Better days ahead for SA Corporate

By Joan Muller

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It seems perennial under-performer South Africa Corporate Real Estate Fund has finally turned the corner after completing internalisation of its management company.

SA Corporate's Rory Mackey says that the company intends to grow th its inner-city affordable housing portfolio to about R3bn in the next three to five years. Image: SA Corporate Real Estate Fund

The fund announced solid interim results, with a 10% rise in like-for-like net property income for the six months ending June. Growth in income payouts came in at 8.6%, on par with the sector average but slightly ahead of market expectations.

South Africa Corporate shareholders had to be satisfied with below-market earnings growth for most of the 2008 to 2012 period.

Analysts said South Africa Corporate's newfound independence from Old Mutual, previously external manager of the fund, has started to pay off.

"The company is now on a different trajectory and we are very impressed with the property skills of the new management team, who have placed the fund back on what appears to be a sustainable growth track," Sesfikile Capital Director Evan Jankelowitz said.

"South Africa Corporate's recent foray into affordable housing, through the acquisition of a R1.1bn portfolio of residential and retail property in the Johannesburg inner city from Affordable Housing Company (Afhco), was also a smart strategic move," he said.

"Diversifying away from the existing industrial, retail and office portfolio opens opportunities for growth. And we like the fact management has not gone into the housing sector blindly but has instead chosen to retain the skills of Afhco through a three-year service contract," he added.

Affordable housing is opportunity for growth

South Africa Corporate Managing Director Rory Mackey said that inflation-beating income growth was achieved on strong tenant retention, improved turnover rental collections, the disposal of older, poorer-performing buildings and reduced vacancies.

One of SA Corporate's properties, Stellenbosch Square in the Western Cape. Image: Melt Wahl

The fund's overall vacancy rate has nearly halved in the 12 months to June, from 6% of lettable space to 3.6%.

Mackey said South Africa Corporate's industrial vacancy remained well below the sector average at less than 2%.

Retail and office vacancies continued their downward trend over the past year, from 11.9% to 6.5% and 19.9% to 10.3% respectively.

Group expenses fell 17.7% for the six months to June, largely due to lower service, accounting and secretarial fees after the internalisation of the management company, effective from May.

Looking ahead, Mackey said the turnaround strategy for the fund had now been largely executed, which had laid the foundation to deliver sustainable distribution growth. A key growth area over the next few years is likely to be the expansion of South Africa Corporate's inner-city housing and retail portfolio.

Mackey recently said the strategy would be to buy recently converted buildings in inner cities in close proximity to transport infrastructure and flourishing retail nodes that offer lower-to middle-income tenants a true live, work and shop environment.

He said management had started looking for diversification options about a year ago, when it realised sluggish economic growth and depressed consumer spending would dampen growth opportunities in the retail, office and industrial sectors.

Housing represents only about 7% of South Africa Corporate's total portfolio of close to R10bn. Mackey would like to grow the residential portfolio to about R3bn within the next three to five years.