

Property

# EMIRA PROPERTY FUND: Quality on the rise

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James Templeton. Picture: RUSSELL ROBERTS

THOUGH concern lingers about Emira Property Fund's exposure to the older, B-grade office market, the sizable discount to the sector at which the stock is trading doesn't seem entirely justified. Management has made impressive headway over the past two years in returning the company to inflation-beating distribution growth. Income payouts are set to grow by 7,5% for the year to June, more than double the 3,5% growth achieved for the 12 months to June 2013 and an important turnaround from 2012, when payouts fell 2,5%.

Emira CE James Templeton ascribes the improved performance to fewer vacancies, tighter cost control and the better than expected performance of the investment in Growthpoint Properties Australia on the back of rand weakness. A number of underperforming buildings have been sold over the past year, including WorldWear Shopping Centre in Fairlands, Johannesburg and Lynnridge Mall in Pretoria. In addition, the asset management team has been restructured.

Templeton says: "Over the past 2½ years we have had to put our heads down and get our house in order." He says that now that Emira's business is in much better shape than it was in 2012, management can start looking at growing the portfolio again. The goal is to increase assets from the current R10,6bn to R20bn within the next few years. "There are lots of opportunities but we are waiting for the right deals."

Ideally, Templeton would like to add more shopping centres of at least 35 000m<sup>2</sup>-40 000m<sup>2</sup> to the portfolio. But he says the residential market, student letting in particular, is also looking interesting, "As growth starts to slow in the office, retail and industrial sectors, the housing market is likely to offer better returns," he says. Jay Padayatchi, director of Meago Asset Management, says Emira's forward yield of over 9% versus the sector's 7,7% average appears attractive, considering that extensive work has been done on improving the quality of the portfolio by means of disposals. "Redevelopment initiatives at some of Emira's gems, such as Wonderpark Shopping Centre northeast of Pretoria, will also improve the overall quality." Emira is spending R540m to expand its flagship mall from 63 000m<sup>2</sup> to 90 000m<sup>2</sup>.

Says Padayatchi: "There is still a substantial amount of B-grade office space in the portfolio, and this subsector of commercial property is one of the least preferred. But many of the real problem properties have been dealt with." Maurice Shapiro, fund manager at Alternative Real Estate, says it's encouraging that Emira's management has become more proactive in maintaining and redeveloping assets. "It's evident from recent capital projects, such as the West Street office development in Centurion, that management is focused on transforming Emira's office portfolio from B-grade to A-grade."