

Delta lands state long leases

● Rare victory as public works breaks trend for shorter maturities

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Delta Property Fund, the real estate investment trust that mainly rents offices to the government, watched its share price rise the most in more than three years on Wednesday, after it had signed four long-term leases with the department of public works.

This was a rare victory for Delta because the state has tended to insist on short-term rental agreements, which disadvantage landlords as they cannot forecast earnings properly or provide funders with accurate lease profiles.

Delta's share price closed 9.8% higher at R1.68 on Wednesday, its highest move in 39 months.

Over the past few years, government tenants have tended to opt for leases with short maturities ranging from a few months to a year. But this has placed strain on Delta because it cannot

provide lenders and investors with accurate and predictable earnings forecasts.

Earlier in March, Delta COO Otis Tshabalala told investors the department of public works had been slow to respond to a new leasing framework, first proposed in 2016, which contained longer-term leases at relatively lower rentals.

As a result, Delta paid relatively high interest rates on the debt it raised compared with its peers in the listed property sector because it was unable to provide clear lease profiles to the banks.

The dividend growth for Delta's 2019 financial year was also negatively affected as it draws about 80% of its revenue from state tenants each year.

The company declared an interim dividend of 39.40c per share for the six months to August, which was down 15.1% on the prior period. It also warned that its distributable income for the full financial year

MAKING HEADWAY

DELTA PROPERTY FUND

Share price, daily close (cents)



WEDNESDAY'S SHARE INFO

Close	High	% move	p:e	Dividend yield	Market cap.
168	182	▲ 9.8%	1.89	53.71%	R1.2bn

Graphic: RUBY-GAY MARTIN Source: BLOOMBERG



SANDILE NOMVETE

to February 2019 would be between 19% and 24% lower than the R691.6m it earned in its 2018 financial year.

The four leases that Delta announced it had concluded with the state were for a total gross lettable area of 6,400m² at an average rental of R105/m². The lease tenure was five years at an annual contractual escalation of 6.5%.

Delta CEO Sandile Nomvete said he could not comment fur-

ther as the company was in a closed period.

Ian Anderson, chief investment officer at Bridge Fund Managers, said earlier in March the state had actually shot itself in the foot by not agreeing to the lease frameworks that Delta and other landlords had proposed.

The department had cost itself and taxpayers R3bn since 2016 because it was so tardy in signing new leases, which would have been at lower rental

rates and with longer terms, he said at the time.

The new leases would be at lower rentals and that would result in savings of about R1bn a year. In the mid-2000s, numerous landlords signed leases with state tenants that had terms of at least 10 years.

In 2016, as a number of the leases were coming up for renewal, the landlords presented new seven- to 10-year leases at lower rentals, because

of the vacancies in the office market and the need to retain state departments as tenants.

But the department has been slow to play ball, arguing it is understaffed and that its landlords need to be patient. The department has had more than 2,550 leases up for renewal since 2016 but has signed fewer than 100 of them.

Delta's share price is down nearly 63% year to date. andersona@businesslive.co.za