MEDIA RELEASE FROM EMIRA PROPERTY FUND

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Emira restructures its debt expiry profile with proactive and prudent debt management strategies

Emira Property Fund continues to advance its conservative approach to funding, which underpins its agile approach to market opportunities.

As part of its proactive debt management, it is on a drive to enhance its debt expiry profile, supporting a better risk profile, improving its refinancing risk and, at the same time, minimising its cost of capital.

Emira's debt strategy is to have diversified sources of funding and staggered maturity dates. Its multisource approach to funding also puts it in a strong position to access competitive rates. Emira spreads its funding sources between bank funding and debt capital markets with its Domestic Medium-Term Note (DMTN) programme. It has a low-risk multibank approach to bank funding which allows it access to competitive debt pricing and its intelligent financial management underpins its performance for its investors.

Emira is a medium-cap diversified JSE-listed REIT that is invested in a quality, balanced portfolio of office, retail and industrial properties. Its directly held assets comprise 111 properties valued at R12.7 billion and indirectly 21 shopping centres valued at R900,8 million through its exposure to Enyuka. Emira is also internationally diversified through its investment in ASX-listed GOZ valued at R940.4 million, and its equity investments in four grocery-anchored convenience centres with a combined value of USD32.2 million through its USA subsidiary.

Greg Booyens, Chief Financial Officer of Emira, reports the REIT is restructuring and extending its debt expiry profile, which at 31 December 2017 was reported at around 1.4 years. "We endeavour to have no more than 33% of debt expiring in a single period, however, we have some larger facilities of different terms that are expiring in this 2018 calendar year totalling R2,5bn or 46% of debt. This creates the opportunity to extend and fine-tune our debt expiry profile and we are comforted by the fact that we have already completed the refinancing of more than half of the maturing facilities. Discussions are underway with the funders of the remaining expiries and we are confident that with our proactive funding management, these will be rolled. We also have in place backup facilities should we decide to settle a portion of the upcoming maturities"

Emira began its debt expiry restructure in late 2017 by pushing out a substantial proportion of the expiries to terms of either three or five years. This approach has continued in 2018. Further, Emira has increased its facilities with Absa by R350 million, comprising a new R200 million three-year facility and R150 million two-year facility. It has another R400 million of bank facilities, which have been pushed out for at least five-years, with suitable gaps between the expiry dates.

“The combined effect of this reduces risk and improves the weighted average duration to expiry of Emira’s debt,” notes Booyens. “While the expiry profile is our focus, we’ve also locked in our interest rates at a very competitive 8% for a weighted average period of 3.2 years.

Emira has also received good support from the debt capital markets this year. It has recently rolled a R300 million 4-year note for a period of 3 years, with demand for a further R100 million, increasing the new note to R400 million. Emira places no more than 50% of its debt with debt capital markets. It is currently at 35%, with the rest of its debt spread between traditional banks. “This is because the market risks associated with the extension of debt in the debt capital markets is higher than that of bank debt, as liquidity can dry up” clarifies Booyens.

Keeping its risk well managed, Emira aims to have 80% to 100% of its debt that is long-term - anything with a term greater than 12 months - hedged. Currently, this stands at more than 90%. Should there be a spike in interest rates, it will have a minimal impact on Emira. “We’ll look to reduce this slightly, moving closer to the 80% band, as we are in a cycle where interest rates are expected to reduce and we don’t want to lock in interest rates at higher levels in this market.”

“For the foreseeable future, we will keep our loan-to-value ratio in the 35% to 40% band, with the longer term objective being a level of sub 35%,” conveys Booyens. At, 31 December 2017, it was 37.2%.

Emira is confident in this approach for several reasons, including its thorough process of property valuation. It has been able to dispose of its properties at an average premium to book value, which proves its values are properly adjusted for the current economic climate and represent true fair market value.

The REIT also favours keeping backup facilities in place and, as such, Emira has untapped facilities in place of over R500 million. “It reduces our financial risk on maturing debt and provides us with the necessary liquidity to move quickly and be agile to pursue opportunities as they arise,” notes Booyens.

Also, its investment in GOZ is a liquid asset which, in the unlikely situation of a significant economic event that impacts its levels of gearing, Emira could liquidate fairly quickly relative to selling physical assets. This creates a safety net for Emira.

It also recently clawed back a some of its security sitting with different banks, which has been positive for its percentage of unencumbered assets. Now, over 25% of its directly held properties are unencumbered, which is well aligned with the GCR preference of more than 20%, and provides it with another safety net.

Emira funds its offshore assets by recycling capital from its local disposal programme, parking proceeds into debt access facilities to save interest costs and drawing them down as and when offshore opportunities arise. This continues the drive to rebalance Emira's portfolio further out of offices and pursue its offshore investment in the U.S.

Emira funds its foreign investments with local debt and synthetically converts it to foreign debt through cross-currency interest rate swaps (CCIRS). An added benefit of CCIRS is that they provide Emira with the opportunity to lock in a fixed rate, effectively creating fixed foreign debt.

"Offshore interest rates are currently more attractive, so it makes sense to take advantage of cheaper debt. Our offshore assets are geared over 60%, whereas locally this figure is a lot less which takes us to the combined gearing of below 40%, which represents a low overall risk," points out Booyens.

He adds: "Our offshore exposure is relatively small and is underpinned by hard-currency assets. Our equity into these foreign investments has effectively been funded in the same currency, through the CCIRS, so the investment value and its debt rise and drop in symphony. By matching them, Emira avoids the risk of contradictory movements that could result in its net asset value rising or falling purely because of an exchange rate shift."

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