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Sales of properties needing refurbishments helped with turnaround, writes **Nick Hedley**

Emira now healthier after cutting vacancies

LISTED property unit trust Emira Property Fund is now "in a much healthier position", having reduced its vacancy rates while improving the quality of its portfolio, says CEO James Templeton.

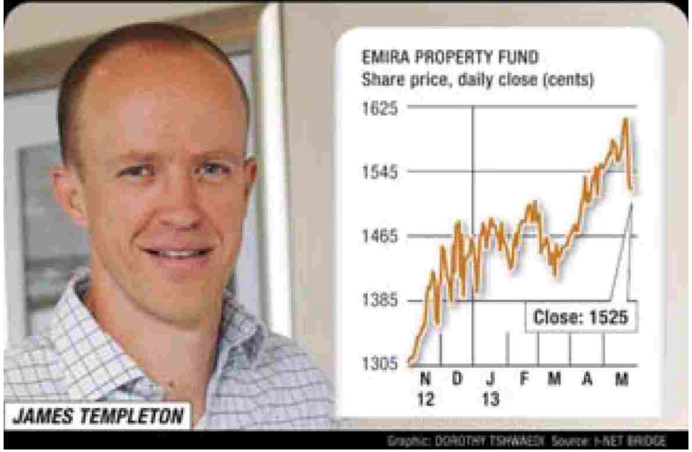
The fund previously had among the highest vacancies in the listed property sector, but a focus on leasing and selling noncore assets has slashed them to a level that better resembles the sector average. At the end of last month, Emira's vacancy level was 6.9% — dipping below 7% for the first time since 2008. This is substantially down from 11.5% at its financial year-end in June 2011 and 10.2% at the end of June last year.

Emira's diversified portfolio has an office bias. The office portfolio has been the worst performing in the commercial property market, with vacancies and income growth lagging retail and industrial sectors, especially in B- and C-grade offices in non-prime nodes.

In February, Emira reported distribution growth of 3.5% for the six months ended December — up from a 2.5% decline in the six months ended June last year. This has been largely thanks to declining vacancies.

Catalyst Fund Managers investment manager Paul Duncan says the fund is in a better position than it was "12 or 18 months ago".

EMIRA SLASHES VACANCIES



JAMES TEMPLETON

Emira had reduced vacancies partly through selling "problem assets that they wouldn't have been able to let without spending a substantial amount of money on".

It could be argued that selling properties with high vacancies meant "you're selling your opportunities in a recovering market", Mr Duncan says. But Emira is selling B-grade offices in nodes where "demand is not buoyant and they would have to spend substantial amounts of money to get them into lettable condition — which may not have generated an acceptable return level anyway".

Further, Emira had reduced vacancies through an active focus on letting. "Management is doing the right things," Mr Duncan says.

"They are moving more and more away from the institutional-type asset management style. Sometimes the benefits take time to filter through, but you are starting to see signs of it."

The positive effect on earnings "is not overnight", but would be a gradual process.

Mr Templeton says Emira has had a strong focus on leasing and tenant retention, having increased the number of staff dedicated to leasing space through brokers. "The increased focus of the team and (its) expansion as well as becoming a bit more aggressive on the deals that we're putting on the table for tenants has borne fruit for us.

"We've also been selling off noncore buildings which has contributed to the reduction in vacancies."

Mr Templeton says Emira's vacancies, still slightly above the listed sector average, are expected to be in line with the sector average by about June. By that time, vacancies are likely to be about 6.5% "and possibly below that".

In this financial year, Emira had sold and transferred four buildings, while another three were "unconditionally sold – they should be transferred around July". In addition, the fund has accepted offers on another two buildings.

The nine buildings sold or in the process of being disposed of are office and retail properties, including some of Emira's smaller assets and others "we consider to be noncore", Mr Templeton says.

The company was focusing on improving the quality of its portfolio through actively letting the buildings it had decided to keep, selling further noncore assets, upgrading various existing properties and identifying acquisition opportunities.

"Most of these proceeds will be reinvested in the portfolio, specifically our R513m capital investment in the 27,000m² extension of the successful Wonderpark Shopping Centre," Mr Templeton says.

The sales will further reduce the number of properties in Emira's portfolio, from 146 properties in December and "165 properties two or three years ago".

But while the number of properties were reduced, Emira's portfolio value increased to R9.1bn. "For the financial year to June 2014, the major focus is going to be on continuing to get those vacancies down and managing both operating and interest costs to get our earnings growth up," Mr Templeton says.

"We think that our earnings growth will improve in June 2013 and will improve further in June 2014. Now that we have got our vacancies to a manageable level, we will be focusing on growing the portfolio through acquisitions."

Stanlib investment analyst Ndabe Mkhize has said Stanlib believed Emira "has turned the corner, but it might still be a while before their growth in distributions matches that of the South African listed property market".

The short-term pain of selling noncore buildings and taking a downward reversion on existing leases will enhance the quality of Emira's portfolio and earnings.

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