

## DIVERSIFIED PORTFOLIO AND FINANCIAL PRUDENCE SUPPORTS OCTODEC'S RESILIENCE IN TOUGH ECONOMIC CLIMATE

- Distributable earnings of R417 million weighed down by COVID-19 impacts in H2
- Strong cash flow generated from operations of R449 million
- Properties maintained to remain relevant and attractive
- 11 non-core properties sold for R104 million
- Collections showing strong recovery and occupancy levels a key focus
- Emphasis on digitisation, marketing, and innovative value-adding initiatives
- Well positioned to navigate current disruptive market into recovery phase

**Monday, 16 November 2020** – JSE listed REIT Octodec Investments Limited, today announced its annual results for the year to 31 August 2020, against a weakening economic environment exacerbated by the COVID-19 pandemic and subsequent lockdown.

The performance was impacted by an increase in unemployment, certain tenant failures, some residential tenants returning to their family homes and overall reduced affordability. Relief granted by way of rental discounts to tenants that were impacted by the shutdown, totalled 7% of rental income or R104 million, and together with increased rental reversions, vacancies and credit loss allowances was largely responsible for the decline in distributable earnings to R417 million.

Jeffrey Wapnick, Managing Director of Octodec commented: ***“This performance is a tale of two halves where the unprecedented economic impact of COVID-19 and resultant pressure on society weighed down our second half performance. We selectively provided relief to our tenants, mainly in the form of discounts, which represented most of the 5,3% decline in rental income. The improvement in collections as we progressed through the second half has been encouraging, however, vacancy levels which saw an unusual spike are receiving urgent attention. Our diversified portfolio, granular tenant base, strong cash generation and prudent financial management supported us through this period and will sustain us into the future.”***

Rental income on a like-for-like basis (before COVID-19 relief) decreased by 0.3% overall. As lockdown restrictions eased, more commercial tenants resumed their business activities, resulting in month-on-month improvements in rental collections which moved from 66% in April 2020 to 99% of billings (before rental discounts) in August 2020. Most property costs were reduced or contained during the lockdown period, limiting the increase to 1.2%.

***“Our retail shopping centre portfolio was a standout performer, following the successful upgrade of The Park and all convenience centres generally being well-supported, demonstrating their defensiveness. Our exposure to government offices also protected us as tenants continued to honour their leasing obligations. 20 government leases that had been outstanding for some time were also signed, extending our office lease expiry profile,”*** added Wapnick.

Occupancy levels declined by 4.4% during the period with core vacancies (excluding properties held for development or sale) at 15.8%. The residential sector was most affected with an increase in competition adding to its pressure and creating a temporary imbalance between supply and demand. This sector, while experiencing tough times currently, is defensive long-term as people will always need somewhere to live and the CBD continues to experience strong demand for well-located, affordable accommodation. Explaining actions taken to attract new tenants, Wapnick said: ***“COVID-19 has catapulted the world into the fourth industrial revolution. We have digitised our leasing systems and placed an emphasis on digital marketing. We have expedited the roll-out of WiFi to our residential buildings and introduced furnished apartments and shared accommodation at The Fields in Hatfield which has proven successful. We are also working on a trial flexible office solution tailored for the CBD market.”***

Octodec did not undertake any substantial new developments but rather focused on maintaining properties to keep them relevant and attractive to tenants. Certain residential properties saw improvements made to the common areas such as the provision of additional amenities and recreational areas to create a more contemporary look that appeals to the younger occupants. The Park, a community shopping centre in Tshwane, received a fresh modern look at a cost of R42.7 million, attracting new tenants including Pick n Pay Clothing, Ackermans, Gadgets Galore and an improved food offering.

In line with Octodec's strategy to dispose of non-core properties, 11 properties were sold for a total consideration of R104 million, at an average yield of 11.6% and at a combined premium to book value. Octodec has continued to apply the proceeds from disposals to the repayment of debt and is actively marketing the sale of the remaining properties approved for sale by the board.

Octodec finished the year on a sound financial footing benefiting from the actions undertaken over the past few years to strengthen its balance sheet. During the period, Octodec proactively addressed short term loan expiries and successfully diversified its sources of funding by securing loan facilities with Absa totalling R450 million. The group's LTV was 42.6%, well within covenant levels of 50% despite the devaluation of the property portfolio by R1.1 billion to R11.8 billion. ***"We have always prudently managed our capital ensuring we had a strong balance sheet to weather this difficult period. Our solid banking relationships have served us well in our proactive and constructive engagements with funders, who have generally been supportive and pragmatic. We continue to actively manage headroom and flexibility especially in light of the pressure being felt on property valuations. Our cash resources and undrawn banking facilities currently total over R500million and the combination of our liquidity position and ongoing discipline around cash flows positions us well to navigate the current market disruption into the recovery phase,"*** commented Anthony Stein, FD of Octodec.

The decision around the final dividend has been deferred to February 2021 given the uncertain market outlook and continued focus on cash preservation. Octodec is committed to the continuation of its strategy and positioning the business for the future. Its experienced management team will ensure that the Group's response to the current challenges is balanced with the long-term interests of stakeholders.

***"We will continue to closely monitor the impact of COVID-19 and its implications on our business, while remaining agile. Our focus is firmly on tenant retention, assisting tenants navigate these challenging times and maintaining a robust level of collections. Our longer term strategy is unchanged. We are committed to the Johannesburg and Tshwane CBDs which have strong underlying fundamentals and future growth prospects, underpinned by urbanisation and growth of the emerging middle class,"*** Wapnick concluded.

ENDS

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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, industrial property and specialised sectors. Octodec's portfolio which comprises 277 properties mostly located in the Tshwane and Johannesburg CBDs, is valued at R11.8 billion. Octodec is focussed on and committed to the continued investment into the Johannesburg and Tshwane city centres which offer 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.

[www.octodec.co.za](http://www.octodec.co.za)