

Local and Global Listed Property JSE Power Hour

KEILLEN NDLOVU

Head of Listed Property & Portfolio Manager

08 October 2020

STANLIB



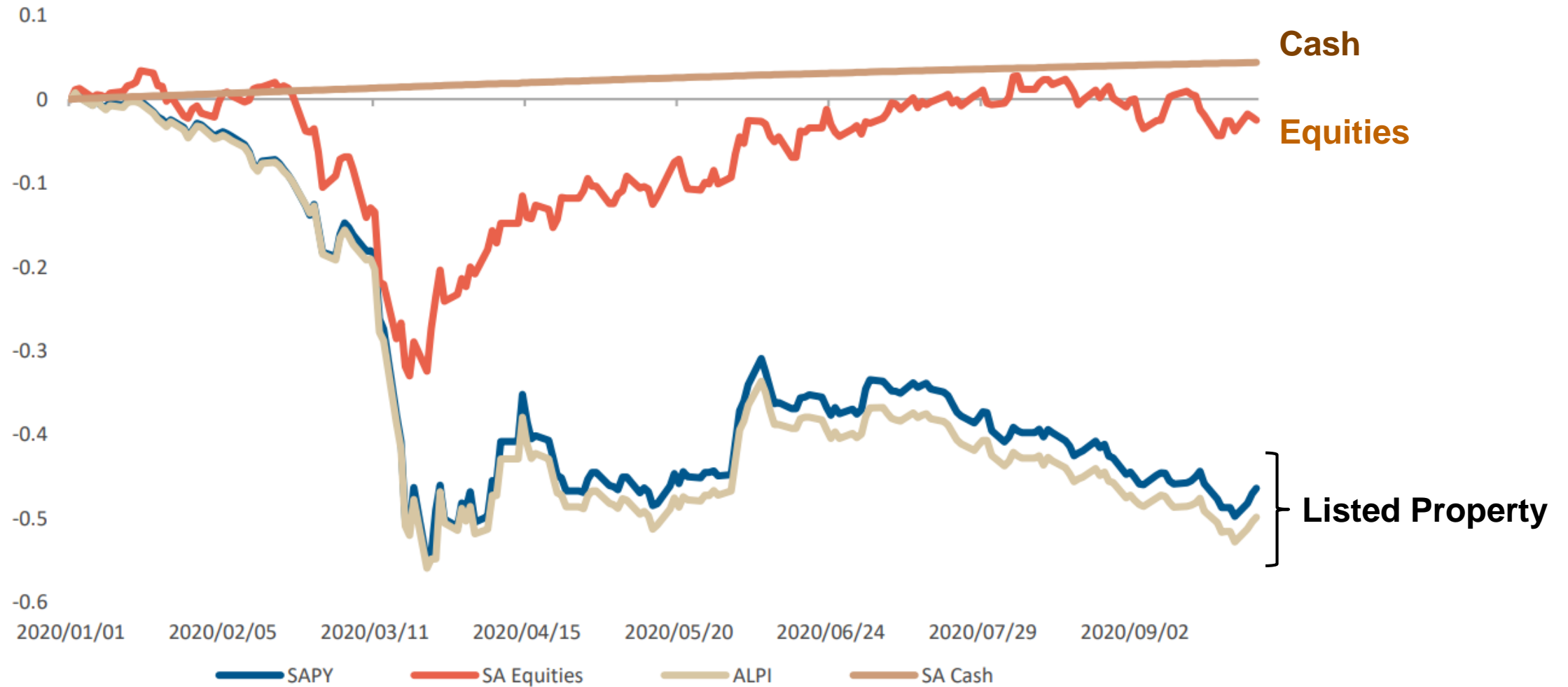
SA LISTED PROPERTY

An aerial photograph of a city skyline, featuring a large, modern stadium with a blue roof in the foreground. The stadium is surrounded by parking lots and other buildings. In the background, a dense urban skyline with various skyscrapers is visible under a clear blue sky with a few clouds. The image is split diagonally, with the left side being white and the right side showing the city scene.

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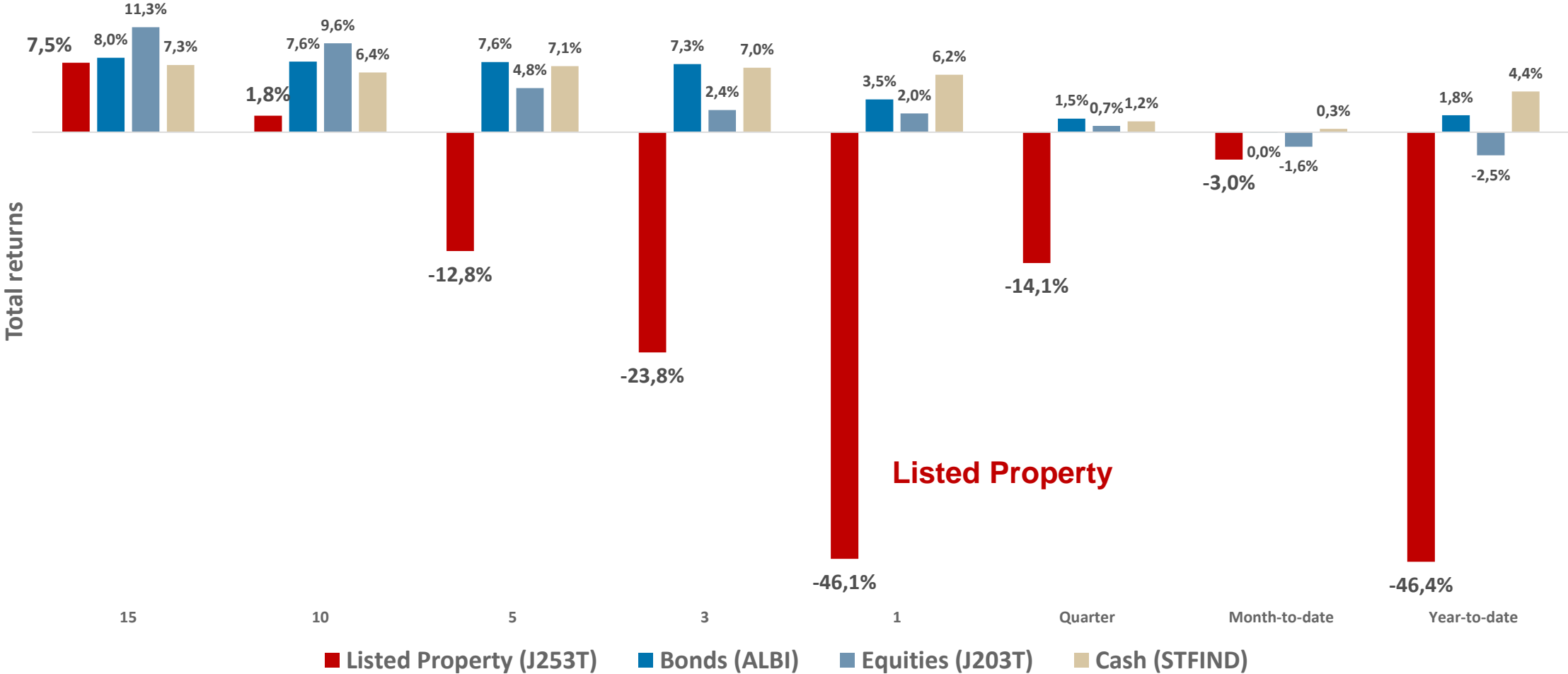
SA LISTED PROPERTY PERFORMANCE SO FAR IN 2020

It has massively underperformed other asset classes



SA LISTED PROPERTY OVER TIME

It has also underperformed other asset classes



COVID-19 RENTAL RELIEF OFFERED BY THE PROPERTY INDUSTRY GROUP

Tenants offered rental discounts of between 55% to 100% and/or deferments

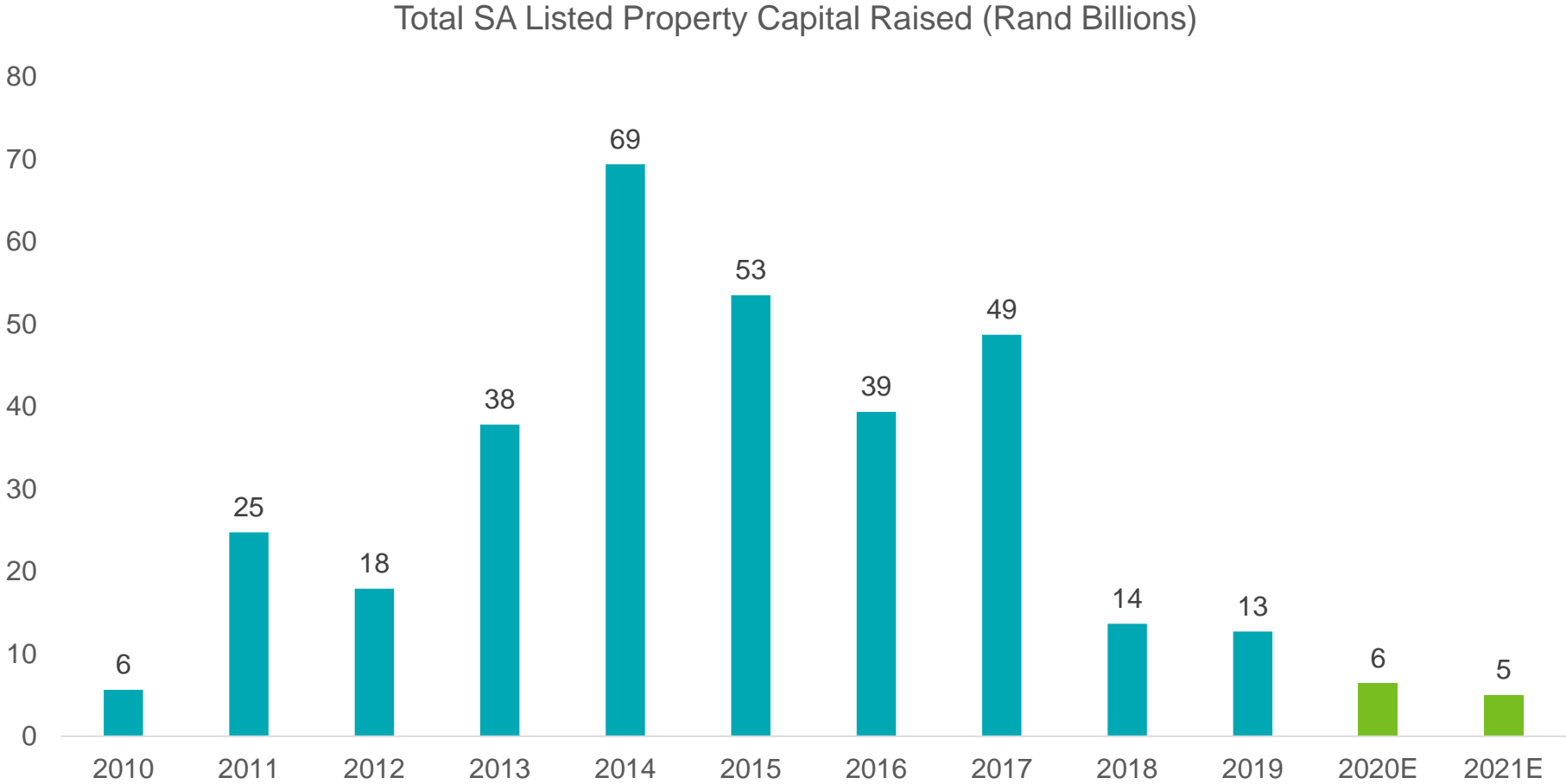
	SMME (level 1)	SMME (level 2)	Non-essential (medium sized T/O of R80-R1bn)	Non-essential (large T/O of R1bn>) Option 1	Non-essential (large T/O of R1bn>) Option 2
April	60-100% discount	50-75% discount	70% discount	70% discount	60% discount
May	up to 55% discount & further relief from deferments	up to 50% discount & further relief from deferments	40% deferral	no relief	50% deferral
June	up to 45% deferral but could be increased	up to 40% deferral but could be increased	40% deferral		

Source: Company, Investec Securities estimates

- Deadline for distribution payments has been extended by two months
- Previously, REITs had to pay out distributions within four months of year end.
- This has been extended by two months i.e. to six months
 - e.g. June year ends had up to end of October to pay out their distributions.
 - Now they can go up to end of December.
- REITs still have to pay out at least 75% of their distributable earnings
 - Retained income to help reduce debt levels
- The balance not paid out remains taxable
- No tax relief from National Treasury/SARS (yet?)

EQUITY RAISED TO CONTINUE TO DECLINE DUE TO WEAK OUTLOOK

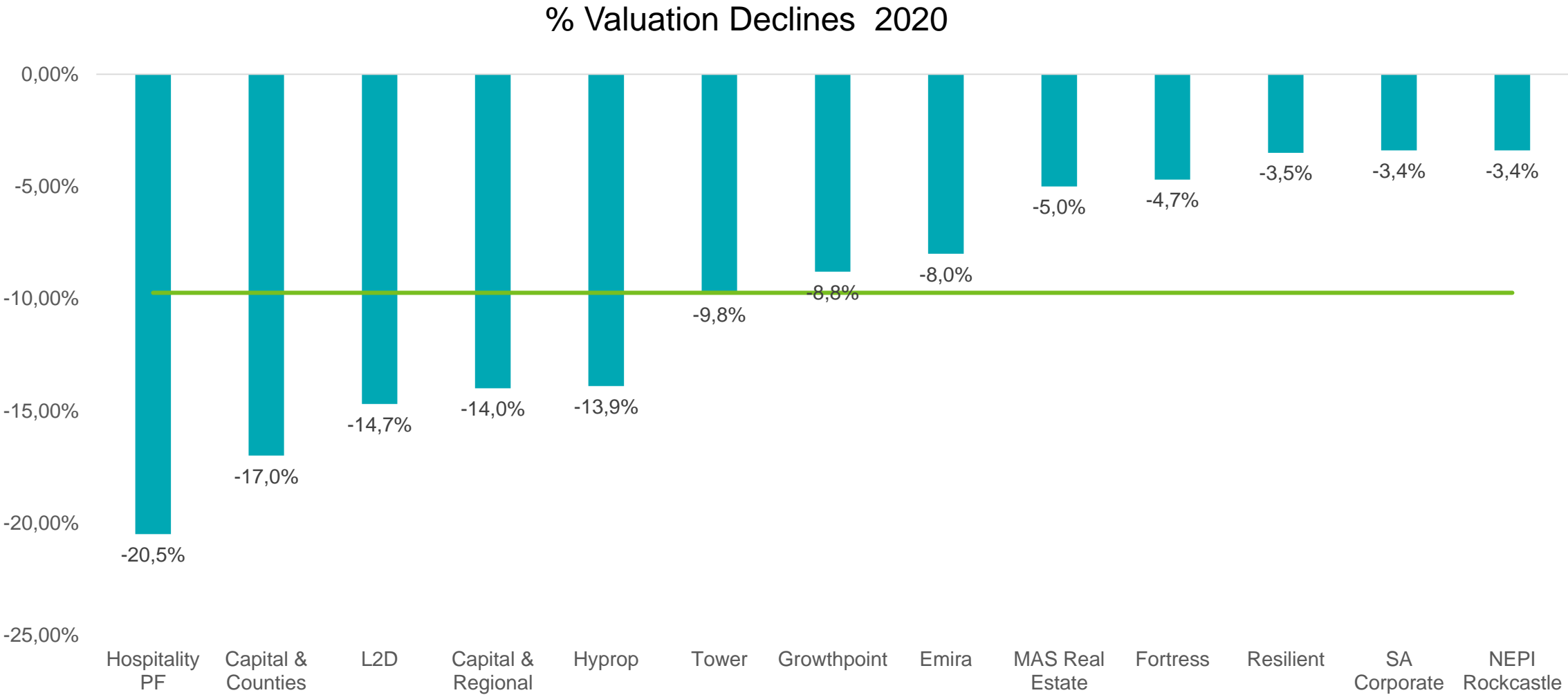
Most of the equity raised went offshore



Source: STANLIB Property

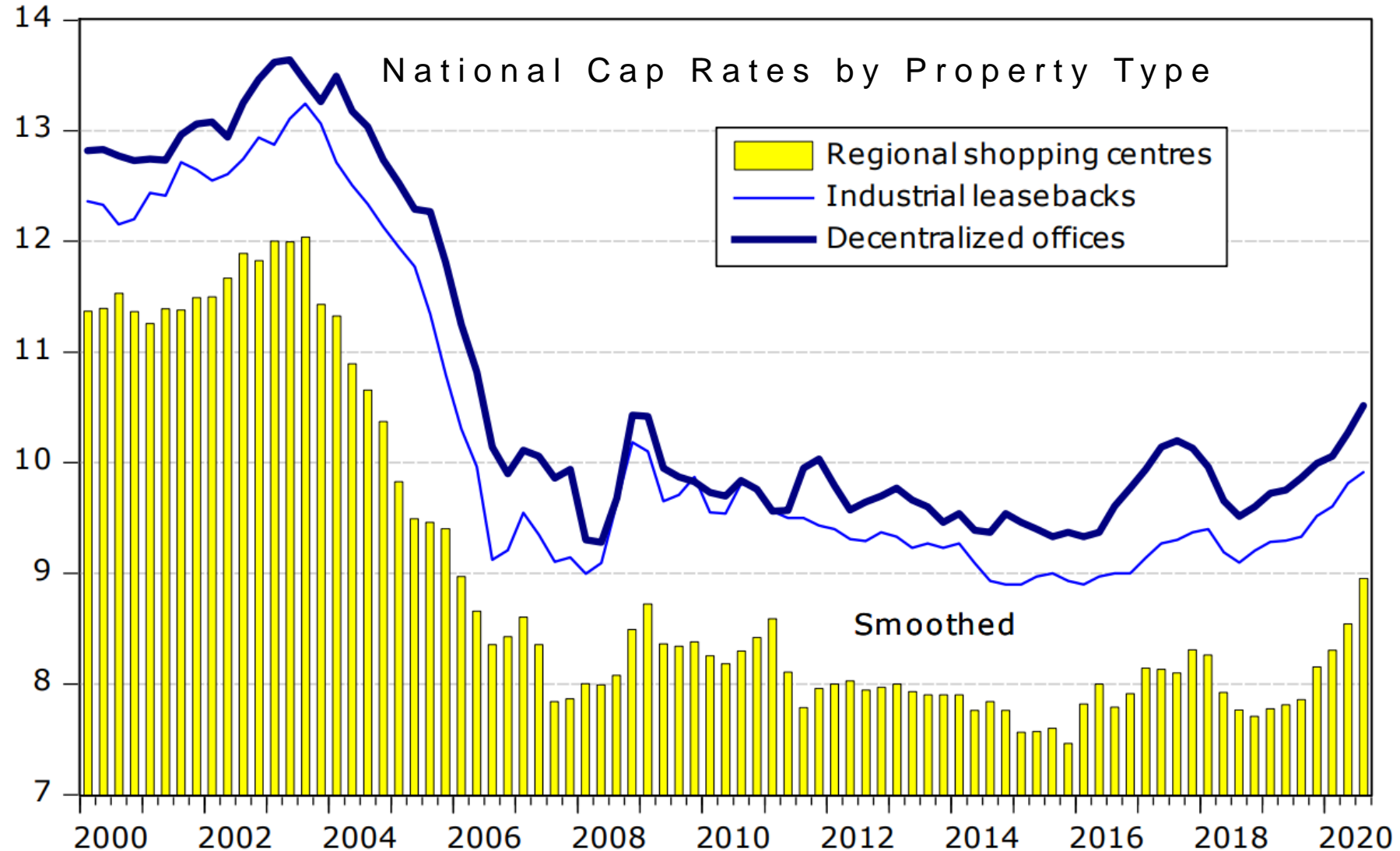
PHYSICAL PROPERTY VALUATION DECLINES FROM RECENT RESULTS

Expecting further valuation declines



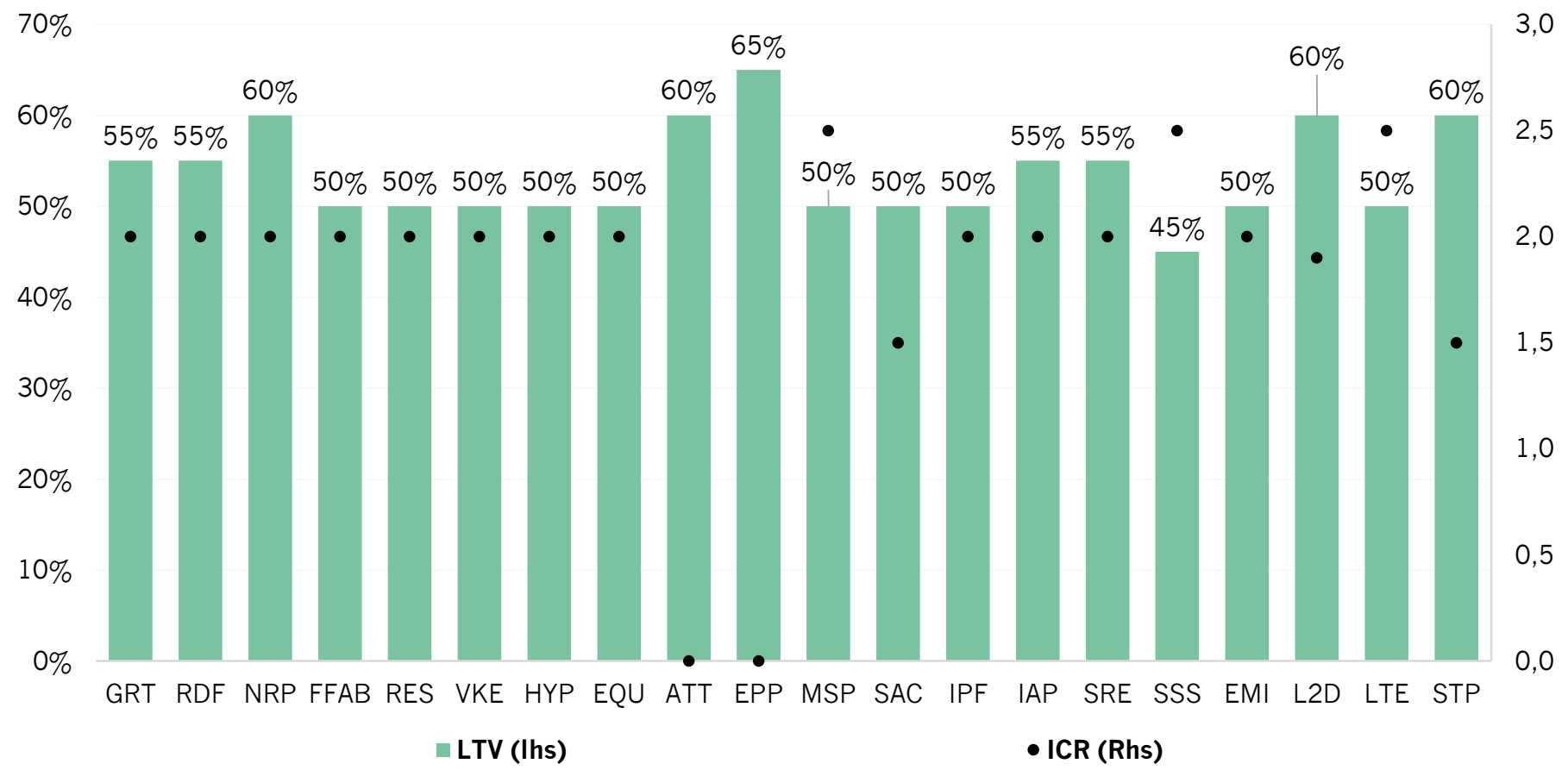
SA CAPITALISATION RATES ARE ALREADY REFLECTING A WEAKER ENVIRONMENT

The retail sector experiencing the most weakness



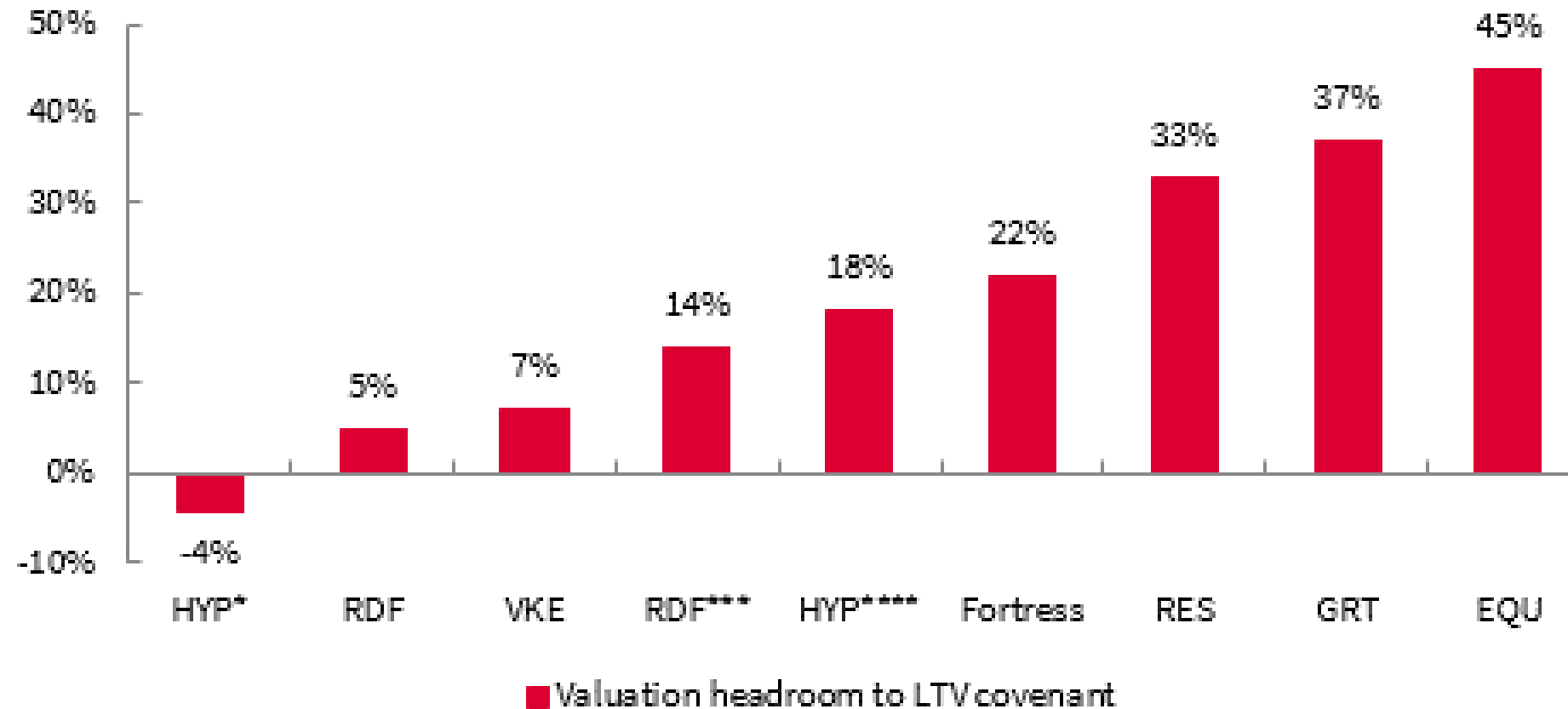
CURRENT DEBT COVENANTS WITH BANKS

Most LTVs are well below these levels and most ICRs are above 2 times



LEVEL OF PHYSICAL PROPERTY DEVALUATIONS LEADING TO COVENANT ISSUES

Some scenario analysis for some REITs



HYP* - Fully consolidating Hystead and assuming a covenant level of 50%

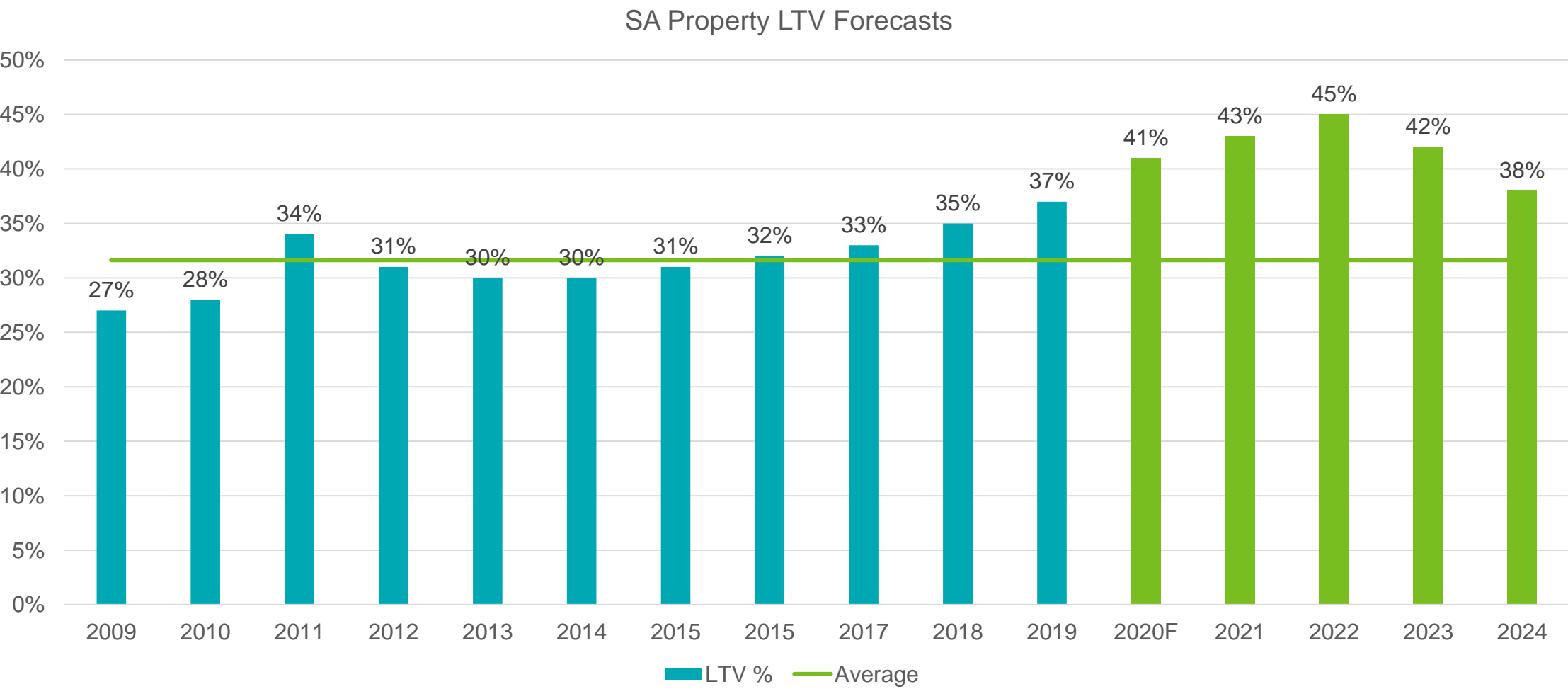
RDF - Based on 50% covenant level

RDF *** - Based on temporary covenant restriction to 55%

HYP**** - Accounting for Hystead on a see-through proportionately consolidated basis

LISTED PROPERTY SECTOR LTVS MAY PEAK IN 2022

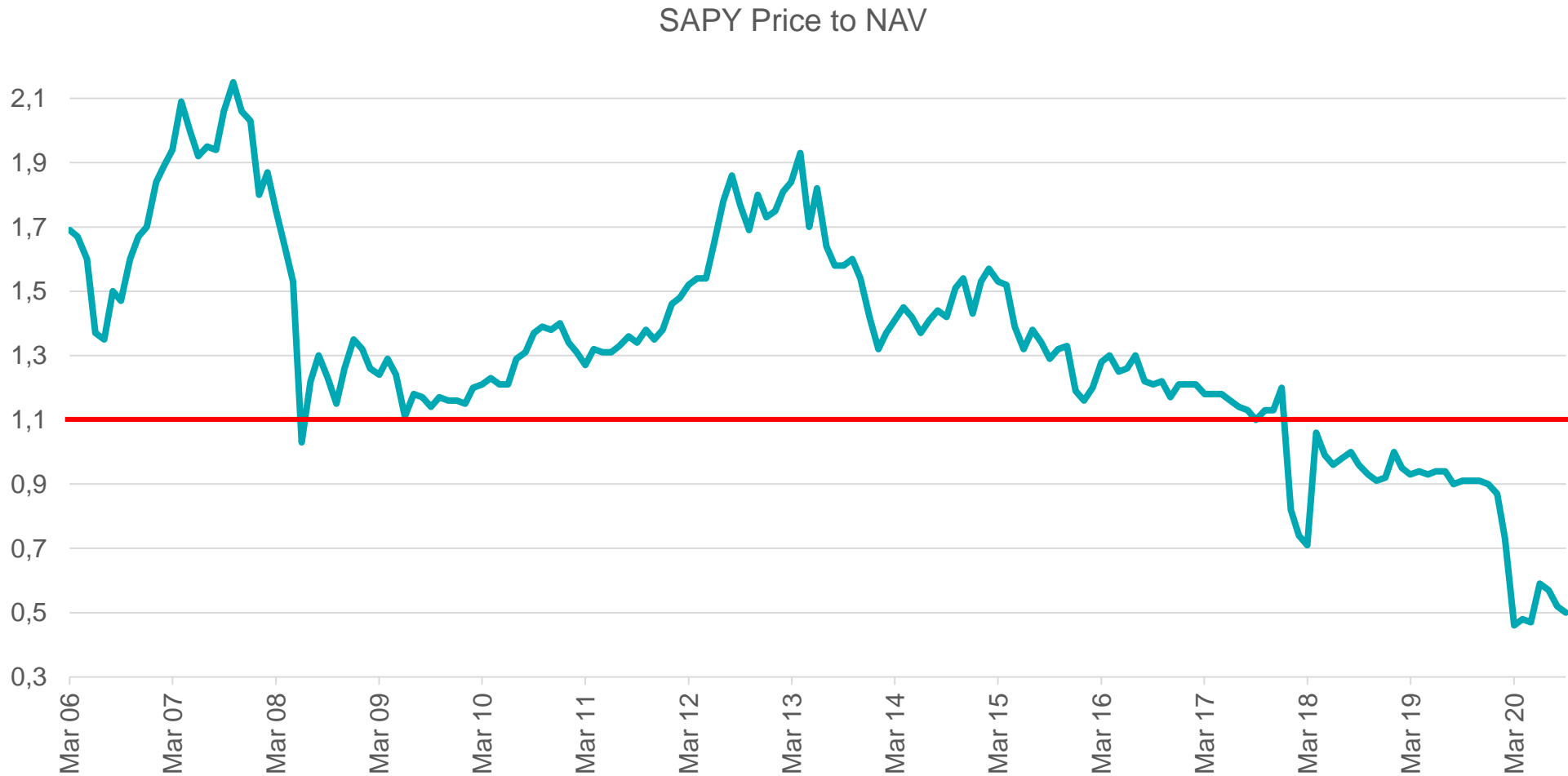
Assuming reduction in pay-out ratios and some asset disposals



Source: STANLIB Property

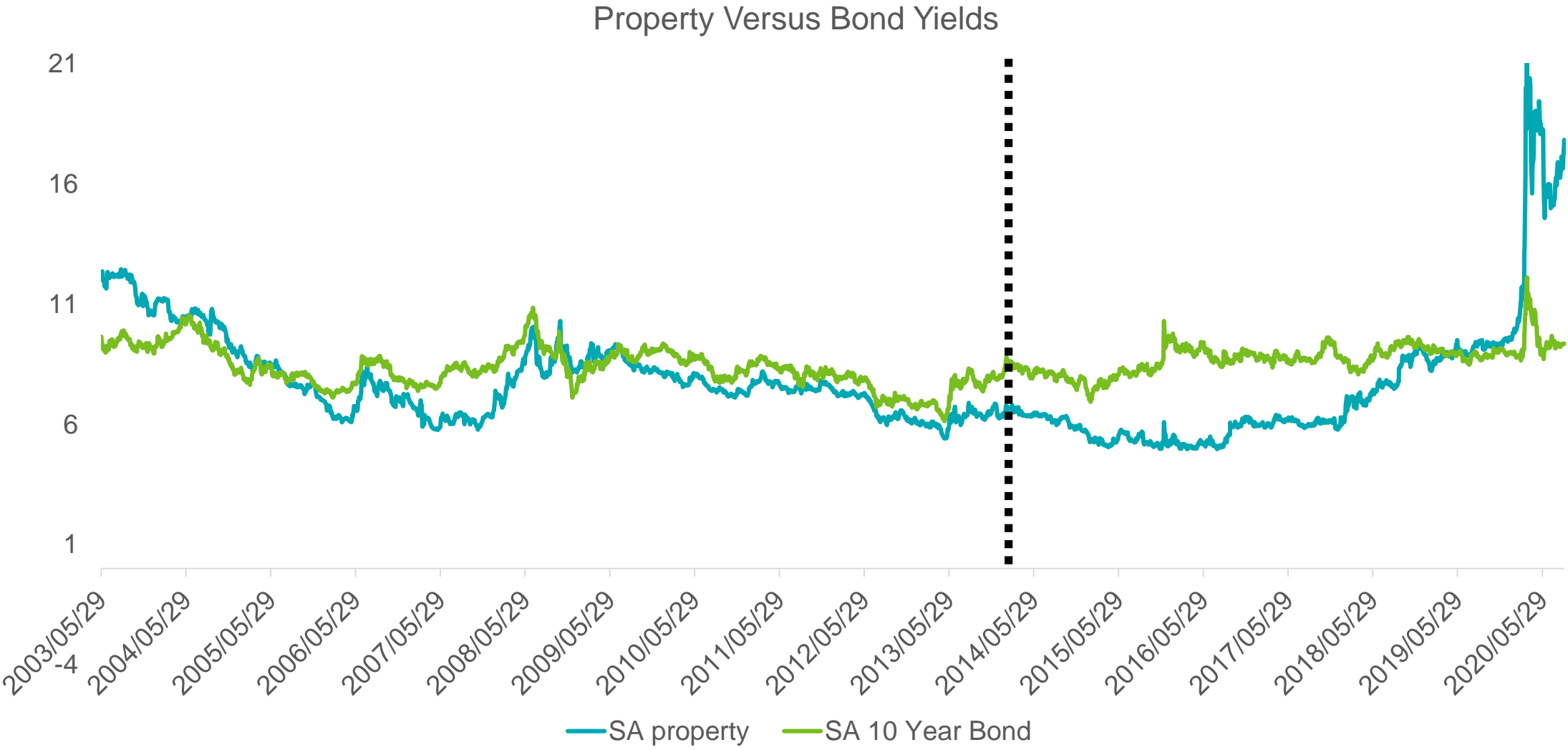
SA LISTED PROPERTY SECTOR IS TRADING AT 50% BELOW NET ASSET VALUE

Long term average has been 10% above NAV



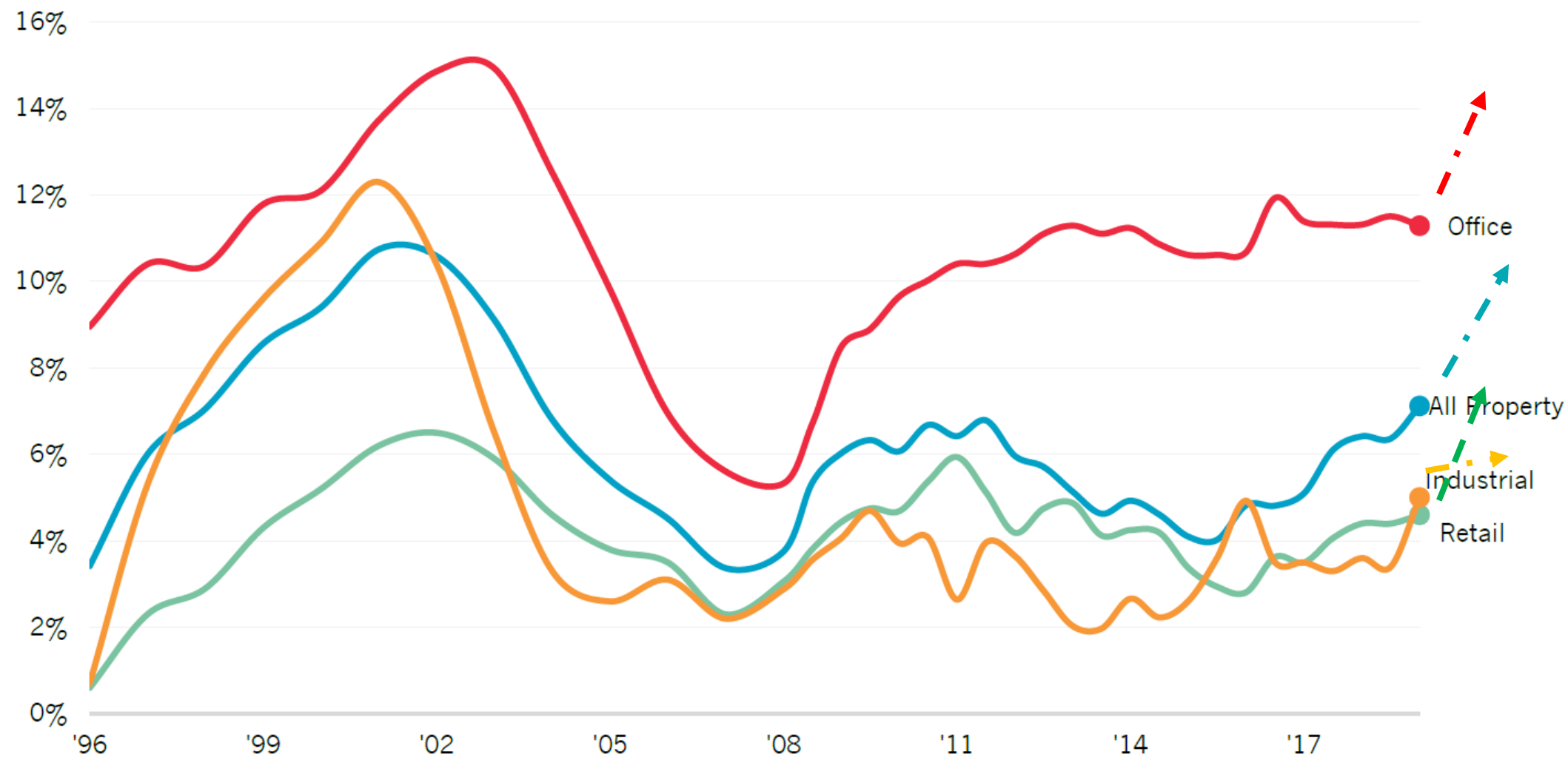
PROPERTY HAS DISCONNECTED SOMEWHAT FROM BONDS THE LAST 5 TO 6 YEARS

Disconnect due to REITs halting distribution payments and negative earnings growth



SA VACANCY PROFILE

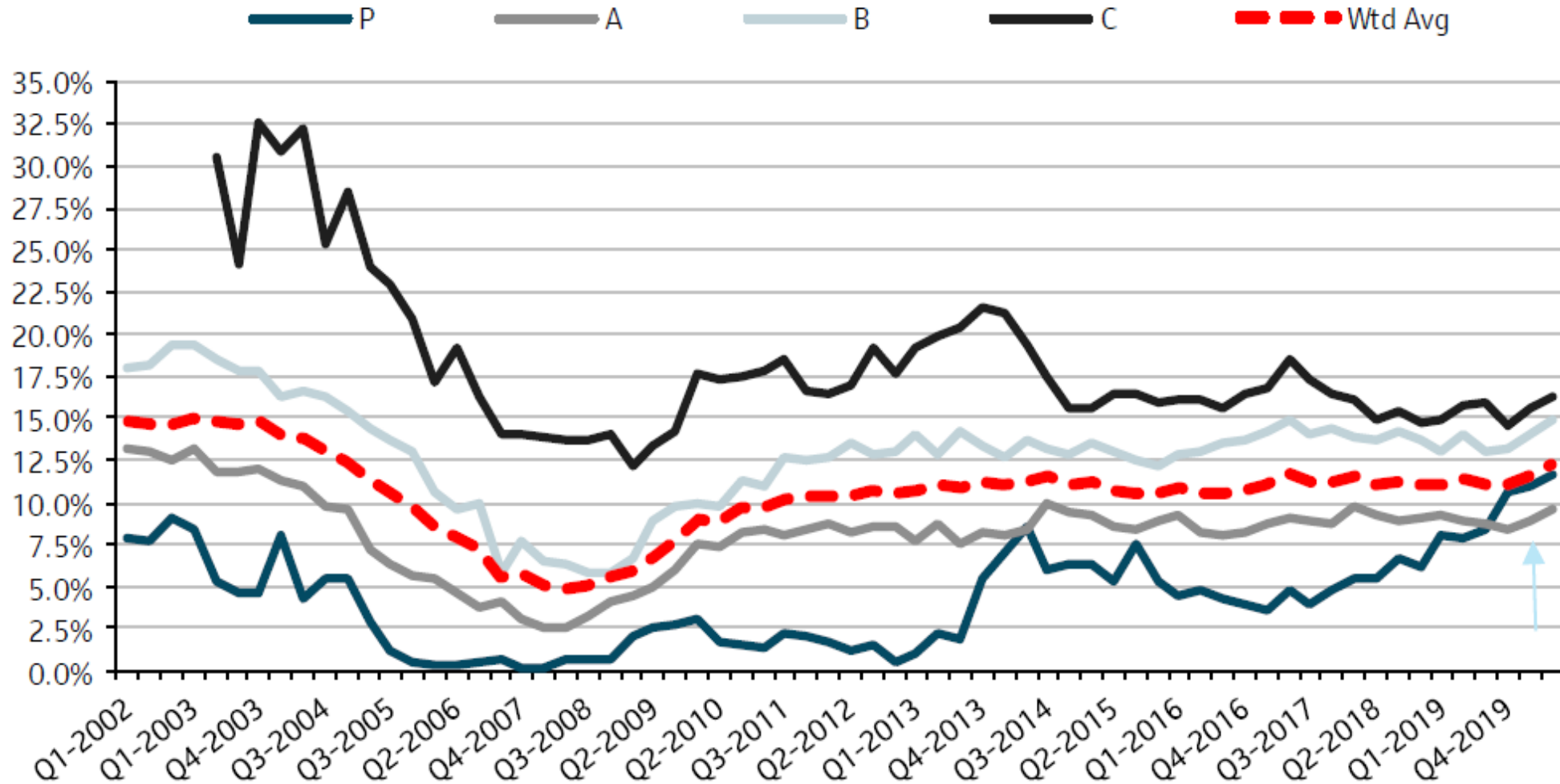
Forecasting vacancies to increase in the retail and office markets



Source: SAPOA, MSCI, Avior Capital Markets

OFFICE MARKET VACANCY PROFILE

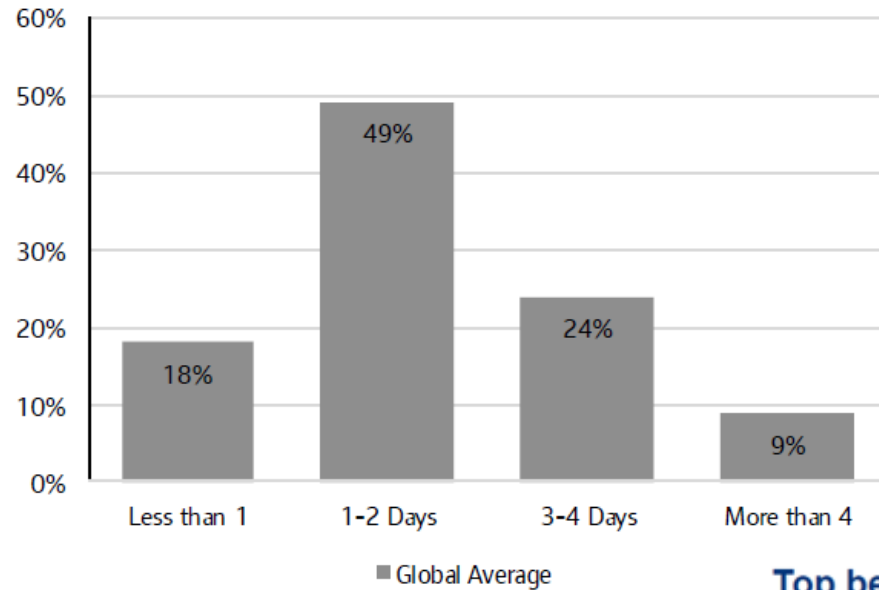
Vacancies to increase across all the office market grades



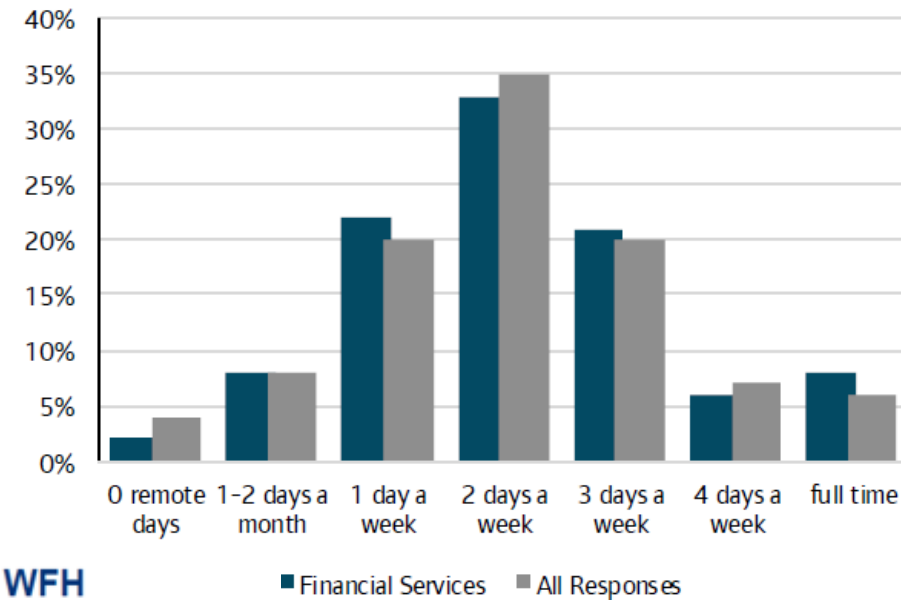
COVID-19 TO CHANGE OFFICE WORKING HABITS

Strong preference for flexible working

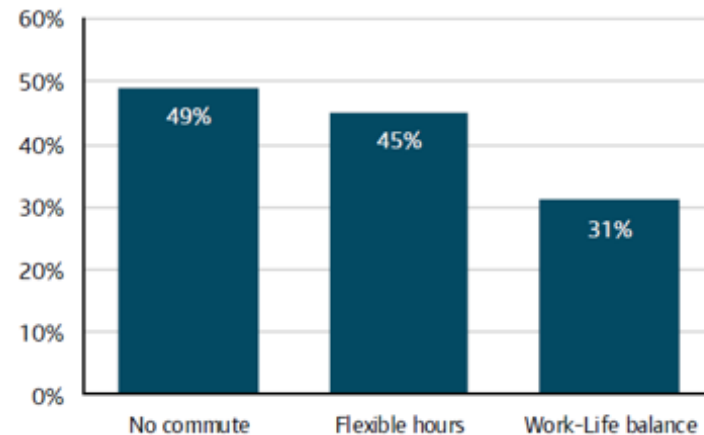
Ideal number remote work days per week



Post lockdown office visit preference



Top benefits of WFH



TRADING DENSITY (SALES) GROWTH AND RENT CONCESSIONS

Retail centres suffered a 65% decline in sales during Level 5 lockdown

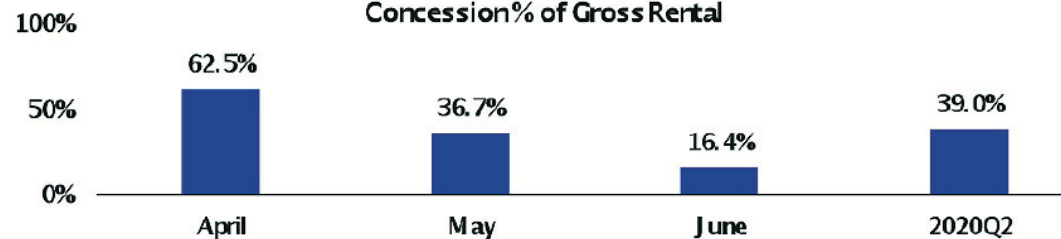
MSCI South Africa Retail Trading Density Index

Annualised sales/sqm growth; Current price terms; y/y



Rental Concessions per month

Concession% of Gross Rental

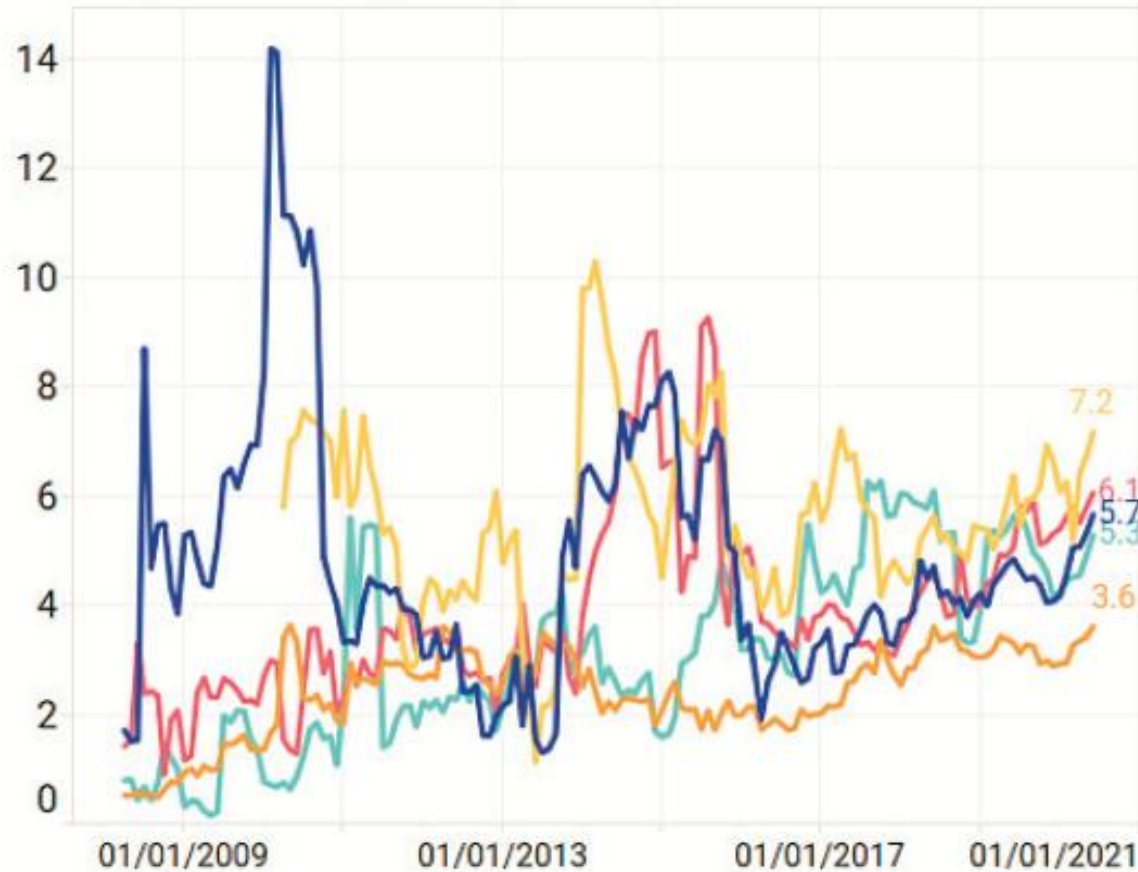


VACANCIES ARE RISING ACROSS RETAIL CENTRES

Trend likely to continue for the next year

Segment ■ Community ■ Neighbourhood ■ Regional

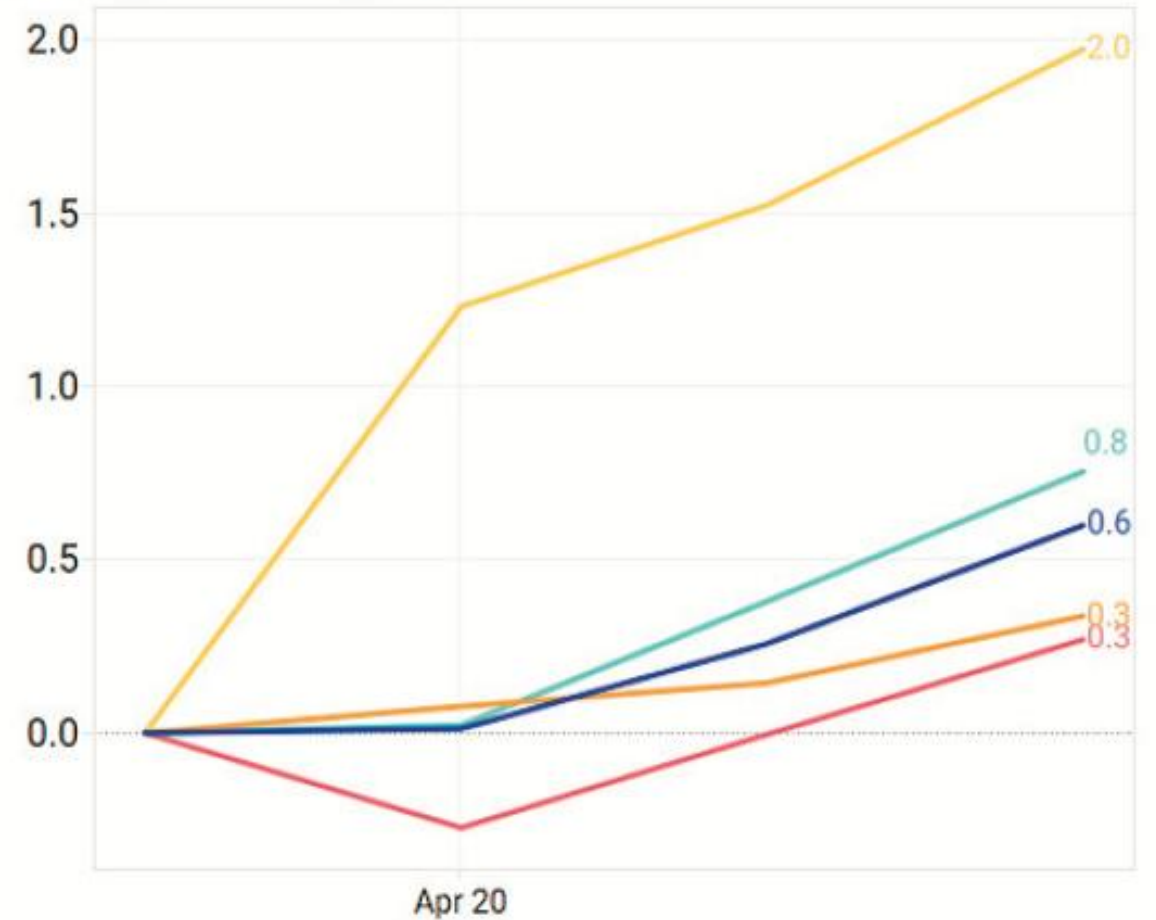
Vacancy Rate trend per segment since the GFC



Source: MSCI Real Estate

■ Small Regional ■ Super Regional

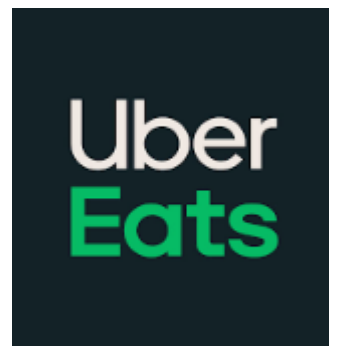
Vacancy Rate change since March 2020

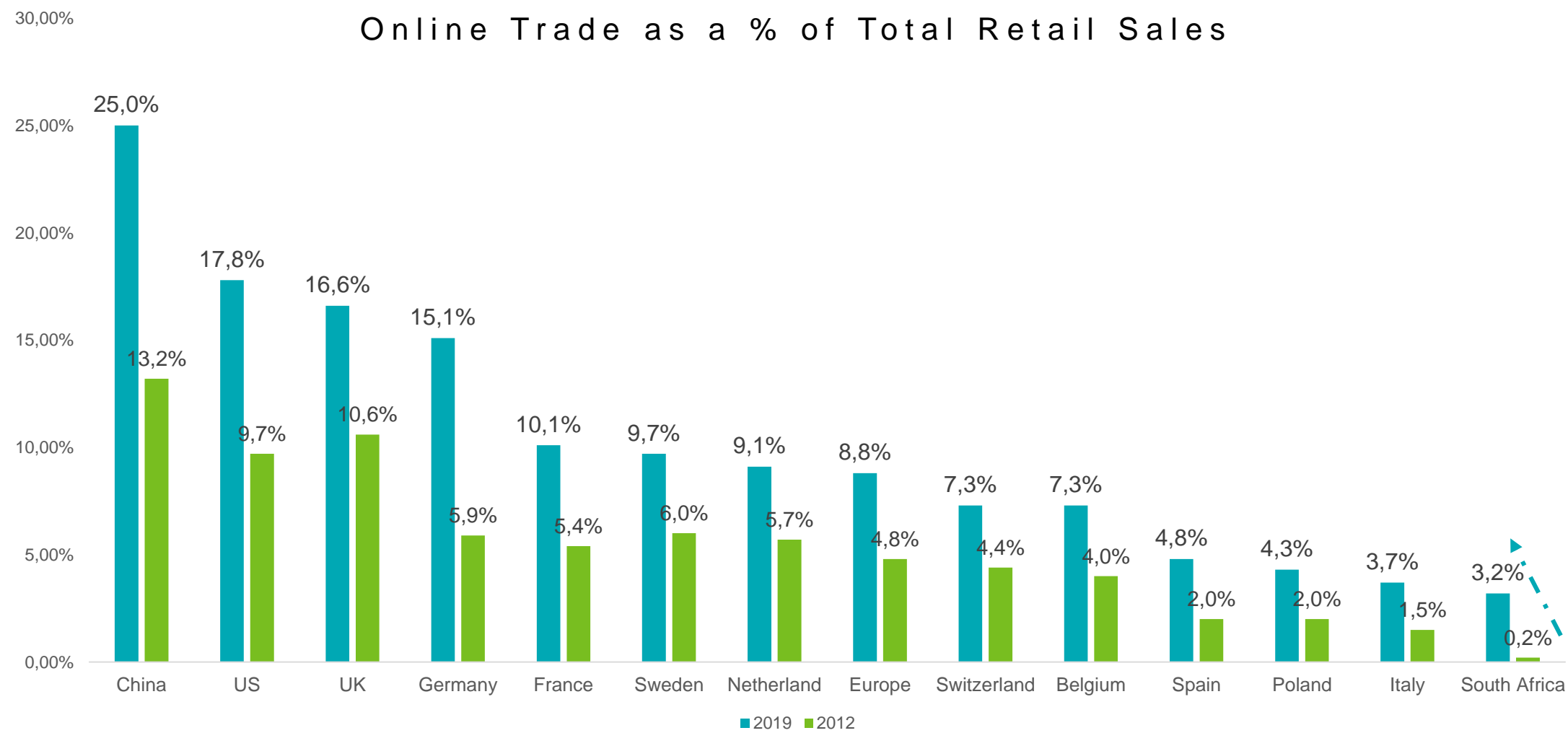


COVID-19 HAS ACCELERATED SOME TRENDS IN RETAIL



..and drive through

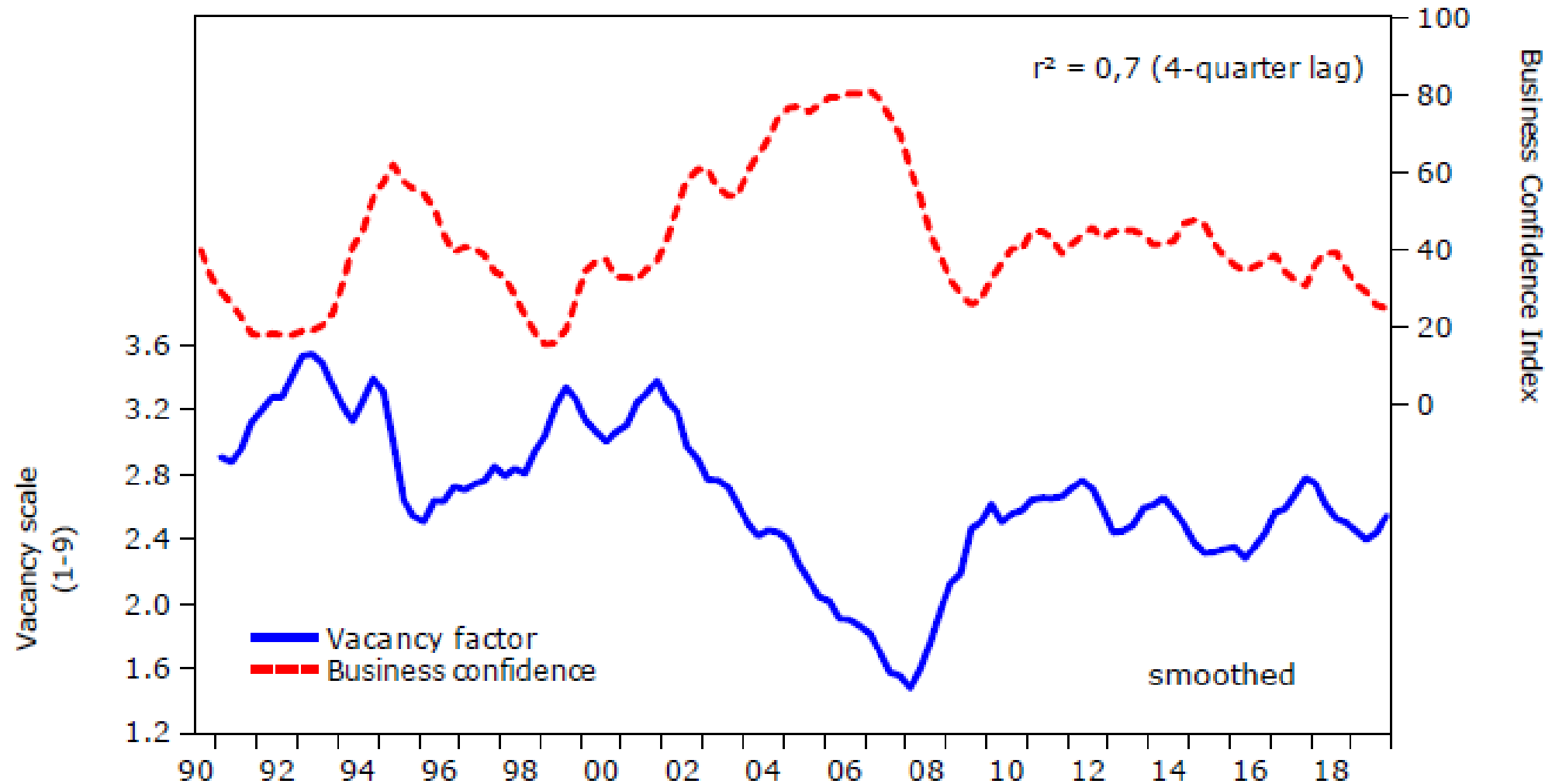




Source: STANLIB Property, Smart Insight

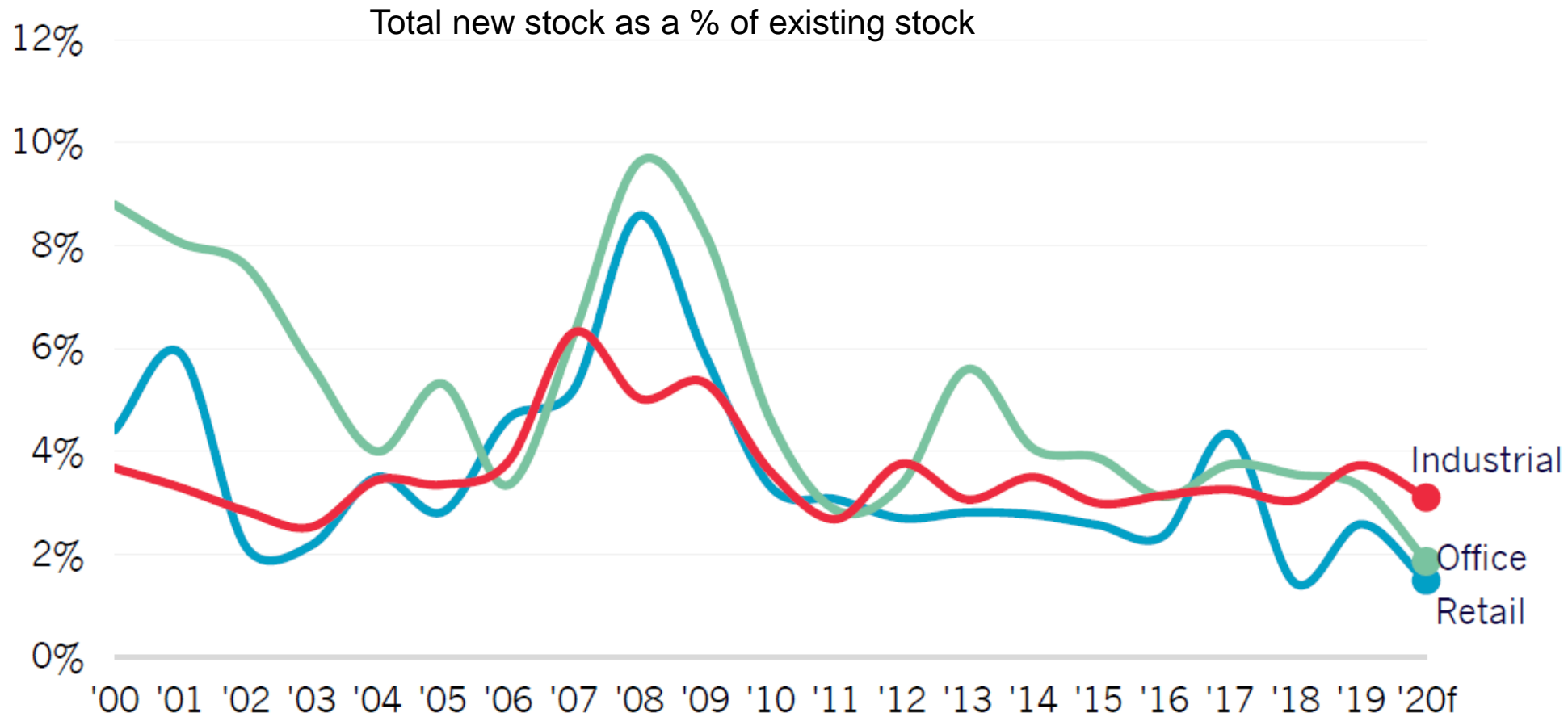
INDUSTRIAL MARKET IN SA HOLDING UP WELL DURING COVID-19

Will continue to see recycling of SA retail and other assets into offshore logistics



SLOWDOWN IN NEW DEVELOPMENTS EVEN BEFORE COVID-19

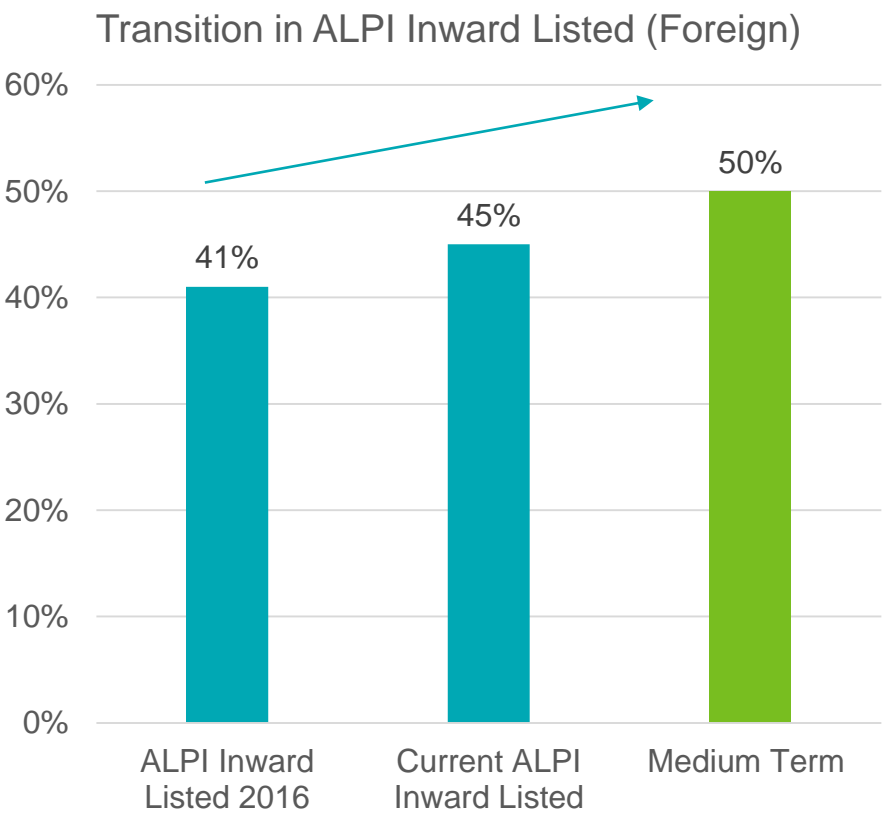
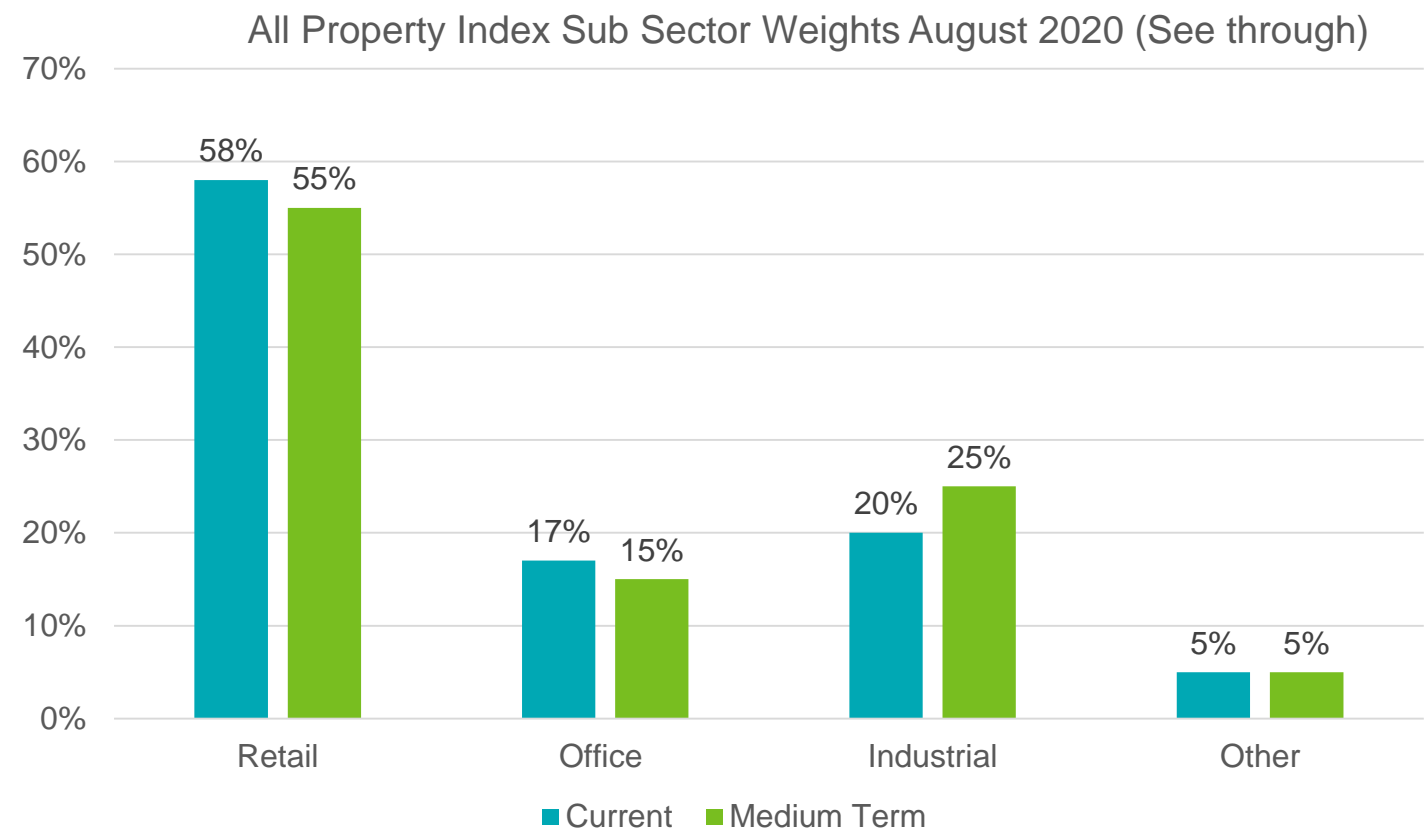
The challenge will be to let newly completed speculative developments



Sources: Stats SA, Avior Capital Markets






















THE BREAKDOWN OF THE PROPERTY INDEX – OFFSHORE EXPOSURE INCREASING

Dominated by Retail and Offices



HOW PROPERTY TRENDS WILL PLAY OUT

The industrial sector as well as self storage have better prospects

PROPERTY SUB-SECTOR	GROWTH TREND PRE COVID-19	GROWTH TREND POST COVID-19	
	2015-2019	2020 -2021	>Medium Term
INDUSTRIAL (SA)			
RETAIL (SA)			
OFFICE (SA)			
RETAIL (CEE)			
INDUSTRIAL (UK & EUROPE)			
OFFICE (CEE & AUS)			
SELF STORAGE (SA & UK)			

Source: Stanlib Listed Property

1. Restoring balance sheet strength

- i. Disposal of non-core assets (offshore and local)
- ii. Reducing capital expenditure to just maintenance
- iii. Suspending developments/projects
- iv. Suspending dividends and bringing LTV down

2. Rebasing income levels

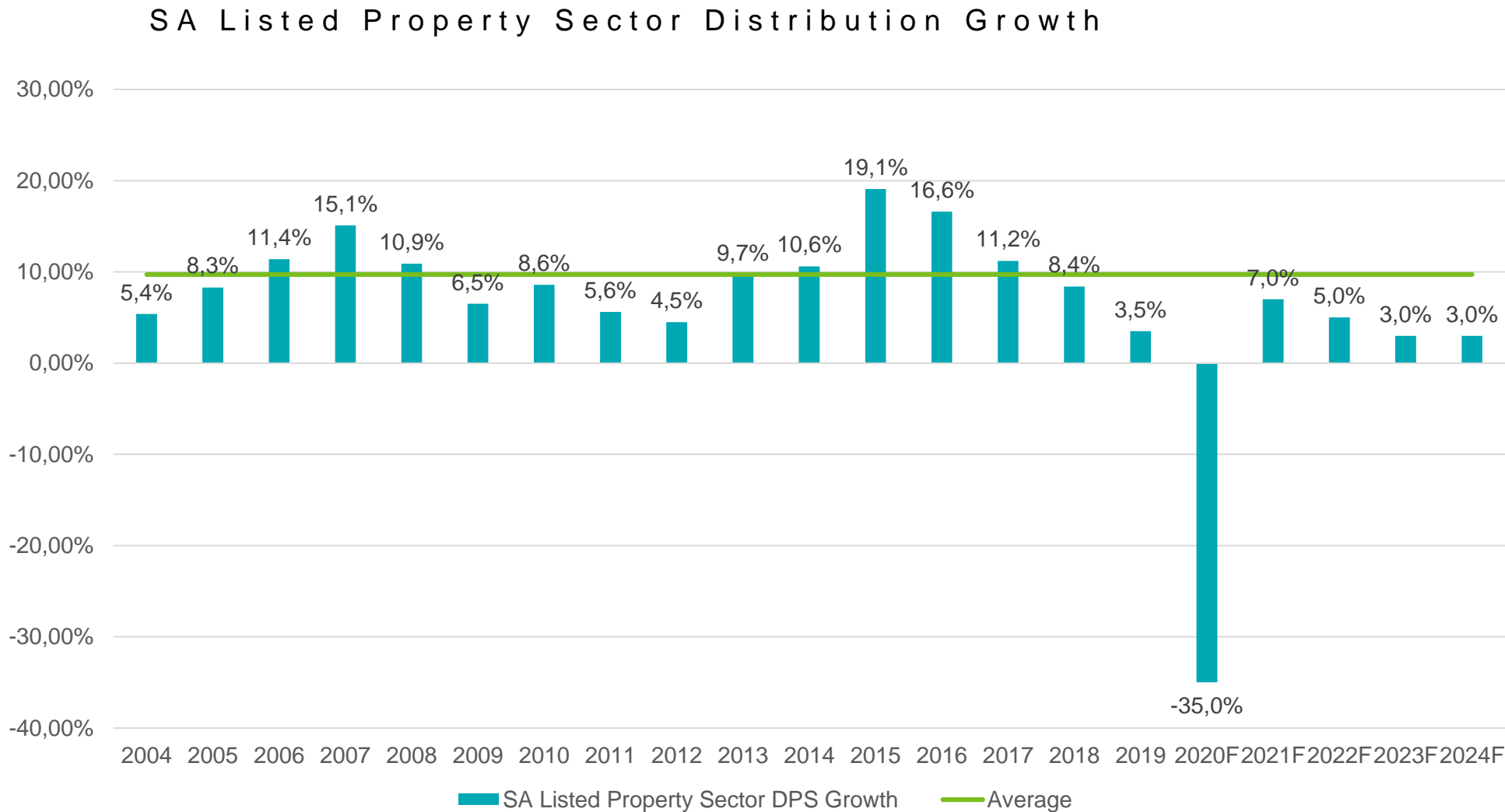
- i. Maintaining occupancy by offering additional incentives
- ii. Extending leases at the expense of rental value
- iii. Reducing service charges (where possible)
- iv. Increasing renewable energy supply

3. Repurposing for income growth potential

- i. Right-sizing space for tenants in retail centres
- ii. Finding new service based tenants for vacated stores
- iii. Conversions of redundant office space to alternate use (where possible)

DISTRIBUTION GROWTH TO MIRROR INFLATION AS A BASE CASE

2020 will be the biggest decline in history



Source: STANLIB Property

LOCAL PROPERTY SUMMARY

High forecast risk but looking very cheap from a valuation perspective

SA PROPERTY
FUNDAMENTALS

EMERGING FROM COVID-19

LANDLORDS vs TENANTS

CONSOLIDATION

PROPERTY VALUERS

GLOBAL PROPERTY READ
THROUGH FOR SA

SA PROPERTY VALUATIONS

GLOBAL LISTED PROPERTY

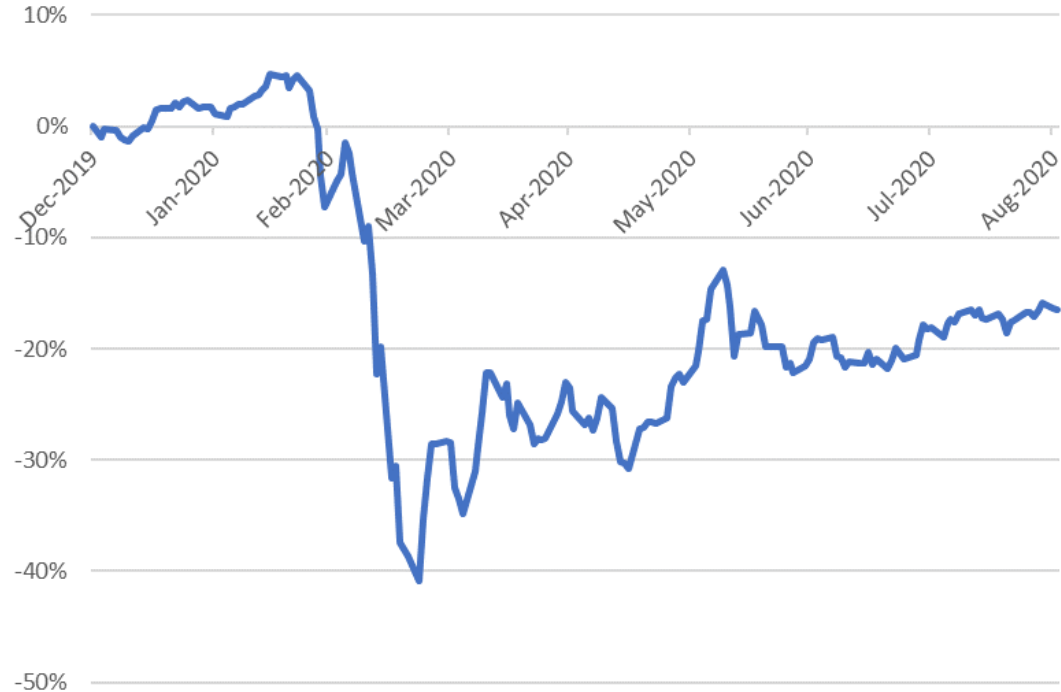
An aerial photograph of a city skyline, featuring a large, modern stadium with a blue roof in the foreground. The stadium is surrounded by parking lots and other buildings. In the background, a dense urban skyline with various skyscrapers is visible under a clear blue sky with a few clouds. The image is split diagonally, with the left side being white and the right side showing the city scene.

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GLOBAL PROPERTY PERFORMANCE

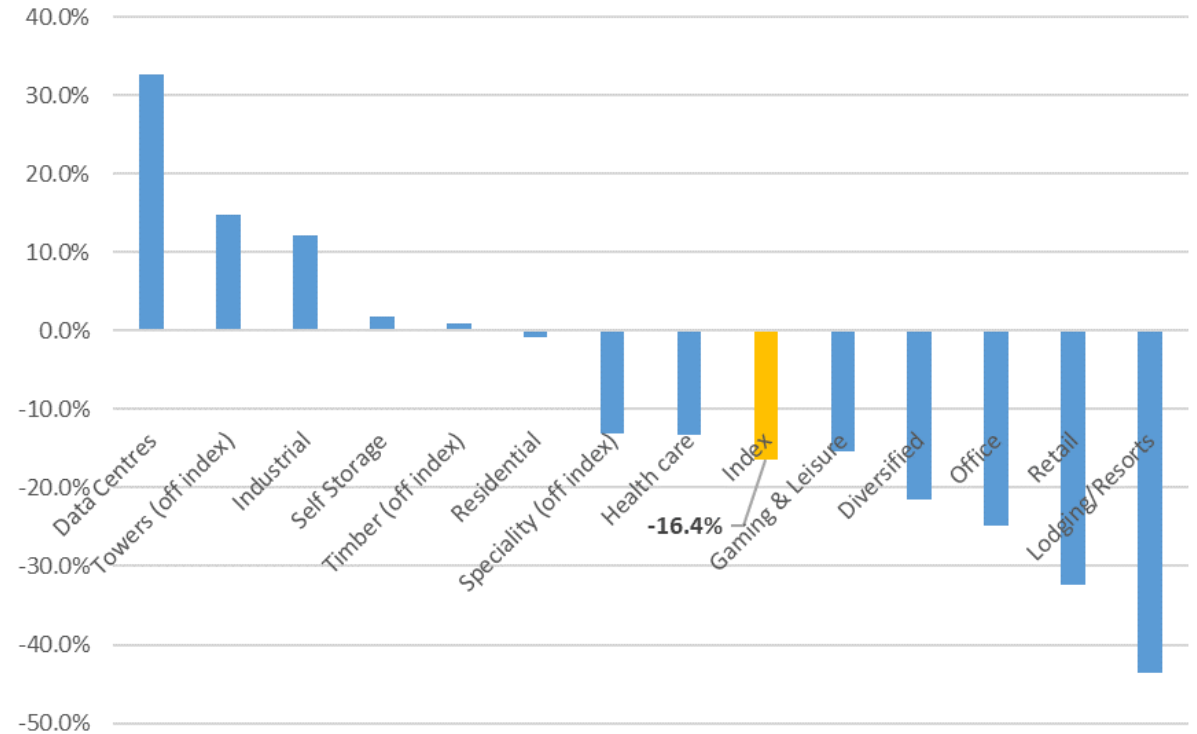
Subsectors most affected by lockdowns suffered most, Tech REITs rewarded

FTSE EPRA/NAREIT DEVELOPED RENTAL INDEX



Sector is up 40% from March trough and steadily gaining ground as fundamentals improve

SUBSECTOR TOTAL RETURNS

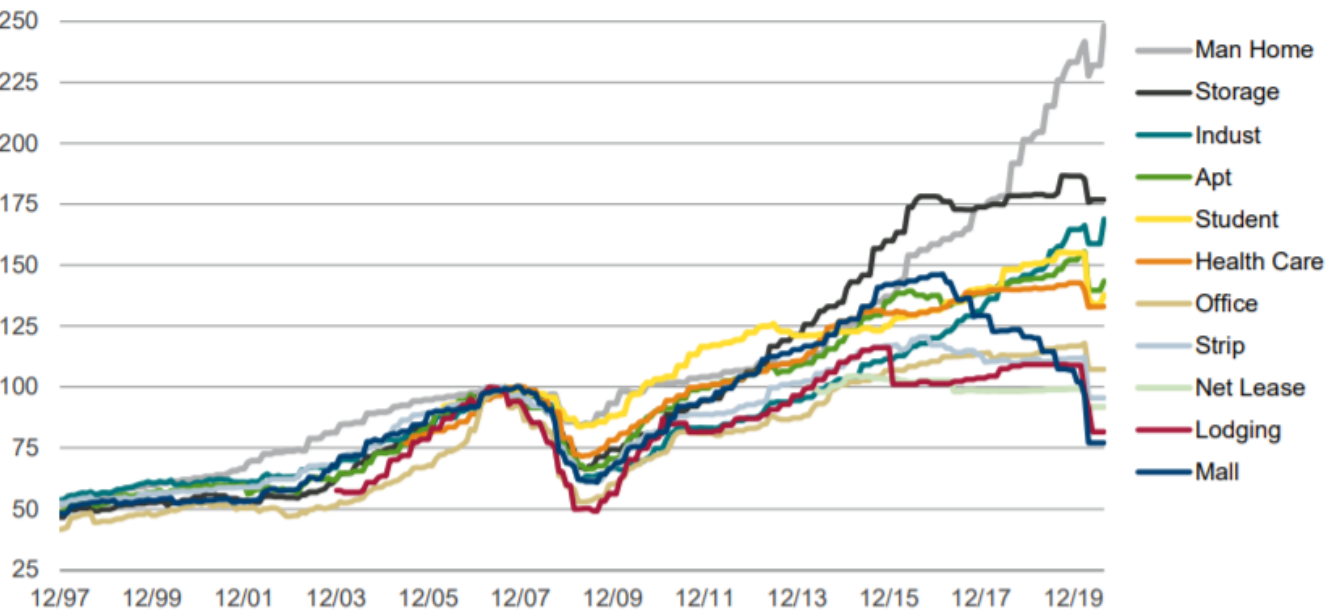


Modern, niche subsectors faring better than traditional, core subsectors

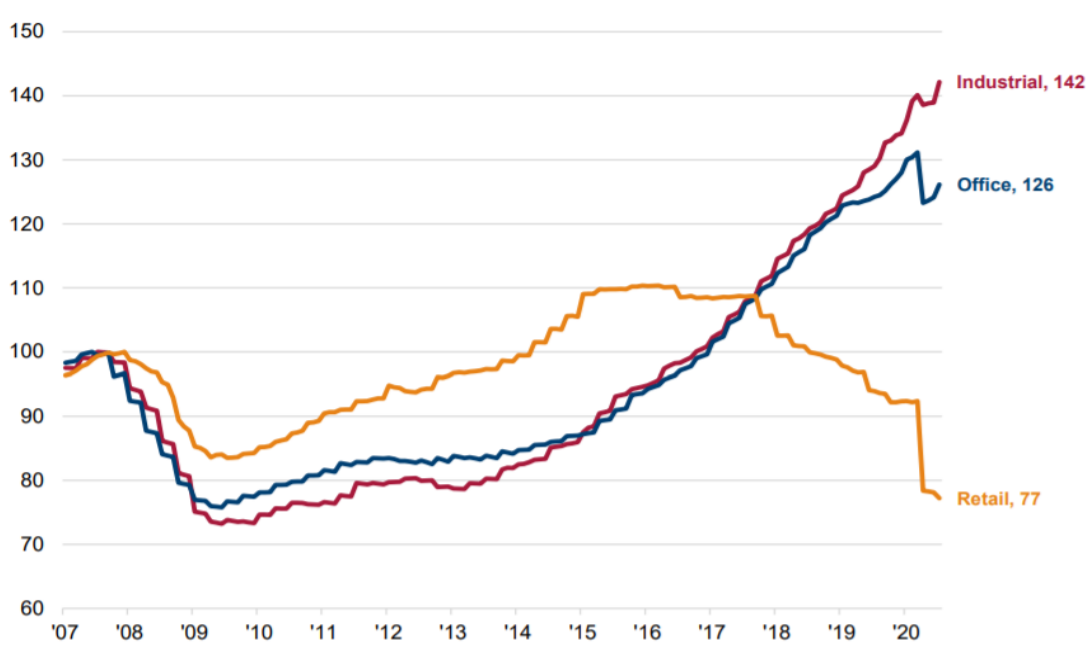
POLARISATION IN PROSPECTS

Subsector prospects divergence accelerated by COVID-19

Green Street Property Sector Indexes



Green Street Pan-European Property Sector Indexes (Local Currency)



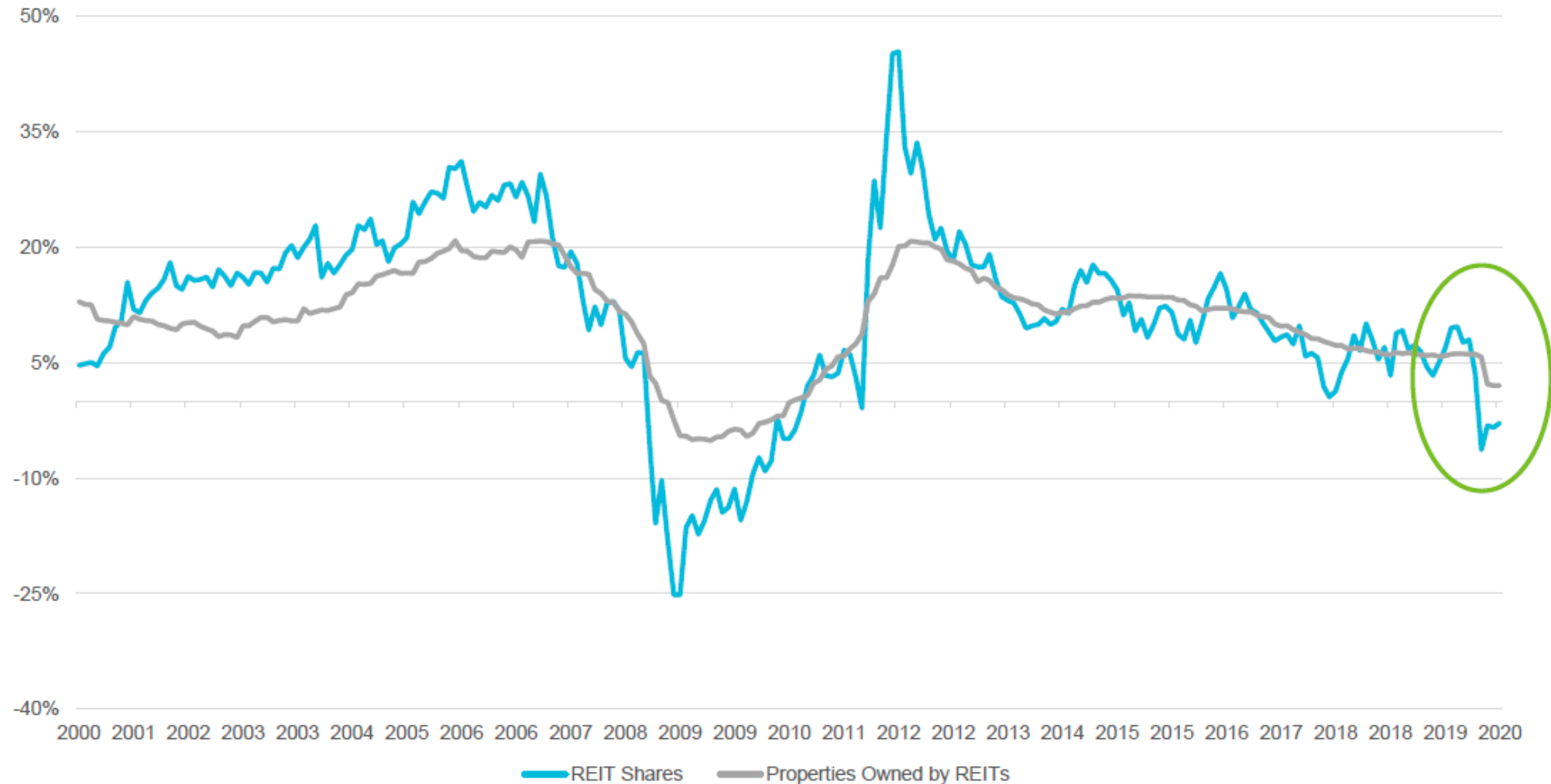
PROPERTY PRICES	GFC	COVID CRISIS
Price falls (avg)	-35%	-10%
Duration	24 mths	3 mths

- The rise of online shopping has been benefitting Industrial property at the expense of retail property

DISLOCATION BETWEEN SHARE PRICES AND PHYSICAL PROPERTY

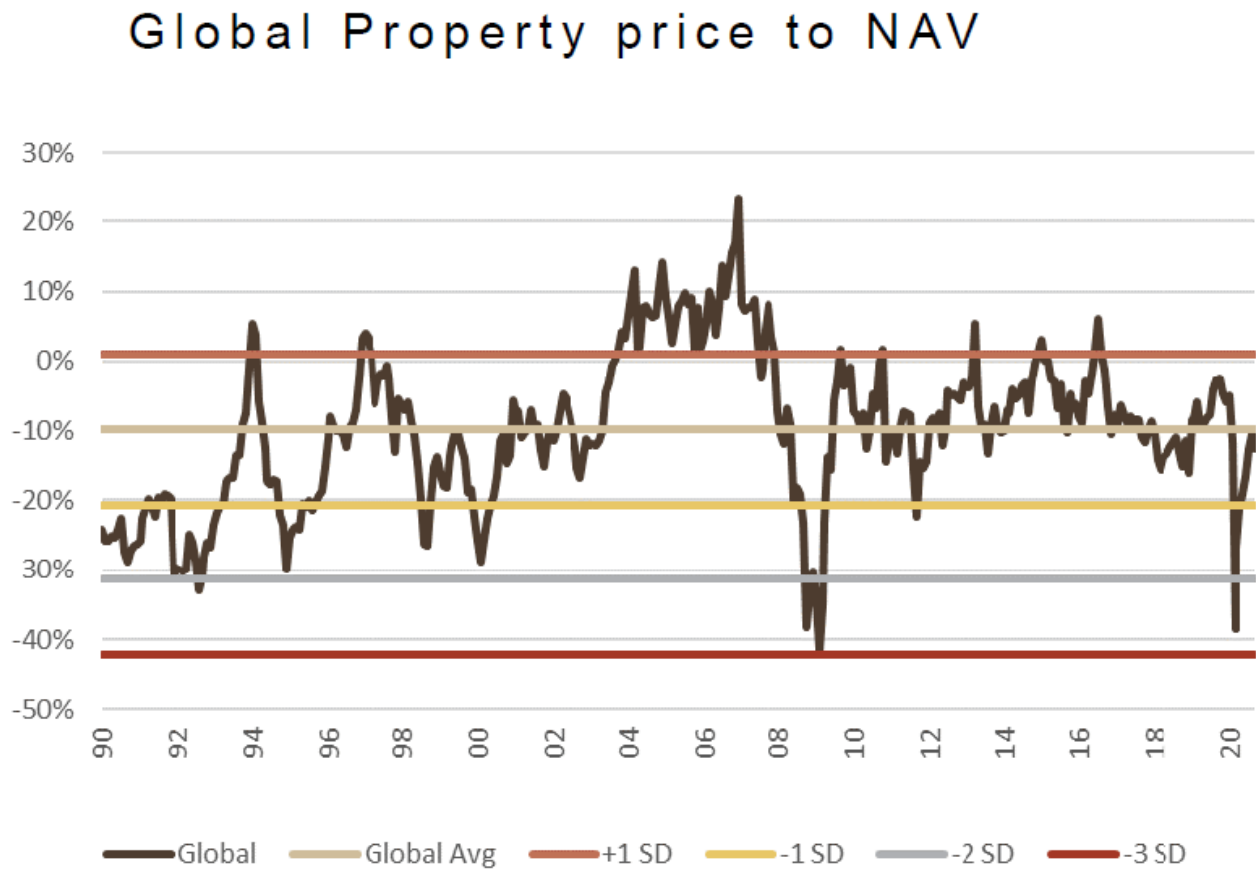
Share prices often over-react

Rolling 3 year annualised total return: REIT shares vs underlying REIT properties

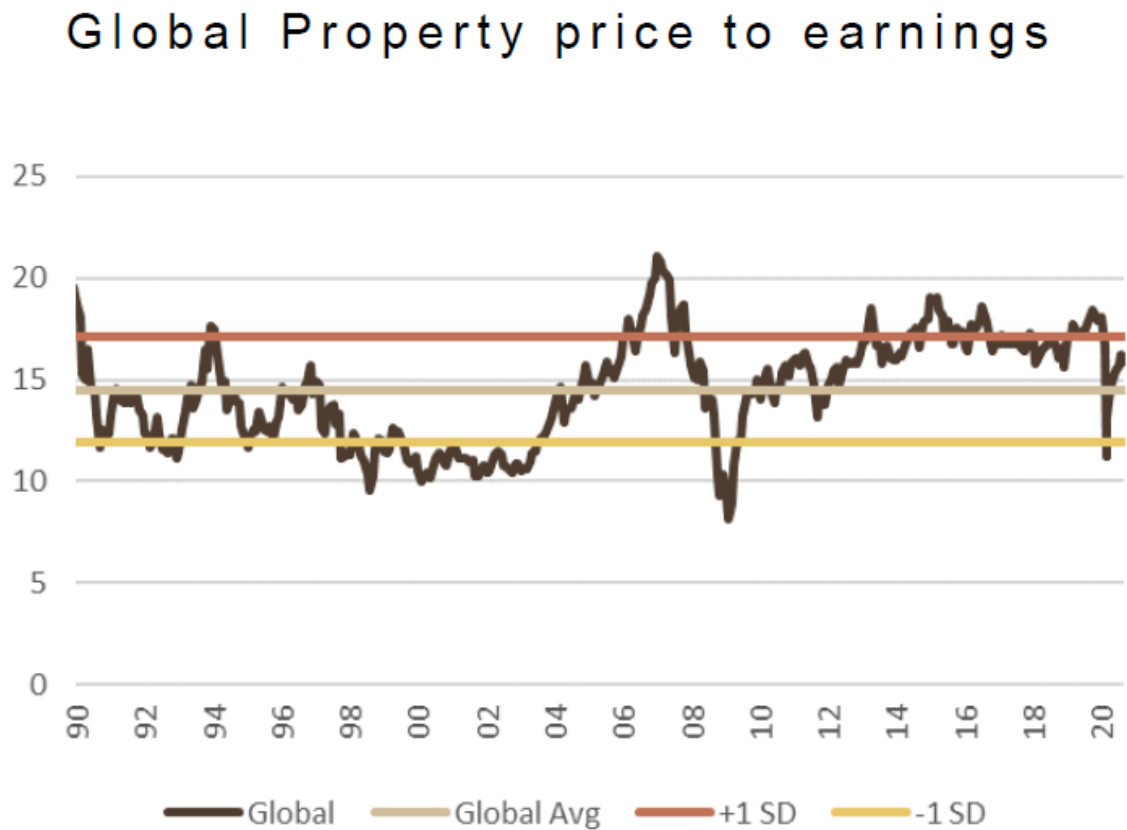


Global property price to NAV and price to earnings

Window to buy at a discount is narrowing



Source: UBS Global research



Source: UBS Global research

SECTOR BALANCE SHEETS ARE ROBUST

Multiples vs equities are also attractive – implying 10% upside to historical average

REIT AFFO Yield minus S&P 500 Earnings Yield

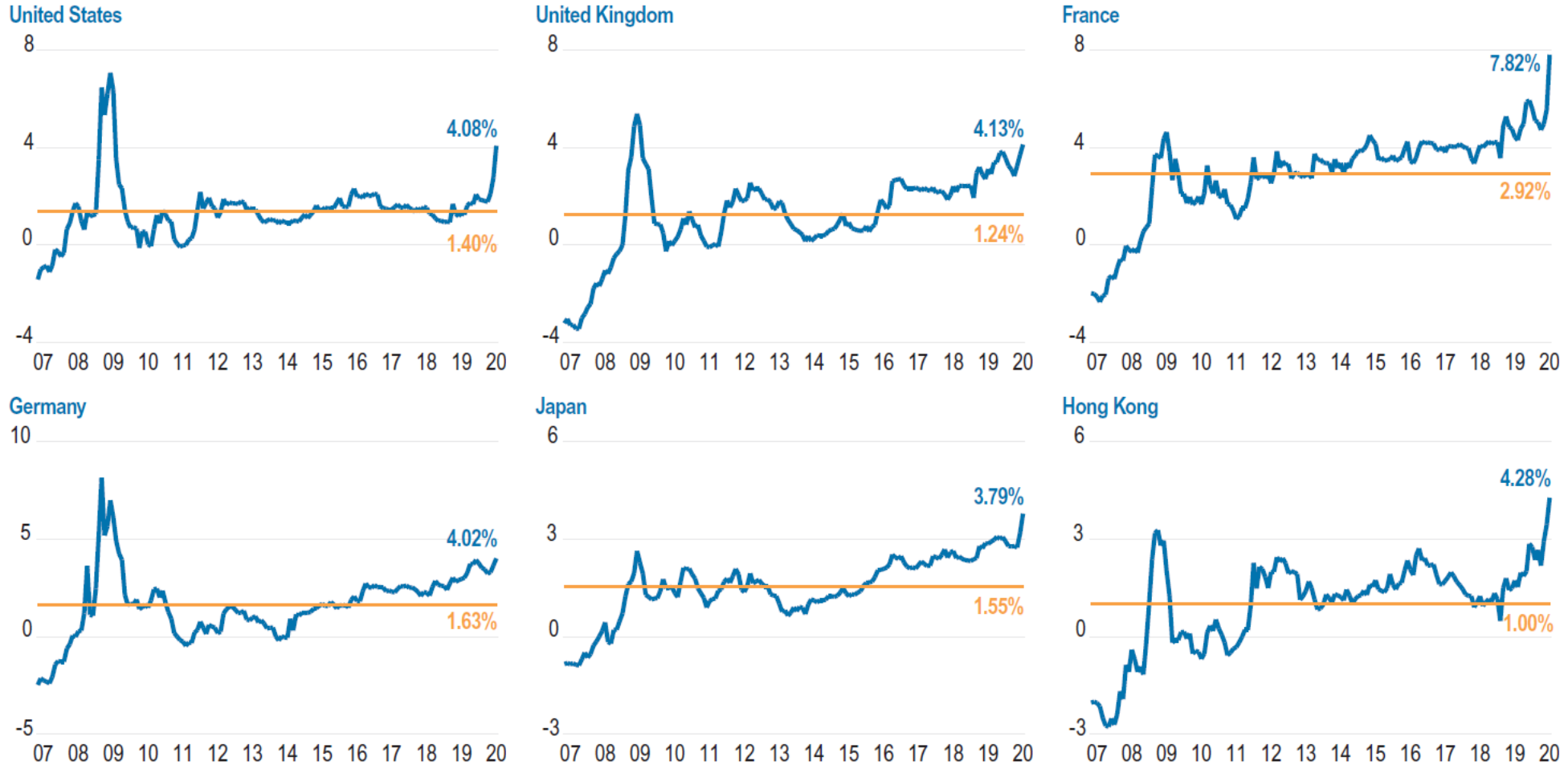


Source: Green Street

ATTRACTIVE SPREADS ON OFFER GLOBALLY

Current yields are significantly above long-term averages

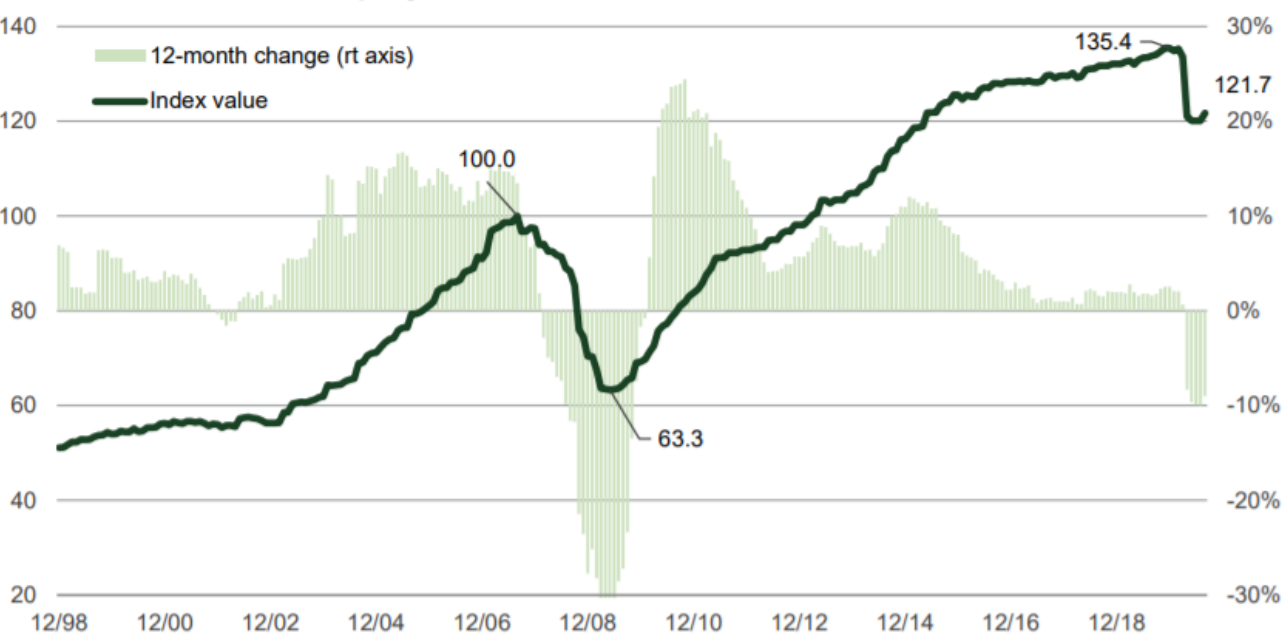
GLOBAL REIT DIVIDEND YIELD VS 10 YEAR GOVERNMENT BOND YIELDS



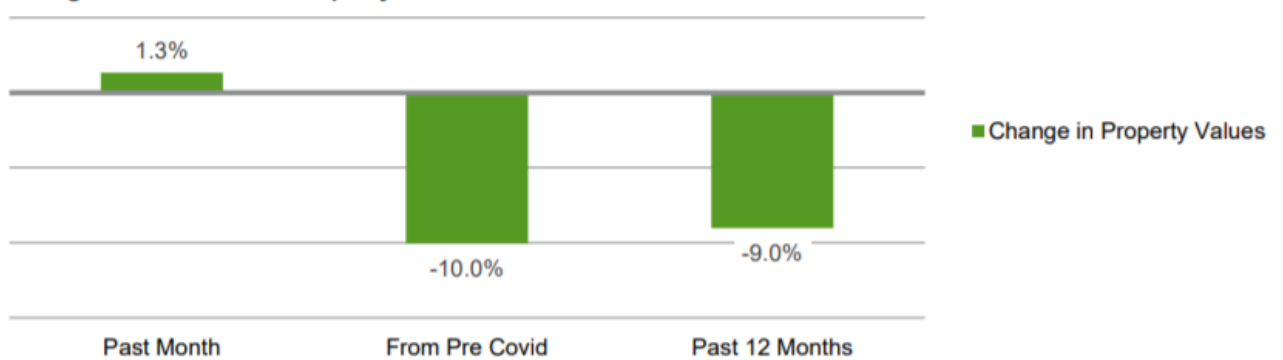
SHORT SHARP CORRECTION

Prices are starting to increase again..

Green Street Commercial Property Price Index

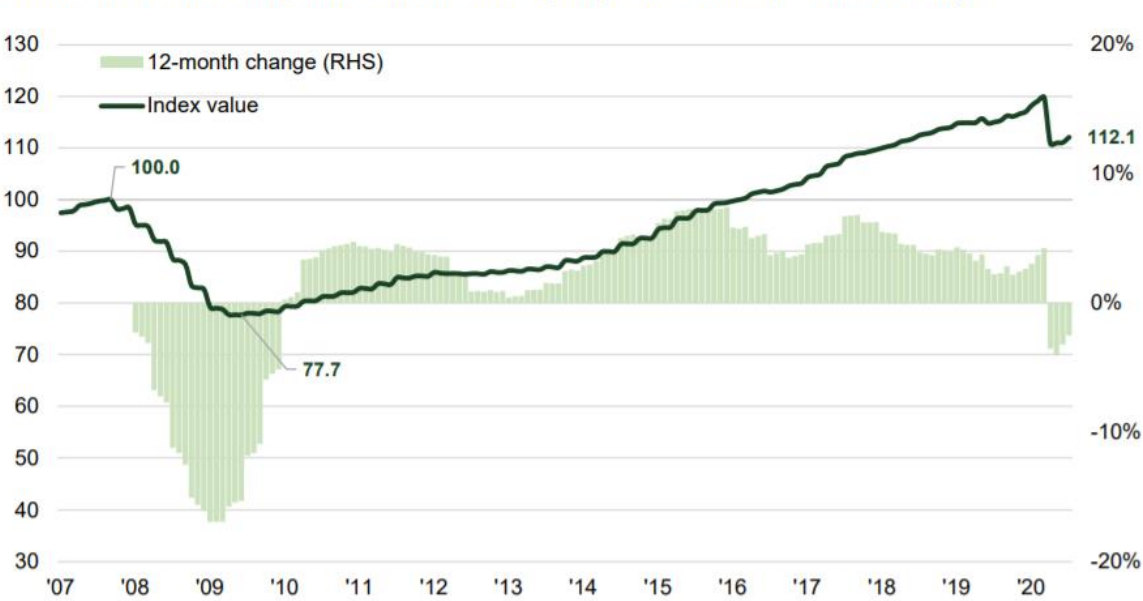


Change in Commercial Property Values

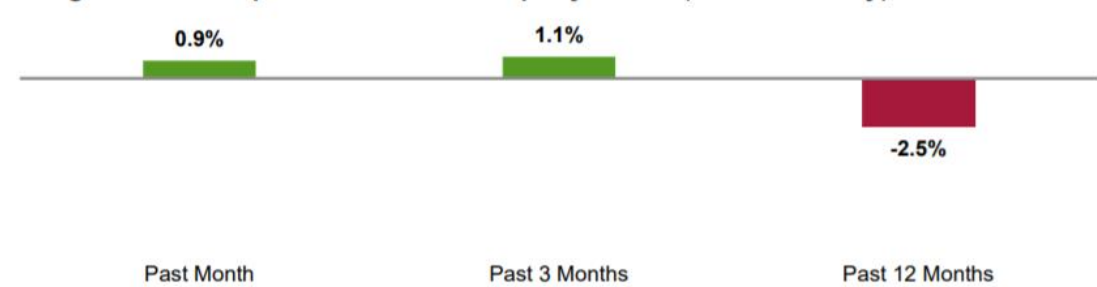


Source: Green Street advisors

Green Street Pan-European Commercial Property Price Index (Local Currency)



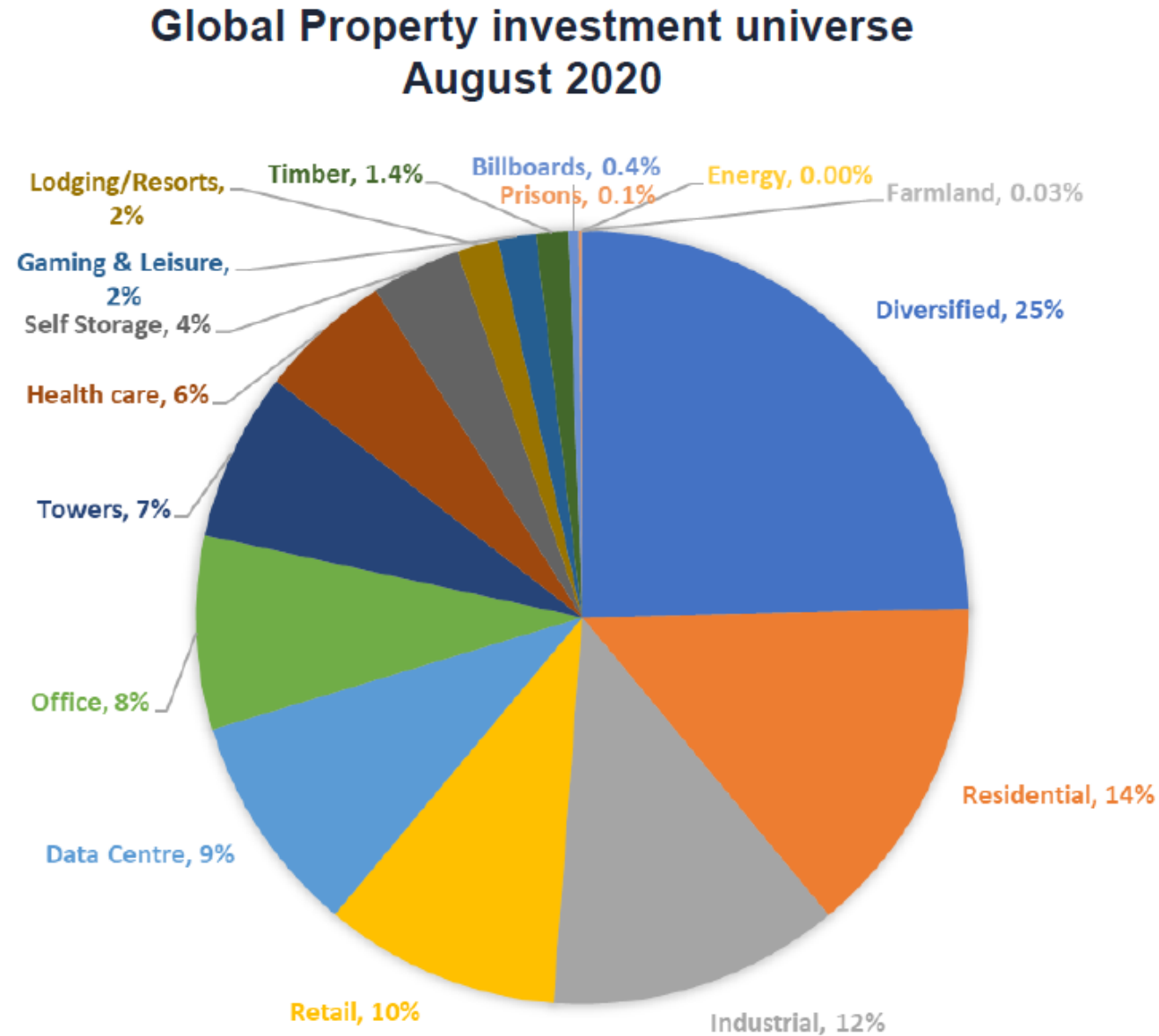
Change in Pan-European Commercial Property Values (Local Currency)



Source: Green Street advisors

GLOBAL PROPERTY IS DIVERSE OPPORTUNITY SET

Global property provides liquid access to the world's most scarce real estate assets



In numbers			
Subsector	Number of stocks	MV USDm	Weight
Diversified	123	519,493	25%
Residential	54	302,516	14%
Industrial	45	256,947	12%
Retail	71	208,072	10%
Data Centre	7	195,123	9%
Office	51	170,751	8%
Towers	4	148,587	7%
Health care	26	117,437	6%
Self Storage	9	78,653	4%
Lodging/Resorts	20	36,363	2%
Gaming & Leisure	4	33,405	2%
Timber	4	28,589	1%
Billboards	2	8,793	0%
Prisons	2	2,492	0%
Farmland	2	543	0%
Energy	1	95	0%
Total	425	2,107,860	-

KEY SUBSECTOR OVERWEIGHTS

Defensive rental income that is best exposed to long term growth prospects

FAVOURER SUB SECTORS

INDUSTRIAL

(Secular growth in online retail and geared to supply chain efficiencies)



TOWERS, DATA CENTRES, MEDICAL OFFICE, BIO-TECH

(Benefit from long term investment in digital interconnectivity as well as health care R&D)



AMERICAN TOWER



ALEXANDRIA



DIGITAL REALTY



Healthpeak
PROPERTIES

RESIDENTIAL (MAINLY US & GERMANY)

(Long term trends favour institutional ownership)



invitationhomes



CAPREIT

els Equity LifeStyle Properties

VONOVIA

SELF STORAGE (MAINLY US & UK)

Beneficiaries of office market disruption and residential trends – remains the most profitable property subsector



STANLIB GLOBAL PROPERTY SUMMARY SUBSECTOR VIEWS

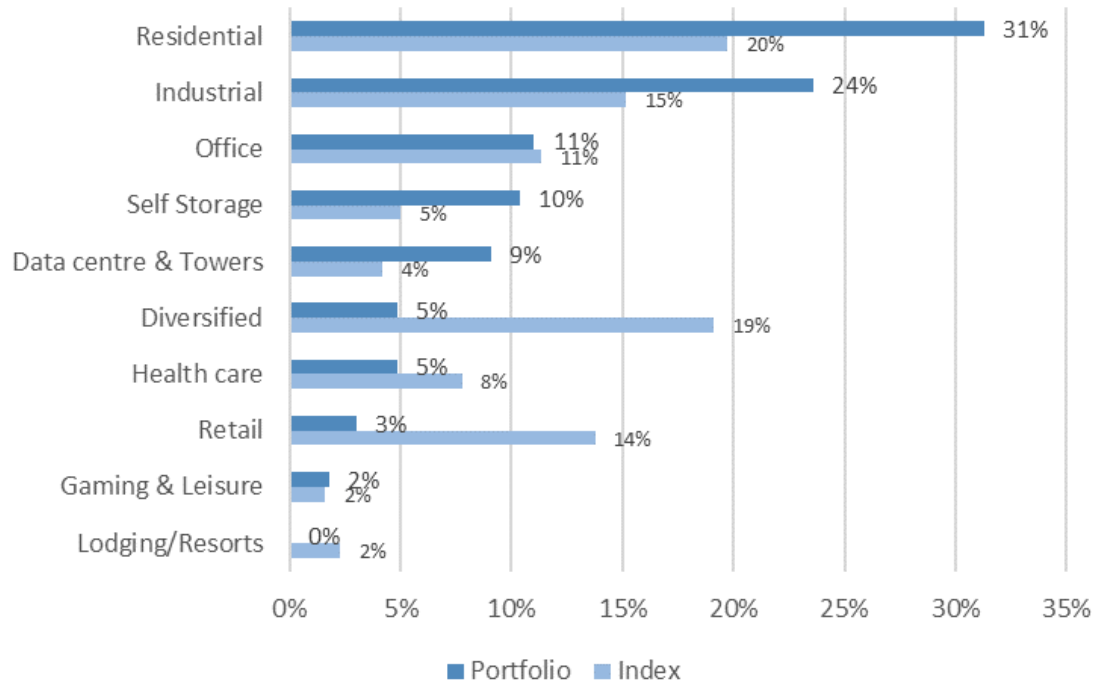
Cyclical subsectors face the biggest challenges

PROPERTY SUB-SECTOR	GROWTH TREND PRE COVID-19	GROWTH TREND POST COVID-19	
	2015-2019	2020 -2021	> 2021
TOWERS AND DATA CENTRES	↑	↑ ↑	↑
INDUSTRIAL	↑	↑ ↑	↑
RESIDENTIAL (<i>*variances within subsectors</i>)	↑	—	↑
SELF STORAGE	↑	—	↑
HEALTH CARE	↑	↓	↑
OFFICE	↑	↓	—
RETAIL	↓	↓ ↓	↓

STANLIB GLOBAL PROPERTY FUND

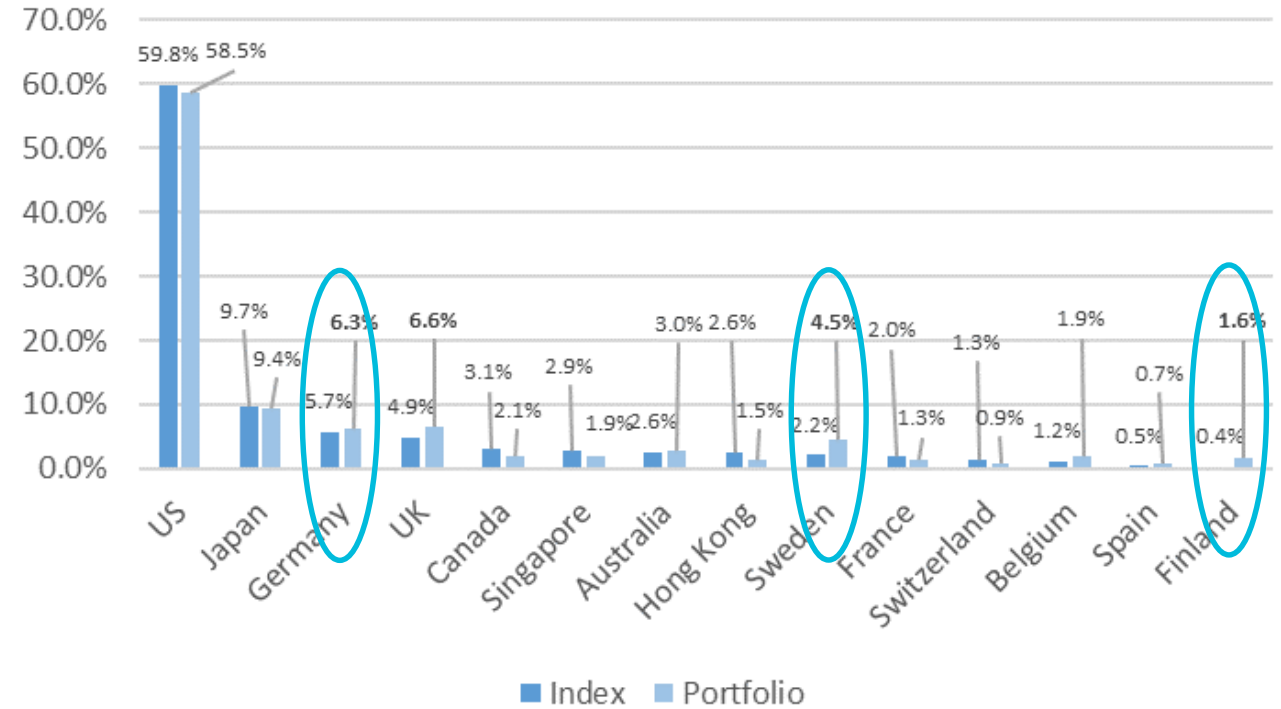
Subsector snapshot – 31 August 2020

SUBSECTOR WEIGHTINGS



- Overweight subsectors benefit from secular growth
- Underweight more cyclical subsectors

COUNTRY WEIGHTINGS



- Portfolio is diversified across 14 countries (c. 50 cities) representing 10 different currencies (no FX hedging)
- Overweight countries with relatively strong fiscal outlooks and with high proportion of growth companies

GLOBAL OFFICE SUBSECTOR

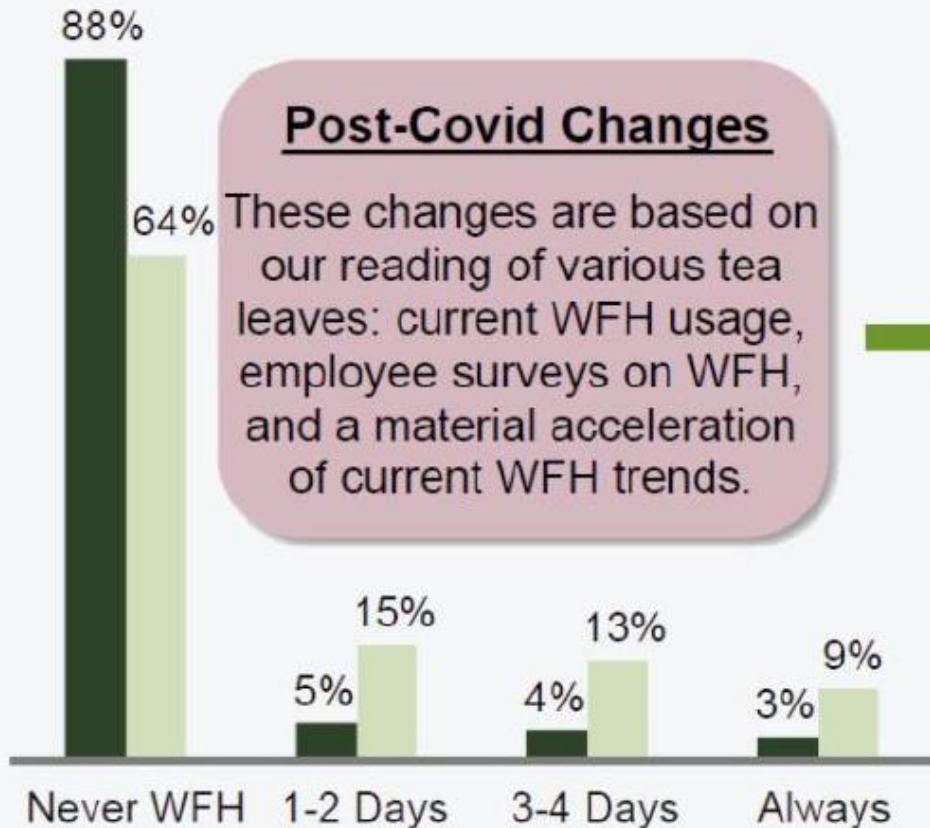
Demand for flexibility was accelerated by lockdowns

Change in Days WFH

■ Pre-COVID ■ Post-COVID

Post-Covid Changes

These changes are based on our reading of various tea leaves: current WFH usage, employee surveys on WFH, and a material acceleration of current WFH trends.



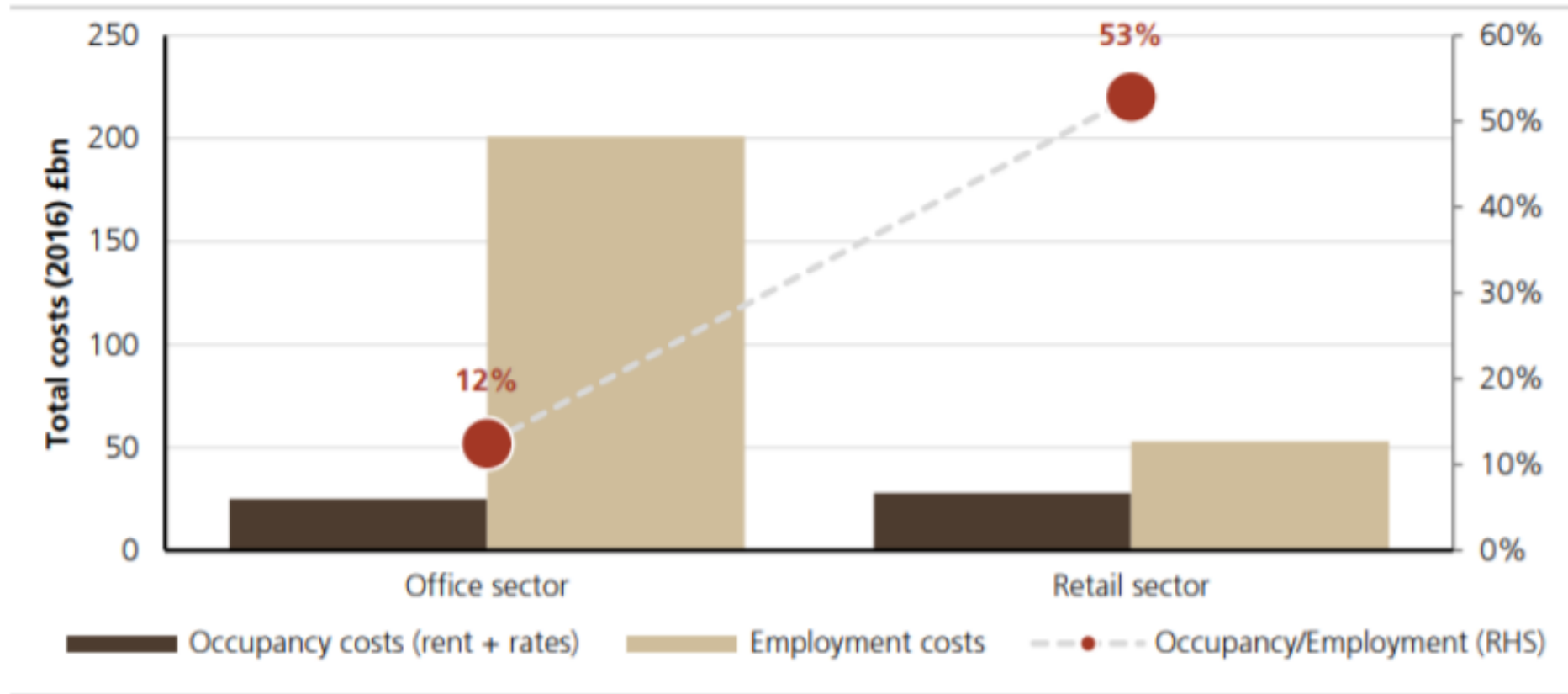
Wtd. Avg. Number of Days in Office



- Employees indicating that they want to return to the office but want greater flexibility
- Change in future office space needs will vary significantly depending on tenant industry and geography (existing WFH rates)

RETAIL AND OFFICE COSTS

Occupancy costs are much lower in the Office sector than in the Retail sector



GLOBAL OFFICE SUBSECTOR

Key factors for office occupation and investment in future

Why we will always need offices

- Company culture
- Labour laws
- Employee engagement
- Residential density (especially in Asia) too high to WFH
- Medical outpatient requirements
- Life science and biotech R&D
- Talent acquisition and retention
- WFH is *unequal* – more senior and wealthier employees have better access to working facilities & therefore productivity

Factors to consider for investment

- Lease lengths are shortening in aggregate
- Tenants pay more for flexible space (win-win)
- Tenant credit assessments will be more important in the lending decision
- Future capex requirements related to health and well-being
- Environmental sustainability
- Location: proximity to a major rail or bus station preferred (“hot spot”)

OUR GLOBAL OFFICE SECTOR PREFERRED STOCKS

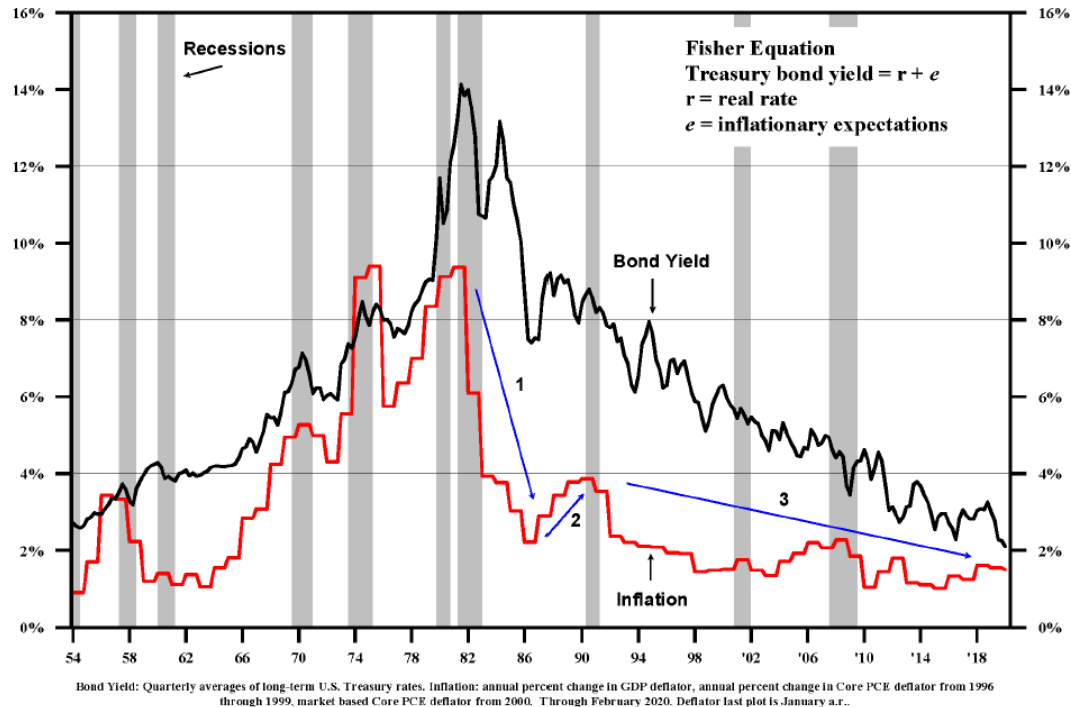
WFH impact on office space demand seems over-discounted in some companies



GLOBAL PROPERTY IS A GROWING ASSET CLASS

Corona more like a blip in the sector's long-term growth trajectory

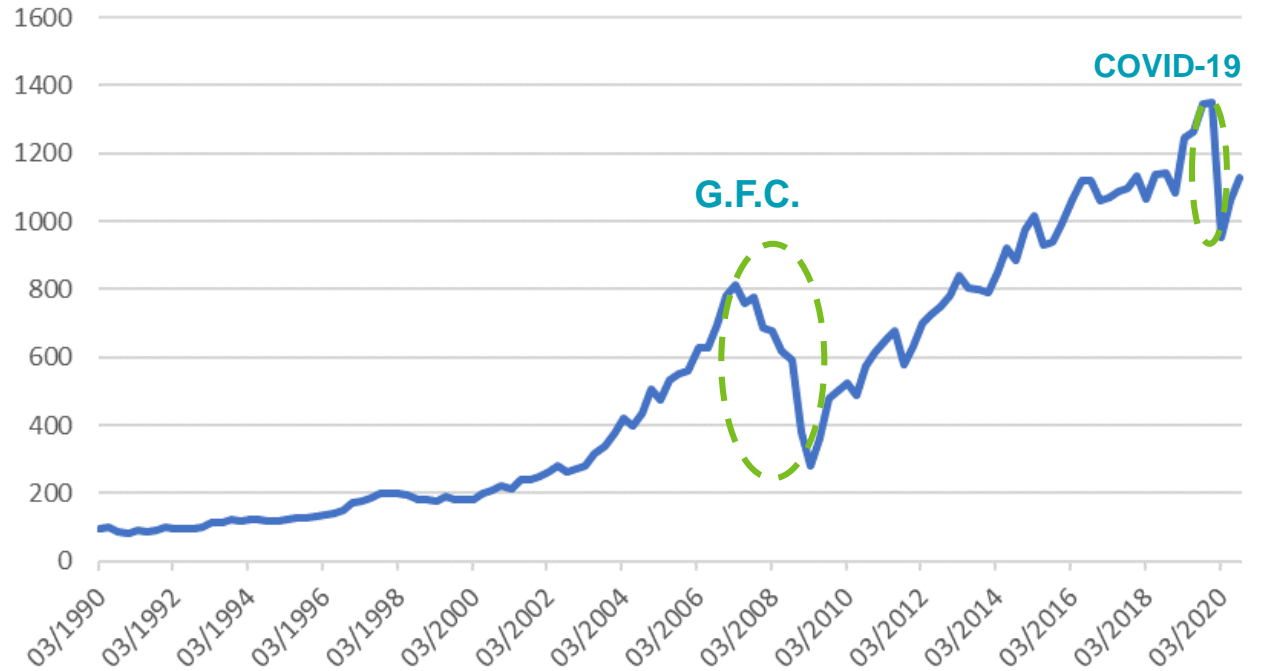
Long Term U.S. Treasury Rates and Inflation



Hoisington

- 40 year 'bull run' in interest rates
- Deflationary forces > inflation from monetary policy suggests more rates turning negative long term "yield-curve control"

GPR 250 REIT Index 1990-2020



- Global property index has multiplied 11x over 30 years
- Composition of index changed significantly
- Listed property universe < 5% of global property assets

GLOBAL PROPERTY CONCLUSION

Discounted valuation and solid fundamentals provide attractive entry point

CRITERION	GLOBAL
ECONOMIC GROWTH INFLATION MONETARY POLICY LAND	<ul style="list-style-type: none">• Negative in 2020 – impact of Covid-19 – bounce back in 2021• Lower for longer• WWII levels of stimulus is supporting an asset price recovery• Limited availability and difficult planning create relatively high barriers to entry
TRANSPARENCY	<ul style="list-style-type: none">• Simplicity of structures and market (subsector and geographical) focus
MANAGEMENT AND INSTITUTIONAL QUALITY	<ul style="list-style-type: none">• Disciplined management teams operating in long established REIT regimes
STRUCTURAL GROWTH POTENTIAL	<ul style="list-style-type: none">• REITs' ownership of institutional grade Commercial Real Estate is less than 5% in most markets• Harnessing new technologies and lower interest rates to improve profit margins• Many alternative niche sectors like towers, data centres, manufactured housing, student housing• Cost of capital low and decreasing
NEAR TERM RENTAL GROWTH PROSPECTS	<ul style="list-style-type: none">• Cyclical subsectors will see a reduction in net rental income in 2020 due to Covid-19• Industrial, residential, self storage better positioned

THANK YOU

An aerial photograph of a city skyline, featuring a large, modern stadium with a blue roof in the foreground. The city is densely packed with various buildings, and a body of water is visible in the lower right corner. The image is split diagonally, with the left side being white and the right side showing the city scene.

STANLIB

PEOPLE

An experienced and diverse Listed Property Team

HEAD OF LISTED PROPERTY & PORTFOLIOMANAGER



Keillen Ndlovu
15 years of experience
BCom (Hons) Finance,
CAIB(SA), Property Development Programme
(PDP)

PORTFOLIO MANAGER



Nesi Chetty
18 years of experience
BCom(Hons) Finance (Cum
Laude), CFA

ANALYSTS



Nicolas Lyle
14 years of experience
CA (Scotland), CFA
MA (Modern European
Languages)



Ahmed Motara
15 years of experience
BCom (Hons)



Bafedile Makhafola
4 years of experience
BAS (Architecture), PGDIP
(Property Development and
Management), GSSAAP-NB, CCPM

INVESTMENT PHILOSOPHY

We believe that through in-depth **fundamental**, bottom up research we can invest with **high conviction** in property companies that will produce **superior long term risk-adjusted** returns

OBJECTIVE	HOW
To provide sustainable income and capital growth over time	<p>By investing in companies that:</p> <ul style="list-style-type: none">i. Generate quality long-term earningsii. Have a portfolio of assets that generate sustainable growth in rental streamsiii. Have pro-active credible managementiv. Have appropriate tenant, lease and debt profilesv. Are trading at attractive values relative to their quality and income growth prospects

DISCLAIMER

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