

Out of the Ordinary®

 **Investec**  
Property Fund Limited



# Investec Property Fund Limited

Reviewed preliminary  
condensed financial results  
for the year ended  
31 March 2013



# Highlights



Full year distribution  
of **99.99 cpu** –  
7.5% increase on prior year



Final distribution  
of **53.16 cpu**  
up 7.9% on 2012



Portfolio growth  
of **103% largely due to**  
R2.1 billion in acquisitions during the year



R1.5 billion of new equity raised  
through oversubscribed rights offer



Debt capital markets accessed –  
**R3.0 billion DMTN programme in place** –  
R450.0 million utilised



Low gearing  
of **10.7%** –  
provides significant headroom for acquisitions



Vacancy low  
at **2.9%**  
strong underlying property fundamentals



15% increase  
in net asset value per unit



Corporate and secured credit ratings upgraded  
now A- and AA-, respectively



## Statement of comprehensive income

R'000	Year ended 31 March 2013	Year ended 31 March 2012
Revenue, excluding straight-line rental revenue adjustment	331 398	211 558
Straight-line rental revenue adjustment	43 790	30 507
<b>Revenue</b>	<b>375 188</b>	242 065
Property expenses	(59 669)	(38 498)
<b>Net property income</b>	<b>315 519</b>	203 567
Other operating expenses	(3 041)	(2 701)
Asset management fee	(17 834)	(9 157)
<b>Operating profit</b>	<b>294 644</b>	191 709
Fair value adjustments	(82 856)	(30 507)
Profit on disposal of investment property	39 066	–
Finance costs	(39 184)	(6 034)
Finance income	25 143	3 016
<b>Profit before debenture interest</b>	<b>236 813</b>	158 184
Debenture interest	(236 576)	(158 026)
<b>Profit before taxation</b>	<b>237</b>	158
Taxation	(66)	(49)
– normal taxation	(66)	(49)
– deferred taxation charge	(30 251)	(25 733)
– deferred taxation credit	30 251	25 733
<b>Total comprehensive income attributable to equity holders</b>	<b>171</b>	109
<b>Reconciliation of attributable earnings to distributable earnings</b>		
Total comprehensive income attributable to equity holders	171	109
Debenture interest	236 576	158 026
<b>Distributable earnings to linked unit holders</b>	<b>236 747</b>	158 135
– debenture interest	236 576	158 026
– ordinary dividend	171	109
<b>Number of linked units</b>		
Linked units in issue at the end of the year	317 220 000	170 000 000
Weighted average number of linked units in issue	236 430 502	188 787 926
<b>Cents</b>		
<b>Distribution per linked unit</b>	<b>99.99</b>	93.02
<b>Earnings per linked unit</b>	<b>100.13</b>	83.76
<b>Headline earnings per linked unit</b>	<b>119.44</b>	96.32
<b>Dividend per share</b>	<b>0.07</b>	0.06
<b>Earnings per share</b>	<b>0.07</b>	0.06
<b>Headline loss per share</b>	<b>(40.60)</b>	(46.90)
<b>Distribution reconciliation</b>		
Profit before debenture interest	236 813	158 184
Less: Straight-line rental revenue adjustment	(43 790)	(30 507)
Profit on disposal of investment property	(39 066)	–
Add: Fair value adjustments	82 856	30 507
<b>Distributable earnings before tax</b>	<b>236 813</b>	158 184
Tax	(66)	(49)
<b>Distributable earnings</b>	<b>236 747</b>	158 135

Prior year weighted average number of units in issue has been restated due to the bonus element of the rights issue, as required by IAS 33. As a result, earnings per linked unit, earnings per share, headline earnings per linked unit and headline loss per share have been restated accordingly.

## Statement of financial position

R'000	31 March 2013	31 March 2012
<b>ASSETS</b>		
<b>Non-current assets</b>	<b>4 187 000</b>	2 065 400
Investment property	4 115 125	2 034 893
Straight-line rental revenue adjustment	71 875	30 507
<b>Current assets</b>	<b>452 343</b>	16 634
Trade and other receivables	53 613	12 064
Taxation receivable	–	3
Cash and cash equivalents	398 730	4 567
<b>Total assets</b>	<b>4 639 343</b>	2 082 034
<b>EQUITY AND LIABILITIES</b>		
Equity – ordinary share capital	3 172	1 700
Debentures	3 940 004	1 836 379
<b>Total unitholders' interest</b>	<b>3 943 176</b>	1 838 079
<b>Other non-current liabilities</b>	<b>455 294</b>	1 169
Long-term borrowings	450 000	–
Other non-current financial liabilities	5 294	1 169
<b>Current liabilities</b>	<b>240 873</b>	242 786
Trade and other payables	76 625	28 097
Current portion of other non-current liabilities	–	130 900
Taxation payable	41	–
Linked unitholders for interest and dividends	164 207	83 789
<b>Total equity and liabilities</b>	<b>4 639 343</b>	2 082 034
Net asset value per linked unit (cents)	<b>1 243.04</b>	1 081.22

## Statement of cash flows

R'000	31 March 2013	31 March 2012
<b>Cash generated from operations</b>	<b>236 976</b>	173 486
Finance income received	20 712	3 016
Finance costs paid	(29 887)	(2 285)
Taxation paid	(28)	(52)
Distribution to unitholders	(163 404)	(74 346)
<b>Net cash inflow from operating activities</b>	<b>64 369</b>	99 819
<b>Net cash outflow from investing activities</b>	<b>(1 485 664)</b>	(1 926 152)
<b>Net cash inflow from financing activities</b>	<b>1 815 458</b>	1 830 900
<b>Net increase in cash and cash equivalents</b>	<b>394 163</b>	4 567
Cash and cash equivalents at the beginning of the year	4 567	–
<b>Cash and cash equivalents at the end of the year</b>	<b>398 730</b>	4 567

## Statement of changes in equity

R'000	Year to 31 March 2013	Year to 31 March 2012
<b>At the beginning of the year</b>	<b>1 700</b>	–
Total comprehensive income attributable to equity holders	<b>171</b>	109
Issue of ordinary shares	<b>1 472</b>	1 700
Dividends payable to ordinary shareholders	<b>(171)</b>	(109)
<b>Balance at the end of the year</b>	<b>3 172</b>	1 700

## Segmental analysis

For the year ended 31 March 2013

R'000	Office	Industrial	Retail	Total
<b>Statement of comprehensive income extracts</b>				
Revenue, excluding straight-line rental revenue adjustment	<b>139 648</b>	<b>115 047</b>	<b>76 703</b>	<b>331 398</b>
Property expenses	<b>(23 045)</b>	<b>(18 682)</b>	<b>(17 942)</b>	<b>(59 669)</b>
<b>Segment results</b>	<b>116 603</b>	<b>96 365</b>	<b>58 761</b>	<b>271 729</b>
<b>Statement of financial position extracts</b>				
Investment property opening balance	<b>1 182 600</b>	<b>779 800</b>	<b>103 000</b>	<b>2 065 400</b>
Net additions, acquisitions and disposals	<b>266 443</b>	<b>135 071</b>	<b>1 558 056</b>	<b>1 959 570</b>
Fair value adjustment (including straight-lining)	<b>50 157</b>	<b>80 679</b>	<b>31 194</b>	<b>162 030</b>
<b>Fair value of investment property</b>	<b>1 499 200</b>	<b>995 550</b>	<b>1 692 250</b>	<b>4 187 000</b>

For the year ended 31 March 2012

R'000	Office	Industrial	Retail	Total
<b>Statement of comprehensive income extracts</b>				
Revenue, excluding straight-line rental revenue adjustment	113 653	88 334	9 571	211 558
Property expenses	(16 748)	(21 349)	(401)	(38 498)
<b>Segment results</b>	96 905	66 985	9 170	173 060
<b>Statement of financial position extracts</b>				
Investment property opening balance	–	–	–	–
Additions and acquisitions	1 128 246	703 706	94 200	1 926 152
Fair value adjustment (including straight-lining)	54 354	76 094	8 800	139 248
<b>Fair value of investment property</b>	<b>1 182 600</b>	<b>779 800</b>	<b>103 000</b>	<b>2 065 400</b>

## Commentary

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### Introduction

Investec Property Fund Limited (“the Fund”) is a variable loan stock property company having listed on the JSE Limited (“JSE”) on 14 April 2011. It currently comprises a portfolio of 50 properties in South Africa with a total Gross Lettable Area (“GLA”) of 568 151m<sup>2</sup> valued at R4.2 billion.

The objective of the Fund is to grow its asset base by investing in well-priced income-producing properties in the office, industrial and retail sectors to optimise capital and income returns over time for unitholders. Effectively, all rental income, less operating costs and interest on debt, is distributed to unitholders semi-annually.

### Financial results

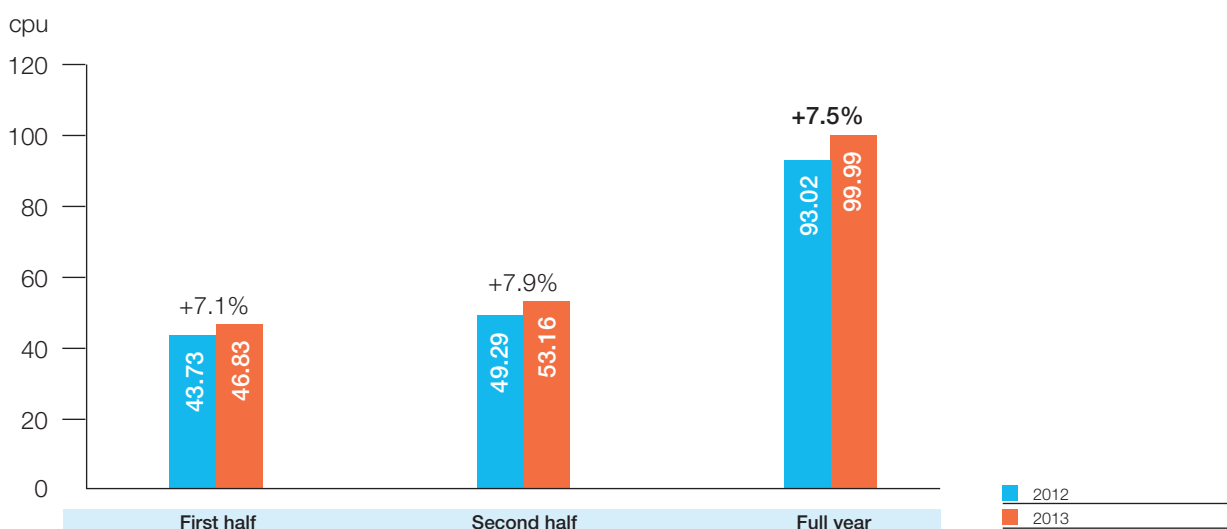
The board of directors is pleased to announce a 7.9% increase in the final distribution to 53.16 cents per unit (“cpu”) for the six months ended 31 March 2013 (31 March 2012: 49.29 cpu). This brings the total distribution for the year to 99.99 cpu, representing a 7.5% increase over the prior year. These results reflect the defensiveness of the portfolio and managements’ continual focus on the underlying property fundamentals against a backdrop of inflationary cost pressures. The performance is further underpinned by a significant proportion of high-quality, long-term single tenancies, low vacancies and an elongated portfolio lease expiry profile. Receivables have been tightly managed during the year under review and at the year-end gross arrears were limited to R1.9 million; representing 0.55% of total collectables over the year.

The financial results also include the negative impact of holding cash longer than anticipated due to delays in the timing of property transfers, caused primarily by delays in obtaining municipal clearances and other statutory requirements, out of the control of the Fund and its management.

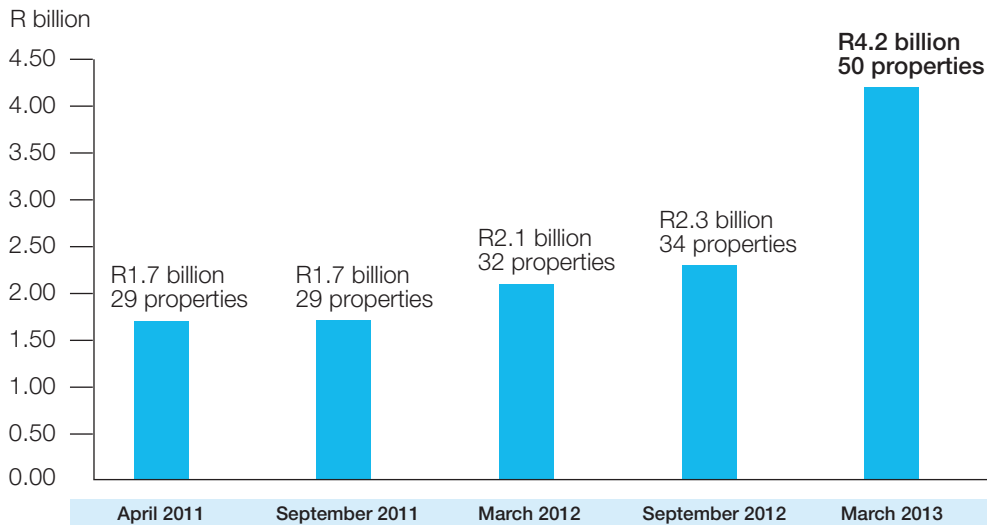
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## Distribution growth

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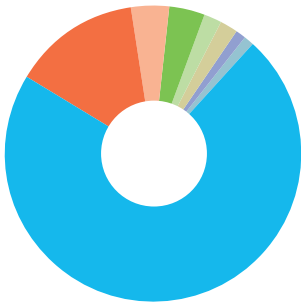


## Property growth since listing (carrying value)



## Financial information

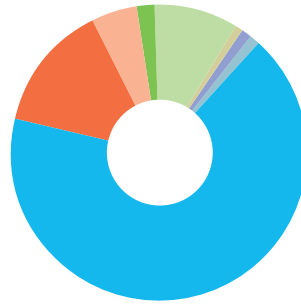
### Geographic spread by GLA



31 March 2013

Gauteng	72%
Western Cape	14%
Limpopo	4%
Mpumalanga	4%
KwaZulu-Natal	2%
Eastern Cape	2%
Free State	1%
North West	1%

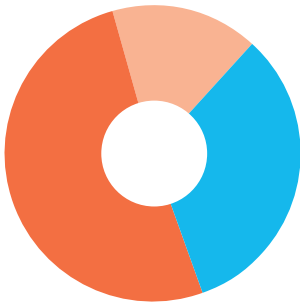
### Geographic spread by revenue



31 March 2013

Gauteng	67%
Western Cape	14%
Limpopo	5%
Mpumalanga	2%
KwaZulu-Natal	9%
Eastern Cape	1%
Free State	1%
North West	1%

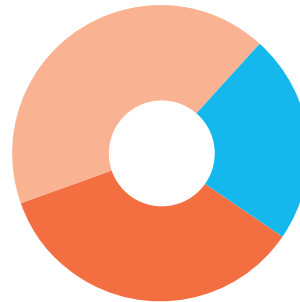
### Sectoral spread by GLA



31 March 2013

Retail	33%
Industrial	51%
Office	16%

### Sectoral spread by revenue



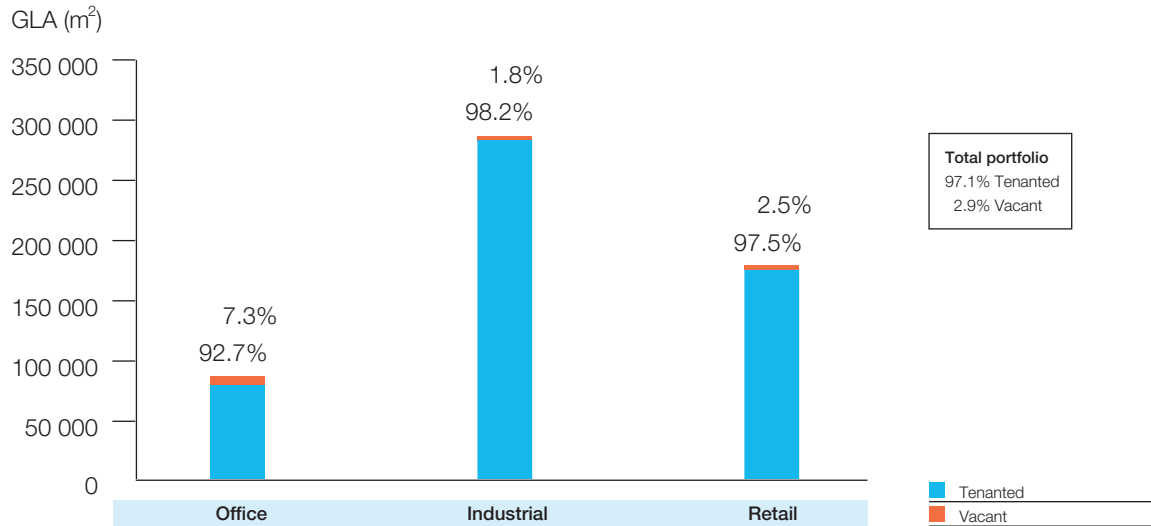
31 March 2013

Retail	23%
Industrial	35%
Office	42%

## Vacancy levels

At 31 March 2013, the property portfolio reflects a 2.9% vacancy, representing a marginal increase from the 2.7% vacancy at 31 March 2012, primarily due to the expiry and non-renewal of a single tenanted building (6 759m<sup>2</sup> office space), as well as the take on of minor vacancies in Megamark Mall and Balfour Park that were excluded from the acquisition price.

## Vacancy levels

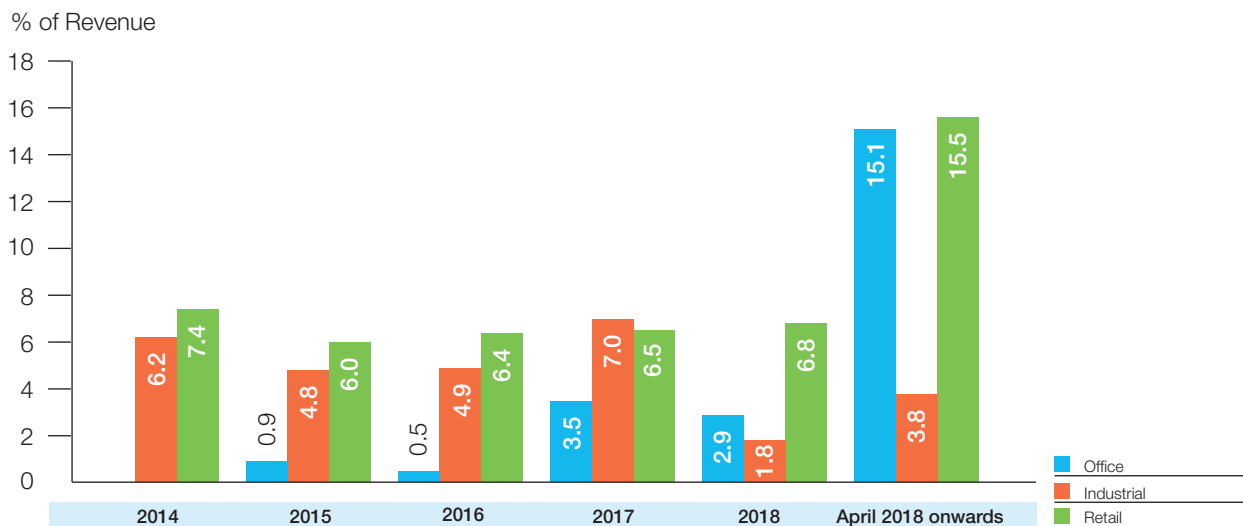


31 March 2013

Letting activity	Office		Industrial		Retail		Total	
	Area (m <sup>2</sup> )	% of GLA	Area (m <sup>2</sup> )	% of GLA	Area (m <sup>2</sup> )	% of GLA	Area (m <sup>2</sup> )	% of GLA
Tenanted at 31 March 2012	104 067	100.0	268 177	96.0	23 343	100.0	395 587	97.3
Sold	(27 381)		–		–		(27 381)	
Acquired*	15 316		11 180		157 288		183 784	
Vacated	(6 759)		(10 231)		(992)		(17 982)	
New leases/renewals	–		16 752		776		17 528	
<b>Tenanted at 31 March 2013</b>	<b>85 243</b>	<b>92.7</b>	<b>285 878</b>	<b>98.2</b>	<b>180 415</b>	<b>97.5</b>	<b>551 536</b>	<b>97.1</b>

\* Net GLA (total acquired less vacant space taken on).

## Lease expiry profile by sector



31 March 2013



## Acquisitions and disposals

During the year the Fund completed R2.1 billion of new acquisitions, all of which are anticipated to be accretive to unitholders. This has taken the portfolio from R1.7 billion at listing in April 2011 to R4.2 billion at year-end, more than doubling the size of the portfolio within 2 years through the acquisition of quality assets.

Acquisitions	Cost (R million)	GLA (m <sup>2</sup> )
<b>Office</b>	442.3	20 088
The Firs	272.3	13 787
Investec Offices Pretoria	170.0	6 301
<b>Industrial</b>	119.1	11 180
General Electric Property*	119.1	11 180
<b>Retail</b>	1 547.8	159 061
Great North Road Plaza	145.0	13 561
Balfour Park	295.8	36 311
Megamark Mall	202.3	23 103
Nonquebela Mall	99.4	7 778
Giuricrich Portfolio (12 assets)	742.8	70 782
BMW Boksburg	62.5	7 526
<b>Total</b>	<b>2 109.2</b>	<b>190 329</b>

\*Inclusive of R42.3 million refurbishment – GLA split into 42% office and 58% industrial.

The Fund, subsequent to year-end, has announced the acquisition of three properties with a combined acquisition cost of R254.2 million.

During the year the Fund disposed of two non-core properties for a total consideration of R242 million, resulting in a capital profit of R39.1 million. Post-year-end, the Fund disposed of Monsanto for R37.5 million, resulting in a profit of R8.9 million.

## Fair value adjustments of investment property

The Fund's policy is to value investment properties at year-end, with independent valuations performed on a rotational basis to ensure each property is valued at least every 3 years by an independent external valuer. The directors' valuation methods include using the discounted cash flow model and the capitalisation model. Total revaluations for the current year amounted to R162.0 million.

## Capital funding

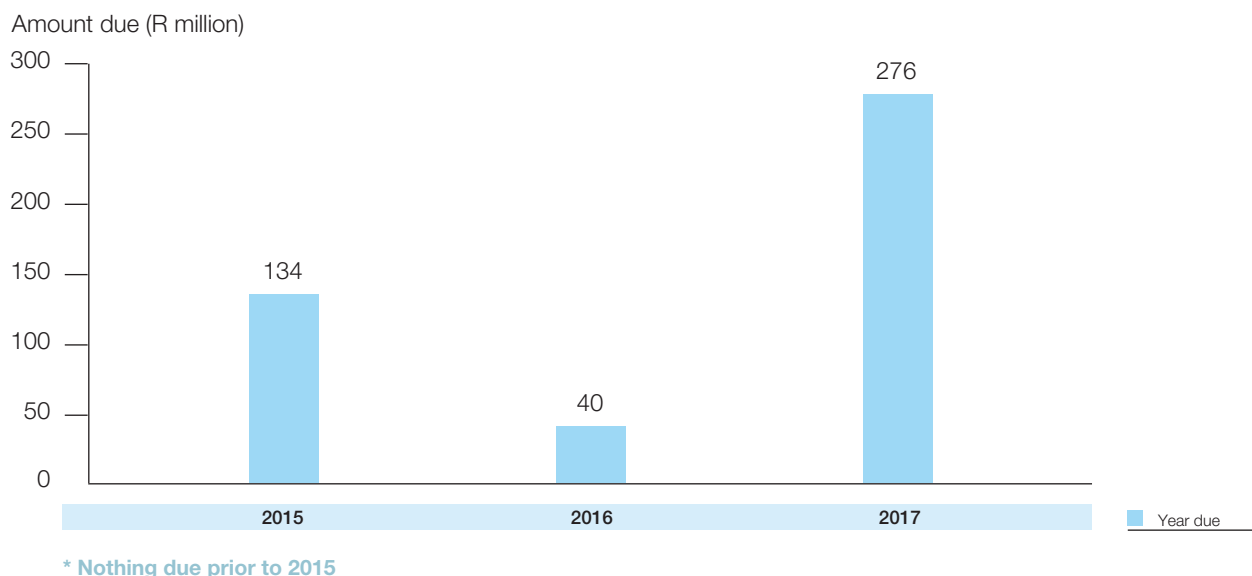
During the year, the Fund was successful in raising R1.5 billion of new equity by way of an oversubscribed rights offer that closed on 2 November 2012. Units were issued at a clean price of R13.25 (a further 57 cents represented antecedent interest that was returned to the unitholders in December 2012 as part of the interim distribution) and the proceeds of the issue were used to fund R1.9 billion of new acquisitions, with the remaining R0.4 billion being raised via two vendor placements, resulting in a total of 147.22 million new units being issued.

As noted in our 2012 Annual Report, the Fund registered a R1 billion domestic medium-term note ("DMTN") programme, drawing down R450 million in April 2012 to fund acquisitions. Together with an interest rate swap that ensured that 75% of our borrowings were fixed, the notes were placed at an all in cost of borrowing of 8.2% pa, supported by a credit rating on a secured basis of an A (unsecured BBB+). These credit ratings were both subsequently upgraded to AA- and A-, respectively, underpinned by the Fund's performance, cash flow predictability, property fundamentals, funding flexibility and low gearing levels.

The Fund's gearing ratio remained low at 10.7% at year-end, well below the stated range of 30% to 40% providing significant headroom to pursue attractive acquisitions, further supported by extensive debt facilities.

During the year the Fund decided to create a security SPV structure to facilitate the raising of term debt in the future, establishing a clear debt strategy and debt planning process as well as a firm platform for growth. In addition, the Board approved the extension of the DMTN programme from R1 billion to R3 billion to further strengthen the Fund's borrowing capacity.

## Debt maturity profile



### Share and debenture capital

The authorised share capital is one billion ordinary shares of 1 cent each at 31 March 2013. Each ordinary share is linked to one unsecured variable rate debenture of 999 cents. The ordinary shares and debentures trade as linked units on the JSE. In terms of the debenture trust deed, the interest payable on the debenture component of the linked unit is 999 over 1 000 times the profit before debenture interest. During the current year a rights offer and two vendor placements were undertaken, having the effect of increasing share capital by R1.5 million and the debenture component by R1.9 billion, net of issue costs. Furthermore, fair value adjustments of R0.2 billion were taken to the debenture component during the year.

### REIT legislation

On 1 April 2013, National Treasury introduced South African Real Estate Investment Trust ("REIT") regulations. The Fund intends to make the necessary applications to the JSE by 1 July 2013 to be listed as a REIT. In relation to the conversion of the Funds capital structure, a decision will be taken by the board and put to shareholders once legislation certainty has been obtained from National Treasury.

### Sustainability

The Fund acknowledges its environmental responsibility and that it is an integral part of the Fund's future success. As such it has embarked on a sustainability programme to improve the efficiency of the Fund's utility consumption.

A benchmarking exercise was conducted on the entire portfolio to establish baselines and from the results a sample of buildings that are not performing optimally have been identified. These will, as part of a pilot project, be further analysed to identify opportunities for new initiatives and technologies. Technologies will be tested over the medium term and successful alternatives will be rolled out to the entire portfolio over the medium term.

### Related party transactions

The Fund entered into the following significant related party transactions during the year with Investec Limited and its subsidiaries:

- Acquisition of The Firs, Investec Offices Pretoria, General Electric Property and Balfour Park – total value of R857.1 million
- Refurbishment of General Electric Property and 4 Protea Place – R42.3 million and R17.8 million respectively
- Asset management fee – R17.8 million
- New linked units as part of the rights offer and vendor placement – 73.6 million units
- Short-term debt repayment – R130.9 million

### Unitholders

Investec Limited, Stanlib and S Giuricich Holdings Proprietary Limited are the only unitholders holding in excess of 5% of the Fund's total issued linked units at 31 March 2013, holding 50.01%, 7.98% and 5.36% thereof respectively.

Numbers of units in issue	317 220 000
Number of unitholders	2 746

### Changes to the Board

Suliman Mahomed and Luigi Giuricich were appointed to the Board as non-executive directors effective 14 May 2012 and 1 December 2012 respectively.

## Prospects

Despite the uncertain economic outlook, highly competitive property landscape and upward pressure on administration and operating costs, the Board anticipates distribution growth in the region of 6% – 8% in the forthcoming financial year.

This forecast is based on the assumptions that the macro-economic environment will not deteriorate markedly, no major corporate failures will occur, budgeted renewals will be concluded and that clients will be able to absorb the recovery of rising rates and utility costs. Budgeted rental income was based on contractual escalations and market related renewals.

The information and opinions contained above are recorded and expressed in good faith and are based upon sources believed to be reliable. No representation, warranty, undertaking or guarantee of whatever nature is made or given concerning the accuracy and/or completeness of such information and/or the correctness of such opinions.

This forecast has not been reviewed or reported on by the Fund's independent external auditors.

On behalf of the Board of Investec Property Fund Limited

### **Sam Hackner**

*Chairman*

23 May 2013

### **Sam Leon**

*Chief Executive Officer*

## Basis of accounting

The reviewed preliminary condensed financial information for the year ended 31 March 2013 has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS), the presentation and disclosure requirements of IAS 34: Interim Financial Reporting, the AC 500 Standards as issued by the International Accounting Standards Board (IASB), and the Companies Act, 2008.

The accounting policies applied in the preparation of the results for the year ended 31 March 2013 are consistent with those adopted in the financial statements for the year ended 31 March 2012. These reviewed preliminary condensed financial statements have been prepared under the supervision of Dave Donald, CA(SA).

Investment property comprises land and buildings held to generate rental income and capital growth over the long term. Should any properties no longer meet the company's investment criteria and be sold, any profits or losses will be of a capital nature and will be taxed at rates applicable to capital gains. Deferred taxation on the revaluation of investment property is offset against the deferred taxation asset that arises on the revaluation of the company's issued debentures.

## Review conclusion

Ernst & Young Inc., the Fund's independent auditors, have reviewed the preliminary condensed financial results and have expressed an unmodified review conclusion on the preliminary condensed financial results, which is available for inspection at the company's registered office.

## Distribution

Notice is hereby given of a final dividend declaration number 4 of 0.0358 cents per share (after applying the dividend withholding tax of 15% would provide a net dividend of 0.03043 cents per share) and debenture interest payment number 4 of 53.1257 cents per linked unit totalling 53.1615 cents per linked unit for the six months ended 31 March 2013, payable to holders of the linked units as recorded in the books of the company at the close of business on Friday, 14 June 2013. No secondary tax on companies credits were utilised in the net dividend determination.

The salient dates relating to the distribution are as follows:

Last day to trade in order to participate in the distribution	Friday, 07 June 2013
Linked units to trade ex distribution	Monday, 10 June 2013
Record date	Friday, 14 June 2013
Distribution posted/paid to certificated linked unitholders	Tuesday, 18 June 2013
Accounts credited by CSDP or broker to dematerialised linked unitholders	Tuesday, 18 June 2013

Linked units may not be dematerialised between Monday, 10 June 2013 and Friday, 14 June 2013, both days inclusive. The above dates and times are subject to amendment. Any such amendment will be released on SENS and published in the press.

Number of units in issue: 317 220 000

Tax number: 9332719161

By order of the Board

### **Investec Bank Limited**

*Company Secretary*

23 May 2013

**Directors**

S Hackner\* (Chairman)

SR Leon\* (Chief Executive Officer)

MP Crawford (Lead Independent Director)#

DAJ Donald\*

LLM Giuricich

S Mahomed#

CN Mashaba#

MM Ngoasheng#

GR Rosenthal#

\* *Executive*

# *Independent non-executive*

**Investec Property Fund Limited**

(Incorporated in the Republic of South Africa)

(Registration number 2008/011366/06)

Share code: IPF ISIN: ZAE000155099

(Income tax reference number 9332/719/16/1)

**Registered office**

C/o Company Secretarial, Investec Limited

100 Grayston Drive, Sandown, Sandton, 2196

**Transfer secretary**

Computershare Investor Services (Pty) Limited

(Registration number 2004/003647/07)

Ground Floor, 70 Marshall Street, Johannesburg, 2001

**Sponsor**

Investec Bank Limited

100 Grayston Drive, Sandown, Sandton, 2196

*Out of the Ordinary®*



**Investec**

Property Fund Limited

For a copy of the Fund's results, refer to the website:

[www.investecpropertyfund.com](http://www.investecpropertyfund.com)