OUTLOOK

Market conditions remain extremely challenging for the sector. Notwithstanding ongoing initiatives to reduce costs and vacancies, the Fund has experienced considerable headwinds affecting income. As a result, it is expected that the distributable income for the year may decrease to a range of between -10% and -15%. Further, the Board has decided not to distribute total income in this depressed environment, preferring to reinvest in the company and its assets. The policy is to withhold up to 5% of distributable income depending on the circumstance.

While these headwinds persist in the short term, we do believe that the medium term holds better fortune for the Fund as it will be able to benefit from its 50% ownership (following the closing of the Fourways Mall equalisation) of the Fourways Mall super-regional shopping centre. Moreover, it will be able to operate with a portfolio underlined by quality properties, backed by better capital allocation geared to benefit from a recovery in the business cycle.

In the medium to long term, the executive team, Michael Georgiou (CEO), Andrew Costa (COO) and Dimitri Kyriakides (CFO), and the Board are committed to the Fund's future. Investors are reminded that, subject to certain conditions, Michael has a non-compete with Accelerate.

In addition, Accelerate has a right of first refusal for any potential acquisitions and sales Michael has in the future, which will assist with Accelerate's growth. The Fund is thus uniquely poised to benefit from developments as well as acquisitions. Post-bedding down of Fourways Mall, new and exciting pipeline opportunities will also bring green shoots for the future.

ACCELERATE PROPERTY FUND

POTENTIAL ACCELERATE ASSET MANAGEMENT AND DEAL PIPELINE OPPORTUNITIES

Strategic sales	● *Foreshore sale** Description: Sale/joint venture on bulk for residential development R265m		● *Ad hoc sales** Description: Approximately R400m		● *Portfolio sale** Description: Sale of assets approximately R2.1 billion. APF retains the right to sell individual assets should a higher price be achievable.	
Developments	● *Buzz Bulk* Description: Retail development (funded)	● *Cedar Square* Description: Retail development (funded) Repositioning of mall	● *BMW Bulk* Description: Motor dealership	● *Charles Crescent* Description: Transformative potential mixed-use or residential joint venture	● *Foreshore commercial* Description: Blue-chip, long-term lease, sale and optimal Buy-back	● *Foreshore residential/ hotel* Description: 20-storey residential/hotel
Equalisation	● *Fourways equalisation* Approximate purchase price – R1 billion to R1.3 billion Yield – 8,0% (market-related yield approximately 6,5%) Description – super-regional retail					
Progress on execution	● Initiation ● Advanced ● Well advanced					

** Proceeds to be used to lower LTV, reinvest in assets and buy back shares.*


Fourways mall


Fourways mall

ACCELERATE PROPERTY FUND

SEPTEMBER
2019

Accelerate Property Fund equalisation and pre-close *update*

INTRODUCTION

2019 continues to be one of the toughest years faced in the industry with headwinds affecting performance. While political certainty has firmed up since the beginning of the year, sluggish economic conditions, with low levels of business and consumer confidence continuing to weigh in on weaker property fundamentals and performance. The South African listed property sector index (SAPY) had its worst year on record in 2018, when it suffered a total loss including share price movement and dividends of 25,26%. So far in 2019, SAPY's recovery has been weak. Year to date, SAPY achieved a total return of 1,8%, while the JSE all share index's total return has been about 4,4% (22 August 2019). This performance has been driven by weak economic conditions affecting tenants in all property sectors. Retailers continue to feel pressure on trading statistics, spilling into their valuations over the last 12 months (Financial Mail – http://bit.ly/2kuo8iK) (5 September 2019):

- Mr Price: 24% down;
- Shoprite: 45% down;
- Massmart: 61% down;
- Truworths: 41% down;
- The Foschini Group: 17% down;
- Dis-Chem: 34% down; and
- Pick n Pay: 21% down.

There are, of course, nuances in each case, but the story is the same: sliding sales that reflect retail's glory days of the early 2000s are forgotten.

While the above portrays systemic headwinds for the industry, green shoots have appeared from long-term projects Accelerate and CEO, Michael Georgiou, embarked on and have now completed post-March 2019. It is with great delight that Accelerate announced the completion of the Fourways Mall super-regional shopping centre, a realisation of the most important of milestones since listing in 2013. The mall opened on 22 August 2019 and feedback has been exceedingly positive. The Fourways node continues to offer value-enhancing opportunities for the future with the mall catalysing this transformation. Accelerate is positioned to take advantage of future value to unlock in the node and is committed to enhancing value for its shareholders using this nodal strategy.

UPDATE

In tough economic times, ensuring a sustainable future is of paramount importance in this industry. It is with this ethos that Accelerate manages its tenant relationships as efficiently as possible in view of retaining tenants and thereby protecting revenue streams for the future. As at end-July 2019, the Fund achieved a tenant retention rate of approximately 98,2% by gross lettable area (GLA). We have had to proactively manage these relationships with rental reductions, rent-free periods, tenant installation (TI) allowances, etc. This trend continues to put pressure on income; however, it positions the Fund well for the future.

While income remains under pressure, Accelerate continues to focus on managing costs more efficiently. The Fund's cost to income ratio has been controlled, notwithstanding increases in rates by council. The ratio has temporarily increased to 20,9% post-March 2019 (15,9%) due to additional once-off expenses being incurred nearing the completion of the Fourways Mall Development. This will normalise to approximately 17,0% post-equalisation.

Moreover, vacancies have decreased post-March 2019 (from 9,0% to 8,9% as of July 2019). This was not only driven by a concerted effort to fill vacancies, but also by sales of non-core properties (as discussed below). Arrears remain stable, and the portfolio's weighted average lease expiry (WALE) remains strong, in excess of five years. Average lease escalations amount to approximately 7,3% (excluding offshore).

PORTFOLIO OPTIMISATION

Accelerate continues to progress on its portfolio optimisation strategy, a strategy that hampers dividend growth in the short term, as we are disposing of smaller high-yielding non-core properties. However, it allows the Fund to ensure a better long-term future, with core properties that fit into our nodal strategy. This strategy was adopted to:

- Underpin a portfolio of quality assets, including:
  - 50% Fourways Mall (super-regional retail);
  - Cedar Square (regional retail);
  - Eden Meander (regional retail);
  - Significant other convenience retail presence in the Fourways node;
  - A portfolio consisting of nine big-box, single-tenant and long-term lease properties in Austria and Slovakia (big-box retail);
  - KPMG's South African head office (A-grade office);
  - Citibank's South African head office (A-grade office);
  - Portside (P-grade office);
  - Charles Crescent (development opportunity); and
  - Foreshore office (development opportunity).
- Position the balance sheet to withstand the tough environment;
- Conserve cash generated by operations for defensive capital expenditure; and
- Reduce gearing levels to a targeted level of 35%.

This strategy has assisted the Fund in creating capacity for the Fourways Mall equalisation (later discussed).

Since 31 March 2019, properties to the value of approximately R500 million have been sold and further sales of approximately R365 million are well advanced. In addition a portfolio sale of R2.5 billion is under negotiation.

As of July 2019, Accelerate is 93,3% hedged with a weighted average swap maturity of 2,0 years and a weighted average debt maturity above 2,5 years.

FOURWAYS MALL UPDATE AND EQUALISATION

Accelerate, along with its development partner, Azrapart, launched the new Fourways Mall super-regional shopping centre on 22 August 2019 – the largest mall in Africa. The four-year redevelopment project saw the completion of an 85 000 m² expansion of GLA and incorporation of Fourways View and Game to the existing regional Fourways Mall. The super-regional mall boasts a GLA in excess of 178 000 m² (the equivalent of more than 20 rugby fields) and comprises more than 450 stores. This will later grow to 200 000 m² with the development and launch of French home improvement mega-retailer, Leroy Merlin (owned exclusively by Accelerate's development partner), with its flagship store to be linked to the main mall across a retail bridge over Fourways Boulevard. The mall is expected to be valued at approximately R10 billion. We believe that we can extend developable bulk on the Fourways Mall site to 1 000 000 m², which council is supportive of.

The mall competes with the likes of Sandton City and Mall of Africa, but draws from its immediate catchment area of Fourways in the northern parts of Johannesburg, one of South Africa's fastest growing regions with the urban sprawl heading further north. The mall offers a unique customer experience as it matches the latest in shopping trends with entertainment (shoppertainment). The entertainment element has been a key focus of the mall and has been met through tenants such as Bounce (the national flagship store), the Fun Company, Ster-Kinekor movie theatre and Kidzania.

The latest trends in retail have been implemented at the mall by some key tenants such as Edgars.

Fourways mall

Links for articles in Financial Mail and Business Day:

http://bit.ly/2k7fnL4

http://bit.ly/2kuwhDS

EQUALISATION PURCHASE PRICE

Accelerate has exercised the option to acquire a percentage of Fourways Mall super-regional shopping centre from Azrapart. Post the finalisation of the acquisition, Accelerate will own a 50% undivided share of the mall. The acquisition price was calculated at a yield of 8% as agreed in the option exercise agreement. This results in a significantly lower market price for a super-regional mall in South Africa, which are currently valued with a yield between 6,25% – 6,50%.

FUNDING OF THE EQUALISATION

Accelerate will fund the acquisition as follows:

- Accelerate has approved debt funding to fund a cash payment of R700 million; and
- Accelerate has a loan receivable from Fourways Precinct of approximately R400 million which will be set off against the balance of the purchase price on a Rand for Rand basis.
- It has been agreed between the parties that should the purchase price be greater, Azrapart would accept payment of the balance as and when the APF balance sheet permits, taking into account APF's debt covenants, working capital requirements and debt commitments.

WHY FOURWAYS

The Fourways node is one of the fastest growing nodes in South Africa. The node has grown, and continues to do so, due to rapid urbanisation and urban sprawl in Gauteng. Fourways boasts a population categorised by stable middle to upper living standards measures (LSMs) (62% – LSM 4 to 10) with a particular strength in the higher LSM brackets (31%). It also boasts an annual population growth of +/- 3,0%, that is anticipated to continue.

Capital continues to be invested in the node as infrastructure and capital investments have been committed to the node's future growth. One example of this is Lanseria International Airport (LIA), situated 17 km north of Fourways Mall. The airport has recently (May 2019) completed the construction of a multi-storey parkade adding approximately 1 000 new parking bays, some retail and office space as well as the much anticipated covered parking. The completed structure has allowed LIA to increase capacity for more business as it aims to become Johannesburg's domestic airport. LIA plans to add a further 2 221 parking bays to the airport in the short to medium term (source: http://bit.ly/2m86fGF).

In addition to LIA's upgrade, the Gautrain Management Agency is planning to extend the rail route by 150 km over the next 20 years, including routes through Randburg, **Fourways**, Lanseria and Soweto. Locating the Fourways Gautrain station at Fourways Mall remains a key medium-term strategic objective for the Fund as it will allow the Fund to expand on the node's offering to include office and hospitality property types. The node has the potential to become a central business district in the future.

Accelerate owns approximately (pre-Fourways Mall equalisation) 174 944 m² of GLA in the Fourways node, and thus is well positioned to create value for its shareholders in the medium to long term. Moreover, the launch of the Fourways Mall super-regional shopping centre represents the first step in the Fund's plans to include office, hospitality and retail offerings in the node in the medium to long term.

FOURWAYS CONSOLIDATION

While Fourways Mall leads the value creation case for the portfolio, Accelerate continues to add value to the Fourways node through other avenues for growth. This strategy is backed by a growing annual population and a stable, already established middle class within Fourways and surrounds. These avenues for growth include:

- **Cedar Square Shopping Centre (regional retail) – 44 418 m²:**

  Since the completion of the 3 000 m² extension to Woolworths in 2017, the Fund has spent significant capital and time on repositioning Cedar Square as a lifestyle and family centre. It has done so by changing the tenancy profile and utilising capital expenditure for upgrades of common area as well as TIs for new tenants. These new tenants include Saigon Suzy, Big Bad Wolf, The Kidz Gym, The Refillery, Sofaworx, Oh My Cake, Sorbet (nail salon and drybar), Smoke Daddy's, Postnet and Queenspark. The upgrades at Cedar include replacement of mechanicals (lifts and aircon), painting and lighting, additional restaurant decking area, and bathroom upgrades focusing on creating a family-friendly environment. In addition, the ski-slope at Cedar has a new operator and will form part of the general upgrade in Q4 of 2019. The above has created significant increases in trading densities at Cedar, especially for tenants geared towards kids and families, and restaurants. Vacancy at Cedar has reduced to below 4,0%.

- **The Buzz (small regional retail and residential) – 14 118 m²:**

  The Buzz has also seen an upgrade to its common area including painting, retiling and upgrading of lights. This refurbishment has seen vacancies drop to approximately 4,0%.

  The Fund entered into a joint venture with a leading residential property developer to develop approximately 500 residential units on 38 400 m² of bulk behind The Buzz and Waterford shopping centres in Fourways. Phase 1 of The Buzz residential development is expected to start in the last quarter of the year and is expected to be completed before financial year-end.

  The transaction will not only see value being unlocked for the Fund but will also be complementary to The Buzz and Waterford shopping centres.

- **Waterford Shopping Centre (convenience retail) – 6 682 m²:**

  Waterford is also undergoing a refurbishment, adding value to the node.

FORESHORE DEVELOPMENT UPDATE

With the pending Fourways Mall equalisation, APF is of the view that the most optimal and efficient way to extract value from the Foreshore development without putting LTV pressure on the Fund, is to sell the properties out of Accelerate while retaining an option to purchase the completed Foreshore development.

PROPOSED TRANSACTION

- Foreshore development properties – 99 to 101 Hertzog, Mustek, Murray & Roberts and ERF 7 Roggebaai will be sold out of the Fund at current holding value of R265 million to George Georgiou, Michael Georgiou's brother, a proven developer in the Cape Town area (to Foreshore Developer);
- Upon completion of Phase 1, the commercial component of the development, Accelerate will have the option to repurchase the assets from the Foreshore Developer for:
  - the R265 million original property value; plus
  - the agreed cost of the development; plus
  - a pre-agreed project management fee for the Developer.
- Phase 1 will be underpinned by a blue-chip, long-term lease;
- Post-repurchase and subject to prevailing market conditions, Phase 2 of the Foreshore development (residential) will be undertaken by the Foreshore Developer;
- Foreshore Developer is incentivised to undertake Phase 1 solely for a management fee given that two-thirds of net profits of Phase 2 (residential) will be for the benefit of the Foreshore Developer. The remaining one third will be for benefit of Accelerate; and