MEDIA RELEASE FROM DIPULA INCOME FUND

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Dipula delivers half-year distribution growth and continues to improve the quality of its growing portfolio

Dipula Income Fund today announced its half year results which show a 45.2% increased revenue and a 40.7% surge in net property income, while its distributable earnings were higher by 14.9% relative to the prior interim period.

The resulting distribution growth for its six-month period ended 28 February 2014 was 5% for Dipula A linked units and 8.5% for Dipula B linked units compared with its prior interim period.

Izak Petersen, CEO of Dipula Income Fund, says Dipula is continuing its strategy of portfolio growth which increases the quality, size and value of its assets, while intensifying its focus on leasing, improved property management and diversifying its funding sources.

During the period, Dipula increased its property portfolio value to R4 billion. It took transfer for acquisitions totalling R267 million and announced new acquisitions worth R366 million. In less than three years since listing in 2011, Dipula has more than doubled the value of its portfolio with quality assets, growing it by R2,6 billion even while disposing of 21 non-core property assets.

"All our new assets are performing in line or better than expected. They have high quality tenants and are larger on average," confirms Petersen. In fact, Dipula's average property value has increased from R12 million to R23 million, reflecting solid progress towards Dipula's target of R50 million. Its average property size has grown from about 2,500sqm to more than 3,225sqm.

Notwithstanding a tough operating environment, Dipula sustained its decidedly efficient cost-to-income ratio at 20.3%.

Dipula Income Fund is a JSE-listed REIT that is distinguished for its exceptional B-BBEE credentials of the fund and its Manco. Dipula originated from two majority black-owned property funds, Mergence Africa Property Fund and Dipula Property Fund.

Dipula's diversified property portfolio comprises 179 retail, industrial and office properties consisting of 577,000sqm of lettable area located countrywide. By size, Dipula's portfolio is 71% concentrated at the centre of South Africa's economic activity in Gauteng. It is also weighted towards retail property which comprises 55% of its portfolio.

While its overall portfolio vacancy level softened from 9.1% to 11.8% during the period, it has since improved to 9.0%. "Some of the vacancies were for strategic revamps while others were attributable to deliberate tenant recycling as some tenants came under pressure in the current economic climate," says Petersen. "The benefits of Dipula's diversified portfolio are evident in this market where retail and industrial assets, which collectively comprise 77% of our portfolio, are shielding the weaker office sector."

Dipula also has some 10,000sqm of new leases currently under negotiation. Dipula's lease renewals were concluded at an average 11.8% better than expiring rentals. It has also successfully lengthened its lease expiry profile, with leases expiring beyond 2015 increasing by more than 80,000sqm or R7.4 million a month.

Dipula is giving tenant retention and leasing priority in the current market. "There are general high levels of tenant churn, especially in the competitive office sector where there is little new tenant demand," explains Petersen. "We see an opportunity to improve and become even more competitive in this area." As part of its intensified leasing drive, Dipula has put in place broker and tenant incentives and will look to centralise its leasing function. Petersen adds: "When tenants vacate quality space it is often easy to replace them. Unfortunately this is costly to the fund, so retention is key and management will focus on retaining tenants through asset management interventions."

Dipula has also undertaken strategic, tenant-driven portfolio enhancing refurbishment and redevelopments. These include the revamp of its Atlas Road property in Gauteng where it has secured a five-year lease with SARS and the extension of Bochum in Limpopo where it has also extended leases with both Boxer and Cashbuild for 10 years. Dipula is also undertaking a refurbishment at Range Road in the Western Cape where it has secured a single-tenant on a 10-year lease for the 11,000sqm industrial building.

Dipula closed the period with gearing of 38.1% and 67% of its debt fixed at a weighted average cost of borrowing of 8.42% with fixes ranging from one to four years in length. Diversifying its sources of funding, Dipula appointed Nedbank and Standard Bank for the debt capital markets programme it intends to implement within the next few months.

Furthermore, Dipula also strengthened its directorate by appointing Syd Halliday, who has over 30 years' experience as a lending banker and in property finance, as independent non-executive director to its board on 27 May 2014.

Despite a challenging economic environment coupled with increasing interest rates, Petersen expects Dipula to achieve full year per unit distribution growth of between 6% and 7% on a combined basis.

Petersen notes that some of Dipula's legacy assets have been somewhat of a challenge and much management focus has gone into them. "Our efforts are paying off and some are turning the corner nicely," he says. He cites 1 President Street in Germiston, which has been vacant for long time and is now fully let.

"The impact of our difficult legacy assets has been diluted significantly by our acquisitions and we expect this trend to continue as we rebalance our portfolio through solid acquisitions and well considered disposals. Dipula has a R3 billion pipeline of potential acquisitions. Our performance is sensitive to filling vacancies and we have gained remarkable traction in this regard in the past three months. We will continue on this path and are confident that this will yield above average growth in distributions in 2015 and beyond," notes Petersen.

He adds: "Our strategic revamps, good acquisitions, trading out of non-performing assets and focused management will not only bear fruit in months to come, but it will ensure sustainable growth in the long term for investors. Dipula believes in property as a long-term play and is balancing short-term income growth with asset preservation and improvement. It is all about sustainable total returns."

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