Texton reduces debt while delivering solid half-year operational performance

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JSE-listed REIT Texton Property Fund announced its results for the half-year ended 31 December 2019 and expects distributable earnings to be in line with guidance for the full year. Texton significantly reduced its loan-to-value (LTV) ratio by 2.3% or R340.8m, taking it from 47.2% to 44.9%, during the period.

“Texton’s strategic focus is constant and clear: it is committed to the fundamentals of retaining tenants and improving occupancies at properties while reducing debt and financing risk, and decreasing gearing,” says CEO Marius Muller.

Texton is a diversified REIT with total property assets valued at R4.2bn, of which 60.9% by value is in South Africa and 39.1% in the United Kingdom. The tough macroeconomics in both its markets during the period, and weakened property fundamentals, led to a challenging first half of the financial year. It reported an 11% decrease in distributable earnings.

Despite the headwinds, Texton made pleasing operational advances, including reducing its overall vacancy level from 10.5% in the prior interim period to 9.0%. During the half-year it increased its tenant retention rate from 86.2% to 90.5% and achieved positive rental reversions of 2%.

Vacancies in the South African portfolio decreased from 10.8% to 10.3% during the period. Of the vacant space, assets held for sale account for 39%. The remainder is mostly in Texton's Gauteng office portfolio which, with vacancies of 9.3%, is outperforming the 12.5% SAPOA vacancy rate for Gauteng offices. New leasing deals finalised in the period extended the average unexpired lease term in the SA portfolio from 2.1 to 2.6 years.

The net property cost-to-income ratio of Texton's South African portfolio decreased slightly from 26.4%% to 25.7%%. A thorough review of the soft-services for the portfolio achieved cost savings, which partially offset above-inflation increases specifically in rates and taxes and municipal charges.

Texton's refinancing programme is its key priority and is being driven by a programme of non-core asset disposals, with some R326.8m of assets held for sale. Its non-core assets disposal programme resulted in the sale of Tesco Chobe in Newcastle in the UK during the period, where the proceeds were used to settle GBP11.3m of UK debt, significantly reducing financing risk. Texton has since been approved for a new five-year secured facility of GBP31.3m, which is a testament to the quality of its portfolio. The sale of UK assets was the main contributor to the 7% reduction in total portfolio revenue, which was partially offset by lower finance costs from reduced debt levels as well as favourable exchange gains.

The period also saw good progress repositioning Texton's UK portfolio to increase the longevity of assets and sustainability of income. Texton's wholly-owned UK portfolio is 100% let with an average unexpired lease term of 8.4 years. Leasing deals concluded in the period enhanced this figure.

Texton's biggest asset, Broad Street Mall in Reading in the UK, in which it has a 50% stake, is a key focus. International brand Taco Bell was introduced on a new 10-year lease and is trading exceptionally well. Broad Street Mall has also concluded several other leasing deals, which has significantly reduced vacancy from 19% to 8%. Footfall at the mall grew 7.9% on a rolling 12-month basis for the period ending February 2020. In January 2020 alone, it increased a phenomenal 27%.

Texton is transforming Broad Street Mall from a pure retail mall to a mixed-use precinct with a hotel, entertainment, offices, residential and retail. It has already obtained consent to develop a 101-bedroom hotel at Broad Street Mall for Premier Inn, with which it has signed a 25-year lease, and is in the advanced stages of finalising a deal to sell the hotel on completion. The council has also approved the 422-flat residential development. Texton's refinancing of the Broad Street Mall debt, in May 2020, will be a crucial focus in the second half of the financial year.

Muller notes, "Our investment in Broad Street Mall is well placed to benefit from significant value unlock in future. However, we remain realistic about the immediate challenges that both the SA and UK property sectors face right now."

With a six-month dividend of 16.09 cents a share being declared, the pay-out amounts to 50% of distributable income, with Texton retaining R60m to decrease debt to more sustainable levels and strengthen the balance sheet in line with its capital allocation strategy. Texton's Board of Directors has committed maintaining Texton's distributable income guidance for the full year and meeting its REIT dividend commitments.