Press Release

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Emira Property Fund rides out the tough economic times

Emira Property Fund today announced a distribution of 101.25 cents per Emira participatory interest for the year ended 30th June 2009 – 10% up on the previous year.

Emira CEO, James Templeton, says these results were achieved in spite of the deterioration in the economic environment, and the property market in particularly, since last year.

He says conditions in the commercial property market as a whole began deteriorating towards the end of 2008, hit by rising municipal rates and electricity costs and slower economic growth which impacted tenants' returns.

As a consequence, vacancy levels across the portfolio rose from 6.8% at the end of June 2008 to 7.5% in June 2009.

In spite of this, Emira participatory interest holders enjoyed an exceptionally good total return of 35.7% on their investment in the twelve months ended June 2009, made up of capital appreciation of 23.9% and an income return of 11.8%, which equates to the total distribution paid out for the year.

Excluding straight line adjustments from future rental escalations, revenue rose by 14.6% over the previous year as a result of organic growth in income from the existing portfolio; the inclusion into the portfolio of new properties acquired in the prior period as well as the completion of several capital projects in the previous year which contributed income to the Fund for the full year.

On the downside, rentals arrears increased as a result of the cooling economy, leading to an increased provision for bad debt, which, together with higher maintenance costs and leasing commissions, resulted in property expenses increasing by 25.4%.

At the same time management and administration fees rose by only 6.7% as a consequence of the lower average PI price compared with the previous reporting period; net interest costs rose a modest 14% as a result of lower debt costs and new funding arrangements through the issue of preference shares; and net asset value declined 2.9% from 1169 cents to 1135 cents as a result of a re-pricing in the fair value of derivative financial instruments.

During the year, Templeton says Emira re-purchased 4,991,335 of its own PI’s at an average cost of 1044 cents per PI by using long term debt – a transaction that turned out to be earnings enhancing for Emira PI holders. He says buybacks of Emira PI’s will continue as long as it proves to be beneficial for PI holders.

According to Templeton, after a very active year in 2008, activity within the Emira portfolio slowed during 2009 as a result of the higher returns required to justify new projects, rising building costs and slowing tenant demand. Nevertheless, capital projects within the existing portfolio totalling R75m were completed during the year.

Highlights of the year, he says, were ongoing efforts to improve the quality of the Emira portfolio through the acquisition of new properties, the refurbishment of existing assets, the disposal of non-core properties and continued refinement of the Emira balance sheet through the re-purchase of Emira PI’s on the open market and the funding of new acquisitions through attractively priced debt.

Says Templeton:

“The securing of new debt facilities of R664m at extremely attractive rates enabled Emira to selectively acquire several high quality and strategically located properties at a cost of R199m during the year. Emira will continue to use these debt facilities, as well as further long term debt swap agreements, to fund the acquisition of quality properties with sustainable income streams for its portfolio.”

The capital projects within the existing portfolio embarked upon by the Fund during 2009 included five extensions and refurbishment to a combined value of R73.1m and the extension of a land lease at World Wear Centre in Fairlands at a cost of R1.5m

The most significant of these five projects were extensions to Granada Square shopping centre in Umhlanga Rocks at a cost of R46m; construction of a new Pick ‘n Pay store at World Wear Centre for R12m and upgrades to the Woodmead Office Park at a cost of R7m.

A further six projects worth around R165m have been approved by the Board and are currently underway and will be completed within the next twelve to eighteen months. They include the refurbishment and extension of Randridge Mall (R126m), extensions to Southern Centre in Bloemfontein (R15m) and an upgrade of WesBank House in the Cape Town CBD (R11m).

Five properties were purchased at a combined price of R200m and transferred to Emira during the year. They include industrial property TIS Corporate Park in Midrand (R90.1m); Kosmos Flats residential property in Bloemfontein (R10.1m); Discovery office building (R40.3m); and two Spoor & Fisher office buildings in Highveld Technopark, Centurion, for a combined R59.2m.

Two buildings – Kuehne & Nagel House in Durban and Barvic House in Randburg - were disposed of for around R19m and the sectionalisation of Georgian Place in Kelvin continues with one unit being sold for R2,4m. The Emira board has subsequently given permission for a further 13 non-core properties to be sold and Emira is currently evaluating purchase offers for the properties that were valued at R318m at June 2009.

Templeton says tenant retention and the minimising of bad debt will be the key drivers of income growth for the current year, supplemented by further PI re-purchases where appropriate. The Fund’s current strategy of improving the quality of the portfolio through acquisitions and refurbishments funded by prudent long term gearing, as well as the continued disposal of non-core properties, remains unchanged.

Says Templeton:

“With the SA economy in recession, conditions within the portfolio are expected to remain challenging. Therefore, the level of growth in distributions in the current year, although still expected to be good, will not be at the same level as that achieved in the year to June 2009.”

Ends