



# Pre-Close Update

For the 6 months ended 31 August 2019

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# AGENDA

- 01 ▶ Business Update
- 02 ▶ Operational Review
- 03 ▶ Financial Review
- 04 ▶ Potential Merger
- 05 ▶ Conclusion





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**BUSINESS ENVIRONMENT**



# BUSINESS UPDATE

- ▶ Domestic property fundamentals have remained weak as pressure on demand and supply conditions continue to deteriorate. Vacancy levels across the sectors are increasingly difficult to maintain with large incentives being provided to tenants through significant reversions, rent free or additional capital expenditure to retain and attract new tenants.
- ▶ Delta has experienced its toughest and most challenging period since its listing in 2012 in the form of slow pace of lease renewals from its major tenant being DPW, increased vacancies and higher costs associated with extension of debt. This has pressurised distributable earnings in the short term and has also created a platform for the fund to explore diversification strategies.
- ▶ We are positive on the 'turnaround' in DPW with the appointment of the new Minister of Public Works Ms Patricia De Lille. We have engaged with her personally and have been very impressed with her dialogue and mission on bringing stability and managing the backlog of the department. We believe she will champion the conclusion of the long-term leases as she has a good economic understanding of the benefits thereof.
- ▶ Our vacancies, especially in the Bloemfontein provincial node, continues to erode shareholder value and we are actively engaging on a disposal strategy in this regard. The remaining vacancies are also challenging in a subdued operating environment and we continue to engage with clients and brokers.
- ▶ Capital expenditure (capex) has been slow due to delayed lease renewals, however, we continue to invest significantly in operating expenditure (opex) to ensure our assets are functional and maintained in all respects. We have a three-year capex plan of ca. R 640 million, including tenant installation, which will be initiated on renewals. Funding on capex to be supported by disposals, retention of cash and bank facilities.
- ▶ Our funding has been challenging with the low lease expiry profile, however, our bankers have journeyed with us on the lease renewal process and have been supportive with extensions on expiring facilities. This has come at a cost in terms of increased pricing and fees, however, we aim to conclude competitive longer-term refinance on conclusion of the bulk leases.



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# OPERATIONAL REVIEW

# Update on Meeting with Minister of Public Works

- ▶ Need of DPW leasing policy certainty
  
- ▶ Payment of Government arrears
  - Negotiation to be facilitated on disputes
  
- ▶ Government treatment of rates and taxes
  - SAPOA & IPD engagement on non-payment of rates & taxes
  - Impact on rental and ability of Government landlords to create sustainable profit
  - Potential payment of increases
  
- ▶ Clearing of backlog of DPW Bulk Lease Renewals

# LEASING UPDATE - SOVEREIGN TENANTS

## ▷ Bulk renewal progress

- Initial submission - 227 500 m<sup>2</sup>
- Tenants vacated - Stats House Nelspruit (892 m<sup>2</sup>)
- 40 Leases signed to date totalling 95 523m<sup>2</sup> and 4 leases (96 501m<sup>2</sup>) are being considered by the Minister, which should be finalised by 30 September 2019
- While our Bulk Renewal looks daunting at just under 130 000m<sup>2</sup> remaining, there is a concrete plan in place to reduce this significantly by 31 December 2019, commencing with the 4 aforementioned leases.

STATUS	Number of Leases	GLA
Lease agreements concluded and signed	40	95 523m <sup>2</sup>
Leases with Minister for consideration	4	96 501 m <sup>2</sup>
Leases approved as default (3 month exit clause – not accepted)	14	34 584m <sup>2</sup>
TOTAL	58	226 608 m <sup>2</sup>

# LEASING UPDATE

## Lease renewals concluded

- ▷ Tenant retention remains a significant focus for Delta
- ▷ For the six months ending 31 August 2019, lease renewals were concluded for a total GLA of 123 865m<sup>2</sup>, to the value of R524 million
- ▷ In addition 20 520m<sup>2</sup> of storerooms was also renewed
  - the bulk GLA from the Defence Force leases in Nelspruit

The most notable renewals are :

Building	Tenant	GLA
SARS Bellville	SARS	16 006 m <sup>2</sup>
Hollard House	Dept of Justice	6 954 m <sup>2</sup>
22 & 24 George Lubbe	SAPS	6 200 m <sup>2</sup>
88 Field	Dept of Justice	6 157 m <sup>2</sup>
AZMO Place	Dept of Water Affairs	5 224 m <sup>2</sup>
2 Devonshire	Dept of Justice	5 117 m <sup>2</sup>
SAPS 4294	SAPS	4 637 m <sup>2</sup>
Total		50 295 m <sup>2</sup>



# LEASING UPDATE cont....

- ▷ Several new leases were concluded measuring **6 000m<sup>2</sup>** to the value of **R 18.5 million**

## Prospective new deals:

- ▷ SARS in Randburg have initiated discussions with regards to occupying 2 700m<sup>2</sup> of the 2<sup>nd</sup> floor
  - Discussions are at an advanced stage

## Tenant Retention

- ▷ Tenant retention remains a significant focus for Delta
- ▷ Tenant requirements higher due to higher nodal vacancies and include
  - relocation costs, fit out costs, rent free periods
- ▷ Agents now non-negotiable on commissions and demanding full SAPOA tariff
  - some brokers in certain areas are demanding higher tariffs 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

## Vacancies

- ▷ Our total portfolio vacancies have ticked up to 18.8% due to the loss of key tenants
  - UNISA (JHB) in Unisa House – 9 069m<sup>2</sup>
  - Department of Health (PMB) in Capital Towers – 13 485m<sup>2</sup>
  - However, advanced in negotiations with replacement tenants e.g. Municipalities and provincial tenants
- ▷ National office vacancies continue to rise (SAPOA Q2 2019: 11.3%)
  - with the two highest being the eThekweni Municipality at 13.5% and the City of Johannesburg at 12.9%
- ▷ Solutions to fill up these vacancies are a work in progress
  - Showrooms to advertise what we can offer on our premises
  - Engaging active top brokers in the difficult nodes and incentivizing them to ensure that they bring tenants to us by paying higher commissions
  - Tenant Installation, tenant relocation costs and beneficial occupation as well as rent free periods for prospective tenants

VACANCIES BY REGION				
Region	Total GLA (m <sup>2</sup> )	Vacancy GLA (m <sup>2</sup> )	Vacancy (%)	SAPOA (%)
Pretoria	274 065	26 164	10%	9%
Durban	231 936	45 026	19%	14%
Johannesburg	45 533	18 348	40%	13%
Bloemfontein	78 284	21 202	27%	Not Available

# DISPOSALS

- ▷ Our strategy remains inwards focused with key focus on optimising our existing portfolio disposing of our non-core and under performing assets
- ▷ Disposing of the Free State National Government Portfolio continues to prove difficult
  - These assets continue to add significant pressure on the vacancy rate in the node
  - We continue to work with reputable local brokers and have issued mandates to these brokers
- ▷ Although we have made progress in reducing the vacancies in Sunninghill with the renewal of the Eskom lease for a 3-year period, we continue to struggle to fill the remaining vacancies
  - There has been increased interest from prospective buyers
- ▷ The transfer of Block G will not be proceeding due to failure by the purchaser to meet certain conditions
  - This asset is still under assets held for sale and is back on the market
- ▷ The transfer of Broadcast House is imminent as the buyer has finally obtained the lease which was holding up the sale
- ▷ An offer for Protea Coin Cape Town has been accepted, the sale agreement is being finalised. Transfer is expected by end of November 2019

# CAPEX UPDATE

## Capital Expenditure

- ▷ 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
  
- ▷ The mentioned CAPEX program will be supported with structured procurement principles and will require the following:
  - Database of consultants for all regions where DPF are represented
  - Database of suppliers with technical and financial strength for all regions
  - Tender committee representative of the various business lines within DPF to assure industry compliance and uniform standards for all projects & regions
  
- ▷ Some of the projects undertaken which are complete or in progress are:
  - Poyntons Fire Project - fire compliance is a key requirement for safety within the portfolio and the project includes installation of fire lobbies, fire doors, fire hydrants and hose reels with the associated pumps and tanks. Anticipated completion Q3 FY20. Estimated spend R35m
  - Dept of Justice - 2 Devonshire House and Hollard House. TI installations and Schedule C compliance
  - Dept of Economic development – The Marine Building (TI for the MEC and the department employees), estimated spend R2 million, completion Q2 FY20
  - RSR – Planning and procurement in progress – Estimated spend R2.5 million, completion Q3 FY20





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## FINANCIAL REVIEW

# FINANCIAL PERFORMANCE

## **Pertinent six month performance overview:**

- ▷ Settled our only remaining cross currency swap at a cost of R28 million
- ▷ Extended R1.8 billion with Nedbank to 30 September 2019
- ▷ Extend R800 million with Standard Bank to 31 August 2019
- ▷ Concluded new facility with Investec for R100m
- ▷ Refinanced R100 million facility with Bank of China for 3 years
- ▷ Debtor days managed at ca.30 days
- ▷ Expected LTV below 45%

## **Outlook:**

- ▷ Refinance expiring debt to achieve expiry profile of at least 30% per annum
- ▷ Increase fix debt profile to at least 75%
- ▷ Manage LTV down with short term target of 42.5%
- ▷ Full year distribution guidance expected to be 9%-13% down on FY19 of 73.84 cents



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POTENTIAL MERGER

# POTENTIAL MERGER UPDATE

- ▷ In line with Delta's strategy to introduce an element of bulk and diversification into its portfolio, we are currently assessing a proposed merger with Rebasis
  - On 6th August Delta and Rebasis announced that merger discussions were underway
  - The parties envisage a mutual desktop due diligence being completed by end of August and depending on the outcome of the due diligence, the parties may recommend to proceed with the planned merger
  - Critical to the discussions are:
    - Respective valuations of the companies;
    - Support of shareholders and funders;
    - The resultant share swap ratios;
    - The resultant gearing of the combined business; and
    - The strategic positioning of the combined group
  - As soon as we are in a position to make a formal announcement in this regard, we will do so





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CONCLUSION

# CONCLUSION

It is important that we recognize that the current economic conditions, characterized by subdued fundamentals, will likely not recover within the short-term. Therefore, we should factor this into our growth forecasts for the financial year going forward. With strong management skills, we believe our current business strategy is in tune to handle the current operating environment.

- ▶ Financial year 2020 continues to be one of Delta's most exciting and busiest years:
  - Concluding bulk lease renewal
  - Formulating, planning and executing capex linked to TI and general building
  - Refinancing of expiring debt and managing forward looking debt expiry
  - Driving significant effort into disposals to reduce debt and generate cash for capex and working capital
  - Filling vacancies across the portfolio
- ▶ Delta's board and management remain committed to its sovereign strategy and have also begun looking at elements of diversification, as previously reported, into key performing retail assets.
  - It must be noted that this is still in its early stages as we continue to optimize our existing portfolio.

THANK YOU