BUSINESS DAY (Final), Companies & Markets
Friday, 31 August 2007, p. 19

# Hotel boom spurs growth at Hospitality

## Fund beats forecast on B-linked units

**Nick Wilson**

*Property Editor*

HOTEL and leisure property-focused company Hospitality Property Fund yesterday said it beat its prospectus forecast for its B-linked unit distributions for the year to June 17,9%.

The company said this equated to a 20,2% increase on the previous year's four-and-half month annualised distribution.

The surge in its B-linked unit distributions was attributed mainly to the company's 28% exposure to variable earnings linked to the operational performance of the hotel operators tenanting its properties.

Hospitality CEO Gerald Nelson said yesterday that the company was benefiting from a booming South African hotel industry that was experiencing increasing room rates on the back of to an overall shortage of hotel accommodation in prime areas.

Its A-linked units delivered 100,46c in distributions as set out in its listing prospectus forecast.

Hospitality is one of only two companies in the listed property sector that has a linked-unit structure that consists of different types of units.

Its A- and B-linked units offer different risk and return scenarios.

Hospitality's A-linked units are considered the more "secure" unit with a fixed or capped escalation growth on distributions.

The B-linked units offer a higher risk, but higher return opportunity for investors.

The total return for the A-linked units was 38% for the year, while the B-linked units delivered a massive 116% total return to unitholders.

Hospitality, which has a market capitalisation of R1,6bn and property assets worth R1,7bn, also more than doubled its black economic empowerment unit-holding to 30,4% of its share capital.

Nelson said the company was able to do this by acquiring properties and issuing units in exchange for them. These units were then passed on to the empowerment partners without dilution to existing unitholders.

He said Hospitality's empowerment unitholding was well above the property sector transformation charter's target of empowerment partners owning 25% of a property company's equity in five years.

Nelson said that 72% of the company's earnings were from fixed rental income leases with hotel operators.

The other 28% of its income was from lease income linked to the operations of hotel operators. This enabled Hospitality to enjoy upside from growth in the hotel industry.

Nelson said the South African hotel industry was prospering with revenue per available room increasing 15% last year and 18% for the year to date. Hospitality also announced a R500m rights offer.

The capital raised from this issue of units would be used for new acquisitions, redevelopments and investment in the company.

Mariette Warner, head of property funds at Stanlib, said the results were well ahead of forecast because of profit participation in some of the hotel operations.

Nosiphiwo Balfour, property analyst at Investec Listed Property Investments, said Hospitality delivered a "pleasing set of results".

**The Bottom Line: Page 16**