NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 June 2016

2. Investment property

		Note	GROUP June 2016 R000	GROUP June 2015 R000
2.1	**Net carrying value**			
	Historical cost		15 811 661	13 411 225
	Accumulated fair value movements		13 599 786	12 319 452
	Non-current assets classified as held-for-sale	13	(1 224 090)	(1 218 899)
			28 187 357	24 511 778
2.2	**Movement for the year**			
	Investment property at valuation at 1 July		24 511 778	21 795 442
	Capital expenditure		108 481	333 659
	African Land restructure			(1 618 506)
	Acquired through business combination	33.2	2 138 690	
	Foreign currency translation movement		151 234	
	Change in fair value		1 382 134	2 467 113
	Disposals			(3 783)
	Interest capitalised	22	2 031	2 472
	Straight-line rental income accrual		(101 801)	(60 085)
	Transfer from development property			1 849 000
	Transfer to non-current assets held-for-sale		(5 190)	(253 534)
	Investment property at valuation		28 187 357	24 511 778
2.3	**Reconciliation to independent valuation**			
	Investment property at valuation at year-end		28 187 357	24 511 778
	Straight-line rental income accrual		515 206	413 826
	Building appurtenances and tenant installations	3	126 100	77 300
	Centre management assets		(6 465)	(2 274)
	Independent valuation[1]		28 822 198	25 000 630
	Capitalisation rate used to determine interest capitalised		7,7%	7,7%

[1] *Excludes 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 Encumbered investment property

The following properties have been pledged as security by means of mortgage bonds (*refer to note 17 – Borrowings*):

To Standard Finance (Isle of Man) Limited and Standard Bank of South Africa Limited to secure borrowing facilities of USD280 million:
1. A 75,15% undivided share in The Glen
2. A 40% undivided share in Canal Walk.

To Rand Merchant Bank (a division of FirstRand Bank Limited) to secure borrowing facilities totalling R200 million and USD30 million:
A 40% undivided share in Canal Walk.

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.

To Stanbic IBTC Bank PLC to secure borrowing facilities totalling USD36,2 million:
Ikeja City Mall

To Investec Asset Management Proprietary Limited to secure borrowing facilities totalling USD27,2 million:
Ikeja City Mall

Encumbered properties total R20,8 billion (2015: R24,3 billion).

Subsequent to year-end, Nedbank began a process of releasing the bonds over Woodlands Boulevard, Clearwater Mall and Willowbridge South, after R1,2 billion of existing debt facilities matured and were repaid, being replaced with debt capital market funding (corporate bonds). *Refer to note 36 – Capital management and note 37 – Events after the reporting date.*

2. Investment property continued

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 2016.

The portfolio was valued at R28,8 billion at 30 June 2016 (2015: R25,0 billion), excluding property held-for-sale. The portfolio was valued by two independent, professionally qualified property valuers:

Valuer and qualifications	Properties valued	Method
Old Mutual Investment Group South Africa (Old Mutual) led by Trevor King – The valuations division of Old Mutual led by Trevor King (BSc DipSurv MRICS Valuer), Professional Registered Valuer (SA), member of South African Council for the Valuers Profession and a Chartered Valuation Surveyor and Associate of the Royal Institution of Chartered Surveyors (UK).	13 South African properties (retail and offices)	Discounted cash flow
Jones Lang LaSalle Proprietary Limited (JLL), led by Jürgen Karg – The valuations division of JLL led by Jürgen Karg (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 (UK).	2 South African properties and the Nigerian property (all retail)	Discounted cash flow

The valuers work independently of each other and their valuations are combined to arrive at the value of the full portfolio.

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 income yield produced by the valuers was 7,2% (2015: 6,9%). The average annualised resultant yield range across all properties was 6,5% to 11,0% (2015: 6,3% to 9,9%).

The most significant inputs to the valuation process, all of which are unobservable, are the estimated rentals at the end of the lease, 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 2016 were:

- The range of reversionary capitalisation rates applied to the portfolio was between 6,5% and 10,0% with the weighted average being 6,8% (2015: 6,9%)
- The discount rates applied range between 12,3% and 14,5% with the weighted average being 11,7% (2015: 12,6%)
- The permanent vacancy factor applied for shopping centres ranged between 0,5% and 2,0% (offices 2,5% and 5,0%)
- The average rental escalation percentage applied for shopping centres ranged between 5,0% and 8,0% (offices 5,0% and 6,0%).

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 R674 million (2,1%).
A 25 basis point decrease in the average discount rate will increase the value of investment property portfolio by R703 million (2,2%).
A 25 basis point increase in the capitalisation rate will decrease the value of investment property portfolio by R1,21 billion (3,7%).
A 25 basis point decrease in the capitalisation rate will increase the value of investment property portfolio by R1,30 billion (4,0%).

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 June 2016

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. 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: The discount rate is the rate of return used in a discounted cash flow analysis to determine the present value of future cash flows, and take into account an assessment of the uncertainty in the amount and timing of future cash flows.

Vacancy rates: Based on current and expected future market conditions after expiry of any current leases, as well as tenant failures during the course of a lease.

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 valuation methods applied by the independent valuers were 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. 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 – these 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.

	Recurring fair value measurements – level 3	
	June 2016 Valuation R000	June 2015 Valuation R000
South Africa [1]		
Shopping centres	25 282 472	23 408 630
Value centres	1 109 000	1 112 000
Standalone offices	108 300	480 000
Sub-Saharan Africa (excluding South Africa)		
Ikeja City Mall (Lagos, Nigeria)	2 322 426	
Total group	28 822 198	25 000 630

[1] *Excludes property held-for-sale*

	Non-recurring fair value measurements – level 3	
	June 2016 Valuation R000	June 2015 Valuation R000
Assets held-for-sale	1 230 775	1 225 775
Total group	1 230 775	1 225 775

There are inter-relationships between unobservable inputs. Expected vacancy rates may impact the yield, with higher vacancy rates resulting in higher yields. An increase in future rental income may be linked with higher costs. If the remaining lease term increases, the yield may decrease.