INVESTOR UPDATE

GROWTHPOINT PROPERTIES

INVESTOR UPDATE FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2017

GROWTHPOINT STRATEGY

From a strategic perspective, we continue to focus on the three pillars previously identified:

1. Internationalisation
2. Introducing new revenue streams
   - Funds management business
   - Trading and development
3. Optimising and streamlining our existing portfolio

1. Internationalisation

The growth of our offshore business remains the key driver for Growthpoint. We continue to support both Globalworth Real Estate Investments (GWI) and Growthpoint Australia (GOZ) in their growth trajectories while also looking for other opportunities.

As such, the company has been restructured with Norbert Sasse as the Group CEO. His primary focus will be on the strategic direction of the Group aligned with Growthpoint's internationalisation strategy. He will also oversee and represent Growthpoint's interests in local and international subsidiaries and associated companies. Estienne de Klerk is now CEO of the South African business where he will have a dedicated focus on domestic operations and will continue to support the Group CEO with Group strategy and overseeing strategic investments.

We feel this new structure will best facilitate the growth of Growthpoint as a leading international property company providing space to thrive with innovative and sustainable property solutions.

2. Introducing new revenue streams

Funds management business

Raising funds for African investment remains challenging. That being said, USD170m has been approved for investment into the Africa Fund with further commitments expected to be approved before the end of the year. While raising capital has been difficult, opportunities to invest on the continent have never been better with many prospects to acquire at attractive yields. Most of the current opportunities are to be found in Morocco, Ghana, Kenya and Zambia.

R275m has been approved for investment into the Healthcare Fund. Many other investors are aiming to get approval from their investment committees in the first quarter of 2018. In addition to its five assets of c. R2.3bn, it has a development and acquisition pipeline of c. R1.5bn.

Trading and development

We continue to leverage our skills to take advantage of the opportunity to earn development fees from third parties. This enables us to become an agile partner for our clients, giving us the ability to assist them in realising their real estate strategies, whatever they may be. To date, we expect fees to flow from the completion of the ABSA development in Durban and we are in the advanced stages of securing the development of a modern logistics facility, also in Durban.

We are actively working on the disposal of the existing Exxaro building and vacant land in Pretoria and we have already received offers from a potential purchaser. Pine Industrial Park in Durban is also in the process of being sectionalised. We have started selling off these units and expect to earn trading profits on the disposals.

At any time, the value of projects pre-identified as opportunities for trading and development for third-parties will not exceed 5.0% of the value of the South African portfolio. The development of assets for our own balance sheet will not exceed 10.0% of the South African asset value.

3. Optimising and streamlining the existing portfolio

Twenty-three individual asset sales in excess of R2bn are in various stages of being concluded.

Four portfolios have been assembled for sale and submitted to the market for expressions of interest. They equal c. 5.0% of our South African portfolio.

Acquisitions have been strategic and very limited. The 58.0% balance of N1 City Mall that we acquired from Redefine Properties transferred on 4 October 2017. Growthpoint now owns 100% of the asset.

GROWTHPOINT SECTOR UPDATE

SOUTH AFRICA

The market remains tough with many headwinds.

Vacancies have edged up slightly in both the office and industrial portfolios and have decreased in the retail portfolio. All three sectors' vacancy levels remain below industry averages. Total portfolio vacancies are 5.3% compared with 4.4% at FY17. The total arrears as a percentage of collectables is consistent with the levels at September 2016 but has increased c. 1.0% from FY17 levels. Some 250 000m² of space was let in the first three months of the financial year. Our renewal success rate dipped from 73.6% at FY17 to 62.4%. All sectors are under pressure with the office sector being the worst affected, mainly due to the non-renewal of BCX in Midrand at over 19 500m².

The cost of attracting and retaining tenants is high with the weighted average renewal reversion rate at -2.7% for the total portfolio, impacted negatively by the renewal of seven large tenancies across the industrial and retail portfolios. On the positive side, we have seen renewal lease periods increase marginally from 3.3 years at FY17 to 3.4 years and we are still managing to secure future annual escalation rates at the historic levels of c. 8.0% for lease renewals.

Early indicators point to a year that will be characterised by higher vacancies, with renewals under pressure, and the probability of finishing the year with a negative renewal growth rate overall is highly likely. In the weakening macro environment, we expect all key performance indicators to remain under pressure in the foreseeable future.

RETAIL

The themes of the constrained consumer, increased competition for the cash customer and increasing supply of new retail space remain.

A new Western Cape development opened in direct competition to our Bayside Mall where we have defensively renewed food tenants and, as such, this sector is showing a negative renewal reversion rate of -1.65%. Core vacancies of 1.3% are consistent with FY17 after letting space to Cambridge Foods at City Mall and Checkout at the Avenues in Springs. Usually the star performer, the retail sector is showing signs of weakening across all key performance indicators.

Lacklustre trading density growth numbers as a result of the operating environment make renewal negotiations that much harder, which is putting pressure on rent renewal rates.

Edcon have acknowledged that they need to reduce their footprint. Decisions on which stores to close are based not only on turnover but also on profitability and where lower margin items are sold. The c. 4 000m² Edgars store at The Avenues closed at the end of October. We are looking to redevelop the site and are in negotiations with three national tenants who are interested in taking up the space, which will also provide an improved offering for the shopping centre.

OFFICE

Asking rental growth remains under pressure. Since 2009, real asking rentals (i.e. inflation adjusted) have declined. Over the same period, 1.3m square meters of office space has come to market despite the lack of demand drivers. The supply of new, efficient and cost-effective spaces continues to attract premium rentals. National vacancies reveal no clear downward trend in the office sector, however, Growthpoint's office vacancies are well below national levels.

The first phase of the new Discovery building has been handed over on time and within budget and will start contributing to revenue in January 2018.

We launched the R16.1bn Thrive Portfolio, which combines both SAPOA graded and GBCSA Green Star rated buildings, making it easy for our tenants to understand the cost benefits of occupying green buildings and to identify our buildings as such.

INDUSTRIAL

As with other sectors, renewal growth has been negatively affected by a few lumpy renewals. Vacancies ticked up slightly, and the c. 23 000m² Paul Smit Anderbolt facility in Boksburg remains a challenge.

There are still opportunities for development with a glut of industrial land coming to market. However, the supply overhang from speculative developments is concerning. We see opportunities for acquisitions as capitalisation rates are moving out and businesses are seeking ways to recapitalise, given the tough operating environment and the lack of business confidence, but remain cautious when it comes to domestic expansion.

V&A WATERFRONT

The precinct continues to perform remarkably well. Revenue is ahead of budget driven mainly by high hotel occupancies contributing to turnover rentals. Radisson Red, which opened in September, is trading ahead of expectations. Outdoor restaurants are performing well. We continue to see a dilution of turnover from H&M with additional openings in competitor malls and pricing points moving up. Footfall is flat year-on-year. Sales growth in restaurants and bars is higher at 12.0% vs retail at 2.4%. The former is being driven by the increase in international tourism and the latter by the weak local consumer and the stronger ZAR, which weakened only after the Medium-Term Budget Policy Statement in October. Several high-end international fashion brands are taking strain as a result, with a mixed bag of performance from large national retailers and department stores.

The entire precinct has benefitted from drier weather versus previous years, the increasing number of international tourists and the halo effect of the Zeitz Museum of Contemporary African Art (Zeitz MOCAA) opening.

There are approximately 1 000 visitors to the Zeitz MOCAA each day and 1 500 on Wednesdays when access for Africans is free. The museum received over 20 000 visitors over the free Heritage Day weekend. This is also having a positive impact on parking revenues.

Development activity is now entirely focussed on the Canal District where several large blue-chip corporates are investigating options. A residential scheme is also being finalised and we are exploring assets for other uses.

GROWTHPOINT AUSTRALIA LTD (GOZ)

The acquisition of the AUD46m Perth Airport industrial properties is now complete, which will have a positive impact on FY17 earnings. This acquisition, together with the 18.2% stake that GOZ acquired in IDR, as well as favourable leasing outcomes in the first quarter, has resulted in the upgrade of its FY18 guidance to 3.3% from 2.3%.

The domestic economy is in good health which is impacting GOZ's tenants positively. It continues to demonstrate resilience and diversification despite its historic reliance on the mining sector. FY17 is the strongest year for non-mining company investment since its peak in 2008.

GOZ has also announced the sale of the Woolworths Australia distribution centre at 522-550 Wellington Road, Mulgrave, for AUD90.75m, and at a 37.7% premium to its 30 June 2017 book value. Proceeds will be used to pay down existing debt, reducing GOZ's gearing to 38.4%. This sale is in line with the GOZ's strategy to realise upside from the sale of its existing portfolio assets that have future development potential to a higher and better use.

Merger and acquisition opportunities remain on the radar as a cheaper and more efficient way to grow the business, especially with the large amount of global money that is still seeking investment opportunities in the physical asset space and driving capitalisation rates down even further. GOZ will continue to seek opportunities for asset sales in this environment.

GLOBALWORTH REAL ESTATE INVESTMENTS LTD (GWI)

GWI has delivered on its strategy to expand in the CEE region with the announcement of its conditional investment agreement to acquire a minimum of 50.1% and up to 67.9% of Warsaw-listed Griffin Premium Real Estate (GPRE). The tender offer is expected to close and the investment to be completed before 31 December 2017.

On the back of this expansion into Poland, and in response to significant investor interest, GWI has announced its intention to raise a minimum EUR300m through the issue of new ordinary shares. In addition to funding further investments, a key objective of the intended equity raise will be to attract new institutional investors and broaden the liquidity of the GWI's shares ahead of its planned move to the Main Market of the London Stock Exchange in 2018. The equity raised will also assist in taking it closer to its consolidated gearing target loan-to-value ratio of 35.0%.

Growthpoint's weighted average interest rate on 30 September 2017 was 9.3% (9.2% FY17). Including cross-currency interest rate swaps (CCIRS), it decreases to 7.5% (7.4% FY17). 84.0% of our interest rate book was hedged (FY17 85.6%) with a weighted average term of 4.0 years. The weighted average term of the liabilities dropped to 2.8 years, on 30 September 2017. However, the two new bonds with terms of five and seven years, together with the refinancing of other bank loans with long-dated HQLA bonds, should increase the weighted average term for the next quarter.

GWI has guided a FY18 dividend of no less than EUR0.54 which represents 23.0% growth over FY17.

TREASURY UPDATE

Debt markets remain conducive for capital raises, and there is good appetite for Growthpoint paper with R809m raised in October 2018. GRT22 and GRT23 attracted much interest with bids in excess of R3.0bn with terms of five and seven years and issued at 144 bps above Jibar and 170 bps above Jibar respectively. Banks also continue to hold Growthpoint paper as High-Quality Liquid Assets (HQLA) because of our national scale AAA Moody's rating. Equity of R1.1bn was raised through our distribution re-investment programme in August, with 39.0% shareholder support.

70.0% of the expected distribution from GOZ for FY18 is hedged, and the anticipated GOZ dividends cover the interest obligations under the CCIRSs 4.4x for FY18.

71.0% of the expected dividend income from GWI for FY18 is hedged. The anticipated GWI dividends cover the interest obligations under the loans, CCIRSs and EUR interest rate swaps 2.5x for FY18.

Distribution growth for the financial year ending 30 June 2018 is expected to be similar to that achieved for FY17.

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