

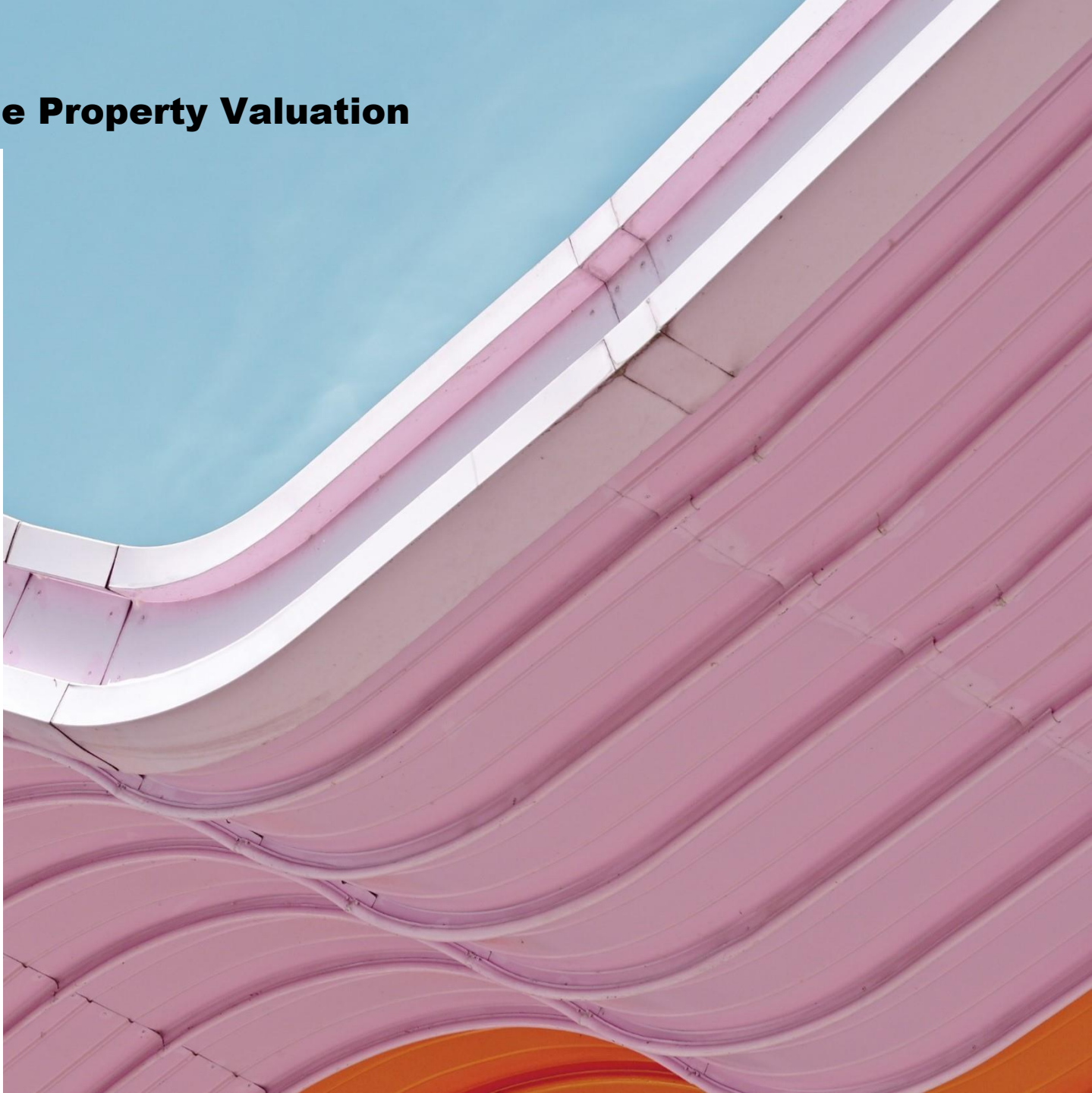
Annexure 2. Independent Immovable Property Valuation



Project Frost Valuation Review Summary Report & Market Overview

17 November 2023

JLL South Africa



Executive Summary

Project Frost

Summary of Findings



Purpose of the Valuation Review

- The South African Post Office (“SAPO”) required us to review its **directly help property portfolio of 427 properties** to provide our opinion of the market value of its owned properties, the forced sales value of each as well as market rentals for these properties as of 31 October 2023.
- As part of this exercise, we were also instructed to conduct **visual inspections** of all 427 properties and provide reports setting out commentary on the state of repair of each of the properties.
- We also provide **market rental determinations** for 427 properties in this exercise.
- Detailed reports have been issued for each property in which we detail our methodology, valuations, visual inspection reports and market rent determinations in greater detail.

Valuation Methodology Overview:

- Given the variances in value as well as the expedited timeline of this assignment we agreed to categorize the properties based on 2017 valuations.
- The **highest value assets** (i.e., those valued at above R20m received full valuations). Those valued between R1m and R20m received full broker’s opinions of value (“BOVs”) and those valued below R1m were subject to short BOVs.
- In each case we provide **Market Values and Forced Sale values**, which account for a discount to the market value the property would achieve in an expedited sales process. Expedited sales processes typically do not allow the property enough time in market to capture full demand through adequate marketing. This is particularly pertinent to properties suited to a purchase by an owner occupiers (the current majority buyer in South Africa) who typically need more time to purchase property and raise funding than property focused investors who are experienced and typically more ready to transact.
- Forced sale discounts applied range between **10% and 30%** depending on the characteristics of each property and the sub-market assessed.

Valuation Methodology Category Specific:

- **Full Valuations (21)**
 - Summary of the full valuation findings is set out in slides 20 and 21 below.
 - We used an income capitalization assessment, replacement cost assessment, depreciated replacement cost and land value assessment valuations methodologies in terms of RICS Red Book & SAIV standards of valuation.
- **Full Broker’s Opinions of Value (214)**
 - We provide full broker’s opinions of value for 214 of the properties.
 - The methodology revolves around applying a direct comparable assessment of recent comparable transactions with adjustments applied by the broker in a standard 16-variable adjustment matrix.
- **Short Broker’s Opinions of Value (129)**
 - We provide full broker’s opinions of value for 129 properties
 - The methodology revolves around applying a direct comparable assessment of recent comparable transactions with adjustments applied by the broker in their discretion in terms of a less comprehensive adjustment variable matrix.
- **Title, State of Repair & Market Rental Determination Reports (63)**
 - Out of the 427 properties under review, 63 had been transferred to other parties since 2017, the vast majority of which are now owned by Telkom SA Ltd
 - In there reports we summarise title, state of repair and provide market rentals.
 - We recommend a full legal review of the portfolio by adequately trained legal professionals of to verify our online electronic database searches.

Market Rental Determination:

- Each report contains a section that shows our research regarding the **market rentals** applicable to each of the 427 properties in the portfolio.
- In these sections we determine the monthly gross rental that **the subject property should achieve** should it become available for rent on the open market with adequate exposure to marketing and advertising through multimedia, brokers and agents.

Project Frost

Summary of Findings



Portfolio Value Summary:

- The adjacent table sets out our findings for the portfolio by market valuation and total forced sales and 2017 values.
- For the 364 SAPO owned properties the % decrease in value from 2017 is **-20.16%** and in terms a forced value scenario it is **-42,82%**.
- Some of the macro factors influencing this reduced value is set out in the next section of this report which covers increasing interest rate cycles, low economic growth and slowing investment volumes in South Africa.
- Other factors contributing significantly to the lower values are the fact that almost all properties are suffering from a lack of repairs and maintenance and many rural towns are experiencing degradation and a flight away from old high streets to newer suburban convenience retail centres. Municipal lack of services, loadshedding and increased rates and taxes are also influencing lower valuations in most areas of South Africa.

	Number	Total Value 2023	Total Forced Sale Value 2023	Total Value 2017
SAPO Owned	364	R1,795,162,200	R1,285,663,336	R2,133,338,500
Telkom / Other Owned	63	N/A*	N/A*	R115,015,000
Total Portfolio	427	N/A**	N/A**	R2,248,353,500

- **we did not conduct market value determinations for the properties that are no longer owned by SAPO*
- ***Total excludes 63 Non-SAPO properties that were owned by SAPO in 2017*

SA Economic Overview

South African Economic Overview

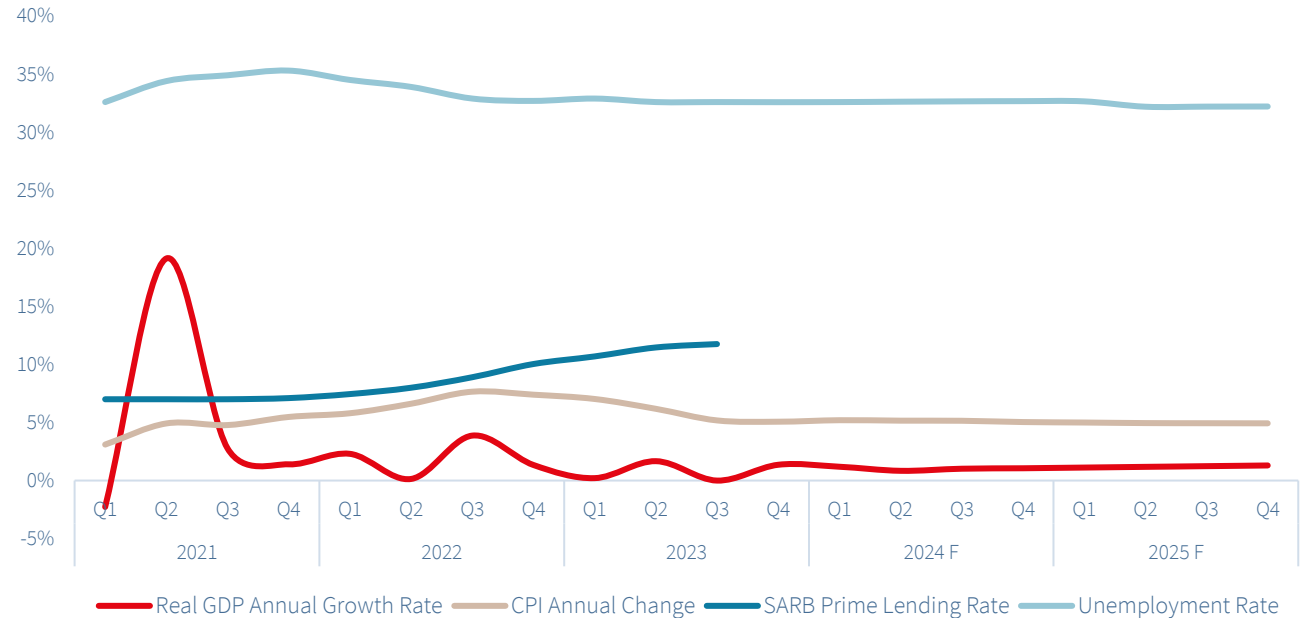


South Africa's economy showed mixed performance in the first half of 2023. Despite headwinds faced, positive GDP growth was achieved in both Q1 and Q2. Inflation also eased to a multi-period low, and modest gains in employment were observed. Periods of reduced loadshedding also bode well for economic growth, however the low growth environment is becoming systemic, with longer term forecasts remaining relatively lacklustre.

South Africa's GDP expanded by 0.4% in the first quarter and continued to grow by 0.6% in the second quarter of 2023. Noteworthy expansion was observed in the manufacturing and finance sectors. The finance sector, in particular saw growth due to the financial intermediation, insurance, and real estate services sectors. In contrast, the trade industry experienced a decline. This is attributed to overall lower retail and wholesale figures and the construction sector which experienced a decline for the first time in nine months of the year due to reduced non-residential and residential building activities.

In terms of the trade industry, household spending on motor sales, tourism accommodation, and restaurant, catering, and fast-food rose in Q2 2023. However, a cutback in spending on food and non-alcoholic beverages, as well as household furnishings, furniture, and maintenance resulted in the sector's ultimate decline. This bodes well for the retail property market, as the food and beverage submarket accounts for a high proportion of most tenant-mixes. Additionally, these sectors were some of the worst affected through the pandemic, and hence any semblance of recovery is welcome.

Key Economic Indicators



Source: Oxford Economics, South African Reserve Bank

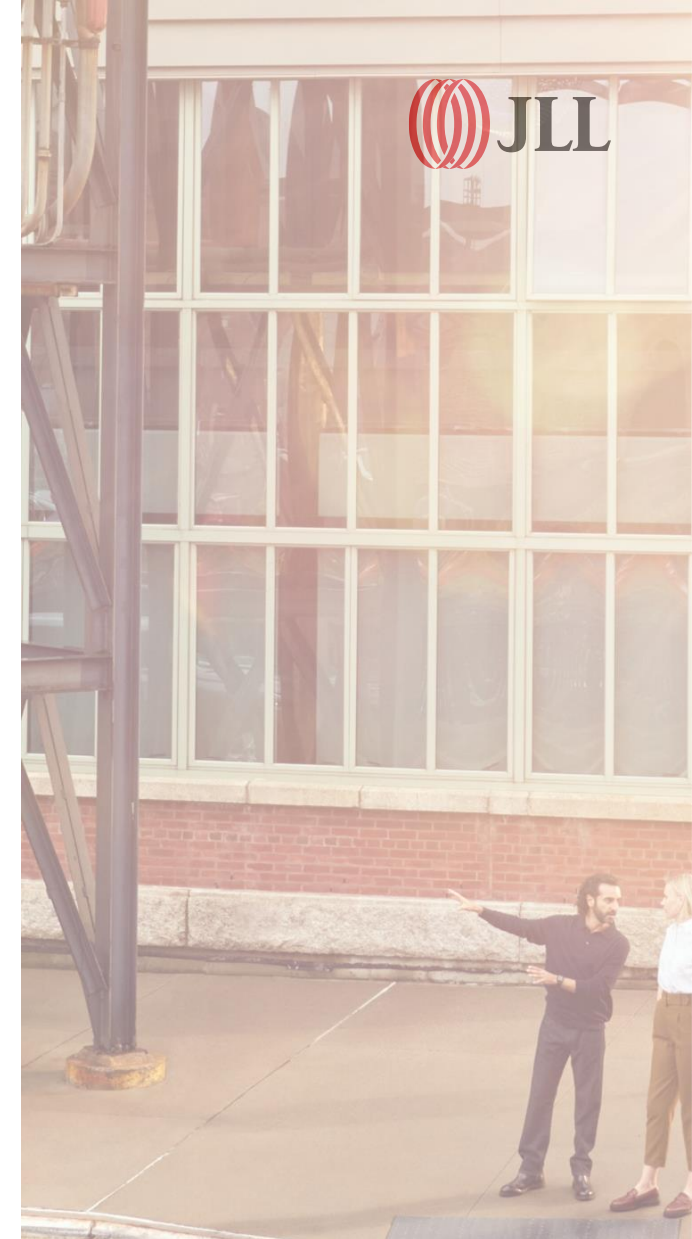
South African Economic Overview



Impacting consumer spending is price inflation. The annual inflation rate in July 2023 reached its lowest level since July 2021, standing at 4.7% compared to 5.4% in the previous year. Consumer prices increased by 0.9% on a month-on-month basis, a significant rise from the 0.2% increase observed in May and June. The decline in overall inflation can be attributed to the drop in fuel prices, while increases were driven by electricity, water, and property rates. The more controlled inflationary environment has to date resulted in the South African Reserve Bank (SARB) rate hiking cycle being paused (current prime lending rate is 11.75%). That said, interest rates remain higher than pre-pandemic levels, and consumers and businesses are still under pressure.

Also contributing to the pressure felt by consumers is the latest employment data. The second quarter of 2023 saw a welcome, albeit slight, decline in the unemployment rate. Q2 unemployment was 32.6%, compared to 32.9% in the previous quarter, equating to an additional 154,000 employed. Gauteng's unemployment rate (34.4%) is above the national average, while KwaZulu Natal and Western Cape are below at 31% and 20.9% respectively. Nationally employment has been increasing since Q4 2021. However, South Africa still has the highest unemployment rate globally, and short-term economic growth forecasts are not high enough to improve this.

Looking ahead, green energy investment is forecast to provide a reprieve to the construction sector, and continued consumer spending in restaurants and on fast food will benefit the trade industry. Commensurately, less intense loadshedding and more controlled inflation should boost consumer confidence. S&P Global's PMI measure for August 2023 was indicative of this, should an encouraging turnaround in private sector business activity midway through the third quarter. The FNB/BER Business Confidence Index (BCI) similarly showed marginally improved sentiments, as did their Consumer Confidence Index (CCI). That said, the beginning of Q3 saw several "confidence-sapping" events, including the torching of several trucks along the N3 logistics corridor, the severe taxi strike in the Western Cape, and the ongoing municipal worker strike in Tshwane. More recently a steep rise in the cost of fuel (both petrol and diesel) and once-more ramped-up levels of loadshedding are pressurising local consumers and businesses. In summary, economic performance in Q2 2023 was better than expected, however, the systemically challenging economic environment, heightened loadshedding, currency weakness and excessive fuel price hikes pose a risk that has resulted in more pessimistic growth forecasts for Q3.



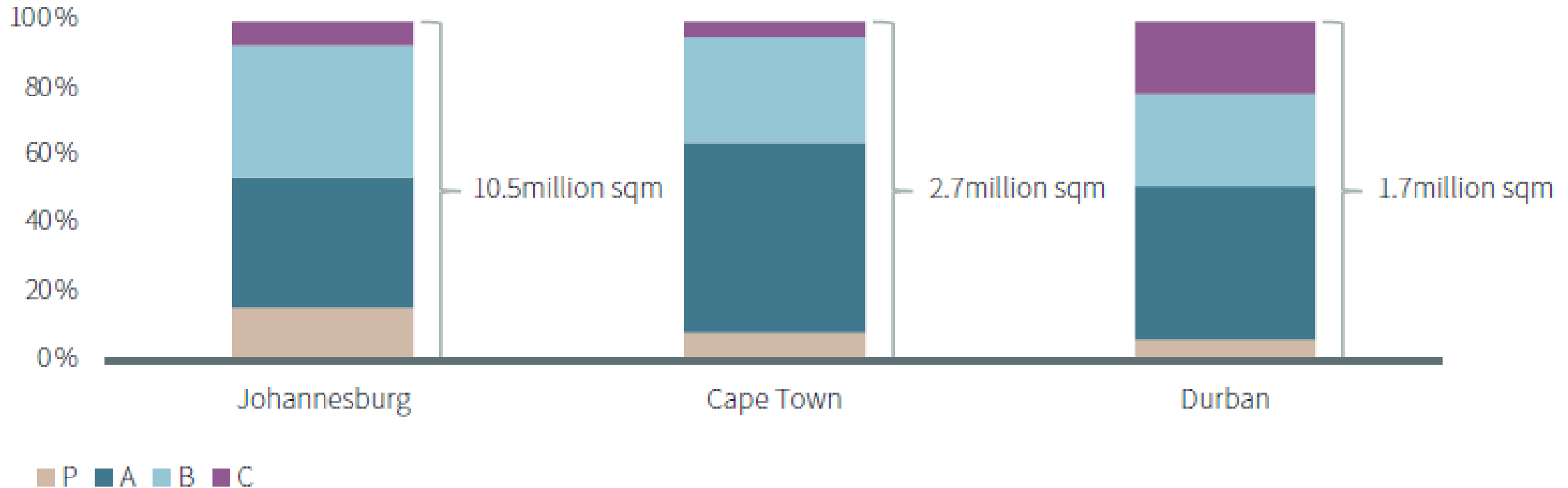
SA Office Market Overview

South African Office Market Overview



The local office market's supply and demand imbalance is becoming inherent, with the sector still struggling to counter the oversupply and thus remaining tenant favoured. Economic growth and business confidence levels play a significant role in driving office rental demand, both of which have been deflated of late due to South Africa's ongoing energy crisis, among other factors. That said, there is evidence of rising activity in core markets, supported by factors such as increasingly more employees returning to the office (even if on a rotational basis), the growing appeal of South Africa as a BPO hub, the ongoing flight-to-quality, and the rising importance of ESG to corporates. Movement attributed to these factors may be sparking a recovery in the office sector. However, there is a clear bifurcation between prime properties in core nodes and the rest of the market. Contributing to the burden felt by property owners is heightened inflation, resulting in rising operating costs in markets where these additional expenses cannot be passed down to the tenant through increased rentals.

Building stock distribution by Grade: Johannesburg, Cape Town, Durban



Source: SAPOA 2023

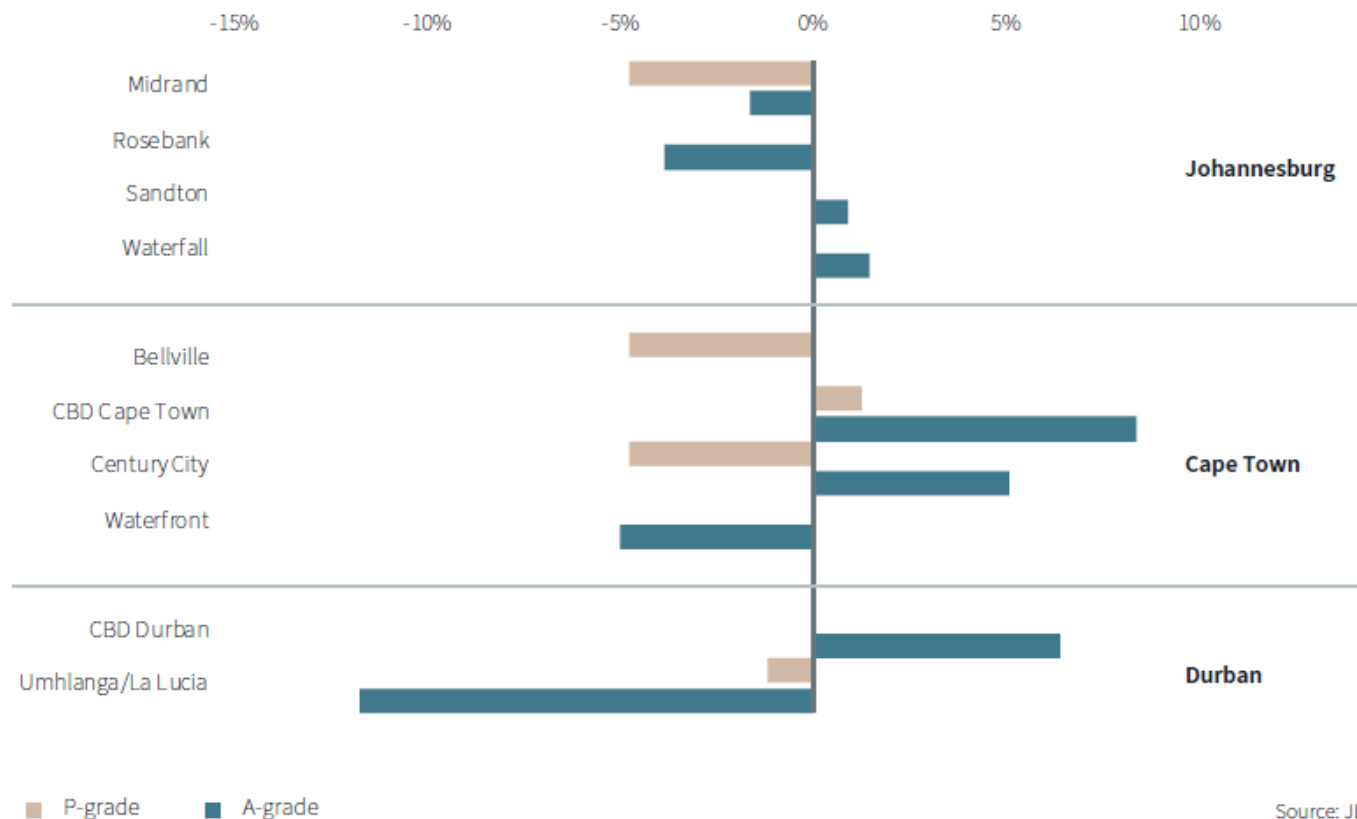
South African Office Market Overview



Prevailing rental growth trends should be viewed in the context of the lower base created by the pandemic. Rental discounts are relative to pre-pandemic levels, and the argument could be made that the market is now operating in a corrected or normalised state. Additionally, over the past two years, trends relating to average lease terms and concessions or tenant incentives have changed to favour the occupier. Reported improvements to lease durations and contractual escalation rates are thus relative to the new operating environment. That said, given that current conditions are becoming the status quo, average lease durations moving closer to five-year terms and rental escalation rates tracking closer to inflation are strengthening the position of landlords and have a positive influence on capital values.

Changing supply metrics in the office sector through H1 2023 have stemmed from increasing demand, the completion of speculative and tenant-driven developments, and a slower development pipeline. Take-up has been especially positive within the A- and P-grade segments, evidenced by the shift into single-digit vacancies in the latter submarket. The slowdown in development activity will benefit property owners should demand fundamentals recover to a greater extent, as through the medium term there will be a relative shortage of newly built, quality stock available. At this stage, real rental growth prospects remain limited, exacerbated by the demand/supply imbalance, and it may very well be that market rentals are now entering a corrected state. Innovation is required in terms of tenure arrangements, space utilisation, and the offer of amenities and concessions. The concept of offering office space as a service should be front and centre in the minds of property owners looking to fill vacancies and attract new demand to their portfolios.

Nominal Rental Growth, H1 2023



Source: JLL

SA Industrial Market Overview

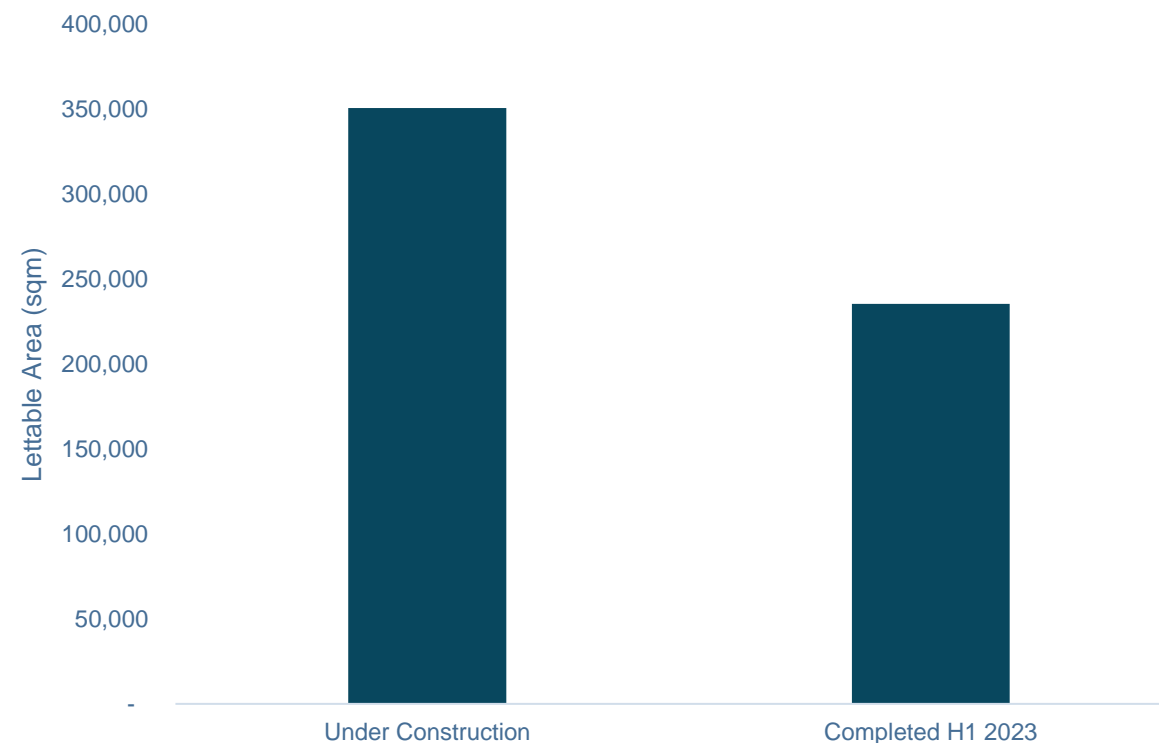
South African Industrial Market Overview



South Africa's industrial market continues to lead the primary commercial real estate sectors in terms of performance. This despite the sector being closely linked to the country's broader economic health by means of manufacturing and import/export demand and output. The logistics subsector has been the main driver of performance within the broader logistics market over the past three years – a scenario that is expected to persist over the short to medium term. That said, the drive toward affordability and cost optimisation has recently opened opportunities within the legacy logistics market, boosting demand for secondary quality properties.

The logistics sector's relative outperformance continues to be underscored by factors such as supply chain optimisation, e-commerce, ESG and sustainability directives, and most importantly, an undersupply of available stock and land suitable for development. Warehousing and manufacturing sub-markets have also benefited from periods of improved manufacturing output over the last 18 months, supported by onshoring activities and the domestic retail sector. Rental growth fundamentals in this sub-sector thus improved. Property owners further benefited from increasing average lease durations, as occupiers sought to temper the cost of construction or tenant installations that are common rental determinants. Lease escalation rates have similarly undergone a transformation, moving away from a fixed rate that generally exceeded market rental growth rates but lagged inflation, to variable rates.

Prime industrial supply and development, H1 2023



Source: JLL, Rode 2023

South African Industrial Market Overview

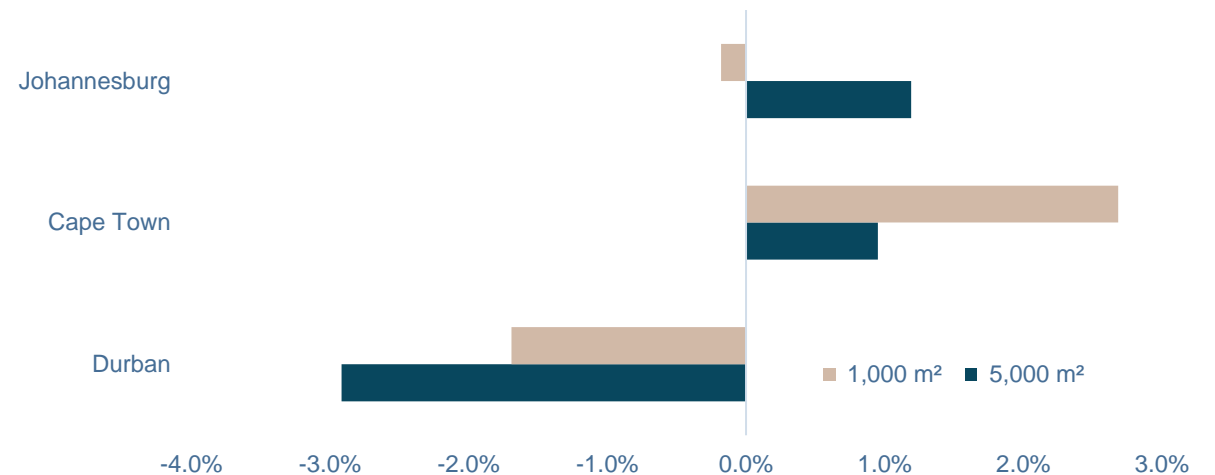


Prime rental growth as represented by the graph on the right relates to the change in asking rates for the leading industrial nodes in Johannesburg, Cape Town, and Durban respectively. Logistics facilities measuring more than 10,000m² were excluded, as these are typically purpose-built to occupiers' specifications, and the rental is determined as a function of the construction cost, skewed by factors including lease duration.

Growth trends varied across the three metropolises being considered. The strongest growth was achieved in Cape Town (2.7%) for mid-sized units (a proxy measure of 1,000m² is applied). Nationally, this metropole is benefiting from the strongest demand fundamentals, supported by the continual stream of semi-grants to the region. The bifurcation between conventional/light industrial demand and large-scale logistics demand has been well documented, and hence it is worth noting that Cape Town attracts a lower share of logistics users.

Within the industrial sector, demand fundamentals remain robust across a wider range of submarkets when compared to offices. With that said, the sector is not immune to headwinds and remains reliant on performance within the retail and manufacturing sectors. Moreover, power supply issues are placing further pressure on rental affordability, affecting both property owners and occupiers. Furthermore, the market is nearing saturation for large-scale super-warehouses and distribution centres, with focus shifting to the final or 'last mile' links in the supply chain. Here the space as a service trend that is shaping office and retail markets is becoming more relevant, with technological and other external factors also coming to the fore. These new baseline requirements are costly to develop and integrate, once again testing the affordability constraints and appetite for absorbing costs by occupiers and developers/property owners.

Nominal Rental Growth, H1 2023



Source: JLL, Rode 2023

SA Investment and Market Overview

South Africa Macro Overview

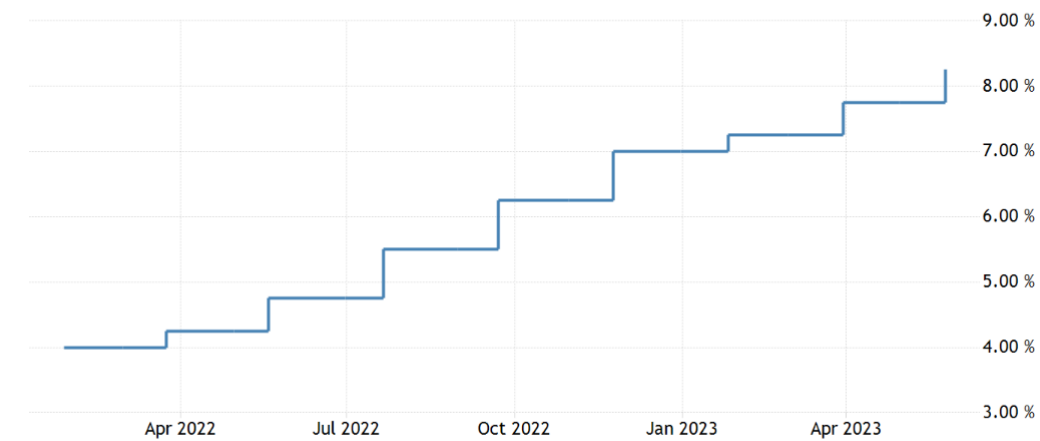
Interest Rates & Low Growth



South Africa Interest Rate

Summary Calendar Forecast Stats Alerts Download ▾

1Y 5Y 10Y 25Y MAX Chart Compare Export API Embed



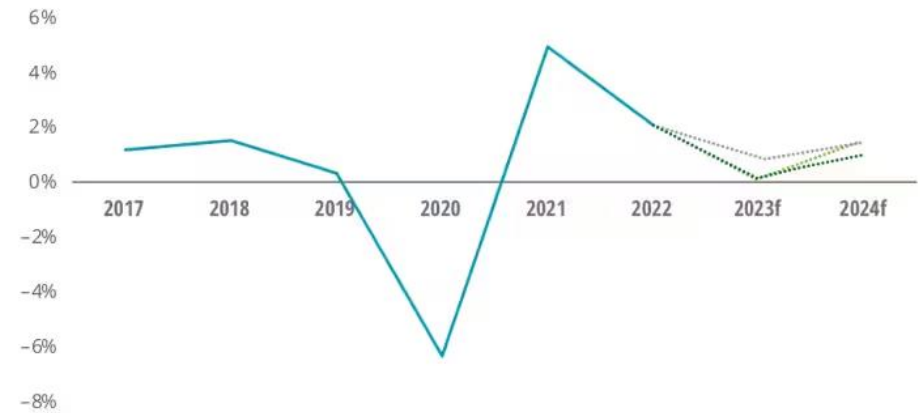
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FIGURE 2

Low to no real GDP growth in 2023 is on the cards

South Africa GDP growth (% constant prices), 2017-2024f

— Statistics South Africa (Stats SA) - - - - International Monetary Fund (IMF) - - - - National Treasury
 - - - - South Africa Reserve Bank (SARB)



Note: f denotes forecast.

Sources: StatsSA; IMF; National Treasury; SARB.

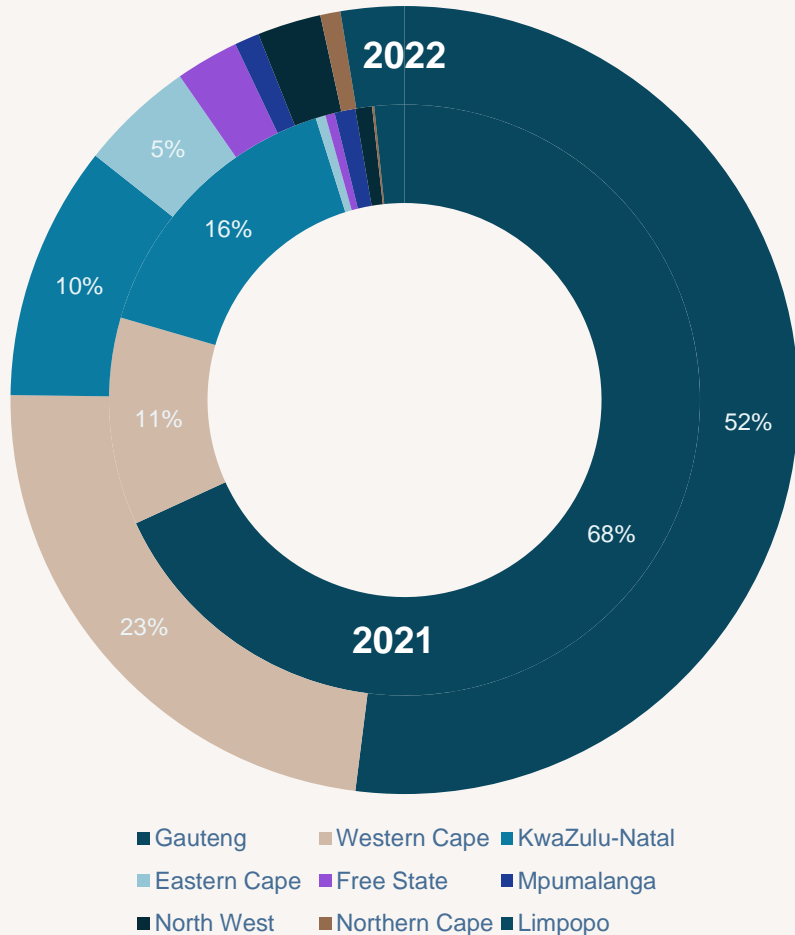
Deloitte Insights | deloitte.com/insights

Transaction Activity

Direct Investment Volumes

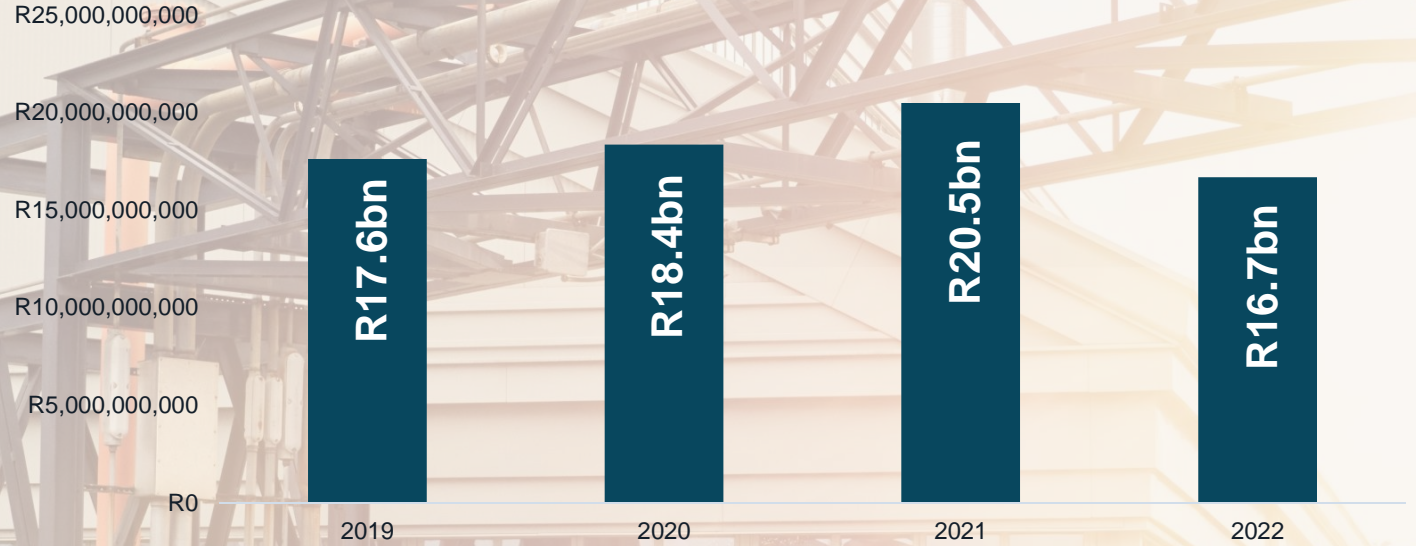
2022

Geographical Investment Spread

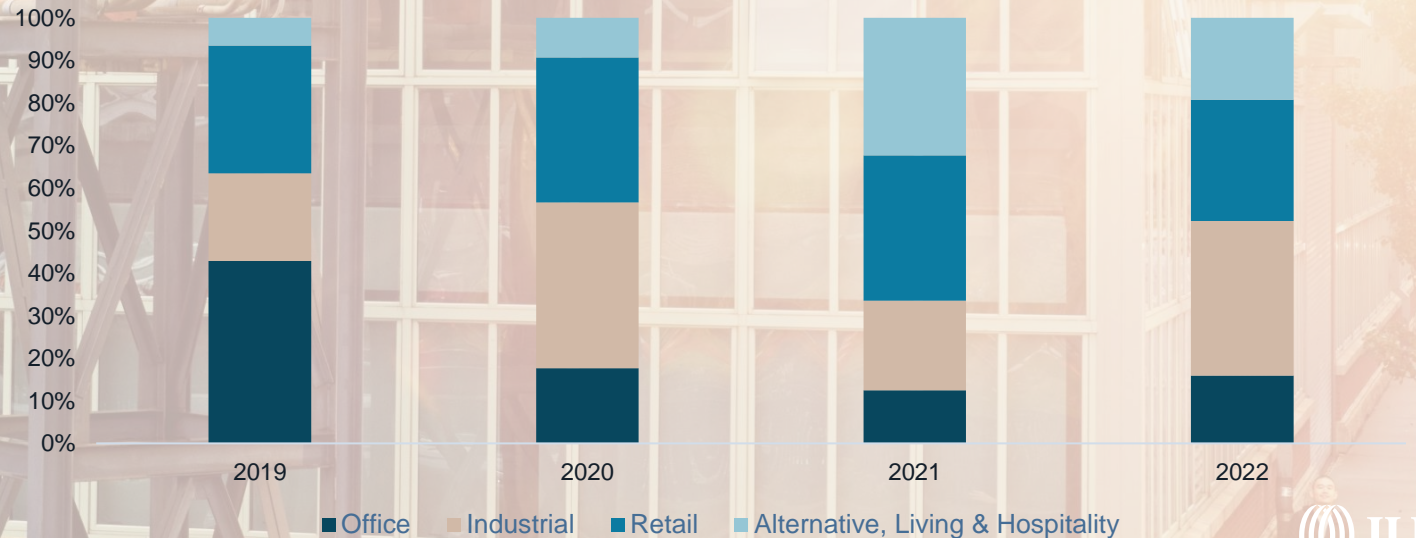


- Gauteng
- Western Cape
- KwaZulu-Natal
- Eastern Cape
- Free State
- Mpumalanga
- North West
- Northern Cape
- Limpopo

Total Transaction Volume



Transaction Value – Sector % of Total

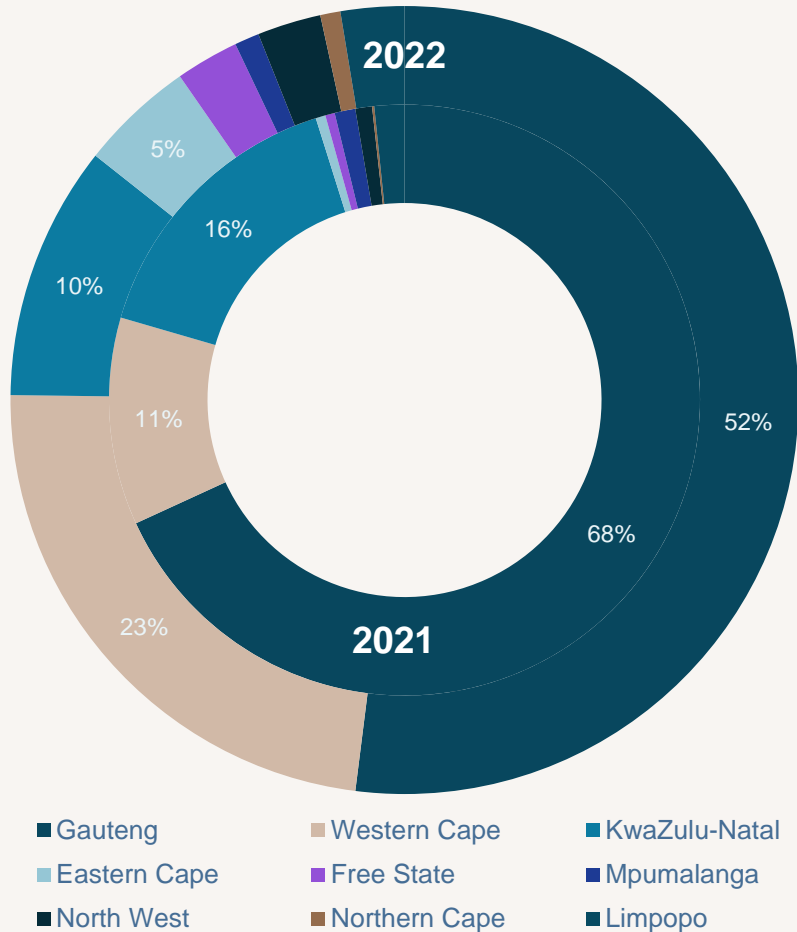


Transaction Activity

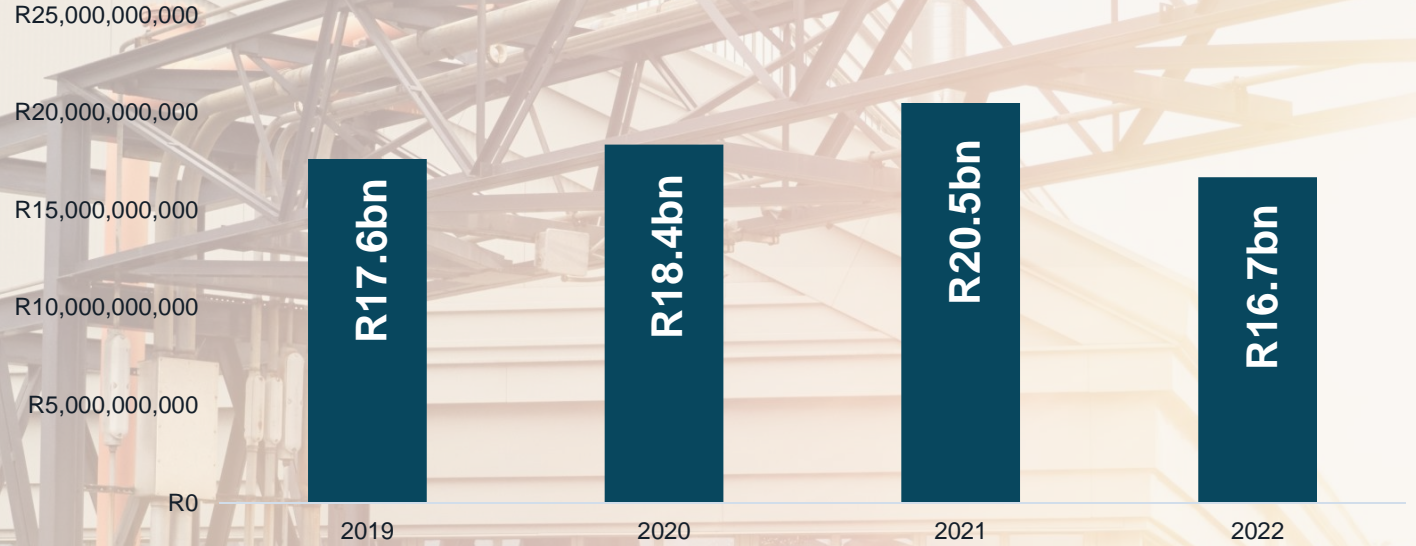
Direct Investment Volumes

2022

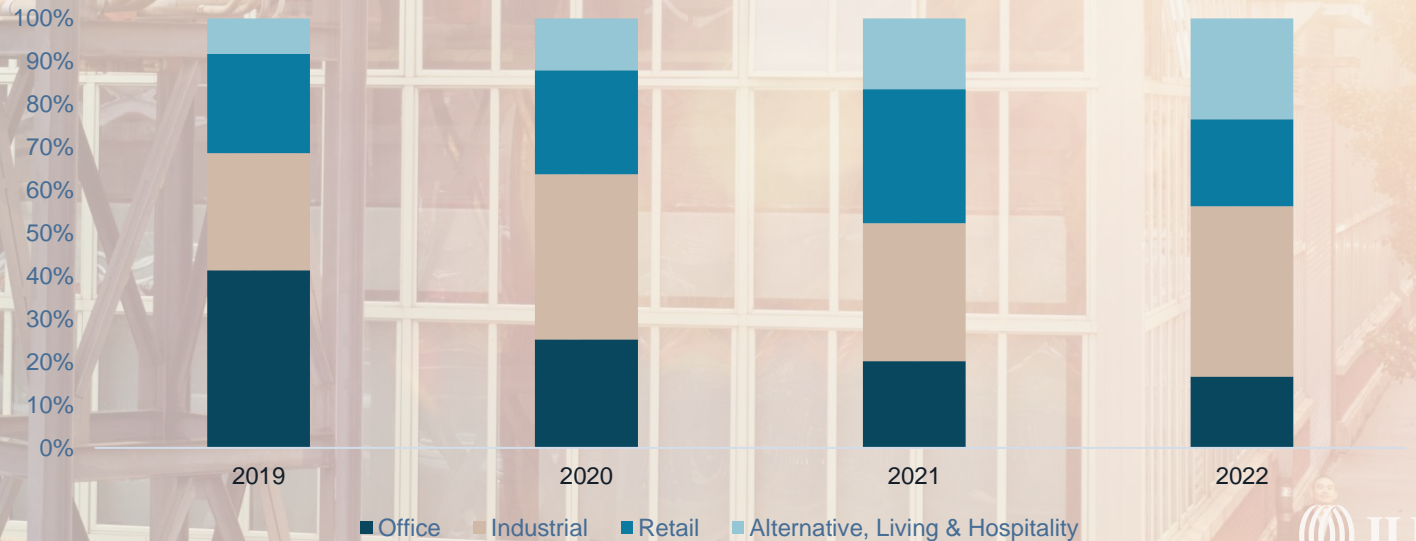
Geographical Investment Spread



Total Transaction Volume

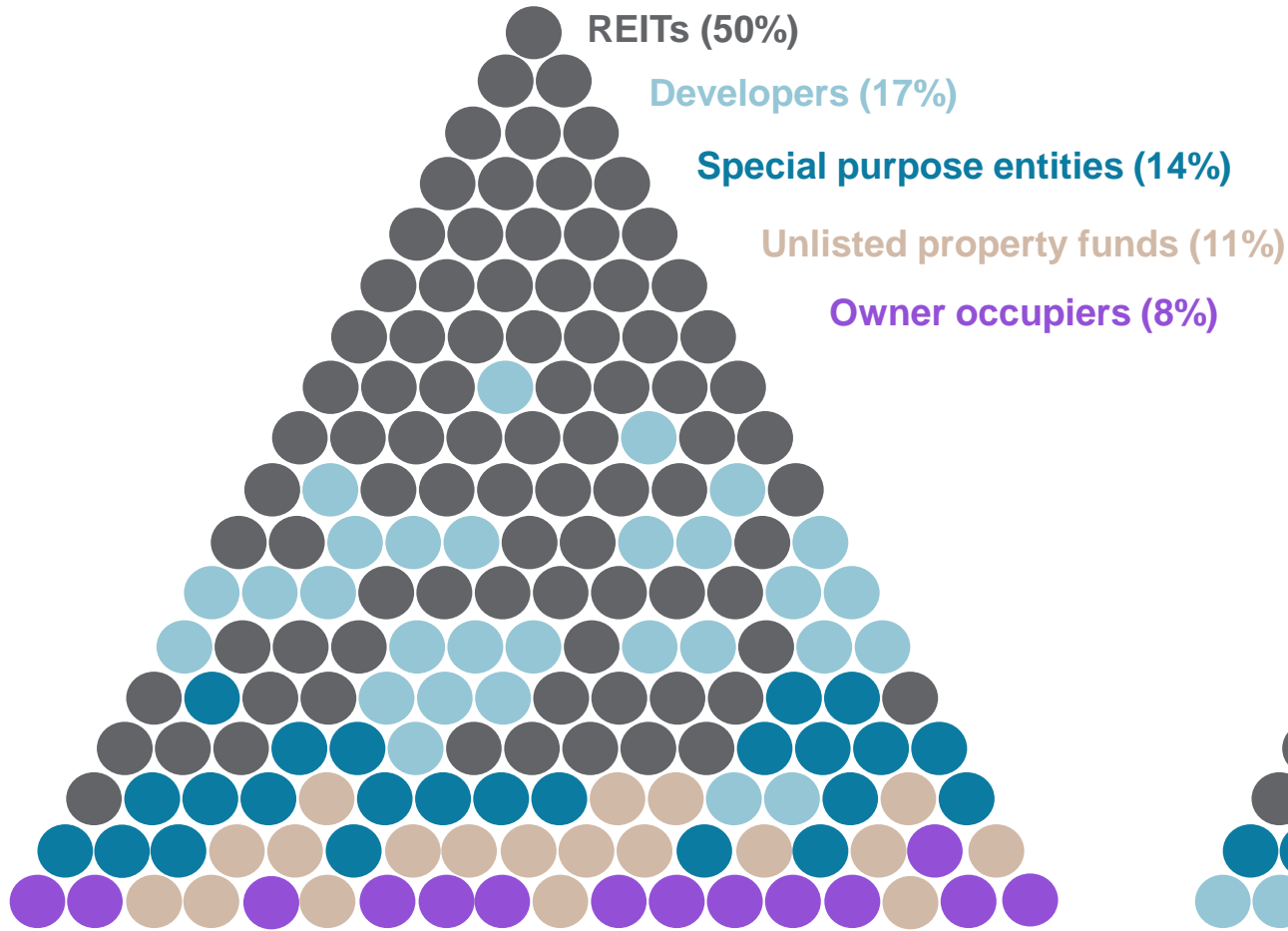


Transaction Number – Sector % of Total

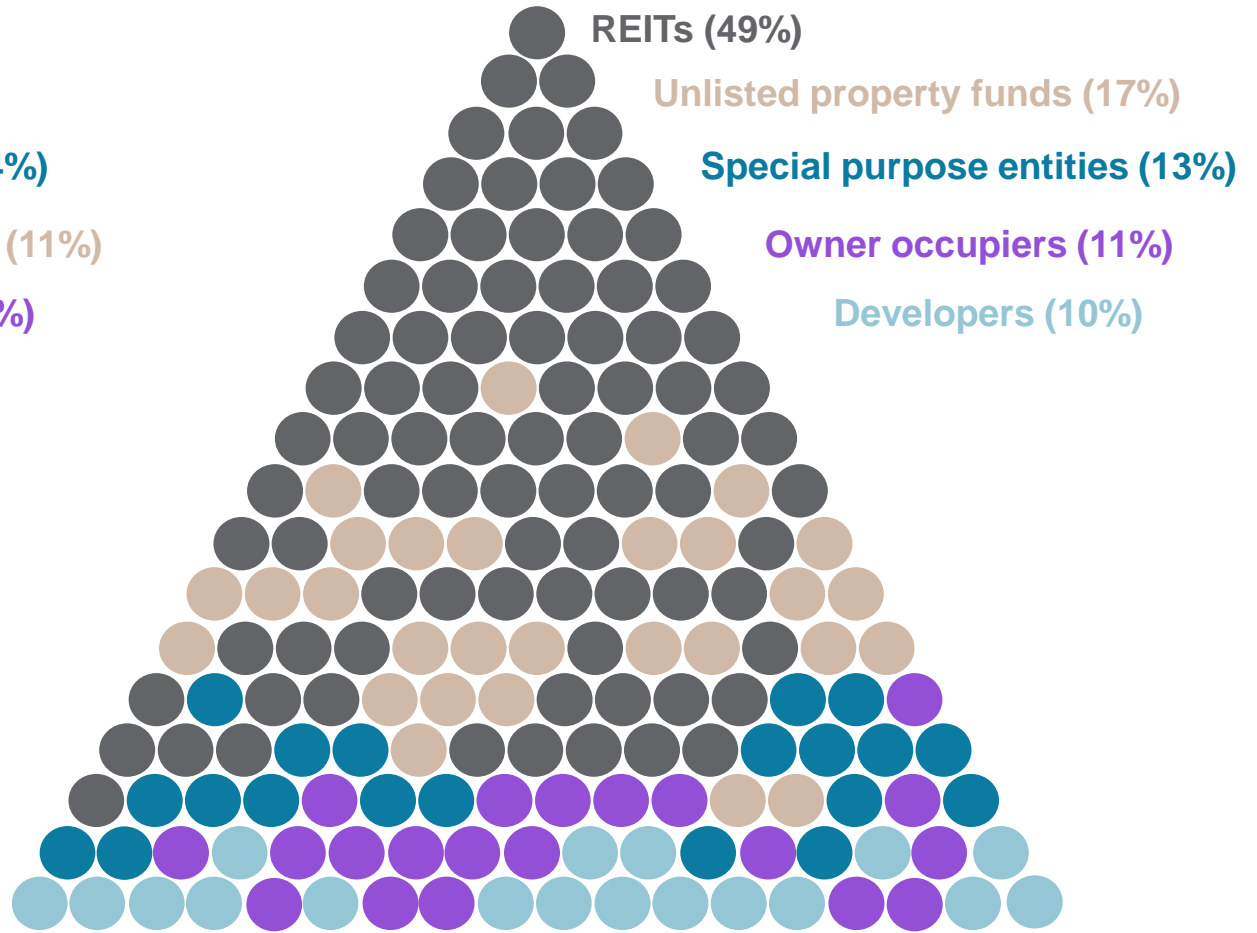


Top 5 Seller Profiles

Strategic rebalancing continues



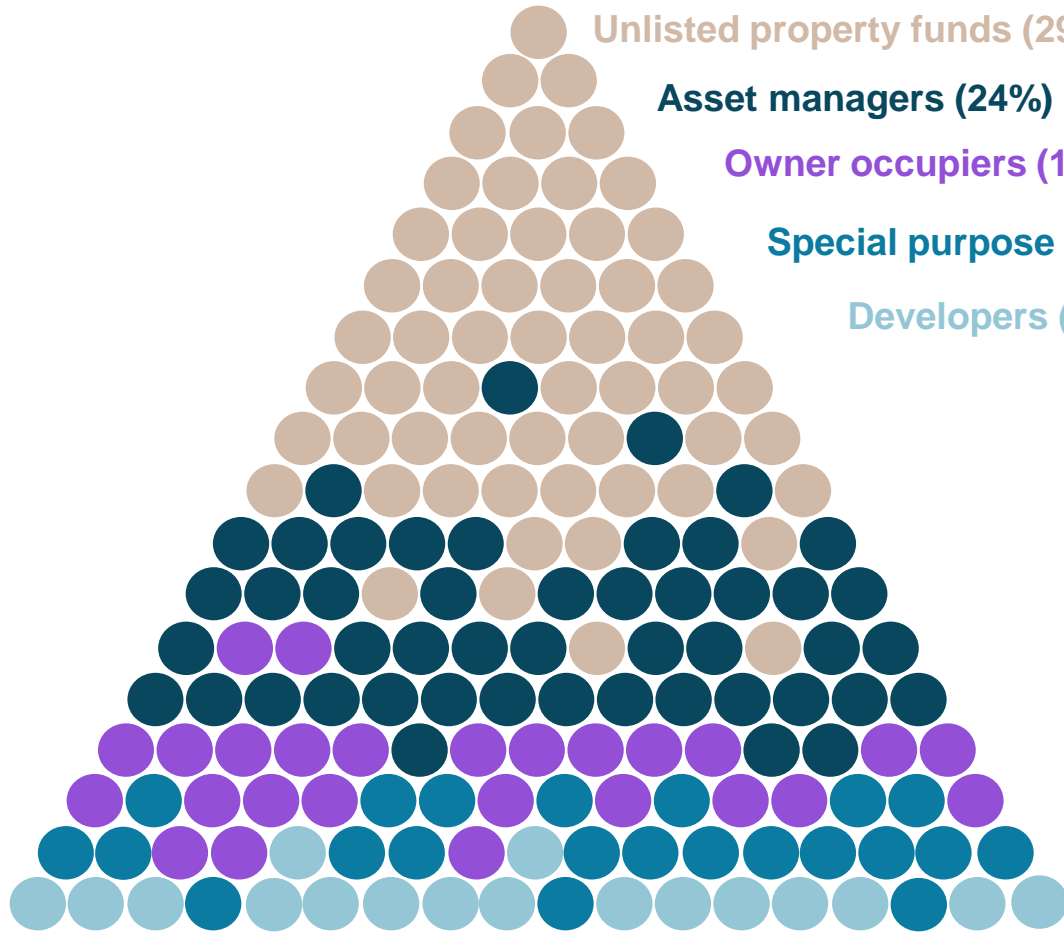
Value



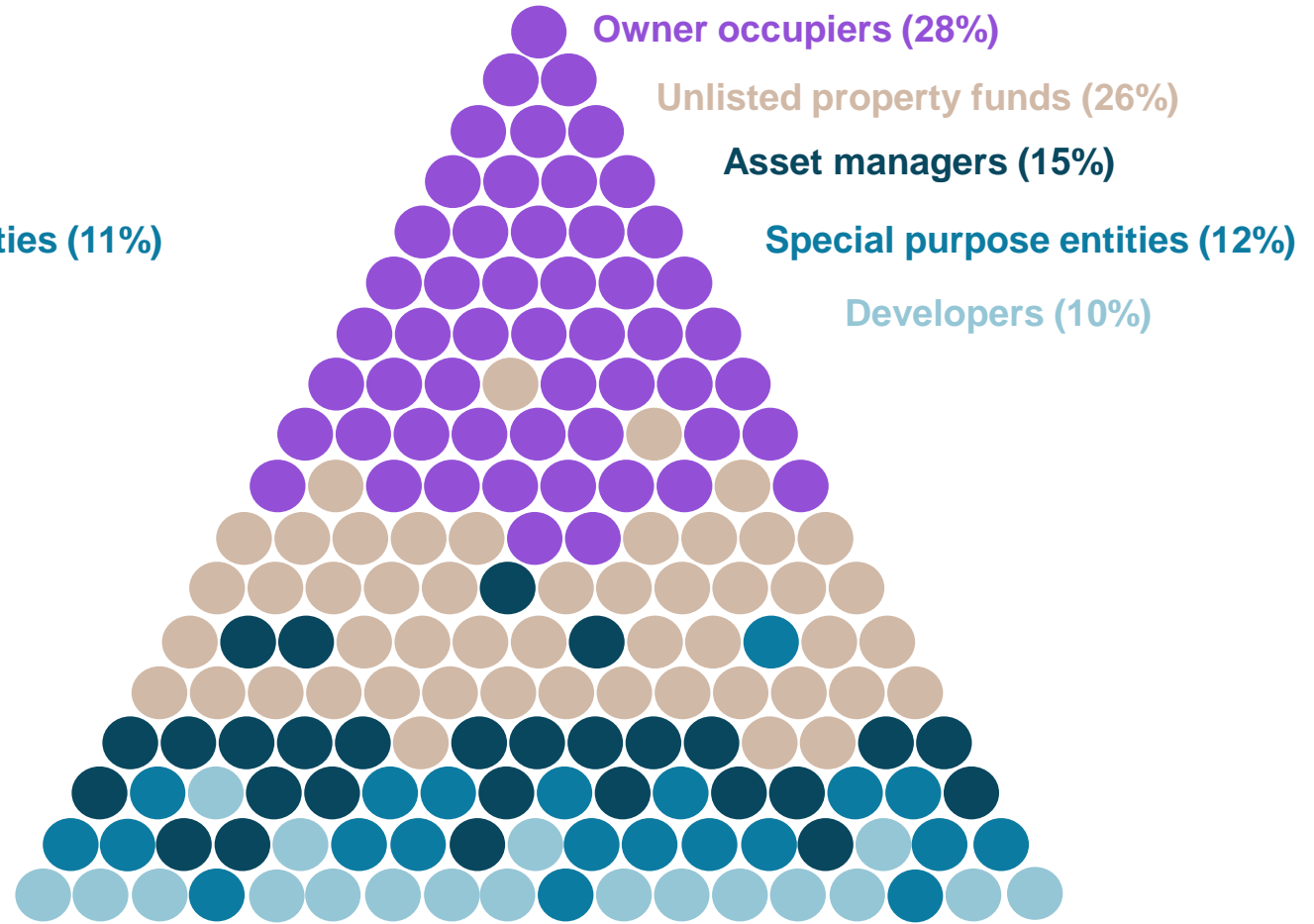
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Top 5 Buyer Profiles

Indicative of underlying value



Value



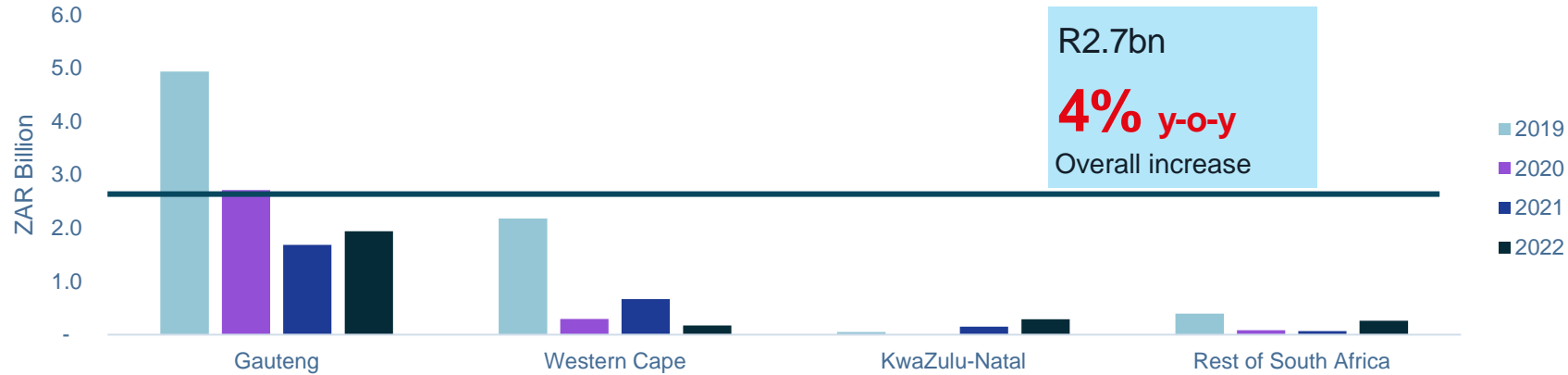
Count

Capital Market Trends

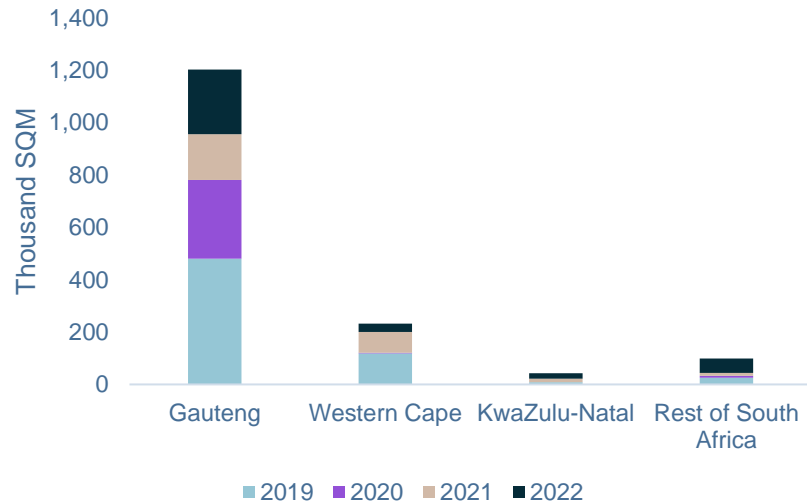
Office Sector

Driven by owner-occupiers and conversion potential

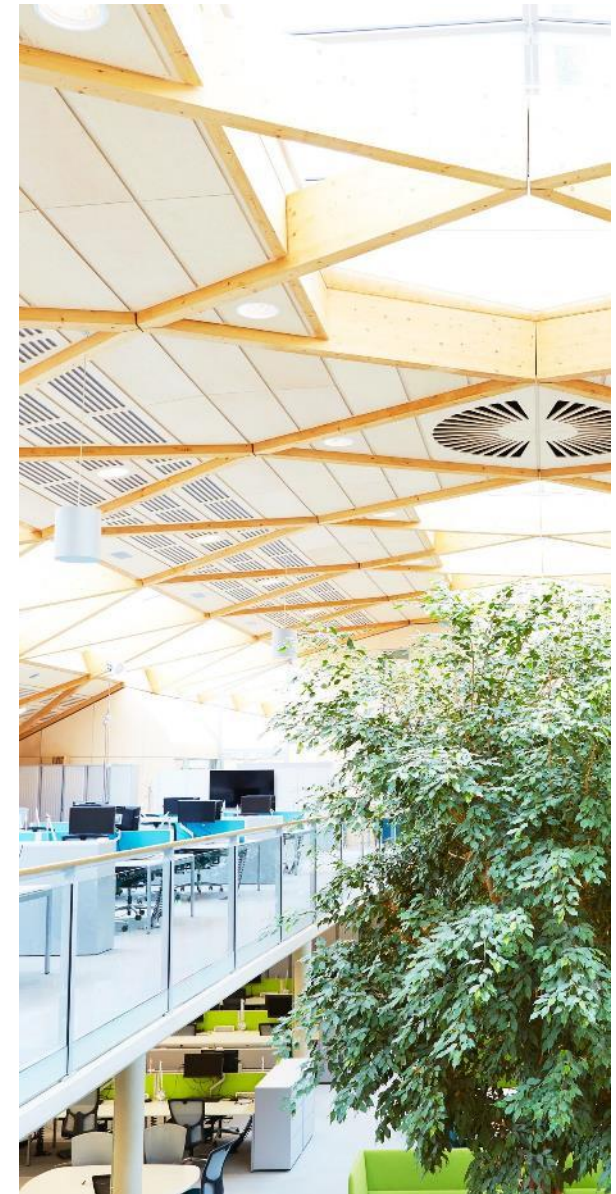
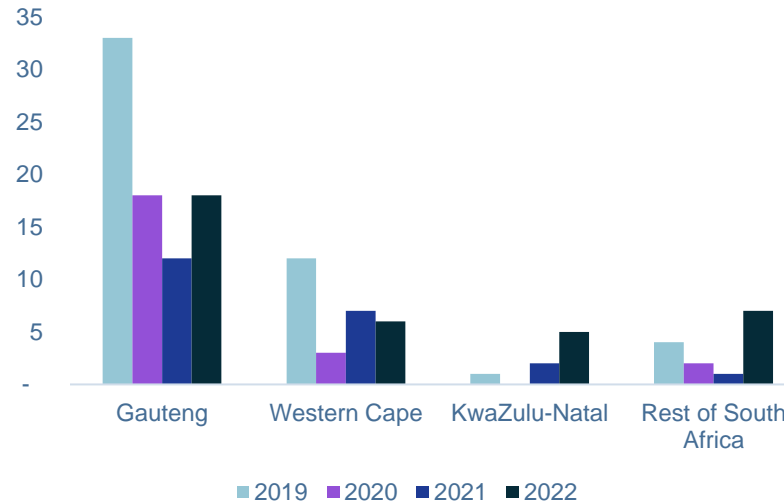
Aggregate Investment



Investment Footprint



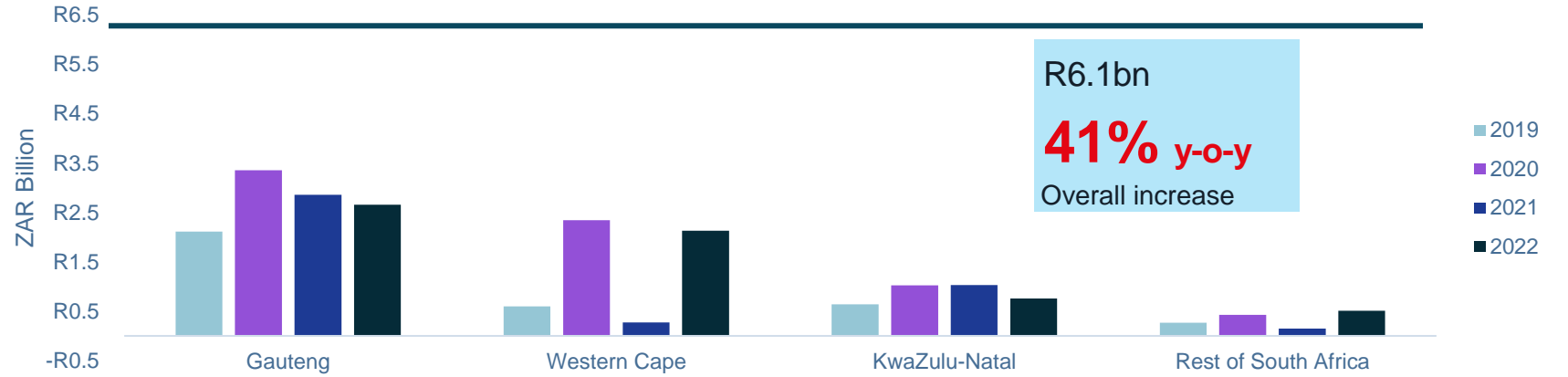
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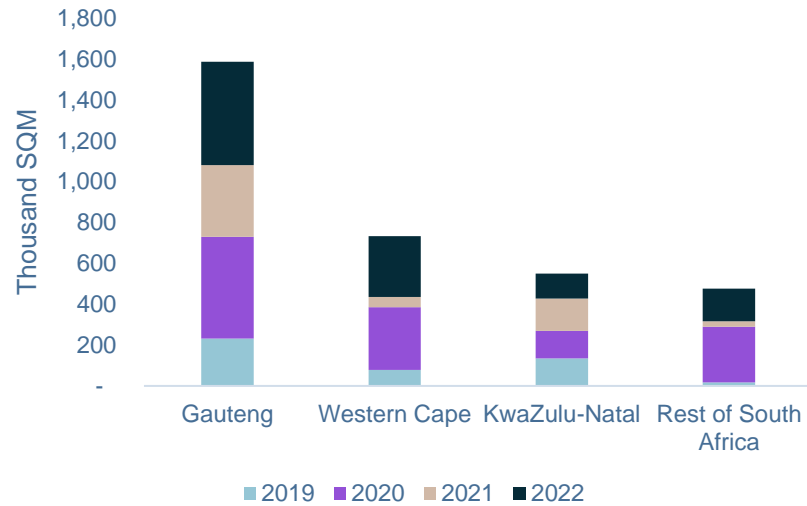
Industrial Sector

Continued market bilaterality

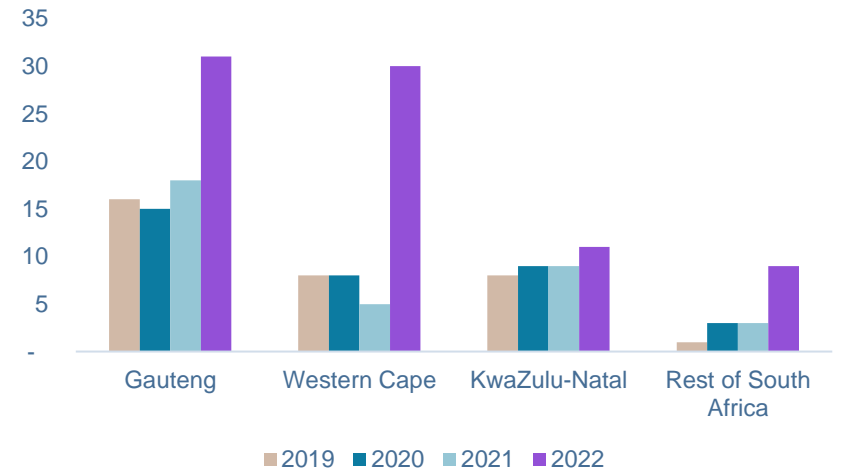
Aggregate Investment



Investment Footprint



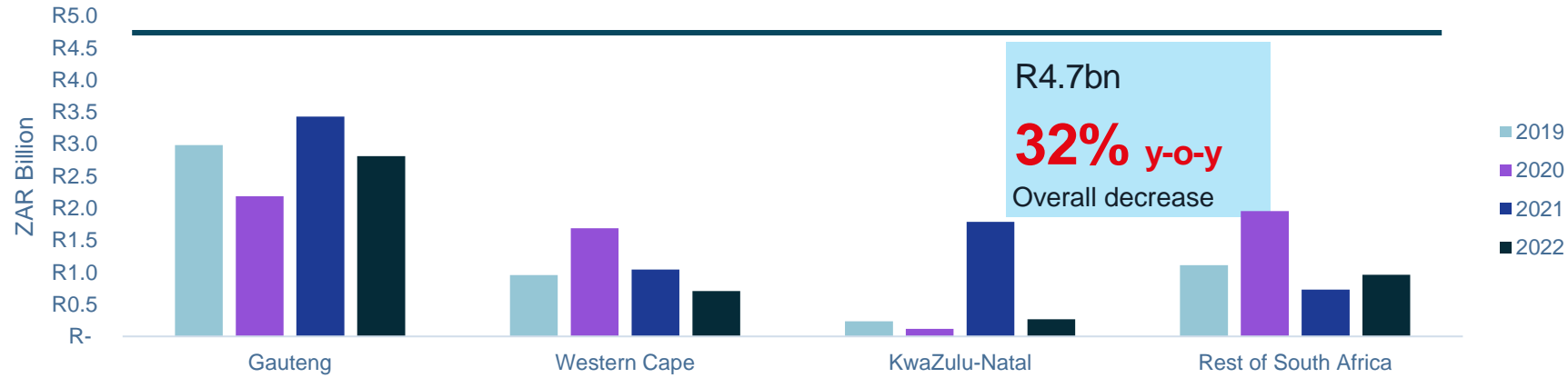
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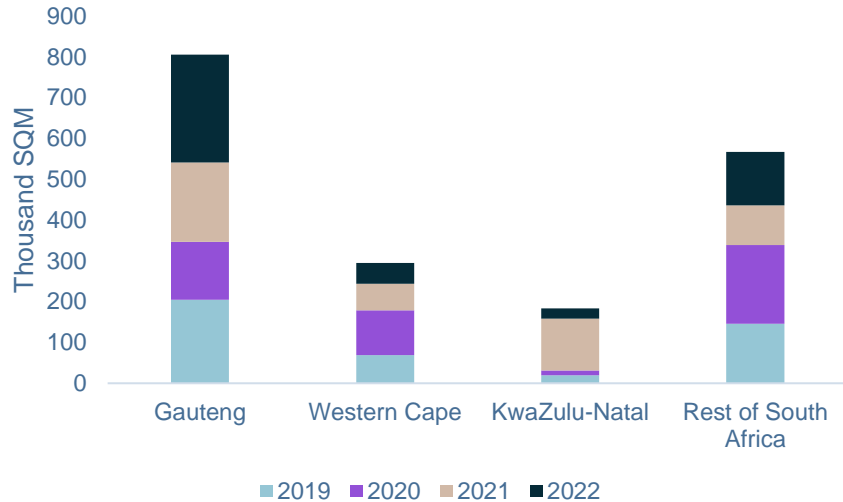
Retail Sector

Consumer spending not living up to expectations

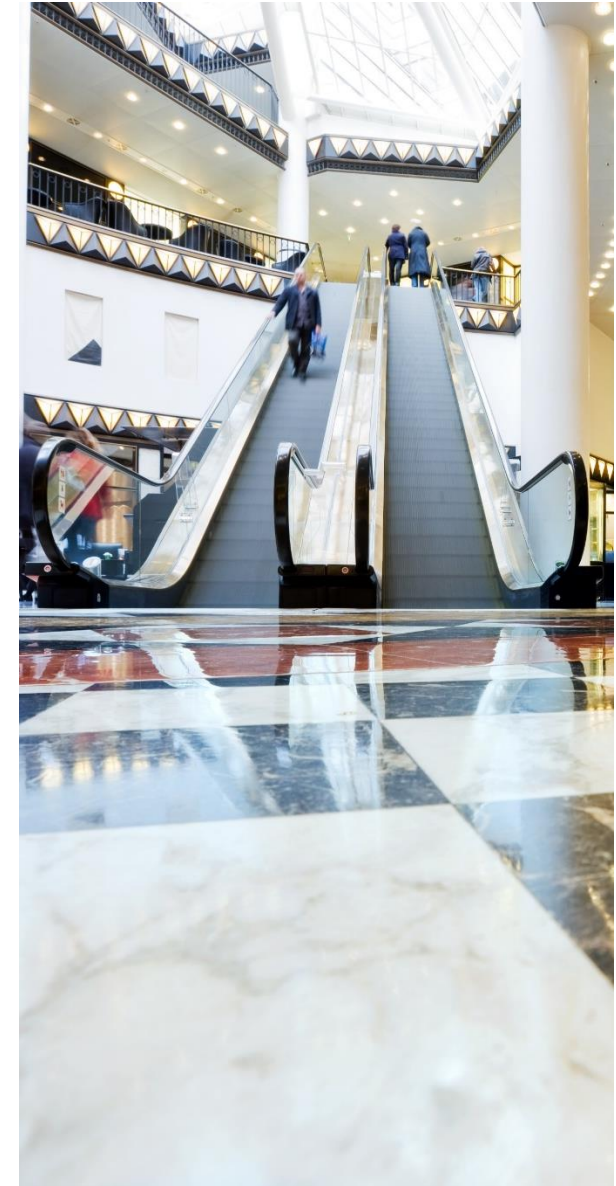
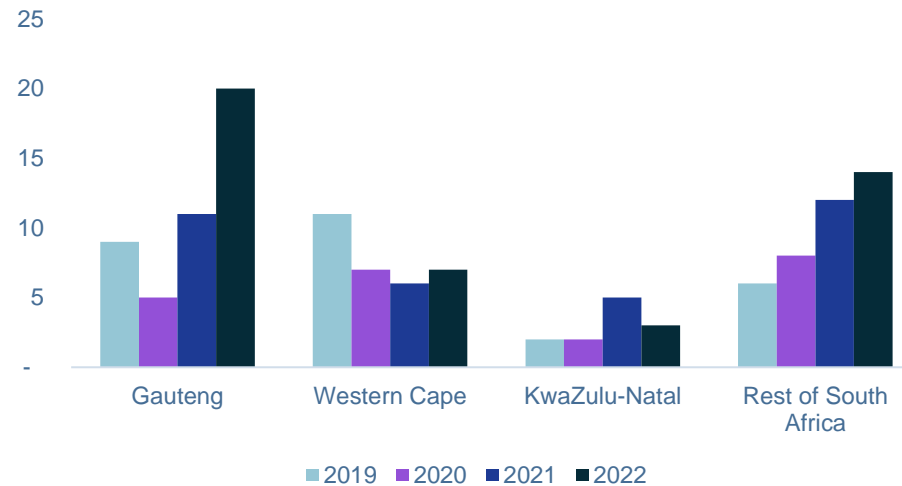
Aggregate Investment



Investment Footprint



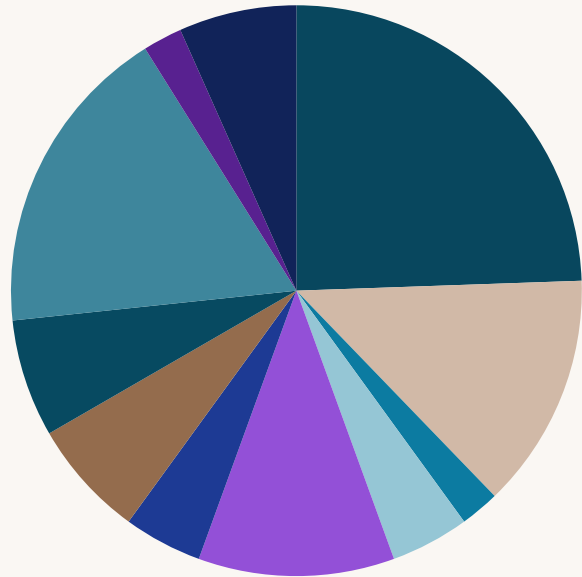
Transaction Count



Alternative, Living, and Hospitality Sectors

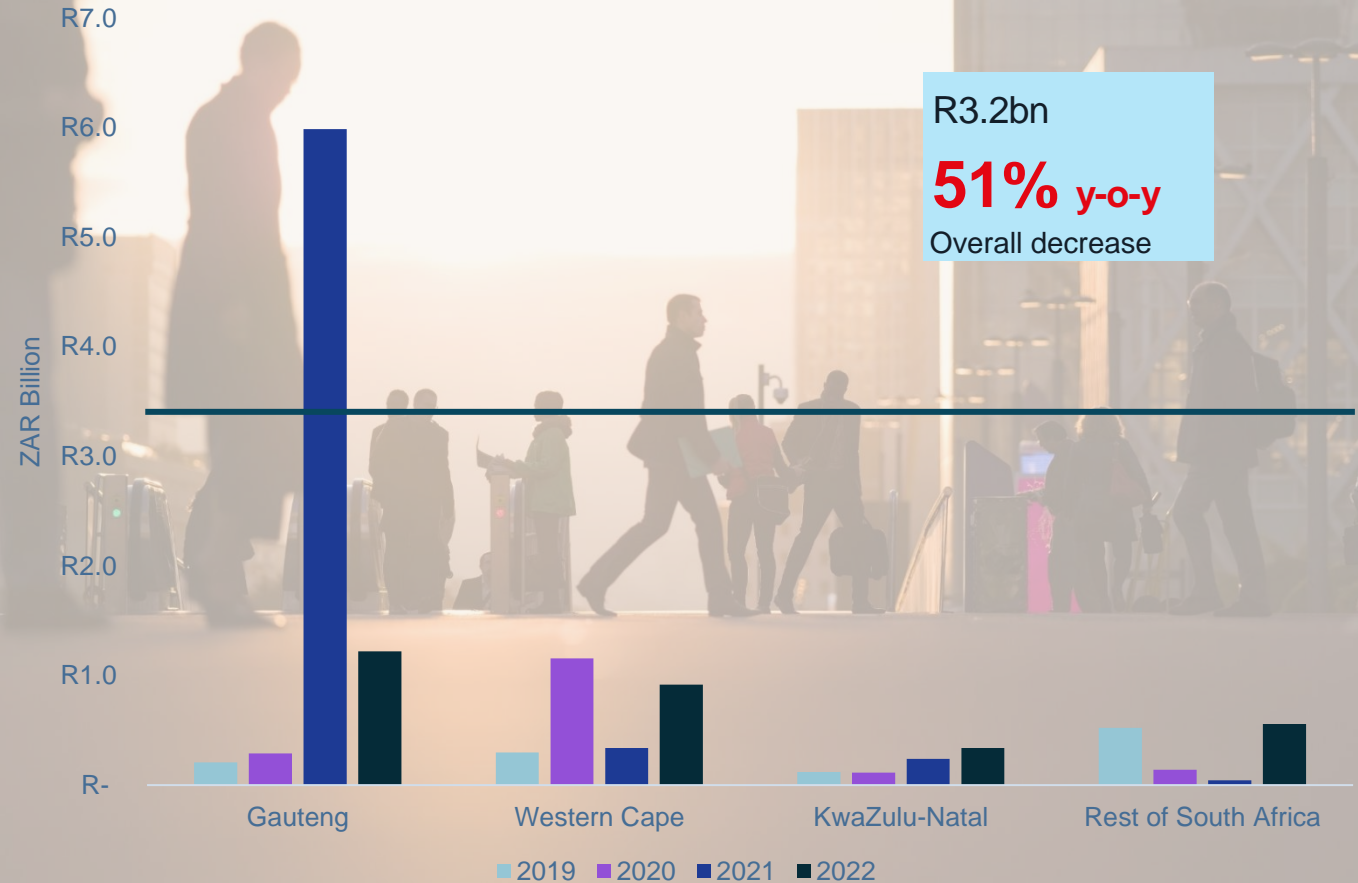
Fledgling sectors gaining ground

Property Type



- Living
- Education
- Filling Station
- Specialised
- Port Infrastructure
- Religious
- Development Site
- Student Accommodation
- Self-storage
- Data Centre
- Hospitality
- Parking

Aggregate Investment



Other Capital Flows & Distress

M&A Activity



Yields and Outlook

Do all roads lead to the Western Cape?



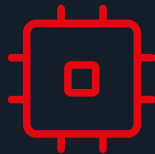
Offices



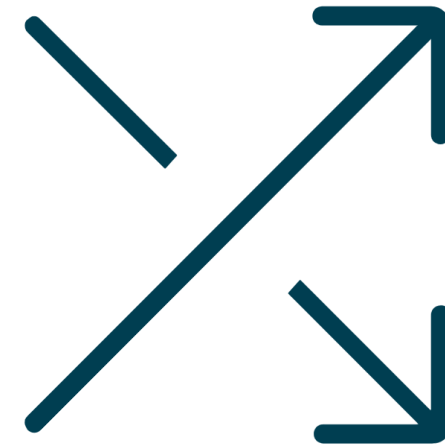
Retail



Industrial



Alternatives



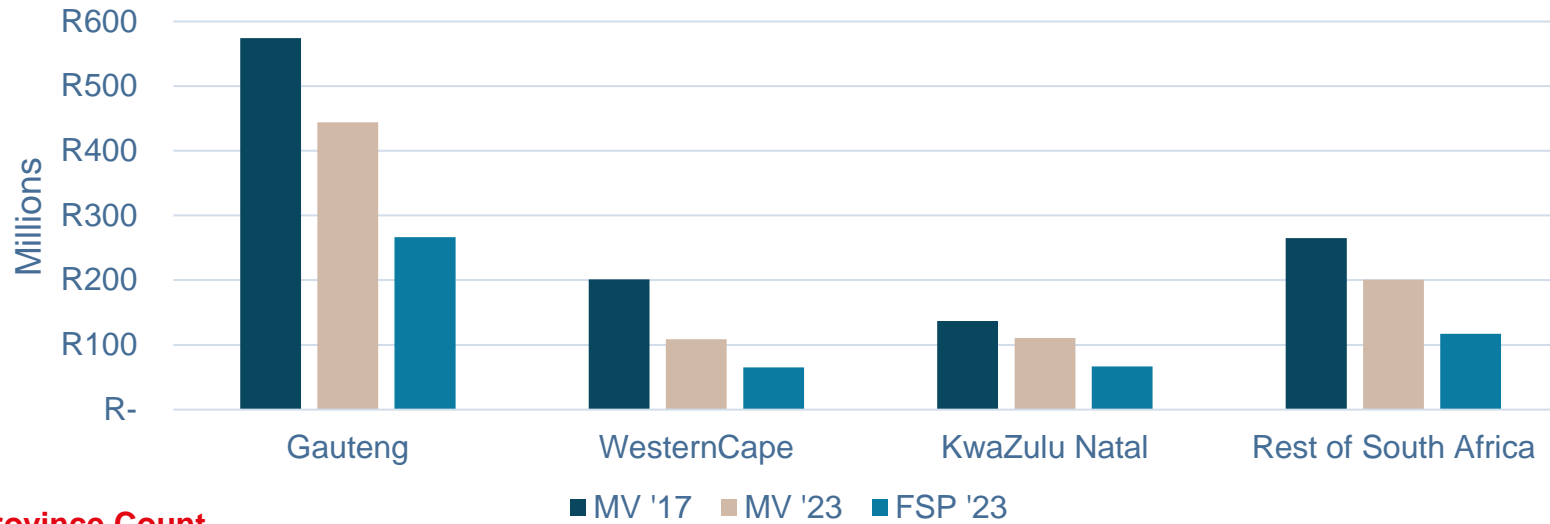
Outlook 2023/24

Full Valuations

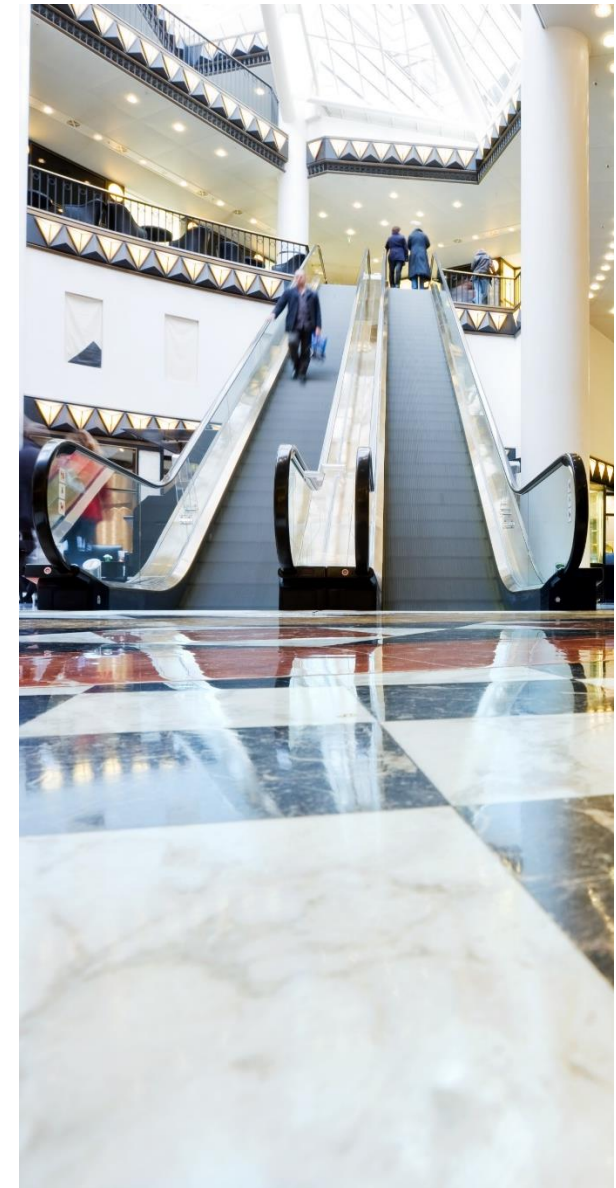
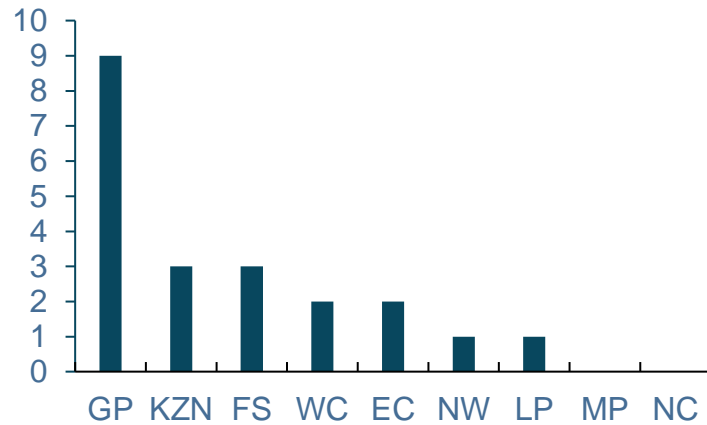
Full Valuations Reviews

Top 21 Properties Summary

Market Value '17 vs Market Value '23 vs Forced Sale Price



Province Count



Full Valuations Reviews

Top 21 Properties

Change in Market Value

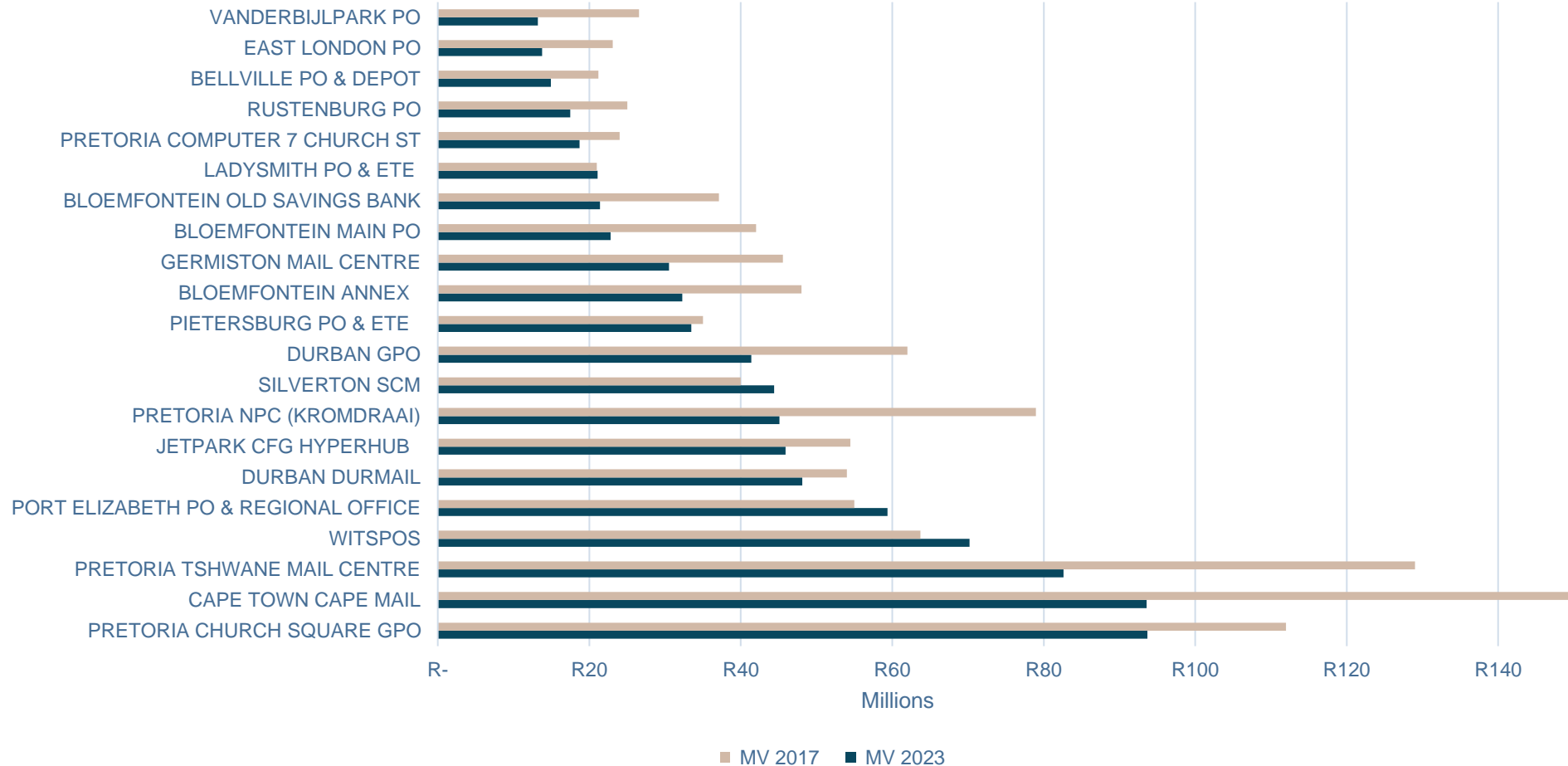
Post Office Name	MV 2017	MV 2023	% Change
Pretoria Church Square Gpo	R112,000,000.00	R93,700,000.00	-16%
Cape Town Cape Mail	R179,845,000.00	R93,590,000.00	-48%
Pretoria Tshwane Mail Centre	R129,020,000.00	R82,600,000.00	-36%
Witspos	R63,700,000.00	R70,200,000.00	10%
Port Elizabeth Po & Regional Office	R55,000,000.00	R59,360,000.00	8%
Durban Durmail	R54,000,000.00	R48,100,000.00	-11%
Jetpark Cfg Hyperhub	R54,460,000.00	R45,900,000.00	-16%
Pretoria Npc (Kromdraai)	R78,970,000.00	R45,100,000.00	-43%
Silverton Scm	R40,000,000.00	R44,400,000.00	11%
Durban Gpo	R62,000,000.00	R41,400,000.00	-33%
Pietersburg Po & Ete	R35,000,000.00	R33,470,000.00	-4%
Bloemfontein Annex	R48,000,000.00	R32,280,000.00	-33%
Germiston Mail Centre	R45,545,000.00	R30,520,000.00	-33%
Bloemfontein Main Po	R42,000,000.00	R22,805,000.00	-46%
Bloemfontein Old Savings Bank	R37,100,000.00	R21,403,480.00	-42%
Ladysmith Po & Ete	R21,000,000.00	R21,100,000.00	0%
Pretoria Computer 7 Church St	R24,000,000.00	R18,700,000.00	-22%
Rustenburg Po	R25,000,000.00	R17,471,000.00	-30%
Bellville Po & Depot	R21,200,000.00	R14,920,000.00	-30%
East London Po	R23,100,000.00	R13,760,000.00	-40%
Vanderbijlpark Po	R26,545,000.00	R13,200,000.00	-50%



Full Valuations Reviews

Top 21 Properties

Change in Market Value



Broker's Opinions of Value

Broker's Opinion of Value

Provincial Overview

Overview (SAPO Owned Properties Only as at 2023)

Province	Market Value 2017	Market Value 2023	Forced Sale Price 2023	Market Rent 2023	Market Value % change
Eastern Cape	R 172,949,000.00	R 155,727,000.00	R 109,750,400.00	R 2,829,168.00	-9.96%
Gauteng	R 868,041,000.00	R 682,403,140.34	R 463,917,266.00	R 11,179,805.00	-21.39%
Mpumalanga	R 55,526,000.00	R 44,522,500.00	R 35,501,570.00	R 853,987.00	-19.82%
Northern Cape	R 40,864,000.00	R 28,577,000.00	R 23,585,200.00	R 515,282.50	-30.07%
North West	R 79,117,000.00	R 106,653,962.00	R 79,234,950.00	R 1,808,656.00	34.81%
Limpopo	R 132,772,000.00	R 76,993,199.25	R 57,160,400.00	R 2,009,018.00	-42.01%
Western Cape	R 320,833,000.00	R 216,360,000.00	R 165,706,710.00	R 3,056,393.00	-32.56%
Free State	R 232,362,500.00	R 159,588,399.00	R 112,794,740.00	R 3,900,474.50	-31.32%
KwaZulu Natal	R 345,889,000.00	R 324,337,000.00	R 238,012,100.00	R 4,999,532.00	-6.23%
	R 2,248,353,500.00	R 1,795,162,200.59	R 1,285,663,336.00	R 31,152,316.00	-20.16%



Market Rents

Market Rentals

Accounting for variances in market rentals

Supply &
Demand

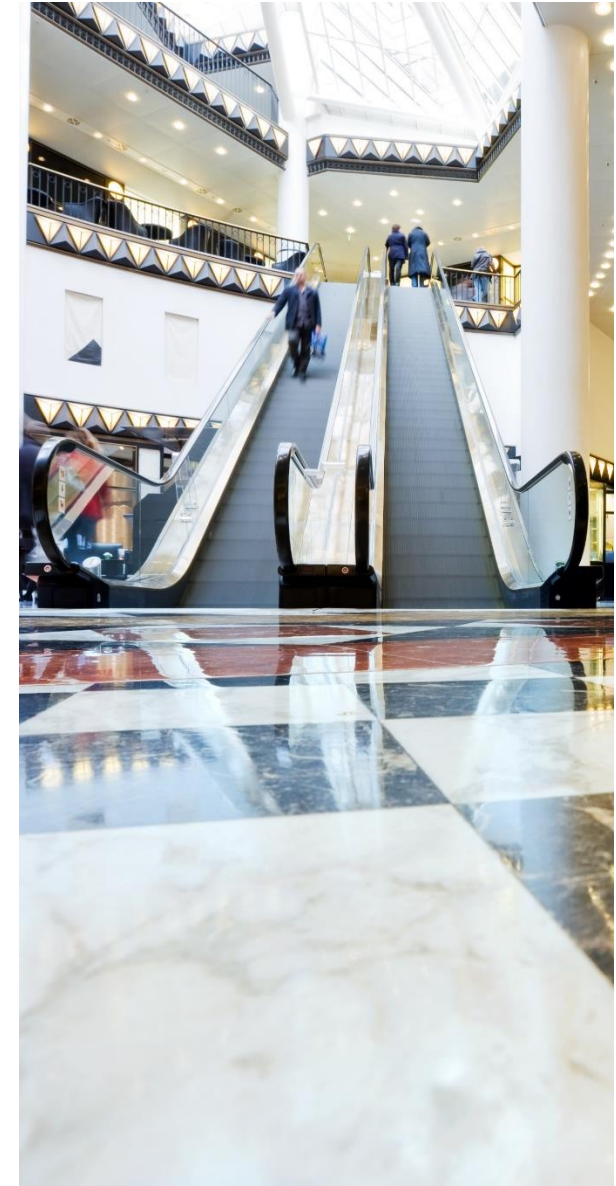
Cost of Living

Accessibility &
Amenities

Employment &
Opportunity

Market Dynamics

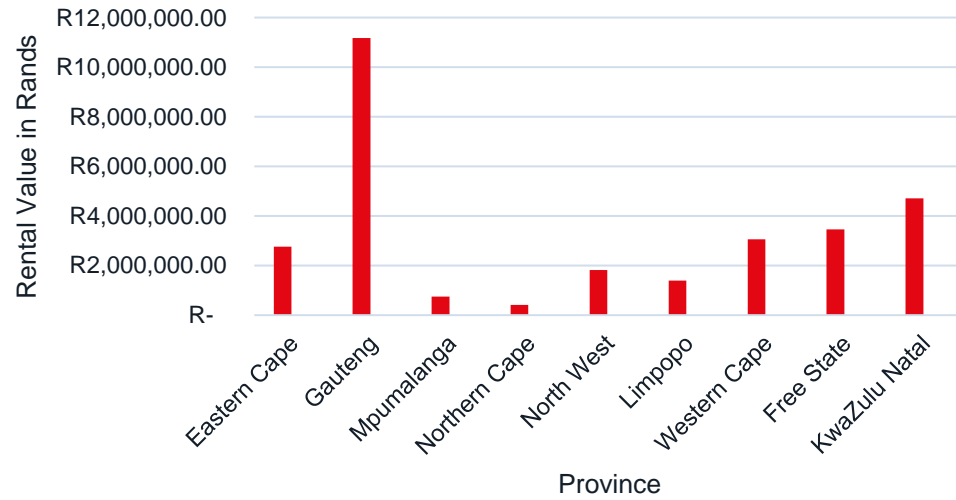
Infrastructure &
Maintenance



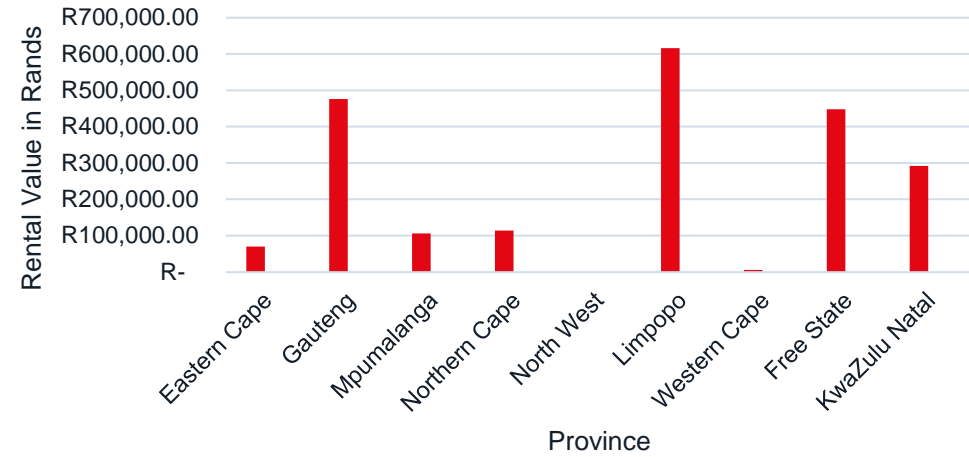
Market Rentals

Summary of Findings

SAPO Owned Market Rentals By Province



Telkom/Other Owned Market Rentals by Province



Thank you

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