Group investment performance

The Board has reconfirmed its desire to increase Growthpoint's offshore exposure but remains aware of current capital limitations. The progress we can make in the short to medium term may be limited but we still intend to be more deliberate in our focus on our international investment model and asset allocation.

Overview of offshore property portfolio

	GOZ		C&R		GWI	
	30 June 2021	30 June 2020	**30 June 2021**	30 June 2020	**31 December 2020**	31 December 2019
Asset value (Rm)	**49 462**	51 845	**10 532**	14 764	**51 736**	58 553
Number of properties	**55**	58	**7**	7	**66**	62
Gross lettable area (GLA) (m^2)	**1 033 028**	1 042 929	**350 980**	328 512	**1 271 300**	1 213 700
Value per m^2	**AUD4 376**	AUD4 049	**GBP1 375**	GBP1 861	**EUR2 402**	EUR2 474
Capital expenditure (Rm)	**126**	1 057	**80**	1 714	**1 369**	2 725
Gross property revenue (Rm)	**3 229**	3 024	**1 234**	715	**4 005**	4 027
Property expenses (Rm)	**(565)**	(487)	**(629)**	(335)	**(1 276)**	(1 267)
Property expense ratio (%)	**17.5**	16.1	**51.0**	46.9	**31.9**	31.5
Net property income (Rm)	**2 664**	2 537	**605**	380	**2 729**	2 760
Vacancies (%) (EVR)	**2.9**	6.8	**10.3**	5.0	**9.1**	5.3
Arrears (Rm)	**5.7**	20.5	**471.9**	300.0	**182.7**	280.8
Bad debt (I/S) (Rm)	**–**	3.0	**50.4**	93.5	**83.0**	92.7
Average gross rental (per m^2/annum)	**AUD270**	AUD290	**GBP123**	GBP177	**–***	–*
Average annualised yield (%)	**5.8**	5.7	**7.9**	7.2	**–***	–*
Average in-force escalations (%)	**3.4**	3.3	**–***	–*	**–***	–*
Weighted average lease period (years)	**6.2**	6.2	**6.2**	5.9	**4.5**	4.6
Letting success rate (%)	**72.0**	83.2	**–***	–*	**–***	–*
Weighted average renewal growth (%)	**(7.3)**	(4.0)	**–***	(27.7)	**–***	–*
Weighted average future escalations on renewals (%)	**3.4**	3.4	**–***	–*	**–***	–*
Weighted average renewal lease period (years)	**7.1**	13.9	**4.4**	4.9	**–***	–*
Number of employees	**33**	28	**72**	100	**–***	240

** C&R/GWI do not report on these indicators.*

Growthpoint Australia (GOZ)

Growthpoint Australia is a publicly traded ASX-listed A-REIT (ASX: GOZ) that owns and manages a diversified portfolio of quality investment properties.

It is mandated to invest in the office, industrial and retail property sectors, and its 55 office and industrial properties are primarily located in growth states on Australia's eastern seaboard.

This portfolio is currently valued at approximately AUD4.5bn and comprises two-thirds office and one-third industrial properties. GOZ is included in the S&P/ASX 200 Index and has a Moody's investment grade rating of Baa2 for domestic senior secured debt. The company is actively looking for opportunities to grow the business, including the acquisition of high-quality properties and entry into fund management.

Just as the Covid-19 pandemic continued to have a profound impact on businesses and individuals around the world in FY21, it also created challenges in GOZ's operating environment, disrupting the way its team worked together and delaying some of its planned initiatives.

However, GOZ entered this period on a solid footing and took action at the beginning of the pandemic to protect its business. This ensured that it was able to meet the challenges head-on and resulted in the pandemic not having a material direct financial impact on the business.

Performance

There was a great deal of uncertainty regarding the longer-term impact of the Covid-19 pandemic at the start of FY21 and as a result GOZ did not initially provide earnings guidance. However, as the year progressed and confidence grew following its leasing success, FFO guidance of AUD25.2c – 25.5c per security was issued in February. This guidance was increased to AUD25.4c – 25.7c per security in April.

GOZ started the year with reduced earnings of AUD10.4m due to Woolworths vacating a sizeable industrial asset during FY20. This loss was, however, offset by increased income from the distribution centre in Gepps Cross, following the completion of a significant expansion in partnership with Woolworths. GOZ also began collecting revenue from Botanicca 3, its new A-grade office building in Richmond, Victoria, which has been progressively leased over FY21 and is expected to be fully occupied by the end of the calendar year.

The Board provided FY21 distribution guidance of AUD20.0c per security, and although GOZ's financial performance exceeded initial expectations, the Board thought it prudent to maintain a lower pay-out of between 75% and 85%, with the expectation that leasing incentives will remain elevated in the near term. Maintaining a more conservative pay-out ratio will assist the Board in providing shareholders with growing distributions in the future.

In February, GOZ initiated an on-market buy-back programme for up to 2.5% of its issued capital in response to market volatility and this remains in place. At the time, its security price was trading at a significant discount to net tangible assets (NTA), despite the business continuing to deliver a strong performance with no significant direct financial impact from the Covid-19 pandemic and substantial valuation gains across both the office and industrial sections of the portfolio.

As of 30 June 2021, GOZ had purchased 416 643 securities (0.05% of issued capital) at an average price of AUD3.27.

GOZ's security price has significantly appreciated over the second half of the financial year and it has made up the majority of the ground lost at the onset of the pandemic. This drove the substantial increase in total securityholder return over the year and once again, it outperformed the ASX/S&P 200 REIT Accumulation Index. GOZ has now outperformed the index over the past one, three, five and 10-year periods.

Portfolio highlights

To ensure its portfolio is aligned with its overall strategy, GOZ regularly reviews its assets. During FY21, three assets were identified for disposal and successfully sold.

Opting not to pursue a lengthy development project in an uncertain operating environment, it sold a vacant industrial property at 120 Northcorp Boulevard, Broadmeadows, Victoria, early in FY21. The cost of holding this non-income producing asset was factored into this decision.

In May 2021, GOZ also announced the sale of its leasehold interest in Quad 2 and Quad 3, Sydney Olympic Park, New South Wales, as these properties no longer fitted in with its portfolio of defensive assets. The weighted average lease expiry (WALE) of these assets was approximately 1.6 years as of March 2021, significantly below GOZ's office portfolio's WALE. In addition, around 17% of its tenants were based at the Quads, despite these assets representing only 1.5% of the portfolio by value which was very management-intense.

Even though GOZ divested from the Quads, it remained confident in the long-term outlook for Sydney Olympic Park and was able to re-invest the sale proceeds relatively quickly into a nearby A-grade, modern office asset. The new property, situated at 11 Murray Rose Avenue, is fully leased to high-quality tenants with an average 4.8-year WALE as of 30 June 2021.

During FY21, the portfolio's occupancy increased to 97% and GOZ maintained its long average WALE of 6.2 years due to substantial leasing success. Most notably, in October a 10-year and seven-month lease was signed with Bunnings for 71% of Botanicca 3. The lease was executed in the middle of Melbourne's extended Covid-19 lockdown and was one of the most significant office leasing transactions in FY21. Upon commencement of the lease, Bunnings became one of GOZ's top 10 largest tenants by income.

Several long leases were also signed with other key tenants, including Monash University, the South Australian Government, Australia Post and Autosports Group. The business did not experience any significant changes to tenants' space requirements for lease renewals and tenants continued to seek long leases, with the average lease term being 8.2 years.

Driven by its leasing success and proactive asset management over a number of years, the value of the GOZ's portfolio over FY21 on a like-for-like basis increased by 10.2%, or AUD417m. This was the largest 12-month like-for-like increase in its history.

ESG

GOZ is committed to sustainable operations and reducing its environmental footprint. During FY21, it significantly accelerated its efforts to achieve net-zero carbon emission across its operationally controlled office assets and corporate activities. It is now aiming to achieve this by 2025 – or 25 years sooner than its initial target, which was set in 2017 to align with the Paris Agreement.

Reducing energy usage, meeting energy needs with carbon-free energy, and offsetting residual emissions with high-quality carbon offsets are the three key focus areas for the business. The net zero target will be achieved through energy efficiency measures and onsite solar installations, as well as investment in offsite renewable energy for its residual energy needs. In addition, high-quality carbon offsets will be used for emissions it cannot avoid or reduce, such as natural gas use and emissions from corporate activities.

To further align with the recommendations made by the TCFD, GOZ made significant progress in its sustainability reporting. This includes publishing the results of a high-level scenario analysis that considers the likely impact of an increase in global temperature on its portfolio (physical risks) and stress-tests its resilience to a rapid transition to a low-carbon economy (transition risks). Pleasingly, the analysis did not identify any material downside financial risk in either scenario. The research found that by focusing on building a resilient portfolio with strong green credentials, GOZ was in a solid position to respond to the potential physical and transitional impacts of climate change in the medium and long term.

Overall, the business has continued to do well in external ESG benchmarks. Its global real estate sustainability benchmark (GRESB) score increased 3% to 74/100, which was 6% higher than the GRESB average score.

Growthpoint Australia (GOZ) *continued*

It also maintained an above-average Carbon Disclosure Project (CDP) score of B. In addition, the average NABERS energy rating across GOZ's modern, efficient portfolio is 5.1 stars.

GOZ's community engagement focused on charitable drives and donations in collaboration with its tenant communities. For example, the business participated in the "Dignity Drive", an initiative run by Share the Dignity and supported by major tenants Bunnings and Woolworths.

During FY21, it also continued its support of the Property Industry Foundation (PIF), which works closely with the property and construction industries to provide housing for homeless youth. GOZ supports PIF with an annual donation. Additionally, GOZ became a sponsor of Healthy Heads in Trucks and Sheds (HHTS). The foundation, which is focused on mental health and wellbeing for workers in the road transport and logistics industries, is supported by key GOZ tenants Linfox, Woolworths, Australia Post and Toll.

Recognising that its people are integral to its success, GOZ supported all permanent employees through this challenging period by not reducing working hours or fixed remuneration. While the Covid-19 pandemic continued to affect the ability of staff to collaborate as a team in its Melbourne head office, the business ensured that its people stayed connected and motivated while working from home for an extended period. Regular virtual social events were organised, with additional sessions focusing on mental health and building resilience.

GOZ also mandated an external provider to undertake its annual employee survey, and its engagement and alignment scores were in line with FY20. Furthermore, it maintained its position in the top quartile of its benchmark group. This was considered an excellent result, considering that not all companies within its benchmark group faced the same extended work-from-home government directives that GOZ did.

Prospects

The position for GOZ remains promising. The business has successfully navigated the challenges presented by the Covid-19 pandemic and it is firmly focused on the future.

As we look ahead, the future of our operating environment and the broader Australian economy is less clear when compared with just a few months ago, as many parts of Australia are now under lockdown due to the threat of the Delta-variant of Covid-19.

Industrial property, which makes up a third of GOZ's portfolio, has continued its global popularity. Demand for well-located industrial assets continues to grow, fuelled by increasing online shopping and changing consumer expectations with regard to delivery times. These trends are expected to support ongoing investor appetite for this sector. While GOZ's portfolio has benefited from this strong demand, it is making it difficult to acquire additional properties for the portfolio.

While retail is part of GOZ's mandate, it does not have any retail assets. Two-thirds of GOZ's portfolio comprises office buildings. Most of these properties are in suburban locations and are expected to perform reasonably well relative to the market overall. The vast majority of its office tenants have returned to working in their offices regularly. While it is too early to say there is a definite trend of organisations adopting a hub and spoke model, there are some encouraging signs. There is also a strong demand for GOZ's metropolitan offices from both existing and potential tenants.

GOZ's gearing and pay-out ratio are at record lows. This places it in a solid position to pursue growth opportunities, including acquiring high-quality properties and entering funds management.

Top 10 GOZ tenants by gross rental contribution as at 30 June 2021

	Tenants	GLA m²
1	Woolworths	**248 169**
2	NSW Police Force	**32 356**
3	Commonwealth of Australia	**36 343**
4	Country Road Group	**23 156**
5	Linfox	**58 077**
6	Bank of Queensland	**13 237**
7	Australia and New Zealand Banking Group	**13 744**
8	Bunnings Warehouse	**13 886**
9	Samsung Electronics	**13 423**
10	Lion	**12 317**
Sub-total		**464 708**
Balance of the sector		**544 920**
Total for the industrial sector (excluding vacancies)		**1 009 628**

Capital & Regional (C&R)

C&R is a UK-focused pure retail property REIT invested in seven community shopping centres dominant in their catchment areas.

While its community-centre strategy has provided a sound platform for navigating these unprecedented times, performance over the past 12 months was severely impacted by Covid-19 and the UK's extensive lockdown measures. As a result, it made no contribution to Growthpoint's distributable income for the period. However, the gradual easing of lockdown restrictions has led to a strong rebound in retail and there is more room for improvement ahead.

Performance

As a backdrop to our current performance, it is worth noting that C&R adopted a new strategy in 2017 to best position our assets to deal with the structural changes that were having an impact on the retail sector before Covid-19. Through our asset management and leasing activities, we began remixing our centres to serve their communities better by focusing on non-discretionary or needs-based retail and services, such as grocers and gyms, for instance, instead of department stores.

The pandemic accelerated the structural shift in retail and has been an excellent stress test of our strategy. Our portfolio has proved to be robust, while our assets have been shown to play a fundamental role in serving their local communities. The shopping centres that are further advanced with re-tenanting in line with our new community strategy and have more grocery and essential retail have fared better in their operational performance and softened the fall in valuations witnessed across the retail market. While we have not been immune to the impacts of Covid-19, we are in a better position than we would have been had we not already started on this journey. With hindsight, we would have liked to have moved even faster.

Our commitment to our business strategy of increasing community services in our centres and unlocking the potential for more income streams – including mixed-use through added density like our residential plans at Walthamstow – has really been reinforced by our experience during the pandemic.

After its first lockdown, the UK implemented two further national lockdowns and frequently changed regional tier restrictions between July 2020 and June 2021. During much of this time, only around a third of our tenant space was open and this had a significant impact on trading and footfall. However, our strategic shift to providing non-discretionary goods and services ensured that all our centres remained open throughout the financial year.

On another positive note, each time restrictions eased between the lockdowns, our portfolio recovered quickly. The third and longest lockdown was in place from 26 December until 12 April, with non-essential retail permitted to reopen thereafter, albeit still with capacity restrictions to manage social distancing. By the end of June, 99% of leased units across the portfolio were trading and footfall had increased from 30% of the numbers seen in 2019 to 72%. Retailers reported strong sales and consumer engagement.

The challenging environment during many long months of lockdown is reflected in our metrics, but while we have suffered, the impact on community centres has been much less than on "prime regional malls" and "city" centres. Our centres' incomes and values have also been made more resilient by more affordable rents of around 12GBP – 15GBP per square foot per year. Our assets are in popular dormitory towns and suburbs with a focus on London and the South East of the UK and our retailers are outperforming in suburban and community centres.

The government's extension of its moratorium on normal landlord-tenant legal remedies for collecting rentals to March 2022 has had a substantial impact on rental collections. Many retailers have acted responsibly, with most agreeing to temporary deferments. We also have a good core of tenants who have paid in full. From January to June 2021, we collected around 70% of rental billed and an increase is anticipated over the coming months as the economy and retail trade recover.

During FY21, we continued to support both our small and independent retailers and tried to ensure that larger, well-capitalised retailers honoured their commitments. All the same, arrears increased and we needed to provide more for bad debt. There was an increase in company voluntary agreements (CVA) and liquidations as the impacts of the pandemic challenged retailers' balance sheets, some of which were already under pressure before the health crisis. This included Debenhams, which closed its three stores in our portfolio. Our efforts to re-let these spaces are progressing well. The portfolio occupancy remains a robust 90% and fortunately, we are seeing fewer liquidations and CVAs in 2021 and encouraging levels of leasing interest and transactions.

Our top 20 tenants are robust and do not represent an area of significant risk. A further positive is that the retailers which represent our most significant current and future tenant base are resilient and growing. Grocery and pharmacy retailers are expanding their physical footprints, as are service businesses and retailers in the value apparel and general merchandise category. We continue to benefit from our strategic focus on independent retailers. In the period between the reopening of non-essential retail in mid-April and the end of June 2021, some 75 new lettings or renewals were either finalised or are in the process of being finalised.

Our relationships with retailers are paramount and our retailer support liaison team has increased its efforts to nurture strong partnerships. Coming out of the Covid-19 environment, we have noted the rise of the "retailpreneur" and have actively been attracting and accommodating smaller independent retailers in pop-up stores and smaller kiosks. Some of these retailers are now growing in our portfolio following their initial success, showing that providing a fertile environment for start-ups can create new sources of income for us and maximise revenue. We have started leveraging underutilised space within our centres' car parks as neighbourhood hubs for providing a range of innovative, tech-enabled retail and services. Opportunities exist in last-mile logistics, dark kitchens, e-bike and e-scooter rental stations, electric vehicle charging stations and self-storage solutions.

Capital & Regional (C&R) *continued*

An emphasis on "staying local" has led to more discovery and focus within local neighbourhoods. The concept of the 15-minute neighbourhood – where consumers can easily access all their day-to-day needs including food, education and outdoor space within a 15-minute walk from their homes – is increasingly coming to the fore in the UK, and our centres are benefiting because they revolve around communities and promote walkability, in alignment with our environmental, social and governance (ESG) strategy of being more sustainable and lowering our environmental impact.

The shift towards localism in the UK is especially noticeable in London, which is essentially a vast city made up of many small towns and our assets there have shown the most resilience over the past 18 months, during which our assets have lost approximately a third of their value. The rate of value decline in the first six months of 2021 slowed to half the pro rata rate experienced in 2020 and expectations are that it will slow again in the final six months of 2021. Considering that this trend would usually indicate the approach of the bottom of a valuation cycle, and keeping in mind that community centres are expected to perform better than others, we are optimistic that the decline in our property values will not continue in 2022.

We entered the financial year with new equity funds from the Growthpoint transaction and we intended to use these, in part, to pay-down debt. However, in the uncertain landscape of Covid-19, we have held off to create a buffer of cash and flexibility in the business. We will maintain this position until there is a clearer path forward and have also remained in close discussions with our banks regarding covenant waivers as a result of our decreased property values. Waivers on all our assets have been agreed until October 2021. Holding on to the funds has given us great security, but it is not the best financial option. We have carefully categorised our debt, and analysed various options and structures so that we can move forward purposefully and strategically, and we are working with the banks to find a more permanent solution as our operational environment stabilises.

Portfolio highlights

Although we have continued to realign our centres with their communities through proactive asset management and leasing, we have also slowed our capital spending to about a third of normal levels to protect our cash flow and balance sheet. We remain cautious about committing central cash until we have a better line of sight as to any additional Covid-19-related restrictions that could further impact the trajectory of capital values. Our capital spending in FY21 has been heavily focused on three priority projects: planning for the Walthamstow residential project, adding the grocery offering of Lidl to Luton, and undertaking the groundwork to repurpose our Debenhams stores for best use.

ESG

The past 12 months have accelerated stakeholder expectations regarding ESG issues. As part of our agenda to ensure that our assets are fit for the future, we have renewed our long-standing commitment to ESG best practice, ensuring that it will continue to serve our communities and strengthen our position, performance and perspectives. We have developed a new overarching, integrated ESG strategy for 2021 and our reporting is guided by recommendations from the TCFD.

We want our centres to be leaders in sustainable practice – underpinned by our commitment to net-zero operations – and have a positive impact on our communities. We will partner with local authorities and community groups and support local initiatives for sustainable solutions to environmental and social issues. Our ESG strategy will build on the following key areas:

- Progress on our future aspirations regarding carbon reductions
- Waste and water management
- Risk management associated with climate change and the potential impact of extreme weather events on our centres
- Defining our short, medium and long-term targets in-line with the Paris Agreement.

To assist with our target setting, we will adhere to the United Nations' Sustainable Development Goals (SDGs) that are relevant to our business. This will define our priorities and the core activities needed to reach our targets for 2030 and help us to communicate more consistently and effectively with stakeholders about our impact and performance.

We have completed a disclosure to GRESB and plan to include our CDP performance for 2021. Using a straight-line trajectory, and a baseline of 2015, a 4% annual decrease in baseline carbon emissions is required each year to achieve carbon neutrality for scope 1 and 2 emissions by 2040. From 2015 to 2019, we invested more than GBP1m in energy efficiency projects and these have achieved 90% energy savings to date. Our focus was on scope 1 and 2 for areas that were directly under our control. In 2020, we added a focus on scope 3, which includes usage by retailers, occupiers and staff.

To support community living, our shopping centres partner with the communities we serve. Key stakeholders include:

- Local authorities
- Educational establishments
- Local charities
- Community/voluntary support groups
- Community sustainability groups
- Local cultural groups and celebrations
- Local residents who need to obtain employment, especially with the increase in unemployment due to the pandemic.

Our FY21 community support in numbers:

- We supported more than 80 charities
- We provided employment for more than 8 000 people across the portfolio
- We supported more than 78 community groups
- Our employees volunteered 1 758 hours in support of local community groups
- We donated more than GBP83 000 to local charities between April 2020 and March 2021.

C&R's diversity and inclusion programme was also launched in FY21 to ensure that we can continue our commitment to inclusion and drive innovation within the business that we believe will have a material impact on our performance.

Covid-19

The UK government's response to the pandemic was twofold: protecting lives by ensuring that the healthcare system and hospitals could cope and protecting livelihoods by trying to preserve jobs. At C&R, we view this as a humanitarian crisis first and then an economic one and believe that every link of the retail value chain should shoulder the burden.

The nature of our business has seen us providing a lifeline to the communities we serve by giving them access to groceries and essentials in safe environments. The importance of this has resulted in all our centres remaining open throughout the pandemic. However, a percentage of retailers were not authorised to open. Our in-house management team provided guidance and direction to all our retail customers and occupiers throughout the pandemic. We safeguarded against empty properties and supported the "Covid secure" plans of those who were able to trade. To assist the many small and independent businesses whose shops are their only source of income, we also carefully managed our capacity to shoulder a share of the burden throughout the entire period.

We worked hard to keep our shopping centres safe and remained connected to our customers by actively engaging with the local community digitally. Our detailed safety assessments and adherence to protocols and restrictions meant that none of our assets suffered forced closures or fines. In addition, our established working relationships with the local authorities and environmental health officers (EHOs) allowed us to collaborate with other stakeholders in the community and through this we were able to maintain operations and protect both our business performance and our local communities.

The Covid-19 pandemic has undoubtedly affected our work practices at our properties and our support office, but with some reconfiguration we were able to create "work bubbles" to allow those staff who wanted to return to the office to do so. We also applied measures to protect and support our centre-based teams during the pandemic and developed "management bubbles" to keep them safe.

To assist with all staff members' mental health and well-being, our "All About You" committee' focuses on ensuring that employees feel connected, engaged and supported. We also launched our Employee Voice 24/7 tool which allows employees to anonymously provide feedback to the business on any issue or topic that is important to them. All feedback submitted is reviewed and acted on by the senior leadership team.

In June 2021, we undertook an Employee Engagement Survey to understand how our employees have managed through Covid-19 and how we can support them in returning to the office. Overall, our response rate was 97%, and the overall score was 7.8 out of 10.

Prospects

Although we have learnt to be cautious when speaking about recovery, all indications are that we are moving on to surer footing. This environment is enabling more longer-term planning and a return to "more normal" business.

There is good reason to be optimistic within the UK. The advancement of our vaccination programme has put us ahead of the pack. After the pandemic pushed customers towards online shopping last year, the tide has now turned and e-commerce is not dominating retail spend. Shoppers are demonstrating that they still enjoy the physical retail experience.

We have already seen an increase in activity in the real estate capital market, shopping centre footfalls are recovering, retail sales are trending higher, retailer performance is improving and property valuations are showing real signs of stabilising. The UK economy is set to reopen almost entirely in July 2021, when capacity limits will fall away and this will create more room for improvement.

We are increasingly confident that both consumers and retailers share the need for well-located, accessible community retail and service centres with affordable occupancy costs and we have a good leasing pipeline in place.

C&R will seek to build on our strengths going forward by incorporating more independent retailers and alternative space usages in our centres, with a focus on services that are critical to our communities.

Globalworth Real Estate Investments (GWI)

Globalworth Real Estate Investments (GWI) is a real estate company active in Central and Eastern Europe (CEE), which is listed on the AIM-segment of the London Stock Exchange. Through its market-leading positions in Poland and Romania, it has become the pre-eminent office investor in the CEE real estate market. GWI acquires, develops and directly manages high-quality office and industrial real estate assets in prime locations that attract tenants from around the world and generate rental income.

Managed by over 230 professionals in Cyprus, Guernsey, Poland and Romania, 95.1% of the GWI portfolio consists of income-producing assets, predominately in the office sector, that are leased to a diverse array of more than 650 national and multinational corporates. In Poland, GWI has a presence in Warsaw, Wroclaw, Lodz, Krakow, Gdansk and Katowice, while in Romania it has assets in Bucharest, Timisoara, Constanta and Pitesti.

Shareholding and executive changes

In December 2020, the founder and co-CEO of GWI, Ioannis Papalekas, stepped down from his role, leaving Dimitris Raptis as the sole CEO.

After becoming the biggest shareholder in GWI in February 2020, CPI Property Group joined with Aroundtown to form a consortium that now holds 60.6% of the share capital, via Zakiono Enterprises Limited. This followed the completion of a cash acquisition of GWI shares at EUR7.00 per share, which was initiated by way of a formal offer announced in May 2021.

Growthpoint received an offer from Aroundtown S.A. and CPI Property Group S.A. for its shares in GWI in April 2021. However, the Independent Committee of the Board of GWI, which was appointed to consider the formal offer, concluded that it significantly undervalued the company, its assets and its prospects. The Board of Growthpoint agreed with this view and consequently did not accept the offer, which means that we continue to hold a 29.3% stake in GWI.

Performance

For its six-month financial period ended 31 December 2020, Growthpoint received dividends of EUR 0.15 per share from GWI, totalling R186.8m. It also received dividends in respect of the six-month financial period ended 30 June 2021 of EUR 0.15 per ordinary share, amounting to R183.5m.

Revaluation losses mainly caused by Covid-19 were counterbalanced by the acquisition of two high-quality logistics and light industrial properties in Romania and the net positive impact from developments completed, in progress or under refurbishment, meaning that GWI's overall gross asset value increased by 2.0% to EUR3.07bn at 30 June 2021 compared to 30 June 2020. The portfolio now consists of 66 standing properties with a gross lettable area (GLA) of 1.3m square metres.

In the six months to end-June 2021, the like-for-like appraised value of GWI's standing commercial properties was stable and remained effectively unchanged – moving only 0.1% lower in the half-year – to EUR2.7bn.

As a result of the negative impact of revaluations, GWI reported an IFRS earnings per share of EUR-21 cents for its financial year ending 31 December 2020 (2019: EUR93 cents). It reported IFRS earnings per share of EUR6 cents in the six months ending 30 June 2021, which was a significant improvement on the same six months for 2020, where earnings per share were EUR-22 cents as a result of negative revaluations.

GWI's preliminary EPRA net reinstatement value (NRV) as at 30 June 2021 of EUR1 903m, or EUR8.61 per share, represented a marginal decrease compared to EUR8.68 at 31 December 2020. This was mainly due to the payment of an interim dividend and the negative impact of the IFRS valuation losses.

GWI maintained its investment-grade rating by all three major rating agencies post the 31 December 2020 year-end review of the company. Its loan-to-value ratio (LTV) of 39.2% at 30 June 2021 is consistent with its long-term strategy of keeping its LTV at below 40%. Its liquidity position remained extremely high, with EUR459.9m of cash available as of 30 June 2021, and an additional undrawn EUR215m revolving credit facility.

Further improvement in its debt maturity profile was achieved through the repurchase of approximately 41% of notes maturing in 2022 at a 2.0% premium to their par value. This effectively extended their maturity through the July 2020 issuance of its inaugural "green" bond, which raised EUR400m with a six-year term and was more than two-times oversubscribed. This further formalised GWI's commitment to green financing initiatives.

GWI's weighted average interest rate at 30 June 2021 was 2.7%.

Leasing transactions for 194 400m^2 – comprising new lets, renegotiations and extensions – were concluded in the six months from January to June 2021. Leasing activity in these six months equates to nearly two-thirds of the total achieved in FY20, and increased 68.2% for the comparable period in 2020 to deliver GWI's best six months. The overall leasing activity – comprising new lets, renegotiations and extensions – for the July 2020 to June 2021 period covered more than 380 000m^2.

However, the like-for-like vacancy rate increased to 10.3%, due to the challenging market and the addition of three new properties to the portfolio during a period with slower take-up than usual because of Covid-19. GWI's weighed average lease length at end-June 21 was 4.7 years.

GWI's total annualised contracted rent is EUR185.2m. The rate of collections for rents invoiced and due remains high at just below 99%.

In 2020, GWI maintained its operational profitability growth trend despite the global impact of Covid-19 and the resulting higher uncertainty in the market. However, in the 12 months from 1 July 2020 to 30 June 2021, net operating income declined by 9.4% with administrative expenses increasing by 5.7% compared to the previous 12 months.

The company continued to internalise property management, with more than 90% of its portfolio now being internally managed. This drives an enhanced customer focus. In an effort to improve efficiency and achieve significant savings, GWI also conducted an extensive review of its cost base and reduced administrative expenses by about 7% during 2020. This will have ongoing benefits, especially for tenants, who will experience lower occupational costs in GWI's properties.

Portfolio highlights

GWI acquired two high-quality logistics and light-industrial facilities with a total area of 27 000m^2 in the western part of Romania for EUR17.9m. These facilities – IPW Arad (Industrial Park West Arad) and IPW Oradea (Industrial Park West Oradea) – are 100% let to two multinational tenants with 15-year lease agreements. The acquisitions expanded GWI's footprint into two more cities in western Romania, where it already owns the Timişoara Industrial Park. It has now invested in six cities in the country. These acquisitions plus the two new facilities constructed in Romania during the year, also grew the GWI Industrial portfolio to more than 260 400m^2.

GWI prioritised the development of new high-quality logistics/light-industrial facilities and between 1 July 2020 and 30 June 2021, it also delivered two such facilities in Poland, where it is also refurbishing and repositioning two mixed-use properties, Renoma and Supersam.

The aim of the latter two projects is to add value by responding to the market changes brought about by Covid-19. Selected retail and commercial spaces are being converted to increase the amount of class "A" office space available in these buildings, while other commercial spaces are being reconfigured along the lines of GWI's successful Hala Koszyki redevelopment in Warsaw.

GWI, as at 30 June 2021, has a future pipeline of mainly office and industrial projects in Bucharest and other principal regional cities in Romania and Poland, with a potential blended yield on investment cost of 10.4%. These development projects will be pursued depending on market conditions and tenant demand. Currently, the company has prioritised the development of 99 700m^2 in four projects in Romania, and the refurbishment and repositioning of two more mixed-use properties in Poland.

ESG

GWI received two EPRA Sustainability Best Practices Recommendations (SBPR) awards, which are given to companies that help to raise the standard and consistency of sustainability reporting in the listed real estate sector.

In June 2021, GWI issued its sustainable development report and The Globalworth Foundation issued its first annual report, titled "Better Together". Then, in July, GWI published its inaugural Green Bond report.

Of the 66 properties in the GWI portfolio, 55 are green certified and valued at a total of EUR2.6bn. In addition, the Renoma and Supersam mixed-use properties in Poland, which are currently being refurbished and repositioned, have maintained their BREEAM Excellent accreditations, which will bring the total number of GWI's green certified properties to 57, with a total value to EUR2.7bn.

GWI has also maintained its low-risk rating by Sustainalytics and BBB rating by MSCI, and sustained a strong focus on giving back to its communities, with the company and the Globalworth Foundation contributing approximately EUR445 000 to more than 10 initiatives in Romania and Poland during the first six months of 2021. This followed contributions of around EUR2m in FY20 to 27 initiatives that were primarily aimed at fighting Covid-19 and its impact in the two countries.

Globalworth Real Estate Investments (GWI) *continued*

Covid-19

During the 12 months under review, GWI continued to actively manage its portfolio of high-quality standing and development properties in Poland and Romania, while respecting restrictions in response to the pandemic. It successfully safeguarded its business, protected its assets, and minimised its exposure to the impact of Covid-19 during this period of uncertainty. At the same time, its robust liquidity and ample financial resources allowed it to act quickly in taking advantage of attractive new opportunities.

GWI invests in prime locations in key cities, selecting modern assets with excellent environmental credentials. As a result, it has a significant base of established, blue chip, and mostly international tenants with primarily long-term, Euro-denominated, triple-net and inflation-linked leases. This helped to cushion it against the impacts of Covid-19, and it was also protected by management's keen focus on safeguarding the business, protecting its assets, and minimising its exposure to the effects of the pandemic. Furthermore, no pandemic prevention measures adopted in Poland and Romania resulted in any forced closure of offices, industrial premises or essential retail businesses – spaces that represent more than 95% of GWI's contracted rent.

As the leading office investor in the CEE region, GWI has actively promoted the return of tenants to their office spaces. By prioritising the health, safety and wellbeing of the people working in and visiting its properties, and regularly communicating with tenants, it is providing the necessary assurance for them to actively start implementing their return to the office.

Prospects

GWI continues to focus on the active management of its portfolio of high-quality properties, and on being ready to respond to attractive market opportunities. Although the office of the future may need to be reconfigured to potentially offer greater flexibility or alterative space planning arrangements, GWI believes that its importance will not diminish. Corporates and occupiers believe that the office environment increases productivity and promotes creativity, innovation and consistency, while also fostering relationships and corporate culture, all of which are essential for the long-term sustainability and growth of their businesses.

In addition, Poland and Romania are poised to emerge as winners from the pandemic crisis as corporates continue to focus on containing costs. This will result in them nearshoring additional operations in GWI's two home markets.

GWI is very well-placed to continue to successfully address ongoing challenges and achieve new levels of success.

Globalworth Tower, Bucharest, Romania

Funds management

Growthpoint is committed to adding depth to the real estate market for the broader investment community and we are striving to achieve this through our funds management strategy.

This strategy aims to create opportunities for alternative real estate investment beyond the three traditional property asset classes of office, retail and industrial. By creating these new investment opportunities, we are enabling investors to diversify into sectors to which they currently have limited access.

Our funds management model

Our funds management model introduces three possible sources of income for Growthpoint – equity investment returns, asset management fees and property management fees.

Growthpoint aims to invest between 15% and 20% of the equity in each of the funds, on which it earns investment returns. The balance of the equity is raised from third-party investors and gearing of approximately 40% is introduced to each fund.

As a significant stakeholder in the management of each fund, Growthpoint also earns management fees on all assets. The fees are based on either gross or net asset value. In addition, and to the extent that it is appointed as property manager, Growthpoint earns property management fees.

Key considerations before establishing a specific fund are whether there is potential to scale the opportunity, the level of investor appetite and whether the funds' assets would differ from our core South African portfolio investments in the office, retail and industrial property sectors.

Each fund will remain unlisted until achieving R10bn in assets or within seven to 10 years after launching, when it may pursue a public listing.

Overview

The capital-light nature of our funds management platform makes it particularly attractive in the current environment. In a fortuitous and well-timed move in 2015, Growthpoint introduced new income streams to its business by managing funds in niche real estate investment areas that differ from the company's core business.

This model gives Growthpoint access to alternative investment opportunities and leverages its management strength in the unlisted and co-invested environment. Of course, these portfolios of niche assets need to be compelling investments that are scalable enough to attract institutional investor support.

Our intention is to build a R15bn funds management business by 2023 and we have already achieved much in this area over the past five years. This includes establishing two successful and growing alternative asset class funds – Lango Real Estate, the Africa Fund, which launched in March 2018 and Growthpoint Healthcare Property Holdings (GHPH) which launched in August 2018.

Growthpoint's funds management platform has gained strong momentum over the past two years, and despite the global challenges brought about by the Covid-19 pandemic, its assets under management have grown to circa R11.7bn.

Our funds are on track to meet our growth goals and we are also well into the process of launching another specialist fund focusing on purpose-built student accommodation. We will continue to explore further niche fund opportunities. Like GHPH and the proposed investment in student accommodation, several of these opportunities represent investments in social infrastructure, which will allow Growthpoint and its co-investors to make a greater social impact through real estate investment while at the same time achieving sustainable returns.

Our funds management strategy has therefore already added depth to the real estate market for the broader investment community. The undertaking has also allowed Growthpoint to further diversify its assets, drive social impact and create sustainable value for our stakeholders.

Funds management *continued*

Performance

This strategic focus over the year earned Growthpoint asset management fees of R32.9m and distributions of R132.1m from GHPH. We also received maiden dividends of USD1.6m from Lango, which we elected to reinvest, and a R6.6m distribution from the Africa Fund's Management company.

Backed by a management team with entrepreneurial vision and skills, our endeavours to initiate and grow new funds are gaining momentum. We will continue to pursue innovative partnerships and ways of investing.

Prospects

Our funds management model is a core strategy and our co-investment and co-management model is effective, and particularly attractive, in the prevailing market.

Growthpoint remains committed to initiating other funds and we expect to launch our purpose-built student residential accommodation venture in FY22. Furthermore, we believe there are opportunities to be found in property classes such as education, ICT, alternative energy and retirement living. The launch of any new fund will be opportunity driven and aptly timed.

Gateway Private Hospital, Umhlanga, South Africa

Lango Real Estate (Lango)
as at 31 March 2021

85%	3.5 years	95%
Global and multinational tenants	Average lease expiry period	USD-denominated leases

Property assets	
Differentiator	Geography
Fund Manager	Lango Real Estate Management Limited (42.5% Growthpoint co-owned)
Managing Director	Thomas Reilly
Assets under management	USD600.9m
Net asset value	USD320.1m
Growthpoint shareholding	16.1%
Gearing	46.9% LTV
Major co-investors	South African and foreign pension funds
Asset management fees	2% of NAV
Number of properties	11

Income streams for Growthpoint

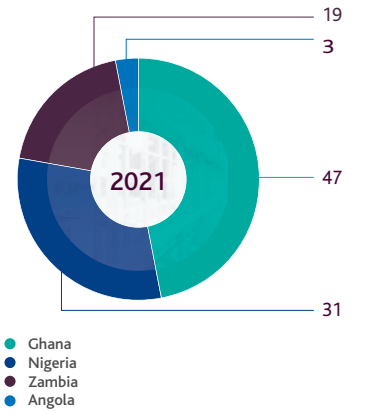
- Property investment returns
- Management company distributions.

This year, Growthpoint Investec Africa Properties rebranded as Lango Real Estate and continued to emerge as a leading landlord in the African real estate market.

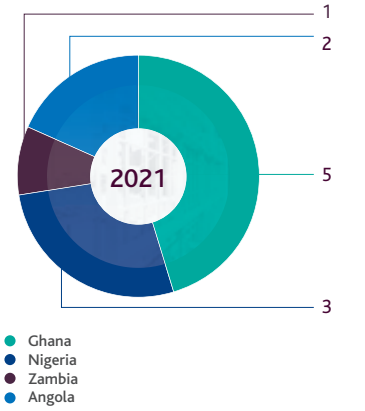
It gained ground on numerous fronts and built on its demonstrated track record of growth, with three minority-stake acquisitions during its financial year and a fourth in April 2021. These accretive acquisitions have substantially offset the adverse financial impact, in part due to the pandemic, on asset valuations.

Lango has complete management control of a portfolio of 11 underlying assets, which includes prime office and retail properties across four countries. It has now reached a degree of critical mass and, with a high-quality asset portfolio and strong stakeholder base, is well-positioned for a potentially exciting period of growth.

Geographical split by value (%)



Geographical split by number



Lango has established a reputation as a credible player in the African real estate market and has strategically positioned itself as a platform for attracting sophisticated international investor capital into the asset class. It also strives to act as a catalyst for impact across the continent, with associated long-term socio-economic benefits.

One of the company's primary strategies during the year was to refine its capital structure, and these efforts resulted in a portfolio refinancing transaction worth more than USD300m that fully restructured its underlying property debt.

Lango Real Estate (Lango) *continued*
as at 31 March 2021

The transaction, jointly financed by Standard Bank and RMB, has been touted as the largest real estate debt transaction in sub-Saharan Africa (excluding South Africa) and the first cross-collateralised and multi-jurisdictional portfolio real estate financing deal on the continent. The agreement has also simplified Lango's debt management activities and has been accretive to performance. It not only significantly reduced Lango's cost of debt, but substantially extended its debt maturity profile and harmonised various covenants across its portfolio. Lango achieved this through an innovative funding structure that saw individual asset-based debt packages effectively being converted into broad portfolio-based debt structures on far more competitive terms.

This debt restructuring initiative will lead to significant operational efficiencies for the business and is ultimately aimed at enhancing Lango's distributable income.

The past financial year will undoubtedly be remembered for the challenges brought about by Covid-19, but the pandemic also highlighted the invaluable benefits of Lango's diversified portfolio. While the situation further induced macro-economic headwinds and resulted in a challenging operating environment, particularly in the retail sector, the company's strategic portfolio composition – with assets located across several jurisdictions, key cities, and property sectors – enabled it to absorb the impact, which manifested in different countries at different times, and was met with varying regulations. Furthermore, the countries in which Lango invests were fortunate to have been less severely impacted than many others.

Lango's majority exposure to quality office assets – in many cases with large international tenants – and a minority exposure to retail also contributed to its reduced risk.

One silver lining to the pandemic was that it presented opportunities for more direct tenant interaction and highlighted the value of partnerships. Having Lango people on the ground also made a significant difference. Cash collections for the financial year were robust, with 95% of billable income collected.

Management continues to focus on detailed expense and arrears management and the company remains proactive in leasing and tenant management, with several such initiatives being undertaken. Encouragingly, Lango has received numerous new leasing enquiries – including several from blue-chip business tenants – particularly within Ghana's office sector.

The liquidity and convertibility of local currency into USD in Nigeria has become difficult to execute in the wake of Covid-19 and the drastic reduction in the oil price. However, current indications are that this will improve as the oil price rises again. Liquidity is also less of an issue in the other countries where Lango is invested.

Looting and property damage following widespread social unrest in Lagos, Nigeria, in late October 2020 saw many assets affected, including Circle Mall. A full re-instatement process is currently underway.

Despite the challenges resulting from the global pandemic, one cannot ignore the favourable long-term demographics and projected economic growth of the region.

A second fundraising period post Lango's FY21 commenced in May 2021. Proceeds raised in this drive are expected to be allocated to marginally reducing Lango's underlying quantum of debt, and to a potential new asset pipeline that aims to further diversify and enhance the company's overall portfolio of assets.

Asset allocation

Lango is focused on investing in prime, income-producing commercial real estate assets in key nodes and cities across Africa, with the aim of generating compelling and sustainable investor returns. Exposure across the retail, office and industrial sectors is underpinned by rental growth from top-tier tenants. This diversified exposure creates a more balanced and risk-enhanced portfolio and allows for the potential extraction of long-term diversification benefits that are supported by the continued rapid urbanisation rates and economic growth across the continent.

Deal flow

An extensive network of partner relationships and proprietary deal access from property developers across Africa contribute to Lango's deal flow and gives the company access to a significant asset pipeline that is diversified across countries and sectors.

Furthermore, the restructuring of the company's debt finance, supported by its funding partners and a planned second fundraising initiative in FY22, enhances Lango's ability to continue its growth trajectory and further entrench itself as a leading player in the African real estate market. This restructuring also creates a funding platform that is expected to increase future distributions and stakeholder value.

Target

Liquidity for investors will be catalysed through a stock exchange listing, most likely on the London Stock Exchange with a secondary listing on the Johannesburg Stock Exchange. This will be achieved once the fund has attained a NAV of USD750m, and by no later than March 2026.

FY21 contribution to Growthpoint

Lango's maiden USD1.6m distribution to shareholders was made in December 2020, and a final USD1.3m dividend in respect of FY21 (to end-March 2021), in June 2021. From distributable income of US17.92c per share, Growthpoint received USD457 853.

Prioritising Lango's distributions to shareholders remains central to it building a sound track record, and doing so well-ahead of its planned listing and IPO process. It is Lango's intention to continue to declare six-monthly dividends and it estimates an annual 5% to 8% dividend yield.

Growthpoint Healthcare Property Holdings (GHPH)

GHPH has continued to demonstrate pleasing growth and good demand over the past financial year, thanks to the defensive nature of the healthcare sector and its agile response to the pandemic.

Growthpoint Healthcare Property Holdings (GHPH)

Manager	Growthpoint Management Services
Fund Manager	Dr Linda Sigaba
Assets under management	R2.8bn
Net asset value	R1.8bn
Growthpoint holding	62.2%
Gearing	1.7%
Major co-investors	Pension funds
Asset management fees	1.25% of GAV
Property management fees	1.5% of gross collections
Number of properties	6

The fund's property portfolio also continues to grow, with a diversity of healthcare properties and two accretive acquisitions added over this period.

By introducing the first specialist surgical hospital into its portfolio, the fund expanded its base of tenant operators to include Cintocare, Netcare, Busamed and Mediclinic. The Cintocare specialist hospital in Pretoria, custom developed by Growthpoint and transferred to the fund post year end, is the first hospital in Africa with a 5-Star Green Star environmental rating. It is also only the fifth globally with its particular clinical business model and specialised surgical mix – focused exclusively on head, neck, spinal and vascular surgery.

The Healthcare Fund furthermore acquired 51% of the Busamed Paardevlei Private Hospital property in Somerset West, extending the excellent relationship it has with this innovative operator.

The IFC is finalising its investment of USD80m in a combined equity and convertible debt package to finance the development and acquisition of properties for GHPH. This investment is an endorsement of the fund's robust ESG credentials, which are key considerations for investment by development finance institutions (DFIs) and other local and international institutional investors.

In FY20, Kagiso Capital increased its holding in the fund to 15% of the issued share capital. It intends to match this with a 15% investment in the fund's management company and this arrangement is in progress.

Healthcare properties are generally resilient and tend to maintain their performance in downturns and rebound quickly in upturns. Even though Covid-19 did not spare any economic sector, including healthcare, this resilience proved to be true in the GHPH portfolio. Hospitals were unprepared for the first wave, during which elective procedures – which can make up anywhere from 40% to 80% of revenue – were prohibited for a few months. But they quickly learned to manage staffing, PPE and ways of treating those with and without Covid-19 in the same facility. The fund's hospitals made a quick recovery and were relatively unscathed by the second wave. They are also confident they will cope equally well through the third wave, which swelled towards the end of FY21 and any similar future scenarios. All rental deferments given to assist tenant hospitals during the first wave, barring three months from one facility, had been recovered by end-June.

The pandemic has crystalised gaps and opportunities in South Africa's healthcare sector and this paints a positive picture for the fund's growth. There remains a great need for more private sector hospital beds and healthcare facilities in some provinces. These include acute and day hospitals, laboratory facilities and biotechnology manufacturing, warehousing and logistics properties. GHPH is ideally positioned to play a role in meeting these needs.

The fund's promising R3.5bn growth pipeline includes both acquisition and development projects, and it intends to execute transactions corresponding to capital capacity. In FY22 it expects to finalise at least two further acquisitions for a combined R750m.

Furthermore, in a market with liquidity constraints, GHPH continues to attract capital. This was seen recently with RMB clients introducing additional equity to support the fund's growth pipeline.

Growthpoint Healthcare Property Holdings (GHPH) *continued*

While the fund still enjoys the benefit of having essentially no debt on its balance sheet, debt is both limited and expensive in the current market. Thus GHPH remains on a capital raising trail and is in discussions with local and international DFIs, institutional investors, asset consultants and pension funds to attract more investors.

Asset allocation

GHPH is the first unlisted healthcare fund to invest exclusively in healthcare property assets in South Africa. The investment mandate remains to acquire and develop acute, day and specialist hospitals, as well as laboratories and biotechnology manufacturing and warehousing facilities.

Portfolio

GHPH has grown a portfolio of seven healthcare assets, including six hospitals and one medical chambers building. The fund's assets are characterised by long leases, because hospitals and clinics are most often enduring elements of their communities. Four of the hospitals have consistently been on Discovery Health's annual list of top South African hospitals, as rated by patients.

The GHPH healthcare assets are:

- Netcare N1 City Hospital and Medical Chambers
- Mediclinic Louis Leipoldt Hospital
- Busamed Gateway Private Hospital
- Busamed Hillcrest Private Hospital
- Busamed Paardevlei Private Hospital
- Cintocare Hospital.

Deal flow

Enabling the growth of healthcare operators, particularly newer or smaller ones, is expected to provide deal flow for the GHPH specialised investment vehicle. Strong regional healthcare operators continue to express interest and we have lined-up several such opportunities. In the medium to long term, this healthcare-focused property company will give established hospital operators a credible platform to sell and lease back some of their property assets in order to manage their balance sheets more efficiently. This is consistent with models followed by hospital groups globally. We continue to engage with the big three national operators to unlock long-term opportunities.

Target

Liquidity for investors will be through an IPO and stock exchange listing which is anticipated once the fund has R10bn in assets. The fund has achieved a third of this scale.

FY21 contribution to Growthpoint

Since pioneering healthcare property fund investment in South Africa in 2018, GHPH has delivered good growth to its investors, including good returns in FY21. GHPH was one of only a few funds showing DPS growth of 11.6% and DPS of 86.41 cents (FY20: 77.45 cents), which is an excellent result in this market. Yet, while income returns remained strong, capital returns edged down -1.3%. This decrease relates to the impact of the Covid-19 pandemic and the shortening of the leases at Netcare N1 City and Mediclinic Louis Leipoldt which expire in 2023 and 2025 respectively. Both are being negotiated.

Top healthcare tenants by gross rental contribution as at 30 June 2021

	Tenants	GLA m²
1	Busamed Limited	**55 471**
2	Netcare Limited	**18 480**
3	MediClinic Limited	**15 075**
Sub-total		**89 026**
Balance of the sector		**611**
Total for the healthcare sector (excluding vacancies)		**89 637**