

SA CORPORATE REAL ESTATE FUND

SA Corporate Real Estate Fund ("SA Corporate" or "the 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)
REIT status approved

INTRODUCTION
SA Corporate Real Estate Fund is a JSE listed Property Unit Trust (granted a REIT status which came into effect 1 January 2014) which owns a portfolio of industrial, retail and commercial buildings located primarily in the major metropolitan areas of South Africa.

REVIEW OF FINANCIAL RESULTS AND PORTFOLIO PERFORMANCE
The full year's distribution (32.75cpu) increased by 8.6% relative to the comparable period (30.15cpu). The distribution for the second half of the year to December 2013 (16.47cpu) increased by 9.9% relative to the comparable period in December 2012 (14.98cpu). 8.3% of the increase in the full year's distributions is attributable to the portfolio excluding acquisitions, with the latter contributing 0.3% to the overall increase. The Fund achieved standing portfolio net property income growth of 5.6% and 9.1% on an absolute and per unit basis respectively. The premium to net asset value ("NAV") increased to 8.4% at December 2013 (NAV: 368cpu, Unit price: 399cpu), compared to a premium of 6.7% at December 2012 (NAV: 342cpu, Unit price: 365cpu).

Industrial rental growth (7.0%) was underpinned by weighted average rental escalations of 8.2% and the leasing of vacant space. The tenant retention ratio of 66.4% was impacted by the expiry of 30 000m² distribution warehousing space which, although not renewed, was immediately re-let without any downtime. Retail standing portfolio net property income growth of 7.5% is attributable to improvements in the quality of the portfolio, leading to strong tenant retentions, reducing vacancies, positive reversions and improved recoveries. Commercial retail portfolio net property income growth of 7.5% is attributable to improvements in the quality of the portfolio, leading to strong tenant retentions, reducing vacancies and positive reversions and supported by the disposal of 3 vacant B and C grade office buildings together with the acquisition of two A grade office buildings.

Property expenses were marginally down by 0.2%, impacted by disposals and acquisitions. Expenses related to the standing portfolio increased by 8.6%. Municipal costs (representing 63.3% of property expenses) increased by 10.5%, due to an increase in rates, electricity and water costs by 6.8%, 12.3% and 18.6% respectively. Standing portfolio property expenses excluding municipal costs increased by 5.4%, the main driver being the increase in Transport ground rents in respect of leasehold properties representing 3.5% of the increased costs, with the balance of the costs increasing by 1.9%.

Net interest expense decreased by 32.1%. The reduction is attributable to the early settlement of expensive debt, and the outcome of establishing an optimal capital structure.

Fund Expenses increased by 2.0%. This relates to increased service fees due to unit price growth and increased gearing. The 58,896,063 units repurchased in the open market in January and February 2013, gave rise to a lapsed distribution of R8,8m, as these were purchased cum dividend. These lapsed distributions were available for re-distribution as part of the interim distribution.

The breakdown of distributable earnings is set out below:

	Year ended 31.12.2013 Audited	Year ended 31.12.2012 Audited
DISTRIBUTABLE EARNINGS (R000)		
Rent (excluding straight line rental adjustment)	878,077	893,877
Net property expenses	(109,078)	(116,803)
Property expenses	(441,832)	(442,587)
Recovery of property expenses	332,754	325,784
Net property income	768,999	777,074
Taxation on distributable earnings	102	699
Interest income from associate company (Oryx)	-	1,402
Net funding cost	(73,751)	(108,655)
Interest income	20,811	30,547
Interest expense	(94,562)	(139,202)
Fund expenses	(55,822)	(54,707)
Lapsed distribution on units repurchased	8,823	795
Distributable earnings	648,351	616,608
Units in issue (000)	1,980,093	2,038,989
Weighted number of units in issue (000)	1,985,703	2,057,569
Distribution (cents per unit)	32.75	30.15
Interim	16.28	15.17
Final	16.47	14.98

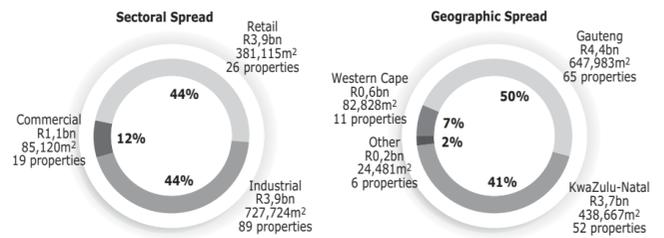
PROPERTY VALUATIONS
The value of the Fund's independently valued property portfolio increased by R715,45m to R8,87bn as at 31 December 2013 (31 December 2012: R8,15bn). The standing portfolio, representing properties not under development and held for the full 12 months to December 2013, increased by R386.3m (4.9%) from 31 December 2012.

The capitalisation and discount rates in the Fund's standing portfolio at 31 December 2013 were calculated on a weighted basis:

Property type	Capitalisation rate (%)		Discount rate (%)		Growth in standing portfolio (%)
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	
Industrial	9.0	9.5	14.5	15.0	4.7
Retail	8.7	9.0	14.2	14.5	6.0
Commercial	9.3	9.9	14.8	15.4	(0.1)
Portfolio total	8.8	9.3	14.3	14.8	4.9

The NAV per unit (368cpu) increased by 7.6% (December 2013: 342cpu) of which 5.3% is attributable to property value.

PORTFOLIO INVESTMENT ACTIVITY
The portfolio comprised 134 properties (December 2012: 139). The sectoral and geographic weightings by value as at 31 December 2013 are set out below:



Developments:

Properties	Cost (Rm)	Completion date	Yield forecast 1st 12 months (%)	Sector	Region
Corner of Rudo Nel & Tudor Streets, Jet Park	30.0	12/2013	10.0	Industrial	Gauteng
Middelburg Pick 'n Pay, Middelburg	5.0	08/2013	12.5	Retail	Mpumalanga
Total	35.0		10.4		

Acquisitions:

Properties	Cost (Rm)	Acquisition date	Yield forecast 1st 12 months (%)	Sector	Region
World Trade Center, Sandton	360.0	11/2013	9.0	Office	Gauteng
Nampak, Denver, 530 Nicholson Road, Doornfontein	67.0	12/2013	9.0	Industrial	Gauteng
PWC, 102 Essenwood Road, Durban	65.0	05/2013	10.6	Office	KwaZulu-Natal
Total	492.0		9.2		

Contracted and unconditional acquisitions:

Properties	Cost (Rm)	Expected transfer date	Yield forecast 1st 12 months (%)	Sector	Region
Eveready & Continental Tyres, New Brighton, Port Elizabeth	124.5	01/2014*	9.0	Industrial	Eastern Cape
Celtis Ridge Shopping Centre, Centurion	106.0	01/2014*	9.3	Retail	Gauteng
Webco Tools, Founders View	14.1	#	9.0	Industrial	Gauteng
UPM Rafilatac, Longmeadow	9.4	#	9.0	Industrial	Gauteng
Total	254.0		9.1		

* Transferred in January 2014 # To be transferred during 2014

Disposals:

Properties	Transfer date	Gross selling price (Rm)	Carrying value at latest valuation date (Rm)	Exit yield on sale price (%)
425 West Street, Durban	01/2013	54.5	54.5	10.0
Philani Valley Shopping Centre, Umlazi	11/2013	40.5	35.3	3.5
106 Johan Avenue, Sandton	07/2013	35.0	35.0	4.4#
The Ridge, Rodepoort	03/2013	30.0	30.0	9.0
Clubview Corner, Pretoria	01/2013	27.0	27.0	8.4
131 Jan Hofmeyr Road, Westville	09/2013	23.9	22.4	7.8
13 Wellington Road, Parktown	09/2013	17.8	17.4	5.6#
Main Street, Gingindlovu	06/2013	5.0	5.4	6.6#
Total		233.7	227.0	7.1#

Estimated yield as building 100% vacant & 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	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Industrial	0.2	1.3	0.2	1.5
Retail	8.9	10.6	4.6	5.8
Commercial	11.8	19.2	7.0	14.1
Portfolio total	4.0	5.9	3.2	4.9

* GLA=Gross Lettable Area

The Fund has made good progress with the vacancy take-up with overall vacancies reducing by 1.9% based on GLA and 1.7% based on rental income.

The Fund's industrial vacancy as at December 2013 was 0.2% (December 2012: 1.3%). The quality and pro-active management of the portfolio ensured that the industrial portfolio remains let at levels well above the sector average. There is pressure on rental levels as tenants strive to service higher occupancy costs in a challenging economic environment.

Retail vacancies continued their positive downward trend to 8.9% as at 31 December 2013 (December 2012: 10.6%) with significant inroads being made since June 2013. Vacancies are expected to decrease further on the back of expansion and redevelopment initiatives.

Low GDP growth impacting employment growth and rental demand is leading to continued space consolidation in the office market. This places further pressure on the office vacancies, especially B to C Grade office buildings. Although offices represent a very small component of the Fund's portfolio, the focus has been to improve the quality of the office portfolio by divesting from 3 largely vacant office buildings and acquiring two A grade office buildings with solid tenant covenants. This has resulted in a reduction of commercial vacancies of 7.4% and of 7.1% as a percentage of GLA and rental income respectively.

Distribution growth

- Full year 8.6% higher than 2012
- 2nd half 2013 9.9% higher than 2nd half 2012

Capital structure

- Low LTV of 18.3%
- 58.9m units repurchased
- Premium to NAV increased to 8.4%

Portfolio activity

- Standing portfolio value up 4.9%
- Acquisition of 3 properties for R492,0m
- Contracted and unconditional acquisition of 4 properties for R254,0m

Property performance

- Vacancy as % of rental income improved to 3.2%
- Standing portfolio retail NPI growth of 7.5%
- Commercial tenant retentions increased to 90.5%

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

Property type	Vacant (%)	Expiries (%)					
		Monthly	2014	2015	2016	2017	Thereafter
Industrial	0.2	2.6	10.9	28.4	12.9	23.3	21.7
Retail	8.9	5.4	15.3	18.2	15.4	7.9	28.9
Commercial	11.8	3.5	25.5	24.5	19.9	7.2	7.6
Total	4.0	3.6	13.6	24.8	14.3	17.0	22.7

TENANT RETENTION AND RENTAL REVERSION

The table below reflects the Fund's tenant retention ratio and rental reversion per sector for a rolling 12 month period ending December 2013:

Property type	Expiries (m ²)	Retention (m ²)	Retention (%)	Rental reversion (%)
Industrial	137,724	91,454	66.4	(0.8)
Retail	45,837	40,052	87.4	2.2
Commercial	15,281	13,836	90.5	2.2
Total	198,842	145,342	73.1	1.0

The tenant retention of 73.1% is lower than 88.1% achieved in the prior year, as a result of the 30,000m² industrial expiry referred to in the "Review of Results and Performance" section.

There was pressure on rental reversions which led to slight negative reversions on the industrial portfolio during the year. This is however limited, as only 4.7% of the total industrial GLA is affected. Commercial retentions have shown significant improvement at 90.5% (December 2012: 50.2%) in a difficult market.

BORROWINGS

The debt profile is detailed below as at 31 December 2013:

Type	Maturity date	Value (Rm)	Interest Rate (%)
Fixed	29.04.2015	200	8.62
Fixed	30.06.2015	425	7.45
Fixed	31.12.2015	300	7.85
Fixed	25.07.2016	1	8.13
Fixed	31.12.2016	400	7.85
Fixed	30.09.2018	270	7.81
Fixed	30.09.2018	30	7.81
Total		1,626	7.83

Loan to value ("LTV") remained low with debt amounting to 18.3% of the total portfolio (31 December 2012: 14.0%). The Fund entered into new swap arrangements during the year hedging R1,375m (84.6%) of the Fund's effective borrowings.

STRATEGY AND PROSPECTS

At the beginning of 2013 the Fund presented a four pillar strategy to turn around the performance of the Fund and to provide a base from which the Fund would be able to deliver sustainable distribution growth well into the future. The Board is pleased to report that during the year under review actions were executed to address each of the four pillars of the strategy and as a consequence the Fund achieved top quartile performance in the sector in 2013 and is appropriately positioned for future growth.

In an environment of market volatility and upward pressure on the cost of capital and yields, the Fund is focusing on unlocking underperformance in its retail portfolio and robust tenant retention in its industrial portfolio. In addition the Fund is exploring investment opportunities that will be yield and growth enhancing.

The Board is pleased with the turnaround of the Fund in 2013 and is confident that it is now on a firm footing to deliver distribution growth at least on par with the sector average for listed entities invested in South African property.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (R000)

	As at 31.12.2013 Audited	As at 31.12.2012 Audited
Assets	8,927,419	7,990,017
Investment property	8,654,251	7,733,791
- At valuation	8,722,125	7,903,575
- Straight line rental adjustment	(210,974)	(233,084)
- Properties under development	143,100	63,300
Letting commissions and tenant installations	63,116	53,521
Interest rate swap derivatives	39,644	2,854
Rental receivable - straight line adjustment	170,408	199,851
Current assets	515,248	754,215
Properties held for disposal	-	182,900
Letting commissions and tenant installations	-	835
Trade receivables	16,637	20,186
Other receivables and accrued interest	146,143	108,956
Rental receivable - straight line adjustment	40,566	33,233
Interest rate swap derivatives	382	-
Capital gains taxation	-	824
Cash resources and short term investments	311,520	407,281
Total assets	9,442,667	8,744,232
Unitholders' funds and liabilities	7,280,242	6,973,355
Non-current liabilities	1,625,913	767,719
Interest bearing borrowings	1,625,913	620,975
Deferred taxation	-	146,744
Current liabilities	536,512	1,003,158
Trade and other payables	197,160	170,283
Interest bearing borrowings	-	520,000
Capital gains taxation	-	56
Unclaimed distributions	1,346	1,034
Distributions payable	326,030	305,475
Interest rate swap derivatives	11,976	6,310
Total unitholders' funds and liabilities	9,442,667	8,744,232
NAV cpu	368	342

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (R000)

	Year ended 31.12.2013 Audited	Year ended 31.12.2012 Audited
Revenue	1,186,412	1,227,838
Income	1,207,223	1,259,787
Rent	878,077	893,877
Straight line rental adjustment	(24,419)	8,177
Recovery of property expenses	332,754	325,784
Interest income from associate company	-	1,402
Interest income	20,811	30,547
Expenses	(592,216)	(636,496)
Accounting and secretarial fees	(6,082)	(5,893)
Audit fees	(1,845)	(1,661)
Administrative fees	(10,460)	(11,594)
Interest expense	(94,562)	(139,202)
Property expenses	(412,714)	(407,387)
Property administration	(29,118)	(35,200)
Service fees	(37,435)	(35,559)
Operating income	615,007	623,291
Revaluation of interest rate swap derivatives	31,506	(30,141)
Amortisation of debt restructure costs	(10,504)	(32,739)
Capital loss on disposal of investment properties	(4,086)	(20,075)
Revaluation of investment properties	380,625	245,611
- Revaluations	356,206	253,788
- Straight line rental adjustment	24,419	(8,177)
Revaluation of investment property under development	-	625
Income before taxation	1,012,548	786,572
Taxation	146,846	(49,939)
Current capital gains and normal income taxation	102	1,441
Deferred taxation on property transactions	146,744	(51,380)
Deferred taxation on straight line valuation adjustment	(21,815)	846
Deferred taxation on straight line rental adjustment	2,1815	(846)
Net profit attributable to unitholders	1,159,394	736,633
Other comprehensive income	10,516	27,473
Amortisation of hedge reserve	10,516	27,473
Total comprehensive income attributable to unitholders	1,169,910	764,106

CONSOLIDATED STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS (R000)

	Year ended 31.12.2013 Audited	Year ended 31.12.2012 Audited
Unitholders' funds at the beginning of the year	6,973,355	6,967,767
Total comprehensive income for the year	1,169,910	764,106
Net profit for the year	1,159,394	736,633
Amortisation of hedge reserve		