BIZCOMMUNITY

Redefine Properties to buy 25% stake in another Polish retail portfolio

By Alistair Anderson

7 Nov 2017

Redefine Properties, the second largest SA-based property group, is due to expand its offshore property platform with another foray into Eastern Europe. It will acquire a 25% stake in a €1bn retail portfolio of 28 well-established assets in Poland.

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CEO Andrew Konig said on Monday, 6 November, that Redefine would co-invest in a consortium with American investment management firm, Pacific Investment Management Company (Pimco), and American asset manager Oaktree Capital Management, each of whom would have 37.5% of the portfolio being acquired.

Key locations in the portfolio stretch from Warsaw to growing regions across the country, such as Krakow and Silesia, said Konig.

Redefine Properties is just one of several South African real-estate landlords that have invested in Eastern Europe in the past three years.

As much as 40% of the SA listed property sector's asset base is offshore, and half of this 40% is in Eastern Europe. The likes of Resilient REIT, Fortress Income Fund, Tower Property Fund, NepiRockastle and Accelerate Property Fund have investments in the region.

Redefine initially invested in Poland, the most developed and largest Eastern European economy in early 2016 when it bought a 75% stake in the €1.2bn Echo Investment group. The two groups then formed Echo Polska Properties (EPP), which has grown to be a JSE listed company with a market capitalisation of R15bn.

Following this latest Polish deal, Redefine's exposure to offshore real estate will be 30%. Apart from Poland, the company is also exposed to Australia and the UK.

In the latest investment, the 28 retail properties include a shopping centre portfolio of nine mid-market hypermarket-anchored shopping centres with total gross leasable area of 383,000m² and the power park portfolio of four smaller hypermarket anchored big-box retail centres of 114,000m².

There is also a hypermarket portfolio of 12 hypermarkets with small line shop retail components comprising 181,000m² and a do-it-yourself (DIY) portfolio of three standalone DIY stores of 26,000m².

Konig said the pricing details had been agreed but would not be disclosed at this stage, due to conditions related to the sale.

Redefine anticipates a yield of about 7.7% and a return on equity in the region of 15% pre-tax. It will fund its equity contribution from the recycling of local capital.

"Geographic expansion is a key element to our risk diversification strategy and we are really excited to further strengthen our strategic partnership with Pimco and Oaktree. This portfolio benefits from strong retail fundamentals and together with value-add opportunities, presents Redefine with an opportunity for above market returns," Konig said.

There are a number of value-add opportunities in the portfolio including the redevelopment/extension of about 60,000m².

Twelve of the assets being acquired will be sold on to EPP.

Redefine's executive chairman, Marc Wainer, said the assets offered growth potential beyond the initial investment horizon.

"While this deal transaction is accretive to our earnings over a 3-5 year period from both an income and trading point of view, it also ushers in long-term stable growth via our shareholding in EPP," he said.

The portfolio was initially developed between 2004 and 2005.

Redefine remains confident of the outlook for Poland's retail sector, which continues to be buoyed by stellar sales, said Konig.

"There are many solid fundamentals in place in this market, driven by strong retail sales growth of 8% and inflation of approximately 1%. So the macro environment is very solid as unemployment levels are now below 5% and consumers have low levels of household debt," he said.

"Quality offshore acquisitions and an astute investor-driven strategy continue to assist us to sustain value and drive growth for all our stakeholders despite tough conditions at home," Wainer said.

The entire transaction is subject to sensitive negotiations, which are anticipated to be concluded in the first half of 2018, according to Konig.

Source: BDpro