Octodec Investments reports strong financial results

Octodec Investments Ltd has reported a revenue of R1,995.1m (up 3.3% from 2022) and has raised its dividend per share to 135 cents (up from 130 cents) for the fiscal year ending 31 August, 2023.

Source: Supplied.

The group did extremely well to limit property cost increases to 5.3% year-on-year in what was an exceptionally challenging operating environment.
Distributable income before tax decreased marginally by 1.3% from R465.9m to R459.8m primarily as a result of increased administration and corporate costs.

Octodec's residential portfolio, which accounts for 34% of the total portfolio by income and 27.3% of the portfolio by Gross Leasable Area (GLA), was the stand-out performer with income increasing by 10.2% year-on-year off the back of excellent occupancy levels and increased rentals.

Excluding The Fields, which was negatively impacted by the reduction in the monthly National Student Financial Aid Scheme (NSFAS) allowance to students, residential vacancies at year end across the portfolio had dropped to near pre-Covid levels of 5%.

Octodec's portfolio of retail shopping centres continued to perform exceptionally well, with rental income increasing by 5.3% year on year. The group remains confident that this sector will continue to perform strongly into the new financial year. Vacancies lowered slightly to 6.8%, however excluding Killarney Mall, which has higher vacancies, vacancies in this sector reached an all-time low of 0.4%.

Commenting on the results, Jeffrey Wapnick, Octodec MD says: “I am particularly proud of our residential and commercial leasing teams for their efforts in what has been a robust period of letting activity. These results, coupled with the sustained interest from large national retailers in our well-maintained and well-located buildings, suggest that Tshwane and Johannesburg remain in demand and bustling with activity for residents, office workers and retail customers alike.”

Industrial and Office

Octodec’s industrial portfolio performed relatively well, experiencing rental growth of 3.8%, and 8.6% on a like-for-like basis, however vacancies increased from 6.8% to 8.7% largely due to several large pockets of space in Tshwane West, and Silverton becoming vacant at year end. The pipeline of interest for space in this area, however, remains strong, and the group is confident that this sector will see improvement in occupancies going forward.

Core office vacancies remained stable relative to FY2022, with most large leases being renewed. Rental income however reduced by 5.3%, due to two significant negative government rental reversions. However, the rest of the government leases were renewed at a 6% escalation plus operating costs, which was previously not recovered from the government. This will bold well for FY2024, in the absence of any other unforeseen events.

Ongoing portfolio upgrades

Octodec’s residential buildings are renowned for their high quality, and FY2023 saw the refurbishment of the common and entertainment areas at Vuselela Place in Johannesburg, as well as the construction of a play and recreational area at Steyn’s Place in Tshwane. In addition, the group completed its Shoprite development in the Tshwane CBD, with the remainder of phase two to be completed in FY2024, and commenced with its flagship conversion of HealthConnect (previously a vacant office building) adjacent to Louis Pasteur Medical Centre, into medical suites, which is anticipated to be completed in January 2024.

> *Today, we release our annual results for the full year ended 31 August 2023. Join us at 10:30am for key updates from Octodec’s executives.*
> *Click here to join the webcast: https://t.co/1ftZIuFdzq#OCT #REIT #SAREIT #Property pic.twitter.com/n8RWnms09B— Octodec Investments (@OctodecInvest) November 1, 2023*

The group remains committed to the disposal of non-core properties. A number of agreements have been signed, but these are subject to suspensive conditions, and against this backdrop, Octodec sold and transferred properties for a total net consideration of R109.4m during the year.

Jeffrey Wapnick adds: “Outside of delivering on our key operational and strategic priorities, we also undertook a wide range of important social initiatives that talk to our purpose of creating a thriving environment of diversity and inclusion for our communities. As an example, we are in the process of establishing an Early Childhood Development (ECD) centre in partnership with a long-standing beneficiary of our CSI programme, Cotlands. This initiative will assist our tenants who work full time to entrust their young children with qualified daycare staff in a warm, nurturing and educational environment.”

In addition, Octodec, via its property manager City Property, was proudly involved in the launch of the Church Square Revival Project, a public-private community initiative led in conjunction with the City of Tshwane. The rejuvenation project aims to make Church Square - one of the most iconic and historically significant precincts in the country - a cleaner, more accessible tourist destination and public space.

Balance-sheet management and execution

The group’s focused efforts on collections was evidenced by a strong performance with collections averaging just under 99% for the period, while tenant arrears increased marginally to 4.2% of rental income (2022: 3.3%).

Octodec financial director, Anabel Vieira, comments: “Octodec has refinanced all loans which matured during the current year as well as all loans maturing in FY2024, with the exception of one small facility, for periods ranging between three to five years.

"Over the past 24 months, we have strengthened the balance sheet and improved our liquidity position with carefully timed debt-reduction efforts early on in the interest-rate hiking cycle.

"We have also undertaken a cautious but active approach to capital allocation, carefully selecting yield accretive capital projects and actively pursuing our disposal programme (of non-core, mothballed assets) in what is still a high-inflation, low economic-growth environment,” Vieira concludes.

Dividend

Octodec’s dividend policy is premised on retaining sufficient funds for maintenance, as well as for developments and acquisition opportunities. In lieu of this, the Board of Octodec declared a final dividend of 75.0 cents per share for the second half of the year, resulting in a total dividend for the year of 135.0 cents (FY2022: 130.0 cents) per share, a 3.8% increase on the prior year.

Prospects

Octodec experienced an increase in leasing activity during the year, and the group’s residential-, retail- and industrial assets remain attractive to prospective tenants. Although there has been a continued downward resetting of rentals across the industry, it is pleasing to see that a number of renewals were concluded at increased rentals and there is continued demand from large retailers for space in both Johannesburg and Tshwane CBDs.

Management is cognisant of the impact of high- inflation and interest rates and increasing energy costs, and therefore remains cautious in its approach to developments, including new builds and conversions, focusing on maintaining a healthy balance sheet and providing a steady distribution to shareholders.