

heartwood®

PROPERTIES

HEARTWOOD PROPERTIES LIMITED

Incorporated in the Republic of South Africa

Registration Number: 2017/654253/06

4AX Share Code: 4AHWP

ISIN: ZAE400000044

("Heartwood" or "the Company")

Formal Notice:

**LISTING BY WAY OF INTRODUCTION OF HEARTWOOD ON
4 AFRICA EXCHANGE PROPRIETARY LIMITED**

20 March 2018

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1. INTRODUCTION

- 1.1 An application has been made by Heartwood to 4 Africa Exchange Proprietary Limited ("4AX") for a new venture listing by way of introduction (the "Listing") of its entire Issued Share Capital on the Securities Exchange operated by 4AX (the "Application").
- 1.2 This Formal Notice contains summarised extracts from the Listing Particulars dated, 20 March 2018 and as such is not intended to be comprehensive. For a full appreciation of the Company and the Listing, the Listing Particulars should be read in its entirety in conjunction with this Formal Notice.

**THIS FORMAL NOTICE IS NOT AN INVITATION OR OFFER TO THE PUBLIC
TO ACQUIRE, PURCHASE OR SUBSCRIBE FOR SHARES IN HEARTWOOD.**

- 1.3 Save to the extent specifically stated otherwise herein, capitalised terms in this Formal Notice shall bear the corresponding meanings as ascribed to those terms in the Listing Particulars.
- 1.4 The Listing of Heartwood on 4AX will be implemented as a new venture listing by way of introduction of the Company's entire Issued Share Capital. Heartwood does not intend to raise capital in conjunction with the Listing. However, notwithstanding the aforementioned, Heartwood would undertake a capital raising(s) subsequent to the Listing becoming effective through placing Shares.
- 1.5 The Company serves as the ultimate holding company of a property development Group, which Group provides access to a pipeline of current and future property development projects, boasting an exciting investment opportunity which will build into an exceptional long-term sustainable portfolio of properties.
- 1.6 Following a decision by the Shareholders of the Major Subsidiaries, the Group was created through a merger of the Major Subsidiaries into the Group as at the Listing date, effectively contributing property portfolios to the Group.
- 1.7 The Board had a fundamental contribution to the establishment of Heartwood and has the necessary expertise and experience to successfully manage a strong, profitable and growing property portfolio.
- 1.8 The property portfolio focuses primarily on development properties within the office and warehousing sector.
- 1.9 The property portfolio of the Major Subsidiaries achieved substantial organic growth during the past few years by consistently applying quality value-addition principles. By applying these principals and through a combination of organic growth and new acquisitions, the Major Subsidiaries saw their property portfolio grow from an asset base of R52.6 million in February 2014 to R109 million in August 2017.
- 1.10 After the listing, Heartwood will continue to invest across the real estate sectors and provides access to a pipeline of off-market properties and exclusive development opportunities.

2. GENERAL OVERVIEW OF HEARTWOOD

The Company has defined and focused its strategy predominately in the warehouse development sector in the region of Gauteng, with supplemental opportunities in other regions and the office development sector also being pursued.

The strategy is to grow the net asset value of the balance sheet through focused warehouse and office developments within the predefined regions.

The Heartwood portfolio is of a high quality, is underpinned by strong tenancies and lease covenants and is situated in South Africa's best location for growth. Considering the success achieved by the Company through its Major Subsidiaries and the management team over the last few years and the significant opportunities available to it to enhance the existing portfolio and to grow through new acquisitions, the Board is of the view that the future prospects of the Company are very encouraging and is confident of delivering sustainable income and capital growth to Shareholders.

2.1 STRATEGY

The Company has focussed its business model to ensure commitment by tenants and relevant servicing. The strategy to support the business model is:

2.1.1 *Target Market*

A well-focused target market has been identified in the medium to large owner managed business sector who would like equity participation in the ownership of their business premises. These are growing businesses who use warehouse or office space and are looking to expand. The attraction to the business owner is that they will get equity participation in a property in exchange for signing a long development lease. The attraction to the developer is that the tenant will sign a long lease and provide the necessary credit collateral in addition to creating incentive to honour the lease agreement and to look after the building. The equity participation is subject to no material breaches of the lease agreement for its duration by the tenant.

The second target market involves providing development expertise to landholders who are sitting on prime developable industrial or commercial land. The approach is to form a development joint venture with the land owner on prime land. These joint ventures usually work as follows: The Group will secure the right to develop land subject to rezoning and bulk services. The existing land owner will be responsible for the costs of the rezoning and bulk services, the Group will assist in getting this done, however no capital commitment on the land or the development will take place by the Group until all zoning and bulk services are approved and in place. When all approvals are in place, the original land owner will then become a development partner and the value of the land will become equity in the development at an agreed price, or the land will be purchased at an agreed price. The Group will use its development and marketing skills to roll out the developments to the market. The target market of these developments will depend on the specific market and requirements given the location of the land. However, these developments will always be in established and growing warehouse and office nodes where the Group sees growing future demand. The objective is to design and build quality buildings.

2.1.2 *Building Specifications*

All warehouse buildings are designed to logistics standards with roof height for racking, extensive yard area for super link trucks and docking and loading bays. The warehouse market is expected to expand with the growing online retail sector in South Africa. Distribution warehouses close to transport hubs and dense residential areas will be sought after by online retail tenants and general distributors in the future. This is a growing market.

New office developments are designed with excess parking, internal fiber networks for Wi-Fi, balconies to take advantage of pleasant weather and solar panels on the roof for green energy. The targeted nodes for office developments are all high exposure sites in growing but established areas. Income from solar panels is additional income for the Group and this income growth is in line with annual Eskom tariff increases.

Prime quality warehouse space and well-designed AAA grade office space produced at reasonable prices will prove to be excellent long-term property investments due to their design, location and the fact that they are tenant friendly buildings which will be easy to let should they become vacant. This type of assets is not seen on the market very often and as most investors choose to hold them and not to sell.

2.1.3 *Tenant Partnership*

The rationale is to form a partnership with the tenants, with the Group only making any commitments when all transaction agreements are in place, being a long lease, development finance, tenant sureties, development management agreements, and shareholder agreements when applicable. This ownership model has proven successful in the past and is a key component of the strategy going forward.

2.1.4 *Risk Management*

For the developments that include equity participation with the tenants, these will be done in a separate SPV. All equity is committed via an interest-bearing shareholder loan account. The tenant will sign a long lease with surety and onerous conditions if the lease is breached by the tenant. Including this, all development risks are managed through the process and can be categorized into, financial risk, regulatory risk (this includes land and legal risks), design risk (structural, geotechnical, architectural), delivery risk (construction) and ongoing management.

2.1.5 *Regulatory risk management*

Limited land zoning and bulk service risk is taken, and the Group will relay this risk onto the original land owner. The intention is to never take any land rezoning and bulk service risk. The two main risks with rezoning and bulk services are firstly the time period that is unknown and the availability of supply of services (electricity, water etc.). These risks can and will lead to inflated and unknown costs. The approach of The Group is to only transact on land that is zoned with services in place and to focus on the development of the top structures for the market.

2.1.6 *Asset Management*

The asset and development management capabilities of the Group's management team is one of the differentiators of the business, providing the Group with a significant competitive advantage over its competitors. The fact that management takes a "hands-on" approach and that all development management responsibilities are performed internally ensures that the maximum value and growth is derived from each property. The understanding of the market and the requirements and needs of tenants and property users are a key aspect of the management process. This ensures that the Group develops high quality properties that will always be in demand from tenants. The ability to produce and market high quality assets at a competitive price is a key success factor.

2.1.7 *Executive Capacity*

Executive management is personally involved in the lease negotiations in respect of the Group's portfolio and has an excellent working relationship with tenants currently in occupation across the portfolio. All deal negotiations are done by the executive team and the team has an excellent and strategic relationship with key national property broking companies who understand the Group's development model.

2.1.8 *Marketing Capacity*

The Group also has a very strong marketing ability with access to a substantial database of property users and the ability to market developments through various platforms such as social media, web sites, mail drops and broker networks. This is a major strength which enables the Group to successfully market new developments and to ensure that the existing property portfolio has limited vacancies.

2.2 **VALUE PROPOSITION**

The summarised value proposition is as follows:

- 2.2.1 a focussed portfolio within the warehouse and office development sector;
- 2.2.2 internally managed structures which ensures low costs;
- 2.2.3 a leading development executive team with a solid and successful track record;
- 2.2.4 a unique equity proposition to owners, leading to key rental agreements; and
- 2.2.5 a property portfolio underpinned by high quality tenancies and lease covenants.

3. **BOARD OF DIRECTORS OF HEARTWOOD**

Full details of the Board of Directors of Heartwood appear in Section 6, paragraph 6.1 and **Annexure 9** of the Listing Particulars Document.

4. **HEARTWOOD PROPERTY PORTFOLIO**

4.1 **General overview of property portfolio by material sector**

4.1.1 *Established office portfolio:*

The Heartwood office portfolio mainly consist of the Willow Wood Office Park, which is being developed and completed in four phases. The first three phases, Black A, B and C have been completed and is fully tenanted.

The Heartwood office portfolio is situated in all of the prime office areas in Gauteng. The office portfolio is multi tenanted in nature and is classified as "A" grade offices within the South African Property Owners Association (SAPOA) definition of graded office space. The bulk of the Heartwood office portfolio has a very desirable tenant mix. The Heartwood office portfolio continuously enjoys high occupancy levels amidst a tough economic environment.

4.1.2 *Established warehouse portfolio:*

The Heartwood warehouse portfolio (The Media Connection office and warehouse) boasts a well-balanced mix of distribution warehouses industrial units. Located in some of the most sought after and well established industrial nodes in the Lanseria area. The Heartwood warehouse portfolio enjoy extraordinary high occupancies due to sector demand and attractive product offering. All of Heartwood's warehouse assets are excellently located in nodes that have easy access to the Lanseria airport and road access corridors.

4.1.3 Future development projects (Secured or in advanced negotiation):

4.1.3.1 A land agreement has been signed with the current land owners of a distribution park development on a 50/50 joint venture basis within the Mazista and Northriding industrial area. The development site has excellent access and exposure to main roads and highways in the west of Johannesburg and will be a perfect fit to medium sized distribution companies. The current land owner is responsible for bulk services and rezoning approvals.

4.1.3.2 The land is expected to be ready for development mid-2018, with no cash requirements for the development team until the land is ready for development.

The total developable area is 11 320m², with the strategy to design and build high quality distribution warehouses from 1 500m² each.

4.1.3.3 The Willow Wood Park Block D, totalling 1 490m² will be the last phase of the Willow Wood Office Park development and is in prime position along Cedar Road and has had a zero percent vacancy since inception in 2012.

The design of Willow Wood Park D is flexible to allow for large and small tenants and will use solar power for an added return for the Group.

4.1.4 The property portfolio of the Group on Listing Date, is summarised as follows:

Number of properties owned directly or indirectly through the Subsidiaries	4
Portfolio at fair value (as per the Independent Property Valuer)	R109 863 737
Portfolio Net Asset Value	R59 616 315
Average property yield (gross)	9.5%
Weighted average rental per m ²	R145.87
Gross lettable are (GLA) m ²	6 353 m ²
Vacancy (% of rentable area)	0%
Portfolio value per m ²	R16 746 per m ²
Average portfolio escalations	7.5%
Weighted average lease expiry period	8 years

The portfolio presents stable income over the short, medium and long term, with a number of “value-addition” opportunities that will allow the organic growth and increased income in the portfolio.

5. RATIONALE FOR THE LISTING

5.1 The rationale for the Listing includes, *inter alia*, the following:

- 5.1.1 enhancing the Heartwood Group’s public profile in general;
- 5.1.2 enhancing relations with existing stakeholders such as banks, suppliers, distributors and customers;
- 5.1.3 improving the quality and integrity of Heartwood investor-information available, so as to allow stakeholders, Shareholders and/or prospective investors to make informed decisions in regards to the Securities of the Company;
- 5.1.4 increasing liquidity for Shareholders through a publicly-trading Securities Exchange and/or enabling Shareholders to realise the value of their investments in Heartwood (to the extent that they wish to do so);
- 5.1.5 provide quality investors with an opportunity to participate over the long term in the income streams and future capital growth of Heartwood Properties; and
- 5.1.6 enhancing the capital raising abilities of the Company and to give the company the ability to use its Securities as acquisition currency, as vendors are more likely to accept Listed Securities.

6. SECURITIES FOR WHICH LISTING ON 4AX IS SOUGHT

- 6.1 The Shares to be listed comprises 100 000 005 (One Hundred Million and Five) Ordinary Shares of R0.59 (fifty nine cents) each (the “Shares”).
- 6.2 All Shares to be listed shall rank *pari passu* with each other in all respects, including in respect of voting rights and Distributions.
- 6.3 The dealings in the Shares are expected to commence on 20 March 2018.

7. LISTING ON 4AX

- 7.1 4AX brings to the market an efficient and alternative regulatory model which reduces regulatory costs and inefficiencies, but promotes and adheres to the highly regarded financial regulatory standards in South Africa.
- 7.2 The unique features of 4AX include the following:
 - 7.2.1 clear and transparent listing requirements for equities which have been uniquely designed to introduce new types of listings and facilitate much needed growth in the mid-market sector;
 - 7.2.2 a unique exchange infrastructure in South Africa (based on international best practice) by introducing a central independent register of beneficial ownership (housed within the 4AX Registry);
 - 7.2.3 designed to meet the needs of retail investors whilst remaining attractive to institutional investors through the removal of some key barriers to investing for retail investors; and
 - 7.2.4 modern, scalable technology design and infrastructure to reduce cost and increase efficiency.

8. DOCUMENTS AVAILABLE FOR INSPECTION

8.1 The Listing Particulars, this Formal Notice and documents detailed in paragraph 7.3 of the Listing Particulars are available for inspection during normal office hours from the date hereof until Tuesday, 20 March 2018, at the registered offices of Heartwood and Heartwood’s External Issuer Agent, Pallidus Capital Proprietary Limited (“**Pallidus Capital**”) at:

HEARTWOOD	PALLIDUS CAPITAL
Unit 8 Tonquani House, 6 Gardner Williams Avenue, Paardevelei, Somerset West 7130	Suite 3, Southdowns Ridge Office Park, 1240 John Vorster Drive, Irene, Centurion, Gauteng, 0123 and at Cradock Heights, Corner of Tyrwhitt and Cradock Avenue, Rosebank, Johannesburg, Gauteng, 2196

8.2 The Listing Particulars is also available for download from the websites of Heartwood (www.heartwoodproperties.co.za) and 4AX (www.4ax.co.za).

9. EXTERNAL ISSUER AGENT

Heartwood has appointed Pallidus Capital as Corporate and Transaction Advisor and External Issuer Agent for the Listing, with its registered address at Suite 3, Southdowns Ridge Office Park, 1240 John Vorster Drive, Irene, Centurion, Gauteng, 0123 (www.pallidus.co.za).

BY ORDER OF THE BOARD OF DIRECTORS OF HEARTWOOD

20 March 2018

ISSUER AGENT

Pallidus Capital Proprietary Limited

COMPANY SECRETARY

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