

VUKILE PROPERTY FUND LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 2002/027194/06)
JSE share code: VKE NSX share code: VKN
ISIN: ZAE000180865
(Granted REIT status with the JSE)
(“Vukile” or “the company”)



ACQUISITION OF SPANISH RETAIL PORTFOLIO AND WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT

1. INTRODUCTION

Shareholders are referred to the cautionary announcement published on Tuesday, 27 June 2017 and are informed that Castellana Properties SOCIMI SA (“**Castellana**”), a Spanish REIT which at the time of implementation of the transaction will constitute a 98.3% subsidiary of Vukile, has exchanged and completed contracts with Redevco Iberian Ventures I.S.L (“**the seller**” or “**Redevco**”) to purchase 100% of the equity in eleven property owning companies (more fully detailed in paragraph 3 below (being “**the property companies**”)) that own a portfolio of retail parks located throughout Spain (“**the portfolio**”) for an aggregate base purchase consideration of €193 million, (“**the transaction**” or “**the acquisition**”). The base purchase consideration is subject to potential adjustment based on movements in the net asset value of the property companies as at 30 June 2017 (the “**effective date**”) which is anticipated to result in an upward adjustment of c.€2.5 million to adjust for additional net asset value of the property companies as represented mainly by cash on hand as at the effective date.

Castellana has procured debt funding of €94.8 million by way of loans from Spanish lenders secured over the portfolio (with no recourse to Vukile or Castellana), at an all-in cost of debt of 1.98%. The remaining c.€98.2 million of the purchase consideration plus c.€5.1 million of anticipated acquisition costs will be funded by Vukile via Castellana from internal cash resources and available facilities.

2. RATIONALE

2.1. *Spanish macroeconomics and retail dynamics*

In line with Vukile’s previously communicated strategy of increasing its international exposure to developed Europe, Vukile has identified Spain as a key target market:

- The Spanish economy is currently providing one of the most attractive growth rates in the Eurozone region with GDP growth of 3.2% in 2016 and a forecast for 2017 of 2.2% vs 1.5% for the Eurozone. This trend is set to continue with Spanish GDP expected to outperform Eurozone peers over the next decade;
- Unemployment rates are continually declining spurring robust economic growth and increasing consumption expenditure;
- The main retail market indicators show a positive trend, in line with the Spanish economic recovery;
- Whilst investment activity in the retail sector is strong with total retail investment volumes of well over €2 billion in each of the last three years, rentals are still below the pre-financial crisis levels;
- Due to years of subdued activity during the financial crisis, there is a constrained supply of retail product driving up demand;
- Tourism continues its upward trajectory with Spain, the world’s third most visited country, receiving record amounts of tourists. The tourism industry is an important driver of the economy;
- Although investor appetite for Spanish retail properties continues to compress yields, current yields of secondary retail parks are still 150 bps higher than the market peak in 2007 (the largest gap of all the retail sectors) making such retail parks the properties with the highest potential for further yield compression; and
- Spain experienced a recent credit upgrade from S&P to BBB+ with positive outlook.

2.2. *The portfolio*

- The acquisition gives the company immediate scale in the region through a well-diversified portfolio of 9 retail parks and retail warehouses with a total GLA of 117 670m² across Spain, with a low vacancy rate of 2.7% across the portfolio (excluding development vacancy at Kinopolis Leisure Centre)

- The portfolio has an attractive initial pre-gear'd property yield of 6.2% based on forecasted net operating income of €11.94 million.
- Research suggests that retail parks in secondary locations should be able to achieve yields of up to 5.75%.
- The retail parks in the portfolio are high quality and newly built.
- The portfolio has a WAULT of 15.6 years to expiry and 4.9 years to the next break option.
- The portfolio comprises 73 stores of which 95% of gross revenue is derived from leading Spanish national and international retail tenants including Media Markt, Sprinter, Worten, Aki and Mercadona.
- Retail rentals for prime sub regional retail parks are in the region of €10 - €12 per m² per month. The portfolio has an average monthly rental of €9.04 per m² providing room for income growth.
- Retail parks are well positioned to benefit from online retail growth due to the increasing popularity of “click-and-collect” and “drop-off points” having regard to the availability of ample free parking and proximity to large residential areas.
- The portfolio has further asset management and value-add potential to enhance the portfolio’s operating performance.

2.3. *Management and platform for growth*

Post the acquisition, Castellana will be well-positioned for growth. To ensure a smooth handover and transition, Redevco, the current property and asset managers, will continue to manage the portfolio for a period of 6 months. Post the transition period, the business will be internally asset managed while the property management will be outsourced to a leading global firm with significant experience in the Spanish retail market.

Castellana has secured the services of a highly experienced and respected team of Spanish retail property experts. Whilst the members of the management team have signed agreements with Castellana they will only join Castellana during the transition period as they serve out their notice and non-compete periods with their current employers. The highly experienced asset management team will include:

- *Alfonso Brunet (Chief Executive Officer)*

Alfonso joined Pradera Spain, a specialist retail sector fund and asset manager, in 2006 as Acquisitions Manager and was subsequently promoted to Head of Investment, Spain and to Head of Spain and Portugal in May 2015. Prior to Pradera, Alfonso spent 8 years at CBRE, where his last role was Head of logistics real estate and Industrial agency, responsible for the leasing and disposal of commercial real estate across Spain as well as corporate client management. Alfonso graduated with a Bachelor of Business Administration from Boston University, USA.

- *Rubén Pérez Maíllo (Chief Financial Officer)*

Rubén joined Pradera Spain as a Financial Manager in 2008, responsible for Finance, Accounting and Tax. Prior to that, Rubén spent over four years at Aguirre Newman, where his last role was Head of Accounting, Tax and Finance in the Shopping Centre agency, he also spent two years at Alban Cooper in a similar role. Rubén holds a Degree in Business Administration from Universidad Complutense de Madrid, Spain

- *Pedro Diaz (Development Manager)*

Pedro joined Pradera Spain in 2008 as Development Manager responsible for all the technical issues of a portfolio measuring 240 000m² of GLA across 11 retail schemes in Spain. Prior to Pradera, Pedro spent ten years as Project Analyst at the Development Department in Carrefour, responsible for Feasibility Studies of over 4.5 million square metres of GLA in over 180 retail schemes. Pedro holds a Degree in Architecture from Universidad Politécnica of Madrid.

- *Julio Garcia (Head of Asset Management)*

Julio joined Pradera in July 2001 as an Asset Manager, becoming the Head of Asset Management in 2004. During the past 11 years, Julio has actively participated in the development and growth of Pradera in Spain. Julio graduated with a Bachelor of Business Administration from the University of Cadiz.

In addition to this team and to further ensure a smooth handover and integration process, a senior manager from Vukile will be seconded to Spain to assist with the integration of the business operations.

The Morze family’s association with Castellana was instrumental in securing the transaction on an off-market basis. Lee Morze is a successful South African property entrepreneur now based in Madrid with over 27 years of property industry experience.

This platform, leveraged with Vukile’s entrepreneurial deal-making abilities and retail expertise, provides a scalable platform to take advantage of further opportunities in the region.

2.4. Impact on Vukile

On conclusion of the acquisition, Vukile will have made significant progress on its stated strategy of international expansion, diversifying its income stream and enhancing its portfolio, with c. 21% of its aggregate portfolio (held directly or *via* its investments in Castellana and Atlantic Leaf Properties Ltd) comprising offshore properties. Taking into account this acquisition, and as reported by Vukile in its results for the period ended 31 March 2017, Vukile reaffirms that it expects to deliver growth in dividends of between 7% and 8% for the year ended 31 March 2018.

Through Castellana, Vukile has established a fiscally efficient structure that affords investors access to appropriately geared, yield focused, investment grade Spanish retail assets that are internally managed by a highly regarded and experienced in country management team and an operating platform positioned to deliver sustainable growth through both organic and acquisitive asset management.

3. TERMS OF THE ACQUISITION

Each property comprising the portfolio is owned by a separate wholly owned subsidiary of the seller as follows:

Entity	Property
Redevco Villaneuva I, S.L.U.	Retail Park La Serena (Villanueva I)
Redevco Villaneuva Fase2, S.L.U.	Retail Park La Serena (Villanueva II)
Redevco Merida, S.L.U.	Retail Park La Heredad (Mérida)
Redevco Cáceres, S.L.U.	Retail Park Mejestilla (Cáceres)
Redevco Motril, S.L.U.	Retail Park Motril (Motril)
Redevco Granada, S.L.U.	Kinépolis Leisure Centre (Kinépolis LC) and Kinépolis Retail Park (Kinépolis RP)
Redevco Castellon, S.L.U.	Ciudad del Transporte
Redevco Huelva, S.L.U.	Retail Park Marismas Del Polvorín (Huelva)
Redevco Parque Principado, S.L.U.	Retail Parque Parque Principado (Parque Principado)
Roxbury Spain, S.L.U.	Retail Park Parque Oeste de Alcorcón (Alcorcón R.P.)
Randolph Spain, S.L.U.	Retail Park Parque Oeste de Alcorcón (Alcorcón M.M.)

The portfolio has been acquired on an unconditional basis with effect from the effective date. The purchase price was paid in cash on the effective date.

Post the transaction Vukile will own 98.3% of the equity in Castellana with the remaining equity being held by a corporate structure representing the interests of the Morze family.

Normal warranties and undertakings for a transaction of this nature have been obtained. Apart from certain warranties in respect of certain administrative and tax compliance issues in relation to certain properties and/or the property companies (in respect of which the seller remains liable for settlement of any resultant claims), Castellana will rely on warranty and indemnity insurance underwritten by Ambridge Europe Limited to recover any financial claims arising from any contractual claims.

4. PROPERTY SPECIFIC INFORMATION

The property specific information required in terms of the JSE Listings Requirements in relation to the portfolio is set out below:

1.	Property name and address Sector Geographical location Rentable Area (m²) Weighted Average rental per m² Purchase price of the property	Retail Park Parque Oeste de Alcorcón (Alcorcón) Retail Alcorcón, Madrid, Spain 13 604 €15.03 €43.0 million
2.	Property name and address Sector Geographical location Rentable Area (m²)	Retail Park La Heredad (Mérida) Retail Mérida, Extremadura, Spain 13 447

	Weighted Average rental per m²	€7.37
	Purchase price of the property	€17.5 million
3.	Property name and address	Retail Park Motril (Motril)
	Sector	Retail
	Geographical location	Motril, Andalucia, Spain
	Rentable Area (m²)	5 559
	Weighted Average rental per m²	€8.33
	Purchase price of the property	€7.5 million
4.	Property name and address	Retail Park La Serena (Villanueva)
	Sector	Retail
	Geographical location	Villanueva de la Serena, Extremadura, Badajoz, Spain
	Rentable Area (m²)	12 405
	Weighted Average rental per m²	€6.74
	Purchase price of the property	€14.0 million
5.1.	Property name and address	Kinépolis Leisure Centre (Kinépolis LC)
	Sector	Retail
	Geographical location	Granada, Andalucia, Spain
	Rentable Area (m²)	7 369
	Weighted Average rental per m²	€9.38
	Purchase price of the property	€11.8 million
5.2.	Property name and address	Kinépolis Retail Park (Kinépolis RP)
	Sector	Retail
	Geographical location	Granada, Andalucia, Spain
	Rentable Area (m²)	18 508
	Weighted Average rental per m²	€9.18
	Purchase price of the property	€29.7 million
6.	Property name and address	Retail Park Mejestilla (Cáceres)
	Sector	Retail
	Geographical location	Cáceres. Extremadura, Spain
	Rentable Area (m²)	7 281
	Weighted Average rental per m²	€6.52
	Purchase price of the property	€8.0 million
7.	Property name and address	Retail Parque Parque Principado (Parque Principado)
	Sector	Retail
	Geographical location	Asturias, Paredes, Spain
	Rentable Area (m²)	16 246
	Weighted Average rental per m²	€9.44
	Purchase price of the property	€30.0 million
8.	Property name and address	Ciudad del Transporte
	Sector	Retail
	Geographical location	C. Valenciana, Castellón, Spain
	Rentable Area (m²)	3 250
	Weighted Average rental per m²	€10.94
	Purchase price of the property	€6.5 million
9.	Property name and address	Retail Park Marismas Del Polvorín (Huelva)
	Sector	Retail
	Geographical location	Huelva, Andalucia, Spain
	Rentable Area (m²)	20 000
	Weighted Average rental per m²	€7.55
	Purchase price of the property	€25.0 million

Acquisition costs of c.€5.1 million are anticipated to be incurred in respect of the transaction. The purchase price of each property within the portfolio as indicated above is considered to be its fair market value, as determined by the directors of the company. The directors' assessment of the fair value of the properties is supported by valuation reports on the portfolio issued by Colliers International as part of Castellana's due diligence process. The directors of the company are not

independent and are not registered as professional valuers or as professional associate valuers in terms of the Property Valuers Profession Act, No.47 of 2000. The aggregate value of the net assets of the property companies (after deducting the debt and including cash within the property companies) is c.€106.1 million.

Additional information on the portfolio is contained in an investor presentation that is available today, Monday, 3 July 2017 from 09h00 (SA time) on Vukile’s website at www.vukile.co.za.

Vukile will be hosting an investor conference call in respect of the transaction which will take place today, Monday, 3 July 2017 at 09h30 (SA time). The conference call details are as follows:

Pre-registration link:

<http://services.choruscall.za.com/DiamondPassRegistration/register?confirmationNumber=5380211&linkSecurityString=1198fda6a>

Dial-in Numbers:*

Johannesburg: 011 535 3600

Johannesburg: 010 201 6800

SA Toll-Free: 0 800 200 648

UK Toll-Free: 0 808 162 4061

USA and Canada: 1 855 481 5362

Other: +27-11-535-3600

**Participants to request the Vukile Conference Call*

5. FINANCIAL INFORMATION

Set out below are the forecast revenue, operational net income, net profit after tax and earnings available for distribution of the acquisition (“**the forecast**”) for the 12 months ending 30 June 2018 (“**the forecast period**”).

The forecast has been prepared on the assumption that the acquisition is effective on 1 July 2017 and on the basis that the forecast includes forecast results for the duration of the forecast period.

The forecast, including the assumptions on which it is based and the financial information from which it has been prepared, is the responsibility of the directors of the company. The forecast has not been reviewed or reported on by independent reporting accountants.

The forecast presented in the table below has been prepared in accordance with the company’s accounting policies, which are in compliance with International Financial Reporting Standards.

	Forecast for the 12 months ending 30 June 2018 R’000
Property revenue	196,491
Straight-line rental income accrual	7,857
Property expenses	(27,723)
Net operating profit	162,675
Total comprehensive profit for the period	127,697
Profit available for distribution	124,300

The forecast incorporates the following material assumptions in respect of revenue and expenses:

1. The forecast is based on information derived from the management accounts, budgets, and rental contracts provided by Redeeco.
2. Property revenue is derived from the forecasts provided to the company by Redeeco.
3. Total comprehensive profit includes the effects of finance costs.
4. Contracted revenue is based on existing lease agreements including stipulated increases, all of which are valid and enforceable.
5. Leases expiring during the forecast period have been forecast on a lease-by-lease basis and have been assumed to renew at current market rates unless the lessee has indicated its intention to terminate the lease.
6. Of the rental income included as part of property revenue of R177.2 million (€12.3million), c.98% relates to contracted rental and c.2% relates to uncontracted rental. No near contracted rental income is forecast.
7. Property expenses have been forecast by the property manager on a line-by-line basis based on management’s review of historical expenditure, where available, and discussion with the property manager.
8. Net operating profit includes provision for an asset management fee of 50 bps per annum of GAV.

9. Interest costs relating to the debt funding procured of R1 370 million (€94.8 million) at an all-in cost of 1.98% as mentioned in paragraph 1 have been included in the forecast.
10. No fair value adjustment is recognised.
11. Profit available for distribution is stated net of withholding tax of 2.66%.
12. A EUR: ZAR exchange rate of R14.5558 has been assumed for the purposes of this forecast.
13. There will be no unforeseen economic factors that will affect any lessee's ability to meet their commitments in terms of existing lease agreements.

6. CATEGORISATION OF THE ACQUISITION

The acquisition is classified as a category 2 transaction in terms of the JSE Listings Requirements. Accordingly, it is not subject to the approval by shareholders. As each of the property companies will become subsidiaries of Vukile, Vukile will ensure that there are no provisions in their by-laws that may frustrate or relieve Vukile from complying with the JSE Listings Requirements.

7. WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT

The cautionary announcement published on 27 June 2017 related to the transaction. With the publication of this announcement cautionary is no longer required to be exercised in dealing in the company's shares.

3 July 2017

Corporate Advisor and Sponsor

JAVACAPITAL