Redefine lifts its interim distribution

Redefine Properties has increased its distribution by 7.5% to 44.82c per share for the six months to 28 February 2017, the JSE-listed diversified real estate investment trust has announced. It has cited quality acquisitions and its investor-driven strategy in offsetting local economic challenges.

© 06photo – 123RF.com

At 28 February 2017, Redefine's diversified local property portfolio was valued at R67.7bn and the group's international real estate investments were valued at R16.4bn – growing in total by R11.4bn during the period under review.

"These results come against the backdrop of increased uncertainty driven mainly by political issues playing out ahead of the ANC elective conference. This result pre-dates the recent ratings downgrades, but what they show is that we are fundamentally very well positioned to weather the coming storm," says Redefine CEO Andrew Konig.

During the interim period, management's primary domestic portfolio focus was on protecting, expanding and improving existing well-located properties.

"What really stands out are our solid property fundamentals. We are benefiting now from a strategy adopted some six years back to upgrade the quality and efficiency, as well as extend the lease maturity profile of our local portfolio and geographically diversify into real estate markets operating in hard currency markets," says Konig.

During the period tenant retention by gross leasable area was 86% from 83% a year earlier. The overall occupancy of the portfolio was 94.5% and a further 205,213m² was let across the portfolio from 171,832m² in the comparable interim period a year ago. Improved utility management and recoveries increased the property portfolio's operating margin to 82.6%.

Diversified asset platform

The company is reaping the rewards of a diversified asset platform. While international investments contributed 22.7% to distributable income, international real estate investments made up 19.5% of property assets.

"Geographic diversification remains very important as we access stable revenue flows and broaden our funding sources at attractive interest rates. We have refinanced a significant portion of our international debt over the period at competitive rates, which has been a very big achievement and will stand us in good stead going forward in a very volatile environment," says Konig, who expects to see the offshore asset contribution to earnings increase even further in the future to around 25%.

Redefine broadened its international exposure through expansion into student accommodation in Australia and subsequent to the half year, into Poland by investing a further €59m in Echo Polska Properties.

Pivotal share swap

In one of the largest local property transactions of the year, Redefine acquired all of the shares in property developer and capital growth fund The Pivotal Fund Limited (Pivotal) in a share swap transaction. The acquisition of Pivotal positions Redefine even more competitively in the commercial property sector in line with its strategic intent to become the landlord of choice in sought-after nodes in South Africa.

"This deal further diversifies our portfolio by investing in high quality assets, while the share swap conserves the use of cash and debt by Redefine," says Konig.

Thanks to this acquisition the company acquired 32 Pivotal properties valued at R10.4bn (including developments in progress and land holdings for future development). The portfolio consists of 17 office, 10 retail and five industrial properties. In addition to this an 11.8% share in Mara Delta Property Holdings Limited dual listed JSE and listed on the Mauritian Stock Exchange and a 37.1% interest in Nigerian-based Oando Wings Development Limited was also acquired.

Student accommodation

Furthermore, Redefine acquired a 90% equity investment of R337.9m in Journal Student Accommodation Fund which is based in Australia and has received development approval for 804 beds at a site in Melbourne. It is estimated that Redefine's total investment will be AU$125m (R1.2bn). Development of the site is anticipated to commence during June 2017.

Redevelopment projects in the existing portfolio have an approved value of R785.8m at an average yield of 6.8% and new development projects with an approved value of R4.7bn at an average yield of 9.4% are in progress.

Redefine adheres to a conservative funding strategy. Interest-bearing debt represented 39.8% (from 38.5% at the previous year end) of the value of its property assets at 28 February 2017. The average cost of debt is 7.6% (from 7.7% the previous year) and volatility in debt costs will be mitigated by interest rates that are hedged on 83% of total debt for an average period of 2.6 years.

"Redefine Properties continues to build an exceptionally diversified and quality property platform. We remain focused on deliberately procuring top quality properties and opportunities across strategic geographic locations – both locally and internationally," says Konig.

“While the risk of further ratings downgrades is a real concern, our diversification strategy will continue as we purposefully seek out real estate that is best poised for sustained growth within three key sectors – office, retail and industrial,” he concludes.

Redefine anticipates its distribution per share for the second half of the 2017 financial year to grow in line with the first half’s performance.