Notes to the financial statements continued

for the year ended 30 June 2014

2. Investment property

		Note	GROUP June 2014 R000	GROUP June 2013 R000	COMPANY June 2014 R000	COMPANY June 2013 R000
2.1	**Net carrying value**					
	Historical cost		15 479 455	11 188 875	13 903 126	11 188 875
	Accumulated fair value movements		9 895 987	8 285 167	9 853 810	8 285 167
	Development property		(1 849 000)	(1 187 000)	(1 849 000)	(1 187 000)
	Assets classified as held for sale	13	(1 731 000)		(1 731 000)	
			21 795 442	18 287 042	20 176 936	18 287 042
2.2	**Movement for the year**					
	Investment property at valuation at 1 July/1 January		18 287 042	17 135 433	18 287 042	17 135 433
	Capital expenditure		2 681 042	160 193	2 680 894	160 193
	Acquired through business combination (African Land)	33.2	1 557 394			
	Foreign currency translation difference (African Land)		18 787			
	Change in fair value		1 655 897	1 198 105	1 613 720	1 198 105
	Disposals		(4 329)		(4 329)	
	Interest capitalised	23	37 664	6 190	37 664	6 190
	Straight-line rental income accrual		(45 055)	(15 879)	(45 055)	(15 879)
	Development property		(662 000)	(197 000)	(662 000)	(197 000)
	Transfer to non-current assets held for sale	13	(1 731 000)		(1 731 000)	
	Investment property at valuation		21 795 442	18 287 042	20 176 936	18 287 042
2.3	**Reconciliation to independent valuation**					
	Investment property at valuation at year-end		21 795 442	18 287 042	20 176 936	18 287 042
	Straight-line rental income accrual		353 740	308 686	353 740	308 686
	Building appurtenances and tenant installations		82 692	63 065	56 672	62 899
	Centre management assets		(1 470)	(3 297)	(1 470)	(3 131)
	Independent valuation[1]		22 230 404	18 655 496	20 585 878	18 655 496
	Capitalisation rate used to determine interest capitalised		7,2%	7,6%	7,2%	7,6%

[1] *Excludes development property and property held for sale*

Included in investment property held for sale is property under leasehold in respect of Willowbridge North. The lessor is Transnet Limited and the lease term runs until 30 June 2033.

2.4 Investment property pledged as security

The following properties have been pledged as security by means of mortgage bonds (refer to note 18):

To The Standard Bank of South Africa Limited to secure borrowing facilities totalling R880 million and to Standard Finance (Isle of Man) Limited to secure borrowing facilities of USD60 million

1. A 75,15% undivided share in The Glen
2. A 40% undivided share in Canal Walk

The market value of the bonded properties (75,15% and 40% respectively) at year-end was R5,1 billion.

2. Investment property continued

2.4 Investment property pledged as security continued

To Rand Merchant Bank (a division of FirstRand Bank Limited) to secure borrowing facilities totalling R962 million and USD30 million

1. A 40% undivided share in Canal Walk

The market value of the bonded property (40% thereof) at year-end was R3 billion.

To Nedbank Limited to secure borrowing facilities totalling R3,6 billion

1. CapeGate
2. Atterbury Value Mart
3. Woodlands Boulevard
4. Clearwater Mall
5. Willowbridge South

The market value of these properties at year-end was R8,9 billion.

To The Standard Bank of South Africa Limited to secure borrowing facilities of USD57,5 million

1. Manda Hill Centre, Lusaka, Zambia

The market value of the bonded property at year-end was USD153 million

2.5 Investment property valuation

Valuation process

It is the policy of the group to obtain an independent valuation of the investment property portfolio on a six-monthly basis. More than one independent valuer may be used to provide the valuation. Investment property is reflected at fair value at 30 June 2014.

The South African portfolio was valued at R24,2 billion at 30 June 2014, excluding minority interests (including development property and property held for sale). The portfolio was valued by two independent, professionally qualified property valuers: The valuation division of Old Mutual Investment Group South Africa, led by Trevor King (BSc DipSurv MRICS, Valuer), Professional Registered Valuer (SA), member of the South African Council for the Valuers Profession, Chartered Valuation Surveyor and Associate of the Royal Institution of Chartered Surveyors (UK), and the valuation division of Jones Lang LaSalle (Proprietary) Limited, led by Roger Long (BSc MBA FRICS MIV(SA)), Professional Registered Valuer, member of the South African Council for the Property Valuers Profession, Chartered Valuation Surveyor and Associate of the Royal Institution of Chartered Surveyors, using the discounted cash flow method.

The significant inputs and assumptions in respect of the valuation process are developed in close consultation with management. The valuation process and fair value changes are reviewed by the audit committee and the board of directors at each reporting date. The directors confirm that there have been no material changes to the assumptions applied by the registered valuers. The average annualised resultant portfolio yield produced by the valuers was 7,2%. The average annualised resultant yield range across all properties was 6,6% to 9,2%.

The most significant inputs to the valuation process, all of which are unobservable, are the estimated rental values, assumptions regarding vacancy levels, the discount rate and the reversionary capitalisation rate. The estimated fair value increases if the estimated rental increases, vacancy levels decline or if discount rates (market yields) and reversionary capitalisation rates decline. The valuations are sensitive to all four assumptions. The inputs used in the valuations at 30 June 2014 were:

- The range of reversionary capitalisation rates applied to the portfolio were between 6,75% and 9,5% with the weighted average being 7,29% (June 2013: 7,17%)
- The discount rates applied range between 11,75% and 14,50% with the weighted average being 12,52% (June 2013: 12,31%)
- The permanent vacancy factor applied for shopping centres ranged between 0,5% and 2,5% (offices 2,5% and 5%)

Changes in discount rates attributable to changes in market conditions can have a significant impact on property valuations. A 25 basis point increase in the average discount rate will decrease the value of investment property by R751 million (3%). A 25 basis point decrease in the capitalisation rate will increase the value of investment property by R962 million (4%).

Notes to the financial statements continued

for the year ended 30 June 2014

2. Investment property continued

2.5 Investment property valuation continued

Valuation techniques underlying management's estimation of fair value

The valuations were determined using discounted cash flow projections, based on significant unobservable inputs. These inputs include:

Future rental cash flows:	Based on the location, type and quality of the properties and supported by the terms of any existing lease or other contracts or external evidence such as current market rents for similar properties.
Discount rates:	Reflecting current market assessments of the uncertainty in the amount and timing of cash flows.
Vacancy rates:	Based on current and expected future market conditions after expiry of any current leases.
Maintenance costs:	Including necessary investments to maintain functionality of the property for its expected useful life.
Capitalisation rates:	Based on location size and quality of the properties and taking into account market data at the valuation date.
Terminal value:	Taking into account assumptions regarding maintenance costs, vacancy rates and market rents.
Stoneridge (held for sale):	Directors' valuation.
For Rosebank Mall (property under development) (total value: R1,8 billion):	The valuation was based on a discounted cash flow model taking into account the following factors (in addition to the inputs noted above).
Cost to complete:	These are largely based on actual costs to complete by reference to total budgeted project cost and costs spent to date.
Completion dates:	The date of completion is September 2014.

There was no change to the method of valuation applied compared to the prior year.

Manda Hill

Manda Hill Centre was valued at R1,6 billion (USD153 million) at 30 June 2014 by the valuation division of Jones Lang LaSalle led by Roger Long, using the cap rate method. The average annualised resultant yield produced by the valuer was 7,5%. The vacancy factor at Manda Hill was 0,5%.

A 25 basis point increase in the capitalisation rate will decrease the value of Manda Hill by R43,4 million (3%) and a 25 basis point decrease in capitalisation rate will increase the value of Manda Hill by R65,1 million (4%).

Fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety. The three levels are explained as follows:

Level 1 – inputs are quoted prices in active markets for identical assets or liabilities that the company can access at the measurement date. These quoted prices are unadjusted.

Level 2 – inputs are inputs, other than quoted prices included in level 1, that are observable for the asset or liability, either directly or indirectly.

Level 3 – inputs are unobservable inputs for the asset or liability.

2. Investment property continued

2.5 Investment property valuation continued

Group and company	Recurring fair value measurements – level 3 June 2014 Valuation R000	June 2013 Valuation R000
Super regional	6 064 000	5 627 200
Large regional	11 380 269	8 545 094
Regional	1 769 000	1 556 000
Value centres	1 290 000	2 178 200
Stand-alone office	90 000	749 000
Development property[2]	1 849 000	1 187 000
Total company	22 442 269	19 842 494
Manda Hill	1 618 506	
Total group	24 060 775	19 842 494

[2] *Rosebank Mall and the Mall offices are classified as development property and the total cost to completion amounts to R287,5 million*

Group and company	Non-recurring fair value measurements – level 3 June 2014 Valuation R000
Assets held for sale	1 731 000
Total group and company	1 731 000

There are interrelationships between unobservable inputs. Expected vacancy rates may impact the yield, with higher vacancy rates resulting in higher yields. For investment property under construction, increases in construction costs that enhance the property's rental stream may result in an increase in property values. An increase in future rental income may be linked with higher costs. If the remaining lease term increases, the yield may decrease.