

SA REAL ESTATE CAPITAL MARKETS

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JAVACAPITAL

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WHAT ARE CAPITAL MARKETS

Introduction

Overview

- Capital markets empower the efficient allocation of funding.
- Mechanism for companies to secure funding from the public.
- Investment capital is matched to assets and projects in enterprises that are managed and measured in a transparent fashion, attracting high quality management and driving good performance.
- Virtuous circle: performance/returns require funding which attracts capital investment and talent driving further performance/returns.

Debt Capital Markets

- Cost effective gearing of investment property is a fundamental tenet of successful property investment.
- Gearing reduces the entry price to equity investors in property, thereby enhancing equity returns.
- Accessibility of cost-effective gearing is predicated on factors such as an efficient capital market, capital stability, predictable cash flows and attractive income yields relative to other asset classes.
- Just as cost effective gearing underlies successful property investment, so excessive gearing can undermine and destroy value. For this reason, an optimal capital structure is a bedrock to sustainable returns for investors.
- Gearing may be regulated on a loan to value basis or by stipulation of interest cover ratios.

Equity Capital Markets

- Listed property is the most affordable mechanism for investors to participate in real estate ownership .
- Investors receive shares for their capital invested and in return expect dividends or growth in the share price.
- Often considered more expensive than debt given that debt you can repay/restructure whereas equity is effectively permanent.

TYPES OF REAL ESTATE COMPANIES ACTIVE IN CAPITAL MARKETS

Developers / Hybrids

Developers

- Focus on long-term sustainable capital growth achieved through actively investing in and managing land, property development rights and investment properties, held directly or indirectly.
- As properties are developed and completed, they become income generating and their value is established (prior to completion, value is a function of costs and/or the potential rental income from the property).
- As demand for developments is a function of availability of land, growth in the economy etc., the capital growth of the developer is dependent on the size of the pipeline of projects.
- Key metrics for developers are net asset value and growth in net asset value

Hybrids

- Developers often use an income generating portfolio of properties to provide funding for their developments
- If developers make a distribution, it is usually nominal in nature
- Motivation for a hybrid?

TYPES OF REAL ESTATE COMPANIES ACTIVE IN CAPITAL MARKETS

REITS

What is a REIT?

- A REIT is an entity that invests primarily in real estate and qualifies for special tax treatment, providing a conduit for earnings to be taxed at the investor level and not at the entity level.
- Focuses on rental generation and distribution of profits to investors
- Both an asset class and a security.
- Subject to limitations, REITs may own, operate, acquire, develop and manage real estate assets and/or provide related services.

Nature and Evolution

- Initially, REITs tended to be similar to mutual funds allowing investors to pool capital and invest in diversified pools of real estate that were regarded as passive investments.
- The original REIT structure of the 1960s was a passive investment vehicle with external management similar to the mutual fund model.
- Legislative and tax changes have enabled REITs to become actively managed, fully integrated, operating companies, reflecting the reality of modern property investment.
- REITs have come to be regarded as a key component of a balanced investment portfolio and are seen as an investment category separate from direct property ownership.

KEY CHARACTERISTICS OF PROPERTY

Principles For Long Term Investment

Characteristics of Investment Property

Investment property as an asset class presents distinct characteristics:

- The capital value of investment property assets is typically secure in that there is:
 - relatively little risk of a reduction in capital value,
 - the capital value does not fluctuate in a volatile manner, and
 - the trend is for capital values to increase in line with or in excess of prevailing inflation rates.
- This capital stability reflects that immovable property (i.e. bricks and mortar) is fixed and tangible and likely to be enduring as an income producing asset.
- Investment property produces predictable, recurring cash flows in the form of rental payable in terms of leases that escalates in line with or in excess of inflation.

Property's Characteristics Empower Investment

- Capital stability and reliable cash flows allow for cost-effective gearing against investment grade property.
- Gearing reduces the large entry hurdle for property ownership, improving accessibility.
- Through steady appreciation in the value of the geared asset, property has become a bedrock of individual wealth in many economies.
- As a result of property's characteristics, private investment capital can be secured not only on conventional rental streams from retail/office/industrial property but also on unconventional sources such as infrastructure and low-cost housing.
- Ancillary benefits of a successful investment property industry include employment opportunities and job creation; construction is labour-intensive and requires both skilled and unskilled labour.

KEY CHARACTERISTICS OF LISTED PROPERTY

Securitisation (splits the economics into small tradeable units)

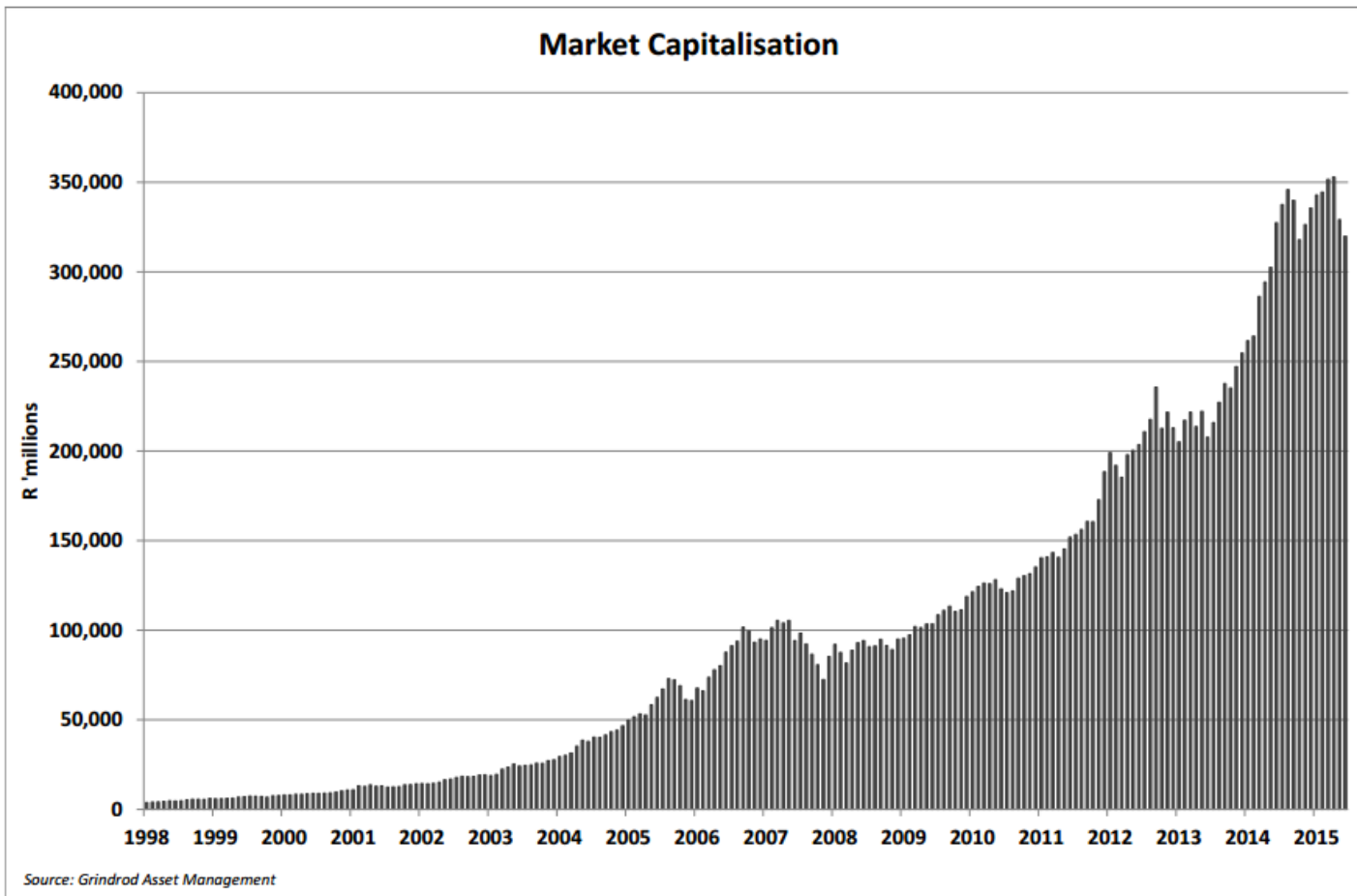
Securitisation of Property

- Securitisation of interests in property affords investors access to their choice of property exposure, whether focussed or diversified.
- Securitised property may trade at a premium to directly held property due to:

Accessibility	Access to an asset class unaffordable to most retail investors
Liquidity	In the secondary market, via a listed exchange
Diversification	Geographical, sectoral, by tenant
Dividends	Regular, tax efficient distributions providing a reliable yield
Performance	Professional management
Transparency	Supervised by a regulator

SA REAL ESTATE CAPITAL MARKETS

Growth In Market Capitalisation of SA REITs



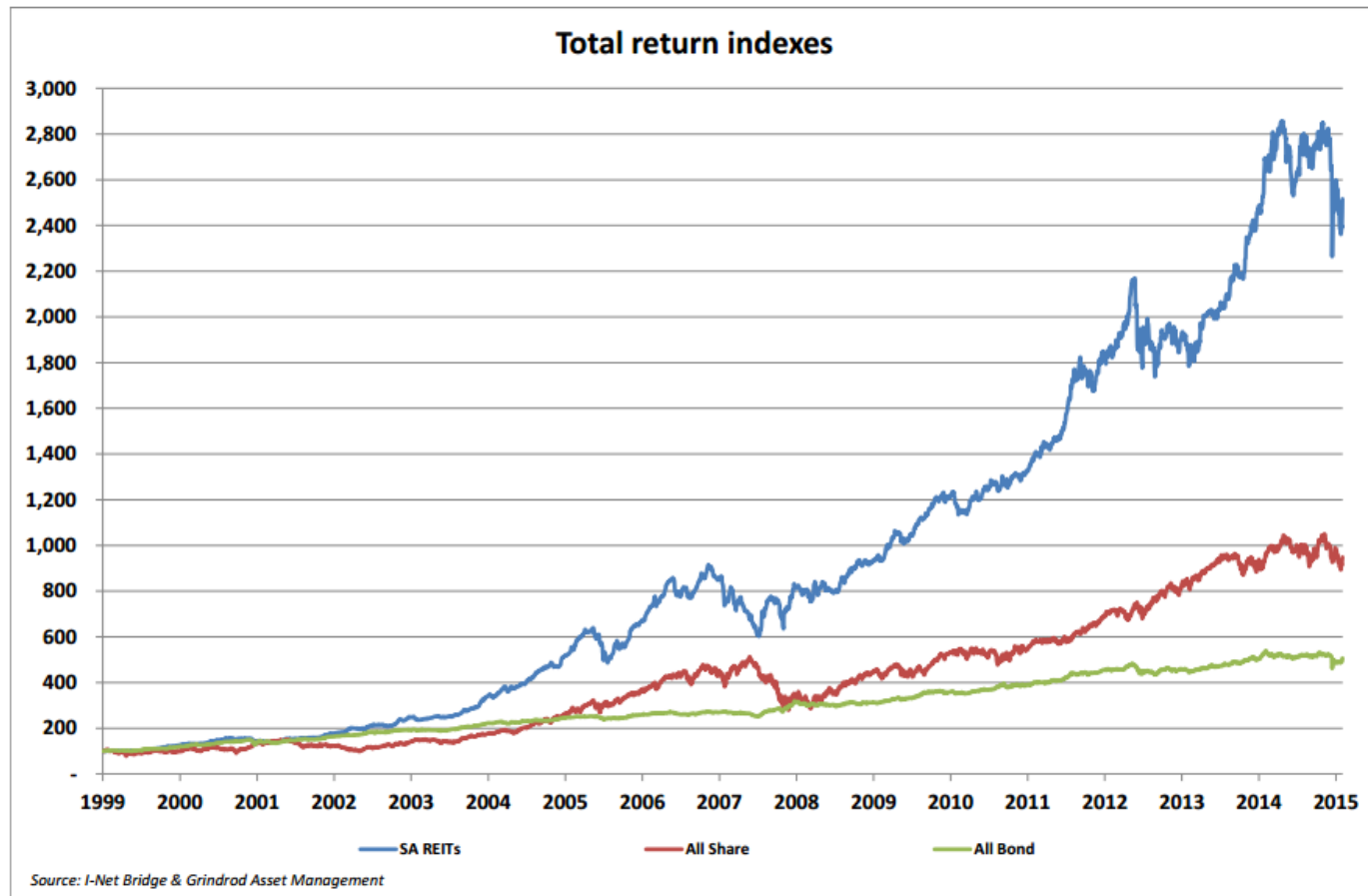
ATTRACTING PROPERTY INVESTORS

Equity Raised from 2013 to 2015 YTD

Real Estate Category	Total Capital Raised			
	2013	2014	2015	2016 YTD
	ZAR	ZAR	ZAR	ZAR
REITs	R 12 470 million	R 9 524 million	R 18 199 million	R 1 447 million
Foreign Listings	R 12 564 million	R 28 916 million	R 9 666 million	R 3 711 million
Other Property Companies	R 925 million	R 3 153 million	R 2 324 million	R 0 million
Total	R 25 959 million	R 41 593 million	R 30 189 million	R 5 157 million

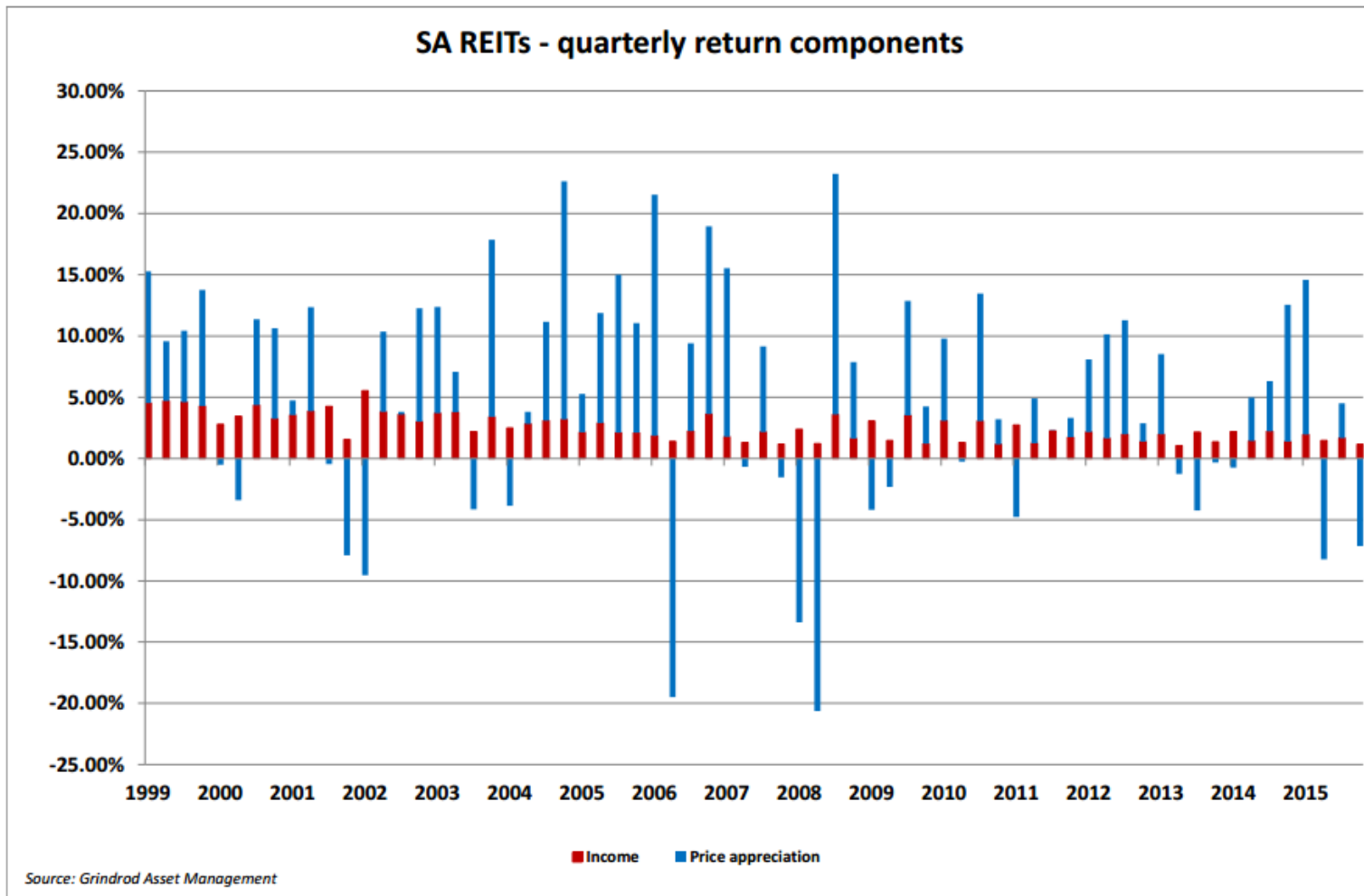
PERFORMANCE OF SA REAL ESTATE CAPITAL MARKETS

Total Return for different asset classes



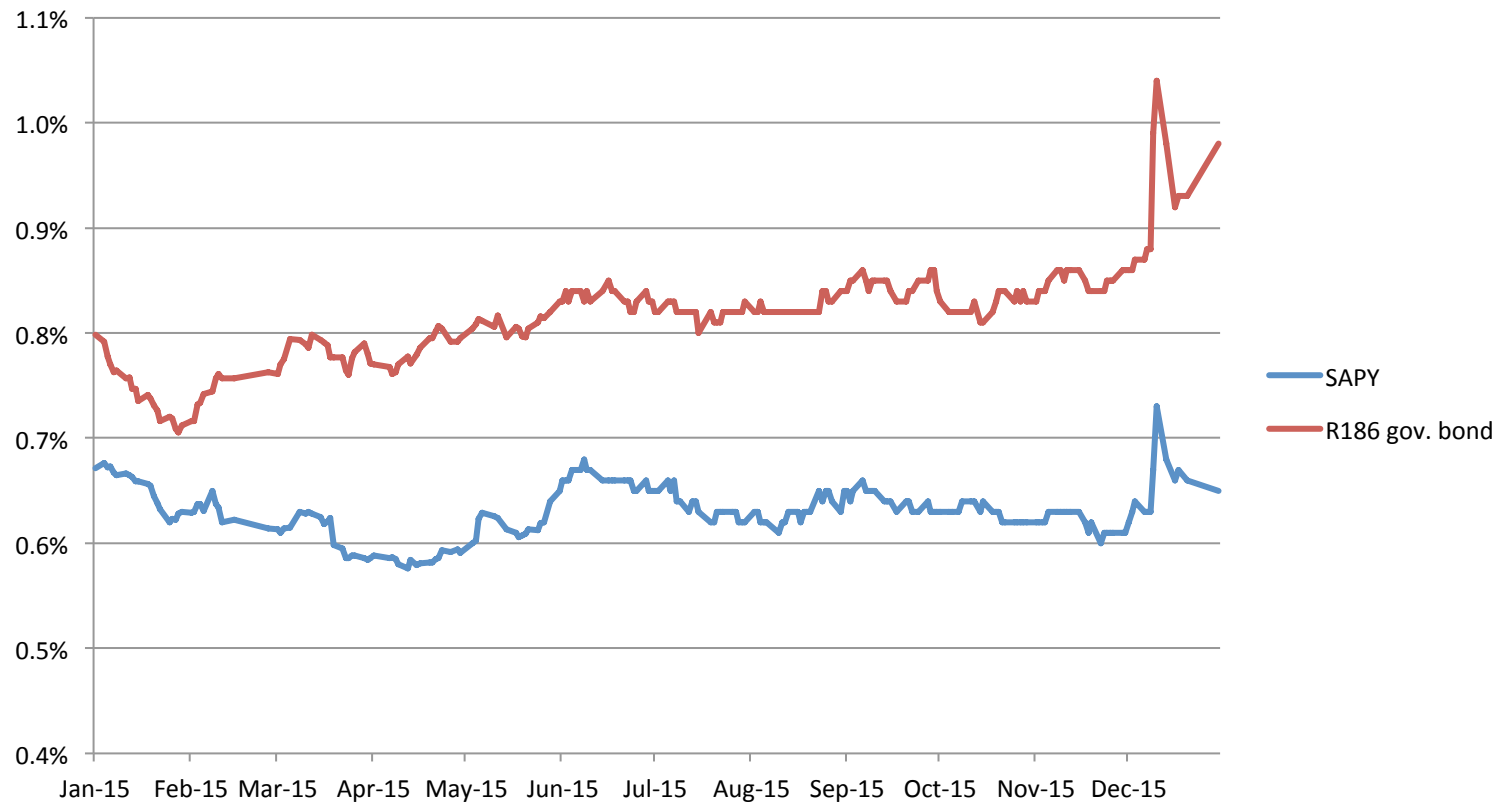
PERFORMANCE OF SA REAL ESTATE CAPITAL MARKETS

Quarterly Returns By Income/Capital Appreciation



PERFORMANCE OF SA REAL ESTATE CAPITAL MARKETS

Movement in SAPY yields for 2015 vs. bond yields



HOW DO REAL ESTATE COMPANIES RAISE CAPITAL?

Capital Market Options

Equity

- Equity capital is raised on a recognised stock exchange like the JSE
- Various mechanisms for raising capital including:
 - o Rights offers (shares issued to all shareholders)
 - o Bookbuilds (new shares issued to professional investors on an accelerated basis)
 - o Vendor placements (where the seller receives cash raised from issuing new shares)
- Highly regulated by the JSE

Debt

- Unlisted debt is typically provided by banks
- Listed debt is traded on the bond exchange and traded by professional investors
- Can be secured or unsecured
- Affords property companies the ability to diversify funding away from solely using banks

Hybrid Securities

- Preferred shares or A shares – provide a preferential return growing at a fixed percentage
- Convertibles

CATEGORIES OF INVESTMENT GRADE REAL ESTATE

Examples of Popular Classes

Retail	<ul style="list-style-type: none">- Regionally dominant- Neighbourhood / Convenience- Specialised eg garage shops- Low income
Office	<ul style="list-style-type: none">- Single tenant- Multi tenant- Private versus government tenants- Grade of office accommodation
Industrial	<ul style="list-style-type: none">- Logistics / distribution / warehousing- Heavy industrial / manufacturing
Residential	<ul style="list-style-type: none">- Apartments / Multifamily accommodation- Estates
Other	<ul style="list-style-type: none">- Agriculture- Hotels- Exotics – cell phone masts, wind or solar farms, cold storage facilities

ATTRACTING PROPERTY INVESTORS

Understanding the Source of Funding

Who Invests in Real Estate Companies

- Domestic investors, in the main
- Asset management industry investing monies for pension funds, insurance companies, unit trusts and the man on the street
- Institutional allocations

What Do Capital Markets Investors Look For

- High quality management is key
- Different management models
- Alignment and trust are fundamental
- Predictable, growing cash flows paid out regularly to investors
- Tangible asset underpin in the form of bricks and mortar
- Liquidity in their investment i.e. they can sell if they want to

ATTRACTING PROPERTY INVESTORS

How Could Municipalities Contribute To Real Estate Capital Markets?

As Stakeholder

- As tenant
- As land owner or developer
- As models for PPPs

As Enabler

- Infrastructure
- Precinct development
- Releasing land for residential development in key commercial nodes

QUESTIONS



WHO WE ARE

Java Capital Overview

What We Do

- Java Capital is an independent corporate finance and M&A firm, providing advisory services to listed and privately held corporates, institutions and entrepreneurs

Credentials

- While Java advises across a number of industries and sectors, the company has established itself as the pre-eminent adviser in the South African listed property sector, advising more than half of the listed property market, with a market capitalisation of c. ZAR100 billion.
- In 2013, Java Capital advised on 39 listed property transactions with a combined value of ZAR38.9 billion and raised in excess of ZAR4 billion in equity capital.
- Java Capital is well placed to advise on property matters due to:
 - unrivalled property specific experience and expertise in both the listed and unlisted sectors
 - strong sector knowledge and
 - long standing relationships with all key institutions and regulatory authorities
- Java Capital has, since 2003, advised on over 400 transactions for listed companies (with a combined transaction value of over ZAR100 billion)

Awards & Rankings

- 1st half 2014 – Mergers & Acquisitions (by deal flow) – Ranked 2nd – *Dealmakers.co.za*
- 1st half 2014 – General Corporate Finance (by deal flow) – Ranked 1st – *Dealmakers.co.za*
- 2013 General Corporate Finance (by deal flow) – Ranked 1st – *Dealmakers.co.za*
- 2013 Mergers & Acquisitions (by deal flow) – Ranked 3rd – *Dealmakers.co.za*
- Corporate Advisors of the Decade (2000-2009) (by deal flow) – Ranked 3rd – *Dealmakers.co.za*

WHO WE ARE

Java Capital Overview

Java's Role In Introducing REITS

- Since 2007, Andrew Brooking has led the negotiation process between the JSE-listed property sector and the National Treasury of South Africa regarding establishment of a best-of-breed REIT structure meeting the objectives of industry and policy makers. In the course of this, Java Capital has reviewed the structure and regulation of REITs around the world and has travelled with representatives of National Treasury to meet and engage with policy makers in the UK, Europe and the USA regarding REIT regulation. The REIT process has culminated in the publication of REIT legislation in South Africa, much of which reflects the design input of Java Capital.

Why Java?

- South Africa is the most recent country to have gone through the process of introducing REIT legislation and has adopted a best-of-breed model. Java Capital has been an integral part of this legislation from design through to inception.
- Java Capital's client base and transaction history reflect the company's standing as the pre-eminent adviser within the South African property sector .

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