

OCTODEC DELIVERS GUIDANCE BEATING DISTRIBUTION GROWTH

Steady returns from existing portfolio and solid investment for future growth

- 6,5% distribution growth for the 6 months to 28 February 2017
- 1,6% increase in Net Asset Value per share to R29.58
- Total property assets valued at R12.7 billion, up by R362 million
- Like-for-like rental income growth of 5.5%
- Profitable recycling of non-core assets continued
- Developments well progressed – Two of four completed
- One on Mutual - Proven demand for more upmarket residential CBD offering
- Balance sheet strengthened
- 104,8 cents per share interim cash dividend with reinvestment option declared

Tuesday, 02 May 2017 – JSE listed REIT Octodec today announced half year results exceeding its distribution guidance despite the challenging economic, political and operating environment. The period saw Octodec deliver on its objectives to extract value from the existing portfolio and invest in the portfolio for future growth.

The R12.7 billion portfolio comprising 316 properties realised like-for-like growth of 5.5% in rental income while the ratio of net property expenses to rental income remained unchanged at 29.6% owing to a continued focus on cost control. Although overall core vacancies ended slightly higher at 10%, the office, retail-shopping centre and industrial portfolios showed improved occupancy levels having benefitted from upgrades to certain properties and a focussed effort to improve letting.

Jeffrey Wapnick, Managing Director of Octodec, commented: ***"In this challenging environment, our diversified portfolio has shown resilience which we believe is due to our quality, value for money offering aimed at the growing middle market."***

"Our rental income showed steady growth and the successful optimisation of our portfolio through upgrades to certain properties and disposals of non-core assets contributed to the growth achieved."

Four major development projects worth approximately R648 million were under construction during the period, of which two had been completed by period end. In December 2016, Octodec successfully entered a new node following the completion of The Manhattan, a 50% held joint venture residential development in Sunninghill. One On Mutual, a mixed use property adjacent to Church Square in the Tshwane CBD was completed in February 2017 and letting of both the ground floor retail and 142 residential units has progressed well ahead of expectations.

Sharon's Place, a residential development consisting of 400 residential units, 5 660m² of ground floor retail and 289 parking bays is adjacent to the new Tshwane House municipal development and is timed for completion in July 2017. The renovation of Midtown, an office upgrade consisting of 7 133m² of offices, 944m² of retail and 90 parking bays progressed according to plan with phase one completed during the period. Phase two of the upgrade to this building which is also adjacent to Tshwane House will commence once a suitable tenant is secured.

"We made good progress on our developments under construction with three of them set to significantly enhance the value of a key strategic node in the Tshwane CBD. These developments are also ideally situated to benefit from the launch of the new council building, Tshwane House, which is nearing completion and will house over 1500 employees.

"We are particularly excited to have completed One On Mutual which was launched shortly after period end and is already over 50% let. Our decision to pilot a more upmarket offering has proven successful with demand exceeding our expectations," added Wapnick.

Octodec continued with its strategy to improve the quality of the portfolio by disposing of non-core and non-performing assets. Twelve properties were sold for a total consideration of R87.1 million during the period. Eight of the properties had transferred by period end with the remaining four expected to transfer by May 2017. ***"The proceeds from the recycling of assets were used to pay back loans and this together with a positive revaluation of the portfolio and capital raised from the dividend reinvestment programme resulted in the group's loan-to-value reducing to 37.2%,"*** commented Anthony Stein, Octodec's Financial Director.

During the period, Octodec reduced its exposure to interest rate risk by entering into interest rate swap contracts, increasing its hedge position to 96.3%. At period end, the all-in weighted average interest rate was slightly higher at 9.2% per annum and the group had unutilised banking facilities of over R600 million which is sufficient to fund developments.

"The capital management that we employed during the financial period has strengthened our balance sheet and cushioned us from interest rate risk, this is especially important considering the increasing uncertainty in the capital markets," concluded Stein.

Octodec is in the planning phase of two residential property developments, namely Reinsurance House and Van Riebeeck Medical Building which are situated in prime locations in the Johannesburg and Tshwane CBDs respectively. The total cost of these developments is expected to be approximately R240 million. The commencement of these developments will depend on the required hurdle yields being achieved. An additional 42 non-core properties with a carrying value of R263 million and an average carrying value of R6.3 million have been identified for sale to further optimise the portfolio.

"In addition to the opportunities already identified, we aim to explore similar innovative product offerings to cater for the upper middle income market following the demand experienced for One On Mutual.

"To increase our geographic diversification, we are also considering residential opportunities outside of Gauteng which would be pursued by leveraging our existing relationships and expertise," concluded Wapnick.

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NOTES TO EDITORS

- Octodec is a Real Estate Investment Trust ("REIT") listed on the JSE Limited ("JSE") and invests in the residential, retail, shopping centre, office and industrial property sectors. Octodec's portfolio which comprises 316 properties mostly located in the Tshwane and Johannesburg CBDs, is valued at R12,7 billion. Octodec is focussed on and committed to the continued investment into the Johannesburg and Tshwane city centres which offer higher yield and growth potential.
- Jeffrey Wapnick, the Managing Director of Octodec Investments since 1998, is responsible for the effective management of the company with a strong emphasis on the upgrades and redevelopment of properties. He holds various other directorships of unlisted companies including City Property Administration Proprietary Limited where he is the managing director. He is a member of the risk committee of Octodec Investments Limited.
- The Wapnick family has a long history of experience in the property industry and holds a significant stake in Octodec, aligning their interests with those of other shareholders. Management has played an integral role in the running of the portfolio for over 25 years and therefore has an intimate knowledge of every asset and solid relationships with tenants. City Property as the asset and property manager has been managing Octodec for many years and has a wealth of experience in property management, specifically in the Tshwane and Johannesburg city centres and in the residential sector.