

# SA CORPORATE REAL ESTATE FUND

SA Corporate Real Estate Fund  
(Incorporated in the Republic of South Africa)  
Share Code: SAC ISIN Code: ZAE00083614  
A Collective Investment Scheme in property registered in terms of the Collective Investment Schemes Control Act, No. 45 of 2002 and managed by SA Corporate Real Estate Fund Managers Limited ("SA Corporate Fund Managers")  
(Registration number 1994/009895/06)  
("SA Corporate" or "the Fund")

# REVIEWED CONDENSED FINAL RESULTS AND DISTRIBUTION DECLARATION FOR THE YEAR ENDED 31 DECEMBER 2012

## Distribution growth

- Full year 4.6% higher than 2011
- 2nd half 2012 3.5% higher than 2nd half 2011

## Capital Structure

- Low gearing of 14.0%
- Interest rate swap restructure
- 42.9m units repurchased

## Portfolio activity

- Standing portfolio value up 3.6%
- Disposal of 18 properties for R769.5m

## Property performance

- Vacancy as % of rental income decreased to 4.9%
- Tenant retentions increased to 88.1%

## INTRODUCTION

SA Corporate Real Estate Fund is a JSE listed Property Unit Trust which owns a portfolio of retail, industrial and commercial buildings located primarily in the major metropolitan areas of South Africa.

## FINANCIAL RESULTS AND PORTFOLIO PERFORMANCE

The full year's distribution (30.15cpu) increased by 4.6% (2011: 28.83cpu). The distribution for the second half of the year to December 2012 (14.98cpu) increased by 3.5% relative to the comparable period in December 2011 (14.48cpu). During the current year the distribution was impacted by disposals made in 2011 and 2012 with the standing portfolio distribution increasing by 3.5%. The premium to net asset value increased to 6.7% (NAV: 342cpu, Unit price: 365cpu) from 3.3% (2011: NAV: 335cpu, Unit price: 346cpu).

These results include a provision of R5.9m pending the finalisation of a VAT attribution ruling from SARS, relating to the period 2007 to 2012. Without this provision the final distribution would have increased by 5.5% and total distribution by 5.6%.

Industrial rental growth (7.3%) was underpinned by solid tenant retentions of 92.4% combined with positive rental reversions. Retail rental income decreased by 6.0%. The reduction is attributable to a combination of the impact of disposals and a 0.9% increase in vacancies. Retail rental income on the standing portfolio has improved from a 2.9% dilution as at 31 December 2011 to 5.3% growth as at December 2012, arising from improved retentions (87.3% and positive reversions 2.5%). Commercial rental income increased by 3.9%. The total standing portfolio rental (excluding recoveries) increased by 6.9%, mainly due to improved tenant retention and positive rental reversions.

SA Corporate disposed of its investment in Oryx Properties Limited ("Oryx") in January this year, resulting in a 91.7% decrease in interest income from associate. The proceeds were utilised to fund unit repurchases and settle the R100m loan yielding interest of 10.57% resulting in enhanced distributions.

Property expenses increased by 2.5%. Municipal costs (representing 61.6% of property expenses) increased by 6.8%, due to an increase in electricity of 10.2%. Bad debts decreased by 75% (R6.1m) compared to December 2011 (R24.1m) driven by improved collections and reduced tenant business failures relative to 2011.

Net interest paid decreased by 22.7%. The reduction is attributable to the early settlement of expensive debt resulting in a reduction in interest expense. In December 2012, the Fund restructured its debt swap profile by cancelling interest rate swap contracts with high rates and entered into agreements at more favourable rates. There is an estimated benefit of R38.8m to the Fund over the next 3 years after taking into account the funding costs in respect of the cancellation fees paid of R59.3m. The cancellation fees paid will not affect distributions.

## The breakdown of distributable earnings is set out below:

	12 months to 31.12.2012 Reviewed	12 months to 31.12.2011 Audited
<b>DISTRIBUTABLE EARNINGS (R000)</b>		
Rent (excluding straight line adjustment)	893,877	891,049
Net property expenses	(116,803)	(116,082)
Property expenses	(442,587)	(431,781)
Recovery of property expenses	325,784	315,699
<b>Net property income</b>	<b>777,074</b>	<b>774,967</b>
Taxation on distributable income	699	(93)
Interest income from associate company (Oryx)	1,402	16,970
<b>Net funding cost</b>	<b>(108,655)</b>	<b>(140,564)</b>
Interest received	30,547	23,597
Interest paid	(139,202)	(164,161)
<b>Fund expenses</b>	<b>(48,782)</b>	<b>(50,998)</b>
Other	-	(80)
VAT provision	(5,925)	-
Lapsed distribution	795	-
<b>Distributable earnings</b>	<b>616,608</b>	<b>600,202</b>
Units in issue	2,038,989	2,081,869
Weighted units in issue	2,057,569	2,081,869
Distribution (cents per unit)	30.15	28.83
- Interim	15.17	14.35
- Final	14.98	14.48

## PROPERTY VALUATIONS

The value of the Fund's independently valued property portfolio decreased by R0.5bn to R8.1bn as at 31 December 2012 (31 December 2011: R8.6bn). The standing portfolio, representing properties held for the full 12 months (and excluding properties under development in the last 12 months) in December 2012, increased by 3.6%, from December 2011.

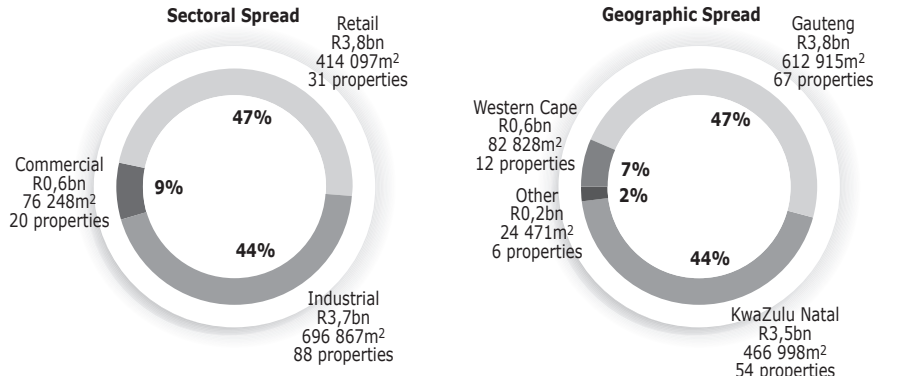
The capitalisation and discount rates in the Fund's standing portfolio at 31 December 2012 was calculated on a weighted basis:

Property type	Capitalisation rate (%)		Discount rate (%)		Growth in standing portfolio (%)
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	
Industrial	9.5	9.9	15.0	15.9	6.8
Retail	9.0	9.5	14.5	15.5	0.8
Commercial	9.9	10.0	15.4	16.0	0.5
<b>Portfolio total</b>	<b>9.3</b>	<b>9.7</b>	<b>14.8</b>	<b>15.7</b>	<b>3.6</b>

The portfolio valuation gives rise to a NAV of 342cpu, a 2.1% increase over December 2011 (335cpu). The improvement in the capitalisation and discount rates are attributable to a strengthening in property market conditions.

## PORTFOLIO INVESTMENT ACTIVITY

The portfolio comprised 139 properties (157 as at December 2011). The sectoral and geographic weightings by value are set out below:



The table below sets out the development activity during the year.

Developments	Cost (Rm)	Completion date	Yield forecast 1st 12 months (%)#	Sector	Region
Musgrave Shopping Centre, Durban	140.5	07/2012	7.4	Retail	KwaZulu-Natal
Cnr Rudo Nel & Tudor Streets - Jet Park, Boksburg	30.0	06/2013	9.3*	Industrial	Gauteng
Hayfields Mall, Pietermaritzburg	22.0	02/2012	10.3	Retail	KwaZulu-Natal
Whirlpropp P (Pty) Ltd, Springfield	19.0	09/2012	9.3	Industrial	KwaZulu-Natal
8 Paul Smit Street - Anderbolt, Boksburg	16.0	11/2012	10.0	Industrial	Gauteng
Middelburg Pick 'n Pay, Middelburg	5.0	07/2013	12.5	Retail	Mpumalanga

\* 9.3% on total cost including land, but 12.5% on new capital  
# denotes unreviewed by the Auditors throughout this document

There were no acquisitions during the year.

## Disposals recognised during the year:

Properties	Transfer date	Gross selling price (Rm)	Carrying value at date of sale (Rm)	Exit yield on sale price (%)#
Highland Mews Shopping Centre, Witbank	06/2012	130.0	137.9	10.0
Renbro Shopping Centre, Pretoria	06/2012	107.0	105.0	8.3
Tokai Junction, Cape Town	12/2012	84.9	82.9	9.4
Hubyeni Shopping Centre, Limpopo	06/2012	80.8	80.9	10.0
The Village Centre, Richards	05/2012	79.6	80.2	9.6
St George's Square, George	12/2012	44.0	44.1	9.6
Van Riebeeckshof Shopping Centre, Bellville	06/2012	38.0	37.7	9.8
Nzhelele Shopping Centre, Makhado	06/2012	30.6	29.7	7.6
212 Church Street, Pietermaritzburg	12/2012	30.0	29.0	10.3
Ermelo Game Centre, Ermelo	06/2012	26.0	26.3	9.2
Dube Village Mall, Inanda	06/2012	25.0	28.0	9.0
6 Lanner Road, Durban	01/2012	22.5	22.5	7.0
Omniplace, Cape Town	12/2012	20.0	20.2	9.0
210 Church Street, Pietermaritzburg	12/2012	19.6	18.4	9.7
Mkuze Corner, Empangeni	12/2012	15.0	14.8	13.4
94 Intersite Avenue, Durban	01/2012	7.5	7.5	8.1
10 Top Road - Anderbolt, Boksburg	12/2012	5.3	5.5	7.2
24-28 Commercial Road, Amanzimnto	10/2012	3.7	3.5	1.6
		<b>769.5</b>	<b>774.1</b>	<b>9.3&amp;</b>
Investment in Oryx Properties Limited	01/2012	175.2	175.2	10.2
<b>Total</b>		<b>944.7</b>	<b>949.3</b>	<b>9.5&amp;</b>

## Unconditional and contracted disposals:

Property	Expected transfer date	Gross selling price (Rm)	Carrying value at 31 December 2012 (Rm)	Exit yield on sale price (%)#
425 West Street, Durban*	01/2013	54.5	54.5	10.1
The Ridge Shopping Centre, Roodepoort	02/2013	30.0	30.0	8.0
Clubview Corner, Pretoria*	01/2013	27.0	27.0	9.3
<b>Total</b>		<b>111.5</b>	<b>111.5</b>	<b>9.3&amp;</b>

\* Transferred in January 2013  
# Estimated due to vacancies  
& Weighted on gross selling price

## LEASE EXPIRIES AND VACANCIES#

Vacancies in terms of rentable area and rental income were as follows:

Property type	Vacancy as % of GLA		Vacancy as % of rental income	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Industrial	1.3	1.4	1.5	1.5
Retail	10.6	9.7	5.8	6.6
Commercial	19.2	13.6	14.1	9.2
<b>Portfolio total</b>	<b>5.9</b>	<b>5.6</b>	<b>4.9</b>	<b>5.0</b>

The Fund's industrial vacancy as at end December 2012 was 1.3% (December 2011: 1.4%). The quality of the portfolio ensured that the industrial portfolio remains well let and better than the sector average. This is underpinned by a robust retention strategy while partnering with tenants to accommodate their operational requirements. There is pressure on rental values as tenants strive to balance higher occupancy costs with their affordability thresholds.

Retail vacancies (10.6%) increased since December 2011 (9.7%) due to developed areas previously moth balled but now capable of being let and strategic areas held for expansion for existing and prospective tenants.

The two-tier market trend continues to define the office sector with B and C-grade properties remaining under significant pressure, where the lower grade properties are unable to compete in terms of efficiencies (and densification), while tenants endeavor to lower occupancy costs and increase headcount per square metre. Stand-alone office vacancies of total offices are higher at 10.9% (2011: 5.5%) and retail office vacancies of total offices are marginally better at 8.3% (2011: 8.4%). The increase in the stand alone office vacancy is attributable to two lower grade office buildings totaling some 5,000m<sup>2</sup> becoming vacant in the last quarter of 2012.

The lease expiry profile and vacancies (by GLA) are set out below:

Property type	Vacant (%)	Expiring (%)					
		GLA	Monthly	2013	2014	2015	2016
Industrial	1.3	10.0	21.2	12.7	19.2	6.2	29.4
Retail	10.6	9.1	14.5	14.7	18.8	11.4	20.9
Commercial	19.2	4.2	15.6	21.2	6.7	5.4	27.7
<b>Total</b>	<b>5.9</b>	<b>9.2</b>	<b>18.5</b>	<b>14.1</b>	<b>18.1</b>	<b>8.0</b>	<b>26.2</b>

## TENANT RETENTION AND RENTAL REVERSION#

The table below reflects the Fund tenant retention ratio and rental reversion per sector for year ended December 2012:

Property type	Expiries m <sup>2</sup>	Retention m <sup>2</sup>	Retention (%)	Rental reversion (%)
Industrial	171,459	158,385	92.4	5.0
Retail	136,618	119,287	87.3	2.5
Commercial	16,925	8,494	50.2	2.0
<b>Total</b>	<b>325,002</b>	<b>286,166</b>	<b>88.1</b>	<b>3.6</b>

## BORROWINGS

The debt profile is detailed below as at 31 December 2012 (which was unhedged as described below):

Type	Maturity date	Value (Rm)	Interest Rate (%)
Variable	13.08.2013	270	6.79
Variable	13.08.2013	30	6.79
Variable	31.12.2013	220	6.80
Variable	11.09.2014	400	6.80
Variable	29.04.2015	200	7.58
Variable	25.07.2016	21	7.34
<b>Total</b>		<b>1,141</b>	<b>6.94</b>

Gearing remained low with debt amounting to 14.0% of the total portfolio (31 December 2011: 20.2%). 100.0% of the debt is variable as at 31 December 2012, due to the settlement of all its swaps as at 14 December 2012. The Fund entered into new swap arrangements, effective as at 2 January 2013, hedging R720m of its R900m long-term debt.

## STRATEGY AND PROSPECTS

The Fund's strategy has four pillars. The first is an investment strategy that underpins sustainable distribution growth. This requires that acquisitions of appropriate quality properties are made and the divestments of properties not compatible to the Fund in the long term are accompanied with acquisitions that do meet the Fund's long term objectives. In this regard the Fund has made one acquisition in 2013 and continues to explore other investment opportunities including development partnerships.

The second pillar is to procure sector best property management services to secure optimal performance of the Fund's portfolio and a request for proposal for these services is to be issued shortly.

The third pillar entails establishing an optimal capital structure, which includes not only an appropriate level of gearing but also well priced debt and a managed interest rate policy. Progress has been made with the latter whilst a project to access the debt capital markets is underway to support the former.

The final pillar is the alignment of investor and management interests. Given the regulatory environment, execution of the latter is a complex matter. Considerable research has been undertaken to formulate a structure to achieve this objective and management are now appropriately placed to take this forward.

In the opinion of the Board, having embarked upon the execution of the aforementioned strategy improved distribution growth is anticipated for 2013.

## REVIEW BY INDEPENDENT AUDITORS

The condensed provisional financial information for the year ended 31 December 2012 has been reviewed by the Fund's auditors, Deloitte & Touche. The review was conducted in accordance with ISRE 2410 'Review of Interim Financial Information performed by the Independent Auditor of the Entity'. A copy of their unmodified review report is available for inspection at the Fund's registered office. Any reference to future financial performance included in this announcement, as well as related information which is not based on the International Financial Reporting Standards, has not been reviewed or reported on by the Fund's auditors.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (R000)

	As at 31.12.2012 Reviewed	As at 31.12.2011 Audited
<b>Assets</b>		
<b>Non-current assets</b>	<b>7,990,017</b>	<b>8,036,164</b>
Investment property	7,733,791	7,812,992
- At valuation	7,903,575	7,178,125
- Straight line rental adjustment	(233,084)	(210,833)
- Properties under development	63,300	845,700
Letting commission and tenant installation	53,521	41,114
Interest rate swap derivative	2,854	-
Rental receivable - straight line adjustment	199,851	182,058
<b>Current assets</b>	<b>754,215</b>	<b>1,269,891</b>
Properties held for disposal	182,900	527,700
Letting commission and tenant installation	835	-
Investment in associate held for disposal	-	175,208
Trade receivables	20,186	26,555
Other receivables and accrued interest	108,956	138,002
Rental receivable - straight line adjustment	33,233	28,775
Capital gains taxation	824	-
Cash resources and short term investments	407,281	373,651
<b>Total assets</b>	<b>8,744,232</b>	<b>9,306,055</b>
<b>Unitholders' funds and liabilities</b>		
<b>Unitholders' funds</b>	<b>6,973,355</b>	<b>6,967,767</b>
<b>Non-current liabilities</b>	<b>767,719</b>	<b>1,332,077</b>
Interest bearing borrowings	620,975	1,222,982
Interest rate swap derivative	-	13,732
Deferred taxation	146,744	95,363
<b>Current liabilities</b>	<b>1,003,158</b>	<b>1,006,211</b>
Trade and other payables	170,283	179,424
Interest bearing borrowings	520,000	500,000
Capital gains taxation	56	2,415
Unclaimed distributions	1,034	4,148
Distributions payable	305,475	301,411
Interest rate swap derivative	6,310	18,813
<b>Total unitholders' funds and liabilities</b>	<b>8,744,232</b>	<b>9,306,055</b>
<b>NAV cpu</b>	<b>342</b>	<b>335</b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (R000)

	Year ended 31.12.2012 Reviewed	Year ended 31.12.2011 Audited
<b>Revenue</b>	<b>1,227,838</b>	<b>1,235,323</b>
<b>Income</b>	<b>1,259,787</b>	<b>1,300,061</b>
Rent	893,877	891,049
Straight line rental adjustment	8,177	28,575
Recovery of property expenses	325,784	315,699
Income from associate company	1,402	41,141
- Interest income	1,402	16,970
- Share of post-acquisition reserves	-	24,171
Interest	30,547	23,597
<b>Expenses</b>	<b>(636,496)</b>	<b>(646,940)</b>
Accounting and secretarial fees	(5,893)	(10,205)
Audit fees	(1,661)	(1,517)
Administrative fees	(11,594)	(7,737)
Interest paid	(139,202)	(164,161)
Property expenses	(442,587)	(431,781)
Service fees	(35,559)	(31,539)