

Delta plots growth ahead of listing

Roy Cokayne

DELTA Property Fund, which would list on the JSE next Friday, planned to grow the value of its R2.1 billion portfolio to about R7bn by 2017, the specialist in government and Sars-tenanted buildings countrywide said.

Delta chief executive Sandile Nomvete said yesterday the fund already had "semi-commitments" and expected the value of the fund to grow by about R1bn in the first year post-listing.

It will list 199.5 million linked units next month. The units were issued at R8.20 each and will raise up to R980 million.

The net proceeds of the offering will be used to fund a portion of the portfolio and reduce the overall gearing levels. The remainder of the cost of capital will be financed through bank debt, resulting in a loan-to-value ratio of about 40 percent.

Nomvete said the fund's vision was to continue growing and diversifying the portfolio, adding that one of the reasons

for listing was to diversify its portfolio into the second tier retail market.

Delta was also targeting parastatals as tenants.

Nomvete said the 4.8 percent vacancy rate in the portfolio largely related to the ground level of buildings that were not conducive for offices and were used for retail.

He said 8 percent of Delta's portfolio was retail, but these vacancies provided a "value uptick" for unitholders because they had not been factored into Delta's forward yield.

Nomvete confirmed the fund had been born out of the opportunity created by the policy of the Department of Public Works to award long-term leases to any landlords of buildings that were not 100 percent black-owned, which had resulted in some property funds and landlords offloading these buildings because they could only secure short-term leases.

"We have clearly taken advantage of that opportunity from a government perspective. Delta is a black economic

empowerment story. The sovereign underpin of government and Sars [SA Revenue Service] is also very attractive to investors. The irrevocable pre-commitments from key investors bear testimony to that," he said.

Prior to the opening of the private placement, Delta had received irrevocable pre-commitments from key investors such as Coronation Asset Management, Stanlib Asset Management, the Public Investment Corporation (PIC), Momentum Asset Management and Grindrod Asset Management for a total of R970m, of which R850m in linked units at the listing price were accepted.

"We deliberately held back a small portion of the linked units for private clients to ensure critical mass, liquidity and tradability in the linked units."

Delta is externally managed by a 100 percent black-owned asset manager, which qualifies the fund for long-term government leases in terms of the provisions of the Department of Public Works.

Bronwyn Corbett, Delta's chief financial officer, said Delta had received approval from the department for the transfer of government-tenanted buildings to the fund, but its founders were locked into owning 20 percent of the linked units in issue for a four-year period.

Corbett stressed Delta's founders were not through the listing looking at an opportunity to exit, but to improve the ability of the fund to grow.

Nomvete said the bulk of Delta's leases were for periods between five and seven years.

"This speaks to the certainty around our forecasts to the market," he said.

Delta's portfolio consists of 20 mainly AAA-, A- or B-grade quality office buildings countrywide. Its directors believe the portfolio will generate an initial forward yield of 9.12 percent in the 12 months to October next year and a forward yield of 9.61 percent in the year to February 2014, which represents a forecast return in excess of expected averages for the sector.