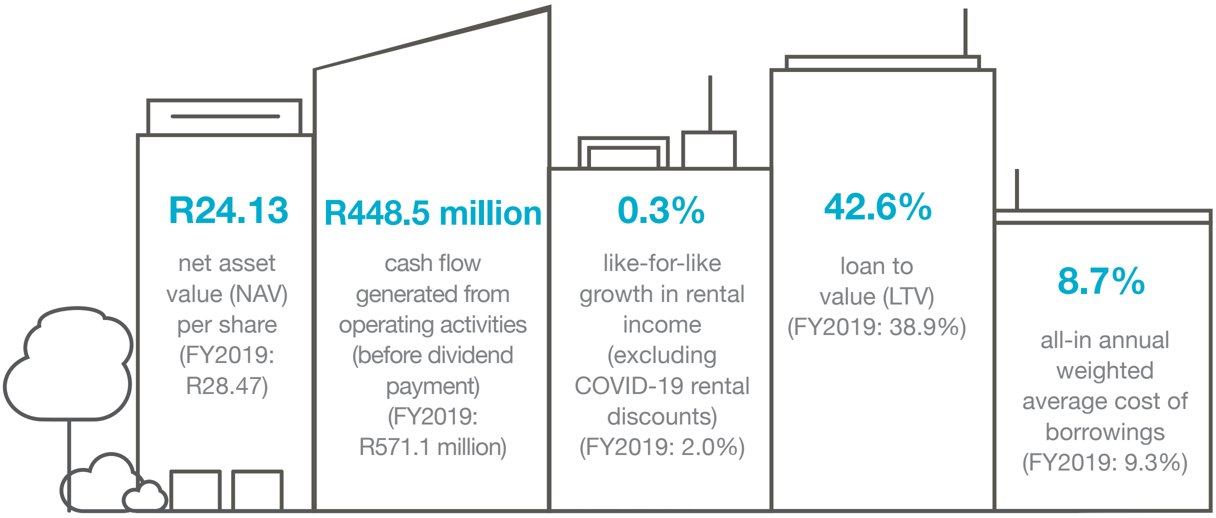
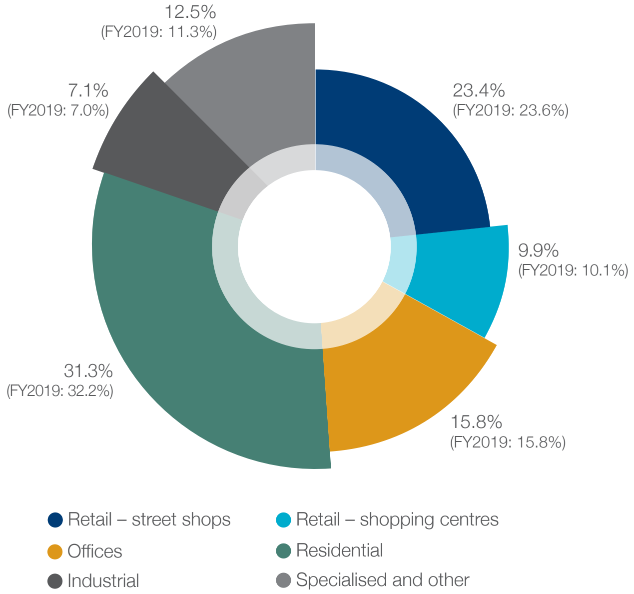
Octodec
INVESTMENTS LIMITED

Reviewed provisional annual results 2020

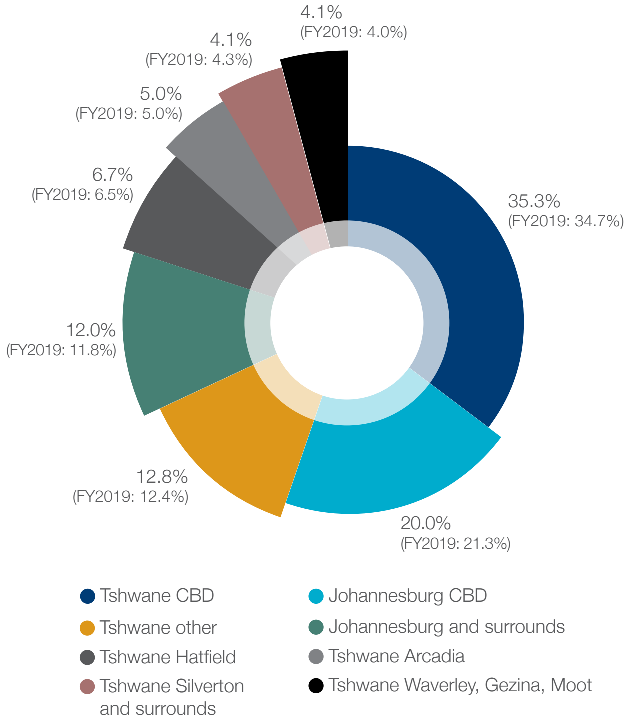
2020 PERFORMANCE HIGHLIGHTS



Rental income by sector



Geographical analysis of the rental income of total portfolio



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COMMENTARY

Octodec Investments Limited (Octodec, the company), its subsidiaries and associated company (the group) is a real estate investment trust (REIT) listed on the JSE Ltd (JSE). Octodec has a diversified portfolio of 277 residential, retail, office, industrial and specialised properties situated in the major metropolitan areas of Tshwane and Johannesburg. The portfolio, including a joint venture, has a lettable area of 1 634 074m^2 and is valued at R11.8 billion.

We manage our portfolio by maintaining sound property fundamentals which are designed to deliver sustainable value for our tenants, communities, shareholders and other stakeholders. This is supported by our long-term strategic objectives which are to create value for stakeholders, optimise the value of our portfolio and our balance sheet as well as tightly managing our funding requirements.

Octodec has contracted City Property Administration (Pty) Ltd (City Property), to perform its asset and property management functions.

REVIEW OF **RESULTS**

This year our country's weakening economic condition which influenced a further sovereign downgrade in March 2020 was aggravated by the economic fallout as a result of COVID-19 and the subsequent lockdown. This led to a decrease of 22.0% in Octodec's distributable income, largely attributable to the rent relief granted by Octodec to its tenants detrimentally affected by the COVID-19 shutdown and the increase in credit loss allowances, rental reversions and increased vacancies. The relief granted by way of rental discounts, totalling 5.2% of rental income, resulted in a decrease in rental income of 5.3% compared to a 0.1% decrease before the rent relief.

Distributable income

	%	31 August 2020 R'000	31 August 2019 R'000
Revenue earned on contractual basis	(0.1)	1 989 630	1 990 886
COVID-19 rental discount		(103 578)	–
Revenue earned after COVID-19 rental discount	(5.3)	1 886 052	1 990 886
Property operating expenses	1.2	(940 655)	(929 594)
Net property income	(10.9)	945 397	1 061 292
Administrative and corporate expenses	15.9	(91 030)	(78 515)
Net operating profit	(13.1)	854 367	982 777
Rent reduction to Edcon inclusive of VAT*		(3 046)	(2 505)
Share of income from joint ventures		2 262	3 253
Distributable profit before finance costs		853 583	983 525
Net finance costs	(2.8)	(436 198)	(448 541)
Distributable earnings attributable to shareholders	(22.0)	417 385	534 984
Weighted average number of shares		266 197 535	266 197 535
Distributable earnings per share (cents)	(22.0)	156.8	200.9

* *This relates to the 40.9% rent reduction granted to Edcon in terms of the rent reduction agreement between Edcon and its landlords*

DIVIDENDS

COVID-19 as well as a pre-existing weakening economic environment is having a major impact on South Africa's economy, which has impacted Octodec's ability to fund the group's capital expenditure requirements and at the same time maintain an acceptable loan to value (LTV) ratio. In these uncertain times, the long-term impact of the above factors cannot yet be assessed and quantified.

In light of market uncertainty, Octodec has deferred its decision regarding the declaration of its final dividend for FY2020 until February 2021. This is in line with the extension granted by the Financial Sector Conduct Authority on 28 June 2020. If a decision to declare a dividend is taken, Octodec intends to declare no more than the minimum distribution requirement of 75% of its distributable income for FY2020, so as to retain its REIT status.

This is to enable greater capital flexibility, retain cash for essential capital expenditure to preserve our balance sheet and to reduce the risks which the company could be exposed to.

NET ASSET VALUE

Octodec's NAV decreased from R28.47 per share at 31 August 2019 to R24.13 per share at 31 August 2020, driven mainly by a decrease in the value of the property portfolio as a result of weaker property fundamentals and an increase in the derivative liabilities arising from a sharp decrease in interest rates.

The movement in NAV per share is as follows:

	R
NAV at 31 August 2019	28.47
Distributable profit	1.56
Revaluation of investment property	(3.96)
Revaluation of interest rate derivatives	(0.85)
2019 distribution paid	(0.99)
Other movements	(0.10)
NAV at 31 August 2020	**24.13**

REVENUE

Revenue earned on a contractual basis decreased by R1.3 million or 0.1% before COVID-19 rental discounts granted to tenants affected by COVID-19. This decrease was due to rental reversions and an increase in vacancies in the commercial sector. Concerns around rental affordability have put pressure on our residential tenants and residential rental growth was therefore impacted by both increased vacancies and a nominal increase in rental rates, contributing to the decline in revenue.

On a like-for-like basis, before the COVID-19 rental relief granted to tenants, rental income overall decreased by 0.3%. Rental income from parking and retail shopping centres increased by 6.8% and 6.4% respectively, the increase in parking income being largely attributable to improved management of parking facilities and an increase in demand for parking. The increase in rental from retail shopping centres is a result of well-let shopping centres with rental escalations as well as improved occupancy levels. The Park shopping centre (previously known as Elardus Park shopping centre), following the completion of its refurbishment in October 2019, has recorded strong rental growth. Residential rental income decreased by 2.6%, which is attributable to increased vacancies partially impacted by the rise in competition in the Johannesburg CBD and in Hatfield, Tshwane. Rental income from the auto dealership sector was impacted by rental reversions at a large motor dealership.

COVID-19

Octodec's response included selective rental relief packages to address affordability during the lockdown period. These were granted on a case-by-case basis, based on a long-term view, considering factors including the tenant's ability to maintain turnover in the current environment as well as retention and vacancy levels.

The majority of commercial tenants were afforded discounts rather than deferrals or payment plans, especially small, medium, and micro enterprises (SMMEs) which continue to be the most affected. Given the uncertain outlook, this approach provided greater certainty around the management of future cash flows, arrears and bad debts.

As lockdown restrictions eased, more commercial tenants resumed their business activities, resulting in a month-on-month improvement in rental collections. Longer recovery time is projected for tenants in the education, places of worship and hotel sectors as reflected by lower collection levels. These sectors represent 4.3% of our total rental income.

On the retail front, Octodec's shopping centres and street shops are well located, with many offering affordable and neighbourhood shopping conveniences which have been well supported by consumers.

Government office tenants, which make up 8% of Octodec's total rental income, have continued to meet their obligations.

The tables below illustrate collections for April 2020 to August 2020, expressed as a percentage of the contractual rental plus recoveries billed before the granting of any COVID-19 rental discounts as well as the rental discounts given to tenants for the same period.

Collections as a percentage of billings (before rental discount as set out below)	Total %	Commercial %	Residential %
April 2020	66	61	83
May 2020	74	69	88
June 2020	91	90	94
July 2020	99	98	101
August 2020	99	99	98

Rental discount granted to date (excluding VAT)	Total R'million	Commercial R'million	Residential R'million
April 2020	33.5	33.4	0.1
May 2020	29.1	28.9	0.2
June 2020	20.4	20.0	0.4
July 2020	13.0	12.5	0.5
August 2020	8.1	7.6	0.5

Collections after August 2020 have remained at acceptable levels. Collections as a percentage of billings for September 2020 and October 2020 were at 95.7% and 103.0% respectively, before rental discounts of R5.8 million and R2.7 million granted for September 2020 and October 2020 respectively.

* *In this review, the information on rental income and the property portfolio includes 100% of the equity-accounted joint venture and not just the group's share*

VACANCIES

Vacancies in the Octodec portfolio as at 31 August 2020, including properties held for redevelopment, amounted to 21.7% (FY2019: 17.7%) of the gross lettable area (GLA). The group's core vacancies, which exclude the GLA relating to properties held for development, amounted to 15.8% (FY2019: 11.4%) representing an increase of 4.4% in vacancies.

The impact of the COVID-19 lockdown has resulted in an increase in unemployment and some students returning to their family homes. This, together with increased competition in the Johannesburg CBD and Hatfield, Tshwane, has impacted the residential sector with vacancies increasing from 6.7% at 31 August 2019 to 17.0% at 31 August 2020. The commercial sector also experienced increased vacancies with the exception of retail shopping centres, due to COVID-19 which impacted affordability and resulted in certain tenant failures. The decrease in shopping centre vacancies was mainly due to the improved occupancy levels at The Park, following the completion of its refurbishment in October 2019. The retail shopping centres comprising mainly convenience and neighbourhood centres, which are well let with low vacancies, proved to be relatively defensive.

Octodec owns office properties with 95 821m^2 of mothballed space. These properties offer opportunities for residential conversion or office redevelopment. The group is actively pursuing the disposal of some of these properties.

Vacancies by sector as at 31 August 2020

	GLA m²	Total vacancies %	Properties held for redevelopment %	Core vacancies %
31 August 2020				
Residential	**420 909**	**17.0**	**–**	**17.0**
Commercial				
Retail – street shops	**323 297**	**14.8**	**–**	**14.8**
Retail – shopping centres	**93 796**	**3.7**	**–**	**3.7**
Offices	**411 608**	**46.3**	**(23.3)**	**23.0**
Industrial	**234 600**	**13.2**	**(0.4)**	**12.8**
Specialised and other				
– Educational facilities	**68 118**	**–**	**–**	**–**
– Healthcare facilities	**36 715**	**15.6**	**(1.2)**	**14.4**
– Places of worship	**15 851**	**–**	**–**	**–**
– Auto dealerships	**15 722**	**26.1**	**–**	**26.1**
– Hotels	**13 458**	**–**	**–**	**–**
Total	**1 634 074**	**21.7**	**(5.9)**	**15.8**
31 August 2019				
Residential	428 245	6.7	–	6.7
Commercial				
Retail – street shops	336 435	14.4	–	14.4
Retail – shopping centres	94 012	4.7	–	4.7
Offices	412 627	43.0	(24.7)	18.3
Industrial	246 363	10.2	(0.9)	9.3
Specialised and other				
– Educational facilities	58 903	–	–	–
– Healthcare facilities	36 612	15.6	(1.2)	14.4
– Places of worship	18 054	–	–	–
– Auto dealerships	15 722	23.5	–	23.5
– Hotels	13 458	–	–	–
Total	1 660 431	17.7	(6.3)	11.4

LEASE EXPIRY PROFILE

The majority of the leases provide for a monthly agreement at expiry of the lease. Prior to expiry of the leases an effort is made to conclude longer term leases. This is especially typical of the residential market and leases with small to medium-sized enterprises. The lease expiry profile remains in line with historical trends and expectations.

Octodec has recently concluded the renewal of 20 Government leases and one remaining lease is expected to be signed shortly. These Government leases represent 51% of total office rental income and have contributed to the improved lease expiry profile in the office sector. The auto dealership sector also improved with the renewal of a McCarthy lease for a period of three years.

	By rental income (%)					By GLA m² (%)					
	2021	2022	2023	2024	2025 and beyond	2021	2022	2023	2024	2025 and beyond	Vacant %
Sector											
Residential	100.0	–	–	–	–	83.0	–	–	–	–	17.0
Commercial											
Retail – street shops	41.9	25.2	18.9	7.2	6.8	41.8	18.7	14.4	4.5	5.8	14.8
Retail – shopping centres	43.9	18.1	13.3	10.1	14.6	48.9	13.4	12.6	7.7	13.7	3.7
Offices	50.5	11.0	30.6	1.7	6.2	27.0	6.1	15.9	1.0	3.7	46.3
Industrial	59.4	18.9	13.0	3.0	5.7	53.6	16.2	11.6	2.4	3.0	13.2
Specialised and other											
Educational facilities	31.4	19.3	34.0	0.3	15.0	24.7	17.0	42.0	0.4	15.9	–
Healthcare facilities	19.5	17.4	13.0	1.1	49.0	14.8	10.7	8.3	0.9	49.7	15.6
Places of worship	83.7	10.5	3.8	2.0	–	84.2	9.8	3.4	2.6	–	–
Auto dealerships	16.1	23.2	49.6	11.1	–	7.1	23.5	32.9	10.4	–	26.1
Hotels	100.0	–	–	–	–	100.0	–	–	–	–	–
Total commercial	46.8	18.2	20.6	5.0	9.4	38.6	12.9	15.6	2.8	6.8	23.3
Total residential and commercial	63.6	12.4	14.1	3.4	6.5	50.0	9.6	11.6	2.1	5.0	21.7

COST-TO-INCOME RATIOS

The cost-to-income ratios are as follows:

	31 August 2020 %	31 August 2019 %
Property costs		
Gross basis	49.9	46.7
Net basis (net of recoveries)	34.1	31.6
Total property and administration costs		
Gross basis	54.7	50.6
Net basis (net of recoveries)	40.4	36.7

Property costs, both on a gross and net basis, have increased relative to rental income when compared to the prior year, largely due to reduced rental income, mainly as a result of COVID-19 discounts given. While most property costs were reduced or contained during the lockdown period, an increase in bad debts and expected credit loss (ECL) provisions against trade receivables amounting to R20.5 million, impacted the expense ratio.

The current difficult economic conditions have impacted our tenants' ability to service their rental payments. Octodec has taken this into account in calculating the ECL, increasing bad debts and ECL provisions as a percentage of rental income from 1.4% to 2.5%, compared to the same period last year. This increase was felt throughout all sectors.

Administration expenses increased by R12.5 million mainly due to a once-off provision for VAT of R4.3 million relating to prior periods. Octodec previously calculated the VAT input deduction based on an apportionment method for corporate costs, which was based on the anticipated successful outcome of a class ruling application by the SA REIT Association. The class ruling is being objected to by the SA REIT Association.

Net finance costs for the period amounted to R436.2 million, a decrease of 2.8% on the prior year, which is attributable to a lower interest rate environment as well as a decrease in borrowings.

INVESTMENT PROPERTY

Developments

During the current year, Octodec did not undertake any significant new developments but rather focused on maintaining and carrying out smaller upgrades of properties to ensure that they remain relevant and attractive to tenants.

At certain of our residential properties, we focused on improving the common areas, some of which included the provision of additional amenities as well as recreational areas and to create a more contemporary look that appeals to the younger occupants. Octodec continues to roll out Wi-Fi to most of its residential buildings at an estimated cost of R11 million which is expected to be completed in 2021, ensuring that the buildings remain attractive to our tenants. We replaced a number of "old style" air conditioning units with more efficient air conditioning systems at a number of our office buildings.

The upgrade of The Park, a community shopping centre in Elardus Park, Tshwane, was completed in October 2019 at a cost of R42.7 million.

A curtailment on most upgrades and projects was implemented in March 2020 in response to COVID-19.

Commitments

At 31 August 2020, the group had commitments of R45.5 million (FY2019: R39.5 million) in respect of approved and committed capital expenditure relating to smaller refurbishment of properties, committed tenant installations and property contracts. These developments will be financed by way of existing unutilised banking facilities.

Disposals

In line with Octodec's strategy to sell non-core properties, the group disposed of 11 properties during the year at an average exit yield of 11.6% and at a profit compared to carrying value amounting to R1.6 million. At the date of this report, eight of these properties have been transferred for a total consideration of R98.2 million and the remaining three properties were sold for a total consideration of R5.9 million. One property has been transferred post-year end and transfer of the two remaining properties is expected to take place within the current calendar year. Octodec remains committed to disposing of the remaining properties that were approved for sale by the board and is actively marketing the sale of these properties. However, banks and funders are reluctant to finance purchasers of properties in the current uncertain environment.

Properties disposed of and transferred by 31 August 2020

Property	Location	Total consideration R'000	Profit/(loss) on disposal R'000	Transfer date	Exit yield %
6 properties	Tshwane	32 695	928.2	September 2019 – March 2020	7.4
1 property	Johannesburg CBD	52 404	915.4	October 2019	17.0
1 property	Alberton	13 095	(105.0)	November 2019	4.7
Total		98 194	1 738.6		12.5

Valuation of property portfolio

The property portfolio was valued at R11.8 billion (FY2019: R12.8 billion) based on the capitalisation of income method. The uncertainty and volatility in financial markets as a result of COVID-19, coupled with the weak South African economy, has put property valuations under pressure. In light of the deteriorating macroeconomic conditions and poor outlook, Octodec adjusted the valuation inputs such as market rentals, vacancy factor and capitalisation rates, which resulted in a decrease of R1.1 billion or 8.2% in the value of the portfolio.

Given the volatility in markets and the lack of certainty around economic recovery, it is possible that there will be further movements in these key inputs after 31 August 2020. The uncertainty exists largely due to the potential for increased vacancies and the difficultly for SMMEs to maintain turnover in the current environment.

BORROWINGS AND CASH FLOW MANAGEMENT

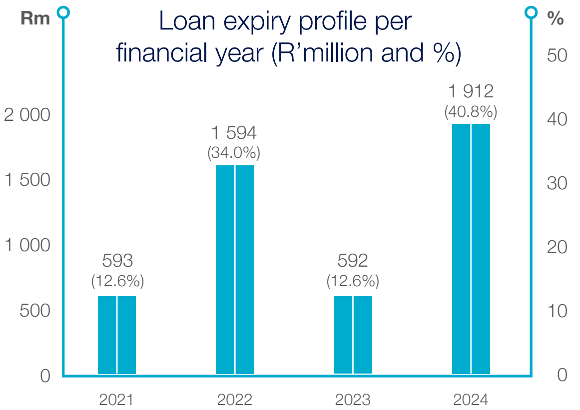
Borrowings as at 31 August 2020

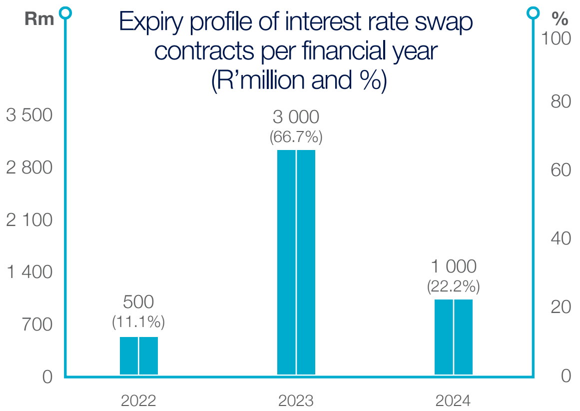
	Amount R'million	Weighted average interest rate per annum %
Bank loans	**3 946.4**	**5.6**
Domestic Medium Term Note (DMTN) Programme		
Unsecured	**376.9**	**5.1**
Secured (unlisted HQLA)	**367.4**	**5.4**
Total borrowings	**4 690.7**	**5.3**
Cost of swaps	**–**	**3.4**
Total borrowings	**4 690.7**	**8.7**

Octodec finished the year on a relatively sound financial footing benefiting from the actions undertaken over the past few years to strengthen our balance sheet.

In response to the COVID-19 pandemic we have put measures in place to increase the group's available liquidity. The combination of our liquidity position and ongoing discipline around cash flows positions us well to navigate the current market disruption and into the recovery phase. Octodec had unutilised available banking facilities amounting to R413.5 million at 31 August 2020 (FY2019: R585.5 million). Octodec has continued to apply the proceeds in respect of the disposal of properties to the repayment of borrowings, ensuring prudent financial management in this challenging South African economic environment. The weighted average term to expiry of the loans is 2.4 years (FY2019: 2.9 years) and the group's LTV as at 31 August was 42.6% (FY2019: 38.9%), well within our covenant levels of 50% despite the devaluation of our properties.

As at 31 August 2020, 95.9% of Octodec's borrowings were hedged (FY2019: 85.4%) with a weighted average term of 2.7 years (FY2019: 3.0 years). The all-in average weighted interest rate of all borrowings is 8.7% per annum (FY2019: 9.3%).





Octodec participates in a DMTN Programme through its subsidiary, Premium Properties Ltd. As at 31 August 2020 the total unsecured issuance was at R376.9 million, or 8.0% (FY2019: R376.9 million or 11.6%) of the group's borrowings. Global Credit Rating's long and short-term national scale ratings have remained unchanged from the prior year at A-(ZA) and A2(ZA) respectively, with a negative outlook.

Loan covenants

No covenants were breached during the period. The table below reflects the covenants in place by the respective lenders.

	Required	Actual
Minimum group ICR – group (times)	1.75	2.0
Minimum ICR by secured property (times)	1.8	1.9 – 2.9
Maximum LTV ratio – group (%)	50.0	42.6
Maximum LTV ratio by secured property (%)	50.0 – 55.0	36.0 – 51.2

The interest cover ratio (ICR) has been reduced by the respective lenders from 2.0 to 1.75 in respect of the 31 August 2020 measurement period, due to the negative impact of COVID-19 relief measures and trade receivables impairment on profitability for the current financial year.

ARREARS

Tenant arrears were at R88.8 million (FY2019: R74.7 million) with an ECL allowance of R42.6 million (FY2019: R39.4 million). The current economic climate has weighed heavily on our tenants with tenant arrears increasing from 3.4% to 4.2% of rental income at 31 August 2020. Octodec is cognisant that the increase in arrears is largely attributable to the negative economic climate and as a result many tenants will be unable to service their rental commitments. The company has revised its lifetime ECL assumptions accordingly.

The provision for ECL did not increase in the same proportion as the ECL expense due to a significant number of older debts having been written off in the current year.

SA REIT ASSOCIATION BEST PRACTICE RECOMMENDATIONS

The SA REIT Association issued a second edition Best Practice Recommendations (BPR), which deals with best practice reporting for SA REITs. The second edition BPR is effective for financial years starting after 1 January 2020. Octodec will endeavour to comply with the recommendations contained in the BPR for FY2021.

EVENTS AFTER THE REPORTING DATE

There have been no material subsequent events that require reporting.

CHANGES TO THE **BOARD** AND **COMMITTEES**

Euniccah Maggie Setholoo Mojapelo (Maggie) and Louis Pieter van Breda (Louis) were appointed as independent non-executive directors effective from 1 March 2020. In addition, Maggie has been appointed to the social, ethics, remuneration and transformation (SERT) committee and Louis serves on both the audit and risk committees. Their experience and extensive knowledge has proved invaluable to the board.

Following the appointment of Maggie and Louis, the board committees have been reconstituted with effect from 1 March 2020. Myron Zadwell Pollack (Myron) resigned from his position as a member of the audit committee and Petrus Jacobus Strydom (Pieter) resigned from his position as a member of the SERT committee. The board thanks Myron and Pieter for their invaluable contributions as members of the audit and SERT committees respectively over the years and welcomes Maggie and Louis to the board.

The audit committee now consists of four independent non-executive directors. Pieter continues to serve as chairman of the audit committee.

PROSPECTS

The negative GDP growth outlook, rife unemployment, reduced disposable income and the uncertain political environment will undoubtedly continue to restrain local economic growth. Added to this, the environment in which we find ourselves is fluid with the continuing economic uncertainty as a result of COVID-19. The cost of vacancies and rent relief are the variables that may have the most influence on our financial performance in FY2021.

While it is difficult to predict the outcome of FY2021 with certainty, in the coming months we are committed to the continuation of our strategy and positioning the business for the future. We have confidence in the management team that we have in place to respond to the current challenges and balance our response with the long-term interests of our stakeholders.

The group's diversified portfolio, large tenant base, sound operating fundamentals and prudent capital management provide Octodec with the resilience and flexibility necessary to continue operating during these challenging and very difficult times. We will continue to closely monitor the impact of COVID-19 and its implications on our business, while remaining agile.

The disposal of non-core properties will remain a key focus area for the foreseeable future, although it is anticipated that disposing of properties in this environment will be extremely difficult. Attracting new tenants and reducing vacancies as well as portfolio consolidation will remain of primary importance in FY2021 and the group will continue to optimise its balance sheet, ensuring that we retain more cash to bolster cash flow and our balance sheet. It is for this reason that Octodec has not committed to commence work on any major new developments. Instead it will continue to focus on tenant retention, assisting tenants navigate these difficult times and collections from tenants.

Due to uncertainty arising from COVID-19 and the continued impact on operating conditions, Octodec will not be providing distributable income guidance at this point.

Sharon Wapnick
Chairman

Jeffrey Wapnick
Managing director

13 November 2020

NOTES TO THE CONDENSED CONSOLIDATED PROVISIONAL FINANCIAL STATEMENTS

Basis of preparation

The reviewed condensed consolidated provisional financial statements are prepared in accordance with the JSE Listings Requirements and the requirements of the Companies Act, No 71 of 2008 (Companies Act). The condensed consolidated provisional financial statements have been prepared in accordance with the conceptual framework and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Pronouncements as issued by the Financial Reporting Standards Council, and as a minimum contains the information required by IAS 34: *Interim Financial Reporting*. The accounting policies applied in the preparation of the condensed consolidated provisional financial statements are consistent with those applied in the preparation of the previous consolidated audited financial statements for the year ended 31 August 2019, except for the adoption of IFRS 16, which became effective in the current year.

These results have been prepared under the historical cost convention, except for investment properties, which are measured at fair value, and certain financial instruments, which are measured at either fair value or amortised cost.

After due consideration, the directors have concluded that the group has adequate resources to continue operating in the foreseeable future. The reviewed condensed consolidated provisional results for the year ended 31 August 2020 have accordingly been prepared on the going concern basis.

These condensed consolidated provisional financial statements were prepared under the supervision of Mr AK Stein CA(SA), in his capacity as group financial director.

The condensed consolidated provisional financial statements were reviewed by Deloitte & Touche and their unmodified report is available for inspection at the company's registered address.

Adoption of IFRS 16

IFRS 16 *Leases* introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low-value assets. The requirements for lessor accounting have remained largely unchanged.

The group adopted IFRS 16 from 1 September 2019 using the modified retrospective approach and has therefore not restated the comparatives for the 2019 financial year as permitted under the specific transition provisions contained in the standard. The group elected to use the practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and International Financial Reporting Interpretations Committee (IFRIC) 4 at the date of initial application.

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the average incremental borrowing rate to the group of 9.31% as at 1 September 2019. The lease liability representing the present value of the unpaid lease payments at 1 September 2019 has been recognised on the statement of financial position. The group has two properties held under long-term land leases which are currently recognised as investment property at fair value. The group will continue to account for the right-of-use asset for land leases at fair value in accordance with IAS 40.

The following table presents the impact of adopting IFRS 16 on the statement of financial position as at 1 September 2019:

	Balance as at 31 August 2019 R'000	IFRS adjustments R'000	Balance as at 1 September 2019 R'000
Investment property	12 500 173	12 200	12 512 373
Lease liability	–	11 023	11 023
Opening retained income	3 029 059	1 177	3 030 236

Fair value measurement

The group measures investment properties as well as financial instruments (which include interest rate swaps and unlisted equity investments) at fair value at each reporting date. The fair values of financial instruments measured at amortised cost are disclosed when the carrying value of these instruments does not reasonably approximate their fair value at the reporting date.

Financial instruments

Financial instruments include interest rate swaps as well as unlisted equity investments. Both are measured at fair value through profit and loss.

The fair values of the interest rate swaps are determined on a mark-to-market valuation, by discounting the estimated future cash flows based on the terms and maturity of each contract and using the market interest rate indicated on the South African swap curve.

Unlisted equity shares consist of the shares and notes obtained *in lieu* of the rent reduction given to Edcon in terms of the rent reduction agreement between Edcon and its landlords. Due to the fact that Edcon has been placed under business rescue and the recovery of the investment remains uncertain, the fair value of the shares and notes have been estimated at nil value.

Investment property

Investment properties are valued biannually by a dedicated valuations team at City Property and the portfolio valuation is reviewed and approved by the board. In terms of the JSE Listings Requirements, all the properties are valued at least once over a rolling three-year period by external independent valuers. In the current year 107 properties, representing 27.4% of the portfolio, with a carrying amount of R3.2 billion were externally valued.

The portfolio was valued by the following valuers who are all registered valuers in terms of section 19 of the Property Valuers Profession Act, No 47 of 2000 and have extensive experience in property valuations.

Entity	**Valuator**	**Qualifications**
Jones Lang LaSalle	Shawn Crous	MRICS, Professional valuer
Mills Fitchet Global	William Hewitt	NDPV, MIEA, FIVSA, RICS Registered Valuer
Realworx Property Valuations	Stanton Alberts	Professional Associate Valuer
Gert van Zyl Valuations	Gerhardus Jacobus Van Zyl	Professional Associate Valuer

Jones Lang LaSalle and Mills Fitchet Global valued the properties using the discounted cash flow model and Realworx Property Valuations and Gert van Zyl Valuations valued the properties using the capitalisation of income method. The property portfolio was also internally valued using the capitalisation of income method.

The outbreak of COVID-19 has impacted the property sector and there is a heightened level of uncertainty. All the above valuators have reported their valuations based on "material valuation uncertainty" and consequently less certainty and a higher degree of caution should be attached to the valuation than would generally be the case.

Valuation of investment property is subject to a significant amount of judgement and estimation and any change in assumptions and estimations will result in different property values. The inputs in the calculation which are subject to a significant degree of estimation are the capitalisation rates, the long-range vacancy factor and the expense ratio. The following unobservable inputs were used by the group at 31 August 2020:

	2020					2019				
Capitalisation rates	**Number of properties**	**Fair value R'000**	**Weighted average capitalisation rate %**	**Weighted average long range vacancy factor %**	**Weighted average expense ratio %**	**Number of properties**	**Fair value R'000**	**Weighted average capitalisation rate %**	**Weighted average long range vacancy factor %**	**Weighted average expense ratio %**
8.5% – 8.75%	7	2 199 500	8.5	8.6	31.0	8	2 689 832	8.4	4.2	28.0
9.00% – 10.00%	104	6 624 400	9.7	6.6	28.5	152	8 257 708	9.5	5.6	26.9
10.25% –11.50%	136	2 328 200	10.6	8.0	26.6	96	1 298 420	10.7	9.7	24.0
Greater than 11.50%	11	216 700	12.0	20.9	27.1	6	138 880	12.5	15.9	20.7
Held for sale	1	2 900	12.0	10.0	15.8	10	139 000	11.5	6.2	29.4
Total	259	11 371 700	9.7	7.7	28.5	272	12 523 840	9.5	5.7	26.2

Long range vacancy factor	2020 Number of properties	2020 Fair value R'000	2020 Weighted average capitali-sation rate %	2020 Weighted average long range vacancy factor %	2020 Weighted average expense ratio %	2019 Number of properties	2019 Fair value R'000	2019 Weighted average capitali-sation rate %	2019 Weighted average long range vacancy factor %	2019 Weighted average expense ratio %
1.00% – 5.00%	120	4 981 200	9.7	3.5	26.0	176	8 422 880	9.4	3.4	26.4
6.00% – 10.00%	95	4 276 500	9.6	8.0	30.9	54	2 878 135	9.3	7.9	28.1
11.00% –15.00%	26	1 720 100	9.4	13.2	29.8	19	680 325	9.9	13.5	27.1
Greater than 15.00%	17	391 000	11.0	23.2	28.1	13	403 500	10.6	22.4	23.0
Held for sale	1	2 900	12.0	10.0	15.8	10	139 000	11.5	0.1	0.3
Total	259	11 371 700	9.7	7.7	28.5	272	12 523 840	9.5	5.7	26.2

Expense ratio	2020 Number of properties	2020 Fair value R'000	2020 Weighted average capitali-sation rate %	2020 Weighted average long range vacancy factor %	2020 Weighted average expense ratio %	2019 Number of properties	2019 Fair value R'000	2019 Weighted average capitali-sation rate %	2019 Weighted average long range vacancy factor %	2019 Weighted average expense ratio %
6.00% – 15.00%	20	383 700	10.0	2.8	12.1	31	869 291	10.1	3.4	12.1
15.01% – 25.00%	86	2 496 900	10.1	7.4	20.9	97	3 460 307	9.7	7.6	20.9
25.01% – 35.00%	115	7 627 000	9.5	7.8	30.5	102	7 390 142	9.2	5.4	29.7
Greater than 35.00%	37	861 200	10.0	9.0	37.1	32	665 100	9.7	5.3	37.0
Held for sale	1	2 900	12.0	10.0	15.8	10	139 000	11.5	0.1	0.3
Total	259	11 371 700	9.7	7.7	28.5	272	12 523 840	9.5	5.7	28.5

The balance of the portfolio with a carrying value of R392 310 (FY2019: R322 700) represents properties held for sale, land or mothballed properties. Where a firm offer has been received, the properties were valued at the offer consideration less costs to sell. Land and mothballed buildings have been valued using bulk rates determined from sales of similar properties and adjusted downwards for the impact of the current economic climate.

Relationship of unobservable inputs to fair value

Significant increase/decrease in any of these inputs in isolation will result in a lower/higher fair value measurement. The effect of changes in these inputs is set out below:

	31 August 2020 R'000	31 August 2019 R'000
1% increase in capitalisation rates, while all other inputs remain constant	(1 071 635)	(1 217 789)
1% decrease in capitalisation rates, while all other inputs remain constant	1 318 385	1 505 343
2% increase in long-range vacancy factor, while all other inputs remain constant	(248 099)	(270 375)
2% decrease in long-range vacancy factor, while all other inputs remain constant	248 099	270 375
2% increase in expense ratio, while all other inputs remain constant	(320 438)	(345 525)
2% decrease in expense ratio, while all other inputs remain constant	320 438	345 525

Fair value hierarchy

The fair value hierarchy reflects the significance of the inputs used in making fair value measurements. The level within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Input other than quoted prices included within Level 1 that is observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: Input for the asset or liability that is not based on observable market data (unobservable input)

The following table reflects the levels within the fair value hierarchy of financial and non-financial assets measured at fair value at 31 August:

	31 August 2020		31 August 2019	
	Level 2 R'000	Level 3 R'000	Level 2 R'000	Level 3 R'000
Derivative financial instruments				
Liabilities	(325 718)		(99 694)	
Non-financial instruments				
Investment property		11 642 600		12 637 240
Investment property held for sale		121 410		209 300

There have been no significant transfers made between Levels 1, 2 and 3 during the period. There have been no material changes in judgements or estimates of amounts as reported in previous reporting periods.

Carrying value and movement in Investment Property

	31 August 2020 R'000	31 August 2019 R'000
Opening balance	12 846 540	12 743 362
Total fair value changes for the year included in profit and loss	(1 054 865)	(138 873)
Straight-line rental income accrual	(5 556)	(8 191)
Depreciation and amortisations	(14 757)	(15 989)
Acquisitions, disposals and other movements:		
Developments and subsequent expenditure (including impact of adoption of IFRS 16)	89 103	79 952
Acquired through business combination	–	310 200
Disposals (carrying value)	(96 455)	(123 921)
Closing balance	11 764 010	12 846 540
Included in profit and loss for the year:		
Changes in fair value of investment property	(1 054 865)	(138 873)

Related-party transactions

Octodec and City Property are related parties in that Jeffrey Wapnick and Sharon Wapnick are directors of Octodec and City Property and members of the Wapnick family are shareholders of both companies.

Total payments made to City Property amounted to R193.9 million (FY2019: R201.9 million)*. This included fees for collections, leasing, property and asset management, commission on acquisitions and disposals, upgrades and developments as well as repairs. Octodec received R9.2 million (FY2019: R8.4 million) from City Property in respect of rent and operating costs recovered.

As at 31 August 2020, the following amounts were owing from/(to) City Property:

	31 August 2020 R'000	31 August 2019 R'000
Due to City Property	(4 866)	(2 220)
Due by City Property	775	1 068

* *The amounts paid to City Property include VAT to the extent that VAT has not been claimed as input, so as to agree to the amounts disclosed in the statement of profit and loss and statement of financial position*

CONSOLIDATED STATEMENT OF **FINANCIAL POSITION**

	Reviewed 31 August 2020 R'000	Audited 31 August 2019 R'000
ASSETS		
Non-current assets	**11 664 307**	12 733 048
Investment property	**11 642 600**	12 637 240
Investment property	**11 519 990**	12 500 173
Plant and equipment	**756**	1 841
Straight-line rental income accrual	**98 354**	104 099
Unamortised tenant installations and lease costs	**23 500**	31 127
Interest in and loan to joint venture	**21 707**	21 044
Loan receivable	**–**	74 764
Current assets	**222 976**	201 633
Loan receivable	**63 900**	–
Accounts receivable and prepayments	**128 094**	119 274
Taxation receivable	**–**	675
Cash and bank balances	**30 982**	81 684
Non-current assets held for sale	**121 410**	209 300
	12 008 693	13 143 981
EQUITY AND LIABILITIES		
Equity	**6 423 928**	7 578 599
Stated capital	**4 210 134**	4 210 134
Non-distributable reserve	**1 723 581**	3 029 059
Retained income	**490 213**	339 406
Non-current liabilities	**4 541 652**	4 220 988
Long-term borrowings	**4 097 965**	4 027 644
Derivative financial instruments	**325 718**	99 694
Lease liabilities	**10 981**	–
Deferred taxation	**106 988**	93 650
Current liabilities	**1 043 113**	1 344 394
Short-term borrowings	**592 775**	950 435
Trade and other payables	**428 290**	393 959
Bank overdraft	**22 026**	–
Lease liabilities	**22**	–
	12 008 693	13 143 981

CONSOLIDATED STATEMENT OF **PROFIT** AND **LOSS** AND **OTHER COMPREHENSIVE INCOME**

	% change	Reviewed 31 August 2020 R'000	Audited 31 August 2019 R'000
Revenue	(5.2)	1 880 496	1 982 695
earned on contractual basis	(0.1)	1 989 630	1 990 886
straight-line rental income accrual		(5 556)	(8 191)
COVID-19 rental discount		(103 578)	–
Property expenses	(1.5)	(891 844)	(901 290)
Expected credit loss – accounts receivable	72.5	(48 811)	(28 304)
Property income	(10.8)	939 841	1 053 101
Administrative and corporate expenses	15.9	(91 030)	(78 515)
Operating profit	(12.9)	848 811	974 586
Fair value changes		(1 283 935)	(232 599)
investment property		(1 054 865)	(138 873)
unlisted equity shares		(3 046)	(2 505)
interest rate derivatives		(226 024)	(91 221)
Profit on sale of investment property		1 739	2 629
Impairment of loan receivables		(12 795)	–
Gain on derecognition of share in joint venture		–	3 029
Share of income from joint venture		3 936	3 595
share of after tax profit		1 325	517
share of fair value gains		1 674	342
interest received		937	2 736
(Loss)/profit before finance costs	(158.9)	(442 244)	751 240
Net finance costs	(2.8)	(436 198)	(448 541)
finance income		15 344	18 844
finance costs	(3.4)	(451 542)	(467 385)
(Loss)/profit before taxation		(878 442)	302 699
Taxation – deferred		(13 338)	(7 052)
(Loss)/profit for the year and total comprehensive income attributable to shareholders	(401.6)	(891 780)	295 647
Weighted shares in issue – ('000)		266 198	266 198
Shares in issue ('000)		266 198	266 198
Basic and diluted (loss)/earnings per share (cents)	(401.6)	(335.0)	111.1

CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

	Stated capital R'000	Non-distributable reserve R'000	Retained earnings R'000	Total R'000
Balance at 31 August 2018 (audited)	4 210 134	3 262 710	351 554	7 824 398
Total comprehensive income for the year	–	–	295 647	295 647
Dividends paid	–	–	(541 446)	(541 446)
Transfer to non-distributable reserve				
Profit on sale of investment property	–	2 629	(2 629)	–
Deferred tax	–	(7 052)	7 052	
Profit on derecognition of investment in joint venture	–	3 029	(3 029)	–
Fair value changes				
investment property	–	(138 873)	138 873	–
investment property – joint ventures	–	342	(342)	–
unlisted equity shares		(2 505)	2 505	
interest rate derivatives (net of deferred tax)	–	(91 221)	91 221	–
Balance at 31 August 2019 (audited)	4 210 134	3 029 059	339 406	7 578 599
Effect of change in accounting policy for initial application of IFRS 16		1 177		1 177
Adjusted balance at 1 September 2019	**4 210 134**	**3 030 236**	**339 406**	**7 579 776**
Total comprehensive loss for the year	**–**	**–**	**(891 780)**	**(891 780)**
Dividends paid (final dividend – 2019)	**–**	**–**	**(264 068)**	**(264 068)**
Transfer to non-distributable reserve				
Profit on sale of investment property	**–**	**1 739**	**(1 739)**	**–**
Deferred tax	**–**	**(13 338)**	**13 338**	**–**
Impairment of loan receivable	**–**	**(12 795)**	**12 795**	**–**
Fair value changes				
investment property	**–**	**(1 054 865)**	**1 054 865**	**–**
investment property – joint ventures	**–**	**1 674**	**(1 674)**	**–**
unlisted equity shares	**–**	**(3 046)**	**3 046**	**–**
interest rate derivatives (net of deferred tax)	**–**	**(226 024)**	**226 024**	**–**
Balance at 31 August 2020 (reviewed)	**4 210 134**	**1 723 581**	**490 213**	**6 423 928**

CONSOLIDATED STATEMENT OF **CASH FLOWS**

	Reviewed 31 August 2020 R'000	Audited 31 August 2019 R'000
Cash flows from operating activities		
Net rental income from properties	848 811	974 586
Adjusted for:		
straight-line rental income accrual	5 556	8 191
depreciation and amortisation	14 757	15 989
impairment provision – accounts receivables	48 811	28 304
tax received	675	–
working capital changes	(8 977)	(3 091)
Cash generated from operations	909 633	1 023 979
Interest income	15 344	18 844
Finance costs	(476 454)	(471 737)
Dividends paid	(264 068)	(541 446)
Net cash flows from operating activities	184 455	29 640
Cash flows from investing activities		
Acquisition of investment property	(76 903)	(82 617)
Purchase of subsidiary	–	(35 585)
Repayment of loan receivable	614	3 264
Payment received from joint venture	3 500	2 861
Payment made to joint venture	(227)	(5 199)
Proceeds from disposal of investment property	98 194	129 179
Net cash flows from investing activities	25 178	11 903
Cash flows from financing activities		
Repayment of lease liabilities	(20)	–
Proceeds from borrowings	1 217 532	2 781 576
Repayment of borrowings	(1 499 873)	(2 804 347)
Net cash flows from financing activities	(282 361)	(22 771)
Net (decrease)/increase in cash and bank balances	(72 728)	18 772
Cash and bank balance at beginning of year	81 684	62 912
Cash and bank balance at end of year	8 956	81 684

RECONCILIATION OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME TO **HEADLINE EARNINGS**

	Reviewed 31 August 2020 R'000	Audited 31 August 2019 R'000
Total comprehensive (loss)/income attributable to shareholders	(891 780)	295 647
Headline earnings adjustments		
Profit on sale of investment properties	(1 739)	(2 629)
Gain on derecognition of interest in joint venture	–	(3 029)
Fair value changes		
investment property	1 054 865	138 873
investment property – joint ventures	(1 674)	(342)
Headline earnings attributable to shareholders	159 672	428 520
Headline and diluted headline earnings per share (cents)	60.0	161.0

CONSOLIDATED **SEGMENTAL INFORMATION**

The group earns revenue in the form of property rentals. On a primary basis the group is organised into five major operating segments.

	Reviewed 31 August 2020 R'000	%	Audited 31 August 2019 R'000	%
Rental income by sector				
Retail	448 238	31.2	517 226	33.3
Offices	232 055	16.2	247 456	15.9
Residential	482 820	33.7	499 610	32.2
Industrial	97 308	6.8	110 287	7.1
Specialised and other:				0.0
Parking	71 009	4.9	68 043	4.4
Healthcare facilities	33 338	2.3	37 434	2.4
Auto dealerships	15 290	1.1	16 911	1.1
Hotels	18 342	1.3	16 793	1.1
Places of worship	5 550	0.4	7 534	0.5
Educational facilities	30 707	2.1	30 928	2.0
Total rental income	1 434 657	100.0	1 552 222	100.0
Straight-line rental income accrual	(5 556)		(8 191)	
Recoveries	451 395		438 664	
Revenue	1 880 496		1 982 695	

Further segment results cannot be allocated on a reasonable bases due to the "mixed use" of certain of the properties. It is the company's philosophy to invest in properties situated in the Gauteng area, therefore the company has not reported on a geographical basis.

RECONCILIATION OF **EARNINGS** TO **DISTRIBUTABLE EARNINGS**

	%	Reviewed 31 August 2020 R'000	Audited 31 August 2019 R'000
Total comprehensive (loss)/income attributable to shareholders		(891 780)	295 647
Profit on sale of investment properties		(1 739)	(2 629)
Gain on derecognition of investment in joint venture		–	(3 029)
Fair value changes			
Investment property		1 054 865	138 873
Investment property – joint ventures		(1 674)	(342)
Unlisted equity shares		3 046	2 505
Interest rate derivatives		226 024	91 221
Straight-line rental income accrual		5 556	8 191
Impairment of loan receivable		12 795	–
Taxation – deferred		13 338	7 052
		420 431	537 489
Amount not distributed			
– Amount attributable to Edcon rent reduction		(3 046)	(2 505)
Distributable earnings attributable to shareholders		417 385	534 984
Represented by:			
Revenue			
earned on contractual basis net of COVID-19 rental discount	(5.3)	1 886 052	1 990 886
Property operating expenses and impairment provision	1.2	(940 655)	(929 594)
Property income	(10.9)	945 397	1 061 292
Administrative and corporate expenses	15.9	(91 030)	(78 515)
Operating profit	(13.1)	854 367	982 777
Share of income from joint venture		2 262	3 253
Profit before finance costs		856 629	986 030
Net finance costs	(2.8)	(436 198)	(448 541)
Net income after finance costs	(21.8)	420 431	537 489
– Amount attributable to Edcon rent reduction		(3 046)	(2 505)
Distributable earnings attributable to shareholders	(22.0)	417 385	534 984
Weighted average number of shares		266 197 535	266 197 535
Distributable earnings per share (cents)	(22.0)	156.8	200.9

COMPANY INFORMATION

Octodec Investments Limited

Incorporated in the Republic of South Africa
Registration number: 1956/002868/06
JSE share code: OCT
ISIN: ZAE000192258 (Approved as a REIT by the JSE)

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[1] *Non-executive director*
[2] *Executive director*
[3] *Lead independent director*
[4] *Independent non-executive director*

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