

EMIRA PROPERTY FUND

EMIRA PROPERTY FUND (A property fund created under the Emira Property Scheme, registered in terms of the Collective Investment Schemes Control Act No. 45 of 2002). Share code: EMR. ISIN: ZA60050712. ("Emira" or "the Fund")
Tax number: 0047/321/15/3 (Approved as a REIT by the JSE)

Commentary

The board of directors of Strategic Real Estate Managers (Pty) Ltd ("STREM") is pleased to announce an interim distribution of 59,31 cents per Emira participatory interest (PI) for the six months to 31 December 2013, representing an increase of 6,5% on the previous comparable period.

Vacancies and tenant renewals: Vacancies decreased from 5,6% at June 2013 to 5,1% at December 2013, which represents a decline in vacancies of 7 407m², driven by substantial leasing in all sectors.

Major new leases concluded include: Five-year leases at Cochrane Avenue (5 870m²), 7 Naivasha Road (4 673m²), and Lake Buena Vista (3 500m²).

Major renewals concluded: Deyf Appliances (10 100m²), Taylor Blinds (7 794m²), Shoprite Checkers at Quagga Centre (5 715m²) and Pick n Pay at Quagga Centre (4 878m²).

Disposals: The strategy to dispose of non-core buildings continued during the period under review. Four properties totalling R119,0m, which had been sold but not yet transferred at 30 June 2013 – Georgian Place, 261 Surrey Avenue, Fleetway House and Montana Value Centre – were transferred out of Emira during the period. Worldwear Fashion Mall and Lynnridge Mall, have been sold unconditionally, although they have not yet been transferred out of the Fund, bringing the value of total sales during the period to R328,8m.

Acquisitions and developments: Subsequent to the previous financial year end, the Fund took transfer of three buildings in the Highgrove Office Park, Centurion, for R24,6m, taking the number of buildings owned in this A-Grade office park to six, valued at R157,9m.

Acquisitions during the period comprised: (i) an industrial building of 7 533m² leased to Lithtech in Airport Industria, Cape Town for R34,5m, transfer of which took place in February 2014 and (ii) a vacant stand in the N4 Gateway Industrial Park for R12,4m on which a modern industrial facility of 9 371m² is to be developed at a total cost of R57,4m. Transfer took place in January 2014.

Refurbishments and extensions: Several projects totalling approximately R545,5m are underway, the most significant of which includes a major upgrade and extension to Wonderpark Shopping Centre, where the centre is being enlarged at a cost of R 513m, from 63 000m² to 90 000m² to accommodate existing national tenants including Game, Woolworths, Jet and Edgars and the introduction of new anchor tenants including Checkers, Dis-Chem, Hi Fi Corp, P.Q. Clothing, Cotton On and The Hub.

Repurchases of Participatory Interests ("PIs"): The Board previously approved the implementation of a PI repurchase programme which was confirmed by PI holders at the AGM in November 2013. In terms of the programme a portion of the proceeds from the sale of the properties can be used to repurchase PIs in the open market.

In September 2013, the Fund purchased 4 876 300 PIs at a total cost of R68,1m.

The Fund will continue to repurchase PIs at prices considered beneficial to PI holders.

Gearing: Emira continued to take advantage of the lower rates of funding available in the debt capital markets.

Funding activities during the period included:

Date		Amount R'm	All-in-rate
22 August 2013	Repayment of three-month commercial paper	400m	5,3%
22 August 2013	Issue of six-month commercial paper	399m	5,8%
22 August 2013	Issue of three-month commercial paper	100m	5,3%
13 September 2013	Issue of twelve-month commercial paper	230m	5,9%
7 November 2013	Roll over of twelve-month commercial paper	450m	5,9%
20 November 2013	Repayment of three-month commercial paper	100m	5,3%
20 November 2013	Issue of twelve-month commercial paper	100m	5,9%

In order to increase the fixed component of debt to 75% of total borrowings, subsidised swaps of R250m were entered into in December 2013 commencing in July 2014, October 2014 and January 2015, at an average all-in rate of 7,12%. Simultaneously, an existing swap of R200m was restructured, reducing the rate payable from 8,70% to 7,65%. This equates to a saving of R2,1m per annum for Emira.

Growthpoint Australia Limited ("GOZ"): Emira participated in the rights issue held by GOZ in December 2013, taking up an additional 2 441 777 units at AUD 2,45 per unit at a cost of R56,9m.

At December 2013 GOZ's unit price as quoted on the ASX was AUD 2,47 resulting in Emira's investment of 27 225 813 units, amounting to 5,7% of the units in issue, being valued at R626,3m.

Results

Contractual escalations on the bulk of the portfolio, combined with significant leasing progress and stringent cost control, including savings from the property management tender, have resulted in the Fund achieving an increase in distributable income during the period.

Excluding the straight-lining adjustments in respect of future rental escalations, revenue rose by 6,8% over the comparable period. This was positively impacted by the leasing of vacant space, acquisitions and organic growth from the existing portfolio and increased recoveries of municipal expenses, offset by disposals.

Property expenses increased by 12,4% over the previous comparable period, mainly due to increases in municipal costs, leasing expenses and refurbishment costs. Excluding these items, the balance of property expenses actually declined.

Income from the Fund's listed investment in Australia increased by 17,5% due to an increase in the distribution per unit received from GOZ, the depreciation of the rand against the Australian dollar and increased units being held as a result of the Fund following its rights in respect of a rights issue held in December 2013. Excluding income received in respect of the rights issue and the reinvestment of the December 2012 distribution, the increase amounted to 13,2%.

Net finance costs incurred were similar to those incurred in the previous period as a result of the utilisation of the debt capital markets at reduced margins and the interest rate swap restructuring which took place during the period.

Net asset value increased by 2,5% from 1325 cents per PI at 30 June 2013, to 1358 cents per PI at 31 December 2013, following the revaluation of investment properties and the investment in GOZ.

Condensed consolidated statement of comprehensive income

R'000	Unaudited Six months ended 31 Dec 2013	Unaudited Six months ended 31 Dec 2012	Audited Year ended 30 Jun 2013
Revenue	741 135	658 566	1 342 244
Operating lease rental income and tenant recoveries	716 721	670 935	1 353 853
Allowance for future rental escalations	24 414	(12 369)	(11 609)
Income from listed property investment	20 322	17 288	36 332
Property expenses	(281 780)	(249 798)	(500 970)
Fee paid on cancellation of interest-rate swap agreements	—	(28 713)	(28 713)
Administration expenses	(31 886)	(35 990)	(70 572)
Depreciation	(7 211)	(5 894)	(12 052)
Operating profit	440 580	355 459	766 269
Net fair value adjustments	113 946	341 288	577 023
Net fair value gain on investment properties	86 072	290 157	471 542
Change in fair value as a result of straight-lining lease rentals	(24 414)	12 369	11 609
Change in fair value as a result of amortising upfront lease costs	(3 998)	(4 546)	(5 401)
Change in fair value as a result of property appreciation in share	114 484	282 334	465 334
Revaluation of derivative financial instrument relating to share appreciation rights scheme	(4 416)	4 604	6 340
Unrealised gain on fair valuation of listed property investment	32 290	46 527	99 141
Profit before finance costs	554 526	696 747	1 343 292
Net finance costs	(104 041)	(148 431)	(108 104)
Finance income	5 233	4 688	8 160
Interest received	5 233	4 688	8 160
Finance costs	(109 274)	(153 119)	(116 264)
Interest paid and amortised borrowing costs	(131 313)	(124 143)	(247 036)
Interest capitalised to the cost of developments	7 783	59	2 036
Unrealised surplus/(deficit) on interest-rate swaps	14 256	(29 035)	128 736
Profit before income tax charge	450 485	548 316	1 235 188
Income tax charge	4 198	(16 000)	200 750
Deferred taxation	4 198	(16 000)	200 750
– Revaluation of investment properties	—	(14 010)	205 792
– Other timing differences including allowance for future rental escalations	4 198	(1 990)	(5 042)
Profit for the period	454 683	532 316	1 435 938
Attributable to Emira equity holders	457 285	536 736	1 441 444
Attributable non-controlling interests	(2 602)	(4 420)	(5 506)
	454 683	532 316	1 435 938
Total comprehensive income	454 683	532 316	1 435 938
Attributable to Emira equity holders	457 285	536 736	1 441 444
Attributable to non-controlling interests	(2 602)	(4 420)	(5 506)
	454 683	532 316	1 435 938

Condensed consolidated statement of cash flows

R'000	Unaudited Six months ended 31 Dec 2013	Unaudited Six months ended 31 Dec 2012	Audited Year ended 30 Jun 2013
Cash generated from operations	396 547	395 482	784 199
Finance income	5 233	4 688	8 160
Interest paid	(131 313)	(124 143)	(247 036)
Taxation paid	—	—	(162)
Fee paid on cancellation of interest-rate swap agreements	—	(28 713)	(28 713)
Distribution to participatory interest holders	(292 910)	(284 842)	(561 788)
Net cash utilised in operating activities	(22 443)	(37 528)	(45 340)
Acquisition of, and additions to, investment properties and fixtures and fittings	(345 015)	(111 756)	(252 070)
Proceeds on disposal of investment properties and fixtures and fittings	118 936	85 900	120 700
Acquisition of investment in listed property fund	(56 920)	(17 288)	(19 502)
Net cash utilised in investing activities	(282 999)	(43 144)	(150 872)
Participatory interests re-purchased	(68 135)	(51 141)	(51 141)
Increase in interest-bearing debt	384 362	136 655	247 803
Derivative acquired in respect of share appreciation rights scheme	(4 080)	(3)	—
Net cash generated from financing activities	312 147	85 511	196 662
Net increase in cash and cash equivalents	6 705	4 839	450
Cash and cash equivalents at the beginning of the period	22 638	22 188	22 188
Cash and cash equivalents at the end of the period	29 343	27 027	22 638

Growth in distribution

+6,5%

Vacancies reduced to

5,1%

Net asset value

1 358c

per PI, an increase of 2,5%

Distribution statement

R'000	Six months ended 31 December 2013	Six months ended 31 December 2012	% change	Year ended 30 June 2013
Operating lease rental income and tenant recoveries excluding straight-lining of leases	716 721	670 935	6,8	1 353 853
Property expenses excluding amortised upfront lease costs	(285 778)	(254 344)	12,4	(506 371)
Net property income	430 943	416 591	3,4	847 482
Income from listed investment	20 322	17 288	17,5	36 332
Management expenses	(12 867)	(9 433)	36,4	(20 779)
Reimbursement to STREM	(20 866)	(22 189)	(6,0)	(44 227)
Administration expenses	(7 134)	(5 874)	21,5	(12 006)
Depreciation	(118 341)	(119 437)	(0,9)	(236 946)
Net finance costs	(123 530)	(124 084)	(0,4)	(245 000)
Finance costs	(131 313)	(124 143)	5,8	(247 036)
Interest paid and amortised borrowing costs	7 783	59	—	2 036
Interest capitalised to the cost of developments	5 189	4 647	11,7	8 054
Distribution payable to participatory interest holders	292 057	276 946	5,5	569 856
Number of units in issue	492 423 583	497 299 883	(1,0)	497 299 883
Distribution per participatory interest (cents)	59,31	55,69	6,5	114,59

Disposals

In accordance with the strategy of the Fund, certain properties that are underperforming or pose excessive risk to the Fund are earmarked and disposed of.

Properties transferred out of Emira during the 6 months to December 2013

Property	Sector	Location	GLA (m ²)	Valuation June '13 (Rm)	Sale price (Rm)	Exit yield (%)	Effective date
Georgian Place (sectional title units)	Office	Kelvin, Gauteng	9 485	32,4	29,1	5,1	August, October and November 2013
261 Surrey Avenue	Office	Ferndale, Gauteng	1 752	6,4	7,2	8,4	September 2013
Fleetway House	Office	Cape Town, CBD	7 090	33,4	32,7	3,3	October 2013
Montana Value Centre	Retail	Montana, Gauteng	9 717	39,2	50,0	7,0	October 2013
			28 044	111,4	119,0		

Properties sold but not yet transferred out of Emira at December 2013

Property	Sector	Location	GLA (m ²)	Valuation June '13 (Rm)	Sale price (Rm)	Anticipated effective date
Worldwear Fashion Mall	Retail	Fairlands, Gauteng	14 172	37,0	34,8	March 2014*
Lynnridge Mall/Mews	Retail	Lynnridge Ridge, Pretoria	20 022	149,3	175,0	March 2014
			34 194	186,3	209,8	

*An effective possession date of 15 April 2013 has been agreed to with the purchaser.

Vacancies

	Number of buildings June 2013	GLA (m ²) June 2013	Vacancy (m ²) June 2013	% June 2013	Number of buildings December 2013	GLA (m ²) December 2013	Vacancy (m ²) December 2013	% December 2013
Office	69	431 859	46 200	10,7	63	415 082	43 476	10,5
Retail	37	363 391	10 157	2,8	35	360 300	10 504	2,9
Industrial	42	338 568	7 387	2,2	43	338 327	2 358	0,7
Total	148	1 133 818	63 744	5,6	141	1 113 709	56 338	5,1

Valuations

One-third of Emira's portfolio is valued by independent valuers at the end of every financial year, with the balance being valued by the directors. At the interim stage, directors' valuations are used.

Total portfolio movement

	June 2013 (R'000)	R/m ²	Dec 2013 (R'000)	R/m ²	Difference (%)	Difference (R'000)
Office	4 557 146	10 552	4 580 538	11 102	0,5	23 392
Retail	3 312 760	9 116	3 591 003	9 967	8,4	278 243
Industrial	1 530 500	4 521	1 571 000	4 609	2,6	40 500
	9 400 406	8 291	9 742 541	8 739	3,6	342 135

Investment properties increased by R342,1m made up of capital expenditure including capitalised interest predominantly at Wonderpark Shopping Centre, of R353,8m, less disposals of R119,0m, depreciation of R7,2m and a net upward revision in property values of R114,5m.

Condensed consolidated statement of financial position

R'000	Unaudited 31 Dec 2013	Unaudited 31 Dec 2012	Audited 30 Jun 2013
Assets	9 902 819	9 147 203	9 366 817
Non-current assets	9 066 575	8 489 374	8 640 590
Investment properties	155 569	128 863	130 605
Allowance for future rental escalations	43 972	39 037	39 306
Unamortised upfront lease costs	—	—	—
Fair value of investment properties	9 266 116	8 657 274	8 810 501
Listed property investment	626 312	482 274	537 102
Derivative financial instruments	10 391	7 655	19 214
Current assets	240 531	115 401	158 017
Accounts receivable	198 621	88 374	131 176
Derivative financial instruments	12 567	—	4 203
Cash and cash equivalents	29 343	27 027	22 638
Investment properties held for sale	476 425	458 800	589 905
Total assets	10 619 775	9 721 404	10 114 739
Equity and liabilities	6 684 653	5 979 450	6 590 162
Participatory interest holders' capital and reserves	1 424 920	2 299 656	1 440 682
Non-current liabilities	1 363 914	1 911 574	1 362 722
Interest-bearing debt	49 981	156 108	62 737
Derivative financial instruments	11 025		