South African economy needs some stimulus, says Sasse

The South African economy needs some stimulus, says Norbert Sasse, CEO of Growthpoint, on its half-year results, which saw the property group lift its distribution growth 7.5%...

Image credit: Growthpoint.co.za

Business Day TV (BDTV): Growthpoint Properties today reported distribution growth of 7.5% for its six month interim period to 31 December 2014, that performance coming in at the top end of its market guidance. Joining us now in the News Leader studio to get into more of the detail is Growthpoint CEO, Norbert Sasse.

Norbert... still in a tough environment and still coming in at the top end of your guidance and going forward to much of the same for the next six months. How much tougher is that 7% to 7.5% distribution growth becoming to achieve?

Norbert Sasse (NS): Every time I sit here I say it's getting tougher and tougher, and there is no doubt that every six months it is becoming tougher. The economy is not helping us, energy crisis is not helping us, competition is not helping us, so without a question of a doubt, it's getting increasingly tough, and I just hope that somewhere along the line we see a little bit of a ray of light with some economic improvement. The only thing really saving us at the moment is the low interest rate environment.

BDTV: Low interest rate environment for now and that, as you say, offering some relief for business as a whole. How is that coming to bear on your rentals right now and your occupancy rates because while your retail vacancies sit at around 4.4%, industrial vacancies have grown from 3% to 5.8% and that's quite a big jump, and we know there's the Ellerines effect to take into consideration there?

NS: Yes, so perhaps you shouldn't read too much into the industrial side... the full 2% odd increase in vacancies is entirely due to the Ellerines vacancies, but we have picked up. We had three warehouses that were let to Ellerines, two of which were pretty newly built probably two to three years ago and yes, unfortunately Ellerines going into business rescue, they had vacated these warehouses, they are well located, well designed modern warehouses, imminently re-lettable and they are currently under negotiation. But for the year it will probably cost us in the order of R25m odd compared to our budget in lost rental.

BDTV: You say under negotiation, just how tough are those negotiations right now because you say you're marketing it to top notch industrial properties... just how soon before you find a tenant?

NS: Yes, I'm very hopeful that by the year end, by June that we'll have at least maybe one or two of the three let, but discussions are tough because certainly right now the shoe is firmly on the foot of the tenant and the tenants can really command pretty decent deals and a lot of landlords are out there with some space and looking to fill their vacancies.

Imtiaz Suliman (IS): Norbert if I could just ask, in terms of your acquisitions, you had quite a busy year in that regard... you did Tiber, you did Acucap and Sycom... are you planning to do anymore? You have quite a conservative balance sheet compared to some of your peers. And just secondly, on your debt, where your interest rate costs look quite high... is there any scope to refinance that at a lower rate?

NS: Yes, firstly just on the acquisition rate sure, a very busy period. Acucap, Tiber and Abseq which was R7bn odd. Those numbers are now coming through in the performance of the office portfolio. It's been hard yards integrating those properties into our systems, into our structures but that's probably done now.

We can look forward to an improved performance in our office portfolio, especially as it relates to the acquisitions. And then Sycom is still a bit away so we've got Competition Tribunal hearing on 11 March and assuming that goes well the effective date becomes 1 April and we then implement on 1 May.

So the real work only starts after that, but again, we're pretty upbeat and optimistic on the quality of that portfolio and certainly what it does to our retail portfolio... it adds about 5% to the total retail mix in our portfolio.

BDTV: Of course you've got retail outperforming offices for now, but you're not reining in that office exposure either... the R2bn acquisition pipeline that you're looking at and part of that is your 55% share in the R3bn Discovery head office in Sandton. What's your sense of that market right now because mine, at this stage, is utter chaos and manic.

NS: I wouldn't put it as strongly as that... it is very competitive, there's no doubt about it. There is a lot of new development, probably driven by demand from tenants for newer, modern, more energy efficient space and to find these good quality investment opportunities once they are developed and let, is very expensive.

There is a lot of demand. The listed property companies have all got good access to debt and equity funding, pushing prices up and yields down. So one way to get access to those opportunities is to go and develop and participate in development, potentially getting a higher yield by cutting out the development profit and that's been our strategy over the last couple of years on the development front, especially in the office space.

BDTV: While that is your perspective, driving in you get flustered by just the traffic jams more than anything else. Are you rattled at all by the fact that this could potentially backfire?

NS: I don't think so. Office sector is always, and industrial to a lesser extent, and retail probably not at all really. But the office sector is known for boom and bust types of cycles this is not only a South African phenomenon, it's a global phenomenon, so you always have a cycle when there's an excess of development and you end up with some higher vacancies and then the developers run away and very little gets developed and the vacancies slowly fill up again until the numbers start making sense to develop again.

So what we do need though is we need some economic growth. We need some stimulus to the South African economy, sub-2% growth is no good for anybody, it's no good for job creation, and it's no good for office occupation or demand for office, retail or industrial space for that matter. That's absolutely critical.

IS: Given the known troubles that we have in SA, do you plan to make acquisitions outside of SA, given that you have growth from Australia?

NS: Yes. The Australian subsidiary is doing reasonably well and we're firmly supporting the growth of that entity. We've already grown the assets there from about A$650m to over A$2.2bn over the last four to five years since we made the initial investment. We're currently exploring, let's call it almost at a desktop level, other investments, let's say outside of SA... there's nothing definitive, nothing hard that's firm.

It makes sense if you look at the yield spreads that are available in some of the more developed economies. Concern though is that it's purely driven by low interest rates and not necessarily by the fundamentals. It's still tempting though if you can lock in 5.5% positive yield spreads for five years, it's tempting...

Source: BDlive