

urban investor

THE MASTERS OF URBAN REDEVELOPMENT

The Market has Spoken

There's no doubt it's tough out there. Residential property developers have been smacked by the current downturn. Investors have taken a beating. But somehow the Aengus Property Portfolio has managed to remain well insulated.

Our units continue to generate returns of over 10% to the investor, net of management collection fees, levies and disbursements – that's an attractive proposition for anyone. And we've managed to pass on fee escalations to our tenants of 8% up to twice a year, without dampening demand. It means we're at the right end of the market from a timing and product perspective. People may not be looking to buy into property right now, but they will be soon and when the market turns, we'll be ready to take advantage.

We put our solid performance down to the fact that Aengus has always been a rental business and that the fundamentals underpinning our business remain positive. Our traditional market continues to hold strong, with demand for our apartments from young professionals continuing unabated. We've also started to explore new opportunities and targeting a new type of consumer – the student. The great thing about Aengus is that we're in fantastic locations and our timing has been impeccable. The proximity of our buildings to university campuses enables us to target a growing student market, while the rest of our portfolio is situated near the Park Station leg of the Gautrain, due to come online in 2011. In property terms, that's in the blink of an eye.

We seem to be getting the best of both worlds; completely antithetical to the rest of the market. Those tenants trading up want to live in Aengus apartments in the city, and those shopping down from more expensive accommodation in the suburbs find we also meet their needs.

Aengus is passionate about what we do and we believe urban redevelopment is all about treating customers with a level of respect. We've learnt that if you do that they'll stay with you. Luckily we're dealing with the only market that's on the way up in the current environment.

We'd love to hear your thoughts on how we're doing. Feel free to drop us a line, pick up the phone or drop by.

Warm regards,
Richard and Gavin



Urban redevelopment is all about treating customers with a level of respect.

Richard Rubin - CEO Aengus Property Holdings
Gavin Meskin - MD Aengus Property Holdings

aengus
property holdings



Richard Rubin, Brian Horwitz, Mark Kaplan, Gavin Meskin
Aengus Lifestyle Properties

AENGUS AND APEXHI PARTNERSHIP

Deal Sealed with ApexHi

We recently strengthened our property portfolio in the inner city when we purchased the residential investment portfolio from ApexHi for R232 million. It's one of the bigger property acquisitions in the inner city to date and ideally positions Aengus to take advantage of the huge demand for rental accommodation in downtown Jo'burg.

The deal will be funded by a three year loan from ApexHi. The transaction bolsters our current offering, and we are very appreciative of the loan arrangement that we have with the company. With solid returns on our buildings, we expect a very positive trading environment over the next few years.

Aengus currently owns approximately 1500 units in apartment blocks in the inner city. In terms of the transaction, Aengus will acquire additional buildings.

These include the YMCA building on the corner of Rissik and Smit Streets, Parktown Views and The Argyle Precinct which consists of Skyways, Dudley Heights, Argyle Centre and Baker House, as well as The Lowliebenhof in Braamfontein, and Argyll House in Parktown. These are all in close proximity to university campuses making them ideal to house students.

We developed and have been managing these buildings over the past few years anyway, but having them on our balance sheet strengthens our business significantly.

For the past eight months, Aengus has put sales of its sectional title units on hold due to unfavourable conditions in the sales markets. However, we plan to market the refurbished residential units for sale when market conditions improve. ●

Aengus currently owns approximately 1500 units in apartment blocks in the inner city.



We require from buildings two kinds of goodness: first, doing their practical duty well; then that they be graceful and pleasing in doing it.

John Ruskin, influential art critic and social thinker

Redevelop Refurbish Revolutionise



Transforming Jo'burg's old office blocks into contemporary residential apartments presents a challenge even for the city's most experienced architects and engineers. Some inner city properties have been empty for over a decade, mothballed, boarded up, neglected, presenting some serious practical challenges to project managers and design professionals alike. Many buildings merely require a face-lift, while others need an extreme make-over. Enter the Aengus construction team.

Since 2003, the team which now comprises a development manager, a project manager and 14 permanent labourers has converted 13 old buildings in the inner city into stylish new residential units. Our project team co-ordinates the activities of more than 60 contractors and suppliers as well as oversees the work of professional engineers, architects and interior designers on each project. The team has developed a model for refurbishment that is efficient – it takes on average just eight months (for a conversion of in excess of 400 units), to transform an old office block into a luxurious new block of flats - yet doesn't compromise on quality.

The temptation for any developer, especially of large properties with hundreds of units, is to cut costs by rolling out similar designs and decor in each building or scrimping on quality. But that's something our team has stayed well clear of. All our materials, fixtures and fittings are SABS-approved, for example, and in keeping with Aengus' philosophy of creating individual spaces that tenants can be proud enough of to call home, no two redeveloped buildings in the Aengus portfolio are the same. We're focused not only on building functional living spaces, but creating superior accommodation options for the discerning urban customer.

Managing an inner city refurbishment is no easy task. Some buildings are over fifty years old and updating them may mean starting from scratch. Many were built without basements, for example, so our project managers have to be creative about how to bring in supplies and dispose of waste and rubble. Other blocks require major structural changes and our engineers and architects have the tough job of transforming buildings that were designed to suit a commercial purpose into ones that meet the demands of new city dwellers with a modern lifestyle.

Consider also that many properties were built at a time when cheap electricity was easy to come by and the power crisis was a long way off. We're passionate about keeping up with the latest building trends and our team has used green design and modern materials to help make old blocks more environmentally sustainable. Then there is a list of council regulations to comply with, including tough new fire regulations which means bringing outdated buildings up to the latest safety standards. Lastly, our team chooses everything from the paint palette to the trendiest furnishings and finishes to create the ultimate, desirable apartment.

One of the most challenging buildings the team has remodelled was the Lady Argyle Nursing Home on the corner of Hospital and De Korte streets. Now part of the upmarket Argyle Precinct at the hub of the Gautrain commuter belt, it's difficult to imagine that it consisted of operating theatres, isolation wards and hospital corridors when Aengus first started work on it. Teams of workers had to gut the building and rebuild the interiors brick by brick. Now nearly 100 tenants call it home, enjoying kitchens with granite tops, comfortable living areas and bedrooms with laminate wood flooring and the latest trimmings. The result is a sophisticated, yet affordable lifestyle experience for young professionals in the heart of the city.

The construction team is now redeveloping the YMCA building on the corner of Rissik and Smit Street into a mixed-use development incorporating student accommodation. It's a project that's required the team to be imaginative about the ways in which it converts the building's communal bathrooms, sports facilities, common rooms and meeting halls into appropriate spaces that will suit the demands of today's students. The new block will consist of 148 units across 8 floors. As with our other buildings, we expect 100% occupancy in the building once it is completed.

Bringing disused inner city properties and their surrounds back to life shows just what's possible with the right skills and approach. And it makes good business sense too. Our experienced construction team is an essential part of the Aengus machinery that helps us to deliver consistently good returns for investors across our portfolio of revitalised properties.



Students are taking up the Aengus Lifestyle in record numbers.

Student Revolution

Block by block, there's a quiet revolution taking place in downtown Johannesburg. University students are trading their dormitory-style accommodation for Aengus' upmarket apartments. Gone are the communal bathrooms, dingy corridors and grungy ards, a fully equipped kitchen and modern bathroom, and finished with wooden floors and granite kitchen counters. Each apartment also has a fridge, 12-channel satellite, plasma TVs, and Wi-fi access.

Record demand

Students are taking up the Aengus Lifestyle in record numbers. The number of students living in our buildings has increased tenfold, up from 142 last year to over 1200 with this year's intake. We find ourselves increasingly focusing on this new market.

Battling to house the increased number of students, universities are looking to private providers for accommodation. About 22 000 more learners passed matric last year than in previous years and institutions such as Wits University and the University of Johannesburg find themselves having to accommodate more students than usual. There has also been an influx of foreign and out-of-province students signing up to study at what many regard as the premier tertiary institutions on the continent. Manager of Services at the Wits International Students' Office, Gita Patel says the university only has on-campus accommodation for about 800 of more than 2500 international students. She says universities not only face funding shortages, but that finding enough land to build new residences on campuses has become a challenge. In addition, old residences require upgrading. According to some estimates there are more than 7000 students needing accommodation in the Johannesburg area and just 700 available rooms on or near university campuses.

Aengus Lifestyle Properties has been interacting closely with tertiary institutions, such as the University of Witwatersrand, to understand their housing requirements.

Redevelopment for the student market

We began upgrading a number of buildings in Braamfontein to suit the student market last year. The recently developed Argyle Precinct, bordered by Hospital and Smit streets, is within walking distance to the Wits campus and fits the bill perfectly. The block, which consists of four residential buildings – Skyways, Dudley Heights, Argyle Centre and Baker House – has been transformed into 427 upmarket one-bedroom and studio apartments ideal for the student market. So far this year, we are oversubscribed in terms of tenant demand for these buildings.

We've also recently acquired ApexHi's Parktown Views, which

was fully let last year and are developing the YMCA building on Rissik and Smit Streets into a mixed-use development incorporating student accommodation.

A model that works

For any developer, it's a big mistake to think that students will accept sub-standard accommodation. Because this is a market with such huge demand, it has tended to be exploited by developers who have done superficial renovations to old buildings and charged students exorbitant rentals because of their close proximity to tertiary institutions. The gap has been in providing safe, affordable, trendy accommodation for students.

Like any other discerning customer, students are looking for value. Priced at between R1500 – R2300/student/month, our student units cost little more than university residence accommodation (residence accommodation generally costs around R1400- R1700/student/month) and we think, offer excellent value.

As with our other buildings in the inner city, we've had great success in negotiating head leases for our student-focused properties. Various African Governments, companies and non-governmental organisations sponsor hundreds of students each year to study at SA's top universities. And because a work-conducive place to live is a key ingredient in ensuring a

student's academic success, sponsors are keen for students to stay in our buildings.

We've continued to use the same model that has made our inner city developments successful. Security, administration and management remain central to our properties targeting students. The Argyle Precinct, for example, has 24-hour security linked by intercom to each unit and the buildings have tightly controlled access and underground parking as well as well utilised recreation areas. Each building is also professionally managed, ensuring it is optimally maintained, clean, safe and secure. Some of our buildings even have convenience stores and laundries on site. Additional services include free daily transport to students studying at campuses further than 1km away and all tenants also get an Aengus Lifestyle Card, which gives tenants discounts and deals with 5000 retail partners across the country.

So far, we haven't officially marketed the student units for sale to investors because of the current conditions in the property market. But as interest rates continue to decline, so investor sentiment is likely to shift back towards purchasing and we may look to actively marketing sectional title units for sale later in the year. Units that are fully let with waiting lists will continue to be attractive to investors looking for consistently high returns on their capital investment.



Opportunities TO LET



Simon Rubin - Marketing Director
Aengus Property Management

Property markets around the world have crashed spectacularly, but the Aengus portfolio is proving particularly resilient. At a time when most property investors are wringing their hands at the state of the global and local economy, our buildings are 100% occupied and still generating returns of over 10%/year. Plus we've been able to maintain rental escalations of 8%, sometimes as often as twice a year. How have we managed to do it?

Economics 101

It's pure economics: demand for our product far outstrips supply. It's estimated that there are at least 1 million people who commute to work in the city centre every day. That means even if we had 100 000 apartments we wouldn't be able to house even 10% of the total. Young professionals and students who are moving up in the world want a safe, affordable, stylish place to live that's close to their places or work or study. And we've given them what they're looking for.

Aengus has 1500 apartments spread across 13 buildings in downtown Jo'burg. We've put sales on the backburner during the past eight months or so as the economic environment

deteriorated. But that's meant we've continued to focus on our rental market, which was always core to the business anyway. Most of our refurbished buildings are fully let before they're completed – meaning investors can begin earning revenue on their investments from the get-go. Our professional letting team manages the entire letting process, from vetting potential tenants' credit worthiness to ensuring units are occupied 100% of the time. As word about the Aengus lifestyle has spread, some of our buildings have been as much as 10 times oversubscribed. Demand appears insatiable, despite the economic downturn. During busy months our letting team receives more than 100 phone enquiries a day. While investors with properties in the suburbs fret over who will rent their properties, our investors rest easy in the knowledge that their investments won't stand empty.

The customer is king

We've understood the importance of getting to know our market inside out. What drives our tenants? How can we better meet their needs? What are their dreams and aspirations? That's how Aengus has come up with innovative products such as our lifestyle benefits programme, which provides our tenants with discounts at more than 5000 retailers across the country. It's also why we understand the importance of 24-hour safety for our female tenants, who make up about 70% of our tenant base and why we provide free daily transport for students to universities and colleges further than 1,5km away. The Aengus model is all about making life easier for our tenants.

Only the best people

Our letting team, which consists of eight collecting agents and a leasing manager, give us the edge in the inner city rental market. The team is young and dynamic – much like our target market. Aengus has developed procedures and processes that ensure we're extremely thorough about deciding who gets to live in our buildings. And we take only the best. Potential tenants must provide proof of salary, copies of identity documents and work permits if necessary. All paperwork then goes to a credit committee overseen by our financial manager who then approves applications. It also helps that corporate head leases form the cornerstone of our letting policy. The approach has paid dividends - our collection rates are 100% as tenants simply don't want to risk losing their place once they are in.

Managing such a large tenant base is a complex business. Our traditional target market is a migrant one. Typically our tenants are young professionals between the ages of 27 and 32 working in the city and they stay with us on average for about a year and a half before moving on. This may be when they acquire their

first vehicle and are able to live further from their workplaces or when other employment opportunities outside the city centre present themselves. With leases predominantly concluded on a 12 month basis, we keep close tabs on when apartments become available and co-ordinate this with our waiting lists in order to be able to seamlessly replace one tenant with another.

Brand value

We've also worked hard to ensure that the Aengus brand becomes synonymous with upmarket, contemporary living spaces in the heart of the city. Having developed a reputation as an industry leader, the Aengus brand has not only become well established amongst our target market, but also amongst companies operating in town. Those companies that understand the benefit of having their employees close to work may offer accommodation to their staff or assist them to purchase units with pension-backed loans. Aengus now enjoys a presence on more than 30 company intranets. From our user-friendly website to targeted advertisements around the city, our marketing efforts have helped create huge demand for the Aengus way of life.

New markets

Just as our brand has found its way into office canteens around the city, over the coming year, expect to see it on campuses and university websites as we increasingly focus on the student market. Our experience in tenanting buildings over the past few years has given us one up on the competition as we move to fill a shortage of student accommodation in the downtown area. We continue to focus on securing head leases for properties close to university campuses such as the Argyle Precinct and Parktown Views, both of which were massively oversubscribed. Applying the Aengus operating model to this new market means investors can trust our experienced team to tap into fresh opportunities.

*The Aengus model
is all about making
life easier for our
tenants.*

Sectional Title & Property Rates

By Richard Codron and Jameel Patel,
Knowles Husain Lindsay Inc

Property related taxes is not a new concept in South Africa and dates back to the 17th century. Over the years municipal rates on immovable property have been collected by local governments through provincial ordinances.

Local governments have a constitutional obligation to address service delivery, promote their own economic and financial viability, and to counter poverty through economic growth within their jurisdiction. Hence local governments or municipalities require sufficient and adequate sources of revenue.

Property taxes are easy to collect, fixed in terms of location, difficult to hide or conceal and thus provide a predictable and stable income. Therefore property rates were identified as an important source of income as a means to achieve local government goals and objectives. In addition such taxes could also be used to address the historical imbalances and rates burdens faced by the poor.

The Local Government: Property Rates Act 6 of 2004 (the "Rates Act") aims to facilitate the necessary reform. At the same time it attempts to deal with requirements of equity, transparency and accountability as well as to enhance and improve certainty, uniformity and simplicity in the rates structures and policies across the country.

The Rates Act was approved by Parliament and came into operation on 2 July 2005. A transition period of 4 years was granted for municipalities to implement the Act. The deadline for implementation and full compliance by all municipalities across the country has been set for 1 July 2009 although on 7 September 2006 the City Council of Johannesburg resolved to implement the new Act on 1 July 2008.

In terms of the Rates Act there are some significant changes and requirements of which the following may be of interest to owners of sectional title units -

1. Previously rates were levied on the value of the land only. In terms of the Rates Act rates are now leviable on the market value of the land, which includes the value of the land as well as the improvements. Section 11(1) of the Rates Act states:

"(1) A rate levied by a municipality on property must be an amount in the Rand—

(a) on the market value of the property."

The market value is defined as "the amount the property would have realized if sold on the date of valuation in the open market by a willing seller to a willing buyer."

2. In so far as sectional title schemes were concerned, property rates were levied on the land value on which the sectional title scheme was established and in turn were charged to and collected from the body corporate. The body corporate then collected payment from the owners as part of their liability for levies. In terms of the Rates Act sectional title units are now to be valued individually and owners of sectional title units are individually liable for payment of rates. This of course entails the valuation of all sectional title units and the incorporation of all sectional title schemes within the register which municipalities are obliged to

keep of all properties within their jurisdiction – an exercise which has not been altogether successfully completed at least as far as Johannesburg is concerned!

3. In terms of Section 25 of the Rates Act, a rate levied by the municipality against a sectional title unit must be paid by the owner of the unit and the municipality is not entitled to recover the rate on a sectional title unit from the Body Corporate. The Body Corporate may not collect rates from the owner of the sectional title unit.

4. It is important to note that a ratepayer will be liable for payment of rates whether or not an account has been received and if an account has not been received, the onus then rests on the ratepayer to establish the amount due and to pay that amount to the Council. The Council is further empowered, in terms of Section 28 of the Rates Act, to recover any unpaid rates from the tenant or occupier of the property but the amount recoverable is limited to the amount of rent due and payable to the owner which has not yet been paid by the tenant.

5. In terms of Section 29 of the Rates Act the Council may also recover outstanding rates due on the property from the agent of the owner but this will be limited to the amount of rent received on behalf of the owner, less any commission.

6. The Rates Act also requires that different tariffs must be applied to various categories of property. In terms of section 8 properties are to be grouped according to different categories which may be based on permitted use (zoning) of the property, actual use of the property or the geographical area in which the property is situated. Accordingly different assessment rates may be levied against different categories of property in terms of the Rates Act.

7. Of further interest is Section 15 of the Rates Act which enables a municipality to grant owners of a specific category of properties exemptions from rates levied on their properties or rebates or reductions in rates with regard to their properties. Previously the full value of residential property was subject to assessment rating but in terms of Section 17(h) of the Rates Act the first R15 000 of the market value of all residential property is not rateable. Thus a rate may only be levied on the reduced value of the residential property and the residential exclusion (of at least R15 000) will also apply to any sectional title unit which is categorised as residential.

In summary, and in so far as owners of sectional title units are concerned –

- Individual sectional title units are to be valued at market value for the purpose of levying rates.
- An exclusion from the market value (of at least R15 000) will apply where the unit is categorised as residential.
- Each owner will be billed individually for rates.
- The Body Corporate is no longer liable for outstanding rates relating to individual units.

Property taxes are easy to collect, fixed in terms of location, difficult to hide or conceal and thus provide a predictable and stable income.

Safe Haven

There's no doubt that investing in property during the peak of the market generated phenomenal returns for investors. But now that the economic environment has deteriorated, it's not such a sure bet anymore. Here's why investing in an Aengus residential unit still provides a safe haven in uncertain times.

If you'd invested R1 million in the local stock exchange during 2008, you'd now be left with R230 000 less than when you started. Equities lost more than 23% for investors last year as South Africa showed it was not immune to the global downturn. Management fees of around 1,5% and tax effects triggered when buying and selling equities would also have eaten into your total returns.

However, if you'd invested your R1 million by buying four Aengus units in downtown Johannesburg at R250 000 each, your total returns would still be consistently higher than other categories of investment. Also given the favourable loan to values offered by the financial institutions, it is not inconceivable that you would have received a 100% bond for your purchase. As interest rates continue to decline, you could find yourself in a cash neutral situation, having put in absolutely now equity whatsoever, and still with the same R1 million in your pocket, and four revenue earning apartments. Quite remarkable.

Notwithstanding the capital appreciation on your units, you'd still be able to rely on steady cash flow each month from rental income. That's a different story to investors who bought in the northern suburbs, hoping to cash in on the property boom, but who now find themselves just trying to cover their costs.

Here's how we figured it out. Rentals achieved on Aengus units are in the region of R2,700/month/unit. Costs include management fees of about 8% and levies, for which you'd have

paid about R110/month/unit. This would have left you generating about R9,496/month on your four units - a return of about 11,3%. This isn't taking into account tax benefits you'd receive as part of the Urban Development Zone incentive which allows you to accelerate depreciation of 30% of your total purchase over five years against your income, or that your rental income could be offset by your interest expense. We're also seeing that investors are able to put through rental escalations of 8%, up to twice a year, without the risk of their units standing empty. How can a unit possibly decrease in value, if rentals are consistently increasing?

Consider also that if you bought four Aengus units worth R250 000 each five years ago, they would also have doubled in value by 2006 - at the peak of the market. Even now, despite property prices having come off significantly, your units would have retained their value and appreciated by around 70-80% from your initial purchase.

Compare that to if you had invested R1 million in a property in Sandton. We reckon that in the current market you'd be able to get about R6000/month rent for such a property. You'd also typically be charged an 8% management fee and your levies are likely to be far higher, probably around R500/month. That means you're looking at a net return of 6%/year. It's a no-brainer then that inner city property has been a safer bet from an investment point of view.

The beauty about investing in an Aengus unit is that each is priced on the basis of actual rentals achieved, not on square metres or expected yields like so many other developers. That way, even in uncertain times, an Aengus residential unit provides investment certainty. ●

Solid Returns

Location	Initial investment	Number of units	Monthly rental	Management Fee	Levies	Total Return
Sandton	R1m	1	R6 000	R480	R500	6%
Inner City	R1m	4	R10 800	R864	R440	11.4%

Our experts answer your questions



What is unique about refurbishing inner city buildings?



These buildings were originally commercial office blocks and not intended for residential use. Some of the many challenges include needing to work with the buildings as they are, designing around elements that would be easier to remove. Unseen deterioration, delivery access, storage facilities, out dated equipment, electrical upgrades, working with existing structural limitations. And of course being able to alter an eyesore to create an attractive feature. [Joanne Smith – Developments Manager APH]



How has the current economic crises affected the rental market?



Aengus Property Management (APM) has seen its most successful letting phase over the last three months with over 740 student leases signed. All of APM's conventional apartments in downtown Johannesburg and Braamfontein continue to maintain 100% occupancy. APM has also successfully increased rentals by 8% in the first half of 2009. [Simon Rubin – Marketing Director APM]



What is Aengus Property Management's key to 100% rental collection on a monthly basis?



Between APM's efficient portfolio, building managers and strong management system, we are very thorough when it comes to accepting only credit worthy tenants. We have tight credit control processes and strict policies in place that ensure successful rental collections. [David Seinker – Operations Manager APM]



Why invest in Aengus' inner city developments now?



The current drop in interest rates means that Aengus developments for sale are more attractive than ever. Aengus properties have offered a constantly increase in net returns per year over the past 5 years of between 11%. Investors can also enjoy the benefit of the Urban Development Zone tax incentive. [Mark Kaplan – Director ALP]



What is the vision for the Aengus group going forward?



We intend to purchase further property portfolios and redevelop these to bring new rental stock into the traditional housing market. We will also focus on up market affordable student accommodation for intake in 2010. [Richard Rubin – CEO APH]



www.aengus.co.za

contacts



Aengus Property Holdings
+27 11 442 1881



Aengus Property Management
+27 11 403 0554



Aengus Lifestyle Properties
+27 11 403 0554

www.aengus.co.za