Giant property tie-up

By Alistair Anderson

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The much-anticipated merger of New Europe Property Investments (Nepi) and Rockcastle Global Real Estate looks set to go ahead with the announcement of a deal on Wednesday, 14 December, that should create the largest listed property company on the JSE.

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It will create a combined Eastern European-focused retail property fund with a market capitalisation of R81bn that, based on current prices, would make it the largest property company on the JSE.

Nepi, which has a market capitalisation of nearly R51.7bn, invests in Romanian shopping centres. Rockcastle Global Real Estate, worth nearly R33.7bn, has focused on Polish commercial property. They will merge into NEPI Rockcastle (NewCo) through a share swap ratio of 4.5 existing Rockcastle shares for one existing Nepi share.

Nepi and Rockcastle have recently invested in markets other than their main focuses and commentators said in August a merger would help both to find new opportunities.

The two companies had been launched by a number of professionals from SA's Resilient group of property companies.

"NewCo is expected to have a substantially enlarged market capitalisation, with all Nepi and Rockcastle shareholders benefiting from enhanced liquidity. The merged entity is expected to become the largest listed real estate player in Central and Eastern Europe," Nepi and Rockcastle said in a joint statement.

Portfolio manager at Investec Asset Management Peter Clark said the merger had been widely expected by the market.

It would create a company with a €5.5bn market cap that would have long-term benefits for shareholders. "This will be the sixth-largest listed real estate company in continental Europe, and the largest listed real-estate company on the JSE.

"Given its size, it will be hard to ignore for South African and European real estate investors. We see limited direct operational synergies [from] day one given different locations of the portfolios. However, management expects longer-term benefits in the way of increased liquidity, reduced cost of capital and management expertise," said Clark. The company had to retain specialisation on a sector and regional basis for it to be attractive to investors, he said.

Money manager at Cratos Capital Ron Klipin said the deal represented the end of an era in which the Resilient group of property companies, "a pioneer in offshore investment, finally achieved their vision of combining similar entities".

"The companies operate in similar geographical areas ... classified as emerging markets. This is because of major growth in urbanisation, a significant rise in GDP per capita, coupled with an educated and skilled workforce, on the back of outsourcing of services from Western Europe to lower-cost jurisdictions," Klipin said.

Grindrod Asset Management's Ian Anderson said investors would face tax costs.

"The mechanics of the deal present a tax issue for certain investors since both Nepi and Rockcastle are being sold into NewCo, either by way of a return of capital, triggering capital gains tax, or a dividend, triggering a tax of 15% for nonexempt investors such as individuals and trusts," Anderson said.

Source: Business Day