



PROPERTY LOAN STOCK
ASSOCIATION

NEWS
FEB 2006

Top performer!

Listed property is the top performing asset class

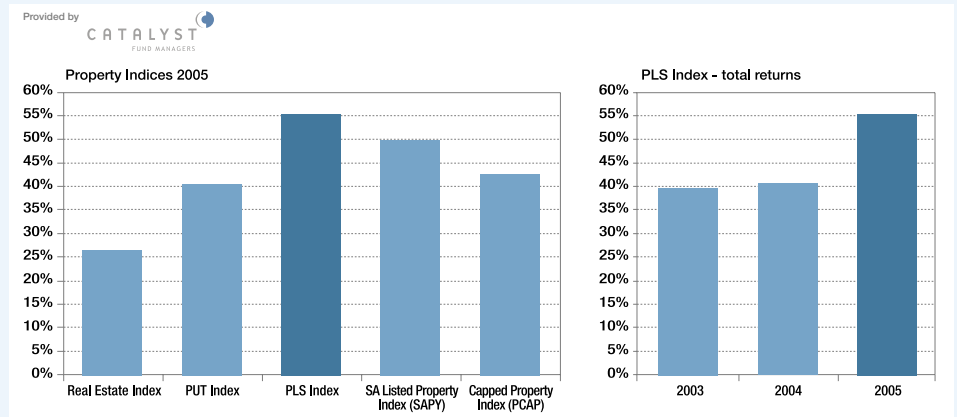
The South African listed property index provided a total return of 50,04% in 2005, better than the JSE All Share Index ("Alsi"). This makes it the best performing asset class of 2005.

Property loan stock ("PLS") companies outperformed property unit trusts, returning 55,5% to 40,6%.

The top performing counter was also a PLS, Redefine Income Fund, with a 15% growth in distributions and a total return of 91%, followed by PLSs Premium Properties, ApexHi B and Hyprop Investments.

PLS, which represent approximately 23 of the 27 funds listed on the JSE Real Estate Holdings and Development sector, is becoming an increasingly popular choice with investors across a diverse spectrum, from individuals to institutions and retirement fund managers to portfolio managers.

The performance of PLSs speaks for itself. However, an investment in PLS also has other benefits including affordability, regular income distributions, flexibility, lower risk, ease of trade, the quality of the underlying property assets, the sustainability of investment and tax neutrality.



IF YOU THOUGHT YOUR
INVESTMENTS PERFORMED WELL
IN 2005, READ ON...

MADISON
PROPERTY FUND MANAGERS

Sector insight

Norbert Sasse PLSA Chairman



2005 was a landmark year for PLS, distinguished by higher distributions to investors stemming mainly from rental growth and savings achieved through debt funding cost reductions.

This is expected to continue into 2006 with the market expectation for growth in distributions in the region of 8%.

Investors can expect strong distribution growth in the medium term, with PLS continuing to outperform bonds and cash and attract new investors through its ability to produce steady streams of income and dividend distribution, along with capital growth, while being easily affordable and readily tradeable, usually at low handling costs.

PLS achieves its income from its underlying investment in property, and property market fundamentals continue to firm and improve.

Occupancy levels in properties are at an all-time high across the retail, industrial and commercial sectors.

Retailers are performing well and, as a result, occupying more space or opening new stores. Strong manufacturing growth has been driven by retail demand and resulted in improved industrial occupancy rates and there has also been an upswing in demand for offices.

This strong demand for space and the shortage thereof contributes to rental growth.

Unlocking value from both the physical properties and the financial aspects of property investment continues to be a focus for the sector in its striving to increase returns for investors.

The reduction of debt funding costs through innovative structures and strategies such as securitisation, conduit funding and rate restructuring will continue with savings obtained leveraged to grow distributions.

Even in a bullish market, property is a long term investment, thus PLS investments are typically suited for people looking for income returns in the longer term.

Property

- **CBS Property Portfolio Limited** has acquired seven prime properties for R122 million, including the unique Simonstown Boardwalk Centre, at a combined initial forward yield of 10,38%. The landmark 3,800m² Centre is located on the Simonstown waterfront and caters specifically for the growing tourist market visiting the area. The other properties comprise six multi-tenanted Gauteng office buildings including Gateway Park, Gate Creek and Green Oaks in Midrand, and Duam Properties, ENK Trust and JH Moselein in Randburg.



- **Resilient Property Income Fund Limited** announced that it had secured lead ownership (60%) of the new R450 million, 40,000m² regional shopping centre on a 19 hectare site adjacent to The Ridge Casino in Emalahleni (Witbank).
- **Paramount Property Fund** announced the acquisition of 11 new properties with a total value of R839 million. This takes the size of Paraprop's property portfolio to just over R2 billion and its market cap to over R1 billion. The properties include The Terraces and 33 on Bree and Avalon office complex in Cape Town, Lighthouse Mall Shopping Centre in Umhlanga, Middestad Mall in Bellville, 75% of the Golden Acre office tower and 75% of the adjoining Shoprite building, Midas Building in Meadowdale, Johannesburg, MTN building in Mount Edgecombe, Northcliff Shopping Centre in Johannesburg and the DCD Dorbyl portfolio consisting of three industrial properties.
- **SA Retail Properties Limited** has undertaken a 6,230m² extension and refurbishment of Highland Mews, Witbank, in partnership with Martprop Property Fund, at a total estimated cost of R39 million and a R75 million extension and re-development of Bluff Shopping Centre, incorporating 8,000m² of additional bulk occupied by new national tenants including Woolworths, Mr Price and Edgars.
- **Hyprop Investments Limited** acquired 17 hectares in Modderfontein from AECL division Heartland Properties. The 60,000m² Greenstone Lifestyle Centre to be built on the land will cost around R450 million to develop and will complement the neighbouring 75,000m² Greenstone Mall, currently under construction.
- **Atlas Properties Limited** completed the R12 million upgrade of Bayside Centre in December 2005. The upgrade included new floors, ceilings and shop fronts. A further

- *2005 best performing asset class: SA listed property*

transactions

major expansion is planned for the Centre during 2006 with the addition of 7,500m² of retail space and three parking decks.

- In the first property deal of this nature, listed property loan stock company **Pangbourne Properties Limited**, in collaboration with its empowerment partner Yard Capital, has acquired the entire property portfolio of the Transnet Retirement Funds Property Trust (TRFPT) in a deal that increases Pangbourne's total market cap to R2,8 billion.
- **ApexHi Properties Limited** as the largest minority unitholder, has undertaken to accept Vukile Property Fund Limited's offer to acquire the 15 837 754 MICC linked units currently held by ApexHi for a consideration of 862 cents per linked unit.
- **Redefine Income Fund** has acquired two adjacent properties in Isando, including an existing industrial premises as well as adjacent land for development. The sites total approximately 107,000m² and include an existing warehouse of 13,472m². Redefine is in the process of acquiring a third site of approximately 60,000m² which is linked to the two existing sites. With a coverage ratio of approximately 45%, the development potential of the total site will be approximately 75,000m² of industrial premises and associated offices.
- **SA Retail Properties Limited** is constructing two community shopping centres with a capital commitment of R105 million, include Umlazi Megacity, a 28,000m² development anchored by a SuperSpar and Woolworths, in partnership with Martprop Property Fund at an estimated total capital commitment of R155 million and the construction of Kings Road Value Centre, Pinetown, in partnership with Vukile Property Fund Limited, at an estimated total capital cost of R55 million.
- Siyathenga Property Fund has acquired six high quality properties worth R520 million from **Pangbourne Properties Limited**, which brings Siyathenga's total asset base to over R1,3 billion under management. These include Boardwalk Shopping Centre in Richards Bay; Thrupps Centre, Illovo, Johannesburg; Dion Centre, Alberton; Strydom Commercial Park, Randburg; Rutherford Office Estates, Waverley, Johannesburg and Menlyn Dealership, Pretoria.
- **Diversified Property Fund Limited** has agreed to acquire a retail centre to be constructed in Alberton, called Pick 'n Pay Redruth, for approximately R104 million. The 11,400m² centre, due for completion in October 2006, will be anchored by retailers Pick 'n Pay, Woolworths and Clicks.
- **Growthpoint Properties Limited** announced the R1,6 billion acquisition of 24 prime properties, increasing its property assets to over R11 billion. The properties will be acquired from Tresso Trading 119 (Proprietary) Limited and includes over 225,000m² of sectorally and geographically diverse quality landmark properties which Growthpoint has acquired at an enhancing forward yield of approximately 9%.
- **Spearhead Property Group** completed the R100 million mixed-use Wembley Square commercial building in Gardens, Cape Town. The landmark property houses Cape Town's first Virgin Active Classic Gym and all the Johnnic operations in the Cape. Sable Square Africa's first outlet Retail Village is being built for Spearhead opposite Century City. The 25,000m² retail centre opens in September this year. Spearhead has also commenced construction on two new A-Grade office towers. One is on Cape Town's foreshore, contiguous to the CTICC. Spearhead are putting up a 17,000m² Dennis Fabian designed masterpiece that will serve on the Gateway Building into Cape Town's CBD from the V&A Waterfront. In Century City, Knowledge Park 2 is being built and with tenants including top UK call centres.

Property in the headlines

Local

- Bright prospects for listed funds (*Rode Property News*, 12 Dec 2005)
- Property sector expected to flex muscles on BEE (*Business Day*, 4 Jan 2006)
- Cape Town still hot property (*Cape Argus*, 5 Jan 2006)
- Commercial property boom predicted for 2006 (*Mail and Guardian*, 9 Jan 2006)
- Commercial property set for gains (*Inet Bridge*, 19 Jan 2006)
- Property alive and kicking – experts (*Moneyweb*, 23 Jan 2006)
- Property boom in former black townships (*IRIN*, 26 Jan 2006)
- Property charter will spark activity (*Business Day*, 31 Jan 2006)

International

- Warning: Beware of warnings about real estate (*New York Times*, 8 Jan 2006, www.nytimes.com)
- REITs to boost liquidity in Dubai's real estate sector (www.khaleejtimes.com, 16 Jan 2006)
- REITs set to grow as industry frets on fund rules (*Reuters*, 19 Jan 2006, www.reuters.com)
- UK property investors advised to look abroad (*Assetz News*, 26 Jan 2006, www.assetz.co.uk)

REDEFINE INCOME FUND

Redefine was the top performing listed property fund on the JSE in 2005. Redefine investors enjoyed 15% growth in income payouts and a phenomenal total return of 91,17%. As Financial Mail stated: "You would have nearly doubled your money in 2005 with this counter".

* Source: Catalyst Fund Managers

Be sure you're redefining your investments. Visit www.redefine.co.za or contact your financial advisor for more information.

REDEFINE INCOME FUND

Income is always the outcome.

- 2005 top property fund manager: **Madison**

Property Loan Stock statistics

Provided by


CATALYST
FUND MANAGERS

Catalyst Historic Performance: Property Loan Stocks

Total return	Jan 05	Feb 05	Mar 05	Apr 05	May 05	June 05	July 05	Aug 05	Sept 05	Oct 05	Nov 05	Dec 05	2005	Jan 06
Property Indices														
Real Estate Index	1.62%	2.80%	1.52%	0.46%	7.88%	-0.41%	0.05%	3.84%	2.44%	-0.01%	-1.95%	6.05%	26.68%	6.23%
PUT Index	-0.19%	4.97%	-1.96%	1.44%	7.72%	1.94%	2.59%	4.24%	3.93%	2.20%	-1.95%	10.33%	40.59%	6.44%
PLS Index	-1.21%	7.50%	0.09%	4.08%	4.26%	3.70%	4.99%	7.49%	3.16%	2.31%	-1.67%	10.97%	55.48%	6.26%
SA Listed Property Index (SAPY)	-0.74%	6.59%	-0.44%	2.89%	5.13%	3.26%	4.04%	6.33%	3.51%	2.23%	-1.63%	10.73%	50.04%	6.47%
Capped Property Index (PCAP)	-0.09%	5.57%	0.33%	1.99%	5.90%	2.21%	2.94%	5.62%	3.15%	1.61%	-1.65%	9.01%	42.74%	6.37%
PLS Individual stock performance														
REDEFINE	-3.49%	7.42%	-3.90%	13.44%	5.92%	8.00%	7.72%	3.04%	9.09%	13.63%	-6.54%	15.00%	91.17%	5.13%
PREMIUM	-6.25%	2.67%	-2.81%	16.93%	19.43%	3.36%	7.32%	7.58%	9.58%	-0.51%	-3.96%	12.59%	83.72%	5.59%
APEXHI - B	-2.04%	5.63%	-0.81%	2.05%	4.87%	6.31%	0.09%	16.33%	3.84%	4.56%	-4.03%	16.39%	64.88%	0.76%
HYPROP	-3.80%	14.74%	3.63%	6.48%	1.63%	0.99%	5.65%	8.85%	1.32%	2.72%	-0.11%	8.73%	62.52%	10.37%
AMBIT	-2.21%	6.33%	-2.13%	8.70%	6.80%	-0.77%	1.98%	8.17%	16.19%	1.55%	-0.91%	6.40%	60.88%	7.58%
SPEARHEAD	-6.92%	20.51%	-4.76%	2.33%	4.09%	1.83%	9.78%	12.50%	-3.98%	4.89%	-3.05%	12.83%	57.67%	2.39%
PANPROP	1.14%	10.73%	-1.02%	2.51%	4.74%	3.52%	6.31%	5.48%	2.77%	-4.89%	0.93%	15.60%	57.56%	12.30%
ACUCAP	-1.81%	5.33%	1.20%	1.19%	9.41%	7.04%	4.19%	10.55%	4.55%	0.00%	-4.13%	8.13%	54.85%	4.35%
OCTODEC	-3.08%	10.79%	-11.17%	12.90%	1.60%	5.88%	11.11%	6.25%	1.18%	8.14%	-7.54%	11.88%	54.80%	7.26%
RESILIENT	-3.55%	9.88%	-2.00%	1.94%	4.60%	5.26%	2.91%	11.90%	4.92%	3.13%	-1.52%	7.69%	54.04%	3.57%
GROWTHPOINT	3.23%	8.62%	-1.25%	3.03%	2.35%	4.14%	3.75%	7.45%	2.79%	-1.00%	10.89%	10.89%	53.28%	7.45%
IFOUR	-1.00%	11.74%	6.21%	-5.65%	6.13%	1.11%	7.14%	0.00%	0.25%	2.67%	-4.17%	20.11%	51.01%	6.79%
METPROP	-4.28%	5.26%	-5.00%	11.84%	0.94%	7.94%	1.14%	1.12%	0.00%	10.00%	4.04%	9.93%	50.08%	0.92%
APEXHI - A	3.03%	0.43%	0.10%	1.20%	6.24%	1.53%	4.69%	8.56%	4.73%	4.67%	-7.16%	12.19%	46.70%	3.40%
PARAPROP	-3.58%	9.17%	1.00%	6.74%	1.52%	2.25%	6.82%	7.21%	-1.64%	0.51%	-5.08%	12.59%	42.52%	5.69%
FREESTONE	-4.00%	4.58%	-0.56%	4.21%	5.45%	0.57%	6.48%	10.91%	3.30%	-0.98%	-3.15%	10.26%	42.34%	9.30%
VUKILE	-11.21%	4.85%	-2.59%	9.32%	3.48%	2.53%	11.07%	1.25%	3.85%	2.22%	2.17%	7.54%	37.96%	14.50%
SA RETAIL	-7.20%	4.17%	20.69%	-4.00%	5.45%	-0.24%	8.16%	4.92%	-2.08%	1.06%	3.57%	0.00%	37.04%	6.84%
MICCPROP	-2.51%	0.00%	21.43%	-11.76%	4.67%	6.67%	2.01%	2.96%	5.39%	1.14%	-1.69%	5.42%	35.32%	0.00%
ATLAS	-1.29%	4.80%	2.50%	1.63%	-2.80%	6.31%	4.42%	4.62%	6.62%	1.38%	-2.72%	4.44%	33.58%	3.50%
SIYATHENGA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	15.00%	-3.48%	8.11%	0.83%	9.09%	32.00%	-1.52%
DIVERSIFIED	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	13.00%	0.88%	5.26%	20.00%	5.83%
CALLULO	N/A	N/A	N/A	9.50%	-4.35%	-1.36%	0.46%	3.21%	7.75%	-3.36%	2.17%	-2.13%	11.54%	6.52%
CBS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	8.15%	2.88%	11.26%	5.19%

INFORMATION SOURCE AND METHODOLOGY

Data I-Net Bridge unless stated otherwise. Calculations and forecast estimates Catalyst Fund Managers. # Suspended / Delisted / Not yet listed. * Calulo*Ds performance is calculated on an initial price of 210 c.p.u.

Catalyst Sector Snapshot: Property Loan Stocks

Performance of Property Loan Stocks		Yield	R 157	7.46%	Premium or Discount of clean price to NAV					
	31-Dec-05	Market capitalisation	Close	Clean Price	Rolled yield	NAV	NAV	Average monthly trade R'mil	Debt%	
COMBINED MARKET CAP WEIGHTED INDEX		41,973,120,000			7.49%		41.86%	1786.65	39.0%	
GROWTHPOINT		7,732,325,000	1100	1078	7.1%	692	55.74%	293.06	41.9%	
HYPROP		4,279,804,000	2990	2922	6.3%	1954	49.55%	112.64	24.2%	
REDEFINE		2,912,867,000	575	567	6.8%	363	56.30%	97.73	42.6%	
APEXHI - B		2,843,397,000	1449	1434	8.7%	700	104.79%	112.64	62.5%	
APEXHI - A		2,600,070,000	1325	1312	8.0%	880	49.07%	89.79	28.7%	
PANPROP		2,537,004,000	1260	1235	8.1%	741	66.60%	75.75	55.4%	
SA RETAIL		2,145,801,000	950	941	7.7%	653	44.11%	41.11	4.1%	
		25,051,268,000			7.36%					
VUKILE		1,941,692,000	724	721	9.1%	654	10.19%	64.46	39.7%	
RESILIENT		1,862,047,000	1400	1365	7.1%	760	79.57%	55.53	32.7%	
IFOUR		1,665,952,000	1105	1082	7.8%	559	93.49%	24.93	48.8%	
ACUCAP		1,569,496,000	2300	2287	7.0%	1763	29.70%	41.76	30.9%	
METPROP		1,530,468,000	545	541	7.8%	369	46.71%	51.81	37.5%	
PARAPROP		1,048,755,000	615	613	9.0%	571	7.37%	12.15	52.4%	
		9,618,410,000			7.95%					
PREMIUM		914,537,000	805	798	7.5%	422	88.99%	12.20	40.8%	
ATLAS		912,124,000	1430	1424	7.2%	1222	16.55%	13.33	25.1%	
SPEARHEAD		892,065,000	3052	2995	7.1%	1974	51.72%	19.32	37.1%	
FREESTONE		878,541,000	645	627	9.0%	443	41.49%	24.06	51.1%	
OCTODEC		723,120,000	923	913	7.9%	826	10.52%	9.05	37.0%	
CBS		599,680,000	751	750	n/a	626	19.97%	9.33	43.0%	
MICCPROP		596,000,000	807	869	10.1%	750	15.81%	5.00	47.8%	
DIVERSIFIED		580,569,000	600	586	n/a	496	18.15%	4.00	45.8%	
AMBIT		573,587,000	330	328	8.5%	261	25.48%	20.84	36.0%	
		6,670,223,000			8.07%					
SIYATHENGA		461,899,000	660	644	n/a	500	32.00%	9.33	58.0%	
CALLULO		171,320,000	230	222	n/a	204	9.00%	5.56	59.8%	
		633,219,000			n/a					

For further information on listed property investment contact Catalyst on: 0860 INCOME or 021 657 5500

* All calculations by Catalyst Fund Managers

* NAV is defined as (Total Assets - Total Liabilities) / Total shares in issue at statement date

* Debt Percentage is defined as interest bearing debt / property assets (includes see-through debt)

• 2005 top property fund: Redefine managed by Madison

FEATURED FUNDS

iFour Properties Limited

Fund Fact Box

Market Capitalisation:	R1,6 billion	Current Yield:	7,4%
Number of Properties:	108	Value of Properties:	R2 billion
Net Asset Value/Unit:	560 cents	Price/Unit:	1105 cents
JSE Code:	IFR		

Top 5 shareholders and percentage share held:

Pangbourne	49,0%	Stanlib	11,2%
Marriott	7,9%	Old Mutual	5,8%
Absa	5,5%		

In the three years since its listing, iFour has almost tripled the size of its property portfolio, which is currently valued at R2 billion through its strategic alliance with Pangbourne Properties Limited. By maintaining a predominately A-grade property portfolio iFour has delivered sustainable growth in distributions. In addition, it has given its linked unitholders a 110% capital return, growing its share price from R5.00 to R11.05 currently.

Today iFour's market capitalisation is R1,6 billion. At listing in 2002 it was R300 million.

In 2005, iFour was the first listed property company on the JSE to successfully implement a commercial mortgage backed securitisation programme. Through securitisation, iFour has accessed a cheaper source of debt finance and a wider capital market.

The company maintains a mixed use, predominately A-grade property portfolio. Rigorous asset management criteria are applied to the acquisition and sale of properties to maintain the quality of the portfolio.

Historically, the portfolio was evenly spread with approximately a third in each of retail, industrial and office. The future strategy of the company is focused on increasing its weighting in the decentralised retail sector. For instance, it has recently acquired two newly developed community centres being Ziyabuya with 10,829m² outside Port Elizabeth and Palm Springs with 16,465m² near Orange Farm outside Johannesburg. These centres meet the investment criteria by having national tenants in excess of 70% and also that they dominate their catchment areas. iFour will continue with the acquisition of decentralised retail centres whenever suitable opportunities occur.

In offices, iFour prefers to invest in low rise buildings situated in closed nodes and office parks such as the Fourways Office Park and the three buildings it owns in the Fourways Golf Park.

The industrial portfolio is focused on modern warehousing, distribution and high technology industrial facilities. Again, focus is on acquisitions in secure parks and closed nodes having good access and exposure to national road networks. Good examples are its investments in Linbro Park and Meadowdale.

With regard to the geographical distribution, the portfolio is 68% Gauteng with the other two main provinces being Kwa-Zulu Natal at 13% and the Western Cape at 9%.

iFour has a targeted CSI project with Lifeline Southern Africa, where it provides rent-free space to enable Lifeline to reach communities such as Orange Farm that would otherwise not have been accessible by its volunteers. The offices are used as resource centres, training facilities, advocacy centres or management offices for Lifeline's projects.

The current growth in the economic activity is expected to continue and this will enable iFour to continue to expand and, at the same time, to deliver enhanced distributions to linked unitholders.

Vukile Property Fund Limited

Vukile is a property loan stock company which was listed on the JSE Securities Exchange (code VKE) in 2004.

In addition to its own interests, it holds 75,01% of another JSE-listed company, MICC Property Income Fund, which it also manages. Vukile has notified the board of MICC of its firm intention to make an offer to acquire the linked units in MICC which it does not already own, such that on conclusion of the proposed transaction Vukile will own 100% of MICC's issued capital.

Vukile has a portfolio of 52 properties with a gross lettable area of 676,961m² while MICC has 40 properties with a gross lettable area of 395,322m². Together, these portfolios have a gross asset value in excess of R3 billion. Vukile intends spending close to R80 million on expanding and upgrading its Phoenix Plaza and

Dodsonville shopping centres. The gross lettable area at Phoenix Plaza is to be increased by approximately 3,500m² and that at Dobsonville by nearly 5,000m². Construction started in January and should be completed by August 2006.

In October last year, Vukile launched a R2 billion commercial mortgage backed securitisation programme to refinance its bank debt and cut the costs of funding its commercial property investment.

Vukile had a market capitalisation of R1,9 billion on 31 December 2005. There are approximately 268 million linked units in issue which traded in a range between 565c and 725c in the six months to end-December. The historic distribution yield is 8,8% on the price of 724c as at the end of December.

Vukile's objectives are to acquire properties with strong contractual cash flows; to achieve long-term sustainability of property income; to achieve meaningful capital appreciation; and to achieve steady growth in the income distribution to unitholders.

Vukile's Chairman is Anton Botha, the chief executive is Gerhard van Zyl and the financial director is Mike Potts.

Extra facts :

Market Capitalisation	at 31 Dec 2005 R1.94 billion
Historic Yield	8,84%
Number of Properties	52 Vukile and 40 MICC
Value of Properties	R2,3 billion - Vukile & R1,0 billion - MICC (30 Sept 2005)
Net Asset Value/unit	R6.54 (30 Sept 2005)
Price/Unit	R7.24 (31 Dec 2005) R6.75 (30 Sept 2005)
JSE Code	VKE

Top 5 Shareholders & Percentages:

Sanlam	58,16%	Stanlib	5,05%
Mr D Kuper	3,92%	Mr J Legh	3,84%
Outward Investments	3,53%		



**2ND TOP PROPERTY
LOAN STOCK
PERFORMER OF 2005,
WITH A TOTAL RETURN
OF 79% FOR THE YEAR.**

Premium Properties Limited has cemented its reputation as a property loan stock company associated with outstanding growth in capital and distributions, significantly outperforming the sector average.

Premium's property portfolio comprises commercial, retail, industrial, residential and office buildings.

The portfolio consists of mainly multi-tenanted buildings situated predominantly in the Pretoria Central Business District with further holdings in Hatfield, Silverton and Johannesburg Central Business District.

Managed by



101, DU TOIT STREET, PRETORIA.
TELEPHONE (012) 319-8811 FAX (012) 319-8812
WEBSITE www.cityprop.co.za

CITYPROPERTY

- *2005 three of top four listed property securities managed by: Madison*



MADISON
PROPERTY FUND MANAGERS

Inside info

Guest writer **Michael Berman** is the Chief Executive Officer of Velocity Trading (Pty) Ltd a listed property securities asset manager and consulting 'think tank'. He is a registered stockbroker with a Bachelor of Commerce (Real Estate) and a Master of Science (Real Estate) degree. He has nine years experience in real estate and asset management.



Whilst working as a hedge fund manager for CorpCapital Bank Limited, Michael founded and innovated the Velocity strategy in early 2002. He was a founding director of ApexHi Properties Income Fund Limited, and an executive of CorpCapital Bank Limited's property division. Previous jobs were: senior asset manager for Rand Merchant Bank Properties Limited, a property economist for Herbert Penny (Pty) Ltd and a project manager for Anglo American Property Services Limited, land development division.

Do Property Loan Stocks (PLS), Property Unit Trust (PUT) and Real Estate Investment Trusts (REIT) compare?

To consider the structure of these investment vehicles, and how they compare, it is important to consider their respective histories.

Real Estate Investment Trusts

The REIT structure, the oldest and most ubiquitous of the listed property structures, is a company that owns, and in most cases, operates income-producing real estate. It was created by the United States Congress in 1960 to make investments in large-scale, income producing real estate accessible to smaller investors.

Companies qualifying for REIT status are governed by the REIT Improvement Act of May 2003, and need to comply with the following provisions within the Internal Revenue Code:

- Be an entity that is taxable as a corporation
- Be managed by a board of directors or trustees
- Have shares that are fully transferable
- Have a minimum of 100 shareholders
- Have no more than 50% of its shares held by five or fewer individuals during the last half of the taxable year
- Invest at least 75% of its total assets in real estate assets
- Derive at least 75% of its gross income from rents from real estate property or interest on mortgages on real property
- Have no more than 20% of assets in taxable REIT subsidiaries.
- Pay annually at least 90% of its taxable income in the form of shareholder dividends

For tax purposes REITs dividend distributions are allocated to ordinary income, capital gains and return of capital, each of which may be taxed

at different rates. A return of capital distribution is not taxed as ordinary income. Rather, the investor's cost basis in the stock is reduced by the amount of the distribution. To the extent that the REIT retains income, it must pay tax on such income just like any other corporation.

Property Unit Trusts

A PUT is a portfolio of investment grade properties that is held for its rental income and capital appreciation.

PUT investors are protected by a stringent regulatory framework under the auspices of the Registrar of Collective Investment Schemes – a Financial Services Board (FSB) function – and are governed by the Collective Investment Schemes Control Act (Act 45 of 2002). In addition the affairs of the management companies which administer the PUTs are regulated by a Trust Deed between the management company and a trustee, and furthermore by the JSE.

PUTs are permitted to:

- Invest a portion of assets into foreign fixed property and property shares
- Gear up to 30% of the value of the underlying assets
- PUTs can now invest directly in property, as opposed to investing in shares of property holding companies as was the practice prior to amending the Act.

Owing to their structure, PUTs do not pay tax on the income they distribute. Distributions are treated as interest and are taxed in the hands of the unitholder. PUTs are also exempt from capital gains tax (CGT).

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Property Loan Stock

PLS companies invest solely in property. As with all other companies PLSs are subject to the Companies Act, JSE regulations and governed by their own memorandum and articles of association.

The main difference between PLS companies and other companies is the method whereby the owners fund the company. When you purchase a linked unit in a PLS it is comprised of part share and part debenture (or loan). The debenture (or loan) portion of the linked unit earns interest at a variable rate. The interest comes from profits, which the PLS achieves from rental streams from its property investments.

Usually PLSs distribute all their profits as interest, thereby avoiding income tax within the company, leaving the tax obligation on the holder of the linked unit.

The conditions and terms of the debentures, including the rate of interest payable and repayment dates are governed by the debenture trust deed, and independent trustees are appointed to look after the interests of debenture holders.

A brief history and recent or imminent significant enactments:

Some brief historic facts; the first REITs were introduced in the early 60s in the United States, but the modern REIT era only began in the early 90s.

Other countries to adopt the REIT-type structure were The Netherlands (1969) and Australia (1972), the principles of these vehicles were the same as the REITs in the United States, but they carried the name of fiscale beleggingsinstellingen (FBIs) and listed property trusts (LPTs) respectively. Interestingly South Africa never features in any of the literature describing the history of the global real estate securities market, despite having two listed Property Unit Trusts as early as 1969. In the last couple of years, Asian countries such as Japan, Singapore, Hong Kong, Korea and Taiwan have adopted REIT legislations. These markets are currently in the first stages of their development and are growing fast. Many European countries are lobbying to have the REIT structure introduced.

France enacted its REIT structure, Sociétés d'Investissements Immobiliers Coteés (SIIC), in 2003 to promote foreign investment in its listed property companies. The SIIC structure is considered to be liberal in terms of its guidelines and restrictions, and its introduction has been a major success. Currently, all major public real estate companies have adopted this structure.

In Japan, the J-REIT sector has grown rapidly since its introduction in 2001. Due to its externally advised structure, most J-REITs originated as spin-offs from Japanese listed property companies. Similar to United States REITs, J-REITs are generally property specific, as opposed to diversified, real estate companies.

Since Singapore introduced its REIT structure in 2002, over four REITs have been listed, including the first Asian cross-border REIT. Singapore REITs are externally-managed, property-focused real estate companies.

Despite enacting REIT legislation in mid-2003, Hong Kong has only one listed REIT due to the structure's lack of tax transparency and overly restrictive limitations on geography and debt levels.

Following the introduction of J-REITs, South Korea enacted REIT legislation in 2001 to assist in the corporate restructuring process. Unlike Japan, however, the conventional REIT market in South Korea has failed to transpire due to the structures lack of tax transparency and overly restrictive limitations on assets and debt levels.

In the United Kingdom, the government has finally stated that by June 2006 it will introduce property investment funds (PIFs). The introduction is significant because the United Kingdom listed property sector currently makes up approximately 50% of the EPRA Europe Index and 9% of the EPRA/NAREIT Global Index.

It appears the German government is trying to pip its British counterpart to the post. In Germany, public real estate investment is currently dominated by tax-advantaged, open-end property funds, which totalled \$107

billion as of July 2004. The introduction of a REIT structure should be highly successful because German private investors are already comfortable investing in real estate.

Concluding Remarks

When considering the landscape of the listed property market globally, very few of the major global players outside the United States actually call their investment vehicle a REIT. Therefore it is not so much what they are called it is more what they actually do. South Africa boasts a very mature (1969) listed property sector with a PLS and PUT structure which, depending on your exact requirements, for all intents and purposes mimic the United States REIT model.

There are currently three major global listed property index databases, namely: GPR, EPRA/NAREIT & S&P/BMI of which the two, excepting EPRA/NAREIT, cover South Africa as part of their indices.

Stakeholders need to be more proactive with the international community and raise the profile of the South African listed property product offering. In future research on the global listed property sector should feature South Africa as a pioneer and EPRA/NAREIT, the largest index database, must find a slot for South Africa in their index.

Finally and most importantly the stakeholders need to open dialogue with the asset managers of the 58 global listed property funds, and understand the needs of these fund managers. REIT, SIIC, FBI, LPT, J-REIT, H-REIT, PIF, PLS, PUT are essentially all the same – the 'devil is in the detail.'

• Redefine 91% • ApexHi B 65% • Hyprop 63%

Source: Catalyst Fund Managers

The Property Loan Stock Association (PLSA) is the representative umbrella body of the property loan stock sector of the JSE comprised of voluntary members, with the weight of nearly all of the funds within the sector behind it. The PLSA both represents the sector and provides a resource for its member companies.

The purpose of the Association is to:

- Represent members' interests in regards to matters of common concern and to constitute an industry body for the formulation of opinion and policy and to represent its members in dealing with regulatory authorities, public bodies, other associations and the public in general.
- Develop public awareness of the industry.

- Represent members in the formulation and implementation of a commercial property empowerment charter in conjunction with other relevant property associations, bodies and entities.

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