



IS IT TIME TO BUY LISTED PROPERTY?

Local and Global Property Overview

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STANLIB

RECAP FROM OUR LAST JSE POWER HOUR PRESENTATION IN OCTOBER 2018

Local property has struggled & offshore property has done very well

LOCAL PROPERTY- SAPY down 0,6% and ALPI down 7,2%

- Results worse than expected
- Property fundamentals continue to deteriorate
- Earnings growth outlook to continue to slowdown

GLOBAL PROPERTY- Up 18% in USD and 23% in ZAR

- Results generally in line with expectations
- Fundamentals continue to be supportive in general
- Earnings growth outlook remains stable

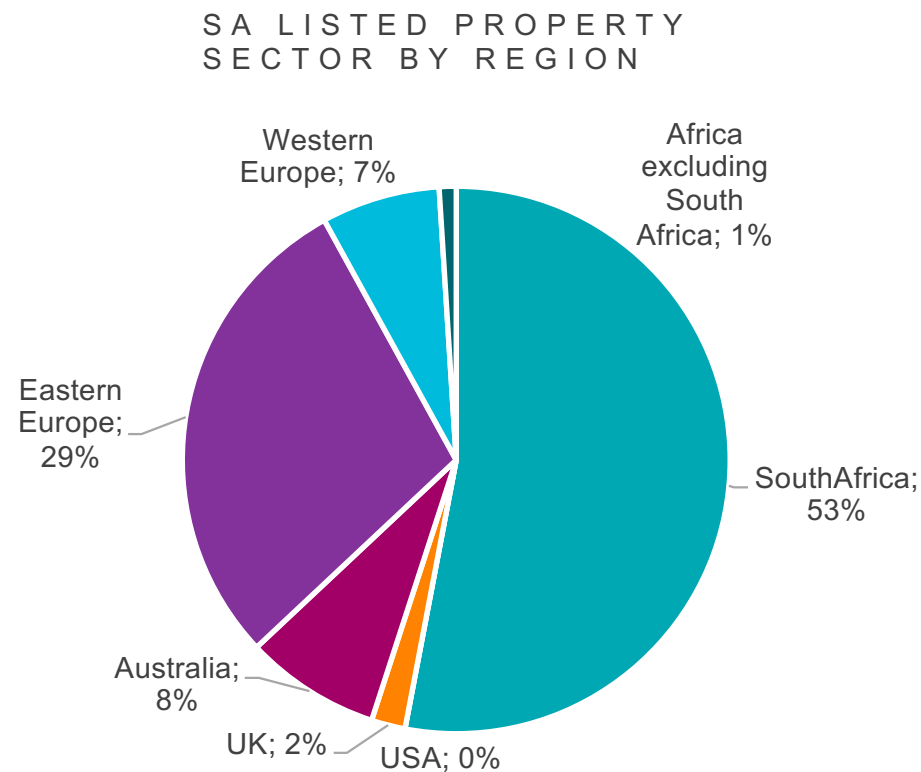
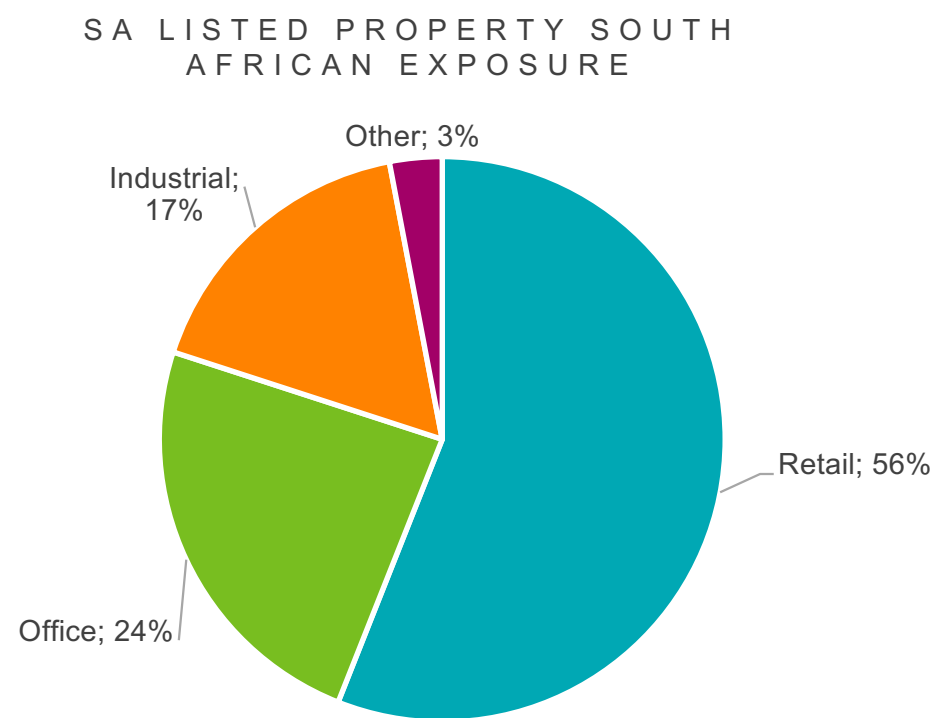
LOCAL PROPERTY



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South African Listed Property sector has 47% exposure offshore

Local property exposure is largely dominated by retail and then offices



Source: SBG Securities, STANLIB June 2019

AUGUST AND SEPTEMBER REPORTING SEASON

Few positive surprises and more negative surprises

LISTED PROPERTY COUNTER	DISTRIBUTION GROWTH ACHIEVED	DISTRIBUTION GROWTH OUTLOOK	VERSUS MARKET EXPECTATIONS
MAS	15%	30%	Above
Attacq	10,1%	8% to 10%	Above
Resilient*	-6%	5%	In line
EPP	0%	0% or better	In line
Fairvest	8.1%	4% to 6%	In line
Liberty Two Degrees	0%	0% to 2%	In line
Emira	3.1%	Positive growth	In line
NEPI	9.6%	6%	In line
Fortress A*	4.6%	5%	In line
Fortress B*	-13.1%	-1.6% to -5%	Below
Growthpoint	4,6%	Nominal or flat	Below
SA Corporate	-6.1%	-2% to 4%	Below
Hyprop	-1.5%	-10% to -13%	Below
Texton***	-13.1%	-18% to -26%	Below
Tower	-8.4%	No clear guidance	Below
Capital & Counties**	-3,3%	No clear guidance	Below
Hammerson	0%	No clear guidance	Below
Intu	No dividend declared	No dividend for time being	Below

Source: Company Data, * post restructuring, ** earnings per share, *** trading update, STANLIB Listed Property, September 2019

FSCA INVESTIGATION PROGRESS ON THE “RESILIENT STABLE”

Good progress so far

	INSIDER TRADING	PRICE MANIPULATION	FALSE AND MISLEADING STATEMENTS
RESILIENT	Closed	Open	Open
NEPI ROCKCASTLE	Closed	Closed	Closed
LIGHTHOUSE/GREENBAY	Closed	Closed	Not applicable
FORTRESS	Closed	Closed	Not applicable

CONSOLIDATION HAS NOT GAINED MOMENTUM AS ANTICIPATED

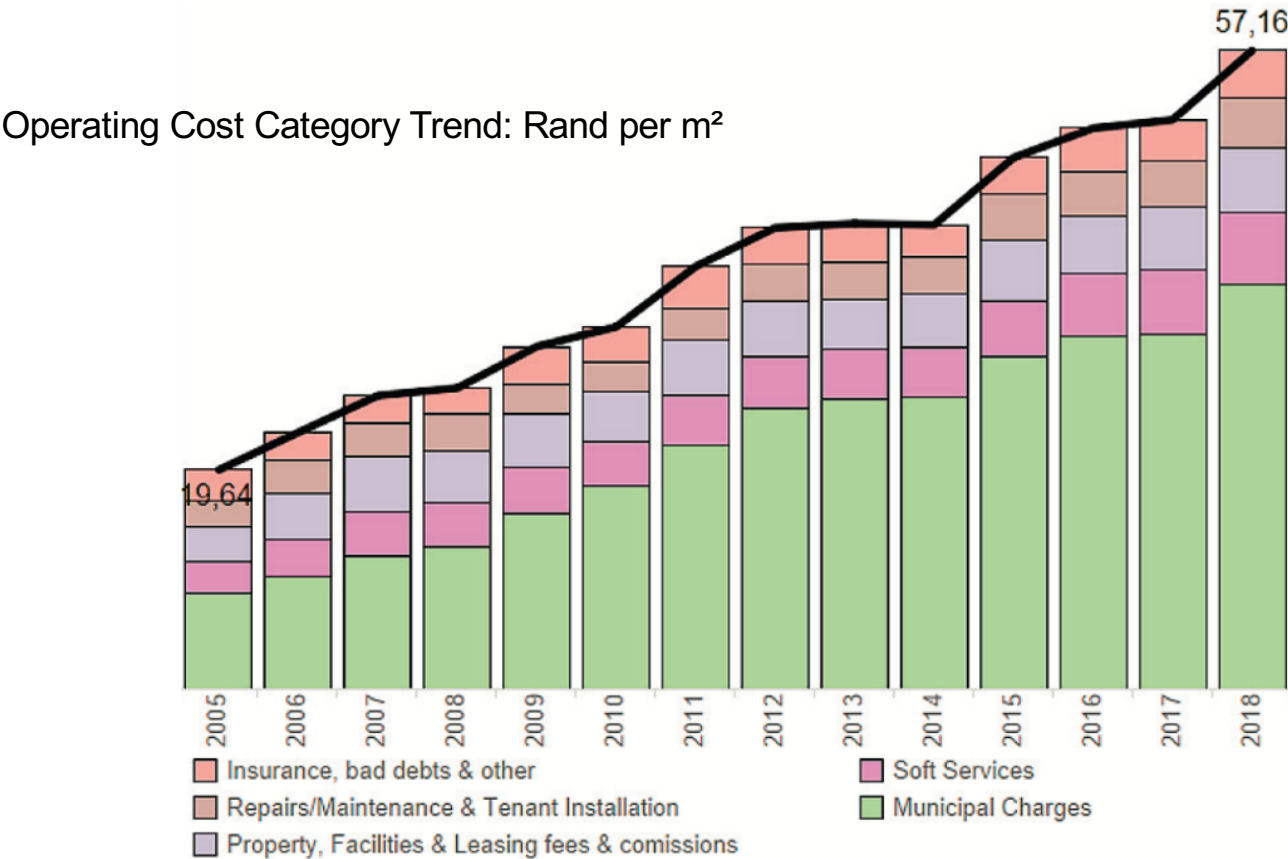
Minimal earnings accretion from current proposed deals

	PROGRESS	FUNDING
Fairvest and Safari	Failed	Equity
Safari and Comprop	Announced	Cash
Emira and SA Corporate	Announced	Equity
Dipula and SA Corporate	Announced	Equity
Rebosis and Delta	Announced	Equity
Gemgrow and Arrowhead	Completed	Equity

Source: STANLIB Property and Company Announcements

RISING OPERATING EXPENSES A CHALLENGE FOR THE PROPERTY SECTOR

Largely driven by increasing Municipal Charges (Rates and Taxes)



Source: SAPOA

OFFICE VACANCIES REMAIN A CONCERN DUE TO OVERSUPPLY

Tenants still moving from older buildings to new buildings

ROSEBANK, JOHANNESBURG



WATERFALL, MIDRAND



WHAT IS HAPPENING TO VACANT OFFICE SPACE?

Some of it is being taken up by flexible offices or co-working space



WHAT IS HAPPENING TO VACANT OFFICE SPACE?

Some of it is being converted to residential

FOR SALE



FOR SALE



FOR RENTAL



EDCON – OPTIONS SELECTED BY VARIOUS LANDLORDS

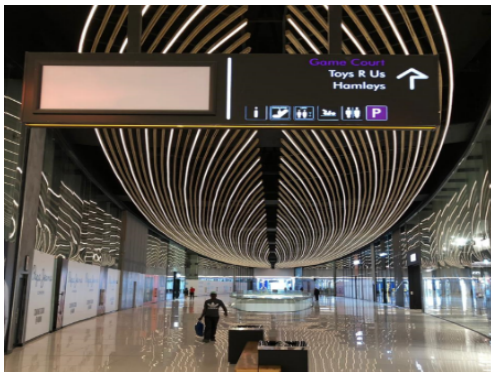
Choice between a 41% rent reduction or taking equity in Edcon

	Rental reduction option	Share subscription option	Funding of share subscription	Will distributable earnings be lowered to reflect the reduction in rentals?
LIBERTY TWO DEGREES		✓	Debt	Most likely not
VUKILE		✓	Debt	Most likely not
GROWTHPOINT		✓	Debt	No
HYPROP		✓	Effectively from rentals received from Edcon	Yes
FORTRESS	✓		n/a	Yes
INVESTEC PROPERTY FUND	✓		n/a	Yes
ATTACQ	✓		n/a	Yes
ARROWHEAD	✓		n/a	Yes
RESILIENT	✓		n/a	Yes
REDEFINE	✓	✓	Debt	Yes - slightly
OCTODEC	✓	✓	Debt	Yes – slightly

Source: Company Data, ASB, STANLIB 2019

FOURWAYS MALL NOW THE BIGGEST MALL IN AFRICA

But major tenants left the old section vacant and moved to the new one



SOSHANGUVE CROSSING, SOSHANGUVE, PRETORIA

Lower end retail continues to do well. Sales up 7.4% versus last year in Soshanguve.



Source: STANLIB Property Research September 2019

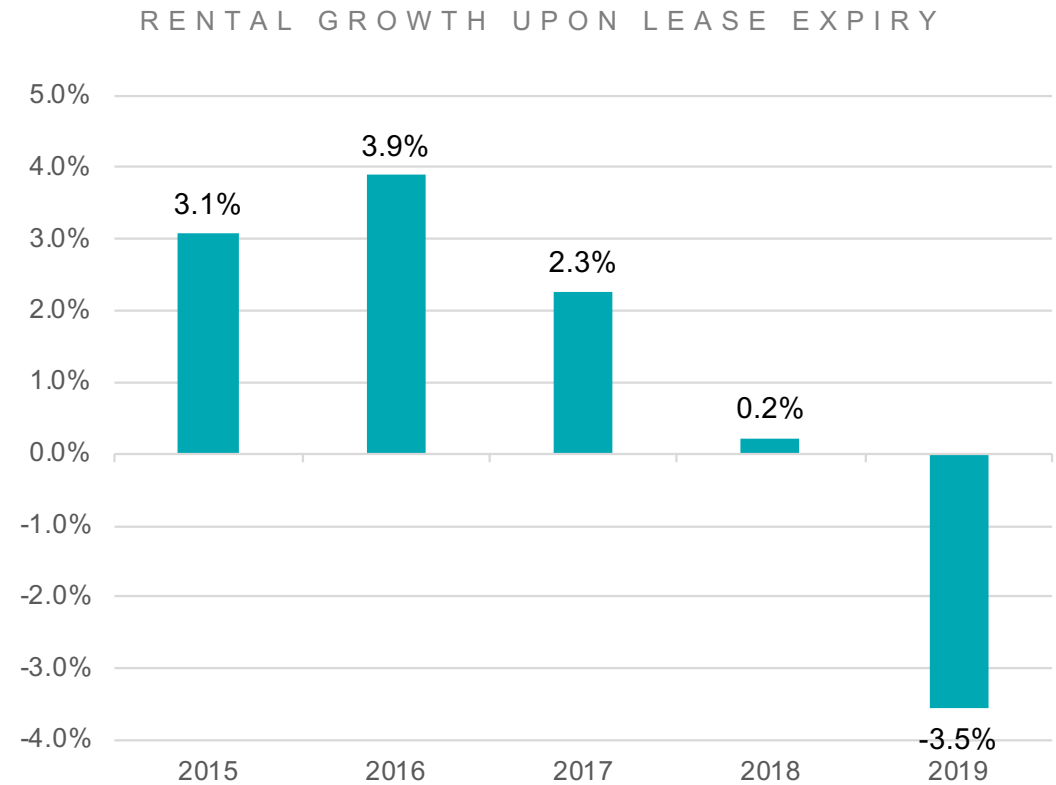
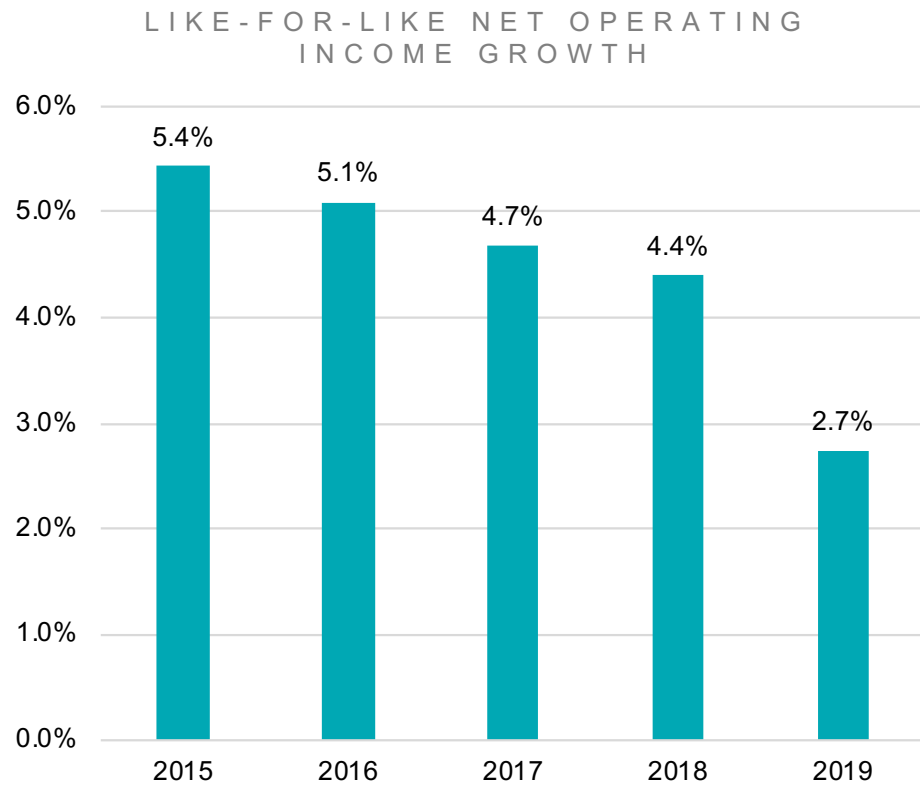
THE INDUSTRIAL SECTOR CONTINUES TO DO WELL

And has shifted to warehousing and logistics



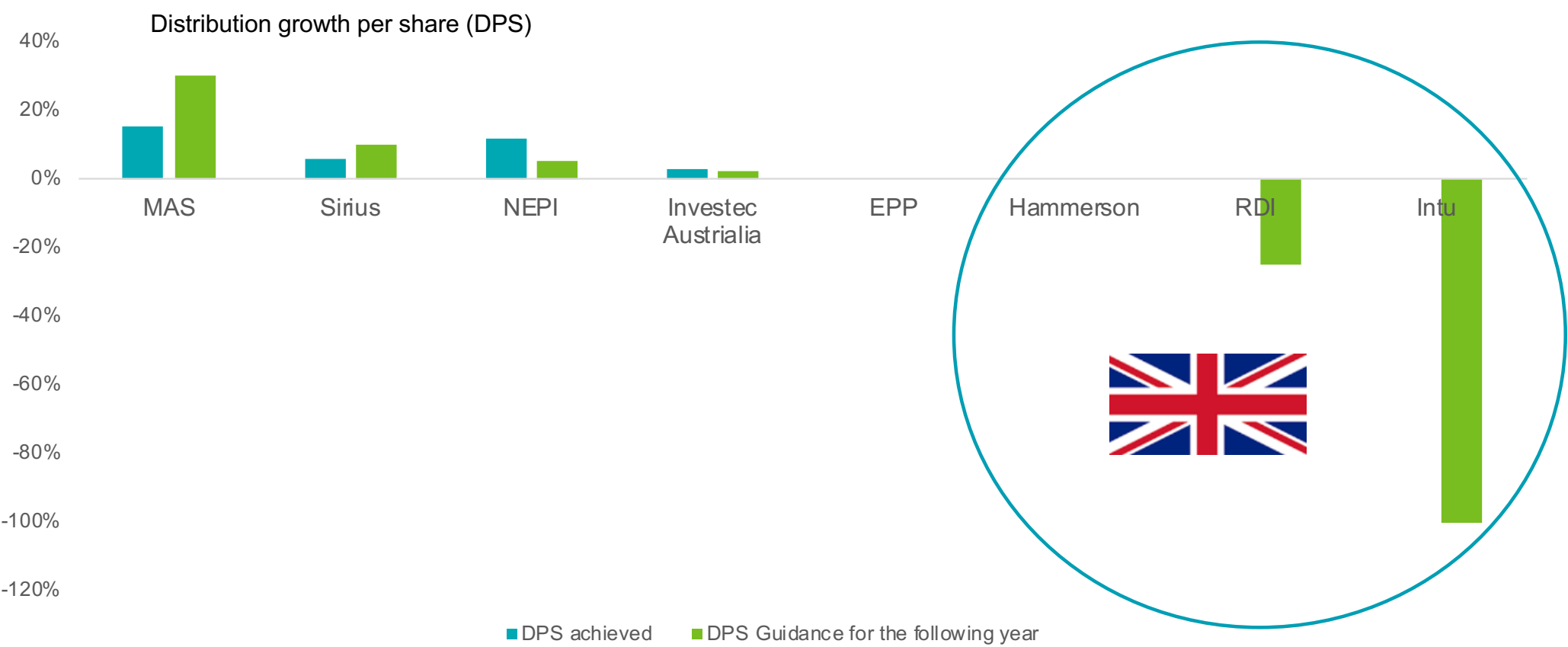
TOP 10 SA LISTED PROPERTY COUNTERS EXPERIENCING SLOWING RENTAL GROWTH

Trend likely to continue in 2020



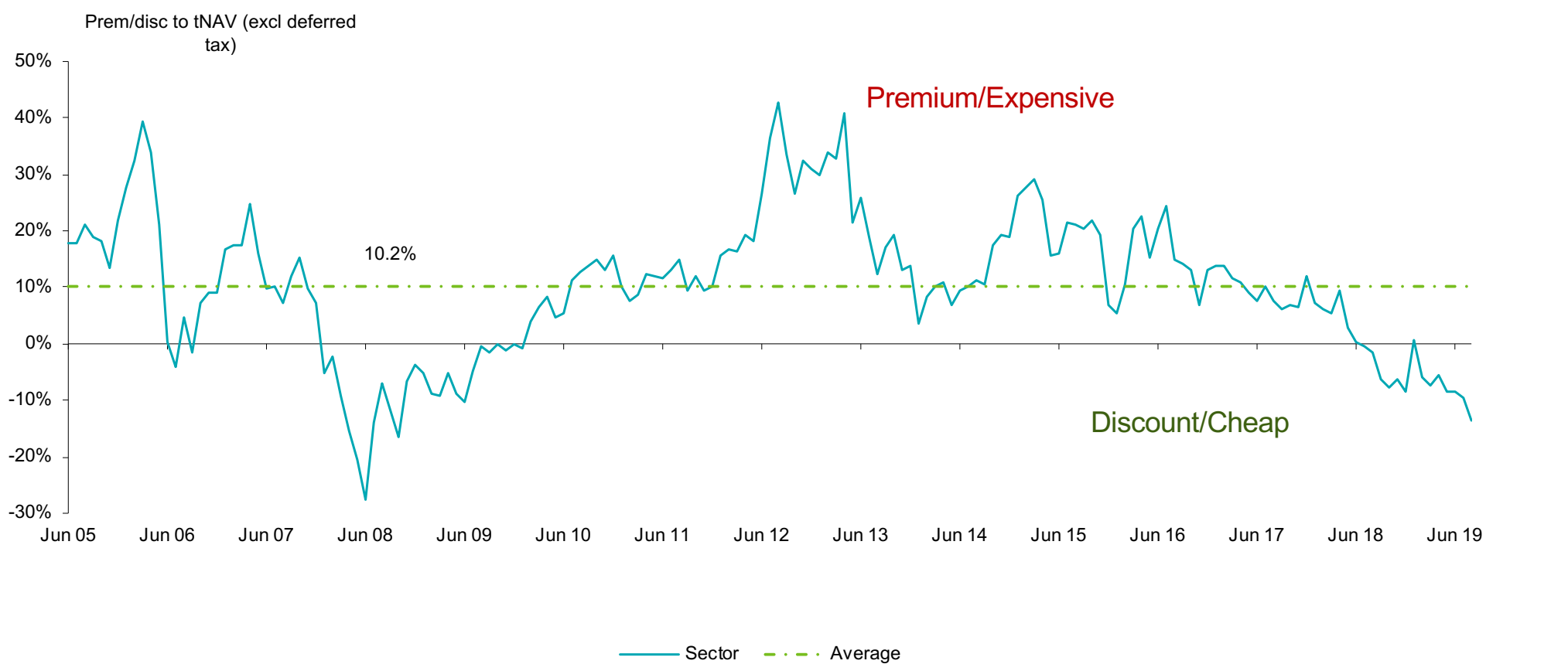
Source: STANLIB Property September 2019

AS A POSITIVE, OFFSHORE NAMES STILL GENERATING GROWTH (EXCEPT UK)
Therefore our local property fund will remain overweight offshore



Source: STANLIB Property September 2019

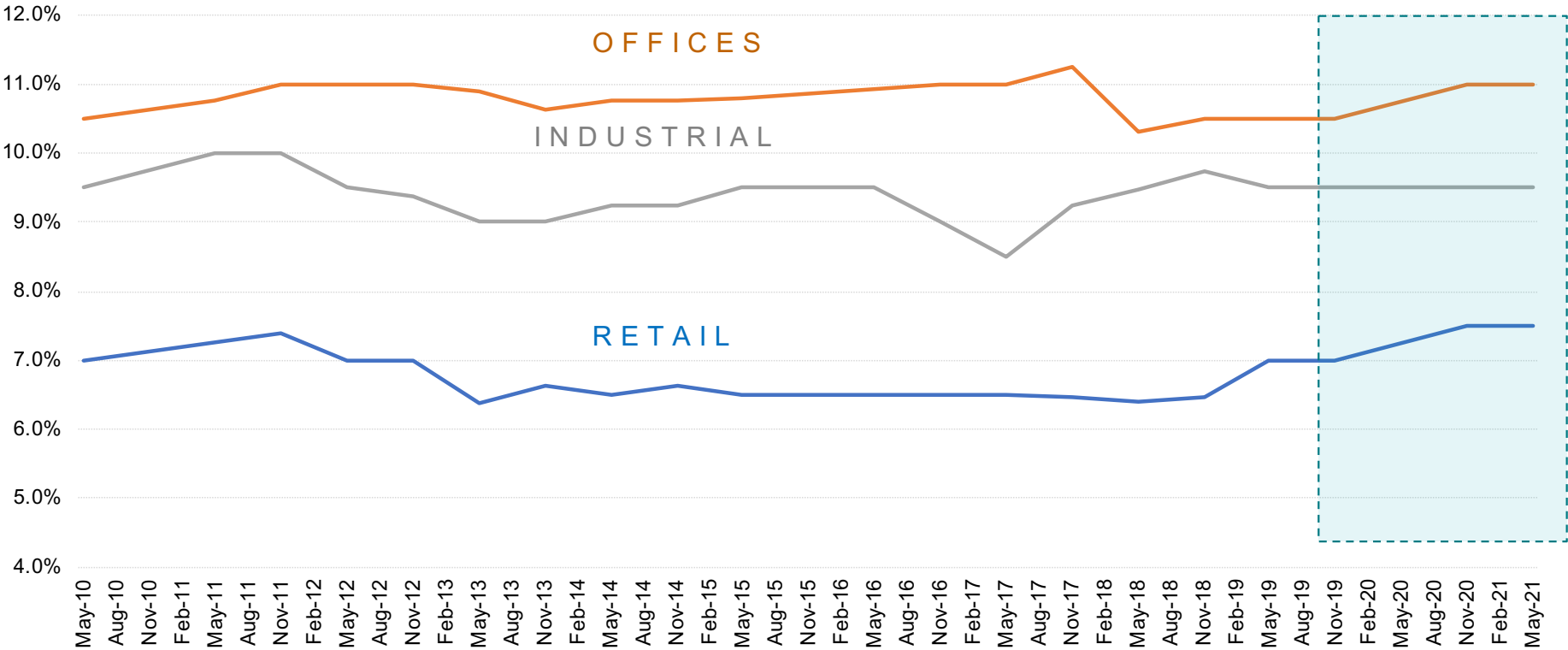
LISTED PROPERTY SECTOR AT DISCOUNT TO NET ASSET VALUE OF OVER 15%
Implying that the market expects capital values to fall



Source: STANLIB, Macquarie September 2019

CAPITALISATION RATES MAY GO UP 0.5% TO 1% DUE TO WEAK RENTAL GROWTH
Listed property companies on average hold better quality assets

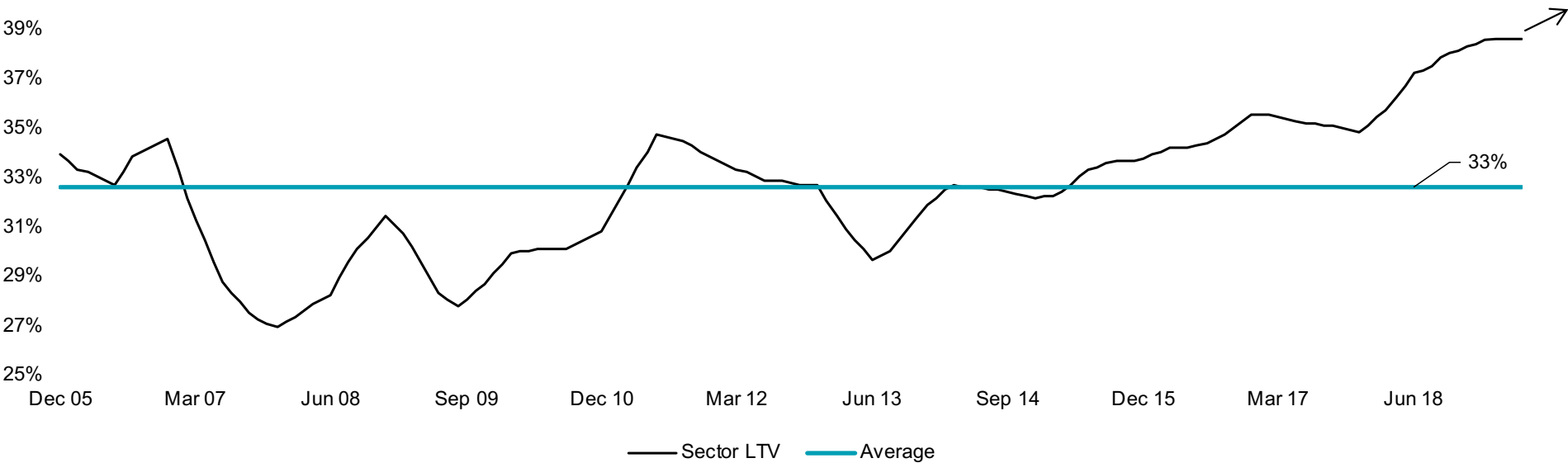
SOUTH AFRICA DIRECT PROPERTY MARKET CAPITALISATION RATES



Source: STANLIB Property, SAPOA, Macquarie

LOAN-TO-VALUES(LTV) MAY BREACH TO 40% MARK FOR SOME COMPANIES
But unlikely to breach bank covenants of 50% to 60% for most companies

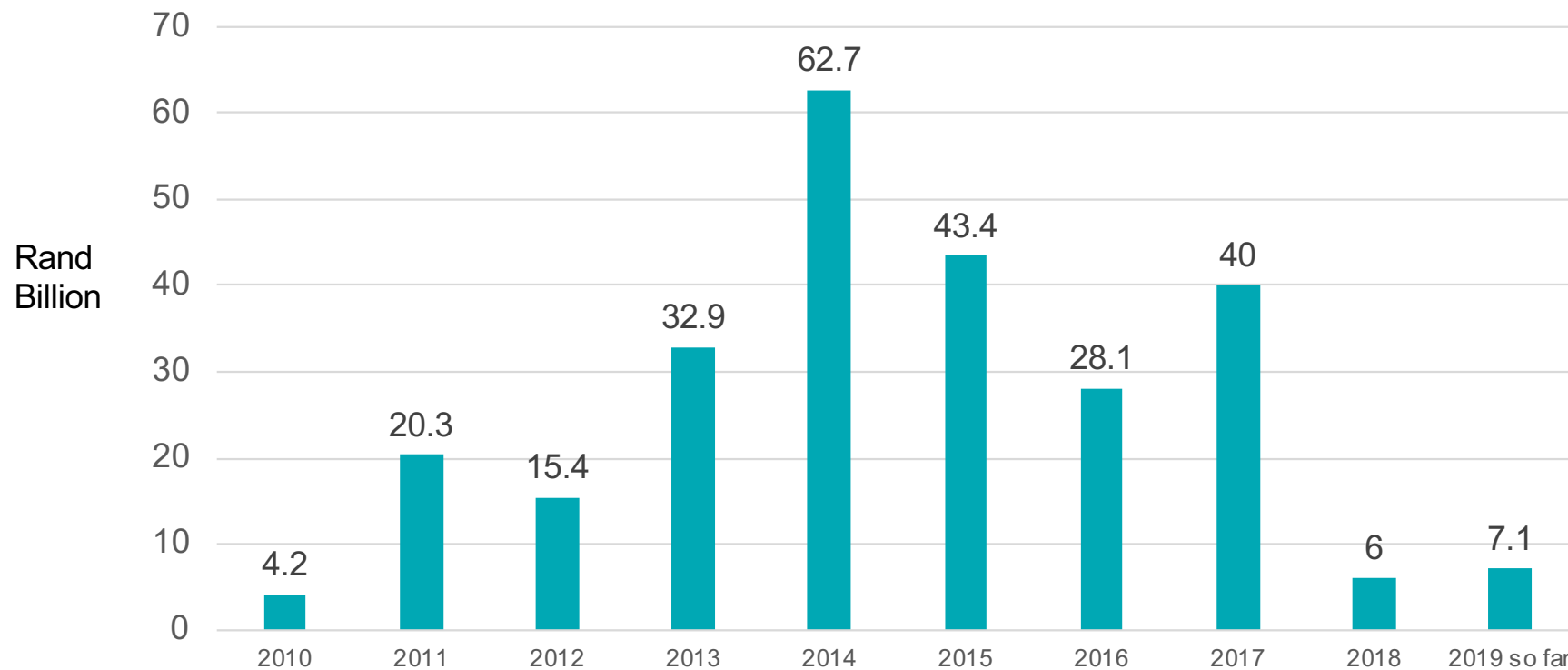
LOAN-TO-VALUE RATIOS OVER TIME



Source: STANLIB Property, SAPOA, Macquarie

LOW SHARE PRICES LIMIT THE ABILITY TO RAISE CAPITAL

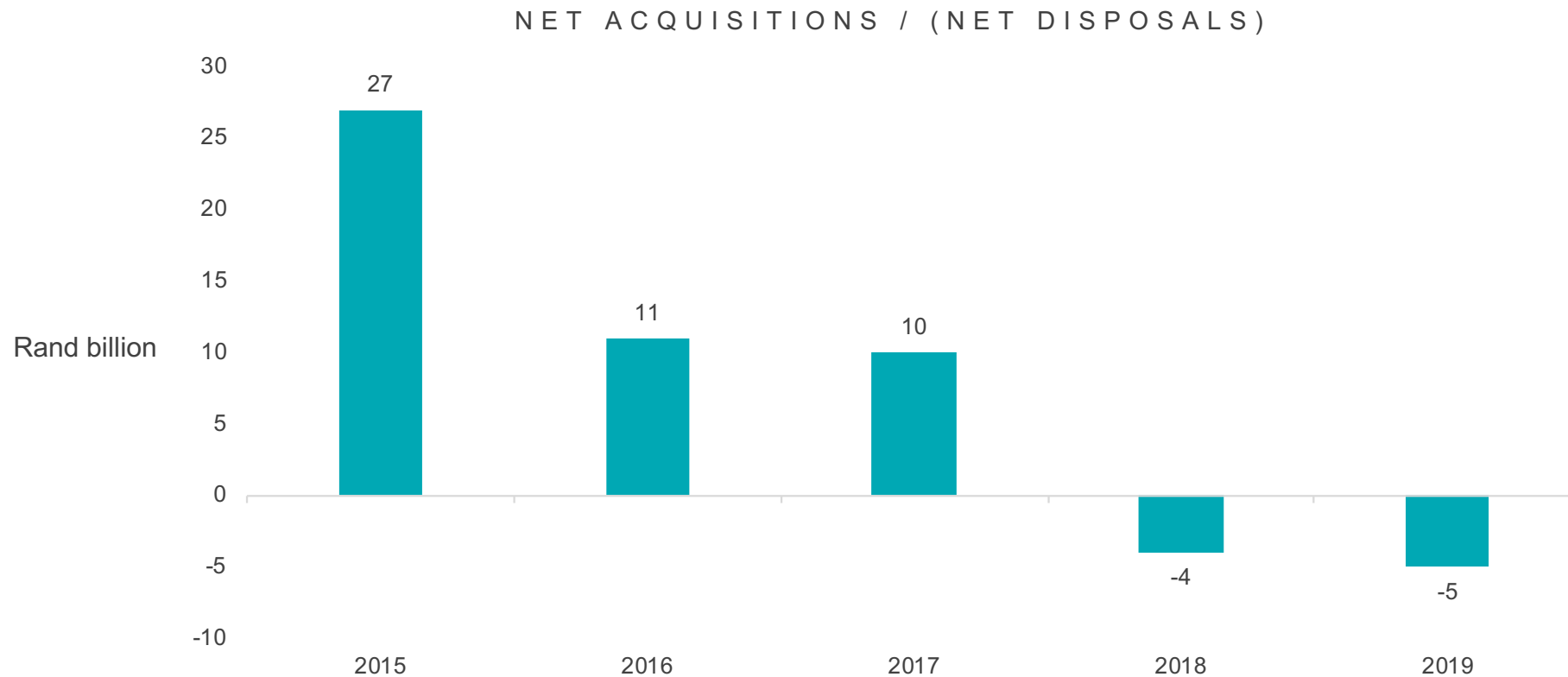
Most of the capital raised has funded offshore investments



Source: STANLIB Listed Property October 2019

DEAL ACTIVITY IS ALSO SLOWING

Further net disposals likely to continue in 2020



Source: STANLIB Property, September 2019

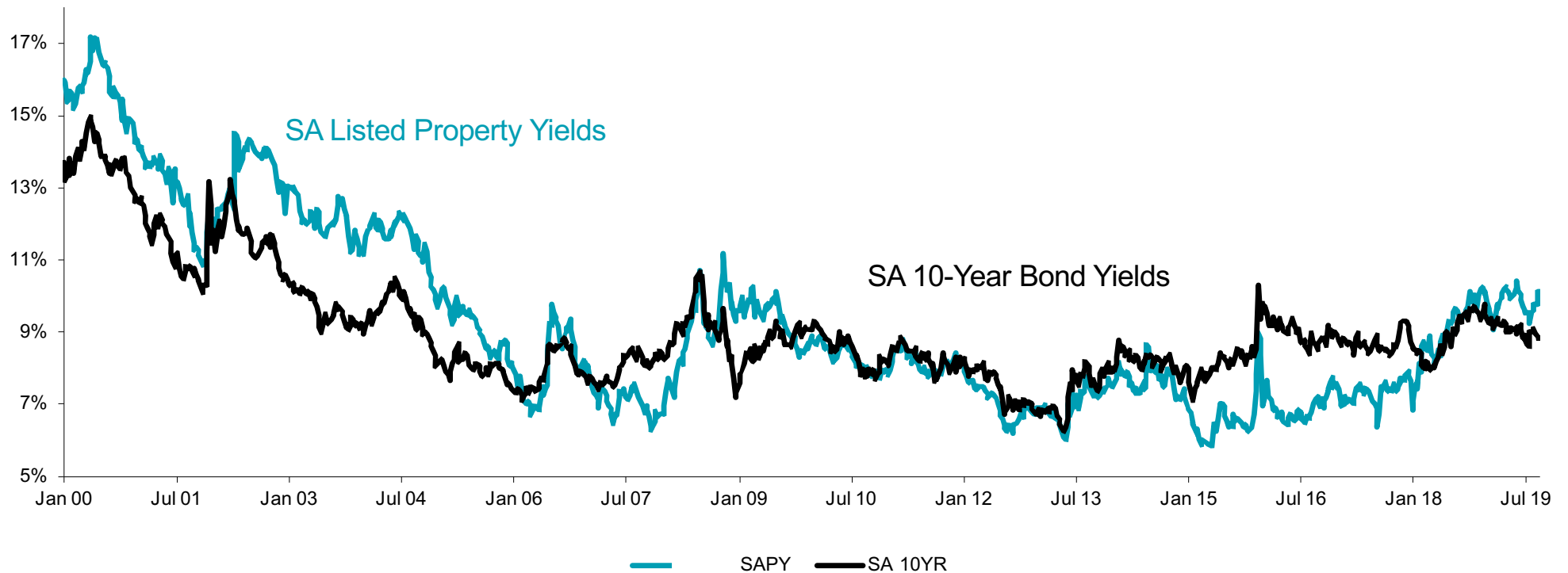
SA REITS PAY OUT 100% OF THEIR PROFITS TO INVESTORS

But this is likely to change

	PAY-OUT RATIO STATUS
Rebosis	Skipped interim distribution
Delta	Paid out 75% of earnings
Accelerate	Signalled 95% pay-out ratio policy
Redefine	Signalled a 90% to 100% pay-out ratio policy

SA LISTED PROPERTY YIELDS NOW ABOVE THE SA-10 YEAR BOND YIELD

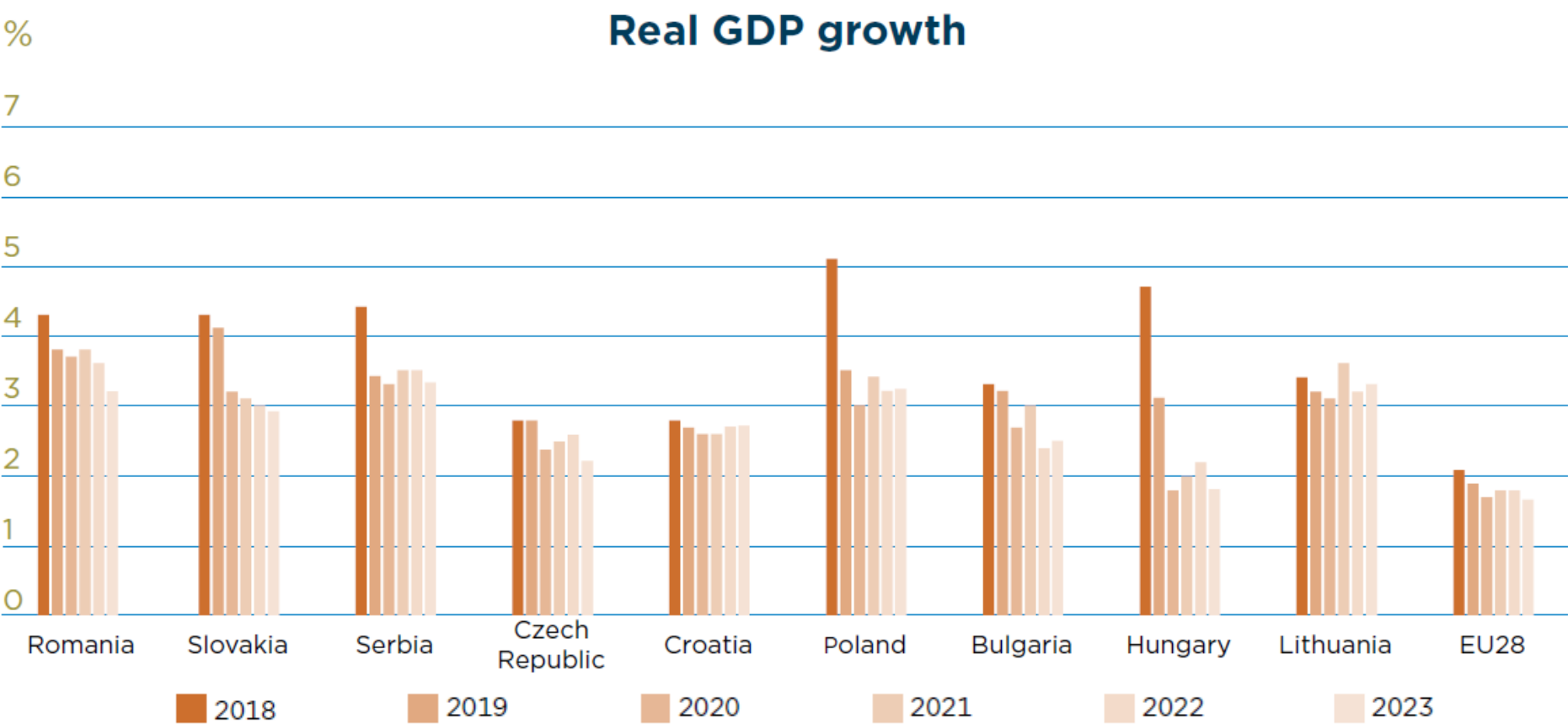
The sector is basically moving to pre-2005 levels



Source: STANLIB, Macquarie

GDP GROWTH REMAINS POSITIVE IN CENTRAL AND EASTERN EUROPE

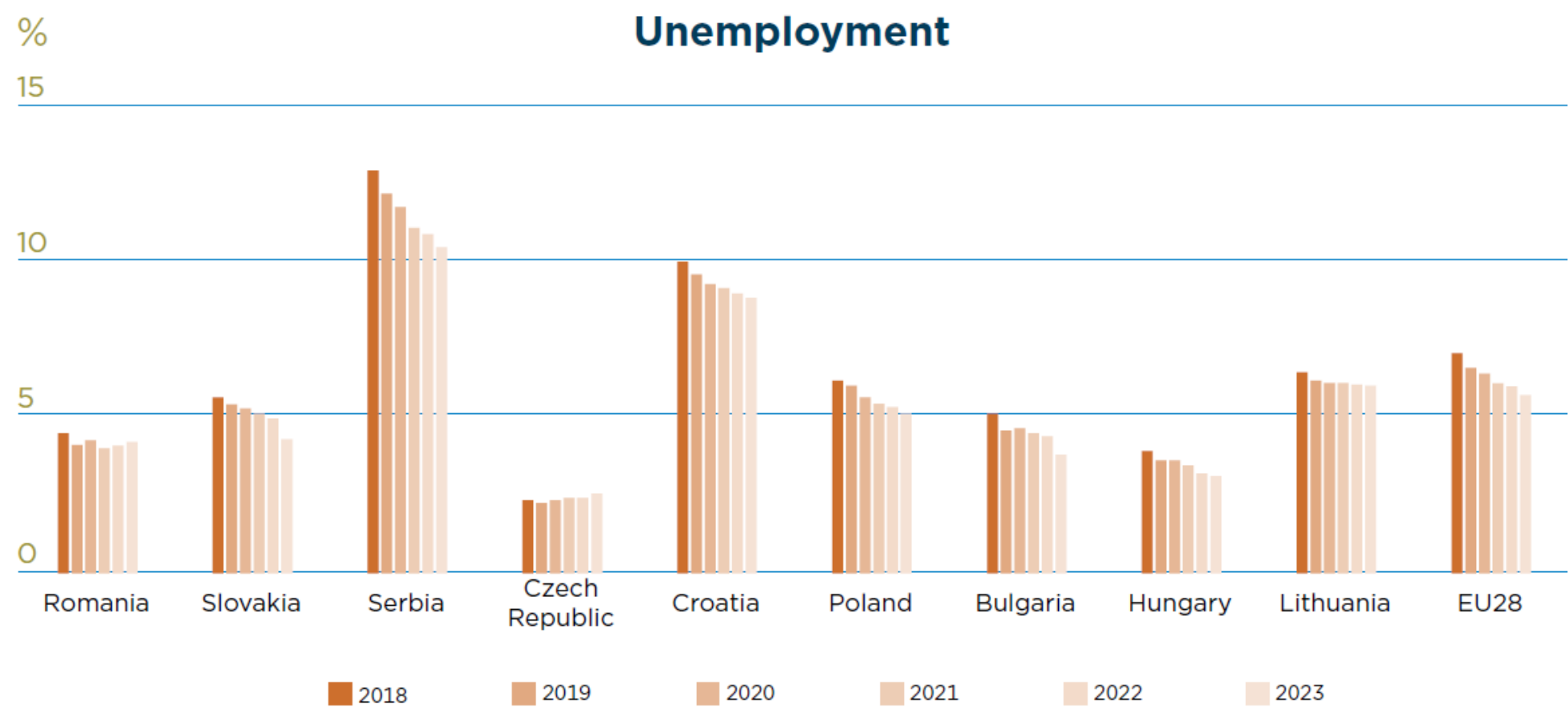
And is higher than the 28 European Union countries



Source: STANLIB Property, SAPOA, Macquarie

UNEMPLOYMENT RATE DECLINING IN CENTRAL AND EASTERN EUROPE

And is generally lower than the 28 European Union Countries



Source: STANLIB Property, SAPOA, Macquarie

Some of our Central and Eastern Europe site visits

The malls are virtually fully let with some undergoing extensions and refurbishments

NOVI SAD, SERBIA



VILNIUS, LITHUANIA



BUDAPEST, HUNGARY



KRAKOW, POLAND



Source: STANLIB Property Site Visits June 2019

SA LISTED PROPERTY TOTAL RETURN OUTLOOK (ZAR)

SA listed property returns NOT attractive in the short-term

1 YEAR	BULL CASE	BASE CASE	BEAR CASE
Total Return (Income and Capital)	8.81%	3.56%	-1.17%
Assumption 1: SA 10 Year Bond Yield	8.00%	8.50%	9.00%
Assumption 2: Exit Yield	9.00%	9.50%	10.00%
Assumption 3: Earnings Growth	0.50%	0.50%	0.50%

4 YEARS ANNUALISED (LOWER FOR LONGER INTEREST RATES)	BULL CASE	BASE CASE	BEAR CASE
Total Return (Income and Capital)	12.32%	11.11%	9.98%
Assumption 1: SA 10 year Bond Yield	8.00%	8.50%	9.00%
Assumption 2: Exit Yield	9.00%	9.50%	10.00%
Assumption 3: Average Earnings Growth	3.50%	3.50%	3.50%

Source: STANLIB Property, September 2019

GLOBAL PROPERTY






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STANLIB OFFSHORE MEETINGS, CONFERENCES AND SITE VISITS

A team that kicks the tyres in local and global property markets

2015	2016	2017	2018	2019
China	Japan	Egypt	UK & Ireland	Australia
Philippines	Philippines	Poland	Serbia	Spain
Indonesia	Zambia & Mauritius	Bulgaria	Australia	USA
Nigeria	Kenya	Croatia	Czech	Croatia
Mexico	Romania & Serbia	Mexico & Brazil	Poland	Poland
UK	Spain	Indonesia	Romania	Romania
USA	UK	UK	USA & Switzerland	UK
Romania	USA	France	Croatia	Hungary
Egypt	China	Germany	Slovakia	Serbia
UAE	Australia	USA	Spain & France	France
Germany	Netherlands	Montenegro	Germany	Slovakia
Netherlands	Germany & Austria	Serbia	Hungary	Lithuania
Poland	Switzerland	Macedonia	Bulgaria	Croatia
Kenya	Poland & Croatia	Australia	Hong Kong	Mauritius
Croatia	Mozambique & Namibia	Romania	Japan	Germany
Namibia	Slovakia	Mauritius	Philippines	Japan
	UAE	Hungary	Mexico	

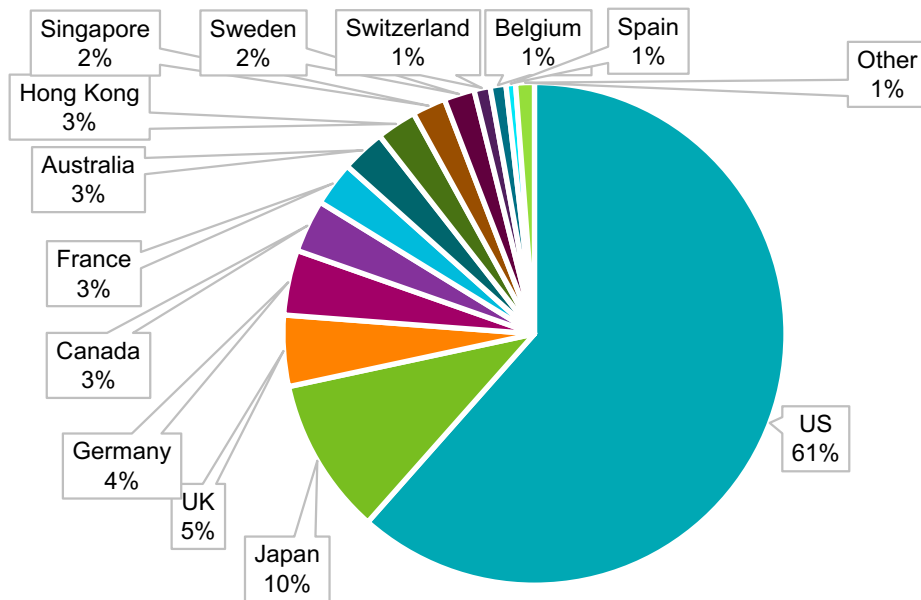
-  Developed Markets
-  Emerging Markets
-  Africa
-  Also relevant to our South African property fund i.e. STANLIB Property Income Fund

Source: STANLIB Property, October 2019

GLOBAL PROPERTY EXPOSURE BY REGION AND SECTORS

STANLIB has a strong weighting towards Industrial, Residential and Self-Storage

INDEX EXPOSURE



SECTOR	BENCHMARK OR INDEX	STANLIB GLOBAL PROPERTY FUND	RELATIVE POSITIONING
Residential	17%	25%	8.1%
Self Storage	5%	11%	6.1
Industrial	11%	18%	6.9%
Office	12%	14%	1.5%
Health care	9%	9%	0.7%
Speciality	5%	4%	-0.4%
Lodging/Resorts	3%	1%	-2.1%
Retail	19%	12%	-7.0%
Diversified	20%	6%	-13.9%
Total	100%	100%	0%

Source: STANLIB, Bloomberg, EPRA/NAREIT September 2019

OUR FAVOURED SECTORS

Defensive, high income, dominant and strong growth potential across companies

FAVOURED SECTORS

INDUSTRIAL

(Secular growth in online retail and data warehousing)



RESIDENTIAL

(High supply/demand imbalance)



SELF STORAGE

(Growth in urbanisation and online retail)



PRIME OFFICES

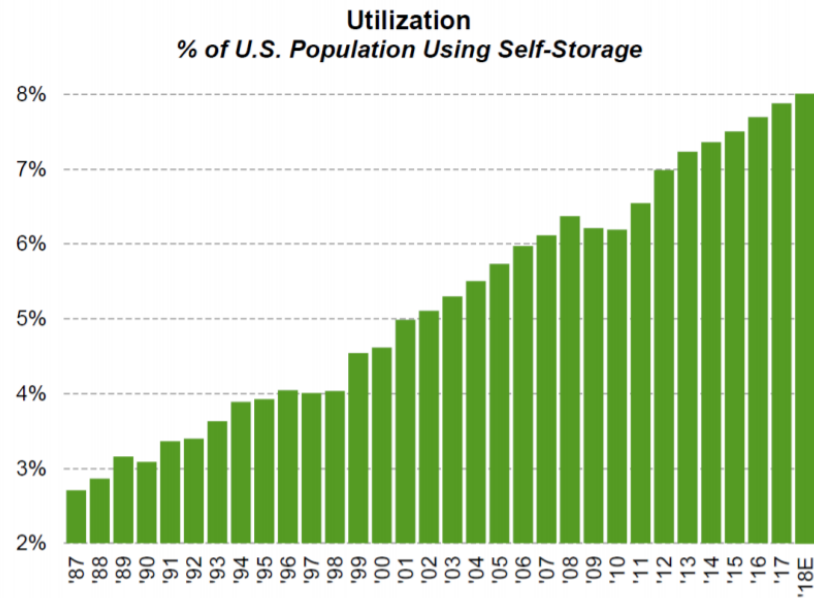
(A grade quality located in major global hubs catering to leading S&P 500 companies)



URBANISATION AND DENSIFICATION DRIVING HIGHER UTILIZATION

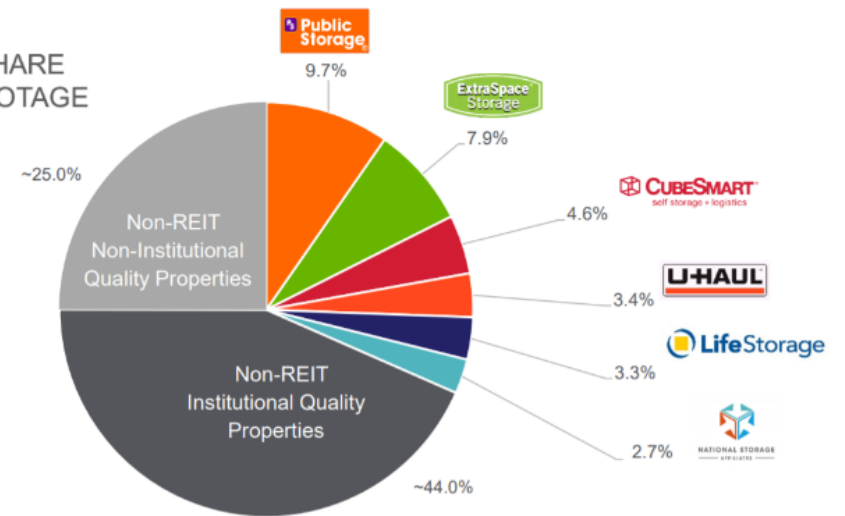
Rapid societal change increasing need for self storage

HIGHLY FRAGMENTED MARKET
PROVIDES OPPORTUNITY FOR
LISTED REITS TO
CONSOLIDATE



Source: Mini-Storage Messenger – Self-Storage Almanac, Census and Green Street Advisors

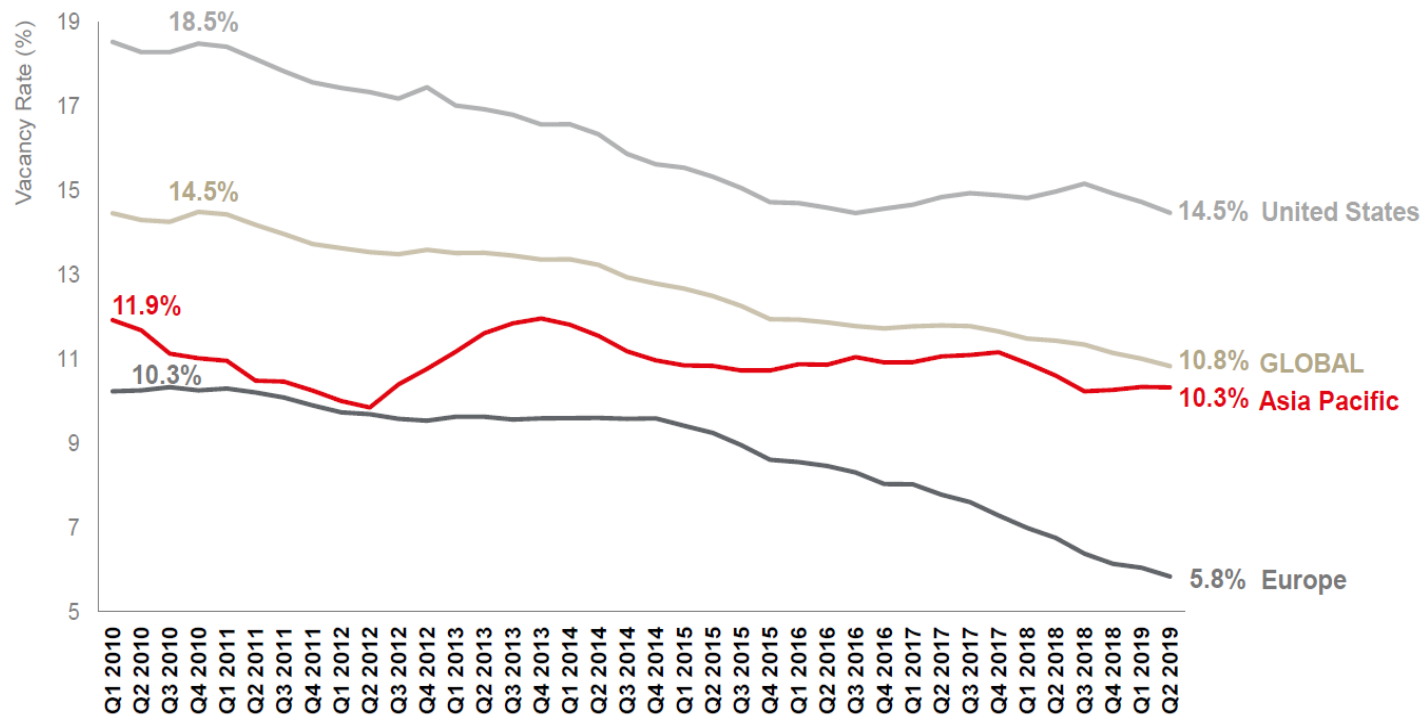
U.S. MARKET SHARE
BY SQUARE FOOTAGE



OFFICE VACANCY RATES CONTINUE TO FALL

Helping to drive rental growth which has been averaging 3% per year

Office Vacancy Rates, 2010 – 2019

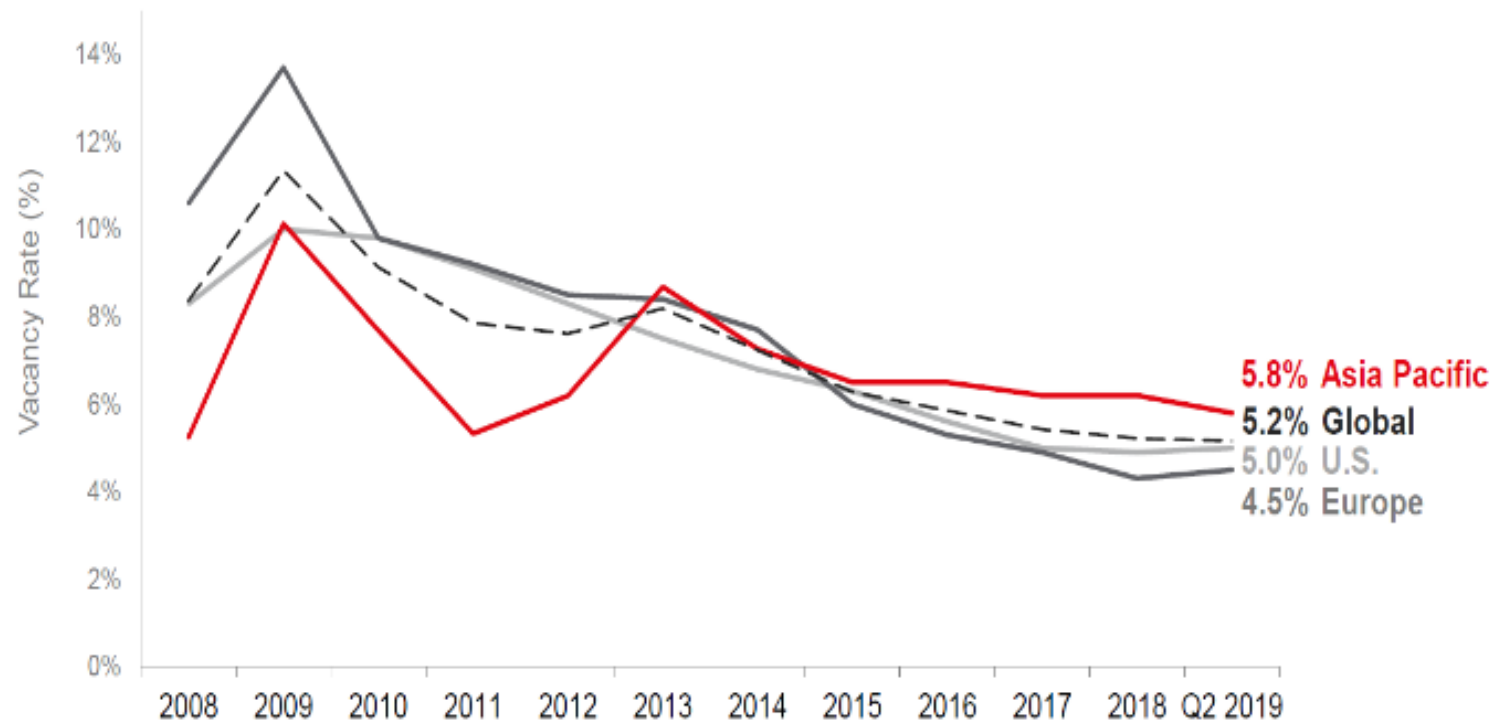


Source: JLL Global Market Perspective August 2019

RECORD LOW VACANCIES IN LOGISTICS IN THE US AND EUROPE

Driving rental growth to 10-year highs of 5.2% globally

Logistics Space, Vacancy Rates, 2008 – Q2 2019

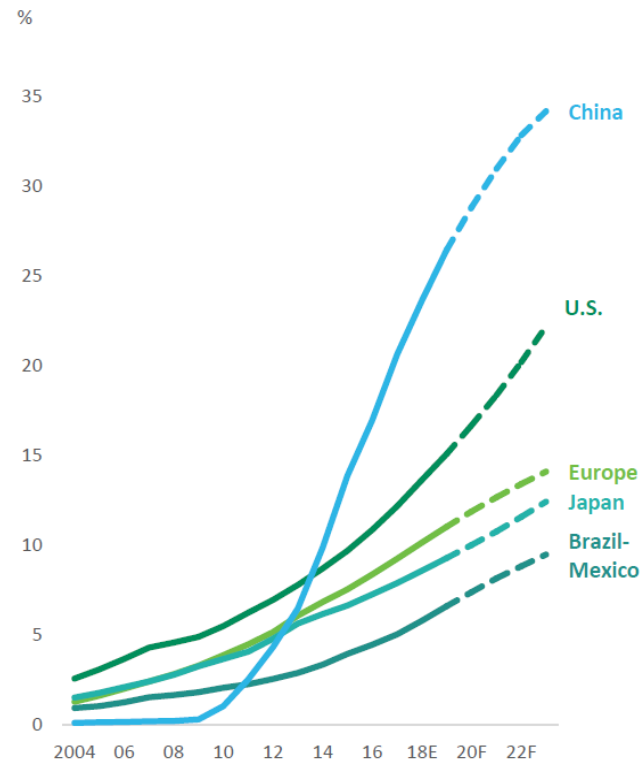


Source: JLL Global Market Perspective August 2019

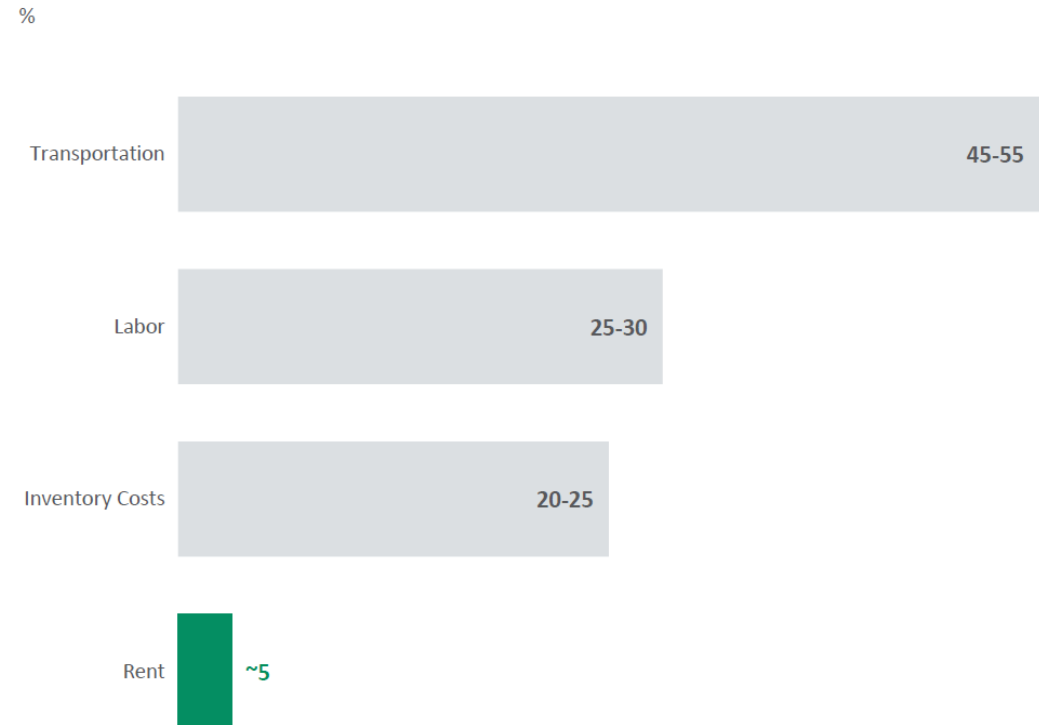
E-COMMERCE CONTINUES TO GROW DRIVING FURTHER RENTAL GROWTH

Rent is a small portion of supply chain costs

SHARE INTERNET RETAILING IN TOTAL SALES



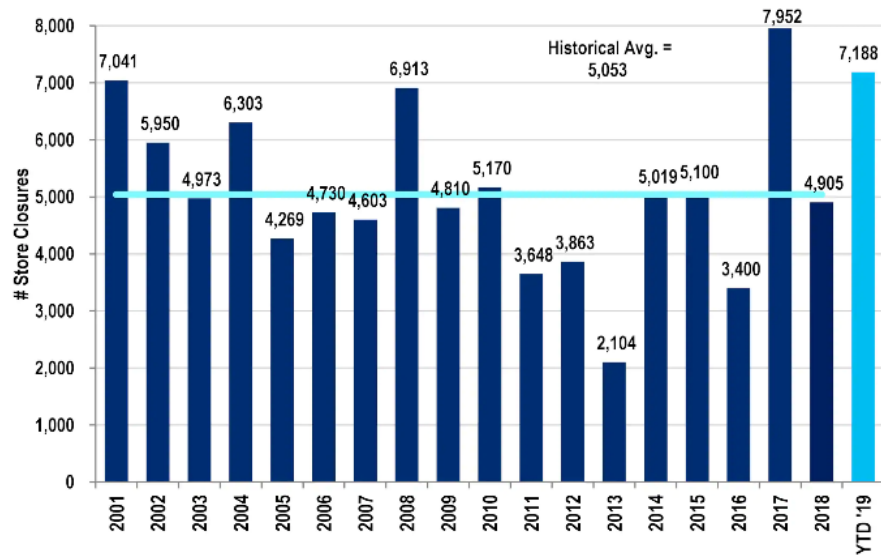
DISTRIBUTION OF SUPPLY CHAIN COSTS



STORE CLOSURES IN US AND IN UK ARE PROBLEMATIC

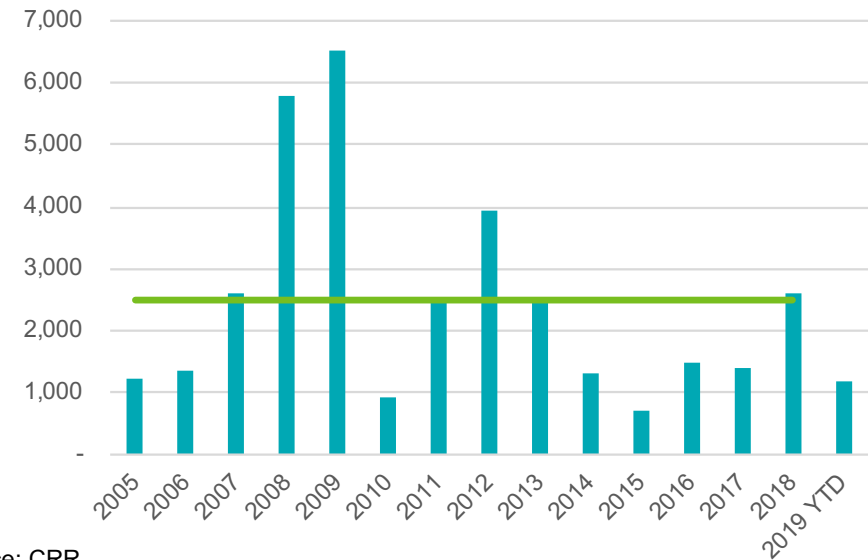
Low grade, regional malls and department stores are most affected

US STORE CLOSURES



Source: ICSC, Coresight, Citi Research

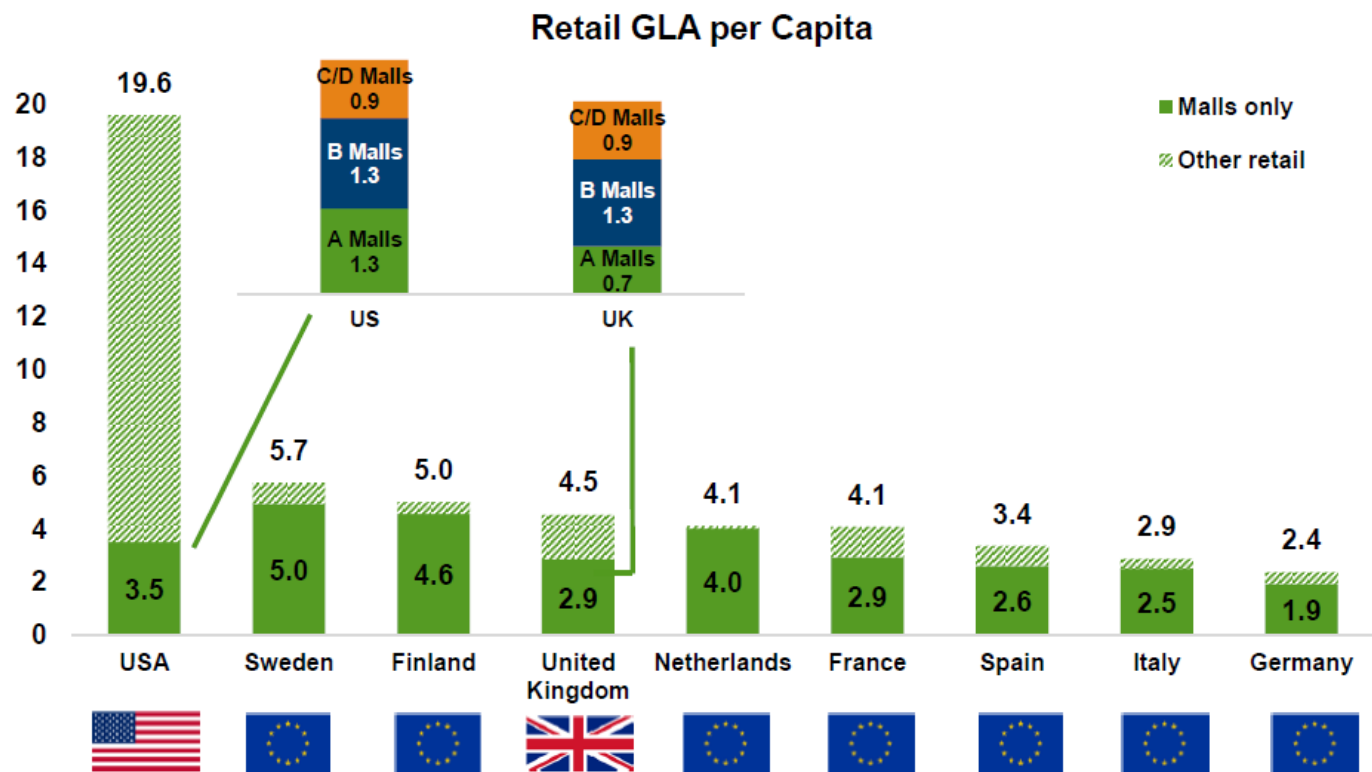
UK STORES AFFECTED BY BUSINESS FAILURE



Source: CRR

US RETAIL VASTLY OVERSUPPLIED VERSUS WESTERN EUROPE

Albeit less so for A Grade Malls like the ones owned by Simon Property Group



Source: Green Street advisors

UNIBAIL RODAMCO WESTFIELD – SELLING WEAK ASSETS

Looking for a buyer for Westfield Broward

WESTFIELD BROWARD, FORT LAUDERDALE, FLORIDA, USA

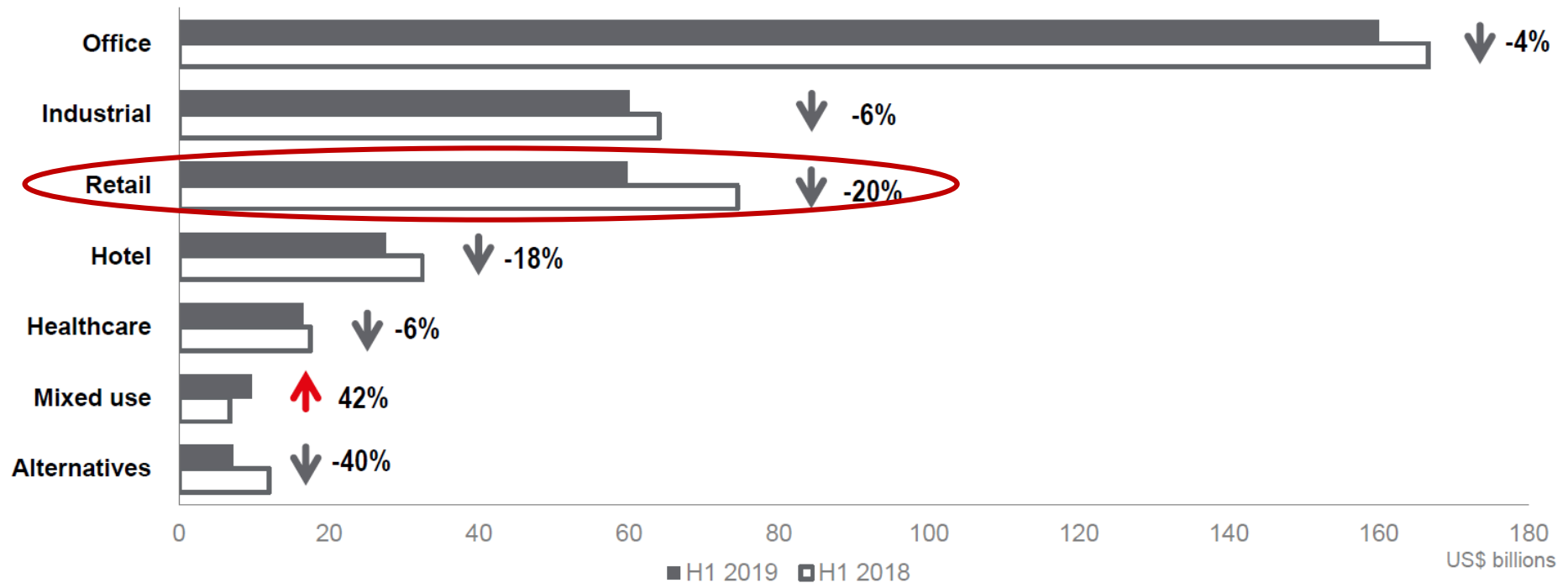


Source: STANLIB Research March 2019

RETAIL SECTOR INVESTMENT FALLS BY 20%

More appetite for mixed use properties

Global Transactional Volumes by Sector, H1 2018 & H1 2019



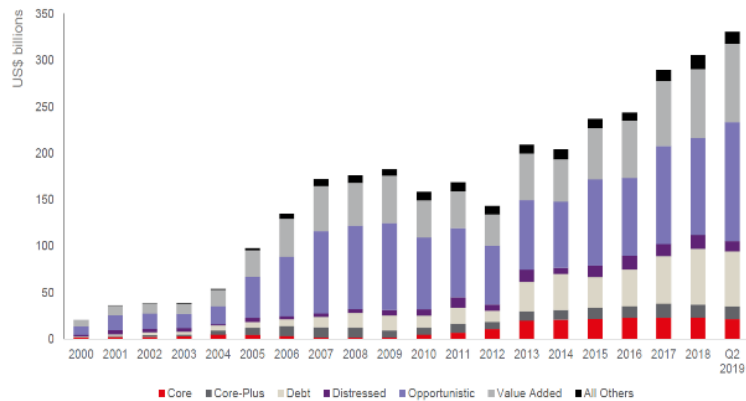
Source: JLL Global Market Perspective August 2019

RECORD AMOUNT OF CAPITAL LOOKING FOR GLOBAL PROPERTY OPPORTUNITIES

No shortage of private capital for real estate

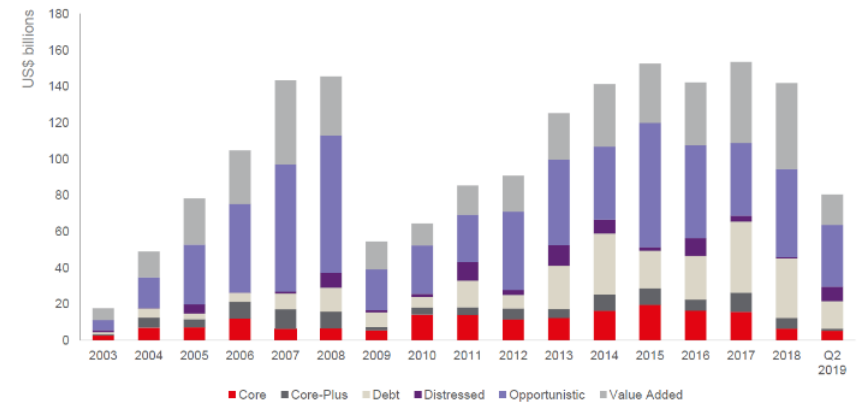
Unspent capital reaches new high point

Private Closed-End Real Estate Fund Dry Powder, 2000 – Q2 2019



Fundraising reaches an all-time half-year high

Private Closed-End Real Estate Fundraising, 2003 – Q2 2019

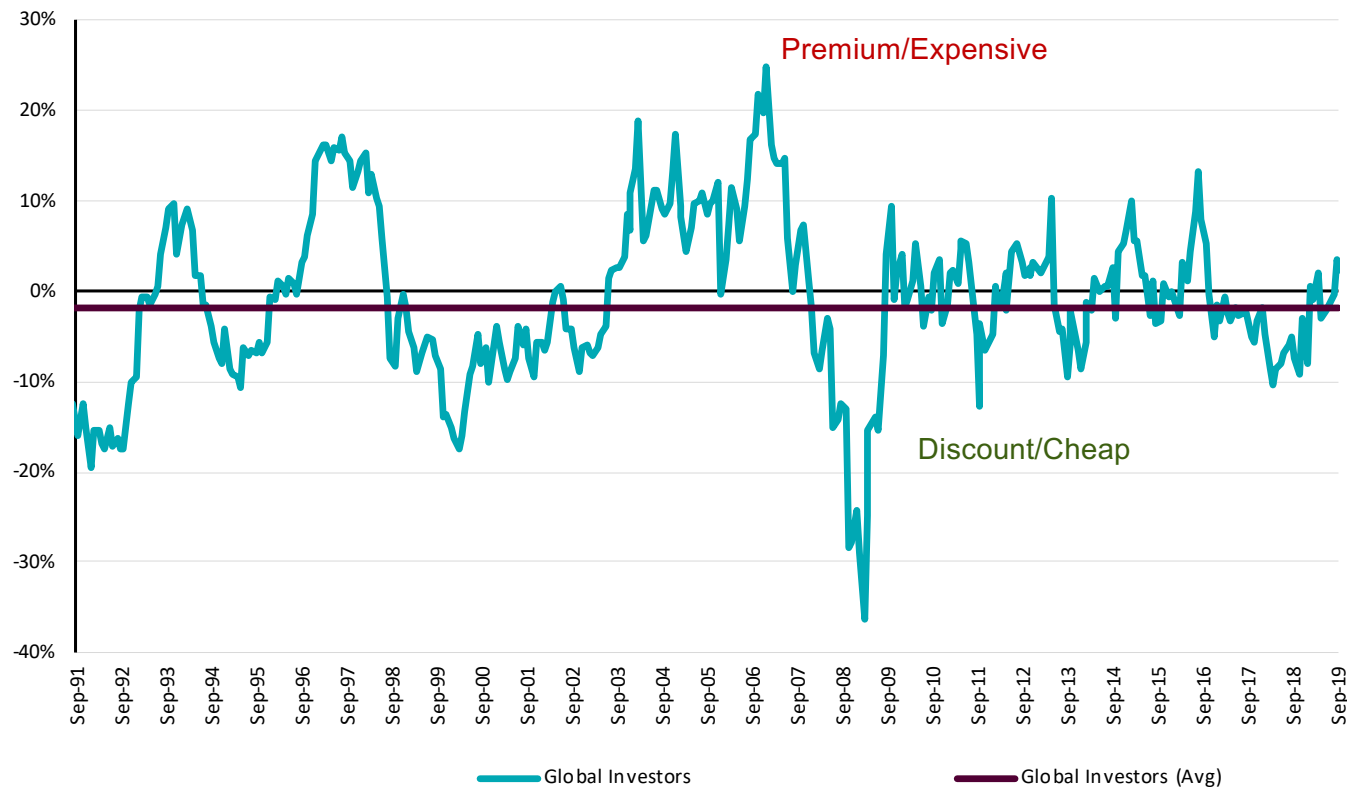


Blackstone Closes Largest-Ever Real-Estate Fund at \$20.5B, Firm Says

Mammoth fund comes even as high returns have gotten tougher late in this real-estate cycle.

GLOBAL TRADING ABOVE NET ASSET VALUE

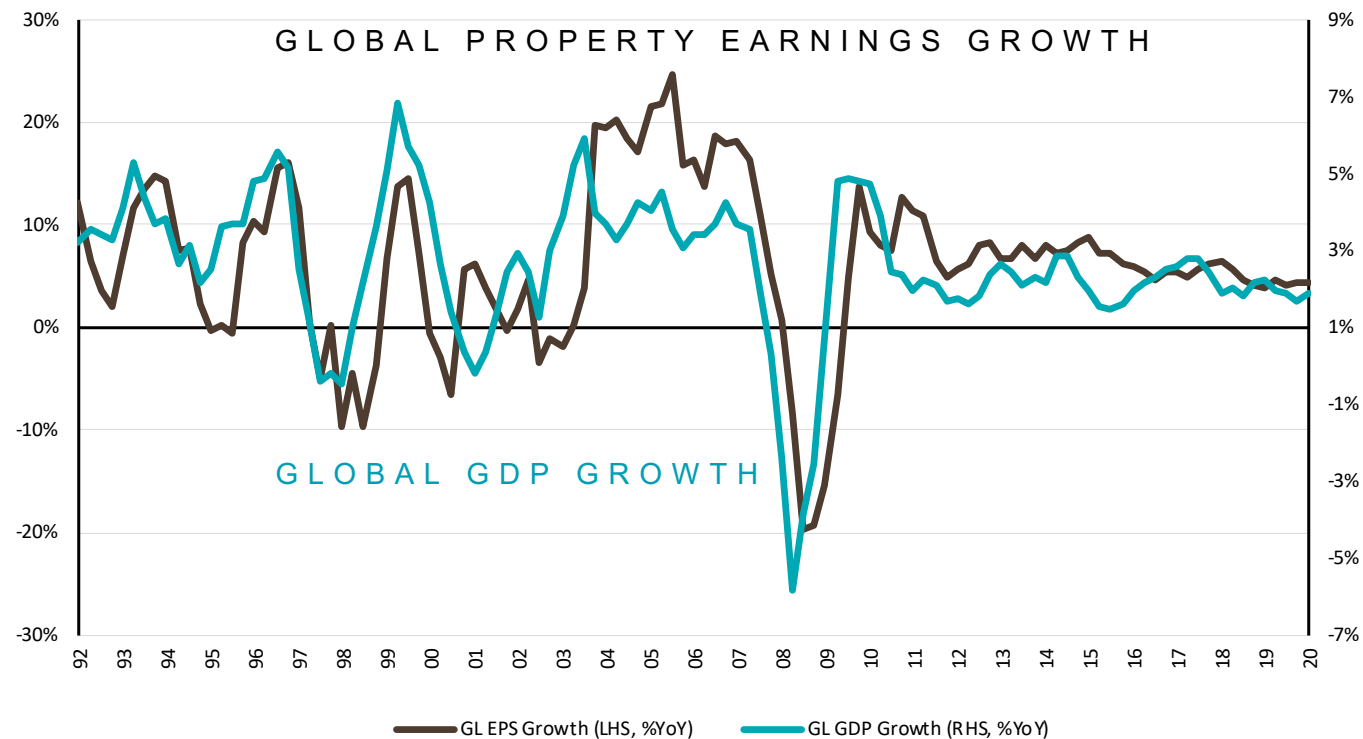
Supported by positive earnings growth and lower interest rate environment



Source: UBS, September 2019

GLOBAL PROPERTY EARNINGS ARE POSITIVELY CORRELATED TO GDP GROWTH

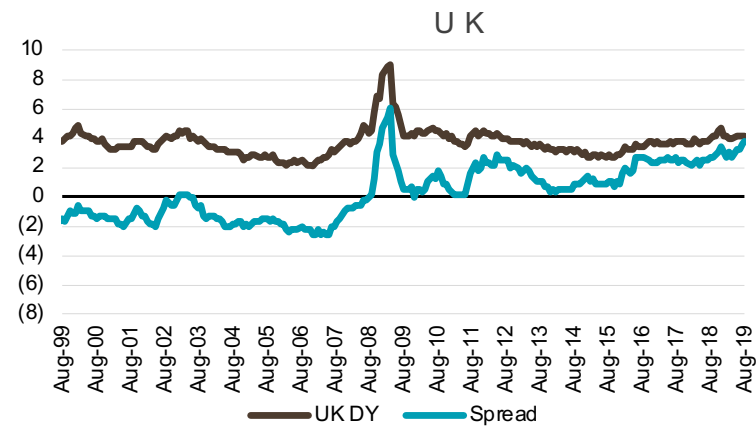
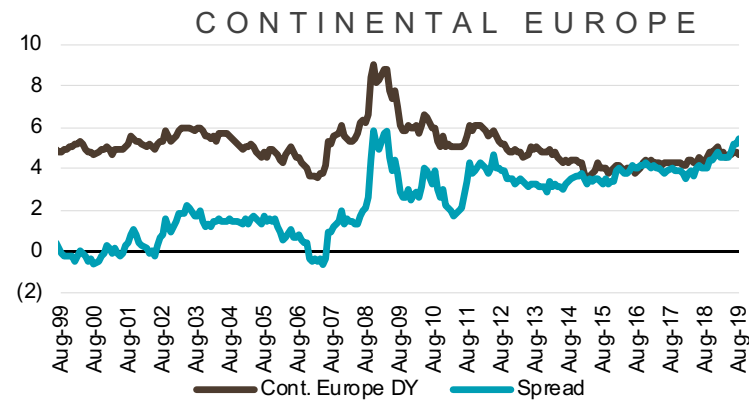
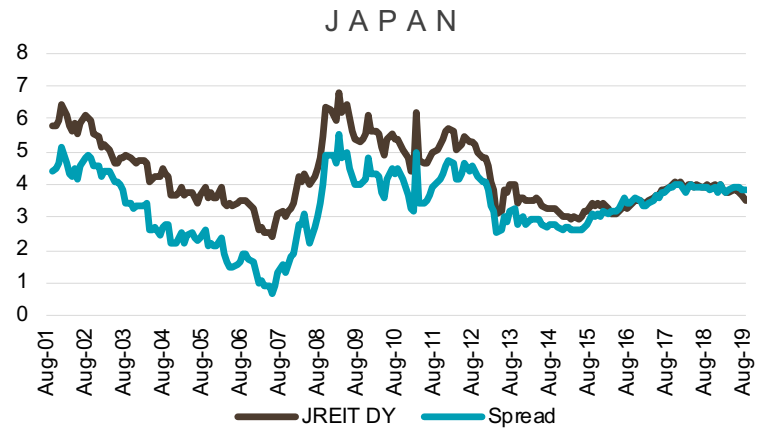
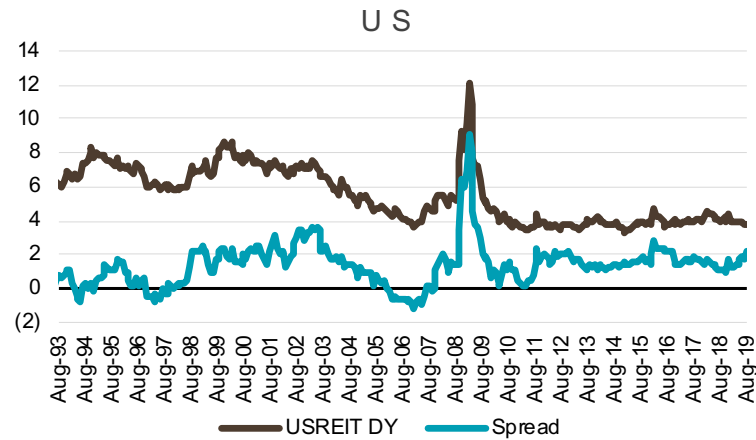
Global REITS earnings lag GDP growth slowdown as well as recovery



Source: UBS September 2019

GLOBAL PROPERTY DIVIDEND YIELDS VS 10-YEAR LOCAL BOND YIELDS

Positive spreads(Bond Yields less Property Yields) across most major markets



Source: UBS Sept 2019

GLOBAL LISTED PROPERTY TOTAL RETURN OUTLOOK (USD)

Believe that it still offers decent return prospects despite a massive run

1 YEAR	BULL CASE	BASE CASE	BEAR CASE
Total Return (Income and Capital)	15.78%	10.25%	5.25%
Assumption 1: US 10-Year Bond Yield	1.5%	2.0%	2.5%
Assumption 2: Exit Yield	4.75%	5.00%	5.25%
Assumption 3: Earnings Growth	5.0%	5.0%	5.0%
4 YEARS ANNUALISED (LOWER FOR LONGER INTEREST RATES)	BULL CASE	BASE CASE	BEAR CASE
Total Return (Income and Capital)	10.46%	9.21%	8.04%
Assumption 1: US 10-Year Bond Yield	1.5%	2.0%	2.5%
Assumption 2: Exit Yield	4.75%	5.00%	5.25%
Assumption 3: Average Earnings Growth	4.0%	4.0%	4.0%

Source: STANLIB Property, September 2019

CONCLUSION

WE STILL PREFER OFFSHORE PROPERTY TO LOCAL PROPERTY

THANK YOU



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