Redefine Properties on track to drive sustainable growth in 'watershed' election year

Johannesburg, 25 February 2019 – While economic conditions remain challenging, Redefine Properties (JSE: RDF) continues to align its strategy to long-term trends and proactively manage liquidity through the recycling of non-core assets.

With all eyes turning to the pivotal May 8 elections in South Africa following a national Budget which painted a worsening fiscal picture, Redefine CEO Andrew Konig expects 2019 to be "a tale of two halves".

Today at the start of the pre-close investor roadshow, Konig said the year would be defined by continued adaption to global monetary policy normalisation and domestic politics, with the national election in the first half of the year likely to be "a watershed event".

Konig cautioned that the threat of a downgrade by Moody's alongside Eskom's financial unsustainability would "weigh on local asset prices". Despite persistent complexities, however, the global economy is expected to continue its expansion, albeit at a slower pace. In current conditions, Redefine maintains its previous distribution guidance of growth in distribution per share of 4% to 5%.

"Our agile, diversified property portfolio is capable of absorbing shocks and providing a platform for sustainable growth," says Konig.

The company is mitigating interest rate and currency volatility through interest rate and foreign income hedging strategies. At the same time, potential for capital upliftment through active asset management is being harnessed.

Ensuring geographic and sectoral diversification

During January, Redefine acquired a further 44.3 million EPP shares from Pimco /Oaktree, increasing Redefine's stake in EPP by 5.3%. Four development projects totalling 199,024 square metres and costing €124 million will increase the Polish logistics platform to 512,535 square metres with a total value of €320 million.

The development projects are all expected to be completed by end 2019 and on average have an initial income yield of 7.1% and an average return on equity of 11.9%, assuming in-country gearing of 55%.

Creating sustainable recurring income streams to enable the phasing out of non-recurring income remains a key priority. Locally the focus is on attracting and retaining tenants, through tenant experience and active asset management.

"While high consumer debt levels are expected to contain retail spending to subdued levels, we continue to remain relevant to the communities in which we operate," says Konig.

Among retail developments, Centurion Lifestyle (R85 million) was completed during the half year period, Centurion Mall is projected for completion in June and Little Falls (R298 million) in May. Further opportunities exist at Maponya Mall and Centurion Lifestyle.

“While there has been growth across the retail portfolio, Centurion Mall and Benmore Centre remain under pressure due to development activity,” says Konig.

While market dynamics remain challenging in the office space, Redefine still sees demand for well located, high quality space.

Capitalising on shared workspace environment trend

“The trend is towards spatially efficient, collaborative workspaces, as well as general densification. We are focused on positioning the portfolio to capitalise on the shared workspace environment trend, while we continue to develop and refurbish assets in key nodes,” says Konig.

Meanwhile, in the industrial portfolio persistent low economic growth is set to place pressure on rental growth and drive demand for efficient, well-located facilities.

“There is growing demand for more efficient building design in well-serviced key nodes. Manufacturing tenants are under increasing pressure due to erratic demand, policy uncertainty and sustained tension in the labour market. While industrial remains a defensive sector, we are growing our market share and improving the quality through development activity,” says Konig.

Redefine is diversifying sustainable income streams, with solar projects totalling R17 million largely complete and student accommodation development of Hatfield Square completed with bed capacity at 2,200.

Student accommodation in Australia, meanwhile, offers exciting growth potential and Redefine foresees occupancy in the second semester reaching 80-85% at Leicester Street, which was opened successfully during the reporting period.

"Our strategy of geographic and sectoral diversification continues to bear fruit as we build an asset platform that sustains organic growth, broaden sustainability and invest where we believe the best market opportunities lie,” concludes Konig.

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