

## ■ PROPERTY FUNDS

# State-tenanted portfolio dents Delta results

*Chief cites challenges in bulk lease renewals*

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THE FINANCIAL performance of Delta Property Fund, the listed black-managed and substantially black-owned property fund with significant exposure to government-tenanted offices, was significantly affected in the six months to August by issues related to its government portfolio.

Sandile Nomvete, the chief executive of Delta, confirmed yesterday that it was a very challenging past six months, mainly because of the continued protraction in the bulk lease renewal programme of user department leases through the Department of Public Works (DPW), which made it difficult to refinance debt at competitive rates.

Nomvete said temporary refinance costs increased by 5.7 percent due to higher restructuring fees and delayed the bulk of the R600 million capital expenditure programme the company had communicated to the market.

He said altogether 59 leases totalling 227 500m<sup>2</sup> had been concluded with the DPW and the Treasury in the first stage of the negotiation process.

Nomvete said the lease terms proposed ranged between three and nine years and 11 months.

He said the DPW had negotiated the terms and rentals with Delta and would now agree these with their user departments in stage two of the negotiation process.

Nomvete said three user departments making up 94 334m<sup>2</sup> had concluded stage one and two and progressed to the third and final stage, where the bid adjudication committee was expected to grant its approval.

“Following these three stages, DPW has indicated that the remaining 133 166m<sup>2</sup> are expected to be renewed by December 31,” he said.

Delta’s property operating expenses



THE chief executive of Delta, Sandile Nomvete.

increased by 23.8 percent to R254.1m in the six months to August from R205.3m in the prior period, resulting in net property income decreasing by 8.8 percent to R525.6m from R576.4m.

Nomvete said this resulted primarily from a R30m once-off provision raised related to a gross lettable area dispute on the Forum building, which was under discussion with the DPW.

He said this provision also increased the gross cost to income ratio to 32 percent and vacancies to 13.3 percent of gross lettable area.

Finance costs increased by 5.7 percent, which Delta attributed primarily to the conclusion of new facilities and the refinancing of existing facilities at marginally higher rates, coupled with higher debt restructuring fees.

Nomvete said they expected a significant reduction in finance costs on completion of longer-term lease contracts, with the benefits of this likely to be included in the 2020 financial year.

Delta declared a distribution a share of 39.40 cents for the reporting period, which is 15.1 percent lower than in the prior period. Shares in Delta dropped 2.80 percent on the JSE yesterday to close at R5.91.