

Griffin acquisition boosts Investec Property Fund assets to R9.5bn

Investec Property Fund (IPF) has acquired a portfolio of 22 properties for R826-million from leading real estate group Griffin Holdings at an attractive yield of 9.3% based on contractual income (8.6% excluding top slice rentals). The acquisition introduces a quality portfolio of income producing properties into the Fund's asset base and boosts assets to R9.5-billion, just short of the R10-billion target set out at listing...

Investec Property Fund CEO Nick Riley said: "The acquisition is consistent with the Fund's growth and investment strategy of building a quality portfolio by investing in well-priced income producing properties that optimise capital and income returns over the medium to long-term for shareholders.



Nick Riley, CEO of Investec Property Fund.

"Having recently delivered financial results that outperformed market expectations, we have essentially met our objective of growing our asset base to R10-billion within five years, but not at the expense of quality."

The portfolio comprises 18 industrial properties, two motor dealerships, and two office properties with contractual, above inflation, in-force escalations of 8.6%, and a 3.7 year weighted average lease expiry for the industrial portfolio which accounts for 71% of the portfolio value. The portfolio has minimal vacancies of less than 1% which are covered by a rental guarantee.

Included in the industrial portfolio is the Kevro and Rohlig Grindrod properties situated in Longmeadow Business Estate which together account for approximately 25% of the portfolio. These prime properties offer exposure onto the N3 highway and provide tenants with prime signage visibility onto one of South Africa's busiest highways.

As part of the acquisition the Fund has been granted options to acquire certain of the remaining properties owned by Griffin at an agreed forward yield, providing an attractive pipeline of quality properties. In addition Griffin has granted the Fund right of first refusal over its remaining properties and developments, comprising approximately 156,184 sq m of gross lettable area (GLA).

Highlighting Griffin's longstanding relationship with Investec, Riley said: "The transaction demonstrates the benefit of the Fund's association with the bank, a key advantage which gives us access to quality properties and an excellent pipeline in a very competitive market."

The purchase consideration will be settled in cash and will be funded either through debt and/or equity. IPF is conservatively geared with a gearing ratio of 23.6% and has significant headroom with R2.6bn of funding facilities in place and further appetite from funding partners.

The acquisition is subject to Competition Commission approval.

The Griffin property portfolio

The industrial portfolio represents 71% of the total value and includes properties situated in the following prime industrial nodes: Longmeadow (2 properties); Spartan (8 properties); Isando (3 properties); Linbro Park (1 property); Epping (1 property); Pomona (1 property); Germiston (1 property) and Milnerton (1 property).

The tenant base consists of 80% national and/or multi-national tenants, with a WALE of 3.7 years and average contractual escalations of 8.7%.

The properties in Longmeadow, representing approximately a quarter of the portfolio value, are located in the Longmeadow Business Estate. The 200 hectare estate has become one of the primary industrial addresses on the reef and benefits from its central location within 15 minutes of Sandton, Midrand, Johannesburg and the East Rand industrial basin including the OR Tambo International Airport. The estate offers excellent access being adjacent to the N3 highway and R25 Modderfontein Road. Both the Kevro (one of the leading manufacturers and wholesale suppliers of branded and corporate clothing in South Africa) and Rohlig Grindrod (a subsidiary of Grindrod Limited) properties front onto the N3 highway and provide prime visibility and signage opportunity for tenants. The Longmeadow industrial node has a 0% vacancy, and has experienced improved average rental growth of c. 7.1% according to the April 2015 IPD Industrial Vacancy Report.

The properties in Isando and Spartan are single tenanted light industrial units with the majority ranging from between 2,000m² to 4,000m². Isando and Spartan offer easy access to the R21, N12 and R24 and are ideally positioned next to OR Tambo International Airport, within easy reach of the airport cargo terminals via the highways and back routes. Isando is home to the Rhodesfield Gautrain Station, part of the rapid rail network linking the Johannesburg CBD, Sandton, Rosebank, Midrand, Centurion, Hatfield, Isando and OR Tambo International Airport. 85% of the tenants in these properties are in occupation of the premises for a second lease term.

Pomona is similarly well located relative to the OR Tambo International Airport, and offers efficient access to all the major transport routes. The property in Pomona, tenanted by AGCO, is a newly developed A grade warehouse which fronts onto the R21 highway offering prime visibility. AGCO is a global manufacturer of agricultural equipment and is listed on the NYSE with a market capitalisation of approximately US\$4.5bn.

The remaining properties in Linbro Park, Epping, Germiston and Milnerton are well located in their respective industrial nodes with good access and A grade tenants including Consol Glass, Kevro and Premier Foods. Kevro - Longlake in Linbro Park is a newly developed A-grade warehouse.

The two motor dealerships represent 21% of the portfolio value and are well established in their respective nodes, with the joint dealership/workshop of Sabaru/Danmar (wholly owned subsidiary of Imperial Holdings Limited) located in the heart of Longmeadow and the CMH Nissan dealership located on New Road in Midrand.

The two office properties which represent 8% of the portfolio value were acquired as part of the packaged transaction. The Midrand property is located at Grand Central Airport and is tenanted by International SOS, a company providing health and security risk management services to international travellers. Commerce Corner is a 3,321 sq m multi-tenanted office property in Randburg the anchor tenant of which is Advanced Debt Recovery Solutions Proprietary Limited, one of the leading debt collection and debt collection management operations in South Africa. These properties were valued by the directors at a blended yield of 12.5%, and the Fund will look to recycle its capital on these properties in the near to mid-term.

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