REDEFINE PROPERTIES LIMITED

2021

Pre-close investor roadshow

for the half-year ending 28 February 2021

The company's closed period will commence on **1 March 2021** until the interim results are released on **Monday,17 May 2021**

REDEFINE PROPERTIES

We're not landlords. We're people.

Our conversation

1 Strategic overview

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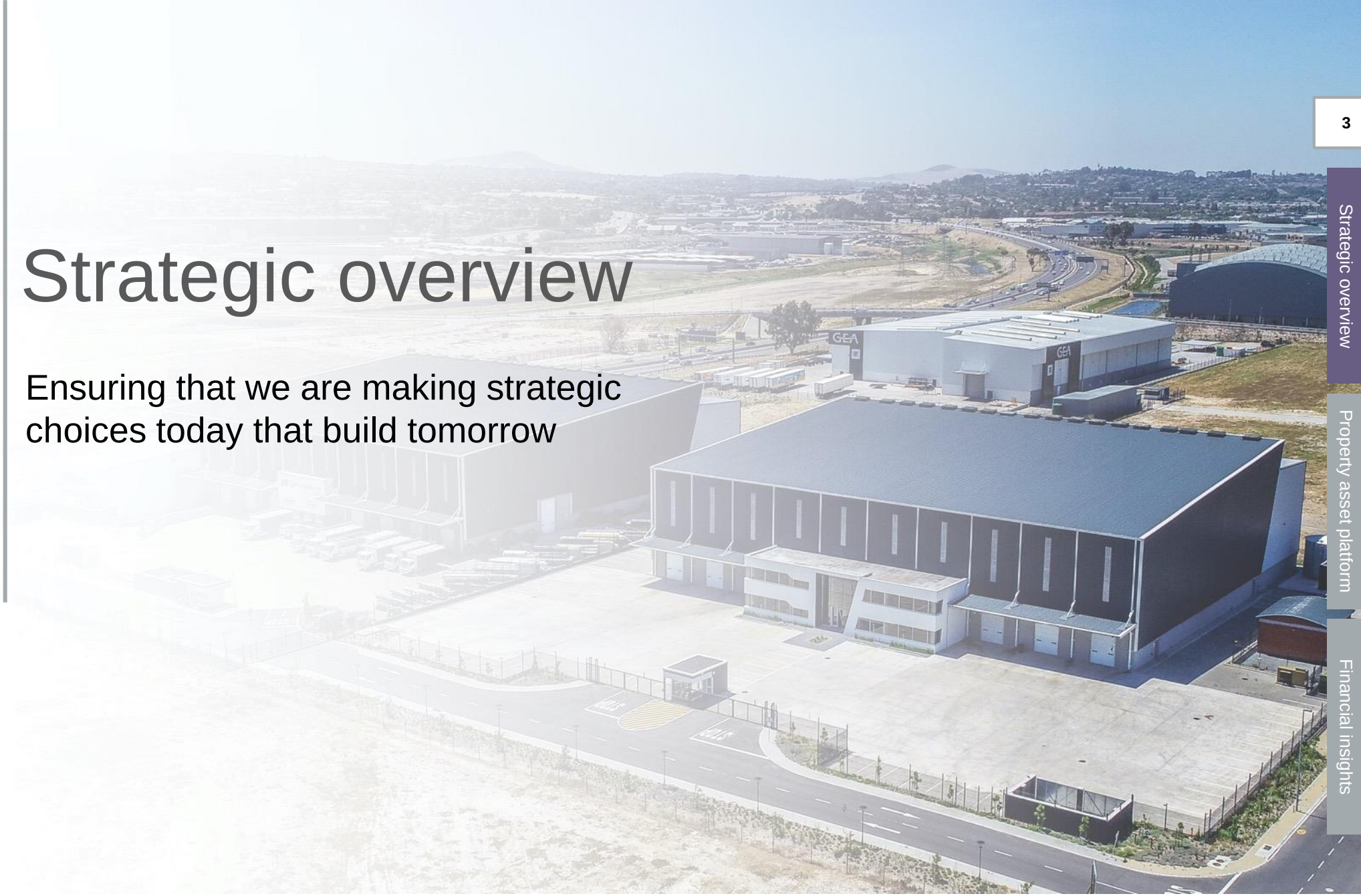
1 Strategic overview

Ensuring that we are making strategic choices today that build tomorrow



Our operating context

2021 is shaping up to be a replay of H2 2020

Prolonged lockdowns, will result in unpredictable and erratic **global growth**

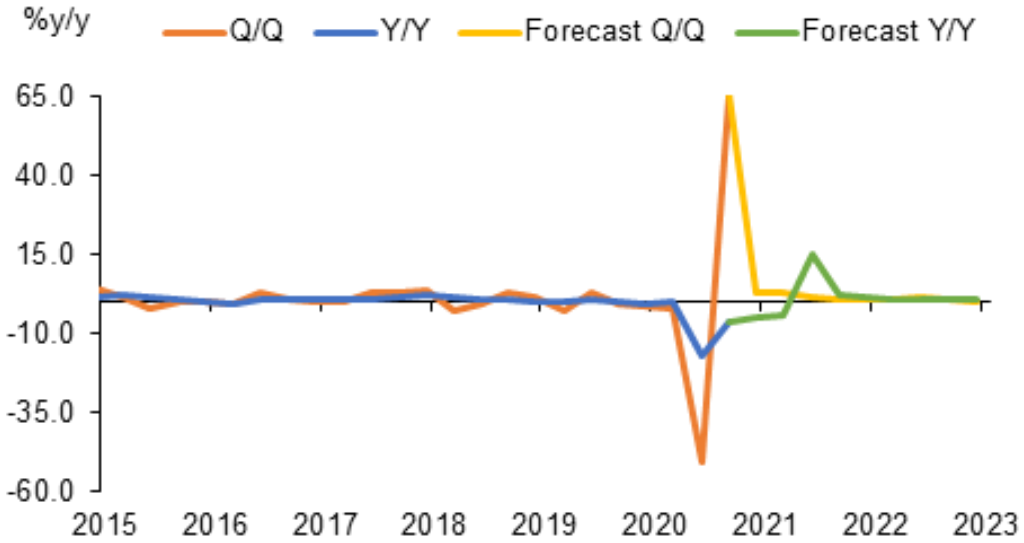
The US re-joining the Paris Agreement on climate change will result in 2021 to be the first year where the three main trading blocs of the world – the US, the EU and China – refocus their efforts on **climate change mitigation**

COVID-19 has usurped Eskom's role as the chief risk to the local economy – taking **cumulative job losses** to 3.6 million since the start of the pandemic

The **fragile local economy** is off to a stumbling start in 2021 on the back of renewed lockdown measures, the return of load shedding, mounting government debt and shattered confidence

The **challenging macro environment** will continue to weigh on property fundamentals well beyond 2021

GDP growth



Source: RMB

Recovery of our operating context to a new normal hinges upon a successful rollout of the COVID-19 vaccine programme

What keeps us awake at night

Infectious diseases and climate action failure flagged by the WEF as having highest impact in next decade

■	Uncertainty pertaining to short to long-term impact of geo-political and socio-economic growth factors
■	Impact of disruptive technologies as well as the evolution of tenants' changing space requirements
■	Deteriorating public/state infrastructure and poor administrative service delivery locally
■	Breach of debt covenants due to increase in LTV above threshold
■	Financial market volatility
■	Inability to effectively manage our reputation
■	Failure to comply with local and international laws and regulations
■	Increased competition for tenants
■	Inability to be environmentally resilient
■	Inability to prevent computer fraud and respond to cyber security attacks
■	Damage to property and security-related threats
■	Long-term impact of failing to transform at an acceptable rate
■	Inability to maintain strong ethical and governance culture
■	Misaligned with international partners (in-country)

■ Elevated top risk ■ Unchanged top risk

The above items are extracted from our strategic risk register and reflect our view of inherent risk before application of any mitigating actions

Our strategic priorities

Contributing to the creation of a more inclusive, sustainable and resilient operating context

GROW REPUTATION (GR)	INVEST STRATEGICALLY (IS)	OPTIMISE CAPITAL (OC)	OPERATE EFFICIENTLY (OE)	ENGAGE TALENT (ET)
Restore stakeholder confidence	Re-evaluate every asset's growth prospects	Implement LTV reduction plan	Optimise operational efficiency	Build a resilient workforce
Entrench ESG in all aspects of what we do	Focus on opportunities to expand income base	Optimise funding model	Seek sustainable income-earning opportunities	Fast-track flexible working policies
Invest in our stakeholders	Create spaces for people to live, work and socialise sustainably	Broaden funding sources	Harness technology	Embed diversity into culture

Focusing on what matters most through collaboration, innovation and differentiation

Placing our purpose at the heart of what we do will position Redefine for the eventual upward cycle

A greater **emphasis on ESG**

Embracing **technology** as an enabler rather than seeing it as a disruptor

Fostering **innovation** through diversity

Repositioning our asset platform within the confines of scarce and costly capital

Remaining **relevant** to our user's evolving needs

Environmental, Social and Governance

Entrenching ESG into every aspect of what we do through principles of stakeholder capitalism

Environmental

- Improving our portfolio's climate resilience through alignment to **TCFD recommendations**
- Understanding our impact to **create awareness and influence behaviour** amongst suppliers, employees and tenants
- **Carbon emissions savings** from solar installations equal to taking **7 260 cars** off the road in 2020

Social

- Greater emphasis placed on **employee wellness** – emotional, financial and physical
- Maintained **level 3 B-BBEE rating**
- Participating in **UN Global Compact Young SDG Innovators Programme**

Governance

- **Ntobeko Nyawo** appointed as CFO from 1 February 2021
- **55%** of board members are **female** and **100%** of non-executive directors are **independent**
- **ESG strategy** crystallises our commitment to UN Sustainable development goals

2 Property asset platform

Sectoral and geographic diversification underpins sustained value creation

Local sectoral trends

Evolving behavioural change reshaping the market

Retail

The flight to convenience continues with fashion retailers opening stores in convenience centres. Most retailers reporting better sales performance in small format retail

Better than expected recovery in retail turnover driven by essential services, home improvement and value fashion. Sit down restaurants were recovering and are again under severe pressure due to second wave restrictions

Ster Kinekor in business rescue is a concern for the industry due to cost of repurposing and oversupply of retail space

Many retailers reported a disappointing Black Friday and Festive season with sales constrained and focussed on essential services. Credit sales are making up a larger percentage of total fashion sales compared to 2019

Regional centre foot count is unlikely to recover in the short to medium term likewise retail located in office nodes

Leasing activity is driven by tenant retention initiatives and improving WAULT. Increasing rent to sales ratio implies a drop in tenant affordability and therefore we expect negative rental reversion to continue

Online sales continue to grow but the brick and mortar stores remain core for retailers We have facilitated click and collect at some of our malls and are planning to roll this out at other centres

Office

Consolidation, down-sizing and flexible working continues to adversely impact office demand. In addition, diminished economic activity is resulting in large amounts of sub-lettable space coming to market – “ghost vacancy”

National vacancies increased to 13.5% as at December 2020 excluding sub-lettable space. There has been a reduction in the P-grade vacancy by 0.6% as tenants are using current market conditions to improve the quality of space at lower market rentals

The second wave is severely impacting co-working businesses with many smaller operators closing. We still foresee expansion in this sector enabling tenants increased flexibility

In general office usage levels remain low due to the extended lockdown impact. Although companies are continuing with the “work from home” strategy the impact on employee health, collaboration, integration, efficiency, load shedding and productivity is driving a desire to return to the office environment

COVID-19 driven business interruptions are causing an increased necessity to restructure leases. In many cases driven by tenant representatives

Rental escalations remain stable at 6 – 6.5%, but operating costs are escalating at a higher rate

Industrial

Increased centralisation and consolidation in production and distribution as businesses reduce operating costs

The cost of shipping containers out of China has risen by more than 400%, adding to the fixed cost base of imported goods

Ports remain under pressure due to imposed protocols in various forms internationally

DTI & IDC funded initiatives notable in food, agriculture and heavy engineering products for local and export markets driving the need for space

COVID-19 driven business interruptions are causing an increased necessity to restructure leases. In many cases driven by tenant representatives

Market rentals are receding in order to prevent vacancy

Flexible leasing structures becoming an industry norm

Lower interest rates are attracting higher demand from small property investors, while the risk rate has increased considerably thereby reducing the price being offered

Automotive parts and service centres are experiencing an increase in demand as the second-hand car market is expanding

Policy changes at a municipal level are causing significant hikes in municipal charges e.g. City of Tshwane rates

There is a notable increase in developable land coming to the market

Retail portfolio

Differentiating by creating outstanding places for modern lifestyles

Overview

- Rental relief to December 2020 at R40m. Forecasting an additional R21m to August 2021
- The outstanding deferrals up to August 2020 was R14m. We are forecasting outstanding deferrals of R8.8m at August 2021
- Vacancy at 5.7%
- Foot count in November and December 2020 was down 14% on 2019 but had stabilised at 80% of pre COVID-19 levels
- Total retail sales for December 2020 was similar to December 2019 due to growth in essential services and home improvement
- Sit down restaurants remain under severe pressure with expected closures
- Edgars trading remains a concern
- Concluded new leases on 69 500 sqm to January. Vacates for the same period was 47 300 sqm
- Rent reversion on renewals to January was -13.7% on 75 000 sqm (6.2% of portfolio by GMR)
- Tenant retention by GLA at January was 96.2%
- Current weighted lease escalation marginally down to 6.4% from 6.5% at August 2020
- Future letting of 11 600 sqm has been concluded of which 9 400 sqm is essential service tenants

Disposals

- Ottery Centre for R334m (valuation at FY2020 R334m)
- Langeberg Mall for R572m (valuation at FY2020 R574m)

Developments

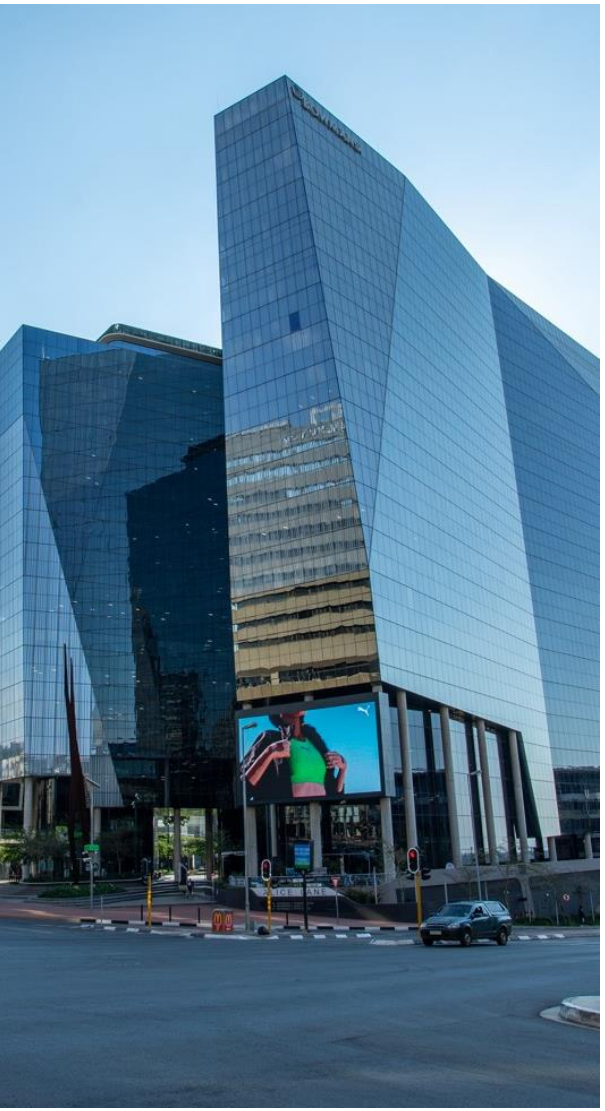
- Refurbishment and tenant reconfiguration at Little Falls, Kyalami Corner and Centurion Lifestyle
- Spend to date R13m

Priorities

- Focus on tenant retention and improving WAULT
- Continue to increase exposure to essential service tenants (currently 21%)
- Repurpose cinema space for retail where viable and explore alternative uses (Redefine exposure 0.86% of GLA, 0.63% of GMR)
- Continuous meetings with retailers in the hardest hit categories to proactively manage risk
- Improve non-GLA income which is currently under pressure at promotional courts and kiosks
- Management of collections and failing tenants
- Source retailers not previously represented in our shopping centres

Office portfolio

Playing a vital role in culture, community and connection



Overview

- Rental relief to December 2020 at R8.2m. Forecasting an additional R25m to August 2021
- The outstanding deferrals up to August 2020 was R15m. We are forecasting outstanding deferrals of R4.8m at August 2021
- Vacancy is 14.7%
- Leasing campaign focused on select space vacant for approx.12 months resulted in successful leases of 19 deals over 5 000 sqm
- WeWork's Rosebank Link occupancy dropped to 62% as at December 2020 and 155 West Street is 26% occupied. The second wave of COVID-19 brought about additional cancellations of short-term contracts
- Escalations for operating costs are being charged at higher rates than base rentals
- Growing pressure from the broker community to act on behalf of existing tenants expecting payment from the landlord
- Tenant retention by GLA at January was 97%
- Rent reversion on renewals to January was -18% on 30 400 sqm covering (2.3% of portfolio by GMR)

Disposals

- RPA Centre for R7m (August valuation R7m)

Developments

- Various refurbishments notably at 155 West Street and The Towers
- Spend to date R14m

Priorities

- Tenant retention and reducing vacancies remain our top priority with a continued focus on leasing campaigns
- Tenant relationship strategies continue, with a focus on pre-empting leases and space consolidation
- Continue to improve our value offering though additional amenities and redesigned office spaces
- Flexible office demand is expected to grow prompting the need to expand Redefine co-working offering
- Conversion into self storage units is being investigated as an alternative use for suitably located vacant buildings
- Fully converted and fitted office suites are showing increased demand and we will expand this model
- High focus on leasing for the 2021/2022 financial year with 10 major leases accounting for approximately 100 000 sqm expiring during this period
- All attempts are being made to negotiate leases with varying escalations for net rent vs operating costs

Industrial portfolio

Location and efficiency remains key in a cost-sensitive market

Overview

- Rental relief to December 2020 at R4m. Forecasting an additional R1m to August 2021
- The outstanding deferrals up to August 2020 was R11m. We are forecasting outstanding deferrals of R5m at August 2021
- Vacancy is 7.3% (Macsteel properties - 2.4%)
- Lease concluded at Wingfield Park over 18 552 sqm commencing 1 March 2021
- Rent reversion of renewals to January was -4.5% on 63 200 sqm (4.5% of portfolio by GMR)
- Tenant retention by GLA at January was 85.8% (88.8% excluding MacSteel)
- Climate change is impacting building design when refurbishing or new builds particularly as a result of higher temperatures and greater rainfall volumes recorded in recent years

Disposals

- Tetford Circle, Moresport, Plumblink and Denver Industrial Park totaling R279m (valuation at FY2020 R275m)
- Land disposals at Brakengate 2 (50.1%) for R36m

Developments

- Refurbishment projects – R35m
- Sparepro DC 20 651 sqm at S&J lease commencement October 2021
- Massmart 52 601 sqm and Roche 8 630 sqm completed Q2
- Spend to date R178m

Priorities

- Strategic disposal of non-core assets
- Tenant retention even at the expense of initial rental growth, with delayed escalations
- Construct different escalations for net rental and operating costs
- Promote ongoing proclamation of developable land into smaller land parcels at S&J Industrial Estate

Offshore asset platform overview

Extending ESG to all Polish operations

		Priorities
Australia	**Journal**	▪ During December proceeds of R2.5 billion from the disposal of Uniplace (Leicester street) received ▪ The Australian Tax Office ruled that the proceeds are subject to capital gains tax (a rate of 15%) rather than corporate tax (a rate of 30%), resulting in additional net proceeds of AUD9.6 million (R107 million) from the sale of both properties ▪ The sale of Central (Swanston street) is conditional upon the borders being reopened
Poland	**EPP**	▪ Support EPP in optimising asset management opportunities within the portfolio as-well-as de-leveraging the company to a LTV level below 45%
	Chariot Top Group	▪ Complete the acquisition of M1 Marki
	European Logistics Investment	▪ Continue identifying market opportunities to invest and grow the logistics portfolio in Poland through development activity ▪ Complete assets under construction (Bielsko phase 2, Warsaw phase 2 and Lublin phase 1 and 2) in order to receive the balance of the earn out fee from Madison ▪ Secure pre-letting on current land holdings for further development (Lublin, Gdansk, Czeladz and Opole)
Africa	**GIAP**	▪ Sell the equity interest in Growthpoint Investment Africa Property fund

European Logistics Investment

Increasing exposure to a stable sector with good capital uplift prospects

Overview

- Prime logistics income yields stand at 6.25%, with quality, long-leased assets trading at sub 5.00% and Warsaw inner city projects at around 5.50%
- With a reduction in space under construction compared to previous quarters, a stabilisation of the national vacancy rate of 7.8% is expected – ELI's occupancy unchanged since FY2020
- ELI's total GLA increased from 527 070 sqm to 603 673 sqm due to the completion of Bielsko Phase 2 (43 764 sqm) and Ruda Slaska Phase 2 (23 959 sqm) and the acquisition of Wroclaw (9 427 sqm of existing space included as part of the land acquisition)
- High leasing activity was recorded in the operational portfolio - most notably was the early renewal of Kaufland in Bydgoszcz (45 642 sqm) due to expire in February 2022, at same rental as at the expiry date
- Rent collection remains high, at almost 100%

Acquisitions

- Land located in Wroclaw was acquired during the quarter at a cost of EUR7.7 million which includes two existing income producing warehouses (GLA of 9 427 sqm)
- Two land parcels in Krakow earmarked for development at a combined cost of EUR6.3 million

Developments

- Five developments totaling EUR94.9 million with a GLA of 117 524 sqm underway and will be completed in H2 2021
- Two new logistics parks located in Krakow (Nowa Huta and Skawina) are to be developed – the first phase of Nowa Huta will consist of 14 702 sqm of GLA with an estimated development cost of EUR13.3 million (fully let). The development of Skawina, will consist of 18 334 sqm of GLA with an estimated development cost of EUR12.7 million (fully let).
  The two developments have a combined pre-letting ratio of 40.8%

Note that figures above are for 100% of ELI and not Redefine's 46.5%

3 Financial insights

The unprecedented and evolving market conditions will remain challenging for FY2021

Balance sheet management

Strengthening the balance sheet remains our top strategic priority

Rigorous review of interim external property valuations in progress (indicative valuations range from -1% to -3%)

Recycling activities will simplify and streamline the investment property asset platform

Moody's reaffirmed Redefine's long-term issuer **credit rating of Ba2/Aa2.za** with outlook as negative, following similar sovereign rating action

Following the board resolution **to not declare a cash dividend** in respect of FY2020, tax of **R367m** has been raised in HY2021

Continued progress made **on strategic disposal process** to lower LTV

Sufficient liquidity headroom and prudent balance sheet management remain a focus with asset values downside valuation risk which could impact the corporate LTV debt covenant ratio still a concern

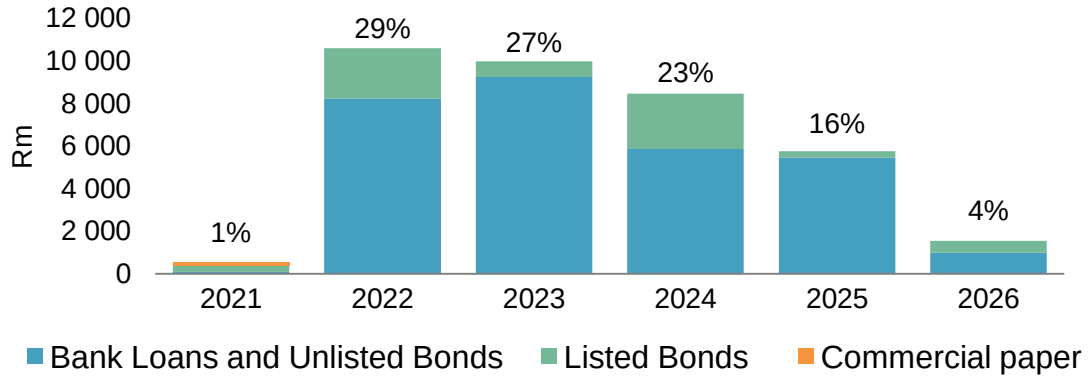
Comfortable debt maturity profile with sufficient support and appetite from banks to refinance facilities

Committed undrawn facilities and cash on hand of R5.0bn (FY2020: R2.8bn)

Debt maturity profile and available facilities

Focus remains on prudent balance sheet management and careful liquidity planning

Debt maturity profile



R2 684m of debt maturing over the next 12 months

- The expiries for the next 12 months will be managed in line with our capital management strategy which is anchored around preserving our balance sheet strength and sustainable value creation
- The expiries will be managed in line with our broad strategic objective of optimising our capital structure. Current sources of capital will be utilised to manage these expiries including disposal initiatives, refinancing in the bond market (subject to favourable conditions) and exploring alternative funding sources such as sustainability linked funding

Available cash resources as at 31 January 2021

	Rm
Cash on hand	547
Committed undrawn facilities	4 479
	5 026

Interest cover ratio sensitivity analysis

	Projected 28 Feb 2021	Projected stressed* at 31 Aug 2021
ICR	**2.3x**	**2.3x**

*Stressed forecasted ICR assumes:
- no foreign cash dividend income from listed investments and includes forecasted rental discounts, deferred income and bad debts provision

#Strictest covenants LTV = 50% and ICR = 2x

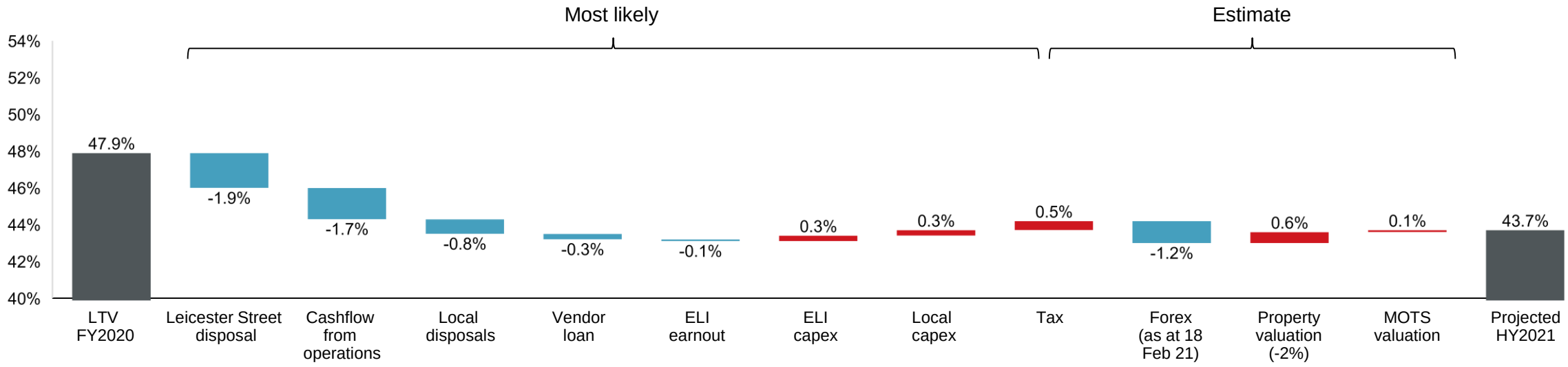
#Temporary relaxation to 55% for FY20 and HY21

All LTV projections are calculated using the Redefine definition of the LTV covenant. The various bi-lateral banking agreements and DMTN programme govern individual covenant definitions

Pathway to lowering the loan-to-value

Right-sizing the asset footprint to the constrained capital base without raising equity

Projected LTV



LTV reduction interventions having the highest impact

	Outcome
Sale of Australian student accommodation	✓
Concluded disposals of local properties totaling R3.1bn – 40% has transferred	✓
Legal agreements being drafted for disposal of local student accommodation	-
Slow progress made on the sale of our healthcare assets	✘
Slow progress made on the sale of the GIAP shares	✘

✓ On track - Work in progress ✘ Requires focus

Loan-to-value sensitivity analysis

Shifting away from linear thinking in a volatile and uncertain environment

	Impact	Adjusted projected 28 Feb 2021 LTV
Foreign exchange movements		
Rand appreciates by 5%	-0.4%	43.3%
Rand depreciates by 5%	0.4%	44.1%
Investment property valuation		
South African property values decrease by 1%	0.4%	44.1%
South African property values decrease by 3%	1.1%	44.8%
South African property values decrease by 5%	1.9%	45.6%
Investment in associates		
Investment in associates value decrease by 5%	0.3%	44.0%
Investment in associates value decrease by 10%	0.6%	44.3%

Foreign exchange rates	18 Feb 2021	31 Aug 2020
EUR	17.6	19.7
AUD	11.4	12.2
USD	14.7	16.6

Risks during COVID-19	Risk level	Liquidity impact	LTV impact	ICR impact
Rental relief during lockdown period, and rental deferments	High	X		X
Increase in bad debts and tenant failures	High	X		X
Further property devaluation	High		X	
Delayed transfer on sale of non-core properties or sale cancellations	Medium		X	
Possible restrictions on development activity resulting in late completion and delayed capital uplift	Medium	X	X	X
Foreign investments withhold dividends to maintain liquidity	High	X		X
Further impairment of foreign investments	High		X	
Continued ZAR depreciation	Medium		X	
Further Moody's downgrade resulting in higher debt costs	Medium	X		X

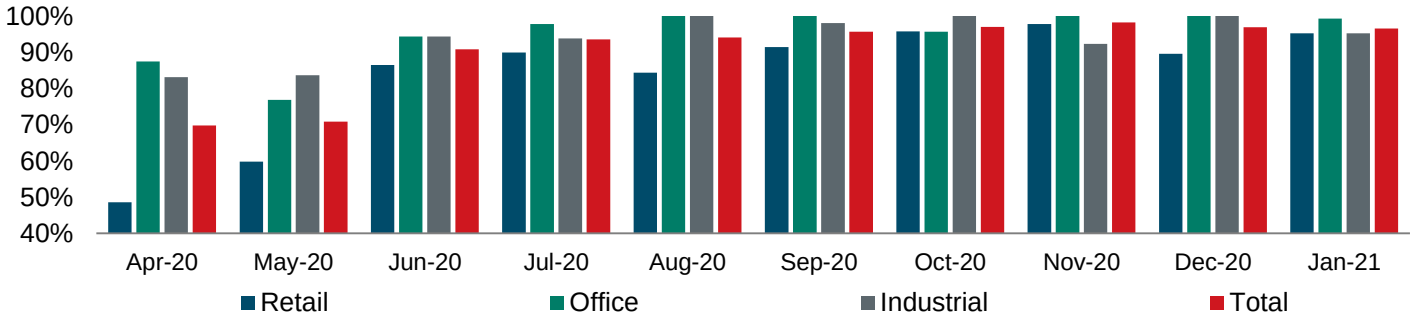
Trading outlook for 2021

Much depends on the outcome of the race between a mutating virus and science to end the pandemic

- The overall risk environment has **heighted significantly** with a potential third wave and associated lockdown restrictions creating uncertainty
- Forecast rental relief and deferrals for the FY2021 amounts **to R227m** (FY2020: R318m)
- The board's decision regarding the interim dividend for 2021 will be **informed by liquidity and trading** considerations with due regard to the best interests of all stakeholders
- **Bad debt provision** anticipated to be at similar levels to the prior year (FY2020: R310m)

- **No dividend from international** listed investments expected, dividends to be recognised on a cash received basis
- Minimal **non-recurring income** expected in FY2021
- Capitalised interest reduced due to **no development activity** on certain landholdings
- Due to the evolving and highly uncertain environment, we are **not in a position to provide guidance** on distribution per share for **FY2021**

% Receipts vs gross billing (before rental relief and deferrals)



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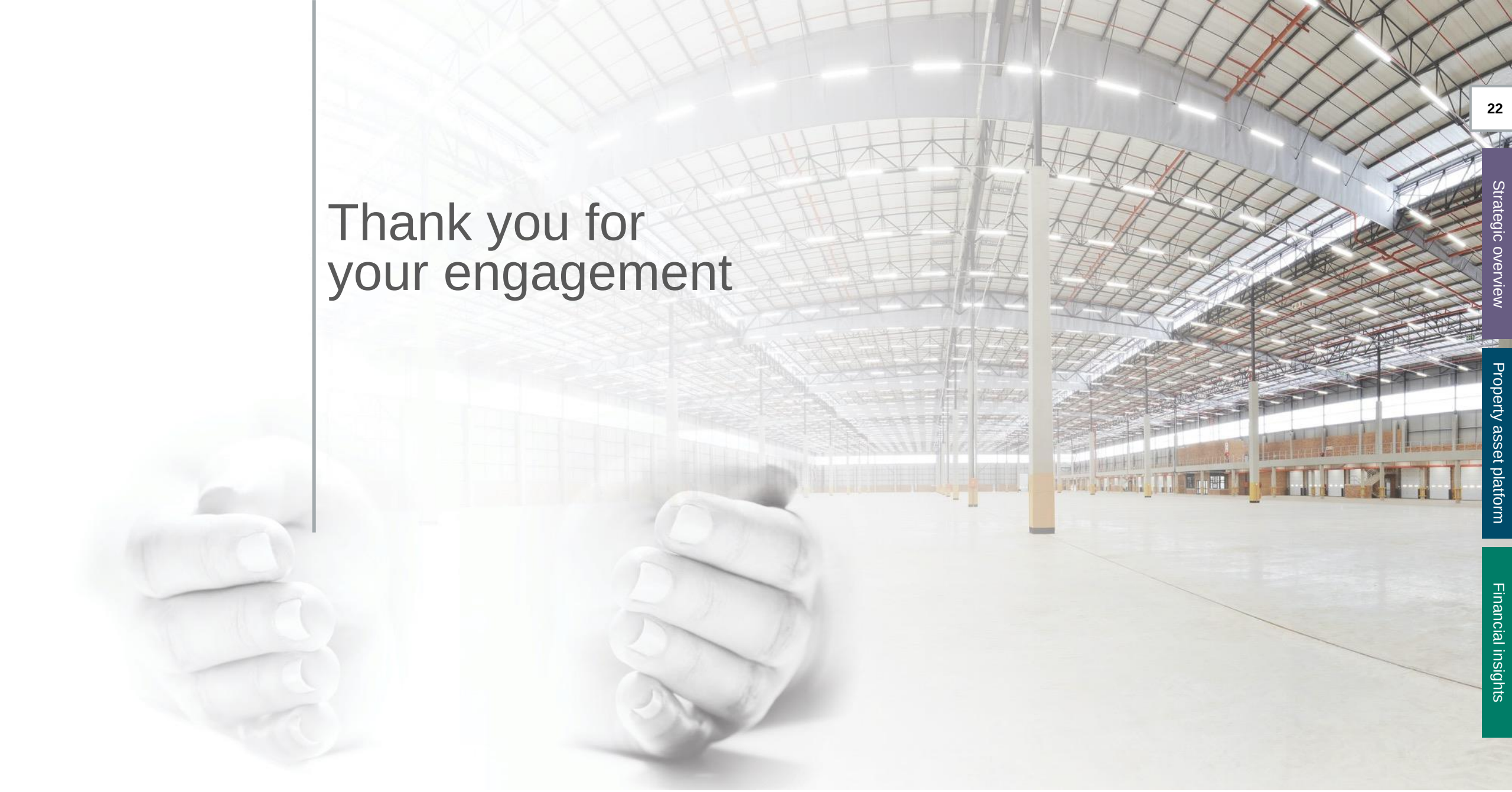

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