

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 June 2015

FINANCIAL STATEMENTS

2. Investment property

	Note	GROUP June 2015 R000	GROUP June 2014 R000	COMPANY June 2015 R000	COMPANY June 2014 R000
2.1 Net carrying value					
Historical cost		13 411 225	15 479 455	13 411 225	13 903 126
Accumulated fair value movements		12 319 452	9 895 987	12 319 452	9 853 810
Development property			(1 849 000)		(1 849 000)
Assets classified as held for sale	13	(1 218 899)	(1 731 000)	(1 218 899)	(1 731 000)
		24 511 778	21 795 442	24 511 778	20 176 936
2.2 Movement for the year					
Investment property at valuation at 1 July		21 795 442	18 287 042	20 176 936	18 287 042
Capital expenditure		333 659	2 681 042	333 659	2 680 894
African Land restructure	4.3	(1 618 506)			
Acquired through business combination (African Land)	34.2		1 557 394		
Foreign currency translation difference (African Land)			18 787		
Change in fair value		2 467 113	1 655 897	2 467 113	1 613 720
Disposals		(3 783)	(4 329)	(3 783)	(4 329)
Interest capitalised	23	2 472	37 664	2 472	37 664
Straight-line rental income accrual		(60 085)	(45 055)	(60 085)	(45 055)
Transfer from/(to) development property		1 849 000	(662 000)	1 849 000	(662 000)
Transfer to non-current assets held for sale		(253 534)	(1 731 000)	(253 534)	(1 731 000)
Investment property at valuation		24 511 778	21 795 442	24 511 778	20 176 936
2.3 Reconciliation to independent valuation					
Investment property at valuation at year-end		24 511 778	21 795 442	24 511 778	20 176 936
Straight-line rental income accrual		413 826	353 740	413 826	353 740
Building appurtenances and tenant installations		77 300	82 692	77 040	56 672
Centre management assets		(2 274)	(1 470)	(2 014)	(1 470)
Independent valuation⁽¹⁾		25 000 630	22 230 404	25 000 630	20 585 878
Capitalisation rate used to determine interest capitalised		7,7%	7,2%	7,7%	7,2%

⁽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 Standard Finance (Isle of Man) Limited and Standard Bank of South Africa Limited to secure borrowing facilities of USD160 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% of The Glen and 40% of Canal Walk respectively) at year-end was R5,7 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 R762 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 R3,4 billion.

To Nedbank Limited to secure borrowing facilities totalling R2,7 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 R9,5 billion.

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 2015.

The South African portfolio was valued at R26,2 billion at 30 June 2015, excluding minority interests (including 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 6,9%. The average annualised resultant yield range across all properties was 6,3% to 9,9%.

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 2015 were:

- The range of reversionary capitalisation rates applied to the portfolio was between 6,5% and 9,5% with the weighted average being 6,9% (2014: 7,3%)
- The discount rates applied range between 12,3% and 14,5% with the weighted average being 12,6% (2014: 12,5%)
- The permanent vacancy factor applied for shopping centres ranged between 0,5% and 2,0% (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 portfolio by R560 million (2%). A 25 basis point decrease in the capitalisation rate will increase the value of investment property portfolio by R1,08 billion (4%).

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 June 2015

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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 leases or other contracts or external evidence such as current market rentals 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 rentals.

The methods of valuation applied by the independent valuers was the same as the prior year.

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.

Group and company

	Recurring fair value measurements – level 3	
	June 2015 Valuation R000	June 2014 Valuation R000
Shopping centres	23 408 630	19 213 269
Value centres	1 112 000	1 290 000
Standalone offices	480 000	90 000
Development property ⁽¹⁾		1 849 000
Total company	25 000 630	22 442 269
Manda Hill		1 618 506
Total group	25 000 630	24 060 775

⁽¹⁾ Rosebank Mall and the Mall Offices were classified as development property at 30 June 2014

2. Investment property continued

2.5 Investment property valuation continued

Group and company	Non-recurring fair value measurements – level 3 June 2015 Valuation R000	Non-recurring fair value measurements – level 3 June 2014 Valuation R000
Assets held for sale	1 225 775	1 731 000
Total group and company	1 225 775	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.

3. Building appurtenances and tenant installations

	Note	GROUP June 2015 R000	GROUP June 2014 R000	COMPANY June 2015 R000	COMPANY June 2014 R000
3.1 Cost					
Building appurtenances		84 053	104 518	83 316	54 620
Tenant installations		42 715	37 216	42 715	35 434
		126 768	141 734	126 031	90 054
3.2 Accumulated depreciation					
Building appurtenances		29 098	43 684	28 621	18 774
Tenant installations		20 370	15 358	20 370	14 608
		49 468	59 042	48 991	33 382
3.3 Net carrying value					
Building appurtenances		54 955	60 834	54 695	35 846
Tenant installations		22 345	21 858	22 345	20 826
		77 300	82 692	77 040	56 672
3.4 Movement for the year					
Net carrying value – 1 July		82 692	63 065	56 672	62 899
Capital expenditure		42 718	13 541	42 505	20 051
Acquired through business combination (African Land)	34.2		35 447		
Foreign currency translation difference			428		
Disposal of building appurtenances and tenant installations		(965)	(2 468)	(703)	(2 457)
Disposal in respect of subsidiary	4.3	(25 552)		(1 539)	(7 390)
Classified as held for sale		(1 539)	(7 390)	(1 539)	(7 390)
Depreciation		(20 054)	(19 931)	(19 895)	(16 431)
Net carrying value		77 300	82 692	77 040	56 672