

Merged property funds would have muscle

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The proposed three-way merger between Rebosis Property Fund, Delta Property Fund and Ascension Properties, which is expected to be finalised by October, will create the first sizable black-managed property portfolio to rank among the R280bn listed property sector's top 10 companies in terms of size.



Rebosis Chief Executive Sisa Ngebulana. Image: [UFI](#)

The merged Rebosis, Delta and Ascension will together own property assets valued at about R18bn, with a market capitalisation of close to R10bn.

The value of the Rebosis portfolio is R6.6bn. Delta owns assets valued at R7bn while Ascension's portfolio of mostly government-tenanted offices is valued at about R4bn.

Rebosis became the first substantially black-held property fund to list on the JSE, in May 2011, while Delta and Ascension, both with substantial exposure to government-tenanted office space, listed in 2012.

The funds are among the largest broad-based black economic empowerment (BEE) funds on the JSE but separately their respective market capitalisation and portfolios

were not big enough to compete as aggressively for capital and deals as some of the sector's heavyweights such as Redefine Properties and Growthpoint Properties, which both have a market capitalisation of more than R30bn.

But a merger between Rebosis, Delta and Ascension would offer the size and liquidity that is normally required to pique the interest of the large fund managers.

Government tenants are mostly slow payers

"In the past, some institutions have steered clear of black-owned funds which had government clients. Having BEE credentials does help these funds to clinch state leases but the problem is the state has been an unreliable or slow payer for years.

"Investors do not want exposure to that risk. However, these are better-run BEE funds and they will be a sizeable portion of the market with liquidity supporting them," Old Mutual Investment Group Portfolio Manager Evan Robins says.

The three funds entered merger talks earlier this year after both Rebosis and Delta announced their intention to acquire the asset management company of Ascension.

Rebosis Chief Executive Sisa Ngebulana and Delta Chief Executive Sandile Nomvete both believed that they were entering into an exclusive agreement with Ascension's co-founder and Executive Director, Shaun Rai, to acquire Ascension's management company.

Both thought the acquisition of the management company would pave the way for a full takeover of Ascension's assets.

Rebosis was eventually the winner, paying R150m for Ascension's management company. It also bought a 29% stake in Ascension's B units for R289m. Delta had, meanwhile, bought a 17.75% stake in Ascension.

From the date of listing to the day before the announcement by Rebosis Property Fund to buy the management company,



Delta Chief Executive Sandile Nomvete. Image: Delta

the A and B units delivered a total return of 25.63% and 45.63% respectively, compared with the J253T or South African listed property index's total return over the same period of 20.62%, data from Catalyst Fund Managers shows.

Three-way merger

A three-way merger between Rebosis, Delta and Ascension would offer investors exposure to a sizable portfolio of government-tenanted offices but also to dominant shopping centres such as Hemingways Mall in East London and Bloed Street Mall and Sunnypark Shopping Centre in Pretoria.



Herringways Mall in East London Image: [Retail Network Service](#)

Rebosis has access to the development pipeline of Billion Group, which includes two regional malls under construction: the Bay West Mall in Port Elizabeth and Forest Hill near Centurion.

Both centres exceed 70,000m² and could be bought by Rebosis on completion.

Ngebulana told analysts at the company's recent results presentation that the due diligence process was under way. "We hope to conclude the merger by September or October."

He said consolidation had now become a reality for smaller companies. "We think a merger of the three companies makes strategic sense, especially seeing that we have similar objectives for our respective funds," said Ngebulana.

Nomvete said earlier this month it had not yet been decided whether the merged entity would retain the Delta or Rebosis name. "We are still looking at all our options and we could even come up with a new name."

Some analysts have voiced concern that the merger could dilute Rebosis's quality retail offering given that both Delta and Ascension's portfolios are focused on the government-tenanted office space.

However, not everyone agrees. Stanlib head of listed property Keillen Ndlovu says that it supports the merger as it should lead to strong economies of scale, which will eliminate superfluous costs and enable Rebosis to negotiate better access to capital markets and better lease terms with government tenants. Analysts expect consolidation to continue in the listed property sector.

"There are a number of deals which are still to be finalised this year. These include Growthpoint's takeover of Acucap and Sycom and Redefine's takeover of Fountainhead Property Trust," Robins says.

Since a listing boom last year, consolidation has been this year's theme for listed property in South Africa.

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