

ATTFUND

Success story

'A well-run property portfolio we operate at a cost base significantly lower than the industry norm'

ATTFUND WAS FOUNDED in 2002 with a portfolio worth R670m, which has today grown to total assets of R8bn. A public unlisted property fund it has a net asset value of R4bn. Currently, 11% of the company is owned by a black economic empowerment consortium – a grouping of property specialists, including Sisa Ngebulana and Nazeem Khan.

Louis Norval, a founder member and currently CE of Attfund says: "The key elements of our success story are a well-defined business strategy, a formidable selection criteria and utilising the considerable expertise of Attfund's executives and core officials in a continuous hands-on approach."

"When we set out we wanted to focus on few – but high value – investments in the upper income market, because that's where our expertise lay. That enables us to spend more time on each investment. Similarly, when it came to commercial office space we only want to invest in office parks, as that offers the flexibility to enable tenants to gradually increase or decrease their space as they expand or shrink. That in turn helps keep vacancy levels particularly low."

Attfund's current invest-

ments in SA consist of impressive retail holdings in upmarket shopping centres.

It has four office parks: Glenfields Office Park, Glenwood Office Park (both in Pretoria), Tygerberg Office Park (Cape Town) and Lakefield Office Park (Centurion)

Attfund also acquired the CapeGate Retail precinct at a cost of R1,3bn.

Attfund represents the property investment vehicle for the three main property development companies in the group (Atterbury, Parkdev SA and Gryphon). Although those companies develop jointly for Attfund they maintain their individual identities.

Two years ago Attfund realised there were relatively few investment opportunities remaining in its upper income niche and management decided to diversify its portfolio, as well as hedge its operational and currency risk by investing offshore.

"At that point we wanted to invest in like-minded businesses and broadened our strategy," says Norval. It invested in the New York Stock Exchange-listed Simon Group and followed that with a stake in Deutsche Euroshop, which is focused on quality shopping centres in Germany and its neighbours and listed on major German exchanges.

Over the past year Attfund acquired approximately 22% of JSE-listed Sycom Property Unit Trust. Recently Attfund acquired 22,5% of Stenham European Shopping Centre Fund, which had acquired one of Europe's large shopping malls, the 96 000m² regional shopping centre – Nova Eventis – in Leipzig, Germany.

Its future strategy is to increase its off-shore component to approximately 15% of its total portfolio and to look more at middle income retail property investments in SA as the upper income opportunities dry up.

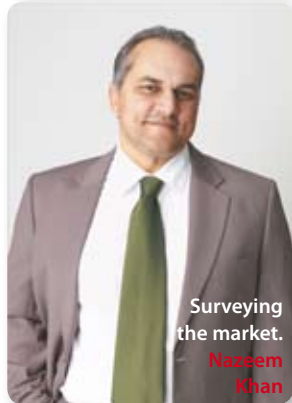
Attfund is 46% geared, which is low by industry standards, and 83% of borrowings are fixed for varying periods. Its policy is to fix at least 75% of borrowings.

According to the International Property Databank (IPD), which each year measures all property funds worldwide, Attfund's 50,6% return in 2006 was rated first in SA, (SA average of 30,1%). "I attribute that performance to the quality of the investments we've made, conservative valuations and the strength of our management team," says Norval.

Even though the fund is unlisted it's run in full compliance to the same governance standards as a JSE-listed company. Its price (based on NAV) started at R13,65 on 1 July 2002 and currently at R92,93/share for a compound growth of 46,8% per year. ▣



Founder member.
Louis Norval



Surveying the market.
Nazeem Khan



Property specialist.
Sisa Ngebulana



CapeGate Shopping Precinct

WHERE IT'S AT...

ATTFUND IS ONE of SA's largest privately held property funds, with assets in excess of R8bn. It owns the following sought after properties:

- Woodlands Boulevard, Gauteng, GLA 40,219m².
- Centurion Mall (25%), Gauteng, GLA 111,015m².
- Atterbury Value Mart, Gauteng, GLA 47,863m².
- Garden Route Mall, Eastern Cape, GLA 52,149m².
- Clearwater Mall, Gauteng, 63,107m².
- CapeGate Precinct, Western Cape, GLA 110,029m². ▣

PARKDEV |

No end to property bull run

'Property fundamentals are still looking extremely favourable'

PARKDEV BELIEVES THE RUN that property companies and funds have enjoyed in recent years will continue – albeit at a reduced pace – underpinned by foreign demand and domestic appetite by institutions currently underweight in the asset class. The property sector is driven more by the interest rate cycle than any other factor and much of the compound return over the past four years coincides with a declining interest rate cycle. However, the current reversal of that cycle must soon begin impacting on prices and performance of property funds.

Neno Haasbroek, CEO of Sycom, says: "A year ago you could get 5% on a bank deposit and today it's approximately 10%. That has to start impacting on what you pay for property to achieve the same income stream. Yet over that time property has performed exceptionally well."

However, Haasbroek says an underpin of institutional and possibly foreign support will ensure any softening in the property market won't dent the bull market. Nonetheless, he sees an end to the current situation of price compression (all stocks are valued alike, irrespective of performance) with a price spread re-emerging that will differentiate quality funds. These may still increase in price, he says, while poorly managed portfolios weaken.

Parkdev MD and Attfund CE Louis Norval says: "The long bond rate, being at recent historical lows, had a positive impact on property stock. However, of late we've seen inflation concerns prompt the SA Reserve Bank to push rates higher to curb spending. The inflation fig-

ure is still proving to be a catalyst for additional upside pressure on rates and a realisation of any potential further hikes will pull back property prices."

"However, property fundamentals are still looking extremely favourable. It's all about the supply and demand for space and its impact on rental levels."

Haasbroek says four years ago some property portfolios had vacancy levels above 20%. Today, those are mostly filled. "We've had economic growth, good rental escalations and vacancies filled, which have all combined to

Past strong economic performance has resulted in buoyant business confidence.

exaggerate the growth. That sort of growth couldn't continue. That's not to say the bull market is over – it will just be more controlled. We're still expecting annual growth of 10% to 20%."

Past strong economic performance – and encouraging prospects over the next few years at least – has resulted in business confidence and with that a need to expand. The result is a growing demand for space. High building costs and a diversion of scarce skills to infrastructure has resulted in an imbalance between supply and current levels of demand. The outcome is an upward trend in rentals, says Norval.

In each of the three years to 2005 the SA property market was the top international

performer in all markets covered by the International Property Databank (IPD), which comprised at that date 2 279 properties with a capital value of R98bn held by 30 property investors. The results for 2005 were exceptional, with average returns of 30,1% (real returns of 25,8%), comprising 10,3% income return and 19,8% capital growth.

That came to the attention of foreign investors and there's noticeably more interest. There's a good chance SA will for the first time be included in the global real estate index Epra/Nareit (an acronym for the European and North American real estate sectors), a high profile index followed by many large property tracker funds.

"The foreign market is definitely beginning to earmark SA – we're already seeing it," says Norval. Currently, foreign ownership of the listed property sector is about 3%, whereas foreign ownership of the listed equity market is reputed to be as much as 50%, but at least 25% of the ALSI.

Despite the strength of the property sector there have been few new listings over the past 24 months and growing demand is creating an imbalance in the demand/supply ratio. The PIC alone wants to accumulate R60bn of property; while institutions, life companies, pension funds and foreign funds are all underweight in property as an asset class and want to increase their stake in the SA property market.

That seems guaranteed to keep upward pressure on the prices of listed stock, already assured good income growth from full letting and escalating rentals. ❏



| PARKDEV |

Reaping rewards

Parkdev's hands-on management style paying dividends

LAST YEAR private company Parkdev (Pty) Ltd. became the ultimate shareholder in Sycom Property Fund Managers (Pty) Ltd. which is the manager of Sycom Property Fund. Parkdev was then appointed as the asset management company that manages Sycom. It also manages Attfund, an unlisted property investment company with R8bn worth of gross assets. Sycom's and Attfund's real estate portfolios have a combined value exceeding R12bn. Parkdev manages a total retail gross leaseable area (GLA) in excess of 1 million m², consisting of 786,000m² and an office component of 243 000m².

Management has extensive expertise and systems to manage retail and commercial real estate. The company has offices in Pretoria and Cape Town and employs 170 people.

Louis Norval, Parkdev MD and Attfund CE, describes the philosophy of its business: "We do the asset management only for portfolios in which we have a direct stake. Our own assets are the only reason we're in property management. As part of our asset management philosophy we extract maximum value from our investments though hands-on property management.

"With Attfund's and Sycom's strategy of holding few – but high value– assets, as well as having a regional concentration, it's easy for senior management to personally put maximum effort into each property, something that management of the larger funds can't emulate."

Parkdev aims to be the leading asset manager in SA and to do so is venturing overseas. Offshore investments by both Sycom and Attfund have exposed Parkdev to international expertise, placing it at the cut-

The core of Parkdev's relationship with service providers is an abundance of information sharing.

ting edge of the industry in SA. Says Norval: "Through our exposure to global players – such as Simon Group, Deutsche Euroshop and especially Stenham – we're learning new skills and bringing them back home to establish ourselves as a world-class operation. There's only one way to become world class and that's to expose yourself to the best in

the world."

Parkdev director Neno Haasbroek adds: "The exposure, learning curve and knowledge you get from First World economies is enormous. They have world-class banking and marketing systems, as well as tenants. That's put us on a learning curve second to none to the ultimate benefit of the SA investor."

The investment in Nova Eventis was "material in size," says Norval, though its importance is more in the investment in global expertise. "We'll grow that operation together with our partners Stenham and we're actively looking at new foreign acquisitions so as to significantly expand our offshore business over the next few years."

At the operational level, Parkdev operations director Mareli Vorster says it has a completely different management approach to other property management companies. "We instil the belief in each of our property managers that they're

asset managers first, as well as property managers. Our strength lies in our ability to optimise economies of scale.

We achieve that, first, by geographically grouping together shopping malls and office parks. Most management companies operate in silos based on ownership and don't get the advantage of grouping.



There's only one way to become world class and that's to expose yourself to the best in the world.

The Parkdev team (back: from left to right) Mareli Vorster, Louis Norval, Susjan Wentzel, (front: from left to right) Leon Howell and Neno Haasbroek

"Second, we then identify preferred national providers and negotiate service level agreements that aim at continually raising the bar of service delivery."

In exchange for continuous service level improvement service providers are guaranteed long-term relationships, says Vorster. "Provided they meet our requirements they enjoy tenure. We're creating partners for life and as a result they give us a better financial deal."

The core of Parkdev's relationship with service providers is an abundance of information sharing, she says. "The more you share, the more you save." ❏

SYCOM

Sycom ventures overseas

'An opportunity to broaden our skills base and build meaningful international relationships'

SYCOM PROPERTY FUND is a closed end property unit trust (PUT) established in 1986. It's governed by the Collective Investment Schemes Control Act and listed on the JSE.

The fund consists of investments in 15 properties valued at R4,5bn, with relatively equal weighting between the retail and commercial office sectors. The retail exposure comprises investments in regional shopping centres, while the office component consists of large, well-located A-grade office buildings with predominantly large corporate tenants.

Sycom became SA's first listed property unit trust to have ventured overseas when it acquired 22,5% of Stenham European Shopping Centre Fund. That fund had recently acquired one of Europe's large shopping malls – the 96 000m² German regional shopping centre called Nova Eventis, in Leipzig, Germany. It has 215 stores, with 58% of the tenants fashion orientated and well-known European brands. The property manager, ECE, is the market leader in the development and management of European shopping centres, with 40 years' experience and managing 83 shopping centres throughout Europe.

Neno Haasbroek, Sycom CEO and Parkdev director, says: "Nova Eventis is a high quality shopping centre on a par with the best in SA. Given the scarcity of this type of investment opportunity in SA we're excited to be part of the Stenham Shopping Centre Fund."

The German economy is showing signs of a recovery that will positively impact on the growth of that region. Both Porsche and BMW have manufacturing plants in Leipzig and there's a major regional airport, operating 24 hours a day. The projected five-year IRR is 7,5%, which will be enhanced should the rand weaken against the euro. "This investment is as much a currency hedge as it's an opportunity to broaden our skills base and build meaningful international relationships."

Haasbroek explains the acquisition philosophy: "We prefer to acquire bigger rather than smaller properties because we get greater leverage from our efforts on the former. The effort invested in a big property is the same as a small one, but with far greater financial rewards. We want to build a fund that matches the best in the



world and we see no way that can be achieved if you aren't exposed to global markets."

To clean out its portfolio and leave only the top quality units Sycom sold off more than 20 of its smaller properties over the past five years. While that was dilutionary on its earnings (prices were less than the cost of the income stream) it has ideally positioned the fund for future growth.

"The exceptional growth in the market is a thing of the past, though we're expecting growth of 10% to 20%, down from the previous 30% to 40%. Recent growth resulted in a yield compression in which all properties and funds are priced the same, irrespective of the quality of properties. In a rising interest rate cycle we expect the spread to widen and we'll benefit from having a truly top-notch portfolio," says Haasbroek. It's indiscriminate investors coming to the market late that drives the prices of indifferent property portfolios to the same levels as quality ones. As the market softens those are usually the first investors to exit the market, allowing price spreads to widen to normal levels.

"A good property will be fully let in good or bad times; a marginal property will have vacancies in bad times. Currently, they're valued the same. However, with interest rates rising we're heading towards a widening of that yield gap to reflect the underlying quality of individual portfolios."

However, despite anticipating a softening market

Haasbroek says the bull run is far from over. The fundamental imbalance of supply and demand for institutional and foreign investors – combined with a burgeoning black middle class – means assured growth for years to come.

"In 1994 only about 5% of the population was actively spending money at shopping centres. Today that figure is about 20% – and heading towards 40% in the next 10 to 20 years. We expect significant growth, as well as new entrants, as a result of the growing black middle class. However, that growth will be slower than over the past few years."

In the unlikely event that the value of quality properties drop Haasbroek believes there's substantial interest in the SA market from foreign investors poised to snap up opportunities. "Over the long term we want to be well represented among the developed markets in the US and Europe, even if there are exciting returns to be had in other emerging markets."

By November 2007 Sycom was capitalised on the JSE at R4,3bn and at end-March 2007 was capitalised on the JSE at R3,8bn. ❏



SYCOM'S MAJOR INVESTMENTS...

- Somerset Mall (50%), Western Cape, GLA 65,030m².
- Paarl Mall (70%), Western Cape, GLA (36 500m²).
- Fourways Crossing (50%), Gauteng, GLA 47 790m².
- Vaal Mall (77,86%), Gauteng, GLA 48 328m².
- N1 City (42%), Western Cape, GLA 63 364mm².
- Southgate Mall (16,6%), Gauteng, GLA 69 650m².
- Harrowdene Office Park, Gauteng, GLA 36 418m².
- Woodlands Office Park (40%), Gauteng, GLA 84 484m².
- Discovery Building, Gauteng, GLA 22 526m².
- ENS Building, Gauteng, 15 975m².
- Stenham European Shopping Centre Fund, Nova Eventis, 96 000m². ❏

COPY: Eamonn Ryan ADVERTISING: Beverley Mayston