For immediate
release

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Emira Property Fund's distribution for the six months to December 2011

Emira Property Fund has announced a distribution of 53.81 cents per Emira participatory interest (PI) to PI holders for the six months ended December 2011 – a 2.5% decline over the same period in 2010.

The reduction in the Fund's disbursements for the period is in line with the prospects statement at the time of the Fund's release of its June 2011 financial results and is symptomatic of the general malaise in the SA property market, particularly the office sector, characterized by weak domestic economic conditions and concern over global economic issues.

Says Emira CEO, James Templeton:

"As expected, conditions during the period under review remained tough with tenants, particularly in the office market, unwilling to commit to new space largely because of the global economic uncertainties.

"As a result, rentals continued to be under pressure and landlords needed to be highly competitive in trying to attract or retain tenants."

Highlights of the period, however, were: a reduction in the general level of vacancies across the portfolio – especially in the industrial sector where vacancies declined from 7.2% to 4.4%; a restructuring of R1,2bn worth of the Fund's debt facilities; increased investment income from the Fund's 8.1% interest in Growthpoint Australia, and a sharp decline in asset management expenses following an amendment to the service charge agreement payable to the Fund's manager, Strategic Real Estate Managers, last year.

Notes Templeton:

"Although income from listed investments rose and management expenses declined as a result of the amendments to the Trust Deed last year, distributions declined fractionally due to muted net property income growth and rising finance costs following increased levels of debt in the Fund due to on-going capital expenditure and acquisitions."

During the period, the Fund embarked on a substantial restructuring of its debt, consisting of the replacement of R700m worth of expiring debt facilities with new loans, as well as R500m of brand new facilities to be used for the growth of the portfolio. Emira also commenced with a PI repurchase programme approved by shareholders in November. By the end of December it had repurchased and cancelled 1 543 941 PI's at a cost of R18.2m resulting in a modest earnings enhancement for the Fund.

In addition, it placed increasing effort on improving the quality of Emira's portfolio through the acquisition of new properties, the refurbishment of existing assets as well as the disposal of properties deemed to be non-core.

The Fund's asset management team was expanded with a view to placing a greater focus on reducing vacancies, retaining tenants and improving the quality of the Fund's existing buildings.

A total of 11 buildings were transferred out of the Fund or sold unconditionally in the six months to December realizing a total of R266.3m.

Additionally, Emira acquired a new 13 787m² A-grade office building being developed by the Eris Property Group at the intersection of Corobay and Aramist Avenues, Menlyn, Pretoria, for R306.9m. The building is already 70% let and there is a one-year warranty on the balance of the vacant space from completion. It's expected to yield 9.1% when it's completed later this year.

The Fund is also busy with several major property refurbishments within its portfolio worth around R298m. Among the refurbishments is the redevelopment of the Podium building in Menlyn into 9 239m² of prime office space at a cost of R176m. The refurbishments are expected to be completed later this year and tenants are currently being sought for the building, with letting progress expected to be made by the end of March 2012.

A number of other smaller building refurbishments projects have been approved by the Emira Board and are expected to commence later this year.

All this is part of Emira's strategy of reducing its exposure to B-grade office space and improving the quality of its portfolio by buying large, high quality properties.

Across the portfolio vacancies were marginally down (from 11.5% to 11.3%) with the greatest declines in the industrial sector where vacancies are now running at 4.4%. However, vacancies in the office portfolio are slightly up (from 18.4% in June 2011 to 19.8% in December) as too are vacancies in the retail sector (from 7.5% to 8.2%). Stripping out the six properties currently under refurbishment, where letting has deliberately not been undertaken due to the construction work, vacancies declined from 10.3% to 10.0% by December 2011.

Templeton notes that reducing vacancies across the portfolio will be key to the Fund's future performance.

He says that while there have recently been signs of improved letting interest from tenants he says they still appear to be reluctant to commit to new, long-term leases and improved clarity on the local and global economic conditions is required before there can be expected to be a material improvement.

“Expectations are that the Fund’s performance for the twelve-month period ended June 2012 will show a similar trend to that for the six-month period ended December 2011. As a result, the level of distributions from the Fund for the full financial year is expected to be below that achieved in the twelve months to 30th June 2011.”

Ends

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