Investec
Australia Property Fund

MEDIA RELEASE

17-May-2017

Investec Australia Property Fund continues to deliver on strategic objectives

IAPF delivers 6.2% distribution growth in AUD while property portfolio has grown to AUD 779 million

Full year highlights:

- Full year distribution of AUD 9.74 cents per unit pre WHT – growth of 6.2% in AUD
- AUD 264 million of quality and earnings enhancing acquisitions concluded during the year
- Portfolio growth of 6.0x since listing with portfolio now valued at AUD 779 million
- Growth in net asset value of 9.1%
- Gearing of 32% providing AUD 85 million of acquisition capacity
- All-in cost of funding further reduced to 3.71%
- Weighted average swap expiry of 7.7 years hedged to 99.1%
- Long WALE of 4.6 years
- Base net property income growth of 3.2%

Investec Australia Property Fund ("IAPF" or the "Fund") is pleased to announce a final distribution of of 4.93 cents per unit ("cpu") pre-withholding tax ("WHT") and 4.60 cpu post WHT (31 March 2016: 4.63 cpu pre WHT and 4.65 cpu post WHT). This brings the total distribution for the year to 9.74 cpu pre WHT and 9.24 cpu post WHT (31 March 2016: 9.17 cpu pre WHT and 8.92 cpu post WHT) and represents growth for the full year of 6.2% pre WHT in AUD, which is within the guidance range given to the market. The Fund's performance is driven by the successful implementation of the Fund's strategy of acquiring properties with strong underlying fundamentals whilst also identifying opportunities to enhance yield and add value through active asset management.

During the year the Fund concluded AUD 264 million in acquisitions at an average yield of 7.2%, with four of the five acquisitions in New South Wales, Australia's best performing economy. The Fund has made a conscious decision to increase its exposure to the office sector, particularly in the Sydney suburban office markets, where rentals are significantly cheaper than in the Sydney CBD, North Sydney and Parramatta. The Fund now comprises 24 properties with a combined value of AUD 779 million. The Fund has built a valuable platform that would be very difficult to replicate given the continued flow of offshore capital into Australia and the current levels of direct asset pricing.

Commenting on the Fund's performance IAPF CEO Graeme Katz said: We believe the case for investing in IAPF remains compelling for South African investors given the Fund's current equity yield of 7.5% which is underpinned by a portfolio of quality properties and exposure to Australia's favourable macro-economic conditions. Further to this, New South Wales and Victoria, which now represent almost 60% of our portfolio, continue to outperform the broader economy with growth of 3.5% and 3.3% respectively, against national GDP growth of 2.4%. These markets represent some of the best performing property markets in the world in terms of forecast rental growth and capital value uplift, especially when the comparative stability of Australia against other developed markets is taken into account. And we are seeing this view validated by strong capital inflows from Asia, parts of Europe and North America."

The Fund's adjusted strategy outlined in the 2016 full year results to acquire properties with manageable risk, such as vacancy and/or capital expenditure requirements, has allowed the Fund to extract additional value for unitholders through enhancing yield and achieving capital uplift. Through the execution of this strategy, the fund delivered 9.1% growth in net asset value per unit. This is underpinned by strong underlying net property income growth of 3.2% on the base portfolio and valuation uplift of 7.0% across the whole portfolio. The Fund has also delivered a total return since listing of 74.6% in ZAR.

"We remain committed to identifying opportunities to create value through active asset management. We are actively engaged in leasing campaigns at a number of our properties and are also exploring early lease extension opportunities for certain sitting tenants. We have also made a conscious decision to increase our exposure in the office sector, particularly in the Sydney suburban office market as the New South Wales state government continues to make significant investment in key infrastructure. The lack of new supply in the office sector has resulted in accelerated rental growth and we expect this trend to continue in the near term. As a whole, the Australian market continues to present attractive opportunities in an economy that has recorded 26 years of unbroken economic growth," added Katz.

During the twelve months to 31 March 2017, the Fund deployed all of the AUD 92 million remaining capacity from the February 2016 rights offer and will be looking to deploy the additional capacity created by the February 2017 rights offer into quality and value enhancing acquisitions.

Through conservative capital and risk management, the Fund's balance sheet remains well positioned for growth with gearing currently at 32%. At the Fund's target gearing ratio of up to 40% this gives the Fund up to AUD 85 million in debt capacity to pursue attractive acquisition opportunities. Currently the Fund's all-in cost of funding sits at 3.71% with 99.1% of the interest rate risk hedged for 7.7 years. This position gives the Fund confidence that it can continue to source accretive acquisitions and maintain the spread of more than 300 basis points between property yields and funding costs.

The Board expects distribution growth for 2018 of between 3.0% and 4.0% pre WHT in AUD. This guidance assumes partial deployment of gearing capacity at the lower end of the range and full deployment at the upper end during 2018 into similar yielding assets. The Fund is now entering a more normalised growth environment for the developed market within which it operates, having had the benefit of utilising its gearing capacity to make acquisitions. The Fund's future growth will be supported by contracted growth in underlying net property income from the base portfolio, maintaining an appropriate level of gearing and the Fund's commitment to creating value through active asset management.