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Foreigners circle the local market, hunting for bargains

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CASHED-UP South African property groups are poised to pour more money into Australia's crippled listed real estate sector.

South African interests have already invested more than \$400 million in two trusts, joining institutions from Asia and Europe, particularly German pension funds, circling the local commercial property market.

In the past 12 months, Singapore's GIC has invested in the GPT Group, while German investors have bought office blocks in capital cities.

This week, South Africa's largest property trust, Growthpoint Properties, became the second South African company to invest in Australia, agreeing to inject \$200 million into the Melbourne-based Orchard Industrial Fund.

Chief executive Norbert Sasse said he planned to use Orchard as a platform to rapidly increase Growthpoint's presence in Australia.

"Right now our focus is on Australia," Mr Sasse said. "Many South African property funds are looking offshore, including in Australia.

"The dynamics in South Africa are different to elsewhere. We still have reasonable access to capital," he said, explaining that South African companies were not being as badly affected by the global liquidity crisis.

"Our asset valuations are conservative and our gearing ratios are low. Our valuations did not reach the dizzy heights of the other countries."

Another investor, the Kirsh Group, headed by South African financier Nathan Kirsh, now owns 27.4 per cent of Abacus Property Group.

Industry sources said yesterday that other South African groups were looking at Australia, including one said to be scrutinising Valad Property Group.

"We've seen a tremendous sell-off in listed property prices across the globe," Mr Sasse said. "The US and UK markets are down by 40-50 per cent, but Australia is the market that has lost more than the other markets.

"We can't afford the big ones like Stockland and GPT so we focused on the small to medium sized trusts. We looked at every listed trust to have a good understanding of their business."

After sifting through them, Growthpoint settled on Orchard because the bulk of its income is based on rental from assets located in Australia.

"Orchard leases its properties to strong Australian companies, like Woolworths," Mr Sasse said. "It gives us a lot of certainties and predictable future cashflow."

If Growthpoint succeeded in taking over Orchard it planned to use it as a platform to rapidly increase Growthpoint's presence in Australia, Mr Sasse said in Johannesburg.

Mr Sasse came to Australia in April, attracted by the opportunities to purchase a listed property trust to turn it into a platform for the expansion of his Johannesburg company.

"We were successful in growing Growthpoint in South Africa from a company with 30 million rand (\$4.6 million) market capitalisation eight years ago to a company with 22 billion market cap today," he said. "That is highly ambitious, but we would like to think that maybe we can achieve something similar in Australia."

Mr Sasse estimates that the recapitalised Orchard could have capacity of about \$150 million, and possibly \$200 million, to acquire commercial and retail properties.

"We want exposure to other sectors. In an ideal world, we would bring office and retail properties into the portfolio to reflect what Growthpoint's portfolio looks like in South Africa."

Growthpoint owns 440 properties, with a current market value of \$4.5 billion.

"We will do the acquisitions quite soon," Mr Sasse said. "The opportunity is now. The window in terms of buying good properties is the next six to 12 months."

This week, Orchard issued a \$56 million placement at 16c a unit to Growthpoint, which will also subscribe to its \$144 million rights issue. The proposal will go to a meeting of shareholders in July for approval.

If other minority shareholders did not take up all their rights, Growthpoint would have a 60-70 per cent stake in Orchard, Mr Sasse said.

"If all shareholders follow their rights, then we would only get 50 per cent. But we have a provision from Orchard to do a further placement to ourselves to take us up to 60 per cent."

Mr Sasse said he had no intention of owning 100 per cent of Orchard or to take it private. He planned to change Orchard's name to Growthpoint Properties Australia.

"If our strategy doesn't work then there is no reason why we could not own 100 per cent of the portfolio, because it is a very good portfolio," he said. "We understand the capital market in Australia is a bit challenged."

"If we are going to grow the fund, we have to have more access to debt funding or possibly equity funding."

Orchard's gearing ratio will fall to 42-43 per cent after the recapitalisation, but Mr Sasse said there could be more asset value writedowns, which could lift its gearing ratio above that level.

"In negotiating with the banks, we are hoping to leave ourselves room to be able to make a couple of acquisitions," he said.

Growthpoint raised 1.7 billion rand late last year to fund its offshore expansions.

That money will be used to fund its investment in Orchard Industrial Trust.

Growthpoint plans to employ some of the key executives from Orchard to form a core of five or six people to run its Australian operations.

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