

REPUBLIC OF SOUTH AFRICA COMPETITION COMMISSION

Competition Act, 89 of 1998

MEETING WITH EMIRA PROPERTY FUND

DATE: 2017/11/06

VENUE: CSIR Pretoria

CHAIRPERSON: Ms L Mtanga

COMMISSION MEMBERS

Ms S Grimbeek : Principal Economist
Mr T Khumalo : Senior Legal Counsel
Prof Halton Cheadle : Apology

ON BEHALF OF EMIRA PROPERTY FUND:

Mr G Jennett : Chief Executive Officer
Ms van Biljon : Chief Operating Officer



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In the hearing of

COMPETITION COMMISSION AND EMIRA PROPERTY FUND

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PROCEEDINGS ON 6 NOVEMBER 2017

CHAIRPERSON: Good afternoon, everyone. We are now going into the second submission of the day, from Emira Property Fund. My name is Lulama Mtanga. I am chairing these public hearings in the absence Professor Halton Cheadle, who has not been able to join us for this session of public hearings due to personal circumstances. I am assisted by the two colleagues from the Competition Commission and whom I would like to request to introduce themselves and thereafter, I will ask you to introduce yourselves as well.

MS GRIMBEEK: Good afternoon, my name is Sunel Grimbeek. I am Principal Economist at the Commission and I am leading the technical team that is working on the grocery retail inquiry.

MR KHUMALO: Good afternoon, my name is Thabo Khumalo. I am a Senior Legal Counsel working on the grocery retail inquiry.

MR JENNETT: Good afternoon. Thank you very much. My name is Geoff Jennett. I am the CEO of Emira Property Fund and joining me today is also our Chief Operating Officer, Ulana Van Biljon and between the two of us, we will answer any questions that you prepare to put to us.

We have not prepared anything specific and what we rather just for the share with you, from an overall perspective, what happens in our retail portfolio and as I say, we make it interactive. We are willing to answer all questions and we can take it from there. Just a little bit of background, just on Emira so that you guys have got an idea, from where we coming from.

CHAIRPERSON: Yes.

MR JENNETT: We are a predominantly South African balanced and diversified REIT that is listed on the JSE. We have a 135 properties, of which 38 are retail properties. Those retail properties ranged from what we call our rural portfolio, all the

way up through to what we call our almost super regional property that is 90 000 square metres, which is Wonderpark Shopping Centre, just north of Pretoria.

Emira, as I say, we are listed on the JSE. We have a market cap of about R7 billion. We have assets, totalling about R14 billion and because we are a REIT, I think when we read some of the questions, we notice that they were focused more on certain sides, one of which was on developers. Now when Emira funds itself, we utilise shareholders funds.

- 10 Then what we issue on the JSE but we also have a gearing ratio and we run it at around about a 36% gearing ratio. So we fund ourselves centrally. We do not specifically go and raise finance for a particular asset. We rather fund it, based off our 135 assets that we have got and banks look at us from a general perspective and they look at us, from a diversified perspective. And because you operating on a very low loan to value or a low gearing ratio and just be aware of that so that we noticed that some of the questions were focused on in terms of what banks would allow.

CHAIRPERSON: Yes.

- 20 MR JENNETT: But because debt is a permanent part of our capital structure, we obviously do need to be very aware of what our values are. So it is important that the leases that we have with our tenants are strong leases. That are long leases. That the centres themselves are successful because of those centres are not successful, not only would our banking parties put up their hands and say, guys we do not want to lend to you anymore but more importantly as well, from our side, our shareholders would be putting up their hands and say, hang on guys, you are not delivering the returns and we would then, you know management would changed and maybe we would be taken
30 over or something like that.

So I just wanted to set that as an overall scene. The other thing, just from an overall perspective is that we also believe that it is never one particular factor that comes to a shopping centre that is the defining factor.

CHAIRPERSON: Yes.

MR JENNETT: It is always a multitude of factors and so just be aware of that as you go through the questions. That as I say, it is never just one thing, it is looking at the whole bigger picture. Madam Chair is that appropriate in the setting of the scene?

10 CHAIRPERSON: Yes, thank you very much Mr Jennett. You say your surname is Jennett?

MR JENNETT: Yes, we pronounce it Jennett.

CHAIRPERSON: Jennett.

MR JENNETT: Yes.

20 CHAIRPERSON: Thank you very much. You also touched on where your retail properties are located. Can you just give us a sense of the provinces in which you located and also indicate whether or not in those provinces. You have got both rural and urban. So that we can just have a sense of how big your, in which provinces you bigger and in which provinces are you smaller.

MS VAN BILJON: Alright. So from a value point of view, our rural is valued less than our urban portfolio. We are mostly in Pretoria and Johannesburg, so Gauteng.

CHAIRPERSON: Yes.

MS VAN BILJON: We have got one shopping centre, also in Bloemfontein. One in Plettenberg Bay and then one in Cape Town. We also have got three in Durban. So as you can see, predominantly in Gauteng.

CHAIRPERSON: Okay.

30 MS VAN BILJON: Then we have got about 17, 18 rural retail and that is spread mostly in KZN and Eastern Cape.

CHAIRPERSON: KZN and Eastern Cape. In KZN, which towns?
Is that too broad a question to answer?

MS VAN BILJON: It is quite broad. It is from Kokstad, to Nongoma, to Nqutu, to Greytown, to Dundee, to Ingwavuma ...
[intervened].

CHAIRPERSON: So a real rural side of the ... [intervened].

MS VAN BILJON: Yes. Ours is not township development. I know you have seen Resilient already.

CHAIRPERSON: Yes.

10 MS VAN BILJON: Resilient is more township.

CHAIRPERSON: Yes.

MS VAN BILJON: Ours are rural.

CHAIRPERSON: Oh, rural?

MS VAN BILJON: *Ja*.

CHAIRPERSON: Okay. Like in Kokstad that will be in town, right in town?

MS VAN BILJON: In town *ja*. We actually have got the major shopping centre in Kokstad.

20 CHAIRPERSON: Okay, is that the one where there is Edgars and Ackermans?

MS VAN BILJON: Rhino. No, no. The Edgars one is actually just outside the CBD.

CHAIRPERSON: Yes.

MS VAN BILJON: Not outside but we are in the CBD where Rhino is.

CHAIRPERSON: Rhino. Where Rhino is?

MS VAN BILJON: Yes.

CHAIRPERSON: Okay and then you said in KZN, you have got Nqutu and?

30 MS VAN BILJON: Nongoma.

CHAIRPERSON: Nongoma.

MS VAN BILJON: And Ingwavuma.

CHAIRPERSON: Okay.

MS VAN BILJON: Ja, so straight up to there as well.

CHAIRPERSON: Okay and then in Eastern Cape, do you consider Kokstad as KZN or Eastern Cape in that list?

MS VAN BILJON: Oh, now you ask me.

CHAIRPERSON: Is it or it is now KZN, so?

MS VAN BILJON: Yes, it is KZN.

MR JENNETT: It is KZN.

10 MS VAN BILJON: Yes.

CHAIRPERSON: Do you have any more in the Eastern Cape that you are list?

MS VAN BILJON: Matat.

CHAIRPERSON: Matatiele?

MS VAN BILJON: Ja Matatiele.

CHAIRPERSON: Yes.

MS VAN BILJON: Umtata.

CHAIRPERSON: Yes.

20 MS VAN BILJON: Let me quickly get the list. Sorry, I ask you to go back.

CHAIRPERSON: No, I understand.

MS VAN BILJON: Umzimkulu.

CHAIRPERSON: Umzimkulu.

MS VAN BILJON: *Ja*. So you only want...

MR JENNETT: Cofimvaba.

MS VAN BILJON: Cofimvaba, *ja*. Flagstaff.

CHAIRPERSON: Flagstaff. Are these new developments or long existing properties?

MS VAN BILJON: Long existing.

30 CHAIRPERSON: Okay.

MS VAN BILJON: Sure.

CHAIRPERSON: So it is Matatiele, Umtata, Umzimkulu, Cofimvaba and Flagstaff.

MS VAN BILJON: Yes.

CHAIRPERSON: Okay.

MS VAN BILJON: Ja Bizana as well.

CHAIRPERSON: Bizana.

MS VAN BILJON: Idutywa.

CHAIRPERSON: Idutywa.

MS VAN BILJON: I mentioned Ingwavuma.

10 CHAIRPERSON: Ingwavuma, yes you did.

MS VAN BILJON: Idutywa.

CHAIRPERSON: Nqutu.

MS VAN BILJON: Yes that is it.

CHAIRPERSON: Sure okay. I guess you kind of, you have been following the discussions that we have had with specifically the property developers and we tried to focus a lot on exclusive leases and on that we just want to know, is there any aspect of that discussion that you would prefer to be confidential or are you comfortable to discuss anything?

20 We do not go into figures, normally. Just to say.

MS VAN BILJON: None at all?

CHAIRPERSON: None at all. Okay. What is Emira's view of exclusive lease? What is your take as a retail developer?

MR JENNETT: So ... [intervened].

CHAIRPERSON: Sorry, my colleague wants to ask also something about that.

MR KHUMALO: Before you go answer the chairperson's question. Of those that you listed, can you give us an indication of how many developments have one, more than one anchor or is it one anchor, one on one anchor?

30

MS VAN BILJON: No the rural shopping centres are extremely

small. So again, you cannot compare them to township or to urban retail.

So you actually cannot have more than one grocer. It is too small. Some of them are 5000 square metres. Of which 3000 square metres might be a Rhino or a Boxer. So ours are a little bit different than the others. Also maybe, just to make a note. We also not a developer.

I think Geoff also mentioned that earlier. I am just giving Resilient as an example because I know you have seen them. So they are
10 more, they are developers. We have got portfolios that were developed many years ago that we buy from either developers or existing owners.

CHAIRPERSON: So you are more of managers?

MS VAN BILJON: Owners.

CHAIRPERSON: Owners. So you are ... [intervened].

MS VAN BILJON: We own.

CHAIRPERSON: Oh, you do not develop anything from scratch. You buy from others?

MS VAN BILJON: Yes.

20 CHAIRPERSON: You buy existing properties.

MS VAN BILJON: We will, we will develop if there is an opportunity.

CHAIRPERSON: Yes.

MS VAN BILJON: But up to now, we bought from developers.

CHAIRPERSON: Okay. Thank you.

MR KHUMALO: Sorry, how big is the biggest one in this town, in this rural towns?

MS VAN BILJON: It is Kokstad.

CHAIRPERSON: Where there is Rhino?

30 MS VAN BILJON: Also only one and Kokstad is 10 000 square metres.

MR KHUMALO: Is that the biggest one?

MS VAN BILJON: That is the biggest.

MR KHUMALO: Okay.

CHAIRPERSON: Idutywa where you are different, where are you there?

MS VAN BILJON: Idutywa is also small, 5100.

CHAIRPERSON: Okay. Which one is it there?

MS VAN BILJON: The Idutywa one?

CHAIRPERSON: Yes.

10 MS VAN BILJON: That we have got Usave.

MR JENNETT: Where is it?

MS VAN BILJON: Where is it? Oh Idutywa.

CHAIRPERSON: Yes.

MS VAN BILJON: Idutywa, it is in KZN. The northern side. When you travel, let us say from Durban.

CHAIRPERSON: Yes.

MS VAN BILJON: And Nongoma, no it is more inland and then you get Nqutu, a bit more northern.

CHAIRPERSON: Okay.

20 MS VAN BILJON: *Ja*.

CHAIRPERSON: What is Idutywa, is it a town or a development name?

MS VAN BILJON: No, it is a town.

MR JENNETT: It is a town.

MS VAN BILJON: It is a small little town.

CHAIRPERSON: Idutywa is in the Eastern Cape?

MS VAN BILJON: No, no in KZN. It is close to Nongoma. Nongoma is also KZN.

CHAIRPERSON: Yes.

30 MS VAN BILJON: Mtatha, it is also not far from Mthatha.

CHAIRPERSON: This one, Idutywa.

MS VAN BILJON: Yes.

CHAIRPERSON: Okay. What is it called?

MS VAN BILJON: Idutywa. I-d-u-t-y-w-a.

CHAIRPERSON: Yes.

MS VAN BILJON: I actually go past the Nkandla board that is why I know.

CHAIRPERSON: Oh, okay really. Nkandla. So it is near Nkandla?

MS VAN BILJON: If you want to say close to it, yes.

10 CHAIRPERSON: Near Nkandla, okay, and then, with these are there any exclusive leases applicable?

MS VAN BILJON: There are some exclusivity like Rhino.

CHAIRPERSON: In Kokstad?

MS VAN BILJON: In Kokstad, yes.

CHAIRPERSON: Okay.

MS VAN BILJON: For instance there ... [intervened].

CHAIRPERSON: In favour?

20 MS VAN BILJON: In favour of instance a store or a butcher but because our shopping centres are too small, there will not be exclusivity with regards to you know the grocer.

CHAIRPERSON: Yes.

MS VAN BILJON: So it will usually be bakery, butcher and liquor store.

CHAIRPERSON: That are excluded?

MS VAN BILJON: That are excluded or the size.

CHAIRPERSON: Who is the party that has claimed exclusivity in Kokstad?

MS VAN BILJON: You mean Rhino?

CHAIRPERSON: Is it Rhino itself?

30 MS VAN BILJON: Rhino itself, yes.

CHAIRPERSON: So it is Rhino.

MS VAN BILJON: Yes.

CHAIRPERSON: Excluding bakeries, butcheries and?

MS VAN BILJON: And liquor stores or what they do is they give you a maximum or a minimum that you can add to the centre and sometime you also get it from Boxer or even U-save.

CHAIRPERSON: Okay.

MS VAN BILJON: But I think it is less in our portfolio an issue, if I can call it an issue because of the size of the shopping centres.

CHAIRPERSON: Okay.

10 MR KHUMALO: We understood that U-save does not generally have a butchery or a bakery.

MS VAN BILJON: They do not. No they do not.

MR KHUMALO: So who would they be excluding from the list?

MS VAN BILJON: I am generalising. If they do exactly what Rhino is doing? It is usually bakeries, butcheries and liquor stores.

CHAIRPERSON: So we are saying U-save ordinarily does not have a bakery?

20 MS VAN BILJON: No, no, what I am saying is that U-save not usually have exclusivity clauses.

CHAIRPERSON: Oh they will not. Usually they will not have exclusivity clauses?

MS VAN BILJON: Yes.

CHAIRPERSON: Okay. Do they have a bakery inside?

MS VAN BILJON: Depends on your size of the U-save but yes they do have.

CHAIRPERSON: Okay.

MS VAN BILJON: All of their grocery stores have bakeries.

CHAIRPERSON: And the liquor store as well.

30 MS VAN BILJON: They have got a separate liquor store. So Rhino will have separate Rhino liquor store.

CHAIRPERSON: Okay. As well as a butchery?

MS VAN BILJON: Inside.

CHAIRPERSON: Inside within the?

MS VAN BILJON: Within the shop.

CHAIRPERSON: Okay so the exclusivity will apply on the centre?

MS VAN BILJON: On the shopping centre.

CHAIRPERSON: On the shopping centre itself?

10 MS VAN BILJON: *Ja*, for instance they would say that we can add another butcher shop but it must be up to a maximum of 200 square metres, for instance.

CHAIRPERSON: Okay. And I can confirm with you that the owner of Rhino is Massmart? Am I correct?

MS VAN BILJON: I just want to think because one of them has just been bought by Cambridge.

CHAIRPERSON: Okay.

MS VAN BILJON: Within the past two weeks.

CHAIRPERSON: Cambridge is part of the Massmart group? Yes.

20 MS VAN BILJON: Oh, okay.

CHAIRPERSON: Yes the, it is one to...

MS VAN BILJON: *Ja*.

CHAIRPERSON: Okay.

MS VAN BILJON: So Cambridge is taking over, I think Rhino, so all of those will be rebranded to Rhino, ag to, to Cambridge.

CHAIRPERSON: To Cambridge.

MS VAN BILJON: *Ja*.

30 CHAIRPERSON: And then, and then, there, and then you, you have exclusivities and that exclusivity will then be carried over by...

MS VAN BILJON: It will *ja*.

CHAIRPERSON: Cambridge?

MS VAN BILJON: *Ja*, but the exclusivity clause did not come from Massmart, it came from the original Rhino.

CHAIRPERSON: Oh okay.

MS VAN BILJON: *Ja*.

CHAIRPERSON: Okay. But they, okay. But they took over the lease with the exclusivity?

MS VAN BILJON: Yes.

CHAIRPERSON: Alright.

10 MR JETTETT: I am, sorry madam Chair if I can just add to that, so it is not a, there are these exclusivities but everyone is on a case by case basis. It is not like those are the rules.

CHAIRPERSON: Blanket yes.

MR JETTETT: *Ja* it is definitely not blanket and we are just talking, just generally that this is...

CHAIRPERSON: Yes.

MR JETTETT: What the experience is our portfolio.

20 CHAIRPERSON: No, no we understand, this is in respect, this is specific to Kokstad where there is Rhino. That is where, that is where I am putting it. And you mention that you also have a centre in Umtata, whereabouts in Umtata?

MS VAN BILJON: Do you know where the Resilient Shopping Centre is? So if you come from East London and you go through the town.

CHAIRPERSON: Yes on the right hand side.

MS VAN BILJON: Resilient is on, okay, on the left hand according to me, we have got a very small one, it is basically a strip shopping centre if I can call it that. It is on the main road.

CHAIRPERSON: On the left hand side?

30 MS VAN BILJON: On the le, on the right hand side.

CHAIRPERSON: On the right hand side?

MS VAN BILJON: *Ja*.

CHAIRPERSON: Okay.

MS VAN BILJON: So there is a U-Save.

CHAIRPERSON: Oh, before you get to the bigger one.

MS VAN BILJON: *Ja*.

CHAIRPERSON: Before you...

MS VAN BILJON: That is right.

CHAIRPERSON: Before you get to that big Shopping Centre.

MS VAN BILJON: Yes, *ja*.

10 CHAIRPERSON: Oh okay...

MS VAN BILJON: So, you actually will go pass...

CHAIRPERSON: With the Spar?

MS VAN BILJON: No, no, and a U-save, we have got a U-save.

CHAIRPERSON: There is a U-save there.

MS VAN BILJON: *Ja*, but if you go past you will not know it is a Shopping Centre. It is a main road with shops.

CHAIRPERSON: Okay sure. Okay. Is that before you get to Spar, where there is a garage on the road.

MS VAN BILJON: Oh golly. It is before you go to Port St. Johns.

20 CHAIRPERSON: Oh. As you go...

MS VAN BILJON: That road.

CHAIRPERSON: Down that road?

MS VAN BILJON: Yes.

CHAIRPERSON: That road.

MS VAN BILJON: *Ja* close to the river.

CHAIRPERSON: Okay.

MS VAN BILJON: *Ja*.

30 CHAIRPERSON: Okay. We were asking you what is your, what is your view as a Property Developer and Property Owner, sorry, Developer and Owner, largely owner to, what is your view on exclusive leases.

MR JENNETT: So, our view as Emira Property Fund is that exclusivity agreements exist.

CHAIRPERSON: Yes.

MR JENNETT: And there is only so much that we can do.

CHAIRPERSON: *Ja*.

MR JENNETT: And we are not in favour them, in favour of them, I think that is just a general view, is we are not in favour of exclusivity agreements but we do understand when a particular tenant that we try get into a centre says you know guys I will only
10 come into the centre if you can protect me.

CHAIRPERSON: Yes.

MR JENNETT: And the way I need you to protect me is to give me this exclusivity on this particular little space here so that you cannot come and put a, a bigger butchery right next to me if I am a specialist butcher. So we do recognise it and understand it but we do fight against it. But ultimately we have got to look at it from the overall health of that centre.

CHAIRPERSON: *Ja*.

MR JENNETT: And from an overall commercial perspective and
20 so sometimes if we have to give it away then we do.

But it is certainly not something that we do encourage or put forward but it is something that you negotiate with the tenant.

And...

CHAIRPERSON: Okay.

MR JENNETT: We do understand that, that they have played a role and so, so *ja*, I will also just add to that, is that, because we, we have not really developed our centres, we have never been the guys that have actually been out there building it up from scratch from the first time and really putting in the tenant. And,
30 and putting that mix together so we often, it something that we have inherited because we are buying it.

CHAIRPERSON: Okay. Do, do you find that it is, it is easier to, in a case like, that you have just explain now, generally you do understand the, the commercial reasons behind having some of these exclusivities?

In that case what is the necessity if, what is the necessity of having an exclusivity clause when you as a, as a, as a property owner and the landlord understand that you do not, you do not, you cannot bring another tenant that can compete with them? Or is it just to make sure everything is in black and white and understand by the parties?

MR JENNETT: I would say it is just, it is, it is a combination of that, it is definitely to make sure it is in black and white, but one, once you have granted an exclusivity through to a particular tenant and let us just say you do, you do see the merits of putting in, just using my example of the butcher, you do see the merits of putting a, another butcher into that same centre. You have got to go and get that consent from, from that person and in order to get their consent sometimes you got, you got to provide them with something else.

CHAIRPERSON: Yes.

MR JENNETT: And, and in order to do that you have got to justify the business case. So it is a longer slower process...

CHAIRPERSON: Okay.

MR JENNETT: Because you have got that exclusivity arrangement in place, in your words in black and white on a contract.

CHAIRPERSON: Okay, okay. So when you say you have to provide them with something else what, what would be that something else that you provide them with, in the ca, in the event where they have to waive their exclusivity.

MR JENNETT: So, an example might be that they, that we might

need to do, redo a, a section of their store for them, they might want to sort of waive a rental increase for a year, it, it could be, it all depends in terms of, of what the nature is of that exclusivity agreement or, and also what we are trying to achieve.

CHAIRPERSON: Okay.

MR JENNETT: So, so that is the negotiating process that you are sitting there with the, the person that, that tenant that has got that exclusivity and, and, and just using my butchery example they might say, you know guy I do not want an increase this year
10 in my rental. You know in order for me to, to relax this clause that is...

CHAIRPERSON: Yes.

MR JENNETT: That might be it. But again it is really, it is on a case by case basis.

CHAIRPERSON: Okay. But you, this is the pattern that you have seen where you have to waive, where you actually persuade them to, to waive their exclusivity. There will be a negotiation in return for something else that they get, they get from you as a landlord.

20 MR JENNETT: Yes and, and, and when, when we are really good at negotiating then it is zero, and if we are not so good at negotiating then it might be, as I say, you know waiving of rental increase for a year or something like that.

CHAIRPERSON: Okay. Where have you found, on what basis have you found it, most help, sorry, productive for you as a developer and where have you been successful in actually getting these exclusive leases waived. Especially in those kind of areas?

30 MS VAN BILJON: We have not had up to now any opportunity or request that we had to ask, are you specifically talking about rural?

CHAIRPERSON: Yes.

MS VAN BILJON: We did not had the, the need for that. Those shopping centres really run on its own and they run well. It is more in the urban areas where we find, where we want to expand the Shopping Centre, so let us say for instance the current Shopping Centre is R60 000 and you want it to go to R100 000, there you can have two grocery stores. And that is where we do it. The small centres that we have got in rural, we do not need, up to now to actually have done that.

10 CHAIRPERSON: Okay, you, you said you do not develop properties yourself, retail property yourselves. Largely, largely you, you buy existing properties and what effect to you exclusive leases have on the evaluation of the, on the evaluation of the property that buy.

Do they affect you, do they have a negative impact on, on the, on the reselling of that property? Or you even knew your appetite in buying such a property, how, how do you feel about that. As a property developer, sorry, as a property company that is more into buying than developing?

20 MS VAN BILJON: I think firstly the fundamentals of just normal valuation that it does not go into play. Valuations.

CHAIRPERSON: Yes.

MS VAN BILJON: When you do the normal DCF that we do at a mirror. That is where your rental coming to play so the exclusivity clause is not a negative in the valuation.

CHAIRPERSON: Okay.

30 MS VAN BILJON: That is the first thing. Secondly, where we do buy properties and there is exclusivity clause and we are able with the negotiations where we do acquire and we could maybe say to them we will only acquire this if you can go back to the national or whoever the, the, the tenant is, and waive that, we

will request it. If it is the case that they come back and say that the answer is no but fundamentally the business case is still good for us at the mirror and it help with our own returns and our distribution growth, we will definitely still look at buying the, the shopping centre.

We have not up to now where there have been exclusivity and fundamentally the business case is good for us as a property fund has said no to acquiring a property.

CHAIRPERSON: Okay. I know this is more, this is an open
10 ended question which is not a safe question to ask, but ca, can you give us a sense of, our instances where you have waived exclusivity in these kind of areas and what your arguments were as a developer.

How did you justify to the current owner of the lease that has exclusivity? And they waive, and they agree to waive, what was the justification that you gave them for exe, for waiving.

MS VAN BILJON: Alright, so I have been with Emira Property Fund 6 years, we only had to do it once and that at Wonder Park where we...

20 CHAIRPERSON: In Pola?

MS VAN BILJON: Wonder Park.

CHAIRPERSON: Yes.

MS VAN BILJON: In Pretoria.

CHAIRPERSON: Pretoria.

MS VAN BILJON: So there we extended the Shopping Centre to 90 000 square metres, we have got a Pick 'n Pay Hyper there and they have got an exclusivity clause. We went...

CHAIRPERSON: You, you extended from what size?

MS VAN BILJON: 65 000.

30 CHAIRPERSON: From 65 to 90 000?

MS VAN BILJON: Yes.

CHAIRPERSON: Square metres. Okay.

MS VAN BILJON: So we negotiated with Pick 'n Pay to waive the clause completely to bring in a Checkers, a Blue Line and there what we did is we contributed to a TI to Pick 'n Pay to redo their store into their new speck.

CHAIRPERSON: Okay. And what is the justification from the retainers on, I, I can understand you, your argument for wanting to put in a new another, another grocery player there. But I do not understand, can you, can you make us understand in the
10 negotiations why, how are you made to understand the, this *quid pro quo* arrangement that okay if you want us to waive please do this for us What, what is that doing for the retailer? In, in essence.

MS VAN BILJON: I think firstly what is very important is to show and explain to them the benefit of having a Checkers also in the centre.

CHAIRPERSON: *Ja*.

MS VAN BILJON: Because otherwise that Checkers can go across the road to another landlord and they can develop for
20 them, which means that feet actually go to that Shopping Centre.

CHAIRPERSON: *Ja*.

MS VAN BILJON: As you all know, we as consumers we like comparative shopping.

CHAIRPERSON: *Ja*.

MS VAN BILJON: So what we did here we anchored the Shopping Centre, the one side with Checkers and the other one to Pick 'n Pay, and Pick 'n Pay understood that completely.

CHAIRPERSON: Okay.

MS VAN BILJON: But it is like in...

30 CHAIRPERSON: But if they do not allow you to do this you, you will end up having to open another, or someone else could?

MS VAN BILJON: Somebody else could have then taken Checkers and developed for them a standalone which usually will not do, but they could have done that, to do a standalone because they wanted to get into the area.

There is already a Super Spar across the road where at the Pick 'n Pay Hyper so Checkers was needed in that area.

CHAIRPERSON: But, how, how would you be made to understand the basis for you to, what is the basis for you then giving them something in return for waiving the exclusivity? I
10 think that is the part we fail to understand.

MS VAN BILJON: Well it...

CHAIRPERSON: So far.

MS VAN BILJON: I mean they, they are they have got the, in their agreement, you know it is like, I think with anything in business.

CHAIRPERSON: But it is not, it not a product that they are selling, they are selling exclusive leases. It is not, they are not selling it, it was there for a certain reason. They had it there because ... [intervened]

20 MS VAN BILJON: But they had it ... [intervened]

CHAIRPERSON: It was, according to them it would have served a certain purpose. That purpose has got nothing to do with refurbishing or anything that you have to do in return when you waive it.

MS VAN BILJON: Ja no...

CHAIRPERSON: Why would they, why would it be necessary that...

MS VAN BILJON: Okay I do not completely agree, because the exclusivity with Pick 'n Pay Hyper at the time, when it was
30 developed was like 35 000 square metres.

CHAIRPERSON: How fa, how, how long ago for example in, in

Wonder Park?

MS VAN BILJON: It is probably 8 or 10 years ago, that was now, *ja* before my time so many years ago. So in a 35 000 square metre centre usually you will only have one grocer.

CHAIRPERSON: *Ja*.

MS VAN BILJON: But after that we extended and then we extended again. This was our, their extension.

CHAIRPERSON: *Ja*.

MS VAN BILJON: So, with the, I think there is a...

10 CHAIRPERSON: So from 35 to 65, 65 to 90.

MS VAN BILJON: To 90 and we might even extend it further because that node can, can have a, a bigger centre. So, so I do think at the time that is probably why the developer at the time accepted that because it was a small shopping centre. Now it increased and that is why we went back to them and negotiated with them.

20 CHAIRPERSON: Okay. I, am saying, okay, but I still find it difficult to understand because the exclusivity they had was for a 35, 35 000 square metre shopping centre. So when it got extended to 65 that is a much bigger shopping centre which you if, if in accordance to you as developer can actually take more than one anchor, then it should. So why should that be done in exchange for something, getting something in return. That is what I do not understand.

MS VAN BILJON: Okay maybe I do not understand your question then. So it is 65 000 square metres, we did not need another grocer.

CHAIRPERSON: You did, o, only at 90.

MS VAN BILJON: We needed at 90 000.

30 CHAIRPERSON: At 90.

MS VAN BILJON: Because we needed to anchor the other

section of the shopping centre. Because if you walk Wonder Park now...

CHAIRPERSON: Yes.

MS VAN BILJON: It is very long to walk from where Pick 'n Pay is and where Checkers is.

CHAIRPERSON: Okay.

MS VAN BILJON: So you need to anchor basically both sides of your Shopping Centre.

10 CHAIRPERSON: Why would you feel this need to give something in return when you actually, a shopping centre that you are adding an anchor on, a second anchor.

MS VAN BILJON: True.

CHAIRPERSON: It is actually a much bigger centre, the one that they had asked exclusivity on was 35, now it is more than double that size.

MS VAN BILJON: The exclusivity clause does not say that it is only for 35 000. I am giving you as an example.

CHAIRPERSON: Okay, yes.

20 MS VAN BILJON: That at the time usually at a 35 000 square metres centre.

CHAIRPERSON: They would have had.

MS VAN BILJON: Yes, so it did not state in exclusivity it must be, it was for 35 000. I do not know if you want to explain differently?

MR JENNETT: So madam Chair, if I am sort of listening here, I am just trying to get to what the crux or what I think is the question that you are asking us here is.

CHAIRPERSON: Yes.

30 MR JENNETT: When we undertook to provide them with a little bit of tenant installation, we were effectively economically paying away something.

CHAIRPERSON: Ja.

MR JENNETT: So how did we arrive at that sort of value?

CHAIRPERSON: Ja.

MR JENNETT: So when we looked at it we said guys, we are sitting at 65 000, we want to take it to 90 000. This is the value of this bigger centre from our side in terms of how much money we have got to spend and what the returns would be.

So but we could not do that, because you have got a legal right that Pick 'n Pay have. So we could not make that additional 25 000 successful unless we brought in Checkers. That is the
10 negotiation process where you sort of try and...

CHAIRPERSON: Take away that legal rights.

MR JENNETT: In order to, we had to give them something in order to take that away, otherwise they could have just been stubborn and just sort of said no guys, I have got this legal right and while my lease exist I am not going to allow this.

CHAIRPERSON: Yes.

MR JENNETT: So we sort of looked at it in a bigger scheme of things to try and see how we can justify that.

CHAIRPERSON: Okay, thank you.

20 MR KHUMALO: So has now that exclusivity been removed totally, so you can bring in any anchor if you felt like you needed to.

CHAIRPERSON: A third one.

MS VAN BILJON: Well, academically ja, we could.

CHAIRPERSON: If the size of the market improve you could.

MS VAN BILJON: No, but then you have to extend the shopping centre and then you need bulk for that.

CHAIRPERSON: Okay.

30 MR KHUMALO: So if you felt like Pretoria North that that node has grown and you can support the third anchor, can you just add a third anchor into the mall, or do you still have to go to Pick n

Pay or even Checkers to ask if you can add a third one?

MS VAN BILJON: You will always inform your anchor tenants about what you are doing, so illegally one could definitely do that, but I think most important we will do a market research first to see if it can take another anchor.

MR KHUMALO: Yes, so what I am saying is, once you have done that research and it is established that the market can support a third anchor, do you still have to go to Pick 'n Pay to seek permission?

10 MS VAN BILJON: No, it is not permission but we will negotiate that with Pick 'n Pay and Checkers to explain to them why we would do it. There is no legal exclusivity anymore, no.

MR KHUMALO: So this time they cannot ask you for any TI or compensation.

MR JENNETT: Correct.

MS VAN BILJON: Correct.

20 CHAIRPERSON: Just on the areas that are specified, I will focus on Kwa Zulu Natal and the Eastern Cape, because those are more of your rural centres that you own. In those centres do you have, other than your, let us say a store, whether they call it an anchor tenant or not, you have a store that is owned by you, bigger players ordinarily, and then do you also have other than Wonderpark, let us discuss Wonderpark since it is out of the picture now; the rest of the others.

30 Do you have a situation where you have in a centre where you have these existing stores like Rhino, and then you have other competitors, smaller players, that are allowed to compete in these stores, or are they also exclusive leases that are applicable in a number of them that you are bound by not to bring in small bakeries, small butcheries, small liquor stores for example?

MS VAN BILJON: At the moment we do not have any issue with the anchor tenants, no.

CHAIRPERSON: Do you have these butcheries and bakeries operating?

MS VAN BILJON: For instance in Kokstad we have got a liquor store yes, an independent guy who has also got a liquor store, so we have not had any issues in our rural portfolio with our tenants, no.

CHAIRPERSON: So you are basically free to decide whether or
10 not you want to add on another... [Intervenies]

MS VAN BILJON: Well, where there is no exclusivity there is none of the existing rural where we can actually expand like we did at Wonderpark.

CHAIRPERSON: So you do not have room for expansion.

MS VAN BILJON: We do not have any room for expansion, no.

CHAIRPERSON: Okay. Are there any, your centres seem to be very, very small centres. Do you have any small centres in those areas where you have got your Shoprites, Boxer kind of stores?

MS VAN BILJON: Are you again focusing only on rural?

20 CHAIRPERSON: Rural, ja.

MS VAN BILJON: Yes, we have got Boxer and we have got USave and we have got Spar.

CHAIRPERSON: In a centre?

MS VAN BILJON: Yes.

CHAIRPERSON: Okay, in any of them there will be more than one grocery retailer in your centre?

MS VAN BILJON: No, it is too small.

CHAIRPERSON: Too small to take.

30 MS VAN BILJON: Ja, as I said before, the biggest one is 10 000 and you will never have more than one 10 000. The others are from 2 000 square metres, so it is too small.

CHAIRPERSON: Okay, thank you. Is there any role that you, because we have asked this question, we just want to hear if you have got any views on the role that is played by financiers like the banks, where there is a bit of gearing that you require from them?

Do they influence who becomes the anchor tenant or do they make decisions in any way that you feel have a bearing on who you then decide as an anchor tenant and the tenant mix in these rural, in your rural portfolios, specifically the ones that we have
10 discussed?

MR JENNETT: Because we fund ourselves centrally we do not go and raise asset specific finance against Kokstad, where we would, so we raise centrally off our balance sheet.

CHAIRPERSON: Ja.

MR JENNETT: It does not really apply, but where it does apply though, is that in order to have a valuation for a R100 on a particular building, we look at it to see what is the percentage of nationals that you have got in that centre. That is one of the many things that you take into account to assess the feasibility.
20 That comes out when you do your valuation and assessing that.

CHAIRPERSON: Ja.

MR JENNETT: When you then say to the banks, here is our pool of assets that we want you to have a look at it, so Emira's side we have got R5.2-billion worth of debt, and you know, there is maybe 8 billion of our 14 billion asset service security for that. When they look at that security pool, they take that into account. They ask the question, okay, so guys who are the leases with; what are the terms of those leases and how credit worthy are those tenants. Have we ever been in a situation where they said,
30 actually guys, you cannot have a Spar here, you must have a Pick 'n Pay? Never.

CHAIRPERSON: Okay.

MR JENNETT: But they might turn around and say look guys, you know, we do not think you have got the right proportion of nationals in the centre, so we do not want that as part of our security pool; we would prefer something else.

CHAIRPERSON: Okay.

MR JENNETT: So that is the amount, that is the maximum I believe in terms of the influence that financiers have in our particular model, but as I say, we are different. We are a REIT.

10 We find ourselves centrally of the whole lot we have conservatively geared, so it is not, there is influence but there is not direction.

CHAIRPERSON: And that 36 percent gearing that you mentioned, would that be emanating more from your urban properties than your rural properties?

MR JENNETT: Totally. Our rural retail properties in terms of our, we have got R14 billion of assets, a billion offshore, 13 billion in South Africa. Of the 13 billion, 5.8 billion is retail; of the 5.8 about 600, R700 million is rural retail.

20 CHAIRPERSON: Ja.

MR JENNETT: So you can sort of see how small that proportion is.

CHAIRPERSON: Yes.

MR JENNETT: So we could actually just leave the rural retail by itself; we do not, but it is, ja so it is a very small proportion.

CHAIRPERSON: So are you saying to us here that you are not affected that much by exclusiveness as a property, or not. It is something that when you can you will negotiate and you will negotiate with whoever has exclusivity and so far this has not
30 been an issue for you. But ideally you want a market without.

MR JENNETT: Correct, ideally we would prefer a market without.

We do recognise that they are in existence. Every now and then when you are wanting to do something, you have got to take that into account and it is a frustration.

CHAIRPERSON: It does become a hurdle.

MR JENNETT: It does become a hurdle; it absolutely does, but again as I said earlier on, it is understandable why sometimes you have got to provide certain things in order just to get it going. So we do understand it, but it would be preferable that we did not have any exclusive arrangements.

10 CHAIRPERSON: Okay. You are talking here as a listed fund and you are the, probably one of the lasts that we will be talking to in this public hearing. When we talk about property developers or property owners that are not listed, do you think this can be a huge difficulty for them?

Do you think your situation is made easier by who you are, the size of the entity that you are, and then what would be your comments to a smaller property owner and a smaller property developer out there that is facing this.

20 Would this exclusiveness make the situation even more difficult for them to make decisions around the properties that they own?

MR JENNETT: It is difficult for us to answer that, because we live inside the listed REIT environment.

CHAIRPERSON: Yes.

MR JENNETT: My gut feeling on it is it would be more complicated, more difficult, but I am sure that the developers that you have spoken to have put... [Intervened]

CHAIRPERSON: Found a way...

30 MR JENNETT: Ja, they found a way and they put together their particular oddments. Where we see is that impacting us, is when we are buying a particular shopping centre and in assessing the risks on it, we then pick up, hang on, here is the exclusivity

arrangement that is being provided on a community size shopping centre.

And you know, that to my mind is evidence that that developer, that was what they needed to do in order to get the shopping centre successful, or to build it to get it successful, so that they could then on sell it to us.

But sorry, I am going to sort of just reverse back and say, we are operating in a listed property environment with different gearing ratios, and it would be inappropriate for us to comment specifically what the developers' needs and requirements are.

CHAIRPERSON: And how those parties are affected. Okay. I see that you are KZN. In any of your shopping centres do you have a Choppies as an anchor tenant?

MS VAN BILJON: No, we do not, not yet.

CHAIRPERSON: Do you have any list of who you consider as property owners? Do you have any list of who you consider as anchor tenants? Is that list confined, or it depends on where you are operating and therefore...

MS VAN BILJON: No, we do not have a specific list. It depends on the area; it depends on the type of centre; it depends on the market research and then we take it from there.

CHAIRPERSON: Then would you approach the anchor tenant, in most instances would you say you are the ones who approach a tenant, but also I see you also bought most of your centres in those areas, so you actually found them with existing, would I be correct to say you found them with existing anchor tenants?

MS VAN BILJON: Ja, and as tenants then vacate, then what we do is either/or. We either will contact certain tenants or we will use brokers who will bring us new tenants.

CHAIRPERSON: Okay. When you do so, when you do contact or use brokers, would you give any, what would your instruction for

example be like?

Would that be an open instruction as to find us anyone who is suitable for this kind of market, or do you have any confined list that you will be working with?

MS VAN BILJON: Okay, maybe I must clarify. When you do work with brokers in the retail space is probably five percent of the deals that we do. It is very small. Either ourselves or our property managers they do that. We do a strategic letting plan on the centre and we decide then what is the best, and then yes, we will
10 go to specific retailers and canvas them.

CHAIRPERSON: Okay. Do you consider Choppies an anchor tenant for example?

MS VAN BILJON: We did try and negotiate with them in Nongoma, but it was not to be an anchor because Super Spar is already there. They would have got much smaller space but at the end they decided not to go to Nongoma.

CHAIRPERSON: Are the reasons for not going into Nongoma confidential for them not going there to Nongoma?

MS VAN BILJON: I think you need to ask them. They just got
20 back to us and say that they... [Intervenues]

CHAIRPERSON: They turned it down.

MS VAN BILJON: It is not viable for them to go. What the specific reasons are, they did not share it with us.

CHAIRPERSON: Okay, you mentioned restrictions on where there are exclusivities, as a property developer you would be allowed to bring in a competitor but subject to a certain size.

MS VAN BILJON: As an example Wonderpark, yes, that 90 000 square metres, we felt that it will be viable to bring in another grocery.

CHAIRPERSON: And then was there a restriction on the size
30 there?

MS VAN BILJON: Yes there was.

CHAIRPERSON: And did you apply the size?

MS VAN BILJON: We did but the size were actually more than what we needed. So that was good for us, ja.

MR KHUMALO: So can you, we have been made to understand that there are different ways to calculate rent or different types of rentals payable. Can you take us through how you calculate the rental?

10 MS VAN BILJON: Well there is usually a market rental and we apply the market rental. So we call it a gross rental. So the tenant will pay R90.00 a square metre and then that will include groceries, everything.

And then a year after that, if there is any rates and taxes implication, they will pay the proportion increase of that. So I am not exactly sure, ja, so we apply market rentals.

MR KHUMALO: We've been made to understand there is something called a base rent, the turnover rent ... [intervened]

MS VAN BILJON: Are you talking specifically to grocers?

20 MR KHUMALO: Ja. So everyone in the development will pay turnover rent or base rent or ja, market or common areas or marketing ... [intervened]

MS VAN BILJON: Ja, it all depends on the shopping centre. So for instance our rural retail, they won't pay a marketing levy but at Warner Park they will pay a marketing levy, so it depends on that.

Also between your nationals, some of them have got a base rental and then after a year, you re-calculate the base rental, that is Woolworths in that specific case where they don't have an annual escalation and then depending on the turnover, you re-calculate your base rental.

30

Most of your other nationals has got a gross rental and an

escalation. Depending on the shopping centre, there could be more levies. I mean one or two of our shopping centres we have also got air conditioning level, it is a bit of a historical thing, and then turnover. That is not only for groceries. It could be fashion retailers as well.

MR KHUMALO: And do all tenants pay equal amounts of rent?

MS VAN BILJON: No, no, it depends on your size of the shop. So a ten square metre shop will usually pay more rental and the bigger your shop is, 5 000, will pay a lower rental. Per square
10 metre.

MR KHUMALO: What is the reason for a differential?

MS VAN BILJON: It is, if I can maybe give an example, at Makro when you buy one glass of wine, you pay less for a bottle of wine but when you buy 24 bottles you pay less per unit. So it is the same principle in property.

MR KHUMALO: I understand that but if I am going to Makro, I am only limited by the size of my pocket. But if I want to sell you know, say one line item, meat or bread in a mall, I understand that, even from what you said, the anchor will say: well if you are
20 going to have someone who is selling the same as me, you give them a maximum size, right.

So if I wanted to run a butchery or a bakery which is 3 000 square metres, I should be allowed to do that, right but then your anchor tenant says: no, no, no, it can only be 100 square metres. Is it fair on me that I am limited in terms of the size that I can operate from and then be punished because I am not buying more space?

MS VAN BILJON: I think Geoff stated in the beginning to say we are against exclusivity clauses. So we think it must be normal
30 supply and demand. I mean if that is what we can get eventually, that would be great.

So the independent can have a 3 000 square metre butcher, I think that is something one must, hopefully this will be the result of this hearing.

MR JENNETT: If I can just add to that, I mean I am just back on this space. Each space is different, you know in terms of shop front space, how deep the space, where it is positioned and so on. So it is, I don't think it is right to say you know if one tenant is paying R50.00 a square metre and someone is paying R80.00 a square metre, that that is unfair.

10 I don't see that being unfair at all. It is function of the space, it is a function of the type of product, it is a whole function of a whole lot of other things.

CHAIRPERSON: So when you say space, you mean position?

MR JENNETT: Position ... [intervened]

CHAIRPERSON: It's function of what your position is in that centre?

MR JENNETT: And the way the premises actually look because I could give you ten square metres with ten square metres of shop front and that would be great. But I mean what about the space
20 behind it? We don't build buildings that are just a metre width. There is the depth. It is where it is positioned in the centre.

There is all of those sorts of things that need to be taken into account and we are not in favour of exclusivity but as I say we do understand that it had their role and it's, and I think every time we look at a particular lease or a shopping centre, we assess the business rationale and if it, there is an opportunity that the independents will do more for that centre, well then that's the way we are going to go.

If it's better that they are just the anchors and the nationals, well
30 then guys you have got to get the mix right because it is not one or the other. A centre just only, exclusively a Pick n Pay and a

Shoprite wouldn't do as well as a Pick n Pay with a couple of other stores around there. It is the destination. It is the experience. It is all the things that Ulana was mentioning earlier on.

MR KHUMALO: To give you the real reason why we asked this and I think we made it clear over a period of time, the large retailers, they, even if we use that supply and demand thing, they will get all sorts of rebates from their suppliers of whatever they serve. It can be you know fresh or dry groceries, they get that benefit.

10 So it is not very costly for them to run that business, right and then on top of all those rebates that they get, that they have mentioned this week, I think they have mentioned up to ten or qw at a time, and then they get to be charged, say R80.00 or R70.00 a square metre and me and my small biltong shop, I don't get the rebates but I also don't get, I also get to pay three times the rental per square metre that Shoprite or Pick n Pay is paying. That is what we are trying to get at, you know, this buying power of the retail. Is it a structural thing? Is it, what are the market
20 dynamics that are denying small businesses to be able to compete effectively?

So if we can be made to understand; what is the reason? So you asked about fairness for instance, is it fair for me to pay in a ten square metre store, R180.00 per square metre when Checkers or Pick n Pay Hyper is paying R60.00 for

MR JENNETT: Yes, I think it is fair because you are only letting ten square metres. Pick n Pay is letting 5 000 square metres. Pick n Pay's monthly rental R5 000.00 square metres times whatever it is, R50.00 a square is whatever that might be, R2
30 million a month.

The level of what you have got to sell is different in comparison

to your ten square metres. There is a place for people to let the ten square metres and to be very profitable and to make lots of money. It is a different offering, you know, if you wanted to open a 5 000 square metre biltong shop, well then I think the dynamics would change.

MR KHUMALO: Yes but as we say, you know, we are precluded by the lease terms of another person who is not part of my lease term, my lease negotiation with you as a landlord and again, I think you said it is fair. So I wanted to ask, are you not as
10 property owners, giving away this large space to these anchors because you need them and then recouping your money from the small guys who need you

MR JENNETT: It is the overall package. We do need the large guys. We also need the small guys. It is all of them combined. We couldn't have an entire shopping space, centre just built with a ten square metre spaces. It's always that balance, so when we buy centres, we have got to look at the longevity of it, the leases that are in place, the draw cards are there and it's, that is the way the market is and you know, it would be easier for us if there
20 wasn't these, there were no exclusivity agreements.

But everything is a business negotiation, it is about trying to maximise our centre and so, so you have got to take into account the full range of factors.

MR KHUMALO: So are we likely to see cheaper rentals for the smaller players, once the restrictions are removed in size of things like that?

MR JENNETT: It depends on what the market rentals are. So we are in business, like in your biltong shop, if you are selling your biltong at R500.00 a kilogram but someone else is selling it at
30 200, well then the market will adjust to one of those numbers.

So it's, are we likely to see rentals becoming cheaper? I don't

know. It is a function of what the market rates are going to be across many different, there are a multitude of factors that go into the calculation of that rental.

When we are charging that, that biltong shop is R150.00 a square metre, if we are charging him 160 and he doesn't make it, well then we have lost out as well. We have lost out. So it is has got to take into account what works for the tenant and what works for us and then very importantly, what works for the consumer.

MR KHUMALO: Okay, thank you.

10 CHAIRPERSON: There is an aspect of how these spaces are rented, that we have not actually raised in this public hearing, that did come out in some of our interactions, in preparation for these public hearings, that for smaller players they do find that sometimes they will engage with the landlord where they conclude a lease agreement for a certain space with that rental fee having been agreed upon in advance.

So you know you are getting, let's say 10 000 square metres and then when you, actually when you take occupation you realise that it is not 30 000 that you have.

20 You may have 25, 5 000 square metres less or, it is not the exact size that you are renting. You are given far less space than or a bit less space. Have you encountered those kinds of complaints?

MS VAN BILJON: No, I think once again we are not developers. So when we buy a shopping centre, the area has already existed ... [intervened]

CHAIRPERSON: Existing?

MR JENNETT: Ja.

CHAIRPERSON: Even when you have to put in a new tenant where there is a vacant space in the mall, you would sort of, you wouldn't have these kind of issues arising ... [intervened]

30 MS VAN BILJON: No we haven't had, no.

CHAIRPERSON: Okay. I still think you have, I just want to go back to what my colleague asked you on volume, what he seemed to imply because I think your argument is that the lesser rentals being paid by the anchor tenants and you must view them as volume discounts basically. The more you buy, the less you pay, that is what you are saying.

However I want to go back to the example that you made that the problem with shopping centres is that even when my pocket allows me to buy more, as that small player, I am then later on
10 restricted when there is an exclusivity arrangement. I could be restricted to size or not be allowed to come in at all.

So that is where the unfairness of it, for us, comes in. We don't understand the restriction that comes and not enabling a party that is willing to actually, now expand its tenancy in that shop or space in that shop, in the shopping centre and so what is your view of comment on that?

MR JENNETT: If I can just deal with the first one, it is not only volume. It is also a destination. It is also the fact that it is easy for a shopper to buy all 150 items in their shopping basket at the
20 one store. So it is not only just about volume in terms of the space, size and, so I just want just to identify ... [intervened]

CHAIRPERSON: Okay, it is more than a volume discount, it is also ... [intervened]

MR JENNETT: It's much more than that ... [intervened]

CHAIRPERSON: It is the whole experience?

MR JENNETT: Yes, yes.

CHAIRPERSON: Okay.

MR JENNETT: Won't you just please just ask me that question again, just so that I am properly hearing you on this fairness of
30 ... [intervened]

CHAIRPERSON: The fairness argument is, you made an

example of Makro, Ulana made an example of Makro for example and the point my colleague made was, at Makro I can decide to one or 24, I am not limited, I am not told that no, you, you can't buy 24.

Whereas where there is exclusivity, there is that kind of restriction. Where there is a restriction, you are either prevent or precluded from coming into the centre or when you are even allowed, you are allowed on the basis that you have to, your store cannot exceed a certain size, even when your finances
10 allow you to actually go bigger.

When you are willing to expand your store which means when the market is, even those consumers are willing to, you wouldn't want to expand the store when you are not seeing a business, I would imagine you also have business, you are also an entrepreneur who does your own analysis of the figures, when you want to do so.

So when that restriction applies, it's applied on you, you are being restricted without any, we don't understand, there is an unfairness about it, there is an unfairness to that smaller player
20 that now wants to expand and it cannot because you can't exceed your 200 square metres. Have you forgotten?

Even if you have money, even if customers want to see more of you and bigger you in the centre, you will be restricted. So what is your comment on that? That is basically that, that is how we are looking at it from our side and maybe you can give us how you see it from your side, as a property developer or owner.

MS VAN BILJON: I think we have made the point maybe earlier, we agree it is unfair.

CHAIRPERSON: Okay. You think it is unfair?

30 MS VAN BILJON: No I don't think, I know it is unfair.

CHAIRPERSON: You know it is unfair, okay.

MS VAN BILJON: Ja.

CHAIRPERSON: Those are instances when you are also frustrated by the exclusivity?

MS VAN BILJON: Absolutely.

MR JENNETT: Madam Chair if I can just add to that, it is unfair but that is just the way the market is and so there is limited stuff that we can do. It's, at the moment.

CHAIRPERSON: Okay.

MR KHUMALO: Sorry, just one last question. Maybe then isn't it
10 that us as the Inquiry, we are asking wrong questions. Shouldn't we then be not looking at exclusive leases only, we should be rather looking at removing all these unfair structural issues that are hanging above it?

Should we consider broadening the aspects of the Inquiry to rather attack all the structural unfairness as opposed to removing the one issue at a time, for instance, I have made this point that I think given to other property owners that we may be asking the wrong questions here saying that exclusive leases are stopping smaller players from being, you know, competing effectively.

20 Only to get all the exclusive leases removed and yet small players can't compete because they cannot afford the rent. It's market rentals, it is just the way it is you know.

MS VAN BILJON: I think what is very important when you work out the market rentals, you always work out the percentage of the turnover to rent and that is very, it's vital. So there is always certain percentages, for instance a restaurant can usually pay between 10% and 15% of their turnover towards rent.

You always work that in, in your calculation. Well we do at our fund. So we will not offer premises to somebody that can't afford
30 it, I mean that will be silly to us because then they will just, in six months, not survive.

So we ask them for their project turnover figures, we ask them for their set-up costs, we ask them for all of those things before we actually start with that.

CHAIRPERSON: Thank you very much. I don't think we have got any further questions. Thank you so much for your submissions, thank you.

MR JENNETT: Pleasure.

CHAIRPERSON: The next submission would be from Liberty Property Group. We are waiting for them to arrive and we will
10 proceed with them as soon as they arrive. So for now we will have to take, we will have to have an adjournment or take an adjournment, until their arrival.

HEARING ADJOURNS
