ACCELERATE
PROPERTY FUND

MARCH 2019
Accelerate Property Fund Pre-close *update*

Fourways Mall

INTRODUCTION

The South African economic environment remains challenging. Unfavourable economic conditions continue to weigh heavily on property fundamentals and, in our view, the property sector will remain under pressure during 2019. Recent retailers' results echo these sentiments, with consumers' disposable income still under pressure and overall business sentiment poor.

The opening of the Fourways Mall super-regional centre is imminent. For the Fund, this is the most important milestone since listing in 2013. The super-regional has unsurpassed offerings to the public, including a particular focus on shoppertainment, and will anchor the Fund and the Fourways node into the future. Perhaps even more exciting is the future opportunities the mall will act as a catalyst for. One has only to look at the growth of the Sandton node where Sandton City served as a primary catalyst in the node's development to appreciate the extent of the opportunities available to the Fund in time and as market conditions improve. Accelerate is uniquely positioned to take advantage of this opportunity.

UPDATE

Accelerate is predominantly a retail fund (67% by revenue). In tough economic times, the relative performance of properties and nodes becomes more apparent. Accelerate is fortunate that the majority of its retail exposure (64% of retail by revenue) is located in the dominant Fourways node. The Fourways node continues to perform well (see write-up on Fourways node alongside).

Tenant retention and protecting income streams remain key focus areas. As at end January 2019, the Fund achieved a tenant retention rate of approximately 92% by number of tenants. To achieve this, however, given current market conditions, we had to be proactive in our approach to assisting tenants where necessary, with a combination of softer leases, increased Tenant Installation allowances, rent-free periods, and the like. This has put income under pressure. This trend is expected to continue.

Against this backdrop and on the back of considerable effort by our leasing team, we are pleased that post-September 2018 vacancies in the retail portfolio have improved marginally, office remains stable* and industrial improved following the Checkers Montague property space being let post-September 2018.

In tough times, focusing on costs becomes even more imperative. Costs have been well controlled considering the operating environment. Unfortunately, these efforts have been outweighed by excessive rates increases by council. Arrears have remained stable, and our portfolio weighted average lease expiry (WALE) remains defensive, in excess of five years.

** Subject to Foreshore Development – see below.*

PORTFOLIO OPTIMISATION

Accelerate is well advanced in its portfolio optimisation strategy. Through targeted property sales of non-core assets the Fund is making excellent headway in reducing gearing levels to its target level of 35%. This strategy has the dual benefit of creating funding capacity for the Fourways equalisation (discussed below) and, by selling non-core assets, the remaining portfolio is underpinned by 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;
- KPMG's South African head office (A-grade office);
- Citibank's South African head office (A-grade office);
- Portside (P-grade office);
- Offshore Portfolio (75% Austria);
- Charles Crescent (development opportunity); and
- Foreshore Office (development opportunity).

Over the past eight months, non-core properties to the value of approximately R800 million have been disposed of/sale agreements signed, and a further R500 million of disposals are, at various stages of finalisation. The intention is to apply the sale proceeds towards reducing gearing and/or buying back shares.


Fourways Mall

A R1,6 billion swap (6,5% base rate taken out at listing) expires on 31 March 2019. In anticipation of this, management has for the past few years proactively managed the Fund's swap profile. Post the expiry of this large swap, the Fund will be 82% hedged with a weighted average swap expiry profile of 2,7 years (1,9 years at 30 September 2018). The weighted average debt maturity profile has also improved from 2,1 years (30 September 2018) to 2,5 years (28 February 2019).

FOURWAYS MALL UPDATE AND EQUALISATION

The Fourways Mall super-regional centre is at it's finishing stage:

- Revised opening date is 22 August 2019
- Total GLA – 174 000 m² (excluding Leroy Merlin's flagship store approximately 18 000 m² – which will be linked to the mall in due course but not owned by the Fund)
- Approximately 450 stores on opening
- Number of entrances when complete – 52 in total (cars and pedestrian)
- National (including national franchises) and International tenants (144 000m²) - 83% of GLA.

Anchor tenants include:

Tenants	Sector	GLA (m²)
Checkers	Food Retail	7 762
Woolworths	Fashion and Food Retail	11 495
Game	Retail	5 744
Dion Wired	Retail	1 000
Pick n Pay	Food Retail	2 810
Dis-Chem	Retail	2 367
KidZania	Entertainment	6 774
Edcon group	Fashion	16 052
Truworths	Fashion	4 144
Foschini group	Fashion	7 161
Mr Price Home	Home Accessories	1 810
Mr Price	Fashion	1 985
Cotton On	Fashion	1 307
H&M	Fashion	2 678
Toys R Us	Retail	1 341
LC Waikiki	Fashion	1 196
Bounce Inc	Entertainment	3 677
Cape Union Mart	Fashion	1 533
@Home	Home Accessories	1 498
Ackermans	Fashion	1 576
West Pack	Retail	2 221
Food Lover's Market	Food Retail	2 398

- Anticipated WALE: approximately 5,8 years
- Anticipated weighted average escalation: 8,5% per annum
- Total parking bays: approximately 8 000
- Anticipated footfall: 1,8 million to 2 million on average per month
- Roadworks:
  - Almost all of the approximate R400 million roadworks funded by the Developer Azrapart (Pty) Ltd (Azrapart) are complete and the new dual carriageway on Cedar Road and widening of Witkoppen Road, has significantly improved traffic flow in the area
  - The slipway off Cedar Road has increased accessibility to the existing Fourways View Centre
  - The access slipway/flyover off Witkoppen Road is nearing completion
  - The access road from William Nicol onto the rooftop of the north-east parkade is nearing completion

EQUALISATION

Accelerate owns 100% of the existing Fourways Mall development properties (existing letting enterprises) with the new development (development letting enterprise) and the upgrade of the existing letting enterprises being undertaken outside of Accelerate by Azrapart.

The respective roles/rights of Azrapart and Accelerate in the development can be summarised as follows:

Azrapart (developer)	Accelerate
Undertake complete development Assume full development risk including: • full funding risk; and • any costs for delays.	No development risk
Provide an income guarantee to Accelerate for the full duration of the development	No income risk during development
Deliver development to the standard of an A-grade super-regional centre	Fund equalisation in terms of pre-agreed formula (see below)
Undertake infrastructure spend – road widening etc. in Fourways node	Step-in rights if needed
Leasing responsibility for development	Ultimate 50% ownership post-equalisation
Undertake refurbishment of existing mall	
Ultimate 50% ownership post-equalisation	

- Any delays with the opening of the completed super-regional mall will assist the Fund in allowing greater time to sell-down assets and increase funding capacity
- Equalisation is expected to occur on 2 September 2019
- Acquisition of the equalisation stake at a yield of 8% (current yield for super-regional centres is approximately 6,5%)
- Anticipated purchase price for the equalisation stake is approximately R1 billion. (subject to finalisation of due diligence and legal confirmation)

In terms of process:

- The Accelerate Board has established an equalisation subcommittee reporting directly to the Board.
- Michael Georgiou, as a related party, is excluded from all decisions pertaining to the equalisation.
- RMB Corporate Finance has been mandated to manage the equalisation process and is currently reviewing all the information provided to it in the data room. Regular feedback has been provided to the Board.
- Ernst & Young is in the process of reviewing all leases and undertaking a comprehensive income and expense analysis.

The equalisation stake to be purchased by Accelerate will be determined in accordance with the following formula:

$$A = [B/(C+D)] \times 100$$

Where:

A = Accelerate's undivided share in the Combined Letting Enterprise

B = the higher of the Guaranteed Income or the result of the Forward Net Income (existing letting enterprises), as if the Contemplated Development did not take place, less the Forward Net Income (Rebuilt Portion)

C = Forward Net Income (Existing Letting Enterprises), as if the Contemplated Development had taken place, plus amounts payable by Fourways Precinct under the Head Lease insofar as it relates to the Existing Letting Enterprise

D = Forward Net Income (Development Letting Enterprise) plus amounts payable by Fourways Precinct under the Head Lease insofar as it relates to the Development Letting Enterprise

"Rebuilt portion of the existing letting enterprises" means that portion of the Buildings comprising the Existing Letting Enterprises which will be demolished and rebuilt, as indicated in the Preliminary Plans.

FUNDING OF THE EQUALISATION

Management anticipates that the Fund should have the gearing capacity to fully debt fund the equalisation purchase price.

In summary:

- Accelerate has the option to fund the equalisation with debt and/or equity (to the market or directly to the developer).
- The Fund has loans receivable from the developer of approximately R350 million (the developer loan receivable).
- The developer loan receivable is to be recovered from the developer prior to equalisation/will be offset against the purchase price at equalisation.
- At a 40% gearing level, approximately R400 million of debt can be raised against the equalisation stake (dependent upon net income ultimately determined and applying a cap rate of 6,5%) (the equalisation stake gearing).
- The remaining amount payable for the equalisation stake (ie the purchase price less the sum of the developer loan receivable – approximately R350 million – and the equalisation stake gearing – approximately R400 million) may potentially be completely funded by property sales.
- The dilutionary effect of the equalisation will vary depending on how it is funded. Current thinking is to fund the equalisation by way of debt, set off of the developer loan receivable, and utilise the proceeds from the sale of properties.

FOURWAYS NODE FUNDAMENTALS AND UPDATE ON GAUTRAIN

The Fourways node is a dominant retail node characterised by high residential densification with a strong living standards measure (LSM)*. Largely as a result of urbanisation and urban sprawl in Gauteng, Fourways is anticipated to grow in population annually by +/- 3,0%. Fourways' LSM profile is categorised by a stable middle/upper LSM with particular strength in the highest (10 and 10+) LSM brackets (53%).

LSM 1	LSM 2 – 3	LSM 4	LSM 5	LSM 6 – 7	LSM 8 – 9	LSM 10	LSM 10+
3	4	10	6	9	15	22	31

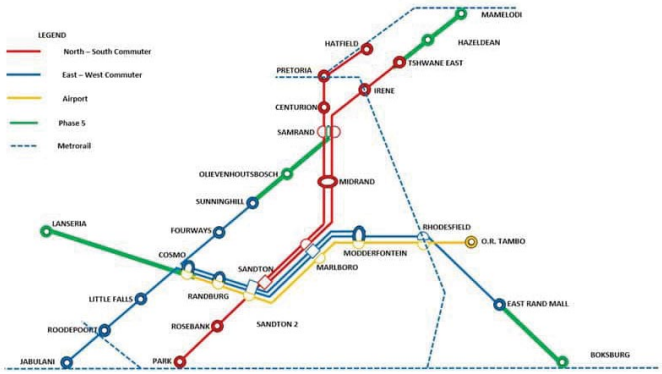
In September 2017 Urban Studies (Dr Dirk Prinsloo) undertook a comparative analysis of the Fourways, Sandton and Waterfall nodes and concluded "The Fourways Node is experiencing strong development growth which is dominated by the extension of Fourways Mall to >170 000 m². The retail offering will further be strengthened by the flagship representation of Leroy Merlin at 17 000 m². With the extension and additional retail supplied, the Fourways Node will be **the most dominant retail market in South Africa**". (Our emphasis.)

Locating the Fourways Gautrain station at Fourways Mall remains a key medium-term strategic objective for the Fund. 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.

** Figures as of 2017.*

The launch of the Fourways Mall super-regional represents the first step in the Fund's 15-year plan for the node including enhanced office, hospitality and retail offerings.

Gautrain Extensions: Phase 1 to 5



FORESHORE DEVELOPMENT UPDATE

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

In summary:

- The Foreshore Development properties – 99 – 101 Hertzog, Mustek, Murray & Roberts and ERF 7 Roggebaai may be sold out of the Fund at the current holding value of R265 million at a current yield of 8% to George Georgiou, a proven property developer (for example, the recently completed Netcare Christiaan Barnard hospital in the Cape Town Foreshore)
- Upon completion of phase 1, the commercial component of the Foreshore Development, Accelerate will have the option to purchase the completed development 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 Foreshore developer
- Repurchase yield of approximately 8,5% to 9% underpinned by a blue-chip long-term lease (15 years)
- Post-repurchase and subject to prevailing market conditions, phase 2 of the Foreshore Development (residential) will be undertaken by the Foreshore developer
- The 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
- All legal contracts regarding the Foreshore Development will be open for review by shareholders and analysts

KPMG UPDATE

In February, Accelerate concluded the sale of Wanooka Place (6 762 m^2) for R240 million (8% yield) to Old Mutual Real Estate Company. Proceeds from this sale will be utilised to pay down debt. As a result of the sale, the total revenue exposure to KPMG reduced from 8,6% to 6,6%.

We remain in regular contact with KPMG management and are comfortable with the strategic initiatives the KPMG management team has put in place. As part of this, KPMG has concluded its consolidation of its Pretoria employees into the Johannesburg offices and the employees currently located at Wanooka Place will also be consolidated into the adjacent Parktown Crescent property owned by the Fund.

BUZZ RESIDENTIAL DEVELOPMENT UPDATE

The Fund has entered into a joint venture with a leading residential property developer to develop approximately 500 residential units on the bulk behind the Buzz and Waterford shopping centres in Fourways. Phase 1 of the Buzz Development is expected to be completed in the next financial year.

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

EDCON UPDATE

As the market is aware, as part of the Edcon balance sheet restructure, Edcon has requested a 40% rental reduction from landlords on their retail space in exchange for an equity holding in Edcon.

The Fund's current exposure to Edcon is:

- Edcon warehouse Diep Rivier: 14 775 m^2 of GLA, 0,8% of revenue
- Edgars Polokwane: 4 500 m^2 of GLA, 0,5% of revenue
- Existing Fourways Mall (pre-equalisation): 8 500 m^2 of GLA (comprising two floors), a maximum of 2,5% of gross revenue.

The effect of the Edcon restructure:

- The Edcon warehouse is not affected by the restructure.
- Edgars Polokwane will result in a rental reduction equal to 0,2% of gross revenue.
- Regarding Fourways Mall current discussions are:
  - On equalisation, the ground floor in the mall is being vacated by Edcon.
  - On equalisation, the top floor is being retained with a 40% rental reduction. The Fund has the option to lease this space to a third party.
  - Edcon is taking approximately an additional 10 000 m^2 in the new development.

OUTLOOK

As discussed above, market conditions remain challenging for the property sector. Despite a number of ongoing initiatives to reduce costs and fill vacant space, the Fund has experienced considerable income pressure on a number of fronts, including increased rates and utility costs, softer rentals to retain tenants, and increased finance costs. As a result, it is expected that the total distribution for the 2019 financial year will be down -8% to -11%.

Looking to the medium term, given the quality of the underlying portfolio of properties, including the completed Fourways Mall super-regional centre, which is anticipated to quickly enhance earnings for the Fund, the opportunities present in the strategic nodes the Fund has invested in, together with the offshore platform, which continues to perform well – the Fund expects to be strongly positioned to capitalise on improved market conditions.

Architects impression of The Buzz residential development