newlands will also share in the long-term success of ENGL.

What are the target development yields on cost?
Current feasibilities demonstrate potential gross development yields on cost of 5.5% to 6.5% - pre-Newlands's profit share.

THANK YOU

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