VUKILE
PROPERTY FUND
AWAKEN THE POTENTIAL WITHIN

Interim Results for the six months to 30 September 2014

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Agenda

• Highlights	Laurence Rapp
• Financial performance	Mike Potts
• Portfolio performance and overview	Ina Lopion
• Acquisitions and disposals	Sedise Moseneke
• Corporate activity	Laurence Rapp
• Prospects and plans	Laurence Rapp
• Questions	Team

2

Introduction and highlights

LAURENCE RAPP

3

Highlights

- 7.8% increase in the first half normalised distribution to 59.1 cpu
- Strong operational performance
  - Like for like net property revenue growth of 7.9%
  - Vacancies decreased from 6.5% to 5.4% and even lower post reporting period
  - Positive reversions across all sectors
- Gearing ratio of 23.60% down from 29.0% (March 2014) with 89.4% of debt hedged
- Healthy acquisition pipeline of strategically aligned properties
- Level 4 BEE rating achieved

4

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Financial performance

MIKE POTTS

5

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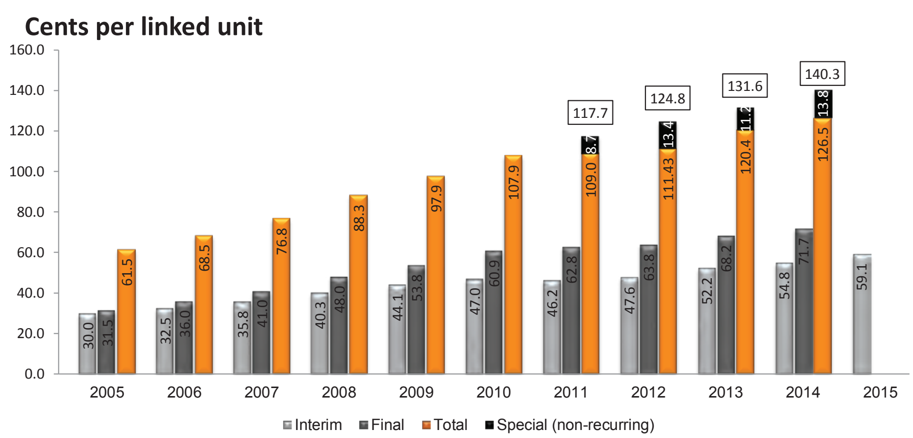
Distribution history
A decade of unbroken growth in distributions



6

Simplified income statement

	Sept 2014 Rm	Sept 2013 Rm	Variance %
Group net rental income	**469.0**	406.9	15.3
Sales commission – asset management business	**-**	67.0	>-(100)
Asset management fees	**11.8**	11.5	2.6
Asset management expenditure	**(15.9)**	(19.6)	18.9
Net finance costs	**(104.6)**	(98.4)	(6.3)
Corporate administration costs	**(18.6)**	(17.5)	(6.3)
Taxation	**(7.9)**	(6.1)	(29.5)
Available for distribution including non-recurring income	**333.8**	343.8	(2.9)
Available for normalised distribution excluding non-recurring income	**333.8**	276.8	20.6

7

Simplified income statement (cont.)

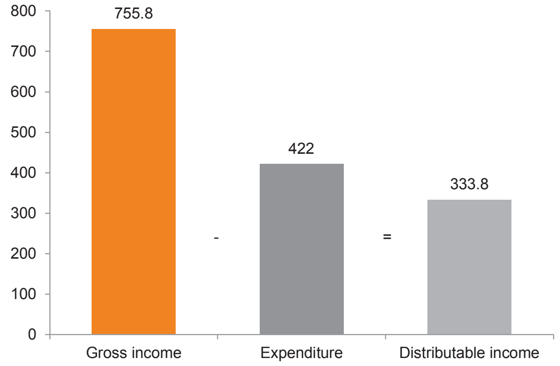
Strong like-for-like growth

	Sept 2014 %
Increase in group net rental income	15.3
Made up as follows:	
• Like-for-like (stable) portfolio	7.9
• New property acquisitions contributed	11.5
• Less: Held for sale and non-core properties sold	(4.1)
	15.3

8

Group income - (R000)

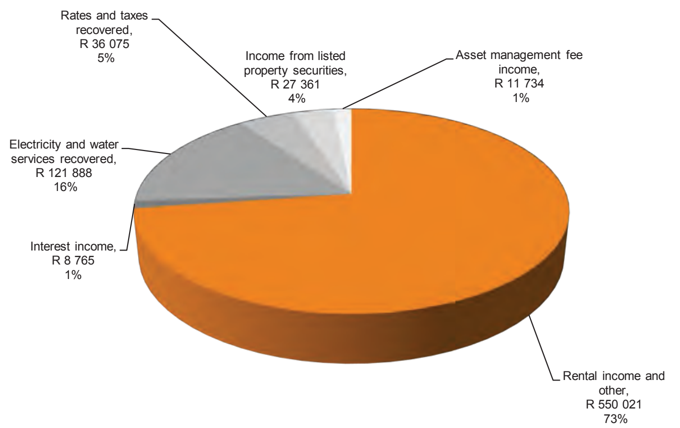
Distributable Income



9

Group income - (R000)

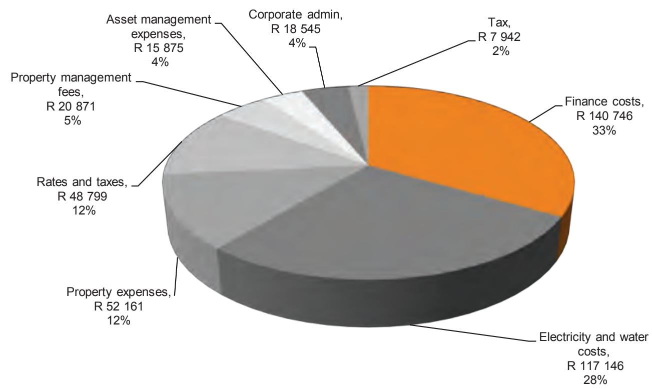
Income R755.8 million



10

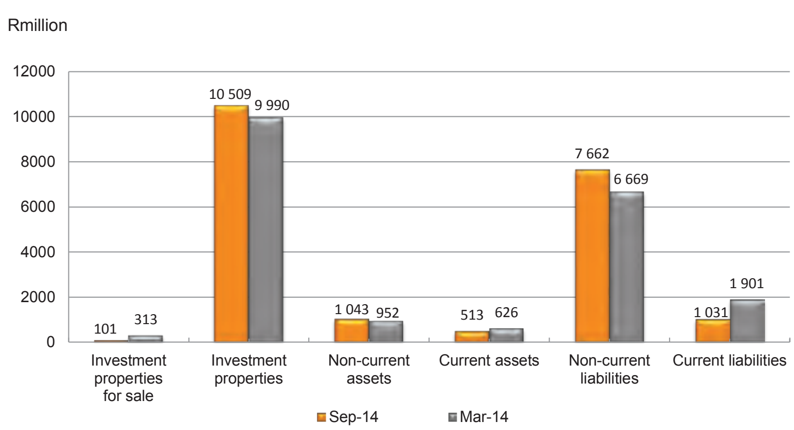
Group expenditure - (R000)

Expenses R422.0 million



11

Group balance sheet



12

Bad debt and arrears analysis

Prudent provisioning policy

- Tenant arrears increased by R5.6 million from March 2014 to R38.2 million at September 2014
- Doubtful debt allowance increased by R5.8 million from March 2014 to R17.1 million at 30 September 2014.
- Doubtful debt allowance expected to approximate 1.1% of gross rental income for the year ending 31 March 2015, which is slightly higher than previous impairment allowances (c.1.0%)

	Sept 2014 R000
• Doubtful debt allowance 1 April	11 344
• Allowance for receivable impairment for the six months	5 764
• Receivables written off as uncollectable	-
• **Doubtful debt allowance 30 September**	**17 108**
Bad debt write-off per the statement of comprehensive income	**1 370**

13

Group debt structure

Conservatively geared and well hedged

	Sept 2014	Sept 2013
Gearing ratio	23.6%	29.7%
Loan to value ratio net of available cash	25.3%	29.1%
% Interest bearing debt hedged	89.4%	92.8%
Total annualised cost of finance[1]	8.2%	8.1%

SWAPS

- Extended R674 million (28%) of swaps to mature between May 2016 (R261 million) and March/May 2019 (R413 million), at an additional swap cost of R4.9 million per annum and R3.9 million for year to 31 March 2015
- Average swap maturity profile : 3 years

EXPIRY PROFILE - (R'm)

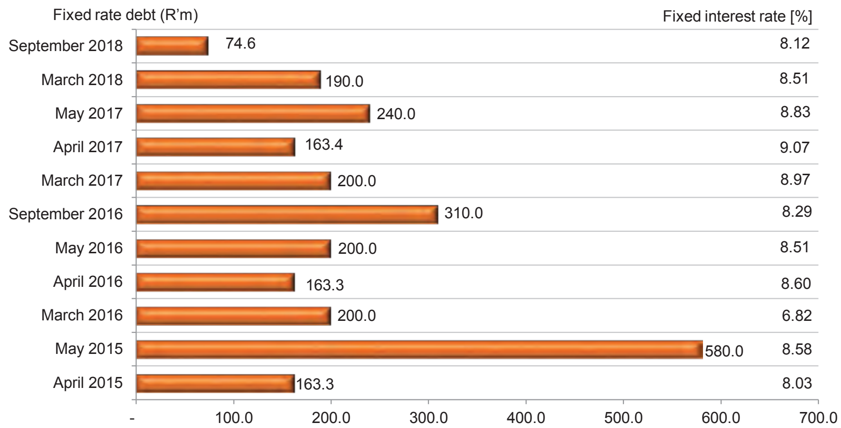
Calendar year 2015	Calendar year 2016	Calendar year 2017	Calendar year 2018	Calendar year 2019	Total
-	902	604	526	413	2 445
0%	37%	25%	21%	17%	100%

(1) Based on average of interest bearing debt at 31 March 2014 and at 30 September 2014, with six month finance costs annualised

14

Group debt structure

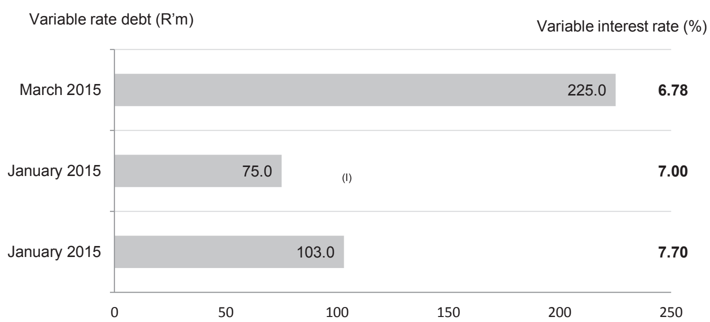
Maturity and interest rate profile of **fixed** interest bearing debt



15

Group debt structure

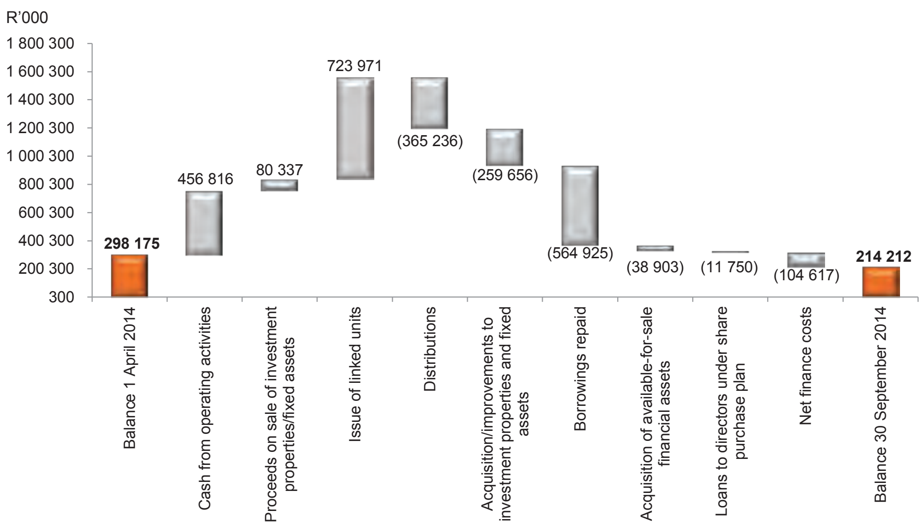
Maturity and interest rate profile of **variable** interest bearing debt



(I)Development loan

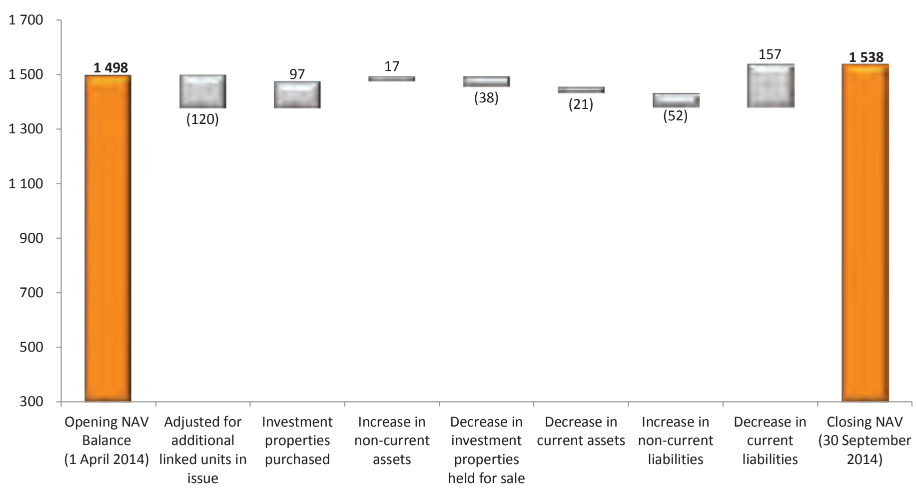
16

Group net cash flow



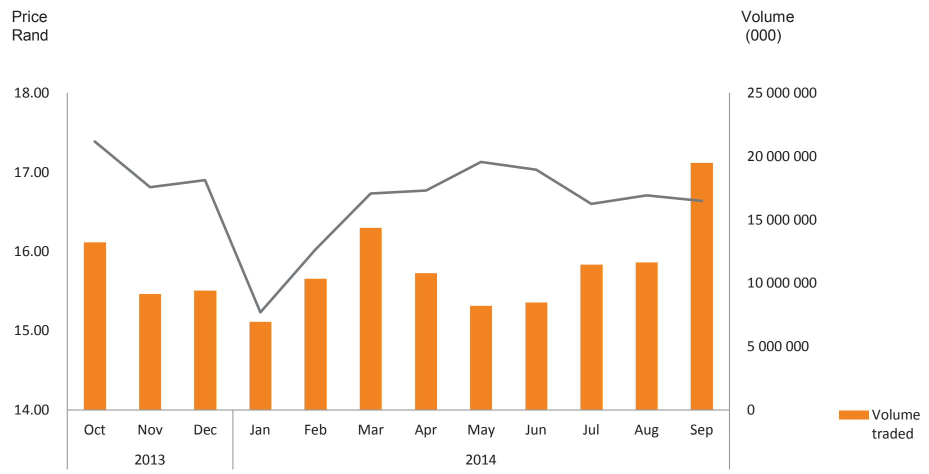
17

NAV bridge



18

Linked unit price and trading volumes
1 October 2013 to 30 September 2014



19

Property portfolio performance and overview

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20

Overview
Valuation parameters

• Number of properties	79
• GLA	1 141 383m²
• Valuation	
○ Total portfolio	R10.582 billion
	51% of portfolio valued externally, values in line with director's valuations
○ Average value per property	R134m
○ Average discount rate	14.4%
○ Average exit capitalisation rate	10.1%

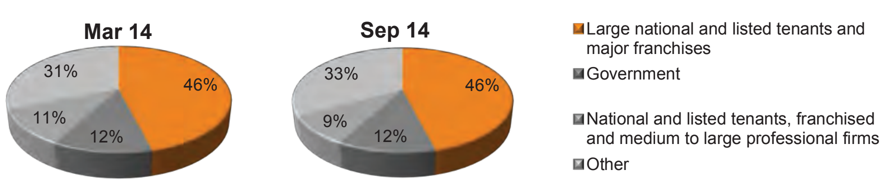
21

Overview
Leasing and tenant exposure

For the six months ended 30 September 2014 leases were concluded with a:

○ Total contract value	R516.1 million
○ Total rentable area	147 724m²
Lease renewals	72% of leases were renewed

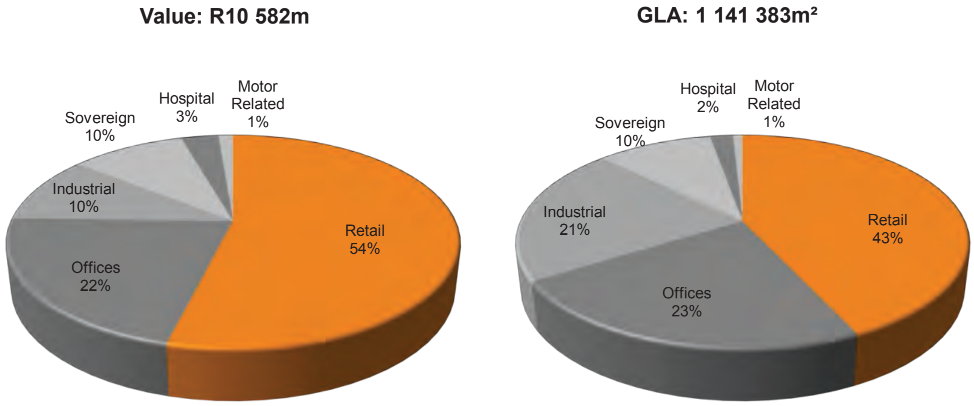
Tenant exposure: (% of GLA)



22

Sectoral profile

Direct property

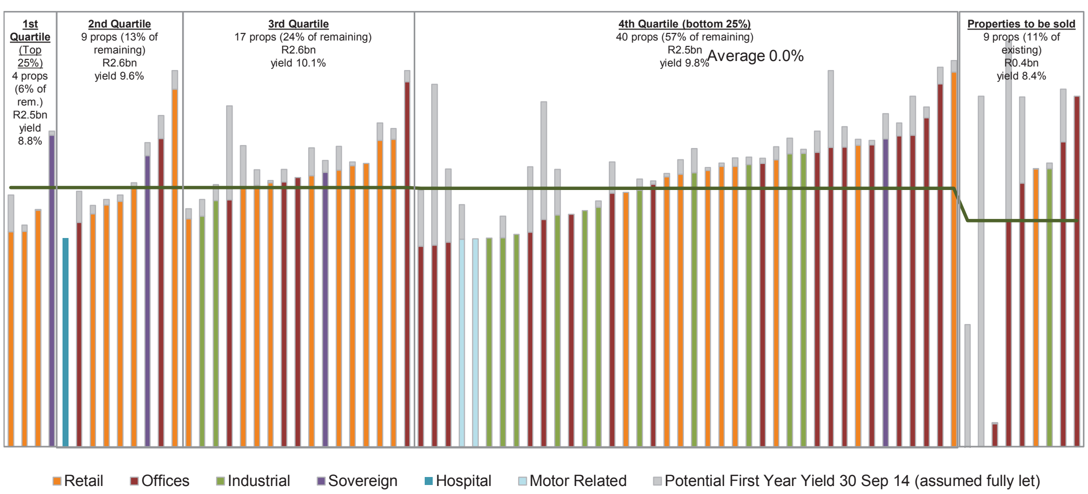


Retail exposure at 56,5% with Fairvest and Synergy

23

Portfolio composition

First year yield analysis by size and sector



24

10 largest properties

Retail dominant

Property	Location	Sector	Rentable area m²	Directors' valuation at Sep 2014 R000	% of total	Valuation R/m²
East Rand Mall *	Boksburg	Retail	31 258	993.8	9.4	31 794
Durban Phoenix Plaza	Durban	Retail	24 363	624.4	5.9	25 630
Pretoria Navarre Building	Pretoria	Sovereign	47 519	460.7	4.4	9 694
Randburg Square	Randburg	Retail	51 326	380.2	3.6	7 408
Pretoria De Bruyn Park	Pretoria	Sovereign	41 418	370.5	3.5	8 944
Pinetown Pine Crest *	Pinetown	Retail	20 056	338.8	3.2	16 895
Cape Town Bellville Louis Leipoldt	Bellville	Hospital	22 311	338.1	3.2	15 152
Soweto Dobsonville Shopping Centre	Soweto	Retail	23 177	322.7	3.0	13 923
Oshakati Shopping Centre	Oshakati	Retail	24 632	285.0	2.7	11 571
Daveyton Shopping Centre	Daveyton	Retail	17,795	261.5	2.5	14,698
Total Top 10			**303 855**	**4 375.7**	**41.4**	**14 401**

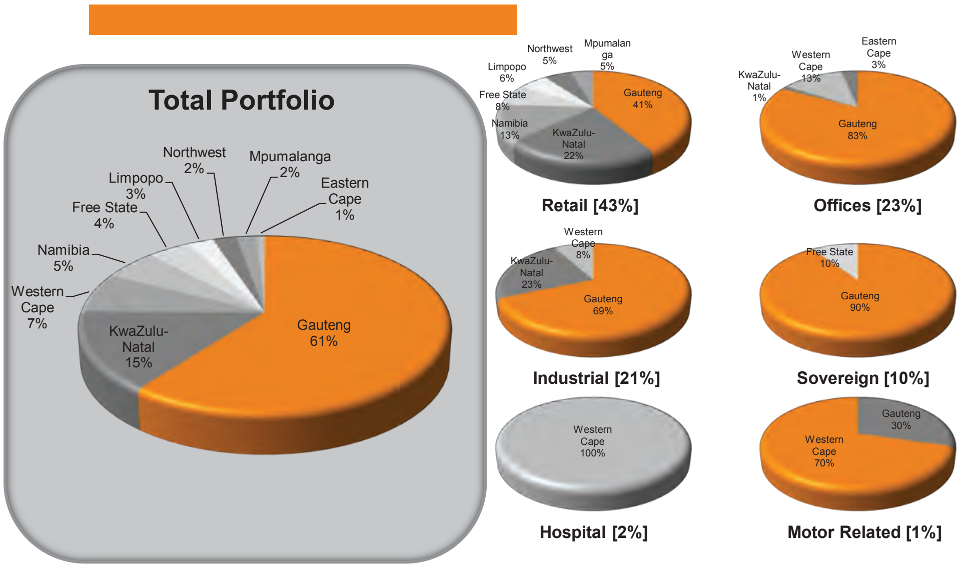
* *Represents an undivided 50% share in this property.*

Retail	192 607	3 206.6	30.3	16 648
Sovereign	88 937	831.1	7.9	9 345
Hospital	22 311	338.1	3.2	15 152
Total	**303 855**	**4 375.7**	**41.4**	**14 401**

25

Geographic profile (GLA m²)

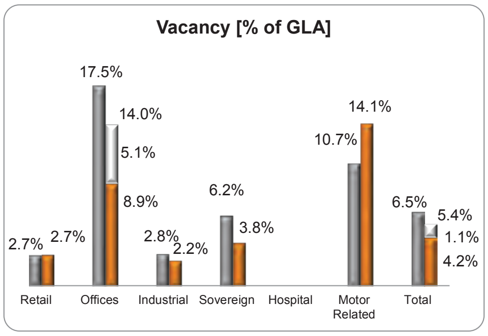
Top four regions account for 89% of exposure

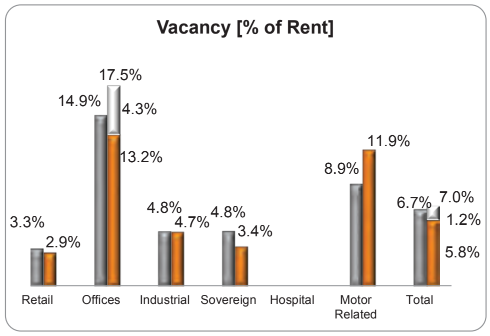


26

Vacancy profile

Further reductions post reporting period to 4.2%





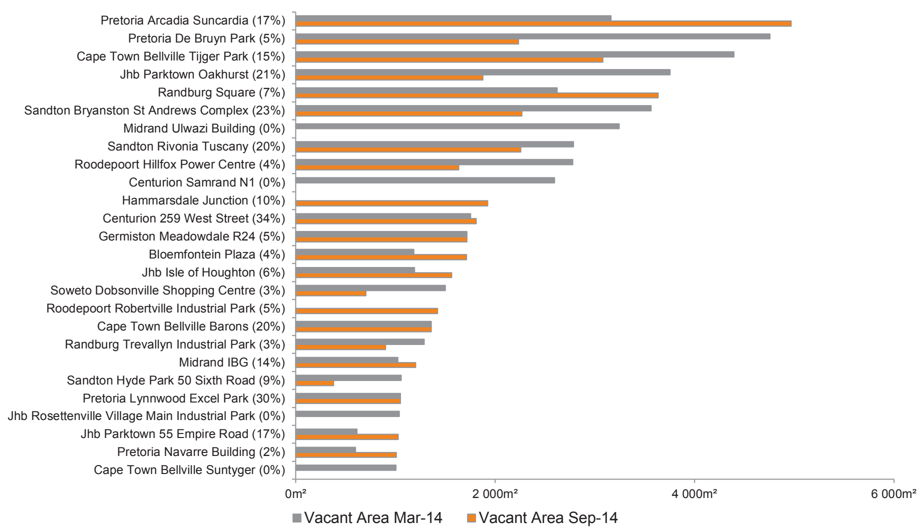
Mar-14 Sep-14 (excluding Pta Midtown and Bedfordview Kramer Rd *) Pta Midtown and Bedfordview Kramer Rd

* Pta Midtown : Signed sales agreement, subject to cp's
Bedfordview Kramer Rd : Transferred 25 November 2014

27

Individual properties vacancy profile

(% of GLA) (vacancy > 1 000m²)

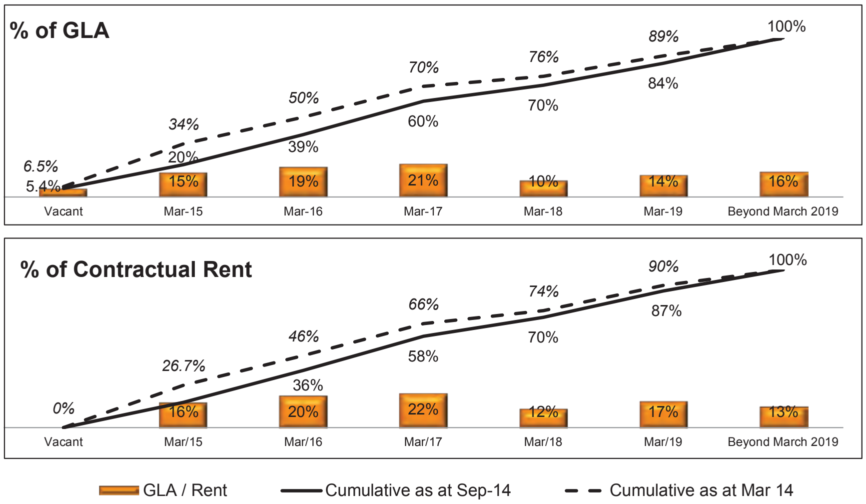


Excluding PTA Midtown and Bedfordview Kramer Rd

28

Expiry profile

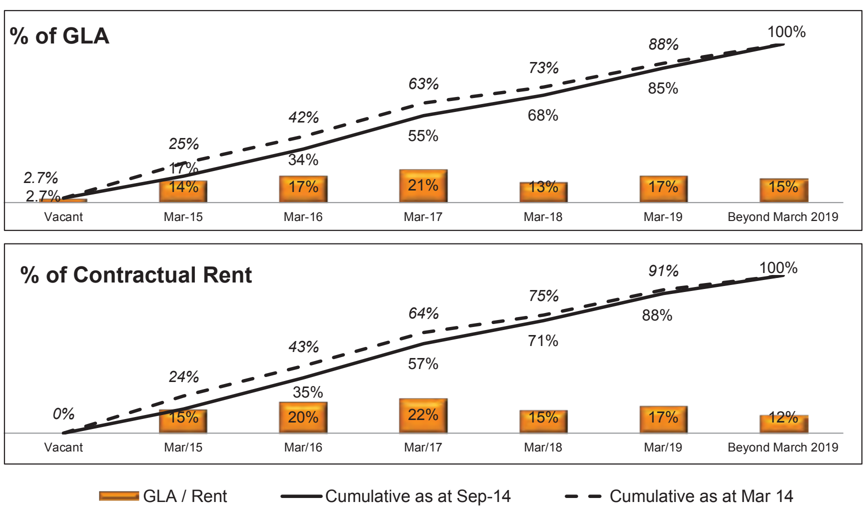
30% of the portfolio expiring in 2019 and beyond



29

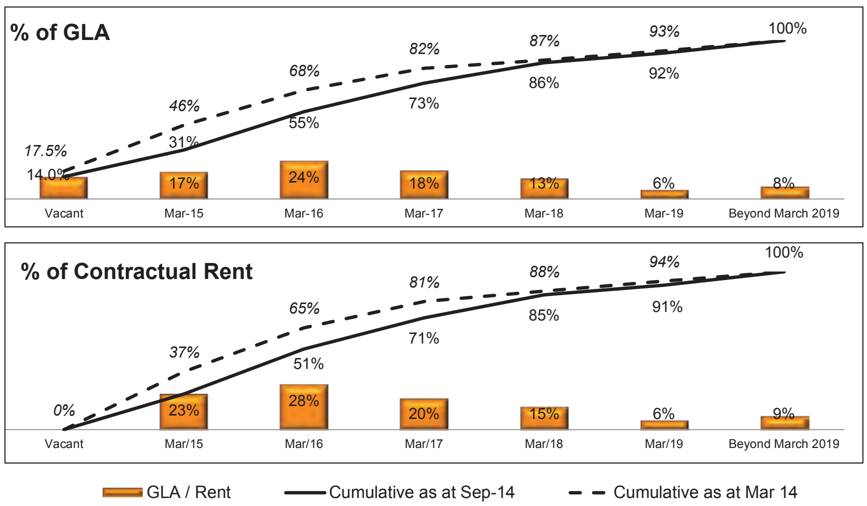
Expiry profile

Retail



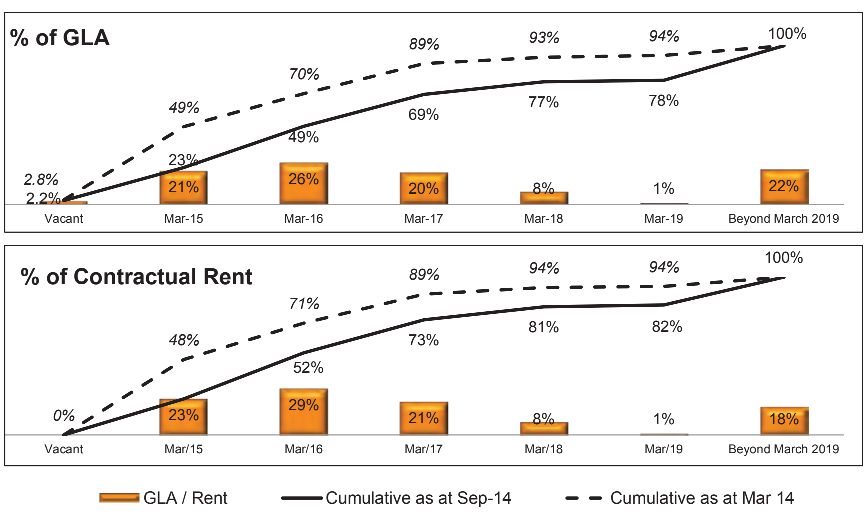
30

Expiry profile
Offices



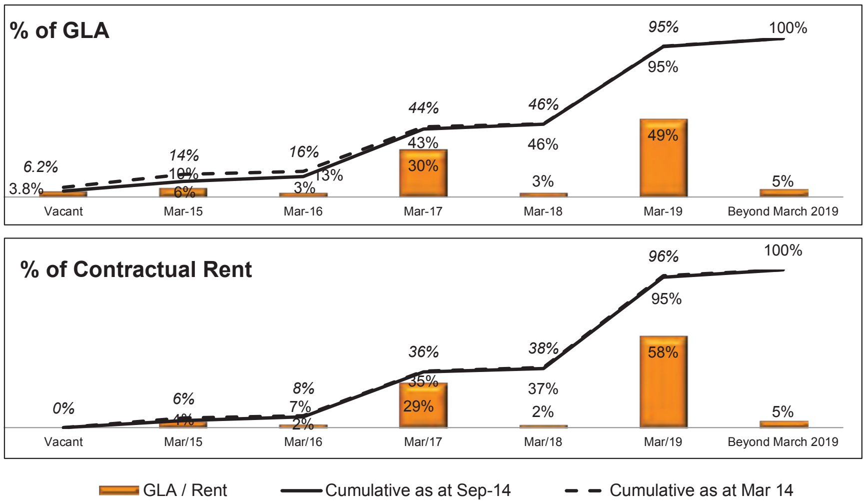
31

Expiry profile
Industrial



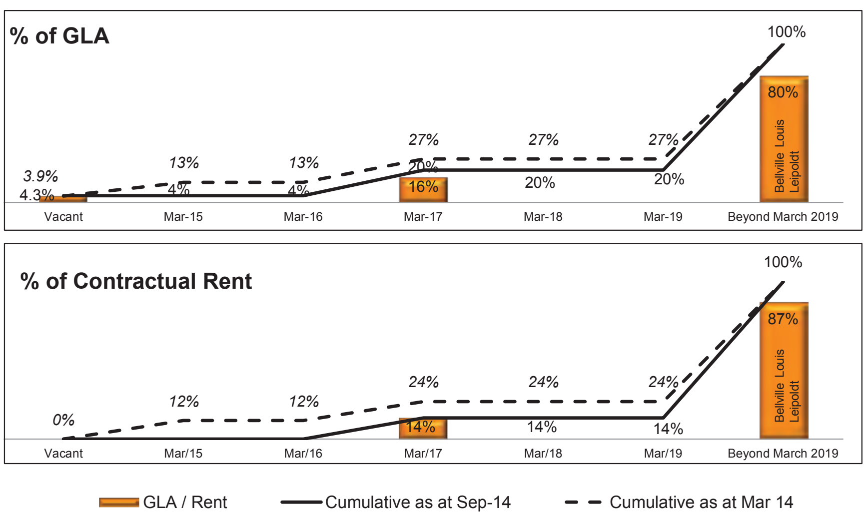
32

Expiry profile
Sovereign



33

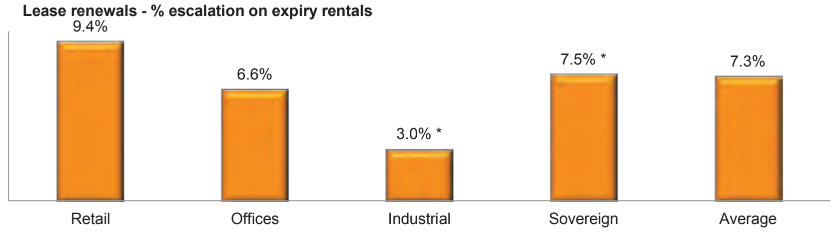
Expiry profile
Hospital and Motor Related



34

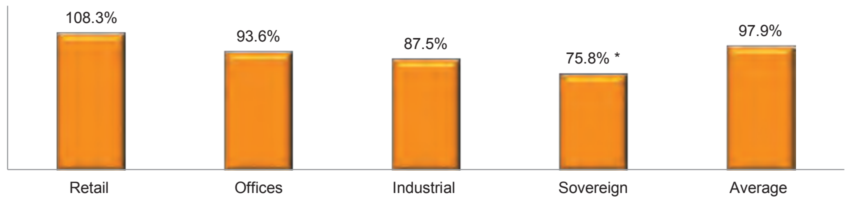
Lease renewals and new leases concluded
Positive reversions across all sectors

Lease renewals - % escalation on expiry rentals



* Excluding the renewal of Mahle Behr South Africa at Durban Valley View Industrial Park which skews the results due to previous higher rentals, as well as smaller tenants in the Sovereign Portfolio where very positive renewals skews the overall result.

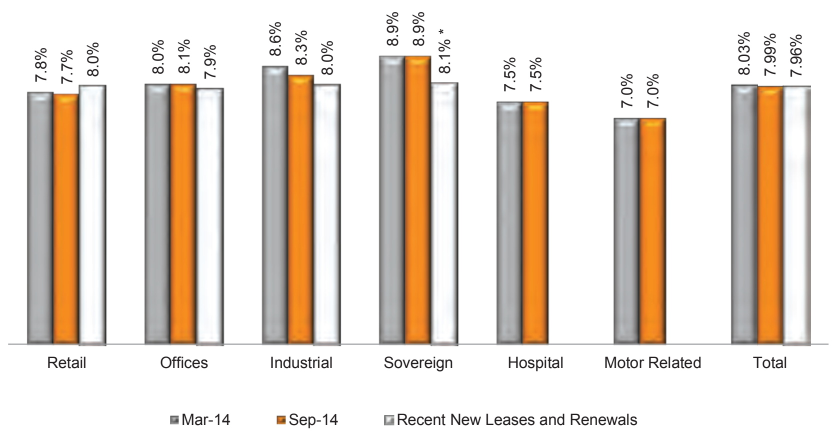
New leases concluded - (Ratio of rental concluded against budget)



* A few small retail premises were let below budget.

35

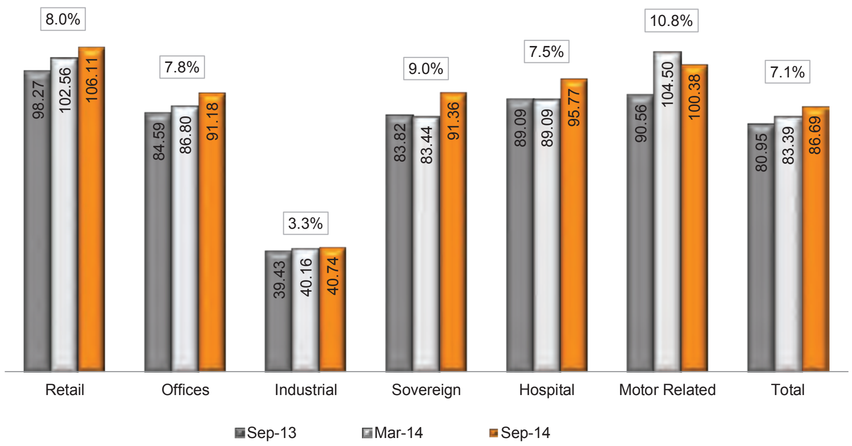
Contracted rental escalation profile
Rental escalations still ahead of inflation



*A couple of small retail premises were let at lower escalations

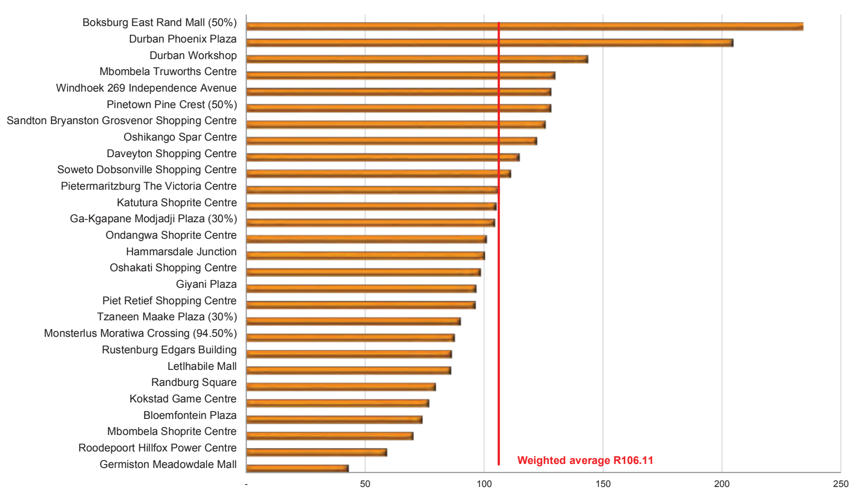
36

Weighted average base rentals R/m² (excluding recoveries)



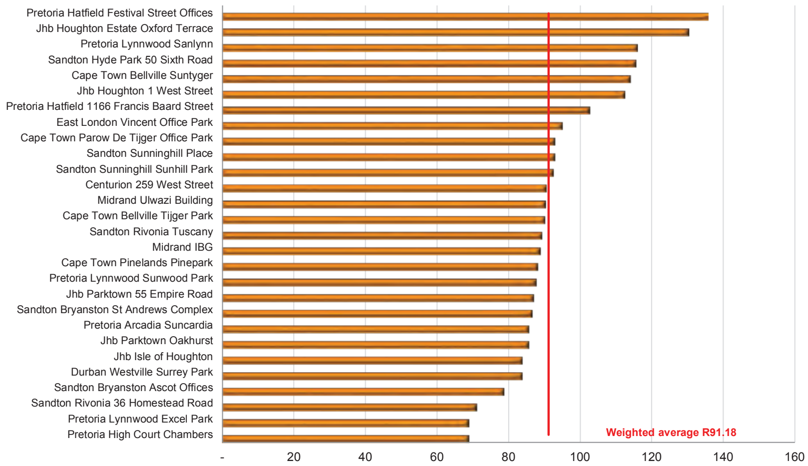
37

Retail portfolio - weighted average base rentals R/m² (excluding recoveries)



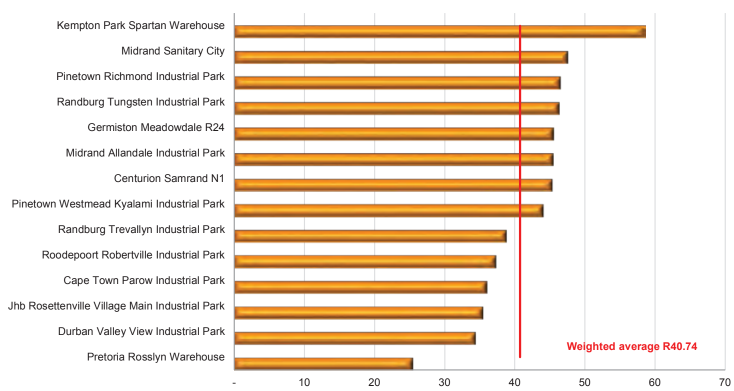
38

Office portfolio - weighted average base rentals R/m² (excluding recoveries)



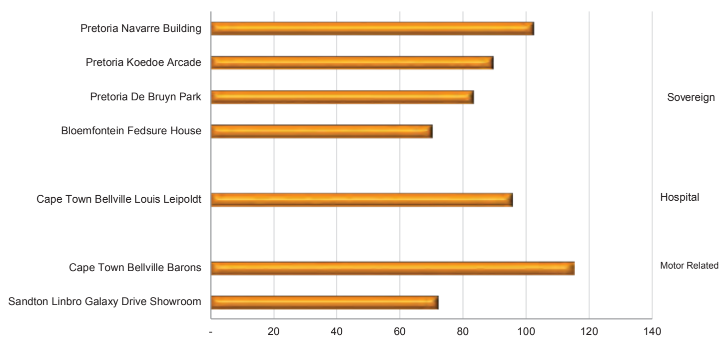
39

Industrial portfolio - weighted average base rentals R/m² (excluding recoveries)



40

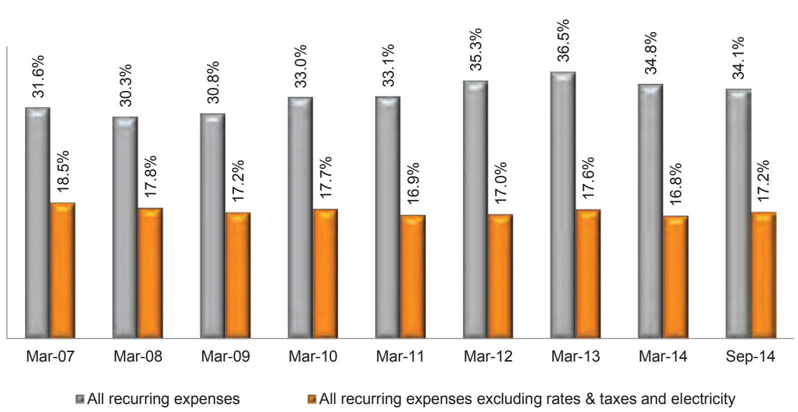
Other - weighted average base rentals R/m² (excluding recoveries)



41

Ratio of gross recurring cost to property revenue

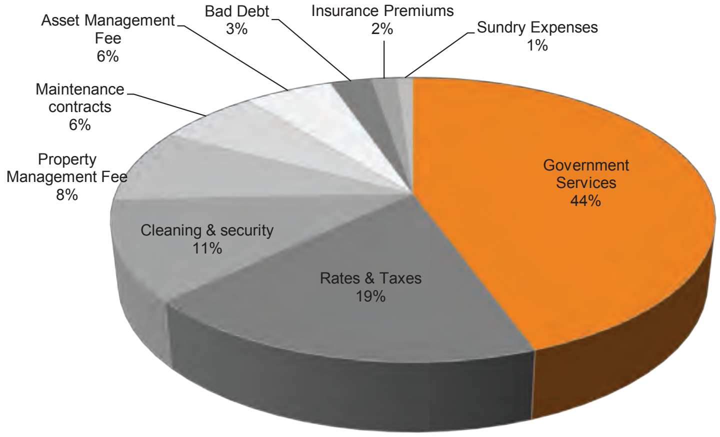
Stable cost management over time



Excluding Durban Workshop

42

Recurring expenses
82% of costs from top four categories



Refurbishments
Meadowdale Mall

- Redevelopment of the existing centre and a 10 000m² extension
- The gross lettable area of the new centre will total 45 000m²
- Joint venture with the Moolman group. 67% Vukile owned and 33% Moolman group owned
- The total capex for the Vukile portion is R111 million at an initial yield of 9.1%
- The centre is currently anchored by Checkers Hyper, with additional anchors Meat World and Apple Tree (2 840m²) being incorporated into the upgraded centre
- Expected completion date: October 2015

Refurbishments
East Rand Mall

- Joint development with co-owner Redefine Properties
- The gross lettable area will increase by 6 785m² to 69 299m²
- The total capex for the Vukile portion is R168,25 million
- The extension will be anchored by Mr Price Emporium
- Other major tenants in the centre are Edgars, Woolworths, Ster-Kinekor, Truworths, Foschini, Ackermans, Incredible Connection, Cotton On, CNA, Jet Stores and Galaxy Bingo
- Together with the Galleria revamp, shoppers experience an upgraded dominant super regional of c.120 000m²
- Expected completion date: August 2016

45

Acquisitions and disposals

SEDISE MOSENEKE

46

Acquisitions
Transferred during H1 F2015

Property	Sector	GLA (m²)	Yield per annum	Purchase price (R'000)	Transfer date
Houghton Estate Oxford Terrace	Office	2,460	8.5%	51,000	Apr-14
Maake Plaza (30%)	Retail	4,560	13.5%	32,000	Jul-14
Midrand New Road (Undeveloped Land)	Land	n/a	n/a	10,500	Mar-14
TOTAL		**7,020**		**93,500**	

47

Disposals
Net of selling costs

Property	Sector	GLA (m²)	Yield per annum	Sales price (R000)	Transfer date
Lichtenburg Shopping Centre	Retail	8 423	9.9%	48 600	22 Apr 2014
Cape Town Kenilworth Motor Showrooms	Motor Related	3 100	12.2%	34 750	1 Apr 2014
TOTAL		**11 523**		**83 350**	
Property Sales after 30 September 2014					
Durban Westville Surry Park	Offices	3 176	11.4%	25 000	29 Oct 2014
Johannesburg Bedfordview 1 Kramer Road	Offices	6 759	Vacant	25 000	25 Nov 2014
TOTAL		**9 935**		**50 000**	
GRAND TOTAL		**21 458**		**133 350**	

48

Deals concluded
Linbro Park

- 15 000m² mini factory/warehousing unit in Linbro Park, which is a prime industrial node in Johannesburg
- 22 units ranging in size from 350m² to 1 870m²
- Total capex of R124 million on a yield of 10% with a 1 year income guarantee
- Completed 1 October 2014
- 15% let with a further 22% under negotiation

49

Deals concluded
Maake Plaza

- 30% interest in the leasehold centre located 25 kilometres south-east of Tzaneen in Limpopo Province, measuring 15 200m² at a purchase price of R32 million
- Initial yield of 13.5%
- Anchored by Shoprite and Cashbuild
- National tenant composition is 86% by GLA
- The remaining 70% is held by the McCormick Group
- Transferred in July 2014
- Agreement signed for the purchase of a further 40% with a purchase consideration of R62 million at a yield of 9.7%
- Transfer expected February 2015

50

Deals in progress

Nonesi Mall – Queenstown Eastern Cape

- 27 700m² dominant small regional shopping centre.
- Anchored by Checkers, Pick n Pay, Game, Woolworths (National Component: 96%).
- The centre offers a complete lifestyle and convenience shopping experience for the Queenstown consumer.
- The centre will be acquired at an initial yield of 8.25% with an estimated cost of R360 million
- Subject to the conclusion of a successful due diligence investigation and approval by the Competition Commission
- Expected Transfer date: April 2015

51

Deals in progress

Moruleng Mall – North West

- 30 000m² dominant small regional shopping centre located in Moruleng in the North West Province.
- Anchored by Pick n Pay, Shoprite and Edgars. (National Component: 88%)
- Vukile is acquiring 80% of the centre, with the remaining 20% held by the Bakgatla-Ba-Kgafela Tribal Authority
- 80% of Moruleng Mall will be acquired for R320 million at an initial yield of 8.7%.
- Subject to Bakgatla-Ba-Kgafela waiving its pre-emptive right on the 80% shareholding, the conclusion of a successful due diligence investigation and approval by the Competition Commission
- Expected Transfer date: March 2015

52

Deals in progress
Batho Plaza – Soshanguve Gauteng



- 12 500m² community shopping centre
- Anchored by Shoprite and Cashbuild (National component: 80%)
- Batho Plaza is a convenient, well located community retail offering servicing the Soshanguve community.
- The centre will be acquired for R140 million at an initial yield of 9.5%.
- Subject to the successful conclusion of a due diligence investigation and approval by the Competition Commission.
- Expected transfer date : March 2015

53

Deals in progress
Silverton Industrial Portfolio – Pretoria Gauteng



- Eight warehouse buildings with a total GLA of 27 000m² in Silverton Pretoria
- Established industrial node with strong tenants and minimal vacancies
- Strong tenant covenant, including distribution warehouses for Game, Massmart, Waltons and Edcon
- The individual buildings are well designed and easily sub-dividable
- The portfolio will be acquired for R127 million at an initial yield of 9.25%
- Subject to the successful conclusion of a due diligence investigation and approval by the Competition Commission
- Expected Transfer date: April 2015

54

Corporate activity

LAURENCE RAPP

55

Sanlam Property Asset Management

- Agreement has been finalised to sell the Sanlam Asset Management business back to Sanlam
- Effective date of 1 November 2014 but deal still subject to Competition Authority approval which is expected by end February 2015
- Vukile will continue to manage the business as an agent for Sanlam until the deal is unconditional
  - Vukile to receive a monthly fee of R600 000 for such services
- As per the agreement, the price was determined by an independent third party valuer being PWC
- During the valuation process, Sanlam made representation to PWC that due to ALCO constraints it had changed strategy and would not be looking to reinvest the proceeds of East Rand Mall of c.R2bn into new acquisitions
  - Negatively impacted the value of the business relative to Vukile internal valuation of R242m which was based on, inter alia, the reinvestment of R2bn per a mandate given from the Sanlam Propco in September 2013

56

Sanlam Property Asset Management
Pricing parameters

- Following the PWC report, the price agreed between the parties is R167m
  - Money is held in escrow by Vukile's attorneys and to be released to Vukile on closing date
  - Anticipated to be received by end February 2015
- Further payments to be made to Vukile by Sanlam in respect of transfer service fees and certain on-going services of
  - R7m to March 2015
  - R8m to March 2016
  - R8m to March 2017
- Assuming proceeds are reinvested into properties at a yield of at least 9% and taking into account the further income to be received as detailed above there will be limited impact on income relative to budgeted asset management income over the same period
- The deal is neutral for Vukile earnings
- Leaves Vukile with a much simpler and more predictable income stream going forward

57

Synergy

- Portfolio has a strong strategic fit with Vukile as per original deal rationale
- Vukile will only pursue the deal if it makes financial sense to Vukile unitholders and will not overpay for the shares or the manco
- Initially acquired 34% in November 2013 on a swap ratio of 2.54 on the B units
- Following failed discussions with the Board of Synergy on a scheme of arrangement Vukile decided to follow an alternate route to potential control and full consolidation
- Acquired a further c.6% of Synergy from Liberty and Stanlib on 4 November 2014
- Triggered a mandatory offer with swap ratios of:
  - 2.67 for Synergy B units
  - 1.65 for Synergy A units based on a comparable offer basis
- Ratios based on spot prices on the date of agreement (28 October 2014) of:
  - Vukile : 1 755 cpu
  - Synergy B: 650 cpu
  - Synergy A: 1 050 cpu

58

Synergy
Investment case for Vukile

- Strong synergistic fit of the Synergy assets with Vukile's lower income retail portfolio of c.R5.7bn
  - very experienced lower income retail management team within Vukile who can easily and readily absorb management of the portfolio
- Introducing the Synergy portfolio of R2.4bn into Vukile will increase retail assets to R8.1bn or 62% of the portfolio
- Earnings enhancing based on swap ratios and price we are prepared to pay for Manco
  - Composite approach to evaluating price and impact on Vukile earnings
- Vukile has a stronger balance sheet and lower cost of funding relative to Synergy
  - Ability to absorb Synergy's relatively higher geared position of c.37% given the current low gearing in Vukile of 23.6% and the planned equity issue to fund the transaction which will further reduce Vukile's gearing
  - Vukile's much more conservative hedging position of c.90% reduces interest rate risk relative to Synergy's low hedging of c.51%
  - Ability to lower the cost of debt from current levels
- Ability to extract corporate savings once 100% of the Synergy shares are acquired

59

Synergy
Investment case for a Synergy Unitholder

- Offer on both A and B units priced correctly when comparing Synergy to its small cap peer group
  - A units 8.9% vs 9.2% *Source: Java Capital*
  - B units 9.5% vs 9.9% *Source: Java Capital*
- Immediate price uplift with swap ratios
- Poorly structured balance sheet exposes shareholders to high gearing and interest rate risk which will be cured within Vukile
- No ability to issue shares
- Disadvantageous cost of capital to effectively compete for deals
- Synergy starting to resemble a closed-end fund with limited growth prospects, especially given its dual unit structure
- Very poor liquidity in both A and B units
- Vukile believes Synergy unitholders will be significantly better off by accepting the offer and switching into Vukile units

60

Synergy
Deal timelines

- Offer circular to be posted to Synergy unitholders on or about 4 December 2014
- Offer opens for acceptance on that date
- Deal is still subject to Competition Authority approval
  - Expected in mid- to late February 2015
- Offer to remain open for 10 business days post receipt of Competition Authority approval
- Vukile has authority in place to issue shares for the transaction

61

Strategy and prospects

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62

Strategy Update

- Strong Operational focus to continue
  - Vacancies
  - Energy management
  - Alternative income management (AIM), non-GLA revenue
  - Bad debt and arrears management
  - New property management agreements concluded; full benefits to flow in F2016
- Continued cautious approach to balance sheet management
  - Gearing to remain below 30% and hedging at a minimum of 75%
- Preference for retail and industrial assets
  - Strong pipeline to close in H12015
  - Reduce exposure to commercial property
- Starting to explore other asset classes
  - Residential and student accommodation
  - Healthcare
  - Favour a JV approach as a market entry strategy
- Development exposure
  - Limited initial appetite of c.R100m to R200m equity component
  - Favour a JV model with experienced developers
  - Introduced development expertise into the team

63

Prospects

- We expect to deliver full year growth in distributions of between 7.5% and 8%
- The economy is getting more challenging and there appear to be strong headwinds
- However, we expect the portfolio to continue to perform in line with expectations in the second half of the financial year
- Focus on closing the healthy deal pipeline of c. R1bn as well as the Synergy transaction
  - Capacity to fund the deals through cash, existing debt facilities and authority to place equity
  - No earnings from these deals have yet been budgeted for in F2015 or F2016
- Remain conservatively geared and hedged as we still feel that rates may rise

64

Acknowledgements

- Board
- Property managers
- Service providers
- Brokers and developers
- Tenants
- Investors
- Funders
- Colleagues

65

Questions and answers

CLOSING

66