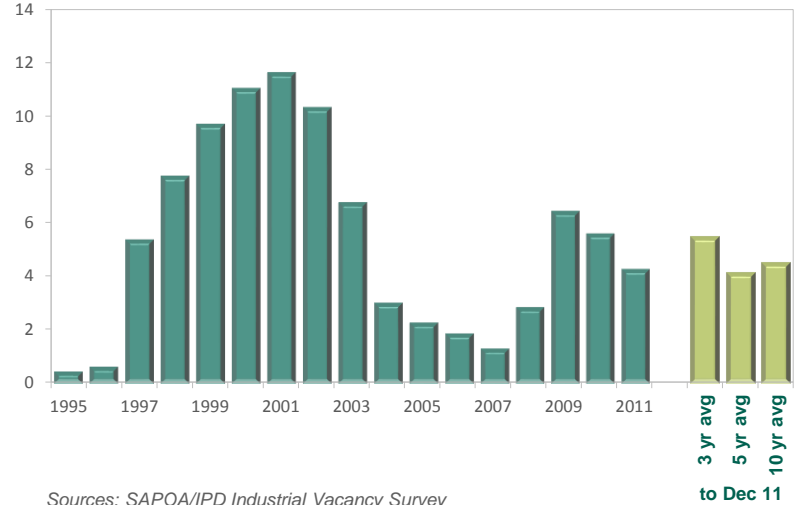


Old Mutual Property

Market Highlights

- ▲ Property returns have historically shown a high correlation to economic growth; however, our analysis has shown that the dispersion of those returns across the property segments will vary at different stages of the economic cycle.
- ▲ Our perspective recognises three distinct phases of the property cycle: **Demand Shock Phase** - during this phase we see a sudden spike in vacancies as well as a fall in capital growth, largely in line with the economy. This is followed by **Recovery Phase**, during which vacancies still climb, but at a slower rate, and capital growth takes longer to recover than the economy. During the **Growth Phase**, we finally see space absorption outstrip supply, resulting in declining vacancies, and capital growth rates moving back in line with the underlying economy.
- ▲ While our current view is that all property segments will move through the recovery phase and into the growth phase during 2013, certain segments are already seeing improved fundamentals, as indicated in the recently released SAPOA/IPD Industrial Vacancy Survey. The survey shows declining vacancies in the industrial sector and marked improvements in the warehousing segment.

Long-term Vacancy Trend (All Industrial - South Africa)



Performance Profile

SA Corporate Real Estate Fund (Listed Real Estate)

- ▲ The fund continues to drive operating efficiencies in the portfolio through aggressively managing arrears, unsigned leases and vacancies in order to maximise net property income growth. Interventions in this area have begun to yield the desired effects.
- ▲ According to the IPD, the fund's total return for the year ending December 2011 was 6.9%, comprising of an income return of 9.2% and a -2.1% decline in capital growth. The attribution analysis shows continued growth in the industrial portfolio, but challenging capital returns in the retail sector.
- ▲ The fund continues its reinvestment strategy into the portfolio – current projects underway remain on budget, with Musgrave and Davenport reaching practical completion.
- ▲ The disposal of the fund's non-core assets continues, as we attempt to build a quality portfolio with the potential to deliver superior and sustainable growth into the future.

Triangle Funds (Direct Real Estate)

- ▲ The retail sector of the fund will remain under pressure as increases in Eskom tariffs and fuel prices place further pressure on both tenant costs and shoppers' disposable income.
- ▲ The office sector continues to lag both retail and industrial. This sector is directly linked to employment requirements, with recovery expected in late 2012 and early 2013.
- ▲ We remain focused on continuous cost control measures and industry benchmarking across all properties to deliver the desired returns.

"With increasing pressure on vacancy rates, our preference is for dominant retail centres."



Peter Levett | Boutique Head

