Redefine's full year results ahead of guidance delivering 8.5% distribution growth

Thursday, 06 November 2014 - Redefine Properties today announced a distribution of 38.14 cents per share for the second half of 2014, which combined with the first half distribution of 36.4 cents per share results in growth of 8.5% on a full year basis, delivering performance ahead of market guidance.

The results mark Redefine's first full year trading as a REIT (real estate investment trust), and its debut dividend distribution, with its new all share structure effective from 29 August 2014. This year also saw Redefine's introduction of a distribution reinvestment option for shareholders. To optimise in an evolving business environment, Redefine made changes to its senior management, and refined its strategic focus. And, for the first time, Redefine's asset base exceeded the R50 billion mark, with its property income earning asset base valued at R51 billion.

Andrew Konig, CEO of Redefine, attributes Redefine's strong performance to the disciplined execution of its strategy, quality acquisitions, sectoral and geographic diversification of its property portfolio, tight cost controls and vigorous leasing with high levels of tenant retention. This combined to produce pleasing income growth.

Konig comments: *"Redefine's results are underpinned by a solid performance from our core property portfolio, bolstered by the acquisitions we made during the previous financial year. Our international operations also made a strong contribution to this set of results. Redefine's net asset value increased by 12.1% to R9.76 and, importantly, our robust balance sheet has grown significantly over the past year"*

He adds that Redefine's diversified asset base and relentless pursuit of cost efficiencies position it strongly to actively pursue its strategy of delivering sustained value to shareholders, in the coming year, even with an upward interest rate cycle, disproportionate increases in administered prices and a lacklustre trading environment.

Konig says: *"Our operating environment is likely to pose challenges, but also create opportunities. By executing our strategic priorities, we are well positioned to deliver good growth despite the challenges. Redefine's growth in distributable income per share for 2015 is anticipated between 7% and 7.5%."*

Redefine is one of SA's largest REITs with a market capitalisation of R36.4 billion, representing an increase of 20.5%, driven mainly by R4.5 billion of new equity raised in the current year and a further R2.5 billion subsequently.

On 31 August 2014, its directly held local diversified property portfolio was valued at R31.5 billion. Fountainhead Property Trust, in which Redefine increased its equity interest to 65.9%, has a R12.2 billion property portfolio, comprised mostly of retail properties.

Providing further geographic diversification, Redefine increased its international property investments by R3.6 billion during the year to a total R7.4 billion, equating to 14.5% of its property assets. Redefine has a 30.1% direct interest in Redefine International PLC and a R3.9 billion presence in the Australian property market, with 50% interest in North Sydney's landmark tower, Northpoint, and a 15.9% holding in ASX-listed Cromwell Property Group, as well as a 10% indirect equity interest through Redefine International. Redefine's international operations contributed 17.2% of its distributable income, up from 15% the prior year.

During the year, Redefine took transfer of 26 properties, representing R4.6 billion of strategic acquisitions at a combined initial yield of 8.0%. A further R3 billion properties were acquired by Redefine subsequent to year-end. It also completed R1.5 billion of developments, the largest being the prime multi-tenanted offices at 90 Grayston Drive in Sandton and the super-regional Matlosana Mall in Klerksdorp. It has a further R2.3 billion of development underway, including Webber Wentzel's new headquarters at 90 Rivonia Road, Sandton. Redefine also made R202 million of tactical disposals at an average 11% yield, and have agreed to dispose a further R571 million of properties.

Konig reports: *"Redefine continues to diversify, grow and improve the quality of our core property portfolio. Redefine's average value per property is now approaching R130 million, compared to R100 million a year ago, and around R50 million when we first set out on this journey. The restructure of our local portfolio was well timed. It is now largely defensive in an operating environment that is not likely to get any easier. A diversified portfolio positions Redefine to create value over cycles."*

Redefine's vacancies remained essentially unchanged at 5.5% with 86% tenant retention.

Konig adds, for new acquisitions, wherever possible, Redefine aims to secure fully repairing leases with blue-chip tenants. Redefine's acquisition of the R2.7 billion Macsteel portfolio, which enjoys a 12-year triple-net lease with annual escalations of 8%, successfully meets this objective at an 8.7% initial yield.

Benefiting from strict cost controls in the face of the unrelenting increases in administered services like rates, utilities and electricity, Redefine's operating costs net of recoveries were 18.8% of contractual income. The improvement from last year's 20.1% stems from internalisation of electricity recoveries.

"Containing the rise in debt costs is a priority," says Konig. In line with its capital management strategy, Redefine reduced its already conservative loan-to-value ratio of 37.0%, down from 39.9% in 2013. The average cost of funding remained largely stable at 8.2%. Interest rates are fixed on 78.3% of borrowings for an average period of 3.5 years. This is above its 75% target and improved from 65.9% in the prior year.

Redefine also remains committed to keeping its structure simple for investors. Its acquisition of Annuity Properties, effective from 1 March 2014, will ultimately be fully integrated into the Redefine structure. Konig points out: *"The R1.9 billion portfolio comprises eighteen properties. Nine account for 75% of the Annuity portfolio value, and are suitable for Redefine's core portfolio. These include two shopping centres, three industrial and three office properties, as well as a Virgin Active."*

Subsequent to year end, Redefine identified the opportunity to gain a strategic foothold in Emira Property Fund on a yield enhancing basis, and acquired a 13.7% stake in Emira for R1.1 billion. "*We believe Emira is undervalued and management is doing the right things. While Emira is not a takeover target for Redefine, should it participate in future corporate action, Redefine will be well positioned."*

Konig explains that Redefine's strategic priorities for this year are disciplined growth and diversification of its local property asset base, and geographic diversification in international real estate markets, especially with international opportunities looking relatively attractive. The priorities also include unlocking value-added development opportunities in its well-located properties, prudent management of funding, refining its asset allocation and active portfolio management.

"Redefine has a strong platform and a clear direction," says Konig. *"Redefine's ability to identify opportunities, vigilant approach to management and exploitation of risk and agility in everything we do, stands us in good stead to continue to deliver sustained value to shareholders."*

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