
Office Refurbishments result in higher Rental Returns for Emira

With sellers asking high prices for their properties and land and building costs rising sharply, listed property funds tend to be spending more money refurbishing their existing buildings in their search for better returns.

Emira Property Fund, for example, has already approved R75m for building refurbishments across its office portfolio this year.

Some of the properties earmarked for renovation include: Hurlingham Office Park; Fleetway House, Knightsbridge Office Park, Woodmead Office Park and Lake Buena Vista in Centurion.

In most instances, previous building refurbishments have seen Emira benefit from increased rentals on the improved properties.

In two recent examples, Epsom Downs in Bryanston and Fleetway House on the Cape Town Foreshore, Emira has seen compound rental growth of 15,2% and 17,3% respectively in these two B-grade office properties over the past two years.

The higher rental returns have come about through a combination of the normal market growth in rental levels and higher asking rentals as results of the refurbishments. Office rentals have improved recently as a result of declining vacancies and rising buildings costs on new buildings.

According to SAPOA's latest office vacancy statistics to the end of July, average office vacancy levels across all office grades in the Johannesburg area were standing at 3.6% with Randburg, Rivonia and Midrand showing above average vacancy levels. Average vacancies in Cape Town were 3.3% with the CBD and Century City showing the highest vacancy levels and average vacancies in Durban were running at 6,3% with the Durban CBD the most under tenanted. The most favourable vacancy level was recorded in Pretoria where only 2.4% of the available office space was vacant.

Says James Templeton, CEO of Emira Property Fund:

"Building owners have a responsibility to maintain and upgrade their assets but for property unit trusts like Emira, building refurbishments have a two fold benefit – not only do they ensure the quality of the trust's assets are being maintained, they also provide for an improved return for our investors."

In the case of building refurbishments, Templeton says Emira follows a dual strategy – refurbishments are either conducted while the sitting tenants are still occupying the building, or the building is vacated prior to the refurbishment. Each building is looked at individually before a decision is taken on how to proceed.

Both strategies, notes, Templeton, have their pros and cons. In the case of refurbishments that are done while the building is still occupied, Emira has the security of knowing that it has a rental income stream on the building – albeit perhaps at a below market rentals, whilst the existing leases remain in place.

In the case of refurbishments taking place after vacant occupation has been obtained, the downside is owners may have to forego a rental income on the property while the refurbishment is going on. The upside is the refurbishments can often be accomplished more speedily because the building is vacant and once the building does start letting again, higher rentals can be obtained across the entire property.

Another downside of vacating buildings before refurbishing them is that vacancy levels across the commercial portfolio can start to increase slightly, as they have done in the case of Emira's extensive refurbishment programme. However, this is usually a temporary phenomenon.

Ends

ISSUED BY: MOTIV INVESTOR COMMUNICATIONS

Graham Fiford Tel: (011) 305 - 7312

ON BEHALF OF: EMIRA PROPERTY FUND

James Templeton Tel: (011) 775 1320
