

Redefine makes a play for Pivotal

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Blue chip real estate group Redefine Properties has signalled its intention to take over The Pivotal Fund by acquiring all of its issued share capital through an all share deal.



Alice Lane Office - Phase three - Sandton. Image source: www.pivotalfund.co.za

The deal, which has long been rumoured, may spur consolidation in the listed property sector as investors encourage property companies to bulk up and become more liquid.

The Pivotal Fund is a property developer that listed in December 2014. Its premier asset is Sandton's Alice Lane Offices, which will contain three buildings when completed.

The acquisition of Pivotal will enable Redefine to recycle capital by disposing of assets no longer aligned to its long-term strategy and replacing them with prime Pivotal assets.

"Development funds like Pivotal are seeing twin challenges of an increasing cost of capital as well as the macro environment putting pressure on development returns," said Redefine CEO Andrew Konig.

"We believe we bring compelling value to shareholders of both companies, with Pivotal shareholders receiving a long-term upside potential of an investment in Redefine."

Redefine's market capitalisation of about R58.7bn makes it the second-largest SA-based property company. Pivotal's market cap is about R6bn.

Under the proposed R6bn transaction, shareholders in Pivotal would receive 460-million new Redefine Properties shares, plus 31-million shares in Echo Polska Properties (EPP).

Pivotal shareholders would hold 138.54 Redefine shares and 9.38 EPP shares for every 100 Pivotal shares held.

EPP, which invests in Polish property, is set to list separately on the JSE in September. Redefine owns 49.9% of EPP.

The Pivotal takeover will give Redefine Properties, which already co-owns S&J Industrial Estate in Germiston and Rosebank Galleria with Pivotal, significant reach in Sandton and consolidate its position in Rosebank, according to Konig.

"The acquisition demonstrates Redefine's strategic intent to become the landlord of choice in A-grade office space in sought-after areas in SA. Redefine has shifted its strategy in recent years to become a more urban-focused landlord by acquiring modern properties in better-performing nodes."

Pivotal's property portfolio is valued at R12.9bn and its income-producing assets comprise eight retail properties, 10 offices and three industrial sites. It has a number of development properties with four active developments.

Pivotal's African assets in markets including Mauritius, Mozambique, Nigeria, Morocco, Kenya and Zambia will be sold off.

Pivotal CEO Jackie van Niekerk said the deal would be attractive for Pivotal's shareholders.

"As a development-focused fund, we consistently achieved a compounded annual rate of return of 27.8% from February 2012 to February 2016. Within a stagnant domestic economy and rising interest rate environment, we experienced significant pressure on our ability to generate satisfactory development profits and investment returns going forward.

"We had to weigh up the benefits of becoming a smaller-cap real estate investment trust (Reit) in a highly congested sector, or merge with one of the largest Reits" listed on the JSE, she said.

An analyst said the share swap ratio might suit Redefine better than Pivotal.

"Pivotal has been a tightly held stock with low liquidity and has been trading at below net asset value (NAV) while owning iconic assets such as the Alice Lane precinct in Sandton. The proposed swap ratio seems more attractive for Redefine. Pivotal shareholders will have to decide on giving up NAV upside potential on future development profits for Redefine's strong liquidity, scale and diversification," said Stanlib listed property analyst Lawrence Koikoi

Source: Business Day