



2017

Year end
September 2017



ARROWHEAD PROPERTIES
Focused on distributable income



Arrowheads' mission

- Opportunistic
- Diversified
- Sustainable value for our shareholders
- Trusted
- South African focused



Arrowhead

Diverse commercial (office, retail and industrial) portfolio: value R5,6bn

60% interest in Indluplace: R1,7bn

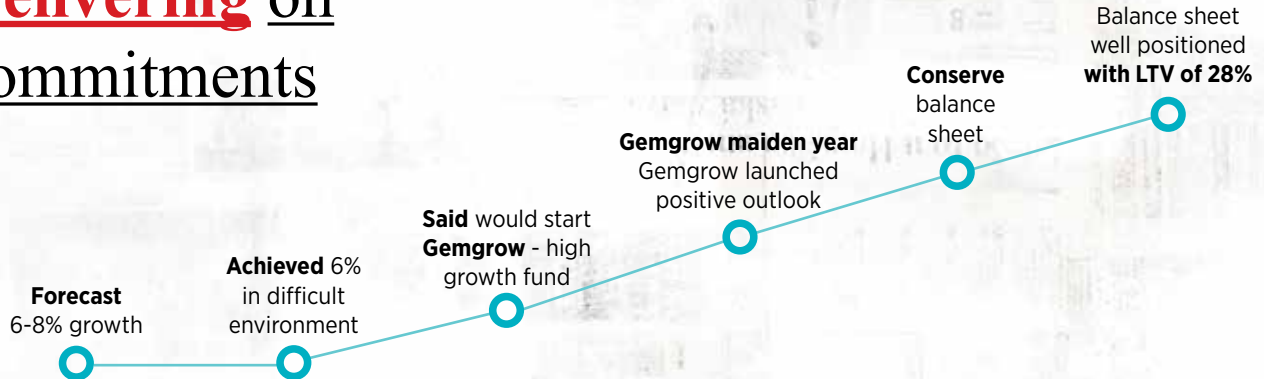
55% interest in Gemgrow valued at R1,6bn

11% interest in Dipula: R509m

19% interest in Reboasis: R1,3bn

Gearing R3,6 billion, company LTV of 28%

Delivering on commitments



Tough year in challenging environment

- Faster than expected deterioration in market conditions
- More than 65 000m² of single tenanted expiries (2 industrial & rest office)
- Excess office supply and limited demand
- Tenants taking longer to make decisions due to political & economic uncertainty
- Tenants reducing space and staff
- Re-letting taking longer, lower rental with higher TI and commission to attract tenants

How did this impact letting?

- 1 Sturdee
- 2\3s let
- Well located properties still lettable
- How did we let?
 - higher commission to focus brokers
 - dropping rental to new market
 - higher TIs to remain competitive



What have we
done **right**



- 1 Sturdee
 - soft refurb
 - white boxed selective space
 - Arrowhead moved in (confidence & visibility)
- Re-let (Urban Brew, Kwela Logistics, Kit Group)
- Reacted quickly to the change in environment
- Position in Gemgrow
- Grown Indluplace and Gemgrow
- Made good strategic decisions which position for sustainable shareholdervalue

Lessons learnt

- 1) Economic uncertainty = tenants taking longer to make decisions
- 2) Faster than expected deterioration in market conditions alleviated through diversification
- 3) Therefore diversity is key and transition away from single tenant buildings
- 4) Resist distributing unsustainable income

Total dividend

R'000	2017	2016
Revenue (excluding straight line rental income)	1 936 179	1 531 560
Listed securities income	191 832	71 770
Property expenses	(735 966)	(567 968)
Administration and corporate costs	(39 350)	(38 094)
Finance expenses	(403 581)	(237 292)
Finance income	80 733	53 360
Pre-effective date dividend #	19 162	-
Non-controlling interest profits elimination (net of antecedent income)	(238 792)	(85 355)
Distributable income	810 217	727 981
Antecedent income	-	31 586
Antecedent income – subsidiary	-	2 316
Underwriters fee	9 500	-
Accrued dividend on listed securities	155 641	67 646
Listed securities income recognised in previous reporting period	(95 893)	(19 795)
Total dividend	879 465	809 734
Dividend to the Arrowhead Charitable Trust and management fees*	28 931	25 620
Total dividend after effects of Arrowhead Charitable Trust and management fees	908 396	835 354
* Dividend to the Arrowhead Charitable Trust and management fees are added back as it is eliminated on consolidation.		
# Pre-effective date dividend is in respect of the dividend declared by Gemgrow as regards the income earned by Gemgrow on the Cumulative Properties Limited (“Cumulative”) portfolio prior to the accounting effective date.		
Property expenses as a percentage of revenue – gross	38%	37%
Property expenses as a percentage of revenue – net	13%	15%
Dividend for the quarter ended 31 December	222 218	198 995
Dividend for the quarter ended 31 March	226 577	207 894
Dividend for the quarter ended 30 June	228 872	214 155
Dividend for the quarter ended 30 September^	230 729	214 310
Total dividend (cents)	908 396	835 354
Dividend per share for the quarter ended 31 December	21,41	20,03
Dividend per share for the quarter ended 31 March	21,83	20,76
Dividend per share for the quarter ended 30 June	22,05	20,87
Dividend per share for the quarter ended 30 September ^	22,23	20,89
Total dividend (cents)	87,52	82,55
Net asset value per share (cents)	1103,91	895,22

^ The dividend was declared on 22 November 2017

Arrowhead

as at 30 September 2017

R'000/AUDITED	2017	2016
Assets		
Non-current assets	15 741 164	12 172 867
Investment property	12 910 093	9 877 538
Fair value of property portfolio for accounting purposes	12 796 323	9 803 309
Straight line rental income accrual	113 770	74 229
Property, plant and equipment	1 573	985
Loans to participants of group share purchase and option schemes	617 719	540 557
Goodwill	337 449	176 830
Financial assets	1 871 464	1 570 696
Deferred taxation	2 011	
Derivative instruments	855	6 261
Current assets	311 733	159 282
Trade and other receivables	206 145	80 858
Cash and cash equivalents	105 588	78 424
Non-current assets held for sale	92 370	95 500
Total assets	16 145 267	12 427 649
Equity and liabilities		
Shareholders interest	8 372 540	8 202 208
Stated capital	6 497 483	6 396 178
Reserves	1 875 057	1 806 030
Non-controlling interest	2 742 921	981 753
Other non-current liabilities	3 303 907	2 900 739
Secured financial liabilities	3 257 524	2 890 639
Derivative instruments	46 383	10 100
Current liabilities	1 725 899	342 949
Trade and other payables	300 283	142 949
Secured financial liabilities	1 425 616	200 000
Total equity and liabilities	16 145 267	12 427 649

Debt

as at 30 September 2017

- Arrowhead loans of R3,569 million and group of R4,688 million
- Arrowhead LTV of 28,2%, group of 31,5%
- Loans fixed, Arrowhead 71% and group 69%
- Arrowhead effective interest rate of 8,98% and group effective interest rate of 9,1% for year ended September 2017



Debt Expiry

2018	R850 million
2019	R681 million
2020	R1,090 million
2021	R276 million
2022	R672 million
Total	R3,569 million

Core holdings

40 assets

Indluplace Properties

Gemgrow Properties



Top 5 properties



Access Park

Western Cape

R776 000 000

20 456m²

Retail

Top 5 properties



Cleary Park

Eastern Cape

R521 000 000

36 294m²

Retail

Top 5 properties



Westgate Mall

Western Cape

R332 000 000

28 951m²

Retail

Top 5 properties

1 Sturdee

Gauteng

R191 000 000

13 350m²

Office



Top 5 properties

Midtown Mall

North West

R260 000 000

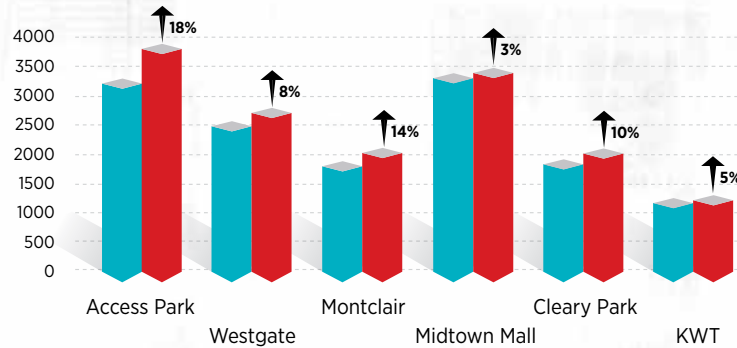
17 456m²

Retail

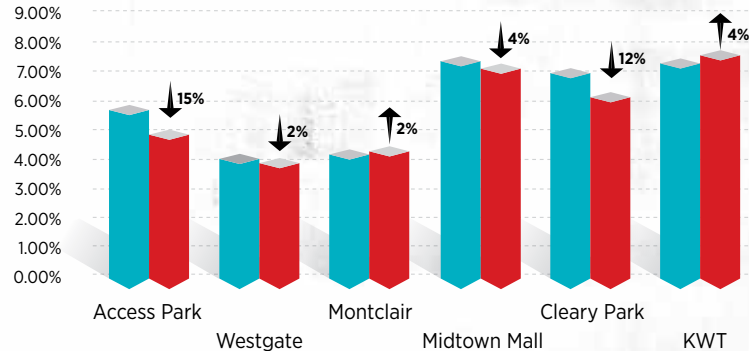


Trading densities

■ September 2016 vs ■ September 2017



Rent to sales ratio



65 000m²
expiries



what
has
been
done?



- No serious interest
- Exploring conversion to residential
- 18 months completion
- 424 units

65 000m²
expiries

what
has
been
done?



Kwela Logistics (15 450m²)

- Blackheath CT
- Declined few offers to sell
- Re-let 8 000 m² at higher rate (2 tenants)
- Strong interest on balance



Core portfolio

Year ended	30 Sep 2017	30 Sep 2016	Growth
	R'000	R'000	%
Revenue	783 837	782 494	0,17
Property expenses	(278 782)	(284 874)	-2,14
Net operating income	505 055	497 620	1,49

Assuming a gearing ratio on the portfolio of 28% and an annual effective interest rate of 8,98%, the total growth in distributable income would grow to 2%.

At 30 September 2017

51 commercial (retail, office & industrial) properties

56% retail, 36% office and 8% industrial (sectoral by value)

Overall vacancy 12% (retail 5%, office 22%, industrial 9%)

Average gross rent per sector (R131/m² retail, R114/m² office, R45/m² industrial)

Escalation per sector (7,98% retail, 8,25% office, 8,71% industrial)

Average lease profile 3,88 years

Reversions per sector (retail 8%, office 4%, industrial -46%), overall 5% positive

Indluplace

Indluplace to be dominant residential fund in South Africa

Defensive investment opportunity offers good returns in a difficult environment if managed properly

Growth of 5,6% for year end Sep 2017

Low vacancies, arrears and bad debts

Dividend growth of 4-7% for year end Sep 2018

Portfolio growth to R4,3bn with 9 662 units

Gemgrow

High yield high growth fund

Manage risk by diversification

Achieved maiden forecast for year end Sep 2017

Dividend growth of 7-9% on the Gemgrow B share for year end Sep 2018

R580m worth of acquisitions at 11,85% yield

Non-Core holdings

11 assets to sell

.....
Dipula Income Fund

.....
Rebosis Property Fund



Dipula

Dipula B growth of 6,7% to August 2017

Dividend growth of 5-6% on the Dipula B shares for year end Aug 2018

Currency to Arrowhead

Constant constructive engagement with management to explore various ideas – no clear path forward


Rebosis

Rebosis growth of 7,4% to August 2017

Dividend growth of 4-6% on the Rebosis B shares for year end Aug 2018

Currency to Arrowhead

Recent shareholder and property fund engagement
– detailed evaluation of opportunity set from buying to selling



What could
we have
done **better**

- Move single to multi tenant strategy quicker
- Transition out of single tenanted buildings
- Avoided including any unsustainable dividends
 - Sasol top slice
 - Securities cum dividend

Sustainable dividends

- Risk of non-sustainable dividends
- This risk heightened in negative environment
- Risk of over rented buildings (i.e Sasol)
- Only pay out sustainable dividends
- We believe create greater shareholder value over the long term



Re-position
portfolio for
growth in
2019

Take pain in 2018

Re-set base for
solid growth in 2019

Arrowhead
12 months to
30 September
2018

Re-invest unsustainable income proceeds into debt, Gemgrow and Indluplace depending on where there is more value

Continue managing lease expiries in advance especially single tenanted

New hungry commission based leasing division to focus on letting vacant space

Improve tenant retention

Pro-active asset management

SA focused sustainable dividends

Prospects

Believe we are ahead of the curve

Re-set base in 2018 to position for REAL growth

Upside from letting of vacant space

Sustainable dividend growth in 2019

Best positioned for South African bounce

Prospects continued...

Negative dividend growth for September 2018

This excludes letting of vacant space and non sustainable income

If use R65 million of non-sustainable income available for 2018
year (including capital items and cum securities dividends)
then would take the dividend into positive territory

so where is
the **upside**
in 2018?

Further acquisition of defensive Indluplace and high growth Gemgrow shares (participate in their expansion)

.....

SA political uncertainty changes

.....

Want to have most sustainable portfolio positioned for South African bounce



notes...

A series of horizontal dashed lines for taking notes.

Blank lined area for notes or text.





Thank you