



# Voluntary pre-close market update

for the financial year ending 29 February 2020

[www.deltafund.co.za](http://www.deltafund.co.za)



# AGENDA

- 01 ▶ Business update
- 02 ▶ Operational review
- 03 ▶ Financial review
- 04 ▶ Potential merger
- 05 ▶ Conclusion





[www.deltafund.co.za](http://www.deltafund.co.za)

**BUSINESS ENVIRONMENT**

# BUSINESS UPDATE

- ▷ Delta has seen some traction on lease renewals from DPW with only three large leases outstanding
  - The Fund expects lease renewals to escalate over the next two months
- ▷ Once these national leases together with significant provincial leases are renewed, WALE will increase to 2 years
- ▷ Tenant retention remained a significant focus area, with a 90% tenant retention rate achieved
- ▷ Domestic property fundamentals remained weak, resulting in large incentives through reversions, rent-free periods or additional capex to retain and attract new tenants
- ▷ Capital expenditure has been slow due to delayed lease renewals
  - Delta continues to invest significantly in operating expenditure to ensure its assets are functional and well-maintained
- ▷ Competitive longer-term funding is being renegotiated on the back of a longer weighted average lease term



[www.deltafund.co.za](http://www.deltafund.co.za)

OPERATIONAL REVIEW

## ▷ DPW leasing policy certainty

- SAPOA and the largest landlords (Growthpoint & Redefine as well as Delta from a government tenant perspective) met with DPWI Minister on 12th December 2019. The delegation tabled sector challenges and possible solutions to the Minister who requested that a SAPOA-led team be formed with whom she'll meet on an ongoing basis

## ▷ Payment of Government arrears

- High level meeting held between DPW, SIU, Delta Senior Management and DPW Auditors (O.M.A.)
- Whilst challenges remain, significant progress has been made
- Negotiations on the outstanding Dept of Statistics' arrears and tenant re-instatement is being concluded. Delta is cautiously optimistic on recovering an amount of approx. R30 000 000
- The Company gave notice to DPW and all other tenants that going forward it will invoke interest penalties on all late payments in line with the provisions of the lease agreements

## ▷ Government treatment of rates and taxes

- SAPOA & IPD engagement on non-payment of rates & taxes – part of discussion with DPWI Minister & SAPOA
- Impact on rental and ability of Government landlords to create sustainable profit
- Potential payment of increases

## ▷ Clearing of backlog of DPW Bulk Lease Renewals is gaining momentum

- Delta has successfully renewed 42 leases; listed and private sector peers have all successfully renewed some leases

# LEASING UPDATE - SOVEREIGN TENANTS

## ▷ Bulk lease renewal progress

- Initial submission - 227 500m<sup>2</sup>
- Tenants vacated - Stats House Nelspruit (892m<sup>2</sup>)
- 42 leases signed to date totalling 112 112m<sup>2</sup> (57.6% at 5 years, 37.2% at 3 years, 2.8% at 2 years, 2.4% at 1 year)
- 3 leases (83 134m<sup>2</sup>) tabled below are now in advanced stage of negotiations

STATUS	Number of Leases	GLA
Lease agreements concluded and signed	42	112 112 m <sup>2</sup>
Leases at advanced stage of negotiations	3	83 134 m <sup>2</sup>
Leases approved as default (3 month exit clause – not accepted)	13	31 363 m <sup>2</sup>
TOTAL	58	226 609 m <sup>2</sup>

# LEASING UPDATE

## ▷ Lease renewals concluded

- FY20 year to date, lease renewals were concluded for a total GLA of 213 634m<sup>2</sup>, to the value of R829.18 million
- SARS Randburg have renewed their lease for 3 years and taken up an additional 2 700m<sup>2</sup>
- Th Road Accident Fund in Embassy in Durban have extended their lease agreement by 1 year while they finalise the award of a new 10-year lease, which the Fund submitted a tender for
- The Dept of Social Services in Pietermaritzburg renewed a provincial lease for 5 years
- The eThekwini Municipality extended their lease for 3 years in Shell House

The most notable renewals are:

Property	Tenant	GLA (m <sup>2</sup> )	Lease Period
SARS Bellville	SARS	16 006	5 years
Shell House	Ethekwini Municipality	13 828	3 years
Servamus	SAPS	13 368	3 years
Hollard House	Dept of Justice	6 954	5 years
22 & 24 George Lubbe Str	SAPS	6 200	5 years
88 Field Street	Dept of Justice	6 157	5 years
AZMO Place	Dept of Water Affairs	5 224	5 years
2 Devonshire Place	Dept of Justice	5 117	5 years
Mayors Walk	Dept of Social Development	4 975	5 years
<b>Total</b>		<b>77 829</b>	



# LEASING UPDATE

- ▷ Several new leases were concluded measuring 16 716.59m<sup>2</sup> to the value of R 57.28 million
- ▷ The most notable new deals are:

Property	Tenant	GLA (m <sup>2</sup> )	Lease Period
SARS Randburg	SARS	2 757	26 months
Liberty Towers	Special Investigations Unit	2 189	5 years
Embassy	Co-Active	1 466	3 years
Edgars Kroonstad	Best Fashion & Home Ware	1 085	3 years
<b>Total</b>		<b>7 497</b>	

- ▷ Prospective new leases
  - Delta House - negotiations with AdvTech (Rosebank College) for 8 000m<sup>2</sup> for a 10-year lease, with an option to purchase the building
  - AdvTech are leaning towards the purchasing option and we are quite advanced with these negotiations

## ▷ Tenant retention

- Tenant retention remains a significant focus for Delta – 90% retention rate
- Tenant requirements higher due to higher nodal vacancies and include relocation costs, fit out costs, rent free periods
- Brokers in certain areas are negotiating higher incentives as the battle for tenants intensifies in nodes like Sunninghill and Free State and other nodes where there is oversupply
- Tenants now have representatives assisting them in leasing processes
- There is push back on rent renewal rates and escalations
- Densification of space is a risk as tenants look at downsizing – open plan vs traditional offices

# VACANCIES

Top 10 vacancies by GLA	Vacancy GLA	Vacancy %
Delta Towers	15 911.04	38.14%
Capital Towers	13 485.57	100.00%
Enterprise Park - Leeuwkop	9 930.35	83.73%
Poyntons	9 489.42	12.93%
Sediba Fountain Towers & VLU Buildings	9 336.51	85.29%
Unisa	9 063.59	12.35%
Delta House	8 359.00	73.03%
Protea Coin PTA	7 640.00	100.00%
88 Field Street	7 158.62	31.07%
African Life	6 333.00	73.92%
<b>TOTAL</b>	<b>96 707.10</b>	<b>53.61%</b>

▷ The total portfolio vacancies increased to 19% (SAPOA Q4 2019: 11%)

VACANCIES BY REGION				
Region	Total GLA (m <sup>2</sup> )	Vacancy GLA (m <sup>2</sup> )	Vacancy (%)	SAPOA (%)
Pretoria	262 221	22 103	8.4%	4.2%
Durban	231 936	40 787	17.6%	21.8%
Johannesburg	47 364	14 080	29.7%	15.9%
Bloemfontein	78 329	27 514	35.0%	Not Available

- ▷ Filling of vacancies remain a work in progress
  - Showrooms to advertise Delta's offering
  - Engaging top active brokers in the challenging nodes and incentivizing them with higher commissions
  - Tenant Installation, tenant relocation costs and beneficial occupation

# CAPEX UPDATE

- ▷ The focus is on compliance and defensive expenditure
- ▷ Following the signing of the DPW leases, TI and capex will be required to comply with the Schedule C requirements and the improvement of tenant spaces based on the lease agreements

DPW Bulk Lease Renewal	LIFT	HVAC	STRUCTURAL	OHS	TOTAL CAPEX	T/I Allowance
42 Leases signed	17 454 550	77 160 896	23 902 621	35 031 472	153 549 539	36 670 562
16 Leases outstanding	28 344 431	22 809 695	5 265 913	55 422 497	111 842 536	41 727 975
Total	45 798 981	99 970 591	29 168 534	90 453 969	265 392 076	78 398 537

- ▷ The capex programme will be supported by structured procurement principles
- ▷ Current and completed projects include:
  - Poyntons Fire Project - installation of fire lobbies, fire doors, fire hydrants and hose reels with the associated pumps and tanks. Anticipated completion Q3 FY21. Estimated spent R35m
  - Dept of Justice - 2 Devonshire Place and Hollard House. TI installation and Schedule C compliance. Estimated spend R12.5 million, completion Q3 FY21.
  - SIU – Liberty Towers (Complete fit-out on behalf of tenant with limited TI contribution), estimated spend R6.5 million, completion Q1 FY21
  - Mayors Walk PMB – Planning and procurement in progress – Estimated spend R10.2 million, completion Q4 FY21

# DISPOSALS

- ▶ Key focus on disposal of non-core assets and underperforming assets to reduce debt
- ▶ An unsolicited offer for Classic Corner was accepted
  - Property was sold for R4 100 000 and transferred on 19 December 2019
- ▶ Financier conducting legal due diligence on the lease obtained by the buyer for Broadcast House
  - Transfer expected on completion of due diligence
- ▶ Sale of Protea Coin did not proceed, sale agreement not concluded
  - 2 new offers received, negotiations in progress
- ▶ Disposing of the Free State National Government Portfolio remains challenging
  - Considering potential student accommodation for suitable vacant buildings in Bloemfontein
- ▶ Continued interest in the Sunninghill node for residential conversion
- ▶ Unsolicited offer for SARS Belville was accepted
  - Sales agreement being drafted



[www.deltafund.co.za](http://www.deltafund.co.za)

## FINANCIAL REVIEW

# FINANCIAL PERFORMANCE

## **Pertinent 12 month performance overview:**

- ❖ Sale of 6.5mil GRIT shares to the value of R104mil which was used to settle Investec debt facilities
- ❖ Settled a further R127 mil of debt through amortisation and proceeds of disposed properties
- ❖ Extended R2.2bn with Nedbank to 29 May 2020
- ❖ Extended R 404mil with Investec to 07 March 2020
- ❖ In negotiations to extend R774m with Standard Bank
- ❖ Refinanced R 192mil with State Bank of India for a period of 1.5 years

## **Outlook:**

- ❖ Refinance expiring debt to achieve expiry profile of at least 30% per annum
- ❖ Increase fix debt profile to at least 75%
- ❖ Manage LTV towards our stated target of below 40%



[www.deltafund.co.za](http://www.deltafund.co.za)

POTENTIAL MERGER



# POTENTIAL MERGER UPDATE

- ▷ Self-imposed six-week window to find an agreement on the merger ends 6 March 2020
- ▷ Alternative options should the merger not continue:
  - Rights issue
  - Consider private equity offers



[www.deltafund.co.za](http://www.deltafund.co.za)

CONCLUSION

# CONCLUSION

- ▷ Legacy lease renewals largely completed
- ▷ 90% tenant retention rate achieved
- ▷ WALE of 2 years
- ▷ Lower funding costs being renegotiated on the back of longer lease terms
- ▷ Significant capital expenditure required in the short- to medium term
  - Capital retention policy to be revised
- ▷ Delta's board and management remain committed to its sovereign strategy